Quarterly commentary | June 30, 2024
Series F

Mackenzie Bluewater Canadian Growth Fund

Fund snapshot

Inception date	12/06/1999
AUM (millions in CAD)	5400.8
Mangement Fee	0.75%
MER	1.00%
Benchmark	60% TSX Comp + 30% S&P500 + 10% EAFE
CIFSC Category	Canadian Focused Equity
Risk Rating	Medium
Lead portfolio manager	Dina DeGeer
Investment exp. Since	1985
Target # of holdings	30 - 35

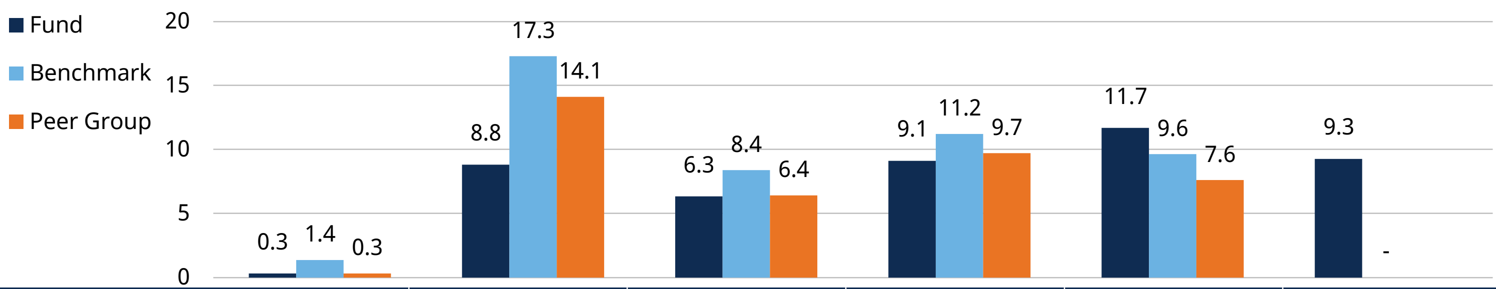
Strategy Overview

• The Fund invests mainly in Canadian equity securities issued by Canadian corporations to achieve long-term capital growth and provide a reasonable rate of return.

• The investment approach follows a company-focused investment style, seeking companies with strong management, good growth prospects and a solid financial position.

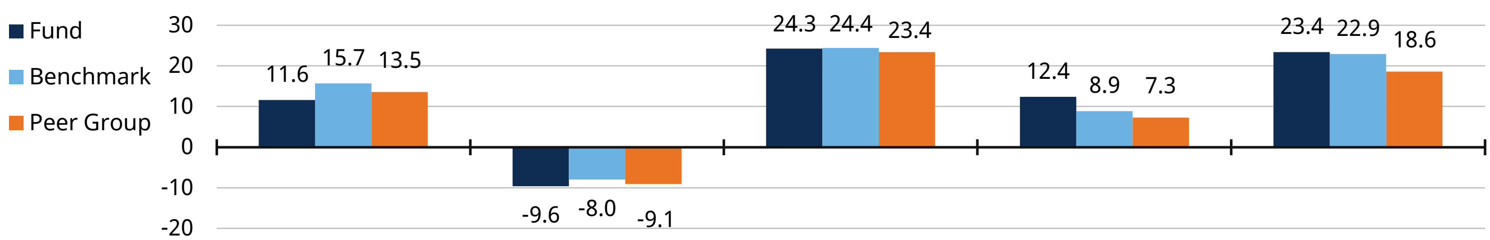
• Emphasis is placed on paying reasonable prices for the free cash flow growth that companies in the portfolio are expected to achieve.

Trailing returns %



	3 Mth	1 Yr	3 Yr	5 Yr	10 Yr	SI
Excess return	-1.1	-8.5	-2.1	-2.1	2.1	9.3
% of peers beaten	52	15	51	53	91	-

Calendar returns %



	2023	2022	2021	2020	2019
Excess return	-4.1	-1.6	-0.1	3.5	0.4
% of peers beaten	44	44	64	97	96

Portfolio characteristics

	Portfolio	Benchmark
# of holdings	31	1,471
% top 10 holdings	46.1	22.4
Weighted average market cap	405,698.4	467,905.8
EPS growth (FY E)	13.7	21.0
Dividend yield	1.4	2.5
FCF margin	20.8	14.4
P/E Trailing 12M	31.2	19.3
P/E (forecast)	23.3	16.3
Net debt/EBITDA	1.9	1.7
ROE (latest FY)	15.3	14.6

