Q2 2023

aviso wealth

OnPoint Managed Portfolios

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:
$35B

Portfolio risk:

Medium

OnPoint Managed Portfolios are distributed by *Credential Qtrade Securities Inc.*

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%	51%	70%
Non-Canadian equities	30%	48.5%	44%	70%
Cash & cash equivalents	1%	3%	5%	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.

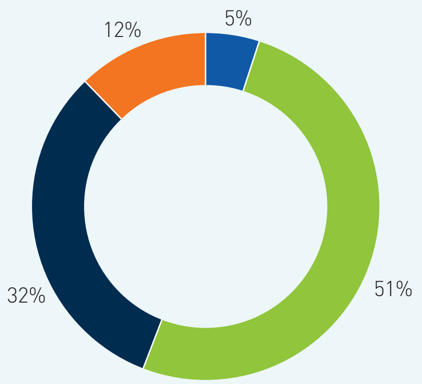
Top ten holdings (excluding cash and cash equivalents) %

1.	Toronto-Dominion Bank	6.9
2.	Constellation Software Inc	5.2
3.	Bank Of Montreal	5.1
4.	Canadian Natural Resources	4.9
5.	Dollarama Inc	4.1
6.	Canadian Pacific Kansas City	3.9
7.	CGI Inc	3.7
8.	SAP	3.6
9.	Thermo Fisher Scientific Inc	3.4
10.	WSP Global Inc	3.4

Performance

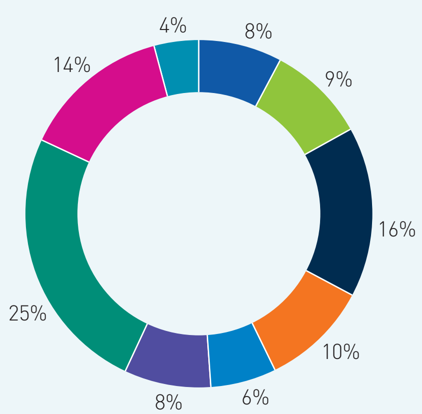
	QTD	YTD	1 yr	3 yr	5 yr	Since Inception (annualized)
Portfolio	2.6	6.0	13.0	10.7	8.5	10.0
Benchmark	3.0	9.1	15.6	12.0	8.8	10.7

Asset allocation[1,2]



- Cash
- Canadian equities
- US equities
- International equities

Equities sector allocation[1,3]



- Energy
- Materials
- Industrials
- Consumer discretionary
- Consumer staples
- Health care
- Financials
- Information technology
- Communication services

Average market cap. $187.2B (equities only)

Repositioning for Q3 2023

Sold or reduced positions (-2.4%)

- Trimmed Canadian National Railway
- Trimmed Alphabet
- Trimmed SAP

Bought or increased positions (+2.4%)

- Initiated a new position in CCL Industries
- Increased Diageo
- Increased Middleby Corp.

Rationale

Asset mix changes:

The manager was comfortable with the existing excess cash weight as well as the allocation between Canadian and global equities.

Within Canadian equities:

- A position in **CCL Industries** was initiated to improve diversification and the overall risk/reward of the Portfolio. CCL Industries produces a wide range of specialty packaging products for large multi-national companies in the consumer packaging, healthcare, consumer electronic device, and automotive markets. The manager likes the competitive advantage that CCL has by being the world's largest converter of pressure sensitive and specialty extruded film materials.
- To fund the purchase, Canadian National Railway, a stock which has been consistently reducing over the past twelve months to focus on CP Rail, was trimmed.

Within global equities:

- **Google** and **SAP** were trimmed to crystalize some gains, with proceeds added to existing positions in **Middleby** and **Diageo.**
- **Middleby** designs, manufactures, and markets premium products and equipment for use in commercial foodservice, residential kitchens, and food processing. The company has tripled its sales and quadrupled its profits since 2009. There was a disconnect between the stock's valuation and earnings potential which created an opportunity to add to the name.
- **Diageo** is the world's leading spirits company. The stock price performance year-to-date has been affected by concerns around its US market performance. However, growth of its key brands has strengthened its position in the US and was in a strong position to grow sales and gain market shares. Valuation looked attractive and the manager seized this opportunity to add to the position.

