DM MONTHLY REPORT
December 2020

PORTFOLIO ACTIVITY

In November, we were relatively active in DM Canadian Equity, taking an initial position in Intact Financial, and then adding to it; liquidating Telus; and increasing portfolio weights in Boyd Group and select Canadian banks.

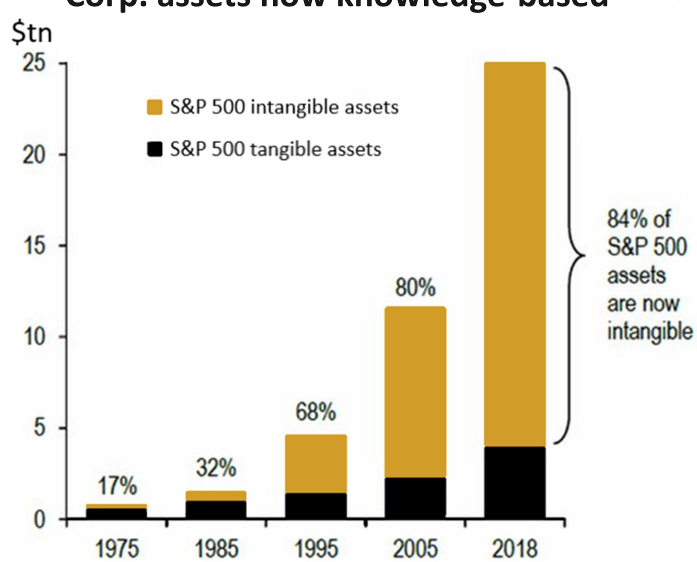
FEATURE STOCK
Berkshire Hathaway Inc. (BRK.B)

Berkshire Hathaway shares have enjoyed a strong surge from summer levels, boosted both by internal developments and by the market's recent interest in potential beneficiaries of a post-covid economic reopening. The economic case for BRK can be found in its constituent parts: one of its largest units is the Burlington Northern Santa Fe railroad and it also owns chemical maker Lubrizol, aerospace supplier Precision Castparts, manufacturer Marmon, and several housing related businesses, including Clayton Homes and Benjamin Moore paint. At the same time, the company has started to put some of its $145bn cash balance to work, principally by buying back $9bn of company stock in the third quarter and acquiring Dominion Energy's natural gas transmission and storage business in July. The Dominion assets carry significant regulatory barriers, as well as environmental advantages over competing power generation sources. Speaking of environment, over the past half decade, Berkshire Energy has reduced GHG emissions by 37% and increased the renewable share of its power generation from 10% to 34%.

VALUE MAKES A COMEBACK, BUT WHAT DOES IT MEAN?

In recent weeks, much has been made about 'value' stocks finally outperforming their growth-oriented cousins. The benchmarks most often used to segregate the market into these two cohorts are the Russell 1000 Value Index and the Russell 1000 Growth Index, with the former including stocks which have "lower price-to-book ratios and lower expected earnings growth rates" and the latter capturing those with the opposite characteristics. The classic definition of value, though, is in some ways a relic of yesteryear, when a company's strength was measured in the number of smokestacks on its factories, the size of its fleet of equipment, and the vastness of its land holdings. These 'tangible' assets are recorded on a firm's balance sheet, with a charge taken against income in each subsequent year to account for ongoing depreciation. Value investors seek to buy stocks when price falls below the accumulated worth of company assets, thus providing both room for appreciation and a 'margin of safety'. Increasingly, however, our economy is dominated by companies whose assets are *intangible* in nature, represented by things like patents, brands, and intellectual property. Unlike the purchase of a building or blast furnace, investment in these items is expensed immediately through the income statement, causing earnings to take a disproportionate hit in the short term and depriving the balance sheet of a book value entry. In reality, though, it can be argued that an attractive intangible asset is more valuable than a high quality tangible one. If Suncor purchases a new Caterpillar mining truck for its oil sands operation, for example, the vehicle's cost will be recorded on the firm's balance sheet, causing book value to rise. Only one person can operate the vehicle at time, however, meaning that its economic contribution will follow a linear path. When Microsoft, on the other hand, creates a useful piece of software, most of the development cost is expensed in the current year; unlike the Cat, however, millions of people may be able to use the software simultaneously, providing an *exponential* benefit to the company. While no investment manager wishes to pay more for a stock than what it's worth, value is ultimately in the eye of the beholder. How we define value, though, may need some updating to reflect the structure of the modern economy.

Corp. assets now knowledge-based



Source: *BofA Research*