

# KAI CORE EQUITY POOL

## Q3 - September 2023

KAI Asset Management Inc. | [kaiasset.com](http://kaiasset.com) | 500-185 Carlton St | Winnipeg, MB R3C 3J1 | TF: 844-755-8932 | [info@kaiasset.com](mailto:info@kaiasset.com)



### Commentary

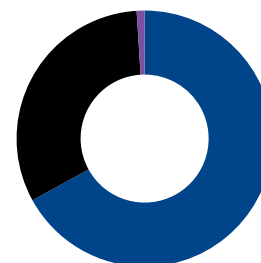
Winston Churchill once said “Kites rise highest against the wind, not with it.” It reminds us that the difficulties and hardship we encounter can give rise to growth, and of the idea that achievement often comes through perseverance in the face of adversity. In the context of investment management, investors continue to be challenged with headwinds and uncertainty about the path going forward. As our past commentaries have alluded to, we firmly believe that investment discipline is a key factor in achieving strong investment performance.

This discipline involves maintaining a focus on long-term goals and objectives, even during periods of elevated real and perceived risks such as those we have experienced over recent periods (COVID, the Russia-Ukraine conflict, and rapidly rising interest rates). When markets are volatile, it can be tempting to make short-term investment decisions based on emotion, yet our own investment experience tells a different story. For instance, despite the tension and uncertainty that have gripped capital markets over the past three years, our equity allocations have generated strong positive results led by holdings such as Alphabet (the parent company of Google), Berkshire Hathaway, Constellation Software, Oracle, and Blackstone; all of which appreciated in value by 65% or more over the past three years to the end of September 2023.<sup>1</sup> While it may be tempting to ‘time’ the market during periods of uncertainty, our experience suggests that such strategies are often ineffective. Instead, we believe the most consistent and positive results typically arise from remaining invested in quality assets, even in the face of uncertainty.

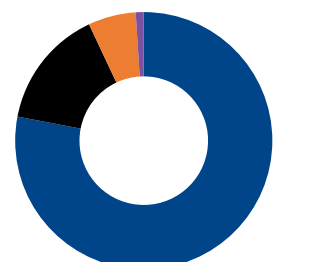
The tension that seems to be present today is that we may be heading toward a consumer recession which complicates the outlook for investors. Recessions, defined broadly as a significant decline in economic activity, have historically been associated with negative impacts on share prices. During recessions, companies may experience reduced revenues and earnings, which may lead to decreased returns for investors. However, the relationship between recessions and long-term investment performance is more complex than this simple assumption suggests. Examining the S&P 500 Total Return Index over the past 15 U.S. recessions, the two-year period following the start of recessions has returned average annual growth of 9.0%.<sup>2</sup> The point is that investors have been rewarded by staying invested even in times of market turmoil.

We feel it is important to reinforce our view that successful investing requires a certain level of stoicism where discipline, patience, and a long-term perspective are rewarded. We find assurance in our investment approach that targets companies which exhibit qualities such as financial strength, durable business models, and pricing power with their customers. As with our kite flying into the wind, we see the investment process as one that requires persistence – the determination and commitment to stay the course regardless of whether the current winds are in our favour or against us.

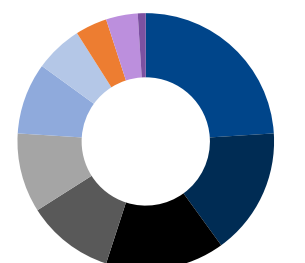
### GEOGRAPHIC ALLOCATION



### ASSET ALLOCATION<sup>3</sup>



### SECTOR ALLOCATION



### Portfolio Activity | Holdings at Quarter End: 22

<b>Holdings Entered:</b> Visa	<b>Increased Weight:</b> Alphabet Markel Berkshire Hathaway	<b>Top Holdings</b> <ul style="list-style-type: none"> <li>• KAI Properties</li> <li>• KAI Health Services</li> <li>• Alphabet</li> <li>• Meta Platforms</li> <li>• Blackstone</li> <li>• Constellation Software</li> <li>• JPMorgan Chase</li> <li>• Berkshire Hathaway</li> <li>• Microsoft</li> <li>• Adobe</li> </ul>
<b>Holdings Exited:</b> CVS Health	<b>Decreased Weight:</b> Equifax Nike Oracle	

