Mackenzie Global Sustainable Bond Fund

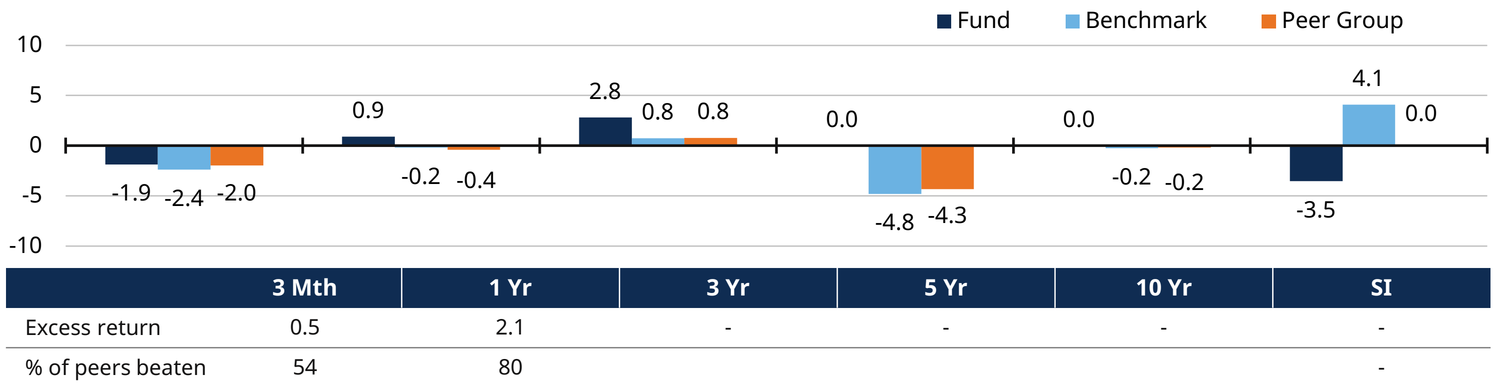
Fund snapshot

Inception date	04/09/2021
AUM (millions in CAD)	51.5
Management fee	0.55%
MER	0.80%
Benchmark	ICE BofA Gbl Broad Mkt (Hgd to CAD)
CIFSC category	Global Fixed Income
Risk rating	A-
Lead portfolio manager	Steve Locke, Konstantin Boehmer
Investment exp. since	1995, 2003

Strategy overview

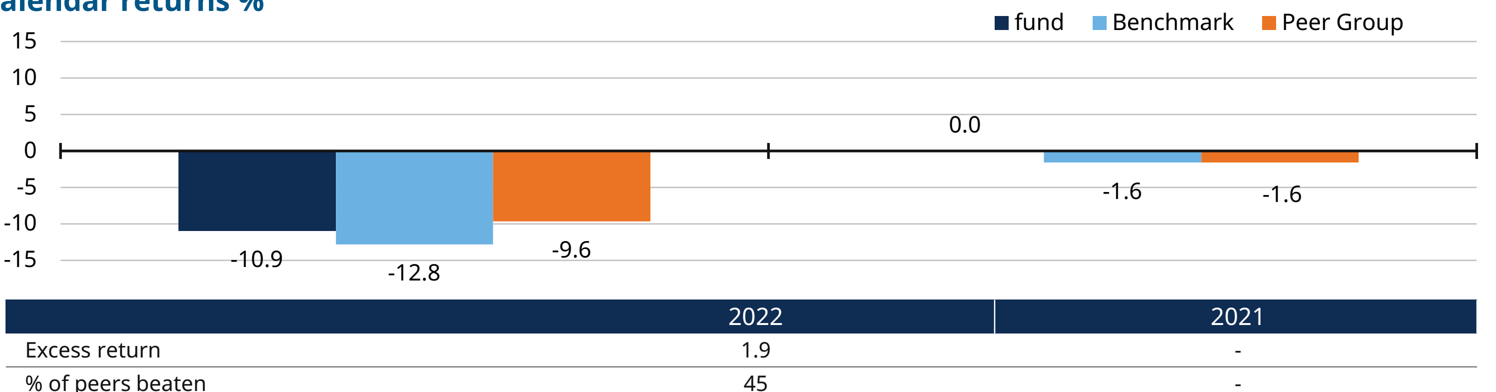
- The Fund seeks to generate income with the potential for long-term capital appreciation by investing primarily in fixed-income securities of issuers anywhere in the world.
- The Fund follows an approach to investing that focuses on sustainable and responsible issuers.
- The Fund invests in "best-in-class" ESG leaders, along with various types of sustainable or ESG labelled debt, such as green bonds, social bonds, sustainable bonds and sustainability-linked bonds and notes. The Fund aims to have a 50-50 mix of best-in-class issuers with ESG labelled debt.

