DSR PREMIUM NEWSLETTER

IN THIS ISSUE…

- Brookfield Inside out
  - Overview
  - Alternative assets
  - Different symbols

- Brookfield family review
  - Brookfield Corporation
  - Brookfield Asset Management
  - Brookfield Infrastructure
  - Brookfield Renewable
  - Brookfield Business Partners
  - Brookfield Reinsurance
  - Brookfield RA
  - Understanding risks

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FEBRUARY 17TH 2023

Dear DSR member,

It is with great pleasure that we present our weekly premium newsletter which is an important component of your subscription to Dividend Stocks Rock.

You may benefit from viewing our video explaining the differences between the Buy List, our ratings, and our portfolio models. You can retrieve this information in the Videos section of the website.

Referral

Feel free to share our ideas with your friends or associates who may benefit from this information. **We would personally consider any referrals you make on our behalf to be the ultimate compliment for our efforts.**

BROOKFIELD INSIDE OUT

I first wrote a newsletter explaining the Brookfield companies in 2021. Brookfield Corporation is over 100 years old, they have more than 180,000 employees in 30+ countries, and they manage more than $750 billion in assets invested in various businesses such as renewable power, infrastructure, private equity, real estate, credit, and insurance solutions.

Many investors have been excited for their diversification, their smart business model, and their ability to thrive for more than a century while paying most generous dividends and providing excellent total returns for their shareholders. However, many investors have given up trying to understand their most complex structure.

This newsletter is about translating Brookfield's complexity into simple terms we can all readily understand. If you have any questions remaining after reading this newsletter, please reach out and I'll update the newsletter with more information going forward.

A unique feature of Brookfield is that you can invest in a specific part of their business as many of their endeavors have ended-up as separate businesses trading on the public markets.

I'm doing a deep dive to cover not only Brookfield Corporation (the parent company), but all the other smaller parts of this conglomerate as well. Not all the parts are interesting, though, and while the Brookfield Family has shown amazing returns in the past, there are some risks related to each business division.

To keep things simple, we will refer to each company by their "simplest" ticker:

- BN: Brookfield Corporation
- BAM: Brookfield Asset Management
- BIP: Brookfield Infrastructure
- BEP: Brookfield Renewable
- BBU: Brookfield Business
- BNRE: Brookfield Reinsurance
- RA: Brookfield Real Assets Income Fund

**Please note that all companies trade on both the Canadian and U.S. markets, but they all pay their dividends in USD.*

I will start with a clear overview of the Brookfield Corporation first. Brace your brain for impact and grab an extra cup of coffee!

BROOKFIELD OVERVIEW & HISTORY

Brookfield's story traces back to 1899. The company was founded in 1899, as the São Paulo Tramway, Light and Power Company by William Mackenzie and Frederick Stark Pearson. It took the name Brookfield Asset Management in 2005. In late 2022, the company spun-off its assets management division into Brookfield Assets Management and renamed the parent company "Brookfield Corporation".

Today, Brookfield Corp. is an alternative asset manager. This means that instead of managing classic asset classes such as equities (stocks), fixed income (bonds, preferred shares) or cash (money market funds), Brookfield focuses on long-life, high-quality assets and businesses spread across six categories:

1. **Renewable Power & Transition:** a portfolio of nearly $70B in assets of hydro, wind, solar, distributed energy and sustainable solutions. Related business: Brookfield Renewable BEP.

2. **Infrastructure:** a portfolio of nearly $140B in assets where Brookfield owns and operates assets across the transport, data, utilities and midstream sectors. Related business: Brookfield Infrastructure BIP.

3. **Private Equity:** a portfolio of $120B+ of high-quality businesses that provide essential products and services. The portfolio is divided into three segments:

    a. *Business services:* financial, healthcare, technology and real estate services.

    b. *Infrastructure services:* leading service providers for large-scale infrastructure assets.

    c. *Industrials:* market-leading providers of critical products such as advanced energy storage solutions, engineered components and returnable plastic packaging.

    Related business: Brookfield Business Partners BBU.

4. **Real Estate:** a portfolio of $260B in assets invested in housing, logistics (industrial), hospitality, science & innovation, offices and retail. The portfolio is diversified across many industries and spread across five continents. Related business: Brookfield Property Partners (Previously BPY, but privately held since 2021)

5. **Credit:** The company acquired a majority interest in Oaktree, and it continues to operate as a standalone business. Brookfield and Oaktree managed a credit portfolio worth $124B with a contrarian, value-oriented and risk-managed approach to protecting capital.

6. **Insurance Solutions:** a portfolio of $41B of assets providing capital and investment solutions across the life, annuity, and property and casualty industries. Related business: Brookfield Reinsurance BNRE.

What's an alternative asset?

As you can see, Brookfield has become a master in investing in complex projects that require sizeable amounts of money to be "parked" for a very long time. You can consider hydro-electricity plants, wind or solar farms, toll roads, bridges, pipelines, railroads, data centers, healthcare facilities, and large office buildings and other real estate as examples of alternative assets. You can also add alternate financing to this category including loans originated outside of a traditional banks' turf which typically implies additional risks to the lender. Oaktree (64% Brookfield ownership) is known for this type of financing.

Such investments require unique expertise and, while they are operating in various industries, all share many characteristics:

- Large projects with several layers of complexity.
- Money must remain invested for decades to generate substantial cash flow.
- Most projects will perform well over time.
- They are not generally considered to be liquid assets that can be easily sold.
- Most projects won't be greatly affected by economic cycles. They tend to be recession resistant.

In other words, **alternative assets are illiquid and require a high level of expertise and patience.**

From a portfolio management perspective, investing in alternative assets is a great way to diversify your portfolio. Typically, the investment returns on such investments will not be determined by what is happening on the stock market. You can expect they will generate about 5-7% above inflation over long periods of time.

The problem for a retail investor is quite simple: it's virtually impossible to buy a piece of a bridge or a railroad. This is where Brookfield comes into play as investing in Brookfield Corp is like investing in your own "alternative asset fund".

Through the spin-off of BAM, Brookfield created two types of asset managers:

Asset-light (BAM): an alternative manager that doesn't have many assets, but rather manages funds coming from pension plans and other investors. BAM is responsible of managing those funds, establishing strategies and will charge a fee based on total assets under management (AUM).

Asset-heavy (BN): Brookfield corporation will not only do the asset-light manager's job (strategy + earning fees on AUM), but it will also contribute with its own assets. Therefore, it can benefit from its strategies by selling those assets for a profit in the future. Asset recycling happens when a company sells assets that it deems to be at a very good value (e.g. good time to sell) to reallocate the proceeds into new projects or under valued assets. This is the classic "buy low, sell high" concept.

