

# KAI CORE EQUITY POOL

Q1 - March 2024

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



## Commentary

Investing is a marathon, not a sprint. It requires a long-term vision through both prosperous and challenging times. From our perspective even the most adept investors and economists cannot pinpoint exactly when fortunes will turn. Echoing Warren Buffett's sentiment in his most recent letter to Berkshire Hathaway shareholders, those attempting to forecast market movements should be ignored as it "would be like finding gold and then handing a map to the neighbors."<sup>1</sup> At KAI Asset Management we stay focused not on predicting the unpredictable but on carefully curating high-quality, diversified investment portfolios that in our view will enhance the potential for long-term success.

The first quarter of 2024 got off to a strong start as the S&P 500 Index produced its best first-quarter performance since 2019.<sup>2</sup> The uplift was not isolated to the tech-heavy megacap names; instead, it was a broad-based rally spanning multiple sectors. This occurred despite lingering uncertainties surrounding central bank policies, inflationary pressures, and ongoing global political tensions. The performance of this quarter was impressive amid such headwinds.

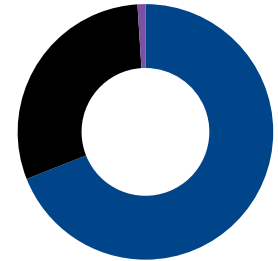
However, with every celebration comes a word of caution. Capital market risk is a persistent concern for investors, many of whom worry about its impact on their long-term financial health. We believe it is important to highlight that our goal is to build client portfolios which are carefully structured for diversification across different asset classes so that we can meet individual investment objectives. The goal of such diversification is to mitigate the total risk of a client's portfolio while bolstering the portfolio's resilience over time, aiming for the highest possible risk-adjusted returns.

This approach to portfolio construction is supported by academic research – a study titled "Determinants of Portfolio Performance" demonstrates that developing a strategic asset allocation that suits the risk-return profile of the investor is more important than attempting to time the market.<sup>3</sup>

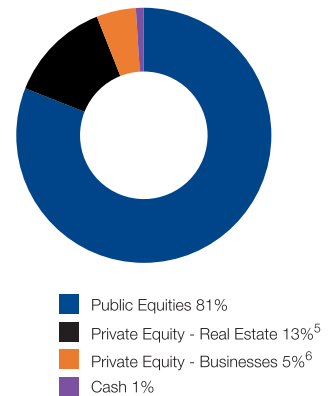
Unfortunately, as moths to a flame, investors are often drawn to the allure of recent high returns in specific assets. We have witnessed the damage this reactive approach can cause in a client's portfolio, and for this reason we firmly believe in the power of a disciplined investment approach. By adhering to this principle we believe that it safeguards portfolios and also lays a foundation for wealth growth over time. In our view this approach will deliver sustainable financial success for our clients.

**The goal of such diversification is to mitigate the total risk of a client's portfolio while bolstering the portfolio's resilience over time, aiming for the highest possible risk-adjusted returns.**

## GEOGRAPHIC ALLOCATION



## ASSET ALLOCATION<sup>4</sup>

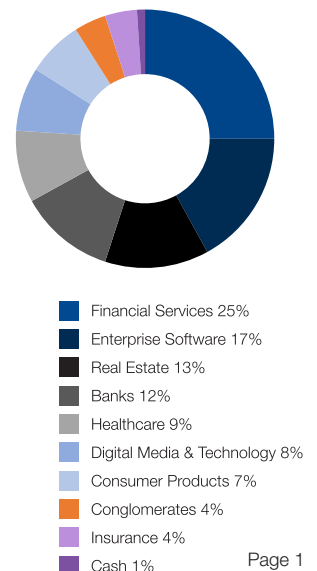


## Portfolio Activity | Holdings at Quarter End: 22

Holdings Entered:	Increased Weight:
	JPMorgan Chase Berkshire Hathaway Oracle Nike
Holdings Exited:	Decreased Weight:
	TD Bank S&P Global Royal Bank of Canada

Top Holdings
· KAI Properties
· KAI Health Services
· JPMorgan Chase
· Equifax
· Constellation Software
· Microsoft
· Blackstone
· Berkshire Hathaway
· Moody's
· BlackRock

## SECTOR ALLOCATION



<sup>1</sup>Warren E. Buffett, 2023 Berkshire Hathaway Annual Shareholder Letter (February 24, 2024) <sup>2</sup>S&P Capital IQ, KAI Asset Management Inc. (KAM) analysis, S&P 500 Total Return Index in USD, December 31, 2023 to March 29, 2024 <sup>3</sup>Gary P. Brinson, Randolph Hood, and Gilbert L. Beebower, Determinants of Portfolio Performance (January 1, 1995) <sup>4</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>5</sup>The Private Equity - Real Estate component reflects investments in shares of KAI Properties Inc. (KPI) <sup>6</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.

# KAI CORE EQUITY POOL

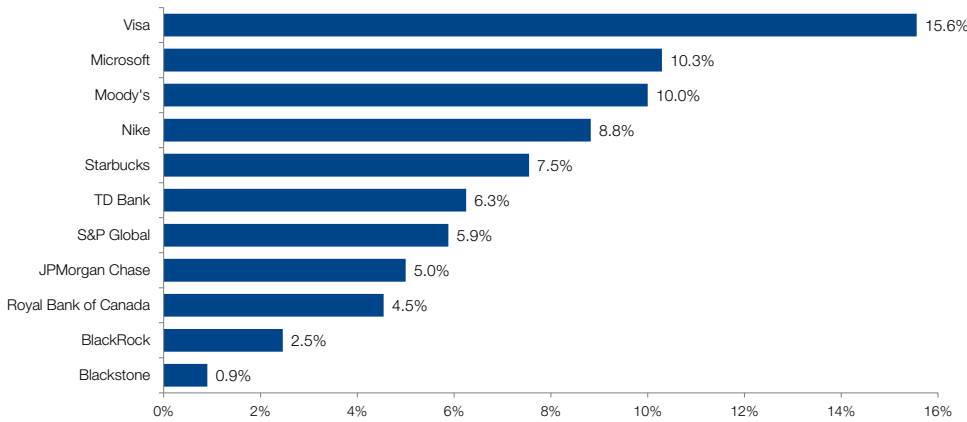
## Q1 - March 2024

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



### 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	9
Decreased Dividend	-
12-Month Dividend Growth	3.9%

#### Portfolio Fundamentals

P/E (forward)	23.9X
Average Market Capitalization	\$513.8B
ROE	22.5%
5-Year Average ROIC	14.8%
Dividend Yield (current)	1.4%
Dividend Yield (expected)	1.5%
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 Statistics<sup>2</sup>



commercial properties    medical clinics    multi-family properties    pharmacies



#### KAI Health Services Inc.

**11** pharmacies    **7** medical clinics  
**26** pharmacists    **61** physicians  
**1,097,000** Rx/year



#### KAI Properties Inc.

**17** properties  
**519** multi-family units  
**158,914** 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 (April 2024) <sup>2</sup>KAI Health Services (KHS) and KAI Properties (KPI) filings, presentations, and analysis as of April 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, 2024. | © 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. 240416