

DM Monthly Report

APRIL 2018

PORTFOLIO ACTIVITY

In March we opened a new position in used car dealer, CarMax, in DM Foreign Equity and executed several rebalancing transactions in DM Cdn Equity to take advantage of elevated market volatility.

FEATURE STOCK

Fortive Corp. (FTV)

In mid-2016, long-time DM holding Danaher Corp. split itself into two separate entities: a science and technology growth company, which would retain the Danaher name, and a diversified industrial enterprise, which would be called "Fortive Corp." When terms of the separation were announced, we decided that both of the new companies would fit our investment criteria and so kept our distributed allocations to each. Since that time, Danaher and Fortive have both outperformed the S&P 500, generating total returns of 36% and 52%, respectively. FTV's strength has been driven by the high rate at which it has been able to convert revenue into free cash flow and by management's focus on business segments in which the company can dominate a niche and generate significant recurring revenue. We expect that future shareholder value will be boosted by ongoing improvements to business mix, innovation resulting from FTV's significant R&D commitment, and targeted acquisitions made with available capital.

DM SMALL CAP FUND CELEBRATES ITS 7th ANNIVERSARY

Seven years ago, we launched the DM Small Cap Fund to access an important part of the Canadian equity market and to round out diversification within client portfolios. The Fund would be managed according to the investment philosophy guiding all of DM's equity mandates, but would only invest in publicly traded companies with market capitalizations below \$2bn. We viewed this market segment as attractive for a number of reasons:

Growth—smaller companies tend to be at the higher growth stage of their life cycle and can often seize opportunities and react to industry developments more nimbly than larger firms.

Management impact—while management strength and a team's ability to grow shareholder value is a crucial component of DM's general equity philosophy, it is especially important in the small cap space, where executives are more likely to own a significant stake in the company and can exert greater influence on corporate culture and strategic direction.

Market dynamics—because the shares of smaller companies are usually more thinly traded than those of their larger brethren, opportunities to find mispricing against underlying fundamentals may be greater. As well, small cap stocks tend to be less covered by industry analysts, increasing the likelihood that management meetings will yield insight not yet recognized by the market.

Because we'd be diverting capital away from mid and large cap Canadian equities to purchase units of the DM Small Cap Fund within client portfolios, our performance goal for the mandate was to not only exceed the Canadian Small Cap Index, but to significantly improve on the return generated by the broad TSX. As you can see from the chart below, this target has been handily achieved to date, with the Fund providing more than double the return of the TSX since inception.

\$1m invested in DM Small Cap Fund vs. Canadian stock indices

