Mackenzie Unconstrained Fixed Income Fund

Fund snapshot

Inception date	12/03/2014
AUM (millions in CAD)	2971.4
Management fee	0.55%
MER	0.78%
Benchmark	Bloomberg Barclays Multiverse (Hgd to CAD)
CIFSC category	Multi-Sector Fixed Income
Risk rating	Low
Lead portfolio manager	Konstantin Boehmer
Investment exp. since	2003

Strategy overview

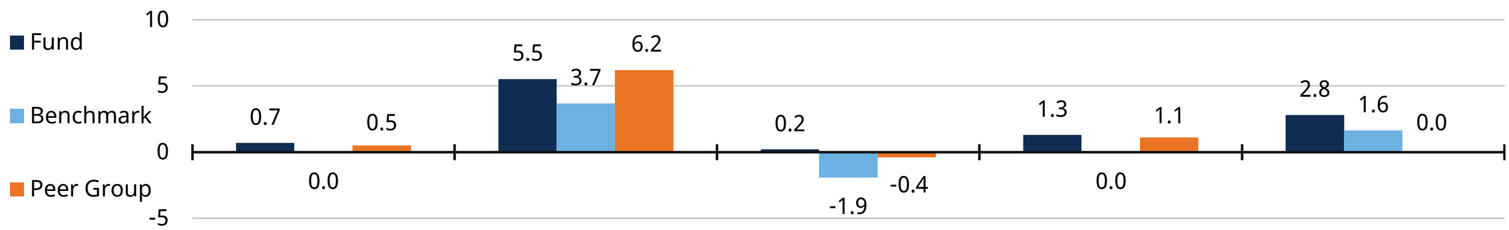
• Seeks a positive total return with low volatility over a market cycle and throughout various economic environments.

• 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).

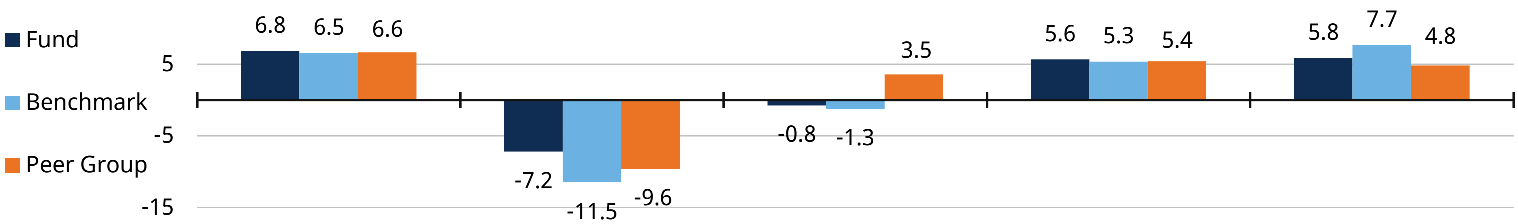
• Uses an "always-on" hedging strategy to manage the downside risk associated with the High Yield bond exposure (riskiest sleeve).

Trailing returns %



	3 Mth	1yr	3Yr	5Yr	SI
Excess return	0.7	1.8	2.1	1.3	1.2
% of peers beaten	64	41	69	55	NA

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	7.2	4.1
Fund Mod. Dur	5.1	6.4
Fund Rating	BBB	AA
Average Price	91.5	101.6
Average Coupon	5.1	2.9
Average Term	11.0	10.2

Asset allocation

Asset	Portfolio	Benchmark
Investment Grade Corporate	35.7	24.1
Government Bonds	8.0	64.3
Emerging Markets	10.5	-
High Yield	26.3	-
Loans	7.1	0.0
Cash & Equivalent	4.9	-
Other	7.5	11.6

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	4.8	5.8
Sharpe Ratio	-0.6	-0.9
Tracking Error	2.9	-
Information Ratio	0.7	-
Alpha	0.7	-
Beta	0.7	-
Upside Capture (%)	83.0	-
Downside Capture (%)	62.6	-

Geographic allocation

Country	Weight
North America	77.9
Europe	5.9
LATAM & Caribbean	6.0
Other	10.2

Maturity breakdown

Bucket	Portfolio	Benchmark
0 to 3	34.0	24.1
3 to 7	35.6	31.4
7 to 15	14.9	19.1
15+	15.5	25.4

