

Durable growth for evolving markets

Our recent webinar on durable growth investing featured insights from the Mackenzie Bluewater Team.

Key takeaways from the event

- Given expected slower growth on the horizon, the team has been focusing on finding companies from around the world that can benefit from opportunities emerging over the next decade, including digitization, artificial intelligence and the transition to green energy (including electric vehicles).
- The team views the Canadian market in three buckets: Financials, Resources and other. They're finding most opportunities in the "other" category, which include unique businesses that can sustainably grow free cash flow at above market rates through the cycle.
- The Mackenzie Bluewater Next Gen Growth Fund is uniquely positioned to invest in global businesses leading innovation within their industries and possessing the characteristics valued by the Mackenzie Bluewater Team: established industry leaders, high levels of free cash flow and strong balance sheets.

Why it matters

- The long-term relationship between the unemployment rate and GDP suggests we are likely near the end of the cycle. However, it's unlikely we will get another leg of growth like the late 1990s, and it's more likely we end up with a long period of flat unemployment, which leads to low economic growth as in the 1960s.
- During a standard earnings recession, our companies tend to be more consistent, stable and less economically sensitive. They therefore tend to do better on a relative basis. In a scenario of low, stable unemployment rates along with low GDP growth, our companies tend to stand out, as they are expected to grow faster than average.
- The team takes a bottom-up approach to find, what they define as, the best businesses in the secular themes that are going to drive growth over decades. These companies are in key areas where there is little competition and play a vital role in quickly emerging, macroeconomic themes.
- The team underweighted the Financials sector given the backdrop of a slowing economy and possible recession. They've avoided exposure to the Energy sector since 2017, given downward pressure on fossil fuel demand in the transition to green energy. Most Canadian holdings are in the "other" category and these businesses (such as Altus Group, First Service, Dollarama and Thomson Reuters) are expected to do well in any environment, irrespective of how the macro environment plays out.
- The Mackenzie Bluewater Next Gen Growth Fund focuses on companies that add value through innovation and align with Bluewater's core investment management style, which focuses on generating free cash flow. The businesses held (such as LVMH, First Republic Bank, Synopsys and Amphenol) are dominant with significant competitive advantages and free cash flow growth that paves a long runway of superior compounding.
- The "free money" era is over. All the companies owned across Bluewater mandates have strong financials and grow free cash flow at high single digit to low double-digit rates through a cycle.

What you can do

- Investing in the right type of company is most important whether we have a soft landing or recession. Alignment with long-term secular growth trends and financially sound industry leaders is how to generate long-term performance.



- The Mackenzie Bluewater Canadian Growth Fund can be a strong complementary allocation to a typical Canadian investor's portfolio, which is market weight in Financials, Energy and Materials. This is an effective way to diversify your portfolio with high-quality, durable growth ideas that can continue to generate profits for you in any type of economic environment.
- "Growth" only means one thing to Bluewater: growth in free cash flow. Bluewater funds can outperform when "growth" as a factor underperforms, because the Bluewater portfolios tend to contain companies with better fundamentals, leading to free cash flow growth trajectories.
- The Mackenzie Bluewater Canadian Growth Fund outperformed past major market downturns driven by a consistent focus on high-quality companies and strong balance sheets in durable segments of the economy. We believe it's the right time to rethink your approach to growth investing and include Bluewater in your client portfolios.

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