

# CIBC MULTI-ASSET ABSOLUTE RETURN STRATEGY

## Investment objective

The Fund's investment objective is to achieve a positive absolute return that exceeds the return of the Government of Canada 91-day treasury bills over rolling three-year periods, regardless of the prevailing economic conditions, by actively managing a diversified portfolio with direct and indirect exposure primarily to equity securities, fixed income securities, commodities, currencies, and derivatives investments.

## Investment strategy

The Portfolio Advisor identifies and pursues multiple investment ideas and opportunities across and within a wide range of asset classes. The identity and number of investment strategies used by the Fund, and the amount of assets allocated among them, will change over time.

## Investment management team

**Francis Thivierge**, CFA  
CIBC Asset Management Inc.

**Bernard Augustin**  
CIBC Asset Management Inc.

## Volatility ranking

Low	Low - Medium	Medium	Medium - High	High
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## Fund details \*As at December 31, 2023

Series	A	F
Management fee	1.90%	0.90%
Administrative fee	0.20%	0.20%
Fund code	ATL5012	ATL5010
Fund code (USD)	ATL5014	ATL5015
Inception date	October 22, 2018	October 22, 2018
Inception date (USD)	October 28, 2019	October 28, 2019
Unit price*	\$9.55	\$9.86
Unit price (USD)*	\$7.20	\$7.44
Series	A & F	
Total fund assets \$mi*	\$569.60	
Distribution frequency	Semi-Annually	
Minimum investment	\$500	
Minimum additional investment	\$100	
Liquidity	Daily	
Fund category	Alternative Multi-Strategy	

## Strategy objective

**+5%** T-bills + 5% target return

Aims to achieve a positive absolute return by targeting, over rolling three-year periods, an annualized return of 5% in excess of the Government of Canada 91-day treasury bills (gross of fees and expenses)

**1/2** Volatility of global equities

Aims to achieve an annualized volatility, under normal market conditions, at a level that is generally half the volatility of global equities represented by the MSCI AC World Index (CAD) measured over the same three-year rolling periods

## Performance (%) \*As at December 31, 2023

Trailing returns	1 mth	3 mths	6 mths	1 yr	3 yrs	5 yrs	10 yrs	Since inception
Series A	-0.4	3.9	5.8	3.1	-3.4	-0.5	n/a	-0.2
Series F	-0.3	4.2	6.4	4.3	-2.3	0.6	n/a	0.8
Series A (USD)	2.0	6.5	5.8	5.4	-4.6	n/a	n/a	-1.2
Series F (USD)	2.1	6.8	6.3	6.5	-3.6	n/a	n/a	-0.2

Calendar year returns	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Series A	3.1	-12.3	-0.3	7.3	0.7	n/a	n/a	n/a	n/a	n/a
Series F	4.3	-11.3	0.8	8.5	1.9	n/a	n/a	n/a	n/a	n/a
Series A (USD)	5.4	-18.0	0.4	9.5	n/a	n/a	n/a	n/a	n/a	n/a
Series F (USD)	6.5	-17.1	1.4	10.7	n/a	n/a	n/a	n/a	n/a	n/a

## Monthly portfolio summary \*As at December 31, 2023

Asset class summary	Portfolio weight	Risk contribution
Core Fixed Income	4.9%	1.5%
Credit Fixed Income	11.7%	10.9%
Equities	14.3%	21.7%
Currencies	7.8%	64.6%
Commodities	3.1%	1.4%
Cash	58.2%	-
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Top ten long holdings	Portfolio weight	Risk contribution
LONG IDR	16.4%	4.0%
LONG INR	14.1%	0.4%
LONG BRL	12.5%	21.3%
Long Taiwan Index	9.2%	12.9%
LONG COP	8.1%	10.3%
LONG MXN	6.0%	7.3%
Volatility Risk Premium (Options)	4.9%	4.2%
Long Nikkei	3.7%	1.9%
Long Spain IBEX	3.0%	3.1%
Long Italy Index	3.0%	3.1%
<b>Total</b>	<b>80.8%</b>	<b>68.6%</b>

Portfolio overview	Value
Long Term MSCI ACWI (CAD) Risk (Rolling 3-year annualized standard deviation)	12.7%
Current Target Risk (Annualized Standard Deviation) (50% of MSCI ACWI CAD)	6.5%
Current Portfolio Risk (Annualized Standard Deviation)	5.6%
Current Portfolio Value at Risk (VaR)	3.8%
Portfolio Yield	4.6%
Leverage	2.71x

## Glossary

**Portfolio Weight:** The dollar value of each position as a percentage of the value of the total portfolio. Note, the portfolio weight of option contracts is represented by their market value weight; the equivalent notional exposure to the underlying asset may differ.

