aviso wealth

OnPoint Managed Portfolios

Addenda Balanced

Quick facts

Inception date:
March 31, 2015

Asset class:
Balanced

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 foreign equity securities, fixed-income securities, exchange traded funds (ETFs), and money market instruments and/or cash equivalents.

Asset allocations

Asset class	Min.	Target	Current	Max.
Canadian equities	20 %	30%	35%	40 %
Non-Canadian equities	20 %	30%	27%	40 %
Fixed income	20 %	37%	32%*	60 %
Cash & cash equivalents	1 %	3%	6%	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
- Fixed income: 20% to 60% in units of the Addenda Universe Core Bond pooled fund and/or Canadian fixed income ETFs will be used
- Addenda Preferred Share Pooled Fund may be used

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)

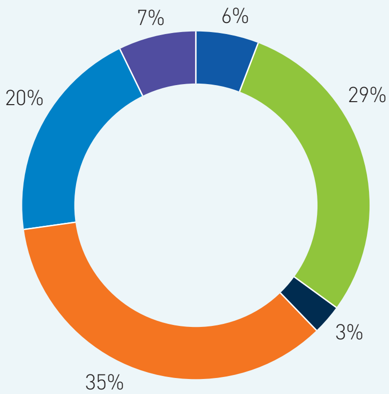
1. Addenda Bonds Universe Core Pooled Fund — 29.1
2. Toronto Dominion Bank — 5.4
3. Canadian Natural Resources — 3.8
4. UnitedHealth Group Inc — 3.3
5. Constellation Software Inc — 3.2
6. Dollarama Inc — 3.2
7. Addenda Preferred Share Pooled Fund — 2.9
8. Brookfield Asset Manage-Cl A — 2.6
9. Canadian Pacific Railway Ltd — 2.5
10. Enbridge Inc — 2.5

Performance

	QTD	YTD	1 yr	3 yr	5 yr	Since inception (Annualized)
Portfolio	-0.9%	-12.7%	-6.3%	3.9%	5.6%	5.7%
Benchmark	-0.3%	-13.5%	-9.0%	3.5%	5.1%	4.8%

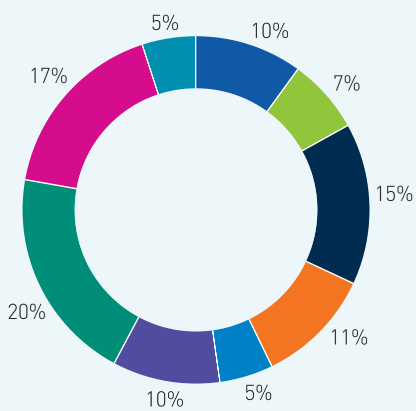
*including 3% in Addenda Preferred Share Pooled Fund

Asset allocation[1]



- Cash
- Fixed income
- Canadian preferred shares
- Canadian equities
- US equities
- International equities

Equities sector allocation[1,2]

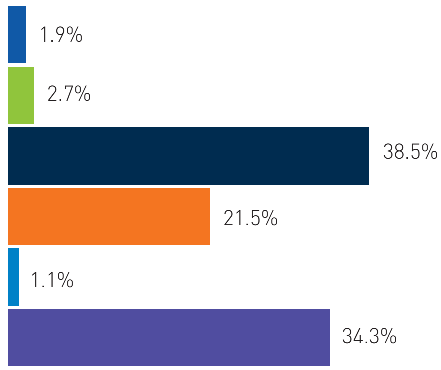


- Energy
- Materials
- Industrials
- Consumer discretionary
- Consumer staples
- Health care
- Financials
- Information technology
- Communication services

Average market cap. (Equities Only) $178.7B

Fixed income allocation

Core Bond Pool sector allocation



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

Credit quality	Portfolio (%)
AAA	22.4
AA	35.7
A	22.5
BBB	14.7
Non-rated securities (commercial mortgages)	2.7
Cash and money market	2.0
	100.0

Current yield (bonds): 3.42%

Repositioning for Q4 2022

Sold or reduced positions (-4.6%)

- Sold Manulife
- Sold iShares S&P/TSX 60 ETF (XIU)
- Sold International Flavors & Fragrances
- Trimmed Bank of Nova Scotia

Bought or increased positions (+4.6%)

- Initiated a new position in Bank of Montreal (BMO)
- Initiated a new position in Ball Corp
- Increased Addenda Bonds Universe Core Pooled Fund
- Increased cash

Rationale:

- The manager has increased conviction that aggressive Central Bank tightening will likely push Canada and the US into recession within the forecast period. Pent-up demand, excess savings and fiscal infrastructure spend will likely lessen the economic impact of higher rates and the manager expects many companies to weather a mild recession without lasting impact. However, it seems prudent to reduce risk in anticipation of market volatility continuing through the fall. For that reason, Canadian equities were reduced further with a portion of the proceeds added to cash.

