Canadian Dividend Growth and Income Portfolio

December 31, 2019

Derrick Lee, CFA, CMT, CFP
Senior Vice President, Wealth Management
Advisor and Portfolio Manager

Sam Chan, CFA, CMT, CFP
Senior Vice President, Wealth Management
Advisor and Portfolio Manager

National Bank Financial
9130 Leslie Street, Suite 200
Richmond Hill, ON, L4B 0B9

Tel.: 416-756-2298

Toll Free: 1-888-463-5553

E-mail: Derrick.lee@nbc.ca

E-mail: Sam.chan@nbc.ca

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	3.32%	28.61%	10.28%	10.64%	13.17%
Benchmark	3.17%	22.88%	6.89%	6.28%	7.82%

Value of Basket December 31, 2019	44,955.85

***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 10 of our 15 companies increase their dividends. We experienced no dividend cuts. Of the 10 companies that raised their dividends, the average increase was 5.93% which is well above the inflation rate.

Holdings

Issuer	Sector (GIS)	Market Value	Weighting
Brookfield Renew Egy LPU	Utilities	$3,979.80	8.85%
BCE Inc	Communication Services	$2,767.36	6.16%
Exchange Income Corp	Industrials	$3,575.20	7.95%
Power Financial Corp	Financials	$2,725.32	6.06%
Inter Pipeline Ltd	Energy	$2,208.92	4.91%
Alaris Royalty Corp	Financials	$1,666.68	3.71%
Pembina Pipeline Corp	Energy	$2,887.80	6.42%
Sun Life Financial Inc	Financials	$3,671.02	8.17%
Telus Corp	Communication Services	$2,916.24	6.49%
Nutrien Ltd	Materials	$1,616.42	3.60%
Capital Power Corp	Utilities	$2,407.30	5.35%
Purpose High Int Svgs ETF	Cash ETF	$5,001.00	11.12%
H&R REIT-Stapled Unit	Real Estate	$1,519.20	3.38%
Bank of Nova Scotia	Financials	$2,640.60	5.87%
Superior Plus Corp	Utilities	$2,512.00	5.59%
WPT Industrial REIT T/U	Real Estate	$2,860.99	6.36%

Transactions Performed During the Year 2019

Purchase/Sold	Description	Quantity	Price
Sold	Purpose High Int Svgs ETF	22	50.05
Bought	Nutrien Ltd	6	70.892
Bought	Capital Power Corp	22	29.266
Sold	Dream Global REIT T/U	268	16.571
Bought	WPT Industrial REIT T/U	160	13.923
Bought	Alaris Royalty Corp	76	20.08

1Dividend Growth

Issuer	Dividend Increases YTD (%)	Dividend Increases Since Purchase
Telus Corporation	6.88%	82.03%
Inter Pipeline	0%	54.05%
Pembina Pipeline Corporation	5.26%	48.15%
Brookfield Renewable Energy	5.10%	24.10%
Exchange Income Corporation	4.11%	18.75%
H&R REIT-Stapled Unit	0%	2.22%
Bank of Nova Scotia	5.88%	25.00%
Power Financial Corp	5.20%	10.42%
Sun Life Financial Inc	10.00%	20.88%
Nutrien Ltd	4.65%	12.50%
BCE Inc	4.97%	4.97%
Capital Power Corporation	7.26%	7.26%

Portfolio Managers' Comments

The Canadian equity market along with most global markets ended 2019 in the positive. A low beginning-of-year starting point and more accommodative Central Bank policy helped produce one of the strongest performances in the equity markets.

Our Canadian Dividend Growth and Income portfolio also had one of it's best 12 month returns since inception. The total return for our portfolio was 28.61%. We outperformed our benchmark's 22.88% by 5.73%, or 25% during this period.

While we do love these double digit returns, we caution that they are not sustainable and should not be expected in the long term. The adjusted average annual historical return return for the S&P/TSX is 7.7%[i] . We expect a correction to take place in the future[ii]. We would also note that it is normal for the markets to have two corrections of at least 5% and one correction of at least 10% every year. We stress that short term volatility of this nature is normal and should be expected. While they are expected, and we know they will occur, they are not timeable because we do not know when they will occur. It is counter intuitive and against our emotional instincts but we should buy more when the companies we hold are undervalued (lower). We should buy less and even trim when the markets are rising and overvalued.

