

# Our ESG approach to Fixed Income investing



**MACKENZIE**  
Investments

**Fixed Income  
Team**

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## Core mission statement

One of the Mackenzie Fixed Income Team's core beliefs is that the tenets of Environmental Sustainability, Social Wellness and Stable Governance (collectively referred to as "ESG") are critical factors of influence with the opportunity to impact the financial performance of corporate and sovereign issuers. As forward-looking investors, it is critical that we are active advocates for enhanced accountability through increased disclosure and by assessing each issuer's adherence to a diverse range of ethical policies and practices. As stewards of capital, we remain committed to ensuring we develop solutions that aim to deliver the best risk-adjusted returns for our clients while seeking to provide continuous contributions towards the elevation of local and global communities.

## Our philosophy

The Mackenzie Fixed Income Team manages a broad range of strategies, from core government bond portfolios and flexible aggregate mandates to high-yield credit funds and sustainability-oriented mandates emphasizing labelled debt. The function of the team's ESG-oriented research varies depending on the allocation of the strategy, highlighting the relative materiality of various factors with respect to the credit issuer. We believe that just as credit risk assessments vary between industries, our process to analyze ESG positioning should be uniquely targeted to suit the characteristics of individual issuers. In addition to providing clarity towards the standing of a specific credit, this methodology reduces the risk of exposure to "greenwashed" securities, where capital is directed in a manner immaterial to the business to provide the illusion of corporate social responsibility. Through this process, we ensure that each of our strategies considers ESG risk and opportunities in a manner that holistically balances the team's core ESG principles and unique investment objectives.



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## Mackenzie Fixed Income Team core ESG principles



Analyzing securities through a targeted ESG assessment process may provide a unique opportunity to uncover hidden financial, reputational and climate change risks.



As climate change continues to intensify, equity and credit markets will increasingly adapt to reflect the growing risk to the global economy.



Impact is achieved most effectively through a holistic and complementary approach that:

- Recognizes best-in-class performers
- Rewards issuers with positive ESG-linked momentum
- Supports credits with material sustainability-linked Use of Proceeds



Adopting a comprehensive ESG research and integration process provides investors with the ability to capitalize on emerging trends in sustainable debt issuance while avoiding the pitfalls of greenwashing and exposure to ESG laggards.



Proactive engagement with debt issuers demonstrates increased commitment to promoting sustainability versus divestment or exclusion.

