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Dear fellow investor

2 years and 3 months of strongly rising dividends

To date we have reached several important milestones:

- 81 consecutive correctly predicted dividend increases.[1]
- Average dividend increase of 14.55%.[2]
- 88 investor families in the fund.
- One institutional investor.
- 8 quarterly distributions paid, including two increases. Most recent distribution increase of 11.1%.
- Core underlying USD return of 62.47% net, or a compounded annual return of 24.58% net.[3]
- AUD return of 46.41% net, or a compounded annual return of 18.84% net.[4]
- 61 years of continuous empirical validation of the underlying Gordon / MIT dividend growth model.
- 52 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[5]	81
Average dividend increase	14.55%

[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 October 2021.
[4] As of 31 October 2021.
[5] Correctly predicted in advance by the proprietary DivGro system, from 15 August 2019 onwards.

Return since inception - cumulative (net)[6]	
USD	62.47%
AUD	46.41%

Return since inception - annualized (net)[7]	
USD	24.58%
AUD	18.84%

The power of the Gordon Dividend Growth Model

You might wonder why we always report our performance in terms of dividend growth progress first, with price appreciation only second. This is indeed quite unusual for the fund management industry – which is typically fixated only on changes in price.

The reason is that our system is rooted in MIT Professor Myron Gordon's famous, tried and tested approach, which essentially seeks to determine the rate of growth in a company's dividend over a sequence of many years. More fundamentally, this dividend growth velocity serves as a proxy for the internal rate of growth of the business. As a result, the formula derives that over time, the rate of growth in the dividend will be approximately matched by a corresponding rate of growth in the company's share price.

While Gordon's work applies equally effectively across the continuum of dividend growth rates, it is clearly most lucrative when applied to the higher growth echelons among the universe of dividend growth companies. Premised on this insight, DivGro has cultivated a unique edge, specializing in the identification and prediction of dividend growth companies at the high-to-very-high end of this continuum, companies we internally think of as our 'dividend growth stars'.

Professor Gordon understood very well – both intuitively and empirically – that true business values generally change slowly, while market prices change often, quickly, and erratically. Most of the time, these short-term price changes can't even be explained quantitatively because they happen in the absence of any new information relating to the business. To a data scientist wanting to put together a workable, robust, and most importantly reliable model for both predicting and explaining share price movements this randomness of short-term share price movements was untenable.

Prior to formulating his famous model, Professor Gordon tested many possible parameters, or forward indicators (i.e. clues) to determine future share prices, before concluding dividend growth was most authoritative.

[6] Net of fees and expenses, inclusive of distributions, as of 31 October 2021.
[7] Net of fees and expenses, inclusive of distributions, as of 31 October 2021.

While on the surface it might seem that dividend growth happens only occasionally, typically once a year when announced by a given company, the many drivers behind the progress leading to that annual announcement are ongoing, taking place all the time in each company's business environment.

The beauty of our system, resting on Gordon's work, besides the elegant mathematics, is that our investors need to track only one easily understandable variable to measure the underlying driver of our performance via a non-debatable, easily trackable variable. Get that dividend growth velocity right, and Gordon's formula – which nobody disputes – will lead to the desired performance outcome over time.

As we highlighted above, we now have a continuous record of 81 consecutive dividend increases anticipated in advance, from which the fund has benefitted, and per Gordon's formula resulted in an approximately commensurate ongoing uplift in corresponding share prices.

Another beauty, and key differentiator of our honed Gordon based system is that it is eternally forward looking, meaning that if we identify a dividend increase today, that benefit begins to accrue starting tomorrow and well into the future.

Psychologically enhanced performance

While its predictive value is the Gordon Dividend Growth Model's strongest attribute, the fact that it rests on relatively predictable dividend behaviour has enabled later innovators, such as DivGro itself, to overlay constructive positive psychology onto the model to optimize the potential potency of a dividend growth system in action.

Our proven psychologically driven system rests on the following observation:

Most investors hate rapid, unexpected, erratic price changes. At the same time, most investors love to receive on-time, reliable, frequent, and rising cash receipts into their accounts.

DivGro capitalizes on these underlying truths by adding to the model:

1. The cultivation of emotional and psychological strengthening through ongoing active receipt of physical dividend payments every quarter, rising annually.
2. Empowering investors to deeply understand a dividend growth framework via repeated, weekly experience-based reinforcing feedback, i.e. our *Weekly Dividend Progress* emails.
3. These emails are quick and easy to read (and unusually for the investment universe) 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.
4. These benefits accumulate incrementally, reinforcing the investor's feeling of being on a positive, cumulative personal trajectory over time.
5. When this experience is shared, such as with family members across generations or investors in teams of friends these benefits are even further enhanced.

