AlphaDelta Growth of Dividend Income Class
Quarter 1, 2020, 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 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 GoDI portfolio characteristics such as sector, market capitalization, dividend yield and dividend growth "bucket" exposures. We also publish and post on our website a *monthly* version of the GoDI Portfolio Disclosure document (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 6.6% per annum** (versus 2.3% for the Russell 1000 Index and 2.9% for the MSCI World Index) **with impressive double-digit trailing 1, 3 and 5-year dividend growth rates of 12.2%, 16.7% and 17.8%, respectively**.

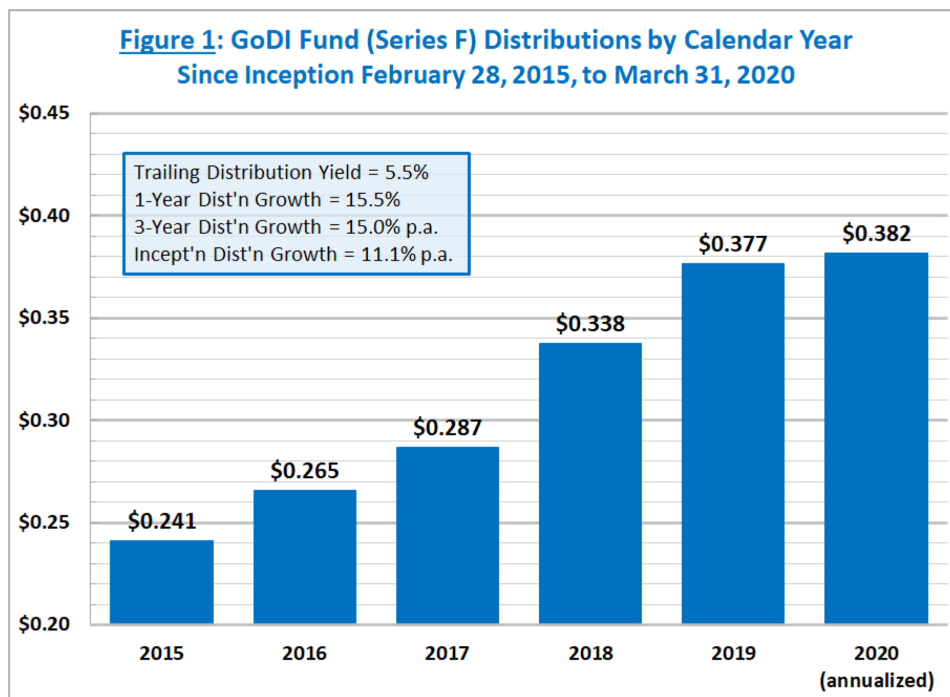
This 6.6% average portfolio dividend yield is well covered by company earnings and cash-flow. Specifically, the 6.6% average dividend yield compares to a portfolio weighted average forward earnings per share yield of 14.4% **(i.e., 218% dividend coverage by earnings)** and forward cashflow yield of 19.9% **(i.e., 301% 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 underlying 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 March 31st is a solid and above average 5.5%**. Note that this distribution yield is also quite tax efficient, as compared to most other income alternatives.

Furthermore, this trailing 12-month 5.5% distribution income yield has been growing through time. Specifically, **the trailing 12-month Fund-level distribution per share has experienced 15.5% growth year-over-year, 15.0% per annum growth over the past three (3) years, and 11.1% per annum growth since the inception date of the Fund** (Series F shares). We consider 11.1% per annum income growth as substantial, especially in the context of a relatively high and diversified current income yield of 5.5%.

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 and income growth resulting from the Fund's portfolio of dividend-paying equities that themselves have grown their dividends per share.



The **current Fund distribution yield of 5.5% also compares very favourably with the March 31st yield of 0.7% per annum on the benchmark 10-year Government of Canada bond**. Even with more than 7x the yield of the 10-year bond, **the Fund's income has grown at a rate of 11.1% 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 93.2%** – meaning that 93.2% of weights of our portfolio holdings do not overlap with the MSCI World Index benchmark (alternatively, only 6.8% 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 32.6%**. In order of size, we have the following sector exposures: 32.6% Financials, 14.6% Health Care, 9.6% Communication Services, 9.0% Energy, 6.0% Information Technology, 3.8% Industrials, 3.7% Consumer Discretionary, 3.3% Real Estate, 3.3% Materials, 1.7% Consumer Staples, and 0.0% Utilities. In addition, the Fund holds 6.9% 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 53 equity positions** (not including the Fund's holding in the AlphaDelta Canadian Growth of Dividend Fund which itself holds another 29 individual equity holdings). The top 10 individual equity holdings represent 35.3% of the Fund's assets and are in descending order of size: Broadcom Ltd (AVGO, 5.1%), Abbvie Inc (ABBV, 4.7%), Enbridge Inc (ENB, 4.3%), Brookfield Property Partners (BPY.U, 3.3%), Bristol-Myers Squibb Co (BMY, 3.2%), Manulife Financial Corp (MFC, 3.2%), Morgan Stanley (MS, 3.1%), CVS Health Corp (CVS, 2.8%), Lincoln National Corp (LNC, 2.8%), and Fiera Capital Corp (FSZ, 2.8%). (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 9.0x** (versus 16.6x for the Russell 1000 Index and 15.1x for the MSCI World Index) and the **average 12-month forward price-to-cash-flow ratio is 6.5x** (versus 11.3x for the Russell 1000 Index and 9.7x for the MSCI World Index).

