

# CI LIQUID ALTERNATIVE INVESTMENT STRATEGIES

## CI Marret Alternative Absolute Return Bond Fund



DECEMBER 2024

CI Marret Alternative Absolute Return Bond Fund (the Fund) seeks to provide absolute returns with low volatility regardless of market conditions. The Fund invests primarily in fixed income across the credit spectrum. This includes government, investment-grade corporate and high-yield debt as well as credit derivatives, other income-producing securities, and cash.

### PERFORMANCE SUMMARY (as of December 31, 2024)

	1 MONTH	3 MONTHS	YTD	1 YEAR	3 YEARS	5 YEARS	SINCE INCEPTION
CI MARRET ALTERNATIVE ABSOLUTE RETURN BOND FUND (SERIES F)	-0.73%	-0.29%	3.52%	3.52%	-0.21%	1.82%	2.36%
FTSE CANADA UNIVERSE BOND INDEX	-0.69%	-0.04%	4.23%	4.23%	-0.60%	0.79%	2.13%

Source: Morningstar Research Inc. Inception date: November 7, 2018.

### GLOBAL MACRO UPDATE

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

### FUND SUMMARY

KEY FACTS	
NAV/UNIT (SERIES F)	\$9.15
MANAGEMENT FEE (SERIES F)	0.80%
PERFORMANCE FEE	10% of returns (net of MER) above the hurdle rate subject to a high-water mark
HURDLE RATE	10-year Canadian government bond yield +1%
YTM	5.56%
AVERAGE CREDIT QUALITY	A
AVERAGE DURATION	5.19 years
LIQUIDITY	Daily
SERIES F FUND CODE	CIG 4191 (C\$) CIG 4193 (US\$)
SERIES A FUND CODE	CIG 2191 (C\$) CIG 2193 (US\$)
ETF TICKER	TSX: CMAR (C\$ hedged) CMAR.U (US\$ hedged)

### USE OF LEVERAGE

GROSS EXPOSURE	138.2%
NET EXPOSURE	107.5%

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

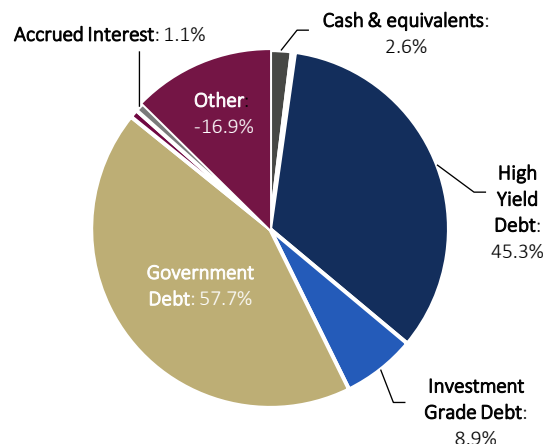
tone early in the second half, weaker data, including softer job numbers and rising unemployment, spurred the Fed to lower rates in September, though it refrained from committing to an aggressive easing cycle. Through to year end, the Fed and BoC both lowered rates further, signaling caution considering 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 its intended effect – namely a disinflationary path and a better balance of risks with respect to price stability and maximum employment.

### POSITIONING UPDATE

The Fund generated a positive return but underperformed its benchmark. Underperformance was primarily driven by lower exposure to tightening credit spreads and, secondarily, by positions in U.S. government bonds that lagged their Canadian counterparts. An emphasis on stronger performing short-duration credit along with tactical curve and duration positioning in interest rates contributed to performance during the year. 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. In the first part of the year, our strategy faced challenges as inflation proved stickier than expected and government bond yields generally rose, peaking in late April. Restrictive policies began showing effectiveness mid-year, driving rates to our soft-landing target range. At that point, we reduced the Fund's duration significantly, below 3.5 years from its previous high of 6.5 years. Rates rose sharply after the Federal Reserve's initial, large cut in September through the Republican election sweep in November. The Fund added back exposure to U.S. interest rates as they rose, capturing the value from the previous reduction. While credit spreads remained richly priced throughout the year, the Fund took advantage of selective opportunities to add to credit. We believe more attractive credit opportunities will likely emerge in 2025. At year-end, the Fund's duration stood at just over 5 years. It had ~54% credit exposure (offset by some credit hedges) and ~58% government exposure, heavily skewed to U.S. Treasuries. Although the Fund modestly underperformed in 2024, we continue to believe the strategy is poised for risk-adjusted outperformance through the cycle and meaningful opportunities will avail themselves in the year ahead.

### ASSET CLASS BREAKDOWN



### FUND EXPOSURE

ISSUER COUNTRY	GROSS EXPOSURE*
CANADA	29.3%
UNITED STATES	67.0%
OTHER	3.7%

### TOP FIVE HOLDINGS

HOLDING	WEIGHT
U.S. TREASURY BOND 0 03/31/25	16.8%
U.S. TREASURY BOND 4 1/4 11/15/34	13.1%
U.S. TREASURY BOND 3 7/8 08/15/34	11.6%
ONTARIO BOND 4.15 12/02/54	4.7%
U.S. TREASURY BOND 4 3/8 12/31/29	2.6%

YEARS TO MATURITY	GOVERNMENT BONDS	CORPORATE BONDS
0 to 3	-	36.9%
3 to 5	22.1%	15.7%
5 to 10	30.4%	0.6%
10+	5.1%	1.0%

Source: Marret Asset Management Inc. As of December 31, 2024.  
\*Ex-cash

## 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.

## 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 in 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).

**Derivatives:** A financial security with a value that is reliant upon, or derived from, an underlying asset or group of assets. The derivative itself is a contract between two or more parties based upon the asset or assets. Its price is determined by fluctuations in the underlying asset.

**Leverage:** An investment strategy of using borrowed money - specifically, the use of various financial instruments or borrowed capital - to increase the potential return of an investment.

**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.

**Return (absolute):** The measure of what an investment returned over a given time period. An investment that rose from \$1,000 to \$1,100 would have an absolute return of 10%.

**Return (risk-adjusted):** A measure of investment performance taking into consideration how much risk/volatility was assumed to generate it. Consider two investments, both of which return 10% over a given time period. The investment with the greater risk-adjusted return would be the one that experienced less price fluctuation. Two of the most commonly used measures of risk adjusted returns are Sharpe and Sortino ratios.

**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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CI Liquid Alternative investment funds have the ability to invest in asset classes or use investment strategies that are not permitted for conventional mutual funds. The specific strategies that differentiate these investment funds from conventional fund structure include: increased use of derivatives for hedging and non-hedging purposes; increased ability to sell securities short; and the ability to borrow cash to use for investment purposes. While these strategies will be used in accordance with the investments funds' investment objectives and strategies, during certain market conditions they may accelerate the pace at which your investment decreases in value.

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The comparison presented is intended to illustrate the historical performance of the Fund as compared with the historical performance of widely quoted market indexes or a weighted blend of widely quoted market indexes. There are various important differences that may exist between the Fund and the stated indexes that may affect the performance of each. The objectives and strategies of the Fund result in holdings that do not necessarily reflect the constituents of and their weights within the comparable indexes. Indexes are unmanaged and their returns do not include any sales charges or fees. It is not possible to invest directly in market indexes.

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