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30 January 2024

Dear fellow investor

DivGro is approaching four and a half years of strongly rising dividends

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

- 149 correctly predicted consecutive dividend increases.[2]
- Average dividend increase of 14.87%.[3]
- 125 investor families in the fund.
- Two institutional investors.
- 17 quarterly distributions paid, including four consecutive annual increases. Most recent distribution increase of 12.1%.
- Core underlying USD return of 60.76% net, or a compounded annual return of 11.35% net.[4]
- AUD return of 63.56% net, or a compounded annual return of 11.78% net.[5]
- 64 years of continuous empirical validation of the underlying Gordon / MIT dividend growth model.
- 169 weeks of real-time dividend progress reporting, enabling participants to feel the power of a dividend-predicting machine in action.
- Regular TV features, recognised as Australia's leading dividend growth experts.

Performance summary:

Dividend performance	
Consecutive dividend increases[6]	149
Average dividend increase	14.87%

[1] Past performance is not necessarily indicative of future results. Please see additional important disclaimers on the last page.
[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] Return figures are for Class A, net of fees and expenses, inclusive of distributions, as of 15 January 2024. USD.AUD rate 1.5014.
[5] Return figures are for Class A, net of fees and expenses, inclusive of distributions, as of 15 January 2024. USD.AUD rate 1.5014.
[6] Correctly predicted in advance by the proprietary DivGro system, from 15 August 2019 onwards.

Return since inception - cumulative (net)[7]	
USD	60.76%
AUD	63.56%

Return since inception - annualized (net)[8]	
USD	11.35%
AUD	11.78%

Reviewing our journey from inception, we believe some developments are especially noteworthy.

Cumulatively, the fund is up slightly more than 60%. The pathway to this point has included upswings and downswings but has been guided by a clear and evidenced long-term upwards bias throughout.

Significantly, DivGro's quarterly distribution is now more than double that of its maiden distribution for its inaugural complete quarter ending 31 December 2019. This is especially important because, while stock prices fluctuate, DivGro's distributions have marched steadily upwards, driven by the outstanding and consistent upwards trajectory in the dividends of our underlying portfolio holdings.

DivGro is nearing a significant feat: the milestone of 150 consecutive dividend increases across our portfolio. Our record currently stands at 149 consecutive dividend increases, with no decreases, at an average dividend increase per company, per year of 14.87%. We don't believe there is a public dividend growth record, anywhere, that rivals DivGro's record in accuracy, longevity, consistency, or rate of increase. In fact, we were told as much by no less an authority than S&P Global – when helping them rectify an error in their dividend reporting – that we were unique in the worldwide analyst community in terms of depth of focus and insight into dividend growth.

Premised on the tried-and-tested Gordon Growth Model, which has been repeatedly validated for more than 60 years, a fundamental tenet of the DivGro system is the belief that the sustained rate of growth of a company's dividend is the best and most reliable proxy of the true intrinsic value of the underlying business. Put differently, the trajectory of a dividend narrates the story of the business which produces it. Viewed collectively, this would imply that since inception, DivGro's holdings have appreciated their intrinsic value in the order of 15% per year. While we are wary of extrapolations, we are simultaneously mindful of how significantly something can compound if allowed to run for an extended period at anywhere close to such a rate.

Following the sterling example of Tom Gayner[9], whom we greatly admire, some of you may recall that we set out with our north star of attaining the best dividend growth record anywhere, over an initial period of 30 years. We are certainly on track.

[7] Return figures are for Class A, net of fees and expenses, inclusive of distributions, as of 15 January 2024. USD.AUD rate 1.5014.
[8] Return figures are for Class A, net of fees and expenses, inclusive of distributions, as of 15 January 2024. USD.AUD rate 1.5014.
[9] Tom Gayner is the CEO of Markel Group and in interviews often tells of his early mentor teaching him that the secret to success in investing is lasting the first thirty years.

As an aside, mathematically, a growth rate of 15% per year multiplies 66x after 30 years.

