

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

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SMA MANAGER



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MARKET OVERVIEW

Has this become the market that only goes up? The strong finish to 2023 has certainly carried into the first quarter of 2024. U.S. equity markets are up about 10%, Canada a little bit less, and international markets a little more. The resilience of the U.S. economy has remained and some signs of improvement in Europe and China have fostered a rather ‘glass half full’ market mindset.

The market doesn’t seem to mind the number and the timing of Fed rate cuts keeps getting pushed out farther and fewer. Or for that matter the fact that earnings expectations have remained flat or revised down a little as the indices march higher. It has made a rather expensive market, and not just in the U.S. The TSX was cheap in October at

12.5x, not its 15x which is more normal than cheap.

In the first quarter, the Purpose Diversified Income portfolio returned 3.2%, showcasing a strong performance amidst sometimes challenging market dynamics. While the blended benchmark (60% TSX, 40% FTSE TMX Universe) enjoyed a solid quarter, up 3.4% overall, our mandate delivered consistent returns while weathering an environment where dividend payers appeared completely off investor radar. Toward the end of the month, value and dividend factors had periods of dominance, with momentum and growth at the back of the pack. A shift in market leadership should prove to be very beneficial for dividend-focused strategies.

## PORTFOLIO ACTIVITY

This performance, though lagging slightly, reflects a nuanced reality that dividends don't always outperform. It's imperative to note that outsized influences from the materials sector weighed down returns. Additionally, our overweight position in rate-sensitive sectors, particularly Telecom and Utilities, dragged on performance as did elevated cash levels. Stable, mature dividend-paying stocks often lag when market performance is exceptionally strong. Within our portfolio, outsized influence by some of the more rate-sensitive sectors weighed on our returns, as did not owning many high growth technology companies. In fact, underweight technology was one of the larger detractors from an allocation standpoint.

From a sector perspective, notable gains were observed in Energy, Health Care, and Financials in the quarter. These three sectors were the primary contributors to performance in Q1. From an individual company standpoint, Arc Resources, Suncor and Manulife Financial were the top contributors to returns. Holdings across Telecom stocks, Staples, and Materials tempered overall performance. Telus and Rogers have both been under pressure this year, and Barrick Gold was negative on the quarter, despite a strong finish in March.

With equity markets as strong as they were in the first quarter, our defensive asset allocation tilt also detracted from return. The bond market

was down in the first quarter, with our aggregate bond position losing 2.2%. It thankfully paid off to be short duration, and our shift into preferred shares late last year continues pay off. The BMO Laddered Preferred Share ETF was up 10.4% in the quarter.

This quarter we completed a number of trades. We exited our position in Waste Management, taking profits on the position. Waste Management is an excellent company, but we sold due to valuations concerns after a very strong rally. As managers with a value tilt, take notice when a company with low single digit growth begins to trade at multiples rivaling many AI themed Tech companies, such as Microsoft. We used the proceeds to buy Proctor & Gamble, believing that the bellwether consumer staple stock will provide additional portfolio ballast. In an effort to better align the equity positions within the Diversified Income portfolio with our Core Income portfolio we also trimmed AstraZeneca and added Merck.

Towards the end of March, we also bought Cisco. Cisco has faced its share of challenges recently, particularly in the wake of chip shortages and excess inventory resulting from pandemic-induced customer over-ordering. These setbacks are well known and seem to be priced into the stock already, presenting an opportunity to add a top-tier Tech company that has deep, longstanding enterprise relationships and dominates the networking space. Despite

these short-term hurdles that may take a quarter or two to work out, Cisco's current valuation is attractive. It's well below its five-year average P/E, as well as peers suggesting room for appreciation once these headwinds dissipate.

