

3 August 2021

Dear fellow investor

23-months of strongly rising dividends

To date we have reached several important milestones:

- 76 consecutive correctly predicted dividend increases.¹
- Average dividend increase of 14.66%.²
- 81 investor families in the fund.³
- 7 quarterly distributions paid, including two increases. Most recent distribution increase of 11.1%.
- Core underlying USD return of 54.92% net, or a compounded annual return of 25.05% net.⁴
- AUD return of 42.93% net, or a compounded annual return of 20.01% net.⁵
- 61 years of continuous empirical validation of the underlying MIT dividend growth model.
- 39 weeks of real-time dividend progress reporting, enabling participants to feel the power of a dividend prediction machine in action.

Performance summary:

Dividend performance	
Consecutive dividend increases ⁶	76
Average dividend increase	14.66%

¹ See dividend track record attached at the end of this letter.

² Simple average, see dividend track record attached at the end of this letter.

³ As of 31 July 2021.

⁴ As of 31 July 2021.

⁵ As of 31 July 2021.

⁶ Correctly predicted in advance by the proprietary DivGro system, from 15 August 2019 onwards.

Return since inception - cumulative (net) ⁷	
USD	54.92%
AUD	42.93%

Return since inception - annualized (net) ⁸	
USD	25.05%
AUD	20.01%

Accuracy vs Confidence

Imagine a business that is 25 years old and has been publicly listed for the last 10 years. It paid its first dividend the year it came public and has paid a fast-rising dividend every year since. The dividend payment represents about 14% of its earnings, with the remaining 86% reinvested. From a small base it has grown to 75 large-format stores, in the process taking market share from highly fragmented competitors in a very large, predictable, and growing industry. Its annual chairman's letter includes "our May dividend was the 40th consecutive quarterly cash payment. There have been ten years of growth in dividends, with ten consecutive annual increases both in total dollar and per share dividend payments".⁹ On its internal capital it has earned an average return of 24% per year and this return is increasing steadily.

This snapshot is of Lowe's Companies... in 1971.

Some key observations emerge for a dividend growth investor:

If in 1971 a prospective investor had been fortunate enough to have stumbled upon MIT's dividend growth insights, which have now outperformed for decades (we grant that these insights were only about 11 years old back in 1971), they should have spotted:

- Lowe's had a relatively long, consecutive record of meaningful dividend increases.
- The sector was growing buoyantly (and predictably) with Lowe's growing even faster than the industry.
- Lowe's was earning 24% (and rising) on its own invested capital, resulting in its net worth appreciating at a rate of about 21% annually (being 24% earned on 86% retained earnings, after paying out 14% as a dividend, and there being virtually no net debt in the business).
- By underlining its dividend performance so vividly, Lowe's clearly regarded this as an important signifier of its great progress and even better prospects.

Obvious in hindsight, our 1971 investor would have been richly rewarded had they allocated a meaningful stake of their worth to Lowe's at this juncture. Did they have enough information and what proportion of their net worth should they have staked?

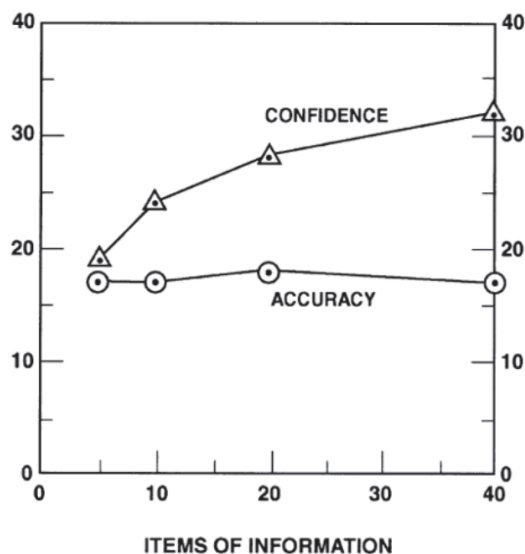
⁷ Net of fees and expenses, inclusive of distributions, as of 31 July 2021.

⁸ Net of fees and expenses, inclusive of distributions, as of 31 July 2021.

⁹ Edwin Duncan, Lowe's Chairman Letter to Shareholders, 30 September 1971.

