

Mackenzie Bluewater Canadian Growth Fund

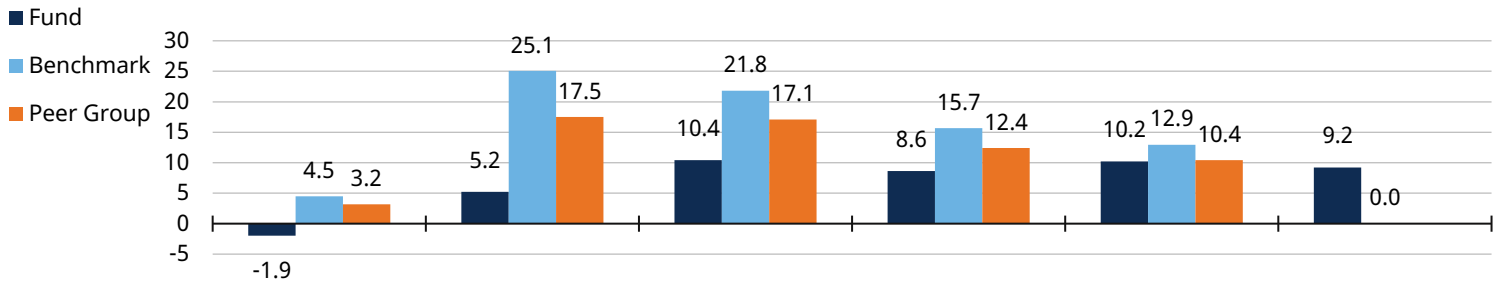
Fund snapshot

Inception date	12/06/1999
AUM (millions in CAD)	4490.2
Management Fee	0.75%
MER	1.01%
Benchmark	60% TSX Comp + 30% S&P500 + 10% EAFE
CIFSC Category	Canadian Focused Equity
Risk Rating	Medium
Lead portfolio manager	Shah Khan
Investment exp. Since	2010
Target # of holdings	40- 45

Strategy Overview

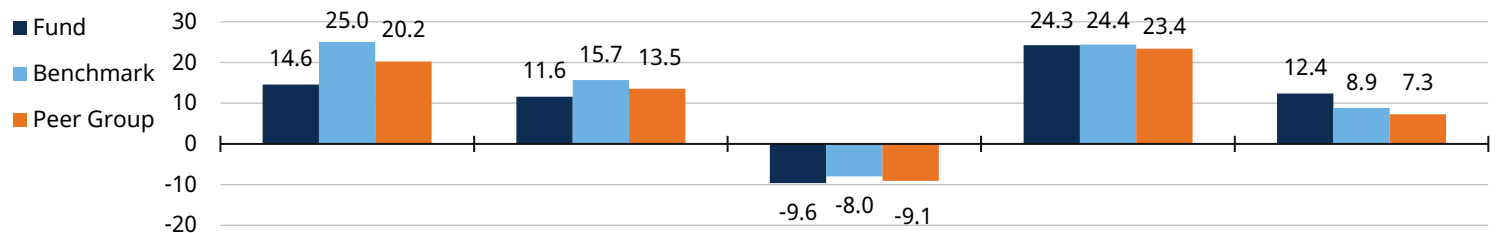
- The Fund invests mainly in Canadian equity securities issued by Canadian corporations to achieve long-term capital growth and provide a reasonable rate of return.
- The investment approach follows a company-focused investment style, seeking companies with strong management, good growth prospects and a solid financial position.
- Emphasis is placed on paying reasonable prices for the free cash flow growth that companies in the portfolio are expected to achieve.

Trailing returns (%)



	3 Mth	1 Yr	3 Yr	5Yr	10Yr	SI
Excess return	-6.4	-19.9	-11.4	-7.1	-2.7	9.2
% of peers beaten	1	2	6	9	54	NA

Calendar returns (%)



	2024	2023	2022	2021	2020
Excess return	-10.5	-4.1	-1.6	-0.2	3.5
% of peers beaten	14	44	44	64	97

Portfolio characteristics

	Portfolio	Benchmark
# of holdings	50	1,414
% top 10 holdings	39.2	24.1
Weighted average market cap	839,813.7	664,323.7
EPS growth (FY E)	13.5	18.4
Dividend yield	1.2	2.0
FCF margin	15.5	32.6
P/E Trailing 12M	29.2	21.9
P/E (forecast)	26.3	19.7
Net debt/EBITDA	1.3	1.5
ROE (latest FY)	17.5	14.9

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	8.9	9.8
Sharpe Ratio	0.7	1.8
Tracking Error	5.3	-
Information Ratio	-2.1	-
Alpha	-7.2	-
Beta	0.8	-
Upside Capture (%)	59.4	-
Downside Capture (%)	88.4	-

Regional breakdown (%)

Region	Portfolio	Benchmark	Relative Weight
Canada	57.3	60.0	-2.7
United States	38.5	30.0	8.5
International	3.5	10.0	-6.5
Other	0.7	-	0.7

Sector allocation (%)