Portfolio Changes and Movers:

During the first quarter we **eliminated our positions** in Blackstone Group (BX), Carnival Corp (CCL), Cisco Systems Inc (CSCO), Delta Airlines (DAL), General Motors Co (GM), Interpublic Group of Cos Inc (IPG), Johnson & Johnson (JNJ), Legg Mason Inc (LM), Mobile Mini Inc (MINI), Penske Automotive Group Inc (PAG), and Royal Caribbean Cruises Ltd (RCL). 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 position** in Royal Dutch Shell (RDS.B).

During the first quarter, we **initiated new positions** in the Canadian construction and infrastructure development company Aecon Group Inc (ARE) and a tiny position in Premium Outlets owner Simon Property Group Inc (SPG). We also **increased (by at least 0.5%) our existing positions** in Goldman Sachs Group Inc (GS) and Nippon Telegraph & Telephone Corp (NTTYY).

Amongst the GoDI portfolio holdings (that were held through the entire quarter), the five (5) **highest returns during the first quarter** (in descending order) were: Nippon Telegraph & Telephone Corp (NTTYY, -6.5%), Unilever PLC (UL, -10.9%), Bristol-Myers Squibb Co (BMY, -12.6%), Abbvie Inc (ABBV, -12.8%), and UnitedHealth Group Inc (UNH, -14.8%). Amongst the GoDI holdings (that were held through the entire quarter), the five (5) **lowest returns during the first quarter** were: ViacomCBS Inc (VIAC, -66.1%), CIT Group Inc (CIT, -61.9%), Meredith Corp (MDP, -61.5%), Marathon Petroleum Corp (MPC, -60.4%), and Discover Financial Services (DFS, -57.7%).

Q1-2020 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**. We believe that: **"if you get the dividends right, then you *will* get the share prices right."**

Amongst our current 53 GoDI holdings, **during the calendar quarter ending March 31st, 2020, we received 14 declared dividend increases averaging an announced increase of 9.3% quarter-over-quarter** ("QoQ") **and 9.9% 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	Aecon Group Inc	ARE	5.1	10.3	10.3
2	Best Buy Co Inc	BBY	3.9	10.0	10.0
3	Brookfield Property Partners	BPY-U	15.6	0.8	0.8
4	Comcast Corp	CMCSA	2.7	9.5	9.5
5	Foot Locker Inc	FL	7.4	5.3	5.3
6	HeidelbergCement AG	HDELY	5.7	4.8	4.8
7	Manulife Financial Corp	MFC	6.3	12.0	12.0
8	Marathon Petroleum Corp	MPC	9.8	9.4	9.4
9	Meredith Corp	MDP	19.5	3.5	3.5
10	Nexstar Media Group Inc	NXST	3.9	24.4	24.4
11	Ping An Insurance	PNGAY	2.9	10.8	19.2
12	Prudential Financial Inc	PRU	8.4	10.0	10.0
13	Synovus Financial Corp	SNV	7.5	10.0	10.0
14	Valero Energy Corp	VLO	8.6	8.9	8.9
	Average		**7.7**	**9.3**	**9.9**

Across the 14 dividend increases last quarter, we **observe a very strong growth-to-yield combination with an average dividend per share growth rate of 9.9% year-over-year against an average dividend yield of 7.7% per annum. It is important to note, however, that the vast majority of these dividend increases occurred early in the Q1-2020, prior to the widespread impact of the COVID-19 pandemic. As discussed in the Market Commentary section below, dividend growth dynamics have changed substantially since the end of Q1.**

As a result of the COVID-19 pandemic, **we did suffer a several dividend decreases during Q1-2020 in several of our European holdings**. First, the European Central Bank ("ECB") mandated that all European banks suspend dividend payments to force the banks to preserve liquidity during the COVID-19 crisis. As a result, our two (2) small holdings in French banks, BNP Paribas (BNPQY) and Societe Generale (SCGLY), were forced to suspend their dividends. Both banks were subsequently liquidated out of the GoDI portfolio prior to the end of Q1-2020. Second, UK-based insurance company Prudential PLC (PUK) materially reduced its dividend and UK-based paper packaging products firm Smurfit Kappa (SMFKY) suspended their dividend. Both UK firms were eliminated from the GoDI portfolio after the end of Q1-2020.

In other cases, such as Carnival Corp (CCL), Delta Air Lines Inc (DAL), General Motors (GM), and Royal Caribbean Cruises Ltd, we successfully exited positions long before the companies actually cut their dividends.

Importantly, despite the difficult current environment (discussed further in the Market Commentary section below), **we are continuing to insist that our portfolio companies demonstrate the ability and the desire to increase future dividend per share payments. While we expect, and will tolerate, some and possibly many GoDI portfolio companies to temporarily stop their customary dividend increases and maintain their current dividend per share payouts, we will only continue to hold such companies as long as we believe that increases in dividends per share are still possible sometime in the future. In addition, we continue our policy of searching for and eliminating any portfolio position that we expect may cut or suspend their dividend in the future.** Finally, should a dividend actually get cut or suspended while being held within the GoDI portfolio, the position will be eliminated at the earliest opportunity (regardless of the capital gain or loss on the position) subject to attempting to maximizing our exit price.

