September 30, 2020

Series F

Mackenzie Canadian Growth Balanced Fund

Fund Snapshot

Inception date	12-06-1999
AUM (millions in CAD)	$3,957.4
Management Fee	0.70%
MER	0.95%
Benchmark	65% TSX + 35% FTSE Univ
CIFSC Category	Canadian Equity Balanced
Risk Rating	Low to Medium
Lead Portfolio Manager	Dina DeGeer, David Arpin, Steve Locke
Investment Exp. Since	1985, 1995, 1995

Strategy Overview

Equity:

The Mackenzie Bluewater Team employs a rigorous, fundamental bottom-up approach to selecting high-quality businesses with no restrictions on sector, size or geographic region.

Fixed Income:

The Mackenzie Fixed Income Team employs a flexible approach to investing and selects from a broad array of fixed income investments. The Team combines macroeconomic, quantitative and fundamental credit research to find the best value for risk across the fixed income universe

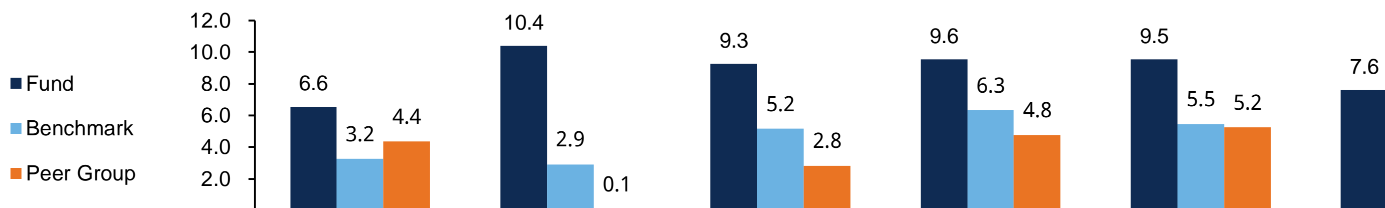
Asset Allocation:

The Mackenzie Multi-Asset Strategies Team determines the asset allocation based on economic conditions and the assessment of relative valuations.

Highlights

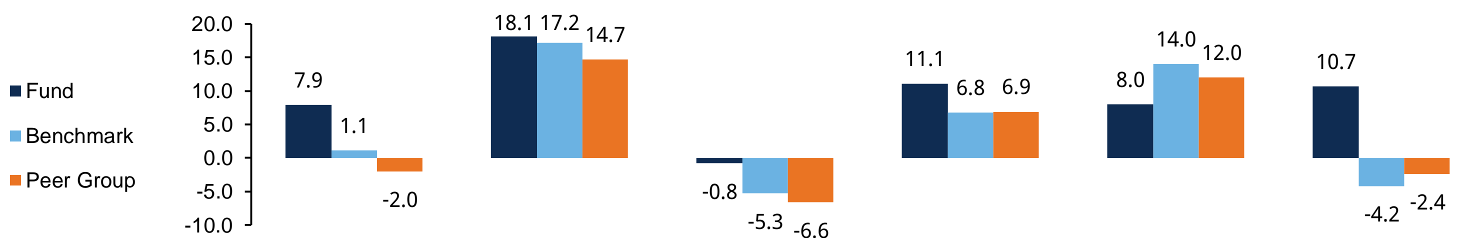
- As always, the Equities team continues to own 30-35 companies that are leaders in their respective niches. They believe each investment will continue to outgrow their peers while showing superior profitability, generating strong free cash flow, and maintaining the balance sheet flexibility necessary to weather difficult economic environments. They have invested through many different cycles and environments in the past and continue to believe that companies with these characteristics, bought at sensible prices, will outperform over time.
- The Fixed Income component of the Fund maintained its overweight exposure to investment grade credit versus the benchmark, which contributed to performance as spreads tightened over the period. The fund is overweight corporate bonds vs government bonds on relative value basis.