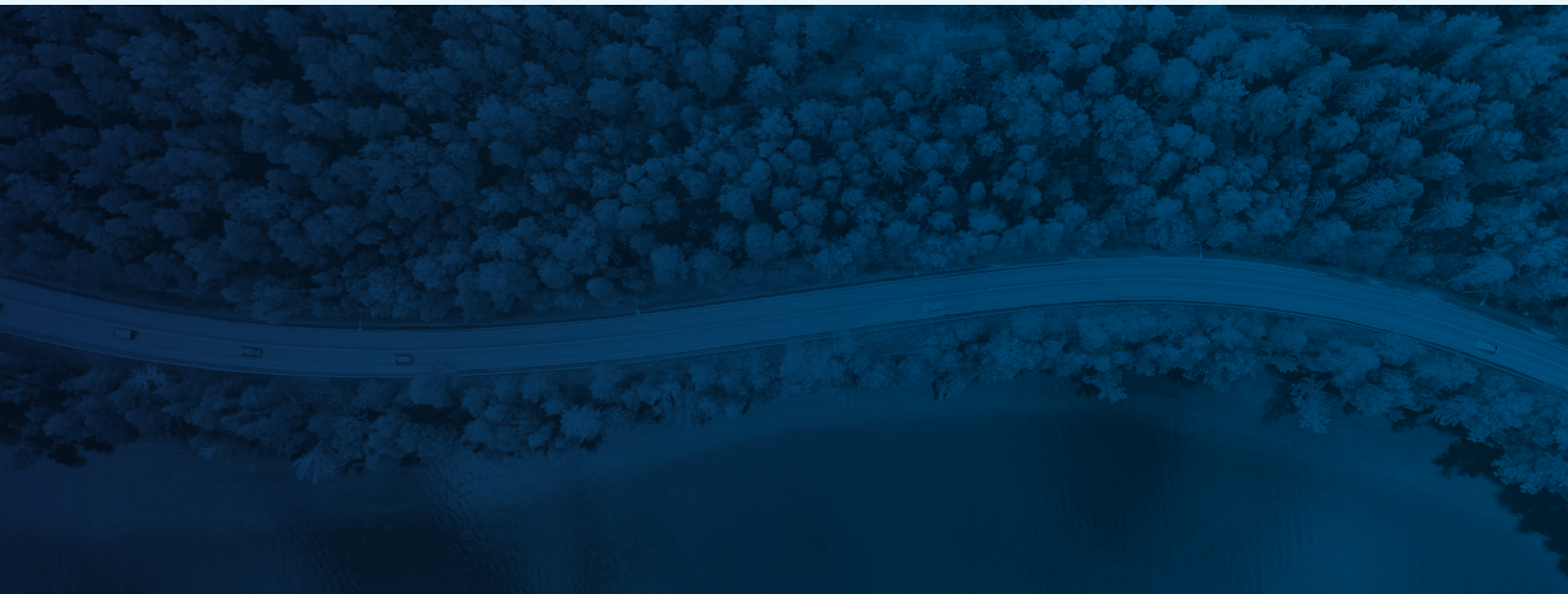
We continue to embrace the belief that effective integration of ESG principles within the investment analysis process depends on the adoption of evolving technologies, the employment of diverse perspectives and the continued education of our team and our investors.

As the sophistication and availability of reported data continues to increase, so have the Mackenzie Fixed Income Team's integration strategies with respect to how we identify opportunities and create meaningful alignment with our team's thematic objectives. Our team continues to focus on the development of thematic solutions to support our growing core of sustainable products. Having developed proprietary quantitative models to determine dynamic and materiality-weighted ESG scores for corporate and sovereign issuers, our team is committed to the continued optimization of our ESG-oriented portfolio management strategies. Mackenzie's Fixed Income strategies possess increased tilts towards positive ESG scoring, alignment to the Paris Agreement and advancement of the United Nations Sustainable Development Goals.

## ESG integration across Fixed Income strategies

Our team of ESG-oriented analysts directly collaborates with our fundamental credit analysts and portfolio managers to leverage quantitative ESG models developed to assess the standing of corporate and sovereign debt issuers. These models consider data from Mackenzie's proprietary ESG research, while also consulting data from global institutions such as the World Bank and the United Nations, in addition to sustainability-oriented third-party research organizations that include Sustainalytics and S&P Global Trucost. Through a targeted approach catered to the individual issuer, our dynamic materiality maps help to ensure that absolute performance and momentum of an issuer is derived from themes that create the greatest influence within their respective industries. This methodology allows our team to target investments and engagements, while aiming to ensure that our sustainable solutions avoid exposure to greenwashed debt and ESG laggards. The Mackenzie Fixed Income Team believes there is no one-size-fits-all approach that will ever adequately address the ESG standing of corporations and governments, ensuring that our dynamic models are continually adapted to simultaneously optimize sustainability and investment performance.

## Timeline



# Materiality maps

Materiality maps developed by the Mackenzie Fixed Income ESG Research Analyst group provide our team with the opportunity to focus on meaningful ESG concerns in each industry sector. This methodology provides our team with a top-to-bottom framework in which our models are constructed and tilted towards analyzing performance in material categories. The Mackenzie Fixed Income Materiality Map was developed with consideration towards the Sustainability Accounting Standards Board [SASB], leading academic research and Mackenzie's existing proprietary research models.

