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:
$34B

Portfolio risk:

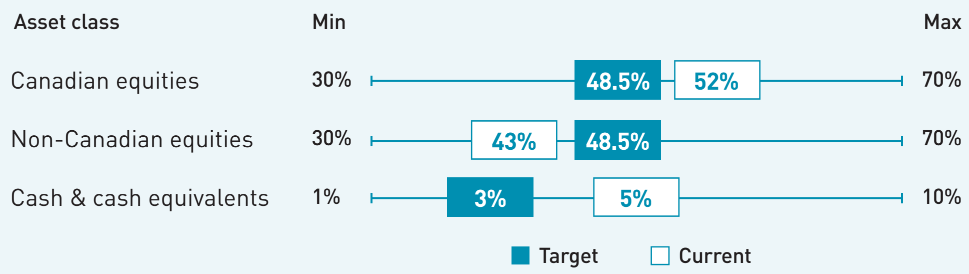
Medium

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



- 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.

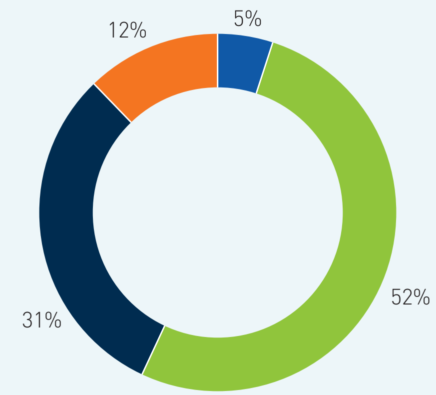
Top ten holdings (excluding cash and cash equivalents) %

1.	Toronto-Dominion Bank	7.5	6.	Canadian Pacific Railway Ltd	4.0
2.	Bank Of Montreal	5.5	7.	Thermo Fisher Scientific Inc	3.9
3.	Canadian Natural Resources	4.9	8.	SAP	3.7
4.	Constellation Software Inc	4.6	9.	Linde Plc	3.7
5.	Dollarama Inc	4.0	10.	UnitedHealth Group Inc	3.6

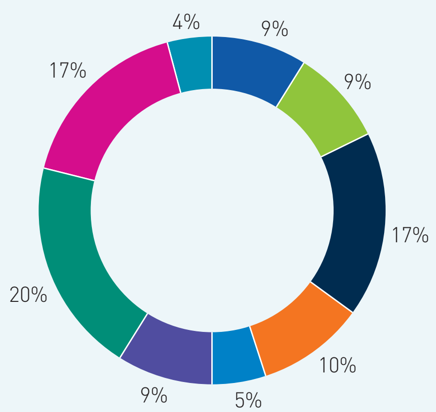
Performance

	QTD	YTD	1 yr	3 yr	5 yr	Since Inception (annualized)
Portfolio	7.8%	-6.7%	-6.7%	7.1%	8.2%	9.8%
Benchmark	6.9%	-9.1%	-9.1%	7.6%	7.8%	10.1%

Asset allocation[1,2]



Equities sector allocation[1,3]



Average market cap. $174.1B (equities only)

Repositioning for Q1 2023

Sold or reduced positions (-6.5%)

- Sold Brookfield Asset Management (BAM)
- Sold Bank of Nova Scotia
- Sold iShares S&P/TSX 60 ETF
- Trimmed UnitedHealth Group
- Trimmed cash

Bought or increased positions (+6.5%)

- Increased Ball Corp.
- Increased Bank of Montreal (BMO)
- Increased Franco-Nevada
- Increased Global Payments
- Increased Middleby
- Increased Prudential
- Increased SAP

Rationale

- On asset allocation changes, cash and Canadian equities were reduced while global equities were added. Canadian equities were reduced with the liquidation of the iShares S&P/TSX 60 ETF.
- In December, **Brookfield** spun out its asset management business as a separate public entity, named Brookfield Asset Management (BAM-T) and the Holdco was renamed Brookfield Corp (BN-T). Essentially, the position in BAM.A has now become positions in BN-T (the Hold Co) & BAM-T (the asset manager). The manager believes that the pureplay asset manager (BAM-T) is an interesting investment opportunity. Brookfield Corp (BN-T) now trades at an exceptionally discounted valuation (25% discount to NAV and 50% discount to the Intrinsic Value estimate) and retains a 75% interest in the asset manager. As such, significant exposure to the asset manager is retained via investment in Brookfield Corp at a more favourable valuation. Within a concentrated portfolio with a limited number of holdings, BAM was sold and BN was retained.
- **Scotiabank** was liquidated with the proceeds added to BMO. Scotiabank has lower sensitivity to higher rates than some of the other Canadian Banks, lower capital levels and reserve levels. Recent news of the Scotiabank CEO succession plan also introduces some uncertainty. The manager continues to add BMO this quarter. As highlighted previously, the bank continues to deliver strong earnings growth driven by strong loan growth, improved lending spreads and efficiency improvements. The commercial lending focus of the bank could prove to be an advantage as consumer lending is likely to slow more significantly. Additionally, the bank's pending Bank of the West transaction will augment i's growth profile while leaving capital at a reasonable level.
- **Franco Nevada** was increased as the outlook for gold has improved with the recent shift in China's zero covid policy (China is the largest buyer of gold) improving the outlook for Chinese spending and economic growth in 2023. More importantly, geo-political concerns have led to record buying of gold from central banks in countries such as China and Russia as they attempt to shift away from the US dollar. The net result is that financial drivers such as the level of interest rates (higher real rates leading to lower gold prices) which explained 90% of the movement in gold prices historically, have taken a back seat to other demand drivers and may do so for the foreseeable future. Interest rate differentials globally

