The Opportunity Update – Tuesday, March 13th, 2018

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Track #1: Introduction - The Skinny

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, BC on Tuesday, March 13th, 2018. 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.

On **Track #2: The Markets – NAFTA Hardball:** I will share with you our thinking on the latest Trump Tirade and what we believe to be the real agenda on his 25% steel import tariffs that Canada and Mexico have been exempted from…for now. Then we will follow our usual course, updating you on our favourite leading economic indicators: the price of copper and semiconductor index, speak to the oil complex and then try and make sense of the Canadian dollar in light of the positives of higher of oil prices and the uncertainty of the NAFTA outcome.

On **Track #3: The Dividend Value Discipline™ - A.I. & Autonomous Vehicles:** First, I will highlight our latest acquisition, Intel Corp. and share our thinking on the incredibly long runway that we see for the company in light of the world's move to cloud computing, artificial intelligence and autonomous vehicles.

On **Track #4: The Wrap Up – More Rent Cheque Increases:** I will recap the takeaways for tracks 1 to 3, and bring you up to date on our latest rent cheque increases where the news has been extremely encouraging.

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: Postscript II is 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.

I am also required to tell you that Raymond James Ltd. is a member of the Canadian Investor Protection Fund. That is a good thing, and if you are interested in those details, please asks me or any one of our relationship managers 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. It is an inevitable part of this business. It is also important to recognize 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.

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. When I speak about rent cheques, I am speaking about income, primarily dividends. You will also hear me using the term disruptor, which is our moniker for those companies that are disrupting or re-inventing the way business is done in their particular market, and thereby able to grow at rates far beyond the rate of the economy. Think of Wal-Mart twenty years ago and Amazon today. You will also hear me use the term aggregator, which is our moniker for those companies that have a systemized approach to acquiring smaller competitors as a means to fuel their growth. Said growth is the path to increasing dividends or in our language, growing rent cheques. If you catch me using industry jargon beyond that, I invite you to call me out. Send an email to the office and the team will let me know, usually with considerable gusto!

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

Track #2: The Markets – NAFTA Hardball

President Trump's 25% import tariffs for steel and 10% on aluminum have been **NAFTA** exempted, for now... and let's hope we can get a deal done because Canada would be the biggest loser by far. We sell some $12.5 billion of steel and aluminum to the U.S. annually – far more than any other nation. By comparison, China sells a relatively small $3.1 billion. For all of Trump's China bluster, our read is that his real objective is to get a pound of flesh out of the current NAFTA negotiations.

This is classic Trump behaviour – throw down the gauntlet and then back away to a position that the other party can live with. Recall his threat of military engagement in North Korea which has obviously softened. Ditto for building the wall on the Mexican border, and on NAFTA, we have gone from "I am going to tear it up" to "let's make a deal." The U.S. being the dominant economic power in the world, he knows he can be play the bully and get away with it, and it's clear he takes some relish in doing so.

It is not coincidental that U.S. steel production is concentrated in relatively few states – Indiana, Ohio, Michigan and Pennsylvania are big producers and those swing states put Trump in the Whitehouse. This fall we have mid-term elections so if he can tell his supporters, "I have protected your jobs and cut you a much better NAFTA deal". His chances of holding the Senate and the House of Representatives in Republican hands just got a whole lot better.