Given the current dividend environment, the investment management processes described above have meant that the number of positions within the GoDI portfolio has shrunk considerably from 61 as of the end of Q4-2019, to 53 as of the end of Q1-2020, and to 47 as of the end of April 2020. While still well diversified, we are focusing the GoDI portfolio on those companies that are the most promising dividend growers with the highest and safest dividend yields, and which are less likely to cut or suspend their dividend in short to medium term future.

Market Commentary:

Beginning in mid-February, the global stock markets entered into an extremely volatile period as fears surrounding coronavirus (COVID-19) began to spread around the world. **As COVID-19 achieved pandemic status, market volatility and losses accelerated with stocks markets around the world achieving the record for "quickest bear market in history". In addition, the US VIX Volatility Index hit its highest level in history in mid-March. The speed and brutality of this quickest bear market was like nothing seen before in the financial markets.** The core of this bear market occurred from late February through late March, with the bulk of the losses occurring in March. The North American stock markets "bottomed" on Monday, March 23rd. We put quotes around the word "bottomed" because, so far, this bottom has held and the rebound from the bottom has broadly continued through early May – albeit at a slower rate than the fall.

There remains great uncertainty regarding COVID-19's current progression around the world (e.g., ultimate infection and death rates) and, more importantly, its future progression and/or possible re-emergence later in the year. There is also great uncertainty with respect to when there will be a widely available vaccine for COVID-19, when there will be widely available antivirals to treat COVID-19 in people with the virus, and when quick tests for COVID-19 will be widely available to everyone in the population. We expect (hope) that all these tools will be widely available to fight and defeat COVID-19 within 9 to 18 months. Nevertheless, until the time that these healthcare tools are expected to be available with a high degree of certainty, there will continue to be extreme economic and financial uncertainty around the world. As a result, we do not expect that the stocks markets of the world will fully recover all their losses in the near term. In addition, **we expect that the extreme volatility (both down and up) to continue in the short-to-medium term**, and potentially that the equity markets may take another leg down and "test" the March 23rd bottom.

In the last several quarterly commentaries we have written about the historic underperformance of US value stocks relative to US growth stocks. We also noted that **as a consequence of our process to simultaneously *maximize* dividend yield, dividend growth and dividend safety, the GoDI portfolio generally has a significant value bias**. In fact, in our last commentary we showed that, while the GoDI Fund possesses approximately 3-times more Dividend Yield exposure than the Russell 1000 Value Index, it also possesses approximately 3-times more Value exposure than the Russell 1000 Value Index.

Unfortunately, and potentially surprisingly, the historic underperformance of US value stocks relative to US growth stocks has actually accelerated through the COVID-19 pandemic crisis. **Strong dividends and good valuations have not insulated the GoDI portfolio from the market turmoil during the COVID-19 pandemic crisis, with these investment style characteristics actually enhancing the level of pain.** In fact, the past several months has been one of the worst underperformance periods for value relative to growth in history – even following the past several years of historic underperformance of value relative to growth.

As shown in Figure 2, **year-to-date (through May 12, 2020) US *large-cap value* stocks have underperformed *large-cap growth* stocks by 21.6%** (as judged by the Russell 1000 Value Index versus the Russell 1000 Growth Index); **and, year-to-date US *small-cap value* stocks have underperformed US *large-cap growth* stocks by 32.7%** (as judged by the Russell 2000 Value Index versus the Russell 1000 Growth Index). Figure 3 shows the value versus growth spreads over the past several years. **Since January 1, 2017 (through May 12, 2020), US *large-cap value* stocks have underperformed *large-cap growth* stocks by 71.3%, and US *small-cap value* stocks have underperformed US *large-cap growth* stocks by 93.8%**.

Figure 2: Relative Performance of the Russell 1000 Growth Index, Russell 1000 Value Index and Russell 2000 Value Index – January 1, 2020, to May 12, 2020.

