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Tested, Tried & True: *The Timeless Appeal of Dividend Growth Stocks.*

BUILDING WEALTH THROUGH DIVIDEND GROWTH INVESTING

Investors seeking to accumulate and preserve wealth should focus on dividend growth investing, a strategy concentrated on companies that regularly increase their dividend payments.

It is a strategy that has been tested, tried and true through all market cycles.

It's the only investment strategy we have found that provides both rising income and capital appreciation – and with lower volatility than the market as a whole.

We're passionate about dividend growth investing. It provides our investors with exceptional long-term returns. Investment returns are more than just numbers; they're what allow our investors to do the things they've always wanted to do, rather than just dream about them. To find out more about us please visit us at www.bristolgate.com

THE BRISTOL GATE ADVANTAGE

Our name comes from the famous gate in Bristol that John Cabot set out from to find the secret Spice Route. He didn't end up finding it, but instead found something far more amazing – Canada, a great new land with abundant natural resources able to provide significant and growing returns to his investors for lifetimes to come.

At Bristol Gate we have never been afraid to look at the world differently. Just as Cabot used his knowledge and the best science of the day, we use old-fashioned hard work and the best technology and applied data analytics available to help us in our quest – to find investment opportunities whose true values provide the foundation of long-term sustainable wealth.

Bristol Gate's unique dividend growth approach is timeless – evidence proves it has worked very well for many years, through all types of markets. It consists of three core elements:

- we identify great companies growing free cash flow at above-average rates;
- using applied data analytics and our own proprietary research methodology, we combine both art and science to select stocks whose dividends we're confident will grow faster than the market; and
- we assemble these exceptional securities into a portfolio that is both concentrated and diversified to effectively manage risk.

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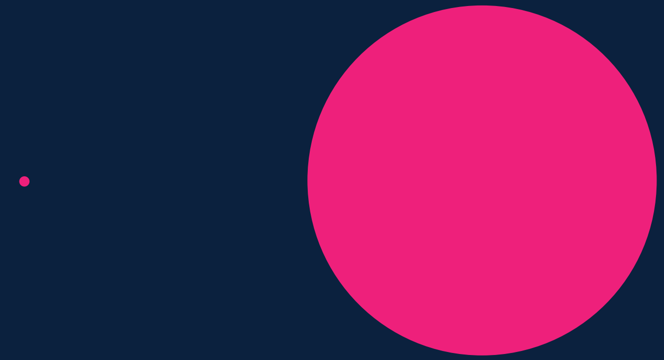
Without dividends, the long-term value of stock investing would be phenomenally smaller



$161,530
Price Appreciation

$5,496,880
Dividends plus Price Appreciation

Growth of $1,000 January 1, 1926 – December 31, 2015

Source [Note 01, p.23].

Truth – 1

DIVIDENDS DRIVE STOCK RETURNS

Over the long term, stocks have always outperformed bonds and cash. Some investors will be surprised to learn that dividends, rather than capital gains, produce the lion's share of these excess returns.

But dividend strategies vary, and they produce varying investment returns. Some focus on maximizing dividend yield, while others emphasize dividend growth.

The desire for maximum yield is understandable. Yet simply buying high-yielding stocks is a flawed strategy. Higher yields often mask poor underlying fundamentals. They may reflect an unsustainable dividend or a rapidly declining stock price. High yields often precede a substantial dividend cut and subsequent drop in share value.

The very best companies are those that can regularly increase their dividends.

Finding stocks with growing dividends is like finding treasure. They provide regular and growing income and increase an investor's wealth. Through the simple but powerful process of compounding – the income that income makes – increased capital produces even more income. Stocks that deliver regularly growing income are highly prized and appreciate in value. It's the welcome result of investing in companies that are doing well enough to both pay and regularly increase their dividend. A dividend growth stock is a singular investment that provides rising income and capital appreciation.

