

DESAUTELS

CAPITAL

MANAGEMENT

2019

Fall 2019 Update

Global Equity Fund

Fall 2019 Update

Rakan Lamy
Global Equity Strategist

Global Equity Fund

Market Commentary and Outlook

The Global Equity Fund returned 7.9% YTD as of October 31, 2019. This represented a significant underperformance to our benchmark, which was up 17.1% as the market resumed its decade long bull run on the back of accommodative monetary policy and solid corporate earnings. Since inception in 2010, the Global Equity Fund is up 7.5% on an annualized basis vs. 8.8% for the benchmark.

Some of our investment theses played out as expected, with two of our top performers, Prologis and Summit, gaining over 50% (details below). Unfortunately, a number of our holdings were significantly affected by the US/China trade war, and we were also hit with idiosyncratic events, including a default by Eros International and Sarepta Therapeutics not receiving the FDA approval we had been expecting.

With the start of a new school year, we are confident in our ability to turn this ship around. We've carefully evaluated our holdings and exited positions where our investment theses no longer held or where price targets were met. We still retain the view that China and the U.S. will resolve the trade dispute, which would help a number of our holdings recover losses. Finally, we've also created a new Risk and Analytics team whose goal is to use quantitative methods to help us identify undervalued stocks and reduce the risk of large losses. As an example, we recently incorporated real options analysis to value a lithium/bromine specialty chemicals company. Overall, we believe we have a solid portfolio that is able to weather an uncertain market and we look forward to adding attractive stocks this semester.

We do not expect an economic slow-down in North America next year and thus remain diversified in our sector exposure. We do, however, now favor Canada over the U.S. on a backdrop of more attractive valuation and higher potential for fiscal and monetary stimulus.

Top Performers

Prologis (NYSE: PLD) – UP 50.6% YTD

Prologis is a multinational logistics real estate investment trust with \$97bn AUM. We initiated a position in Prologis due to what we viewed as a very high growth opportunity given their focus on warehouses and distribution centers, of which they are the biggest owner in the world. The company has also been shifting its assets towards North America to benefit from higher rent prices and stronger market expertise, which we believe will continue to act as a catalyst in the future.

Summit Materials (NYSE:SUM) – UP 82.3% YTD

Summit is a geographically diverse, materials-based business of scale that offers customers construction materials and related downstream products in the public infrastructure, residential and nonresidential end markets. We believe Summit's geographic exposure makes it well-positioned to benefit from the increasing infrastructure spending and strengthening residential and non-residential construction in the U.S. Summit's valuation discount relative to peers has been contracting over the year, and we expect this trend to continue going forward.

DCM Company News

We welcomed 20 very talented and ambitious new Junior Analysts this past May. They are already contributing actively to the Fund and we expect great accomplishments from them over the next two years. Finally, to our investors, on behalf of the entire DCM team, I would like to sincerely thank you for your unwavering support. This program is now stronger than ever, and we are extremely grateful for the opportunity that you have given us.

Rakan Lamy, *Global Equity Strategist*

Global Equity Fund

DCM AND BENCHMARK PERFORMANCE

Global Equity Fund - Current Sector Allocation			
Sector	Global Equity Fund	Benchmark	(+/-)
USD	0.2%	0.0%	0.2%
Communication Services	4.9%	7.5%	(2.5%)
Consumer Staples	4.6%	5.3%	(0.7%)
CAD	0.8%	0.0%	0.8%
Health Care	7.6%	6.4%	1.2%
Utilities	4.3%	4.2%	0.0%
Information Technology	11.0%	12.0%	(0.9%)
Industrials	7.4%	10.3%	(2.9%)
Materials	8.5%	7.9%	0.6%
Consumer Discretionary	7.2%	6.5%	0.7%
Financials	29.5%	28.5%	1.0%
Energy	13.8%	11.3%	2.5%
Total	100.0%	100.0%	0.0%

GLOBAL EQUITY FUND RETURNS			
As of Oct 31, 2019			
Time Period	Gross Return	Net Return	Benchmark
YTD Return	7.9%	6.6%	17.1%
Since Inception*	7.5%	6.1%	8.8%

*Returns are annualized.