Performance Chart



	3 Mth	1 Yr	3 Yr	5 Yr	10 Yr	SI
Excess Return	3.3	7.5	4.1	3.2	4.1	-
% of Peers Beaten	91	96	99	99	99	-

Calendar Returns



	YTD	2019	2018	2017	2016	2015
Excess Returns	6.8	0.9	4.4	4.3	-6.0	14.9
% of Peers Beaten	97	95	97	97	20	99

Source: Mackenzie Investments, Morningstar Direct.

Mackenzie Canadian Growth Balanced Fund

Asset Allocation

	Portfolio (%)	Benchmark (%)
Equity	64.5	65.0
Fixed Income	31.1	35.0
Cash	4.4	0.0

Top Holdings

Equity Holdings	Sector	Weight (%)
Intact Financial Corp	Property & Casualty Insurance	3.4
Premium Brands Holdings Corp	Packaged Foods & Meats	3.2
Keysight Technologies Inc	Electronic Equip & Instruments	3.1
Accenture PLC	IT Consulting & Other Services	3.1
Canadian Pacific Railway Ltd	Railroads	3.0
Fixed Income Holdings	**Sector**	**Weight (%)**
Province of Ontario 2.05% 06-02-2030	Provincial Governments	1.6
Government of Canada 1.25% 06-01-2030	Federal Government	1.5
Province of Ontario 2.65% 12-02-2050	Provincial Governments	1.2
Province of Ontario 1.90% 12-02-2051	Provincial Governments	1.0
United States Treasury 1.75% 06-30-2024	Foreign Governments	0.7
Total		**21.6**

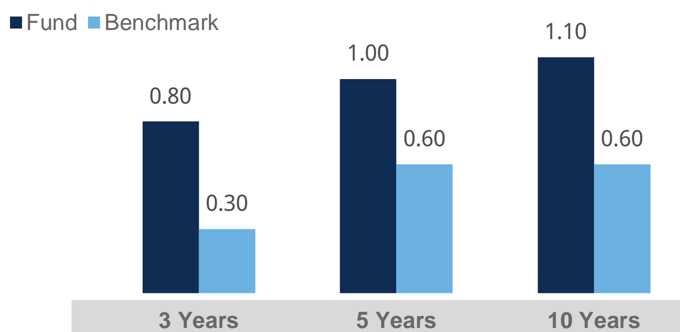
Geographic Allocation

	Portfolio (%)	Benchmark (%)	Active Weight (%)
United States	33.2	--	33.2
Ireland	2.8	--	2.8
Netherlands	1.8	--	1.8
China	0.7	--	0.7
United Kingdom	0.3	--	0.3
Canada	55.7	100.0	-44.3
Other	1.1	--	0.0
Cash & Equivalents	4.4	--	0.0
Total	**100.0**	**100.0**	

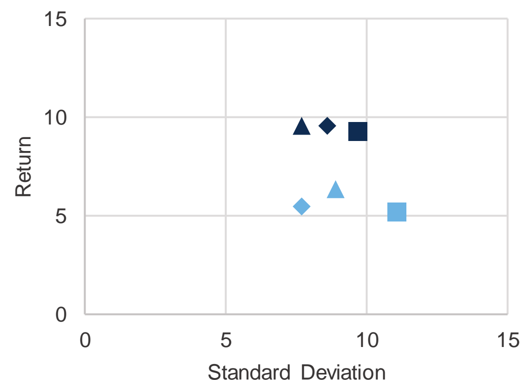
Characteristics

	Portfolio	Benchmark
Fixed Income		
Duration	8.5	8.4
Yield to Maturity	1.9	1.3
Average Credit Quality	A	AA
Equity		
P/B	4.4	1.8
Estimate P/E	22.4	15.9
ROE	21.4	10.5

Sharpe Ratio



Return & Standard Deviation



Source: Mackenzie Investments, Morningstar Direct.

