# Mackenzie Global Sustainable Bond Fund

## Fund snapshot

| | |
|---|---|
| Inception date | 04/09/2021 |
| AUM (millions in CAD) | 54.1 |
| Management fee | 0.55% |
| MER | 0.8% |
| Benchmark | ICE BofA Gbl Broad Mkt (Hgd to CAD) |
| CIFSC category | Global Fixed Income |
| Fund rating | A- |
| Lead portfolio manager | Konstantin Boehmer |
| Investment exp. since | 2003 |

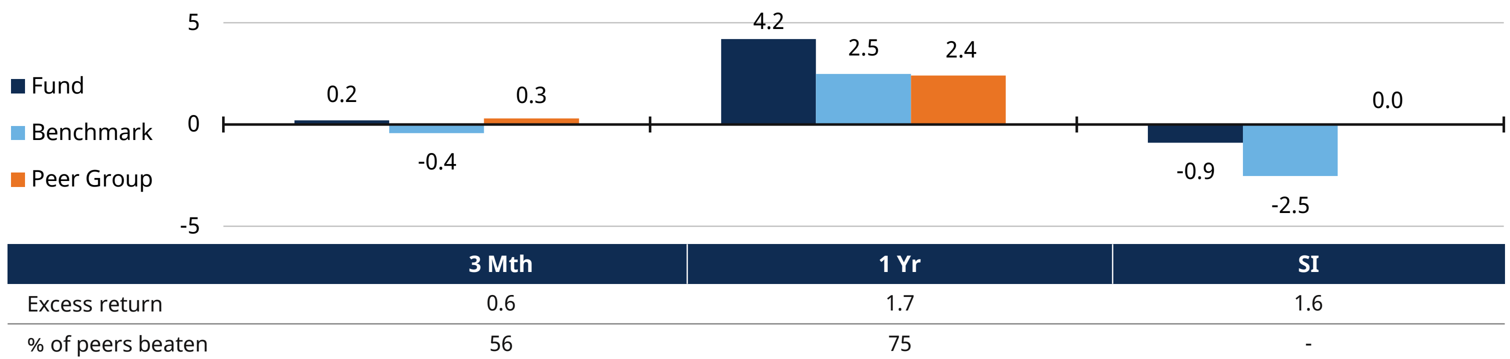
## Strategy overview

• The Fund seeks to generate income with the potential for long-term capital appreciation by investing primarily in fixed-income securities of issuers anywhere in the world.

• The Fund follows an approach to investing that focuses on sustainable and responsible issuers.

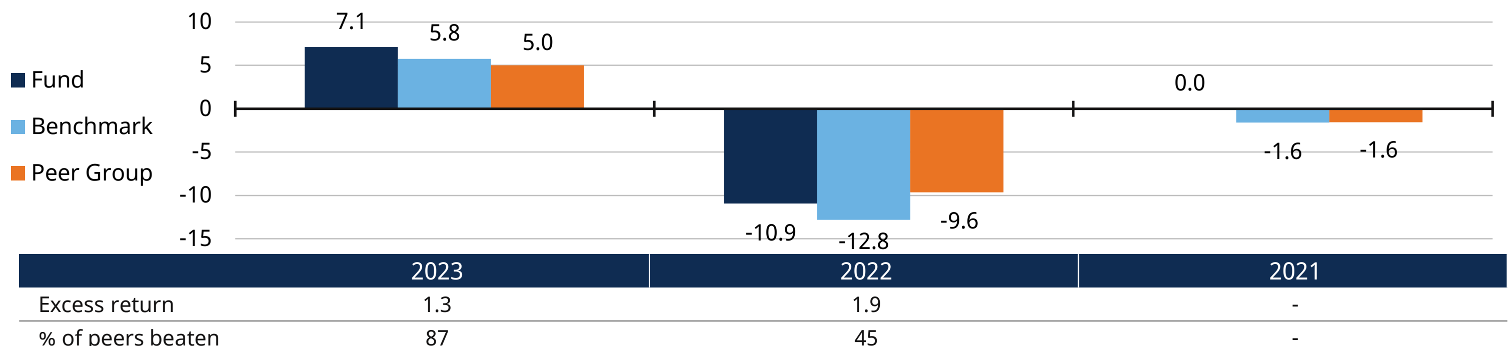
• The Fund invests in "best-in-class" ESG leaders, along with various types of sustainable or ESG labelled debt, such as green bonds, social bonds, sustainable bonds and sustainability-linked bonds and notes. The Fund aims to have a 50-50 mix of best-in-class issuers with ESG labelled debt.

