DivGro

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28 February 2022

Dear fellow investor

2 years and 6 months of strongly rising dividends

To date we have reached several important milestones:[1]

- 93 consecutive correctly predicted dividend increases.[2]
- Average dividend increase of 15.34%.[3]
- 104 investor families in the fund.
- One institutional investor.
- 9 quarterly distributions paid, including two increases. Most recent distribution increase of 11.1%.
- Core underlying USD return of 47.47% net, or a compounded annual return of 16.81% net.[4]
- AUD return of 40.21% net, or a compounded annual return of 14.47% net.[5]
- 61 years of continuous empirical validation of the underlying Gordon / MIT dividend growth model.
- 68 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]	93
Average dividend increase	15.34%

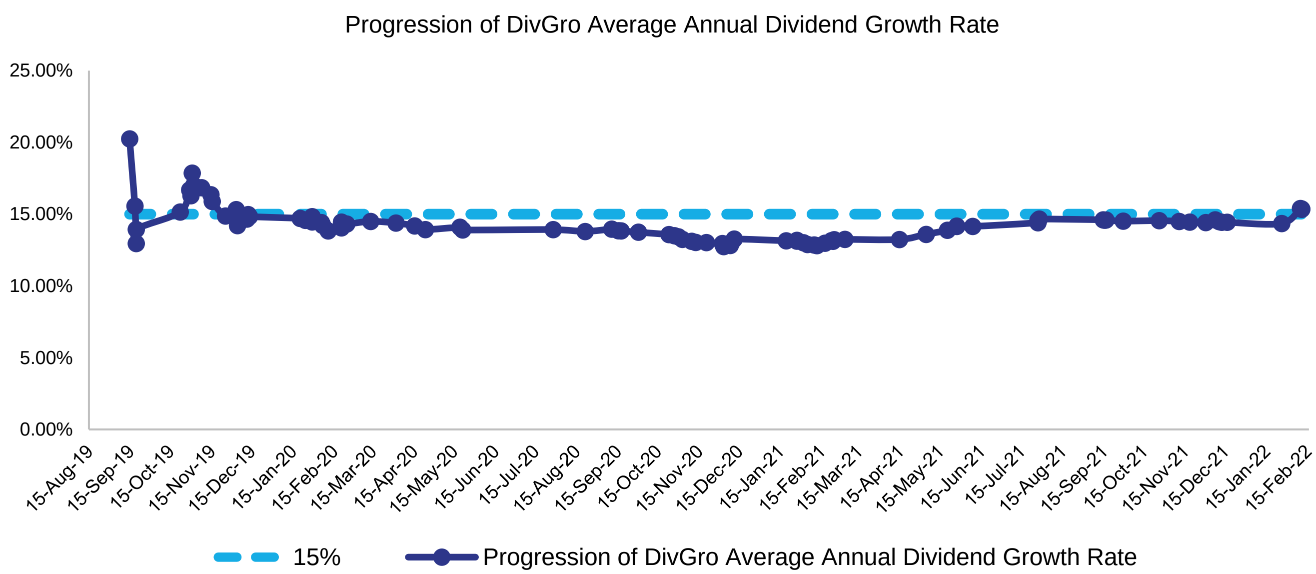
[1] Past performance is not necessarily indicative of future results. Please see additional important disclaimers on page 10.
[2] See dividend track record attached at the end of this letter.
[3] Simple average, see dividend track record attached at the end of this letter.
[4] As of 14 February 2022.
[5] As of 14 February 2022.
[6] Correctly predicted in advance by the proprietary DivGro system, from 15 August 2019 onwards.

Return since inception - cumulative (net)[7]	
USD	47.47%
AUD	40.21%

Return since inception - annualized (net)[8]	
USD	16.81%
AUD	14.47%

Extending our dividend growth record

We recently extended our dividend growth prediction record to 93 consecutive dividend increases with an average annual increase rate of 15.34%. The chart below showcases the progression of the average of our dividend increases as they occurred in real-time.



As you can see, our average dividend increase rate has been tracking the 15% annual increase line fairly consistently.

