DESAUTELS | Capital Management
Gestion de capitaux

Newsletter: Summer 2014

McGill

Global Equity Fund

Dear Investor,

The Desautels Global Equity Fund returned 1.66% gross of fees in Q2, 2014, bringing H1 performance to 10.42%, versus 10.74% for our blended benchmark. While we outperformed in Q1, performance in Q2 lagged the benchmark by 2.86% due to losses in a few holdings (discussed later) and also due to an overweight in US equities and the accompanying USD exposure. Including July, the Desautels Global Equity Fund is up 10.89% YTD versus 12.02% for the benchmark.

Desautels Global Equity Fund (as of July 31, 2014)

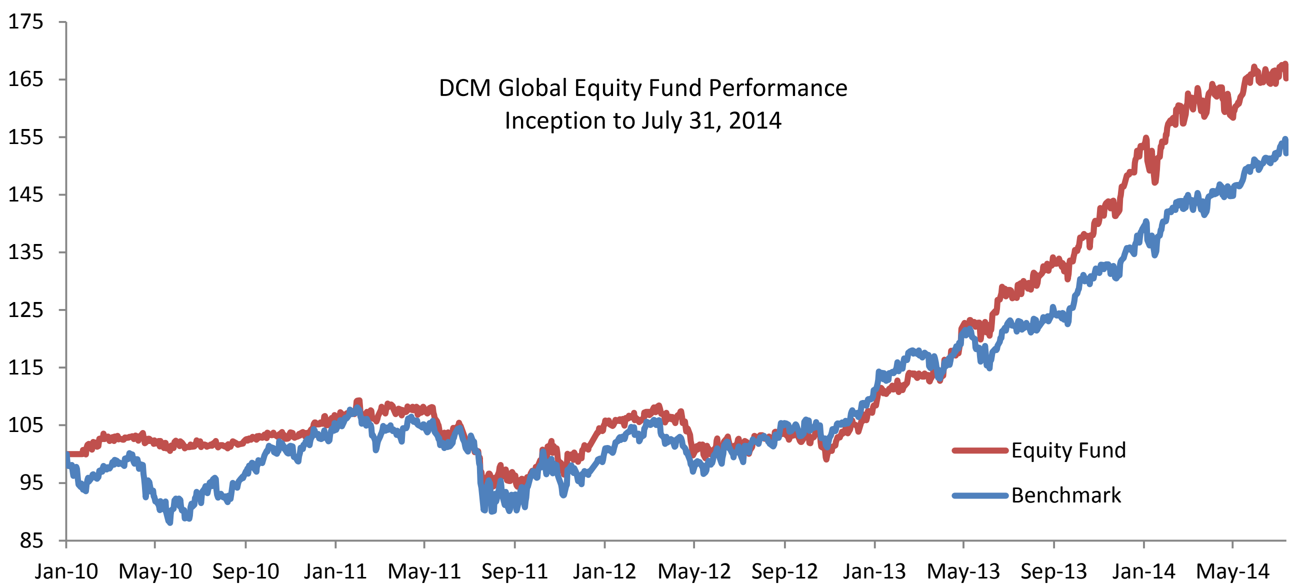
Time Period	DCM(gross fees)	Benchmark
1 month	0.42%	1.15%
3 month	1.35%	4.23%
2Q14	1.66%	4.51%
YTD	10.89%	12.02%
1 year	29.97%	25.51%
2 year (annualized)	27.57%	22.71%
Since inception (annualized)	11.68%	9.68%

YTD Performance Metrics

	DCM(gross fees)	Benchmark Return
Return	10.89%	12.02%
Annualized Std Dev	11.48%	8.82%
Annualized Sharpe Ratio	1.44	2.12
Beta	1.18	
Annualized Alpha	-5.35%	

Sector Weightings (as of July 31, 2014)

Sector	DCM	Benchmark	+/-
Technology	16.37%	8.84%	7.53%
Industrials	15.00%	8.92%	6.08%
Currency	2.47%	0.00%	2.47%
Consumer Staples	5.75%	5.39%	0.36%
Healthcare	7.04%	7.00%	0.04%
Consumer Discretionary	7.55%	7.94%	-0.39%
Telecom	3.34%	3.66%	-0.32%
Energy & Utilities	20.31%	22.25%	-1.94%
Metals & Mining	4.19%	8.74%	-4.55%
Financials	17.95%	34.67%	-9.29%



**Note: Performance is as of July 31, 2014, gross of fees. Benchmark is the MSCI World Index from inception to February 28, 2013 and 60% S&P TSX, 40% S&P 500(measured in CAD) blended benchmark thereafter. Fund inception date is January 20, 2010*

Equity Commentary and Outlook

Equity markets continued to rally in Q2, fuelled by strong economic data in the US and China, along with a widely held belief that central banks will keep interest rates low for an extended period of time. Indeed, a fresh round of ECB quantitative easing and solid job numbers and purchasing managers surveys from the US helped push global equities to all-time highs. This was achieved against a backdrop of remarkably low Q2 volatility (except in Japan as discussed later). The CBOE's VIX volatility index hovered around 11 in June, a level not seen since early 2007.

