

# Mackenzie US Small-Mid Cap Growth Fund

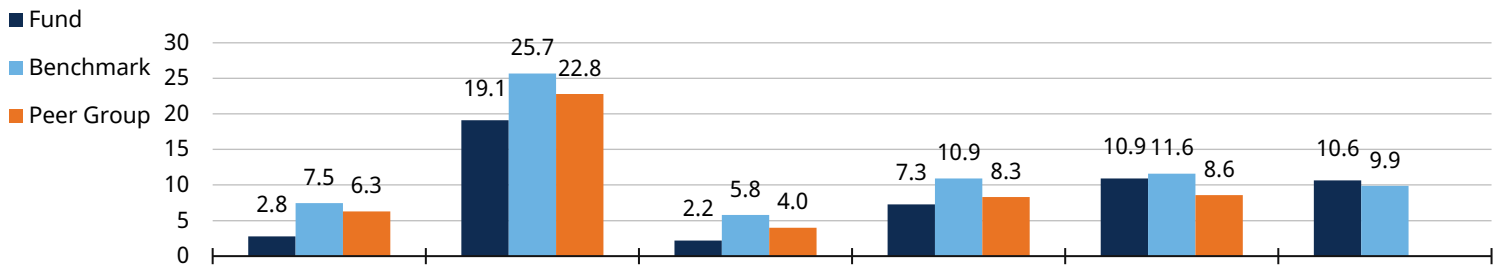
## Fund snapshot

Inception date	01/09/2003
AUM (millions in CAD)	2908.7
Management Fee	0.80%
MER	1.05%
Benchmark	Russell 2500
CIFSC Category	US Small/Mid Cap Equity
Risk Rating	Medium
Lead portfolio manager	Phil Taller
Investment exp. Since	1991
Target # of holdings	25-50

## Strategy Overview

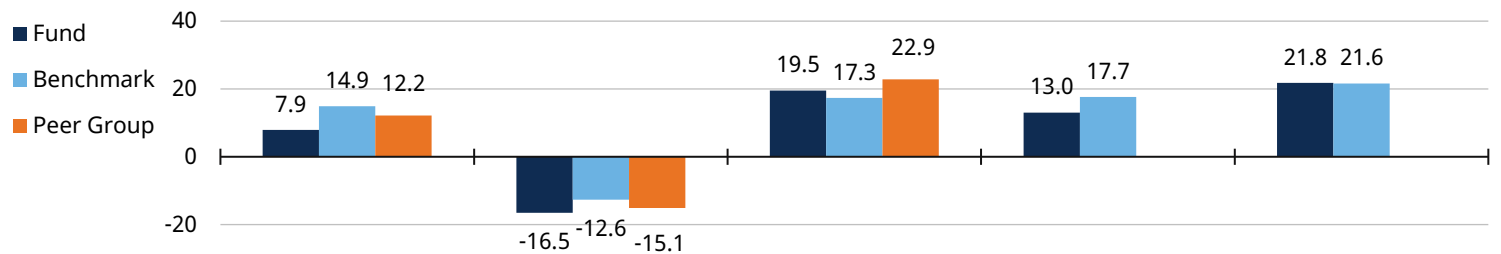
- The Fund seeks long-term growth of capital and a reasonable rate of return by investing primarily in U.S. equity securities.
- The investment approach follows a company-focused investment style, seeking companies with strong management, good growth prospects and a solid financial position.
- Emphasis is also placed on paying reasonable prices for the growth that companies in the portfolio are expected to achieve.