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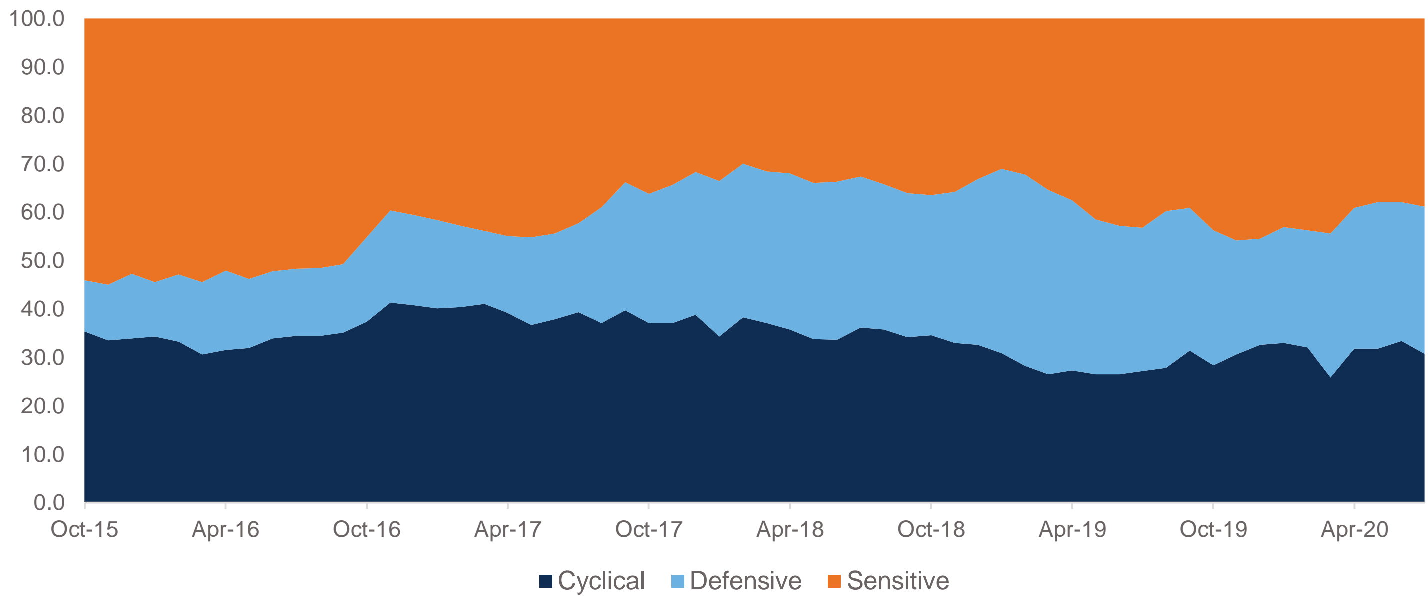
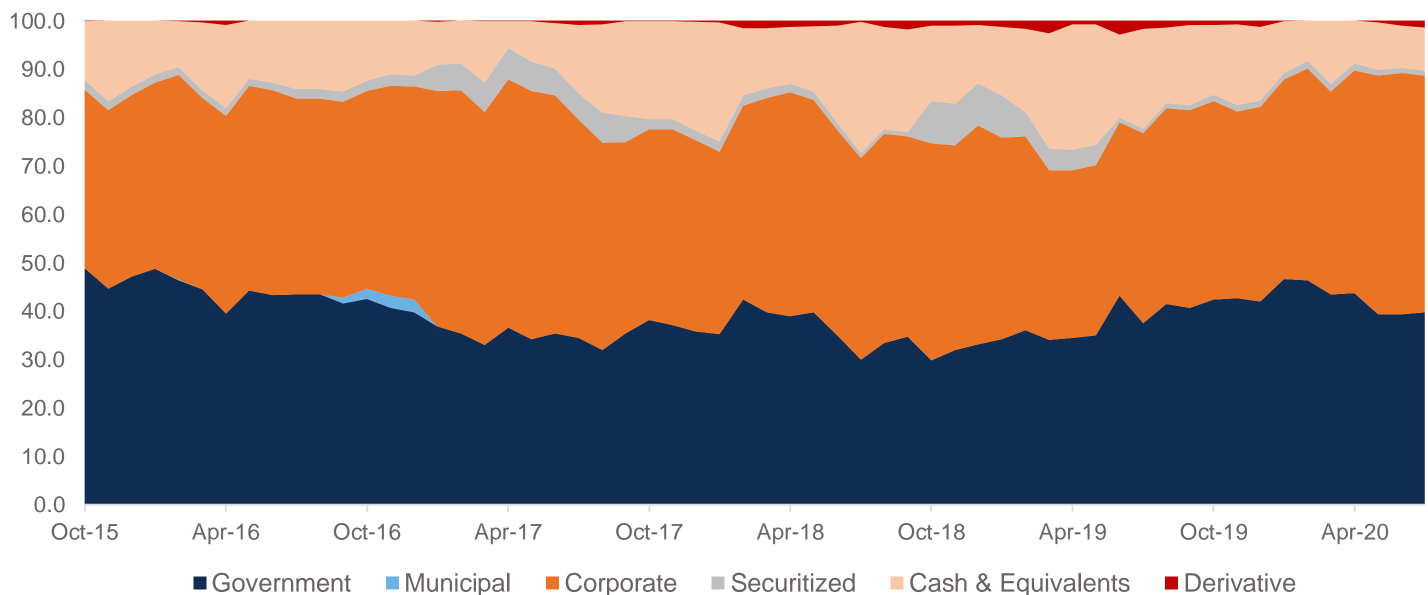
Equity Sector Allocation – Time Lapse (5 Years)



