Mackenzie Global Strategic Income Fund

Quarterly Commentary — March 2021

Portfolio Information	
Equity	56.2%
Fixed Income	37.6%
Cash	6.2%
Portfolio Yield	2.3%

Equity Statistics	
Dividend Yield	2.2%
Regional Exposure	
US	57.0%
Europe	28.2%
Japan	4.6%
Emerging Markets	8.4%

Fixed Income Statistics	
Fixed Income Yield	3.3%
Average Credit Quality	A-
Duration	5.5
Credit Exposure	
Investment Grade	79.7%
High Yield (BB to B)	17.5%
Hight Yield (CCC & lower)	2.9%
Regional Exposure	
Canada	22.4%
US	38.6%
Europe	3.1%
Emerging Markets	39.4%

Major currency exposures	Gross currency exposure	Net exposure after hedging
CAD	16.9%	35.6%
USD	50.0%	34.0%
CNY	4.5%	4.5%
EUR	9.1%	8.7%

Equity Macro Highlights

Stocks markets rose across the board last quarter, and while it hasn't been a straight line, many of the trends that began with the highly successful vaccine announcements in November continued. Value continued to outperform growth, and the shares of more asset-intensive, financially leveraged and economically sensitive companies have significantly outperformed over the last five months. As should be expected in this value-driven rally, sectors like Energy, Financials and Industrials did well, while Healthcare, Consumer Staples, and IT lagged. Canada was the best performing region and Japan was the weakest.

In regions with leading vaccination rates (US, UK, Israel) and/or where daily life appears to be returning to normal (China), economic activity has been gaining steam. Global GDP forecasts are being raised and then revised even higher – the IMF upped its GDP growth forecast twice in four months and currently sits at 6.0% for 2021. These forecasts are suggesting a healthy cumulative earnings recovery of more than 20% during 2021, and likely going into 2022. Commodity prices jumped higher and bond yields rose around the world, with the US 10-year reaching nearly 1.75%, up from 0.9% at the start of the year, and the UK 10 year gilt more than quadrupling (albeit from a starting point of under 0.2%). Given this backdrop, it is not surprising that animal spirits were back in full force. M&A activity continued to pick up and reached a record $1.3 trillion. We would be remiss not to mention the growth of special-purpose acquisition companies (SPACs), a "backdoor" means of taking private companies public without having to go through the nuisance of satisfying regulators. They accounted for 25% of all US deals. And for those companies that IPO'd the old-fashioned way, they were generally met with strong institutional and retail demand, despite many of them still loss-making. Bitcoin broke through $60,000 after approaching $5000 a year ago. The sales of NFT's (non-fungible tokens) representing original "digital" artwork allegedly reached over a half a billion dollars. For basketball enthusiasts, a member of our team sold an iPhone photo taken of Kawhi Leonard making "the shot" from the Toronto Raptors 2019 championship run for $35,000. (We are kidding, of course, but did anyone even flinch after reading that sentence?). We have all become desensitized to market headlines that 10 years ago would have been reason to call an all-hands-on-deck meeting and are now reduced to reactions that simply involve a text with a shrug emoji.

But we digress. We are generally wary about agreeing with consensus forecasts, and typically err on the side of caution i.e. we are more inclined to discount consensus growth projections. With that in mind, while most economists are forecasting a strong expansion of global GDP this year, we are taking the rare view (for us) that the consensus forecasts are conversative and are positioning the portfolio accordingly. While many strategists are forecasting higher inflation over the near term (and market-implied expectation have also moved up), it is still not the consensus view that inflation is here to stay beyond the next few quarters. The Fed has been very transparent about their skepticism with regard to inflation spiraling out of control and are willing to let the economy "run hot" (i.e. inflation above the 2% target) for a period of time as the US inches its way back to full employment, presumably over the next few years. As such, we are willing to take the view of growth coming in above what consensus thinks over the near-to-medium term. We think that as the vaccine is made more widely available to not just the OECD nations but also developing ones, combined with what has been record amounts of fiscal and monetary stimulus, growth will bounce back above what current expectations are discounting.

