Mackenzie Canadian Large Cap Dividend Fund – Series A

Q4-2015 COMMENTARY

Performance Summary

- For Q4 2015 Mackenzie Canadian Large Cap Dividend Fund returned -3.4% compared to -2.9% of its blended benchmark comprising 80% S&P/TSX Composite Dividend Total Return Linked Index and 20% MSCI World Index CDN.
- Security selection in Consumer Staples and Industrials were positive contributors to performance whereas security selection in Energy and Financials were detractors.
- The Fund benefited from a higher allocation and security selection in the United States.

Contributors to Performance

- **Bank of Montreal** was the best performing Canadian bank stock in the quarter as its U.S. platform positions it well to benefit from future potential U.S. interest rate increases and general strengthening of the U.S. dollar relatively to some of their more domestically-focused peers. Fears around a weakening Canadian economy and exposure to the collapse in oil prices are placing downward pressure on Canadian bank shares as a whole but the portfolio managers see good value with an attractive and sustainable dividend yield supported by healthy capital positions.
- Despite a double-digit decline in oil prices for the quarter, shares of **Canadian Natural Resources** outperformed with the announced sale of a large portion of their royalty asset base to Prairie Sky Royalty Ltd for total proceeds of $1.8 billion through a combination of cash and stock. As one of Canada's largest energy producers, we believe scale should help the business to benefit in the current volatile low oil price environment. Disciplined spending now on future phases of their Horizon oil sands project positions the business well to potentially generate strong cash flows in 2017 and beyond.
- **TransCanada Corporation** which owns and operates energy infrastructure assets across Canada, U.S. and Mexico was a positive contributor in the quarter. Low commodity exposure, discounted valuation and reasonable growth provide support for the shares at current levels. The managers see good risk/reward at current levels and redeployed some proceeds from the sale of Inter Pipeline Ltd. to increase the overall weight in the Fund.

Detractors from Performance

- Shares of **Potash Corporation of Saskatchewan Inc.**, the world's largest potash producer, detracted from returns as potash prices continued to fall, despite some producers implementing production facility shut-ins.
- **Telus Corporation** is a telecommunications operator with industry leading metrics. However, a weakening western Canadian economy and a strategic acquisition by competitor Shaw Communications Inc. to improve its service offering may increase the competitive environment in its core markets. The managers reduced its exposure due to these heightened risks.
- Shares of **Magna International Inc.**, and other auto suppliers have performed poorly since Volkswagon admitted to cheating U.S. emissions tests in September. The weak Canadian dollar has also become a headwind for the company. The managers continue to see good upside with this holding, but acknowledge that the biggest risk is a global economic slowdown given the high fixed cost nature of this business.

Portfolio Activity

- The Fund eliminated the Fund's exposure to **TransForce Inc.,** a North American trucking company after the shares traded above our fair market value and risks elevated with high levels of debt**.** We support management's strategy to transition to an asset light business but remain concerned that execution under the backdrop of a delicate economic environment with high financial leverage is a very challenging task.
- The Fund eliminated its position in **Inter Pipeline Ltd.**, a company that owns and operates energy infrastructure assets in both western Canada and Europe. Valuation was high and growth prospects linked to oil sands production was weakening as energy prices continued to fall. The managers redeployed the proceeds into existing positions with better risk/reward profiles.
- The Fund took advantage of the mini-swoon in biotechnology shares this quarter to purchase **AbbVie Inc**. AbbVie, spun off from Abbott Labs almost three years ago, owns Humira, and is one of the most successful biologics in history that is used to treat

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a number of chronic diseases including rheumatoid arthritis, Crohn's, and psoriasis. Through its recent purchase of Pharmacyclics, it became the North American rights owner to the blockbuster cancer treatment Imbruvica. AbbVie is also the #2 global player in HCV. We feel its current stable of products, with little or no contribution from its pipeline, combined with very achievable margin targets will help grow AbbVie's annual cash flow, earnings, and dividends double-digits through 2020. The company currently trades at 11x earnings with a 4% dividend yield.

