



**MACKENZIE**  
Investments

**Northleaf**

## Mackenzie Northleaf Private Credit Fund

# Quarterly Report – Q4 2023

## Performance and Portfolio Contents

- Mackenzie Northleaf Private Credit Fund (MNPCF) returned 2.2% in the quarter ended December 31, 2023, net of Series F fees.
- The private credit portfolio and associated currency hedging contributed approximately +1.2% to MNPCF total return. This reflects a strong Q4 2023 for the Northleaf Senior Private Credit – Levered Fund, which is valued monthly. See pages two to four for more detailed commentary on this strategy.
- The liquid portfolio, comprised of investment grade credit, high yield bonds, floating rate loans, and cash, contributed an additional +1.0% to MNPCF total return.
- The Fund's estimated portfolio net yield was 10.2% for the fourth quarter in Series F and is currently generating an average yield to maturity of 12.9% on a gross basis.

### Fund Performance (Series F)

31-December-23	YTD	3M	6M	1Yr	2Yr	Since inception**
<b>Mack. Northleaf Private Credit Fund Sr F</b>	10.6	2.2	5.2	10.6	6.2	5.7
<b>Benchmark*</b>	12.5	3.4	6.3	12.5	4.3	4.2

\*Benchmark: 80% S&P/LSTA Leveraged Loan (Hgd to CAD) + 20% ICE BofA Global High Yield (Hgd to CAD).

\*\*Inception Date: January 22, 2021. Source: Mackenzie Investments

## Key Statistics

Mackenzie Northleaf Private Credit Fund Strategy Allocations	Total Exposure (% incl. leverage)	Exposure Alloc. (%)	Avg. Credit Rating	Floating Rate Credit (%)	Effect Dur. (yrs)	Gross Yield p.a. (%)
Northleaf Senior Private Credit - Levered (NSPC-L)	131.8	81.7	B+	100.0	0.0	15.3
Mackenzie Global High Yield Fixed Income ETF	8.2	5.1	BB	3.1	3.8	7.7
Mackenzie US Investment Grade Corporate Bond Index ETF	6.8	4.2	A-	0.0	7.0	5.0
Mackenzie Floating Rate Income ETF	6.0	3.7	B	87.7	0.3	10.9
Mackenzie US High Yield Bond Index ETF	2.2	1.3	B+	0.0	0.0	7.5
Mackenzie Canadian All Corporate Bond Index ETF	0.4	0.3	A-	0.0	5.8	4.8
Cash	5.9	3.7	-	-	-	5.3
<b>Total Portfolio</b>	<b>161.3</b>	<b>100.0</b>	<b>B+</b>	<b>85.1</b>	<b>0.5</b>	<b>12.9</b>

Key statistics data as of December 31, 2023.

Estimated Portfolio Net Yield is as at December 31, 2023. Calculated by subtracting applicable fees and expenses (Series F) from the gross yield of the portfolio.

### The Mackenzie Northleaf Private Credit Fund provides investors with:

- The ability to invest in an established portfolio of senior secured, global private credit with a focus on middle market transactions
- The opportunity to benefit from investments that have historically offered attractive yields, floating rate structures and strong downside protection
- A variable quarterly distribution: Projected long-term net yield of 8-10% p.a. \*\*\*

### Key Terms

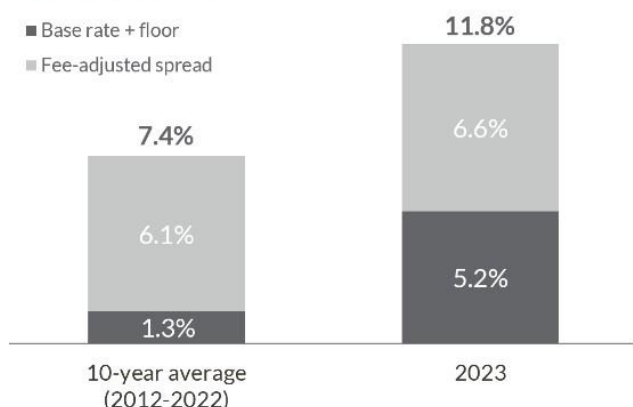
Fund Structure	Trust
Fund Status	OM, Open Ended
Series F Inception Date	January 22, 2021
AUM	\$50.1 Million
Currency	CAD
Min. Initial Investment	\$25,000 accredited \$150,000 non-accredited
Min Subs. Investment	\$5,000
Purchase Frequency	Monthly
Redemption Frequency	Quarterly
Redemption Notice	30 days prior to valuation date
Redemption Gate	Up to 5% of fund NAV may be redeemed each quarter
Soft Lock	2% penalty if redeemed before one year
Distributions	Quarterly variable
Admin Fee	0.15% (A&F)
Management Fee	A: 2.25% F: 1.25%
Performance Fee	MNPCF does not charge a performance fee. The underlying fund Northleaf Senior Private Credit – Levered charges a 10% performance fee with a hurdle rate of 5%
Registered Plans	Eligible
Fund Codes	A: MFC8213 F: MFC8214