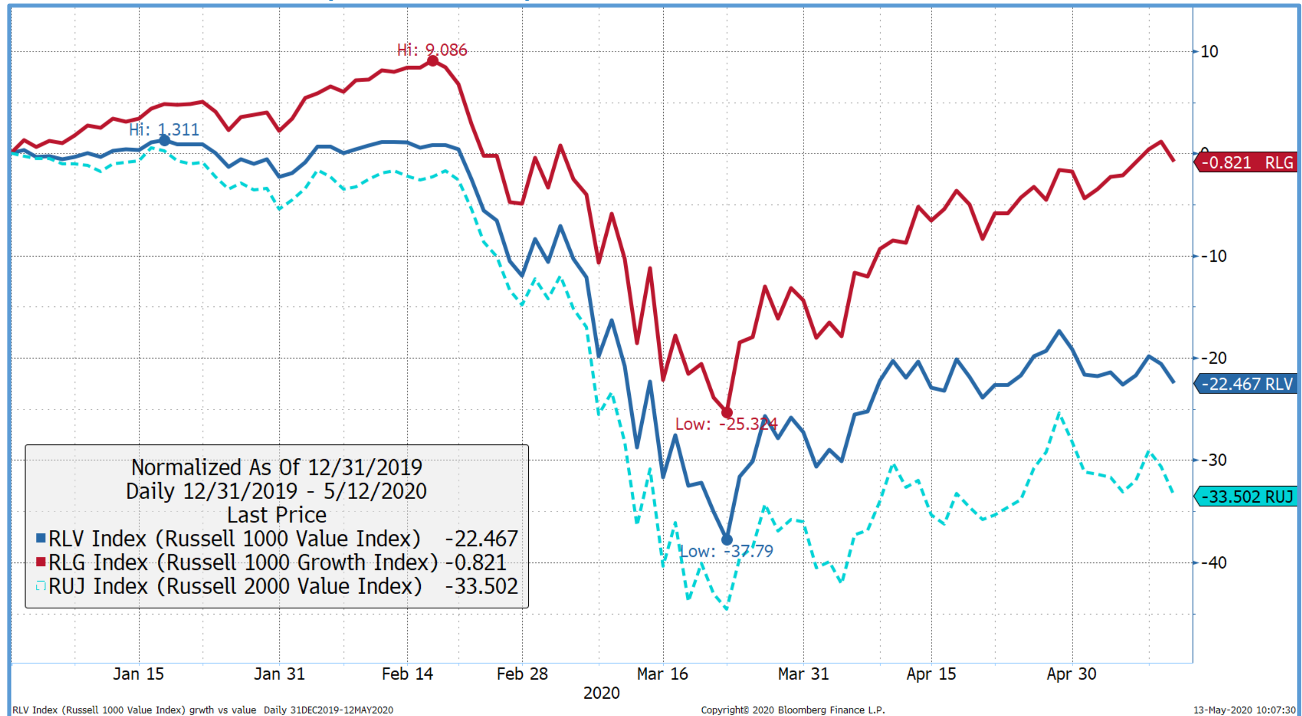
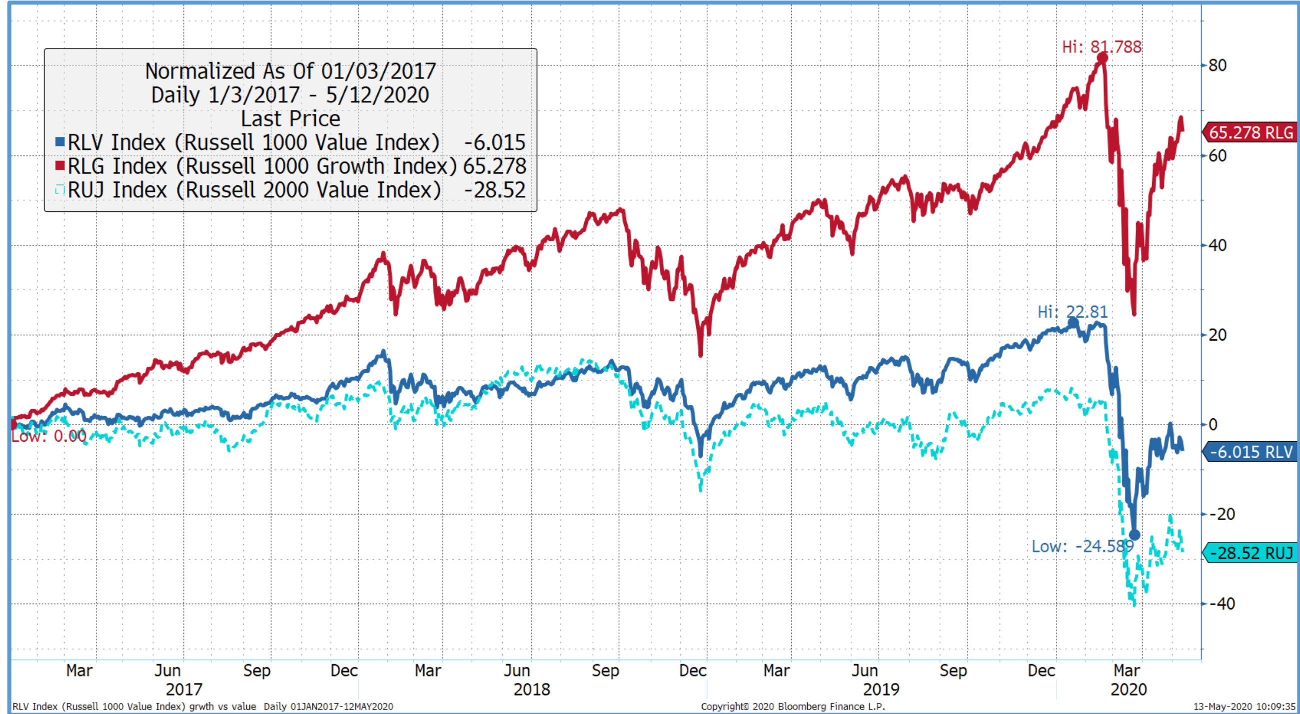


Figure 3: Relative Performance of the Russell 1000 Growth Index, Russell 1000 Value Index and Russell 2000 Value Index – January 1, 2017, to May 12, 2020.



