DM Monthly Report

JANUARY 2018

PORTFOLIO ACTIVITY

No new positions were added to our major equity mandates and none were sold in December.

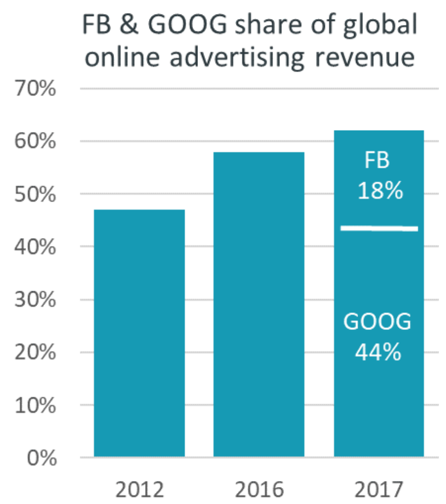
FEATURE STOCK

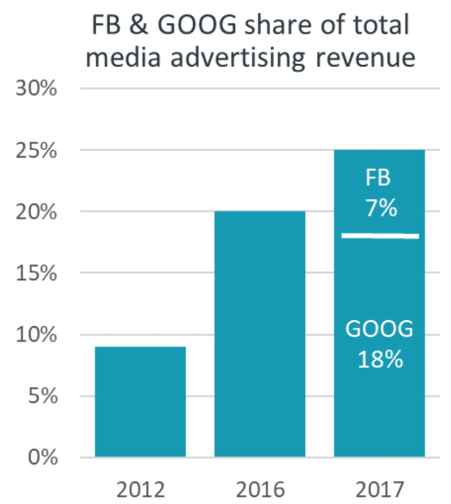
Kinaxis Inc. (KXS)

Occasionally, we are able to 'graduate' a stock from the DM Small Cap Fund into our mid and large cap DM Canadian Equity Portfolio. This happened with KXS when rapid growth boosted both its market size and business scale such that we could add it to our senior portfolio last fall. KXS is a maker of supply chain software for several industries, including aerospace, electronics, financial services, automotive, and pharmaceuticals. Its growth has resulted in part from a superior offering over products made by SAP and other larger competitors and its ability to save time and cost for major global enterprises. Merck, for example, said that with KXS software it was able to reduce global inventory by a month, generating significant savings. In addition to a customer list that includes firms like Proctor & Gamble, Nissan, Bristol-Myers, Toshiba, and Cisco, KXS has entered into partnerships with consultants like Accenture, Deloitte, and Bain to help accelerate client acquisition. In just over months since our purchase, KXS shares have risen by more than 18% and additional customer wins could help to drive future growth.

YES, IT IS DIFFERENT THIS TIME

About two and half years ago, the NASDAQ index reclaimed the high mark it had set a decade and a half earlier when the dot-com bubble was at its most inflated. Rather than being met with hand wringing and apprehension, however, the re-crossing of this once frothy threshold generated little angst amongst the investing public and not even much fanfare from the ordinarily excitable financial press. This is probably because the second run to 5000 points took comparatively so long, making it feel more like a natural progression than a speculative blow-off. There was probably also a recognition that the companies comprising the NASDAQ today—even those that have been a part of the index through the entire period—are a lot different than they were at the turn of the millennium. Whereas tech stocks were trading on the hope of internet in the late 1990s and were frequently afforded multi billion dollar valuations ahead of sales, earnings, and sometimes even credible business plans, today these firms are reshaping the economy and making significant contributions to output and growth. This deep penetration into the 'real' economy is exemplified by the advertising businesses of Facebook (which we don't own) and Google (which we own in DM Foreign Equity through its parent, Alphabet Inc.). As you can see on the left hand chart, these two relatively new companies dominate online ad volumes, which is perhaps not surprising. What is startling, however, is that the pair now collectively capture a quarter of all advertising funds spent everywhere in the world, through all media—TV, newspapers, magazines, online, you name it. And Alphabet, at least, shows no sign of slowing down in its market share accumulation, reporting a 24% jump in sales last quarter while realizing its highest profit margin in almost five years. As the company has grown, Alphabet stock has also been a strong contributor to DM portfolios, returning 33% in 2017 alone.





Source: *Statista*