Mackenzie Ivy Global Balanced Fund – Series A

Q2-2015 COMMENTARY

Performance Summary

- For Q2 2015, the Fund returned -2.3% vs. -1.5% for the blended benchmark (comprised of 75% MSCI World Total Return Index net-$CDN (returned -1.1%)/25% Bank of America Merrill Lynch Global Broad Market Index $CDN (returned -2.6%).
- On August 14, 2014, Mackenzie amended the Fund's investment strategies to specify its ability to allocate its assets between equity and fixed income securities, and Alain Bergeron assumed responsibility for asset allocation in the Fund.

Contributors to Performance

- From a geographical perspective, stock selection in Switzerland, Finland, Norway, and Australia had the largest positive effect on relative performance.
- At the sector level, stock selection in the material and energy sectors added the most value.
- At the stock level, the portfolio benefited most from its position in Syngenta AG, a Switzerland based leader in the development of crop protection chemicals and seeds for farmers. Monsanto made an acquisition bid for Syngenta, sending the stock price of the latter sharply higher. However, the price did not reach the level of Monsanto's offer, which has been rejected by Syngenta's board of directors. Time will tell if, and at what price this takeover will happen. However, we took this opportunity to materially reduce our position in Syngenta.
- Another strong contributor to performance was Nike Inc. During Q2 the company reported another extremely strong quarterly result as their "category offense," along with direct-to-consumer efforts continue to work very well for them. Phil Knight announced his plans to give up his Chairman of the Board position and Mark Parker, the current CEO, was recommended by Knight to take his spot. In our opinion, there would be no Nike without the intensity and focus of Phil Knight and these types of transitions always have a risk element to them. Our view is that Nike's culture of innovation, disruption and competitiveness is deeply rooted in the organization and will potentially continue – allowing them to remain leaders and dominate the industry.
- The Fund's significant underweight in core duration contributed to performance along with its allocation to loans, high yield bonds and inflation linked bonds.

Detractors from Performance

- From a geographical perspective the largest detractors included stock selection in the U.S. and the UK, being completely void Japan, and an out-of-benchmark exposure to South Korea. At the sector level, stock selection in Consumer Discretionary and Financials was a source of relative weakness.
- In consumer discretionary, Hyundai Motor Company was the biggest driver of underperformance. This name was also the largest drag on overall portfolio performance at the individual stock level. Hyundai reported its fiscal Q1 results during Q2 which were somewhat weak, with a year-over-year decline in both production volumes and margins. Hyundai's financial performance over the past few quarters has been pressured by adverse currency movements (weaker euro, weak emerging market currencies), and higher incentives to clear out aged models in the U.S. and China ahead of new model launches. The company is set to launch several model refreshes in 2015 and 2016, including the high volume Tucson and Elantra, which we expect will help ease this pressure. Furthermore, the management reiterated its commitment to a refocused capital allocation strategy and noted that they are considering paying an interim dividend and implementing annual dividend increases, which may help alleviate some of the negative market sentiment that has been weighing on the stock's valuation. We continue to view Hyundai Motor as a well run auto company and in our view management actions remain well aligned with preserving and growing the company's brand value over time.
- Omnicom Group Inc. was another notable detractor to overall portfolio returns. The company reported earnings in Q2, which revealed that the gains from solid organic growth were more than offset by foreign exchange headwinds given that about a third of its revenues are generated outside of the U.S. Omnicom is a global advertising services holding company that owns three of the premier global advertising agency networks. The company is continuing to transition in its business as the mix of advertising dollars spent shifts towards digital. Digital advertising has dramatically increased the number of ways in which advertisers can spend dollars and reach customers. Digital advertising also allows for much greater customer segmentation so advertisers can better ensure their message reaches their target (think about all the typical information on a Facebook profile). While digital

advertising has benefits, it has also added complexity to a process that used to be as simple as choosing between print, radio or TV. We expect Omnicom to continue to benefit from growth in its digital business as its customers are coming to Omnicom to help make sense of the complexity.

- The Fund's overweight exposure to peripheral Europe and exposure selective emerging market bonds detracted from performance.

Portfolio Activity

- At of the end of the last quarter, the Mackenzie Fixed Income Team decided to broaden out the geographic focus of the fixed income allocation from a largely focused Canadian exposure to a more global exposure. Clients can expect a risk/return experience substantively similar to what they have known from the fund. However, the sources of fixed income returns will change somewhat. Going forward, North American-based fixed income investments will form a smaller footprint within the fund, while exposures to global fixed income investments, and some associated currencies, will be larger than in the past.
- On August 14, 2014, Mackenzie amended the Fund's investment strategies to specify its ability to allocate its assets between equity and fixed income securities, and Alain Bergeron assumed responsibility for asset allocation in the Fund. The Fund's asset mix will now generally be kept within the ranges of 60% to 90% equity securities and 10% to 40% fixed income securities, including cash and cash equivalents.
- The portfolio initiated one new position which is currently in the process of being accumulated. We will articulate our thesis for this name in the future once the position is fully built. Furthermore, we added to several of our existing names, particularly in areas where valuations improved on the back of weakness in the stock prices. We also trimmed several of our holdings, with the largest reduction to our position in Syngenta AG following its stock price response to a takeover bid from Monsanto.
- The portfolio has been reducing its position in McDonald's Corporation for some time and the small remainder was finally eliminated in Q2. The decision to sell was driven by valuations as we adjusted down our growth assumptions due to a change in our view towards its potential for market share gains. Top line growth has been scarce and in our view it may take quite a while before the restructuring makes a meaningful contribution to business growth.

