Partners | QUARTERLY PROFILE

3rd Quarter 2023

US DIVIDEND GROWER

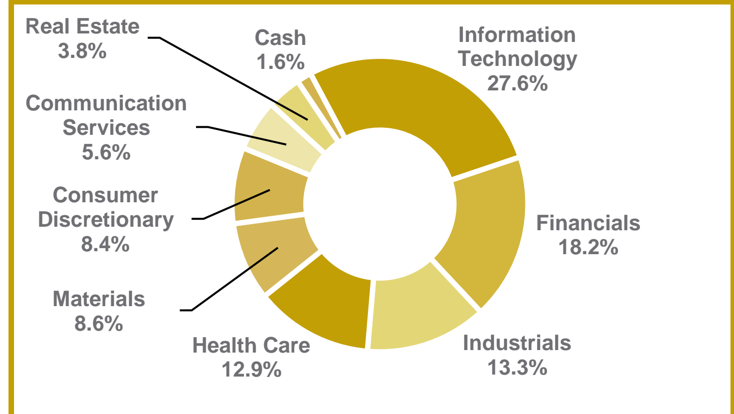
PORTFOLIO OBJECTIVE

A concentrated portfolio of the US's highest dividend growth stocks to provide growing income.

PORTFOLIO REVIEW

The S&P 500 gave back some of the year-to-date gains in Q3, falling over 3%. Although the Fed opted to maintain its benchmark interest rate in September, it indicated that it is not done raising rates in 2023,

ASSET ALLOCATION



MAJOR HOLDINGS

COMPANY	% OF PORTFOLIO
ACTIVISION BLIZZARD INC	5.62%
ROPER TECHNOLOGIES INC	4.87%
MASTERCARD INCORPORATED	4.86%
CINTAS CORP	4.85%
APPLD MTRLS INC	4.83%
MICROCHIP TECH INC	4.71%
ZOETIS INC CL A	4.66%
CSX CORP	4.60%
MSCI INC	4.52%
BROADCOM INC	4.50%

3rd Quarter 2023	QTD	1YR	3YR	5YR	10YR
Bristol Gate US Dividend Grower*	**-0.6%**	**17.8%**	**8.8%**	**11.0%**	**14.8%**
S&P 500	-1.2%	19.7%	10.6%	10.9%	15.0%
Bristol Gate US Dividend Grower (USD)*	**-2.9%**	**20.0%**	**8.2%**	**9.8%**	**11.6%**
S&P 500 (USD)	-3.3%	21.6%	10.2%	9.9%	11.9%

*Return Data Source: Inception to October 2018 returns are from eVestment which are linked thereafter to RJ Partners Program composite, gross returns. All performance data represents past performance and is not necessarily indicative of future performance. Benchmark: 100% S&P 500.

possibly diminishing the chances of a soft landing and driving the market 5% lower in September alone. With wages remaining strong and unemployment levels low, the elements that may contribute towards any potential rate cuts remain missing.

The “Magnificent Seven” stocks, which have provided the bulk of the market’s gains year-to-date retreated in Q3. The Energy sector was by far the best performing, rising 12%, benefitting from higher oil prices. Large caps continued to outperform small caps.

The Bristol Gate US Equity Strategy outperformed the benchmark during the quarter.

Stock selection in the Information Technology, Health Care and Communication Services sectors contributed to the portfolio’s relative performance during the quarter.

On an absolute basis, Activision Blizzard, Intuit and MSCI were amongst the top contributors during the quarter. Activision shares held steady as the market gained confidence that their acquisition by Microsoft would clear regulatory hurdles. Intuit continues to deliver sturdy top line and earnings growth and management reiterated their guidance for strong long-term growth expectations. MSCI’s quarterly results topped street expectations and the company continues to grow all their major business segments at attractive rates.

Having no exposure to the outperforming Energy sector was the largest headwind for the portfolio in the quarter (~50bps on a relative basis). Both stock selection and our overweight to Real Estate also detracted from returns.

