PUBLISHED: JANUARY 2024

Purpose INVESTMENTS

QUARTERLY SMA COMMENTARY

Core Income

CHARACTERISTICS

ASSET CLASS	EQUITY
GEOGRAPHIC	CANADA & MAX 35% US
FOCUS	DIVIDEND & DIVIDEND GROWTH
OBJECTIVE	ACTIVELY MANAGED TO PROVIDE INCOME WITH SOME CAPITAL APPRECIATION
APPROX. # OF HOLDINGS	25-35
ESTIMATED ANNUAL TRADES	22-30
BENCHMARK	TSX TOTAL RETURN
BENCHMARK 2	80% DJ SELECT CANADIAN DIV/20% DJ SELECT US DIV

Inception date: MARCH 31, 2011

Our belief is the risk of recession hasn't disappeared but has been pushed into 2024.

SMA MANAGER

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CHIEF MARKET STRATEGIST

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MARKET OVERVIEW

2023 certainly finished off in good fashion with a strong rally in both bonds and equities to cap off a rather turbulent year. More evidence that inflation is gradually fading as a market or economic concern has emboldened central banks to largely hit the pause button on rate hikes. We are all aware they started raising rates late in response to inflation that was supposed to be transitory. Now in 2024, we will learn if they waited too long to stop raising rates. The track record is not good, but time will tell.

Before we jump into 2024 thoughts, let's look back at 2023. A year that saw a mini-banking crisis, the rise of AI, a resilient U.S. economy paired with a global economy steadily losing momentum, and lots of movement in yields. The bellwether U.S. 10-year yield may have started and finished the year at 3.9%, but what a ride along the way. From the lows of 3.25% to the highs of 5.0%, bond volatility is back.

Of course, the big question is whether or not the strong rally in markets during November and December has stolen performance from 2024. This may be the case given investor sentiment is very bullish, valuations elevated and market risk metrics such as the VIX are historically low. Add to this, the resilient U.S. economy is starting to show signs of weakness. Our belief is the risk of recession hasn't disappeared but has been pushed into 2024. The impact of rates on the market and economy tends to be long and variable, clearly longer than most expected.

PORTFOLIO ACTIVITY

In the fourth quarter the Purpose Core Income mandate rose a commendable 6.9%. Slightly behind the 8.1% the S&P/TSX Composite returned. Year to date it rose 9.5%, an ample return considering the difficulties dividend stocks have had in 2024. With markets continuing their winning streak our elevated cash balance continued to detract from returns, however we remain committed to prudent risk management, and at this point after a nine-week winning streak in the markets and technical overbought levels, we're happy to leave some on the table if this means outperforming during any coming period of market weakness. For the time being, market conditions do not currently reflect the increased tail risk probabilities we see, especially in Canada.

Financials, led by Manulife and BMO, were the standout performers, driving the quarters performance. Despite this, we maintain a cautious stance on banks, feeling that the market rally may be too aggressive. Insurers, particularly Manulife, continue to perform well, reaching a fresh 14-year high. Other performance drivers were Barrick Gold Corp, Rogers and Microsoft.

Energy experienced a notable setback late in the year, primarily our producers Arc Resources and Suncor Energy. The industry headwinds faced by both were more pronounced than anticipated especially considering the turmoil in the middle east. Conversely, lower yields have positively impacted our pipeline investments, with Enbridge and TC Energy showing gains.

In November, we made several notable trades within the portfolio. This included trimming our energy exposure and switching our U.S. pharmaceutical holdings from Bristol Myers to Merck. Additionally, we sold TD Bank and in December replaced all of our Algonquin Power holdings with Northland Power. This decision is rooted in several key factors, and we believe it aligns with our objective of optimizing the portfolio for improved performance. A primary motivation behind this trade is tax-loss selling as well as gaining exposure to the superior renewable growth outlook has this decade.

Looking ahead into 2024, it will likely be a challenging year, however, our disciplined approach to portfolio construction has the portfolio maintaining a moderately defensive stance. Holding above-average cash and less cyclical exposure. We believe there is still enough market beta to benefit should the near-record winning streak for markets continue into January. The largest sector underweight remains Financials, and our largest overweights remain in defensive areas such as the U.S. Health Care, Telecom, and Utilities.

