# Mackenzie Canadian Equity Fund

## Fund snapshot

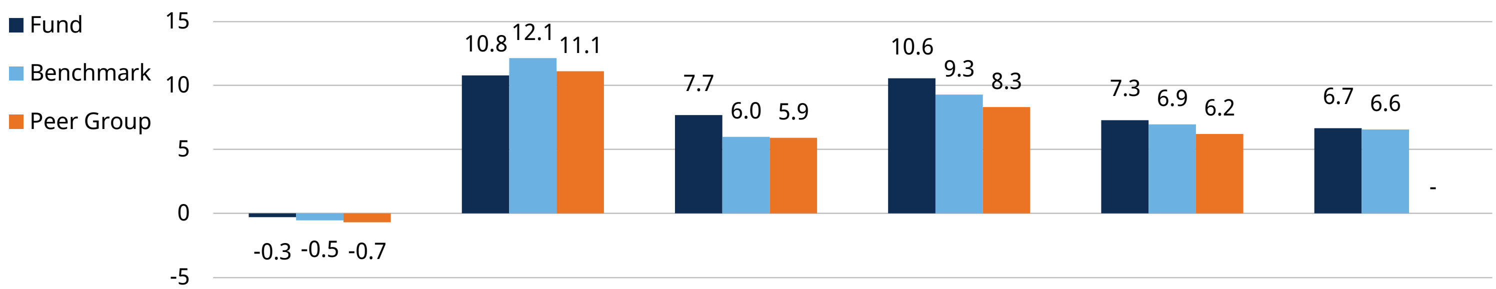
| | |
|---|---|
| Inception date | 05/15/2006 |
| AUM (millions in CAD) | 594.8 |
| Mangement Fee | 0.75% |
| MER | 0.99% |
| Benchmark | S&P/TSX Composite |
| CIFSC Category | Canadian Equity |
| Risk Rating | Medium |
| Lead portfolio manager | William Aldridge |
| Investment exp. Since | 2002 |
| Target # of holdings | 45-65 |

## Strategy Overview

• The all-cap Canadian equity universe offers more opportunities and potentially enhances diversification

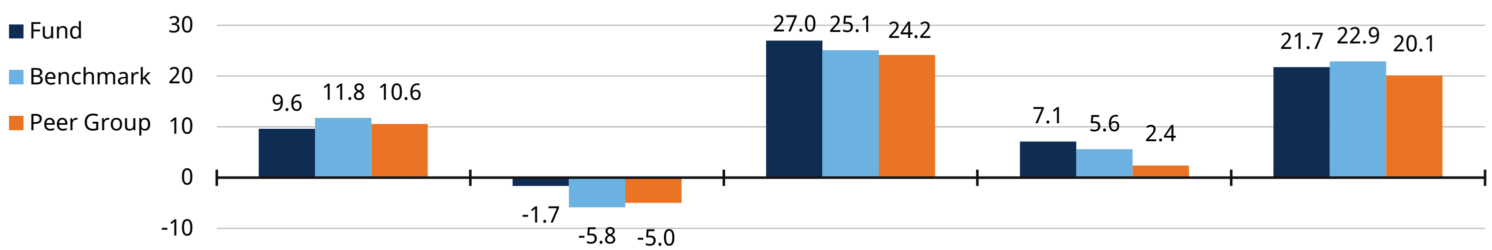
• Time-tested and market-proven investment process run by experienced managers

## Trailing returns %




| | 3 Mth | 1 Yr | 3 Yr | 5Yr | 10Yr | SI |
|---|---|---|---|---|---|---|
| Excess return | 0.2 | -1.3 | 1.7 | 1.3 | 0.4 | 0.1 |
| % of peers beaten | 70 | 46 | 80 | 93 | 81 | - |

## Calendar returns %




| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| Excess return | -2.2 | 4.2 | 1.9 | 1.5 | -1.1 |
| % of peers beaten | 37 | 79 | 80 | 91 | 73 |

## Portfolio characteristics

| | Portfolio | Benchmark |
|---|---|---|
| # of holdings | 61 | 226 |
| % top 10 holdings | 37.1 | 34.9 |
| Weighted average market cap | 129,361.8 | 64,622.2 |
| EPS growth (FY E) | 17.0 | 18.0 |
| Dividend yield | 3.0 | 3.1 |
| FCF margin | 12.0 | 11.5 |
| P/E Trailing 12M | 15.2 | 17.3 |
| P/E (forecast) | 13.2 | 14.6 |
| Net debt/EBITDA | 2.7 | 2.8 |
| ROE (latest FY) | 12.5 | 12.1 |

