The Opportunity Update – June 5th, 2015

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Track #1: Introduction – The Skinny on What I am Going to Speak To

Hi, this is Chris Raper, Senior Vice President & Portfolio Manager, Private Client Group of Raymond James Ltd. & co-founder of **The Dividend Value Discipline™**. Welcome to **The Opportunity Update**, which is being recorded for you in Victoria, B.C. on Friday June 5th, 2015. Here is what we are going to cover today:

You are now listening to **Track #1: The Introduction**, where I give you the skinny on what I am going to talk about.

Track # 2: The Markets – Planes, Trains and Trucks, is an obvious play on the gut-bustingly funny 1987 movie, Planes Trains and Automobiles, starring John Candy and Steve Martin. No, I am not going to talk about the movie, rather the recent weakness within the Dow Jones Transport sector and just why it is so important to pay attention. Before I do that, I will "front end" it with my usual course giving you my take on the world's best economic forecasters, the price of copper and the semi-conductor index, then the energy complex and finally wrap it up with my intentions for the Canadian dollar trade.

On **Track # 3: The Dividend Value Discipline™ – Not Too Hot, Not Too Cold**, I will start with some market context and then roll the clip since our last recording in early March, outlining the major transactions within the program and our thinking at the time of those decisions. Then I will move to the

sectors where we are currently seeing value and our research intentions for the dog days of summer. I will close with why we remain underweight in our dividend paying equity allocation.

On **Track # 4: The Wrap Up – David Cameron, Stage Right,** I will present the key takeaways and then speak to why I believe Greece's probable exit from the Euro is a non-event, market wise. I will then address a far bigger story which to me underappreciated in the extreme. The story is last month's election in the UK, when David Cameron, with his centre right agenda, was handed a huge endorsement.

Track #5: Postscript I, is where I walk you through our core investment program, **The Dividend Value Discipline™**, its methodology, return objectives and all-in costs. This track is primarily for the benefit of potential clients who are being introduced to us by way of this recording. By the time you are done listening you will know what makes the process unique vis-à-vis our competition and whether or not you are interested in pursuing it any further. Not interested, not interested right now and let's talk further, are all perfectly acceptable answers.

Track #6 is Postscript II – again for the benefit of prospective clients. It will give you some insight on what to expect during our initial meeting, where we both want to answer the question, "Is there a fit between our services and your needs?"

In terms of legal requirements – the opinions that are expressed on this recording are mine. They may differ from those of Raymond James Ltd.

You also need to know that Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months and has provided investment banking services within the last 12 months with respect to Silver Wheaton Corp. That statement is a sure bet that I am going to speak about that company later on.

I am also required to tell you that Raymond James Ltd. is a member of the Canadian Investor Protection Fund, which is a good thing. If you are interested in those details, please ask me the next time we speak.

I also want you to recognize that some of the things I am going to say today are going to be proven wrong in the future. It is an inevitable part of this business. The thing to recognize is you don't have to be right

all the time, to do well. You just have to be more right than most or conversely, less wrong than most. When we are wrong, we like to acknowledge it quickly and adjust accordingly. In other words keep our losses small.

Finally, regarding investment jargon, when I say I am bullish, it means I expect things to go up – when I say I am bearish, it means I expect things to go down. Likewise, north means up and south means down. If you catch me using industry jargon beyond that, I invite you to call me out – i.e. send an email to the office and believe me, my team will let me know.

That's a wrap on the skinny and off we go to Track # 2.

