Q4 2021

avisowealth

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:
$38B

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

Asset class	Min	Target	Current	Max
Equities	10%	35%	41%	50%
– Canadian dividend & REIT equities	10%	35%	35%	50%
– Non-Canadian equities	0%	0%	6%	10%
Fixed income & Preferred shares	50%	62%	56%	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.

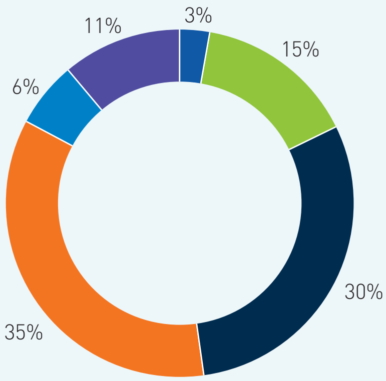
Top ten holdings (excluding cash and cash equivalents)

	Holding	%
1.	Addenda Bonds Corporate Core Pooled Fund	30.4%
2.	Addenda Bonds Universe Core Pooled Fund	14.7%
3.	Addenda Preferred Share Pooled Fund	11.4%
4.	Toronto Dominion Bank	5.3%
5.	Bank of Nova Scotia	4.9%
6.	Royal Bank of Canada	3.6%
7.	TC Energy Corp	2.3%
8.	WSP Global Inc	2.1%
9.	BCE Inc.	2.1%
10.	Restaurant Brands	2.1%

Performance

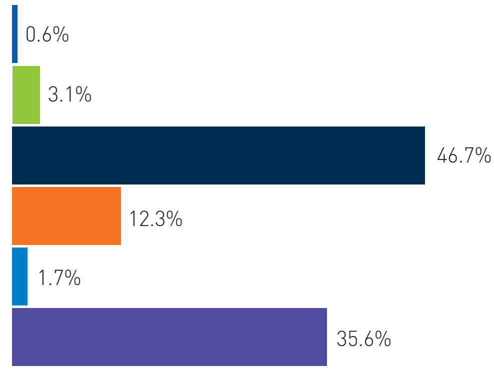
	QTD	YTD	1 yr	3 yr	5yr	Since inception (Annualized)
Portfolio	4.6%	11.5%	11.5%	9.6%	6.4%	6.9%
Benchmark	2.6%	8.0%	8.0%	8.8%	5.9%	6.8%

Asset allocation[1]



- Cash
- Addenda Bonds Universe Core pooled fund
- Addenda Bonds Corporate Core pooled fund
- Canadian dividends & REITs
- US equities
- Canadian preferred shares

Core Bond Pool sector allocation

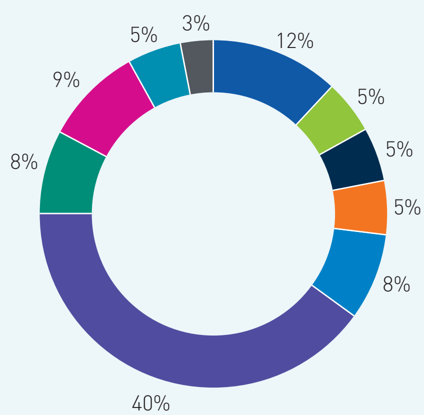


Credit quality	Portfolio (%)
AAA	13.7
AA	38.6
A	26.1
BBB	17.9
Non-rated securities (commercial mortgages)	3.1
Cash & money market	0.6
	100.0

- Cash & money markets
- Commercial mortgages
- Corporate bonds
- Federal bonds
- Municipal bonds
- Provincial bonds

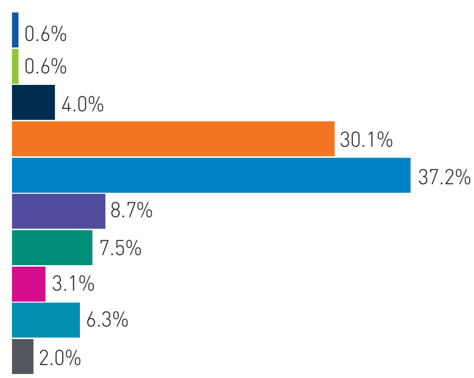
Current Yield 2.83%

Equities sector allocation[1]



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

Corporate Core Bond Pool sector allocation



Credit quality	Portfolio (%)
AAA	2.0
AA	11.3
A	46.8
BBB	39.3
Cash & money market	0.6
	100.0

- Cash and money market
- Government, foreign pay bonds
- Communication
- Energy
- Financial
- Industrials
- Infrastructure
- Maples
- Real Estate
- Securitization

Current Yield 3.12%

Average market cap. (Canadian equities only) $89.5B
(US equities only) $1370.1B
Weighted Combined Yield to Maturity (Total Portfolio)[2] 3.08%

Repositioning for Q1 2022

Sold or reduced positions (-3.9%)

- Sold Great-West Lifeco
- Trimmed Addenda Preferred Share pooled fund
- Trimmed cash

Bought or increased positions (+3.9%)

- Initiated a new position in IA Financial Corp
- Increased BCE
- Increased Emera
- Increased Enbridge
- Increased Nutrien
- Increased Pembina Pipeline
- Increased Restaurant Brands
- Increased Rogers
- Increased Riocan REIT
- Increased TC Energy
- Increased WSP Global