Truth – 2

THE SIMPLE BUT POWERFUL MATH OF COMPOUNDING

The beauty of dividend growth stocks is they provide regularly increasing income. **Who wouldn't prefer a steady, rising return from an investment, rather than waiting for uncertain future capital gains?**

Unlike bonds, these stocks increase their dividends year after year, providing an ever-increasing return on investment. Consider a $20 stock paying a $0.40 annual dividend – a 2% yield. If that company grows its dividend at 10% annually, the dividend will grow to $2.69 after 20 years. The annual yield on the original cost of the investment will rise from 2% to over 13%.

But growing dividends provide more than just an attractive income stream. They also produce excellent capital appreciation, based on the capitalized value of the growing dividend stream. If the stock's yield remains constant at 2%, the $2.69 dividend should drive the stock price from $20 to over $130 after 20 years.

This is the power of compounding and it is the most impactful factor in determining the value of your future investment capital.

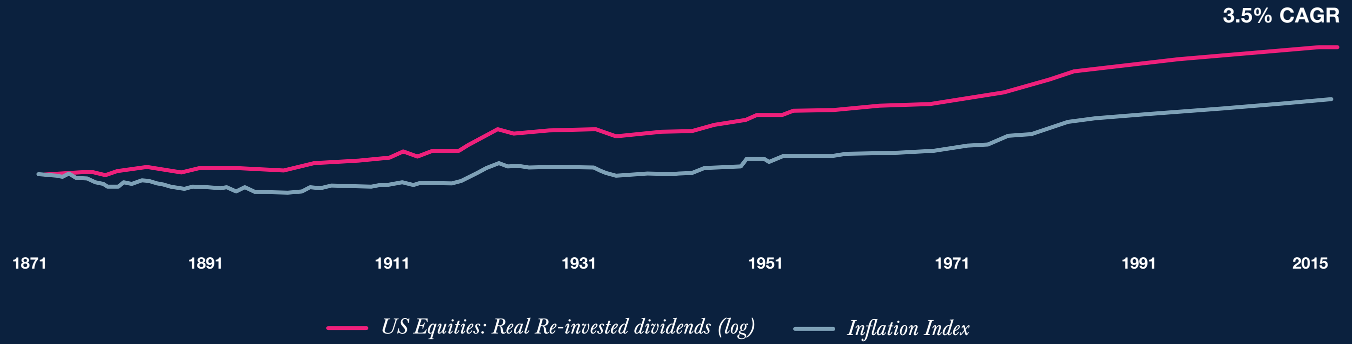
Dividend Growth & Capital Appreciation

	Initial Annual Dividend	Annual Dividend after 20 years	Initial Investment	Investment after 20 Years
Initial Yield 2% with 10% annual dividend growth	**$0.40**	**$2.69**	**$20.00**	**$134.55**

After 20 years, the yield on the original $20 investment would exceed 13%
Capital appreciation assumes a constant 2% dividend yield

Dividends Protect Against Inflation

Compound Annual Growth Rate (CAGR)



Dividends provide an effective inflation hedge with with average annual returns 3.5% higher than inflation

Source [Note 02, p. 23].

Truth – 3

THE BEST WAY TO MANAGE OVERALL RISK

Investors want the best long-term rates of return consistent with their personal definition of acceptable risk.

Every investment has risks. Overly aggressive strategies can lead to loss of capital while those that are overly conservative can allow inflation to erode purchasing power.

These risks can't be eliminated. But they can be managed.

Successful investment strategies need to work in rising and falling markets, and must protect against both inflation and deflation risk. Inflation has been muted in recent years, but we should never lose sight of the fact that even a 3% inflation rate can erode half the value of a retirement portfolio in 25 years.

Dividend-paying stocks have outpaced inflation over the long and short term, and have always produced positive results over longer time frames. During periods of deflation, they maintain their pricing power because they are industry leaders, are better managed and more strongly capitalized.

Dividend growth investing is simply the best way to manage overall risk.

PERFECT FOR AN AGING POPULATION

Throughout the developed countries, the large baby boomer generation is retiring in greater numbers, while medical advances have increased life expectancy. In these countries, the percentage of the population over age 60 is forecast to double by the year 2050. Living longer will require greater wealth and more income to maintain standards of living.

