

## Mackenzie Core Plus Canadian Fixed Income ETF

### Fund Snapshot

Inception date	19-Apr-2016
AUM (millions in CAD)	\$587
Management Fee	0.40%
MER	0.45%
Benchmark	FTSE Canada Universe Bond Index
CIFSC Category	Canadian Fixed Income
Risk Rating	Low
Lead Portfolio Manager	Steve Locke
Investment Exp. Since	1995

### Key takeaways

- During the month, Mackenzie Core Plus Canadian Fixed Income ETF returned 0.6%, versus its benchmark FTSE Canada Universe Bond Index which returned 1.00%.
- The Bank of Canada held its key interest rate unchanged at 0.25% during the period. It also further reduced the amount of net weekly purchases of Government securities to \$2 billion, down from \$3 billion.
- The Canadian yield curve flattened slightly in July with 2-year benchmark Canada yields remaining flat and long bonds decreasing 8 basis points.
- Provincial bonds, with their relatively longer duration returned 1.24% in the month outperforming Federal bonds which returned 0.85%. Investment grade corporate bonds returned 0.92%. The high yield sector returned 0.64%.
- In the U.S. the Federal Reserve (Fed), left its federal funds rate unchanged at 0.25% and continued its bond buying at \$120 billion per month. While policymakers indicated that the economic recovery has not reached a point to warrant actions to remove financial stimulus, recent inflation levels and stronger employment indicators will be in focus for the September meeting. Also, the course of the Delta variant will be closely watched.

### Highlights

#### Contributors/Detractors

- The ETF's allocation to provincial bonds contributed to performance as the sector returned 1.24% (FTSE TMX Canada Universe Provincial Bond Index).
- The ETF's allocation to high yield bonds contributed to performance as high yield returned 0.64% (FTSE TMX Canada High Yield Bond).
- The ETF's overweight allocation to credit contributed to performance as investment grade corporate bonds returned 0.92% with specific performance seen in the Energy sector.
- The ETF's duration positioning detracted from performance.

#### Activity

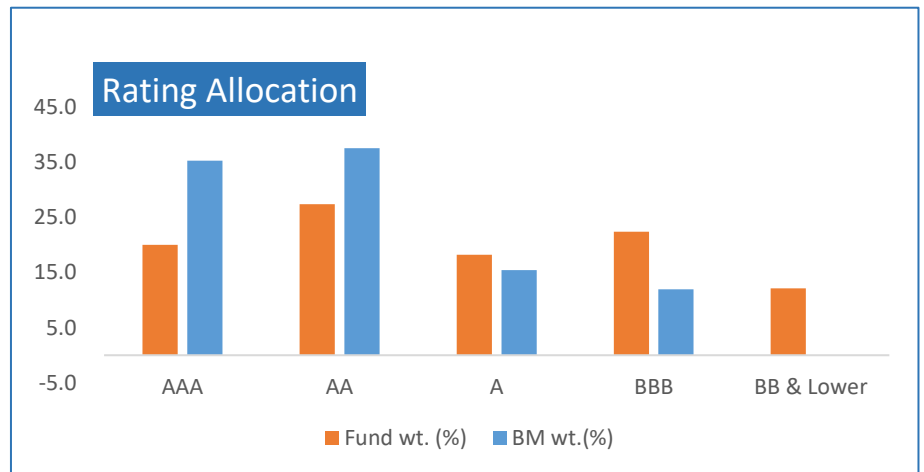
- In the ETF, we increased the duration to 6.7 years vs. 8.2 years for the benchmark. The duration for the Fund in June was 5.4 years.
- We remained overweight credit at 56.0% vs. 29.9% for the benchmark.
- Allocation to provincial and municipal bonds increased slightly to 19.9% vs. 18.9% in the previous month. The Fund continued to increase its leveraged loan exposure to 7.9% in the month.
- The foreign currency exposure, which is mostly in USD, remained hedged for the month.

