

DM Monthly Report

JANUARY 2019

PORTFOLIO ACTIVITY

In December, we sold Starwood Ppty. Trust in DM Foreign Equity in favour of a new position in S&P Global Inc. (see panel to right).

FEATURE STOCK

Nike Inc. (NKE)

On December 20th, NKE reported fiscal Q2 earnings which showed a big jump over prior levels and blew past analyst estimates. The stock rallied by more than 7% the next day and continued to climb during a difficult period for the broad market. Online sales were a significant driver during the quarter, with a strong Thanksgiving weekend fueling a 30% gain in the company's N. American digital business and volumes in China boosted by a blockbuster "Singles Day" (the country's biggest day for online shopping), which saw growth of 40% over last year. NKE has also been effective at locking in loyal customers through its app and Nike+ memberships and in capitalizing on the mobile space, which now accounts for 50% of digital sales. Another key contributor to recent success has been NKE's commitment to innovation, with the company releasing new styles at a blistering pace and enhancing existing platforms (in fact, if "Air" was a standalone athletic company it'd be the 3rd largest in the world!). Management also said that it's "incredibly energized for 2019" and hasn't yet felt any impact from US/China trade friction.

BUILDING ON STRENGTH IN DM FOREIGN EQUITY

The DM Foreign Equity Portfolio essentially tracked the S&P 500 as it climbed during the first six months of 2018. When things headed south at the beginning of the fourth quarter, however, and many of the market's most richly valued names took the brunt of the repricing, our focus on quality and fundamentals began to shine through. DM Foreign Equity opened up a significant gap against the broad market during the steep selloff and, by the time the punishing month of December was complete, it had surpassed the S&P by more than 6% for the calendar year.

While beating a benchmark by a wide margin is satisfying in its own right, it also provides portfolio capital that can be reallocated toward attractive stocks that have been particularly hard hit. In early December, we did just that by liquidating our long time holding in real estate lender, Starwood Property Trust, and using the resulting funds to open a new position in S&P Global Inc. While Starwood shares had actually risen during the fourth quarter meltdown, S&P Global fell sharply, resulting in a 22% performance spread between the two names in fewer than six months (see chart below). Though Starwood had served the portfolio well, our outlook for earnings growth had diminished and we felt that the stock was unlikely to fully capture a market recovery. As a world leader in indices, financial data, and analytics, S&P Global not only enjoys a high ratio of recurring revenue, it's well positioned to expand its business in the years to come; it's also a name that we had been working on for several quarters, waiting for valuation to enter our buy range. So far, this trade has worked out well, with S&P Global shares outperforming the broad market by 6.6% and Starwood Property Trust by 10.7% from the date of execution to mid-January.

