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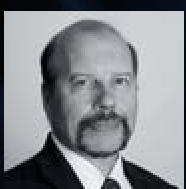
NCM Investments

NCM Dividend Champions:

The Boring Portfolio That Investors Love

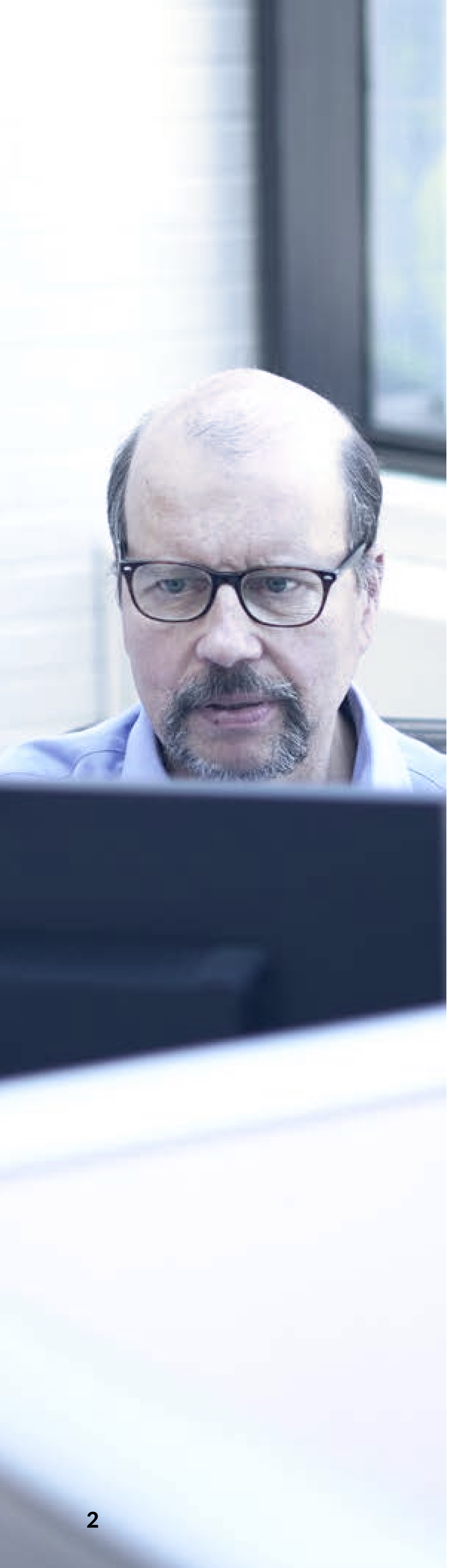


A conversation with

Michael Simpson, CFA

Portfolio Manager, NCM Dividend Champions

Michael Simpson, CFA, has long been known for his steady-handed approach to portfolio management. But in today's volatile world, that reputation is starting to feel like a competitive advantage. In this conversation, Simpson shares his thoughts on hard assets, dividend discipline, AI, and why "boring" businesses may be the most valuable holdings in your clients' portfolios.



Q: Let’s start with the macro view. Where do you think we are in the economic cycle, and how are you positioning around that?

Michael: There’s definitely some slowing, especially in Canada. But I wouldn’t call it a recession, at least not yet. What we are seeing, though, is persistent inflation. That’s partly driven by tariffs and the cost of imports. It’s showing up in ways that don’t always make headlines. But when companies are forced to pay more for the goods they use, they either eat the cost or pass it on. Either way, it puts pressure on prices.

“My stocks are not always exciting, but they’re reliable, and that’s what matters.”

Q: You’ve been a strong advocate for hard assets. Why now?

Michael: Because they work. In inflationary environments, you want to own businesses tied to real things like energy, infrastructure, copper, waste services. These are the arteries of the economy. They can’t be offshored, digitized, or disrupted out of existence. Geopolitical events won’t stop them from operating efficiently and generating free cash flow. I own names like Tourmaline, Freeport, and Pembina. My stocks are not always exciting, but they’re reliable, and that’s what matters.

