DM Monthly Report

SEPTEMBER 2016

PORTFOLIO ACTIVITY

Though we executed several trades through the summer to rebalance both DM Canadian and DM Foreign Equity, we did not open any new positions in either mandate over the period.

FEATURE STOCK

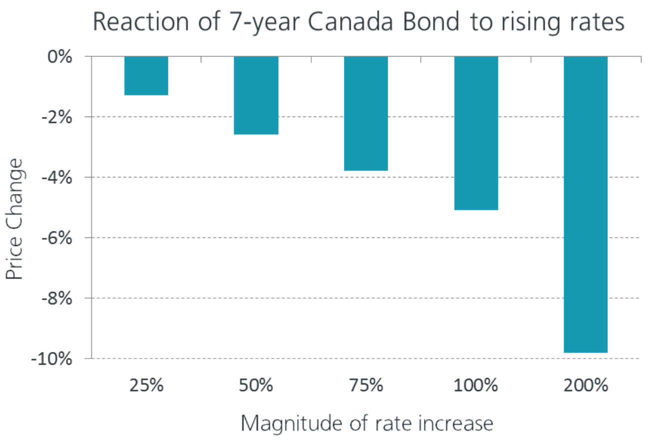
Alimen. Couche-Tard (ATD.B)

In mid-August, convenience store and gas station operator ATD announced its largest acquisition to date when it agreed to acquire CST Brands. CST, which was itself spun out from Valero Energy in 2013, has approximately 2000 fuel and convenience outlets in North America and will provide ATD with exposure to regions it had been targeting, particularly the high growth Texas market. The purchase should also allow ATD to leverage its existing infrastructure to wring meaningful synergies out of the combination. Investors evidently agreed with the acquisition's potential, bidding the stock higher by 10% from the announce-ment date. To pre-empt possible pushback on competition concerns, ATD brought Parkland Fuel into the deal to take CST's Quebec locations. Parkland shares also jumped sharply, gaining more than 15% by month-end, which helped the DM Small Cap Fund and DM Enhanced Dividend Portfolio, both of which hold the stock.

ARE WE REALLY AT THE BRINK OF "BOND-POCOLYPSE"?

Doomsday predictions for stocks are pretty commonplace, so much so that it's often hard to keep track of who's calling for which crash when. In recent quarters, though, fixed income markets have also been caught in the crosshairs of scaremongers, with several commentators and asset managers warning that we're in the midst of an unsustainable bond bubble that will inevitably burst with costly implications. To be sure, these are unique times in credit land, with interest rates across the yield curve sitting at or near record lows, more than $11 trillion worldwide now parked in negative—*yes, negative*—yielding debt, and the US Federal Reserve struggling to meet its stated aim of boosting rates multiple times this year. All the same, even if rates do reverse course and begin to climb, would the consequences really be as dire as some are implying?

Fortunately, much of bond analysis is mathematical and so the impact of a given rate increase can be calculated with a high degree of confidence. In the chart below we've illustrated how the price of a 7-year Gov't of Canada bond would react if yields jumped by 25% to 200% from current levels (we chose the 7-year note because its duration roughly matches that of both the broad Canadian bond index and our internal bond models). As you can see, even if rates double or triple from where they are now, the immediate price hit would be meaningful, but not necessarily ruinous; if, however, they rise by a more realistic 25% or 50%, the impact in a typical balanced portfolio would likely be difficult to notice. Other relevant points to consider include:



- Unlike a single bond, a fixed income portfolio will provide opportunities to mitigate risk; specifically, shorter term or maturing issues can be rolled out further to take advantage of more attractive rates as they emerge;
- Any increase in yields is likely to be realized gradually, rather than in a sudden spike, providing fixed income managers with some time to adjust holdings to reflect the changing environment;
- Upward pressure on interest rates would almost certainly accompany accelerating economic growth; this would presumably bode well for both corporate earnings and the performance of stocks in a balanced portfolio.