

2023 Outlook Presentation

If Not Banks Then What?

June 2023



VERITAS
Asset Management

Veritas Core Values



Always put Investors first



Hire, train, and develop the best people



Lead with fundamental and accounting analysis



Turn facts and ideas into actionable investments



Strive for objectivity, conviction and investment discipline

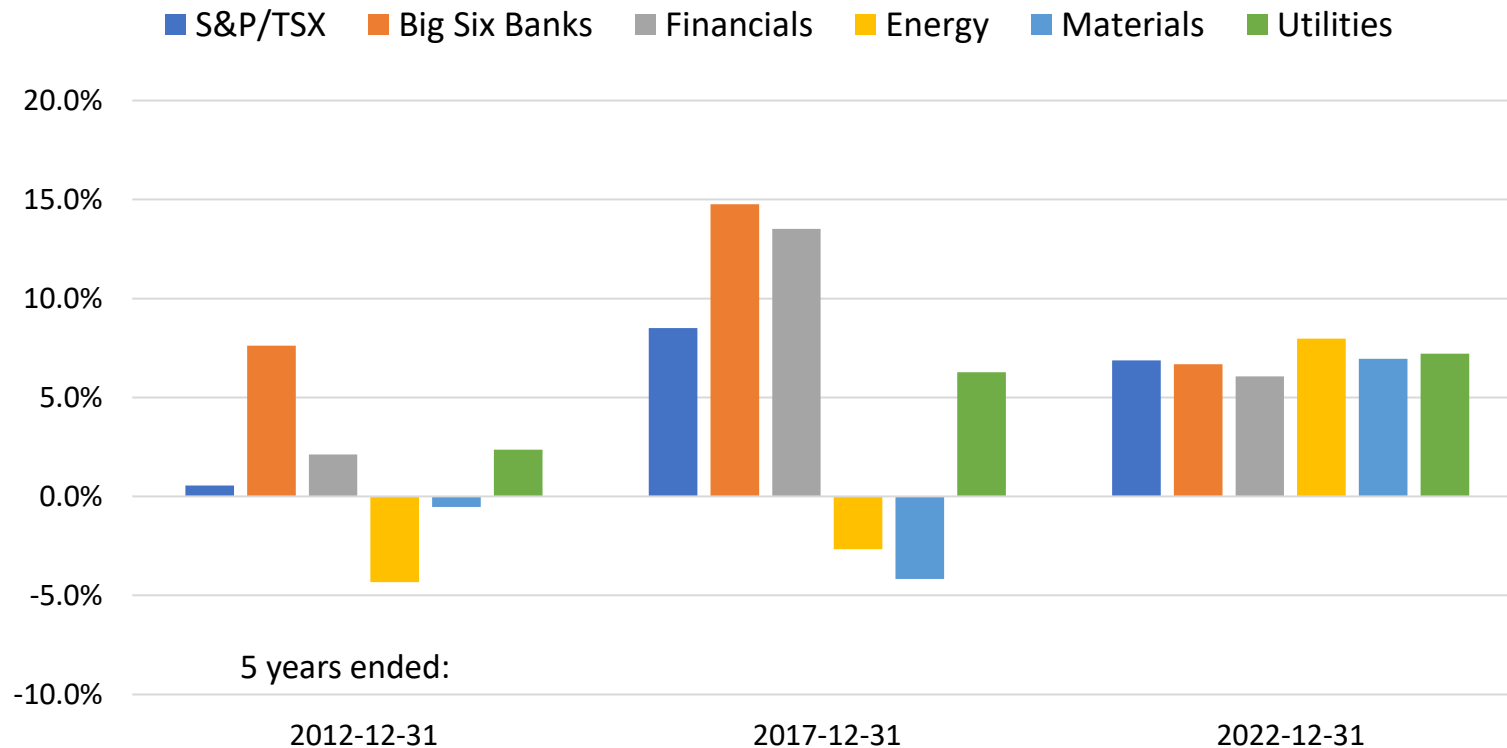
Key Themes to Watch

- Ongoing pressures from higher interest rates and inflation
- Not all consumers, products and companies feel inflation the same way
- Bank earnings showing rising funding costs, wages and loss provisions
- Early warning signs of contracting credit, weaker economy
- Commercial real estate poses a very real threat
- Looking for alternatives to Financials

There are many paths to success – some are lower risk than others.

The Canadian Bank Dilemma

Annualized Total Returns – Big Six and Sub-Index ETFs



With Financials 30% of the S&P/TSX and the Big Six Banks at 20% ...

- The S&P/ TSX index carries sizable exposure to potential weakness in credit markets.
- There are years where you have to own banks ...
- And years where you can and should dial them back.

