Mackenzie Unconstrained Fixed Income Fund

Fund snapshot

Inception date	12/03/2014
AUM (millions in CAD)	3163.4
Management fee	0.55%
MER	0.77%
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

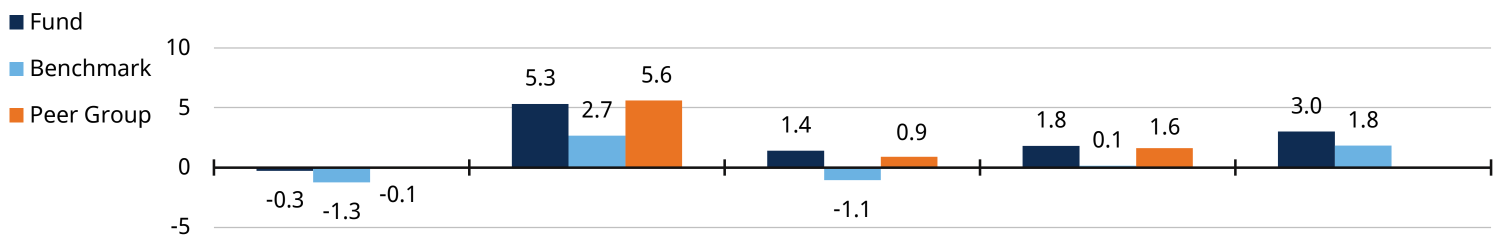
• Seeks a positive total return with low volatility over a market cycle and throughout various economic environments.

• 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).

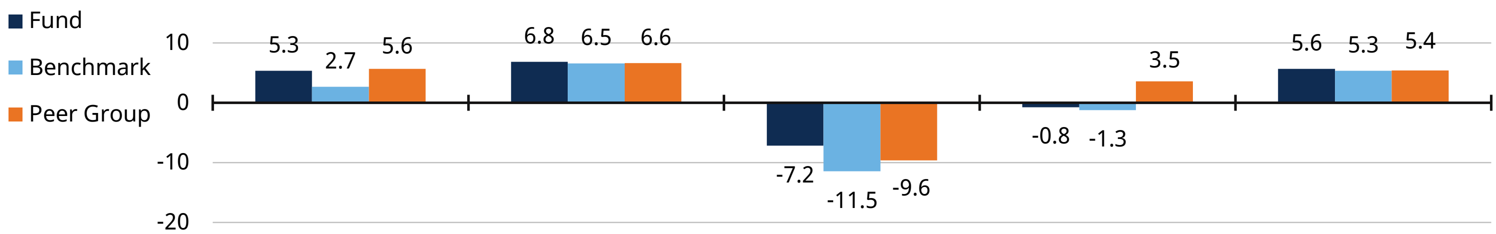
• Uses an "always-on" hedging strategy to manage the downside risk associated with the High Yield bond exposure (riskiest sleeve).

Trailing returns %



	3 Mth	1yr	3Yr	5Yr	SI
Excess return	1.0	2.6	2.5	1.7	1.2
% of peers beaten	60	57	70	62	NA

Calendar returns %



	2024	2023	2022	2021	2020
Excess return	2.6	0.3	4.3	0.5	0.3
% of peers beaten	57	57	74	10	71

Portfolio characteristics

Ratios & metrics	Portfolio	Benchmark
Fund Avg Yield	6.7	3.9
Fund Mod. Dur	5.1	6.3
Fund Rating	BBB	AA
Average Price	93.4	106.4
Average Coupon	5.3	3.0
Average Term	10.1	-

Asset allocation

Asset	Portfolio	Benchmark
Investment Grade Corporate	31.9	24.4
Government Bonds	8.1	65.8
Emerging Markets	7.8	-
High Yield	28.1	-
Loans	7.7	-
Cash & Equivalent	6.1	-
Other	10.3	9.8

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	5.0	6.0
Sharpe Ratio	-0.5	-0.8
Tracking Error	2.6	-
Information Ratio	1.0	-
Alpha	1.3	-
Beta	0.8	-
Upside Capture (%)	92.6	-
Downside Capture (%)	65.9	-

Geographic allocation

Country	Weight
North America	76.9
Europe	7.5
LATAM & Caribbean	3.8
Other	11.8

Maturity breakdown

Bucket	Portfolio	Benchmark
0 to 3	31.6	23.8
3 to 7	38.9	31.5
7 to 15	14.1	19.4
15+	15.4	25.3

