Mackenzie Ivy Funds

Quarterly Report
Q2 2021

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Ivy Quarterly Report

Inflation

Most of the talk these days seems to be about inflation and whether or not it's transitory, so we thought we'd weigh in on the subject.

People have not only accepted that they don't benefit from falling prices, but have resigned themselves to the belief that rising prices are a necessary evil required to ensure a healthy economy. This is one of the greatest con jobs of all time.

First, a reminder of the traditional definition of the word inflation as "an increase in the money supply." Increasing the money supply then impacts the prices of goods and services being produced in the economy. All else equal (no supply shocks or changes in consumer psychology, etc.), if the economy is producing things at a rate faster than the money supply is increasing, then prices will fall, as they did in the United States during the last 30 years of the nineteenth century, which, by the way, was one of the country's greatest periods of economic prosperity.

On the other hand, if the money supply is increasing faster than the productive capacity of the economy, then prices will rise. Goods and services increasing in price is what people now typically refer to as inflation.

A third scenario is what's known as a stable price environment where prices neither rise nor fall. However, for this to happen in an economy that is experiencing productivity growth, it means that policymakers are increasing the money supply just enough to ensure that prices don't fall – that is, at a rate that matches the growth in the economy's productive capacity.

While on the surface, stable prices might sound like a good thing, what it really means is that policymakers are extracting purchasing power from peoples' savings and wages. As we have discussed before, in a properly functioning (unhampered capitalist and monetary system), the prices of goods, generally, should fall over time. This happens because companies improve their productivity through investment, while freedom of competition competes away the resulting excess profitability and the beneficiary should always and ultimately be the consumer. By ensuring stable prices, policymakers would be forcing consumers to pay more for goods than they otherwise would. But of course, policymakers don't even want stable prices. By convincing the general public that inflation is required for an economy to grow (nothing could be further from the truth), people have not only accepted that they don't benefit from falling prices, but have resigned themselves to the belief that rising prices are a necessary evil required to ensure a healthy economy. This is one of the greatest con jobs of all time.

Some call inflation a form of taxation; we call it theft.

The biggest beneficiaries from inflation are those who owe money and as you might expect, those who borrow the most are governments, while those who are on the hook for paying that debt back are taxpayers. As taxpayers would rise-up in anger if they were taxed the full amount required to pay back the debt, governments effectively default on that borrowed money by inflating the money supply. For instance, if you lent money to the US government today for 10 years, they would pay you approximately 1.5% interest per year. However, if we assume that over the next 10 years core inflation continues at the same rate as it did over the last 10, or around 2% (other measures show inflation rising much faster than this), then the government would be paying you a negative real interest rate of 0.5%. In effect, you're paying the government every year so they can borrow your money. Assuming you lent the government $10,000 for 10 years, then a decade later you would have $11,605 in nominal terms.

However, because over the last 10 years there has been 2% inflation, the real value of that money is only worth $9,511. So, in essence, you paid the government almost $490 for the pleasure of borrowing your money for 10 years: good gig for the government, but not so much for you.

Theft

Some call inflation a form of taxation; we call it theft. People know how much they pay in taxes, but the vast majority of people have no idea that their wealth and purchasing power is steadily eroded and redistributed to others when policymakers increase the money supply. A low rate of price inflation is an effective way for authorities to extract wealth from its citizens because it is insidious in nature. People don't realise they should be paying lower prices each year and they have come to accept slow price increases as almost a natural law. However, if prices increase too much then the cloak and dagger nature of the wealth confiscation that results from inflating the money supply becomes exposed. Of course, authorities aren't concerned that the public will blame the government, as they've convinced most people that inflation is only a result of supply shocks and/or psychology. Their main concern is likely that inflation expectations start to rise, which in turn will result in employees demanding higher wages. On the other hand, higher inflation expectations encourage people to spend rather than save and invest and as we know, governments want you to spend all of your money. Savers are viewed as misers, who refuse to do their part to help drive the economy forward.