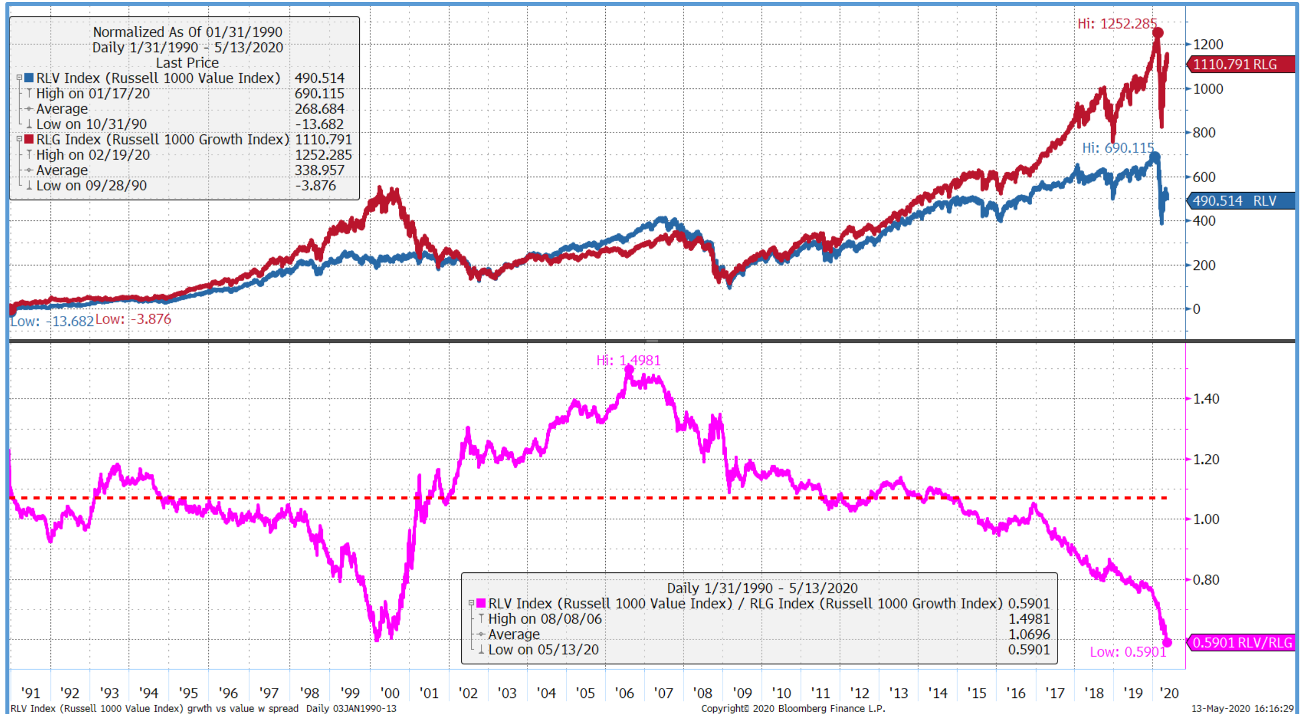
These value versus growth spreads are enormous for such a short period of time. And, keep in mind that the Russell 1000 Value Index and the Russell 1000 Growth Index sum to the Russell 1000 Index which itself represents approximately 94% of the US total equity market capitalization and 63% of the World's total equity market capitalization. That is, **it is hard to understate the economic importance of these value versus growth spreads**. During the past 3.3 years, approximately half of the US stock market is materially down in price (value stocks -6%); while the other half is up materially in price (growth stocks +65%). Yet, finance academics have shown that value stocks outperform growth stocks in most times periods and in the long-run, with some academic studies using more than 100 years data. Finance academics have also shown that value typically beats growth in virtually every stock market in the world, as well as within most the other asset classes such as bonds, commodities and foreign currencies.

To further illustrate the longer-term importance of the recent underperformance of value relative to growth, Figure 4 plots the Russell 1000 Value Index relative to the Russell 1000 Growth Index from January 31, 1990, through today (May 13, 2020) to intentionally include the Technology Stock Bubble of the late-1990's. The bottom half of Figure 4 shows (the purple line) the ratio of the Russell 1000 Value Index price level to the Russell 1000 Growth Index price level. The average of the value-to-growth index ratio (the red dashed line) over the entire 30-year period of time is 1.07 (i.e., the Value Index was on average slightly higher than Growth Index), with the value-to-growth index ratio drifting around this average level for the majority of the 30-years. However, it is easy to observe two (2) extreme Growth Index outperformance periods and one (1) extreme Value Index outperformance period.

The first extreme Growth Index outperformance period was, of course, the Technology Stock Bubble of the late-1990's whereby the Growth Index massively outperformed the Value Index from early 1998 through March of 2000. During this period we saw the value-to-growth index ratio compress from roughly average at 1.036 at the beginning of 1998 to 0.594 in the middle of March 2000. That is, the price of the Value Index

was trading at only 59.4% of the price of the Growth Index. Amazingly, over the next year the entire Growth Index outperformance resulting from the Technology Stock Bubble was unwound with value-to-growth index ratio returning to its long-term average by mid-March of 2001 – only 12-months after hitting its low. This reversion back to mean was accomplished primarily by the Growth Index falling approximately 50% in price, while the Value Index rose only modestly.

