DM Monthly Report

APRIL 2017

PORTFOLIO ACTIVITY

In early March, we opened a new position in PrairieSky Royalty Ltd. in the DM Canadian Equity Portfolio.

FEATURE STOCK

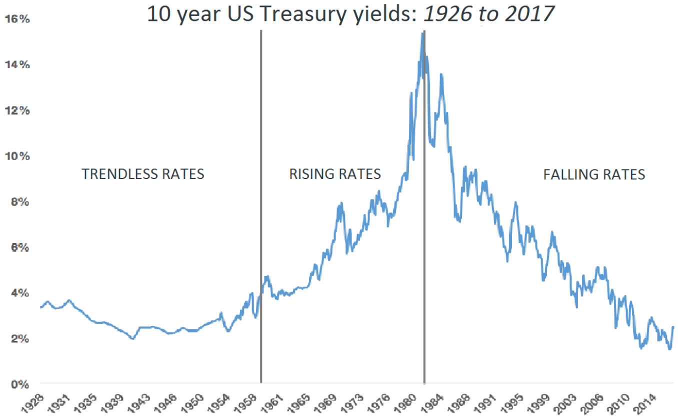
Comcast Corp. (CMCSA)

CMCSA is a media company with two main operating units: Comcast Cable, which serves customers under the XFINITY brand, and NBCUniversal, which operates several TV networks, along with Universal Pictures and Parks. When we first acquired this position in DM Foreign Equity last fall, we were attracted to its high quality assets (#1 broad-band provider in US with fastest network, #1 cable offering, #3 TV network by revenue, #2 in theme parks) and to management's track record of effective capital deployment. Beyond its core units, CMCSA has also recently added cellphone service to its offering. Several years ago, the company struck a deal with Verizon in which it exchanged attractive wireless spectrum it owned for access to Verizon's network at very low wholesale rates. By leveraging its own massive WiFi infrastructure, along with Verizon's 4G network, CMCSA believes its new offering will be profitable with just 5% penetration of its existing customers. Since our first purchase last September, CMCSA shares have returned more than 16%.

HOW FAR COULD CLIMBING INTEREST RATES GO?

N. American interest rates have been on a steep ascent since last summer, with the yields on both US and Cdn 10yr govt. bonds having shot up by more than half over the period. This short term surge has been mostly driven by improving economic fundamentals, with the US continuing its growth leadership and Canada recently posting GDP gains well in excess of expectations. That said, if in fact the long term bottom has finally been set for interest rates, it's worth pondering how far they could rise. Looking at the long term chart below, we see that the history of yields in the US can be roughly divided into three phases: a trendless period, one marked by a very steep increase, and a final stanza where they fell precipitously. Though there are many plausible explanations for this pattern, one of the most intuitively appealing is the linkage between demographics and rates. As everyone knows, Canada and the US experienced significant leaps in birthrate following WWII and, by the 70s and 80s, this bulge of baby boomers had moved into their household formation years. If interest rates are ultimately the price of money, it makes sense that the cost of funds would spike at the same time that an unusually large number of people were taking on debt to buy homes, cars, and other "big ticket" items. As this cohort passed through its highly consumptive years, however, its demands for capital receded and it collectively began to think more about saving than consuming. If population trends *are* a material contributor to interest rate behaviour, it would seem unlikely that ascent of the 70s and 80s would be repeated now. In 1995, Italy was the only country with more people over 65 than under 15; today there are 30 nations in that camp and by 2020, the figure will hit 35. Most of Europe is shrinking, China will feel the effects of its 'one-child' policy for decades, and Japan's population is sinking rapidly; though Canada and the US are growing, it's almost entirely due to immigration. So, while the long term slide in rates may have finally ended, there won't likely be a demographic push for them to spike dramatically.

10 year US Treasury yields: *1926 to 2017*



Source: Bloomberg

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