

Mackenzie Strategic Bond Fund

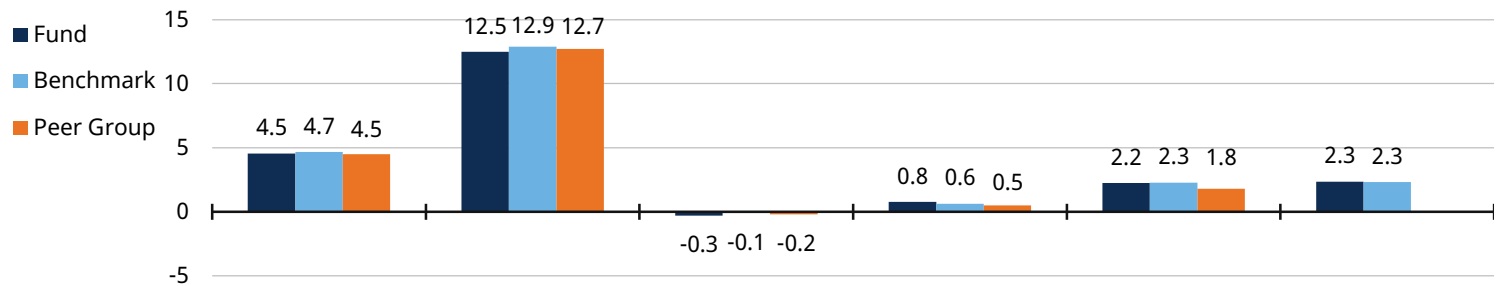
Fund snapshot

| | |
|------------------------|---------------------------|
| Inception date | 05/15/2013 |
| AUM (millions in CAD) | 346.8 |
| Management fee | 0.45% |
| MER | 0.66% |
| Benchmark | FTSE Canada Universe Bond |
| CIFSC category | Canadian Fixed Income |
| Risk rating | Low |
| Lead portfolio manager | Konstantin Boehmer |
| Investment exp. since | 2003 |

Strategy overview

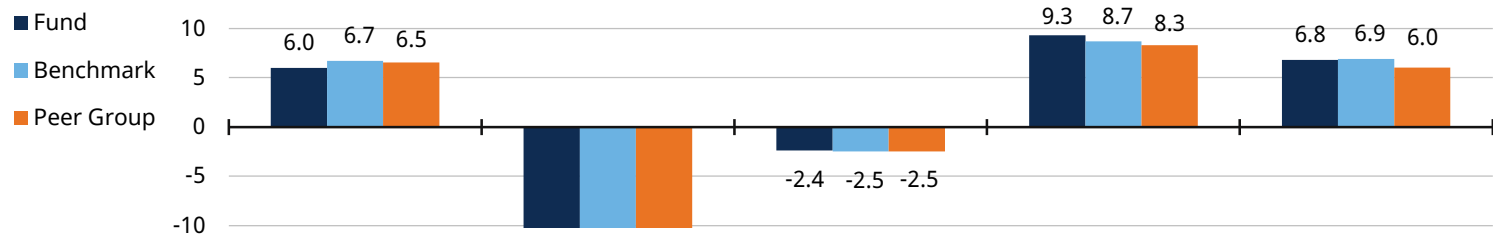
- An actively managed, flexible core plus fixed income strategy.
- Generally, maintains a strategic overweight to corporate credit, and has the flexibility to invest in a broad range of asset classes, including up to 25% in non-investment grade instruments, allowing the managers to take advantage of 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 | 1yr | 3Yr | 5Yr | 10Yr | SI |
|-------------------|-------|------|------|-----|------|-----|
| Excess return | -0.2 | -0.4 | -0.2 | 0.2 | -0.1 | 0.0 |
| % of peers beaten | 47 | 36 | 47 | 73 | 85 | NA |

Calendar returns %



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

Portfolio characteristics

| Ratios & metrics | Portfolio | Benchmark |
|------------------|-----------|-----------|
| Fund Avg Yield | 4.2 | 3.5 |
| Fund Mod. Dur | 6.8 | 7.4 |
| Fund Rating | A | AA |
| Average Price | 99.1 | 98.7 |
| Average Coupon | 4.1 | 3.4 |
| Average Term | 11.0 | - |

Performance metrics (3 year trailing)

| Metrics | Portfolio | Benchmark |
|----------------------|-----------|-----------|
| Standard Dev. | 6.9 | 7.4 |
| Sharpe Ratio | -0.6 | -0.5 |
| Tracking Error | 1.3 | - |
| Information Ratio | -0.2 | - |
| Alpha | -0.5 | - |
| Beta | 0.9 | - |
| Upside Capture (%) | 93.7 | - |
| Downside Capture (%) | 95.7 | - |

