

KAI CORE EQUITY POOL

Q2 - June 2023

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



Commentary

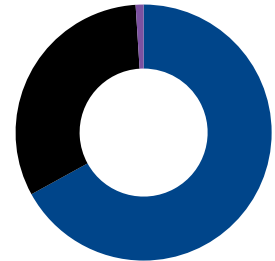
The second quarter of 2023 was marked by a significant divergence between Canadian and U.S. equity markets as investors reacted to shifting expectations for government monetary policy and evolving industry-specific dynamics. Canada's main equity index, the S&P/TSX, lagged its U.S. counterparts, posting a modest gain of 0.3%.¹ The underperformance of the Canadian index appeared to be largely attributable to both the Bank of Canada maintaining a restrictive monetary policy, which saw a benchmark interest rate increase to 4.75% in June, and the energy sector as oil prices fell due to rising global supply and weakening demand.^{2,3} In contrast, the S&P500 and Nasdaq surged 8.3% and 12.8% respectively.¹ In our view both indices benefitted from encouraging data indicating cooling U.S. inflation and growing expectations that the Federal Reserve may be nearing the end of its interest rate-hike campaign.⁴ Furthermore, the technology-laden Nasdaq index found an additional tailwind in the form of accelerating developments in the Artificial Intelligence (AI) field.⁵

We are taking a keen interest in emerging AI technologies as we think these may open doors to market disruption and opportunities. Our initial assessment is that there are potential benefits for our portfolio companies, especially those within our Enterprise Software and Digital Media & Technology holdings. Many of these companies are either directly monetizing AI products, integrating AI capabilities into existing products, or benefiting from heightened demand for cloud computing driven by escalating AI development activities.

While these promising opportunities are exciting they are not the principal drivers of our investment decisions. At this stage, we have considered the impact of AI technologies and in our view most of our portfolio companies will continue to leverage their historical advantages, and potentially benefit from an AI-enabled efficiency boost tied to enhanced employee productivity. For instance, our opinion is that financial services companies such as S&P Global, Moody's, and Equifax, are likely to sustain their network effect advantage, maintaining what we view as an indispensable position for various stakeholders in their markets. Financial institutions such as JPMorgan Chase, Royal Bank, and TD Bank should continue to capitalize on their scale, cost, and brand asset advantages, thereby defending their profit margins and continuing to compound capital. Additionally, we believe enterprise software companies such as Microsoft, Adobe, Oracle, and Constellation Software are set to further leverage the high switching costs faced by their customers, contributing to the stickiness of their customer relationships. While evolution is inevitable as new technologies emerge, companies with structural advantages can manage this change from a position of strength. The stickiness of their customer relationships buys them time to adapt their offerings and defend their market position giving them an advantage in this ever-changing business landscape.

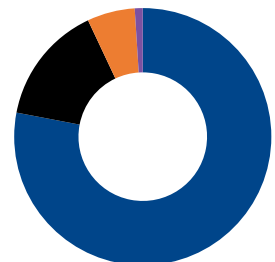
At KAI Asset Management, we remain committed to identifying and maintaining a portfolio of companies with robust competitive moats. These moats are what we believe defend a company's position against threats and in turn provide the most resilient investment approach to protect and grow your capital through prosperity and adversity.

GEOGRAPHIC ALLOCATION



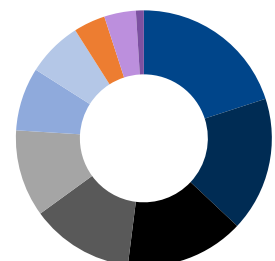
- International 67%
- Canada 32%
- Cash 1%

ASSET ALLOCATION⁶



- Public Equities 78%
- Private Equity - Real Estate 15%⁷
- Private Equity - Businesses 6%⁸
- Cash 1%

SECTOR ALLOCATION



- Financial Services 20%
- Enterprise Software 17%
- Real Estate 15%
- Healthcare 13%
- Banks 11%
- Digital Media & Technology 8%
- Consumer Products 7%
- Conglomerates 4%
- Insurance 4%
- Cash 1%

