Mackenzie Global Small-Mid Cap Fund

Strategy snapshot

Inception date	02/26/2020
AUM (millions in CAD)	953.7
Benchmark	MSCI ACWI SMID Cap
Lead portfolio manager	Phil Taller
Investment exp. since	1991
Target # of holdings	100-170

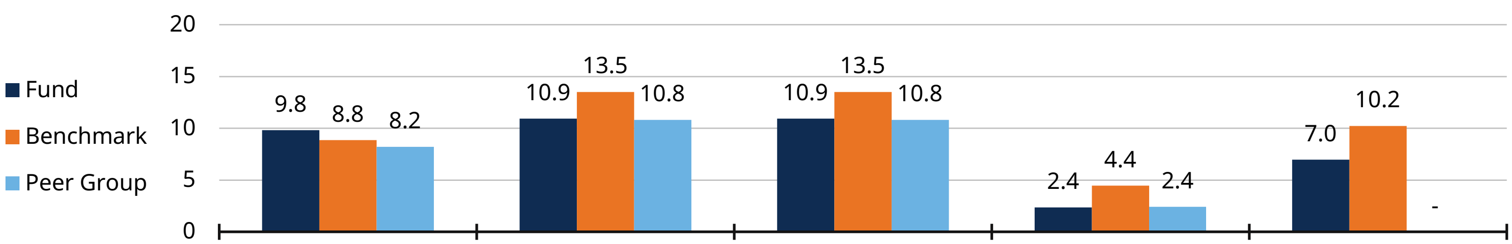
Strategy Overview

• 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.

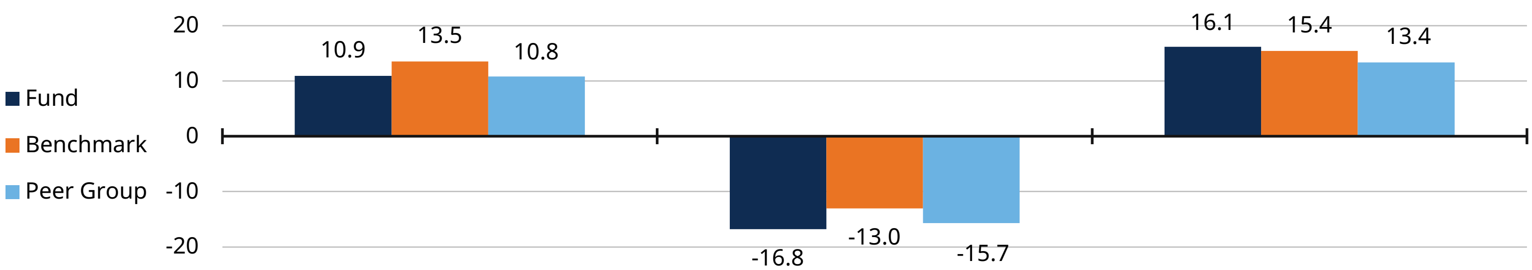
• Emphasis is also placed on paying reasonable prices for the growth that companies in the portfolio are expected to achieve.

Trailing returns %



	3 month	YTD	1 year	3 years	Since inception*
% of peers beaten	75	44	44	51	-

Calendar returns %



	2023	2022	2021
% of peers beaten	44	47	61

Portfolio characteristics

	Portfolio	Benchmark
# of holdings	162	7,824
% top 10 holdings	25.1	2.1
Weighted average market cap	19,201.4	13,862.5
EPS growth (FY E)	6.2	42.5
Dividend yield	1.6	2.2
FCF margin	9.8	41.9
P/E Trailing 12M	21.7	11.4
P/E (forecast)	18.8	15.3
Net debt/EBITDA	1.0	2.0
ROE (latest FY)	12.7	12.7

Sector allocation

Sector	Weight	Relative weight
Communication Services	1.9	-2.1
Consumer Discretionary	9.3	-2.3
Consumer Staples	4.4	-0.4
Energy	1.7	-2.3
Financials	8.8	-5.5
Health Care	16.1	7.1
Industrials	22.4	3.3
Information Technology	21.4	8.5
Materials	4.9	-3.4
Real Estate	4.8	-2.6
Utilities	1.0	-3.3

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	11.5	13.6
Sharpe Ratio	-0.2	0.2
Tracking Error	7.8	-
Information Ratio	-0.5	-
Alpha	-3.3	-
Beta	0.7	-
Upside Capture (%)	68.7	-
Downside Capture (%)	76.2	-

Country allocation

Country	Weight	Relative weight
United States	53.1	1.1
Japan	10.8	1.4
United Kingdom	7.3	2.9
Germany	3.0	1.2
India	2.7	0.2
Australia	2.4	-0.6
Other	20.6	-6.2

