DIXON MITCHELL
INVESTMENT COUNSEL

DM MONTHLY REPORT
October 2023

PORTFOLIO ACTIVITY

No new positions were added to DM mandates in September and none were removed.

FEATURE STOCK
Constellation Software (CSU)

CSU acquires, builds, and manages vertical software businesses in Canada, the US, and Europe. The stock has been one of the great wealth creators on the TSX for nearly two decades and the company's management approach is often cited as one of the most effective and disciplined in any industry. Though the company has made countless additions to its suite of underlying businesses since it went public in 2006, it has not issued a single additional share since that time, instead relying on internally generated cash flow to fund acquisitions. This non-dilutive focus has allowed CSU to maintain a consistently high return on equity, which has helped to drive share price over time. We expect that 2023 will be one of the company's most prolific years for acquisitions, as valuations for tech firms outside of the "magnificent 7" NASDAQ stocks have sagged and financial conditions have tightened. In September, CSU completed purchases of both the Optimal Blue mortgage data business and Empower loan origination system, assets which created a regulatory sticking point for approval of the Intercontinental Exchange (also a DM holding) acquisition of Black Knight. Because of the semi-forced nature of the sale, it appears that CSU landed the companies at very accretive prices.

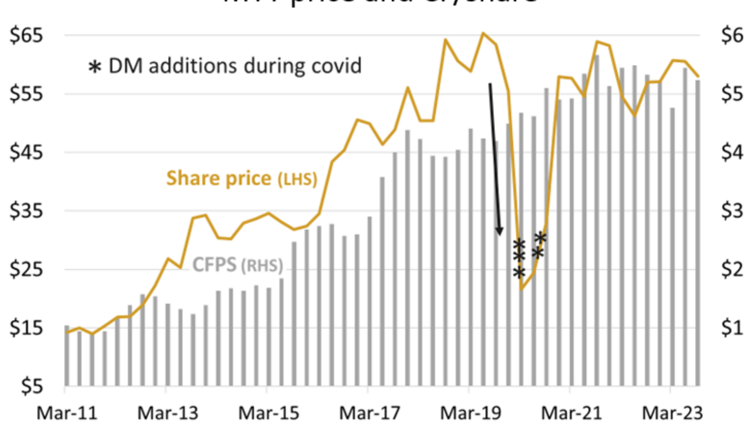
SIZE MATTERS

Stocks are loosely classified as small, mid, and large-cap based on the market value of their outstanding common shares, or their "market capitalization". Big companies, like the banks in Canada or Apple in the US, can absorb hundreds of millions of investment dollars without their share prices being notably affected, while smaller enterprises present a challenge for investment managers with significant capital to deploy – in other words, it's often the case that liquidity considerations take precedent over investment merit when portfolio decisions are made.

Unfortunately for liquidity constrained managers, some of the best growth opportunities can be found in businesses that are in the earlier stages of their corporate life cycle, before they've reached a significant size. As a boutique manager, looking after just over $4.3bn in investment assets, DM enjoys a relatively wide opportunity set within equity markets and many of our strongest portfolio contributors have been names which are mostly out of reach for our larger competitors. For example, we first bought Dollarama in 2013 when it was a $2.8bn company, while today it's worth nearly $27bn; we added shares of TFI Intl. a year later at a market cap of $2.3bn and today it's valued at more than $14bn; and also in 2014 we took an initial position in Element Fleet Mgmt. when it traded at a $1.7bn cap vs. today's value of roughly $8bn.

Another reason we like investing in smaller companies is that we're generally able to get much closer to management and reach key executives, both in times of opportunity and of stress. One of the best performers in DM mandates prior to 2020 was MTY Group, a leading aggregator of quick service restaurant brands. Of course, there were few industries more in the crosshairs of covid and, not surprisingly, investors dumped MTY shares as fast as they could once the virus took hold. As the stock plunged, however, we held several meetings with management and gained confidence that the company would make it through the ordeal. With this insight, we added to our position on five separate occasions when MTY had fallen by more than half, decisions which had a meaningful impact on the ensuing performance of our Canadian equity mandates.

MTY price and CF/share



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