On an absolute basis, American Tower (AMT), Microchip Technology and Allegion were amongst our bottom contributors during the quarter. AMT has been our worst performing stock year-to-date, hampered by higher interest rates, volatile foreign exchange and customer consolidation. We also believe it has suffered from some indiscriminate selling of the Real Estate sector. Real Estate was the second worst performing sector in the Index during the quarter. Unlike other segments within the sector that are exposed to poor or deteriorating fundamentals (retail, commercial office, etc.), we see robust underlying demand for AMT’s wireless and data centre infrastructure assets globally, for the foreseeable future as we move to a “connected everything” world. While higher rates do pose a challenge given the company’s debt load, we believe its current customer consolidation headwinds are largely behind it and expect a near term catalyst when the company sells a majority stake of its Indian business. The company’s CEO said they are in the late stages of the sale process and reiterated his confidence in getting a deal done shortly at a recent investor conference. In the meantime, AMT announced a dividend increase of 10% y/y in September.

We increased our weights in Allegion and Corteva as both fell below our quarterly rebalancing weight threshold and sourced the funds from sales of Broadcom and Intuit.

During the quarter, we exited our position in Dollar General (DG). We initially invested in DG in 2020 due to its

attractive dividend growth, its business model focused on value and convenience and a reasonable valuation. We expected the company to provide some ballast to our portfolio, particularly in difficult economic times as consumers increasingly searched for value. The current economic environment, characterized by high inflation and growing pressure on consumer spending budgets, was the exact type of scenario where we thought DG could thrive. However, after reporting a disappointing Q1/23 result we became increasingly concerned about the firm's competitive positioning and operational execution, namely:

The effect persistent inflation was having on the financial health of the low-end consumer, as well as the fact that higher-income consumers did not become more price conscious and start to shop at DG, which normally would offset that impact.

The growing complexity of DG's business and supply chain with the implementation of several initiatives to drive sales, like DG Fresh which introduces produce but brings challenges such as cold storage, food safety, rotting, etc.

Increasing competitive pressure resulting in negative traffic trends. Retail giants continue to invest in omnichannel delivery capabilities gradually eroding DG's rural moat while lowering prices to attract consumers.

A view that DG had underinvested in labour as its business has become more complex and its stores experienced growing incidents of theft and employee safety concerns.

With the above concerns, and a deteriorating dividend growth prediction, we decided to sell DG just prior to the company reporting Q2/23 results at the end of August. Q2 also fell short of expectations and the stock has fallen over 30% since our sale.

We used the proceeds from DG to purchase CSX Corp., a leading transportation company. CSX provides rail, intermodal and other services to a broad array of markets through their network of approximately 20,000 route miles of track connecting the Eastern United States and Canada.

In addition to a growing dividend, CSX exhibits many of the fundamental attributes we look for in a 'Bristol Gate company'.

The company has a large opportunity to gain market share, as the North American transportation market, estimated to be approximately $900B, is still mostly (approximately two-thirds) still addressed by trucking. As such there is a large opportunity to gain market share as rail is a more efficient and environmentally friendly alternative to trucking.

The company operates in an industry with oligopolistic characteristics. Consolidation over the last 50 years has resulted in six Class 1 railroads in North America, accounting for approximately two thirds of the industry's

mileage and over 90% of freight revenues. Many local markets are monopolies or duopolies for the railroads.

CSX is a best-in-class operator, and the company's high free cash flow margins have enabled consistent dividend growth that is expected to continue. Expected volume and service level recoveries from COVID-related supply chain disruptions should lead to better pricing and revenue going forward. The high fixed cost nature of the business should mean a lot of that recovery falls to the bottom line.

We also find the company's current valuation attractive, particularly relative to the broader market where it is trading near decade-plus lows.

OUTLOOK

From a corporate earnings perspective, the broad market's performance remains lackluster. The S&P 500 saw earnings decline on relatively flat revenues in the second quarter. Our portfolio companies continue to deliver far superior operating results than most S&P 500 companies. They are generating consistent revenue growth and the operating leverage we expect from high quality companies despite being in a difficult macro environment.

The strong fundamental performance has supported dividend increases (averaging ~20% ytd) that have exceeded the market's mid-single digit y/y growth rate by a wide margin.

As discussed above, much of the market's gains this year have come from the fundamental performance and related multiple expansion of just a small subset of stocks, namely, the 'Magnificent Seven'. Those companies have had an outsized impact on the Index due to their large market weights. Outside that group, the Index's 493 other companies have collectively struggled. Despite this, the market's forward earnings multiple has remained at a similar value to the beginning of the year. In contrast, our portfolio companies are trading at a 5% discount relative to their valuations to the start the year, with much stronger revenue and earnings growth:

We remain confident that our companies will continue to demonstrate the fundamental consistency they have thus far this year and our unique approach to high dividend growth investing will serve our clients well in the long term.

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