CI Investments
2 Queen Street East, Twentieth Floor
Toronto, Ontario M5C 3G7
www.ci.com
Telephone: 416-364-1145
Toll Free: 1-800-268-9374
Facsimile: 416-364-6299

MONTHLY UPDATE

Trident Investment Management, LLC
Opportunities Funds Commentary

August 31, 2006

Performance Summary

Oil markets took center stage in August with the price of oil declining 7.2% to US$70.26 per barrel of West Texas Intermediate crude, a fall of over 11% from the peak of US$79.32 reached in late July. The decline in oil prices fueled a celebration in equity markets with the S&P 500 Index up 2.4% on the month, the MSCI Europe Index up 2.6% and the Nikkei 225 in Japan up 4.5%, all in U.S. funds. U.S. Treasuries rallied, with the 10-Year Treasury falling in yield by 0.25% to finish the month at 4.73%. The U.S. dollar weakened fractionally on the month.

Market Outlook & Portfolio Strategy

The massive imbalances that characterize the world today are only too obvious to most analysts and policymakers. At close to 7% of GDP, the U.S. trade deficit is already at or beyond crisis levels, the trends in U.S. exports and imports suggest that there is no short-term prospect of improvement in the deficit, and finally, the U.S. is on a government spending binge that has substantially worsened its fiscal deficit. After several years of zero interest rates Japan is only now emerging from deflation but still remains vulnerable to a global slowdown. The country, after more than a decade of government intervention to stabilize the economy, has the highest levels of government indebtedness in the developed world. The deficit situation the world over in fact, is hardly benign, with only Canada and Russia among the major economies being both in fiscal and trade balance or surplus. Finally, most consumption in the Anglo-Saxon world (U.S., U.K. and Australia) has been fuelled by a housing bubble that represents a real threat to longer-term stability in these countries.

Numerous observers have characterized the current environment as a “stable disequilibrium.” In fact, current policies and capital flows have tended to reinforce the imbalances rather than right them. The U.S. trade deficit in particular is the elephant in the room – the size and unsustainable path of the deficit and the continued willingness of the world to lend to the U.S. represent the largest single imbalance in the world today.

The most common explanation of why the massive U.S. trade deficit persists without the U.S. dollar facing any adverse consequences is simply that the Asians save too much. The Japanese, Chinese and the other Asian nations as a group save more than they can deploy in their domestic economies given their relatively less developed financial systems, and thus are forced to invest in the sophisticated and liquid U.S. financial system. Advocates of this view argue that the U.S. provides a plethora of investment opportunities especially given the quality of its infrastructure and the high productivity of its labor force, even adjusting for wages. More extreme proponents suggest that many of the foreign countries that are building up huge surpluses have no alternative but to invest in the U.S. The implications of this view are that the trade imbalances are largely the fault of economic policy overseas that tends to encourage saving and discourage consumption.

The above idea is popular in the U.S. because it absolves policymakers of the need to make any significant adjustment to domestic policy, putting the onus almost entirely on foreign nations to make the needed adjustments. However this view ignores some of the basic reasons for the existing imbalances. After 9/11 the U.S. Federal Reserve responded to weak U.S. growth prospects with massive rate cuts. The Japanese economic situation at that time was also precarious and policymakers during that period had moved to a policy of quantitative easing designed to end the deflationary spiral the Japanese economy was in. The Japanese action had nothing to do with excess savings in Japan – if anything it was a monetary exercise designed to create inflation rather than any reflection of the country’s excess savings.

The actions of the Fed and the Bank of Japan have led to a credit creation binge since 2001. The credit so created moved into risk assets of all types including real estate, equities and junk bonds, allowing for the financing of numerous investments that ordinarily would never have been funded. Faced with such unprecedented action the other countries in the world were faced with an unpleasant choice: resist the credit inflow and accept a substantial currency revaluation against the U.S. dollar and/or the yen and its attendant growth consequences, or accept it by expanding the domestic money supply and creating a domestic bubble. Not surprisingly, most economies especially in the developing world have moved to accept the credit inflow and have seen a massive increase in investment over the last few years, especially in real estate.

The Chinese situation in this global environment is particularly challenging. The country has a capital allocation process that is inefficient since most investments are by local government fiat. The instances of capital misallocation are legion in China. For example, the Chinese steel industry has rampant over-capacity but new steel mills are being built even though most of them become unprofitable, even on a variable cost basis, from the first day of operation. In fact, the only "efficient" investments in China are arguably in the export sector where the pain of over-investment is felt not by the country's companies but by those of its trading partners.

China has a very high savings rate, but with an investment to GDP ratio hovering near 50%, it uses up most of its internally-generated savings. In fact, the overall Chinese trade surplus is rather small, unlike its bilateral surplus with the U.S., since the country imports raw materials while exporting manufactured goods. However, the Chinese must contend with a flood of foreign direct investment entering their country, which has further fuelled their domestic boom. U.S. and Japanese policies have reinforced this flood of foreign investment making China's policy choices even less palatable. The country could accept a massive revaluation of the yuan, which would possibly require state intervention to support many of the so-far profitable export companies to prevent a recession, or alternatively, intervene to keep the exchange rate stable by accumulating foreign reserves at an ever-expanding rate. The latter policy is challenging because it fosters further inefficient investment in the local economy. The Chinese authorities are fully aware of the scale of capital misallocation that is prevalent in their economy and have been trying for more than a year to rein in investment with administrative measures, albeit with limited success.