Brookfield Corporation's structure is relatively complex as the company has stakes in all "Brookfield family members":

Renewable	Infrastructure	Private Equity	Real Estate	Asset Management
Brookfield Renewable	Brookfield Infrastructure	Brookfield Business Partners	Brookfield Property Group	Brookfield Asset management
48% ownership	27% ownership	65% ownership	100% ownership	75% ownership
BEP, BEPC, BEP.UN.TO, BEPC.TO	BIP, BIPC, BIP.UN.TO, BIPC.TO	BBU, BBUC, BBU.UN.TO, BBUC.TO	Not publicly traded	BAM, BAM.TO

In addition, to having the ability to invest in an asset-light (BAM) and an asset-heavy (BN) manager, you can also invest in renewable, infrastructure, private equity, and reinsurance businesses through "Brookfield's vehicles". We will explain each investment opportunity in this newsletter, but first, let's explain the difference between different symbols for the renewable and infrastructure business.

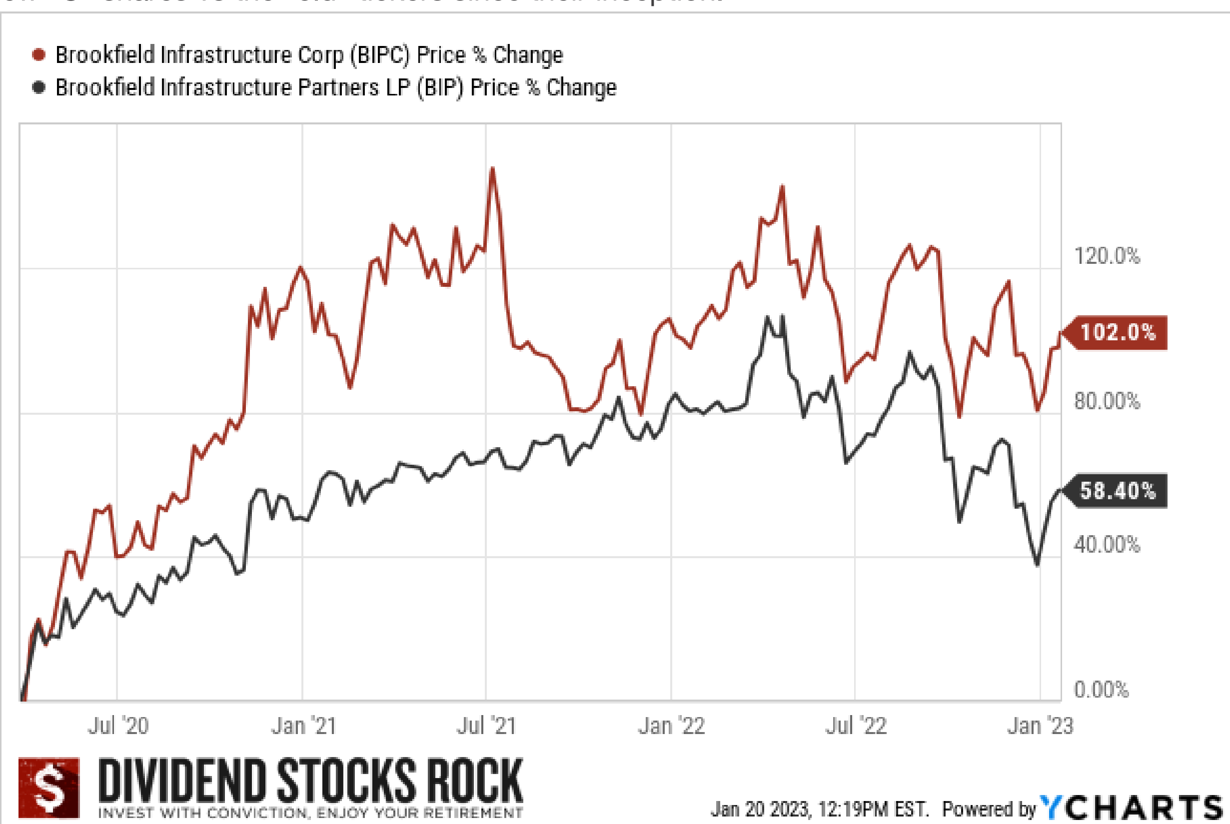
PARTNERS, TRUSTS, AND CORPORATE SHARES?

In 2020, Brookfield decided to create new types of shares in BIP and BEP. Historically, all companies were trading on both the Canadian and U.S. markets under a Trust (Canadian) or a Limited Partnership (LP) (U.S.). I'm not going into the tax details here because a) I hate taxes (and you should too) and b) I leave this field of knowledge to accountants and tax experts (and, again, you should too).

Long story short, Trust and LP distributions are taxed differently in a taxable account. For this reason, this type of asset is usually less popular among retail investors, ETFs, and mutual funds due to their tax complexity. To ensure more flexibility and liquidity, Brookfield decided to create corporate shares (C shares). The idea was to increase their appeal to U.S. retail investors by using the more favorable tax characteristics of a C-Corp structure. This created much confusion at first as we now have 3-4 different tickers per company:

Company Name / Type	Limited Partnership (LP)	Corp. (U.S.)	Trust (CDN)	Corp. (CDN)
Brookfield Infrastructure	BIP	BIPC	BIP.UN.TO	BIPC.TO
Brookfield Renewable	BEP	BEPC	BEP.UN.TO	BEPC.TO
Brookfield Business	BBU	BBUC	BBU.UN.TO	BBUC.TO

All entities are economically equivalent. However, we noticed an important difference between the performance of the new "C" shares vs the "old" tickers since their inception.



The difference in price is explained by the unexpected level of interest for the corporate shares. As demand increased for the corporate shares, all Brookfield C shares appreciated in price faster than the trust and LP units.

Are corporation shares better then?

Many members asked me if they should shift their money into the corporation shares. I can't tell you what to do with your investments (remember, I'm not your broker or your personal advisor). However, I can tell you this: it seems that if you are more interested in total returns and you don't mind receiving a smaller dividend yield, the corporation shares may be the better option over the long haul. Going forward, demand is likely to remain stronger for the corporation shares because they are easier to trade and deal with the tax implications than the LP or Trust units.

