Mackenzie Canadian Small Cap Fund – Investor Series

Q1-2019 COMMENTARY

Performance Summary

- For Q1 2019, the Mackenzie Canadian Small Cap Fund posted a return of 13.5% This compares with the S&P/TSX Small Cap Total Return Index return of 10.7%

Contributors to Performance

- Risk-on rally supported equity out-performance in Q1, a steep drop in the yield curve since the start of the year supported fund flows into equities.
- The Fund's many holdings in industrial and consumer discretionary sectors had a strong recovery after the last quarter sell-down. The ease of trade war worries, and strong US economic data have strongly boosted the sentiment.
- The Fund's technology holdings had outperformed the general market in the quarter, as those high-quality holdings recovered strongly after a reset of expectations.
- The Fund's security selection in the energy sector posted strong returns despite its underweight relative to the benchmark.

Detractors from Performance

- The Fund has no exposure to the cannabis space, and specifically Village Farms International Inc. which was up over 300% for the quarter. Excluding this single stock contribution, the Fund's performance of Consumer staples was in line with the index.
- GreenSpace Brands Inc. reported disappointing results, unable to turn a positive EBITDA due to an ambitious growth plan south of the boarder and a recall related to its key Love Child brand. The company also ran into covenant issues because of a stretched balance sheet.
- Gold stocks retreated in Q1 due to the lack of macro fear, funds have since flowed into more risk-on equities and the bond market.

Portfolio Activity

- During the quarter we added Fortis Inc., CGI Inc. and Waste Connections to the fund.
- We sold Premium Brands Holdings Corp., Swiss Water Decaffeinated Coffee Inc. and BRP Inc. from the Fund.

Outlook

- Stocks across the board have finished the first quarter on a strong note, with the TSX small cap index closing up 10.7%, the best quarterly performance in a decade. Equities benefited from a flow of funds as macro fear toned down and investors flocked back to capital markets. All TSX Small cap sectors delivered positive returns in Q1 except for Consumer Discretionary, which was modestly lower. Moreover, interest-sensitive Utility and Real Estate stocks advanced as bond yields declined. There remains a strong interest in the Canadian utility sector due to the benign interest environment and its defensive nature. We believe technology names with strong recurring revenue growth and strong balance sheets for acquisitions will also deliver consistent performance through market volatilities.
- We are optimistic that a US recession should be averted for now and new trade deals would be reached between US and China, a combination of improved sentiment could carry momentum further as fears of missing out intensify. However, we also believe the market needs to see more positive earnings outlook to solidify the positive trend. At least part of the decline in rates is likely due to investor expectations of a weaker economy. In our view, a portfolio with a focus on higher quality names remains the best bet. Those names have a proven track record of delivering growth both organically and through prudent capital allocation. We opportunistically rotated holdings to many high-quality defensive stocks and topped up positions in our key holdings since the end of the year. We believe the strategy will yield better results for the coming quarters.

MACKENZIE Investments

PORTFOLIO MANAGEMENT TEAM:

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Fund and Benchmark Performance as at: March 31, 2019	1 year	3 years	5 years	10 years
Mackenzie Canadian Small Cap Value Fund - Investor Series (Performance data shown uses Investor Series, which has a management fee that is 0.35% lower than Series A)	-0.6%	4.5%	1.9%	12.8%
S&P/TSX Small Cap Total Return Index	-1.8%	5.9%	0.2%	8.1%