Split Share Funds: Portfolio Manager Commentary - DECEMBER 31, 2018

Fund & TSX Ticker	Fund Description
Dividend Growth Split Corp. DGS DGS.PR.A	A split share fund invested in an approximately equal-weight portfolio consisting primarily of blue chip Canadian equities with high dividend growth rates. Class A shares provide leveraged portfolio returns. Preferred shares pay quarterly dividends and are rated Pfd-3 by DBRS. Portfolio Composition: (43.3% Financials; 17.6% Telecommunication Services; 14.6% Energy; 6.8% Utilities; 4.3% Global Equities; 4.2%; Industrials; 4.1% Real Estate; 3.3% Consumer discretionary and 1.8% Cash)
Life & Banc Split Corp. LBS LBS.PR.A	A split share fund invested in an equal-weight portfolio of Canada's four largest listed life insurance companies and the Big Six Canadian banks. Class A shares provide leveraged portfolio returns. Preferred shares pay quarterly dividends and are rated Pfd-3 by DBRS. Portfolio Composition:(61.0% Banks; 38.6% Lifecos; 0.4% Cash)
Brompton Lifeco Split Corp. LCS LCS.PR.A	A split share fund invested in an equal-weight portfolio of Canada's four largest listed life insurance companies. Class A shares provide leveraged portfolio returns. Preferred shares pay quarterly dividends and are rated Pfd-3 (low) by DBRS. Portfolio Composition: (98.9% Lifecos, 1.1% Cash)
Brompton Split Banc Corp. SBC SBC.PR.A	A split share fund primarily invested in an approximately equal-weight portfolio of the six largest Canadian banks. Class A shares provide leveraged portfolio returns. Preferred shares pay quarterly dividends and are rated Pfd-3 (high) by DBRS. Portfolio Composition: (92.2% Banks; 7.1% North American Financials and 0.7% Cash)
Brompton Oil Split Corp. OSP OSP.PR.A	A split share fund invested in an equal-weight portfolio of at least 15 large-cap North American oil & gas issuers. Class A shares provide leveraged portfolio returns. Preferred shares pay quarterly dividends and are rated Pfd-3 by DBRS. Portfolio Composition: (99.2% Oil & Gas; 0.8% Cash)

Sector and Applicable Funds:	Sector Commentary
Banks: Dividend Growth Split Corp. Life & Banc Split Corp. Brompton Split Banc Corp.	The Bank of Canada appears to be on hold for the foreseeable future with respect to further interest rate hikes. As a result, the benefit of higher interest rate margins will start to plateau. The Canadian housing market has started to stabilize after years of rapid price increases. This slowdown in residential lending has been offset by robust commercial loan growth. Operating leverage has been positive as the big 6 banks balanced operating expense efficiencies with increased technology investments. With their diversified business models, banks should be able to grow earnings approximately 6% this year. Combined with an approximately 4% yield, this could generate a 10% total return. On the regulatory side, the Manager does not expect new regulations on banks or the housing market. We expect capital ratios to increase giving the Banks the ability to deploy capital via growing dividends, share buybacks, and M&A. Some of the banks are expected to pursue acquisitions, particularly in the U.S., but they will likely be bolt-on versus large transformational acquisitions. In terms of valuations, stock valuations have followed the U.S. market lower pricing in a recession with significant credit deterioration despite the solid credit quality and low unemployment rate in Canada.
Lifecos: Dividend Growth Split Corp. Life & Banc Split Corp. Brompton Lifeco Split Corp.	With the new regulatory framework OSFI implemented for the lifecos, capital levels should be, in general, less sensitive to changes in long-term interest rates. With all of the companies safely onside, the companies can more confidently raise dividends, buy back shares, and make acquisitions. Instead of concentrating on the solid fundamentals, the market has centered on the headline risk surrounding a court case that could allow policyholders to deposit an unlimited amount of cash in old insurance policies held at Manulife and Industrial Alliance. The province of Saskatchewan has already closed the loophole retroactively. Trading at near-term P/E less than 8x, the manager believes valuations are compelling especially with earnings growth of approximately 6% per year and dividend yield of nearly 5%.
Telecommunications/Wireless: Dividend Growth Split Corp.	The stability of the earnings and dividends in the telecommunication sector attracted safe haven flows from the volatility in the market. Upgraded offerings in cable such as IPTV should limit cord-cutting. Investments in fibre optic cable are paying off in faster online speeds and higher monthly charges for internet. Overall, there have been no big regulatory changes and the competitive environment has slightly deteriorated. Shaw has upgraded their cell phone network and is more aggressively pricing cellular services. The market for mobile phones is continuing to expand in terms of the number of subscribers and data usage. Increased demand for video is driving increased data requirements in mobile and internet traffic. We believe telecommunication companies will be slower to invest in the next generation of mobile 5G than expected due to the current lack of "killer" apps. Canada typically deploys new cell technology approximately two years after the U.S. The U.S. rollout is behind schedule so the capital outlay in Canada will likely be smoothed out over many years. As a result, the sector should continue to grow their free cash flow and dividends over the coming years. This year, we expect the Telcos to make progress in deleveraging their balance sheets.

