Mackenzie Ivy Canadian Balanced Fund – Series F
Q3-2020 COMMENTARY

Performance Summary

- In Q3 2020, the Fund returned 4.4%, while the blended benchmark returned 3.7% (comprising 75% S&P/TSX Composite Index + 25% FTSE TMX Canada Universe Bond Index)

Contributors to Performance

- At a sector level, the Fund's stock selection in Health Care and Communication Services contributed positively to relative performance. An underweight exposure to Energy and an overweight exposure to Consumer Staples also contributed to relative performance
- At the geographic level, overweight exposure to the United States as well as stock selection in Canada contributed to relative performance.
- At a security level, the largest contributors to performance were **Dollarama Inc., CCL Industries Inc.,** and **Canadian National Railway Company.**
- **Dollarama** is one of our largest holdings in Ivy Canadian. The significant disruption in the retail real estate market is presenting opportunities for strong retailers like Dollarama to continue to grow their store counts with the addition of convenient locations at attractive rents. We expect revenue growth to be supported by a steady pace of new store additions for the remainder of the year. Throughout the pandemic, Dollarama's resilience has been on display, with y/y revenue growth in both quarters despite the backdrop of significant declines in retail consumption. The majority of its stores have remained open throughout the pandemic as a result of its designation as an essential business and Q2 actually saw a boost from the pandemic, with material growth in summer seasonal and household cleaning products. Although we expect momentum to wane a bit in the near-term as a result of weaker Halloween sales, we expect that Dollarama's strong value proposition of value products and convenience will continue to resonate with customers, particularly in times of uncertainty.
- Within the fixed income portion of the portfolio, the selection of corporate bonds contributed to relative performance.

Detractors from Performance

- At a sector level, underweight exposure to Industrials and Materials, as well as stock selection in Utilities and Financials detracted from relative performance.
- At the geographic level, overweight exposure to Japan and Switzerland detracted from relative performance.
- At a security level, the largest detractors from performance were **Pembina Pipeline Corporation, Seven & I Holdings Co. Ltd.,** and **Onex Corporation.**
- **Seven & I Holdings'** Q2 F2021 results, reported in mid-July, were better than expected, however management offered a conservative outlook. The bigger news was the announcement that Seven & I has agreed to acquire Speedway, a leading fuel and c-store retailer in the US, for $21 billion USD. This will be the largest acquisition in Seven & I's history, and while the valuation being paid for Speedway is somewhat rich, we believe the strategic rationale is very sound, and the long-term financial benefits are compelling. Seven & I's US management is also strong and has experience integrating several acquisitions over the last few years. While the market's initial reaction to the deal was negative given the size, we believe sentiment should improve as Seven & I delivers on the Speedway integration plan and the market gains greater appreciation for Seven & I's improving growth and business profile.

Portfolio Activity

- The Fund's allocation to equity and fixed income decreased while allocation to cash increased.
- The Fund's exposure to Industrials and Materials increased, while exposure to Energy and Health Care decreased.
- Allocation to corporate bonds increased while allocation to government bonds decreased.

Outlook

MACKENZIE Investments

Mackenzie Ivy Team's Outlook:

- The next few months have the potential to be quite volatile and we wouldn't be surprised if the market was up or down significantly. More stimulus or approval of vaccines could easily drive the markets much higher, the election will likely add volatility in both directions, while rising COVID-19 cases or a lack of stimulus could send the markets much lower. And of course, there is always something out there that we cannot predict.
- The point is that in the best of times the future is impossible to predict with confidence, but these are highly uncertain times. We believe the best strategy to address uncertainty is investing in high quality businesses with long-growth runways that that can adapt to changing market conditions.
- We have no idea what will happen to near-term valuation multiples, but we have confidence that the businesses that we are invested in will be able to navigate a broad spectrum of scenarios while continuing to advance their businesses. While we are focused on long-term returns, we expect our fund to hold up well in the event of a material near-term pull-back.

Mackenzie Fixed Income Team's Outlook:

