

Mackenzie Greenchip Team

Thematic investing in a new macro regime: why active management matters now

Nowhere is the need for a differentiated, high active-share strategy more acute than in the energy transition space, where pricing inefficiencies create opportunities for skilled managers to generate alpha.



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Senior Investment Analyst

The renewed case for active management

The benchmark paradox

The evaluation of investment performance has become dominated by a single practice: reporting against a benchmark. This has led to an ironic inversion in the investment landscape: the number of yardsticks (indices) now vastly exceeds the number of listed companies. More fundamentally, this conventional approach often conflates two separate missions: the relative goal of outperforming a market index versus delivering the long-term, net-of-fee returns required to fund real-world obligations.

This creates a fundamental conflict for active managers. The pressure to remain tethered to a benchmark often leads to “closet indexing” – charging active fees for a portfolio that dares not deviate from the consensus. The “active” label has been applied too broadly for years, commingling true stock pickers with “closet indexers”. True active management requires both structural independence from the benchmark and a willingness to withstand the short-term discomfort that comes with meaningful differentiation. A portfolio built on high-conviction, idiosyncratic ideas should look different from the benchmark. A higher tracking error, when it is the result of a diversified collection of unique stock selections, is not a sign of unintended risk, but rather a confirmation of authenticity. To demand a differentiated return stream while simultaneously constraining tracking error is a fundamentally contradictory mandate.



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Tangible, structural shifts in the market landscape are now compelling investors to move beyond this binary active-versus-passive debate and embrace a more nuanced approach.

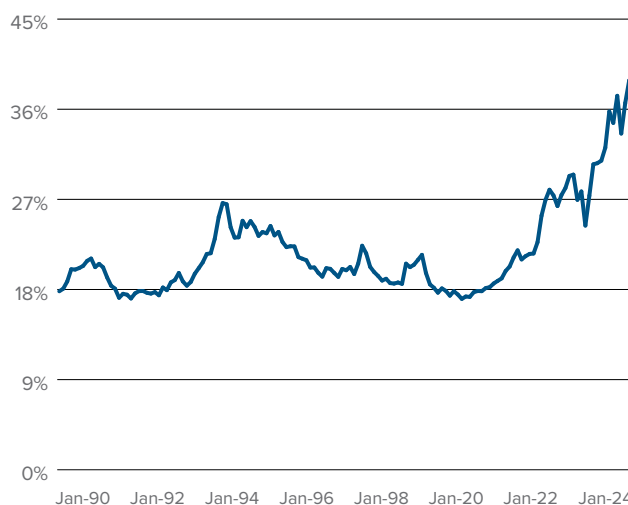
“To demand a differentiated return stream while simultaneously constraining tracking error is a fundamentally contradictory mandate.”

The challenge of extraordinary market concentration

The US equity market is now defined by an extraordinary degree of concentration. By the end of 2025, the 10 largest companies constituted ~39% of the total market value, a level of dominance unparalleled in the last 40 years. This concentration has also warped the global investment landscape: the US market now makes up nearly two-thirds of the world’s equity value despite representing only a quarter of global GDP. The concentration is now so extreme that by the end of 2025, the “Magnificent 7” alone carried a higher index weight in the MSCI ACWI than the next seven largest countries in the world. For active managers, particularly value managers, this has presented a significant challenge in recent years: with a narrow group of mega-cap tech growth stocks driving nearly all market gains, there has been little reward for meaningfully deviating from the index, making exposure to these few companies almost a necessity simply to keep pace. For passive investors, however, it presents a more acute and often underappreciated danger. By their very structure, passive investments are designed to capture a benchmark’s upside, which inherently means they must also absorb its full downside. In today’s market, this means portfolios designed to track major indices are making a historically concentrated bet on a few mega-cap firms, exposing them to significant idiosyncratic risk. The outsized performance of

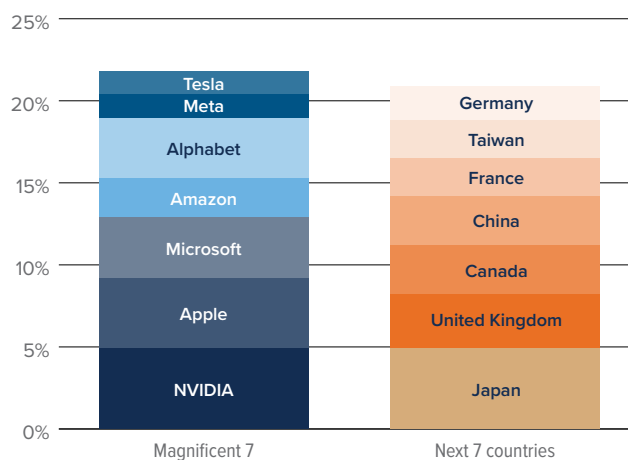
these leaders can also mask underlying sector or geographic risks, making portfolios less resilient should market leadership rotate.

