Q4 2024

Managed Portfolios

Addenda Balanced

Quick facts

Inception date:
March 31, 2015

Asset class:
Balanced

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 foreign equity securities, fixed-income securities, exchange traded funds (ETFs), and money market instruments and/or cash equivalents.

Asset allocations

Asset class	Min	Target	Current	Max
Canadian equities	20%	30%	34%	40%
Non-Canadian equities	20%	30%	31%	40%
Fixed income	30%	37%	32%*	50%
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
- Fixed income: 30% to 50% in units of the Addenda Universe Core Bond pooled fund and/or Canadian fixed income ETFs will be used
- Addenda Preferred Share Pooled Fund, Addenda Commercial Mortgage Pooled Fund, Addenda CorePlus Fixed Income Pooled Fund and Addenda Active Duration Bond Pooled Fund may be used.

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.	Addenda Bonds Universe Core Pooled Fund	27.0
2.	Constellation Software Inc	5.8
3.	Dollarama Inc	3.6
4.	Canadian Natural Resources	3.3
5.	SAP	3.1
6.	Brookfield Corp	3.0
7.	Bank Of Montreal	2.9
8.	Visa Inc	2.7
9.	Alphabet Inc	2.6
10.	Addenda Bonds Commercial Mortgages Dc Pooled Fund	2.6

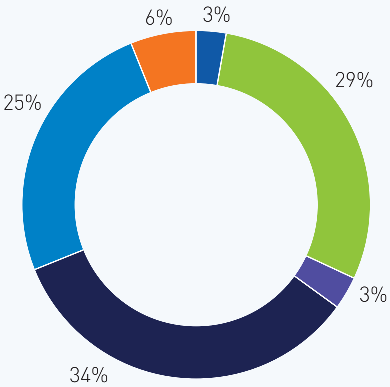
Performance

	QTD	YTD	1 yr	3 yr	5 yr	Since inception (Annualized)
Portfolio	1.1%	14.0%	14.0%	5.3	7.8	7.6
Benchmark	3.0%	16.5%	16.5	5.7	8.2	7.1

*including 2% in Addenda Preferred Share Pooled Fund

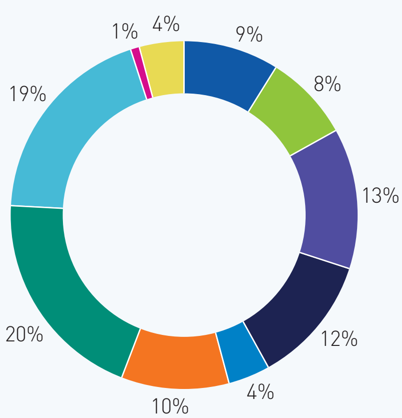
Q4 2024

Asset allocation[1]



- Cash
- Fixed income
- Canadian preferred shares
- Canadian equities
- US equities
- International equities

Equities sector allocation[1,2]

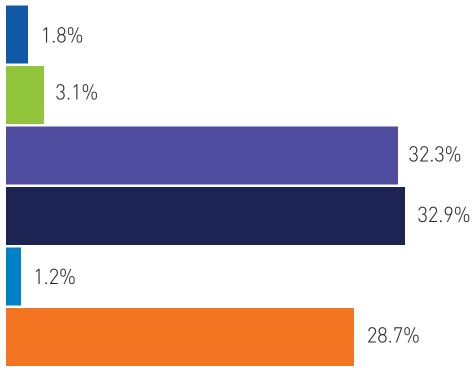


- Energy
- Materials
- Industrials
- Consumer Discretionary
- Consumer Staples
- Health Care
- Financials
- Information Technology
- Index
- Communication Services

Average market cap.
(Equities Only) $499.9B

Fixed income allocation

Core Bond Pool Sector Allocation



Credit quality	Portfolio (%)
AAA	33.0
AA	30.2
A	17.3
BBB	14.6
BB	0.1
Non Rated Securities (Commercial Mortgages)	3.1
Cash and money market	1.8
	100.0