The Mackenzie Fixed Income Materiality Map is designed as a weighted distribution tree that first considers the materiality weightings of core E, S and G pillar scores before weighting designated themes within each of the individual ESG pillars. The Mackenzie Fixed Income Corporate Materiality Map considers the weights of 17 Responsible Investing themes outlined below and 94 back-tested data points considered over a period of one to five years. Similarly, the Mackenzie Global Fixed Income Sovereign Materiality Map considers 85 unique data points comprising 12 unique Sovereign Sustainability directives. These maps provide the weightings for each data point within the eventual ESG pillar scores, which are used to determine appropriate risk premiums for individual credit issuers.

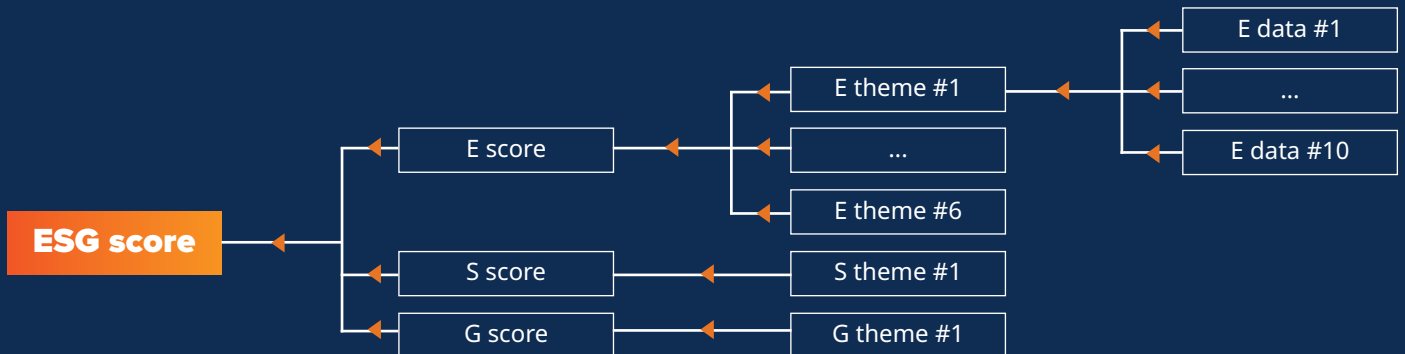
Inconsistent reporting of material data is a critical topic addressed by the Mackenzie Fixed Income Team's engagement processes, with the team strongly believing that transparent