But this past week the S&P 500 posted its worst weekly performance since 2012 and the VIX spiked up to 17. So, are we on the brink of a market correction? We don't believe so. For one, equity valuations are still sensible. As discussed in our Q1 Newsletter the S&P 500 forward PE ratio, currently 16.5, is near historical average levels, which seems very reasonable to us given the current low interest rate environment. Market Bears, however, have noted that the Shiller PE ratio, based on 10-years of historical earnings, is quite high. While that may be true, the Shiller PE ratio is inflated by the extremely low earnings seen during the financial crisis. Thus, in our view the high Shiller PE ratio is not a sign that the market is overvalued, but rather a reflection of the fact that the financial crisis is behind us and that the US economy is on the road to recovery.

What about the recent spike in the VIX? At current levels (17 on Friday), we are still below the historical average level of around 20. Admittedly, the *trend* in the VIX is concerning. Prior to the financial crisis the VIX increased from a low of 11 in early 2007 to 20 before the market peaked in October. The VIX then went on to peak at 80 while the market crashed in H2 2008. But there is a big difference between then and now: leverage. Going into 2007 the S&P 500's net debt to EBITDA ratio was above 4, while currently it is below 2. Based on this, and the valuation arguments discussed above, we currently see no reason to go into defensive mode. If the VIX were to continue rising, however, we would have to reevaluate. A tail risk to consider at this point is an escalation of the turmoil in the Middle East and Ukraine. While we have no special insight on the geopolitical situations in these areas, our baseline assumption is that they will not spiral out of control and have a significant impact on equity markets.

In terms of positioning, we are currently allocated 60% in the US and 40% in Canada. This represents a non-negligible deviation from our benchmark, which is 60% S&P TSX and 40% S&P 500 (measured in CAD). While we primarily follow a bottom-up fundamental valuation approach, we also ensure that our positioning is consistent with our macro view.

Going into 2014, we were more bullish on the US economy than on the Canadian economy, both on an absolute basis, and on a relative-to-consensus basis. Indeed, that relative macro view has played out. But the US macro outperformance did not translate into a US stock market outperformance. As of July 31, the S&P TSX is up 12.5%, while the S&P 500 is up 4.5% in USD, and 7.1% in CAD. The resource heavy TSX benefitted significantly from rising oil prices amid conflicts in in the Middle East and Ukraine, and was also supported by the weaker Loonie YTD. Looking ahead, we remain comfortable with our overweight to the US, and underweight to Canada. The economic concerns that had worried us previously about Canada are best summed up in the words of Stephen Poloz during his mid-July policy speech as "serial disappointment". Although somewhat better than expected, Canadian exports have failed to fully recover, the labor and housing markets remain soft, and our concerns for Canada persist going to the second half of the year. Moreover, given the TSX's recent surge, valuations appear less attractive: the S&P TSX composite index PE ratio is 21.2, whereas the 10-year average is 17.6.

The Nikkei was the worst performing major equity market in H1, down 6.9%. But it has rebounded significantly since talk recently emerged of the government pension plan (the largest in the world) increasing its allocation to equities from 12% to potentially 20%. Indeed, many investors are already increasing their equity allocation in anticipation of such a move. The Nikkei's volatility, as measured by the VXJ, averaged 23.5 in H1, versus 13.8 for the VIX.

For further macro analysis see the Fixed Income section.

Holdings: Selected Winners and Losers

Whitecap Resources *– Up 35.1% in Q2*

Whitecap Resources Inc. is engaged in the acquisition, development, optimization and production of crude oil and natural gas in western Canada. The key points of our investment thesis were attractive valuation based on high netback, highest recycle ratio amongst peers, large drilling inventory, growth potential from core operating assets, lowest cost light-oil producer, competitive advantage and management capability.

Whitecap Q1 diluted cash flow per share of $0.50 was better than consensus estimate of $0.47. Q1 production of 26,508 boe/d was also close to the consensus estimate of 26,520 boe/d. Operating netbacks of $45.9/boe was up 3% from Q1 of 2013.

In May the company reiterated its 2014 production target of 31,600 boe/d. They highlighted that the Dunvegan drilling program has produced better than anticipated results and the company added two additional wells for the H2/14 drilling program.

