Mackenzie Monthly Income Portfolios Investor Guide

The best retirement life is yet to come.

Live long? Yes. Prosper? Yes, if you prepare.

Otto von Bismarck was first to introduce the government pension. In the 150 years since that modest beginning, the once-novel idea of a retirement income has blossomed into the massive success it is today.

Mister Bismarck lived to the ripe old age of 83, and the good news is that most Canadians stand a good chance of living as long or longer. Canada's retired population is growing by leaps and bounds now the Baby Boomers have begun to retire, and the desire for a secure income in retirement is as strong as ever.

There are no raises in retirement

As hundreds of thousands of people transition from banking a steady income to living off their investments, they realize that their retirement portfolio will have to last a long time. Living on investments, rather than employment income, presents several challenges: rising living costs, declining purchasing power, an unknown time horizon, a scarcity of viable income sources, and a volatile and uncertain investment landscape.

There are options: Mackenzie Monthly Income Portfolios

Whether planning for retirement or already enjoying that new phase, it's always prudent to understand the challenges that come with generating and maintaining income from an investment portfolio. A financial advisor has solutions to help you plan, prepare, and provide for your unique needs in retirement, and Mackenzie can help.

New retirement reality

1 60+ demographic is booming

The Baby Boom generation, born between 1940 and 1960, have already entered retirement. Every year, hundreds of thousands more Canadians are entering this life stage.

2 Canadians are living longer

Average life expectancy is now 88 for someone 65 years of age today. An average retirement age of 63 means retirement could last 25 years or more.

3 Investors are increasingly responsible for their own retirement income needs

Only 37 per cent of working Canadians have a registered pension plan, according to Statistics Canada, down from 41 per cent in 1997.[1]

Many working Canadians and retirees are concerned they wont have enough income to sustain their retirement[2].

Retirement Costs

Average carrying cost of a house ON[3] (taxes, utilities, insurance, repairs & maintenance)	$2,000
Groceries[4]	$490
Insurance[4]	$300
Transportation[4]	$200
Entertainment[4]	$300
Miscellaneous[4]	$200
Basic average monthly expenses (estimated)[4]:	**$3,490 or $41,880/year**
Canada Pension Plan + Old Age Security[4]	$1,589/month
Basic monthly expenses[4]	$3,490/month
Monthly income gap of [4]:	**$1,900** for basic living expenses only

FACT:
Government pensions fall short by almost $19,200 per year[4].

1 Statistics Canada, 2017
2 Mackenzie's 2021 Retirement Reality Check survey
3 Ratehub, "Monthly Carrying Costs When Buying a Home", 2016
4 Mackenzie estimates

Retirement has changed. Shouldn't the investment plan change, too?

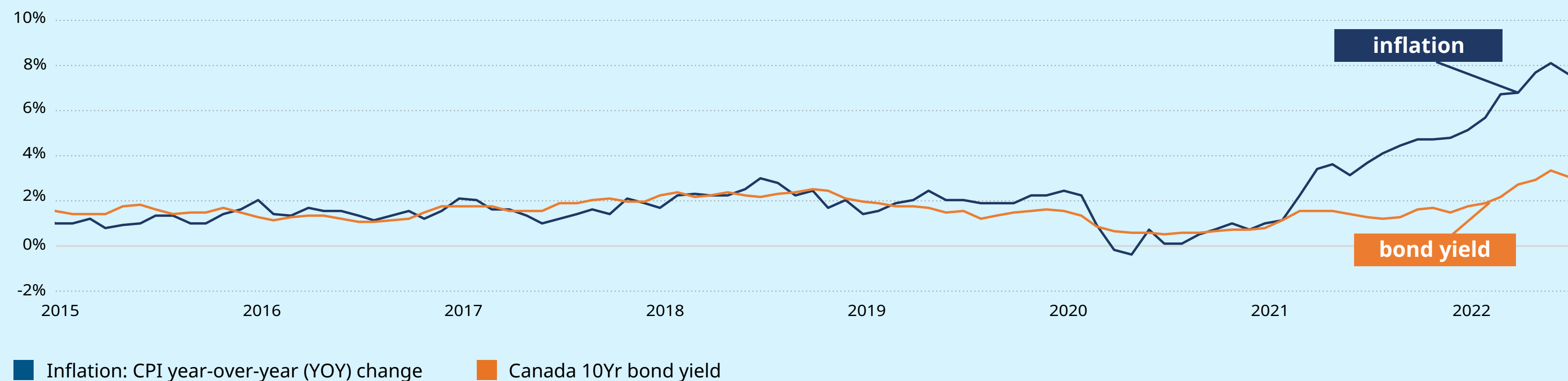
Current investment landscape:

Investments in medicine over the last few decades have led to the unprecedented longevity Canadians enjoy today. And while financial markets have the capacity to create a great deal of wealth over time, the rules of investment have changed.

The investment strategy that provided a steady, liveable income for retirees 30 years ago – "buy bonds" – no longer applies. Without employment income to fall back on and a potentially long investment time horizon, the current market reality leaves retirees vastly more sensitive to market uncertainty than they have ever been.

1 High inflation environment

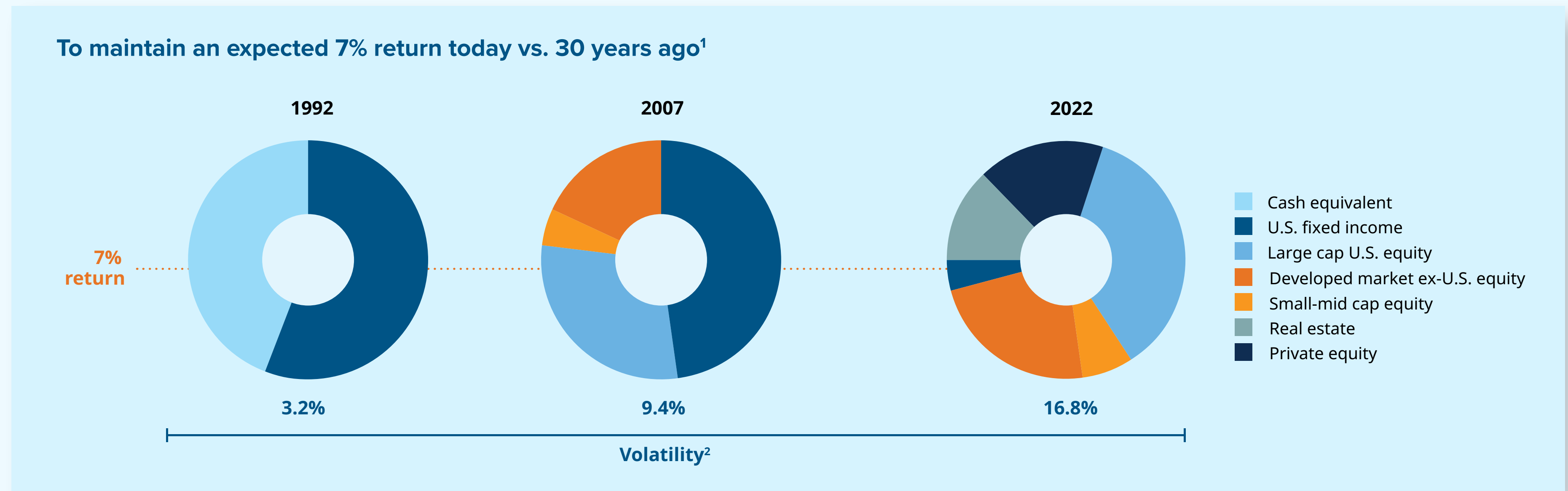
Inflation has risen dramatically over the past 2 years. Though yields on GICs and governments have followed suit, in many cases they're insufficient at offsetting inflation – creating an automatic loss of purchasing power that grows with each passing year. The price of safety has become very high, creating a widening income gap for many retirees.



Source: Bank of Canada, as of July 31, 2022

2 Investors have to take on more risk to meet their income retirement needs

30 years ago, a portfolio of bonds could be relied on to generate 7% return with relatively low volatility. Today, more asset classes are required to generate that same 7% return. Meanwhile, the risk that investors must assume to earn that same return has quintupled.



