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## The Mackenzie Fixed Income team:

# Our approach towards responsible investing



### The philosophy driving positive change

Mackenzie's award-winning Fixed Income team is recognized within the investment industry for its high level of expertise and performance. The team takes an active, flexible and in-depth investment approach when evaluating both financial and non-financial risks and opportunities.

Part of this approach includes ESG integration, where environmental, social and governance factors are incorporated into investment decisions. To achieve this, the team uses its own unique, proprietary process, models and tools when analyzing companies and governments, so as to mitigate risk and price downside in bonds. Ultimately, the team's approach to ESG integration contributes to its objective of seeking to generate better risk-adjusted returns across all of its funds.

**"The Mackenzie Fixed Income team adopts an inclusive approach and actively engages with the bond issuers it invests in to drive positive change"**



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The team believes that collaborating with and investing in bond issuers that are willing to improve their sustainability practices can have a greater impact than simply excluding those with poor ESG performances. Therefore, the team adopts an inclusive approach and actively engages with the bond issuers it invests in to drive positive change.

## A team applying ESG analysis across the board

All of the Fixed Income team's portfolio managers and analysts are responsible for ESG analysis within their own area of research, and ESG recommendations apply to investment decisions across all portfolios. In addition, the following team members have specific leadership roles in the ESG integration process.

### Steve Locke

CIO Fixed Income and Multi-Asset Strategies  
Co-ordinating team approach to ESG integration

#### Global Macro

##### Konstantin Boehmer

SVP, Co-Lead Fixed Income, Global PM  
ESG integration for Government Debt

##### Ramsey D'Silva

Senior Investment Analyst  
Quantitative ESG Research for  
Government Debt

##### Andrew Vasila

Investment analyst  
ESG Data for Government and  
Corporate Debt

#### Credit

##### Jonathon Ennis

VP, Investment Research  
ESG integration for Corporate Debt

##### Erica Roa

Senior Investment Analyst  
Member of Sustainable Investing  
Champions Group  
ESG Best Practices Working Group



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## A unique, proprietary ESG process

The Fixed Income team uses its own unique proprietary process to integrate ESG factors when analyzing investments for all of its funds. Part of that process involves using proprietary ESG scores.

For corporate bonds, credit analysts give each company a score based on ESG factors that could bring risks or opportunities to its performance.

For government bonds, the team has developed an ESG process based on internal factors as well as leading indicators from international organizations such as the World Bank and the IMF. This process delivers proprietary ESG scores that rank countries on their overall sustainability.

The Fixed Income team’s methodology evaluates what it considers to be the most material ESG factors for corporate and government bond issuers, as illustrated in the chart below.

### Proprietary ESG scores are based on:

- Quantitative company and industry data
- Qualitative analysis from the team’s industry experts
- Quantitative analysis from best-in-class ESG data providers such as Sustainalytics, S&P and EOS at Federated Hermes



#### Sovereign

- Air pollution
- Water productivity
- Energy intensity

#### Corporate

- GHG emissions
- Sustainable land usage
- Sustainable products



#### Sovereign

- Level of peace
- Education
- Income equality

#### Corporate

- Diversity and inclusion
- Labour relations
- Health and Safety



#### Sovereign

- Corruption
- Rule of law
- Political stability

#### Corporate

- Board composition
- Risk management processes
- Ownership structure



## ESG integration techniques

The team uses its proprietary ESG analysis process to determine the relative value of an asset by integrating these ESG factors when analyzing the fair value, yield and spread analysis of bonds. In other words, this ESG analysis will help the team to decide whether it considers a bond to be well priced. Also, these proprietary ESG scores are used to assess eligibility for certain funds that have higher sustainability requirements.

The chart below showcases examples of the proprietary ESG analyses of three companies in the packaging sector and how the team assesses relative value through an ESG lens.

