Mackenzie Income Fund

Fund snapshot

Inception date	10/22/2001
AUM (millions in CAD)	1399.7
Management Fee	0.65%
MER	0.89%
Benchmark	70% FTSE Univ + 30% TSX Comp
CIFSC Category	Canadian Fixed Income Balanced
Risk Rating	Low
Lead Portfolio Managers	

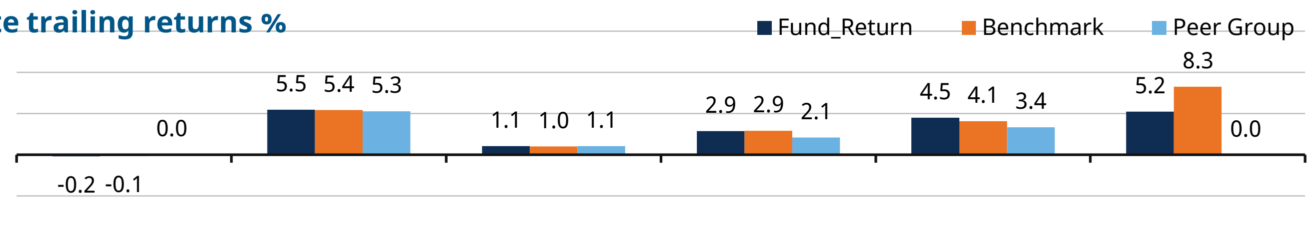
Strategy overview

• Conservative asset allocation aims to safeguard capital, provide an income stream and moderate investment growth

• The Fund's fixed income investments are mainly in high quality securities but can include higher yielding, lower quality securities

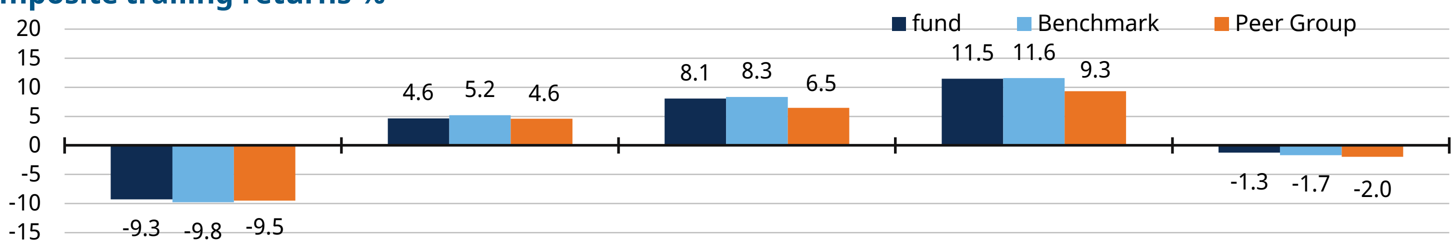
• Equity portfolio of quality, dividend paying companies in Canada and globally contribute to the Fund's income stream

Composite trailing returns %



	3 Mth	1 Yr	3 Yr	5 Yr	10 Yr	SI
Excess return	-0.1	0.1	0.1	0	0.4	-3.1
% of peers beaten	34	34	54	80	93	-

Composite trailing returns %



	2022	2021	2020	2019	2018
Excess return	0.5	-0.6	-0.3	-0.1	0.4
% of peers beaten	60	56	88	88	65

Portfolio characteristics

	Portfolio	Benchmark
Overall yield	3.4	3.2
Equity		
P/E 12m forward	15.2	13.6
Dividend yield	2.8	3.1
Net debt/EBITDA	2.1	2.8
EPS growth (FY E)	9.3	1.7
P/B	2.4	1.8
Fixed income		
Yield	5.1	4.4
Duration	6.8	7.4
Average credit quality	A	AA

Sector allocation

Sector	Portfolio (%)	Benchmark (%)	Relative weight (%)
Communication Services	1.1	1.3	-0.2
Consumer Discretionary	1.8	1.2	0.6
Consumer Staples	2.2	1.3	0.9
Energy	3.5	5.0	-1.5
Equity Common	0.0	0.0	0.0
Financials	8.2	9.2	-1.0
Health Care	2.2	0.1	2.2
Industrials	3.2	4.1	-0.9
Information Technology	3.2	2.4	0.8
Materials	2.4	3.5	-1.1
Real Estate	0.4	0.7	-0.4
Utilities	0.8	1.3	-0.6
Other	1.0	0.2	0.8

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	6.7	7.4
Sharpe Ratio	0.0	-0.1
Tracking Error	2.1	--
Information Ratio	0.3	--
Alpha	0.5	--
Beta	0.9	--
Upside Capture (%)	91.8	--
Downside Capture (%)	85.0	--