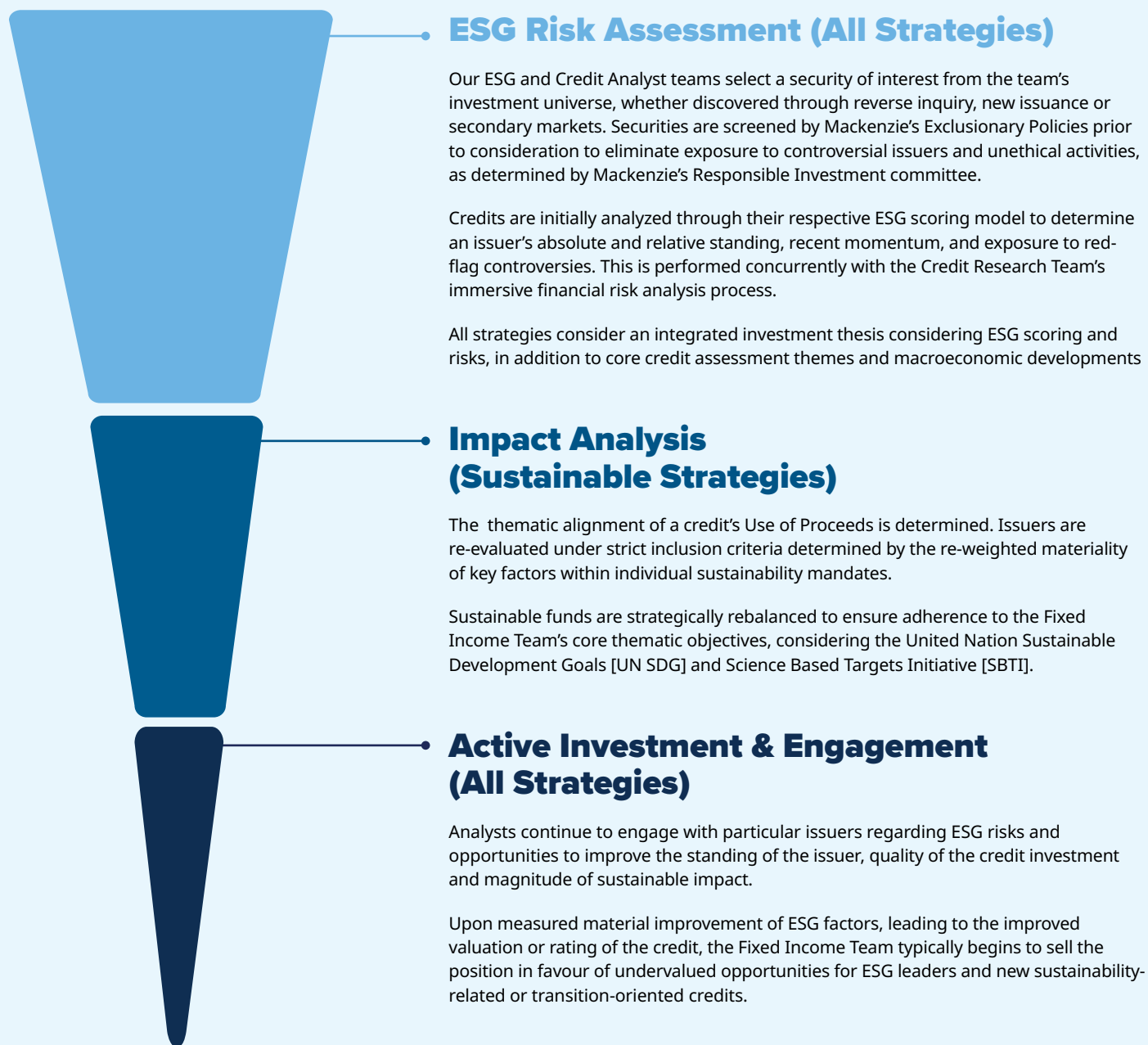
**Materiality maps provide our team with the opportunity to focus on meaningful ESG concerns in each industry sector**

disclosure is a critical pillar of ESG performance and risk mitigation. Disclosure benchmarks vary across global markets owing to differences in regulatory reporting standards. Failure to disclose material data points is penalized within the team's scoring models through the imposition of a negatively scored proxy, limiting the issuer's ability to secure funding without an audited commitment to significant improvement.

Figure 1 | Mackenzie Weighted Materiality Framework



# An ESG integrated security analysis process



## ESG integration in portfolio construction

The Mackenzie Fixed Income Team’s proprietary ESG scores for corporate and sovereign issuers are applied throughout the investment research and portfolio construction process, used as a factor in screening protocols, as well as when determining relative allocation weights. Issuers with favourable ESG standing will benefit from the adoption of a green or sustainable premium, and our portfolio management strategies allow us to benefit by investing in securities that offer a preferred risk-return relationship owing to the mitigation of ESG risks by best-in-class issuers.

By analyzing the relative valuation of credits through their respective spreads, we actively seek out issuers with valuations that do not reflect best-in-class ESG fundamentals. As such, we believe that the performance of the credit will improve through the application of sustainable debt premiums and the improved re-rating of an issuer because of strong ESG risk-mitigation capabilities. However, an attractive credit with poor ESG standing may also be considered if our research team believes that we may drive improvement in a material manner, whether through sustainable Use of Proceeds or a targeted engagement strategy. Any credit in this category must demonstrate meaningful commitments to enhancing their ESG capabilities and integration, with examples including the setting of reduction targets approved by the Science Based Targets Initiative [Science Based Targets], commencement of a sustainable labelled debt program, and ensuring adherence to rigorous reporting and transparent disclosure standards.

