

# Interim Management Report of Fund Performance

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**ADDENDA INCOME FOCUS FUND**

June 30, 2022

This interim management report of fund performance contains financial highlights but does not contain the interim financial report of the investment fund. You can get a copy of the interim financial report at your request, and at no cost, by calling toll-free 1 866 908-3488, by writing to us at 800 René-Lévesque Blvd. West, Suite 2750, Montréal, Québec H3B 1X9 or by visiting our website at [addendacapital.com](http://addendacapital.com) or SEDAR at [sedar.com](http://sedar.com). Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

#### **Notes on Forward-looking Statements**

This report may contain forward-looking statements concerning the Fund, its future performance, its strategies or prospects or about future events or circumstances. Such forward-looking statements include, among others, statements with respect to our beliefs, plans, expectations, estimates and intentions. The use of the expressions “foresee”, “intend”, “anticipate”, “estimate”, “assume”, “believe” and “expect” and other similar terms and expressions indicate forward-looking statements. By their very nature, forward-looking statements imply the use of assumptions and necessarily involve inherent risks and uncertainties. Consequently, there is a significant risk that the explicit or implicit forecasts contained in these forward-looking statements might not materialize or that they may not prove to be accurate in the future. A number of factors could cause future results, conditions or events to differ materially from the objectives, expectations, estimates or intentions expressed in such forward-looking statements. Such differences might be caused by several factors, including changes in Canadian and worldwide economic and financial conditions (in particular interest and exchange rates and the prices of other financial instruments), market trends, new regulatory provisions, competition, changes in technology and the potential impact of conflicts and other international events. The foregoing list of factors is not exhaustive. Before making any investment decision, investors and others relying on our forward-looking statements should carefully consider the foregoing factors and other factors. We caution readers not to rely unduly on these forward-looking statements. We assume no obligation to update forward-looking statements in the light of new information, future events or other circumstances unless applicable legislation so provides.

# Addenda Income Focus Fund

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## Management Discussion of Fund Performance

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### Investment Objective and Strategies

The Addenda Income Focus Fund's (the "Fund") investment objective is to provide income while focusing on capital preservation and providing some potential for capital growth by investing primarily in a mix of domestic and foreign fixed income-oriented securities and to a lesser extent, domestic and foreign equity securities through a sustainable investment approach. Such investments may be made by the Fund either directly or indirectly through investments in other mutual funds, including ETFs.

To achieve the Fund's investment objective, the Manager uses strategic asset allocation as the principal investment strategy. The Fund has a target weighting of 65-95% in Fixed Income and Money Market, and a target weighting of 5-35% in Equity.

In addition, in selecting the majority of the securities in which the Fund invests, the Manager will integrate the "Sustainable Investing Framework" described on page 27 of the Simplified Prospectus. This includes the consideration of environmental, social and governance (ESG) matters as well as active stewardship, which covers engagement with issuers and proxy voting.

### Risk

There were no significant changes to the investment objectives or strategies that affected the Fund's overall level of risk during the period. There were no changes to the Fund's risk rating during the reporting period. This Fund remains suitable for investors who are seeking a combination of current income and some long term growth and who have a low tolerance for risk.

### Results of Operations

The Fund was launched on March 31, 2022, and its net asset value was \$92,798,393 million as of June 30, 2022. Investment performance is not provided for a fund that has been available for less than one year.

### Recent Developments

Central banks hardened their stance on inflation during the period. In the second quarter alone, the Bank of Canada hiked the overnight target rate 100 bps while the Federal Reserve tightened their target range by 125 bps, while also signaling more to follow. The risk of recession is growing. Corporate spreads continued to widen in Canada, driven by rising interest rates, weak equity markets, and a growing concern about slowing economic momentum in the future. Persistent and higher than expected inflation may continue to pressure interest rates higher.

Market volatility could remain elevated throughout the year as a result of higher rates and inflation. It is anticipated that commodity, energy, and agriculture prices should stay firm for a longer period of 12 to 18 months, which may support a large portion of the Canadian equity markets. International equities may be more negatively impacted by a slowdown in China and the ongoing war between Russia and Ukraine.

Against this backdrop, the Fund ended the period underweight in its fixed income component due to concerns related to interest rates. Within the equity component, the Fund was overweight in Canadian equities while being underweight in U.S. and International equities.

In line with the Sustainable Investing Framework, the climate change investment theme represented the largest share of Addenda's Canadian fixed income impact investments. Focus areas of the climate change theme included renewable energy, energy efficiency and clean transportation. Community development is also a theme in Addenda's Canadian fixed income impact investments and includes focus areas such as credit unions.

As part of our climate transition approach, we pursued engagement with numerous companies on issues regarding climate strategy. We added a new equity holding in a Canadian natural gas producer as we expect continued strong supply-demand characteristics for natural gas. We also added to our equity position in a Canadian fertilizer company as geopolitical events tightened an already tight market for potash and nitrogen.

### Related Party Transactions

Addenda Capital Inc. ("Addenda") is the Manager and Portfolio Manager of the Fund. Addenda is controlled by Co-operators Financial Services Limited ("CFSL"), a wholly-owned subsidiary of Co-operators Group Limited. Addenda pays the "Operating Expenses" (defined below) of the Fund other than its "Fund Expenses" (defined below), in exchange for the Fund's payment to the Manager of annual fixed-rate administration fees with respect to each series of the Fund.