The next few months will be pretty important from a market perspective. Cracks continue to grow in both the markets and the economy, and we are starting the year with higher valuations and lower yields. Best to stay defensive.

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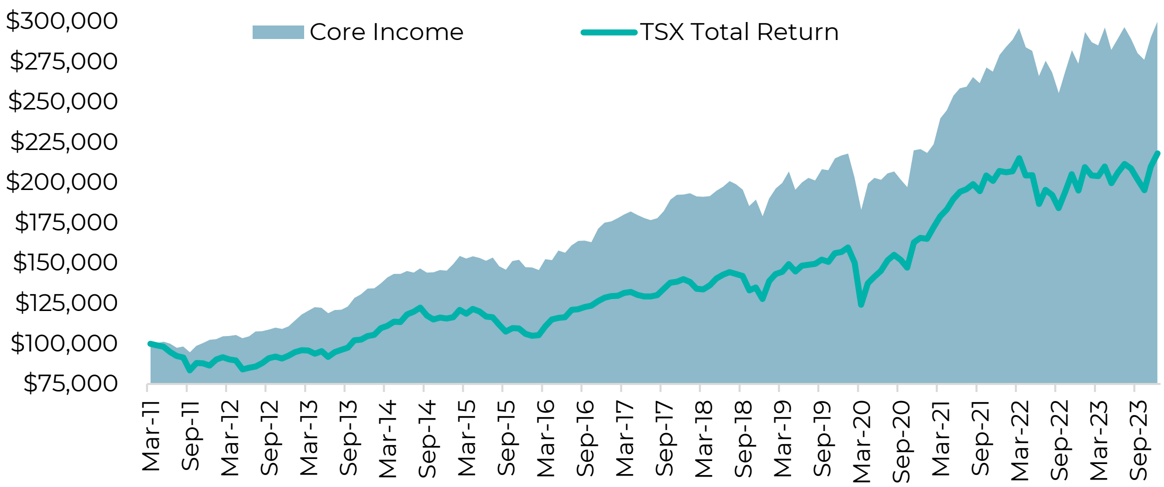
SOURCE: PURPOSE INVESTMENTS & BLOOMBERG

ALL PERFORMANCE DATA AS AT DECEMBER 31, 2023

PERFORMANCE (GROSS OF FEES)

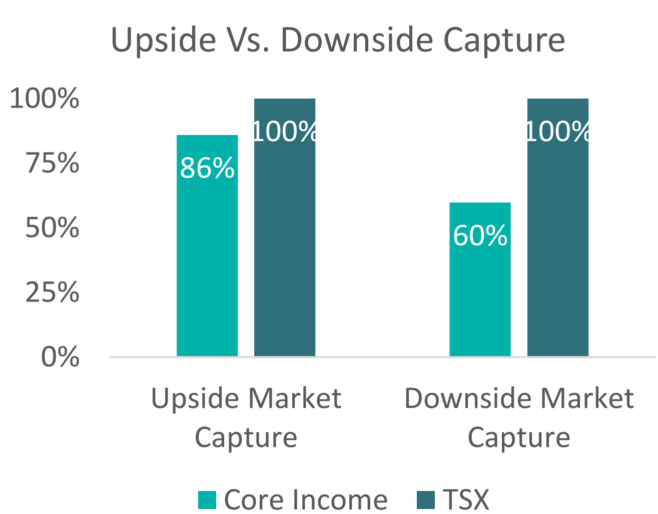


Gross of fees

	1-month	3-months	6-months	1-year	YTD	3-year	5-year	7-year	10-year	Inception*
Core Income	3.3%	6.9%	3.6%	9.5%	9.5%	10.7%	10.9%	8.0%	8.4%	9.0%
Benchmark	3.9%	8.1%	5.7%	11.8%	11.8%	9.6%	11.3%	7.9%	7.6%	6.3%
Relative	-0.6%	-1.2%	-2.1%	-2.3%	-2.3%	1.1%	-0.4%	0.1%	0.8%	2.7%

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Core Income	21.2%	8.3%	1.6%	18.6%	10.1%	-7.1%	21.1%	1.9%	26.4%	-1.9%
Benchmark	13.0%	10.6%	-8.3%	21.1%	9.1%	-8.9%	22.9%	5.6%	25.1%	-5.8%
Relative	8.3%	-2.3%	9.9%	-2.5%	1.0%	1.8%	-1.7%	-3.7%	1.3%	3.9%

