Quarterly commentary | June 30, 2024
Series F

Mackenzie Ivy Canadian Fund

Fund snapshot

Inception date	12/06/1999
AUM (millions in CAD)	696.2
Mangement Fee	0.75%
MER	0.98%
Benchmark	60% TSX Comp + 30% S&P500 + 10% EAFE
CIFSC Category	Canadian Focused Equity
Risk Rating	Low to Medium
Lead portfolio manager	James Morrison
Investment exp. Since	2005
Target # of holdings	35-55

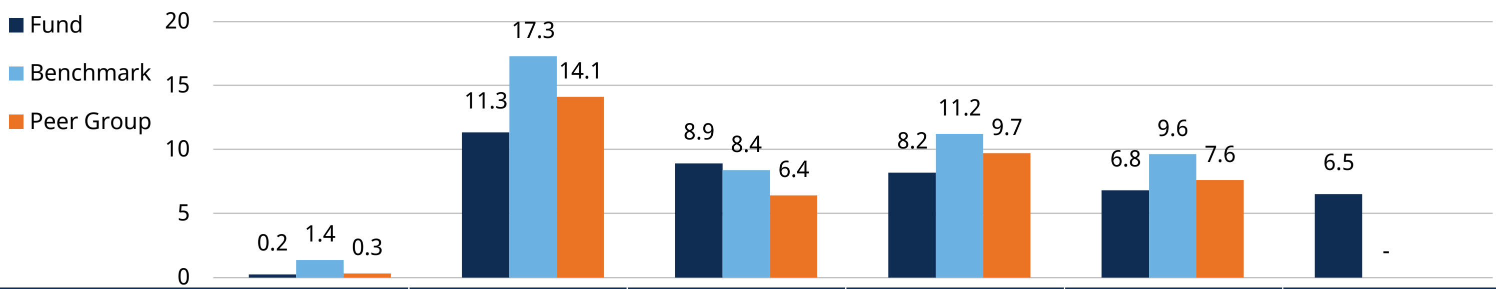
Strategy Overview

• Seeks to provide long-term capital appreciation by investing in a select group of high-quality companies

• Suitable as a long-term Canadian equity holding with lower-volatility characteristics and downside capture in volatile markets, the hallmark of Ivy's investment approach

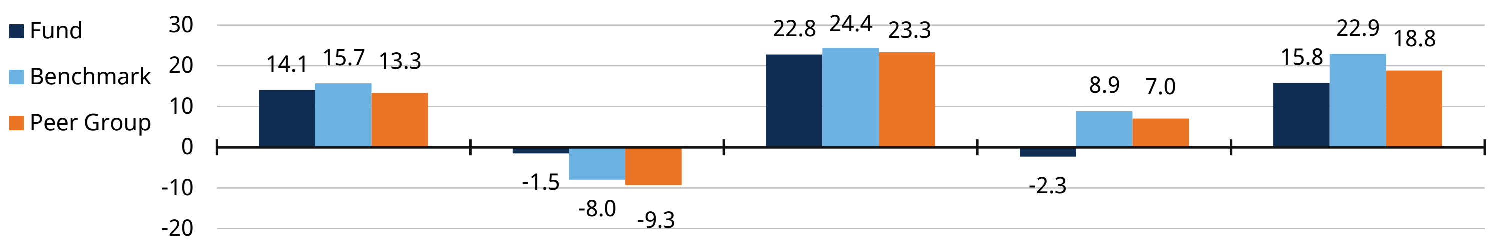
• Diversifies outside Canada including into sectors and businesses not well represented domestically

Trailing returns %



	3 Mth	1 Yr	3 Yr	5Yr	10Yr	SI
Excess return	-1.2	-6.0	0.5	-3.0	-2.8	6.5
% of peers beaten	49	40	79	34	43	-

Calendar returns %



	2023	2022	2021	2020	2019
Excess return	-1.6	6.5	-1.6	-11.2	-7.1
% of peers beaten	59	85	46	14	21

