US Dividend Growth and Income Portfolio

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Basket Investment Strategy

The Radia Wealth US Dividend Growth and Income Basket (USDGI) is an investment portfolio that is managed by Radia Wealth 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 US companies that 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 the 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	13.81%	-5.15%	9.75%	11.37%	13.67%
Benchmark	7.56%	-18.11%	7.66%	9.42%	12.56%

Value of Basket** December 31, 2022	$35,964.10

Inception date: *January 1st, 2013 initial value of one basket is $26,893.32 . After the 2 for 1 split, initial cost for one basket is $13,446.66*

***** Value of one basket. The basket split 2 for 1 on October 31, 2019.***

Fees: *Returns presented are gross of fees.*

***Source**: Croesus*

Indices are shown for comparison purpose only.

Composition of the benchmark: *S&P 500 Total Return Index*

Total returns are expressed in US Dollars.

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 500 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 10 of our 14 companies increase their dividends. We experienced no dividend cuts. (At the time of writing there has been one dividend cut.) Of the 10 companies that raised their dividends, the average increase was 5.53%. This is slightly below the rate of Canadian CPI.

Holdings

Description	Sector (GIS)	Market Value	Weighting
AT & T Inc	Telecommunication Service	1,399.16	3.89%
Nextera Energy Prtns LP	Utilities	1,822.34	5.07%
Intl Business Machines	Technology	2,817.80	7.84%
General Dynamics Corp	Industrials	2,977.32	8.28%
Amgen Inc	Health Care	3,151.68	8.76%
Principal Financial Group	Financials	2,517.60	7.00%
Purpose US Cash Fund ETF	Cash	5,403.24	15.02%
Pfizer Inc	Health Care	1,844.64	5.13%
Walgreens Boots Alliance	Consumer Staples	1,344.96	3.74%
Prudential Financial Inc	Financials	2,188.12	6.08%
Intel Corporation	Technology	845.76	2.35%
Abbvie Inc	Health Care	3,555.42	9.89%
Cisco Systems Inc	Technology	2,382.00	6.62%
Netapp Inc	Technology	1,201.20	3.34%
Chevron Corp	Energy	2,512.86	6.99%

Transactions Performed During the Year 2022

Purchase /Sold	Description	Quantity	Price
Sold	Warner Bros Discovery-A	8	17.767
Bought	Chevron Corp	6	176.837
Sold	Abbvie Inc	6	151.316
Bought	AT&T Inc	40	16.889
Bought	Chevron Corp	8	157.157
Sold	Leggett & Platt Inc	24	36.36
Sold	Paychex Inc	22	121.315
Sold	Qualcomm Inc	18	127.25
Sold	Southern Copper Corp	34	45.114
Bought	Purpose US Cash Fund ETF	54	100.06

Dividend Growth

Description	Dividend Increases YTD (%)	Dividend Increases Since Purchase
Nextera Energy Partners LP	14.96%	23.53%
AT & T Inc	0%	13.04%
Abbvie Inc	8.46%	31.78%
Amgen Inc	10.23%	46.97%
Intel Corp	5.04%	52.08%
Cisco Systems Inc	2.70%	46.15%
Pfizer Inc	2.56%	25.00%
Prudential Financial Inc	4.35%	71.43%
General Dynamics Corp	5.88%	14.55%
Netapp Inc	0%	4.17%
Walgreen Boots Alliance	0.52%	2.67%
Intl Business Machines	0.61%	0.61%

Portfolio Managers' Comments

Happy 10 yrs to our Dividend Growth and Income Portfolios

Ten years ago on January 1 2013, we officially started our Canadian and US Dividend Growth and Income Baskets (CDGI and USDGI).

We are pleased with our performance both to our main objectives 1) have our dividends been sustained, and 2) have we increased the dividends (cash received) at a rate greater than inflation.

For USDGI we believe we have accomplished both those goals. At the beginning of 2013 we reported expected dividends (based on 2012) were $1,010.24. In 2022 the actual dividends received per basket were $1,525.35.[1] Remember we split our basket in October 2019, thus to compare the dividends in 2013 with 2022 we have to multiply them by two. Our initial investment amount produced $3050.70 in dividends.

We have grown our dividend by 11.69% (CAGR). Inflation for this period was 2.36%[2] (CAGR). We have in our opinion significantly increased the purchasing power of the dividends net of inflation. We accomplished our two main objectives, dividends sustained and increased at a rate greater than inflation.

How did we perform against the industry standard benchmark?

[1] Include $212.18 dividend from AT&T spin-off of Warner Brothers Discovery.

