

## AlphaDelta Canadian Growth of Dividend Income Class Quarter 2, 2019, Commentary

Hello everyone,

This is the quarterly advisor update of the **AlphaDelta Canadian Growth of Dividend Income Class** (“CGoDI” or the “Fund”) from SciVest Capital Management Inc. (the sub-advisor to the Fund).

**Attached to this commentary is the CGoDI Portfolio Disclosure** as of the end of the quarter. The first page of the Portfolio Disclosure shows all of the current stock holdings of the Fund, as well as some descriptive, dividend and valuation characteristics for each portfolio holding – plus overall portfolio averages. The second page of the Portfolio Disclosure shows a number of relevant pie charts depicting overall CGoDI portfolio exposures and characteristics such as sector, market capitalization, dividend yield and dividend growth “bucket” exposures. In addition to the quarterly CGoDI Portfolio Disclosure attached, we publish and post on our website a *monthly* CGoDI Portfolio Disclosure (<http://scivest.com/strategies/manager-commentary>).

### Portfolio Income and Income Growth:

The two primary **objectives of the Fund are to provide its shareholders with: (i) a consistent, and above average, annual distribution yield; and (ii) growth in the absolute level of distributions per share through time (i.e., income growth).**

We attempt to deliver on these Fund-level objectives by investing in a Canadian (approximately 80% of net asset value) and US (approximately 20% of net asset value) portfolio of equities which, on average, pay a higher than average dividend yield and which are growing their dividends per share at a relatively high rate (in the context of their current yield). As shown in the Portfolio Disclosure, **across the Fund’s current holdings, the weighted average gross dividend yield is 4.44% per annum** (versus 3.11% for the S&P/TSX Composite Index and 1.94% for the Russell 1000 Index) **with impressive double-digit trailing 1, 3 and 5-year dividend growth rates of 12.2%, 15.6% and 14.5%, respectively.**

This 4.44% average portfolio dividend yield is well covered by company earnings and cash-flow. Specifically, the 4.44% average dividend yield compares to a portfolio weighted average forward earnings per share yield of 10.2% (**i.e., 229% dividend coverage by earnings**) and forward cashflow yield of 15.1% (**i.e., 340% dividend coverage by cash-flow**).

**The Fund has a unique distribution policy whereby it distributes to its shareholders on a month-end basis every dollar (and no more) of dividend income (net of any dividend withholding taxes) accrued by the Fund during the month.** As a result, monthly income varies with the dividend cycle of its holdings, but the distributions perfectly reflect the true dividend income (net of tax) received by the Fund. And, since the distributions are a true reflection of the income received by the Fund, they can be used to judge the true income generation and income growth capability of the Fund.

At the Fund-level, **the trailing annualized distribution yield of the Fund (Series F shares) as of June 30<sup>th</sup> is a solid and above average 4.0%**. This **Fund-level distribution yield of 4.0% compares very favourably with the June 30<sup>th</sup> yield of 1.46% on the benchmark 10-year Government of Canada bond**. Even with more than twice the yield of the 10-year bond, **the Fund's income is expected to grow at a healthy rate through time – whereas, of course, a 10-year bond's income does not ever grow**. Furthermore, the Fund's distributions are far more tax efficient (in taxable accounts) than a bond's income.

### **Current Portfolio:**

The **CGoDI portfolio is, as always, very different from its benchmark (85% S&P/TSX Composite Index plus 15% Russell 1000 Index) with a current Active Share of 80.3%** – meaning that 80.3% of weights of our portfolio holdings do not overlap with the Fund's Index benchmark (alternatively, only 19.7% of the weights of the CGoDI portfolio holdings overlap with the Fund's benchmark). This means that the CGoDI portfolio should provide diversification and differentiation within an otherwise diversified portfolio.

