Q3 2022

OnPoint Managed Portfolios

Total Equity

Quick facts

Inception date:
February 29, 2016

Asset class:
Equity

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 non-Canadian equity securities, exchange traded funds (ETFs), and money market instruments and/or cash equivalents.

Asset allocations

Asset class	Min	Target	Current	Max
Canadian equities	30%	48.5%	54%	70%
Non-Canadian equities	30%	48.5%	40%	70%
Cash & cash equivalents	1%	3%	6%	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

Suitable for investors whose objective is to achieve long-term capital growth, and is not intended for investors with a short-term investment horizon.

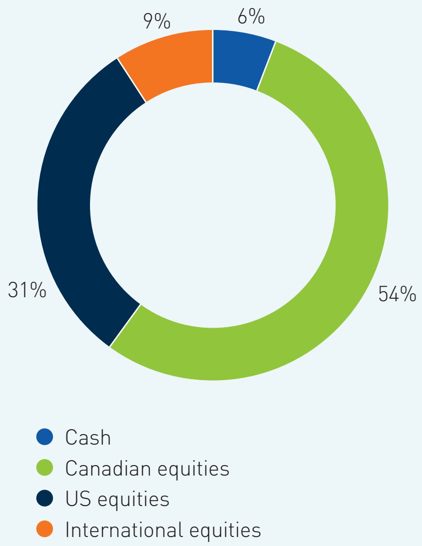
Top ten holdings (excluding cash and cash equivalents) %

1.	Toronto Dominion Bank	7.8
2.	Canadian Natural Resources	5.3
3.	UnitedHealth Group Inc	4.9
4.	Dollarama Inc	4.4
5.	Constellation Software Inc	4.2
6.	Canadian Pacific Railway Ltd	4.0
7.	Thermo Fisher Scientific Inc	3.9
8.	Brookfield Asset Manage-Cl A	3.9
9.	Linde Plc	3.5
10.	WSP Global Inc	3.4

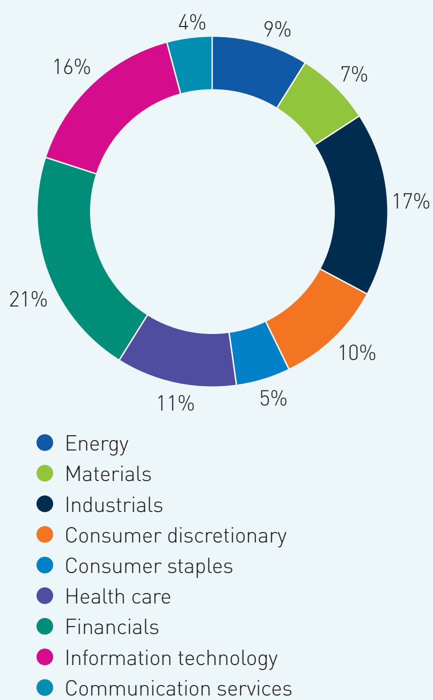
Performance

	QTD	YTD	1 yr	3 yr	5 yr	Since Inception (annualized)
Portfolio	-1.1%	-13.5%	-5.3%	6.0%	7.7%	9.0%
Benchmark	-0.8%	-15.0%	-8.5%	6.7%	7.4%	9.4%

Asset allocation[1,2]



Equities sector allocation[1,3]



Average market cap. $182.2B (equities only)

Repositioning for Q4 2022

Sold or reduced positions (-4.9%)

- Sold Manulife
- Sold International Flavors & Fragrances
- Trimmed Bank of Nova Scotia
- Trimmed cash

Bought or increased positions (+4.9%)

- Initiated a new position in Bank of Montreal (BMO)
- Initiated a new position in Ball Corp

Rationale

- **Manulife** has been reduced in the last couple of quarters and the small remaining position was eliminated this quarter. Scotiabank was trimmed with proceeds deployed to 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.

- Within the Global equity component of the Portfolio, the manager decided to take profits in International Flavors & Fragrances and used the proceeds to initiate a position in Ball Corp which is one of the world's leading suppliers of aluminum packaging and aerospace technologies.

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 this Portfolio in the third quarter were: S&P/TSX 60 Index (-1.73%) and the MSCI World Index (CA$) (-0.07%).

The Portfolio declined -1.07% during the third quarter, slightly trailing its benchmark by 0.23%. Despite this recent underperformance, the Portfolio was still able to provide strong downside market protection over the one-year period and outperformed the benchmark by over 3%. Within the underlying components, the Canadian equity component exceeded its benchmark by 0.94% over the quarter due to positive stock selection and sector allocation. Asset allocation decisions were positive due to the overweight to Canadian equities at the expense of global equities, combined with our tactical excess cash position. Within the underlying components, the Canadian equity component outperformed its benchmark by more than 2.50% over the quarter due to positive stock selection and sector allocation; however, this was more than offset by weakness from the global equity component.

Looking forward, the manager expects 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 reduced further 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.

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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[4])

Investment philosophy

Addenda provides a Total Equity strategy that employs two separate portfolio management teams that abide to investment styles that are suitable given their landscape to create high conviction, concentrated portfolios. The Canadian equity component is managed with a value tilt and consists of companies with diversified business models and attractive price-intrinsic value relationships. The companies invested in have the potential to generate strong relative and absolute returns over time. Global equities are managed with a Growth At a Reasonable Price (GARP) investment style and include companies with solid and repeatable competitive advantages, a history of innovative capabilities, seasoned management, non-commoditized business models, consistent earnings and free cash flow.

Investment process and risk controls

For Canadian equities, Addenda's analysis and research is focused on various elements to decipher whether a company remains able to generate strong free cash flow over time. Subsequently, Addenda looks for the company to be priced in the market at a discount to its estimated intrinsic value. When managing a dividend approach, the focus is equally placed on the company's ability and willingness to continue to distribute and/or increase its future dividend payments.

For global equities, Addenda believes that added value stems from sustainable and repeatable earnings growth. Addenda's approach is driven by fundamental research, focused on obtaining a deep understanding of secular growth themes. Once an understanding of the key growth drivers behind a theme is determined, Addenda's research focus shifts to finding companies well positioned to leverage those themes. Addenda seeks global or regional leaders with the ability to outpace its peers and end markets through its capacity to sell value-added products and/or services.

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[5]
- Addenda is a United Nations Principles for Responsible Investment (PRI) signatory

[1] As of October 11, 2022 after quarterly rebalancing unless otherwise stated.

[2] Includes Ishares S&P/TSX 60 Index ETF & SPDR S&P 500 ETF

[3] Excludes Ishares S&P/TSX 60 Index ETF & SPDR S&P 500 ETF

[4] GARP (Growth at a reasonable price)

[5] 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: 50% S&P/TSX 60/50% MSCI World Net (CAD).

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