Sector allocation

Sector	Portfolio	Benchmark	Relative Weight
Financials	24.8	23.9	0.9
Energy	-	12.2	-12.2
Materials	4.8	8.5	-3.7
Industrials	26.7	12.5	14.2
Information Technology	16.1	15.9	0.2
Communication Services	3.4	5.1	-1.7
Utilities	-	3.2	-3.2
Consumer Staples	8.6	5.1	3.4
Consumer Discretionary	4.0	6.3	-2.3
Real Estate	2.5	2.1	0.4
Health Care	3.7	5.2	-1.4
Other	5.4	-	5.4

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	13.4	12.7
Sharpe Ratio	0.3	0.4
Tracking Error	5.9	-
Information Ratio	-0.4	-
Alpha	-1.8	-
Beta	1.0	-
Upside Capture (%)	98.2	-
Downside Capture (%)	109.9	-

Country allocation

Country	Portfolio	Benchmark	Relative Weight
Canada	50.6	59.0	-9.5
United States	39.4	31.2	9.3
France	4.6	1.1	3.5
Germany	-	0.9	-0.9
Hong Kong	-	0.2	-0.2
Other	5.4	7.6	-2.2

Regional breakdown

Region	Portfolio	Benchmark	Relative Weight
Canada	50.6	59.0	-8.4
International	4.6	9.8	-5.2
United States	39.3	31.2	8.1
Other	5.4	-	5.4

Currency exposure

Region	Gross	Benchmark
CAD	67.5	60.0
USD	28.0	30.1
Other	4.6	9.9

Top 10 holdings

Security name	Country	Sector	Weight
Intact Financial Corporation	Canada	Financials	5.1
Stantec Inc	Canada	Industrials	5.0
Royal Bank of Canada	Canada	Financials	4.8
Schneider Electric SE	France	Industrials	4.6
Roper Technologies, Inc.	United States	Information Technology	4.5
Aon Plc Class A	United States	Financials	4.3
Microsoft Corporation	United States	Information Technology	4.0
Accenture Plc Class A	United States	Information Technology	4.0
Loblaw Companies Limited	Canada	Consumer Staples	3.8
Becton, Dickinson and Company	United States	Health Care	3.7

Security level contributors and detractors

	Security	Average Relative weight (%)	% Contribution to return
Contributors	Dollarama Inc.	2.3	0.6
	Alphabet Inc. Class A	2.0	0.5
	Schneider Electric SE	4.6	0.4
Detractors	Pet Valu Holdings Ltd.	1.9	-0.4
	Accenture Plc Class A	3.8	-0.5
	Aon Plc Class A	4.1	-0.5

Sector attribution relative to the benchmark

	Sector	Average Relative weight (%)	Allocation Effect (%)	Selection Effect (%)	Total Effect (%)
Contributors	Industrials	14.7	-0.6	0.9	0.4
	Consumer Discretionary	-1.5	-	0.4	0.4
	Communication Services	-2.4	-0.1	0.3	0.3
Detractors	Health Care	-1.6	-	-0.2	-0.2
	Materials	-3.5	-0.1	-0.5	-0.6
	Information Technology	0.6	-	-1.3	-1.2

Commentary

QFR Highlights

The S&P/TSX Composite Index continued to struggle in the second quarter with 7 of the 11 major sectors posting declines with the healthcare sector(-18.6%) hardest hit. The S&P500 continued to perform well in Q2, up 5.4%. Ongoing enthusiasm around AI continued to boost related companies amid some strong earnings and outlook statements. Materials and Industrials were the sectors that lagged. The S&P 500 Index commands a premium valuation due to its higher technology exposure.

We continue to focus on a small subset of global businesses that are truly unique – global leaders in attractive industries with defensible moats that have secular growth tailwinds. These characteristics allow the companies we target to grow their free cash flow at above market rates in a more stable fashion compared to the overall market through a full cycle. Acquiring such high-quality businesses at reasonable valuations imparts downside protection to the portfolios, allowing them to more effectively navigate through economic cycles, and the inherent drawdowns and volatility along the way.

