Q3 2024

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:
$40B

Portfolio risk:

Medium

aviso wealth

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%	36%	40%
Non-Canadian equities	20%	30%	30%	40%
Fixed income	30%	37%	32%*	50%
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 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: 30% to 50% in units of the Addenda Universe Core Bond pooled fund and/or Canadian fixed income ETFs will be used
- Addenda Preferred Share Pooled Fund, Addenda Commercial Mortgage Pooled Fund, Addenda CorePlus Fixed Income Pooled Fund and Addenda Active Duration Bond 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[1] (excluding cash and cash equivalents) %

	Holding	%
1.	Addenda Bonds Universe Core Pooled Fund	26.8
2.	Constellation Software Inc	5.8
3.	Canadian Natural Resources	3.8
4.	Dollarama Inc	3.7
5.	SAP	2.8
6.	Brookfield Corp.	2.7
7.	Bank Of Montreal	2.7
8.	Addenda Commercial Mortgages DC Pooled Fund	2.6
9.	Experian PLC	2.5
10.	Canadian Pacific Kansas City	2.5

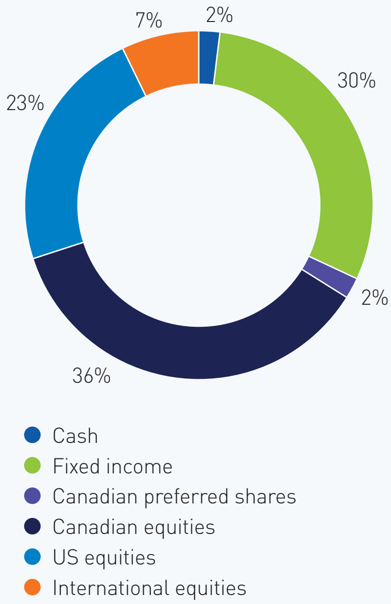
Performance

	QTD	YTD	1 yr	3 yr	5 yr	Since inception (Annualized)
Portfolio	7.5%	12.8%	21.8%	7.4%	8.2%	7.6%
Benchmark	6.8%	13.1%	22.9%	6.5%	8.0%	6.9%

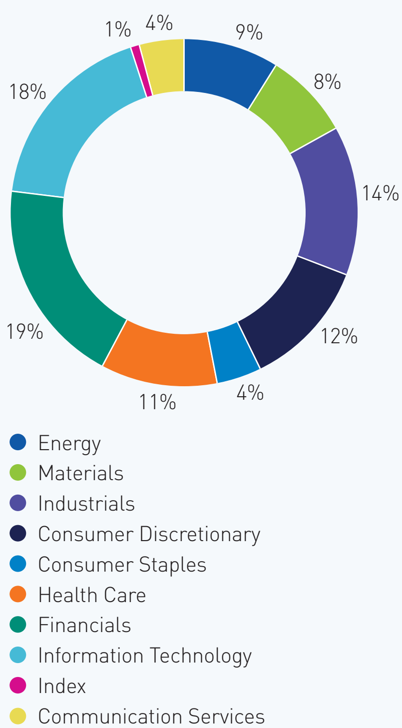
*including 2% in Addenda Preferred Share Pooled Fund

Q3 2024

Asset allocation[1]



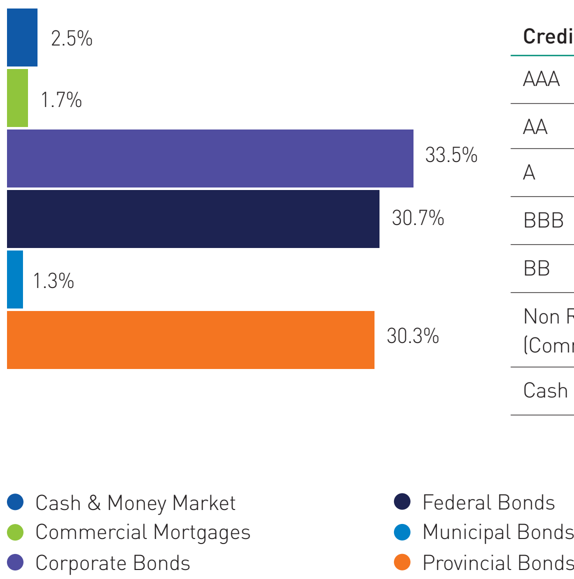
Equities sector allocation[1]



Average market cap.
(Equities Only) $375.6B

Fixed income allocation

Core Bond Pool Sector Allocation



Credit quality	Portfolio (%)
AAA	31.4
AA	30.2
A	18.9
BBB	15.1
BB	0.2
Non Rated Securities (Commercial Mortgages)	1.7
Cash and money market	2.5
	100.0

Current Yield (bonds): 3.22%

Repositioning for Q4 2024

Sold or reduced positions (-3.5%)

- Trimmed Rogers Communications
- Trimmed Dollarama
- Trimmed TD
- Trimmed SAP

Bought or increased positions (+3.5%)

- Initiated a new position in CIBC
- Increased Microsoft
- Increased Addenda Bonds Universe Core Pooled Fund

Rationale:

Asset mix changes:

The portfolio was rebalanced after recent market moves, which have tilted it further into Equities. We have recommended a 1.5% decrease in Canadian equities and a corresponding increase in Canadian fixed income.

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.

Dollarama was reduced to raise cash for the recent asset mix shift and to realize profits after a 45% year-to-date gain. Dollarama is much closer to our assessment of fair value so we will look for opportunities to sell into strength and add back on weakness.

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 7.5% (before fees) in Q3, outperforming the benchmark by 0.8%. Value added came from an overweight position in equities and strong security selection within global equities. The year-to-date total return is 12.8%, lagging the benchmark return of 13.1%.

The Canadian equity component underperformed the benchmark by 1.1% 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.

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. 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.

On the fixed income component, the bond market returns were positive in the quarter due to the large decline in yields. The Core Universe Bond Pool Fund outperformed the benchmark by 0.5% during the quarter. Duration exposure was reduced through the quarter as yields declined. Credit spreads, after widening slightly, finished mostly unchanged. The Fund benefitted from its credit overweight due to the additional yield carry they provide. Corporate credit was well supported by continued interest from investors, sound fundamentals and a still positive economic backdrop. An additional $25.2 billion of new issuance brought the YTD total to $106.8 billion.

Preferred shares added 0.85% relative to the benchmark, as the fixed income and perpetual holdings benefitted from lower bond yields. The Fund continues to be positioned defensively, with a larger fixed income exposure and lower fixed resets compared with the benchmark. Preferred shares performed well in the third quarter of 2024, despite weaker than expected US nonfarm payrolls propelled volatility in rates and equity markets. The resilience was supported by another 5 announced redemptions coupled with a monetary easing environment.

The Addenda Commercial Mortgages Pooled Fund underperformed its benchmark in Q3. The mortgage credit spreads decreased during the third quarter, which contributed positively to the performance. On a relative basis, however, the shorter duration of the commercial mortgages fund (1.83 years) compared to the benchmark's (2.73 years) had a negative impact on performance in an environment of decreasing interest rates.

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[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

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

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