Mackenzie Precious Metals Class - Series F

Q3-2020 COMMENTARY

Performance Summary

- Mackenzie Precious Metals Class ("the Fund") returned 10.2% during Q3 2020, outperforming the S&P/TSX Global Gold Total Return Index by 4.7% over the period. Year-to-date, the Fund returned 48.8%, outperforming its index benchmark by 8.3%.
- Gold prices rose 3.5% during the quarter (in CAD), supported by a further decline in real yields. Ample monetary liquidity and Central Bank interventions kept government bond rates at historical lows, whereas inflation expectations started to recover due to aggressive fiscal stimulus and a rebound in global demand.

Contributors to Performance

- Core holding **Gold Fields Ltd.** (up 31% during the quarter) continued its outperformance, benefiting from attractive relative valuation and a geographically diversified asset base. Single-asset producers **K92 Mining**, **Pretium Resources** and **Karora Resources** (up 94%, 60% and 98%, respectively) contributed to performance, as relative outperformance in the gold sector gradually moved from large-cap producers to mid-cap producers and developers.

Detractors from Performance

- **Alacer Gold** and **SSR Mining** (+2% and down 1%, respectively), remained in limbo during the quarter, as regulatory approvals for their merger-of-equals were delayed. The merger was ultimately approved in late-September, which clears the path for a clarification of strategy for this attractively valued combination.

Portfolio Activity

- The Portfolio managers acquired shares of several **silver producers** as silver started to benefit from the gold price strength combined with an anticipation of improving industrial demand. While silver offers leverage, there continues to be a lack of high-quality silver companies and the Fund's core positioning in silver therefore continues to be well-managed **Pan American Silver**.
- The managers used the strength in small-cap gold and copper/gold equities to close out some positions, such as in **Gold Standard Ventures** and **Marimaca**.

Outlook

- Monetary and fiscal stimulus tools are being used to offset the loss of income, consumer spending. All of which contributing to exploding government deficits during this economic crisis. The scale, speed, and breadth of this stimulus raises profound questions about the future value of money, as future debt stabilization (let alone debt repayment) would require politically unfeasible austerity and tax hikes.
- Central Banks across the world have signalled a continued desire to provide unbridled liquidity to governments, debt markets, currency markets and banks. Currencies are now clearly oversupplied when compared to hard assets. This is evident from expanding equity multiples, accelerating real estate price rises, and rising precious metals prices, as foretold in a pre-pandemic white paper by the portfolio managers, titled "More money is coming your way".
- After the recent hyper-aggressive monetary intervention, real interest rates (i.e., nominal interest minus inflation expectations) remain *negative,* at -1.0% at the time of writing. While negative real interest rates normally support rising gold prices at an average annualized rate of 16% (since 1968), the portfolio managers caution that in the near term, gold prices might temporary stall out: Yields on long-term government bonds could rise to reflect unbridled deficit spending by governments, while rising nominal yields might not immediately be accompanied by a commensurate rise in inflation expectations. Any rise in real rates is however anticipated to be short-lived, as Central Banks need to continue to stimulate the economy in the face of high unemployment levels. Yield curve intervention (a.k.a. "Quantitative Easing") could be the next central banker tool, which would be beneficial to gold.
- A moderation in the pace of fiscal stimulus programs ahead of US elections seem to have stalled gold prices. However, societal priorities on healthcare, infrastructure and a healthier environment have not been appeased and the pressure on politicians are unlikely to go away. Hence, the path of least resistance may be to boost fiscal programs to prevent a populist backlash. We suspect US fiscal stimulus programs to be at the core of either parties once elections are completed.

MACKENZIE Investments

- Gold is an attractive alternative for investors who have reached their maximum allocation to equities and are reluctant to hold low-yielding bonds that offer limited upside and an inherent risk of devaluation of principal repayments due to monetary devaluation. The portfolio managers continue to recommend a 5% to 10% allocation to gold or gold equities throughout the cycle as a prudent risk control measure against the erosion of purchasing power.
- Precious metals equities are benefitting from record high operating margins, as higher gold prices (especially in non-USD jurisdictions such as Canada and Australia) and low energy prices are more than offsetting the cost pressures from Covid-19 control measures at mining operations. An important test of management discipline into 2021 will be whether operators will maintain mine plans that were conceived at lower gold prices, thus offering margin expansion with higher gold prices; and maintaining strategic discipline, to avoid the gold equity disconnect that occurred during the 2007-2011 gold price rally. Encouragingly, recent record cash flows have been partially returned to shareholders in the form of rising dividends.
- Mackenzie Global Precious Metals Fund remains fully invested with a balanced portfolio of large and mid-sized producers, as well as a mix of junior producers/exploration/development companies. Large-cap international producers such as **Gold Fields** and the proforma **Northern Star-Saracen** combination benefit from asset diversification and strong balance sheets. Well-managed mid-cap producers such as **Pan American Silver** and resource-rich **Pretium**, **K92** and **Lundin Gold** have an attractive combination of operational leverage combined with exploration upside. True value creation in the precious metals industry tends to originate at the drill bit, where the Fund is well represented by a careful and patiently assembled long-term portfolio of small-cap explorers, such as **De Grey Mining**, **Bellevue Gold**, and **Royal Road.**

PORTFOLIO MANAGEMENT TEAM:

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Fund and Benchmark Performance as at: September 30, 2020	1 year	3 years	5 years	10 years
Mackenzie Precious Metals Class Series F	68.8%	27.7%	30.0%	4.4%
S&P/TSX Global Gold Total Return Index	56.2%	24.1%	25.1%	0.1%