cardinal UPDATE

AUGUST 2016

DIVIDEND INCREASES

PNC Financial Services Group Inc.	7.8%
JM Smucker Co.	11.9%
US Bancorp	9.8%

(During the period: July 1 – 31, 2016)

WHERE THE REAL VALUE LIES

Recent market moves have delighted many of our clients as they have seen the market value on their accounts continue to march upward, albeit in choppy fashion. We enjoy having happy clients, but fear that rising market values distract some clients from the real value in their accounts. Market values go up and go down, at the whim of the marketplace. What value there is today can be drastically diminished tomorrow. Market value is the wrong measuring stick.

Recall that investing and wealth is the ownership of strong, profitably growing companies. It is the fact that you own 100 shares of CNR or 50 shares of Wells Fargo that is the foundation of your wealth, not the fact that the market currently prices those shares at $80 or $48. The $80 price is meaningless beside the fact that CNR earns $4.50 for each of those shares and is expected to earn over $5 per share next year. The fact that CNR pays a 37.5 cent dividend for each share each quarter and that amount is expected to increase year after year is where your real wealth lies. That should be the indicator of your real wealth.

Those of you who recall the Jane Austen or Bronte novels of Georgian England may remember that a man's wealth was judged by his income. A man who had 5,000 pounds per year was a truly eligible candidate for aspiring young women. For retirees especially, it should be remembered that you can't live on your wealth; you live on your income. It is only when wealth is liquidated – turned into income – that it becomes a source of livelihood. If income can be generated in other ways, such as in regular dividend payments, then wealth does not have to be liquidated and can be preserved to generate more income. The real value of your accounts is in their earnings power.

That is why Cardinal focuses so intently on the companies we choose to own. We want to own companies, not trade shares on the market. As long as management is focused on increasing the earnings power and sharing that with owners through a growing dividend, we want to continue to own that company, until the market is prepared far more than the company is worth, or unless better opportunities (cheaper income) becomes available. We share in Warren Buffet's idea that the preferred holding period is "forever", regardless of swings in the market value.

COMPANY FOCUS:

PNC FINANCIAL

A lesser known Cardinal U.S. holding is PNC Financial (PNC), the seventh largest U.S. bank as measured by deposits (over $247 billion), and ninth largest as measured by market capitalization (around $42 billion). PNC is large enough to have scale – meaning good cross-selling and expense efficiency opportunities– while being small enough to avoid significant regulatory scrutiny. An added benefit for owners of PNC is its 22% ownership of fast-growing Blackrock (the largest investment management company in the world), which is valued at 30% of PNC's market capitalization.

PNC's annual stress test results showcased the bank's strong capital position and ability to withstand a significant downturn in economic conditions. After the stress test, PNC's annual capital plan was approved and PNC delivered a 7.8% increase to its dividend and announced a $2 billion share repurchase program.

If interest rates don't increase, PNC's diversified model and strong fee income base positions it well. But a rising rate environment, which is becoming more likely, would be extremely beneficial to PNC. It has the highest earnings sensitivity to rising rates within our U.S. bank holdings. Combined with a modest valuation and a proven track record of strong management, PNC is a core holding.

400 - 1780 Wellington Avenue
Winnipeg, Manitoba R3H 1B3

Phone: (204) 783-0716
Fax: (204) 783-0725
Toll Free: (800) 310-4664

www.cardinal.ca

CARDINAL CAPITAL MANAGEMENT, INC.