The Dividend Value Discipline™ - Quarterly Market Commentary
2nd Quarter 2019 (Q2) – as of June 30, 2019

As we reach the halfway mark for 2019, our objectives for **The Dividend Value Discipline™** remain unchanged:

- Invest in companies that evidence superior corporate culture and are disrupting the way business is done and/or aggregating (purchasing smaller competitors) their way to sustainable double-digit earnings and dividend growth.
- To hold such companies through the inevitable market downturns by focusing on their competitive advantage and thereby, the long-term earnings/dividend growth, as opposed to the euphoria and dysphoria of the stock market.
- To generate a consistently growing income and absolute returns of 8%+ per annum over any investment cycle, i.e. peak to peak or trough to trough.

As per our Q1 2019 commentary, our focus with this report remains on the things that are important to long-term investors. Namely, how our investee companies are doing from an earnings and dividend (rent cheque) growth perspective. To that end, the table below reflects the rent cheque increases our investee companies have announced on a year-to-date basis, with some additional colour on the earnings front.

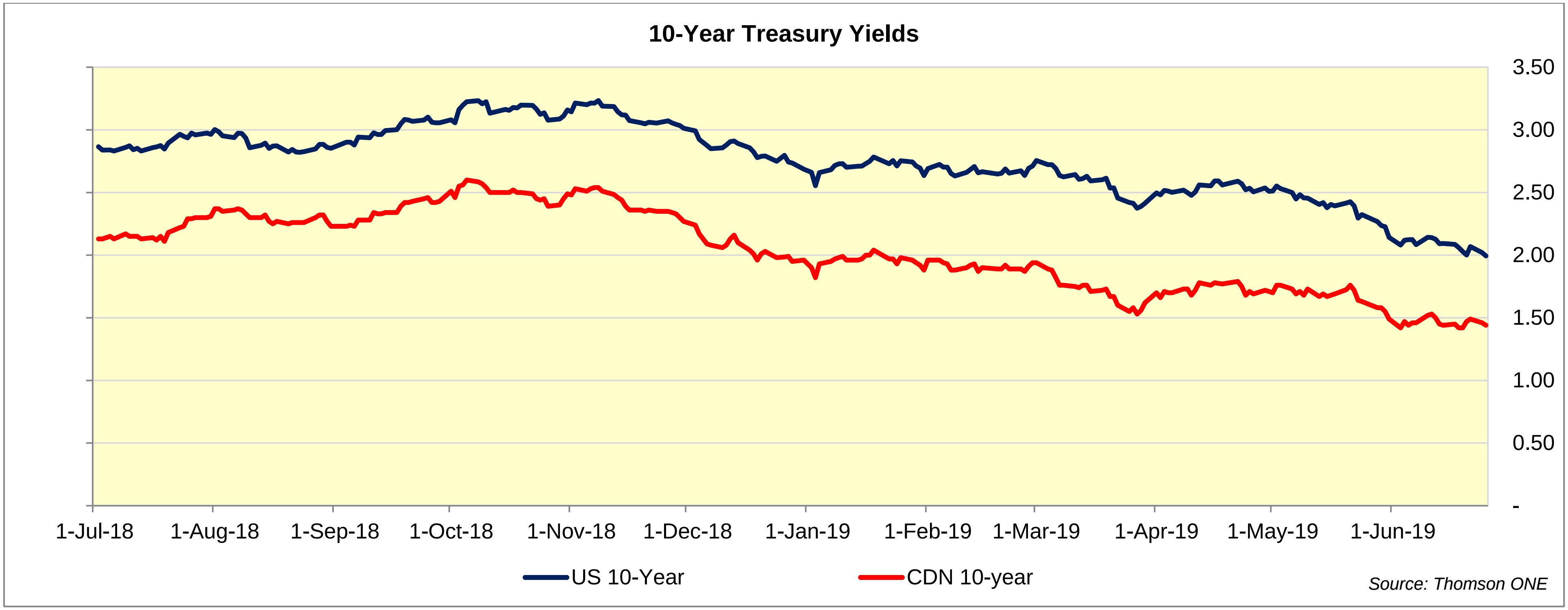
The Dividend Value Discipline™ – Rent Cheque Increases Announced YTD (to June 30th)

Investee Company	Rent Cheque Yield*	Latest Rent Cheque Increase	3-Year Dividend CAGR**	Fiscal 2018/2017 Earnings Increase	Comments
PROGRESSIVE CORP	4.40%	123.5%	45.1%	100.4%	Their website allows you to shop competitors' insurance rates.
CHARLES SCHWAB CORP	1.32%	31.0%	36.1%	49.4%	A technology-driven investor platform for next generation investors.
TJX COMPANIES INC	2.10%	17.9%	23.0%	22.7%	An autonomous culture that "out-retails" their competitors.
LOWES COMPANIES INC	2.63%	14.6%	20.4%	16.2%	New CEO joined in July 2018 – massive shift in strategy/culture.
CCL INDUSTRIES INC CL B	1.44%	30.8%	19.3%	1.5%	Short term earnings are a concern – last quarter was better.
NORTHERN TRUST CORP	2.82%	9.1%	16.4%	37.1%	The go-to private bank for Fortune 500 families – leads in blockchain.
VALERO ENERGY CORP	3.93%	12.5%	14.5%	48.6%	Great mgmt. and a dividend that has grown from $0.65 to $3.60 the last 10 years.
MARSH & MCLENNAN COS INC	2.83%	9.6%	11.9%	11.0%	Consistent, disciplined aggregator with solid organic growth.
SHERWIN WILLIAMS CO	1.65%	31.4%	10.4%	23.0%	Prolific aggregator – recently paid off a big slice of the Valspar debt.
3M COMPANY	2.86%	16.2%	9.1%	14.1%	Globally diversified – incredibly innovative, loved by employees.
JOHNSON AND JOHNSON	2.81%	5.6%	6.5%	12.1%	Culture is one of the best we have studied – huge insider ownership.
BANK OF NOVA SCOTIA	4.93%	4.8%	6.0%	6.9%	Slow dividend growth & note the yield – we like Asia/Latam business.
CONSTELLATION SOFTWARE	5.16%	0.0%	0.0%	29.0%	Special $20 dividend – gets 20% return on retained capital.

