MACKENZIE
Investments

Mackenzie Floating Rate Income Fund

Fund snapshot

Inception date	05/09/2013
AUM (millions in CAD)	491.5
Management fee	0.65%
MER	0.90%
Benchmark	Morningstar LSTA Leveraged Loan (Hgd to CAD)
CIFSC category	Floating Rate Loans
Fund rating	B+
Lead portfolio manager	Konstantin Boehmer
Investment exp. since	2003

Strategy overview

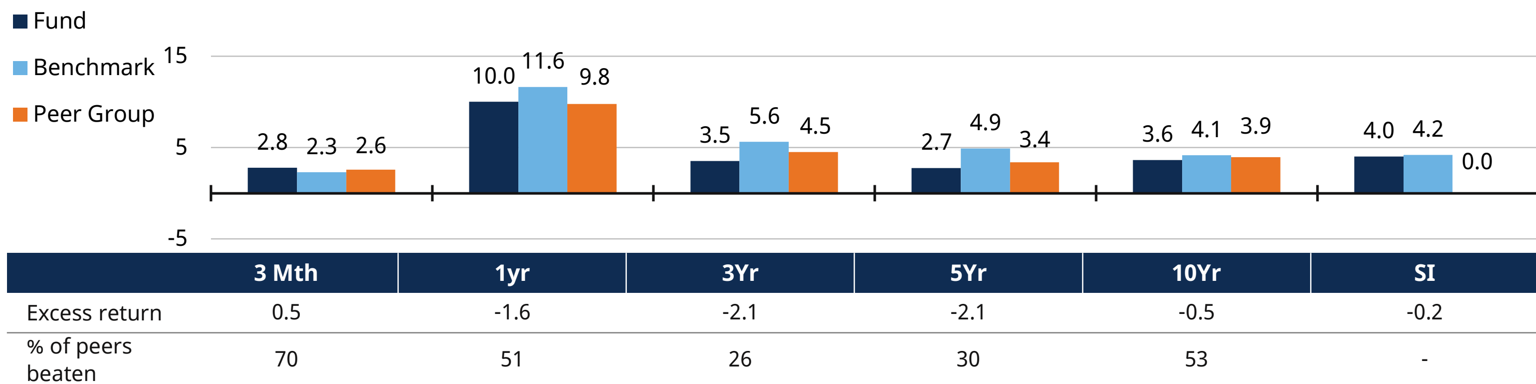
• Aims to deliver attractive risk-adjusted returns by investing primarily in senior secured floating rate loans and seeking credit exposure that is isolated from interest rate risk.

• The investment philosophy focuses on higher quality non-investment grade securities, middle market borrowers and relative value opportunities within a company's capital structure while limiting the downside risk.

• Fundamental credit analysis, portfolio construction, rigorous bottom-up selection and scrutiny in deal structures are the primary sources of alpha generation.

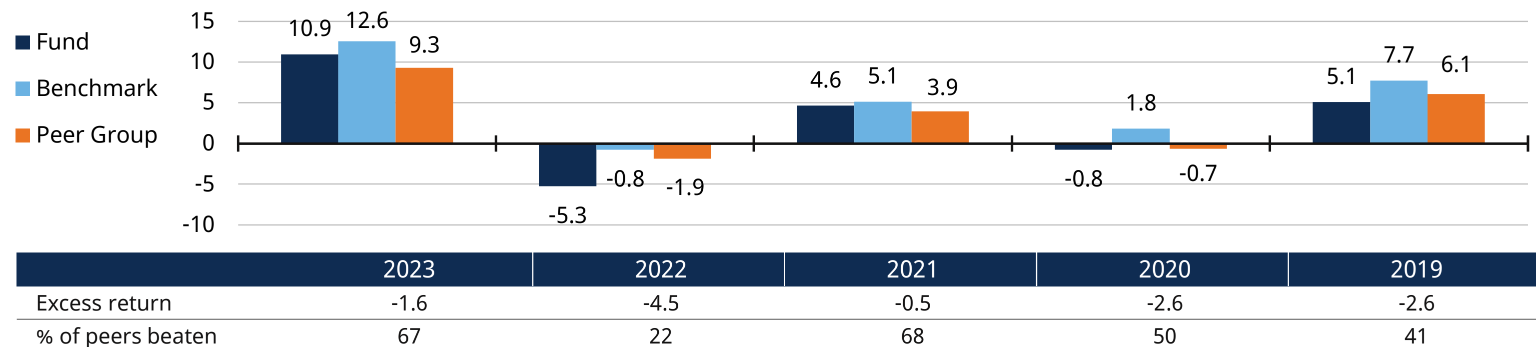
• The neutral currency exposure is 100% hedged back to CAD, although some open currency exposure (generally no more than 10% to 15%) can be used by the managers tactically to mitigate the overall risk in the portfolio.

