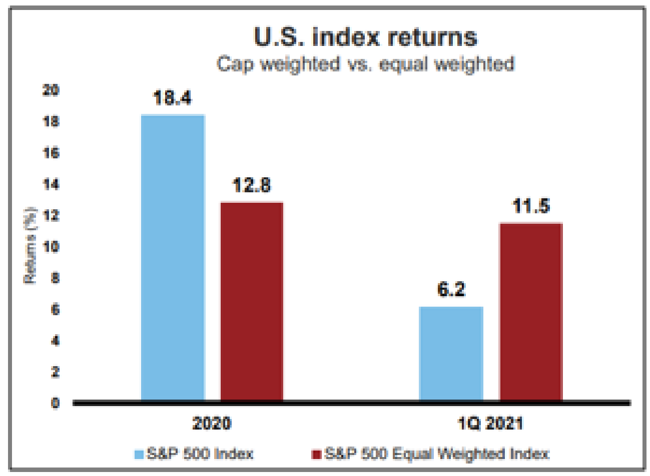
The Dividend Value Discipline™
1st Quarter 2021

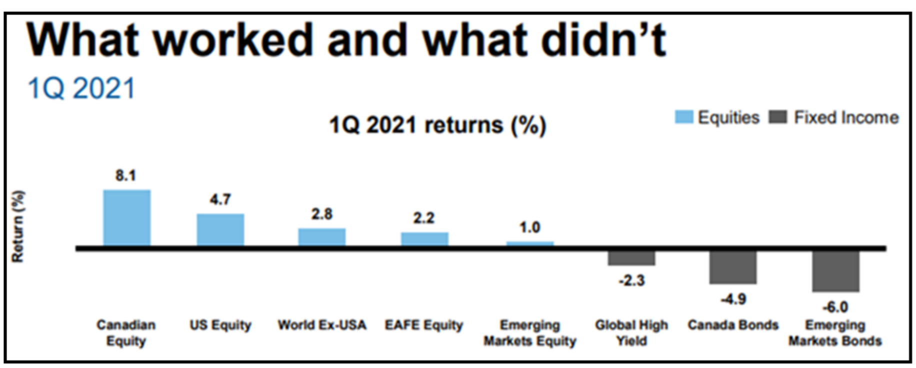
Quarterly Commentary

A Good Start

The first quarter of 2021 is off to a good start as the economy continues to recover. Q1 marks the fourth consecutive quarter of improved earnings with consensus growth remaining well above normal for the remainder of the year. The Canadian market was strong (+8.1%) helped by a recovery in financial and energy stocks. The US S&P500 was up 6.2%, but more interestingly was the outperformance of the S&P 500 Equal Weight Index. As the name suggests, the Equal Weight index gives equal representation to each stock within the index and it was up 11.5%. This suggests the recovery is expanding beyond the largest technology companies which made up 51% of the total return in 2020. The tech leaders contribution to Q1 2021 total return has only been 5% thus far. This signals greater improvement within the economically sensitive "reopening" stocks. This should help sustain the positive momentum of the markets.



Source: Morningstar and Russell Investments USD Index returns



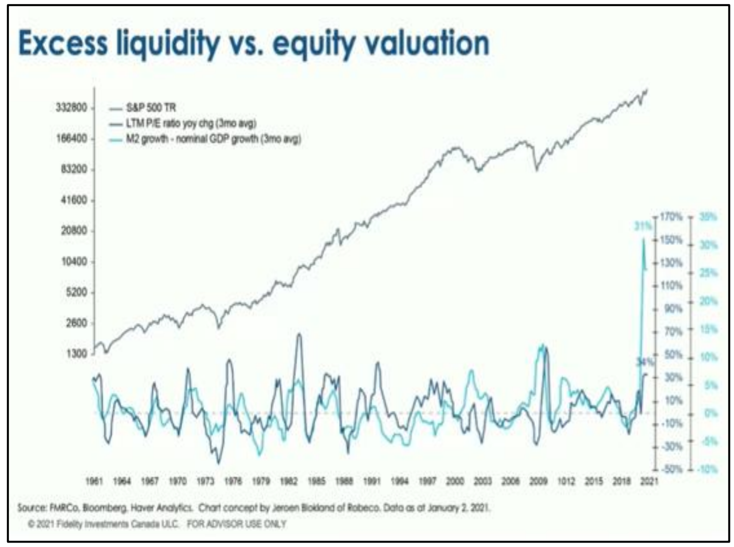
Source: Morningstar and Russell Investments, as of March 31, 2021 in CAD Index Returns