We have to be careful about anecdotal conversations influencing our view (everyone WE talk to can't wait for the "all clear" signal to re-enter society with a serious case of YOLO or 'you only live once'), but real pent up demand and record high savings rates appear to be driving everything from Disney park reservation sellouts to RV scarcity. By the end of 2020, companies began calling out a rise in input costs related to COVID-specific fallout (freight rates, for instance). There are shortages in things ranging from semiconductors to pipes. During the Q120 earnings season, you had companies from Proctor & Gamble to Coca Cola highlighting increased commodity costs pressuring gross margin structures (Morgan Stanley's Consumer Staples analysts are calling it "the worst commodity environment they have seen in their 25 years of coverage"). In recent weeks, economic data has surpassed economist forecasts, with the unemployment rate in the US falling to 6% (from 6.7% at the start of the year) and ISM manufacturing and services coming in at 64.7 (highest since 1983). In short, inflationary pressures appear very real.

Of course, the economy – and the market - is a highly complex and unpredictable organism that doesn't always neatly fit into a technocrat's model, let alone a fund manager's. Best laid plans, as they say. At the very least, better economic data coupled with seemingly unlimited central bank liquidity and real-world confirmation through the companies we own and follow gives us comfort that our current positioning is on the right track. But don't mistake a confident view with hubris: we are well aware our thoughts on GDP growth and inflation could be wrong. If you were a professional financial market participant and positioned assets in a significant way for any length of time based on a pro-inflation view over the past 30 years, you have been consistently wrong. The step-up in yields portends a more inflationary near-term outlook, but beyond the next year or two, who knows? Does a steepening yield curve signal inevitably higher inflation, or is it simply re-pricing growth expectations? The US dollar should, in theory, weaken with the prospect of inflation, and has remained resilient. Treasury Inflation-Protected Securities (TIPS) are at the same levels as last fall and below where they sat in January. More to the point, prior to the pandemic, a full decade of aggressive monetary policy had failed to generate inflation in industrialized economies (hello: Japan). Creating demand by cutting stimulus cheques will help near term, but where will we be once we get past the "sugar high"?

Alas, we are in the judgement business, and while we are sticking to our knitting - the fund remains a collection of upper echelon quality businesses with strong competitive positions, cash generative economics and sound long term growth prospects – we are tilting the portfolio to better reflect an acceleration of global GDP growth. For now.

Equities that contributed to Performance

Atlas Copco (ATCO) was the quarter's top performers in local currency. The company is a long-term compounder, and one of the best industrial companies in the world. It enjoys very attractive growth, high margins on both original equipment and aftermarket sales, resilient cash flows from a high service mix in its income, high returns on capital from asset light production, and huge competitive advantages through its wide-reaching distribution network. The performance in the quarter was driven by the market's perception for ATCO's Vacuum Technique division. The Vacuum Technique division has the semiconductor industry as a key end market. The semiconductor industry is experiencing demand in excess of supply, and the company responded by significantly increasing investment plans over the next decade. The visibility of highly accretive growth accelerating for the next decade, created buzz and excitement on the street, and reflected in the Q1 share price development.

Our best performing US stock in the first quarter was **Altria Group** (MO), which controls roughly 50% of the combustible and smokeless tobacco market in the US. The rotation into value this quarter likely explains some of the move, as MO is one of the cheapest stocks in the portfolio by almost any metric (P/E, dividend yield, DCF analysis). It also represents inflation protection as MO's core business is among the more "inelastic" we own with significant pricing power. Finally, despite the nature of their products (high repurchase rates) the business was hurt by the pandemic as outdoor social occasions were reduced and consumers down traded to discount brands and away from MO's premium products. These trends began to reverse this quarter. MO also benefited from their minority ownership stake in AB Inbev, which makes up ~10% of earnings and began to recover as well.

