Mackenzie Growth Fund – Series A
Q2-2015 COMMENTARY

Performance Summary

- In Q2 2015, Mackenzie Growth Fund returned -2.5%. This compares with the S&P/TSX Composite Total Return Index return of -1.6%.
- The Fund underperformed the index primarily due to exposure to stock selection.

Contributors to Performance

- The Fund benefited from its exposure to U.S. stocks. An overweight exposure to health care and consumer discretionary, a lack of exposure to utilities and stock selection within financials, information technology, consumer discretionary and energy contributed to performance.
- The leading contributors at the security level include **Gildan Activewear Inc., Gilead Sciences Inc., Palo Alto Networks Inc.** and **Exact Sciences Corp.**
- Gildan continues to believe that it is well positioned for earnings growth in calendar 2016. The company expects to benefit from continuing volume growth and further manufacturing cost reductions, including the benefit of ramping up its new yarn-spinning facilities combined with lower cotton costs.
- Gilead Sciences agreed to acquire EpiTherapeutics ApS for U.S. $65 million EpiTherapeutics ApS is based in Denmark and develops and manufactures biopharmaceutical products for the treatment of cancer. The company also invested $100 million lab in a new lab in Edmonton.
- Palo Alto Networks (PANW) reported EPS that beat estimates driven by better than expected revenue and strong operating margins. The announced acquisition of CirroSecure, a SaaS application security company is expected to complement PANW's current offerings and be well received by its customers.
- Exact Sciences reported strong growth with its Cologuard colon cancer test. The company also announced a joint agreement with The University of Texas MD Anderson Cancer Center to develop and commercialize blood-based screening and diagnostic tests for the early detection of lung cancer.

Detractors from Performance

- An overweight exposure to information technology, an underweight exposure to financials and telecommunications services and stock selection within health care, consumer staples and materials detracted from performance.
- The main individual detractors included **Micron Technology Inc., Novadaq Technologies Inc.** and **Canadian National Railway**.
- Micron Technology traded down following a Q3 earnings release that missed most metrics. The company provided guidance for Q4 that came in materially lower than consensus on revenues, backed by commentary on soft PC demand and continuing DRAM pricing weakness, coupled with a slight, but surprising, rise in cost per bit. The company attributed the rising costs largely to an accelerated mix shift towards mobile and servers.
- Novadaq reported a 34% increase in revenue on SPY Elite kit sales, offset by a 16% decrease in the number of SPY Elite kits sold. SPY Elite imaging allows surgeons to capture, review, print and archive high-quality image sequences of blood flow in vessels and micro-vessels, tissue and organs in real-time during the course of performing a wide variety of surgical procedures.
- Canadian National Railway reported Q1 earnings that included a slight revenue and EPS beat, aided by a FX tailwinds aiding revenue per carload, along with volumes ahead of consensus. Lower fuel surcharges were estimated to reduce revenue growth by 300bps. The company lowered volume growth expectations to +3% from +4%, owing to lower targeted crude and frac sand carloads. Management is now comfortable with double-digit EPS growth and laid out improved FX tailwind assumptions from a stronger U.S. dollar.

Mackenzie INVESTMENTS

Portfolio Activity

- Positions were initiated in **Apple Inc., ServiceNow Inc.** and **Omeros Corp.**
- The portfolio managers exited the position in **Lululemon Athletica Inc.**

Outlook

- We believe that U.S. remains among the stronger regions. Job creation continues to be strong. New jobs created has averaged over 200,000 for over 16 consecutive months. Unemployment claims are also very low and at levels associated with over 3% GDP growth. Housing has finally started to show signs of improvement with a robust residential investment growth rate of 5.5% for Q1. We expect a continuation of the moderate acceleration in the U.S. economy. In our view, the biggest headwind that U.S. companies face right now is the strong U.S. dollar. Earnings growth is expected to be somewhat tempered by this headwind however, on balance we do remain constructive on the prospects of the U.S. market.
- All attention in Europe seems to be on the continuation in the Greek debt crisis. While it is now coming to a head, we are not convinced that the Greek debt issue will be satisfactorily concluded at this juncture. Fortunately, the European economy seems less concerned with Greece than the headlines, other than adding significant volatility to the stock market. Regardless of the outcome, our view is Greece's debt problems will not lead to contagion within the euro zone. In fact there are signs of improvement in Spain, Portugal and to some extent Italy. The French Purchasing Managers Index has been above 50 for several months, indicating that the economy is expanding there too. The corollary to the headwind that U.S. companies face with a strong currency is that European companies are beneficiaries of the weaker Euro and as a result we expect earnings to surprise on the upside going forward.
- China remains the region with the most uncertainty. The huge sell off in the China A-share market after the very strong rally earlier in the year has raised concern of a systemic financial crisis. We believe the economic impact will be limited. Indeed, there are near-term signs that investors are turning back to property as sales of real estate units have picked up in the face of the A-share market sell-off. We have no exposure to the A-share market, however the H-shares have also fallen 20% in this correction. Notwithstanding we are comfortable with our investments in the H-shares and feel there is an opportunity to add to sectors with strong fundamentals such as the Internet space.
- Finally, Japan has quietly been one of the best markets year to date. We expect that this trend may to continue as long as Japanese companies remain focused on improving returns for shareholders. In a country of shared values such as Japan, the move encouraged by Prime Minister Abe to improve returns could gain momentum. Given margins are just over half the level similar companies in the U.S. enjoy, we believe there is still a lot of room for sustainable growth in earnings in Japan for the foreseeable future.

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 Growth Fund Series A	6.1%	13.1%	10.4%	2.8%
S&P/TSX Composite Total Return Index	-1.2%	11.1%	8.3%	6.9%