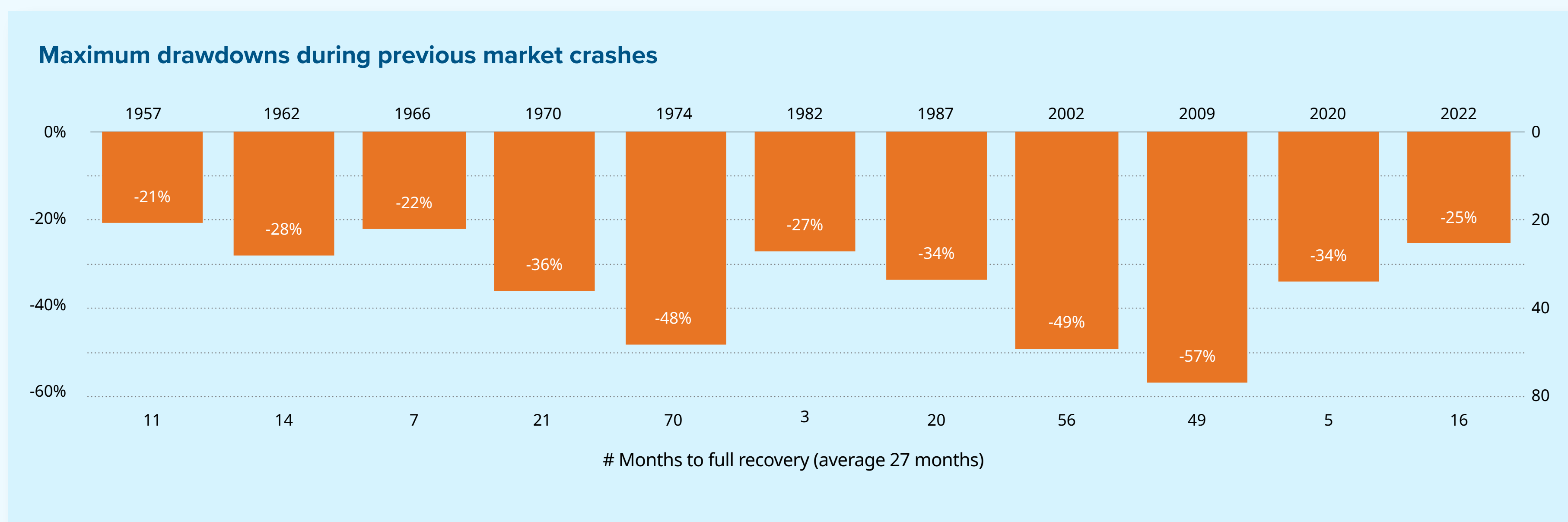
1 For illustrative purposes only. Source: Callan Associates and Wall Street Journal
2 As measured by standard deviation.

3 Market crashes happen regularly

The frequency of market crashes and the time required to recover those losses can greatly magnify the negative impact on people's accumulated savings. Since 1950:

- 11 market crashes in the US (drop of 20% or more)
- Crashes happened every 6 years on average, and when excluding the exceptionally long bull markets from 1987 to 2000 and 2009 to 2020, they happened every 5 years
- Markets took an average of 25 months to recover

