Canadian Dividend Growth and Income Portfolio

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Basket Investment Strategy

The Chan Lee (CL) Canadian Dividend Growth and Income Basket (CDGI) is an investment portfolio that is managed by the Chan Lee Wealth Management Group on a discretionary basis in your brokerage account. You directly own the underlying securities and receive the dividends.

As the name implies, this basket invests in Canadian companies that in our opinions, 1) have sustainable dividends, and 2) will be able to grow their dividends in the future. Sustainable dividends and the ability to grow the dividends are the two main pillars of our investment process. We believe that a superior total return can be obtained through a combination of the dividend yield and capital gains as a result of finding businesses with these two pillars.

We believe that if we invest in companies with sustainable growing dividends, the capital gains will come over the long-term (5 to 10 year time horizon). Thus, we are not focused on short-term price movements of our holdings.

Performance

Portfolio Performance

	3 months	1 yr	3 yrs	5 yrs	Inception*
Basket Performance	1.54%	5.61%	13.39%	12.21%	13.22%
Benchmark	-0.57%	5.87%	9.70%	7.80%	7.72%

Value of Basket September 30, 2018	40,959.37

***Inception date:** January 1st , 2013*

***Fees:** Returns presented are gross of fees.*

***Source**: Croesus*

Indices are shown for comparison purpose only.

***Composition of the benchmark:** S&P/TSX Composite Total Return Index.*

Performance Data

How do we know how we are doing? It is industry standard to compare a portfolio of stocks to a benchmark. Our benchmark is the S&P/TSX Composite Total Return Index.

We prefer to measure ourselves against our two pillars; 1) have our dividends been sustained and 2) have we increased the dividends (cash received) at a rate greater than inflation.

Year-to-date, we had 7 of our 16 companies increase their dividends. We experienced no dividend cuts. Of the 7 companies that raised their dividends, the average increase was 4.54% which is well above the inflation rate.

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Holdings

Issuer	Sector (GIS)	Market Value	Weighting
Brookfield Renew Egy LPU	Utilities	$2,583.24	6.31%
Chemtrade Logistics T/U	Materials	$2,165.80	5.29%
Exchange Income Corp	Industrials	$2,645.60	6.46%
Power Financial Corp	Financials	$2,308.02	5.63%
Inter Pipeline Ltd	Energy	$2,195.20	5.36%
Dream Global REIT	Real Estate	$3,979.80	9.72%
Pembina Pipeline Corp	Energy	$2,633.40	6.43%
Sun Life Financial Inc	Financials	$3,183.70	7.77%
Telus Corp	Tele-communications	$2,761.38	6.74%
Nutrien Ltd	Materials	$1,491.60	3.64%
Evertz Technologies Ltd	Technology	$1,545.36	3.77%
WSP Global Inc	Industrials	$2,827.60	6.90%
H&R REIT-Stapled Unit	Real Estate	$1,430.64	3.49%
Bank of Nova Scotia	Financials	$2,771.64	6.77%
Superior Plus Corp	Utilities	$2,536.00	6.19%
Purpose High Int Svgs ETF	Cash ETF	$3,900.39	9.52%

Transactions Performed During the Year 2018

Purchase/Sold	Description	Quantity	Price
Sold	WSP Global Inc	28	68.797
Bought	Purpose High Int Svgs ETF	38	50.03
Sold	Thomson Reuters Corp	64	55.006
Bought	Purpose High Int Svgs ETF	70	50.06
Sold	Purpose High Int Svgs ETF	30	50.04
Bought	Nutrien Ltd	20	72.979

Dividend Growth

Issuer	Dividend Increases YTD (%)	Dividend Increases Since Purchase
Telus Corporation	3.96%	64.06%
Inter Pipeline	0%	51.35%
Pembina Pipeline Corporation	5.56%	40.74%
Brookfield Renewable Energy	4.81%	18.07%
Exchange Income Corporation	4.29%	14.06%
H&R REIT-Stapled Unit	0%	2.22%
Bank of Nova Scotia	3.80%	13.89%
Power Financial Corp	4.97%	4.97%
Sun Life Financial Inc	4.40%	4.40%

Portfolio Managers' Comments

After a positive 9.10% increase in 2017 and a slight gain of 1.95% for H1 2018, Canada's benchmark index lost a little ground (0.57%) in Q3. Our portfolio had a slight gain in Q3 2018 of 1.54%, bringing our YTD return to 1.758%. Since inception for 5 ¾ years, our compounded annual growth rate (CAGR) is 13.22% which is significantly higher than the 7.72% CAGR of our benchmark index.

We are confident that our dividend growth investing methodology will continue to outperform in the long run. In the short run, rising interest rates have put, and may continue to put, pressure on dividend stocks. It is the conventional narrative that when interest rates rise, dividend yielding stocks underperform. Most investors will stop there and focus on the short term, ignoring that history has shown that a basket of high dividend yielding stocks typically beats the broader market.