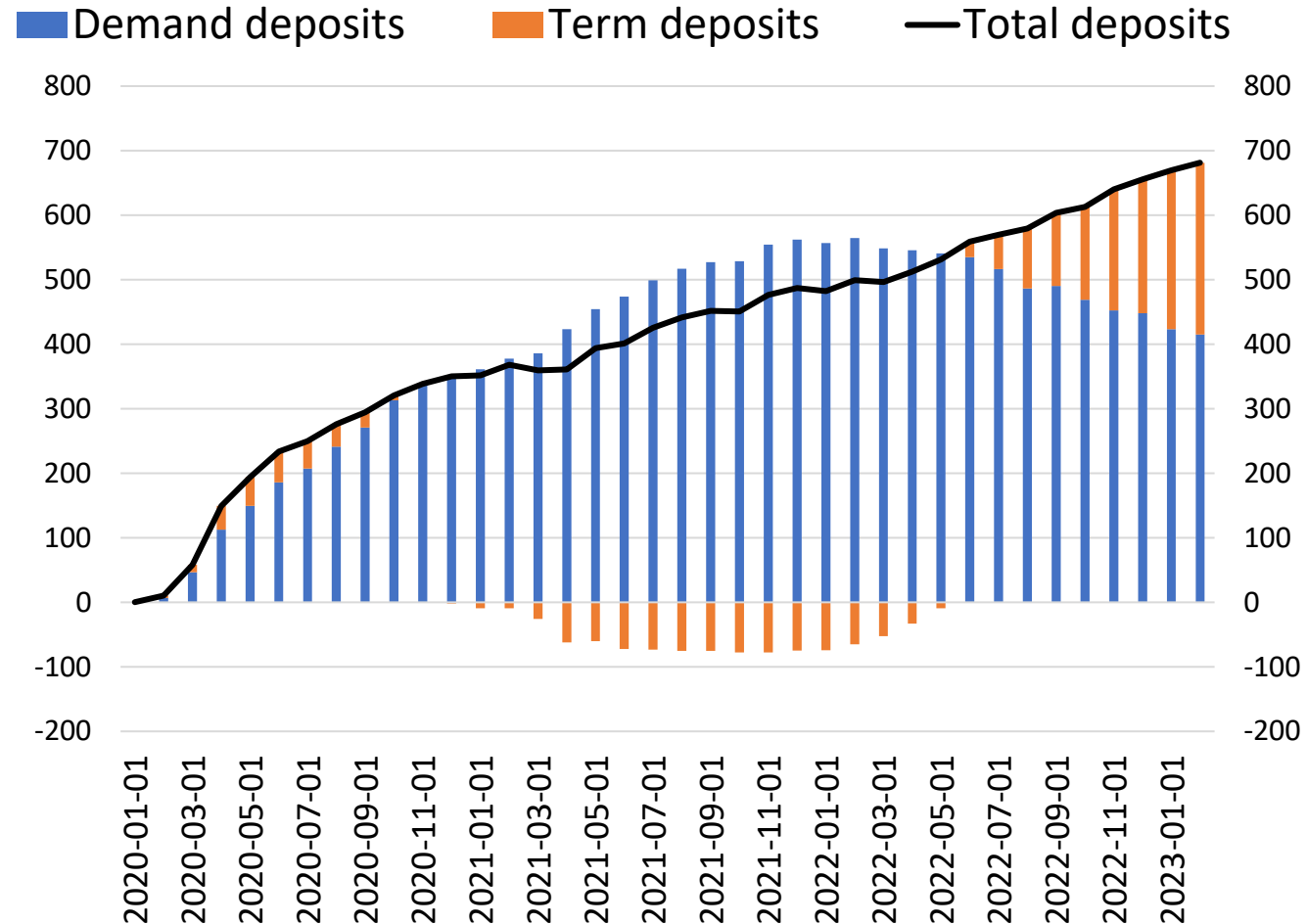
Source: Refinitiv data, Veritas Asset Management Inc. estimates

Risks Facing Canadian Financials

- Funding mix and rising deposit costs
- Mortgage rollovers and interest rate pass-throughs
- Weakening credit conditions
- A potential turn in the economic cycle