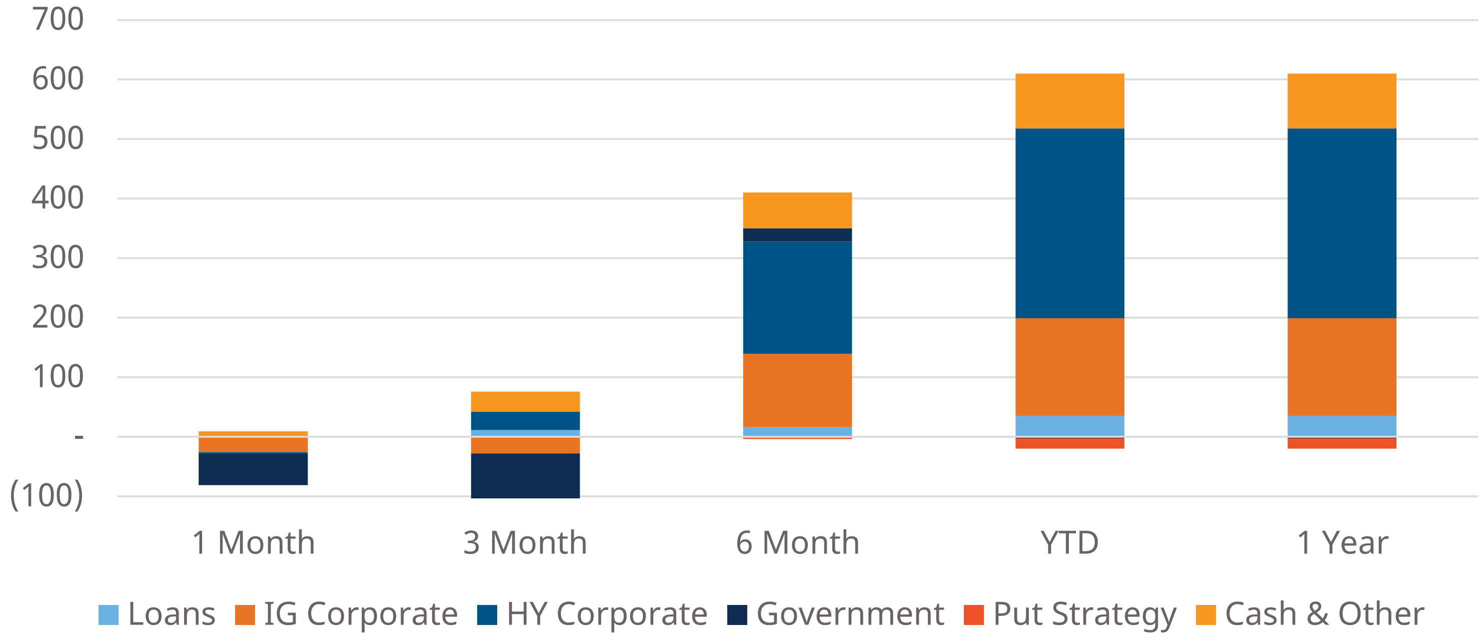
Currency exposure

Currency	Gross	Net
CAD	25.2	91.7
USD	61.6	4.4
Other	13.2	3.9

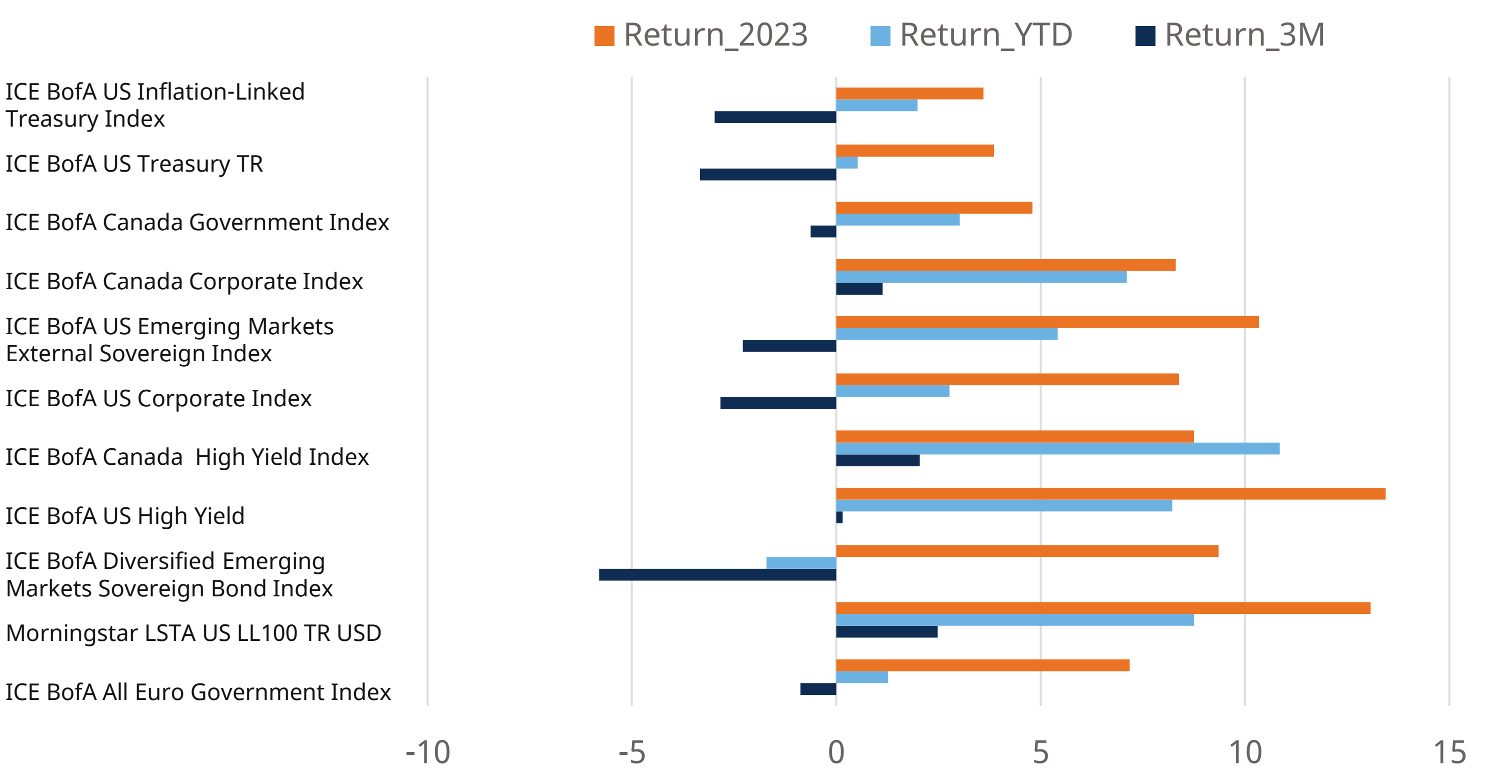
Credit breakdown

Rating	Portfolio	Benchmark
AAA	6.3	21.3
AA	20.1	30.9
A	7.5	30.2
BBB	24.7	13.6
BB	18.9	2.4
B	15.1	1.2
CCC & Below	4.2	0.5
NR	3.2	-

Attribution



Market Overview



Commentary

Market Overview

Global yields, led by US Treasuries, were generally one way higher throughout the fourth quarter, thanks to three key drivers: the increase in term premia, expectations of continuing US economic exceptionalism, and of course, Trump's election and the so-called "Trump Trades" that ensued. As a result, US 10yr yields were higher by almost 100bp over the quarter, while the 2s-10s curve steepened by 28bp. Longer duration was not overly loved, with the market seeing the risks of US fiscal spending becoming even more unhinged under a Trump administration and the so-called "red sweep."

Exceptional US economic growth – and continued expectations of exceptional growth – meant markets needed to recalibrate yield levels from where they were late-September. Throughout the quarter we saw the final third-quarter, as well as the fourth-quarter, US GDP Forecast Now estimates continue to print almost stubbornly-high, especially versus other global economies. That in turn, also required markets to recalibrate Fed easing expectations for 2025: at the end of September 2024, markets were pricing an end-2025 Fed funds rate of 2.90%; by the end of the fourth quarter, that had risen to 3.90% - about the same relative increase as the 10yr yield over the quarter – with the market becoming ever-more comfortable with the notion the US nominal neutral interest rate was materially higher than circa 3%.

Of course, we would be remised if we did not speak about the impact of Trump's acceleration in the polls and to an even further extent in the betting markets (like Polymarket) in September and October which clearly drove a number of "Trump Trades" including the reflation trade, the bullish equity trade (on the notion of faster nominal GDP, lower taxes and higher corporate earnings), and the long USD trade (repatriation, higher for longer) – just to name a few.