Q: What about sectors? Are there areas you’re avoiding entirely?

Michael: Sure. I always come back to valuation and cash flow. I want businesses with staying power. I like energy infrastructure, certain industrials, and some of the large-cap tech names when the price is right. I avoid overhyped or cyclical sectors where earnings are unpredictable. I’m happy to hold companies like Republic Services or Waste Connections that just keep doing their job quarter after quarter. Those names might not lead every rally, but they don’t let you down either.

Q: You mentioned tech. How are you thinking about AI? Are you investing in it directly?

Michael: Not directly. But many of the companies I own are already using AI in meaningful ways. Salesforce, for example, is embedding AI into its existing software. Visa uses it to detect fraud. IBM is consulting on AI implementations. Even the banks are applying AI to streamline operations. Let's say AI and robotics gain the capability of mining resources or picking up garbage—my portfolio companies will likely be able to leverage that technology to improve margins. So I don't feel the need to chase the AI names directly. I'd rather own good businesses that are using it to become more efficient.

Q. The fund is very concentrated. How do you get from an investible universe of 700 stocks down to 38?

Michael: It's a disciplined process. First and foremost, I look for consistent free cash flow and balance sheet strength. I want businesses that can pay and grow their dividends, even in tougher environments. Then I look at valuation relative to peers, relative to history. And finally, I overlay risk factors like sector exposure, tariff risk, economic sensitivity. I don't want 40% in energy just because it looks cheap. I want a portfolio that's diversified, resilient, and appropriate for a retiree to hold without worrying about the next downturn.

Q. So what makes a company a "Dividend Champion" in your eyes?

Michael: A Dividend Champion is boring in the best way. It's a company that's not going out of style. It has free cash flow, financial flexibility, and a business model that holds up in real life. That could be waste management, it could be natural gas, it could be cross-border logistics. These aren't trends, they're essential services. And the best ones reward shareholders year after year.

This year in particular, we're also applying an overlay that looks at sensitivity to tariffs. If I'm looking at an industry that might be subject to a 15% tariff, I'm running the numbers on the basis of a 25% tariff. This topic is so volatile, I want to build an extra margin of safety in case there's a surprise policy change.

ELEMENTS OF A DIVIDEND CHAMPION

Free Cash Flow	Dividend Growth
Recession-Resilient Industry	Low Tariff Sensitivity

Q: How's the fund been performing lately?

Michael: We've done well. Our recent numbers show strong downside protection with solid upside participation. Over the past year, we've participated in just 55% of the downside compared to our peer group, and that's with a beta of only 0.77.[1] Even over three- and five-year periods, the fund has consistently delivered lower volatility than the broader market.

That's the point. I'm not trying to chase every rally. I'm trying to deliver good risk-adjusted returns that help clients stay invested.

"A Dividend Champion is boring in the best way."

Q: Where does this fund fit in a client's portfolio?

Michael: It's a core holding. We have advisors using Dividend Champions as 15-40% of their equity portfolios. If a client's Canadian equity exposure is all index or closet index funds, Dividend Champions brings real diversification. It behaves differently. It holds up better on the down days. We don't aim to outperform every single quarter, but we aim to protect capital and keep the ride smoother.

Q: What's your overall message to advisors right now?

Michael: Don't overlook boring. In a world chasing narratives, Dividend Champions is about owning real businesses that pay you to hold them. We're not speculating, we're investing. And if the market does get choppy, this fund can act as insurance for your equity portfolio.

Speak to your NCM sales team to learn more about how this Fund can fit in your client portfolios.

This page is not complete without the disclaimer on page 5.

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1. Source: Morningstar Direct, as of August 31, 2025. NCM Dividend Champions compared to the Canadian Focused Equity category.