Market Review

- Markets were up significantly in the first quarter, effectively reversing the losses incurred in Q4. Although the past six months have almost been a wash from a market perspective, high levels of volatility tend to negatively impact individual investors, whom are often whipsawed in and out of the market at precisely the wrong times. This pro-cyclical behaviour was highlighted once again in December, when industry net redemptions hit a record high! After having experienced the losses of Q4 and left the market, many investors weren't around to benefit from the market reversal in Q1. To those left on the sidelines, markets being back at previous levels is of little consolation. While no one could've predicted the path that markets would take, the December industry net redemptions highlight the importance of setting a plan and sticking to it. This is where a good investment advisor and a stable investment strategy can provide significant value, making it easier for investors to stay the course.
- Our objective at Ivy extends beyond outperforming our peers and the market, as we aim to do so in a way that helps investors realize the returns of our fund by staying invested through volatile markets. We endeavour to accomplish this by capturing as much of a rising market as possible, while always protecting our clients' capital from the risk of significant losses. A smoother path to outperformance should make it easier for our investors to sleep at night and stay invested.

Outlook & Strategy

What are the key opportunities you see?

- U.S. stocks had a strong first quarter as the Federal Reserve communicated that in the face of volatile markets in Q4/18 interest rate increases will be put on hold. Our U.S. holdings didn't keep pace with the market given technology and more deeply cyclical stocks did well where we are underweight. The only notably poor performer was **Henry Schein** post spin-off and **Covetrus** which is the spin-off itself both performed poorly given weak trends in their core businesses relative to expectations. We don't expect this to persist and are happy with the holdings. **Danaher** was a strong performer as their acquisition of GE's biopharma manufacturing assets was well received by the market. The acquisition makes good strategic sense and the price was reflective of the quality of the assets and the current pricing environment.
- In the European side, we added two new positions late last year, which we did not disclose in the last quarterly as we were still building our positions. We added a further new name in 2019.
    - The first of these new investments is **Compass Group**, which we added as a small position in Ivy Foreign Equity, Ivy European, and Ivy International. Compass is a contract catering company, operating cafeterias at offices, hospitals, educational institutions, and other facilities around the world. Compass has an attractive culture and a valuable scale advantage in food purchasing, two factors that have contributed to a track record of superior growth and profitability.
    - The second new addition was **De'Longhi**, an Italian maker of espresso machines, kitchen machines, and other small appliances. This family-controlled business has a long-term approach to building and sustaining brands through innovation and marketing support, and a debt-free balance sheet that gives them the ability to acquire other brands.
    - Finally, we added **Heineken**, one of the world's largest brewers with a broad portfolio of global and local brands. This is a well-managed business in a resilient industry, with a long-term vision supported by family control. Both De'Longhi and Heineken are held at small weights in Ivy European.
- For Ivy Canadian, the team initiated new positions in with **Emera.** Emera is an integrated utility that operates across multiple regulatory jurisdictions in North America. We believe that Emera has the potential to meaningfully grow its earnings, based upon near and mid-term capital plans that have been approved by its regulators. The need for the approved capital plan is supported by growing electricity demand and the requirement to transition away from coal in the jurisdictions that it serves. Given the regulated nature of utilities, the threat of regulatory intervention is of chief concern to us. We believe that this risk as

it applies to Emera is mitigated by the favourable regulatory regimes in which it operates and the minimal impact that Emera's growth will have on rate-payers' monthly bills. There is also a near-term risk that Emera may be downgraded by one of its debt rating agencies because of the impact of US tax reform on the sector. Given the improving trajectory of the company's balance sheet, we view this risk as being temporary, however, we have analyzed the potential impact and would be comfortable if it were to occur.

- Far East markets rebounded significantly in Q1 2019 after weak performance in Q4 2018. Ivy's Far East holdings broadly outperformed the Asian components of the broader global benchmarks in the quarter. The biggest contributors to performance were **Anta Sports**, **Techtronic Industries**, and **Amcor**; the most significant detractor was **Seven & I Holdings**.
- **Seven & I's** share declined sharply starting early in early March 2019, due in part to market concerns about potentially weak Q4 F2019 performance and a reduction to the company's F2020 guidance. In early April 2019, Seven & I reported F2019 results that were fairly steady and roughly in-line with expectations, however management did reduce F2020 guidance by approximately 6% due to advanced investments in the Japanese Convenience Store and Financial Services businesses, and slower than expected profit improvements in the non-Convenience Store businesses. We believe management is making the right decision in investing for the long-term sustainability of the business, and we are comfortable with the overall pace of growth in the business. We also believe that the share price reaction has been overdone; we used the opportunity to modestly increase our position in various Ivy funds, after modestly trimming our position at higher prices earlier in Q1.