Packaging industry companies	Company X	Company Y	Company Z
<b>Mackenzie Corporate ESG Score</b>	88	76	50
<b>Environmental Score (A-F)</b> <ul style="list-style-type: none"> <li>GHG Emissions</li> <li>Sustainable Land Use</li> <li>Sustainable Products</li> </ul>	<b>A</b> <ul style="list-style-type: none"> <li>Green bond issuance (in EUR)</li> <li>Very transparent with reporting and environmental practices</li> <li>Glass is FDA approved and recyclable</li> <li>Chief Sustainability Officer</li> </ul>	<b>A</b> <ul style="list-style-type: none"> <li>Green bond issuer (EUR &amp; USD)</li> <li>Rated well by Sustainalytics</li> <li>Transparent environmental plans</li> <li>Chief Sustainability Office</li> </ul>	<b>C</b> <ul style="list-style-type: none"> <li>Plastics packaging producers have trouble with recycling rates</li> <li>Lack of transparency about disposal and reuse rates</li> </ul>
<b>Social Score (A-F)</b> <ul style="list-style-type: none"> <li>Diversity &amp; Inclusion</li> <li>Labour Relations</li> <li>Health &amp; Safety</li> </ul>	<b>B</b> <ul style="list-style-type: none"> <li>5 year 38% reduction in injury through investments in safety</li> <li>No apparent social controversies</li> <li>More than 20% of board is women</li> <li>Diversity and inclusion council</li> </ul>	<b>B</b> <ul style="list-style-type: none"> <li>Reduction in headcount due to divestment of food specialty business</li> <li>Have a diversity council</li> <li>\$2MM volunteering fund for COVID</li> </ul>	<b>C</b> <ul style="list-style-type: none"> <li>No evident social issues or controversies reported on Sustainalytics</li> <li>Less than 20% board is women</li> </ul>
<b>Governance Score (1-10)</b> <ul style="list-style-type: none"> <li>Board Composition</li> <li>Risk Management</li> <li>Organizational Structure</li> </ul>	<b>9</b> <ul style="list-style-type: none"> <li>Diverse and independent board</li> <li>Annual reporting</li> <li>No major controversies, low debt growth YOY</li> </ul>	<b>6.5</b> <ul style="list-style-type: none"> <li>Separation of Chair and CEO</li> <li>Lack of independent directors and diversity</li> <li>Dual-class share, high organizational complexity</li> </ul>	<b>5</b> <ul style="list-style-type: none"> <li>Lack of reporting</li> <li>No separation of CEO/Chairman</li> <li>High debt growth YOY</li> </ul>

Source: Mackenzie Investments. For illustration purposes only.



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## The team's engagement with companies

The team applies a best-in-class approach across all sectors and appreciates companies that apply strong ESG practices compared to their peers within their respective industry. Engagement is preferred over exclusion for those companies with relatively low ESG scores according to the team's analysis, or that are more exposed to ESG risks due to the nature of their industry. As bondholders, the team is able to engage with corporate bond issuers to try and bring about positive change in their ESG practices.

On an annual basis the Fixed Income team is involved in over 100 ESG engagements. These engagements are logged in order to monitor whether issuers take action on concerns raised. Over recent years, climate change and diversity/inclusion have been prioritized as two important engagement themes. The team also actively encourages companies to issue green bonds if they have a clear green use for the proceeds, or sustainability-linked bonds if they have or are developing clear ESG targets. Furthermore, the United Nations' Sustainable Development Goals (SDGs) are employed as a framework to guide engagements.

## A case study of engagement

The chart below illustrates how the team engaged with Algonquin Power to issue green bonds and to increase the way the company emphasizes sustainability as part of its business strategy. The Fixed Income team collaborates closely with the sustainable investing community and Mackenzie's Sustainable Investing team to stay up to date with developments in this fast-evolving space.

### Algonquin Power - Environmental case study

1

**Opportunity:**

Algonquin Power has always emphasized sustainability as core to its strategy and was keen to grow the renewable energy side of its business.

2

**Engagement:**

The team discussed sustainability as part of the company's business plans and ways to fund growth, including green bonds (Nov 2018, Jan 2019 and Feb 2020). Green bonds are an effective way to finance green projects

3

**Outcome:**

The company's renewable power business issued green bonds for the first time. It also held its first sustainability day in late 2019, ahead of its investor days. (Jan and Dec 2019)

### Learn more about the Fixed Income team [here](#).

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