cardinal UPDATE

25 YEARS

SEPTEMBER 2017

DIVIDEND INCREASES

Bank of Nova Scotia	3.9%
Canadian Imperial Bank of Commerce	2.4%
Royal Bank of Canada	4.6%

(During the period August 1 to August 31, 2017)

WHAT'S YOUR MONEY MAKING?

Amidst the political drama south of the border and geopolitical tensions dominating the news headlines, it's easy to lose sight of how the underlying global economy is actually doing. But as the proverb goes, 'no news is good news' now applies to most global economies including the European Union and Japan. After struggling to recover post financial crisis, many European economies are now expanding. Japan's economy is surprising on the upside with solid growth after lackluster and often negative growth for much of the past two decades. The growth extends beyond Europe and Japan. The United States, where growth started, is still doing well and Canada is set for a stellar year.

For the first time in about 10 years, the 45 countries tracked by the Organization for Economic Co-operation and Development (OECD) are all expected to see their economies grow in 2017 and at a faster clip than 2016. This economic growth is forecast to continue into 2018 supported by still low interest rates and fiscal stimulus measures. The 2008 financial crisis can finally be seen in the rear view mirror. Gross Domestic Product (GDP) in the European Union grew an annualized 2.3% in the second quarter of 2017. In comparison to average annual growth over the past 20 years of about 1.7%, growth in the EU has stepped up. Japan saw Q2 growth of 4% on an annualized basis and is expected to see growth of about 1.4% for 2017 compared to barely positive annual growth on average over the last 25 years.

Ultimately, a healthy economy is what matters for investors. A growing economy means jobs for individuals and the ability for businesses to grow earnings. It drives the value of companies over the long-term. Legislation such as lowering taxes and investing in infrastructure would provide an additional tailwind to growth, but the market is no longer putting as much weight on that happening as it did back in January. The underlying growth is still there.

With most countries seeing GDP growth, low inflation and generally reasonable commodity prices, there is no sign of an imminent recession. However, as always, we could still see a market correction anytime. In the short term, markets don't always move in tandem with the underlying economy. The political or geopolitical headlines could trigger the emotions that cause the market to pull back, but it's just as likely to be something less obvious and more unpredictable.

As for timing, the autumn is known for volatile markets, just as winter is historically a time of rising markets. The monthly markets and their corrections are unpredictable. We could very well see the market march higher supported by earnings growth and accommodative monetary policy before seeing a pullback. It is a fool's game to try and time the market. Regardless, corrections that are not accompanied by a recession generally tend to be short lived. It's the economic fundamentals that drive real value, rather than market prices. That's why we'll remain focused on the long term and stay fully invested.

COMPANY FOCUS:

AMERISOURCEBERGEN

AmerisourceBergen (ABC) has all the makings of a Cardinal company. ABC operates in an oligopolistic industry, has long-term industry tailwinds, trades at an attractive valuation and generates significant free cash flow.

ABC, along with McKesson and Cardinal Health, are drug distributors and together the 3 of them make up approximately 90% of the U.S. market. ABC has long-term contracts with a large portion of its customers and its 2 largest, Walgreens and Express Scripts, each have contracts that extend out to at least 2022. An aging demographic in the U.S. supports continued prescription volume growth and creates a long-term tailwind for the industry.

Strong free cash flow and a solid balance sheet have allowed ABC to complement growth via acquisitions. Recent acquisitions such as MWI Veterinary Supply (2015), PharMEDium (2015) and World Courier Group (2012) have allowed ABC to further leverage their logistics and distribution expertise. ABC has raised its dividend for 12 straight years and grown it at a 23% 5-year compounded annual rate. The payout ratio is only 25%, offering ample room for further dividend hikes at a rate that exceeds earnings growth.

Unless otherwise noted, the source of all data in this Update is Bloomberg and Cardinal. This Update is prepared for general informational purposes only. Statements about future performance may not be realized and past performance is not a guarantee of future performance. Cardinal does not guarantee the accuracy or completeness of the information contained herein, nor does Cardinal assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. The information and opinions contained herein are subject to change without notice.

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