## Sector allocation

| Sector | Portfolio | Benchmark | Relative Weight |
|---|---|---|---|
| Financials | 32.1 | 29.5 | 2.6 |
| Energy | 13.5 | 18.1 | -4.6 |
| Materials | 10.4 | 12.1 | -1.7 |
| Industrials | 12.1 | 14.1 | -2.0 |
| Information Technology | 5.9 | 8.2 | -2.3 |
| Communication Services | 2.9 | 3.1 | -0.2 |
| Utilities | 2.9 | 3.8 | -0.9 |
| Consumer Staples | 7.4 | 4.3 | 3.1 |
| Consumer Discretionary | 7.2 | 3.5 | 3.7 |
| Real Estate | 3.0 | 2.0 | 1.0 |
| Health Care | 1.8 | 0.3 | 1.5 |
| Other | 0.8 | 1.0 | -0.2 |

## Performance metrics (3 year trailing)

| Metrics | Portfolio | Benchmark |
|---|---|---|
| Standard Dev. | 12.2 | 13.3 |
| Sharpe Ratio | 0.4 | 0.2 |
| Tracking Error | 2.9 | - |
| Information Ratio | 0.6 | - |
| Alpha | 2.0 | - |
| Beta | 0.9 | - |
| Upside Capture (%) | 96.1 | - |
| Downside Capture (%) | 85.0 | - |

## Country allocation

| Country | Portfolio | Benchmark | Relative Weight |
|---|---|---|---|
| Canada | 94.2 | 100.0 | -5.8 |
| United States | 5.2 | - | 5.2 |
| Other | 0.6 | - | 0.6 |

## Regional breakdown

| Region | Portfolio | Benchmark | Relative Weight |
|---|---|---|---|
| Canada | 94.2 | 100.0 | -5.8 |
| United States | 5.2 | - | 5.2 |
| International | - | - | - |
| Other | 0.6 | - | 0.6 |

## Currency exposure

| Region | Gross | Benchmark |
|---|---|---|
| CAD | 94.8 | 100.0 |
| USD | 5.2 | - |
| Other | - | - |

## Top 10 holdings

| Security name | Country | Sector | Weight |
|---|---|---|---|
| Royal Bank of Canada | Canada | Financials | 7.0 |
| Toronto-Dominion Bank | Canada | Financials | 4.9 |
| Canadian Natural Resources Limited | Canada | Energy | 4.3 |
| Canadian Pacific Kansas City Limited | Canada | Industrials | 3.8 |
| Suncor Energy Inc. | Canada | Energy | 3.2 |
| Canadian National Railway Company | Canada | Industrials | 3.1 |
| Bank of Montreal | Canada | Financials | 2.9 |
| CGI Inc. Class A | Canada | Information Technology | 2.6 |
| Agnico Eagle Mines Limited | Canada | Materials | 2.6 |
| Alimentation Couche-Tard Inc. | Canada | Consumer Staples | 2.5 |

## Security level contributors and detractors

| | Security | Average Relative weight (%) | % Contribution to return |
|---|---|---|---|
| Contributors | Canadian Western Bank | 0.8 | 0.5 |
| | Royal Bank of Canada | 0.5 | 0.5 |
| | Kinross Gold Corporation | 1.0 | 0.5 |
| Detractors | Toronto-Dominion Bank | 0.7 | -0.4 |
| | Canadian Pacific Kansas City Limited | 0.6 | -0.4 |
| | Bank of Montreal | 0.6 | -0.5 |

## Sector attribution relative to the benchmark

| | Sector | Average Relative weight (%) | Allocation Effect (%) | Selection Effect (%) | Total Effect (%) |
|---|---|---|---|---|---|
| Contributors | Financials | 1.6 | 0.0 | 0.3 | 0.3 |
| | Consumer Staples | 3.2 | 0.2 | 0.1 | 0.2 |
| | Consumer Discretionary | 3.6 | 0.0 | 0.2 | 0.2 |
| Detractors | Real Estate | 1.1 | -0.1 | -0.1 | -0.1 |
| | Industrials | -1.7 | 0.1 | -0.2 | -0.1 |
| | Energy | -4.5 | -0.1 | -0.2 | -0.3 |

## Commentary

**Fund Performance**

In Q2 2024, Mackenzie Canadian All Cap Value Fund returned 0.0% compared with the S&P/TSX Composite Total Return Index return of -0.5%.

