

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

**BENCHMARK:**  
MSCI Europe Total Return Index

**STRATEGY ASSETS:**  
£293 million

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

## STRATEGY OVERVIEW

We seek to provide long-term capital growth by investing in high quality, 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 Concentrated 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	21.21%	12.89%
Industrials	20.95%	14.74%
Information Technology	14.38%	8.28%
Health Care	12.31%	14.13%
Financials	11.62%	15.69%
Consumer Discretionary	10.08%	12.15%
Communication Services	9.45%	3.92%
Energy	0.00%	4.40%
Real Estate	0.00%	1.34%
Materials	0.00%	8.25%
Utilities	0.00%	4.21%
	<b>100.00%</b>	<b>100.00%</b>

## GEOGRAPHIC ALLOCATION (Ex. Cash & Equivalents)

COUNTRY	PORTFOLIO	BENCHMARK
United Kingdom	42.19%	22.32%
Germany	18.61%	14.60%
Switzerland	15.01%	15.20%
Netherlands	10.45%	6.75%
Sweden	4.49%	5.84%
United States	3.69%	0.00%
Italy	2.29%	3.84%
Norway	1.99%	0.98%
Belgium	1.30%	1.47%
Other	0.00%	29.01%
Other	0.00%	25.03%
	<b>100.00%</b>	<b>100.00%</b>

## WEIGHTINGS RELATIVE TO BENCHMARK

OVERWEIGHT	SECTOR	COUNTRY	ACTIVE WEIGHT
Admiral Group PLC	Financials	United Kingdom	+6.92%
Reckitt Benckiser Group PLC	Cons. Staples	United Kingdom	+6.14%
Compass Group PLC	Cons. Disc.	United Kingdom	+4.56%
Spectris PLC	Info. Tech.	United Kingdom	+4.55%
Auto Trader Group PLC	Comm. Services	United Kingdom	+4.16%

UNDERWEIGHT	SECTOR	COUNTRY	ACTIVE WEIGHT
ASML Holding NV	Info. Tech.	Netherlands	-2.64%
LVMH Moët Hennessy Louis Vuitton SE	Cons. Disc.	France	-1.99%
Novartis AG	Health Care	Switzerland	-1.85%
AstraZeneca PLC	Health Care	United Kingdom	-1.44%
Unilever PLC	Cons. Staples	United Kingdom	-1.41%

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

HOLDING	SECTOR	COUNTRY	WEIGHT
Admiral Group PLC	Financials	United Kingdom	7.0%
Reckitt Benckiser Group PLC	Cons. Staples	United Kingdom	6.7%
Nestlé SA	Cons. Staples	Switzerland	6.2%
Compass Group PLC	Cons. Disc.	United Kingdom	4.9%
Spectris PLC	Info. Tech.	United Kingdom	4.6%
Auto Trader Group PLC	Comm. Services	United Kingdom	4.2%
Henkel AG & Co KGaA	Cons. Staples	Germany	4.2%
DCC PLC	Industrials	United Kingdom	4.2%
SAP SE	Info. Tech.	Germany	4.2%
Scout24 AG	Comm. Services	Germany	4.1%
<b>Total:</b>			<b>50.3%</b>
Cash & Equivalents			11.8%

