KAI CORE EQUITY POOL

Q1 - March 2023

KAI Asset Management Inc. | kaiasset.com | 500-185 Carlton St | Winnipeg, MB R3C 3J1 | TF: 844-755-8932 | info@kaiasset.com

ASSET MANAGEMENT

Commentary

The first quarter of 2023 ended with a flurry of headlines and turmoil in response to news of failing U.S. regional banks, namely Silicon Valley Bank (SVB) and Signature Bank. As we write this commentary, market participants are still digesting these events and we wish to share some of our thoughts on the topic.

While there are over 4,000 commercial banks competing in the U.S. banking industry, we note only a few that compete on similar size and scope: JPMorgan Chase, Bank of America, Citigroup, and Wells Fargo.[1,2] These four banks are each classified as global systemically important banks (G-SIBs) and this status warrants stricter regulation and more stringent stress tests relative to the other banks. In short, due to their size and incredible importance to the global financial system and world economy, these four financial institutions are closely monitored by regulators to ensure a prudent approach to internal risk management is followed. This additional oversight was implemented through the Dodd-Frank Act following the Great Financial Crisis (GFC) to help prevent similar banking failures as those events seen in 2008.

In comparison, its small and mid-sized U.S. bank counterparts, known as regional banks, have not been subject to standards of the same rigor. A revision to the Dodd-Frank Act in 2018 granted banks with less than $250 billion in assets more lenient oversight and capital requirements. There are some critics that blame this relaxation of the standards as a major contributor to the recent regional bank failures in March of 2023.[3] In any event, bank failures are not a new or abnormal phenomenon. Many may be surprised to learn that 373 bank failures have occurred since the end of the GFC in 2009.[4] Perhaps more surprising is the path of consolidation within the U.S. banking industry as it has shrunk from over 14,000 banks in the 1980s to just over 4,000 today.[1] The reality is that failed companies and consolidation are a common byproduct of capitalism where no industry is immune, including banking.

A closer look at the recent bank failures of SVB and Signature Bank appears to reveal that firm-specific risks and inadequate business models were generally to blame. For example, Signature Bank was regarded as one of the main banks for cryptocurrency participants and had significant balance sheet exposure to what is an extremely volatile industry and asset class. In the case of SVB, the bank had exposure to venture capital and startup companies in Silicon Valley as a concentrated source of bank deposits.[5] Similarly, both banks had an unusually concentrated exposure to uninsured bank deposits.[6] In our view these were not characteristics of durable bank businesses that fit our investment criteria at KAI Asset Management.

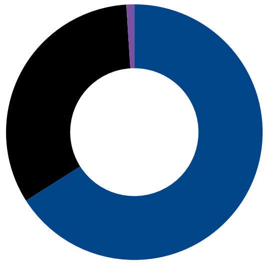
In the wake of depositors and investors losing faith in what were, in our opinion, poorly managed banks, JPMorgan Chase and the other large banks have benefited by experiencing mass inflows of new customers and deposits.[7] One of our long-standing core equity holdings, JPMorgan Chase, was seen as a safe harbour by depositors. It now appears that some of the anxiety has eased in the marketplace however events such as these serve as an important reminder as to why we direct our time and effort to finding what we believe are the most durable businesses for our client portfolios; those that have the greatest chance to survive times of great stress and that continue to prosper over the long-term.

Portfolio Activity | Holdings at Quarter End: 22

Holdings Entered:	Increased Weight: Meta Platforms, Blackstone, Microsoft
Holdings Exited:	**Decreased Weight:** CVS Health, TD Bank, BlackRock

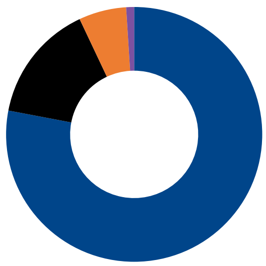
Top Holdings
- KAI Properties
- KAI Health Services
- Constellation Software
- Oracle
- Microsoft
- Meta Platforms
- Adobe
- BlackRock
- Starbucks
- Nike

GEOGRAPHIC ALLOCATION



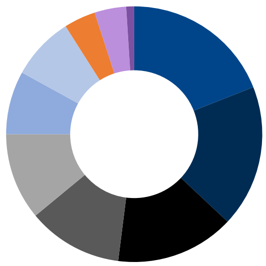
- International 66%
- Canada 33%
- Cash 1%

ASSET ALLOCATION[8]



- Public Equities 78%
- Private Equity - Real Estate 15%[9]
- Private Equity - Businesses 6%[10]
- Cash 1%

SECTOR ALLOCATION



- Financial Services 19%
- Enterprise Software 18%
- Real Estate 15%
- Healthcare 12%
- Banks 11%
- Consumer Products 8%
- Digital Media & Technology 8%
- Conglomerates 4%
- Insurance 4%
- Cash 1%

[1]Brian Martucci, *Number of Banks in the U.S. – How Many Are There?* (March 13, 2023) [2]Matthew Goldberg, *The 15 largest banks in the US* (March 14, 2023) [3]Andrea Shalal and Pete Schroeder, *White House pushes new rules for mid-sized banks without Congress* (March 30, 2023) [4]Federal Deposit Insurance Corporation, KAI Asset Management Inc. Analysis (March 2023) [5]Mackenzie Sigalos, *What the failures of Signature, SVB and Silvergate mean for the crypto sector* (March 12, 2023) [6]Alistair Barr, *US banks have well over $1 trillion of uninsured deposits. Signature Bank was among the most exposed.* (March 12, 2023) [7]Matt Egan, *Big banks experience deposit spike after Silicon Valley Bank collapse* (March 15, 2023) [8]As of February 8, 2019 the manager has implemented an investment requirement that no less than 75% of the KAI Core Equity Pool (KCEP) must be invested in publicly listed securities, cash, or cash equivalents. [9]The Private Equity - Real Estate component reflects investments in shares of KAI Properties Inc. (KPI) [10]The Private Equity - Businesses component reflects investments in shares of KAI Health Services Inc. (KHS). The Private Equity Allocations described herein are private corporations that an affiliate of KAI Asset Management Inc. (KAM) manages and administers. This affiliate of KAM is responsible for selecting and overseeing investments held in the corporations. The management agreements in place compensate the KAM affiliate for these services. More information about this can be found in the KAI Issuers Fact Sheets, which are available upon request.