## Trailing returns %




| | 3 Mth | 1 Yr | SI |
|---|---|---|---|
| Excess return | 0.6 | 1.7 | 1.6 |
| % of peers beaten | 56 | 75 | - |

## Calendar returns %




| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Excess return | 1.3 | 1.9 | - |
| % of peers beaten | 87 | 45 | - |

## Portfolio characteristics

| Ratios & metrics | Portfolio | Benchmark |
|---|---|---|
| Fund Avg Yield | 5.7 | 3.9 |
| Fund Mod. Dur | 5.8 | 6.7 |
| Fund Rating | A- | AA |
| Average Price | 91.3 | 113.5 |
| Average Coupon | 3.9 | 2.6 |
| Average Term | 7.2 | - |

## Asset allocation

| Asset | Portfolio |
|---|---|
| Corporate | 58.7 |
| Provincial + Municipal | 3.5 |
| Federal | 37.1 |
| Cash & Equival. + WC | 0.6 |

## Performance metrics (3 year trailing)

| Metrics | Portfolio | Benchmark |
|---|---|---|
| Standard Dev. | - | - |
| Sharpe Ratio | - | - |
| Tracking Error | - | - |
| Information Ratio | - | - |
| Alpha | - | - |
| Beta | - | - |
| Upside Capture (%) | - | - |
| Downside Capture (%) | - | - |

## Geographic allocation

| Region | Weight |
|---|---|
| North America | 88.5 |
| Europe | 13.3 |
| LATAM & Caribbean | 2.3 |
| Other | -4.0 |

## Maturity breakdown

| Bucket | Portfolio | Benchmark |
|---|---|---|
| 0 to 3 | 30.0 | - |
| 3 to 7 | 25.2 | - |
| 7 to 12 | 35.1 | - |
| 12+ | 9.7 | - |

