The Dividend Value Discipline™
Quarterly Market Commentary
4th Quarter 2016 (Q4) – as of December 31st

As we close the door on 2016, we are happy to report another calendar year of positive returns within **The Dividend Value Discipline™**. What we are not happy to report is that most fully-invested accounts pegged in the +4% range. As you may recall, differences in start dates and timing of cash flows means that no two accounts in the program are exactly alike – your individual results can be found on **The Progress Monitor**. As always, all return figures are net of fees.

Falling short of the +8% objective is a difficult pill to swallow, in light of Canada's S&P/TSX Composite Index posting a gain of 17.5% for 2016. With that said, here is another perspective: the S&P/TSX Composite closed out 2016 still 2% shy of its all-time closing high of 15,658, set back in September 2014. That is a long 2+ years to be still negative. For the record, the average fully-invested account within **The Dividend Value Discipline™** is up roughly 10% since that time. Avoiding the negative years as we did in 2015 clearly helps long term performance.

With respect to long term performance, we started **The Dividend Value Discipline™** in the fall of 2002, and it is worth noting that the average annualized return for all of the accounts that were opened in 2002 (those that are still in operation) is +7.94%, net of fees. Throughout the course of our 14 calendar year history, we have had 13 years of positive returns and 9 years where we met or exceeded the +8% objective. It is also worth noting that back in 2002, we had 5-year GICs yielding 5%, much better economic growth, and stocks benefiting from decreasing interest rates. Today we have 5-year GICs yielding only 2%, anemic economic growth, and the headwinds of rising interest rates. In short, the 8% is tougher to come by.

Be that as it may, we are not throwing in the towel. In fact, we recognized these challenges well over a year ago and spent 2016 tackling the "*growth problem*". Here's the strategy. For us to make the 8% goal, we must find companies that are growing far faster than the economy. As you would expect, we start within the normal confines of "*has to pay a rent cheque, has to score well on the corporate culture front and has to have some strategic advantage (moat) that makes the company difficult to compete with*". We then focus on those companies that have demonstrated their ability to grow their dividends at double digit rates as a primary indicator of growth and capital gain potential. That is a high bar to jump over and for the most part we found said companies in one of two themes. They tend to be disrupting the existing marketplace with a better way of doing things, i.e. Dollarama, or they tend to be aggregating their way to growth by buying smaller tuck-in acquisitions, i.e. CCL Industries Inc. We have published a lot of material on our "disruptors and aggregators" theme over the past year. If you need a refresher you can find it here: http://www.chrisraper.com/pdfs/The%20Strategist%20-%20May%202016.pdf

The table on the following page lists every dividend paying company that we owned at year-end. What we ask you to focus on is the growing rent cheque, i.e. the 1, 3, and 5-year dividend growth rates. To illustrate why dividend growth is so important, let's think about the "Rule of 72", whereby we can take that magic number and divide it by the annualized dividend growth rate to roughly figure out how many years it will take the dividend to double. For instance, if a stock has a current dividend yield of 2% and is growing its dividend at 15% per year, it will take approximately five years (72 divided by 15) before the 2% yield will become 4%, and five more years for the 4% to become 8%. Of course, any company that is capable of doing that on a sustainable basis is not going to go unnoticed. Investors are going to bid up the stock price, so we get paid to wait with an increasing rent cheque and then capture the capital appreciation. This is our solution to the growth problem. As the table demonstrates, we have made a lot of progress and own only a handful of companies with 3-year dividend growth rates of less than 10%. Over time, we expect returns to reflect the growth imbedded in these companies. For reasons noted above, and as evidenced below, we are excited about what lies ahead in 2017.