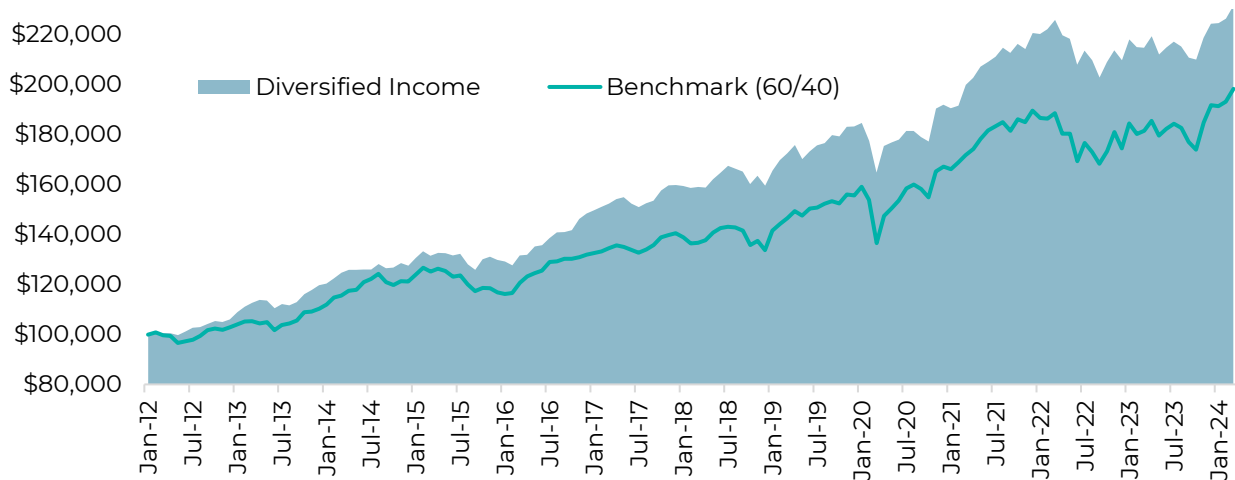
Maybe this market will keep going higher, despite all the arguments for weakness. The Purpose Diversified Income mandate is positioned to continue to benefit from the surge in cyclical areas of the market, but also play defence should markets begin to wobble. More importantly, if (or perhaps when) the euphoria ends, our tilts toward Telcos, Utilities, and Staples as well as elevated cash balance provide a good balance between offense and defence.

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ALL PERFORMANCE DATA AS AT MARCH 31, 2024

## PERFORMANCE (GROSS OF FEES)



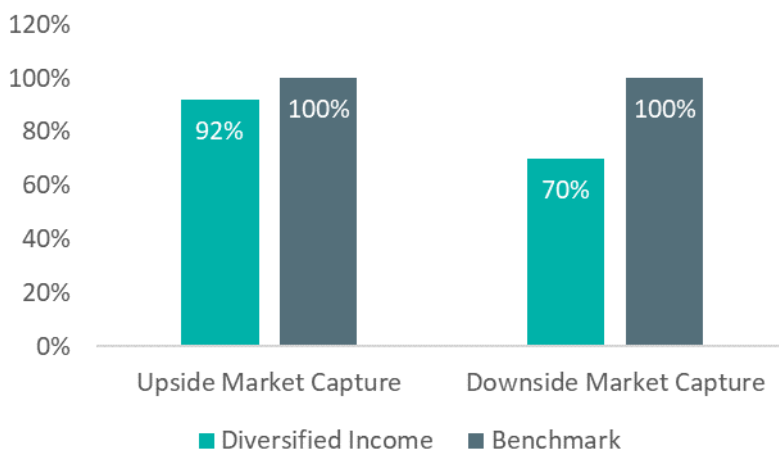
	1-month	3-months	6-months	1-year	YTD	3-year	5-year	7-year	10-year	Inception
<b>Diversified Income</b>	2.3%	3.2%	9.8%	7.8%	3.2%	5.0%	6.1%	6.2%	6.4%	7.1%
<b>Benchmark (60/40)</b>	2.7%	3.4%	12.0%	9.2%	3.4%	4.9%	6.2%	5.7%	5.6%	5.8%
<b>+/-</b>	-0.4%	-0.3%	-2.2%	-1.5%	-0.3%	0.1%	-0.2%	0.5%	0.8%	1.4%

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Diversified Income</b>	6.6%	1.8%	14.2%	7.7%	-0.1%	14.8%	4.8%	14.9%	-4.9%	7.0%
<b>Benchmark (60/40)</b>	9.9%	-3.6%	13.0%	6.5%	-4.8%	16.4%	7.4%	13.4%	-8.0%	9.9%
<b>+/-</b>	-3.4%	5.5%	1.3%	1.2%	4.6%	-1.5%	-2.6%	1.5%	3.1%	-3.0%