A Shift in Deposit Mix Is Already Underway

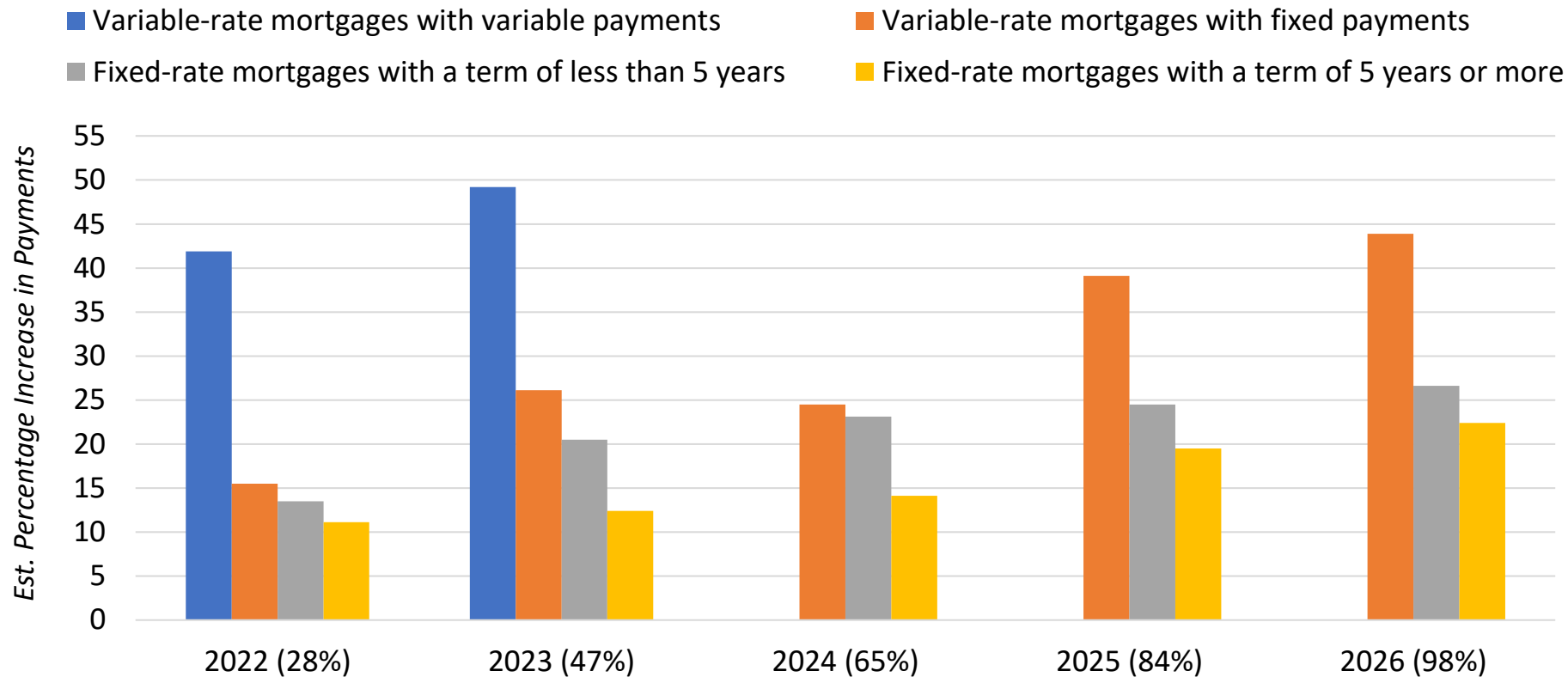
Canadian Bank Deposits: Change versus Jan 2020



- Canadian Banks enjoyed a surge in demand deposits during the pandemic.
- That surge is now reversing with customers shifting into term deposits at higher rates.

