

CI CANADIAN INCOME & GROWTH FUND



Q2-2022 Commentary

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR	S.I.
CI Canadian Income & Growth Fund, Series F*	-6.1%	5.0%	4.8%	6.8%	7.1%
Benchmark: 35% S&P/TSX Composite Index, 25% MSCI ACWI Index, 20% FTSE Canada Universe Overall Bond Index, 20% BofAML U.S. High Yield Index	-8.4%	3.9%	5.0%	7.6%	N/A

* Inception date: November 11, 2000. Formerly Signature Income & Growth Fund, renamed effective July 29, 2021.
Source: CI Global Asset Management, as at June 30, 2022.

PERFORMANCE SUMMARY

- Over the second quarter of 2022, CI Canadian Income & Growth Fund, Series F (the Fund) returned -10.4% compared with its blended benchmark (35% S&P/TSX Composite Index, 25% MSCI ACWI Index, 20% FTSE Canada Universe Overall Bond Index, 20% BofAML U.S. High Yield Index), which returned -10.4%.
- The Fund underperformed its benchmark primarily as a result of the Fund's overweight exposure to the energy and health care sectors as well as stock selection within those sectors. Security selection in the communication services sector was another significant contributor to performance, largely because of the Fund's higher exposure to more defensive telecommunications company stocks.
- The Fund's underweight allocation to fixed income detracted from performance given the sell-off in equity markets during the period, although increased exposure to bonds as interest rates declined offset this underperformance.

CONTRIBUTORS TO PERFORMANCE

The Fund's position in Cenovus Energy Inc. contributed to performance. While the company benefited from stronger oil prices, its outperformance was primarily driven by the narrowing of its relative valuation gap because of strong refining margins in its U.S. refining assets. In addition, the company revealed a more transparent capital allocation strategy during its first-quarter 2022 earnings call.

Another contributor to the Fund's performance was Suncor Energy Inc., which benefited from strong energy prices and high refining margins. The company's stock price was particularly strong because of an activist investor taking a stake in the company and pushing for a variety of operational and strategic changes to release value.

DETRACTORS FROM PERFORMANCE

A holding in Manulife Financial Corp. detracted from the Fund's performance. The company reported weaker-than-expected first-quarter 2022 results, and the market focused on an accounting-based writedown of shareholders' equity and earnings. We believe the company's valuation currently incorporates these factors, and we continue to believe the company's stock represents solid value.

Another detractor from the Fund's performance was a holding in Teck Resources Ltd. Recession fears drove a broader sell-off within the materials sector, with the company's key commodities of metallurgical coal, copper and zinc recording significant declines. The decline was exacerbated by COVID-19 lockdowns in parts of China, a key consumer of these commodities. Overall, Teck Resources' portfolio of producing assets should remain good contributors of value given the company's low-cost position. The company's

valuation is currently attractive given the decline in its share price and our belief that Chinese growth is likely to reaccelerate through reopening and government stimulus.

PORTFOLIO ACTIVITY

During the quarter, we added a new position in Royal Bank of Canada to the Fund. The company's stock was repurchased after being sold from the Fund's portfolio in the first quarter of 2022. The addition was based on our belief that the company's stock price decline had more than fully priced in a negative economic environment for the bank, and that its competitive position as well as overall loan and earnings quality were underappreciated by the market.

We sold a Fund holding in NextEra Energy Inc. based on its premium valuation relative to other utilities. There are also concerns that growth in the company's renewables business could fall short of expectations for profit growth.

MARKET OVERVIEW

During the past six months, the macroeconomic debate had pivoted between inflation fears and growth worries. The U.S. inflation readings in early June sent 10-year U.S. Treasury yields to 3.5%, which may well mark the high point in the current environment, with the market at one point pricing in a terminal federal funds rate of almost 4% (currently at 2.25%). Following the June spike in interest rates, the macroeconomic debate quickly shifted from inflation to growth and whether the economy would be able to avoid a recession given the higher interest rate structure. Our expectation is that inflation could start to decline in the second half of 2022 but that the decline in U.S. and global inflation could be slow and might stay above 3%, which would suggest further U.S. interest rate increases in the latter part of 2022.

Given these factors, Canadian equity markets remain reasonably well positioned, with a stock market that trades cheaper than its U.S. peers, a good exposure to the war-disrupted energy, materials and agriculture sectors, solvent banks, and excess consumer savings. We believe the outlook for Canadian equities remains reasonable after the second-quarter 2022 sell-off, particularly if recession fears prove to be overblown.

Within Canada, we believe interest rate increases are likely to fall short of market expectations, as softening economies, heavily indebted consumers and slowing inflation should allow the Bank of Canada to increase interest rates below consensus forecasts. This view led us to increase the Fund's fixed-income exposure (both government and corporate bonds).

Source: CI Global Asset Management



For more information, please visit ci.com.

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