

18 April 2020

Dear Fellow Investor,

Since we last wrote we again saw the power of the DivGro philosophy in action. More of our holdings continued to announce material dividend increases as anticipated by the DivGro system:

American Tower	+20.0% <sup>1</sup>
Watsco	+10.9%
Costco	+7.7%

From inception on 15 August 2019 we now have a substantial record of 33 dividend increases. Taken as a group, the average increase is tracking at about 14%.<sup>2</sup> Certain companies such as Costco happen to be doing unusually well at the moment but may nevertheless increase their dividend by less than their operating performance merits because they think a more significant dividend increase may be unsightly while so many other businesses are struggling in the current crisis.

This week the DivGro Fund paid its distribution for the quarter ending 31 March 2020. This distribution was 50% higher than the Fund's maiden quarterly distribution paid in January. We think our partners in DivGro will find it especially comforting to receive this expanded distribution in such trying times.

As our investors know, our preference is to send out a brief data-based update of the most instructive measure - dividend changes - without commenting much on what we bought or sold. Nevertheless, because these are unusual times we will break from our regular practice and provide a bit more colour.

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<sup>1</sup> 20.0% annualized because American Tower increases dividends every quarter.

<sup>2</sup> See track record table attached at the end of this letter.

We were nearly fully invested going into COVID-19. A dividend-based program demands being close to fully invested at all times. Assuming we're doing our job in selecting the most outstanding dividend growing companies, being fully invested serves two functions:

- 1) A fully invested portfolio means that we have maximum exposure to our robust stream of rising dividends that over time drive our income growth which in turn powers our capital growth.
- 2) A fully invested portfolio means that any new opportunity can't only be justified on its own merits - it must be balanced against the prospects of what we would have to sell in order to fund the new purchase.

In the last few weeks, we have reflected about having launched a fund just a few months before a once in a generation pandemic. On balance, we think it may be a blessing in disguise.

In normal times, such as just a few months ago, most investors don't bother differentiating between high-quality and low-quality dividends. They see all income as essentially the same. But fast-forward a few months and taking Australia as an example, we are now witnessing companies slashing or even withdrawing their dividends, begging the government for bailouts and tapping their shareholders for emergency equity. It is in this environment that the 'invisible' gulf between strong and weak sources of income 'suddenly' becomes apparent. Unlike these companies, our holdings are paying their dividends on schedule and even announcing increases through the crisis.

There is only a finite number of exceptional companies that meet our requirements for investments. Since we're only looking to hold about 35 positions at any given time, we're not overly concerned with 'the market' and the many thousands of companies it comprises. This means that when we find an outstanding company that:

- 1) Occupies a privileged position in a structurally favorable industry
  - 2) Is honestly and capably managed
  - 3) Is shareholder friendly in its objective to pay ever rising dividends while investing most of its earnings to grow the business
  - 4) Is available at a sensible price
  - 5) Is easy for us to hold
- we will look to own it.

**Easy to hold** is an attribute that most people gloss over most of the time. When markets trend upwards people look at rising prices and relegate dividend information to lesser priority. In extraordinary times however, when it feels like the economy is falling apart, the temptation to 'do something' becomes very strong. People are glued to the news, desperately hoping for a hint to allay their concerns. Feeling a desperate desire to 'do something' suggests that their 'investment' is perhaps more fragile than they might have hoped.

This is where the DivGro system truly shines. In our set of exceptionally high-quality dividend raising companies, the temptation to 'do something' is significantly reduced. Rather imagine for a moment reading an announcement that your company is raising its dividend right now. Imagine further this dividend raise is quite material, say 10% or more, and happens to be perhaps the 10th or even 35th consecutive year of such increases. This is perhaps the single best reassurance you could hope to receive at this moment. This is precisely what we mean by the concept '**easy to hold**'. Not only are our companies some of the highest quality and best run businesses in the world, they continue to demonstrate that they are **easier to hold** when it counts most.

During the COVID-19 crisis we decided that certain portfolio changes were necessary, and others strategic or opportunistic. We chose to exit Park Hotels - a name we very much liked - at a loss because the unfortunate reality is that hotels, even the best hotels on the most privileged properties, are not an appropriate dividend growth exposure for the intermediate future. Conversely, we chose to exit several of our quick service restaurants (Domino's, McDonald's, MTY Foods) all at substantial profits. Specifically, because of its leadership in delivery Domino's emerged as a giant winner surpassing our expectations as investors blessed it as a beneficiary of the crisis. We also profitably exited our investments in brokerage Charles Schwab and our non-directional option-hedged Boeing position. We opportunistically redeployed all these sales proceeds across several existing holdings including our payment processors (Visa & MasterCard), our tower companies (American Tower & SBA) our clearing houses (MarketAxess & CME) and our specialty distributors (Watsco (new position) & Pool Corp). It is often difficult to add meaningfully to one's most favoured positions because these exceptional companies trade expensively most of the time. We're pleased to have added decisively at attractive prices.

Even though our portfolio has performed very robustly in the circumstances, these opportunistic changes have positioned it even more favourably for the future. Because of these strategic enhancements, together with the re-emergence of **easy to hold** as the defining edge over most alternatives, we think now is an opportune time for our investors to consider filling their 'slots'. In every case, we think it is constructive for investors to keep this **easy to hold** concept front of mind when reviewing all their investments. Most aren't. DivGro strives to be the go-to home for investors seeking above average returns that are easier to hold.

Our nascent fund has undergone a 'baptism of fire' and proved robust, with the portfolio currently several percent above the issue price.

We look forward to catching up with all our investors in person once again as soon as it is safe to do so.

Sincerely,  
Jonathan & Barney

**DivGro Fund dividend increases:**

<b>Increase Number</b>	<b>Declaration Date</b>	<b>Company Ticker</b>	<b>Dividend Increase %</b>
1	14-Sep-19	AMT	20.25%
2	18-Sep-19	MSFT	10.87%
3	19-Sep-19	MCD	7.76%
4	19-Sep-19	TXN	16.88%
5	22-Oct-19	V	20.00%
6	29-Oct-19	CTAS	24.39%
7	30-Oct-19	SBUX	13.89%
8	31-Oct-19	CDW	28.81%
9	01-Nov-19	ABBV	10.28%
10	07-Nov-19	AL	15.38%
11	14-Nov-19	NKE	11.36%
12	15-Nov-19	ROP	10.81%
13	25-Nov-19	BDX	2.60%
14	03-Dec-19	MA	21.21%
15	04-Dec-19	SYK	10.58%
16	04-Dec-19	ECL	2.17%
17	11-Dec-19	ZTS	21.95%
18	12-Dec-19	AMT	20.24%
19	13-Dec-19	ABT	12.50%
20	20-Jan-20	MTY.TO	12.12%
21	24-Jan-20	YUM	11.90%
22	29-Jan-20	MKTX	17.65%
23	29-Jan-20	SPGI	17.54%
24	29-Jan-20	SCHW	5.88%
25	05-Feb-20	CME	13.33%
26	06-Feb-20	ICE	9.09%
27	10-Feb-20	QSR	4.00%
28	20-Feb-20	DPZ	20.00%
29	20-Feb-20	SBAC	25.68%
30	24-Feb-20	HD	10.29%
31	13-Mar-20	AMT	20.00%
32	01-Apr-20	WSO	10.94%
33	15-Apr-20	COST	7.69%
<b>Average</b>			<b>14.18%</b>

## **Important disclaimer**

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