

# 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:**

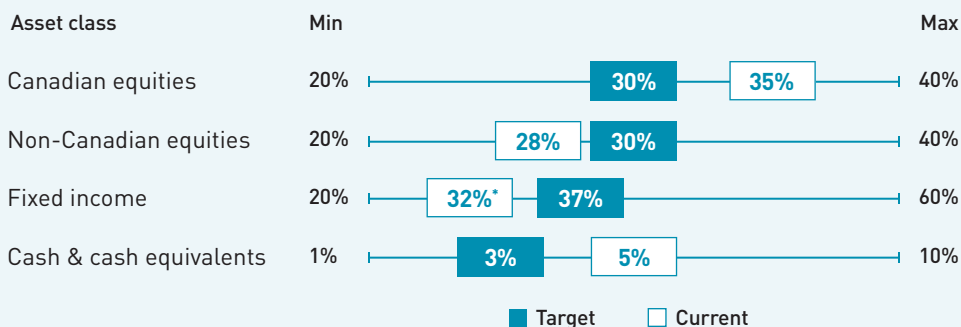
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OnPoint Managed Portfolios are distributed by *Credential Qtrade Securities Inc.*

## 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



- 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	26.9	6. Addenda Preferred Share Pooled Fund	2.8
2. Toronto-Dominion Bank	5.3	7. Bank Of Montreal	2.8
3. Constellation Software Inc	3.6	8. Linde Plc	2.6
4. Canadian Natural Resources	3.6	9. Canadian Pacific Railway Ltd	2.6
5. Dollarama Inc	3.0	10. Enbridge Inc	2.6

## Performance

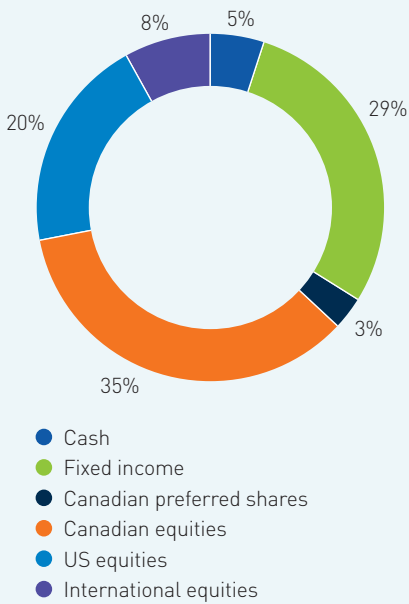
	QTD	YTD	1 yr	3 yr	5 yr	Since inception (Annualized)
Portfolio	5.6%	-7.8%	-7.8%	4.7%	5.9%	6.3%
Benchmark	4.2%	-9.9%	-9.9%	4.1%	5.1%	5.2%

\*including 3% in Addenda Preferred Share Pooled Fund

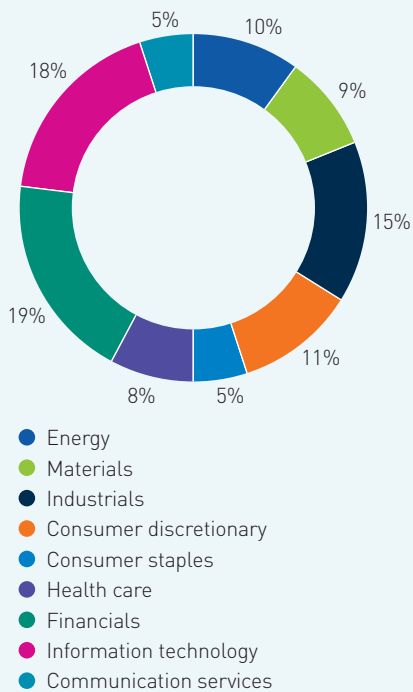
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## Asset allocation<sup>1</sup>



