aviso wealth

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:
$37B

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%	29%	40%
Fixed income	20%	37%	32%*	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 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) %

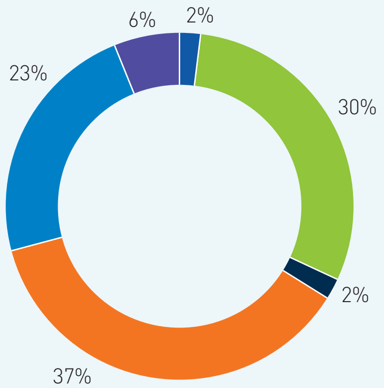
	Holding	%
1.	Addenda Bonds Universe Core Pooled Fund	27.3
2.	Constellation Software Inc	5.1
3.	Toronto-Dominion Bank	4.6
4.	Canadian Natural Resources	3.6
5.	Dollarama Inc	3.2
6.	Bank of Montreal	3.0
7.	Addenda Commercial Mortgages DC Pooled Fund	2.7
8.	Restaurant Brands Intern	2.5
9.	SAP SE-SponsoredADR	2.5
10.	Canadian Pacific Kansas City	2.4

Performance

	QTD	YTD	1 yr	3 yr	5 yr	Since inception (Annualized)
Portfolio	8.0%	11.2%	11.2%	6.4%	8.4%	6.8%
Benchmark	8.6%	12.5%	12.5%	4.7%	8.0%	6.0%

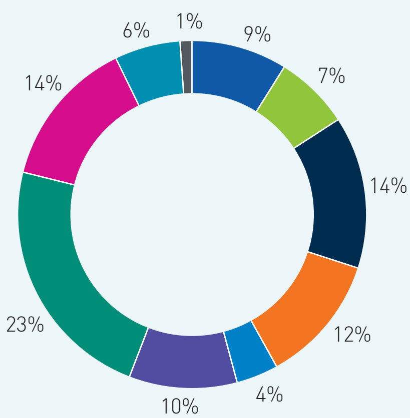
*including 2% in Addenda Preferred Share Pooled Fund

Asset allocation[1]



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

Equities sector allocation[1,2]

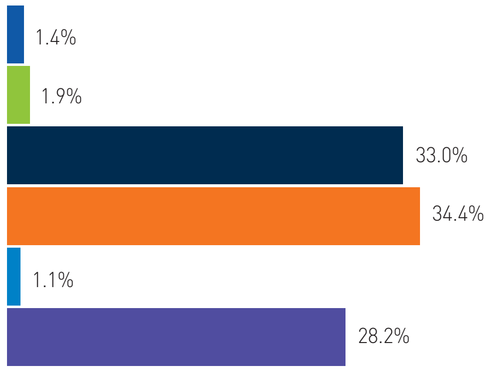


- Energy
- Materials
- Industrials
- Consumer Discretionary
- Consumer Staples
- Health Care
- Financials
- Information Technology
- Communication Services
- Index

Average market cap.
(Equities Only) $218.3B

Fixed income allocation

Core Bond Pool sector allocation



Credit quality	Portfolio (%)
AAA	35.2
AA	27.6
A	18.5
BBB	15.2
BB	0.3
Non-rated securities (commercial mortgages)	1.9
Cash and money market	1.4
	100.0

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

Current yield (bonds): 2.90%

Repositioning for Q1 2024

Sold or reduced positions (-1.8%)

- Trimmed Canadian Natural Resources (CNQ)
- Trimmed cash

Bought or increased positions (+1.8%)

- Initiated a new position in SPDR S&P 500 ETF (SPY)
- Increased Bank of Montreal
- Increased IQVIA Holdings

Rationale:

Asset mix changes:

Cash position was lowered to be as fully invested in the market as possible given a positive outlook for market returns in 2024. Most of the proceeds from this cash reduction are being deployed into the global equity allocation, specifically into the SPY position to get broad US market exposure and minimize unnecessary trades.

Within Canadian equities:.

The Bank of Montreal (BMO) was increased based on attractive valuation and an expectation that sentiment on Canadian Banks will improve over 2024 as Central Banks begin rate cuts.

The Bank of the West deal is closed and integration well underway with significant cost savings and earnings accretion to come through in 2024 and 2025, which provides BMO with an attractive earnings growth profile.

While it is the early stages of a significant mortgage refinance cycle for all banks, BMO has a strong credit history, and the manager looked for them to prove this out again this cycle. The bank appears well reserved. The bank's capital position is solid with Common Equity Tier 1 (CET1) ratio of 12.5% relative to the current regulatory minimum of 11.5%.

To fund the trade, **Canadian Natural Resources** (CNQ) was reduced after tactically increasing exposure in Q4. The rationale is two-fold.

- First, source of funds was needed for the increased positions and trimming CNQ will still leave the funds with close to a 10% weighting within the Canadian equity component.
- Secondly, it's a more challenging outlook for oil and gas to start this year. Average oil prices should be range bound (notwithstanding geopolitical risks), averaging in the low $70s/barrel, CNQ will still have strong free cash flow and a decent valuation, nevertheless, there are greater headwinds for oil in 2024 to warrant a small reduction in CNQ weight.

