Mackenzie Floating Rate Income Fund

Fund snapshot

Inception date	05/09/2013
AUM (millions in CAD)	478.1
Management fee	0.65%
MER	0.89%
Benchmark	Morningstar LSTA Leveraged Loan (Hgd to CAD)
CIFSC category	Floating Rate Loans
Risk rating	Low to Medium
Lead portfolio manager	Konstantin Boehmer
Investment exp. since	2003

Strategy overview

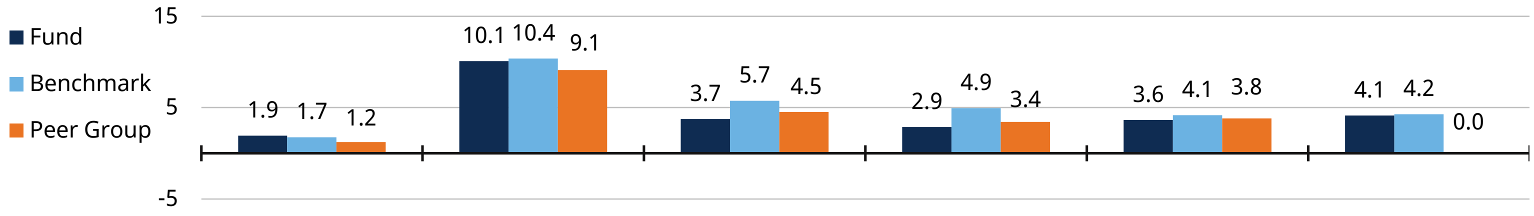
• Aims to deliver attractive risk-adjusted returns by investing primarily in senior secured floating rate loans and seeking credit exposure that is isolated from interest rate risk.

• The investment philosophy focuses on higher quality non-investment grade securities, middle market borrowers and relative value opportunities within a company's capital structure while limiting the downside risk.

• Fundamental credit analysis, portfolio construction, rigorous bottom-up selection and scrutiny in deal structures are the primary sources of alpha generation.

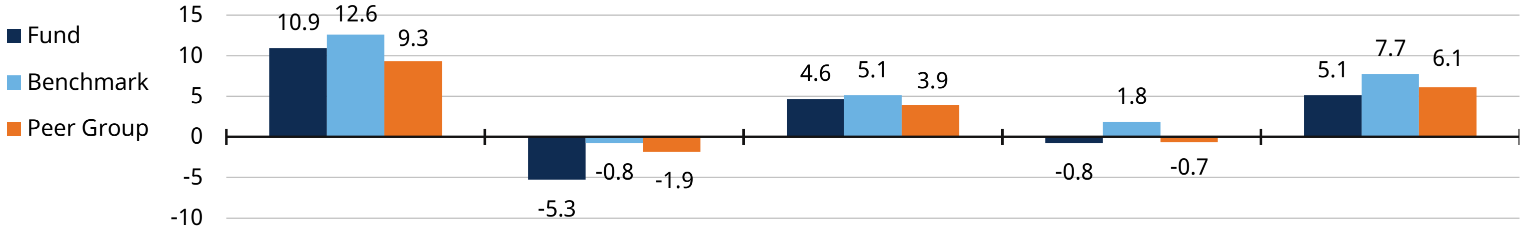
• The neutral currency exposure is 100% hedged back to CAD, although some open currency exposure (generally no more than 10% to 15%) can be used by the managers tactically to mitigate the overall risk in the portfolio.

Trailing returns %



	3 Mth	1yr	3Yr	5Yr	10Yr	SI
Excess return	0.2	-0.3	-2.0	-2.0	-0.5	-0.1
% of peers beaten	85	64	34	29	60	NA

Calendar returns %



	2023	2022	2021	2020	2019
Excess return	-1.6	-4.5	-0.5	-2.6	-2.6
% of peers beaten	67	22	68	50	41

Portfolio characteristics

Ratios & metrics	Portfolio	Benchmark
Fund Avg Yield	9.9	9.0
Fund Mod. Dur	0.4	0.1
Fund Rating	B+	B
Average Price	95.2	136.8
Average Coupon	9.3	9.1
Average Term	4.5	-

Asset allocation

Asset	Portfolio	Benchmark
Investment Grade Corporates/Government	2.5	-
Sovereign and EM	0.1	-
High Yield	7.4	-
Loans	86.2	-
Cash & Equivalent	-0.1	-
Other	3.9	-

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	3.6	3.9
Sharpe Ratio	0.2	0.7
Tracking Error	1.4	-
Information Ratio	-1.5	-
Alpha	-1.7	-
Beta	0.9	-
Upside Capture (%)	77.1	-
Downside Capture (%)	102.7	-

