

MACKENZIE US MID CAP GROWTH CLASS: LEVERAGE THE FUTURE – DATA IS THE NEW GOLD

The Mackenzie Growth Team looks for high-quality businesses that are benefiting from secular growth tailwinds. These days, data is often referred to as “the new gold” since advancements in data science and cheaper storage costs have proliferated the amount and usefulness of such data. This secular growth driver is leading to a variety of investment opportunities in the U.S. mid-capitalization space. Companies with access to high-quality, proprietary data will enable their customers to succeed.

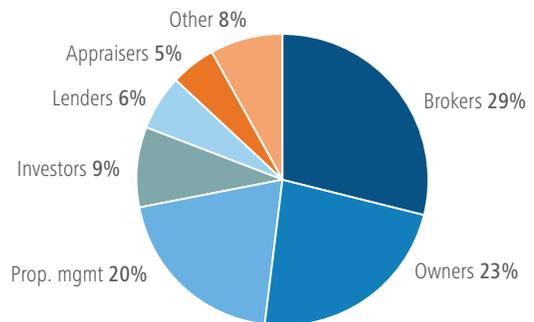
Real estate is a key area that has benefitted from this data explosion. According to a PWC report on emerging real estate trends, “technology has recently moved from compiling ‘big data’ to finding better ways to make decisions using the data.”¹ Technology is being leveraged to develop data-driven insights to help companies make informed decisions more efficiently.

Over 80% of those surveyed believe commercial real estate companies should prioritize the use of predictive analytics and business intelligence².

CoStar Group is a commercial real estate database company that has been held in Mackenzie US Mid Cap Growth Class since January 2016. The company provides building-specific commercial real estate information (occupancy rates, effective rental prices, cap rates, tenant history, etc.) for a variety of properties in most large U.S. cities and a select – but growing – number of international markets. Early subscribers of the CoStar service were often commercial real estate brokers. However, the increasing need for high-quality data has expanded CoStar’s reach into many new customer sets, including building owners, property appraisers,

bank loan officers, insurance underwriters, private equity companies, pension funds and property managers, to name a few. CoStar’s ability to provide timely and accurate information allows these customers to make more informed business decisions and more accurately track their real estate holdings. This trend is not unique to commercial real estate. We have several examples of companies that are seeing increased demand for high-quality, real-time, unbiased, third-party data across sectors.

CoStar Group Customer Mix



Source: BofA Merrill Lynch Global Research, company filings

Catalysts	Growth Rates
Accurate and current information drives productivity. CoStar has become the “Bloomberg” of commercial real estate.	5-year CAGR Revenue Growth 22%
Industry-leading database with more than 1,800 dedicated research professionals who make over 47,000 calls per day. ³	
In 2017, more than 5.1 million Americans moved into properties found on Apartments.com. ⁴	Projected 5-year CAGR Revenue Growth 14%

¹ <https://www.pwc.com/us/en/asset-management/real-estate/assets/pwc-emerging-trends-in-real-estate-2019.pdf>

² Based on results of a Deloitte survey of 500 global commercial real estate investors as part of its 2019 Commercial Real Estate Outlook. <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/financial-services/us-fsi-dcfs-2019-commercial-real-estate-outlook.pdf>

³ CoStar website

⁴ CoStar 2017 Annual Report

The Growth Team believes that CoStar Group will maintain its above-market growth for the next several years as it continues expanding into U.S. cities and international markets (i.e., Europe), develops new tools/features to increase average revenue per user, and adds additional customers through an expanded sales force. CoStar has leveraged its core expertise in commercial real estate information to become the leader in apartment rentals since entering the space in 2014. The company made a transformative acquisition of Apartments.com to gain a foothold in the multi-family space. CoStar has added new domains (Apartment Finder, ForRent, Off Campus Partners) while investing heavily in data quality and user interfaces. As a result, the multi-family business now generates roughly 400 million dollars in annual revenue, or roughly one-third of total revenue that didn't exist five years ago. We continue to like the defensive nature of CoStar's business and believe that our investment should benefit from the company's strong balance sheet with a positive net cash position, proven management team and an enviable organic growth profile that is supported by a strong recurring revenue model.

