2019 HIM ANNUAL REPORT

DESAUTELS Capital Management
Gestion de capitaux

"An investment in knowledge pays the best interest."

\- Benjamin Franklin

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A MESSAGE FROM THE STRATEGISTS

Dear Investors,

On behalf of the current Honours in Investment Management class, we would like to thank you for your continued support and guidance. Having the opportunity to manage the DCM funds is an incredible experience, and it would not be possible without your investments and confidence in our program.

Desautels Capital Management celebrated its 10th anniversary in 2019. Both the Global Equity and Fixed Income Funds have come a long way since their inception, and we are proud to say the program is in better shape than ever. Many aspects of the program have improved since 2009, and it still represents the best of what experiential learning should be.

Once again, HIM students placed exceptionally well in both summer internships and full-time positions. At the end of this school year, our students will be working in investment banking, consulting, asset management and private equity. We are also proud to say that DCM's international reach is ever increasing, with students securing positions this year in New York, London, Toronto, Montreal, Calgary, Houston and Los Angeles. This would never be possible without the support of our alumni network, which keeps growing and to whom we are very thankful (see page 118 for a full list of HIM alumni).

HIM students have historically performed very well in case competitions, and 2019 was no exception. For the third time in the last five years, a team composed of HIM students won the National Investment Banking Competition. This past year's team, composed of Émilie Granger, Tejas Saggi, Eric Van Hees and Kyle Costanzo, placed first out of several hundred teams from around the world. We had great success in other competitions as well, with Roy Zhang, Ian Jiang, Émilie Granger and Ludovic Van Den Bergen winning the PRMIA Risk Management Challenge.

The HIM program saw a few changes in 2019. After co-founding DCM and helping it grow over the last decade, Ken Lester retired. He had tremendous influence in shaping the program, and we are very thankful for the time and effort he devoted to DCM. He has been replaced by Professor Jiro Kondo, who joins Professor Vadim di Pietro as a program mentor. Jiro has been of great help, bringing a fresh perspective to the investment process. We also created a new Risk and Analytics team this year. The team will continue to oversee and improve our risk management practices, but will also take a more active role in the investment process. The goal is to incorporate more quantitative methods in our investment approach. As an example, we recently valued a mining company using a simulation-based real options approach.

We speak on behalf of the entire program when we say that we are proud of what we have learned and accomplished this past year. Looking ahead, the program is in great hands, with an excellent group of dedicated Juniors coming back for their Senior year, led by newly elected strategists Darius Kuddo and Lauren Kirigin. Again, all of this would not be possible without the support of our investors and alumni. We would like to extend a special thank you to Ken Lester, Vadim di Pietro, Anisha Ghosh, and Jiro Kondo for their help and encouragement.

Yours truly,

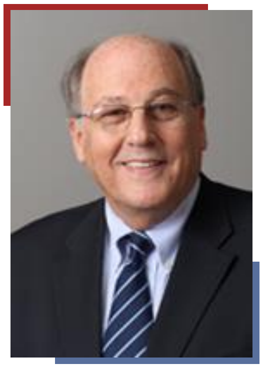
Stanislav Timoshenko,
Fixed Income Strategist

Rakan Lamy,
Global Equity Strategist

EXECUTIVE TEAM

DESAUTELS Capital Management Gestion de capitaux

EXECUTIVE TEAM

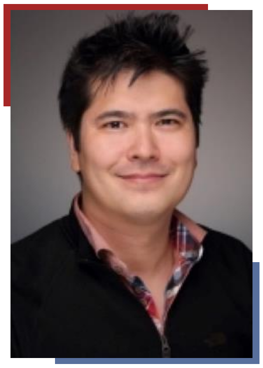


Morty Yalovsky | President

Professor Morty Yalovsky is the President of Desautels Capital Management. He joined the faculty in 1974, and in addition to his academic responsibilities, he has assumed several senior administrative roles, including Vice-Principal (Administration and Finance) at the University level. Professor Yalovsky's research interests include Statistical Methodology, Forecasting Methods, and Modeling. He has also consulted in the areas of Applied Statistics and Information Technology for several leading Canadian corporations.

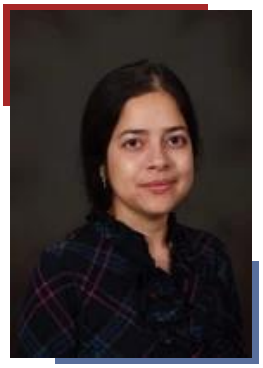
Vadim di Pietro | Co-Chief Investment Officer

Professor di Pietro is Co-Chief Investment Officer, Chief Compliance Officer, and registered Advising Representative for Desautels Capital Management. He joined the Faculty of Management in 2009. Prior to Desautels, Vadim was an investment strategist at J.P. Morgan in London from 2007 to 2009. He holds a B.Eng. from McGill University, a Master's in Mathematical Finance from the University of Toronto, and a PhD in Finance from the Kellogg School of Management. Vadim is also a CFA charterholder.



Jiro Kondo | Co-Chief Investment Officer

Professor Kondo joined the Finance group at the Desautels Faculty of Management in 2012 after having served on the faculty at Northwestern University's Kellogg School of Management. Prior to becoming an academic, he was a proprietary trader at Goldman Sachs. He holds an undergraduate degree in Economics from Princeton University and a PhD in Financial Economics from MIT's Sloan School of Management.



Anisha Ghosh | HIM Academic Director

Professor Ghosh joined the Desautels Faculty of Management in 2017, having formerly been a faculty member in the finance area at Carnegie Mellon University's Tepper School of Business. Professor Ghosh's research lies at the interface of macroeconomics and finance and has been published in, among other journals, the Journal of Finance and the Review of Financial Studies. She holds a PhD in Economics from the London School of Economics.

BOARD OF DIRECTORS

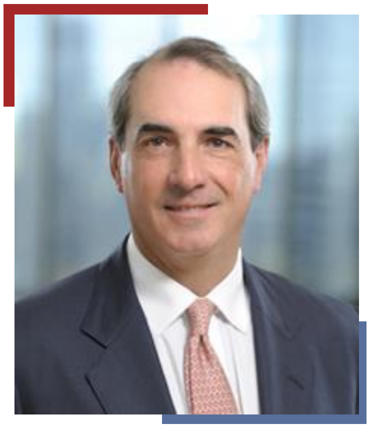
DESAUTELS Capital Management
Gestion de capitaux

BOARD OF DIRECTORS

Yves Caron | Director, Investments

Caisse de dépôt et placement du Québec

Prior to his current role, Mr. Caron was Vice President at iNFiNi-t Wealth Management Advisers Inc, and prior to that he spent 10 years managing alternative investment portfolios for institutional investors globally at HR Strategies Inc.



Eamonn McConnell | Portfolio Manager

Kensington Capital

Mr. McConnell is a member of the Kensington Investment Committee and is the Kensington advising representative. Mr. McConnell is also an equity partner of Gryphus Capital, a Private Equity firm he co-founded in 2002 based in Singapore and was the Deputy Chairman of the Alternative Investment Management Association (AIMA) Canada from 2008 to 2013.

Richard Pan | VP and Head of Corporate Finance

Power Corporation

Mr. Pan is currently Vice-President and Head of Corporate Finance and is responsible for strategic and corporate planning at Power Corporation and at Power Financial. Before joining Power Corporation in 2008, Mr. Pan was an Executive Director in Investment Banking with Goldman Sachs International based in London, England.

OUR TEAM

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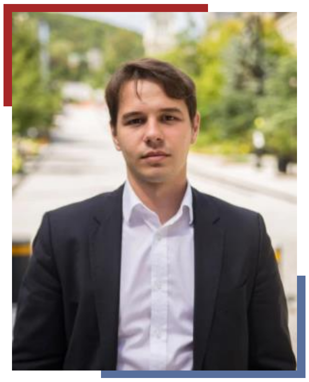
HIM EXECUTIVES

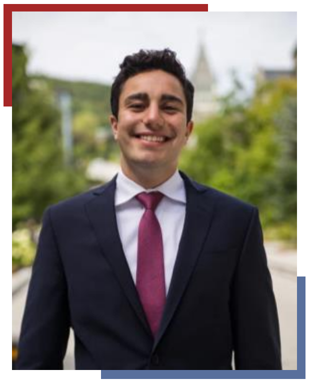
Rakan Lamy | Global Equity Strategist

- Investment Banking Analyst
  RBC Capital Markets, Montreal (Incoming 2020)
- Investment Banking Summer Analyst
  RBC Capital Markets, Montreal, Summer 2019
- Private Equity Summer Analyst
  Novacap Investments, Montreal, Summer 2018



Stanislav Timoshenko | Fixed Income Strategist

- Rotational Analyst
  CPPIB, Toronto (Incoming 2020)
- Active Equities Summer Analyst
  CPPIB, Toronto, Summer 2019
- Fixed Income Summer Analyst
  Lester Asset Management, Montreal, Summer 2018



Jared Gaffe | Chief Operating Officer

- Associate Consultant
  Bain & Company, Toronto (Incoming 2020)
- Associate Consultant Intern
  Bain & Company, Toronto, Summer 2019
- Counsellor
  Camp Ramah, Utterson, Summer 2018

Andrew Guerrand | Risk Manager

- Founder
  Eurotas Investments, Montreal, Summer 2018 - Now
- Quantitative Analyst
  Insula Investments, London, Summer 2019
- Young Scholar
  Institute for New Economic Thinking, London, Summer 2018

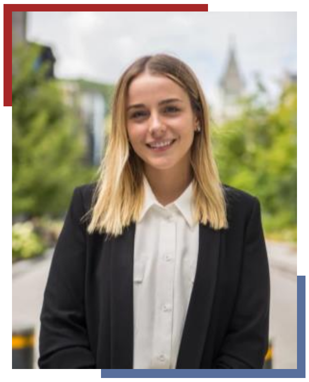
CONSUMERS

Selena Zhu | Senior Analyst

- Investment Banking Analyst
  Lazard, Los Angeles (Incoming 2020)
- Investment Banking Summer Analyst
  Lazard, Los Angeles, Summer 2019
- Private Equity & Alternative Investments Summer Analyst
  Palomino Capital Corporation, Montreal, Summer 2018

Kanishk Shah | Junior Analyst

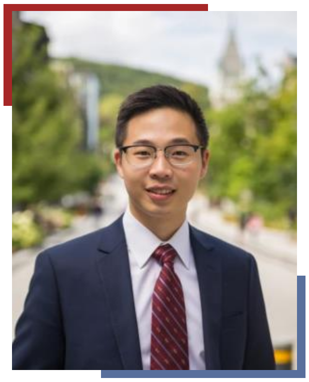
- Private Equity Summer Analyst
  Goldman Sachs, London (Incoming Summer 2020)
- Private Equity Summer Analyst
  Altas Partners, Toronto, Summer 2019
- Private Equity Summer Analyst
  Novacap Investments, Montreal, Summer 2018



Alexandra Tremblay | Junior Analyst

- Investment Banking Summer Analyst
  BMO Capital Markets, Montreal (Incoming Summer 2020)
- Rotational Summer Analyst, Capital Markets
  BMO Capital Markets, Montreal, Summer 2019
- Private Equity Analyst
  BDG & Partners, Montreal, Winter 2019

DIVERSIFIED INDUSTRIALS



Timothy Sung | Senior Analyst

- Private Equity Summer Analyst
  Novacap Investments, Montreal, Summer 2019
- Management Intern, Private Banking Group
  DBS Bank, Hong Kong, Summer 2018

Maxime Barbeau-Di Meo | Junior Analyst

- Summer Intern
  Mackenzie Investments, Montreal (Incoming Summer 2020)
- Summer Insurance Intern
  EgR, Montreal, Summer 2019

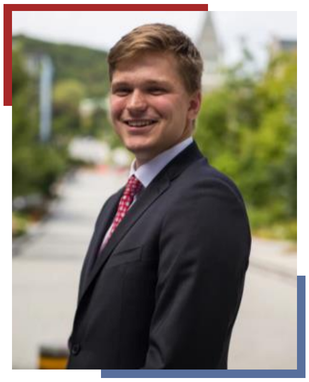
Hashaam Nadeem | Junior Analyst

- Summer Accounting Intern
  MRE Partners, Mississauga, Summer 2019

Serge Krikorian | Junior Analyst

- Private Equity Summer Analyst
  Novacap Investments, Montreal, (Incoming Summer 2020)
- Private Equity Fall Analyst
  Novacap Investments, Montreal, Fall 2019
- Sales and Solutions Specialist
  CIBC, Montreal, Summer 2018

ENERGY & UTILITIES

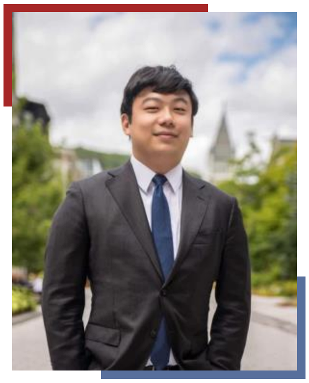


Alessio Marcogliese | Senior Analyst

- Investment Banking Analyst
  RBC Capital Markets, Calgary (Incoming 2020)
- Investment Banking Summer Analyst
  RBC Capital Markets, Calgary, Summer 2019
- Summer Associate
  Pricewaterhouse Coopers, Montreal, Summer 2018

Riley Wolever | Senior Analyst

- Investment Banking Summer Analyst
  Barclays, Calgary (Incoming Summer 2020)
- Private Equity Summer Analyst
  Ulysses Management, New York, Summer 2019
- Summer Intern, Billing Department
  Fortis Alberta, Calgary, Summer 2018



Zhao Kang Chen | Junior Analyst

- Investment Banking Summer Analyst
  Evercore, Houston (Incoming Summer 2020)
- Commercial Banking Summer Analyst
  Scotiabank, Ottawa, Summer 2019
- Communication and Information Systems Specialist
  Canadian Armed Forces, 34th Signal Regiment, 2016-2019

Duncan McHattie | Junior Analyst

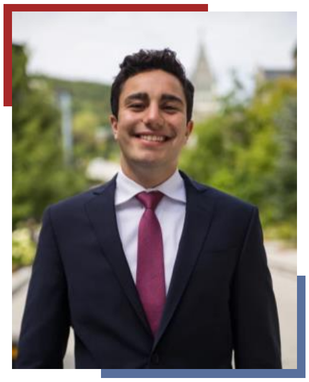
- Operational Due Diligence Intern
  PSP Investments, Montreal, (Incoming Summer 2020)
- Camp Counsellor
  Gryphon Activities Camp, Guelph, Summer 2019

FINANCIAL INSTITUTIONS

(Senior Analysts)

Miller Cressman | Senior Analyst

- Fundamental Investments Analyst
  CPPIB, Toronto (Incoming 2020)
- Private Equity Summer Analyst
  Novacap Investments, Toronto, Summer 2019
- Financial Analyst
  L'Oréal Canada, Montreal, Summer 2018



Jared Gaffe | Senior Analyst

- Associate Consultant
  Bain & Company, Toronto (Incoming 2020)
- Associate Consultant Intern
  Bain & Company, Toronto, Summer 2019
- Counsellor
  Camp Ramah, Utterson, Summer 2018

FINANCIAL INSTITUTIONS

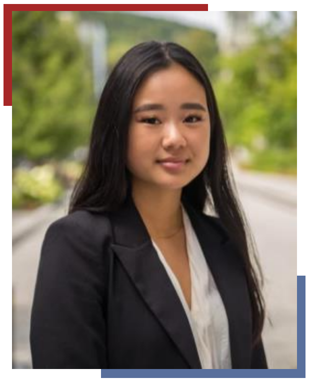
(Junior Analysts)

Frédéric Lam | Junior Analyst

- Associate Consultant Intern
  Boston Consulting Group, Montreal (Incoming Summer 2020)
- Business Strategy and Transformation Summer Analyst
  Cirque du Soleil Entertainment Group, Montreal, Summer 2019

Marc Latif | Junior Analyst

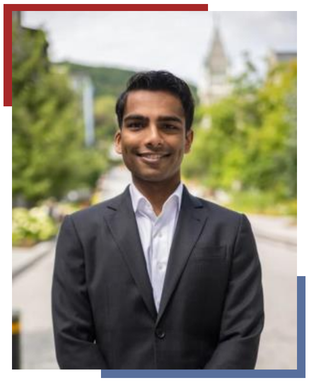
- Private Equity Summer Analyst
  Novacap Investments, Montreal (Incoming Summer 2020)
- Private Equity Summer Analyst
  BPE Partners, Cairo, Summer 2019
- Corporate Finance Summer Intern
  KPMG, Cairo, Summer 2018



