

PORTFOLIO ACTIVITY

In November, we trimmed our allocation to Netflix after the stock had gained nearly 50% from early August and used this capital to add to our newly established position in Fortinet Inc.

FEATURE STOCK

Stella-Jones Inc. (SJ)

The shares of pressure-treated lumber and utility pole maker SJ got off to a great start in 2024, rising by roughly 25% to mid-July. During this period, we locked in some of our profit on the stock and used this capital to boost our position in Nuvei Corp., which we believed offered a better risk/reward profile at the time. The trade was fortuitous when Nuvei was acquired by a private equity firm shortly thereafter at a price premium of about 45%. Fast forward to October and, following the release of the company's Q3 earnings, SJ shares took a hit and gave up all of their year-to-date gains. Much like input cost pressure had caused investors to flee Domino's stock two years ago (see right), the market punished SJ for a slowdown in pole sales, with utility companies pulling back on project activity as they digest higher interest rates, labour market tightness, and rate pass-throughs to end consumers. The long run outlook for this division continues to be very attractive in our opinion, however, as the buildout of AI and other power hungry applications will require significant capacity additions in the years to come. As such, we added capital back to our SJ position in early December.

THE ORACLE GIVETH, THE ORACLE TAKETH AWAY

Last month, it was revealed that Warren Buffet's Berkshire Hathaway had taken a significant stake in Domino's Pizza (DPZ), one of the 28 positions currently comprising the DM US Equity Portfolio. The market liked this news, helping DPZ shares to gain 15% in November, and we also didn't mind the vote of confidence from the world's most storied investor. We first bought DPZ in late 2022 when rising input costs took a bite out of the stock and have since added to our position on two occasions, including a buy just days prior to the Berkshire news (see chart). Our US equity team was first drawn to the pizza maker for its very effective franchise model and its runway for more store openings, both in the US and abroad. We viewed the share price dip two years ago as an attractive entry opportunity and the stock has rewarded our portfolios well since then, gaining more than 45% from our initial purchase price. Our accumulation strategy with DPZ is typical of how we often enter new positions (see note on Fortinet to the left), making an initial purchase and then adding to it as we flesh out our thesis or as the company affirms our original case for acquisition. With plenty of room to expand its footprint and the strong growth of its take-away business, we continue to like DPZ and expect that it will remain a core holding in the DM US Equity Portfolio for some time.

Turning back to Berkshire, it's not surprising that the investment conglomerate was deploying capital, if only because it has built such a massive pile of cash on its balance sheet. At the end of November, its liquid assets exceeded \$325bn, or a sum greater than the entire value of 478 of the member companies in the S&P 500 index. While it was buying DPZ, however, Berkshire was also cutting its position in Apple, another DM equity holding, by about 25%. Apple has done well for us over time and reached a record high in recent weeks, representing a year-to-date gain of nearly 27%. Though Berkshire Hathaway didn't provide any rationale for its Apple reduction, and the market mostly took it in stride, we'll certainly be watching for any clues as to what precipitated their sell decision.

DM purchase history - Domino's Pizza

