

Mackenzie Unconstrained Fixed Income Fund

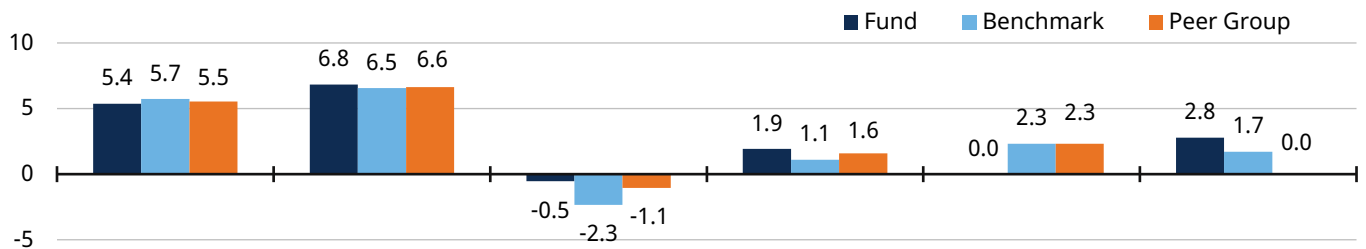
Fund snapshot

Inception date	12/03/2014
AUM (millions in CAD)	2922.1
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	Steve Locke
Investment exp. since	1995

Strategy overview

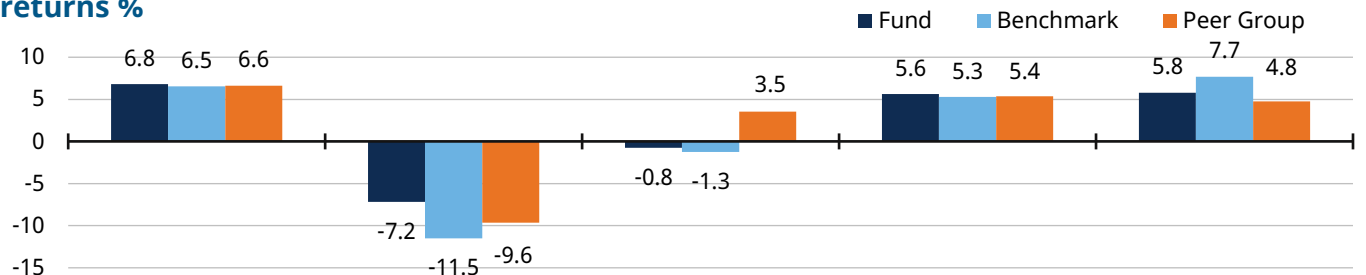
- Seeks a positive total return with low volatility over a market cycle and throughout various economic environments.
- Benchmark agnostic and flexible across the entire fixed income spectrum, managed within a credit focused framework, employing additional sources of alpha: tactical duration, dynamic 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	1 Yr	3 Yr	5 Yr	10 Yr	SI
Excess return	-0.4	0.3	1.8	0.8	-	1.1
% of peers beaten	43	57	61	59	-	-

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	3.7
Fund Mod. Dur	4.8	6.6
Fund Rating	BBB	AA
Average Price	91.6	99.5
Average Coupon	4.7	2.7
Average Term	11.8	-

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	3.8	5.7
Sharpe Ratio	-1.0	-0.8
Tracking Error	4.0	-
Information Ratio	0.2	-
Alpha	-1.8	-
Beta	0.5	-
Upside Capture (%)	46.2	-
Downside Capture (%)	52.9	-

Maturity breakdown

Bucket	Portfolio	Benchmark
0 to 3	34.6	24.3
3 to 7	30.7	31.0
7 to 12	16.9	19.4
12+	17.8	25.4

Currency exposure

Currency	Gross	Net
CAD	34.1	90.3
USD	57.1	5.1
Other	8.8	4.6

Asset allocation

Asset	Portfolio	Benchmark
Investment Grade Corporate	36.6	23.9
Government Bonds	8.9	64.0
Emerging Markets	9.1	-
High Yield	25.9	-
Loans	7.5	-
Cash & Equivalent	6.8	-
Other	5.2	12.1

