Mackenzie Global Small-Mid Cap Fund

Fund snapshot

Inception date	02/26/2020
AUM (millions in CAD)	1015.0
Management Fee	0.80%
MER	1.04%
Benchmark	MSCI ACWI SMID Cap
CIFSC Category	Global Small/Mid Cap Equity
Risk Rating	Medium
Lead portfolio manager	Phil Taller
Investment exp. Since	1991
Target # of holdings	100-170

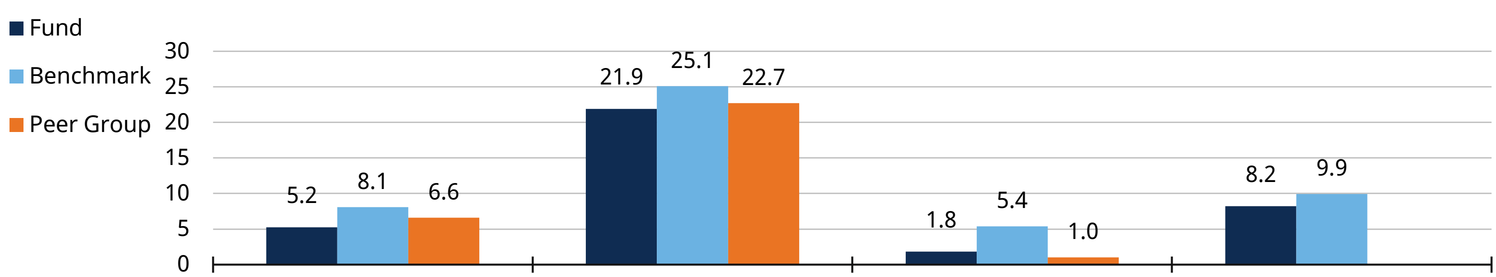
Strategy Overview

• The Fund seeks to provide long-term capital growth by investing primarily in equity securities of global small- to mid-capitalization companies.

• The Fund seeks companies with strong management, good growth prospects and attractive financial metrics.

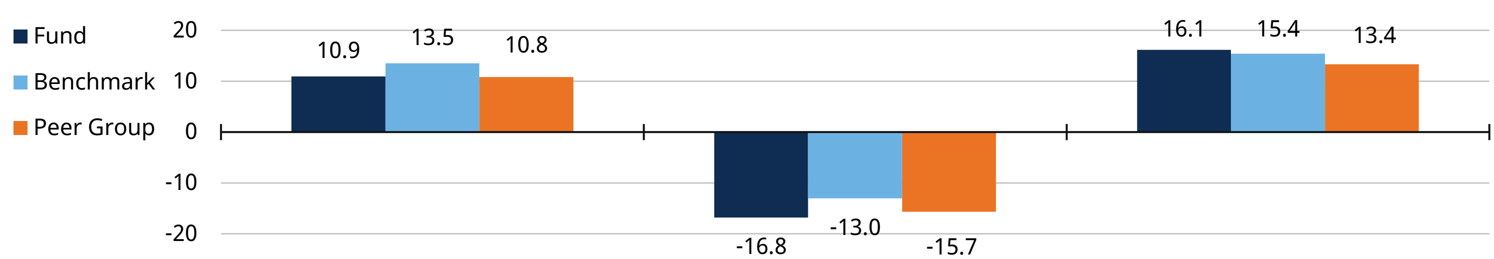
• Emphasis is also placed on paying reasonable prices for the growth that companies in the portfolio are expected to achieve.

Trailing returns %



	3 Mth	1 Yr	3 Yr	SI
Excess return	-2.9	-3.2	-3.6	-1.7
% of peers beaten	25	52	57	-

Calendar returns %



	2023	2022	2021
Excess return	-2.6	-3.8	0.7
% of peers beaten	44	47	61

Portfolio characteristics

	Portfolio	Benchmark
# of holdings	164	7,714
% top 10 holdings	27.3	2.2
Weighted average market cap	20,100.6	17,058.0
EPS growth (FY E)	13.1	20.9
Dividend yield	1.5	2.0
FCF margin	13.2	-67.0
P/E Trailing 12M	21.7	12.3
P/E (forecast)	18.1	16.3
Net debt/EBITDA	-0.1	1.8
ROE (latest FY)	12.3	12.5

Sector allocation

Sector	Portfolio	Benchmark	Relative Weight
Financials	10.4	14.9	-4.5
Energy	1.5	4.0	-2.5
Materials	3.6	8.0	-4.4
Industrials	21.3	19.2	2.1
Information Technology	18.9	12.1	6.8
Communication Services	2.4	4.2	-1.8
Utilities	1.6	4.7	-3.1
Consumer Staples	5.3	5.1	0.2
Consumer Discretionary	5.7	11.4	-5.7
Real Estate	5.6	7.3	-1.7
Health Care	20.2	9.0	11.2
Other	3.8	0.1	3.7

