

Mackenzie Strategic Bond Fund

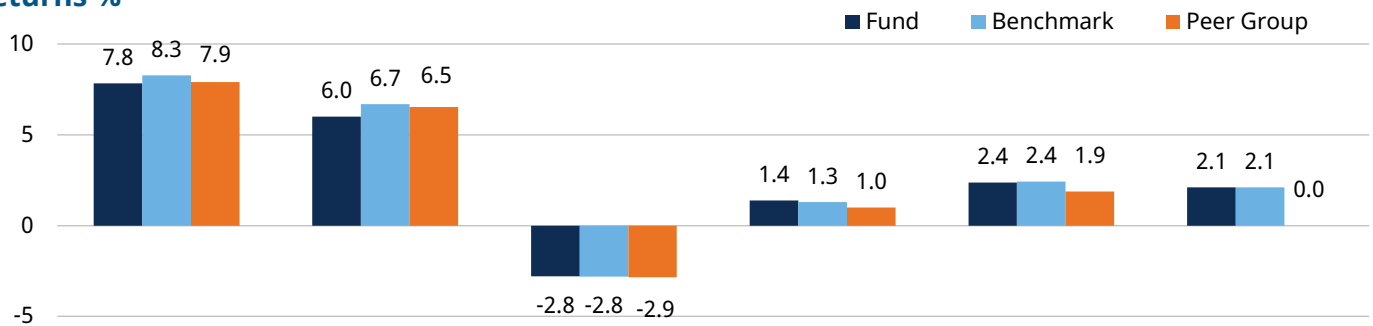
Fund snapshot

Inception date	05/15/2013
AUM (millions in CAD)	392.0
Management fee	0.45%
MER	0.66%
Benchmark	FTSE Canada Universe Bond
CIFSC category	Canadian Fixed Income
Risk rating	Low
Lead portfolio manager	Steve Locke
Investment exp. since	1995

Strategy overview

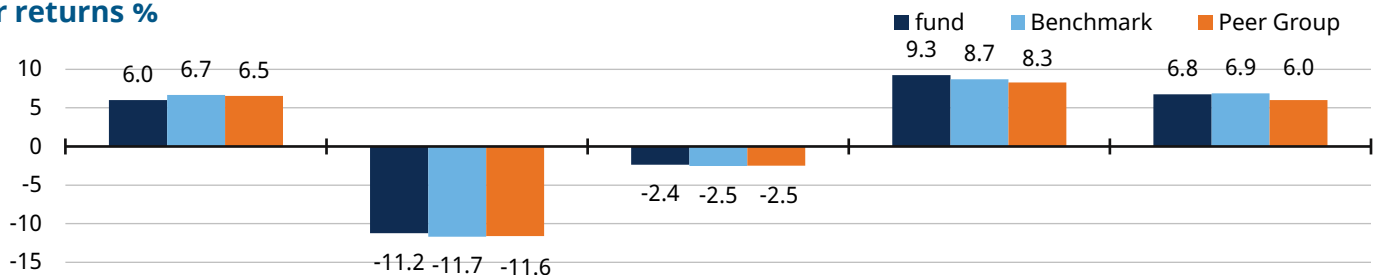
- An actively managed, flexible core plus fixed income strategy.
- Generally, maintains a strategic overweight to corporate credit, and has the flexibility to invest in a broad range of asset classes, including up to 25% in non-investment grade instruments, allowing the managers to take advantage of relative valuation opportunities and to manage risk through the economic cycle.
- The objective is to generate a higher total return than the benchmark while maintaining the risk profile of a core fixed income strategy.