**Risk Contribution:** Identifies the amount of portfolio risk attributed to each position, asset class, or strategy as a percentage of overall portfolio risk.

**Core Fixed Income:** Invests in developed markets government bonds.

**Credit Fixed Income:** Invests in corporate bonds and emerging markets sovereign bonds.

**Value at Risk (VaR):** Measures the potential portfolio loss over the next month, at a 99% confidence level.

Strategy summary	Portfolio weight	Risk contribution
Market Risk Premia and Tactical Opportunities	14.9%	16.4%
Alternate Risk Premia: Cross Asset	25.4%	29.8%
Alternate Risk Premia: Bonds	14.3%	7.2%
Alternate Risk Premia: Currency	25.2%	42.8%
Alternate Risk Premia: Defensive	15.1%	3.7%
Portfolio Risk Oversight	5.1%	0.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Top ten short holdings	Portfolio weight	Risk contribution
SHORT USD	-20.1%	4.8%
SHORT CNY	-14.0%	3.4%
SHORT CHF	-10.5%	2.0%
Short Mexican Bolsa	-7.8%	-1.2%
SHORT TWD	-7.0%	2.5%
Short South Africa Index	-6.2%	-1.1%
SHORT EUR	-5.0%	-0.5%
SHORT THB	-2.6%	0.4%
SHORT SGD	-2.6%	0.2%
SHORT PLN	-2.4%	-0.7%
<b>Total</b>	<b>-58.0%</b>	<b>4.9%</b>

A positive or negative sign next to the values in the Risk Contribution columns identifies whether or not that exposure is adding or subtracting risk to the portfolio.

**Market Risk Premia:** Long-only opportunities across equities, bonds - both on a fully currency hedged basis - and developed market and emerging market currencies.

**Alternative Risk Premia:** Long/short relative opportunities from non-traditional style premia such as Value, Momentum, and Carry.

**Tactical Opportunities:** Tactical opportunities resulting from market cycles and investor behaviour not captured by either Market Risk Premia or Alternative Risk Premia. Also exploits systematic hedging strategies that mitigate tail risks during periods of unexpected market turbulence.

**MSCI ACWI (CAD):** The benchmark index used for the strategy's volatility target is the Morgan Stanley Capital Index (MSCI) All Country World Index (ACWI) in Canadian dollars.

**NOTE:** Totals may not add up to 100% due to rounding

## Detailed portfolio exposure overview \*As at December 31, 2023

Portfolio exposure	Portfolio weight	Risk contribution
<b>Core fixed income</b>	<b>4.9%</b>	<b>1.5%</b>
Long Canada 2Y	8.0%	0.0%
Short 10Y Ultra	2.7%	-0.5%
Short US 30Y	2.7%	-0.5%
Long US 2Y	1.4%	-0.1%
Long Australia 10Y	1.1%	-0.3%
Short Germany 5Y	1.0%	-0.2%
Short US 5Y	0.6%	-0.1%
Long UK Gilts 10Y	0.2%	0.0%
Short Germany 2Y	-0.5%	0.0%
Short US Ultra	-0.7%	0.4%
Short Germany 30Y	-0.8%	0.7%
Long US 10Y T-NOTES	-0.8%	0.2%
Long Germany 10Y	-1.2%	0.4%
Short Canada 5Y	-2.2%	0.6%
Short Australia 3Y	-2.4%	0.1%
Short Canada 10Y	-4.3%	0.9%
<b>Equity</b>	<b>14.3%</b>	<b>21.7%</b>
Volatility Risk Premium (Options)	4.9%	4.2%
Long Taiwan Index	3.8%	12.9%
Long Nikkei	3.7%	1.9%
Long Spain IBEX	3.0%	3.1%
Long Italy Index	3.0%	3.1%
Long Dutch AEX index	2.9%	-0.3%
Long Malaysia Index	2.7%	0.8%
Systematic Equity Hedge (Options)	1.3%	3.5%
Long Ausralia SPI 200	1.0%	0.4%
Long UK FTSE 100	0.4%	0.2%
Equity directional (Options)	0.0%	0.1%
Swap MSCI Brazil	-0.5%	-4.5%
Long S&P/TSE IX Index	-1.1%	-0.6%
Long Korea Kospi 200	-1.9%	-0.3%
Short South Africa Index	-2.6%	-1.1%
Short Sweden OMX	-3.1%	-0.7%
Short Mexican Bolsa	-3.3%	-1.2%
<b>Commodities</b>	<b>3.1%</b>	<b>1.4%</b>
Long Gold	2.5%	0.8%
Long Aluminium	0.6%	0.6%
<b>Credit fixed income</b>	<b>11.7%</b>	<b>10.9%</b>
Long Korea 10Y	2.9%	-0.6%
Macquarie Bank Nov 30 2026	2.4%	-0.2%
Long South Africa 10Y	1.5%	2.5%
Long 3M EURIBOR	1.4%	0.0%

