# Mackenzie Gold Bullion Class – Series A

Q2-2015 COMMENTARY

## Performance Summary

- During Q2 2015, Mackenzie Gold Bullion Class declined 3.1%. This compares with the Gold Bullion Index (CAD) decline of 2.3% during the same period.
- Gold bullion prices were essentially unchanged (down 1.0% in USD) during Q2/2015 as the prior quarter's currency volatility abated, and gold prices continued to gyrate between disinflationary pressures and anticipation of an imminent U.S. rate hike on the one hand, and political/economic concerns in Europe/China on the other hand.

## Contributors to Performance

- N/A

## Detractors from Performance

- The Fund's performance is directly impacted by the performance of gold bullion, which depreciated during the period.

## Portfolio Activity

- The Fund was fully invested at quarter end with 95.8% in gold bullion, 2.0% in platinum bullion, 1.1% in silver bullion and 0.8% in palladium bullion.

## Outlook

- Gold prices continue to gyrate between the anticipation of an imminent U.S. rate hike and global disinflationary pressures on the one hand, and political/economic concerns in Europe/China on the other hand.
- The moderate growth of the U.S. economy continues to contrast sharply with the rest of world; which causes a disproportionate attention on the path for rate hikes in the U.S. The U.S. Federal Reserve will likely hike interest rates in the latter half of 2015 in an attempt to re-establish some credibility after six years of zero-bound interest rates and unprecedented Quantitative Easing. While the initial hike could cause a knee-jerk reaction in the gold price, we think it is unlikely that real interest rates (i.e., nominal interest rates minus inflation) are going to rise substantially over the next few years, as the path of rate hikes would have to be very gradual as economic growth remains below potential. Indeed, Fed chair Janet Yellen commented on July 15: "If the Fed waits much longer to raise rates it might be forced to move aggressively once it starts. However, if it moves sooner, that could allow it to proceed gradually and observe how the economy and markets respond." The Fund managers believe that real interest rates are a main determinant of gold prices in the long run, and do not view the likely imminent path of moderate U.S. rate hikes in itself as reason to be negative for gold.
- Global economic growth has substantially weakened during the first half of 2015, driven by a sharp slowdown in China and related emerging markets, combined with political uncertainty in Europe. Slowing growth rates exert disinflationary pressure on many asset classes, due to structural overcapacity in China, Europe and (to a lesser degree) the U.S., and due to the price declines of commodities that are suffering from widening supply/demand imbalances. Global central banks (with the exception of the U.S. Fed) are responding with even more monetary easing: the European Central Bank is about to accelerate its Quantitative Easing program, the Bank of Japan continues to print money at an unprecedented rate, and China has now also entered the ranks with several aggressive rate cuts. To date, these actions are merely trying to offset some of the disinflationary pressure, which explains why gold prices have not (yet) responded to this global escalation in monetary easing.
- The negative impacts of anticipated U.S. rate hikes and global disinflation were balanced during the second quarter by [1] mounting political/economic concerns in Europe and [2] economic concerns in China:
    - [1] Concerns about the stability of the Eurozone have introduced some modest re-pricing of risk. But the impact on the traditional safe haven, gold, has been muted to date as markets believe that Greece will be supported by a third bail-out. With Greece unable to support its future debt repayments debt restructuring appears unavoidable; however as Germany and other EU members are bound by strict principles and laws that preclude outright debt cancellation, the Greek situation could still become much more disruptive and result in a renewed appreciation of safe haven assets such as gold.

- [2] China's economic growth rate has continued to decline, with indicators of true economic activity suggesting GDP growth rates of 2-3%; well below the advertised 7% rate. The tightening of monetary conditions and reduced loan growth that previously stifled growth has abruptly been reversed in response to the recent stock market collapse. While surely being the least preferred option, the possibility of a sudden devaluation of the Yuan to boost export growth can also no longer be ignored. Volatility in real estate and equity prices is supporting Chinese demand for gold, which appears on trend with prior strong demand years.

- In summary, the portfolio managers expect gold prices to be volatile in a $1,050 to $1,400/oz range while real interest rates (i.e., the opportunity cost of holding gold) remain low and Central Banks struggle to regain control over key economic drivers. The near-term downside risk has increased due to disinflationary pressures and an imminent rate hike (which has resulted in a $100/oz reduction in the Fund managers' envisaged price range). Looking past these near-term headwinds, gold offers investors insurance against currency depreciation and policy risk, and an alternative to the low returns in alternative asset classes, such as government bonds. The managers therefore continue to recommend a through-the-cycle allocation of some 5 to 10% of liquid assets towards gold bullion and gold equities.
- Gold prices did rally in tandem with a strengthening U.S. dollar at the start of 2015, highlighting this renewed investor interest in gold as insurance to currency wars and relentless monetary easing. However, unrelenting U.S. dollar strength, reflecting the disparity in anticipated global growth rates and monetary policies, continues to result in a broad-based fund flow out of commodities that constrains gold's advance. The managers see the negative effects of a strong U.S. dollar on gold as transient, rather than permanent, and do note that gold prices continue to be stable (or rising) in most currencies, other than the U.S. dollar.
- The physical bullion market has stabilized due to further clarification of India's gold import regulations. Chinese gold imports remain on a long-term positive trend; partially due to the accumulation of gold by the country's central and major commercial banks. On the supply side, the primary mine production of gold is anticipated to shrink starting 2015.

## PORTFOLIO MANAGEMENT TEAM:

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| **Fund and Benchmark Performance as at:** June 30, 2015 | 1 year | 3 years | 5 years | Since inception (Jan. 2010) |
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| Mackenzie Gold Bullion Class Series A | 1.1% | -6.0% | 0.1% | 1.7% |
| Gold Bullion Index $CDN | 3.4% | -3.5% | 2.1% | N/A |



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