Shelly Qian | Junior Analyst

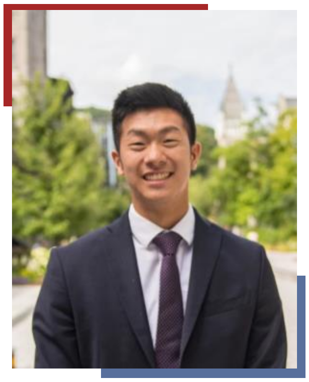
- Investment Banking Summer Analyst
  LionTree, New York (Incoming Summer 2020)
- Business Analyst
  RBC, Toronto, Summer 2019
- Member Development and Support Intern
  CPA Canada, Toronto, Summer 2018

HEALTHCARE



Arasan Thangavelu | Senior Analyst

- Investment Banking Analyst
  RBC Capital Markets, Toronto (Incoming 2020)
- Investment Banking Summer Analyst
  RBC Capital Markets, Toronto, Summer 2019
- Corporate Banking Summer Analyst
  J.P. Morgan, Toronto, Summer 2018



Jesse Li | Junior Analyst

- Private Equity Summer Analyst
  Ulysses Management, New York (Incoming Summer 2020)
- Corporate Strategy and M&A Analyst
  BRP, Montreal, Summer 2019
- Business Analyst
  Scotiabank, Toronto, Summer 2018

Sean McNally | Junior Analyst

- Private Equity Summer Analyst
  Altas Partners, Toronto (Incoming Summer 2020)
- Investment Banking Summer Analyst
  National Bank Financial, Montreal, Summer 2019

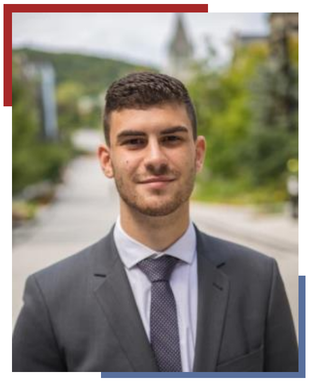
TECH, MEDIA & TELECOM

Cody Jones | Senior Analyst

- Investment Banking Analyst
  LionTree, New York (Incoming 2020)
- Investment Banking Summer Analyst
  LionTree, New York, Summer 2019
- Client Portfolio Analyst
  Assante Wealth Management, Halifax, Summer 2018

Amine Kabbadj | Junior Analyst

- Investment Banking Summer Analyst
  Barclays, Toronto (Incoming Summer 2020)
- Venture Capital Summer Analyst
  BDC Capital, Montreal, Summer 2019



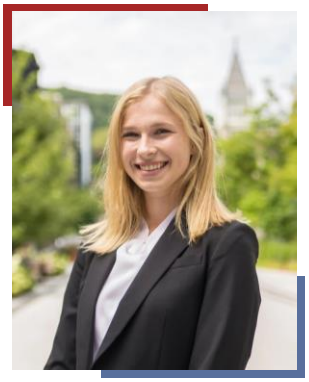
Paul Mangoni | Junior Analyst

- Investment Banking Summer Analyst
  HSBC, New York (Incoming Summer 2020)
- Summer Intern
  Gildan, Montreal, Summer 2019

FIXED INCOME

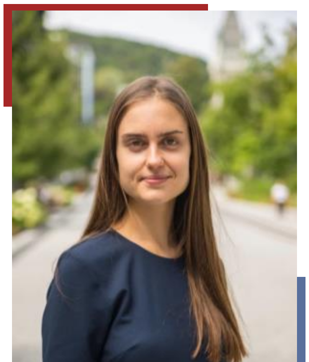
Benjamin Caron | Senior Analyst

- Associate Consultant
  Bain & Company, Toronto (Incoming 2020)
- Investment Banking Summer Analyst
  TD Securities, Montreal, Summer 2019
- Summer Analyst
  BMO Nesbitt Burns, Montreal, Summer 2018



Lauren Kirigin | Junior Analyst

- Investment Banking Summer Analyst
  Credit Suisse, Toronto (Incoming Summer 2020)
- Capital Markets Non-Trading Risk Analyst
  CIBC, Toronto, Summer 2019



Ekaterina Semenova | Junior Analyst

- Investment Banking Summer Analyst
  RBC Capital Markets, Toronto (Incoming Summer 2020)
- Accounting Officer Intern
  Scotiabank, Montreal, Summer 2019

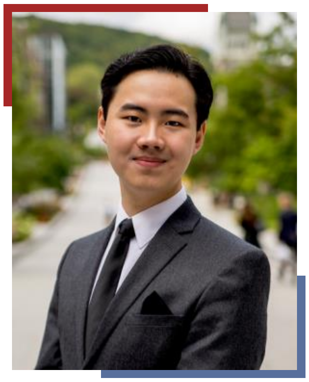
Sisi Wang | Junior Analyst

- Investment Banking Summer Analyst
  Morgan Stanley, Toronto (Incoming Summer 2020)
- Summer Analyst
  Knightstone Capital, Toronto, Summer 2019

RISK & ANALYTICS

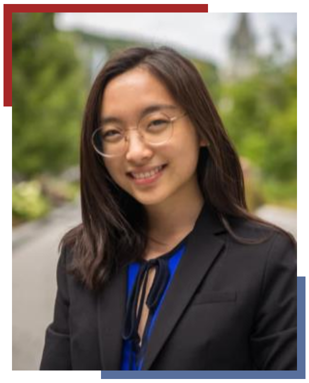
Andrew Guerrand | Senior Analyst

- Founder
  Eurotas Investments, Montreal, Summer 2018 - Now
- Quantitative Analyst
  Insula Investments, London, Summer 2019
- Young Scholar
  Institute for New Economic Thinking, London, Summer 2018



Roy Chen Zhang | Senior Analyst

- Finance Researcher, Market Volatility
  Desmarais Global Finance Research Center, Montreal, 2019-Present
- Capital Markets Summer Analyst
  Haitong Securities, Hong Kong, Summer 2018
- Private Equity Summer Analyst
  Hezhong Investments, Shenzhen, Summer 2018



Jinghong Lin | Junior Analyst

- Investment Banking Summer Analyst
  LionTree, New York (Incoming Summer 2020)
- Wealth Management Summer Intern
  Oceanpath, Montreal, Summer 2019

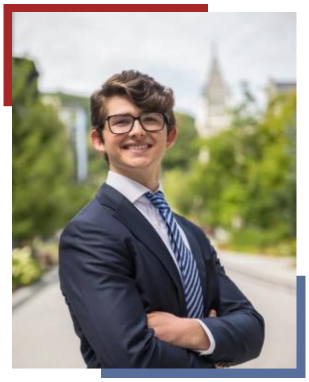
Darius Kuddo | Junior Analyst

- Management Consulting Intern
  Monitor Deloitte, Toronto, (Incoming Summer 2020)
- Treasury Intern
  Transurban, Virginia, Summer 2019
- Software Developer
  Artem Leadership Institute, Hyattsville, 2017-2018

ECONOMIC ANALYSIS

Andrew Guerrand | Senior Analyst

- Founder
  Eurotas Investments, Montreal, Summer 2018 - Now
- Quantitative Analyst
  Insula Investments, London, Summer 2019
- Young Scholar
  Institute for New Economic Thinking, London, Summer 2018



Seth Obadia | Junior Analyst

- Investment Banking Summer Analyst
  Barron International Group, New York, Summers 2018 & 2019
- Marketing Intern
  CultureSonar, New York, Summer 2017

GLOBAL EQUITY FUND

Rakan Lamy | Global Equity Strategist

GLOBAL EQUITY FUND
PERFORMANCE SUMMARY

Dear Investors,

The Global Equity Fund returned 15.9% gross of fees in 2019, compared to 23.3% for our blended benchmark (60% S&P TSX, 40% S&P 500 in CAD). Since inception in January 2010, the Global Equity Fund has produced an annualized alpha of 0.2% (see Figure 3 next page).

Most of our underperformance stemmed from poor security selection (see Figure 2). A few of our holdings collapsed because of idiosyncratic events, such as Eros being downgraded to default and Grubhub significantly missing its Q3 revenue estimates, which widened the gap in a year where our benchmark is up by over 20%. Despite this, we have also placed several trades that paid off well: Teladoc rose 69.9% over the year while Summit Materials skyrocketed 92.7%.

We have reshuffled our holdings over the fall semester and are confident the fund is now in great shape for a 2020 comeback. In fact, the Global Equity fund has returned 9.4% over the last 4 months of the year vs. 6.1% for our benchmark (see Figure 4), which results in positive alpha even when taking into account the fund's annualized beta of 1.3 for the full year. Further details on our holdings and investment theses are provided in the sector sections that follow.

Figure 1: DCM Sector Excess Return vs. Benchmark

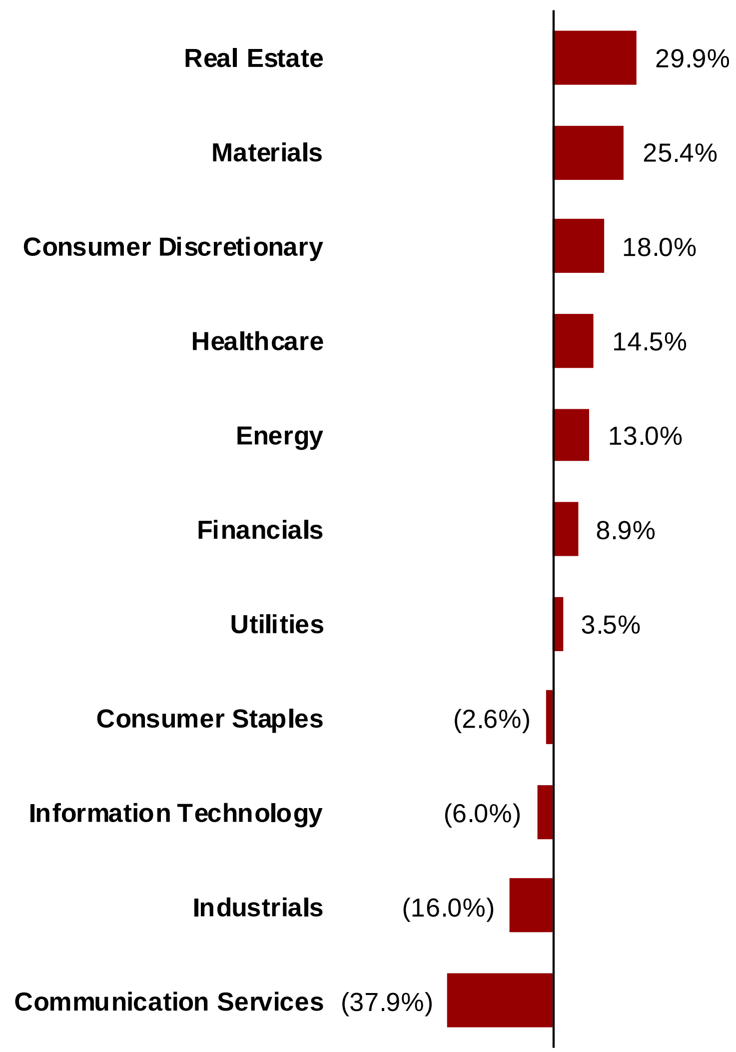
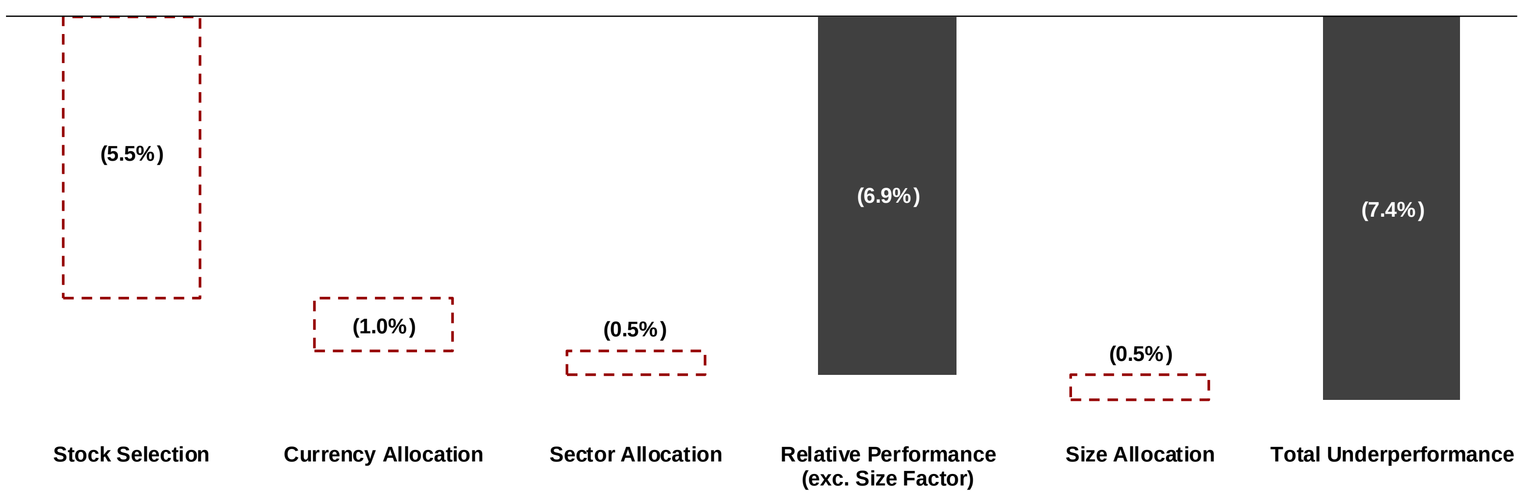


Figure 2: DCM Relative Performance Attribution



GLOBAL EQUITY FUND
PERFORMANCE SUMMARY

Figure 3: Global Equity Fund Returns

PERFORMANCE METRICS SINCE INCEPTION	Equity Fund	Benchmark
Annualized Return	8.2%	9.2%
Annualized Std Dev	12.1%	10.8%
Annualized Sharpe Ratio	0.48	0.63
Beta	0.82	
Annualized Gross Alpha	0.2%	
Weekly Tracking Error	1.1%	

Performance metrics are calculated gross of fees.

EQUITY PERFORMANCE METRICS 2019	Equity Fund	Benchmark
Return	15.9%	23.3%
Annualized Standard Deviation	11.2%	7.4%
Sharpe Ratio	1.20	2.84
Beta	1.31	
Alpha	(14.0%)	
Tracking Error	0.8%	

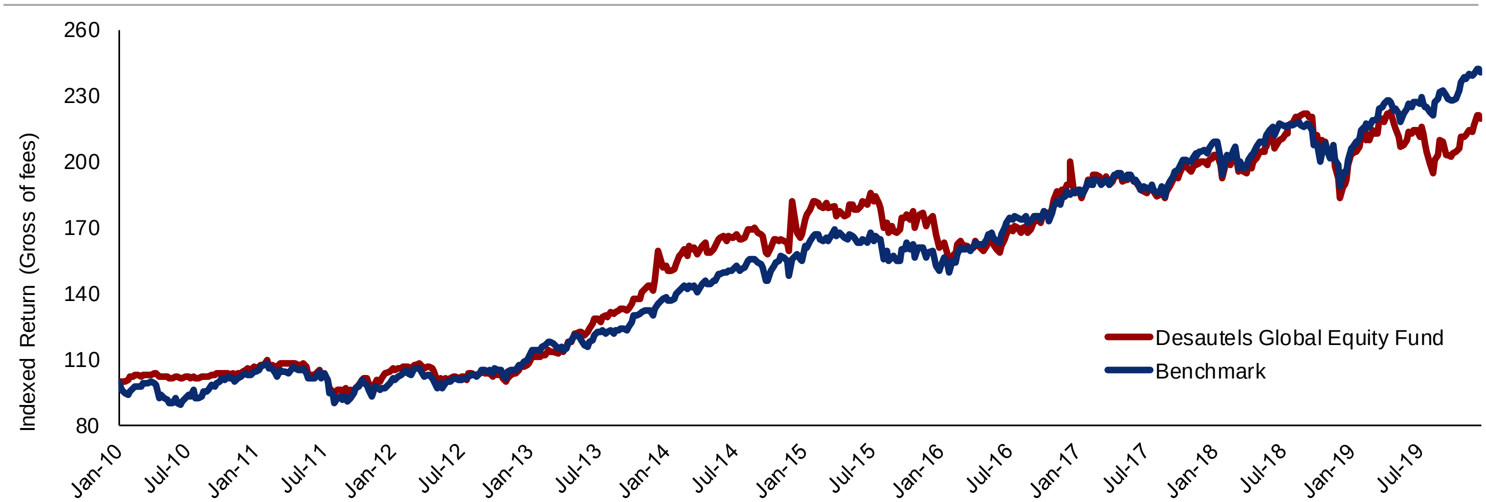
Performance metrics are calculated gross of fees.