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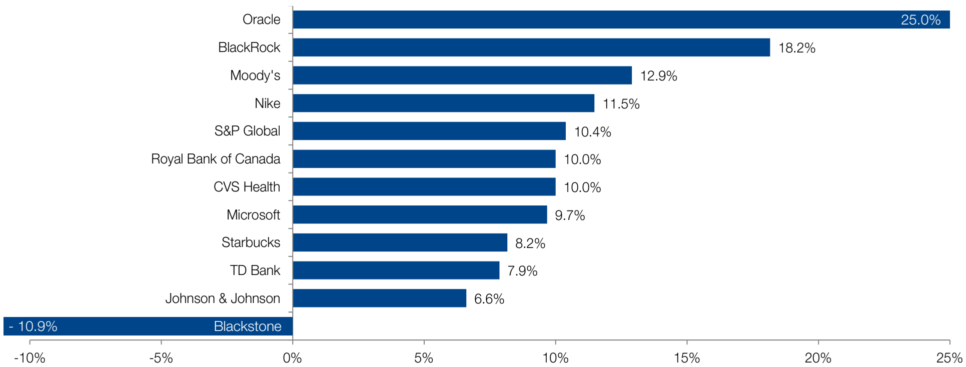
KAI ASSET MANAGEMENT

Public Equities Allocation[1]

Dividend Growth Chart | Most Recent 12 Months



We expect Blackstone's dividend levels to remain highly variable. To more accurately reflect the dividend trend we calculate the movement using a rolling four quarter average.

Public Equities | Key Statistics

Dividend Movers

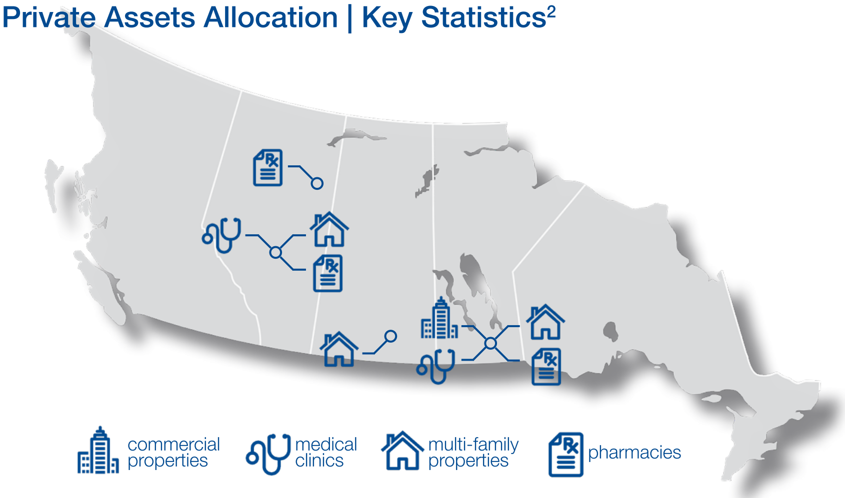
Increased Dividend	11
Maintained Dividend	8
Decreased Dividend	1
12-Month Dividend Growth	6.0%

Portfolio Fundamentals

P/E (forward)	20.9X
Average Market Capitalization	$348.8B
ROE	20.0%
5-Year Average ROIC	14.3%
Dividend Yield (current)	1.7%
Dividend Yield (expected)	1.8%
Dividend Payout Ratio	40.0%
5-Year Dividend Growth	6.8%

The 5-Year Average ROIC figure excludes bank holdings.

Private Assets Allocation | Key Statistics[2]



KAI Health Services Inc.

10 pharmacies
7 medical clinics
30 pharmacists
54 physicians
860,000 Rx/year

KAI Properties Inc.

18 properties
519 multi-family units
169,256 sq ft commercial space

Investment Team

Paul Allard, CFA
Founding Partner | Advising Representative

Robert MacKay, CFA
Founding Partner | Advising Representative

Lindsey Bauer, CFA
Portfolio Manager | Advising Representative

Denis Bosc
Associate Portfolio Manager | Associate Advising Representative

KAI Core Equity Pool

The investment objective of the Pool is to deliver consistent and positive investment returns to unit holders, with a constant focus on reducing the risk of permanent capital loss. The Pool is made up of publicly traded securities as well as shares of private equity corporations organized and managed by KAI Holdings Inc. The Pool offers unique downside protection characteristics as the Pool has the ability to hedge the portfolio. The hedge program is linked to general market declines and currency movements. The hedge program is intended to diminish losses in the case of significant adverse movements in markets or currency. The Pool utilizes the hedge program at its discretion and may use it during periods where the Investment Team believes there is greater risk of decline.

[1]S&P Capital IQ, KAI Asset Management Inc. (KAM) analysis (April 2023) [2]KAI Health Services (KHS) and KAI Properties (KPI) filings, presentations, and analysis as of April 10, 2023 except for annual prescription volume, which is estimated by management based on actual historical results and prescription trends within KHS pharmacies as of March 31, 2023. |