Whitecap continued its acquisitive growth strategy during Q2, with the purchase of legacy oil assets worth $855 million from Imperial Oil in May. This deal was viewed favorably by the market as Whitecap rallied 16% to end the quarter following the purchase announcement on May 17.

Although the stock is up 33.7% in H1 and multiples have expanded, we believe that it continues to offer value relative to its larger oil focused peers. For example, Whitecap trades at a 2015 Enterprise Value to Debt Adjusted Cash Flow (EV/DACF) ratio of 6.8 compared to 7.3 for its peer group average. The discounted valuation compared to its peers, sound acquisitive strategy and organic growth support our continued favorable view on Whitecap.

Parex Resources *– Up 32.1% in Q2*

Parex Resources is a 100% oil weighted Canadian E&P company exploring and developing an asset base in Colombia. The stock is up 90.7% in H1. The initial investment thesis was that Parex was trading close its core NAV and this did not incorporate nearly all of the exploration and development growth potential. Another point was that there was an excessive discount priced into the stock due to the perceived geo-political risk of the Colombian E&P market. We viewed that as an attractive entry point as the stock effectively provided, in our view, a free call option on the company's promising growth prospects. Our investment thesis has been playing out well thus far.

The company recently announced the acquisition of Verano Energy, a privately owned Canadian E&P with operations in Colombia. This acquisition is expected to add 4.0 mb/d of production upon closing in late June. Parex's mid-year independent reserves evaluation shows an 80% 2P reserves growth from 32 million barrels of oil equivalent (MMboe) as of Dec 31, 2013 to 57.6 MMboe as of June 30, 2014.

Despite the 90.7% price increase in H1, and despite the fact that the stock is now trading at a 23% premium to its core NAV, we still believe that there is significant room for growth. The 81% increase in 3P reserves from 49.9 MMboe to 90.6 MMboe, overall increase in reserve life from 5 to 7 years, increase in 2014 production guidance (up 40% from previous year) to approximately 22,250 bo/d after the independent reserves evaluation, continue to reinforce our conviction on Parex. While we maintain a strong conviction, we did trim the position over Q2 as part of our portfolio risk management process.

Performance Sports Group Ltd (previously Bauer) *– Up 29.4% in Q2*

Performance Sports Ltd is a leading developer and manufacturer of ice hockey, roller hockey, lacrosse, baseball and softball sports equipment as well as related apparel. The company has the most recognized and strongest brands in these sports and is focused on building its leadership position by growing market share in all product categories and pursuing acquisitions.

The initial investment thesis included a compelling valuation and illiquidity discount, underdeveloped but growing lacrosse market and growth in sports apparel markets. The thesis was updated following the Feb 13, 2014 announcement that the company would be acquiring Easton Diamond Sports. The revised thesis included a multiple rerate, renewed and diversified growth opportunity and a leverage discount. The company has continued to outperform since the announcement and is up 29.4% in Q2.

In June the company closed a US$126.5 million US IPO and got listed on the NYSE. The proceeds of the IPO will be used to reduce leverage and repay approximately US$119.5 million of the company's term loan facility which was used to finance the recent acquisition of Easton.

A favorable valuation of 9.4 forward EV/EBITDA vs its peers at an average of 10.0x, strong free cash flow profile and significant positive counter-seasonal impacts and multi-sport platform from the Easton acquisition are seen as positives for the company. Another positive development is the recent signing of top NHL draft prospect Aaron Ekblad into the Bauer roster of athletes who will exclusively wear Bauer equipment. The above reasons reinforce our conviction in the company.

Yume *- Down 11.8% since purchase on April 28, 2014*

Yume is a digital video advertising producer. The key points to our investment thesis were the firm's superior technology, experienced management, low trading multiples, and a more positive outlook on growth than was being priced in by the market. We also felt that Yume had a proven platform with an impressive customer base, and would be in a strong position to benefit from growth in the video ad sector going forward.

There were also a number of potential risks associated with the investment, the most important of which was potential competition from giants like Google or Facebook. Other risks included failure to materialize its international growth strategy and a general decrease in online and mobile video ad spending.

Indeed, on July 2, Facebook announced that it would acquire LiveRail, Yume's competitor, for reportedly between $400 and $500 Million USD. While this new alliance will certainly increase competition in the space, we do not view it as a game changer. Actually, we view it as a sign that there is a strong demand that points to an increased growth in online ad spending.

YUME reported Q1 2014 earnings on May 13, reporting a loss of $0.16 versus consensus estimates of a $0.15 loss. At the same time CFO Tim Laehy stepped down. Both of these negative "surprises" caused an 8% after hours sell- off in the stock, an overreaction in our view.

