DivGro

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Dear fellow investor

Approaching four years of strongly rising dividends

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

- 133 consecutive correctly predicted dividend increases.[2]
- Average dividend increase of 15.34%.[3]
- 116 investor families in the fund.
- One institutional investor.
- 15 quarterly distributions paid, including four increases. Most recent distribution increase of 12.1%.
- Core underlying USD return of 47.81% net, or a compounded annual return of 10.61% net.[4]
- AUD return of 50.32% net, or a compounded annual return of 11.09% net.[5]
- 63 years of continuous empirical validation of the underlying Gordon / MIT dividend growth model.
- 142 weeks of real-time dividend progress reporting, enabling participants to feel the power of a dividend prediction machine in action.

Underlying performance summary:

Dividend performance	
Consecutive dividend increases[6]	133
Average dividend increase	15.34%

[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 30 June 2023. USD.AUD rate 1.5007.
[5] Return figures are for Class A, net of fees and expenses, inclusive of distributions, as of 30 June 2023. USD.AUD rate 1.5007.
[6] Correctly predicted in advance by the proprietary DivGro system, from 15 August 2019 onwards.

DivGro is approaching its four-year anniversary. As we reach this milestone, we think it is an opportune moment to reflect on the journey experienced by a day-one investor like us.

As dividend growth specialists, we are particularly satisfied with the trajectory of DivGro's distributions to investors. For every $100 of distributions paid in DivGro's first complete quarter, today, those initial investors now receive a quarterly $214.21.

Importantly, the commencement date of 15 August 2019 was chosen arbitrarily; we opened the fund as soon as our initial licensing, documents and structure were ready, rather than trying to identify or time a particularly auspicious moment. The resultant takeaway is that in a well-executed dividend growth strategy, where the underlying constituents reliably and consistently raise their dividends each year at attractive rates, investment duration can only be additive in the positive development of investor cash flow streams.

Specifically, the evolution of each $100 of initial distribution tracked as follows over the subsequent quarters:

$100.00, $154.23, $154.23, $154.23, $154.23, $171.36, $171.36, $171.36, $171.36, $191.07, $191.07, $191.07, $191.07, $214.21, $214.21.

The effective yield on cost has grown significantly over the period, a hallmark of a successfully implemented dividend growth strategy. At risk of laboring the obvious, it is simply a matter of time before a successful dividend growth approach will, by ever greater and exponential margins, overtake and then exceed a relatively static income alternative, however high its initial yield might be.

Indeed, it is often prescribed that the best and safest route to a high yield is by accepting an initially low yield which is growing quickly and where this trajectory is expected to endure long into the future. This technique has the added significant advantage that the advance in yield on cost is invariably coupled with corresponding appreciation in the capital value, an outcome that almost never happens in approaches premised on high initial yields that hardly grow, if at all.

DivGro's distribution growth is of course underpinned by the dividend growth of our underlying portfolio companies whose dividend developments and expected future trajectories we snapshot every single week in our Weekly Dividend Progress Update. To date, we have achieved a sequence of 133 consecutive dividend increases across our portfolio companies at a simple average of 15.34% per dividend, per company, per year. This is both a very high absolute rate of dividend increase, as well as a particularly high relative rate considering that many other companies either reduced or cancelled their dividend payments in response to the Covid pandemic.

It is our core belief that a dividend growth trajectory is the best and most reliable single-metric proxy for the true underlying business development of a dividend growth company. This proxy also has the advantage of credibility, given it is easy to track, simple to understand, and tangible in the hands of investors in cash every quarter. Put differently, we are unaware of a company that has consistently raised its dividend every year at a high rate for many years, which has not produced an excellent economic outcome for shareholders who stayed the course over the period. This is the fundamental premise behind MIT professor Gordon's famous formula, which we have detailed extensively in previous letters, whereby the enduring rate of dividend increases is ultimately reflected over time and at various points in time by roughly commensurate rates of change in corresponding share prices.

Consider the evolution of each $1 of dividends received from an illustrative set of our holdings, from our initial quarterly dividend received through to the most recent quarterly dividend:

DivGro holding	Growth of each $1 of dividend since our initial purchase				
Costco	$1.00	$1.08	$1.22	$1.38	$1.57
Lowe's	$1.00	$1.09	$1.45	$1.91	$2.00
Microsoft	$1.00	$1.11	$1.22	$1.35	$1.48
Nike	$1.00	$1.11	$1.25	$1.39	$1.55
Pool Corp	$1.00	$1.05	$1.45	$1.82	$2.00
S&P Global	$1.00	$1.18	$1.35	$1.49	$1.58
SBA Communications	$1.00	$1.26	$1.57	$1.92	$2.30
Visa	$1.00	$1.20	$1.28	$1.50	$1.80
Watsco	$1.00	$1.11	$1.22	$1.38	$1.53
Zoetis	$1.00	$1.22	$1.52	$1.98	$2.29

As the table demonstrates, individually, and when regarded as a group, our illustrative holdings are increasing their dividends in a formidable fashion.

