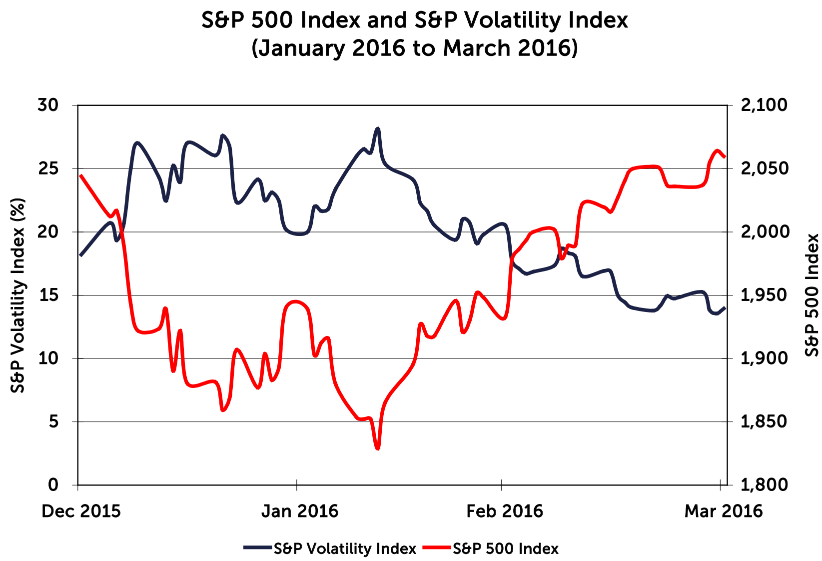
BCV Asset Management Inc.

The Blue Chip Report
April 2016

The Market Roller Coaster

Todd Johnson, B.Comm (Honours), CFA, CIM

The first three months of 2016 proved to be a roller coaster for global financial markets. Investors started the year worrying about the effects of monetary policy in the United States on the global economy. The Federal Reserve System in the United States was signalling that it was focused on multiple increases in the overnight rate throughout 2016, exacerbating unstable international capital flows. There was also fear of a yuan devaluation in China. Along with the strength in the United States dollar, the price of crude oil seemed to drift lower day by day, causing violent moves in related shares and even the debt of energy companies. The effect of lower crude oil prices extended to the financial sector, as fears of loan losses to energy companies along with a flattening yield curve caused investors to sell bank shares specifically.



Source: Bloomberg LP

The overall tone of the market changed dramatically at the end of February. For a variety of reasons, concerns abated, sentiment improved, and in March the markets recouped all of the year-to-date losses and more. Crude oil prices have risen, capital flows out of China have slowed, and fears of a yuan devaluation have subsided. The shares of energy companies have rallied, and concern about the impact of souring energy loans on the US banking system have diminished. Janet Yellen, the Chair of the Federal Reserve System in the United States, has now indicated that there is little desire to raise overnight rates much more this year. The European Central Bank has loosened monetary policy even further. All of these factors have combined to cause markets to respond positively, pushing asset prices higher as the first quarter came to an end.

Notwithstanding the move higher in March, for a variety of reasons, we are likely to experience elevated volatility over the remainder of the year, with the possibility of considerable angst, if citizens in the United Kingdom vote in June to leave the European Union. However, our main focus at BCV is on the portfolio of companies in which we invest. Over the long term, corporate earnings are the principal determinant of stock prices. If we remain confident in the outlook for the companies in which we invest to continue to grow their earnings and dividends over the medium term, we will ignore the short-run effects of market volatility. We may even use market volatility to our advantage, if stock prices meaningfully decouple from their fundamentals. We believe that focusing on company fundamentals over the long term is the rational way to navigate and respond to the uncertainty of macroeconomic events that we cannot control, or predict accurately. So while the roller coaster ride through the financial markets can play havoc with investors' emotions, it is necessary to achieve respectable returns over the long term. Long term returns remain our singular focus.

What Is A Dividend, Anyways?

Tony Demarin, MBA, CFA, CIM, FCSI

Simply put, a dividend is a cash payment to investors as a way for a company to share part or all of the income that they have earned throughout the year with its shareholders. However, a dividend is much more than that.

Most often, dividends are paid quarterly, although some companies pay dividends as frequently as monthly or as an infrequently as annually. Most good companies pay a dividend, but also choose to reinvest some of the profits back into their business. In contrast, poorly-run businesses or ones that are dishonest or unethical hardly ever pay a dividend. Investing in a dividend-paying company often helps to keep investors away from some of the market's worst-performing companies.

