Portfolio Manager Phil Taller talked to us about positioning the portfolio of the Mackenzie US Mid Cap Growth Class amid developments related to US President Donald Trump, healthcare, inflation and the American economy. Mr. Taller says the challenge is always to find innovative US companies that have potential for growth.

It has been about six months since Donald Trump was elected. What changes have you made over that six months and what changes do you anticipate making in the coming months?

**Phil:** We have been slowly reducing the cyclical exposure of the Fund for the past year. For example, we trimmed our bank weightings late in 2016 and early this year. We reduced or sold industrial cycicals and did the same with more cyclical technology companies. Our purchases have focused on either adding to existing positions or finding new ones in more steady businesses. Our approach is based on the idea that it is possible that there could be disappointments in economic growth, particularly in an environment where monetary policy is tightening.

Can you give a couple of examples of cyclical names that you took down and secular names you took up?

**Phil:** We sold MSC Industrial, which is a distributor of tools, cutting products and general industrial usage products. We eliminated Textron, which manufactures business jets and helicopters. FEI, a dominant player in electron microscopes, is broadly used in the pharmaceutical industry but also in the highly cyclical semiconductor industry, so we eliminated that. The company was actually taken over which made it easy for us to eliminate it.

In terms of secular growth companies, we have bought other technology names that are software and services businesses. For example, Broadridge, EXL Services and Maximus are all business outsourcers that are ‘efficiency plays’ that provide methods for companies or governments to save money on their processes. These types of technology businesses are less cyclical and steadier growth businesses.

Understanding that your investment process is strictly bottom-up, how much does Trump weigh into your investment decisions?

**Phil:** Trump doesn’t have a huge impact on our investment process. We continue to look for the same kinds of businesses that we have always looked for—innovative companies that fit within secular themes we feel have significant growth potential. Economic growth, monetary policy, what the bond market is telling us and other indicators are used to consider where we are in the business cycle. These considerations impact the level of cyclicality in the Fund. But generally, we invest in the same kinds of businesses.

We think betting on Trump getting policies done may be a bad bet. I don’t think a strategy should be based on him getting a lot done.

The US House of Representatives approved the latest Republican healthcare bill. Does this change anything in the Fund with respect to the healthcare holdings, particularly the contract research organizations (CROs) held within the Fund?

**Phil:** The House did approve the healthcare bill but getting Senate approval will be much tougher. Whether this draft legislation is approved or not does not really change things. Somehow there has to be pressure on cost. The cost of healthcare in the US is so high that there will be pushback in one form or another. Drug R&D spending has been in a bit of a lull as drug companies try to anticipate budget policy.
However, we’ve seen these cycles in the past when drug R&D spending slows. We expect drug companies want to continue producing drugs and CROs remain an efficient method for drug R&D that helps address price pressures.

**Phil:** The beta of the technology sector has generally gone down and the reason is that there is a much wider spread of beta in the sector which has become available over the last decade. So you have choices within Technology that can be very high or very low beta. Our recent additions have been mainly at the lower end.

Are you seeing signs of inflation and what impact would higher inflation have on the Fund?

**Phil:** I think there were some signs of inflation—it depends where we are in the cycle and we don’t know—but if we are late cycle, we may have seen the peak of inflation. We are definitely not building a strategy based on our view of inflation. We believe the businesses we own generally have good pricing power and it’s evident by the fact they have high gross margins. If you have high gross margins, it’s because what you do is hard to duplicate and this gives you pricing power.

Do interest rates matter to your holdings?

**Phil:** Interest rates matter to the banks. If the economic cycle is over, then our bank holdings will go down. We’ve cut our weight to banks because of significant price moves. We saw them go up a lot especially in the back-half of 2016. The premise for cutting the cyclicality of our Fund is because it’s possible we are closer to being late in the cycle.

In your presentations, you speak about continued headwinds through the deleveraging cycle given high levels of debt to GDP. If you had to put a timeline on this, what’s the duration of this headwind?

**Phil:** Probably the rest of our lives.

Why do you suggest growth stocks will continue to do well in this low-growth environment?

**Phil:** Growth is scarce in this environment. If the economy is not growing quickly then it’s hard to get growth. So any company that can grow faster than the economy is at a premium because the market is finding it hard to find growth. Growth is not plentiful in the world and the market is assigning a premium. The market will prioritize growth stocks when the economy is not great. In a mediocre economy, the steel mills, banks and lumber companies etc., are all cyclical and not growing. They are very challenged for growth and just won’t get the kind of valuation they might have and the money has to go somewhere. So it finds its way into growth stocks.

You’ve added a very small position to Real Estate—what was that?

**Phil:** It’s a company call Kennedy-Wilson Holdings, a very good manager of real estate. It adds hard assets to our portfolio in what could be a difficult world. We can’t invest directly in real estate ourselves as that’s not our expertise but this manager is really good and we like the idea of diversifying the Fund with this holding, which is currently at about a 1.8% weighting.

We’ve seen cash weights slowly rise through the past two years. What kinds of valuations are you seeing?

**Phil:** We don’t have a goal of holding cash but prices do matter. The price paid for an asset helps determine future returns—it makes a difference. In our models, if we look at what scenarios are necessary to justify certain prices, as prices go up, the scenarios you need to justify prices become less reasonable, less probable. So at some point, we just have to trim our weightings because the price becomes too high and we recognize the scenario we need becomes more and more unreasonable.

For more information about the Mackenzie US Mid Cap Growth Class, please contact your financial advisor.