Mackenzie Ivy Global Balanced Fund – Series F

Q3-2020 COMMENTARY

Performance Summary

- For Q3 2020, the Fund returned 7.9% vs. 4.6% for the blended benchmark (comprised of 75% MSCI World Total Return Index net-$CAD/25% Bank of America Merrill Lynch Global Broad Market Index (Hedged to CAD)).

Contributors to Performance

- From a sector perspective, the Fund outperformed the benchmark MSCI World Index primarily because of strong stock selection in Industrials, Health Care, and Financials. An underweight exposure to Energy also contributed to relative performance.
- At a regional level, stock selection in the United Kingdom, the United States, and Denmark, contributed to relative performance.
- The largest contributors were: **Vestas Wind Systems, UPS**, and **Alibaba**.
- **UPS** was a top contributor to our portfolio returns during the quarter. Prior to Q3/20, the shares of UPS had traded sideways for several years. Many in the market were concerned that e-commerce represented a permanent impairment to UPS' earning power given business-to-consumer deliveries have much less route density than business-to-business (ie. more miles driven for the same number of packages which increases costs without increasing revenue). Although we were unsure of the exact timing, we had confidence that over the medium to long-term UPS would be able to increase its e-commerce profitability given its scale and a consolidated industry structure. The patience inherent in our investment style was rewarded as COVID has resulted in a surge in home deliveries from consumers preferring to stay at home. The surge in volumes has given UPS increased bargaining power with its customers resulting in increased pricing and surcharges. The result being that the market has changed its views around the profitably of e-commerce for UPS and bid up the price of UPS shares.
- The fixed income portion of the portfolio contributed to overall portfolio with corporate bonds being the largest contributor.

Detractors from Performance

- From a sector perspective, an underweight exposure to Information Technology and overweight to Consumer Staples detracted from relative performance, as did the stock selection in Materials.
- At a regional level, stock selection in Japan detracted from relative performance.
- The cash weight in the portfolio hindered relative performance as the benchmark was up during the period.
- The largest detractors included: **Kao**, **Seven & I** and **EOG Resource**.
- **Kao's** share price underperformed in Q3 as it reported weak Q2 F2020 results in mid-August and reduced its F2020 forecast. This is due mostly to weakness in its Cosmetics segment, which is being impacted by lower tourist arrivals in Japan and fewer occasions that require application of make-up due to restricted activity in Japan, and weakness in Kao's professional hair care business that sells mainly to salons. We believe Kao's underperforming segments should recover over time, as the impact of COVID eases; in that regard, we view Kao's valuation as compelling given its attractive business mix and defensive attributes, strong management and capital allocation, and fortress balance sheet.

Portfolio Activity

- The Fund's allocation to equity slightly decreased while allocation to fixed income and cash increased.
- Portfolio activity and market effect resulted in increased exposure to Consumer Discretionary, Financials, and Information Technology, with reduced exposure to Consumer Staples and Materials.
- Allocation to government and corporate bonds also increased while allocation to bank loans decreased.

Outlook

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:

- 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 its 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.
- 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. 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:

- **Paul Musson**, Head of Team, Senior Vice President, Portfolio Manager, Investment Management, Mackenzie Investments
- **Matt Moody**, Vice President, Portfolio Manager, Investment Management, Mackenzie Investments
- **Robert McKee**, Vice President, Portfolio Manager, Investment Management, Mackenzie Investments
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Mackenzie Fixed Income Team:

- **Steve Locke,** Head of Team, Senior Vice President, Investment Management, Mackenzie Investments
- **Konstantin Boehmer**, Vice President, Portfolio Manager, Investment Management, Mackenzie Investments

Multi-Asset Strategies Team:

- **Nelson Arruda**, Co- Head of Team, Vice President, Portfolio Manager, Investment Management, Mackenzie Investments

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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 Global Balanced Fund - Series F	9.8%	7.7%	7.2%	9.1%
*Blended Index (comprised of 75% MSCI World Total Return Index +25% BofAML Global Broad Market Index (hedged to CAD))	9.6%	8.9%	8.9%	10.3%

* The Fund's fixed income benchmark was changed in March 2017 to currency-hedged benchmarks to better reflect how currency exposure is managed.