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:
$35B

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%	28%	40%
Fixed income	20%	37%	32%*	60%
Cash & cash equivalents	1%	3%	5%	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)

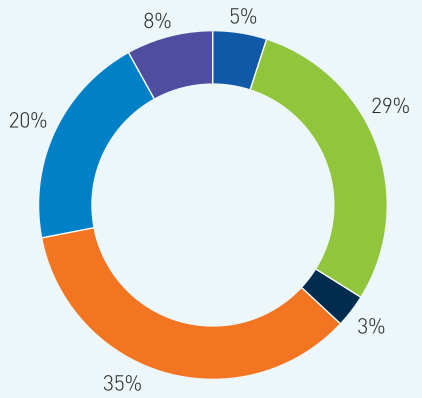
1. Addenda Bonds Universe Core Pooled Fund 26.4
2. Toronto-Dominion Bank 5.0
3. Constellation Software Inc 4.2
4. Canadian Natural Resources 3.5
5. Dollarama Inc 3.1
6. Addenda Commercial Mortgages DC Pooled Fund 2.8
7. Bank Of Montreal 2.6
8. Canadian Pacific Kansas City 2.6
9. SAP 2.3
10. Visa Inc 2.3

Performance

	QTD	YTD	1 yr	3 yr	5 yr	Since inception (Annualized)
Portfolio	1.7	5.1	10.0	7.0	6.3	6.5
Benchmark	1.6	6.5	10.7	5.7	5.9	5.7

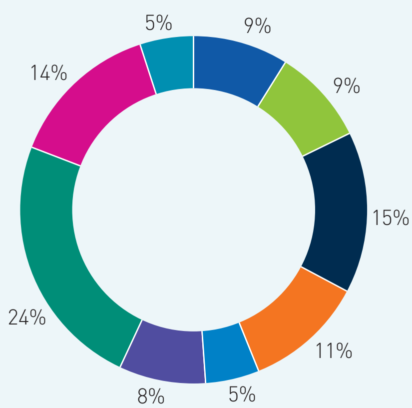
*including 3% in Addenda Preferred Share Pooled Fund

Asset allocation[1]



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

Equities sector allocation[1,2]

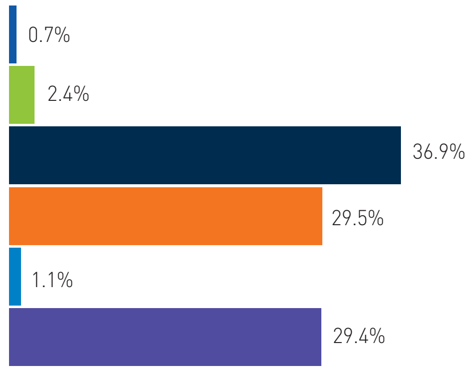


- Energy
- Materials
- Industrials
- Consumer discretionary
- Consumer staples
- Health care
- Financials
- Information technology
- Communication services

Average market cap.
(Equities Only) $185.4B

Fixed income allocation

Core Bond Pool sector allocation



Credit quality	Portfolio (%)
AAA	30.3
AA	31.8
A	19.9
BBB	14.9
Non-rated securities (commercial mortgages)	2.4
Cash and money market	0.7
	100.0

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

Current yield (bonds): 3.43%

Repositioning for Q3 2023

Sold or reduced positions (-2.4%)

- Trimmed Canadian National Railway
- Trimmed CGI
- Trimmed Alphabet
- Trimmed Restaurant Brands
- Trimmed SAP
- Trimmed Addenda Preferred Share Pooled Fund

Bought or increased positions (+2.4%)

- Initiated a new position in CCL Industries
- Increased Diageo
- Increased Middleby Corp.
- Increased Addenda Commercial Mortgage Pooled Fund

Asset mix changes:

Exposure to preferred shares, which can be volatile in the current interest rate environment was trimmed. The proceeds went to the Addenda Commercial Mortgage Pooled Fund which has a short-duration and attractive yield.

