DM Monthly Report

SUMMER 2018

PORTFOLIO ACTIVITY

Though we entered several re-balancing transactions in DM equity portfolios over the past month, no new positions were added and none were eliminated.

FEATURE STOCK

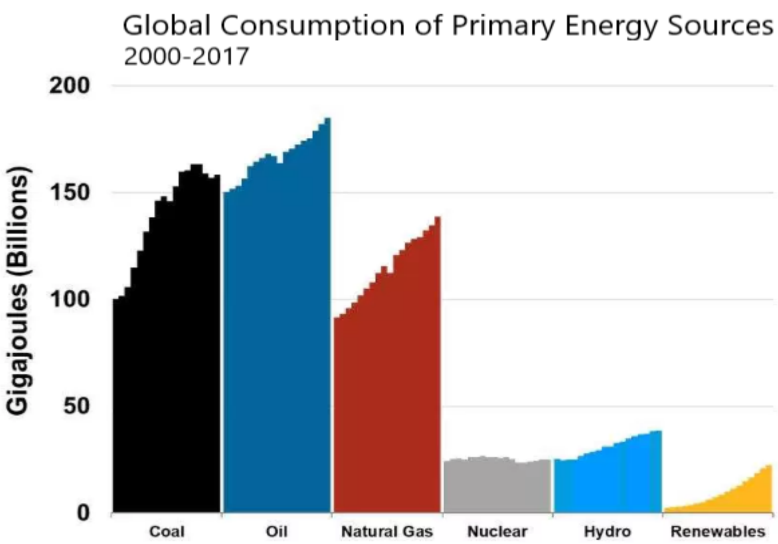
TFI International Inc. (TFII)

Through targeted acquisitions and organic growth, TFII has become the largest trucking and logistics company in Canada, with significant operations on both sides of the border. We first added the position to DM Canadian Equity in January 2014, attracted to the company's sound record of capital allocation and its ability to participate in the N. American economic recovery that was beginning to gain steam. Since that time, our thesis has played out, with management completing divestitures of nearly $800m and acquisitions totaling $1.8b. The excess cash generated through these transactions and operations allowed the company to increase its dividend by 45% and buy back about 13% of outstanding shares, without adding leverage to its balance sheet. For Q1-2018, TFII posted a big jump in earnings per share, with management suggesting that growth would continue throughout the year. These results helped to power the stock higher in recent weeks, bringing our annualized return on the position to about 15% since original purchase.

PERCEPTION AND REALITY IN ENERGY MARKETS

The modern electric car is an engineering marvel and most of us would love one in our driveway. Wind farms are sprouting up like dandelion patches in several regions and solar is now so efficient that it's become a viable power alternative for many homes and buildings. With renewable energy technology racing ahead and western nations focused on moving beyond fossil fuels, it's hardly surprising that global demand for oil and gas is in decline. Except that it isn't. In fact, aside from a brief setback during the deep 2008/09 recession, yearly consumption has risen steadily and now sits at all time highs (see chart). This strong demand backdrop means that even a threat of supply interruption is quickly translated into surging prices. Recently, for example, aggregate output has been pressured by a plunge in Venezuelan production, meaningful cuts by Saudi Arabia and Russia, and the renewal of US sanctions against Iran, all of which caused crude to spike by as much as 70% over the past 12 months. As we think about energy investment strategy going forward, it's useful to look back to 2014 when the price of oil collapsed from the $100 range to as low as $30/barrel. In response, companies slashed headcount and administrative expenses to stay ahead of tumbling revenues, which had the effect of instilling a "leanness" to operations which persists today. In an effort to preserve cash, producers also dramatically reduced exploration activity, with annual capital expenditure falling by about 40% over a 3 year period. All else equal, these factors should bode well for both future commodity prices and the ability of energy firms to efficiently convert revenues into cash flow.

Though the use of renewables is growing swiftly, carbon based fuels still dominate global energy consumption. As long as demand for traditional energy commodities continues to climb and the sector remains reasonably valued, oil and gas producers will likely account for at least some portion of DM equity portfolios.



Source: *BP Statistical Review, Intl. Energy Agency*

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