The current CGoDI portfolio is itself well diversified across sectors and industry groups with **the largest sector allocation (Financials) currently at 32.6%**. In order of size, we have the following exposures to the Bloomberg defined sectors (plus Real Estate): 32.6% Financials, 19.8% Energy, 11.2% Industrials, 10.7% Consumer Discretionary, 7.1% Real Estate, 4.7% Health Care, 3.7% Consumer Staples, 3.5% Utilities, 3.1% Technology, 0.9% Communications, and 0.0% Materials.

On an individual stock holding basis, we currently hold a **portfolio of 35 dividend paying equity positions**. The top 10 individual equity holdings represent 51.9% of the Fund's assets and are in descending order of size: Manulife Financial Corp (MFC, 7.1%), Brookfield Property Partners (BPY.U, 7.0%), Bank of Nova Scotia (BNS, 6.9%), Fiera Capital Corp (FSZ, 6.2%), NFI Group Inc (NFI, 5.8%), Aecon Group Inc (ARE, 4.5%), Suncor Energy Inc (SU, 4.1%), TC Energy Corp (TCP, 3.7%), Toronto-Dominion Bank (TD, 3.4%), and Canadian Tire Corp (CTC.A, 3.3%). (See entire CGoDI portfolio attached hereto.)

A byproduct of the sub-advisor's growing income investment strategy is that the CGoDI portfolio typically has much better (i.e., cheaper) valuations than the overall equity markets. Currently, the portfolio weighted **average 12-month forward price-to-earnings ratio is 12.4x** (versus 14.4x for the S&P/TSX Composite Index and 17.0x for the Russell 1000 Index) and the **average 12-month forward price-to-cash-flow ratio is 10.8x** (versus 8.4x for the S&P/TSX Composite Index and 12.0x for the Russell 1000 Index).

### **Portfolio Changes and Movers:**

During the second quarter, we **initiated no new positions**; although, we **increased (by at least 1.0%) our existing positions** in Aecon Group Inc (ARE), Fiera Capital Corp (FSZ), Premium Brands Holdings Corp (PBH), and Suncor Energy Inc (SU).

During the second quarter we did some housecleaning and **eliminated our positions** in Atco Ltd (ACO.X), Canadian Utilities Ltd (CU), CoreSite Realty Corp (COR), CyrusOne Inc (CONE), Emera Inc (EMA), Power Corp (POW), Vermilion Energy Inc (VET), Western Forest Products Inc (WEF). We typically eliminate positions when their forward-looking dividend growth becomes less promising (due to a number of potential reasons) and/or their valuations become excessively high (and thus dividend yields low). We also **decreased (by at least 1.0%) our existing positions** in Brookfield Property Partners (BPY.un).

Amongst the quarter-end GoDI portfolio holdings, the five (5) **highest returns during the second quarter** (in descending order) were: Premium Brands Holdings Corp (PBH, +16.2%), Exchange Income Corp (EIF, +15.4%), NFI Group Inc (NFI, +12.7%), CitiGroup Inc (C, +12.6%), and Prudential Financial Inc (PRU, +9.9%). Amongst the quarter-end holdings, the five (5) **lowest returns during the second quarter** were: Enerflex Ltd (-10.7%), Martinrea International Inc (MRE, -10.2%), Brookfield Property Partners (BPY.un, -10.0%), Fiera Capital Corp (FSZ, -10.0%), and AbbVie Inc (ABBV, -9.8%).

### **Market Commentary:**

During the first half of 2019 the Canadian and US stock markets advanced nicely, rebounding from a sharp correction in late 2018. We believe that part of the reason for this rebound in equity prices is that the interest rate environment changed dramatically early this year from 2018, a year in which we saw multiple short-term interest rate increases from the US Federal Reserve. Many believe that these interest rate increases were the root cause of the 2018 equity market correction.

In early 2019, in the wake of a significant equity market correction, falling long-term bond yields and a continued US-China trade dispute, the US Federal Reserve hinted strongly that they might be willing to start cutting interest rates sometime in the near future if the data warranted such action. This sentiment helped fuel the rebound in equity markets during the first half of 2019. Ultimately this culminated with US and Canadian equity markets reaching all-time highs, and the US Federal Reserve delivering a widely anticipated 0.25% interest rate cut in late July – its first rate cut in eleven years, and the first since the Great Recession.

