

KAI CORE EQUITY POOL

Q4 - December 2023

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



Commentary

In retrospect 2023 can be aptly described as a year marked by heightened investor anxiety. This reflection prompts us to delve deeper into the challenges that financial markets have grappled with, not only over the past 12 months but over the course of the last four years. A timeline of these challenges unfolds as follows: In March 2020, the World Health Organization declared the onset of the global COVID-19 pandemic, with reported cases worldwide reaching a staggering 755 million by February 2023.¹ In February 2022, the world watched as Russia launched a full-scale invasion of Ukraine, igniting a land war in Europe. Concurrently, as tensions heated in Europe, inflation rates surged to levels not witnessed in four decades. In the United States alone, the Consumer Price Index soared to 8.9% by June 2022, a figure not seen since December 1981.² To counteract this rampant inflation, central banks worldwide embarked on an aggressive interest rate hike campaign. Between February 2022 and August 2023, the U.S. central bank raised the Federal Funds Rate from 0.08% to 5.33%, an unprecedented pace of increase that exerted downward pressure on the valuations of nearly all asset classes.³ Finally, in October 2023 the world witnessed the eruption of another conflict, this time in the Middle East, as Hamas launched a multifront attack on Israel, leading to Israel's declaration of a state of war and the ongoing Israel-Hamas conflict.

We recount these challenges not to instill a sense of pessimism but to illustrate a valuable lesson for investors navigating uncertainty. Despite the formidable obstacles of the past four years, every \$1.00 invested in the KAI Core Equity Pool in January 2020 appreciated by 59%, reaching \$1.59 by the close of December 2023.⁴ On the other hand, there were others who hesitated on the sidelines at the onset of 2020 as they attempted to 'time the market'. In our view, they would have had no clear signals or truly comfortable moments in these past four years to deploy capital and would have missed out on growing their wealth.

At KAI Asset Management, we did not possess any extra clarity or comfort as compared to our fellow investors during this period. However what we did have was a high degree of confidence in our foundational investment belief: the pursuit of a disciplined investment approach to identify and invest in durable assets. Specifically, assets and businesses which exhibit resilient financial strength, maintain high customer retention, and uphold pricing power even in challenging times. Our aim is to build portfolios of assets that do not need to side-step challenges but rather can walk right through them. We believe that our results are not the product of chance but rather a repeatable process that, if consistently adhered to, will continue to protect and grow capital over time.

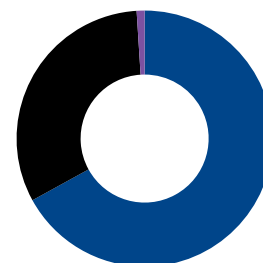
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Portfolio Activity | Holdings at Quarter End: 22

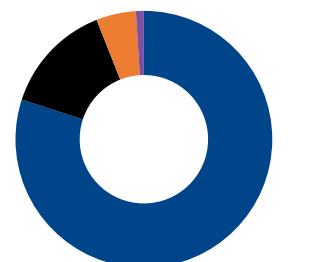
Holdings Entered:	Increased Weight:	Top Holdings
	Royal Bank of Canada Equifax BlackRock Johnson & Johnson	<ul style="list-style-type: none"> KAI Properties KAI Health Services Blackstone Moody's BlackRock Equifax JPMorgan Chase Constellation Software S&P Global Royal Bank of Canada
Holdings Exited:	Decreased Weight:	
	Alphabet Oracle Markel	

¹Northwestern Medicine, *COVID-19 Pandemic Timeline* (March 2023) ²FRED Economic Data, *Consumer Price Index for All Urban Consumers: All Items in U.S. City Average* (December 1, 2023) ³FRED Economic Data, *Federal Funds Effective Rate* (December 1, 2023) ⁴Holdings value appreciation referenced is based on KAI Core Equity Pool performance from Dec 31, 2019 to Dec 31, 2023, KAI Asset Management Inc. (KAM) analysis ⁵As 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. ⁶The Private Equity - Real Estate component reflects investments in shares of KAI Properties Inc. (KPI) ⁷The 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.

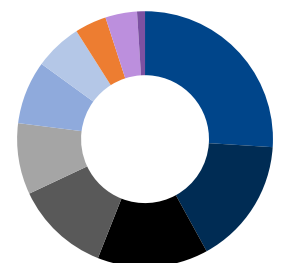
GEOGRAPHIC ALLOCATION



ASSET ALLOCATION⁵



SECTOR ALLOCATION



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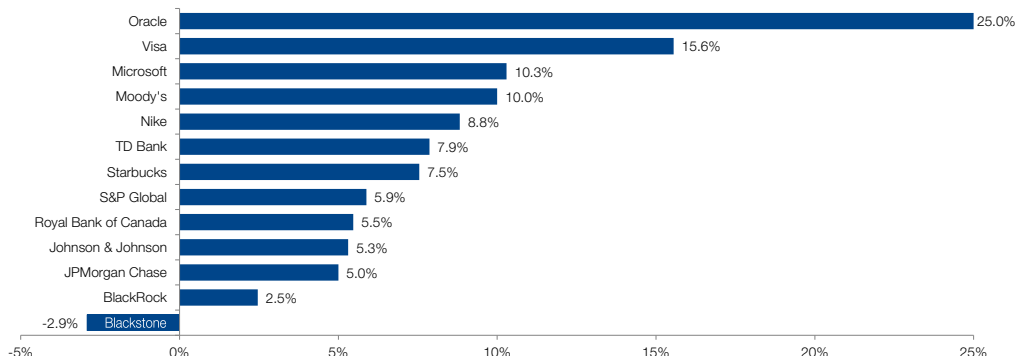
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Public Equities Allocation¹

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

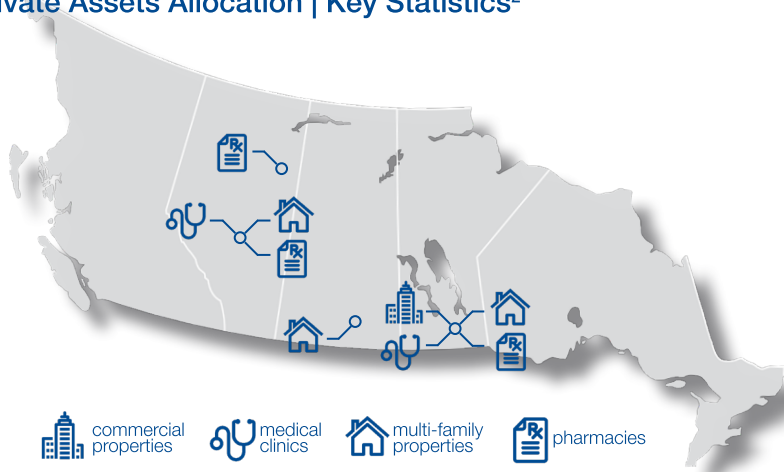
Increased Dividend	12
Maintained Dividend	7
Decreased Dividend	1
12-Month Dividend Growth	5.3%

Portfolio Fundamentals

P/E (forward)	24.0X
Average Market Capitalization	\$462.5B
ROE	22.8%
5-Year Average ROIC	14.8%
Dividend Yield (current)	1.4%
Dividend Yield (expected)	1.4%
Dividend Payout Ratio	30.0%
5-Year Annual Dividend Growth	7.0%

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
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.

¹S&P Capital IQ, KAI Asset Management Inc. (KAM) analysis (January 2024) ²KAI Health Services (KHS) and KAI Properties (KPI) filings, presentations, and analysis as of January 10, 2024 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. 2024 | 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. 240119