DM MONTHLY REPORT
Summer 2023

PORTFOLIO ACTIVITY

During May and June, we undertook several rebalancing trades in DM equity mandates, primarily trimming positions which had risen significantly and adding this capital to names which we believe offer a more compelling risk/reward profile at current levels. In June, we also extended bond duration, locking in some of the relative outperformance we had accumulated by being markedly shorter than the benchmark over the past 18 months.

FEATURE STOCK
Dollarama (DOL)

DOL shares have been a significant contributor to DM equity returns since we took our first position in 2014. The company offers several attributes which we regard as markers for investment success: it dominates an important niche of the economy, it's led by a founder group which still holds a significant equity position, and its management team has compiled a strong record of capital deployment and accompanying intrinsic value growth over several years. In addition to their stellar long term profile, DOL shares performed extremely well as the market plunged in 2022, gaining more than 25% for the calendar year and experiencing a maximum drawdown of barely 7%. DOL's strong position was reflected in its Q1 results, which included a revenue gain of 20.7%, driven by 76 new store openings, same store sales growth of 17.1%, and a 1.4% increase in average transaction size.

ABSTINENCE OR ENGAGEMENT?

Nearly three years ago, DM launched its *Environmental, Social, & Governance (ESG) Evaluation Framework* and, since that time, it's become an important part of our analytical process. For a number of reasons, we decided not to farm this work out to a third party rating agency – *as is common practice in the investment industry* – and instead elected to build a proprietary in-house solution. Amongst the many decisions we faced in this process was the choice of how we would utilize the ESG data and information we gathered. A popular approach among managers is to abstain from allocating capital to companies with ESG scores below a specified threshold, but this "out of sight / out of mind" style didn't fit with our corporate culture, nor with our active management approach and our history of close communication with executive teams. Instead, we decided that the assets we manage could make a greater contribution to positive outcomes if we *engaged* with companies, rather than avoiding them. We effect this engagement through moral suasion (e.g. asking firms to update their Corporate Social Responsibility reports, questioning them on their ESG efforts, or making them aware of positive initiatives being undertaken by their competitors) and by voting our shares according to what we believe is in the best interest of all stakeholders. So far in 2023, we've participated in several proxy votes and, on multiple occasions, we've sided against management and in favour of recommendations which we believe would improve the company's ESG position, as well as the welfare of its workers, its customers, and the environment in which it operates. Below are two examples from Amazon's recent proxy circular in which we endorsed proposals which fit this bill:

Board of Directors to commission a 3rd party audit of working conditions and treatment of Amazon warehouse workers

Though Amazon is a pioneer in online commerce and a global leader in cloud computing services, it has nonetheless been subject to scrutiny in the past regarding its treatment of warehouse employees. Because of this, and to hopefully gain greater transparency into the current state of company working conditions, we voted in favour of this proposal and against the position taken by company management.

Board of Directors to issue a report on the reduction of plastic use

Amazon has instituted several measures to reduce its use of plastic, including reduction of single-use plastics, decreasing packaging weight per shipment, and even employing artificial intelligence to reduce unnecessary packaging. Still, the company is a significant source of plastic waste and so we welcome additional evaluation of their efforts.

Amazon has more than 10bn shares outstanding, so it's certain that our votes will have little impact in isolation. Combined with others, however, they *can* make a difference, allowing DM and our clients to make an infinitely greater contribution than if we owned no shares at all.