

Q2 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:
\$38B

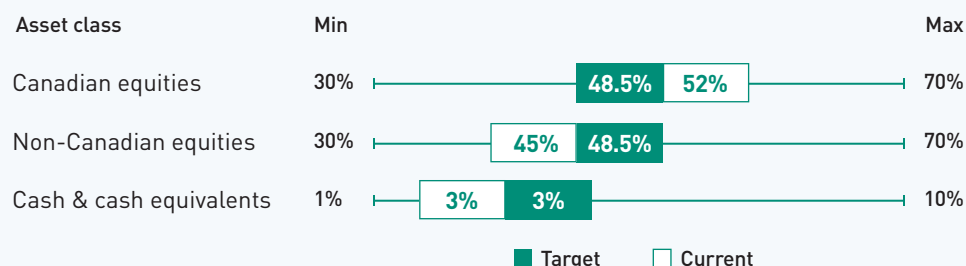
Portfolio risk:

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



- 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.

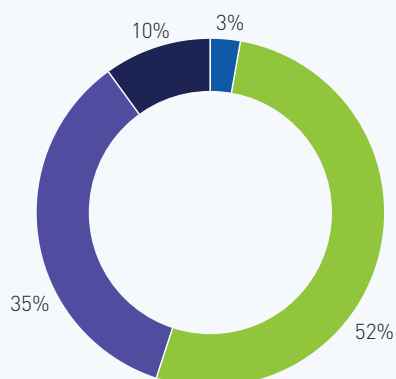
Top ten holdings¹ (excluding cash and cash equivalents) %

1.	Constellation Software Inc	7.2	6.	SAP	4.9
2.	Toronto-Dominion Bank	5.7	7.	Alphabet Inc	4.4
3.	Dollarama Inc	5.6	8.	Canadian Pacific Kansas City	4.1
4.	Canadian Natural Resources	5.4	9.	VISA Inc	3.9
5.	Bank Of Montreal	5.0	10.	WSP Global Inc	3.8

Performance

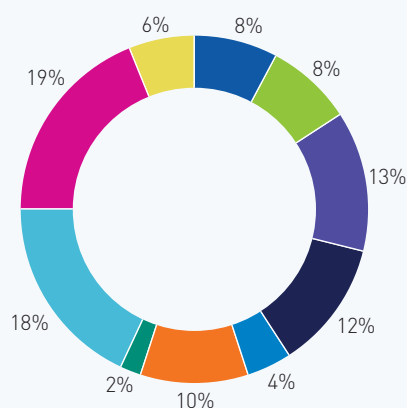
	QTD	YTD	1 yr	3 yr	5 yr	Since inception (Annualized)
Portfolio	-2.8%	6.7%	13.4%	7.7%	9.0%	10.4%
Benchmark	1.2%	10.4%	17.7%	8.4%	11.3%	11.5%

Asset allocation¹



- Cash
- Canadian equities
- US equities
- International equities

Equities sector allocation¹



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

Average market cap. \$350.3B
(equities only)

Repositioning for Q3 2024



Sold or reduced positions (-2.2%)

- Sold Global Payments Inc.



Bought or increased positions (+2.2%)

- Initiated a new position in Microsoft

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.

Within global equities:

Global Payments ("GPN") was liquidated. GPN historically has had a long track record of successful M&A and an integrated software strategy that drives growth by expanding their geographical footprint and through increased scale, synergies, and added value of their offering. However, recent earnings weakness, as well as a lack of outlook from the management team, has decreased the visibility and predictability of the stock. As a result, the manager viewed the holding's risk/return profile as less attractive than in the past.

With the proceeds from this liquidation, a new position in Microsoft ("MFST") was initiated. MFST is a global software company and a leader in business intelligence. With the roll-out of AI capabilities, the company is poised to continue to hold its dominant global position. Company management has consistently exceeded its targets as well as market expectations; this is a high-quality company with strong industry tailwinds coupled with strong execution.

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% for the second quarter of 2024. 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 -2.82% in Q2 (before fees), underperforming the blended benchmark return by -4.03%. Security selection within the Canadian and global components detracted significant value during the quarter.

Within Canadian Equities, the main detractors were Bank of Montreal, Restaurant Brands, CP Rail, and CGI Inc, while notable outperformers included Dollarama, Constellation Software, CCL and Enbridge. BMO declined 12.2% in Q2, driven by earnings miss due to higher-than-expected credit losses. 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. CP Rail fell 9.6% in Q2 in line with its peer group as freight volumes have come under pressure in North America. The manager views the pullback as a buying opportunity as the merger of CP and Kansas City Southern should position CP to deliver strong market share gains and multiple years of above-average earnings growth. CGI fell 8.6% in Q2 due to weakness in discretionary tech spending and delays in complex transactions. The challenging macro environment and uncertain near-term outlook contributed to the decline. Despite this, the sales pipeline grew substantially, and demand for managed services remained strong.

Within the Global Equity component, underperformance was largely attributable to weak security selection. Global Payments (Transaction & Payment Processing) was one of the largest detractors from performance. The stock sell off was most meaningful after the company reported quarterly earnings that were largely in line with market expectations but lacked precise details on the outlook. The company intends to host an investor day in the Fall, where more details regarding the company strategy and outlook will be released.

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 (GARP⁴)

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 philosophy⁴
- Addenda is a United Nations Principles for Responsible Investment (PRI) signatory

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- 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 Includes Ishares SPDR S&P 500 ETF

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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, 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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