At BCV Asset Management, we simply do not invest in non-dividend-paying stocks because the dividend income is simply too important to ignore. History has shown that dividends can provide as much as half or more of the total return of a stock investment over long periods of time. It has also shown that dividend-paying stocks experience less price volatility than non-dividend-paying stocks.

Instead, we look for the stability and predictability by focusing on companies that have maintained or raised their dividends, even during recessions or equity market downturns. Quality dividend-paying companies leave themselves with enough flexibility to pay a dividend in volatile earnings periods. By continually rewarding shareholders with increasing dividends while retaining enough cash to maintain and grow their business, these companies provide an attractive mix of capital safety, rising income, and capital appreciation.

At BCV Asset Management, we invest in well-established dividend-paying companies across multiple industry sectors such as financial services, telecommunications, utilities, pipelines, consumer staples and real estate. We invest in quality, well-established businesses in these sectors that we can understand and can value without complication. We avoid concept stocks, initial public offerings, most commodity stocks and stocks that are in the spotlight from a negative perspective.

A dividend is a signal that a company may possess many of the positive attributes of a quality company, but a rising dividend is a beacon that sends a very strong signal for the portfolio managers at BCV Asset Management to research a company in greater detail.

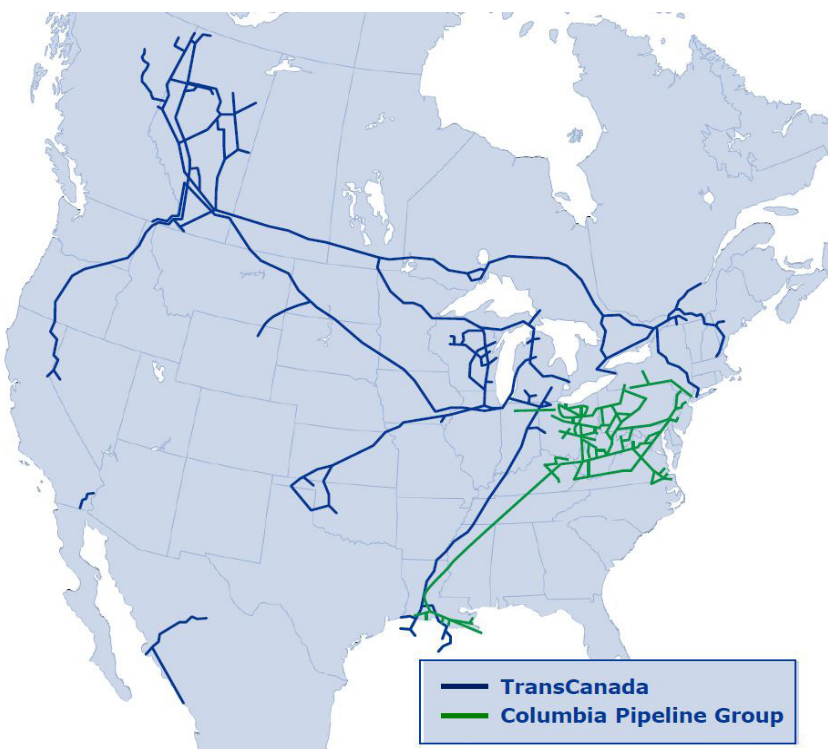
Portfolio Commentary- TransCanada Corporation

Chris Richard, BA, CFA

TransCanada Corporation recently entered into an agreement to purchase Columbia Pipeline Group Inc. for a total consideration of 13 billion dollars. TransCanada is one of the core holdings at BCV and we wanted to use this edition of The Blue Chip Report to provide an overview of the details of the transaction and to explain our long-term expectations for TransCanada.

TransCanada is an energy infrastructure company that operates through three business segments- natural gas pipelines, oil pipelines, and electricity generation and distribution. The company traces its roots back to the 1950s moving natural gas from Alberta to eastern Canada. The business has subsequently grown and evolved to include moving both oil and natural gas, however until this acquisition, the business was largely focused on moving oil and gas from Alberta to its end markets. The Columbia Pipeline purchase adds natural gas pipelines from the Appalachian Basin region of the north eastern United States.