- While Q2 2020 will be remembered as a truly challenging and transitional time for our economy and society, from a markets perspective Q3 2020 is likely to be remembered for the quick snap-back in the economy as some workers and many students transitioned back to work and school for the fall as the various reopening's took shape.
- The "V-shaped" part of the "Nike Swoosh" seems to be well underway, but it is almost certain that both here in Canada, as well as in the US, when the economy get to the "leveling out" part of the swoosh it is going to be notably short of where it was in February 2020, both in terms of nominal output as well as the number of employed persons. This will leave a structural output gap in the economy that will take time to heal, measured in years.
- In the meantime, key metrics like the ISM data in the US as well as Non-farm payrolls continued to indicate a strong bounce back throughout the third quarter, as did key emerging market data like China's ISM. Global growth is bouncing back more quickly than many thought: in September the OECD said it now expected global growth to contract by 4.5% in 2020, a stark difference from its June prediction of a 6.0% contraction. These are large swings and underscores the challenging and unprecedented environment we are – and will continue to be – in for many quarters, if not years to come.
- Central bank stimulus – and particularly the Fed's stimulus programs – continued to underpin market confidence in the third quarter with risk assets generally rising. 10-year US Treasuries were little net changed and the 2s-10s spread were also little net changed on the quarter but not without some drama around higher yields / wider spreads in August on the back of accelerating fiscal / Phase 4 stimulus talks at the time as well as anticipation of the Fed's long-awaited announcement of the new Average Inflation Targeting framework that was rolled out at it's annual Jackson Hole Symposium to somewhat muted fanfare. The USD continued to generally be sold on rallies as the notion of US exceptionalism continued to dissipate and expectations of Fed "printing" remained very much top-of-mind.
- Towards the end of the quarter emphasis on the key market themes started to shift with less weighting on the Covid situation and more towards the potential outcome of the US election. From here through November 3 – and likely beyond – the market will likely be transfixed with the headlines and be the key driver of sentiment at least to close to the middle of Q4. As we write, Trump has been recently released from the hospital on the back of his positive Covid diagnosis and national polls seem to be ticking higher in favour of Biden who already had a bit of momentum coming out of what was by many accounts a pretty disastrous first presidential debate from both sides. But many of the national polls are likely overstating the real state of play of the election; state polls performed by proven polling firms with a recent history of accuracy would suggest the race is a lot closer although still in favor of Biden. Within the eight or so key battleground states, Pennsylvania, Michigan and Wisconsin continue to be the key for the election – and you can see it by the amount of time each campaign spends in those states. We are also watching Nevada, Arizona, Florida, North Carolina, Minnesota and New Hampshire as key metrics.
- Recent fixed income price action in the days prior to writing has been telling with how election results might impact our markets. We believe a "Blue Wave" that sees Biden with the White House and the Senate flip to Democratic rule would be negative for fixed income markets, particularly at the longer end of the curve 10 years and out – but with a giant caveat: The Fed is still there and isn't going anywhere. A Blue Wave is likely to ease the path to large fiscal spending – both in the form of relief funds as well as infrastructure spending – and more easily assure legislation passage than the current stalemated congress. This likely means more issuance / supply and much more than the Treasury currently has budgeted as well as a weaker USD. A Biden Presidency also – somewhat ironically – probably helps ensure continuity with a Powell-led Fed with more of the same "whatever it takes" easy policy in the pipeline despite Powell being Trump's appointment.
- The key caveat here through is the Fed. We believe the Fed is likely to want to show it intends to keep longer end rates lower or even capped to encourage business investment, particularly with small and medium sized businesses, as well as longer-term durables consumption. We think the Fed will do this, possibly in Q4 at either its November or December meeting, via adjusting the weighted

average maturity (WAM) of its "Covid-QE" purchases from the current approximate 5 year average to something closer to 10 years. This could also be accompanied by an increase in the current $80bn / month program that sees the Fed mop up additional supply although we believe the WAM action is the higher probability event. Accordingly, we do not see yields running away materially higher on a Biden presidency or Blue Wave with the Fed's "hammer" waiting in the wings.

- For us heading into November's election it is just as important to watch the Senate race as it is the Presidency; a Biden Presidency with a Republican Senate will have very different implications for policy than a Biden Presidency and a Democrat-led Senate. As we write the race in the Senate is too close to close to call. We are keeping an eye on a number of Senate races, particularly those in Arizona, Michigan, Maine and North Carolina. Any one of those could end up tipping the balance in either direction.
- And we would be remiss if we did not address the now well-understood issue of mail-in and absentee ballots, something we were discussing as a risk internally back in April and May when the theme was very focused on Covid. To us, there is a high probability of some gamesmanship in the days and weeks post election due to the sheer number of mail-in and absentee ballots that will need to be processed in 2020 versus previous elections. Simply put, it takes time and many states to not have the infrastructure in place to count all those votes expeditiously. As of Monday October 5, 3.8 million ballots had already been cast as part of the 2020 election. The equivalent at this point in 2016? 75,000. Those three key swing states – Pennsylvania, Wisconsin and Michigan – have three, seven and 14 days, respectively to count their ballots. To us there seems to be ample room for issues to arise and risk off trades around the election make some sense still at least directionally, although vols across asset classes are, no surprise, extremely expensive now with this idea well baked into the price.
- All told we continue to believe yields will continue to remain capped even if the long-end does run a bit higher from here and the USD will remain a sell-on-rallies proposition generally as we work through the fourth quarter and into early 2021. With a medium-term outlook in mind, any spike higher in long-end yields or the USD should be faded.

PORTFOLIO MANAGEMENT TEAM:

Mackenzie Ivy Team:

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Index performance does not include the impact of fees, commissions, and expenses that would be payable by investors in the investment products that seek to track an index.

Fund and Benchmark Performance as at: September 30, 2020	**1 year**	**3 years**	**5 years**	**10 years**
Mackenzie Ivy Canadian Balanced Fund - Series F	-3.3%	2.5%	5.3%	6.3%
Blended Index (comprised of 75% S&P/TSX Composite Index + 25% FTSE TMX Canada Universe Bond Index)	2.1%	4.9%	6.6%	5.6%