Figure 4: Relative Index Levels of the Russell 1000 Value Index Versus Russell 1000 Growth Index – January 31, 1990, to May 13, 2020.



Over the subsequent five (5) years, the Value Index continued to rise relative to the Growth Index driving the value-to-growth index ratio up to a 30-year high 1.498 in August of 2006. From the bottom of the value-to-growth index ratio (0.594) in March 2000 to the top of the value-to-growth index ratio (1.498) in August 2006, there was a cumulative 250% increase in the value-to-growth index ratio – or, alternatively, a roughly 50% cumulative fall in the Growth Index versus a cumulative 75% rise in the Value Index. This was an incredible 6-year run for the Value Index relative to the Growth Index that was setup to a large extent by the Growth Stock Bubble of the late 1990's.

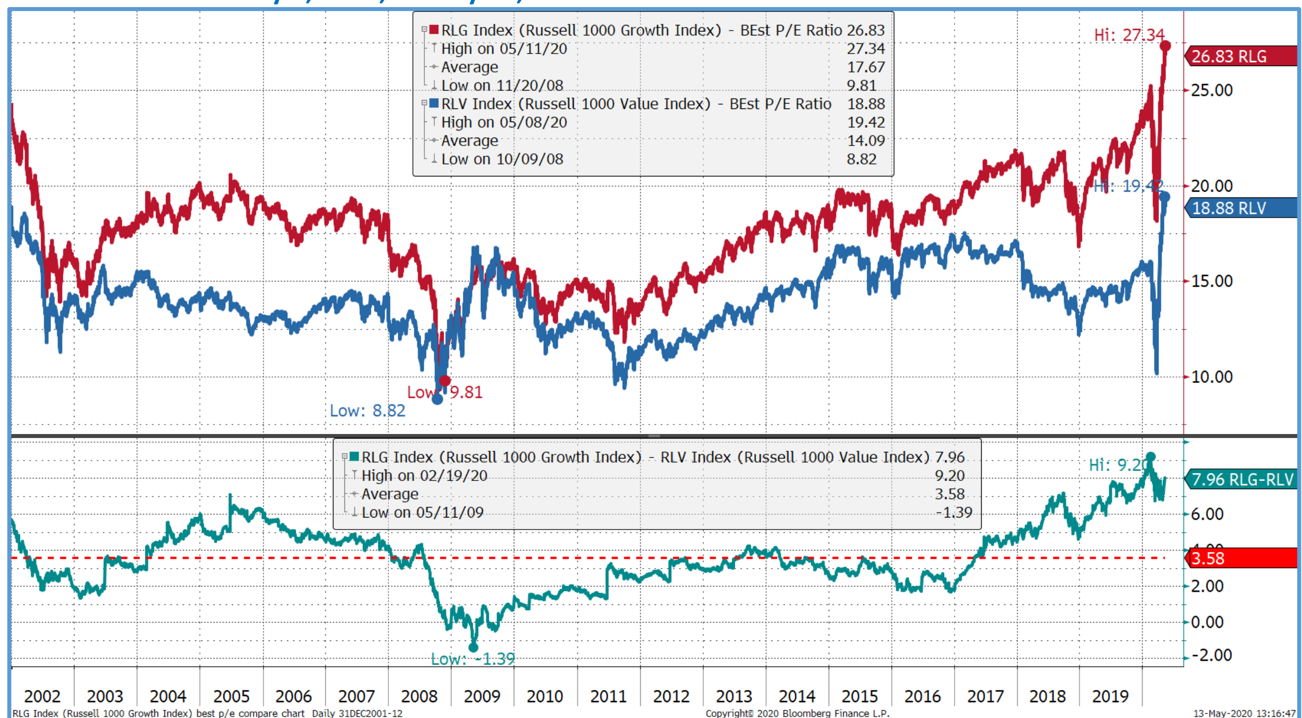
However, from that mid-2006 value peak forward, on average the Growth Index has outperformed the Value Index. The value-to-growth index ratio retreated from its high of 1.498 in August 2006 to roughly its long-term average by early 2009. From 2009 through 2016 the value-to-growth index ratio traded somewhat around its long-term average. Then, from December 2016, shortly after Donald Trump got elected as President of the United States, the value-to-growth index ratio went from approximately its long-term average of 1.050, to a new all-time low today of 0.590 – just below its prior all-time low of 0.594 at the end of the Technology Stock Bubble. These ratio values are eerily similar to the ratios at the beginning and the end of the Technology Stock Bubble of the late 1990's – both starting point and the "ending" point are within 1% of each other. It is also **amazing that precisely today (May 12, 2020), the value-to-growth index ratio took out its all-time low from March of 2000 – something most market observers have argued could never happen again.**

What happens next? Will history repeat itself as it so often does? Or, is this time different? We leave it to the reader to decide.

Given the COVID-19 crisis and its impact on earnings expectations, and the incredible performance spreads between the Growth Index and Value Index, it is worthwhile looking at the valuation levels of both the Growth Index and Value Index. Figure 5 shows the 12-month *forward* P/E ratios (using 12-month forward-looking analyst expected EPS) for the constituents of the Russell 1000 Growth Index relative to the constituents of the Russell 1000 Value Index for the 18+ year time period from January 1, 2002, through May 12, 2020. Two primarily observations can be gleaned from this graph.

