MACKENZIE Investments

Mackenzie Canadian Short Term Income Fund

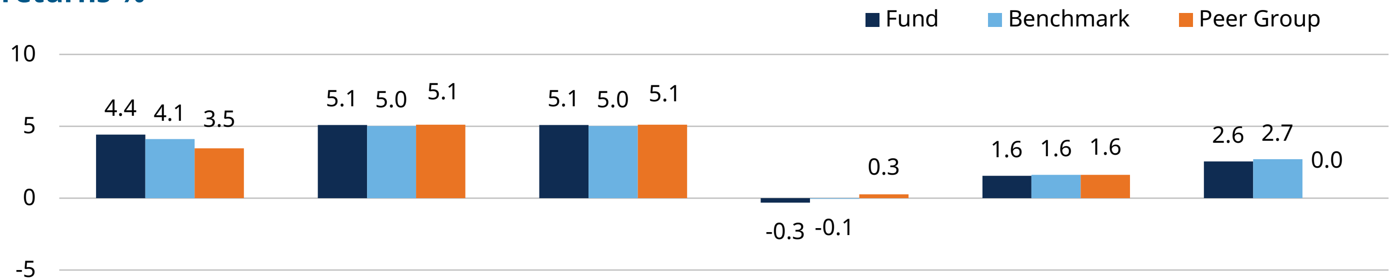
Fund snapshot

Inception date	11/24/2006
AUM (millions in CAD)	266.7
Management fee	0.4%
MER	0.6%
Benchmark	FTSE Canada Short Term Bond
CIFSC category	Canadian Short Term Fixed Income
Risk rating	Low
Lead portfolio manager	Steve Locke
Investment exp. since	1995

Strategy overview

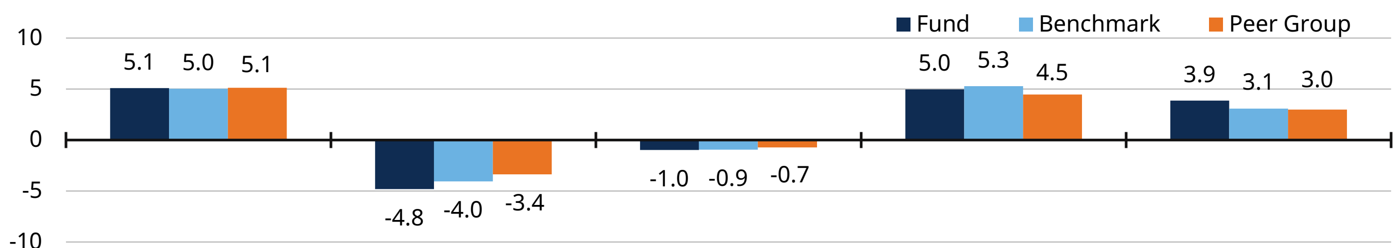
- An actively managed, flexible short duration fixed income strategy.
- The objective is to generate income consistent with a short duration mandate by utilizing an expanded universe of high-quality, shorter-term securities including investment grade Canadian and foreign government and corporate bonds, residential first mortgages, and non-investment grade securities.
- The Fund maintains an overall credit rating of BBB or higher. This Fund can invest up to 30% in foreign securities and foreign currencies can be hedged back into Canadian dollars

Trailing returns %



	3 Mth	1 Yr	3 Yr	5 Yr	10 Yr	SI
Excess return	0.3	0.1	-0.3	-0.1	0.1	-
% of peers beaten	78	50	28	51	74	-

Calendar returns %



	2023	2022	2021	2020	2019
Excess return	0.1	-0.8	-0.1	-0.3	0.8
% of peers beaten	50	18	52	52	73

Portfolio characteristics

Ratios & metrics	Portfolio	Benchmark
Fund Avg Yield	4.5	4.1
Fund Mod. Dur	2.5	2.6
Fund Rating	A	AA
Average Price	98.4	97.7
Average Coupon	3.6	3.0
Average Term	3.2	2.8

Asset allocation

Asset	Portfolio	Benchmark
Corporate	67.6	35.2
Provincial + Municipal	14.9	18.9
Federal	17.4	45.1
Cash & Equival. + WC	0.1	-

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	2.1	2.88
Sharpe Ratio	-1.7	-0.8
Tracking Error	1.7	-
Information Ratio	-0.8	-
Alpha	-2.2	-
Beta	0.6	-
Upside Capture (%)	45.7	-
Downside Capture (%)	79.4	-