To further appreciate the potential durability of dividend growth power, it is worth considering the actual dividend profile of an illustrative set of DivGro's key holdings over their dividend lifetimes, and in particular, the exponential effect produced by each additional year that passes as dividend trajectories develop towards that 30-year milestone.[10]

Company	Initial Dividend	Dividend CAGR	Dividend Multiple
Zoetis	2013	17.9%	6x
Intuit	2011	16.1%	6x
Pool	2004	15.9%	16x
Moody's	2000	17.2%	39x
Roper	1992	14.4%	75x
Stryker	1992	16.5%	133x

A key question is whether our companies will succeed in growing their dividends at attractive rates in the future, which is why, each and every week, we showcase both their historical record of dividend increases and explain the set of privileges we believe will underpin sustained attractive dividend growth into the future.

We attach our entire dividend growth history to each letter and factsheet because business is dynamic and competitive, so our companies' privileges may wax and wane over time. Our mission is to continuously evaluate the trajectory of these privileges and make changes where necessary.

Warren Buffett's 1993 letter to shareholders proffers a good example of endurance and ongoing growth potential of an especially privileged business. In his letter, he describes a 1938 *Fortune* article: "Several times a year a weighty and serious investor looks long and with profound respect at Coca-Cola's record, but comes regretfully to the conclusion that he is looking too late". Buffett goes on to point out that $40 of Coca-Cola in 1919 turned into $3,277 by 1938 when the article was written. Importantly, this was not too late, since a fresh $40 invested in Coca-Cola in 1938 turned into $25,000 by the time of his 1993 letter. Buffett's own purchases are demonstrative; he finished his purchases of Coca-Cola by 1994 and collected $75 million in dividends that year, which continued to grow to $736 million by 2023.

While we don't hold Coca-Cola – since its dividend growth rate today is below our threshold (see our January 2023 investor letter) – we do hold companies which have demonstrated outstanding dividend growth endurance befitting Buffett's description of Coke.[11] One such example is Abbott Laboratories, which in February will achieve the phenomenal milestone of 100 continuous years of unbroken dividends, including increasing its dividend every year for the last 52 years.

[10] Small differences due to rounding.
[11] We note in passing that last year Tom Gayner was appointed to the Coca-Cola board of directors; with his influence we will most likely revisit Coca-Cola in the future.

Quality companies produce phenomenal returns because they are able to retain and reinvest much of what they earn at very high rates of return and can continue to do so decade after decade.

Suppose a company has capital of $100 on which it earns $20. It pays a quarter of these earnings out as dividends, reinvesting the rest. Provided the company has continuing attractive growth avenues for reinvestment to repeat this year after year, it will compound its capital at 15% per year (75% of 20%) as illustrated in the table below.[12] This is the typical profile of a DivGro holding.

Year	Capital	Earnings	Dividend	Reinvestment
0	$100	$20	$5	$15
1	$115	$23	$6	$17
2	$132	$26	$7	$20
3	$152	$30	$8	$23
4	$175	$35	$9	$26
5	$201	$40	$10	$30
6	$231	$46	$12	$35
7	$266	$53	$13	$40
8	$306	$61	$15	$46
9	$352	$70	$18	$53
10	$405	$81	$20	$61
28	$5,007	$1,001	$250	$751
29	$5,758	$1,152	$288	$864
30	$6,621	$1,324	$331	$993

As the table illustrates, the compounding factor of heaviest significance is how long – rather than how fast – a company can sustain reinvestment of its capital at attractive rates of return. This is indeed how giant fortunes are typically made in public companies, with the multiplicative effect of compounding most visible in the outer years.

Let's use Abbott (which your managers have incidentally already held for 20 years) as a case in point. In 1980 Abbott was already a 92-year-old well-established healthcare giant, which had paid unbroken dividends every quarter for 56 years and had increased its dividend every year for the preceding eight years. Abbott was then, as it is now, highly unlikely to captivate the imagination of those looking for a 'hot stock'. Yet over the next 44 years a $10,000 investment in Abbott multiplied itself to more than $2,000,000.

[12] Figures may not sum due to rounding.

Effectively, for each year held, $10,000 grew to almost $50,000, a real-life long-term return profile probably beyond the imagination of the most aspirant investors.

