As many have come to appreciate, Great Britain’s vote to leave the European Union was far more than a question about Europe. The results indicate it was just as much an anti-establishment backlash in response to voter frustrations over wage stagnation and inequality. The Brexit vote exemplifies the wave of populism that is sweeping developed Western nations, with long-term implications for the European project, global trade and financial markets.

The well-being of society requires a balance between the interests of labour and the interests of capital. However, capitalism in its current form is failing too many of the Western world’s citizens, and voters from the U.S. to Europe are taking their revenge at the ballot box.

Since the signing of the General Agreement on Tariffs and Trade (GATT) in the mid 1990’s introduced the modern version of globalization, the balance has shifted dramatically towards capital at the expense of labour, as multinationals either relocated or outsourced production to regions with lower labour costs like China and Southeast Asia. Graphic 1 below illustrates the correlation between the growth in exports and the percentage of the world’s population living under capitalism.

When a company relocates to reduce labour costs, the benefits can be shared between consumers, who gain access to a lower-cost product and the company, which can realize a higher profit. The loser is the labour force in the original country, which cannot find work with the same pay and benefits. Graphic 2 below illustrates the degree to which wages in many developed countries have stagnated as a direct result of this trend.

Stagnating wages were masked by strong real estate prices, especially in the U.S. prior to the financial crisis, along with the extensive use of debt and home equity loans to supplement income and maintain an elevated lifestyle. Unfortunately, this situation has been largely ignored by elected officials who have found it politically difficult to provide government assistance to displaced workers, and this is contributing to the rise of populist politics.

The graphs on page 2 provide an indication of just how good globalization has been for multinational companies and their investors as they lowered costs and increased margins.

The ongoing rise of populist candidates indicates that politics is likely to evolve over the next few years in a direction that favours labour at the expense of capital. It is also reasonable to assume that future trade deals are very unlikely in the current context. While that is not good for capital markets, offsetting factors such as fiscal policy to rebuild infrastructure would support economic growth and earnings.

It is still too early to draw firm conclusions, but markets are clearly anticipating a loosening of fiscal policy in Western nations as a means to improve economic performance and raise wages, even if this will likely lead to inflation eventually.

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**Manager Commentary**

**Global markets poised for growth – despite political upheaval**

By Jean-Philippe Bry, Vice President and Strategist, Signature Global Asset Management

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**1. Globalization empowered capital over labour**

- **Exports’ (As a percent of global GDP) (LS)**
- **Population Living in Capitalism**
  - (As a percent of Global total population) (RS)

**2. The big hit**

<table>
<thead>
<tr>
<th>Country</th>
<th>% of household with flat or falling real market income, 2005 to 2012/14*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td></td>
</tr>
<tr>
<td>US</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td></td>
</tr>
<tr>
<td>Average of 25 countries</td>
<td></td>
</tr>
</tbody>
</table>

*latest available for each country
Source: McKinsey

---

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It is still too early to draw firm conclusions, but markets are clearly anticipating a loosening of fiscal policy in Western nations as a means to improve economic performance and raise wages, even if this will likely lead to inflation eventually.
Dear Advisor,

As we begin the busy fall season, the key challenges for our industry continue to be unpredictable markets and ongoing regulatory changes. Amid the uncertainty, you can count on our support.

Our portfolio managers regularly provide up-to-date information on their market views and their funds. Our Full Digital Roadshow is taking place this month from September 26-22, featuring webcasts by nine portfolio management teams. Please go to ci.com/getconnected for the presentations and for replays.

In addition to the day-to-day support provided by our sales team, our Professional Development and our Tax, Retirement and Estate Planning teams have produced extensive resources to help you build your business. And, you will find much information about our products and services in this issue of Monthly Review, including a description on page 1 of some of our income solutions. If you need any assistance, please contact your CI Sales Team. Thank you for your continued support.

Sincerely,

Derek J. Green President
CI Investments

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Brexit could be as significant an event as the 2009 financial crisis.

