Q3 2024

Managed Portfolios

Addenda Income Growth

Quick facts

Inception date:
February 29, 2016

Asset class:
Balanced

Minimum investment:
$100,000

Avg. number of holdings:
20–35

Investment manager:
Addenda Capital

Investment manager assets under management:
$40B

Portfolio risk:

Low to Medium

aviso wealth

What does the Portfolio invest in?

The portfolio invests in a diversified portfolio of fixed income securities, Canadian dividend-paying equity securities, Canadian Real Estate Investment Trusts (REITs), preferred shares, US equity securities, exchange traded funds (ETFs), and money market instruments and/or cash equivalents.

Asset allocations

Asset class	Min	Target	Current	Max
Equities	10%	35%	40%	50%
– Canadian dividend & REIT equities	10%	35%	34%	50%
– Non-Canadian equities	0%	0%	6%	10%
Fixed income & Preferred shares	50%	62%	57%	90%
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. Canadian dividend & equities: Target 10-20 securities. US equities: Target 0–20 securities
- Fixed income: Includes 5% to 35% in units of the Addenda Universe Core Bond pooled fund, 15% to 50% in Addenda Bonds Corporate Core pooled fund, 0% to 30% in Addenda Commercial Mortgage pooled fund, 0% to 20% in Addenda Preferred Share pooled fund, and / or Canadian fixed income ETFs.

Suitable for investors whose objective is to achieve income and 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) %

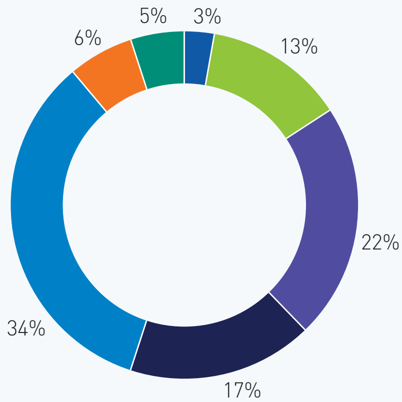
1. Addenda Bonds Corporate Core Pooled Fund 21.6
2. Addenda Commercial Mortgage DC Pooled Fund 17.4
3. Addenda Bonds Universe Core Pooled Fund 13.0
4. Bank Of Montreal 5.5
5. Addenda Preferred Share Pooled Fund 5.4
6. Toronto-Dominion Bank 2.9
7. Bank Of Nova Scotia 2.8
8. WSP Global Inc 2.8
9. Canadian Pacific Kansas City 2.6
10. Restaurant Brands Int'l 2.5

Performance

	QTD	YTD	1 yr	3 yr	5 yr	Since inception (Annualized)
Portfolio	7.4%	7.9%	15.6%	4.2%	5.2%	5.6%
Benchmark	8.8%	11.2%	19.6%	3.2%	4.7%	5.4%

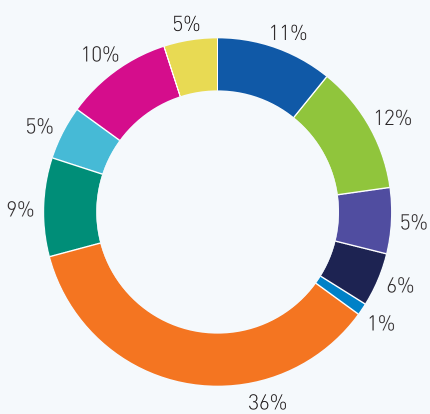
Q3 2024

Asset allocation[1]



- Cash
- Addenda Bonds Universe Core Pooled Fund
- Addenda Bonds Corporate Core Pooled Fund
- Addenda Commercial Mortgage DC Pooled Fund
- Canadian Dividend and REITS
- US Equities
- Canadian Preferred Shares

