Market Commentary

Fourth Quarter 2013

CI Investment Consulting

Portfolio Series and Portfolio Select Series

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Market performance

Stock markets finished the year with another strong quarter. The domestic stock markets as represented by the S&P/TSX Composite Index gained 7%, while foreign markets as measured by the MSCI World Index rallied 11% in Canadian dollar terms. For the year, both markets generated double-digit returns. We believe the above-average results can be explained by the fact that stocks were out of favour and, as a result, trading at discounts prior to the rally. Improving economies led to stronger investor confidence and an expansion in earnings multiples. On the other hand, certain sectors and markets that were once loved by investors underperformed in 2013. The broad domestic bond market lost 1%, the materials sector within the S&P/TSX lost 29%, and emerging markets gained less than 5%.

Returns in % at Dec. 31, 2013	3 mth	1 yr	3 yr	5 yr	10 yr
S&P/TSX Composite Index	7.3	13.0	3.4	11.9	8.0
S&P 500 Index (C$)	14.0	41.7	18.7	14.7	5.3
MSCI World Index (C$)	11.5	36.3	14.5	12.5	5.5
DEX Universe Bond Index	0.4	-1.2	3.9	4.8	5.2

Source: Bloomberg, PC Bond

Portfolio Series and Portfolio Select Series

All Portfolio Series and Portfolio Select Series funds earned a positive return during the fourth quarter and in 2013. It was challenging to earn positive returns in the income-oriented portfolios, as bond markets experienced a modest correction. Our active decisions on bond weightings and strategic decision to diversify the portfolios with corporate bonds and high dividend-paying stocks led to outperformance versus their benchmarks and, most importantly, positive results.

The U.S. dollar surged 7% against the Canadian currency and that was another source of returns for our portfolios, as we had larger-than-normal exposure to U.S. dollar during 2013. However, our decision to hedge some of the exposure to the pound and euro detracted value, as both currencies also appreciated during 2013.

The equity portion of the portfolios has done very well along with the markets. Our decision to hold an overweight exposure to U.S. equity continued to pay off. We also have very limited exposure to the resource sector, which experienced downward volatility with falling commodity prices. Our Canadian equity funds

have had very strong results relative to the benchmark. For example, Select Canadian Equity Fund (Class I), which is the representative Canadian equity fund used in Portfolio Select Series, outperformed the S&P/TSX Composite Index by 17% during 2013. Outside of Canada, we were able to keep pace with foreign benchmark indexes, which earned outsized returns.

We are also pleased to note that Portfolio Select Series was recognized at the 2013 Morningstar Awards by being named Best Fund of Funds. Significantly, CI also received the same award in both 2012 and 2011 for Portfolio Series.

Returns in % at December 31, 2013	3 mo	1 yr	3 yr	5 yr	10 yr	Life
Portfolio Series Income Fund	3.5	8.5	6.3	8.4	5.3	5.3 (Dec. 99)
Portfolio Series Balanced Fund	5.8	16.4	6.9	9.1	5.4	7.0 (Nov. 98)
Portfolio Series Growth Fund	7.7	22.6	8.2	10.3	4.9	4.2 (Dec. 01)
Select Income Advantage Managed	1.7	4.0	4.4	n/a	n/a	4.0 (Sept. 10)
Select 70i30e Managed Portfolio	3.8	10.8	6.1	7.7	n/a	3.7 (Nov. 06)
Select 50i50e Managed Portfolio	5.1	15.5	7.2	9.0	n/a	3.5 (Nov. 06)
Select 30i70e Managed Portfolio	6.6	20.6	8.3	10.4	n/a	3.3 (Nov. 06)

All fund returns are for Class A units/shares

Select Income Managed Corporate Class

Select Income Managed Corporate Class continued to earn a reasonable return above inflation without experiencing excessive volatility. We carried as much as 40% cash at one point last year when we felt government bonds were overvalued. Exposure to high-yield bonds and stocks were at a higher level at the beginning of the year when more bargains could be found. Both weightings were reduced gradually during the year as we locked in gains.

Following a correction in the fixed-income markets during the summer, we redeployed some of the cash to add to both government and corporate bond holdings. Within the equity portion, we have tilted the exposure towards high-yielding securities such as global real estate income trusts and infrastructure investments. We also allocated part of the Canadian equity portfolio to Cambridge Global Asset Management.

Later in January, we will be allocating a portion of the cash in the portfolio to Marret Asset Management, an experienced fixed-income management company led by Barry Allan. This allocation will be invested in high-yield corporate bonds. The goal is to earn a reasonable absolute return, which we currently expect to be about 3%-5%. This strategy is expected to carry a lower risk compared to the general high-yield bond markets.

We continue to believe that a defensive investment portfolio requires more than just allocating assets into one asset class, that traditionally being government bonds. At today's yield, government bond investors are expected to receive returns that are below inflation while assuming larger-than-normal volatility as interest

rate expectations change frequently. We invest diligently in multiple asset classes for better returns and the added benefit of reducing exposure to any single source of risk, such as interest rate risk, inflation risk, currency risk, credit risk, and equity risk.

Asset mix of Select Income Managed Corporate Class as of December 31, 2013

Government bonds (domestic and foreign)	24%
Cash (includes foreign currency reserves)	22%
Stocks (domestic and foreign)	20%
Investment-grade corporate bonds	15%
High-yield corporate bonds	14%
Short-term investment-grade corporate bonds	5%
Total	100%

Outlook and positioning

Investor confidence improved much faster than we had expected. Compared to just 12 months ago, investors today are paying approximately 20% more for the same dollar of future corporate earnings. At this level and with current market conditions, we believe stocks are fairly valued. Earnings growth and dividends will likely play a larger role in the stock market returns in the coming years.

We have confidence that economies are improving and central banks will continue to accommodate growth with low interest rates. We are carrying larger amount of cash in the portfolios. It serves the dual purposes of countering market volatility and allowing flexibility to add to positions in the future. Potentially better risk-adjusted returns can be earned by not just owning the markets but through security selection with prudent active money managers.