INVESTMENT FUNDS

DIVIDEND GROWTH & U.S. DIVIDEND GROWTH

MONTHLY COMMENTARY

May 29, 2020

We are witnessing a large rebound in the stock market in the past several weeks, as we learn more about the coronavirus and as case numbers generally improve in developed nations. In our opinion, in terms of a best-worst case scenario, the rebound is the result of a belief that we will avoid a 'worst case scenario' versus what we would have thought only 4-6 weeks ago. We still have a long way to go, but the data on the virus has generally been more positive than negative, which has led the stock market to frame the outlook more positively.

As we drill down further, we're also seeing this play out with certain sectors within the stock market as well. For example, recall only several weeks ago when investors and the media worried that multifamily REIT's would be under pressure by tenants not paying rent. Instead, we've seen collection rates for major publicly traded REITs at 96-98%, which is very close to pre-pandemic levels. In addition we've recently seen the Canadian banks report quarterly results, and while the numbers are obviously poor for the quarter compared to the same period last year, they are not nearly as bad as everyone's worst case scenario. Most banks have been extremely conservative in their provisioning, so it is possible that the past quarter will turn out to be the worst. This has helped lift bank shares to higher levels in the past few weeks.

On dividends, while I'm sure everyone has read about the numerous dividend cuts since the crisis began, the actual data has fared much better than most realize. Up to now, over 60% of the S&P 500 have raised dividends this year, and 45% of the TSX. Dividend raises have outnumbered cuts in the S&P 500 by a 4 : 1 ratio (4 companies raising for every company that has cut) and a 2.5 : 1 ratio for the TSX. The majority of the dividend cuts have been focused within the Energy and Consumer Discretionary sectors. Within our mandates, even if we focus solely on March 15 onward (as the shutdown began to take effect), we've had almost 20% of our stocks raise dividends through the worst part of this crisis, versus only 6% of our stocks that have had to cut dividends. I will remind you that our investment process involves focusing on companies with sustainable dividends (lower payout ratios), and that are conservatively leveraged.

While we've witnessed a substantial recovery in the stock market, I expect the remainder of the year to be volatile as investors digest the good and bad news that is yet to come. As a result of the volatility, we've been more active than usual in our mandates, and expect this to continue. During the past few months we have been able to add a few new names to the portfolio, which we had previously avoided solely due to valuation. In addition, we've been able to add materially to some names we already own, at attractive prices. Our exposure to the Technology and Healthcare sectors have risen in Canada and the US as these sectors have outperformed YTD, and we have chosen to maintain most of this additional exposure (rather than trim) as we believe that these gains in sectors will be durable.

The stocks in these sectors usually have lower dividend yields **but we believe in the long-term attractiveness of these sectors, along with increased portfolio diversification they provide.**

DONNY MOSS, CFA

— Principal Portfolio Manager, North American Equities
— Joined iAIM in 2008
— More than 15 years of investment experience
— Bachelor's degree in Commerce, Université Dalhousie

List of the main funds managed by the team

✓	Dividend Growth
✓	U.S. Dividend Growth
✓	Dividend Growth Hybrid 75/25
✓	IA Clarington Canadian Dividend Fund
✓	IA Clarington Dividend Growth Class
✓	IA Clarington U.S. Dividend Growth Fund

iAIM Snapshot

— Principal Asset Manager for iA Financial Group
— Major player in the asset management industry
— Manages $97 billion in general portfolios and segregated and mutual funds
— A team of 184 people, including 108 investment professionals (including 44 CFA charterholders)
— Composed of experienced managers who emphasize fundamental analysis, identification of value and long-term investing

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