Market Commentary

Third Quarter 2015

CI Investment Consulting

Portfolio Series and Portfolio Select Series

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Market performance

Investors have shifted attention from applauding the improving global economy to worrying about the timing of the first U.S. rate hike and the slowing Chinese economy. Appetite for investing continued to shrink across all asset classes during the third quarter. Stock valuations, tracked as a ratio of future earnings, have compressed from the high end of the normal range to the average. Bond yields have also climbed steadily, most notably with corporate high-yield bonds yielding an annual interest rate above 8%.

While the one-year performance of major asset classes remains attractive, the recent three- and six-month returns have been challenging. The domestic equity benchmark, as represented by the S&P/TSX Composite Index, was hit hard due to lower energy prices. The S&P 500 Index performed well in Canadian dollar terms due mainly to an appreciating U.S. dollar. In local currency terms, the S&P 500 Index lost 6.4% during the third quarter. Bond markets continued to be volatile as investors reset rate expectations frequently by pondering every Federal Reserve member's speech and following every piece of economic data.

Returns in % at September 30, 2015	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr
S&P/TSX Composite Index	-7.9	-9.4	-8.4	5.7	4.5	4.8
S&P 500 Index (C$)	-0.0	-1.2	18.4	24.5	19.4	8.3
MSCI World Index (C$)	-2.1	-3.0	13.7	20.9	14.7	6.8
FTSE TMX Canada Universe Bond Index	0.2	-1.6	5.3	3.4	4.5	5.0

Source: Bloomberg, FTSE/TMX

Portfolio Series and Portfolio Select Series

We have used various strategies to tilt our portfolios towards a more defensive positioning. The U.S. dollar was at some points a very effective avenue to hedge equity and interest rate risks until it was fully valued at C$1.25 and continued to climb to overshoot at $1.35. Government bonds were attractive during the summer when the markets aggressively priced in a series of future Fed rate hikes that were expected to begin as soon as September.

We continue to pay attention to two things: fundamentals and valuations. Firstly, on fundamentals, we strongly believe economic recovery will continue but only with continued accommodative monetary policies. In addition, the next phase of recovery will not be as smooth as the one we had seen in the last six years. There will be occasional slowdowns, and followed by adjustments in central banks' monetary policies. Rates will remain unusually low, and for a long period of time. This forms a reasonably attractive

backdrop for both bond and stock investors. Valuations, which are fluctuating due largely to macro developments such as government and central bank policies, could occasionally disconnect from fundamentals. This produces opportunity for active investors like us to exploit. We continuously monitor and update the fair valuations of investments. We were investing in the U.S. dollar at the beginning of the year and bought sizeable positions in U.S. government bonds during the summer. The gains from these investments have helped to offset the downside volatility contributed by stocks.

Returns in % at September 30, 2015	3 mth	6 mth	1 yr	3 yr	5 yr	10 yr	Life
Portfolio Series Income Fund	-0.2	-2.3	4.5	6.8	6.2	5.1	5.3 (Dec. 97)
Portfolio Series Conservative Fund	-1.8	-3.8	3.8	7.6	6.3	4.5	5.2 (Dec. 97)
Portfolio Series Conservative Balanced Fund	-2.4	-4.2	3.7	8.7	6.9	4.5	5.0 (Dec. 01)
Portfolio Series Balanced Fund	-3.0	-4.8	3.9	9.5	7.2	4.5	6.9 (Nov. 88)
Portfolio Series Balanced Growth Fund	-3.8	-5.2	3.4	10.2	7.6	4.4	4.7 (Dec. 01)
Portfolio Series Growth Fund	-4.5	-5.6	3.2	11.2	8.1	4.3	4.3 (Dec. 01)
Portfolio Series Maximum Growth Fund	-5.2	-6.3	3.4	12.8	8.9	4.3	4.0 (Dec. 01)
Select Income Managed Corporate Class	-1.1	-2.5	2.4	4.1	3.8	n/a	4.0 (Sept. 10)
Select 80i20e Managed Portfolio	-2.0	-3.2	2.2	5.8	4.9	n/a	3.8 (Nov. 06)
Select 70i30e Managed Portfolio	-2.5	-3.8	1.8	6.5	5.4	n/a	3.8 (Nov. 06)
Select 60i40e Managed Portfolio	-3.0	-4.2	1.7	7.4	5.9	n/a	3.7 (Nov. 06)
Select 50i50e Managed Portfolio	-3.5	-4.7	1.5	8.2	6.4	n/a	3.6 (Nov. 06)
Select 40i60e Managed Portfolio	-3.9	-5.1	1.5	9.2	7.0	n/a	3.6 (Nov. 06)
Select 30i70e Managed Portfolio	-4.4	-5.4	1.4	9.9	7.5	n/a	3.5 (Nov. 06)
Select 20i80e Managed Portfolio	-4.8	-5.9	1.3	10.9	8.1	n/a	3.5 (Nov. 06)
Select 100e Managed Portfolio	-5.7	-6.7	1.0	12.7	9.1	n/a	3.2 (Nov. 06)

All fund returns are for Class A units/shares

Select Income Managed Corporate Class

It is unusual for bond markets to perform poorly when risky assets decline in value. Over the last six months, the Canadian stock markets (as represented by the S&P/TSX Composite Index) lost 9.4%, while the bond markets (as measured by the FTSE TMX Universe Bond Index) were also lower by 1.6%.

The Select Income Managed Corporate Class portfolio was positioned diversely and defensively. The fund held a larger-than-normal amount of cash and foreign government bonds, and was underweight stocks, Canadian government bonds and foreign high-yield corporate bonds. This positioning added value but could not avoid losses, as every asset class declined during this challenging period.

Opportunities for more attractive future returns are opening up. At quarter-end, the portfolio was carrying a yield of 3.2% (from 2.7% three months ago), even though the positioning is more defensive with less equity exposure and more government bond holdings. The U.S. dollar has fallen 4% and is potentially becoming an investment opportunity once again. We are also adding high-yield bonds gradually. The overall bond holdings remain very high quality – currently an “A” average.

Outlook and positioning

It is unlikely the world will find a solution to its current issues quickly. China has been growing at very rapid rate for many years. A slowdown is almost inevitable and should be considered a healthy development. The Fed will likely remain "indecisive" as long as economic data show any hint of weakness. Investors are adjusting their expectations to reality and, in the meantime, bonds are starting to perform quite well as investors realize that normal interest rates are out of reach for now and they have to accept "the new normal" for longer.

It is important to know that the weightings of stocks and bonds in our portfolios are not static. We follow various valuation matrixes and monitor changes in fundamentals closely to help make investment decisions. Currently, we are underweight stocks, neutral weight in bonds, and underweight the energy sector and foreign currencies. We also have immaterial exposure to Chinese companies. However, we will participate in growing consumption in China through companies such as Apple that sell products to China. We are cautiously optimistic and that positioning should change as we see deeper discounts.