The markets now expect even more US Federal Reserve short-term interest rate cuts later this year; however, this expectation has led to a recent global collapse in long-term bond yields. This collapse in long-term bond yields has introduced enhanced uncertainty and volatility to almost all markets (bonds, stocks and commodities) in almost all countries. In addition, we face a number of growing global risks in the medium term including a hard October Brexit deadline, an intensifying US-China trade war and a general global slowing of economic growth – as well as a growing global bond market bubble. Nevertheless, we do not currently believe that the pre-conditions for a North American recession exist at the present time, and with both short and long-term interest rates having fallen and continuing to fall all over the world, we believe that Canadian and US equities continue represent reasonable valuation and opportunity in the context of these lower interest rates.

**In fact, we are surprised that, with the significant fall in all durations of interest rates in almost all countries of the world, that relatively high dividend paying equities with substantial dividend growth have not been well rewarded in comparison to other equities. This is especially true in Canada, where the CGoDI portfolio has a dividend income yield of 4.4% with dividend income growth of approximately 15% per annum in comparison to the Government of Canada 10-year bond with a June 30th income yield of 1.5% and income growth of precisely 0% per annum.**

### **Q2-2019 Dividend Announcements:**

Since income and income growth are the Fund's primary objectives, each quarter we report those Fund holdings which declared dividend changes during the prior calendar quarter. Recall also 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 35 CGoDI holdings, during the calendar quarter ending June 30<sup>th</sup>, 2019, we received three (3) declared dividend increases averaging an announced increase of 5.7% quarter-over-quarter (“QoQ”) and 9.0% year-over-year (“YoY”), relative to those already known at the end of the prior calendar quarter. There were no dividend decreases during the quarter.

No.	Company Name	Ticker Symbol	Current Ind Div Yld (% per annum)	QoQ Div Increase (%)	YoY Div Increase (%)
1	IA Financial Corp Inc	IAG	3.4	8.4	18.4
2	Invesco Ltd	IVZ	6.1	3.3	3.3
3	Pembina Pipeline Corp	PPL	4.9	5.3	5.3
<b>Average</b>			<b>4.8</b>	<b>5.7</b>	<b>9.0</b>

Across the three (3) dividend increases last quarter, we observe a strong yield-to-growth combination with an average dividend per share growth rate of 9.0% against an average dividend yield of 4.8% – precisely what the Fund attempts to achieve with its portfolio holdings.

Always remember our primary message: “Growing income”, as opposed to “fixed income”, is the only means of maintaining the purchasing power of your (or your client’s) income stream over the years and decades to come.

If you would like more information regarding the [AlphaDelta Canadian 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](http://www.AlphaDelta.com)).