Figure 1: Top 10 companies as a % of S&P 500 market cap



Source: Morningstar. As at December 31, 2025

Figure 2: Percentage weight in MSCI ACWI index



Source: Morningstar. As at December 31, 2025

This is precisely the type of environment where the flexibility of active management becomes a crucial tool for downside risk mitigation. This dynamic has been proven during multiple market downturns,



including the dot-com crash and the 2008 Global Financial Crisis. The asymmetric nature of returns is the foundational principle behind why a skilled active manager can deliver superior risk-adjusted returns over a full cycle, as measured by metrics like the Sharpe and Sortino ratios.

“The flexibility of active management has proven to be a crucial tool for downside risk mitigation during previous market crises”

A new macroeconomic regime: the end of easy beta

Compounding the risk of market concentration is a broader shift in the macroeconomic landscape. The era that favored passive investing, defined by suppressed interest rates, central bank liquidity, and frictionless globalization, is now unwinding. This is giving way to a more complex cycle as deglobalization, tariff uncertainty and escalating geopolitical conflicts introduce new sources of volatility and alter the inflation dynamic.

In an environment that no longer guarantees broad market lifts, the ability to identify true idiosyncratic value becomes paramount. With the tide of the old regime now receding, skilled managers with the flexibility to assess geopolitical risk and exploit market inefficiencies will be not just beneficial, but essential. In this market, you need a hand on the tiller.

The energy transition space demands an active management approach

Nowhere is the pressure to choose benchmark conformity over the conviction needed for a differentiated approach more acutely felt than in environmental thematic investing. Because a truly representative energy transition benchmark does not exist, these strategies are especially vulnerable to being “watered down” over time to more closely

resemble the broad market indexes they are forced to report against. This effectively turns what might have originated as a differentiated, high active-share portfolio into one that simply delivers systematic exposures that could likely be accessed more efficiently elsewhere.

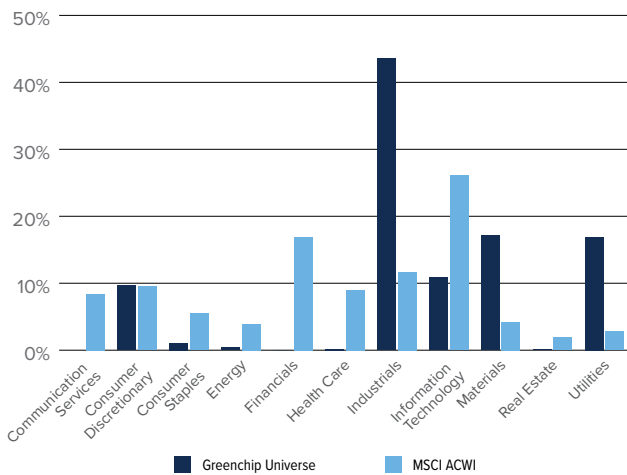
Investors will find fewer than 10 “energy transition” sector indexes today. These tend to be narrowly defined and cover only part of what’s needed for an energy transition. In contrast, there are hundreds of “sustainability and climate solutions” indexes, but many of them have such a significant overlap in top constituents, sectors and country weights with broad global indices that it would be hard to argue that any of them are designed to drive capital allocations to energy transition solutions. Similarly, broad market indices have sector and geographic compositions that are so divergent from a dedicated thematic portfolio that they result in a benchmark that behaves fundamentally differently from the fund reporting against it, resulting in significant tracking error.

Given the lack of a representative index to serve as an investment universe, Greenchip’s co-founders John Cook and Greg Payne developed a proprietary taxonomy at the strategy’s inception, guided by a board of senior advisors that included an energy executive, multiple portfolio managers and a leading expert in corporate governance. This framework established six broad environmental sectors and 23 sub-sectors that, the team believes, serve as a reasonable proxy for the full scope of the energy transition opportunity. Applying this taxonomy to the global market of public companies yields the team’s proprietary investment universe which has grown from approximately 300 companies at inception to roughly 2,000 today. It is concentrated in four of the 11 GICS: industrials, utilities, materials, and information technology (power management semiconductors and solar hardware), with a much lower geographical concentration in the US versus broader market indexes.



This thematic concentration means the universe’s performance will inevitably diverge from a broad market index like the MSCI ACWI. A comparison of 10-year performance confirms this: an unsurprising outcome given its different sector and country weights

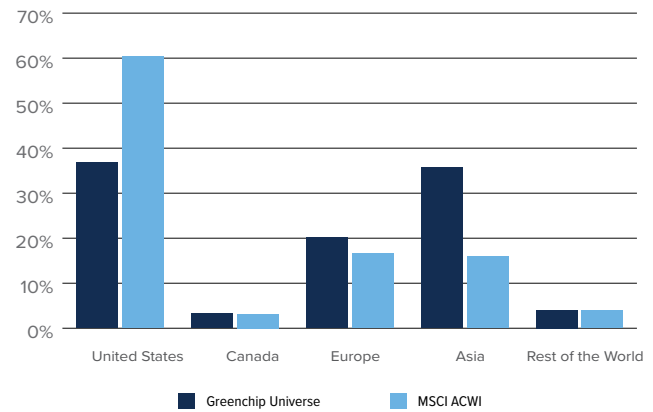
Figure 3: GICS exposure – Greenchip universe vs. MSCI ACWI index