Importantly, at DivGro we extend beyond Gordon's academically oriented contribution. While his formula *assumed* continuity of the pace of dividend increases*, we focus on identifying the variables that actually make this happen.*

Ideally, what we want to see is the existence of one or multiple privileges, which create a high current level of profitability from which at least a certain quantum is paid to investors as dividends. We want to see the reinvestment of the majority of current earnings back into the expansion of this increasingly dominant profit machine at high incremental returns, resulting in an ability to pay an increasing dividend every year. We are looking for privileges that are being expanded, or at the very least maintained, rather than being diminished (which in economic theory is the more common, or generally expected, occurrence). We want evidence that shows it is unlikely, or preferably, impossible, for a newcomer to attain privileges like the industry leader or leaders we tend to hold in our chosen areas. Of course, we also want to see evidence that the growth runway ahead is intact or expanding, allowing the dynamics which power the dividend growth to continue to unfold long into the future, and critically, to persist for much longer than most other investors or analysts believe.

When these conditions are all in place, not only do we have Gordon's elegant mathematics working in our favour, but better yet, common sense is at work too. This is why we are ardent believers that over time the internal growth of the business, as expressed by the growth rate of our dividend-based proxy, ultimately yields a roughly commensurate increase in market values.

None of this is relevant to an investor who is unable to stay on course as this process unfolds over time.

Why? Because, even if an investor were to receive a gift of knowledge of the single best investment for the next twenty years, this gift would almost certainly prove valueless in the absence of the appropriate emotional framework required to stay with the investment for this duration. This may be hard to believe, but here is a demonstrable example: it is well known that Peter Lynch's Fidelity Magellan was the strongest performing mutual fund during his tenure between 1977 to 1990, through which it produced about 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. This observation highlights that *one should never separate the investment itself from the mindset required to actually succeed with it.*

DivGro was constructed to specifically address and overcome the pervasive psychological problematics confronting investors relative to their investments, which have been evident ever since financial markets began. In Warren Buffett's 2005 letter to shareholders he wrote: "Long ago, Sir Isaac Newton gave us three laws of motion, which were the work of genius. But Sir Isaac's talents didn't extend to investing: he lost a bundle in the South Sea Bubble, explaining later "I can calculate the movement of the stars, but not the madness of men".

This is why DivGro concentrates on high-quality companies which pay regular and increasing dividends; whose share prices rise largely because these growing dividends signal to investors that the intrinsic business value is rising at a roughly commensurate rate.

This is why we communicate with investors weekly to convey how the privileges, profitability profiles and dividend trajectories of our companies are developing. This frequent communication is specifically designed to reduce the so-called long-term into easily manageable one-week intervals.

This is why we pay our distributions every quarter, why we strive to increase them by a meaningful increment every year and why we insist that investors receive them in cash. It has been shown it is much more constructive, emotionally and psychologically speaking, to receive frequent and tangible evidence of progress rather than infrequent or intangible (non-cash) feedback.

Charlie Munger – a nonpareil investment authority – asserts that any investor, from novice to master, needs frequent positive feedback and reinforcement that their process is on track. Analogizing the investor to the fisherman, he explains that just as a fisherman needs to hook some actual fish, investors need the visibility of incoming and growing dividends. This logic is echoed by John D. Rockefeller, who famously said, "the only thing that gives me pleasure is to see my dividends coming in".

Linearity

Linearity is a concept drawn from statistics which demonstrates the degree to which data points relate to each other, or to a preconceived belief or hypothesis. Applied to investing, linearity is useful to measure the degree of closeness or variance along an investor's path between an initial objective or expectation and the observed subsequent reality.

Guided by the Gordon model, DivGro set out to identify companies which could (and subsequently did) raise their dividends consistently at high rates over time. This is the primary yardstick by which we measure our own progress and which we believe to be the most understandable and reliable proxy to assess the trajectory of the intrinsic value of our underlying companies, and in turn, the portfolio as a whole.