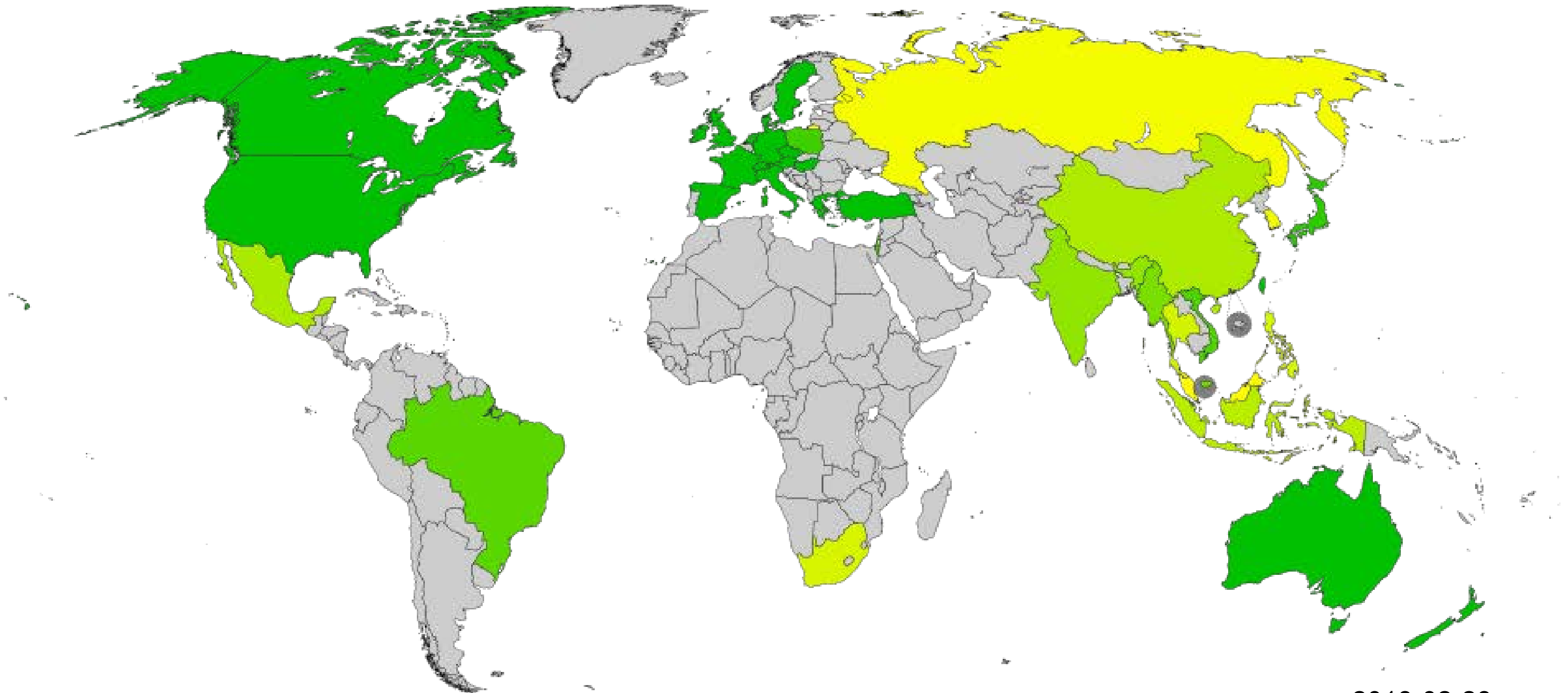
Bottom line, Trump's latest agenda is not good news for Canada and I expect the future NAFTA deal to be far less beneficial than the existing one. That said, in typical Trump fashion, the bark will be worse than the bite.

Moving on to our favourite leading economic indicators, copper prices remain strong – this morning trading at $3.13 versus $2.97 on our December recording. We continue to see it in an upward trend and that's important because copper goes into just about every manufactured good you can think of. Strong prices point to robust demand, especially as it relates to the developing economies. The raw material of the developed economies is the semiconductor. The Philadelphia Semiconductor Index (symbol $SOX) just pegged another all-time new high on Monday, March 12th, 2018, and is up a whopping 15% on a year-to-date basis, notwithstanding the early February smack down. When we look at most of the ancillary economic evidence, it continues to support the view of broad based global growth. The dispatch of this recording highlighted Ned Davis Research's global manufacturing heat map. In short, the sea of green continues.

Global Growth Stabilizing at High Levels

- The latest global manufacturing PMIs suggest that global growth has stabilized, albeit at elevated levels.
- Despite the steadying, the current level in the PMI and the strongest breadth in a decade suggest that the expansion still has many months to go before it ends.
- Global price pressures, however, continue to build.

