Mackenzie US Dividend Fund* – Series A

Q3-2015 COMMENTARY

Performance Summary

- For Q3 2015, Mackenzie U.S. Dividend Fund returned -5.6%. This compares with the S&P 500 Index ($CDN) return of 0%. The Fund underperformed the index due to security selection in consumer discretionary and energy.
- **Over the last 12 months, the Fund is up 7.3%** compared to the Morningstar U.S. Equity peer group which returned 13.0%.

Contributors to Performance

- Our largest position, **Motorola Solutions**, was also our most significant contributor to performance in Q3 2015. This global leader in first responder communication systems in August announced a U.S.$1 billion investment from Silver Lake, one of the private-equity firm's biggest ever investments. Along with ValueAct Capital, the company now has two well-regarded activist investors operating closely with management. Motorola also completed a U.S.$2 billion modified "Dutch Auction" tender offer at a purchase price of $66.50 per share, thereby reducing the share count 15% at once. Despite the strong move in the quarter, we still feel that with the company trading at a 6.5% free cash yield, presents significant opportunities to take costs out of their business, and with a 2.3% and growing dividend yield, Motorola still offers investors excellent value.
- Another significant contributor was **Precision Castparts**, a maker of components for aircraft engines. The company agreed to a takeover by Berkshire Hathaway. Precision was a passive holding in the Berkshire portfolio prior to the outright purchase for $35 billion, and is the largest acquisition in Berkshire's history. Warren Buffett interrupted a meeting between one of his portfolio managers' and CEO Mark Donegan and made bid for the entire company on the spot. Precision Castparts has a long history of compounding capital and we believe will be a good fit in the Berkshire portfolio.

Detractors from Performance

- Detractors from performance, not surprisingly, included a few energy-related investments (California Resources Corporation and ConocoPhillips). California Resources Corporation was spun off from Occidental Petroleum in November 2014, the beginning of the oil collapse. California Resources is the largest oil producer in the State and is working on delivering its balance by selling off some of its legacy production. ConocoPhillips is one of the world's largest oil companies and has also been caught up in the downdraft. The company can withstand almost any oil shock and investors get a 6% dividend yield on shares to wait for the oil markets to recover. Other detractors were Wynn Resorts and Las Vegas Sands that are currently in investment mode ahead of the opening of their resorts in early 2016.

Portfolio Activity

- The Fund inherited **Baxalta**, the biopharmaceutical business that was spun off from long time holding Baxter. As a reminder Baxalta is a leader in the treatment of hemophilia and plasma derived proteins. Within four days of the split the company rejected a takeover bid from Shire PLC. While the takeover may take time to complete because of the proximity to the split, we believe the company has a very promising Orphan drug pipeline which is supplemented by cash flow from existing products.
- We also initiated a position in **Proctor & Gamble**, as we were able to purchase one of the world's iconic branded consumer goods companies at a 4% dividend yield and what at the time was its lowest relative valuation in over 20 years at 16 times forward earnings. Proctor's leading brands include Tide, Gillette, Pampers, and Olay among many others.
- Another addition to the portfolio is long time Dream Team Company, **Praxair**. The company supplies industrial gases to customers on long term contracts. Praxair's primary products in its industrial gases business are atmospheric gases (oxygen, nitrogen, argon, rare gases) and process gases (carbon dioxide, helium, hydrogen, electronic gases, specialty gases, acetylene). The company either builds a pipeline for large customers like refiners or installs a tank for smaller customers like hospitals once a long term agreement has been reached. Switching costs become very high for customers because once a pipeline is built Praxair can supply gas at a lower price than any competitor. Praxair is one of the highest quality industrials on our dream team watch list of stocks, and we were able to buy shares at 15 times earnings and a 3% dividend yield, which has increased for 22 consecutive years.

Outlook

- 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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*Registered version also available. The investors in Mackenzie U.S. Dividend Registered Fund are restricted to certain registered plans whose planholders are residents of Canada or the U.S. for tax purposes, as more fully described in the Fund's simplified prospectus.

Fund and Benchmark Performance as at: September 30, 2015	1 year	3 years	5 years	Since Inception (April 2014)
Mackenzie US Dividend Fund Series A	7.3%	N/A	N/A	9.1%
S&P 500 Total Return Index CDN	18.4%	N/A	N/A	19.2%