The Dividend Value Discipline™
Quarterly Market Commentary
3rd Quarter 2017 (Q3) – as of September 30th

After experiencing primarily currency-related declines from May through August, we closed out the 3rd quarter of 2017 (Q3) on a positive note, with roughly a 1.5% gain for the month of September. As most of you are aware, the rising Canadian dollar has been a monstrous headwind for us, as slightly more than 50% of the program is invested in U.S. dollar-denominated securities.

Looking at the performance on a year-to-date (YTD) basis, most accounts pegged in with a return in the range of +0.5% to +1.0% as of September 30th, which is down marginally from the June 30th figures. As you know, our ***"buys only mandate"***, coupled with differences in start dates and timing of cash flows means that no two accounts are exactly alike – your individual results can be found on **The Progress Monitor**. As always, all return figures are net of fees.

The objectives for **The Dividend Value Discipline™** remain unchanged: income every month, buy only those securities which become attractive on a go-forward basis, and returns of +8% net to you each and every year. Obviously, the 8% is not a guarantee. There will be challenging times and there will be times that we exceed beyond our expectations. Those that persevere generally get rewarded.

As we enter Q4, there is plenty of good news to share with you. Here are some of the highlights:

- The lion's share of the companies that we own are seeing earnings and dividend growth at double-digit rates. Specifically, the median earnings growth for Q2 2017 (on a year-over-year basis) for all 27 of our investee companies was 12.2%, and the announced dividend increases annualized at a 14% increase. These kinds of numbers ultimately drive stock prices, whereas currency headwinds and/or tailwinds have limits.

- Many of the companies that we have owned for more than a year hit new 52-week highs during Q3.

- The global economy is returning to growth mode (the price of copper and the semiconductor index both remain strong).

- The Governor of the Bank of Canada, Stephen Poloz, is now on record stating that "there is no predetermined path for interest rates from here", which promptly turned the Canadian dollar south.

- The oil and gas sector (arguably Canada's growth engine) is in recovery mode, supported by increasing global demand.

To expand a bit on the last point above, the weakness in the oil and gas sector has been a major headwind for Canada and you can see it in the performance of the S&P/TSX Composite Index. To wit, the index closed out Q3 at 15,635, almost exactly at its best for September 2014, which was 15,685. To add insult to injury, the U.S.'s S&P 500 Index closed Q3 at 2,519, up some 12.5% YTD, if you measure it in local currency terms. Its YTD result in Canadian dollar terms was a far more modest +4.5%.

As per Chris's comments in the latest edition of The Opportunity Update, *"At times like this, our emotions and more truthfully clients tell us to "do something" and yet when we go to basics, i.e. earnings growth and rent cheque growth of our investee companies, doing nothing or doing very little (no wholesale changes) strikes us as intelligent behaviour. The companies we owned in April are pretty much the same as the companies we own today and the reasons we bought them have not changed. As we wade through this weak spot in short term performance they continue to grow their earnings at impressive rates and we firmly believe that in time, the stock prices will reflect that."*

Obviously, our focus on acquiring aggregators and/or disruptors as a means to sustainable double-digit dividend growth, and in turn, the driver of higher long-term returns, continues. Q3 saw two new additions to the program. The first was a company we have long admired, to many the global standard of private banking, **Northern Trust Corporation**. Founded in 1889, they cater to the ultra-rich in their private banking division which is ~50% of revenues and they have built a moat around that business with entrenched relationships that span generations. The other half of their revenue comes from their asset custody business, where they have the advantages of scale and international capability. Culture-wise, the firm evidences long management tenures (median of 32 years) and a policy of hiring from within. Median insider ownership is ~5 times total compensation. Rent cheque-wise, the firm was one of the few U.S. banks that maintained their dividend throughout the 2008/09 financial crisis. Dividend increases throughout the U.S. financial system have been constrained due to regulatory requirements and we see that changing for the better, providing Northern Trust with one more secular tailwind and good things to come for shareholders.

Our second addition was **Gilead Sciences Inc**., an American biopharmaceutical company with operations in over 30 countries. They discover, develop, and commercialize drugs, especially where unmet needs exist. They currently lead in the Hepatitis-C and HIV/AIDS markets and have recently purchased Kite Pharma, which has a particularly promising therapy that enhances the body's immune system to battle cancer. Culture-wise, we see so much to like. The top five executives have all been hired from within and have a median tenure of 26 years. Being a highly advanced, science-based organization, it has intellectual capital that few companies can match, which is certainly a big part of their "wide moat" status – we can throw in patents and research capability for good measure. Rent cheque-wise, Gilead started paying a dividend in June 2015 and they have raised it each year since. We expect more of the same.

The table on the following page shows every dividend-paying company held within **The Dividend Value Discipline™** at the end of September. The average 3-year dividend CAGR (compound annual growth rate) is 16%, which translates to a "double" every 4.6 years. Using our apartment block analogy, what is the chance that someone could pry (buy) you out of an apartment building that you owned if your rent cheque was going up at 16% per annum?

