AlphaDelta Growth of Dividend Income Class
Quarter 3, 2019, Commentary

Hello everyone,

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

Attached to this commentary is the GoDI Portfolio Disclosure as of the end of the quarter. The first couple pages of the Portfolio Disclosure show 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 third page of the Portfolio Disclosure shows a number of relevant pie charts depicting overall GoDI portfolio exposures and characteristics such as sector, market capitalization, dividend yield and dividend growth "bucket" exposures. We also publish and post on our website a *monthly* GoDI 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 global 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 4.2% per annum** (versus 1.9% for the Russell 1000 Index and 2.5% for the MSCI World Index) **with impressive double-digit trailing 1, 3 and 5-year dividend growth rates of 12.6%, 17.2% and 18.9%, respectively**.

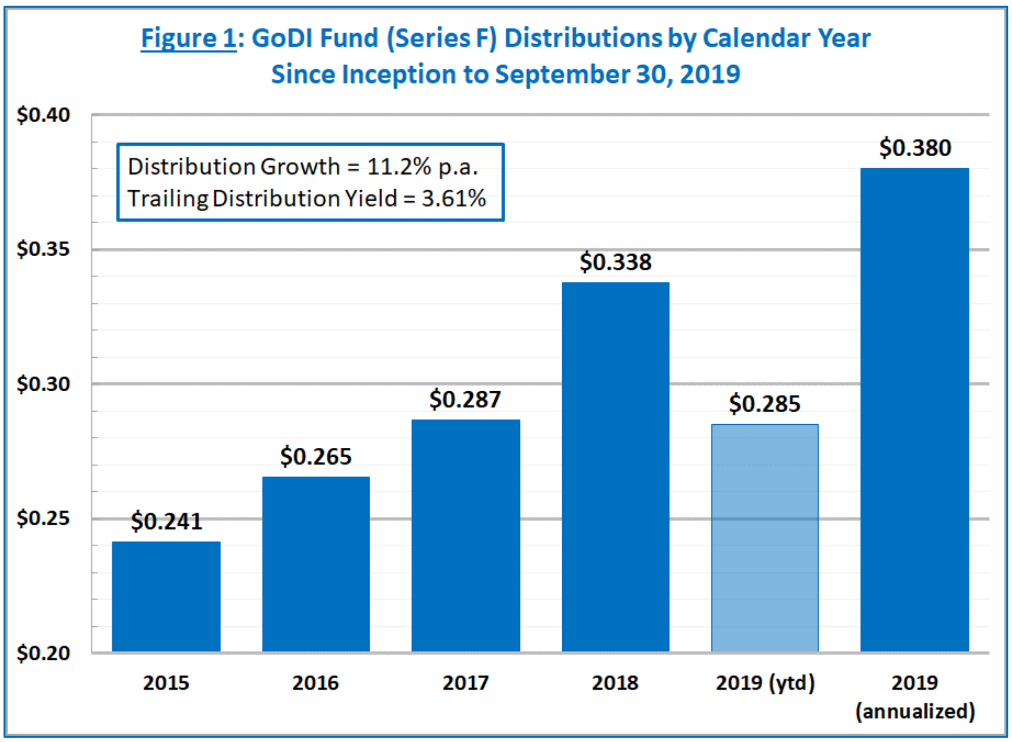
This 4.2% average portfolio dividend yield is well covered by company earnings and cash-flow. Specifically, the 4.2% average dividend yield compares to a portfolio weighted average forward earnings per share yield of 10.4% **(i.e., 250% dividend coverage by earnings)** and forward cashflow yield of 14.4% **(i.e., 345% dividend coverage by cash-flow)**.

The Fund has a 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 the Fund's holdings, but the distributions perfectly reflect the true dividend income received by the Fund. Thus, the Fund does not experience the typical net asset value per share "grind" that other funds experience when their distributions are set higher than the income they actually receive. 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 12-month distribution yield of the Fund (Series F shares) as of September 30th is a solid and above average 3.6%**. Note that this distribution yield is also quite tax efficient, as compared to most other income alternatives.

Furthermore, this trailing 12-month 3.6% distribution income yield has been growing through time. Specifically, **the trailing 12-month Fund-level distribution per share has experienced 11.6% growth year-over-year, 11.2% per annum growth over the past three (3) years, and 11.2% per annum growth since the inception date of the Fund** (Series F shares). We consider 11.2% per annum income growth as substantial in the context of a relatively high and diversified current income yield of 3.6%.

