SciVest

AlphaDelta Growth of Dividend Income Class
Monthly Commentary

January 6, 2016

Hello everyone,

This is the monthly advisor update of the **AlphaDelta Growth of Dividend Income Class** ("ADGoDIC" or the "Fund") from SciVest Capital Management Inc. (the sub-advisor to the Fund).

Attached is the ADGoDIC Portfolio Disclosure Page. The front-side of the Portfolio Disclosure Page shows all of the current stock holdings of the ADGoDIC, as well as some descriptive, dividend and valuation characteristics for each portfolio holding – plus overall portfolio averages. The back-side of the Page shows a number of relevant pie charts depicting overall ADGoDIC portfolio exposures and characteristics such as sector, market capitalization, dividend yield and dividend growth "bucket" exposures.

As shown on the front of the Portfolio Disclosure Page, **across the Fund's current holdings the weighted average gross dividend yield is 3.9% p.a. with impressive double-digit trailing 1, 3 and 5 year dividend growth rates (12.3%, 15.2% and 16.2%, respectively)**. The 3.9% average dividend yield compares to a portfolio weighted average forward earnings per share yield of 7.6% (195% dividend coverage) and forward cashflow yield of 10.8% (277% dividend coverage). Regarding valuation, the portfolio weighted average twelve-month forward price-to-earnings ratio is 15.3x and the average twelve-month forward price-to-cash-flow ratio is 10.8x.

As always, the ADGoDIC portfolio is well diversified across sectors and industry groups with no sector allocation currently exceeding 15.0% (note that we break REITs out of the overall Financial Sector in the sector exposures pie chart, given their unique risk characteristics). In order of size, we have the following exposures to the Bloomberg defined Sectors (plus REITs): 15.0% Financials, 13.3% Industrials, 12.9% Technology, 12.3% Consumer Discretionary, 8.2% Materials, 7.9% Health Care, 7.5% Communications, 7.0% REITs, 7.0% Energy, 6.9% Consumer Staples, and 0% Utilities.

On an individual stock holding basis, we currently hold a diversified portfolio of 66 equity positions. During the month of December, we initiated no new positions; although, we eliminated positions in Emerson Electric Co (EMR), Kinder Morgan Inc (KMI) and Oneok Inc (OKE). In addition, during December, we increased (by at least 0.5%) our positions in 3M Co (MMM) and Enbridge Income Fund Holding (ENF). Other than our dropped positions in Emerson Electric, Kinder Morgan and Oneok, we did not reduce (by more than 0.5%) any other positions.

Since our objective within the ADGoDIC is income/distribution growth, our monthly notes focus on growth of dividends amongst Fund holdings as opposed to short-term capital returns. In particular, each month we report those Fund holdings which declared dividend increases during the prior month, as well as those holdings we expect to declare dividend increases in the next month. Recall that one of our fundamental beliefs is that, if we can select stocks which consistently increase their dividends into the future, then price appreciation must eventually follow – that is, long-term price appreciation is a *consequence* of consistent earnings and dividend growth.

Amongst our current ADGoDIC holdings, **during the month of December we had six (6) declared dividend increases averaging an announced increase of 14.9% quarter-over-quarter** (“QoQ”) **and 14.9% year-over-year** (“YoY”), relative to those already known at the end of the prior calendar month.

No.	Name	Ticker Symbol	Current Div Yld (% p.a.)	QoQ Div Increase (%)	YoY Div Increase (%)
1	Amgen Inc.	AMGN	2.5	26.6	26.6
2	Boeing Co.	BA	3.0	19.8	19.8
3	DuPont Fabros Tech.	DFT	5.9	11.9	11.9
4	Enbridge Inc.	ENB	4.6	14.0	14.0
5	Enbridge Income Fund Hldg	ENF	6.7	10.0	10.0
6	Pfizer Inc.	PFE	3.7	7.1	7.1
	Average		**4.4**	**14.9**	**14.9**

Amgen, the mega-cap maturing biotech company, delivered a terrific 26.6% dividend income increase – beating our lofty expectation of 15% to 20% growth. Amgen is a great example of how slightly lower yielding companies can produce outsized dividend increases. Prior to last month’s dividend increase, Amgen’s dividend yield was approximately 2.0% per annum – now it is in excess of 2.5% per annum.