Regional breakdown

Region	Weight	Relative weight
United States	53.1	1.1
International	36.8	3.7
Emerging Markets	6.6	-5.1
Canada	-	-3.2

Currency exposure

Region	Gross	Benchmark
USD	55.4	-
CAD	0.8	-
Other	43.8	-

Top 10 holdings

Security name	Country	Sector	Weight
Charles River Laboratories International, Inc.	United States	Health Care	2.8
DexCom, Inc.	United States	Health Care	2.8
Akamai Technologies, Inc.	United States	Information Technology	2.7
Westinghouse Air Brake Technologies Corporation	United States	Industrials	2.6
Broadridge Financial Solutions, Inc.	United States	Industrials	2.3
ExlService Holdings, Inc.	United States	Industrials	2.3
Vontier Corp	United States	Information Technology	2.3
Bio-Techne Corporation	United States	Health Care	2.2
Bright Horizons Family Solutions, Inc.	United States	Consumer Discretionary	2.2
MAXIMUS, Inc.	United States	Industrials	2.2

Security level contributors and detractors

	Security	Average Relative weight (%)	Allocation Effect (%)	% contribution to return
Contributors	DexCom, Inc.	2.5	0.59	0.8
	Gartner, Inc.	1.4	0.27	0.4
	Westinghouse Air Brake Technologies Corporation	2.4	0.23	0.4
Detractors	Alstom SA	0.2	-0.11	-0.1
	Petco Health & Wellness Company, Inc. Class A	0.5	-0.17	-0.1
	Markel Group Inc.	2.0	-0.29	-0.2

Sector attribution relative to the benchmark

	Sector	Average Relative weight (%)	Allocation Effect (%)	Selection Effect (%)
Contributors	Industrials	2.7	0.01	0.99
	Health Care	6.3	0.04	0.54
	Information Technology	8.7	0.36	0.23
Detractors	Consumer Discretionary	-1.8	-0.02	-0.47
	Financials	-4.4	-0.06	-0.58

Commentary

For Q4, the Fund's gross return was 9.8%, overperforming the benchmark (MSCI ACWI Small Mid Cap) return of 8.8%. We continue to maintain an overweight in the Industrials, Technology and Health Care sectors. We believe that the secular growth available in those sectors will serve us well.

Within Europe, the portfolio management team made several changes to the fund over the quarter. Inflationary pressures continue to ease as monetary policy tightening and cost-of-living pressures have cooled consumer demand. Within Asia Pacific, the Japanese economy remains solid and corporate investment also remains strong. China has suffered from weak export demand, rising youth unemployment, and an anemic property market.

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Stock selection in Industrials, Health Care and Information Technology along with an overweight allocation in Information Technology and underweight allocation in Energy contributed to relative overperformance while stock selection in Consumer Discretionary and Financials detracted.

The top contributors were DexCom, Inc., Gartner, Inc.,Charles River Laboratories International, Inc. and Equifax Inc.

The top detractors were Markel Group Inc., Petco Health & Wellness Company, Inc. and Indivior PLC

We added new positions and increased current positions within the Consumer Discretionary, Information Technology and Health Care Sectors while eliminating and decreasing positions within the Industrials and Financials sectors.

Market Overview

US Team

We believe that the US economy, like many others, already faced structural challenges in the form of high debt levels and slow growth in the working age population. As we enter 2024, consumers are dealing with a significantly higher interest rates compared to the COVID period, so we remain cautious about consumer balance sheets and spending behaviour. With that macro-economic backdrop, we believe that in the long term the world may continue to proceed in a lower growth environment compared to history. While we do not attempt to forecast near-term economic growth, the current tightening of financial conditions may slow the global economy for a period. We try to be realistic about what companies can achieve in a more challenging environment. We don't think anybody really knows what the level of ongoing inflation will be, nor what impact it might have on markets. We do believe that many of our companies offer high value-added products and services, and this should give them reasonable pricing power.

European team

In the final quarter of the year, equity markets took a cooling of inflationary pressures and extrapolated to forecast the start of Central Bank policy easing to begin as soon as March 2024 after a period of aggressive monetary tightening - between July 2022 and September 2023 the ECB increased its main policy rate on ten occasions, by a total of 450 basis points. The change in expectations for policy easing in the fourth quarter was most pronounced for the US Federal Reserve, but also for the ECB and Bank of England. This change led to a rally in risk assets, most notably long-duration growth assets with lower near-term earnings power and leveraged companies that will benefit from less refinancing pressure if interest rates decline, macroeconomic conditions are favourable.

Asian Team

Chinese equities are down for a third year in a row. The fall in 2023 was entirely due to P/E multiple compression as earnings were slightly up. Foreign investors continued to bail out of Chinese equities, so irrespective of fundamentals, owning foreign favourites was a losing strategy. Chinese consumption weakened in the 2nd half of 2023, especially the 4th quarter as property prices weakened and high youth unemployment fed negative consumer sentiment.