Figure 4: Global Equity Fund 2019 Monthly Returns

GLOBAL EQUITY FUND RETURNS				As of Dec 31, 2019
Time Period	Gross Return	Net Return	Benchmark	(+/-)
YTD Return	15.9%	14.3%	23.3%	(7.4%)
Dec-19	2.5%	2.5%	0.5%	2.0%
Nov-19	4.8%	4.6%	4.8%	(0.0%)
Oct-19	0.7%	0.6%	(0.7%)	1.4%
Sep-19	1.2%	1.1%	1.5%	(0.3%)
Aug-19	(5.7%)	(5.9%)	0.0%	(5.8%)
Jul-19	0.0%	(0.1%)	0.9%	(0.9%)
Jun-19	2.8%	2.7%	2.9%	(0.1%)
May-19	(6.6%)	(6.7%)	(4.1%)	(2.5%)
Apr-19	4.2%	4.0%	3.7%	0.5%
Mar-19	1.2%	1.1%	2.0%	(0.7%)
Feb-19	2.3%	2.2%	3.2%	(0.9%)
Jan-19	8.4%	8.2%	6.9%	1.5%
Since Inception*	8.2%	6.7%	9.2%	(1.0%)

**Returns are annualized.*

Figure 5: Global Equity Fund Performance 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
PERFORMANCE SUMMARY

Figure 6: Global Equity Fund Current Sector Allocation

Global Equity Fund - Current Sector Allocation			
Sector	**Global Equity Fund**	**Benchmark**	**(+/-)**
CAD	2.1%	0.0%	2.1%
Health Care	8.2%	6.5%	1.7%
Financials	29.3%	27.7%	1.5%
Energy	13.2%	11.9%	1.3%
Consumer Discretionary	7.2%	6.4%	0.8%
Materials	8.6%	7.9%	0.6%
Utilities	4.3%	4.2%	0.1%
USD	0.0%	0.0%	0.0%
Information Technology	11.4%	12.7%	(1.3%)
Consumer Staples	3.3%	5.2%	(1.9%)
Communication Services	5.3%	7.4%	(2.1%)
Industrials	7.1%	10.2%	(3.1%)
Total	**100.0%**	**100.0%**	**0.0%**

Figure 7: Global Equity Fund Size Exposure

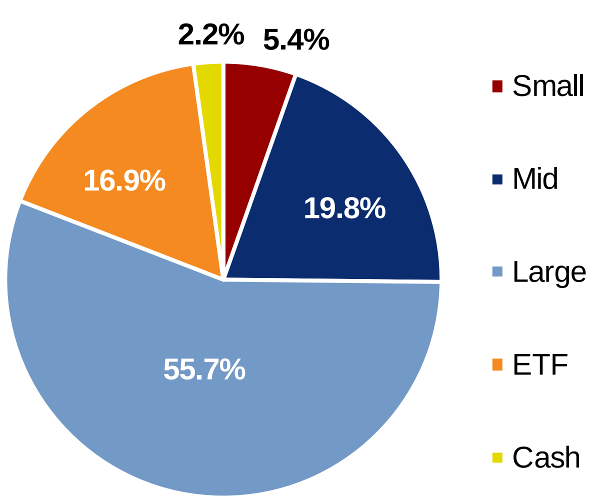
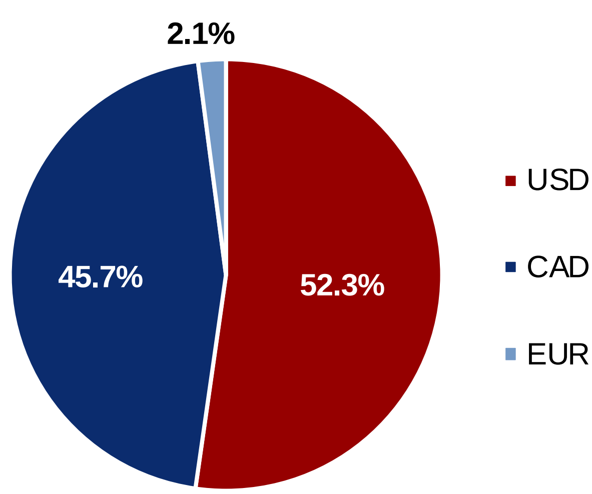


Figure 8: Global Equity Fund Currency Exposure



GLOBAL EQUITY FUND
PERFORMANCE SUMMARY

Figure 9: Global Equity Fund Holdings List

Global Equity Fund - Holdings List as of (12/31/2019)									
#	Security Name	Sector	Currency	Size	# of Units	Local Cost / Unit	Local Price / Unit	Base Market Value (in CAD)	Position Size %
1	Bank of Montreal	Financials	CAD	Large	1,550	$100.56	$100.64	$155,992	4.9%
2	American Express	Financials	USD	Large	925	$111.68	$124.49	$149,325	4.7%
3	Bank of America	Financials	USD	Large	2,920	$15.01	$35.22	$133,361	4.2%
4	iShares NASDAQ 100	Information Technology	CAD	ETF	1,900	$64.79	$69.63	$132,297	4.1%
5	East West Bancorp	Financials	USD	Mid	1,975	$46.80	$48.70	$124,725	3.9%
6	Pembina Pipeline	Energy	CAD	Large	2,500	$37.85	$48.13	$120,325	3.8%
7	iShares S&P Global Consumer	Consumer Discretionary	CAD	ETF	3,000	$38.72	$39.34	$118,005	3.7%
8	Prologis	Financials	USD	Large	1,020	$62.20	$89.14	$117,904	3.7%
9	TransDigm Group	Industrials	USD	Large	150	$549.09	$560.00	$108,927	3.4%
10	Facebook	Communication Services	USD	Large	400	$192.64	$205.25	$106,463	3.3%
11	Loblaw Companies	Consumer Staples	CAD	Large	1,580	$56.50	$67.00	$105,860	3.3%
12	Aritzia	Consumer Discretionary	CAD	Small	5,300	$12.50	$19.05	$100,965	3.2%
13	Nornickel ADR	Materials	USD	Large	2,500	$23.42	$30.76	$99,704	3.1%
14	Adobe	Information Technology	USD	Large	230	$254.40	$329.81	$98,367	3.1%
15	SVB Financial Group	Financials	USD	Large	300	$256.40	$251.04	$97,661	3.1%
16	iShares S&P/TSX Capped Materials	Materials	CAD	ETF	6,400	$13.72	$14.84	$94,976	3.0%
17	Marathon Petroleum	Energy	USD	Large	1,200	$44.14	$60.25	$93,755	2.9%
18	Seven Generations Energy	Energy	CAD	Mid	10,700	$8.08	$8.47	$90,629	2.8%
19	Emera	Utilities	CAD	Large	1,600	$45.23	$55.79	$89,264	2.8%
20	CI First Asset U.S. & Canada Lifeco	Financials	CAD	ETF	7,000	$11.21	$11.33	$79,310	2.5%
21	Summit Materials	Materials	USD	Mid	2,550	$28.60	$23.90	$79,030	2.5%
22	MGM Growth Properties	Financials	USD	Mid	1,950	$30.08	$30.97	$78,313	2.4%
23	Sarepta Therapeutics	Health Care	USD	Mid	450	$132.43	$129.04	$75,300	2.4%
24	Prosus ADR	Information Technology	USD	Large	3,850	$14.79	$14.94	$74,568	2.3%
25	Medtronic	Health Care	USD	Large	450	$83.99	$113.45	$66,202	2.1%
26	Fincantieri	Industrials	EUR	Mid	48,610	$1.40	$0.92	$65,167	2.0%
27	BMO Global Communications	Communication Services	CAD	ETF	2,700	$23.63	$23.61	$63,747	2.0%
28	Savaria	Health Care	CAD	Small	4,350	$14.29	$13.95	$60,683	1.9%
29	Parex Resources	Energy	CAD	Mid	2,500	$20.21	$24.15	$60,375	1.9%
30	Teladoc Health	Information Technology	USD	Mid	545	$65.00	$83.72	$59,167	1.8%
31	Alcon	Health Care	USD	Large	800	$55.62	$56.57	$58,686	1.8%
32	Suncor Energy	Energy	CAD	Large	1,350	$45.20	$42.56	$57,456	1.8%
33	iShares S&P Global Industrials	Industrials	CAD	ETF	1,500	$34.04	$35.01	$52,508	1.6%
34	SSE ADR	Utilities	USD	Large	2,000	$14.69	$19.06	$49,424	1.5%
35	Old PSG Wind-down	Consumer Discretionary	CAD	Small	10,985	$7.16	$1.00	$10,985	0.3%
36	Canadian Dollar	CAD	CAD	Cash	67,804	$1.00	$1.00	$67,804	2.1%
37	U.S. Dollar	USD	USD	Cash	1,134	$1.00	$1.00	$1,471	0.0%
38	Euro	EUR	EUR	Cash	899	$1.00	$1.00	$1,309	0.0%
						Total		$3,200,009	100.0%

ANNUAL REPORT 2019

Global Equity Fund

EQUITY MARKETS REVIEW AND OUTLOOK

DESAUTELS CAPITAL MANAGEMENT

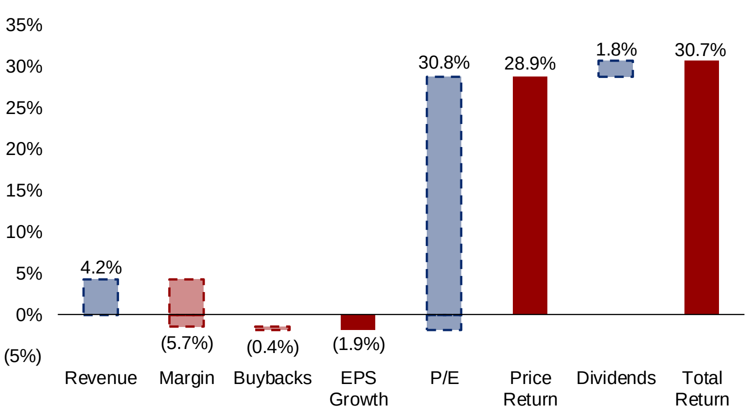
EQUITY MARKETS
2019 REVIEW

BEAR MARKET? NOT JUST YET

2019 has seen a 180 degree shift in the market's perception. 2018 ended on rough note, with the S&P 500 decreasing by over 9% and investors expecting several central banks to hike rates in the last year. However, North American equity markets were able to shake off the pessimism and start the year with a bang, as January saw a 7.9% rise in the S&P 500 and 8.5% for the TSX. Both indices ended the year much higher than where most investors, including us, expecting them to reach.

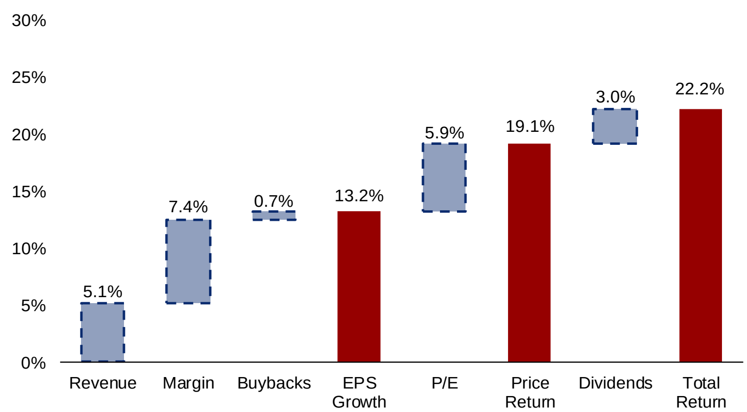
To be fair, this doesn't mean 2019 was a breeze for the North American equity markets. Uncertainty over Brexit and the U.S.-China trade war weighed down on the markets' returns for much of the year, and almost 90% of countries experienced lower GDP growth in 2019 than 2018. However, better than expected corporate earnings, monetary easing as investors were expecting hikes, and some trade war resolution in the second half of the year all pushed markets much higher than where they ended the previous year.

Figure 1: 2019 S&P 500 Performance Breakdown



The S&P 500 returned 30.7% in 2019 as can be seen in Figure 1, with almost all of the performance being attributed to P/E multiple expansion. The index started the year with a depressed multiple of 16.5x after the correction that took place towards the end of 2018. It expanded by 30.8% over the year, which more than made up for the contraction in corporate earnings. Even though revenue growth was positive for the year, we saw a decline in both profit margins and buybacks which led to negative EPS growth. However, this was already priced in by the market, which is why we still observed a strong return for the index over the year.

Figure 2: 2019 TSX Performance Breakdown



The Canadian stock market experienced a strong year, albeit not as much as the U.S. However, its performance is not solely attributable to multiple expansion, which makes it quite attractive moving forward (more on this in the 2020 Outlook). Even though Canada's GDP growth slowed down to a paltry 1.5%, businesses were still able to deliver 13.2% EPS growth over the year on the back of solid top-line expansion and stronger margins.

Overall, we were positioned quite well for the stellar outperformance of North American equity markets this year: our beta was 1.3 and we held less than 5% in cash for most of the year. We were also quite diversified across sectors, which ended up being a good decision as there was not an investment style that clearly outperformed in 2019. However, poor security selection has weighed down on our returns and led to the fund's underperformance for 2019.

Source: Bloomberg

EQUITY MARKETS
2019 REVIEW

THE YEAR OF THE CENTRAL BANK

The big story of 2019 was likely the sudden reversal in the Fed's policy and the generalized dovishness for central banks worldwide. 2018 ended with the Federal Reserve hiking rates for the fourth time in the year and leading investors to believe further increases were on the way. However, Chairman Jerome Powell quickly announced that additional hikes were put on hold and that the Fed might even start lowering interest rates. In July 2019, it eventually announced the first of three cuts for the year.

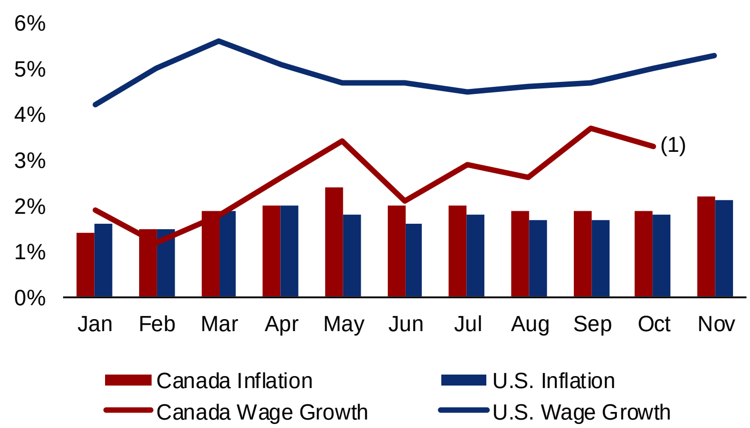
Something to note is that a considerable part of last year's returns in the equity markets can be attributed to weak, underwhelming economic data. Investors started expecting rate cuts to stimulate the economy, which in turns pushed equity prices higher. As such, we recommend being vigilant as to how much of an effect further rate cuts will have in the future, as it seems like they are being priced in fairly early and investors are failing to remember the underlying reasons why these cuts are being implemented.

Dozens of central banks, including in both developed and emerging economies, have cut rates over the last 12 months. Most of it has taken place during the second half of the year, as many countries tried giving a boost to their sluggish economies.

The Bank of Canada has been one of the only institutions that decided to keep rates on hold over the year. However, this was predictable as its primary policy goal is the inflation-control target of 2%, which has been spot on for most of the year.

Inflation has been surprisingly low in 2019. Unemployment stands at 3.5% in the U.S. and 5.9% in Canada, both of which are at 40 year lows. Even though this had not initially translated into higher wages, household incomes started to increase over the last year. In fact, Canada experienced wage growth levels not seen since 2009. If ever North American inflation uptake exceeds expectations, this could lead the Federal Reserve and the Bank of Canada to become more hawkish.

