Quarterly commentary | December 31, 2023
Series F

Mackenzie Income Fund

Fund snapshot

Inception date	10/22/2001
AUM (millions in CAD)	1316.7
Management Fee	0.65%
MER	0.89%
Benchmark	70% FTSE Univ + 30% TSX Comp
CIFSC Category	Canadian Fixed Income Balanced
Risk Rating	Low

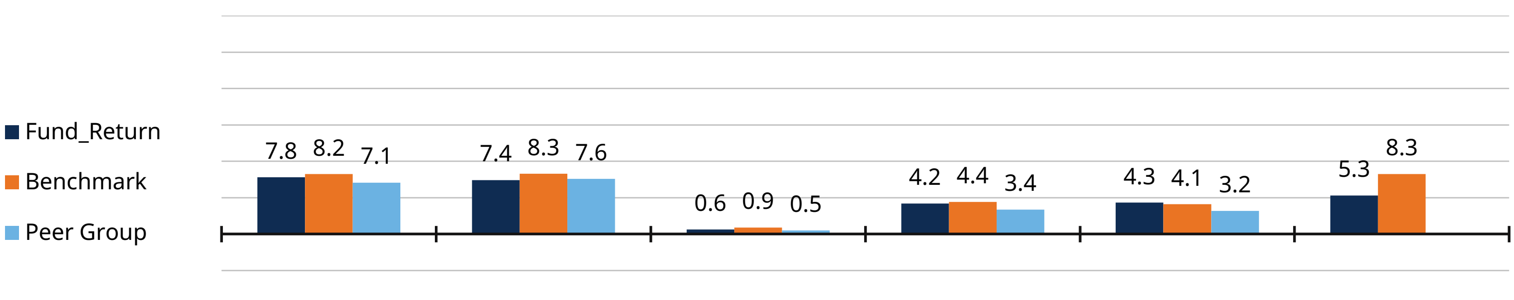
Strategy overview

• 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

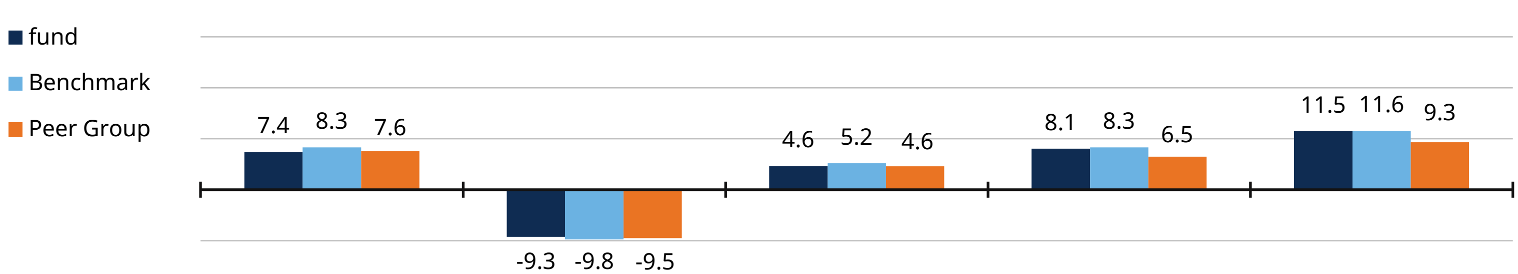
• Equity portfolio of quality, dividend paying companies in Canada and globally contribute to the Fund's income stream

Composite trailing returns %



	3 Mth	1 Yr	3 Yr	5 Yr	10 Yr	SI
Excess return	-0.4	-0.9	-0.3	-0.2	0.2	-
% of peers beaten	77	77	58	80	92	-

Calendar Returns returns %



	2023	2022	2021	2020	2019
Excess return	-0.9	0.5	-0.6	-0.3	-0.1
% of peers beaten	47	60	56	88	88

Portfolio characteristics

	Portfolio	Benchmark
Overall yield	4.0	3.3
Equity		
P/E 12m forward	16.1	14.5
Dividend yield	2.9	3.1
Net debt/EBITDA	2.0	2.7
EPS growth (FY E)	10.2	4.9
P/B	2.5	1.8
Fixed income		
Yield	4.8	4.0
Duration	7.1	7.4
Average credit quality	A	AA

Sector allocation

Sector	Portfolio (%)	Benchmark (%)	Relative weight (%)
Communication Services	1.3	1.1	0.1
Consumer Discretionary	1.7	1.1	0.6
Consumer Staples	2.2	1.3	0.9
Energy	3.4	5.1	-1.8
Financials	7.5	9.4	-1.9
Health Care	2.0	0.1	1.9
Industrials	3.2	4.1	-1.0
Information Technology	3.3	2.6	0.7
Materials	2.4	3.3	-1.0
Real Estate	0.3	0.7	-0.4
Utilities	0.9	1.2	-0.3
Other	0.8	0.2	0.6