Track #2: The Markets – Planes, Trains and Trucks

Dow Transport Returns - 03/20/15 to 05/26/15

Company	Industry	Return
UNITED CONTINENT	Airlines	-25.2%
SOUTHWEST AIR	Airlines	-22.3%
KANSAS CITY SOUT	Transport-Rail	-19.1%
CH ROBINSON	Transport-Services	-16.5%
NORFOLK SOUTHERN	Transport-Rail	-14.4%
UNION PAC CORP	Transport-Rail	-12.4%
DELTA AIR U	Airlines	-11.7%
AVIS BUDGET GROU	Rental Auto/Equip	-11.1%
CON-WAY INC	Transport-Truck	-9.9%
LANDSTAR SYSTEM	Transport-Truck	-9.2%
ALASKA AIR GROUP	Airlines	-9.2%
HUNT (JB) TRANS	Transport-Truck	-5.9%
EXPIDITORS INTL	Transport-Services	-5.6%
RYDER SYSTEM INC	Transport-Services	-4.5%
MATSON INC	Transport-Services	-2.2%
CSX CORP	Transport-Rail	-1.1%
UNITED PARCEL-B	Transport-Services	0.3%
JETBLUE AIRWAYS	Airlines	0.4%
FEDEX CORP	Transport-Services	1.2%
KIRBY CORP	Transport-Marine	2.9%

Source: Bloomberg, Raymond James Ltd.

Starting with one of the world's best economic forecasters, the price of copper, we have had a reversal of fortunes since our last recording. Please note, I said had, i.e. we saw copper move from the ~$2.65 level in March, punching past $2.95 in May, in near perfect inverse correlation with the weaker U.S. dollar. Not surprisingly, as the U.S. dollar resumed its upward trend, Dr. Copper has once again turned south and is now trading back at the ~$2.69 level. The strength of the U.S. dollar continues to be a significant brake on global economic growth, especially in developing economies. Turning to the world's developed economies, the semi-conductor index has once again hit another all-time high, as it had done on our last recording. In other words, we have two major vectors pointing in opposite directions – copper south and semis north. Who's right? A couple of things to note on the copper complex: Yes, we have seen a dipsy doodle of sorts, but even at $2.70 per pound we are still up some 10% from the multi-year lows set back in January of this year. On a related observation, we have seen a massive reduction in China's iron ore inventories and that points to improving demand for copper down the road. For those reasons, I believe the semi index should carry the day and accordingly, I lean mildly bullish on global economic growth but I have to acknowledge I am nervous about that call.

Turning to the energy complex, I see oil prices stabilizing in the $55.00 to $60.00 range throughout the summer. Here is the evidence:

- U.S. crude inventories have fallen for the last five weeks and U.S. production appears to be flattening with the drilling rig count now at roughly half of its October 2014 peak.

- Demand for petroleum products has been far stronger than expected – by way of example, miles traveled in the U.S. are up about 4% year-to-date, on a year over year basis and the current run rate is suggesting 5% by year end.

- Perhaps the most important observation is the flattening of the oil futures curve – for delivery two years out crude oil is now trading at the $63 per barrel versus $70 six months ago. That reduces the incentive for companies to invest in new production and obviously slows supply.

To me, today's Organization of the Petroleum Exporting Countries (OPEC) meeting is a sideshow – watch what they do, not what they say. Yes, they left their production ceiling unchanged and it matters not – whatever the ceiling is, they will exceed it, just as they have for most of the last 2 years. They will continue to pump whatever they can. My take is that oil prices are not high enough to encourage a lot of

new supply, and the improving demand plus the never ending geo-political concerns will provide some underlying support. I expect summer oil prices to remain in the $55 to $60 range.

That brings us to the Canadian dollar where we got clocked during the month of April, knocking some 3% off our year-to-date return, when the Canadian dollar rallied so sharply. The good news is we got it all back in the month of May, with most fully invested accounts ending the month around the ~7% level on a year-to-date basis. We remain in the long term U.S. dollar bullish camp, yet April's wake-up call prompted us to think through how we are going to protect ourselves, should we be proven wrong. I will outline our conclusions on Track # 3. In the meantime, I am a seller of the loonie towards the .84 range and a buyer closer to .78 U.S. A breach of those levels will cause us to re-think that stance.

Finally to **Planes, Trains and Trucks,** which in this context, translates to the Dow Jones Transportation Index, or in industry parlance, the "tranny's". Why is it important? We are firmly convinced that most of the time the stock market is a leading indicator and you only bet against it in the extremes, be they bullish or bearish. That logic, coupled with historical analysis, has led to a number of important market adages, like "the trend is your friend". If you buy that (and to be clear, I do), what are the "tranny's" trying to tell us? The transports have booked some pretty hefty losses since their high water mark back in March. Planes, trains and trucks have been pummeled. The theory is, if the economy is doing well, then people and goods have to move. Accordingly stocks in airlines, railroads and trucking companies should be doing well, as investors bid them up in anticipation of higher profits. When the transports turn south, it points towards a softer economic patch or an outright recession. Marrying the theory to the practical, it is always important to think through other plausible reasons why the phenomena may be occurring and weigh that as you make decisions.