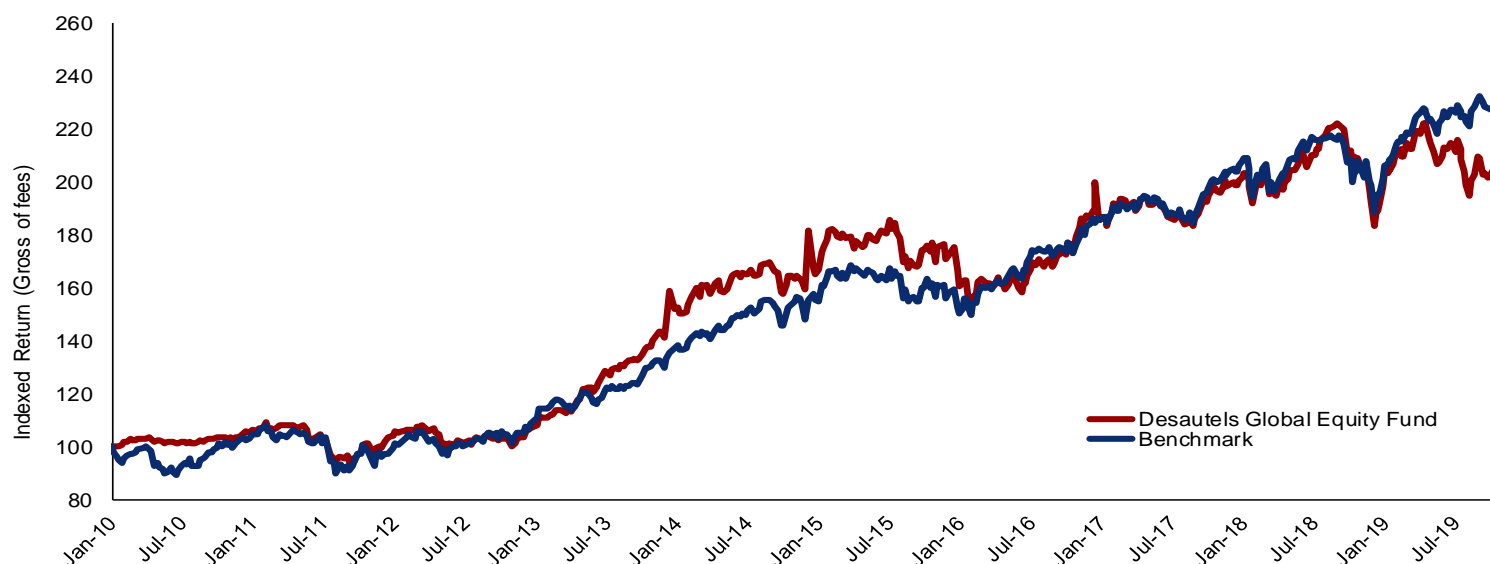
PERFORMANCE METRICS SINCE INCEPTION		
	Equity Fund	Benchmark
Annualized Return	7.5%	8.8%
Annualized Std Dev	12.2%	10.8%
Annualized Sharpe Ratio	0.42	0.59
Beta	0.82	
Annualized Gross Alpha	(0.1%)	
Weekly Tracking Error	1.2%	

Performance metrics are calculated gross of fees.

EQUITY PERFORMANCE METRICS 2019		
	Equity Fund	Benchmark
Return	7.9%	17.1%
Annualized Standard Deviation	11.7%	7.7%
Sharpe Ratio	0.47	1.91
Beta	1.32	
Alpha	(13.9%)	
Tracking Error	1.0%	

Performance metrics are calculated gross of fees.

Global Equity Fund Performance vs Benchmark Since Inception



*Note: Performance is calculated gross of fees. Benchmark is a blended 60% S&P TSX, and 40% S&P 500 (measured in CAD). From inception until February 28, 2013, benchmark was the MSCI World Index. Inception date was January 20, 2010.

