Mackenzie Floating Rate Income Fund

Fund snapshot

Inception date	05/09/2013
AUM (millions in CAD)	447.8
Management fee	0.65%
MER	0.88%
Benchmark	Morningstar LSTA Leveraged Loan (Hgd to CAD)
CIFSC category	Floating Rate Loans
Risk rating	Low to Medium
Lead portfolio manager	Konstantin Boehmer
Investment exp. since	2003

Strategy overview

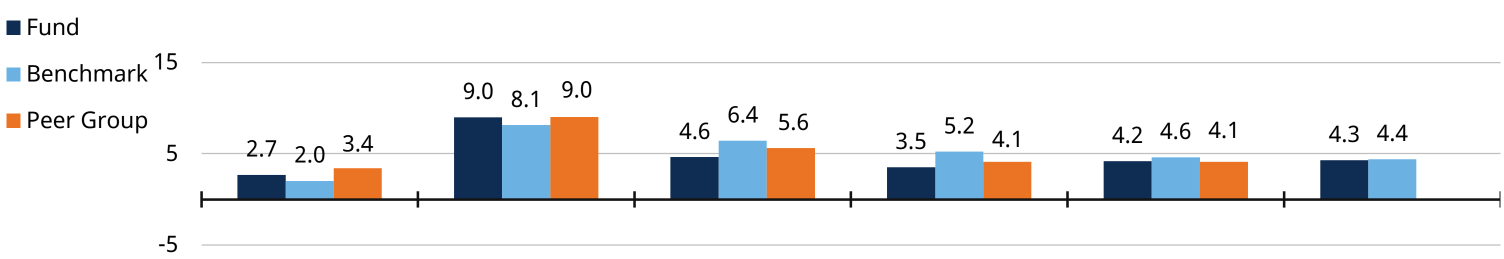
• Aims to deliver attractive risk-adjusted returns by investing primarily in senior secured floating rate loans and seeking credit exposure that is isolated from interest rate risk.

• 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.

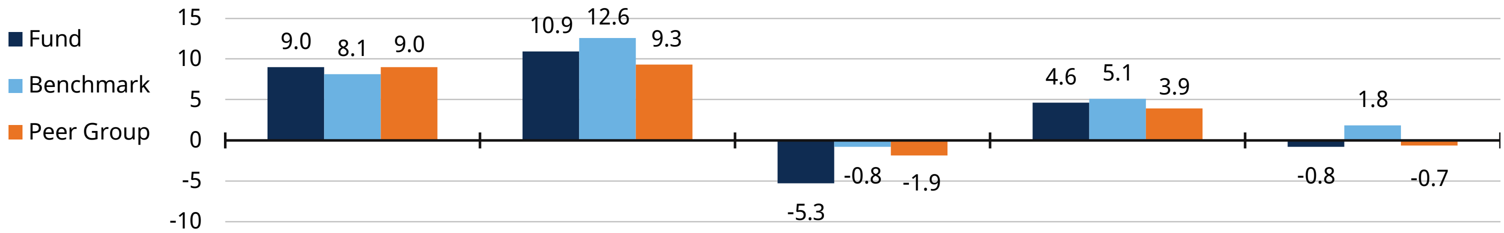
• The neutral currency exposure is 100% hedged back to CAD, although some open currency exposure (generally no more than 10% to 15%) can be used by the managers tactically to mitigate the overall risk in the portfolio.

Trailing returns %



	3 Mth	1yr	3Yr	5Yr	10Yr	SI
Excess return	0.7	0.9	-1.8	-1.7	-0.4	-0.1
% of peers beaten	74	62	30	37	63	NA

Calendar returns %



	2024	2023	2022	2021	2020
Excess return	0.9	-1.7	-4.5	-0.5	-2.6
% of peers beaten	62	67	22	68	50

Portfolio characteristics

Ratios & metrics	Portfolio	Benchmark
Fund Avg Yield	9.5	8.6
Fund Mod. Dur	0.4	0.3
Fund Rating	B+	B+
Average Price	96.28	143.8
Average Coupon	8.5	7.7
Average Term	4.6	-

Asset allocation

Asset	Portfolio	Benchmark
Investment Grade Corporates/Government	0.5	-
Sovereign and EM	0.2	-
High Yield	8.9	-
Loans	87.1	-
Cash & Equivalent	-1.3	-
Other	4.6	-

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	3.7	3.8
Sharpe Ratio	0.2	0.7
Tracking Error	1.4	-
Information Ratio	-1.3	-
Alpha	-1.6	-
Beta	0.9	-
Upside Capture (%)	82.0	-
Downside Capture (%)	106.7	-