Here is my short list for the tranny's:

1) The extremely tough winter we had slowed shipments of goods
2) The drag from U.S. west coast port strike earlier in the year was underappreciated by investors
3) Oil prices rising from the ~$45 lows to the $60 range, which negatively impacts the transports cost structure

Of note the first two should be temporary, whereas the oil prices are still 30% lower than this time last year.

When I weigh all of the data available to me, there is a mountain of conflict, yet I still have to make decisions. For now I see the weakness in the Dow Transports as a flashing amber light. My take is that the data and market action does not support a wholesale move to defense nor does it offer us the opportunity to move to a strong offensive position. Accordingly, we remain underweight equities. When the evidence changes in either direction, we will adjust.

We are now off to Track # 3.

Track #3: The Dividend Value Discipline™ – Not Too Hot, Not Too Cold

To give you some context, since our last recording we have we have seen the U.S. based S&P 500 hit four all-time closing highs, yet go basically nowhere in terms of percentage gain. Meanwhile, Canada's resource centric S&P TSX Composite remains some 4% shy of its time high posted last September. Neither market is making much progress. The last three months seems like we have been dancing a never ending set of the do-si-do! Against that backdrop, we remain grateful that even after yesterday's triple digit sell-off, our year-to-date returns are ~6%.

What follows are the significant actions taken since our March 5th recording. Getting the "sell all" decisions out of the way, in mid-March we sold the well-respected engineering firm, **Stantec Inc.**, accepting a ~7% loss over a 9 month hold. Our thinking may prove short sighted as we could sell it today for a marginal profit. Our thinking was that prolonged lower oil prices would have a negative impact on Stantec's customer base and by extension, Stantec. In essence, things will get worse before they get better. I will say that it continues to be a great company, and should it be offered to us at an even greater value proposition, we are not averse to owning it again.

Next up was the sale of **Great-West Lifeco Inc.**, where the results were just a little bit better, north of 30% for a two year hold. We sold it because the price offered is what we believe the company to be worth.

The final sell all decision of the quarter was precious metals streaming company, **Silver Wheaton Corp.**, booking a loss of just over 5%. During our fourth quarter earnings review we noted two red flags:

1) "significant contributions to improve social license", and
2) "as yet unresolved audit issues with the CRA"

Both make us nervous of untoward developments going forward. Accordingly, we move to greener pastures.

Now to the more interesting bits, the new acquisitions – the first addition of the quarter was Florida based, yet North American wide clean electricity generator, **NextEra Energy Inc.** Not only has the company been recognized for its efforts in sustainability, it has done so while growing profits and increasing dividends. The latter was at a rate of +8% over the last 10 years. Culture wise, we noted a heavy emphasis on efficiency and cost control, and we like the fact that management's median ownership stake is almost

20 times their base salaries. We see NextEra as a wide moat business due to its territory monopoly, which implies a near guaranteed return on capital. Adding to the mix is their scale advantage and significant exposure to renewables with some 17% of the U.S.'s wind capacity and 11% of solar capacity. On a side note, NextEra has made the Fortune list of "World's Most Admired Companies" for eight consecutive years.

We also made two more acquisitions over the last 90 days, one of which is going to remain nameless, as we are still accumulating the position. Suffice to say that both are in Canada's energy sector, where we have been absent since last November. Here is our thinking at the 50,000 level. Post the Canadian dollar run to ~.84 USD in the month of April and notwithstanding the fact that we still see the U.S. dollar as higher over time, we started asking ourselves, what if we are wrong – how do we protect ourselves against a strengthening Canadian dollar, if in fact it happens? As I pondered that question, it struck me that it would be very difficult, if not impossible for the Canadian dollar to rally over a prolonged period without a corresponding rise in oil prices. Furthermore, we have at least some evidence that oil prices are stabilizing. Our conclusion was that if we buy beaten up oil producers, with strong balance sheets and decent dividends, when oil prices do turn north, we will win twice, i.e. the currency and the stock. In the meantime, we get paid to wait.