Portfolio characteristics

	Portfolio	Benchmark
# of holdings	41	1,471
% top 10 holdings	39.6	22.4
Weighted average market cap	395,771.8	467,905.8
EPS growth (FY E)	10.3	21.0
Dividend yield	2.4	2.5
FCF margin	14.9	14.4
P/E Trailing 12M	21.4	19.3
P/E (forecast)	17.4	16.3
Net debt/EBITDA	2.7	1.7
ROE (latest FY)	16.3	14.6

Sector allocation

Sector	Portfolio	Benchmark	Relative Weight
Financials	24.9	24.1	0.8
Energy	8.6	12.3	-3.6
Materials	5.2	8.6	-3.4
Industrials	10.8	12.6	-1.8
Information Technology	10.1	15.6	-5.5
Communication Services	6.8	5.0	1.8
Utilities	7.1	3.3	3.8
Consumer Staples	7.8	5.1	2.7
Consumer Discretionary	10.5	6.3	4.2
Real Estate	-	2.1	-2.1
Health Care	8.0	5.0	3.0
Other	0.1	0.0	0.1

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	10.3	12.7
Sharpe Ratio	0.6	0.4
Tracking Error	5.1	-
Information Ratio	0.1	-
Alpha	1.9	-
Beta	0.8	-
Upside Capture (%)	84.3	-
Downside Capture (%)	73.1	-

Country allocation

Country	Portfolio	Benchmark	Relative Weight
Canada	67.7	59.0	8.7
United States	25.3	31.2	-5.9
United Kingdom	4.6	1.5	3.1
Switzerland	1.2	1.0	0.3
Germany	1.2	0.9	0.3
Other	0.1	6.6	-6.5

Regional breakdown

Region	Portfolio	Benchmark	Relative Weight
Canada	67.6	59.0	8.7
United States	25.3	31.2	-5.9
International	7.0	10.0	-3.0

Currency exposure

Region	Gross	Benchmark
CAD	67.6	59.0
USD	25.3	31.2
Other	7.0	10.0

Top 10 holdings

Security name	Country	Sector	Weight
Intact Financial Corporation	Canada	Financials	4.9
Brookfield Corporation	Canada	Financials	4.8
Royal Bank of Canada	Canada	Financials	4.3
CCL Industries Inc. Class B	Canada	Materials	4.0
Alphabet Inc. Class C	United States	Communication Services	3.9
Restaurant Brands International, Inc.	Canada	Consumer Discretionary	3.7
Microsoft Corporation	United States	Information Technology	3.7
Visa Inc. Class A	United States	Financials	3.4
Emera Incorporated	Canada	Utilities	3.4
Williams Companies, Inc.	United States	Energy	3.4

Security level contributors and detractors

	Security	Average Relative weight (%)	% Contribution to return
Contributors	Alphabet Inc. Class C	3.0	0.7
	Dollarama Inc.	2.4	0.6
	Williams Companies, Inc.	3.1	0.3
Detractors	Canadian National Railway Company	1.0	-0.3
	Restaurant Brands International, Inc.	3.2	-0.4
	Open Text Corporation	1.5	-0.5

Sector attribution relative to the benchmark

	Sector	Average Relative weight (%)	Allocation Effect (%)	Selection Effect (%)	Total Effect (%)
Contributors	Energy	-4.2	0.0	0.6	0.6
	Communication Services	1.6	0.0	0.3	0.4
	Consumer Discretionary	4.7	-0.1	0.3	0.2
Detractors	Industrials	-1.7	0.1	-0.3	-0.2
	Materials	-3.5	-0.1	-0.1	-0.2
	Information Technology	-5.1	-0.3	-1.0	-1.3

