CI ENHANCED SHORT DURATION BOND FUND (FSB)

MANAGER COMMENTARY

DECEMBER 2024

MARKET COMMENTARY

In 2024, market narratives shifted several times as investors balanced economic resilience, a slower than expected disinflationary process, and a softening labor market. Central banks grappled with tough decisions on potential rate cuts in the face of these mixed economic signals.

Early in the year, strong labor data from the U.S. and Canada—including robust non-farm payrolls and rising wages—kept inflation concerns front and center. Despite markets pricing in multiple rate cuts in the U.S., the Federal Reserve ("Fed") remained cautious, emphasizing the need for more data before adjusting policy. The Fed's cautious stance shaped investor sentiment and worked to drive rates higher until the end of April.

Throughout the second quarter, inflation remained sticky, complicating the outlook in the U.S. While the Fed acknowledged some progress on inflation, it remained more cautious than peers about easing monetary policy. The Bank of Canada ("BoC") led the Group of Seven by cutting rates in June, just ahead of the European Central Bank. By contrast, the Fed only revised its 2024 rate cut projections. Gradually, concerns about a potential global slowdown grew and a cooling U.S. labor market appeared to be taking shape. August began with a notable risk-off episode, driven by concerns over Japanese carry trades and disappointing U.S. payrolls data.

In the latter half of the year, market volatility increased due to political uncertainty, especially in the U.S. The presidential election introduced additional unpredictability, with President Biden's decision to withdraw from the race and Kamala Harris's subsequent entry. Despite a risk-on tone early in the second half, weaker data, including softer job numbers and rising unemployment, spurred the Fed to lower rates in September, though it refrained from committing to an aggressive easing cycle. Through to year end, the Fed and BoC both lowered rates further, signaling caution considering evolving economic and geopolitical risks.

Overall, 2024 was a year of cautious central bank maneuvering due to mixed data signals and competing hard/soft landing narratives. Typical of periods where central banks transition from a sustained hold in rates to initial cuts, investors faced conflicting data and volatile market reactions. On the surface, the economic backdrop remained resilient but ongoing restrictive policy methodically exerted its influence and achieved it's intended effect—namely a disinflationary path and a better balance of risks with respect to price stability and maximum employment.

FUND SUMMARY

KEY FACTS	
NAV/UNIT (SERIES F)	$9.63
MANAGEMENT FEE (SERIES F)	0.60%
YTM	4.69%
AVERAGE CREDIT RATING	A-
AVERAGE DURATION	1.90 years
LIQUIDITY	Daily
SERIES F FUND CODE	CIG 4136 (C$) CIG 4137 (US$)
SERIES A FUND CODE	CIG 2136 (C$) CIG 2137 (US$)
ETF TICKER	TSX: FSB (C$ hedged) FSB.U (US$ hedged)

Source: Marret Asset Management Inc., as of December 31, 2024

FUND POSITIONING

The Fund generated a positive return but underperformed its benchmark. Underperformance was primarily driven by a more conservative risk profile with less exposure to tightening credit spreads, partially offset by tactical curve and duration positioning in interest rates. With central banks expected to ease monetary policy from a "Tight Pause" to the "Initial Cuts"

phase, we believed late-cycle, flexible positioning balanced between government bonds and credit was appropriate. This approach was designed to prepare the Fund for either a hard or soft landing. Persistent inflation, softening labor markets, central bank easing, and the Republican election sweep resulted in interest rate volatility and opportunities to generate alpha through tactical rate positioning. In the early part of the year, we focused on Canada, which we saw as more likely to begin easing than the U.S. However, as U.S. rates rose following the Fed's September rate cut and Trump's election win, we shifted to overweight U.S. duration. The Fund held roughly equal exposures to government bonds and corporate credit, waiting for better opportunities to increase credit. However, credit spreads remained rich, offering limited chances to add exposure. At year-end, credit duration has modestly increased to 0.66 years. Our credit and government exposures were balanced at approximately 53% and 41%, respectively, with 70% of government duration in U.S. Treasuries. The Fund's overall duration ended at 1.9 years, near its maximum of 2. We continue to believe there will be more attractive credit opportunities in 2025. Although the strategy underperformed this year, we are confident that our conservative positioning will deliver strong risk-adjusted performance over the cycle.

