



VERITAS  
Asset Management

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# 2024 Outlook Presentation

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January 2024

# 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

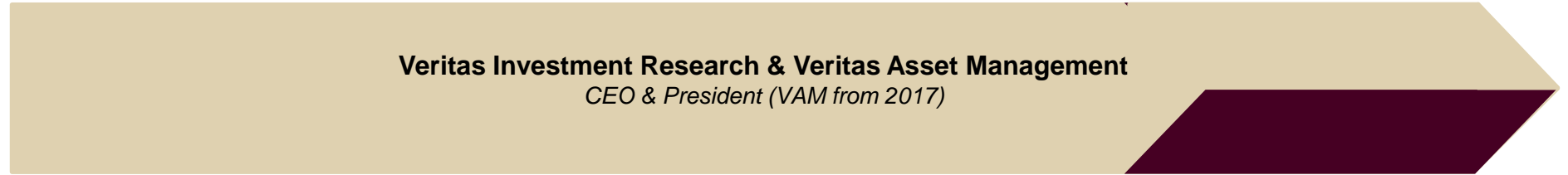
# The Veritas Asset Management (VAM) Team



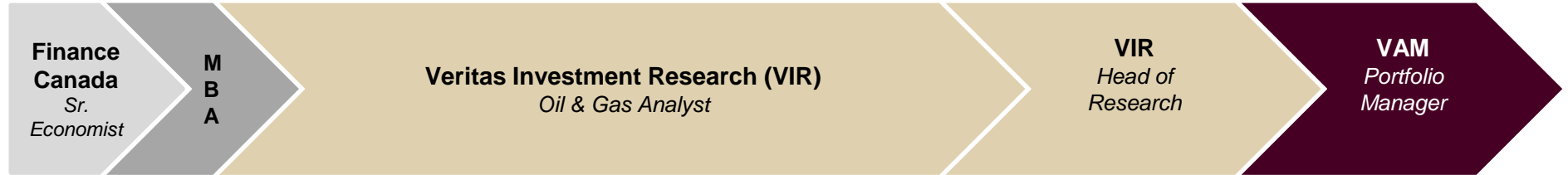
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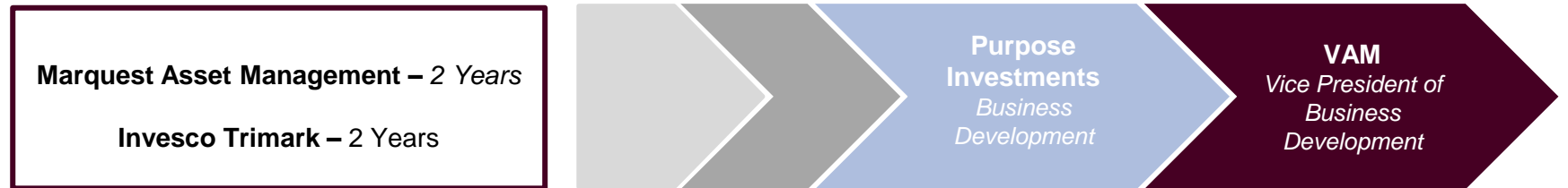
**Anthony Scilipoti**  
**FCPA, FCA, CPA**  
*President & CEO*



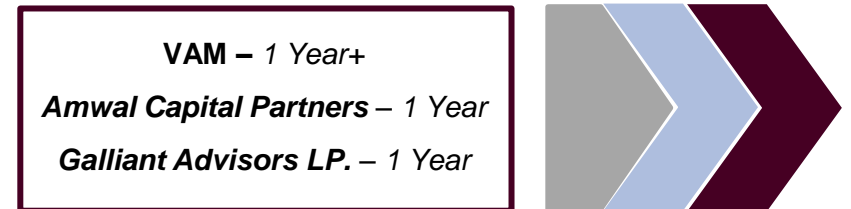
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# The Veritas Investment Research (VIR) Team



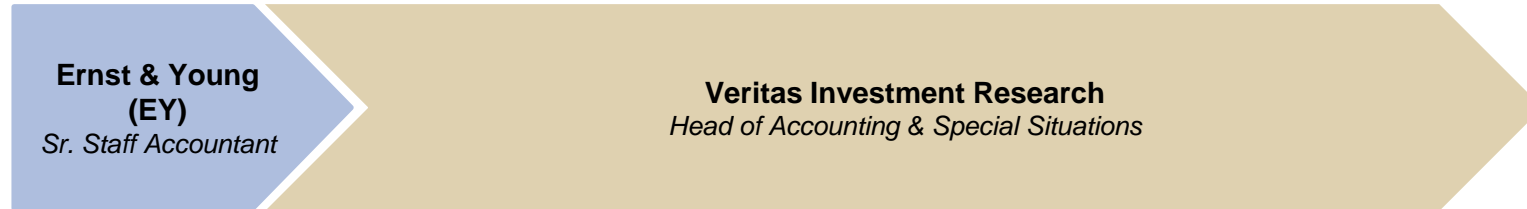
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**Nigel D'Souza**  
**CFA**  
*Sr. Analyst – Financial Services*



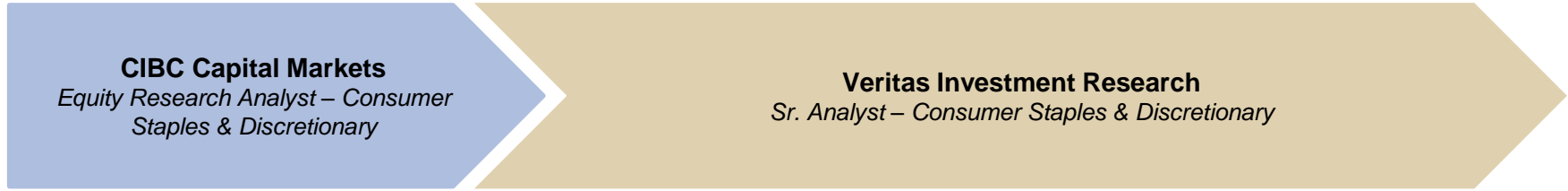
# The Veritas Investment Research (VIR) Team



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**Shalabh Garg**  
**CFA, MBA**  
*Analyst – REITs & Financial Services*



