Predictable income for a secure retirement

Mackenzie Monthly Income Portfolios

That’s better together

MACKENZIE Investments
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 banked wealth, they realize that their retirement savings will have to last a long time. Living on savings, 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

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.

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.

Investors are increasingly responsible for their own retirement income needs
- Over two-thirds of Canadians don’t have a defined benefit pension plan¹ according to Statscan, and that percentage grows every year.
- Many of us — nearly three quarters of Canadians — are concerned we haven’t saved enough and that we may outlast our savings.

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Retirement Costs

<table>
<thead>
<tr>
<th>Item</th>
<th>Monthly Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average carrying cost of a house ON²</td>
<td>$2,000</td>
</tr>
<tr>
<td>Groceries</td>
<td>$490</td>
</tr>
<tr>
<td>Insurance</td>
<td>$300</td>
</tr>
<tr>
<td>Transportation</td>
<td>$200</td>
</tr>
<tr>
<td>Entertainment</td>
<td>$300</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>$200</td>
</tr>
<tr>
<td>Basic average monthly expenses (estimated)</td>
<td>$3,490 or $41,880/year</td>
</tr>
<tr>
<td>Canada Pension Plan + Old Age Security</td>
<td>$1,589/month</td>
</tr>
<tr>
<td>Basic monthly expenses</td>
<td>$3,490/month</td>
</tr>
<tr>
<td>Monthly income gap of:</td>
<td>$1,900</td>
</tr>
</tbody>
</table>

for basic living expenses only

Fact:
Government pensions fall short by almost $22,800 per year.

¹Source: Canadian Institute of Actuaries
²https://www.alethia.ca/additional-monthly-costs
³https://affordanything.com/mortgage-insurance-laws-water-trash/
⁴National average: https://loanscanada.ca/money/infographic-how-much-does-the-average-canadian-spend-on-groceries/
⁵Mackenzie estimates
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 25 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. Low interest rate environment

In the past, investors used to shift their allocation towards investment-grade bonds as they aged. However, government bond yields have declined to very low levels, making risk-free income generation more difficult. Yields on GICs and government bonds in many cases aren’t even sufficient to offset 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.

2. Volatility has increased dramatically

20 years ago, a portfolio of bonds could be relied on to generate 7.5% return with relatively low volatility. Today, more asset classes are required to generate that same 7.5% return. Meanwhile, the volatility, or risk, investors must assume to earn that same return has nearly tripled.

To maintain an expected 7.5% return today vs. 20 years ago

Yields near 25-year low

Yields still near 25-year lows

Volatility

1995
2005
2015

7.5% Return

Bonds
U.S. Large Cap
U.S. Small Cap
Non-U.S. Equity
Real Estate
Private Equity

3. Market crashes happen regularly

The timing of a market crash can greatly magnify the negative impact on people’s accumulated savings.

Since 1950:
• 10 market crashes in the US (drop of 20% or more)
• Crashes happened every 6 years on average
• The most recent market crash followed the longest bull market on record

Max drawdowns during previous market crashes

Source: Bloomberg. Drawdown calculation based on weekly returns.

For illustrative purposes only. Source: Callan Associates and Wall Street Journal.


4. Market downturns can have a damaging impact on capital preservation

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.

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 allocation. 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 most recent 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 seven years.

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

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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 14 years.

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5. For illustrative purposes only.

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6 | Mackenzie Monthly Income Portfolios | Mackenzie Investments

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Predictable income stream for retirement

Low yields 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 income stream 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.

These Portfolios are globally diversified, multi-asset solutions that pay a predictable monthly distribution and incorporate explicit downside protection.

Designed to consistently deliver on specific goals

The Mackenzie Multi-Asset Strategies Team has constructed a carefully balanced allocation to multiple asset classes and strategies aim to achieve income, growth, and reduce downside risk.

Favourable Risk-Return Profile

Unlike mutual funds, the returns and principal of GICs are guaranteed.
Why invest with Mackenzie?

Mackenzie Investments has the strength and diversity of perspectives to meet your needs and help support you in all markets.

A clear vision: We’re committed to the financial success of investors, through their eyes.

Strong ownership: Part of IGM Financial and the Power Financial Group of Companies, trusted advice champions with over $934B (CAD) in assets as of December 31, 2019.

Multiple perspectives: Home to 14 distinct investment teams, offering you multiple perspectives on market risks and opportunities.

Talk to an advisor

About how you can enjoy consistent income and growth with less risk with Mackenzie Monthly Income Portfolios.

Steady income for the future
- Monthly predictable cash flow
- 4% fixed rate monthly distribution*

Built-in downside protection
- 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

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

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 to the left.

Put Options
Helps to limit the downside.

Call Options
Sell some of the upside to compensate for the downside.

Mackenzie Monthly Income Portfolios key benefits:

Steady income for the future
- Monthly predictable cash flow
- 4% fixed rate monthly distribution*

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

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Income and growth with downside risk mitigation

*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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Hypothetical market performance.