Geographic allocation

Country	Weight
Canada	12.1
US	74.0
Europe	11.4
Other	2.5

Maturity breakdown

Bucket	Portfolio	Benchmark
0 to 3	16.0	-
3 to 7	80.9	-
7 to 12	0.3	-
12+	2.8	-

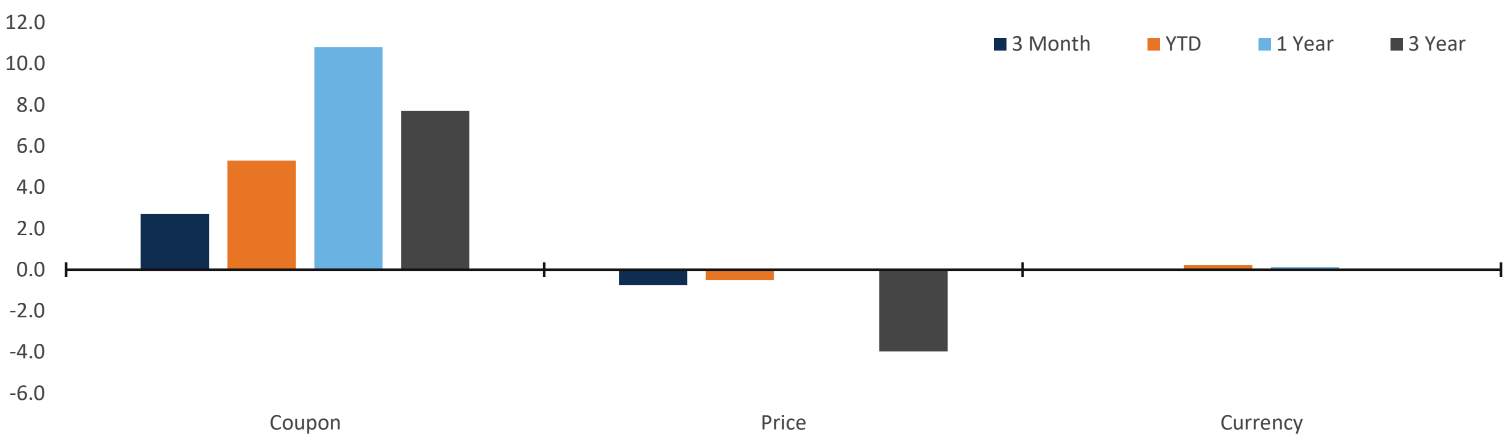
Currency exposure

Currency	Gross	Net
CAD	4.3	92.9
USD	91.1	7.0
Other	4.6	0.1

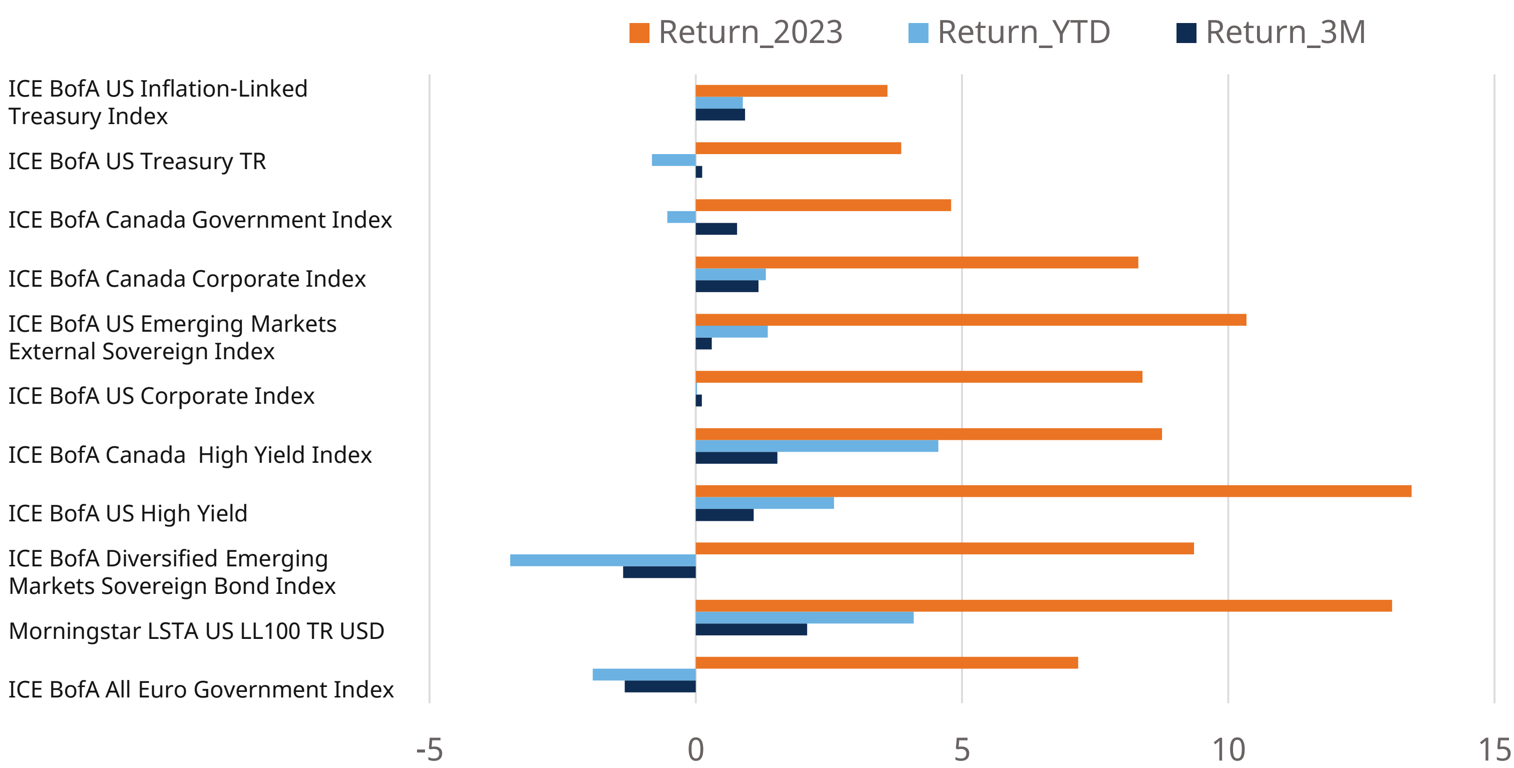
Credit breakdown

Rating	Portfolio	Benchmark
AAA	2.1	-
AA	-0.1	-
A	0.1	-
BBB	3.6	2.9
BB	17.2	27.0
B	59.2	63.7
CCC & Below	8.7	6.1
NR	7.9	0.3

Attribution



Market Overview



Commentary

Markets generally focus on the fundamental outlook, with technicals, flows, positioning, and momentum occasionally taking the lead. However, geopolitics can sometimes spike cross-asset volatility, as seen in 2024, "The Year of the Election." In the second quarter, three electoral surprises in South Africa, India, and Mexico negatively impacted markets, especially emerging markets (EM). Mexico's Morena party's Congressional majority affected Mexican and EM assets. Coupled with the other electoral surprises, this caused increased volatility in EM markets, and while EM volatility has decreased, the risks of higher volatility remain with global VaR models likely having been tweaked.

In France, a snap election followed the EU elections where center and far-right parties performed strongly. French President Macron lost Lower House seats, causing French bonds to widen against German benchmarks from around 45-50bp to over 80bp before retreating into the 60s. The ECB's concern over French fiscal stability highlights significant market recalibration. Despite minor ECB