

**INCEPTION:**  
November 2002<sup>1</sup>

**BENCHMARK:**  
MSCI Europe Total Return Index

**STRATEGY ASSETS:**  
£284 million

**LEAD PORTFOLIO MANAGER:**  
Matt Moody, MBA, CFA

## STRATEGY OVERVIEW

We seek to provide long-term capital growth by investing in high quality, larger capitalization European companies with a focus on maximizing risk-adjusted returns

We seek to create a portfolio with the following attributes:

- Low volatility relative to benchmark that seeks to achieve superior risk/return attributes
- Low correlation to benchmark providing improved diversification
- High conviction portfolio with higher concentration of holdings

## APPROACH

- Labor intensive, bottom-up investment approach focused on identifying high quality European businesses
- Intensive fundamental analysis of the company's competitive position, management strengths, expected profitability and financial position
- Once high quality companies are identified, proprietary valuation models determine appropriate entry prices for positions
- Portfolio will often not resemble the composition of its benchmark and due to its strict high quality criteria will have an emphasis on developed markets
- Target 15-25 securities from European equity markets typically with market capitalizations above US\$1 billion

## INVESTMENT PROCESS

European Equity Universe



Initial Filters

1000 Stocks

- Liquidity requirements: average daily trading value of US\$2.5 million



Screening

150-200 Stocks

- Free Cash Flow > 50% of net earnings
- Net Debt/EBITDA < 3
- ROC > 10%
- ROE > 10%



Fundamental Analysis

- Labour intensive
- Analysts must be able to "understand" the company and its financials
- Uncover the quality of the business
- Rank names from A- to A+

75-100 Stocks



Fundamental Analysis II

- Labour intensive
- Examine each name starting with A+
- Full models built for high quality names
- Target entry price determined
- Repeat for A and A-

15-25 Stocks



Investing involves risk. Please read the important disclosures under "Disclaimer" which contain more information about the significance and the limitations of the information on this page.

<sup>1</sup> Mackenzie Investments (the "Firm") has been managing European Large Cap Quality Growth assets since November 2002. The Firm claims compliance with GIPS® starting January 1, 2008 and has been independently verified for the period of January 1, 2008 to December 31, 2018.

## SECTOR ALLOCATION (Ex. Cash & Equivalents)

SECTOR	PORTFOLIO	BENCHMARK
Consumer Staples	23.55%	12.65%
Industrials	19.12%	14.74%
Information Technology	14.93%	7.95%
Health Care	13.04%	13.57%
Financials	11.22%	16.39%
Consumer Discretionary	10.00%	11.86%
Communication Services	8.15%	3.97%
Energy	0.00%	4.57%
Real Estate	0.00%	1.31%
Materials	0.00%	8.38%
Utilities	0.00%	4.60%
	<b>100.00%</b>	<b>100.00%</b>

## GEOGRAPHIC ALLOCATION (Ex. Cash & Equivalents)

COUNTRY	PORTFOLIO	BENCHMARK
United Kingdom	42.51%	22.75%
Germany	17.67%	15.13%
Netherlands	13.97%	6.71%
Switzerland	13.72%	14.61%
United States	3.59%	0.00%
Sweden	2.89%	5.74%
Italy	2.19%	3.99%
Norway	2.11%	1.00%
Belgium	1.35%	1.48%
Other	0.00%	28.59%
	<b>100.00%</b>	<b>100.00%</b>

## WEIGHTINGS RELATIVE TO BENCHMARK

OVERWEIGHT	SECTOR	COUNTRY	ACTIVE WEIGHT
Admiral Group PLC	Financials	United Kingdom	+6.76%
Reckitt Benckiser Group PLC	Cons. Staples	United Kingdom	+6.01%
Henkel AG & Co KGaA	Cons. Staples	Germany	+4.94%
Spectris PLC	Info. Tech.	United Kingdom	+4.90%
DCC PLC	Industrials	United Kingdom	+4.89%

UNDERWEIGHT	SECTOR	COUNTRY	ACTIVE WEIGHT
ASML Holding NV	Info. Tech.	Netherlands	-2.53%
Novartis AG	Health Care	Switzerland	-1.86%
LVMH Moët Hennessy Louis Vuitton SE	Cons. Disc.	France	-1.81%
Royal Dutch Shell PLC	Energy	United Kingdom	-1.45%
Unilever PLC	Cons. Staples	United Kingdom	-1.44%