To further illustrate this distribution growth effect over time, Figure 1 below shows the total distributions for the Fund (Series F shares) for every calendar year since the inception date of the Fund. Again, note that these distributions per Fund share reflect true underlying income growth resulting from the Fund's portfolio of dividend-paying equities that themselves have grown their dividends per share while held by the Fund.



The **current Fund distribution yield of 3.6% also compares very favourably with the September 30th yield of 1.4% 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 has grown at a rate of 11.2% per annum – whereas, of course, a 10-year bond's income does not ever grow**. In addition, the Fund's distributions are *far more* tax efficient (in taxable accounts) than a bond's income.

Current Portfolio:

The **GoDI portfolio is, as always, very different from global equity benchmarks with a current Active Share of 91.0%** – meaning that 91.0% of weights of our portfolio holdings do not overlap with the MSCI World Index benchmark (alternatively, only 9.0% of the weights of the GoDI portfolio holdings overlap with the MSCI World Index). This means that the GoDI portfolio should provide diversification and differentiation within an otherwise diversified portfolio.

The current GoDI portfolio is itself well diversified across sectors and industry groups with **the largest sector allocation (Financials) currently at 33.9%**. In order of size, we have the following exposures to the Bloomberg defined sectors (plus Real Estate): 33.9% Financials, 11.2% Consumer Discretionary, 10.7% Health Care, 9.9% Energy, 6.9% Communications, 5.6% Technology, 5.4% Real Estate, 3.6% Industrials, 3.5% Materials, 1.2% Consumer Staples, and 0.0% Utilities. In addition, the Fund holds 6.3% in the "Other" sector category, which represents the Fund's investment in the AlphaDelta *Canadian* Growth of Dividend Income Fund.

On an individual stock holding basis, we currently hold a **diversified portfolio of 67 equity positions** (not including the Fund's holding in the AlphaDelta Canadian Growth of Dividend Fund which itself holds another 34 individual equity holdings). The top 10 individual equity holdings represent 36.1% of the Fund's assets and are in descending order of size: Fiera Capital Corp (FSZ, 5.0%), Brookfield Property Partners (BPY.U, 4.6%), Abbvie Inc (ABBV, 3.9%), Enbridge Inc (ENB, 3.8%), Prudential Financial Inc (PRU, 3.5%), Morgan Stanley (MS, 3.4%), Manulife Financial Corp (MFC, 3.3%), CVS Health Corp (CVS, 3.2%), Marathon Petroleum Corp (MPC, 2.7%), and Broadcom Ltd (AVGO, 2.7%). (See entire GoDI portfolio attached hereto.)

A byproduct of the sub-advisor's growing income investment strategy is that the GoDI 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 10.7x** (versus 17.2x for the Russell 1000 Index and 15.7x for the MSCI World Index) and the **average 12-month forward price-to-cash-flow ratio is 7.9x** (versus 11.9x for the Russell 1000 Index and 10.5x for the MSCI World Index).

Portfolio Changes and Movers:

During the third quarter, we **initiated new positions** in commercial lender CIT Group Inc (CIT), media company Meredith Corp (MDP), mobile storage company Mobile Mini Inc (MINI), regional bank Synovus Financial Corp (SNV) and railroad transportation company Union Pacific Corp (UNP). We also **increased (by at least 0.5%) our existing positions** in Canadian investment manager Fiera Capital Corp (FSV), shoe retailer Foot Locker Inc (FL), insurance company Lincoln National Corp (LNC), chemical company LyondellBasell Industries (LYB), oil refiner Marathon Petroleum Corp (MPC), and insurance company Prudential Financial Inc (PRU).

During the third quarter we **eliminated our positions** in CoreSite Realty Corp (COR), Extra Space Storage Inc (EXR), NextEra Energy Inc (NEE), Qualcomm Inc (QCOM), Simon Property Group (SPG), Steel Dynamics Inc (STLD), SunTrust Banks Inc (STI), and WPP PLC (WPP). 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 0.5%) our existing positions** in Blackstone Group Inc (BX), China Mobile Ltd (CHL), CVS Health Corp (CVS), Intel Corp (INTC), Invesco Ltd (IVZ), Lam Research Corp (LRCX), and Manulife Financial Corp (MFC).