Once we have seen a positive change in the performance of the credit, often through the market’s recognition of ESG opportunities and risk mitigation, the Fixed Income Team will evaluate the case to sell the credit. This occurs when the team believes that the sustainability impact of the credit has been sufficiently executed, and that the credit reflects what the team believes is a fair-to-high valuation. Our various ESG-oriented solutions balance the role of funding sustainable investment throughout the investment cycle while ensuring the adherence to our credit research philosophies. In all cases, throughout the investment process, we fundamentally strive to provide the best risk-return ratio for each of our strategies, and believe that in every investment, appropriate compensation for the risk profile is paramount.

When constructing portfolios, the Mackenzie Fixed Income Team applies a multi-faceted approach to determine allocations to both labelled sustainable solutions and non-labelled, ESG-integrated products. Given their unique objectives, each product is designated their own tilts towards thematic United Nations Sustainable Development Goals (UN SDGs), assessed with respect to credit issuers and Use of Proceeds, respectively. These objectives are developed by the Mackenzie Fixed Income ESG Leadership Group, in consultation with the directives of the Mackenzie Responsible Investment Committee.

**Figure 2 | The Mackenzie Fixed Income Team aims to create funds that consider the amplified influence of labelled debt, with published targets on allocation towards sustainable debt.**

	Objective Allocation	Present Allocation
<b>Green Bond Fund</b>	67+% Green Bonds	83% Green Debt, 1% Sustainable Debt, 1% Sustainability-Linked Debt, 2% Transition Debt 14% ESG Leaders Debt
<b>Sustainable Bond Fund</b>	50+% Labelled Debt	49% Green Debt, 1% Social Debt, 8% Sustainable Debt, 7% Sustainability-Linked Debt, 34% ESG Leaders Debt

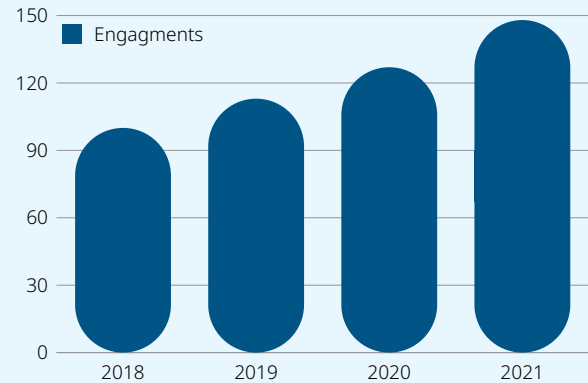
Present non cash allocation as at 01/01/2022

# Corporate issuer engagements

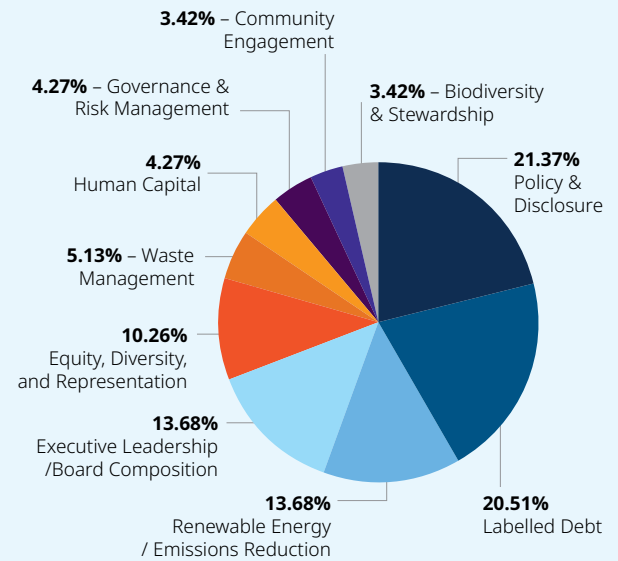
The Mackenzie Fixed Income Team is committed to engaging with issuers on critical ESG concerns throughout the duration of our investments. Starting from our initial executive meetings with corporate issuers, our team is dually focused on addressing ESG risks and fallacies that threaten the success of global stewardship initiatives, as well as the financial and reputational stability of issuers. Following the United Nations’ Principles for Responsible Investing’s recommendations on the value of strategic engagements [UN PRI – Divestment], Mackenzie’s contributions efforts have resulted in increased disclosure and accountability with engagements spanning an expansive range of sustainability themes, investment sectors and geographies. Since 2018, the Mackenzie Fixed Income Team has conducted more than 400 engagements with management teams, highlighting concerns with respect to factors such as workplace safety, executive diversity and the transition away from high-emission energy sources such as thermal coal.