Portfolio exposure	Portfolio weight	Risk contribution
BANK ACCEPT COMM FUTURE	1.4%	0.0%
ICE 3MTH SONIA FU COMM FUTURE	1.3%	0.0%
Long Brazil 5Y	0.7%	1.4%
Long Colombia 10Y	0.5%	0.3%
Swap India	0.1%	-0.5%
Swap Thailand	0.0%	-0.5%
Swap Malaysia	0.0%	-0.1%
Swap Hungary	0.0%	0.1%
Swap US HY ETF	0.0%	0.2%
Swap Columbia	-0.1%	4.5%
Swap Poland	-0.1%	0.8%
Swap Mexico	-0.2%	1.5%
Swap Sweden	-0.2%	1.6%
<b>Currencies</b>	<b>7.8%</b>	<b>64.6%</b>
LONG IDR	16.4%	4.0%
LONG INR	14.1%	0.4%
LONG BRL	12.5%	21.3%
LONG COP	8.1%	10.3%
LONG MXN	6.0%	7.3%
LONG CLP	4.5%	2.8%
LONG ZAR	2.5%	2.5%
LONG SEK	2.4%	0.5%
LONG NOK	2.3%	1.5%
LONG TRY	1.6%	1.7%
LONG MYR	1.5%	0.0%
LONG HUF	0.1%	0.1%
LONG KRW	0.1%	0.0%
LONG GBP	0.0%	0.0%
LONG JPY	0.0%	0.0%
Long NZD	0.0%	0.0%
SHORT HKD	0.0%	0.0%
SHORT AUD	0.0%	0.0%
SHORT PLN	-2.4%	-0.7%
SHORT SGD	-2.6%	0.2%
SHORT THB	-2.6%	0.4%
SHORT EUR	-5.0%	-0.5%
SHORT TWD	-7.0%	2.5%
SHORT CHF	-10.5%	2.0%
SHORT CNY	-14.0%	3.4%
SHORT USD	-20.1%	4.8%
<b>Cash</b>	<b>58.2%</b>	<b>-</b>
Cash	58.2%	-

# COMMENTARY \*As at December 31, 2023



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## Summary

- MAARS strategy risk edged lower in December and remains below its long-term. Portfolio positioning has a slight pro-cyclical tilt.
- Market sentiment continued to strengthen through the month as several economic indicators pointed towards cooling inflation, resulting in a continued rally in risk assets.
- Geopolitical and, to a lesser degree, recession risks remain elevated, suggesting caution in portfolio positioning and risk.

