DM MONTHLY REPORT

April 2021

PORTFOLIO ACTIVITY

Following CP Rail's announced acquisition of Kansas City Southern (see below), we shifted a 1% weight to the company from our holding in CN Rail. On the foreign side of portfolios, we initiated a new position in Texas Instruments, a leader in the manufacture of analog semiconductors.

FEATURE STOCK
CP Rail (CP)

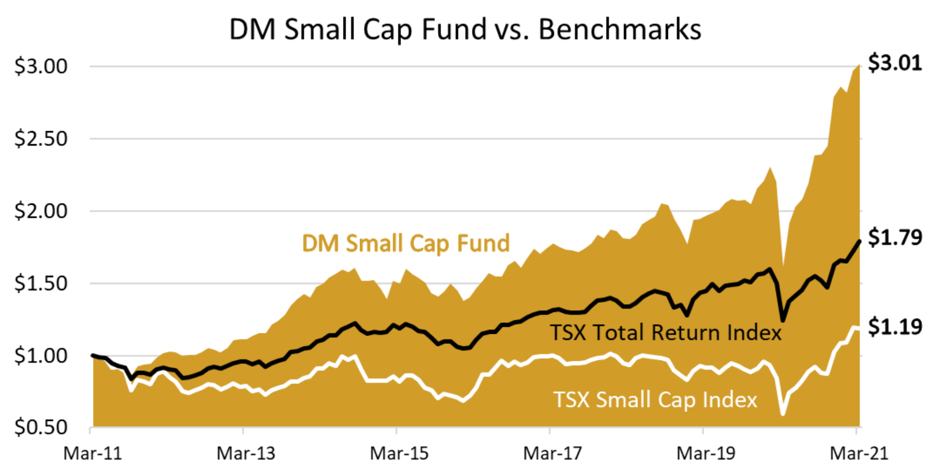
Having been thwarted in attempts to purchase US railways CSX and then Norfolk Southern, CP announced in March that it had reached an agreement to acquire mid-west based Kansas City Southern (KSU). If completed, the combination would be the largest between two North American railroads and the first successful one since the 1990s. The companies' merged tracks would essentially form a "T" across North America, with CP's assets mostly spanning Canada and the northern US laterally and KSU providing a vertical connection from the mid-west to central Mexico. With the US-Canada-Mexico free trade agreement having been renegotiated, the ability to seamlessly move goods between the three countries should be a significant advantage, an efficiency premium now amplified by the supply chain snarls triggered by the pandemic – it is hoped that the public interest of these benefits will provide a path to regulatory approval. CP shares have excelled in the recent market recovery, returning more than 50% for DM portfolios over the past year.

A DECADE OF SMALL CAP INVESTING AT DIXON MITCHELL

Ten years ago, we launched a new equity mandate which might have seemed like a departure for a firm that had built an investment reputation grounded on risk management. Though "small cap" is sometimes taken to mean 'speculation' or 'venture', there are also many businesses in the space that generate earnings and cash flow and which can be assessed on a fundamental basis. Importantly, we saw this segment of the market as an area where analyst coverage was limited and stocks were often misunderstood or disregarded, attributes which spelled opportunity for our hands-on analytical approach.

As in our other equity offerings, the DM Small Cap Fund would comprise reasonably valued companies which were well-positioned to grow cash flow, but in this case we'd limit holdings to stocks with market capitalizations below $2bn. Our goal was to add diversification to client allocations by targeting businesses at the faster growth stages of their corporate life cycles, run by entrepreneurial and properly incentivized management teams. Often, though, the potential for outsized returns in smaller companies is derived from their relatively narrow business focus, a characteristic which can also cause their operational outcomes to be more variable and their stocks more volatile. To mitigate this risk, we would take extra care in DM Small Cap to ensure that the revenue streams and growth drivers of the 25-35 companies held in the portfolio were as uncorrelated as possible.

Over the past decade, we've conducted well over a thousand meetings and interviews with the management groups running some of the country's most dynamic enterprises. Aside from being a lot of fun, this process has helped us to hone our broad investment methodology and has given us an up close look at what separates great businesses from the rest. As the chart below indicates, every client dollar that we shifted into the DM Small Cap Fund has generated significant value above other components of the Canadian stock market. Over the next 10 years, we expect to meet many more talented executives as we continue our search for overlooked small cap names!



Suite 1680, 1055 West Hastings St, Vancouver, BC V6E 2E9 +1 604 669 3136 Toll Free: +1 888 340 3136 DM dixonmitchell.com