Unsurprisingly, the Central Intelligence Agency (the CIA) has considered factors involved in optimizing mission-critical decisions with incomplete information in a probabilistic and time dependent way.

As the CIA concludes, after a minimum amount of data regarding the critical variables has been assembled, there is no added value to more information. Further data beyond this point is superfluous and only *seems* useful by increasing one's confidence while having no influence on accuracy.



Psychology of Intelligence Analysis by Richards J. Heuer Jr. *Centre for the Study of Intelligence*, Central Intelligence Agency 1999 p.54

Applying the CIA's model, we think our hypothetical 1971 investor already had sufficient valuable information to establish a meaningful commitment to Lowe's. Particularly when one considers that in 1971 as Lowe's reached its 10th consecutive annual dividend increase, some of the greatest dividend growers of the future were only just beginning their records: Johnson & Johnson 10 years, Coca-Cola 9 years, 3M 13 years, Abbott Laboratories 0 years,¹⁰ McDonald's 0 years...

Fast forward 50 years, and Lowe's has in fact outperformed our hypothetical investor's most optimistic expectations, and the picture today isn't much different - Lowe's is just as compelling.¹¹

Lowe's is now 76 years old and has been a public company for 61 years. It has raised its dividend consistently, every year since 1961, at an average rate of 16% per year. These dividend increases have driven the share price upwards at a compounded annual average rate of 17.5%, while Lowe's *still* continues to take share in a highly fragmented and very large, predictable, and growing industry. Today Lowe's pays out about 25% of its earnings in dividends, retaining 75% to reinvest in the business. On these reinvested earnings Lowe's earns about 29%, and as in 1971, this return on its own invested capital is rising.

Unfortunately for our hypothetical 1971 investor – even if he or she understood the Lowe's dynamics and could foresee the script of its development over the ensuing 50 years – it is still terribly unlikely that our

¹⁰ Abbott Laboratories is currently held in the DivGro Fund.

¹¹ We note that Lowe's has been held in the DivGro Fund since inception.

investor would have actually stayed with this investment to reap the dizzying rewards. This is because, notwithstanding Lowe's clear underlying merits, the fact that the share price often behaved in a seemingly random way, as most stocks do, at least from time to time, it is almost certain to have undermined their resolve to stay the course and remain invested.

Emotional fitness training

In the preface to Ben Graham's *The Intelligent Investor*, Warren Buffett wrote:

"To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights or inside information. What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding the framework. This book precisely and clearly prescribes the proper framework. *You must supply the emotional discipline.*"

Buffett loaded the emotional heavy lifting squarely on every individual investor, most of whom, in reality, are unable and unwilling to bear this heavy burden. DivGro was specifically – and we believe uniquely – crafted to help solve for this (near) universal shortcoming.

Specifically, DivGro synthesizes into a seamless holistic system:

- MIT's demonstration that consistent dividend raising companies are better and therefore outperform.
- Gordon's proof that the rate of change in dividends is translated over time into an approximately commensurate rate of growth in share prices.
- The cultivation of emotional and psychological discipline through ongoing active receipt of physical dividend payments every quarter, rising annually (or each '5th quarter'), combined with graduated Pavlovian mastery through repeated, weekly reinforcing experience-based investing via our *Weekly Dividend Progress* emails. These emails are quick and easy to read (and unusually for the investment universe) are designed to be simple, informative, and understandable, bringing the investor closer to experiencing the feeling of a true business owner, as opposed to a remote and temporary renter of a stock certificate. As expected, these emails have an astoundingly high open rate, and we see this gravitating towards 100%.

Taken together, these factors combine to satisfy the requirements for successful investing, just as stipulated by Buffett in the quote above. To this end, even before opening to investors DivGro actively engaged leading academic and practicing psychologists regarding the validity and implementation of DivGro's emotional and psychological aspects.

By harnessing MIT's findings and Gordon's relationship between dividend increases and price changes, DivGro's investment framework translates into a portfolio of outstanding proven winners, while the psychological framework enhances the probability that investors actually benefit from these proven winners. This embedded uplift in the investor's likelihood of actually succeeding with their investments is the ultimate value add of this methodology.

In other words – and coming back to our hypothetical investor above – while finding Lowe's was a job well done, the DivGro system would have assuredly raised the probability of that investor *actually extracting the maximum gains that were available*.

