DM MONTHLY REPORT
April 2024

PORTFOLIO ACTIVITY

No new positions were established in DM equity mandates in March and none were eliminated.

FEATURE STOCK
Ametek Inc. (AME)

In February, we initiated a new position in AME and subsequently added to the holding in mid-March. AME is a leading global manufacturer of niche components, analytical instruments, and precision automation devices for use in aerospace, power, defense, and other industrial segments. AME focuses on highly-engineered and often critical components, characteristics which create customer stickiness and enhance pricing power. The company has an excellent track record of creating value through acquisitions and applying lean operating principles such as Six Sigma and Value Engineering to improve efficiencies and boost margins. AME targets companies for purchase which are characterized by a differentiated product offering, strong management teams and business cultures, attractive end markets, and synergy potential within the firm. Because it is industry agnostic, AME's pool of potential targets is broad, while its deep experience allows it to act quickly and decisively against bidding competition. One of the drivers behind our addition of the stock is the current state of the competitive environment, which has been loosened by the steep rise in interest rates and recent setbacks in the private equity space.

WILL THE MARKET'S CONCENTRATION BE ITS UNDOING?

Though virtually all of our equity analysis occurs at the company level, it's been hard to ignore the recent warnings about market structure, and in particular the dominance of the Magnificent 7 group of mega-cap stocks in the S&P 500. To get a better sense of how lopsided market composition might be, below we compare the conventional S&P 500 Index (SPX) with the S&P Equal Weight Index (SPW). The SPX is market-cap weighted, so the biggest companies – *names like Microsoft, Apple, and now Nvidia* – impart the greatest influence; the SPW, on the other hand, treats all companies as equals, so that Meta and Amazon are no more important than Sherwin-Williams or JM Smucker. Charting these two indices over the past four years yields a few interesting observations:

- First, from the market's covid bottom to its interim peak at the end of 2021, the SPW outperformed the traditional SPX by a wide margin (point A below); just as observers are complaining about concentration today, back then they might have said *"the market's rally is suspect because its most important members aren't leading"*;
- Second, during the 2022 bear market, the SPW fell by less and recovered earlier than the SPX; the outperformance of the SPX since early 2023 is at least partly attributable to its lower starting level (point B);
- And finally, even though the SPX has generated a markedly higher return as it has played catch-up with the SPW over the past year, the two indices have arrived at identical end points from the time of the pandemic trough.

So, while recent US performance has been undeniably driven by a small group of super-sized companies, if we pull the lens back a bit further, the situation is far less alarming. In our shop, the DM US Equity Fund beat the S&P 500 by 5.3% over the past 12 months, despite not owning three of the five biggest contributors to the market's return, proving that there are still plenty of opportunities beyond the names getting all the press.