Q2 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:
$38B

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%	37%	40%
Non-Canadian equities	20%	30%	30%	40%
Fixed income	20%	37%	31%*	60%
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: 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 and Addenda Commerical Mortgage 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) %

1.	Addenda Bonds Universe Core Pooled Fund	26.4
2.	Constellation Software Inc	5.7
3.	Dollarama Inc	4.1
4.	Toronto-Dominion Bank	4.1
5.	Canadian Natural Resources	3.9
6.	SAP	3.1
7.	Addenda Commercial Mortgages DC Pooled Fund	2.7
8.	Alphabet Inc	2.7
9.	Bank Of Montreal	2.6
10.	Canadian Pacific Kansas City	2.6

Performance

	QTD	YTD	1 yr	3 yr	5 yr	Since inception (Annualized)
Portfolio	-1.4%	4.9%	10.9%	5.4%	6.7%	7.0%
Benchmark	1.1%	6.0%	12.0%	4.4%	7.0%	6.4%

*including 2% in Addenda Preferred Share Pooled Fund

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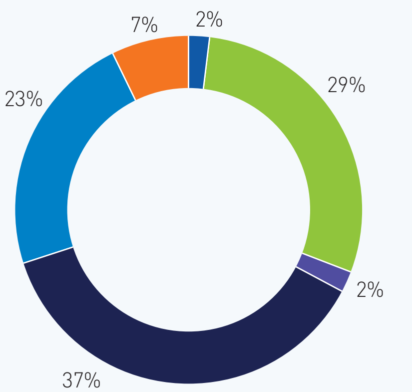
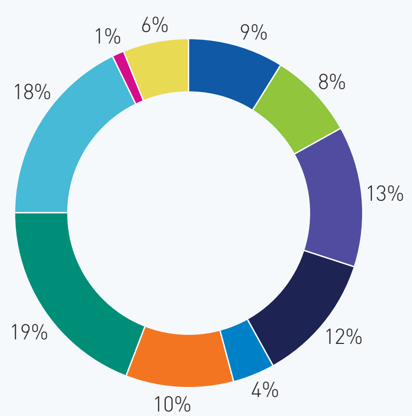
Asset allocation[1]



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

Equities sector allocation[1]

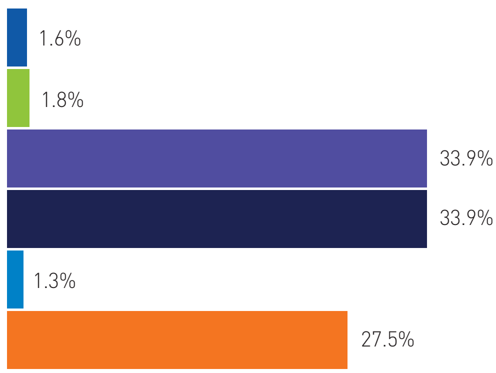


- Energy
- Materials
- Industrials
- Consumer Discretionary
- Consumer Staples
- Health Care
- Financials
- Information Technology
- Index
- Communication Services

Average market cap. (Equities Only) $382.0B

Fixed income allocation

Core Bond Pool Sector Allocation



Credit quality	Portfolio (%)
AAA	34.6
AA	27.6
A	19.1
BBB	15.2
BB	0.2
Non Rated Securities (Commercial Mortgages)	1.8
Cash and money market	1.6
	100.0

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

Current Yield (bonds): 3.16%

Repositioning for Q3 2024

Sold or reduced positions (-1.5%)

- Sold Global Payments Inc.

Bought or increased positions (+1.5%)

- 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% in Q2. 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 -1.36% in Q2, underperforming the respective benchmark by 2.45%. An overweight position in cash, Canadian, and global equities detracted from value, while an overweight in fixed income added slightly to performance. Underperformance in Q2 was led by Bank of Montreal, Restaurant Brands, and TD Bank, along with an underweight position in Materials. The Portfolio underperformed in Materials due to a rally in smaller-cap precious metal names and a widespread rally in base metals stocks—areas of the market that we tend to avoid given their highly cyclical nature and our focus on higher-quality larger-cap names.

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. 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.

On the fixed income component, there were positive absolute and relative returns. The Core Universe bond component had 0.12% of added value during the quarter with positive contributions from duration positioning and a small U.S. dollar currency allocation. Portfolio duration was managed actively through the period as rates oscillated within a range. Credit spreads widened marginally and security selection within Financials detracted slightly.

Preferred shares performed well in Q2, as the Bank of Canada delivered its first rate cut in the cycle which drove rates lower. Preferred shares as an asset class were also helped as there were several redemptions which drove price performance. However, the preferred share component of the portfolio underperformed the market in the quarter, with -0.44% underperformance. The Portfolio continues to be positioned defensively, with a larger fixed income exposure and lower fixed resets compared with the benchmark. The commercial mortgages component was an area of strength during the quarter, adding 0.43% of added value. On a YTD basis, commercial mortgages added 1.42% of value.

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 (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

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 July 9, 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, 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: 40% FTSE TMX Canada Universe Bond/30% S&P/TSX 60/30% MSCI World Net (CAD).

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