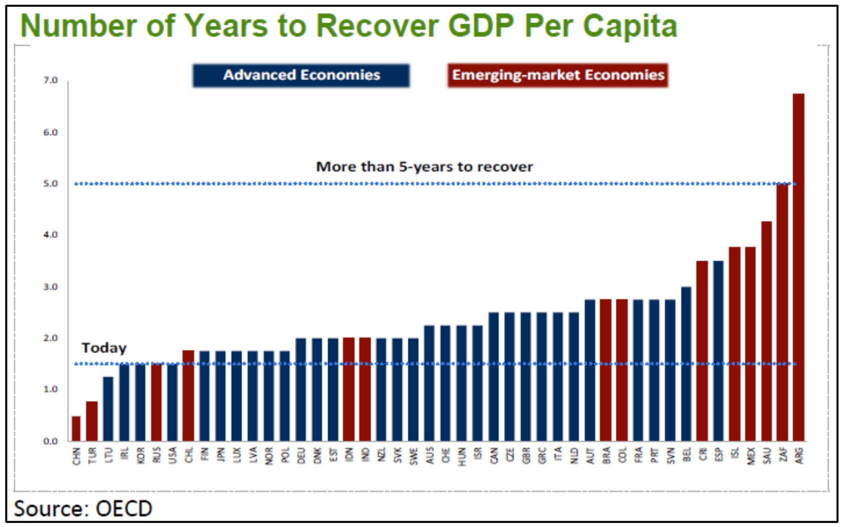
DIVIDEND VALUE PARTNERS | RAYMOND JAMES®

The Dividend Value Discipline™
2nd Quarter 2021

Quarterly Commentary

An Uneven Rebound

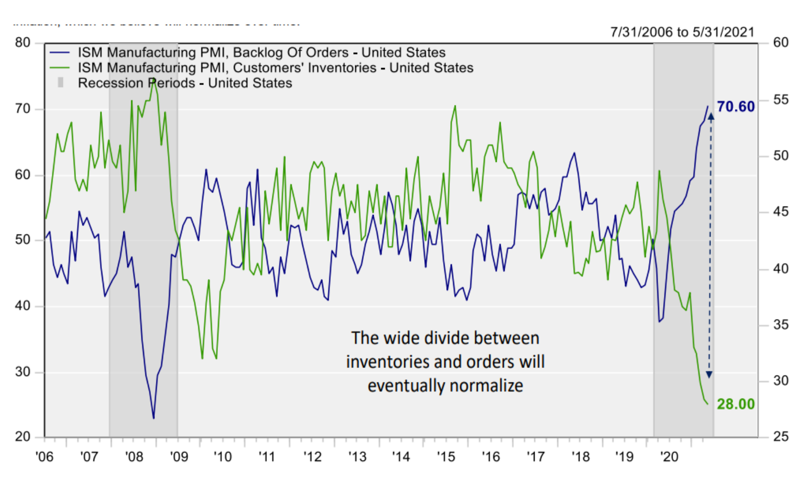
According to the Organization for Economic Co-operation and Development (OECD), global output is expected to rise by 5.8% in 2021, after a contraction of 3.5% in 2020. The pandemic and subsequent global relief response rescued manufacturing and trade. Advanced economies were able to support work through remote capabilities and support those who lost their jobs with direct financial support. Developed nations were also amongst the first to coordinate health authorities and vaccinate their populations to suppress the pandemic so reopening efforts could begin.



The road to recovery will look very different for countries that are not as advanced. For example, the US and South Korea are near their pre-pandemic per capita income levels today, roughly 18 months after the start of the pandemic. Canada is expected to a have a full recovery within a year from today, roughly 2.5 years from the start of the pandemic. For Mexico that number is expected to be closer to four years. For South Africa and Argentina that number is expected to be five to seven years. We are now seeing civil unrest in places like Cuba and South Africa where conditions have spiraled downwards and people are becoming desperate. These are the ongoing effects of the pandemic and we are likely to see more in the months ahead. We expect the recovery to progress, just not all at the same pace, and this will continue to affect global markets and investments.

