

# OnPoint Managed Portfolios

## 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:**  
\$34B

### Portfolio risk:

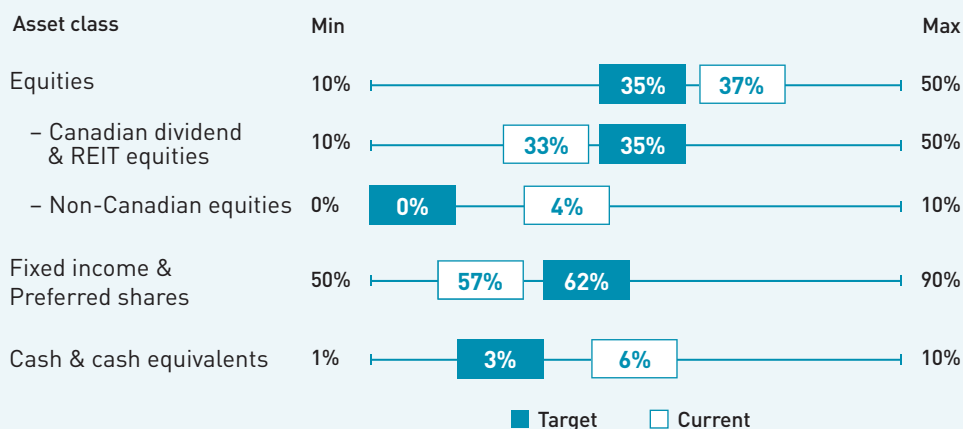
Low to Medium

OnPoint Managed Portfolios are distributed by *Credential Qtrade Securities Inc.*

## What does the Portfolio invest in?

The portfolio invests in a diversified portfolio of 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



- 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 (excluding cash and cash equivalents) %

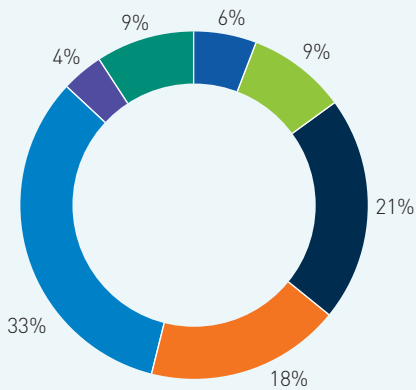
1. Addenda Bonds Corporate Core Pooled Fund	21.3	5. Bank Of Montreal	5.3
2. Addenda Commercial Mortgage DC Pooled Fund	18.3	6. Toronto-Dominion Bank	4.7
3. Addenda Preferred Share Pooled Fund	8.9	7. BCE Inc	2.4
4. Addenda Bonds Universe Core Pooled Fund	8.7	8. Bank Of Nova Scotia	2.4
		9. Restaurant Brands Intl.	2.2
		10. TC Energy Corp	2.2

## Performance

	QTD	YTD	1 yr	3 yr	5yr	Since inception (Annualized)
Portfolio	-1.3%	-8.8%	-4.7%	2.8%	3.7%	4.6%
Benchmark	-2.0%	-12.0%	-9.8%	1.0%	2.5%	3.9%