	Company	Annual Rent Cheque	Yield	Years to Double Rent Cheque*	1-Year Dividend Growth	3-Year Dividend CAGR	5-Year Dividend CAGR	Aggregator/Disruptor
1	VALERO ENERGY CORP	$2.40	3.41%	2.0	41.18%	42.30%	54.32%	Neither
2	CCL INDUSTRIES INC	$2.00	0.77%	2.5	33.33%	32.49%	23.36%	Aggregator
3	CVS HEALTH CORP	$2.00	2.49%	2.6	42.86%	30.50%	31.95%	Aggregator
4	AMPHENOL CORP	$0.64	0.95%	2.8	20.75%	28.02%	84.42%	Aggregator
5	LOWES COMPANIES INC	$1.40	1.97%	2.9	37.25%	27.22%	22.87%	Aggregator
6	HORMEL FOODS CORP	$0.68	1.93%	3.0	36.00%	25.99%	21.60%	Aggregator
7	INTUIT INC	$1.36	1.19%	3.1	29.52%	24.78%	55.41%	Disruptor
8	CUBESMART	$1.08	4.06%	3.2	56.52%	24.47%	30.99%	Aggregator
9	TJX COMPANIES INC	$1.04	1.38%	3.3	29.19%	23.66%	23.64%	Disruptor
10	EXPEDIA INC	$1.04	0.93%	3.4	23.81%	22.92%	N/A	Disruptor
11	VF CORP	$1.68	3.15%	3.4	26.32%	22.45%	20.82%	Aggregator
12	CANADIAN NATIONAL RAILWAY	$1.50	1.66%	3.7	19.81%	20.37%	18.20%	Neither
13	AMERISOURCEBERGEN CORP	$1.46	1.77%	4.0	20.66%	19.06%	25.99%	Neither
14	SHERWIN WILLIAMS CO	$3.36	1.22%	4.0	25.37%	18.88%	18.14%	Aggregator
15	BANK OF NOVA SCOTIA	$2.96	3.91%	4.3	2.74%	17.60%	7.31%	Disruptor
16	MICROSOFT CORP	$1.56	2.49%	4.4	20.93%	17.16%	18.07%	Both
17	DOLLARAMA INC	$0.40	0.41%	5.1	14.29%	14.71%	34.76%	Disruptor
18	PEYTO EXPLORATION & DEVELOPMENT CORP	$1.32	4.07%	5.1	0.00%	14.47%	17.08%	Neither
19	MARSH & MCLENNAN COMPANIES INC	$1.36	2.00%	6.0	15.25%	12.31%	9.60%	Aggregator
20	CASEYS GENERAL STORES INC	$0.96	0.81%	6.3	14.29%	11.64%	10.99%	Aggregator
21	W.W. GRAINGER INC	$4.88	2.08%	6.8	6.32%	10.78%	14.13%	Both
22	CONSTELLATION SOFTWARE INC	$5.40	0.89%	7.7	-16.58%	9.43%	22.65%	Aggregator
23	A&W REVENUE ROYALTIES INCOME FUND	$1.60	4.27%	16.2	10.83%	4.37%	2.60%	Neither
24	GREAT WEST LIFECO INC	$1.38	3.93%	17.4	6.13%	4.07%	2.35%	Neither
25	CAMECO CORP	$0.40	2.87%	N/A	0.00%	0.00%	0.00%	Neither
26	ARC RESOURCES LTD	$0.60	2.62%	N/A	-50.00%	-20.63%	-12.94%	Neither

***Based on 3-Year Dividend CAGR (Compound Annual Growth Rate) – as at December 31st, 2016**

Notwithstanding our progress noted above, we acknowledge that our execution throughout 2016 has been mediocre at best. While you might have given us a B+ last year, I (Chris) am on record as deserving a D when I recorded **The Opportunity Update** on December 13th. If you are really kind, you might get that up to a C- by year end, in part because some of what we have been working on has started to bear fruit (see our December 20th, 2016 broadcast dispatch: http://www.chrisraper.com/pdfs/An-Aggregator-in-Action.pdf). Bottom line, none of us on the investment team are happy with our short term performance and the buck stops with me. It was me that made the final decision on what to buy and what to sell. Of course, when I make those decisions, I am looking to the longer term results and sometimes short term pain is part of the price you pay. Thank you for your patience and your confidence.

