Update on CI Liquid Alternatives from Marret Asset Management and Lawrence Park Asset Management

Summary of a Conference Call on March 17, 2020

Speakers:
Paul Sandhu, President and CEO, Marret Asset Management
Roberto Katigbak, Institutional Strategist, Head of Sales & Marketing, Marret Asset Management
Jason Crowley, CIO, Lawrence Park Asset Management
Conner Sura, Director & Portfolio Strategist, Business Development, Lawrence Park Asset Management

Marret Overview:

- Our base case is that we will enter a mild recession, but come out of it with only a modest level of economic growth. Given entire economies have shut down as the virus moves through countries, we believe the longevity and breadth of the impact means a slow move back to positive economic growth.
- We are not looking for a V-shaped recovery; we think the bounce back will be very slow as the nature of the economic impact from the virus is very different than other types of shocks.
- This is an event-driven type of recession, not a structural or cyclical one, meaning it should be shorter and shallower in nature.
- We believe rates can go lower and expect the yield curve to steepen substantially over the next couple of months.
- This is not a financial crisis, but a health problem; for policymakers, transmitting credit or money into the hands of those who need it most is quite different from past shocks and recessions.

Marret's Positioning:

- Most of last year and heading into this year, we were positioned very conservatively in risk assets, feeling that both investment-grade and high-yield credit were overvalued.
- Our view was that you needed to be positioned very strongly and aggressively in duration, so our liquid alternative was positioned in government bonds, with the strategy focused on being long governments and duration and actively managing that duration.

- That positioning has changed over the last couple of weeks. As credit markets and spreads have widened out, we have added credit to our liquid alternative mandate. As we see better opportunities in other parts of fixed income, we will rotate into those areas.
- We started the year with around 90% government bond exposure, and are now around 65%. We have added about 20% of credit exposure, with the majority in high yield, with half of that in 30-day paper, mostly in the last two weeks. We have been buying high-quality companies, adding significant amounts of attractive yield to the portfolio.
- Given how dysfunctional markets and credit have become, we have rotated modestly into short-dated credit as it cheapened and will look for further dysfunction to pivot to adding more concentrated levels of high-yield and investment-grade credit.
- Our liquid alternative mandate is fully flexible, able to provide protection into equity volatility into a recession, and then pivot into credit or high-yield corporate bonds after the recession is over.

Lawrence Park Overview:

- We don’t think we are in a financial crisis like 2008. Central banks are doing everything they can, bank balance sheets are much stronger than they were then, and the overall leverage in the system is materially lower. Our economic outlook is for a mild recession.
- Looking at credit spreads, we've seen a substantial widening; you would have to go back to the financial crisis of 2008 to see credit spreads blow out wider than what they've recently done.
- When you do get these risk-off scenarios, credit markets go quiet, but it sets up for a very strong rally once things open up again.

Lawrence Park Positioning:

- Our objective is to preserve investor capital by maintaining a highly diversified and resilient portfolio of short-dated investment-grade bonds with strong fundamentals, and taking advantage of any opportunities in the credit markets.
- Our focus on this allows us to generate a consistent, attractive risk-reward profile that can weather storms like we're seeing and come out of this volatility with a significant opportunity set.
- We hedge interest rate exposure, and do not tactically shift our interest rate duration. This strategy is designed to actively manage the credit component of a portfolio, regardless of what point of the cycle we're in.
- With the recent central bank rate cuts, our funding costs will have gone down materially, and when new issues start up, they will come with significant concessions to

entice investors back into the market. We will be ready to start investing again at that point.

- Our portfolio is strong, with about 20% in banks and 15% in REITs. The average rating is somewhere between BBB and A, and the maturity of our portfolio is 50% less than one year and about 30% less than three years. We have built up the portfolio yield to above 7%.
- We see opportunities every day as we experience more dislocations in in the credit markets. We believe credit will be a good opportunity in the latter part of the year.
- Our active trading strategy allows us to generate additional alpha in these environments, where it's very important to be nimble and take advantage of these big mispricings.

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