Market Commentary

Fourth Quarter 2016

CI Portfolio Series and Portfolio Select Series
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Our team has been rebranded to CI Multi-Asset Management from CI Investment Consulting. We used the Investment Consulting name for over 10 years; however, we believe the new name better reflects our role as an investment manager and clearly defines our mandate to create multi-asset investment solutions for our investors. We also want to assure you that our investment philosophy, process, and people have not changed.

Market performance

2016 was a volatile year, but generally a positive year for investors. Stocks started the year with heavy selling, and sentiments turned positive in February as the U.S. Federal Reserve adopted a more dovish tone. A surprise "Brexit" vote in June caused volatility – but only for a few days. The election of Donald Trump as the next U.S. president triggered a change in expectations for economic growth and inflation. Concerns about deflation quickly changed to inflation in just matter of months. Stocks rallied significantly during the fourth quarter while government bonds globally went through a severe correction.

The Canadian stock market outperformed other developed markets in 2016 due to a recovery in commodity prices. Over longer periods, the Canadian market, as measured by the S&P/TSX Composite Index, still lags global markets partly due to the influence of declining prices for resources.

Returns in % at December 31, 2016	3 mo	1 yr	3 yr	5 yr	10 yr
S&P/TSX Composite Index	4.5	21.1	7.1	8.3	4.7
S&P 500 Index (C$)	6.3	8.7	17.7	21.2	8.5
MSCI World Index (C$)	4.4	5.0	12.9	17.4	5.9
FTSE TMX Canada Universe Bond Index	-3.4	1.7	4.6	3.2	4.8

Source: Bloomberg, FTSE/TMX

Portfolio Series and Portfolio Select Series

During the presidential election, it was widely believed that Hilary Clinton represented the "status quo" and was the preferred choice for those concerned about economic and market stability. With no experience in politics and having a dramatic personality, Donald Trump represented the

opposite, offering uncertainties. However, his win triggered a rally for virtually any risky asset. We were surprised that investors actually paid up for uncertainties.

Our portfolios were defensively positioned in 2016 with lower-than-average equity weights as we entered the late stage of a bull market that began in 2009. Our process is quality and valuation driven. We invest diversely by asset class, currency, country and sector with a goal to shelter our investors from the boom and bust cycle of individual events. Over the last couple of years, we have seen a decline in valuations for banks, energy companies and, more recently, sovereign bonds. During this time, we delivered growth for our investors.

Our one-year results for 2016 would have been better with slightly different positioning. A larger equity holding – in particular, Canadian equities and energy exposure – as well as a lower sovereign bond exposure would have helped. However, we generally do not invest too heavily in the energy sector as the revenue and profit of those companies are influenced more by global oil prices and less by the quality of their operations. Demand for oil remains weak for the foreseeable future due to a slowdown in China and increased energy efficiency achieved by consumers. The recent rally in oil prices can be explained by the change in supply due to the agreement by OPEC members to cut output. We remain cautious on the sector and prefer high-quality players that can withstand lower oil prices rather than the high-cost producers. This approach results in less upside potential but also lower downside.

Government bonds performed well for the most of the year but gave back most of the returns during the fourth quarter. The income portion of our portfolio has lower interest rate sensitivity than the broad bond market index and we also own other asset classes, such as corporate bonds, stocks and the U.S. dollar, to offset interest rate risk. They were effective but did not fully offset the impact of the decline in government bond prices. In order to neutralize the impact, we would need to take on significantly more credit and equity risks. While those riskier asset classes performed very well in the fourth quarter, their downside potential is high and, as a result, it is not appropriate that they form a dominant portion of a conservative income portfolio.

A few strategies played out nicely and deserve mentioning. We took advantage of low valuations in high-yield bonds to add exposure at the beginning of the year. The asset class performed strongly and contributed to performance. We were defensive in the euro and the pound and our hedge added value as those currencies depreciated against the Canadian dollar. Within the foreign portion of our portfolios, an overweight position in the U.S. versus Europe and Asia added value. We also had solid stock selection by our portfolio management groups, including Altrinsic, Black Creek and Cambridge.

On a separate note, we are pleased to report that Portfolio Series Income Fund received a Lipper Fund Award in 2016 for the global fixed income balanced category. We appreciate Lipper's recognition and thank our investors for their continued confidence and support.