This last sentence is key, especially for investors who might occasionally be inclined to seek the highest or quickest near-term return. The ultimate payoff is usually far greater when effort is directed towards finding an investment with a high likelihood of proving very good for very long – befitting a multi-decade investment in Abbott – rather than focusing on the absolute highest near-term growth rate, which even if materialised, may only be sustained or held for relatively short. We note that over this 44-year period, Abbott's implied annual compounding rate was approximately 13% per annum - a tremendous rate to sustain for almost half a century but likely below that which captivates the attention of investors with shorter time frames or less fluency with the mathematics of compounding.

Today, Abbott is still reinvesting a substantial part of its annual profits at very attractive internal rates of return, which we expect will continue to drive its dividend and ultimate share price upwards.

In the compounding formula[13], time is the exponent and is therefore by far the most significant of all the variables at play.

Put differently, even a slightly lesser rate of return, provided it is held longer, will ultimately far outweigh a higher return that is held for much shorter.

Many cricket followers love watching a quick-scoring batsman, even for a short while, hit an elegant flurry of boundaries. But even a batsman who is only able to deal in ones and twos, or with a limited array of scoring shots - provided they can occupy the crease long enough - will have a disproportionately greater impact on the ultimate outcome.

Recently retired former England captain Allistair Cook may have had a limited range of scoring shots, but he was a master at occupying the crease. Notwithstanding countless great players who have played since the first test against Australia in 1877 - many of whom were much more stylish and entertaining - it is Allistair Cook who stands tallest among English batsmen holding the record for the most test runs (12,472) and the most test centuries (33) - a record to be truly proud of.

Clutch moments

Statistics such as the compounding of a stock over decades or even Cook's record over his career do not capture what was required moment to moment in order to achieve their respective results. In any notable

[13] $A = P\left(1 + \frac{r}{n}\right)^{nt}$

where:
A is the final amount
P is the original principal
r is the nominal annual compounding rate
n is the compounding frequency
t is the length of time

innings, Cook, or any other successful batsman, would have had to successfully survive many challenging moments. Likewise with a stock: the long-term result is generated from a long sequence of short-term challenges, all of which have to be successfully navigated to achieve said result.

Stock turnover data unequivocally demonstrates that the overwhelming majority of investors don't hold their investments, however good, through the challenging moments which inevitably occur from time to time.

In our July 2023 letter we wrote about Peter Lynch's Fidelity Magellan, which was the strongest performing mutual fund during his tenure between 1977 to 1990, producing approximately 29% per year. However, even in Fidelity's own studies, it is acknowledged that the average investor in the fund made only about 7% per year, with many investors losing money over their holding period. Investors are effectively exposed to, but generally unprepared for, what is referred to in various sports as 'clutch' moments.

Clutch performance is the term ascribed to athletes who excel under pressure. Clutch moments involve plays that significantly impact the outcome of the game. Athletes are required to summon strength, concentration and any other qualities necessary to succeed and perform well. The opposite, and far more common phenomena is known as 'choking'.

In 2023, the NBA introduced the inaugural Jerry West Award to recognise the NBA Clutch Player of the Year, recognising the player who best manages such moments – which the NBA ascribes to the last five minutes of a game where the scores are within five points, and overtime.

Winners win on the basis that they survive clutch moments, the rest choke or capitulate.

DivGro was purposefully designed around its dividend growth strategy because this strategy makes common sense and is demonstrably successful and durable. Perhaps more importantly, it is also a strategy that uniquely enables a frequent and meaningful communication system to provide maximum support during the inevitable clutch moments along the investment journey.

Our Weekly Dividend Progress Update, which is delivered at the same time each and every Friday, is modelled on Aristotle, who believed, "We are what we repeatedly do. Excellence, then, is not an act, but a habit".[14]

There is no shortage of news to unnerve investors. However, successfully actualising a longer investment horizon necessitates a growing mastery of the clutch moments, made easier by the combination of a compelling dividend growth system and a weekly feedback mechanism designed towards cultivating a habit of equanimity.

Business update

Since its inception four and a half years ago, like Allistair Cook, DivGro has methodically built the foundations of a big innings.

[14] As described in the 1926 book *The Story of Philosophy* by Will Durant.

To this effect, over the past year, we have been readying the launch of our sister product, Force500. Force500 leans heavily on DivGro's established dividend growth credentials, coupled with our unique dividend-enabled weekly communications, to make the compounding journey easier to hold and therefore maximise the probability of actualising successful outcomes for investors.

