Mackenzie Income Fund

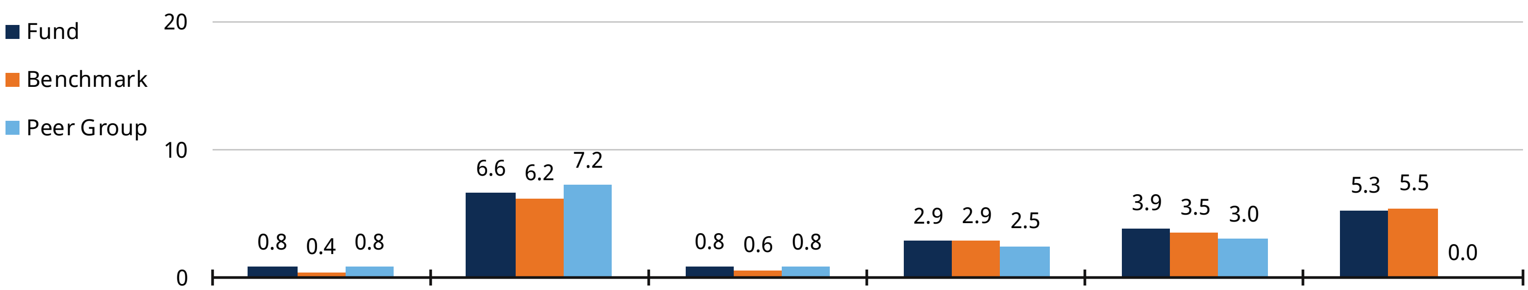
Fund snapshot

Inception date	10/22/2001
AUM (millions in CAD)	1225.6
Management Fee	0.65%
MER	0.89%
Benchmark	70% FTSE Univ + 30% TSX Comp
CIFSC Category	Canadian Fixed Income Balanced
Risk Rating	Low
Lead Portfolio Managers	Felix Wong

Strategy overview

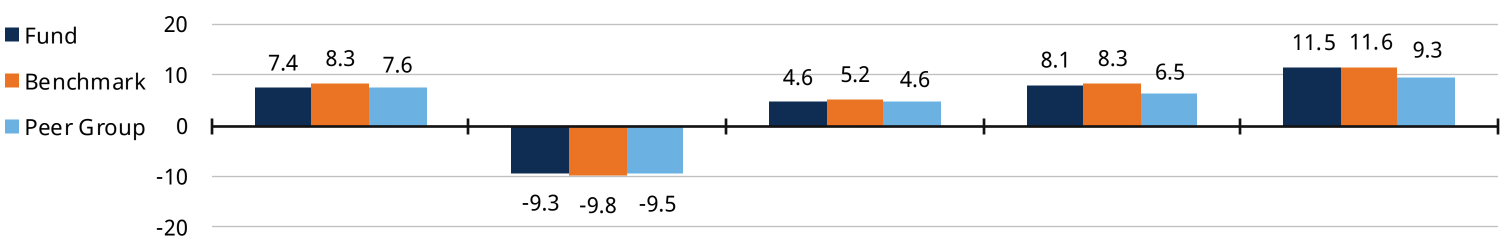
- Conservative asset allocation aims to safeguard capital, provide an income stream and moderate investment growth
- The Fund's fixed income investments are mainly in high quality securities but can include higher yielding, lower quality securities
- Equity portfolio of quality, dividend paying companies in Canada and globally contribute to the Fund's income stream

Trailing returns %



	3 Mth	1 Yr	3 Yr	5Yr	10Yr	SI
Excess return	0.4	0.4	0.2	0.0	0.4	-0.2
% of peers beaten	51	42	56	63	88	NA

Calendar returns %



	2023	2022	2021	2020	2019
Excess return	-0.9	0.5	-0.6	-0.2	-0.1
% of peers beaten	47	60	56	88	88

Portfolio characteristics

	Portfolio	Benchmark
Current yield	4.4	3.5
Equity		
P/E 12m forward	16.2	14.6
Dividend yield	2.8	3.1
Net debt/EBITDA	1.9	2.8
EPS growth (FY E)	20.3	18.0
P/B	2.6	1.9
Fixed income		
Yield to Maturity	5.1	4.2
Duration	7.4	7.2
Average credit quality	A	AA

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	7.4	8.1
Sharpe Ratio	-0.3	-0.3
Tracking Error	1.4	-
Information Ratio	0.2	-
Alpha	0.0	-
Beta	0.9	-
Upside Capture (%)	94.3	-
Downside Capture (%)	91.9	-

