Mackenzie Bluewater Canadian Growth Balanced Fund

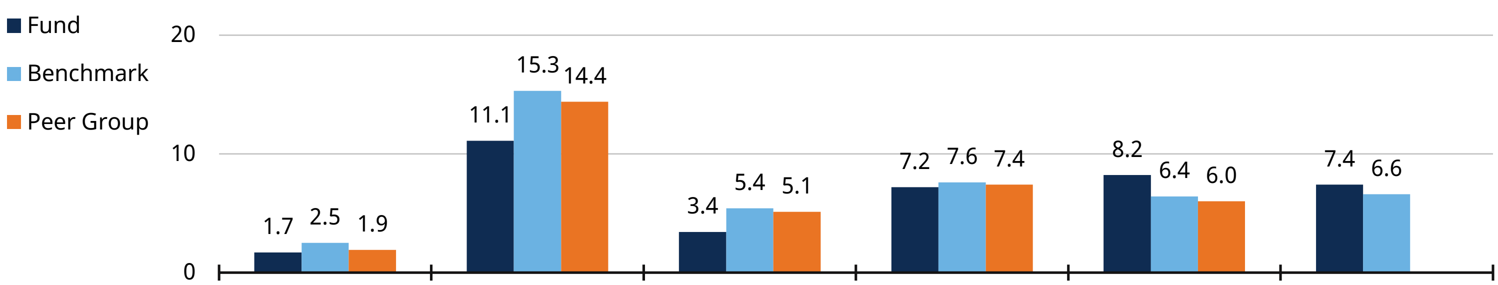
Fund snapshot

Inception date	12/06/1999
AUM (millions in CAD)	5366.3
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

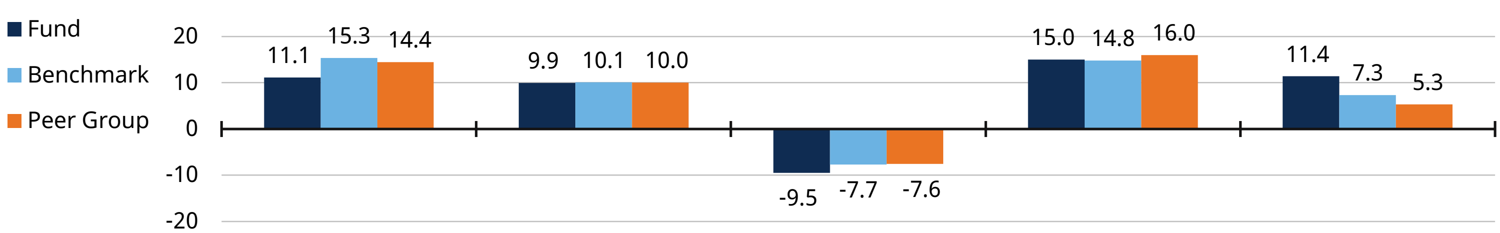
- The Fund pursues long-term capital growth consistent with reasonable safety of capital and a steady flow of current income.
- The equity portfolio manager employs a company-focused investing style, seeking companies with strong management, good growth prospects and a solid financial position.
- The 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	-0.8	-4.2	-2.0	-0.4	1.8	0.8
% of peers beaten	40	12	13	55	94	NA

Calendar returns %



	2024	2023	2022	2021	2020
Excess return	-4.2	-0.2	-1.8	0.2	4.1
% of peers beaten	12	56	29	40	95

Portfolio characteristics

	Portfolio	Benchmark
Overall yield	4.0	3.5
Equity		
P/E 12m forward	26.5	16.3
Dividend yield	1.2	2.8
Net debt/EBITDA	1.8	2.3
EPS growth (FY E)	16.9	12.9
P/B	4.3	2.1
Fixed income		
Yield	4.2	3.6
Duration	7.2	7.3
Average credit quality	A	AA

Sector allocation

Sector	Portfolio (%)	Benchmark (%)	Relative weight (%)
Financials	21.2	21.3	-0.1
Energy	-	11.0	-11.0
Materials	1.7	7.4	-5.7
Industrials	16.3	8.1	8.2
Information Technology	14.0	6.5	7.5
Communication Services	0.0	1.5	-1.5
Utilities	0.0	2.5	-2.5
Consumer Staples	3.8	2.6	1.2
Consumer Discretionary	2.5	2.1	0.4
Real Estate	1.7	1.3	0.4
Health Care	5.2	0.2	5.0
Other	0.3	-	0.3

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	10.1	10.9
Sharpe Ratio	0.0	0.2
Tracking Error	4.9	-
Information Ratio	-0.4	-
Alpha	-1.7	-
Beta	0.8	-
Upside Capture (%)	81.3	-
Downside Capture (%)	89.0	-