Boeing also handily exceeded our expectations. We expected that Boeing was one of only a few blue-chip mega-cap stocks that could deliver more than 8% dividend growth this year – and, indeed, it did so with a 19.8% dividend increase. With this most recent dividend increase, Boeing’s yield shoots up from approximately 2.6% per annum to over 3% for the first time ever (outside of the heart of the Great Recession). We believe that Boeing can continue to deliver outsized dividend increases into the foreseeable future, given its current business dynamics (although not necessarily at 20% per annum).

DuPont Fabros, a data center REIT, delivered a solid dividend increase of 11.9% on a starting dividend yield of approximately 5.3% – new yield 5.9%.

We were keenly awaiting Enbridge’s dividend announcement given the price declines and overall turmoil within the energy pipeline and storage industry. We were expecting (actually, hoping for) an increase of 10% to 12%, and luckily we received a very healthy 14% increase. This is a good overall signal from Canada’s largest pipeline company. In addition, the Enbridge Income Fund Holding Inc delivered a healthy 10% dividend increase bringing its yield up from 6.1% to 6.7%.

Finally, Pfizer, the blue-chip, mega-cap pharmaceutical company, delivered on expectations with a solid 7.1% dividend increase pushing its yield to a “healthy” 3.7% per annum.

Last month we had also mentioned that we expected dividend announcements from both 3M Co and General Electric. 3M did not announce in December for its February dividend payment as it did last year – we do, however, expect a dividend increase of 6% to 9% to be announced between now and early February for its late February dividend payment. Indeed, 3M has increased its dividend for 57 consecutive years and we do not expect them to disappoint this year!

General Electric, however, has decided to postpone its dividend increase through 2016 as it continues to sell and spin-off its financial subsidiaries and as it prepares to absorb Alstrom SA. General Electric does remain on its plan to return more than US$90 billion to investors in dividend, share buybacks and its Synchrony spin-off through 2018. We will continue to hold General Electric, but will not likely increase our position given its recent significant stock price increases (making it marginally expensive) and its slowing dividend growth.

As noted above, we dropped Kinder Morgan Inc (KMI) from the portfolio in December – Kinder Morgan deserves some attention because it was our first, and only, dividend decrease in 2015. Prior to the last several months, Kinder Morgan was North America's largest energy pipeline and storage company with a June 30th, 2015, equity market capitalization of US$84 billion (approx. CA$115 billion) – slightly larger than Canada's largest company, the Royal Bank of Canada. Since Kinder Morgan was in the "toll-road operator" side of the energy sector, it was widely thought a safe haven stock within the energy complex (i.e., most the energy products moved and stored attracted a fixed fee unrelated to the price of the energy product itself). Indeed, Kinder Morgan's stock price actually increased somewhat during the bulk of the oil price decline from June 30, 2014, to June 30, 2015.

At June 30, 2015, Kinder Morgan paid a reasonable indicated dividend yield of 4.8% and, more importantly, Kinder had increased its quarterly dividend virtually every quarter since 2011 with an average three year compound dividend growth rate of approximately 13% per annum. Rich Kinder, the Chairman of the company, who is its largest shareholder, a legend within the industry and widely viewed as the best manager within the industry, had repeatedly "promised" at least 10% per annum dividend growth through 2020 including statements made by the company during October and November of 2015. These continued dividend growth promises coincided with Kinder Morgan actually raising its dividend in late October by 4.1% quarter-over-quarter (for the 7th consecutive quarterly dividend increase) and 15.9% year-over-year. Because of all these factors, and several more, Kinder Morgan shares were a core holding of many dividend income and dividend growth portfolios – including ours.

After market close on December 8th, what many investors and analysts had previously viewed as the "unthinkable" actually happened – Kinder Morgan announced a cut to their dividend per share of 74%, having just announced an increase of their dividend just seven weeks earlier. As stated above, this dividend decrease represents our first, and only, announced dividend decrease of 2015 – however, it was a biggie, and represents an interesting case study.

So, what happened? The story revolves around how Kinder Morgan and most other energy pipeline companies, and in fact most REITs, finance growth and deploy their capital within their capital-intensive, long-term project based businesses. Kinder Morgan (again like most growing pipeline companies and REITs) finances its on-going and future new, large, long-term, growth projects by issuing new equity and/or bonds, allowing them to distribute almost all of their net on-going cash-flows from existing operations as dividends to existing equity holders. As new long-term (growth) projects come online and generate new incremental cash-flows, these new cash-flows plus the prior cash-flows are paid to both prior equity and bond holders, as well as the new equity and bond holders. If the new projects generate returns higher than the cost of the new capital raised (as planned), then the new cash-flows are accretive to the prior equity holders and dividends per share can increase for all shareholders and ultimately share prices can also rise.

On June 30, 2015, Kinder Morgan carried total debt of approximately US$43 billion – compared to an equity market capitalization of US$84 billion. This may appear to be a lot of debt, but it is not unusual when compared to Kinder Morgan's equity capitalization (and other metrics of debt coverage) and in comparison to the rest of the industry. Then, "the market" started to punish the stock prices of Kinder Morgan and almost all other pipeline and storage companies. During the third quarter of 2015, "the market" drove Kinder's stock price down 28%, another 15% during October and November, and then another 33% in the first six trading days of December. In sum, "the market" (or more specifically hedge funds and short-term traders) drove Kinder Morgan's stock price down 59% between June 30th, 2015, and December 8th, 2015 – and, Kinder Morgan's equity market capitalization fell from US$84 billion to approximately US$35 billion. Since Kinder's stock had become so cheap and since their debt relative to equity market capitalization had become so high (over 100%), Kinder was put in a position (by the stock market) that it could not issue new equity at such low prices (because it would be hugely dilutive to existing shareholders) and it also could not issue more debt without potentially receiving a lower credit rating (and potentially violating existing credit covenants). As a result, Kinder was "forced" to cut its dividend to recapture its large on-going cash-flows from current operations in order to finance their committed on-going and new long-term growth projects – as opposed to issuing new equity at too low of a price, or issuing new debt and risking a credit rating cut.

The lessons from this case study are many. First, even huge, stable and safe companies are susceptible to dividend cuts. Second, the stock market and its fast money participants can "force" dividend cuts on otherwise reasonably healthy companies if these participants can get stock prices falling fast enough and far enough. Third, even for large and mega capitalization stocks, market forces can be brutal and incredibly fast (recall that Kinder Morgan actually increased its dividend confidently weeks prior to its cut, and management reiterated their forecast of increasing its dividend for years into the future). Fourth, management teams can "promise" that they will grow, or at least not cut, their dividends right up to the point where they actually do cut their dividend. Fifth, companies carrying reasonable levels of debt can quickly appear to be carrying excessive amounts of debt if stock prices fall far enough. Sixth, as stock price falls and indicated dividend yield rises, and at a certain point dividend yield may become so high that a dividend cut can become a self-fulfilling prophesy (Kinder Morgan's indicated dividend yield was in excess of 10% in the days before the cut). Finally, companies which routinely finance current and future long-term growth projects by selling incremental equity and debt (e.g., most pipeline companies and REITs, and some energy and metal producers) are susceptible to the dynamics described above, regardless of how large and safe their cash-flows may appear. In sum, for the long-term growth of dividend income investor, diversification is a key risk mitigation tool regardless of how large and how safe a company appears.

During January, we are expecting at least six (6) dividend increase announcements from our current holdings:

1) 3M Co. (MMM)
2) Corus Entertainment Inc. (CJR.B)
3) Diageo PLC (DEO)
4) Dunkin' Brands Group Inc. (DNKN)
5) Omega Healthcare Investors Inc. (OHI)
6) Shaw Communications Inc. (SJR.B)

As noted above we expect 3M Co to announce a 6% to 9% dividend increase sometime in January, or possibly early February. We also expect Diageo PLC, the large-cap maker of alcoholic beverages, to announce in late January a moderate 5% dividend increase to it interim semi-annual dividend.

Amongst the remaining mid-cap holdings, Corus Entertainment may be the most interesting given its extremely poor price performance and its very high current yield. While we hold only a very small position in Corus, and it remains on our negative watch list, we would view any dividend increase in excess of 4% as a positive. For the other Canadian media stock, Shaw Communications, we expect 4% to 7% dividend growth.

Omega Healthcare Investors has been increasing its dividend virtually every quarter for the past 5 years, and we expect a small 1.8% quarter-over-quarter dividend increase again this quarter. Finally, for Dunkin' Brands Group we are expecting an 8% to 12% dividend increase.

Recall our primary message: **"Growing income" (as opposed to "fixed income") is the only means of maintaining the purchasing power of your client's income stream over the years to come**.

If you would like more information regarding the **AlphaDelta Growth of Dividend Income Class** and its current portfolio (including the up-to-date presentation piece), please feel free to contact me directly or alternatively contact AlphaDelta Management Corp. (www.AlphaDelta.com).

Thank you for your continued interest in the Fund,

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