Mackenzie Income Fund

Fund snapshot

Inception date	10/22/2001
AUM (millions in CAD)	1279.9
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	Darren McKiernan, Steve Locke, Konstantin Boehmer

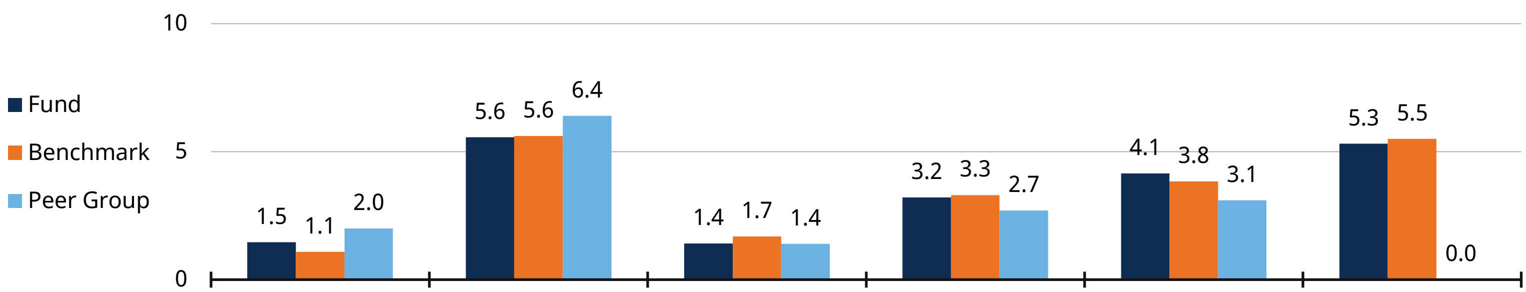
Strategy overview

• 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

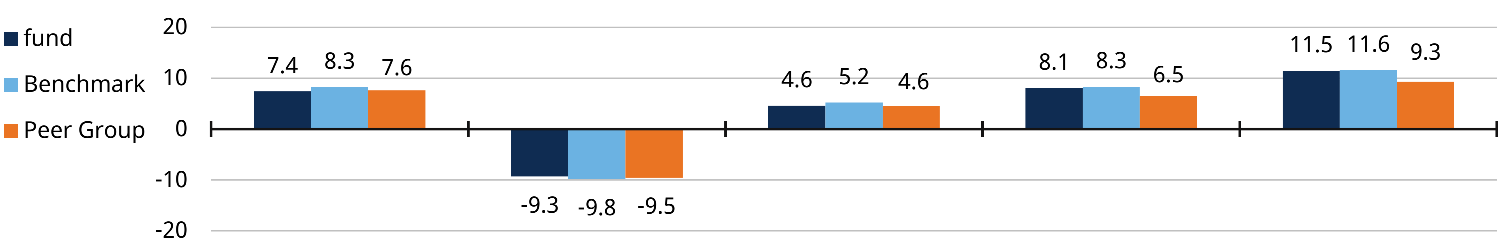
• Equity portfolio of quality, dividend paying companies in Canada and globally contribute to the Fund's income stream

Trailing returns %



	3 Mth	1 Yr	3 Yr	5Yr	10Yr	SI
Excess return	0.4	-0.1	-0.3	-0.1	0.3	-0.2
% of peers beaten	28	36	55	66	89	NA

Calendar returns %



	2023	2022	2021	2020	2019
Excess return	-0.9	0.5	-0.6	-0.2	-0.1
% of peers beaten	47	60	56	88	88

Portfolio characteristics

	Portfolio	Benchmark
Overall yield	4.3	3.4
Equity		
P/E 12m forward	16.5	15.0
Dividend yield	2.7	3.0
Net debt/EBITDA	1.9	2.7
EPS growth (FY E)	4.5	5.8
P/B	2.6	2.0
Fixed income		
Yield	5.1	4.2
Duration	6.4	7.1
Average credit quality	A	AA

Sector allocation

Sector	Portfolio (%)	Benchmark (%)	Relative weight (%)
Communication Services	1.4	1.0	0.4
Consumer Discretionary	1.9	1.1	0.8
Consumer Staples	2.1	1.2	0.9
Energy	3.7	5.4	-1.7
Financials	7.8	9.3	-1.5
Health Care	2.1	0.1	2.0
Industrials	3.6	4.3	-0.7
Information Technology	3.8	2.6	1.2
Materials	2.6	3.3	-0.7
Real Estate	0.3	0.7	-0.4
Utilities	1.1	1.1	0.0
Other	0.8	0.2	0.6

