DM Monthly Report
NOVEMBER 2017

PORTFOLIO ACTIVITY

During October, we added software maker Kinaxis Inc. to DM Canadian Equity, while selling Express Scripts out of DM Foreign Equity.

FEATURE STOCK
PrairieSky Royalty Ltd. (PSK)

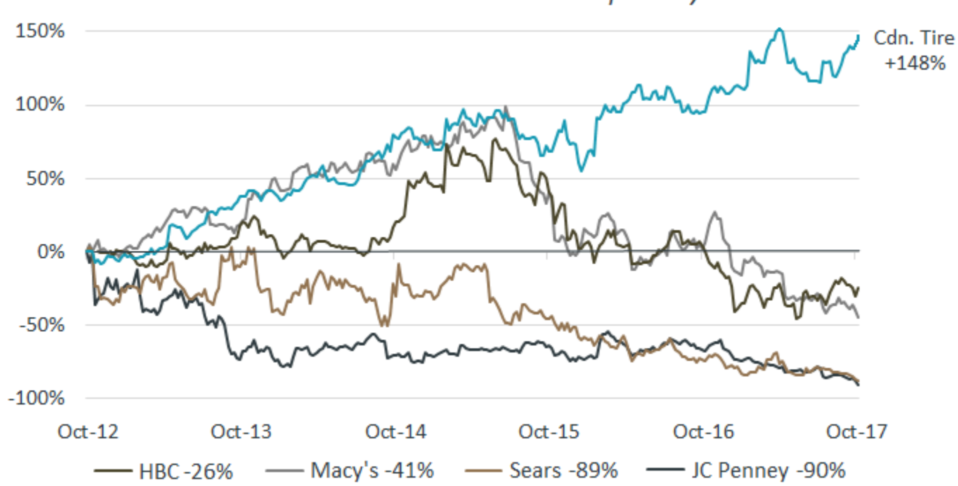
Canadian Natural Resources distributed PSK shares in 2016, with each shareholder receiving a small allocation to the independent company. PSK is unique in that, instead of developing and running its energy properties, it collects royalties from other producers that operate on its land. Attracted to this structure, which tends to provide smoother cash flow streams over time, we added to our small position in the stock last March, taking it to a full portfolio weight at the time. This holding has significantly outperformed both the TSX energy sector and the broad market, returning about 17% since our purchase barely eight months ago. Part of this return has come in recent weeks after the company posted third quarter earnings that significantly exceeded consensus expectations. Activity was high over the reporting period, with PSK signing 23 new lease arrangements with 20 separate producers and 245 new wells being spud on its land base. With oil prices firming, we believe that PSK should be well positioned for additional earnings growth in the quarters to come.

A RARE GREEN SHOOT ON THE SCORCHED EARTH OF RETAIL

We live in a period of rapid change. The same forces that have brought us previously unimagined technologies and conveniences, however, have also wreaked agonizing upheaval on certain parts of the economy. Perhaps nowhere has this dislocation been levelled with as much swiftness and ferocity as in the retail sector, where companies struggle to maintain relevancy and, in many cases, outright survival in the face of the "Amazon-ing" of their industry. One-time cornerstones like Sears Canada and Toys R Us have recently filed for bankruptcy, while outlets such as Foot Locker, Kmart, and Staples are either closing stores in multiples, selling off real estate, or paddling furiously against the unrelenting tsunami of competition.

Of course, not all established retailers have perished under the new paradigm and a select few have actually thrived amongst these harrowing conditions. Canadian Tire is one of those success stories and, as the chart below indicates, its stock has generated a cumulative total return of nearly 150% over the past half decade to lap both the retail sector and the broad equity market. So why has CT soared while others have crumbled? Two distinct advantages that it holds over online-only retailers are its attractive store locations and its robust private-label portfolio, a suite of products which now accounts for roughly 30% of sales. In addition, management has built a strong track record of capital deployment, buying assets such as Mark's Work Wearhouse and Forzani Group (SportChek) during periods of weakness, while monetizing real estate assets through the creation of its own REIT. If online competition is posing a significant threat to the company, it isn't showing up in the numbers: recently released Q3 results included a 38% dividend hike and revealed that same store sales growth is running at its highest rate in a decade. With this upward momentum and a debt-free balance sheet, Canadian Tire remains a core position in DM Canadian Equity.

Select Retail Stock Total Returns - *past 5 years*



Source: *Bloomberg*