## Private Loan Market Update

Q4-23 capped an exceptionally strong year for private credit, which continues to demonstrate consistent returns and resilience as an asset class. Through an extended period of macroeconomic headwinds, private credit investors benefitted from attractive risk-adjusted returns and cash yield, with returns underpinned by positive borrower fundamentals, strong lender protections and equity capital support.

Through 2023, private credit yields remained elevated at their highest levels in more than a decade due to high base rates and wider spreads. As broader investor confidence begins to improve and capital flows across the credit market increase, we are beginning to see some downward pressure on credit spreads, but overall yields remain highly attractive compared to historical averages. We continue to see certain pockets of softness in the economy, but most borrowers have demonstrated resilience through a period of macroeconomic stress and are performing well. Market defaults increased slightly quarter-over-quarter, with the trailing 12-month default rate of the Morningstar LSTA US Leveraged Loan Index ending Q4-23 at 2.0%, just above the long-term average. Even after factoring in the medium-term potential for higher defaults and losses, we believe private credit is well positioned to continue to deliver strong risk-adjusted returns in today's yield environment.

### Gross Asset Yield



Source: Bloomberg, LCD and internal Northleaf data. Base rate is based on the average 3M SOFR (or 3M LIBOR prior to its cessation) for the period indicated. Fee-adjusted spread for the 10-year average is based on all-in spreads of institutional loans backing middle-market LBOs; fee-adjusted spread for 2023 is based on the average on Northleaf's new senior primary deals in the period indicated. Fee-adjusted spread is comprised of cash spread, impact of floor benefit, other fees and OID or purchase discount amortized over a 3-year period (assumes debt investments remain outstanding for 3 years).

### Leveraged Loan Index ("LLI") Trailing 12-month Default Rate



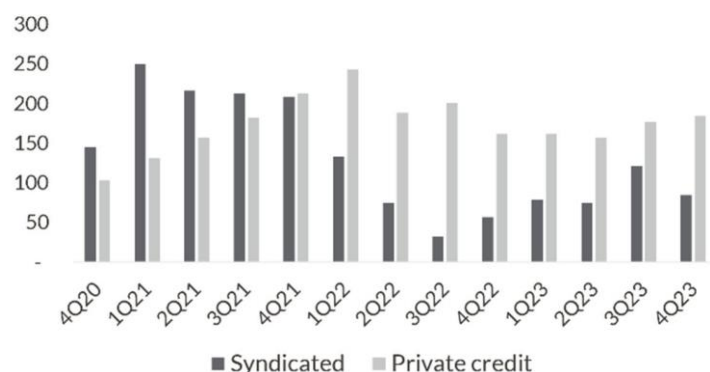
Source: LCD; Morningstar LSTA US Leveraged Loan Index. Trailing 12-month default rate is based on number of defaults divided by total issuers. As of December 31, 2023.

Three key themes have continued in the private credit market through the end of 2023:

1. PLBO volumes are slowly rebounding, and pockets of strong relative value are emerging in specific regions and asset types.
2. Borrowers continue to focus on capital structure and liquidity.
3. The vast majority of borrowers are performing well, although the tail risk is growing in sectors with discretionary demand drivers and among highly-levered borrowers.

In Q4-23, deal volumes were in line with the prior quarter. New issuance supporting leveraged buyouts remained slower than historical averages as the gap in valuation expectations between buyers and sellers remains an obstacle for M&A transactions. As the operating environment stabilizes and interest rates are believed to have peaked, we are beginning to see the valuation spread narrow, which is likely to drive more leveraged buyout activity and related financings in 2024. Refinancings and capital for add-on acquisitions have remained robust, providing attractive deal flow for managers with existing, diversified portfolios of performing borrowers.

