Mackenzie Bluewater Canadian Growth Balanced Fund

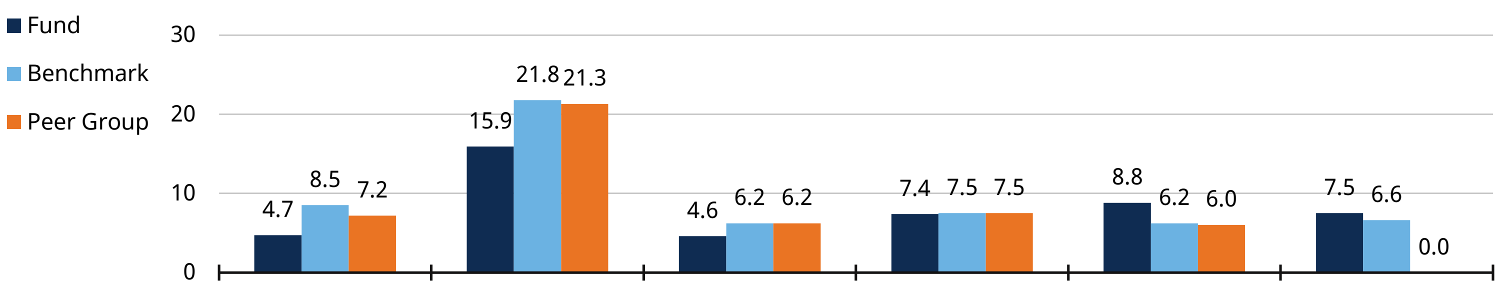
Fund snapshot

Inception date	12/06/1999
AUM (millions in CAD)	5509.9
Management Fee	0.70%
MER	0.95%
Benchmark	65% TSX Comp + 35% FTSE Univ
CIFSC Category	Canadian Equity Balanced
Risk Rating	Low-Med
Lead Portfolio Managers	Shah Khan, David Arpin

Strategy overview

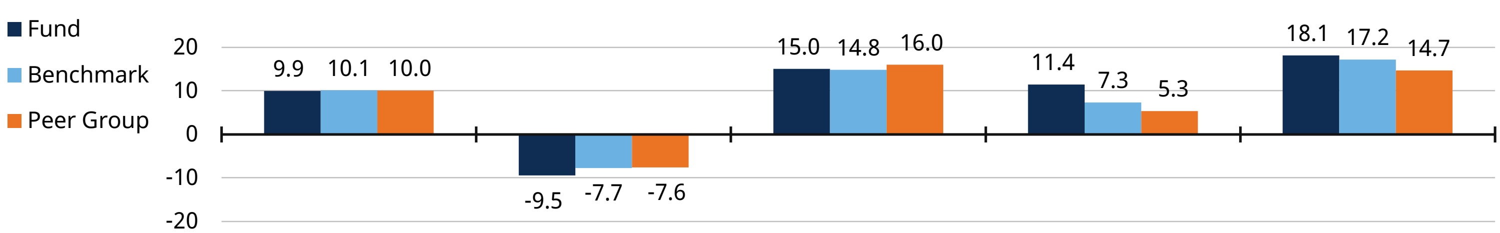
- The Fund pursues long-term capital growth consistent with reasonable safety of capital and a steady flow of current income.
- The equity portfolio manager employs a company-focused investing style, seeking companies with strong management, good growth prospects and a solid financial position.
- The equity portfolio manager seeks to pay reasonable prices for the free cash flow growth that companies in the portfolio are expected to achieve.
- The fixed-income portfolio manager employs a value investment style. For high-quality bonds, the fixed-income portfolio manager analyzes macroeconomic factors, such as economic growth, inflation, and monetary and fiscal policy, in order to position the maturity and credit quality of the fixed-income portfolio for different stages in the economic cycle.
- The fixed-income portfolio manager analyzes securities that typically have a lower credit quality, such as high-yield debt securities, using a bottom-up approach to assess their valuation. This company-specific analysis focuses on stability of cash flows and recovery value of the debt instruments.

Trailing returns %



	3 Mth	1 Yr	3 Yr	5Yr	10Yr	SI
Excess return	-3.8	-5.9	-1.6	-0.1	2.6	0.9
% of peers beaten	2	2	17	55	96	NA

Calendar returns %



	2023	2022	2021	2020	2019
Excess return	-0.2	-1.8	0.2	4.1	0.9
% of peers beaten	56	29	40	95	95

Portfolio characteristics

	Portfolio	Benchmark
Overall yield	4.0	3.4
Equity		
P/E 12m forward	26.5	16.1
Dividend yield	1.2	2.8
Net debt/EBITDA	2.0	2.9
EPS growth (FY E)	14.1	10.6
P/B	4.5	2.1
Fixed income		
Yield	4.2	3.5
Duration	6.8	7.4
Average credit quality	A	AA

