PORTFOLIO MANAGER COMMENTARY - DECEMBER 31, 2018

Portfolio Review

In August, shareholders voted to modernize the mandate for DGS. Prior to the vote, DGS was a static portfolio with changes limited to extraordinary circumstances, such as a dividend cut. After the vote, changes were made to the investment objectives, strategy and restrictions, which: i) expanded the investable universe of high quality dividend growth companies by expanding the financial metrics that may be used to analyze the portfolio constituents, including forward-looking metrics; ii) provided for up to 20% of the portfolio to be invested, from time to time, in global dividend growth companies; and iii) allowed the Manager to rebalance and/or reconstitute the portfolio more frequently than annually, at its discretion, for reasons other than the suspension of dividends, mergers or fundamental corporate actions or exceptional circumstances, so that DGS may respond to security or market developments on a timely basis.

As a result of this portfolio modernization, the portfolio was reconstituted in the fourth quarter of 2018. With this process, we removed several smaller and/or underperforming names from the portfolio including CI Financial, IGM Financial, Canadian Utilities, Great-West Lifeco, Industrial Alliance, and Shaw Communications. We also reduced the weighting in Power Corp. We replaced these names with several companies that we believe have better longer-term dividend growth potential including Restaurant Brands (owner of Tim Horton's and Wendy's), Canadian National Railway, Brookfield Infrastructure, Brookfield Properties, Fortis, and Canadian Apartment Properties. We also added an allocation to global dividend growth equities through an investment in Brompton Global Dividend Growth ETF.

Over the course of the year, the Fund benefitted from strong performance in Rogers and Fortis, which were the only names to contribute positively to performance in 2018. We continue to like Rogers after the company delivered solid results in the third quarter. Average revenue per user (ARPU) increased by 3% due to increased subscribers to higher rate plans, as well as a decrease in churn rate of 0.07% compared to prior year. We believe that the overall wireless industry growth will be a tailwind for the company and the volume of new subscribers being added each year should be sufficient to absorb increased competition from Shaw/Freedom. Fortis, which is a large gas and electric distributor in North America, should continue to drive growth through investments in utilities and contracted energy infrastructure in North America. The company has also committed to grow its dividend at a 6% CAGR through 2022. The Fund also benefitted from strong relative performance from the banks, which mostly beat the market despite the fact that they were all down for the year.

These positive contributions were more than offset by several weak performers in 2018, including CI Financial, IGM Financial, Manulife and Power Corp., all of which declined more than 20% on the year. As mentioned above, we have removed CI and IGM from the portfolio and have reduced the weighting in Power Corp. We believe the asset managers will continue to face headwinds from fee pressures and institutional fund outflows. Manulife was impacted by negative sentiment surrounding a court case relating to side accounts on certain acquired policies. We believe a favourable outcome for Manulife is highly likely in this litigation. The stock trades at a significant discount to its peers despite the recent improvement in ROE and we expect valuation improvement in 2019 once the court case is resolved.

The Fund is overweight Financials, Communication Services, Utilities and Real Estate. Canadian banks are attractively valued while they are well capitalized with strong balance sheets. Financials have a track record of dividend growth, which we think will continue in 2019. We are optimistic on the large scale roll-out of 5G in the coming years, and communication services names are well positioned to benefit from this secular trend. Both broadband and wireless demand remains strong, and companies within the sector are able to exercise their pricing power without taking a hit on churn rates. As for utilities, long term visibility of cash flow combined with consistent dividend growth make this sector attractive. We also see secular growth trend in renewables within the sector, which should provide earnings growth for years to come. Lastly, the Fund is also overweight real estate, specifically apartment REITs. We believe strong employment rates in the Canada and migration into cities will continue to drive demand for apartments, especially in high density provinces like Ontario, British Columbia and Quebec.

The Fund is underweight Energy, Healthcare, Industrials, Information Technology and Materials. In Energy, the uncertainty around regulation on building pipelines in Canada will add volatility to the sector and keeps us on the sidelines for the most part. We currently do not hold any Health Care names due to the small size of the sector in the benchmark and the absence of dividends paid. As for the Industrials sector, strong demand in 2018 and a tight trucking market has created tight capacity on the railroads. Canadian National Railway should benefit from strong demand trends going into 2019 combined with revenue growth supported by pricing power. Though we are positive on Information Technology from a secular growth prospective that's fueled by cloud, Internet of things (IoT) and autonomous vehicles, we currently do not hold any stocks due to a lack of dividend paying stocks in the sector. Lastly, in Materials, we believe global growth has peaked for this cycle; we see gold companies having difficulty generating earnings and base metal prices being challenging.

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