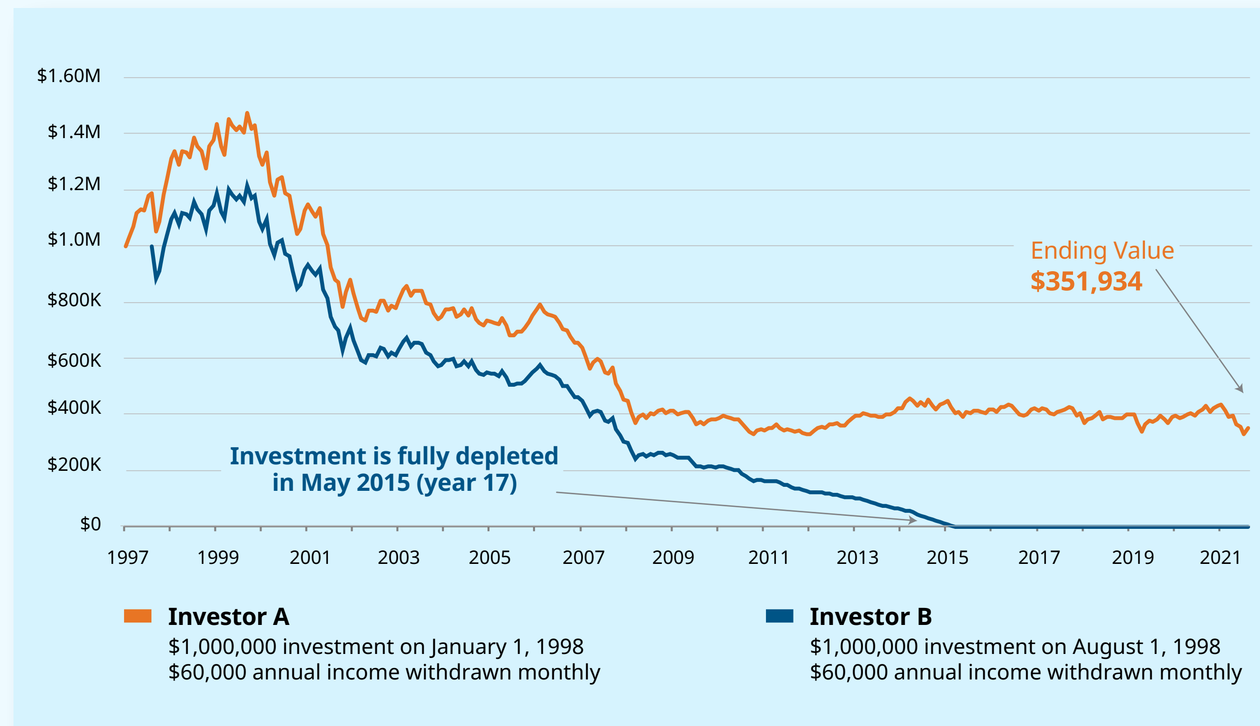
The current market reality leaves retirees vastly more sensitive to market uncertainty than they have ever been.



Source: Morningstar, based on S&P 500 price return in USD

4 Market downturns can have a damaging impact on capital preservation[3]

When an investor is withdrawing an income from a portfolio, they must be aware that a large downturn can have serious consequences. If the total portfolio shrinks sharply, the withdrawals may become too large for the portfolio to bear, and it may never recover. This is called "sequence of returns risk", and is one of the most critical risks faced by retirees.



This chart illustrates the significance of sequence of returns risk using actual market data. Investor A entered the market on January 1, 1998. Investor B entered seven months later on August 1, 1998 and got hit right off the bat by the Russian financial crisis.

Both investors then suffered the 2001-2003 equity bear market. Although the initial investments were made only seven months apart, the outcomes were entirely different.

Due to the steady pace of withdrawals, Investor B's portfolio was exhausted in just 17 years.

3 Source: Morningstar, based on S&P 500. For illustrative purposes only

5 Volatility impacts income stability

To bring this concept alive, let's look at a one-million-dollar portfolio, invested in a 60/40 balanced portfolio. An investor drawing 4% of this portfolio for living expenses would have $40,000 to spend per year, or $3,300 per month. Using the 2008/09 bear market as an illustration, let's imagine this investor began drawing living expenses in January 2008. Soon after retirement, equity markets crashed, and the traditional balanced portfolio's value declined sharply.

With a smaller total portfolio value, the investor could have:

- Maintained the $3,300 monthly distribution, and risked depleting the portfolio, or
- Maintained the 4% withdrawal rate and reduced monthly distribution to $2,500 in 2009, cutting their standard of living by 24% while waiting for the markets to recover to pre-crisis levels – which took about six years.

This is not a conversation any of us wants to have with our financial advisor.

