MACKENZIE CREDIT ABSOLUTE RETURN FUND

Series F | Monthly commentary | April 2021

MACKENZIE Investments

INVESTMENT STRATEGY & HIGHLIGHTS

The Mackenzie Credit Absolute Return Fund targets an absolute return similar to high yield credit but with less volatility and a lower correlation to equity risk. The fund provides tactically managed exposure to a range of fixed income asset classes and will use leverage to amplify returns and manage risk across the credit cycle. The portfolio managers also engage in fundamental bottom-up research in long and short credit selection and will make use of options and other systematic strategies for tail risk protection.

FUND SNAPSHOT

As of April 30, 2021	
Inception	26-February-19
Benchmark	FTSE TMX Canada 91-Day T-Bill
AUM	$135,442,626
Management Fee	0.75%
MER	1.08%
Performance Fee	None
Redemption Notice	None
Min. Investment	$500
NAVPU	$9.85
Distribution	Quarterly / Variable

Monthly Performance Net of Fees (Series F, %)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	SI (Ann.)
2021	-0.1%	0.5%	-0.6%	0.4%									0.2%	4.7%
2020	0.8%	0.2%	-2.2%	1.8%	0.2%	2.4%	2.1%	-0.7%	-1.2%	-0.7%	3.4%	1.4%	7.8%	
2019			1.1%	0.4%	-0.4%	0.6%	0.4%	-0.1%	-0.2%	0.1%	0.1%	0.4%	2.5%	

LOOK THROUGH ASSET MIX AS % OF NAV

Asset Class	Short	Long	Net
Cash	0%	13%	13%
Government Bonds	-66%	18%	-48%
Investment Grade Bonds	0%	92%	92%
Floating Rate Loans	0%	7%	7%
Emerging Markets Debt	0%	0%	0%
High Yield	-6%	84%	78%
Options	-72%	72%	0%
Total Exposure	-144%	285%	141%

RISK TOLERANCE

Low | Moderate | High

PORTFOLIO STATISTICS

*Return	4.7%
*Standard Deviation	2.9%
Target Vol. Range (5 yrs.)	5-9%
*One Month Value at Risk	-1.9%
Leverage	1.2 X
Yield (%)	6.5
Duration (Years)	4.6
Average Credit Quality	BBB
*Equity Beta	0.0
*Equity Correlation	0.0
*Maximum Drawdown	-3.8%

*Since inception. Beta and correlation with reference to MSCI World CAD

STRATEGY ALLOCATION AS % OF NAV

Strategy	Short	Long	Net
Protected High Yield	-72%	158%	86%
Leveraged Investment Grade	-64%	87%	22%
Credit Momentum	-2%	35%	33%
Long/Short Credit	-6%	6%	0%
Total Exposure	-144%	285%	141%

CURRENCY EXPOSURE

Currency	Gross	Net
CAD	33%	104%
USD	62%	-3%
Other	5%	-1%

ATTRIBUTION HIGHLIGHTS

MCAR returned +0.4% in April after Series F fees. Top contributors included USD hedged exposure to high yield bonds and floating rate loans in the protected high yield strategy. The investment grade bond portfolio was roughly flat on the month but duration hedging through short government bond positions detracted slightly. The credit momentum strategy was a positive contributor while the long/short strategy was not a significant factor in April.

MCAR contains a collection of strategies that are managed independently and combined to deliver a high yield-like total return over time, but with less volatility, less downside risk, and a lower correlation to equity markets than a traditional “plus” fixed income investment. More details on each of the underlying strategies are included on the following page.

STRATEGY HIGHLIGHTS

The **Protected High Yield** sleeve contains a collection of corporate bonds that have been selected based on a top-down evaluation of economic and industry factors and a bottom-up evaluation of company fundamentals. To manage the downside risk inherent in this asset class, 100% of the high yield notional exposure is covered, currently with a bear put spread options strategy. This hedging strategy involves buying put protection on a high yield index ETF at a given strike price and selling put protection at a lower strike price on the same underlying index.