Geographic allocation

Country	Weight
Canada	10.9
US	77.7
Europe	9.6
Other	1.8

Maturity breakdown

Bucket	Portfolio	Benchmark
0 to 3	14.9	-
3 to 7	80.9	-
7 to 12	1.0	-
12+	3.2	-

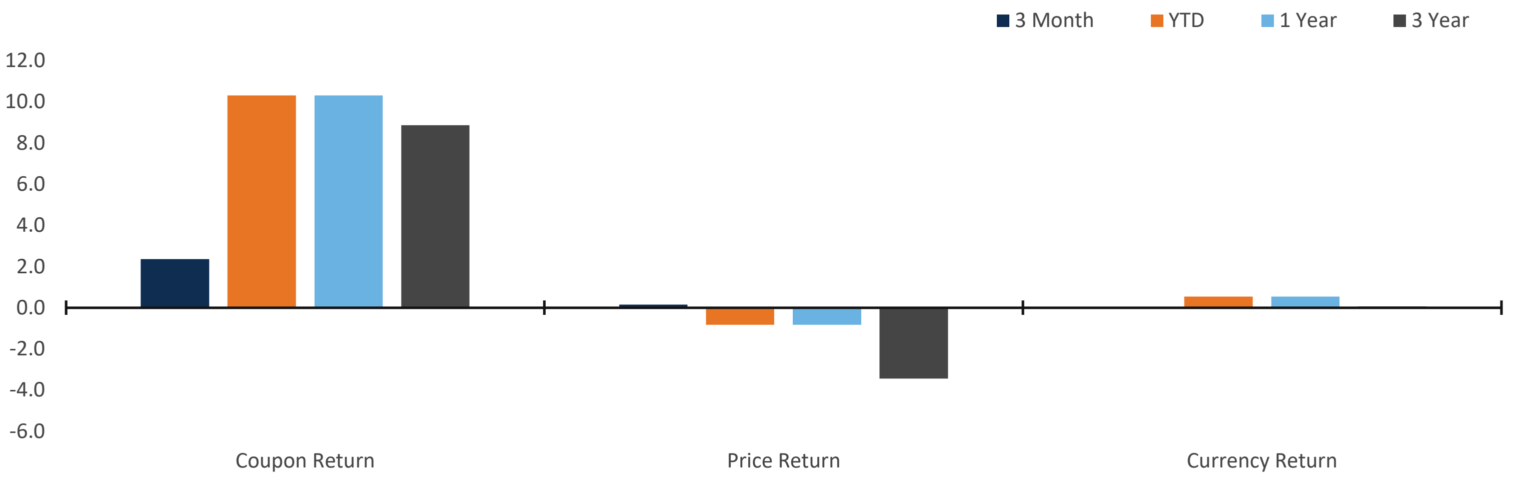
Currency exposure

Currency	Gross	Net
CAD	-1.5	94.1
USD	97.9	5.9
Other	3.6	-

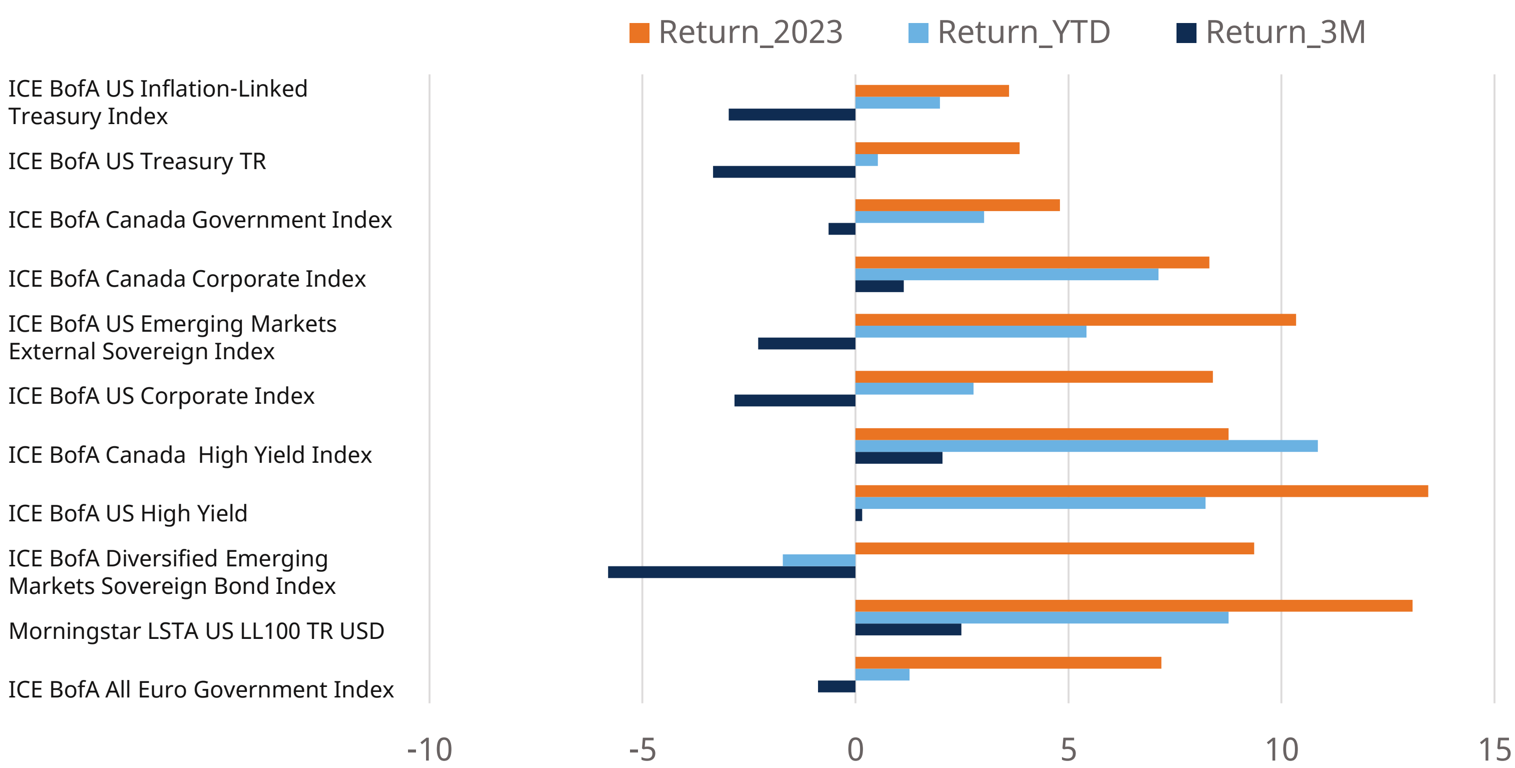
Credit breakdown

Rating	Portfolio	Benchmark
AAA	-	-
AA	-1.3	-
A	0.1	0.1
BBB	4.8	2.4
BB	17.4	25.6
B	59.6	65.1
CCC & Below	9.0	6.1
NR	8.5	0.7

Attribution



Market Overview



Commentary

Market Overview

Global yields, led by US Treasuries, were generally one way higher throughout the fourth quarter, thanks to three key drivers: the increase in term premia, expectations of continuing US economic exceptionalism, and of course, Trump's election and the so-called "Trump Trades" that ensued. As a result, US 10yr yields were higher by almost 100bp over the quarter, while the 2s-10s curve steepened by 28bp. Longer duration was not overly loved, with the market seeing the risks of US fiscal spending becoming even more unhinged under a Trump administration and the so-called "red sweep."

Exceptional US economic growth – and continued expectations of exceptional growth – meant markets needed to recalibrate yield levels from where they were late-September. Throughout the quarter we saw the final third-quarter, as well as the fourth-quarter, US GDP Forecast Now estimates continue to print almost stubbornly-high, especially versus other global economies. That in turn, also required markets to recalibrate Fed easing expectations for 2025: at the end of September 2024, markets were pricing an end-2025 Fed funds rate of 2.90%; by the end of the fourth quarter, that had risen to 3.90% - about the same relative increase as the 10yr yield over the quarter – with the market becoming ever-more comfortable with the notion the US nominal neutral interest rate was materially higher than circa 3%.

Of course, we would be remised if we did not speak about the impact of Trump's acceleration in the polls and to an even further extent in the betting markets (like Polymarket) in September and October which clearly drove a number of "Trump Trades" including the reflation trade, the bullish equity trade (on the notion of faster nominal GDP, lower taxes and higher corporate earnings), and the long USD trade (repatriation, higher for longer) – just to name a few.