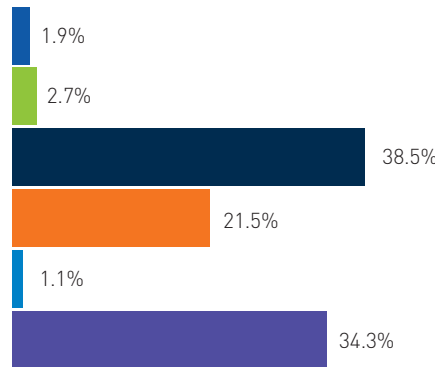


### Asset allocation<sup>1</sup>



- 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

### Core Bond Pool sector allocation

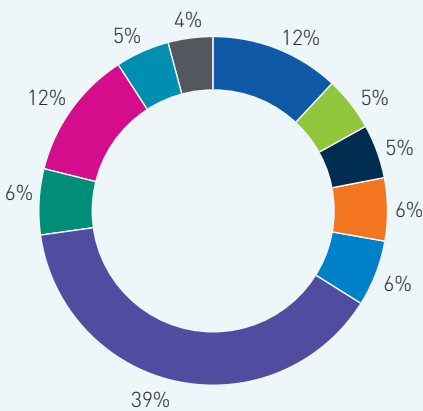


- Cash & Money Markets
- Commercial Mortgages
- Corporate Bonds
- Federal Bonds
- Municipal Bonds
- Provincial Bonds

Credit quality	Portfolio (%)
AAA	22.4
AA	35.7
A	22.5
BBB	14.7
Non Rated Securities (Commercial Mortgages)	2.7
Cash and Money Market	2.0
	100.0

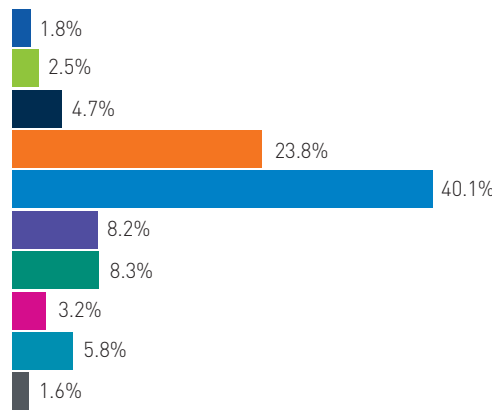
Current Yield 3.42%

### Equities sector allocation<sup>1</sup>



- Energy
- Materials
- Industrials
- Consumer discretionary
- Health care
- Financials
- Information technology
- Communication services
- Utilities
- Real estate

### Corporate Core Bond Pool sector allocation



- Cash and Money Market
- Government, Foreign Pay Bonds
- Financial
- Industrial
- Real Estate
- Infrastructure
- Securitization
- Energy

Credit quality	Portfolio (%)
AAA	4.2
AA	8.9
A	49.4
BBB	35.8
Cash and Money Market	1.8
	100.0

Current Yield 3.78%

Average market cap. (Canadian equities only) \$61.9B  
 (US equities only) \$1251.1B  
 Weighted Combined Yield to Maturity (Total Portfolio)<sup>2</sup> 4.94%



## Repositioning for Q4 2022



### Sold or reduced positions (-3.6%)

- Sold Manulife
- Trimmed Bank of Nova Scotia
- Trimmed Addenda Preferred Share Pooled Fund
- Trimmed iShares Canadian Select ETF (XDV)



### Bought or increased positions (+3.6%)

- Increased Bank of Montreal (BMO)
- Increased Addenda Bonds Universe Core Pooled Fund

## Rationale

- The manager has increased conviction that aggressive Central Bank tightening will likely push Canada and the US into recession within the forecast period. Pent-up demand, excess savings and fiscal infrastructure spend will likely lessen the economic impact of higher rates and the manager expects many companies to weather a mild recession without lasting impact. However, it seems prudent to reduce risk in anticipation of market volatility continuing through the fall. For that reason, Canadian equities and preferred shares were reduced with proceeds added to cash and fixed income.
- **Manulife** has been reduced in the last couple of quarters and the small remaining position was eliminated this quarter. Scotiabank was trimmed with proceeds redeployed to the Bank of Montreal where the manager feels that the risk reward is better for the current economic outlook.
- **Scotiabank** has lower sensitivity to higher rates than some of the other Canadian Banks. It also has lower capital levels and reserve levels. Recent news of the Scotiabank CEO succession plan also introduces some uncertainty. BMO was recently added in some of the manager's other mandates and was a new position to add to this Portfolio this quarter. As highlighted previously, BMO continues to deliver strong earnings growth driven by strong loan growth, improved lending spreads and efficiency improvements. The commercial lending focus of the bank could prove to be an advantage as consumer lending is likely to slow more significantly. Additionally, the bank's pending Bank of the West transaction will augment its growth profile while leaving capital at a reasonable level.
- **XDV** was also trimmed to satisfy the asset mix trades.