Figure 3: Canada and U.S. Wage Growth vs. Inflation



Although GDP data for Q4 has not been released at the moment of writing, it is expected that economic growth stood at 1.5% for Canada and 2.2% for the U.S. in 2019. This represents a slowdown from 2018 for both economies, but this was largely expected by the market. GDP growth has been driven by a boost in consumer spending in the United States, while the Canadian economy relied mostly on strength from the housing sector and business investments.

RECESSION IN SIGHT?

2019 also saw the appearance of the much feared yield curve inversion. The 10-year yield was lower than the 3-month yield between May and October, and lower than the 2-year yield in August. The market was definitely pessimistic over the summer, and the VIX index reached a 52-week high. However, our economic analysis at the beginning of the semester led us to believe that the economy was still in good shape, and we decided to keep low levels of cash.

Source: Bloomberg, Trading Economics, Equity research

(1): Canadian wage growth data not released yet for November

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This ended up being a very good decision, as the S&P 500 returned ~12% in Q4. The Global Equity fund also experienced a relatively high beta over this period, which led to our fund outperforming the benchmark during the last few months of the year in absolute terms (and also in risk-adjusted terms).

MIXED SECTOR PERFORMANCE

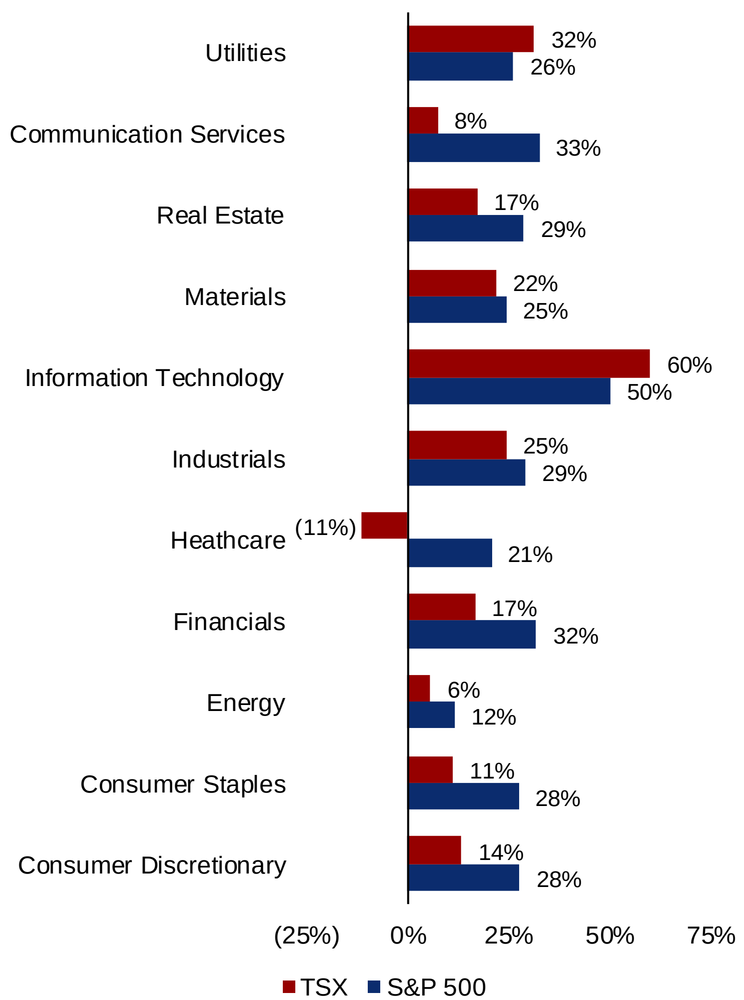
2019 was a year of uncertainty, with many significant events still unresolved – such as the U.S.-China trade war and Brexit among others. As such, it seems only fitting that there is no clear sector style that performed better or worse over the year (see Figure 4). We incorporated this uncertainty into our economic analysis and made sure we were not too overweight or underweight in any sector over the year (we remained within +/- 3% from our benchmark's sector allocation).

The 2 worst performing sectors last year were Energy and Healthcare in both the U.S. and Canada. The Energy sector was hit by lower-than-anticipated earnings partly due to lower business investment in the last few years, and the Healthcare sector was affected by bipartisan support to lower drug prices. This demonstrates well how complex the year was in the equity markets, as Energy and Healthcare are typically uncorrelated sectors if not negatively correlated, but ended up delivering similar returns due to certain sector-specific events. Both Consumer Staples and Discretionary increased by the same percentage this year, which is surprising in a bull market that returned 20-30% last year.

Information Technology has led the pack for the 2nd time in 3 years, and its +50% return this year leads us to debate if valuation levels are still realistic in this sector (more on this in the 2020 Outlook section).

The Financials sector, which makes up almost a third of

Figure 4: 2019 TSX and S&P 500 Sector Performance



the TSX, has proven to be a drag on the index returns for the year. This is due to the Canadian banks' poor performance over the year, as their earnings grew very slightly in the current uncertain macroeconomic conditions. This was a country-specific issue, as American banks ended the year on a high note.

VOLATILITY

Volatility remained low for most of 2019, as has been the case over the last few years. Although the 2018 market correction meant the VIX started off the year at over 20%, volatility quickly faded over the first half of the

Source: Bloomberg, Equity research

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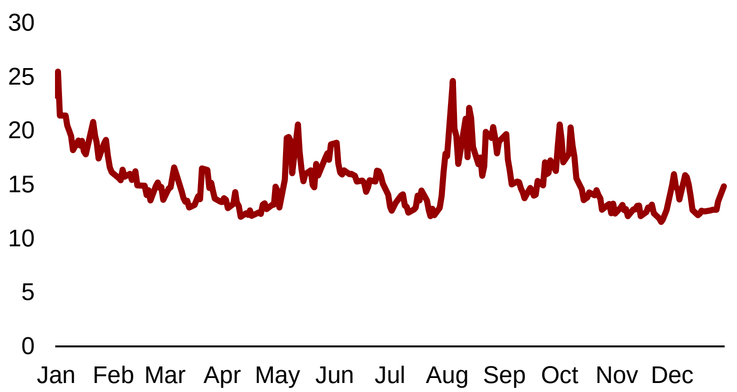
2019 REVIEW

year. Nonetheless, there were a few spikes in the index during the summer, as uncertainty related to trade wars and less than ideal economic conditions made investors unsure on how to best face the current environment. Although volatility has moved back to its current low levels, trade war re-escalation are still a risk we need to keep in mind.

Figure 5: 2019 VIX Index



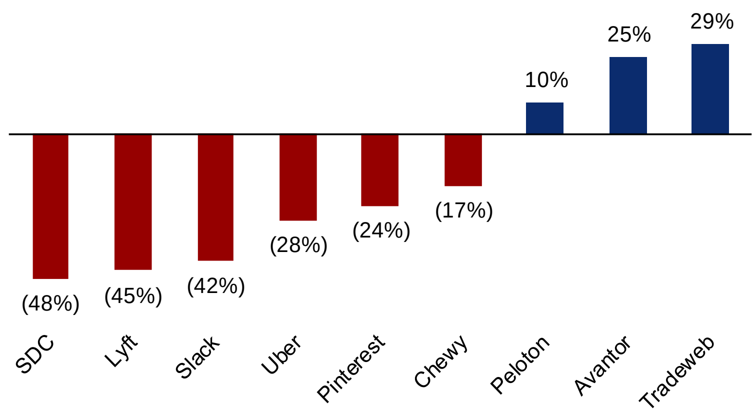
IPOS BACK IN STYLE

2019 was supposed to be a big year for IPOs, with several high-profile companies expected to make their debuts on the public market: Lyft, Uber, Pinterest, WeWork, Beyond Meat and Slack, to name a few. Overall, more than 250 companies went public this year in the United States, representing one of the most fruitful years since the dot-com bubble for equity capital markets.

As can be seen in Figure 6, many of these high-profile IPOs have not performed well. Some, such as WeWork, even postponed their IPO. However, it is worth noting that Renaissance Capital's IPO index returned 35% in 2019, outperforming the S&P 500 (this index contains many 2018 IPOs and is therefore not a perfect proxy). Overall, it seems like IPOs were generally trading in line with the market, but some of the large unicorns were overhyped and didn't perform well once public.

Most of these companies are in the technology space, which makes us question whether valuations are stretched in the sector. PE and VC firms are deploying a lot of money in the IT space at increasing valuations, and the downfall of these companies' share price once they go public might be an early sign of over-valuation. The woes of SoftBank in 2019 might just be a precursor of what is yet to come.

Figure 6: 2019 Returns for the Largest IPOs in the U.S.(1)



NEGATIVE EPS GROWTH

Finally, one last point we'd like to delve into regarding the 2019 performance of the U.S. equity markets has to do with EPS. Over the year, the S&P 500's earnings decreased by 1.5%. EPS measures have decreased year-over-year for 2019's first 3 quarters, which means the U.S. is technically in an earnings recession – a surprising event in a year where the index spiked by over 30%.

However, for all 3 first quarters of 2019, 75% of the index's constituents have beaten earnings expectations. Therefore, this decrease in earnings was largely expected by investors, which is why the stock market still reached new highs. Overall, we need to be prudent in the future as there is now less room for P/E expansion (at least in the U.S.), and EPS growth will need to get back up for the index to increase.

Source: Bloomberg, Yahoo Finance, Financial Times

(1): Returns from first trading day's close price to December 31, 2019

EQUITY MARKETS
2020 OUTLOOK

2020 OUTLOOOK SUMMARY

We expect 2020 to be similar to 2019 but with lower returns. Even though we remain bullish with regards to equity markets, we doubt the market can deliver another year of 20-30% returns in 2020 considering the current sluggish economic growth, stretched valuation levels, and pause in the Fed's expansionary policy. We expect both the S&P 500 and TSX to deliver high single-digits returns in 2020 and have a slight preference towards Canadian equity markets. A summary of our expectations for 2020 can be found in Figure 1.

Even though we believe the market will end 2020 near where it currently stands, we expect there will be many ups and downs over the year: many global issues such as the U.S.-China trade war are still unresolved, the American political landscape is becoming much more polarized, and the Fed does not seem to have a clear direction in mind. However, we still expect the market to rise overall in 2020 on the back of solid earnings growth and slight expansion in terms of P/E multiples, especially in Canada.

Figure 1: 2020 DCM Global Equity Forecasts

S&P 500 Returns	7% to 12%
TSX Returns	10% to 15%
Fed Policy	0 to 1 cut
Market Volatility	Increase
Overweight Market	Canada
Overweight Sectors	Energy, Healthcare, Financials, Materials
Underweight Sectors	Comm. Services, Industrials, Utilities, Cons. Staples

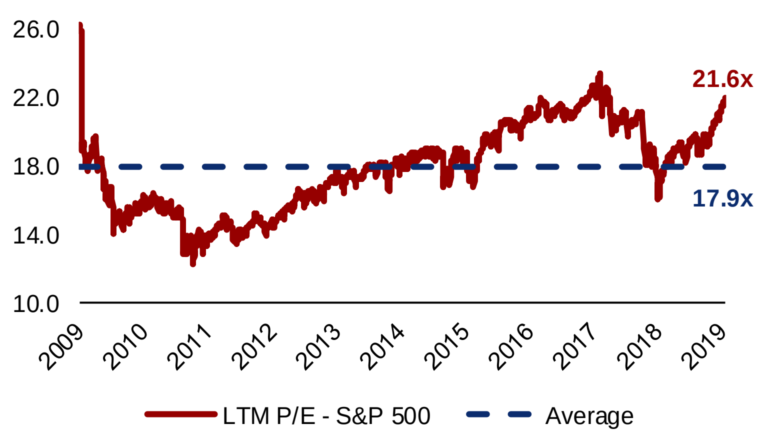
Source: Bloomberg

There was no clear sector style that performed better in 2019 and we expect 2020 to be the same. As such, we believe the sectors that will perform best are those that were beaten down last year and whose valuations levels offer compelling investment opportunities. As such, we will continue being overweight in Energy, Healthcare, Materials and Financials (most notably banks). However, the generally high levels of uncertainty lead us to remain quite prudent with regards to sector allocation and we do not plan on over/underweighting any sector by more than 3%.

A LOOK AT VALUATIONS

Looking at valuation levels for both the TSX and the S&P 500, we observe that these indices are in very different situations. The S&P 500 is currently trading at ~22.0x LTM P/E compared to a 17.9x average over the last 10 years (see Figure 2). This is in the top decile of historical P/E levels for the index and we believe there is not much room for multiple expansion left.

Figure 2: S&P 500 LTM P/E – Last 10 Years



However, considering the Fed's willingness to support the market as of late and global economic growth expected to accelerate, we wouldn't be surprised if the S&P ended the year around 23-24x earnings. The index is expected to deliver earnings of US$180 in 2020

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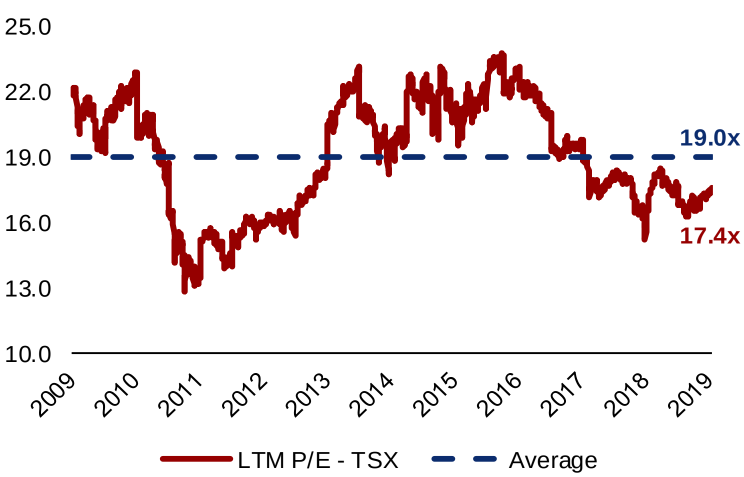
(~20% growth), which means the S&P 500 could end the year above 4,000 and mark yet another tremendous year. That being said, we are doubtful earnings can grow 20% next year, even in the event of a trade war resolution. As such, we see the index ending the year in the range of 3,400-3,600.

The TSX presents a different story. Its performance was much more balanced last year, with only 5.9% of its return attributed to P/E expansion. This creates a "healthier" situation, where the index's LTM P/E multiple is still below its 10-year average (see Figure 3).

Figure 3: TSX LTM P/E – Last 10 Years



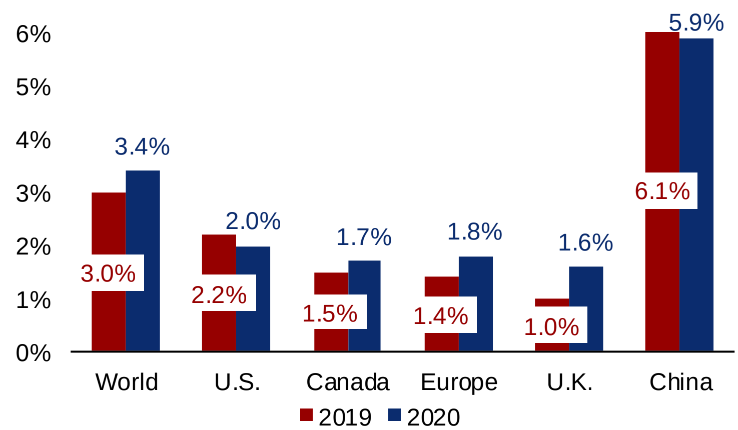
Even though some of the pessimism towards the Canadian economy is justified, there is still a lot of upside with regards to the TSX's valuation level. A slight acceleration in the country's economic growth and/or a turnaround in the Energy sector could lead to outsized returns for the index. Moreover, the index's earnings are expected to grow ~15% next year, which is not unrealistic although we believe this is a bit aggressive and should account for a larger multiple.

Consequently, we expect the TSX to end the year with a P/E multiple closer to its 10-year average, leading to a price around CA$18,500-$19,500 which would imply a larger return than the S&P 500 in 2020.

GDP BACK ON THE GAS PEDAL

After a year of disappointing economic growth, the global economy is expected to accelerate from ~3.0% GDP growth in 2019 to ~3.5% in 2020. This acceleration is expected to stem mostly from emerging markets, as the U.S.'s growth is anticipated to decline under 2.0% next year. On the other hand, a trade war resolution could provide a large boost for the American economy and as well as the global economy, as China's GDP is also expected to decelerate in 2020.