# Key Factors to Watch in 2024

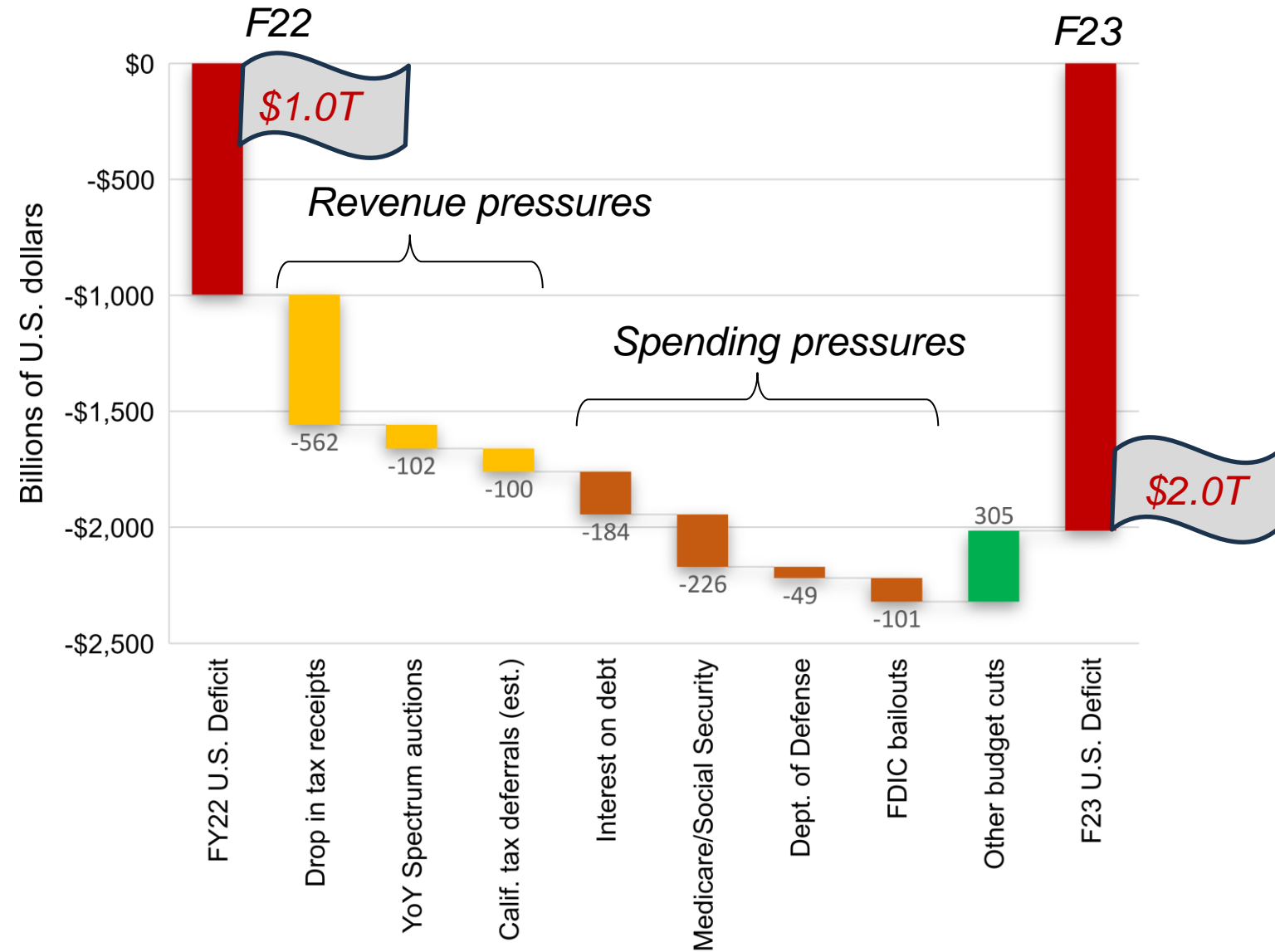


Factors driving economic strength in 2023	Influence in 2024?	
	U.S.	Canada
<i>Very high levels of fiscal stimulus</i>	<b>Positive</b>	Neutral
<i>Employment and wage growth</i>	Neutral	Neutral
<i>Strength of household balance sheets</i>	<b>Positive</b>	<b>Negative</b>
<i>Benign credit conditions</i>	<b>Negative?</b>	<b>Negative</b>
<i>Excess pandemic savings</i>	<b>Positive?</b>	Neutral

## **Market Implications:**

- *U.S. consumer-led growth may well continue*
- *In Canada we are already seeing consumer weakness*
- *Continued fiscal stimulus could keep inflation above targets*
- *Risk of upward move in Treasury yields and re-rating of risk premiums in equity and credit markets*
- *Expect volatility around economic releases and Fed decisions, with rising risk of mid-to-late year correction*
- *There are still opportunities for risk-adjusted gains!*

# U.S. Deficit Doubles in F2023



## **F23 deficit of \$2T or ~7.5% of U.S. GDP**

- Only 9 years since 1947 at 5%+ of GDP
- 8 of those years happened after 2008
- 4 of those years after 2019

## **Reduced tax receipts**

- Bracket indexing
- Lower capital gains
- Lower spectrum auctions (one-time)
- California/other filing deferrals (one-time)

## **Spending increases in multiple categories**

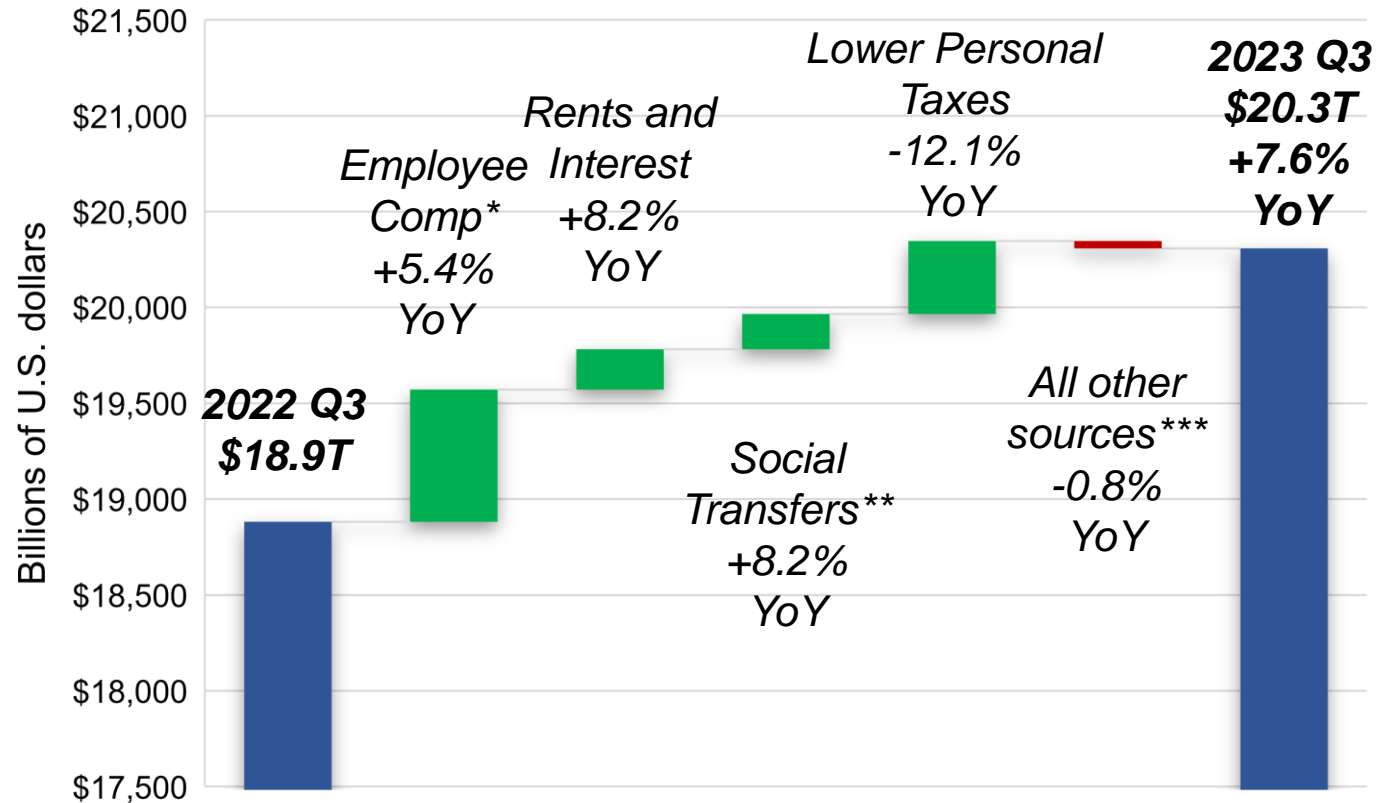
- Higher interest rates squeezing the budget
- Social Security / Medicare gaps
- Defense spending
- FDIC bailouts (one-time)

