MACKENZIE Investments

Mackenzie Global Tactical Investment Grade Bond

Series F Monthly Commentary **As of:** March 31, 2019

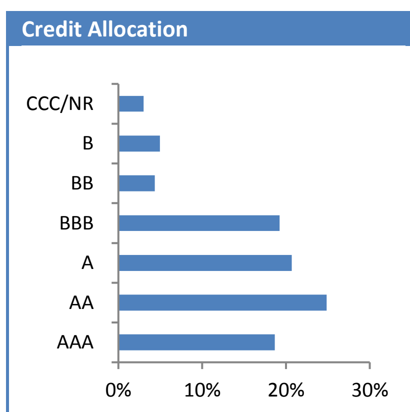
Portfolio Information	
Yield to Maturity	2.9%
Duration	3.1 years
Number of Holdings	208
Number of Countries	25
Average credit quality	A+

Sector Exposure	
Government Bond	34.3%
Quasi-Government	14.7%
Emerging Markets	10.1%
IG Corporates	29.9%
Bank Loans	4.0%
High yield + Pref Shares	4.7%
Cash	2.3%

Contribution to duration shows interest rate risk by country or region	Contrib. to Duration
US	0.98
Canada	1.50
Mexico	0.14
Europe	-0.47
Japan	0.00
Australia	0.59
New Zealand	-0.11
South Africa	0.08
Russia	0.07

Currency Exposure	Gross	Net
USD	43.1%	2.4%
CAD	23.0%	94.3%
AUD	7.7%	0.3%
NZD	2.2%	2.2%
ZAR	1.2%	1.2%

Credit Allocation



Sovereign bonds

- Sovereign bond markets rallied, with longer dated bonds generating the best returns. The US bond market outperformed Canada; the 30YR UST returned more than 5.5% or more than double the gains generated by the tech heavy NASDAQ.
- European bond markets also rallied, German 10 YR BUNDS saw yields decline from 18 bps to -7bps.
- The bond rally, which started in October and continued to the end of March, has resulted in more than $10 trillion of debt globally priced at negative yields
- Helpful to Fund performance during the month was exposure to Australia. The Fund's below benchmark weight to JGBs was helpful on a relative basis as Japan did not participate with same vigor as other bond markets.
- Hurting Fund performance was its shorter duration profile. The Fund's overweight exposure to TIPS provided positive returns but underperformed nominal bonds of similar duration as inflation expectations declined in March. It is almost inevitable when nominal bonds stage a massive rally that ILBs will underperform.

Parting ways

- The high yield bond market and loan market went in opposite directions in March. High yield bonds returned 0.98% with BB credits returning 1.31% and CCC losing 0.03%. In contrast, the loan market fell by 0.17% with CCC credits strongly outperforming, rising by 74 bps while higher quality BB loans fell by 28bps.
- YTD, both the loan market and the high yield market have posted extraordinary gains of 4.0% and 7.4% respectively. At the end of March, the YTW for the high yield bond market was 6.5% and YTM 6.7%.
- Money has been consistently flowing out of the loan market and into the high yield market. Retail loan funds just suffered 19 weeks of withdrawals which is the worst withdrawal from the asset class post the financial crisis.
- The Fund's loan exposure detracted from performance whereas its high yield bond holdings helped performance
- The Fund's exposure to below investment grade credit is 10.3%

Performance results

	MAR	3 mon	1 YR	2 YR	3 YR	5 YR	10 YR	(SI) May 2015
Mackenzie Global Tactical Investment Grade Bond Fund F	1.1%	2.5%	2.3%	1.6%	1.6%			1.7%
ICE BofAML Global Broad Market Hedged to CAD	1.8%	2.8%	4.1%	3.0%	2.3%	3.6%	4.4%	2.9%

CAD was weak relative to most major currencies

- The USD gained just over 1.3% against the CAD in March with CAD finishing at $1.3349 - this compares favourably to December's closing level of $1.3637. Better news on China-US trade talks and climbing oil prices (rallying about $2 to $59) and comments from Poloz

that Canada would emerge from its current slowdown were supportive of the CAD while weak trade and GDP reports and soft housing starts curbed enthusiasm for the loonie.

- The weakest currencies during the month were the Turkish Lira, Argentine Peso and South African Rand. The strongest currencies were Indian Rupee, JPY, Russian Ruble, Swiss Franc and AUD.
- Detracting from performance was exposure to the ZAR; benefiting performance was a short position in CAD versus the JPY and Russian Ruble as well as long position to the New Zealand dollar.

Portfolio Changes

In terms of big buckets, at the end of March the Fund had 48.9% in government bonds, 38.6% in corporate debt (a drop of 8% from the end of January) and 10.1% in the emerging markets. The Fund's duration decreased to 3.1 years; we still have our short position in German bond futures. Overall the Fund's duration is well short of the benchmark at 7.13 years (note: the duration of the benchmark has increased by 0.13 years since the end of October). Further, the benchmark derives 2.64, 1.60 and 0.25 years of duration from each of the US, Japan and Canada in contrast to the Fund which is massively underweight duration to the US and Japan and very overweight Canada. Another key difference is the Fund's YTM at 2.9% which is well north of the benchmark's YTM of 1.77%.

The Fund's use of the Fixed Income Team's credit momentum model is now about 4% (the credit momentum model uses a number of ETFs including MFT, BKLN, EMB, QUIG and QHY).

The Fund's TIPS exposure is currently just less than 13% - which is a significant overweight relative to the benchmark and largely unchanged from February. The Fund however sold its Italian Inflation-Linked Bond. Our near to mid-term outlook is that US inflation could move a bit higher because of the strong labor market, wage gains of over 3% and rising oil prices. Also, creating a positive environment for TIPS is our belief that the FED will continue to show significant restraint in how it reacts to inflation. The Fund decreased its US duration by selling US Treasury futures (mostly for longer dated bonds). We believe that with the FED on the sidelines shorter dated yields are more anchored and will result in some steepening of the US yield curve as yields on the longer end move higher.

The Fund reduced its exposure to corporate debt (investment grade and high yield) and Australia simply to take a few chips off the table as both ideas have worked well and are large overweights in the Fund. The Fund engaged in some high yield hedges using PUT options on HYG.

In EM, the Fund initiated a position in Brazilian local debt. We know that pension reform is incredibly difficult as it will likely result in either telling people that they will need to work longer, get paid less or both. Success will require time and may often look unachievable. Meanwhile, Brazil continues to experience slow growth but optimism for a better future state remains.

While our longer-term outlook for the Canadian dollar has deteriorated somewhat we expect it to remain largely range bound drifting between $1.30 and $1.35 dependent on economic data releases and global macro developments.

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