Mackenzie Bluewater Canadian Growth Balanced Fund

Fund snapshot

Inception date	12/06/1999
AUM (millions in CAD)	5441.8
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	Dina DeGeer

Strategy overview

• The Fund pursues long-term capital growth consistent with reasonable safety of capital and a steady flow of current income.

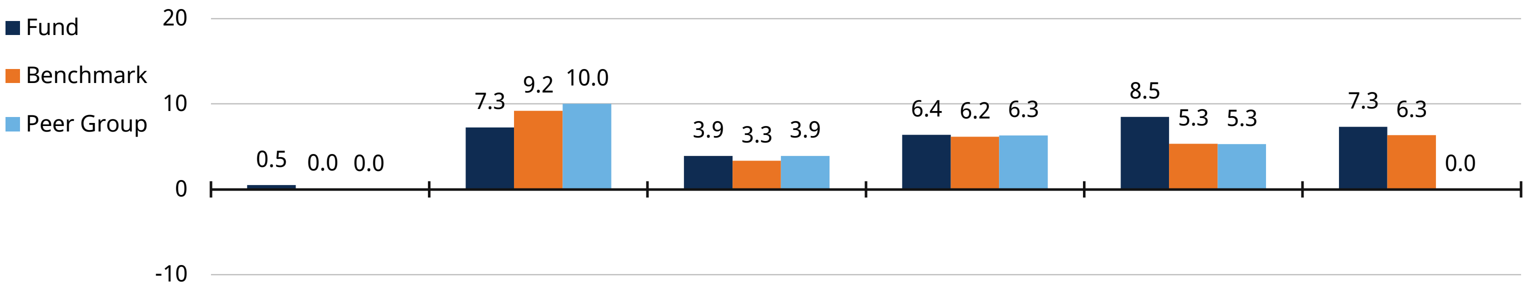
• The equity portfolio manager employs a company-focused investing style, seeking companies with strong management, good growth prospects and a solid financial position.

• 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.

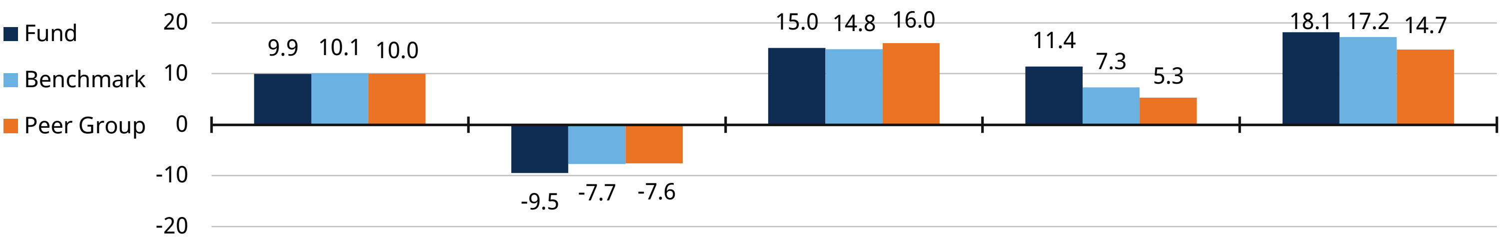
• The fixed-income portfolio manager analyzes securities that typically have a lower credit quality, such as high-yield debt securities, using a bottom-up approach to assess their valuation. This company-specific analysis focuses on stability of cash flows and recovery value of the debt instruments.

Trailing returns %



	3 Mth	1 Yr	3 Yr	5Yr	10Yr	SI
Excess return	0.5	-1.9	0.6	0.2	3.2	1.0
% of peers beaten	73	12	55	60	98	-

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	4.2	3.5
Equity		
P/E 12m forward	23.3	14.6
Dividend yield	1.4	3.1
Net debt/EBITDA	1.9	2.8
EPS growth (FY E)	13.7	18.0
P/B	4.0	1.9
Fixed income		
Yield	5.0	4.3
Duration	7.2	7.0
Average credit quality	A	AA

Sector allocation

Sector	Portfolio	Benchmark	Relative Weight
Financials	16.6	19.0	-2.4
Energy	-	11.6	-11.6
Materials	3.4	7.8	-4.4
Industrials	18.3	9.0	9.2
Information Technology	10.9	5.3	5.6
Communication Services	2.3	2.0	0.3
Utilities	-	2.4	-2.4
Consumer Staples	5.7	2.7	3.0
Consumer Discretionary	2.6	2.3	0.3
Real Estate	1.5	1.3	0.2
Health Care	2.6	0.2	2.4
Other	4.0	0.1	3.9

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	10.3	10.4
Sharpe Ratio	0.1	0.0
Tracking Error	5.0	-
Information Ratio	0.1	-
Alpha	0.6	-
Beta	0.9	-
Upside Capture (%)	98.1	-
Downside Capture (%)	93.5	-

