CI INVESTMENT GRADE BOND FUND & CI INVESTMENT GRADE BOND ETF (TSX: FIG, FIG.U)

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	CI INVESTMENT GRADE BOND FUND (SERIES F)	CI INVESTMENT GRADE BOND ETF (FIG)
NAV/UNIT	$9.17	$9.44
MANAGEMENT FEE	0.75%	0.65%
YTM	4.42%	4.42%
AVERAGE CREDIT RATING	A	A
AVERAGE DURATION	6.7 years	6.7 years
LIQUIDITY	Daily	Daily
SERIES F FUND CODE	CIG 4185 (C$) CIG 4135 (US$)	N/A
SERIES A FUND CODE	CIG 2185 (C$) CIG 2135 (US$)	N/A
TICKER	N/A	FIG

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

PORTFOLIO PERFORMANCE

CI Investment Grade Bond Fund (Series F)

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. In 2024, central banks were expected to transition from the "Tight Pause" phase to the "Initial Cuts" phase of monetary policy. During the "Tight Pause" phase, higher rates are intended to slow the economy, which can impact employment and increase borrowing costs for companies, typically resulting in wider credit spreads. With this in mind, we worked to align the Fund more closely with our overall investment approach. Flexibility became a priority, as we needed to respond effectively to the evolving late-cycle dynamics. Part of this strategy involved reducing corporate exposure and enhancing overall liquidity by using government bonds.

However, persistent inflation early in the year posed a challenge, driving interest rates higher. By September, a softening labour market had pushed rates to their lows for the year, prompting us to reduce duration. Despite these changes, the economy proved more resilient than anticipated, and credit remained richly priced, limiting our ability to increase exposure to credit risk aggressively. Toward the end of the year, as yield curves normalized, we shifted from short-term credit (<1-year) to medium-term credit (5-year) to reduce reinvestment risk. This move aimed to lock in attractive yields as we expect front-end rates to decline further in the coming year. Although the strategy underperformed during the year, our conservative positioning was appropriate to manage the late cycle risks. We believe this positioning will lead to outperformance over time, particularly as opportunities arise to rotate into credit, either tactically or cyclically. With credit spreads near historically rich levels, we expect better opportunities in 2025. At year-end, the strategy had a yield-to-worst of approximately 4.4% and a duration of 6.7 years. The Fund had 71% in credit exposure (offset by some credit hedges) and 26% government bond exposure, with a bias toward U.S. Treasuries.

CI Investment Grade Bond ETF

The ETF 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. In 2024, central banks were expected to transition from the "Tight Pause" phase to the "Initial Cuts" phase of monetary policy. During the "Tight Pause" phase, higher rates are intended to slow the economy, which can impact employment and increase borrowing costs for companies, typically resulting in wider credit spreads. With this in mind, we worked to align the Fund more closely with our overall investment approach. Flexibility became a priority, as we needed to respond effectively to the evolving late-cycle dynamics. Part of this strategy involved reducing corporate exposure and enhancing overall liquidity by using government bonds. However, persistent inflation early in the year posed a challenge, driving interest rates higher. By September, a softening labour market had pushed rates to their lows for the year, prompting us to reduce duration. Despite these changes, the economy proved more resilient than anticipated, and credit remained richly priced, limiting our ability to increase exposure to credit risk aggressively. Toward the end of the year, as yield curves normalized, we shifted from short-term credit (<1-year) to medium-term credit (5-year) to reduce reinvestment risk. This move aimed to lock in attractive yields as we expect front-end rates to decline further in the coming year. Although the strategy underperformed during the year, our conservative positioning was appropriate to manage the late cycle risks. We believe this positioning will lead to outperformance over time, particularly as opportunities arise to rotate into credit, either tactically or cyclically. With credit spreads near historically rich levels, we expect better opportunities in 2025. At year-end, the strategy had a yield-to-worst of approximately 4.4% and a duration of 6.7 years. The Fund had 71% in credit exposure (offset by some credit hedges) and 26% government bond exposure, with a bias toward U.S. Treasuries.

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.