Bonds take a Back Seat

Just as we cheer the improvements in the equity markets, the bond markets have seen one of their worst starts in decades. The move on the 10-year yield curve was swift and bonds were negatively affected. The FTSE Canada Bond Universe Index was down 5.0% in Q1. Longer duration Canadian Government bonds fell even more (-11.2%) as they are more sensitive to rising interest rates. The over-riding fear is interest rates will move higher as the economic recovery takes hold. It's not a surprise bonds are taking a back seat as growth accelerates since this environment favours equities. We are mindful not to give-up on bonds, they performed well through last year and offer stability when times get tough. Not all bonds act the same which is an important distinction to make. We will always hold bonds as part of the portfolio but it just becomes more difficult to add value in the near term.

Liquidity Fuels the Market

One of the tools used by central banks and governments to defend against economic shocks is to increase the money supply. Whether it's Covid relief cheques, payroll subsidies to small businesses, or infrastructure spending the bottom line is money (aka liquidity) gets pushed into the system. M2 is a measure of money supply and it has seen a 31% spike in growth. Higher M2 is usually a precursor to higher growth and inflation. All this money seeks out a return on investment and financial assets like stocks, real estate, crypto-currencies, and even digital art have benefitted. The stimulus boost will continue for a time, but it will eventually begin to fade. You need to be mindful of the risks you take, this is something we constantly monitor within the portfolio.



Excess liquidity vs. equity valuation

Source: FMRCo, Bloomberg, Haver Analytics. Chart concept by Jeroen Blokland of Robeco. Data as of January 2, 2021.
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Inflation Protection

Higher yields are mostly positive for equities

Rising Rates Start Date	Rising Rates End Date	Duration (Months)	Change in 10-Year Treasury Yields	S&P 500 Gain/Loss
12/26/1962	8/29/1966	44.1	1.7%	18.3%
3/16/1967	12/29/1969	33.5	3.6%	1.3%
3/23/1971	9/16/1975	53.8	3.2%	-18.1%
12/30/1976	9/30/1981	57.0	9.0%	8.7%
5/4/1983	5/30/1984	12.9	3.9%	-7.9%
8/29/1986	10/16/1987	13.6	3.3%	11.8%
10/15/1993	11/7/1994	12.7	2.9%	-1.4%
1/19/1996	7/8/1996	5.6	1.5%	6.7%
10/5/1998	1/21/2000	15.5	2.6%	45.8%
6/19/2003	6/28/2006	36.3	1.9%	25.3%
12/30/2008	4/5/2010	15.1	1.9%	33.3%
7/24/2012	12/31/2013	17.2	1.6%	38.1%
7/8/2016	10/5/2018	26.9	1.9%	35.5%
3/9/2020	2/25/2021	11.6	1.0%	39.4%
Average		25.4	2.9%	16.9%
Median		16.4	2.3%	15.0%
% positive			100.0%	78.6%

Source: FactSet, Raymond James Ltd.

With the rise in liquidity and tight supplies, inflation is sure to follow and at some point we should expect higher interest rates. Relative to bonds, stocks tend to protect investors better from rising rates: companies can grow their sales and earnings above the rate of inflation. Typically cyclical sectors such as Energy, Materials, Industrials, and Financials have shown strong positive correlation to rising rates. Looking back through history, only a very rapid rise in rates tends to be negative for both bonds and stocks but this is a fairly uncommon. The Bank of Canada and the US Federal Reserve have stated interest rates will remain low until the economy is well past the recovery stage.

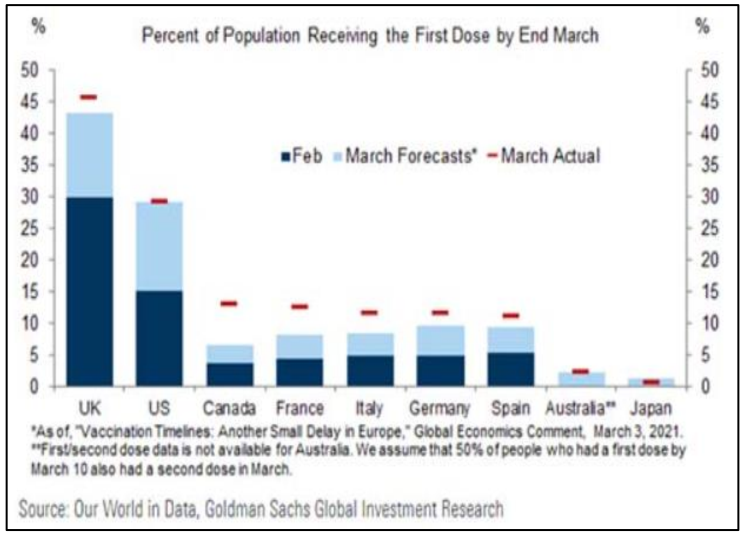
Jobs

During the pandemic, we witnessed a historic decline in employment, the likes of which had not been seen since post World War II. Low-wage workers and small businesses were hit the hardest. Recent job data in both Canada and the US surprised to the upside, helping both markets rally this quarter. In the US, small business job postings are now sharply higher as reopening efforts expand. The tides are beginning to turn and industries like hospitality and construction are having difficulty finding enough people to work.