Throughout the last 12 months we have held onto the majority of our cash position. At the end of 2019 we had approximately 11% of our portfolio in our cash proxy the Purpose High Interest Saving ETF. In hindsight it is easy to say that we should have fully invested our cash in December 2018 or soon thereafter.

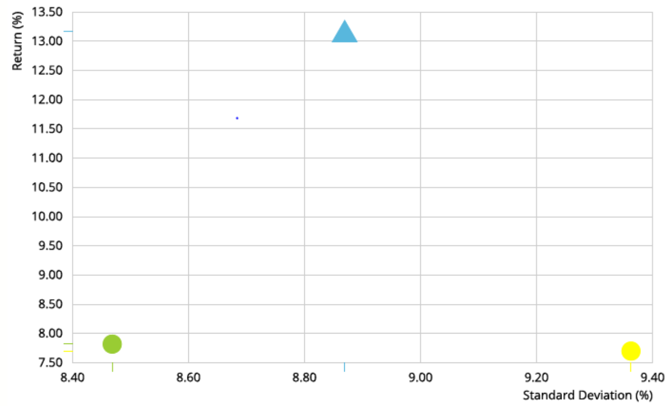
One of the keys to dividend growth investing, is to select holdings that we do not have to trade in and out of to capture our return. Our goal is to focus on dividend growth. It is not surprising to see no trades in our portfolios for months. I know this is boring. The secret sauce is to pick the right company (business) in the first place. Looking at the dividend growth of our portfolio for 2019 we are slightly disappointed.

Since inception, the Canadian Dividend Growth and Income Portfolio have returned over approximately $11,849.47 to our investors. If we add this amount back to the initial portfolio cost, investors that have purchased the basket at inception have effectively more than doubled their investment of $25,511.03. Also, for these early investors, the dividend yield on their initial investment now amounts approximately 8.62%. This means that even if there isn't any additional dividend growth, those initial investors might double their original investment again in approximately 9 yrs, if the current level of dividends is maintained. Our goal is to continue to have ever increasing dividends, thereby continually increasing the yield on your initial investment. We believe that our dividend growth investing methodology will continue to outperform and protect captial in the long run, generating healthy positive returns for all our investors.

We wrote above that we are slightly disappointed with our dividend growth for 2019. It was an average of 5.93% for the 10 companies that increased their dividends this year. Assuming zero growth for the remaining five companies we would have had a dividend growth of only 3.953% for our entire portfolio. This is above inflation, which is one of our goals, but is lower than what we would ideally like to see (6%+).

In the short run, rising tides will raise all ships and lowering tides will drop them as well. The beauty of dividend growth investing is that we do not have to depend on the rising tides to give us cash flow. The dividends generated by our portfolio will provide us with cash flow. We are buying companies with dividends that are growing. Our income should be increasing every year regardless of the price movements of the underlying holdings.

Below is a 7 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	8.87	13.17
DJ CAD DIV	9.36	7.70
S&P/TSX RT/TR	8.47	7.82

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.

[i] Copernicus financial planning software

[ii] At the time of this writing we are experiencing the market correction (reversion to the mean) that is referenced here. The concerns of the effects of the Covid-19 virus on the global economies and the oil price war between Saudi Arabia and Russia has been the catalyst for this correction. Our portfolio YTD is down approx. 11.729% with the S&P TSX down approx. 15.029 % all within the span of approx. 2 weeks. The speed of this downturn is fast and furious and hard to stomach. We are glad for this opportunity as this will give us an opportunity to deploy our cash at valuations that we belive will be more attractive. We do not presume we can pick the bottom just as we know we cannot time the top. We suspect the market will over react to bad negative news as it over extends to positive good news. We do expect to be full invested later this year.

Despite the downturn to the global economies we expect that we will still have dividend growth in this portfolio. Remember we do not need to sell to generate you, the investor, cash flow. If we select our companies with prudence we will continue to increase your dividends, despite the effects of the Covid-19 virus.

2016 Awards of Excellence

Private Portfolio of the Year
Finalist Canada

2017 Awards of Excellence

Best Private Portfolio
National Winner