comments, the main policy focus remains on semi-frothy real-time inflation, sticky elevated wages, and the central bank's ability to ease into high inflation rates. We expect the ECB to ease rates in September but doubt a significant easing cycle beyond 50bp, making us cautious on European duration compared to North America.

The Trump-Biden debate at the end of the quarter raised concerns about Republican fiscal policies. Biden's perceived underperformance led to fears of unchecked fiscal spending, debt issuance, and curve steepening, though market reaction was muted. Internal Democratic Party polling showed Trump potentially winning 350 electoral college seats, increasing calls for Biden to step aside. Former House Speaker Pelosi's refusal to endorse Biden added to the speculation. This debate's aftermath saw a concern over a Republican Party "down the ticket" outcome, which could lead to significant fiscal spending and higher yields.

With the upcoming US election, we are aware of risks in sovereign fixed income, especially in the long end of the US curve if fiscal concerns grow. US inflation is slowing, but core PCE needs to drop below 20 basis points (bp) per month for a significant decrease. The April and May data suggest US inflation is back on a slowing track. The Fed requires at least three months of favorable inflation data before considering rate cuts, possibly by the September meeting if the labor market continues to weaken. Indicators like slowing temporary employment, a lower hiring rate, and a lower quits rate suggest the labor market is coming "better into balance."

