Mackenzie Global Equity & Income Team

Q2 2019 COMMENTARY

During Q2 2019, **Mackenzie Global Dividend Fund** (Series F) returned 3.6%, and has now returned 11.6%, annualized, since portfolio manager change. This compares with the MSCI World Net Return Index ($CDN) Q2 return of 1.7%, and 11.1%, annualized, since portfolio manager change. Stock selection in Health Care and Industrials contributed positively to relative performance during Q2, while stock selection in Consumer Staples detracted from relative performance.

Mackenzie US Dividend Fund (Series F) returned 3.3% during Q2 2019 and has now returned 12.0% annualized, since inception. This compares with the S&P 500 Total Return Index ($CDN) Q2 return of 2.0% and 15.0%, annualized, since inception of the Fund. Stock selection in Health Care and Materials contributed positively to relative performance in Q2, while stock selection in Information Technology detracted from relative performance.

Our team has always emphasized a bottom-up research process focused on company-by-company analysis. Over many years we've built up a bespoke universe of stocks that we would love to own, valuation permitting, with the actual portfolio being a diversified collection of businesses that represent the best medium-to-long-term risk/reward opportunities. We are always aware of the various macroeconomic factors that may or may not drive stock prices in the short term, but we have found little value making investment decisions based on such "analysis". Nevertheless, we found it notable when the U.S. Federal Reserve (the Fed) reversed course earlier this year, barely six months after they had communicated to the market their intention to raise interest rates to "normalize" the Fed's balance sheet. Rather than continue along the path Janet Yellen set in December 2015 when rates were raised for the first time since the Global Financial Crisis (GFC), the Fed would join the rest of the world's central banks in their concerns over the investment cycle and decided to keep rates low.

The level of interest rates is important to the equilibrium price for all securities including debt, equity and derivatives. As Warren Buffett says, interest rates are the gravity of markets. The lower interest rates are, the higher valuations, *ceteris paribus*. Right now, 10-year government bond rates are very low, and not just in the U.S. Negative bond yields have now reached $13 trillion, exceeding their 2016 peak, including French and Swedish government bonds trading below zero for the first time. These very low "risk free" rates pose a valuation problem to fundamentally-driven investors like us. To put the problem into context, assume we have a company that could grow its free cash flow coupon at 4% per year forever (which is quite hard to do and difficult to find such businesses). If we were in a long-term interest world of 5% (the levels they existed at pre-GFC), and a market risk premium of 5%, that 4% growth would be multiplied at about 16.6 times its free cash flow i.e. the reciprocal of the risk-free rate + risk premium, less the 4% growth. So, in a 5% "risk-free" world, that business growing 4% would be worth around 16.6x free cash flow. Now let's say rates are now 4% and not 5%, that exact same business with the same growth profile would now be worth 20x free cash flow, or 1/ (4% +5% - 4%). If long term rates are at 3%, you are now at 25x free cash flow. Ten-year U.S. Treasuries, the anchor from which most central banks benchmark monetary policy, are at 2% today. Based on this number, that same business is now worth more than 33x free cash flow. Said differently, rates going from 5% to 2% changes the valuation metrics of that stock from under 17x free cash flow to over 33x for the exact same business producing the exact same cash flows!