Taken together, these uniquely valuable factors which DivGro has carefully overlayed on top of Gordon's model combine to increase investors' probability of success.

In other words, the DivGro system has been built to raise the probability that investors *actually extract the maximum gains that are available*.

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.

By integrating a potent psychologically reinforcing mechanism onto a similarly proven, robust and powerful dividend growth methodology, DivGro has been designed as a foundational asset for investors. While some investors utilize real-estate (or rental based assets) as the foundation for their portfolio, the DivGro platform enables a business-based foundation where the effective rental increases are significantly higher.

A leader in an infinite game

A necessary condition for the Dividend Growth Model is to find those rare special companies that can continuously and consistently raise their dividend at a certain rate, for the foreseeable future. To do so one needs to identify unique business environments where this outcome is as close as possible to inevitable.

The way we find works best is to stick to proven winners in growing categories, where their respective business environments are structured in a way where we can form an extremely high expectation that our companies' dominance will persist, or possibly / probably even strengthen.

A novel parallel is to examine extensive research into the documented probability of winning a football match once a team, much like our companies, has already established a lead.

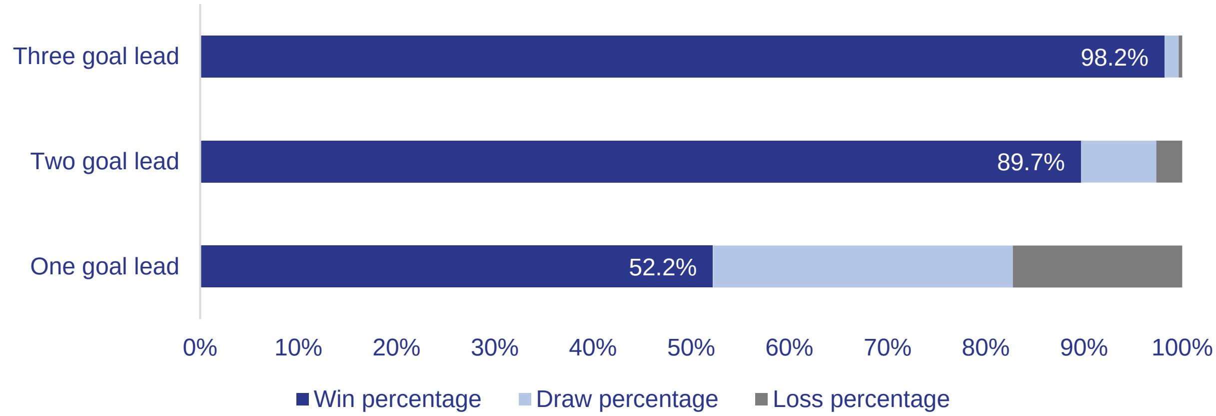
Sky Sports, together with sports data company Opta has performed an exhaustive study over the first 25 years of the English Premier League, since beginning in 1992.[8] This study looked at the likelihood of a team continuing to victory once already in the lead, and considered the extent to which the magnitude of the lead contributed to probability of winning:

Team Lead	Instances	Leader Won	Match Drawn	Leader Lost
One goal lead	5721	2987	1747	987
Two goal lead	2766	2481	212	73
Three goal lead	1119	1099	16	4

Based on thousands of matches, it's clear that a one goal lead is the most fragile with the trailing team recovering to draw or win almost every other time.

[8] Sky Sports study utilizing Opta data covering the first 25 years of the English Premier League from 1992 to 2017.

With a two-goal lead 89.7% of leading teams go on to win, while for teams which lead 3-0 the win rate is 98.2%.



Unsurprisingly, teams that have led by 4 goals have never lost, and in only one case have allowed the trailing team to recover for a draw.[9]

While business and football are obviously not the same (but share some similarities), our mindset is to try to find businesses with the conceptual equivalent of at least a 3-0 lead. Unlike football, business has the advantage of continuity beyond 90 minutes, allowing our leading businesses to continue to compound indefinitely.

A good example is the case of Watsco, a 60-year-old company which has been under the control of the Nahmad family for the last 49 years. Originally an air conditioner manufacturer, Watsco pivoted in 1988 to become a pure distribution company across the HVAC/R spectrum (heating, ventilation, air conditioning and refrigeration).

While pure distribution companies never begin as anything special – they are typically too small, mom-and-pop type operations – if certain conditions are enabled, they can evolve into truly spectacular businesses. While the overwhelming majority won't do so, being neither interested nor able to grow, the roadmap for the special few typically follows a well-trodden playbook:

Through excellence in early client service, the distributor can push through a noticeable quantity of extra units relative to its small size and immediate nearby competitors. This is quickly noticed by the manufacturers whose merchandise the distributor is selling, leading to greater engagement between the manufacturer and this emerging distributor – better terms soon follow (encompassing improved pricing, credit and payment terms, better service, priority delivery etc).

An enlightened distributor, instead of putting these benefits in its pocket, chooses to on-share these scale benefits with its customers. By consistently reinvesting these benefits into ever lower prices and better service for customers, our distributor gradually becomes an increasingly valuable outlet for its manufacturers / suppliers while at the same time gradually becoming the lowest cost option for customers

[9] Newcastle vs Arsenal, 5 February 2011, St James' Park.

in its territory. As this process extends over time, competitors become unable to compete on price or service and tend to either shut down or sell out to our emerging and increasingly dominant distributor. At the limit, our distributor becomes a controlling force in its territory, while its growing scale allows gradual expansion of its territorial footprint.

True to this playbook, Watsco quickly became the most effective distributor in the Miami area, soon recognized by its supplying manufacturers as a valued distributor and significant channel through to the end market.

As Watsco's volumes grew, terms improved, which it reinvested in offering its customers even better prices and better service. Such delayed gratification is ingrained in the Watsco culture, continuously reinvesting their expanding scale benefits into an ever-sharper customer proposition. Compounding this notion over decades, and each year integrating a few smaller operators into itself, Watsco has been able to evolve from dominating the small Miami market, to all of Florida, to becoming the massively dominant leader of HVAC/R distribution throughout North America today.

Notably, cementing its position even further, and in recognition of its importance as the key sales channel, Carrier – the significant HVAC/R division of industrial giant United Technologies – ultimately entered a series of joint ventures with Watsco over several territories, further enhancing Watsco's reputation and leading market position.[10]

The North American HVAC/R distribution market is worth approximately $36 billion a year, of which Watsco controls about 15%. Significantly, the other 85% is very highly fragmented, primarily mom-and-pop operators, and the few scaled players are only a small fraction the size of Watsco. In the absence of any other meaningful contender, this long-tail fragmentation provides Watsco a long runway to continue to take share over time.

Equally importantly, there are estimated to be 110 million HVAC/R systems currently in use throughout North America which no longer meet the increasingly stringent energy efficiency and emissions standards. In both hot and cold climates, which cover much of North America, HVAC/R systems are critical year-round, meaning they inevitably wear out and constantly need immediate replacement or repair. Because of this replacement and repair dynamic, Watsco's business model is much less discretionary and much more straightforward and predictable than businesses relying on discretionary, new sales.

It is no surprise that having mastered this model Watsco has been an extraordinary performer, with both its dividend growth and share price appreciation having performed spectacularly for several decades.

We like the fact that Watsco operates in a dull and boring space because it is extremely unlikely to ever captivate the interest of most investors, funds, analysts, or commentators who will be on the watch for much more *'exciting'* opportunities. As a result, Watsco is likely to continue largely unnoticed and under-cheered for a very long time to come, irrespective of how superbly it performs.

[10] United Technologies subsequently merged with Raytheon, forming Raytheon Technologies, and spun-out elevator giant Otis Worldwide and leading HVAC/R manufacturer Carrier Global.

Those who fail to appreciate the hidden magic of a very dominant specialty distribution business will always look past a company such as Watsco and mistakenly perceive it expensive. This is a blessing as it allows the few who understand this model properly, coupled with a psychologically compatible mindset, to opportunistically buy a wonderful dividend growth compounding machine more cheaply than should otherwise be possible.

While we have been Watsco investors for a long time, for the sports aficionados among us, Team Watsco is leading 4-0, and fortunately for investors (as opposed to football fans) the final whistle is still decades away.

We think our current portfolio has many holdings enjoying 3-0 and 4-0 type leads, proven winners in growing categories, expected to continue to build on their leads long into the future.

At DivGro we are cultivating an investment culture that cheers for these outstanding dividend growth companies in a similar way to football fans supporting their teams when they go up 4-0 ahead.

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%
		Average	**14.55%**

* represents companies no longer held in the DivGro Fund portfolio.
† represents companies reintroduced as a holding in the DivGro Fund.

Important disclaimer