Trailing returns %



	3 Mth	1 Yr	3 Yr	5 Yr	10 Yr	SI
Excess return	0.5	2.1	-	-	-	-
% of peers beaten	54	80				-

Calendar returns %



	2022	2021
Excess return	1.9	-
% of peers beaten	45	-

Portfolio characteristics

Ratios & metrics	Portfolio	Benchmark
Fund Avg Yield	6.4	4.4
Fund Mod. Dur	4.8	6.5
Fund Rating	A-	AA
Average Price	86.6	106.7
Average Coupon	3.9	2.4
Average Term	8.6	-

Asset allocation

Asset	Portfolio
Corporate	64.2
Provincial + Municipal	5.7
Federal	29.2
Cash & Equival. + WC	1.0

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	-	-
Sharpe Ratio	-	-
Tracking Error	-	-
Information Ratio	-	-
Alpha	-	-
Beta	-	-
Upside Capture (%)	-	-
Downside Capture (%)	-	-

Geographic allocation

Region	Weight
Europe	12.3
LATAM & Caribbean	8.3
North America	62.8
Other	16.6

Maturity breakdown

Bucket	Portfolio	Benchmark
0 to 3	19.7	-
3 to 7	28.4	-
7 to 12	36.7	-
12+	15.2	-

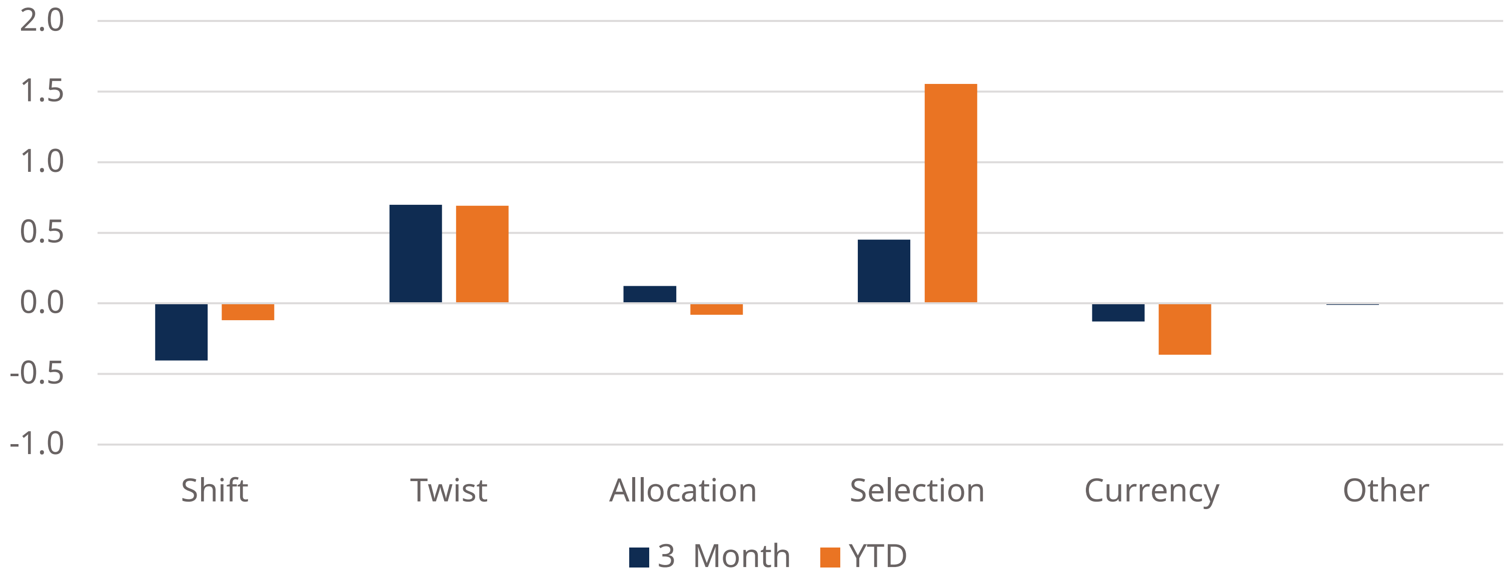
Currency exposure

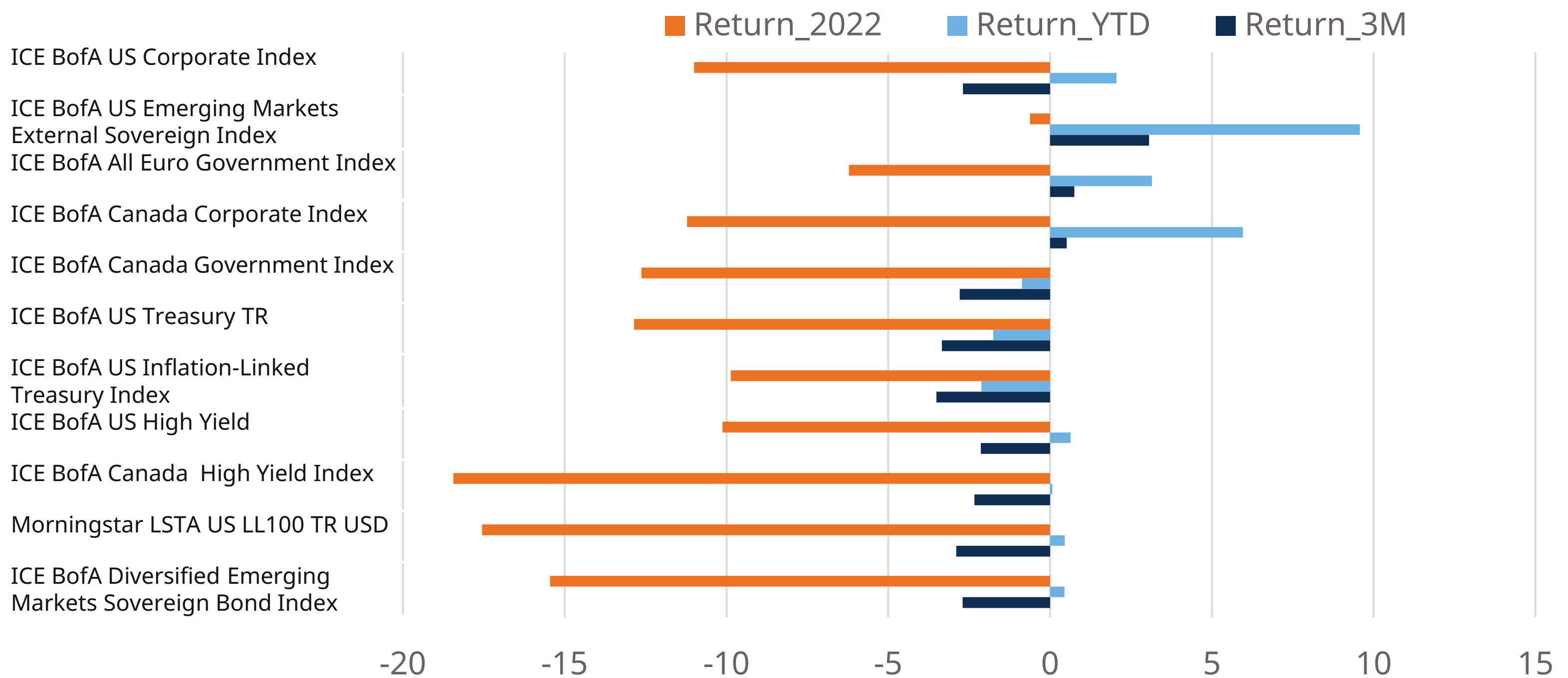
Currency	Gross	Net
CAD	30.7	95.1
USD	45.8	0.9
Other	23.5	4.1

