

## 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

**As we move forward, economic data, Q3 earnings, and the U.S. election will be key factors influencing market direction.**

### SMA MANAGER



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### MARKET OVERVIEW

September's anticipated market volatility did not materialize as expected. While markets experienced initial fluctuations, a mid-month Fed rate cut ignited a surge in risk appetite and optimism. This positive sentiment propelled both Canadian and U.S. markets to new all-time highs. As we move forward, economic data, Q3 earnings, and the U.S. election will be key factors influencing market direction. Despite the current optimism, uncertainties remain, and valuations, particularly in the U.S., appear moderately stretched.

The global economic landscape is evolving. After a strong first half of 2024, growth indicators are showing signs of deceleration. This shift has been reflected in bond yields, which initially declined but have since

rebounded, suggesting potential improvements in growth prospects. Commodities, buoyed by China's stimulus measures, have experienced a general uptrend, indicating increased demand expectations.

The Purpose Diversified Income portfolio's third-quarter performance of 6.2% lagged the benchmark's 8.8% gain. In such a strong quarter, we would typically expect to underperform the benchmark given the current moderately defensive positioning. The portfolio is slightly underweight in equities. Within the fixed income component, the portfolio has a duration of 4, compared to a benchmark duration of over 7. As yields fell, the shorter duration negatively impacted relative returns.

## PORTFOLIO ACTIVITY

Underweight positions in Financials were the largest single detractor from relative performance. Energy stocks, particularly E&P names, faced challenges due to declining oil prices. While gold prices reached record highs, our gold exposure, including Barrick, remains relatively modest compared to the index. However, in comparison to many other dividend strategies, our gold exposure is actually quite high. Additionally, U.S. Healthcare holdings detracted from returns, reversing some of their previous gains. Microsoft, a significant portfolio position, experienced a pullback amidst broader tech sector selling.

Top-performing investments during the quarter included TC Energy, followed by Bank of Nova Scotia, Lockheed Martin, and Emera. Rate-sensitive stocks outperformed more growth-oriented cyclical names, and elevated cash levels weighed on returns. Our defensive positioning, while contributing to stability, has slightly impacted performance. However, we remain confident in our strategy and believe patience will be rewarded.

During the third quarter, we made several portfolio adjustments, focusing on taking profits from extended positions and seeking out growth opportunities. We added Canadian National Railway, attracted by its year-low valuations, to increase our cyclical exposure. To fund the purchase, we exited our

position in Lockheed Martin. Given the elevated geopolitical tensions in the Middle East, the stock has had a strong run and reached a level where valuations were well above historical averages. We also made changes to our consumer holdings, selling Pet Valu and initiating a new position in Canadian Tire. Canadian Tire's diverse product offerings and attractive valuations make it well-positioned to navigate the challenges facing Canadian consumers. In addition to these trades, we also initiated a position in Cameco. Cameco's share price had fallen nearly 30% from its highs earlier this year, but the long-term trends remain favorable. There is rising demand for nuclear energy as a clean, reliable power source amid global decarbonization efforts. As one of the world's largest uranium producers, Cameco is well-positioned to benefit from tightening supply and increasing uranium prices. With a strong balance sheet, Cameco offers solid growth potential.