First, **on average, currently neither growth stocks or value stocks are inexpensive now that analysts have begun incorporating COVID-19 earnings impacts into the earnings expectations. On the contrary, after the incorporating COVID-19 earnings impacts and the recent stock market price recovery, forward looking valuations for the constituents of both the Russell 1000 Growth Index (P/E=26.8x) and the Russell 1000 Value Index (P/E=18.9x) are now at the highest level for each respective Index that they have been at in the past 18 years.** Assuming analysts are correctly incorporating COVID-19 earnings impacts (there may be substantial downside to these earnings estimates if the recession lasts longer and/or is deeper than analysts currently predict), then **both growth and value stocks are historically expensive**. (Although, interest rates are also the lowest they have ever been which, in general, does support high P/E ratios.)

Figure 5: Forward P/E Ratio of Russell 1000 Growth Index Constituents and Russell 1000 Value Index Constituents – January 1, 2002, to May 12, 2020.



Second, **the valuation spread between the forward P/E ratios for the constituents of the Russell 1000 Growth Index relative to the constituents of the Russell 1000 Value Index is near its 18+ year high with the Growth Index trading at a 8.0x P/E premium to the Value Index versus an average of premium of 3.6x P/E premium.** (Note, however, that the P/E spread was much higher during the Technology Stock Bubble, with

many of those firms actually having significantly negative EPS.) Here too, we must consider the relative degree of error that the has to be incorporated into the analyst earnings estimates (as they are possibly too optimistic on growth stocks earnings relative to value stocks earnings). Interestingly, the P/E ratio of the Value Index constituents has increased more than the Growth Index constituents, despite a much farther fall in the stock prices of the Value Index constituents (which lowers P/E).

In addition to blowing-out the value-versus-growth spread, the COVID-19 crisis has begun to seriously impact dividend payments by many global companies. In order to determine the magnitude of COVID-19 crisis on company dividends, we examined all of the dividend announcements from all the companies within the Russell 1000 Index and the S&P/TSX Composite Index on a year-to-date basis. To provide a baseline for what we are observing with respect to dividend changes year-to-date in 2020 (through May 11, 2020), we compare 2020 to the same year-to-date period in 2019 (through May 11, 2019). Figure 6 reports the results of this analysis.

Figure 6: Year-to-Date Dividend Changes for the Russell 1000 Index Companies and S&P/TSX Composite Index Companies – January 1 to May 11, 2020 Versus January 1 to May 11, 2019.

	Year-to-Date Thru May 11, 2020		Year-to-Date Thru May 11, 2019	
	No.	%	No.	%
Russell 1000 Index				
Stocks Currently in Index	999		999	
Stocks Paying Dividends in Index @ Jan 1 of Year (DPS>0)	708	70.9%	689	69.0%
Stocks Increasing DPS Year-to-Date (ΔDPS>0%)	206	29.1%	250	36.3%
Stocks Maintaining DPS Year-to-Date (ΔDPS=0%)	396	55.9%	428	62.1%
Stocks Decreasing DPS Year-to-Date (ΔDPS<0%)	106	15.0%	11	1.6%
Stocks Suspending DPS Year-to-Date (ΔDPS=-100%)	72	10.2%	0	0.0%
S&P/TSX Composite Index				
Stocks Currently in Index	229		229	
Stocks Paying Dividends in Index @ Jan 1 of Year (DPS>0)	181	79.0%	180	78.6%
Stocks Increasing DPS Year-to-Date (ΔDPS>0%)	55	30.4%	72	40.0%
Stocks Maintaining DPS Year-to-Date (ΔDPS=0%)	99	54.7%	101	56.1%
Stocks Decreasing DPS Year-to-Date (ΔDPS<0%)	27	14.9%	7	3.9%
Stocks Suspending DPS Year-to-Date (ΔDPS=-100%)	13	7.2%	0	0.0%

For the current Russell 1000 Index companies, 708 (or 70.9% on the index constituents) reported an indicated regular dividend coming into 2020. Year-to-date in 2020, out of the 708 dividend payers within the Russell 1000 Index, 206 companies (29.1% of dividend payers) have actually increased their indicated dividend per share payment and 396 companies (55.9% of dividend payers) have (so far) maintained their prior indicated dividend per share payment. These figures compare to a year-to-date 2019 total of 250 (36.3%) dividend increasers and 428 (62.1%) dividend maintainers.

Unfortunately year-to-date in 2020, out of the 708 dividend payers within the Russell 1000 Index, 106 companies (15.0% of initial dividend payers) have decreased their indicated dividend per share payment, with 72 (10.2% of initial dividend payers) of these decreasers having fully suspended or eliminated their entire dividend per share payment. These figures compare to a year-to-date 2019 total of 11 (1.6%) dividend decreasers and no (0.0%) dividend eliminators. Obviously, **the COVID-19 crisis is causing significant damage**

to US dividend-paying companies with 1-in-7 US dividend-paying companies decreasing their dividend per share, and 1-in-10 US dividend-paying companies "suspending" their dividend per share entirely.

