CI GLOBAL ASSET MANAGEMENT

MARKET OUTLOOK

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Marc-André Lewis
Executive Vice-President, Head of Investment Management
CI Global Asset Management

It has now been over a year since I joined CI Global Asset Management and I am proud of the tremendous progress the investment team has made. Transitioning from a multi-boutique model to an integrated platform is a tremendous task to accomplish, especially in a difficult market environment and with the operational constraints imposed by the multiple pandemic waves we had to face.

Over the last twelve months, we have taken giant steps in modernizing our investment platform:

- We put in place a structured and rigorous equity research platform. That team, structured primarily by sectors and led by Peter Hofstra, has a depth and breadth of coverage that is already significantly deeper than ever before.
- We created a central Risk and Portfolio Analytics function that is comprised of risk managers, data analysts and quantitative analysts. This group of experts work closely with the portfolio management team to optimize the risk/return profile of all our strategies.
- We integrated our trading activities to our investment activities, enhancing the implementation of our strategies.

The changes that CIGAM embarked on since 2019 are paying off; the proportion of our assets under management that are outperforming peer funds over 1-year and 3-year horizons is at its highest level in several years.

We are not stopping here. Our aim is clear: create a world-class, institutional-grade investment platform that provides our clients with a broad set of performing strategies and access to an expanding set of investment solutions. Over the next few months, you will see an increased differentiation in our existing lineup and more proactive and frequent communications on the economy, markets, and our portfolios. We will also enhance our offerings in liquid alternatives and ESG-focused solutions, as well as private assets.

We believe that a modernized and agile CIGAM is necessary for us to continue to deliver strong performance in what is one of the most complex investing environments we have ever seen. After decades of globalization, falling interest rates and accommodative monetary policy, the pandemic and recent geopolitical events have led us to an environment where domestic supply chains, energy policy and hawkish central bankers are now the focus. When so much changes in so little time, it is difficult for everyone, including policymakers, to know exactly how much adjustment is needed on the monetary and fiscal fronts, and how financial markets should recalibrate.

The first nine months of the year have seen both bond and equity markets deliver strongly negative returns. With commodity markets retreating significantly from their peak shortly after the Russian invasion of Ukraine and with growing signs that the global economy is slowing down in response to tighter monetary policies, it is likely that inflation has already started to slow down and should continue to do so over the next few months. This should support bond markets, which have priced in some additional rate normalization. The magnitude of the economic slowdown will be the major driver for equity markets. With a lot of uncertainty remaining on that front, we expect equity markets to remain volatile, but would caution against excessive pessimism as the market correction has already substantially recalibrated valuations.

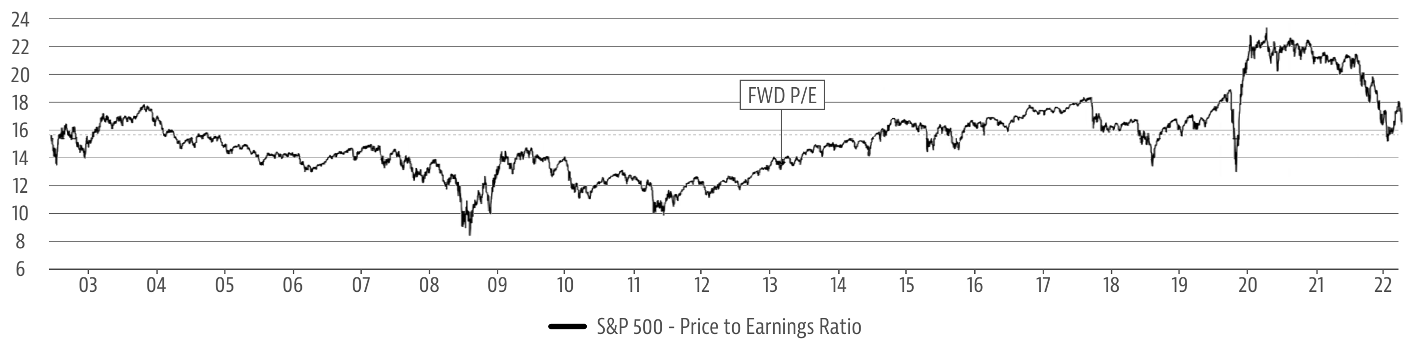
We have built CIGAM's investment platform to be able to support clients in environments like the one we are going through. Volatility creates opportunity and I strongly believe that our active management approach can help our clients navigate this volatile period successfully.

Robert Swanson*
SVP & Co-head of Global Equity Strategies

Equity markets are likely to remain volatile as investors transition their outlooks from the more optimistic view that the Fed and other central banks will pivot toward lower weights at the first sign of economic weakness to the more pessimistic view that the central banks will prioritize fighting inflation while sacrificing economic growth. The likelihood that inflation will persist, and that interest rates will remain elevated, impacts the expectations for economic growth, corporate profitability, and equity valuations. The market has had to contend with both rising inflation and interest rates for more than three decades. Understandably, an adjustment to investing thought processes will be necessary.

Persistent inflation and rising input costs for both raw materials and labor put additional strains on corporate profit margins. Higher interest rates also increase the cost of debt which further pressures cash flows. Higher interest rates also negatively impact consumer spending patterns which can weigh on corporations' sales revenue. With slowing sales and higher costs, profitability becomes more challenging, requiring an adjustment to future profitability assumptions.

Valuation is the other side of the equation. Over the past decade, we have witnessed steadily declining interest rates and corresponding increases in market multiples. As interest rates begin to "normalize", so should price-to-earnings ratios. The good news is that this adjustment has been ongoing during the last year, bringing the forward P/E ratio of the S&P 500 to 16.4x, one turn above the 15.4x average of the past twenty years. This isn't to say that the ratio can't go lower, but to reflect the fact that the higher valuations of the past couple of years have corrected to more reasonable levels.



Source: FactSet, as of August 31, 2022.

*Associated with CI Global Investments Inc., a firm registered with the U.S. Securities and Exchange Commission and an affiliate of CI Global Asset Management.

Kevin McSweeney
SVP & Portfolio Manager and Head of Canadian Equities

From discussions with a variety of colleagues and clients, the word that seems most appropriate to describe how one should feel about the Canadian equity outlook is “constructive”. While optimism may not best describe Canadian investors’ mood when contemplating economics, inflation, geopolitics, or the housing market, we strongly believe that these challenges are reflected in market valuations that offer solid opportunities for above-average returns in the medium-term.

THE CHALLENGES

Being positive on Canadian stock markets does not mean ignoring risks – it means deciding whether those risks have been overestimated in security prices. There are clear headwinds to the Canadian economy. Our housing market is going through a correction, and given the indebtedness of Canadian households, this is likely to impact consumer confidence that’s already been hurt by inflation. It will also reduce consumer spending in many areas of the economy as mortgage servicing consumes a greater share of Canadians’ income.

This housing correction has been steep, with estimates that we have already corrected by up to 18%. The correction was largely driven by interest rate increases by the Bank of Canada to combat inflation at its generationally high levels.

STEIN’S LAW: “IF SOMETHING CANNOT GO ON FOREVER, IT WILL STOP.”

A close parallel to 2022 is late 2018 in the United States, when the Federal Reserve was in a hiking cycle that caused the S&P 500 to fall by more than 19%. Markets were confident that the U.S. Central Bank would make an error and cause the economy to head into a steep recession. While that market reaction was painful, the consequent tightening of financial conditions caused the Fed to adjust to a more lenient monetary policy, with markets rising strongly in 2019, including a 20% rise in the TSX.

