# Mackenzie Precious Metals Fund - Series F

Q3-2021 COMMENTARY

## Performance Summary

- Mackenzie Precious Metals Fund declined by 12.4% during Q3 2021, underperforming the S&P/TSX Global Gold Total Return Index which was down 10.0% over the period.
- The price of gold was relatively unchanged during the quarter (+1.5% in CAD); with precious metal equities underperforming the metal due to fears of margin compression from cost inflation.
- Gold sentiment is weighed down by the *anticipation* of imminent tighter monetary policy, notwithstanding continued generous monetary and fiscal policies supporting the post-pandemic economic recovery. The risk of central bankers being late in controlling surging inflation, or other unforeseen impacts from unprecedented money creation, continue to argue for an allocation to gold to provide portfolio insurance.

## Contributors to Performance

- The Fund's exposure to gold bullion aided performance during the quarter as bullion outperformed the precious metals equities.
- Junior gold explorer **Genesis Minerals** (up 97% during the quarter) enjoyed a re-rating as a successful management team took over control over its prospective asset base in Australia.

## Detractors from Performance

- A period of relative outperformance of silver equities ended abruptly, with silver (down 14% during the quarter) sharply underperforming gold (+1.5%). **Gatos Silver** (-32%) exacerbated this revenue decline with an ill-conceived equity issue. Silver explorers, such as **GR Silver** (-58%), exhibited the usual leverage of exploration-stage companies.
- Established Australian producer **Evolution Mining** (-21%) reduced its outlook for future cash returns by committing to an acquisition and an aggressive asset recapitalization plan.

## Portfolio Activity

- The portfolio managers added to their position **in Kirkland Lake Gold** based on the improving outlook for its Detour Gold mine and continued solid returns of capital to shareholders. Subsequent to the quarter, Kirkland announced a friendly merger with another core Canadian holding of the Fund, **Agnico Eagle Mines**.
- The position in platinum group metals producer **Sibanye Stillwater** was eliminated. The company reported significant safety setbacks and appears to be favoring ambitious M&A over returns of its strong cash flows to shareholders.

## Outlook

- Gold prices have been well-supported by negative real interest rates (i.e., nominal rates minus inflation) as central banks continue to support the post-pandemic economic recovery. With the economy aggressively rebounding and labor markets rapidly tightening, markets are starting to *anticipate* an imminent tightening of monetary policy and a rise in real interest rates. While real tightening might indeed be forthcoming, the portfolio managers tend to believe that central bankers will prefer being 'late' in their rate hikes and allowing inflation to be sustained at higher levels, and thereby suppressing real rates. Thus, while nominal interest rates might indeed rise, real rates could remain negative, which historically has been positive for gold returns.
- The market's consensus case of a gradual path of rate hikes is fraught with risks. Inflation is currently omnipresent and is fueled by the strong inflationary forces of de-globalization, the energy transition, and a declining workforce. After the recent spike in asset inflation and the current wave of consumer good inflation, a wave of sticky wage inflation could be next. Central Banks are increasingly exposing themselves to policy error by letting inflation run too far.
- Unprecedented monetary and fiscal stimulus could bring unprecedented consequences. One could imagine inflation, asset bubbles, or other financial dislocations putting the financial construct of our society at risk. In this context, gold remains a valuable form of portfolio insurance for Canadian investors who have reached their maximum allocation to equities, are reluctant to hold low-yielding bonds, and question what excessive money creation may have as a consequence. The portfolio managers therefore continue to recommend a 5% to 10% allocation to gold and gold equities throughout the cycle as a prudent risk control measure against the erosion of purchasing power



MACKENZIE Investments

- Precious metals equities continue to enjoy high operating margins at spot gold prices, although operating cost inflation (i.e., diesel, steel and labour) has started to erode margins somewhat. An important test of management discipline will be whether operators will stick to mine plans that were conceived at lower gold prices, thus sustaining high operating margins. The portfolio managers anticipate an upcoming bifurcation in the gold sector between those companies that have the discipline to allocate capital in a balanced process between sustaining capital, growth capital, dividends and capital returns, and those companies that need to replace rapidly declining reserves in a generally ex-growth sector, through reinvestment into mining projects and M&A.
- Mackenzie Precious Metals Class remains invested with a balanced portfolio of large and mid-sized producers, as well as a mix of junior producers/exploration/development companies. Large-cap international producers such as **Gold Fields** and **Agnico Eagle** enjoy asset diversification and strong balance sheets. Mid-cap resource-rich producers such as **Pretium**, **Wesdome Gold Mines** and **Karora Resources** have an attractive combination of operational leverage combined with exploration upside. True value creation in the precious metals industry tends to originate at the drill bit, where the Fund is well represented by a portfolio of small-cap explorers and developers, such as **Aya Gold & Silver**, **Skeena** and **Solaris Resources**.

## PORTFOLIO MANAGEMENT TEAM:

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Index performance does not include the impact of fees, commissions, and expenses that would be payable by investors in investment products that seek to track an index.

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| **Fund and Benchmark Performance as at:** September 30, 2021 | 1 year | 3 years | 5 years | 10 years |
|---|---|---|---|---|
| Mackenzie Precious Metals Class Series F | -19.8% | 26.2% | 6.8% | 1.1% |
| S&P/TSX Global Gold Total Return Index | -26.0% | 21.2% | 3.3% | -2.8% |