CI ASIAN OPPORTUNITIES FUND

Q4-2021 Commentary

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR	S.I.
CI Asian Opportunities Fund, Series F*	-2.4%	12.7%	9.3%	9.8%	3.0%
Benchmark: MSCI AC Asia Pacific – Net Return CAD	-2.3%	9.2%	8.6%	10.3%	4.1%

* Inception date: August 8, 2000. Formerly Signature Asian Opportunities Fund, renamed effective July 29, 2021.
Source: CI Global Asset Management, as at December 31, 2021.

PERFORMANCE SUMMARY

- Over the fourth quarter of 2021, CI Asian Opportunities Fund, Series F (the Fund) returned -1.4% compared with its benchmark, the MSCI AC Asia Pacific – Net Return CAD, which returned -2.1% over the same period.
- The Fund outperformed its benchmark as a result of stock selection in the information technology and consumer discretionary sectors. An overweight exposure to the information technology sector also drove outperformance.
- Though we significantly reduced the Fund’s exposure to China, some Chinese stocks significantly underperformed and were key detractors from performance.
- Worries about rising U.S. inflation, interest rates and the U.S. dollar continued to weigh on investor sentiment towards emerging markets. The emergence of the COVID-19 omicron variant added to the uncertainty, and while Chinese policymakers indicated a shift in favour of growth-orientated policies in early December, it was not enough to turn around a rather cautious approach towards emerging markets.

CONTRIBUTORS TO PERFORMANCE

Unimicron Technology Corp., one of the leading integrated circuit packaging substrates suppliers in the world, contributed to the Fund’s performance. The company benefited from the severe shortage of its key product, ajinomoto build-up film (ABF) substrates, that is the result of underinvestment in capacity over past few years and more complicated packaging requirements for increasingly powerful semiconductor chips. According to our industry checks, ABF substrates should remain in shortage until 2023, making the company a very attractive investment.

Another notable contributor to performance was Huaneng Power International Inc. The company’s stock had been trading at a distressed valuation as investors do not like coal-fired power companies. However, the company has aggressively added renewable generations and by the end of the first half of 2021, renewable power accounted for over 20% of installed generation. Investors started recognizing this development late in 2021.

DETRACTORS FROM PERFORMANCE

A position in Full Truck Alliance Co. Ltd. detracted from the Fund’s performance. The company operates a platform that connects shippers and truckers to improve efficiency of freight transportation and reduce the unload ratio for truckers. It is the largest line haul transportation brokerage service provider in China and the world’s largest digital freight platform. We expect the company’s earnings to grow at more than a 100% compound annual growth rate from 2021 to 2024. The underperformance of the company’s stock was a result of an ongoing investigation on internet platforms by the Chinese government.

A position in KWG Living Group Holdings Ltd., one of the largest property management companies in China, also detracted from the Fund's performance. Despite its strong growth potential, the company's stock came under pressure because of investors' concerns about the Chinese property sector. Based on our conversations with the company, the property management services business has not been impacted by the weaker property sales. The stock should recover once the negative sentiment on the Chinese property sector wanes.

PORTFOLIO ACTIVITY

We added a new Fund position in Chroma ATE Inc., a testing solutions provider in Taiwan, specializing in testing solutions for power devices, photonics and semiconductors. The company should benefit from several trends in 2022, including strong electronic vehicle battery cell demand, the proliferation of system level testing and more applications of 3D sensing. It should also benefit from an increased demand for augmented reality (AR) and virtual reality (VR) goggles. The company provides image formation testing solutions for new AR/VR devices from Meta Platforms Inc., Microsoft Corp. and Apple Inc.

Ping An Insurance (Group) Co. of China Ltd. was eliminated from the Fund. The company was fined for improper selling behaviour at its local branches in the second half of 2021. We were also concerned about the risks associated with its insurance agents' aggressive selling practice on cross-selling bank products, credit cards and micro loans. Its inadequate investment disclosure on the property sector further added to our worries.

MARKET OVERVIEW

Last year was a challenging one for Asian markets against the backdrop of higher inflation, slowing growth in China and the U.S. Federal Reserve Board (Fed) shifting its policy stance. These challenges remain as we enter 2022. The new COVID-19 variant omicron adds another challenge, especially for the two largest emerging markets. Even though illness from omicron might be less severe, its high transmissibility will likely challenge China's zero-tolerance approach towards the COVID-19 pandemic. The same policy that worked so well in 2020 and 2021, might lead to many Chinese cities being locked down over the next few months, which will have an adverse impact on the economy. The other country of concern is India, where the highly transmissible variant could become problematic given its huge population and health care constraints.

On the positive side, relative valuation for emerging market equities compared to other equity indices is at multi-decade lows and positioning in China remains light. This suggest there could be a quick turnaround in Asian markets once a trigger materializes, whether that is in the form of more stimulus in China, shifts by the Fed, the omicron variant proving to be relative short-lived compared to previous waves or inflation dropping sharply.

We continue to hold an overweight exposure to the information technology and financials sectors and underweight the materials and energy sectors in the Fund. We have also reduced the Fund's overweight position in China, and Japan remains the Fund's largest country underweight allocation.

Source: CI Global Asset Management

For more information, please visit ci.com.

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The comparison presented is intended to illustrate the Mutual Fund's historical performance as compared with the historical performance of widely quoted market indexes or a weighted blend of widely quoted market indexes. There are various important differences that may exist between the Mutual Fund and the stated indexes that may affect the performance of each. The objectives and strategies of the Mutual Fund result in holdings that do not necessarily reflect the constituents of and their weights within the comparable indexes. Indexes are unmanaged and their returns do not include any sales charges or fees. It is not possible to invest directly in market indexes.

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