## TOP TEN HOLDINGS (Ex. Cash & Equivalents)

HOLDING	SECTOR	COUNTRY	WEIGHT
Admiral Group PLC	Financials	United Kingdom	6.8%
Reckitt Benckiser Group PLC	Cons. Staples	United Kingdom	6.6%
Nestle SA	Cons. Staples	Switzerland	5.8%
Henkel AG & Co KGaA	Cons. Staples	Germany	5.2%
Koninklijke Philips NV	Health Care	Netherlands	5.1%
DCC PLC	Industrials	United Kingdom	5.0%
Spectris PLC	Info. Tech.	United Kingdom	4.9%
Compass Group PLC	Cons. Disc.	United Kingdom	4.4%
Wolters Kluwer NV	Industrials	Netherlands	3.9%
Scout24 AG	Comm. Serv.	Germany	3.7%
<b>Total:</b>			<b>51.5%</b>
Cash & Equivalents			10.3%

## CHARACTERISTICS

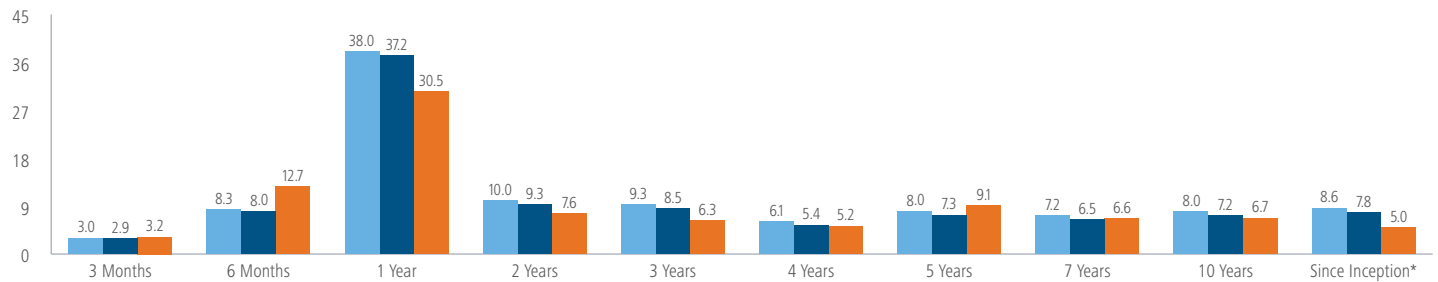
	PORTFOLIO	BENCHMARK
Price/Earnings	26.5	22.7
Price/Book	4.0	2.0
Price/Sales	2.1	1.5
Debt/Equity	70.6	129.9
Net Debt/EBITDA	0.9	1.9
ROC	12.1	9.8
ROE	24.5	12.8
Dividend Yield	1.7	2.4
Turnover (1 year to March)	54.13%	N/A
Median Market Cap (GBP millions)	10,793	12,889
Weighted Market Cap (GBP millions)	42,726	61,740

## RISK

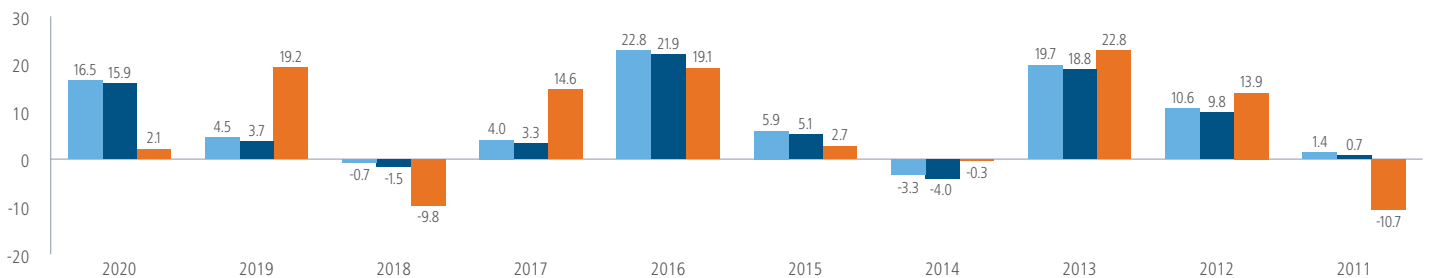
	PORTFOLIO	BENCHMARK
Standard Dev. (3-yr Trailing)	11.2	15.5
Alpha (3-yr Trailing)	4.9	N/A
Beta (3-yr Trailing)	0.6	N/A
Sharpe Ratio (3-yr Trailing)	0.8	0.4
Tracking Error (3-yr Trailing)	7.8	N/A
Information Ratio (3-yr Trailing)	0.4	N/A

