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

October 31, 2006

Performance Summary

Global markets continued their bull run in October. Equities performed strongly with the S&P 500 Index up 3.26%, the MSCI Europe Index up 3.55% and the Nikkei up 1.69%. This performance was unusual since October usually is a difficult month for equities and continues the anomalous trend of strong equity markets that we have seen since August. Oil continued to fall on the month and remained a major reason for the performance. Bond markets were stable, with 10-year U.S. Treasury yields falling 0.03% to 4.6%. The U.S. dollar weakened fractionally with the trade weighted dollar depreciating 0.82% on the month.

Market Outlook & Portfolio Strategy

The third quarter corporate earnings season has been far from bullish. Many companies "beat expectations" although the outlooks that most provided were anything but bullish. Earnings at manufacturing companies were relatively weak with Caterpillar, the single biggest contributor to the Dow Jones Index's performance over the last three years, being a particular disappointment. The U.S. auto companies suffered substantial losses that were far worse than expected. Also, virtually all banks, REITs and insurers reported problems operating in the current flat yield-curve environment and did not expect much improvement in their operating conditions until the third quarter of 2007 at the earliest. These issues notwithstanding, equity markets rallied, anticipating that oil prices would make for a perfect environment with low inflation but a resurgent consumer.

In looking at equity performance over the last several quarters, the one thing that is apparent is that investors will not accept reality unless absolutely compelled to by the facts. The bull-market mentality assumes that virtually all bad news is transitory. The market's point of view is a result of two powerful forces that have been at work for the last decade. First, the unprecedented amount of monetary stimulus by the world's central banks over the last few years has provided a favorable backdrop for real economic activity. The expected downturn from the bursting of the technology bubble was not significant as a consequence, and we have enjoyed a period of synchronized, strong global growth since 2003. Monetary conditions today, despite recent rate hikes, are not restrictive. Next, the central banks have allowed markets to believe that they will respond aggressively should any potential threat to this benign economic environment emerge. The U.S. Federal Reserve, which has been the worst offender in this regard, never fails to talk of the need for stimulative policy to prevent any downturn in growth. Moreover, they constantly take credit for a victory over inflation and highlight deflation as a likely future problem, despite the fact that domestic U.S. inflation, even when masked by a colossal trade deficit, is running above their comfort zone. Corporations, investors and the public have thus been presented with both a reasonable environment for profitability and assurances that the status quo will not change thanks to the central banks' likely response. As such, it is hardly surprising that bad news is presumed to be temporary.

The current market thinking that has been actively encouraged primarily by the Fed runs counter to the very essence of capitalism. Extended periods of profitability and low volatility suggest a new era where risk has been reduced and more risk-taking is in order. The longer such a stable environment persists, the greater risks will be taken thanks to backward-looking lenders and market participants who typically project future results based on past performance. This results in excess investment in the most market-favored sectors, resulting in a misallocation of capital that ultimately rights itself with a crash. Witness, for example, the telecommunications lending boom and the subsequent problems in the sector after 2000. Since 2001, a similar boom has occurred in real estate with real estate credit instruments, mortgage lenders, real estate investment trusts and the banks being the darlings of the market. The major question that faces us now is whether conditions are ripe for a major shift in market sentiment towards these sectors.

Much of the evidence from the real estate markets over the last few months suggests that a crash of epic proportions is under way in the U.S. However, this has not translated into a revulsion for real estate credit or lenders, although the stocks of homebuilders have suffered over the last few months. Markets continue to love real-estate related investments – REITs, mortgage-backed bonds and the stocks of many real estate lenders actually hit all-time highs over the last few weeks. We have discussed the problem with option ARM mortgages and the phantom profits that such instruments

allow lenders to book. These lenders have not seen significant drops in their stocks despite continued parabolic growth in their phantom earnings. The only reason for this, we believe, is that most market participants really do not understand the nature of these companies' "earnings." Wall Street, far from highlighting the problems that these earnings represent, has devoted its energy to fabricating complex financial instruments that make it even harder to understand exactly what is happening at a company.

One of the Wall Street innovations has been the synthetic Collateralized Debt Obligation (CDO). A CDO in its cash form is a bond instrument issued by an entity that owns a portfolio of corporate bonds of various maturities and investment grades. The CDO issuer attempts to arbitrage the differing risk preferences of market participants by selecting the appropriate corporate debt securities (either diversified or concentrated across industries, credit ratings etc), tranching the cash flows from the underlying debt pool and issuing obligations against this pool with differing risk characteristics and maturities. The cash CDO is thus, exactly like the CMO in the mortgage market. The synthetic CDO on the other hand, may not actually have an underlying pool of debt instruments against which its bond tranches are issued. Instead, a synthetic CDO relies on purchasing credit swaps and other derivatives on various credit indexes with leverage, to synthesize a physical holding of bonds. The owners of tranches in the synthetic CDO may not actually have any rights to any underlying bonds like those in a cash CDO. Instead, they are purchasing rights to a pool of cash and exceptionally complex derivatives. This market is unregulated and the nature and particularly the risk levels of the underlying issuers of these instruments is largely unknown. Most of these credit derivatives are off balance-sheet and as such, understanding the true level of risk run by these issuers is virtually impossible. That said, lack of understanding has never hampered our brave investor community or for that matter our so-called rating agencies.

