Quarterly commentary | March 31, 2024
Series F

Mackenzie Unconstrained Fixed Income Fund

Fund snapshot

Inception date	12/03/2014
AUM (millions in CAD)	2954.7
Management fee	0.55%
MER	0.78%
Benchmark	Bloomberg Barclays Multiverse (Hgd to CAD)
CIFSC category	Multi-Sector Fixed Income
Fund rating	BBB
Lead portfolio manager	Konstantin Boehmer
Investment exp. since	2003

Strategy overview

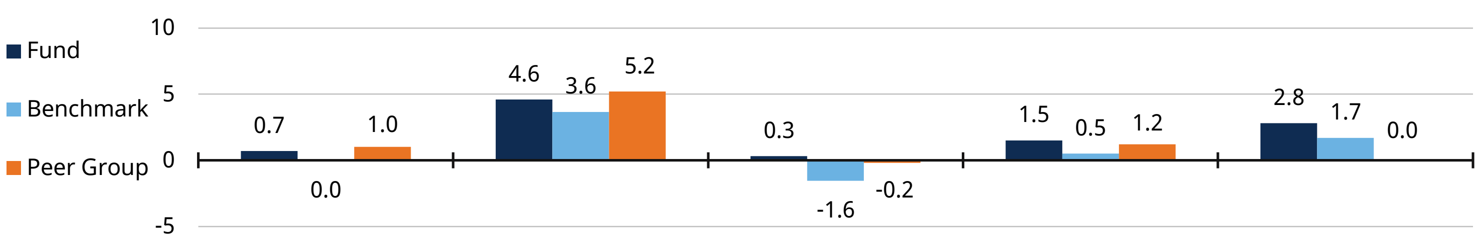
• Seeks a positive total return with low volatility over a market cycle and throughout various economic environments.

• Benchmark agnostic and flexible across the entire fixed income spectrum, managed within a credit focused framework, employing additional sources of alpha: tactical duration, dynamic allocation and credit management.

• The neutral currency exposure is 100% hedged back to CAD, however currency positions can be used tactically for alpha and to manage overall risk in the portfolio (generally no more than 10% to 15% open positions).

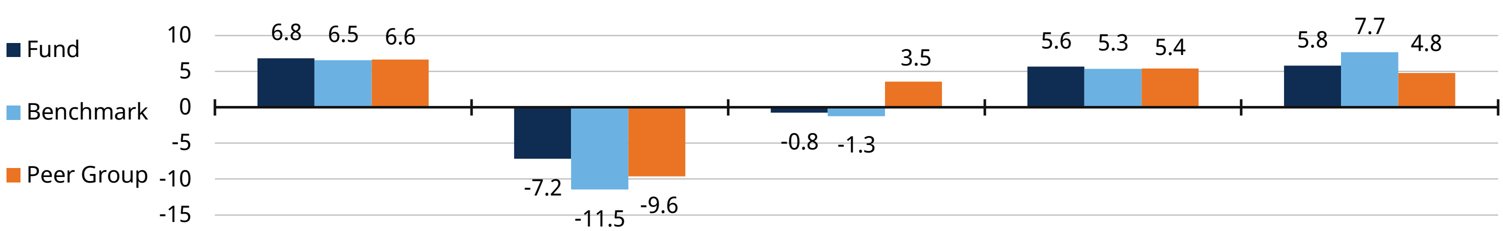
• Uses an "always-on" hedging strategy to manage the downside risk associated with the High Yield bond exposure (riskiest sleeve).

Trailing returns %



	3 Mth	1yr	3Yr	5Yr	SI
Excess return	0.8	1.0	1.8	1.0	1.1
% of peers beaten	43	43	69	54	-

Calendar returns %



	2023	2022	2021	2020	2019
Excess return	0.3	4.3	0.5	0.3	-1.9
% of peers beaten	57	74	10	71	16

Portfolio characteristics

Ratios & metrics	Portfolio	Benchmark
Fund Avg Yield	7.5	3.9
Fund Mod. Dur	4.9	6.5
Fund Rating	BBB	AA
Average Price	92.0	100.8
Average Coupon	5.1	2.8
Average Term	11.3	10.3

Asset allocation

Asset	Portfolio	Benchmark
Investment Grade Corporate	35.3	24.1
Government Bonds	8.0	64.1
Emerging Markets	12.2	-
High Yield	25.8	-
Loans	7.5	0.0
Cash & Equivalent	3.7	-
Other	7.5	11.8

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	4.6	5.7
Sharpe Ratio	-0.5	-0.8
Tracking Error	2.9	-
Information Ratio	0.6	-
Alpha	0.6	-
Beta	0.7	-
Upside Capture (%)	78.3	-
Downside Capture (%)	60.5	-

Geographic allocation

Country	Weight
North America	77.0
LATAM & Caribbean	7.7
Europe	6.3
Other	3.4

Maturity breakdown

Bucket	Portfolio	Benchmark
0 to 3	31.2	24.0
3 to 7	36.5	31.0
7 to 15	16.0	19.2
15+	16.4	25.8

