

DM Monthly Report

OCTOBER 2016

PORTFOLIO ACTIVITY

Shares of Comcast Corp. were added as a new position in the DM Foreign Equity Portfolio during September. Comcast is a media company which owns cable assets and conglomerate NBCUniversal.

FEATURE STOCK

Microsoft (MSFT)

MSFT is truly a cash king: it generates about \$2bn of free cash flow each month and its balance sheet is currently bulging with almost \$60bn in net liquidity. Rather quietly last month, the company announced plans to return some of this capital to shareholders through both an 8% dividend increase and a \$40bn share repurchase program. The buyback plan will retire roughly 9% of outstanding stock and replaces another \$40bn program that is due to be completed in December. Not bad, considering that in June MSFT also shelled out more than \$26bn to acquire business networking firm, LinkedIn Corp. Much of this success can be credited to the company's CEO since 2014, Satya Nadella, and his dogged determination to both improve corporate unity across business divisions and transition the company's revenue streams toward higher growth areas, such as cloud services. Over the past 12 months, MSFT shares have generated a total return of 33%.

IN Q3, PREY BECAME PREDATOR

It's not uncommon for Canadian companies to be swallowed up by their larger, often foreign, peers. Names such as Alcan, Inco, and Rona have met such a fate in recent years and in DM portfolios, we've lost great firms like St. Lawrence Cement, Teranet, and Shoppers Drug Mart to acquisition. Though the hefty premiums that these deals usually carry are a nice bonus in the short term, we often find ourselves lamenting the loss of a difficult to replace cash flow producer once the dust has settled.

In the third quarter, however, the shoe was on the other foot in our Canadian equity mandates, as several of our positions announced significant purchases:

Alimentation Couche-Tard: the convenience store and gas station operator reported its largest corporate acquisition to date when it agreed to buy CST Brands, a former division of Texas-based Valero Energy.

Parkland Fuel: to ensure that the CST deal would go through without competition concerns, Alimentation enlisted Parkland Fuel to take the Quebec locations included in the transaction.

Open Text: the Canadian software developer agreed to acquire the Enterprise Content Division of Dell Computer for \$1.6bn.

Agrium: announced its intention to merge with Potash Corp. to form the world's largest fertilizer producer with an enterprise value of roughly \$36bn.

Enbridge: initiated a \$37bn friendly takeover of Houston-based Spectra Energy, which will create the biggest energy infrastructure company in N. America. Each of these deals was well received by the market, as reflected in post-announcement share price reaction (see below). Accordingly, we were able to enjoy the value boost from effective corporate activity, without the burden of having to find replacements for some of our favourite holdings.

Initial share price reaction to announcement

