DIXON MITCHELL
INVESTMENT COUNSEL

DM STRATEGY UPDATE
May-2021

The upside of triggering gains

Dixon Mitchell's equity investment approach lends itself to long holding periods for individual positions and relatively low portfolio turnover. The extensive fundamental research we conduct on stocks and the time we spend with corporate management teams is designed to uncover durable investment targets, ones which will generate compound growth over long periods with a reduced need for taxable transactions.

When we do make changes, they are initiated either to reduce portfolio risk or to reallocate assets toward more attractive opportunities; the tumultuous twelve months of 2020 provided our equity department with several occasions for both.

Most risk management transactions in our mandates are motivated by positive outcomes, either because a stock's rise has taken it beyond our estimate of fair value or because it has simply become an excessively large portfolio weight. Under these circumstances, we'll generally trim a position back to our model allocation and redistribute resulting capital to names which we believe represent a better risk-reward tradeoff. As certain sectors began to dominate the market recovery in the second half of 2020, we were compelled to pare back several high flyers, including Apple Inc., Thermo-Fisher Scientific, Element Financial, and Constellation Software.

On occasion, we will exit a position entirely if we feel that the fundamental story underpinning our buy thesis is no longer intact, or if the outlook for the company or its industry has deteriorated significantly. Early in the year, the economic uncertainty cast by the covid cloud led us to fully liquidate the bulk of our energy exposure, along with names such as Finning International whose fortunes are inextricably tied to the sector. We also sold longtime holding Johnson & Johnson on concerns around governance and executive leadership and, in February, we parted with our position in Cineplex Inc. when the stock jumped on a (since withdrawn) takeover bid.

Some of our heaviest buying in 2020 took place in the last week of March, just as the market was making what would turn out to be its low for the year. During this period, we added capital to construction materials maker Carlisle Cos., Google parent Alphabet Inc., and beaten down Canadian names such as Gildan Activewear and MTY Food Group. We also took advantage of a steep decline in Methanex Corp. to initiate a new position, one which we'd subsequently trim later in the year when its price had more than doubled.

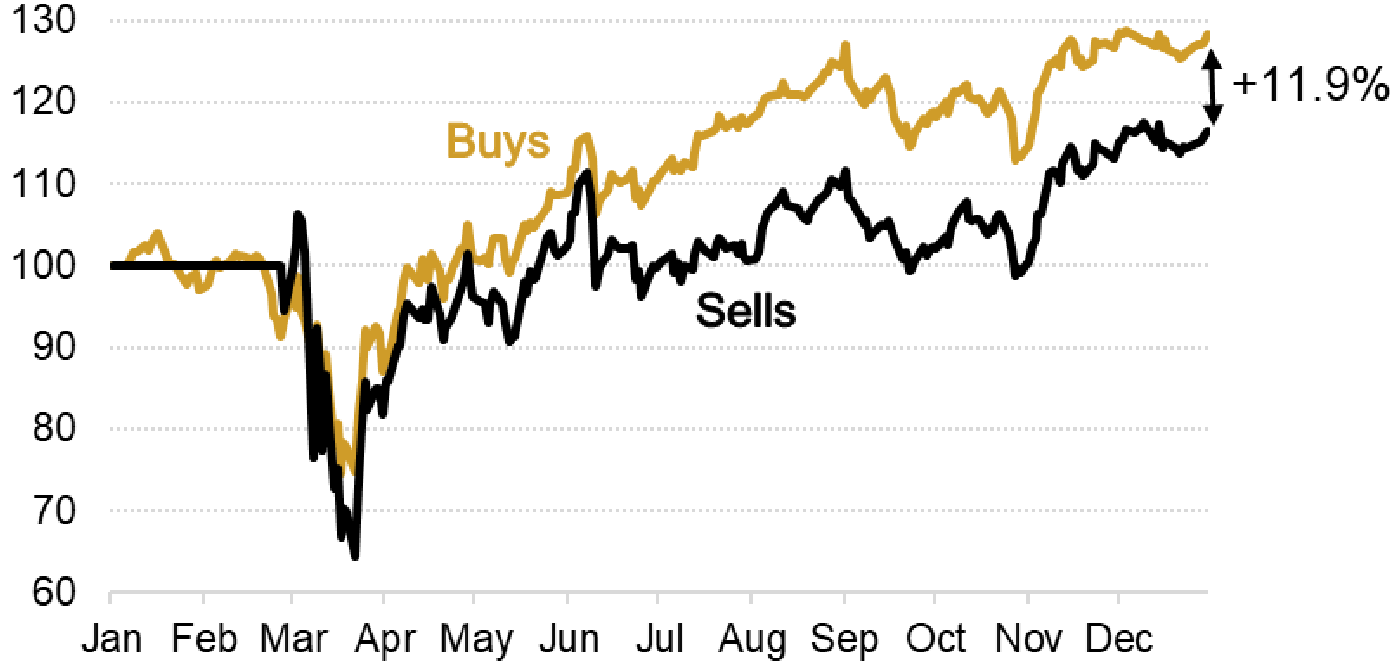
At the end of each quarter, we conduct an in-depth attribution analysis of our mandates to determine the sources of excess return and the cause of any shortfalls. In conjunction, we assess the effectiveness of our trading approach to better understand and develop what has worked and to learn from and improve upon that which has not.

The two charts on the following page show the cumulative effect of our 2020 trading activity in both the DM Foreign Equity and DM Canadian Equity Portfolios. As you'll see, transactions executed in DM Foreign during the past calendar year resulted in a net advantage of nearly 12%, while in our Canadian mandate, the positive effect was even greater, with buys outpacing sells by 19% on a weighted-average basis.

Though in an ideal world we'd let gains run indefinitely and avoid taxable adjustments altogether, reality is rarely as cooperative. As stewards of client capital we continually weigh the likely tax impact of proposed transactions against their anticipated investment benefit. In 2020, our desires to both manage elevated equity risk and capitalize on uncommon price distortions were the primary drivers behind the bulk of our portfolio activity.

DM Foreign Equity Portfolio

2020 Weighted Average Buys vs. Sells



DM Canadian Equity Portfolio

2020 Weighted Average Buys vs. Sells