The statement above might sound off-hand given that markets are rallying to new highs, but the consequences of Brexit, both intended and unintended, will not be appreciated for years to come.

Brexit is not the only factor contributing to the unrolling of the world as we have come to know it, but high-sounding, and has the potential to lead the Eurozone to its demise. European politicians have done a better job than their U.S. counterparts of addressing dislocated workers through social programs, but they have not replaced the jobs. They are failing to keep the social programs, but they have not replaced the jobs with a better job than their U.S. counterparts. Social programs also help emerging countries stabilize their economies and lower interest rates.

The result is a generally more positive impact on the global economy. Could this mean the end of the deflationary cycle, in force since the GATT treaty and the goods market? If growth can be resuscitated globally over the next few years, there is a very reasonable chance that it is. This means we could also be nearing the bottom in rates. This type of scenario would be a much more uncertain place, so negative events leading to spikes in volatility associated with tepid market sentiment should be expected.

The market outlook is much more constructive in the near term, thanks to the additional stimulus, both real and anticipated. Following two years of cautious positioning during which equity markets have been broadly lower, we are rebuilding our stock weightings in the Signature balanced funds. This is based on our view that the U.S. economy is better for cyclical stocks, and while more stimulus is likely. Unlike the immediate aftermath of the great financial crisis, life in Britain and Europe for both its citizens and institutions like the banking system carries on as usual.

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Global markets poised for growth – despite political upheaval

Continued from page 1

Markets have remained strong since the Brexit vote. With the specific consequences still many years away, investors appear to believe there is time to address the issues, while more stimulus is likely. Unlike the immediate aftermath of the great financial crisis, life in Britain and Europe for both its citizens and institutions like the banking system carries on as usual.

Global bond markets have rallied dramatically, with yields hitting new lows – in some cases going deeper into negative territory. Bond markets are signaling that financial conditions will once again be dramatically loosened, after more than a year of expectations that the U.S. would raise rates and try and normalize monetary policy.

In fact, with bond yields negative in many countries and stocks offering reasonable dividend yields, investors have switched from low-yielding bonds to higher dividend-yielding stocks. In other words, equities are providing investment returns, while bonds have been a source of capital gains.

In addition, improving global economic growth is supportive of cyclical stocks, largely thanks to an upswing in Chinese growth following a small stimulus package. A global loosening of financial conditions also helps emerging countries stabilize their economies and lower interest rates.

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**FUND UPDATE**

**Income solutions**

Government bonds and other traditional sources of fixed income are offering record-low yields, making it more difficult for investors to achieve their income goals. CI Investments’ comprehensive selection of diversified income funds offers exposure to higher-yielding asset classes such as high-yield bonds, REITs, infrastructure securities and preferred shares. The table below outlines some of our key income offerings:

<table>
<thead>
<tr>
<th>Fund highlights as at July 31, 2016</th>
<th>Signature Corporate Bond Fund</th>
<th>Signature Tactical Bond Pool</th>
<th>Signature Diversified Yield II Fund</th>
<th>Signature High Income Fund</th>
<th>Portfolio Series Income Fund</th>
<th>Select-Income Managed Corporate Class</th>
<th>Cambridge High Income Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly per unit distribution</td>
<td>$0.03</td>
<td>$0.02</td>
<td>$0.05</td>
<td>$0.07</td>
<td>$0.04</td>
<td>N/A</td>
<td>$0.06</td>
</tr>
<tr>
<td>Portfolio yield (approx.)</td>
<td>5.3%</td>
<td>2.0%</td>
<td>4.9%</td>
<td>5.3%</td>
<td>3.1%</td>
<td>2.8%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Duration in years, income portion</td>
<td>4.6</td>
<td>7.6</td>
<td>2.6</td>
<td>2.8</td>
<td>5.7</td>
<td>4.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Current asset mix</td>
<td>Cash</td>
<td>2%</td>
<td>4%</td>
<td>14%</td>
<td>9%</td>
<td>7%</td>
<td>18%</td>
</tr>
<tr>
<td></td>
<td>Government and investment-grade corporate bonds</td>
<td>43%</td>
<td>166%</td>
<td>11%</td>
<td>12%</td>
<td>49%</td>
<td>49%</td>
</tr>
<tr>
<td></td>
<td>High-yield bonds</td>
<td>50%</td>
<td>6%*</td>
<td>38%</td>
<td>38%</td>
<td>14%</td>
<td>22%</td>
</tr>
<tr>
<td></td>
<td>REITs, trusts and equities</td>
<td>5%</td>
<td>2%</td>
<td>39%</td>
<td>41%</td>
<td>30%</td>
<td>11%</td>
</tr>
</tbody>
</table>