Bond Sector Allocation – Time Lapse (5 Years)



Source: Morningstar Direct, as of July 31, 2020.

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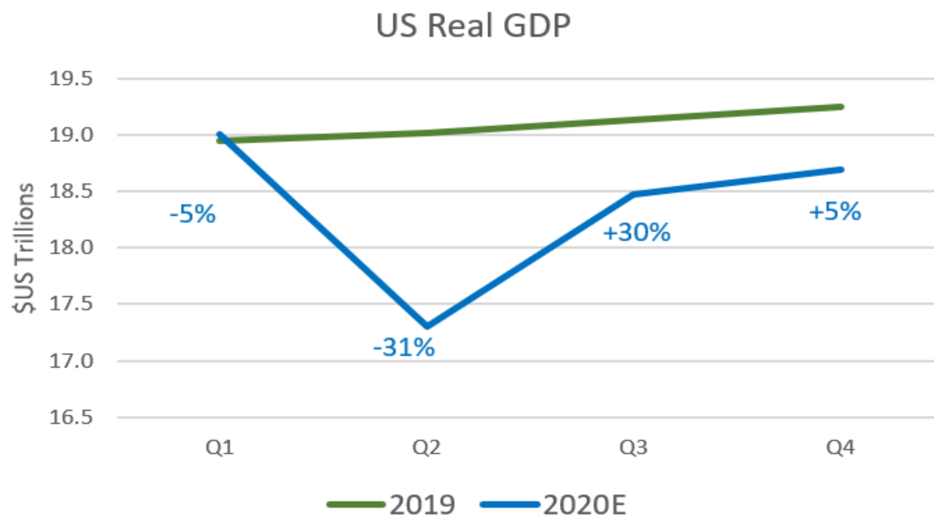
Fund and Market Insights - Equities

- The third quarter of 2020 featured a sharp V-shaped rebound in both GDP and global equity markets after the dramatic drop in the second quarter. Despite the rapid recovery, GDP levels remain below the pre-pandemic peak and we expect economic growth to slow sharply as we move into the fourth quarter.
- When thinking about GDP, it is important to consider both the level and the growth rate. Generally, commentary on GDP focuses exclusively on the growth rate, which we often find to be somewhat misleading. The chart below shows US GDP growth for 2020. The green line was the pre-covid expectation for steady 2.5% annual growth. The blue line shows the actual quarterly development of GDP using reported results for the first half of 2020 and expected growth for the second half. The labels in the chart match the US Bureau for Economic Analysis's (BEA) quarterly GDP reporting methodology, which annualizes quarterly numbers.



