CI CANADIAN CORE PLUS BOND FUND

Q3-2024 Commentary

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR	S.I.
CI Canadian Core Plus Bond Fund, Series F*	20.5%	-1.2%	0.5%	N/A	2.0%
Benchmark: FTSE Canada Universe Total Return Index	12.9%	-0.1%	0.6%	2.3%	N/A

* Inception date: December 12, 2018.
Source: CI Global Asset Management, as at September 30, 2024.

PERFORMANCE SUMMARY

- Over the third quarter of 2024, CI Canadian Core Plus Bond Fund, Series F (the Fund) returned 4.4% compared with its benchmark, the FTSE Canada Universe Total Return Index, which returned 4.7%.
- The Fund underperformed its benchmark largely as a result of underperformance in corporate bonds and preferred shares. In corporate bonds, an overweight allocation and security selection detracted from the Fund's performance.
- The Fund's government bond allocation contributed to performance because of its longer-duration (interest rate sensitivity) bias.

CONTRIBUTORS TO PERFORMANCE

The Fund's holding in 407 International Inc. 5.75% Feb. 14, 2036 bonds was a top contributor to performance. Ontario's highway 407 has seen strong toll revenue, profitability and margins as movement has rebounded post the COVID-19 pandemic and population growth has continued to increase traffic. These bonds are subordinated in 407 International's capital structure and trade wider than the company's senior curve. As such, it has been an attractive way to participate in a vital piece of infrastructure with a higher yield attached to it.

A position in U.S. Treasury 3.625% Feb. 15, 2053 bonds also contributed to the Fund's performance. Long-term U.S. government bonds rebounded strongly from July through to the U.S. Federal Reserve Board's (Fed) first cut to its overnight lending rate in September. U.S. long-term bonds outperformed shorter-duration government bonds and Canadian government bonds.

DETRACTORS FROM PERFORMANCE

A holding in The Toronto-Dominion Bank 3.662% Series 1 rate-reset preferred shares detracted from the Fund's performance. The preferred shares were redeemable by the bank on October 31, 2024. On September 23, 2024, the bank announced that it did not intend to exercise its right to redeem. The shares were trading on anticipation of the redemption and declined $2.50 on the news to better reflect the current yield on similar bank preferred shares.

The Fund's position in Constellation Software Inc. 9.89647% Mar. 31, 2040 bonds also detracted from performance. The bond underperformed as its coupon is linked to inflation and inflation surprised lower, putting pressure on its price.

PORTFOLIO ACTIVITY

We purchased for the Fund a new position in Canada Housing Trust No. 1 3.5% Dec. 15, 2034 bonds to replace a holding in Canada Housing Trust No. 1 4.25% Mar. 15, 2034 bonds.

A position in Stella-Jones Inc. 4.312% Oct. 1, 2031 bonds was also added to the Fund during the period based on strong credit metrics. The company has demonstrated a more than 20-year track record of steady sales growth and margin expansion, and benefits from recurring revenue through long-term contracts as well with cost pass-through features that helps mitigate commodity price volatility and results in stable profit margins through the cycle. The bond is BBB-rated, and this was its inaugural Canadian-dollar investment-grade issue.

MARKET OVERVIEW

Economic conditions in Canada remain weak. The Canadian economy faces challenges from rising unemployment, consumers stressed by higher interest rates and likely lower demand as immigration moderates. The Bank of Canada (BoC) began cutting interest rates in June and completed three cuts through September, lowering its overnight lending rate from 5.00% to 4.25%. The market expects the BoC to cut its overnight lending rate at each of its next two meetings into year-end. It has indicated that it is reasonable to expect more cuts if economic data progresses as expected.

The Fed started its interest rate cutting cycle in September with a relatively large 50-basis-point cut to its overnight lending rate. The market expects more cuts before year-end. Given rising unemployment in both Canada and the United States, the BoC and the Fed are increasingly sensitive to downside risks now that there is a line of sight on inflation returning to target.

To manage risk, we are maintaining for the Fund a relatively higher duration in government bonds and focusing on high-quality corporate bonds to add yield.

Inflows continue to occur into bond funds in Canada, albeit at a somewhat slower pace than earlier in the year. 2024 is on track to reach a record amount of corporate bond issuance and yet year-to-date spreads have still tightened, which is indicative of continued demand for yield products.

Corporate balance sheets are not showing signs of weakness yet, but second-quarter 2024 corporate earnings calls have pointed to a slowdown in the purchase of big-ticket items and a much more cost-conscious consumer overall.

It takes some time for interest rate cuts to begin taking effect on individuals and businesses, but most are still operating from a position of balance sheet strength. As long as this continues, lower borrowing costs should drive better performance in the coming year in the form of stronger growth.

We have decreased the Fund’s credit position slightly and increased quality where applicable. However, the Fund maintains an overweight allocation to credit as we still believe there is value in the asset class at this time.

Source: CI Global Asset Management

For more information, please visit ci.com.

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