We are long term investors and therefore do not mind rising interest rates. Here are a few reasons that we actually welcome higher interest rates:

1) Rising interest rates usually mean a stronger economic environment which is a positive for fundamentally sound businesses.

The manipulation of interest rates have been the government's main tool for combatting deflation and inflation. Interest rates are decreased to combat deflation and increased to combat inflation. Inflation usually occurs when the economy is strong, which creates jobs, increases wages, and thus increases demand for goods and services. The increase in demand for goods and services, in turn, leads to stronger revenue and earnings growth, which leads to dividend increases. We like dividend increases.

We wrote above “fundamentally sound businesses”. We believe there are companies that have been kept solvent by historically low interest rates and will become insolvent as interest rates rise. While this may cause short term negativity to the stock markets, it is a long term positive. As the weaker companies are weeded out, their assets will be redistributed to fundamentally sound companies who will in turn utilize these assets to become more productive and profitable. This again will lead to increasing dividends for these companies.

2) The fear that rising interest rates may cause a market crash may have investors/speculators sit on the sidelines. This, in turn, may minimize the risk of another major crash.

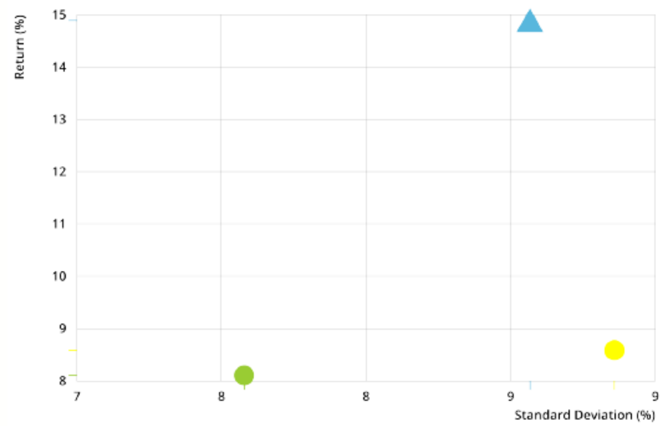
Warren Buffett has been quoted to say, “Be fearful when others are greedy and greedy when others are fearful”. As long as there is fear in commentaries and sentiment, a major crash is probably unlikely. Fear keeps cash on the sidelines. When not everyone is fully invested, the market seldom crashes. It is important to note that we are writing the market selcomd crashes and not seldom corrects. The market will have approximately 2-5 corrections per year.

However, as a buyer of fundamentally sound companies that pay dividends, the third point actually indicates that we do not mind the corrections or crashes. It gives us a sale

3) Rising interest rates generally initially put pressure on dividend stocks.

As we enter the 4th quarter of the year, we as consumers look forward to Black Friday, Cyber Monday and Boxing Day sales. We like to buy our goods for cheaper. Stocks are one of the only things that the majority do not like to buy when it is cheaper. We are holding cash in our portfolio at this moment because we see many companies that we would like to purchase not priced at what we want to pay for them. We are not timing the market. We are waiting for what we like to go on sale.

Below is a 5 ¾ year Risk/Reward chart which compares the volatility of our portfolio, as measured by standard deviation and the total return, comparing it to our index, the S&P/TSX Composite Total Return Index. Our portfolio (the blue triangle) has had a considerable higher return with slightly more volatility than the S&P/TSX Comp T/R (green dot). Ideally, we would like to be with the same return metrics but over to the left of the chart, i.e. lower volatility.



Annualized		Std Dev. (%)	Return (%)
	Gross of Fees	8.57	14.89
	DJ CAD DIV	8.86	8.59
	S&P/TSX RT/TR	7.58	8.11

We are now holding 15 companies. While 15 companies is our target, we do have the option of holding between 10 and 20 companies. Each holding, in our view, is a different income stream. This will offer better risk/reward metrics for you, the investor.

There are two methods that will increase dividends and your income from this portfolio; 1) an increase in dividends from the companies itself, and 2) trading a lower dividend paying company for a higher one. Remember, our goal is to develop an income stream for you, the investor, that continues to increase over time.

We will continue to invest this portfolio with care, looking for fundamentally sound companies which, in our opinion, offer stable, sustainable dividends and have the potential to increase their dividends over time.

Benjamin Graham, the father of securities analysis said, “In the short run, the market is a voting machine but in the long run, it is a weighing machine.” The short term voting on the prices of equities has continued to create volatile markets. Short term noise will cast votes and move the prices up and down. We prefer to ignore the noise and focus on the long term weight of the dividends we receive.

2016 Awards of Excellence

Private Portfolio of the Year
Finalist Canada

2017 Awards of Excellence

Best Private Portfolio
National Winner

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