Q2 2023

OnPoint Managed Portfolios

Fiera Balanced

Quick facts

Inception date:
November 30, 2018

Asset class:
Balanced

Minimum investment:
$100,000

Avg. number of holdings:
20–35

Investment manager:
Fiera Capital

Investment manager assets under management:
$164B

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	15%	30%	28%	45%
Non-Canadian equities	15%	30%	32%	45%
Fixed income	30%	37%	37%	50%
Cash & cash equivalents	1%	3%	3%	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 5–15 securities
  - Non-Canadian equities: Target 15–20 securities
- Fixed income: Fiera Core Plus Canadian Bond Universe Fund will 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.

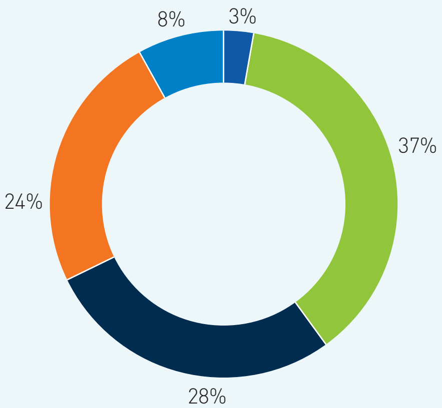
Top ten holdings (excluding cash and cash equivalents) %

1.	Fiera Core Plus Canadian Bonds Universe Fund	38.0
2.	Franco Nevada Corp	4.1
3.	Visa Inc	3.9
4.	Cdn Natl Railway	3.5
5.	Danaher Corp	3.3
6.	Toronto Dominion Bank	3.1
7.	Thomson Reuters Corp	3.1
8.	S&P Global Inc	3.1
9.	Microsoft Corp	3.0
10.	Telus Corp	2.9

Performance

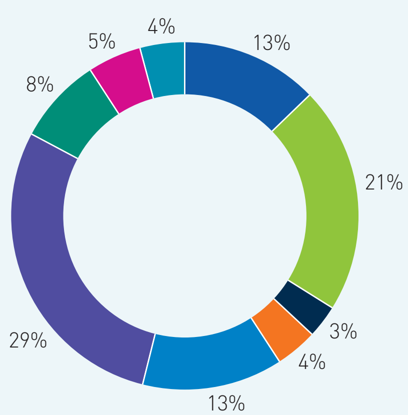
	QTD	YTD	1 yr	2 yr	3 yr	Since Inception (annualized)
Portfolio	0.1%	5.3%	9.1%	0.1%	3.1%	5.7%
Benchmark	1.6%	6.5%	10.7%	0.8%	5.7%	6.5%

Asset allocation[1]



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

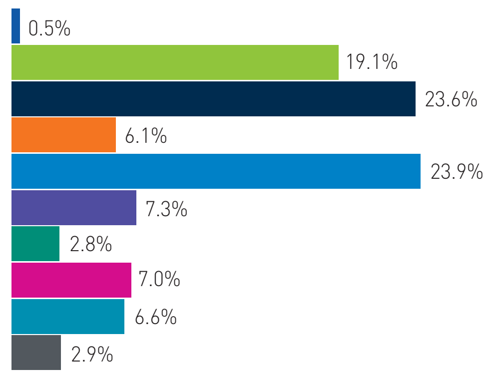
Equities sector allocation[1,2]



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

Average market cap. $245.0B

Fixed income allocation



Credit quality	Portfolio (%)
AAA	21.7
AA	27.3
A	13.1
BBB	15.3
Below BBB	8.4
Non Rated Securities	14.1
Cash and Money Market	0.1
	100.0

- Cash & Money Market
- Federal Bonds
- Provincial Bonds
- Municipal Bonds
- Investment Grade Corporate Bonds
- High Yield Corporate Bonds
- Commercial Mortages
- Private Debt
- Real Estate Financing
- Infrastructure Debt

Current Yield: 4.15%

Repositioning for Q3 2023

Sold or reduced positions (-2.0%)

- Sold CBRE Group
- Trimmed cash

Bought or increased positions (+2.0%)

- Initiated a new position in Canadian Pacific Kansas City
- Increased HDFC Bank

Rationale

- **Canadian Pacific Kansas City:** Merger of CP Rail and Kansas City Southern would provide the company with potential for long-term double-digit earnings growth in a very high-quality durable franchise.
- **CBRE:** To make room for CP, CBRE were exited. The manager still likes CBRE but feels that its year-to-date performance in light of some of the challenging conditions in commercial real estate makes it a good candidate to be replaced by the higher quality franchise in CP.
- **HDFC:** The manager continues to favour the prospects for the Indian Economy and for HDFC Bank due to its recent merger with HDFC Ltd. This merger will make HDFC the 10th largest bank in the world and offer many new opportunities for growth and margin expansion.