Figure 4: GDP Growth - 2019 vs. 2020E



After several years of underperformance, emerging markets are expected to perform well in 2020. Brazil, India, South Africa and other smaller economies should experience solid growth and appreciating currencies, which have led many investors to shift their assets into these countries recently. While we remain bullish in these regions, our mandate limits us to investing in companies trading on North American exchanges. Although we trade foreign companies through ADRs, we remain cautious when investing in businesses in emerging markets as they typically require a higher level of due diligence for which we lack the resources. The debt level in many of these countries is also becoming a concern.

As mentioned, we plan on continuing to shift some of

Source: Bloomberg, Trading Economics, Equity Research, BDC

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our assets from U.S. equities into Canadian holdings. The Canadian economy is expected to accelerate in 2020, and the TSX's low valuation level from a historical standpoint makes it currently at an attractive entry point. Canadian energy, on which the economy relies deeply, is expected to rebound in 2020 as bottlenecks start fading, oil prices increasing amidst rising EM demand, and improved business confidence fueling renewed investment. The Canadian economy relies on exports, and the improvement in trade relations globally is a positive sign for the upcoming year. Household spending is also expected to rebound, partly through the real estate market.

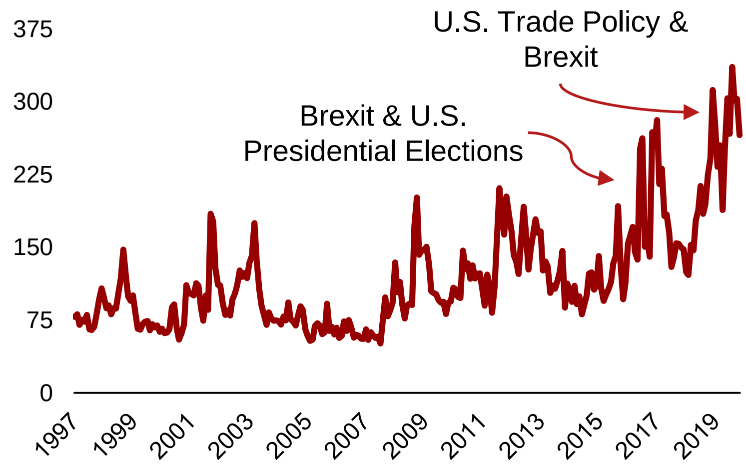
Moreover, we expect the Canadian dollar to continue appreciating against the USD, which has been a drag on our returns in 2019. The BoC is not expected to cut rates unless inflation decreases, so we don't see American interest rates rising above Canadian rates anytime soon. The comeback of the Canadian Real Estate and Energy sectors should also lead to an increase in foreign investment, pushing the loonie upwards. Although we were expecting the CAD to appreciate in 2019, we remained overweight in the U.S. due to higher stock market returns making up for the loss. However, we expect the TSX to outperform the S&P 500 this year so we have less of an incentive to concentrate our holdings in the U.S.

Overall, we believe it is still too early to call for a recession. A lot of the pessimism present in the market over the last years likely results from investors' instinct saying that the bull market has lasted long enough and something bad should happen at some point. Even though there are risks present at the moment, the overall situation looks reassuring: economic growth near long-term potential, central banks willing to support the market, and no geopolitical risk serious enough to cause the North American economy to collapse. Despite this, we need to keep in mind that a reversal in central banks' policy or worsening in trade wars are not expected by the market and could lead to a minor correction.

RECORD HIGH UNCERTAINTY

We do not predict 2020 to be a breeze. As can be seen in Figure 5, global economic uncertainty is at its highest ever since the introduction of the index in 1997. Few of the markets' participants, whether economists, investors or business executives, are confident about their predictions regarding the world's economic conditions in the next 12 to 24 months.

Figure 5: Global Economic Uncertainty Index (1997-2019)



As such, we believe that small events such as a rise in trade war disputes, geopolitical conflicts, or a tighter monetary policy could be seen as warning signs from investors and lead to corrections in the stock market. We anticipate that the stock market will be able to shake off these small events as long as they remain small, but they should nonetheless lead to volatility over the year as opposed to the market delivering a slow, steady growth over 2020. This probably means that there will be better entry points throughout the year, and we will try to plan our trades accordingly.

Source: Bloomberg, Economic Policy Uncertainty, BDC, Equity Research

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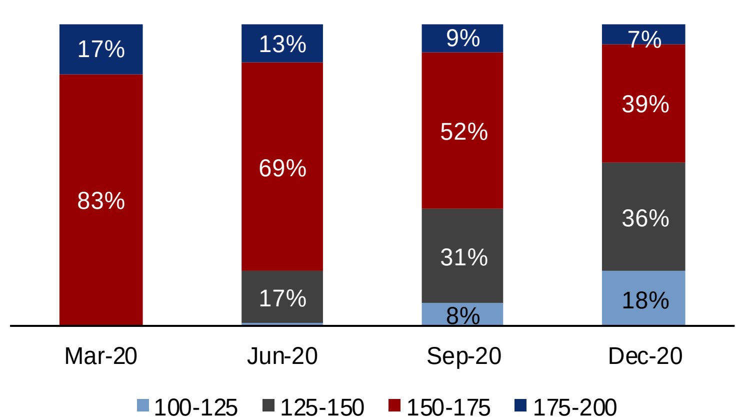
While being bullish over the next 12 months, we still acknowledge the diverse risks inherent to the economy and markets as of now. We will be re-assessing our market views more often than usual and closely monitor our holdings throughout the year.

WHERE IS THE FED HEADING?

Last year, the Fed ended up doing exactly the opposite from what investors were expecting in January. This year, investors have learned their lesson and are being quite conservative in their estimates (see Figure 6). There is a 39% probability of the target rate being the same at the end of 2020, with a slight bias towards the Fed cutting rates by 25 to 50 basis points.

Figure 6: 2020 Fed Target Rate Probabilities(1)



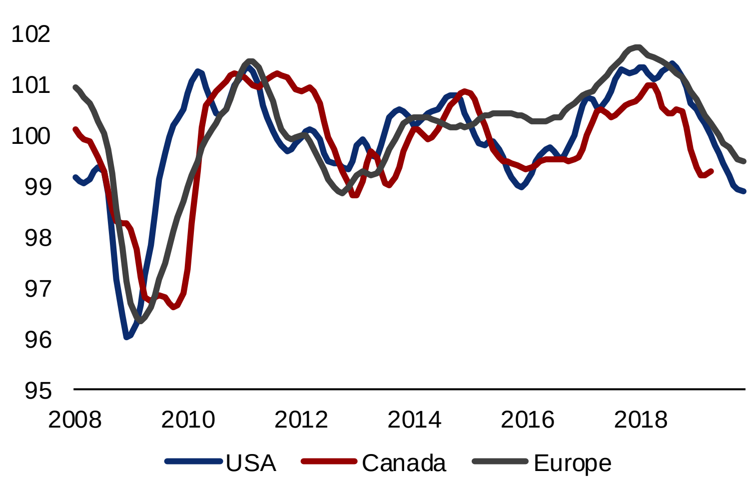
It is also interesting to note that investors are pricing in a modest probability of rate hike during the first few months of 2020 but expect the Fed to become more dovish as the year goes by. This is the opposite of what the last FOMC meeting's data plot shows, and there are high chances that the market won't get the rate cuts it wishes for over the short to medium-term. We believe the Fed has completed its latest expansionary cycle and will most probably wait for a significant change in inflation or economic growth before intervening again.

We hold the same opinion about the Bank of Canada's policy for 2020. Inflation is currently at exactly 2%, and it will take a major shock for the central bank to adjust its target rate. Unemployment has been extremely low across North America and many people are calling for the death of the Philips curve. However, this was also the case in 1960s and inflation shot up after a few years. Therefore, we do not under estimate the risk of inflation starting to increase as wages grow and the economy picks up – higher inflation would undoubtedly lead the BoC (or Fed, as this situation is also applicable to the U.S.) to hike rates unexpectedly and the market to decline.

ALL A MATTER OF CONFIDENCE

One of the reasons the economy hasn't been doing great lately is the low level of investment from businesses due to their confidence being close to a 10-year low (see Figure 7). The general sentiment of uncertainty has led many business executives to slow down investments, which in turns led to many companies getting less demand for their products.

Figure 7: Business Confidence Index – Last 12 Years



As recession worries fade off, global growth picks up, and trade wars slowly subside, we expect businesses to become more confident and start investing again. This trend should also be supported by current low borrowing costs.

Source: CME Group, OECD, Financial Times

(1): Probabilities for 50-75, 75-100 and 200-225 not meaningful and included in closest bracket

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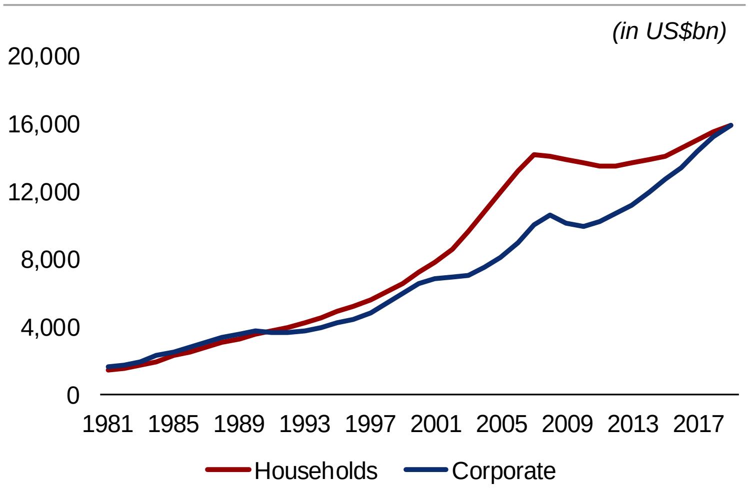
BUYBACKS AND CORPORATE DEBT

Buybacks have been the dominant source of demand for equities over the last few years and are generally considered one of the main drivers of the current outsized returns in the stock market. However, this trend has weakened over the last year, as firms start cutting back on spending due to general market uncertainty. Buybacks are expected to total $710bn in 2019 in the U.S., which represents a 15% drop from a year earlier. Furthermore, many companies have announced a cutback in their share repurchase programs in 2020, which means we should see this trend continuing.

Although this should have a negative short-term effect on EPS growth, it could end up being accretive in the medium-term. If business sentiment starts improving, corporations will have large amounts of cash on hand to deploy in new investments.

Furthermore, a lot of these buybacks have been fueled by borrowing. As seen in Figure 8, U.S. corporate debt is now as large as household debt. As such, the reduction in buybacks could possibly be attributed to corporations wanting to reduce their leverage and not only to poor business confidence.

Figure 8: Household and Corporate Debt (1981-2019)



Source: Federal Reserve, Odds Shark, Axios, Financial Times, CNBC

RISE OF ECONOMIC INEQUALITY

One of the major economic themes we plan on observing during the next few years is the rise in economic inequality. U.S. household wealth has increased 80% over the last decade. However, the top 1% received over one-third of that gain, with another quarter of the gain going to the middle class. In contrast, the bottom half of the population received less than 2% of the wealth increase.

Poor wage growth during a booming equity market is obviously one of the main reasons for this rise in inequality. The current environment of low interest rates has also exacerbated this trend, as small savers gain less interest on their savings while wealthier investors profit from rising stock prices.

This rise in economic inequality has led to more tension in North America (especially in the U.S.), which eventually results in increased polarization in political views. This heightened polarization in North American politics represents a huge risk for the equity markets. First, this leads to the increased uncertainty that we have been observing as of late. Furthermore, the U.S. now faces the real possibility of having a "hard" left-leaning president. At the time of writing, the 3rd and 4th most probable winners of the 2020 elections are Sanders and Warren according to betting websites. Although the chances of either of them winning are slim, it nevertheless reveals a deep polarization.

A hard left-leaning government would likely lead to an increase in both corporate and wealth taxes, as well as the breakup of several of the largest corporations. It would also probably advocate for higher interest rates. This would result in a significant downturn in the markets and is therefore a risk we take note of moving forward.

EQUITY MARKETS
2020 OUTLOOK

SECTOR ALLOCATION

Our current sector allocation, as well as the targeted allocation, are shown in Figure 9. The shift will take place gradually as we carefully look for strong companies within each sector.

As explained in the market outlook, we expect uncertainty to remain at heightened levels for the rest of the year, although we don't see it heading much higher. As such, we expect sector performance to be similar to last year in that no sector style will clearly out/underperform. We do not prefer cyclical or defensive sectors, but rather sectors with attractive valuation levels and strong tailwinds, both in political and socio-demographic terms. Moreover, we do not plan on straying too far from our benchmark allocation, with sector tilts within +/- 3%.

First off, we plan to remain overweight in Healthcare, Financials, Energy, and Materials. The Healthcare sector has not performed well last year due to the pessimism linked to pharmaceuticals. However, this sector most probably has the strongest socio-demographic tailwinds and we believe it will outperform in the long-run. We are also bullish on the Energy sector, and most notably Canadian oil & gas. The sentiment towards this sector has started to shift as pipelines are being built, and it represents a good hedge with regards to the geopolitical tensions in the Middle East.

The Financials sector has been quite beaten up last year, and we believe it now represents a very compelling investment opportunity as interest rates start to stabilize. We are also confident in Canadian banks and real estate as the economy bounces back.

Emerging markets are expected to lead global growth in 2020, and this should help the Materials sector after a mixed year.

On the other hand, we plan on under allocating with regards to Utilities, Communication Services, Industrials, and Consumer Staples. The Utilities sector is trading at a multi-year high, and we don't see it delivering the same returns as other sectors. Although Communication Services trade at attractive valuation levels, the intense competition and lack of consumer monetization should make it underperform for a few years. The pause in the U.S.-China trade war represents good news for the Industrials sector, but we still believe it will take time before business investments return to normal levels. Finally, the recent market pessimism has led many investors to shift their assets into Consumer Staples companies. This results in high valuations for the sector, which we believe is unwarranted.

Although consumer spending should increase in the upcoming year, we are not confident enough in the Consumer Discretionary sector to give it an overweight rating and prefer keeping the same allocation as our benchmark for the sector. This is also our conclusion for the Information Technology sector, as we believe the industry's huge growth potential has already been mostly priced in.

Finally, we aim to keep a low amount of our assets under management in cash. We decreased our cash holdings in September as we were bullish, and that proved to be a good decision. Currently, we are confident the market will deliver positive returns next year and will keep only ~2% of the fund in cash. As mentioned in our outlook, we currently prefer CAD to USD. As the year goes by, we will re-assess our market views and adjust our cash allocation as appropriate.

Source: Bloomberg, Equity Research

EQUITY MARKETS
2020 OUTLOOK

Figure 9: Global Equity Fund Current and Target Sector Allocation

Global Equity Fund - Current Sector Allocation				
Sector	**Global Equity Fund**	**Benchmark**	**Current (+/-)**	**Target (+/-)**
CAD	2.1%	0.0%	2.1%	2.0%
Health Care	8.2%	6.5%	1.7%	1.5%
Financials	29.3%	27.7%	1.5%	1.5%
Energy	13.2%	11.9%	1.3%	1.5%
Materials	8.6%	7.9%	0.6%	1.0%
Consumer Discretionary	7.2%	6.4%	0.8%	0.0%
USD	0.0%	0.0%	0.0%	0.0%
Information Technology	11.4%	12.7%	(1.3%)	0.0%
Communication Services	5.3%	7.4%	(2.1%)	(1.5%)
Utilities	4.3%	4.2%	0.1%	(2.0%)
Consumer Staples	3.3%	5.2%	(1.9%)	(2.0%)
Industrials	7.1%	10.2%	(3.1%)	(2.0%)
Total	**100.0%**	**100.0%**	**0.0%**	**0.0%**

DCM NOTE

2019 was DCM's 10th anniversary. Although I would have wished for the fund to perform better to honor this landmark, I believe it is in great shape to face the next decade. We have re-balanced where needed, re-assessed the current environment, and I'm confident the upcoming class will successfully take up the torch. I would also like to take this chance to congratulate Darius Kuddo for being selected as the upcoming Global Equity Strategist. I am confident the program will continue thriving under his leadership.

Many things have improved since DCM's inception: a third and fourth fund have been added, the Alpha Squared and SRI funds have been added, AUM has grown from less than $2M to close to $10M.