Within global equities:

A portion of cash reduction proceeds was added to IQVIA.

- IQVIA is a leading global company operating in the life science industry that helps to create connections across different aspects of health care. The company provides advanced technology, analytics solutions, and clinical research services to the life sciences industry including pharmaceutical and biotechnology companies, academic institutions, and governments.

- The key growth drivers are related to the progress of innovation in the life science industry, increased complexity, digital adoption in research & development, and outsourcing. With one of the largest collections of healthcare information globally, IQVIA is trying to help drug developers use data and analytics to make clinical trials more efficient and improve success rates.

Quarterly **commentary**

Q4 saw a dynamic shift in equities, beginning with a decline in October due to rising bond yields and recovering strongly in November and December, bolstered by favorable labor market data and a dovish pivot from the Federal Reserve. Gold thrived amidst geopolitical tensions, while WTI oil prices suffered. Q4 encapsulated a market adapting to changing economic signals, with December's rally highlighting sectors sensitive to bond yields. Despite a year marked by a US banking crisis, ongoing geopolitical conflicts, and substantial rate hikes, 2023 ended with robust equity performance, largely driven by a shift in interest rate expectations and robust economy. Cyclical sectors in Canada showed resilience, particularly Technology, while defensive sectors lagged. Despite recession concerns, the market ended on a strong note with low unemployment and controlled inflation.

Throughout the quarter, the S&P/TSX Composite Index's leading sectors were Information Technology, Financials, and Real Estate. Their strong performance was fueled by lower bond yields and expectations of rate cuts by the Fed in the coming year. The sole sector to register negative returns was Energy, impacted by falling crude prices due to concerns over excess spare capacity sitting with OPEC+. The Canadian market continues to trade at a lower than the historical average on multiple of earnings, reflecting earnings cuts over the next fiscal year due to an uncertain economic environment. The S&P/TSX Composite Index posted a positive total return of 8.1% in Q4, bringing the year-to-date total return to 11.8%.

Global equities had a strong performance in Q4, MSCI World Index returned 8.7% for the fourth quarter of 2023, for a strong 20.5% return for the full year 2023. In the quarter, all sectors reported positive returns except for Energy (-6.5%), which was impacted by the performance of crude oil, and finished the year slightly negative (-0.2%). Information Technology (14.6%) and Real Estate (14.3%) were the strongest performing sectors of the quarter. In 2023, sector performance varied widely, with a very large gap between the top three sectors (Information Technology, 50.9%; Telecommunication Services, 41.7%; Consumer Discretionary, 32.1%) and the bottom three sectors (Energy, -0.2%; Consumer Staples, -0.9%; Utilities, -2.4%).

The Bank of Canada and Federal Reserve held rates steady in the fourth quarter as inflation data continued to show signs of moving lower. Rates were extremely volatile across the curve, hitting new high levels in October and then falling aggressively into December. Short-term yields fell more than the longer-term as the market priced in rate cuts by Central Banks in 2024. The 2-10-year curve remained inverted by 0.78%. Provincial and Corporate credit spreads narrowed during the fourth quarter, supported by strong equity market performance and investor demand.

The Portfolio had a total return of 8.0% in the fourth quarter, lagging the respective benchmark return by 0.6%. An overweight position in cash and fixed income along with weak security selection within the global equity component accounted for the variance.

Canadian equities underperformed the TSX benchmark by 0.62% in Q4 but added 3.85% on the year. Strong relative performance from Brookfield (+25%), Roger's Communications (+20%), and Constellation Software (+17%) was insufficient to offset the relative weakness in CNQ (0%), WSP (-3%) and Franco Nevada (-18%). On a YTD basis, key outperformers were Constellation Software (+59%), Brookfield Corp (+26%), Restaurant Brands (+22%), CGI, (+22%), CNQ (+21%) and Dollarama (+21%).

The global equity component performed in line with the benchmark during Q4 but was the primary detractor of value during the 1-year period. Security selection within the Information Technology and Consumer Discretionary sectors, notably avoiding many of the "FANG" stocks, was the primary driver of underperformance. The underlying philosophy and process of the strategy results in us avoiding securities with high valuations or those that rally despite weak fundamentals. This can cause us to underperform in "frothy" markets that are narrow in breadth and is the type of market environment we find ourselves in.

Despite ongoing recession predictions, the economy remained resilient with low unemployment and moderating inflation. The "soft landing" approach of the Fed appears to have mitigated a severe economic downturn, leading to a potentially mild recession, if any. The upcoming election year adds an optimistic dimension to the market outlook. However, moving into 2024, our optimism is cautiously tempered due to the lingering effects of past rate hikes, current bullish sentiment, and elevated valuations, which all raise questions about the sustainability of the rally seen in 2023.

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 January 10, 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, December 31, 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).

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