Mackenzie Canadian Growth Balanced Fund

Fund snapshot

Inception date	12/06/1999
AUM (millions in CAD)	5448.6
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, David Arpin, Steve Locke

Strategy overview

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

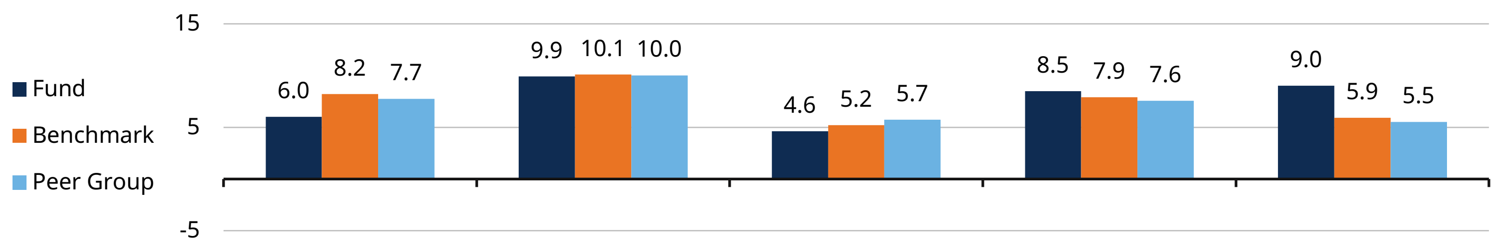
• The equity portfolio manager employs a company-focused investing style, seeking companies with strong management, good growth prospects and a solid financial position.

• 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.

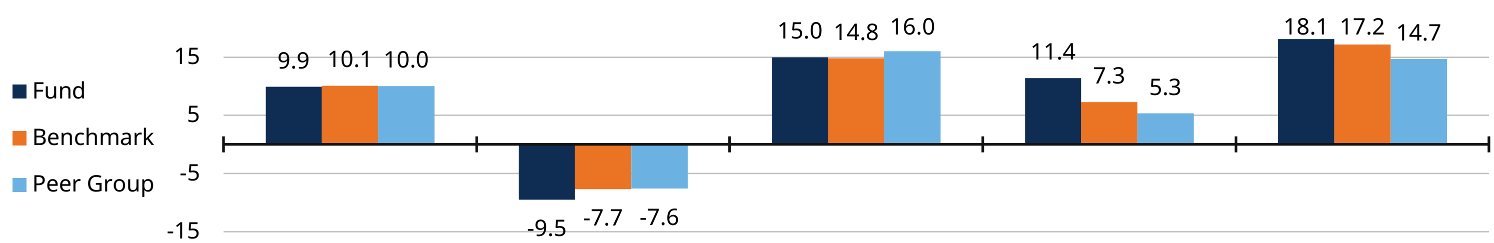
• The fixed-income portfolio manager analyzes securities that typically have a lower credit quality, such as high-yield debt securities, using a bottom-up approach to assess their valuation. This company-specific analysis focuses on stability of cash flows and recovery value of the debt instruments.

Composite trailing returns %



	3 Mth	1 Yr	3 Yr	5 Yr	10 Yr
Excess return	-2.2	-0.1	-0.6	0.6	3.1
% of peers beaten	7	56	34	79	99

Composite calendar returns %



	2023	2022	2021	2020	2019
Excess return	-0.1	-1.8	0.2	4.1	0.9
% of peers beaten	56	29	40	95	95

Portfolio characteristics

	Portfolio	Benchmark
Overall yield	3.8	3.3
Equity		
P/E 12m forward	23.7	14.5
Dividend yield	1.5	3.1
Net debt/EBITDA	1.9	2.7
EPS growth (FY E)	13.5	4.9
P/B	3.7	1.8
Fixed income		
Yield	4.5	3.9
Duration	7.0	7.4
Average credit quality	A	AA

Sector allocation

Sector	Portfolio (%)	Relative weight (%)
Communication Services	1.6	-0.8
Consumer Discretionary	3.7	1.3
Consumer Staples	5.3	2.5
Energy	-	-11.1
Financials	11.0	-9.4
Health Care	2.0	1.8
Industrials	19.8	10.9
Information Technology	11.4	5.7
Materials	3.3	-3.9
Real Estate	2.7	1.1
Utilities	-	-2.6
Other	0.4	0.3