Source: Bloomberg News, U.S. Department of the Treasury

# How Is the U.S. Consumer So Strong?



## Growing U.S. Personal Disposable Income



\* Excludes employer contributions to government social insurance

\*\* Social Security, Medicare and Medicaid receipts net of contributions

\*\*\* Includes employer contributions to government social insurance; deducts individual contributions to social insurance.

Source: U.S. Bureau of Economic Analysis data, Veritas.

## How sustainable is the growth?

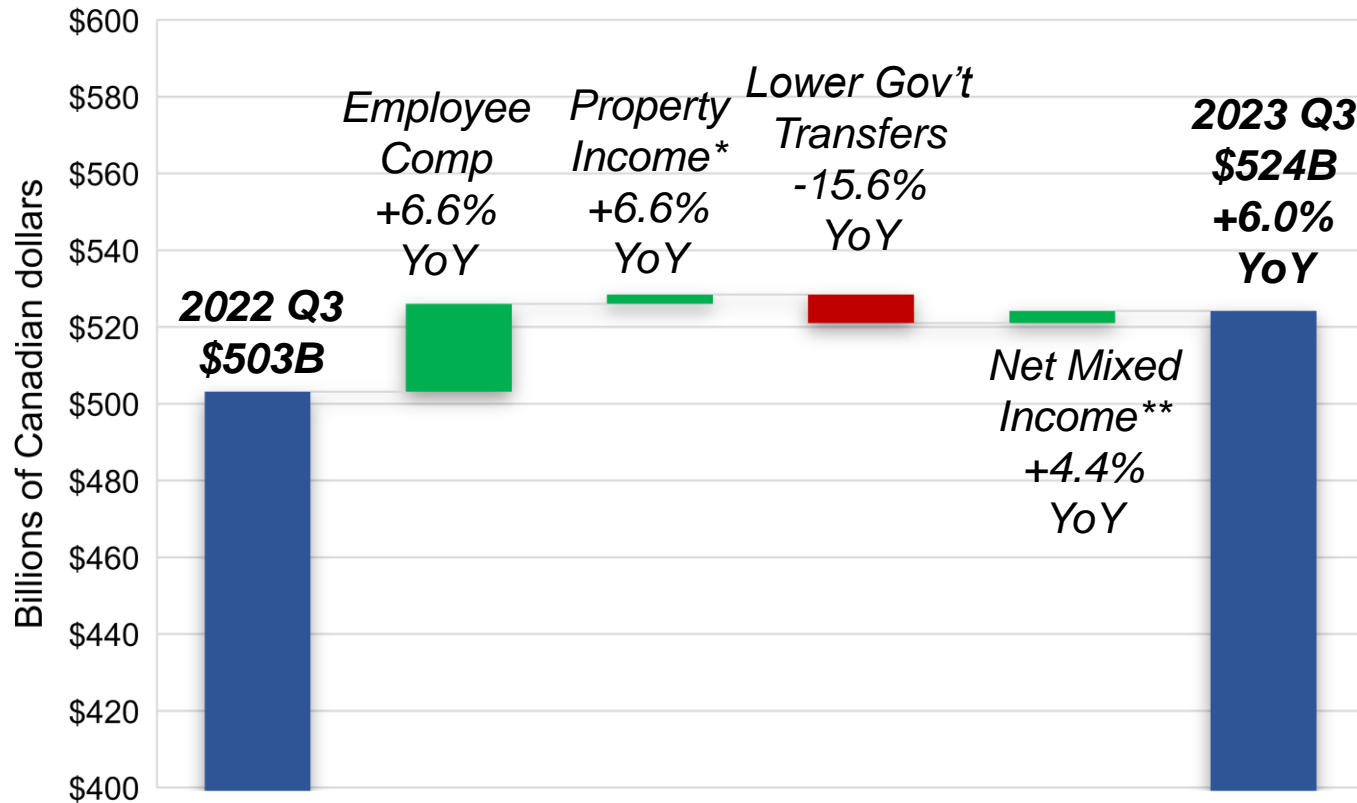
- **Employment and wage growth**
  - 48% of YoY increase
- **Rental and interest income**
  - 15% of YoY increase
  - Tied to higher rates
- **Increased social transfers**
  - 13% of YoY increase
  - LT demographic shift
  - LT fiscal strain
- **Lower personal taxes**
  - 27% of YoY increase
  - Bracket indexation
  - Mix of net job growth
  - LT fiscal strain?



