RISKS FROM BREXIT
MACKENZIE IVY EUROPEAN CLASS

Matt Moody, MBA, CFA
Vice President, Portfolio Manager
Mackenzie Ivy Team

When it comes to Britain parting economic ways with the European Union – so-called 'Brexit' – we don't have any particular insight into the eventual outcome of the thoroughly confusing soap opera that is playing out across the Atlantic. Assuming some form of Brexit eventually happens, we consider the risks to our fund in three ways: general economic weakness, company-specific issues (for example, complications on the ability to operate/compete), and currency-related effects (in the event of a steep fall in the GDP). We will explain each one in turn.

If the UK economy were to suffer as a result of Brexit, we do not expect a significant impact on the fund's holdings. Most of our UK holdings generate the vast majority of their revenues and profits outside the UK, reflecting our general preference for multi-national companies. Burford Capital, Reckitt Benckiser, Aggreko, and Compass Group all earn less than 10% of their revenues in the UK, while Halma is less than 20%. Two holdings earn virtually all of their profits from the UK – Admiral Group and Domino's Pizza Group – but car insurance and pizza are not generally considered very economically-sensitive industries. The final holding is DCC (Development Capital Corp. PLC), which earns roughly half of its profit in the UK, operating gas stations, and distributing propane, health care products, and consumer electronics – there would likely be some economic sensitivity here. So overall, we believe the sensitivity of the fund to potential UK economic weakness is manageable, and quite a bit less than our high weighting in UK-listed stocks might suggest.

Brexit could complicate life for some companies in terms of their ability to operate and compete in the same way as they had pre-Brexit. It is hard to assess what will happen here. For the multi-national companies with little exposure to the UK market, this is likely not a big concern. For Admiral Group, they have prepared for Brexit by establishing a new entity in Spain through which they can operate all of their non-UK businesses. Domino's Pizza Group could see an impact – if the GBP were to decline, food costs could rise, which could exacerbate some existing tensions between Domino's and its franchisees over profit sharing. This is pure speculation but highlights the point that what will happen is pretty unclear. As DCC wrote in its last annual report:

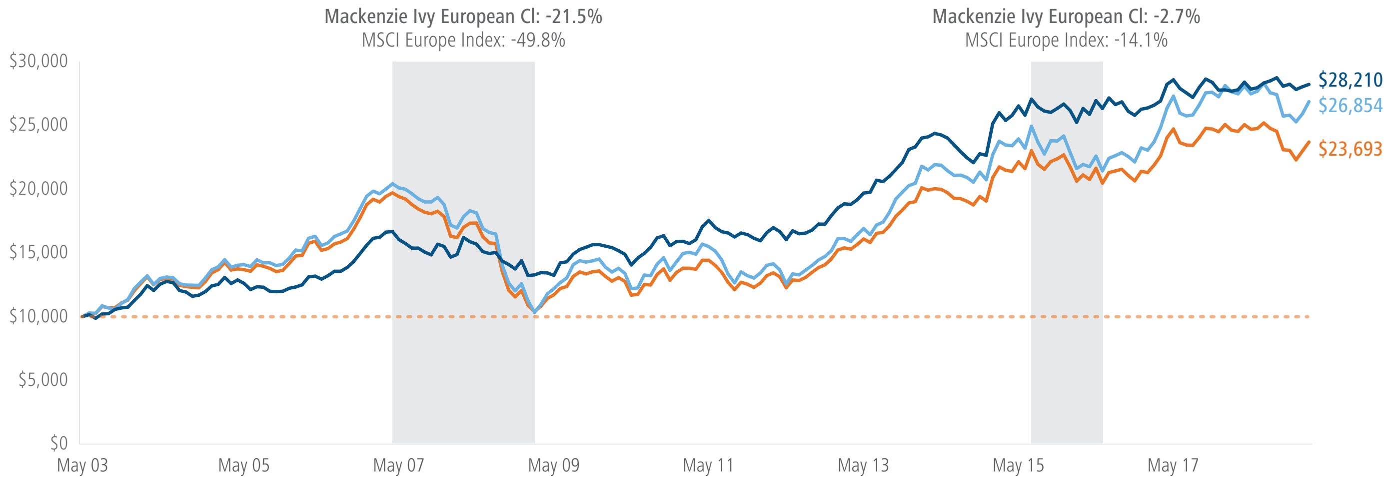
"The short- and medium-term impact of Brexit remains uncertain and most likely issues will arise that have not been contemplated or foreseen. However, at this stage, the Board believes that DCC is not likely to be materially directly impacted by Brexit in the short or medium term and that any trading or other impacts can be managed."

Finally, there is the potential for a decline in the GBP in the event of a hard Brexit. We would not expect a big economic or competitive impact on our holdings if this were to occur, and in our view, the value of our investments would be protected to the extent that the businesses earn non-GBP profits. Otherwise, especially for holdings like Admiral, Domino's, and DCC, a decline in the value of the GBP would have a negative impact on the CAD value of our investments. It should be noted that Mackenzie Ivy European Class follows a partial hedging strategy based on purchasing power parity (PPP), under which all of our UK investments are currently 50% hedged. Additionally, 15% of the fund's cash is held in GBP (so approx. 4% of fund NAV).

If there is some sort of market dislocation as a result of Brexit, we would welcome it. We value businesses on a long-term basis, and markets often overreact to things in the short term. So if stocks in the UK or broader Europe were to decline significantly, we would hope to deploy some cash. We did this in the latter half of 2018, when our cash fell from a peak of ~40% to its current level of ~29%. A return of prices to similar levels of December, or lower, would likely give us some further options. As always, it depends on bottom-up opportunities.

Performance of Ivy European Class Compared to Peers and Benchmark

	Compound Annual Growth Rate	Cumulative Return
Mackenzie Ivy European Class – F	**6.8%**	**182.1%**
MSCI Europe TR Index (net-$C)	6.4%	168.5%
Morningstar European Equity Category	5.9%	148.2%



Source: Morningstar Direct, as of February 28, 2019.

Investing through volatility is a particular strength for the Mackenzie Ivy Team. For more information on investing through market uncertainty or Mackenzie Ivy European Class, please speak to you Mackenzie Investments representative.

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