Case study - traditional balanced portfolio during the 2008 crisis[4]

$4,000
$3,500
$3,000
$2,500
$2,000

Monthly distribution
Balanced portfolio with 4% distribution

$1.2M
$1.00M
$800K
$600K

2008
2009
2010
2011
2012
2013
2014

4 For illustrative purposes only.

Monthly Income Portfolios at a glance

Monthly cash flow within a multi-asset structure

The chart below illustrates how the Mackenzie Monthly Income Conservative Portfolio, Mackenzie Monthly Income Balanced Portfolio and Mackenzie Monthly Income Growth Portfolio have been positioned on the risk/return spectrum, compared to no-risk GICs and traditional balanced funds that offer no explicit downside mitigation.

The three funds are positioned in a sweet spot that can offer higher growth and cash flow potential than GICs and better downside mitigation than traditional balanced funds.

Favourable risk-return profile

Return Potential

GICs

Mackenzie Monthly Income Conservative Portfolio

35% Equity/ 65% Bond

Mackenzie Monthly Income Balanced Portfolio

60% Equity/ 40% Bond

Mackenzie Monthly Income Growth Portfolio

85% Equity/ 15% Bond

Traditional Balanced Funds

- Global Equities - Passive
- Global Equities - Active
- Canadian Bonds
- Unconstrained Fixed Income
- Global Sovereign Bonds
- Real Return Bonds
- Commodities
- Cash

Risk Potential

Unlike mutual funds, the returns and principal of GICs are guaranteed.

Predictable cash flow for retirement

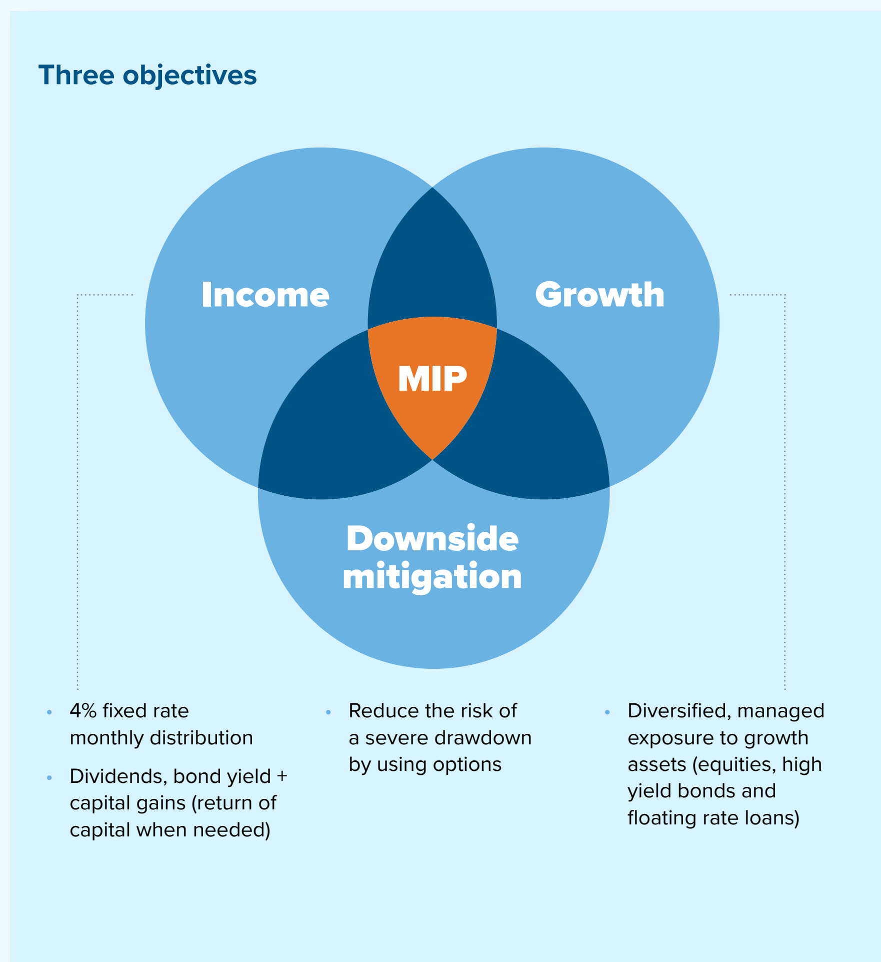
Higher inflation rates and market volatility combined with increasing longevity and a longer investment horizon may appear to be the perfect storm for older investors. The reality is, retirees need their portfolios to deliver both growth and security and they require a predictable cash flow throughout their retirement.