Global Equity Fund

Holdings

Global Equity Fund - Holdings List as of (10/31/2019)								
#	Security Name	Sector	Currency	Size	# of Units	Local Price / Unit	Base Market Value (in CAD)	Position Size %
1	ARITZIA INC	Consumer Discretionary	CAD	Small	6,400	\$19.14	\$122,496	4.0%
2	CI FIRST ASSET US & CANADA LIFECO	Financials	CAD	ETF	7,000	\$11.29	\$79,030	2.6%
3	CANADIAN IMPERIAL BK OF COMM	Financials	CAD	Large	1,350	\$113.52	\$153,252	5.0%
4	EMERA INC	Utilities	CAD	Large	1,600	\$53.93	\$86,288	2.8%
5	ENERPLUS CORP	Energy	CAD	Mid	6,000	\$8.54	\$51,240	1.7%
6	ISHARES S&P/TSX CAPPED MATERIALS	Materials	CAD	ETF	14,600	\$14.11	\$206,006	6.8%
7	ISHARES GLOBAL HEALTHCARE	Health Care	CAD	ETF	850	\$50.63	\$43,036	1.4%
8	ISHARES NASDAQ 100 INDEX ETF	Information Technology	CAD	ETF	1,900	\$65.59	\$124,621	4.1%
9	ISHARES S&P GLOBAL CONSUMER	Consumer Discretionary	CAD	ETF	2,200	\$38.96	\$85,712	2.8%
10	ISHARES S&P GLOBAL INDUSTRIALS	Industrials	CAD	ETF	4,500	\$34.78	\$156,510	5.1%
11	LOBLAW COMPANIES LTD	Consumer Staples	CAD	Large	1,580	\$69.11	\$109,194	3.6%
12	OLD PSG WIND DOWN LTD	Consumer Discretionary	CAD	Small	10,985	\$1.00	\$10,985	0.4%
13	PEMBINA PIPELINE CORP	Energy	CAD	Large	2,500	\$46.75	\$116,875	3.8%
14	SEVEN GENERATIONS ENERGY LTD CC	Energy	CAD	Mid	10,700	\$8.47	\$90,629	3.0%
15	SUNCOR ENERGY INC	Energy	CAD	Large	1,350	\$41.30	\$55,755	1.8%
16	FINCANTIERI SPA	Industrials	EUR	Mid	48,610	\$0.97	\$69,149	2.3%
17	ADOBE INC	Information Technology	USD	Large	230	\$277.50	\$83,863	2.8%
18	AMERICAN EXPRESS CO	Financials	USD	Large	925	\$119.62	\$145,387	4.8%
19	BANK OF AMERICA CORP	Financials	USD	Large	3,850	\$32.40	\$163,902	5.4%
20	BOINGO WIRELESS INC	Communication Services	USD	Small	3,630	\$8.90	\$42,450	1.4%
21	EAST WEST BANCORP INC	Financials	USD	Mid	1,975	\$45.43	\$117,893	3.9%
22	FRESENIUS MEDICAL CARE AG & CO	Health Care	USD	Large	955	\$37.03	\$46,466	1.5%
23	GRUBHUB INC	Consumer Staples	USD	Mid	660	\$35.01	\$30,361	1.0%
24	LIONS GATE ENTERTAINMENT CORP	Communication Services	USD	Mid	5,175	\$8.33	\$56,641	1.9%
25	MARATHON PETROLEUM CORP	Energy	USD	Large	1,200	\$67.94	\$107,124	3.5%
26	PROLOGIS INC	Financials	USD	Large	1,270	\$87.77	\$146,463	4.8%
27	PROSUS NV	Information Technology	USD	Large	3,850	\$13.91	\$70,362	2.3%
28	SSE PLC ADR	Utilities	USD	Large	2,000	\$16.56	\$43,508	1.4%
29	SVB FINANCIAL GROUP	Financials	USD	Large	300	\$237.96	\$93,800	3.1%
30	SAREPTA THERAPEUTICS INC	Health Care	USD	Mid	670	\$90.81	\$79,944	2.6%
31	SUMMIT MATERIALS INC	Materials	USD	Mid	1,750	\$23.49	\$54,013	1.8%
32	TELADOC HEALTH INC	Information Technology	USD	Mid	545	\$80.35	\$57,539	1.9%
33	EROS INTERNATIONAL PLC	Communication Services	USD	Small	15,950	\$2.43	\$50,927	1.7%
34	MEDTRONIC PLC	Health Care	USD	Large	450	\$107.15	\$63,355	2.1%
35	CANADIAN DOLLAR	CAD	CAD	Cash	23,569	\$1.00	\$23,569	0.8%
36	U.S. DOLLAR	USD	USD	Cash	5,308	\$1.00	\$6,974	0.2%
37	EURO	EUR	EUR	Cash	899	\$1.00	\$1,318	0.0%
							\$3,046,637	100.0%

Fixed Income Fund

Fall 2019 Update

Stanislav Timoshenko
Fixed Income Strategist

Fixed Income Fund

PERFORMANCE AND OUTLOOK

Going into 2019 we were of the view that the US/China trade war would be resolved and that inflation risks were skewed to the upside. We were thus concerned that long term yields would rise from their historically low levels and decided to take some rate risk off the table by lowering our duration relative to our benchmark. However, the situation played out quite differently. While last year's debate surrounded the degree to which the Fed was going to increase rates, current discussion is centered around whether rates will be lowered. As a result, the US 10-year yield dropped about 100bps YTD and our benchmark gained 4.3% YTD. Our lower duration exposure led to only modest gains of 0.7%. In terms of longer-run performance, the Fixed Income Fund is up 3.9% on an annualized basis since inception in 2010, vs 2.2% for our benchmark.

