Mackenzie Canadian Short Term Income Fund

Fund snapshot

Inception date	11/24/2006
AUM (millions in CAD)	256.2
Management fee	0.40%
MER	0.61%
Benchmark	FTSE Canada Short Term Bond
CIFSC category	Canadian Short Term Fixed Income
Fund rating	A
Lead portfolio manager	Konstantin Boehmer
Investment exp. since	2003

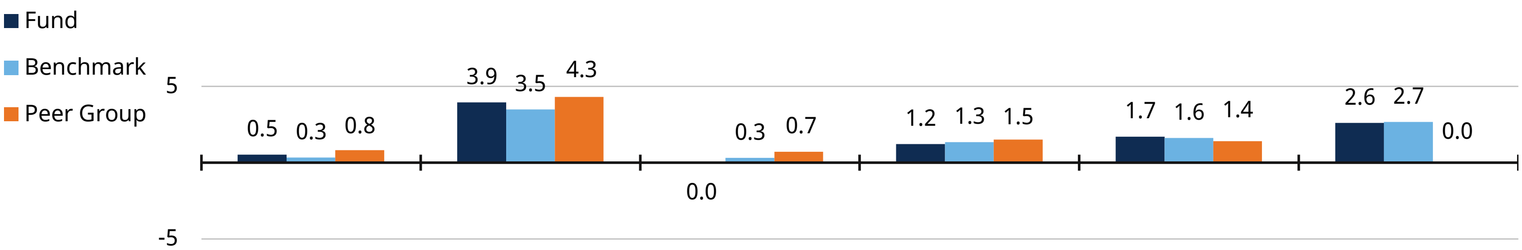
Strategy overview

• An actively managed, flexible short duration fixed income strategy.

• The objective is to generate income consistent with a short duration mandate by utilizing an expanded universe of high-quality, shorter-term securities including investment grade Canadian and foreign government and corporate bonds, residential first mortgages, and non-investment grade securities.

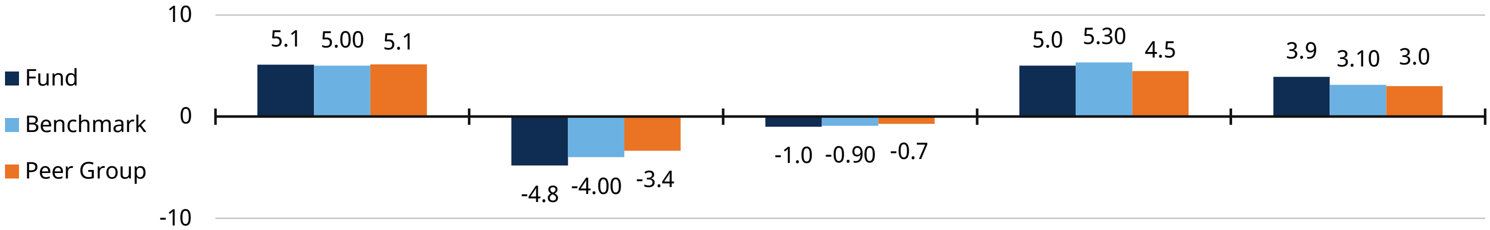
• The Fund maintains an overall credit rating of BBB or higher. This Fund can invest up to 30% in foreign securities and foreign currencies can be hedged back into Canadian dollars

Trailing returns %



	3 Mth	1yr	3Yr	5Yr	10Yr	SI
Excess return	0.2	0.5	-0.3	-0.1	0.1	-0.1
% of peers beaten	38	39	22	35	72	-

Calendar returns %



	2023	2022	2021	2020	2019
Excess return	0.1	-0.8	-0.1	-0.3	0.8
% of peers beaten	50	18	52	52	73

Portfolio characteristics

Ratios & metrics	Portfolio	Benchmark
Fund Avg Yield	4.6	4.3
Fund Mod. Dur	3.1	2.6
Fund Rating	A	AA
Average Price	98.2	97.6
Average Coupon	3.8	3.2
Average Term	3.2	-

Asset allocation

Asset	Portfolio	Benchmark
Corporate	69.1	35.1
Provincial + Municipal	14.9	18.5
Federal	15.4	46.4
Cash & Equival. + WC	0.6	-