Basis of comparison

The most recent read for US core inflation was 4.5%, which is well above the Federal Reserve's target wealth confiscation of 2%. Policymakers respond that we shouldn't be concerned with this high number, as prices today are being compared with last year's low prices that suffered due to the COVID crisis. Some have even said that prices fell so much this time last year that today's rapid price increases are simply getting us back to pre-COVID prices. This is not true. Even during the depths of the COVID crisis last year, prices never fell, with core inflation bottoming-out at 1.2%. Similarly, an article in a major Canadian newspaper in early July claimed that we shouldn't be concerned about wage rates rising 3.6% in June because the number was "flattered by so-called base effects after a big drop last June." Again, we believe this is very deceiving. And we'll assume it was accidental. Yes, wages fell last May and June, but not nearly as much as they had risen in March and April. The result is that although wages fell month over month (May to June), wages in June 2020 were still a whopping 5.0% higher than they were in June of 2019. Wages in June of 2021 are now 8.7% higher than they were two years ago.

Transitory

Another reason policymakers tell us not to be concerned about rising inflation is that it will be transitory – not permanent. In other words, even if inflation lasted five years, one could argue that it was transitory. We have no idea whether or not the current high rate of inflation will be transitory or not. There are plenty of reasons to believe that it will be and plenty of other reasons to believe that it won't be. Plenty of mainstream economists are lining up on either side of the debate. However, one thing you can be sure of is that no one knows. The other thing you can be sure of is that the central bankers are the last people you should listen to when it comes to predicting whether or not high inflation will be transitory, because they suffer from the huge bias of desperately hoping it won't be. If higher inflation persists, they will then come under enormous pressure to do something about it: taper their quantitative easing or raise interest rates. Either of these actions could crash the stock and housing markets and the Fed will surely take the blame if that happened.

Therefore, the Federal Reserve is trying to get ahead of this and doing everything it can to not raise interest rates if high inflation continues. First, it claims that we need to make up for past periods of lower inflation (not falling prices, but prices that weren't rising as fast as they would have liked). Periods of low inflation are as just less "theft" in our opinion. Second, central bankers around the world are now claiming that the economy needs a higher rate of inflation than in the past to spur economic growth, with some calling for a target of 3% to 4% instead of 2%. However, targeting an inflation rate of 2% has served to slow economic growth, not accelerate it and targeting a higher rate than that, in our opinion, will slow it further still. Third, if the transitory period lasts longer than they expect, they'll likely keep pushing out their estimate for when inflation rates will fall back to "normal" levels but keep assuring us it will happen soon.

Not transitory

The one thing that is certainly not transitory is the wealth that central banks have confiscated from savers/pensioners and effectively given it to asset holders: houses and stocks. The only way for savers to get their hard-earned wealth back would be if we experienced a long and steady period of slow deflation brought about by improving productivity and a stable money supply: good luck with that.

Another thing that is not transitory is the Ivy Team's objective of providing our clients with a narrower dispersion of growth outcomes over time. By investing in high-quality, strong balance sheet companies and by being very disciplined with respect to the price we're willing to pay for those companies, we believe we have a better chance of helping our clients achieve their long-term financial goals. Investing in this manner can be challenging during times of market euphoria, particularly when that euphoria is a result of aggressive monetary and fiscal stimulus, both of which serve to distort price discovery, or crowd-out private investment, resulting in ever-lower productivity growth and secular stagnation. However, policymakers are now more concerned with keeping asset prices higher even if it comes at the expense of Main Street. We don't know when this party will end, but end it will. In the meantime, we will continue to participate in the festivities as carefully as we can, while being careful not to get so inebriated that we start to believe the outlandish "something from nothing" promises of central banks and join the thundering herd just as it tumbles over the cliff.

By investing in high quality, strong balance sheet companies and by being very disciplined with respect to the price we're willing to pay for those companies, we believe we have a better chance of helping our clients achieve their long-term financial goals.