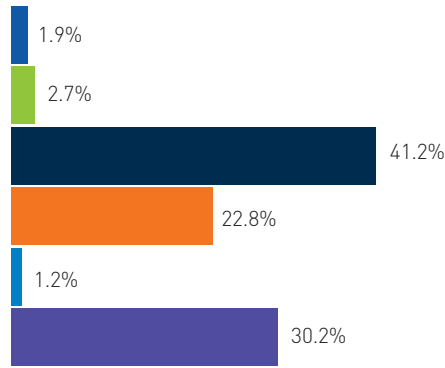
## Equities sector allocation<sup>1,2</sup>



Average market cap.  
(Equities Only) \$153.1B

## Fixed income allocation

### Core Bond Pool sector allocation



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

Current yield (bonds): 3.58%

Credit quality	Portfolio (%)
AAA	23.7
AA	32.0
A	23.7
BBB	16.0
Non-rated securities (commercial mortgages)	2.7
Cash and money market	1.9
	100.0



## Repositioning for Q1 2023



### Sold or reduced positions (-2.6%)

- Sold Brookfield Asset Management (BAM)
- Sold Bank of Nova Scotia
- Trimmed UnitedHealth Group



### Bought or increased positions (+2.6%)

- Increased Ball Corp.
- Increased Bank of Montreal (BMO)
- Increased Franco-Nevada

## Rationale:

- In December, **Brookfield** spun out its asset management business as a separate public entity, named Brookfield Asset Management (BAM-T) and the Holdco was renamed Brookfield Corp (BN-T). Essentially, the position in BAM.A has now become positions in BN-T (the Hold Co) & BAM-T (the asset manager). The manager believes that the pureplay asset manager (BAM-T) is an interesting investment opportunity. Brookfield Corp (BN-T) now trades at an exceptionally discounted valuation (25% discount to NAV and 50% discount to the Intrinsic Value estimate) and retains a 75% interest in the asset manager. As such, significant exposure to the asset manager is retained via investment in Brookfield Corp at a more favourable valuation. Within a concentrated portfolio with a limited number of holdings, BAM was sold and BN was retained.
- **Scotiabank** was liquidated with the proceeds added into BMO. Scotiabank has lower sensitivity to higher rates than some of the other Canadian Banks, lower capital levels and reserve levels. Recent news of the Scotiabank CEO succession plan also introduces some uncertainty. The manager continues to add BMO this quarter. As highlighted previously, the bank 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.
- **Franco Nevada** was increased as the outlook for gold has improved with the recent shift in China's zero covid policy (China is the largest buyer of gold) improving the outlook for Chinese spending and economic growth in 2023. More importantly, geo-political concerns have led to record buying of gold from central banks in countries such as China and Russia as they attempt to shift away from the US dollar. The net result is that financial drivers such as the level of interest rates (higher real rates leading to lower gold prices) which explained 90% of the movement in gold prices historically, have taken a back seat to other demand drivers and may do so for the foreseeable future. Interest rate differentials globally also support a weakening US dollar which had been a headwind for gold prices in 2022. The recent collapse in crypto currencies due to fraud concerns at FTX (leading to increased regulation) should also improve gold demand. For all of these reasons, the manager is much less bearish on gold entering 2023 and like the negative correlation that exists between precious metals and other equity industries during periods of broad-based equity weakness (i.e. improves portfolio risk/reward by reducing volatility).



- Within foreign equities, **UnitedHealth**, the most successful health insurance company in the world, has built an enviable business across not just managed care, but also their own Pharmacy Benefit Manager (PBM) and, through that, a meaningful data analytics business. The company's stock has performed consistently well and at this point has grown to be the largest holding in the Portfolio. The manager trimmed the position as it is prudent to take some gains in the stock. Even after the current sale, it remains one of the largest positions in the global component of the Portfolio.
- **Ball** is the leading provider of aluminum containers to the beverage industry. The Covid-19 pandemic resulted in strong demand growth for aluminum cans and containers, driving industry growth over the last few years. As the economy slows, beverage demand and therefore can demand growth is also slowing. For Ball, this provides an opportunity to drive efficiency gains that strong demand prevented them from realizing since their acquisition of Rexam. This will help improve margins, insulating results during a downturn in demand, while positioning them for strength in the long run. Anticipation of slower demand has driven the stock down and provided an attractive opportunity to add to the position.