With that preamble out of the way, it won't surprise you that we are once again the owner of oil and gas producer, **ARC Resources Ltd.** This is a company that not only survived the 2008/2009 oil collapse, but did so while continuing to pay its regular dividend. ARC has secured a lot of land in some of the best parts of the world class Montney region, which translates to low cost production. They raised equity earlier this year, which increased their financial flexibility and strengthened their balance sheet. If an energy producer can have a moat, ARC's is within their technical expertise and their land base. Our take is that management is "all in", as the median tenure is north of 15 years and their performance based compensation plan translates to 80% of remuneration being variable. At the time of purchase, the dividend yield on ARC was ~5%. In other words, we get paid to wait for the eventual turnaround in oil prices.

Wrapping things up, where are we seeing value? A lot depends on which side of this economic soft patch we end up on. If we do tilt to a recession, I see a lot of value in some of the U.S. consumer staple stocks, where we have Anheuser-Busch on our summer study list. We are also seeing value in U.S. financials,

where higher interest rates help companies like Chubb and U.S. Bancorp. If we move back to expansion mode, an interesting opportunity may develop with Scotiabank due to its Latin American exposure, which is really a look through on commodities. We need to be prepared for both scenarios. Today, June 5th, 2015, we are maintaining our "not the time to play hard" stance with a 60% allocation to dividend paying stocks versus our normal 75% dividend equity exposure. While it is frustrating waiting for corrections, we have demonstrated our ability to "play hard" when such times occur.

Track #4 is up next and that's where we are going, right now.

Track #4: The Wrap Up – David Cameron, Stage Right

First the takeaways:

Track # 1 – a reminder, the opinions that are expressed on this recording are mine. They may differ from those of Raymond James Ltd. I also want to reiterate that some of what I told you is going to turn out to be wrong and when it becomes evident we are wrong, our intent is to acknowledge it quickly and adjust accordingly. The strategy is to keep the inevitable losses small and let your winners run.

Track # 2: The Markets – Planes, Trains and Trucks

Our leading economic indicators are giving us pause. There are lots of conflicting vectors in the mix, i.e. copper and semiconductors. Yes, the Dow Transports have sold off and much of that may be due hangover of the West Coast port strike and the harsh winter that most of North America experienced this year. It also is entirely possible that the transports are pointing to a recession, although there just isn't enough evidence to support that thesis right now. In other words we are stuck in no man's land with a flashing amber light.

Within that challenging mix, we see energy prices stabilizing in the $55 to $60 level throughout the summer and a range bound Canadian dollar, where we are sellers towards the .84 level and buyers closer to .78 U.S.

Track # 3: The Dividend Value Discipline™ – Not Too Hot, Not Too Cold

We continue to do the do-si-do – the major market indices are struggling to make progress. Valuations are expensive on an absolute basis and yet inexpensive when compared to interest rates. Our take is that we must be prepared for a further economic expansion and an economic contraction. We remain unclear as to which will be our near term reality. Thus we take the "not the time to play hard" position while we wait for whatever outcome we are handed. Our summer study plans are targeted at "pockets of potential" within the U.S. consumer staples and Financials on both sides of the border.

Now to David Cameron, Stage Right – I will start with a question…do you know of anybody who expects Greece to pay back the money they owe? I raise the question because it will surprise no one when Greece defaults (again) and it will surprise very few when they leave the European Union – and yes, ultimately I believe that will be their fate. If there is no surprise, my take is that it won't amount to a hill of beans in terms of a market moving event. What is getting considerably less media play and is exponentially more important, is what is going on in the UK. For those of you not up to date, their Prime Minister, David Cameron, has just been handed a huge mandate for his centre right agenda, which includes a nation-wide referendum with a straight "in/out" question on UK's future in the European Union. He has promised the vote by 2017. Just the prospect of such an event excites me. Some of the best investment decisions I have ever made came at times of great uncertainty. I still remember buying BCE the day before the 1995 Quebec referendum and likewise Nike in the last August 2011 EU crisis. My take is that the EU can certainly live without Greece. When that question turns to the UK, the world will fear a domino effect. Great uncertainty…for sure. Great opportunity, you bet. Should it come to pass, we intend to participate, in size. If you have not already done so, I would suggest you put the UK on your radar.