Mackenzie Ivy Canadian and Ivy Canadian Balanced Fund

The Ivy Canadian fund was up 6% in Q2 and 14% YTD (Series F). These are big moves from a historical perspective that largely benefited from the rising tide, as the rapid deployment of vaccines and corresponding re-opening of economies drove all markets higher. Our blended benchmark for Mackenzie Ivy Canadian Fund was up nearly 8% in Q2 and 15% YTD. Given our objective to carefully grow our clients' capital over time, we view this level of up-capture in a rapidly rising market as a positive outcome. To this end, it bares mentioning that our best absolute performance usually coincides with our worst relative performance and vice versa. So in the good times, our strategy is likely to lag but provide strong absolute returns that get our clients closer to their financial goals, and in the bad times we expect to significantly outperform by mitigating the damage sustained to their hard earned savings. Over the long term, we believe the power of compounding should generate attractive risk-adjusted returns. We continue to believe that the fund is well positioned to protect, with a portfolio of conservatively capitalized, high-quality businesses serving as our first line of defense, and a defensive industry tilt serving as our second.

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Investments

The most noteworthy development within our portfolio over the quarter was Canadian National Railway's bid to acquire Kansas City Southern (KCS). This led to CN being the biggest absolute detractor to our performance over the quarter (Shopify, which we don't own for valuation reasons, was up 31%, serving as the largest relative detractor). While this merger has strong strategic merit, the mechanics are very complex in that CN will have to acquire the shares of KSU prior to the conclusion of the regulatory approval process, presenting the risk that CN could be forced to dispose of the shares at a significant discount to the bid price if approval is not granted. Clearly this is not a deal structure that we are fond of, nor are we willing to make a call on whether regulatory approval will be granted. However, we remain holders of CN for the following three reasons. First, it's a world class operator with attractive long-term prospects. Second, if they can successfully acquire KCS, it should strengthen their competitive advantage and drive attractive growth through an expanded addressable market. And finally, we believe that the market cap of CN has suffered a greater loss in value since their bid than our estimate of the financial hit they would incur in the event of a forced disposition. While our estimate of the downside could be wrong, we believe the current price provides an asymmetric risk/return profile in a very high-quality business.

Mackenzie Ivy Canadian Balanced Fund's blended benchmark returned 6.8% and the fund returned 4.9% (Series F). The fixed income portion of the fund underperformed the FTSE Canada Universe Bond Index return of 1.7% primarily due to the fund's shorter duration profile. Noteworthy was the global decline in yields as exemplified by the 10-year US Treasury, which fell to 1.47% by quarter end with the predominant theme of a flatter curve taking hold. And this in the face of strong economic growth gives us the sense that the rally was more technical than fundamental. Canadian 10-year yields were not lost to this global trend, falling from 1.56% to 1.39%. We expect the unwind of the BoC's quantitative easing (QE) program to be faster than the Fed, but we believe the current market pricing of rate hikes looks aggressive and expect the Bank to push back on that notion in the near term. While the economic recovery in Canada is progressing well, it is still fragile, as many are displaced in the labour market and there are many other uncertainties. With this in mind, we believe it is likely that the BoC will allow inflation to run "hot" – or at least closer to the top of its 1-3% band. We expect to maintain our short duration posture.

Mackenzie Ivy Foreign Equity Fund, Mackenzie Ivy Global Balanced Fund and Mackenzie Ivy Global Equity ETF

Stock markets started the quarter by extending the blistering rally we have seen off the COVID-19 panic lows of March 2020. Strong returns in April were supported by reports of better-than-expected corporate earnings reports related to Q1. Following the reporting of first quarter results, the market narrative became dominated by inflation and the degree to which it is transitory. Readings of inflation have come in even "hotter" than expected and central banks have tilted their postures ever slightly more hawkish. In response to the inflation reports and central bank posturing, the stock market continued to grind higher (albeit at a slower pace than April), presumably comforted by the bond market's muted reaction in response to the inflation readings.

For the full quarter, the MSCI World returned 7.6% in USD terms, or 6.3% in CAD due to a strengthening Canadian dollar. Against this backdrop, the Ivy Foreign Equity fund returned 4.6% in USD terms and 3.6% in CAD. The fund returned less than the benchmark due to a combination of our defensive positioning, and the market being led higher by companies with high growth expectations and accompanying high valuations which we did not fully participate in due to our valuation discipline. There were also a handful of one-off events negatively affecting individual holdings.