Our job as investors and analysts is to first understand the long-term trajectory of the businesses we own (and are looking to own) and to estimate how much cash these businesses will produce over time. The interest rate in which you are assuming becomes extremely important, and we can state with some confidence that long term interest rates are likely going to be somewhere between 2% and 5%. Now the question is, do we pay 17x or 33x FCF for these businesses? That's a wide range! The answer is, of course: that depends. For the Global Equity & Income team, the only circumstance in which we would pay a multiple at the high end of that range is if we had enormous confidence in a company's growth prospects well into the future (note: we currently do not own a security this richly valued). The Fed is likely flattening out the short-term interest rate cycle with its pivot in January. But there are also some very long-term structural shifts going on in the world that suggest we consider lowering the long-term range at which we value our stocks. Japan, for instance, is the single most indebted country in the world, with government debt service to account for a whopping 38% of tax revenue in 2019. Any sort of interest rate normalization could cripple the country. When interest rates are lower, businesses that are growing strongly approach what is known as a St. Petersburg Paradox i.e. as the growth rate starts approaching the discount rate, theoretically on a net present value basis a business can be worth…infinity. Of course, this is ridiculous. But for businesses growing cash flows 6% per annum for an extended time period, with lower long-term interest rates, the valuation of those businesses is potentially very high. Where long term interest rates end up is a very important question. While we certainly haven't lowered our assumptions to the current risk-free rate, we *do* think long and hard about completely exiting great franchises that are trading towards the higher end of their near-term historical multiples. At the end of the June quarter and after having gone up over 16% this year, our portfolio is trading for around a 4.5% free cash flow yield, or 22x. Is this the right number? If rates are to stay around current levels going forward, our portfolio is downright cheap! If long term rates were to move back to 5%, one could consider our portfolio slightly overvalued versus our conservative calculation of intrinsic value. But we also own a portfolio that is of significantly higher quality than the market and we have confidence that it can grow cash flows over 6% throughout the cycle which, in our view, more than accounts for the slight premium unitholders are paying to own the Fund. The characteristics of the companies we own hasn't changed. In exchange for trading at a slight premium to the overall market, our companies are growing faster, with superior returns and margins, and enjoy a higher dividend yield. In our opinion, this is the best risk mitigation tool going forward, not whether one is paying 22x or 17x cash flows.

This is not to say we don't put a lot of thought into what we pay for businesses and what their medium-term prospects are. Given the previous comments, what should long term investors do? While emphasizing (again) that we are not macro forecasters, we can't recall a time where investors are presented with such an unusually wide range of divergent but feasible macro outcomes. "Experts" making predictions over the next 12-24 months that are calling for deflation, disinflation, or inflation all seem… reasonable. Is globalization being disrupted permanently or is it simply being slightly modified? We can buy either argument. Will governments move towards more socialist, highly regulatory systems, or will the current administrations – particularly in the U.S. – stay in power? Will they go back to being more free-market oriented or become increasingly protectionist? Will a significant slowdown in trade, manufacturing and housing and personal income force rates even lower? Just as salient to us, from a market perspective is what sort of style leadership will be *in vogue* eighteen months from now? If we were told global growth has remained low, rates have remained below their long-term averages, and scarcity value of quality growth companies has remained high, and we see a sustained or even a renewed leg of growth companies leading the market, we would not be shocked. While overall market valuation discussions are more nuanced due to the question over long-term rates, there is no argument over the value-growth spread: it is approaching an all-time high. We don't think it's fair to say it's accepted conventional wisdom that value investing is dead or that central banks can eliminate recessions and bear markets. As such, we would also not be surprised if between now and then value stages a long-awaited and significant style reversal. What's our point? Uncertainty is high with a wide-tail of potential outcomes and we need to stay diversified and not make an outsized bet on one outcome. Therefore, as core investors we continue to own a number of companies that cover both sides of the spectrum. Some offer excellent traditional value but are beaten up and have underperformed. Our tobacco, energy, and pharmaceutical holdings come to mind. We also continue to maintain positions in growth companies like Microsoft, Sherwin Williams, Sika, London Stock Exchange, Tencent, and Keyence. Furthermore, we have a long list of businesses we would love to own and would not be entirely upset if the market gave us a chance to buy. Great businesses typically do not go on sale for no reason, so a little bad news can go a long way in terms of creating dislocation in the market.