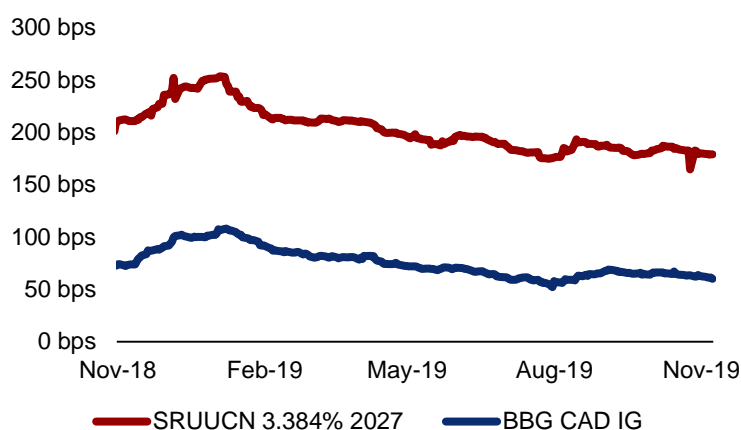
Looking ahead, the market is pricing in about a 76% chance of no change in rates at the next Fed meeting. Given our macroeconomic outlook, we agree with this assessment and will maintain a duration near that of the benchmark for the time being. Our alpha generation will thus be driven by corporate bond selection where our goal is to buy bonds in which fundamental analysis suggests spreads are too large relative to default risk.

Recent Purchases

We recently initiated a position in SmartCentres REIT 3.834%, 2027. SmartCentres Real Estate Investment Trust is a Canadian real estate provider that manages approximately \$9.5 billion of investment properties spanning across 34 million square feet. The spread looked quite attractive given our view on the company's stable cash flows, and resilience to an economic downturn.

The company's diversification strategy through intensification projects should also limit default risk. Indeed, we have seen ~35bps spread compression since we initiated the position in April of 2019 (Figure 1).

Figure 1: SmartCentres 3.834% 2027 OAS



DCM Company News

We are pleased to report that the Fixed Income Fund recently received a subscription of \$1.0mm, bringing AUM to \$1.5mm. The inflow was originally allocated to both iShares Canadian Universe Bond ETF and iShares Core US Aggregate Bond ETF. We are currently in the process of shifting those funds into individual names as we identify opportunities.

We recently welcomed two outstanding new Junior Analysts to the Fixed Income Fund, Lauren Kirigin and Ekaterina Semenova. On behalf of the entire team, I would like to thank all of our investors for their continued support. Managing a real fund has been an incredible experience and learning opportunity. We look forward to another exciting year ahead.

Stanislav Timoshenko, *Fixed Income Strategist*

Fixed Income Fund

HOLDINGS

Fixed Income Fund Holdings (as at November 8, 2019)											
#	Security Name		Currency	Duration	Rating	Units	Local Price	Local Value	Base Value	%	
Corporate Bonds											
1	Cogeco Cable Inc	4.925%	2022	CAD	2.28	BBB-	22,000	104.5	22,981	22,981	1.6%
2	Dollarama Inc	2.337%	2021	CAD	1.81	BBB	23,000	100.0	22,991	22,991	1.6%
3	407 International Inc	2.470%	2022	CAD	2.80	BB	20,000	100.8	20,160	20,160	1.4%
4	Russel Metals Inc	6.000%	2022	CAD	2.27	BBB	25,000	101.3	25,313	25,313	1.8%
5	Smartcentres Reit	3.834%	2027	CAD	7.04	BBB	20,000	102.8	20,558	20,558	1.4%
Provincial Bond											
6	Prov Of Alberta	2.550%	2022	CAD	3.11	BBB	40,000	102.0	40,802	40,802	2.8%
ETFs											
7	Ishares Core Cdn Long Term			CAD	15.80		750	25.3	18,938	18,938	1.3%
8	Ishares Canadian Universe Bond			CAD	8.12		15,300	31.7	484,857	484,857	33.7%
9	Ishares Core U.S. Aggregate			USD	6.35		3,520	111.9	393,782	518,966	36.1%
10	Ishares Mbs Etf			USD	4.09		470	107.7	50,628	66,723	4.6%
11	Ishares Short-Term Corporate			USD	2.69		500	53.5	26,750	35,254	2.5%
12	Ishares Short Treasury Bond			USD	0.42		200	110.5	22,108	29,136	2.0%
13	Ishares Ultra Short-Term Bon			USD	0.68		400	50.3	20,132	26,532	1.8%
14	Schwab Short-Term Us Treas			USD	1.82		510	50.4	25,724	33,902	2.4%
15	Vanguard S/T Corp Bond Etf			USD	2.67		250	80.8	20,208	26,631	1.9%
Cash											
14	USD			USD				4,145	5,462	0.4%	
15	CAD			CAD				39,597	39,597	2.8%	
Total									1,438,803	100.0%	