Mackenzie Ivy Global Balanced Fund's blended benchmark returned 5.0%, while the fund returned 3.5% (Series F). The fixed income portion of the fund performed in line with the BofA Global Broad Market Index (CAD) which returned 1.5%. Noteworthy was the global decline in yields as exemplified by the 10-year US Treasury, which fell to 1.47% by quarter end with the predominant theme of a flatter curve taking hold. Current low yields seem detached from economic fundamentals, such as strong GDP growth, wage gains and higher inflation rates. Canadian 10-year yields were not lost to this global trend, falling from 1.56% to 1.39%. The fixed income portion of the fund benefited from exposure to risk assets such as emerging market debt including a significant exposure to China and higher yielding bonds and leveraged loans. Detracting from performance was the fixed income sleeve's short duration posture.

Top contributors to our performance during the quarter were UPS, Seven & i, and Danaher.

UPS released strong first quarter results at the end of April. While the results were strong across the board, the US domestic margin showed particular strength in what is typically a seasonally weak quarter. The strength in the US domestic segment adds credibility to CEO Carol Tome's stated strategy of "better, not bigger." While the stock market was enthused by UPS results, we have some caution as the small parcel delivery market is currently very robust, and such a strong environment is unlikely to persist over our entire 10-year forecast period.

Seven & i Holdings was a key contributor once again, as its stock continued the strong run it has had since late December last year. Second quarter stock performance was driven by several factors, including the long-awaited closure of the Speedway acquisition, continued normalization of business performance, and also news that an activist US investor has taken a meaningful position in the company. Despite the strong run of late, we believe the stock continues to offer reasonably good value over the medium-term.

Danaher's share price increased significantly in June due to the announced US$9.6 billion acquisition of Aldevron, a producer of consumables used in the research and production of biologics and advanced therapies. This fits well with Danaher's existing life sciences businesses which focus on the tools and equipment used in bioprocessing. Typically, an acquisition of this size and at a high multiple would cause the share price of the acquirer to decline, but given Danaher's M&A integration track record, the strategic fit and very high growth prospects for Aldevron, this should create meaningful value for Danaher over time.

Top detractors from our performance during the quarter were Philips, CN Rail, and Kao.

Philips was the fund's largest detractor during the quarter. The company issued a voluntary recall for many of its sleep apnea machines in April and doubled the expected cost of the recall in June. Uncertainty about the cost, associated market share losses and potential litigation weighed on Philips shares in the quarter. While this is certainly not a welcome development, and we have adjusted our views accordingly, we remain focused on the long-term prospects for the company rather than near-term earnings uncertainties. At less than 10% of total sales, the sleep business is material but not central to Philips, which has a broad portfolio of healthcare technologies, from CT scanners to electric toothbrushes.

CN Rail's share price declined in the quarter due to its announced acquisition of Kansas City Southern Railway in April, which topped CP Rail's March bid. The strategic and financial merits are clear – a much larger network with faster and more reliable end-to-end service for customers throughout Canada, the US and Mexico. However, CN has committed to take on significant debt and the approval process is complicated, lengthy and may attract political attention. The risk lies in the approval timeline with the Surface Transportation Board – CN Rail would close on the acquisition and pay KCS shareholders before the acquisition is approved by the Surface Transportation Board. If the deal is not approved, CN would be forced to sell KCS at an unknown price. Despite that, we are comfortable holding this high-quality company as the decline in the share price has been greater than our estimate of the risk.

Kao was a detractor once again this quarter, as the stock weakened on the back of soft first quarter results, which were reported in May. Some segments, such as domestic cosmetics and overseas professional hair care, continued to see negative impacts due to COVID-related restrictions, while other segments were up against a strong prior year comparable (due to stocking of household and personal cleaning products in Q1 last year). The stock has underperformed materially over the past several months; however, we believe the affected segments will normalize over time and therefore the current share price offers an attractive valuation opportunity.

Our trading activity during the quarter was relatively muted. Of note, we re-initiated a position in Knorr-Bremse, a world leader in braking systems and other technologies for trains and commercial vehicles. Knorr-Bremse operates in concentrated markets with high barriers to entry, and benefits from many years of profitable aftermarket revenues after its products have been installed. The company invests a great deal in research and development to defend its global leadership, operates with little debt, and has a track record of strong execution.