Units will likely pay a higher yield as is the case now. Right now, the difference is important for BIP, but not much for BEP:

- BIP: 4.14% vs 3.29% for BIPC
- BEP: 4.49% vs 4.24% for BEPC

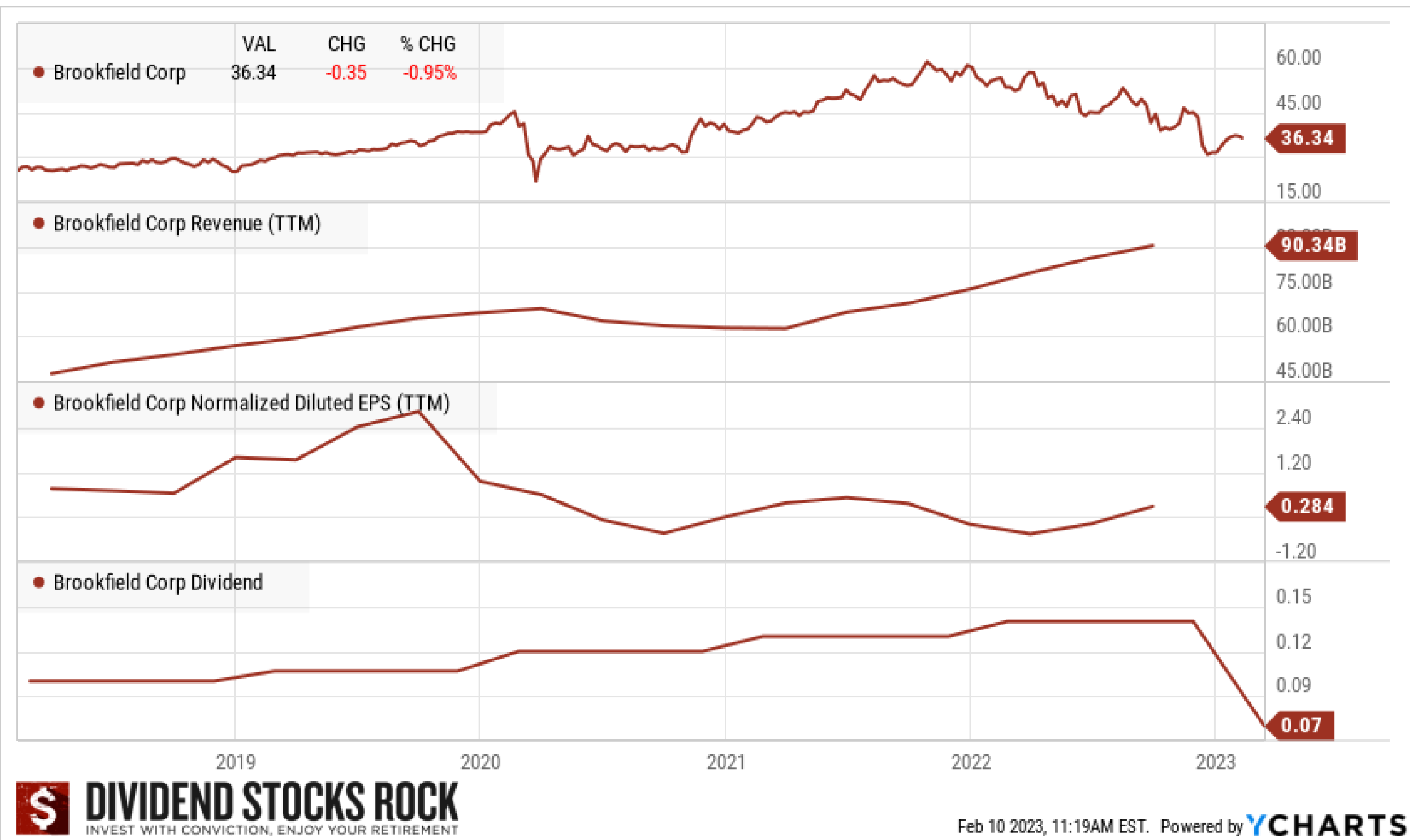
****Please note that there are also tax implications. I strongly suggest you review this aspect with a tax expert or accountant. There are also tax implications for having LPs in retirement accounts for investors**.**

If you invest in a taxable account and don't want to deal with taxes, go with the corporate class shares as they will be treated as any other regular stocks in your portfolio. If your holdings are in a tax-sheltered account, then you can focus on either yield or total return. Just between you and me, total returns make more sense mathematically.

BROOKFIELD CORPORATION (BN, BN.TO)

Since Brookfield Corp is now the parent company, the financial metrics presented for Brookfield Assets Management (BAM.A.TO / BAM) are now available under the symbol BN or BN.TO. Investing in BN is like investing in all the companies mentioned in this newsletter. It's literally the equivalent of investing in an alternative asset ETF or fund.

The stock offers a 0.77% dividend yield. The correct information still doesn't reflect on most financial platforms, but the firm declared a quarterly dividend of $0.07/share for BN (and $0.32/share for BAM). The dividend is paid in USD and has been increased yearly since 2012. You will not get much from its yield alone, but the total return (dividends plus capital gains) on such a play is interesting. Among Canadian-based asset managers, BN is somewhere between Berkshire Hathaway (BRK) and Blackstone (BX). **BN is an excellent fit for growth investors, but also offers robust long-term stability.**



When analyzing BN, one should ignore their earnings per share. The company has too many different transactions affecting their earnings in a single year. Tracking funds from operations (a non-GAAP measure) will give you a better perspective. This number can be found in each company's quarterly earnings report (highlighted at the top of their press release).

BROOKFIELD ASSETS MANAGEMENT (BAM, BAM.TO)

BN ownership: 75%

The “new” BAM is a pure play on alternative asset management. Brookfield Asset Management manages a range of public and private investment products and services for institutional and retail clients. The spin-off enabled the creation of a capital-light company with zero debt and $3B in cash and financial assets to support growth. **Just to be clear, the debt didn’t disappear at Brookfield, it has just not been placed in the asset management business.**

Following the spin-off, the dividend on BAM is $ 0.32USD/share paid quarterly for a dividend yield of 3.65%. Like BN, this information is not reflected on most financial platforms and no dividend triangle is available since the 5-year metrics are absent.

BAM investing narrative.

BAM makes money by charging fees on AUM. Therefore, the more money it raises for investments, the more earnings grow. Since AUM is a function of supply and demand, you can expect BAM to show cyclical growth as the general market goes up and down. Even if alternative assets require a longer time horizon than equities in the stock market, investors tend to be nervous during bear markets and it has an impact on alternative asset managers as well. We saw the impact of a bad market in 2022 combined with higher interest rates (increasing nervosity) on all asset managers (alternative or not).

BAM will likely grow its AUM with double-digit growth for many years to come. The urgent need to invest in infrastructure and renewable energy will attract a lot of money towards the biggest alternative asset managers. BAM is among the largest ones with almost $800B of assets under management (up 15% from a year ago). If BAM can increase its AUM during a bad market like 2022, imagine what it will look like when the market goes back into bull mode!

As most of BAM’s clients are pension plans, sovereign funds, insurance companies, and the like (e.g., big guys with big wallets and a long-time horizon), BAM’s portfolio will generate a constant stream of income. Since the bulk of its earnings come from fees charged on the AUM (as opposed to performance fees on how well they do), BAM has built a sticky business.

