

PORTFOLIO ACTIVITY

In November, we reestablished our position in Nuvei Inc. and added to our holdings in DanaHER Corp. and Middleby Corp.

FEATURE STOCK

Brookfield Infrastructure (BIP.UN)

BIP is a diversified owner of infrastructure assets, including utilities, transportation, energy, and communications businesses. At the start of Q4, its stock fell by more than 20% as rising rates pressured nearly all income-oriented assets and a short seller report on the company made the rounds. Our assessment of the negative analysis found that it had little validity, however, and simply rehashed points which had already been reported. In our view, BIP offers several advantages over traditional utility providers: first, it's global and opportunistic, with a management team that is constantly scouring the world for attractive assets priced at compelling valuations; second, the bulk of BIP's businesses carry a direct inflation passthrough, while 90% of the company's debt is fixed-rate with no significant maturities before 2025; and, third, BIP has a very diverse funding model, with capital coming from internal cash flow, sales of mature assets, and contributions made by direct investment partners. The company was created as a spin-off from Brookfield Asset Mgmt. (a long time DM holding) and, in late October, we boosted our position in BIP by selling our stake in its former parent. Since then, BIP shares have gained approximately 20%.

ELECTRIFICATION CAN'T HAPPEN WITHOUT ... TREES

Though the financial press would have us believe that the most important market drivers are all negative at the moment – *geopolitical strife, punishing mortgage rates, stretched government balance sheets, pending recession* – we also happen to be living in an era of rapid and transformative innovation. In a very short space of time, wind and solar have become meaningful contributors to the power grid, giant leaps in computing capability have caused almost every part of the economy to be reconsidered in the context of artificial intelligence, mRNA technology has allowed vaccines to be produced in record time and may even open the door to solving cancer, and electric vehicles have supplanted a material portion of the internal combustion fleet. The common denominator in the fulfillment of several of these advances is electricity, causing massive amounts of capital and effort to be devoted to the improvement of its generation, storage, and transmission. One part of this infrastructure backbone which hasn't changed much since the power grid was first developed, however, is utility poles, where cost and durability considerations have allowed wood to maintain its primacy over other materials such as steel and concrete.

In North America, the pole business is dominated by two companies, one of which is Montreal-based Stella-Jones (SJ). Though the ramp-up in demand that SJ is experiencing might not have been forecast by the average investor or layperson, the company has been preparing for it for some time. In the past year alone, for example, SJ has bought four of its competitors and built two new pole plants from scratch. At the same time, excess free cash flow generation has allowed management to aggressively buy back and retire company shares, providing an additional boost to stock price performance. Liking what we heard in recent meetings with management, including the company's strong commitment to stakeholder care and Indigenous engagement, we've maintained our sizeable allocation to the stock. Over the past year, SJ shares have not only beaten the TSX by a wide margin, they have outperformed five of the so-called "Magnificent 7" stocks, names which are responsible for virtually all of the S&P 500's appreciation over that period.

SJ vs. S&P/TSX - past 12 months