The departure of the CFO was by no means a surprise to informed analysts as he was put into place to manage the firm's IPO process and has never stayed at a firm for more than 3 years. Missing EPS overshadowed some very positive news including revenue growth of 40% YoY, beating the estimate by 5.5% and an increase in average revenue per user (ARPU) of 3% while customer acquisitions grew by 37% YoY. Moreover, the nature of Yume's business and how their customers spend suggest that ARPU will continue to increase going forward. Customers tend to start small in their Yume advertising budget and once they see positive results they increase their budgets. This is to say that growth in the number of customers will often create downward pressure on ARPU in the short term but will shift upwards in the long run. Overall, the revenue and growth numbers were very positive and show signs of healthy growth in Yume's business.

In addition, sales and marketing spending growth outpaced revenue growth, which we expected, as the firm is aggressively targeting international expansion, sentiment echoed by the CEO in the earnings call. The firm managed to maintain very healthy gross margins and strengthened its cash position to $58.7 million, or roughly $2 a share.

In our view Yume still represents a severely undervalued company with massive growth potential in a somewhat misunderstood industry. Given the robust fundamentals, strong management and a sound business strategy we reiterate our strong conviction in Yume.

***Teradata**- Down 18.3% in Q2*

Teradata operates as a database management company in the technology industry. The company offers analytic data solutions through integrated data warehousing, big data analytics and business applications. Our initial investment thesis was that Teradata was in a strong position to capitalize on secular growth in data warehousing and analytics industry, and gain recurring revenues and healthy free cash flow margins from its consulting business.

The company was adversely affected by an IT spending downturn in H1. But the surge in the jobs numbers in the US economy coupled with high demand in technology should help Teradata turnaround from its recent slide. The expanding relationship with large technology vendors, improved traction from sales force expansion, new products, market share gains and a growing database analytics market should also help the company in the long run.

Teradata announced its Q1 earnings on May 8, beating estimates on revenue and EPS but lowering full year guidance to the lower end of their previous range, causing the stock to decline 10%. Upon analysis of the release and conference call we continue to reiterate our strong conviction in the stock. Teradata lowered guidance, as their revenue pipeline for Q2 seems less impressive than previously forecasted, mainly due to acceleration in deal closures being recognized in Q1. Other positives came from Teradata's big data analytics offering which are seeing strong demand, although they are still a small slice of the firms' revenues. Overall, we do not view the Q1 results as a weakening in the outlook for Teradata or the industry and remain confident in the investment thesis in the long run.

Geospace *- Down 16.7% in Q2*

Geospace technologies develops seismic measurement products for the oil industry. The past 18 months have been difficult for seismic surveyors, Geospace included, due to weakened demand. Our investment thesis was based on a turnaround in demand, particularly for Geospace's innovative wireless seismic equipment, and also on strong valuation metrics.

While Geospace has been a relative outperformer within the seismic subsector space since we bought the stock on March 24, it seems we entered the position too early and fell into a value trap. The stock is down 16.7% in Q2, down 39.7% since we initiated the position, and down 57.5% YTD.

Valuation metrics still look attractive: Forward PE ratio of 9.6 compared to 16.4 for the peer group average; P/CF ratio of 6.0 compared to 8.8 for the peer average; YoY sales growth of 56.8% compared to 7.4% for peer average. Of course, while these numbers look attractive, it is clear that if the low sector demand trend continues the stock will continue to slide. For the time being we maintain our allocation and await earnings announcement on August 7, after which we should have clearer outlook.

DCM Update

As the Fall 2014 semester approaches we are excited to officially welcome our dedicated new cohort of junior analysts. While our annual bootcamp weekend retreat is set for early September, new juniors have already been hard at work over the summer, analyzing our holdings so as to hit the ground running come September. We are already impressed with what we have seen and expect a strong contribution from them for the year ahead.