The portfolio outperformed the benchmark due to stock selection in financials, consumer discretionary, health care and utilities, an underweight in IT and an overweight in consumer staples. Detracting from performance was stock selection in energy, industrials and IT and an underweight in golds.

**Security contributors**

The largest contributors to relative performance at the security level include:

Canadian Western Bank – Canadian Western, or CWB, is a mid-sized bank focused on commercial lending in Western Canada. National Bank launched a takeover bid for the bank during the quarter at a significant premium to where the shares had been trading. CWB shares had been trading near historic low valuation levels on price-to-book and price-to-earnings, while National Bank shares were trading near peak valuation levels. National Bank will issue equity to pay for the ~$5B transaction. We had been adding to the position prior to the takeover offer as we saw exceptional value in CWB. The bank was trading at a level similar to where it was during the market lows in 2020. We had also significantly added to the position back then, as we increased our small and midcap positions in the portfolio during a period of heightened investor fear.

Shopify Inc. – Shopify offers a suite of products and solutions to support e-commerce merchants. Shopify shares weakened following the release of quarterly results in May. Investors had been hoping for continued margin expansion, and a deceleration in spending following elevated levels in the first quarter, but the company indicated it expects to continue investing in the business to facilitate future growth. Investors questioned whether the company will be able to sustain consistent high levels of growth without commensurate spending. We own shares in Shopify but are underweight relative to the benchmark as the stock is pricing in levels of growth that may be difficult to achieve, particularly as global growth and consumer spending decelerates.

Kinross Gold Corp. – Kinross is a gold mining company with operations in the U.S., Brazil, Mauritania and Chile and a compelling development opportunity in Canada called Great Bear. The price of gold rose during the Spring on elevated global central bank buying, despite continued U.S. dollar strength. The gold price tends to be inversely correlated to the U.S. dollar. More recently the price of gold has continued to strengthen as the likelihood of Trump presidency and a slowing U.S. economy may suggest U.S. dollar weakness. The gold sector was among the top performing areas of the market in the quarter. Several of Kinross's mines, particularly in the U.S., are higher cost operations, so higher gold prices should lead to much improved margins at these mines. As the significant Great Bear opportunity is de-risked, we anticipate the mine to become a greater proportion of the company's net asset value. Several milestones, including a preliminary economic assessment and a resource size update, are expected before the end of the year.

**Security detractors**

The largest detractors from relative performance at the security level include:

Constellation Software Inc. – Constellation Software owns a diversified collection of software businesses across several verticals. Constellation has grown primarily through acquisitions over many years, mostly using internally generated cash flow to acquire targets. The company has been rewarded by investors for consistent growth and a predictable earnings stream. We do not own Constellation in the portfolio as we have questioned the continued pace of acquisitions required to justify the multiple at which the stock trades. Moreover, we believe it will be challenging for the company to continue to generate returns on capital at the level it has historically as deal size increases and the multiples paid on acquisitions expand.

Boardwalk REIT – The real estate sector was one of the weaker areas of the market in the second quarter as worries about an economic slowdown began to take precedence. As an apartment owner, Boardwalk tends to be generally insulated from economic weakness in terms of occupancy at its properties, but the ability to pass through rental increases can be diminished as consumers struggle with managing expenses. Boardwalk's properties are primarily located in Alberta and are effectively fully occupied as strong migration levels, both from new Canadians as well as intra-provincial moves, contribute to population growth. Boardwalk has generated expanding margins as costs have been relatively stable. With declining interest rates, we anticipate improving valuations for Boardwalk's properties and an improved ability to manage mortgage interest costs.

CGI Inc. – CGI is an IT consultant with global operations. The company has a very strong track record of growing both organically and through acquisitions over many years. As the complexity of its' clients IT needs increases, demand for CGI's services has expanded. In the short run, however, general macro weakness has had a negative impact on results, with the company citing weakness in the financial services and health end markets. This weakness is industry-wide and not specific to CGI. Given its focus on growth through acquisition, as well as its strong balance sheet, the company is in a strong position to acquire businesses at attractive multiples as the economic cycle plays out.