Psychologically enhanced returns

To date, the DivGro system has correctly predicted and benefited from a record of 76 consecutive dividend increases, at an average increase rate of 14.66% - already sufficient information applying the CIA model. As far as we are aware there is no other investment house anywhere which has been able over the same period of time to produce a public record remotely close to this. This has underwritten our performance so far, and according to the Gordon formula should drive future performance. DivGro may be a fairly young fund but it has already demonstrated its credentials through these 76 discrete, high-value data points, our MIT/Gordon heritage is in its 7th decade and the human psychology factors embedded in our system are timeless.

In closing, the amalgamation of a powerful and predictable investment algorithm integrated with a uniquely supportive psychological overlay is a vital addition to any investor's armoury and a key ingredient towards improving the structure of any overall portfolio. Indeed, at the 1999 Berkshire Hathaway annual shareholders' meeting, Warren Buffett advised that savvy investors "*would do best to act very vigorously*" when they saw something they consider to be a good opportunity. We believe DivGro represents one such opportunity. Our approach is so innately understandable, equally from novice to expert, and similarly from young to old, tailor-made for intergenerational wealth transitions where the older generation would like to believe that the younger generation can develop an interest and gradual mastery of the system in which they are invested. DivGro's mission is to help as many families as possible to actually benefit from this improved investment construct (or as we prefer to think of as the 'psychologically enhanced performance' asset class).

For those investment professionals and asset consultants among you, an allocation to this "psychologically enhanced performance" asset class will lift the efficient frontier across the entire curve.

Indeed, aside from real estate which shares certain similar characteristics in terms of tangibility and understandability (but typically lacks liquidity and has generally lower rental growth rates), we are unaware of another comprehensive portfolio solution with equivalent clarity of purpose, sensibility, understandability and visibility of process, and increased probability of effectiveness of outcome due to its synthesis of a powerful investment engine combined with empowering emotional fortitude.

Thanks again for your continued support.

Sincerely,

Jonathan & Barney

DivGro Fund dividend increases

Increase Number	Declaration Date	Company Ticker	Dividend Increase %
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%
34	23-Apr-20	POOL	5.45%
35	19-May-20	AMT	19.57%
36	21-May-20	MDT*	7.41%
37	28-Jul-20	MSCI*†††	14.71%
38	21-Aug-20	LOW	9.09%
39	10-Sep-20	AMT	20.00%
40	15-Sep-20	MSFT	9.80%
41	17-Sep-20	TXN	13.33%
42	30-Sep-20	SBUX	9.76%

43	23-Oct-20	V	6.67%
44	27-Oct-20	CTAS	10.20%
45	30-Oct-20	ABBV*	10.17%
46	02-Nov-20	CDW*	5.26%
47	09-Nov-20	AL*	6.67%
48	12-Nov-20	ROP	9.76%
49	20-Nov-20	NKE	12.24%
50	02-Dec-20	SYK	9.57%
51	03-Dec-20	ECL*	2.13%
52	03-Dec-20	AMT	19.80%
53	08-Dec-20	MA	10.00%
54	09-Dec-20	ZTS	25.00%
55	11-Dec-20	ABT	25.00%
56	19-Jan-21	CTAS	6.76%
57	27-Jan-21	SPGI	14.93%
58	27-Jan-21	MKTX	10.00%
59	01-Feb-21	YUM*	6.38%
60	04-Feb-21	CME*	5.88%
61	09-Feb-21	MCO*	10.71%
62	11-Feb-21	WSO	9.86%
63	17-Feb-21	SHW*	23.13%
64	22-Feb-21	SBAC	24.73%
65	23-Feb-21	HD	10.00%
66	24-Feb-21	DPZ*†	20.51%
67	04-Mar-21	AMT	14.81%
68	14-Apr-21	COST	12.86%
69	04-May-21	POOL	37.93%
70	21-May-21	0700*†	33.33%
71	27-May-21	LOW	33.33%
72	27-May-21	AMT	15.45%
73	08-Jun-21	HEI	12.50%
74	27-Jul-21	MSCI**†	33.33%
75	27-Jul-21	CTAS	26.67%
76	28-Jul-21	WING	21.43%
Average			14.66%

* represents companies no longer held in the DivGro Fund portfolio.

† represents companies reintroduced as a holding in the DivGro Fund.

Important disclaimer

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