Global Manufacturing PMIs



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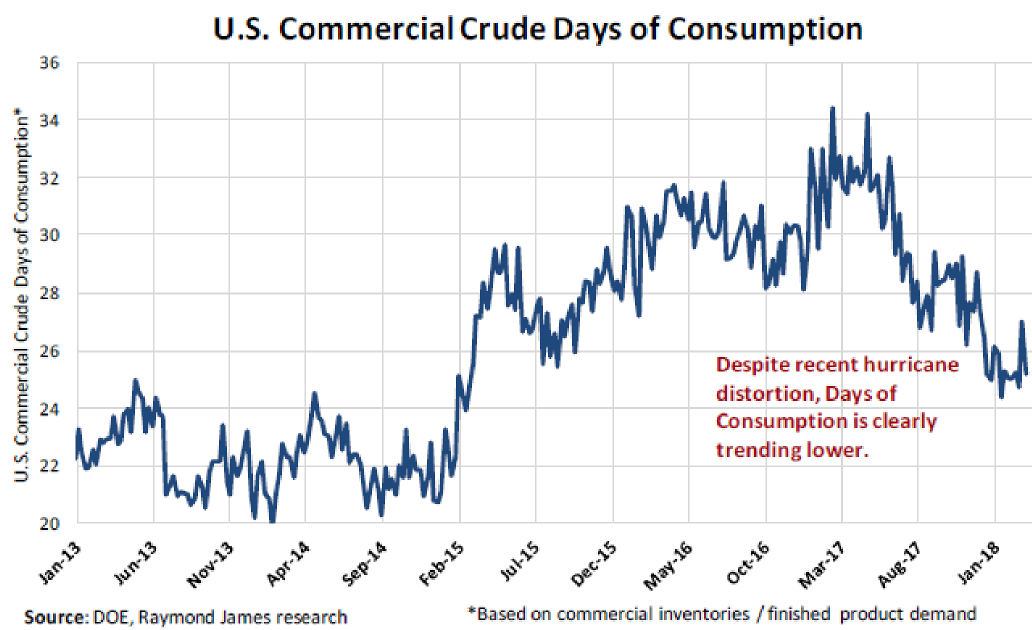
Malaysia	49.9
Russia	50.2
Thailand*	50.6
South Korea*	50.7
Philippines	50.8
South Africa	50.8
Indonesia	51.4
China (Markit)	51.6
Mexico	51.6
Burma (Myanmar)	51.7
India	52.1
Singapore*	53.1
Brazil	53.2
Vietnam	53.5
Israel*	53.5
Poland	53.7
Japan	54.1
U.K.	55.2
U.S. (Markit)	55.3
Canada	55.6
Turkey	55.6
New Zealand*	55.6
Australia	55.6
France	55.9
Spain	56.0
Taiwan	56.0
Greece	56.1
Ireland	56.2
Italy	56.8
Hungary	57.4
Eurozone	58.6
Czech Republic	58.8
Austria	59.2
Sweden	59.9
Germany	60.6
Netherlands	63.4
Switzerland	65.5
Denmark	69.4

NEARLY ALL COUNTRIES IN EXPANSION TERRITORY

Moving to the oil complex, from our perspective the market seems overly worried about the supply side of the equation and rising U.S. production which is now in excess of 10 million barrels of oil per day. Yes, supply is growing but demand is growing even faster, and with what we are seeing in our leading economic indicators, we expect that to continue. As per the chart dispatched with the email, the days of available consumption continues to drop and has been since March of last year. The North American oil market is getting tighter and that is clearly supportive of higher prices.