Amongst the GoDI portfolio holdings (that were held through the entire quarter), the five (5) **highest returns during the third quarter** (in descending order) were: Lam Research Corp (LRCX, +23.0%), CVS Health Corp (CVS, +15.7%), Omega Healthcare Investors (OHI, +13.7%), Celanese Corp (CE, +13.4%), and QTS Realty Trust Inc (QTS, +11.3%). Amongst the GoDI holdings (that were held through the entire quarter), the five (5) **lowest**

returns during the third quarter were: Invesco Ltd (IVZ, -17.2%), Pfizer Inc (PFE, -17.1%), Prudential PLC (PUK, -17.0%), Nissan Motor Co (NSANY, -12.6%), and Fedex Corp (FDX, -11.3%).

Market Commentary:

With the backdrop of a US-China trade war, Brexit and slowing global growth, interest rates are in the spotlight and appear to be leading stock market returns. On the short end of the yield curve, the US Federal Reserve delivered a widely anticipated 0.25% Fed Funds interest rate cut (to 2.00%/2.25% from 2.25%/2.50%) in late July – its first rate cut in eleven years, and the first since the Great Recession. The US Federal Reserve cut another 0.25% (to 1.75%/2.00%) at their mid-September meeting. And, the markets now expect even more US Federal Reserve Fed Funds interest rate cuts this year, with a current 91% probability of another 0.25% (to 1.50%/1.75%) cut at their October 30th meeting.

For the longer side of the yield curve, Figure 2 below shows the current 5-year, 10-year and 30-year government bond yields for five of the more important countries in the world. Canada and US interest rates are amongst the highest within the developed world at 1.5% and 1.7% per annum, respectively, for 10-year bonds. What is interesting, and painful for fixed income investors, is that these 10-year interest rates are likely going to be less than the inflation rate – meaning that "real yields" (nominal bond yield minus inflation rate) are negative. On the other hand, the GoDI portfolio average gross dividend yield of 4.2% per annum is 2.5x the 10-year bond yield.

Figure 2: Developed Country Government Bond Yields
5, 10 and 30 Year Bonds, Yield Per Annum
Source: Bloomberg on October 18, 2019