Performance metrics (3-year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	10.3	10.3
Sharpe Ratio	0.2	0.3
Tracking Error	5.1	-
Information Ratio	-	-
Alpha	-0.3	-
Beta	0.9	-
Upside Capture (%)	96.1	-
Downside Capture (%)	99.5	-

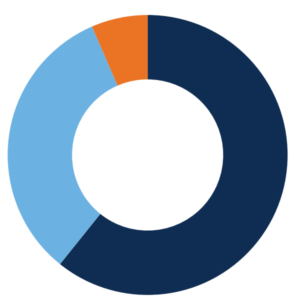
Country allocation

Country	Portfolio (%)	Benchmark (%)	Relative weight (%)
Canada	63.5	100.0	-36.5
United States	22.3	-	22.3
Ireland	4.2	-	4.2
France	2.8	-	2.8
Other	1.8	-	1.8
Cash	6.5	-	6.5

Credit breakdown

Rating	Portfolio	Benchmark
AAA	11.7	40.2
AA	41.8	32.7
A	19.4	15.6
BBB	20.5	10.8
BB	4.7	-
B	1.5	-
CCC & Below	0.2	-
NR	0.2	-

Asset allocation



	Portfolio (%)
Equity	60.7
Fixed Income	32.7
Cash	6.5

Top 10 equity holdings

Security name	Country	Sector	Weight
Intact Financial Corporation	Canada	Financials	3.4
Stantec Inc	Canada	Industrials	3.4
CAE Inc.	Canada	Industrials	3.3
Province Of Ontario 3.65% 02-jun-2033	Canada	--	3.1
Royal Bank of Canada	Canada	Financials	2.9
Schneider Electric SE	France	Industrials	2.8
Premium Brands Holdings Corp	Canada	Consumer Staples	2.7
Accenture Plc Class A	United States	Information Technology	2.7
Boyd Group Services Inc	Canada	Industrials	2.6
Thomson Reuters Corporation	Canada	Industrials	2.5

Equity - Attribution

	Sector	Average Weight (%)	Contribution to Return (%)
Contributors	Industrials	19.4	2.3
	Information Technology	11.7	0.7
	Financials	9.6	0.4
Detractors	Materials	3.3	-0.0
	Real Estate	2.8	-0.0
	Health Care	2.8	-0.5

Fixed Income - Attribution

	Sector	Average Weight (%)	Contribution to Return (%)
Contributors	Government	14.31	1.51
	Corporate	17.99	1.11
Detractors	--	--	--

Commentary

The Canadian market ended Q4 2023 up 9.4% with technology which is a relatively small sector performing the best. Material and energy sector which form nearly 30% of the S&P TSX Composite Index were a drag.

U.S markets delivered some strong gains in the final quarter of the year, buoyed by expectations that interest rate cuts may be approaching. The S&P 500 index ended the year just short of its record high set in early 2022.Top performing sectors were those most sensitive to interest rates, including information technology, real estate and consumer discretionary. The energy sector posted a negative return with crude oil prices weaker over the quarter.

As the impact of rate increases work their way through the economy, the companies that we invest in should perform better due to the less cyclicality and more resilient nature.

Fund performance
During the period the fund detracted the blended benchmark by 1.9%. Security selection in Industrials and underweight allocation to energy contributed to performance whereas stock selection and allocation to Financials and selection in Information technology detracted from performance. At the end of the quarter our largest overweight position was in Industrials (+10.6%) and largest underweight position was in Energy (-11.9%).

On the fixed income side, the Fund was overweight USD duration, overweight EM duration, steepening bias (U/W 30y sector), overweight IG corporate bond risk, and overweight high yield corporate bond risk contributed to performance. The Fund's underweight CAD duration, short JPY duration, underweight Provincial bond risk, inflation-linked bond exposure, and open USD currency position detracted from performance.

Equity contributors
Stantec, Schneider Electric SE, Thomson Reuters

Equity detractors
Thermo Fisher Scientific Inc., Aon Plc, CAE Inc

Portfolio activities
The weight in consumer staples and financials was increased with new positions initiated in Canada, while the weight in information technology was reduced as we exited a few positions in US.

We exited our position in Thermo Fisher. The business experienced heightened demand during the initial stages of the pandemic, as substantial capital was allocated towards developing and delivering COVID-19 vaccines and treatments. This surge in demand resulted in increased profitability and revenue for the entire Life Sciences Technology sector, surpassing the impressive growth observed over the past decade. However, as global immunity to COVID-19 increased, the increase in temporary demand from vaccine development and COVID testing dissipated while the rise in interest rates diminished capital available for small companies pursuing new drug development.