Most importantly, the HIM program still represents an amazing learning opportunity for a few dozen students per year to bridge the gap between academia and industry and makes our university experience much more memorable. We are deeply grateful for this opportunity we have been provided with, and which would not have been possible without our investors' unwavering support. For this, we sincerely thank you.

Yours truly,

Rakan Lamy, Global Equity Strategist

GEOPOLITICAL REVIEW AND OUTLOOK

Andrew Guerrand | Senior Analyst
Seth Obadia | Junior Analyst

GEOPOLITICS

2019 REVIEW & 2020 OUTLOOK

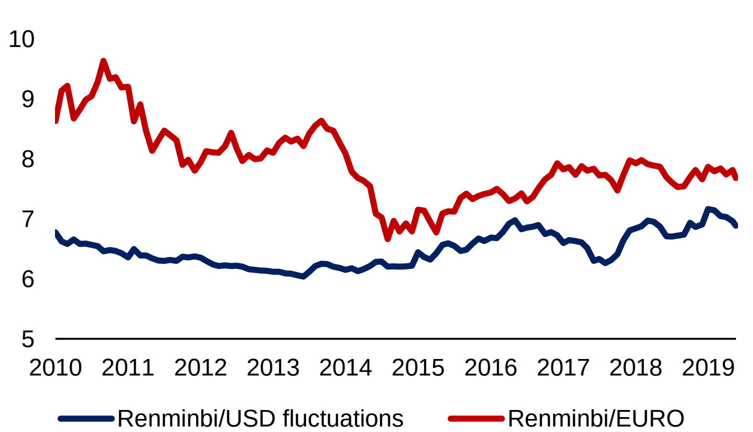
THE U.S. AND THE REST

This year saw the continuation of geopolitical scrutiny. Several important events occurred this year but few did anything to significantly alter global trends.

The rise of tensions, noticeably economic and geopolitical, are partly explained by a change in tempo set by the Trump administration. With a noticeable difference in negotiation strategies on the international scene, the transition since Obama has led to the reconsidering of a number of agreements and geopolitical ties. From a revamp of the *North-American Free Trade Agreement* (NAFTA) to the now so-called *USMCA,* the Sino-American trade war, increasing tensions in the Middle-East; one could consider these events blocking points, that could have led to an alteration of the status quo. Yet, one could argue that the alterations proposed are not that significant, mostly producing damp squibs than anything else.

At DCM, our view is that geopolitical tensions are here to stay. Trump's inability to pass any meaningful legislation in a divided Congress will force him to turn to foreign policy as his only vehicle for political deal-making. Given conservative forecasts for global growth, this is expected to be the case in the upcoming year.

Figure 1: The Renminbi's Depreciation



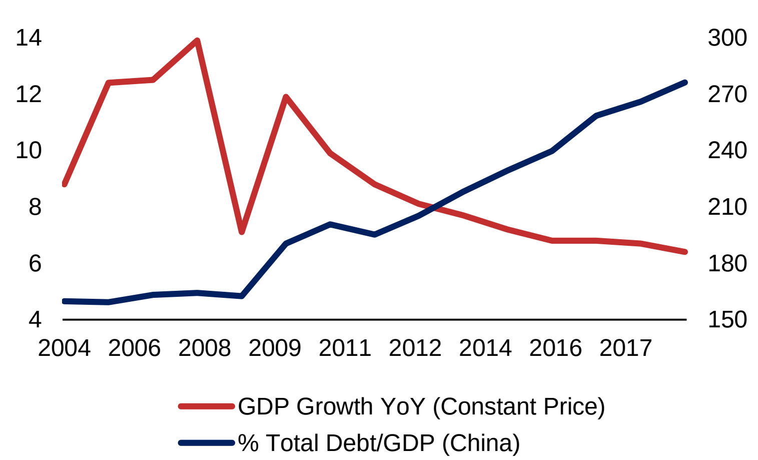
Source: Bloomberg, Financial Times, FP

Among the list of significant foreign-policy events of 2019: the Hong Kong protests, the whistleblower revelations that led to the House of Representatives voting to impeach U.S. President Donald Trump, the killing of General Soleimani contributing to rising tensions between Iran and Western countries.

The situation in Hong Kong, with pro-democratic protests happening for months now, is a clear rejection of the "one country, two systems" formula intended by Beijing. Ever since its handing-over from the British in 1997, no chief-executive has been voted upon for Hong Kong. This growing fear has now been extended to Taiwan, where Ms Tsai has won re-election with the biggest mandate ever seen in the country's presidential elections. The Communist party's dream of using the former British colony as a model for Taiwan's political future is now dead. Yet, the invasion of Hong Kong by Chinese armed forces remains a viable option. The likelihood of an escalation in the region remains, thus, very high.

On the Asian continent, China has been jousting on many more fronts. This includes the ferocious war Trump has been waging to rebalance the U.S. trade deficit. Despite a consensus, that Chinese economic

Figure 2: Slowing Down of China's GDP Growth



GEOPOLITICS
2019 REVIEW & 2020 OUTLOOK

growth is to decelerate inevitably, a supposed 'structural growth slowdown' concedes to a still-robust forecasted trend of 5.5-6.0% throughout the mid-2020s. Two long-term challenges China faces are demographics and debt. China's ratio of non-financial sector debt to GDP has surged 115 percentage points the last decade, the servicing of this load being increasingly troublesome when facing growth slowdowns. Additionally, a rapidly aging Chinese population is turning into an intensifying drag on growth. Keeping these factors in mind, an anticipated loose fiscal policy in 2020 will have a much greater impact on the economy through direct government spending. The shift between previous deleveraging measures in 2019 to a more growth-supportive stance will undoubtedly contribute to China's GDP growth. With that said, Trump's imposed tariffs are expected to reduce China's growth by 0.3 percentage points in 2020. Under the assumption that no negative shocks will be encountered, it is both in Trump's and Xi's interest to close a trade deal in the upcoming months. The premises for this have been established, albeit noticeable friction in certain areas of the negotiation process.

BREXIT

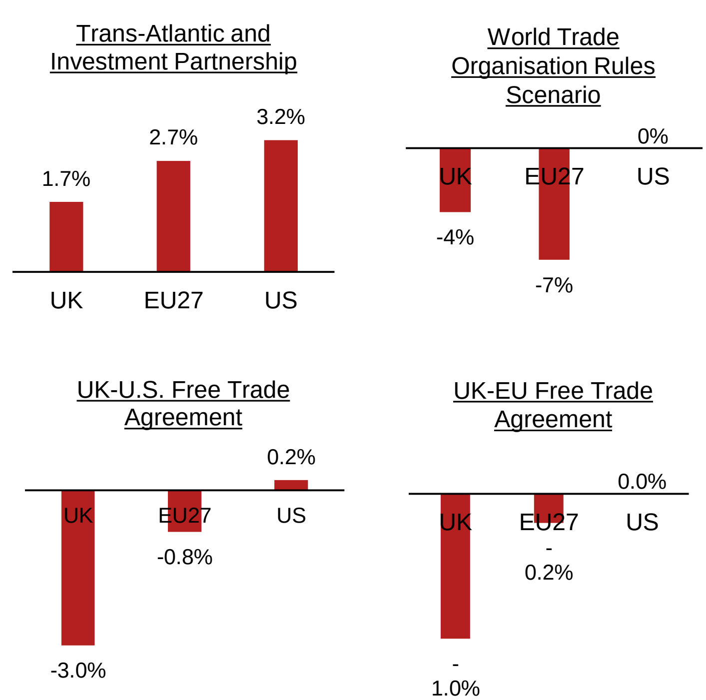
Since the June 2016 referendum, the UK-EU relationship has seen more ups-and-downs than the average roller-coaster we are accustomed to. If these back-and-forths aren't already enough, the replacing of May with Johnson has not seemed to improve things. In a most recent FT interview (14th Jan. 2020), Boris Johnson admitted "there is a slim chance that Britain will not conclude a trade deal with the EU before his self-imposed December 2020 deadline". If no deal is in place by then, Britain will have to start trading with the EU on WTO terms in January 2021, including tariffs, paperwork, and delays at ports.

Source: Bloomberg, Financial Times, FP, Rand

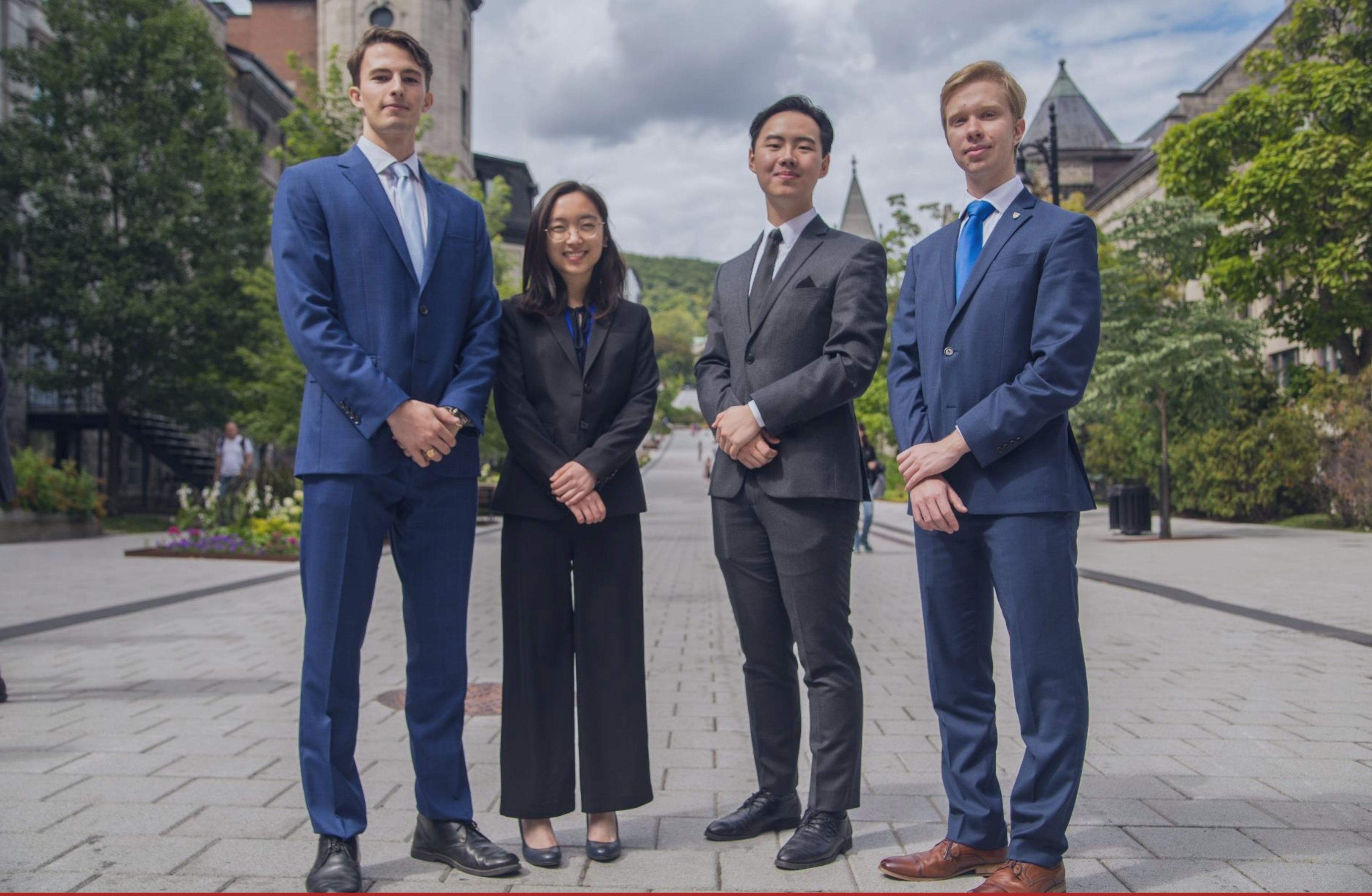
With Ms von der Leyen warning that a comprehensive deal with Britain in just 11 months, after Brexit on January 31st 2020, is 'highly unlikely', the possibility of another extension is on the table. Common ground is to be found to enforce a level playing field in matters such as state aid, labour law, fishing rights, among many others.

The UK will undoubtedly be economically worse off outside of the EU under most plausible scenarios. The key question for the UK is how much worse-off will it be post-Brexit. Indeed, it is in the best interest of the UK, and to a lesser extent the EU, to work together to achieve some sort of open trading and investment relationship.

Figure 3: Effect of Various Scenarios on GDP



Anticipation of exogenous shocks in the market remain difficult in our forecast models. We see this year as a continuation of 2019 with more conservative returns and a continuation of geopolitical tensions till the U.S. elections.



RISK MANAGEMENT

Andrew Guerrand | Risk Manager
Roy Chen Zhang | Senior Analyst
Jinghong Lin | Junior Analyst
Darius Kuddo | Junior Analyst

RISK MANAGEMENT
WHAT, WHY, AND HOW

INTRODUCTION AND OBJECTIVE

DCM investment decisions are not only guided by investment theses and valuation, but also by overall risk assessment and alignment with our macroeconomic and sector-specific views. Some of the risk metrics we track include rolling betas and standard deviations, Value-at-Risk (VaR), tracking error, and marginal contribution to risk.

Every year we try to build upon our existing analytical skillset, with the ultimate goal of building a portfolio with an optimal risk-return tradeoff. This year we also focused on worst case scenario analysis for individual positions, based on both qualitative and advanced quantitative techniques to better understand the resilience of our investments to leverage, industry headwinds, commodity prices, and market corrections in the face of record high valuations.

This year has also led to the creation of a team of analysts dedicated to more quantitative analysis. If the work done in Risk Management remains a point of focus to strategists and the risk manager of the GE/FI funds, the level of efforts has been increased to provide innovative approaches to valuations. First off, the terrific work of Darius Kuddo has enabled a better tracking of DCM's investments on a live platform, accessible to all analysts. In that regard, every analyst in the fund is focused to track their holdings' performance and better respond to any market mishaps. The objective of this new 'Risk and Analytics' team is also to support other sectors with advanced statistical models for forecasting purposes. 'Dynamic Conditional Correlation' has been the center of focus for this year's forecasting of interest rates, volatility, and its impact on our funds' performance.

DATA AND METHODOLOGY

At the beginning of the year 2019, we ran a Monte Carlo simulation using non-normal multivariate copulas to capture dynamic correlations between various commodity prices and FX rates, while also taking into account certain real options the company could exercise. We take our risk management very seriously: a team of four HIM students (Emilie Granger, Ian Jiang, Ludovic Van Den Bergen, and Roy Chen Zhang), won first place and a $10,000 prize at the PRMIA International Risk Management Competition, where many of the same quantitative techniques were used.

Figures 1 and 2 on the next page plot the fund's Value-at-Risk (VaR), which represents the maximum expected loss within a certain confidence level. We also monitor expected shortfall, which represent the expected loss given that the loss is greater than the value of the VaR.