Mortgage Rollover Risks

Est. Increase in Payments versus Feb. 2020

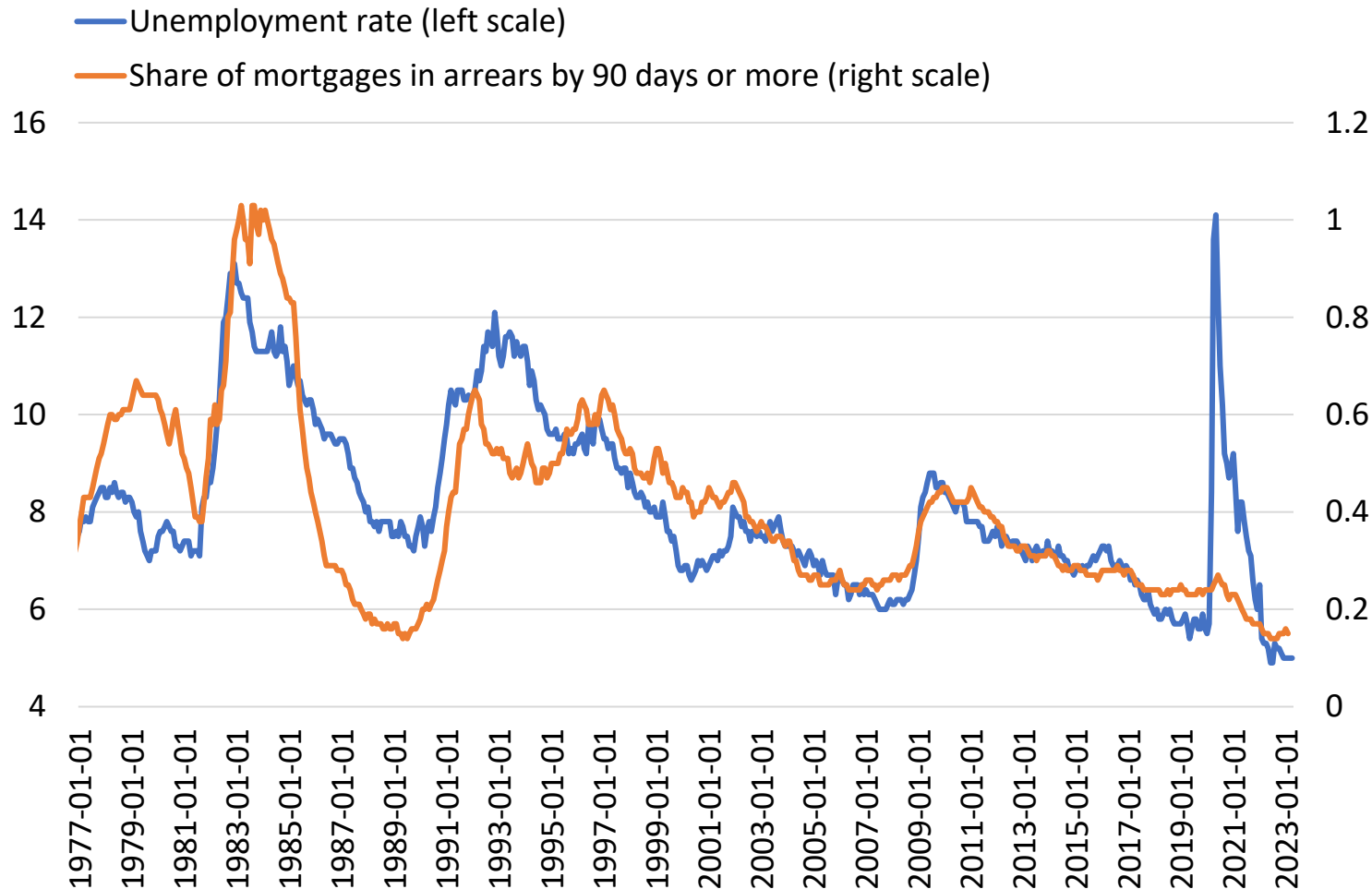


In brackets: Percentage of February 2022 mortgage balances that will have rolled over

Source: Bank of Canada Financial System Review, May 2023

Employment Currently a Tailwind

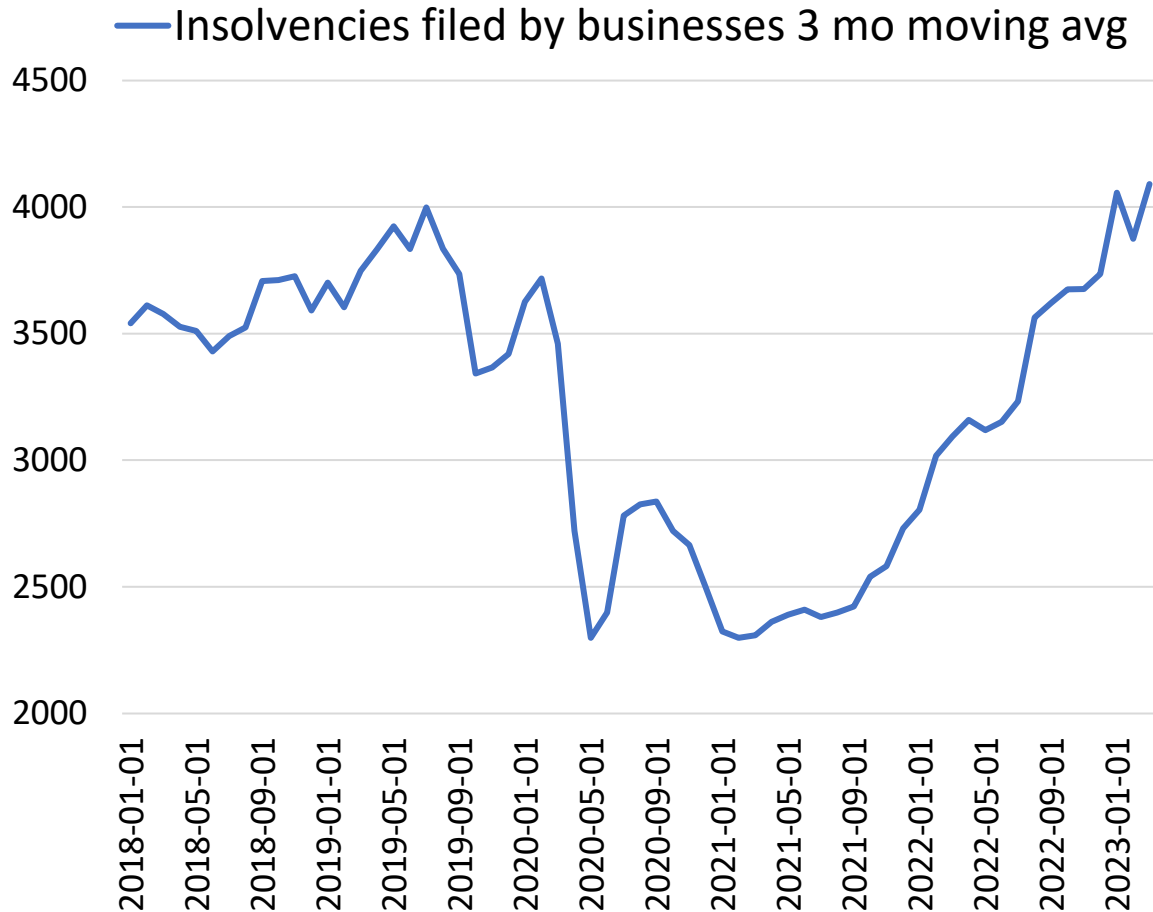
Unemployment Rates Drive Mortgage Arrears



