Mackenzie Monthly Income Conservative Portfolio – Series A

Q2-2015 COMMENTARY

Performance Summary

- Mackenzie Monthly Income Conservative Portfolio (the "Fund") Series A was launched December 1, 2014. Based on Canadian mutual fund regulations, performance cannot be disclosed until the Fund reaches its one-year anniversary.

Contributors to Performance

- The Fund has less than 1 year of performance history.

Detractors from Performance

- The Fund has less than 1 year of performance history.

Portfolio Activity

- The allocation to equity is currently 17.6%, with 11.5% invested in the following ETFs: 5.7% in SPDR S&P 500 ETF, 3.1% in Vanguard FTSE Europe ETF and 2.6% in iShares S&P/TSX 60 ETF. The remainder of the equity is made up of 122 individual stocks and REITs. The equity portion of the Fund is invested in 16 countries across 10 sectors.
- The allocation to fixed income is currently 72.6% with 384 holdings across 19 countries.
- Within the underlying Mackenzie Unconstrained Fixed Income Fund, cash weight decreased significantly to 13.5% as cash was opportunistically deployed into a stabilizing credit market. The portfolio managers believe that high yield bonds are attractive as the yield (based on the BofAML U.S. HY Master II Index) has risen to 7.0%. Comparatively the 10-year Canada yield has fallen to a record low of 1.22%. The spread on the index currently is approximately 482 basis points, which is just below the long-term average of 530 basis points. And finally, company fundamentals remain strong. Many companies have refinanced debt at lower levels and have effectively; pushed out maturities, generated strong liquidity, improved interest coverage ratios to near record levels, and maintained a reasonable level of leverage. This is supportive of a low default environment. The portfolio managers believe that it is also time for some caution and that a hedge is appropriate for three reasons - reduced market liquidity, the relative expensiveness of a number of benchmark high yield issues and the uncertainty in regards to the longer term direction of oil prices (energy represents about 14% of the high yield universe).
- Currently, in the equity portion of the fund puts have been purchased on 53% and calls on 52%. This will change over time as equity market and volatility surface conditions evolve.

Outlook

- For the first time in many quarters, global developed country bond markets turned in a negative performance. Bond yields rose on a combination of two factors. Earlier in the quarter, fears that a summer Federal Reserve (Fed) rate hike would trigger a broader upward re-set in policy rates across the developed world pushed bond yields upward. That fear has now faded somewhat for markets outside the U.S. Then, later in the quarter, concerns that Greece would exit the euro triggered fears of a broad deterioration in European credit quality. Yields generally ended the quarter higher, while credit spreads widened.
- Stepping back from the recent market gyrations, the European Central Bank's (ECB) €60 billion per month direct asset purchase program continues to have a significant positive impact on keeping an upward bound on most European bond yields. Early in the second quarter the ECB's program helped drive many European sovereign yields into negative territory for long stretches of time. Even during the worst of the Greek crisis, Quantitative Easing (QE) helped keep a lid on yields for Italy, Spain and Portugal. Meanwhile, expected inflation rates declined or remained low. We do not foresee anything on the horizon to cause markets to begin pricing in higher interest rates in Europe or Japan anytime soon.
- Meanwhile the U.S. Federal Reserve is widely expected to begin lifting interest rates later in 2015 as the U.S. labour market continues to demonstrate impressive strength. The weakness seen in U.S. GDP growth early in the year was widely viewed as temporary (due to frigid weather and a port strike that has since been resolved). In contrast, job creation is running hot, job openings are the highest ever, the unemployment rate has declined to 5.5% and the rate of layoffs has been reported at the lowest since the tech boom. The strong job market combined with lower gasoline prices and (until very recently) a decent stock market has provided a powerful boost to consumer confidence.

- That said, by many measures, including the Shiller cyclically-adjusted P/E ratio, valuations on the S&P 500 Index have reached levels typically seen before a period of weaker returns. While investor sentiment and macroeconomic conditions remain positive, and could push the index higher, our current tactical view is that investors should look for opportunities to overweight other equity markets.
- The pattern of global equity market returns reflected the shift in focus over the quarter from economic recovery in Europe to the odds that Europe's monetary union would fracture. Major markets were marked by cautious optimism in the early spring but in the last weeks of the quarter they were wracked by volatility over Greek negotiations with the ECB, a technical default of a payment to the IMF and a Greek referendum on accepting further austerity measures with their loan deal. Concerns that the falling Chinese equity market would lead to a larger slowdown in the Chinese economy added fuel to the fire. The quarter ended without a resolution to the Greek-ECB negotiations. We remain broadly attracted to European equities on a valuation (attractive), macro (improving) and sentiment (negative, therefore attractive from a contrarian perspective). However, we tempered that view back to almost neutral in early June in recognition of the looming issues in Greece.
- In Canada the S&P/TSX Index returned -1.6% during the second quarter. Health Care and Telecommunications were the only sectors to post positive returns of 2.4% and 1.6%, respectively. Industrials, Utilities, and Technology were all in negative territory with declines ranging from -6.3% to -9.6%.
- In the United States, the bellwether S&P 500 Index fell -1.1% (CAD) during the quarter. The Utilities sector fell sharply by 7.1% as investors digested the possibility of a September hike in the Fed Funds rate; however the sector has a small weighting in the index. Health Care and Financials were the largest contributors to index returns whereas Industrials and Consumer Staples were the largest detractors.
- The MSCI World Index dropped 1.1%. Telecommunications was the only notable positive performer, increasing by 2.0%. All other sectors had marginally positive returns or negative returns. Utilities posted the worst-performing return with a 4.3% decline.
- Asian markets were mixed. The Chinese Shanghai market ran up to a scorching 5166 in June from the start of the quarter at 3864 then ended around 5% lower for the quarter, but fell sharply from its peak causing concern about the potential negative impact to the Chinese economy and government controls on short selling and margin lending to calm the stock market. The Japanese TOPIX continued its march upward with a 2.25% increase. Overseas in Europe, uncertainty surrounding Greece shook markets resulting in a 6.5% decline in German markets (DAX).
- On the currency front, we continue to believe the odds are slightly tilted in favour of the U.S. dollar appreciating against the Canadian dollar, British pound, euro and the Japanese yen. The U.S. dollar is expected to continue to benefit from structural tailwinds. For one, since 2009 countries and foreign institutions outside of the U.S. have borrowed $3.5 trillion in U.S.-dollar denominated debt, creating a currency mismatch with their local revenues. They will need to buy back U.S. dollars to service and repay that debt. In addition, an increase in U.S. interest rates, if it occurs while other central banks are still pursing ultra-loose monetary policies, would add further support to the greenback's value.

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may lose money on your investment. There is no assurance or guarantee the fund will realize a positive return in any given year or over any time period.

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Fund performance and ranking not available for funds with a history of less than one year.