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	13.2	14.0
Sharpe Ratio	-0.1	0.1
Tracking Error	4.2	-
Information Ratio	-0.8	-
Alpha	-3.4	-
Beta	0.9	-
Upside Capture (%)	88.1	-
Downside Capture (%)	104.9	-

Country allocation

Country	Portfolio	Benchmark	RelativeWeight
United States	52.4	53.0	-0.6
Japan	9.3	9.1	0.3
United Kingdom	7.5	3.9	3.6
Australia	3.7	3.0	0.7
India	3.3	3.3	-
Germany	2.4	1.8	0.7
Other	21.4	25.9	-4.5

Regional breakdown

Region	Portfolio	Benchmark	Relative Weight
Emerging Markets	9.3	14.3	-5.0
United States	52.4	53.0	-0.6
International	34.6	29.6	5.0
Canada	-	3.1	-3.1
Other	3.8	-	3.8

Currency exposure

Region	Gross	Benchmark
CAD	0.6	3.1
USD	55.6	53.8
Other	43.8	43.1

Top 10 holdings

Security name	Country	Sector	Weight
ExlService Holdings, Inc.	United States	Industrials	3.1
Bio-Techne Corporation	United States	Health Care	2.9
Akamai Technologies, Inc.	United States	Information Technology	2.8
CoStar Group, Inc.	United States	Real Estate	2.6
DexCom, Inc.	United States	Health Care	2.6
SS&C Technologies Holdings, Inc.	United States	Industrials	2.6
Charles River Laboratories International, Inc.	United States	Health Care	2.5
MAXIMUS, Inc.	United States	Industrials	2.5
Hologic, Inc.	United States	Health Care	2.4
Cirrus Logic, Inc.	United States	Information Technology	2.4

Security level contributors and detractors

	Security	Average Relative weight (%)	% Contribution to return
Contributors	ExlService Holdings, Inc.	3.1	0.6
	Progressive Corporation	2.1	0.4
	Waters Corporation	2.0	0.4
Detractors	Charles River Laboratories International, Inc.	2.7	-0.2
	Vontier Corp	2.5	-0.4
	DexCom, Inc.	2.5	-1.3

Sector attribution relative to the benchmark

	Sector	Average Relative weight (%)	Allocation Effect (%)	Selection Effect (%)	Total Effect (%)
Contributors	Industrials	2.8	0.0	1.0	0.9
	Energy	-2.6	0.3	0.0	0.4
	Materials	-4.7	0.1	0.0	0.3
Detractors	Real Estate	-1.9	-0.1	-0.6	-0.7
	Information Technology	7.9	-0.5	-0.6	-1.2
	Health Care	10.4	0.3	-1.8	-1.7

Commentary

GLOBAL SMID

1) QFR Highlights

For the third quarter of 2024, the Fund's gross return was 5.57%.

This quarter saw a second interest rate cut from the European Central Bank (ECB) in this cycle, when a 25 basis point cut to the deposit rate was announced in September. The market is now pricing a more aggressive cutting cycle in coming quarters. Broadly, the European economy looks to have weakened somewhat through the summer, led by further weakness in German manufacturing and a fraught political situation in France, although a French government has now been formed.

The third quarter exhibited healthy returns for the US Markets despite periods of volatility as the market absorbed a combination of weaker US economic data and global central bank policy updates. The Federal Reserve began its easing cycle by lower its targeted Fed Fund Rate at the September meeting by 50 bps. Chinese stimulus was a welcome narrative in the continuation of the current bull market for large cap equities.

We continue to maintain an overweight in the Technology, Industrials and Health Care sectors. We believe that the secular growth available in those sectors will serve us well.

2) Fund Performance

For Q3, the Fund's gross return was 5.57%, underperforming the benchmark (MSCI ACWI Small Mid Cap) return of 8.07%.

Stock selection in Industrials, along with an underweight allocation in Energy and an overweight allocation in Health Care contributed to relative performance. While stock selection in Health Care, Information Technology and Real Estate along with an overweight allocation in Information Technology detracted.

On a geographic level, Stock selection in Japan contributed to relative performance, while stock selection in in the United States detracted from performance.

3) Security contributors

For Q3 of 2024, the top contributors towards the performance of the fund were ExlService Holdings, Inc., Progressive Corporation, Exact Sciences Corporation, Waters Corporation and Bright Horizons Family Solutions, Inc.