Source: Bureau of Economic Analysis (bea.gov): Q1 2009 – Q2 2020; Mackenzie estimates 2H 2020

- Clearly, 2020 GDP levels were significantly impacted by the pandemic. The second quarter lock downs and disruption of the travel, tourism, and entertainment (TT&E) segments of the economy resulted in a significant step down in the level of GDP. With economies globally re-opening, the lock down impact faded rapidly, while the (TT&E) segments remained severely depressed. As we exit the third quarter of 2020, GDP remains materially below 2019 levels and the boost from the re-opening is fading.
- When this GDP pattern is described in terms of growth rates, we had a historic drop in Q2 growth (largest in post War history!), a rapid rebound in Q3 growth (also the largest in post War history!), and we now expect to see a significant slowdown in the growth rate of the economy in the fourth quarter and into 2021, as growth converges towards more normal levels. Ultimately, 2020 is looking like a normal but unusually sharp and severe recession year.
- When investing during recessions, it is essential to understand two important concepts. The first is that recessions do not impact the economy and industries evenly. There are always areas that are severely impacted and other offsetting areas that help support GDP. Some of this is fairly obvious: demand for basic staples like food and toothpaste hold up well during a downturn. Luxury and bigger ticket items like cars and appliances tend to see a sharp decline in demand. From an investment standpoint, companies involved in areas where demand holds up tend to do far better in the stock market than companies where demand comes under pressure. For these companies, the average impact of past recessions is a fairly good guide to the impact of the next recession.

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Fund and Market Insights - Equities

- The second essential concept to understand about recessions is that every recession is "different", but they seem to follow a consistent pattern. In some ways, a recession is the discovery that we've been doing too much of something and we abruptly need to do less of it. The past 3 recessions included:
  • The early 2000's, when there was a collapse of business investment around IT and telecommunications post the dot.com bubble
  • The 2008-9 global financial crisis, which was centered around a US house price collapse and the impact on the banking system, and
  • The 2020 recession, where TT&E collapsed due to the pandemic.
- In each case, the "something" that we needed to do less of was different, but the underlying concept was the same. Some industries were about to shrink rapidly and that had significant investment implications.
- From an investing standpoint, the key to preserving capital during each of these recessions was to rapidly identify the problem area and then to eliminate exposure to it. For companies directly exposed to the recession "epicenter", historical performance during prior recessions is a terrible guide to the current one. For those industries? This time is different.
- In our view, we are now gradually moving into the post recession period. The level of GDP is lower than the pre-recession peak, and unemployment is much higher, resulting in considerable slack in the economy. Usually, post a recession, it takes several years for growth in other areas to reduce unemployment towards more normal levels. For example, post the 2008-9 global financial crisis, unemployment remained elevated until 2015.
- There are two complicating factors in this recession. The first is that, with a safe, effective, and widely distributed vaccine, global TT&E is expected to stage a significant recovery. This should lead to a significant decline in unemployment rates. The second is that there has been massive government support to prevent or delay lay-offs. As those programs are gradually wound down, we expect further upward pressure on unemployment.

The return of inflation?

- One of the most debated issues right now in the financial world is whether inflation is about to make a comeback after gradually declining for much of the last four decades. The main arguments for the return of inflation center around the massive fiscal and monetary response to the pandemic. Central banks have flooded the world with capital, leading to a rapid rise in measures of money supply, while governments have run massive deficits, leading to a sharp rise in indebtedness. Similar arguments were extended during the global financial crisis, which also featured dramatic central bank policy actions and large deficits. Instead of spiking higher, inflation was weak for much of the decade.
- In our view, there are several dis-inflationary forces that have been restraining price increases. The largest is likely the increasingly important role of technology. The internet has been deflationary. Shopping has gone from a patchwork of local competitors with pricing power (your local mall or grocery store) to global e-commerce based platforms with a high degree of price transparency. At the same time, supply chains have extended globally driving down the cost of production. With globalization seemingly slowing, companies are pivoting towards Industry 4.0 – the automation and digitization of manufacturing. As we talk to companies at the cutting edge of technology, both those providing it and those adopting it, they see continued gains, suggesting that the secular headwinds for inflation may continue.