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	2.8	2.9
Sharpe Ratio	-1.0	-0.9
Tracking Error	0.7	-
Information Ratio	-0.4	-
Alpha	-0.4	-
Beta	0.9	-
Upside Capture (%)	87.2	-
Downside Capture (%)	93.6	-

Geographic allocation

Region	Weight
North America	98.0
Europe	0.7
LATAM & Caribbean	0.1
Other	1.2

Maturity breakdown

Bucket	Portfolio	Benchmark
0 to 3	36.4	56.4
3 to 7	63.2	43.6
7 to 12	0.2	-
12+	0.3	-

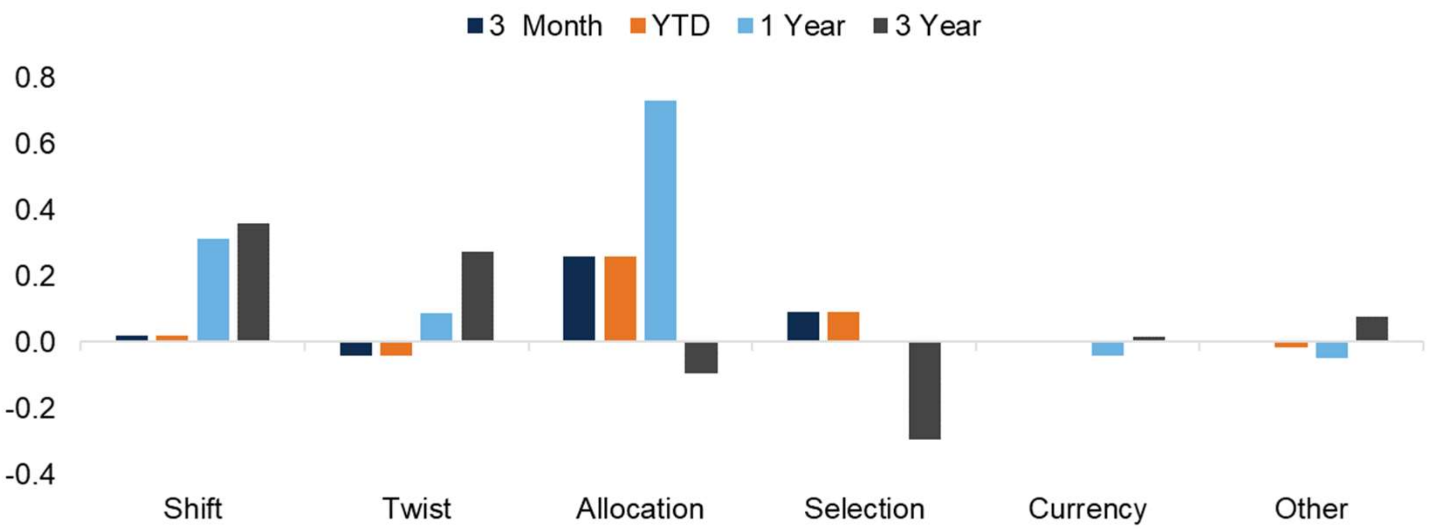
Currency exposure

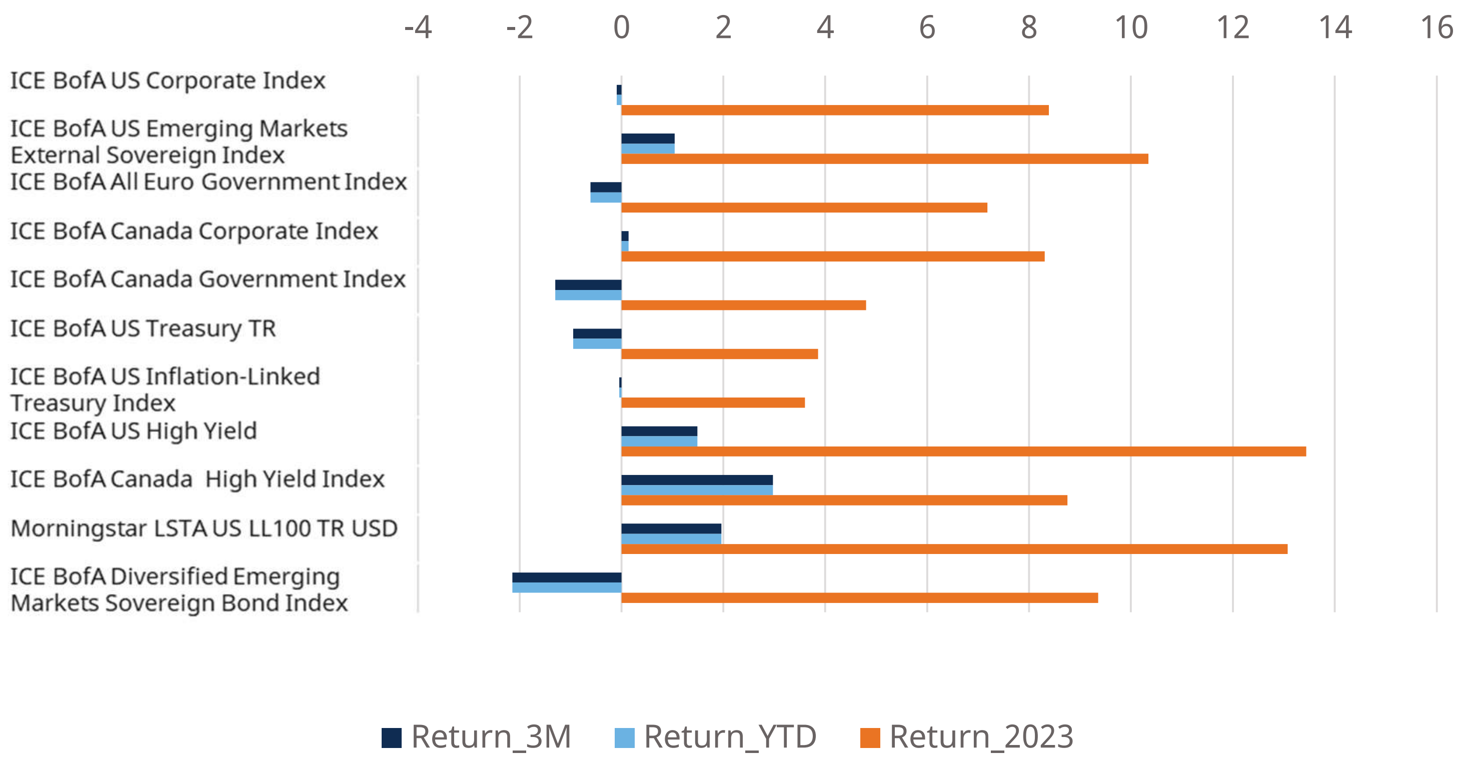
Currency	Gross	Net
CAD	95.8	99.8
USD	4.0	0.1
Other	0.2	0.1

Credit breakdown

Rating	Portfolio	Benchmark
AAA	15.8	50.4
AA	26.7	19.1
A	29.0	17.8
BBB	26.3	12.7
BB	1.3	-
B	0.4	-
CCC & Below	0.1	-
NR	0.3	-

Attribution





Commentary

US economic exceptionalism continued in full force throughout Q1, with respect to both activity, as well as prices, stumping many market watchers and investors in the process. There seems to be almost no bounds to the US consumer's resiliency and as we go to print, Q1 real GDP looks to be heading towards a 2.0-2.5% q/q run rate, a level we would define as the "top end" of the soft landing range, maybe better. Prices, too, have been almost unabashedly strong; the January data (printing in February) was up for much discussion around seasonal factors and seasonal adjustment factors (related, but different), with many at the time discounting it as a "one off" month. But the February CPI data printing in March, also came in hot, and although for mostly different reasons, the market started to take notice. And of course the labour market continues to perform well, particularly at the headline level although there are a few cracks beneath the surface. It may sound odd to Canadian investors, but Q1/24 was the quarter where the immigration story became a main point of topic and discussion for the street in the US as it related to the labour market, inflation and the overall economy.

As we now know, after seeing a significant repricing in Fed expectations in Q4/23 for more cuts in 2024, those cuts were unwound in Q1, based mostly on the above stronger than expected data. Not surprisingly, that unwinding caused yields to back up higher, and those in so-called steepeners, generally found themselves on the wrong side of the trade.