# Similar Income Trends in Canada



## Growth in Canadian Household Disposable Income



## How sustainable is Canada's growth?

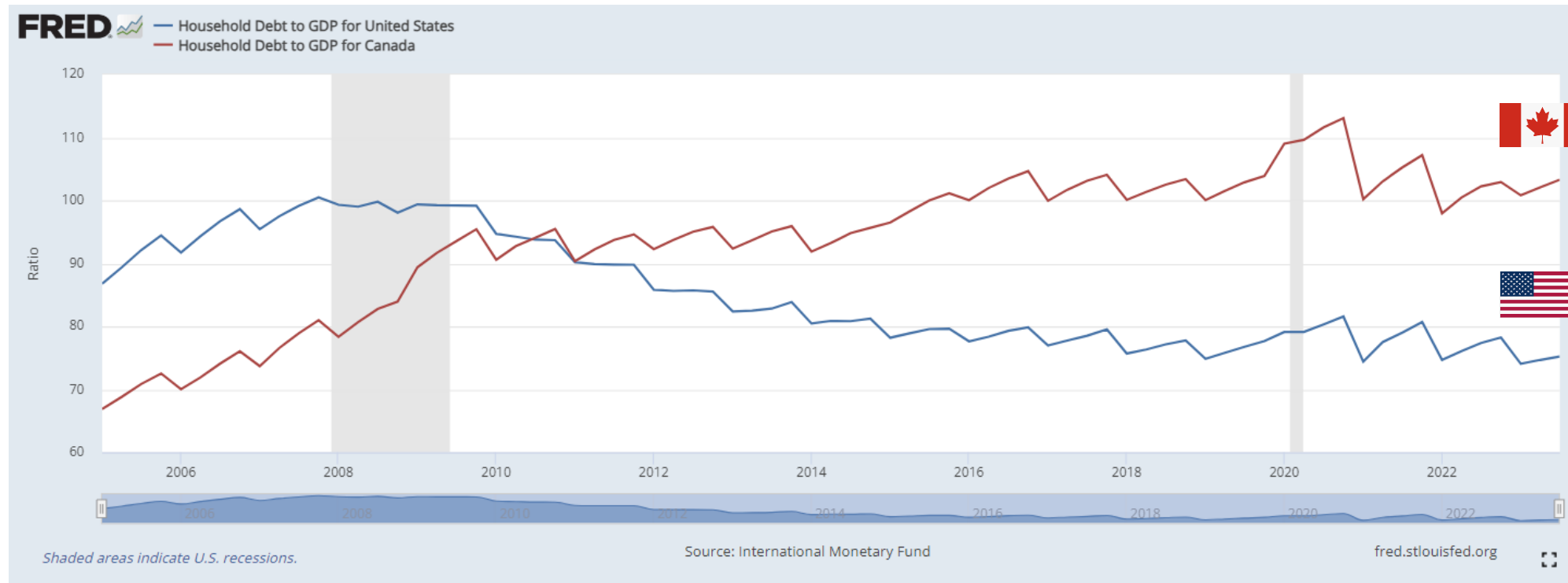
- **Employment and wage growth**
  - 108% of YoY increase
- **Property income**
  - 11% of YoY increase
  - Tied to higher rates
- **Reduced government transfers**
  - Reflects employment growth
  - Net drag on incomes
- **Recovery in Mixed Income**
  - 15% of YoY increase
  - Tends to be cyclical

\*Includes rental income and interest.

\*\*Includes farm and unincorporated business income.

Source: Statistics Canada data, Veritas Asset Management

# Household Debt to GDP: Stark Contrast



2023 Q3:

103.3%

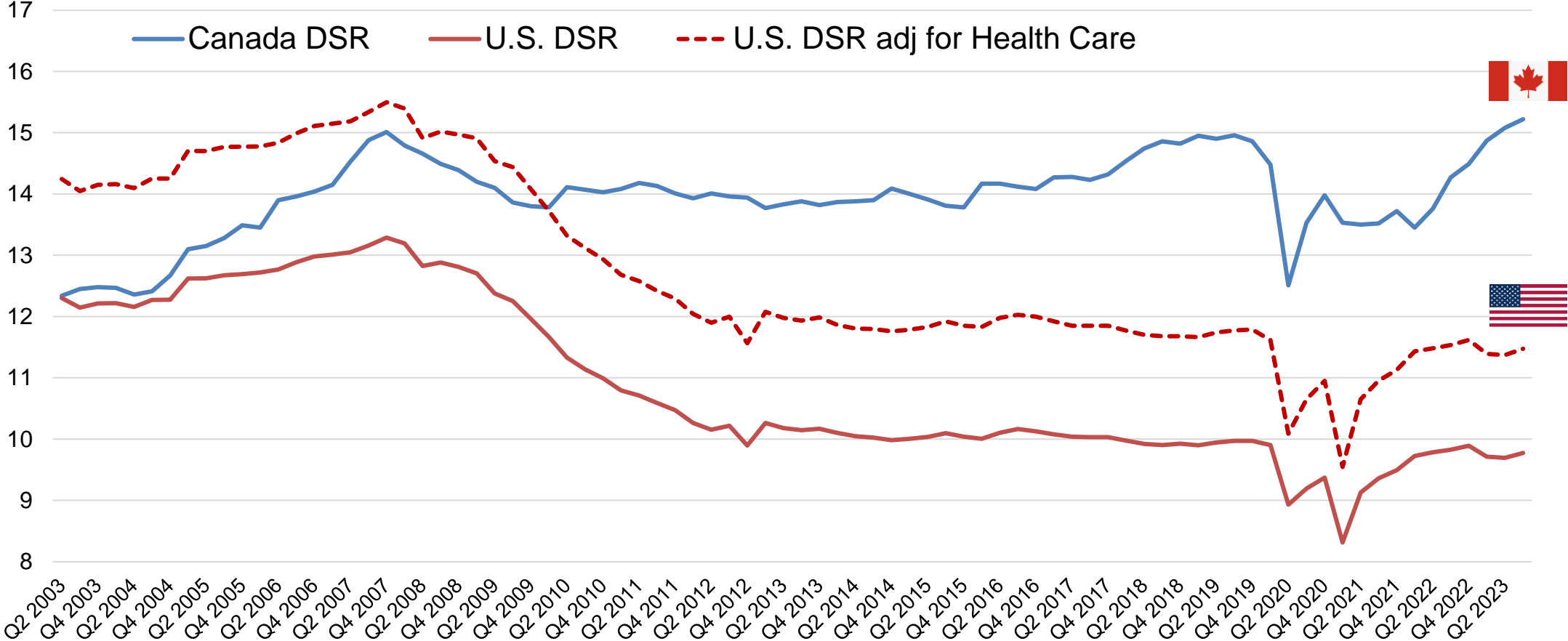
75.2%

## ***U.S. households in much better shape ... Canadian household debt at extreme levels***

- *U.S. households have seen steady declines in their relative debt levels since the GFC*
- *Canada has seen rising household debt levels since the GFC*