## CHARACTERISTICS

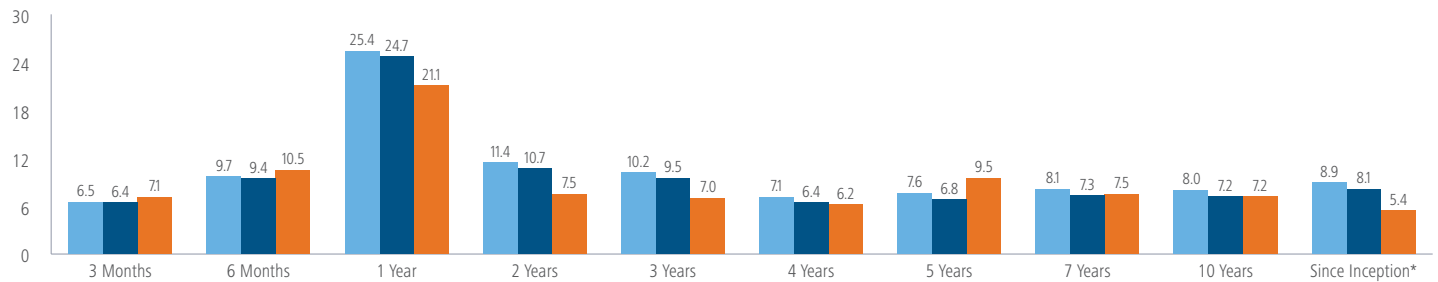
	PORTFOLIO	BENCHMARK
Price/Earnings	25.8	21.3
Price/Book	4.2	2.1
Price/Sales	2.3	1.7
Debt/Equity	74.3	129.2
Net Debt/EBITDA	0.8	1.8
ROC	14.9	10.3
ROE	26.6	15.1
Dividend Yield	2.0	2.5
Turnover (1 year to December)	47.26%	N/A
Median Market Cap (GBP millions)	13,446	13,670
Weighted Market Cap (GBP millions)	49,468	68,527

## RISK

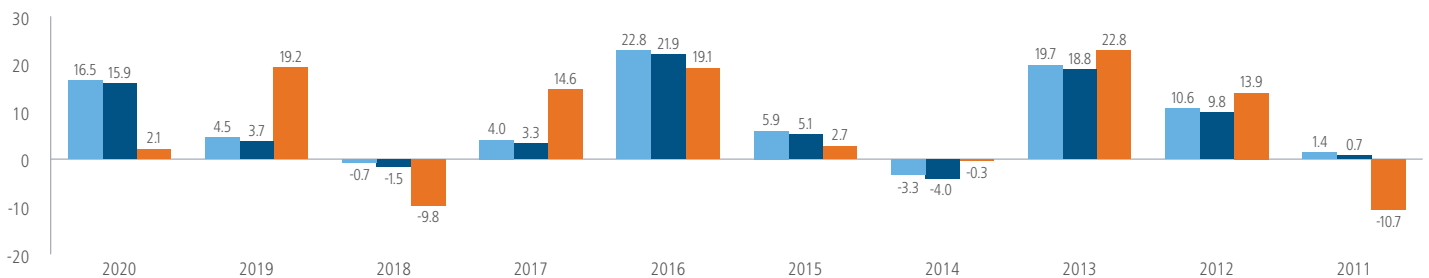
	PORTFOLIO	BENCHMARK
Standard Dev. (3-yr Trailing)	11.5	15.5
Alpha (3-yr Trailing)	5.4	N/A
Beta (3-yr Trailing)	0.6	N/A
Sharpe Ratio (3-yr Trailing)	0.8	0.4
Tracking Error (3-yr Trailing)	7.9	N/A
Information Ratio (3-yr Trailing)	0.4	N/A

## COMPOSITE PERFORMANCE (£)

### COMPOUND ANNUAL RETURNS (%)



### CALENDAR YEAR RETURNS (%)



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

## CONTRIBUTORS

### TOP 5 CONTRIBUTORS

	SECTOR	COUNTRY	AVG. ACTIVE WEIGHT	CONTRIBUTION TO Q2 RETURNS
Sonova Holding AG	Health Care	Switzerland	2.68%	0.78%
Burford Capital Limited	Financials	United Kingdom	3.57%	0.50%
PageGroup PLC	Industrials	United Kingdom	1.13%	0.38%
Wolters Kluwer NV	Industrials	Netherlands	3.90%	0.31%
Heineken NV	Consumer Staples	Netherlands	2.53%	0.28%

## DETRACTORS

### TOP 5 DETRACTORS

	SECTOR	COUNTRY	AVG. ACTIVE WEIGHT	CONTRIBUTION TO Q2 RETURNS
Koninklijke Philips N.V.	Health Care	Netherlands	3.88%	-0.74%
DCC Plc	Industrials	United Kingdom	4.55%	-0.55%
Knorr-Bremse AG	Industrials	Germany	3.87%	-0.54%
Henkel AG & Co. KGaA Pref	Consumer Staples	Germany	4.37%	-0.53%
Reckitt Benckiser Group plc	Consumer Staples	United Kingdom	6.06%	-0.43%

