Q3 2023

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:

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%	37%	40%
Non-Canadian equities	20%	30%	28%	40%
Fixed income	20%	37%	32%*	60%
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 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[1] (excluding cash and cash equivalents) %

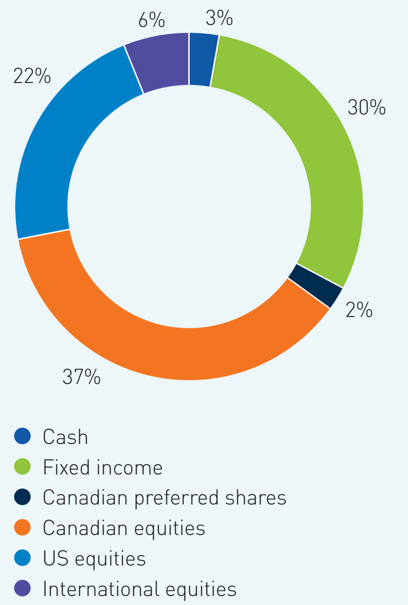
	Holding	%
1.	Addenda Bonds Universe Core Pooled Fund	27.6
2.	Toronto-Dominion Bank	4.9
3.	Constellation Software Inc	4.6
4.	Canadian Natural Resources	4.5
5.	Dollarama Inc	3.4
6.	Addenda Commercial Mortgages DC Pooled Fund	2.9
7.	United Health Group Inc.	2.6
8.	Canadian Pacific Kansas City	2.5
9.	Bank of Montreal	2.4
10.	WSP Global Inc.	2.3

Performance

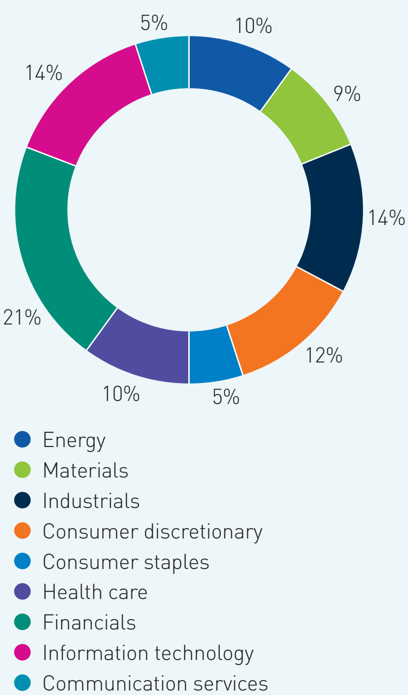
	QTD	YTD	1 yr	3 yr	5 yr	Since inception (Annualized)
Portfolio	-2.0%	3.0%	8.7%	4.9%	5.8%	6.1%
Benchmark	-2.7%	3.6%	8.0%	3.6%	5.2%	5.2%

*including 2% in Addenda Preferred Share Pooled Fund

Asset allocation[1]



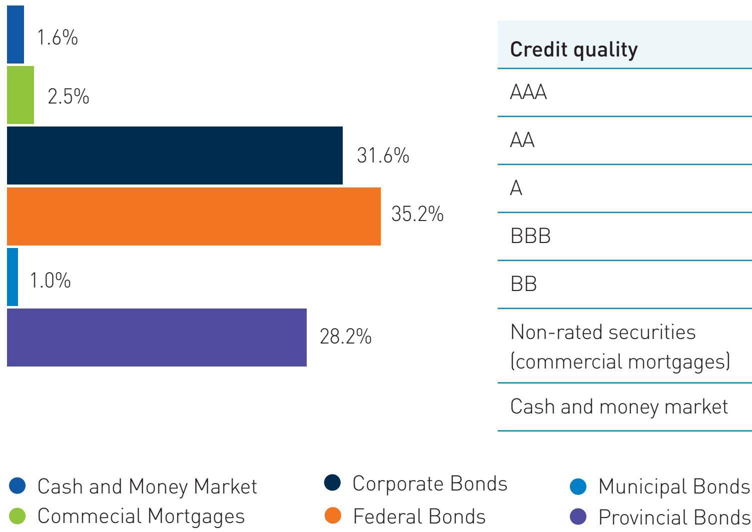
Equities sector allocation[1,2]



Average market cap. (Equities Only) $214.3B

Fixed income allocation

Core Bond Pool sector allocation



Credit quality	Portfolio (%)
AAA	35.9
AA	31.5
A	14.8
BBB	13.5
BB	0.3
Non-rated securities (commercial mortgages)	2.5
Cash and money market	1.6
	100.0

Current yield (bonds): 3.32%

Repositioning for Q4 2023

Sold or reduced positions (-4.0%)

- Sold Prudential
- Trimmed cash

Bought or increased positions (+4.0%)

- Initiated a new position in ResMed Inc.
- Increased Canadian Natural Resources
- Increased Restaurant Brands
- Increased Addenda Bonds Universe Core Pooled Fund

Rationale:

Asset mix changes:

The manager's economics team has lowered the probability for recession in the United States and feel that it is at or near the end of Federal Reserve interest rate hikes. As a result, the Asset Mix committee views the recent sell-off in stocks and bonds as creating an attractive buying opportunity for long-term investors. To that end, the Addenda Bonds Universe Core Pooled Fund and Canadian equities (existing positions in CNQ and QSR) were added via a reduction in the excess cash position. The manager also made a switch within the global equity component as noted below.