## Market overview

The US Federal Reserve (Fed) ushered in Holiday Season with a gift to already high-spirited financial markets. Its December pivot in favour of earlier and more policy rate cuts than previously signaled—equivalent to three 25 basis point (bps) reductions in 2024—provided fresh impetus to public equity markets and bond prices, and also gave more legs to the broad US dollar's (USD) recent weakening trend; USD depreciated 5% from early October to end-year. The Fed's pivot stood in marked contrast with the sentiment it expressed only three months earlier when asserting that rates would likely remain 'Higher for Longer' to restrain economic activity as a means to ensure inflation returns to its policy target within a reasonable timeframe. December's FOMC economic projections showed little sign of prospective economic pain—the Fed now expects the US unemployment rate to average 4.1% in 2024, only a little higher than the current 3.8%, and the real economy to skirt a recession—but did exhibit clear evidence the Fed is increasingly confident inflation will return to target no later than 2025. This more benign inflation view was likely the main factor driving the change in the Fed's assessment of the appropriate policy stance, as further disinflation from here onwards without policy easing will increase real interest rates, autonomously tightening Fed policy stance more than appears desired.

Even taking account of the Fed's pivot, we think markets are pricing too many policy rate cuts in 2024 (150 basis points in aggregate as at January 2). The same is true for several other Developed Market (DM) central banks, including the Bank of Canada (BoC) and European Central Bank (ECB). Certainly, headline inflation data have been weaker in recent months than expected across a wide swath of countries. This includes the US, despite continued relatively resilient activity data. Core inflation data have remained stickier and still have further to go to return to rates consistent

with the Fed's overall policy target. But the direction of travel has been broadly constructive, meaning the probability of a Goldilocks soft landing has increased markedly. And yet it remains no slam dunk. The longer US activity data stay relatively resilient—fueled by the recent substantial easing in financial conditions, renewed fiscal expansion (the budget deficit rose sharply in the second half of 2023), and expected robust growth in real incomes—the higher the risk that inflation begins to reaccelerate in the back half of 2024. This outcome would require the Fed to once again embrace 'Higher for Longer', likely causing market interest rate expectations and bond yields to retrace at least part of their recent descent. In contrast to the market consensus, we assign the same probability to this outcome as we do to Goldilocks. Finally, although the risk of a mild global recession has diminished substantially, it has not gone completely. This outcome would be consistent with current market pricing of the Fed, but would be inconsistent with the benign US economic outcome market participants currently expect alongside sharply lower policy interest rates.

The calculus is a little different for Canada. Inflation data remain above the BoC's target, but the central bank will be aided by already weak activity data. GDP dropped by 1.1% in Q3, and further weakness likely lies ahead, in no small part due to the substantial mortgage renewal cliff that continues to loom over consumers for 2024 and 2025. Similarly in Europe, although inflation still has further to decline the tightening in financial conditions over the past year as a whole has been more severe than in North America, as reflected in Germany's already recessionary data, and tighter fiscal policy in this region could have negative implications for economic prospects. For both the BoC and ECB, policy easing is likely to proceed a little quicker than the Fed's. Even so, the timing and extent of rate cuts priced by the market for both these central banks still appears too aggressive, suggesting some correction as we move through the first half of 2024. By contrast, Chinese policymakers likely remain biased towards more policy easing rather than less, reflecting a continued struggle against the risk of deflation.

Elsewhere in Emerging Asia, central banks appear more concerned with the risk of a rebound in inflation, and are unlikely to ease policy soon. By contrast, in Latin America and Emerging Europe—with the significant exception of Turkey—further policy easing appears to be front and center. Many of these central banks were much more proactive than the Fed, and other DM's, in tightening policy early in 2021 in the face of rising inflation. They are now cutting policy interest rates in response to clear evidence of disinflation; for instance, inflation in Brazil has already returned to the central bank's policy target band.

## Strategy highlights

### ▪ **Portfolio Risk Below Long-Term Target; Positive Cyclical Positioning**

Portfolio risk was slightly decreased in December and remains below our long-term target. We continue to have a pro-cyclical portfolio tilt as inflation progress and increasingly dovish sentiment from central banks is expected to be positive for risk assets.

### ▪ **Equities: Targeted Opportunities**

As global equity markets rallied strongly amid a dovish tone from central banks and a more subdued inflationary environment, we seized the opportunity to capitalize on this momentum by realizing profits and rebalancing our relative equity exposures. This involved closing our basket of long positions in Japan, Indonesia, Brazil, and India versus our short positions in Sweden, Singapore, Italy, and Germany. Notably, we have maintained our long positions in the Japan and Taiwan equity markets, as they rank strongly in both our quantitative and qualitative evaluation processes.