Performance metrics (3 year trailing)

Metrics	Portfolio	Benchmark
Standard Dev.	6.1	8
Sharpe Ratio	-0.4	0
Tracking Error	4.5	-
Information Ratio	-0.2	-
Alpha	-1.6	-
Beta	0.6	-
Upside Capture (%)	65.8	-
Downside Capture (%)	73.6	-

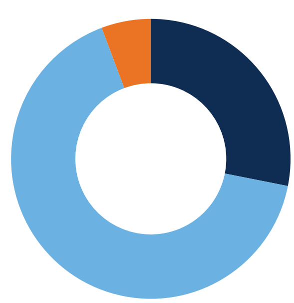
Country allocation

Country	Weight	Relative weight
Canada	67.0	66.8
United States	18.5	18.3
United Kingdom	1.7	1.5
Germany	1.0	0.8
Japan	0.7	0.6
France	0.7	0.5
Other	10.4	11.5

Credit breakdown

Rating	Portfolio	Benchmark
A	21.2	16.5
AA	30.7	33.6
AAA	18.2	39.3
B	2.5	-
BB	5.9	-
BBB	20.6	10.5
CCC & Below	0.9	-
NR	0	-

Asset allocation



	Portfolio (%)
Equity	28.0
Fixed Income	65.9
Cash	5.7

Top 10 holdings

Security name	Country	Sector	Weight
5Y Canada Govt Bond (MOD) Mar 24	Other	--	4.80
Province Of Ontario 3.65% 02-jun-2033	Canada	--	4.14
Province Of Quebec 3.6% 01-sep-2033	Canada	--	2.87
Province Of Quebec 4.4% 01-dec-2055	Canada	--	2.75
Ultra US T-Bond (CBT) Mar 24	Other	--	1.42
Government Of The United States Of America 0.5% 15-apr-2024	United States	--	1.34
Province Of Ontario 4.15% 02-dec-2054	Canada	--	1.15
Province Of Alberta 3.1% 01-jun-2050	Canada	--	1.11
10Y T-Note (CBT) Mar 24	Other	--	1.08
Royal Bank of Canada	Canada	Financials	1.08

Equity - Attribution

	Sector	Portfolio Average Weight (%)	Portfolio Contribution to Return (%)
Contributors	Financials	7.5	0.7

Fixed Income - Attribution

	Sector	Portfolio Average Weight (%)	Portfolio Contribution to Return (%)
Contributors	Government	25.6	2.7
	Corporate	40.0	2.5

Commentary

Equities and fixed income rallied in the last quarter of the year as investors began anticipating earlier than expected interest rate cuts and positive market sentiment was renewed. Despite many global central banks maintaining a data-dependent stance, there has a noticeable dovish shift in tone towards the end of the year, as inflation continues to slow. Most central bankers have kept policy rates steady for several months and appear poised to deliver rate cuts sometime in 2024. However, the timing and extent of these cuts remain uncertain.

The S&P 500 surged 11.7% (8.9% CAD) with broad-based returns across sectors. Globally, the MSCI ACWI returned 9.5% in local terms (8.4% CAD). The Bloomberg Global Aggregate Bond Index (hedged to CAD) returned 5.7% as bond yields fell. Canadian bonds appreciated even more, as the FTSE Canada Universe Bond Index returned 8.3%. High yield bonds were also strong performers, with the ICE BofA U.S. High Yield Bond Index (hedged to CAD) returning 6.7%. In Canada, the S&P/TSX Composite was up 8.1%, driven primarily by financials. The Canadian dollar depreciated against most major currencies, including the euro, pound, yen, and Australian dollar. However, the U.S. dollar weakened against the Canadian dollar, as well as other major currencies.

Mackenzie Income Fund (Series F) was up over the quarter but underperformed its blended benchmark index comprised of 30% S&P/TSX Composite Index and 70% FTSE Canada Universe Bond Index. The underperformance was primarily due to its equity positions.

From an equity perspective, security selection in Financials and information technology detracted the most from relative performance. An overweight position in health care also detracted. On the contrary, an underweight position in energy and a slight overweight in information technology contributed the most to relative performance. From a fixed income allocation perspective, overweight duration positioning in government bonds was the biggest contributor to relative performance, especially with provincial bonds. On the contrary, underweight duration positions in corporate bonds detracted from relative performance.