4) Security detractors

For Q3 of 2024, the top detractors were DexCom, Inc., Vontier Corp, Charles River Laboratories International, Inc., HealthEquity Inc. and Tenable Holdings, Inc.

5) Portfolio activities

Over the quarter, the fund increased and opened new positions within the Financials and Industrials sector while decreasing positions within Information Technology and Consumer Discretionary sectors among others.

6) Market overview

US Team

Markets in particularly, smaller cap indices are optimistic about lower interest rates with the proviso that these lowered rates aren’t a result of a slowing economy. In our view, markets seem optimistic that the Fed can orchestrate a soft landing or no landing scenario. Given the bullish skew, we continue to look for companies that offer high value-added products and services, which should perform reasonably well in any economic scenario. That differentiation and focus on value-add should provide them reasonable pricing power across market cycles.

European team

This quarter saw a second interest rate cuts from the European Central Bank (ECB) in this cycle, with a further 25 basis point cut to the deposit rate announced in September. The market is now pricing a more aggressive cutting cycle in coming quarters. Broadly, the European economy looks to have weakened somewhat through the summer, led by further weakness in German manufacturing and a fraught political situation in France. Monetary policy has eased in China, and fiscal stimulus is now on the policy agenda but the extent of this and whether it will serve to solve China's structural problems and drive consumption in the domestic economy are far from certain. Being a key trading partner for the region, it has notably impacted certain sectors in the European equity market in the near term like luxury goods, materials and capital goods.

Commentary

6) Market overview

Asian Team

Most Asian stock markets performed strongly over the last year helped by a falling US dollar index and a peaking of US interest rates for this business cycle. This culminated in a 50-basis point Federal Reserve cut at the end of Q3 2024.

The Yen depreciated against the US dollar for most of the period despite falling interest rates differentials and this produced a very concentrated short Yen position in capital markets. In early August, the Topix index fell 17% in 2 days in Canadian dollars in a violent unwind of the carry trade, which was a reminder of how undervalued the Yen had become. The newly elected Japanese Prime Minister Mr. Ishiba is in favour of raising interest rates and a stronger Yen which should favour domestic companies over exporters and reduce imported inflationary pressures.

The Chinese government finally responded to a weakening economy with a co-ordinated policy response including using the strong central government balance sheet. Although there are still structural problems with the Chinese economy, these policies should lessen the risk of the economy imploding and the likelihood is there are further government policies to follow. US-China geopolitics remain challenging during the run-up to the November US election.

7) Outlook and Positioning

US Team

Based on the futures treasury curve, it seems likely that the peak Fed Funds Target interest rates are behind us in this economic cycle. The future path of further cuts from a timing and magnitude standpoint is uncertain and may well likely be "data-dependent". The economy has held up reasonably well during a period of elevated monetary policy, but the lagged impacts of interest rate changes are yet to be seen in the real economy. We continue to believe that many consumers, especially those in the lower-income and middle-income classes, are battling hard against the higher prices of everyday goods and services. Food volume data and "pricing wars" amongst many fast-food restaurants reinforce our belief about the devasting impact of inflation on consumption levels.

As a result, we have continued to overweight Healthcare, non-cyclical Industrials, and Information Technology sectors. We added a new technology name in the quarter during the period of August volatility.

On the industrial front, we continue to like names: EXL Services, Maximus. All of these companies have counter-cyclical properties to their business models. EXL Services helps clients deploy LLMs, AI, RPA work that would enable customers to streamline operations, especially during an economic downturn. As a trusted partner, EXL has earned a seat with many of their customers product roadmaps which enables them to plan for long horizon efficiency gains (top 20 customers have an average tenure of roughly 20 years with EXL). Maximus operates a variety of government programs predominately in North America. They are under contract to operate the 1-800-MEDICARE call center, administer the PACT ACT for US Veterans, as well as provide Medicaid Redeterminations, Welfare-to-work programs, collect US Census data from time to time.

As one can see by the recent additions to the portfolios, and the current positioning of our largest weightings, we are owning a set of businesses that could do reasonably OK regardless of the economic environment. These allocations and changes effectively have lowered our beta against the index, which may prove beneficial if the global economies struggle from higher interest costs and sticky levels of inflation.

European team

We remain wary of the strength of the US consumer, but acknowledge that Fed has surpassed expectations in its willingness to cut rates aggressively, and the October payrolls report delivered a large positive surprise. Our portfolio is positioned accordingly as the European portfolio is underweight exposure to discretionary US consumption. The European sleeve is most overweight Consumer Staples, Health Care and Materials and most underweight the Industrials, Information Technology and Real Estate sectors. Over the quarter the fund added several new positions. These included LEG Immobilien, a German residential property company whose depressed valuation should benefit from declining interest rates, limited new supply and a stabilisation in German property values, which we believe has already begun. A position in German Commerzbank was also started, as the bank's valuation has attracted bidding interest from a major Italian bank, UniCredit, and we see meaningful synergies for a combined entity which could lead to further, beneficial European banking consolidation. The fund exited positions in UK pharmaceutical company Indivior, as we are concerned about growing competition for its core products, and Entain, a UK sports gaming company, as the share loss of its joint venture BetMGM in the United States market to DraftKings and Fan Duel appears set to continue.