\*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, the underweight to financials and security selection in that sector benefited performance. Also helpful to performance was the security selection in communication services and no exposure to energy, materials, and utilities.
- Exposure to Norway and Switzerland were helpful to performance.
- The largest contributor to performance was Sonova, whose share price increased materially during the quarter after the company reported its results. As a reminder, Sonova designs, manufactures and retails hearing devices. While the reported results were strong, what moved the share price was a positive outlook which included higher margins, along with the potential for improved topline growth. Arnd Kaldowski, a former Danaher executive, took over as Sonova's CEO in 2018. Over the last three years he has quietly been improving Sonova's competitiveness and efficiency while maintaining Sonova's innovative capacity and patient focus. Although some of the benefits were trickling through pre-Pandemic, Covid masked a large step change in improvement that the Sonova team accomplished over the last year. The improving margin and ROIC profile also stands in contrast to many years of declining ROIC for the hearing aid companies. Management's efforts, applied to an inherently strong company in an attractive industry, resulted in an inflection in returns and an approximate 40% share price gain during the quarter.

### DETRACTORS FROM PERFORMANCE

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- From a sector perspective, security selection in consumer staples detracted from performance as did the mandates exposure to healthcare and consumer discretionary.
- Exposure to 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.
- Performance was held back by declines in two positions on the heels of significant news. The first was healthcare technology company Philips, which issued a voluntary recall for many of its sleep apnea machines in April and doubled the expected cost of the recall in June. Uncertainty about the cost, associated market share losses, and potential litigation weighed on Philips shares in the quarter. While this is certainly not a welcome development, we remain focused on the long-term prospects for the company rather than near-term earnings uncertainties. At less than 10% of total sales, the sleep business is material but not central to Philips, which has a broad portfolio of healthcare technologies, from CT scanners to electric toothbrushes.
- Knorr-Bremse was also weak in the quarter, after the company disclosed it was in preliminary talks to acquire a controlling stake in a large auto parts supplier. This announcement rattled investors, as the strategic rationale was unclear (Knorr-Bremse makes braking systems and other products for trains and commercial trucks, but nothing related to automobiles), while the large size of the potential acquisition would put strain on Knorr-Bremse's strong balance sheet and would likely require the issuance of equity. Just eight days later, but after the end of the quarter, the company announced it was no longer pursuing this acquisition. The fact that Knorr-Bremse had seriously entertained such a transaction, however briefly, is important information to incorporate into our views of the company, as part of our assessment of any investment is our expectations regarding how well management will allocate capital in the future. This acquisition would have been contrary to our expectations, and we will adapt our views accordingly.

### MARKET OUTLOOK

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- Normally in strong markets the portfolio will struggle to keep pace, but the past quarter's rally was driven by areas like consumer staples, health care, and technology, where the portfolio is well represented. In contrast, the weakest returns came from energy, financials, and utilities, where the portfolio has very little exposure.
- During the quarter, we sold our position in recruitment firm PageGroup for valuation reasons following strong share price gains. We added two new positions to the portfolio that we will discuss in a future commentary.
- Valuations for quality businesses in Europe look increasingly stretched, in particular for more economically-sensitive companies. Reflecting this, the portfolio remains fairly defensively positioned, including an unchanged cash position of approximately 12%.

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**Past performance does not guarantee or indicate future results.** Information under "Composite and Benchmark Performance (GBP)" reflects the performance of the Mackenzie European Concentrated Quality Growth Composite, and does not necessarily reflect the performance that any particular account investing in the same or similar securities may have had during the period. The performance of other accounts is likely to differ from the performance shown for a variety of reasons, including, but not limited to: differences in market conditions, portfolio turnover and in the number, types, availability and diversity of securities that can be purchased; economies of scale, regulations and other factors applicable to the management of large separate accounts and funds; client-imposed investment restrictions; the timing of client investments and withdrawals; the deduction of taxes; tax considerations; and other factors. Information regarding portfolio characteristics relates to a representative account within the composite.

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 Concentrated 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. Prior to January 1, 2021, the composite was known as the European Large Cap Quality Growth composite. The composite was created on October 31, 2017.

## 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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