Looking forward, we believe our portfolio is conservatively positioned and it is prudent to maintain such positioning. In Ivy Foreign, we also currently hold 10% of the fund in cash and 4% in gold. Our conservative positioning is not a result of predicting a market correction around the corner; we have no idea when the next market correction will occur. We do know that valuations in terms of market-wide earnings multiples are near record highs, second only to the tech boom of late 1990s and early 2000s.

High valuations in and of themselves do not foretell an inevitable market collapse. But high valuations do reflect high expectations and make the market vulnerable to disappointments on either growth levels or monetary policy. We know that growth has been boosted by governments that have dramatically expanded balance sheets to fund deficits and sustain demand during Coronavirus (ie. borrowed from the future). We do not know if: a) GDP growth will become self-sustaining, or b) GDP growth will wane along with government spending into 2022. We know that interest rates are low relative to history. We do not know if: a) interest rates are appropriate because inflation is transitory, or b) inflation could prove more than transitory and force central banks to accelerate interest rate "lift-off". In addition, we acknowledge neither dynamic is a binary choice and there is a spectrum of probabilities and outcomes associated with each.".

Another thing we know is that interest rates are low relative to history. But we do not know if interest rates are appropriate because inflation is transitory, or if inflation could prove more than transitory and force central banks to accelerate interest rate increases. In addition, we acknowledge neither dynamic is a binary choice and there is a spectrum of probabilities and outcomes associated with each.

In short, our defensive positioning reflects high valuations and the inherent uncertainty associated with future GDP growth and inflation levels. Rather than trying to predict the future path of GDP growth and inflation, we instead remain focused on identifying great businesses with strong competitive advantages that support long-term growth, and investing in such businesses when valuation opportunities present themselves. We believe this strategy will provide our unitholders with good relative and absolute returns over the long term, while also being accompanied with a smoother return profile.

Rather than trying to predict the future path of GDP growth and inflation, we instead remain focused on identifying great businesses.

Mackenzie Ivy International Fund

The MSCI EAFE Index returned 3.8% for the quarter in CAD, led by the consumer staples, healthcare, IT, and consumer discretionary sectors. Within the broader index, there were significant differences in regional returns, with Europe performing a fair bit stronger than Asia during the quarter.

Mackenzie Ivy International Fund modestly outperformed the index, with a return of 4.7% (Series F) for the quarter. Outperformance was driven by stock selection and an overall underweight position in the financials sector, and stock specific contributions across various other sectors. This more than offset a drag from cash (8% average weight during the quarter).

For the first half of 2021, the fund has returned 8.2%, compared to the benchmark return of 6%; on a one-year basis, the fund has returned 26% compared to 21% for the benchmark. Recent performance is encouraging, and somewhat surprising, given we have now fully lapped the COVID market decline from the first quarter of 2020 and markets have been relatively buoyant for the past year. However, we acknowledge that this is also a very small sample set; we prefer to evaluate performance on a much longer-term basis and across cycles.

Top contributors to fund performance this quarter were Seven & i Holdings, Sonova and Burford.

Seven & i Holdings was a key contributor once again, as its stock continued the strong run it has had since late December last year. Second quarter stock performance was driven by several factors, including the long-awaited closure of the Speedway acquisition, continued normalization of business performance, and also news that an activist US investor has taken a meaningful position in the company. Despite the strong run of late, we believe the stock continues to offer reasonably good value over the medium term.

Sonova's share price increased materially during the quarter after the company reported its results. As a reminder, Sonova designs, manufactures and retails hearing devices. While the reported results were strong, what moved the share price was a positive outlook which included higher margins, along with the potential for improved topline growth. Arnd Kaldowski, a former Danaher executive, took over as Sonova's CEO in 2018. Over the last three years he has quietly been improving Sonova's competitiveness and efficiency while maintaining Sonova's innovative capacity and patient focus. Although some of the benefits were trickling through pre-pandemic, COVID-19 masked a large step change in improvement that the Sonova team accomplished over the last year. The improving margin and return on invested capital (ROIC) profile also stand in contrast to many years of declining ROIC for most hearing aid companies. Management's efforts, applied to an inherently strong company in an attractive industry, resulted in an inflection in returns and an approximate 40% share price gain during the quarter.

Top detractors during the quarter were Philips, Kao and Knorr-Bremse.