Even though the Chinese government has tried to boost the economy, it has failed to turn things around. Deflationary pressures have led to the start of a credit crunch especially in property related activities. The Hong Kong economy also struggled as did domestic and China related stocks listed in Hong Kong. The Bank of Japan did not deliver the much-anticipated policy change (abandoning NIRP and stopping the suppression of 10-year sovereign bond yields) which resulted in 10-year yields rolling over from 76bp to 60bp. Deflationary pressures started to appear in the Japanese economy. However, as US 10-year bonds rallied strongly from October, the Yen strengthened against it and put pressure on Japanese exporters. Asian semiconductor stocks followed the global cycle and performed strongly in Q4.

Outlook and Positioning

US Team

The future is uncertain, but there may be increased investments in communications, Cloud and public infrastructure, security, data analytics, regional supply chains in many industries, pharmaceutical and medical technology research, the Internet of Things, automation and robotics, and online services and commerce. We will be looking for ways to participate in these opportunities as equity markets evolve. We believe companies will seek to invest in new technology and services that can help them participate in a global trend towards digital transformation that can help them be more agile and secure in their operations. The use of data to understand trends should only become more important over time. There may also be increased demand for outsourced business services. We think several of our companies can assist in this effort.

We continue to maintain an overweight in the Technology and Health Care sectors. We believe that the secular growth available in those sectors will serve us well. We lowered our exposure to cyclicals beginning in the fall of 2021. This change was driven by what we perceived as an overall optimistic tone that didn't reflect the possibility of a slowdown, which may or may not happen.

What we aim to do is to know as many great businesses as we can and learn what they might be worth. When markets offer us attractive share prices for these businesses, we become buyers.

We focus most of our attention on owning innovative secular growth businesses. These types of companies offer products and services that make the world better, cheaper, and faster – enabling them to grow at a faster pace than the overall economy. We see this as a more "all weather" approach – our companies can do well in a rising economy, but also perform relatively better in a difficult economy.

We focus mainly on free cash flow as a metric for company valuations. This measure has become even more important in recent years, as companies have moved increasingly to present earnings in an "adjusted" fashion, which may obscure reality. In our view, accounting risk has risen, and we believe securities regulators are becoming increasingly concerned with these "adjusted" disclosures based on recent guidance.

European Team

The magnitude of the short-term performance for these long-duration and leveraged securities suggests to us expectations that have moved 'too far, too fast'. The degree of rate cuts now priced into interest rate futures markets has only ever been accompanied by economic recession, a normal consequence of rapid interest rate increases the likes of which we have seen over the year and a half. While things may be different this time, that is not our base case and we are positioning the portfolio such that history is on our side.

Within Europe, the portfolio management team made several changes over the quarter. Of these, in the Staples sector, J. Sainsbury, a UK grocery chain, was added. We see structural improvement in the UK grocery market with the German discount chains no longer gaining share while two of Sainsbury's full-price competitors have over-leveraged balance sheets, limiting their flexibility. Sainsbury has invested well in its own range of products, allowing the company to re-take share and improve margins. David Campari, the owner of numerous liquor brands including Campari, Aperol, Skyy Vodka was also added within Staples. The company's valuation has de-rated ahead of a management change but we expect strategic continuity. The acquisition of Courvoisier cognac at the end of 2023 will allow the company to demonstrate its track record in turning around brands and generating value for shareholders through acquisitions. Within Europe the fund is overweight Materials and Healthcare. The fund has a large underweight position in European Industrials as well as Real Estate.

Asian Team

Even though the Chinese authorities have available many policy levers (central government debt is low, payroll taxes are high, social safety net is low) they seem reluctant to use most of them. However, after 3 down years in Chinese equities, the worst of the de-rating is behind us, and positioning is very light globally. We remain constructive on certain stocks which are not reliant on a strong rebound in Chinese consumption. Examples include:

1. Miniso: A huge winner in 2023 and a value retailer which is growing strongly in overseas markets adding to its highly cost-effective back-end supply chain in China.

2. Pharmaron Beijing: provider of clinical research and testing for the pharmaceutical industry. China is very cost effective place to do this research with an abundance of cheap scientists.

Fund remains overweight in Hong Kong equities, but the stocks are really global in nature, some of which are:

1. Pacific Basin - Global bulk shipping

2. ASM Pacific - Semiconductor testing globally

3. WH Group - Packaged meat in US and China

We started the year 600 basis points overweight in Japan (structural reform, better corporate governance, focus on raising ROE's, raising dividends, stock buybacks etc) but have taken profits after a strong start to the year. The underweight countries remain Australia and Taiwan.

