The Dividend Value Discipline™
Market Commentary
1st Quarter 2015 (Q1) – as of March 31st

We exited the first quarter of 2015 with year-to-date returns for fully invested accounts at ~7%. A solid start, but please…don't start annualizing that number ☺! As you know, differences in start dates and the timing of cash flows translate to "no two accounts are exactly alike" – your results can be found on **The Progress Monitor**, which is included in your quarterly reporting package. The program objectives for **The Dividend Value Discipline™** remain unchanged; income every month, buy only those securities which become attractive on a go-forward basis, and returns of +8% annually, net of all costs.

A significant part of the above performance was due to our ongoing decision to hold 60-70% of the portfolio in securities that are either denominated in or hedged to the U.S. dollar, which gained a whopping ~9% against the loonie over the past three months! As far as North American stock markets are concerned, Canada's S&P/TSX Composite Total Return Index pegged in with a Q1 return of +2.54%, whereas the U.S.-based S&P 500 Total Return Index posted a mere +0.95% gain for the quarter – both figures are stated in local currency and include dividends.

Turning to the major transactions for the quarter, you will notice that a lot of "sell all" decisions were made, namely:

- **Steel Dynamics (STLD)**, bagging an 18% gain. The fact is, we sold it too soon – it has rallied since. Our take was that the continuing strength of the U.S. dollar translated into more competition from cheaper imports. That, coupled with the slowdown in the oil patch, means less steel demand for everything from drill pipes to rail cars.

- **Boston Pizza Royalties Income Fund (BPF.UN)**. First purchased in October of 2005, the overall gain was roughly 60%. Thinking-wise, we were concerned with the rather thin liquidity of the shares, which makes them difficult to sell should the need arise. We are also cautious on their overweight exposure to Western Canada, aka the oil patch, and their menu's relatively high price point compared to Tim Horton's or A&W.

- **U.S. Bancorp (USB)**, snaring a return of 50% for a hold period of ~2 years. Essentially, the price at which we sold is what we believe the company to be worth.

- **Suncor (SU)**, bagging a mediocre return of 7% over a 15 month hold period. After we reviewed the company's Q4 2014 earnings results, we were convinced that this high quality "go to" name was being bolstered in a flight to safety within the energy complex and, more importantly, was fully priced.

- **Great-West Lifeco (GWO)**, booking a gain of 31% since it was added to the program in April 2013. This is another company that we sold because it was trading at what we believed it to be worth.

- **Stantec (STN)**. Originally purchased in June 2014 at a little shy of $35.00, the overall result was a loss of ~8%. In short, when we initiated the position back in June, significantly lower oil prices were not part of our thinking. Given the level of exposure that its customer base has to the energy industry, we believe things will get worse before they get better. It continues to be a great company, and our read is that it will offer an even greater value proposition in the future.

Turning to the new acquisitions, our march south of the 49th Parallel continued with these companies:

- **Accenture (ACN)**. Global in scope and actually Irish-based with a huge U.S. presence, ACN is a management consulting, technology services, and outsourcing company. We see it as a wide moat business with tailwinds. Specifically, the move to "cloud computing" has translated to less emphasis on proprietary vendors (think IBM) with customers moving to a more open architecture. This is where ACN consultants have an edge, as they are free to recommend whatever system is going to work best for their client. In effect, it is a "brain trust" working on solving the most pressing problems of the world's largest companies.

- **McKesson (MCK)**, where their mission is to create a health care system that leads to lower costs, fewer mistakes and higher quality. Management has long tenures and they are highly focused on efficiencies, practicing the "Six Sigma" management philosophy. They serve major clients like CVS, Rite Aid, and Wal-Mart, while being careful not to get too concentrated by simultaneously attracting a huge number of independents. Our take is that McKesson has built a defensible position and is worthy of our "wide moat" designation. Given the demographic tailwind of increasing drug consumption, we expect their impressive track record to continue.

- **Watsco (WSO)**, the U.S.'s largest distributor of air conditioning, heating and refrigeration equipment; otherwise known as HVAC in industry parlance. Their goal is to build a network of locations that provide the finest service and product availability for HVAC contractors. Tuck-in acquisitions, access to capital, decentralized decision making, and a commitment to growth by better serving the needs of its customers have resulted in an earnings consistency that is the envy of its peers. We see pent-up demand in aging HVAC systems which were not replaced after the 2008/09 recession, and we expect good things to come.

- **NextEra Energy (NEE)**. Through its subsidiaries, which operate in 26 states as well as in Canada, NextEra Energy is a leader in generating clean, emissions-free electricity. We were impressed with the corporate culture, and doubly so when we looked at the insider holdings – the senior management group owns almost 20 times the value of their base salaries! Moat wise, they have an effective service territory monopoly with an almost guaranteed return on capital, coupled with an efficient-scale advantage. Furthermore, we like the significant dividend (aka rent cheque) and remain convinced that it will continue to grow. While not a decision point, it is interesting that NextEra has made the Fortune list of "World's Most Admired Companies" for eight consecutive years.

As we enter Q2, we are still underweight our equity exposure (our normal is ~75%) and overweight cash (~10%). We are struggling to find value propositions that are compelling. It is our intention to carry on with our "shock absorber" approach, reducing equity exposure when people are greedy and/or valuations are expensive and doing the opposite when people are fearful and/or valuations are compelling. In the weeks ahead, there is some evidence that the enthusiasm for the U.S. dollar is waning and that could easily translate into a weaker U.S. market. We will not escape any such outcome in its entirety, but we are well positioned to take advantage of it.

Yours Truly,

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