Q4 2021

aviso wealth

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:
$38B

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%	52%	70%
Non-Canadian equities	30%	48.5%	44%	70%
Cash & cash equivalents	1%	3%	4%	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.

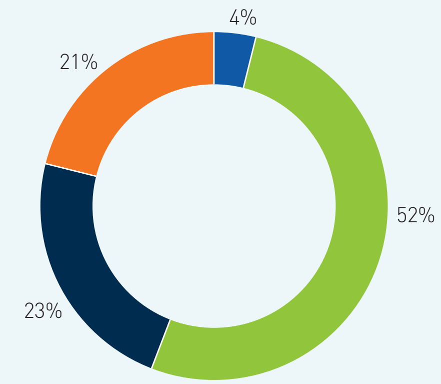
Top ten holdings (excluding cash and cash equivalents)

1. Toronto Dominion Bank 7.3%
2. Bank of Nova Scotia 5.8%
3. Brookfield Asset Management 4.6%
4. Constellation Software 4.3%
5. Linde 4.1%
6. Thermo Fisher Scientific 3.9%
7. Unitedhealth Group 3.7%
8. Canadian Pacific Railway Ltd 3.6%
9. SAP 3.6%
10. WSP Global Inc 3.4%

Performance

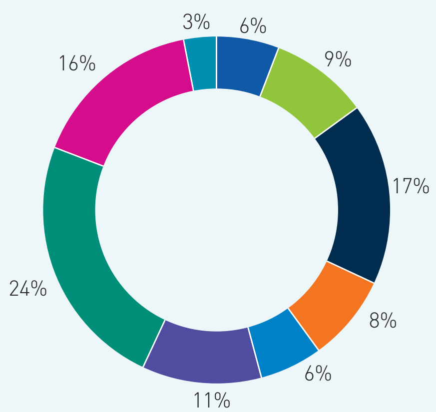
	QTD	YTD	1 yr	3 yr	5 yr	Since Inception (annualized)
Portfolio	9.5%	24.9%	24.9%	17.4%	12.7%	12.9%
Benchmark	7.6%	24.5%	24.5%	18.5%	12.4%	13.7%

Asset allocation[1,2]



- Cash
- Canadian equities
- US equities
- International equities

Equities sector allocation[1,3]



- Energy
- Materials
- Industrials
- Consumer discretionary
- Consumer staples
- Health care
- Financials
- Information technology
- Communication services

Average market cap. $166.8B (equities only)

Repositioning for Q1 2022

Sold or reduced positions (-3.2%)

- Trimmed S&P/TSX 60 Index ETF (XIU)
- Trimmed Experian
- Trimmed cash

Bought or increased positions (+3.2%)

- Increased CP Rail
- Increased Global Payments Inc.
- Increased PepsiCo Inc.
- Increased EssilorLuxottica (ESLOY)

Rationale

- Addenda's asset mix committee has chosen to reduce exposure to Canadian equities after strong performance in 2021. The risk/reward currently favours a slightly more conservative approach as both fiscal and monetary policies are tightening and the outlook for earnings growth has reverted back to its long-term average (5-10% EPS growth). To reflect this bias, the manager deployed some excess cash into global equities.
- Within the Canadian equity component, CP Rail (CP) was added. CP was a continuation of a trade that was initiated last quarter. Proceeds for this transaction were from the liquidation of XIU.
- CP has lagged significantly of late as they are in the process of acquiring Kansas City Southern, which entails a lengthy regulatory review of up to twelve months. The timing and additional debt required to fund the transaction will be a headwind in the short run. However, the manager is excited about the long-term prospects that the combined entity offers, hence employing the gradual approach. The manager's internal assessment of intrinsic value finds both rails to offer attractive risk/reward, but CP stands out especially if the Kansas City Southern deal is assumed to be completed. For that reason, the manager will continue to monitor progress on deal completion and adjust the weightings accordingly.
- On the global equity component, the manager continues to have high conviction in Global Payments Inc. (GPN) – a position initiated last quarter. Profits were taken from Experian to continue to add to GPN allocation. The manager also increased positions in PepsiCo and ESLOY to align the weightings with other portfolios. Both are solid names which the manager has confidence in over the long-term.

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 this Portfolio in the fourth quarter were: S&P/TSX 60 Index (7.75%) and the MSCI World Index (CA$) (7.45%).

The Portfolio finished the year on a strong note, returning 9.5% during the fourth quarter and exceeding its benchmark by 1.85%. This helped bring the one-year return to 24.9%, which outperformed its market benchmark by over 0.37%. Outperformance during the quarter was partly driven by the tactical asset allocation decisions, notably the overweight in Canadian equities which continued their march higher. This was partially offset by the excess cash allocation which served as a drag on total returns. Within the underlying components, the Canadian and global equity components both outperformed their respective benchmarks by a wide margin due to strong security selection. Notable outperformers included Brookfield Asset Management and Bank of Nova Scotia within Canadian equities, and United Health and Thermo Fisher within global equities.

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.

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.

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[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 January 10, 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, 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: 50% S&P/TSX 60/50% MSCI World Net (CAD).

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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