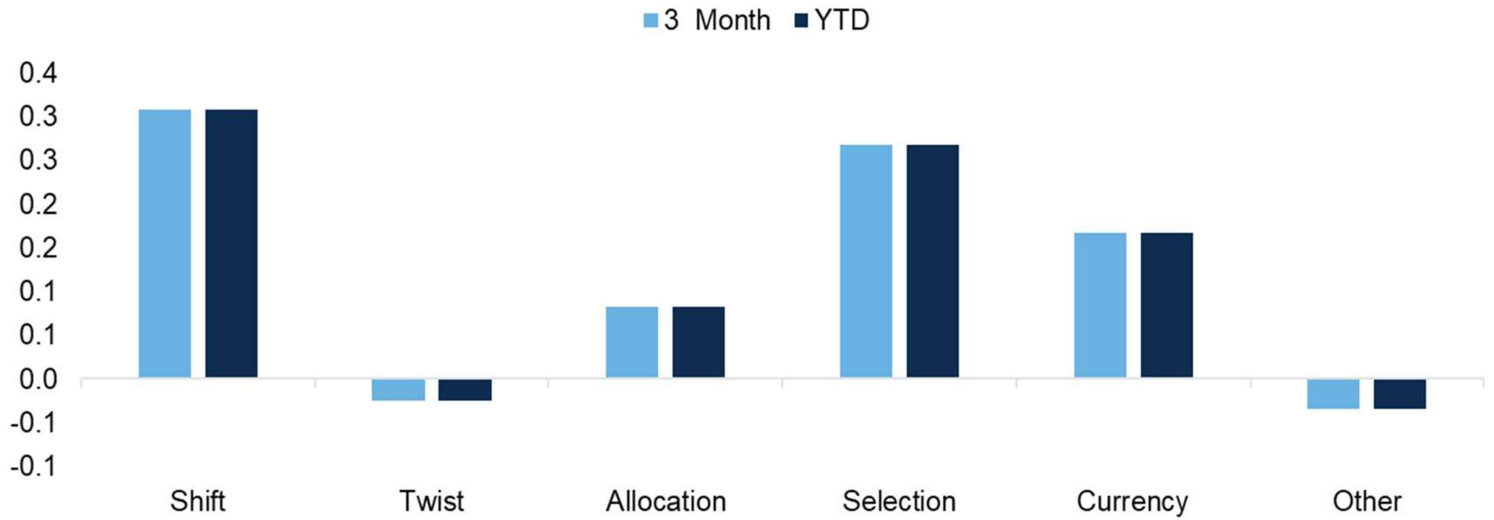
## Currency exposure

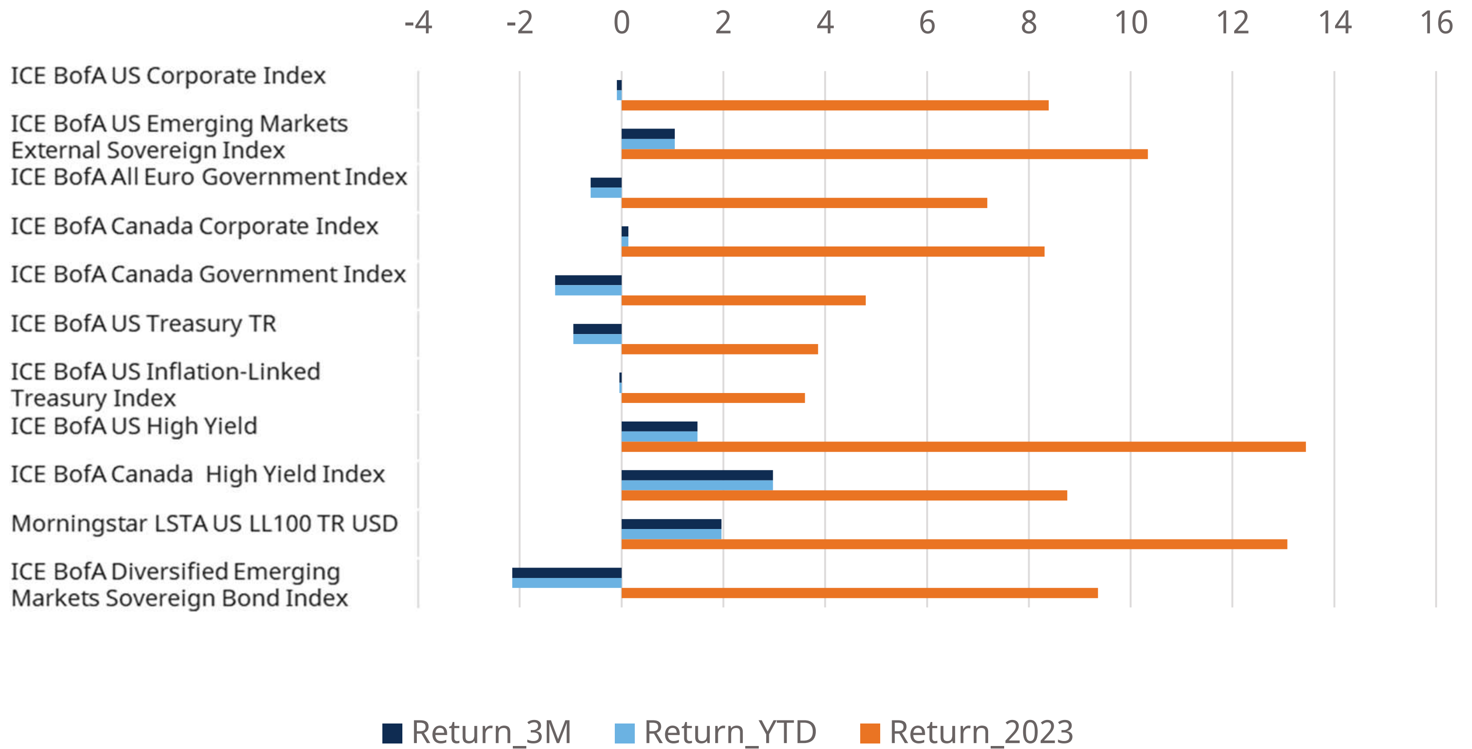
| Currency | Gross | Net |
|---|---|---|
| CAD | 30.6 | 90.8 |
| USD | 39.4 | 5.8 |
| Other | 30.0 | 3.4 |

## Credit breakdown

| Rating | Portfolio | Benchmark |
|---|---|---|
| AAA | 23.4 | 12.7 |
| AA | 14.4 | 49.7 |
| A | 17.4 | 23.7 |
| BBB | 25.8 | 13.9 |
| BB | 13.5 | - |
| B | 4.6 | - |
| CCC & Below | 0.2 | - |
| NR | 0.8 | - |

## 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.

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.

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