Quarterly **commentary**

Market Review

In the second quarter of 2023 volatility took over as the rally that had marked the beginning of the year was somewhat dampened by continuing concerns around a potential recession. With inflation slowing and a resurgence in mergers & acquisitions activity, technology companies continued their rise while more defensive areas of the market struggled. The strongest performing sectors were Information Technology (13.9%) and Consumer Discretionary (8.1%), with Materials (-5.1%) and Real Estate (-2.3%) the biggest laggards.

After a range bound start to Q2 2023, rates resumed the uptrend in the second half of the quarter as unexpectedly sticky core-inflation, stronger than expected growth and tight labour markets forced major central banks to deliver rate hikes. Despite market volatility, we saw some improvement in credit sentiment. Inflation continued to remain the key theme for global central banks. The FTSE Canada Universe Bond Index delivered a negative 0.7% return on the quarter.

After a pause at the previous two meetings, the Bank of Canada (BoC) delivered a surprise hike in June as inflation remained "stubbornly high" and consumption "surprisingly strong". The labour market remained tight with strong immigration and workforce participation. Headline inflation eased from 4.4% in May to 3.4% in June, in line with BoC's expectation of inflation softening to around 3% this summer due to lower energy prices and favourable base effects. While the results were indeed a step in the right direction, the deceleration may not be enough to quash bets for another rate hike in the coming months – as excess demand continues to remain persistent. However, there are signs that rate hikes are starting to work their way through the economy, particularly when observing the moderation in sentiment and expectations in the Business Outlook Survey.

With the majority of rate hikes behind us, credit markets performed strongly this quarter and issuances gradually re-gained steam by the end of the quarter. The average credit spread on high-quality corporate bonds tightened by approximately 0.17%. The spike in short term rates was somewhat compensated by a stronger rally in shortterm corporate credit spreads.

Attribution Analysis

Equities

In the second quarter of 2023, the strategy underperformed its benchmark index.

Among the leading contributors to performance over the quarter were Microsoft and S&P Global. Microsoft has always been a well-run, quality business, however, with last quarter's earnings call, Investors began to see the opportunity embedded in Microsoft due to its leading position in artificial intelligence. Some of the highlights include the fact that they think their AI and Data business can grow from $16 Billion today to $26 Billion by 2026. Moreover, they expect that their growth opportunities afford them the ability to grow to $500 Billion in total revenue by 2030 from approximately $200 Billion today. S&P Global has once again captured investors' attention as their ratings business has begun to rebound. However, investors are also beginning to recognize the lead that S&P has in its generative AI capabilities. S&P has been building its AI capabilities since 2018 when it bought Kensho a leading player in machine learning and AI. According to a recent analyst report S&P has a greater exposure to AI than Microsoft.

Significant detractors over the quarter were Brookfield Renewable and Danaher. We wrote about the strong investment characteristics of Brookfield Renewable last quarter as it was one of our best performers. It is still up over 13% on a year-to-date basis, however, pulled back this quarter as investors rotated out of the utility sector. The management of Danaher have proven themselves over decades to be great capital allocators. All of their businesses have strong recuring revenues and leading market positions, however, in the latest quarter they indicated that some of their customers were working down inventories of Danaher products. While this is not great in the short term, it sets up Danaher well in the future when clients need to restock.

During the quarter, we added a position in Canadian Pacific Kansas City. The Canadian rails have always been highly attractive investments due to the near impossibility of replicating their service and the fact that they are more efficient and environmentally friendly than trucking. The recent acquisition of Kansas City Southern Railway gives the company an even broader reach with the railroad having access to three countries, including Mexico and the US Gulf Coast. Whenever railroads have added pieces and extended their footprints, they have historically been able to create better revenue opportunities, especially relative to trucking. We see early evidence of this unfolding in the first few months post-acquisition and believe the current management team can create significant shareholder value post-acquisition. In order to make room for CP, we sold CBRE. While we continue to like what CBRE has done to lower its cyclicality, we believe that the combination of CP and KCS, has more earnings visibility and is a higher quality asset.

