

DM Monthly Report

NOVEMBER 2016

PORTFOLIO ACTIVITY

In October, we purchased shares of Fortive Corp., the industrial products company that was spun out from Danaher earlier this year.

FEATURE STOCK

Transforce Inc. (TFI)

Not long after we sent out last month's report highlighting the recent acquisition spree undertaken by DM holdings, TFI followed suit when it announced its acquisition of Missouri-based XPO Logistics. The purchase was made through an all-cash deal valued at us\$558 million and, according to CEO Alain Bedard, will "complement TFI's existing capabilities and provide access to a diversified and blue-chip customer base". Though TFI has achieved significant scale in Canada, the company has long searched for an acquisition that would boost its presence south of the border. XPO, which bills itself as the second largest freight brokerage provider in the world, operates out of 29 locations in the US with a fleet of roughly 3000 tractors and 7500 trailers. With TFI stock rallying by more than 15% since the announcement, the market evidently likes the push that management is making into the US and is confident that the company will be able to effectively integrate XPO's operations into its existing structure.

US ELECTION REVIEW

This is why we shun the forecast game that fuels the financial media and in which so many managers are willing to partake! If asked for predictions, we would have been 0 for 2 on the US election, never having fathomed a Donald Trump presidency and certainly not guessing that stocks would be *up* at the market's open. In light of the unexpected landscape that greeted us this morning, here are some of the points that will inform our thinking going forward:

- Clearly, the market is placing significant weight on the "pro-growth" aspects of the president elect's platform; these elements include plans for significant infrastructure investment, regulatory rollbacks, and meaningful tax reform;
- Within DM portfolios, there isn't yet a stark delineation between "winning" and "losing" groups; most affected so far are our US healthcare holdings, with pharma companies surging and hospital operator HCA Holdings falling on the prospect of big changes to Obamacare;
- Bond yields have risen, likely recognizing that a jump in spending will pressure US government finances and its demand for capital going forward.

From a Canadian perspective, by far the most significant red flag marking the new administration is its isolationist position on trade and the degree to which these views will actually guide policy in the years ahead, or might just have been manufactured for voter consumption. Of course, just as past presidents have seen ambition collide with reality after their election, we suspect that on both the matters of trade and some of the more objectionable social positions that Mr. Trump has taken over the past several months, the entrenched system of checks and balances provided by the US Senate and Congress will significantly impede radical change. As well, the weight of campaign rhetoric seemed to direct most NAFTA objections toward Mexico, with little reference to Canada.

Setting aside how one might feel about a xenophobic, misogynistic, and often verbally reckless individual taking the White House, it is actually possible that the Trump victory provides Canada with a preferred economic result. Whereas Clinton vowed to boost tax revenue by \$1.4tn over the coming decade, Trump will cut; whereas Clinton opposed the Keystone pipeline, Trump is in favour; whereas Clinton would expand social security, Trump will leave it as is. Regardless of one's views on these points, Trump's position on each is more growth positive and, with the US being our biggest customer, that's a good thing for Canada.

In the weeks ahead, new inputs and assumptions will be entered into our investment models and our process will reevaluate mandates against the altered economic backdrop. Though some portfolio changes will likely be triggered, our steadfast focus on valuation, cash flow, and management strength will endure.