

Mackenzie Global Tactical Bond Fund

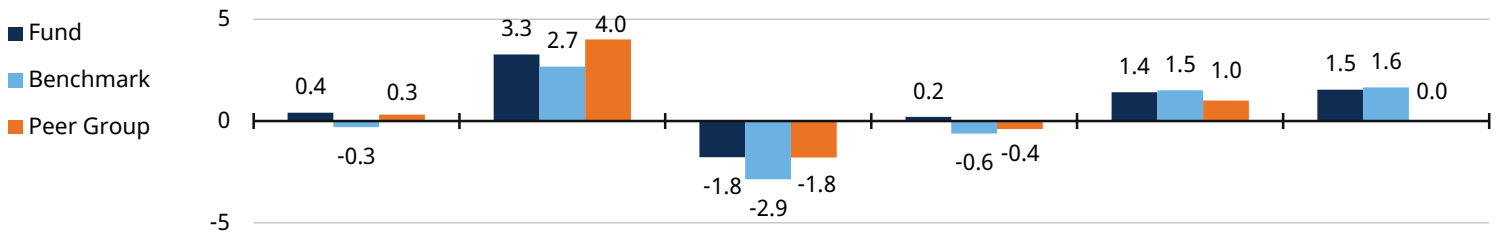
Fund snapshot

| | |
|------------------------|-------------------------------------|
| Inception date | 04/23/2014 |
| AUM (millions in CAD) | 256.4 |
| Management fee | 0.55% |
| MER | 0.76% |
| Benchmark | ICE BofA Gbl Broad Mkt (Hgd to CAD) |
| CIFSC category | Global Fixed Income |
| Risk rating | Low |
| Lead portfolio manager | Konstantin Boehmer |
| Investment exp. since | 2003 |

Strategy overview

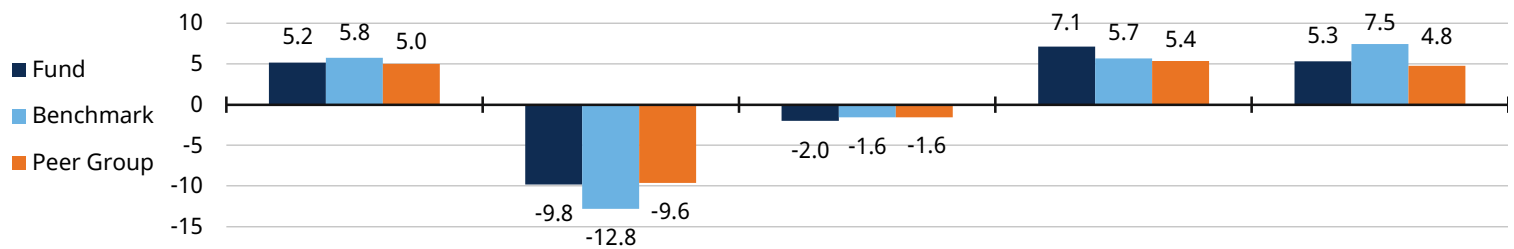
- An actively managed, benchmark agnostic global fixed income portfolio. Overall average credit quality can vary, but the portfolio manager expects it to remain almost always at BBB or higher.
- Given the size and complexity of its investible universe, uses a combination of qualitative insights, quantitative models and bottom-up security selection to access all five sources of alpha – country, duration, currency, sector and credit. The objective is to outperform the benchmark, with low volatility

Trailing returns %



| | 3 Mth | 1 Yr | 3 Yr | 5 Yr | 10 Yr | SI |
|-------------------|-------|------|------|------|-------|------|
| Excess return | 0.7 | 0.6 | 1.1 | 0.8 | -0.1 | -0.1 |
| % of peers beaten | 55 | 35 | 60 | 70 | 75 | NA |

Calendar returns %



| | 2023 | 2022 | 2021 | 2020 | 2019 |
|-------------------|------|------|------|------|------|
| Excess return | -0.6 | 3.0 | -0.4 | 1.4 | -2.2 |
| % of peers beaten | 51 | 55 | 40 | 72 | 66 |

Portfolio characteristics

| Ratios & metrics | Portfolio | Benchmark |
|------------------|-----------|-----------|
| Fund Avg Yield | 5.5 | 4.1 |
| Fund Mod. Dur | 6.6 | 6.5 |
| Fund Rating | A | AA |
| Average Price | 92.1 | 114.8 |
| Average Coupon | 4.1 | 2.7 |
| Average Term | 8.0 | - |

