cardinal UPDATE

NOVEMBER 2015

DIVIDEND INCREASES

Honeywell	+15.0%

THE MARKETS WELCOME A NEW LIBERAL CANADA

Canadians woke up on October 20th to a Liberal majority government after a decade of Conservative minority and majority governments. Leaving ideology and partisanship aside, Cardinal must consider what impact this might have on the investing environment and on our companies in particular. During the campaign, the polls showing a "dead heat" among the three major parties did cause some anxiety for international investors. The NDP was an unknown, with Socialist origins, and we believe there were negative effects on the loonie and on Canadian equities as a result of those polls. A Liberal administration, which based on history is seen as "dependable and prudent", with the advantage of a majority (meaning that the government will have the power to make important decisions without compromise), was a relative relief.

For individual investors, decisions about TFSAs and pensions will have some impact, but for the overall economy, the election results leave us generally optimistic. The Tories had campaigned, and long attempted, to get federal deficits under control and eliminated as soon as possible. The Liberals, in contrast, campaigned to increase deficits over the near term, and not strive for deficit elimination for at least three years. In effect, this re-establishes an expansionary fiscal policy that was being reined in by the Tories in recovering from the Great Recession. Similar to the Greeks, Canadians voted against austerity. Liberal spending is expected to be primarily in areas of infrastructure and inner cities, and focused on the middle and lower class, rather than spread to all layers of society.

Theoretically this should have a beneficial impact on the Canadian economy, strengthening and extending our recovery which had been side-swiped by commodity prices; energy in particular. New forecasts of Real GDP are higher than previous forecasts and we expect to see this translate into increased profitability for our banks, telecoms and other suppliers of consumer demand. On the other hand, energy companies have lost their strongest cheer-leader. Debt levels in Canada are high, and adding public sector debt may have an impact down the road, but in the immediate term, Canada joins the ranks of those regions pushing expansion such as the EU, Japan, Scandinavia and China. This may depress the loonie somewhat, but contrary to expectations, by reinforcing the Bank of Canada's expansionary policy, it may expedite results (in terms of growth and even inflation) allowing the Bank to raise rates sooner than it otherwise would have. Please note that we do not see this outcome as imminent.

All in all, we are now more likely to see stronger economic growth, rising incomes in the lower tiers and better profitability for industrial, consumer and export driven companies. We believe this bodes well for Canadian investors.

COMPANY FOCUS: JOHNSON & JOHNSON

J&J is a well-known healthcare company that is diversified across three distinct business segments: medical devices, pharmaceuticals, and consumer products. The pharmaceuticals business has global exposure and comprises 45% of total sales. J&J's five therapeutic areas of focus are oncology, cardiovascular & metabolic, infectious diseases, immunology and neuroscience. These areas of unmet medical need represent growth avenues for J&J.

In 2009 J&J revamped its approach to drug development, resulting in not only the most FDA approvals in the industry from 2009-2014, but also costs per new drug approval well-below the industry average. The new approach is set to deliver further growth with 10 promising products in the late-stage pipeline, each having more than $1 billion of revenue potential.

With global exposure and a diverse product offering, J&J's cash flows have exhibited stable growth and supported regular dividend increases. J&J has raised its dividend 53 consecutive years and has a very respectable yield of about 3%. With a AAA credit rating, J&J has a pristine balance sheet with cash exceeding debt. We see J&J as a solid holding in the healthcare sector.

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