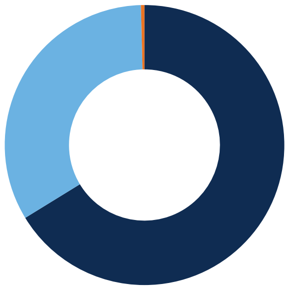
Country allocation

Country	Weight	Benchmark (%)	Relative weight
Canada	62.7	99.6	-36.9
United States	31.6	0.3	31.3
France	1.8	-	1.8
Switzerland	1.6	-	1.6
New Zealand	1.1	-	1.1
United Kingdom	0.4	-	0.4
Other	0.8	0.1	0.7

Credit breakdown

Rating	Portfolio	Benchmark
AAA	14.2	42.3
AA	30.0	31.5
A	19.9	15.3
BBB	28.7	10.9
BB	5.3	-
B	1.3	-
CCC & Below	0.2	-
NR	0.3	-

Asset allocation



	Portfolio (%)
Equity	66.4
Fixed Income	33.3
Cash	0.3

Top 10 equity holdings

Security name	Country	Sector	Weight
Royal Bank of Canada	Canada	Financials	3.6
Brookfield Asset Management Ltd. Class A	Canada	Financials	3.2
Stantec Inc	Canada	Industrials	3.1
Aon Plc Class A	United States	Financials	3.0
Intact Financial Corporation	Canada	Financials	2.7
Microsoft Corporation	United States	Information Technology	2.6
Loblaw Companies Limited	Canada	Consumer Staples	2.6
Roper Technologies, Inc.	United States	Information Technology	2.3
Waste Connections, Inc.	Canada	Industrials	2.2
TMX Group Ltd.	Canada	Financials	2.2

Equity - Attribution

	Sector	Portfolio Average Weight (%)	Portfolio Contribution to Return (%)
Contributors	Financials	19.7	1.3
	Industrials	17.5	0.8
	Information Technology	12.2	0.7
Detractors	Materials	2.0	-0.1
	Consumer Staples	4.1	-0.2
	Health Care	5.9	-0.3

Fixed Income - Attribution

	Sector	Portfolio Average Weight (%)	Portfolio Contribution to Return (%)
Contributors	Corporate	18.7	0.3
	Bank Loan	0.4	0.0
Detractors	Government	14.0	-0.1

Commentary

QFR Highlights

In Q4 2024, the Canadian equity market experienced mixed performance. The Bank of Canada (BoC) cut interest rates twice, bringing the policy rate down to 3.25%. This move was aimed at supporting economic growth amidst high borrowing costs and a weaker labor market. The S&P/TSX composite index gained 3.8% driven by energy, financials and materials while technology, healthcare and consumer staples saw modest declines due to shift in consumer spending towards discretionary. The U.S. economy remained resilient, outgrowing other major developed countries, and mega-cap tech stocks led the S&P 500 to dominate global markets yet again. The 'Magnificent Seven' stocks rose 48% while the other 493 stocks in the S&P 500 rose just 10%. Hyper growth for large companies is inevitably unsustainable, and when it stops, the level of concentration comes in and we would expect returns to broaden out, creating a large tailwind for our investment style.

Fund Performance

During the period the fund returned 1.9% over the quarter compared its benchmark which returned 2.5% . Stock selection in Industrials and real estate contributed to performance stock selection in industrials and information technology and healthcare was a headwind. From a geographic standpoint, holdings in Canada contributed to performance while asset allocation in United States and Switzerland detracted from relative performance.

On the fixed income side, the Fund's overweight investment grade corporate bonds positioning, open USD currency, and overweight inflation-linked bonds contributed to performance. The Fund's underweight Provincial bonds and steepening bias detracted from performance.

Security contributors

Stock selection in Industrials and holdings in Financials meaningfully contributed to overall performance on the equity side, Top contributors to returns during the quarter include CAE Inc, Brookfield asset management and Canadian Pacific Kansas City Limited

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.

CAE Inc - CAE has been contending with challenges in their military division as older, fixed price contracts became grossly unprofitable as inflation spiked. As the company works through these contracts and newer, more profitable contracts ramp up, one can expect margins to inflect and return to historical levels. On the positive side, their civil business continues to deliver exceptional results benefitting from the structural, idiosyncratic tailwind, of increasing pilot outsourcing by airlines. We see tremendous value in the shares as the defense business is essentially ascribed no value in the current share price.

Security Detractors

Holdings in information technology and Healthcare detracted from relative performance. The notable detractors that were held in the portfolio include Roper technologies, Microsoft Corp and Accenture Plc.