Faicy Aboobacker Hussain

MBA Analyst

Global Equity Fund Holdings

Equity Holdings (as of July 31, 2014)								
Security Name	Sector	Exposure	Shares	Purchase Price	Market Price	Market Value	% of Total
1 WELLS FARGO	Financials	US	2011	$ 32.50	$ 55.41	$ 111,434.11	6.51%
2 MEG ENERGY	Energy & Utilities	Canada	2380	$ 30.95	$ 39.10	$ 93,058.00	5.44%
3 PERFORMANCE SPORTS GROUP	Consumer Discretionary	Canada	4850	$ 11.66	$ 17.70	$ 85,845.00	5.02%
4 CONRAD INDUSTRIES	Industrials	US	1928	$ 12.55	$ 40.31	$ 77,722.90	4.54%
5 TERADATA	Technology	US	1650	$ 45.54	$ 45.90	$ 75,730.85	4.42%
6 ISHARES GLOBAL HEALTHCARE ETF	Healthcare	Global	700	$ 94.46	$ 101.65	$ 71,153.08	4.16%
7 PAREX RESOURCES INC	Energy & Utilities	US	4975	$ 4.72	$ 14.21	$ 70,694.75	4.13%
8 CAPITAL ONE	Financials	US	800	$ 72.44	$ 86.59	$ 69,272.98	4.05%
9 GENERAL MOTORS	Industrials	US	1855	$ 32.16	$ 36.82	$ 68,297.66	3.99%
10 LUNDIN MINING	Metals & Mining	Canada	10500	$ 4.85	$ 6.27	$ 65,835.00	3.85%
11 ISHARES S+P/TSX CAPPED FINANCIALS	Financials	Canada	2025	$ 29.17	$ 32.35	$ 65,508.75	3.83%
12 WHITECAP RESOURCES	Energy & Utilities	Canada	3850	$ 8.36	$ 15.87	$ 61,099.50	3.57%
13 UNION PACIFIC	Industrials	US	560	$ 79.89	$ 107.03	$ 59,934.10	3.50%
14 ISHARES GLOBAL CONSUMER STAPLE	Consumer Staples	Global	630	$ 91.31	$ 94.45	$ 59,504.30	3.48%
15 TAKE TWO INTERACTIVE SOFTWRE	Technology	US	2400	$ 16.03	$ 24.36	$ 58,473.57	3.42%
16 INTEL CORP	Technology	US	1530	$ 21.83	$ 36.89	$ 56,448.35	3.30%
17 BCE INC	Telecom	Canada	1100	$ 34.34	$ 49.38	$ 54,318.00	3.17%
18 ISHARES S+P/TSX 60 INDEX ETF	Equity Index	Canada	2300	$ 19.58	$ 22.29	$ 51,267.00	3.00%
19 ISHARES GLOBAL MATERIALS ETF	Industrials	Global	672	$ 59.09	$ 69.78	$ 46,893.82	2.74%
20 STMICROELECTRONICS	Technology	Eurozone	4975	$ 10.27	$ 8.97	$ 44,628.12	2.61%
21 YUME INC	Technology	US	6840	$ 7.59	$ 6.50	$ 44,454.81	2.60%
22 PULSE SEISMIC	Energy & Utilities	Canada	13948	$ 2.42	$ 3.02	$ 42,122.96	2.46%
23 INTESA SANPAOLO	Financials	Eurozone	2150	$ 22.52	$ 19.47	$ 41,849.88	2.44%
24 TJX COMPANIES	Consumer Discretionary	US	700	$ 66.15	$ 58.01	$ 40,609.91	2.37%
25 BMO EQUAL WEIGHT UTIL IDX ETF	Energy & Utilities	Canada	2525	$ 15.92	$ 15.32	$ 38,683.00	2.26%
26 COLABOR GROUP	Consumer Staples	Canada	9640	$ 4.27	$ 3.94	$ 37,981.60	2.22%
27 CUBIST PHARMACEUTICALS	Healthcare	US	515	$ 81.21	$ 66.30	$ 34,143.87	1.99%
28 GEOSPACE TECHNOLOGIES	Energy & Utilities	US	665	$ 75.45	$ 43.81	$ 29,131.84	1.70%
29 TSO3	Healthcare	Canada	18500	$ 1.32	$ 0.72	$ 13,320.00	0.78%
Total Funds Invested						**$1,669,417.71**	97.53%
Total Curency Holdings (CAD)	*Currency*					**$ 42,320.94**	2.47%
Total Fund NAV						**$1,711,738.65**	100.00%
Top 5 Holdings						$ 443,790.86	25.93%
Top 10 Holdings						$ 789,044.33	46.10%

