DM Monthly Report

June 2015

PORTFOLIO ACTIVITY

A new position in convenience store operator Alimentation Couche-Tard was added to the DM Cdn Equity Portfolio in May, while Kellogg Co. was sold and Merck & Co. was bought in DM Foreign Equity in the same period.

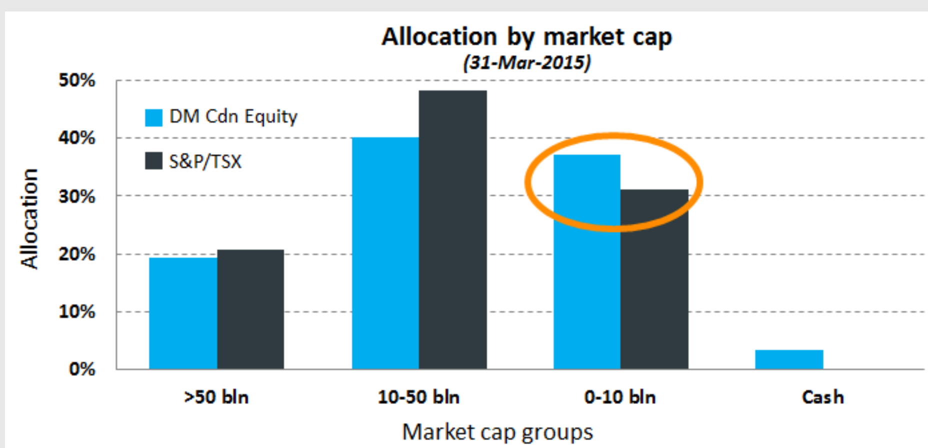
FEATURE STOCK

Alimentation Couche-Tard (ATD.B)

ATD is a Canadian-based convenience store operator that has aggressively expanded its international portfolio through a series of effective acquisitions. It now operates across North America and throughout Asia and Northern Europe through well known brands such as Circle K, Kangaroo Express, Mac's, and Statoil. In adding ATD to the DM Cdn Equity Portfolio we were attracted both by industry dynamics, where fragmentation leaves plenty of room for additional consolidation, and by the company's strong record of cash flow growth and value creation. Since 2003, ATD has made 47 acquisitions, adding 1600 stores to its portfolio, while over the past half decade, sales per share have grown by nearly two and a half times and free cash flow per share has more than tripled. A temporary bout of share price weakness in early May allowed us to acquire our position at an uncommonly attractive valuation.

PUTTING SIZE ADVANTAGE TO GOOD USE

In the past, we've alluded to the inverse relationship that often exists between investment manager size and the ability to add value beyond the broad market index. This is especially true in Canada where, on the one hand, banks and mutual funds have gathered massive amounts of investor capital (in many cases exceeding $100 billion) but on the other, many of the most attractive companies in the TSX are comparatively small. Names like Home Capital, Dollarama, and Gildan Activewear have been great performers over time, but all have market capitalizations of less than $10 billion. This relative illiquidity makes it very difficult (if not impossible) for mega-managers to allocate meaningful weights to such stocks, so instead they must turn to the market's largest members to soak up portfolio capital. As a boutique investment firm, one of DM's most important advantages should flow from our ability to "go anywhere" within equity markets and to limit the number of holdings in each mandate. Each quarter, we evaluate our success on this front by breaking down our portfolios by market capitalization sub-groups and analyzing how we've done within each segment. The charts below outline the current positioning of the DM Canadian Equity Portfolio across the size spectrum, along with our 3-year performance within each group. As you can see, we've outperformed by wide margins in the sub-$50bn space, helping the aggregate portfolio exceed the TSX by 3.6% annually over the past three years. Our shortfall in the >$50bn group has been almost entirely attributable to our absence from Valeant Pharmaceuticals, a company whose aggressive *(some would say controversial)* business strategy doesn't suit our management style.



To 31-Mar-2015	3-year Annualized Return by Market Cap: > $50bn	$10-50bn	< $10bn	Aggregate 3yr Return
DM Canadian Equity	**8.4%**	**14.7%**	**15.2%**	**13.2%**
S&P/TSX Total Return	11.5%	11.0%	5.8%	9.6%

* returns are annualized and calculated before management fees, but after the deduction of all trading costs

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