BROOKFIELD INFRASTRUCTURE (BIP, BIPC, BIP.UN.TO, BIPC.TO)

BN ownership: 27%

BPI is one of the largest owners and operators of critical and diverse global infrastructure networks which facilitate the movement and storage of energy, water, freight, passengers, and data. The company's objective is to generate a long-term return of 12 -15% on equity and provide sustainable distributions for unitholders while targeting annual distribution growth of 5-9%. (BIP investor website).

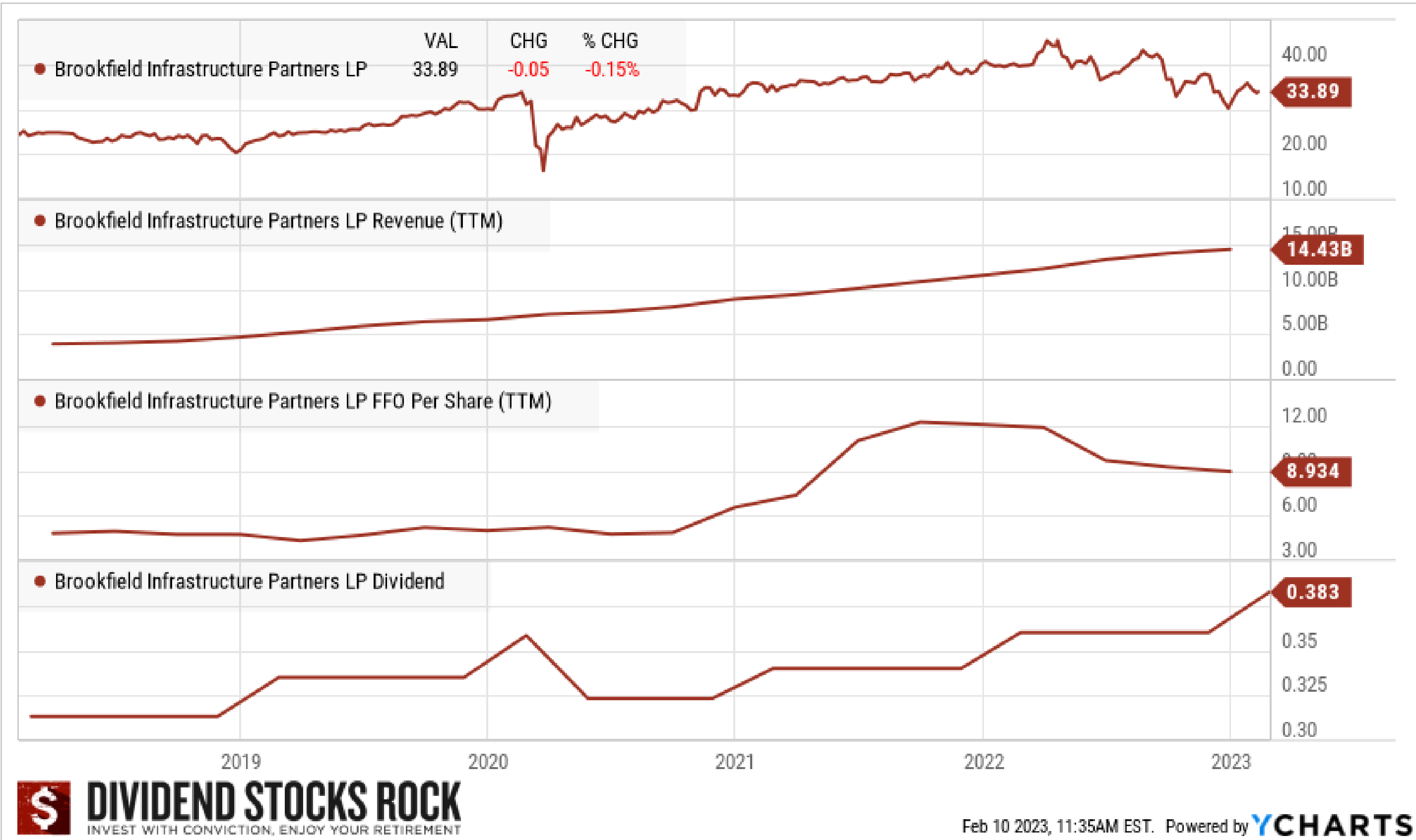
The company is divided into four different business segments, and each of them includes multiple activities:

UTILITIES (30%)	TRANSPORT (30%)	MIDSTREAM (30%)	DATA INFRAS (10%)
7.7M electricity and gas connections.	32,300 km of rail operations.	15,000 km of transmission pipeline.	165,700 multipurpose towers and active rooftop sites.
16,200 km of natural gas pipelines.	3,800 km of toll roads.	600 billion cubic feet (bcf) of natural gas storage.	268,000km of fiber optic cable.
2.3M residential energy customers	11 terminals and 2 export facilities	17 natural gas liquids processing plants	50+ data centers.

BIP is also geographically well diversified with operations in North America (44% of assets), Asia Pacific (20%), South America (19%) and Europe (17%).

BIP provided extra information on their debt structure in their presentation in November 2022. BIP has a credit rating of S&P 500 BBB+ with an average debt term maturity of 7 years. The company has $2.3B in liquidity and expects to generate an additional $2.1B in asset sales in 2023. The corporate interest coverage is at 21x with 90% of its debt at fixed rates. Only 2% of Brookfield Infrastructure's debt is up for renewal in the next 12 months.

BIP is currently actively investing in its data infrastructure (50% of its CAPEX) and energy business (40%).



BIP investing narrative.

One major disadvantage most utilities have is their lack of diversification. Many of them excel at a specific type of service (electric transmission, natural gas, etc.) and show a limited geographic footprint. You break both barriers with BIP as the company operates in multiple business segments and manages assets all over the world. We also like their ability to be proactive with massive investments in data infrastructure.

You will notice the use of the FFO per share provided by Ycharts instead of the EPS. Due to BIP's massive CAPEX and large assets, the company's financial statements are constantly affected by non-cash charges such as amortization and fair value modifications (up or down) that will impact earnings per share, but not the company's cash flow. That will be the case for Brookfield renewable as well for the same reason.

Therefore, it's confusing to look sometimes at negative earnings while BIP raises its dividend. That's because BIP generates constant cash flow from its assets (funds from operations). Those cash flows are also well protected against inflation. In their latest quarter, BIP confirmed double-digit FFO per share growth for both the Utilities and Transport segments as growth was driven by inflation indexation.

DIVIDEND STOCKS ROCK

INVEST WITH CONVICTION, ENJOY YOUR RETIREMENT

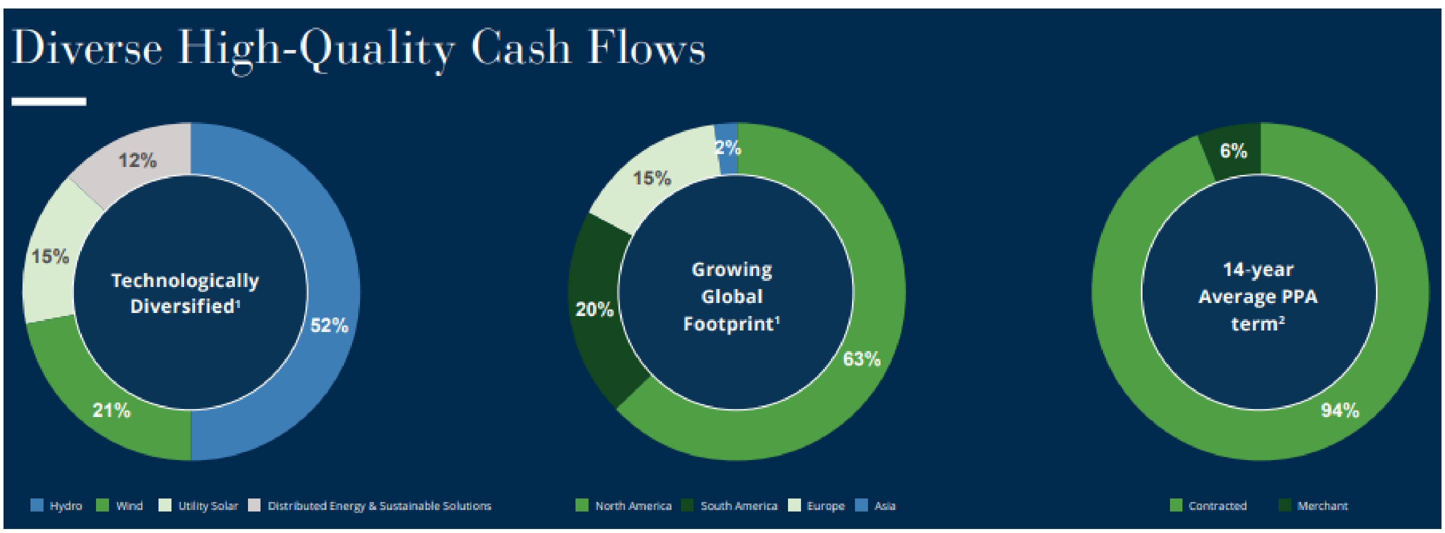
BROOKFIELD RENEWABLE (BEP, BEPC, BEP.UN.TO, BEPC.TO)

BN ownership: 48%

BEP operates one of the world's largest publicly traded renewable power platforms. Its portfolio consists of approximately 24,000 MW of capacity and over 5,300 generating facilities in North America, South America, Europe, and Asia. Its investment objective is to deliver long-term annualized total returns of 12%-15%, including annual distribution increases of 5–9% from organic cash flow growth and project development. The company is a global leader in hydroelectric power, which comprises approximately 52% of its portfolio. It is also an experienced global owner and operator of wind, solar, distributed generation, and storage facilities. (BEP investor website)

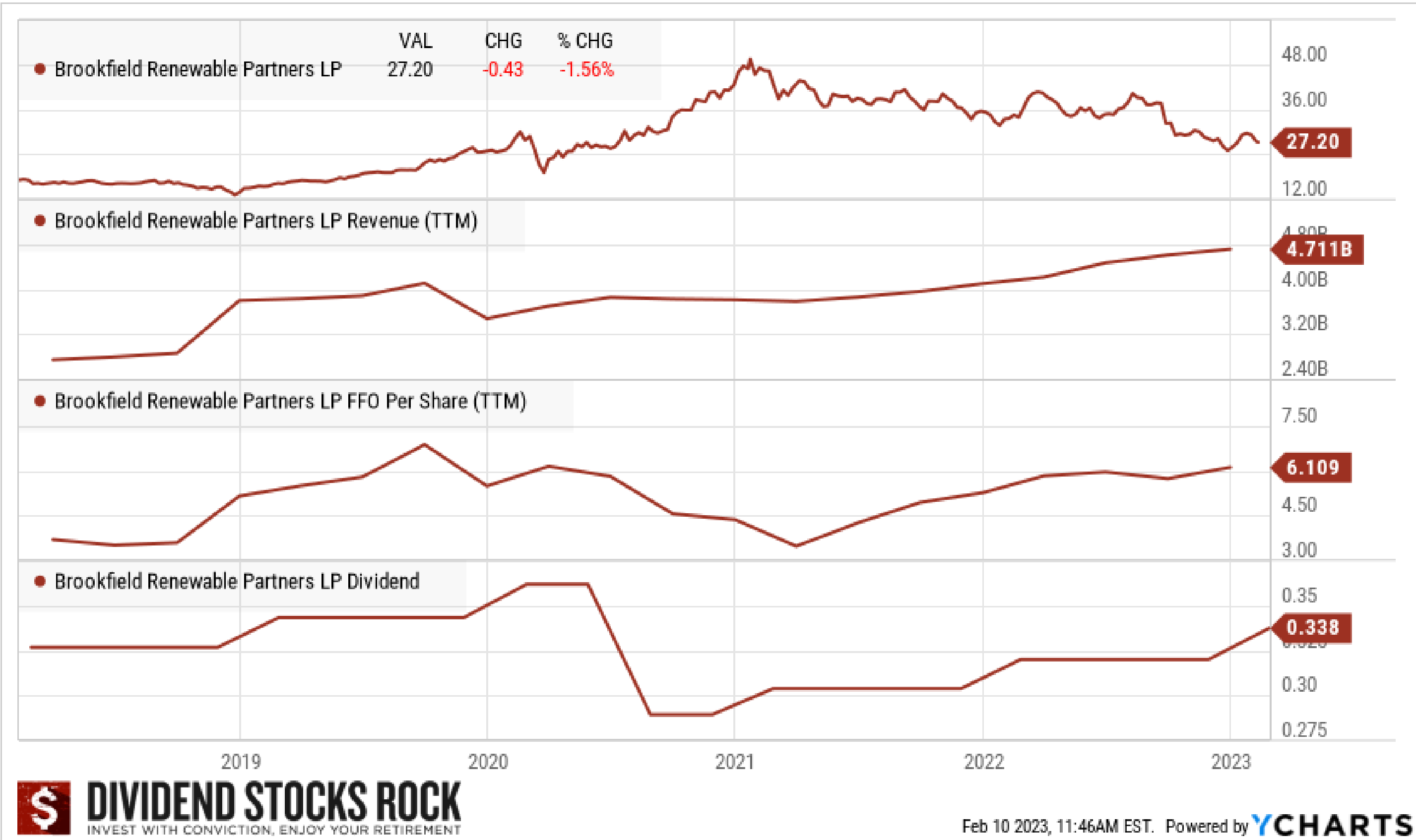
Like BIP's business model, BEP is also operating across multiple business segments:

HYDRO	WIND	SOLAR	Distributed energy & sustainable solutions
8,100 megawatts	5,900 megawatts	3,400 megawatts	6,200 megawatts



Source: Investor brochure

Moving forward, BEP will improve its diversification with major investments in wind and solar energy. The company currently shows a project pipeline of 102 gigawatts. As is the case with other Brookfield members, you are better off tracking its funds from operations than its earnings per share.



BEP investing narrative.

Like BIP, BEP offers significant diversification for investors when it's time to select a renewable energy producer. BEP shows about 63% of its activities in North America, opening the door for good geographic diversification. The company is on its way to more than double its energy generation capacity once it completes its development pipeline.

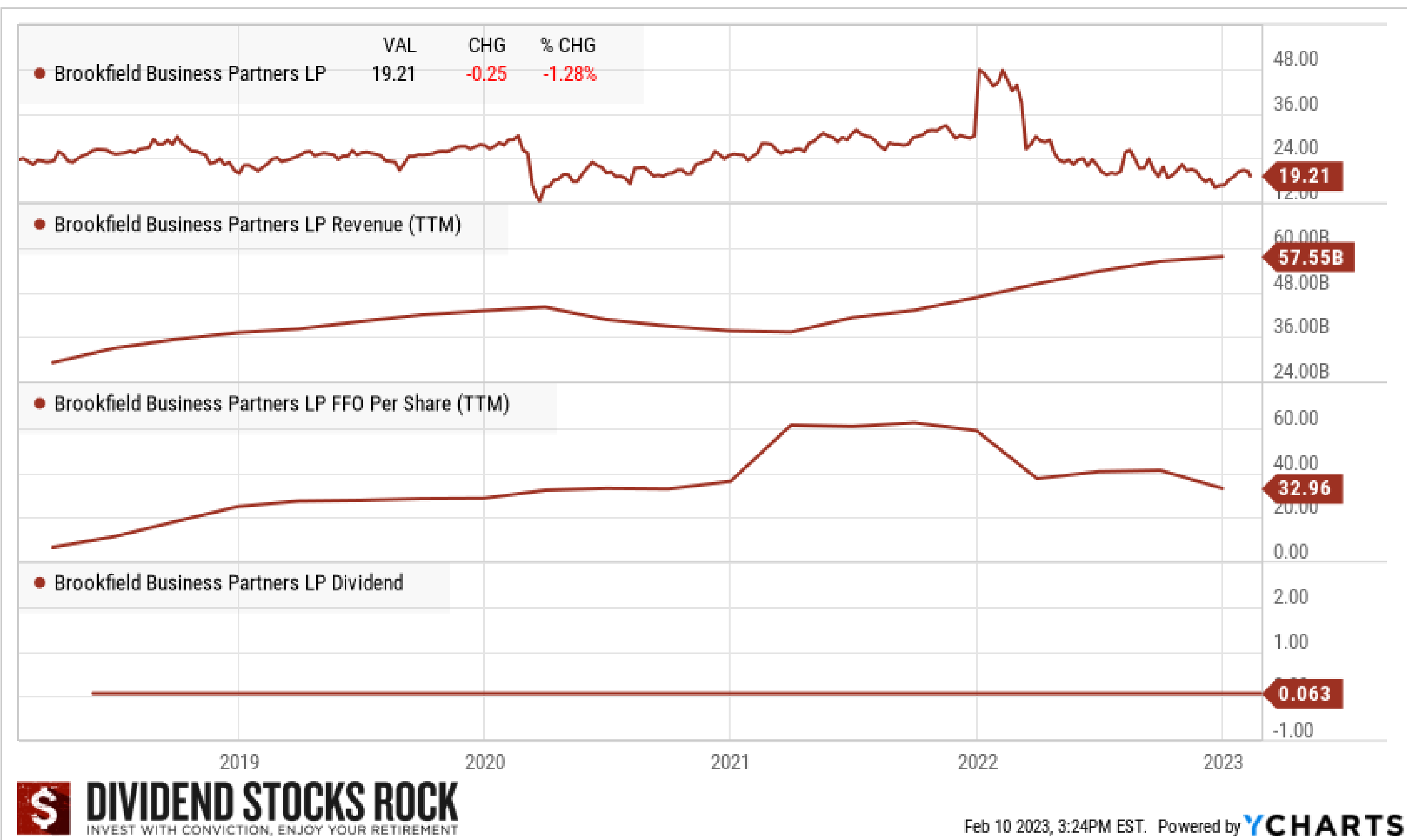
After an impressive stock price surge through 2020, the stock is trending down for the past 2 years. While the stock is cooling down, there is nothing to worry about. The rise of interest rates on bonds combined with the incredible ride BEP has had is responsible for this small correction.

BROOKFIELD BUSINESS PARTNERS (BBU, BBUC, BBU.UN.TO, BBU.TO)

BN ownership: 65%

Brookfield Business Partners is a global business services and industrial company focused on owning and operating high-quality providers of essential products and services. Their operations are diversified across the industrial, infrastructure services, and business services sectors. (BBU investor website).

This is the smallest of the Brookfield kids and potentially the least interesting in my opinion. It hasn't been covered much at DSR either due to the lack of dividend growth. BBU goes after public businesses and acquires them to convert them into private companies. For example, Genworth (Previously MIC.TO) was acquired in 2020 and the company was swallowed by BBU.



BBU investing narrative.