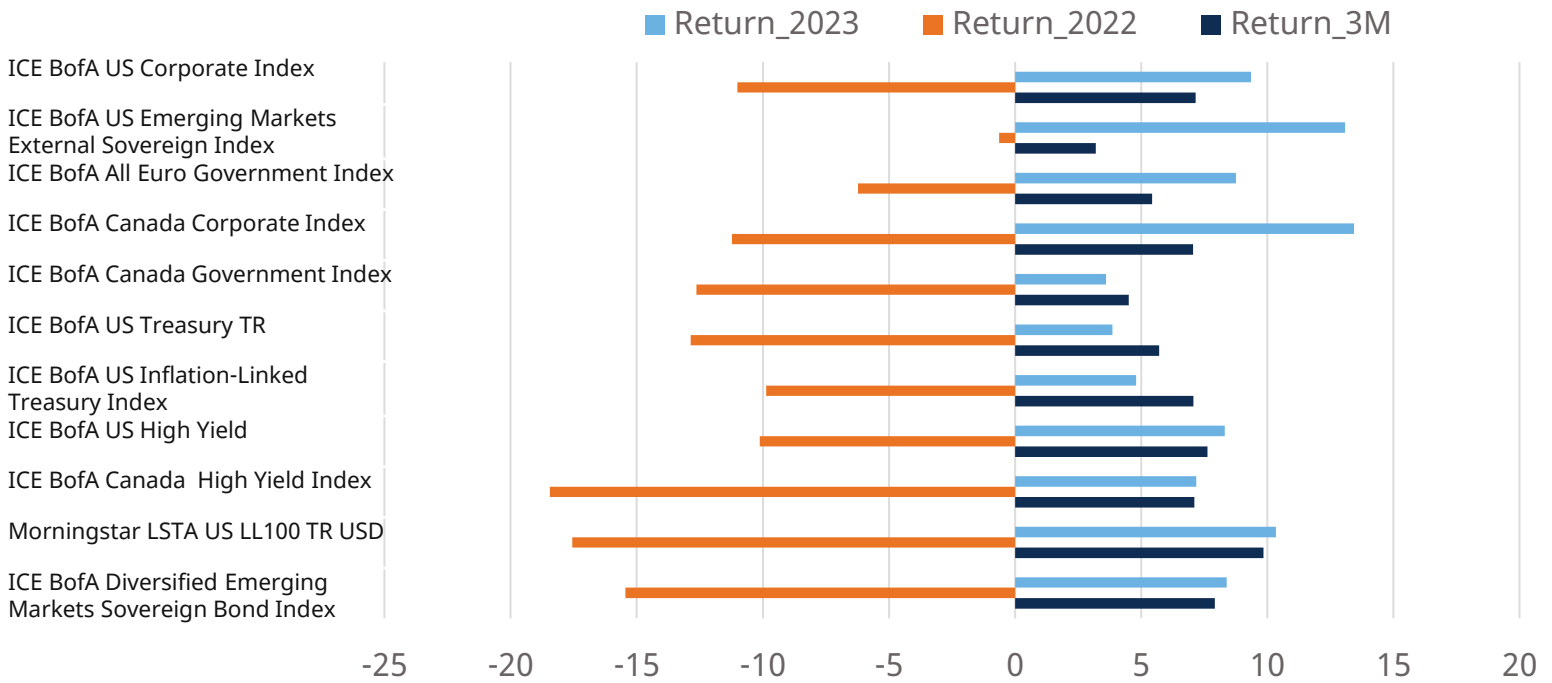
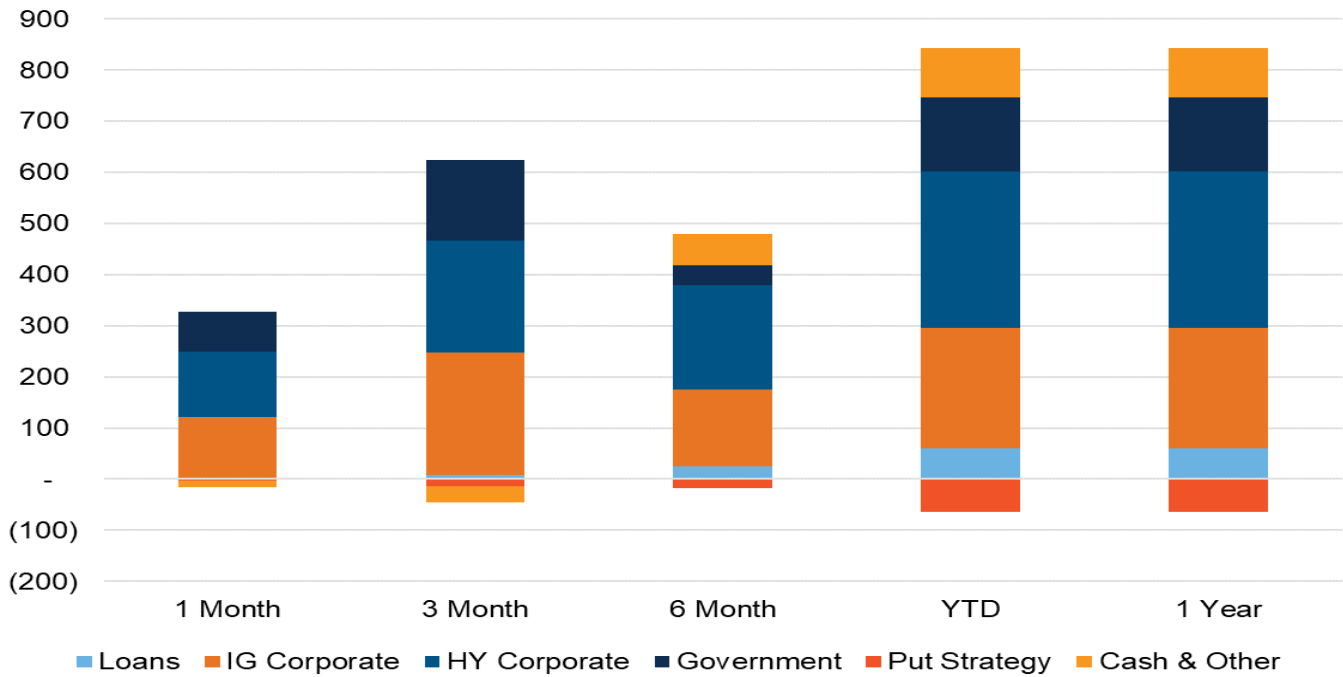
Geographic allocation

