



Commentary: NCM Dividend Champions

On July 15, 2024, portfolio manager Michael Simpson, CFA provided an update on the markets, the US election, Canadian stock valuations, and some of the Dividend Champions currently in his portfolio.

TRANSCRIPT:

Good day. It is Monday, July 15th, 2024 and I am Michael Simpson, Portfolio Manager of the NCM Dividend Champions Fund.

Politics has become very topical lately. Politics in North America and around the world have become very divisive. The aim of this discussion is to give our views on the market and the economy. In approximately four months time, Americans will choose the president, either incumbent Joe Biden or Donald Trump.

Donald Trump has stated that he will raise tariffs on all nations, some more than others, such as China. But this would also include Canada. Canada's largest trading partner is the US. Right now, this pronouncement is a campaign promise. And with the election too close to call, we are monitoring our companies in the portfolio, but we are not acting as if there will be full tariffs against Canada enacted.

But in the real economy, Canada is cheap. Here are two current examples. Recently, Heroux Devtek has agreed to be acquired by a private equity firm called Platinum Equity Advisors at a 28% premium. Also more recently, Cleveland-Cliffs, a U.S. steel making company, has entered into a definitive agreement to purchase Stelco, a Canadian icon, at an 87% premium to Stelco's share price consisting of both cash and shares.

This is a familiar message, but Canada is cheap and we would expect more acquisitions of Canadian companies. That is why approximately 70% of the portfolio is invested in Canada, and the remaining 30% in U.S. companies.

Geopolitics, both in North America and around the world, can have impacts on portfolios, but they can also distract investors. At NCM, we focus on the fundamentals, but don't ignore the macro. That means we are still finding value in the stock market.

In the US, three companies in the S&P 500 make up over 20% of the index. Those are Microsoft, Apple and Nvidia. There is value in the market. You just have to look for it. You have to look below the surface. When you look at the

average of the ten largest companies in the S&P 500 not weighted by market cap, they are up by a simple average 48% from December 31st to July 7th. Narrow, indeed. Now, I'm not going to confuse you with market terms such as advancers, decliners, oscillators and market breadth, but in simple layperson's terms, the market has gone up propelled by a very small group of companies.

That is why we are finding good value in names such as Calian a Canadian company trading at ten times forward earnings, Cisco at 13 times earnings, Veren Inc, a Canadian energy company, at three times cash flow and IBM at 12 times cash flow. There is room for optimism. In June, the US CPI fell 0.1% from May and the annual rate of inflation fell to 3%. This was the first monthly decline in inflation since May 2020.

We always know there are events that will upset and unnerve investors. But our best advice is to stay the course. Dividends do matter and dividends help to build wealth over the long term.

Just think, if there's political instability in Asia or Eastern Europe, or if there's a crisis in some other far flung part of the world, the garbage in Missouri still gets picked up. That's why we like Republic Services. Republic services has been a champion performer and has grown their dividend by 7.3% over the last five years.

With the NCM Dividend Champions fund. We build portfolios that last and are durable. It starts with construction. We scrutinize the balance sheet. Portfolio management requires maintenance to remove any weeds and also thoughtful introspection to constantly reevaluate what goes in the portfolio and our ideas.

To the NCM Dividend Champions unit holders: Our assets have grown nicely over the last three and a half years. I'd like to thank all of the unitholders for your support. We have a lot more room for growth.



NCM Asset Management Ltd.

Head Office 1850-333 7th Avenue S.W., Calgary, AB T2P 2Z1 | 310-99 Yorkville Avenue, Toronto, ON M5R 3K5
client services: (877) 531-9355 | toll-free: (877) 431-1407 | info@ncminvestments.com | ncminvestments.com

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