The logical essence of the Gordon Growth Model is that dividend growth best proxies true underlying business progress. This chart demonstrates that in aggregate our portfolio companies are growing their real underlying productivity, and associated business value, at a rate that is consistently around 15% per year. In other words, our businesses are objectively performing very well.

To contextualize, there will always only be relatively few companies that are able to sustain true business value growth at a rate of around 15% per year. Applying our preferred performance proxy – the rate of

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[7] Net of fees and expenses, inclusive of distributions, as of 14 February 2022.
[8] Net of fees and expenses, inclusive of distributions, as of 14 February 2022.

dividend growth – it is perhaps instructive to compare to a wider set. The annual dividend growth rate of companies listed on U.S. stock markets, dating all the way back to 1871, is estimated to have averaged 4.18%. Meanwhile, more recently, the average annual dividend growth rate of the S&P 500 since 2019, the timeframe overlapping with DivGro, has been 4.58%. Viewed in both absolute and relative terms, our record of average dividend growth in the vicinity of 15% per year is a very formidable rate indeed.[9]

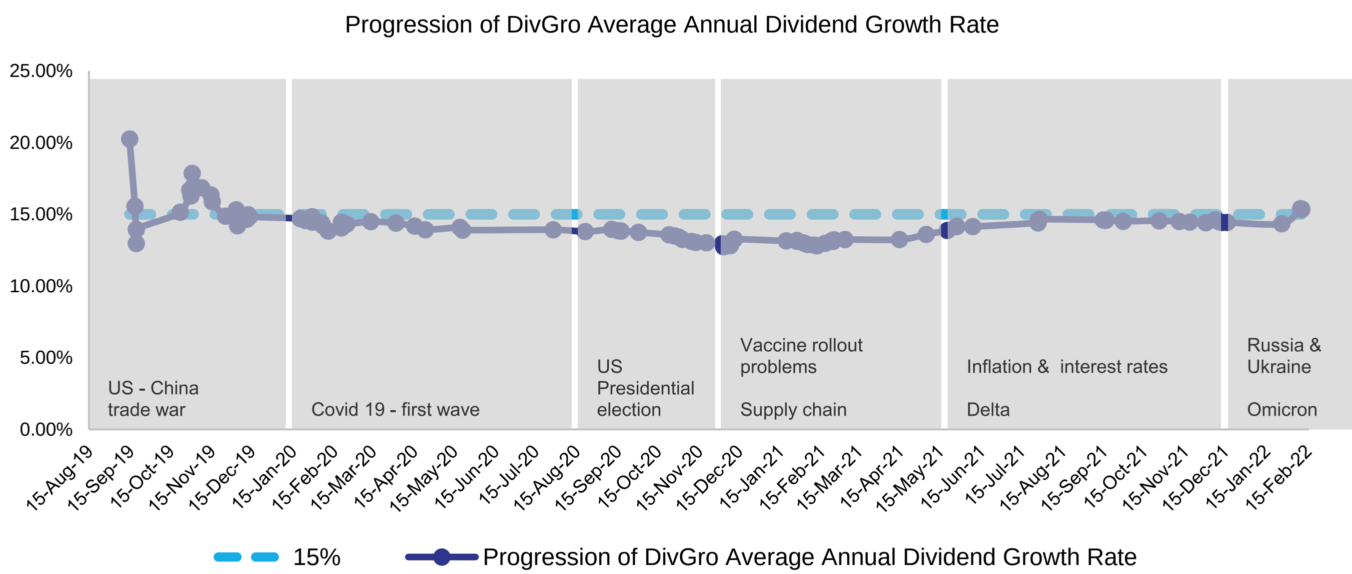
DivGro Average Dividend Growth Rate Since Inception	U.S Stock Markets Average Dividend Growth Rate (1871-2021)	S&P 500 Average Dividend Growth Rate (2019-2021)
15.34%	4.18%	4.58%

To revisit, our north star of the Gordon Growth Model, shown to hold over more than 60 years of continuous testing, holds that *expected change in share price ≅ sustained rate of dividend increases*, **by which over time, and at various points in time, share prices are therefore expected to increase at an approximately equal rate to the sustained increase rate of the dividend.**

This means, for example, if DivGro maintains this powerful record of dividend increases averaging in the order of 15% per year, the Gordon Growth Model would determine that **total returns over time, and at various points in time, should be expected to approximate this rate**. Again, this is because the sustained dividend growth rate effectively proxies the true progress or productivity trajectory of the underlying business. This obviously also means that, at other times, prices may well deviate or decouple, at least for a while, from this underlying dividend growth rate path.