Performance metrics (3 year trailing)

| Metrics | Portfolio | Benchmark |
|----------------------|-----------|-----------|
| Standard Dev. | 6.0 | 6.3 |
| Sharpe Ratio | -0.8 | -1.0 |
| Tracking Error | 2.8 | - |
| Information Ratio | 0.4 | - |
| Alpha | 0.3 | - |
| Beta | 0.9 | - |
| Upside Capture (%) | 90.1 | - |
| Downside Capture (%) | 82.0 | - |

Maturity breakdown

| Bucket | Portfolio | Benchmark |
|---------|-----------|-----------|
| 0 to 3 | 24.2 | - |
| 3 to 7 | 36.2 | - |
| 7 to 12 | 26.1 | - |
| 12+ | 13.5 | - |

Currency exposure

| Currency | Gross | Net |
|----------|-------|------|
| CAD | 32.0 | 91.6 |
| USD | 45.4 | 5.1 |
| Other | 22.6 | 3.3 |

Asset allocation

| | Portfolio | Benchmark |
|----------------------------|-----------|-----------|
| Investment Grade Corporate | 23.6 | 20.2 |
| Loans | 1.4 | - |
| Emerging Markets | 14.5 | 2.9 |
| Government | 37.0 | 52.1 |
| High Yield | 7.3 | - |
| Cash | 4.1 | - |
| Other | 12.1 | 24.8 |

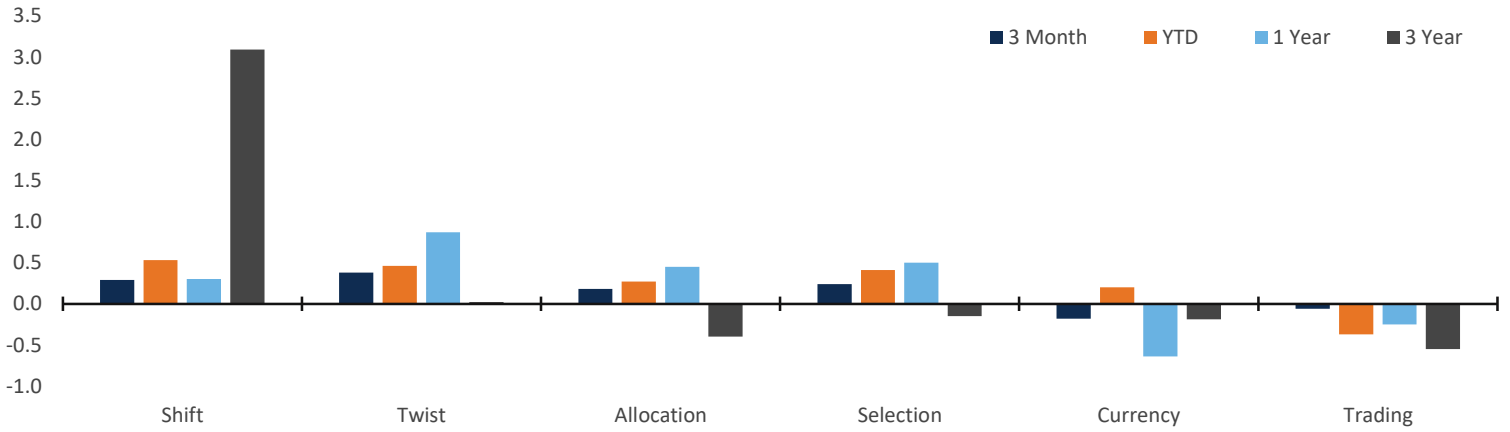
Geographic allocation

| Region | Weight |
|--------|--------|
| Canada | 30.2 |
| US | 35.3 |
| Europe | 9.5 |
| Other | 25.0 |