Source: IMF dataset, U.S. Federal Reserve data (FRED), Veritas Asset Management

# Canadian Debt Service Ratios Extremely High

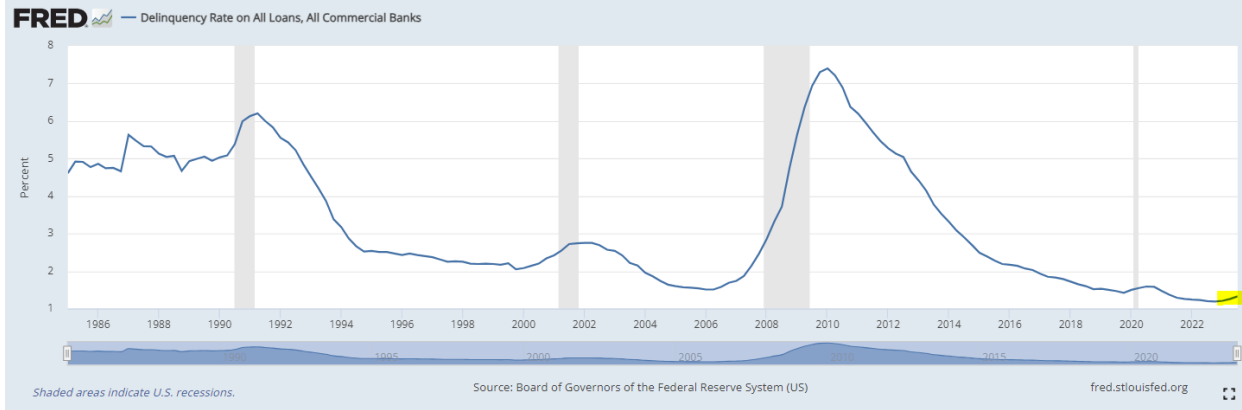


Source: U.S. Federal Reserve data (FRED), Statistics Canada, Veritas Asset Management

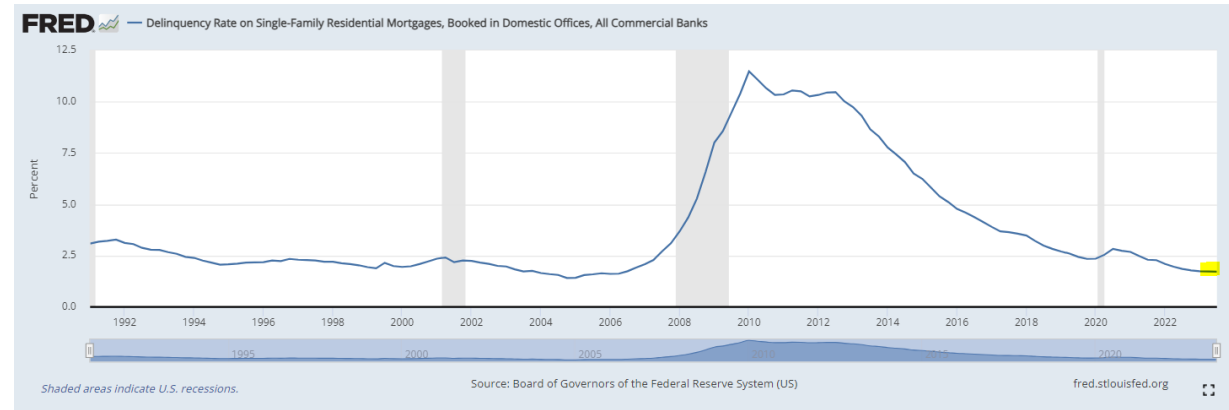
# U.S. Consumer Delinquencies: Pockets of Risk



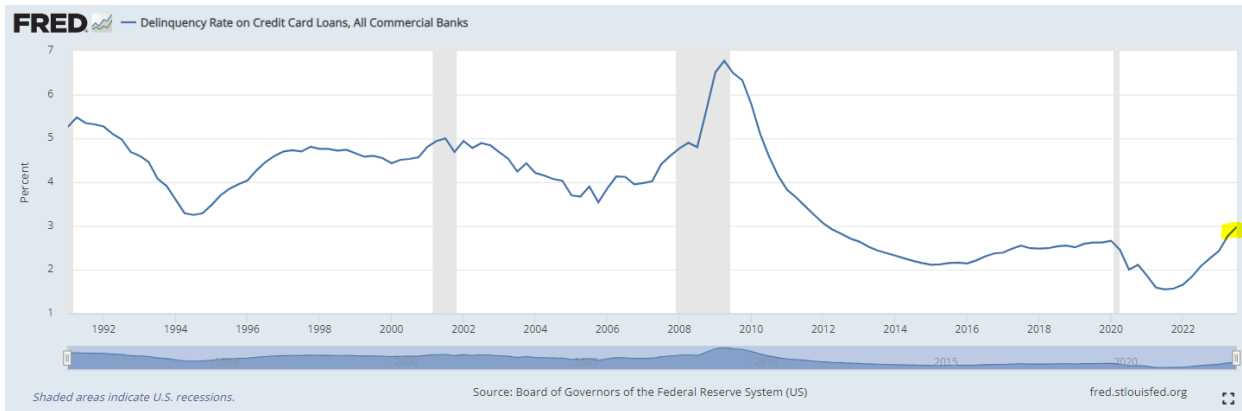
## Record low delinquencies for commercial bank loans



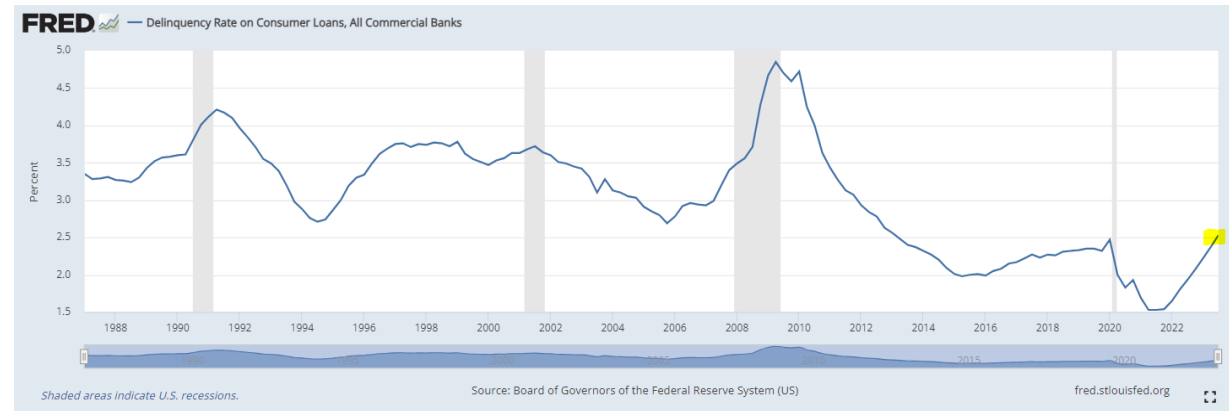
## Mortgage delinquencies remain at very low levels (RESL same trend)