Thank you for your continued interest in the Fund,

*John J. Schmitz*

John J. Schmitz, Ph.D., CFA

No.	Ticker	List Type	Company Name	Portfolio Weight	Country of Domicile	BICS Sector	BICS Industry	Market Cap (\$B CAD)	Div Yld Indicated (% p.a.)	Ind Div PS 1 Year Growth (% p.a.)	Ind Div PS 1 Year Time Series	Ind Div PS 3 Year Growth (% p.a.)	Ind Div PS 3 Year Time Series	Ind Div PS 5 Year Growth (% p.a.)	Ind Div PS 5 Year Time Series	SciVest GDI Score	12-Mth Forward EPS Yld (% p.a.)	12-Mth Forward CF Yld (% p.a.)	12-Mth Forward P/E	12-Mth Forward P/CF		
				<b>97.3%</b>																		
1	MFC	CA	MANULIFE FINANCIAL CORP	7.1%	CA	Financials	Life Insurance	46.7	4.2	13.6		10.6		14.0		24.0	13.6	n/a	7.3	n/a		
2	BPY-U	CA	BROOKFIELD PROPERTY PARTNERS	7.1%	US	Financials	Real Estate Owners & Developo	24.2	7.2	4.8		5.6		5.7		28.7	8.3	n/a	12.0	n/a		
3	BNS	CA	BANK OF NOVA SCOTIA	7.0%	CA	Financials	Diversified Banks	86.0	4.9	6.1		6.5		6.3		29.2	10.8	11.4	9.3	8.8		
4	FSZ	CA	FIERA CAPITAL CORP	6.2%	CA	Financials	Investment Management	1.1	7.4	10.5		11.9		13.8		36.6	12.5	12.5	8.0	8.0		
5	NFI	CA	NFI GROUP INC	5.9%	CA	Industrials	Commercial Vehicles	2.3	4.6	13.3		34.4		23.8		20.9	11.6	19.0	8.6	5.3		
6	ARE	CA	AECON GROUP INC	4.5%	CA	Industrials	Infrastructure Construction	1.2	3.0	16.0		8.0		10.0		34.8	6.3	15.3	15.9	6.5		
7	SU	CA	SUNCOR ENERGY INC	4.2%	CA	Energy	Integrated Oils	64.0	4.1	16.7		13.1		12.8		34.8	8.7	19.3	11.5	5.2		
8	TRP	CA	TC ENERGY CORP	3.7%	CA	Energy	Midstream - Oil & Gas	60.3	4.6	8.7		9.9		9.3		31.3	6.4	11.2	15.7	8.9		
9	TD	CA	TORONTO-DOMINION BANK	3.4%	CA	Financials	Banks	140.0	3.9	10.4		10.4		9.5		34.5	9.6	10.0	10.4	10.0		
10	CTC/A	CA	CANADIAN TIRE CORP-CLASS A	3.3%	CA	Consumer Discretionary	Automotive Retailers	9.1	2.9	15.3		21.7		15.7		32.6	9.4	17.7	10.6	5.6		
11	MRE	CA	MARTINREA INTERNATIONAL INC	3.3%	CA	Consumer Discretionary	Auto Parts	0.9	1.7	0.0		14.5		8.4		11.4	25.8	46.4	3.9	2.2		
12	PBH	CA	PREMIUM BRANDS HOLDINGS CORP	3.2%	CA	Consumer Staples	Packaged Food	3.3	2.3	10.5		11.4		10.9		23.0	4.5	7.2	22.4	13.8		
13	IAG	CA	IA FINANCIAL CORP INC	3.2%	CA	Financials	Life Insurance	5.7	3.4	18.4		12.0		11.6		32.4	11.7	1.1	8.6	91.3		
14	PPL	CA	PEMBINA PIPELINE CORP	3.0%	CA	Energy	Midstream - Oil & Gas	24.8	4.9	5.3		7.7		6.6		33.1	5.5	9.3	18.2	10.8		
15	ENB	CA	ENBRIDGE INC	3.0%	CA	Energy	Midstream - Oil & Gas	95.7	6.2	10.0		11.7		16.1		27.7	6.0	11.0	16.8	9.1		
16	CNQ	CA	CANADIAN NATURAL RESOURCES	2.8%	CA	Energy	Exploration & Production	42.2	4.2	11.9		17.7		10.8		38.7	9.4	27.1	10.6	3.7		
