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Mackenzie Aims Direct Lending Fund at Canada Advisor Market

By Tom Stabile   March 31, 2021

A new private credit strategy from **Mackenzie Investments** and Northleaf Capital Partners is aiming to deliver interval fund-style product features to advisors in Canada, potentially expanding accredited investor appetite for alts products and adding more paths for managers to target a $1 trillion retirement savings account market.

The Mackenzie Northleaf Private Credit Fund launched in December and is now available on six of the 10 largest advisor platforms in Canada, offering accredited investors an institutional direct lending strategy in senior secured loans alongside a public securities portfolio. That mix enables the strategy to offer retail investors access to illiquid investments but still offer quarterly redemptions – a format that echoes similar products that have spread across the U.S. advisor market in recent years, particularly interval funds.

Several of the new product's features – quarterly redemptions, monthly investing windows, a $25,000 minimum, and no lockups – are modeled on interval funds and similar offerings, says Michael Schnitman, senior v.p. and head of alternative investments at Mackenzie, a $187 billion manager based in Toronto.

"There are other private credit strategies that are focused on other parts of the capital structure or on short-term secure loans against receivables, bridge loans and receivables factoring, but not in delivering this kind of solution investing in senior secured first lien loans in Canada," he says. "What we're doing is quite unique."

And so far, advisors are responding to the new approach, Schnitman says. "The [advisor] market is ready for it," he says. "We've had great initial receptivity."

The product format could catch on in Canada, but to achieve success, fund managers would need to have the sales team capacity to deliver such strategies into the advisor marketplace, says James Burron, president of the Canadian Association of Alternative Strategies & Assets in Toronto.

"It would have to be by a major company that is able to get broad distribution into the [broker-dealer] network," he says. "Otherwise, it is very difficult to get critical mass."

There aren't many managers that have a mix of distribution breadth and alts investing expertise, but a lot of possible combinations across the Canadian asset management market, Burron says. Larger managers positioned with sales teams include Brookfield Asset Management, ONCAP Management Partners, AGF Investments, Sun Life Financial and Manulife Financial, while alts specialists in the market include Fiera Capital, NorthHaven Capital Management and Atlas Partners.

Mackenzie is planning to deliver additional products in the new format after joining last year with Great-West Lifeco to acquire 49.9% of Northleaf, a private fund manager with $15 billion in assets across private equity, private credit and infrastructure strategies, Schnitman says. While Mackenzie is mainly a traditional asset manager with 16 different investment boutiques, it has around $25 billion in alternative assets after building up its presence in recent years.

Next up will be an infrastructure fund around mid-year and a private equity fund a bit further out, Schnitman says.

The high-net-worth investor market in Canada has slowly begun to embrace more alternatives in recent years, particularly in private credit and real estate strategies, Burron says.

“It’s a matter of creating products that these investors can buy,” he says.

The opportunity set for alts managers overall across the Canadian wealth management market is large, with $3 trillion in assets, says Tom Johnston, a consultant at iCapital Network who heads its client solutions efforts in Canada, in an email. While not all of that is in accredited investor accounts, a very small percentage of Canadian investor portfolios is currently in alts products.

“I’d say [alts] allocations in Canada are growing for the same risk/return, diversification and yield pressures as in other markets, just off a lower current allocation baseline,” he says. “The Canadian wirehouses have traditionally been significantly unallocated to alternatives. We are talking 1%-2%...”

Canadian officials unveiled a liquid alts investment regime in 2019, and Mackenzie was among the first participants, launching an absolute return mutual fund. But under Canadian regulations, delivering illiquid alts to individual investors typically involves limited partnerships or a trust vehicle format that Mackenzie-Northleaf product’s uses.

The main benefit of trust vehicles is that investors can include them in registered retirement savings plans, which allows gains to be tax-free, Burron says. There are $1 trillion in assets in such retirement accounts across Canada, he adds.

The Mackenzie-Northleaf trust offers periodic liquidity to investors by virtue of its public securities holdings that make up about 40% of the portfolio, with the remaining 60% invested in illiquid senior loans to private companies. The liquid portfolio will primarily tap Mackenzie’s high yield and floating rate income exchange-traded funds.

The product would allow Mackenzie to suspend or defer redemptions under specified circumstances, including if total redemption requests topped 5% of the fund's net asset value. Interval funds in the U.S. require fund managers to repurchase up to 5% of the total fund from investors each quarter, and several saw redemption requests exceeding that level last year, as reported.

Next up for Mackenzie and Northleaf is the infrastructure fund, also organized as a trust and investing in assets such as toll roads, parking garages and wind energy farms, Schnitman says. That strategy will have a smaller liquid asset portfolio but a longer redemption cycle, possibly semi-annual or annual, because infrastructure assets tend to be more illiquid, he says. Further out, the managers will partner on a private equity strategy within the trust format, and will use Mackenzie's new private equity replication mutual fund in its liquid asset portfolio, he adds.

Mackenzie is investing heavily in developing education tools for the advisor market to explain both the investment content of the new funds as well as the product format, Schnitman says. His team includes client portfolio managers and product managers who in turn will train Mackenzie's 44 wholesaler teams, which pair up a sales agent in the field with an internal desk specialist and fan out across Canada, he says.

With that coverage, Mackenzie is already reaching 20,000 of the 30,000 advisors on Canada's 10 largest platforms, Schnitman adds. The goal is to train the advisors to in turn explain to their clients the private credit asset class, the new product format and its possible portfolio construction role, he says.

"We're leveraging that same retail sales team that we have for all of our strategies, along with the key accounts and home office coverage teams, to deliver this product to the high-net-worth market," he says.