

PORTFOLIO ACTIVITY

In addition to the homebuilder purchases described to the right, we also sold Cisco Systems from DM Foreign Equity and opened an initial position in Amazon.com since our last commentary.

FEATURE STOCK

MTY Food Group Inc. (MTY)

Though many of our equity positions sidestepped the worst of the covid market crash, as a quick service dining provider – *with many of its outlets located in shopping mall and office tower food courts* – MTY caught the full brunt of the lockdown. Between February and April 2020, MTY shares lost more than half their value, as customer traffic plunged and investors wondered when business conditions would recover. Management acted quickly in the spring of 2020 to stem the slide, suspending the stock's dividend, laying off half its workforce, and cutting the base salaries of its leadership team.

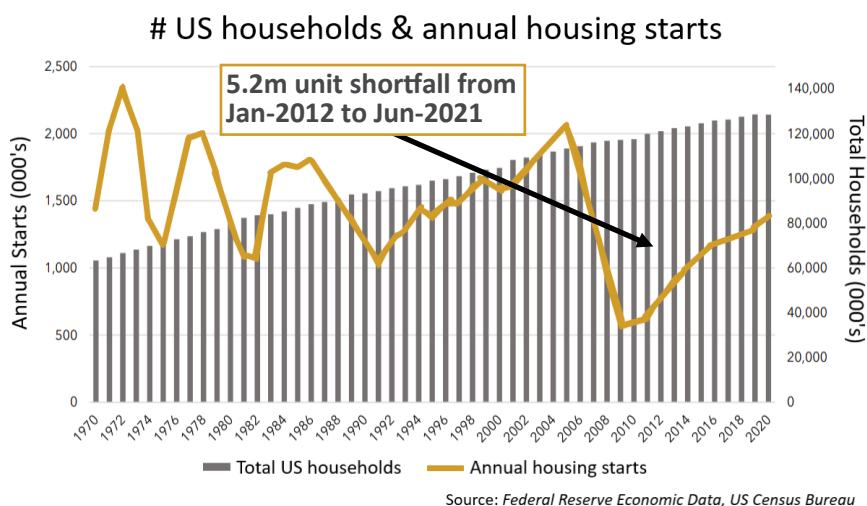
They also expedited the company's move to digital and negotiated favourable terms with delivery services like Doordash and Uber Eats. These efforts drove a sharp rebound in affairs, with cash flow generation climbing back above pre-covid levels and 101 out of 359 previously shuttered locations open once again. We expect that recent debt repayments will also put the company's balance sheet in a position to allow management to resume its successful M&A strategy. MTY shares have more than tripled from their spring 2020 low and are up more than 30% so far this year.

FOLLOWING OUR EQUITY PROCESS INTO U.S. HOMEBUILDING

During the summer, we made select adjustments to our equity mandates, trimming positions which we felt had run slightly ahead of fundamentals and adding to those which offered better relative value. Among these transactions was our first entry into the US homebuilding industry, with two names from the sector added to the DM Foreign Equity Portfolio in late July.

The process that led to the purchase was the same one that underpins all of our buy and sell decisions, where ideas are generated and re-researched by our analytical group and then presented to the DM investment committee for discussion and voting for implementation. In this case, the process was spread over two meetings, with our foreign equity team first providing a detailed breakdown of the broad economic and business case for the sector, followed by an evaluation of 14 of the most important firms in the homebuilding industry.

Some of the most compelling data to come out of the macro presentation highlighted the recent gulf between US household formation and annual housing starts, as displayed in the chart below.



As you can see, the number of households in the US has followed a fairly persistent upward path since the early 1970's, while the number of homes built each year crashed following the sub-prime crisis and is only just now recovering to long-term averages. This drop in construction has created a significant housing deficit which will likely take years to overcome, providing support for prices and keeping builders busy.

Our investment committee challenged the buy thesis on a host of points, ranging from the soaring cost of building materials to the potential impact of higher mortgage rates to the high level of mortgages now in forbearance due to the covid-related foreclosure moratorium. Once these concerns had been addressed, we elected to move forward with small entry positions in two names: DR Horton, a national homebuilder, and TopBuild, an installer and distributor of building material products.