Pipelines & Utilities: Dividend Growth Split Corp.	Utilities have benefited from the safe haven flow to utilities. The necessity of pipelines has become even more apparent as differentials in Canadian oil and gas prices blew out with supply exceeding capacity. With the US regulatory agency FERC changing a rule that would remove oil MLPs' tax advantages and render them not viable as a funding option, Enbridge has simplified their corporate structure by purchasing not only their US MLPs but also Enbridge Income Fund. Along with the recent asset sales, they have reduced the likelihood of equity issuance. Enbridge's Line 3 has gained regulatory approval and is on track to finish the pipeline by the second half of 2019. LNG Canada sanctioned their LNG project with gas from Western Canada to be transported by the new Coastal GasLink Pipeline to be built by Transcanada. The long-term cash flow and dividend visibility have improved as regulatory approvals have passed. The sector generates strong free cash flow with high dividend yields.
Oil & Gas: Brompton Oil Split Corp.	OPEC increased production 1.3 million barrels per day from May to November in front of the Iran sanctions. As President Trump unexpectedly granted waivers to most buyers of Iranian crude, there was an oversupply in the market driving prices lower. On December 6, OPEC plus Russia decided to dial the production increase back by 1.2 million barrels per day to support prices. The cuts should bring the demand and supply of the oil market into balance. The oil price correction was compounded by the fears over slowing global growth which could possibly lower demand. The Permian, the growth engine of production in the US, is no longer constrained by infrastructure after a number of pipelines have been built, but is being increasingly constrained by tight labour conditions and other infrastructure such as roads and housing. With the price of West Texas Intermediate under $50, it is difficult for companies, especially U.S. producers to maintain production. Capital allocation is improving in the U.S. with companies prioritizing free cash flow going to debt repayment and share buybacks over sinking it into the ground. High yield debt markets are also largely closed to energy companies. Meanwhile in Canada, the lack of new pipeline capacity has blown out Canadian oil and gas pricing differentials. This has negatively impacted royalties paid to the Alberta Government causing Premier Notley to curtail oil volumes and purchase railcars. In the medium term, the oversupply situation will be partially alleviated once Enbridge's Line 3 expansion which is on track to be completed in H2/2019. The Manager believes the current oil prices are unsustainable. As the confidence in higher oil prices firms, there should be increased funds flow into energy since most portfolios are very underweight energy. E&P equities valuations appear compelling trading at multi-decade lows.

DIVIDEND GROWTH Split Corp. | BROMPTON LIFE & BANC SPLIT CORP. | BROMPTON LIFECO SPLIT CORP. | BROMPTON SPLIT BANC CORP. | BROMPTON OIL SPLIT CORP.