Chart 7: Small businesses reporting record unfilled positions
NFIB small business job openings hard to fill, SA, % Balance/ Diffusion Index

Source: BofA Global Investment Strategy, Bloomberg

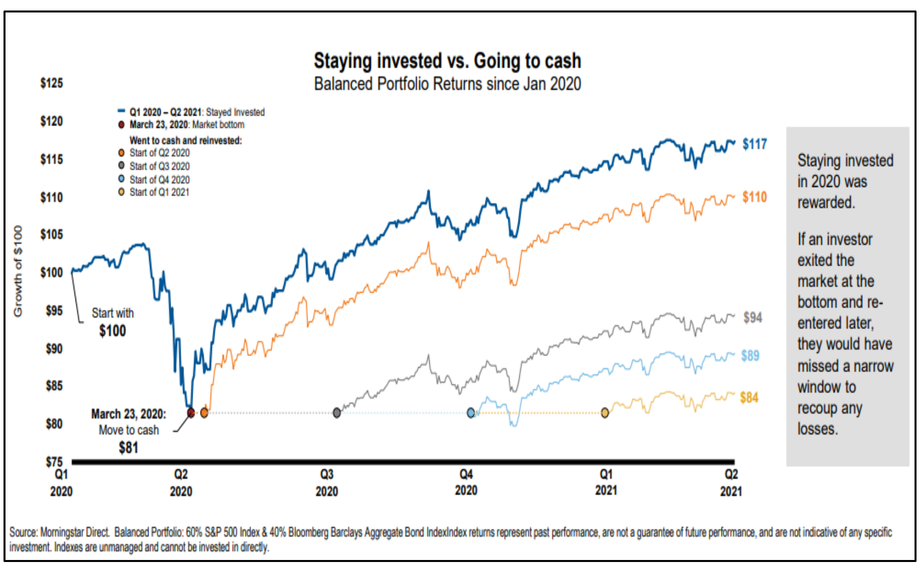
Covid Update



Canada is now experiencing its third wave of the virus, which is mainly driven by the UK (B117) and the Brazilian (P1) strains. In BC, the Brazilian P1 strain recently forced the shutdown of Whistler/Blackcomb and sidelined most of the Vancouver Canucks hockey team. The UK B117 strain is now the most dominant strain in Ontario and BC usually follows a similar path within a month or so. The highly contagious strains are worrisome and have resulted in scaled-back reopening efforts and increased travel restrictions. Health officials have stated it's a race between vaccine delivery and the rapidly rising variants, and the variants seem to be winning. Canada is well behind the UK and US in its vaccinations, but managed to exceed expectations set for March. Delivery of supplies and ongoing concerns with the AstraZeneca vaccine have hampered the immunization progress.

Looking at the vaccination success in countries like the UK, Israel, and the US, it's encouraging to see the subsequent sharp declines in deaths related to Covid. This is ultimately the goal, even though there will be ongoing cases of Covid and new strains, as long as the number of deadly cases declines we are on the right track. New hot spots like India have the potential to impact global emerging markets. Their weighting within the MSCI Emerging Market Index is roughly 8.1%. The situation could get worse given the density and size of the population. To date, India has fully vaccinated 1.4% of its population, and they're seeing a dramatic rise in daily new cases.

Stay the Course



One thing that always worries clients (and us) is the next big market crash. Despite our best efforts, we simply cannot predict when the next crash will occur. Since we recently experienced the pandemic crash, it's helpful to look back to see what's the best strategy for your investments. Selling your investments and then trying to buy back later usually results in lower performance overall. Staying invested is an important key to recouping losses in the shortest amount of time. The recovery time after a market crash will vary, but last year's window was quite narrow. Miss the window, and your ability to recover is hampered.

Having enough cash to cover expenses to last six months, or a year is a good strategy to help give investors the confidence to hold tight during tough times. If you feel on edge about the next market crash, set aside some cash, but remember to stay the course when it does happen.