It was another relatively strong month for the high yield credit asset class, especially in lower rated credit and in the energy sector. Earnings announcements have been conducive to further spread tightening with nearly 87% of companies beating market expectations. The commodities rally (including energy commodities and energy products) continued in April, helping the sector outperform. The crude oil spot price for example is up by over 190% year over year and more than 30% year to date. This has helped the sector broadly outperform after a dismal Q1 2020. Top contributing energy names in the portfolio for April included Enbridge, Interpipeline and TransCanada hybrid securities. We have and continue to be supporters of the Canadian hybrid securities market and have written about them regularly. The TransCanada Trust hybrid specifically has one of the best credit profiles in the pipeline group given the high quality of its assets, ~93% of their revenues are underpinned by long term contracts which have little to no price or volume risk exposure, and they have a good history of generating stable cash from operations. The company's long-term contracts are also signed with mostly investment grade counter parties. More recently, the company's decision to suspend and terminate Keystone XL ("KXL") removed a negative overhang on the company's credit ratings. Even with the termination of KXL, our expectation is the company's large pool of secured capital projects should result in moderate growth in cash from operations moving forward. In addition, with the majority of the company's EBITDA generated from the natural gas pipeline segment, the company's assets are well positioned to take part and contribute in the growth of lower carbon sources of energy across their North American footprint. Although these hybrids are junior in the capital structure, the fund holds a meaningful position given our favorable view of the credit, the considerable asset coverage, and significant amounts of equity cushion. We also see the TransCanada hybrids as an opportunity to get a higher yield vs. more senior bonds in their capital structure.

Leverage is achieved in our **Investment Grade Bond strategy** through a total return swap based on QCB, the Mackenzie Canadian All Corporate Bond ETF. The interest rate risk associated with this exposure is actively managed using government bond futures, which explains a large part of the Fund's short exposure to government bonds. The Fund remains heavily exposed to IG credit as technical and fundamental forces suggest that spreads are likely to remain stable in the near term. Duration in the Fund was cut from 6.6 to 4.1 years in the fourth quarter of 2020 as the macro economic recovery and positive market sentiment turned to rising inflation and yield expectations. It was lifted slightly to 4.6 years at March month end as bond yields returned to pre-crisis levels. The portfolio duration remains unchanged month over month.

As the name implies, our **Credit Momentum** strategy invests based on the relative price movement of five major fixed income asset classes: government, investment grade, high yield, floating rate, and emerging markets (EM) debt. It is a strategy that can help manage risk for the Fund in extended bear markets and seek returns when markets are trending positively. Year to date the credit momentum strategy has quite been active. As momentum left the investment grade and emerging markets bond asset classes in Q1 those exposures were both cut to zero. Despite those changes, the strategy still has meaningful exposure to floating rate loans and high yield bonds, which paid off for the portfolio in April.

The portfolio also contains a fundamentally driven **strategy of long and short credits** that can capitalize on credits that appear to be mispriced to the high side. There are currently 22 short positions in the portfolio with average position sizes of roughly -0.25% of Fund NAV. The negative investment theses behind these positions are based on fundamental insights around their credit rating outlooks and insights on potential near term catalysts that may lead to value realization on those positions.

With historically low interest rates, an uncertain macro-economic backdrop, and credit spreads that have come back from their recent highs, fixed income is likely to remain a challenge for many going forward. The Mackenzie Credit Absolute Return Fund is designed to utilize the fullest and broadest toolset, resources and collective experience of the Mackenzie Fixed Income Team across the credit spectrum and capital structure to help investors navigate challenging fixed income markets and target meaningful positive real returns over time while carefully managing associated risks.

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GLOSSARY OF TERMS

Standard Deviation: A measure of the variability of returns that have occurred relative to the average return. The higher the standard deviation, the greater is the range of returns that has been experienced. Standard deviation is commonly used as a measure of risk.

Value at Risk: The maximum loss anticipated over a one-month period with 99% confidence, based on realized standard deviation, assuming a normal distribution

KEY INVESTMENT PERSONEL

Steve Locke, MBA, CFA

Senior Vice President,
Portfolio Manager, Head of Team
Mackenzie Fixed Income Team
Investment experience since 1995

Konstantine Boehmer, MBA

Senior Vice President,
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Investment experience since 2003

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Investment experience since 1988

Dan Cooper, CFA

Vice President,
Portfolio Manager
Mackenzie Fixed Income Team
Investment experience since 2003

Movin Mokbel, MBA

Vice President,
Portfolio Manager
Mackenzie Fixed Income Team
Investment experience since 2000

Standard Performance Data Net of Fees (Series F)		
	1yr	SI (02/26/19)
Mackenzie Credit Absolute Return Fund	7.4%	4.7%
FTSE TMX Canada 91-Day T-Bill Index	0.2%	1.1%

Source: Morningstar

Disclaimer: