DIXON MITCHELL
INVESTMENT COUNSEL

DM MONTHLY REPORT
November 2024

PORTFOLIO ACTIVITY

In October, we trimmed gains from Booking Holdings and added this capital to our positions in Danaher and Domino's Pizza.

FEATURE STOCK
Shopify Inc. (SHOP)

As seems to be the case at least once a decade, SHOP *(or rather our absence from SHOP)* was previously the bane of DM Canadian Equity. Like Nortel, Research in Motion *(aka Blackberry)*, and Valeant Pharmaceuticals before it, SHOP was briefly the most valuable company in the TSX. Also like the others, DM never owned it, so when it climbed higher and higher and pulled the index along with it, we were left in its wake. We buy stocks based on their fundamental attributes and because SHOP was a long way from generating any free cash flow, it didn't pass our initial quality screen. So even though it was often painful to see it soar without us, our discipline meant that we could only watch from the sidelines. From the stock's peak at the end of 2021 to its bottom just a year later, however, it fell by more than 80% and our initial discretion was vindicated. Coincidentally, SHOP turned cash-flow positive at about the same time, meaning that we could not only add it to DM Canadian Equity, but we could do so at a very attractive valuation. We bought our first shares in the spring of 2024 at an average cost of \$92.90 and later doubled our allocation at \$85.90. Today SHOP shares change hands at more than \$150.

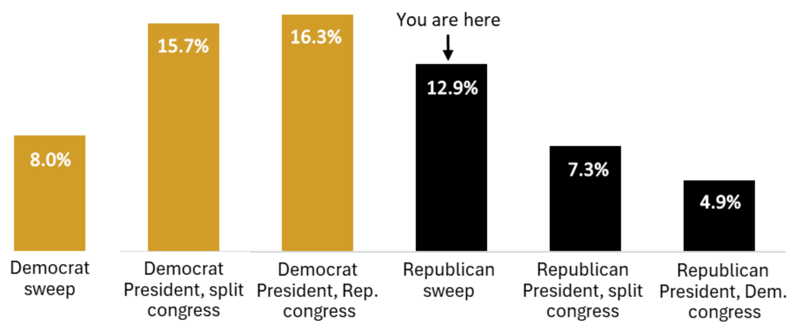
NEW PRESIDENT, NEW MARKET?

With so few Americans left in the "middle", the 2024 election was always going to be a polarizing event. And in the area that concerns us most – *investment markets* – the initial reaction was just as galvanizing, with the Dow leaping by more than 1500 points the day after votes were cast and soaring further in the sessions that followed. Though the first take was euphoric, we care more about what the new government's policies and direction will mean over the mid and long-term. When we've been presented with potentially seismic economic shifts in the past (most recently the onset of covid-19), our primary response has been to reexamine each of our positions and the assumptions that originally led to its purchase. In this case, we started with the DM US Equity Portfolio since its holdings will be most directly impacted by the change in administration, and we particularly assessed the impact of two key planks in the Republican platform:

1. **Rising tariffs** – here we used high US revenue exposure as a proxy for companies which will be less impacted by the imposition of punitive import duties. Currently, 17% of the portfolio falls into this category and we are under-exposed to this subset by about 40 basis points vs. the S&P 500. So, as it stands, DM US Equity has slightly greater exposure to rising tariffs than the market in general.
2. **Falling taxes** – in this case, we evaluated companies based on the amount of tax they pay in the US and assumed that those which pay relatively high amounts domestically have the most to gain from a drop in corporate rates. Our exposure to this area is 2.5% higher than the index, meaning that, all else equal, DM US Equity should carry greater leverage to lower taxes.

The information gathered through this analysis is separate from the fundamental underwriting which supports each DM position and will be used to manage exposure limits to particular names and in our consideration of incremental capital allocations within the portfolio. We are currently performing a similar review of our Canadian holdings vis a vis the new backdrop to determine whether mandate adjustments are warranted there as well. For those curious, the chart below shows how the S&P 500 has historically performed under different US government combinations.

Avg. annual returns, by US govt. composition - *1953 to 2024*



Source: *Bloomberg*