Count of financing transactions (LBOs, refinancings and follow-ons) in broadly syndicated vs private markets



Source: LCD. Data through December 31, 2023. Syndicated data is for the Morningstar LSTA US Leveraged Loan Index. Private credit count is based on transactions covered by LCD News.

Private credit financings in 2023



Source: LCD. Data January 1, 2023, through December 31, 2023. Private credit count is based on transactions covered by LCD News.

Geographically, an attractive window of opportunity is emerging in Europe and the U.K., where supply/demand dynamics have been slower to adjust, favouring lenders with dry powder to transact on attractive terms. We are also seeing strong demand for low-correlation asset-based specialty finance which continues to benefit from bank retrenchment globally.

Entry leverage for new borrowers remains lower than the historical average and equity cushions are robust. Given today's higher borrowing costs and cash flow pressure, we are seeing more instances of borrowers seeking to right-size their capital structures and adequately manage liquidity. In some cases, structured capital or non-cash pay junior debt is being used to de-lever senior debt and reduce the cash interest burden on the business. Most lenders remain highly discerning, with the inclusion of a PIK option reserved for strong performing businesses.

Across our portfolio, we continue to see stable demand drive positive revenue and EBITDA growth, which reflects our focus on businesses with non-discretionary demand drivers and pricing power. As inflation moderates and price increases take effect, while base rates remain unchanged, we have seen further stabilization in margin profiles and interest coverage quarter-over-quarter. In select instances where borrower liquidity is tighter, we have seen private equity sponsors support their portfolio companies with additional capital. Overall, the asset class has remained resilient, and we believe today's attractive yield environment will provide private credit investors with strong absolute and risk-adjusted returns. In particular, mid-market private credit has historically delivered lower loss rates to comparable public market investments over the long term due to conservative structures and strong lender protections.

## NSPC-L Portfolio Activity and Performance

The NSPC-L portfolio performed well during the fourth quarter of 2023. Given the confluence of macroeconomic risks, NSPC-L is managing two non-accrual loans that comprise 2.0% of funded capital as of Q4-23.

Northleaf's private credit team remains highly selective and is exceptionally rigorous in applying its investment criteria, risk management and assessment of relative value. The team is focused on supporting existing borrowers that have demonstrated stable performance and remains focused on investing in new businesses with contractual revenue frameworks and/or businesses that have demonstrated resilient demand for their products and services.

During Q4-23, the private credit team sourced and reviewed 178 opportunities and completed investments in eight new borrowers on behalf of the Fund:

- **Apex Service Partners (2023):** Platform of HVAC, electrical and plumbing service providers. NSPC-L committed \$35.0 million to the first lien facility to support the refinancing of the company's capital structure. This transaction followed a successful realization of NSPC-L's first lien investment in Apex. Northleaf has been invested in Apex since 2021.
- **Axis Portable Air:** Provider of portable climate control rental solutions. NSPC-L committed \$14.8 million to the first lien facility to support the company's organic growth.
- **Evelyn Partners:** Provider of wealth management, professional services, online investing and fund solutions. NSPC-L committed \$9.5 million to the first lien facility via a proprietary secondary transaction.
- **High Bar Brands:** Provider of commercial vehicle solutions. NSPC-L committed \$9.9 million to the first lien facility to support Sentinel Capital Partners' acquisition of the company.
- **Independent Vetcare Group (2023):** Provider of veterinary services. NSPC-L committed \$39.2 million to the first lien facility to refinance the company's existing debt. The transaction followed a successful realization of NSPC-L's first lien investment in Independent Vetcare Group. Northleaf has been invested in Independent Vetcare Group since 2018.
- **MCA:** Provider of voice, data and security solutions. NSPC-L committed \$14.1 million to the unitranche facility to support the refinancing of the company's capital structure.
- **Ryan:** Provider of federal, state, local and international tax services and software. NSPC-L committed \$15.8 million to the first lien facility to refinance the company's existing debt and support their acquisition pipeline.
- **Transnetwork:** Operator of a B2B electronic domestic and cross-border processing and payment platform. NSPC-L committed \$20.4 million to the first lien facility to support the company's acquisition pipeline.

In addition, NSPC-L completed six follow-on investments and three opportunistic secondary transactions. NSPC-L also successfully realized its investments in English Color & Supply (2023), Apex Service Partners (2021) and Independent Vetcare Group (2019).