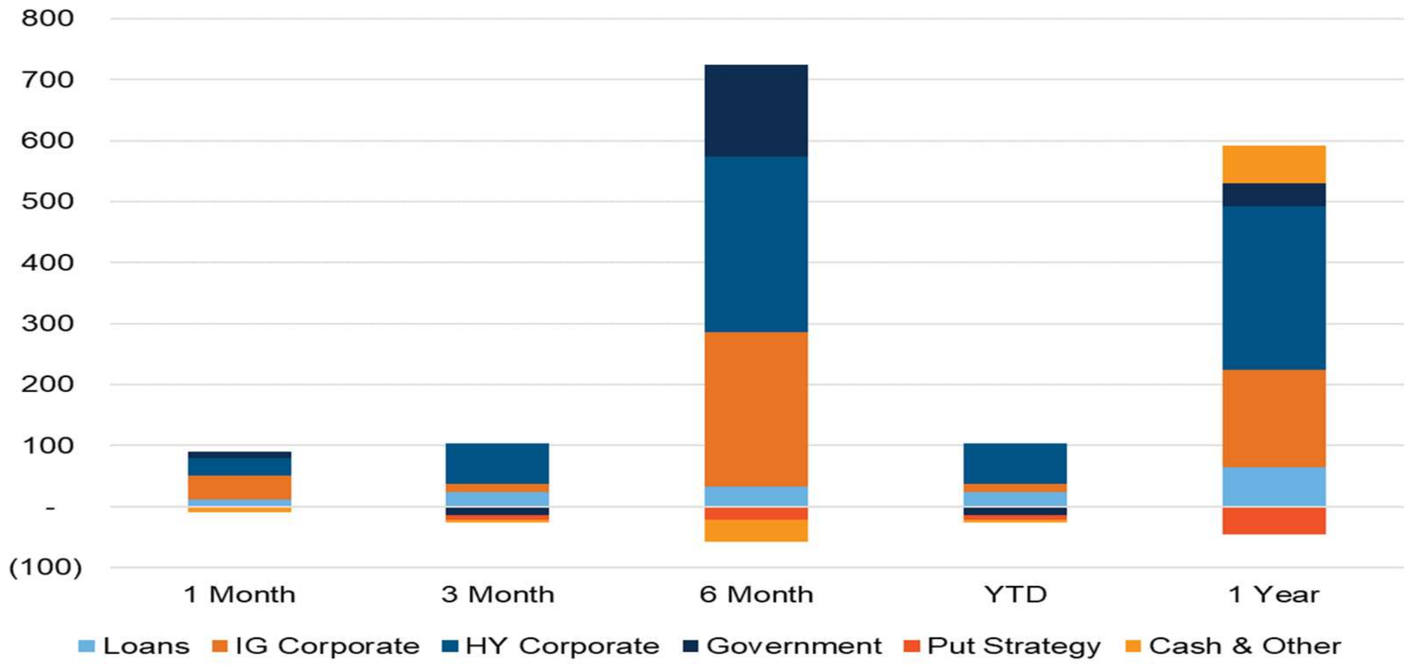
Currency exposure

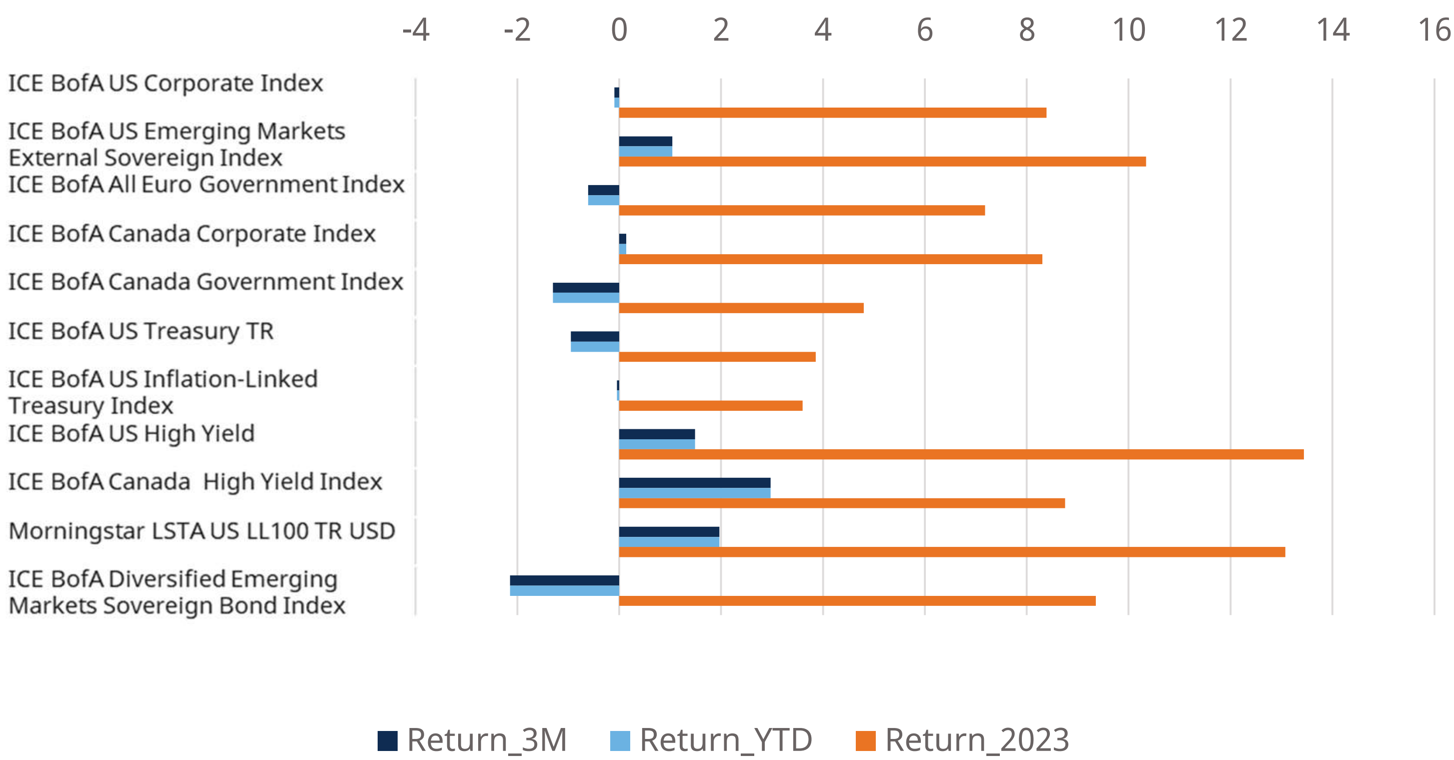
Currency	Gross	Net
CAD	29.5	90.1
USD	56.1	5.7
Other	14.4	4.2

Credit breakdown

Rating	Portfolio	Benchmark
AAA	9.0	21.7
AA	14.7	30.1
A	9.2	30.3
BBB	27.1	13.9
BB	17.9	2.4
B	16.0	1.3
CCC & Below	3.4	0.4
NR	3.1	0.0

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.

The high yield market returned +1.5% in the first quarter of 2024, representing the fifth straight quarter of positive returns for the market and a full recovery of the losses that had occurred during the rate hiking cycle in 2022. The headwind of rising rates was essentially replaced by a tailwind of potential rate cuts in 2024, driving yields lower and risk assets considerably higher as the market quickly priced in a soft-landing scenario. With the improved backdrop, market sentiment was strong, the economic backdrop supportive, and earnings season beat expectations which resulted in the strong performance in the quarter. These conditions also setup for a strong refinancing wave as stronger issuers opportunistically refinanced near term maturities at these lower yield levels to push out the maturity wall. High yield spreads tightened from 339 bps to 315 bps on the back of that strong risk sentiment.

If the economic backdrop continues to be supportive, the high yield asset class looks attractive on both a relative and absolute basis with the yield of 7.75%, rewarding investors willing to take the extra credit risk. From a spread perspective, current levels provide a limited but likely adequate buffer over treasury yields in a soft-landing scenario. There are growing concerns in the lower quality end of the market, as a growing theme is developing for lower quality issuers with limited access to the capital markets to propose aggressive liability management exercises (LME) to address near term maturities, a phenomenon