FIXED INCOME METRICS SINCE INCEPTION

	Fixed Income Fund	Benchmark
Annualized Return	3.9%	2.2%
Annualized Std Dev	4.8%	5.7%
Annualized Sharpe Ratio	0.30	(0.04)
Beta	0.49	
Annualized Alpha	1.6%	
Tracking Error	0.7%	

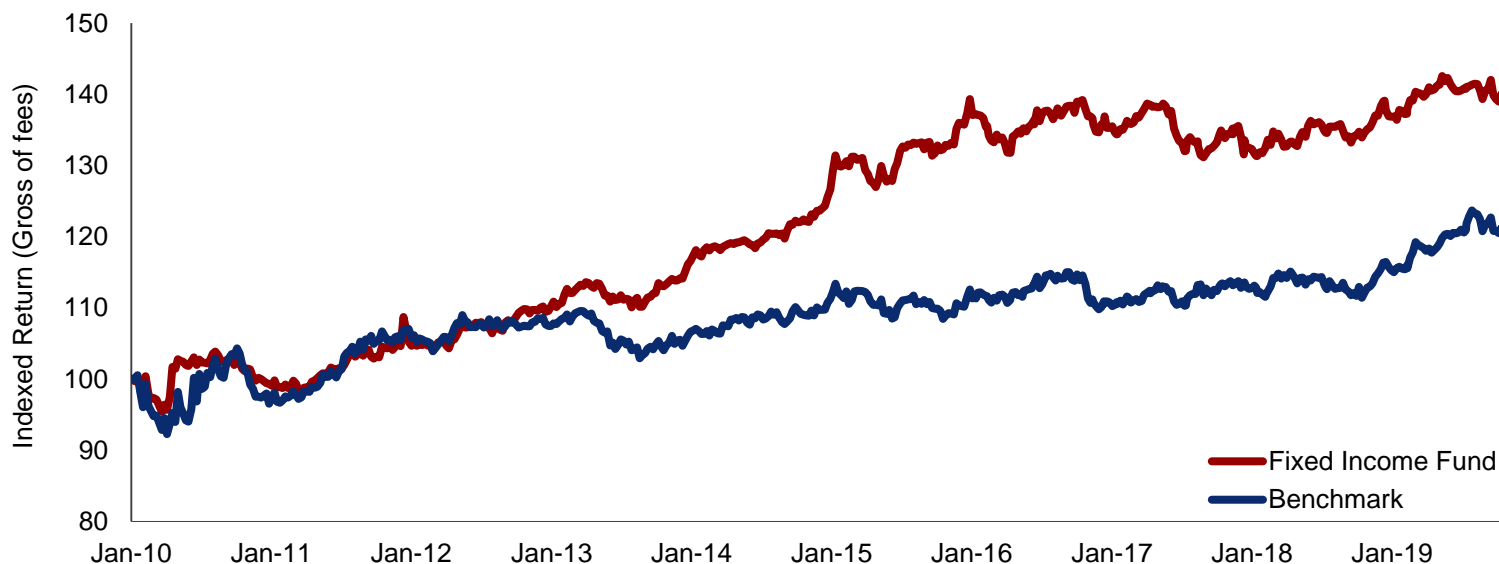
Performance metrics are calculated gross of fees.

FIXED INCOME PERFORMANCE METRICS 2019

	Fixed Income Fund	Benchmark
Return	0.7%	4.3%
Standard Deviation	3.8%	3.9%
Sharpe Ratio	(0.46)	0.48
Beta	0.66	
Alpha	(3.0%)	
Tracking Error	0.4%	

Performance metrics are calculated gross of fees.

Fixed Income Fund Performance vs Benchmark YTD



Note: Performance is calculated gross of fees. Benchmark is a blended 45% DEX Universe Bond Index, 45% Barclays Aggregate Index, 10% Citi/S&P

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