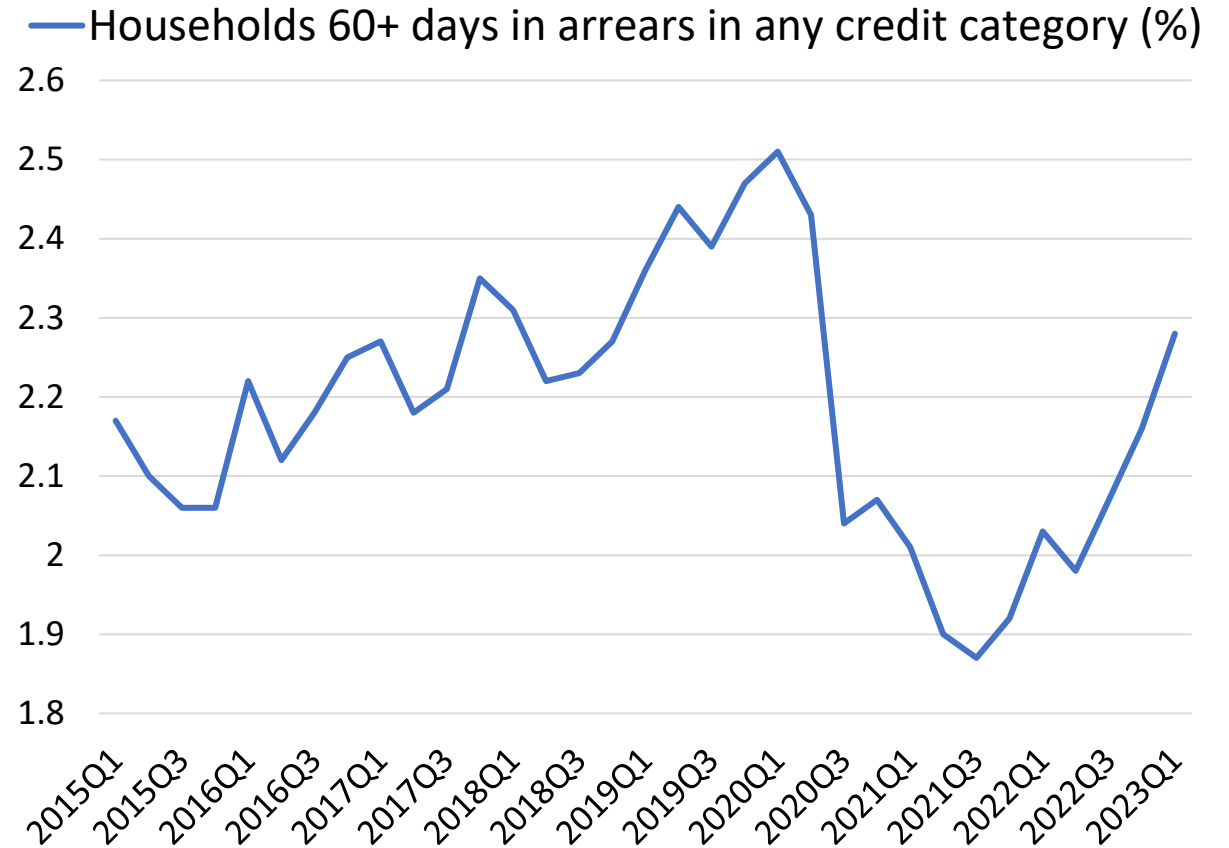
- Currently strong employment conditions are helping keep arrears rates low.
- Unemployment and arrears typically rise quickly in an economic downturn.

Weakening Credit Conditions

Business Insolvencies Back to Pre-Pandemic Levels



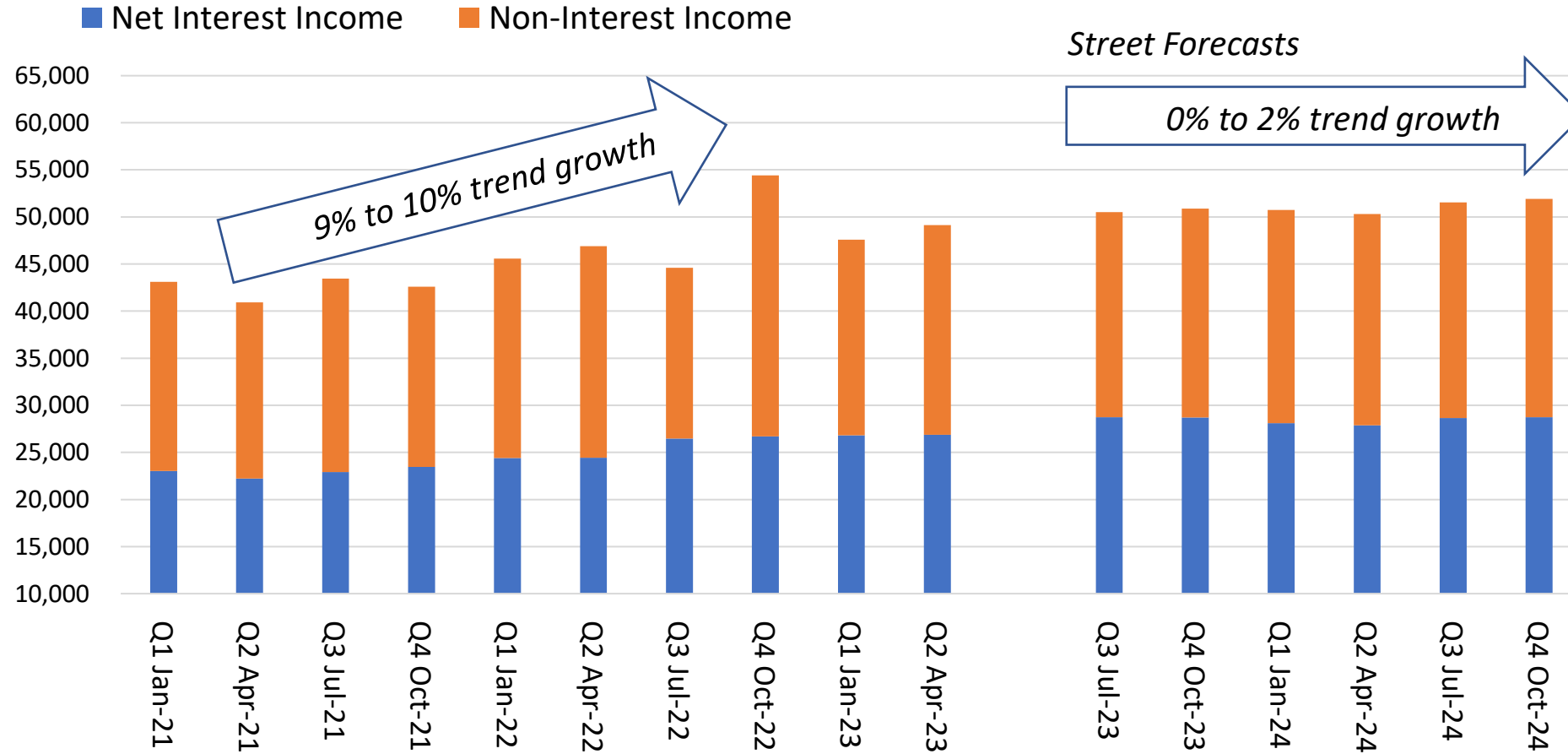
Credit Arrears Back to Pre-Pandemic Levels