Fixed Income

During the quarter, the Fiera Canadian Core Plus Universe Bond strategy outperformed its benchmark. The credit allocation across public investment and non-investment grade, as well as private credit, was a positive contributor in the quarter. The overweight exposure to US High Yield BB-B rated bonds, where spreads were about 0.46% narrower in the quarter, benefited the performance. Exposure to long maturity high quality infrastructure debt also added value to strategy returns. We maintained a longer portfolio duration than the benchmark, however the rise in yields means the positioning was not favourable.

Within the expanded opportunity set, we added value over the quarter with positive returns across private corporate, real estate and commercial mortgage strategies. Notably, our core position in the Canadian Real Estate Debt strategy has been thriving in the rising interest rate environment given that 100% of the Portfolio is in floating rate loans. We remain overweight in public and private credit, underweight in provincial, as we believe the former provides a more compelling yield compensation, but acknowledge the potential for volatility over the remainder of the year.

The Portfolio remains close to its neutral plus target allocation of 25% across both public investment and non-investment grade asset classes, as well as private credit. The strategy has a 0.67% yield advantage relative to the benchmark at the end of the quarter.

Outlook

The markets have pushed out their expectations for rate cuts to the delight of central bankers, repricing yields higher. As a result, the yield curve inversion has deepened. Inflation, employment, financial stability and tighter financial conditions will be the key drivers for the direction of bond yields. However, we expect the lagged flow through of rate hikes to take bite over the next several quarters and the economy to slow. This makes us cautious and is leading to defensive positioning. We also believe the Federal Reserve is close to pausing, even as they attempt to guide the market higher on policy rates. On the contrary, Canadian and US labour markets have remained strong, but we expect the unemployment rate to rise as restrictive monetary policy continues to work its way through the real economy. We anticipate the year will be one defined by volatile price action and quickly shifting macro narratives.

Given these risks and the current level of interest rates, we will maintain the portfolio duration modestly longer than that of the Index. In addition, we remain focused on an overweight to mid-term bonds that would benefit from a steepening of the Government of Canada curve. Given the economic outlook, we will continue to be selective and prudent in corporate bonds where relative value opportunities are present and underweight provincial bonds. We believe the allocations to plus sector will provide diversification and yield enhancement in the market that is expected to be volatile over the next year.

The equity component continues to be composed of high-quality businesses that can withstand tough times. Even after this strong year, the Portfolio is currently trading at an attractive discount to its intrinsic value. Both of these should position the Portfolio well for long-term compounding of returns.

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

With more than $180 billion in assets under management, independent firm Fiera Capital is one of Canada's leading investment managers recognized for its excellence in portfolio management, innovative and personalized investment solutions, and its ability to surpass client expectations. Fiera offers a unique expertise in both traditional and absolute return investment strategies.

Management style

Canadian equities (GARP[3])	Global equities (GARP[3])	Fixed income (Core Plus)

Investment philosophy

Fiera targets to deliver a superior portfolio by investing in a focused number of companies run by great management teams diversified across global regions and industries. In addition, the manager also believes in active bond management that adapts to changes in the economic, financial and political environments to deliver value.

Investment process and risk controls

Fiera conducts a thorough fundamental research to implement their equity strategy. They believe that focusing on a concentrated model of 25 equity companies enables them to become familiar with all critical aspects of a business. The manager follows 10 internally developed company criteria which consist of both qualitative and quantitative metrics.

The fixed income component employs four types of analysis (fundamental, technical, sentiment and seasonality) around a well disciplined and structured process that invests in high quality securities. Specific risk metrics are calculated periodically to minimize the default risk, and to maintain the calibration of each strategy within the overall risk budget of the portfolio.

Key strengths

- Disciplined investment approach based on in-depth fundamental analysis
- Rigorous research and risk management process
- Superior and consistent performance
- Committed to integrating environmental, social and governance (ESG) criteria into the firm's investment processes, and how they do business
- Fiera is a United Nations Principles for Responsible Investment (PRI) signatory[4]

[1] As of July 10, 2023 after quarterly rebalancing unless otherwise stated.

[2] Dividend Yield (Equities) 1.93%

[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, 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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