Source: Mackenzie Greenchip Team, Bloomberg. As at February 28, 2026

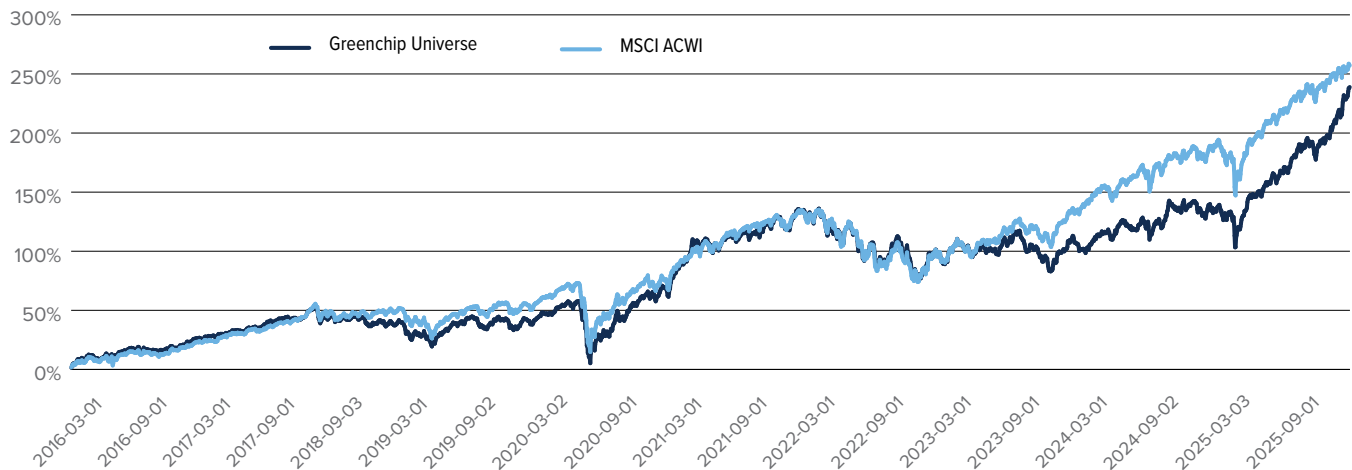
in a market environment dominated by US large-cap growth stocks, reflected in a 10-year annualized tracking error of 5.9% versus the MSCI ACWI as of end of February 2026.

Figure 4: Geographical exposure – Greenchip universe vs. MSCI ACWI index



Source: Mackenzie Greenchip Team, Bloomberg. As at February 28, 2026

Figure 5: 10-year performance of Greenchip universe vs. MSCI ACWI index



Source: Bloomberg, as at February 28, 2026. Returns are in USD dollars.



This naturally raises the question: if this universe of energy transition companies has underperformed, why should one invest in this space at all? The answer is that thoughtful, forward-looking investors will want a foot on the dock, not only to gain exposure to the tremendous investment opportunities generated by the energy transition – arguably the greatest societal shift since the Industrial Revolution – but also to build more resilient portfolios that accurately price in the long-term structural risks arising from resource scarcity, climate degradation and population growth, which are pushing the planet up against its ecological limitations. These risks are largely uncaptured by broad market indices. This approach also offers a structural hedge against the geopolitical risks tied to a fossil-fuel-based economy, a vulnerability that broad indices are inherently exposed to.

Generating alpha in the space, however, requires an active approach. Sectors at the forefront of the energy transition, for example, are often prone to cycles of excessive hype and cynicism and are highly exposed to rapid technological and regulatory shifts. The investment universe is frequently populated by small- and mid-cap companies with less analyst coverage, creating precisely the type of pricing inefficiencies that skilled active managers can exploit. Because these opportunities are often found on the road less travelled, our team travels the globe, from mines in Zambia to battery plants in Estonia, to conduct the rigorous, on-site due diligence that is essential to uncover value in a space dominated by growth investors. The outperformance of the Mackenzie Greenchip Global Environmental All Cap Fund relative to the MSCI ACWI since inception serves as a direct validation that a truly differentiated, benchmark-agnostic strategy is generating alpha over a market cycle in this complex space.



Rohit Bhalgat visiting the Cobre Panama mine in Panama.



Johnathan Prestwich visiting hydro electric facilities in Scotland.



Ileana Chintea visiting a recycling facility in Texas.



Grege Payne observing a Pelton wheel/runner used for hydro power generation at Andritz headquarters in Graz, Austria.

The performance of Mackenzie Greenchip Global Environmental All Cap Fund, Series F, for each period is as follows: YTD 9.1%, 1-year 49.9%, 3-year 15.2%, 5-year 10.8%, since inception 19.2% (as of March 31, 2026). The performance of MSCI All Country World Index for each period is as follows: YTD -1.50%, 1-year 16.4%, 3-year 17.8%, 5-year 11.8%, since inception 12.7% (as of March 31, 2026).

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