Trade war with China

We have danced around this issue in previous commentaries without going into much detail. Given that the tariffs are real and the impact no longer theoretical, now is as good a time as any to share our thoughts. When thinking about the current trade dispute between the two largest economies in the world, investors should separate the short and long-term issues. There are long term strategic issues that will be ongoing. China is a rising country with increasing economic and geopolitical influence around the world. As the government continues to invest heavily in infrastructure, education and technology off a relatively low base, per capita income (US$10,000) should continue to gain versus the OECD member average ($40,000). The U.S. rightly so views them as a challenger to the historic world order. There are fair arguments that they are exploiting their economic might and gaming the current global trade system to enjoy unfair advantages. Whatever happens in the short term, that long term issue is almost unresolvable as China is not going to back off and the U.S. is not going to stop feeling like their place as the world's #1 superpower is being challenged. The reason this is a very important issue now is because the rise of China isn't going to stop, economic cycles notwithstanding, and how one invests in China – directly or indirectly - is going to be one of the most important investment decisions investors need to get right over the next ten to twenty years. Today, the Chinese stock market is second in size only to the U.S. ($11 trillion versus $35 trillion) yet only got introduced to global benchmarks last year. Investors who want to take advantage of the continued rise may or may not want to do so with a U.S. flag wrapped around all your investments because of these challenges. This is the long-term issue.

It follows that the longer-term impact of the trade war as it relates to our investment universe could be material over time. One of the biggest consequences of the U.S.-China dispute is that it has exposed China's vulnerability in terms of its reliance on the supply of key foreign technologies (e.g. the Huawei case). We should expect greater sense of urgency by Chinese leadership to grow domestic champions to increase self-reliance in key sectors like semiconductors, healthcare, industrial products, etc. While the hurdles are high, the country has significant financial and human capital to throw at the problems. Keep in mind the Western world has consistently underestimated the speed of China's development and transformation – did anyone expect 10 years ago that China would lead the world in digital transformation/economy, or that it would have the world's longest high-speed rail network system, longer than the rest of the world combined?

The short-term issue is straight forward: are we going to get a deal, or will it continue to escalate? Trump, rightly or wrongly, has brought these disputes out into the open using what could be considered a fairly blunt tool via the tariffs. China clearly wants a deal done so the decision point is what Trump ultimately decides. We have taken the admittedly uncreative stance that Trump is driven not by long term policy or economic consequences, but what will get him reelected in 2020. In other words, what short term domestic political call is good for Trump? A strong economy, full employment and rising if not stable stock and housing markets. This is why he was so vocal about Fed Reserve Chairman Powell's hawkish interest rate stance in early 2018. And this is also why we think a deal with China, while exact timing is uncertain, seems inevitable to happen before the election cycle is in full swing. We shall see.

How does the trade war impact our investments today? We own several stocks that are directly impacted by the trade war. Apple, Murata, TSMC and Broadcom are all exposed to the smartphone value chain, which may be disrupted. We have other stocks, such as Nike, that may face some challenges if it's manufacturing base must reallocate to another country. Despite these exposures, the long-term competitive position of these businesses remains strong and their valuation is reasonable.

To summarize, given these major shifts, there is both risk and opportunity. (1) In terms of risk, we need to be ever more vigilant regarding the risk of competition as China moves up in its quality/technological curve, especially in the case for our firms that operate and do a lot of business in China. In five years, they may run into competition with firms that we may or may not have heard about, or those that exist but the market has not paid much attention to today. (2) There is also opportunity as we try to identify more Chinese firms that are on the path to becoming a national or even a global champion. When we look out over the long-term, this is almost a certainty – it is hard to imagine in 20 years that the most strategic sectors continue to be dominated by foreign firms. This is not to say foreign firms have no future in China, but what's certain is that the share of local champions will grow. It is the Global Equity & Income team's job to identify those as they develop.

What contributed positively to performance?