- Cash & Money Market
- Commercial Mortgages
- Corporate Bonds
- Federal Bonds
- Municipal Bonds
- Provincial Bonds

Current Yield (bonds): 3.68%

Repositioning for Q1 2025

Sold or reduced positions (-4.2%)

- Sold Diageo PLC
- Sold IQVIA Holdings
- Sold Rogers Communications
- Trimmed Brookfield
- Trimmed Dollarama
- Trimmed EssilorLuxottica

Bought or increased positions (+4.2%)

- Initiated a new position in Broadcom
- Initiated a new position in JP Morgan
- Increased Addenda Preferred Share Pooled Fund
- Increased cash

Rationale:

Asset mix changes:

Canadian equity exposure was trimmed and the proceeds were put into cash and preferred shares.

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.

Dollarama was reduced to raise cash for asset mix shift described above and to realize profits after a 45% year-to-date gain. Dollarama is much closer to our assessment of fair value so we will look for opportunities to sell into strength and add back on weakness.

The situation is similar for Brookfield, which had a 56% return last year so we took some profits to facilitate our asset mix shift.

CIBC was initiated as the third bank for exposure to the sector with diversification. CIBC is a more domestically-focused bank and Canada's fourth largest bank, by market capitalization. It is well capitalized with a CET1 (Common Equity Tier 1) ratio of 13%+ and a dividend yield of 4.3%. It has been executing well and delivering strong quarterly results with a medium-term target for 7-10% earnings-per-share growth and a reasonable 14-15% return-on-equity outlook. It trades at a discount to other Canadian Banks and expect this discount to narrow as execution remains strong.

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 1.1% during the fourth quarter and 14.0% for the full year period. While absolute performance was very strong during 2024, the Portfolio was not able to keep pace with the broad market benchmark. Contributing positively to performance was tactical asset mix positioning, specifically an overweight to equities at the expense of fixed income, combined with relative strength from the core bonds and commercial mortgages components. This was offset by relative weakness from the Canadian and global equity components, despite achieving strong double digit returns for the year.

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 as a result 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 than 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.

Looking at the fixed income component of the Portfolio, the core bond component outperformed its benchmark due to actively trading portfolio duration by shifting from slightly short relative to the Index, to slightly longer as yields rose from their lowest levels of the year in late September. The commercial mortgage component also added value due to its higher overall yield.

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[3])	Fixed Income (Core)

Investment philosophy

Addenda provides a balanced investment strategy that seeks long-term capital appreciation and enhanced diversification through exposure to high quality fixed income and equity securities. A disciplined, dynamic asset allocation approach, blending top-down and bottom-up assessments seeks to exploit market opportunities through tactical shifts. Addenda's committee-based decision-making process leverages the firm's diversity of expertise. Their Asset Allocation Committee, led by the co-CIO, consists of those responsible for each asset class as well as their dedicated economic research team.

Investment process and risk controls

- Extensive top-down analysis of global macro-economic variables and capital markets serve to identify general investment themes and changes in market drivers on a quarterly basis. Forward-looking views, based against a 12- to 24-month horizon, reflect return and risk expectations, as well as relative valuations.
- Changes in asset mix, when triggered, seek to exploit shifting dynamics in the market environment and/ or valuations.
- Addenda's actively managed bond and equity investment strategies leverage extensive fundamental research capabilities. Their bond strategy utilizes a multi-strategy approach to exploit diverse alpha sources, while equity strategies are driven by in-depth bottom-up security analysis as well as industry fundamentals. The equity process favors companies offering attractive dividend profiles.

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

About Aviso Wealth

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] Excludes Canadian Preferred Shares

[3] GARP (Growth at a reasonable price)

[4] 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: 40% FTSE TMX Canada Universe Bond/30% S&P/TSX 60/30% MSCI World Net (CAD).

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