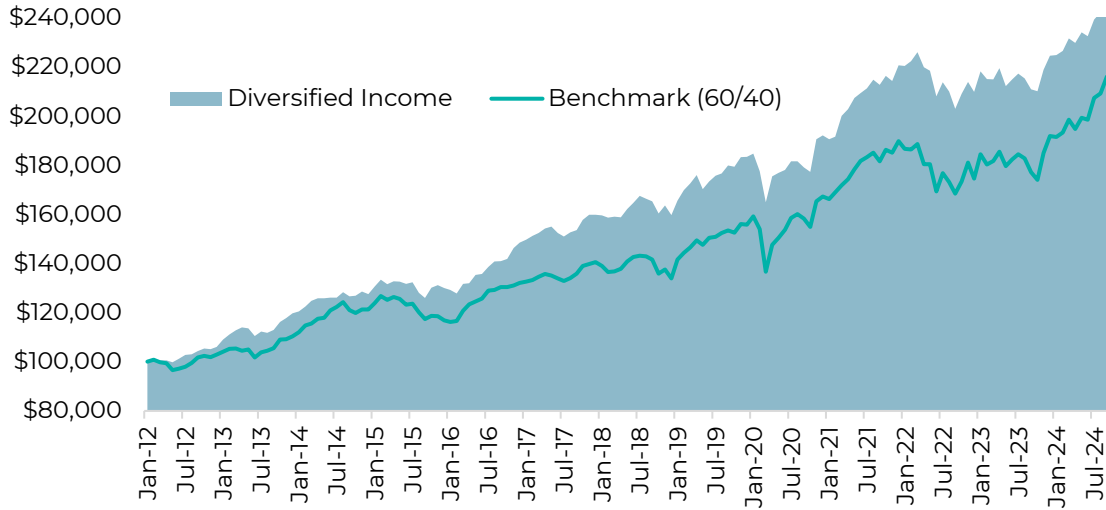
As we enter a historically volatile period for markets, we maintain a slightly defensive stance. By holding elevated cash levels and focusing on defensive sectors like Healthcare, Consumer Staples, Telecom, and Utilities, we believe the portfolio is well-prepared to weather potential market turbulence. Unlike many income focused mandates, our portfolio maintains balanced exposure to cyclicals, which can

outperform during rising interest rate environments. While defensive stocks have recently outperformed, the recent reversal in cyclical performance is a trend worth monitoring.

**Unlike many income focused portfolios, our portfolio maintains a balanced exposure to cyclicals, which can outperform during rising interest rate environments**



**PERFORMANCE (GROSS OF FEES)**



Source: Purpose Investments, gross of fees

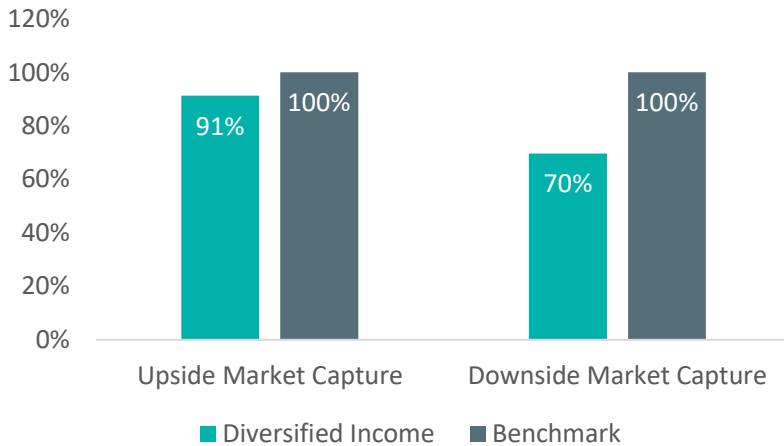
	1-month	3-months	6-months	1-year	YTD	3-year	5-year	7-year	10-year	Inception
<b>Diversified Income</b>	2.0%	6.2%	6.6%	17.1%	10.0%	5.1%	6.5%	7.0%	6.9%	7.4%
<b>Benchmark (60/40)</b>	3.3%	8.8%	8.8%	21.9%	12.6%	6.0%	7.1%	6.8%	6.0%	6.3%
<b>+/-</b>	-1.3%	-2.6%	-2.3%	-4.8%	-2.6%	-0.9%	-0.5%	0.2%	0.9%	1.1%