Philips issued a voluntary recall for many of its sleep apnea machines in April and doubled the expected cost of the recall in June. Uncertainty about the cost, associated market share losses, and potential litigation weighed on Philips' shares in the quarter. While this is certainly not a welcome development, we remain focused on the long-term prospects for the company rather than near-term earnings uncertainties. At less than 10% of total sales, the sleep business is material but not central to Philips, which has a broad portfolio of healthcare technologies, from CT scanners to electric toothbrushes.

Kao's share price weakened on the back of soft Q1 2021 results, which were reported in May. Some segments, such as domestic cosmetics and overseas professional hair care, are continuing to see negative impacts due to COVID-related restrictions, while other segments were up against a strong prior year comparable (due to stocking of household and personal cleaning products in Q1 last year). The stock has underperformed materially over the past several months, however we believe the impacted segments will normalize over time and therefor the current share price offers an attractive valuation opportunity.

During the quarter, we sold our position in recruitment firm PageGroup for valuation reasons following strong share price gains. We added three new positions to the fund that we will discuss in a future commentary.

The stock market narrative for the past year has been very much focused on the economic recovery from a COVID-induced global recession. The market gained confidence in the recovery more strongly in November, due to confirmation of vaccine efficacy and approvals, as well as the US election. This confidence has remained in place through most of 2021, with many market participants calling for a strong recovery in corporate earnings and increasingly trying to find ways to benefit from an economic rebound. Indeed, pockets of economic recovery, along with supply constraints, have raised the spectre of inflation and led to an intense debate around the magnitude of inflationary pressure, and the ultimate timing and pace of future interest rate increases. The US 10-year Treasury rose from low of 0.51% in August 2020 to a high of 1.75% in March 2021, reflecting expectations for stronger economic growth and inflation. However, since then, the US 10-year Treasury yield has stalled and retraced quite meaningfully, as inflation expectations have eased.

MACKENZIE
Investments

Many market participants spend significant time and effort trying to ascertain the shape and length of the recovery, precise current positioning of the "cycle" and figuring out "what works" based on where we are in the cycle and where to go next. We admit that we are not very good at this. Broadly speaking, we also believed that the world would eventually move past COVID and this would lead to a broader economic recovery and normalization in some of the hardest hit sectors, notwithstanding accelerated evolution of business models due to technology. However, we let valuation and our assessment of companies' long-term prospects guide us in terms of where to go and how to be positioned. We do not know for sure if or when the Fed will raise rates or begin tapering. We also do not know whether recent high inflation readings will be transitory or more structural – there are arguments for both. Instead, we try to invest in companies that would be able to navigate either scenario reasonably well. What we do know is that current equity valuations reflect an optimistic view of medium-term economic and corporate earnings growth, leaving very little margin for error. This is not the type of environment that excites us, as it becomes much more difficult to find high-quality businesses that are trading at a valuation that we believe can deliver attractive long-term returns. Therefore, we continue to remain defensively positioned.

What we do know is that current equity valuations reflect an optimistic view of medium-term economic and corporate earnings growth, leaving very little margin for error.

Mackenzie Ivy European Fund

European markets continued their upward trend with a strong second quarter, with the MSCI Europe Index rising 6.5% in euro terms and 6.0% in CAD terms, surpassing its pre-COVID highs. Mackenzie Ivy European was slightly behind, with a return of 5.4% (Series F).

Normally in strong markets the fund will struggle to keep pace, but the past quarter's rally was driven by areas like consumer staples, health care and technology, where the fund is well represented. In contrast, the weakest returns came from energy, financials and utilities, where the fund has very little exposure. Ivy European's 12% cash position was a drag, so the equities overall were a little ahead of the market despite a few negative stock-specific events during the quarter, discussed below.