## Credit Card delinquencies back to pre-pandemic levels



## Consumer Loan delinquencies back to pre-pandemic levels

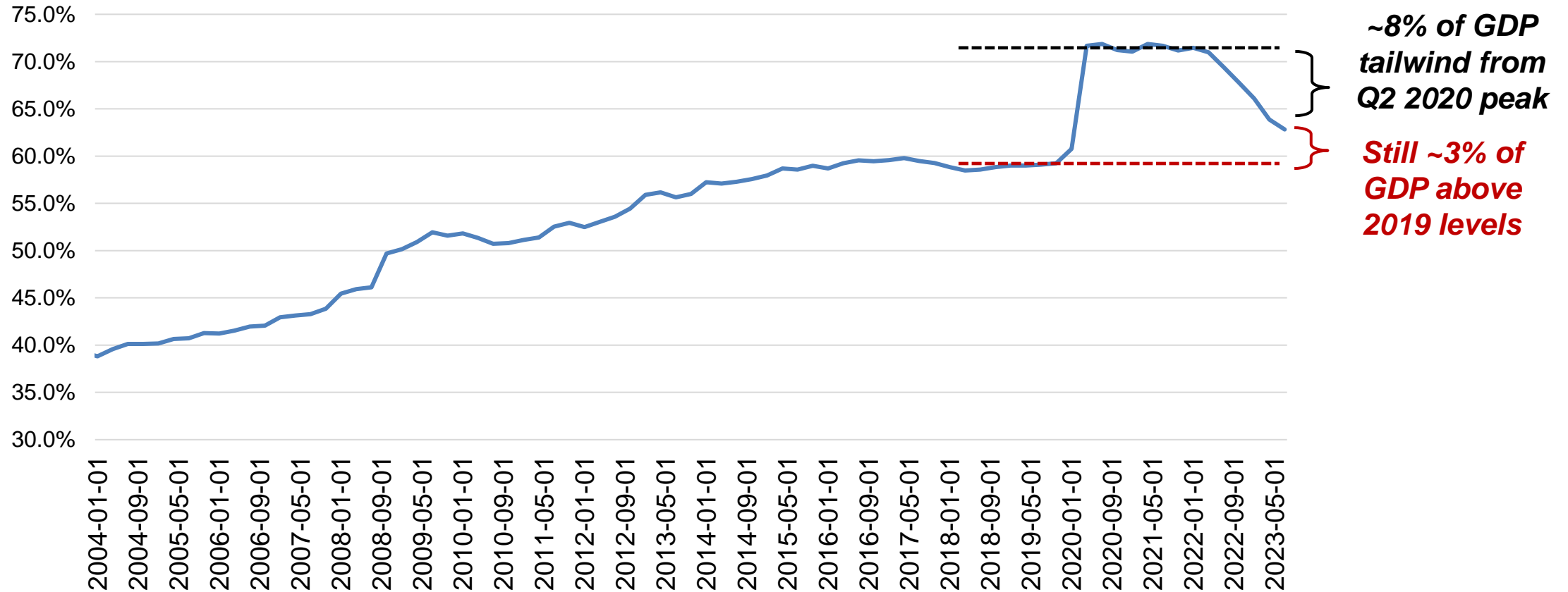


Source: U.S. Federal Reserve data (FRED), Veritas Asset Management

# Are There Still Excess Pandemic Savings?



## U.S. Commercial Bank Deposits as % of GDP

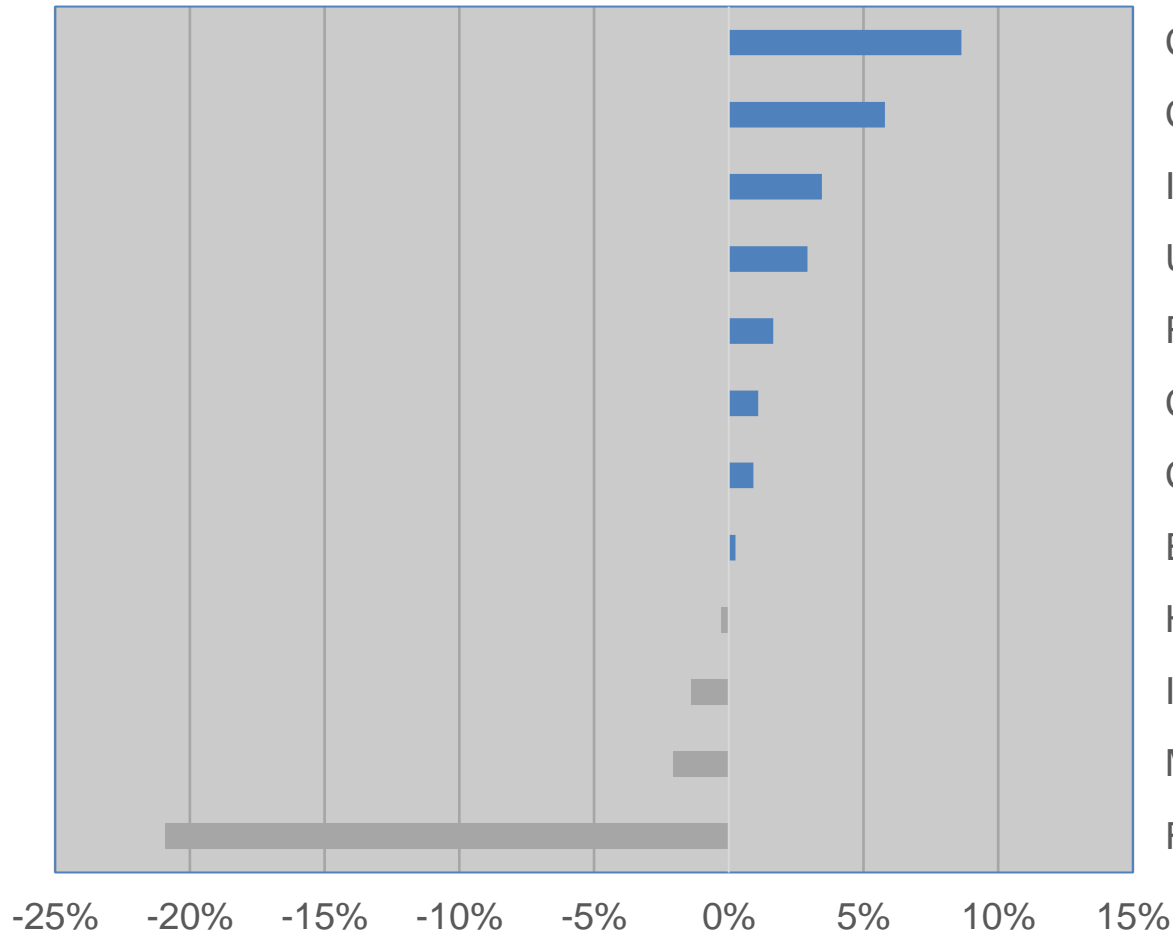


Source: U.S. Federal Reserve data (FRED), Veritas Asset Management

# Veritas Canadian Equity Positioning Entering 2024



## Weightings vs. S&P/TSX at 12/31/23



### Sector (12/31 index weight)

Consumer Discretionary (3.6%)  
 Consumer Staples (4.2%)  
 Industrials (13.7%)  
 Utilities (4.0%)  
 Real Estate (2.4%)  
 Communication Services (3.7%)  
 Cash & Equivalents (0.0%)  
 Energy (17.1%)  
 Health Care (0.3%)  
 Information Technology (8.6%)  
 Materials (11.0%)  
 Financials (31.4%)