Within Canadian equities:

Canadian Natural Resources (CNQ) is the manager's preferred choice for E&P (Exploration & Production) exposure with the following key themes supporting the positive view on the stock:

- The manager sees shareholder returns increasing substantially, as the company soon achieves its debt-reduction targets and begins to pay out 100% of free cash flow to shareholders.
- CNQ valuation compares favourably to some of its international peers and should attract attention away from US shale investors.
- The manager's overall view on oil prices remains constructive, with global inventories tightening, demand remaining strong, and supply restricted via Saudi/OPEC cuts. CNQ is also preferred to better withstand weaker commodity price environments should oil prices decline from current levels.
- **Restaurant Brands** (QSR) has been a core holding for many years and was recently trimmed the position as the stock had increased 13% and the risk/reward was less compelling versus other alternatives at the time. Since then the stock has declined 15% and the manager has increased conviction in the long term turnaround taking place at both Burger King and Tim Hortons.
- QSR remains well positioned to grow organically with new restaurant unit growth and top line drivers (menu innovation, digital marketing, etc.) which are supportive of EPS/cash flow per share growth. Valuation is also compelling versus its closest highly franchised, global peers McDonald's and YUM brands.

Within global equities:

- Prudential, a UK based life and health insurer and provider of asset management services with a focus on Asian markets was sold and the proceeds were invested into ResMed, a US\Australian company that develops, manufactures, and markets medical equipment for the treatment of sleep disordered breathing.
- The manager sees better long-term growth potential in ResMed, as the company is well positioned to capitalize on the growth of the sleep apnea market, as more and more people are diagnosed with this condition. Growing uncertainties around the Chinese market have been weighing on Prudential and its long-term growth prospects have somewhat dimmed.

Quarterly **commentary**

During the third quarter of 2023, markets witnessed notable shifts in sentiment. Initially, optimism prevailed with hopes of a soft landing, spurred by US inflation below expectations. This sentiment persisted in the face of challenges, such as concerns over a "higher for longer" interest rate environment and China's economic fragility. However, as the quarter progressed, worries about persistent higher interest rates took hold, despite central banks staying on pause following a 0.25% rise in overnight rates by both the Federal Reserve and Bank of Canada. This sentiment resulted in markets declining in September, impacting higher-beta and interest rate sensitive sectors, while bond yields, particularly 10-years and longer, rose significantly. Despite early optimism, the quarter concluded with negative return of -2.2% for the S&P/TSX Composite Index, -1.4% for the MSCI World $CAD, and -3.9% for the FTSE Canada Universe Bond Index, reflecting the evolving market dynamics and ongoing uncertainties.

The Portfolio was not immune to these negative markets, declining -2.0% (before fees) during the third quarter; however, was able to provide some downside market protection by exceeding the benchmark by over 0.6%. Relative outperformance during the quarter was partly attributable to the tactical asset mix that benefited from the excess cash position and off benchmark allocation to commercial mortgages which provided a buffer to negative market returns. The modest exposure to preferred shares also added value as they performed better than both the equity and bond markets. Within the underlying components, the Canadian equity portfolio acted very defensively and significantly outperformed its benchmark by 2.5%. Notable outperformers during the quarter were Constellation Software, Canadian Natural Resources, and WSP Global. This was partially offset by weakness from the global equity component which trailed its benchmark due to a persistent underweight in US equities which outperformed international stocks during the period. Within the Fixed Income component, the Core Universe Bond Pooled Fund modestly trailed the broader bond market due to the duration and yield curve positioning.

In terms of outlook, many economists have increased their 2023 real GDP forecasts for Canada and the US due to strong year-to-date economic data, and they have pushed back their recession predictions until late 2024. The market still reflects expectations of a soft-landing scenario, supported by a robust consumer and a tight labor market. There is a concern however, that the market is also factoring in a prolonged period of higher interest rates and an elevated bond yield environment. As bond yields continue to climb higher and remain elevated, the probability of an unexpected downturn is indeed growing. The longer bond yields stay at these elevated levels, the more challenging it becomes to maintain hopes of achieving a soft-landing scenario. 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 remain defensive in asset mix positioning, as well within the underlying portfolios.

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.

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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 October 10, 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, September 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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