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# Fixed income innovation with a conscience

## A more innovative approach to fixed income investing

As central banks scramble to contain the highest inflation rates seen in decades, many income-oriented investors are now seeking inflation-adjusted options within their bond portfolios. At the same time, more investors than ever are trying to strike a balance between their own income needs and the needs of society.

Achieving these goals requires a more innovative approach to fixed income investing.

The Mackenzie Fixed Income Team embraces a flexible style that looks beyond traditional corporate and sovereign bonds when building portfolios, to include inflation-busting assets such as high-yield debt and floating rate loans.



**Konstantin Boehmer,**

Senior Vice President, Co-Lead of Fixed  
Income Team, Head of Global Macro,  
Portfolio Manager



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## Analysis beyond the ordinary

“We apply our expertise to analyze global fixed income securities, rates, currencies and credit quality, to capitalize on our best ideas,” says Konstantin Boehmer, ESG Integration Leader and Co-Head of Fixed Income at Mackenzie Investments. “The structure of the investment is secondary. What matters most to us is the creditworthiness of the issuers.”

Mackenzie’s unconstrained bond strategies seek out higher yields, while actively mitigating against the potential risks associated with higher-yielding credit. This requires the flexibility to manoeuvre across a broad range of global fixed income options and credit quality/maturity spectrums.

Among the risks these strategies strive to address are those associated with environmental, social and governance (ESG) issues. Companies that have a poor ESG performance face potential risks such as severe penalties for environmental violations (E), social boycotts (S) and accounting failures (G).

Mackenzie’s Fixed Income Team conducts extensive research to avoid greenwashing by issuers that may rely on a “seal of approval” from agencies with lax standards. The use of ESG metrics isn’t just reserved for portfolios specifically labelled as ESG funds: it spans Mackenzie’s entire fixed income lineup.

ESG research is conducted in-house, alongside rigorous fundamental credit analysis.

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The in-house models include not only Mackenzie’s proprietary ESG research, but also data from global institutions, such as the World Bank and the United Nations, as well as sustainability-oriented third-party research organizations (including Sustainalytics and S&P Global Trucost).

“Just as credit risk assessments vary between industries, our process of analyzing ESG positioning is uniquely targeted to suit the characteristics of individual issuers,” says Boehmer. “Many companies are honestly working to improve their ESG records. Engagement with these businesses gives us a seat at the table to ensure they live up to that expectation.”



## Improving performance and society

While ESG investing is most often associated with improving environmental outcomes, there's far more to it than that. Achieving positive social change is also an important element.

"Use-of-proceeds bonds are issued to fund dedicated environmental and/or social benefits. The proceeds are specifically earmarked for this intended use," Boehmer explains. "Social bonds earmark their proceeds to finance projects that address social issues or achieve positive social outcomes."

These bonds must specify the project that they'll fund, such as promoting diversity or the inclusion of marginalized communities.

"While the use of the proceeds is ring-fenced for the specific project, the bond is backed by the creditworthiness of the issuer as a whole," says Boehmer. "Of course, if the issuer is not creditworthy, we will not invest in that security."

One of the team's investments in the social fixed income space a non-ESG labeled term loan for Torrid Holdings Inc., a US-based producer of women's plus-size apparel.

Principles of women's empowerment are reflected across the company's body-positive product lines, innovative marketing campaigns and women-led leadership teams.

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**We are proud supporters of these initiatives and hold Torrid's debt in our sustainable and fundamental credit portfolios, as a best-in-class issuer within the social space**

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"It was included as a best-in-class issuer on the basis of the social theme of women's empowerment through their 'by-women-for-women' business model focusing on the underserved plus-size community within the fashion industry."

As a term-loan, the rate on the investment is variable, providing investors with some inflation protection. Integrating this positive social approach into an analysis that determined the business to be creditworthy, the team took a position that it believes will benefit both society and the fund's investors.

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