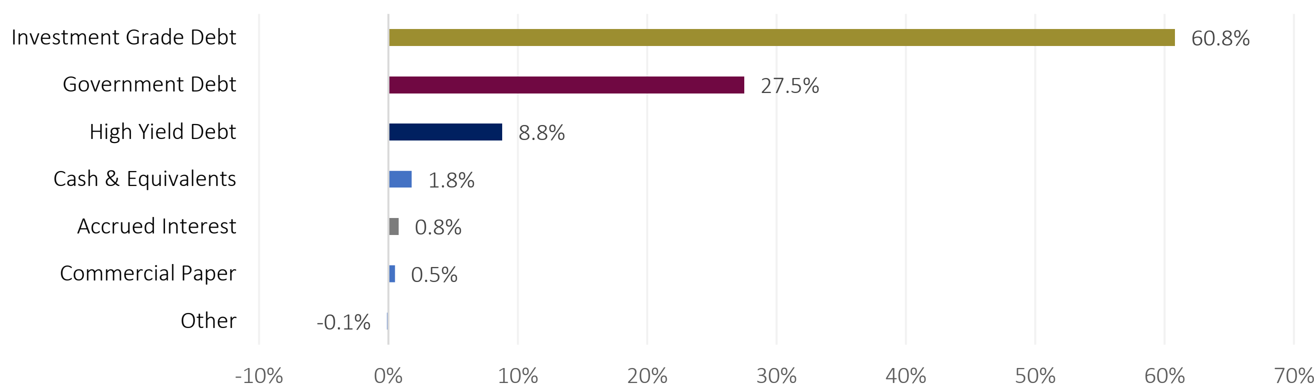
Markets are now focused on the trajectory of interest rates in both Canada and the U.S. Strong growth in the U.S. and resilience in the labor market will likely lead the Federal Reserve to adopt a more cautious and gradual approach to rate cuts. In contrast, Canada's economic outlook appears more vulnerable, 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.

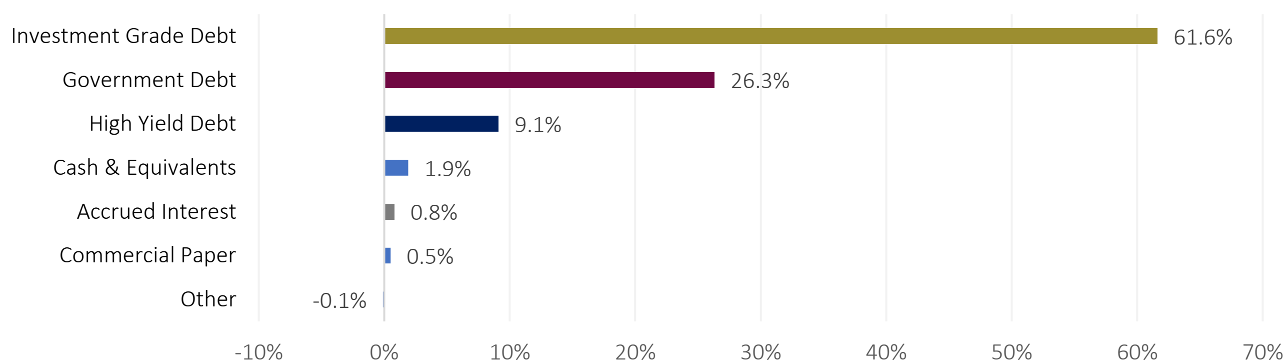
Monetary policy uncertainty, fiscal policy uncertainty, and geopolitical uncertainty all lead us to expect further volatility in the coming year. While credit investors remain relatively complacent, areas of fixed income have become more attractive given the significant rise in interest rates. However, 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 continue to add 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 broaden our exposure to credit if it were to become sufficiently attractive.

CI INVESTMENT GRADE BOND FUND – ASSET CLASS BREAKDOWN



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

CI INVESTMENT GRADE BOND ETF (FIG) – ASSET CLASS BREAKDOWN



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

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

PERFORMANCE

As of December 31, 2024	1m	3m	YTD	1y	3y	5y	10y	Since Inception
CI Investment Grade Bond Fund (Series F)*	**-0.71%**	**0.02%**	**5.05%**	**5.05%**	**-0.91%**	**0.45%**	**2.27%**	**2.26%**
CI Investment Grade Bond ETF**	**-0.64%**	**0.16%**	**5.40%**	**5.40%**	**-0.59%**	**0.81%**	**2.01%**	**3.06%**
FTSE Canada All Corporate Bond Index	-0.14%	1.03%	6.97%	6.97%	1.47%	2.31%	3.04%	N/A

Source: CI Global Asset Management and Morningstar Research Inc. as of December 31, 2024. *Inception date is December 24, 2014. **Inception date is October 23, 2009. Performance shown is net of fees and other costs.

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

For more information visit www.ci.com

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 Curve: A line that plots the interest rates of bonds having equal credit quality but differing maturity dates. A normal or steep yield curve indicates that long-term interest rates are higher than short-term interest rates. A flat yield curve indicates that short-term rates are in line with long-term rates, whereas an inverted yield curve indicates that short-term rates are higher than long-term rates.

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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