Source: Bank of Canada Financial System Review, May 2023

Slowdown Coming for the Top Line

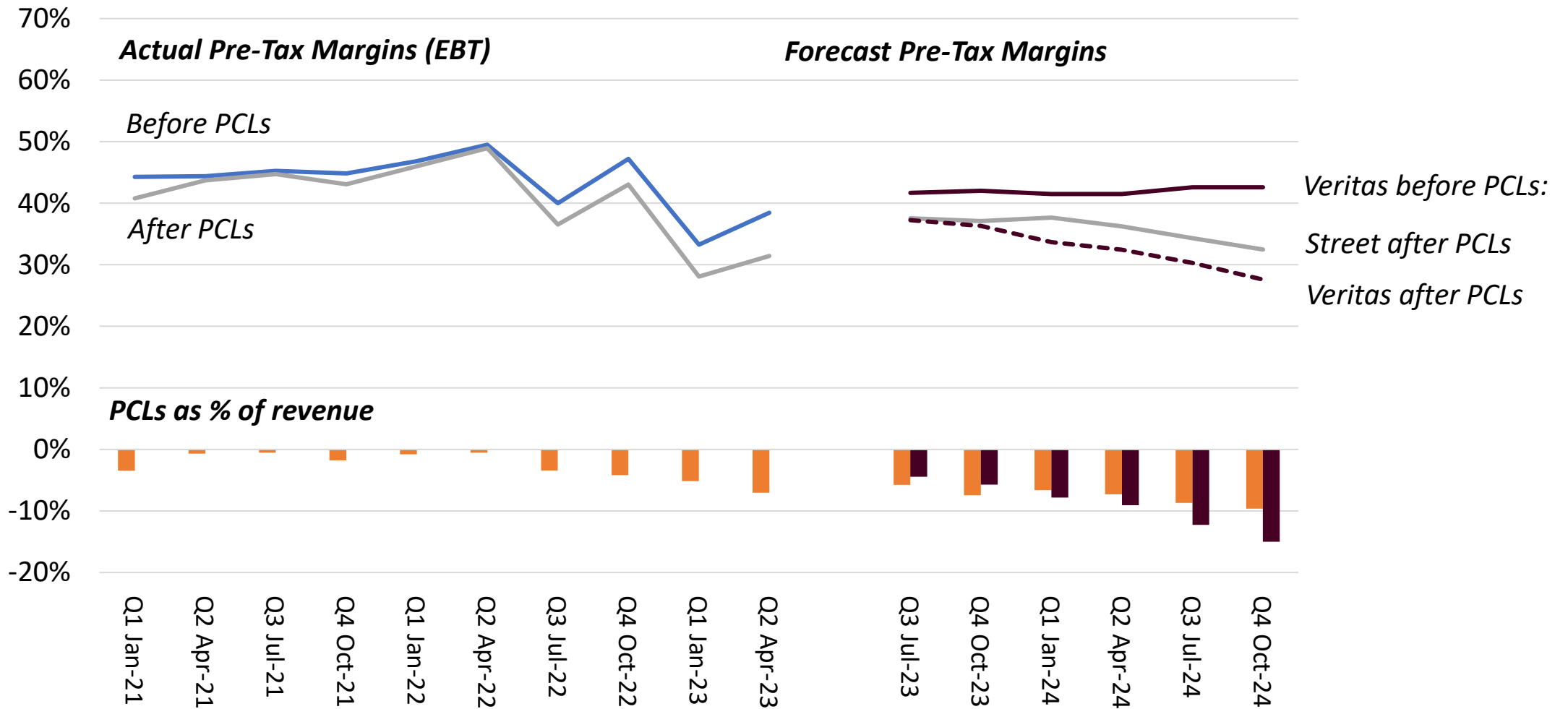
Big Six Aggregate Quarterly Revenues (C\$ millions)