The Dividend Value Portfolio

The Dividend Value model portfolio returned +3.1% (net of fees) for the first quarter of 2021. This puts the rolling 1-year performance at +20.5%, 3-year at +5.5%, and 5-year at +6.6% (net of fees).

The Canadian stocks had an overall positive impact on the portfolio this quarter. We saw a nice lift from our financial names (BMO, Manulife, TD, Cdn Apartment REIT, and Choice Properties REIT). The energy and material names continued their recovery that began in Q4 of last year with Suncor, TC Energy, and Nutrien all up double digits. Our more defensive stocks were the laggards this quarter, it was not their time to shine, but they remain in the portfolio and pay attractive dividend yields. This quarter we initiated a position in the Dynamic Global Dividend fund. This serves to diversify our equity exposure beyond Canada and the US. We also added to our Suncor position as the valuation remains attractive and commodities (including oil) look better overall.

The US stock positions were quite mixed this quarter, but positive overall. Our US financials (JP Morgan and US Bancorp) had a great quarter similar to the financial stocks in Canada. Our US technology names were mixed with Apple down 7.8% for the quarter, Microsoft up 6.2%, and Alphabet (Google) with a strong move up at +18.1%. We added to our healthcare stocks (Merck and AbbVie) as healthcare was largely overlooked during the quarter and they pay high dividend yields. We also added to Costco, a retail staple within the portfolio. The US dollar continued its slide lower this quarter, falling 1.3% versus the Canadian dollar.

The bond portfolio had a difficult quarter overall, of the seven mandates only two were positive. The move in the bond yields was swift and painful for the bond markets. Part of the issue was just how low bond yields had fallen through last year. Any move up from the extreme lows would be seen as dramatic in percentage terms, but not really out of the ordinary as bond yields are simply back to their 2019 levels. We anticipate yields could go higher over time, but the speed and scope should be less dramatic. Central banks continue to convey interest rates will remain low. This quarter we added to the RBC Core Plus Bond fund while bond prices were down.

Despite the ongoing pandemic woes, pent-up demand continues to drive a strong recovery outlook. US GDP growth of 7% and Canadian GDP growth of 5% look possible for the full year ahead. This combined with the vaccination progression, excess liquidity, low interest rates, and government support should continue to support markets in the near term. Overall we have reduced the cash levels within the portfolio in favour of more equity exposure to hopefully capture more upside potential from the economic recovery.

The Dividend Tracker

Fundamentally, we believe that owning strong, stable companies with a track record of consistently growing their dividends is the best way to grow your money. For this reason, we track the number of dividend increases received in our portfolio every quarter and for the year-to-date. In the first quarter, three Dividend Value stocks increased their dividends. Due to the challenging economic circumstances, fewer companies have been increasing dividends. No dividend cuts were announced this quarter for stocks in your portfolio.

Q1 Dividend Changes (Quarterly)			
Nutrien	Increased from $0.45 to $0.46	**Activision Blizzard**	Increased from $0.41 to $0.47*
TC Energy	Increased from $0.81 to $0.87		

*Annual dividend

Quarterly Performance

Mandate	3-mos	1-yr	3-yr	5-yr	10-yr
Dividend Value Portfolio	3.1%	20.5%	5.5%	6.6%	6.1%
Dividend Value Benchmark	4.8%	29.4%	6.8%	6.8%	5.6%
S&P/TSX Composite Total Return	8.0%	44.3%	10.2%	10.0%	6.0%
DJ Canada Select Value	12.8%	43.1%	2.7%	4.5%	2.1%
iShares Canadian Dividend Aristocrats	10.8%	49.8%	10.0%	8.5%	7.1%
FTSE-TMX Universe Bond	-5.0%	1.6%	3.8%	2.8%	4.0%

The above performance data is current as of Mar 31, 2021. Not all portfolios will be alike, given different starting dates, slightly different securities owned, or the timing of funds added or removed. Please see the individual client statements that are being included separately for specific account performance.

DVD Quarterly Transactions

The following securities were bought this quarter:
Dynamic Global Dividend Fund

The following securities were topped-up this quarter:
Merck (MRK)
ABBVIE (ABBV)
Costco (COST)
RBC Core Plus Bond Fund

The following securities were sold this quarter:

The following securities were trimmed this quarter:
There were no trims this quarter

Sincerely,

Paul Siluch	Lisa Hill	Peter Mazzoni	Sharon Mitchell
Senior VP, PM	Senior VP, PM	Financial Advisor	Financial Advisor
Raymond James Ltd.	Raymond James Ltd.	Raymond James Ltd.	Raymond James Ltd.