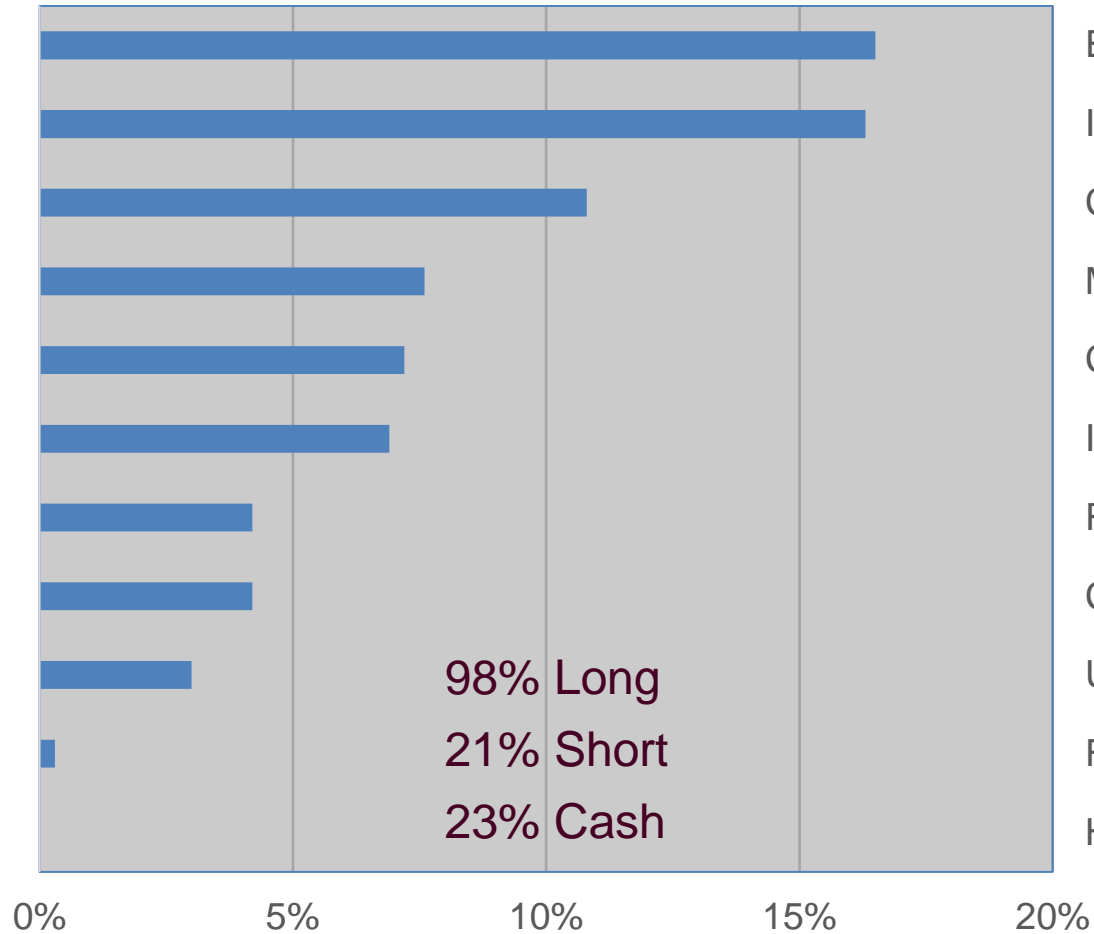
### What we're looking for in the sector

- *Global scale*
- *Growth with defensive qualities*
- *Targeted GARP*
- *Growth and stability*
- *Value beyond just yield*
- *Discipline and strong user base*
- *Stable pricing, steady FCF*
- *No position*
- *Scale and niche expertise*
- *Volume growth, cost control, ops*
- *Hard year for Big 6 – insurers*

# Veritas Absolute Fund Positioning Entering 2024



## Net Sector Exposures at 12/31/23



### Sector (12/31 index weight)

Energy	(17.1%)
Industrials	(13.7%)
Consumer Discretionary	(3.6%)
Materials	(11.0%)
Consumer Staples	(4.2%)
Information Technology	(8.6%)
Real Estate	(2.4%)
Communication Services	(3.7%)
Utilities	(4.0%)
Financials	(31.4%)
Health Care	(0.3%)

### What we look for in the sector:

- *Stable pricing, steady FCF*
- *Targeted GARP*
- *Global scale*
- *Volume growth, cost control, ops*
- *Growth with defensive qualities*
- *Scale and niche expertise*
- *Look for value beyond just yield*
- *Discipline and strong user base*
- *Growth and stability*
- *Hard year for Big 6 – insurers*
- *No position*

# Veritas Canadian Equity Fund Performance



## Fund Risk and Performance Stats

To 12/31/2023	3 year	2023	2022	2021
<b>VCE Return</b>	<b>9.70</b>	<b>7.65</b>	<b>-0.99</b>	<b>23.84</b>
S&P/TSX ETF Return	9.55	11.67	-5.85	25.06
<b>VCE Std. deviation</b>	<b>10.78</b>	<b>10.64</b>	<b>13.40</b>	<b>7.40</b>
S&P/TSX ETF Std. deviation	13.42	14.50	17.99	8.10

### ***Three-year performance***

- *3-Year Return that exceeds the market ETF return with 20% lower volatility*

Source: Refinitiv data, Veritas. ETF data based on iShares Core S&P/TSX Capped Composite Index ETF (XIC).



