MACKENZIE EXCHANGE
Event Series presented by the Mackenzie Institute

Global Equity & Income Team webcast

Webcast summary (February 22, 2022)

Key messages:

1. In an inflationary environment, it's important to own high-quality companies that have durable business models, protective moats and pricing power.

2. The market is coming out of a period of historically low dividend contribution to total return and will likely move back towards longer term averages.

3. We aim to prepare not to predict. We don't know how the macro picture will develop, but we run a well diversified fund that should be resilient and can navigate the road ahead.

Event summary

Why a dividend mandate now?

- The market is coming out of a decade of historically low dividend contribution to total return and will likely move back towards longer term averages.
- We want to stress that not all dividends are created equal. A higher yield being paid by a company can often be a sign of distress. We prefer to invest with confidence in companies paying what we believe to be very durable 2-3% dividend yields, rather than investing in companies with unsustainable dividend yields that may need to be paused or cut, as many companies did in 2020.

How is Mackenzie Global Dividend Fund positioned for a rising rate environment?

- The potential impacts of rising rates will ultimately depend on the types of businesses you hold. Companies that are viewed as pure bond proxies, like utilities – which we do not own – will likely see a material impact.
- The Mackenzie Global Dividend Fund and the equity component of the Mackenzie Global Strategic Income Fund are broadly diversified by geography, sector and industry, as well as across the value-growth spectrum. They include investments in sectors and companies that are leveraged to economic growth that should fare well through a rising rate environment.
- Our health care holdings have very healthy yields and are cash flow generative. We also hold shares in several stock exchanges that should directly benefit from higher rates. We hold select companies operating in the energy and materials sectors that are benefiting from higher prices. We've also increased our allocations to high-quality banks which have traditionally done well in rising rate environments.

What threats are you looking out for?

- Inflation could be a potential challenge. We aim to prepare rather than predict. If inflation is more than transitory, our energy, materials and financials positions should provide the portfolio with some inflation protection. We certainly aren't making a massive bet on runaway inflation because in the end, no one knows.
- Our best strategy to combat inflation is to continue to own high-margin businesses with pricing power. The initial impact of inflation is not on consumer prices, but on company profits. The higher the company's

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margins, the better its profitability is protected from inflation. Overall, the average profit margin of companies held in the portfolio is in the 30% range, versus 16% for the benchmark.*
- The global supply chain disruption is making life difficult for many companies, as corporations try to manage short-term material and component shortages while at the same time plan for what normalized demand looks like. Complicating the situation is China's zero-COVID policy, which can shut down entire swaths of the economy – and manufacturing capacity – exacerbating the production issues that have little margin for error.
- Barring the emergence of an even more contagious and deadly variant, our guess is the most acute supply issues resolve themselves over the next few quarters.

What opportunities do you see and how are you positioned?

- With the announcement of a vaccine in November 2020, the world saw light at the end of the tunnel. In the first half of 2021, we adjusted our portfolio accordingly. We tilted to more economically sensitive business. We repurchased energy stocks, invested in one natural resource company and increased bank holdings. Many other holdings should also perform well in the reopening, like **Coca-Cola**, which is consumed in fast food restaurants, bars and stadiums that have been shuttered or have seen capacity limits across many geographies.
- We are seeing additional opportunities to buy less obvious businesses that we believe are well positioned for the economic recovery and are trading at attractive levels. These businesses are steady and sticky. Though there are some short-term hiccups in supply, we expect good long-term growth.
- **Honeywell** is a leading firm in aerospace. Known for its technology displays in planes, they supply both Boeing and Airbus. It was hurt by a shortage of parts and lowered its sales guidance by roughly $200 million. The aerospace sector in general has been depressed, but reopening should help.
- **Motorola Solutions** is a hidden gem in our opinion. The company produces mission critical communication components, including video surveillance, software and body cams for 911 response. They are the standard in emergency service. Though they lowered guidance due to higher costs and supply delay, the company is very stable.
- **Union Pacific Railway** is the largest railway in the US and enjoys a "cozy monopoly". The company is well run and provides nice ballast for the portfolios. The industry can serve as a proxy for GDP growth and has a long operating history. They have also paid a dividend for over 120 years, with dividend increases over 60 years.
- We were able to capitalize on some health care names, which have become cyclical. **Medtronic**, for example, specializes in equipment related to non-critical surgeries and benefited from the pent-up demand.
- We don't know how the macro picture will develop, but we have constructed a well-diversified and prudently allocated portfolio that we believe will be resilient. We are not making large bets on runaway inflation. We don't swing for the fences in any one direction. Ultimately, the team's north star is to deliver an attractive risk-adjusted return to our unitholders over time.

* Source: Mackenzie Investments, Factset, Bloomberg, as of December 31, 2021.

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