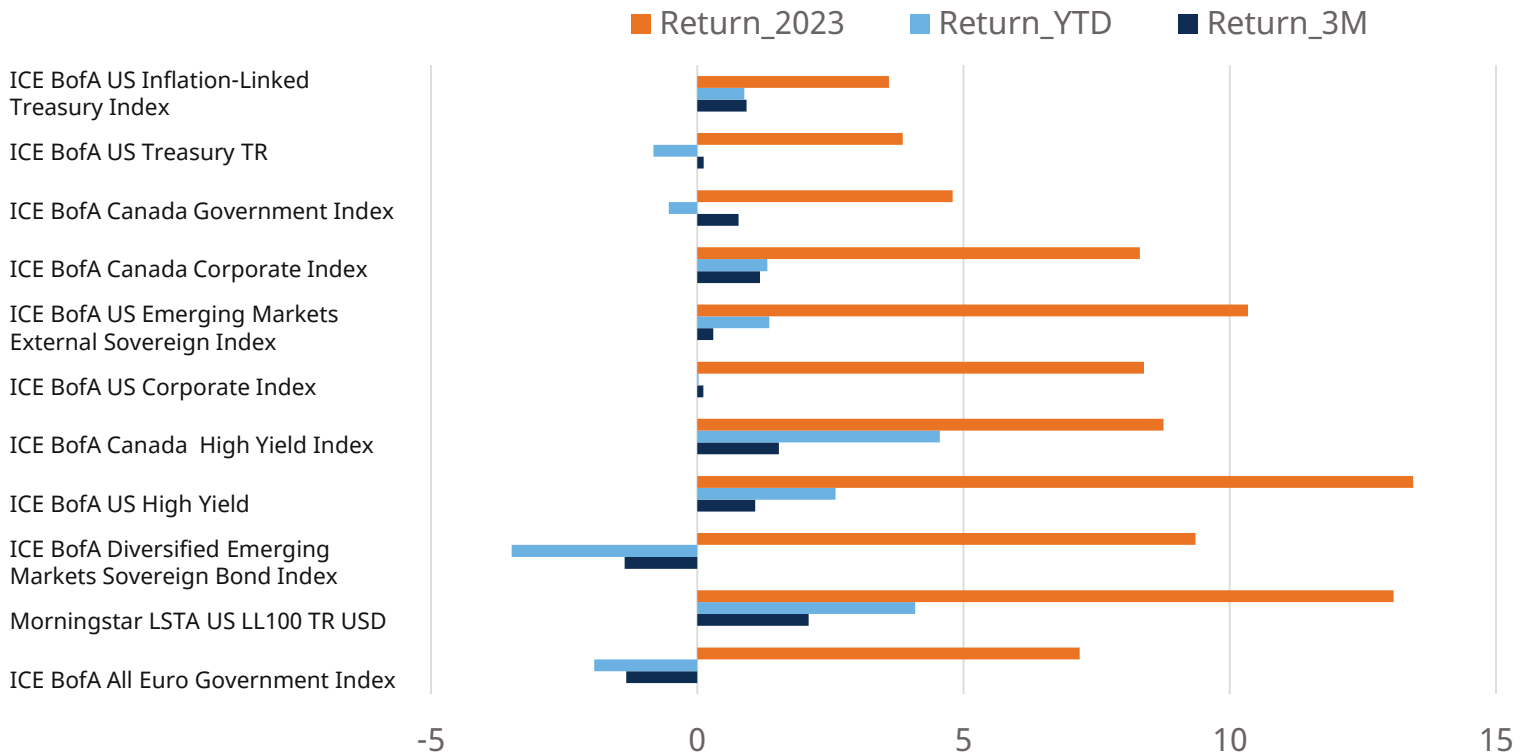
Credit breakdown

| Rating | Portfolio | Benchmark |
|-------------|-----------|-----------|
| AAA | 16.4 | 12.9 |
| AA | 31.4 | 50.3 |
| A | 7.7 | 22.9 |
| BBB | 28.0 | 13.9 |
| BB | 10.2 | 0.0 |
| B | 4.7 | - |
| CCC & Below | 0.9 | - |
| NR | 0.7 | - |

Attribution



Market Overview



Commentary

Markets generally focus on the fundamental outlook, with technicals, flows, positioning, and momentum occasionally taking the lead. However, geopolitics can sometimes spike cross-asset volatility, as seen in 2024, "The Year of the Election." In the second quarter, three electoral surprises in South Africa, India, and Mexico negatively impacted markets, especially emerging markets (EM). Mexico's Morena party's Congressional majority affected Mexican and EM assets. Coupled with the other electoral surprises, this caused increased volatility in EM markets, and while EM volatility has decreased, the risks of higher volatility remain with global VaR models likely having been tweaked.

In France, a snap election followed the EU elections where center and far-right parties performed strongly. French President Macron lost Lower House seats, causing French bonds to widen against German benchmarks from around 45-50bp to over 80bp before retreating into the 60s. The ECB's concern over French fiscal stability highlights significant market recalibration. Despite minor ECB comments, the main policy focus remains on semi-frothy real-time inflation, sticky elevated wages, and the central bank's ability to ease into high inflation rates. We expect the ECB to ease rates in September but doubt a significant easing cycle beyond 50bp, making us cautious on European duration compared to North America.

The Trump-Biden debate at the end of the quarter raised concerns about Republican fiscal policies. Biden's perceived underperformance led to fears of unchecked fiscal spending, debt issuance, and curve steepening, though market reaction was muted. Internal Democratic Party polling showed Trump potentially winning 350 electoral college seats, increasing calls for Biden to step aside. Former House Speaker Pelosi's refusal to endorse Biden added to the speculation. This debate's aftermath saw a concern over a Republican Party "down the ticket" outcome, which could lead to significant fiscal spending and higher yields.

