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DM MONTHLY REPORT
March 2025

PORTFOLIO ACTIVITY

After strong earnings reports, we trimmed both Berkshire-Hathaway Inc. and Intercontinental Exchange in DM US Equity and added to Heico and TopBuild Corp.

FEATURE STOCK
Boyd Group Services (BYD.UN)

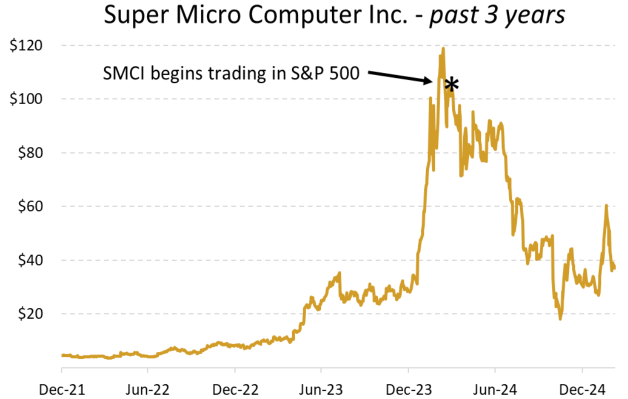
We first invested in BYD nearly a decade ago and, since then, shares in the autobody repair consolidator have more than tripled. Last year, however, was a down year for BYD shares, as milder weather (resulting in fewer accidents) and rising insurance rates (leading to fewer incidents being reported) caused a drop in North American autobody repair volumes. On top of these headwinds, BYD announced plans for CEO succession, which undoubtedly added to investor jitters. We met with the new CEO shortly after he took the company's helm and presented him with several questions, including how the excess capacity that emerged in 2024 would affect the competitive landscape and whether BYD should consider stepping up its pace of M&A. We found the responses to our several queries to be well-reasoned and cohesive across the management team, boosting our confidence both in the recent transition and the company's outlook for the quarters to come. Despite being the second largest autobody company in North America, BYD still accounts for a relatively small market share, which we believe offers a long runway for profitable expansion and accretive growth.

HOW PASSIVE *IS* PASSIVE INVESTING?

At the end of January, index investors got an unexpected peek under the hood of their holdings when the release of the DeepSeek AI app sent a tremor through markets and caused a sharp drop in the S&P 500. While the broad benchmark fell by 1.5% on the last Monday of that month (shedding about $1 trillion in market value), 70% of the stocks in the index actually closed higher on the day, almost mirroring how the "Magnificent 7" group of companies had dominated performance in the quarters before *(the reversal of fortune for the Mag-7 subgroup has expanded since the presidential inauguration)*. Though buying the index is often touted as a neutral way to access equity growth, while eliminating the behavioural biases that often plague investors, both aren't entirely true. With the seven largest companies in the S&P recently accounting for about a third of its value, and the smallest 52 firms making up just 1% of the index, the main US benchmark is definitely not a balanced offering (we've seen similar skews in Canada, when names like RIM, Valeant, and Nortel grew to outsized weights in the TSX, only to meet ignominious ends). As well, while those seven stocks are not all officially in the technology sector, they most certainly share "new economy" characteristics and, as that one-day washout in January showed, they're prone to moving in lockstep, potentially making the S&P less diversified than investors might assume.

As for removing the human element from investing, decisions on index composition are often subject to the same mortal weaknesses that can plague any investor. In the summer of 2020, for example, the mavens in charge of the Dow decided that Exxon Mobil was a yesterday name and replaced it with Salesforce Inc., the world leader in customer relations software. Unfortunately, they seemed to pick the top for the trade and since that time, the stodgy energy giant has outperformed its hotshot replacement by about 80%. Earlier this year, decision-makers at S&P recognized that AI was becoming a leading tech subsector and so they added surging hardware maker, Super Micro Computer; unfortunately they also top-ticked the stock, with the name plunging by about 70% over the ensuing nine months (see chart). As we begin 2025, it's worth thinking about how benchmarks are composed, especially in the US where an extremely small group of stocks have recently accounted for an historically large portion of market performance. In DM US Equity we've made several changes to reduce risk and spread exposure across sectors. While 2024 was a year of extreme performance concentration in the S&P, it feels like this year might see the reverse.

Super Micro Computer Inc. - *past 3 years*



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