RISK MANAGEMENT

VAR AND EXPECTED SHORTFALL – RESULTS

Figure 1: Value-at-Risk Results

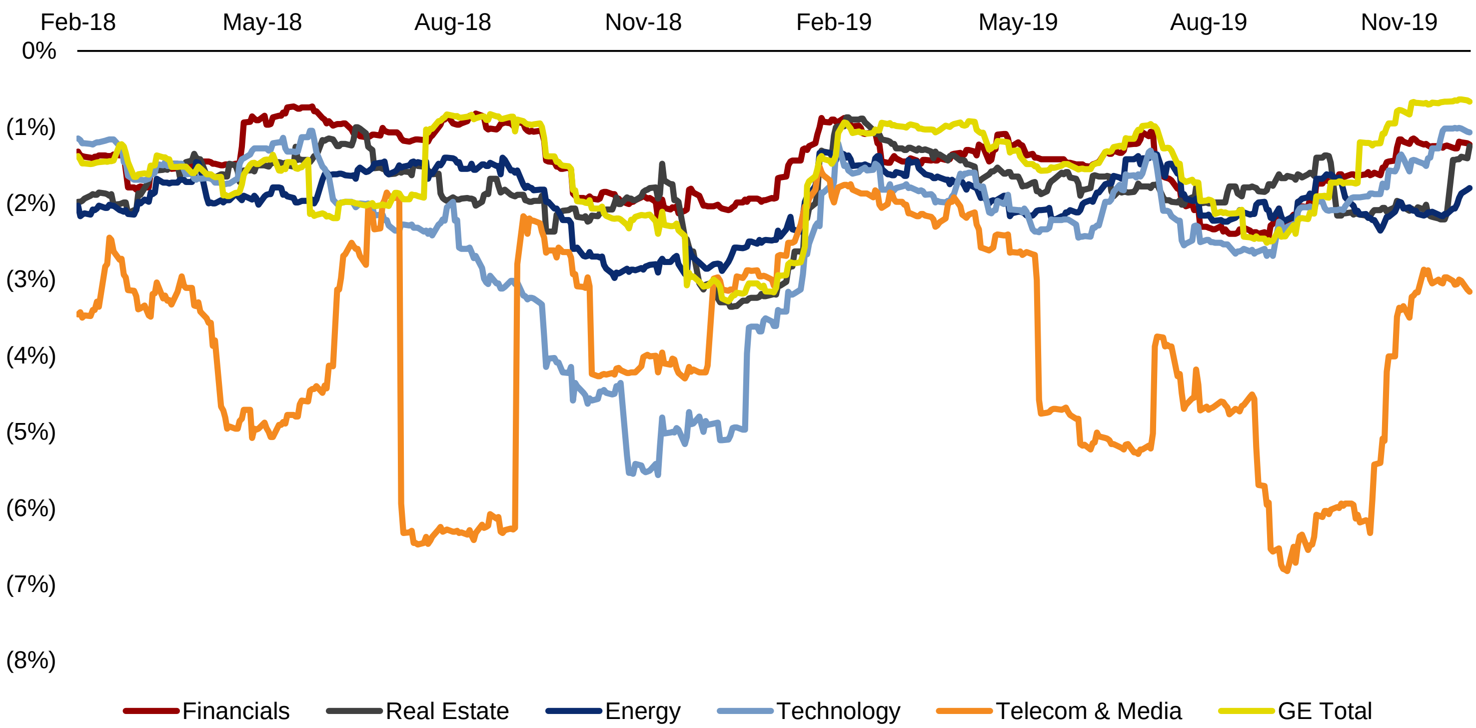
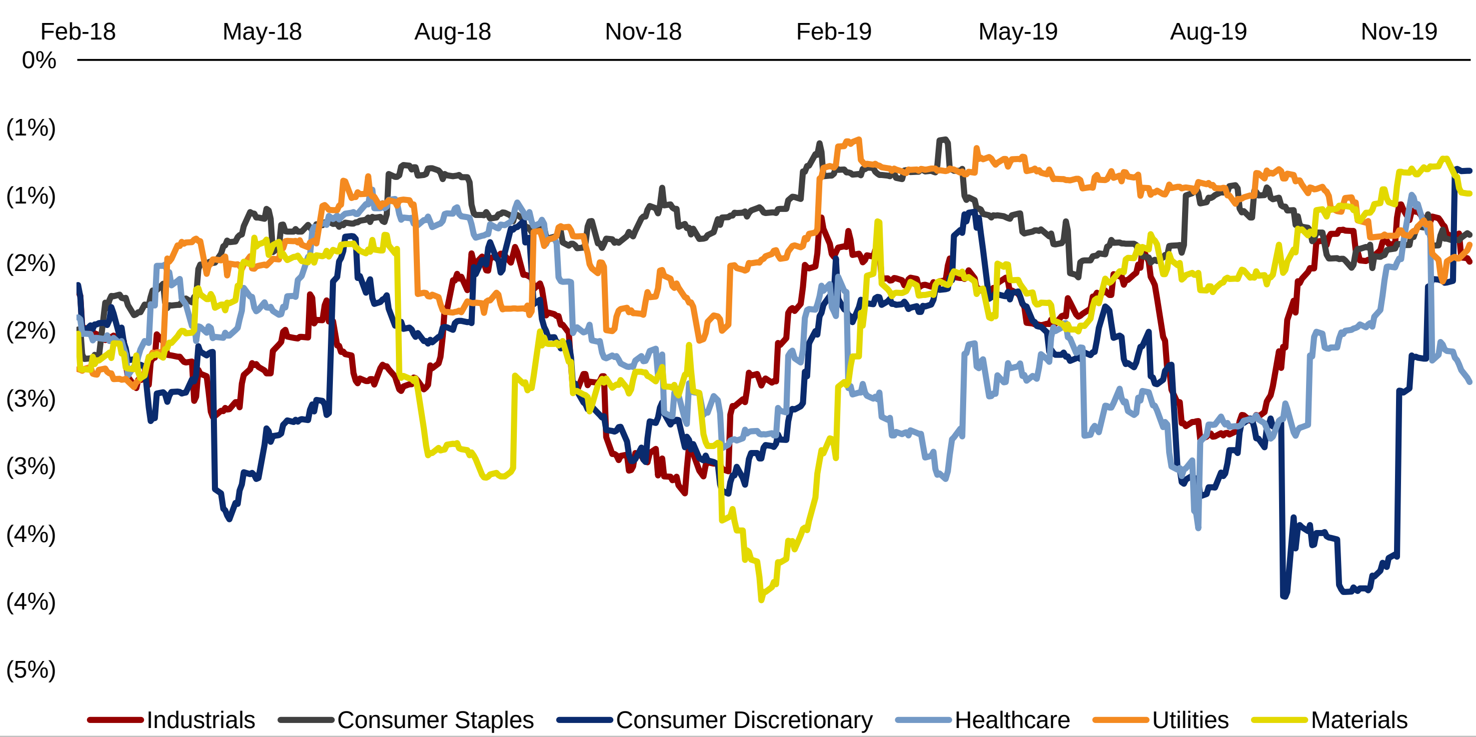


Figure 2: Value-at-Risk Results (continued)



RISK MANAGEMENT

ANALYSIS AND FUTURE DIRECTIONS

ANALYSIS OF TRACK RECORD

Consumer discretionary, technology & media, and telecom sectors contribute substantially to the overall Value-at-Risk faced by the fund, while the consumer discretionary, healthcare, and telecom sectors contributed spikes to expected shortfall. For example, GrubHub Inc.'s negative earnings surprise in October, was largely responsible for the VaR and ES spike in the last two months for the sector.

As a positive-beta fund, the Global Equity fund is inevitably exposed to volatility in the markets. One such example is in December 2018 when a market correction drove VaR and ES values up across the entirety of the market, many of our sectors included.

RISK MANAGEMENT 2.0

A big part of traditional risk management is based on estimating future risk based on recent historical data. This is quite sensible since risk tends to be persistent, meaning that if conditions have recently been volatile, they will tend to remain volatile, at least in the short-term. Relying on historical data, however, can miss important risk factors. This happened with one of our holdings, Sarepta Therapeutics, a clinical-stage biotech firm. They faced a major regulatory setback in August for its drug Vyondys 53. This led to large losses in the stock that negatively affecting our overall fund performance. While DCM sector analysts cover their holdings on an ongoing basis, they, like any investor, may be subject to behavioural biases that cause them to downplay risks factors in the stocks they selected. Thus, we think it's important for risk managers to be trained in terms of quantitative analysis, but also in terms of fundamental analysis, so they can provide another set of eyes to monitor holdings in real time and evaluate fundamental risk factors, possibly with less bias. This is something we plan to do more of going forward.

RISK MANAGEMENT

PERFORMANCE ATTRIBUTION

INTRODUCTION AND OBJECTIVE

Proceeding in tandem with our risk management mandate, the RA sector is also responsible for advanced analytics within the Global Equity and Fixed Income funds. This includes forecasting major drivers of valuation uncertainty (such as commodities) and bypassing the constraints of conventional modelling through new model extensions.

The following section serves two purposes: first to analyze the value of active investment in DCM's fund performance, and secondly to quantify the differences between DCM's many funds.

Since DCM seeks to add value through fundamental analysis, an important metric by which to assess the performance of management is the alpha, which represents the remainder of unexplained returns after gains/losses from passive exposures are accounted for. Indeed, with the rise of passively-managed ETFs in recent years, prospective investors now have more choices than ever before to simply opt for a passive screening process in security selection.

Secondly, through factor analysis, we also seek to better inform investors of the stylistic differences between the investment approaches across DCM's four funds.

DATA AND METHODOLOGY

Our approach involves the use of a Fama-French five factor model to try and explain the performance of each fund. Empirical evidence strongly suggests that cross-sectional variation across equity returns can be well-explained by a few factors based on company fundamentals.

Figure 3: Fama-French Factors in Addition to (r_m – r_f)

Factor	Description
SMB	average return on nine small stock portfolios, - average return on nine big stock portfolios
HML	average return on two value portfolios, - average return on two growth portfolios
RMW	average ret. on two robust profitability portfolios, - avg. ret. on two weak profitab. portfolios
CMA	Avg. ret on two conservative investment portfolios - avg. ret. on two aggressive inv. port.

NAVs at a weekly frequency were provided by strategists for each of the four funds, and the RA sector was able to access daily data from Ken French's personal website. A major problem was the unstandardized nature of the NAVs reported by the funds, which we bypassed by converting the Fama-French factors into net asset values, which could then be sampled at the same dates as the NAVs reported by DCM. Reporting times were around nine years for the GE and FI funds. Once we had standardized samples with returns for both DCM and FF factor investments, we then ran multivariate factor regressions on each fund. Below, we summarize our key findings.

Source: Kenneth French, Dartmouth

RISK MANAGEMENT

HOW DOES DCM MEASURE UP?

GLOBAL EQUITY FUND

Figure 4: FF 5-Factor Regression on GE NAV Returns

```
Coefficients:
                  Estimate Std. Error t value Pr(>|t|)
(Intercept)        0.02548    0.05511   0.462  0.64400
GEData[, 2:6]Mkt-RF 0.53484   0.03066  17.446  < 2e-16 ***
GEData[, 2:6]SMB   0.04575    0.05316   0.860  0.38994
GEData[, 2:6]HML   0.19697    0.06294   3.129  0.00185 **
GEData[, 2:6]RMW   0.06402    0.08218   0.779  0.43636
GEData[, 2:6]CMA  -0.45315    0.10445  -4.338 1.74e-05 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 1.218 on 498 degrees of freedom
Multiple R-squared:  0.4819, Adjusted R-squared:  0.4767
F-statistic: 92.66 on 5 and 498 DF,  p-value: < 2.2e-16
```

What is most notable in the GE fund the is the strong negative exposure to the CMA factor. This suggests that GE has favoured companies that invest aggressively, and less so fiscally conservative companies. But GE's significant correlation with the HML factor seems to indicate a preference for value stocks over growth stocks. With a beta of 0.53, GE is the least correlated with the market out of all equity funds. There is a weekly alpha of 0.025%, but it is not statistically significant.

FIXED INCOME FUND

Figure 5: FF 5-Factor Regression on FI NAV Returns

```
Coefficients:
                  Estimate Std. Error t value Pr(>|t|)
(Intercept)        0.08239    0.02600   3.168  0.00163 **
FIData[, 2:6]Mkt-RF -0.12227  0.01447  -8.452 3.18e-16 ***
FIData[, 2:6]SMB  -0.02901    0.02509  -1.156  0.24808
FIData[, 2:6]HML  -0.11711    0.02970  -3.943 9.20e-05 ***
FIData[, 2:6]RMW   0.06002    0.03878   1.548  0.12236
FIData[, 2:6]CMA  -0.16029    0.04929  -3.252  0.00122 **
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.5745 on 498 degrees of freedom
Multiple R-squared:  0.2723, Adjusted R-squared:  0.265
F-statistic: 37.27 on 5 and 498 DF,  p-value: < 2.2e-16
```

Although it may not make immediate intuitive sense to explain a bond fund with equity factors, this is important as a means of contrast with DCM's equity funds. Note the significant negative market beta, which holds with the theory of bonds outperforming in bad equity markets and underperforming in good. The FI fund also has the only significant alpha, but we note the absence of bond risk factors in this regression.

HAS DCM'S STYLE EVOLVED?

Since DCM has a very high turnover of analysts (as each class graduates, a new class is admitted), we thought it would be interesting to compare performance in the past few years in terms of passive factor exposure.

The below time series were obtained by regressing the Global Equity Fund's historical returns against the same 5 Fama-French factors on a rolling 40-week basis. The R-squared data series represents the amount of variation explained through the factors (with 1.00 being a perfect explanation) and the intercept is the weekly alpha (in percentage points) after factor exposures have been considered. Other series represent the estimated correlations between each factor and the performance of the Global Equity Fund.

As can be seen in the results on the next page, there is a substantial amount of variation between the various analyst classes at DCM. Each year adopts a different approach to asset selection but have been able to generate a positive alpha in excess of these factors on average, indicating value in active selection.

IMPLICATIONS AND TAKEAWAYS

The mission of the new Risk/Analytics sector going forward is to help DCM's analysts better quantify and visualize the impacts of their decisions. Through risk management we hope to be able to better insure ourselves against downside risks and continue to deliver outstanding performance. In analytics, we seek to further develop more advanced models and tools that can be better utilized to reach our goals of outperforming the market through fundamental security analysis. It is just the beginning of an exciting journey, and we are fortunate to have your support every step of the way.

RISK MANAGEMENT
ROLLING FACTOR REGRESSIONS

Figure 6: Global Equity Fund FF5 Regression since Inception – R-squared and Intercept