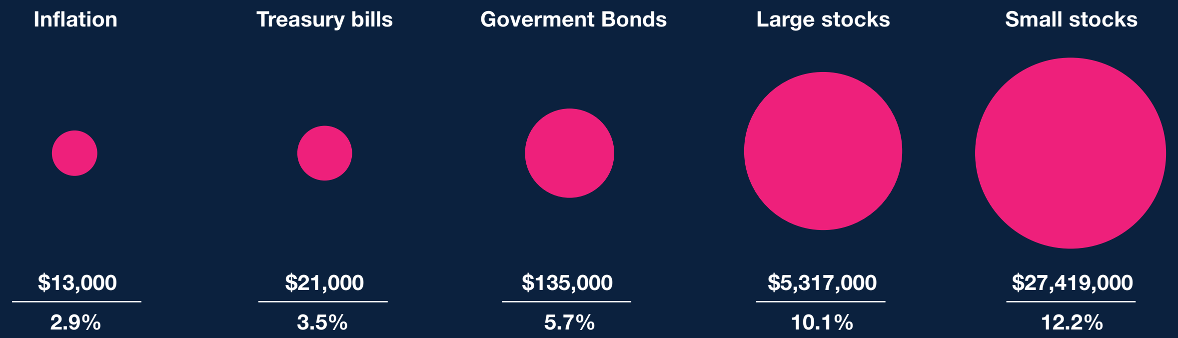
With more retirees, the demand for income-producing investments will continue to rise. Unfortunately, yields on traditional fixed income investments are near all-time lows and they could remain there for some time.

The reality that **bonds do not currently provide sufficient income, and may pose significant capital risk if interest rates rise,** may surprise some investors. However, bond values do decline when interest rates rise, with the decline being a function of the bond's duration, a measure of bond price sensitivity to changes in interest rates. For example, a 1% rise in interest rates would lead to approximately a 7.8% drop in the value of a Canadian bond portfolio (using the average July 2016 durations of three of Canada's largest bond ETFs: iShares Canadian Universe Bond Index ETF, Vanguard Canadian Aggregate Bond Index ETF and BMO Aggregate Bond Index ETF)).

Dividend growth stocks are an excellent choice for any investment or retirement portfolio. Unlike bonds, they provide higher and growing income, which not only supports higher valuations, but also leads to significantly less risk of capital loss.