It now looks very unlikely a significant rate easing cycle in 2024 will materialize, namely because of the stronger than anticipated US data and the majority of FOMC participants are not looking to embark on a significant easing cycle, at least this year. Indeed, the hawkish voter rotation for 2024 we were concerned about at the end of 2023 seems to be at least part of the discourse here, but in reality it is more broadly based than that amongst the participants. But 2024 won't last forever of course, and at some point, probably in Q2, the market will start to look at 2025 in more totality. Most Fed participants still think rates cuts are appropriate, they would just prefer additional confirmation of a slowing inflation trend.

Contrast that with Canada's macro situation where household spending is relatively anemic, headline inflation is back (just) into the BoC's target 1-3% y/y range, the unemployment rate has moved 110bp higher, and as everyone knows, there is mortgage reset risk on the horizon in H2/24 and in calendar 2025. Not surprisingly the market continues to expect the Bank of Canada to out-dove the Fed, although with the resetting of Fed expectations market pricing for the BoC has not been immune. BoC pricing has adjusted lower to around 65bp at time of writing, a level we think might be a bit of an overreaction to the Fed's repricing. While a cut at the June FOMC meeting seems very much at risk, we continue to believe the BoC will start its easing cycle in June, and accordingly continue to like Canadian nominal duration over US duration on many parts of the curve, and dislike the Canadian dollar.

The first quarter of 2024 was marked by a reversal of the strong fixed income rally we saw across North American markets in the fourth quarter. Both the US and Canadian government bond curves sold off in near-perfect parallel fashion with yields across the US curve rising between 27-30bps and yields in Canada rising 22-28bps. The entire US yield curve (2s30s) remains inverted by 20bps with the Canadian curve considerably more inverted at -80bps. Most of this inversion of the Canadian curve is in the short end – 2s5s is inverted by 60bps – reflecting a high Bank of Canada policy rate against the backdrop of weakening economic metrics.

The explanation for the reversal in yields can once again be attributed to stronger economic data. In Canada Core Median YoY CPI came in at 3.6% vs an expectation of 3.3% (Jan 16th) causing the Bank of Canada to hold rates at their high of 5% in January. At the beginning of February the unemployment rate unexpectedly dipped to 5.7% vs an expectation of 5.9% and a prior reading of 5.8%. However, as the quarter progressed these stronger readings have abated. CPI in both February and March came in lower than expected as did GDP. With other metrics such as credit card delinquencies and business insolvencies spiking, we continue to feel that the Bank of Canada will be forced to take policy action to support the economy.

We prefer to be invested in high-grade (low-beta) Corporate Bonds at the short end of the curve (2-5y but especially 2-3y) and prefer the Canadian over the US curve. With fragilities seemingly on the horizon in the Canadian market, led by the growing strains on consumers caused by mortgage resets, there is, in addition to the elevated yield, the potential for significant price appreciation.

Commentary

Our duration positioning remains nuanced. We maintain a positive stance on duration in North America, particularly in Canada, and continue to maintain a significant active underweight duration view in regions where rates are expected to rise further, notably Japan. We continue to hold a long position in EM local rates for the attractive carry and prospect for lower rates in Latam.

We prefer to be invested in high-grade (low-beta) Corporate Bonds at the short end of the curve (2-5y but especially 2-3y). We prefer the Canadian curve over the US curve in this sector.

As we conclude Q1 2024 and shift focus to the second quarter, we anticipate rate volatility to persist. Our strategy remains opportunistic, with close monitoring of global economic indicators and geopolitical developments. The delicate balance between mitigating risk and seizing opportunities will be pivotal in navigating the months ahead.

-Overweight IG Corporate Bond risk
-Overweight hybrids and LRCNs
-Overweight Canadian vs Japanese duration

Detractors:
-Overweight 5y CAN Government risk

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 March 31, 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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Percentile rankings are from Morningstar Research Inc., an independent research firm, based on the Canada Fund Canadian Short Term Fixed Income category and reflect the performance of the Mackenzie Canadian Short Term Income Fund for the 3-month, 1-, 3-, 5- and 10-year periods as of March 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 Canadian Short Term Fixed Income category funds for Mackenzie Canadian Short Term Income Fund for each period are as follows: one year - 232 ; three years - 212 ; five years - 199 ; ten years - 137 .

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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