Sony Corporation was our best performing stock last quarter, up almost 22%. The share price was cheered up by a series of positive corporate actions. On May 15, Sony Corp. announced its most significant share buyback in corporate history, 200 billion yen or almost 5% of its stock. It demonstrated the management's determination to close the gap between its intrinsic value and current market valuation. This quarter Sony and Microsoft also unveiled a surprising partnership where the two companies will collaborate to develop future cloud solutions for games and content-streaming services. This memorandum, albeit preliminary, mitigates some of the market's concern over Sony's gaming business longer-term if cloud gaming is the future. In addition, activist investor Third Point has proposed to Sony's Board to spin off its movie assets and semiconductor unit to boost market valuation. Although it is unlikely that the Board will accept the current proposal, it does highlight the discount Sony trades at relative to what we believe its worth. We continue to believe that Sony possesses world-class content portfolio across music, pictures and games, where synergies can be created. The most recent success of movie *Spider-Man*: *Far From Home* and PS4 game Spider-Man is a good example of franchise IP can be monetized across media forms. With a valuation of 5.5x EV/EBITDA and 13x P/E, Sony still represents one of our least expensive positions.

Dentsply Sirona, the largest manufacturer of dental consumables and equipment, also helped performance last quarter. The company merged with hardware provider Sirona, which makes computer assisted imaging and manufacturing equipment (CAD/CAM). Today, Dentsply is the leader with a 21% share of the $21 billion market. The company's sales are 35% U.S., 40% Europe and 25% rest of world. The business has been very defensible and inversely leveraged to the unemployment rate. Dentsply Sirona's consumable dental supplies include endodontic (root canal) instruments and materials, dental anesthetics, prophylaxis paste, dental sealants, impression materials, restorative materials, tooth whiteners and topical fluoride. Consumables represent 55% of the company's sales and are largely recurring in nature. Small equipment products include dental handpieces, intraoral curing light systems, dental diagnostic systems and ultrasonic scalers and polishers. The company's diverse product offering isolates the company from any one product significantly impacting sales. After a tough start post-merger, management's restructuring plan seems to be working and the company has returned to growth. We continue to maintain our position Dentsply.

Sika was our best European performer in Q2, returning almost 20%. The company closed its largest deal ever, buying Parex for CHF2,500M, in May. This deal showed management's ability to find and execute a large deal at a reasonable price in a market where most companies are insensitive to the price they are paying for assets. The street responded favourably, saying Sika management was understating the scope for both revenue and cost synergies, which led to a round of target price raises. In the end, most Wall Street analysts chase momentum and will change their target prices in response to the first analysts raising their targets – "maybe she knows something I don't," or "he has a better relationship with management." They also move their target prices in tandem with the stock price's actual move – "I can't afford to be an outlier," e.g. the nail that sticks out gets hammered. These Wall Street games offer no value but can affect price in the short term. As long-term investors, the price doesn't tell us much about intrinsic value, and a 20% move isn't necessarily very significant. What matters is how the firm is developing both operationally and strategically. Do they have the right strategy? Are they executing it well? To what extent does the firm drive its destiny vs. the competitive landscape dictating their direction? In the case of Sika, we benefit from terrific management – one with integrity, determination, and great operational and capital allocation skills. With Sika, we get that management team applying themselves to execute a great strategy at an excellent business, with outstanding economics, a deep moat, and extremely attractive reinvestment opportunities. The last cannot be overemphasized: the difference between having the opportunity to reinvest excess cash flow at 5%, 10% and 15% over a long enough period is akin to the difference between a college starter with no chance of making the NBA and LeBron James.

A late contributor to fund performance was **Allergan**, the pharmaceutical company that makes products which include Botox, Juvederm, Restasis and others. After a frustrating couple of years for the company and for shareholders, the company announced it was being purchased by competitor Abbvie for a 45% premium. While we are disappointed with the price, as our intrinsic value is higher, it was a welcome relief. The deal is two-thirds cash and a third in Abbvie shares. Abbvie had a concentration problem with their drug Humira accounting for 60% of sales, this deal allows them to diversify and add a great set of businesses. We continue to hold a trimmed position in Allergan in anticipation of the deal closing in 2020.