<sup>1</sup>S&P Capital IQ, KAI Asset Management Inc. (KAM) analysis. Holdings value appreciation referenced is based on share price movement in local currency from October 1, 2020 – September 29, 2023. <sup>2</sup>Factset, Historical S&P 500 Total Returns (USD), January 1, 1953 – December 31, 2022. KAM analysis. <sup>3</sup>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. <sup>4</sup>The Private Equity - Real Estate component reflects investments in shares of KAI Properties Inc. (KPI). <sup>5</sup>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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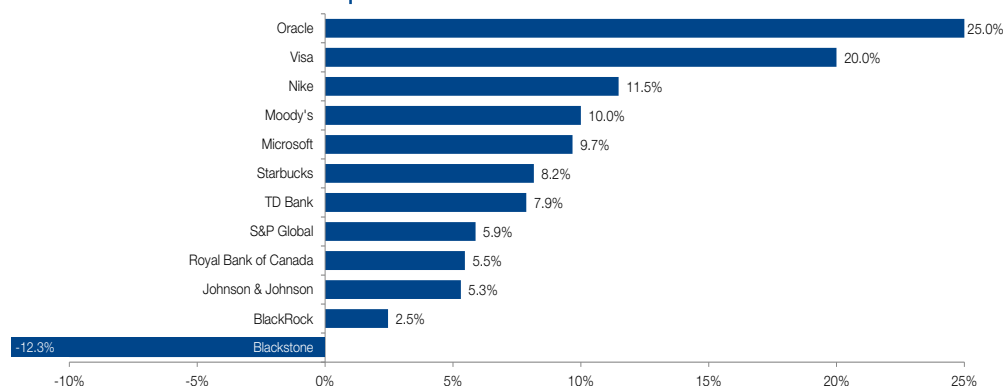
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### Public Equities Allocation<sup>1</sup>

#### 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

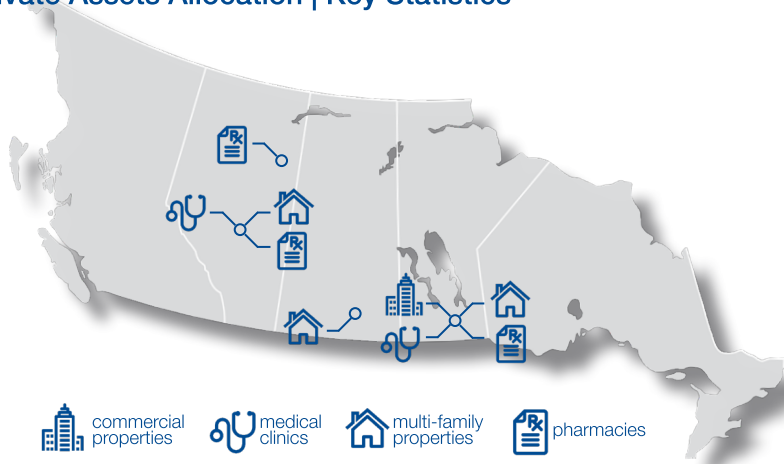
Increased Dividend	11
Maintained Dividend	8
Decreased Dividend	1
12-Month Dividend Growth	4.9%

#### Portfolio Fundamentals

P/E (forward)	21.0X
Average Market Capitalization	\$412.2B
ROE	21.7%
5-Year Average ROIC	14.7%
Dividend Yield (current)	1.5%
Dividend Yield (expected)	1.6%
Dividend Payout Ratio	34.0%
5-Year Annual Dividend Growth	7.4%

The 5-Year Average ROIC figure excludes bank holdings.

### Private Assets Allocation | Key Statistics<sup>2</sup>



commercial properties   medical clinics   multi-family properties   pharmacies



#### KAI Health Services Inc.

**10** pharmacies   **7** medical clinics  
**26** pharmacists   **57** 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

Portfolio Manager | Advising Representative

#### Damian Rocke, CFA

Portfolio Manager | 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.

<sup>1</sup>S&P Capital IQ, KAI Asset Management Inc. (KAM) analysis (October 2023) <sup>2</sup>KAI Health Services (KHS) and KAI Properties (KPI) filings, presentations, and analysis as of October 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. 231013