Our team has been engaging in reverse-interest engagements in which our team has proactively expressed interest in financing targeted sustainable debt projects. It is our core belief that innovation is required across all sectors, and that the strategic investment in issuers with positive momentum and sustainable Use of Proceeds within sectors with high ESG risk exposure will support and enhance the transition to improved social standards and a decarbonized economy. The Mackenzie Fixed Income Team’s continued engagement with issuers who presently score poorly has led to the issuance of sustainable and green labelled debt oriented towards the decarbonization of corporate operations and increased investment in renewable energy technologies.

**Figure 3a | Fixed Income Team ESG Engagements**



**Figure 3b | Engagements by Sustainability Theme**





# Measuring impact in Sustainable Fixed Income

The Mackenzie Fixed Income team employs a distinct Sustainable Investing methodology to measure and optimize the impact derived through our strategies. Our ESG and Credit Analyst teams are responsible for analyzing the status of the respective issuer relative to industry peers and a broad market benchmark, highlighting best-in-class performance or potential sources of material red-flag risk. In addition to our core issuer assessment, our proprietary models assess the impact created by a credit's designated Use of Proceeds.

Our team is unique in our decision to measure our impact in a dual capacity. We recognize that, contrary to equity investment, labelled debt contains the possibility to invest in individual targeted sustainability initiatives as well as in (or alternatively to) the respective debt issuer. Our collection of sustainable fixed income products places a known emphasis on investing in labelled debt, with our Green Bond Fund and Global Greenchip Balanced Fund allocating the majority of fixed income towards green bonds as of the first quarter of 2022. Our Sustainable Bond Fund continues to embrace the growth of labelled debt, with allocation to a more diverse spread of sustainable fixed income instruments including green, sustainable, social and sustainability-linked debt. Our team has positioned ourselves as industry leaders through our integration of increasingly sophisticated methodologies that balance these dual objectives. This strategy enhances the ability of our portfolios to improve sustainability by investing in present innovators while also directing our investments expressly towards transformative change.

The issuer ESG assessment empowers our team to invest in issuers with an established best-in-class position as a known innovator with high ESG scores and low carbon emissions. Jointly, the Use of Proceeds and momentum models may be likened to investing in issuers who, either through Capital Expenditures or Use of Proceeds, have established science-based targets and intentions to materially reduce their carbon footprint and subsequently improve their ESG standing and credit quality. The Mackenzie Fixed Income Team has carefully considered both positions by treating our sustainable strategies as dual-strategy products, with an understanding that both methodologies are integral in traversing the path to net-zero.



**Today's leaders and tomorrow's impact: both are integral in traversing the path to net-zero.**



## ESG champions

Issuers with strong ESG performance within their sector, known for active engagement on material issues and measured commitments to advancing the UN Sustainable Development Goals.

## Investing in transition

Issuers with targeted objectives towards evolving the ESG principles of their organization, despite a potentially weaker present-day ESG Score.

## Our solution

Balanced exposure to present-day best-in-class issuers and innovative transition-oriented initiatives with moderate-term time horizons.

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