Trailing returns %



	3 Mth	1yr	3Yr	5Yr	10Yr	SI
Excess return	0.5	-1.6	-2.1	-2.1	-0.5	-0.2
% of peers beaten	70	51	26	30	53	-

Calendar returns %



	2023	2022	2021	2020	2019
Excess return	-1.6	-4.5	-0.5	-2.6	-2.6
% of peers beaten	67	22	68	50	41

Portfolio characteristics

Ratios & metrics	Portfolio	Benchmark
Fund Avg Yield	10.7	9.0
Fund Mod. Dur	0.4	0.1
Fund Rating	B+	B
Average Price	94.8	135.3
Average Coupon	9.5	9.2
Average Term	4.7	-

Asset allocation

Asset	Portfolio	Benchmark
Investment Grade Corporates/Government	2.6	-
Sovereign and EM	0.1	-
High Yield	7.3	-
Loans	87.8	-
Cash & Equivalent	-1.2	-
Other	0.4	-

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	3.6	3.8
Sharpe Ratio	0.3	0.8
Tracking Error	1.4	-
Information Ratio	-1.6	-
Alpha	-1.8	-
Beta	0.9	-
Upside Capture (%)	75.5	-
Downside Capture (%)	102.7	-

Geographic allocation

Country	Weight
Canada	12.4
US	75.3
Europe	11.3
Other	1.0

Maturity breakdown

Bucket	Portfolio	Benchmark
0 to 3	17.8	-
3 to 7	78.6	-
7 to 12	0.6	-
12+	3.0	-

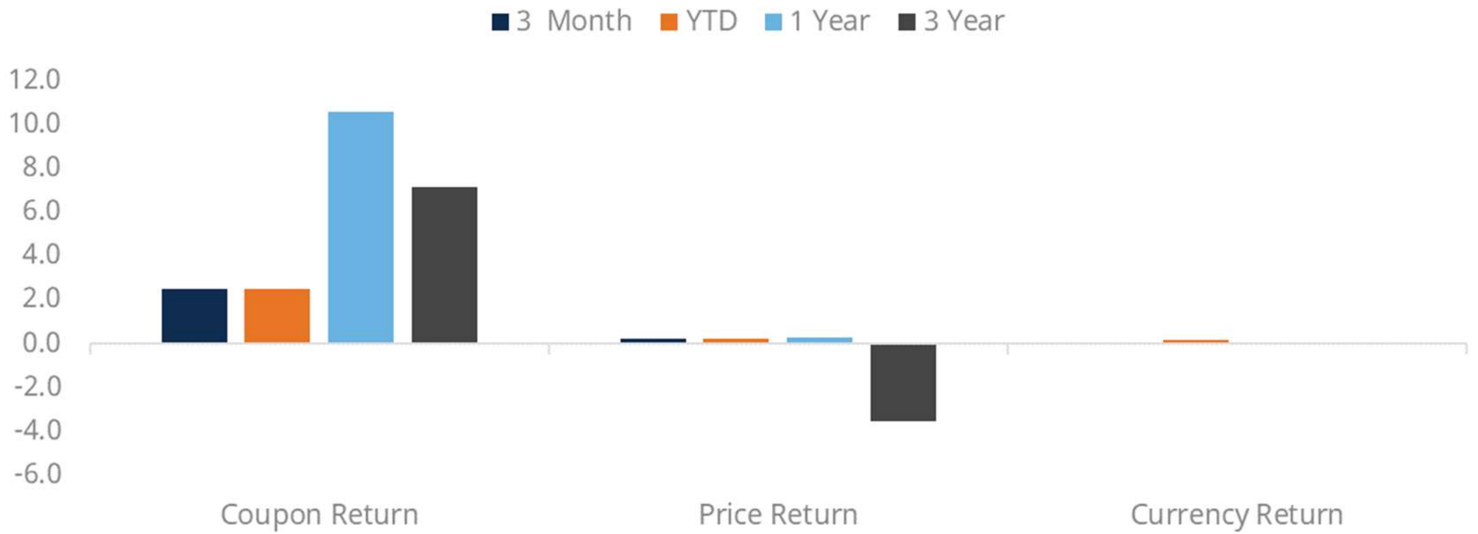
Currency exposure

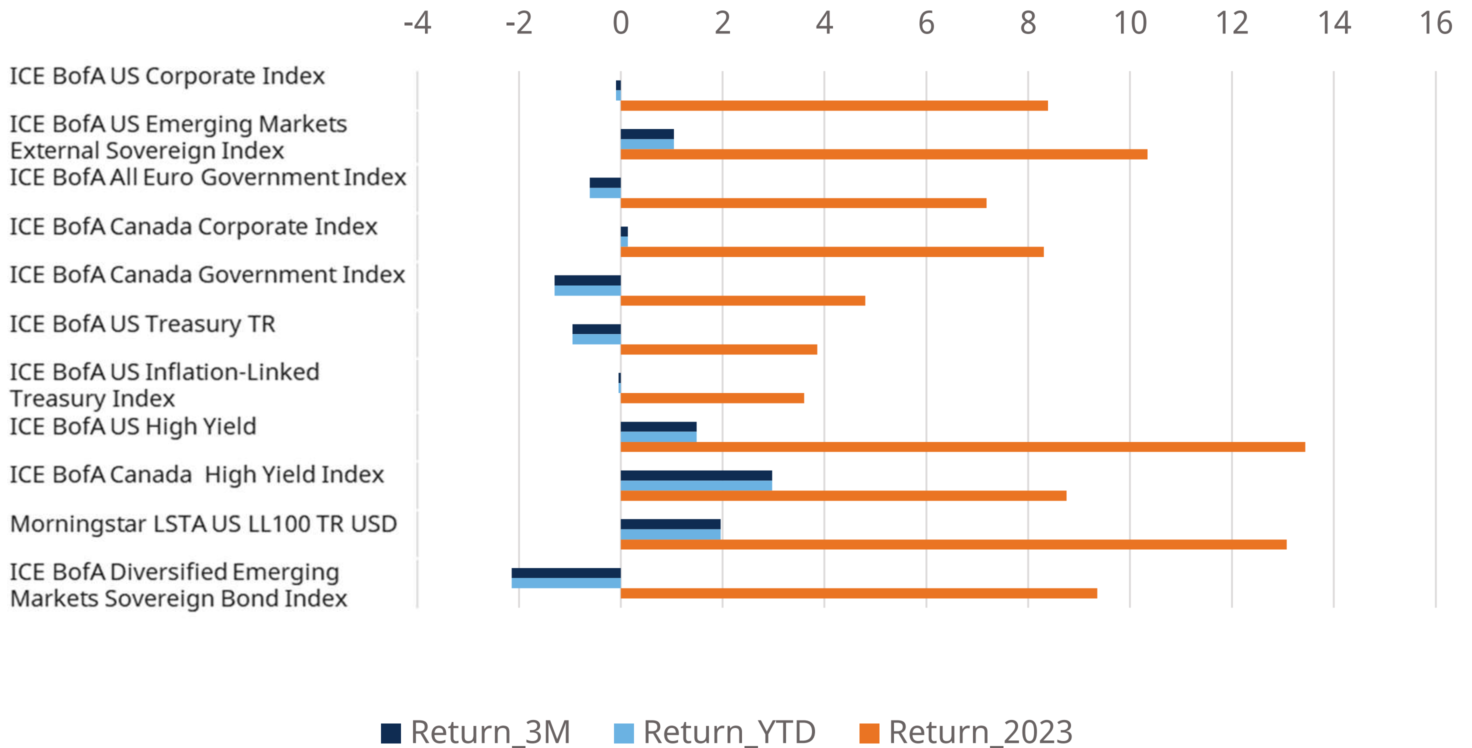
Currency	Gross	Net
CAD	3.5	92.9
USD	91.9	7.1
Other	4.6	0.0

Credit breakdown

Rating	Portfolio	Benchmark
AAA	2.0	-
AA	-	-
A	0.1	-
BBB	3.6	2.9
BB	15.7	25.8
B	61.4	65.2
CCC & Below	10.9	5.3
NR	6.4	0.7

Attribution





Commentary

US economic exceptionalism continued in full force throughout Q1, with respect to both activity, as well as prices, stumping many market watchers and investors in the process. There seems to be almost no bounds to the US consumer's resiliency and as we go to print, Q1 real GDP looks to be heading towards a 2.0-2.5% q/q run rate, a level we would define as the "top end" of the soft landing range, maybe better. Prices, too, have been almost unabashedly strong; the January data (printing in February) was up for much discussion around seasonal factors and seasonal adjustment factors (related, but different), with many at the time discounting it as a "one off" month. But the February CPI data printing in March, also came in hot, and although for mostly different reasons, the market started to take notice. And of course the labour market continues to perform well, particularly at the headline level although there are a few cracks beneath the surface. It may sound odd to Canadian investors, but Q1/24 was the quarter where the immigration story became a main point of topic and discussion for the street in the US as it related to the labour market, inflation and the overall economy.