An even more ridiculous "innovation" has been the Constant Proportion Debt Obligation (CPDO). This instrument is a bond issued by a special-purpose entity where the proceeds of the issue are invested entirely in highly-rated bonds (typically sovereign credits). However, it nevertheless provides a significant spread of 200 basis points or more over Treasuries despite the conservative deployment of its cash. This spread is achieved by selling what are effectively put options against various credit indexes. Of course, it is possible that these put options sustain losses resulting in the issuer being unable to pay interest or even principal on the bond. In such a circumstance, the issuing entity will simply sell even more put options using these premiums to make good on its bondholder payments betting of course, that a reversion to the mean in the credit spreads will occur. This structure is tantamount to a stock investor who believes that stocks will never go down and always doubles down if they ever do! Many of these structures are rated AAA by S&P and other rating agencies based on the history of credit spreads over the last few years. This is akin to the view that stocks can never go down because they have gone up over the last few years. Amazingly, these CPDO instruments are targeted at "sophisticated" investors (read pension funds, endowments and insurance companies not to mention hedge funds) who feel that a virtually riskless 200 basis point spread over Treasuries is an opportunity too good to pass up. Never mind that a standard AAA corporate bond trades at a spread that is one-tenth that level.

Wall Street creates synthetic CDOs, CPDOs and other alphabet soup bonds in record volume. The credit derivative market amounts to some US$26 trillion today. No one asks one very simple question. When rates are low and credit spreads are tight as they are, how can the ultimate owners of these bond tranches ever profit when they end up effectively paying away all these spreads in the form of fees to the intermediaries? Even the simplest derivative, like an equity call, is an expensive proposition for an equity investor who can own the stock. How can a structure that is exceptionally complex, hard or impossible to model accurately and which involves a slew of derivative fees not to mention suspect issuers of the derivatives ever make sense to a traditional bond investor, or for that matter, for ANY investor? Where have all the investment analysts gone?

Listening to the shills on Wall Street, you would think that these instruments will change the world. And the truth is they have: Wall Street's profits have skyrocketed at what will be the ultimate expense of the public. The last time this happened was in the 1980s when the instruments were CMOs (which arguably, even had a role and were much simpler) and the "sophisticated" investors were the U.S. thrifts. We have the same problem now with an even more diverse group of sophisticates. And with all this, most U.S. policymakers still tout the wonderful transparency of U.S. financial markets and the innovations that it breeds! The crooks and the lunatics are truly running the asylum.

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With all these Ponzi products, there is no surprise that the credit markets are still at record tight levels despite the fact that macroeconomic conditions, especially in real estate, have already started to deteriorate. Most mortgage insurance companies reporting for the third quarter reported significant problems with credit, with one or two big "unexpected" losses substantially affecting their earnings. The credit derivatives make it virtually impossible for the end investor to understand the extent of actual underlying credit deterioration. The credit index markets, whose daily performance is driven by the technicals of derivative CDO issuance, are no more reflective of actual conditions. A crash in credit is virtually certain when the fundamentals deteriorate some more – there is only so long that one can believe in the alchemy of credit derivatives and deny reality.

The biggest single bet in our funds is our short position in credit, which unfortunately continues to hurt us despite obvious macroeconomic evidence suggesting that a deterioration is under way. The amazing amount of liquidity generated globally by these credit instruments underpins the world's financial market dynamics. Even with the recent central bank rate hikes thus, credit growth continues virtually unabated. With such strong asset flows the brave investment community is not deterred by inverted yield curves, colossal trade deficits and falling real estate markets not to mention, wars. But, hey, the view is spectacular from a hot air balloon until the hot air runs out.

Performance Summary

Trident Global Opportunities Fund

Performance as at October 31, 2006

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	YTD	Since Inception (Feb. '01)
0.1%	-6.1%	-12.9%	-0.5%	1.9%	2.0%	1.4	-2.4%	2.4%

CI American Opportunities Fund

Performance as at October 31, 2006

1 Mth.	3 Mth.	6 Mth.	1 Yr.	2 Yr.	3 Yr.	5 Yr.	YTD	Since Inception (Oct. '99)
0.1%	-6.1%	-13.2%	0.5%	2.5%	-0.6%	-0.2%	-2.0%	4.4%

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