Like most bank stocks, **JP Morgan** (JPM) was a standout performer as expectations rose around improving GDP growth and rising inflation (and interest rates), particularly in the US. Banks are direct beneficiaries of both these factors in the form of, among other things, improved loan growth, lower provisions, and expanding net interest spreads. JPM was no exception and has the added benefit of operating the world's biggest and most profitable capital markets division and a leading wealth management arm with over $2.7 trillion of AUM. The company enjoys a "fortress balance sheet" and has demonstrated superior returns and risk controls over the years, the most recent example being the Archegos Capital fiasco where JPM (unlike Goldman Sachs, Morgan Stanley and Credit Suisse, among others) was uninvolved. The company is run by Jamie Dimon, arguably the most astute CEO in banking. JPM continues to be among our largest positions.

The **Blackstone Group** (BX) was one of our better performing stocks for the quarter as their best-in-class fundraising means that management fees and fee-related earnings (FRE) are likely to continue to exceed company projections. In mid-2018 the company aspired to grow annual FRE by 50% or $1.0B before the end of 2021. In March, BX announced they had reached this goal a year ahead of schedule and are now forecasted to reach annualized FRE of $2.8B by the end of 2021. This growth in FRE is occurring in lockstep with material FRE margin expansion as the firm continues to scale newer strategies. Additionally, the company has numerous growth initiatives underway including opening retail and insurance distribution channels which will likely amount to a market opportunity of several hundreds of billions. This strong performance and upside optionality are reinforced by a very stable and loyal investor base. BX's top-10 investors are involved in an average of 26 Blackstone funds and no investor accounts for more than 2% of company's managed assets.

Corteva (CTVA), the recent spinout and heir to Dow and DuPont's agricultural assets, was another key contributor for the quarter as US corn and soybean prices continue to move higher. The favorable increase in prices coincides nicely with a strong 2021 new-product pipeline and the addition of three new Starboard-backed independent directors. The addition of the new Starboard investors comes after the New-York based activist investment advisor put forward a presentation in October 2020 that called for 23% EBITDA margin by 2022 (versus the 17% implied EBITDA margin in CTVA's 2021 guidance) on a 50% drop in net royalty payments, efficiency improvements and market share gains in soybeans. The share price also benefited from the certainty of reaching an agreement on sharing future PFAS liabilities with Chemours and Dupont resulting in a total liability cap of $640m for CTVA.

Equities that Detracted from Performance

New Oriental Education (EDU) was our worst-performing stock in Q1. As is the case anytime you own a business somewhat subject to the vagaries of Chinese regulators, the shares came under pressure after rumors circulated that Beijing was going to propose limits surrounding availability, pricing, and licensing of after school tutoring services, of which EDU is a top player. We continue to believe that as a large player in a highly fragmented market EDU is well-positioned to manage any regulatory changes that may be imposed. The long-term backdrop for after-school tutoring remain attractive, with tremendous end market demand for brick-and-mortar tutoring, especially for the leading brands in the space. Despite only having 5% share, EDU has significant scale and reputational advantages over the mom-and-pop players they compete against. We added to our position.

The **London Stock Exchange** (LSE) was one of the quarter's poorer performers. LSE executed a transformational deal, buying Refinitiv from Blackstone. The deal closed on January 29, 2021. The stock declined because the management had made rosy promises to win shareholder approval of the transaction. As soon as the deal closed, the management indicated that it would cost more money to deliver the same savings over a longer period of time. They also implied that the turnaround of growth of the acquired assets might not be the low hanging fruit that was communicated, so it could still be achieved but is riskier. This surprised the street, hence the price development, but was in line with our view of the deal. Our independent assessment of the risks of the deal was much less favorable, and we thought a revision of this type likely, if not quite so quickly. The holding had been reduced accordingly ahead of the deal's closing. That all being said, LSE's core assets (FTSE Russell indices, forex and repo trade clearing, etc.) remain world class and we will be opportunistic as it relates to the shares.

There was no specific event or reason that lead Japanese machine vision specialist **Keyence** to underperform, but as one of our more "long duration" (i.e. expensive) investments, it fell victim to the market's rotation out of growth. The company develops, manufactures, and sells highly tuned sensors and measuring instruments for factory automation facilities and technology products. The key to Keyence's success (and its ability to sustain industry-leading 50%+ operating margins over time) is the company's maniacal and unique approach to its customers: rather than create solutions around products, Keyence develops products around solutions that are bespoke to the client. This allows the company to provide the quickest and highest payback for customers investing in their services. They rarely compete on price. Given the long-term attractiveness of the machine vision industry and the relative under-penetration outside of their core Japan market, we continue to be happy owning the shares.