Credit breakdown

Rating	Portfolio	Benchmark
AAA	18.1	12.4
AA	20.6	49.8
A	17.3	24.0
BBB	23.0	13.8
BB	13.5	-
B	5.9	-
CCC & Below	1.6	-
NR	0.0	-

Attribution





Commentary

During the third-quarter, fixed income was clearly the asset class most in focus, with yields rising significantly throughout the quarter, sometimes gapping higher on a daily basis. Depending on your source, rates were driven higher generally by one of two themes: higher term premiums, or recalibrating US growth expectations higher. As is generally the case with opposing themes, in reality the drivers were probably a bit of both, although we ascribe a heavier weight to the term premium argument – which sounds esoteric, but is actually important for the rates outlook going forward.

Yields were already moving higher from mid-July, but the Bank of Japan's announcement to allow 10yr bonds to trade well above the 50bp so-called "cap" helped get the global rate party going. Soon after – in another beginning of August downgrade - Fitch downgraded US sovereign debt from AAA to AA+, which came right in the middle of the Treasury's Quarterly Refunding Announcement that surprised the market thanks to the large amount of unexpected supply. Add to that continued strong economic, and particularly output data from the US, expectations of a large post-Labour Day corporate primary issuance calendar, talk about the Fed adjusting so-called "R-star" higher at Jackson Hole (which did not happen although the central tendency did move higher at the September FOMC meeting), hawkish Fed Funds dots at the September FOMC, and of course US quantitative tightening continuing to run in the background, and you had if not a perfect storm for rates higher, something directionally close.

The rationale for the rise in yields matters, particularly through the lens the Fed is observing. A rise in yields as a result of supply / issuance / term premium dynamics would generally be seen as adjustment by the Fed, resulting in less of an additional tightening response. Conversely, increasing growth expectations pushing the long-end higher, would likely require a more hawkish response from the Fed, which is this case would mean another hike later this year and / or early Q1/24, and importantly that the cycle is not over. Given the steepening of the curve, we believe the market believes the Fed sees the rise in yields because of an increase in the term premium and that the hiking cycle is likely over. Barring another string of robust economic output – especially labour market data – we believe the market is correct. During the last few weeks, we have seen a mix of commentary on the subject from various Fed speakers – both the term premium and growth rationale – but the predominant language has been around the former.

On the Canadian side, one of the larger mysteries, and maybe opportunities, remains the market continuing to price in more Fed easing in 2024 than for the Bank of Canada. With the Bank of Canada's (BoC) policy rate currently at 5.00%, market pricing for the December 2024 OIS contract at 4.85% at time of writing seems high to us given Canada's high beta economy and reliance on the housing sector as a percentage of GDP growth, never mind that the average Canadian household remains quite over-levered versus the US. We know that a significant number of five-year fixed rate mortgages were entered into in 2019 and 2020, making the risks around resets likely quite acute during 2024. With Canada already experiencing negative economic growth in Q2/23 and given the initial numbers, likely mediocre growth at best for Q3/23 the BoC is likely already close to having to choose between growth and inflation. A year from now with the market pricing a minimally changed policy rate given the risks ahead, seems to be an unlikely scenario to us, and accordingly, Canada is a market where duration appears increasingly more attractive.

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