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DM MONTHLY REPORT
February 2023

PORTFOLIO ACTIVITY

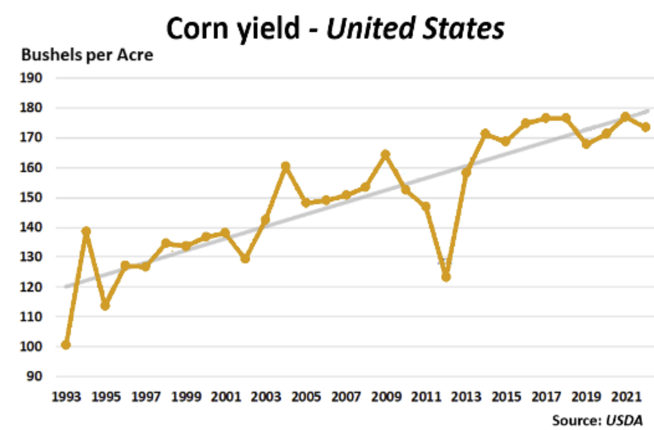
The only transactions executed in DM equity mandates during January were rebalancing trades

FEATURE STOCK
D.R. Horton Inc. (DHI)

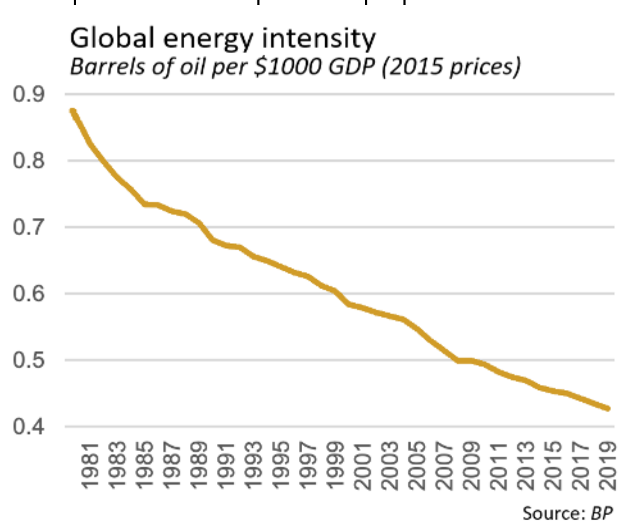
In mid-2021, we opened our first ever position in a homebuilding company with the purchase of shares in DHI. Though this industry is somewhat more cyclical than we'd ordinarily prefer, the housing supply deficit left in the wake of the 2008/09 sub-prime crisis made its fundamentals too compelling to ignore. Aside from the significant need for housing units in the US, we liked several aspects of DHI's position and the steps management has recently taken to realign its strategy. First, DHI specializes in entry-level homes which follow a "cookie cutter" approach to design and construction; while this may not appeal to those looking for a custom product, it's a great driver of efficiency. In the past five years, the company has also shifted to optioning land for future development, rather than purchasing it outright, freeing up capital and boosting return on investment vs. industry peers. Not surprisingly, the first half of 2022 was a tough period for the stock, as mortgage rates spiked and homebuyer activity plummeted. Perhaps recognizing the industry's favourable long-term fundamentals, however, and looking around the corner to a more stable mortgage environment, investors have returned to DHI shares, bidding them up by as much as 60% since last fall.

WANNA BET?

Over the past 18 months, commodities and commodity producers have leapt to the fore, with the energy sector vastly outperforming other groups in both the TSX and S&P 500, and everything from copper to coffee enjoying a moment in the sun. At various moments, this dynamic has weighed on the relative performance of DM equity mandates, which carry little to no exposure to such industries. There are several reasons that we mostly avoid resource companies, including the vast amounts of capital they require just to maintain production and the fact that they are almost always "price takers", beholden to the market rate for their output and unable to charge a premium for unique features or brand affinity. It has also been said that a long term investment in commodities is tantamount to making a bet against human ingenuity – *in other words, if an inanimate object is persistently worth more than our ability to use it, then the very foundation of economic progress will have been shattered.*



Our innate drive to improve is displayed in the accompanying charts, the first of which shows the significant rise in corn yields over a relatively short period of time. After smoothing out bumper years, as well as difficult periods such as the Great Flood of 1993 and the drought of 2012, the ability of farmers to produce corn on a fixed plot of land has risen by about 50% in just 30 years. Over the same time, the world has doggedly pursued fuel efficiency and related technologies, causing the amount of oil required to produce a unit of GDP to track a steep downward path. A popular commodity narrative at the moment is that the electrification of economies will overwhelm our ability to produce copper, lithium, and other required materials, potentially driving prices to prohibitive heights. If history is any guide, however, don't be surprised if scientists and innovators find unanticipated ways to overcome such constraints long before any demand-price spiral takes hold.



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