Credit breakdown

Rating	Portfolio	Benchmark
A	20.0	15.3
AA	33.2	32.0
AAA	5.7	41.7
B	2.5	-
BB	6.7	-
BBB	30.9	11.0
CCC & Below	0.4	-
NR	0.7	-

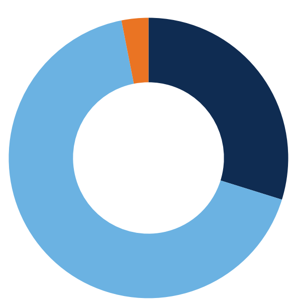
Sector allocation

Sector	Portfolio (%)	Benchmark (%)	Relative weight (%)
Financials	7.3	8.8	-1.5
Energy	3.6	5.4	-1.8
Materials	2.6	3.6	-1.0
Industrials	3.6	4.2	-0.6
Information Technology	4.0	2.5	1.5
Communication Services	1.4	0.9	0.5
Utilities	1.1	1.1	0.0
Consumer Staples	2.0	1.3	0.7
Consumer Discretionary	1.9	1.1	0.8
Real Estate	0.3	0.6	-0.3
Health Care	2.1	0.1	2.0
Other	1.3	0.2	1.1

Country allocation

Country	Weight	Benchmark (%)	Relative weight
Canada	66.9	99.0	-32.1
United States	20.2	0.6	19.5
United Kingdom	2.3	0.0	2.3
Mexico	1.1	0.0	1.1
Germany	1.0	0.0	1.0
France	0.8	0.0	0.8
Other	7.7	0.4	7.3

Asset allocation



	Portfolio (%)
Equity	29.8
Fixed Income	67.1
Cash	3.1

Top 10 equity holdings

Security name	Country	Sector	Weight
Province Of Ontario 4.15% 02-jun-2034	Canada	Government Bond	4.9
Province Of Quebec 4.4% 01-dec-2055	Canada	Government Bond	2.3
5Y Canada Govt Bond (MOD) Sep 24	Other	Government Bond	2.1
Government Of The United States Of America 4.625% 15-may-2054	United States	Government Bond	1.6
Province Of Quebec 4.45% 01-sep-2034	Canada	Government Bond	1.5
10Y Canada Govt Bond (MOD) Sep 24	Other	Government Bond	1.5
Government Of Canada 2.75% 01-dec-2055	Canada	Government Bond	1.5
Province Of Ontario 4.15% 02-dec-2054	Canada	Government Bond	1.2
Province Of Alberta 3.1% 01-jun-2050	Canada	Government Bond	1.1
Royal Bank of Canada	Canada	Financials	1.1

Equity - Attribution

	Sector	Portfolio Average Weight (%)	Portfolio Contribution to Return (%)
Contributors	Information Technology	3.8	0.3
	Consumer Staples	2.1	0.1
	Health Care	2.1	0.1
Detractors	Consumer Discretionary	1.9	-0.1
	Financials	7.3	-0.1
	Industrials	3.6	-0.2

Fixed Income - Attribution

	Sector	Portfolio Average Weight (%)	Portfolio Contribution to Return (%)
Contributors	Corporate	39.8	0.6
	Bank Loan	0.3	0.1

Market Overview

It was a positive period for US and global equities. The economic momentum while slowing continued in the second quarter. Inflation data came in better than expected, offsetting the hotter data seen in the first quarter. Markets had dialed back interest rate cut expectations in the first quarter and continued to expect fewer rate cuts by the FED than they did at the beginning of the year. It remained challenging for fixed income investors as despite softening economic data the FED struck a hawkish tone at its June meeting, however markets started to become more hopeful as the inflation data eased, keeping treasury bond yields mostly rangebound.

The S&P 500 rose 4.3% (5.4% CAD) with the magnificent seven once again contributing to the majority of the returns. Globally, the MSCI ACWI returned 2.9% in USD (3.9% CAD). The Bloomberg Global Aggregate Bond Index (hedged to CAD) was flat and returned -0.1%. The FTSE Canada Universe Bond Index rose 0.9% (total return) as the Bank of Canada began easing monetary policy.

Within credit, high yield bonds outperformed investment-grade corporates with the ICE BofA U.S. High Yield Bond Index (hedged to CAD) returning 0.9%.

In Canada, the S&P/TSX Composite was close to flat -0.5%, driven by weakness in all sectors except materials which benefitted from higher gold prices and consumer staples. The Canadian dollar depreciated against the pound, US dollar and Australian dollar while appreciating against the yen.

