Q4 2024

Managed Portfolios

Addenda Total Equity

Quick facts

Inception date:
February 29, 2016

Asset class:
Equity

Minimum investment:
$100,000

Avg. number of holdings:
20–35

Investment manager:
Addenda Capital

Investment manager assets under management:
$40B

Portfolio risk:

Medium

What does the Portfolio invest in?

The portfolio invests in a diversified portfolio of Canadian and non-Canadian equity securities, exchange traded funds (ETFs), and money market instruments and/or cash equivalents.

Asset allocations

Asset class	Min	Target	Current	Max
Canadian equities	30%	48.5%	52%	70%
Non-Canadian equities	30%	48.5%	45%	70%
Cash & cash equivalents	1%	3%	3%	10%

- Equities: the minimum market capitalization will be $1 billion dollars (CAD and/or USD equivalent) at the time of purchase and invested in at least six out of 11 GICS (Global Industry Classification Standard Sectors)
  - Canadian equities: Target 10–15 securities
  - Non-Canadian equities: Target 10–15 securities

Suitable for investors whose objective is to achieve long-term capital growth, and is not intended for investors with a short-term investment horizon.

Top ten holdings[1] (excluding cash and cash equivalents) %

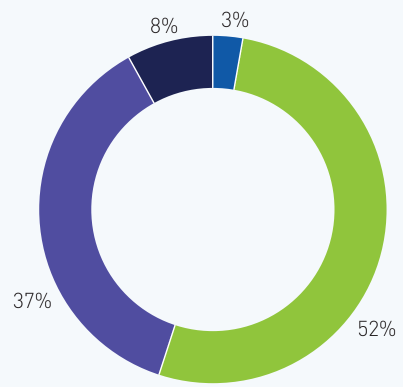
		%
1.	Constellation Software Inc	7.0
2.	Bank Of Montreal	5.3
3.	Dollarama Inc	5.3
4.	SAP	5.0
5.	Canadian Natural Resources	4.4
6.	Visa Inc	4.3
7.	Brookfield Corp	4.2
8.	Alphabet Inc	4.1
9.	WSP Global Inc	4.0
10.	Toronto-Dominion Bank	3.6

Performance

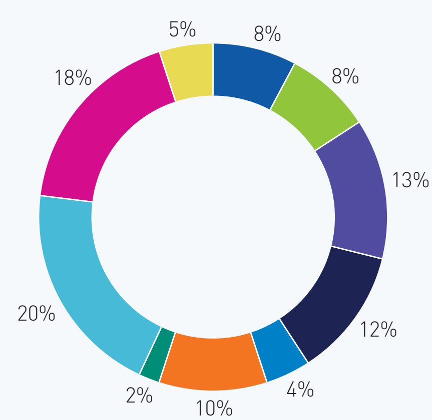
	QTD	YTD	1 yr	3 yr	5 yr	Since inception (Annualized)
Portfolio	1.7%	17.8%	17.8%	7.4%	10.2%	11.0%
Benchmark	5.1%	25.3%	25.3%	9.8%	12.6%	12.4%

Q4 2024

Asset allocation[1,2]



Equities sector allocation[1,3]



Average market cap. $399.8B (equities only)

Repositioning for Q1 2025

Sold or reduced positions (-5.5%)

- Sold Diageo PLC
- Sold IQVIA Holdings
- Sold Rogers Communications
- Trimmed EssilorLuxottica
- Trimmed cash

Bought or increased positions (+5.5%)

- Initiated a new position in Broadcom
- Initiated a new position in JP Morgan
- Increased CIBC
- Increased Constellation Software

Rationale:

Asset mix changes:

Canadian equity exposure was increased with a reduction in our excess cash holdings which had moved above our tactical target.

Within Canadian equities:

Rogers Communications was eliminated on a lower level of conviction in Canadian telecommunications, reflecting intense wireless competition, slowing population growth, and capital allocation concerns. Quebecor, a relatively new entrant into Wireless, has been much more aggressive on pricing than we originally assumed. As a result, we are now modelling lower revenue growth for Roger's and feel that share price appreciation will be limited in the short run. Moreover, after adding considerable debt to acquire Shaw Communications, the company has made little, if any progress on debt reduction. The recent restructuring of the media business is a prime example. Financial leverage has temporarily increased and timing for a reduction is up to twelve months away. As a reminder, we sold the majority of the position earlier in the year so this sale will complete that process and allow us to focus on higher conviction holdings. The increases in Constellation and CIBC were to rebalance the Portfolio to better align with our other Canadian equity strategies.