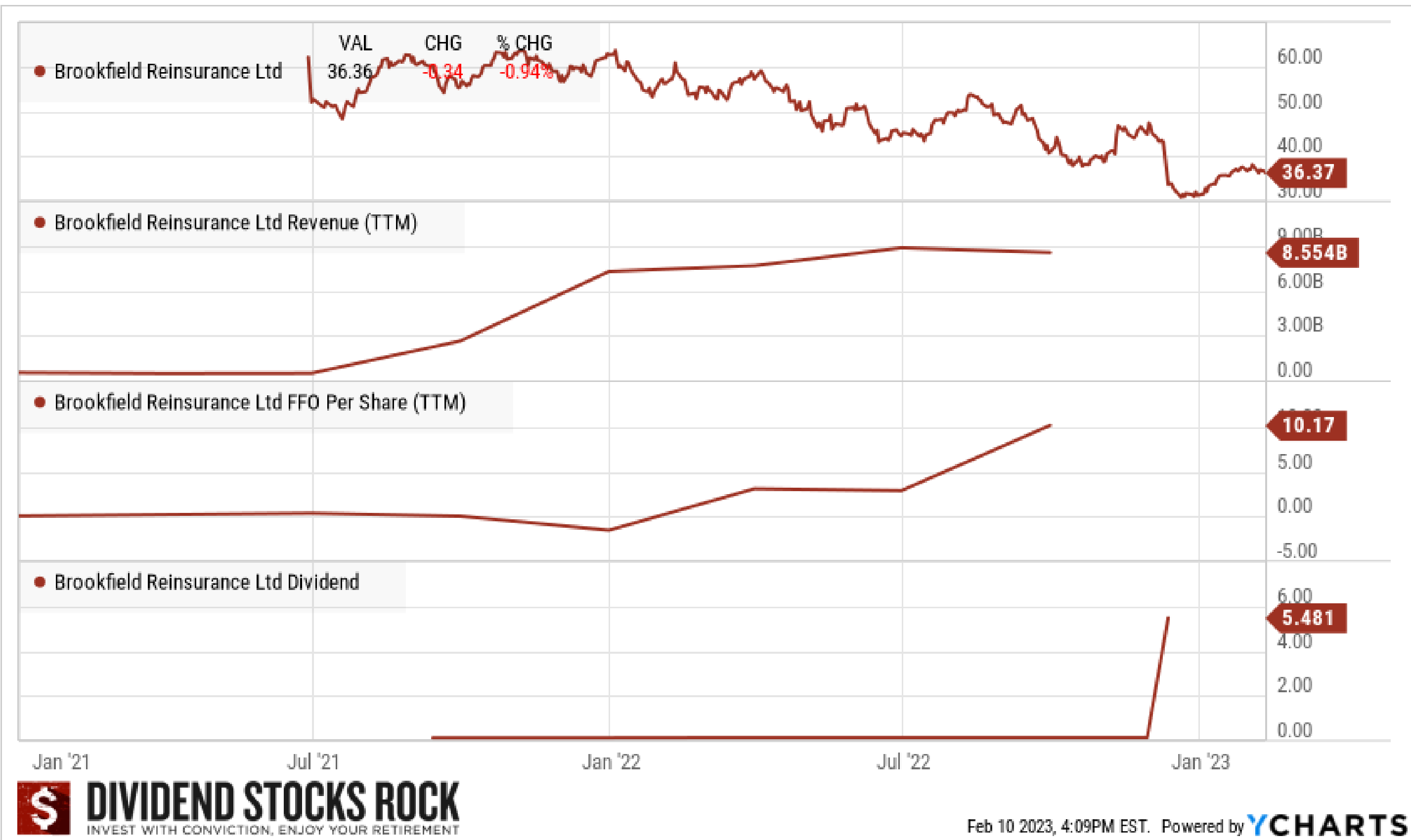
BBU hasn't been on the DSR radar. The stock offers a low yield and has had no dividend growth since it went public. The stock price is hectic, and the dividend triangle isn't impressive. If we want low yield, high growth, we'll buy BAM or BN instead.

BROOKFIELD REINSURANCE (BNRE, BNRE.TO)

BN ownership: 11%

Surprisingly, Brookfield Reinsurance is not mentioned in Brookfield Corporation's quarterly supplemental information (source). Maybe it's because BAM (not BN) only owns 11% of the company.

Brookfield Reinsurance offers a broad range of insurance products and services to individuals and institutions, including life insurance and annuities, health, and personal and commercial property and casualty insurance. BNRE has about the same market size ($1.5B) as BBU.



BNRE investing narrative.

Brookfield has made it clear it wants to expand this business with the announcement of the acquisition of Argo Group International Holdings for $1.1B in February of 2023. Argo will help BNRE to expand their insurance activities in the U.S. It's still a new company and we will need more time to analyze how BNRE will evolve going forward.

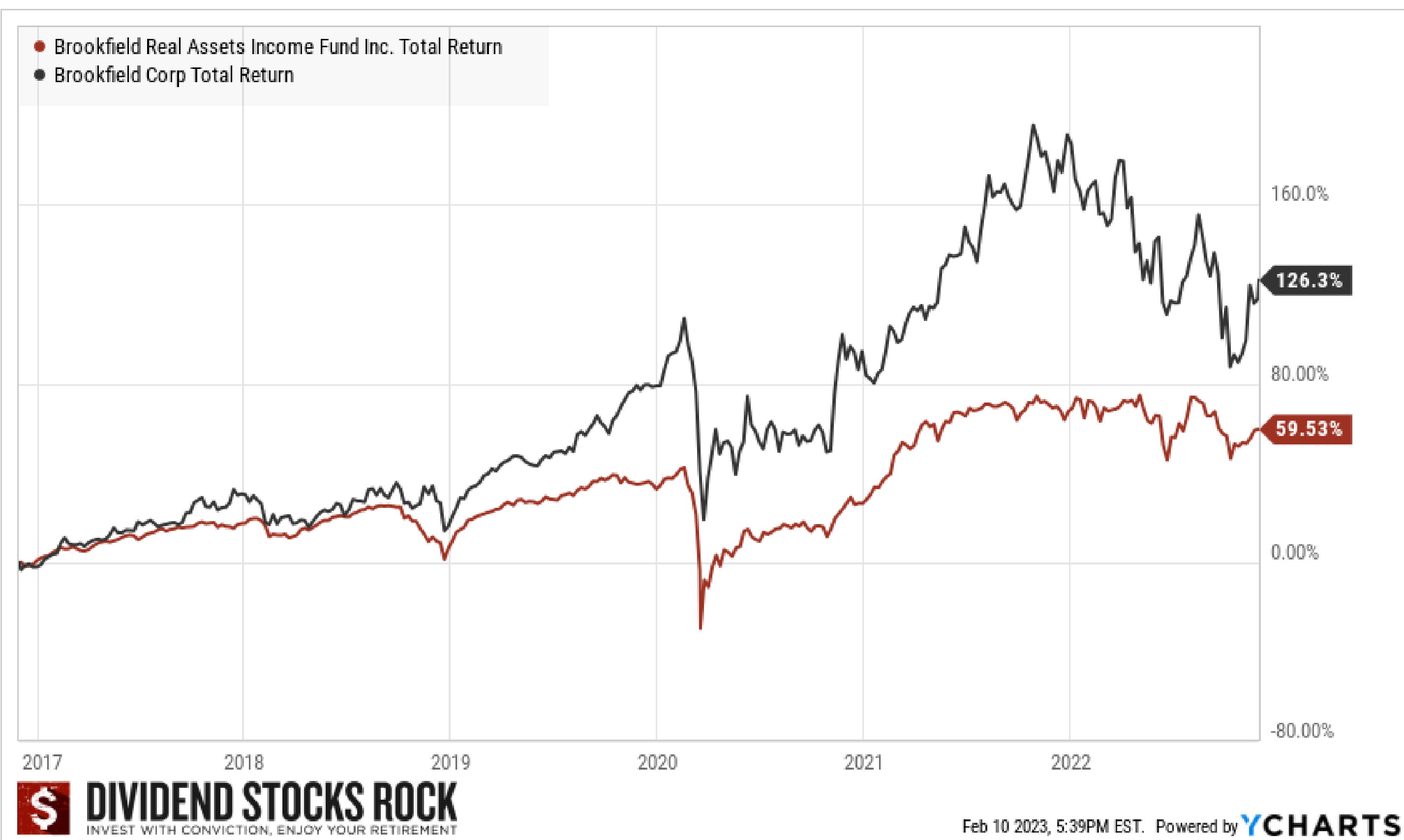
BROOKFIELD REAL ASSETS INCOME FUND (RA)

