# Heward Canadian Dividend Growth Strategy

HEWARD
INVESTMENT MANAGEMENT INC.

## *A Decade of Canadian Dividend Growth Success*

As 2019 comes to an end, we look back at our Canadian Dividend Growth strategy and are extremely humbled and proud of our results over the past decade. The strategy was designed for investors who wanted to participate in the market, but with a more conservative portfolio. When back-tested, shares of Canadian dividend growers had a history of outperforming the more cyclical S&P TSX Index.

Over the last decade, the strategy posted returns of 9.71% per year versus the 6.90% seen from the S&P TSX. Our strategy provided its initial investors with a 218-basis point (compounded annually) outperformance versus its benchmark. Not only did the strategy beat its benchmark on a return basis, but did so with substantially less risk (10-year beta of 0.64). Therefore, when looking at the outperformance on a risk adjusted basis, it is further amplified to a 531-basis points over the last 10-years (annualized).

In 2019 Canadian markets were one of the top performing markets with a return of 22.88%. The material sector (led by gold) accounted for 3.0% of this return. While our strategy does not allow gold investments (gold stocks are not dividend growers), and despite the shiny material's run in 2019, the portfolio posted a return of (22.29%). The strategy was able to provide almost comparable returns in spite of running with more defensive positions and higher cash balances.

Top performers for the quarter included: Power Financial, TFI International, Stantec, and Jamieson Wellness. Also making a big contribution was Cineplex, which received a buy out offer at more than 40% above where it was trading.

Canadian banks were laggards through the fourth quarter as investor concerns centered on the higher loan provisions that were taken. Given the Canadian Banks' economic forecasts of slower economic growth going forward, this was viewed this as a conservative measure, but did put pressure on earnings forecasts. We believe these types of decisions prove yet again, that Canadian banks are among the most prudent and well managed financial institutions in the world. Unlike most, they are willing to forgo short-term performance to insure long-term financial viability.

We continue to have a positive outlook for Canada and Canadian equity markets over the next decade, especially for companies that fit within our dividend growth strategy. Looking forward we see several avenues of economic growth which include: immigration, nation wide infrastructure projects, technology investments, pipeline construction and the west coast LNG project. All should make positive contributions to economic expansion. Also, there is our wealth of "human capital". Canada is home to a vibrant and diverse workforce that is well-educated and making significant inroads in technology, artificial intelligence (AI) and gaming. Furthermore, the high demand for IT services is becoming a major factor for employment growth throughout the country.

As always, we remain true to our disciplined process. We remain convinced that the potential of the Canadian economy is being well underestimated by investors (especially foreigners) due to several factors, yet remains on solid footings.