Live with Darren McKiernan

Market volatility and the Mackenzie Global Equity & Income Team

Portfolio update

On May 21, Mackenzie hosted a webinar featuring **Darren McKiernan** (Senior Vice President, Portfolio Manager, Head of the Mackenzie Global Equity & Income Team).

Webinar highlights

Macroeconomic perspective

- Since the middle of March, global markets have recovered strongly and extreme volatility has subsided. However, as the U.S.-China trade war rhetoric seems to be heating up again, some higher levels of market volatility may return.
- Earnings growth in 2020 will likely be a write-off for most companies as a result of the COVID-19 impact. The market anticipates a worst-case scenario, so even if a company reports weak numbers, the stock price could rise if those numbers exceed analyst expectations. This reflects how low investor expectations have become.
- Companies that have demonstrated high ROICs and progressive dividend payouts have historically outperformed – with lower volatility – and we don't see why this will change. High ROIC dividend-paying companies are the bedrock of the Global Dividend fund.
- Dividend yields in the U.S., Europe and most developed markets are at all-time highs versus most 10-year bond yields, but without the duration risk. With sovereign bond yields so low, even a small increase in interest rates would have a negative impact on its principal.

Update on Mackenzie Global Dividend Fund

- The team is not bucketed as either growth or value. We are agnostic investors who own companies across the spectrum. Our main concern is investing in high-quality businesses that pay attractive dividends. Our disciplined approach has historically added good value relative to the benchmark in both value and growth environments.
- About 60% of the portfolio is in more defensive industries (e.g., food companies, pharmaceuticals, data service/processing). Because of our balanced approach, we consider the post-pandemic environment as well, and continue to remain invested in "offensive" businesses, which are currently out of favour. We hold companies in industries that project to have good growth potential over time (e.g., aerospace, industrial manufacturing, travel and leisure), provided that their balance sheets and other fundamentals remain relatively strong.
- In late February, we sold all three of our energy positions as we were not comfortable holding what were among our lowest quality businesses in the face of a likely massive demand shock brought on by COVID-19. We used the proceeds to buy other companies that were higher on the quality chain. The Fund's health care exposure came down mainly due to the sale of two positions that were part of a merger that closed (AbbVie and Allergan). Exposure to information technology has risen amid the sector's favourable conditions.
- While cash balances in the Fund were roughly 4% in late February, we deployed capital to make investments that have upgraded our portfolio. As a result, cash now sit around 2.5% (typically, our cash levels are not high as we strive to deliver on our all-equity mandate). With the potential for more volatility as the world moves forward through this pandemic, we will seek out attractive price dislocations in the market and will take action accordingly. We know what we want to buy and where our funding sources will come from.
- The Fund's P/E multiple has risen as stock prices have rebounded and earnings have come down, but the actual valuation gap versus the market has narrowed as the market's earnings have come down more significantly than our Fund's. As such, we believe our portfolio still offers decent value relative to the benchmark, with far superior quality attributes. Our high-quality holdings have held up reasonably well through the pandemic in relation to the broader market, with the various industry exposures performing as we would expect them to.
- Many companies have been cutting their dividends, but the Fund now has a slightly higher dividend yield than its benchmark. Dividend cuts can be a prudent strategy if the company reinvests in their business during this challenging

environment as they try to grow their competitive advantage/moat. We expect dividend payments for our companies to bounce back once the economy recovers.

- In addition to having a higher dividend yield relative to the benchmark, the Fund is stronger in other key metrics, such as operating profit margin, EBITDA margins, return on equity and interest coverage. Since our team took over management of the portfolio (Dec. 2013), the Fund has outperformed its benchmark in all key time periods – with better upside capture and downside capture as well, which historically has helped mitigate volatility for a smoother investing experience.

Check out the webinar

This webinar is available on-demand! Access the playback here.