# Quarterly commentary

The fourth quarter of 2022 bore positive results in many asset classes, though these gains did not offset the losses earlier in the year, with all major equity markets posting negative absolute returns over the year. The Bank of Canada slowed its pace of monetary policy tightening by raising the overnight target rate by 100 basis points (bps - 1/100th of a percent) during the third quarter to 4.25%. Similarly, the Federal Reserve tightened by a total of 125 bps, finishing the year at a target range of 4.25% - 4.50%. Both Central Banks suggested that they have not finished tightening for this cycle. Within bonds, rates rose across the curve even as the Bank of Canada signaled a slower pace of tightening and inflation data continued moving lower. Short term rates rose more than longer term. Corporate spreads narrowed during the quarter after hitting the widest levels of the year in October, supported by a positive overall tone for risk markets. Equity markets rebounded strongly after hitting the lowest levels of the year in October, on expectations that Central banks are nearing the end of monetary policy tightening. Canadian stocks rallied strongly through the Fall on China reopening expectations, softer inflation data, and signaling from the Fed described above. The Information Technology sector was the strongest in the quarter, though is still down significantly on the year. Global equities delivered strong positive performance rebounding off the low levels of the year in October. Sector performance was mostly positive, with Energy, Materials and Industrials leading the way. The Canadian dollar appreciated versus its US counterpart during the quarter by 1.5%. The relevant index returns for this Portfolio in the fourth quarter were: S&P/TSX 60 Index (+5.56%), the MSCI World Index (CA\$) (+8.24%) and the FTSE Canada Universe Bond Index (+0.10%).

The Portfolio increased +5.57% during the fourth quarter, outperforming its benchmark by 1.35% (before fees) as a result of strength from all of the underlying asset classes. The Portfolio

further provided strong downside market protection over the one-year period and outperformed the benchmark by over 2.00%. Within the underlying components, the Canadian Equity portfolio exceeded its benchmark by 1.83% over the quarter due to positive stock selection and sector allocation. Further, the Canadian equity component preserved capital by generated a small positive return over the 1-year period despite the TSX being down over 6%. The global equity component also had a strong fourth quarter, returning 10.3% and exceeding its benchmark by 2.40%. Finally, the core fixed income component delivered positive absolute performance and modestly exceeded its benchmark as a result of the yield curve positioning, while the preferred shares component outperformed its underlying benchmark by 2.40%.

Looking forward, the manager expects global economic growth to slow in 2023 but remain positive as domestic demand is supported by strong labour market dynamics and excess household savings. As a result of tight labour markets, the unemployment rate is not expected to increase much. However, the risk of recession increases as the year progresses due to the maintenance of restrictive monetary policy. Inflation pressure should continue to moderate throughout 2023 but will remain above central bank targets in terms of both level and scope. Structural changes to inflation such as onshoring (less globalization), labour force changes (increased retirements, quiet quitting, WFH, Gig economy) and decarbonization costs (Net Zero) may have longer-term impacts. Against the backdrop of slowing economic growth but higher than target inflation, central banks will focus on price stability and will not pivot to stimulate growth in the near term. In light of this view, the manager continues to maintain a higher cash allocation and look for opportunities to reinvest into fixed income as rates rise and/or equities at better valuation levels.

# 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.**



## 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<sup>3</sup>)

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<sup>4</sup>
- Addenda is a United Nations Principles for Responsible Investment (PRI) signatory

<sup>1</sup> As of January 10, 2023 after quarterly rebalancing unless otherwise stated.

<sup>2</sup> Excludes Canadian Preferred Shares

<sup>3</sup> GARP (Growth at a reasonable price)

<sup>4</sup> 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, December 31, 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).

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