Vonovia (VNA), the leading German-based residential property manager, was a first quarter detractor. The company trades in the short run as a counter-proxy to interest rates: it is seen to benefit from low rate environments, and to be hurt by rising rates. This is generally correct, as a levered long duration asset they are hurt by rising rates, but incomplete. When a company trades at a discount to intrinsic value, focusing on the short-term trade misses the big picture. Some elements to consider: VNA's stock trades at an important discount to the equity value when one adjusts book value to its market value. The company operates as a dominant supplier in a market where demand is grossly unmet due to regulation, and that market value is increasing over time, driven by factors such as migration into urban areas. The simplistic narrative ignores the value creation opportunities to drive earnings and cash flows that exist within VNA's portfolio. The bond proxy argument doesn't consider the external environment factors driving favorable consolidation opportunities for the firm, such as a recent German law to decarbonize the residential sector. Nonetheless, in the context of a value recovery, the stock did poorly. VNA is not a bond; its earnings per share have grown over 14% CAGR since it became a public company almost eight years ago. The team continues to view VNA favorably.

Fixed Income Comments

The first quarter of 2021 has seen a significant upward adjustment in global bond yields. The brighter outlook going forward based on vaccines, re-openings, nascent inflationary pressures and fiscal stimuli provided the fertile ground for the reflation story. While we believe that we could see a further normalization in rates, we do not expect that same pace to continue. The world appears too fragile still to tolerate another major leg upwards in yields at this stage. With ever increasing amounts of issuance (via already proposed fiscal spending & newly proposed) paired with only gradual revenue increases on the other side – FED purchases look like they would need to continue for quite some time. The FED and other central banks have continually asked for more fiscal to complement the monetary stimulus – now that they are finally seeing some signs of getting it; it would be foolish to abandon their role and let pure market forces determine where prices should settle.

Over the next quarter we expect the same general themes to persist, albeit with periods of consolidation. We expect continued vaccination progress and the reopening of the economy to be positives for the economy and accompanied by continued improvements in both employment and consumer spending. This, along with continued support from the government and the Bank of Canada, is likely to support risk markets. We do not expect material widening of investment grade credit spreads, although we are cognizant of the fact that risk assets are somewhat 'fully valued'.

With the U.S. Fed and the Bank of Canada keeping the short end of the curve pegged at historically low yields, the market saw dramatic steepening in the yield curve, with the 10-year term sitting at the steepest point against the 2-year term since 2015. Still rates remain low by historical standards, and we remain short duration across the funds in anticipation of continued fiscal stimulus, as well as, eventually, central bank tapering of their QE purchases. With rates still at all-time lows, the risks of holding short end debt remain asymmetric and we continue to prefer floating rate debt in this part of the curve.

Fixed Income Team outlook

The global debt burden has increased rapidly during the past year and thereby offers some limits to the feel-good environment of stronger growth and higher inflation. Pain will be felt in the most indebted & interest rate sensitive areas of the economy if the rise happens to fast and/or too far. This leads us to having an underweight position in overall duration throughout our portfolios; with a significant part of that underweight in the 10-20-year part of the curve.

We remain positive on Chinese Rates and have that view expressed in many of our funds. The relative interest rate advantage, significantly positive real yields, stable currency and (*comparatively*) conservative central banks provide us with confidence in our position. While flows have been steadily going in to the Chinese Bond market, we still believe that the global investment community is structurally underweight -> resulting in continuous flow which should further support FX and bonds. Index inclusions and weight increased are set to continue.

