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Dear Fellow Investor,

Since we last wrote, our holdings continued to announce material dividend increases as anticipated by the powerful DivGro system:

American Tower	+19.6%[1]
Pool Corp	+5.5%
Medtronic	+7.4%[2]

From inception on 15 August 2019 we now have a substantial record of 36 dividend increases. Taken as a group, the average dividend increase is tracking close to 14%.[3] Especially when many other sources of income may have stopped or reduced their payments, intact dividends are impressive, and increased dividends are like gold (or even better than gold because gold doesn't pay any income).

As we wrote in our previous letter, for those outstanding companies still raising their dividends at this time, we temporarily expect dividend increases to be slightly slower than we are accustomed to. This is not because of diminished business prospects – indeed many of our businesses have actually advanced through the crisis – but rather because raising dividends too significantly might be deemed unsightly right now. We expect that as soon as pandemic headlines subside our outstanding companies will begin resuming more rapid increases in line with their business progress.

We have always positioned the DivGro Fund for investors looking for above average returns that are easier to hold. We are convinced the unique combination of investment outperformance and positive psychological feedback loop makes this fund easier to hold and therefore much more likely to deliver success for

[1] 19.6% annualized because American Tower increases dividends every quarter.
[2] New holding discussed below.
[3] See dividend track record table attached at the end of this letter.

investors. As a comprehensive investment solution that solves both financially and emotionally, this approach is an excellent home for a high percentage of one's total assets, as it is for us. We were pleased to welcome several new investors to the fund over the last few weeks.

Some investors may not appreciate the mission critical role that emotional or psychological comfort plays in investment success. However, Ben Graham – Wall Street's most illustrious teacher of investment wisdom – would begin his courses by stressing that 'to make money in Wall Street one must have the proper psychological attitude'. We think cultivating this psychological temperament has an investment performance delta of at least 5% a year. Both theory and anecdotal feedback show that frequent receipt of cash is an enormous aid for investors, increasing their fortitude and ability to focus on the long term. To this effect, during the pandemic we raised our quarterly distribution to DivGro investors by 50% and continued to announce that our portfolio companies continue to pay and raise their dividends while making great business progress. Contrast this experience with otherwise pervasive dividend cuts and distribution freezes experienced by investors in supposedly 'safe' high yielders or real estate where rents have, at least temporarily, evaporated. We can only imagine the difference in how it feels.

We don't have to imagine the difference in investment performance. Over time the value of an asset or a business will rise or fall to reflect the cash it produces for its owners (whether distributed or not). Rising dividends therefore ultimately drive share prices higher and it comes as no surprise that the DivGro Fund has performed robustly so far, to return 11% for investors since opening 9 months ago.[4] Our performance to date is between a little better and a lot better than most other investment options, and we trust was also emotionally easier to hold.

In the past few weeks, we have made a few portfolio changes. We exited our position in AO Smith at a small loss because we did not agree with their response to the pandemic. While AO Smith's core business is in North America, early in the crisis it permanently closed almost one thousand stores in China, its growth market. Since AO Smith had no net debt going into the pandemic, we would have preferred to see the company flex its strong balance sheet and invest in extending market share leadership rather than concede ground. AO Smith is still a very high-quality company and it is important to note that we received our expected quarterly dividend of $0.24 per share in May. We continue to believe AO Smith will be a sound dividend grower, but by shrinking its primary growth engine, future dividend growth is likely to be more constrained than we demand.

We also exited our position in MSCI at a substantial profit. We think MSCI is an excellent, capital-light growth business, with outstanding dividend growth potential, but its price rose even more rapidly than we expected. We will look to own MSCI again in the future when we think its valuation becomes more compelling.

[4] As at 31 May 2020 valuation, including distributions. The DivGro Fund opened on 15 August 2019.

One area of redeployment was our tower companies, including SBA Communications which despite the virus recently reported a roaring quarter. Here is an instructive excerpt from CEO Jeff Stoops on the earnings call: “Our domestic and international TCF[5] margins as well as our adjusted EBITDA margin for the quarter were the highest in our company’s history, and our AFFO[6] per share growth on a constant currency basis of 13.5% over the first quarter of last year is evidence of the tremendous growth characteristics of our business, a very resilient predictable business. The solid growth gives us great confidence in continuing to invest in our business while paying out one of the fastest-growing dividends anywhere. We announced today our second quarterly dividend of the year at an amount of 26% over our quarterly dividend paid in the second half of last year.”

We also initiated a position in Medtronic – which soon followed with a dividend increase for the 43rd consecutive year. Readers might have become more familiar with Medtronic recently, as the global leader in ventilators Medtronic received much attention for its outstanding response to the pandemic. After following Medtronic for years, we finally saw an attractive entry point at a compelling valuation combined with a strong pipeline of promising new products.

We think the portfolio is well positioned with excellent prospects. Better managed, higher quality companies that are leaders in well-structured, rational industries with strong balance sheets and attractive growth opportunities tend to outperform. They also tend to satisfy essential needs and are hard or impossible to substitute. As a result, they are generally better able to navigate crises such as the virus-related shutdown. We think that a recent comment from Geoff Martha, Medtronic’s new CEO encapsulates this well: “at a time when a lot of our competitors… are raising capital, we’re raising our dividend. And I think that speaks to two things… our financial health and the strength of our balance sheet as well as our commitment to shareholders.”[7]

Several of our companies have taken advantage of faltering competitors and taken years’ worth of market share in a matter of weeks. In aggregate, with think our portfolio companies have made substantial business progress that is not yet reflected in their share prices.

We look forward to catching up with all our investors again in person now that it is becoming possible to do so.

Sincerely,
Jonathan & Barney

[5] Tower Cash Flow.
[6] Adjusted Funds From Operations.
[7] Medtronic CEO Geoff Martha presenting at Bernstein 36th Annual Strategic Decisions Conference, 29 May 2020.

DivGro Fund dividend increases[8]

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%
		Average	**13.90%**

[8] Asterisks represent companies no longer in the DivGro Fund portfolio.

Important disclaimer

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