DM Monthly Report

May 2015

PORTFOLIO ACTIVITY

Accumulated cash was used to purchase two new positions in April: Mastercard was bought in DM Foreign Equity, while shares of CP Rail were added to DM Canadian Equity.

FEATURE STOCK

Apple Computer (AAPL)

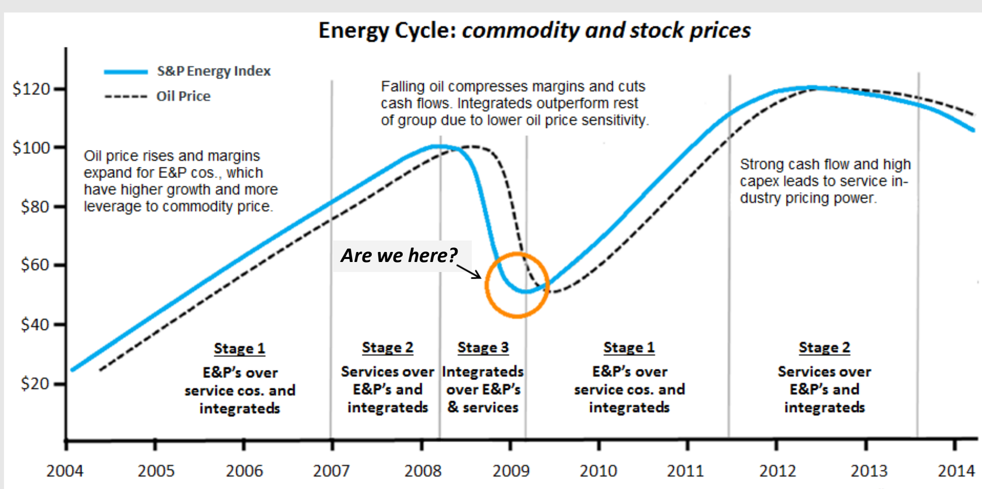
Despite producing some of the world's most beloved and widely used products, AAPL has been increasingly dogged by an important question in recent years: *Will the iPhone refresh cycle maintain its traditional pace, or will it begin to taper as new features become less transformative?* With the iPhone now accounting for nearly 70% of AAPL revenues and consumer upgrades of existing phones accounting for a significant portion of unit sales, this is a valid concern and one that could have a significant impact on the company's future growth rate. With a blowout first quarter earnings release, however, AAPL went a long way quieting this worry. Earnings improved by 40% over the same period last year, driven by a similar 40% increase in iPhone unit sales (consumers obviously didn't hesitate to ditch their old units in favour of the iPhone 6!). This surge allowed management to boost AAPL's dividend by 11% and raise its share repurchase authorization from $90bn to $140bn.

MANAGING ENERGY EXPOSURE IN A VOLATILE ENVIRONMENT

As the oil price drop accelerated last fall, we began to think about the other side of the decline and how we might best position our energy exposure for an eventual recovery. To help guide this effort, the DM equity team built a "road map" of criteria that would signal a possible turn in conditions and an opportunity to either reshuffle our company mix within the sector, or increase our allocation to the entire group. The eight items on the checklist ranged from positive energy demand revisions, to earnings estimates bottoming out, to global capex cuts and, at the time of its creation, just one of these metrics was in a positive position. Since then, however, circumstances have improved, with the price of oil rebounding and companies making substantial cuts to drilling activity, so that five of our eight indicators are now "flashing green".

Around the time we were doing our internal work, AllianceBernstein came out with a graphic showing how energy stocks performed during the last big oil price retreat in 2008. The chart breaks that energy cycle into phases and marks which part of the sector (i.e. *integrated energy cos., exploration & production firms, and oilfield service providers*) fared best in each stage. In the DM Cdn Equity Portfolio, this guide seems to be playing out so far, with our large cap and integrated holdings—specifically Cdn. Natural Resources and Suncor—generating positive returns since last fall vs. a decline in the broad TSX energy group over the same period. Taking advantage of this performance discrepancy, we recently trimmed our weight in this subgroup and redeployed the resulting capital to our E&P component.

Of course, a new wrinkle has just been added to our energy analysis with the unexpected NDP win in Alberta. Beyond traditional industry fundamentals, we'll now also be paying close attention the new government's positions on royalties, corporate taxes, and environmental regulations.



Suite 1680, 1055 West Hastings St., Vancouver, BC V6E 2E9
Tel 604 669-3136 **Toll Free** 888 340-3136 www.**dixonmitchell**.com

DIXON MITCHELL INVESTMENT COUNSEL