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 consumer staples, utilities and communication services sectors, while positions in the financial services and information technology sectors were reduced.

Within Global Equity & Income Equities, the portfolio management team has made some changes in the portfolio in the quarter, largely driven by stock specific opportunities and consideration for the broader macroeconomic environment. These changes resulted in a slightly increased allocation to the industrials sectors, and a slightly reduced allocation to the financials and consumer staples sectors. The portfolio remains a collection of what the team considers to be industry leaders, conservatively financed, with the cash generating ability to take advantage of market dislocations such that they will be able to expand their competitive advantage during times of uncertainty.

The fourth quarter of 2023 started much as the third quarter left off, with bonds offered and yields continuing to move higher in the wake of the August Quarterly Refunding Announcement from the US Treasury and Fitch downgrade, generally strong economic data and a Fed that was very much still in the “higher for longer” camp. Investors will recall 10yr Treasury yields peaked on October 23 intraday just below 5.02%, although technically there was never a close above 5.00%, while 2yr yields peaked a few days before just above 5.25%.

The November 1 Quarterly Refunding Announcement to us did not have the same impact on fixed income markets as it did three months prior, but the FOMC meeting that day did start to cast some doubt into the Fed’s higher for longer narrative, with the idea that the FOMC did not have to wait until inflation got back to 2% before beginning its rate easing cycle.

What followed for the remainder of 2023 was a significant bid for duration which saw the entire Treasury curve move significantly lower as the market adjusted its rate outlook for the Fed and for other global central banks. For our part, we began significantly contemplating the impact of the November 1 FOMC meeting and, coupled with the clearly slowing pace of core PCE inflation, in mid-November adjusted our Fed call to 150bp of easing for 2024, with the first move happening in May 2024. By year-end, the market had moved to 158bp of Fed easing for 2024, from 66bp on October 31, the day before the November 1 FOMC meeting. A significant repricing, to say the least.

Commentary

As our view suggests, we have become increasing confident that the Fed believes it is on the cusp of missing its inflation mandate. While the Fed looks at a myriad of indicators, there is one inflation indicator above all, core PCE. For months, Fed Chair Powell has been focused on the "6 month annualized rate" of core PCE and as of time of writing, that number was 1.9%, below the medium-term average of 2.0% the Fed is striving to attain. For perspective, that number was 5.1% in January 2023, slowing to 4.0% in June. We believe Powell is citing the "6 month annualized" figure because he recognizes that, for now, the slowing of inflation over the very recent months supersedes the usual year-over-year / annual figure of 3.2% us and many other would often be focused on.

The real policy rate is important here for not only the policy outlook, but also for markets going forward, and part of the reason for our change in view in November, as well as the market's subsequent adjustment. With effective Fed Funds trading at 5.33% and the Fed's preferred inflation gage at 1.9%, the real policy rate as the Fed is calculating and is currently seeing it, is likely around 340bp, and that is not a level which is conducive to sticking the soft landing. In fact quite the opposite: it is actually so restrictive that a hard landing scenario is likely becoming more probable by the month. The Fed knows this, and is likely why at the December FOMC meeting, Chair Powell was seen to be so dovish not only versus previous guidance, but also versus market expectations.

The portfolio management team continues to maintain a cautiously optimistic outlook on Canadian equity markets. We expect equity market volatility to persist on the back of ongoing uncertainty regarding the economic outlook. Longer-term bond yields declined in the quarter in light of softening inflation data and the belief that the US Federal Reserve has completed it's rate hiking campaign for this cycle. Fixed Income markets are pricing in rate cuts by Central Banks in both the US and Canada in 2024. Mortgages coming up for renewal are expected to be repriced at higher interest rates this year and any decline in interest rates will provide some relief to Canadian household budgets.

The equity markets rallied starting late October and have started to price in a degree of optimism that a "soft landing" will be achieved, rather than an outright recession. Energy prices retreated from elevated levels reached at the end of Q3, on the back of expectations of slowing economic activity, record levels of US oil production and non-compliance of some OPEC members regarding production cuts. Lower commodity prices in Q4 have helped ease inflation concerns, at least in the short term. Despite optimism from potentially lower rates this year, increased spending on the green energy transition, geopolitical conflicts and near-shoring of manufacturing and supply chains may cause inflation to be stickier than markets are currently expecting. This could force central banks to delay rate cuts to a later period than currently assumed by financial markets and may provide some headwinds to the recent equity market rally.

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.

The team believes 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 December 31, 2023 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 A for the 3-month, 1-, 3-, 5- and 10-year periods as of December 31, 2023 . 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 A for each period are as follows: one year - 381 ; three years - 345 ; five years - 299 ; ten years - 221.

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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