

PORTFOLIO ACTIVITY

Amid January's jump in volatility, we sold our position in Shaw Comm'ns, whose share price was supported by its pending acquisition by Rogers Comm'ns, and used this capital to add to Canadian positions which had fallen below our fair value estimates.

FEATURE STOCK

Intact Financial Corp. (IFC)

IFC is the largest provider of property and casualty (P&C) insurance in Canada and a North American leader in specialty insurance. In 2021, the company completed the largest acquisition in its history with the purchase of RSA Canada, a move which expanded its national footprint by 30% and made it two and a half times larger than its nearest competitor. RSA also brings significant opportunities in global specialty product lines and increases IFC's presence in the UK and Ireland. So far, management has demonstrated proficiency in integrating the acquisition into its core business and harvesting synergies, with almost half of the operation now converted to IFC systems and 12% earnings accretion generated in just the first six months of ownership. In its recent Q4-21 earnings call, IFC management reiterated the immediate positive impact of the purchase and the opportunity it presents for future growth. In addition to reporting strong organic growth in net operating income, IFC announced a 10% dividend increase and plans to buy back up to 3% of outstanding shares.

WHEAT & CHAFF

In our final portfolio commentary of 2021, we wondered aloud how certain market components would fare under a shifting monetary regime, in particular one where central bankers began to take back some of the liquidity they had released during the pandemic. Though we've so far experienced more talk than action in North America, with neither Canada nor the US having raised policy rates yet, even the prospect of tighter conditions seems to have ignited a reordering of asset valuations. Stay-at-home stars such as Peloton, Doordash, and Zoom have seen their share prices chopped by more than half from 2021 highs, while so-called "meme" stocks, whose surge was fueled more by message board chatter than by sales or earnings, had completed a galactic round trip by the end of January (in fact, *Virgin Galactic* was one of the names in this group, rocketing from the low double-digits at the beginning of 2020 to briefly orbit in the \$60's last summer, only to return to a much more terrestrial \$9 in recent days). It's estimated that these retail favourite stocks have wiped out about \$191 billion in investor capital since their collective peak last year, while a similar slide in cryptocurrencies has apparently vapourized another \$1 trillion or so in paper wealth. Even more senior market members haven't been spared: each of Netflix, Paypal, and Meta (formerly Facebook) recently lost more than 25% in a single session when earnings and guidance came in lighter than expected, with the value of Meta's one day plunge exceeding the entire market capitalization of Nike.

Just as the market has become decidedly more ruthless where price has become unhinged from fundamentals or when growth disappoints, it has continued to reward companies that deliver. In the DM Foreign Equity Portfolio, for example, our positions in Visa, Danaher, Microsoft, Apple, Alphabet, Mastercard, and Amazon all jumped by anywhere from 7-13% when they reported Q4-21 earnings and provided strong guidance for the year ahead. Though it's impossible to know if this new backdrop represents a sea change in sentiment, it appears that investors – *for the moment, anyway* – are becoming significantly more selective in their capital allocation decisions.