Consider our record so far of annual average dividend growth across our portfolio (simple average dividend increase per company):

Calendar year	Average dividend increase
2019 (15 August onwards)	14.84%
2020	12.44%
2021	16.40%
2022	17.44%
2023 (through 30 June)	16.41%

Provided our companies – when regarded as a group – continue to deliver dividend growth in the range we target, and provided we continue to convey this progress in a digestible weekly format, we believe that the gap between investors' expectations and subsequent outcomes can be helpfully and productively minimized. On this basis, DivGro over time will be an extremely high linearity fund, minimizing the gap between expectations and realized outcomes.

This is an enormous edge. Overwhelming evidence shows that most disappointments, in most spheres including investing, are caused by the emergence of a gap between expectations and subsequent observed reality.

Even though other investments might ultimately produce satisfactory returns, they typically suffer from low linearity between investor expectation and realized outcome (even if only from time to time), making them difficult to hold. As a result, there is often a significant gap (as seen in the Peter Lynch example above, covering more than 2 million investors) between the ultimate underlying investment return versus investors' actual performances.

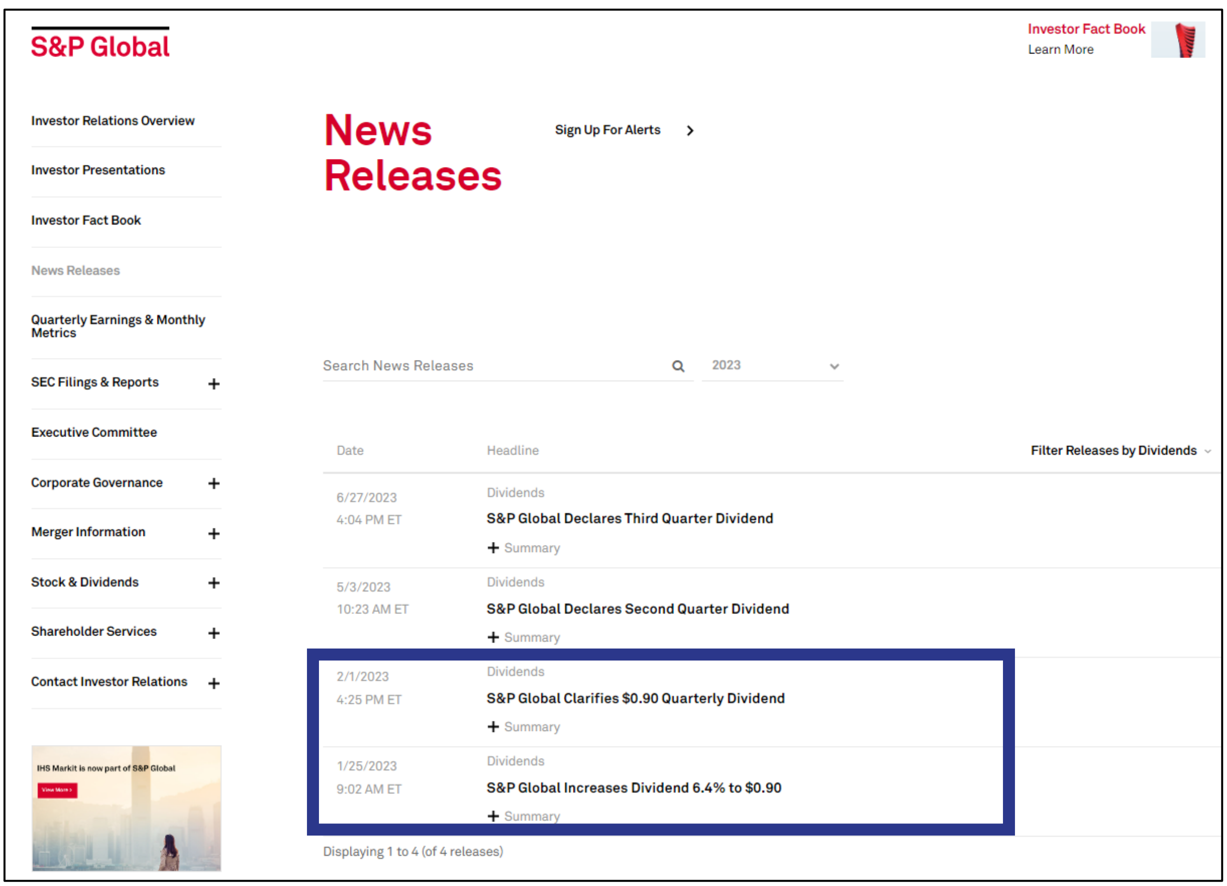
Conversely, DivGro's high dividend growth oriented linearity, combined with frequent messaging highlighting this linearity, tethers DivGro's long-term performance as a fund to investors' own experience with or relative to the fund.