[2] Consumer Price Index, monthly, seasonally adjusted Dec 2012 to Dec 2022

For the past ten years we have been correct in our thesis that if we accomplish our main objectives (above) we will do well with the secondary objective as well. The 10yr Compound Annual Growth Rate (CAGR) of USDGI is 13.67%. The 10yr CAGR for our benchmark index (the S&P500 total return index) is 12.56%.

We are extremely pleased with our long-term outperformance. As seen above we outperformed in the 10yr, 5yr, 3yr and 1yr periods.

While past performance is not a guarantee of future performance, we believe our methodology will continue to do well in the future. Simply put, we look for businesses that are growing, have sustainable dividends and can grow their dividends at a rate greater than inflation to protect the purchasing power of those dividends.

Dividend Growth investing is our preferred investment style. We believe it is good strategy for long term growth and preservation of the purchasing power of your capital and income stream.

<u>Dividend Growth is mitigating risks of increasing interest rates and inflation.</u>

We wrote in our 2021 year end report that “there are no perfect investments or investment styles” and “dividend growth as our preferred investment style” theoretically should mitigate some of the risks of inflation and rising interest rates.”[3]

Last year was almost all about inflation and interest rates. National Bank Investments CIO office wrote: *“In a nutshell, the story of 2022 revolves around (1) the perfect inflationary storm, (2) a true global phenomenon driven in part by (3) rising energy prices stemming from the war ini Ukraine. But also, and, more importantly, by (4) potentially the tightest job market ever. Seeing the risk of persistent inflation taking shape, (5) central banks quickly shifted into catch-up mode, dragging stocks into a bear market – (6) sometimes too quickly – (7) along with bonds. On the economic front, the rate hikes served as a real (8) cold shower on an overheated real-estate sector, in addition that would make it (10) the most anticipated recession in history, if it were to materialize.”* [4]

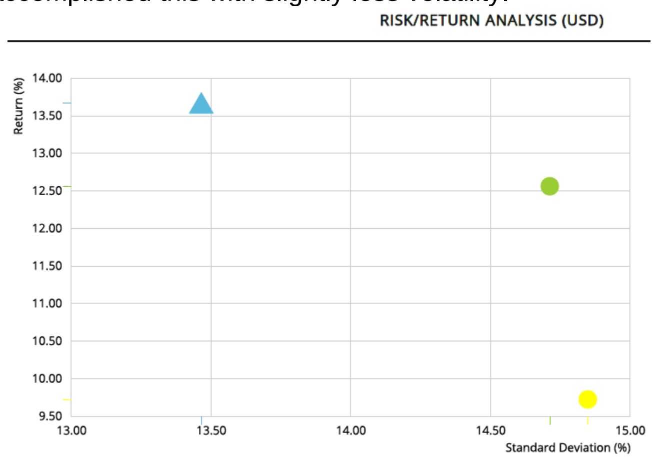
In numbers, the ICE BofA Canada Universe of Bonds Index dropped -11.5%, the S&P TSX Total Return Index dropped -5.8%, the S&P 500 Total Return Index (the benchmark for this portfolio) dropped -18.1% and the MSCI EAFE Index dropped -14.0%.

Our USDGI was not spared the carnage; however, it only dropped -5.15%, thus it does seem we did mitigate some of the effects of increased inflation and the largest increase in annual Federal Reserve Funds Rate since 1973.

We outperformed our benchmark index by 12.96%. We also protected the purchasing power of our dividends having an annual increase of 18.57%. Inflation as measured by the Canadian CPI was 6.3%. US inflation was 6.5% for 2022. Therefore, we increased the purchasing power of the dividends by almost 3x at 2.94x.

<u>Risk Reward</u>

Below is the 10 year (since inception) Risk/Reward chart below which compares the volatility of our portfolio, as measured by standard deviation with the return comparing it to our index, the S&P 500 Total Return Index. As seen, in the chart below, our portfolio (the blue triangle) is now slightly above that of the S&P 500. We accomplished this with slightly less volatility.



Annualized	Std Dev. (%)	Return (%)
Gross of Fees	13.47	13.67
DJII	14.85	9.72
S&P 500 RT/TR	14.71	12.56

<u>Transaction analysis</u>

We made 10 transactions last year; 4 buys and 6 sells. This is not a high turnover portfolio. One of the hardest

[3] Not our exact words but a condensing of several paragraphs into two sentences. If you missed our 2021 report and would like to read it, click here <u>2021 Q4 US Dividend</u>

[4] Asset Allocation Strategy – January 2023 CIO Office, Martin Lefebvre, et al.

parts of last year was not to panic and control our emotions. We attempt to think through each transaction and ensure that each transaction progresses us towards long term goals and were not a reaction to short term price movement.