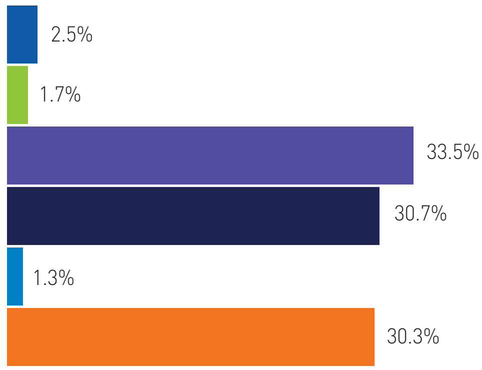
Equities sector allocation[1]



- Energy
- Industrials
- Consumer Discretionary
- Health Care
- Index
- Financials
- Information Technology
- Communication Services
- Utilities
- Real Estate

Fixed income allocation

Core Bond Pool Sector Allocation

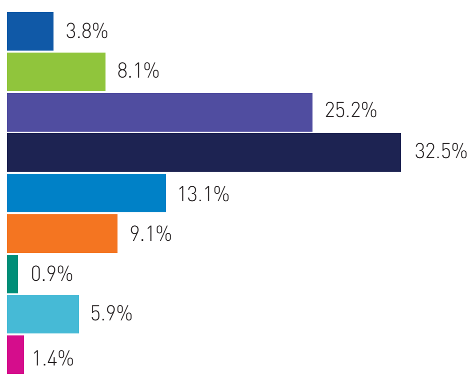


Credit quality	Portfolio (%)
AAA	31.4
AA	30.2
A	18.9
BBB	15.1
BB	0.2
Non Rated Securities (Commercial Mortgages)	1.7
Cash and money market	2.5
	100.0

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

Current Yield: 3.22%

Corporate Core Bond Pool sector allocation



Credit quality	Portfolio (%)
AAA	1.4
AA	0.2
A	46.6
BBB	47.3
BB	0.7
Cash and money market	3.8
	100.0

- Cash and Money Market
- Communication
- Energy
- Financial
- Industrial
- Infrastructure
- Maples
- Real Estate
- Securitization

Current Yield: 4.26%

Average market cap. (Canadian equities only) $62.7B
(US equities only) $2142.2B
Weighted Combined Yield to Maturity (Total Portfolio)[2] 4.28%

Repositioning for Q4 2024

Sold or reduced positions (-3.2%)

- Sold Nutrien
- Sold South Bow
- Trimmed BCE
- Trimmed Rogers Communications
- Trimmed TD Bank

Bought or increased positions (+3.2%)

- Initiated a new position in Canadian Pacific Kansas City (CP KC)
- Increased Scotia Bank
- Increased Pembina Pipeline

Rationale:

Asset mix changes:

No changes.

Within Canadian equities:

BCE & Rogers Communications were reduced on a lower level of conviction in Canadian Telecos, reflecting intense wireless competition, slowing population growth and capital allocation concerns.

We received South Bow Corp (SOBO) shares this quarter as a spinoff of the liquids pipeline business from TC Energy. We recommend eliminating this small position. We continue to hold TC Energy shares and will add to Pembina as a higher conviction Energy infrastructure holding. Pembina completed the acquisition of Alliance gas pipeline system and Aux Sable NGL processing assets in the spring, as well as tuck-in gas assets that will enable the company to generate above sector earnings and cash flow growth.

With growing gas volumes in the WCSB and LNG Canada coming into service in 2025, we believe that the company's strategic assets in BC Montenay will lead to higher utilization and growth opportunities, funded by free cash flow and a well-managed balance sheet (debt/EBITDA target range of 3.5x-4x). Supported by an attractive 5% dividend yield, the shares are trading at the low end of their 10-year trading range a presenting a compelling risk/reward opportunity for investors.

Nutrien were eliminated to fund more compelling opportunities. While the stock has underperformed and offers a compelling dividend yield, we do not see an obvious catalyst for a rerate higher in the medium-term as weak crop prices are likely to lead to reduced fertilizer demand as farmers manage costs. Lower demand and poor execution in Brazil may also impact the Retail division and make it challenging to meet the 2026 guidance provided for this segment.