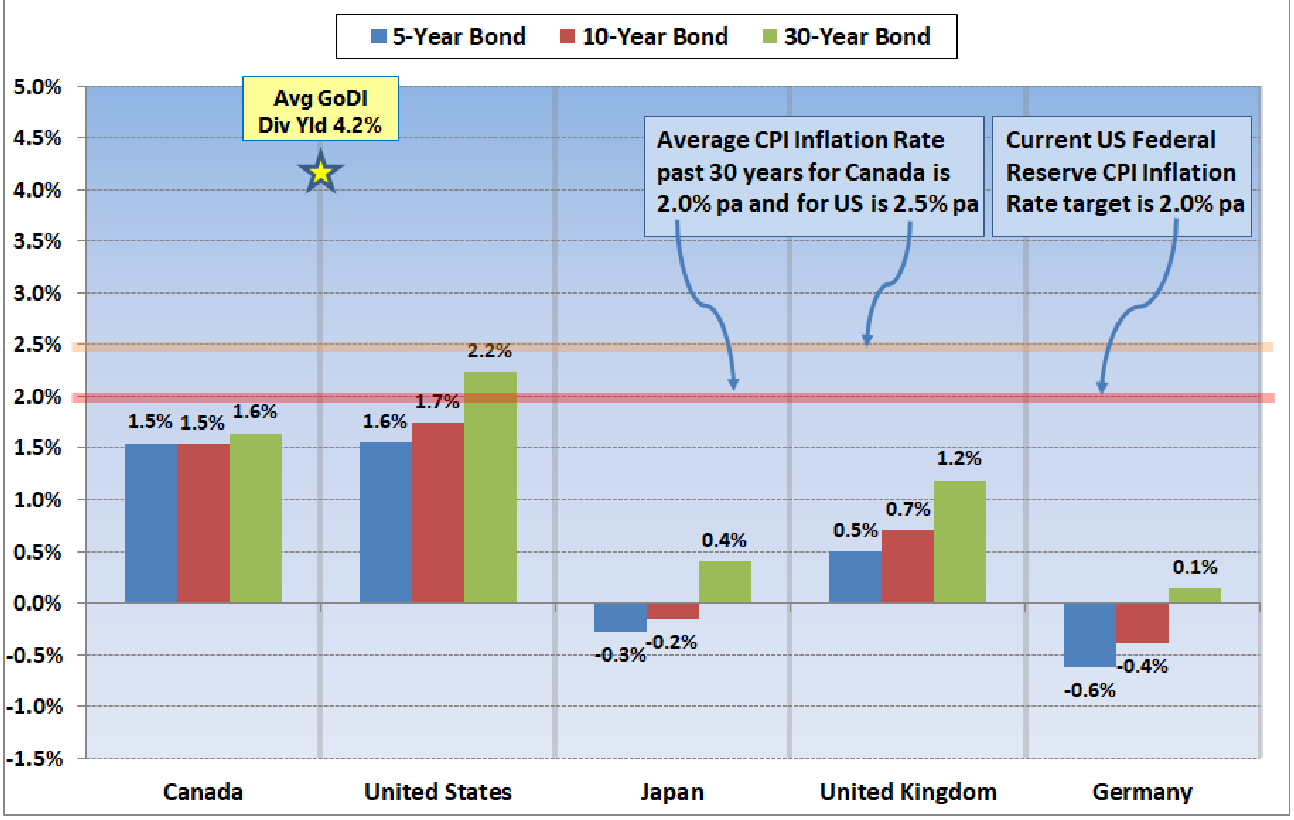


Figure 3 below shows the Canadian 10-year bond yield over the past 30 years. The trend is clear, and has imposed extreme difficulty for investors who require safe income in order to live. While it is difficult to imagine that Canadian interest rates could go any lower, having fallen almost 90% from the early 1990's, 10-year bond yields are currently much lower, and in many cases negative, in other developed countries (see Figure 2 above).

Figure 3: Government of Canada 10-Year Bond Yield for the Past 30 Years – October 18, 1989, to October 18, 2019.

