Mackenzie Ivy Team
Q2-2018 COMMENTARY

Market Review

- Global markets had a strong second quarter in 2018. U.S. market was strong which continued to be driven by the Information Technology sector. European markets also had a strong quarter, though the gains were muted in Canadian dollar terms as European currencies weakened. Asia was the weakest performing region within the global markets. This was due to concerns about the impact of trade restrictions and tariffs on various Asian economies, and also continued concern about the impact of rising interest rates in developed economies on currencies and broader economic activities. Canadian markets continued to climb, with the S&P/TSX Composite Index returning 6% on broad based participation across sectors.

Outlook & Strategy

What are the key opportunities you see?

- We are often asked how much of a market correction it would take for us to deploy our cash and be fully invested. The tongue and cheek answer is none. We are not necessarily waiting on a broad-based correction to deploy more cash, rather a sufficient number of reasonably priced Ivy-type companies would suffice. In addition to a broad market sell-off, such opportunities could arise from isolated areas of disruption or a superior growth outlook that would justify higher near-term valuations. The second quarter served as a case in point as share prices for several Ivy-quality companies declined sufficiently to meet our return thresholds, so we added these to the fund, resulting in the reduction of our cash position. Over the quarter, we added Pepsi, Procter & Gamble and Reckitt Benckiser to the Ivy Canadian funds and meaningfully increased our existing position in Henry Schein. This was partially offset by our exit from Loblaw, Crescent Point Energy and Spartan Energy.
- U.S. performance was in line with the market despite a large underweight to the technology sector which continues to drive market returns. We feel good about our underweight position in technology and see it as a source of future outperformance as we see the sector as being very overvalued, overweight and overbought.
- Contributors of the U.S. equities were Nike, Costco, W.W. Grainger and Henry Schein. These stocks as a group were weaker performers last year for a variety of reasons but mostly focused on channel shift dynamic, price transparency and Amazon. Though all these dynamics are real we believe the degree of impact was and is being overstated.
- Reckitt Benckiser (RB) was a new addition to Ivy Foreign Equity, Ivy Global Balanced, and Ivy Canadian in the quarter, and contributed positively to fund performance. We added RB to Ivy European and Ivy International in late 2017, and increased our position last quarter as the share price declined. RB is a branded consumer goods company, focused on OTC healthcare and household cleaning products, with a portfolio of brands including Strepsils, Gaviscon, Durex, Enfamil, and Lysol. Longtime Ivy clients might recognize the name, as RB featured prominently in the Ivy funds for several years in the past. Aside from great brands in interesting niches, RB has a very interesting culture that is entrepreneurial, lean, and performance oriented. We believe a recent internal split of the company into two separate units (Health, and Hygiene Home) will be beneficial in accentuating the advantages of this culture.
- We added Burford Capital to Ivy European and Ivy International. Burford is a UK-listed investment company, focused on law. A bit of an unusual business, Burford provides financing to law firms and corporations, with the return on investment determined by the outcome of commercial legal cases. This is a relatively new and growing industry, where Burford is a pioneer as well as the current market leader by some distance. Scale, customer relationships, and track record all matter in this industry, and Burford has all three. They have a conservative approach to accounting and debt, and an ingrained focus on return on capital. The business should also be relatively resilient to economic downturns. This collection of factors makes it an Ivy-type company, and we believe the price was reasonable.
- To repeat some comments from last quarter, we believe that high quality stocks, while expensive, are a bit less expensive than they were in the recent past, and some names on our watch list have become closer to being actionable (or, in the case of RB, have already become actionable). So while cash levels remain high, and we will keep our usual level of discipline, we are hopeful of finding additional opportunities for deploying capital throughout the remainder of the year.

MACKENZIE Investments

What are key risks that need to be managed?

- Despite our deep concerns about the state of the world we don't know when this bull market will end and how severe the downturn will be. Central banks are the prime culprits for the current state of affairs and will undoubtedly continue focusing on shorter-term symptoms at the expense of longer-term fundamentals. Valuations are significantly more expensive than before the last bear market, but that doesn't necessarily dictate the timing or the degree of the next downturn. This could very well end up being the longest bull market of all time, but on the other hand it may have already ended. And the downturn could be less severe than the Great Financial Crisis or it could be worse; no one knows. In the meantime, we all have the difficult task of convincing our clients to stay the course. Sometimes reminding clients about the cost of being wrong can serve to focus the mind. Being wrong with Ivy usually means that you don't grow as fast in a bull market. Being wrong with a fund that behaves like the index means you could potentially lose a significant amount of your capital when the next bear market inevitably arrives. However, no matter what you tell your clients it will be impossible to prevent all of them from abandoning ship. It really is a hazard of the trade. Of course, you can eliminate that particular hazard by joining the thundering herd as it nears ever closer to the edge of the cliff, but only at the expense of the even greater hazard of potentially wiping out a lifetime's hard work.

