Q2 2024

Managed Portfolios

Addenda Income

Quick facts

Inception date:
January 14, 2021

Asset class:
Balanced

Minimum investment:
$100,000

Avg. number of holdings:
20–35

Investment manager:
Addenda Capital

Investment manager assets under management:
$38B

Portfolio risk:

Low to Medium

aviso wealth

What does the Portfolio invest in?

The portfolio invests in a diversified portfolio of fixed-income securities, Canadian dividend-paying equity securities, Canadian Real Estate Investment Trusts (REITs), preferred shares, US equity securities, exchange traded funds (ETFs), commercial mortgages, and money market instruments and/or cash equivalents.

Asset allocations

Asset class	Min	Target	Current	Max
Equities	10%	20%	21%	30%
– Canadian dividend & REIT equities	0%	20%	21%	30%
– Non-Canadian equities	0%	0%	0%	10%
Fixed Income & Preferred Shares	70%	77%	77%	90%
Cash & cash equivalents	1%	3%	2%	10%

- Equities: the minimum market capitalization will be $1 billion dollars (CAD and/or USD equivalent) at the time of purchase. Canadian dividend & REIT equities: Target 10–20 securities. Non-Canadian equities: Target 0–10 securities
- Fixed income: Includes 25% to 50% in units of the Addenda Universe Core Bond pooled fund, 10% to 30% in Addenda Bonds Corporate Core pooled fund, 0% to 20% in Addenda Commercial Mortgage pooled fund, 0% to 20% in Addenda Preferred Share pooled fund, and/or Canadian fixed income ETFs.

Suitable for investors whose objective is to achieve a high level of income and some 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) %

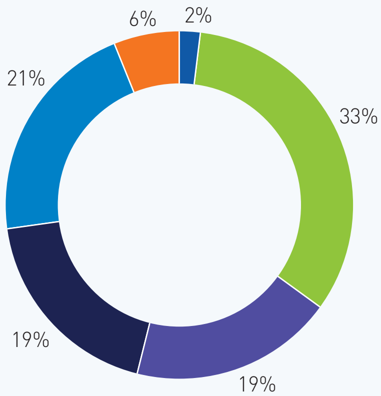
1. Addenda Bonds Universe Core Pooled Fund 34.2%
2. Addenda Bonds Corporate Core Pooled Fund 19.7%
3. Addenda Commercial Mortgage DC Pooled Fund 19.3%
4. Addenda Preferred Share Pooled Fund 5.7%
5. Bank Of Montreal 3.7%
6. Toronto-Dominion Bank 2.6%
7. WSP Global Inc 1.7%
8. Restaurant Brands Int'l 1.6%
9. Emera Inc 1.6%
10. Bank Of Nova Scotia 1.4%

Performance

	QTD	YTD	1 yr	2 yr	3 yr	Since inception (Annualized)
Portfolio	-0.4%	0.1%	4.5%	3.7%	0.7%	1.5%
Benchmark	0.9%	1.9%	6.1%	4.4%	0.0%	0.8%

Q2 2024

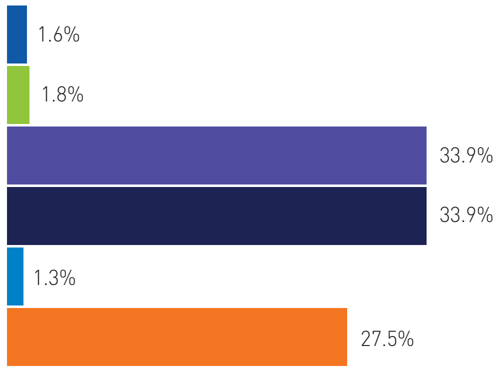
Asset allocation[1]



- Cash
- Addenda Bonds Universe Core pooled fund
- Addenda Bonds Corporate Core pooled fund
- Addenda Commercial Mortgage DC pooled fund
- Canadian dividend & REITs
- Canadian preferred shares