As we turn the page in the early days of the new year and write pre-inauguration, it appears a lot of those themes are poised to drive markets into the first-quarter of 2025 and possibly beyond. Our view for a while would be tariffs, or the threat of imposing tariffs, would lead the policy mantra and that indeed appears to still be the case, along with immigration, and deregulation in both the financial and energy sectors. But the rise in yields from September is now getting to a point where any further climb higher could prove to be a hinderance on valuations for other asset classes, particularly higher beta assets, and the risk of a cross-asset correction looks more likely now than it did three months ago. We have long expected cross-asset volatility to increase, and we are now at the point in the cycle where not only has that happened, but also further increases are more likely.

It goes without saying that Canadian assets are clearly at risk under the new Trump administration with talk of a "51st state" and "economic warfare" to achieve it. Canada's current political situation only amplifies the risk, not necessarily Trudeau in or out as PM, but prorogation of parliament means all legislation – including the $1.3bn border security bill that was cobbled together after Trudeau's visit with Trump in Florida late last year – essentially needs to be tabled again when parliament reconvenes. To us, this is a risk for tariffs getting threatened or implemented given the hawks advising Trump, and there is likely nothing to be done on the Canadian border security front until late-March - at the earliest with parliament out.

Even a 10% across-the-board tariffs on all Canadian goods imported into the US would have a significant impact on the Canadian economy, likely at least ~1% of real GDP during the first year. A 20-25% tariff implementation would clearly be recessionary in the best of times – and the Canadian economy is far from currently operating in the best of times. Market pricing for the Bank of Canada at 60bp for 2025 at time of writing continues to look underpriced – as it has for a long while – and we would not be surprised if we saw the Bank's policy rate hit 2.25% or lower, or more than 100bp from current pricing.

Unconstrained Fund

The US high yield bond market returned 0.16% in the fourth quarter of 2024, bringing the full year total return to 8.20%. The story of the year was CCCs which, after a rough start of 2024, returned another 2.45% in the fourth quarter bringing their full year total return to 18.18%, driven largely by M&A activity in the Cable and Telecom sectors. The new issue market saw a massive uptick in 2024 due to this robust backdrop for high yield, with gross primary activity up 64% year-over-year from $176.1 billion in 2023 to $288.2 billion in 2024, of which $48.5 billion was in the fourth quarter.

The current high yield market spread of 292 bps is pricing in expectations of a continued rate cutting cycle and the forward-looking excitement of a business-friendly environment under Trump's second administration. The continuation of the rate cutting cycle that delivered 100 bps of cuts in 2024 is now in question for 2025, and if those rate cuts don't materialize, spreads may widen (and yields rise) due to the impact of "higher for longer" that could weigh on the economy and potentially result in a weak economic backdrop. With that being said, the yield-to-maturity of 7.47% for the high yield market does look attractive relative to historical yields we've seen for the better part of the last decade, although still lower than other areas of leveraged credit such as leveraged loans and private credit. The total return opportunity thus remains compelling for high yield from a carry perspective under the pro-growth environment we expect to be in place for the next few years.

Commentary

Unconstrained

Contributors:
-Overweight HYBRID/LRCN
-Overweight leveraged loans
-Overweight high yield bond Risk
-Overweight investment grade corporate bond risk
-Overweight private credit

Detractors:
-Duration risk positioning (US, Canada, China, Brazil)
-Put protection hedging
-Currency exposure

Closing Commentary

Politics remain front and center with the new US administration taking power in late January and threatening to implement 25% tariffs. Any tariff would of course be problematic for Canada. Retaliatory action would be inflationary and any support by the Bank of Canada via increased rate cuts would weaken the currency and also be inflationary. The path of longer end rates remains especially uncertain. 30y Canadian yields are now 150bps lower than 30y US yields. Any increase in inflation would make the sector relatively unattractive to own, although all yields usually trade lower during a cutting cycle. It is unclear how attractive investing in Canada would be if it is in the midst of a prolonged trade war with its biggest trading partner.

An additional effect of tariffs could be on Canadian credit spreads. Credit remains well bid although marginally off the tights. At current valuation, we consider the corporate bond market expensive, although the current positive fund flows and higher yields may lend support to prolong this richness a little longer. Given this and until there is more clarity on the geopolitical situation between Canada and the US, we see no reason to increase credit holdings and would look to improve credit quality and liquidity.

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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 December 31, 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 - 280; three years - 265; five years - 235; ten years - 82.

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