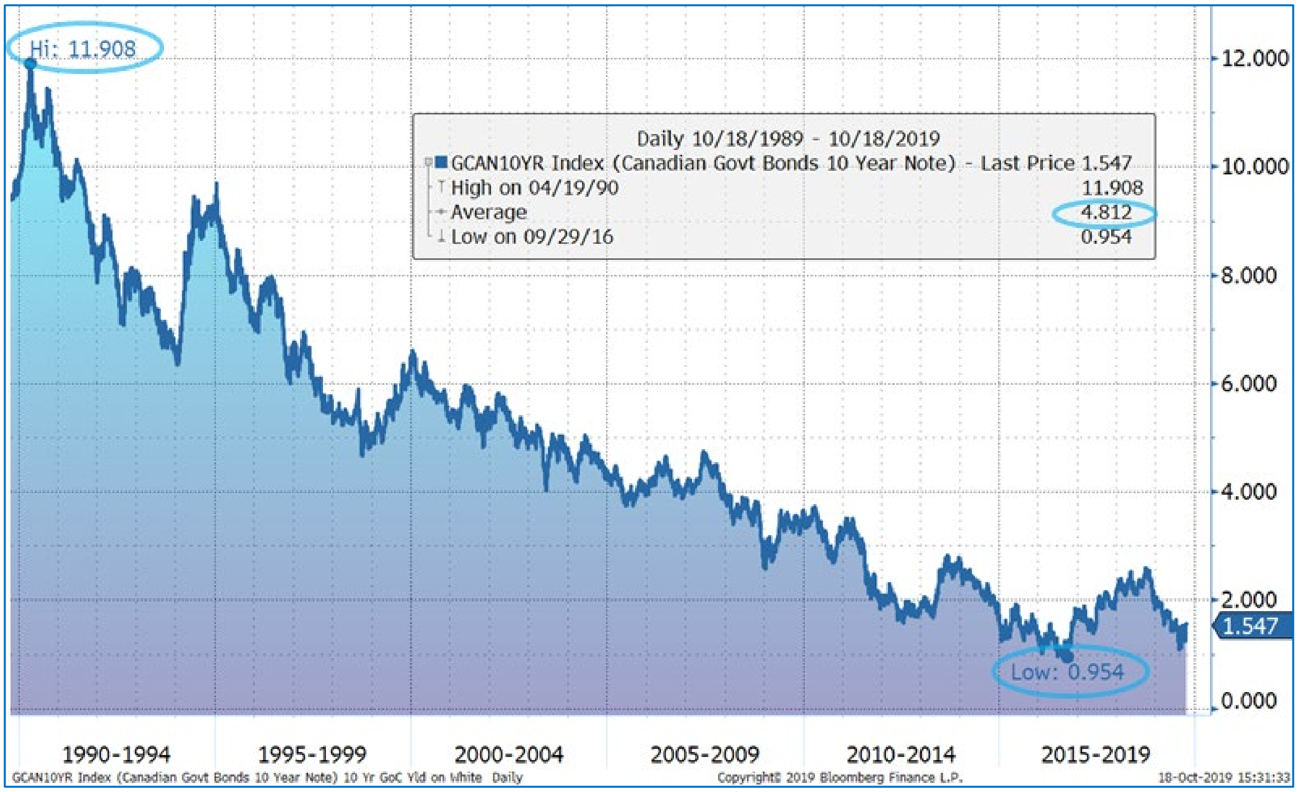
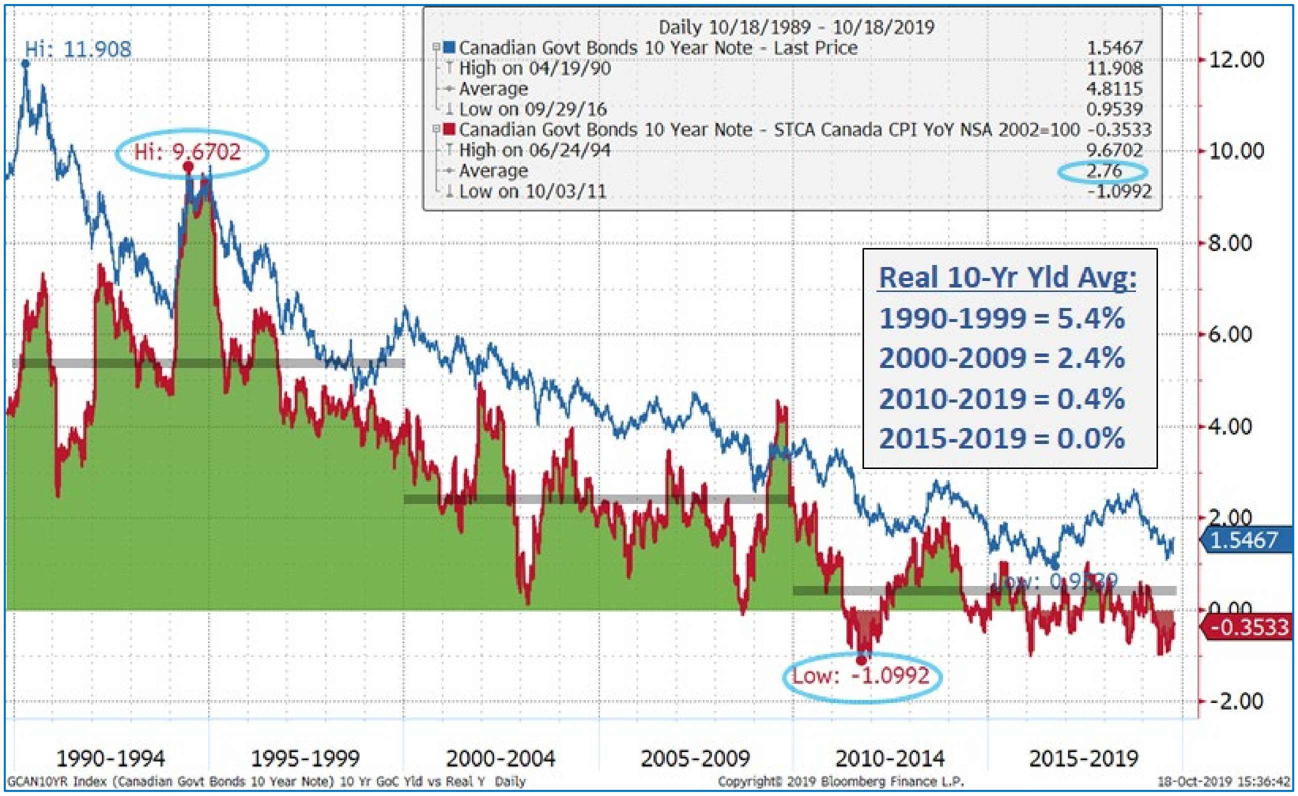


Figure 4 below shows the "real" Government of Canada 10-year bond yield over the past 30 years (the bold red line in the figure), where we define "real" Government of Canada 10-year bond yield as the nominal Government of Canada 10-year bond yield less the trailing Canadian year-over-year CPI inflation rate. It is the interest rate an investor receives after allowing for inflation. It is important to note that inflation consumes the purchasing power of the capital invested in the bonds – as a result, interest rates (even "risk-free" interest rates) throughout most of history are typically much higher than the inflation rate (otherwise the investor would actually be losing money on a net of inflation basis).