Our continued bullish stance on Japan is underpinned by domestic cyclical factors, such as an ultra-loose monetary policy, coupled with structural changes emphasizing the enhancement of corporate profitability. These factors position Japan for potential outperformance independent of broader global market trends.

### ▪ **Bonds: Retention of Key DM & EM Bond Steepeners**

Our expectation on the long-term direction for yields is lower under all our economic scenarios and thus, investment opportunities in high quality fixed income assets have become more attractive.

Bond yields continued their downward trend due to dovish comment made by the Federal Reserve in December, and improved inflation data from November. We continue to expect a further decline in yields in key markets and thus have retained bond steepener positions, where we are long the short end of yield curves in Canada, U.S., Mexico, Colombia and Hungary versus short positions at longer maturities. These positions are motivated by an expectation inflation will continue to decline and that central banks will continue to signal interest rate cuts.

We continue to hold long positions in emerging market local currency bonds, including long Brazil and Colombia on an unhedged basis, and South Africa on a currency-hedged basis. Longer-term expected returns remain attractive, reflecting high yields, relatively constructive domestic fundamentals, supportive secular commodity tailwinds, and an expected trend weakening in the US dollar. In addition, key central banks in Latin

America have started to cut policy interest rates, in response to declining inflation, which will also likely be helpful to our positions in this region.

### ▪ **Currencies: Cautious Focus on Carry**

Core investment theses and positioning were little changed during the month. The main portfolio change on the month was the addition of a small long position in the Turkish lira (TRY), expressed versus USD. Our quantitative factor models are highly constructive on TRY, including Carry, Value and Cycle. And recent developments in Türkiye have caused our Fundamental Analyst to adopt an increasingly positive view on Turkish macro fundamentals, as well as central bank governance and its ability to implement the recently adopted conventional policy path. We continued to balance portfolio positioning between long exposure to pro-cycle interest rate carry and constructive domestic country fundamentals alongside a cautious awareness of elevated recession and geopolitical risks. Positions with attractive carry and strong fundamentals include the Indonesian Ruppee (IDR), Brazilian real (BRL), Colombian peso (COP), and Indian rupee (INR).

In North America, we maintained core short positions in the Canadian dollar (CAD) and USD. CAD is a pro-cycle currency with relative poor fundamentals that make it particularly exposed to—domestic and global—recession risk. In Asia, the portfolio remained short the Taiwan dollar (TWD), despite a recent improvement in cyclical economic data, and the Chinese renminbi (CNH). Both currencies exhibit low carry, poor economic fundamentals, and, at the margin, elevated geopolitical risk. That said, we did reduce the size of our CNH short with a close of our long Thai baht (THB) position; tepid growth is unlikely to drive as much outward Chinese tourism as we had expected, likely meaning less improvement in the Thai Balance of Payments. More constructively, Chinese policy stimulus measures did improve the outlook for pro-cycle currencies; this includes the South African rand (ZAR), for which we retained a small long position. We closed our long Australian dollar (AUD) position funded by the UK pound (GBP). This position was no longer supported by our quantitative factor models.

### ▪ **Commodities: Near-Term Headwinds, Long-Term Positive**

Commodity volatility has remained high due to heightened geopolitical and recession risks. Expected global economic weakness is likely to negatively impact crude oil demand suggesting a further decline in price. Longer-term demand is expected to more constructive for commodity prices broadly, including crude, and so will low current inventory levels, including the U.S. Strategic Petroleum Reserve. Years of under investment across a range of commodities also suggests chronic supply shortages that will help prices in the long term. Given these cross-currents, long gold remained our only direct commodity exposure, as a hedge against heightened geopolitical and recession risks noted above.

There can be no guarantee that the Fund will achieve its return and volatility targets. All investment performance is inherently subject to significant uncertainties and contingencies, many of which are beyond the Manager's control. In considering the return and volatility targets, you should bear in mind that such targeted performance and volatility is not a guarantee, projection or prediction and is not indicative of future results of the Fund.

The Fund pays a management fee and fixed administration fee to the Manager in respect of Series A and Series F units. The Fund also pays fund costs and transaction costs. For more information about the fees and costs of the Fund, please read the prospectus.

The Fund will make significant use of derivatives. The Fund may use derivatives such as 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 may 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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