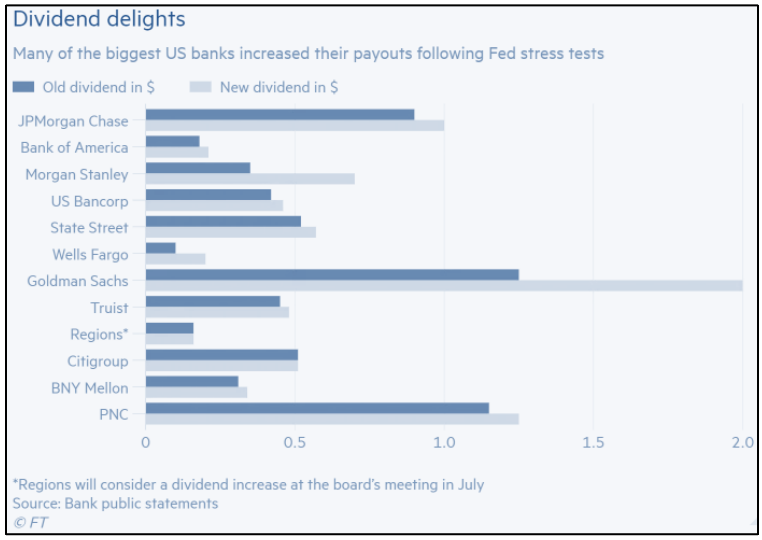
Bottlenecks & Supply Chains

So you want to replace your couch since you've been parked on it since the pandemic hit. You mask-up and head down to your local furniture store only to find nothing on the floor and everything back-ordered for 3, 6, maybe 9 months. That's the sort of environment we are in. Shortages in materials, semiconductors, shipping containers, and even wood pallets have become a problem. The divide between the backlog of manufacturing orders and customers' inventories has not been this



big since the financial crisis of 2008/09. Looking back, it took about a year for supply chains to recover and fill inventories back to normal levels. It's times like this when prices are increased all along the supply chain right down to the final end point which is you, the consumer. Experts say this price inflation will be temporary, and we believe they are right, but it's not pleasant to be a buyer of anything at the moment. It's best to hang on to that old lumpy couch a little longer until we see inventories recover and only then will prices begin to fall.

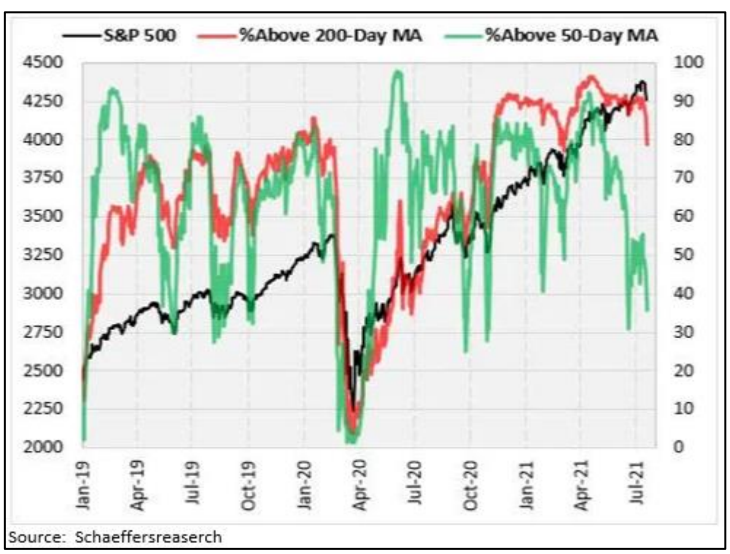
Banks Boost Dividends



When a company and its board implement a dividend change, it's a big deal. The last thing they ever want to do is lower or cut their dividend, so when they choose to increase the dividend they do so cautiously.

Shortly after the start of the pandemic regulators in Canada and the US restricted banks from raising their dividends. Regulators wanted to ensure the banks had sufficient capital to weather the oncoming economic recession. In a sign that the economy is stabilizing, banks now have excess capital beyond regulatory requirements and the restrictions were lifted in the US. Canadian regulators will likely follow suit in the second half of this year. With a better outlook and higher dividends on the horizon, the financial sector has had a strong six months (+21.1% in Canada, +24.5% in the US). We hold a number of Canadian and US banks in the portfolio which have participated in the upside. As always, we will be mindful of valuations after such a strong move.