- **Pfizer** was also added during the quarter, as the market became concerned that the proposed merger with Ireland-domiciled Allergan would not go through due to the tax-inversion aspects of the deal. At 13x earnings, a 3.8% dividend yield and its patent cliff largely behind it and an underappreciated immuno-oncology pipeline, we believe Pfizer represents good value at these levels as a stand-alone company. If the merger is approved, we think there is a great deal of value that will be unlocked by smartly integrating the two companies and spinning off its non-core generics business.

Outlook

Canadian equities:

- The decline for global oil prices and other commodities has had a dramatic negative impact for many parts of the Canadian economy be it direct through commodity producers receiving lower prices or indirectly affecting retail, real estate, banking, transportation etc. Currently, this factor appears to be overwhelming the benefits of a low Canadian dollar.
- Near term oil prices have breached the lows hit during the financial crisis with downside risks remaining and a low level of conviction on how low it can go. The portfolio managers' conviction that prices are not sustainable at currently levels remains high. Increasingly we see companies obliged to make decisions based on a short term outlook as benefits from hedging and strong balance sheets are depleting through the passage of time. For companies aiming to maintain cash balances, spending is being slashed, dividends are being cut or eliminated and asset sales are being consummated at reduced valuations.
- The portfolio management team continues to see valuation contraction leading to a more constructive view on Canada overall. The team believes oil will likely have to bottom before we see a material rally. Lower cashflows mean North American production is declining, industry level spending is being reduced and energy producers are financially distressed. We believe there is a strong likelihood that supply will further compress and ultimately crude prices should respond positively.
- The 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:

- To say the start of 2016 has been inauspicious would be an understatement. Global equity markets just capped off their worst performance to begin a year since 1998. Crude settled at a 12-year low and copper dipped below $2 for the first time since 2009. If China growth concerns weren't enough (along with what seems to be its growing tolerance for a weaker yuan), fresh geopolitical risks also arose: North Korea claimed expanded nuclear capabilities and the Arabian Peninsula erupted with further instability. In short, investors clearly entered the year with a "risk off" approach to the markets. We get asked by clients, salespeople, friends, family, to make some sort of prognostication on the short-term direction of the market, to which we answer "we have no clue". Investing in equities will always involve the certainty that at some point we will encounter weeks like the one we just had. The same thing could be said during the European sovereign debt crisis in 2011, the global financial crisis ("GFC") in 2008, and the bursting of the tech bubble in 2000. The question is how do you respond as an investor?
- In the current economic environment, the team is looking to upgrade the portfolio by buying high quality companies that have long resided on our Dividend Dream Team. The correction in the market caused by a decline in oil prices and increasing interest rates is part of a normal healthy cycle. Since the global financial crisis the monetary authorities have been propping up the markets. We believe it is a positive signal that they believe the U.S. economy is finally strong enough where they can remove some of the extreme stimulus that has been put in place over the last seven years. We do not believe that we are heading for another crisis as U.S. bank leverage ratios remains at historic lows despite any potential write-downs from the energy sector. That said, we are certainly mindful of the world in which we operate and take such things into account when considering portfolio position sizes and timing of new investments, and we generally view such events as an opportunity to take advantage of short term miss-pricings. We will continue to focus on companies that can sustain a high return on operating capital employed and whose advantages are difficult to replicate, such that they will be in a position to increase cash flow and dividend payments in almost any environment. In doing so the portfolio management team believes this will provide investors with acceptable risk-adjusted returns over the long run.

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

On December 9, 2013, Darren McKiernan, who became Mackenzie Global Equity & Income Team Lead, and Hovig Moushian, Mackenzie All Cap Value Team Lead assumed management responsibilities.

Fund and Benchmark Performance as at: December 31, 2015	1 year	3 years	5 years	10 years
Mackenzie Canadian Large Cap Dividend Fund Series A	-3.4%	6.9%	4.0%	2.6%
Blended Index (comprised of 80% S&P/TSX Composite Dividend Total Return-Linked Index/20% MSCI World Index $CDN)	-2.9%	8.4%	5.7%	5.4%

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