Commentary

In Canada and the United States, year-over-year inflation has eased. There was a shift in monetary policy as the Bank of Canada was the first central bank in the G7 to cut rates. In the US, the Federal Reserve has not yet cut rates, though the futures market is currently pricing in around two rate cuts this year. From an economic growth perspective, the US continued to expand modestly, while Canada experienced lacklustre growth. In Europe, inflation has been tracking toward the European Central Bank's target, and the ECB cut rates in June. In the second quarter, markets continued to be defined by the divergence in performance between the Magnificent 7 and the rest of the market. NVIDIA contributed over 40% of the fund's blended benchmark return, while the Magnificent 7 were responsible for over 100% of the total return. The information technology, materials, and communication services sectors were the strongest performers within the blended benchmark over the quarter, while the real estate, industrials, and consumer discretionary sectors were the weakest. From a country perspective, Singapore, Portugal, and Denmark were the strongest performing markets in the blended benchmark, while France, Israel, and Japan were the weakest.

The fund returned 0.2% during the quarter, underperforming the benchmark return of 1.4%. Stock selection in the energy, communication services, and consumer discretionary sectors contributed to fund performance, along with an underweight allocation to the real estate sector. Stock selection in the information technology, industrials, health care, utilities, and materials sectors, along with and underweight allocation to the information technology and materials sectors were the largest detractors from performance. From a country perspective, an underweight allocation to France and stock selection in Germany and Switzerland contributed to performance. Stock selection in the United States and the United Kingdom, along with an underweight allocation to the United States and overweight allocation to Canada were detractors from performance.

On an absolute basis, positions in Alphabet, Dollarama, Williams Companies, Royal Bank of Canada, and Microsoft were the largest contributors over the quarter. On a relative basis, positions in Alphabet, Dollarama, and Williams Companies were top contributors to fund performance versus the benchmark. Not holding Shopify and Bank of Montreal in the fund during the quarter also contributed to performance relative to the benchmark.

On an absolute basis, positions in Open Text, Restaurant Brands International, Canadian National Railway, Toronto-Dominion Bank, and CGI were the largest detractors over the quarter. On a relative basis, positions in Open Text, Restaurant Brands International, and CGI were top detractors from fund performance versus the benchmark. Not holding NVIDIA and Apple in the fund during the quarter also detracted from performance relative to the benchmark.

During the quarter, we did not initiate any new positions, and we did not exit any positions. Largest increase in weight was Metro. Largest decreases in weight were Dollarama and American Electric Power Co.

We aim to invest in the best of what Canada has to offer, complemented by world-class businesses that can't necessarily be found in Canada. Within Canada's borders, many businesses benefit from supportive industry structures and/or incumbency that can support attractive returns on capital and lower levels of volatility. While we believe the case for Canada is strong, we aim to enhance the risk-adjusted returns of the fund by investing in select high-quality global business that provide attractive absolute returns and diversification benefits. Based on the holdings in the fund, we expect to participate in various themes, such as the emergence of artificial intelligence (AI), without being overly exposed to any twist of fate of a single business or industry. In recent years, our unitholders have benefited from our measured ownership in businesses such as Alphabet and Microsoft, which have exposure to current tailwinds driving the market without the risk of pure plays. While the fund may not outperform a concentrated pure-play AI portfolio if current trends persist, we are comforted to not be overly reliant on a single scenario. We believe our more defensive and diversified positioning will generally result in a narrower dispersion of potential outcomes that should allow our clients to plan for their futures with confidence.

Commentary

Alimentation Couche-Tard (ATD):

- Alimentation Couche-Tard has grown organically and through disciplined acquisitions to become one of the largest convenience store chains globally.
- In June, the company announced that the current CEO, Brian Hannasch, will be retiring in September and succeeded by their COO. Under Brian's 10-year tenure, ATD benefited from strong leadership and execution that generated an annualized total return of 17%.
- We expect the strong operational expertise and decentralized culture that has played a crucial role in the company's long-term success will continue under incoming CEO Alex Miller's leadership given that Alex has worked with ATD for 13 years, this succession plan has been in place for 5 years, the founder, chairman and former CEO Alain Bouchard remains actively engaged, and Brian will stay on in an advisory capacity for 2 years.
- At the company's recent investor day, management laid out a plan to achieve a 12% compounded growth in EBITDA (earnings before interest, taxes, depreciation, and amortization) over the next 5 years backed by initiatives on the organic and inorganic side. As we look forward, we believe the company has multiple avenues to grow, including attractive inorganic growth prospects supported by its strong balance sheet.

