MACKENZIE Investments

Mackenzie Unconstrained Fixed Income Fund

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

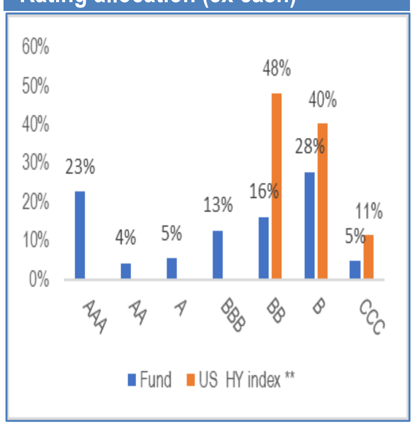
Key takeaways

- In May, High Yield bond and loans prices came under pressure alongside Stocks, Treasury yields, and oil prices as sentiment was contending with concerns around growth and trade. Although recent US economic data do not call for an urgent rate cut, market consensus now forecasts and already prices in two 25bp cuts in 2019 from the current 2.25%-2.50% range, one in September and one in December. *(further market comments on the next page)*
- The fund posted a monthly return of 0.1%, 10 bps above the benchmark.
- The PM team continues to see value in the High yield and loans space with a preference for leverage loans at the moment, while focusing on credit selectiveness considering the maturing credit cycle.

Portfolio snapshot	
Gross Yield	5.0%
Duration	3.3 years
Term	6.5 years
Average Rating	BBB+
AUM	1,9 Bn CAD

Sector Allocation	
Bank Loans	23.8%
High Yield Corporate Bonds	24.7%
Investment Grade & FRN	36.9%
Preferred Shares	1.2%
Cash + Working Capital	6.3%

Rating allocation (ex cash)



Currency Exposure (gross/net)	Gross	Net
USD	52.1%	5.4%
CAD	45.8%	94.0%
Other	2.3%	0.6%

Performance	MTD	YTD	1 yr	3 yr	5yr	Since Inc.
Mackenzie Unconstrained Income Fund (F)	0.1%	3.8%	3.8%	6.0%		4.4%
FTSE Canada 91-Day T-Bill Index	0.0%	0.7%	1.6%	1.0%		0.9%
Excess Return	0.1%	3.1%	2.2%	5.0%		3.5%

Key Contributors to Performance

- **Duration exposure:** active position on core long dated bonds: Government of Canada, Provincials and Guaranteed Canada Housing Trust.
- **Defensive allocation in favor of non-cyclical sectors:** notably limited exposure to the Energy sector (5% in the fund vs 14% in the US high index) as Energy was the worst performing sector (-2.4% over the month)
- **Country allocation tilted towards Canada:** exposure to Canadian Investment Grade (Corporate and government related), which rose 1.69% as measured by FTSE TMX Canada Bond Universe. Also, a small exposure to Emerging market bonds (2.7% in the fund) which returned +0.49% as measured by the iShares USD Emerging Markets Bond ETF
- **Rating allocation:** active exposure on investment grade which posted a positive total return and outperformed the sub-investment grade categories.
- **Put protection:** several puts were in the money during the month and generated a positive return.

Key Detractors to Performance

- **High Yield Bonds exposure** which Market index, the ICE BofAML US High Yield returned (-1.27%).
- **Position on the Floating Rate Loan market** which underperformed (-0.22%) as measured by the S&P LSTA Leveraged Loan index
- **Exposure to underperforming Preferred shares** which fell (-3.48%) as measured by the BMO Preferred shares ETF (ZPR)

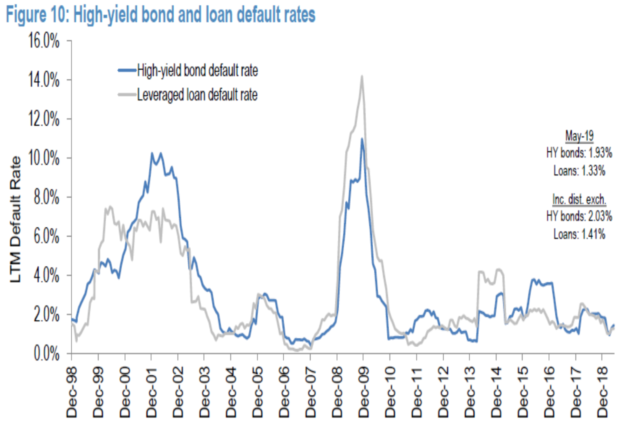
Markets highlights

Credit Market index	Spreads	Total Returns MTD	YTD	2018
US Investment Grade *	135	1.4%	7.1%	-2.3%
US High Yield **	459	-1.3%	7.5%	-2.3%
S&P LSTA L Loan Index	407	-0.3%	5.0%	4.5%
Rates	**Yields**	**Moves (bps) MTD**	**YTD**	**2018**
US LIBOR 3M	2.50%	-7	-31	11
Canada Govt 10 years	1.49%	-22	-47	-8
US Treasury 10 years	2.14%	-37	-51	29

Data as of May 31, 2019. Source Bloomberg and S&P.

**ICE BofAML US Corporate Master Index*
*** ICE BofAML US High Yield Master II Index*

Figure 10: High-yield bond and loan default rates



Source: J.P. Morgan.

- **Valuation**

  High-yield bonds suffered their largest setback of 2019 in May as worsening trade tensions and deteriorating growth data led to lower Treasury yields, stocks and oil prices. HY concluded May down 1.27% with the Energy sector (-3.17%) the biggest underperformer. HY bonds are still providing year-to-date gains of +7.42% with CCC-rated bonds (+7.81%) narrowly outperforming B (+7.58%) and BB (+7.42%) rated bonds.

  Loan prices also came off -$0.69 in May (vs -$1.68 for bond index). That said, leveraged loans were only down -0.24% in May which underperformed High-Grade (+1.39%) on the rate move, but also comfortably outperforming the S&P 500 (-6.35%) and HY (-1.27%).

- **Inflows and outflows**

  Outflows for loan mutual funds were heavier the past few weeks following a brief period of moderation. That said, CLO issuance ex-refi/resets did increase in the final week and totaled $10.0bn in May following a four-year high $15.7bn in April. Notably, net CLO issuance totaling $54.9bn year-to-date is down -2.9% y/y. Leveraged loans are providing a 5.29% gain year-to-date which is underperforming the S&P 500 (+10.73%), high-yield bonds (+7.42%), and high-grade bonds (+6.97%).

- **Corporate fundamentals**

  Credit metrics remain overall solid (Net leverage stable at 5.5 in average for the Loan index and steady interest coverage ratio). Default rates stand at all-time lows (see cha