Fund Performance

During the quarter the fund lagged the blended benchmark by 0.8%. Security selection in Industrials, Consumer discretionary and Communication services contributed to relative performance whereas stock selection in Information technology and materials detracted from performance. From a geographic standpoint, security selection in France and Canada contributed to performance while security selection in the U.S. detracted from relative performance.

Security Contributors

Stock selection in Industrials, Consumer discretionary and communication services positively contributed to relative performance this quarter. The top contributor to returns were Schneider electric, Dollarama and Alphabet Inc.

Schneider Electric offers digital transformation of energy management and automation. It is a company focused on providing a full range of services and products tied to electrification and upgrading the grid.

Dollarama is a business we own for the following reasons i.e. it has limited competition, have ~40% advantage over their peers and is a business that does well in in good economic times and resilient in softer economic environments because when the consumer starts retrenching, they need every dollar to go farther and that is what makes Dollarama more relevant to consumers leading to steady gains in market share.

Alphabet formerly known as Google has been one of the most successful companies of the internet era, as they have come to dominate internet search – a business that has been extremely profitable with substantial growth over the past 20+ years.

Google's unique vertical integration across all aspects of the AI value chain positions the company in an advantageous position to help companies develop and implement AI workflows into their businesses through Google Cloud Platform.

No allocation to Shopify positively contributed to returns.

Security Detractors

Holdings in information technology and materials were a drag on performance compared to the index. No allocation to NVIDIA was a significant headwind to relative performance. The notable detractors that were held in the portfolio include Accenture, Aon and Boyd Group Services Inc.\

Portfolio Activities

During the quarter we initiated a position in Alphabet Inc. While search use cases have broadened out from the world wide web to more dedicated platforms and apps such as Amazon, Facebook and other social media platforms where Alphabet does not directly benefit, Alphabet's search business has doubled over the past five years. Additionally, Google's unique vertical integration across all aspects of the AI value chain positions the company in an advantageous position to help companies develop and implement AI workflows into their businesses through Google cloud platform.

In Canada, we initiated a position in Loblaws, the leading grocer in Canada. While the grocery sector tends to exhibit resiliency through economic cycles, given Loblaws' skew towards discount, they are seeing increased traffic into their stores as value conscious consumers retrench and trade down.

We exited our position in Telus Corporation. Following the transformational acquisitions by Rogers and Quebecor, we think there have been structural changes to the competitive landscape within the telecom space. The entire telecom sector in Canada is moving from a historically growthy area, to one that resembles a utility—becoming uninvestible from our perspective.

Commentary

Market Overview

Markets continued to show strength during the first half of 2024 as the rally that began in the fourth quarter of 2023. Equity markets have been buoyed by optimism that the Central Bank tightening cycle is behind us, and that a more accommodating monetary policy stance is forthcoming, with recent interest rate cuts from the Bank of Canada and the European Central Bank as evidence. We believe that path forward for monetary policy is more uncertain. The combination of sticky services inflation and global conflicts, which continue to support energy prices, suggest that monetary policy will remain tighter for longer than the market anticipates.

Outlook and Positioning

During the quarter our largest sector underweight was energy (-12.2%) as we have no allocation to the sector and our largest sector overweight was Industrials (14.2%). During the quarter we increased our weight in Financials in Canada and exited a position in Communication Services.

The team focuses on conservative growth, seeking companies that are growing at or above market rates but not at extremely fast rates. The focus is on companies who are enablers of important secular changes and benefit from being global leaders in their respective areas. This has helped provide added value to investors by preserving capital through market drawdowns, while at the same time compounding returns for clients.

From a global GDP standpoint, economic growth continues to be uneven, with the United States showing mixed signals but still overall relatively healthy, while Canada, Europe, and Asia are generally softer. The economic health of global consumers also remains challenged, as we continue to see some strain from low-income level consumers, along with evidence that all income cohorts have been trading down for value as a result of years of inflationary pressures and higher interest rates. Canadian consumers face additional vulnerability due to mortgage structures that are of shorter-term duration, raising concerns about how consumers will adapt to significantly higher borrowing costs as ultra-low-rate mortgages come up for renewal in 2025 and 2026.

The healthier economy in the United States also suggests that monetary easing will be slower than markets expect, as the Federal Reserve sees less pressure to materially cut rates to stimulate growth.