Sector allocation

Sector	Portfolio (%)	Benchmark (%)	Relative weight (%)
Financials	17.8	21.0	-3.2
Energy	-	10.9	-10.9
Materials	2.1	8.1	-6.0
Industrials	18.0	8.4	9.6
Information Technology	11.2	5.6	5.6
Communication Services	0.7	2.0	-1.3
Utilities	0.0	2.6	-2.6
Consumer Staples	4.5	2.7	1.8
Consumer Discretionary	2.4	2.2	0.2
Real Estate	1.6	1.5	0.1
Health Care	6.2	0.2	6.0
Other	0.8	0.1	0.7

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	10.2	10.7
Sharpe Ratio	0.1	0.3
Tracking Error	5.0	-
Information Ratio	-0.3	-
Alpha	-1.2	-
Beta	0.9	-
Upside Capture (%)	86.0	-
Downside Capture (%)	91.7	-

Country allocation

Country	Weight	Benchmark (%)	Relative weight
Canada	61.7	99.6	-37.9
United States	31.0	0.3	30.7
France	2.0	-	2.0
Switzerland	1.7	-	1.7
United Kingdom	0.4	-	0.4
Singapore	0.1	-	0.1
Other	3.1	0.1	3.0

Credit breakdown

Rating	Portfolio	Benchmark
AAA	14.8	42.1
AA	29.8	32.0
A	19.7	15.1
BBB	27.0	10.9
BB	6.9	-
B	1.4	-
CCC & Below	0.2	-
NR	0.4	-

Asset allocation

	Portfolio (%)
Equity	64.7
Fixed Income	32.8
Cash	2.5

Top 10 equity holdings

Security name	Country	Sector	Weight
Royal Bank of Canada	Canada	Financials	3.7
Intact Financial Corporation	Canada	Financials	3.3
Stantec Inc	Canada	Industrials	3.1
Brookfield Asset Management Ltd. Class A	Canada	Financials	2.8
Loblaw Companies Limited	Canada	Consumer Staples	2.8
Microsoft Corporation	United States	Information Technology	2.7
Aon Plc Class A	United States	Financials	2.6
Trane Technologies plc	United States	Industrials	2.4
Roper Technologies	United States	Information Technology	2.3
Waste Connections Inc	Canada	Industrials	2.2

Equity - Attribution

	Sector	Portfolio Average Weight (%)	Portfolio Contribution to Return (%)
Contributors	Financials	17.1	2.4
	Consumer Staples	4.9	0.4
	Health Care	4.8	0.3
Detractors	Industrials	18.1	0.0
	Communication Services	1.8	-0.3

Fixed Income - Attribution

	Sector	Portfolio Average Weight (%)	Portfolio Contribution to Return (%)
Contributors	Corporate	18.9	0.8
	Government	13.3	0.7

Commentary

QFR Highlights

- The S&P/TSX Composite Index ended in positive territory in the third quarter with financials and materials stocks particularly gold companies leading the way. Over the quarter, the BoC reduced cut overnight rate by 0.25% in July and September bringing the rates to 4.25%. Equity markets remained buoyant in response to more accommodative monetary policies from the Bank of Canada and most recently from the Federal Reserve, which cut rates by 50 bps. While the combination of cooling inflation and labor markets motivated central banks to cut rates from excessively restrictive levels, we continue to believe that the path forward for monetary policy is more uncertain given the combination of sticky services inflation and two geopolitical conflicts, which continue to support energy prices.

Fund Performance

- During the period the fund returned 5% over the quarter compared its benchmark which returned 8.5%. Stock selection in consumer staples and no allocation to energy sector contributed to performance stock selection in industrials and information technology was a headwind. From a geographic standpoint, holdings in Switzerland contributed to performance while security selection and allocation in United States and Canada detracted from relative performance.
- On the fixed income side, the Fund's underweight allocation to Govt bonds contributed to performance and overweight corporate bonds detracted from relative performance.

Security contributors

- No allocation to energy sector was a contributor in the quarter. Top contributors to returns during the quarter include Trane technologies, Brookfield AM and Schnider Electric.
- Brookfield Asset Management – 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.
- Trane Technologies is a global leader in sustainable climate solutions focused on the Heating, Ventilation, and Air Conditioning (HVAC) area. Their products are used for commercial and residential buildings and in transport refrigeration and refrigeration solutions. The combination of the global push for decarbonization and sustainability and the fact that 40% of all energy used by commercial buildings is heating and cooling has created a material growth tailwind for Trane Technologies' business.
- The team, through fundamental analysis and direct discussions with Trane's management team, concluded that Trane's thermal management systems will become a significant growth driver for their business. Thermal management systems replace traditional HVAC systems powered by the combustion of fossil fuels with a low carbon purely electrified solution and have a rapid payback for commercial customers. As a result, Trane is seeing accelerated adoption, allowing their large commercial HVAC business to grow at a multiple of GDP as they assist their customers' efforts to achieve their climate commitments in a manner that drives a strong return on investment.
- Schnider 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.
- Investments in high grade corporate bonds in Canada contributed to performance.