While it was impossible to believe that Canadian housing prices could appreciate forever without a correction, it is equal folly to believe that the Bank of Canada will hike forever to where we enter a period of deflation or deep recession. We believe that the Bank of Canada's interest rate increases in 2022 are likely to get the inflation rate close to its 2% target over the next 18 months, and markets will breathe a sigh of relief at the first sign that the hiking cycle will end.

WHY STOCK MARKETS FALL, AND WHY THEY RISE

Major stock market corrections occur for three reasons, none of which we believe are materially impacting Canadian investors today.

Overvaluation	From Dutch Tulip Bulbs to Pets.com shares, asset prices have often been detached from fundamental value; this is not the case for the Canadian stock market today. With a price/earnings ratio of approximately 11.5x, investors in Canadian stocks can "buy" corporate earnings more than 20% cheaper than they have been on average over the last 20 years.
Overleverage	From margin debt in the 1920s to housing in the mid-2000s, when people take on too much debt and asset values fall, there is the risk of a downward price spiral, often with consequences for banks that are undercapitalized or that have made imprudent loans. While Canadian housing debt is high, the majority is in fixed rate products, loan delinquencies remain near historic lows, and Canadians have increased their deposits by $400 billion since before the pandemic, which provides a savings cushion for many. Additionally, our banks – key stock market participants and lenders to the economy – are very strong and well-regulated, with tightened regulations around mortgage lending in the 2015-2019 period likely to keep our financial system stable.
Severe economic downturns	From recurring "panics" in the 1800s, to the 2020 Covid lockdowns, when an economy slows dramatically, corporate profits and stock markets fall almost inevitably. While Canada is showing signs of economic slowing, this is unlikely to be severe given low unemployment and high savings, and stock market declines have already priced in an increased likelihood of economic weakness.

HISTORY IS ON YOUR SIDE WHEN YOU ARE INVESTED

While 2022 has seen significant uncertainty and challenge, I find it difficult to say that this level of difficulty is unprecedented. Over the past 25 years, through an Asian crisis, tech wreck, multiple wars, a global financial crisis, and a worldwide pandemic, Canadian stock markets have delivered an average annual return of approximately 7%. Patient investors have seen an investment of $100,000 become $549,000 over that time. While fluctuations were frequent, the TSX only once delivered negative returns in consecutive years (2001-2002, where a cocktail of overvaluation, debt, recession, and war were in play).

While this discussion has focused on the broader market rather than its subsectors, key sectors underlying this call are Canadian financial and energy stocks that are trading well below historical valuations.

Given the fundamental backdrop in the markets, I feel comfortable reiterating our constructive view on Canadian stocks and our expectation that investors will be rewarded.

Aubrey Hearn
VP and Senior Portfolio Manager

It's certainly been an interesting investment backdrop for 2022, so far. Due to recent levels of government stimulus, the war in Ukraine, and supply chain disruptions, inflation has been running at levels not seen since the 1970s. In response, the Federal Reserve (the Fed) has stated that they want to bring inflation down to their desired target of 2% by aggressively raising rates through the balance of the year. Although it looks like some of the supply chain issues are slowly easing, we think that high inflationary levels will persist through the balance of 2022. So, what is an investor to do given this backdrop?

First off, we think it may be instructive to highlight some things that investors shouldn't do given the present situation. At this stage of the cycle, we think it makes sense to avoid investing in companies with certain types of characteristics.

Investors should be careful with:

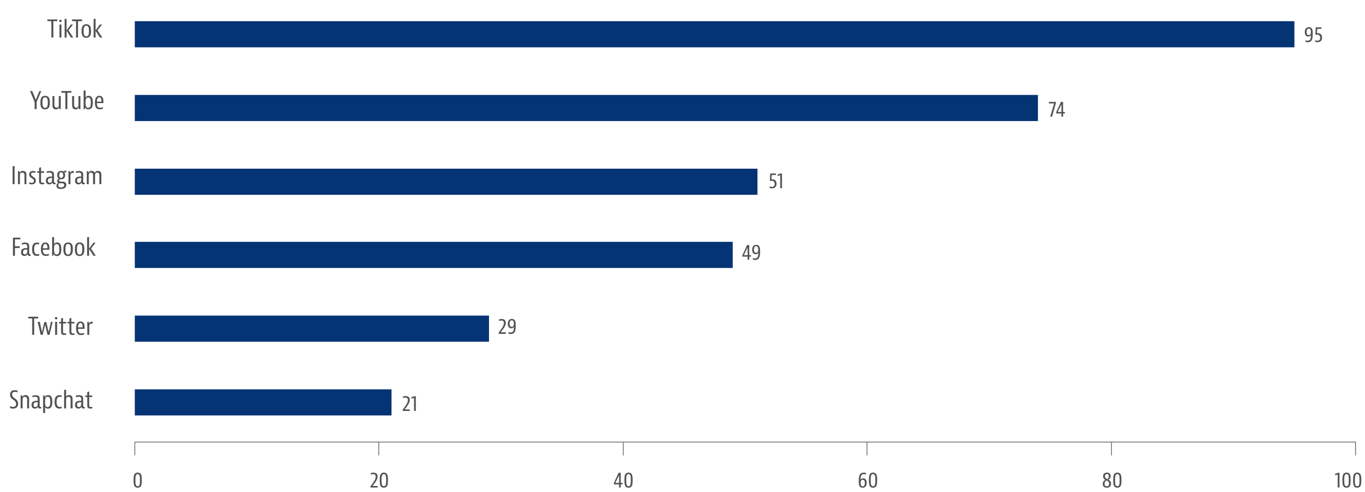
- Companies with high debt levels, particularly ones where they have upcoming debt maturities that they need to refinance. Higher interest rates could materially dent future profitability in high debt laden companies. Also, given higher energy and food prices, we are mindful that we could see a slowdown in consumer spending and thus the broader economy in the coming month. So again, we believe that it's prudent to avoid companies with stretched balance sheets in the event of a potential slowdown in the economy as that slowdown could materially increase the risk of bankruptcy for these types of companies. Stronger balance sheets will allow businesses to invest through a down cycle while their competitors are unable to.
- Commoditized companies/industries that can't pass inflation along. Often when the economy slows down the only lever that a company in a competitive environment can use to stimulate demand is to reduce price. Of course, price reductions can be a double-edged sword and can potentially add even more operating leverage to the P/L and thus create even lower profitability for the business. Coupled with higher inflationary costs, this is a recipe for disaster in this type of operating environment.
- Companies that have longer duration contracts with only minimum pricing power over the length of the contract. For example, a company may have locked in price escalators of 2-3% for the next three years, but operating costs are running materially higher than that at present, due to inflationary pressures. Consequently, the companies' margins are going to get squeezed over those three years as they locked themselves into inferior economics.

- Extremely high multiple names: these types of investments can be problematic in this environment because the market will ascribe a higher discount rate due to higher inflationary levels. Consequently, future cash flow streams will get discounted more severely because actual cash flows are so far away in the future. Hence, growth stocks that trade at elevated multiples or on an EV/Sales basis may continue to struggle in this market.