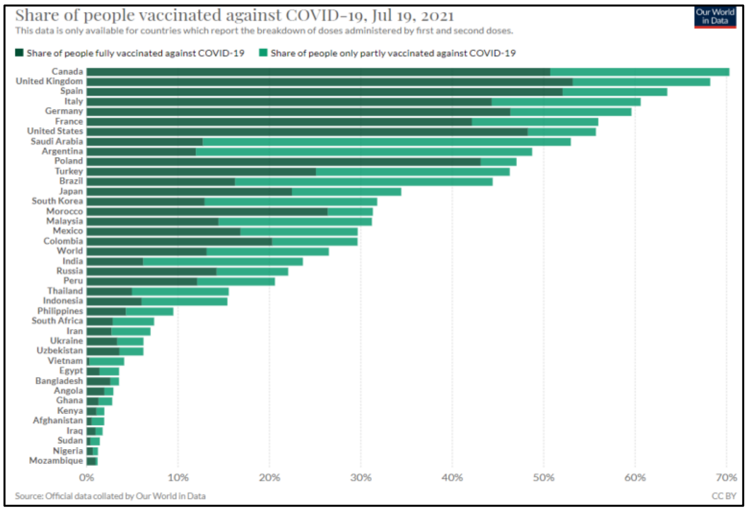
Market Breadth



Overall participation in the markets generally declines through the summer months. The old traders adage of "sell in May and go away" references how under-whelming seasonal performance can be over the summer. We have seen breadth in the markets begin to narrow, meaning fewer stocks are participating in the recent market action. This is represented by the number of stocks trading above their 50-day moving averages (green line) - this level fell below 40% recently. This can signal weaker markets ahead or it can be a pause that refreshes. We all know markets do not move in straight lines, so a pause given the overall strength thus far would be understandable. There is still plenty of liquidity in the system and cash on the sidelines which favours higher markets. We will watch to see if breadth improves once we transition out of the summer.

Covid-19 Update

First the good news, roughly 3.8 billion Covid-19 vaccines have been administered globally. Canada is making excellent progress and ranks the highest among the G7 nations for people who have received one dose (~70%) and the number of fully vaccinated (~50%). This has allowed restrictions to ease and reopening efforts to once again move forward. Recent economic data also suggests Canada's economy was less bruised by the third wave of Covid-19. We look forward to further vaccination progress into the second half of the year.

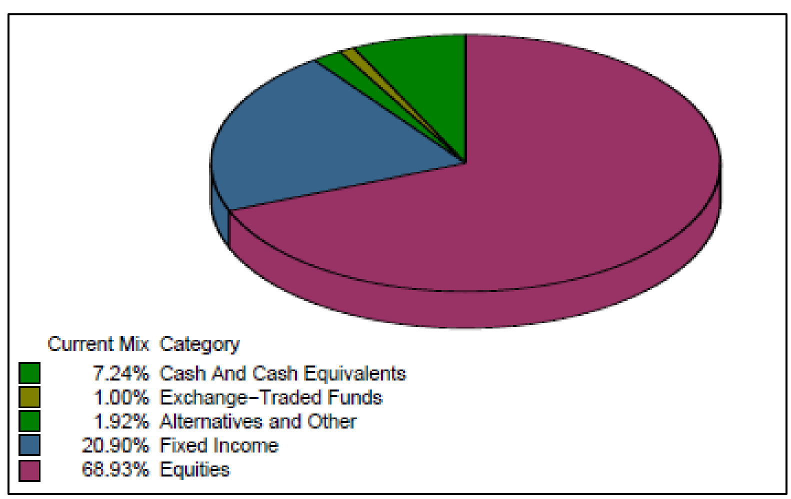


The bad news, cases of the Delta variant of Covid-19 are rising quickly. This is the strain first identified in India and is now spreading across parts of Europe, Asia, North and South America. The World Health Organization has called this version of the virus "the fastest and the fittest". People who have not been vaccinated are most at risk. Pockets of non-vaccinated people allow this strain to hop from one poorly vaccinated area to another. In the US, there are a disproportionate number of unvaccinated people in the South (Arkansas, Tennessee, Louisiana, Mississippi, Alabama, Georgia, and Missouri). Kids may also become a concern with no approved vaccine for ages twelve and younger.

A public heath analysis in the UK showed that mRNA vaccines such as Pfizer and Moderna were 88% effective against symptomatic disease and 96% effective against hospitalization from the Delta strain for fully vaccinated individuals. The Oxford-AstraZeneca vaccine was 60% and 93% effective respectively. Recently there have been some concerns around the single shot J&J vaccines' effectiveness against the Delta variant and the possible need for a booster shot. Needless to say, no matter what vaccine you receive the impact of Covid-19 variants will be less severe for those who have been vaccinated compared to those who have not.

So be thankful if you have received a vaccination shot (or two), there are many who cannot for various reasons. Be thankful of where you live as the accessibility to vaccines worldwide is still an ongoing issue. Only about 13.5% of the global population are fully vaccinated. We hope the Delta variant does not derail the economic reopening, but we know this won't be a smooth ride either.