Quarterly **commentary**

Global equities performed well during the quarter with the advance led by developed markets, notably the US. Enthusiasm over AI (Artificial Intelligence) boosted technology stocks. During the quarter, equity markets defied expectations and overcame various sources of uncertainty, including persistent inflation, central bank rate hikes, the debt ceiling, and weak economic data from China. These concerns were disregarded as markets responded positively to recent robust economic indicators, such as accelerated real GDP growth, strong housing figures, and a resilient consumer base. Economic activity has proven more resilient than anticipated, thanks to a robust job market that has led to significant growth in real income for consumers. Additionally, elevated levels of checking and savings accounts have resulted in the economy being less sensitive to higher rates in the short term.

The US broad market index rose by 8.74% in Q2, which was largely attributable to gains in the Technology sector and strong advances in the mega-cap tech names. Canadian equities also participated in the market rally, but to a smaller extent as the S&P/TSX Composite Index rose by 1.10%. While the equity market gained momentum, the picture was quite the opposite in the bond market, as rates were volatile across the curve with an upward bias. Strong employment and inflation data led the Bank of Canada to raise its overnight target rate by 25 basis points (bps) to 4.75% in June after being on hold for 5 months. The Federal Reserve also hiked rates by 25 bps in May, bringing their target range to 5.00 – 5.25%. Both Central Banks suggested that they may need to tighten policy further as the real economy continues to show resiliency. This resulted in Canadian Government bond yields to rise. Two-year yields rose over 80 bps while ten-year yields rose approximately 33 bps causing the 2-10 year curve to move to 132 bps inverted. Corporate spreads narrowed during the second quarter driven by strong demand from investors.

The Portfolio participated in the market rally, returning 2.55% (before fees); however, modestly trailed its benchmark. The underlying Canadian Equity component outpaced the TSX during the period due to strong security selection but was not enough to offset the relative weakness from the Global Equity component. The Portfolio's excess cash position, which generated positive returns, still acted as a drag on relative performance due to the rally in equity markets during the quarter.

In terms of outlook, strong YTD economic data has prompted economists to raise their 2023 GDP forecasts for Canada and the US, while postponing their recession predictions until 2024. The market is priced for a soft-landing scenario. Supporting this scenario is the resilient consumer, a tight labor market, and a rebound in housing activity, among other factors. However, achieving a soft-landing hinge on a flawless disinflation process, which has not historically occurred without a recession, particularly when considering persistent core inflation. The manager expects that North American economies will be resilient and deliver positive, although slowing, growth in 2023. The rate of inflation will decline but be more persistent and higher than expected which will cause Central Banks to maintain tight policy. In the first half of 2024, slowing economic momentum may result in falling rates as the bond market prices-in a recession and a pivot in monetary policy. Commodity, energy, and agricultural prices should stay firm through 2023 which supports a large portion of the Canadian equity markets but will be negative on corporate margins overall. There is also the risk of larger valuation adjustments for US equities as earning outlooks are reduced. As such, the manager will continue to have a tactical excess cash position and remain defensive in the equity components.

About Aviso Wealth

Owned by credit unions, Aviso Wealth Inc. is one of Canada's largest independent wealth management firms, serving virtually all of Canada's credit unions and a range of independent financial organizations.

With approximately $100 billion of assets under administration and management, Aviso Wealth has the resources to bring compelling products and services to credit unions and their members, along with the scale, stability and financial strength of an established national wealth manager.

You can invest with confidence, with Aviso Wealth.

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Investment manager overview

ADDENDA CAPITAL

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[5]
- Addenda is a United Nations Principles for Responsible Investment (PRI) signatory

[1] As of July 11, 2023 after quarterly rebalancing unless otherwise stated.

[2] Includes Ishares S&P/TSX 60 Index ETF & SPDR S&P 500 ETF

[3] Excludes Ishares S&P/TSX 60 Index ETF & 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, June 30, 2023, 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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