Stocks, Bonds, Bills, & Inflation 1926–2014

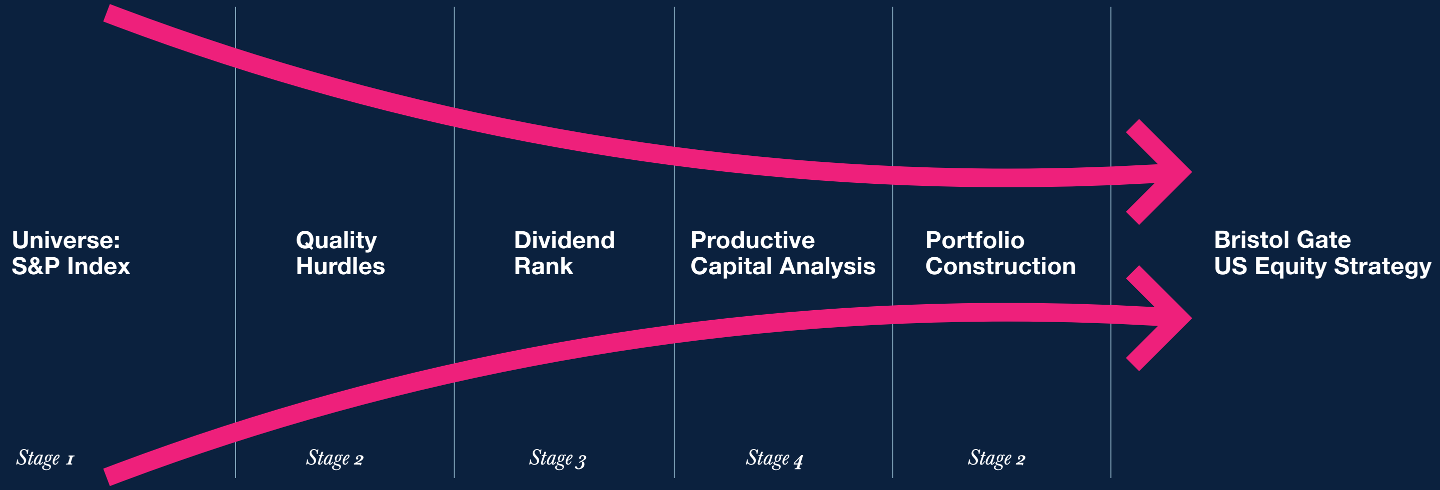
Ibbotson® SBBI®



Growth of $1,000 January 1, 1926 – December 31, 2014

Source [Note 03, p. 23].

Investment Process



Truth – 5

HOW WE FIND DIVIDEND GROWTH

Buying shares in great dividend-paying companies isn't simply a mathematical exercise. Shares provide ownership stakes in real businesses, and, to get full value, investors need to understand these businesses.

Finding outstanding dividend-paying companies isn't easy. We use a time-tested, proven strategy. We do extensive proprietary research on portfolio candidates and stick to the discipline of our investment process. We use applied data analytics to extend our capabilities and to lower investor costs. We find the companies that can best grow their dividends by using our sophisticated Productive Capital Analysis and by doing a great deal of old-fashioned hard work.

We invest exclusively in industry-leading companies generating high rates of return and surplus cash over long time periods. We only invest in companies that reward shareholders by sharing their profits through growing dividends.

We don't use derivatives or leverage or trading strategies and we ignore fads. We simply find companies that have the ability to consistently raise their dividends.

Truth – 6

WHERE GREAT DIVIDENDS COME FROM

To select the best dividend growth stocks, it's important to understand different financial metrics.

Many investors focus on earnings per share. While a generally helpful metric, earnings reflect many non-cash items. Cash dividends do not. Dividend growth investors consider free cash flow (cash generated from operations less capital expenditures and common share dividends) a more meaningful indicator of a company's health and prospects.

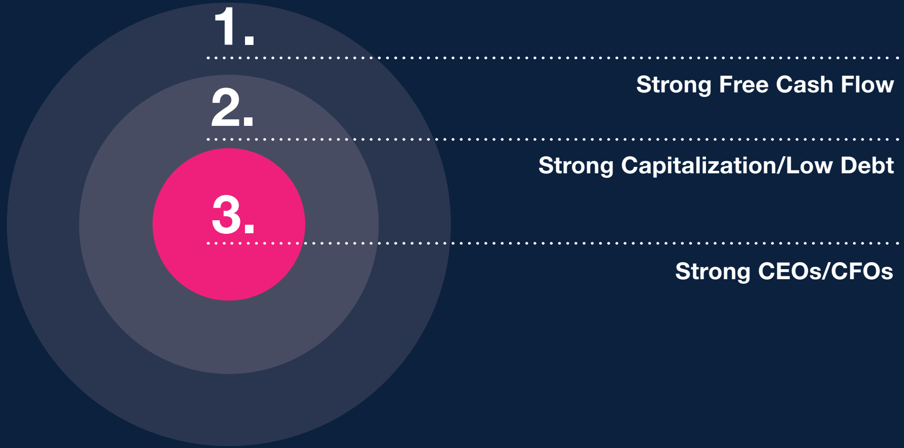
Great companies increase shareholder value through strategic, operational or financial competitive advantage. **They grow long-term free cash flow at above-average rates,** producing high returns on investment, allowing them to withstand economic stress and take advantage of opportunities.

They are also well capitalized. They carry very little, if any, debt, and it's investment grade.

