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

May 31, 2006

Performance Summary

Markets had an unusual and volatile month in May. Commodity markets started off the month strongly with most metals making new highs early in the month. The dollar fell against most currencies over the same period, while equity markets and especially emerging markets globally remained strong. In a dramatic reversal mid-month, however, commodities and equities suffered some of the sharpest corrections observed in years erasing the month's gains. To put things in perspective, gold finished the month down 1.8% after having been up over 10.1% early in the month. Japan's Nikkei index ended down 8.5% which was an intra-month reversal of over 10.5%. The MSCI Emerging Markets Index also finished down 3.9% after being up 2.6% earlier. The trade-weighted U.S. dollar started rallying towards the end of the month but still finished the month with the dollar weaker by 1.4%. The fixed-income markets in this difficult environment were relatively quiet, with yields on the 10-year U.S. Treasury rising by 0.07% to end the month at 5.12% (all returns in U.S. dollars).

Market Outlook & Portfolio Strategy

The volatility over the month was at least in part due to markets' hope that the U.S. Federal Reserve (the Fed) had nearly completed its tightening and that a pause was soon in the offing. The members of the Fed themselves did little to foster such an impression other than indicate that future moves by the central bank were likely to be dependent on the economic data – a statement that by any standard should have been blindingly obvious. But the tireless efforts of Wall Street novelists and the CNBC touts spun these rather innocuous statements to the definitive conclusion that a pause in rate hikes was imminent. This in turn led to a short-term frenzy in commodity and other markets as a new era of easy monetary policy was anticipated. Unfortunately, as the inflation data worsened over the month, the Fed members' remarks increased in hawkishness rapidly reversing the markets' prior bullish sentiment. This, in turn, caused the dramatic shifts observed over the month, especially in the commodities and emerging markets, as investors stampeded for the exits in these "risky" positions. Paradoxically, the areas that held up particularly well during the month were the U.S. equity market and in particular the financial sector (which is exceptionally highly leveraged) because these areas were somehow perceived as being "safe".

The market reactions over the month suggest that participants have yet to come to terms with some of the forces shaping the current global economy. In analyzing a normal economy, cyclical considerations are extremely important. The near-term prospects for growth, the stance of monetary and fiscal policies and the levels of unemployment and inflation are all important variables that determine the economic trajectory and by extension the performance of markets. However, such analysis can fail abysmally in analyzing an economy that is plagued by larger structural issues. Thus, short-term analysis would have failed at anticipating the Asian crisis of 1997 or understanding the deflationary forces unleashed in Japan after the real-estate bubble of the late 1980s. The U.S. today is faced with equally large structural challenges – it is confronted with a large and still growing trade deficit that is approaching 7% of GDP, a fiscal deficit that is running at over 4% of GDP, and a real-estate bubble that is arguably more pervasive than even that of Japan's in the 1980s.

The imbalances in the U.S. make investing difficult by creating periods of exceptional, near-term volatility such as in May, as cyclical factors overwhelm the structural issues. However, we believe strongly that the structural issues today are considerably more important and are ultimately going to determine the pattern of returns for several months and years to come.

A trade deficit by definition results from an excess of investment over domestic savings in the deficit country. The only way to reduce it would be for the deficit country to dramatically curtail investment or boost savings by reducing consumption. The U.S., as the largest deficit country in human history, is simply growing far more rapidly today than its fundamentals would warrant thanks to easy credit from its trading partners. It would have to accept dramatically lower growth relative to its trading partners and/or a much weaker currency if it moved to deal with its trade imbalance. Unfortunately, it has done little to deal with these issues with policymakers preferring to direct policy to boosting short-term growth.

With U.S. apathy towards its structural trade issue, the problem becomes one its trading partners have to deal with. A plausible approach for them is to move to boost their domestic growth dramatically so as to permit more imports from the U.S. Unfortunately, most of the U.S.' trading partners do not have domestic real-estate bubbles and consumption manias that could fuel such a boom. Were policies geared to engendering such a boom, we could reasonably expect significant global inflation as commodity, and especially oil, markets which are already tight, face further increasing demand. On the other hand, the U.S.' trading partners have good reason to avoid creating such a boom – in fact, it was precisely such consumption-friendly policy in Japan in the late 1980s that led to their real-estate boom and deflationary bust . Were they to focus on domestic inflationary considerations and keep interest rates high to cool their economies, they could face significant capital inflows, a bilateral trade deficit with the U.S. that would get even worse than today and ultimately, a dollar collapse and possibly a deflationary bust.

In sum, if the U.S. were to move to deal with its trade deficit, we envision a world with a weaker dollar, weak growth with either very high or very low inflation – that is either stagflation or a deflationary depression. Without the U.S. making any attempts to deal with its trade issues, we are in a world of possibly much higher global inflation and especially commodity inflation if its trading partners move to assume the mantle of growth leadership. If not, we will be in an unpleasant transitory environment where the trade deficit gets worse, inflation remains low but the structural risks of a dollar collapse and an Asian style crisis in the U.S. steadily increase. That is, a near-term Goldilocks scenario, that appears to have become the Holy Grail of economic policy in the U.S., will almost certainly end in disaster. Few observers point out that the unvarnished Goldilocks story did end in disaster – perhaps this fairy tale has some truth to it after all!

The fund's portfolio's suffered over the last month giving back a substantial amount of our gains of the year in the last two weeks and into the first weeks of June. That said, the amazing thing in all this is that nothing really has changed yet. The structural imbalances remain, the commodity boom seems far from over, liquidity still seems much more ample than would be warranted and despite a wholesale liquidation in commodities, investors seem extremely sanguine that the global economy will do well. While we remain convinced about our main

investment themes, especially on the U.S. dollar and gold (which hurt us the most recently), we have cut back on our risk since near-term markets could get even more volatile. We expect to be boosting our risk selectively over the next few weeks in anticipation of a dramatic market move. And painful as the last few days have been, we remain excited about the opportunities that are being presented to us. We believe strongly that we are almost at an important inflexion point that could signal the start of a new investment environment that we would find particularly benign for our investment style.

Fund Performance

Trident Global Opportunities Fund

Performance as at May 31, 2006

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	YTD	Since Inception (Feb. '01)
-1.2%	8.5%	15.4%	18.2%	7.3%	8.4%	4.0	10.7%	5.1%

CI American Opportunities Fund

Performance as at May 31, 2006

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	YTD	Since Inception (Oct. '99)
-1.0%	9.6%	15.2%	20.8%	7.2%	5.9%	1.9%	11.8%	6.8%

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