The largest contributor to performance was Sonova, as its share price increased materially during the quarter after the company reported its results. As a reminder, Sonova designs, manufactures and retails hearing devices. While the reported results were strong, what moved the share price was a positive outlook, which included higher margins, along with the potential for improved topline growth. Arnd Kaldowski, a former Danaher executive, took over as Sonova's CEO in 2018. Over the last three years he has quietly been improving the company's competitiveness and efficiency while maintaining its innovative capacity and patient focus. Although some of the benefits were trickling through pre-pandemic, COVID-19 masked a large step change in improvement that the Sonova team accomplished over the last year. The improving margin and return on invested capital (ROIC) profile also stand in contrast to many years of declining ROIC for the hearing aid companies. Management's efforts, applied to an inherently strong company in an attractive industry, resulted in an inflection in returns and an approximate 40% share price gain during the quarter.

Performance was held back by declines in two positions on the heels of significant news. The first was health care technology company Philips, which issued a voluntary recall for many of its sleep apnea machines in April and doubled the expected cost of the recall in June. Uncertainty about the cost, associated market share losses and potential litigation weighed on Philips shares in the quarter. While this is certainly not a welcome development, we remain focused on the long-term prospects for the company rather than near-term earnings uncertainties. At less than 10% of total sales, the sleep business is material but not central to Philips, which has a broad portfolio of healthcare technologies, from CT scanners to electric toothbrushes.

Knorr-Bremse was also weak in the quarter, after the company disclosed it was in preliminary talks to acquire a controlling stake in a large auto parts supplier. This announcement rattled investors, as the strategic rationale was unclear (Knorr-Bremse makes braking systems and other products for trains and commercial trucks, but nothing related to automobiles), while the large size of the potential acquisition would put strain on Knorr-Bremse's strong balance sheet and would likely require the issuance of equity. Just eight days later, but after the end of the quarter, the company announced it was no longer pursuing this acquisition. The fact that Knorr-Bremse had seriously entertained such a transaction, however briefly, is important information to incorporate into our views of the company, as part of our assessment of any investment is our expectations regarding how well management will allocate capital in the future. This acquisition would have been contrary to our expectations, and we will adapt our views accordingly.

During the quarter, we sold our position in recruitment firm PageGroup for valuation reasons following strong share price gains. We added two new positions to the fund that we will discuss in a future commentary.

Valuations for quality businesses in Europe look increasingly stretched, in particular for more economically sensitive companies. Reflecting this, the fund remains defensively positioned, including an unchanged cash position of approximately 12%.

MACKENZIE
Investments

As of June 30, 2021 (Annual compounded rate of return)	1 year	3 year	5 year	10 year	Since inception	Inception date
Mackenzie Ivy Canadian Fund	23.8	6.2	6.1	7.8	6.2	Dec-99
60% S&P/TSX Composite TR Index, 30% S&P 500 TR Index, 10% MSCI EAFE TR Index (net-CAD)	31.0	12.1	12.5	10.7	6.8	
Mackenzie Ivy Canadian Balanced Fund	18.8	6.0	5.9	7.1	6.1	Dec-99
75% S&P/TSX Composite TR Index & 25% FTSE TMX Canada Universe Bond Index	23.9	9.4	8.9	6.7	7.0	
Mackenzie Ivy European Class	27.6	9.5	6.9	8.0	7.4	May-03
MSCI Europe TR Index (net-CAD)	22.8	6.5	9.3	8.2	6.9	
Mackenzie Ivy Foreign Equity Fund	17.3	9.7	7.4	10.0	6.9	Dec-99
MSCI World TR Index (net-CAD)	26.4	12.7	13.7	13.4	5.0	
Mackenzie Ivy Global Balanced Fund	16.6	8.9	7.6	9.4	5.3	Dec-99
75% MSCI World TR Index (net-CAD) & 25% BofAML Global Broad Market Index (Hedged to CAD)	19.8	10.7	11.1	11.2	5.2	
Mackenzie Ivy International Fund*	24.4	9.9	8.4	7.5	8.1	Dec-99
MSCI EAFE TR Index (net-CAD)	20.3	6.1	9.2	8.6	8.9	
Mackenzie Ivy Global Equity ETF	20.9	10.9	-	-	10.0	Nov-17
MSCI World TR Index (net-CAD)	26.4	12.7	-	-	12.5	

All mutual fund returns refer to Series F.
*Mackenzie Ivy Team assumed management of the Fund on June 21, 2016.

Mackenzie Ivy Canadian Balanced Fund
On May 1, 2013, there was a change of strategies such that the investment style of the fixed-income portion of the Fund changed from a passive and conservative approach to a value investment style.