TD Bank has reached a resolution on the previously disclosed investigations related to its U.S. Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) compliance programs in the US after several years of engagement with regulators and authorities. The resolution is multifaceted and includes significant fines (these fines were already known & provisioned for), the need to enhance practices (already well underway) and increased oversight. As the market awaited this final resolution, the wildcard was whether the US regulators would impose an "asset cap" on the bank. It was a known possibility but considered a lower probability outcome, and not our base case assumption. As such, the news that TD's US subsidiaries will be subject to an asset cap (assets cannot exceed the Sept 30 balance of US$434Bn) was a negative development. On a call with analysts and investors, the bank also communicated more details about the ongoing costs of the remediation effort and other near term implications. Our negativity was tempered by the facts that: this only applies to the US retail bank (25% of earnings) and it doesn't mean that earnings can't grow from the US division in the medium-term. However, given the significant operational and cultural deficiencies identified by the regulators and uncertainty around the earnings outlook, the position was trimmed and added to Scotia Bank and the new position below.

Canadian Pacific Kansas City (CP KC) Rail was initiated as a new position in this portfolio. The stock offers a modest 0.7% dividend yield but offers attractive diversification benefits to the portfolio and a compelling total return opportunity in our opinion. The stock has lagged the broader market performance for the past year and the recent selloff offers an attractive valuation opportunity. The combined CP KC platform is best in class, with an impressive Canada-US-Mexico rail network and access to 5 ports. The company is on track to achieve the $1 billion in cost and revenue synergies they committed to at the time of the merger. We believe this estimate is conservative and the company will be able to generate significant shareholder value over the coming years.

Quarterly commentary

Markets began the quarter after a strong performance for the month of June, followed by a volatile end to the month of July that continued into early August. The global declines stemmed from concerns surrounding US economic growth, after the US payrolls for July came in below expectations. This, combined with a rising US unemployment rate, suggested that there could be a higher possibility of a recession. The market weakness was further impacted by an interest rate increase from the Bank of Japan, which triggered an unwinding of carry trade positions. Despite these concerns, which reverberated through global markets, stocks recovered through August and extended their gains in September, following the long-anticipated beginning of the Federal Reserve's interest rate cutting cycle and more recently a slew of new stimulus announced in China to pull the economy back towards its government's growth target.

North American equities benefitted from strong progress in reducing inflation, leading to interest rate cuts in Canada and most recently, the United States. The Bank of Canada cut rates by 0.25% at both the July and September meetings, bringing the policy rate to 4.25%. The Federal Reserve initiated its highly anticipated first cut at its September meeting and started with a 0.50% reduction.

The S&P/TSX 60 Index returned 11.2% before fees in the third quarter, its best quarterly showing in four years, bringing the year-to-date total return to 16.6%. Global markets remained positive over the third quarter of 2024, with the MSCI World Index returning 5.0% (CAD). The Canadian dollar appreciated compared to the US dollar over the quarter, which was a headwind on returns, but for 2024 year-to-date the CAD's depreciation continues to be positive for returns.

The Portfolio had a total return of 7.4% in Q3, underperforming the benchmark by 1.4%. The Canadian equity component return of 14.2% trailed the benchmark return by 3.0%. Weak security selection and an underweight position within Financials accounted for the variance. More specifically, BMO and TD reported weaker earnings reports than their peers and lagged as a result. On a total Portfolio basis, the return year-to-date is now 7.9%. With lower rates ahead, income-focused mandates should continue to do well in 2025.

The bottom performers in Q3 were Nutrien, Restaurant Brands (QSR) and BMO. Nutrien was eliminated to fund more compelling opportunities. While the stock has underperformed and offers a compelling dividend yield, we do not see an obvious catalyst for a rerate higher in the medium term. QSR lagged the broader market in Q3 as investors were concerned that higher inflation would curtail discretionary spending, lowering same-store sales for restaurants like Burger King and Tim Horton's. BMO stock sold off after reporting Q3 results in late August. The bank missed analyst expectations for earnings, driven by elevated credit costs, for the second consecutive quarter and signaled that these corporate/commercial credit costs could remain elevated for another couple of quarters. BMO is executing well otherwise so this will pass but will require patience as the credit profile likely won't improve until second half of 2025, and Management has lost some credibility with investors. iA Financial Corp, Brookfield Infrastructure and TC Energy were some of the positive contributors.