Market Overview
Over the past three years, the global investment landscape has been heavily influenced by the trajectory of interest rates and inflation. It wasn't until late 2023 that the narrative pivoted towards the anticipation of a decline in policy rates. This shift signaled a reversal in the trajectory of interest rates, resulting in a subsequent upwards spike in stock prices. Investors began recalibrating their strategies as the prospect of easing monetary policy hinted at the possibility of a more favorable interest rate environment for equities. Another striking development was the concentration of returns within the S&P 500, where the “Magnificent 7” (Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta Platforms, and Tesla) contributed over 60% of index performance in 2023.

Commentary

Outlook and positioning

Equity

Anticipating a lack of acceleration in economic growth, the fund has tactically chosen to invest in businesses that demonstrate resilience to economic downturns and that have underlying growth drivers that are less linked to overall economic conditions. This includes a focus on companies with limited economic sensitivity and, crucially, those with robust pricing power. Additionally, a cautious approach is evident in the fund's avoidance of geographies, such as China, that present specific challenges or uncertainties.

Fixed income

The fourth quarter of 2023 was marked by a significant reversal of the rising-yield trend that had defined 2024 up to that point. In Canada we entered the fourth quarter with yields at their cycle highs across the curve. The reversal was immediate and precipitous. Before the end of the quarter all sectors – 2s, 5s, 10s and 30s – had rallied more than 100bps and retraced to levels seen back in January 2023. The price action was mirrored in the US albeit with a slight delay. US yields peaked in the middle of October before rallying a similar magnitude.

Despite the fall in yields in Q4, some of our previous investment preferences remain in place. We prefer 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 fragilities seemingly on the horizon in the Canadian market, led by the growing strains on consumers caused by mortgage resets, there is, in addition to the elevated yield, the potential for significant price appreciation of these securities. The longer end of the Canadian market is less convincing. 30y Canadian bonds yield 100bps less than their US equivalents, making the US more attractive. Should the two central banks indeed pivot away somewhat from their laser focus on inflation, this could have a positive effect on inflation linked-bonds relative to nominal bonds.

Stock Stories

CAE: CAE is a global leader r in pilot training for civil aviation and over the past decade they have benefitted from the continued outsourcing of pilot training by airlines. This trend accelerated through the pandemic as airlines contended with a material contraction of revenues and re-evaluated their cost base. Notably, CAE now has training contracts with every single US airline except for Southwest Airlines, which is a seismic shift in their approach to pilot training.

The defense industry is characterized by long term, firm, fixed price contracts that offer minimal price escalation clauses. While these are sufficient in a low inflationary environment, as was the case pre-pandemic, they proved to be materially inadequate in a highly inflationary environment. This impacted the profitability of defense contractors, including CAE. Today, the industry is moving away from legacy pricing mechanisms, shifting the burden of inflation and commodity price risk to the customer. These legacy programs will continue to be a material drag on the profitability of the defense business for several quarters. As newly awarded contracts, which are higher margin, ramp up, the margin profile should return to pre-pandemic levels.

Aon: Aon is a professional services firm in the areas of insurance and risk mitigation for corporate clients. One of two large companies who can service clients on a global basis. Boring in a good way – low risk capital compounder, in a non- cyclical industry. The company grows its top-line at 5-6%, with margin expansion and 3-5% share buybacks per year with their huge amounts of cash flow - compounds free cash flow per share consistently in the low teens .The world is getting more complicated for companies to manage risk. While there is a whole industry around risk consulting, Aon is one of the few companies that can help companies to insure that risk.

Schneider Electric: The company is a France based focused on providing a complete range of light switches, electrical sockets and boxes and is the world's largest provider of products and services tied to electrification. The company is positioned to be a clear beneficiary of the drive to build a more sustainable, efficient, and digital energy infrastructure. The current electricity grid operates on a “hub-and-spoke” type of model, the future involves a system that resembles more of a decentralized “mesh style” network involving wind farms, private solar systems and solar farms, battery storage and other forms of generation that are spread out across different areas of the network. Schneider uses advanced software and AI and is now in a highly advantageous position to act as a key enabler of the energy transition as the world moves into the next generation of electrification.

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 December 31, 2023 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 Gr Bal F for the 3-month, 1-, 3-, 5- and 10-year periods as of December 31, 2023 . 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 Gr Bal F for each period are as follows: one year - 344 ; three years - 333 ; five years - 292 ; ten years - 209.

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.

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