DM Monthly Report

APRIL 2019

PORTFOLIO ACTIVITY

In mid-March, we replaced our position in Nike Inc. in the DM Foreign Equity Portfolio with a new allocation to Booking Holdings Inc.

FEATURE STOCK

Brookfield Asset Mgmt. (BAM.A)

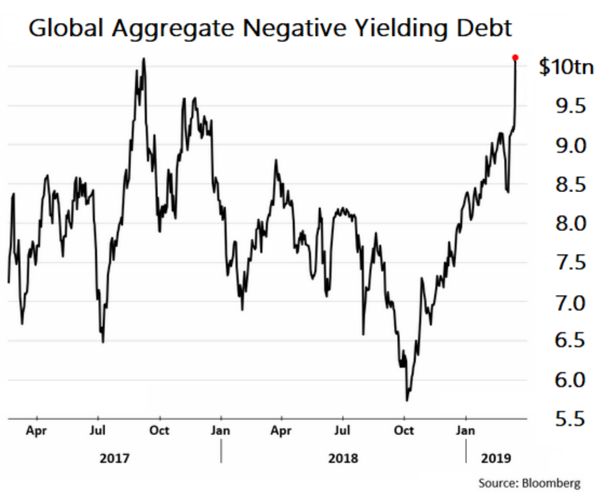
BAM bills itself as an "alternative asset manager with $350bn under management and a 120-year owner/operator heritage that invests in long-life, high quality assets and businesses in more than 30 countries around the world." We see BAM as our exposure to private equity, providing DM portfolios with management expertise in real estate, infrastructure, renewable power, and other large scale projects that would otherwise be inaccessible to our clients. BAM's care for capital was exemplified recently by its CFO when he said "going forward, we expect the majority of our growth to be funded by proceeds from asset sales to investors with lower return hurdles than us." Put another way, this means that they plan to take advantage of those who are likely to overpay for assets and then use funds received to initiate more attractive projects at better valuations. In mid-March, BAM struck a deal to buy 62% of another great asset manager, Oaktree Capital Management, which specializes in distressed debt and other credit opportunities. So far this year, BAM shares have returned more than 21%.

WHY DO INTEREST RATES NEVER SEEM TO GAIN UPWARD TRACTION?

For about half a decade, market watchers have waited for interest rates to climb back to 'normal' levels. Yes, the Great Recession was generationally deep and required the monetary equivalent of shock treatment, but financial systems have been stable for years now and economies are generally expanding. It was widely assumed that at this point in the recovery, having been mostly untethered from central bank influence, rates would find a higher equilibrium. While stock prices have risen to reflect the rebounding real economy, though, bond yields have not (in fact, the disconnect between equity market valuations and the price of money has almost never been greater). Though a full examination of this condition would be worthy of a doctoral paper, we have to believe that at least part of it is being driven by two key factors: *demographics and globalization*.

In the 1980s and early 90s, a huge population bulge in the west was moving through the heaviest spending stage of life, as baby boomers bought houses for the first time, filled them with furniture and appliances, and added a mini-van to the driveway. Demand for capital was higher than savings and so money became expensive. Now, though, not only has this same group moved into its net saving years, but several economically important countries are experiencing the reverse of the baby boom, with birth rates not high enough to replace aging citizens.

While this demographic shift was taking place, the world was also shrinking and corporations were discovering the benefits of moving manufacturing and even business services to emerging low cost centres. Soon, these new hubs were exporting not only goods to western shores, but disinflation as well and the downward impact on consumer prices allowed rates to fall further. Globalization also came to the financial arena, with capital ignoring borders to flow where it was best rewarded. As the accompanying graph shows, there is now more than $10tn in negative yielding debt outstanding worldwide - *that's right, bonds that pay back less than what is lent!* It's almost certain that this massive body exerts a gravitational pull on the rest of the world, with funds streaming to US, Canadian, and other developed market bonds whenever their yields tick higher. With all of these significant factors tamping down interest rates, and none of them likely to abate any time soon, we expect that the generally low yield environment we now find ourselves in will be with us for some time.



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