Mackenzie Monthly Income Portfolios are built for investors who:

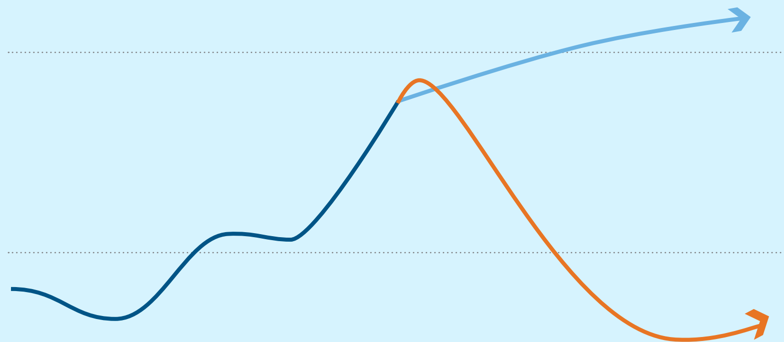
- Are concerned about investing at the “wrong time” and suffering sharp portfolio losses;
- Want the option of drawing income from their portfolio;
- Need potential growth but delivered in a way that acknowledges market risks.

Designed to consistently deliver on specific goals

The Mackenzie Multi-Asset Strategies Team has constructed a globally diversified, carefully balanced allocation to multiple asset classes and strategies aimed at producing income, growth, and reducing downside risk.



Downside risk mitigation[5]



Put Options

Helps to limit the downside.

Call Options

Sell some of the upside to compensate for the downside.

How it works

The hedging strategies employed by the Mackenzie Monthly Income Portfolios are what truly set these funds apart from traditional balanced funds. For many investors who are living off their accumulated savings, it is essential to mitigate volatility and reduce the risk of a severe drawdown.

A 'put' strategy limits the downside of an investment relative to the market's performance by locking in a selling price.

To fund the cost of the 'put' strategy, 'calls' are sold, which sell some of the upside performance to another investor.

The use of puts and calls together in this way is called a "collar", illustrated by the dotted lines in the graphic above.

5 Hypothetical market performance

Cash flow and growth with downside risk mitigation

Mackenzie Monthly Income Portfolios key benefits:

1 Steady cash flow for the future

- Monthly predictable cash flow
- 4% fixed rate monthly distribution**

2 Built-in downside mitigation

- Unlike traditional income funds, these Funds use sophisticated options strategies to mitigate downside risk
- Strategy aims to protect assets against the damaging impact of sequence of returns risk during large market downturns

3 Growth while managing risk

- Multi-asset exposure to growth assets provides some growth potential
- Investment sweet spot on the risk/return spectrum

4 Experienced management team

- Mackenzie Multi-Asset Strategies Team has extensive asset allocation and risk management experience honed at Canada's largest and most sophisticated pension plans
- They bring decades of experience growing portfolios in a risk-managed way and protecting wealth using a wide variety of assets and strategies

Why invest with Mackenzie

As a Canadian-owned global asset management provider, we've been helping advisors deliver the best possible advice and investment solutions for more than 50 years. With over $192.5 billion in assets under management* and a comprehensive line of investment solutions, we are one of Canada's leading asset management companies. Our journey began with one client and one advisor working together, and though we've grown, we remain committed to the same belief, advice matters. When we work together with advisors and investors, we can achieve better financial outcomes.

Talk to an advisor about how you can enjoy consistent cash flow and growth while attenuating less risk with Mackenzie Monthly Income Portfolios.

*As of July 31, 2022.

**The payment of distributions is not guaranteed and may fluctuate. The payment of distributions should not be confused with a fund's performance, rate of return or yield. If distributions paid by the fund are greater than the performance of the fund, your original investment will shrink. Distributions paid as a result of capital gains realized by a fund, and income and dividends earned by a fund are taxable in your hands in the year they are paid. Your adjusted cost base will be reduced by the amount of any returns of capital. If your adjusted cost base goes below zero, you will have to pay capital gains tax on the amount below zero.

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