Dollarama:

- Dollarama is a world-class retailer that offers a compelling combination of value and convenience to customers spanning a wide demographic. It has been a top holding and contributor to Mackenzie Ivy Canadian Fund's long-term and recent performance.
- One of the key long-term risks we monitor is market saturation. We track this at a provincial level and based upon our most recent assessment, we believe the company can continue with the current pace of new store additions in Canada through to the end of our 10-year investment horizon.
- Despite the remaining runway for growth in the domestic market, management has been methodically planning its next leg of growth for over a decade. In 2013, it entered into a partnership with a Central American dollar chain called Dollarcity. Since then, Dollarcity has grown from 15 stores to >500 in four markets, of which Dollarama owns 50%.
- In June, Dollarama announced that it increased its ownership stake to 60% and will expand into Mexico, doubling the addressable population for Dollarcity.
- Today, Dollarcity accounts for approximately 7% of earnings and we expect that the combination of increased ownership, market share gains and scaling benefits will meaningfully extend Dollarama's growth runway.

Artizia:

- Last year, we were able to opportunistically build a position in Aritzia, a high-quality women's apparel retailer with a well-established business in Canada and an attractive growth runway in the United States. Our research involved in-depth industry and company analysis including the use of expert networks, several management meetings, and a visit to their headquarters in Vancouver.
- We believe Aritzia has the opportunity to continue to expand their presence in the United States, leveraging their strong brand, differentiated products, and compelling store economics. The company has a unique model that is vertically integrated, quick to adapt, and remains focused on their niche (affordable luxury). The founder continues to be involved in the business, ensuring continuity of the culture.

Commentary

Artizia (Continued):

- At the time of our first purchase, the stock was down over 40% from its previous peak, due to near-term concerns for a potential recession in Canada and margin headwinds. After extensive due diligence, we were able to build confidence that these headwinds were temporary, the margin of safety embedded in the valuation offered a buffer for a deteriorating macro, and the long-term fundamentals remained solid.
- One year in, our near- and long-term theses remain on track with margins normalizing on the back of significant investment that has positioned them for the next leg of growth. The company has experienced a slowdown in growth as a result of the weakening consumer backdrop, however, significant growth in square footage this year should continue to fuel high single-digit to low double-digit top-line growth while continued margin improvement accentuate bottom-line growth.

Emera:

- Emera operates transmission and distribution assets across North America.
- The company has a highly visible growth runway supported by the essential role of transmission in the electrification and decarbonization of the economy and the need for grid-resilience in the face of climate change.
- Management recently updated its capital allocation framework and provided earnings per share (EPS) guidance, with the objective of quelling uncertainty around the level of dilution required to fund its robust growth pipeline while reducing leverage. Management intends to grow its rate base at 7-8% per year over the next five years, which it expects to translate into EPS growth of 5-7% net of dilution for the next three years. We would expect EPS to track closer to rate base growth further out as credit metrics improve.
- In order to reduce dilution, the company will constrain dividend growth to 1-2% per year, which we see as prudent until the growth pipeline can be internally funded.
- We see the shares as offering an attractive combination of growth (5-7%), yield (6%) and protection.

Restaurant Brands International:

- The quick-service restaurant industry has come under pressure as same-store sales decelerate from elevated levels in the face of deteriorating consumer health.
- This is expected to result in an increasingly promotional competitive environment to drive traffic by shining a spotlight on value offerings.
- The share price performance of Restaurant Brands and its peers tells us that the market has deemed this to be a negative headwind to earnings.
- While we agree it represents an industry headwind, we expect some to fare better than others in this type of an environment.
- Restaurant Brands is well positioned in our view to gain share in a value-oriented market, given its natural value orientation in Tim Hortons and Burger King.
- We view the shares as attractively priced despite the more challenging backdrop.

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