Mackenzie Canadian Large Cap Dividend Fund – Series A

Q3-2015 COMMENTARY

Performance Summary

- For Q3 2015 Mackenzie Canadian Large Cap Dividend Fund returned -6.0%. This falls in line with its blended benchmark comprising 80% S&P/TSX Composite Dividend Total Return Linked Index and 20% MSCI World Index CDN.
- The Fund performed in line with the benchmark due to security selection in Germany, the United States and the United Kingdom. The weakness was partially offset by stock selection in Canada. The weaker Canadian dollar also benefitted performance.

Contributors to Performance

- **SNC Lavalin Group Inc.** was a strong contributor to performance as a number of infrastructure contracts were recently won, despite federal charges which were laid against the company earlier this year. Monetization of parts of its concession portfolio also provides opportunity to realize added value in the near term.
- Shares of Mortgage provider **Genworth MI Canada Inc.** reacted positively to strong operating results sourced from both the unexpected 15% price increase announced by a key competitor for its insured retail mortgage business (Genworth has also implemented this increase) and market share gains. While concerns around its Western Canadian exposure is likely to remain unresolved for at least a few quarters, the managers believe the stock is attractively valued, offering a sustainable yield supported by a reasonable payout ratio.
- **Motorola Solutions** was the most significant contributor to performance in Q3 2015. This global leader in first responder communication systems in August announced a U.S.$1 billion investment from Silver Lake, one of the private-equity firm's biggest ever investments. Along with ValueAct Capital, the company now has two well-regarded activist investors operating closely with management. Motorola also completed a U.S.$2 billion modified "Dutch Auction" tend offer at a purchase price of $66.50 per share. Despite the strong move in the quarter, the managers still feel with the company trading at a 6.5% free cash yield, significant opportunities to take costs out of their business, and with a 2.3% and growing dividend yield, Motorola still offers excellent value for investors.
- Other strong contributors to performance include **Altria**, which benefitted via its 28% ownership stake in SAB Miller, which rose on the back of an announced merger with Anheuser-Busch InBev (another Fund holding, incidentally). **Atlantia S.p.A**., the owner and operator of the Rome Airport as well as a number of major Italian toll roads and motorways was also a strong performer.

Detractors from Performance

- Weak commodity prices negatively impacted the shares of diversified miner **Teck Resources Inc.** The managers reduced the weighting last quarter due to concerns regarding weakening fundamentals, a dynamic that is currently playing out. A partial offset is the benefit to operations from lower oil prices and the weak Canadian dollar. Furthermore, labour pressures appear to be abating in Alberta which could benefit the build out of Fort Hills, an oil sands project expected to come onstream in 2018, for which Teck is a minority partner.
- Other global energy-related detractors from performance included **WEIR Group PLC** and **ConocoPhillips.**
- Our two Brazilian holdings detracted from returns, which were exacerbated by the weakness of the Real – one of the few currencies in the world that has underperformed the Loonie so far this year. Both **Cielo S.A.** (Brazil's largest credit and debit card operator) and **Cetip S.A.** (the country's dominant private fixed income securities custodian) are among the highest quality businesses the Fund owns. We purchased more stock this quarter to maintain each company's overall weight in the Fund.

Portfolio Activity

- The **Fund** increased its position in **Manulife Financial Corporation** after gaining more insight into the value of its Asian businesses through enhanced financial disclosures. We believe this should provide better visibility to monitor progress from this region, a key growth driver for the business going forward.

- The weighting in **Potash Corp of Saskatchewan** was increased due to its attractive valuation. The company is nearing the end of its expansion projects that may contribute to increased productive capacity and drive free cash flow higher. Potash prices appear to have stabilized in the near term and weaker prices (commodity and transport) have contributed to increasing demand in key markets: China and India.
- The Fund initiated a position in **Peyto Exploration & Development Corporation**, a Western Canadian low cost exploration and production company focused on natural gas. The lands are based in Alberta, where a concern around potential tax and royalty changes by the new NDP government has put downward pressure on stocks. Peyto's focused land base and ownership of its processing infrastructure contributes to the low cost nature of its operations.
- The position in **BCE Inc.,** was reduced despite solid operating performance as the managers remain cautious with valuations at elevated levels, high relative to national and global peers paired with a growth outlook that remains tepid due to regulatory and competitive pressures.
- The Fund inherited **Baxalta**, the biopharmaceutical business that was spun off from long time holding Baxter. The managers also initiated a position in **Proctor & Gamble**, as we were able to purchase one of the world's iconic branded consumer goods companies at a 4% dividend yield and what at the time was its lowest relative valuation in over 20 years.
- The managers took advantage of stock price strength to exit our small position in **GlaxoSmithKline PLC**, as it became increasingly clear that its pipeline of new products would not be sufficient to offset the eventual (and inevitable) decline in its blockbuster respiratory franchise, Advair. The Fund also sold the last of our stub position in **California Resources**, which was inherited late last year when it was spun out from current Fund holding Occidental Petroleum.

Outlook

Canadian equities:

- Canadian and global growth prospects continue to moderate. For commodity prices, we expect near term volatility is likely to continue, challenged by weakening demand and currency dynamics.
- Under this backdrop, the portfolio managers are seeing better value opportunities currently compared to earlier in the year. Interest sensitive sectors are beginning to look relatively more attractive, particularly given the relative stability of underlying cashflows. Consumer, Healthcare and Technology sectors remain expensive by historical measures while industrials remain mixed.
- The portfolio management team remains focused on constructing broadly diversified portfolios with an emphasis on value oriented stocks which pay dividends as a key component of total return.

Global equities:

- Ever since the middle of August when a 2% Chinese renminbi devaluation took the world by surprise, markets have been increasingly volatile as investors began to question global GDP growth projections. At first it was mainly emerging market equities and currencies that were most affected, but soon carried over to developed country equity markets. More recently, October has started out with some surprisingly weak economic data coming out of the U.S., and what had been widely expected to be a September or (almost certainly) December Federal Reserve rate increase has now likely been pushed forward to 2016; that is, until a set of data comes out showing surprising economic strength, which would once again send market strategists and economists scrambling to re-adjust their rate hike forecasts. As a dividend yield-oriented Fund we have to be conscious of our underlying companies' sensitivities to changes in global interest rates, but at the same time always manage the Fund with a focus on value and risk-adjusted return opportunities. The Fund owns a broad collection of high-quality dividend paying businesses from around the world that we believe will thrive through the market cycle under any interest rate scenario.

PORTFOLIO MANAGEMENT TEAM:

Mackenzie All Cap Value Team
Hovig Moushian, Lead Portfolio Manager & Senior Vice President, Investment Management, Mackenzie Investments

Mackenzie Global Equity & Income Team
Darren McKiernan, Lead Portfolio Manager & Senior Vice President, Investment Management, Mackenzie Investments

Effective December 9, 2013, the Mackenzie Global Equity and Income team, led by Darren McKiernan, and the Mackenzie All Cap Value Team, led by Hovig Moushian, assumed responsibility for portfolio management of the Fund.

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Fund and Benchmark Performance as at: September 30, 2015	1 year	3 years	5 years	10 years
Mackenzie Canadian Large Cap Dividend Fund Series A	-5.4%	6.6%	5.1%	2.7%
Blended Index (comprised of 80% S&P/TSX Composite Dividend Total Return-Linked Index/20% MSCI World Index $CDN)	-5.2%	8.5%	7.0%	5.5%