Country	Weight
North America	78.7
LATAM & Caribbean	5.2
Europe	4.6
Other	3.1

Credit breakdown

Rating	Portfolio	Benchmark
AAA	6.5	21.8
AA	20.1	29.8
A	9.2	30.5
BBB	23.7	13.8
BB	18.7	2.4
B	16.2	1.3
CCC & Below	2.6	0.4
NR	2.9	-

Attribution



Commentary

The high yield market returned +7.1% in the fourth quarter of 2023, ending the year on an extremely strong note that drove the FY 2023 return to +13.5%. Although the markets climbed the proverbial wall of worry through the better part of the year, every quarter had a positive performance and resulted in the strongest annual return for high yield since 2019 (+14.4%). The hiking cycle theme that nearly caused a banking crisis and heightened recessionary fears is likely in the rear-view mirror as the Fed appears to have pivoted during the quarter. As a result, 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 pivot likely in place on the back of inflation falling close to the Fed target and the unemployment rate still near cycle lows, the economic backdrop was supportive of strong risk sentiment and the resulting performance in the quarter. High yield spreads tightened from 403 bps to 339 bps on the back of that strong risk sentiment that drove large flows into the asset class to the benefit of the entire ratings spectrum: BB +7.3%, B +6.8% and CCC +6.6%. From a sector perspective, Media, Retail, and REIT's were the top performers, and underperforming sectors were Paper & Packaging, Transportation, and Energy as the price of oil fell during the quarter.

The current high yield market spread of 339 bps is pricing in the strong current economic backdrop and a soft landing as a result of the expected rate cuts in 2024. If those rate cuts don't materialize in the timing and magnitude that's currently priced in, spreads would likely widen due to the impact of "higher for longer" that would weigh on the economy and potentially result in a hard landing scenario. With that being said, the yield-to-maturity of 7.69% for the high yield market does look attractive relative to the yields that were available to investors before the 2022 rate hiking cycle began and for the better part of the last decade. With the Fed likely to cut rates in 2024 to orchestrate the soft landing, the total return opportunity remains compelling in high yield with downside limited by the higher yields and coupons that provide buffer from losses.

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 7.69%, rewarding investors willing to take the extra credit risk at this point in the cycle. From a spread perspective, current levels provide a limited but likely adequate buffer over treasury yields in a soft-landing scenario despite the tightening that we saw in 2023. As a team, our preference is in the higher quality spectrum of the high yield market and are positioned accordingly with a growing weighting to the BB-rated category year over year. We're also finding attractive opportunities in other areas of the fixed income market that we feel may offer attractive risk-return characteristic and diversification opportunities for our mandates such as; Private Credit, the US Cannabis debt market, and the Hybrid/LRCN markets. We do expect that credit selection will grow in importance through the year and an increased focus on corporate earnings and fundamentals at these tighter spread levels and end of cycle conditions. Given the uncertainties that continue to loom over the market for; geopolitical risks, inflation still running above target, the lagged impact of the aggressive Fed rate hiking cycle, and the uncertainty if the economy will achieve the soft-landing, we do expect to see higher levels of volatility that we hope to be able to capitalize on in our mandates.

Contributors:

- Global Sovereign and EM (Germany, South Africa, Brazil)
- Overweight IG Corporate bond risk (including Hybrid, LRCN)
- Underweight US Corporate bond risk
- Overweight to Technology and Utilities sectors

Detractors:

- Short duration positions (JGB US)
- Underweight Federal Bonds
- Put Protection hedging
- Idiosyncratic CCC situations
- Overweight to China Property bonds
- Overweight to Telecom and Cannabis sectors

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