Sector	Portfolio	Benchmark	Relative Weight
Financials	28.8	26.4	2.4
Energy	-	10.1	-10.1
Materials	6.7	12.0	-5.3
Industrials	17.9	10.7	7.2
Information Technology	18.0	17.0	1.0
Communication Services	3.8	4.8	-1.0
Utilities	-	3.1	-3.1
Consumer Staples	5.3	4.2	1.1
Consumer Discretionary	9.4	6.1	3.3
Real Estate	2.3	1.6	0.7
Health Care	7.2	4.2	3.0
Other	0.6	-0.2	0.8

Country allocation (%)

Country	Portfolio	Benchmark	Relative Weight
Canada	57.3	60.0	-2.7
United States	38.5	30.0	8.5
United Kingdom	2.5	1.5	1.0
Italy	1.0	0.3	0.7
Japan	-	2.2	-2.2
Netherlands	-	0.5	-0.5
Other	0.7	5.5	-4.8

Currency exposure (%)

Region	Gross	Benchmark
CAD	70.0	60.0
USD	28.6	30.2
Other	1.5	9.8

Top 10 holdings

Security name	Country	Sector	Weight (%)
Royal Bank of Canada	Canada	Financials	6.9
Toronto-Dominion Bank	Canada	Financials	5.1
Franco-Nevada Corporation	Canada	Materials	4.1
Microsoft Corporation	United States	Information Technology	3.9
Brookfield Asset Management Ltd. Class A	Canada	Financials	3.8
TMX Group Ltd.	Canada	Financials	3.5
Shopify, Inc. Class A	Canada	Information Technology	3.0
Stantec Inc	Canada	Industrials	2.9
Loblaw Companies Limited	Canada	Consumer Staples	2.9
Boyd Group Services Inc	Canada	Industrials	2.8

Security level contributors and detractors

	Security	Average Relative Weight (%)	Contribution To Return (%)
Contributors	Royal Bank of Canada	2.0	0.9
	Toronto-Dominion Bank	1.7	0.7
	Loblaw Companies Limited	3.2	0.6
Detractors	FirstService Corp	2.1	-0.4
	Pet Valu Holdings Ltd.	1.8	-0.4
	Thomson Reuters Corporation	2.2	-0.5

Sector attribution relative to the benchmark

	Sector	Average Relative Weight (%)	Allocation Effect (%)	Selection Effect (%)	Total Effect (%)
Contributors	Consumer Staples	0.2	0.0	0.4	0.3
	Energy	-10.4	0.3	0.0	0.3
	Communication Services	-1.7	0.0	0.2	0.2
Detractors	Financials	1.4	0.1	-1.1	-1.0
	Materials	-5.0	-0.3	-1.3	-1.5
	Industrials	10.8	-0.6	-1.5	-1.9

Commentary

QFR Highlights

Despite 2025's market headwinds, Bluewater's philosophy of owning high-quality compounders remains unchanged. The team is evolving its process—not its principles—by enhancing research expertise, leveraging advanced analytics, and broadening diversification. This ensures it remains positioned to identify the next generation of durable growth businesses in a changing world.

Market Overview

Bluewater's investment philosophy is founded on a clear and consistent approach: owning a concentrated portfolio of high-quality, durable compounders. This strategy, supported by deep research and long-term conviction, aims to deliver strong, lasting outcomes for clients.

However, 2025 presented significant challenges. The market experienced a shift in risk appetite that favored characteristics outside of Bluewater's quality-focused strategy. Returns were narrow and driven by risk-seeking behavior, including enthusiasm around AI-related infrastructure, strength in speculative, lower-quality market segments, and cyclical stocks tied to an expected industrial rebound. This environment created stylistic headwinds for quality-growth investors.

One clear indicator of this trend was the Morgan Stanley Quality Pair Index, which revealed that in the U.S., lower-quality stocks outperformed higher-quality stocks by an unusually wide margin of approximately 25% in 2025. When markets are led by such narrow and speculative forces, a disciplined, quality-focused portfolio can underperform.

In response to these disappointing results, Bluewater's strategy is to remain disciplined and not dilute its quality bias. The firm believes that companies capable of consistently growing free cash flow will outperform across full cycles. This challenging period is seen as an opportunity to acquire exceptional businesses at attractive valuations that are rarely available.

The market is also undergoing a structural change, largely driven by artificial intelligence. While the last decade's growth was found in software and data businesses, a larger share of investment is now flowing into semiconductors, hardware, and other AI-enabling infrastructure. Furthermore, equity markets have become highly concentrated, with the top ten S&P 500 stocks accounting for about 40% of the index. Bluewater's 2025 performance gap was therefore not a matter of poor stock selection, but rather a consequence of being underexposed to the handful of mega-cap compounders that dominated market returns.

Fund Performance

During the period, the fund (Series F) returned -1.65%, underperforming the blended benchmark (60% S&P/TSX Composite Index, 30% S&P 500 Index, and 10% MSCI EAFE Index). Stock selection in consumer staples and communication services, and underweight allocation to energy were the largest contributors to relative performance, while stock selection in industrials and financials, and underweight allocation and stock selection in materials were the largest detractors.