So where does that leave our Canadian dollar, which in the past has been highly correlated to the price of oil? I say in the past, because it is becoming less clear to me that the correlation is going to carry forward. Here's why. Yes the price of West Texas Intermediate Crude ($WTIC) is up from say $50 per barrel a year ago versus $61 today, but the story is very different for a large swath of Canada's oil exporters. A year ago a barrel of Western Canada Select ($WCS) sold for $48 CDN FOB Edmonton, whereas today it is at $44. That's right - it went down. Why is that happening? Because we can't get a pipeline built in this country and as a result we cannot access global pricing. Unfortunately, I don't think that is going to change anytime soon. In other words, oil can continue to climb but our Canadian producers won't see a lot of benefit and that creates less demand for the Canadian dollar than would otherwise be the case. When we throw in the uncertainty of the NAFTA outcome, you have another negative for the loonie. Both of those factors are well known so most of it may already be priced in. My best guess is that we trade in a $0.79 to $0.76 USD range for the foreseeable future and I have to confess, I don't have a lot of conviction on that call – there are just too many moving parts.

That's a wrap on track # 2 and we are off to explore the exponential growth in semi-conductors that is being fueled by cloud computing, artificial intelligence and in the not too distant future, autonomous vehicles.

Track #3: The Dividend Value Discipline™ - A.I. & Autonomous Vehicles

As you would expect, we continue to seek out investee companies are that are disrupting their marketplace and or aggregating their competitors as a means to higher growth. We have also learned that if you can find companies that are undergoing a major transformation in their business model and or their end markets, it can be a huge catalyst to the stock price. Microsoft under the fresh leadership of Satya Nadella is a great example. When he moved the company into cloud hosting and made the move from selling software to renting it, earnings took off and the stock price followed suit. We witnessed the same thing with Intuit, the producer of Quickbooks and Turbo- tax, as they migrated from selling software upgrades to renting it on the cloud.

We believe we will see the same story roll out with our newly acquired position in **Intel Corp** ("INTC" on U.S.). We bought it in the market downdraft of early February after completing our analysis back in December. Most listeners will be familiar with the name, especially as it relates to their legacy business in personal computers. Under the direction of its newish CEO, Brian Krzanich, (installed in 2016 and he joined the firm in 1982) Intel is being transformed from a PC-Centric firm to a Data-Centric firm, and the latter is growing at some 15% per year. Their products are used in cloud service platforms like Microsoft Azure, Spotify, Netflix, and Google. Cloud computing is also paving the way for Artificial Intelligence (A.I.) because there are reams of data available as a result of the cloud and its on demand computing capacity. Intel supplies the processors and systems to make that happen and the result is better and more efficient decisions for us humans. Notwithstanding all of those positives, Intel's biggest runway for growth may turn out to be autonomous vehicles. In 2017 they acquired MobilEye - the leading supplier of software that enables Advanced Driver Assist Systems which is currently found in 313 car models. That's great, but their real focus is to design and develop sensors for Autonomous Driving, which they project to be a $70 billion market by 2030. To give you some scope of the computing power that is required to run an autonomous vehicle, the average internet user gobbles up 1.5 GB's of data per month. A fully autonomous vehicle processes ~ 4,000 GB's per month.

Moat-wise, Intel holds 55,000 patents and because it is one of the largest semi-conductor firms in the world, it has the scale to do the R&D of the future. Value wise, our initial stake in INTC was bought with a forward earnings yield north of 6% and a dividend yield of ~ 2.70%. The last rent cheque increase was 10% and we expect that to continue at double-digit rates.

That's a wrap on our latest acquisition, Intel and its massive opportunity as we enter the era of big data analytics. We are now off to Track #4.

Track #4: The Wrap Up – More Rent Cheque Increases

First, the takeaways:

Track #1: Introduction – The Skinny: A reminder, the opinions that are expressed on this recording are mine. They may differ from those of Raymond James Ltd. Please recognize 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 the winners run.