From an industry group perspective, the fund is overweight in Semiconductors, Food and beverage and Consumer staples distribution. While being underweight in Transportation, Media and Entertainment and Financial Services. In the 4th quarter, we sold Daiwa House in Japan as it benefitted from the strength in the value part of the market, getting too big (now over US 20 bn). We bought 2 micro cap stocks in Japan (Open Up Group and Net one Systems).

We also bought HeroMotor Corp in India who is the largest manufacturer and exporter of motorcycles in India. With a new CEO, they have 5 new bike launches in 2024 including the important 125cc segment where there was residual engineering problems which they have overcome. They have re-vamped their back end production and distribution and have increased their investment in their electric bike subsidiary. Honda pulled their investment out of HeroMotor a decade ago, and its been a sleeping giant ever since. We bought in early November when the stock was at a large discount (50%) to its peers. We took a little profit this week after a 40% run. It has a very strong balance sheet (now used to drive growth) and pays a healthy dividend (5% on purchase) which is very rare in India.

Stock Stories

MAXIMUS Inc

- MAXIMUS provides outsourcing services to governments. It delivers social services like unemployment assistance and health care programs, which are increasing with more government involvement in economies.
- Maximus Inc operates in the United States, United Kingdom, Canada, Australia, and Saudi Arabia. The company offers business solutions to improve the cost-effectiveness, efficiency, and quality of government-sponsored benefit programs, such as Medicaid, Medicare, Health Insurance BC, and child support programmes.
- Most of its revenue is derived from long-term contractual arrangements with governments around the world.
- Future growth for MAXIMUS should come from renewed Medicaid certifications as the Public Health Emergency ends in the US, new work for the Veterans Administration as the PACT Act increases benefits for veterans and new contracts such as the IRS technology modernization program.

Akamai Technologies

- The backbone of the internet. The company speeds up content delivery through their web accelerating services, provide cloud agnostic security solutions, and offer edge computing capabilities.
- Akamai delivers daily web traffic reaching more than 120 terabytes per second.
- Highly distributed content delivery network (CDN) with over 340,000 servers in more than 135 countries.
- Edge computing is an area that is small today but with a big future in our view.
- Akamai can save clients millions of dollars in "egress fees" or data access fees compared to the traditional hyperscalers
- Working in the digital world, Akamai analyzes 290 TB of new attack data every day.
- Secular grower that benefits from Internet-based TV and video consumption and personal business, such as banking and shopping, being conducted online.

CommVault Systems, Inc.

- CommVault Systems Inc provides data management systems that help customers back up and recover critical data.
- Growth in data that requires management provides a natural tailwind for the company's niche.
- The massive increase in ransomware attacks in recent years has reinforced the importance of having secure and accessible data backups.
- The company's introduction of its Metallic product line has given customers a SaaS-based, simpler choice that competes well in the marketplace.

Westinghouse Air Brake Technologies Corp

- Westinghouse Air Brake Technologies Corp is a provider of value-added, technology-based products and services for the rail industry.
- It provides its products and services through two main business segments, the Freight and Transit.
- Safety of train operations is an ongoing concern for rail companies and Wabtec can provide all the equipment and parts to ensure safety and reliability for a train.

Grocery Outlet Holding Corp.

- Grocery Outlet Holding Corp is a grocery store operator in the United States. Its flexible buying model allows them to offer quality, name-brand opportunistic products at prices that are generally 40% below those of conventional food retailers.
- The stores are run by entrepreneurial independent operators which create a neighborhood feel through personalized customer service and a localized product offering.
- Grocery Outlet offers a "treasure hunt" shopping experience in its grocery stores which would be equivalent to shopping at Winners or TJ MAXX for clothing.
- Grocery Outlet sources these incredible deals through their multi-decade relationships with several major food manufacturers and consumer-packaged goods (CPG) companies. The Grocery Outlet sourcing team helps clear out excess inventory from companies like General Mills, Blue Buffalo, PepsiCo, MARS, Campbells, Kraft Heinz, Unilever, and many more strategic suppliers.
- The stores are roughly 50% stocked with opportunistic items but the remaining 50% of the store will have everyday essentials like milk, eggs, sugar, lettuce, fresh produce, ground beef, toilet paper, vitamins, beer/wine etc.
- We are excited about the long term growth algorithm as the company speaks about growing their store network by 10% per year over time.

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 Morningstar Canada Fund Global Small/Mid Cap Equity category, and reflect the performance of the Mackenzie Global Small-Mid Cap Fund F for the 3 month, 1-, 3-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. Canada Fund Global Small/Mid Cap Equity funds for the Mackenzie Global Small-Mid Cap Fund F for each period are as follows: one year – 231; three years – 197.