What detracted from performance

Occidental Petroleum was our biggest detractor and worst performing stock in the quarter by far, down over 24%. As we will go into some detail with our Hannover Re discussion, when investing in a commodity business, investors have three critical factors to consider: is the operator a low-cost producer; how skilled is the management at allocating capital; and strength of balance sheet. As a multinational oil and gas company, Occidental is considered a partner of choice for many companies and countries due to its technological capabilities, experience managing reservoirs, and global reach. The company has an attractive growth profile and low-cost assets in the Permian Basin and the Middle East, specifically Oman and the United Arab Emirates. Given low operating costs and modest maintenance capital expenditures, these businesses are profitable across a broad range of oil prices. Going into the quarter the company's management had a proven reputation and created a strong corporate culture with a focus on returns, steady growth, and consistent dividends. Occidental had a fortress balance sheet and we were getting paid a dividend yield of over 4.7% to wait for energy prices to rebound. And then company leaders come forth with what appears to be a hastily put together $38 billion bid for Anadarko Petroleum, the industry's biggest deal in over four years. It is unclear whether the deal improves the company's strategic position and while Occidental has proven to be a good operator, taking on a company of this size does bring execution risk and increases financial leverage. Furthermore, Occidental's board appears to have "rubber-stamped" the deal, negotiating it quickly to avoid a shareholder vote and allowing it to outbid Chevron. How were they able to secure financing so quickly? Warren Buffett was happy to oblige, providing $10 billion in exchange for preferred shares paying an 8% coupon plus warrants to buy additional common shares (a similar structure the financier used, coincidentally, to take stakes in Goldman Sachs, Bank of America, and GE during the financial crisis). There appears to be limited support from minority shareholders for the deal and there are prominent activist investors involved. We will continue to monitor the situation closely.

What changes have we made to the Mackenzie Global Dividend Fund?

As long-term investors, we invest in companies with the intention of typically owning them for many years. Indeed, our typical holding period is well in excess of five years. However, one of the ways that our holding period can be cut short is when we recognize that our investment thesis has been broken. Such was the case with our investment in **Asahi Group**. Admittedly, this was a difficult one to swallow because we had built a position in this name only one month before concluding that our thesis had been broken. However, in recognizing the importance of sticking to our process, we decided that coming clean with our mistake and selling Asahi was the right thing to do. While the resulting financial loss to the fund was not material, this has been a humbling experience and a mistake that we will certainly learn from.

Asahi Group is Japan's leading beer producer. The company has always had an ambition to grow internationally. For the better part of the last decade Asahi has been shopping around globally for deals, buying up overseas companies of varying sizes, the largest which was the acquisition of former SAB Miller's European assets in 2017, which made Asahi the third largest beer producer in Europe. Over time, investors grew increasingly unsettled by Asahi's heightened debt level and management's appetite for acquisitions despite a track record which shows past capital allocations have more often destroyed rather than created value. In an attempt to please and calm investors, management emphasized the company's stronger commitment to financial discipline moving forward, communicating its multi-year priority as focusing on reducing debt and raising shareholder payouts.

From our perspective, while we were aware of these issues, we took management's commitment as a favorable change. When we shifted our eyes off management's spotty track record of capital allocation - which in hindsight was a terrible idea - what we saw was a company that owned valuable global brands (Asahi Super Dry, Peroni, Grolsch, Pilsner Urquell) that were well positioned to grow organically in the global premium beer market. Cost reduction efforts were also progressing well which would contribute to expanded margins. Asahi's share price looked cheap both relative to sector peers and based on the absolute level of business and profit growth that we expected the company to generate in the coming years. In addition, debt reduction has been progressing steadily and conditions were ripe for possible dividend hikes in the near future. In short, a beer company trading at a discount that owns great brands, enjoys leading local scale across multiple markets, and has a clear plan to drive margins and cash flow higher has historically generated excellent investment returns. But in a surprising turn, Asahi's management announced on July 19th that the company is planning to make its largest acquisition to date, spending almost $15 billion to acquire Carlton & United Breweries (CUB), the largest brewery group in Australia.