## RISK METRICS

### Upside Vs. Downside Capture



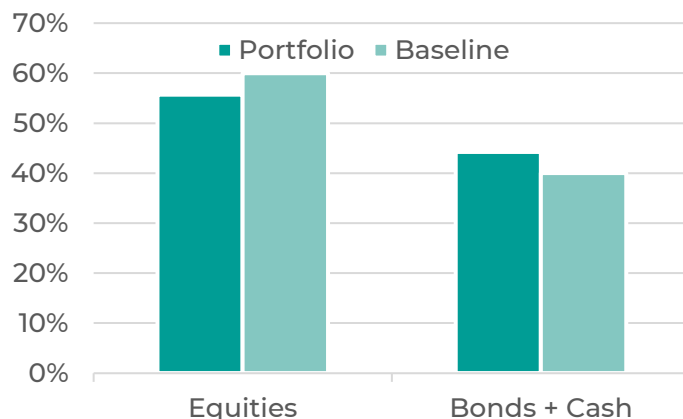
**Sharpe**  
**Max Drawdown**  
**SD**  
**Downside Deviation**  
**Beta**

	Diversified Income	Benchmark
Sharpe	0.80	0.56
Max Drawdown	-10.7%	-14.2%
SD	6.7%	8.1%
Downside Deviation	4.9%	6.5%
Beta	0.75	1.00



## COMPOSITION

<u>Name</u>	<u>Industry</u>	<u>Weight</u>	<u>Yield</u>		<u>Diversified Income</u>
TC ENERGY CORP	Energy	2.3%	7.2%	<b>Energy</b> <b>Materials</b> <b>Industrials</b> <b>Cons Disc</b> <b>Cons Staples</b> <b>Financials</b> <b>Health Care</b> <b>Info Tech</b> <b>Telecom</b> <b>Utilities</b> <b>Real Estate</b>	15.3%
SUNCOR ENERGY INC	Energy	3.2%	4.2%		8.1%
ARC RESOURCES LTD	Energy	3.0%	2.7%		7.9%
NUTRIEN LTD	Materials	2.1%	3.9%		2.7%
BARRICK GOLD CORP	Materials	2.4%	2.3%		4.1%
LOCKHEED MARTIN CORP	Industrials	2.4%	2.8%		22.8%
FINNING INTERNATIONAL INC	Industrials	2.0%	2.4%		16.9%
CISCO SYSTEMS INC	Information Techno	1.48%	3.3%		7.3%
MICROSOFT CORP	Information Techno	2.6%	0.7%		6.1%
BANK OF NOVA SCOTIA	Financials	2.9%	6.2%		6.7%
ROYAL BANK OF CANADA	Financials	4.6%	4.1%	<b>Real Estate</b>	2.1%
TORONTO-DOMINION BANK	Financials	2.2%	5.1%		
MANULIFE FINANCIAL CORP	Financials	3.0%	4.8%		
MAGNA INTERNATIONAL INC	Cons Disc	1.5%	3.6%		
NORTHLAND POWER INC	Utilities	1.5%	5.2%		
EMERA INC	Utilities	2.2%	6.1%		
ROGERS COMMUNICATIONS INC-B	Communication Ser	1.6%	3.7%		
TELUS CORP	Communication Ser	1.8%	7.0%		
PROCTER & GAMBLE CO/THE	Consumer Staples	2.3%	2.4%		
MEDTRONIC PLC	Health Care	1.9%	3.2%		
MERCK & CO. INC.	Health Care	2.42%	2.4%		
ASTRAZENECA PLC-SPONS ADR	Health Care	1.78%	2.9%		
ALLIED PROPERTIES REAL ESTAT	Real Estate	1.1%	10.6%		
CHARTWELL RETIREMENT RESIDEN	Health Care	3.3%	5.1%		
CANADA GOV	1% 1 Jun 2027	4.2%	3.72%		
ISHARES CORE CANADIAN SHORT	XSB	12.8%	2.95%		
BMO AGGREGATE BOND INDEX ETF	ZAG	11.6%	3.58%		
PURPOSE HIGH INTEREST SAVING	PSA	5.1%	4.50%		
BMO LADDERED PREFERRED SHARE	ZPR	3.1%	5.44%		
BC PROV 2.3%	18-Jun-26	4.7%	4.25%		
		97.3%			
	Cash	2.7%	3.8%		



SOURCE: PURPOSE INVESTMENTS &amp; BLOOMBERG

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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.