As shown in Figure 4, the real Government of Canada 10-year bond yield has fallen in lockstep with nominal yields – that is, the rate of inflation has not been falling with nominal interest rate. During the 1990's the real 10-year bond yield was a solid 5.4% per annum – however, it fell by more than half to 2.4% during the 2000's and fell significantly again to only 0.4% over the past decade. In fact, over the past five (5) years, the real Government of Canada 10-year bond yield has averaged 0.0% per annum. Unfortunately, it is now a terrible time to be a fixed income investor (even if rates continue to fall and bonds prices continue to increase). Fortunately, many common stocks now offer dividend yields that are much higher than bond yields (albeit with higher volatility risk) and dividend yields which are also much higher than the CPI inflation rates (i.e., positive real dividend yields). In addition, these yields may growth through time thereby offering income growth and capital appreciation – neither of which bonds can offer.

<u>Figure 4:</u> Government of Canada 10-Year Bond Yield Minus the Trailing Year-Over-Year CPI Inflation Rate for the Past 30 Years – October 18, 1989, to October 18, 2019.



In the last quarterly commentary, we wrote about the historic underperformance of US value stocks relative to growth stocks. We noted that **as a consequence of our process to simultaneously maximize dividend yield and dividend growth while minimizing price paid, our portfolios generally have a significant value bias.** Given the wide-spread talk in the media of value finally out-performing growth over the past couple of months, we thought that we would update the graphs we presented in the prior commentary.

As shown in Figure 5, US large-cap value stocks have underperformed large-cap growth stocks by almost 40% in the past 2.75 years (as judged by the Russell 1000 Value Index versus the Russell 1000 Growth Index); and, US small-cap value stocks have underperformed US large-cap growth stocks by over 50% in the past 2.75 years (as judged by the Russell 2000 Value Index versus the Russell 1000 Growth Index). These spreads are virtually identical to those reported in our prior commentary. That is, while there was a short period during the middle of September whereby value strongly outperformed growth, during the remainder recent several months, growth continued to outperform value. **In sum, <u>the mean-reversion of value relative to growth has barely begun – although, our sense is that it may have indeed begun</u>**.

Certainly, the growth-value returns spreads continue to be historically wide in nature. For example, **taking a ratio of the Russell 1000 Growth Index value to the Russell 1000 Value Index value, the current ratio is only exceeded in the past 40 years by the 6 months before and after the peak of the 2000 technology stock bubble**.

Figure 5: Relative Performance of the Russell 1000 Growth Index, Russell 1000 Value Index and Russell 2000 Value Index – January 1, 2017, to October 18, 2019.