During the quarter we added several new names to the portfolio. We discuss a couple of these new positions below.

- During the quarter, we initiated a position in Thomson Reuters. The company serves a variety of verticals including legal, tax, accounting, compliance, regulatory, providing software solutions to professional services firms, corporates, and government. Over the last number of years, Thomson Reuters has evolved from an acquisitive holding company structure to one that focuses on organic growth and functions as a cohesive enterprise. The divestiture of the Finance & Risk (F&R) business to Blackstone in 2018 was a pivotal point in this transformation and allowed them to return to focusing on their core growth businesses.
- Prior to this, the company lagged on virtually every metric compared to peers and was reflected in the stock price performance. The underperformance was primarily due to the F&R business, which not only registered no growth, but it consumed significant capital and resources in what appeared to be a never-ending transformation of the business. Despite this, their core tax/accounting and legal businesses outperformed their peers.

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- Following the divestiture, the focus is now firmly on these core verticals and there is a sizeable opportunity to accelerate organic growth and improve profitability. The company should be able to deliver mid single digits organic revenue growth from improving customer experience/retention through the simplification of pricing and packaging, focusing on innovation and technology including leveraging artificial intelligence, expanding their digital distribution channels, and investing in high growth/high potential products such as WestLaw Edge. Organic growth is expected to be supplemented by more targeted acquisitions within these core verticals. With a lower capital intensity profile following the divestiture of F&R and significant operating leverage, the free cash flow growth is expected to be high single digits. Recurring revenue are over 80% of the total business and provide good visibility into the business. We have known the company for many years and see the company on its strongest footing in over a decade.
- Pepsico is a company that needs little introduction due to it's well known portfolio of soft drinks. Interestingly, the key economic engine of the business is not the beverage portfolio, instead it is the Frito Lay snacks business. There are many companies that sell products to grocery stores. If you walk through a grocery store with your investment hat on, you will find that most categories are not interesting. The cookies aisle or the cheese section are good examples. There are many competing brands produced by different companies, consumer loyalty is low, and most grocery stores have a decent private label offering (ie, their own brand). As a result, companies in these areas end up mostly competing on price, which is not generally a great backdrop for investors.
- There are, however, a few sections of a grocery story that are extremely interesting from an investment standpoint. Examples include: the spice area, the toothpaste aisle, and the salty snack aisle. Frito Lay dominates salty snacks. If you walk down the aisle, you will find that almost all brands are made by Frito Lay: Lay's chips, Doritos, Cheetos, Tostitos, Sun Chips, Rold Gold, Miss Vickie's, Smart Food, Stacy's, and Ruffles are some of Frito's brands. Salty snacks are somewhat unusual in that they are a fast turn-over category and product presentation is essential to get consumers to buy. Consumers might overlook a scratch or a small dent on a can of soup, but they will not buy a crushed bag of potato chips. As a result, the category is managed directly by Frito Lay, with Frito employees, rather than grocery store employees, stocking and maintaining the shelves. From an investment standpoint, Frito's position as a "turnkey" supplier of one the most profitable area of a grocery story has provided a steady tailwind for investors, driving consistent organic growth.

Outlook - Equities

The global economy has staged a partial recovery from the coronavirus-induced lockdowns. The third quarter bounce back in growth was extremely strong, however growth has begun to fade, and we expect a comparatively muted fourth quarter. Overall, we believe that economic activity will continue to remain below trend for an extended period.

As always, we continue to own 30-35 companies that are leaders in their respective niches. We believe each investment will continue to outgrow their peers while showing superior profitability, generating strong free cash flow, and maintaining the balance sheet flexibility necessary to weather difficult economic environments. We have invested through many different cycles and environments in the past and continue to believe that companies with these characteristics, bought at sensible prices, will outperform over time.