That concludes our key takeaways. To our clients, thank you. I appreciate you taking the time to listen. It allows us to spend our meeting time focusing on the issues that are important to you and your family.

To potential clients listening – thank you for your interest. The Opportunity Update is one of three quarterly communications pieces that we produce. They are designed to keep you informed, but not involved on a day-to-day basis. If you are interested in past productions, they are all archived on our website, www.chrisraper.com under the menu titled "Our Market Insight". Prior to meeting us face to face, you will want to listen to Postscript I where I deal with the methodology of The Dividend Value Discipline™ and outline what makes the program unique versus our competition. By the time you are done listening you will know whether or not a meeting is in order.

Assuming the answer is yes, you will then want to move to Postscript II, where I outline what you can expect during our initial meeting where we both want to answer the question, "Is There a Fit?"

On behalf of the entire team here at Chris Raper & Associates, this is Chris Raper, bidding you good day and may God bless, from Victoria, BC, on Friday, June 5th, 2015. Have a wonderful summer.

Track #5: Postscript I – The Dividend Value Discipline™ Methodology

The first thing to note is that **The Dividend Value Discipline™** is core to everything we do – meaning if we were approached by a prospective client and we determined that our trademarked investment process did not fit with their investment philosophy or their need, then we are not the right advisors for that particular client – there is no fit.

You should also be aware that nothing gets any more attention at our shop than this particular program. The lion's share of our client assets are allocated to the program and that includes our most senior people, my family, and me. The take away is that my team and I have huge vested interest in ensuring the success of the program.

The process is discretionary, meaning we make all of the buy and sell decisions and report to you after the fact. Post a new purchase, our normal course is to send an email outlining the background of the company and the rationale for the decision, five business days after it settles to your account. When we close out a position, we also send an email outlining the result and our rationale.

Our objectives for the program are:

1) Income every month – that can be paid out or reinvested
2) An acquisition process where we buy **only** those securities which become attractive on a "go forward" basis
3) Absolute returns of 8%+, each and every year

On September 27, 2014, we marked our 12-year anniversary with account #1, pegging in a net to client return of +8.77% compounded annually. That said, I do not want to leave you with the impression that it has been a consistent +8% each and every year – that is the objective, it has not always been the result. Yes, we took a bath in 2008 – we learned lots and more importantly put structures in place to prevent it from happening again. 2009 was an absolutely stellar year and by February 2011 we were on to new highs having fully recovered from the worst bear market in 70 years. Accounts that have been around since the start of the program have experienced one calendar year of negative returns. Looking towards December 31, 2014, we are tracking at a meet or a beat, in nine of the past twelve calendar years. Those results have

been achieved by focusing on three keys objectives, so let's walk through this with the illustration of a three legged stool.

The First Leg is Dividends

Every security that we buy you must provide some form of income – we do that because income makes portfolios inherently less volatile, i.e. less chance of loss. The analogy I like to use is that of an apartment block versus a piece of raw land – it is a lot easier to hold onto the apartment block in a tough real estate environment when you are getting a rent cheque every month. Income drives stability and absolute returns.

The Second Leg is Value

Our research function is in-house. We were one of the first private client teams in the industry to have a dedicated analyst on staff and that team has expanded since then. My objective was and still is, to get to the truth. I did not want to depend on any outside analysts that I had little or no contact with. One of the great things about having an in house investment team is that I can ask questions until I am satisfied that we have the right answers. We spend an inordinate amount of time studying the corporate culture. If you are interested in what that looks like, read **Good to Great** by Jim Collins – that is the yardstick we use to measure potential investments against. More recently, we have expanded our thinking on the importance of wide economic moats. You can hear more on that subject by archiving the September 2013 edition of this recording on our website. We believe that the focus on great corporate culture and wide economic moats gives us an edge. Anecdotally, we can provide you with lots of evidence to support that. I remain convinced that having your own people who are totally dedicated to the investment process, adds a lot of value not available at most other private client focused groups.