Maturity breakdown

| Bucket | Portfolio | Benchmark |
|---------|-----------|-----------|
| 0 to 3 | 27.4 | 22.6 |
| 3 to 7 | 25.8 | 30.6 |
| 7 to 12 | 20.8 | 20.3 |
| 12+ | 26.0 | 26.5 |

Currency exposure

| Currency | Gross | Net |
|----------|-------|------|
| CAD | 84.7 | 98.1 |
| USD | 14.6 | 1.6 |
| Other | 0.7 | 0.3 |

Asset allocation

| Asset | Portfolio | Benchmark |
|------------------------|-----------|-----------|
| Corporate | 57.5 | 29.2 |
| Provincial + Municipal | 22.2 | 32.3 |
| Federal | 16.6 | 38.4 |
| Cash & Equival. + WC | 3.7 | 0.1 |

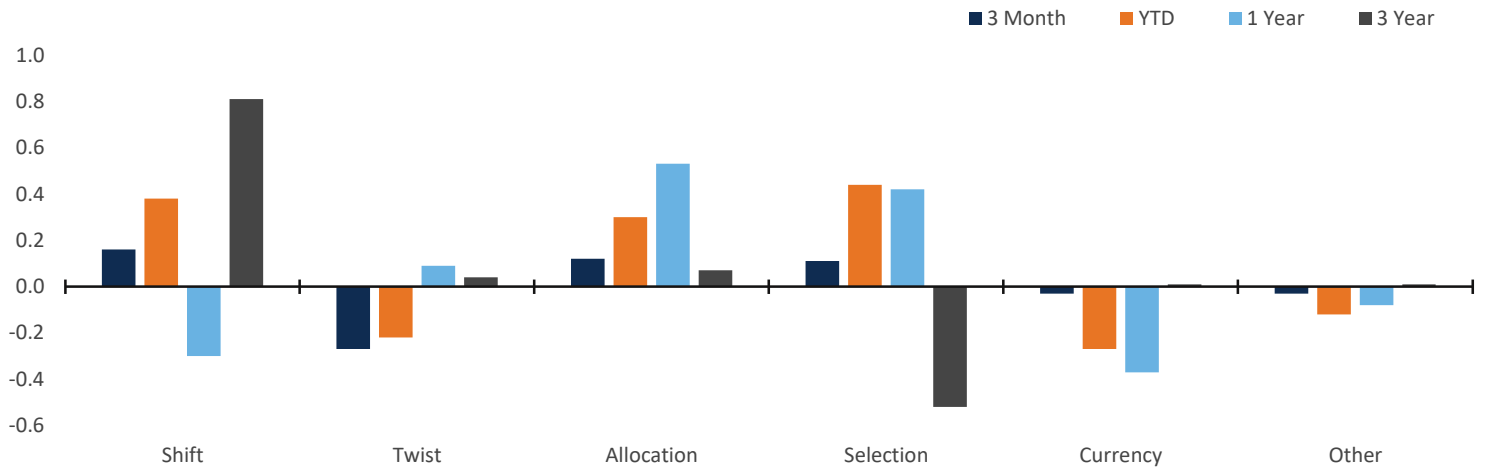
Geographic allocation

| Region | Weight |
|-------------------|--------|
| North America | 96.8 |
| Europe | 0.8 |
| LATAM & Caribbean | 0.5 |
| Other | 1.9 |

Credit breakdown

| Rating | Portfolio | Benchmark |
|-------------|-----------|-----------|
| AAA | 15.9 | 42.1 |
| AA | 29.0 | 32.0 |
| A | 18.3 | 15.1 |
| BBB | 27.6 | 10.9 |
| BB | 6.7 | - |
| B | 1.8 | - |
| CCC & Below | 0.2 | - |
| NR | 0.5 | - |

Attribution



Market Overview



Commentary

Coming into the third quarter, we focused on four key macro themes impacting macro fixed income and cross-asset markets: Biden's ability to recover after June's poor debate performance, uncertainty over the Fed's willingness to cut rates, markets not properly pricing the BoJ's July meeting outcome, and concerns over cross-asset volatility. The volatility event around late July/early August was significant but not unexpected, driven by the BoJ's surprising policy rate hike and the Fed opting not to cut rates on July 31st. Powell's late-August Jackson Hole speech indicated a desire for a larger rate cut in September, leading to a debate about the reasons behind the 50bp cut.