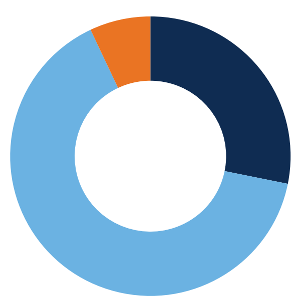
Country allocation

Country	Weight	Relative weight
Canada	67.3	-31.6
United States	18.0	17.3
United Kingdom	1.8	1.8
Germany	1.0	1.0
Japan	0.8	0.8
France	0.7	0.7
Other	10.5	0.4

Credit breakdown

Rating	Portfolio	Benchmark
A	21.2	16.5
AA	30.7	33.6
AAA	18.2	39.3
B	2.5	-
BB	5.9	-
BBB	20.6	10.5
NR	0	-

Asset allocation



	Portfolio (%)
Equity	28.9
Fixed Income	66.5
Cash	7.2

Top 10 equity holdings

Security name	Country	Sector	Weight
5Y Canada Govt Bond (MOD) Sep 23	Other	--	4.4
Province Of Ontario 3.75% 02-jun-2032	Canada	--	4.1
Government Of Canada 2.75% 01-jun-2033	Canada	--	3.0
Province Of Quebec 4.4% 01-dec-2055	Canada	--	2.1
Province Of Ontario 3.75% 02-dec-2053	Canada	--	1.7
Province Of Alberta 3.1% 01-jun-2050	Canada	--	1.4
Royal Bank of Canada	Canada	Financials	1.2
Government Of Canada 2.0% 01-jun-2032	Canada	--	1.2
Province Of Alberta 2.95% 01-jun-2052	Canada	--	1.0
Toronto-Dominion Bank	Canada	Financials	1.0

Equity - Attribution

	Sector	Portfolio Average Weight (%)	Portfolio Contribution to Return (%)
Contributors	Information Technology	3.2	0.3
	Financials	8.3	0.2
	Consumer Discretionary	1.8	0.1
Detractors	Materials	2.4	-0.1

Fixed Income - Attribution

Detractors	Government	31.7	-0.3
	Corporate	36.7	-0.3

Commentary

Market Overview

Equities made solid gains for the quarter, led by growth-oriented stocks, as the global economy continued to show strength and resiliency despite central banks attempts to tame it in response to elevated levels of inflation. In Canada, the S&P/TSX Composite returned 1.1%. Canadian stocks fared worse than US and international stocks, as oil prices dipped during the quarter. The Canadian dollar appreciated sharply against most major currencies in June, following bond yields higher as strong economic data and a Bank of Canada rate hike surprised markets. This had a negative effect on unhedged foreign asset returns. Bonds generally declined on higher interest rates due to central bank activities.

The S&P 500 returned 8.7% (6.5% CAD). Globally, the MSCI ACWI returned 6.7% in local terms (3.9% CAD). The FTSE Canada Universe Bond Index returned -0.7%. The Ice BofA Global Broad Market Bond Index (Hedged to CAD) returned -0.5%. As equities climbed higher, high yield bonds also fared better in this risk-on environment. The ICE BofA U.S. High Yield Bond Index (Hedged to CAD) returned 1.4%.

Fund Performance

Mackenzie Income Fund

Mackenzie Income Fund (Series F) returned –0.2% over the quarter. This compares with a return of –0.1% for its blended benchmark index comprised of 30% S&P/TSX Composite Index and 70% FTSE Canada Universe Bond Index.

From an equity perspective, foreign equity exposure, especially to the U.S., added to relative performance as Canadian equities lagged broader markets. Additionally, a modest overweight to information and technology stocks and an underweight to the materials sector added value; as did stock selection in the communication services and consumer discretionary sectors.

From a fixed income allocation perspective, overweight duration positioning in Canadian and US government bonds was additive to performance as central bank rate increases affected the short end of the curve more severely than the long end.

Market Outlook

Fixed Income Team:

The portfolio management team believes the US Fed is likely to pause their rate hiking cycle at their next meeting in July but remain hawkish and have simultaneously communicated that the tightening cycle is not over and have suggested that two additional 25bp rate increases are likely this year. The market continues to price in significant cuts for 2024, with futures implying a Federal Funds rate of 3.75% by the end of 2024. This pricing in of future rate cuts has been a constant feature of the market despite central bank insistence that rates are likely to remain elevated for an extended period. The future path of inflation will determine whether these rate cuts need to get pushed further out once again.

The Canadian yield curve is extremely inverted and credit spreads are relatively tight, perhaps not on a historical basis but considering the extremely quick tightening cycle. The team is cognizant of the fact that this tightening cycle could be causing some significant stresses on some corporate entities, either now or in the coming months, and that these risks could be opaque to us. The regional banking crisis was an example of such a stress, and there are evident concerns regarding the state of Commercial Real Estate and potential debt rollover dynamics in the face of tighter lending standards by banks. As such we prefer to be defensive in terms of overall credit risk (CR01), while looking to capture as much carry as possible. We prefer investing in lower beta (higher grade) IG corporates at the short end of the curve where risk is lowest, and yields are highest. IG credit volatility (and to a lesser extent HY credit vol) is at cycle lows, making tail risk hedges attractive. Clues on the timing of an inevitable re-steepening of the yield curve remain elusive. We favour having a general steepening bias in the portfolio as a structural position.