## COMPOSITE PERFORMANCE (£)

### COMPOUND ANNUAL RETURNS (%)



### CALENDAR YEAR RETURNS (%)



■ Mackenzie European Large Cap Quality Growth (Gross) ■ Mackenzie European Large Cap Quality Growth (Net) ■ MSCI Europe Total Return Index

## CONTRIBUTORS

### TOP 5 CONTRIBUTORS

	SECTOR	COUNTRY	AVG. ACTIVE WEIGHT	CONTRIBUTION TO Q1 RETURNS
DCC Plc	Industrials	United Kingdom	4.62%	0.73%
Spectris plc	Information Technology	United Kingdom	4.53%	0.61%
De'Longhi S.p.A.	Consumer Discretionary	Italy	2.00%	0.49%
Greggs plc	Consumer Discretionary	United Kingdom	1.02%	0.47%
Electrocomponents plc	Industrials	United Kingdom	3.12%	0.39%

## DETRACTORS

### TOP 5 DETRACTORS

	SECTOR	COUNTRY	AVG. ACTIVE WEIGHT	CONTRIBUTION TO Q1 RETURNS
Burford Capital Limited	Financials	NA	2.69%	-0.54%
ASML Holding NV	Information Technology	Netherlands	-2.33%	-0.43%
Heineken NV	Consumer Staples	Netherlands	3.29%	-0.40%
Auto Trader Group PLC	Communication Services	United Kingdom	3.46%	-0.37%
Scout24 AG	Communication Services	Germany	3.19%	-0.36%

\*Since Composite Inception on January 1, 2008

Past performance does not guarantee or indicate future results. Mackenzie Portfolio Analytics Group is responsible for calculating the non-benchmark information shown above. That information, which does not constitute formal investment guidelines/restrictions, is subject to change from time to time and over time.

### CONTRIBUTORS TO PERFORMANCE

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- From a sector perspective, security selection in consumer discretionary and healthcare contributed to performance.
- At the regional level, stock selection in the UK and Italy were helpful to performance.
- The largest active contributors included: **DCC Plc**, **Spectris plc** and **De'Longhi S.p.A.**
- DCC appreciated significantly in the quarter. DCC is a sales and marketing company operating across several different end markets in the energy, technology and health care industries. We are attracted to the company's diverse end market exposure and unique corporate culture grounded in operating efficiency, capital discipline, patience, and entrepreneurialism. These characteristics were borne out of its founding as a private equity entity several decades ago. DCC's portfolio of businesses have been resilient over the last year with the company also making several acquisitions. However, the share price has not tracked the business fundamentals with the shares coming under pressure for various reasons. There are concerns of declining volumes in the company's fuel station business. Although it's likely volumes will decline as vehicle propulsion moves from combustion to electric, we believe the company has the capabilities and business model to evolve as these challenges surface. We added to shares in the quarter and continue to believe DCC is an attractive investment.
- The share price of De'Longhi, a maker of coffee machines and other appliances, increased due to strong results and an attractive acquisition. While stay at home trends impacted results, market share gains also played a role. The company has an attractive culture with a long-term mindset, a willingness to invest in the business and a well-regarded CEO. Investment into advertising and promotion was at its highest level on record as a percentage of revenue. Despite high levels of investment into brand support and an acquisition, the company's balance sheet ended the year with only slightly less net cash than last year.