Stock Stories

Premium brand holdings: Premium Brands is a specialty food manufacturer focused on premium cured meats, artisan sandwiches, seafood, bakery, meat snacks like beef jerky among others. They are unique in that their products are focused on quality, & convenience and they emphasize natural ingredients, organic, antibiotic free etc. They've been a big beneficiary in the shift towards healthier eating, away from all the processed center of the aisle stuff you find at grocery stores. The business has grown organically mid to high single digits over the long term and with acquisitions, they are comfortably in the double digit range. Its not a capital intensive business so has strong free cash flow and they tend to deploy that free cash flow in thoughtfully executed acquisitions that actually enhance shareholder value.

Brookfield Asset Management: We have long admired the Brookfield family of companies for their strong growth profile, best in class management and exceptional track record in capital raising. The spin out of the asset management arm in late 2022, established a simplified entity with attributes that we highly value including a capital light model, strong free cash flow, and a clean balance sheet.

With over $450 billion in fee bearing capital, Brookfield Asset Management is a leader and first mover in the fastest growing segments of private markets including infrastructure, renewables, and credit. In fact, they are one of the world's largest investors in renewable power and climate transition, sharing our view that the energy transition is the largest investment opportunity in the coming decade. The company expects to generate 15-20% growth in earnings and free cash flow in the medium term, underpinned by their capital raising efforts, targeting $90 – 100 billion per year, the stickiness of their assets with over 85% in long term or permanent structures that cannot be redeemed, the stability of their fee structures and strong operating efficiency with margins in excess of 50% makes this a very admirable business model.

Loblaws: While the grocery sector tends to exhibit resiliency through economic cycles, given Loblaws' skew towards discount, they are seeing increased traffic into their stores as value conscious consumers retrench and trade down. This is a key growth area for the company, where they continue to roll out new discount stores and convert conventional stores into the discount format. What is even more exciting is their Shoppers Drug Mart franchise, which comprises 45% of their retail profitability and exhibits superior growth and profitability. Historically, Loblaws has been able to grow at 8-10% through a cycle, driven by a balanced mix of organic growth, margin expansion and share buybacks. Looking ahead, they should be able to deliver faster growth rates given the success of their discount proposition as well as the opportunities within Shoppers Drug Mart.

Commissions, trailing commissions, management fees, and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns as of June 30, 2024 including changes in share value and reinvestment of all distributions and does not take into account sales, redemption, distribution, or optional charges or income taxes payable by any security holder that would have reduced returns.

Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Index performance does not include the impact of fees, commissions, and expenses that would be payable by investors in the investment products that seek to track an index. This document may contain forward-looking information which reflect our or third party current expectations or forecasts of future events. Forward-looking information is inherently subject to, among other things, risks, uncertainties and assumptions that could cause actual results to differ materially from those expressed herein. These risks, uncertainties and assumptions include, without limitation, general economic, political and market factors, interest and foreign exchange rates, the volatility of equity and capital markets, business competition, technological change, changes in government regulations, changes in tax laws, unexpected judicial or regulatory proceedings and catastrophic events. Please consider these and other factors carefully and not place undue reliance on forward-looking information. The forward-looking information contained herein is current only as of June 30, 2024. There should be no expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

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Standard deviation provides a measure of the variability of returns that have occurred relative to the average return. The higher the standard deviation, the greater is the range of returns that has been experienced. Standard deviation is commonly used as a measure of risk.

Percentile rankings are from Morningstar Research Inc., an independent research firm, based on the Canada Fund Canadian Focused Equity category and reflect the performance of the Mackenzie Canadian Growth Fund for the 3-month, 1-, 3-, 5-, and 10-year periods as of June 30, 2024 . The percentile rankings compare how a fund has performed relative to other funds in a particular category and are subject to change monthly. The number of Canada Fund Canadian Focused Equity funds for Mackenzie Canadian Growth Fund for each period are as follows: one year –504; three years –490 ; five years – 474 ; ten years – 330 .

Morningstar data is shown as of the most recent reporting period by each fund family. Allocations may not equal 100% and will vary overtime. Assets contained within “Other” category are not classified by Morningstar. All information presented in this tool is for informational purposes only and is not intended to be investment advice. The information is not meant to be an offer to sell or a recommendation to buy any investment product. Unless otherwise noted, performance is shown before sales charge. For more fund information, click the POS Documents link.

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