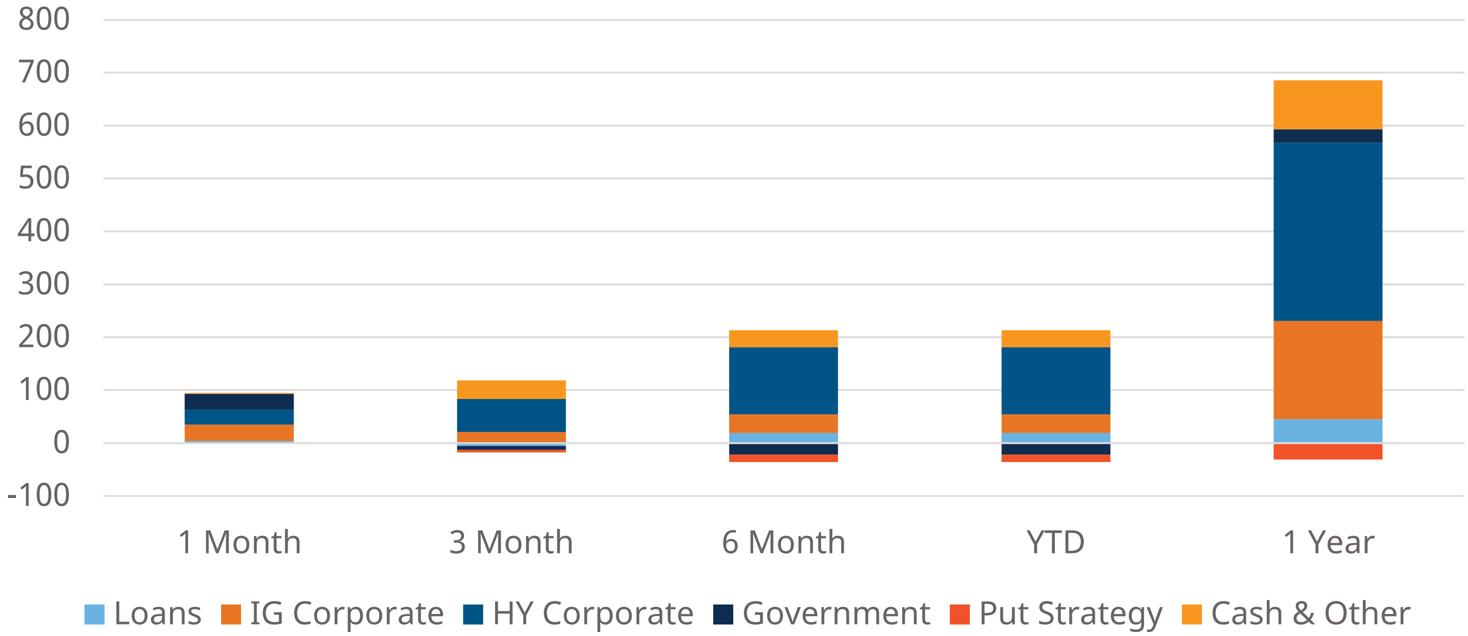
Currency exposure

Currency	Gross	Net
CAD	30.5	92.1
USD	56.6	5.2
Other	12.9	2.7

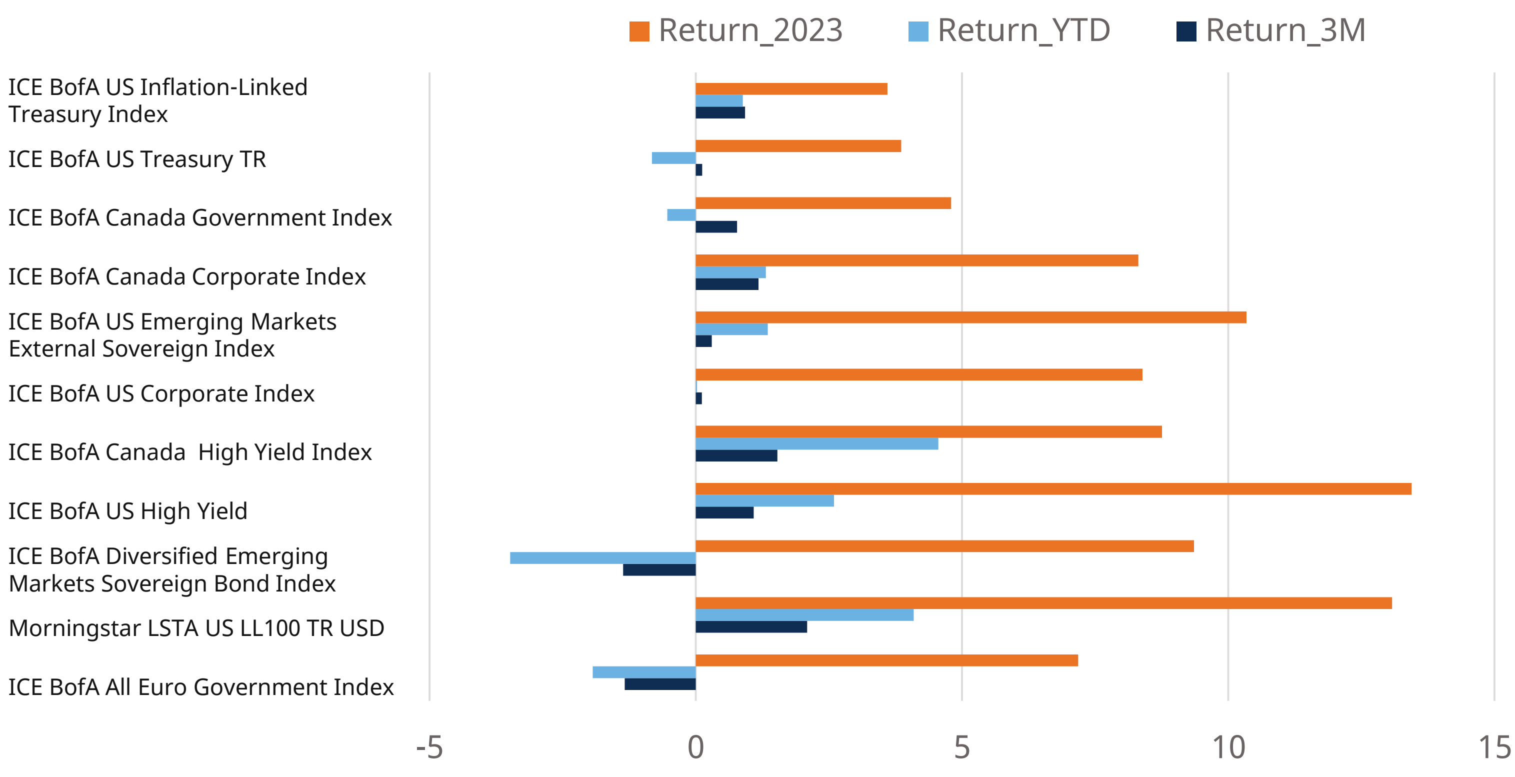
Credit breakdown

Rating	Portfolio	Benchmark
AAA	7.9	21.7
AA	16.8	30.6
A	8.0	29.9
BBB	28.2	13.7
BB	16.7	2.4
B	16.3	1.2
CCC & Below	3.1	0.4
NR	3.1	0.0

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.

The US high yield bond market returned 1.09% in Q2, achieving a 2.62% return for the first half. However, there was a notable divergence by rating category, with CCC-rated bonds, struggling with refinancing, returning just 0.18%, underperforming BB (1.32%) and B (1.03%) rated bonds. Spreads for CCC widened by 96 bps, while BB and B tightened by 2 and 4 bps respectively. Despite some weaknesses, Q2 saw strong primary issuance of $76.4 billion, totaling $161.6 billion for the first half, significantly higher than in 2023 and 2022. Refinancing activity set a record at 78.7% of new issues.

The current high yield market spread of 321 bps reflects a strong economic backdrop and anticipated rate cuts in 2024/2025. If these cuts don't occur as expected, spreads could widen, potentially leading to a hard landing. However, the high yield market's 8.10% yield-to-maturity remains attractive, especially compared to pre-2022 levels. With the Fed likely to cut rates in 2024, the high yield market offers compelling total return opportunities, with higher yields and coupons providing a buffer against losses.

Commentary