17	CVS	US	CVS HEALTH CORP	2.5%	US	Health Care	Health Care Supply Chain	92.7	3.7	0.0		5.6		12.7		21.8	12.9	15.5	7.8	6.4		
18	ABBV	US	ABBVIE INC	2.2%	US	Health Care	Large Pharma	140.8	6.0	11.5		23.4		20.6		31.7	14.2	14.0	7.0	7.1		
19	MG	CA	MAGNA INTERNATIONAL INC	1.8%	CA	Consumer Discretionary	Auto Parts	20.7	3.0	10.6		13.4		13.9		26.5	13.5	23.4	7.4	4.3		
20	AVGO	US	BROADCOM INC	1.7%	US	Technology	Semiconductor Devices	150.0	3.7	51.4		75.5		57.9		23.3	8.7	9.5	11.6	10.5		
21	PRU	US	PRUDENTIAL FINANCIAL INC	1.6%	US	Financials	Life Insurance	53.7	4.0	11.1		12.6		13.5		40.0	15.0	18.6	6.7	5.4		
22	C	US	CITIGROUP INC	1.6%	US	Financials	Diversified Banks	212.0	2.6	40.6		100.0		100.0		32.0	12.4	9.5	8.1	10.6		
23	EFX	CA	ENERFLEX LTD	1.6%	CA	Energy	Oil & Gas Services & Equip	1.5	2.5	10.5		7.3		7.0		13.5	9.0	17.7	11.2	5.7		
24	BIP-U	CA	BROOKFIELD INFRASTRUCTURE PA	1.5%	CA	Utilities	Utility Networks	22.1	4.8	6.9		9.8		9.4		32.2	2.9	9.6	35.0	10.4		
25	KEY	CA	KEYERA CORP	1.5%	CA	Energy	Midstream - Oil & Gas	7.2	5.4	7.1		6.3		6.9		31.8	5.6	10.2	17.8	9.8		
26	MS	US	MORGAN STANLEY	1.5%	US	Financials	Institutional Brokerage	96.5	2.8	20.0		26.0		24.6		35.5	12.8	12.8	7.8	7.8		
27	EIF	CA	EXCHANGE INCOME CORP	1.4%	CA	Consumer Discretionary	Airlines	1.2	5.8	0.0		2.9		5.4		24.7	8.7	16.8	11.5	6.0		
28	LRCX	US	LAM RESEARCH CORP	1.4%	US	Technology	Semiconductor Mfg	36.9	2.3	0.0		54.2		43.6		22.6	7.7	6.3	13.6	15.8		
29	IVZ	US	INVESCO LTD	1.2%	US	Financials	Investment Management	12.8	6.1	3.3		3.5		4.4		30.6	15.2	17.7	6.6	5.6		
30	BLX	CA	BORALEX INC -A	1.1%	CA	Utilities	Power Generation	1.8	3.4	4.8		5.6		4.9		13.0	1.1	16.9	92.9	5.9		
31	CMCSA	US	COMCAST CORP-CLASS A	0.9%	US	Communications	Cable & Satellite	251.3	2.0	10.5		15.2		13.3		29.6	7.9	14.6	12.7	6.9		
32	CPX	CA	CAPITAL POWER CORP	0.9%	CA	Utilities	Power Generation	3.4	5.9	7.2		7.0		7.3		31.6	5.5	19.7	18.3	5.1		
33	CCL	US	CARNIVAL CORP	0.9%	US	Consumer Discretionary	Cruise Lines	41.6	4.3	0.0		12.6		14.9		26.1	10.4	19.1	9.7	5.2		
34	MAL	CA	MAGELLAN AEROSPACE CORP	0.8%	CA	Industrials	Aircraft & Parts	0.9	2.5	17.6		20.3		20.1		22.3	9.1	n/a	11.0	n/a		
35	MFI	CA	MAPLE LEAF FOODS INC	0.5%	CA	Consumer Staples	Packaged Food	3.6	2.0	11.5		17.2		29.4		27.1	3.9	8.7	25.8	11.5		
<b>Invested Portfolio Equal Weighted Average</b>				<b>2.78%</b>																		
<b>Invested Portfolio Weighted Average</b>				<b>4.05%</b>																		
								<b>50.2</b>	<b>4.07</b>			<b>17.9</b>			<b>17.0</b>			<b>28.3</b>	<b>9.6</b>	<b>15.0</b>	<b>14.6</b>	<b>10.3</b>
								<b>45.3</b>	<b>4.44</b>			<b>12.2</b>			<b>14.5</b>			<b>28.7</b>	<b>10.2</b>	<b>15.1</b>	<b>12.4</b>	<b>10.8</b>

