

KAI CORE EQUITY POOL

Q1 - March 2022

KAI Asset Management Inc. | kaiasset.com | 101-128 James Ave | Winnipeg, MB R3B 0N8 | TF: 844-755-8932 | info@kaiasset.com



Commentary

It would not be an exaggeration to suggest that the first quarter of 2022 was extreme. As the year turned, most equity markets were met with selling pressure and elevated volatility levels as drivers of uncertainty evolved. We began the quarter with renewed COVID concerns as the Omicron variant continued its global sweep. Attention then abruptly shifted to Europe in late February as the world watched Vladimir Putin's unsettling invasion of Ukraine. All the while reports of spiking inflation kept rolling in from across the globe adding to the uneasiness. Even though COVID and war reports tend to capture more attention, we are watching the inflation narrative closely as it likely has the greatest ramifications to the global economy. In our view it is very difficult for a society to function properly with price instability, so even though anticipated interest rate hikes are generally unpopular with investors and consumers, the benefit is that it usually helps to get inflation under control.

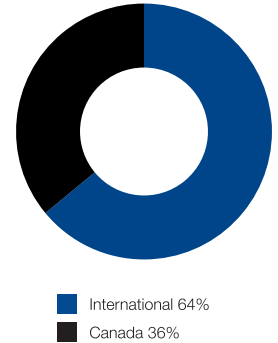
Investors tend to detest uncertainty and the first quarter of 2022 reinforced that notion. We observed capital shift from investment strategies which benefit from a growing global economy toward commodities. This appears to reveal a general mindset among investors of bracing for scarcity.¹ During periods where commodity prices have risen it is natural to question why, at KAI Asset Management, we do not allocate capital into commodities such as oil or gold? As clients know by now, we allocate capital based on our views of the long-term business prospects of an investment and not because we have an opinion of short-term price direction. As it relates to commodities trading, our view is that it relies on speculation rather than investing. Commodities don't generate revenue or profits for you as you hold them so you must guess your entry and exit point correctly to turn a profit. Compare that to owning a collection of businesses that are generating revenue and profits regardless of their share price movements as you hold them. Additionally, imagine if many of those businesses are increasing their revenue and profits even throughout the uncertainty we are living with today. An example of one of our holdings that fits this profile is Microsoft, which is expected to grow its revenue from US\$168 to US\$199 billion and its operating profit from US\$70 to US\$84 billion for fiscal 2022.² Another holding, Adobe, is expected to grow revenue from US\$15.8 to US\$17.9 billion and operating profit from US\$7.2 to US\$8.0 billion for fiscal 2022.³ Both companies have recently experienced downward share price movements, however we are not bothered by this as we view their long-term business prospects as exceptional.

Rather than use our energy trying to guess when to buy and sell oil, we think our clients will be far better served if we exert our efforts identifying businesses that we believe demonstrate pricing power with their customers. Our opinion is that ownership of high-quality businesses provides the most reliable way to protect wealth and grow purchasing power into the future. We fully appreciate that in the short-term uncertainty is very difficult to live with, however the reality is that most of our clients need their money invested over decades, not weeks or months. With that in mind we feel it is our responsibility to analyze and invest in assets that we believe will generate excess returns for our clients over the long run.

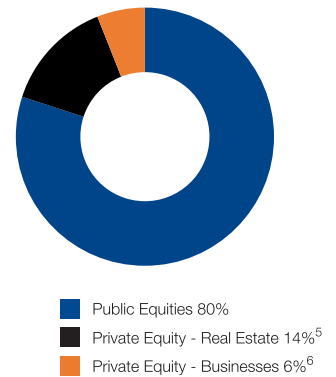
Portfolio Activity | Holdings at Quarter End: 22

Holdings Entered: 	Increased Weight: Markel Johnson & Johnson Blackstone	Top Holdings <ul style="list-style-type: none"> • KAI Properties • KAI Health Services • Microsoft • Constellation Software • Markel • Meta Platforms • Berkshire Hathaway • Alphabet • Blackstone • Brookfield Asset Management
Holdings Exited: 	Decreased Weight: CVS Health Microsoft	

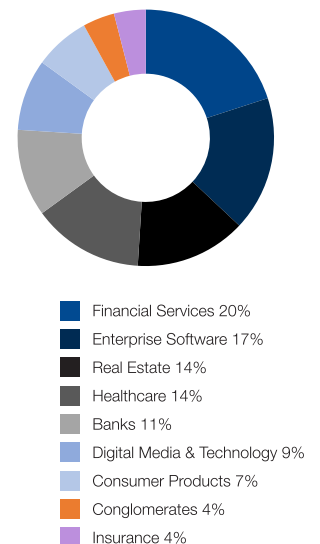
GEOGRAPHIC ALLOCATION



ASSET ALLOCATION⁴



SECTOR ALLOCATION



¹Geoffrey Morgan, *Investors Shift from Betting on Growth to Bracing for Scarcity* (April 14, 2022) ²S&P Capital IQ, Microsoft forward estimates (April 2022) ³S&P Capital IQ, Adobe forward estimates (April 2022) ⁴As 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. ⁵The Private Equity - Real Estate component reflects investments in shares of KAI Properties Inc. (KPI) ⁶The 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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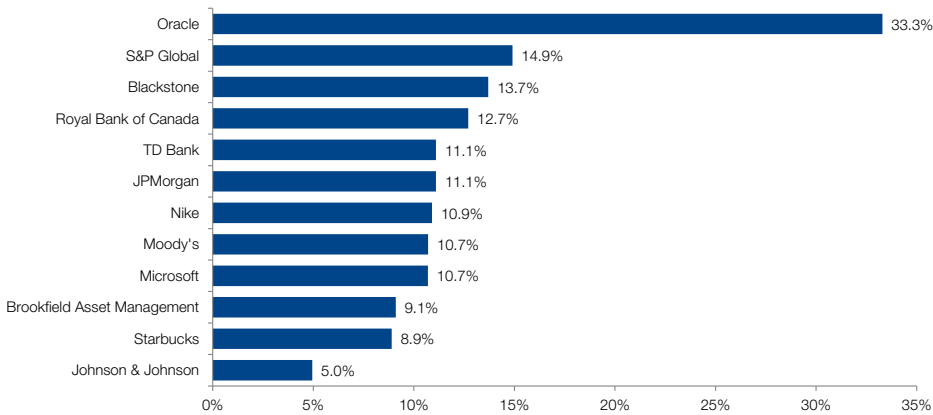
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Public Equities Allocation¹

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	8
Decreased Dividend	-
12-Month Dividend Growth	7.6%

Portfolio Fundamentals

P/E (forward)	21.1X
Average Market Capitalization	\$403.0B
ROE	33.3%
5-Year Average ROIC	14.7%
Dividend Yield (current)	1.3%
Dividend Yield (expected)	1.3%
Dividend Payout Ratio	26.0%
5-Year Dividend Growth	7.6%

Private Assets Allocation | Key Statistics²



commercial properties medical clinics multi-family properties pharmacies



KAI Health Services Inc.

11 pharmacies **8** medical clinics
30 pharmacists **63** physicians
885,000 Rx/year



KAI Properties Inc.

19 properties
519 multi-family units
201,101 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

Foster Lyle, CPA, CFA

Portfolio Analyst

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 will be 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 ²KAI Health Services (KHS) and KAI Properties (KPI) filings, presentations, and analysis as of April 10, 2022 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, 2022. © KAI Asset Management Inc. 2022 | 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. 220413