While the team considers that investment grade bond in Canada has priced in a reasonable amount of recession risk, we remain concerned that corporate bond spread could move wider in late 2023/early 2024, given our belief that tighter bank lending standard and the lagged effect of last year’s interest rate rise would negatively impact the economy. Moreover, last quarter spread tightening with the rise government yield makes holding corporate bonds less attractive from a spread basis. Nevertheless, from a total return basis, the short term corporate bonds is interesting as it will take more than 120 bps rise in yield for the bond to return negatively with a 1-year holding period.

Commentary

Market Outlook

Global Equity and Income Team:

The team believes that in periods of elevated volatility, it is most important to focus on what can be controlled. This involves investing in leading companies that generate high returns on their capital base, have strong cash flow and are able to improve their market share in times of uncertainty. In response to higher levels of inflation and market volatility, we continue to focus on companies where the business quality and financial strength enable the portfolio to weather economic downturns better than most. But one can never completely immunize yourself from recessionary risks. A good process is designed to achieve good outcomes but does not guarantee it. However, we feel comfortable with what companies are telling us today and (as of April 2023) on average our companies are expected to grow their earnings around 5% this year, which is below their historical norm but still above the benchmark's ~2% growth rate. The portfolio on average has a higher dividend yield, significantly better ROIC, ROE, operating profits margins and balance sheet strength. While "surprises" have become the norm in stock markets in recent years, the companies we own are well positioned to ride out unpredictability.

North American Equities Team:

The team believes that central banks may still need to increase short term rates to manage inflation trends. The Bank of Canada previously indicated they were on pause with regards to interest rates, only to reverse course a few meetings later and raise rates once again. Although inflationary pressure in goods and services appear to be headed in the right direction, wage inflation appears to be persistent, and the risk of a continued wage price spiral is something central banks will need to manage going forward. Since monetary policy always works with a lag, there remains uncertainty if the economy can avoid an outright recession.

Given the persistency of higher rates, we believe there will be continued focus on the Canadian housing market and the ability for borrowers to adequately service their mortgage debt obligations. However, we believe this issue is being properly managed by the banking sector, with several borrowers choosing to make lump sum payments to keep mortgage obligations current. We note with the uptick in housing values over the past quarter, many borrowers have excess equity in their homes which support collateral values. Worker wages have also risen over the past few years providing some cushion to service higher interest payments.

Compared to the previous quarter, depositors in US Banks also appear to be gaining more confidence within their institutions, and the pace of deposit outflows from regional lenders has declined. Quarterly reporting so far from the larger banking players has shown that deposit costs appear to have risen less than expected, and credit losses, while normalizing, remain below pre-pandemic levels.

The team maintains a cautiously optimistic outlook on Canadian equity markets and expects equity market volatility to persist as driven by significant uncertainty in the economic outlook as well as the effect on corporate earnings. With this backdrop, the team's equity market return expectations for the next twelve months remain modest. We continue to believe this market environment favors stocks with strong cash flow, low to moderate leverage and sustainable and growing dividend payments. In addition, because our expectations for forward equity returns have moderated, it is likely that dividends will represent a larger portion of total return in the period ahead. The Fund is well positioned for a return to this trend.

The team will continue to monitor our investment universe for opportunities as markets remain volatile. Positioning in the Fund is well balanced between cyclical and defensive sectors and primarily driven by stock selection and where we see appropriate return to risk profiles. We will remain focused on investing in quality stocks with a margin of safety to our estimate of fair value.

Commissions, trailing commissions, management fees, and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns as of June 30, 2023 including changes in share value and reinvestment of all distributions and does not take into account sales, redemption, distribution, or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Index performance does not include the impact of fees, commissions, and expenses that would be payable by investors in the investment products that seek to track an index.

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Standard deviation provides a measure of the variability of returns that have occurred relative to the average return. The higher the standard deviation, the greater is the range of returns that has been experienced. Standard deviation is commonly used as a measure of risk.

Percentile rankings are from Morningstar Research Inc., an independent research firm, based on the Canada Fund Canadian Fixed Income Balanced category and reflect the performance of the Mackenzie Income A for the 3-month, 1-, 3-, 5- and 10-year periods as of June 30, 2023 . The percentile rankings compare how a fund has performed relative to other funds in a particular category and are subject to change monthly. The number of Canada Fund Canadian Fixed Income Balanced category funds for Mackenzie Income A for each period are as follows: one year - 397 ; three years - 338 ; five years - 296 ; ten years - 210.

Morningstar data is shown as of the most recent reporting period by each fund family. Allocations may not equal 100% and will vary overtime. Assets contained within “Other” category are not classified by Morningstar. All information presented in this tool is for informational purposes only and is not intended to be investment advice. The information is not meant to be an offer to sell or a recommendation to buy any investment product. Unless otherwise noted, performance is shown before sales charge. For more fund information, click the POS Documents link.

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