Within Canadian equities:

- A position in **CCL Industries** was initiated to improve diversification and the overall risk/reward of the Portfolio. CCL Industries produces a wide range of specialty packaging products for large multi-national companies in the consumer packaging, healthcare, consumer electronic device, and automotive markets. The manager likes the competitive advantage that CCL has by being the world's largest converter of pressure sensitive and specialty extruded film materials.
- To fund the purchase, CGI and Restaurant Brands were trimmed after strong gains. Canadian National Railway, a stock which has been consistently reducing over the past twelve months in order to focus on CP Rail, was also trimmed.

Within global equities:

- **Google** and **SAP** were trimmed to crystalize some gains, with proceeds added to existing positions in **Middleby** and **Diageo**.
- **Middleby** designs, manufactures, and markets premium products and equipment for use in commercial foodservice, residential kitchens, and food processing. The company has tripled its sales and quadrupled its profits since 2009. There was a disconnect between the stock's valuation and earnings potential which created an opportunity to add to the name.
- **Diageo** is the world's leading spirits company. The stock price performance year-to-date has been affected by concerns around its US market performance. However, growth of its key brands has strengthened its position in the US and was in a strong position to grow sales and gain market shares. Valuation looked attractive and the manager seized this opportunity to add to the position.

Quarterly **commentary**

Global equities performed well during the quarter with the advance led by developed markets, notably the US. Enthusiasm over AI (Artificial Intelligence) boosted technology stocks. During the quarter, equity markets defied expectations and overcame various sources of uncertainty, including persistent inflation, central bank rate hikes, the debt ceiling, and weak economic data from China. These concerns were disregarded as markets responded positively to recent robust economic indicators, such as accelerated real GDP growth, strong housing figures, and a resilient consumer base. Economic activity has proven more resilient than anticipated, thanks to a robust job market that has led to significant growth in real income for consumers. Additionally, elevated levels of checking and savings accounts have resulted in the economy being less sensitive to higher rates in the short term.

The US broad market index rose by 8.74% in Q2, which was largely attributable to gains in the Technology sector and strong advances in the mega-cap tech names. Canadian equities also participated in the market rally, but to a smaller extent as the S&P/TSX Composite Index rose by 1.10%. While the equity market gained momentum, the picture was quite the opposite in the bond market, as rates were volatile across the curve with an upward bias. Strong employment and inflation data led the Bank of Canada to raise its overnight target rate by 25 basis points (bps) to 4.75% in June after being on hold for 5 months. The Federal Reserve also hiked rates by 25 bps in May, bringing their target range to 5.00 – 5.25%. Both Central Banks suggested that they may need to tighten policy further as the real economy continues to show resiliency. This resulted in Canadian Government bond yields to rise. Two-year yields rose over 80 bps while ten-year yields rose approximately 33 bps causing the 2-10 year curve to move to 132 bps inverted. Corporate spreads narrowed during the second quarter driven by strong demand from investors.

The Portfolio participated in the market rally that occurred during the quarter, returning +1.69% (before fees) and adding 13 bps of relative value. Within the underlying components, Fixed Income, Commercial Mortgages and Canadian equities outpaced their benchmarks, while the Global Equity component lagged. The Portfolio's modest off-benchmark allocation to Preferred Shares also trailed its benchmark. The Preferred Share market was on soft footing entering the second quarter, when the Canadian Government announced a new budgetary change by eliminating the dividend tax exemption for Canadian corporations.

In terms of outlook, strong YTD economic data has prompted economists to raise their 2023 GDP forecasts for Canada and the US, while postponing their recession predictions until 2024. The market is priced for a soft-landing scenario. Supporting this scenario is the resilient consumer, a tight labor market, and a rebound in housing activity, among other factors. However, achieving a soft-landing hinge on a flawless disinflation process, which has not historically occurred without a recession, particularly when considering persistent core inflation. The manager expects that North American economies will be resilient and deliver positive, although slowing, growth in 2023. The rate of inflation will decline but be more persistent and higher than expected which will cause Central Banks to maintain tight policy. In the first half of 2024, slowing economic momentum may result in falling rates as the bond market prices-in a recession and a pivot in monetary policy. Commodity, energy, and agricultural prices should stay firm through 2023 which supports a large portion of the Canadian equity markets but will be negative on corporate margins overall. There is also the risk of larger valuation adjustments for US equities as earning outlooks are reduced. As such, the manager will continue to have a tactical excess cash position and remain defensive in the equity components.

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 July 11, 2023 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, 2023, 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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