The Bank of Canada (BoC) has already begun easing, cutting rates by 25bp in June. We expect further cuts in July or September, with the BoC possibly cutting three times before the Fed starts. The BoC is cautious about easing too much to avoid Canadian dollar depreciation and imported inflation. As a small, open market economy, the BoC must manage these risks carefully. We prefer long North American duration positions but favor short-duration positions in Japan. The Bank of Japan (BoJ) may continue its hiking cycle, possibly surprising markets with a 10bp hike in July, justified by domestic data and wage growth. Another federal election in Japan could overlap with BoJ meetings, pushing the BoJ to act sooner.

Overall, elections have significant market consequences, and we remain vigilant about the macro risks and opportunities in the current economic and political landscape. With the US election approaching, fiscal and electoral risks, combined with slowing economic fundamentals, particularly in the US and Canada, create a complex environment for investors. We continue to monitor these developments closely to navigate the evolving landscape effectively.

For Q2 and year-to-date, loans recorded positive performance, outperforming high-yield bonds, high-grade corporates, and treasuries. The outperformance of loans continues to be driven by high coupons, no rate risk, strong technicals, and decent fundamentals. Technicals in the loan market were strong with little new net supply, strong positive retail flows, and robust CLO formation. Q2's $55 billion in new US CLO formation brought the year-to-date total to $102 billion from 215 deals, a record for a six-month period.

Loans finished Q2 with an average price of 96.6, YTM of 9.77%, and a spread of 430 bps. By the end of Q2, 44% of the LSTA Index traded at a price of par or above, down from 62% in May. Loans priced below 80 were 4.4% of the Index in June, unchanged from May. The LTM default rate ticked lower, finishing at 0.92% by principal amount and 1.55% by the number of borrowers.

There is a growing consensus for a delayed soft-landing scenario, which will be constructive for decent returns for loans in H2 2024. Over the past two and a half years, loans have outperformed on a risk-adjusted basis due to high rates providing double-digit coupons and a strong economy. If the macro backdrop does not change to result in significant defaults, loans are likely to continue performing well.

Commentary

Overall, absent significant deterioration in credit fundamentals, loans remain very attractive with nearly 10% yield. Most default candidates are already marked down in price, easing losses from actual defaults when they happen. Macro risks remain relevant, including inflation, geopolitics, and potentially easing consumer and corporate demand. We continue to favor loans given their near 10% yield and below 97 price, with no direct rate risk. If cuts stimulate the economy and fuel risky assets higher, loans will generally follow.

Contributors:

-Open USD exposure

-Overweight single B loans

-Underweight Broadline Retail sector

-Overweight Food Products sector

Detractors:

-Exposure to High Yield bonds

-Overweight non-benchmark loans

Cash drag and small allocation to FRNs

-Overweight CCC loans

-Underweight HealthCare Providers and Oil & Gas

Entering Q3, our duration strategy remains close to neutral. We maintain a positive duration outlook in North America, especially in Canada, where we expect the Bank of Canada to continue lowering its policy rate following the initial cut in June. Conversely, we hold a substantial underweight duration view in regions like Japan and the Eurozone. Our strategic position in long-dated TIPS persists, based on our forecast that US inflation, though possibly past its peak, will stay higher than historical averages for a prolonged period. This strategy underscores our confidence in TIPS' protective advantages in an ongoing inflationary setting. Moreover, we continue to favor long positions in emerging market local rates due to their appealing carry and the potential for lower rates in Latin America

We remain cautiously optimistic on credit but prefer low beta, high quality corporate bonds and are cognizant that the upcoming US election and the uncertainties it might bring – from fiscal concerns to tariffs to the potential for a resurgence of inflation – can quickly alter our base-case outlook.

As we navigate Q3 2024, we anticipate continued rate volatility and remain focused on opportunistic strategies. We will closely monitor global economic indicators and geopolitical developments to balance risk mitigation and seizing opportunities.

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 June 30, 2024 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.

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Standard deviation provides a measure of the variability of returns that have occurred relative to the average return. The higher the standard deviation, the greater is the range of returns that has been experienced. Standard deviation is commonly used as a measure of risk.

Percentile rankings are from Morningstar Research Inc., an independent research firm, based on the Canada Fund Floating Rate Loans category and reflect the performance of the Mackenzie Floating Rate Income Fund for the 3-month, 1-, 3-, 5- and 10-year periods as of June 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 Floating Rate Loans category funds for Mackenzie Floating Rate Income Fund for each period are as follows: one year - 75 ; three years - 74 ; five years - 69 ; ten years - 39 .

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. For more fund information, click the POS Documents link.

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