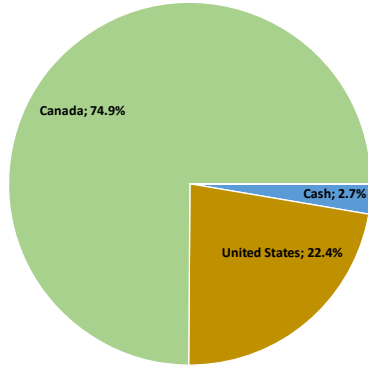
\* Data as of date = June 30, 2019

Dividend Coverage = 229% 340%

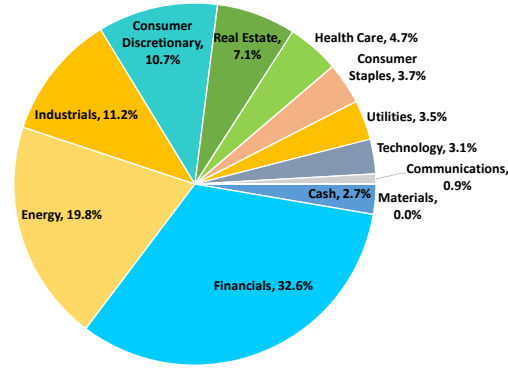
\*\* All data is captured just prior to publication. Data is sourced and derived from Bloomberg and SciVest Capital Management Inc. "BICS Sector" and "BICS Industry" definitions are from the Bloomberg Industry Classification System. "Market Cap" is the current market capitalization of equity. "Div Yld Indicated" is the most recent indicated annualized dividend yield. "Ind Div PS" is the annualized gross amount of the most recent indicated dividend per share. The "Ind Div PS Times Series" charts show the annualize indicated dividend per share on a monthly basis as of each calendar month-end for the stated time period. The "SciVest GDI Score" is SciVest Capital Management Inc.'s proprietary Growth of Dividend Income Score. The SciVest GDI Score ranges from 0 to 40 (higher is better) and captures the magnitude of the combination of current dividend yield and dividend per share growth for each company stock (i.e., the higher the SciVest GDI Score, the higher the companies relative combined dividend yield and dividend growth). "12-Mth Forward P/E" is the ratio of current stock price to Bloomberg's blended 12-month forward aggregate analyst estimate of earnings per share from continuing operations, while "12-Mth Forward EPS Yld" is the inverse of this ratio. "12-Mth Forward P/CF" is the ratio of current stock price to Bloomberg's blended 12-month forward aggregate analyst estimate of cash flow per share, while "12-Mth Forward Cashflow Yld" is the inverse of this ratio. "Portfolio Equal Weighted Average" is the simple arithmetic mean of each data item across all portfolio holdings, and "Portfolio Weighted Average" is the weighted average of each data item where each data point within the average is weighted by the percentage held of each portfolio holding (not including cash). Within the each average calculation, missing values are assigned the average of the remaining data items.