They are well managed by great CEOs and CFOs, who create shareholder value through skillful capital allocation.

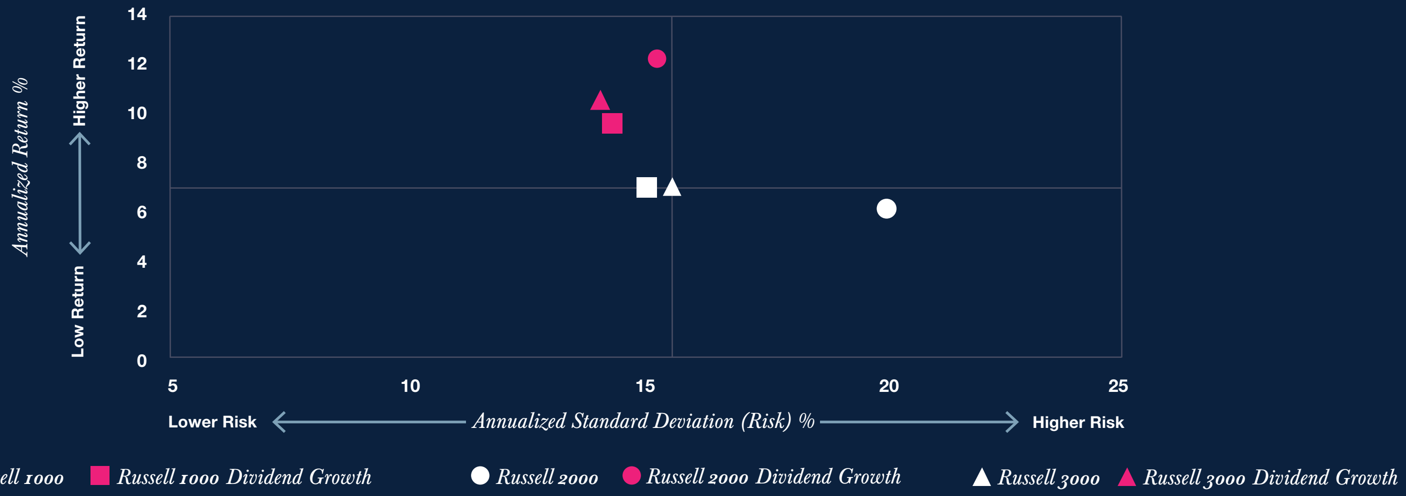
All of these factors work together to give management the ability to grow their businesses, and the confidence to raise their dividends. Dividend increases are long-term commitments to shareholders; boards and managements need to have confidence in the company's ability to meet these commitments before raising the dividend.

Three Qualities That Allow Good Companies to Raise Their Dividends.



Annualized Performance

(July 1, 1996 – March 31, 2016)



Source [Note 04, p. 23].

Truth – 7

THE ART AND SCIENCE OF PORTFOLIO CONSTRUCTION

Portfolio construction is both an art and a science. It most assuredly involves finding stocks with the highest expected dividend growth. But it's also very much about managing risk. Bristol Gate worries about portfolio construction so our investors don't have to. It's one of the many ways in which we add value to the asset management process.

We manage risk by creating portfolios of rising dividend companies with varied characteristics. Periodic market corrections are inevitable. Our approach aims to moderate the impact any individual security or industry will have on the long-term return of the portfolio.

Our portfolios are diversified but concentrated because very few companies meet our demanding criteria for inclusion. They are designed to cope better with market corrections – not merely accept them, as many passive strategies, such as ETFs and index funds, do. **Corrections are temporary, but during one, we want our investors to win by not losing their capital permanently, and by recovering faster following market declines.**

Bristol Gate's evidence indicates dividend-paying stocks outperform the broad market during market recoveries. They also demonstrate remarkable resilience throughout corrections, most recently during and after the financial crisis of 2008.

Truth – 8

WHY CAPITAL ALLOCATION IS SO IMPORTANT

In addition to increasing free cash flow through operational excellence, great companies share their profits with shareholders. Their CEOs and CFOs are particularly skilled in the important task of capital allocation.