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	7.2	8.0
Sharpe Ratio	-0.2	-0.1
Tracking Error	1.4	-
Information Ratio	-0.2	-
Alpha	-0.4	-
Beta	0.9	-
Upside Capture (%)	90.3	-
Downside Capture (%)	91.4	-

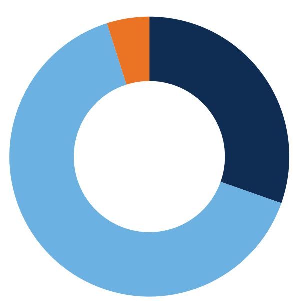
Country allocation

Country	Weight	Benchmark (%)	Relative weight
Canada	66.7	99.0	-32.3
United States	18.8	0.7	18.1
United Kingdom	1.8	0.0	1.8
Mexico	1.3	0.0	1.3
Germany	1.1	0.0	1.1
France	0.8	0.0	0.8
Other	9.5	0.3	109.1

Credit breakdown

Rating	Portfolio	Benchmark
A	17.5	15.2
AA	37.2	32.2
AAA	7.3	41.6
B	2.6	-
BB	7.2	-
BBB	27.3	11.0
CCC & Below	0.4	-
NR	0.5	-

Asset allocation



	Portfolio (%)
Equity	30.4
Fixed Income	64.7
Cash	4.9

Top 10 equity holdings

Security name	Country	Sector	Weight
10Y Canada Govt Bond (MOD) Jun 24	Other	--	5.8
Province Of Ontario 3.65% 02-jun-2033	Canada	--	5.4
Province Of Quebec 4.4% 01-dec-2055	Canada	--	2.2
Province Of Ontario 4.15% 02-dec-2054	Canada	--	1.8
Province Of Quebec 3.6% 01-sep-2033	Canada	--	1.5
Government Of Canada 1.75% 01-dec-2053	Canada	--	1.5
Province Of Alberta 3.1% 01-jun-2050	Canada	--	1.1
Royal Bank of Canada	Canada	Financials	1.1
Government Of Mexico 7.75% 23-nov-2034	Mexico	--	1.1
Province Of Alberta 2.95% 01-jun-2052	Canada	--	0.9

Equity - Attribution

	Sector	Portfolio Average Weight (%)	Portfolio Contribution to Return (%)
Contributors	Financials	7.6	0.5
	Information Technology	3.6	0.5
	Energy	3.5	0.4
Detractors	Real Estate	0.3	0.0
	Utilities	1.1	0.0

Fixed Income - Attribution

	Sector	Portfolio Average Weight (%)	Portfolio Contribution to Return (%)
Contributors	Corporate	39.3	0.4
	Bank Loan	0.3	0.01
Detractors	Government	25.8	-0.6

Commentary

It was a strong quarter for equity investors, helped by resilient economic data in the United States coming in stronger than initially expected, benefiting global equities overall. However, it was a more challenging period for fixed income investors, with sticky inflation and strong economic growth shifting expectations for interest rates cuts by the Federal Reserve down to three instead of the six forecasted at the start of the year, putting pressure on bond prices as yields climbed.

The S&P 500 surged 10.6% (13.5% CAD) with broad-based returns across sectors. Globally, the MSCI ACWI returned 9.6% in local terms (11.2% CAD). The Bloomberg Global Aggregate Bond Index (hedged to CAD) was flat and returned -0.1%. The FTSE Canada Universe Bond Index fell 1.2% (total return) amid a backup in bond yields to start the year. A pickup in U.S. inflation data, coupled with a stronger outlook for U.S. economic growth has delayed expectations for the first rate cut. On a sector basis, further tightening in credit spreads allowed corporate bonds to outperform sovereigns. Within credit, high yield bonds outperformed investment-grade corporates with the ICE BofA U.S. High Yield Bond Index (hedged to CAD) returning 1.5%. In Canada, the S&P/TSX Composite was up 6.6%, driven primarily by health care, energy and industrials. The Canadian dollar depreciated against the pound and US dollar while appreciated against yen and Australian dollar.