Signal vs Noise

What's important to acknowledge is that Gordon's formula is ***net of noise***.



9 Robert Shiller reports compiled by the Yale School of Management, YCharts, DivGro estimates.

As evident, there is always a multitude of extraneous factors that captivate investors, commentators, and analysts. In real-time these factors appear highly relevant and pervasive. Indeed, taken to the extreme, they would require an investment portfolio to be completely reworked at literally every moment in time. However, over time these factors gradually dissipate and are ultimately outweighed by the variables that really drive value over time – underlying business performance. The purity and power of the Gordon Model is that it has already effectively accounted for all these events.

This is also why the Gordon formula is cleverly structured to work *over time* and *at various points in time*, rather than at every single moment in time, acknowledging that other factors will temporarily move prices away from where they would otherwise be if based purely on underlying business fundamentals.

Noise independent path

Unlike almost all other investment approaches, DivGro's psychologically enhanced dividend growth system recognizes front and centre the difficulties faced by investors when inundated by a barrage of extraneous discomforting factors (often just noise) which cumulatively often disorientate and undermine investors.

In these circumstances others generally have nothing constructive to say or do to allay investor fears. Conversely, we believe that during periodic bouts of price volatility **nothing is as reassuring** to investors as the stability of receiving dividends on time and the visible progress of announced dividend increases.

Taking this differentiator one step further, our weekly short-form progress emails condense the wait time between concrete evidence of progress to manageable one-week intervals.

For the cricket fans among you, under challenging conditions, the feeling of receiving dividends on time and watching them rise, together with the weekly progress updates, must be comparable to a batsman facing searing pace looking to their pads, protector, and helmet for reassurance…

In addition to ratifying the past and signalling expectations for the future, possibly the most underappreciated but potent attribute of a dividend driven model is that it makes the investor's journey (**especially under periodic times of stress**) more palatable and therefore keeps investors committed along the path towards successful compounding.

We believe this dividend driven system to be the most powerful, useful, and understandable investment model that exists, and coupled with DivGro's unique and pioneering psychological overlay is in our opinion the most effective holistic investment proposition available.

DivGro's Dividend *Supercohort*

Professor Gordon and his team at MIT demonstrated that as a category dividend paying companies perform better than non-paying companies; dividend raising companies perform better than dividend paying companies; and those companies that consistently raise their dividends the fastest perform best.

Extending beyond these findings, at DivGro we emphasise that ***the best and safest dividend is the dividend that can consistently grow the fastest*****.**

To illustrate this point, consider a short case study. Most dividend-oriented investors tend towards dividend stalwarts such as Kimberly-Clark (KMB) with its 50-year unbroken record of consecutive annual dividend increases. Kimberly-Clark is a very fine company, occupying the number 1 or 2 position in each of its chosen categories, and is particularly famous for its Kleenex and Huggies brands. Kimberly-Clark is very shareholder friendly, cherishing its long-established bond with shareholders, and recognises many investors hold its stock primarily for its reliable dividend. On the surface it would seem Kimberly-Clark, which indeed raised its dividend in January for the 50th consecutive year, should be an obvious candidate for a dividend driven portfolio.

But not for us.

Kimberly-Clark, at least in its current form, is very unlikely to meet our ambitious dividend growth objectives, with its dividend now growing at a snail's pace. Kimberly-Clark's average dividend increase rate has been 3.6% per year for the last five years, slowing to 1.8% for its recent 50th milestone. This is mainly because Kimberly-Clark faces formidable competition from its arch-nemesis Proctor & Gamble, as well as a host of strengthening supermarket home brands.

Instead, by way of example and to illustrate our thinking, we rather hold Zoetis (covered in detail in our May 2021 letter), our animal health juggernaut.