Northleaf actively monitors environmental, social and governance (ESG) considerations across the NSPC-L portfolio. There were no notable ESG updates for the portfolio during the quarter and, as of December 31, 2023, all of NSPC-L's borrowers were classified as "low risk" based on their RepRisk Index score.

## Northleaf Senior Private Credit – Levered – Key Statistics

Sector Allocations <sup>1</sup>		Investment Type <sup>1</sup>	
Financial Services	18%	First Lien Loans	73%
Health Care Equipment and Services	17%	Unitranche Loans	27%
Commercial & Professional Services	14%		
Software & Services	13%		
Consumer Services	9%		
Transportation	6%		
Capital Goods	5%		
Consumer Discretionary Distribution & Retail	5%		
Other <sup>2</sup>	13%		
Geography <sup>1</sup>		Portfolio Characteristics <sup>1</sup>	
North America	76%	Number of Holdings	79
Europe	21%	Weighted Average Maturity	3.7 years
Australia	3%	Leverage Adjusted Portfolio Yield	15.3%
		Est. Average Credit Quality	BB/B
		Leverage (Debt:Equity)	0.87

The borrower information in this report is confidential in nature and should be treated as such and some or all of the confidential information may be price sensitive information.

Please note that our credit agreements with borrowers are subject to various confidentiality restrictions. In the table below, project names have been used in those situations where we are restricted from providing information to investors without executing an NDA.

Top 10 Holdings		
Borrower	Sector	Weight <sup>1</sup>
<b>Zips Express Car Wash</b> <i>The largest express-only tunnel car wash operator in the US</i>	Consumer Services	2.9%
<b>Independent Vetcare Group (2019)</b> <i>Provider of veterinary services</i>	Health Care Equipment & Services	2.5%
<b>Beacon Mobility (f.k.a. Van Pool Transportation)</b> <i>Outsourced transportation services for children with special needs</i>	Transportation	2.4%
<b>Any Hour Services</b> <i>Provider of HVAC, plumbing, electric and excavation services</i>	Consumer Services	2.3%
<b>Inframark</b> <i>Provider of outsourced operations services to water and wastewater treatment plants</i>	Utilities	2.2%
<b>Cerity Partners (2022)</b> <i>National registered investment advisor</i>	Financial Services	2.2%
<b>AFC Industries</b> <i>Distributor of fasteners and essential C-parts to original equipment manufacturers</i>	Consumer Discretionary Distribution & Retail	2.1%
<b>Energy Distribution Partners</b> <i>Distributor of propane for residential and commercial uses</i>	Utilities	2.1%
<b>Project Cloud</b> <i>Provider of managed services and colocation solutions</i>	Software & Services	2.1%
<b>Smile Doctors (2021)</b> <i>National orthodontics platform in the US</i>	Healthcare Equipment & Services	2.1%

1. All data as of December 31, 2023

2. Includes Automobiles & Components (2%), Insurance (2%), Household & Personal Products (2%), Utilities (2%), Media & Entertainment (1%), Materials (1%), Pharmaceuticals, Biotechnology & Life Sciences (1%), Technology Hardware & Equipment (1%) and Telecommunication Services (1%).

## Expertise

### Portfolio Manager, Mackenzie Northleaf Private Credit Fund



**Dan Cooper, CFA**

Dan Cooper, Senior Vice President, Portfolio Manager, Head of Credit. Dan is responsible for active management of \$10 billion of higher yielding portfolios, overseeing portfolio managers, the Head of Investment Research and six analysts.

First joining Mackenzie in 1997, Dan joined the fixed income team in 2006 as a high yield credit analyst and has held progressively more senior positions and responsibilities.

He received his bachelor's degree in commerce from York University.

### Managing Director & Head of Private Credit, Northleaf Capital Partners



**David Ross**

David Ross is the Head of Northleaf's US\$5.3 billion private credit program and leads a team of more than 40 private credit professionals across offices in Canada, the US and Europe. David oversees the origination, evaluation and monitoring of Northleaf's private credit investments globally. In addition, David is a member of the Investment Committees for Northleaf's private credit and private equity programs.

Prior to joining Northleaf, David was at Bain Capital Credit, a leading global credit specialist, as a Managing Director, Global Head of Sourcing and a member of Bain Capital's Opportunistic Credit and Private Credit team. Previously, David served as the Co-Head of Bain Capital Credit's London office from 2009 to 2013. David began his career with Credit Suisse First Boston in Investment Banking before joining Bain Capital Credit in 2003.

David received a B.A. from Harvard College.

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