What are key risks that need to be managed?

- Global equity markets have rebounded significantly so far in 2019, and many of the opportunities we were starting to see late in Q4 2018 have now vanished. The rebound has been broad-based, but has been most pronounced in cyclical areas of the market such as industrials and technology, and also with companies that have significant exposure to China. Business performance has slowed in Q4/18 and Q1/19, however many companies are holding on to hopes that performance will pick up in the back-half of 2019. Equity markets have responded. Time will tell as to whether or not the fundamentals will keep up with expanded valuations.
- Although the brief market correction in late 2018 provided an opportunity to make these investments, we continue to believe that valuations for high quality businesses are generally unattractive, particularly following the sharp market rebound in 2019. One illustration of this point is **Nestle**, which was sold from Ivy Foreign in the first quarter for valuation reasons. Nestle had been a mainstay in the fund for over 12 years, and in many ways exemplified what we look for: a well-run business in an economically resilient industry, with a wide moat, a long-term focus, good growth, and a strong balance sheet. Those attributes remain true, but less so than before. The industry has become more difficult as retailers struggle with channel shift, consumer habits change, and the traditional barriers to entry for branded products erode. In this context, Nestle's revenue growth has remained near the top of its competitive set, but has come down from past levels. The company's balance sheet has always been a strength, and while it remains strong it is currently the least conservative it has been in the past decade.
- One might think that a company with lower growth, a more uncertain external environment, a potentially narrower moat, and a less conservative balance sheet, would see these changes reflected in its valuation. In fact, the reverse has happened. Nestle is currently at or near decade-highs in terms of its price/sales and price/earnings ratios. Part of this simply reflects the impact of the decade-long bull market, but Nestle's valuation premium above the overall market is also near its highs. So while we believe Nestle remains a high quality business, the expected return from holding the stock at the prevailing price became unattractive.
- This is not an isolated case. Valuations of high-quality businesses, particularly when adjusted for the impact of economic cyclicality, are not particularly attractive in globally. There are pockets of potential opportunity, and things can change quickly (as witnessed last year), so we are hopeful in finding attractive investments, but as always, we remain disciplined on the prices we pay when allocating our clients' capital.

PORTFOLIO MANAGEMENT TEAM:

Paul Musson, Team Lead, Senior Vice President, Portfolio Manager, Investment Management, Mackenzie Investments

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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.

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: March 31, 2019	1 year	3 years	5 years	10 years
Mackenzie Ivy International Fund - Series F	4.1%	5.7%	4.1%	8.1%
Mackenzie Ivy International Class - Series F	4.6%	6.0%	4.3%	8.3%
MSCI EAFE TR Index (CAD)	0.0%	8.3%	6.3%	9.6%
Mackenzie Ivy Canadian Balanced Fund - Series F	6.9%	5.8%	6.0%	7.9%
Blended Index (comprised of 75% S&P/TSX Composite Index + 25% FTSE TMX Canada Universe Bond Index (CAD))	7.6%	7.7%	5.1%	8.3%

Mackenzie Ivy Canadian Fund - Series F	6.0%	5.3%	6.0%	8.9%
*Blended Index (60% S&P/TSX Composite Index, 30% S&P 500 Index, and 10% MSCI EAFE (Net) Index)	9.0%	10.9%	8.5%	11.8%
Mackenzie Ivy European Class - Series F	4.3%	3.3%	3.8%	8.0%
MSCI Europe Total Return Index (CAD)	-0.1%	7.6%	4.9%	9.6%
Mackenzie Ivy Foreign Equity Class - Series F	8.3%	4.6%	7.4%	9.8%
Mackenzie Ivy Foreign Equity Fund - Series F	8.4%	4.6%	7.4%	9.9%
MSCI World Total Return Index (CAD)	8.0%	11.8%	10.9%	13.0%
Mackenzie Ivy Foreign Equity Currency Neutral Class - Series F	7.1%	4.3%	5.3%	9.8%
MSCI World Total Return Index (hedged to CAD)	6.7%	11.2%	8.4%	12.6%
Mackenzie Ivy Global Balanced Fund - Series F	7.4%	6.1%	7.5%	8.9%
**Blended Index (comprised of 75% MSCI World Total Return Index +25% ICE BofAML Global Broad Market Index (hedged to CAD))	7.1%	9.4%	9.1%	10.9%

Fund and Benchmark Performance as at: March 31, 2019	1 year	Since PM Change (June 21, 2016)
Mackenzie Ivy International Fund - Series F	4.1%	6.1%
MSCI EAFE TR Index (CAD)	0.0%	9.1%

*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.

MACKENZIE Investments