Geographic allocation

Region	Weight
North America	98.2
LATAM & Caribbean	0.1
Europe	0.6
Other	1.1

Maturity breakdown

Bucket	Portfolio	Benchmark
0 to 3	38.9	55.9
3 to 7	60.7	44.1
7 to 12	0.1	-
12+	0.3	-

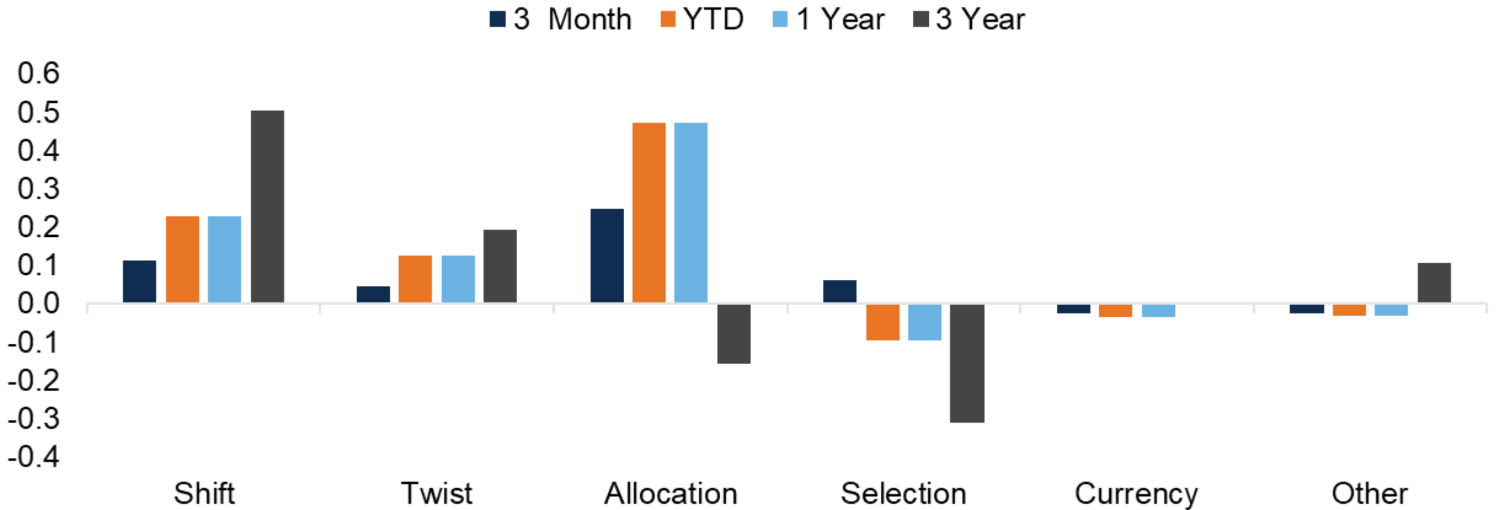
Currency exposure

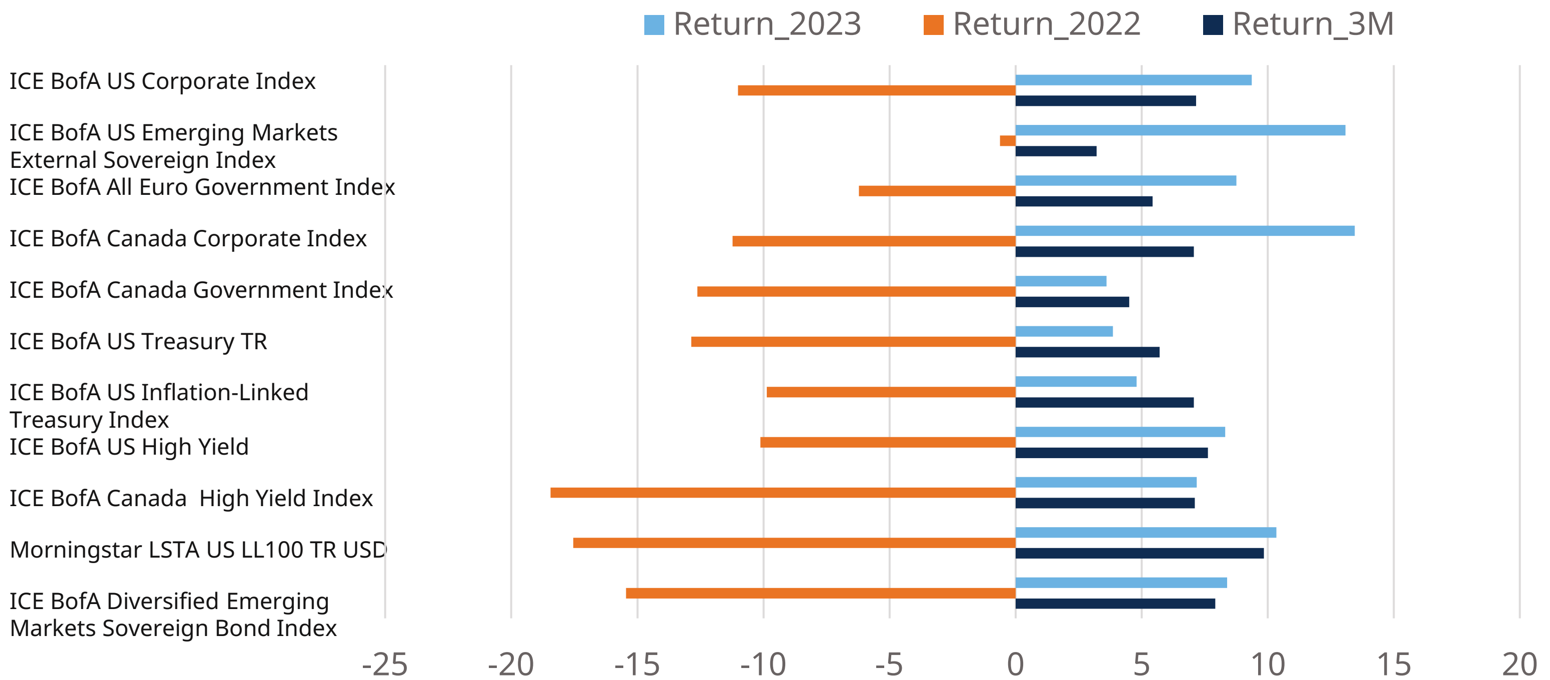
Currency	Gross	Net
CAD	96.1	99.9
USD	3.8	0.0
Other	0.1	0.1

Credit breakdown

Rating	Portfolio	Benchmark
AAA	17.6	49.0
AA	22.8	19.7
A	33.0	18.8
BBB	24.7	12.5
BB	1.2	-
B	0.3	-
CCC & Below	0.11	-
NR	0.23	-

Attribution





Commentary

The fourth quarter of 2023 was marked by a significant reversal of the rising-yield trend that had defined 2024 up to that point. In Canada we entered the fourth quarter with yields at their cycle highs across the curve. The reversal was immediate and precipitous. Before the end of the quarter all sectors – 2s, 5s, 10s and 30s – had rallied more than 100bps and retraced to levels seen back in January 2023. The impact on the shape of the curve was negligible but it remains heavily inverted. 2s30s finished the quarter – and the year – at -86bps – a level it has traded at in seven of the twelve calendar months. The price action was mirrored in the US albeit with a slight delay. US yields peaked in the middle of October before rallying a similar magnitude.

At first blush it would appear then that the story was the same across the two economies, but while there are similarities – inflation has come down, employment pictures are softening – there are also nuanced differences. Economic data has weakened significantly more in Canada than in the US. US GDP for example came in at an impressive 5%. By contrast