## Commentary

**Portfolio activities**

We increased select positions in the materials, industrials, and financials sectors during the quarter.

We eliminated the position in mining company Barrick Gold and allocated a portion of the proceeds to a new position in Franco Nevada, a royalty company with a focus on gold. Barrick has been a perennial underperformer from an operational perspective relative to the industry, with results that characterize the challenges of the gold mining business. Following several meetings with management we decided to eliminate exposure to Barrick and its challenged mines and effectively diversify our gold positioning into Franco, which has exposure to a global portfolio of operations through its royalty interests.

We eliminated the position in Dream Office REIT. Dream has struggled to attract new tenants to its properties as competition from newer assets has increased with property completions in the Toronto market. We believe it will be challenging for Dream to continue to fund demands for capital relating to its distribution, which has been halved, ongoing property maintenance and upgrades, and mortgage debt.

We also exited a position in ECN Capital during the quarter. The company has struggled to generate targeted returns in a higher rate environment, while lacking discipline on expense management.

**Market Overview/ Outlook**

So much for sell in May and go away. Investors have certainly ignored this age-old adage this year. There has been a reasonable collection of ammunition to drive markets higher, including the AI-driven tech boom, the prospect of declining rates and money that is seeking a home outside of high-rate savings accounts as those rates fall. On top of that, the increasing likelihood that the Republicans will control various governing bodies in the U.S., for the next few years at least, has investors feeling bullish. The caveats to be wary of include relatively high valuations, signs of economic weakness not only in North America but globally and continued geopolitical instability. There seems to be increasing calls for a market pullback, but to cite another adage, stocks continue to climb the wall of worry. In our experience, these dynamics can continue to play out for a time, and valuations do not yet feel at an extreme. As well, market moves are not yet broad-based. Small cap stocks have only recently begun to participate in the rally, which is probably the last shoe to drop before investors begin to question what will perpetuate market strength. There is also likely to be a period when investors shift thinking away from the benefits to valuation from lower rates and to the reality of a slowing economy, particularly if that slowing begins to shift unemployment levels higher. This will certainly be key to the Canadian market given the banks' exposure to the mortgage market. Housing transactions have remained weak despite the Bank of Canada beginning to lower rates and house prices remain unaffordable for first time buyers at current financing costs. There is little doubt that the higher rate environment is, finally, having an impact on demand. In terms of the stock market, we are seeing compelling valuations in several sectors, but the positions will require patience in our view.

**Stock Stories**

CCL Industries Inc. – CCL is a global leader in labeling materials. CCL sells products to consumer goods companies, retailers and industrial manufacturers. CCL has grown consistently through a dual-pronged organic and inorganic strategy, with a strong track record of value-generating acquisitions over many years. CCL management has been very disciplined with capital and has taken advantage of opportunities to grow the company at varying points in the economic cycle. Management has recently suggested volumes in the main labeling business are once again growing, after several quarters of inventory management by consumer goods retailers. As CCL's clients turned more to price increases than volume to drive growth, CCL's business suffered. However, with consumers feeling pinched by high prices, companies are seeking ways to incent consumers to spend and are turning to product innovation, which benefits CCL. CCL is one of our largest overweight positions. We expect the company to continue to compound earnings over our investment cycle.

Transcontinental Inc. – A smaller cap materials company to highlight that is also seeing improving results is Transcontinental, a packaging and printing company. Having recently changed leadership, the company is focused on cost efficiencies and free cash flow growth. Management is seeking ways to free up capital, by reducing its real estate footprint for example, and reduce debt, which should accrue value to equity holders. We believe the shares are significantly undervalued and agree with management's assessment that canceling shares through a stock buyback program is a prudent use of capital. Investors tend to value Transcontinental on a sum-of-the-parts basis, given that the company operates in two distinct lines of business – packaging and printing. However, our work suggests the printing business, which admittedly is a low to negative growth business, is valued at next to nothing if we consider private market values for the packaging business. In other words, this is "deep value" stock, and that value has only recently begun to be recognized, with more to come in our view.

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Percentile rankings are from Morningstar Research Inc., an independent research firm, based on the Canada Fund Canadian Equity category and reflect the performance of the Mackenzie Canadian Equity 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 funds for Mackenzie Mackenzie Canadian Equity Fund for each period are as follows: one year –608; three years –518 ; five years – 467 ; ten years – 296 .



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