Portfolio activities

We recently initiated a new position in Stryker across Bluewater portfolios. Stryker is a leading medical technology company specializing in robotic tools and surgical equipment, with a focus on orthopedic surgery for knees and hips. Our investment thesis in Stryker is predicated on an increased focus on free cash flow by the management team which is a rare trait within the Healthcare sector and a core tenet of the Bluewater investment philosophy. Further, a strong organic growth profile, improved pricing power, and a market structure that is consolidated with large barriers to entry and increasing market share positions the company well for future success. The business is underpinned by the large secular trend around the adoption of robotic tools being applied to medical surgeries where penetration rates continue to rise due to quicker patient recovery times from less invasive surgery. We continue to see a long runway for surgeons to be trained on performing surgery with robotic tools, and we believe Stryker is a material beneficiary of this secular transition.

Commentary

Market Overview

Global equity markets remained buoyant in 2024, and Bluewater is strategically positioned to navigate what we believe will be a mixed economic landscape in 2025.

From a macro economic standpoint, while conditions in Europe and China remain pressured, the US economy remains broadly supportive of equity markets as we look forward into 2025. Unemployment continues to be at low levels, which provides support for consumer spending, while central banks are expected to continue to loosen policy which aids both consumers and businesses. In the United States, considerable pent-up demand exists in the housing market, as prospective buyers have been deferring purchases due to high mortgage rates. If we see a significant drop in interest rates in response to Federal Reserve policy easing, the cyclical housing sector would be expected to experience a rebound.

In addition, the global economy is undergoing two significant structural changes: the energy transition and digitization, rapidly advanced by artificial intelligence (AI). The energy transition is a massive undertaking, transforming how energy is produced, distributed, and consumed. Companies critical in enabling this transition will benefit from a multi-year growth tailwind, driving superior business performance in the coming decade. Digitization, encompassing technologies such as cloud computing, cybersecurity, and AI, is rapidly transforming industries. AI, in particular, is driving innovation and creating new possibilities for businesses and society.

Outlook and Positioning

Equity

Bluewater's current portfolio positioning reflects a strategic alignment with the prevailing economic conditions. Bluewater focuses on conservative growth, seeking companies that are growing at or above market rates but not at extremely fast rates. In Canada, the target is businesses that grow their free cash flow in the high single-digit to low double-digit range through a cycle. On the foreign side, the businesses typically deliver faster growth rates, in the low to mid-teens.

Bluewater focuses on a small subset of global businesses that are truly unique – global leaders in attractive industries with defensible moats and secular growth tailwinds. This results in a diversified high active share portfolio that provides favorable characteristics for long-term compounding, but in a more diversified way from the current market structure. These characteristics allow the companies targeted 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 inherent drawdowns and volatility. The team has added value by preserving capital through market drawdowns while compounding returns for clients, resulting in superior risk-adjusted returns over the long term.

Fixed Income

US political events dominated fixed income markets in Q4 2024. Despite initial excitement for Kamala Harris after President Biden stepped aside, polling and betting markets shifted towards a Trump/Republican win, correctly predicting the November election outcome. Markets focused on the implications of a Trump win, particularly regarding deficit spending and tariffs.

Concerns over unfunded tax cuts drove yields higher, steepening the curve. The 5y, 10y, and 30y UST rose 87.2bps, 83.8bps, and 71bps respectively, while the 2y UST rose 62.8bps. Tariff concerns impacted currency markets, with the USD performing well against currencies like the Mexican Peso and Canadian Dollar.

Equities performed well in anticipation of continued interest rate cuts by the US Federal Reserve until December. The Fed cut rates by 25bps but indicated that further cuts would depend on inflation data, causing a spike in cross-asset volatility and a selloff in risk assets, led by equities.

Canadian markets, usually influenced by US counterparts, showed some divergence. Longer-end yields in Canada rose (5s, 10s, and 30s increased by 22bps, 28bps, and 21bps), while 2y yields remained unchanged. The Bank of Canada continued its rate-cutting cycle with 50bp reductions in October and December, leaving the policy rate at 3.25%. The Bank signaled that large rate cuts might be over, depending on US economic actions.

Changing rate and equity volatility did not affect the North American corporate bond market. Corporate spreads narrowed, reaching the tightest levels since the credit crisis. US and Canadian corporate spreads decreased by about 7bps and 16bps last quarter, and by 16bps and 33bps for the year. Positive risk sentiment from central bank rate cuts and fund inflows into fixed income markets drove the rally in spreads despite strong new corporate issuance. However, rising yields led to negative total returns in the investment-grade market.

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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 December 31, 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 - 340 ; three years - 337 ; five years - 305 ; ten years - 224.

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