CIBC Asset Management

November 2019

A YEAR IN REVIEW

CIBC Multi-Asset Absolute Return Strategy (“MAARS”):

- Is an absolute return top-down macro-fundamental strategy managed by the CIBC Asset Management (CAM) Multi-Asset & Currency Management team.
- Targets an annualized return of 5% plus 91-day cash over rolling 3-year periods, with a risk target equal to one half of the annualized MSCI ACWI index (in CAD terms) over the same period.
- Investment process is a disciplined combination of rules-based quantitative inputs and rigorous qualitative fundamental research.
- Seeks to add value by implementing diversifying long-only beta and long/short alpha positions in equities, fixed income, currencies, and commodities, and across Developed (DM) and Emerging (EM) markets. No individual security selection.

Market review:

2019 has been a year of relatively low investment opportunity. Key themes driving asset markets have included:

- Heightened and sustained geopolitical risk, including US/China trade tariffs, UK/Europe Brexit negotiations, and US/Iran.
- Cyclical economic weakness. This weakness was partly driven by geopolitical risk, particularly the US-China trade tensions. But it also reflected weakening domestic demand, including in China and Europe.
- High asset valuations, and commensurately low expected returns, particularly in DM sovereign bonds, as well as some equity markets (e.g. the US), and many illiquid alternative asset classes, including Infrastructure and Real Estate.

Strategy review:

- MAARS investment conviction tends to be lower during periods when asset returns are driven primarily by unpredictable geo-political event risk, or when fundamental signals provide contradictory information. During these periods, the team perceives that risk-taking is not well compensated. Accordingly, strategy risk tilts towards defensive positioning and hedging strategies to preserve capital.
- We began the year with relatively low investment conviction. MAARS strategy risk was run well below its long-term (annualized 3-year rolling) target level.
- As the year developed, and policy uncertainty intensified, the team further reduced the level of strategy risk. Signs of rising recessionary risks are widespread and contribute to a higher than usual drawdown risk.
- The team also implemented a number of defensive hedging strategies designed to protect capital in the event of a significant risk sell-off. These included:
  - A relatively low contribution on average to total strategy risk from equities.
  - Long exposure to gold and safe-haven currencies, including the Japanese yen and Swiss franc.
  - Long exposure to various option-based hedging strategies intended to insure against the adverse impact of a significant risk sell-off.
  - More constructive return seeking strategies and positions were also present in the portfolio through the year. These focused primarily on fundamentally attractive, undervalued EM assets in currencies, fixed income, and equities.

Performance Review:

Trailing Returns (%) - as at Oct. 31, 2019	1 month	3 months	6 months	Year to date	1 year	Since inception*
Series A	(1.1)	(1.1)	(0.7)	0.8	2.2	2.0
Series F	(1.0)	(0.8)	(0.1)	1.8	3.4	3.1

*Inception: October 22, 2018

- Strategy performance in Year 1 of the fund was a little below its 3-year rolling target. This primarily reflected low strategy risk, as discussed above. The return/risk (or Sharpe) ratio of the strategy was broadly consistent with expectations.
- From an **asset class perspective**, EM bonds and EM currencies were the main positive performance contributors. Expected returns in these asset classes remain relatively attractive compared to others in the MAARS investment universe. The main asset class detractor was commodities.
- From an **investment theme perspective**, the Long-Only Market Risk Premium (MRP) risk sleeve made the strongest positive performance contribution. It identifies attractive beta opportunities across equities, bonds, and currencies. The CAM long-term expected return framework is a cornerstone of this sleeve.
- Long/short alpha strategies within the Tactical Opportunities (TO) risk sleeve also made a strong positive contribution, in particular from the team's tactical positioning in fixed income.
- Performance detractors included the Commodity Carry Factor within the Alternative Risk Premia (ARP) sleeve. Strategies in this sleeve identify attractive long/short baskets within each asset class to exploit well-established Factor premiums, including Value and Momentum, as well as Carry. Other ARP strategies performed better, particularly in currencies.
- Collectively, insurance hedging strategies within the TO risk sleeve also detracted from performance. These strategies are implemented to protect the fund against identified negative event risks. A number of these risks have yet to unfold consistent with investment team expectations.

Current positioning:

- **Portfolio Risk Remains Below Long-Term Target**

  Portfolio risk is on the low end of its expected range, and exposure to directional trades is low. The portfolio is positioned principally to minimize losses during the current uncertain period, rather than to benefit from a period of heightened market turbulence.

- **Equities or Bonds? A Tough Choice**

  The equity market is betting that central banks will be successful in keeping the growth engine running. This may yet happen, but already looks priced. If not, equities could face a tough period over coming months.

  The bond market is also pricing easing by the Fed and other central banks. Unless more is delivered than currently priced, there appears little downside left to DM bond yields. On the one hand, a more pronounced slowdown, or an outright recession, would be required to force central bankers into more easing than the market currently expects. On the other hand, if growth stabilizes, DM bonds could face a tough period ahead.

  From a longer-term perspective, although DM equity valuations appear relatively high, equities in general offer more attractive expected returns than DM sovereign bonds. But the path from the short term to the long term may be quite volatile. Equities, the default asset class for capital appreciation, are facing cyclical pressures and bonds, the typical defensive asset class, are expensive and already pricing a weak cyclical outlook.

- **Earn Carry in EM Bonds and Currencies**

  Emerging countries have higher interest rates than the US, so provide more return from income. Higher real interest rates also give local central banks more room to ease monetary stance to support domestic economies.

  Despite weakening growth and heightened political risk, we do not expect a repeat of 2018, when a sharp rise in the US dollar and bond yields led to a significant underperformance of EM. Bonds and currencies in higher quality EM countries should be resilient, and continue to offer relatively attractive carry.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The indicated rates of return are the historical annual compounded total returns, including changes in unit value and reinvestment of all distributions, but do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns.

The Fund will make significant use of derivatives. CIBC Asset Management may use derivative instruments in the management of its accounts when permitted. Permitted derivative instruments include futures, forwards, swaps, options, covered warrants, debt like securities which have an option component or any combination of these instruments, the value of which is based upon the market price value or level of an index, or the market price or value of a security, currency, commodity or financial instrument. Derivative instruments may be used for the following purposes: to hedge, gain or reduce portfolio exposures. The Fund will also use derivatives for currency management purposes. The Fund's use of derivatives may introduce leverage into the Fund. Leverage occurs when the Fund's notional exposure to underlying assets is greater than the amount invested and is an investment technique that can magnify gains and losses. The information does not constitute legal or tax advice.

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