Fixed income allocation

Core Bond Pool Sector Allocation

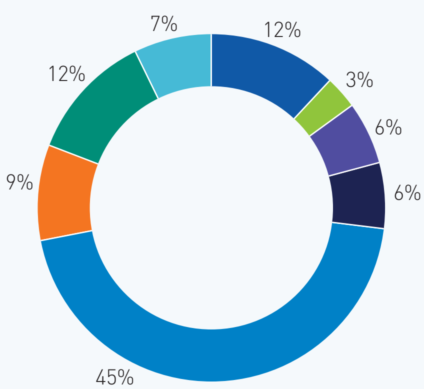


Credit quality	Portfolio (%)
AAA	34.6
AA	27.6
A	19.1
BBB	15.2
BB	0.2
Non Rated Securities (Commercial Mortgages)	1.8
Cash and money market	1.6
	100.0

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

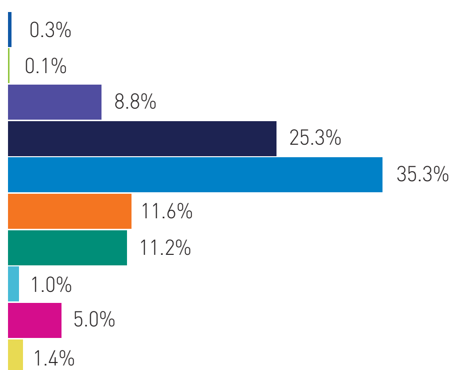
Current Yield: 3.16%

Equities sector allocation[1]



- Energy
- Materials
- Industrials
- Consumer discretionary
- Financials
- Communication services
- Utilities
- Real Estate

Corporate Core Bond Pool sector allocation



Credit quality	Portfolio (%)
AAA	1.4
AA	1.1
A	48.9
BBB	47.6
BB	0.7
Cash and money market	0.3
	100.0

- Cash and Money Market
- Government, Foreign Pay Bonds
- Communication
- Energy
- Financial
- Industrial
- Infrastructure
- Maples
- Real Estate
- Securitization

Current Yield: 4.52%

Average market cap. (Canadian equities only) $54.3B
Weighted Combined Yield to Maturity (Total Portfolio)[2] 4.82%

Repositioning for Q3 2024

Sold or reduced positions (-0.3%)

- Trimmed IA Financial

Bought or increased positions (+0.3%)

- Increased Brookfield Infrastructure Partners

Rationale:

Asset mix changes:

From an Asset Mix perspective, there was no change this quarter as the manager was comfortable with the tactical mix of the Portfolio relative to the target weights.

Equities:

A new position in Brookfield Infrastructure Partners ("BIP") was initiated last quarter with a view to build the position on further weakness. The stock has declined year-to-date as bond yields rose and timing of interest rate cuts in 2024 are uncertain, providing an attractive opportunity. The manager's investment thesis on the company remains the same.

BIP operates premier utilities, transportation, midstream and data infrastructure assets in North /South America, Europe and Asia-Pacific regions. BIP is in the enviable position of being able to generate FFO (funds from operations) growth of 10-12% per year, underpinned by new capital investments with targeted levered returns in the 12-15% range. This FFO growth is also supplemented with new asset acquisitions, which can be funded with capital recycling initiatives (target of US$2 billion in 2024) in lieu of equity issuances.

BIP has a strong history of consistent distribution increases (6-7% per year), with a reasonable FFO payout ratio of 60-70%. BIP currently provides a yield of 5.7%, maintains a defensive balance sheet and strong liquidity position. The valuation of the stock is also compelling, with an approximate 50% discount to the intrinsic value of US$60.00.

To fund this purchase, the exposure to IA Financial was trimmed. While there is certainly valuation support for this stock at 1.2x book value and a price-to-earnings ratio of 8x, recent volatility in earnings and earnings growth below the company's target, leaving the manager with lower confidence. The position was reduced slightly to fund attractive opportunities elsewhere.

Quarterly commentary

Global disinflationary pressures persisted in recent months, prompting other central banks, notably in developed countries, to lower their policy rates. The Bank of Canada took the lead over the Federal Reserve by implementing its first rate cut in June. This decision was driven by core inflation easing for the fourth consecutive month in April (reported in May) and weaker-than-expected economic growth. With economic data becoming increasingly benign, the market's attention has centered on a single narrative: artificial intelligence. The "Fantastic Four" (Nvidia, Microsoft, Amazon, and Apple) have consistently received positive news related to this mega-trend. Although other sectors have experienced positive developments, they often go unnoticed due to outflows favoring the AI theme. This dominant narrative also extends into sectors such as energy (oil, gas, wind, solar) and infrastructure (utilities).

