

QUARTERLY SMA COMMENTARY

Diversified Income

CHARACTERISTICS

ASSET CLASS	BALANCED
GEOGRAPHIC	CANADA & US
FOCUS	INCOME
OBJECTIVE	ACTIVELY MANAGED TO PROVIDE INCOME AND CAPITAL PRESERVATION WITH SOME APPRECIATION
APPROX. # OF HOLDINGS	25-32
ESTIMATED ANNUAL TRADES	22-30
BENCHMARK	60% TSX TR/40% DEX UNIVERSE

Inception date: JANUARY 31, 2008

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

SMA MANAGER



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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 Diversified Income mandate rose a commendable 6.5%, slightly trailing its benchmark, but a solid return, nonetheless. With markets continuing their winning streak our elevated cash balance and shorter than market duration detracted from returns, however we remain committed to prudent risk management. 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 Royal Bank of Canada and Manulife, were the standout stock 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, Chartwell and Microsoft. On a total attribution basis, the largest contributor was the BMO Aggregate Bond Index which contributed over a percent to the mandate over the quarter. Given the fall in yields, duration was certainly our friend.

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 pipelines with TC Energy showing gains.

In November, we made several notable trades within the portfolio. This included trimming our energy exposure selling all of TD Bank and adding a new position in Finning after its earnings miss. In December sold all of our Algonquin Power and used the proceeds to buy 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. In terms of portfolio allocation, we remain moderately defensive with just 53% equity exposure versus 60% in our benchmark. 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

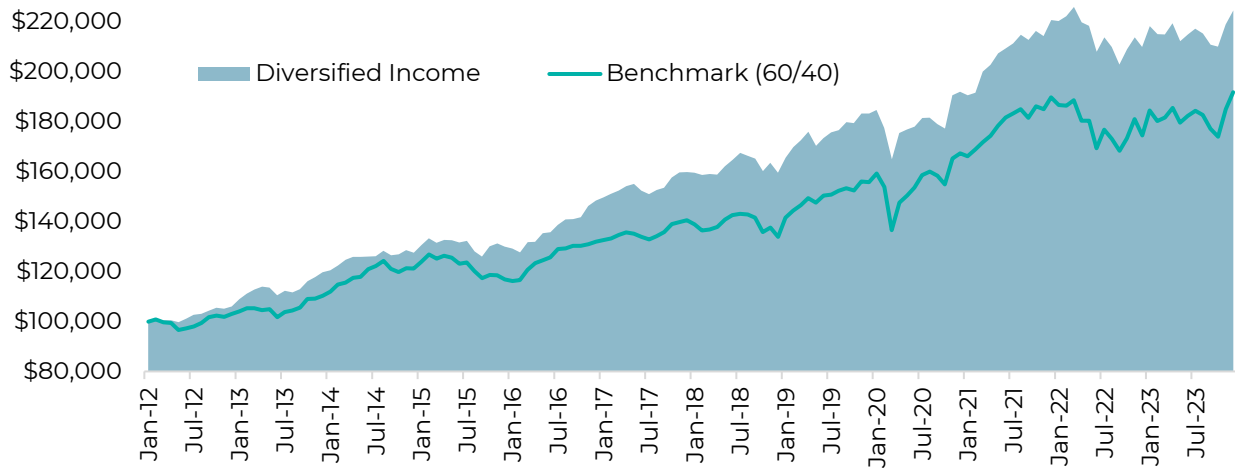
defensive areas such as the U.S. Health Care, Telecom, and Utilities.

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.



ALL PERFORMANCE DATA AS AT DECEMBER 31, 2023

## PERFORMANCE (GROSS OF FEES)

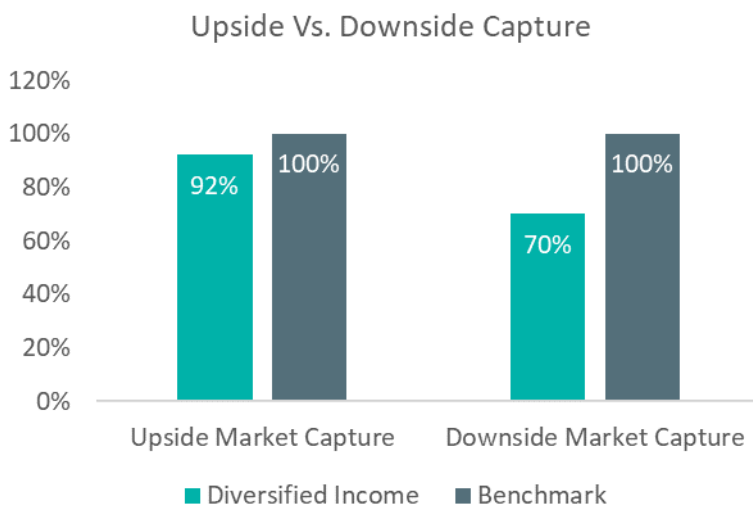


	1-month	3-months	6-months	1-year	YTD	3-year	5-year	7-year	10-year	Inception
<b>Diversified Income</b>	2.6%	6.5%	4.4%	7.0%	7.0%	5.3%	7.1%	6.1%	6.5%	7.0%
<b>Benchmark (60/40)</b>	3.7%	8.3%	5.2%	9.9%	9.9%	4.7%	7.5%	5.5%	5.7%	5.6%
<b>+/-</b>	-1.1%	-1.8%	-0.8%	-3.0%	-3.0%	0.7%	-0.4%	0.6%	0.8%	1.4%

