Mackenzie Cundill Team

Q2-2019 COMMENTARY

Market Review, Outlook & Strategy

- The Federal Reserve released the results of the annual Comprehensive Capital Analysis and Review (CCAR) for US banks in late June. The CCAR evaluated the capital planning processes and capital adequacy of 18 of the largest banking firms, including the firms' planned capital actions, such as dividend payments and share buybacks. According to a press release from the Fed on June 27th, "The stress tests have confirmed that the largest banks are both well capitalized and place a high priority on strong capital planning practices," said Vice Chair for Supervision Randal K. Quarles. "The results show that these firms and our financial system are resilient in normal times and under stress." Further, according to the same press release, "The firms in the test have significantly increased their capital since the first round of stress tests in 2009. In particular, the largest and most complex banks have more than doubled their common equity capital from around $300 billion to roughly $800 billion during that time."
- Cundill holdings of US financials announced their planned capital actions after the CCAR results. Here is a summary:
  - Bank of America
    - Dividend increase: 20 %
    - Stock repurchase: $30.9 billion
  - Citigroup
    - Dividend increase: 13.3%
    - Share repurchase: $17.1 billion
  - Wells Fargo
    - Dividend increase: 13.3%
    - Share repurchase: $23.1 billion
  - Goldman Sachs
    - Dividend increase: 47%
    - Share repurchase: $7 billion
- We believe that these results, strongly confirm our views on the strength of Cundill's US bank holdings. Our holdings should continue to re-rate higher as investors gain more confidence in the strength of their balance sheets and ability to pay dividends while growing revenues and containing costs, all of which provide leverage to earnings growth and higher returns on equity (ROE). Research has shown that US banks increase in value along with rising ROE coupled with lower costs, which we foresee continuing.
- The market's attention is currently focused on the prospects of a trade deal between China and the U.S. That has driven up the valuation of bond-like defensives and growth stocks again. Despite signs that global manufacturing has been held back by trade uncertainty, domestic segments of the economies in the U.S., Europe and China are not showing signs of distress. In fact retail sales remain in healthy shape in these large economies. Given the market's diminished risk appetite due to concerns regarding trade, we have seen a number of research reports highlighting that the difference in valuation between defensive low vol stocks and growth stocks on one side, and value and cyclical stocks on the other, to be at multi-year unsustainably high levels. As our base case assumption is there will not be a recession in the foreseeable future, we expect such wide discrepancies in valuation to correct in the near term. The Cundill team is committed to sticking with the deep value style and we expect our strategy to be rewarded in the near and medium term.
- In Canada, economic activities have seen broad improvements since Q1, with energy and mining sectors recovering from weaker levels late last year. Business sentiments are ticking up and the employment picture is healthy, as the most recent hourly wage growth rate is 3.8% in June. The backdrop is constructive for the cyclical holdings we have in Canada such as **CP Rail.**

PORTFOLIO MANAGEMENT TEAM:

Richard Wong, Senior Vice President, Portfolio Manager, Investment Management, Mackenzie Investments
Jonathan Norwood, Senior Vice President, Portfolio Manager, Investment Management, Mackenzie Investments

Simon Chiu, Vice President, Investment Management, Mackenzie Investments

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, 2019 including changes in unit value reinvestment of all distributions and do and 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 June 30, 2019

. We will not necessarily update the information to reflect changes after that date. 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.

The content of this commentary (including facts, views, opinions, recommendations, descriptions of or references to, products or securities) is not to be used or construed as investment advice, as an offer to sell or the solicitation of an offer to buy, or an endorsement, recommendation or sponsorship of any entity or security cited. Although we endeavour to ensure its accuracy and completeness, we assume no responsibility for any reliance upon it.

Fund and Benchmark Performance as at: June 30, 2019	1 year	3 years	5 years	10 years
Mackenzie Cundill Value Fund Series F	-10.9%	6.0%	1.6%	6.4%
MSCI World Total Return Index (net CAD)	5.9%	12.3%	11.1%	12.0%
Mackenzie Cundill Canadian Security Fund Series F	-5.7%	7.7%	2.3%	9.1%
60% S&P/TSX Composite Index, 30% S&P 500 Index and 10% MSCI EAFE (Net) Index	5.4%	10.5%	8.1%	10.4%
Mackenzie Cundill US Class F	-24.9%	2.8%	3.1%	9.9%
S&P 500 Index (CAD)	9.9%	14.7%	15.3%	16.1%
Mackenzie Cundill Canadian Balanced Fund Series F	-0.8%	7.0%	2.4%	7.9%
Blended Index (62.5% S&P/TSX Composite Total Return Index and 37.5% FTSE TMX Canada Universe Bond Index)	5.4%	6.3%	4.5%	6.7%

*Blended benchmark: 60% S&P/TSX Composite Index, 30% S&P 500 Index and 10% MSCI EAFE Index.

MACKENZIE Investments