Portfolio snapshot	
Gross Yield	2.2%
Duration	6.7
Term	10.5 years
Average Rating	A
AUM	\$587 M

Performance	MTD	YTD	1 yr	3 yr	5 yr	SI
Mackenzie Core Plus Canadian Fixed Income ETF (MKB)	0.6%	-2.4%	-2.2%	5.2%	3.4%	3.9%
FTSE Canada Universe	1.0%	-2.5%	-2.7%	4.8%	2.7%	3.2%
Excess Return	-0.4%	0.0%	0.5%	0.5%	0.7%	0.7%

Sector Allocation	
Corporate	56.0%
Provincial + Municipal	19.9%
Federal	22.1%
Cash & Equival. + WC	2.0%

Currency Exposure	Gross	Net
USD	15.2%	0.7%
CAD	80.5%	95.3%
Other	4.3%	4.0%



## **Mackenzie Core Plus Canadian Fixed Income ETF**

### **Key Contributors:**

#### **Investment Grade Bond – T-Mobile USA (multiple lines)**

T-Mobile was one of the largest wireless telecom companies in U.S. before its acquisition of Sprint last year, and grew to a top-3 player after the transaction closed . Not only did the combination with Sprint dramatically increase T-Mobile’s size, but it also gave the company the most valuable portfolio of spectrum assets in the industry and positions them to be the leader in 5G. This allowed them to spend considerably less relative to competitors in this years C-band spectrum auction which turned out to be one of the most expensive spectrum auctions on record. Instead of adding large debt balances like their competitors, T-Mobile’s leverage has dropped from 3.3x to 3.1x as of its most recent quarter, and is one track to reach a 2.5x target as soon as next year. We seen them as a rising star because their deleveraging trajectory and expect them to achieve full investment grade ratings at the parent level in 2023. T-Mobile’s secured bonds have been among our largest U.S. investment grade telecom positions this year and we have seen their spreads continue to compress and outperform versus peers in the month of July.

#### **Leveraged Loan – Heritage Power LLC TL 1L USD**

Heritage Power LLC (“Heritage”) owns a portfolio of 16 power plants located across Pennsylvania, Ohio, and New Jersey, as well as four different zones in the PJM (RTO, EMAAC, MAAC, and ATSI). The portfolio is 100% owned by GenOn Holdings LLC, has a total capacity of 2.35 GW and uses various technologies (for example, steam turbines and combined cycle gas turbines). On average, a large percentage of the portfolio’s cash flows are generated from capacity payments and in early June, Heritage’s term loan and rating came under pressure as a result of weaker than expected PJM auction results. We decided to continue holding the name given geographic diversity of the portfolio (dispersed across four different PJM zones), exposure to premium capacity price markets in the PJM and expectation of improved capacity prices moving forward given the cyclical nature of auction results. In addition, the attractive relative value vs. other power loans peers and expectation of stronger PJM power prices moving forward provided additional comfort. The rebound in July can be attributed to positive fundamental developments after auction results were announced in early June. Specifically higher natural gas prices and 5GW of PJM coal retirement announcements that led to increase in forward power prices in PJM. The improvement in power price outlook in the PJM resulted in the loan outperforming in July and trading up 2 points.

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### Market Highlights

Credit Market index	Spreads	Total Returns (%)		
		MTD	YTD	2020
US Investment Grade *	92	1.2	0.1	9.8
US High Yield **	332	0.4	4.1	6.2
S&P LSTA Leveraged Loan Index	407	0.0	3.3	3.1
		Moves (bps)		
Rates	Yields	MTD	YTD	2020
US Treasury 10 years	1.22%	-25	31	-100
Canada Govt 10 years	1.20%	-19	53	-102
US Libor 3M	0.12%	-3	-12	-167

Source: Bloomberg and S&P Global. \*ICE BofAML US Corporate Master Index. \*\* ICE BofAML US High Yield Master II Index. All spreads are in basis points and represent the option-adjusted spread relative to comparable US treasuries. All Spreads for S&P/LSTA Leveraged Loan Index represent the spread to maturity. As of July 31, 2021.

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