

Mackenzie Strategic Bond Fund

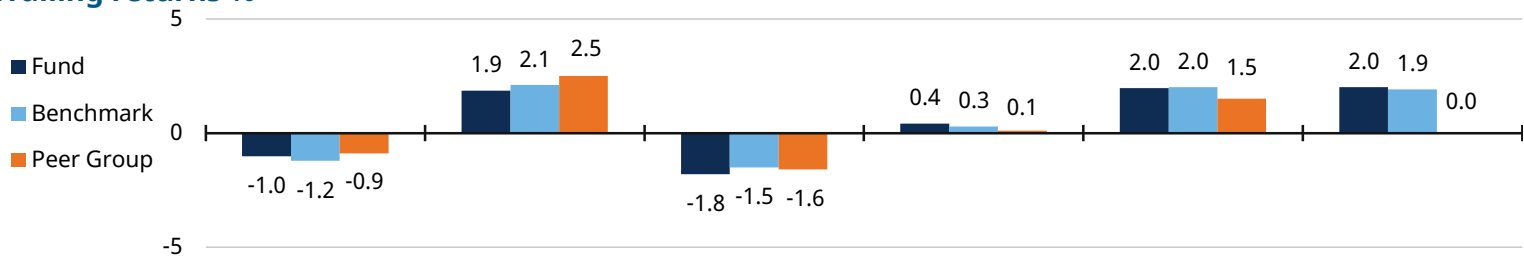
Fund snapshot

Inception date	05/15/2013
AUM (millions in CAD)	331.14
Management fee	0.45%
MER	0.66%
Benchmark	FTSE Canada Universe Bond
CIFSC category	Canadian Fixed Income
Fund rating	A
Lead portfolio manager	Konstantin Bohmer
Investment exp. since	2003

Strategy overview

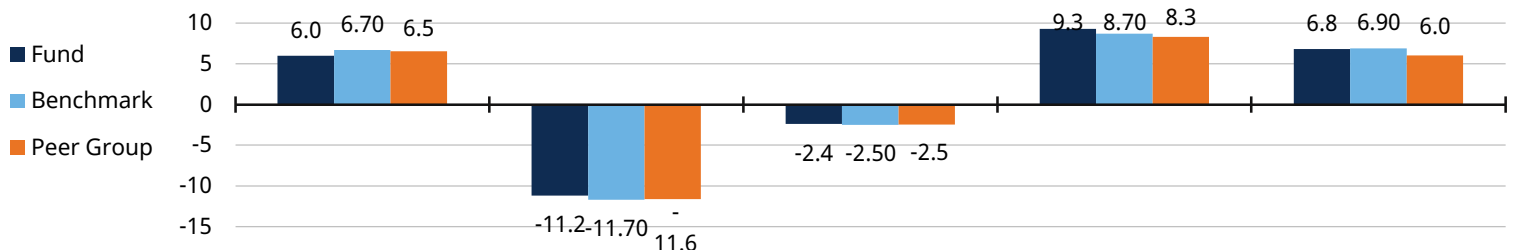
- An actively managed, flexible core plus fixed income strategy.
- Generally, maintains a strategic overweight to corporate credit, and has the flexibility to invest in a broad range of asset classes, including up to 25% in non-investment grade instruments, allowing the managers to take advantage of relative valuation opportunities and to manage risk through the economic cycle.
- The objective is to generate a higher total return than the benchmark while maintaining the risk profile of a core fixed income strategy.

Trailing returns %



	3 Mth	1yr	3Yr	5Yr	10Yr	SI
Excess return	0.2	-0.2	-0.3	0.1	0.0	0.1
% of peers beaten	50	33	43	75	85	-

Calendar returns %



	2023	2022	2021	2020	2019
Excess return	-0.7	0.5	0.2	0.6	-0.1
% of peers beaten	20	75	67	75	63

Portfolio characteristics

Ratios & metrics	Portfolio	Benchmark
Fund Avg Yield	4.8	4.2
Fund Mod. Dur	6.6	7.1
Fund Rating	A	AA
Average Price	94.0	82.7
Average Coupon	3.9	2.7
Average Term	10.5	8.9

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	6.5	7.0
Sharpe Ratio	-0.7	-0.6
Tracking Error	1.4	-
Information Ratio	-0.2	-
Alpha	-0.7	-
Beta	0.9	-
Upside Capture (%)	89.2	-
Downside Capture (%)	93.7	-

Maturity breakdown

Bucket	Portfolio	Benchmark
0 to 3	25.1	24.2
3 to 7	28.9	30.0
7 to 12	21.9	20.3
12+	24.2	25.5

Currency exposure

Currency	Gross	Net
CAD	82.6	97.5
USD	15.0	0.8
Other	2.4	1.7

Asset allocation

Asset	Portfolio	Benchmark
Corporate	55.9	29.0
Provincial + Municipal	24.5	32.9
Federal	16.9	38.1
Cash & Equival. + WC	2.8	-