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Diversified Income</b>	12.9%	6.6%	1.8%	14.2%	7.7%	-0.1%	14.8%	4.8%	14.9%	-4.9%
<b>Benchmark (60/40)</b>	7.1%	9.9%	-3.6%	13.0%	6.5%	-4.8%	16.4%	7.4%	13.4%	-8.0%
<b>+/-</b>	5.7%	-3.4%	5.5%	1.3%	1.2%	4.6%	-1.5%	-2.6%	1.5%	3.1%

## RISK METRICS



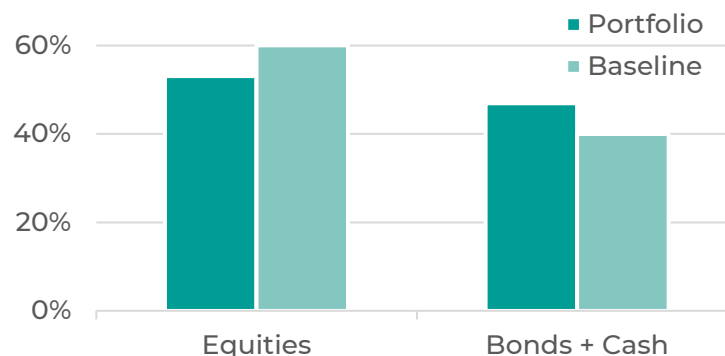
**Sharpe**  
**Max Drawdown**  
**SD**  
**Downside Deviation**  
**Beta**

Diversified	
Income	Benchmark
0.81	0.58
-10.7%	-14.2%
6.8%	8.1%
4.9%	6.6%
0.75	1.00



## COMPOSITION

Name	Industry	Weight	Yield		Diversified Income
TC ENERGY CORP	Energy	2.4%	7.0%	Energy	14.8%
SUNCOR ENERGY INC	Energy	2.9%	4.8%	Materials	8.6%
ARC RESOURCES LTD	Energy	2.5%	3.3%	Industrials	12.9%
NUTRIEN LTD	Materials	2.1%	3.7%	Cons Disc	3.1%
BARRICK GOLD CORP	Materials	2.5%	2.3%	Cons Staples	0.0%
WASTE MANAGEMENT INC	Industrials	2.5%	1.6%	Financials	23.9%
LOCKHEED MARTIN CORP	Industrials	2.5%	2.8%	Health Care	13.4%
FINNING INTERNATIONAL INC	Industrials	1.9%	2.6%	Info Tech	5.4%
MICROSOFT CORP	Information Techno	2.9%	0.8%	Telecom	7.5%
BANK OF NOVA SCOTIA	Financials	2.8%	6.7%	Utilities	7.8%
ROYAL BANK OF CANADA	Financials	4.7%	4.1%	Real Estate	2.7%
TORONTO-DOMINION BANK	Financials	2.5%	4.7%		
MANULIFE FINANCIAL CORP	Financials	2.7%	5.0%		
MAGNA INTERNATIONAL INC	Cons Disc	1.7%	3.4%		
NORTHLAND POWER INC	Utilities	1.6%	5.0%		
EMERA INC	Utilities	2.5%	5.6%		
ROGERS COMMUNICATIONS INC-B	Communication Ser	1.9%	3.2%		
TELUS CORP	Communication Ser	2.1%	6.3%		
MEDTRONIC PLC	Health Care	1.4%	3.3%		
ASTRAZENECA PLC-SPONS ADR	Health Care	2.4%	1.4%		
ALLIED PROPERTIES REAL ESTAT	Real Estate	1.4%	8.8%		
CHARTWELL RETIREMENT RESIDEN	Health Care	3.3%	5.2%		
CANADA GOV	1% 1 Jun 2027	4.4%	3.44%		
ISHARES CORE CANADIAN SHORT	XSB	13.3%	3.40%		
BMO AGGREGATE BOND INDEX ETF	ZAG	12.1%	3.52%		
PURPOSE HIGH INTEREST SAVING	PSA	6.6%	5.41%		
BMO LADDERED PREFERRED SHARE	ZPR	3.0%	5.83%		
BC PROV 2.3%	18-Jun-26	4.9%	3.99%		
		97.4%			
Cash		2.6%	3.9%		



SOURCE: PURPOSE INVESTMENTS &amp; BLOOMBERG



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.