Rationale

- The manager recently modified the strategic asset mix of the Income Growth portfolio to include a higher allocation to Canadian equities at the expense of Bonds. This was due to the reclassification of the preferred share pooled fund portion from equity to fixed income component, and the equity component target weighting was increased from 25% to 35% of the portfolio. The manager was using this trade window to begin the transition. In addition, new allocation to Commercial Mortgages will be initiated later this quarter.
- Within Canadian equities, the manager initiated a position in IA Financial Corp (IAG), a Quebec-based life insurance and wealth management company.
- The stock offers a 2.5% dividend yield (with a modest payout) and the company has a strong track record of regular dividend increases (5-year dividend growth of 10%) and a solid Balance Sheet. IAG delivers very consistent book value per share growth (12% y/y in the most recent quarter) and a strong return on equity (ROE) of 15%, both strong relative to Canadian peers. The stock trades at a P/B multiple of 1.2x, which the manager views as undervalued, considering the strong ROE and consistent book value per share growth.
- The company is well reserved, has less exposure to long-term guaranteed products and continues to deliver good new business momentum across businesses. This trade was funded from a liquidation of Great-West Lifeco as the manager sees better risk-reward in IAG. In addition, and as a result of the asset mix shift, all positions in the portfolio were increased equally, with the exception of the Financials stocks which already have a high relative weight in the portfolio.

Quarterly **commentary**

Equity investor optimism drove strong fourth quarter performance despite some increased market volatility in December due to uncertainty surrounding the impact from the Omicron variant and rising short-term interest rates. The Federal Reserve and other Central Banks acknowledged positive economic progress and upward inflation pressures by announcing an accelerated taper of their bond purchase programs and pulled forward potential interest rate increases which put upward pressure on short-term interest rates. Within bonds, corporate spreads widened in December as equity markets were volatile but closed the year at similar levels to where they started in January. Canadian equities provided gains driven by strong performance from the Materials, Financials, and Real Estate sub-sectors, although these increases were somewhat offset by negative returns in Health Care and Information Technology. Global equities delivered very positive returns overall driven primarily from US equities. Information Technologies, Utilities and Real Estate were the strongest performing sectors. The relevant index returns for the Portfolio is 28% Universe bonds (FTSE Universe Bond Index – up 1.47% in the quarter), 37% Corporate bonds (FTSE All Corporate Bond Index – up 1.08%), 25% Canadian high-yield equity (Dow Jones Canada Select Dividend Index – up 6.26%) and 10% preferred shares (S&P/TSX Preferred Share Index – up 1.62%).

The Portfolio finished the year on a strong note, returning 4.6% during the fourth quarter and exceeding its benchmark by 2.01%. This helped bring the one-year return to 11.5%, which outperformed its market benchmark by over 3%. Outperformance during the quarter was largely driven by the tactical asset allocation decisions, notably the overweight to Canadian dividend equities which continued their march higher. The corresponding underweight to fixed income further added value as a rise in short-term interest rates caused both core and corporate bonds to trail equity markets. Within the underlying components, the Canadian dividend equities outpaced its benchmark by a large margin, primarily due to strength from positions in Bank of Nova Scotia, TD Bank, and WSP Global. The core fixed income component also outperformed as the longer-than-benchmark duration benefited from a flattening in the yield curve; however, this was offset by the overweight to the Corporate Bond Pooled Fund and modest underperformance from that strategy.

Looking forward, global growth should continue above longer-term trends supported by fiscal stimulus and historically high savings rate. In addition, unemployment will continue to fall, and dislocations in the labour force should be alleviated as the participation rate rises. The manager expects growth will be primarily driven by the consumer and government sectors, although supported by positive business investment. 2022 will be a transition year as central banks reduce bond purchase programs and move towards raising administered policy rates. Corporate profits will continue to grow in 2022 although rising interest rates and stretched valuations make markets potentially more volatile. As such, the manager has decided to alter the strategic asset mix of this portfolio during the first quarter of 2022. Specifically, the Portfolio's target exposure to core and corporate fixed income was lowered and the proceeds were used to increase the allocation to Canadian dividend equities. In addition, the manager will begin introducing a new allocation to the commercial mortgages strategy, which should act defensively in a rising interest rate environment due to its short duration and provide a more attractive yield than traditional fixed income.

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 over $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.

aviso wealth

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, 2022 after quarterly rebalancing unless otherwise stated.

[2] Canadian Dividend and REITS yield 4.00%; Canadian Preferred Share yield 4.45%; US Equity yield 1.30%; Addenda Core Bond Pool yield to maturity 2.23%; Addenda Corporate Core Bond Pool yield to maturity 2.58%

[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, 2021, 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: Post Q1 2022 changes 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 2022-01: 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.

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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Aviso Wealth Inc. ('Aviso') is a wholly owned subsidiary of Aviso Wealth LP, which in turn is owned 50% by Desjardins Financial Holding Inc. and 50% by a limited partnership owned by the five Provincial Credit Union Centrals and The CUMIS Group Limited.

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