Three of the main catalysts the team believes will drive future growth for the company are:

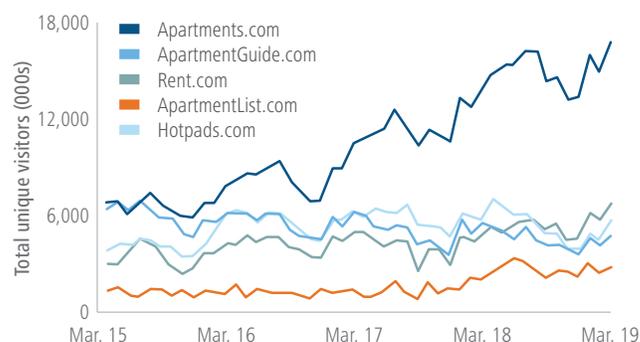
1. Accurate and current information drives productivity.

CoStar has become the "Bloomberg" of commercial real estate. The company's main product, CoStar Suite, has been built and updated over 30 years, city by city. Product revenue is driven by a subscription-based business model and subscription renewal rates are high. The product lineup generates high incremental profit from each additional user as there are low variable costs to adding additional users to an established database. Main drivers for future growth and expansion include gross margin power, international expansion and expanding the database with additional information. CoStar's comprehensive database has been developed through an exhaustive research process, involving more than 1,800 dedicated research professionals analyzing over 4.2 million properties through daily calls to brokers and building owners, reviewing court filings and tax assessor records, and tracking tenant history.

2. Apartment search process increasingly online.

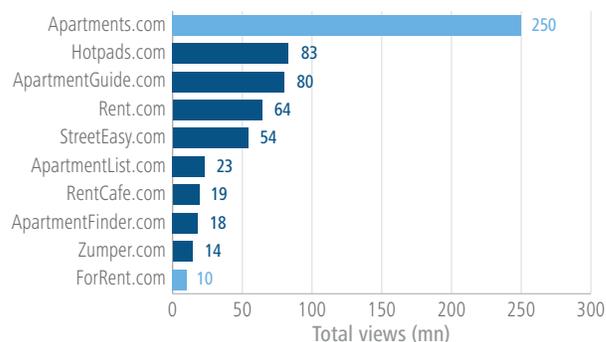
In 2017, more than 5.1 million Americans moved into properties found on Apartments.com. Future growth opportunities for this segment could include the opportunity to provide tenant screening processes, and further increases in site traffic that are documented in the chart below. Generating approximately one-third of the company's revenue, the counter-cyclical nature of the firm's multi-family business adds stability to the company. If an economic downturn were to occur, we have historically seen increased demand for apartments as individuals need to lower their lifestyle expenses.

Trends in total unique visitors (000s)



Source: comScore, Goldman Sachs Global Investment Research

Total views (mn), March 2019



Source: comScore, Goldman Sachs Global Investment Research

3. Increasing site traffic. LoopNet is the #1 commercial real estate service online, with more website traffic, site members and geographic coverage than any other online commercial real estate marketplace⁵. The company recently introduced dynamic pricing based on geography, allowing LoopNet to enhance revenue charged to fill vacancies in higher-demand areas of the market.

⁵ CoStar Group Brand Network Report

Accurate, timely and comprehensive data will continue to drive efficiency gains in the real estate market. Companies will increasingly require access to this data to remain competitive. Considering CoStar's comprehensive CoStar suite database, a strong counter-cyclical multi-family business and site traffic growth through LoopNet, the Mackenzie Growth Team believes the company is well positioned to take advantage of growing data needs in the real estate market.

Just as CoStar looks to maintain profitability by partnering with innovative companies in high-growth industries, our team seeks innovative businesses with secular growth tailwinds to help continue generating attractive returns in the Mackenzie US Mid Cap Growth Class.

Contact your Financial Advisor to learn more about how the Mackenzie Growth Team is investing in secular growth opportunities.

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