Country allocation

Country	Weight	Benchmark	Relative weight
Canada	59.8	99.5	-39.7
United States	31.7	0.3	31.4
France	3.2	-	3.2
Mexico	0.5	-	0.5
United Kingdom	0.4	-	0.4
Singapore	0.1	-	0.1
Other	4.4	0.2	4.2

Credit breakdown

Rating	Portfolio	Benchmark
AAA	8.2	41.7
AA	35.4	32.0
A	21.1	15.3
BBB	28.3	11.0
BB	5.0	-
B	1.5	-
CCC & Below	0.2	-
NR	0.4	-

Asset allocation

	Portfolio (%)
Equity	63.9
Fixed Income	32.1
Cash	4.0

Top 10 equity holdings

Security name	Country	Sector	Weight
Intact Financial Corporation	Canada	Financials	3.6
Stantec Inc	Canada	Industrials	3.4
Royal Bank of Canada	Canada	Financials	3.2
Schneider Electric SE	France	Industrials	3.1
Roper Technologies, Inc.	United States	Information Technology	3.0
Aon Plc Class A	United States	Financials	2.9
Microsoft Corporation	United States	Information Technology	2.8
Accenture Plc Class A	United States	Information Technology	2.6
Becton, Dickinson and Company	United States	Health Care	2.6
Loblaw Companies Limited	Canada	Consumer Staples	2.5

Equity - Attribution

	Sector	Portfolio Average Weight (%)	Portfolio Contribution to Return (%)
Contributors	Communication Services	1.8	0.3
	Consumer Staples	5.9	0.3
	Consumer Discretionary	3.2	0.2
Detractors	Real Estate	1.9	-0.1
	Information Technology	10.5	-0.1
	Materials	3.5	-0.2

Fixed Income - Attribution

	Sector	Portfolio Average Weight (%)	Portfolio Contribution to Return (%)
Contributors	Corporate	17.4	0.3
	Government	13.1	0.1
	Bank Loan	0.1	-
Detractors	-	-	-

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 period the fund outperformed the benchmark. Stock selection in Industrials, Communication services and Consumer discretionary contributed to performance whereas no allocation to energy and stock selection in material was a headwind. From a geographic standpoint, holdings in France and Canada contributed to performance while security selection and allocation in United States detracted from relative performance.

On the fixed income side, the Fund's overweight IG corporate bond risk, inflation-linked bond exposure, and long 30-year US bond exposure contributed to performance. The underweight provincial bond risk detracted from performance.

Security Contributors

There were 3 sectors in which certain holdings added meaningful contribution this quarter- Industrials, Communication services and consumer discretionary. The leading performers were Alphabet, Schneider Electric and Microsoft.

Security Detractors

No allocation to energy sector was a drag along with a few stocks namely Aon Plc, Accenture Plc and Linde Plc

Portfolio Activities

The strong market performance during the quarter led to weighting reductions in several positions as valuations continued to get pushed higher. We exited our position in Copart, First Service and 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. 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.

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.

Commentary

Outlook and Positioning

Equity

During the quarter the weight in Communication services was increased in US and we exited a position in Canada. 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.

Fixed Income

The big story in North American rate markets during the second quarter of 2024 was the Bank of Canada cutting the overnight interest rate by 25bps at the beginning of June. 2-year yields had been largely unchanged for the first two months of the quarter but ended up trading in a 50bp range and closer to the lows at 3.99% a drop of 18.5bps on the quarter. 5y, 10y and 30y yields were largely unchanged on the quarter, implying a steeper curve as expected during a central bank cutting cycle. Despite this the Canadian yield curve remained historically inverted with 2s30s at -60bps. The cut from the Bank was largely expected with weak economic data and several consecutive months of lower-than-expected inflation readings.

The US shows continued economic strength and persistent inflation, delaying expected rate cuts by the Federal Reserve. While Canadian 2-year yields fell, US 2-year yields rose by 13bps, widening the spread to 76bps from 44bps. US yields rose 15-20bps across the curve, pushing the CAD-US yield spread to recent highs.

We prefer to be invested in high-grade (low-beta) Corporate Bonds at the short end of the curve (2-5y but especially 2-3y). We prefer the Canadian curve over the US curve in this sector. With the rate cut cycle having now begun and looking like it will continue in some form, there is the potential for significant price appreciation of these securities. We remain negative on the long end of the Canadian market with 30y Canadian bonds yield now yielding more than 100bps less than their US equivalents, making the US more attractive. We are cognizant that the upcoming US election and the uncertainties it might bring – from fiscal concerns to tariffs to the potential for a resurgence of inflation – can quickly alter base-case outlook.

Commentary

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.

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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 Canadian Growth Balanced 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 Equity Balanced category funds for Mackenzie Canadian Growth Balanced Fund for each period are as follows: one year - 322 ; three years - 313 ; five years - 287 ; ten years - 204.

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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