In terms of companies that we feel should do better in this type of economic environment, we believe that you need to focus on companies that can pass along inflation and have secular tailwinds in their end markets. Generally, you will find these types of companies operate in oligopolies or in industries with limited competition. Some examples of companies that we currently own in the portfolios that fit this narrative are as follows:

- Railways: we have investments in both CSX and CP Rail. We like the railway industry because of the oligopolistic nature of the industry and the level of pricing power that they can achieve. In many cases, the railway's clients literally have nowhere else to go to ship their products as other methods of transportation can be prohibitively more expensive. Despite the recent inflationary environment, railways have achieved higher pricing levels which helps guard against higher costs, as well as helps to protect margins in a potential softer volume environment.
- Alphabet: Google still controls a roughly 90% share of the search market. This, coupled with the 74 daily minutes that people regularly spend on YouTube, makes Alphabet a highly desirable platform for advertisers to be able to reach their clients. Digital advertising remains a high growth business, particularly as consumers continued to gravitate to e-commerce alternatives, and Alphabet is clearly a dominant force in this industry.

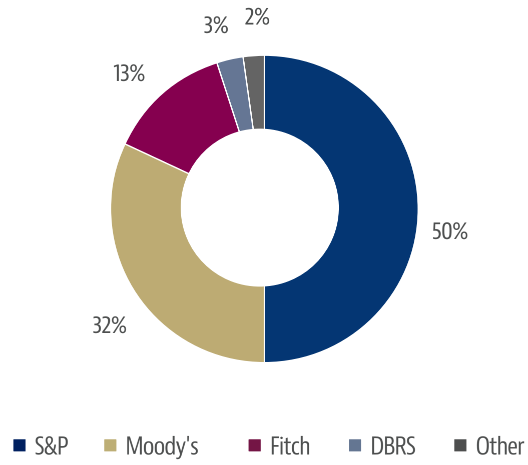
AVERAGE DAILY MINUTES SPENT IN-APP DURING Q2 2022



Based on global usage of each app's Android version. Source: Sensor Tower Consumer Intelligence

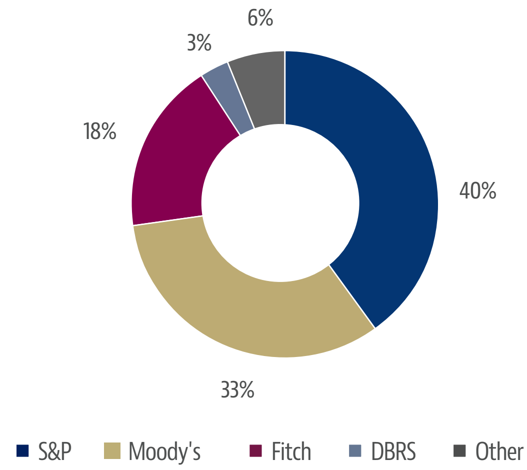
- S&P Global is another name that we like in this environment. One of its main businesses is its credit rating business. The company has a 50% market share of the credit rating industry in the U.S. and a 40% market share in Europe. So, if you want to issue or refinance debt, this is one of the gatekeepers that you must pass. Of course, if there is a recession, the amount of credit issuance may decline. However, due to the consolidated nature of its industry, you know that pricing will remain firm for their products.

U.S. CRAS MARKET SHARE



Source: Redburn, SEC

EUROPE CRAS MARKET SHARE

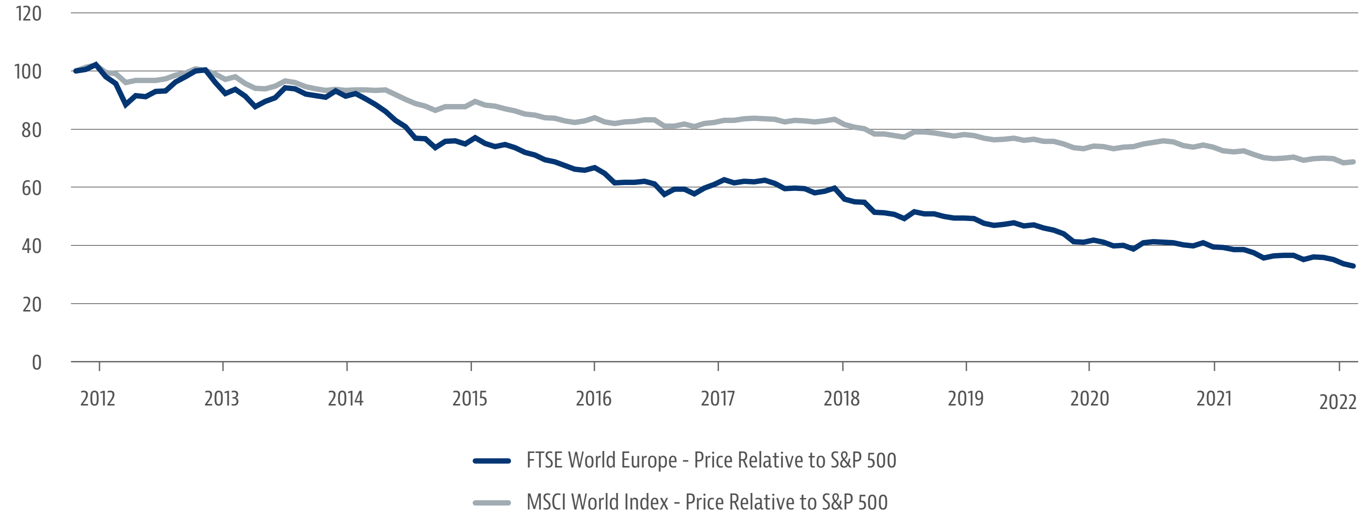


Source: Redburn, ESMA

In conclusion, although the range of economic outcomes are even more difficult to predict than usual, we think it's important for investors to stay the course. No one knows what the direction of the stock market is going to be over the shorter term, so why waste time trying to predict it? Instead, we think it's important to focus on quality companies that can compound capital over time. Companies that have pricing power can earn higher incremental returns on their capital and thus grow their earnings over the cycles. Although there can be wild price swings in stock prices over any given period, eventually stock prices will follow the earnings stream. Remember, be greedy when others are fearful!

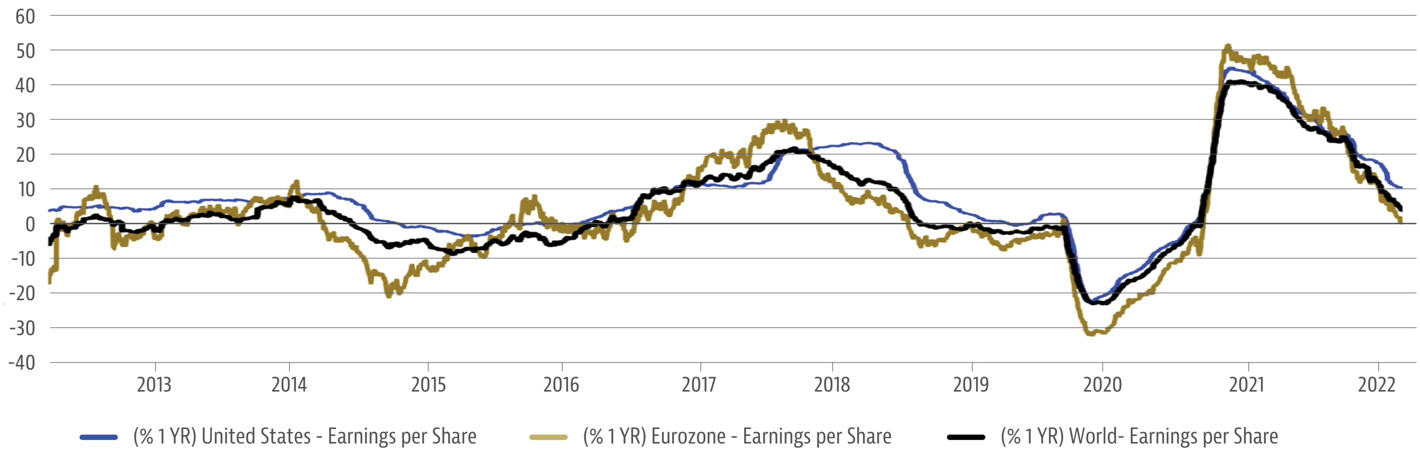
Robert Swanson
SVP & Co-head of Global Equity Strategies

International markets have struggled both in absolute and relative terms versus the S&P 500 for more than a decade. Some of the return differential was structural as the U.S. has a much higher proportion of technology stocks, while European companies tend to have more cyclical exposure. Given the strong performance of the technology sector this past decade, the U.S. has easily outpaced not only Europe, but the rest of the world. The chart below shows the relative price performance of Europe and Global indices versus the S&P 500.