## Trailing returns %



	3 Mth	1 Yr	3 Yr	5Yr	10Yr	SI
Excess return	-4.7	-6.6	-3.6	-3.6	-0.7	0.8
% of peers beaten	12	21	36	30	83	NA

## Calendar returns %



	2023	2022	2021	2020	2019
Excess return	-7.0	-3.9	2.2	-4.7	0.2
% of peers beaten	25	53	28	74	0

## Portfolio characteristics

	Portfolio	Benchmark
# of holdings	33	2,479
% top 10 holdings	48.7	3.1
Weighted average market cap	12,660.3	10,058.2
EPS growth (FY E)	-12.6	13.7
Dividend yield	0.3	1.4
FCF margin	9.0	-239.3
P/E Trailing 12M	36.0	18.6
P/E (forecast)	26.8	17.4
Net debt/EBITDA	-2.0	1.9
ROE (latest FY)	3.7	9.9

## Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	13.7	17.1
Sharpe Ratio	-0.1	0.1
Tracking Error	7.5	-
Information Ratio	-0.5	-
Alpha	-2.9	-
Beta	0.7	-
Upside Capture (%)	69.7	-
Downside Capture (%)	78.7	-

## Regional breakdown

Region	Portfolio	Benchmark	Relative Weight
United States	96.4	99.1	-2.7
Canada	-	0.3	-0.3
Emerging Markets	-	0.2	-0.2
Other	-	0.2	-0.2
Cash	3.6	-	-3.6

## Sector allocation

Sector	Portfolio	Benchmark	Relative Weight
Financials	1.2	16.7	-15.5
Energy	-	4.9	-4.9
Materials	-	6.0	-6.0
Industrials	26.3	18.6	7.7
Information Technology	27.4	12.2	15.2
Communication Services	-	3.2	-3.2
Utilities	-	2.6	-2.6
Consumer Staples	3.0	3.4	-0.4
Consumer Discretionary	-	12.6	-12.6
Real Estate	6.1	7.1	-1.0
Health Care	32.4	12.8	19.6
Other	3.6	-0.1	3.7

## Country allocation

Country	Portfolio	Benchmark	RelativeWeight
United States	96.4	99.1	-2.8
Argentina	-	0.1	-0.1
Bermuda	-	-	-
Brazil	-	0.2	-0.2
Canada	-	0.3	-0.3
Greece	-	-	-
Other	3.6	0.3	3.3

## Currency exposure

Region	Gross	Benchmark
USD	100.0	100.0

## Top 10 holdings

Security name	Country	Sector	Weight
MAXIMUS, Inc.	United States	Industrials	5.8
ExlService Holdings, Inc.	United States	Industrials	5.6
Verra Mobility Corp. Class A	United States	Industrials	4.9
Akamai Technologies, Inc.	United States	Information Technology	4.9
Bio-Techne Corporation	United States	Health Care	4.7
CoStar Group, Inc.	United States	Real Estate	4.4
Neogen Corp	United States	Health Care	4.3
Cirrus Logic, Inc.	United States	Information Technology	4.2
HealthEquity Inc	United States	Health Care	4.1
Tenable Holdings, Inc.	United States	Information Technology	4.0

## Security level contributors and detractors

	Security	Average Relative weight (%)	% Contribution to return
Contributors	Commvault Systems, Inc.	4.3	1.1
	Parsons Corporation	4.7	1.1
	ExlService Holdings, Inc.	5.4	1.0
Detractors	DoubleVerify Holdings, Inc.	2.5	-0.5
	Grocery Outlet Holding Corp.	3.2	-0.8
	iRhythm Technologies, Inc.	3.9	-1.6

## Sector attribution relative to the benchmark

	Sector	Average Relative weight (%)	Allocation Effect (%)	Selection Effect (%)	Total Effect (%)
Contributors	Industrials	8.6	0.0	1.4	1.5
	Energy	-5.3	0.9	0.0	0.9
Detractors	Consumer Staples	-0.2	0.0	-0.9	-0.9
	Financials	-15.1	-0.6	-0.3	-0.9
	Health Care	17.9	0.1	-3.0	-2.9

## Commentary

### US SMID

#### 1) QFR Highlights

In the third quarter of 2024, the Fund's gross return was 3.11%.

The end of the Fed interest raise cycle may benefit smaller companies but that is not a given as lower interest rates may come as a result of a slowing economy.

In our view the markets remained optimistic that the Fed can orchestrate a soft landing.

