DM Monthly Report

MARCH 2018

PORTFOLIO ACTIVITY

No new positions were added to our major equity mandates and none were sold in February.

FEATURE STOCK

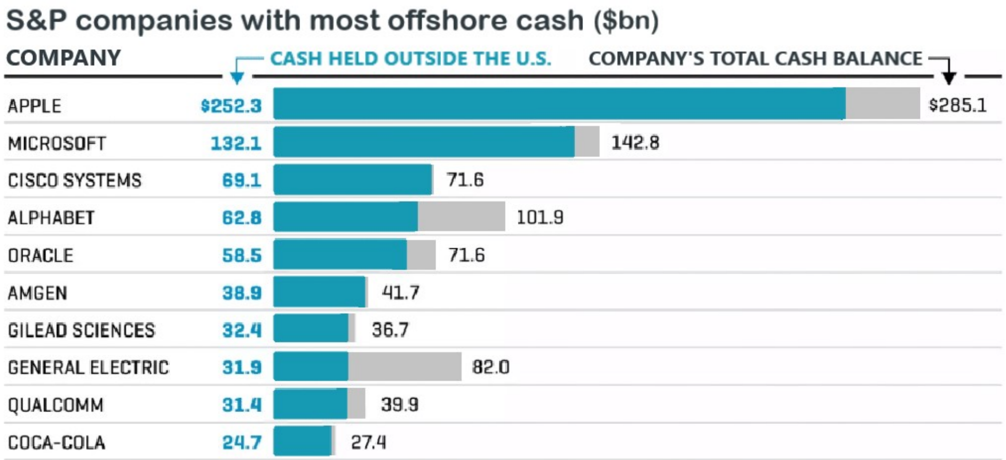
CCL Industries Inc. (CCL.B)

Headquartered in Toronto, CCL is a world leader in specialty label and packaging solutions, with customers ranging from Colgate and Unilever, to Heineken and Coca Cola, to Whirlpool and BMW. Over time, the company has used its scale to both persistently push costs down and opportunistically acquire competitors to consolidate an otherwise fragmented industry. With this strategy, CCL has built a market leading position with a deep client base that's diversified both geographically and across industries. Though we had been assembling a file on the company for some time, share price weakness last fall gave us the chance to establish a position in DM Canadian Equity at a discount to its historic valuation multiple. To date, the stock has performed well, gaining about 14% in the short time since our original purchase. Recently released earnings supported our buy decision, as both quarterly and 12 month income set records while logging significant growth over previous levels. CCL also announced a 13% dividend increase, making 2018 the 16th consecutive year that the company has raised its shareholder payout.

A FLOOD OF CASH?

Since markets bottomed in March 2009, the most prolific net buyer of stocks has been corporations retiring their own shares. In fact, US companies have bought back about \$3.5tn worth since 2010 and, if the nearly \$2tn in dividends paid over that time is included, the corporate handout to shareholders has dwarfed even the Fed's massive and much more publicized quantitative easing program. While some of this repurchasing was paid for with debt, as companies took advantage of record low interest rates to reconfigure their balance sheets, the lion's share was funded with internally generated cash. Helped by a recent surge in earnings, available capital is likely to swell even further in the months ahead, with some analysts estimating that share buybacks by US companies could rise to a record \$650 billion in 2018, up nearly 25% from last year's level. At the same time, funds devoted to capital projects, research and development, and dividends are also on the rise, with each expected to reach all time highs this year.

On top of cash generated through operations, company coffers could be boosted further by the repatriation of capital now stranded offshore. As part of its recently passed corporate tax bill, the US government opened a window for repatriating capital, setting a temporary tax rate of 15.5% for funds brought home during 2018. Apple's recent suggestion that its participation in the program will result in an extra tax bill of \$38bn sheds some light on just how big the cash inflow might be—at a 15.5% rate, this implies that about \$245bn will be returned this year by the iPhone maker alone. Though some of this capital will undoubtedly be devoted to other purposes, it's almost certain that management teams will allocate meaningful amounts to share repurchases, especially in periods of market weakness. In fact, Goldman Sachs reported that its buyback desk had its busiest week ever in the wake of last month's sharp correction. The graphic below shows the ten S&P 500 companies with the largest offshore cash balances, the top five of which are holdings in the DM Foreign Equity Portfolio.



Source: *Bloomberg*

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