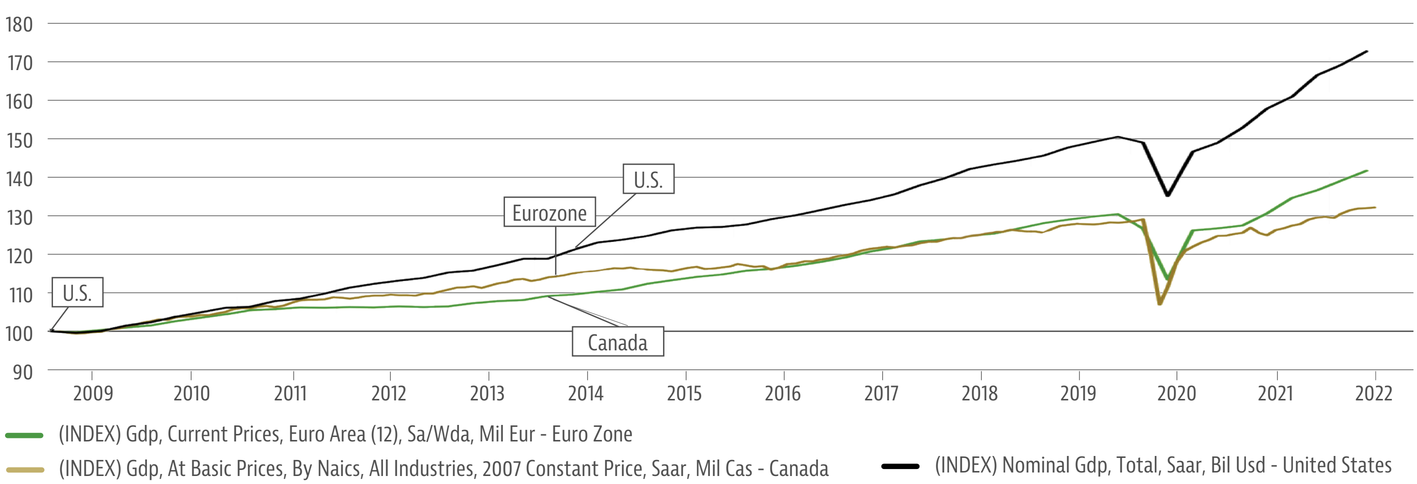
Source: Morningstar Research, as of August 31, 2022.

Clearly, the rest of the world has been steadily underperforming the U.S., but this had been justified by faster growth rates enjoyed in the U.S. In the chart below, the blue line represents the year over year change in earnings per share for U.S. companies, while the gold line represents Eurozone earnings, with the black line representing global equities. While the growth rates tend to trend in a similar way, the U.S. has been the stronger performer, justifying the stronger performance.



Source: FactSet, as of August 31, 2022.

European earnings did enjoy a revival post Covid recovery, but that leadership was short-lived as the ECB reiterated their stance to raise rates in response to rising inflation. Unfortunately, the conflict in Ukraine and the subsequent energy crisis in Europe has led to a complete recalibration of growth expectations across Europe. The likelihood of the Eurozone slipping into recession is now greater than that of the U.S. As a result, GDP growth in the U.S. is expected to continue its dominance over both Europe and Canada.



Source: FactSet, as of August 31, 2022.

Investors will likely proceed cautiously with European equity markets until there is a conclusion to the Ukrainian conflict, a resolution of the energy shortage, and a taming of inflationary pressures. Given the lengthy period of underperformance, lower valuations, and a weak Eurodollar, there is potential for significant recovery in those equity markets, but the risks remain elevated at this time.

Our positioning within European equities favors those companies with multi-national exposure that can benefit from the weaker Euro by selling product outside of the Eurozone. Additionally, we favor companies with a strong brand that affords them the ability to pass along price increases.

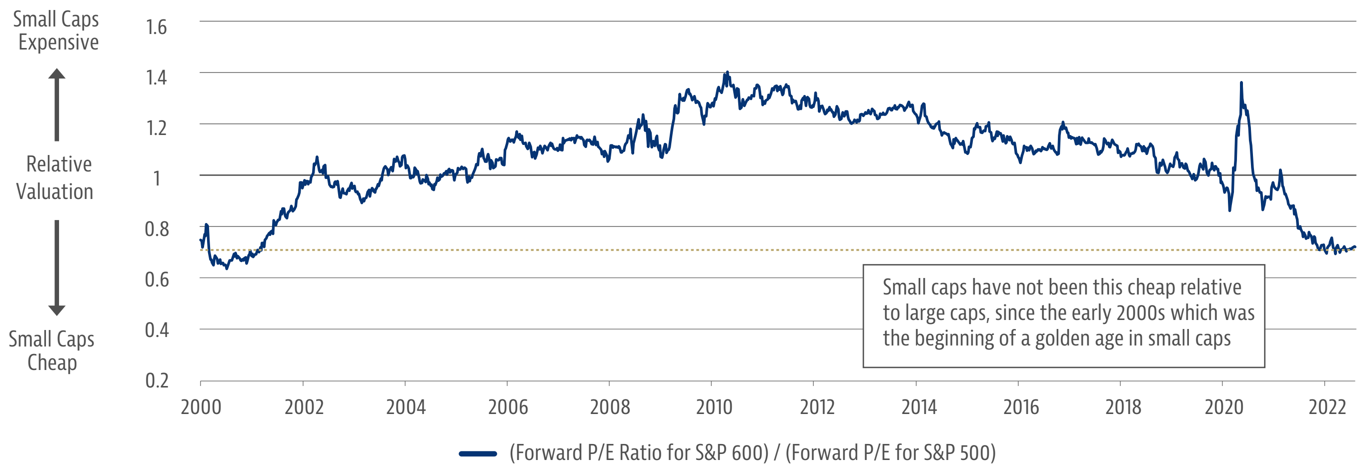
SMALL/MID CAP EQUITY UPDATE

Aubrey Hearn
VP and Senior Portfolio Manager

We believe small caps are trading at a large discount to intrinsic value following a period of underperformance relative to large caps. There is no doubt some areas within small caps, such as SPACs and unprofitably high price-to-revenue names, were extremely overvalued and a correction was inevitable. However, many high quality free cash flow generating small caps seem to have been caught up in the wreckage. We are finding many compelling opportunities in this space. It is our belief that if the public markets do not close this discount, the private markets will. Private equity is sitting on a record amount of dry powder and we have already seen two of our holdings acquired this year.