## Quarterly commentary

The third quarter of 2022 continued to be quite challenging across a variety of asset classes, with all major equity markets posting negative absolute returns. The Bank of Canada accelerated the pace of monetary policy tightening by raising the overnight target rate by 1.75% during the third quarter to 3.25%. Similarly, the Federal Reserve tightened their target range by a total of 1.50%, while also signaling more to follow. Within bonds, shorter term (1- 7 year) interest rates rose significantly in the third quarter as the bond market reacted to more aggressive tightening of monetary policy. In contrast, longer term (10 year and longer) rates were almost unchanged causing the yield curve to invert further. Canadian stocks were negatively driven by weak returns from Real Estate, Telecommunications and Energy, while the Industrial and Consumer Discretionary sectors were the strongest relative performing sectors. Global equities delivered negative returns as non-North American markets continued to be hurt by uncertainty surrounding the Russian invasion of Ukraine, and weak economic momentum. Real Estate and Telecommunications were the most negative, offset by positive results from Consumer Discretionary. The Canadian dollar depreciated versus its US counterpart during the quarter by 6.2%. The relevant index returns for the Portfolio in the third quarter were: Dow Jones Canada Select Dividend Index (-4.32%), the S&P/TSX Preferred Shares Index (-6.07%) the FTSE Canada Universe Bond Index (+0.52%), the FTSE Canada Short-Term Bond Index (-0.31%), and the FTSE Canada Corporate Bond Index (+0.23%).

The Portfolio declined -1.33% during the third quarter but was able to preserve capital relative to the benchmark decline of -2.01%. Over the one-year period, the Portfolio returned -4.67% and outperformed the benchmark by over 5%. Within the underlying

components, the fixed income, Canadian dividend equities, preferred shares, and commercial mortgages all outpaced their respective benchmarks due to favourable security selection. The introduction of commercial mortgages in Q1 has proved beneficial as this new asset class has a short-duration and a higher overall yield than traditional bonds.

Looking forward, the manager expected global growth to fall below longer-term trends as demand declines due to stimulus withdrawal and demand erosion from inflation pressures. The risk of a recession has increased due to tighter financial conditions from aggressive central bank tightening. Inflation pressure should peak by the end of 2022 but remain above central bank targets due to supply chain issues, elevated commodity prices, and increasing labour costs. The diffusion of inflation has broadened and with sticky components causing the overall price level to remain higher for longer. In addition, dislocations in the labour markets with more job openings than available workers continue to put pressure on wages. Against the backdrop of slowing economic growth, with continuing inflation pressures, Central Banks will be forced to choose between maintaining the inflation focus versus pivoting to stimulate growth. In terms of potential risks to the manager's forecast, there is the potential for the path of inflation to be more persistent causing Central Banks to maintain tighter policy conditions for longer. As a result, this could cause more significant demand destruction and a deeper recession. Given this backdrop, the manager decided it was prudent to reduce risk in anticipation of market volatility continuing through the Fall. As such, the Canadian Equities exposure was further reduced recently and the proceeds were put into cash.

# 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

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<sup>3</sup>)

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<sup>4</sup>
- Addenda is a United Nations Principles for Responsible Investment (PRI) signatory

<sup>1</sup> As of October 11, 2022, after quarterly rebalancing unless otherwise stated.

<sup>2</sup> Canadian Dividend and REITS yield 4.70%; Canadian Preferred Share yield 7.63%; US Equity yield 1.60%; Addenda Core Bond Pool yield to maturity 4.76%; Addenda Corporate Core Bond Pool yield to maturity 5.65%; Addenda Commercial Mortgage DC Pooled Fund Yield to Maturity 5.56%.

<sup>3</sup> GARP (Growth at a reasonable price)

<sup>4</sup> 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, 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: 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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