

DM Monthly Report

JANUARY 2017

PORTFOLIO ACTIVITY

In December, we purchased shares of diversified industrial company, General Electric, in the DM Foreign Equity Portfolio.

FEATURE STOCK

General Electric (GE)

Last month we added shares of GE to the DM Foreign Equity Portfolio, both as a nod to the uptick in infrastructure spending expected in the US and as a reflection of the strides the company has recently made to reposition itself. Over the past three years, management has executed an aggressive plan to divest the bulk of GE Capital, a massive financial operation covering consumer finance, real estate lending, and commercial leasing. This move has created a purer industrial enterprise, with divisions roughly divided into power, energy, aviation, healthcare, and transportation. In addition to this transformative move, GE is effectively integrating the power and turbine business recently purchased from Alstom SA and has announced a synergistic combination of its energy services operations with those of Baker Hughes Intl. We believe that these significant changes put the company on stronger footing going forward, a positive which may not be reflected in GE shares which have lagged the S&P 500 by a wide degree over the past year.

IN EQUITY MANAGEMENT, SIZE CAN MATTER

Investment management is one of the few businesses in which size can be a detriment. Manufacturers with great scale are able undercut competition on project bids, huge retailers can secure lower prices from product makers by buying in volume, and large pharma companies often maintain their edge by snapping up smaller competitors with successful or promising innovations. In managing portfolios, though, being big can be a significant hindrance to performance, especially in Canada where our equity markets lack the liquidity of larger exchanges. In opening a portfolio position, a manager must not only be sure that the required number of shares can be purchased without flooding the market and driving up price, he or she must think about a possible future exit point and whether there are typically enough shares traded to absorb the holding in a timely fashion. Because of these considerations, significant portions of the TSX may be out of reach to many of the most well known investment firms.

The past year provided a useful illustration of how we can leverage our modest size to profitably access less travelled areas of the Canadian market. In an environment that didn't necessarily favour our management approach — *one in which the materials sector led the market with a 41% return* — the DM Canadian Equity Portfolio nonetheless outperformed the TSX in 2016 by a significant margin. Much of this relative strength was owed to our commitment to the market's small and mid-sized companies. In fact, 10 of the mandate's holdings carry market capitalizations of less than \$10bn and all of these but one outperformed the broad TSX by meaningful degrees over the past year (see table below). In our stewardship of client equity assets, we will continue to think of our portfolios as "go anywhere" mandates, with decisions driven by investment fundamentals and attractive opportunities, rather than by liquidity considerations.

	2016 Total Return	Market Cap. (\$ millions)
Tourmaline Oil Corp.	60.7%	9,414
TFI International Inc.	51.8%	3,178
Finning International Inc.	45.4%	4,464
ARC Resources Ltd.	42.8%	8,076
DH Corporation	34.4%	2,387
Canadian Western Bank	34.4%	2,709
Badger Daylighting Ltd.	33.5%	1,202
Methanex Corporation	32.2%	5,402
PrairieSky Royalty Ltd.	30.1%	7,223
S&P/TSX Index	21.1%	n/a
Home Capital Group Inc.	20.3%	2,051