Trailing returns %



	3 Mth	1 Yr	3 Yr	5 Yr	10 Yr	SI
Excess return	-0.4	-0.7	0.0	0.1	0.0	0.0
% of peers beaten	28	20	64	77	86	-

Calendar returns %



	2023	2022	2021	2020	2019
Excess return	-0.7	0.5	0.2	0.6	-0.1
% of peers beaten	20	75	67	75	63

Portfolio characteristics

Ratios & metrics	Portfolio	Benchmark
Fund Avg Yield	4.7	3.9
Fund Mod. Dur	7.0	7.4
Fund Rating	A	AA
Average Price	96.1	96.5
Average Coupon	3.7	3.1
Average Term	9.8	9.3

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	5.5	7.2
Sharpe Ratio	-1.1	-0.7
Tracking Error	3.9	-
Information Ratio	-0.2	-
Alpha	-2.5	-
Beta	0.6	-
Upside Capture (%)	59.6	-
Downside Capture (%)	75.7	-

Maturity breakdown

Bucket	Portfolio	Benchmark
0 to 3	25.1	23.7
3 to 7	28.4	30.3
7 to 12	25.4	19.6
12+	21.1	26.5

Currency exposure

Currency	Gross	Net
CAD	85.3	99.2
USD	14.0	0.6
Other	0.7	0.2

Asset allocation

Asset	Portfolio	Benchmark
Corporate	56.5	28.9
Provincial + Municipal	24.6	33.4
Federal	15.5	37.2
Cash & Equival. + WC	3.4	-

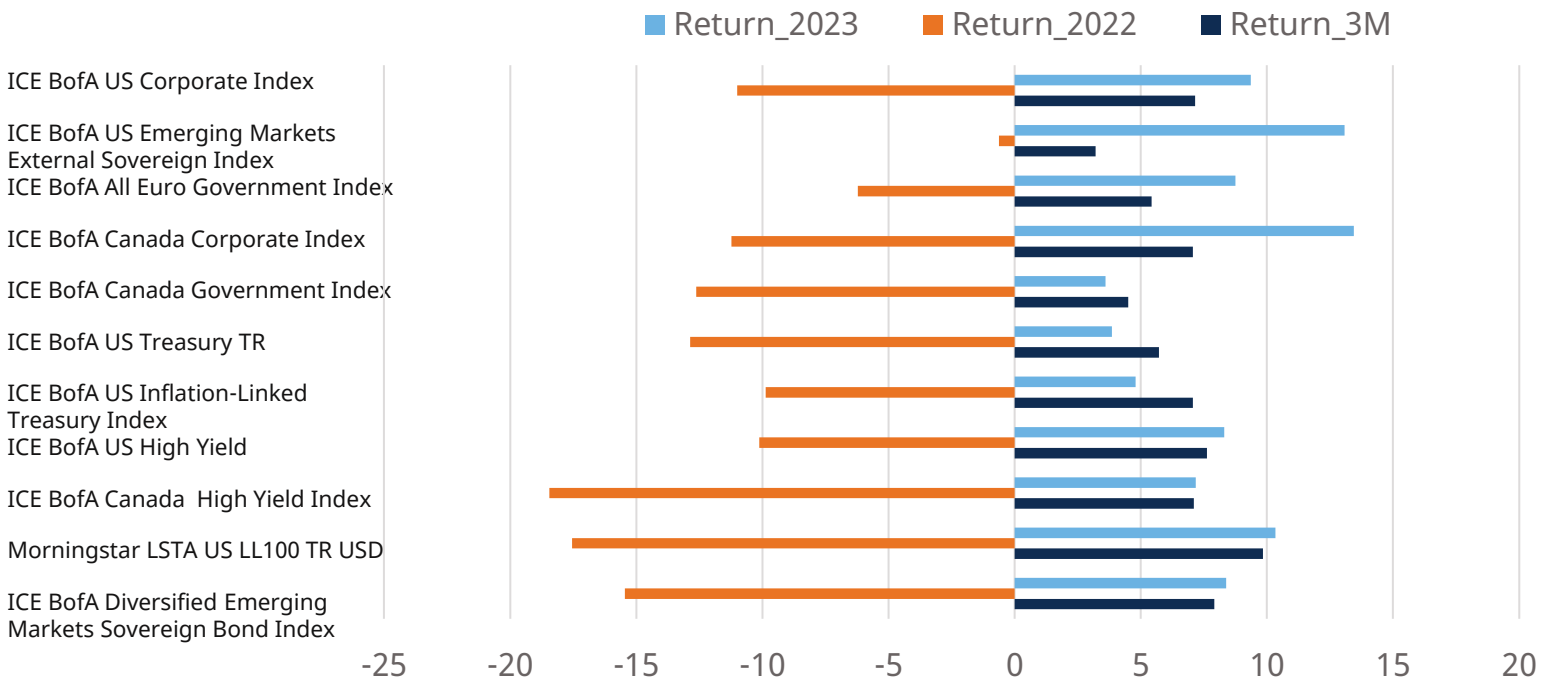
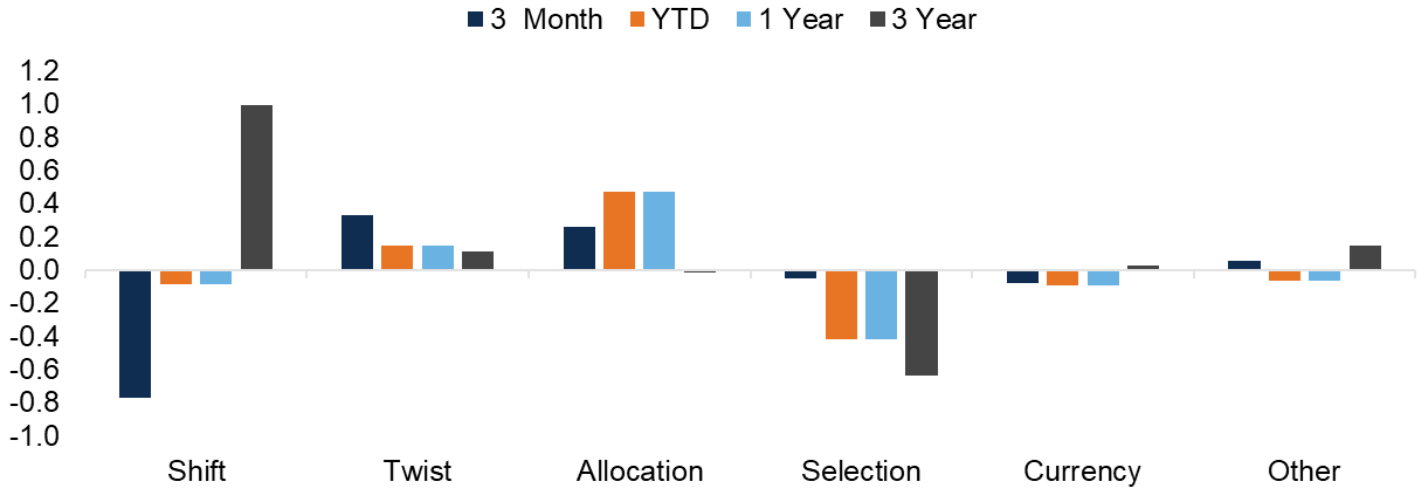
Geographic allocation

Region	Weight
North America	96.3
LATAM & Caribbean	0.7
Europe	0.8
Other	2.2

Credit breakdown

Rating	Portfolio	Benchmark
AAA	8.6	40.2
AA	41.5	32.7
A	19.2	15.6
BBB	23.0	10.8
BB	5.1	-
B	2.0	-
CCC & Below	0.2	-
NR	0.3	-

Attribution



Commentary

The fourth quarter of 2023 was marked by a significant reversal of the rising-yield trend that had defined 2023 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 tone 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.

Commentary

Contributors:

- Overweight USD duration
- Overweight EM duration
- Steepening bias (U/W 30y sector)
- Overweight IG Corporate bond risk
- Overweight HY Corporate bond risk

Detractors:

- Underweight CAD duration
- Short JPY duration
- Underweight Provincial bond risk
- Inflation-linked bond exposure
- Open USD currency position

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Percentile rankings are from Morningstar Research Inc., an independent research firm, based on the Canada Fund Canadian Fixed Income category and reflect the performance of the Mackenzie Strategic Bond 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 Fixed Income category funds for Mackenzie Strategic Bond Fund for each period are as follows: one year - 516 ; three years - 480 ; five years - 426 ; ten years - 271 .

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