Despite the recent underperformance, much of it reflects what we did not own rather than any deterioration in the businesses we do. The companies in the portfolio are executing well, in many cases at or above our expectations. We own a roster of durable, high-quality growth businesses, and over time it is their fundamentals - earnings growth, cash generation, and competitive strength - that drive compounding and provide downside protection during periods of market volatility. History reinforces why this matters, over long periods, there is a 96% correlation between earnings growth and share price returns.

Security Contributors

Loblaws Cos Ltd - In the fourth quarter, Loblaw's performance was driven by its defensive characteristics and strong execution. In a volatile environment its durable model and exposure to discount retail allow it to consistently compound value for the portfolio.

Royal Bank of Canada - Canadian banks closed the year on a strong note, with fourth-quarter earnings up approximately 28%. RBC's industry-leading return on equity creates a compounding advantage that, over time, can generate significant shareholder value.

Commentary

Security Detractors

Pet Valu Holdings Ltd. - Pet Valu faced headwinds from concerns over a normalization in consumer spending. Despite the near-term share price weakness, its fundamental business execution remains strong.

FirstService Corp. - FirstService shares faced headwinds during the quarter driven by investor concerns over a slowing housing market. Fears of weaker residential real estate activity weighed on the stock's performance, overshadowing the company's continued resilient execution and the contractual nature of its revenue streams.

Portfolio Activities

We have modestly broadened diversification across our portfolios. Importantly, this is not a change in philosophy (we remain a concentrated, high-conviction strategy) but it helps reduce single-theme risk and allows us to pursue a wider set of durable growth opportunities across sectors, regions, and market capitalizations. Position sizing remains disciplined, and conviction driven. The result is a portfolio that is better positioned to participate across a wider range of market environments, without compromising our quality and valuation discipline.

Our objective remains unchanged: to own businesses capable of compounding earnings and free cash flow through cycles. We do not own companies simply because they are large benchmark weights, but we also do not avoid a company solely because it is. In today's market, some of the largest index constituents exhibit the durability, competitive advantages, and free-cash-flow characteristics we seek, and in certain cases can be reasonably valued relative to their fundamentals. When those businesses meet our standards for quality and valuation, we are prepared to own them.

Notable additions:

- JPMorgan Chase & Co, Blackrock Inc.
- Eli Lilly and Co & AstraZeneca Plc - Healthcare has been a difficult area for investors in recent years. Political uncertainty, tariff risk, regulatory noise, China exposure, and post-COVID normalization all weighed on the sector at the same time capital aggressively rotated toward AI-driven growth. The result was sustained outflows from healthcare and meaningful valuation dislocations, even as underlying fundamentals steadily improved. We view this backdrop as attractive. Balance sheets across the sector are strong, innovation cycles are re-accelerating, and current valuations reflect a far more pessimistic outlook than the data supports.

Notable eliminations: Marsh & McLennan Companies Inc, Zoetis Inc, Verisk Analytics Inc.

Notable increased positions: Franco Nevada Corp, Shopify Inc, Amphenol Corp.

Notable decreased positions: Stantec Inc., Automatic Data Processing Inc, Linde Plc, Stryker Corp, S&P Global Inc.

Outlook & Positioning

Major central banks have shifted towards easing as inflation normalizes, which is improving financial conditions for both households and businesses. The narrowness of the AI-driven market has created opportunities in other areas, with quality stocks being overlooked and some sectors trading at valuations that suggest overly pessimistic predictions.

Healthcare is one such example. In recent years, this sector has been a difficult one for investors due to political uncertainty, tariff risks, and regulatory issues. However, the underlying fundamentals of the healthcare sector have been steadily improving. Balance sheets are strong, innovation is picking up again, and current valuations do not reflect the positive data. As a result, we have positioned our portfolio to include pharmaceutical companies like Eli Lilly and AstraZeneca, as well as medical technology leaders such as Stryker and Boston Scientific, to take advantage of this opportunity. Alphabet is another case where market dislocation has led to opportunity. A year ago, many investors sold the stock, fearing that generative AI would disrupt the Search business. However, Alphabet has been the top-performing MAG stock and has significantly contributed to Bluewater's performance.

Looking ahead to 2026, there are several risks to consider. Market concentration and speculative behavior are high. In Canada, household leverage is elevated, and the upcoming USMCA renegotiation is a major source of uncertainty. Internationally, China is facing structural challenges, and geopolitical tensions, especially between the US and China, create a volatile environment.

Our view is that AI is a fundamental technological shift, but it is still in its early stages. Our portfolio is positioned to align with the global economy's digitization but avoids extremes. We focus on companies with strong competitive advantages and fundamentals, which allows us to participate in AI-driven growth while managing the risks that come with transformative technologies.

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Percentile rankings are from Morningstar Research Inc., an independent research firm, based on the Canada Fund Canadian Focused Equity category and reflect the performance of the Mackenzie Bluewater Canadian Growth Fund for the 3-month, 1-, 3-, 5- and 10-year periods as of December 31, 2025. 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 Focused Equity category funds for Mackenzie Bluewater Canadian Growth Fund for each period are as follows: one year - 479; three years - 472; five years - 456; ten years - 347.

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