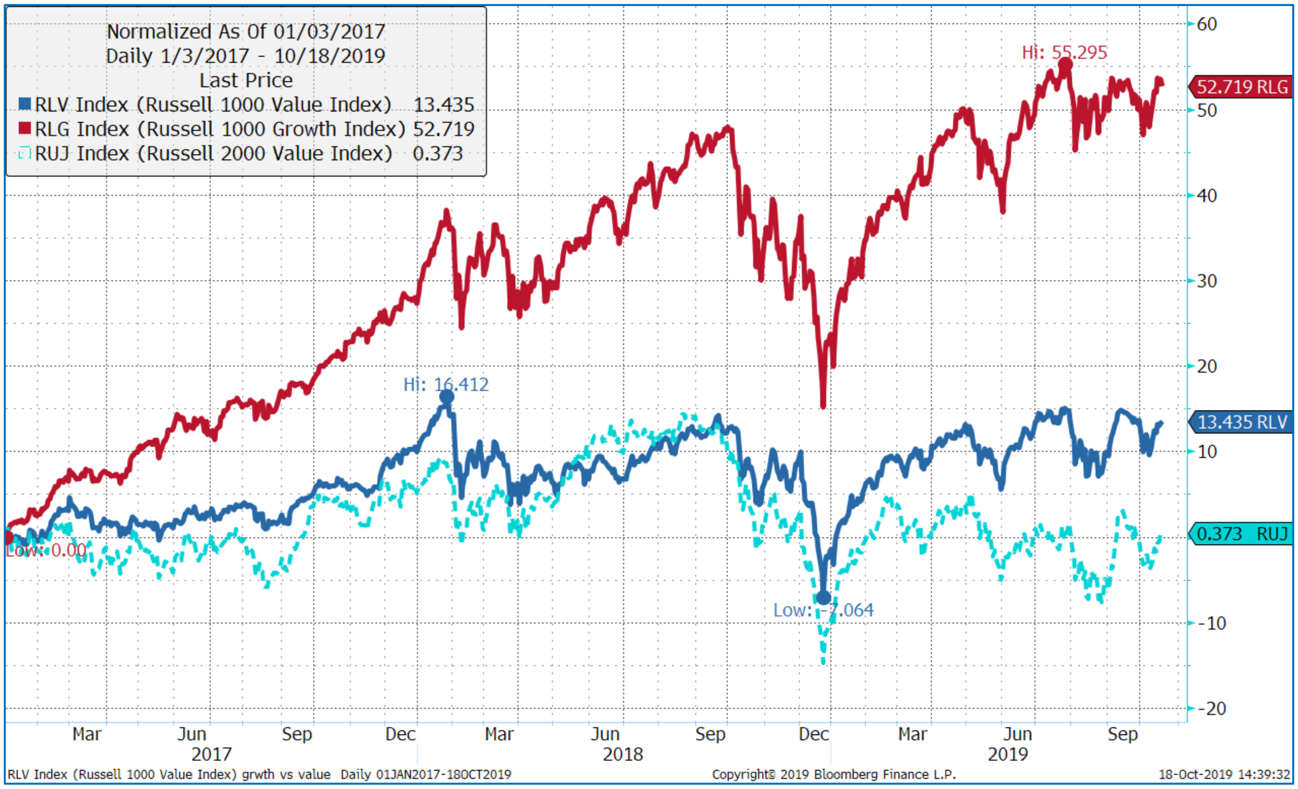
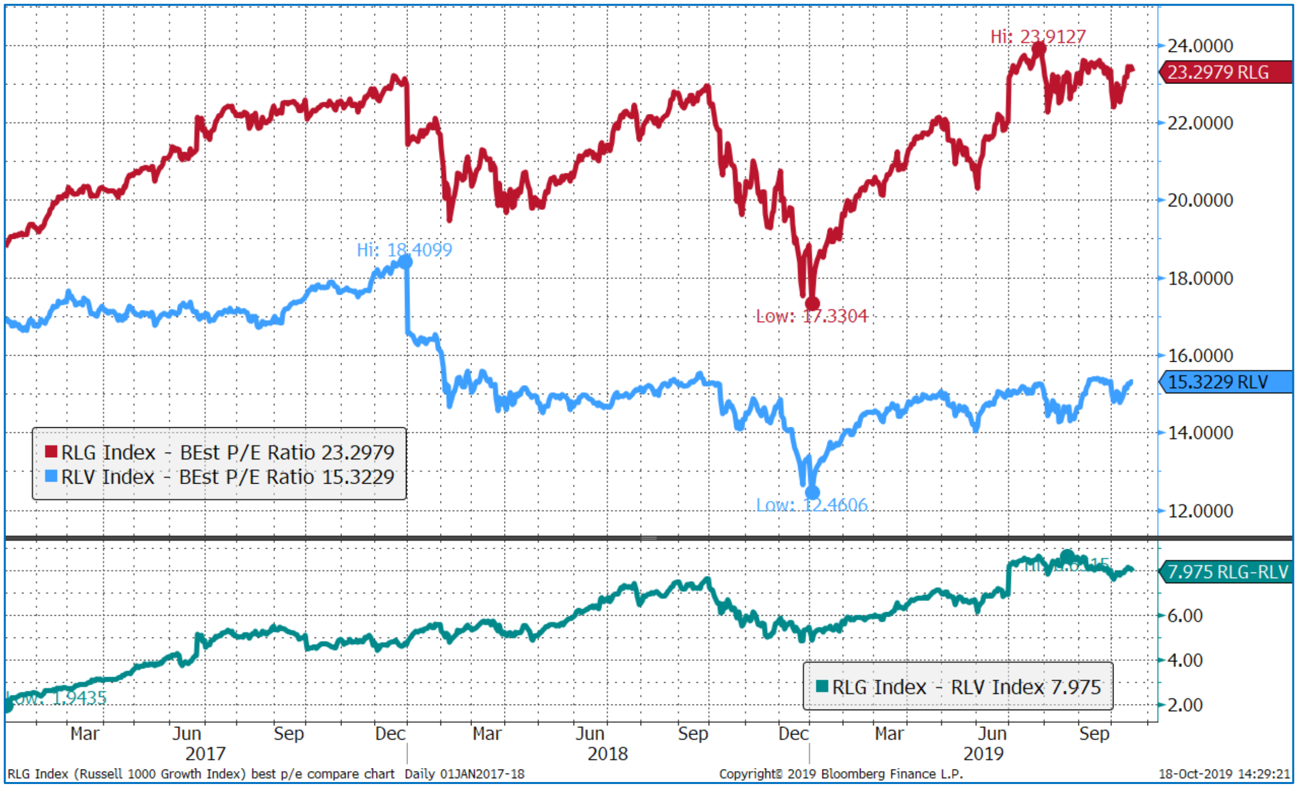