Market Commentary Overview – Fixed Income

Positioning and Views

Duration

Our views remain broadly the same – with a slight downgrade in our view on duration, which went from somewhat bullish to neutral. We believe the massive amounts of new issuance have so far and will likely continue to be met with central bank buying. This would prohibit significantly higher yields even in a more reflationary environment while still offering some positive performance in risk-off episodes. Moderately higher rates due to a more positive environment for markets seems to be tolerable by the FED, while yield rises due to supply fears and/or fading FED support and/or a dramatic shift higher in yields are not. Based on communication by the Federal Reserve, we do not expect negative policy rates in the US. This however does not preclude bonds to trade at negative levels during heightened stress. Canadian Quantitative Easing supports the domestic yield curve similarly. In general, we continue to prefer US rates over Canadian.

Curve positioning

The US and Canadian yield curves still have the potential to converge closer to the respective policy rates. We believe the long end will remain the most volatile part of the curve even on a yield basis as the short end seems to be firmly anchored. We prefer much of our duration expression in the belly of the curve, where we get the maximum pull lower from policy rates (anchor) and also see disproportionally large Quantitative Easing buying.

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Treasury Inflation-Protected Securities (TIPS)

TIPS had another solid quarter with breakevens recovering plenty of the lost ground. Real yields are now aggressively negative throughout the whole curve. TIPS offer an interesting investment by combining the real economy and financial markets as they are part financial asset (real yields) part observed inflation (real economy). Observed inflation has risen significantly in the past few months – this bodes well for future YoY inflation readings. Long end breakevens are close to the yearly highs – reflecting the optimism of the reflation trade and the risks that unprecedented stimuli might have.

Emerging Markets debt

EM debt performed well in Q3 2020 – this applies to both local as well as hard currency bonds. While there are plenty of challenges around in the Emerging Markets space, the combination of attractive yields and a stabilization in performance has attracted interest. The weakness of the USD paired with the firmness and low levels of US Treasuries offered macro support for the asset class. We tend to have a preference for EM local over hard currency debt, despite its larger volatility. In our view, valuation looks significantly more attractive.

Investment grade

For the quarter ending Sep 2020, both the US Investment grade bond index and the Canadian investment grade bond index returned 0.62% (using Bloomberg Barclays US Aggregate Total Return Index LBUSTRUU) and 0.44% respectively. Much of the performance can be attributable to continuous spread tightening during the quarter.
As expected, corporate bond supply was back to a more normal pace in Q3-2020 after the highest quarterly gross bond issuance in Q2-2020. Gross investment grade bond supply in the U.S. during the quarter was 7.6% above that during the same period in 2019, as U.S. corporations continue to take advantage of the low yielding environment to term out near term debt. In Canada, Q3-2020 corporate bond issuance volume was 26% below Q3-2019 level, as issuance by Canadian banks have declined. Regulatory changes have reduced the need by Canadian banks to issue and that it has been more cost advantageous for banks to issue outside of Canada.

With the gradual re-opening of the North American economies, accompanied with improvements in economic statistics and continuing supportive Central banks' policies and fiscal responses, both provincial and corporate bond spreads continue to narrow. On average, the Canadian 5-year corporate bond spread decreased by 31 bps during the quarter. Likewise, on average, the 10-year provincial bond spread was lower by more than 6 bps.
We expect that the investment grade corporate bond spread would continue to be supported by increasing investors demand as cash continues to find its way into fixed income funds, against lower bond supply for the remainder of the year. The headwind to our view is: a) the possibility of the coming of a second wave in Covid-19; and b) rising trade tensions generally. Also, different sectors would recover differently in a post-pandemic world. We remain biased to maintain high exposure in selected high-quality liquid corporate bonds.

High Yield Market

Although the high yield market has materially rebounded from its lows and recovered from most of the losses, we still see some value on a relative value basis given the unprecedented monetary policy holding rates near zero, as well as the large corporate bond buying program that has supported most areas of credit. The Fed's corporate bond buying program has removed the tail-risk of a large market sell-off and/or a spike in default rates, but credit is not completely shielded from the major macro drivers that continue to be present despite the rebound in the markets.
Technicals and fundamentals are supportive of the continued recovery in the high yield market. We note, among other things:

- The high yield market now yields 5.8% and has a spread of 541 bps, which is near the long-term average spread of 550 bps.
- The overall quality of the issuers in the index is higher than at any other time in history with a record 56% rated BB.
- Primary market continues to be open to companies to provide much needed liquidity and refinancing opportunities, with a majority of the supply continuing to be higher quality from a rating and/or structure perspective.
- Inflows continue into high yield, as the Fed programs continue to support the corporate debt markets.
- Credit fundamentals began to stabilize in Q3 as the economy gradually recovered with business reopening and jobs returning, rebounding from the massive deterioration we saw in Q2 due to he economic shutdowns.
- Last twelve months' default rates in high yield have increased sharply from the beginning of the year, but the Fed programs and open primary markets to provide liquidity appear to have helped avert the worst case scenario that was predicted earlier in the year.

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We believe there is still some value in this low yield environment with 10-year US treasuries yielding less than 1% and over $15 trillion of global bonds with negative yields. We believe that the 5.8% yield is attractive on a relative value basis, and see an opportunity to continue to collect the above average coupons through the end of the year, supported by the low interest rate environment and Fed bond buying programs. We also expect that the high yield market will further be supported by a continued improvement in corporate earnings through the end of the year. From a macro perspective, there are a number of threats that continue to loom over the markets, so we do anticipate some volatility and hope to be able to capitalize on those opportunities in our mandates.

Leveraged Loans

We believe the loan market is still attractive on relative value basis but is not shielded from how macro drivers (primarily the US election and covid-19) will impact equity and credit markets.

In our view, technicals and fundamentals are supportive of the continued recovery in loans. We note, among other things:

- The average price of loans is still at 93.2, with 5.7% Yield to Maturity and 500 spread over LIBOR
- Outflows continue to leave the loan asset class but have slowed down materially, even with small positive weekly inflows coming sporadically
- Credit fundamentals have deteriorated in 2020 due to huge drops in earnings and EBITDA (due to economic shutdown in Q2 and Q3), but expected to recover in 2021 especially in the sectors not hugely impacted by covid-19
- Last Twelve Months' default rates in loans have moved up recently, but remain at 4% which are in only slightly higher than historical averages

Covid-19 data, trends and stories will most definitely continue to impact the direction of markets, with other macro drivers like trade with China and geopolitics taking a back seat. Earnings got hit in Q2 and investors will be watching for improvements going forward. Q2 was heavily characterized by monetary stimulus from Central Banks and elevated levels of volatility in markets. Q3 witnessed the gradual reopening of the economy and a substantial decrease in market volatility. Q4 will be about the US election and its impacts on markets. Eventually, we believe there will be more focus on corporate earnings in 2021.

In summary, we expect loans to trade range-bound with a tilt to the upside, with volatility in the secondary market to revert to normal levels and the primary market to continue to open up. Q3, in our view, is a good example of how things may look in loans for the remainder of the year!

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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 September 30, 2020 including changes in share value and reinvestment of all distributions and does not take into account sales, redemption, distribution, or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. 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.

This document includes forward-looking information that is based on forecasts of future events as of September 30, 2020. Mackenzie Financial Corporation will not necessarily update the information to reflect changes after that date. Forward-looking statements are not guarantees of future performance and risks and uncertainties often cause actual results to differ materially from forward-looking information or expectations. Some of these risks are changes to or volatility in the economy, politics, securities markets, interest rates, currency exchange rates, business competition, capital markets, technology, laws, or when catastrophic events occur. Do not place undue reliance on forward-looking information. In addition, any statement about companies is not an endorsement or recommendation to buy or sell any security.

Percentile rankings are from Morningstar Research Inc., an independent research firm, based on the Canadian Equity Balanced category and reflect the performance of the Mackenzie Canadian Growth Balanced Fund for the 3-month, 1-, 3-, 5- and 10-year periods as of September 30, 2020. The percentile rankings compare how a fund has performed relative to other funds in a particular category and are subject to change monthly. The number of Canadian Equity Balanced category funds for Mackenzie Canadian Growth Balanced Fund for each period are as follows: one year – 434; three years – 383; five years – 286; ten years – 153.

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