# Veritas Absolute Return Fund Performance



## Fund Risk and Performance Stats

To 12/31/2023	3 year	2023	2022	2021
<b>VAR Return</b>	<b>4.98</b>	<b>-0.56</b>	<b>-5.23</b>	<b>22.76</b>
S&P/TSX ETF Return	9.55	11.67	-5.85	25.06
<b>VAR Std. deviation</b>	<b>8.69</b>	<b>5.82</b>	<b>9.21</b>	<b>9.31</b>
S&P/TSX ETF Std. Deviation	13.42	14.50	17.99	8.10
<b>VAR Correlation</b>	<b>0.35</b>	<b>0.48</b>	<b>0.51</b>	<b>0.45</b>
S&P/TSX ETF Correlation	1.00	1.00	1.00	1.00

### ***Defensive diversification***

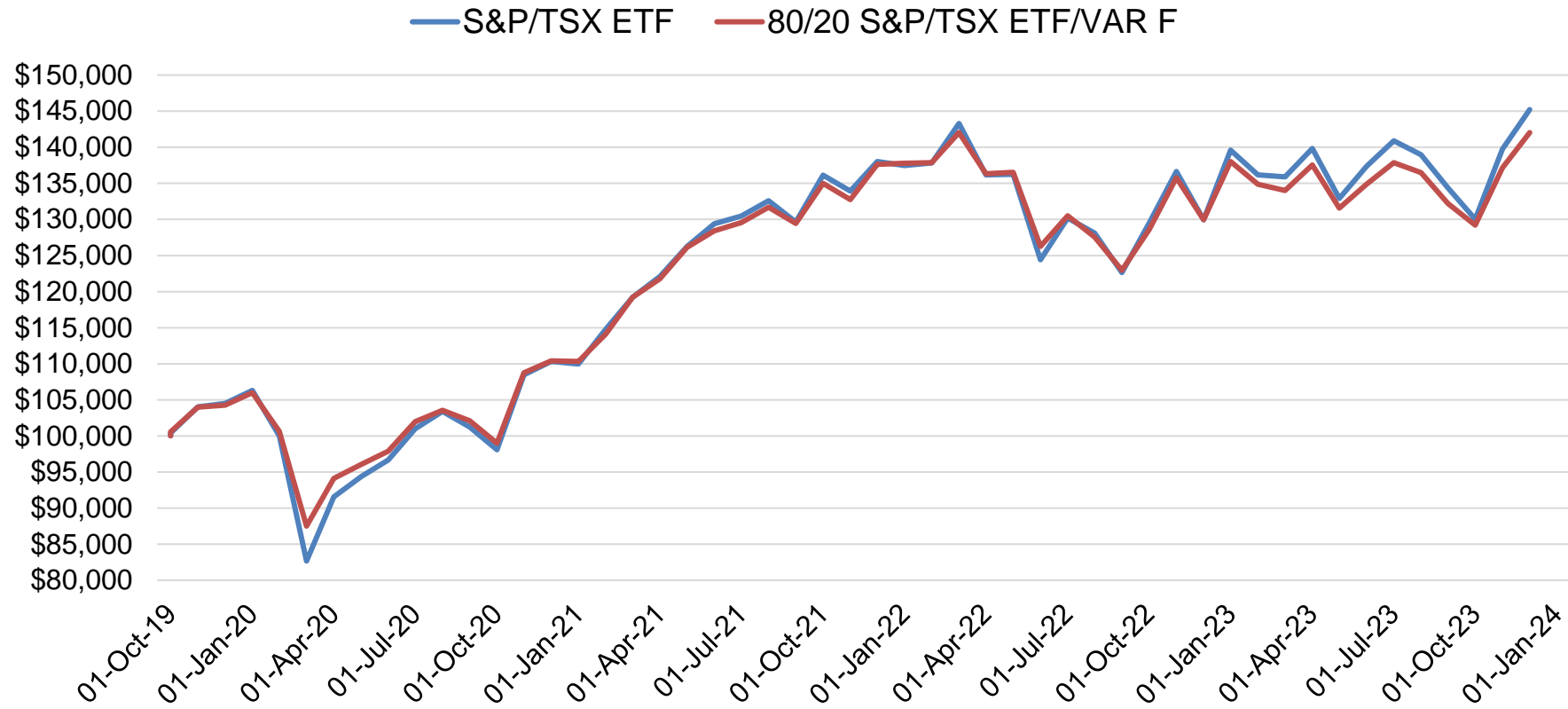
- *Low correlations to the index and low volatility designed to diversify equity exposures*

Source: Refinitiv data, Veritas. ETF data based on iShares Core S&P/TSX Capped Composite Index ETF (XIC).

# Benefits of a Liquid Alt Strategy



## Effect of Mixing in the Veritas Absolute Fund, Since Inception



Comparable  
Return  
\$142K vs \$145K

Monthly  
returns had  
17% lower  
volatility

Source: Refinitiv data, Veritas. ETF data based on iShares Core S&P/TSX Capped Composite Index ETF (XIC).

# How Our Liquid Alt Strategy Diversifies Risk



60%-90%  
Net long exposure

- Powered by Veritas Buy research
- Less than 100% direct exposure to the index

20%-40%  
Long-Short strategy

- Powered by Veritas Buy and Sell research
- Built on the return spread between Buy and Sell ideas
- L-S spread shown to work in a broad range of markets
- L-S spreads tend to be uncorrelated with the index

25%-40%  
Cash holdings

- Cash from selling short pays attractive interest (4.5%+)
- Borrow costs to short remain very low (typically <0.4% p.a.)

Written options  
strategy

- Attractive opportunities to write options on our long and short ideas (covered calls, written Puts, etc.)
- Options income tends to be steady and uncorrelated



# Veritas Next Edge Premium Yield Fund

## Covered Call Strategy for Income and Capital Growth

To 12/31/2023	1 year	Since Inception
<b>NEPY Return</b>	<b>4.41</b>	<b>6.62</b>
S&P/TSX ETF Return	11.67	9.34
<b>NEPY Std. deviation</b>	<b>9.94</b>	<b>11.69</b>
S&P/TSX ETF Std. deviation	11.69	14.99
<b>NEPY Correlation</b>	<b>0.96</b>	<b>0.93</b>
S&P/TSX Correlation	1.00	1.00

- *Steady income generation with lower standard deviation*

ETF data based on iShares Core S&P/TSX Capped Composite Index ETF (XIC).

Source: Refinitiv data, Veritas. NEPY inception date June 28, 2022

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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. 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.
3. Standard Deviation is the annualized measure of the daily volatility of portfolio returns, which reflects investment risk.
4. 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.
5. The Sharpe ratio is internally calculated using daily NAV returns on the fund, subtracting a risk free rate based on rolling three-month Government of Canada bond yields, converted to a daily return. The observed (ex-post) Sharpe ratio produced using these daily excess returns is annualized based on 252 trading days per year.
6. Alpha is a measure of active returns based on the capital asset pricing model. Alpha equals the actual portfolio return, subtracting the risk-free rate and the portfolio return predicted by market excess returns and individual stock Betas (ex-ante). Alpha, as the remainder, is attributed to active stock picking by the portfolio manager.

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