The S&P/TSX Composite Index returned -0.52% in Q2, bringing the year-to-date return to 5.92%. Q2 exhibited varied performance across different sectors, with the overall market experiencing downward pressure. Despite a challenging quarter, some sectors demonstrated resilience, notably Materials, Consumer Staples, and Energy. The MSCI World Index returned 3.8% in Q2. Information Technology and Communication Services were the strongest performing sectors, returning 12.6% and 9.3% respectively. The strength in the Information Technology sector was broad-based, with approximately half of companies having positive returns, and semiconductor companies leading the positive performers.

Interest rate volatility persisted as the bond market adjusted its expectations of policy rate cuts by the Bank of Canada. Provincial and corporate spreads were slightly wider because of larger than expected supply, but still strong credit fundamentals, a supportive growth backdrop, and low equity volatility provided stability.

The Portfolio had a total return of -0.40% in Q2 (before fees), underperforming the blended benchmark return by 1.29%. The fixed income component and commercial mortgages were sources of strength. However, this was not enough to offset the underperformance of the Canadian dividend equity component.

Within the Canadian equity component, key negative contributions for the quarter came from an overweight position within Financials, particularly the overweight position in BMO (-12%), an underweight position in Canadian Western Bank (+55%) which was the target of a takeover by National Bank, and an underweight in Royal Bank (+7.7%) which outperformed the bank group and benchmark.

On the underlying dividend equity holdings, the main underperformers were BMO, Granite Real Estate, Restaurant Brands and Scotia Bank. While the outperformers were Pembina Pipeline, IA Financial, BCE and Enbridge. BMO declined 12.2% in Q2, driven by earnings miss due to higher-than-expected credit losses. Granite declined 11.2% in Q2, affected by negative sentiment toward real estate and industrial REITs following Prologis's weak earnings and reduced outlook. Restaurant Brands International (QSR) was down 9.6% in Q2 largely on concerns that high inflation is reducing discretionary consumer spending with restaurants seeing lower traffic and trade-down. Scotia Bank declined 9.6% in Q2, despite delivering results largely in line with expectations.

On the fixed income component, there were positive absolute and relative returns. The bond component had 0.11% of added value during the quarter with positive contributions from duration positioning and a small U.S. dollar currency allocation. Portfolio duration was managed actively through the period as rates oscillated within a range. Credit spreads widened marginally and security selection within Financials detracted slightly.

Preferred shares performed well in Q2, as the Bank of Canada delivered its first rate cut in the cycle which drove rates lower. Preferred shares as an asset class were also helped as there were several redemptions which drove price performance. However, the preferred share component of the portfolio underperformed the market in the quarter, with -0.44% underperformance. The Portfolio continues to be positioned defensively, with a larger fixed income exposure and lower fixed resets compared with the benchmark. The commercial mortgages component was an area of strength during the quarter, adding 0.43% of added value. On a YTD basis, commercial mortgages added 1.42% of value.

Economic growth in the near term is stable even against the backdrop of current policy rates. Inflation pressure declines in 2024 but achieving central bank targets may prove difficult with an uneven path in the deceleration. Monetary policy in Canada and the U.S. is biased toward easing now. Uncertainty related to potential changes to monetary policy by central banks, as well as geopolitical risks and US election noise will contribute to market volatility.

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 July 9, 2024. after quarterly rebalancing unless otherwise stated.

[2] Canadian Dividend and REITS Yield 5.10%; Addenda Bonds Universe Core Pooled Fund Yield to Maturity 4.33%; Addenda Bonds Corporate Core Pooled Fund Yield to Maturity 4.97%; Addenda Commercial Mortgage DC Pooled Fund Yield to Maturity 5.66%; Addenda Preferred Share Pooled Fund Yield 6.98%.

[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, June 30,2024, 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: From 2022-01-10: 35% FTSE Canada Universe Bond/20% FTSE Canada All Corporate Bond/20% Dow Jones Canada Select Dividend/10% S&P/TSX Preferred Share Index/15% FTSE Canada Short-Term Overall Bond Index. From 2020-12-31 to 2022-01-09: 40 FTSE Canada Universe Bond/20% FTSE Canada All Corporate Bond/15% Dow Jones Canada Select Dividend/10% S&P/TSX Preferred Share Index/15% FTSE Canada Short-Term Overall Bond Index

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