TIPS continued to perform well on a relative basis vs. nominals. 10-year breakevens widened by 40bps and thereby dramatically outperforming nominals. In absolute terms TIPS did not fare that well. The high duration of TIPS paired with the violent 80bps move in US 10yr bonds also affected inflation linked bonds. Interestingly – the curve of the breakevens has flattened, with shorter term breakevens rising more than at the long end of the curve. The market is expressing the view that inflation will rise in the near term, but that the FED will be able to control those higher prices. While we do not expect runaway inflation we have a healthy dose of skepsis. Going forward, we still like to hold TIPS as we not only expect broadly higher yields in the quarters ahead, but also see some inflationary pressures building in the US economy. We expect inflation to play a dominant role going forward in terms of its importance to global rates and risk assets and believe that more upward pressures will be with us in the next few months.

EM debt performed poorly in Q1 2021. EM hard currency debt mainly due to its high duration and the lack of any spread compression – the spread of the broad market stayed at 350 bps with EM hard currency debt moving higher in yields by the exact amount that US treasuries did. EM local debt was hit on both the FX and rates side. EM asset in general do not like the strength of the USD and rising US rates – that is primarily due to EM's foreign currency debt becoming more expensive, which in turn makes the country less creditworthy (creating a negative feedback-loop). Much of the rate/FX move in the US was due to US-exceptionalism on vaccine roll-out, re-opening, fiscal thereby amplifying the effect. On the flipside – the overall macro-environment is generally supportive for EM (loose monetary policy, commodity boom, fiscal spending, global trade rebound). The rates & USD story dominated EM markets and resulted in a significant re-positioning and some aggressive price action.

US-exceptionalism seems close to its peak as Europe and other major nations are gaining momentum in the vaccine roll-out and current lockdowns will likely be removed in the next few months – providing a relative growth outperformance for those regions. EM fundamentals have generally improved, so have valuations and positioning. We remain positive on EM assets.

The first quarter of 2021 was marked by continued optimism on two fronts: the fight against the coronavirus and increased expectations south of the border for substantial fiscal support. Democratic wins in Senate runoff contests in Georgia gave the Democrats effective control of the Senate to go along with the White House and the House of Representatives. The immediate effect of this was to allow the administration's US$1.9tn fiscal support package to pass. Prior to their Senate success, estimates for this fiscal package ranged from US$600mm-$900mm. The United States vaccination program made substantial progress during the quarter, eventually accomplishing more than three million vaccines per day and allowing swathes of the economy to begin to reopen.

Unsurprisingly the market reaction to the fiscal support package was quick and strong. 10y US yields rose from 0.91% to 1.74% during the quarter, while Canadian 10y yields rose in line, from 0.72% to 1.56%. Inflation expectation continued to rise on both sides of the border with US 10y breakeven rates rising 36.5bps and Canadian 10y breakeven rates rising 38bps. As a result, the US Investment grade bond index (source: Bloomberg Barclays US Aggregate Total Return Index) returned -3.37% while the Canadian investment grade bond index returned -5.03% for the quarter.

Gross investment grade bond supply in the U.S. during Q1/2021 decreased by about 8.5% to US$ 456 billion, from an exceptional Q1/2020 with record volume. Nevertheless, Q1/2021 supply is a heavy-supply quarter historically. In Canada, gross supply in Q1/2021 was about 19% higher than that during the same period in 2020. Rising yields in the earlier part of the quarter prompted more companies to bring issuances be market to lock in lower borrowing rates.

During the height of the Covid-19 crisis, the Bank of Canada put in place provincial and corporate bond purchase programmes to support the functioning of the financial markets. In light of the improving economy, decreasing unemployment, increasing vaccination of the population and the continuous pledge by the Federal Government to provide additional stimulus, the Bank of Canada decided that these programmes are no longer be required. The change removes a supporting factor for provincial bonds in the 10-year and below term. As such, we look to the out-performance of the long provincial bonds relative to their 10-year counterpart.

The high yield market returned +0.90% in the first quarter of 2021, outperforming most other areas of fixed income that were more significantly impacted by the rising rate environment.The economic recovery that appears to be taking hold continues to support the valuations that we currently see in the high yield market.