Formerly known as Pfizer Animal Health, Zoetis dates to 1952 but was only spun out independently from Pfizer in 2013. Kimberly-Clark is as over followed as Zoetis is underfollowed, likely due to Zoetis' apparent 'newness' and 9-year dividend record. Zoetis' dividend growth is <u>accelerating</u>, rising again in January by 30%, already growing 4.7x since its 2013 debut, implying an annualized dividend growth rate of 19%.

Zoetis occupies the number 1 market position in most of its chosen lines, but unlike tissues, diapers and toilet paper, demand for pet medicines is expanding rapidly. The pet population is expanding at a faster rate than the human population, and the proclivity to spend on pets its growing even faster. Research shows most people will cancel their streaming subscriptions and stop eating out before withholding veterinary care from their pet, and almost half of American pet owners spend more on routine healthcare for their pets than themselves.

Since the market size for most animal medicine segments is small compared to the human equivalent, this disincentivizes new competitors from taking on the incumbent, usually Zoetis, in an established medicinal sub-category. This unique dynamic coupled with a significant leadership in R&D and distribution sees Zoetis as effectively a market of one in many of its categories. Also, since vets invariably see the price of animal medications as a passthrough, being only a relatively small part of the total vet bill, Zoetis enjoys unusual pricing flexibility. So far Zoetis has found it unnecessary to materially lift prices given its volumes are rising at a rapid pace. This flexibility further undermines new entrants and provides Zoetis significant embedded pricing power in the form of free optionality to take price increases down the track. By contrast, Kimberly-

Clark can only raise prices if its competitors also do so, otherwise at each purchase the customer theoretically has an opportunity to recalibrate their brand/price/value decision.

Invisible in accounting statements and therefore usually missed by most Zoetis followers is a further hidden edge, being the very valuable direct relationships, historical data sets and treatment compliance feedback systems cultivated together with vets across the globe over the past 70 years.

Taking this comparison one step further, it is challenging for Kimberly-Clark to innovate much in toilet paper, diapers, and tissues, while the yet-to-be-treated pet ailments are more numerous than those already covered. The improvement in animal diagnostics, a business Zoetis is also rapidly expanding, is enabling vets to better diagnose animal issues, helping Zoetis identify emerging trends for its superior R&D machine to tackle. This provides Zoetis with an extremely long runway to keep rolling out new and improved products.

While Kimberly-Clark enjoys very satisfactory margins, as expected, the margin profile for a pharma and diagnostics leader such as Zoetis, coupled with a superior competitive positioning, is vastly better.

Zoetis' protected leading position, coupled with a clear and long runway and enviable margins, has underpinned explosive dividend growth to date, with every expectation for long-term sustainability.

Zoetis has been a core holding since DivGro's inception and we have already participated in three dividend increases; 2019: 22%, 2020: 25%, 2021: 30%, meaning our quarterly dividend from Zoetis has already practically doubled (+98%).

To borrow from Danish philosopher Kierkegaard, "life can only be understood backwards; but it must be lived forwards". While Zoetis' fast-rising dividends are an excellent measure of the great progress already achieved during our holding period, we believe its rapid and accelerating dividend increases are the best forward indicators of the future trajectory of its underlying business value.

At DivGro we are cultivating an investment culture that utilizes fast rising dividends as evidence of real business progress that should over time be reflected by commensurately higher share prices. Like the batsman we referenced earlier, we believe our current portfolio, coupled with our unique psychological overlay, equips us to build a big, long innings.

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%
77	14-Sep-21	MSFT	10.71%
78	15-Sep-21	TXN	12.75%
79	16-Sep-21	AMT	14.91%
80	29-Sep-21	SBUX	8.89%
81	26-Oct-21	V	17.19%
82	10-Nov-21	ROP	10.22%
83	18-Nov-21	NKE	10.91%
84	30-Nov-21	MA	11.36%
85	07-Dec-21	ZTS	30.00%
86	10-Dec-21	ABT	4.44%

87	12-Dec-21	SYK	10.32%
88	16-Dec-21	AMT	14.88%
89	26-Jan-22	MKTX	6.06%
90	09-Feb-22	EVO.ST	108.82%
91	10-Feb-22	MCO	12.90%
92	10-Feb-22	WSO	12.82%
93	22-Feb-22	HD	15.15%
		Average	**15.34%**

* 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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