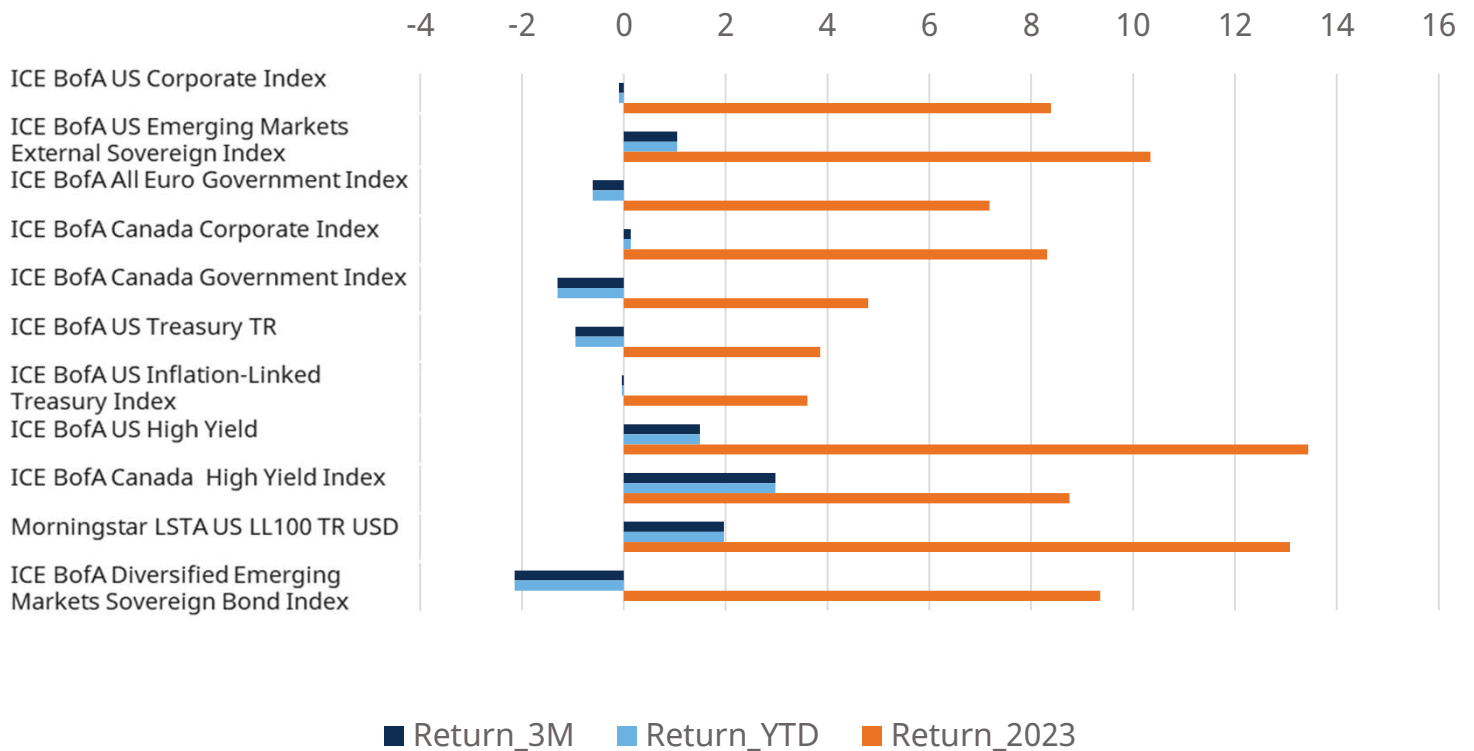
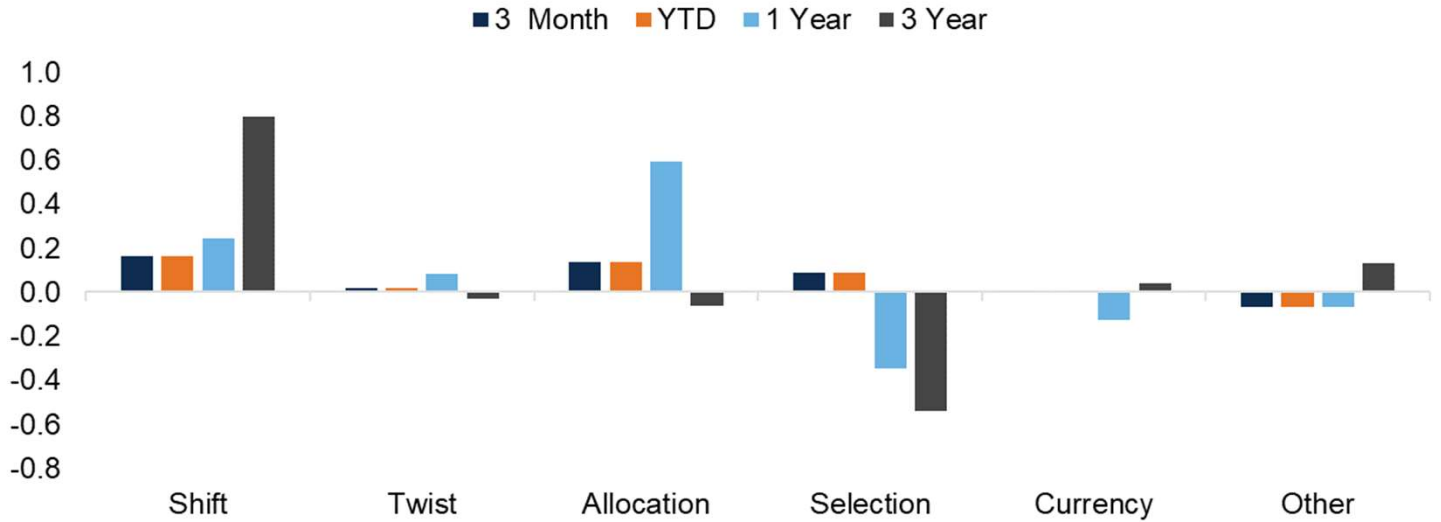
Geographic allocation

