Outlook and Target Allocations
Setting the asset allocations

As part of the ongoing review of the Portfolio Select Series program, CI Investment Consulting regularly analyzes the nine portfolios to ensure their asset allocations continue to be forward-looking and optimized to maximize returns for a given level of risk. The review process makes use of comprehensive research and recommendations from State Street Global Advisors.

Our latest analysis indicates that equities, in general, are reasonably priced compared to historical averages and, most notably, relative to government bonds. Emerging markets have strong economies and we anticipate they will continue to lead global growth for many years. In developed countries, which generally have less robust economies, we expect central bankers will continue to support growth by being cautious in their withdrawal of extraordinary stimulus measures. The broad asset allocations reflect our medium and longer-term expectations for the markets.

Income asset class

Canadian government bonds typically provide a strong offset to equity risk, but their returns can be negatively affected by increases in interest rates and inflation. Today, real interest rates in Canada remain low and rate increases are likely to occur over the next three to five years. Our diversified and flexible income strategy allows us to benefit from changing valuations with the aim of achieving steady returns with low volatility and low correlation to the overall markets. The target mix continues to be an allocation of 20% each to Canadian government bonds, foreign government bonds, investment-grade corporate bonds, high-yield corporate bonds, and high-yielding dividend stocks. From time to time, we will use cash and U.S. dollars to help offset equity and interest rate risk. We will continue fine-tuning the allocations in response to changing valuations.

Equity asset classes

Our review showed that the portfolios remain optimally positioned to benefit from investment opportunities from the major equity asset classes, and we are therefore comfortable maintaining the current allocations, which are as follows:

- **Overweight position in U.S. equity.** Corporate earnings have been solid and interest rates are expected to remain low for an extended period, providing a favourable environment for U.S. businesses. With half of the revenue of S&P 500 Index companies earned outside of the U.S., this asset class provides diversified exposure to consumers in both developed and developing economies.

- **Neutral allocation to international equity.** We remain positive about the outlook for emerging market equities and believe that China will follow a sustained path of above-average economic growth, driven by rising personal wealth and domestic consumption. In Europe, a number of countries continue to be hampered by large debt burdens and high unemployment. However, the Eurozone economy has been stabilizing and equity market valuations are generally attractive.

- **Underweight position in Canadian equity.** Canada’s equity market is concentrated in relatively few industry sectors and we anticipate that other markets will generate more attractive returns on a risk-adjusted basis. Still, we believe a meaningful allocation is warranted because Canada remains the largest trading partner to the world’s biggest economy and is a major global supplier of natural resources.

A few words about allocations, styles and currency hedging in the equity asset classes

Within the Canadian, U.S. and international equity allocations, we include exposure to concentrated portfolios that may be positioned quite differently than the benchmarks. This offers opportunities to add to performance – since these portfolios allow our managers to focus on their very best ideas. In addition, the equity classes are diversified by value and growth investment styles, and by market capitalization through large and small caps. Currency hedging allows us to expand the investment universe while minimizing volatility related to currency changes. We manage U.S. dollar exposure using a mean-reversion model, with varying hedge ratios depending on the exchange rate. For example, if the Canadian dollar is trading at greater than 90 U.S. cents and less than parity, the targeted hedge ratio is 30%. For the euro, British pound and Japanese yen, we have a long-term hedging target of 50%.

Alfred Lam, CFA, Senior Vice-President and Portfolio Manager
Yoonjai Shin, CFA, Vice-President and Associate Portfolio Manager
Strategic Asset Allocation Portfolios
Managing risks for consistent returns

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<th>Income</th>
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<td>International Equity</td>
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100% income

Volatility

Return

100% income

Canadian Equity

30% Canadian equity
20% Canadian equity
20% Canadian equity
10% Canadian small caps

U.S. Equity

30% U.S. equity
27.5% U.S. equity
27.5% U.S. equity
15% U.S. small caps

International Equity

30% International equity
30% International equity
24% International equity
16% Emerging markets

Four multi-manager, multi-style pools**

### Income
- 20% Canadian government bonds
- 20% Foreign government bonds
- 20% Investment-grade corporate bonds
- 20% High-yield corporate bonds
- 20% High-yielding dividend stocks

** Available as Select Income Managed Corporate Class. ** The portfolios may also invest in other CI mutual funds to enhance portfolio efficiency.

Note: The above percentage figures represent targets as opposed to actual weightings.
Portfolio Management Teams

Altrinsic Global Advisors, LLC follows a fundamental value approach in which the team seeks out high-quality undervalued companies worldwide. Founded by John Hock and associates, Altrinsic is based in Greenwich, Connecticut.

Black Creek Investment Management Inc. is led by award-winning money managers Bill Kanko and Richard Jenkins. Black Creek pursues an equity mandate with no restrictions on finding the best businesses in the world. They are driven by identifying proprietary ideas and global businesses that will do well for investors over the long term.

Cambridge Global Asset Management is led by Co-Chief Investment Officers Alan Radlo and Brandon Snow and Chief Market Strategist Robert Swanson. Cambridge is a division of CI Investments and has offices in Boston and Toronto.

CI Investment Consulting is the portfolio management team responsible for CI’s managed solutions and oversight of all CI funds. Led by Portfolio Manager Alfred Lam, the team’s mandate is centred on asset allocation, manager oversight and selection, and risk management.

Epoch Investment Partners, Inc. is a New York-based investment management firm founded by Wall Street veteran William Priest and associates. Epoch uses a value-based approach that focuses on companies with superior shareholder yield.

Harbour Advisors, a division of CI Investments, is led by Senior Portfolio Managers Ryan Fitzgerald and Roger Mortimer. Harbour’s approach entails buying high-quality businesses at a sensible price, and following a patient, long-term outlook.

Marret Asset Management Inc. focuses on fixed-income investing and alternative strategies on behalf of institutional, high net worth and retail clients. The firm is led by Chief Investment Officer Barry Allan.

Picton Mahoney Asset Management is led by David Picton and Michael Mahoney and uses quantitative analysis as the foundation of its approach.

QV Investors Inc. follows a value-based approach. It is led by Chief Investment Officer Joe Jugovic and is based in Calgary.

Signature Global Asset Management is a team of over 40 investment professionals led by Chief Investment Officer Eric Bushell, who was named Morningstar Fund Manager of the Decade in 2010.

Tetrem Capital Management, led by Chief Investment Officer Daniel Bubis, is based in Winnipeg and has an office in Boston. Tetrem uses a disciplined approach to invest in undervalued Canadian and U.S. companies.

Commissions, trailing commissions, management fees, and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. 

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