Track #2: The Markets – NAFTA Hardball: Yes, I believe President Trump is going to get his pound of flesh out of us Canadians - I see the NAFTA agreement as getting done, but on less attractive terms than our existing agreement. Moving to our leading economic indicators, they continue to point to global expansion. Both copper and the semiconductor index have hit new highs since our December recording. Our North American oil market continues to tighten and that is supportive of higher prices stateside while here in Canada, our lack of pipelines means that we continue to miss out. Because that is not going to change anytime soon I am doubtful that our loonie's usual correlation with $WTIC is going to hold. Throw in NAFTA negotiations and you more negatives than positives. Yes, I am biased to the downside but my conviction is only an inch deep.

Track #3: The Dividend Value Discipline™ - A.I. & Autonomous Vehicles

We believe Intel will gradually shed its image of a legacy PC company as investors start to recognize its ability to address the incredible need for processing power due to cloud platforms, artificial intelligence and perhaps the granddaddy of them all, autonomous vehicles. The good news is that Intel is already competing in those spheres and winning in a big way. We expect both earnings and dividend growth rates north of 10% for the foreseeable future.

Track #4: The Wrap Up – More Rent Cheque Increases

For those of you that are invested in the program, you will be aware that we have had a slew of rent cheques increases (dividend increases) as our companies released their year-end results. As per our email dispatches, the Bank of the Ozarks boosted their dividend by an annualized 12.3%, Gilead Sciences 10%, Manulife 7%, Great-West Lifeco, 6%, Suncor Energy 12.5%, CCL Industries Inc. 13%, Stantec Inc. 10%, Scotiabank 3.8% and Sherwin Williams a "forgivable" 1%. I say forgivable because Sherwin "aggregated" its competitor, Valspar, and needed the surplus cash flow to fund it. The acquisition has already been accretive so we expect the stronger dividend growth to resume. It bears repeating that we see sustainable dividend growth as the precursor to higher stock prices and those type of companies tend to stand up far better in market downturns, which is just an inevitable part of this business. It's the rent cheque which can see us through.

With that, I will close. A reminder, if you are being introduced to us by way of this recording, tracks 5 & 6 are for you. Thank you for taking the time to listen. 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 Tuesday, March 13th, 2018.

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 the program 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.

While it is certainly not the only thing we do – yes, we have complimentary strategies, including our newly launched Global Active Macro ETF strategy - the lion's share of our client assets are allocated to **The Dividend Value Discipline™,** and that includes our most senior people, my family, and me. The takeaway 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 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:

- Income every month - that can be paid out or reinvested;
- An acquisition process where we buy only those securities which become attractive on a "go forward" basis;
- Absolute returns of 8%+ over any investment cycle, which we would describe as peak to peak or trough to trough. If you are looking for a time frame in terms of years, think 5+ years, but please understand investment cycle have a wide range of timeframes.

Long term performance-wise, we started **The Dividend Value Discipline™** in the fall of 2002, and the average annualized return for all of the accounts that were opened that year (that are still in operation) is +7.46%, net of fees, as at the end of 2017. Throughout the course of our 15 calendar year history, those accounts have had 14 years of positive returns and 9 years where we met or exceeded the +8% objective. The performance range of those original accounts have net to client compound annual growth rates of 6.4% to 8.9%. Why the big discrepancy? Well part of it is explainable from the timing of money in and money out, but when you really drill down, the high number is a result of intelligent investor behaviour. The client in question tends to send us money when others are ready to fire us. There is valuable lesson therein – for your sake, please don't overlook it.

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 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 we add additional resources every year. Our objective was (and still is) to get to the truth. We do not want to depend on any outside analysts that we have 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. Another yardstick is 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.

More recently, we have focused on 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, score well on the corporate culture front and have some sort of strategic advantage (the 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. As we searched, we found that most such companies fell into one of two themes. They tend to be disrupting the existing marketplace with a better way of doing things or they tend to be aggregating their way to growth by buying smaller tuck-in acquisitions. More detail on our "disruptors and aggregators" themes can be found on the May 2016 edition of The Strategist which is archived on our website. I am happy to report we are currently bearing the fruit of those efforts.

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, 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 isn't, there is 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 third 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 return is 8%+, net to you over any investment cycle.

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 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 clients' 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".