For the current S&P/TSX Composite Index companies, 181 (or 79.0% on the index constituents) reported an indicated regular dividend coming into 2020. Year-to-date in 2020, out of the 181 dividend payers within the S&P/TSX Composite Index, 55 companies (30.4% of dividend payers) have increased their indicated dividend per share payment and 99 companies (54.7% of dividend payers) have maintained their prior indicated dividend per share payment. These figures compare to a year-to-date 2019 total of 72 (40.0%) dividend increasers and 101 (56.1%) dividend maintainers.

However, similar to the US experience, year-to-date in 2020 out of the 181 dividend payers within the S&P/TSX Composite Index, 27 companies (14.9% of initial dividend payers) have decreased their indicated dividend per share payment, with 13 (7.2% of initial dividend payers) of these decreasers having fully suspended or eliminated their entire dividend per share payment. These figures compare to a year-to-date 2019 total of 7 (3.9%) dividend decreasers and no (0.0%) dividend eliminators. Therefore, **similar to the US, the COVID-19 crisis is causing significant damage to Canadian dividend-paying companies with 1-in-7 Canadian dividend-paying companies decreasing their dividend per share, and 1-in-14 Canadian dividend-paying companies "suspending" their dividend per share entirely.**

It is also **important to note, that despite the significant dividend damage already done, we are only 3-months into the COVID-19 crisis within North America. The full extent of the earnings and thus dividend damage has not been realized as of yet. And, unfortunately, it is very difficult to predict the magnitude of the ultimate damage done by the COVID-19 crisis because the damage will be a direct function of how the health crisis evolves over the next year or two, which is almost impossible to predict.** It is very likely that there will be more, possibly much more, fall-out from the COVID-19 crisis as we move through the 2020 calendar year. There will also likely be indirect fall-out, or second-order effects, that are also very difficult to forecast at this point from the health crisis turned economic crisis.

However, there are reasons to be more optimistic in the longer term. First, unlike economic crises of the past, the central banks of the world acted quicker and more aggressively than ever before (including the Great Recession). The US Federal Reserve and the Bank of Canada, in particular, have acted with virtually "unlimited" programs to support the liquidity to the banks, companies and all of the fixed income markets. We believe that these programs have prevented and should continue to prevent a financial crisis from forming on top of the health and economic crises (note that the Great Recession was started with a financial crisis that turned into an economic crisis). Second, the governments of the world have also acted quicker and more aggressively than ever before to pump cash into their economies in order to replace lost income that resulted from the government mandated economic shutdowns. The objective of these programs thus far is to attempt to preserve the economy with as little long-term damage as possible until the economies of the world can be re-started after the health care crisis subsides. Third, so far, North America has fared better than expected in fighting the virus with fewer cases and deaths than feared – this the positive outcome of the government mandated lock-downs. Fourth, Europe and North America have begun to "re-open" their economies. That is, the developed world is slowly beginning to go back to work and re-open for business. Finally, the biotech and pharmaceutical companies of the world, as well as their government regulators, are more highly focused than ever before on a single issue – on quickly bringing to market in large quantity COVID-19 tests (virus and anti-body), COVID-19 treatments, and most importantly COVID-19 vaccines. Given their focus, advanced technologies, and support for one another, these medical diagnostics, treatments and medicines will likely be available in record time, with vaccines possibly available in quantity this winter.

While these are all important positive developments that have put a limit on the degree of losses that both the economy and market might have endured, ultimate victory cannot be claimed until COVID-19 itself can be properly treated and prevented – and, until such time, uncertainty and risk will remain. For example, as the developed world economies slowly re-open, there may be a reacceleration in COVID-19 cases which may prompt an even slower re-opening, or worse an unwinding of the re-opening. We also don't know yet whether the virus is more difficult to transmit in the summer months, and whether it may come back with a vengeance this coming fall when the regular flu season begins. In addition, the economic data (e.g., GDP growth, unemployment rate, etc.) that will be released over the next several months will be, while expected, shockingly bad – in fact, in almost all respects, the worst ever reported, due to the speed and depth the economic shutdown mandated by the governments. Furthermore, it is very likely that the COVID-19 experience will change all of our behaviours going forward which may in-turn change our work and spending habits in the long-term.

In summary, our growth of dividend income strategy is an income-based investment program, seeking good current income yield that grows through time. Surprisingly, in this bear market reasonably priced growing dividend income stocks have suffered much more than the expensive non-dividend paying growth stocks. The result is that **our growing income stocks currently have excessively high dividend income yields – especially as compared to fixed income alternatives which are now near all-time low yields** (e.g., the Canadian 10-year government bond currently has a yield of 0.55% per annum, for the next 10 years). That is to say, **the spread between our dividend income yield and fixed income alternatives has never been higher and more attractive** – and our yield actually grows through time. **Nevertheless, company dividend cuts and suspensions have begun with bang. While we have successfully avoided the vast majority of these dividend cuts and suspensions, we remain on "high alert" for more potential dividend cuts that may be forthcoming within our portfolio. We also continue to search for growing income opportunities that have become excessively inexpensive.** Given the spread between our dividend income yield and fixed income alternatives, we expect that the prices of our portfolio will ultimately regain all of their lost ground, and more as our income continues to grow. In the meantime, we continue to generate significant, and growing, dividend income. We continue to believe that if we get the dividends correct (which is definitely more challenging now), then we will ultimately get prices right as well. These are difficult times; but, this too shall pass.

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

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