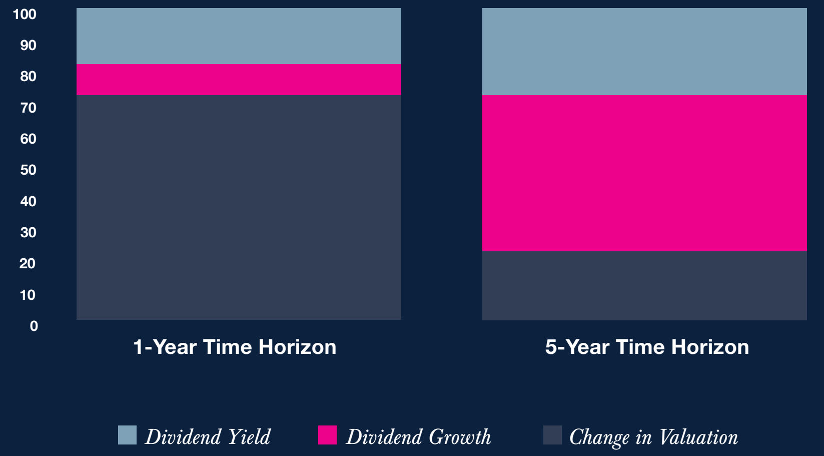
Capital allocation is the process companies use to divide capital among different activities, including allocations for strategic acquisitions. It ranks options by long-term value and allocates resources accordingly. The proper goal of capital allocation is to generate as much long-term value per share as possible for shareholders.

Talented executives excel at allocating capital to value-creating projects that increase free cash flow and then select the most impactful ways to use surplus cash.

Bristol Gate only invests in companies that generate surplus cash internally. Markets reward organic growth in high-return businesses, not companies that constantly require the capital markets to fund their growth. Companies that have to fund their growth externally either take on more debt, which increases financial risk, or issue stock, which dilutes existing shareholder value.

Some companies use surplus cash to make acquisitions, while others return surplus cash to their shareholders through dividends or share buybacks. **Our evidence shows that dividend increases create greater shareholder value than many corporate acquisitions or buybacks.**

Return Generator by Time Horizon for Every 1-Year & 5-Year Period Since 1871



Source [Note 05, p. 23].

High Dividend Yielders versus High Dividend Growers

Selected Comparisons as at 30 September 2015

Median	Top 50 by Dividend Yield	Top 50 by Dividend Growth
Dividend Yield	4.8%	1.4%
Dividend Growth	3.5%	46.7%
Forward PE	18.2x	14.5x
Net Debt/EBITDA	3.1x	2.1x
Cash % Mkt Cap	4.0%	6.9%
Dividend Payout Ratio	71.7%	24.6%
Trailing EPS Growth	-8.8%	13.6%

Compared to the highest dividend yielders, the fastest dividend growers are cheaper and have less leverage, more cash, more room to raise dividends, and faster earnings growth.

Source [Note 06, p. 23].

Truth – 9

DIVIDEND POLICIES IMPACT STOCK PRICES

Dividend changes send important signals about a company's health and prospects. Corporate dividend decisions are not taken lightly. Once a company initiates dividends, their maintenance becomes near-sacrosanct in the minds of management and boards.

A dividend cut means a company cannot maintain its dividend without creating further financial stress. Dividend cuts are harshly treated by markets, which makes managers and boards very reluctant to reduce payouts.

Initiating, maintaining, or growing dividends on a sustainable basis has historically been rewarded by markets. S&P companies today pay out about 39% of earnings, (FactSet Dividend Quarterly, June 2016) well below historical levels since the 1940s, leaving flexibility for future dividend increases from well-chosen stocks. The table on the previous page illustrates the sharp contrast in flexibility between top decile dividend growth stocks with a 24.6% payout ratio and top decile dividend yield stocks with a payout ratio of 71.7%.

