CI INSTITUTIONAL
ASSET MANAGEMENT

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As we have explained in previous commentaries, we began moving the Signature funds into defensive positions in April. Our view was that valuations on financial markets did not account for the impact of the ongoing deleveraging in the global financial system. Our moves last spring, depending on the mandate, included raising cash levels, increasing holdings of gold stocks and bullion, and focusing on large-cap stocks and the most liquid securities.

Since then, participants in every market – from commodities to equities to emerging markets to credit – have come to recognize the systemic nature of the European sovereign debt problems. This happened in the late summer and reached its endpoint, in our opinion, by late September when markets began to fear a "hard landing" in China.

At the IMF meetings in Washington in September, European policymakers were rightfully blamed for eroding global confidence and triggering a financial shock. Their resolve to engineer a re-opening of bank funding channels has elevated in the past weeks as credit conditions deteriorated for European non-financial corporations and medium-sized enterprises. The EU economy is headed lower, but a credit crunch would make solving the sovereign debt issue considerably tougher. This fact was only recognized in September and resulted in the EU finally placing a priority on recapitalizing its banks.

During the first week of October, we noted a significant improvement in European credit indexes and other indicators. In addition, prime conditions for a short squeeze have developed: liquidity is low, institutional investors are positioned defensively and there are many large short positions. We also believe that the concerns about a Chinese hard landing are premature. Globally, the environment is uncertain in the near term and troubling over the long term, but the probability of a sharp turn in equities is high.

As a result, on October 7 we moved to lower cash levels in our equity portfolios. In addition, we increased the equity allocation in the balanced funds. We reduced cash by increasing our existing holdings in those sectors that have been hardest hit in recent months. We did not increase our holdings in more defensive sectors that have performed relatively well, such as telecommunications, consumer staples and gold.

We are hedging 65% of the U.S. dollar and euro exposure in the equity accounts back to the Canadian dollar. We continue to maintain larger cash positions in our income portfolios, although we see increasingly attractive opportunities in the high-yield bond market.

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