*About the fund*

- **Provides a higher level of income by investing primarily in investment-grade and high-yield corporate bonds.**
- **A flexible portfolio of highly-rated Canadian and global government bonds, as well as investment-grade securities. Also provides exposure to high yield, emerging market sovereign bonds and preferred equity.**
- **Generates income through exposure to fixed-income and high-yielding equity securities throughout the world.**
- **Generates income through exposure to fixed-income and high-yielding equity securities in Canada and throughout the world.**
- **Provides a high level of income and preserves capital by investing in a diversified basket of government, investment-grade and high-yielding securities.**
- **Reduces volatility and preserves capital by investing in a diversified basket of government, investment-grade and high-yielding securities.**
- **A growth-oriented portfolio with exposure to income-producing securities and dividend-paying equities.**

Source: CI Investment Consulting

†In general, yield is the annual income generated by a security expressed as a percentage of the market price. Internal or portfolio yield represents the weighted average of the yields of the portfolio’s holdings. Equity yields are calculated as follows: (last dividend payment x number of dividend payments per year) / current price. Income yield represents the interest rate that will make the “present value of” projected cash flows equal to the market price plus accrued interest. CI uses the “yield to maturity” to calculate the yield for government bonds and investment-grade corporate bonds and the “yield to worst” for high-yield corporate bonds. Yield on the cash holdings is assumed to be in line with the overnight borrowing rate.

*Includes emerging market credit

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**No income in fixed income? No problem.**

Signature High Income Fund has distributed 6% every year since 1996. In addition to its significant annual payout, the fund has a track record of returns comparable to the equity market but with less volatility over a nearly 20-year period.

To learn more about how Signature High Income Fund can satisfy your clients’ income needs in an environment of ultra-low interest rates, contact your CI Sales team.

**Class A**

<table>
<thead>
<tr>
<th>Returns as of August 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 month</td>
</tr>
<tr>
<td>--------</td>
</tr>
<tr>
<td>0.4%</td>
</tr>
</tbody>
</table>

(Dec/16)
A disciplined approach to income

All three of these income solutions are suitable for investors who want a low volatility investment and intend to hold it for two to three years, but there are some differences.

CI Income Fund and Select Income Managed Corporate Class invest in much the same portfolio. The difference in the structure. CI Income Fund is a mutual fund trust that pays a regular monthly income distribution. Select Income Managed Corporate Class is a part of Portfolio Select Series, which is based on CI Investments’ Corporate Class structure. This mandate may only distribute a capital gain or dividend annually.

CI U.S. Income US$ Pool was launched in July 2015 as an option for investors who want an up-front denominated in U.S. dollars. It invests in an entirely different portfolio but follows a similar investment philosophy to the other two funds and pays a monthly distribution.

Q: What do you see as the main challenges for investors?

Many investors fail to achieve their goals because they lack investment at the right time. It is human nature to want to buy something that everybody wants, and they often buy at a premium. It is more difficult to practice a “buy low, sell high” discipline in investing because you are not acquiring a tangible product. Determining the right price is difficult without some proper training and experience.

Q: How do you navigate this environment?

It is a very difficult backdrop. Because of inflation, holding cash is a losing proposition. Long-dated bonds offer very little premium and stock valuations are now at the high end of the normal range. Return expectations are declining while volatility is increasing. Our three income solutions are constructed according to three objectives: multi-asset class, real income, and capital gains.