This is not a Brookfield company but a closed-end fund, and it is not covered at DSR

I've received a few questions about one of Brookfield's investment vehicles. Please note this is not a security that will be covered at DSR in the future since it's a fund and not a stock. While the yield is generous there has been no distribution increase since its inception.

Brookfield Real Assets Income Fund is a closed-end fund that invests primarily in real estate and infrastructure assets with the aim of generating income and preserving capital for its shareholders. The Fund is managed by Brookfield Asset Management, one of the world's largest alternative asset managers with a long track record of success in these asset classes. The Fund can invest at least 65% of its Managed Assets in fixed income securities of Real Asset Companies and Issuers and in derivatives and other instruments that have economic characteristics like such securities.

In other words, you invest in a fund that does the same thing as BN or BAM. If you want to participate in such investments, you might as well purchase the original and not the copy. Since RA's inception, BN clearly outperforms on total returns including dividend/distribution reinvestment).



POTENTIAL RISKS INVESTING IN BROOKFIELD

I will finish this newsletter by highlighting the four more important risks when investing in Brookfield.

Complex structure: Investing in Brookfield stocks could be complex if you dive into their balance sheet. That's because they own so many different assets in so many countries. Their diversification is a blessing for their business model and a curse. However, you can bring it to a simpler model where Brookfield is into long-term assets that are generating constant and predictable cash flows. If funds from operation and assets under management grow, you are in good hands.

Leverage: You will notice the impressive debt BN, BIP and BEP show on their balance sheet. However, when you look at the size of their assets and the fact that the debt is mostly "non-recourse debt" (meaning the bank can only go after the assets backing the debt), you realize Brookfield has limited risk. The company keeps large amounts in cash to cover any short-term problems and has valuable assets to back its debt. Debt repayment hasn't been problem.

Value inflation: Over a short period, one could argue that asset managers like Brookfield could be tempted to bolster their asset fair values to make its balance sheet shine and attract more investors. However, Brookfield has been in business for more than 100 years. You can't fake it for that long.

Bad market, high interest rates: It's hard to manage long-term assets with patient capital in such a market. While analysts and investors are craving for daily news, Brookfield is that big mountain you see on the landscape. Weather changes, there is a storm, but the mountain stands still. Brookfield stocks are up for a roller-coaster as the market will want immediate results and will penalize the company for their business model.

FINAL THOUGHT

After looking across all Brookfield businesses, we think the most interesting investments today are BN or BAM, BIP and BEP. The fact that there is a close link between all of them may create a break to buy the whole package. If anything major happens to BN, it will likely have an impact on BAM, BIP and BEP.

Also, you may prefer to own utilities that are specialized in a specific activity or in a specific region. While there is a great advantage to diversification, we have seen many cases where management spreads itself too thin and loses control of its operations.

I wrote this newsletter to shed some incremental light on the Brookfield family of companies. Let me know if there are any other aspects of this company or its operations that haven't been discussed fully in this newsletter that you would like to see in print in the future.

Cheers,

Mike.

RATING CHANGES

This section communicates rating changes on the most popular stocks held at DSR. The changes mentioned below happened during this week upon our latest review.

COMPANY	SYMBOL	PREVIOUS RATINGS (PRO/DIV)	NEW RATINGS (PRO/DIV)	COMMENT
WEC Energy	WEC	3/4	4/4	Considering the WEC's dividend triangle, its forward PE at 19, and the recent dividend increase, the company was upgraded to "buy" (4).
Canadian Pacific	CP.TO/CP	4/3	4/2	While the dividend is not at risk, CP hasn't increased its dividend since 2020. The company remains in great shape, but it doesn't qualify as a dividend grower.
Corning Incorporated	GLW	4/4	3/3	The company shows a dividend triangle that is slowing down on al front (revenue, EPS and dividend). The latest dividend increase of 3.7% and higher payout ratios triggered a lower dividend safety score.
Magna International	MG.TO / MGA	4/4	3/3	The problem isn't revenue growth (it was 5% this quarter), but rather compressing margin. This has been an ongoing problem for a while now and management seems unable to find a quick fix. Management expects sales to continue to outgrow global light vehicle production and margin to expand by 230 basis points or more by 2025. Are you that patient? We have revised our rating from 4/4 to 3/3 considering the weak dividend triangle and the recent dividend increase of 2%.
Enbridge	ENB.TO / ENB	4/3	3/3	As the cost of operations will continue to raise and debt could hurt Enbridge's cash flow, we downgraded ENB from a 4/3 to a 3/3. We don't see much room for capital appreciation going forward, but the dividend is healthy (and generous).

OVERALL PORTFOLIO PERFORMANCE

Listed Returns are as of November 3rd, 2022:

Portfolios	Inception Date	Return	Benchmark	Added Value	Annualized Return	1 Y	YTD
CAD 25K	10/31/13	190.59%	119.01%	71.58%	12.04%	2.44%	9.01%
USD 25K	10/31/13	151.86%	159.43%	-7.57%	10.34%	-13.78%	-0.47%
CAD 100K	10/31/13	123.89%	119.01%	4.88%	8.97%	-4.46%	6.62%
USD 100K	10/31/13	185.82%	159.43%	26.39%	11.84%	-7.88%	3.68%
USD 500K	05/31/14	103.18%	130.35%	-27.17%	8.47%	-5.51%	3.52%
CAD 500K	05/31/14	117.14%	92.60%	24.55%	9.30%	-3.20%	4.61%
100% CAD	07/31/17	72.73%	51.53%	21.21%	10.52%	-1.84%	8.14%
Retirement CAD	07/31/18	38.26%	40.82%	-2.55%	7.38%	-10.55%	7.99%
Retirement USD	07/31/18	56.49%	56.59%	-0.11%	10.34%	-7.72%	2.46%

*Canadian portfolios added value is calculated based on 50% of VIG and 50% of XDV as half of portfolios are US stocks. Currency hasn't been taken into consideration.

Benchmarks are VIG and XDV.TO for all portfolios.