PORTFOLIO MANAGEMENT TEAM:

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On August 14, 2014, Mackenzie amended the Mackenzie Ivy Canadian Balanced Fund's investment strategies to specify its ability to allocate its assets between equity and fixed income securities, and Alain Bergeron assumed responsibility for asset allocation in the Fund.

On August 14, 2014, Mackenzie amended the Mackenzie Ivy Global Balanced Fund's investment strategies to specify its ability to allocate its assets between equity and fixed income securities, and Alain Bergeron assumed responsibility for asset allocation in the Fund.

MACKENZIE Investments

On May 15, 2001, the Mackenzie Ivy Global Balanced Fund changed its mandate from pursuing long-term capital growth consistent with preservation of capital by investing primarily in large-cap stocks, securities carrying above-average investment ratings, government guaranteed securities, cash equivalents or gold-driven instruments, to pursuing long-term capital growth by balancing current income and capital appreciation. It now invests primarily in stocks of companies that operate globally and in bonds of governments and corporations around the world. The portfolio managers have the flexibility to hold any proportion of stocks and fixed income securities they feel is appropriate, however the portfolio is generally balanced. The Fund's former strategies also sought to concentrate investment in six particular market regions. The past performance before this date was achieved under the previous objectives and strategies.

Fund and Benchmark Performance as at: June 30, 2018	**1 year**	**3 years**	**5 years**	**10 years**
Mackenzie Ivy International Fund - Series F (Formerly Mackenzie International Growth Fund)	-1.4%	1.2%	6.9%	2.9%
Mackenzie Ivy International Class - Series F (Formerly Mackenzie International Growth Class)	-1.5%	1.4%	6.9%	2.8%
MSCI EAFE TR Index (CAD)	8.2%	6.7%	11.2%	5.5%
Mackenzie Ivy Canadian Balanced Fund - Series F	2.3%	6.2%	7.9%	6.2%
Blended Index (comprised of 75% S&P/TSX Composite Index + 25% FTSE TMX Canada Universe Bond Index (CAD))	8.0%	5.7%	7.8%	4.5%
Mackenzie Ivy Canadian Fund - Series F	2.4%	6.4%	8.5%	6.8%
*Blended Index (60% S&P/TSX Composite Index, 30% S&P 500 Index, and 10% MSCI EAFE (Net) Index)	12.0%	9.1%	12.4%	7.1%
Mackenzie Ivy European Class - Series F	0.2%	2.7%	7.2%	6.4%
MSCI Europe Total Return Index (CAD)	6.6%	6.1%	11.0%	5.1%
Mackenzie Ivy Foreign Equity Class - Series F	0.8%	5.2%	9.4%	8.6%
Mackenzie Ivy Foreign Equity Fund - Series F	0.9%	5.1%	9.4%	8.7%
MSCI World Total Return Index (CAD)	12.5%	10.4%	14.9%	9.1%
Mackenzie Ivy Foreign Equity Currency Neutral Class - Series F	-0.5%	4.0%	6.2%	7.2%
MSCI World Total Return Index (hedged to CAD)	10.9%	8.6%	11.1%	7.2%
Mackenzie Ivy Global Balanced Fund - Series F	1.0%	5.8%	9.0%	8.1%
**Blended Index (comprised of 75% MSCI World Total Return Index +25% ICE BofAML Global Broad Market Index (hedged to CAD))	9.7%	8.5%	12.1%	8.0%

Fund and Benchmark Performance as at: June 30, 2018	**1 year**	**Since PM Change (June 21, 2016)**
Mackenzie Ivy International Fund - Series F	-1.4%	5.7%
MSCI EAFE TR Index (CAD)	8.2%	13.2%

*The Fund's benchmark was changed in March 2017 from the S&P/TSX Composite Index to a blended benchmark of 60% S&P/TSX Composite Index, 30% S&P 500 Index, and 10% MSCI EAFE (Net) Index, in order to better reflect the long-term average geographic composition of the Fund.

** The Fund's fixed income benchmark was changed in March 2017 to currency-hedged benchmarks to better reflect how currency exposure is managed.

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