Recognizing this problem, we construct multiple portfolios. Rather than attempting to predict the next best asset class, our goal is to achieve a reliable return for our investors during their investment horizons at any entry point. We achieve this through diversification and by taking advantage of the correlations between asset classes. We also decide how to best allocate the assets by managing their ongoing bias.

Another challenge for income investors is getting enough income to finance inflation. Amongst the G10 countries, only seven offer a positive yield on their 10-year sovereign bond. Canada, fortunately, is one of them. Unfortunately, however, the yield is below 1% (as of August 10, 2016), while the current inflation rate is about 1.5%.

Q: When will interest rates return to normal?

That is the million dollar question. Everyone started to talk about interest rates rising in 2010. Six years later, global debt is higher, interest rates in most countries including Canada are lower, and central banks have expanded their bond purchase efforts. The Board of England, Bank of Japan and the Federal Reserve have expanded their bond purchase efforts. I suspect the world can only afford to assume it will not be anytime soon.

Real income is an important component as it serves to generate returns for the portfolio. Any extra yield investors collect above the cash rate has its own volatility. Sovereign debt has high default risk but low credit risk. High-yield debt pays a premium, but has higher credit risk. In a low interest rate environment, the potential capital loss from either rising interest rates or credit defaults can wipe out the “skinny” income. We strive to achieve real income by investing diversely and by utilizing different strategies to hedge the individual risks to avoid capital losses.

We also aim to generate a capital gain by investing in asset classes and securities that are undervalued. We believe that the market is not careful in such a way that this component does not override the multi-asset class strategy. Volatility in the markets generally creates opportunities. For example, we were able to add long-term bonds at attractive valuations before the “Brexit” vote when it was widely predicted that Britain would vote to remain in the European Union and the Bank of England was set to hike rates. We proactively reacted to valuation changes and participated in the bond rally that followed the exit result. Generally, we consider market corrections as sale events. As your buyer we are excited about them and act diligently.

We have managed these portfolios for a long period, having gone through the financial crisis, bond market corrections, Brexit, falling gold prices, falling oil prices, etc. Throughout, we have managed to control the portfolios’ return outcomes within targeting. The real income and capital gain components have produced a steady stream of positive returns that have allowed inflation on a rolling basis. So far this year, capital gains have been a bigger driver of returns than income. Beyond delivering strong asset growth and solid performance over the years.

Today, the Cambridge team manages over $15 billion in a diverse suite of Canadian and global equity, balanced and income mandates in Toronto, New York, Boston and Los Angeles. Since 2008, funds managed by Cambridge have received 17 awards for their category-leading risk-adjusted performance.

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Cambridge Canadian Growth Companies Fund performance

<table>
<thead>
<tr>
<th>Class A</th>
<th>YTD 3 months</th>
<th>6 months</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>Since inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>CI Income Fund</td>
<td>5.0%</td>
<td>3.0%</td>
<td>5.8%</td>
<td>4.8%</td>
<td>5.1%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Select Income Managed Corporate Class</td>
<td>4.6%</td>
<td>2.9%</td>
<td>5.5%</td>
<td>4.3%</td>
<td>4.9%</td>
<td>4.2%</td>
</tr>
<tr>
<td>CI U.S. Income US$ Pool</td>
<td>5.5%</td>
<td>2.8%</td>
<td>5.6%</td>
<td>4.6%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: Morningstar.