We were taken back by this announcement not only because of management's departure from its prior commitment, but more importantly the lack of merit in this new deal from a shareholder's perspective. The company would take on a substantial amount of additional debt while also diluting equity, only to pay a full price for a mature asset with debatable amounts of synergy with the company's existing operations. We cannot imagine that a true owner of a business would be willing to spend their own money in such a way. The most important factors that determine the success of an acquisition, from a shareholder's point of view, are price and synergy. We believe the price paid of 14.9x EBITDA (roughly two to three multiples above peer average in this industry), is rather expensive for a cost-optimized asset in a mature geography. Another interesting way to look at the purchase price is that Asahi is spending close to $1,000 for every man and woman of working age in Australia to acquire them as customers. Regarding synergies, we are always cautious rather than optimistic. Buying a business is always the easy part, but it is the post-merger integration where management teams often fail to deliver. With the acquisition of CUB, we believe Asahi may be attempting to bite off more than they can chew. It comes at a time when management has yet to demonstrate to investors the synergy from its other recent European acquisitions, and we question whether the company has the adequate management focus and resources to take on a global integration project that has now significantly expanded in scope. Also, Asahi's past acquisitions made in the Oceania region have ended in substantial impairments - there is no indication that management is particularly competent at operating in this region of the world. Finally, we did not feel comfortable with the high level of debt that the company will be saddled with post acquisition. The result of all this was that we had to substantially lower our assessment of management and decided Asahi deserves a greater management discount than was previously recognized. Along with Occidental Petroleum, this quarter was a painful reminder in the importance of good capital allocation decision making which is something that no investor can afford to take their eyes off.

Kao Corporation is Japan's leading consumer products company, sometimes referred to as the "Proctor & Gamble of Japan". Kao has a highly defensive and cash generative business in Japan, and the company has also grown significantly in China thanks to the strong sales of its baby diapers and cosmetics products. While we continue to regard Kao as a well-managed consumer products company with good regional growth prospects in the Asian markets, the stock sits at a lofty valuation. We believe this valuation has already priced in much of the upside in its core business segments over the next few years, thus leaving little margin for error. Specifically, the market may be underestimating the competitive risks in the Chinese baby diapers market where profitability is currently being challenged. The current valuation does not seem to factor in the possibility that the challenges in the market turn out to be more structural in nature rather than temporary. With valuation being the main concern, we decided to take money off the table.

We will continue to maintain an active dialogue with Kao's management and monitor the company for potentially attractive entry points in the future, as it remains a Dream Team company.

After less than a year as shareholders we sold our position in the largest pharmacy business in the world. **Walgreens** is led by its CEO and founder Stefano Pessina, one of the best capital allocators in the industry. Our thesis was that the management team was going to improve margins in the front of their stores while the back of store prescription business would remain steady. While we still believe the front of store retail can be improved, we did not expect reimbursement pressure for prescriptions. This was a thesis change for us as we no longer believe the business can compound over the long term. We exited our position and removed the company from our Dream Team.

Another sale after years of struggle was **Harley Davidson**. While we like the company's products, to our dismay the company continues to decline. The company's customer is aging, and they have not been able to reach the younger consumer. It became clear that they do not have proper customer relationship management in place and therefore it becomes impossible to determine when the business starts growing again. The shares are inexpensive and pay a good dividend, however we do not invest in declining businesses and have exited our position and have also removed the company from our Dream Team.

