



April 30th, 2015

## Caldwell North American Equity Strategy - Monthly Update

### Portfolio Additions

#### **Mentor Graphics (MENT-us)**

**About the Company:** Mentor Graphics provides software and hardware design solutions that are used in the design, development and testing of electronic products. Their products are used by engineers to execute increasingly complex electronic designs as technology becomes embedded in everything we touch. Clients include the major players in the semiconductor industry, as well as companies involved in transportation (BMW, Hyundai, Honda, Boeing, Airbus, Honeywell, GE, Johnson Controls).

**Investment Thesis:** We believe shares of Mentor Graphics are attractive for several reasons: 1) Like most software, there is a stickiness to Mentor's products given these are highly complex software tools. Once engineers spend the time to learn and become proficient in the software, there is a strong preference to continue using it over switching to another product. 2) There is a secular growth story to electronics becoming increasingly embedded in transportation, including automotive, aerospace, trucking, farming and construction. This is an area where Mentor has built a strong offering over the last several years and is seeing strong growth rates above its traditional businesses. 3) Mentor Graphics has one of the most compelling valuations amongst the application software companies in our investment universe and trades at a significant discount to its two direct competitors. Its valuation is also attractive across our broader investment universe, especially considering strong growth tailwinds in the industry.

### Portfolio Deletions

No Change

### Company Updates: A Few Highlights

Companies began reporting first quarter earnings in April. The strength of the U.S. Dollar (USD) versus global currencies had a sizable impact on results, especially for those companies that operate outside their domestic markets. Given the dynamic nature of currency movements and the resulting impacts on businesses (while some U.S. companies have seen a drag on earnings, others see a strong USD as an opportunity to build out their assets abroad), we find it most helpful to focus on underlying demand and operational performance trends. From that perspective, we viewed results and management outlook/tone as generally positive, especially given some softness in economic data going into the results. The U.S. continues to be the strongest market for most companies with demand across both corporate and consumer spend. Expense control remains a focus across most industries; profit margins are high after years of improving operational efficiency and those companies that have seen demand pick up are showing positive operating leverage, where earnings grow at a faster rate than revenue.

#### **Omnicom (OMC-us)**

Demand trends were strong as organic growth was +4.8% in North America, +9.3% in the U.K., +2.7% in Europe, +6.7% in Asia and +3.4% in Latin America. We were quite encouraged by these results, especially as marketing and advertising has historically been more of a discretionary spend category. The company announced it formed a new acquisition group that will be looking at taking advantage of a strong USD to build their global portfolio. Contract wins this quarter included Thomson Reuters, Travelers, Royal Caribbean, Wells Fargo and Bacardi. Overall, a well run business that is benefiting from the adoption of technology to make marketing dollars more effective, a trend we believe has a long way to run.

#### Equity

Jennifer Radman, CFA

jradsman@caldwellinvestment.com

#### Fixed Income

Dennis Freeman, Portfolio Manager

dfreeman@caldwellinvestment.com

#### **Caldwell Investment Management Ltd.**

150 King Street W, Suite 1702

Toronto, ON M5H 1J9

www.caldwellinvestment.com



## Celestica (CLS-t)

Revenue growth continues to be a challenge at Celestica and has not ramped up as quickly as management might have liked. As a technology manufacturer, higher revenue is needed to leverage its high fixed cost base. In the meantime, expense control has been strong, which has been some consolation. We are highlighting this name because it announced an interesting deal this quarter, where Celestica will be taking over Honeywell's Mississauga facility. This is a significant step in penetrating industries outside of Celestica's legacy communications industries, something the company has been focused on. The move is also a part of a broader trend we are seeing across many industries, where companies are outsourcing non-core competencies to those companies that can simply do it better. Cognizant Technologies comes to mind.

## Whirlpool (WHR-us)

The stock has been under pressure after the company reduced earnings guidance on the back of a strong USD and weakness in Brazil. Our investment thesis on Whirlpool is the significant operating efficiencies the company can obtain through its recent joint-ventures in Europe and China. These are long term drivers that we believe will out pace the current headwinds of a weak Brazilian market.

## Coffee, Flying and Data Scientists

We like the fact that we have a 25 stock portfolio as it allows us to be selective in the opportunities we pursue for clients. While we historically focused this note on the 25 companies we own, we read many companies' reports in our process of looking for better opportunities and overall economic indications. We thought to share some of the comments we found interesting.

**Starbucks:** While one could argue that growing sales is easier when one has an addictive product, we consider spending money at Starbucks more of a luxury than necessity. Same store sales (the dollars spent at a given location) grew 7% year over year in the first quarter. That is up from 5% growth the prior quarter. It is hard to imagine a weak U.S. economy given those stats.

**Airlines:** Demand growth has been very strong in the U.S. A Delta survey showed that 85% of corporate customers plan to maintain or increase travel spend this year. Another sign of a strong economy.

**Data Scientists:** Robert Half is a staffing agency that saw 16% growth in the U.S. in the first quarter. They talk about persisting skill shortages in many occupations. Technology staffing is the most supply constrained, but shortages extend to other specialties including accounting, creative and marketing roles, internal audit and compliance. Data scientists are in particular demand, which is a comment we heard from both Omnicom and Cognizant, two companies that do very different things. [If you know a kid that's trying to decide what to take in school, suggest they look here!]

We appreciate your continued support. Feel free to reach out to us at any time.

Best Regards,

Investment Management Team

---

The information contained in this document is designed to provide you with general information and is not intended to be comprehensive investment advice applicable to the circumstances of an institutional or individual investor. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund and investment mandate investments. Please read the prospectus before investing. The indicated fund rate of return is historical annual compounded total return including changes in share and/or unit value and the reinvestment of all dividends and/or distributions. This does not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds and investment mandates are not guaranteed, their values change frequently and past performance may not be repeated. Inception date: April 2012. Principal Distributor: Caldwell Securities Ltd. This e-mail (including attachments, if any) is confidential, may be privileged and is intended for the above-named recipient only. Any distribution, use or copying of this e-mail or the information it contains by other than the intended recipient is unauthorized. If you have received this e-mail in error, please advise the sender by return e-mail immediately.

Equity  
Jennifer Radman, CFA  
jradman@caldwellinvestment.com

Fixed Income  
Dennis Freeman, Portfolio Manager  
dfreeman@caldwellinvestment.com

Caldwell Investment Management Ltd.  
150 King Street W, Suite 1702  
Toronto, ON M5H 1J9  
www.caldwellinvestment.com