### DETRACTORS FROM PERFORMANCE

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- From a sector perspective, security selection in communication services and financials detracted from performance.
- At the regional level, security selection in Germany and the Netherlands detracted from performance.
- The cash weight in the portfolio detracted from relative performance as the benchmark had a strong performance during the period.
- The largest active detractors included: **Burford Capital Limited**, **Heineken NV** and **SAP SE**.
- Heineken's shares declined in the quarter after a strong rebound in the final quarter of 2020. Heineken's business should benefit as economies re-open and populations are vaccinated. The stock has not reacted in-line with other companies we hold with similar exposure to re-opening. Part of this is explained by geography and Europe struggling more than the US with the pandemic and vaccination. Another contributor was the company's outlook, presented at an investor event after reporting its fourth quarter results. The view on profitability was below what many expected driven by a combination of factors revolving around business fundamentals such as volume returns set against a high fixed cost base and currency volatility. Politics may have also played a role. Heineken is a large employer in several European markets mainly the Netherlands. The government is interested in how Heineken manages its labor force. As a result, there was some ambiguity in the company's outlook and messaging on profitability. We expect that over time Heineken will find ways to make the necessary changes to its business to remain competitive; we continue to own shares and added to our position earlier this year.
- SAP is an enterprise resource planning (ERP) software company which is embarking on a cloud transition already made by several other software companies. A consequence of the transition is that the company changed its financial outlook after Q3 results which saw the share price decline thereafter. ERP's transition to the cloud was previously uncertain, with the transition expected to take a long time given the mission critical nature of the product and customer's unwillingness to move ERP to the cloud. The pandemic has arguably changed this view causing some companies to rethink their positions and move their software to the cloud more quickly. Under new management and under pressure from customers, SAP accelerated investment into this transition pulling forward development that might have otherwise taken up to a decade. There are competitive concerns and execution risks around this shift. Although this largely happened last quarter the company continues to communicate more details. We expect the shares to remain somewhat volatile until the plan gains traction. During the quarter we added to our position.

## MARKET OUTLOOK

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- The strategy remains conservatively positioned overall, but with a good balance of high-quality defensive names, businesses that have compelling long-term growth potential, and stocks whose valuations are rather depressed but where we feel the long-term remains sound. We also hold some higher quality cyclical businesses whose valuations are relatively attractive, and who we believe can grow at attractive rates through economic cycles.
- The consensus view is that ultra supportive monetary policy and much more supportive fiscal policy, combined with continued economic re-opening, will lead to a global economic boom that will in turn drive a strong persistent bull market. The consensus view for when Europe emerges is certainly delayed compared to the US. But a strong recovery in activity is still anticipated. We are generally not comfortable making these types of bets; instead, we focus on trying to find high quality businesses with enduring competitive advantages that can grow at attractive rates over time. We try to own these businesses at reasonable valuations. Our aim is to hold a collection of these businesses, in varying proportions, such that the portfolio overall will deliver good absolute and relative returns over time, while producing a smoother path for clients. Our performance is bound to diverge from the benchmark throughout various intervals within the cycle, however over the long-term we remain confident that this approach will serve our clients well.

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Gross and net returns do not include the deduction of custody fees. The returns assume the reinvestment of dividends, interest, and realized and unrealized capital gains and losses. Gross performance results also do not reflect the deduction of management fees and other fees and expenses. Net performance results reflect the deduction of the maximum standard fee 0.55% from January 1, 2020 and 0.75% until December 31, 2019 charged to institutional clients without considering breakpoints, calculated daily and invoiced quarterly, as well as the transaction costs and other fees and expenses, including certain taxes. Index returns do not reflect transaction costs or the deduction of other fees and expenses and it is not possible to invest directly in an index.

## COMPLIANCE STATEMENT

Mackenzie Investments claims compliance with the Global Investment Performance Standards (GIPS®).

## COMPOSITE DESCRIPTION

The European Large Cap Quality Growth Composite seeks long-term growth of capital by investing in equity securities of European companies. Portfolios within the composite will invest in established European markets and, to a lesser extent, in emerging European markets. The strategy follows a blended growth and value investment style and seeks companies having prospects for long-term growth with lower volatility. Generally, once an investment is made, it is held for the long-term. Currency exposure is left unhedged.

## BENCHMARK DESCRIPTION

The benchmark is the MSCI Europe Total Return Index, net of withholding taxes. The MSCI Europe Index is a free float adjusted, market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. It consists of 15 developed market country indices.

## REPORTING CURRENCY

Valuations and composite performance are reported in GBP. The composite includes Canadian dollar and U.S. dollar portfolios that have been converted to GBP. Returns were converted at the end of each month based on the 4:00 PM spot rate on the last business day of the month as reported by StatPro to our system vendor CGI StarSource.

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## MACKENZIE INVESTMENTS

180 Queen Street West, Toronto, Ontario M5V 3K1

T 416 967-2380

F 416 922-3435

E cdeveau@mackenzieinvestments.com

mackenzieinvestments.com