The fourth quarter of 2020 featured a sharp equity market rotation from defensive growth to cyclical value. There were several significant macro drivers that propelled the switch, including covid vaccine trial results and the US presidential and senate run-off elections.

The results from the vaccine trials were considerably better than expected. Possible trial outcomes ranged from all three early vaccine candidates failing trials, to a mixed result, to all three being highly effective. We really had the best possible result where all three proved highly effective. As a result, the market re-priced sharply to reflect the new information, which is that, with vaccines, the economy should be back to near normal in the second half of 2021.

The vaccine results were followed by the US election, where Democrat Joe Biden was narrowly elected. In early January, the election finally finished with the State of Georgia holding run-offs for two Senate seats. Both seats also went to the Democrats, giving the party a narrow hold over all three branches of the US Government. The general market consensus on the Democratic party is that they will pursue policies that are pro-cyclical, including providing greater economic support and more spending in areas like green energy and traditional infrastructure. This added further fuel to the pro-cyclical market rotation.

As a result, stocks in industries that didn't rebound post the initial Covid downturn (March 2020) have rapidly recovered back towards where they were pre-Covid. The biggest sector beneficiaries have been Energy, Financials, Industrials, and non-gold Materials (the classic cyclical sectors). The remainder of the market was much less impacted by Covid or were Covid beneficiaries and as a result, have been flat to down.

We have gone through a few reflation/rebounds in the past and have always emphasized that we *expect to underperform during them as our investment style emphasizes companies that are less cyclical.* The longer-term question is whether this rotation is the beginning of an extended value cycle, similar to what we saw in the 1970's or the 2000's. In our view, for that to happen, businesses in the value-oriented sectors/industries will need to see improving results, beyond the short-term rebound post-Covid. This is what happened in the prior large and long value cycles where the value oriented industries had a long cycle of growth. For example, commodity prices increased massively from 1998 to 2008, when oil went from $11 to $145 per barrel, and the market moved from a view of abundance to fears of peak oil supply. This drove the substantial value outperformance during the 2000's. In our view, this is highly unlikely to repeat during the 2020's as oil is now being structurally displaced through technological change, a process that we continue to believe is still being underestimated by the market.

The other possibility is that we have an extended period of value outperformance on a relative basis, because the growth areas of the market come crashing down in a manner similar to 2000-2002, post the internet bubble. We certainly have some sympathy for this view, as several companies in the Technology area are valued at levels that we have difficulty understanding. Needless to say, with our emphasis on conservative growth investing, these are not businesses that we own.

It is extremely important to understand that the largest companies in the Technology area do not appear to be mis-valued in a manner similar to what we saw in the late 1990s. In addition, the trends that drive the underlying businesses do not appear to be ending, which is also quite different from the late 1990s. Many of the largest companies at the time were network equipment companies like Nortel and Cisco. They had been major beneficiaries of the physical roll-out of the internet (laying fiber optic cable) and were priced at astonishing levels. Using numbers from Bloomberg, Cisco, for example, had a market value of $450 billion on an earnings base of $2.7 billion, which is a 165x P/E ratio. In 2000-2002, the world discovered that we had laid enough fiber optic cable (we're still lighting dark fiber from the 1990s now in some cities) and industry sales collapsed, taking the stocks with them, with Canada's Nortel being a prime example and even a survivor like Cisco seeing an 85% share price decline.

In our view, the current environment is extremely different. Fund holding Microsoft is an example. The company has a market value of $1,600 billion on an earnings base of over $50 billion, which is a 30x P/E ratio. Cloud computing, and digital transformation more broadly, remains in the early stages (it's estimated to be 20% deployed), suggesting above normal growth rates for an extended period and no risk of an imminent sales collapse. If Microsoft were to see a Cisco-like share price drop, it would leave the stock trading at less than 5x earnings, with those earnings expected to grow at a mid-teens rate. That's a valuation level that we have historically only seen for businesses that the market views as being in structural collapse. As a result, we view this as a reflation/rebound trade touched off by unexpectedly good news from the vaccine trials, rather than as the start of a long duration multi-year value cycle.