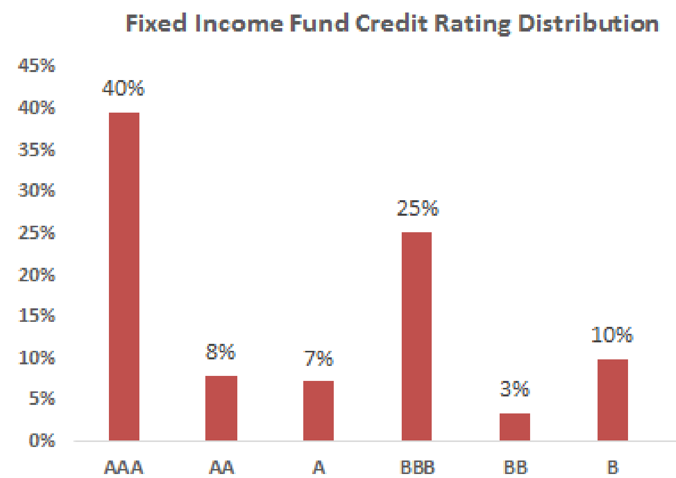
Fixed Income Fund

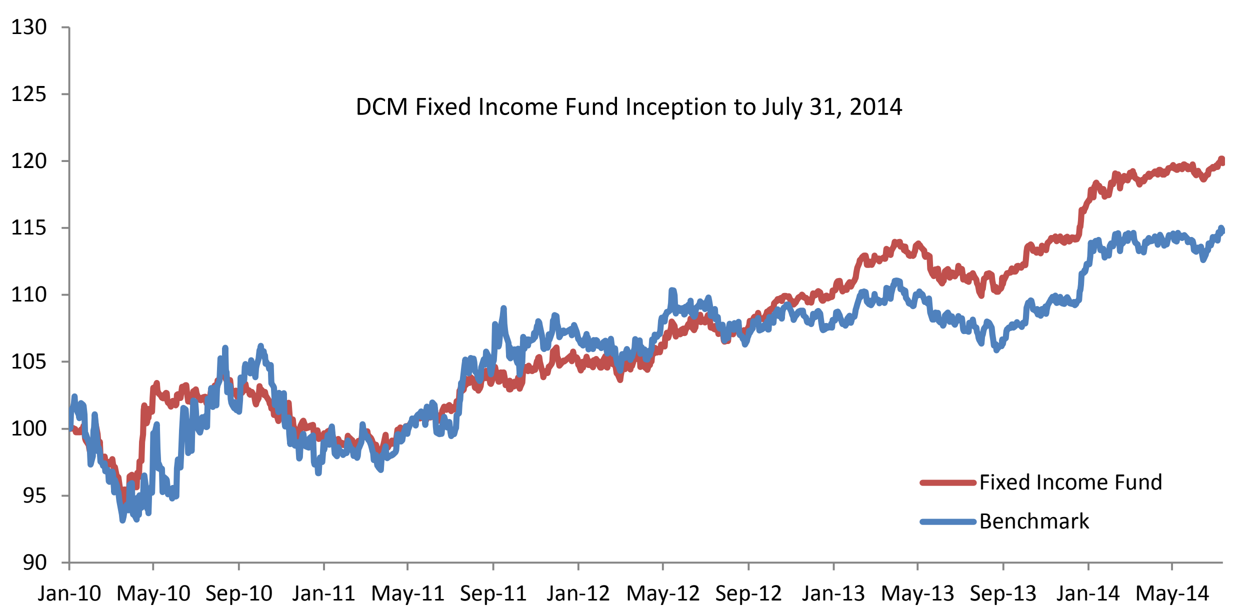
Dear Investor,

The Desautels Fixed Income Fund returned 0.32% gross of fees in Q2 2014 versus -0.16% for our blended benchmark. While fixed income markets performed strongly in local currency terms (due to falling yields and tightening spreads), the Loonie's 3.4% Q2 appreciation reduced performance in CAD terms (for our fund as well as the benchmark, both of which have an approximate 50% allocation to USD securities). Our Q2 outperformance is partially due to our allocation to high yield, which saw continued spread tightening in Q2, although HY spreads did spike in July. YTD, our fund and the benchmark are both up 5%, a very good performance thus far for the asset class.

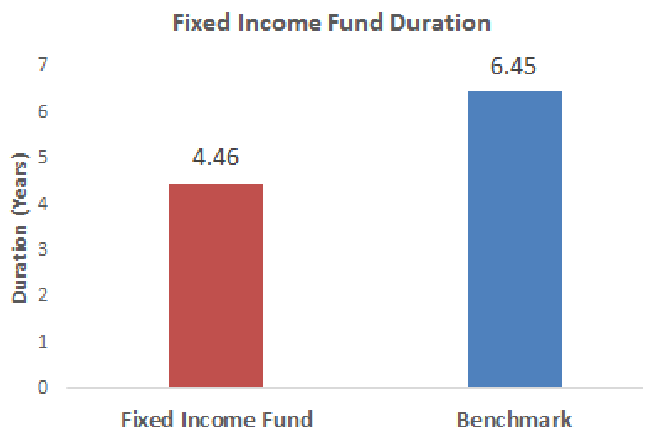
Desautels Fixed Income Fund (as of July 31, 2014)		
Time Period	DCM(gross fees)	Benchmark
1 month	0.73%	1.02%
3 month	0.61%	0.71%
2Q14	0.32%	-0.16%
YTD	5.01%	5.05%
1 year	7.78%	6.85%
2 year (annualized)	5.53%	2.79%
Since inception (annualized)	4.17%	3.16%

