The Dividend Value Discipline™
Quarterly Market Commentary
3rd Quarter 2018 (Q3) – as of September 30th

As we closed out Q3, most fully-invested accounts within **The Dividend Value Discipline™** had 2018 year-to-date returns around the +6% mark, versus a market back drop of -0.84% for Canada's S&P/TSX Composite index and +8.99% for the U.S.'s S&P 500 index (all in local currency terms). Due to our ***"buys only mandate"***, coupled with differences in start dates and timing of cash flows, no two accounts are exactly alike. Accordingly, your individual results can be found on **The Progress Monitor**. As always, the return figures are net of costs.

Our re-aligned objectives (as of January 2018) for the program remain unchanged:

- To buy companies that evidence superior corporate culture and are disrupting the way business is done and/or aggregating (purchasing smaller competitors) their way to higher growth as a means to sustainably grow their dividends at double-digit rates.
- To hold said companies through the inevitable market downturns by focusing on the long term earnings/dividend growth, as opposed to short term market fluctuations.
- 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.

We remain encouraged with our re-aligned objectives and the progress thereof. Yes, it is nice to be showing respectable numbers thus far this year, but where we are really seeing the biggest improvement is in the back end of our research process. Simply put, the quality of the companies we own has never been better and it continues to increase with each passing quarter.

We counsel participants to not get too excited about the short-term performance numbers, be they positive or negative. What really matters is sustainable long-term earnings/dividend growth, and most importantly, whether or not you have the fortitude to stick with the program during the down times. On a side note, below is a list of the companies within **The Dividend Value Discipline™** that raised their dividends last quarter.

Company	Annual Rent Cheque	Yield (as of Sept. 30th)	Annual Dividend Increase	3-Year Dividend CAGR	5-Year Dividend CAGR	Years to Double Rent Cheque*	Years of Consecutive Increases	Date of Last Dividend Change
CHARLES SCHWAB CORP	$0.52	1.04%	62.5%	29.4%	16.7%	2.7	3	25-Jul-18
SKYWORKS SOLUTIONS INC	$1.52	1.65%	19.0%	24.9%	N/A	3.1	3	19-Jul-18
INTUIT INC	$1.88	0.83%	20.5%	21.4%	21.8%	3.6	7	23-Aug-18
NORTHERN TRUST CORP	$2.20	2.12%	32.0%	15.2%	12.2%	4.9	7	18-Jul-18
EXPEDIA GROUP	$1.28	0.99%	6.7%	15.1%	18.0%	4.9	6	26-Jul-18
MICROSOFT CORP	$1.84	1.60%	9.5%	12.6%	13.7%	5.9	14	18-Sep-18
ACCENTURE PLC	$2.92	1.69%	9.8%	11.3%	10.9%	6.5	8	27-Sep-18
BANK OF NOVA SCOTIA	$3.40	4.50%	7.5%	7.7%	13.3%	9.3	7	28-Aug-18

*Based on 3-year Dividend CAGR (Compound Annual Growth Rate) - as of September 30, 2018

We purchased two new companies over the last quarter, namely, **3M Company** and **Accenture PLC**. Embarrassingly, we have owned both of these companies in the past, and in hindsight, continuing to hold them would have been a smarter decision. The former objective of "8%+, each and every year" opposed such long-term thinking, thus the change to "8%+ per annum, over any investment cycle". We are getting wiser.

Our purchase of 3M was driven by their track record of innovation, which is built into their culture and thus is sustainable. Most participants will recognize the name and be familiar with their household products like Scotch® tape and Post-it® notes. Beyond the familiar, they have over 40,000 speciality products that are not listed. The most important insight for us is that almost one third of those products did not exist five years ago. That is a lot of research and development that very few companies can compete with.

When you study 3M, you quickly realize that it is the culture of innovation that spawns so many products and enables them to register ~4,000 patents per year. Employees are actively encouraged to devote 15% of their time working on innovative ideas of their own making – collaboration is part of the corporate DNA. Culture runs deep at 3M – the current CEO is a 30 year veteran of the firm and most of the executives at 3M have tenures that are even longer. Promotion from within and talent development are easily identifiable, and pay incentives are aligned with shareholders. Meaningful insider stock ownership is evident. What we find especially attractive about this company is that it has all the hallmarks of a long-term hold – hopefully decades, not just years.

Turning to Accenture, it is an innovator/adaptation consultant to many of the world's largest companies (over 75% of the Fortune Global 500). In short, they help these companies adapt to disruption, and we believe business disruption only gets faster and faster. Current CEO Pierre Nanterme puts it this way: "Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders." Their moat is the intellectual know-how they bring to the table with their 400,000+ employees. Not only is the speed of disruption helping Accenture's bottom line, but so is their disciplined strategy of aggregating smaller competitors. Culture-wise, the current CEO is a 35 year veteran and the median management tenure is an outstanding 34 years. Succession planning is readily evident with the top five executives being hired from within. There is a lot to like!

As we enter Q4, investors are understandably nervous given the Trump trade issues and the outcome of the U.S. mid-term elections. We should take some comfort in the fact that most investors are somewhat nervous. If we do get a correction, it is likely to be far less painful than a scenario in which investors are "irrationally exuberant". Our perspective is that sell-offs are for buying and we do have enough dry powder to take advantage of any offered. If it gets real painful, please send money! The highest returns have accrued to our clients who can write cheques during the difficult times.

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