In Canada what really stands out from this economic downturn is the massive positive wealth effect for consumers which has come from generous government support programs and ultra low interest rates. According to Royal Bank of Canada, Canadians lost $35b in wages from the pandemic, which was more than offset by $90b in government programs. With a reallocation of consumer spending including less spend on travel, tourism and entertainment, this resulted in one of the highest savings rates we have seen in decades. Wealth creation from home and equity values have now significantly positioned the consumer to be in far better shape today than where they were entering this downturn, which bodes well for Consumer Discretionary sector.

During the quarter, we pivoted, where it made sense, to quality businesses that are a touch more cyclical and at reasonable valuations. We have increased our consumer discretionary exposure and added one new Canadian bank position to the fund. To fund these new purchases, we have reduced our consumer staples exposure and telecom exposure thereby adding a bit more cyclicality to the portfolio. The challenge today is that many of the industrial/consumer companies are already discounting a completely normalized environment. Furthermore, we avoid deep cyclicals given their erratic free cash flow profile.

The global economy is expected to continue to recover during 2021 as the global deployment of Covid vaccines continues. In our view, economic recovery may lead to rising interest rates which would pressure the housing sector. If this occurs, we would expect a more difficult market environment, particularly during the second half of 2021.

Beyond 2021, it appears that the next decade will see a continuation of the rapid rate of technological change that we saw in the 2010's. We appear to be moving into a global energy transition, shifting away from fossil fuels and towards renewables. The global transportation sector is expected to increasingly adopt electrification, while there is a rising focus on the greening and mass deployment of hydrogen as a broadly used fuel. 5G wireless technology is expected to be rolled out, creating a step change in global communications with numerous new applications, particularly in IoT (Internet of things). We continue to look for investments that will benefit from these secular tends.

As always, we continue to own 30-35 companies that are leaders in their respective niches. We believe each investment will continue to outgrow their peers while showing superior profitability, generating strong free cash flow, and maintaining the balance sheet flexibility necessary to weather difficult economic environments. We have invested through many different cycles and environments in the past and continue to believe that companies with these characteristics, bought at sensible prices, will outperform over time.

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Fund and Benchmark Performance as at: December 31, 2020	1 year	3 years	5 years	10 years
Mackenzie Canadian Growth Balanced Fund – Series F	**11.4%**	**9.3%**	**9.4%**	**9.5%**
Mackenzie Canadian Growth Balanced Class – Series F	**11.5%**	**9.3%**	**N/A**	**N/A**
65% S&P/TSX Composite TR and 35% FTSE Canada Universe Bond Index ($CDN)	7.3%	6.0%	7.7%	5.5%
Mackenzie Canadian Growth Fund – Series F	**12.4%**	**11.0%**	**11.8%**	**12.0%**
Mackenzie Canadian Growth Class – Series F	**12.4%**	**11.0%**	**N/A**	**N/A**
Blended Benchmark* ($CDN)	8.9%	8.4%	10.3%	9.3%
Mackenzie Global Growth Class – Series F	**21.0%**	**14.9%**	**12.0%**	**12.5%**
MSCI World Index ($CDN)	13.9%	11.2%	10.3%	12.6%
Mackenzie US Growth Class – Series F	**20.7%**	**17.5%**	**12.5%**	**12.7%**
S&P 500 Index**	16.3%	14.8%	13.2%	16.8%
	1 year	**Since Fund Inception*** **		
Mackenzie Global Growth Balanced Fund – Series F	**15.7%**	**15.5%**		
65% MSCI World + 35% ICE BofA Glbl Broad Mrkt (Hedged to CAD)	11.2%	12.9%		

*The Mackenzie Canadian Growth Fund's benchmark was changed in March 2017 from the S&P/TSX Composite Index to a blended benchmark of 60% S&P/TSX Composite Index, 30% S&P 500 Index, and 10% MSCI EAFE (Net) Index, in order to better reflect the long-term average geographic composition of the Fund. **The Mackenzie US Growth Class benchmark was changed in March 2017 from the Russell 1000 Growth Index to the S&P 500 Index in order to better reflect the long-term average geographic composition of the fund.
The Bluewater Team assumed leadership of Mackenzie Global Growth Class and Mackenzie US Growth Class effective August 9, 2016.
***Mackenzie Global Growth Balanced Fund inception: January 31, 2019.

MACKENZIE Investments