Within global equities:

IQVIA was liquidated as a result in the Clinical Research Organization market and an apparent transition from outsourcing to subcontracting by pharma companies. In light of this, its current valuation and outlook are less attractive and we exited the position, in favour of new holdings where we have higher conviction and expect more stability.

In addition, we have decided to exit our position in Diageo as the industry outlook suggests a lower growth outlook at least in the near term. Diageo is also vulnerable to tariffs on a wide swath of their portfolio, further increasing disincentives for imported spirits relative to alternatives.

We also used the opportunity to trim our exposure in EssilorLuxottica in order to crystalize profits.

Finally, the proceeds from the above transactions were used to initiate positions in JP Morgan and Broadcom. JP Morgan has navigated through the Great Financial Crisis (GFC) and come out stronger. The company has a more diversified revenue footprint than peers, more capital flexibility, and very strong risk management, allowing it to leverage the improved interest rate environment for banks while maintaining a more resilient downside earnings profile.

With respect to Broadcom, it has proved itself a skilled acquirer of underappreciated assets that it has been able to prune and grow into one of the largest semiconductor companies in the world. Broadcom provides chips and software into AI installations including networking, storage access, power management as well as being the preferred partner for hyperscale AI custom silicon solutions. This has unlocked enormous market potential for the company as investment in AI looks poised to continue for some time.

Quarterly commentary

Global market strength continued in Q4, with the MSCI World Index returning 6.3% ($CAD). The $CAD depreciated meaningfully versus the $USD over the quarter, which was a very large tailwind on returns. Markets began the quarter with a more muted performance in the month of October, as global markets anticipated the U.S. Presidential election. Post-election, the U.S. saw strong gains with other regions more mixed, reacting with more uncertainty to the election results. U.S. markets were also supported by another interest rate cut by the U.S. Federal Reserve. In Europe, escalation of the war in Ukraine weighed on markets mid-month as did U.S. tariff concerns. Hong Kong stocks reacted negatively to an underwhelming China stimulus package, with Asia Pacific posting weak results overall. In December, most sectors traded lower after the U.S. Federal Reserve outlook implied fewer interest rate cuts in 2025.

The S&P/TSX Composite Index posted a total return of +3.8% in Q4. Earnings growth and multiple expansion underpinned the TSX's strong performance in 2024. Information Technology was the top-performing sector, led by Shopify, which was a key driver of Index returns. Financials ranked second, with five of the top ten contributors to TSX performance coming from this sector.

Despite Central Banks on both sides of the border actively working to lower interest rates, the yield curve increased by approximately 0.20% in the quarter as a result of the U.S. election and concerns about tariffs and possible budget deficits. Cooling headline inflation gave policy makers confidence that a higher rate regime was no longer necessary. Yields under 1-year were dragged lower by the changes in the overnight rate as the Bank of Canada delivered an additional 0.75% of easing along with the Federal Reserve decreasing its target rate by another 0.50%.

The Portfolio had a total return of 1.7% in Q4, and 17.8% for the full-year period. While absolute performance was very strong during 2024, the Portfolio was not able to keep pace with the broader market benchmark.

Underperformance was driven by an overweight to Canadian equities at the expense of global equities. While both markets had double digit returns during 2024, the latter continued to outpace the former due to continued strength from the "MAG 7" stocks.

The Canadian equity component trailed the benchmark during Q4 due primarily to an underweight position in Shopify which rallied 41% in the period and now represents 6% of the Index. Over the 1-year period the component returned 18.1% but again lagged the benchmark because of the Shopify underweight. As a reminder, the Portfolio tends to lag in rapidly rising and exuberant markets, while outperforming during market downturns. On a four-year basis, the Canadian equity component returned 15.7% and has significantly outperformed the Index by 2.7%.

Within Canadian equities, the main contributors to performance were Bank of Montreal, Brookfield, and Enbridge. The bottom contributors to performance were Rogers, CCL Industries and CP Rail.

Similar to Canadian equities, the global equity component had strong absolute returns but trailed its benchmark in the fourth quarter and over the full-year period. Despite the positive impact from the lack of exposure to the Energy, Utilities, and Real Estate sectors, this was more than offset by our sector positioning in the Health Care and Materials sectors.