Combining the best attributes of a dividend growth portfolio with the universality and proven long-term credentials of the world's foremost index, Force500 is designed to absorb the overwhelming majority of investment portfolios, from institutional to individual, and make the journey more manageable.

In preparation, we have already added two further outstanding team members, expanding our investment team and communication credentials.

Notably, a leading ASX-listed company has recently introduced a dedicated DivGro feeder fund so that their clients can benefit from our strategy.

We are currently also solidifying significant additional mandates, which we expect will substantially boost our scale.

As DivGro and its compelling dividend growth approach grow in mainstream recognition, many of you will be familiar with Jonathan's regular TV appearances as Australia's leading dividend growth authority. He has been interviewed about some of our most favoured and compelling holdings including Costco, Watsco, Zoetis, FirstService etc. Most of these interviews can be accessed via our website.

Underlying our thinking about the DivGro Fund, our portfolio companies, and the investment management company itself is Morgan Housel's powerful insight: 'the long term is harder than most people imagine, which is why it's more lucrative than most people assume'. DivGro's combination of an easy-to-understand dividend growth approach, coupled with our unique weekly messaging enabled by this system, makes this journey more palatable and therefore increases the probability of arriving at one's desired destination.

Sincerely,

Jonathan and 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%
94	28-Feb-22	SPGI	10.39%
95	28-Feb-22	SBAC	22.41%
96	01-Mar-22	DPZ*†	17.02%
97	11-Mar-22	AMT	12.90%
98	13-Apr-22	COST	13.92%
99	04-May-22	POOL	25.00%
100	19-May-22	AMT	12.60%
101	27-May-22	LOW	31.25%
102	25-Jul-22	MSCI*†*†	20.19%
103	26-Jul-22	CTAS	21.05%
104	27-Jul-22	WING	11.76%
105	23-Aug-22	INTU	14.71%
106	15-Sep-22	TXN	7.83%
107	20-Sep-22	MSFT	9.68%
108	22-Sep-22	AMT	12.21%
109	20-Oct-22	WSO	11.36%
110	21-Oct-22	V	20.00%
111	10-Nov-22	ROP	10.08%
112	15-Nov-22	NKE	11.48%
113	6-Dec-22	MA	16.33%
114	7-Dec-22	SYK	7.91%
115	8-Dec-22	AMT	12.23%
116	8-Dec-22	ZTS	15.38%
117	9-Dec-22	ABT	8.51%
118	19-Dec-22	HEI	11.11%
119	25-Jan-23	MKTX*	2.86%
120	25-Jan-23	SPGI	5.88%
121	31-Jan-23	MSCI*†*†	10.40%
122	31-Jan-23	MCO*†	10.00%
123	2-Feb-23	EVO.ST	40.85%
124	6-Feb-23	FSV	11.11%

125	9-Feb-23	OR.PA	25.00%
126	17-Feb-23	RMS.PA	62.50%
127	21-Feb-23	HD	10.00%
128	21-Feb-23	SBAC	19.72%
129	23-Feb-23	DPZ*†	10.00%
130	19-Apr-23	COST	13.33%
131	4-May-23	POOL	10.00%
132	25-May-23	AMT	9.79%
133	26-May-23	LOW	4.76%
134	25-Jul-23	CTAS	17.39%
135	2-Aug-23	WING	15.79%
136	24-Aug-23	INTU	15.38%
137	19-Sep-23	MSFT	10.29%
138	20-Sep-23	AMT	10.20%
139	21-Sep-23	TXN	4.84%
140	24-Oct-23	V	15.56%
141	8-Nov-23	ADP	12.00%
142	9-Nov-23	ROP	9.89%
143	14-Nov-23	NKE	8.82%
144	5-Dec-23	SYK	6.67%
145	5-Dec-23	MA	15.79%
146	7-Dec-23	ZTS	15.20%
147	14-Dec-23	AMT	8.97%
148	15-Dec-23	ABT	7.84%
149	23-Jan-24	SPGI	1.11%
		Average	**14.87%**

* represents companies no longer held in the DivGro Fund portfolio.
† represents companies reintroduced as a holding in the DivGro Fund.
American Tower figures are annualized.

Important disclaimer

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