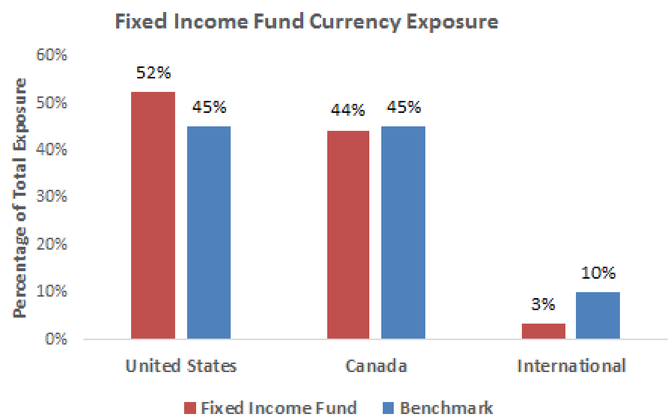
YTD Performance Metrics		
	DCM(gross fees)	Benchmark Return
Return	5.01%	5.05%
Annualized Std Dev	3.03%	4.02%
Annualized Sharpe Ratio	1.99	1.52
Beta	0.58	
Annualized Alpha	2.50%	





**Note: Performance is as of July 31, 2014, gross of fees. Benchmark is Citi World Bond Index from inception to Feb 8, 2011 and a 45%Barclays Aggregate Bond Index, 45% DEX Universe Bond Index, 10% Citi International Treasury Bond Index (all in CAD) blended benchmark thereafter. Fund inception date is January 20, 2010.*





Fixed Income Commentary and Outlook

Our strategy in H1 was to be short duration and overweight credit, including a position in High Yield. With regards to duration, we were concerned about tapering and a recovering US economy, and their rising impact on the long end of the yield curve. Indeed, tapering in the US seems to be on track, and the US economy has shown healthy signs of recovery, yet yields continue to drop. The US and Canadian 10-year yields both fell about 20bp in Q2, amid turmoil in the Ukraine and the Middle East, signs that central banks will remain accommodative, and aggressive US Treasury purchases by the Chinese government, who hold just over 10% of the $12tr US Treasury market. Our short duration position has hurt our relative performance this year and we will be looking to get a bit closer to the benchmark duration level. Nevertheless, we plan to remain short duration for the time being. In our view, the extra carry earned at the long end of the curve is not enough to compensate for the risk of a sudden rise in yields should central bankers change their tone.

With regards to credit, we have been overweight relative to our benchmark, including a 10% allocation to a High Yield ETF. These views were based on our conviction of a healthy economic recovery in the US as well as strong corporate balance sheets. US HG spreads were roughly unchanged in Q2, while US HY tightened 19bp in Q2. But HY spreads spiked 61bp in July following Fed Chairwomen Yellen's remark that valuations "appear stretched" and significant outflows from High Yield funds. There are reasons, however, to believe that the pullback may be temporary. For one, the short interest ratio in our HY ETF has shot up to 10, compared to 5 at the start of the year. A round of short-covering could see the ETF price spike back up. Nevertheless, given the increased volatility of the HY asset class we will be taking part profits on the position over the next few days and trimming our allocation.

North America Macro Views

Q2 US GDP expanded at a 4% annualized rate after shrinking 2.1% in Q1. The tapering of the bond buying program is on pace to end by October. However, it remains an open question as to when the Fed will raise interest rates. Lower than expected unemployment (6.1%), increasing consumer confidence, an increase in industrial demand and the pickup in inflation could motivate the fed to raise rates earlier than expected and is another reason for us to remain short duration.

Of note in the US, the Purchasing Managers Index (PMI) rose to 57.3 in June, the highest reading since May 2010. (A reading above 50 signals expansion in economic activity.) Factory output, order books and payroll numbers rose at some of the fastest rates we've seen since the recession, rounding off the best quarter for four years in terms of manufacturing expansion. In addition, the trade deficit narrowed 5.6% to $44.4billion in May helped by record exports.

To be sure, there are risks to the US economy. The number of housing permits issued has flattened, suggesting residential construction will only provide a modest support for GDP growth this year. Indeed, this has contributed to a decline in homebuilder stocks.

Overall we are reasonably convinced that the US economic recovery is strengthening, in line with our previous outlook detailed in our Q1 Newsletter.

We remain cautious on the Canadian economy. The labour market in Canada lags behind that of the US and housing starts and existing home sales continue to show signs of weakness. On the positive side, export data has come in better than we expected and inflation levels appear to be within the BoC's target range. All in all, we expect Canadian GDP to remain steady at around 2.5% for the coming quarters and we don't expect the BoC to raise the overnight rate before the second half of 2015.

Eurozone Macro Views

The Eurozone continues to face deflation risk given the fragile recovery, credit contraction, results of the banking stress tests and the situation in Ukraine. Though the region has been expanding, we have noticed signs of a slowing recovery. Weaker economic data from Eurozone manufacturing and low inflation support the view that the ECB might lower interest rates to help the region avert deflation.