As we now know, after seeing a significant repricing in Fed expectations in Q4/23 for more cuts in 2024, those cuts were unwound in Q1, based mostly on the above stronger than expected data. Not surprisingly, that unwinding caused yields to back up higher, and those in so-called steepeners, generally found themselves on the wrong side of the trade.

It now looks very unlikely a significant rate easing cycle in 2024 will materialize, namely because of the stronger than anticipated US data and the majority of FOMC participants are not looking to embark on a significant easing cycle, at least this year. Indeed, the hawkish voter rotation for 2024 we were concerned about at the end of 2023 seems to be at least part of the discourse here, but in reality it is more broadly based than that amongst the participants. But 2024 won't last forever of course, and at some point, probably in Q2, the market will start to look at 2025 in more totality. Most Fed participants still think rates cuts are appropriate, they would just prefer additional confirmation of a slowing inflation trend.

Contrast that with Canada's macro situation where household spending is relatively anemic, headline inflation is back (just) into the BoC's target 1-3% y/y range, the unemployment rate has moved 110bp higher, and as everyone knows, there is mortgage reset risk on the horizon in H2/24 and in calendar 2025. Not surprisingly the market continues to expect the Bank of Canada to out-dove the Fed, although with the resetting of Fed expectations market pricing for the BoC has not been immune. BoC pricing has adjusted lower to around 65bp at time of writing, a level we think might be a bit of an overreaction to the Fed's repricing. While a cut at the June FOMC meeting seems very much at risk, we continue to believe the BoC will start its easing cycle in June, and accordingly continue to like Canadian nominal duration over US duration on many parts of the curve, and dislike the Canadian dollar.

The higher-for longer narrative is taking hold and gaining momentum as markets are increasingly pricing in fewer cuts in 2024. Alongside this "higher-for-longer" rate scenario, there seems to be consensus building for a soft landing which would create a compelling backdrop for loans in the rest of 2024.

Over the past two-plus years, loans have outperformed on a risk-adjusted basis for two basic reasons; i) rates are high providing for double digit coupons (more so in 2023), and ii) economy still performing well with strong employment and hence credit fundamentals are not shaken. If this macro backdrop does not change to result in significant defaults (high single digit), then loans are likely to continue to perform well. If higher rates lead to hard landing (which in our opinion is unlikely but possible), then loans are likely to underperform.

Higher-for-longer and the Altice downgrades in March are likely to pressure lower quality issuers especially the CCC segment of the loan market. In fact, CCCs have been underperforming over the past three weeks and that can continue into Q2.

Overall, absent significant deterioration in credit fundamentals (which continue to be decent on an LTM basis), loans continue to be very attractive with near double digit yields. Worth noting that most default candidates are already marked down in price, easing losses from actual defaults when they happen. Macro risks continue to be very relevant; i) inflation which can result in higher for longer rates, ii) worsening geopolitics globally, and iii) potentially easing consumer and corporate demand.

Commentary

We still like loans especially given their near 10% yield and 97 price, with no “direct” rate risk. And last but not least, rate cuts are not necessarily negative for loans – if cuts stimulate the economy and fuel risky assets higher, then loans will generally follow.

Our duration positioning remains nuanced. We maintain a positive stance on duration in North America, particularly in Canada, and continue to maintain a significant active underweight duration view in regions where rates are expected to rise further, notably Japan. We continue to hold a long position in EM local rates for the attractive carry and prospect for lower rates in Latam.

We prefer to be invested in high-grade (low-beta) Corporate Bonds at the short end of the curve (2-5y but especially 2-3y). We prefer the Canadian curve over the US curve in this sector.

As we conclude Q1 2024 and shift focus to the second quarter, we anticipate rate volatility to persist. Our strategy remains opportunistic, with close monitoring of global economic indicators and geopolitical developments. The delicate balance between mitigating risk and seizing opportunities will be pivotal in navigating the months ahead.

Contributors:

-Overweight non-benchmark loans
-Open USD exposure
-Overweight CCC loans and 2L loans
-Overweight Auto parts and Technology sector
-Underweight Ground Transport sector

Detractors:
-Exposure to High Yield bonds
-Cash and allocation to FRNs
-Underweight Metals & Mining and Retail sectors
-Overweight Software sector

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Percentile rankings are from Morningstar Research Inc., an independent research firm, based on the Canada Fund Floating Rate Loans category and reflect the performance of the Mackenzie Floating Rate Income Fund for the 3-month, 1-, 3-, 5- and 10-year periods as of March 31, 2024 . 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 Floating Rate Loans category funds for Mackenzie Floating Rate Income Fund for each period are as follows: one year - 77 ; three years - 76 ; five years - 70 ; ten years - 32 .

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