NOVEMBER
2018

cardinal UPDATE

PROTECTING AGAINST THE BEAR

Over the past few years, Cardinal has been making a shift to our portfolios to become more defensive and protect against a market decline. There are two types of market declines that we pay close attention to; corrections and bear markets.

A correction, typically a decline of around 10%, can occur sporadically every few months or after multiple years. They have been less frequent since the Great Recession of 2008/2009. Corrections typically do not last very long and are not usually a cause for concern. They are often seen as a healthy reset for the market when optimism has been growing faster than underlying market fundamentals. They also give long-term buyers a chance to buy stocks at bargain rates.

A bear market, defined as a 20% pull back or more, is usually led by more serious underlying market concerns. A bear market can occur in tandem with a recession, but not always. This depends on a number of factors, such as economic weakness, housing, interest rates or severe commodity price movements to name a few.

We believe Cardinal's current defensive positioning should allow our portfolios to outperform in a case where Canadian or U.S. markets experience a significant downturn. To test this theory, we examined our current Canadian holdings and took a historical look at their past performance in bear markets.

The period reviewed included five bear markets. We specifically wanted to see how many times Cardinal stocks outperformed the overall Canadian market, and by how much.

What our findings showed was that our current portfolio, on average, would have performed better in all five bear markets. By sector, utilities were the stand-out, beating the market 100% of the time. Energy was also notable, as the second best result with market leading performance 82% of the time. This chart shows that our largest weightings fared better than the overall Canadian market 70% of the time or more.

Overall, our current stocks have historically performed better than the Canadian market in periods of turmoil. In fact, on average across those five bear markets, our stocks had a relative outperformance vs. the market of 20.1%. Meaning, that if the market fell 20%, the return on our portfolio would have been flat, protecting clients from the downside. Further, Cardinal clients benefit from our stocks' ability to continue paying dividends through a market weakness and potentially, to even raise shareholder payouts during these times.

From the S&P/TSX September's high, the market is currently on the cusp of a correction. Our investment team is watching the market closely, but clients should take comfort that their portfolios are ready to face market weakness.

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Cardinal Capital Management, Inc.

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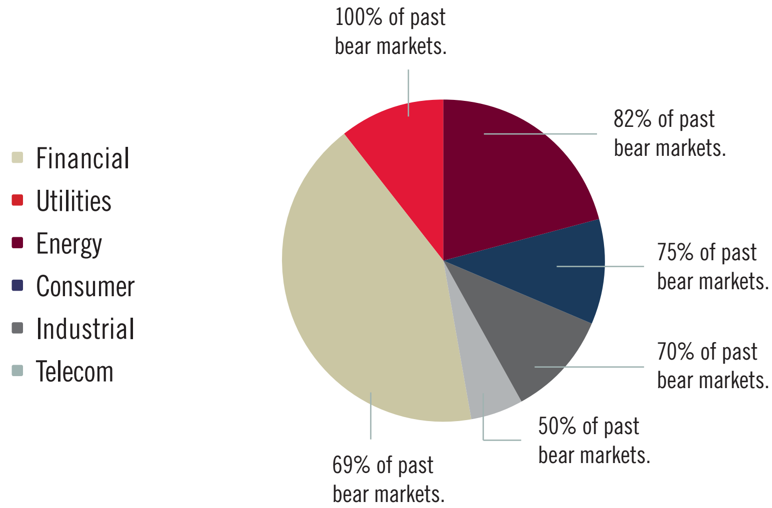
DIVIDEND INCREASES

Fortis Inc.	5.9%
United Technologies Corporation	5.0%
VF Corporation	10.9%

(During the period October 1 to October 31, 2018)

CANADIAN EQUITY – DEFENSIVE HOLDINGS

By sector, our current stocks would have outperformed...



ATD.B, CNR, EMA, ENB, IFC, and FTS have outperformed 100% of past bear markets.

* Performance in bear markets is based upon current portfolio structure, not historical holdings.
** Comparision encompasses all Canadian bear markets (greater than a 20% drop) since 1987.

COMPANY FOCUS:

VF CORPORATION

VF Corporation (VFC) is a global leader in branded lifestyle apparel, footwear, and accessories. VFC owns over 30 brands with their five largest being Vans, The North Face, Timberland, Wrangler, and Lee. In early-2019 VFC will be splitting into two companies, one of which will contain its high-growth lifestyle brands, and the other which will house its jeans business.

VFC has a strong track record of actively managing its brand portfolio with the additions of up and coming brands who have yet to realize their full potential, and the divestitures of slow-growth brands that no longer fit within the company. The ability to understand its targeted consumer has allowed VFC to turn something like Vans from a $330 million no-growth, low-profitability brand at the time of acquisition in 2004 into a high-growth, highly-profitable $3+ billion brand today.

VFC is a strong free cash flow generator which has given it the ability to not only make acquisitions, but also keep its balance sheet in good shape and return cash to shareholders via dividends and share repurchases. This has allowed VFC to raise its dividend for 46 consecutive years, with the most recent increase announced in mid-October.

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