Joblessness in the area, which remains close to the record high of 12% seen last year, is expected to fall very slowly from current levels to 11.4% next year. Joblessness differs widely across the Eurozone with Greece and Spain struggling with unemployment rates above 25% while Germany and Austria are at the low end with 5.1% and 4.7%, respectively. Youth unemployment is another worrying phenomenon in the region as it stood at 23.3% in May.

The ECB was forced to act aggressively by cutting deposit rates into negative territory as well as enacting measures to add liquidity to the banking system and ease measures for credit creation. However, the strong Euro makes it harder for us to be very optimistic about Eurozone growth prospects in the short term. We are, however, optimistic about Eurozone in the long term. We expect the recovery to accelerate in the year ahead with modest increase in inflation and also expect the unemployment rate to glide lower as the recovery takes hold.

Emerging Markets

The J.P. Morgan Global Emerging Market Bond Index is up 8.91% YTD and we see continued value in this space. Many EM currencies are artificially undervalued in our view following the selloff in late 2013. A renormalization of exchange rates would be an added bonus for EM bonds.

While some investors might be spooked by the recent Argentinian default, we believe there are still attractive opportunities in the EM bond space. Some countries in particular, Brazil, Mexico, Colombia, and Indonesia to name a few, have strong fundamentals and a very good capacity to repay their debts. Indeed, many of these countries are net creditors whose international reserves exceed their external debt.

China

China, the world's second largest economy, grew 7.5% in 2Q14 slowing from a 7.7% pace in 2Q13. The economic data coming out of China has been mixed. New construction in China has fallen 22% and home sales have slumped 7.8% this year. China's Purchasing Managers Index (PMI) rose to 52 from 50.7 in June. With the housing sector slowing, policy makers have enacted structural reforms and a series of mini-stimulus measures in an effort to rebalance the economy away from credit and investment spending. As with other regions, only a modest improvement in growth appears likely.

Finally, we would like to thank our investors for their continued support of our program. Working as a full time analyst for DCM over the summer has been an incredible learning experience and I look forward to a great year ahead.

Sincerely,

Faicy Aboobacker Hussain
MBA Analyst

Fixed Income Fund Holdings

Fixed Income Holdings (as of July 31, 2014)							
	Security Name	Units	Purchase Value	Market Price	Market Value	% Market Value	Duration
1	ISHARES MBS ETF	550	$ 58,706.54	$ 117.11	$ 64,408.34	14.4%	5.4
2	SPDR BARCLAYS HIGH YIELD BOND	1,000	$ 39,400.43	$ 44.14	$ 44,144.76	9.9%	4.4
3	ISHARES CANADIAN HYBRID CORP UNIT	1,900	$ 39,602.19	$ 21.18	$ 40,242.00	9.0%	5.7
4	PROVINCE OF ALBERTA	40,000	$ 39,816.00	$ 99.79	$ 39,915.62	8.9%	7.7
5	ISHARES 3 7 YEAR TREASURY BOND	300	$ 37,618.06	$ 131.85	$ 39,553.92	8.9%	4.6
6	BANK OF AMERICA	34,000	$ 32,537.82	$ 107.59	$ 36,579.53	8.2%	2.8
7	MORGAN STANLEY	30,000	$ 29,280.00	$ 107.11	$ 32,134.91	7.2%	2.6
8	BMO SHORT PROVINCIAL BOND INDEX	1,465	$ 22,036.92	$ 14.32	$ 20,978.80	4.7%	3.1
9	BMO LONG FEDERAL BOND INDEX	1,100	$ 19,416.59	$ 16.98	$ 18,678.00	4.2%	14.8
10	AIMIA INC	16,000	$ 17,782.40	$ 110.60	$ 17,696.44	4.0%	2.5
11	CI INVESTMENTS	17,000	$ 17,464.10	$ 103.11	$ 17,528.50	3.9%	1.6
12	NEWALTA	15,000	$ 15,468.75	$ 103.23	$ 15,484.38	3.5%	2.8
13	WISDOMTREE BRAZILIAN REAL	700	$ 14,095.17	$ 20.73	$ 14,509.53	3.3%	0.0
14	CANADA HOUSING TRUST	13,000	$ 14,485.90	$ 110.11	$ 14,314.70	3.2%	6.3
15	Currency Holdings				$ 30,024.49	6.7%	0.0
Total Funds Invested					**$ 416,169.43**	**93.3%**	**4.46**
Total NAV					**$ 446,193.92**	**100.00%**	
Top 5 holdings					*$ 228,264.64*	*51.16%*	
Top 10 holdings					*$ 354,332.32*	*79.41%*	

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