Over the past quarter, the US 10-year bond broke out over 1% for the first time since March 2020, as the yield rose from 0.92% to 1.74%. The sharp rise in yields were largely fueled by both the expected economic rebound as the economy re-opens, as well as expectations of rising inflation due to the unprecedented monetary and fiscal policy actions. Rising rates had a disproportionately negative impact on the higher quality BB-segment of the high yield universe with lower yields and thus less cushion from rising rates, resulting in negative (-0.21%) returns in the quarter. Losses in the BB-segment were more than offset by gains in the lower quality segment, as the reopening theme supported the compression trade in credit spreads and drove the B and CCC-segments to +1.18% and +5.2% returns respectively. The high yield market now yields a record low 4.27% YTW and 4.92% YTM, but the 336 spread over treasuries still looks attractive in this low yield environment. The overall quality of the issuers in the index is higher than at any other time in history with a record 54% rated BB. The high yield primary market experienced a record $158.6 billion of new issuance in Q1 '21, providing liquidity and refinancing opportunities for companies to extend out maturities at attractive yield levels. Credit fundamentals continue to improve as the economy gradually recovers with businesses reopening and jobs returning, and the vaccine rollout should support stronger economic growth and a material rebound in the coming 12 months. Rising stars far outnumbered fallen angels during the quarter, as more companies were upgraded to investment grade as a result of improved fundamentals, providing a strong technical to the market as result of a lower supply of outstanding high yield bonds. This a sharp contrast to the significant amount of fallen angels from investment grade to high yield that the market experienced in 2020. The high yield default rate increased to a peak of 6.5% in 2020, well below the typical double-digit rate seen in recessionary environments. The default rate is already on a downward trajectory, as Q1'21 saw only 5 defaults for a total of $3.2 billion, representing the lowest default total for a quarter since Q3'18.

In this low yield environment and almost $14 trillion of global bonds with negative yields, we still see some value in the high yield market. We believe that the 336-basis point spread presents and adequate buffer over treasury yields, and an opportunity to collect an attractive carry yield in this low yield environment. We expect credit selection will grow in importance through the year and an increased focus on corporate earnings and fundamentals, considering the record low yield levels seen in the CCC market and certain cyclical sectors. Given the uncertainties that continue to loom over the market for; vaccine effectiveness for variants, pace of economic recovery, size of fiscal stimulus/infrastructures packages, and potential for government bond yields to continue higher, we do expect to see higher levels of volatility that we hope to be able to capitalize on in our mandates**.**

What a difference one year makes! Last year we were writing on the big selloff in leveraged loans and the extreme volatility from very sharp drops in mid March to very strong rebounds in late March and April. A year later, we are back to "normal" business amid record primary issuance and relatively low volatility. The leveraged loan market set a record for new issuance in Q1 2021, at $181 bn, surpassing the previous record of $171 bn in Q1 of 2017. However, refinancings accounted for nearly half of this record, resulting in a surge of loan repayments and repricing accounting to roughly 20% of all outstanding loans in the market for the quarter.

In terms of market performance, we entered Q1 2021 with roll outs of vaccination programs globally, continued monetary and fiscal stimulus and varying degrees of economic reopenings. Stocks continued to hit records and credit performed well despite some on-and-off volatility in the high yield market. Leveraged loans returned +1.78% in Q1, compared to 0.90% for HY bonds (BAML HY Master). This was a rather healthy return compared to IG bonds at -4.49% (BAML HG Corp), and -7.10% for 10 yr US Treasuries. We note that loan returns were +1.19% in Jan and +0.59% in February and 0% in March. The wave of repricings coupled with record primary issuance contributed to a weak secondary loan market in March. Nonetheless, the LTM total return rate was +20.71%.

The average loan price was 97.5 on March 31st, up 1 ¼ points from Dec 31, 2020 levels and also up ¾ point from pre-covid levels (year-end 2019). However, loans priced above par in March 2021 were only 10.6% of the market versus 12.5% in Dec 2020 and 53% in Dec 2019. And loans priced between 98 and par were 71.6% of the market in March 2021, versus 61.6% in Dec 2020. YTM was 4.39% on March 31 2021 with a spread of 414 over Libor, compared to YTM of 10.09% and 818 bps spread in March 2020.