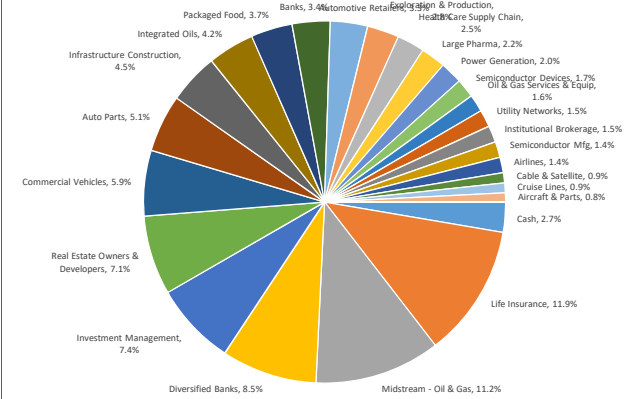
### COUNTRY OF DOMICILE



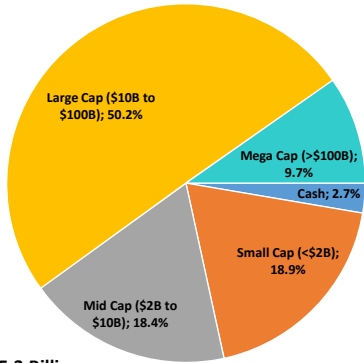
### BLOOMBERG SECTORS



### BLOOMBERG INDUSTRY GROUP

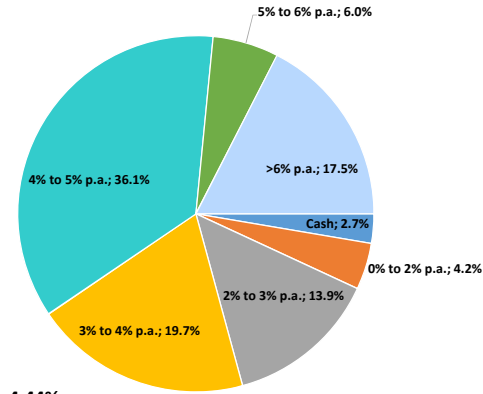


### MARKET CAP BUCKETS (CA\$)



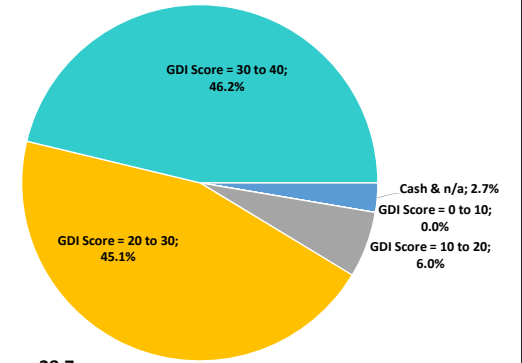
Average = \$45.3 Billion

### DIVIDEND YIELD BUCKETS



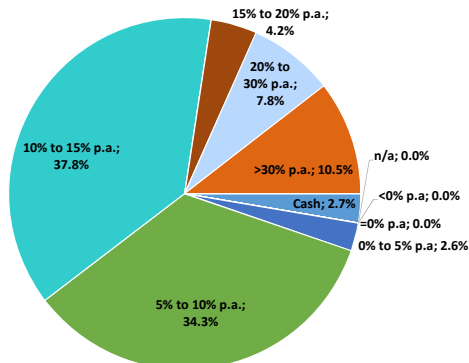
Average = 4.44% p.a.

### SCIVEST GDI SCORE BUCKETS



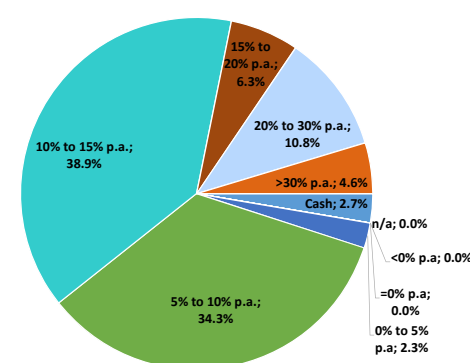
Average = 28.7

### 3 YEAR DIVIDEND GROWTH BUCKETS



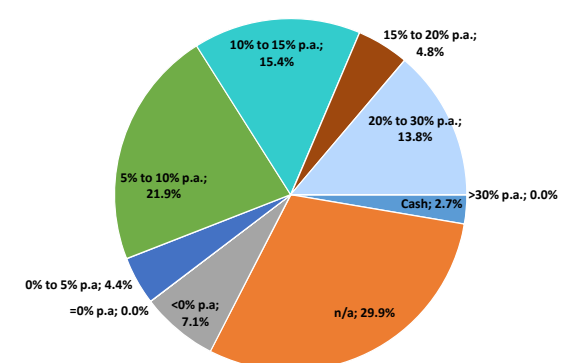
Average = 15.6% p.a.

### 5 YEAR DIVIDEND GROWTH BUCKETS



Average = 14.5% p.a.

### 10 YEAR DIVIDEND GROWTH BUCKETS



Average = 12.4% p.a.