Region	Weight
North America	84.9
Europe	0.8
LATAM & Caribbean	2.3
Other	12.0

Credit breakdown

Rating	Portfolio	Benchmark
AAA	9.0	41.6
AA	38.5	32.2
A	17.1	15.2
BBB	26.3	11.0
BB	6.0	-
B	2.4	-
CCC & Below	0.3	-
NR	0.4	-

Attribution



Commentary

US economic exceptionalism continued in full force throughout Q1, with respect to both activity, as well as prices, stumping many market watchers and investors in the process. There seems to be almost no bounds to the US consumer's resiliency and as we go to print, Q1 real GDP looks to be heading towards a 2.0-2.5% q/q run rate, a level we would define as the "top end" of the soft landing range, maybe better. Prices, too, have been almost unabashedly strong; the January data (printing in February) was up for much discussion around seasonal factors and seasonal adjustment factors (related, but different), with many at the time discounting it as a "one off" month. But the February CPI data printing in March, also came in hot, and although for mostly different reasons, the market started to take notice. And of course the labour market continues to perform well, particularly at the headline level although there are a few cracks beneath the surface. It may sound odd to Canadian investors, but Q1/24 was the quarter where the immigration story became a main point of topic and discussion for the street in the US as it related to the labour market, inflation and the overall economy.

As we now know, after seeing a significant repricing in Fed expectations in Q4/23 for more cuts in 2024, those cuts were unwound in Q1, based mostly on the above stronger than expected data. Not surprisingly, that unwinding caused yields to back up higher, and those in so-called steepeners, generally found themselves on the wrong side of the trade.

It now looks very unlikely a significant rate easing cycle in 2024 will materialize, namely because of the stronger than anticipated US data and the majority of FOMC participants are not looking to embark on a significant easing cycle, at least this year. Indeed, the hawkish voter rotation for 2024 we were concerned about at the end of 2023 seems to be at least part of the discourse here, but in reality it is more broadly based than that amongst the participants. But 2024 won't last forever of course, and at some point, probably in Q2, the market will start to look at 2025 in more totality. Most Fed participants still think rates cuts are appropriate, they would just prefer additional confirmation of a slowing inflation trend.

Contrast that with Canada's macro situation where household spending is relatively anemic, headline inflation is back (just) into the BoC's target 1-3% y/y range, the unemployment rate has moved 110bp higher, and as everyone knows, there is mortgage reset risk on the horizon in H2/24 and in calendar 2025. Not surprisingly the market continues to expect the Bank of Canada to out-dove the Fed, although with the resetting of Fed expectations market pricing for the BoC has not been immune. BoC pricing has adjusted lower to around 65bp at time of writing, a level we think might be a bit of an overreaction to the Fed's repricing. While a cut at the June FOMC meeting seems very much at risk, we continue to believe the BoC will start its easing cycle in June, and accordingly continue to like Canadian nominal duration over US duration on many parts of the curve, and dislike the Canadian dollar.

Our duration positioning remains nuanced. We maintain a positive stance on duration in North America, particularly in Canada, and continue to maintain a significant active underweight duration view in regions where rates are expected to rise further, notably Japan. We continue to hold a long position in EM local rates for the attractive carry and prospect for lower rates in Latam.

We prefer to be invested in high-grade (low-beta) Corporate Bonds at the short end of the curve (2-5y but especially 2-3y). We prefer the Canadian curve over the US curve in this sector.

As we conclude Q1 2024 and shift focus to the second quarter, we anticipate rate volatility to persist. Our strategy remains opportunistic, with close monitoring of global economic indicators and geopolitical developments. The delicate balance between mitigating risk and seizing opportunities will be pivotal in navigating the months ahead.

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Contributors:

- Overweight IG Corporate Bonds
- Overweight HY Corporate Bonds
- Overweight Inflation-Linked Bonds
- Short position in JGB
- Steepening bias
- Long position in EM local debt

Detractors:

- Short position in 30y US

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