DM MONTHLY REPORT
March 2024

PORTFOLIO ACTIVITY

In February, we reduced the DM US Equity Portfolio's outsized allocation to the housing sector and redeployed this capital to existing holdings.

FEATURE STOCK
Badger Infrastruc. Sol'ns (BDGI)

BDGI is the largest provider of non-invasive excavation services in North America. Its "Badger Hyrdrovac" technology uses a pressurized water stream to soak hard packed soil, which is then removed with a vacuum system to reveal buried power lines, pipelines, and other sub-surface infrastructure, without the concern for damage associated with traditional digging techniques. In the fall of 2022, Rob Blackadar took over as BDGI President & CEO, following his successful tenure as CEO of NESCO, the largest utility rental company in the US. With 2021 and 2022 being difficult years for BDGI, we spent significant time with the new CEO to understand his plans for improvement. First, he sought to maximize asset utilization at the firm by reducing non-earning downtime for company equipment. Second, he would focus on cost reduction by returning to the more decentralized structure that characterized BDGI during its most successful years. We liked what we heard, with our only comment being that he should act quickly to capitalize on the momentum created by the executive change. In 2022, we added to our BDGI position in the $29 range; it now trades in the mid-$40s.

THE OTHER CASH PILE

In recent commentaries, we've devoted considerable space to the mountain of cash that has recently accumulated in money market instruments and pondered where this capital might flow if short term rates begin to retreat. Just as many individuals and investment managers have kept unusually large sums in cash, so too are corporations awash in liquidity. As the first chart below illustrates, corporate cash balances spiked well above trend at the onset of the pandemic and have continued to build. This is partly explained by the surprising strength of the economy which has boosted profits and, in some cases, caused cash to land on balance sheets faster than it can be redeployed. It probably also reflects an abundance of caution amongst management teams, who in recent years have had to battle supply chain issues, surging wages, higher interest rates, and elevated input costs. As economic conditions normalize, however, and the unique conditions of the past few years fade from view, its very likely that much of this cash will be utilized. Some will go to dividend increases, some to acquisitions and organic growth, and a meaningful amount will undoubtedly be directed toward share buybacks. As the second chart shows, the volume of buybacks by S&P 500 companies has roughly tracked the trajectory of earnings since the mid-90s. In recent quarters, however, this ordinarily reliable relationship has broken down, with repurchases falling well below what current profit levels would predict. This divergence, combined with overstuffed balance sheets, could provide additional support to stock prices in the months ahead.