Figure 6 shows the 12-month forward P/E ratios (using analyst expected EPS) for the constituents of the Russell 1000 Growth Index relative to the constituents of the Russell 1000 Value Index since January 1, 2017. While growth stocks generally trade at a premium to value stocks, Russell 1000 Growth stocks currently trade at 8.0 P/E turns above Russell 1000 Value stocks (i.e., P/E of 23.3x for growth versus 15.3x for value), up from just 1.9 P/E turns 2.75 years ago.

In fact, **over the past 2.75 years, Russell 1000 Growth stocks have increased in valuation from a forward P/E of approximately 18.8x to 23.3x (+24%), while Russell 1000 Value stocks have decreased in valuation from a forward P/E of approximately 16.9x to 15.3x (-10%). That is, the Russell 1000 Growth Index's historic outperformance over the past 2.75 years is NOT because the constituent growth stocks have grown earnings and earnings expectations faster than the Russell 1000 Value Index constituents, it is primarily because the valuation of growth stocks have increased so much relative to value stocks.** In other words, the vast majority of the return disparity between the Russell 1000 Growth Index and the Russell 1000 Value Index is because the Russell 1000 Growth Index constituents have become much more expressive, while the Russell 1000 Value Index constituents have actually become less expensive.

While we have a few theories of why these performance and valuation spreads have developed – primarily related to "the machines" and the recent dominance of ETFs over actively managed stock funds – we do believe that these spreads will normalize sometime in the future. Spreads such as these have always unwound in the past, and this time is unlikely to be different. While we suspect that it has actually begun, even if it has not, we take comfort in our portfolio holdings providing an average 4.2% dividend yield with 17% per annum dividend growth (versus 1.5% per annum yield with no growth in Canadian Government bonds).

Figure 6: Forward P/E Ratio of Russell 1000 Growth Index Constituents and Russell 1000 Value Index Constituents – January 1, 2017, to October 18, 2019.



Q3-2019 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 67 GoDI holdings, **during the calendar quarter ending September 30th, 2019, we received 16 declared dividend increases averaging an announced increase of 8.1% quarter-over-quarter** ("QoQ") **and 12.3% year-over-year** ("YoY"), relative to those already known at the end of the prior calendar quarter.

No.	Company Name	Ticker Symbol	Current Ind Div Yld (% p.a.)	QoQ Div Increase (%)	YoY Div Increase (%)
1	American Tower Corp	AMT	1.7	3.3	23.4
2	CitiGroup Inc	C	3.0	13.3	13.3
3	Delta Air Lines Inc	DAL	2.8	15.0	15.0
4	Discover Financial Services	DFS	2.2	10.0	10.0
5	JPMorgan Chase & Co	JPM	3.1	12.5	12.5
6	Lam Research Corp	LRCX	2.0	4.5	4.5
7	Morgan Stanley	MS	3.3	16.7	16.7
8	Penske Automotive Group Inc	PAG	3.4	2.6	11.1
9	Ping An Insurance	PNGAY	2.3	7.6	14.2
10	Prudential PLC Group	PUK	3.4	1.6	4.1
11	Royal Caribbean Cruises Ltd	RCL	2.9	11.4	11.4
12	Royal Dutch Shell PLC	RDS/B	6.2	1.0	5.0
13	Smurfit Kappa Group PLC	SMFKY	3.7	2.6	11.3
14	Skyworks Solutions Inc	SWKS	2.2	15.8	15.8
15	Unilever PLC	UL	2.9	1.8	6.5
16	Union Pacific Corp	UNP	2.4	10.2	21.3
	Average		**3.0**	**8.1**	**12.3**

Across the 16 dividend increases last quarter, we observe a very strong yield-to-growth combination with an average dividend per share growth rate of 12.3% year-over-year against an average dividend yield of 3.0% per annum – 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 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,

John J. Schmitz

John J. Schmitz, Ph.D., CFA