The 2008 financial crisis illustrates the importance of selectivity in security selection. During 2008 and 2009, 140 of the S&P 500 companies, or 28%, cut their dividends. By contrast, none of the companies Bristol Gate held while testing its dividend growth strategy cut their dividends, nor have any of the stocks owned in our portfolio since May 2009.

Apple Inc. Stock Price & Buybacks

Sept 30, 2013 - May 18, 2016

From September 30, 2013 to December 31, 2015, Apple spent $87 billion USD to buy back 760 million of their own shares and reduce the shares outstanding by 12%. As is often the case, Apple's timing was poor, paying an average price of $115 USD, a 22% premium to today's (May 18, 2016) price of $94 USD. Despite having $145 billion in cash in 2013, Apple chose to issue $17 billion USD of corporate bonds, adding further expense to its buyback overpayment of $16 billion USD.

Truth – 10

BUYBACKS DON'T BENEFIT ALL SHAREHOLDERS

Share buybacks, first permitted without significant regulatory limits in 1982, and now increasingly a substitute for dividends, are another way companies can allocate surplus cash to shareholders. By reducing the shares outstanding, buybacks increase the percentage ownership of ongoing shareholders.

Unlike dividend increases, however, buybacks do not carry the same level of commitment and can be cancelled. There are also demonstrable differences between dividends and buybacks in the attitude of executives and boards. Dividend maintenance and growth are important considerations, while buybacks are frequently considered in the context of residual cash management, and are often poor capital allocation decisions.

Buybacks do not treat all shareholders equally. Some buybacks accumulate stock for executive option plans, and merely transfer value to option holders (for example, executive options exercisable at $50 and bought back at $100). They sometimes make sense if shares can be purchased below expected value. But if the company pays more than expected value, selling shareholders win and ongoing shareholders lose. Dividends, by contrast, reward all shareholders equally. Buyback travesties are compounded when conducted with borrowed money.

The chart opposite illustrates Apple's 2013-2015 share buyback that rewarded selling shareholders at the expense of ongoing shareholders. Despite massive cash reserves, it was debt-financed.

HOW WE CAN HELP

Dividend growth investing is a time-tested, proven strategy, but it's much harder than it looks.

How does an investor create policies for appropriate investment universes, sell discipline or optimal portfolio construction?

Investors cannot produce the highest dividend growth, possess the fastest recovery characteristics and construct the largest possible margin of safety without being able to understand a company's business, forecast dividend growth accurately, and evaluate competing uses of capital in the allocation process.

These things aren't easy, and we recognize most people don't have the time or resources to do these things themselves. That's why more and more investors are using Bristol Gate. We understand dividend growth investing, commit significant resources to research and applied data analytics that improve the process, and have an outstanding record of success. We give our clients unparalleled results, supported by great service, so they can have the financial means to do what's most important to them. Bristol Gate is not just different, it's better and an ideal partner for your capital.

To find out more about what we do and how we can help please visit us at www.bristolgate.ca

APPENDIX

Note 1 – Roger G. Ibbotson and Rex A. Sinquefield, "Stocks, Bonds and Inflation: Year-by-Year Historical Returns" *University of Chicago Press Journal of Business (1976)*. Original data extended by *The Bernstein Journal (Autumn 2004)* and by Bristol Gate Capital Partners (2016).

Note 2 – *The Barclays Capital Equity Gilt Study 2010* cited in Kleinwort Benson, *Dividend Growth: The Key to "Real" Investment Success (December 2013)*

Note 3 – *Ibbotson SBBI: Stocks, Bonds, Bills and Inflation 1926-2013* (Morningstar)

Note 4 – *FTSE Russell* (March 31, 2016 data)

Note 5 – GMO as cited in Rajesh Kohli, Using Dividend Growth Stocks to Pursue Financial Goals. *GWM Investment Management & Guidance* (Fall 2015)

Note 6 – BofA Merrill Lynch US Equity & Quant Strategy, Compustat, FactSet, First Call cited in *Strategy Snippet* (02 November 2015)

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