Mackenzie Canadian Equity Fund – Series F

Q1-2021 COMMENTARY

Performance Summary

- In Q1 2021, Mackenzie Canadian Equity Fund returned 8.9%, outperforming the S&P/TSX Composite Total Return Index, which returned 8.0%.
- The portfolio outperformed the index due to stock selection and an underweight positions in materials (golds) and IT; stock selection and an overweight position in financials; and stock selection in industrials and utilities, somewhat offset by an underweight position in energy and health care, an overweight in staples and stock selection in communication services.

Contributors to Performance

- The largest contributors to relative performance at the security level include:
  - **IA Financial Corp.** – IA Financial, formerly known as Industrial Alliance, is one of Canada's largest insurance and wealth management companies, providing both individual and group insurance products and wealth management solutions to Canadians. IA shares benefited from continued multiple expansion and rising earnings estimates as drivers of earnings growth continued to improve. IA management has consistently grown earnings and book value through a mix of organic growth and accretive acquisitions. The company has a conservative capital structure and is poised to continue to grow earnings and cash flow.
  - **ECN Capital Corp.** – ECN provides credit portfolio solutions to its bank, insurance and other financial institution partners. ECN is focused on home improvement loans, manufactured home financing and credit card management programs. ECN's Service Finance division has benefited from strong originations in residential improvement funding as homeowners have taken advantage of low borrowing costs and reduced spending in other areas. Similarly, ECN's Triad division, which focuses on manufactured homes, has benefited from existing clients refinancing at attractive rates and increased new home activity.
  - **CCL Industries Inc.** – CCL is a global materials science company operating in a number of related businesses, including consumer and industrial packaging, consumer labeling and digital printing solutions, and RFID inventory management solutions. CCL had been on our watch list and was added to the portfolio in 2020 near the market bottom. The company has a strong track record of consistent top and bottom line growth, generated both organically and through acquisition. The acquisition strategy has been on hold during the COVID disruption, which has led to a very strong balance sheet as cash has built up. CCL is therefore well positioned for further acquisitions once borders open to enable prudent due diligence on targets.

Detractors from Performance

- The largest detractors from relative performance at the security level include:
  - **Alimentation Couche-Tard Inc.** – Couche-Tard is a global operator of convenience stores and gas bars. The management team surprised investors with the announcement that they intended to acquire French grocer Carrefour. The company has generated strong earnings growth from its history of disciplined and thoughtful acquisitions, but investors deemed this move to be a step too far. Having seen how shareholders reacted, the company decided to shelve its plans. As North American and European economies continue to open, and consumers increase driving mileage partly from stay-near-home vacations, the company is poised to continue to grow.
  - **Agnico Eagle Mines Ltd.** – Gold stocks were among the worst performers during the quarter. Gold stocks tend to underperform during periods of increasing economic confidence, strong stock markets, strengthening U.S. currency and rising interest rates (with little inflation), all of which characterized the first quarter of the year. We hold a portfolio

weight in gold stocks that is less than half the benchmark as we were selling down our gold weight throughout 2020, reallocating the proceeds into names with much greater returns to fair value.

  - **Shaw Communications Inc.** – Rogers Communications launched a takeover bid for Shaw Communications at a significant premium. Shaw is not owned in the portfolio. Shaw had achieved some success growing its Freedom wireless business but had struggled with a stagnant core wireline business (internet and TV). The proposed tie-up of Rogers/Shaw will be under heavy scrutiny by the Canadian regulator, which has pushed for greater, not less, competition in the telco space. The current consensus view is that the deal will be consummated, but that Rogers will likely have to divest the wireless business in order to continue to facilitate healthy competition in favour of Canadian consumers and businesses.

Portfolio Activity

- We initiated positions in **Transcontinental Inc.** – TCL operates two businesses - packaging solutions and commercial printing. The stock is attractively valued given the growth opportunities in packaging, which we expect will become a greater proportion of the company's cash flow and which should lead to a higher earnings multiple for the stock.

Outlook

- Markets have generally put up returns in the first 90 days of the year that would satisfy most investors for the full year. So, where do we go from here? With forward earnings multiples at their highest point in a generation and interest rates more likely heading higher than lower, it is difficult to argue for continued multiple expansion. Excluding the dotcom era of peak exuberance, we are trading at market multiples not seen in lifetimes. Certainly, investor sentiment is optimistic in the extreme with polls we have seen suggesting peak levels of bullishness. There seems to be a degree of complacency as well, or rather a belief that pandemic-related worries should be put to bed, as evidenced by the VIX volatility* gauge hitting levels considered normal pre-COVID. What about the other market driver, earnings growth? Current expectations are for S&P500 earnings to grow. This compares to median growth of about 7% over the past couple of decades, a period during which aggressive stock buybacks provided a strong tailwind to earnings per share. Outside of certain industries, like travel, most companies are not emerging from this recession over-levered. Cost management and deferred capital expenditures have led to generally strong balance sheets, so renewed buyback activity could provide support to share prices. Whether this proves to be a prudent use of cash with earnings yields near all-time lows remains to be seen.
- In general, we are finding fewer and fewer interesting opportunities. Those sectors that had struggled for much of last year - energy and financials in particular - have seen renewed investor interest and are no longer as compelling. Many of the names in the portfolio are trading above our estimate of fair value, with several priced closer to our best-case scenario. We remain fully invested though and are positioned to take advantage of opportunities as they are presented.

PORTFOLIO MANAGEMENT TEAM:

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*VIX volatility refers to the volatility of the Chicago Board Options Exchange's CBOE Volatility Index, ticker VIX.

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The rate of return is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual fund or returns on investment in the mutual fund.

Fund and Benchmark Performance as at: March 31, 2021	1 year	3 years	5 years	10 years
Mackenzie Canadian Equity Fund – Series F	44.8%	10.2%	10.2%	6.3%
S&P/TSX Composite Total Return Index	44.2%	10.2%	10.1%	3.0%