Mackenzie Income Fund (Series F) was up over the quarter and outperformed its blended benchmark index comprised of 30% S&P/TSX Composite Index and 70% FTSE Canada Universe Bond Index. Equities contributed the most to performance, with information technology being the biggest contributor. Fixed income also added, led by corporate bonds and bank loans.

On a relative basis, the fund outperformed its benchmark. From an equity perspective, security selection in information technology and communication services sectors contributed the most to relative performance. An overweight position in health care also contributed to performance. On the contrary, security selection in health care and an underweight position in energy sectors detracted the most from relative performance. From a fixed income allocation perspective, shorter duration in corporate bonds contributed the most to performance. An overweight position in corporate bonds also contributed positively.

Within North American Equities, the portfolio management team continues to seek out the best overall reward to risk opportunities within our Canadian investment universe which led to some changes in the portfolio in the quarter. The changes were driven primarily by stock specific opportunities which resulted in increased positions in the materials and utilities sectors, while positions in the financial services and consumer staples sectors were reduced.

Within Global Equity & Income Equities, despite rising bond yields and higher-than-expected inflation, global stock markets showed strength in the quarter. All equity sectors across regions ended positively (in CAD), led by a narrow cohort of stocks, primarily in Info Tech and Communication Services. Initially, market expectations leaned towards a soft landing in the US economy, supported by anticipated interest rate cuts by the Federal Reserve. However, recent data showing resilient economic indicators and persistent inflation have shifted expectations towards the Fed potentially holding off rate cuts. The investment strategy remains consistent, focusing on high-quality companies with superior financial metrics and appropriate valuations. Amidst ongoing technological, geopolitical, and macroeconomic risks, the portfolio is well positioned to navigate these uncertainties.

The first quarter of 2024 was marked by a reversal of the strong fixed income rally we saw across North American markets in the fourth quarter. Both the US and Canadian government bond curves sold off in near-perfect parallel fashion with yields across the US curve rising between 27-30bps and yields in Canada rising 22-28bps. The entire US yield curve (2s30s) remains inverted by 20bps with the Canadian curve considerably more inverted at -80bps. Most of this inversion of the Canadian curve is in the short end – 2s5s is inverted by 60bps – reflecting a high Bank of Canada policy rate against the backdrop of weakening economic metrics.

Commentary

The explanation for the reversal in yields can once again be attributed to stronger economic data. In Canada Core Median YoY CPI came in at 3.6% vs an expectation of 3.3% (Jan 16th) causing the Bank of Canada to hold rates at their high of 5% in January. At the beginning of February the unemployment rate unexpectedly dipped to 5.7% vs an expectation of 5.9% and a prior reading of 5.8%. However, as the quarter progressed these stronger readings have abated. CPI in both February and March came in lower than expected as did GDP. With other metrics such as credit card delinquencies and business insolvencies spiking, we continue to feel that the Bank of Canada will be forced to take policy action to support the economy.

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) and prefer the Canadian over the US curve. With fragilities seemingly on the horizon in the Canadian market, led by the growing strains on consumers caused by mortgage resets, there is, in addition to the elevated yield, the potential for significant price appreciation.

The portfolio management team has a balanced outlook for Canadian equities. In the near term, there continues to be a fair amount of uncertainty regarding the Canadian economy and the likelihood of a soft-landing scenario. However, given the continuous drop in core inflation measures we believe it is likely the Bank of Canada will begin easing monetary policy later this year. Lower interest rates should provide an incentive for increased asset investment and more importantly provide relief from higher borrowing costs, particularly among consumers. The resulting improvement in economic growth would be positive for corporate profits. As a result, the market has re-rated higher recently, with some sectors pricing in a lower interest rate environment and a higher probability of a soft-landing scenario.

We 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 maintain a slight bias towards interest sensitive names in the portfolio as interest rate pressures may ease relative to last year. We remain focused on investing in quality stocks with a margin of safety to our estimate of fair value.

We believe 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 in a position 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 we expect our companies to grow their earnings significantly above the benchmark’s 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.

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 March 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 Canadian Fixed Income Balanced category and reflect the performance of the Mackenzie 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 Canadian Fixed Income Balanced category funds for Mackenzie Income Fund for each period are as follows: one year - 372 ; three years - 335 ; five years - 301 ; ten years - 218.

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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