CI GLOBAL INVESTMENT GRADE PRIVATE POOL CLASS

Q3-2024 Commentary

FUND	1 YEAR	3 YEAR	5 YEAR	10 YEAR	S.I.
CI Global Investment Grade Private Pool Class, Series F*	12.2%	-0.6%	2.2%	N/A	2.8%
Benchmark: ICE BofAML Global Corporate Total Return Index (85% CAD Hedged)	12.4%	-0.8%	0.8%	2.8%	2.1%

* Inception date July 4, 2016. Formerly Sentry Global Investment Grade Private Pool Class, renamed effective June 25, 2021.
Source: CI Global Asset Management, as at September 30, 2024.

PERFORMANCE SUMMARY

- Over the third quarter of 2024, CI Global Investment Grade Private Pool Class, Series F (the Fund) returned 4.4% compared with its benchmark, the ICE BofAML Global Corporate Total Return Index (85% CAD Hedged), which returned 4.7%.
- The Fund underperformed its benchmark largely as a result of its shorter duration (sensitivity to interest rates) than the benchmark, which detracted from performance as interest rates fell sharply.
- Additionally, the Fund's roughly 20% weighting in government bonds underperformed corporate bonds as spreads tightened, which also detracted from performance.

CONTRIBUTORS TO PERFORMANCE

A holding in two U.S. Treasury bonds (4.375% May 15, 2034 and 4.75% Nov. 15, 2053) contributed to the Fund's performance. Duration outperformed as the 10- and 30-year segments of the government yield curve in the United States dropped 68 and 50 basis points (bps), respectively, after the U.S. Federal Reserve Board's (Fed) first 50-bp interest rate cut in mid-September.

DETRACTORS FROM PERFORMANCE

A holding in The Toronto-Dominion Bank (TD Bank) 3.662% Series 1 rate-reset preferred shares detracted from the Fund's performance. The shares were up for redemption or reset at the end of October 2024. The market was pricing an expected redemption and our analysis indicated that TD Bank would redeem the shares as well. However, just before the end of September, the bank announced that it was resetting the shares at 4.97%, so the price fell $1.75 to align with market current yields.

Holding of a floating-rate note (Mar. 31, 2024) issued by Constellation Software Inc. also detracted from the Fund's performance. The company continued to have solid fundamentals, but its floating-rate note declined in price as the Canadian inflation rate declined faster than expected, causing future expected coupons to be lower. The security has a very attractive return profile when modelling a 2% inflation outlook.

PORTFOLIO ACTIVITY

We added a new Fund position in General Motors Financial Co. Inc. 5.35% Jul. 15, 2027 bonds, and a holding in Stellantis Finance US Inc. 1.71% Jan. 29, 2027 bonds was eliminated from the Fund. Stellantis Finance US's parent company, Stellantis NV, was affected by a weak European automotive market, an overproduction issue in the United States and climbing inventories. We switched out of

Stellantis Finance US and into the General Motors Financial position as the latter has very minimal exposure to Europe after the parent company, General Motors Co., sold its Opel brand to Peugeot SA. A slowdown in auto sales in Europe has been more pronounced than in the United States.

MARKET OVERVIEW

The U.S. economy continues to grow at above-trend growth of 2%, but there are signs the growth is moderating. The Fed started its interest rate cutting cycle in September with a relatively large 50-bp 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 Bank of Canada (BoC) and the Fed are increasingly sensitive to downside risks now that there is a line of sight on inflation returning to target.

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 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 further cut the overnight lending rate at each of its next two meetings into year-end. The BoC has indicated that it is reasonable to expect more cuts if economic data progresses as expected.

Inflows continue to occur into corporate bond funds, 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 are increasing credit quality where applicable and lengthening the duration of corporate credit with the advent of steeper credit curves. We still believe there is value in the asset class at this time. We remain focused on the 5–10 year part of the yield curve, where we see the best opportunities due to the steepness of credit curves.

Source: CI Global Asset Management

For more information, please visit ci.com.

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