RISK METRICS



	Core Income	TSX
Sharpe	0.80	0.43
Max Drawdown	-16.0%	-22.3%
Standard Deviation	10.0%	12.2%
Downside Deviation	6.9%	9.8%
Beta	0.72	1.00

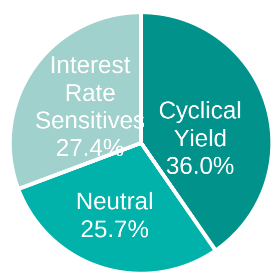
SOURCE: PURPOSE INVESTMENTS & BLOOMBERG

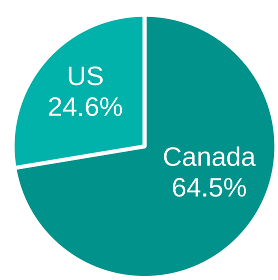
ALL PERFORMANCE DATA AS AT DECEMBER 31, 2023

COMPOSITION

Name	Industry	Weight	Yield
SUNCOR ENERGY	Energy	2.8%	4.8%
ARC RESOURCES LT	Energy	3.2%	3.3%
ENBRIDGE INC	Energy	1.4%	7.5%
TC ENERGY CORP	Energy	3.3%	7.0%
CAMECO CORP	Energy	2.2%	
BARRICK GOLD CRP	Materials	3.6%	2.3%
LUNDIN MINING CO	Materials	1.9%	3.3%
NUTRIEN LTD	Materials	2.9%	3.7%
FINNING INTL INC	Industrials	3.1%	2.6%
LOCKHEED MARTIN	Industrials	3.2%	2.8%
WASTE MANAGEMENT	Industrials	3.5%	1.6%
MICROSOFT CORP	Info Tech	4.1%	0.8%
BANK OF NOVA SCO	Financials	3.7%	6.7%
ROYAL BANK OF CA	Financials	3.7%	4.1%
BANK OF MONTREAL	Financials	4.5%	4.6%
MANULIFE FIN	Financials	4.0%	5.0%
MAGNA INTL	Cons Discretionary	3.1%	3.4%
PET VALU HOLDING	Cons Discretionary	2.6%	1.4%
NORTHLAND POWER	Utilities	2.3%	5.0%
EMERA INC	Utilities	4.1%	5.6%
ALLIED PROP REIT	Real Estate	1.4%	8.8%
CHARTWELL RETIRE	Health Care	2.5%	5.2%
ROGERS COMMUNI-B	Telecom	3.5%	3.2%
TELUS CORP	Telecom	2.6%	6.3%
JAMIESON WELLNES	Cons Staples	2.1%	2.5%
PROCTER & GAMBLE	Cons Staples	2.7%	2.6%
ASTRAZENECA-ADR	Health Care	3.4%	1.4%
MEDTRONIC PLC	Health Care	3.6%	3.3%
MERCK & CO	Health Care	4.1%	2.6%
PURPOSE HIGH INT		7.0%	5.4%

	Core Income	TSX	+/-
Health Care	13.6%	0.3%	13.3%
Utilities	6.4%	4.0%	2.4%
Comm Svs	6.1%	3.8%	2.3%
Cons Disc	5.7%	3.5%	2.1%
Cons Staples	4.8%	4.2%	0.6%
Real Estate	1.4%	2.4%	-1.0%
Materials	8.4%	10.9%	-2.5%
Industrials	9.8%	13.6%	-3.8%
Info Tech	4.1%	8.5%	-4.4%
Energy	12.9%	17.6%	-4.7%
Financials	15.9%	31.3%	-15.3%
Cash	10.9%		10.9%





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All data sourced from Bloomberg unless otherwise noted.

Commissions, trailing commissions, management fees, and expenses all may be associated with mutual fund investments and the use of an asset allocation service. Please read the prospectus(es) of the mutual funds in which investments may be made under the asset allocation service before investing. The indicated rates of return are the historical annual compounded total returns assuming the investment strategy recommended by the asset allocation service is used and after deduction of the fees and charges in respect of the service. The returns are based on the historical annual compounded total returns of the participating funds including changes in share/unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder in respect of a participating fund that would have reduced returns. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated. Note that the Manager of these asset allocation services changed from Richardson Wealth LTD. to Purpose Investments Inc. in September 2021.