One metric we follow to track relative value within our universe is the discount or premium small/mid caps trade at compared to their large cap peers. As evidenced by the chart below, the current discount to large caps has not been this wide since the tech bubble. In fact, small caps rarely trade at a discount to large caps. This makes sense logically as small caps typically grow faster relative to large caps. The Russel 2000 actually outperforms the S&P 500 over time, for that very reason. However, during times of fear we typically see large caps perform better as they are viewed as a safe haven.

SMALL CAPS – RELATIVE VALUATION



Source: Bloomberg Finance L.P., as at of August 26, 2022. Relative Valuation is calculated using (Forward P/E ratio for S&P 600) / (Forward P/E ratio for S&P 500) from January 1, 2000 to August 26, 2022.

From a positioning standpoint, our small cap mandates are fully invested. We believe, over the long term, it is time in the market that will outperform anyone seeking to time the market. We see attractive opportunities today and while valuations can always get cheaper, there is no guarantee that they will, so we are investing in areas where we see attractive returns. True to our investment style, we are focused on owning businesses with a favorable industry structure, growth tailwinds, strong competitive advantages, and run by ethical, capable, and ambitious management teams. We seek to own shares of businesses that produce exceptional returns on capital and can reinvest capital back into the business at equal or better rates of return for many years to come.

Due to this investing style, we are underweight the natural resource sectors. We believe these businesses to be highly capital intensive with a commoditized product, coupled with low barriers to entry that makes it difficult to earn a reasonable return on invested capital throughout a cycle. As long-term investors, we would prefer to own businesses with more visibility on what they can charge for their products, how much it will cost to produce and what they can ultimately produce in free cash flow as this is the determinant of a fair price to pay for that business today.

Another area that we are underweight is businesses that we would categorize as speculative growth. These are businesses that are not yet profitable and are aggressively investing through the P&L to acquire new customers. Due to their aggressive cash burn profile, we have concerns around many of these businesses' ability to continue to operate without tapping the debt or equity markets for additional cash. We prefer to avoid the risk of being diluted at unattractive share prices and are extremely selective with our security selection in the growthier areas of the market. Our preference is for businesses that have attractive growth tailwinds, but can fund expansion out of cash generation and are not reliant on the capital markets for growth.

As bottom-up investors, we are finding opportunities to invest in high quality businesses that have been adversely impacted by inflationary pressures. In many cases these companies have pricing power, however the structure of their contracts prevents an immediate pass-through to their customers. This has caused temporary margin compression at several high-quality franchises, however with signs building that inflation has peaked, we would expect these businesses to begin to see margin expansion as they pass through price against moderating input costs. The market remains very pessimistic on these names, providing an opportunity for long term investors to buy shares at a discounted price relative to the normalized earnings power.

We believe macro and geopolitical risks remain elevated, particularly in regions outside of North America. Higher inflation and interest rates will most likely slow consumer demand. The energy crisis in Europe is of particular risk as any decision by Russia to further reduce natural gas supplies would have significant implications to many companies with operations in Europe. China's zero-Covid policy is also a risk, although it could provide upside as that economy reopens. For these reasons, we believe it is particularly important to use a bottom-up investment approach to carefully analyze the degree of exposure and to what extent these risks are priced into the stock. On a company specific basis, we are particularly focused on exposures to long term fixed price contracts or companies whose leverage could balloon if margins and EBITDA compress in this environment. Despite these risks, we continue to believe we can deploy capital above our internal hurdle rates.

Mathew Strauss
SVP & Portfolio Manager

The worries and concerns that kept investors away from emerging markets for more than 18 months might not clear in the very near future, but looking past the here and now, early signs are starting to point to a positive year for emerging markets in 2023, both in terms of absolute returns and relative to its developed market peers. Emerging Asia, and in particular China, holds the key to this more constructive outlook, although positive dynamics in other emerging regions are also supporting our 2023 view.

CHINA

Health concerns (zero-Covid policy) and a struggling economy (property, debt, and regulation) pushed equity valuations down to a point where it seems reasonable to argue that Chinese equities largely reflect these risks. The bottoming and subsequent recovery of economy had been frustratingly slow and had been delayed by the latest Covid variant. However, we are of the view that the recovery will gain momentum during the remainder of 2022 and into 2023, thanks to increased efforts to support the recovery, including interest rate cuts, fiscal incentives, support for home builders and the relaxation of home purchase restrictions. Signs that the government might allow some flexibility towards their zero-Covid policy started emerging in August 2022, although any meaningful changes might only occur early in 2023. The positive impact of such changes, if they occur, should give the expected economic recovery another boost. In a world where major central banks are still tightening, economic growth expectations are falling, and 2023 growth outlooks are generally lower than 2022 estimates, China's economic cycle stands out with meaningfully higher expected growth in 2023 than 2022.

Topic	China	Rest of the World
Monetary policy	**Easing (especially mortgage rates)**	Tightening & QT
Fiscal	**Stimulating**	Consolidating (after 2 years of Covid-related stimulus)
Economic growth	**Early stage of recovery**	Slowdown (talks about a recession)
Housing market	**Bottoming (after a deep slowdown)**	Slowing (especially in developed markets)

REST OF EMERGING ASIA

A large part of emerging Asia (excluding China) is driven by tech-heavy Taiwan and South Korea. Though we remain constructive on the semiconductor and memory sectors over the long run, near term dynamics of weaker demand could weigh on these sectors well into 2023. However, tech and other exports from these economies will benefit as China's recovery takes hold. The recovery will also benefit the ASEAN economies. India remains an outlier and we take a more cautious approach as the tightening cycle started late (first hike in April 2022), and given the economy's sensitivity to higher energy prices and limited fiscal space.

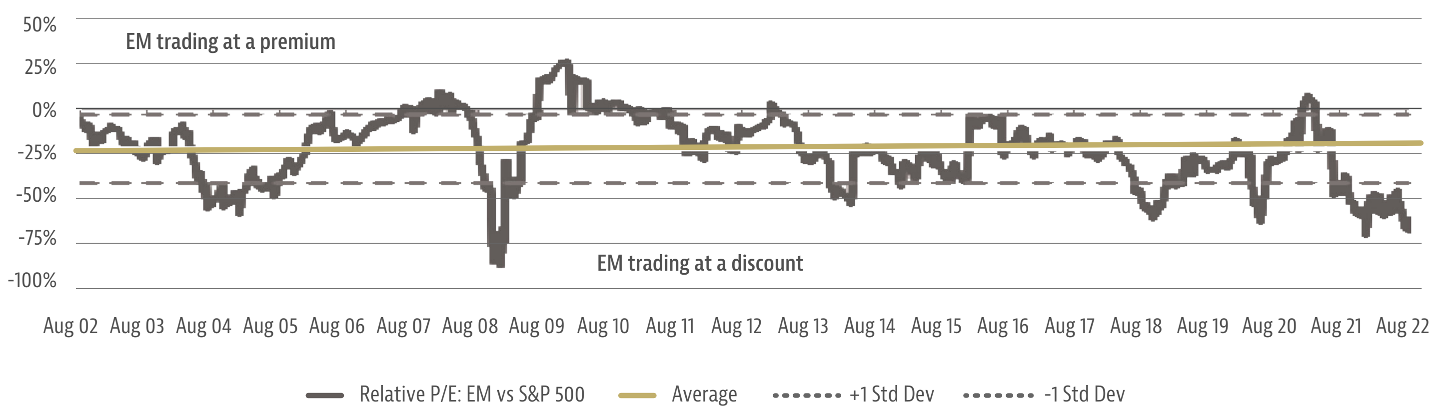
LATIN AMERICA

In a world full of anxiety about inflation, Latin America had a distinct advantage: familiarity with high inflation and thus proactive policy making. Latin American central banks had started their tightening cycles well before the major central banks announced their first hikes. This also meant that the adverse impact of higher rates on sentiment and economic activity emerged much earlier in the region. This was particularly true in Brazil, with the central bank kicking off the tightening cycling back in March 2021 – a full year before the Federal Reserve's first rate hike. Given this proactive behaviour, many Latin American central banks are quickly approaching the end of their tightening cycles.