job gains in Canada – while positive – no longer appear to be keeping pace with the level of immigration. It was this weakening data that drove the reversal in Canadian yields in the short end and an outsized demand for longer end bonds (in the face of limited supply) that supported prices in that sector. In the US, concerns about supply had driven both 10y and 30y UST above 5%, with much concern around the quarterly refunding announcement. When the anticipated bad news failed to surface, bonds rallied in relief.

Towards the end of the quarter there was a distinct change in tome from both the US Federal Reserve and the Bank of Canada. Both now acknowledge that rates are restrictive – implying rates can be cut just to get back to a neutral stance rather than to be accommodative. Bank of Canada Governor Macklem went as far as acknowledging that rate cuts are likely in 2024. This latest – and most significant – pivot, caused more easing to be priced into policy curves on both sides of the border.

Naturally the huge rally in fixed income was a positive contributor. The FTSE Canada Universe Bond Index posted a huge positive total return of 8.27% for the quarter and the US Investment Grade Bond Index added 8.15%. Lower yields – and the prospect for lower policy rates in 2024 – was positive for risk assets. Equities reached new highs for the year and credit spreads tightened. Credit spreads in the US have significantly outperformed credit spreads on Canadian corporate bonds and look to be almost fully pricing in a 'Goldilocks' scenario – lower yields and no recession. As such Canadian Corporate risk looks more attractive at these levels.

