The Investment Style That Keeps Paying Dividends

A conversation with

Michael Simpson CFA

Portfolio Manager,
NCM Dividend Champions

With markets navigating geopolitical uncertainty, AI enthusiasm, shifting trade negotiations and questions around valuation, Mike Simpson explains why cash flow, dividend growth and downside discipline remain at the heart of his investment philosophy.

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Q: How are you thinking about the current market backdrop?

The Strait of Hormuz remains at the centre of active hostilities in the Middle East. Even so, oil prices have declined significantly from the levels reached earlier in the conflict between the U.S. and Iran. Lower oil prices are generally supportive of economic growth, while energy costs have been an important contributor to inflation. Although no definitive peace accord has been reached and further volatility or sporadic skirmishes remain likely, we believe the decline in oil prices is a positive development for U.S. growth.

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In Canada, the picture is a little more mixed. Alberta and other resource-focused provinces are doing better than manufacturing-heavy provinces like Ontario and Quebec. So there is some volatility, but there are also areas of strength.

Q: How are you positioned in energy right now?

Oil is near the bottom of its trading range in my opinion. The doomsday scenario of $200 oil did not happen, but the situation in the Middle East is not fully resolved either.

The way many oil companies are set up today, they can make money in a $70 to $80 oil environment. Freehold Royalties is an example of the type of company we own. It is a royalty company, and it can pay its dividend even if oil falls much lower than where it is today.

We are managing the portfolio prudently. We have taken our energy weight down somewhat, but we still see opportunities because oil appears to be near the bottom of its trading range.

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Q: You have talked about a disconnect between Canadian and U.S. markets. What are you seeing?

Canada has been performing very well. The TSX has been outperforming the S&P 500, the Nasdaq and the Dow Jones. That does not happen very often.

Investors are also starting to see value in Canada. We've continued to see takeover activity across sectors, reinforcing our view that many Canadian businesses remain undervalued. If Canadian public market investors do not bid up some of these small and mid-sized companies, other buyers may continue to step in and take them out.

> *"We are looking for companies that can generate cash flow, grow earnings and trade at reasonable valuations."*

Q: How are you thinking about Canada and trade negotiations with the U.S.?

We think investors may be placing too much emphasis on near-term deadlines. Negotiations will likely take time, and Canada still has strategic advantages, including resources the U.S. needs. In the meantime, we're focused on company fundamentals rather than headlines.

The best Canadian companies understand that they can grow, build dominant market share and do well in Canada, but at some point many also need to leave Canada and expand. Dollarama and CN Rail are examples of businesses that have become much more than purely domestic Canadian stories.

Q: What do you think Canada needs to reignite growth?

One is national infrastructure projects. The government is trying to move forward with major national projects, whether that involves Arctic ports, Arctic highways or other infrastructure.

Another is using the power of the purse. If Canada is buying submarines or fighter jets, there may be opportunities to have some of that work done here, whether through assembly, maintenance or related activity.

The other issue is tax reform, both corporate and personal. That is not always popular politically, but if the goal is to attract foreign capital and keep Canadians investing in Canada, then investment policy and taxation matter.

So the question is: what do we want to do to attract capital, support productivity and encourage Canadian companies to grow?

Q: You're known for investing in tangible businesses, like garbage collection and railways. How are you thinking about AI?

I tend to prefer large technology companies with AI capabilities in the context of a diversified portfolio. Companies like Microsoft and Alphabet have come down a little because investors are questioning the amount they are spending on AI-related capital expenditures. But we still like those businesses. They generate a lot of cash flow. They have very strong balance sheets. They pay dividends and grow their dividends.

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The key point is that AI is not just about chips. It is not all about the most obvious AI enablers. We want profitable businesses with cash flow, durable positions and the ability to participate in long-term change without turning the portfolio into a high-beta technology trade.

For example, IBM is no longer your father's IBM. It is not just heavy mainframes. It has software, consulting and quantum computing. The question is whether the business is profitable, whether it generates cash flow, whether it has a good balance sheet, and whether the valuation makes sense.

Q: Where are you finding opportunities today?

We are looking for companies that can generate cash flow, grow earnings and trade at reasonable valuations.

Sometimes that means looking at a company indirectly. For example, I may like Loblaws, but why not get exposure through George Weston if it trades at a discount to the value of its underlying holdings? Weston is a holding company, and a large part of its value comes from Loblaws, with the rest coming from Choice Properties REIT.

I also like healthcare because of the aging population. Apotex is a recent example in Canada. It started as a large generic manufacturer, but it is moving into biologics and biosimilars. It is refreshing to see a new, high-quality company come to the Canadian market, especially when we have lost other companies to takeovers.

Q: Where does NCM Dividend Champions fit in an investor's overall portfolio?

We are not the market. We are much different from the market.

The fund is designed for investors who want equity exposure, but do not want high torque or high beta. It is a collection of cash-flow-generating businesses. Almost every company in the portfolio pays a dividend.

I often think of it as a "singles hitter" rather than something trying to swing for home runs. It is designed to provide a steadier way to participate in equity markets.

That can be useful for investors who want to diversify away from the TSX, or who may have too much Nasdaq or technology exposure. We do own technology, but our exposure tends to be in established companies that have been around for decades, generate cash flow and pay dividends.

We are not market timers, but we also recognize that some areas of the market have produced very strong returns over short periods of time, and that is not always sustainable. For investors looking for equity exposure with an emphasis on cash flow, dividends and downside discipline, that is where we believe this fund can fit.

NCM DIVIDEND SOLUTIONS	F	A
PDF NCM DIVIDEND CHAMPIONS *Canadian Focused Equity*	NRP 100	NRP 101

NCM Asset Management Ltd.
Head Office 1800-333 7th Avenue S.W., Calgary, AB T2P 2Z1 | 310-99 Yorkville Avenue, Toronto, ON M5R 3K5
client services: (877) 531-9355 | toll-free: (877) 431-1407 | info@ncminvestments.com | ncminvestments.com

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