What follows are the major buy and sell decisions over the past three months, and notably, there were no "sell all" decisions, which may offer you some insight into how we see the current holdings.

Turning to the new acquisitions, we purchased low cost natural gas producer **Peyto Exploration & Development Corp.,** a company we have owned before and long admired. They score well on our "great culture" screens and we are impressed with their relentless efforts to drive down cost per 1,000 cubic feet of gas produced. In effect, Peyto's gas-prolific land base and production know-how is the "moat" that makes it one of the lowest cost and most efficient producers in Canada's natural gas industry. Of note, the rent cheque increase stalled last year when we saw AECO gas prices trade below $2.00, but we expect it to resume its healthy clip as gas prices are now notching multi-year highs and costs have fallen like a stone.

We also initiated a position in the online travel company, **Expedia Inc.,** which was born in Seattle in 1996 when a small division within Microsoft launched the travel booking website Expedia.com. Expedia has since grown into the world's leading online travel company, with 200+ travel booking sites in over 75 countries, and over 18,000 employees in more than 30 countries. Expedia is disrupting its way to growth with its travel brands including Hotels.com, Orbitz Worldwide, Trivago and Travelocity. Culture-wise, the CEO has led the firm for the last 18 years and the median executive tenure is 11 years, which is pretty strong given the company's short history. We like the fact that insiders own a lot of stock and are continuing to increase their holdings. Moat-wise, it is difficult for new entrants to gain a toehold in the online travel booking market. The cost of systems and advertising bars most new participants from entering, thus leaving the "oligarchs" to divide up the expanding market. Brand recognition is critical, as is the scale to advertise, and Expedia is delivering on both.

Our last acquisition of the quarter is an interesting story. We bought a stake in **Cameco Corp.,** the world's largest publicly traded uranium company and the second largest uranium producer, accounting for 18% of worldwide production. As always, we start with the rent cheque, and the dividend yield at our buy price was ~3%, which we see as sustainable. Management-wise, CEO Tim Gitzel is a 34-year veteran of the industry and their policy of promoting from within is clear, given that COO Robert Steane started working in the mill. Cameco also scored well on the transparency and governance fronts. Furthermore, we have seen some insider buying this year. Moat-wise, it goes back to being the low cost producer and the fact that they are a vertically integrated fuel processor/supplier. It helps that Cameco has some of the richest uranium mines in the world and it has demonstrated its ability to grow both organically and with disciplined acquisitions. The catalyst is in the dismal trend of seemingly ever decreasing uranium prices. With price declines now approaching 16 years, the news is so bad it is good. Because uranium mines take so long to develop (as do the nuclear power sites they supply), when the change comes it will last a very long time and our take is that shareholders are going to be rewarded handsomely. Here are a few additional reasons as to why we believe the inevitable turnaround is coming: (a) Japan used to have 54 reactors operating, pre-Fukushima – today they have 4, and by March 2017 they will have 7 more, by 2018 another 12; (b) globally, 40 reactors will get fired up before we see the close of 2019 and almost half of them will be in China; and (c) Cameco has got its costs down, so it is profitable and generating free cash flow at current prices, and is also insulated from further price declines by virtue of their long term contracts. So...we get paid to wait for the inevitable turnaround.

As we enter 2017, we do so with the best group of companies that we have ever owned in the 14+ year history of **The Dividend Value Discipline™**. They are ***disrupting and aggregating*** their way to ***ever-increasing rent cheques,*** a precursor to higher stock prices and all of this on top of our already demanding ***great culture and wide moat*** prerequisites.

In conclusion, please accept our best wishes for the New Year – we are fully committed to a prosperous 2017!

Yours truly,

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