The Dividend Value Portfolio



The Dividend Value model portfolio returned +4.9% (net of fees) for the second quarter of 2021. This puts the year-to-date return at +8.2%, the rolling 1-year performance at +19.0%, 3-year at +6.1%, and 5-year at +7.2% (net of fees).

Similar to the first quarter, stocks had an overall positive impact on the portfolio as the pandemic recovery continues to unfold. Previous GDP growth expectations for both Canada and the US have been revised even higher. Despite cost pressures, corporate earnings continue to improve pushing expectations higher.

On the Canadian side, the commodity related names (Suncor +13.8%, TC Energy +8.1% and Nutrien +11.9%) continued to do well. These stocks benefit from inflationary pressures in the economy. The dividend stalwarts (Roger's Communication +14.7% and Telus +12.5%) both had a double-digit bounce back quarter and the banks (BMO +14.4%, TD +7.0%) continued their upswing. This quarter we initiated a position in Finning International (FTT) the world's largest Caterpillar dealer and service provider. A refreshed outlook on the back of solid industry fundamentals and better visibility bodes well for Finning's future. We also topped-up the Dynamic Global Dividend fund for additional broad equity exposure.

The US stocks had a better quarter overall following a fairly mixed Q1. Leadership shifted from our US financial stocks (JPM +1.4% and USB+2.4% in Q2) over to the large-cap technology stocks (Apple +10.8%, Alphabet +19.5%, and Microsoft +13.6%) which all performed well. Visa (+9.1%) also had a strong quarter as people started to travel once restrictions were eased. In our healthcare stocks, we saw better performance out of CVS Health Corp (+10.1%) and Stryker (+5.4%), while Merck (+0.4%) and AbbVie (+3.8%) lagged behind. Costco (+10.9%) also had another strong quarter as consumer spending remained strong. The US dollar weakness continued but rallied off lows to finish down 1.3% versus the Canadian dollar. There were no changes to our US stocks this quarter.

Following a difficult Q1, the bond portfolio bounced back through Q2 and all seven mandates had positive performance. We trimmed the Russell Fixed Income Pool which holds a combination of Canadian bond managers. We see limited upside for Russell as inflationary pressures persist. We also trimmed our preferred share fund to lock-in some profits following a very strong start to the year. The price action within the bond markets is pushing yields lower reflecting slower growth, which is contrary to what stock markets are signally. It's always difficult to know which will be correct and for how long. We still anticipate bond yields could move higher once higher interest rates come into clearer focus next year.

Overall it's been a very good first half to the year. Our suspicion is the best days of the recovery are likely behind us now. The positive rate of change quarter-over-quarter and year-over-year has been high and that pace is simply unsustainable. We expect Q2 earnings to be among the best we have seen in years, but Q3 and Q4 comparable numbers will become harder and harder to beat. Expect volatility in the second half to pick up as markets try to forecast the outlook for the next 6-9 months.

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 second quarter, six 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.

Q2 Dividend Changes (Quarterly)			
Algonquin Power	Increased from $0.15 to $0.17	**Telus**	Increased from $0.31 to $0.32
Franco-Nevada	Increased from $0.26 to $0.30	**Apple**	Increased from $0.205 to $0.22
Costco Wholesale	Increased from $0.7 to $0.79	**Pepsi**	Increased from $1.02 to $1.075

Quarterly Performance

Mandate	3-mos	1-yr	3-yr	5-yr	10-yr
Dividend Value Portfolio	4.9%	19.0%	6.1%	7.2%	6.5%
Dividend Value Benchmark	5.2%	23.9%	7.7%	7.4%	6.4%
S&P/TSX Composite Total Return	8.5%	33.9%	10.8%	10.8%	7.4%
DJ Canada Select Value	7.3%	40.0%	3.6%	5.1%	3.2%
iShares Canadian Dividend Aristocrats	10.8%	49.8%	10.0%	8.5%	7.1%
FTSE-TMX Universe Bond	0.5%	-3.5%	3.8%	2.4%	3.8%

The above performance data is current as of June 30, 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:
Finning International (FTT)

The following securities were sold this quarter:

The following securities were topped-up this quarter:
Dynamic Global Dividend Fund

The following securities were trimmed this quarter:
Russell Fixed Income Pool Fund
National Bank Preferred Share Fund

Sincerely,

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Senior VP, PM
Raymond James Ltd.

Lisa Hill
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Peter Mazzoni
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