Continuing a trend since June 2020, higher rated loans actually underperformed again in Q1 2021. BBB loans had a total return of +0.70% in Q1 (and -0.17% in March). BB loans provided +0.8% in Q1 and -0.27% in March. CCC loans, however, outperformed and recorded a +6.3% total return in Q1 and +0.83% in March, reflecting investors' search for price upside and managers' focus on yieldy loans. Worth noting that CCC loans have now rallied for 12 consecutive months providing a total return of 44% over the LTM period. Another indication of market's search for yield is total return for second lien loans which returned +5.1% in Q1 and +1.45% in March.

Retail flows into the loan asset class finally turned positive, reflecting investor fears of rising market yields. Except for a small outflow ($10 mil) reported in the first week of the year, flows were positive for the next 15 weeks in a row, totaling a net $10 bn in Q1. As a reminder, a whopping $19 bn left the asset class in 2020, in addition to the $28 bn in outflows in 2019. With $40 bn in new US CLOs priced in Q1 2021, the CLO market had its best Q1 since the 2008 financial crisis, driven by a combination of strong leveraged loan primary issuance, falling liability costs, attractive relative value pool arbitrage, and fresh supply from seasoned and smaller managers after a difficult 2020.

New issue cannibalization from loans into high yield bonds was a dominant theme in the middle of 2020 (Q2 and a good part of Q3). Dozens of borrowers had opted to issue debt in the form of senior secured notes taking advantage of record low coupons in the high yield market and shunning away from a primary loan market that did not thaw till Q3. As a result, the high yield market saw record volumes of issuance as borrowers raised capital to bolster liquidity. Very strong issuance activity in the HY market continued in Q1 2021 but not at the expense of the loan market. The loan market actually grew in size to a record US$1.208 trillion the end of March 2021 – this compares to US$1.557 trillion for the HY market.

Finally, back in March the LTM default rate was expected to hit double digit by year-end. Well, that obviously did not happen. Ample market liquidity, government support, corporate forbearance and aggressive cost cutting initiatives, among other things, all played a very critical role in keeping many borrowers afloat without having to recapitalize their capital structures. The loan LTM default rate stood at 3.15% in March 2021, down from 3.83% in Dec 2020. And the percentage of CCC rated loans dropped to 8.3% in March 2021, from 8.5% in Dec 2020. A better assessment of market risk is percent of loans trading below 80 (which is typically the threshold for distressed); these loans dropped to 1.1% of the market, down from 2.2% in Dec 2020 and 24.3% in March 2020. In fact, only 3.8% of loans traded below 90 in March 2021, compared to 63% in March 2020.

We continue to generally be constructive on credit in 2021. With vaccinations rolling in full force globally, coupled with aggressive and decisive FED and government stimulus for the foreseeable future, we expect Q2, and especially April, to provide above average returns in the loan market. With loans' total return at +3.1% in 2020 which is a below-carry year, and at +1.78% in Q1 2021, we expect a little more recovery in loan prices throughout the second half of 2021 and for total returns to be above carry in 2021 overall.

As we stated in our last quarterly commentary, we must reiterate that the "low hanging fruit" in the loan market has been picked. To be fair, that also should be said about many other asset classes such as stocks and HY bonds. Nonetheless, we believe there is still value in the leveraged loan market especially relative to other asset classes, for the reasons outlined above. We expect credit selection will grow in importance in the rest of 2021, as investors transition from buying market beta, to an increased focus on corporate earnings and fundamentals – we still have the view that middle market loans will outperform as they did in 2020.
Vaccinations against Covid-19 is the one thing that matters the most in 2021. It's too early to tell but the world is watching. Secondary to Covid vaccinations is a bigger focus in the US on fiscal stimulus in conjunction with a sustained, very accommodative monetary policy. This macro environment should be supportive for credit especially for leveraged loans.

On April 30, 2014 the Fund changed its mandate from investing primarily in securities of other mutual funds that invest in Canadian and foreign equity and fixed income securities and/or income trusts to investing primarily in fixed-income and/or income-oriented equity securities of issuers anywhere in the world. The past performance before this date was achieved under the previous objectives.