Q3 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:
$40B

Portfolio risk:

Medium

aviso wealth

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%	45%	70%
Cash & cash equivalents	1%	3%	4%	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[1] (excluding cash and cash equivalents) %

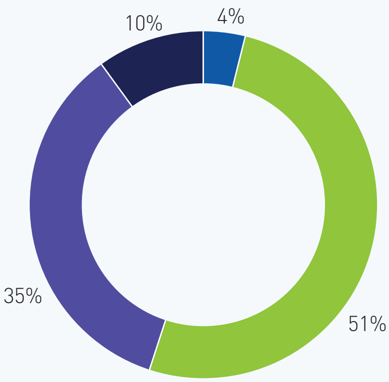
1.	Constellation Software Inc	7.0
2.	Dollarama Inc	5.5
3.	Canadian Natural Resources	5.1
4.	Bank Of Montreal	4.9
5.	SAP	4.5
6.	WSP Global Inc	3.9
7.	Canadian Pacific Kansas City	3.9
8.	Toronto-Dominion Bank	3.8
9.	Brookfield Corp	3.7
10.	Visa Inc	3.6

Performance

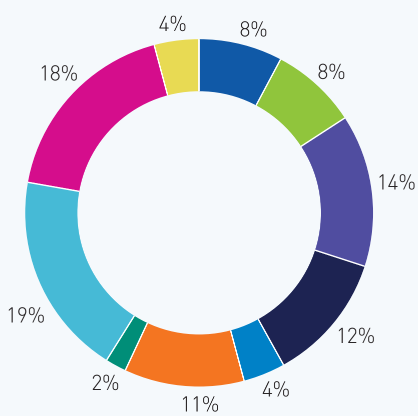
	QTD	YTD	1 yr	3 yr	5 yr	Since inception (Annualized)
Portfolio	8.6%	15.9%	25.1%	10.0%	10.9%	11.1%
Benchmark	8.1%	19.3%	29.7%	10.7%	12.5%	12.1%

Q3 2024

Asset allocation[1]



Equities sector allocation[1]



Average market cap. $371.3B (equities only)

Repositioning for Q4 2024

Sold or reduced positions (-2.9%)

- Trimmed Rogers Communications
- Trimmed SAP
- Trimmed TD Bank

Bought or increased positions (+2.9%)

- Initiated a new position in CIBC
- Increased Microsoft
- Increased cash

Rationale:

Asset mix changes:

The portfolio was rebalanced after recent market moves, which have tilted it further into Equities. We have recommended an approximately 1.0% decrease in Canadian equities and a corresponding increase in Cash.

Within Canadian equities:

Rogers Communications was reduced on a lower level of conviction in Canadian Telcos, 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 Rogers 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.

TD Bank has reached a resolution on the previously disclosed investigations related to its U.S. Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) compliance programs in the US after several years of engagement with regulators and authorities. The resolution is multifaceted and includes significant fines (these fines were already known & provisioned for), the need to enhance practices (already well underway) and increased oversight. As the market awaited this final resolution, the wildcard was whether the US regulators would impose an "asset cap" on the bank. It was a known possibility but considered a lower probability outcome, and not our base case assumption. As such, the news that TD's US subsidiaries will be subject to an asset cap (assets cannot exceed the Sept 30 balance of US$434Bn) was a negative development. On a call with analysts and investors, the bank also communicated more details about the ongoing costs of the remediation effort and other near term implications. Our negativity was tempered by the facts that: this only applies to the US retail bank (25% of earnings) and it doesn't mean that earnings can't grow from the US division in the medium-term. However, given the significant operational and cultural deficiencies identified by the regulators and uncertainty around the earnings outlook, the position was trimmed.

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:

SAP was reduced and using the proceeds to add to Microsoft. This trade is simply crystallizing gains on a position that has done extremely well and reinvesting in an existing position with a lower valuation.

Quarterly commentary

Markets began the quarter after a strong performance for the month of June, followed by a volatile end to the month of July that continued into early August. The global declines stemmed from concerns surrounding US economic growth, after the US payrolls for July came in below expectations. This, combined with a rising US unemployment rate, suggested that there could be a higher possibility of a recession. The market weakness was further impacted by an interest rate increase from the Bank of Japan, which triggered an unwinding of carry trade positions. Despite these concerns, which reverberated through global markets, stocks recovered through August and extended their gains in September, following the long-anticipated beginning of the Federal Reserve's interest rate cutting cycle and more recently a slew of new stimulus announced in China to pull the economy back towards its government's growth target.