	Company	Annual Rent Cheque	Yield	Last Dividend Increase Announced	3-Year Dividend CAGR	5-Year Dividend CAGR	Years to Double Rent Cheque*	Aggregator/ Disruptor?	Years of Consecutive Increases
1	SKYWORKS SOLUTIONS INC	$1.28	1.25%	14.0%	54.1%	n/a	1.6	Disruptor	2
2	CCL INDUSTRIES INC CL B	$0.46	0.76%	15.0%	27.9%	24.1%	2.8	Both	15
3	LOWES COMPANIES INC	$1.64	2.01%	17.1%	26.0%	22.3%	3.0	Aggregator	54
4	CUBESMART	$1.08	4.21%	28.6%	25.2%	20.2%	3.1	Aggregator	5
5	STARBUCKS CORP	$1.00	1.85%	25.0%	24.4%	22.7%	3.2	Both	6
6	INTUIT INC	$1.56	1.10%	14.7%	23.9%	20.3%	3.2	Disruptor	6
7	TJX COMPANIES INC	$1.25	1.70%	20.2%	23.1%	23.2%	3.3	Both	20
8	EXPEDIA INC	$1.20	0.82%	7.7%	22.1%	22.2%	3.5	Disruptor	5
9	CVS HEALTH CORP	$2.00	2.47%	17.6%	22.1%	25.1%	3.5	Aggregator	9
10	AMPHENOL CORP	$0.76	0.89%	18.1%	19.1%	29.3%	4.0	Aggregator	5
11	SHERWIN WILLIAMS CO	$3.40	0.91%	1.2%	15.6%	16.9%	4.8	Aggregator	38
12	BANK OF THE OZARKS	$0.72	1.50%	9.1%	15.3%	23.6%	4.9	Aggregator	7
13	AMERISOURCEBERGEN CORP	$1.46	1.76%	7.7%	13.6%	19.5%	5.4	Neither	12
14	MICROSOFT CORP	$1.68	2.26%	7.6%	13.5%	15.1%	5.5	Both	13
15	NIKE INC	$0.72	1.40%	12.5%	12.9%	13.9%	5.7	Disruptor	9
16	DOLLARAMA INC	$0.44	0.32%	10.0%	12.4%	15.9%	5.9	Disruptor	6
17	MARSH & MCLENNAN COS INC	$1.50	1.78%	10.3%	12.3%	10.8%	6.0	Aggregator	7
18	STANTEC INC	$0.50	1.43%	11.1%	10.6%	10.8%	6.9	Disruptor	4
19	NORTHERN TRUST CORP	$1.68	1.82%	10.0%	8.4%	7.0%	8.6	Neither	6
20	SUNCOR ENERGY INC	$1.28	2.94%	10.3%	7.9%	20.7%	9.2	Neither	1
21	BANK OF NOVA SCOTIA (THE)	$3.16	3.93%	3.9%	7.3%	7.1%	9.9	Disruptor	6
22	GREAT WEST LIFECO INC	$1.47	4.12%	6.1%	6.0%	3.6%	11.9	Aggregator	2
23	PEYTO EXPLORATION & DEVELOPMENT CORP	$1.32	6.54%	Not in last 12m	5.0%	12.9%	14.2	Neither	n/a
24	CAMECO CORPORATION	$0.40	3.63%	Not in last 12m	0.0%	0.0%	n/a	Neither	n/a
25	CONSTELLATION SOFTWARE INC**	$4.96	0.71%	Not in last 12m	0.0%	0.0%	n/a	Aggregator	n/a
26	ARC RESOURCES LTD	$0.60	3.50%	Not in last 12m	-20.6%	-12.9%	n/a	Neither	n/a
27	GILEAD SCIENCE INC	$2.08	2.50%	10.6%	n/a	n/a	n/a	Aggregator	1
	Average		**2.08%**	**12.63%**	**16.34%**	**16.13%**	**4.6**		**10.8**

*Based on 3-year Dividend CAGR (Compound Annual Growth Rate) - as of October 3, 2017

**Constellation Software's dividend rate is in USD ($1.00 per quarter), but the payments are made in CAD and therefore vary with currency fluctuations

So where to from here? Our read is that things get better. Three years of no progress on the S&P/TSX Composite Index is not normal. We are an exporting nation and global growth is a good thing for any resource-based economy. Governor Poloz's latest comments suggest to us that the run up in the Canadian dollar is over for the foreseeable future…which admittedly is not very far. The things that ultimately drive stock prices (earnings and dividend growth) continue to surprise to the upside for most of our investee companies, and we are entering the seasonally strong Q4. Will we make the 8% by year end? That is unknowable. That said, please be reminded that we have tremendous personal incentive to do everything we can to make it happen and are invested right alongside of you – same time, same price. As we approach our great Canadian tradition, we remain grateful for the opportunity to serve you and your family.

Blessings to you and your family for a great Thanksgiving,

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