As we wrote in our CDGI report, this number is consistent with the normal frequency of changes in the portfolio. This is not a frequent trading high turnover strategy.

The first transaction of the year was to sell Warner Brothers Discovery (WBD). This was an easy sell in thought but not in timing. WBD was spun out of AT&T. It did not pay a dividend at the time of the spin off and after our analysis we concluded that it would not pay a meaningful dividend in the near future. We invest in dividend paying companies; no dividend, sell it.

On the same day, we trimmed Abbive (ABBV). ABBV was 11.659% of our portfolio. Slightly above our 10% weighting threshold. We brought the weighting down to 8.96%, which is still overweight from our neutral position of 6.67%. We like ABBV. We continue to hold it[5].

We used the proceeds from the above to buy a slightly less than ½ position[6] in Chevron (CVX). CVX had just announced a dividend increase of 6%[7]. CVX has increased their dividend for 35 straight years. Yes, even through the crazy 2020 oil futures negativity, CVX raised their dividend.

We bought another approximate ½ position later in the year after the price corrected. As of Dec 31 2022, CVX was at a full position for our portfolio 6.99%.

Mea Culpa

We initially bought CVX for our dividend portfolio in 2013. We bought 24 shares at $118.84 for a total investment of $2857.61. We collected $514.15 in dividends. We sold in Sept 2018 and received a total of $2881.58.

We have now bought back with an average cost of $166.49. If we had held we would have been up more and collected more dividends from CVX. However, we would have had to stomach a drop in 2020 to a low of $51.60 in March of 2020. This was a short lived, but significant drop.

With the proceeds of the CVX sale, we added to shares of Prudental (PRU) at $104.21 and Disney (DIS) at $110.49. DIS we sold at a slight loss ($106.50) at the start of the lockdown (see 2020 H2 report for reason). PRU we are still holding.

If we had held on to CVX we would have had an approx. 13.4% CAGR (dividends included), PRU had a 4.0% CAGR (dividends included) and DIS for the time we held it had a (-2.5%) CAGR (dividends included)[8].

We are currently holding 14 companies but have 15 holdings. Purpose US Cash Fund ETF (PSU.U) like it's CAD counterpart is a placeholder of our equity position while we wait for opportunities in which we have confidence. We do not reinvest dividends in this portfolio, we pay them out to you, the investor, to spend or reinvest as you wish. Occasionally, when we sell a holding or rebalance we will be left with cash. We do not distribute this but reinvest it when we find a business that meets our investment criteria. In the meanwhile we will hold the cash in the US HISA ETF.

For a Canadian investor in taxable accounts, US dividends do not have preferential tax treatment and are taxed at your marginal tax rate. As the US interest rates increased over the course of the year we sold holdings that had yields below PSU.U. This is not a longterm strategy for the portfolio and we may buy companies that pay less than the PSU.U if we believe they have a total return greater than the yield of PSU.U.

In our last report we wrote a section called "An Asymptote Progression Towards Perfect and Good Enough".

In that section we wrote that *"Dividend Growth Investing is not perfect but good enough".* By writing about our Mea Culpas, we recognize that we are not perfect, but are good enough. We have achieved our goals as outlined above. Again, we want to emphasize that we recognize that good enough is not our goal. We are constantly refining, evaluating and debating our methodologies, looking to improve and progressing along as an asymptote line to perfect.

Knowing that we will not be perfect and our style is good enough does not mean we do not want to get better and

[5] We are aware of the potential headwinds with their drug Humira. We own Amgen which will make a biosimilar to Humira.

[6] We bought a 2.866% position, our full position is 6.67%.

[7] We did not count this as one of our dividend raises (see table above) because we need to actually experience the dividend increase.

[8] These numbers are approximate as our data provider provides historical numbers on a weekly basis and we cannot add the exact price of our buys and sells. This is based on information from Factset and Fastgraphs.

better. We do. We will not stop striving to improve our investment style within the confines of a Dividend Growth Investor, to get you as close to perfect as possible. We want to be more than "good enough".

We will continue to invest this portfolio with care, looking for companies which, in our opinion, offer stable, sustainable dividends and have the potential to increase their dividends over time. Our goal is to develop an income stream for you, the investor, that continues to increase over time.

2016 Awards of Excellence

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Finalist Canada

2017 Awards of Excellence

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National Winner

2022
Awards of Excellence

Private Portfolio
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