The Third Leg is Discipline

Here I refer to the buy/sell decisions. We often identify extremely attractive value propositions and then delay the buying decision, why? Because if you are the only guy in the world that sees it as undervalued, you can wait a very long time for the market to recognize that value – in other words, the stock price doesn't rise or worse still, it goes down! Those are not comfortable situations so we try to avoid them.

We buy when it is apparent that the market is starting to recognize the stock as undervalued. One of the most helpful indicators is positive relative strength – i.e. is the security in question starting to outperform its peer group and the market – because if it hasn't, there's little incentive in owning it. Sell decisions can be triggered by a number of things – when the company fails to materialize as expected, when a company's stock price exceeds what we believe it to be worth, negative relative strength, or when we find a better opportunity elsewhere. In reality it tends to be a combination of those factors.

Perhaps the most important part of the buy/sell discipline is the way we operate the program – we call it "The Buys Only Mandate". Unlike our competition, we only buy those securities which become attractively priced on a go forward basis, meaning if you start today and your brother starts three months from now, your portfolios are going to be different in the short-term, and more closely aligned the longer you are in the program together. As rational as that might seem, most people do the exact opposite. Every time you buy a mutual fund, you buy a pro-rata share of an existing portfolio – by definition, you got the buys, the holds and the near sells. To us, that is not rational – would Warren Buffett buy 100 companies in a single day? Were they all great value propositions? You should also be aware that most 3rd party money management programs work exactly the same way – they buy the basket. Our objective is the protection of your hard earned money and we believe that the buys only mandate is consistent with that objective.

Other key points to the program – a fully invested account would normally have 20 to 25 positions in it, so we are relatively concentrated. Our fees are 1.75% per annum plus the GST or HST – it is tax deductible for non-registered accounts. Our target returns: 8%+, net to you – roughly half of it coming in the form of income and half in the form of capital gains.

You should also know that when I buy for you, I buy for me – when I sell for you, I sell for me – same time, same price – and that statement also applies to our most senior people as well. Furthermore, every person on our team participates in our profit sharing plan, which means they have a vested interest in looking after you.

Generally speaking, we are looking to establish new relationships with new clients that have north of $1 million in investable assets – that said, I'm a lot more interested in where you are going, than where you

are. If you have a credible plan to get to that number say within a three to five year period, we are very interested in meeting with you.

To conclude this track, if income and absolute returns are attractive to you, and you think that there may be a fit between your objectives and those of **The Dividend Value Discipline™**, then I would suggest a face to face meeting is in order. You can check out what to expect during that initial meeting by moving to Track # 6 – Is There a Fit, and that is where we are going, right now.

Track #6: Postscript II – "Is There a Fit?"

Our objective – and presumably yours – during the first meeting is to figure out whether or not we have a basis for an ongoing relationship. In essence, can we work together? If so, will it be mutually beneficial? Job one is to get your tough questions off the table, so we encourage people to ask whatever is on their mind. Our responsibility is to be forthright with our answers, regardless of what it is that you might want to hear.

Before we enter into any new relationship one of the biggies we ask ourselves is, "can we add significant value"? To answer that question we need to learn some things about you, your family, your finances and what your ideal future looks like. If you are not really sure on the latter point, we have some thinking exercises that will take us through that process.

Next we will walk you through an a la carte menu of our services that are most applicable to you. We'll also outline how we will report to you and who the key relationship people will be. You will also have a very clear picture of the costs involved.

Before you leave we'll outline how we see our program fitting with your situation, or not. We will not ask you for a go/no go decision at the meeting and quite frankly, we don't want to be pressed for a decision that day either. We'll schedule a meeting of the minds call, say a week out, and then mutually agree on the best course of action from there.

At the end of the day, we are in the business of keeping our client's most challenging financial decisions consistent with their life goals. Our mission is ongoing progress towards those goals, and the result we seek is appreciative clients who are increasingly confident about their future.

So… if that process sounds engaging, I invite you to call and book some time. If you'd like further information, including access to our quarterly communication pieces, you can check us out on the web at www.chrisraper.com and send us an email from there.

This concludes "Is There a Fit".