# The new economic environment webcast summary

## *A guide to value investing in today's economy*

Value investing can outperform for long periods of time. After years of growth outperforming, some investors may have forgotten any other way to produce returns. Here we illustrate the impact that world class value managers can have on client portfolios and remind you the importance of style diversification.

**William Aldridge, Portfolio Manager, Mackenzie Canadian Equity Fund**

There are four key points to our investment process:

1. **Disciplined portfolio construction:** This describes our approach to diversification and our focus on risk mitigation relative to the benchmark.

2. **Rigorous fundamental analysis:** We are bottom-up stock pickers focused on the intrinsic value of companies.

3. **An all-cap strategy:** We invest in small, mid and large caps, which enables us to actively manage around the overall sentiment in the market.

4. **Low portfolio turnover:** We generally manage this portfolio with low turnover, adding and removing a handful of companies to the portfolio every year and believe this helps minimize the risk of poor timing.

We look at our exposures across several market cap buckets. About half of the portfolio's companies have a market cap of greater than $50 billion. We will weight small and mid cap generally between 20% to 40% of the portfolio and will shift those weights around depending on the overall sentiment in the market.

There are three examples here on how we are employing our value discipline. First two of them are consumer discretionary names. Consumer stocks are one area in the market that has been penalized to a heavy degree lately.

1. **Gildan Activewear**: This company has been on our watchlist for a number of years, so we held off buying it until the price reached an adequate level where the spread to our estimated fair value became attractive.

2. **Sleep Country**: We took a position in the company when the stock came off as questions around the viability of the business surfaced given the new online threat – the "bed in a box" phenomenon. We doubled our position in 2020 at the bottom of the market.

3. **CCL Industries**:
   We picked them up at the bottom of the market in 2020. It's typically a very expensive company, but we were able to use our valuation discipline to add this name at the bottom of the market and then we decreased the position when valuations moved higher.

The key here is the entry point – when we see good value, that's when we strike. We are very disciplined while we wait for the right opportunity, and when we see that strong potential return to our estimated intrinsic value, that's when we enter the new position.

**Richard Wong, Portfolio Manager, Mackenzie Cundill Team**

We define value as stocks that are out of favour and that have suffered significant price declines. We look for stocks trading at low multiples that can rerate to much higher multiples. We look for stocks that are laggards in their sector. Our deep research allows us to find catalysts to turn laggards into leaders. We believe that the environment has shifted in favour of value. Market sentiment and activity supports that notion. We are going into a period of structurally higher inflation and higher interest rates. Value will likely outperform in that environment.

**Investing over the market cycle**
The economic cycle is a key determinant to positioning across the value spectrum. When the economy is in recession or emerging from recession, cyclical value, with its economic sensitivity, tends to do very well. During the middle of the economic cycle and the expansion phase, risk appetite is stronger and that's a great time to be greedy and buy deep value stocks. Deep value stocks are very cheap with a lot of upsides. Towards the end of the economic cycle, we tend to shift into quality value. These companies have more downside protection and therefore are less volatile. Having all three and shifting weights around allows us to more fully capture performance when there is an appetite for value and protect the portfolio near the tail end of the economic cycle.

Here are some examples:

1. **Deep value: SNC Lavalin**
   They exited their loss-making construction business and are now focused on engineering services. The engineering business is growing and trades cheaply.

2. **Cyclical value: Daimler Trucks**
   This company is the global leader in truck manufacturing, in electric truck and autonomous trucks development. They have a strong balance sheet, pay good dividends and it trades at a very cheap multiple.

3. **Quality value: Dollar Tree**
   The company is resilient against e-commerce due to the low price point for their products. It did very well during the last recession. It's a laggard relative to Dollar General and Dollarama.

**Investment Themes**

Themes we like are **reopening trades**, with consumers returning to old habits, and **business transformation**, like Dollar Tree and SNC Lavalin. We also like the story for **copper** – copper stocks are cheap, and it will be in high demand as a key component in electrification. And anyone that has filled up their cars lately can understand our interest in the **energy majors**. They produce a lot of cash flow, have very good balance sheets and pay out dividends. **Inflation and interest rates** is another theme that we are focusing on, and we believe that banks and credit companies could do well as consumers remain strong and willing to spend. The final theme is **electric vehicles** and the traditional automakers we own are already producing EVs and are planning to phase out internal combustion engine vehicles at some point in the future.

**Closing**

At Mackenzie, we've always understood the value of diversification by geography, asset class and investment style. One thing is clear, the economy has recalibrated and with that change comes opportunity to take advantage of greater style diversification. After years of growth outperforming, many find it hard investing any other way. The opportunity is for us to adapt, and we think this is the right time for value investing.

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