With the upcoming US election, we are aware of risks in sovereign fixed income, especially in the long end of the US curve if fiscal concerns grow. US inflation is slowing, but core PCE needs to drop below 20 basis points (bp) per month for a significant decrease. The April and May data suggest US inflation is back on a slowing track. The Fed requires at least three months of favorable inflation data before considering rate cuts, possibly by the September meeting if the labor market continues to weaken. Indicators like slowing temporary employment, a lower hiring rate, and a lower quits rate suggest the labor market is coming "better into balance."

The Bank of Canada (BoC) has already begun easing, cutting rates by 25bp in June. We expect further cuts in July or September, with the BoC possibly cutting three times before the Fed starts. The BoC is cautious about easing too much to avoid Canadian dollar depreciation and imported inflation. As a small, open market economy, the BoC must manage these risks carefully. We prefer long North American duration positions but favor short-duration positions in Japan. The Bank of Japan (BoJ) may continue its hiking cycle, possibly surprising markets with a 10bp hike in July, justified by domestic data and wage growth. Another federal election in Japan could overlap with BoJ meetings, pushing the BoJ to act sooner.

Overall, elections have significant market consequences, and we remain vigilant about the macro risks and opportunities in the current economic and political landscape. With the US election approaching, fiscal and electoral risks, combined with slowing economic fundamentals, particularly in the US and Canada, create a complex environment for investors. We continue to monitor these developments closely to navigate the evolving landscape effectively.

US interest rates experienced significant volatility as markets reassessed the Federal Reserve's policy outlook. Higher-than-expected inflation prints, robust economic activity, and a strong labor market sustained bearish sentiment in the bond market during the first half of the quarter. However, this sentiment began to reverse towards the middle of the period, driven by softer inflation releases and leading macroeconomic indicators signaling a potential slowdown in the US economy.

Throughout the quarter, we observed a divergence in the inflation path between the US and other developed countries, influencing rate differentials across the G10. In countries like Canada and New Zealand, where the disinflation process continued, rate markets outperformed those in the US. Towards the end of the quarter, unexpected election outcomes in France, India, Mexico, and South Africa took center stage, causing a significant repricing in risk premiums for their assets before slightly recovering towards the end of June.

Commentary

Emerging market local rate bonds faced headwinds in Q2 from a strengthening dollar, higher global yields, and election outcomes, reversing some of the gains made earlier in the year. Currencies such as the Mexican peso (MXN) and Brazilian real (BRL) posted negative returns due to the repricing of political risk and the unwinding of long EM carry trades.

Our duration positioning remains close to neutral. We maintain a positive duration stance in North America, particularly in Canada, where we see favorable conditions for fixed income. Conversely, we hold a significant underweight duration view in regions where rates are expected to rise further, notably Japan and the Eurozone. Our strategic position in long-dated TIPS remains unchanged, as we anticipate that US inflation, will stay elevated above historical norms for a prolonged period. We continue to favor long positions in EM local rates for their attractive carry and the potential for lower rates in Latin America.

Contributors:

- Underweight Japanese duration
- Overweight South African Bonds
- US Curve Flattening bias (via 30Y TIPS)
- Underweight European duration
- Overweight Credit

Detractors:

- Overweight Latin American local debt

Entering Q3, our duration strategy remains close to neutral. We maintain a positive duration outlook in North America, especially in Canada, where we expect the Bank of Canada to continue lowering its policy rate following the initial cut in June. Conversely, we hold a substantial underweight duration view in regions like Japan and the Eurozone. Our strategic position in long-dated TIPS persists, based on our forecast that US inflation, though possibly past its peak, will stay higher than historical averages for a prolonged period. This strategy underscores our confidence in TIPS' protective advantages in an ongoing inflationary setting. Moreover, we continue to favor long positions in emerging market local rates due to their appealing carry and the potential for lower rates in Latin America

We remain cautiously optimistic on credit but prefer low beta, high quality corporate bonds and are cognizant that the upcoming US election and the uncertainties it might bring – from fiscal concerns to tariffs to the potential for a resurgence of inflation – can quickly alter our base-case outlook.

As we navigate Q3 2024, we anticipate continued rate volatility and remain focused on opportunistic strategies. We will closely monitor global economic indicators and geopolitical developments to balance risk mitigation and seizing opportunities.

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Percentile rankings are from Morningstar Research Inc., an independent research firm, based on the Canada Fund Global Fixed Income category and reflect the performance of the Mackenzie Global Tactical Bond Fund for the 3-month, 1-, 3-, 5- and 10-year periods as of June 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 Global Fixed Income category funds for Mackenzie Global Tactical Bond Fund for each period are as follows: one year - 474 ; three years - 346 ; five years - 245 ; ten years - 100.

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