North American equities benefitted from strong progress in reducing inflation, leading to interest rate cuts in Canada and most recently, the United States. The Bank of Canada cut rates by 0.25% at both the July and September meetings, bringing the policy rate to 4.25%. The Federal Reserve initiated its highly anticipated first cut at its September meeting and started with a 0.50% reduction.

The S&P/TSX 60 Index returned 11.2% in the third quarter, its best quarterly showing in four years, bringing the year-to-date total return to 16.6%. Global markets remained positive over the third quarter of 2024, with the MSCI World Index returning 5.0% (CAD). The Canadian dollar appreciated compared to the US dollar over the quarter, which was a headwind on returns, but for 2024 year-to-date the CAD's depreciation continues to be positive for returns.

The Portfolio had a total return of 8.6% (before fees) in Q3, outperforming the benchmark by 0.6%.

The Canadian equity component underperformed the benchmark by 1.2% in Q3 due to weak security selection within Financials (BMO and TD primarily) and an underweight position in bond proxies such as Utilities, Real Estate and Banks. The year-to-date return of 16.4% is essentially in line with the benchmark. The Portfolio tends to lag in strong up markets so this performance is viewed as being in line with our expectations. The bottom performers were Canadian Natural Resources, Restaurant Brands and Franco Nevada. Canadian Natural Resources was up 12% year-to-date but fell 6.7% in the third quarter. The small decline was due to a similar move in oil prices. Restaurant Brands (QSR) lagged the broader market in Q3 as investors were concerned that higher inflation would curtail discretionary spending, lowering same-store sales for restaurants like Burger King and Tim Horton's. Franco Nevada was up 17% year-to-date and should track the overall movement in gold prices fairly closely over the next twelve months. Franco fell 8% in August after lowering production guidance to the bottom end of its initial range. While disappointing, it won't impact 2025 production, so we view the miss as noise and having little impact on our valuation of the company. The positive contributors to performance were Brookfield, CCL Industries, and Enbridge.

Within the global equity component, the Portfolio significantly outperformed its benchmark during the third quarter, driven by stock selection. Resmed (Health Care Equipment) was the best performing stock, with the largest positive contribution to relative performance. The company has had a strong performance in 2024, benefiting from its leadership position in the treatment of respiratory conditions and outstanding execution. Still in Health Care, United Health (Managed Health Care) was the second-best performer in absolute terms, as even with a lackluster second quarter results, United Health is still a market favorite defensive name in the large-cap healthcare services space, as the company continues to execute well in diversifying its portfolio with complementary businesses. In terms of sector allocation, the positive impact from the lack of exposure to the Energy sector and the significant overweight to Materials contributed positively to performance. These were slightly offset by the strong performance by Utilities stocks, as there was no exposure to the sector and the underweight to Financials also contributed negatively, given the expected rate cuts in the second half 2024.

We remain bullish on North American equities as we are forecasting lower interest rates in 2025 on the back of strong U.S. productivity growth and a robust U.S. economy. The outlook is not quite as rosy in Canada as we are concerned about lower productivity growth impeding rate cuts and slowing the economy. Nonetheless, the U.S. outlook is the key driver of market performance and our preference for equities over bonds and cash. We are forecasting high single-digit returns in Canada and the U.S., possibly more if price-earnings ratios rise further on lower bond yields.

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[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[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 October 11, 2024 after quarterly rebalancing unless otherwise stated.

[2] Includes Ishares SPDR S&P 500 ETF

[3] Excludes Ishares 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, September 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).

Source: MSCI. The MSCI information may only be used for internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information.

Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages.

Please be advised that the information contained herein does not constitute investment advice and it should not be relied on as such. Past performance is no guarantee of future results. The information contained in this report was obtained from sources believed to be reliable; however, we cannot guarantee that it is accurate or complete.

Managed Portfolios are distributed by Aviso Wealth. Mutual Funds and other securities are offered through Aviso Wealth, a division of Aviso Financial Inc. Referral fees, commissions, management fees, and expenses all may be associated with managed accounts or the investments therein. Managed accounts, and the investments therein, are not insured nor guaranteed, their values change frequently, and past performance may not be repeated. Activities performed by Aviso Wealth are conducted through Aviso Financial Inc. Aviso Wealth Inc. ('Aviso') is a wholly owned subsidiary of Aviso Wealth LP, which in turn is owned 50% by Desjardins Financial Holding Inc. and 50% by a limited partnership owned by the five Provincial Credit Union Centrals and The CUMIS Group Limited. The following entities are subsidiaries of Aviso: Aviso Financial Inc. (including divisions Aviso Wealth, Qtrade Direct Investing, Qtrade Guided Portfolios, Aviso Correspondent Partners) and Northwest & Ethical Investments L.P.

NDG0057E_4 10/24