On the fixed income component, the bond market returns were positive in the quarter due to the large decline in yields. The Core Universe Bond Pool Fund outperformed the benchmark by 0.5% during the quarter. Duration exposure was reduced through the quarter as yields declined. Credit spreads, after widening slightly, finished mostly unchanged. The Fund benefitted from its credit overweight due to the additional yield carry they provide. Corporate credit was well supported by continued interest from investors, sound fundamentals and a still positive economic backdrop. An additional $25.2 billion of new issuance brought the YTD total to $106.8 billion.

Preferred shares added 0.85% relative to the benchmark, as the fixed income and perpetual holdings benefitted from lower bond yields. The Fund continues to be positioned defensively, with a larger fixed income exposure and lower fixed resets compared with the benchmark. Preferred shares performed well in the third quarter of 2024, despite weaker than expected US nonfarm payrolls propelled volatility in rates and equity markets. The resilience was supported by another 5 announced redemptions coupled with a monetary easing environment.

The Addenda Commercial Mortgages Pooled Fund underperformed its benchmark in Q3. The mortgage credit spreads decreased during the third quarter, which contributed positively to the performance. On a relative basis, however, the shorter duration of the commercial mortgages fund (1.83 years) compared to the benchmark's (2.73 years) had a negative impact on performance in an environment of decreasing interest rates.

We remain bullish on North American equities as we are forecasting lower interest rates in 2025 on the back of strong U.S. productivity growth and a robust U.S. economy. The outlook is not quite as rosy in Canada as we are concerned about lower productivity growth impeding rate cuts and slowing the economy. Nonetheless, the U.S. outlook is the key driver of market performance and our preference for equities over bonds and cash. We are forecasting high single-digit returns in Canada and the U.S., possibly more if price-earnings ratios rise further on lower bond yields.

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[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 equity process favors companies offering attractive dividend profiles.

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

About Aviso Wealth

Aviso Wealth is part of Aviso, one of Canada's largest independent wealth management firms. Owned by the credit unions, we serve hundreds of thousands of investors at credit unions across Canada.

With approximately $130 billion of assets under administration and management, Aviso has the resources to bring the best products and services to credit unions and their members. Invest with confidence, with your credit union and Aviso.

- Nearly 30 years as the wealth management provider to credit unions across Canada.
- One of Canada's largest independent wealth management firms.
- Parent company of Aviso Wealth, NEI Investments, and Qtrade.
- Owned by Canada's credit unions and Desjardins.

[1] As of October 11, 2024. after quarterly rebalancing unless otherwise stated.

[2] Canadian Dividend and REITS yield 4.40%; Canadian Preferred Share yield 6.41%; US Equity yield 0.90%; Addenda Universe Core Bond Pool yield to maturity 4.00%; Addenda Corporate Core Bond Pool yield to maturity 4.58%; Addenda Commercial Mortgage DC Pooled Fund Yield to Maturity 5.06%.

[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, 2024, 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: 15% FTSE Canada Universe Bond/25% FTSE Canada All Corporate Bond/35% Dow Jones Canada Select Dividend/10% S&P/TSX Preferred Share Index/15% FTSE Canada Short-Term Overall Bond Index. From 2018-04-01 to 2022-02-28: 28% FTSE Canada Universe Bond/37% FTSE Canada All Corporate Bond/25% Dow Jones Canada Select Dividend/10% S&P/TSX Preferred Share Index. From 2016-02-29 to 2018-03-31 : 28% FTSE Canada Universe Bond/37% FTSE Canada All Corporate Bond/25% Dow Jones Canada Select Dividend/10% BMO 50 Preferred Shares.

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