The Appalachian Basin Shale formations have benefited from new technology that has unlocked natural gas deposits that were once not available. These regions are an enormous source of natural gas. The Energy Information Administration predicts that 150 trillion cubic feet of natural gas will be sourced from this region between 2014 and 2040. TransCanada wanted a presence in this fast-growing and strategic location and decided that this would be best met by the purchase of Columbia Pipeline.



Source: TransCanada Corporation

Columbia Pipeline currently has over 18 thousand kilometres of pipeline across the Appalachian Basin and through to the Gulf Coast. The company has a tremendous growth profile, with over 5 billion dollars in secured near-term projects that will lead to revenue and earnings growth into the next decade. While the total cost of acquiring Columbia Pipeline represented a full and fair valuation in our opinion, it was a necessary purchase for TransCanada in order to gain access to one of the fastest-growing natural gas locations in the world.

This acquisition of assets in the Appalachian Basin is complimentary to TransCanada's existing assets, strengthening its position for consistent earnings growth. TransCanada has a high degree of confidence in this acquisition, projecting dividend increases of between 8 and 10 percent per year through 2020.

Buying Value at a Sale Price

Michelle Smith, B.Comm (Honours)

We all love a good deal. We love to tell our friends about the good deals that we get. Whether it is buying something on sale, snatching a great bargain, or negotiating a fair price, we all love the feeling of purchasing high quality goods at a discount price. The same mentality is true for your investment portfolio. In fact, purchasing great investments at low prices can add up over time and contribute to the growth of your investment portfolio.

At BCV Asset Management, we follow a value investment philosophy, which is based on the notion of selecting stocks that trade for less than their intrinsic value. Essentially, we believe that what makes a great investment is purchasing a great company at the right price. This principle is captured by the adage of the great investor Warren Buffet, "price is what you pay; value is what you get."

In the financial market, there is often a discrepancy between price and value. Price is dictated by the market, which can be volatile and irrational. The stock market is driven by macro events and investor sentiment. Consequently, share price can vary widely from day to day, as the broad market often overreacts to both positive and negative events. Alternatively, value is measured as the true worth of the business. Such worth is determined by the fundamentals of the company, as well as its ability to generate future earnings and dividend growth. Value is robust and does not change drastically day to day, despite what the associated stock price would indicate.

We invest in businesses, not stocks. Thus, when investing, our focus is on the underlying company and its ability to grow rather than on its stock market quotation on any particular day. So when the broad market falls and when the price of our investments decline, we actually stand to benefit from such declines. We view market pullbacks as a great opportunity to buy our stocks at a cheap price. Effectively, we are buying shares in a great business at a sale price. Now that is a deal you will want to brag about!

Staff Announcements

We are pleased to announce the addition of Michelle Smith to our team of investment professionals.

Michelle was appointed as an Associate Portfolio Manager in February. Prior to joining BCV Asset Management in November 2015, she worked in investment and business development roles at a leading Canadian investment management firm. Michelle graduated from the University of Manitoba in 2012 with an Honours Bachelor of Commerce degree. She is currently a Level III candidate in the Chartered Financial Analyst program.

Recent Dividend Increases

Canada

First Quarter 2016:
Bank of Montreal: 84 cents (82 cents)
Brookfield Asset Management Inc.*: 13 cents (12 cents)
Brookfield Property Partners LP*: 28 cents (26 cents)
Canadian Imperial Bank of Commerce: 115 cents (112 cents)
Canadian National Railway Company: 37.5 cents (31.25 cents)
Canadian Western Bank: 23 cents (22 cents)
Home Capital Group Inc.: 24 cents (22 cents)
Intact Financial Corporation: 58 cents (53 cents)
Manulife Financial Corporation: 18.5 cents (17 cents)
Magna International Inc.: 25 cents (22 cents)
National Bank of Canada: 54 cents (52 cents)
TELUS Corporation: 44 cents (42 cents)

Second Quarter 2016 (Pending Increases):
BCE Inc.: 68.25 cents (65 cents)
Canadian Imperial Bank of Commerce: 118 cents (115 cents)
TransCanada Corporation: 56.5 cents (52 cents)

United States

First Quarter 2016:
3M Company: 111 cents (102.5 cents)
AT&T Inc.: 48 cents (47 cents)
Home Depot Inc.: 69 cents (59 cents)
Johnson Controls Inc.: 29 cents (26 cents)

Second Quarter 2016 (Pending Increases):
Coca-Cola Company: 35 cents (33 cents)

Dividend Increases reported in domestic currency of common shares, except where noted.
* Dividend paid in USD.
Source: Bloomberg LP