OUTLOOK

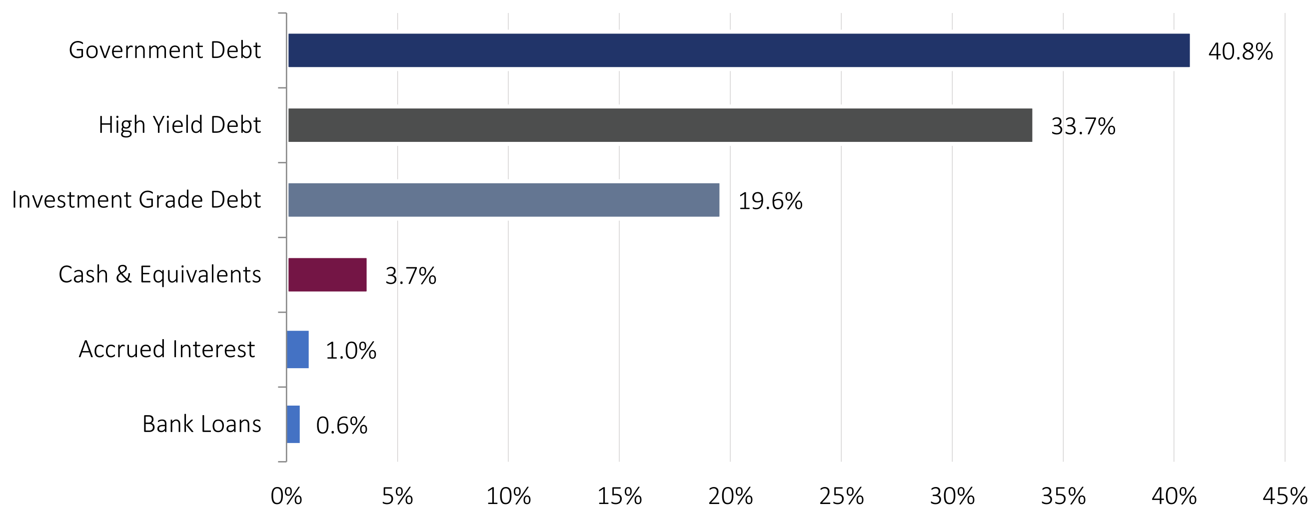
The market is now fully pricing in a "higher for longer" interest rate environment, with 2-year to 30-year yields ending the year above the Fed Funds rate and only 1-2 rate cuts expected in the U.S. during 2025. These rates suggest that the recession premium has been fully priced out of bonds. The term premium has also returned, increasing a little over 100bps in 2024, reaching its highest level in the post-COVID era after spending most of the decade in negative territory. Inflation expectations, as reflected in interest rate swaps, have stabilized around 2.25-2.5%, down from over 3% in 2022.

Markets are now focused on the trajectory of interest rates in both Canada and the U.S. Strong growth in the U.S. and resilience in the labor market will likely lead the Federal Reserve to adopt a more cautious and gradual approach to rate cuts. In contrast, Canada's economic outlook appears more vulnerable, suggesting the BoC may need to adopt a stimulative policy stance and lower rates further. The BoC's path will be shaped by both domestic conditions and U.S. trade actions, as tariffs could hurt already weakened Canadian growth. A retaliatory tariff response could also fuel inflationary pressures in Canada.

Geopolitical risks remain a key concern for markets, with ongoing issues in North Korea, Ukraine, Israel, and Iran likely to persist. Global leaders often test new administrations during transitions, which could add uncertainty to the economic outlook. On the political front, incoming president Donald Trump is the largest wild card. To begin 2025, his offbeat remarks—such as suggesting the U.S. could buy Greenland, annex the Panama Canal, or exert economic force over Canada—have contributed to volatility and market unease. With nothing seemingly off the table, we expect his actions and rhetoric to continue amplifying both opportunities and risks in the year ahead.

Monetary policy uncertainty, fiscal policy uncertainty, and geopolitical uncertainty all lead us to expect further volatility in the coming year. While credit investors remain relatively complacent, areas of fixed income have become more attractive given the significant rise in interest rates. However, recent sharp moves across government bond markets also highlight the need to trade tactical ranges while being selective with curve positioning. Both will be crucial for managing risk and generating alpha in 2025. Our current focus remains primarily on harvesting front end yield in addition to building exposure to higher quality credit, while we await broader market spreads to adjust to better compensate for some of these uncertainties. We have been active using credit to rebuild some of our structural yield, given interest rate volatility has led to modest spread widening and rising all-in yields have provided more attractive opportunities. Looking forward, our bias is to maximize duration if yields rise further due to fiscal policy or inflation concerns as we feel the term premium offered is becoming quite attractive. At the same time, if rates rise abruptly from here, we feel risk markets will most likely stumble which may provide an opportunity to increase credit exposure if it were to become sufficiently attractive.

ASSET CLASS BREAKDOWN



Source: Marret Asset Management Inc., as of December 31, 2024. "Other" refers to a short CDX position (a reduction in credit exposure).

PERFORMANCE

As of December 31, 2024	1m	3m	YTD	1y	3y	5y	Since Common Inception*
CI Enhanced Short Duration Bond Fund (ETF Series)	**0.11%**	**0.61%**	**4.63%**	**4.63%**	**2.51%**	**2.47%**	**2.39%**
FTSE Canada Short Corporate TR Index	0.45%	1.04%	7.26%	7.26%	3.03%	2.96%	2.97%

Source: CI Global Asset Management and Morningstar Research Inc., as of December 31, 2024. *Common inception date: September 7, 2017.

Sources: Marret Asset Management, Morningstar Research Inc., Bloomberg Finance L.P., as of December 31, 2024.

GLOSSARY OF TERMS

Alpha: A measure of performance often considered the active return on an investment. It gauges the performance of an investment against a market index or benchmark which is considered to represent the market's movement as a whole. The excess return of an investment relative to the return of a benchmark index is the investment's alpha.

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.

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).

Liquidity: The degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price. Cash is considered to be the most liquid asset, while things like fine art or rare books would be relatively illiquid.

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 to maturity (YTM): The total expected return from a bond when it is held until maturity – including all interest, coupon payments, and premium or discount adjustments.

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