<table>
<thead>
<tr>
<th>Cambridge Canadian Growth Companies Fund performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2017 – August 2016</td>
</tr>
<tr>
<td>$300,000</td>
</tr>
<tr>
<td>$200,000</td>
</tr>
<tr>
<td>$50,000</td>
</tr>
<tr>
<td>91</td>
</tr>
<tr>
<td>Source: Morningstar</td>
</tr>
</tbody>
</table>

Cambridge Canadian Growth Companies Fund has been re-named to Cambridge Canadian Growth Companies Multi-asset Fund (as of August 15). The portfolio manager is Greg Dean, who was co-founder of the 2015 Morningstar Award-winning Cambridge Canadian Growth Companies Corporate Class and Multi-asset Portfolio Manager of Cambridge Canadian Equity Fund. The potential capital loss from either rising interest rates or credit defaults can wipe out the “skinny” income. We strive to achieve real income by investing diversely and by utilizing different strategies to hedge the individual risks to avoid capital losses.

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Tax and the principal residence

By Keith Masterton, Vice-President, Tax, Retirement and Estate Planning

Generally in Canada there is no tax paid on the capital gain realized from the sale of a home owned by a taxpayer, provided it qualifies as a principal residence under the Income Tax Act. This means that a person may sell a principal residence without incurring a capital gain tax. Similarly, if a principal residence is owned when a taxpayer dies, the residence will not attract a tax liability realized from the deceased disposition of assets.

The rules surrounding a principal residence

A property does not have to be the place where the taxpayer normally lives. The property will qualify as a principal residence if the taxpayer, or any spouse or common-law partner, or any of the taxpayer’s children live in it at some point during the year. In many situations, depending on the increase in value of the family home and the family’s lifestyle, it is advisable to claim a capital gain as a principal residence rather than as the family home.

Further, the property does not necessarily need to be located in Canada. Depending on the facts, a Canadian may designate a foreign vacation property as a principal residence and qualify for the principal residence exemption.

However, there are some restrictions. For instance, after 1981 a taxpayer and their spouse may only have one principal residence at any particular time. Prior to 1982, each individual could designate one principal residence. Therefore, if a couple owned both a primary home and a cottage, the principal residence exemption is available for both properties for the period the properties were owned prior to 1982. For each year after 1981, the couple would be required to designate one of the properties a principal residence, claimable at the time a property is sold or deemed sold at death.

Also, if the residence is situated on a large lot, over ½ hectare, the taxpayer must be able to establish that any land over the ½ hectare is necessary for the “use and enjoyment” of the home.

Although the rules appear straightforward, certain situations present specific challenges. These include the ownership of properties greater in size than a ½ hectare, rental properties, and properties that are purchased to be sold, such as condominiums.

Properties in excess of ½ hectare

In 2011 the tax court heard Cassidy v. Canada. The Queen sold a home which was situated on 2.43 hectares of land. The taxpayer argued that since he was unable to subdivide the land, the entire property was necessary for his “use and enjoyment.” The court held that the election to treat a home as a principal residence is made on a year-by-year basis. During most of the period of ownership the property could not be subdivided, but the court agreed with the taxpayer that the entire property was a principal residence. However, in the final year of ownership the zoning had changed to allow for land subdivisions, so for that year only a half hectare of the property could be claimed as a principal residence. The remaining property was subject to tax on its gain in its value during that one-year period.

Rental property

A property must be ordinarily occupied for personal use, as opposed to business or commercial use, to be considered a principal residence. This may mean that where a taxpayer uses a portion of their residence as an income-generating apartment, the taxpayer may lose the principal residence exemption for the portion of the building constituting the apartment from that point forward depending on the circumstances. An exception to this rule normally applies if the income-producing use is ancillary to the main use of the property as a residence, there is no structural change to the property, and no capital cost allowance (CCA) or depreciation is claimed on the property. Also, where a residence is rented to a taxpayer’s child who occupies the home as his or her principal residence, the taxpayer may still claim a principal residence exemption on the portion of the building constituting the apartment from that point forward depending on the circumstances. For example, if a parent has an apartment in an apartment building that is a principal residence for the parent’s child who occupies the apartment as his or her principal residence, the parent may still claim a principal residence exemption on the portion of the building constituting the apartment.

Conclusion

The principal residence exemption is an important planning tool for Canadians wishing to retain their family home after an inheritance or a divorce. However, it is important to understand the rules surrounding the exemption in order to ensure the property meets the requirements.

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