also support a weakening US dollar which had been a headwind for gold prices in 2022. The recent collapse in crypto currencies due to fraud concerns at FTX (leading to increased regulation) should also improve gold demand. For all of these reasons, the manager is much less bearish on gold entering 2023 and like the negative correlation that exists between precious metals and other equity industries during periods of broad-based equity weakness (i.e. improves portfolio risk/reward by reducing volatility).

- Within foreign equities, several holdings with strong fundamentals and attractive valuations were added. Two positions are highlighted below:
- **UnitedHealth**, the most successful health insurance company in the world, has built an enviable business across not just managed care, but also their own Pharmacy Benefit Manager (PBM) and, through that, a meaningful data analytics business. The company's stock has performed consistently well and at this point has grown to be the largest holding in the portfolio. The manager trimmed the position as it is prudent to take some gains in the stock. Even after the current sale, it remains one of the largest positions in the global portion of the Portfolio.
- **Ball** is the leading provider of aluminum containers to the beverage industry. The Covid-19 pandemic resulted in strong demand growth for aluminum cans and containers, driving industry growth over the last few years. As the economy slows, beverage demand and therefore can demand growth is also slowing. For Ball, this provides an opportunity to drive efficiency gains that strong demand prevented them from realizing since their acquisition of Rexam. This will help improve margins, insulating results during a downturn in demand, while positioning them for strength in the long run. Anticipation of slower demand has driven the stock down and provided an attractive opportunity to add to the position.

Quarterly **commentary**

The fourth quarter of 2022 bore positive results in many asset classes, though these gains did not offset the losses earlier in the year, with all major equity markets posting negative absolute returns over the year. The Bank of Canada slowed its pace of monetary policy tightening by raising the overnight target rate by 100 basis points (bps - 1/100th of a percent) during the third quarter to 4.25%. Similarly, the Federal Reserve tightened by a total of 125 bps, finishing the year at a target range of 4.25% - 4.50%. Both Central Banks suggested that they have not finished tightening for this cycle. Within bonds, rates rose across the curve even as the Bank of Canada signaled a slower pace of tightening and inflation data continued moving lower. Short term rates rose more than longer term. Corporate spreads narrowed during the quarter after hitting the widest levels of the year in October, supported by a positive overall tone for risk markets. Equity markets rebounded strongly after hitting the lowest levels of the year in October, on expectations that Central banks are nearing the end of monetary policy tightening. Canadian stocks rallied strongly through the Fall on China reopening expectations, softer inflation data, and signaling from the Fed described above. The Information Technology sector was the strongest in the quarter, though is still down significantly on the year. Global equities delivered strong positive performance rebounding off the low levels of the year in October. Sector performance was mostly positive, with Energy, Materials and Industrials leading the way. The Canadian dollar appreciated versus its US counterpart during the quarter by 1.5%. The relevant index returns for this Portfolio in the third quarter were: S&P/TSX 60 Index (+5.56%) and the MSCI World Index (CA$) (+8.24%).

The Portfolio returned +7.84% during the fourth quarter, outperforming its benchmark by 0.92% (before fees). The Portfolio also provided strong downside market protection over the one-year period, outperforming the benchmark decline of 9.1% by 2.37%. Within the underlying components, the Canadian equity component exceeded its benchmark by 1.66% over the quarter due to positive stock selection and sector allocation. The global equity component returned 9.9% during the fourth quarter and exceeded its benchmark by 1.67%.

Looking forward, the manager expects global economic growth to slow in 2023 but remain positive as domestic demand is supported by strong labour market dynamics and excess household savings. As a result of tight labour markets, the unemployment rate is not expected to increase much. However, the risk of recession increases as the year progresses due to the maintenance of restrictive monetary policy. Inflation pressure should continue to moderate throughout 2023 but will remain above central bank targets in terms of both level and scope. Structural changes to inflation such as onshoring (less globalization), labour force changes (increased retirements, quiet quitting, WFH, Gig economy) and decarbonization costs (Net Zero) may have longer-term impacts. Against the backdrop of slowing economic growth but higher than target inflation, central banks will focus on price stability and will not pivot to stimulate growth in the near term. In light of this view, the manager has reduced Canadian Equities and a small amount of excess cash and added to global equities, where the manager sees better opportunities.

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 January 10, 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, December 31, 2022, 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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