MACKENZIE
Investments

Risk
Low

Asset Class
Fixed Income

MAAA

Mackenzie AAA CLO ETF

Attractive yield without compromising on credit quality

Gain access to AAA-rated CLOs with higher yields than corporate investment grade bonds. As floating-rate securities, the coupons on CLOs adjust to reflect changes in the prevailing benchmark interest rates. This can provide investors with the potential for increased returns without proportionally increasing their risk exposure.

Low interest-rate risk and default probability

Because CLOs are floating rate instruments with ultra short duration, they quickly adjust with changes in short-term rates to provide protection against rising rates. The AAA credit rating suggests a low default probability. In fact, no AAA-rated CLO has ever defaulted in the asset class's 30+ year history, and there were no impairments to AAA CLOs during the 2008 subprime crisis.

Diversification potential

Floating rate yields typically have low correlation to major asset classes. This can help investors diversify a traditional fixed income portfolio, potentially offering lower volatility, higher credit quality and less sensitivity to changes in interest rates.

Why invest in this ETF?

1. **Attractive yield** without compromising on credit quality.
2. **Low interest-rate risk** and default probability.
3. **Diversification potential** due to low correlation with traditional fixed income.

Managed by

Mackenzie Fixed Income Team

What are CLOs and how they are created?

Collateralized loan obligations (CLOs) are structured financial products that pool together loans, typically made to businesses, and divide the resulting portfolio into tranches based on the risk and return profile.

Loan pooling

A CLO starts with a pool of loans, usually senior secured loans made to businesses. These loans are collected by the CLO manager.

Tranche creation

The pooled loans are then divided into different tranches. Each tranche represents a different level of risk and return potential:

- **Equity tranche:** This is the lowest tier and takes the first losses if any loans default.
- **Mezzanine tranches:** These are middle tiers that absorb losses after the equity tranche.
- **AAA tranche:** This is the highest tier and is the safest. It is the last to absorb losses and the first to receive payments.

Payment structure

The CLO manager collects payments from the borrowers and distributes them to the investors in the different tranches. Payments are made in order of priority, starting with the AAA tranche.

The structure of CLOs is built to mitigate default risk by providing multiple layers of protection. The equity tranche absorbs initial losses, followed by mezzanine tranches, ensuring that the AAA tranche remains protected unless all other layers fail.

Portfolio benefits

Attractive coupons to boost portfolio yield:

- Despite their higher average credit quality, AAA tranches typically offer yields slightly higher than corporate bonds.

Strong credit ratings to enhance the portfolio's quality:

- No AAA-rated CLO has ever defaulted in the asset class's 30+ year history.
- Adding AAA CLOs to a portfolio can help increase the average credit rating.

Low correlation with other assets to spread the portfolio's risk:

- CLOs have low correlation with fixed income and equity, which helps spread the risk across uncorrelated asset classes.

Risk considerations

The probability of default is not zero:

- If the collateral in the CLO is insufficient, cash flows for lower tranches are rerouted to higher tranches, beginning with AAA.
- However, to impair the AAA tranche, over 70% of loans in a CLO must default (for context, the peak default rate during the Global Financial Crisis was 12%).

Prepayment risk:

- Borrowers may pay their loans early, which could lead to lower reinvestment interest.
- However, the loans selected typically have agreements that include lockout periods or prepayment penalties to discourage early repayments.
- Also, the CLO manager usually implements contingency funding plans.

Liquidity concerns:

- In the event of a major liquidity crisis, there is a risk that investors would not be able to quickly and easily sell an asset.
- However, liquidity contingency funding plans are set in place by the CLO manager to identify potential liquidity crises through early warning indicators, detailing crisis escalation processes and various strategies to minimize the impact of a liquidity crunch.

AAA CLOs: Two layers of risk mitigation

Built-in risk protections

The CLO issuer/manager typically implements a set of rules and tests to ensure the effectiveness of the subordination process:

- **Overcollateralization tests** seek to ensure the principal value of the bank loan collateral pool exceeds the outstanding principal of the CLO debt tranches. If the bank loan collateral's principal value declines below the test trigger value, cash that otherwise would have been distributed to the equity and junior CLO tranches will be used to pay down senior debt tranche investors instead.
- **Interest coverage tests** aim to ensure the adequacy of cash collected from the bank loan collateral to pay CLO tranche interest. If collateral collections decline below the test trigger value, cash that otherwise would have been distributed to the equity and junior CLO tranches will be used to pay down senior debt tranche investors instead.
- **Collateral concentration limits** seek to limit risk in the bank loan collateral pool and protect CLO investors from loss. Typically, the limits include requirements for industry diversification in the underlying pool of bank loans and exposure to non-senior secured loans and single obligors.
- **Borrower diversification** seeks to mitigate risk by diversifying the pool of loans across 150-450 distinct borrowers in 20-30 industries, with a small percentage of the assets (1% for example) invested in the loans of any single borrower.
- **Borrower size requirements** often restrict managers from purchasing loans to small companies, whose trading liquidity is low.

Mackenzie's active management

The Mackenzie AAA CLO ETF (MAAA) leverages the expertise of the Mackenzie Fixed Income Team, which possesses expertise in managing floating rate loan ETFs and mutual funds in Canada. The team has robust research and credit capabilities, putting Mackenzie on strong footing to ensure due diligence in selecting the CLO managers and capturing relative value opportunities.

Mackenzie follows a rigorous investment process to evaluate and rank CLO managers:

- Active selection of CLO managers: A CLO manager scorecard is used to screen and rank managers for portfolio quality, investment style, track record, etc.
- Exclude managers not meeting requirements: A set criterion is used to exclude CLO managers not meeting quality and track record requirements.
- Buy the CLOs of managers ranked by scorecard:
  - If new issue, then the manager decides based on relative value versus existing AAA from the same managers and new issue AAA from other managers.
  - If secondary market, then the manager decides based on the quality of portfolio (using Intex), Tenor/Weighted Average Life (WAL), and relative value versus other AAA available.

MAAA's highlights

Portfolio manager	Mackenzie Fixed Income Team
CIFSC category	Miscellaneous – Income and Real Property
Benchmark	JPM CLO AAA index (CAD-hedged)
Average credit risk	AAA
Risk rating	Low
Distributions	Monthly
Currency	Hedged
Management fee	0.18%

Portfolio Managers

Mackenzie Fixed Income Team

Konstantin Boehmer, MBA
SVP, Portfolio Manager
Head of Team
Industry start: 2003

Dan Cooper, CFA
SVP, Head of Credit
and Portfolio Manager,
High Yield Bonds
Industry start: 1997

Movin Mokbel, MBA, CFA
VP, Portfolio Manager
Term Loans & CLOs
Industry start: 1998

Expertise and leadership: Mackenzie Fixed Income Team has extensive expertise with global fixed income securities, rates, currencies and credit quality. Also, the team possess a deep knowledge of loan market and credit process.

Market dominance: Mackenzie's loan platform stands as one of the strongest and most comprehensive loan platforms in Canada. The team manages the largest active floating rate loans ETF in Canada.

Floating rate mandates managed by the team:

- Mackenzie Floating Rate Income ETF (MFT)
- Mackenzie Floating Rate Fund
- IG Mackenzie Floating Rate Fund
- Canada Life Floating Rate Fund

To learn more about the Mackenzie AAA CLO ETF (MAAA) speak to your advisor or your Mackenzie sales team.

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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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