On August 14, 2014, there was a change of investment objective to permit flexibility in order to optimize the Fund's risk/return profile in all market conditions.

Mackenzie Ivy Canadian Fund
On April 9, 2010, there was a change to the investment strategies so that the Fund may invest in derivatives for hedging and non-hedging purposes.

Mackenzie Ivy Global Balanced Fund
On May 15, 2001, the Fund changed its mandate from pursuing long-term capital growth consistent with preservation of capital by investing primarily in large-cap stocks, securities carrying above-average investment ratings, government guaranteed securities, cash equivalents or gold-driven instruments, to pursuing long-term capital growth by balancing current income and capital appreciation. It now invests primarily in stocks of companies that operate globally and in bonds of governments and corporations around the world. The portfolio managers have the flexibility to hold any proportion of stocks and fixed income securities they feel is appropriate, however the portfolio is generally balanced. The Fund's former strategies also sought to concentrate investment in six particular market regions. The past performance before this date was achieved under the previous objectives and strategies.

On May 1, 2013, there was a change of strategies such that the investment style of the fixed-income portion of the Fund changed from a passive and conservative approach to a value investment style.

On August 14, 2014, there was a change of the investment objective to permit flexibility in order to optimize the Fund's risk/ return profile in all market conditions.

Mackenzie Ivy Team

Portfolio managers

Paul Musson, MBA, CFA

Senior Vice President,
Portfolio Manager,
Head of Team
Investment experience since 1992

Led by Paul Musson, the Mackenzie Ivy Team adheres to a long-term growth philosophy. Their expertise in equities and investment management expands globally across Canada, the U.S., Asia and Europe.

Matt Moody, MBA, CFA

Vice President,
Portfolio Manager
Investment experience since 1999

Hussein Sunderji, MBA, CFA

Vice President,
Portfolio Manager
Investment experience since 2007

Graham Meagher, CFA

Vice President,
Portfolio Manager
Investment experience since 1999

James Morrison, MBA, CFA

Vice President,
Portfolio Manager
Investment experience since 2005

Adam Gofton, CFA

Vice President,
Portfolio Manager
Investment experience since 2007

Jason Miller, MBA, CFA

Associate Portfolio
Manager
Investment experience since 2008

Investment analysts

Colin Cameron

Investment Analyst

Investment experience since 2020

Yining Zhang

Investment Analyst

Investment experience since 2016

Investment director

Dagmar Pagel, MBA

Associate Vice President
Investment Director, Equities
Investment experience since 1996

Advisors

+

Investors

+

MACKENZIE
Investments

That's **better** together

General Inquiries

For all of your general inquiries and account information please call:

English: 1-800-387-0614
Bilingual: 1-800-387-0615
Montreal: 1-800-363-4357
Fax: 1-866-766-6623
E-mail: service@mackenzieinvestments.com
Web: mackenzieinvestments.com

Find fund and account information online, visit mackenzieinvestments.com

Commissions, trailing commissions, management fees, and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns as of June 30, 2021 including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution, or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

The MSCI World Index is a free float adjusted, market capitalization weighted index that is designed to measure the equity market performance of developed markets. It consists of 24 developed market country indices.

The MSCI Europe is a free float adjusted, market capitalization weighted that is designed to measure the equity market performance of the developed markets in Europe. It consists of 16 developed market country indices.

The MSCI EAFE (Europe, Australasia, Far East) Index is a free float adjusted, market capitalization index that is designed to measure the equity market performance of developed markets, excluding the United States and Canada. It consists of 22 developed market country indices.

The S&P/TSX Composite Index is a capitalization-weighted index designed to measure market activity of stocks listed on the Toronto Stock Exchange (TSX).

The S&P 500 Index is a market capitalization weighted index of 500 widely held securities, designed to measure broad U.S. equity performance.

FTSE Canada Universe Bond Index measures the performance of the Canadian Dollar denominated investment-grade fixed income market, covering Canadian government, quasi-government and corporate bonds. The index is designed to track the performance of marketable government and corporate bonds outstanding in the Canadian market.

BofAML Global Broad Market Index measures the performance of the global bond market.

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