EMERGING MARKETS

Although technical factors by and in themselves are not compelling reasons to make a longer-term investment decision, they serve as trend enhancers or inhibitors. Valuation, both in historical and relative terms, as well as light positioning by global investors, bode well for emerging market equities in 2023.

EMERGING MARKET VALUATION VS S&P 500



Source: Bloomberg Finance L.P. as of August 26, 2022.

RISKS

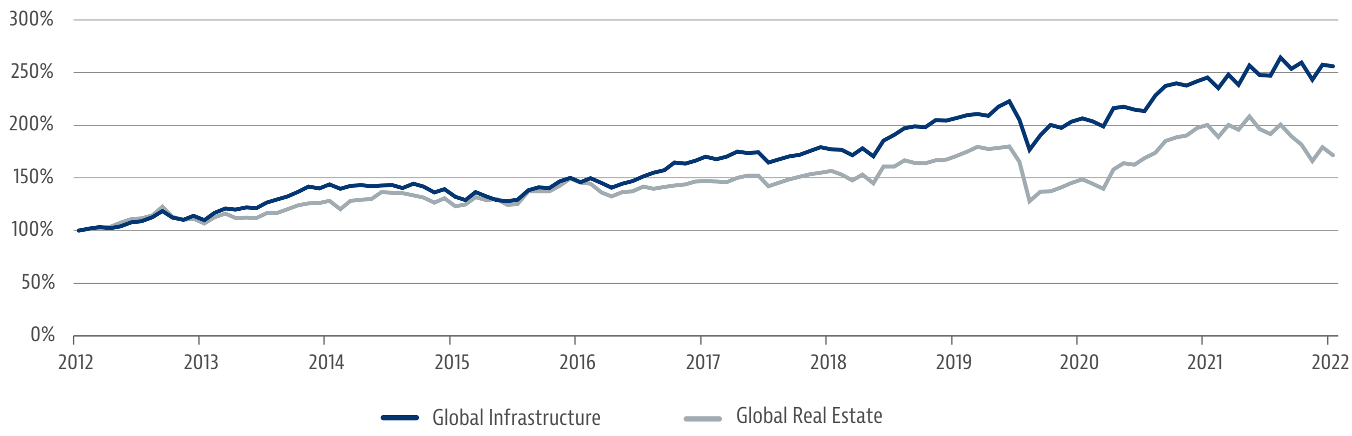
External risks pose the biggest threat to our constructive emerging market outlook, with U.S. interest rates and a higher U.S. dollar the most worrying. If the Fed continues to hike well beyond the 4.5%, it would be difficult for emerging market assets to perform in USD terms, especially those assets in countries with large current account deficits. Secondly, the full impact of higher rates on economic growth will only become evident in 2023 and should global growth push towards a more prolonged recession, the cyclically inclined emerging markets will struggle more than what our current outlook would suggest. A third external risk to our outlook would be a further move higher in energy and food prices, whether because of geopolitics or extreme weather. The last risk to highlight would be a lacklustre economic recovery in China and the inability of the recovery to gain momentum.

Kevin McSweeney
SVP & Portfolio Manager and Head of Canadian Equities

Lee Goldman
SVP & Portfolio Manager

As investors seek to maintain resilient and durable portfolios during market volatility, we feel very comfortable recommending a substantial allocation to real estate and infrastructure ("real assets") to complement traditional equity and fixed income investments. While real estate and infrastructure have diverged in performance thus far in 2022, they tend to have comparable returns over time. With infrastructure remaining inexpensive and resilient, while real estate trades cheap (with little reason to believe that this cheapness continues over the medium term), real assets should be top of mind for allocation increases as investors consider portfolio repositioning.

LONG-TERM GLOBAL INFRASTRUCTURE AND REAL ESTATE PERFORMANCE

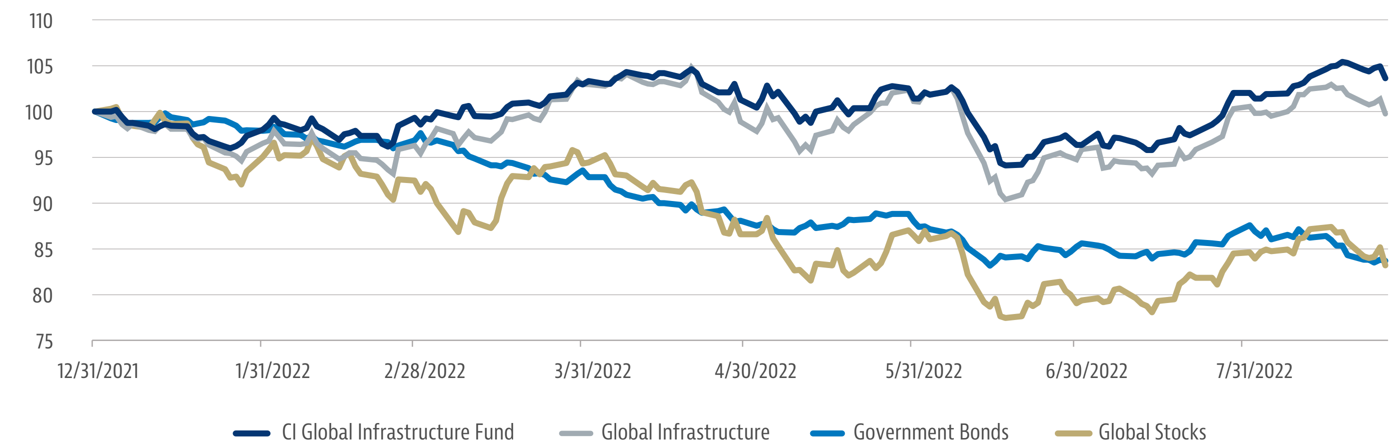


Source: Bloomberg Finance L.P. as of August 26, 2022. Global Infrastructure = MSCI World Core Infrastructure Index USD. Global Real Estate = FTSE EPRA NAREIT Global Developed Index USD.

INFRASTRUCTURE

2022 has given us substantial volatility in global markets, economies, and politics. However, where investors have seen losses in bonds and stocks, infrastructure has provided positive returns. Where volatility has increased in most markets, infrastructure has provided stability, and our products have done the same.

ASSET CLASS RETURNS – YEAR TO DATE 2022



Source: Bloomberg Finance L.P. as of August 26, 2022. Global Bonds = FTSE World Government Bond Index, Global Stocks = MSCI ACWI Index, Global Infrastructure = MSCI World Core Infrastructure Index. All returns using daily pricing in base currency.

It is useful to examine why this sector has been a positive outlier on performance to evaluate whether this strength is likely to continue. **The trends that have seen infrastructure provide excellent long-term results and resilience against weak markets in 2022 seem set to continue.**

Recent global market weakness has been driven by three interrelated factors - by inflation, rising interest rates, and economic fears – that infrastructure has been able to resist. These seem likely to continue to dominate investor considerations, and as infrastructure's fundamental characteristics will not change, we see stability and returns continuing in this asset class.

