DIXON MITCHELL
INVESTMENT COUNSEL

# DM MONTHLY REPORT
January 2023

## PORTFOLIO ACTIVITY

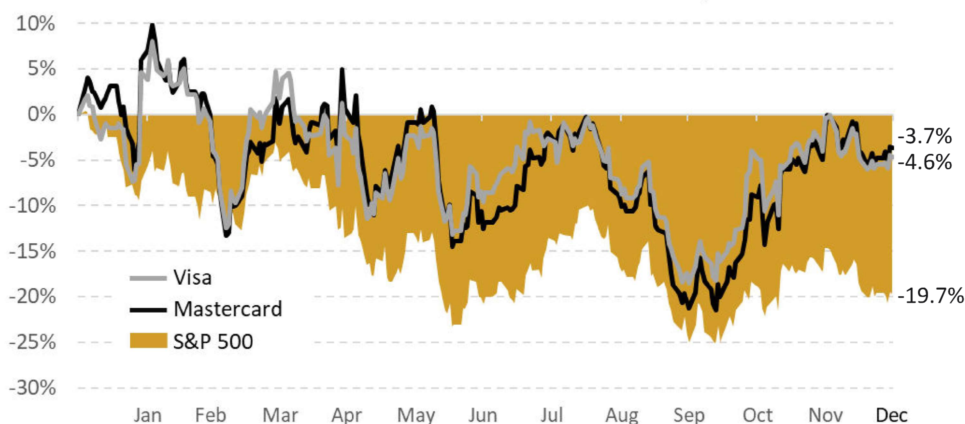
At the start of December, we increased our allocation to Amazon Inc., which we funded by reducing our Booking.com position. We also trimmed Bank of Nova Scotia and added these proceeds to Brookfield Corp.

## FEATURE STOCK
### Element Fleet Mgmt. (EFN)

In 2022, the DM Canadian Equity Portfolio significantly outperformed the TSX. Relative performance against a benchmark is always the product of both what a manager owns and what they've avoided. In our case, being significantly underweight energy was a big drag on our Canadian mandate, while not owning the plunging shares of Shopify helped. The most powerful drivers within the mandate were our relatively concentrated allocations to select mid-cap names, including EFN which returned about 46% in 2022. EFN is a fleet management company, which has grown to serve more than 5500 clients in 700 industries and now oversees more than one million vehicles. Last month, the company announced a significant new contract with Rentokil Terminix, the N. American arm of the world's largest pest control company, which brought total client additions to 77 over the past 12 months. In what will likely be a challenging economic year, EFN expects to grow sales by 6-9% and profit by 7-12% in 2023. With 60% of the fleet market still self-managed, EFN has a long runway of potential growth ahead of it.

## *DIFFICULT DISRUPTION*

According to Fintech Labs, there were recently 332 financial technology unicorns in the world, with the largest members of the group geared toward the lucrative payments segment of the financial services ecosystem. Unlike Kodak when digital photography arrived, or Blockbuster when streaming supplanted video rental, the incumbents in this industry seem to have been largely unaffected by the incursion of novel upstarts. The combined market cap of Visa and Mastercard, for example, sits at about $765bn, virtually unchanged during a notably difficult year for the broader market (see chart). As well, the economic output of these behemoths continues to climb, with Visa reporting 19% earnings growth last quarter and Mastercard announcing a 16% dividend increase alongside a $9bn share buyback to start when the current $8bn one is complete. So why have these legacy businesses been seemingly impervious to the numerous entries into their space? The first probable reason is that, while many newcomers offer useful services to the consumer and merchant, they almost all run on the "electronic rails" laid by the forerunners. In this way, fintech entrants like Block (formerly Square), Stripe, and even Paypal, are not really *disrupting* the market as much as they are slotting themselves into the existing payments architecture. Second, just like putting down an actual railway would be virtually impossible and economically prohibitive today, replicating the sophisticated payment network that reaches virtually every corner of the globe would be too daunting for even the most optimistic entrepreneur to undertake. The one exception to this rule is China, which has remained largely unconquered by Visa and Mastercard, allowing Alipay to flourish as an alternative to state-owned credit card provider, UnionPay. Perhaps the most interesting potential entrant to the industry is Apple, which has used its own balance sheet to support a "buy now, pay later" service and which now offers a credit card in conjunction with Goldman Sachs. Regardless, we're confident that the barriers to competition erected by the big two payment providers will remain in place for some time and their shares will continue to make a profitable contribution to the DM US Equity Portfolio.




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