Outlook

Ivy Team's Outlook:

- Our investment decisions are not based on top-down calls that attempt to predict which central bank will be the next to inject liquidity, or which will be the next to cut rates. We focus on finding high quality businesses with a durable competitive advantage and good growth prospects, and use market dislocations as an opportunity to accumulate these businesses at attractive prices.
- In our view, equity markets remain expensive due to high valuations on what we believe are peak or near-peak profitability levels as measured by operating margins. There are some areas of interest to us which have become more attractive due to weaker share price performance of late but overall, within our larger opportunity set of world class businesses, we have remained on the sidelines from a buying perspective. Recent market volatility is a good reminder that opportunities will present themselves as fear and confusion will eventually replace confidence and hubris allowing us to invest at acceptable rates of return.
- We typically do not comment on broad macro events, however, it is worth making some comment on two big and quickly developing stories – Greece and China.
- First, we have no idea what will happen with Greece. There numerous scenarios that one could outline, but no matter what unfolds, we do not believe there is an easy way out.
- At time of writing, it looks like both sides are once again reverting to what all policy-makers have done since the financial crisis started - kicking the can down the road. The rest of Europe is essentially trying to force Greece to borrow even more money that they won't be able to pay back. Bail-outs and printing money don't solve problems, rather they simply push them off to a later date at which point the problems become larger. Many believe that no matter what happens with Greece that Mario Draghi and the European Central Bank (ECB) will do "whatever it takes" to save Europe. However, in our view the current Greek crisis is a direct result of policy makers threatening to do whatever it took a few years ago. Having shifted tens of billions of dollars of Greek debt from the balance sheets of European financial institutions to the various government entities, central banks have enabled the transfer of risk to the public sector while allowing the private sector to retain most of the benefits.

- The situation in China is no less interesting. Policy-makers there have learned from Ben Bernanke and are using the stock market as a tool to create a hoped-for wealth effect in order to mask deteriorating economic fundamentals. The financial press in the west is shocked at China's measures which include the cancelling of initial public offerings (IPO's), banning some large stockholders from selling shares for six months, and many other acts that directly target the stock market. However, the only real point of differentiation between China and the Federal Reserve in their attempts to drive their respective stock markets higher relates to the sophistication of the tactics involved; in principle, there is no difference.

Fixed Income Team's Outlook:

- Following the path of global bond yields both Canadian and U.S. bond yields moved higher in the second quarter. The most significant price decline and rise in yield was experienced at the long end of the curve where the 30 year Government of Canada bond saw a yield increase of over 30 basis points. Similar to Canada, long U.S. Treasuries sustained the biggest price hit with yields rising almost 60 basis points on the 30 year Treasury. Recent statistics released on the economic health of the Canada suggest that the benefits of a weaker Canadian dollar on the economy are below expectations. At this time, the portfolio managers believe that the Bank of Canada will lower interest rates again; this is likely to happen at the next meeting which is slated for July 15th. For the U.S., the portfolio managers continue to believe that the FED will increase interest rates during the second half of 2015, the first increase since 2006.
- Global fixed income markets have, for the most part, seen a reversal of the positive performance experienced in the first quarter. As of June 30, 2015 the BofAML Global Broad Market Index has a YTD return of 0.1%, which breaks down into a Q1 return of +2.2% and a Q2 return of -2.1%. Yields in the G7 countries rose on average by slightly over 50bps providing one of the worst quarters experienced in core government bond duration in the last 20 years - only 4Q10 and 2Q08 have been of marginally higher magnitude. Central banks across the world continued their easing bias although less forceful than in the first quarter.
- The initial part of the sell-off in global rates was triggered by selling pressure out of Europe. German 10-year Bunds touched a record low yield of 5 basis points (bps) during a period when the market was worried about not enough supply to satisfy the purchasing demands of the European Quantitative Easing program. The subsequent rise in yields was extreme in terms of size, time-frame and lack of fundamental news. The second leg higher resulted due to stronger economic activity out of the U.S. fuelling expectations that the Fed will lift rates sooner rather than later. Risky assets in general performed reasonably well providing part of the buffer that is expected in a rising yield environment.
- Currency markets continued to trade in their new paradigm – the low volatility phase seems to be behind us for the time being. The Canadian dollar was broadly in the middle of the pack seeing a significant amount of currencies both under- and outperforming the Loonie. Positioning in the favorite trades (long USD, short EUR and short JPY) is still large as of the end of June but not at the record-breaking levels we saw earlier this year. Diverging central bank policies tend to create opportunities in the currency space as interest rate differentials play a large role in assessing the fair value of currencies.
- Looking forward, markets continue to be fragile as small speed-bumps have the potential to become larger issues spreading across various markets. The Greek drama or Chinese stock market volatility are important global events without a doubt. Each event can drag on for long or can be solved in a day of decisive action as its impact has not yet reached the real economy meaningfully. The longer uncertainty exists the higher the likelihood that there will be a negative feed-through into the fragile global economy. We continue to see more value in countries which are deemed to lag the cycle of rising interest rates.

PORTFOLIO MANAGEMENT TEAM:

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Fund and Benchmark Performance as at: June 30, 2015	1 year	3 years	5 years	10 years
Mackenzie Ivy Global Balanced Fund Series A	11.6%	13.4%	11.0%	6.3%
Blended Index (75% MSCI World Total Return Index $CDN + 25% BofAML Global Broad Market Index $CDN)	16.5%	18.2%	14.0%	6.1%