Inflation: In contrast to other sectors, given embedded protection from its monopolistic positioning, and contractual and regulatory provisions to increase revenues by inflationary factors, infrastructure cash flows are relatively protected. Rising interest rates and inflation directly feed into revenue increases for utilities, pipelines, regulated transport providers, and telecom infrastructure. With a gross profit margin of 40% in infrastructure, versus 32% for global companies on average (MSCI core infra vs. MSCI ACWI, Bloomberg Aug. 27th) and certainty in its passthrough of inflation, an increase in inflation is likely to increase earnings in infrastructure, while uncertainty abounds in other sectors if customers balk at increased prices or decrease purchases. Also, given a ~15% benchmark weight in energy infrastructure, to the extent that energy prices drive inflation, a substantial component of infrastructure benefits from this almost directly.

Rising Interest Rates: While infrastructure is often viewed as a so-called "rate proxy", 2022 has continued to demonstrate that in periods of rising interest rates (interrelated with inflation), infrastructure provides healthy returns.

Period Start Date	Period End Date	Increase in US 10 Year Gov. Bond Yield (bps)	CI Global Infrastructure Fund Class F Return
9/22/2011	10/27/2011	68	5.0%
1/31/2012	3/19/2012	58	2.3%
7/24/2012	3/11/2013	67	15.6%
5/2/2013	12/31/2013	140	5.6%
1/30/2015	6/10/2015	84	2.7%
7/8/2016	3/13/2017	127	11.2%
9/5/2017	11/8/2018	118	0.9%
8/4/2020	3/31/2021	123	5.3%
8/3/2021	10/21/2021	53	2.4%
12/3/2021	2/15/2022	70	1.5%
3/1/2022	6/14/2022	175	-3.1%

Source: Morningstar Direct, as of September 1, 2022.

Recession fears: The vast majority of infrastructure revenues have low to moderate sensitivity to economic growth. There is no substitute to paying utility costs, storing data or using certain pipelines. While there is economic sensitivity in airports and toll roads, we believe that the backdrop of low unemployment, demographic changes, and wage gains across major economies should prevent materially reduced consumption in these sectors.

REAL ESTATE

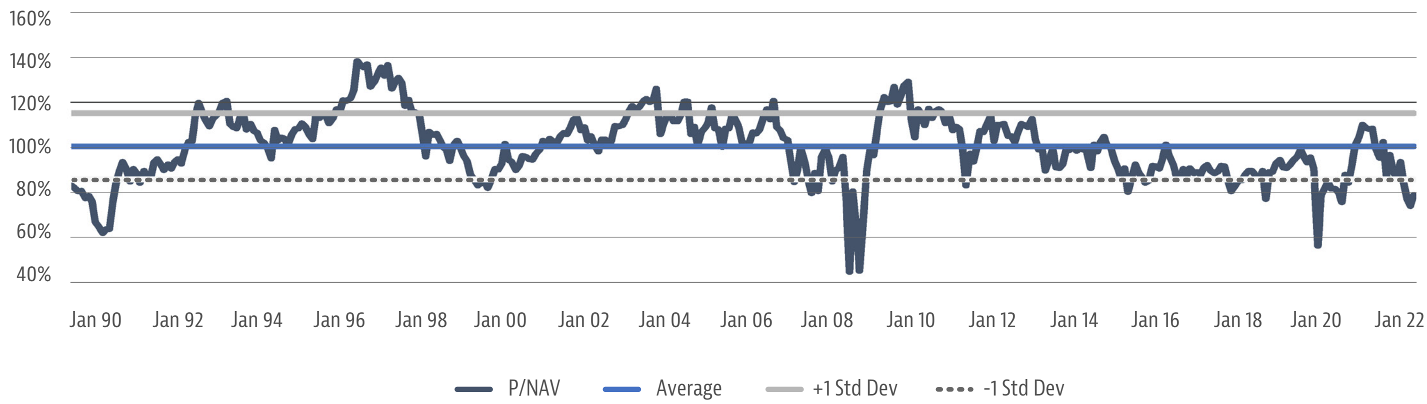
While real estate is generally not well correlated with the broader equity markets, that has not been the case in 2022, with real estate returns closely tracking general equities. The themes mentioned above, inflation, rising rates, and recession fears have also been very topical for real estate securities.

Regarding inflation, many REITs have contractual escalators based on CPI built into their leases, so they can actually benefit from higher inflation. Some sectors, such as hotels and apartments, can quickly adjust rents to reflect inflation, so they can capitalize as well. Most impacted by inflation are long leases without escalators, so the real estate portfolios shy away from those.

Recessionary fears are obviously something to be cognizant of but coming off very strong Q2 results in which 80% of companies beat or met expectations and with upbeat commentaries from management teams, REITs seem well positioned to withstand a potentially weaker economy. Fundamentals across the major sub-sectors represented in the real estate funds, namely residential housing, industrial/logistics, and necessity-based retail all remain in excellent condition.

Rising rates have likely had the most impact of public real estate valuations in 2022. While rising rates do not always have a negative impact, when the increase is as sharp and sudden as it has been investors tend to back away and there are few transactions to determine appropriate cap rates. Given the absence of data, public securities have priced in sharpy higher cap rates (i.e., lower valuations) that at this point seem like an overreaction, with publicly listed REITs now trading at significant discounts to net asset value.

P/NAV BELOW HISTORICAL AVERAGE U.S. REIT MAJOR SECTORS P/NAV



Source: Bloomberg Finance L.P., CI Global Asset Management, Green Street Advisors as of July 31, 2022.

Given strong fundamentals and significant capital sitting on the sidelines waiting to be invested in real estate, we are confident that a stabilization in bond yields will result in a rebound in real estate securities and remain confident in the positioning of the funds.

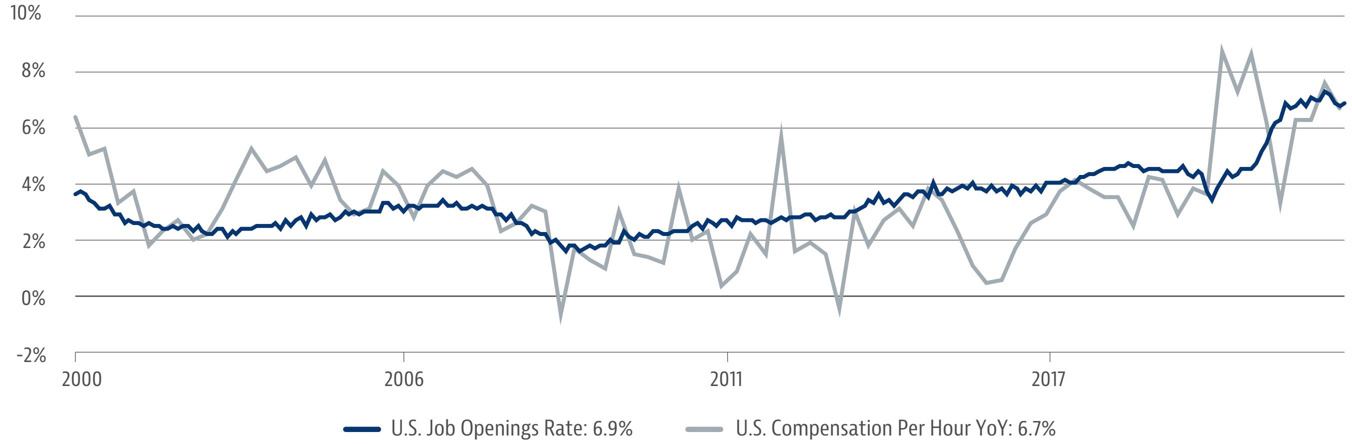
Overall, given the backdrop of reasonable valuation, durable long-term returns and demonstrated resilience in the face of economic challenges, we feel that real assets are well-positioned to be a key contributor for investors going forward.