Heading into the fourth quarter, several macro events have caused the market to rethink the narrative. The US east and gulf coast dockworkers strike is on hold, but sticky wages and services prices suggest too much easing was priced into the curve. China is attempting to reflate its economy, and the risk of strife in the Middle East could impact oil production and prices. The US economy appears strong, with Q3 real GDP estimates around 2.5-3.0% and preliminary Q4 estimates not far below. September's booming non-farm payrolls report has solidified the view that lower yields may not be sustainable.

The Canadian fixed income outlook is fascinating as Canadian duration has been bid most of the year, with the expectation that Canada's economy will underperform, and the Bank of Canada will continue to ease rates aggressively. The median Canadian consumer is faring worse than the median US consumer, and this outlook is likely to continue due to a weaker housing market, more indebted households, worse productivity metrics, and a higher structural unemployment rate. The BoC's policy rate typically does not sway far from the Fed's, but we could be entering a period of significant policy differential.

Japan is likely to continue bucking the global easing trend despite the upcoming election. The BoJ is expected to move further towards normalizing rates, with a potential 25bp hike this year. Domestic inflation and output data support this move, and recent commentary from PM Ishiba is seen as election fodder.

China's recent stimulus measures are significant, both from a policy and optics perspective. The stimulus includes cutting short-term policy rates, economic policy announcements, helicopter money to 14% of households, and forward guidance on further rate cuts and fiscal stimulus. This suggests senior leaders are aware of the economic malaise and plan to act. Additional fiscal measures are expected, potentially providing support to the consumer and recalibrating market sentiment, particularly in higher beta risk assets.

The US election is a major upcoming macro event. The race for the White House is too close to call, with Harris' momentum stalling and Trump being a strong finisher. The outcome remains uncertain, with key swing states playing a crucial role. A split Congress is likely, leading to increased Executive Order action from the Oval Office. For markets, a Trump outcome could drive concerns over China, global tariffs, and Fed independence. A Trump win may not translate into a stronger USD and could lead to more right-of-center nominees for policy seats and judges. A balanced Congress could mitigate concerns over fiscal spending and Treasury issuance.

For global macro and fixed income markets, the election outcome will be significant, with potential impacts on sectoral perspectives and policy directions. The Fed's future leadership and policy stance will also be crucial factors to watch.

The third quarter of 2024 was marked by slowing inflation and slowing economic growth in both Canada and the US. In terms of rate moves, US 2y rates fell a whopping 111 bps during the quarter from 4.75% to 3.64%. Yields on 5s, 10s and 30s fell 82bps, 62bps and 44bps respectively implying an aggressive re-steepening of the curve as is typical at the beginning of rate cutting cycles. This price action was largely mirrored in Canada with 2-year yields falling 108bps, 5-year yields falling 78bps, 10s 55bps and 30s 25bps.

The similar shift in yields is not unusual for Canadian and US rates, which are generally highly correlated, but strikes us as perhaps unrealistic in today's environment. Economic data in Canada continues to be considerably weaker than in the more resilient US. The unemployment rate remains historically low in the US but has risen to over 6.5% in Canada. Similarly, inflation continues to surprise to the downside in Canada and is close to the 2% target, whereas in the US, services inflation remains above 4%. Considering this, we think more of a divergence in yields, certainly in the short end of the curve, is warranted, making shorter maturity Canadian bonds more attractive than similar maturity US bonds.

Commentary

Credit spreads remain tight, and we prefer to be invested in high-grade (low beta) Corporate Bonds at the short end of the curve. We prefer the Canadian curve over the US curve in this sector. Continued rate cuts are the base case for Canada and so there is still further potential for significant price appreciation of these securities. We remain negative on the long end of the Canadian market with 30y Canadian bonds offering almost no additional yield to 2-year bonds, but substantially more price risk.

Contributors:

- Overweight US duration
- Overweight IG corporate bonds
- Overweight HY corporate bonds

Detractors:

- Underweight Canadian duration
- Overweight 30y sector
- Open Mexican currency position
- Overweight inflation-linked bonds

Looking ahead to the fourth quarter, expectations for additional rate cuts by the Fed and other central banks should create a supportive environment for spread sectors as well as for government bonds poised to benefit from further policy easing. However, geopolitical risks and the upcoming U.S. elections could introduce increased volatility in fixed income markets.

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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 for the 3-month, 1-, 3-, 5- and 10-year periods as of September 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 Canadian Fixed Income category funds for for each period are as follows: one year - 520 ; three years - 484 ; five years - 433 ; ten years - 277 .

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