The world markets' recent dynamics can be explained by the continued creation of credit. Despite multiple rate hikes, the Fed has not managed to stop the torrid pace of credit creation. U.S. banks, in the face of a flat yield curve, have continued to grow loans at rates in excess of 10%, and other intermediaries such as brokers and hedge funds have just added to the leverage using a host of creative debt instruments, many of which are not well understood or reflected in financial statements. Investing in the global markets today is an exercise largely conducted by participants who borrow and invest at any cost. Returns have been depressed in many risk assets to the point where the investor is not compensated for taking the risk at all.

For this investment paradigm to shift, we will need either a change in global economic policy with coordination from all the major economic players, or alternatively, a destabilizing increase in global risk-aversion.

A global shift in economic policy would involve radically different economic thinking. Specifically, the Fed would have to take aggressive steps to limit credit growth, possibly with dramatic increases in interest rates. This would have to be accompanied by a much weaker U.S. dollar. The loss of exports to the U.S. would have to be borne largely by the Asian economies which should deal with their currency appreciation with expansionary fiscal policies that are designed to boost consumption and imports. In short, there would have to be a new growth model that the world would have to adopt that no longer revolves around the U.S. Unfortunately, there is no doubt that a dramatic contraction in U.S. credit will have painful consequences for the U.S. economy, if not the world. The policy shifts that are required will be unpopular and politically unpalatable. And were such shifts to occur, they would be a rude shock to markets.

Absent the coordinated, painful policy adjustment outlined above, the world markets are headed into an extremely uncertain period. With global leverage at all-time highs and market valuations in equities and credit extremely rich, market participants have assumed away risk. Any event that promotes risk aversion, be it a real-estate problem, a debt default or another Enron could trigger a wave of risk aversion that is likely to have seismic implications in the current environment leading to massive asset repricings. The problem currently is in predicting which event(s) will prove the catalyst.

Market action over the last month has been driven largely by the decline in oil prices. Participants believe that falling oil prices should cause inflation to moderate, permitting the Fed and other central banks to stop their rate hikes. U.S. bond markets in fact, predict a Fed rate cut some time in 2007. This has improved sentiment in global equities and the U.S. dollar even though there has also been strong evidence suggesting that the housing market in the U.S. is under severe pressure. The markets' short-term dynamics only add to investor complacency since they suggest that the imbalances do not matter and hurt funds such as ours that take the contrary view. The important point though is that the status quo is not sustainable over the medium term. The imbalances now are so large that a painful adjustment is virtually certain over the next twelve to eighteen months.

CI Investments

MONTHLY UPDATE

We believe that the current environment offers a truly extraordinary opportunity to make investments with huge upside but little downside risk. The recent news from the U.S. real estate sector has been abysmal and conditions are ripe for a financial accident there. However, the stocks of real estate lenders and credit spreads on real estate loans are both virtually at all-time highs. The consumer who is leveraged and has managed to spend from the equity in his house is tapped out and can be expected to retrench dramatically. This is happening and will continue to happen even if the price of oil corrects to US$50 per barrel. And if the consumer and/or real estate run into difficulties a credit crunch is almost sure to start globally simply because so much lending over the last few years has been concentrated in these areas. Rate cuts after such an accident should not matter much – the scale of leverage now is just too much.

The world markets today look like Humpty Dumpty on the wall. Market players believe that he is a rubber ball that will bounce from any fall. We feel very confident that he is an egg.

Fund Performance

Trident Global Opportunities Fund

Performance as at August 31, 2006

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	YTD	Since Inception (Feb. '01)
-1.5%	-7.5%	0.4%	5.1%	4.4%	4.7%	2.5	2.4%	3.4%

CI American Opportunities Fund

Performance as at August 31, 2006

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	YTD	Since Inception (Oct. '99)
-1.1%	-7.7%	1.1%	7.3%	6.3%	0.4%	1.0%	3.2%	5.3%

Nothing herein should be read to constitute an offer or solicitation by Trident Investment Management, LLC or its principal to provide investment advisory services to any person or entity. This is not to be construed as a public offering of securities in any jurisdiction of Canada. The offering of units of the Trident Global Opportunities Fund and CI American Opportunities Fund are made pursuant to the Offering Memorandum only to those investors in jurisdictions of Canada who meet certain eligibility or minimum purchase requirements. Important information about the Funds, including a statement of the Fund's fundamental investment objective, is contained in the Offering Memorandum. Obtain a copy of the Offering Memorandum and read it carefully before making an investment decision. These Funds are for sophisticated investors only. ®CI Investments and the CI Investments design are registered trademarks of CI Investments Inc.