James Dutkiewicz
SVP and Head of Fixed Income

Looking towards the next couple months of the year, the fixed income market has become a tale of two distinct but related time horizons. Global central banks' actions to reign in the galloping inflation, which is threatening decades worth of credibility, is still the clear and present danger to yields. However, the yield curve inversion is pointing to a post-hiking cycle economic bust that will force central banks to reverse course in late 2023. Here is how we see things playing out over the next few months.

Economic data will almost certainly continue to weaken towards year end. Markets will be eagerly looking for a "pivot" by the central banks indicating an end to the tightening cycle. We feel the key data points to follow revolve around the labour market. Currently, job growth in the U.S. is still quite robust and expectations are for only a moderate decline through the fourth quarter of 2022. This will continue to provide some "leverage" to labour and keep nominal wages elevated. With the shift in consumer spending from goods to services, we expect significant deflation in both durable and non-durable goods, but services' pricing is expected to continue to trend higher. Hence, headline inflation will drift lower on discounting from retailers and, starting in the fourth quarter of 2022, easier base effects. However, the stickier components of inflation (mostly services) will remain uncomfortably high and will either dilute or postpone any pivot in 2023.

FIGURE 1: U.S. LABOUR MARKET (AS OF JULY 31, 2022)



Source: Bloomberg Finance LP

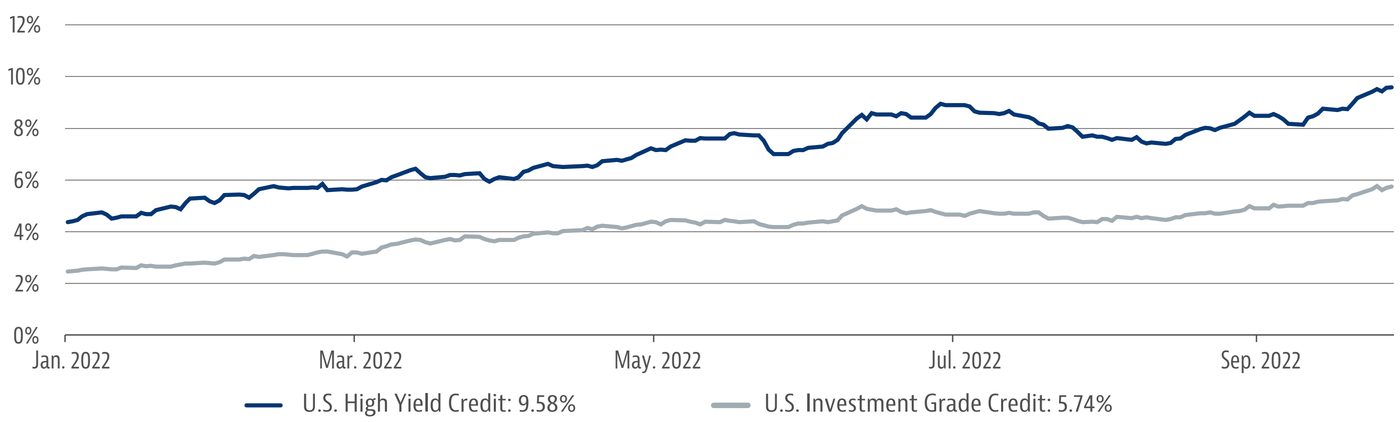
With this backdrop, we feel 10-year yields in both Canada and the U.S. will be rangebound into 2023. Levels below 3.5% will be challenged by our expectations of troublesome inflation in the service sector. On the other hand, the highs in 10-year yields from June (4.25%) are not likely to be threatened given the expected decline in overall economic activity and headline inflation.We do slightly favour Canadian government bonds as we feel the domestic economy is more vulnerable to the lagged impacts of higher rates as evidenced by recent softness in hiring. In both countries we continue to expect the yield curve, as measured by 2-year to 10-year tenors, to remain inverted throughout the year, but limited to approximately 50-60 basis points of inversion.

FIGURE 2: 10-YEAR GOVERNMENT YIELDS (AS OF SEPTEMBER 30, 2022)

Source: Bloomberg Finance LP

Our expectations on credit spreads are reasonably positive for the remainder of the year. Fundamentals, while modestly deteriorating, are still healthy. Investment grade corporate bonds have a lower hurdle of financial performance, especially if the starting point is sound. Sentiment should remain good as all-in yields of 4%-5% or more for high quality mid-term corporate bonds is seen as attractive. Similarly, high yield bonds are providing 9.6% running yields which equates to a default cycle of 5-6%, higher than we anticipate. However, after recent strong performance in credit that mirrored the move in equities, we are not aggressively adding to that risk now.

FIGURE 3: U.S. CREDIT YIELDS (AS OF SEPTEMBER 30, 2022)



Source: Bloomberg Finance LP. Yield is yield to worst. U.S. High yield credit = ICE BofA US High Yield Index; U.S. Investment Grade Credit = ICE BofA US Corporate Index.

We have the sense that the near-term risks to our relatively sanguine forecast are modest. We acknowledge two main risks over the course of the next few months. Governments around the world could greatly increase their efforts to reduce the burden of negative real wages. Significant subsidies to offset the higher cost of living will blunt the signals of elevated prices and sustain demand. This would result in a more persistent inflation challenge for central banks and prolong the tightening cycle well into 2023. Conversely, it is possible that the recent surge in borrowing by consumers to maintain their spending habits will create more acute vulnerabilities to tighter financial conditions. This could lead to a more emphatic decline in spending and greatly increase the risks, both in timing and severity, of a recession.

GLOSSARY OF TERMS:

Credit rating/risk – An assessment of the creditworthiness of a borrower in general terms or with respect to a particular debt or financial obligation. Credit risk is the risk of default on a debt that may arise from a borrower failing to make required payment.

Real interest rates – interest rates after accounting for inflation

Duration – A measure of the sensitivity of the price of a fixed income investment to a change in interest rates. Duration is expressed as number of years. The price of a bond with a longer duration would be expected to rise (fall) more than the price of a bond with lower duration when interest rates fall (rise).

Leverage – An investment strategy of using borrowed money – specifically, the use of various financial instruments or borrowed capital – to increase the potential return of an investment.

Return (absolute) – The measure of what an investment returned over a given time period. An investment that rose from $1,000 to $1,100 would have an absolute return of 10%.

Return (relative) – The performance of one investment versus another. The most commonly reported relative returns are mutual fund returns relative to their benchmark indexes.

Volatility – Measures how much the price of a security, derivative or index fluctuates. The most commonly used measure of volatility when it comes to investment funds is standard deviation.

Yield Curve - A line that plots the interest rates of bonds having equal credit quality but differing maturity dates. A normal or steep yield curve indicates that long-term interest rates are higher than short-term interest rates. A flat yield curve indicates that short-term rates are in line with long-term rates, whereas an inverted yield curve indicates that short-term rates are higher than long-term rates.

To learn more about our portfolio managers and investment philosophy, please visit ci.com.

CI GLOBAL ASSET MANAGEMENT

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