By the end of Q4 both the US Federal Reserve and the Bank of Canada had been 'on hold' for close to six months. Both have retained the option to raise rates further, if necessary, but this now looks extremely unlikely and something extraordinary would have to happen on the inflation front for this to be realized. The first question, then, is how long they can / will wait before reducing rates. Our guess it not long. As inflation continues to fall, the 'real' policy rate rises and becomes more restrictive. Both central banks are likely to want to correct this.

As such, and despite the fall in yields in Q4, some of our previous investment preferences remain in place. 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. With fragilities seemingly on the horizon in the Canadian market, led by the growing strains on consumers caused by mortgage resets, there is, in addition to the elevated yield, the potential for significant price appreciation of these securities. The longer end of the Canadian market is less convincing. 30y Canadian bonds yield 100bps less than their US equivalents, making the US more attractive. Should the two central banks indeed pivot away somewhat from their laser focus on inflation, this could have a positive effect on inflation linked-bonds relative to nominal bonds.

Decreasing yields are often positive for credit spreads as they are a tailwind to corporates as funding costs fall and consumers regain some purchasing power. However, we remain cautious, as significant rate cuts due to an economy falling into a deep recession would have the opposite implications.

Contributors:

-Overweight IG Corporate bond risk
-Overweight HY Corporate bond risk
-Overweight USD duration

Detractors:
-Underweight CAD government bonds
-Underweight Provincial bond risk
-Short JPY duration
-Open USD currency position

Commissions, trailing commissions, management fees, and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns as of December 31, 2023 including changes in share value and reinvestment of all distributions and does not take into account sales, redemption, distribution, or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Index performance does not include the impact of fees, commissions, and expenses that would be payable by investors in the investment products that seek to track an index.

This document may contain forward-looking information which reflect our or third party current expectations or forecasts of future events. Forward-looking information is inherently subject to, among other things, risks, uncertainties and assumptions that could cause actual results to differ materially from those expressed herein. These risks, uncertainties and assumptions include, without limitation, general economic, political and market factors, interest and foreign exchange rates, the volatility of equity and capital markets, business competition, technological change, changes in government regulations, changes in tax laws, unexpected judicial or regulatory proceedings and catastrophic events. Please consider these and other factors carefully and not place undue reliance on forward-looking information. The forward-looking information contained herein is current only as of December 31, 2023. There should be no expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

The content of this commentary (including facts, views, opinions, recommendations, descriptions of or references to, products or securities) is not to be used or construed as investment advice, as an offer to sell or the solicitation of an offer to buy, or an endorsement, recommendation or sponsorship of any entity or security cited. Although we endeavour to ensure its accuracy and completeness, we assume no responsibility for any reliance upon it.

Percentile rankings are from Morningstar Research Inc., an independent research firm, based on the Canada Fund Canadian Short Term Fixed Income category and reflect the performance of the Mackenzie Canadian Short Term Income Fund for the 3-month, 1-, 3-, 5- and 10-year periods as of December 31, 2023 . 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 Canadian Short Term Fixed Income category funds for Mackenzie Canadian Short Term Income Fund for each period are as follows: one year - 235 ; three years - 215 ; five years - 203 ; ten years - 134 .

© 2023 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

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.

All information is historical and not indicative of future results. Current performance may be lower or higher than the quoted past performance, which cannot guarantee results. Share price, principal value, and return will vary, and you may have a gain or a loss when you sell your shares. Performance assumes reinvestment of distributions and does not account for taxes. Performance may not reflect any expense limitation or subsidies currently in effect. Short-term trading fees may apply. To obtain the most recent month-end performance, visit Morningstar.com.

This material is for informational and educational purposes only. It is not a recommendation of any specific investment product, strategy, or decision, and is not intended to suggest taking or refraining from any course of action. It is not intended to address the needs, circumstances, and objectives of any specific investor. Mackenzie Investments, which earns fees when clients select its products and services, is not offering impartial advice in a fiduciary capacity in providing this sales and marketing material. This information is not meant as tax or legal advice. Investors should consult a professional advisor before making investment and financial decisions and for more information on tax rules and other laws, which are complex and subject to change.

© 2024 Mackenzie Investments. All rights reserved.