As we turn the page in the early days of the new year and write pre-inauguration, it appears a lot of those themes are poised to drive markets into the first-quarter of 2025 and possibly beyond. Our view for a while would be tariffs, or the threat of imposing tariffs, would lead the policy mantra and that indeed appears to still be the case, along with immigration, and deregulation in both the financial and energy sectors. But the rise in yields from September is now getting to a point where any further climb higher could prove to be a hinderance on valuations for other asset classes, particularly higher beta assets, and the risk of a cross-asset correction looks more likely now than it did three months ago. We have long expected cross-asset volatility to increase, and we are now at the point in the cycle where not only has that happened, but also further increases are more likely.

It goes without saying that Canadian assets are clearly at risk under the new Trump administration with talk of a "51st state" and "economic warfare" to achieve it. Canada's current political situation only amplifies the risk, not necessarily Trudeau in or out as PM, but prorogation of parliament means all legislation – including the $1.3bn border security bill that was cobbled together after Trudeau's visit with Trump in Florida late last year – essentially needs to be tabled again when parliament reconvenes. To us, this is a risk for tariffs getting threatened or implemented given the hawks advising Trump, and there is likely nothing to be done on the Canadian border security front until late-March - at the earliest with parliament out.

Even a 10% across-the-board tariffs on all Canadian goods imported into the US would have a significant impact on the Canadian economy, likely at least ~1% of real GDP during the first year. A 20-25% tariff implementation would clearly be recessionary in the best of times – and the Canadian economy is far from currently operating in the best of times. Market pricing for the Bank of Canada at 60bp for 2025 at time of writing continues to look underpriced – as it has for a long while – and we would not be surprised if we saw the Bank's policy rate hit 2.25% or lower, or more than 100bp from current pricing.

Floating Rate Income Fund

Loans confidently shined in the green in Q4 as most fixed income asset classes were in the red. In fact, loans provided consistent positive quarterly and monthly returns throughout 2024. Relatively high loan carry (at times offsetting small price declines) resulted in decent quarterly and twelfth consecutive positive monthly return for loans. A healthy bid for loans persisted throughout Q4, driven by strong demand from new CLO formation and retail inflows, despite general risk off in markets in. Quarterly return was still driven by high coupons where 3 month term SOFR was hovering around 4.3% after the Fed cuts in Sept, Nov and Dec. Technicals remained very strong throughout Q4 stemming from little new net supply from new issue on the primary market. The primary market was very strong in Q4, but with a focus on repricings and refinancings.

Loan market fundamentals are a two-edged sword; on one side leverage ratios have been decent and improving, while on the other side coverage ratios, especially for CCC and some B- issuers, are stressed leading to cycle record high default activity through Liability Management Exercises (LMEs).

Overall from a macro perspective, there seems to be a consensus for a "growth" scenario after the huge Trump win in the US elections, which will be constructive for credit including returns for loans. Over the past three years, loans have outperformed on a risk-adjusted basis for two basic reasons; i) rates are high providing for high single digit / double digit coupons (more so in 2023), and ii) economy still performing well with strong employment and hence credit fundamentals are not shaken yet. If this macro backdrop does not result in significantly more defaults, then loans are likely to continue to perform well. If higher rates lead to very hard then loans are likely to underperform.

Commentary

HY Floating Rate

Contributors:
-Higher carry
-Open USD exposure
-Overweight Bs and underweight BBBs
-Overweight non-benchmark loans
-Underweight Beverages
-Overweight Consumer Services

Detractors:
-Losses from zombie names
-Exposure to high yield bonds
-Overweight CCC loans
-Overweight 2L loans
-Underweight Telecom Services
-Overweight Software and Food Products

Closing Commentary

Politics remain front and center with the new US administration taking power in late January and threatening to implement 25% tariffs. Any tariff would of course be problematic for Canada. Retaliatory action would be inflationary and any support by the Bank of Canada via increased rate cuts would weaken the currency and also be inflationary. The path of longer end rates remains especially uncertain. 30y Canadian yields are now 150bps lower than 30y US yields. Any increase in inflation would make the sector relatively unattractive to own, although all yields usually trade lower during a cutting cycle. It is unclear how attractive investing in Canada would be if it is in the midst of a prolonged trade war with its biggest trading partner.

An additional effect of tariffs could be on Canadian credit spreads. Credit remains well bid although marginally off the tights. At current valuation, we consider the corporate bond market expensive, although the current positive fund flows and higher yields may lend support to prolong this richness a little longer. Given this and until there is more clarity on the geopolitical situation between Canada and the US, we see no reason to increase credit holdings and would look to improve credit quality and liquidity.

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 December 31, 2024 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 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 December 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 - 76 ; three years - 74 ; five years - 74 ; ten years - 50 .

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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