

# Market Commentary

## Third Quarter 2017



### CI International Value Fund

The fund was negatively impacted by holdings in the financial, consumer discretionary and health care sectors in the third quarter. Consumer staples, utilities and information technology holdings fared better.

Within the financial sector, global insurers Chubb and XL Group came under pressure due to losses related to the recent devastating hurricanes (Harvey, Irma and Maria) in the Caribbean and southeastern U.S. While Chubb's losses were less than expected – totalling 3% of equity – this was insufficient to buoy the stock. XL Group has greater exposure to hurricane losses, although we expect it to recoup much of these when the insurance market re-prices its premiums in 2018. In addition, the fund's Japanese holdings saw weak stock trends, which may be partly due to concerns about Japan's political path going forward given Prime Minister Shinzo Abe's weak approval ratings and the recent snap election announcement. Valuations for each of our Japanese holdings remain compelling as they are close to all-time lows, especially relative to earnings power.

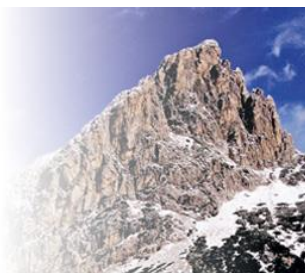
In consumer discretionary, shares of British multinational advertising and public relations company WPP declined as growth slowed, driven by fee compression at major clients within the consumer goods area. As WPP's clients adapt to topline and structural pressures, they are seeking to achieve cost savings in their marketing and media spending. In turn, WPP is adjusting to a lower-growth environment by focusing more closely on staff costs among other expenses, and by further strengthening its full-service and digital capabilities.

In the health care field, shares of medical device company Medtronic and global pharmaceutical, vaccines and consumer products company GlaxoSmithKline underperformed during the quarter. Poor quarterly results have prompted the market to question long-term growth rates at Medtronic. Although we believe Medtronic is well positioned from a product point of view, it needs to improve its execution strategies for its share price to appreciate. GlaxoSmithKline's new chief executive officer Emma Walmsley outlined her strategic direction during the quarter, including a revamp of the research and development (R&D) structure. This was interpreted negatively by the market, as the company has made several attempts to improve R&D productivity without success. However, GlaxoSmithKline has solid franchises in vaccines, HIV, consumer products, and respiratory, which should provide a more stable earnings base.

In consumer staples, global alcohol producer Diageo and Ambev, the Brazilian unit of one of the world's largest brewers Anheuser-Busch, were the top performers. Diageo rallied after reporting strong fiscal 2016 results with revenues that were among the best in the sector and a

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corresponding increase in operating profits and cash flow. It also announced a GBP1.5 billion share buyback program. Ambev's shares rebounded strongly as Brazil's economy has stabilized and the currency (real) strengthened.

In the utilities sector, German energy company Uniper raised guidance for the year after reporting strong results that benefitted from restructuring efforts and higher power prices. Additionally, its legacy parent E.ON announced plans to sell its 47% stake for 22 euros per share over the next several months, which supports a base value for Uniper's shares. The company's absolute valuation remains attractive and, over the next two years, it has several large projects that will provide additional sources of stable revenue growth.

In the information technology sector, Chinese web-services company Baidu saw a recovery in its core search business. Additionally, Baidu's management is pulling back on online-to-offline spending, which is benefitting operating margins. We continue to believe that Baidu's core search business is undervalued and see optionality from the company's investments in its iQiyi online video service and in artificial intelligence. Another holding, Nintendo continues to benefit from strong demand for its Switch console.

<b>Class A Returns (in %) as at September 30, 2017</b>	<b>Year-to- date</b>	<b>1 year</b>	<b>3 year</b>	<b>5 year</b>	<b>10 year</b>
CI International Value Fund	10.0	10.4	9.6	12.1	3.8

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