Given a supportive economic backdrop, high yield is attractive both relatively and absolutely, rewarding those willing to take extra credit risk. Current spreads provide an adequate buffer in a soft-landing scenario. However, concerns persist for lower quality issuers resorting to aggressive liability management exercises (LME) to address near-term maturities. Consequently, our preference is for higher-quality high yield exposure, particularly BB-rated bonds. We also find opportunities in Private Credit, the US Cannabis debt market, and Hybrid/LRCN markets. We anticipate the importance of credit selection to grow, focusing on corporate earnings and fundamentals amid tighter spreads and end-of-cycle conditions. Given ongoing geopolitical risks, above-target inflation, the impact of past Fed rate hikes, and soft-landing uncertainties, we expect higher volatility, which we aim to capitalize on.

Contributors:

-Underweight Japanese duration

-Overweight IG and HY Corporate bond risk

-Overweight South Africa Government bonds

-Overweight Private Credit

-LRCN/HYBRID exposure

-Cannabis sector exposure

-Open USD Exposure

Detractors:

-Overweight Mexican Government Bonds

-Put Protection hedging

-Overweight Brazilian Government bonds

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 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 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 Multi-Sector Fixed Income category funds for for each period are as follows: one year - 254 ; three years - 247 ; five years - 211 ; ten years - 59 .

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