	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

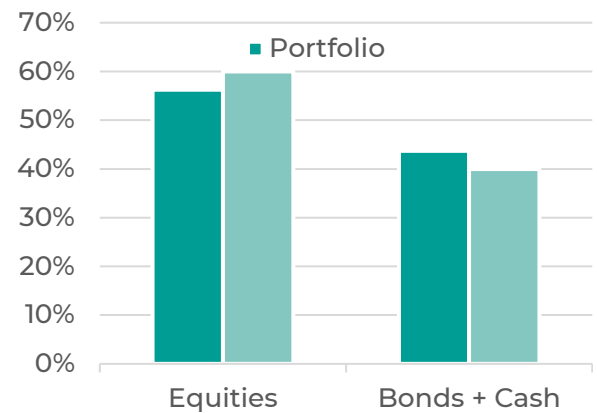


	Diversified Income	Benchmark
<b>Sharpe</b>	0.88	0.61
<b>Max Drawdown</b>	-10.7%	-14.2%
<b>SD</b>	6.7%	8.1%
<b>Downside Deviation</b>	4.8%	6.4%
<b>Beta</b>	0.74	1.00



## COMPOSITION

Name	Industry	Weight	Yield
TC ENERGY CORP	Energy	2.6%	6.2%
SUNCOR ENERGY INC	Energy	3.3%	3.9%
ARC RESOURCES LTD	Energy	2.8%	2.7%
VEREN INC	Energy	1.2%	5.2%
CAMECO CORP	Energy	1.4%	0.2%
NUTRIEN LTD	Materials	1.8%	4.4%
BARRICK GOLD CORP	Materials	2.6%	2.0%
CANADIAN NATL RAILWAY CO	Industrials	1.9%	2.1%
FINNING INTERNATIONAL INC	Industrials	2.0%	2.5%
CISCO SYSTEMS INC	Information Techno	1.6%	3.0%
MICROSOFT CORP	Information Techno	2.4%	0.8%
BANK OF NOVA SCOTIA	Financials	2.9%	6.0%
ROYAL BANK OF CANADA	Financials	2.6%	3.4%
BANK OF MONTREAL	Financials	2.1%	5.0%
TORONTO-DOMINION BANK	Financials	2.2%	4.9%
SUN LIFE FINANCIAL INC	Financials	2.0%	4.1%
PET VALU HOLDINGS LTD	Cons Disc	1.2%	1.7%
NORTHLAND POWER INC	Utilities	1.3%	5.6%
EMERA INC	Utilities	2.3%	5.7%
ROGERS COMMUNICATIONS INC-B	Communication Ser	1.5%	3.8%
TELUS CORP	Communication Ser	1.8%	7.1%
PROCTER & GAMBLE CO/THE	Consumer Staples	2.4%	2.4%
MOLSON COORS BEVERAGE CO - B	Consumer Staples	1.7%	3.2%
MEDTRONIC PLC	Health Care	2.0%	3.1%
MERCK & CO. INC.	Health Care	2.0%	2.8%
ASTRAZENECA PLC-SPONS ADR	Health Care	2.0%	1.3%
ALLIED PROPERTIES REAL ESTAT	Real Estate	1.2%	9.3%
CHARTWELL RETIREMENT RESIDEN	Health Care	1.8%	4.0%
CANADA GOV	1% 1 Jun 2027	4.1%	2.97%
ISHARES CORE CANADIAN SHORT	XSB	12.5%	3.19%
BMO AGGREGATE BOND INDEX ETF	ZAG	15.9%	3.48%
PURPOSE HIGH INTEREST SAVING	PSA	5.4%	4.00%
BMO LADDERED PREFERRED SHARE	ZPR	3.2%	5.12%
		<b>97.4%</b>	
	Cash	2.6%	3.6%



	Diversified Income
<b>Energy</b>	18.9%
<b>Materials</b>	7.3%
<b>Industrials</b>	6.5%
<b>Cons Disc</b>	2.0%
<b>Cons Staples</b>	6.7%
<b>Financials</b>	19.5%
<b>Health Care</b>	12.8%
<b>Info Tech</b>	6.7%
<b>Telecom</b>	5.3%
<b>Utilities</b>	6.0%
<b>Real Estate</b>	2.1%



All data sourced from Bloomberg unless otherwise noted.

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