Portfolio Activity | Holdings at Quarter End: 22

Holdings Entered:	Increased Weight:	Top Holdings
	CVS Health Blackstone S&P Global	• KAI Properties • KAI Health Services • Microsoft • Meta Platforms • Moody's • Equifax • Blackstone • Adobe • Oracle • Constellation Software
Holdings Exited:	Decreased Weight:	
	Oracle Constellation Software Nike	

¹S&P Capital IQ, Equity index charts (2023 Q2) ²Erik Hertzberg, *Canada's Surprise Hike Exposes Global Struggle to Find Endpoint for Rates* (June 7, 2023) ³Rosa Saba, *S&P/TSX composite down more than 200 points as price of oil falls* (May 30, 2023) ⁴Vince Golle and Molly Smith, *Charting the Global Economy: US Inflation Cools, Europe's Rises* (July 1, 2023) ⁵Alexandra Semenova, *Wall Street's 'Crystal Ball' Shatters as Stocks Stage Big Rally* (July 1, 2023) ⁶As 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. ⁷The Private Equity - Real Estate component reflects investments in shares of KAI Properties Inc. (KPI) ⁸The 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.

KAI CORE EQUITY POOL

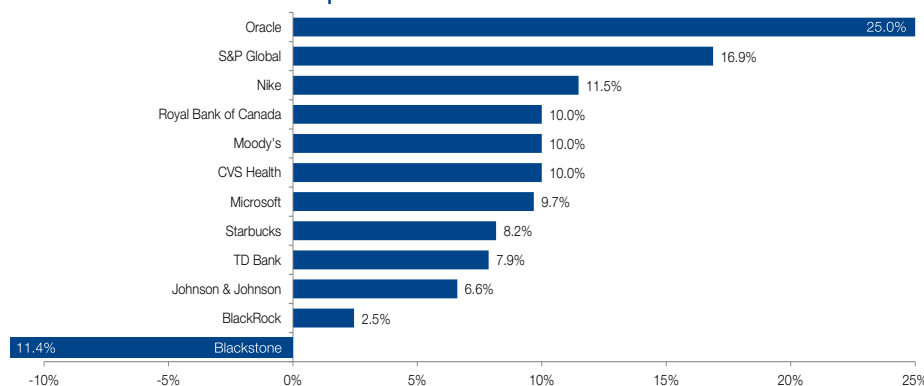
Q2 - June 2023

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



Public Equities Allocation¹

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	5.3%

Portfolio Fundamentals

P/E (forward)	21.9X
Average Market Capitalization	\$400.7B
ROE	18.0%
5-Year Average ROIC	14.2%
Dividend Yield (current)	1.6%
Dividend Yield (expected)	1.7%
Dividend Payout Ratio	37.0%
5-Year Annual Dividend Growth	6.9%

The 5-Year Average ROIC figure excludes bank holdings.

Private Assets Allocation | Key Statistics²



commercial properties



medical clinics



multi-family properties



pharmacies



KAI Health Services Inc.

10 pharmacies **7** medical clinics
27 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

Denis Bosc, CFA

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.

¹S&P Capital IQ, KAI Asset Management Inc. (KAM) analysis (July 2023) ²KAI Health Services (KHS) and KAI Properties (KPI) filings, presentations, and analysis as of July 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. | © KAI Asset Management Inc. 2023 | KAM is a Portfolio Manager and Exempt Market Dealer registered in the provinces of Manitoba, Saskatchewan, British Columbia, Alberta, and Ontario. The firm is also registered as an Investment Fund Manager (IFM) in the provinces of Manitoba and Ontario. This communication is directed only to persons resident in those jurisdictions. The information contained herein is for general information purposes only and does not constitute an offer or solicitation of securities, managed account services, or advice on any specific security. The opinions set out herein are effective as at the date of publication and the authors do not undertake to notify the reader of subsequent changes. Certain general or market information contained herein has been obtained from sources believed to be reliable however KAM cannot guarantee their accuracy. Any opinions expressed in this newsletter are just that, and are not guarantees of any future performance or returns. 230711