Going further than others

Given our scrutiny of dividends, and their rates of growth, we are highly attuned to any dividend-related information about any of the companies we own or follow. We recently uncovered a mismatch between the S&P Global (SPGI) dividend increase announcement and the actual percentage increase of their dividend.

For context, SPGI is a large, illustrious and long-standing company, with origins dating back more than 160 years. SPGI, together with Moody's (another DivGro holding) function as effective gatekeepers to debt capital markets, while SPGI is the largest compiler of equity indices as well. Due to this privileged position, SPGI has exhibited a superlative dividend growth history, having increased its dividend every year for 50 years at an impressive rate.

On 25 January 2023 SPGI announced a 6.4% dividend increase – which was a relatively low but understandable increase given the recent large acquisition of IHS Markit and SPGI's wish to quickly deleverage following this. Yet while scrutinizing the details underlying this stated dividend increase, we identified that in fact SPGI had overstated the dividend percentage increase to the market. We immediately alerted SPGI regarding their error but were initially brushed off. Dissatisfied, we reached out again with more success, resulting in a call with their CFO who thanked us for our diligence and concern telling us "I don't believe there is another analyst anywhere who is putting into his model and is so concerned with the particulars of the changes in the dividend". This discussion resulted in SPGI's board reissuing their dividend increase announcement, this time, at a rate which matched our assessment.



SPGI's feedback suggests that other analysts and investors are less, if at all, concerned with the minutiae of dividend development, which backs our contention that DivGro is likely one of a kind.

The pathway from dividend growth to capital growth

Through to 30 June 2023, DivGro's underlying average dividend growth rate across our portfolio companies is 15.34% per year, while the capital value per unit has grown at 11.09% per year for a cumulative 50.32%.

Return since inception - cumulative (net)[7]	
USD	47.81%
AUD	50.32%

Return since inception - annualized (net)[8]	
USD	10.61%
AUD	11.09%

Of course, our capital appreciation rate (which is a snapshot at a particular point in time) has at varying times been both ahead and behind our rate of dividend growth, an observation entirely consistent with the expectations of the Gordon model (which assumes continuity in perpetuity). A useful image is that of someone walking one's dog on a long leash across a field. While the dog will occasionally run ahead or lag behind, by the end of their walk, the dog and its walker will necessarily be in sync. Here the dog behaves much like the share price – darting randomly or erratically at various points in time – while the walker is the dividend, maintaining a stable and deliberate progression. Per Gordon, the market price will ultimately be driven by the rate of change in the dividend, just as the dog will ultimately track its walker.

We see capital growth as an outcome, resulting from the steady upward march of our dividend income. We believe this is the strongest form of capital growth, underpinned concretely by consistent and meaningful growth of our underlying dividend income streams.

We recognize that each investor will enter the fund and add to the fund at different dates, implying a unique initial ratio in the relationship between dividend development and their capital value at each point in time. This is roughly similar to joining the dog walker once the walk is already in progress, and where the dog might already be in front or behind the walker. Provided our underlying dividends continue to grow at a satisfactory pace for long enough from that point onwards, then the expected bond between dividend expansion and subsequent capital appreciation should ultimately materialize in accordance with the Gordon formula.

[7] Return figures are for Class A, net of fees and expenses, inclusive of distributions, as of 30 June 2023. USD.AUD rate 1.5007.
[8] Return figures are for Class A, net of fees and expenses, inclusive of distributions, as of 30 June 2023. USD.AUD rate 1.5007.

We think Tim Henman (a former world #4) put it best, commentating right before 20-year-old Alcaraz served at Wimbledon championship point against 23-time Grand Slam champion Djokovic, pointing out that for Alcaraz to win it was essential "to be totally consumed by the process rather than by the score".

Similarly, by staying 'totally consumed by the [dividend growth] process' we are equally confident that an equivalent capital growth result is bound to arise.

As we have mentioned previously, we like to measure our performance in terms of how Professor Gordon and his Nobel Prize winning colleagues might have evaluated us. With the average rate of dividend growth in the order of 15% per year for almost four years and the capital moving roughly in tandem – including a healthy catchup in the capital value relative to the dividend profile in 2023 – we believe that they would have considered our execution to be an outstanding implementation of their model.

With our weekly engagement designed to bolster positive temperament, DivGro is a one-of-a-kind system formulated to optimize the nexus between robust investing outcomes and synergistic emotional fortitude, making it the go-to home for compelling financial performance that is easier to hold.

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%
		Average	**15.34%**

* 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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