worth paying close attention to. As a result, our team preference is for higher-quality high yield exposure and are positioned accordingly with a growing weighting to the BB-rated category. We're also finding attractive opportunities in other areas of the fixed income such as; Private Credit, the US Cannabis debt market, and the Hybrid/LRCN markets.

Commentary

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.

Contributors:

-Overweight High Yield Bonds
-Overweight IG Corporates
-Overweight Leveraged Loans & Private Debt
-Underweight US Government bonds
-LRCN/HYBRID and Cannabis sector
-BB Energy exposure
-Mexican Peso Local bonds

Detractors:
-Put Protection hedging
-Long-dated Corporate bonds
-Emerging Markets bonds exposure

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Percentile rankings are from Morningstar Research Inc., an independent research firm, based on the Canada Fund Multi-Sector Fixed Income category and reflect the performance of the Mackenzie Unconstrained Fixed Income Fund for the 3-month, 1-, 3-, 5- and 10-year periods as of March 31, 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 Multi-Sector Fixed Income category funds for for each period are as follows: one year - 259 ; three years - 243 ; five years - 213 ; ten years - 60 .

Morningstar data is shown as of the most recent reporting period by each fund family. Allocations may not equal 100% and will vary overtime. Assets contained within “Other” category are not classified by Morningstar. All information presented in this tool is for informational purposes only and is not intended to be investment advice. The information is not meant to be an offer to sell or a recommendation to buy any investment product. Unless otherwise noted, performance is shown before sales charge. For more fund information, click the POS Documents link.

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