The Fund initiated a position in **Hannover Re**, the world's third largest reinsurance group. It is an excellent company for a variety of reasons. First is its track record: its ability to grow above industry rates and generate significantly higher levels of return on capital has resulted in a stock that has massively outperformed its peer group (15-year CAGR of 16.4% versus 8.8%). Over ten years $100 invested in Hannover Re would have turned into $881 vs. $442 for the peers. This performance is impressive because it was achieved over a long period of time in a terrible industry. Reinsurance is a commodity business, as is insurance, and similar in certain ways to mining. Except the commodity here is capital. The overwhelming majority of firms in any commodity business will not earn their cost of capital over a cycle. Typically, they destroy capital, and long-term investors looking for high quality investments will avoid those industries. Which begs the question: when should we consider a commodity business? Simply, we buy the lowest cost producer - the firm who will keep making profits, when peers are suffering losses and folding. We are not innovating with this approach…but it takes discernment to identify them, particularly in a complex business such as reinsurance (the accounting is not always straightforward). It also takes discipline to resist the temptation to "trade" the high cost firms when the sector is washed out. When the sector is struggling, the high cost firm will see its profits and share price fall much more than the lowest cost firm, which explains a large part of Hannover Re's outperformance over time.

For an insurer or reinsurer, what does the lowest cost producer look like? It has the lowest cost ratio – that statistic captures overhead costs, the cost of acquiring customers, etc. It has an underwriting ratio, or the judgement and selection of risks it underwrites, that is better than its peers over time. To have both requires a rational culture with lucid incentives, as well as structural business advantages. Critically, a rational culture is delicate. The culture needs a sensible management willing to make tough decisions in order to not erode. Insurance business is easy to win and have a great time today only find yourself with an astronomical bill later. We have seen Hannover Re's management pull back significantly in large business lines, sometimes where they were the market leader, when price levels became uneconomic. In one instance, while the market continued to grow strongly, Hannover Re shrank its business by almost 90%. While management has made mistakes, they are extremely transparent about them. Their long-term record proves their good business judgement. Another classic way insurers and reinsurers get in trouble is through bad investments. The companies get cash upfront from client premiums (this is known as 'float'), while only paying the claims as they arise in the future. In the interim, they invest the money. A key criterion for investing in an insurer or reinsurer is that they have a sensible approach on the investment side. This is the case for Hannover Re. Having been shareholders of Hannover Re in the past, we have met with management over a period of more than a decade, visiting both their headquarters and various local operations. As such, the team believes the success factors that have generated the company's past record are sustainable.

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Index performance does not include the impact of fees, commissions, and expenses that would be payable by investors in investment products that seek to track an index.

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On July 26, 2013 the Mackenzie Global Dividend Fund changed its mandate from investing in equity and fixed income securities of companies that operate primarily in infrastructure related businesses to investing primarily in equity securities of companies anywhere in the world that pay or are expected to pay dividends. The past performance before this date was achieved under the previous objectives.

The investors in Mackenzie US Dividend Registered Fund are restricted to certain registered plans whose planholders are residents of Canada or the U.S. for tax purposes, as more fully described in the Fund's simplified prospectus.

The rate of return is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual fund or returns on investment in the mutual fund.

Fund and Benchmark Performance as at: June 30, 2019	**1 year**	**3 years**	**5 years**	**Since PM Change***	**10 years**
Mackenzie Global Dividend Fund F	9.0%	7.1%	10.7%	11.6%	12.4%
MSCI World Index NR (CAD)	5.6%	9.0%	12.0%	11.1%	11.2%
*PM fully implemented new strategy February 1, 2014. Inception on July 12, 2007					
	1 year	**3 years**	**5 years**	**Since inception****	
Mackenzie US Dividend Fund F	0.7%	10.1%	12.1%	12.0%	
Mackenzie US Dividend Registered Fund F	1.2%	10.2%	12.1%	12.0%	
S&P 500 Index (CAD)	9.7%	14.4%	15.3%	15.0%	
**Inception on April 24, 2014					

MACKENZIE Investments