Commentary

<u>7) Outlook and Positioning</u>

Asian Team

From a country standpoint, we increased our exposure in Australia, China, India, and Indonesia. While Chinese equities rose 30% in just 5 days in response to the government stimulus, valuations are still very supportive to us.

India is a compelling long-term equity story with industrial capex still a driving factor.

We remain overweight in Information Technology and Consumer Staples. Our team continues to support the view that the artificial-intelligence revolution will continue to increase demand for semiconductors which would benefit the technology-heavy Korean and Taiwanese stock markets.

However, the best future performance may come from Tech Hardware industry rather than pure semiconductor stocks. We continue to maintain selective exposures in these areas where we believe secular growth trends lie.

<u>8) Stock stories</u>

ASMPT

- The company produces one of the most important pieces of semiconductor back-end packaging equipment, Thermo-Compression Bonding (TCB), which is vital in making Artificial Intelligence GPU and related memory chips.
- ASMPT had track record in delivering over 200 TCB machines to Intel in the past two years. Hence, it is a reliable equipment vendor with a strong execution track record.
- The AI-related backend packaging technology roadmap favours adoption of TCB machines to at least 2027. Meanwhile, global backend packaging capacity is expected to grow 3x in next two years.
- TCB only makes up a single-digit percentage of the company's total sales, but we believe that it will grow to over 20% in three years.
- ASMPT's current core revenues are back-end packaging equipment, which is highly correlated to semiconductor cycle, and is expected to trend upwards in the next 12 months. As such, the company will benefit from both secular and cyclical recovery.

E-Ink

- E-Ink has a very strong technological leadership in ePaper display with 95% market share.
- Electronic Shelf Label (ESL) will be the main application going forward, as penetration rate is still less than 10% in global retailers. ESL will replace paper price tags.
- Rising wages will drive the ESL adoption for store automation. With ESL, shelf maintenance time will drop by approximately 50%.
- Potential TAM for ESL will range from $6bn to $18bn by 2027, forecasted by 3rd-party research institutions. That compares to E-Ink current sales scale of $1bn.
- More ePaper applications are coming, given its low-power consumption. Outdoor signage products for displaying advertisements will be launched in 3Q24.
- Structural shift of sales from consumer electronics, like ebook, to industrial applications is driving margin and ROIC upward, as ESL generates over 50% gross margin, vs. consumer application's only 40%.

Commentary

8) Stock stories

Publicis

- Financials: Publicis has a very healthy balance sheet with above average financials. Net Debt/EBITDA lies at 0.4x (vs. WPP: 1.7) and 14.3% ROIC (vs. WPP: 8.5%). Publicis' operating is well above industry average (18% vs. 15.5%). Gains in efficiencies allows Publicis to invest €100m into AI in 2024, without compromising on the 18% margin.
- Growth: Publicis has a better diversified and less cyclical revenue mix. Higher exposure to digital (x%) and the US (5x%). Leading to growth ahead of GDP and industry growth, allowing Publicis to gain market share. Demand drivers being the personalization at scale opportunities opened up by AI; the deprecation of 3P cookies by Google; and the growing need for agencies' advice and execution across a growing addressable market that now includes data, technology, ecommerce and digital transformation.
- AI opportunity: The company has set out to become the industry's first AI-powered intelligent system - Publicis will invest €300m over 3 years in 'CoreAI'. It will make Publicis more efficient and productive, further differentiating its capabilities and offerings from its peers. Publicis will find it easier to implement and benefit from AI. Publicis already has AI expertise through Sapient and operates with a unified operating platform.
- Management: Publicis is very well managed. With an impressive track-record on acquisitions. As acquisitions like Epsilon (2019) and Sapient (2015) show. Both are growing double-digit on average and contributing significantly to Publicis strong growth.

DexCom Inc.

- A long time holding in the Small-Mid Fund repurchased by the team but this time in the Mid Cap Opportunities Fund.
- The team has known the company for many years.
- It is the dominant company in what has effectively become a duopoly in Continuous Glucose Monitoring (CGM).
- Expansion of the market keeps growth high – moving from Type 1 diabetics to Type 2 and even other populations.
- Each generation of Dexcom's CGM becomes lighter and easier to use.

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