Mackenzie Precious Metals Class A

Q3-2015 COMMENTARY

Performance Summary

- Mackenzie Precious Metals Class ("the Fund") decreased by 16.0% during Q3/2015, modestly outperforming the S&P/TSX Global Gold Total Return Index (which decreased by 17.4% during the quarter). Misguided market fears of an "imminent" U.S. rate hike climaxed during the quarter.
- Gold bullion prices were down 4.9% in USD during Q3/2015 but once again bottomed out at approximately $1,080/oz as central bank buying and physical demand counterbalanced negative speculative flows.

Contributors to Performance

- **Romarco Minerals** was a significant contributor to performance (up 17%). The company received an opportunistic takeover offer. A majority of shareholders disappointingly approved the transaction; notwithstanding the significant uncovered exploration potential of the company which had been the key rationale for its core position in the Fund.
- Another exploration & development stage company that contributed positively was **Pretium Resources** (up 19%), which made progress in financing the development of the high-grade Brucejack gold deposit in British Columbia, while continuing to report exploration successes from this prospective stockwork type epithermal gold system.

Detractors from Performance

- The biggest detractor to performance was **First Quantum Minerals** (down 70%). While the managers had substantially reduced the Fund's exposure to this fast-growing copper/gold producer during the prior quarter, the company fell victim to widespread short pressure on metals and mining companies with levered balance sheets. The company has historically shown operational flexibility in challenging times and the managers therefore anticipate a share price recovery.
- Core holding **Tahoe Resources** (down 31%) suffered from the sell down of its major shareholder, **Goldcorp**, and the noisy maturing of democracy in Guatemala, where one of its two mines is located. The company expects to ramp up its third mine in Peru before year-end, thus further diversifying its political risk profile.

Portfolio Activity

- The Fund re-initiated a position in **Eldorado Gold**, an intermediate gold producer with most of its growth projects in Greece. Following continued obstruction by Greek authorities to their development, the market priced Eldorado below the intrinsic value of its existing portfolio of operating mines outside of the troubled country.
- The fund eliminated almost its entire position in **Rubicon Minerals** after the company reported poor progress in ramping up its underground mine during Q2/2015. Subsequently, the company experienced further operational and regulatory setbacks.
- The fund further reduced its already minimal exposure to platinum/palladium producers, by selling down the relatively better operator in this troubled sector, **Northam Platinum**. Industry-wide undisciplined capital allocation, creeping shareholder dilution in response to regulatory pressures, and platinum's weakening demand outlook from shrinking automotive diesel penetration combine into an extremely challenging environment for the South African platinum industry.

Outlook

- Gold prices continue to gyrate between the exhaustive market anticipation of an "imminent" U.S. rate hike and the increasingly widespread realization that global growth rates remain below potential, thus necessitating more widespread monetary easing, rather than tightening, in addition to the already substantial Quantitative Easing programs underway in Europe and Japan.
- Without broad economic participation worldwide, the U.S. may continue to experience lower inflation than normally expected for this stage of its economic expansion cycle. The U.S. economy may also struggle to escape from the current range bound GDP growth rate of 2 to 3% and monetary conditions are therefore anticipated to remain accommodative. The portfolio managers therefore think it is unlikely that real interest rates (i.e., nominal interest rates minus inflation) are going to rise substantially in the near term, as the path of any rate hikes (if any) is likely going to be very gradual.

MACKENZIE Investments

- Global economic growth has substantially weakened, driven by a slowdown in China and related emerging markets. 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. Global central banks (with the exception of the U.S. Fed) are responding with even more monetary easing: the European Central Bank is trying to accelerate its Quantitative Easing program whereas the Bank of Japan continues to print money at an unprecedented rate and might even step this up further. To date, these actions are merely trying to offset some of the disinflationary pressures, which explains why gold prices have not (yet) responded to this global escalation in monetary easing.
- Early signs of stabilization are starting to emerge in China following a period of downward revisions to growth expectations, with indicators of true economic activity suggesting GDP growth rates of 2 to 3%; well below the advertised 7% rate. Year-over-year real estate trends have turned positive, whereas retail sales growth remains solid. Capital outflows from China also appear to be leveling off, as foreign currency reserves stabilized on a month-over-month basis in September. The tightening of monetary conditions and reduced loan growth that previously stifled growth has abruptly been reversed by the authorities in response to the recent stock market collapse. While surely being the least preferred option, the possibility of a further devaluation of the Yuan to boost export growth can also not be ignored. Volatility in the Yuan, real estate and equity prices is supporting Chinese demand for gold, which appears on trend with prior years, supported by continued regular purchases by the Bank of China.
- 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. Looking past the near-term potential headwind of a modest U.S. rate hike, 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.
- The relative strength of the U.S. and European economies relative to emerging economies has resulted in a strengthening of both the U.S. dollar and the Euro relative to most emerging market currencies. This has caused 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 appears stable with Indian gold imports reflecting fairly normal seasonal patterns. 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 2015/2016.
- Some 20 to 30% of the global gold industry incurs cash operating losses below $1,200/oz and ore depletion is no longer being compensated for by exploration and mine development. As a result, the reserve life for the major listed gold companies has declined by an astounding 20% year-over-year and is in some cases now shorter than 10 years. With most major gold companies unable to replace reserves internally and junior explorers having restricted access to the capital markets, the Fund holds positions in resource-rich companies such as **Detour Gold**, **Pretium Resources**, and **Richmont Mines**.
- The portfolio managers caution for continued equity volatility as many gold companies are not viable below $1,200/oz; but generate free cash flow at $1,300/oz. Against this backdrop, the managers continue to be selective in investing in companies that are aggressively pursuing operational turnaround strategies to grow their margins. These include **Anglogold Ashanti** and **Newmont Mining**.

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Fund and Benchmark Performance as at: September 30, 2015	1 year	3 years	5 years	10 years
Mackenzie Precious Metals Class A	-19.5%	-25.8%	-17.1%	-1.5%
S&P/TSX Global Gold TR	-24.6%	--28.2%	-19.9%	-4.7%