Returns in % at December 31, 2016	3 mo	1 yr	3 yr	5 yr	10 yr	Life
Portfolio Series Income Fund	-0.8	3.5	5.2	6.1	4.5	5.3 (Dec. 97)
Portfolio Series Conservative Fund	-0.5	2.8	4.9	6.6	3.9	5.1 (Dec. 97)
Portfolio Series Conservative Balanced Fund	0.3	3.8	5.5	7.6	3.9	5.0 (Dec. 01)
Portfolio Series Balanced Fund	0.9	4.3	5.8	8.3	3.8	6.9 (Nov. 88)
Portfolio Series Balanced Growth Fund	1.6	5.2	6.0	9.1	3.9	4.8 (Dec. 01)
Portfolio Series Growth Fund	2.3	5.6	6.2	9.9	3.7	4.6 (Dec. 01)
Portfolio Series Maximum Growth Fund	3.4	6.6	7.0	11.4	3.6	4.4 (Dec. 01)
Select Income Managed Corporate Class	-1.8	2.7	3.3	4.2	n/a	3.7 (Sept. 10)
Select 80i20e Managed Portfolio	-0.9	3.5	3.8	5.5	3.7	3.8 (Nov. 06)
Select 70i30e Managed Portfolio	-0.6	3.4	3.9	6.1	3.7	3.8 (Nov. 06)
Select 60i40e Managed Portfolio	-0.2	3.5	4.1	6.7	3.6	3.7 (Nov. 06)
Select 50i50e Managed Portfolio	0.3	3.9	4.4	7.4	3.6	3.8 (Nov. 06)
Select 40i60e Managed Portfolio	0.8	4.5	4.7	8.2	3.6	3.8 (Nov. 06)
Select 30i70e Managed Portfolio	1.4	4.9	5.0	8.8	3.6	3.8 (Nov. 06)
Select 20i80e Managed Portfolio	2.2	6.0	5.5	9.7	3.7	3.9 (Nov. 06)
Select 100e Managed Portfolio	3.3	6.9	6.2	11.1	3.6	3.8 (Nov. 06)

All fund returns are for Class A units/shares

Select Income Managed Corporate Class

Select Income Managed Corporate Class is an unconstrained mandate. This means it can invest in any asset classes as long as it satisfies our risk budget. Since it is designed for investors with a short investment horizon (generally three years), we have set a very conservative target to have no more than 6% downside in any 12-month period. The worst real-life experience was a 4% downside recorded during the global financial turmoil in 2009. This downside risk – in both the target and the real-life results – is lower than that of the broad bond markets, and significantly lower than that of any balanced and equity strategy.

As noted above, “Trumponomics” triggered a sell-off of sovereign bonds. Prior to this, investors received 1% interest income a year to lend to the Canadian federal government on a 10-year term. It has been re-priced to 1.7%. The extra yield represents investors’ expectation of higher inflation to come. We were somewhat surprised by this sudden move, but pleased by the success of our strategies to hedge random events such as this one. The fund would have experienced better returns during the quarter if it had owned more stocks; however, that would have added downside risk to the portfolio that exceeds our risk budget.

Looking back, investors who have owned the fund for three years have earned an annualized return of 3.3% as of December 31, 2016 even after a difficult fourth quarter. Those who bought this investment recently, say three months ago, incurred a downside of 1.8% (compared to -3.4% for the FTSE TMX Universe Bond Index). We have 33 months to recover and to generate a return, assuming investors are investing for three years. This portfolio generates income of about 3% per annum, and we expect that the income plus a modest capital gain will generate the steady positive returns our investors expect.

Outlook and positioning

The next six months to a year will be all about Trump. The markets have taken what he said at face value and will monitor his progress closely. In other words, current market valuations for stocks appear to have fully priced in a pretty rosy picture, but the risk is if Trump and his government under-deliver, stock valuations and prices will fall.

On the other hand, the sovereign bond markets have also priced in the same expectations for growth. Investors have demanded higher yields (which led to lower bond prices) to compensate for higher inflation that a stronger economy will bring. If Trump fails to impress, bonds will likely produce capital gains in addition to earning interest income. Investors should not give up investing in bonds.

We will need to assess the policies the Trump government is announcing. We are skeptical about aggressive spending increases and tax cuts because the government already has a significant debt and borrowing costs are increasing. In the meantime, the portfolios are neither positioned for high growth or recession; hence, we are not predicting whether Trump will succeed or fail. We rely on fundamentals to guide us. Equity valuations are modestly over-valued by historical standards, and bonds are reasonably valued based on economic growth of about 2% and 1-2% inflation. Overall, we remain underweight equity, and favour equity that has low economic sensitivity. In the Portfolio Series program, we have made some adjustments to our fund holdings. We have added First Asset World Low Risk Weighted ETF to complement our existing equity holdings. The bond portion of the income and conservative portfolios has increased its use of less constrained mandates such as CI Income Fund, CI Investment Grade Bond Fund and Signature Tactical Bond Pool. These income mandates are flexible and are expected to respond quickly to change in fixed-income fundamentals.

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