We shall see as always, but our exposure to less cyclical companies in areas we have spoken about like Healthcare, Technology and Industrials have served us well in volatile periods.

#### 2) Fund Performance

For Q3, the Fund's gross return was 3.11%, underperforming the benchmark (Russell 2500) return of 7.46%.

Stock selection and interaction within Industrials and an underweight allocation to Energy contributed to relative performance. While stock selection and interaction within Health Care, Consumer Staples and Real Estate, along with an overweight allocation to Information Technology and an underweight allocation to Financials detracted from performance.

#### 3) Security contributors

In the third quarter of 2024, the top contributors were Commvault Systems, Inc., Parsons Corporation, TransMedics Group, Inc., Cirrus Logic, Inc. and Westinghouse Air Brake Technologies Corporation.

#### 4) Security detractors

In the third quarter of 2024, the top detractors were Grocery Outlet Holding Corp., iRhythm Technologies, Inc., Tenable Holdings, Inc., Akamai Technologies, Inc. and Neogen Corp.

#### 5) Portfolio activities

We added new positions within the Health Care and Information Technology sectors. We initiated a new position for a company that does DevSecOps which stands for Development, Security, Operations. Customers would describe their main product as a "must-have" rather than a "nice-to-have" especially, as companies have championed larger software development teams where multiple contributors can contribute to the code base. We also decreased positions in holdings within the Financials, Industrials, Information Technology and Healthcare sectors.

#### 6) Market overview

The third quarter exhibited healthy returns for the US Markets despite periods of volatility as the market absorbed a combination of weaker US economic data and global central bank policy updates. The Federal Reserve began its easing cycle by lower its targeted Fed Fund Rate at the September meeting by 50 bps. Chinese stimulus was a welcome narrative in the continuation of the current bull market for large cap equities. The S&P 500 returned 4.4% and the Russell 2500 8.4% respectively this quarter.

Markets in particularly, smaller cap indices are optimistic about lower interest rates with the proviso that these lowered rates aren't a result of a slowing economy. In our view, markets seem optimistic that the Fed can orchestrate a soft landing or no landing scenario. Given the bullish skew, we continue to look for companies that offer high value-added products and services, which should perform reasonably well in any economic scenario. That differentiation and focus on value-add should provide them reasonable pricing power across market cycles.

## Commentary

### **7) Outlook and Positioning**

Based on the futures treasury curve, it seems likely that the peak Fed Funds Target interest rates are behind us in this economic cycle. The future path of further cuts from a timing and magnitude standpoint is uncertain and may well likely be “data-dependent”. The economy has held up reasonably well during a period of elevated monetary policy, but the lagged impacts of interest rate changes are yet to be seen in the real economy. We continue to believe that many consumers, especially those in the lower-income and middle-income classes, are battling hard against the higher prices of everyday goods and services. Food volume data and “pricing wars” amongst many fast-food restaurants reinforce our belief about the devastating impact of inflation on consumption levels.

As a result, we have continued to overweight Healthcare, non-cyclical Industrials, and Information Technology sectors. We added a new technology name in the quarter during the period of August volatility. For those who have a long memory, we purchased shares of Exact Sciences (a name that we held roughly a decade ago) in both our Mackenzie Small-Mid Cap Equity Growth Fund and Mackenzie US Mid Cap Opportunities Fund. Exact Sciences has been a leader in colorectal cancer screening through their Cologuard Stool Collection product. We took advantage of recent market dislocations to re-acquire shares in the business ahead of their blood-based cancer test data readout. Colorectal cancer remains one of the most treatable cancer types if caught early, and we expect Exact’s portfolio of diagnostic tests to improve the lives of many Americans for future decades. Additionally, we recently acquired shares of a small cap medical device company that helps patients suffering from vascular disease. These are both examples of businesses that we believe have differentiated intellectual property (IP) and should not be meaningfully impacted by the US economic cycle or upcoming election.