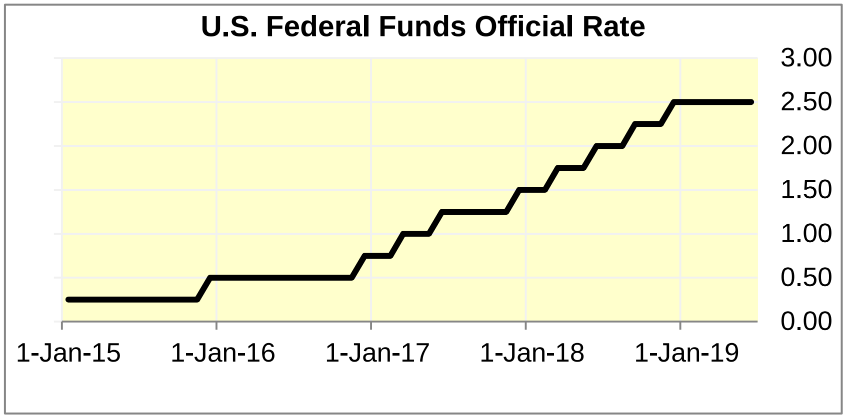
*Based on aggregate program cost
**3-year Dividend Compound Annual Growth Rate – as of last dividend increase.
***Constellation Software paid a special dividend of $20 US per share on February 13, 2019 in addition to their regular $1 US quarterly dividend.

Suffice to say that at the half-point of the year, nearly half of our current holdings have upped their dividends … at an average of 14.6%! Because of the superior corporate culture, defensible moats (barriers to entry/strategic advantages that competitors don't have), and the macro tailwinds that are evidenced in the companies we invest in, we believe that these double-digit increases will continue. Recall, using the rule of 72, even at a 10% compound annual growth rate, the rent cheques will double every seven years. What are the chances that such an income stream does not push stocks prices north? This is not something we would want to bet against.

There is one major tailwind that we believe is important to highlight for dividend investors; namely, falling long-term interest rates which as of yet, has not shown up in our "dividend growers" stock prices, but the historical evidence is overwhelming to say it will. The chart below reflects the 10-year yield for both Canadian and U.S. government guaranteed bonds over the last year. Of note, long-term interest rates are down ~35% from the highs of last fall and that offers investors a powerful incentive to own dividend "payers and growers". Put another way, 3M's current dividend yield of 3.3%, coupled with its near double-digit compound annual dividend increases, and the fact they have increased their dividend every year for the last 60 years, is a whole lot more attractive in a 2% rate environment than a 3% rate environment. You would expect the stock to get bid up, but thus far this year it has gone down. The market does strange things in the short term – we remain unfazed and have used the weakness to buy more for clients that have added money and/or recently joined us.



Historically speaking, this pattern bodes very well for dividend-paying stocks, especially in front of what now looks like the inevitable U.S. fed funds rate cut to be announced in July. On average, at every start of a fed funds rate cut since 1974, dividend-paying stocks have outperformed their non-dividend paying counterparts by 5% one year after the first rate cut (source: Ned Davis Research/S&P Dow Jones Indices). Our read is that starts next month and we are encouraged that, as per our comments from last quarter, we will be starting from a base where the price of dividend paying stocks versus non-payers are near 15-year lows. The increasing fed funds rate that started in late 2015 has been an uphill battle for all dividend investors, including us, and it appears we have crested (Source: federalreserve.gov).



In terms of returns, as at June 30th, most fully-invested accounts within **The Dividend Value Discipline™** pegged in slightly above the +7% level on a year-to-date basis, so we lost some ground from the +9% figure at March 31st. Roughly half of that decline is due to the strength of the Canadian dollar, and much of the balance is due to a tough quarter in the commodities space, which interestingly enough caught a significant bounce in the month of June. To wit, the price of gold made a bottom to top move of more than 10%, while the price of oil (West Texas Intermediate) gained more than 15% from its June lows.

We find it interesting that Canada's S&P/TSX capped energy index is actually trading lower today than it was back in October 2018 when we were selling our Western Canada Select oil for less than $13 USD per barrel (it closed the quarter at $44.73 USD). Again, the market can do strange things in the short term. Our usual refrain stands – let's not get too excited about the short-term performance numbers, be they positive or negative. It is what we outlined at the top of this report that matters.

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