- **Manulife** liminated this quarter. XIU was also eliminated as it is a proxy for market exposure (S&P/TSX 60 benchmark ETF). Scotiabank was trimmed and a portion of the proceeds was put into the Bank of Montreal, with the remainder going into cash.

- **Scotiabank** has lower sensitivity to higher rates than some of the other Canadian Banks. It also has lower capital levels and reserve levels. Recent news of the Scotiabank CEO succession plan also introduces some uncertainty. BMO was recently added in some of the manager's other mandates and was a new position to add to this Portfolio in this quarter. As highlighted previously, BMO 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 its growth profile while leaving capital at a reasonable level.

- Within the Global equity component of the Portfolio, the manager decided to take profits in International Flavors & Fragrances and used the proceeds to initiate a position in Ball Corp which is one of the world's leading suppliers of aluminum packaging and aerospace technologies.

Quarterly **commentary**

The third quarter of 2022 continued to be quite challenging across a variety of asset classes, with all major equity markets posting negative absolute returns. The Bank of Canada accelerated the pace of monetary policy tightening by raising the overnight target rate by 1.75% during the third quarter to 3.25%. Similarly, the Federal Reserve tightened their target range by a total of 1.50%, while also signaling more to follow. Within bonds, shorter term (1- 7 year) interest rates rose significantly in the third quarter as the bond market reacted to more aggressive tightening of monetary policy. In contrast, longer term (10 year and longer) rates were almost unchanged causing the yield curve to invert further. Canadian stocks were negatively driven by weak returns from Real Estate, Telecommunications and Energy, while the Industrial and Consumer Discretionary sectors were the strongest relative performing sectors. Global equities delivered negative returns as non-North American markets continued to be hurt by uncertainty surrounding the Russian invasion of Ukraine, and weak economic momentum. Real Estate and Telecommunications were the most negative, offset by positive results from Consumer Discretionary. The Canadian dollar depreciated versus its US counterpart during the quarter by 6.2%. The relevant index returns for this Portfolio in the third quarter were: S&P/TSX 60 Index (-1.73%), the MSCI World Index (CA$) (-0.07%) and the FTSE Canada Universe Bond Index (+0.52%).

The Portfolio declined -0.91% during the third quarter, trailing its benchmark by 0.66%. Despite this recent underperformance, the Portfolio was still able to provide strong downside market protection over the one-year period and outperformed the benchmark by 2.68%. Within the underlying components, the Canadian equity component exceeded its benchmark by 0.94% over the quarter due to positive stock selection and sector allocation. The core fixed income component delivered positive absolute and relative returns as a result of its yield curve positioning, while the preferred shares component outperformed its underlying benchmark by 1.29%. However, this was more than offset by relative weakness global equities, combined with the underweight in fixed income.

Looking forward, the manager expects global growth to fall below longer-term trends as demand declines due to stimulus withdrawal and demand erosion from inflation pressures. The risk of a recession has increased due to tighter financial conditions from aggressive central bank tightening. Inflation pressure should peak by the end of 2022 but remain above central bank targets due to supply chain issues, elevated commodity prices, and increasing labour costs. The diffusion of inflation has broadened and with sticky components causing the overall price level to remain higher for longer. In addition, dislocations in the labour markets with more job openings than available workers continue to put pressure on wages. Against the backdrop of slowing economic growth, with continuing inflation pressures, Central Banks will be forced to choose between maintaining the inflation focus versus pivoting to stimulate growth. In terms of potential risks to the manager's forecast, there is the potential for the path of inflation to be more persistent causing Central Banks to maintain tighter policy conditions for longer. As a result, this could cause more significant demand destruction and a deeper recession. Given this backdrop, the manager decided it was prudent to reduce risk in anticipation of market volatility continuing through the Fall. As such, the Canadian equities exposure was reduced further recently and the proceeds were put into cash.

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[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 process favors stocks with consistent earnings and free cash flow growth.

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

[1] As of October 11, 2022 after quarterly rebalancing unless otherwise stated.

[2] Excludes Canadian Preferred Shares

[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, September 30, 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: 40% FTSE TMX Canada Universe Bond/30% S&P/TSX 60/30% MSCI World Net (CAD).

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.

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