With respect to stock selection, Visa was the best performing holding and had the largest positive contribution to performance. SAP and Alphabet were also positive contributors to performance, with Alphabet rallying on strong results and optimism that the new U.S. administration could soften any anti-trust action against the company. SAP, being one of the largest software vendors globally, has benefited from its transition to cloud. The company aims to transform its business by becoming more digital while offering more comprehensive services and modernized tools.

Like many investment managers that employ a "growth" or "GARP" investment style, our avoidance of NVIDIA and a few other of the "MAG 7" stocks has weighed heavily on relative performance. In terms of stocks held in the Portfolio, the main detractors were Experian and Ball Corp.

Investment manager overview

Addenda Capital is an investment management firm providing solutions for institutional and high net worth clients. They offer clients expert services in a broad range of asset classes. Addenda's mission is to add value through innovation, discipline and integrity, and to nurture genuine partnerships with their clients.

Management style

Canadian equities (Value)	Global equities (GARP[4])

Investment philosophy

Addenda provides a Total Equity strategy that employs two separate portfolio management teams that abide to investment styles that are suitable given their landscape to create high conviction, concentrated portfolios. The Canadian equity component is managed with a value tilt and consists of companies with diversified business models and attractive price-intrinsic value relationships. The companies invested in have the potential to generate strong relative and absolute returns over time. Global equities are managed with a Growth At a Reasonable Price (GARP) investment style and include companies with solid and repeatable competitive advantages, a history of innovative capabilities, seasoned management, non-commoditized business models, consistent earnings and free cash flow.

Investment process and risk controls

- For Canadian equities, Addenda's analysis and research is focused on various elements to decipher whether a company remains able to generate strong free cash flow over time. Subsequently, Addenda looks for the company to be priced in the market at a discount to its estimated intrinsic value. When managing a dividend approach, the focus is equally placed on the company's ability and willingness to continue to distribute and/or increase its future dividend payments.
- For global equities, Addenda believes that added value stems from sustainable and repeatable earnings growth. Addenda's approach is driven by fundamental research, focused on obtaining a deep understanding of secular growth themes. Once an understanding of the key growth drivers behind a theme is determined, Addenda's research focus shifts to finding companies well positioned to leverage those themes. Addenda seeks global or regional leaders with the ability to outpace its peers and end markets through its capacity to sell value-added products and/or services.

Key strengths

- Adding value through innovation and discipline
- Strong team work, rich insights
- Leveraging extensive fundamental research capabilities
- Guided by strong governance and sound judgement
- A culture based on integrity
- Environmental, social and governance (ESG) criteria inherent in the investment philosophy[4]
- Addenda is a United Nations Principles for Responsible Investment (PRI) signatory

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Aviso Wealth is part of Aviso, one of Canada's largest independent wealth management firms. Owned by the credit unions, we serve hundreds of thousands of investors at credit unions across Canada.

With approximately $130 billion of assets under administration and management, Aviso has the resources to bring the best products and services to credit unions and their members. Invest with confidence, with your credit union and Aviso.

- Nearly 30 years as the wealth management provider to credit unions across Canada.
- One of Canada's largest independent wealth management firms.
- Parent company of Aviso Wealth, NEI Investments, and Qtrade.
- Owned by Canada's credit unions and Desjardins.

[1] As of January 10, 2025 after quarterly rebalancing unless otherwise stated.

[2] Includes Ishares SPDR S&P 500 ETF

[3] Excludes Ishares SPDR S&P 500 ETF

[4] GARP (Growth at a reasonable price)

[5] Tobacco and weapons companies are screened-out of portfolios. Tobacco: Exclude tobacco companies and companies that derive a material portion of their revenue from tobacco-related products such as filters, rolling papers or packaging, or from the sale of tobacco or tobacco-related products. Applies to equity holdings only. Weapons: Exclude companies that derive revenue from military contracts that violate International Humanitarian Law (IHL), and nuclear weapons contracts; companies that derive a material portion of their revenue from the manufacture of legal weapons systems and/or tailor-made components for these weapons systems; and companies whose activities are connected with the manufacturing of automatic or semi-automatic weapons intended for civilian use, or derive a material portion of their revenue from the sale or distribution of such weapons. Applies to equity holdings only.

Indicated rates of return are calculated using the time-weighted rate of return methodology for the period ended, December 31, 2024, and do not take into account management expenses, custodial fees, account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns.

Benchmark Index: 50% S&P/TSX 60/50% MSCI World Net (CAD).

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