The administration fees are equal to a percentage of the net asset value of each series of the Fund calculated and paid in the same manner as the Fund's management fees. The Operating Expenses include, but are not limited to: audit and legal fees; transfer agency and recordkeeping costs; accounting and valuation fees; safekeeping and custodial costs; trustee services costs; and the costs of preparing and distributing financial reports, prospectuses, annual information forms, fund facts, continuous disclosure materials and other investors communication.

In addition to administration fees, the Fund shall also pay certain Fund Expenses, namely: taxes (including, without limitation, GST and PST or HST, capital taxes, income taxes and withholding taxes); bank charges, borrowing and interests; termination fees; regulatory filing fees; costs related to the Independent Review Committee; Operating Expenses incurred outside of the normal course of business of the Fund; costs of compliance with newly adopted securities regulations; and costs associated with portfolio transactions, brokerage fees and other trading expenses.

The Fund also pays annual management fees to Addenda as consideration for its services.

For more details on the Fund's fees and expenses, please refer to the Simplified Prospectus on page 19.

Addenda has established the IRC for the Fund in accordance with the requirements of *National Instrument 81-107 - Independent Review Committee for Investment Funds* in order to review conflicts of interest as they relate to investment fund management. The Fund did not rely on an approval, positive recommendation or standing instruction from the Fund's IRC with respect to any related party transactions in the period.

CFSL may invest in the Fund. All these investments are made on a prospectus-exempt basis. As at June 30, 2022, Addenda held 2 Fund securities for a value of \$19, which represented close to 0% of the net asset value of the Fund at that date. Transactions between Addenda and the Fund were carried out in the normal course of business.

# Addenda Income Focus Fund

## Related Party Transactions (continued)

As at June 30, 2022, CFSL held 9,705,542 Fund securities for a value of \$92,798,374, which represented close to 100% of the net asset value of the Fund at that date. Transactions between CFSL and the Fund were carried out in the normal course of business.

As a result of these transactions, the Fund may be subject to large investor risk as discussed in the Simplified Prospectus. Addenda manages this risk to reduce the possibility of any adverse effect on the Fund or on its investors, through such processes as requiring advance notice of large redemptions and large transaction fee.

## Financial Highlights

Since the present Interim Management Report of Fund Performance is the first interim report submitted for this Fund, National Instrument 81-106 does not permit the presentation of financial highlights. The Fund's units were available since March 31, 2022.

## Past Performance

Since the present Interim Management Report of Fund Performance is the first interim report submitted for this Fund, National Instrument 81-106 does not permit the presentation of past performance. The Fund's units were available since March 31, 2022.

## Summary of Investment Portfolio

The investments and percentages will change over time due to ongoing portfolio transactions and market movements. A quarterly update of the Summary of Investment Portfolio is available and may be obtained by asking your representative for a copy, contacting the Manager, Addenda at 1 866 908-3488 or [mutualfunds@addendacapital.com](mailto:mutualfunds@addendacapital.com), or by visiting [addendacapital.com](http://addendacapital.com) or [sedar.com](http://sedar.com).

## Top 25 Holdings

As at June 30, 2022

Security	% of net asset value
1. Government of Canada, Series N670, 2.250%, 2029-12-01	11.0
2. Government of Canada, Series N597, 2.000%, 2032-06-01	6.2
3. Province of Ontario, Series DMTN251, 1.550%, 2029-11-01	5.5
4. Franklin Liberty Global Aggregate Bond ETF (CAD-Hedged)	5.2
5. Hydro-Québec, Series 20, 6.000%, 2040-02-15	4.6
6. Canada Treasury Bills, 2022-09-01	4.1
7. iShares U.S. High Yield Bond Index ETF	2.8
8. Province of Ontario, Series DMN254, 3.750%, 2032-06-02	2.8
9. Manulife Financial Corp., 3.317%, (Floating rate starting in 2023), 2028-05-09	2.7
10. Government of Canada, Series M680, 1.750%, 2053-12-01	2.7
11. Lower Mattagami Energy L.P., Series 21-1, 2.433%, 2031-05-14	2.3
12. Province of Ontario, Series DMTN244, 1.850%, 2027-02-01	2.0
13. Brookfield Renewable Partners ULC, Series 11, 4.250% 2029-01-15	1.7
14. Province of Québec, 3.650%, 2032-05-20	1.5
15. Coast Capital Savings Federal Credit Union, 5.000% (Floating rate starting in 2023), 2028-05-03	1.4
16. Province of Ontario, Series DMTN236, 2.900%, 2049-06-02	1.3
17. Fédération des caisses Desjardins du Québec 2.417%, 2024-10-04	1.3
18. Sun Life Financial Inc., Series 2019-1, 2.380% (Floating rate starting in 2024), 2029-08-13	1.3
19. Central 1 Credit Union, Series 7, 2.391% (Floating rate starting in 2026), 2031-06-30	1.3
20. Ontario Power Generation Inc., Series 3, 4.250%, 2049-01-18	1.2
21. Brookfield Renewable Partners ULC, Series 12, 3.380% 2030-01-15	1.1
22. Toronto-Dominion Bank	1.1
23. Hospital for Sick Children, Series B, 3.416%, 2057-12-07	1.1
24. University of Toronto, Series B, 5.841%, 2043-12-15	1.0
25. FortisBC Energy Inc., Series 33, 2.540%, 2050-07-13	1.0
<b>Total % of Top 25 Investments</b>	<b>68.2</b>

## Asset Mix (%)

As at June 30, 2022