Source: Refinitiv data, Veritas Asset Management Inc. estimates

Banks Facing Margin Pressures

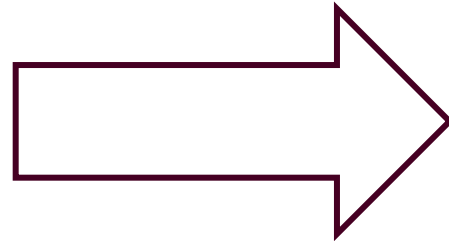
Big Six Banks Aggregate Quarterly Margins (% of Revenues)



Source: Refinitiv data, Veritas Investment Research Corp. estimates

If Not Financials Then What?

Underweight



Overweight



Characteristics we like:

- Inelastic demand
- Margins holding up
- Strong balance sheets
- Prices rising
- Attractive yields
- Growth opportunities
- Pass through pricing
- Attractive yields
- Development potential

Staples: Boring but Beautiful

	Yield	TTM P/CF	Advantages
Alimentation Couche-Tard	0.9%	11.5x	<ul style="list-style-type: none"> • At global scale • Long M&A track record • Resilient fuel margins
Loblaw	1.6%	7.3x	<ul style="list-style-type: none"> • Discount banners • Pharmacy
Metro	1.7%	14.7x	<ul style="list-style-type: none"> • Double digit EPS growth

Consumer Staples:

- 4.2% S&P/TSX index weight
- Over 42% of the TSX Staples weight is ATD
- Another 42% is grocers

Source: Refinitiv data, Veritas Asset Management Inc. estimates

Utilities: Stability and Growth

Key Advantages

- 3.4% yield
- Rate base growth
- Green energy comes with higher prices and ROEs
- Ability to pass through capital costs in rate setting
- Targeted opportunities at 500 bps above debt cost

Utilities:

- 4.6% S&P/TSX index weight relatively well distributed among names

Source: Refinitiv data, Veritas Asset Management Inc. estimates

REITs: Residential and Retail

Key Advantages

- Sector trading at a discount to book (~0.8x)
- Attractive yield averaging ~4.2%
- Fixed rate debt adjusts slowly to higher rates
- Residential REITs facing high occupancy rates with ability to pass through rent increases
- A number of names carry development portfolios not valued into their share price

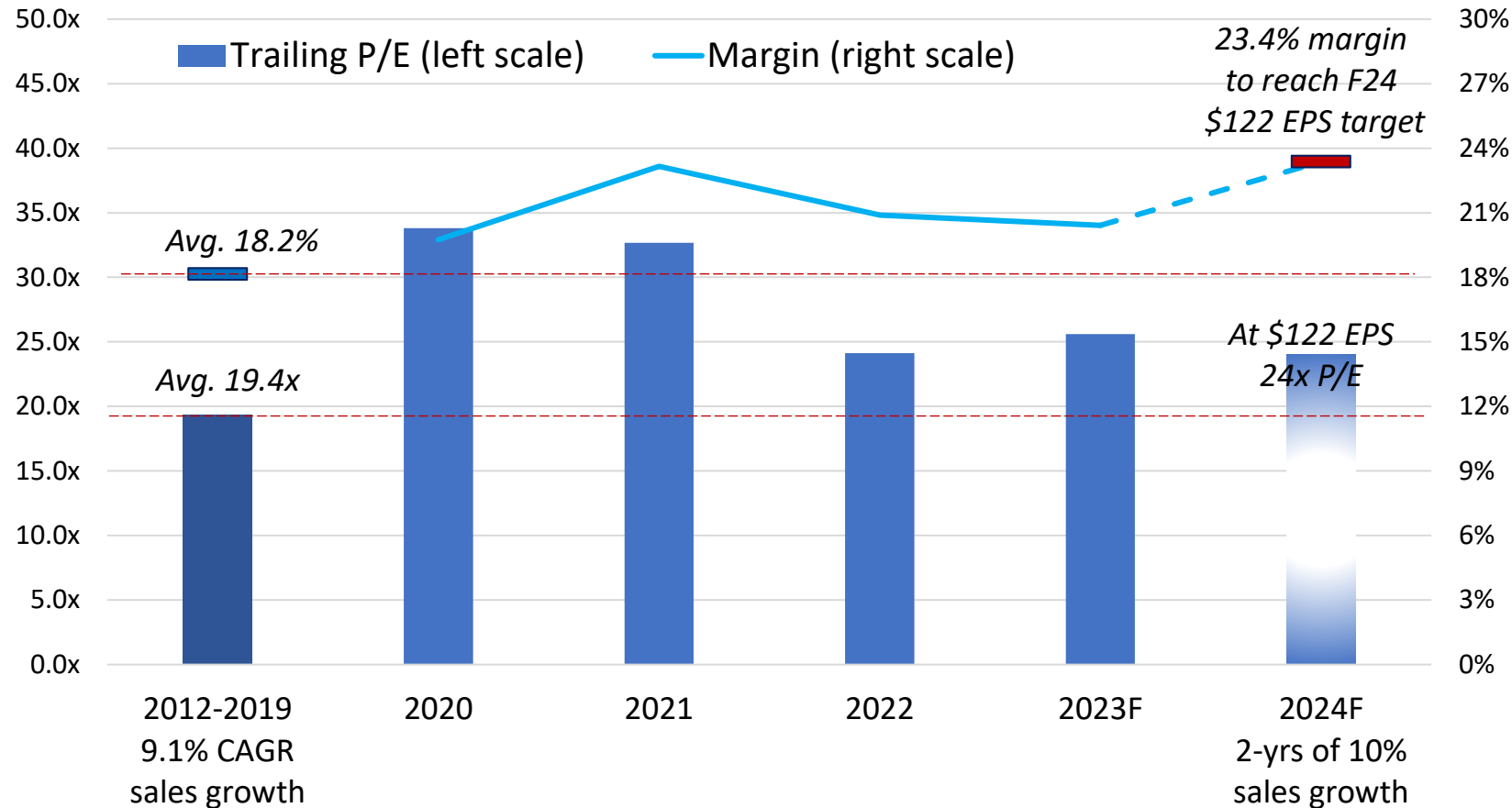
REITs:

- 2.5% S&P/TSX index weight relatively well distributed among sectors and names
- Approx. one quarter of the weight is retail REITs
- Approx. one sixth is residential REITs

Source: Refinitiv data, Veritas Asset Management Inc. estimates

Risks Baked Into the Info Tech Rally

S&P 500 IT Sector Operating Estimates



- Very high IT margins needed to hit current F24 EPS targets for the sector
- Any correction likely to spill over into Canadian IT valuations

Source: S&P Global estimates, Veritas Asset Management Inc. estimates

Veritas Canadian Equity Fund



About the Fund:

Long-only portfolio targeting high-quality, cash generating companies with attractive long-term prospects

Access to our highest conviction ideas to complement your North American holdings

Medium Risk, Canadian Equity

Performance

	2019	2020	2021	2022	YTD	1 Year	3 Year	Inception	Volatility ²	Correlation ³	Beta ¹
CEF F	20.3%	-4.9%	22.8%	-1.0%	0.3%	-1.9%	10.9%	6.1%	12.6	0.90	0.80
S&P/TSX	22.9%	5.6%	25.1%	-5.9%	2.3%	-2.5%	12.1%	7.8%	15.8	1.00	1.00

Full details for Veritas Mutual Funds can be found in the Fund's Simplified Prospectus at www.veritasfunds.com

Veritas Absolute Return Fund



About the Fund:

Long-short strategy that diversifies your clients' equity exposures to smooth long-term returns

Designed to participate in up markets while lowering downside risks, index correlation and volatility

Daily liquidity and no performance fees

Medium Risk, Alternative

Performance

	2020	2021	2022	YTD	1 Year	3 Year	Inception	Volatility ²	Correlation ³	Beta ¹
VAR Series F	3.3%	22.8%	-5.2%	-3.0%	-8.9%	6.5%	5.2%	9.7	0.21	0.12
S&P/TSX	5.6%	25.1%	-5.9%	2.3%	-2.5%	12.1%	8.1%	17.2	1.00	1.00

Full details for Veritas Mutual Funds can be found in the Fund's Simplified Prospectus at www.veritasfunds.com

Veritas Next Edge Premium Yield Fund



About the Fund:

Portfolio of high-quality Canadian companies recommended by Veritas Investment Research

Next Edge Capital handles portfolio construction, options strategy and trading

Covered option overlay generates additional yield while reducing downside risk and volatility

Medium Risk, Canadian Equity

Performance

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2023	5.04%	-2.96%	0.72%	2.14%	-3.22%							
2022	-	-	-	-	-	-1.67%*	3.93%	0.57%	-5.06%	6.97%	3.96%	-2.29%

Full details for the Veritas Next Edge Premium Yield Fund can be found at www.nextedgecapital.com

DISCLAIMERS



The S&P/TSX Composite Index is a capitalization-weighted index that includes the largest float-adjusted stocks trading on the Toronto Stock Exchange. Contact Veritas Asset Management Inc. for more information regarding comparative indices.

1. Beta (observed beta) $\beta_{i,f}$ based on historical relationship between fund return (F) and index (I) performance. $\beta_{i,f} = \text{Cov}(R_i, R_f) / \text{Var}(R_i)$ where R_i is the monthly index return, R_f is monthly fund return.
2. Volatility is expressed in terms of historical annual volatility. Historical monthly volatility is measured by the standard deviation of monthly returns. Historical Annual Volatility is measured by annualizing monthly data.
3. Correlation is calculated using monthly returns between the fund and index. Volatility is expressed in terms of historical annual volatility. Historical monthly volatility is measured by the standard deviation of monthly returns. Historical Annual Volatility is measured by annualizing monthly data.
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