Fund Performance

Mackenzie Income Fund (Series F) was up over the quarter and outperformed its blended benchmark index comprised of 30% S&P/TSX Composite Index and 70% FTSE Canada Universe Bond Index. Equities contributed the most to performance, with information technology being the biggest contributor. Fixed income also added, led by corporate bonds.

On a relative basis, the fund outperformed its benchmark. From an equity perspective, positive security selection in information technology contributed the most to relative performance. This was partially offset by negative security selection in the materials sector.

From a fixed income allocation perspective, security selection within corporate bonds in particular the energy sector contributed the most to performance. This was partially offset by curve positioning in government bonds.

Portfolio Activity

Within North American Equities, the portfolio management team implemented several changes in the portfolio through the quarter. These positioning changes were driven by stock specific opportunities with the objective of further optimizing the reward to risk profile of the portfolio for the medium to long term. The stock specific changes resulted in an increased weighting in the financial services and consumer discretionary sectors while weightings in the utilities and consumer staples sectors were reduced. Overall, the changes resulted in two stock holdings being eliminated and one new holding being added. The Canadian portion of the portfolio ended the period with 49 unique stock positions.

Within Global Equity & Income Equities, the portfolio management team implemented several changes in the portfolio through the quarter. These changes were driven by stock specific opportunities with the objective of further optimizing the reward to risk profile and enhancing the portfolio’s fundamental characteristics. Overall, the stock specific changes did not result in significant changes to either the relative sector or geographic weights. The investment strategy remains consistent, focusing on high-quality companies with superior financial metrics and appropriate valuations. Amidst ongoing technological, geopolitical, and macroeconomic risks, the portfolio is well positioned to navigate these uncertainties.

Market Outlook – Fixed Income Team

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.

Market Outlook – Global Equity & Income Team

We believe that in periods of elevated volatility, it is most important to focus on what can be controlled. This involves investing in leading companies that generate high returns on their capital base, have strong cash flow and are in a position to improve their market share in times of uncertainty. In response to higher levels of inflation and market volatility, we continue to focus on companies where the business quality and financial strength enable the portfolio to weather economic downturns better than most. But one can never completely immunize yourself from recessionary risks. A good process is designed to achieve good outcomes but does not guarantee it. However, we feel comfortable with what companies are telling us today and we expect our companies to grow their earnings significantly above the benchmark’s growth rate. The portfolio on average has a higher dividend yield, significantly better ROIC, ROE, operating profits margins and balance sheet strength. While “surprises” have become the norm in stock markets in recent years, the companies we own are well positioned to ride out unpredictability.

Market Outlook – North American Equities Team

The portfolio management team continues to have a cautiously optimistic outlook for Canadian equities. The uncertainty regarding the Canadian economy and the likelihood of a soft-landing scenario persists. However, expectations on the magnitude and duration of any economic slowdown are likely to ease going forward considering the Bank of Canada has started to ease monetary policy. We expect further interest rate cuts from the Bank of Canada over the coming months consistent with the decline in core inflation measures. As we have seen in past cycles, lower interest rates should serve as a catalyst for capital deployment and investment spending which would be positive for economic growth and corporate earnings. In addition, we would expect lower interest rates to provide some relief to Canadian residential mortgage holders which should allow for increased consumer confidence and stronger spending trends.

Previously in the United States, inflation readings had continued to be stronger than expected which pushed back the market's expectations regarding the timing and number of interest rate cuts by the US Federal Reserve this year. However more recently we have seen a further cooling of these inflation measures and a softening of the job market, making it increasingly likely the Fed will embark on a monetary policy easing cycle in the coming months. This is expected to support stronger economic activity and corporate earnings. Importantly, many of the Canadian holdings in the Fund have significant operations in the US and are expected to benefit from these trends.

We continue to monitor macro risks and their potential effect on market volatility and corporate earnings. The outcome of the upcoming US Presidential elections may have policy implications for particular sectors of the economy and for the earnings outlook of companies in our investment universe. We are monitoring each candidate's election platforms and the potential implications, particularly as it relates to the energy sector.

Our outlook remains balanced with an increased likelihood of a soft-landing in Canada rather than an outright recession. Within this framework, we see a favorable long-term reward to risk profile among several stocks in our investment universe, particularly those that are perceived to be more interest rate sensitive. Positioning in the fund continues to focus on high quality names and remains balanced between cyclical and defensive sectors. We remain focused on investing in high quality stocks with a margin of safety to our estimate of fair value.

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 Canadian Fixed Income Balanced category and reflect the performance of the Mackenzie 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 Canadian Fixed Income Balanced category funds for Mackenzie Income Fund for each period are as follows: one year - 370 ; three years - 344 ; five years - 303 ; ten years - 217.

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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