Within Technology, we have taken the opportunity to redeploy profits in the quarter from some of our better info tech stock performers. We initiated a new position for a company that DevSecOps which stands for Development, Security, Operations in our small-mid growth fund. Customers would describe their main product as a “must-have” rather than a “nice-to-have” especially, as companies have championed larger software development teams where multiple contributors can contribute to the code base. Given the increased levels of bad actors, protecting the tech stack is a top priority for many CIOs and CSOs that we interview. We remain steadfast in our ownership of Akamai technology, the largest tech weighting in both of our funds. As a reminder, Akamai became a leader in content delivery over the past 2.5 decades but more impressively have grown two new verticals, Security (web application firewall, DDoS protection, Bot Management etc.) and edge computing (Linode acquisition). The later two categories now represent over 65% of the revenue in the organization, a huge transformation compared to where the company began. Our large weighting in Akamai is underwritten by their FCF generating capabilities – the company expects to deliver over 1.5 billion dollars in operating cash flows this year as a 16-billion-dollar market cap.

On the industrial front, we continue to like names: EXL Services, Maximus, Verra Mobility. All of these companies have counter-cyclical properties to their business models. EXL Services helps clients deploy LLMs, AI, RPA work that would enable customers to streamline operations, especially during an economic downturn. As a trusted partner, EXL has earned a seat with many of their customers product roadmaps which enables them to plan for long horizon efficiency gains (top 20 customers have an average tenure of roughly 20 years with EXL). Maximus operates a variety of government programs predominately in North America. They are under contract to operate the 1-800-MEDICARE call center, administer the PACT ACT for US Veterans, as well as provide Medicaid Redeterminations, Welfare-to-work programs, collect US Census data from time to time. Verra Mobility is a provider of active safety programs (speed trap cameras, red light cameras, school bus arm cameras) for cities and states, as well as a provider of rental car toll road management (transponders, DMV expertise, longstanding rental car relationships) and parking services (mainly at academic institutions).

As one can see by the recent additions to the portfolios, and the current positioning of our largest weightings, we are owning a set of businesses that could do reasonably OK regardless of the economic environment. These allocations and changes effectively have lowered our beta against the index, which may prove beneficial if the global economies struggle from higher interest costs and sticky levels of inflation.

## Commentary

### 7) Outlook and Positioning

#### Market Cap Breakdown:

Mkt Cap Bucket	Weight
<USD\$4 Billion:	25.60%
USD\$4-5 Billion:	8.94%
USD\$5-7.5 Billion:	28.95%
USD\$7.5-10 Billion:	1.48%
USD\$10- 45 Billion:	31.41%
>USD\$45 Billion:	0.00%

#### Sector Breakdown:

Sector	Weight
Communication Services	0.00%
Consumer Discretionary	0.00%
Consumer Staples	2.96%
Energy	0.00%
Financials	1.23%
Health Care	32.36%
Industrials	26.28%
Information Technology	27.45%
Materials	0.00%
Real Estate	6.10%
Utilities	0.00%

### 8) Stock stories

#### 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.
- 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.
- Edge computing is an area that is small today but with a big future in our view.

#### 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.

#### Cirrus Logic Inc

- Cirrus Logic is a provider of analog semiconductors for audio applications and increasingly in high-performance mixed-signal applications like power management.
- Apple has long been a major customer for Cirrus, and the company is growing its content in new generations of the iPhone in areas beyond audio. As a trusted supplier, we believe Cirrus will have a chance to participate in new product categories at Apple.
- Both segments at Cirrus are targeting new avenues of growth in devices beyond the smartphone in high-end audio, fast charging and battery management and haptics. For example, Cirrus is gaining new revenues in the laptop market.

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Percentile rankings are from Morningstar Research Inc., an independent research firm, based on the Canada Fund US Small/Mid Cap Equity category and reflect the performance of the Mackenzie US Small-Mid Cap Growth Fund for the 3-month, 1-, 3-, 5- and 10-year periods as of September 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 US Small/Mid Cap Equity category funds for Mackenzie US Small-Mid Cap Growth Fund for each period are as follows: one year - 266 ; three years - 225 ; five years - 177 ; ten years - 121.

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