Security Detractors

- Holdings in information technology and Industrials detracted from relative performance. The notable detractors that were held in the portfolio include Boyd Group Services Inc and Alphabet Inc

Commentary

Portfolio activities

- In light of the weak consumer backdrop in Canada, we have maintained an underweight position in Canadian banks. While the Canadian consumer has proven to be far more resilient than generally expected due to excessive savings built up through COVID, as well as strong employment and wage growth trends, there is mounting evidence that the impact of higher rates are being felt as the consumer retrenches. We have been concerned about deteriorating credit conditions as consumer trends and hiring trends continue to weaken more broadly. Rather, within financials, we recently initiated a position in TMX Group, which is a business less tied to the consumer and the underlying economy. TMX is a global exchange, technology, data & analytics provider facilitating the funding, growth and success of businesses and investors. TMX's main trading platforms include the Toronto Stock Exchange (TSX), TSX Venture Exchange (TSXV), TSX Alpha Exchange (Alpha), and the Montreal Exchange (MX).
- The business has undergone significant transformation over the last several years, transitioning from effectively a regional infrastructure company with declining organic revenue and margins to becoming a global technology solutions provider with a diverse and recurring revenue base. Today, over half of TMX's revenue are now recurring compared to the low to mid-30% range for most of the last decade and half, approximately a third of their revenues are derived from international markets, and revenue and earnings growth objectives of mid single digits and double digits now approximate that of US exchange peers. Certainly, an increasingly balanced mix of recurring and diverse transactional revenue is a key factor in reducing shorter-term volatility and cyclicality of earnings.

Market Overview

- Markets continued to show strength during the third quarter as the rally that began in the fourth quarter of 2023 continued into the first nine months of 2024.While some market participants are excited by the prospect of lower interest rates, significantly lower rates likely imply that economic conditions have deteriorated beyond current expectations. While there inevitably will be considerable ink spilled about the 'average return' after policy rates begin declining, it is important to remember that the economic environment around rate cuts tends to be highly idiosyncratic, making the usefulness of these statistics less than useful. There have only been 3 easing policy rate cycles in the past 25 years in the US, and they were marked by a historic stock market bubble bursting, a global financial crisis and a global pandemic, none of which even faintly resemble the current environment, which poses a large challenge for looking at the past as a guide to the future.

Outlook and Positioning

Equity

- During the quarter, our largest sector underweight was Energy (-11.4%) , and our largest overweight position was in Industrials (14.3%).The economic health of global consumers also remains mixed and challenging, evidenced by numerous quarterly company conference calls in the consumer space that have highlighted continued strain from low-income level consumers and consumers trading down for value due to years of inflationary pressures and higher interest rates. In Canada, consumers face additional challenges 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.
- Despite these challenges, many consumer companies have performed well in recent years as high inflation drove strong top-line growth as companies were able to pass through an increase in input costs to consumers. With goods inflation now having rolled over, focusing on idiosyncratic names that can grow regardless of the economic environment has become increasingly important.
- Over the last year we have aligned our portfolios to focus on consumer facing companies targeting either the very high-end consumer, those that are virtually unimpacted by macro economic conditions, or those companies that offer a unique value proposition.

Fixed Income

- The third quarter of 2024 was marked by slowing inflation and slowing economic growth in both Canada and the US. In terms of rate moves, US 2y rates fell a whopping 111 bps during the quarter from 4.75% to 3.64%. Yields on 5s, 10s and 30s fell 82bps, 62bps and 44bps respectively implying an aggressive re-steepening of the curve as is typical at the beginning of rate cutting cycles. This price action was largely mirrored in Canada with 2-year yields falling 108bps, 5-year yields falling 78bps, 10s 55bps and 30s 25bps.

Commentary

Fixed Income

- The similar shift in yields is not unusual for Canadian and US rates, which are generally highly correlated, but strikes us as perhaps unrealistic in today's environment. Economic data in Canada continues to be considerably weaker than in the more resilient US. The unemployment rate remains historically low in the US but has risen to over 6.5% in Canada. Similarly, inflation continues to surprise to the downside in Canada and is close to the 2% target, whereas in the US, services inflation remains above 4%. Considering this, we think more of a divergence in yields, certainly in the short end of the curve, is warranted, making shorter maturity Canadian bonds more attractive than similar maturity US bonds.
- Credit spreads remain tight, and we prefer to be invested in high-grade (low beta) Corporate Bonds at the short end of the curve. We prefer the Canadian curve over the US curve in this sector. Continued rate cuts are the base case for Canada and so there is still further potential for significant price appreciation of these securities. We remain negative on the long end of the Canadian market with 30y Canadian bonds offering almost no additional yield to 2-year bonds, but substantially more price risk.

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 September 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.

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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 Equity Balanced category and reflect the performance of the Mackenzie Bluewater Canadian Growth Balanced Fund for the 3-month, 1-, 3-, 5- and 10-year periods as of September 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 Equity Balanced category funds for Mackenzie Bluewater Canadian Growth Balanced Fund for each period are as follows: one year - 323 ; three years - 316 ; five years - 288 ; ten years - 214.

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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