Mackenzie Global Dividend Fund– Series A

Q2-2015 COMMENTARY

Performance Summary

- For Q2 2015, Mackenzie Global Dividend Fund returned -0.9%. This compares with the MSCI World Total Return Index ($CDN) return of -1.1%. The Fund outperformed the index due to stock selection in consumer staples and materials. Overweight allocation to and unfavourable stock selection in industrials was the primary detractor.
- **Over the last 12 months, the Fund is up 16.3%,** good for **36th percentile** in the Morningstar Global Equity Funds peer group which returned 13.6%.

Contributors to Performance

- Purchased in Q1 2015 quarter, **Kweichow Moutai** was one of our strongest performers. Moutai makes Baiju, a Chinese white spirit that retails for over U.S. $100 and enjoys a fabled history that includes everything from claims of being Mao's choice of liquor to having a formulation so pure that it won't leave you with a hangover. Moutai earns a 50% margin on fully taxed sales, has a net cash balance of almost 10% of its market cap, and has grown sales and EPS every year since 2001. At U.S. $45 billion in market cap, the company generates over U.S. $2.5bill in free cash flow and pays a 2.5% dividend yield. It is currently selling for about half the comparable multiple of other global spirit manufacturers. Despite its recent move, we feel comfortable continuing to own the stock at these levels.
- Other strong contributors to performance include **Altera** after its takeover announcement by Intel and **CK Hutchison,** the formerly named Cheung Kong Holdings, which split into CK Hutchison and CK Property Holding during the quarter.

Detractors from Performance

- One of the larger detractors from performance was **Oracle**, which reported quarterly earnings in June that disappointed the market. We believe the underlying database software franchise remains strong and the earnings "miss" was the by-product of a business model transition towards the sale of cloud services. While initial upfront revenues are lower, these sales generate recurring revenues and profits over time. We view these subscriptions as more attractive than the traditional model of selling a one-time, lump sum license fee. The move to the cloud over time is expected to ultimately reduce the seasonality in the business and expand Oracle's total addressable market. We took advantage of the market's reaction to the quarter and added to our position.
- Other detractors to overall performance also included **Motorola Solutions** and **Jardine Matheson.**

Portfolio Activity

- The Fund added **Japan Tobacco.** One of the fastest growing tobacco companies in the world, JT has #1 position in Japan, Russia, and Taiwan, #2 in Italy, UK and Turkey, and #3 in France and Spain. 40% of their profits come from domestic tobacco and 60% from their international operations, which has consistently grown operating income double digits. Even with Japan as a whole more fully embracing the concept of "shareholder value", JT stands out. With a minimum 50% dividend payout ratio, a willingness to exit unprofitable businesses (they have various food and beverage interests that generate U.S. $3 billion in sales and zero profits) and deploying accretive share repurchases to return capital to shareholders, management continues to take the right steps to unlock value. Optionality also exists in the form of a large government stake that will likely be bought out over time, and a domestic tobacco pricing structure that when compared to other developed markets, leaves ample room to raise prices significantly.
- The Fund also initiated a position in **Hershey Co.**
- Positions in **Henkel AG** and **Corrections Corp.** were sold as they exceeded intrinsic value and/or more attractive opportunities were found.

Outlook

- The global macroeconomic headlines were dominated by three themes this quarter: Greece's future within the European Union, China's stock market rise and subsequent collapse, and (to a lesser extent) the timing of a U.S. interest rate hike.

Mackenzie INVESTMENTS

- As of this writing, it would appear Greece's left-wing leaning Prime Minister Alexis Tsipras' high stakes game of chicken with the EU and IMF is about to come to an end. After spending all year challenging Europe's bailout policies and, much to the world's surprise, calling and winning (in the most pyrrhic sense) a snap referendum that presented the Greek people with in essence a "yes or no" choice on austerity, the result has been the near collapse of the Greek banking system and complete loss of trust of their European creditors. Over the weekend the EU team has offered credit extension and program terms that are much harsher than what had been discussed leading up to the election. This is not a negotiation: either Greece accepts the terms or the wheels are set in motion that will lead to the country's formal default and removal from the EU.
- Despite the geopolitical drama, the Euro strengthened versus most currencies this quarter and Europe has been one of the better performing equity markets, climbing that proverbial wall of worry. The estimate of Eurozone growth has gone up recently, as the impact of structural reform, lower energy costs, and looser monetary policy appear to be having a positive effect on the overall economy. Apparently, the potential negative impact of a Greece exit has been put in its proper context by the capital markets. Next year Apple, a company with 100,000 employees, should generate more sales – approximately U.S. $240 billion – than the entire GDP of Greece.
- In China, its economy's continued weakness has prompted authorities to begin monetary easing. As the Chinese economy transitions from an investment-driven to a consumer-driven one, there will be setbacks. Case in point: the Chinese stock market has realized significant volatility over the past few months as retail investors, presumably seeking to make a quick buck after watching the market rise well over 100% in less than a year, pile in right at the top only to see it lose ¼ of its value at one point. Their securities regulator semi-panics and implements random controls and regulations to stem the tide, with predictably mixed results. While it makes for interesting headlines and charts, we feel the impact to the overall economy will be muted, as stock trading is dominated by unsophisticated speculators and overall household ownership at well under 10% is still a fraction of what it is in the developed world. In the end, we feel this is just a speed bump and that China, with its U.S. $10 trillion economy, will only continue to grow in importance as a capital market over time. The Fund is very comfortable with its roughly 5% allocation to China-related companies, as they are made up of superior quality franchises that have a history of generating excess cash and healthy dividend streams.
- And finally, all eyes are on the Federal Reserve as markets await the first interest rate hike since the start of the Global Financial Crisis. While most market prognosticators have been calling for a September rate hike, the timeline seems to be a moving target as inconsistent inflation data coupled with an ever-shifting global macro outlook makes exact timing a tough thing to predict.
- As we have mentioned before, economic and geopolitical events will come and go and the ensuing price movements as a result of these events more often than not have very little impact on the intrinsic values of the companies in which we invest. And while 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, we are more than likely to 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:

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On December 9, 2013 Darren McKiernan became Mackenzie Global Equity & Income Team Lead and assumed management responsibilities.

On July 26, 2013 the 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.

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Fund and Benchmark Performance as at: June 30, 2015	1 year	3 years	5 years	Since Inception (March 2008)
Mackenzie Global Dividend Fund Series A	16.3%	15.5%	13.9%	8.6%
MSCI World Total Return Index ($CDN)	18.7%	22.3%	16.8%	6.1%