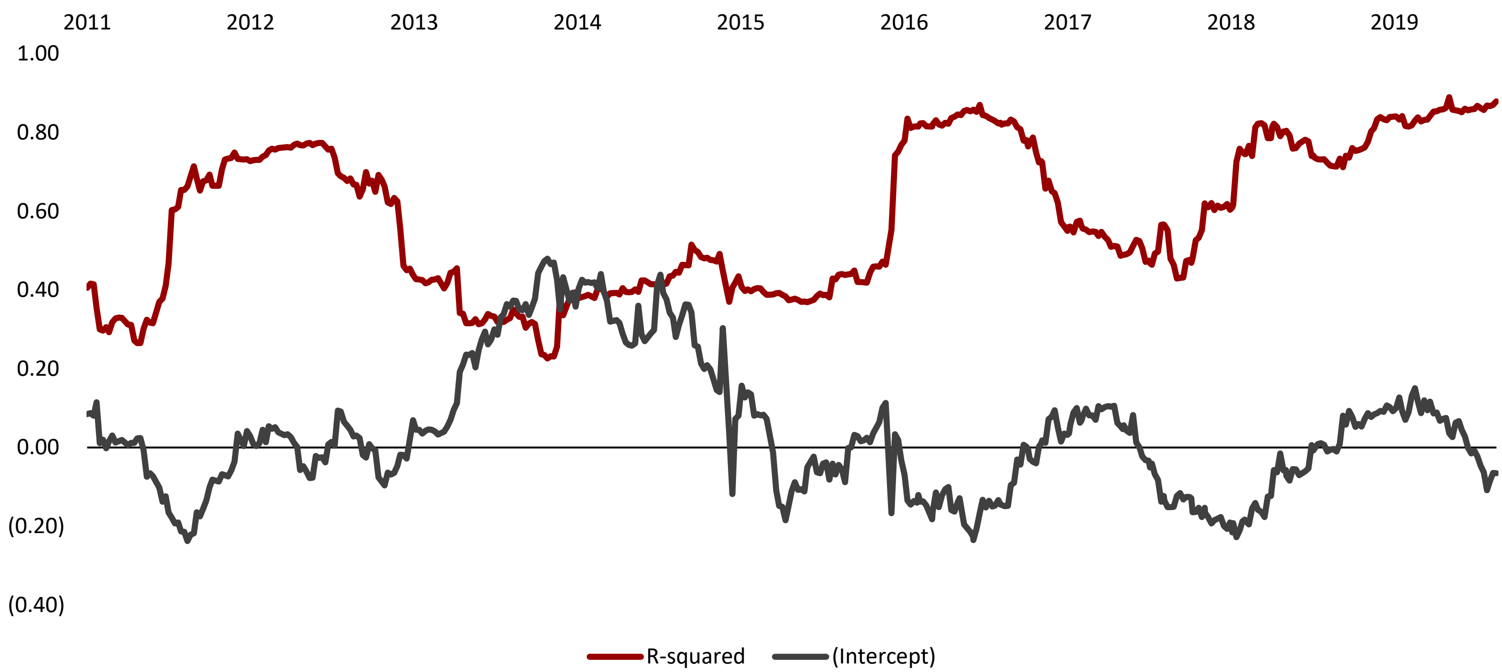
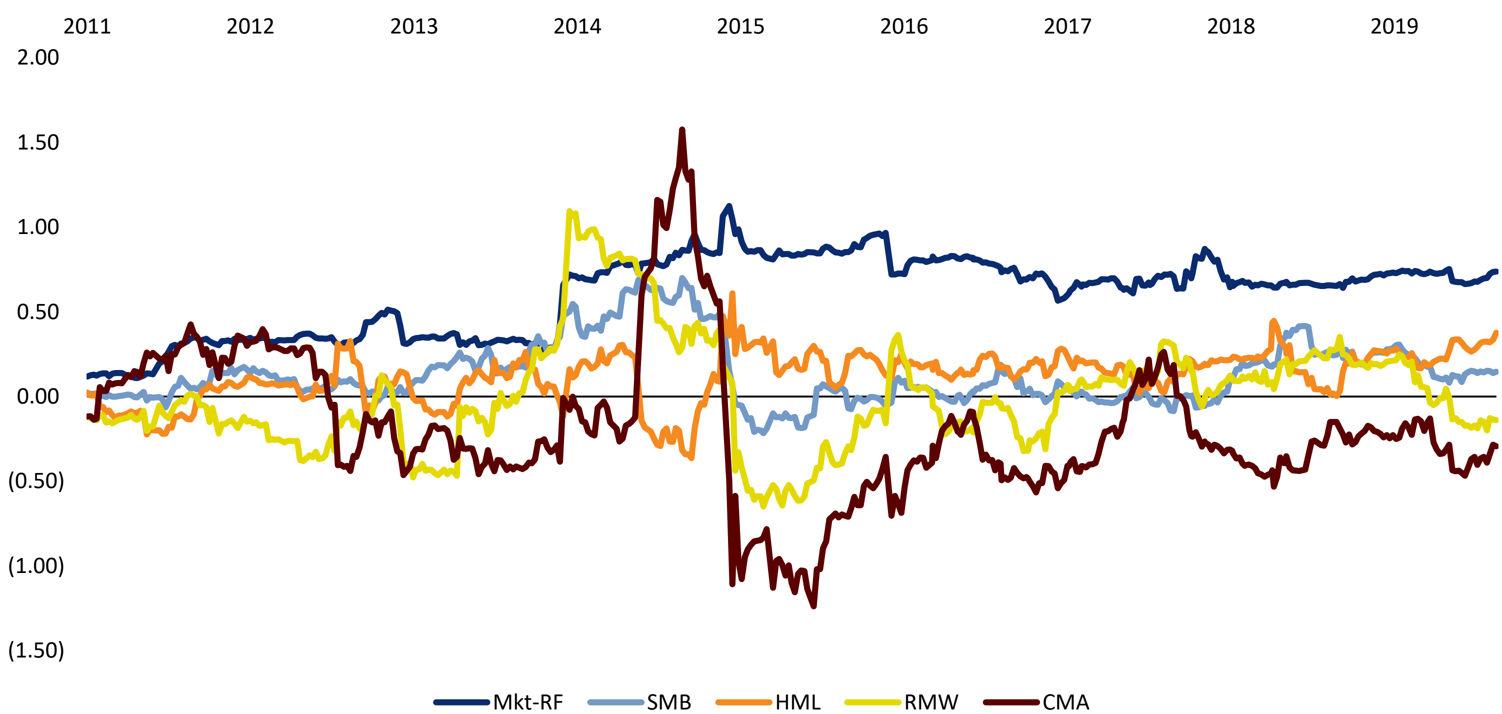


Figure 7: Global Equity Fund FF5 Regression since Inception – Loadings



CONSUMERS

Selena Zhu | Senior Analyst
Kanishk Shah | Junior Analyst
Alexandra Tremblay | Junior Analyst

CONSUMERS
2019 REVIEW

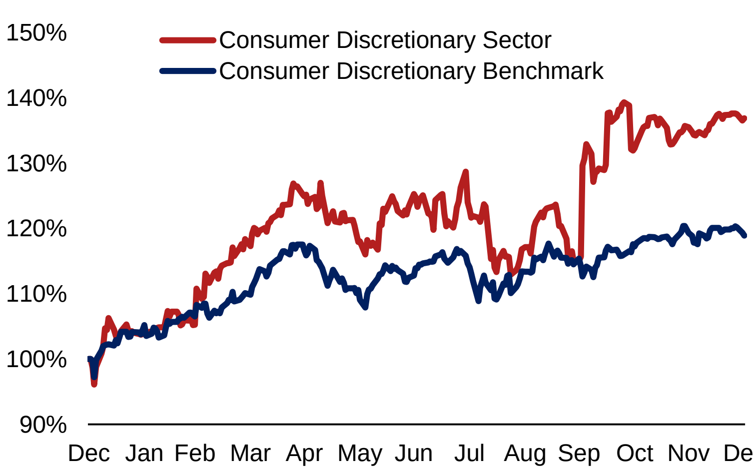
PERFORMANCE OVERVIEW

While 2019 was expected to be a more challenging year as companies had to compensate for the 2018 tax-cut fueled gains, the robust consumer spending environment and recovery of organic sales growth bolstered performance. This was mainly driven by commodity price increases, low unemployment, rising wages, and the Fed's reversal in interest rate policy.

Overall, 2019 proved to be a solid year for both consumer staples and discretionary stocks. DCM's consumer portfolio was especially well-positioned to capitalize on trends in the Discretionary subsector. Consumer Discretionary yielded an annual return of 36.9% while our benchmark achieved returns of 18.9%. With this excess return above benchmark, Discretionary ranked 3rd among DCM's 11 sectors. This is primarily attributable to previously held shares in Live Nation and The Stars Group, which each yielded a 14% return. Additionally, our current holding in Aritzia returned 8%.

Unfortunately, the Consumer Staples subsector was not poised to capture this growth, which led to a slight underperformance, with a fund return of 10.5% compared to a benchmark return of 13.1%.

Figure 1: DCM Consumer Discretionary Performance

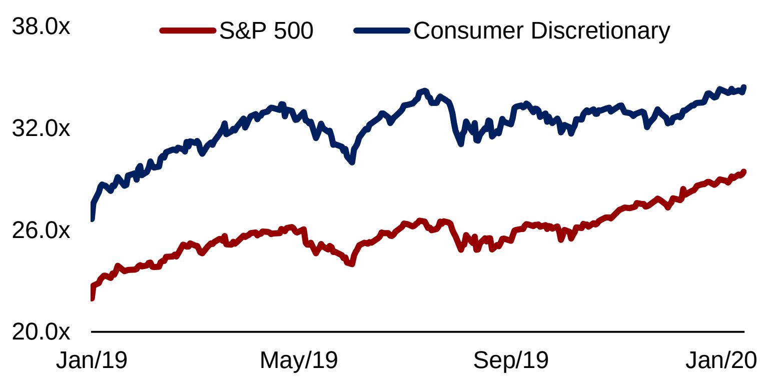


Source: Bloomberg

DISCRETIONARY

The Consumer Discretionary sector returned 20% over the course of 2019, which is largely attributable to an expansion in P/E multiples. While Discretionary multiples experienced a correction at the beginning of the year, they soared in 2019, as a consequence of strong consumer sentiment (Figure 2). We believe the sector is currently overvalued, and we expect a correction to take place over the course of 2020. We will seek to uncover companies that are overly discounted during the correction, thus enabling us to invest in companies that would otherwise be too expensive.

Figure 2: S&P Consumer Discretionary P/E Multiples



SLUGGISH STAPLES

2019 saw the Staples subsector get off to a very strong start, from January up to August. Beyond that point, a combination of declining EPS growth outlooks and rising yields resulted in a slight drag on the overall performance. Regardless, the subsector performance remained solid for the year. Unfortunately, the gains in the overall industry did not translate into portfolio gains. We attribute this valuation discrepancy to a lack of exposure to the subsector's high-returning industries, with Loblaw being our only holding in Staples. Despite growth in Food and HPC this year, these subsectors underperformed Beverages and Tobacco.

CONSUMERS

CONSUMER DISCRETIONARY OUTLOOK

MARCOECONOMIC OUTLOOK

Following a strong 2019 economy, which was supported by moderate growth, low unemployment and bolstered consumer confidence, 2020 will be a year of transition for companies in the Consumer Discretionary sector due to the uncertain political environment. A relatively stagnant interest rate environment in Canada and expectations of a rate cut towards the end of 2020 in the US, coupled with low-to-medium levels of inflation across North America, suggest that we are approaching the peak of the business cycle. This is a conducive environment for Discretionary stocks.

However, geopolitical tensions continue to rock the economy, and imposed tariffs are expected to adversely impact consumer companies. The uncertainty surrounding the US-China trade war could potentially result in higher tariffs, which will contribute to inflationary pressure due to higher input costs. So far, the US has imposed tariffs of $360 bn on Chinese imports.

Over the course of 2019, although the trade war has negatively impacted the manufacturing sector, consumer spending and retail sales have remained strong. The low inflationary environment, reinforced by steady employment growth and wage gains, has driven growth in real income, thus fueling consumer confidence.

If an amicable solution is not reached and the trade war reverts back to increasing tariffs, we believe that both consumer and business confidence will be adversely impacted, thus hindering macroeconomic growth. Consumer spending will not react as it did in 2019 because unemployment levels are currently at a historical low. Therefore, further increases in employment levels are unlikely, which limits further improvements in real income.

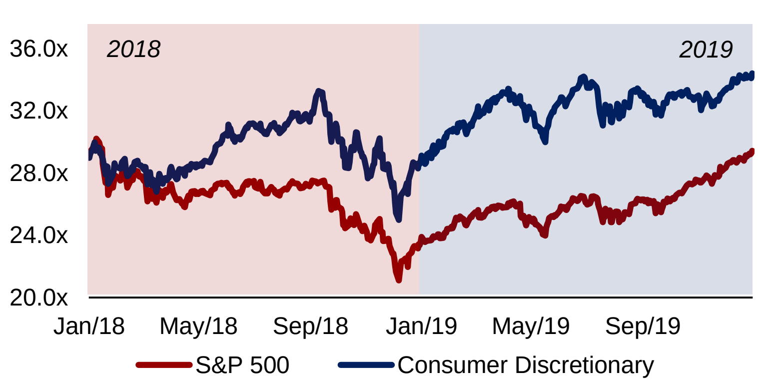
Source: RBC, CNBC, Bloomberg

VALUATIONS

In 2018, valuation for Discretionary stocks reached an all-time high, peaking above pre-2008 levels. The sector was significantly overvalued when compared to its historical average. However, towards the end of 2018, the overall market experienced a correction across most sectors, including the Discretionary sector. Despite the correction, the sector experienced a new peak in 2019. However, unlike in 2018, valuations have moved in-line with the broader S&P index (Figure 2).

Moving forward, we believe that valuations for the sector will remain at levels higher than the historical average due to severe overvaluation in previous years. Relative to historical multiples, the convergence of the Discretionary sector with the overall market suggests that investors have revised their growth projections associated with Discretionary stocks downward (Figure 3). We support the downward revision and believe that multiples will further contract in 2020, albeit less intensively relative to the correction at the end of 2018. This creates an opportunity for us to uncover companies that are undervalued since their future growth prospects will be overly discounted because of the sector wide overvaluation. Additionally, factoring in the tumultuous political uncertainty, we will favor companies that offer smaller ticket items.

Figure 3: Consumer Discretionary P/E Multiple



CONSUMERS

CONSUMER DISCRETIONARY OUTLOOK

TRENDS WITHIN DISCRETIONARY

The Consumers sector reached an inflection point in 2018 when it was hit with a slew of disruptions which threatened to alter market dynamics. As the market started to factor in potential disruptions and reward companies that capitalized on evolving market dynamics, the market corrected itself at the start of 2019. In our view, the market has rewarded and will continue to reward companies that convey an ability to adapt to the following trends in 2020.

1) DIGITALIZATION

As technological advancements continue to define customer expectations, we expect companies to address this shift by digitalizing their entire value chain, from the supply chain to product offerings. We believe that this trend is fueled by two underlying drivers: the importance that consumers have started to place on convenience and experience. In the US, Millennials and Generation Z make up the largest proportion of the adult generation. Both segments have proven to be highly productive because of their ability to maximize efficiency through implementation of technology into their lives. Therefore, they expect businesses to conform to their lifestyles and facilitate their purchasing habits by making consumption more convenient. Companies within the restaurant industry, more specifically fast-food and quick-service restaurants, have started to deviate from traditional distribution of products, towards innovative alternatives to satisfy customer needs. Examples include in-app purchases that allow customers to have their orders prepared prior to arrival, as well as partnerships with various delivery platforms such as Uber Eats and GrubHub.

2) E-COMMERCE

E-commerce is no longer just an option, but rather a requirement for success, especially in the hypercompetitive, technology-disrupted retail industry. The rise and dominance of Amazon over the past few years best demonstrates the undeniable importance of this trend. However, while we expect the consumer shift towards e-commerce to become increasingly prevalent, we recognize that some companies with a strong foothold in e-commerce are overvalued. Accordingly, we will aim to identify e-commerce focused, yet undervalued retailers. Our investment in Aritzia, a fashion brand with a strong e-commerce presence that was trading below peers, aligns with our strategy.

3) HYPER-PERSONALIZATION

As retailers begin to understand the importance of tailoring their offerings to each specific buyer, we believe that the trend of hyper-personalization will be increasingly leveraged to provide each client with a personalized and unique shopping experience. Data analytics will be a key enabler of this trend, allowing retailers to predict and influence buyers' purchasing decisions. According to research conducted by BCG, companies that focus on personalizing customer experiences will witness elevated growth rates. Thus, we will aim to identify companies that employ this trend to differentiate their brand and build brand loyalty.

LOOKING FORWARD

In 2020, we will aim to identify companies that are at the forefront of these trends to capitalize on concrete, realizable operational superiorities. We believe this is especially important during periods of market volatility and dampened performance.

Source: Bloomberg, PWC, BCG

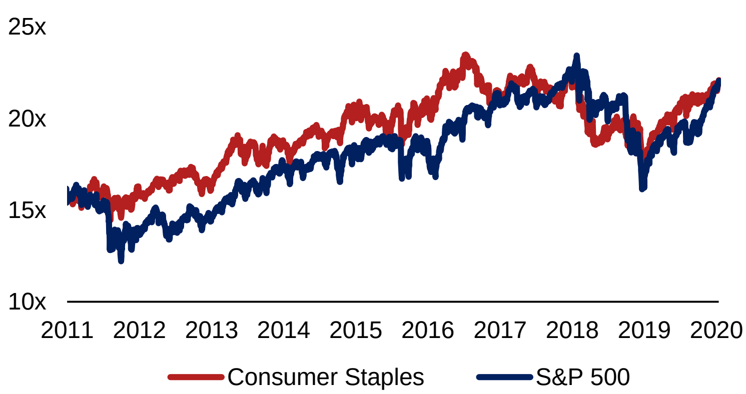
CONSUMERS

CONSUMER STAPLES OUTLOOK

2020 TAILWINDS

While the overall Consumer sector should fare relatively well, given the prevailing volatility in the broader market, we would expect more capital to flow through Consumer Staples in 2020. Furthermore, valuations are now more in line with historical averages on a relative basis following recent underperformance, while the low interest rate environment will help support elevated absolute valuations. The Consumer Staples group now trades at an average absolute P/E multiple of 21.7x on average vs. a mid-2016 peak of 23.5x.

Figure 4: Consumer Staples P/E Multiples



2020 HEADWINDS

Following significant commodity deflation in the second half of 2019, tailwinds from commodities are expected to remain for the beginning of the year but dissipate throughout 2020. Therefore, we expect to see the magnitude of cost savings contract, despite increased efficiencies. An organic sales growth slowdown can also be expected going forward in 2020 driven by a cycling of 2019 price increases, which is viewed as particularly risky for Household Products. Higher pricing in household products over the last year following a commodity price spike seemed sporadic, with further price increases unlikely given deflating commodities.

Throughout 2019's price increases, very little volume elasticity was observed as price changes occurred across the Staples subsector. As the potential for price hikes dissipates going forward in 2020, there are concerns that volume would not increase accordingly, causing the industry to return to its prior stage of acute gross margin pressure.

Rising freight costs will continue to exert pressure on Staples in 2020. While the ongoing driver shortage problem has eased in the past year, other dynamics have surfaced, posing a potentially significant headwind to the sector moving forward. To name a few, changes in insurance rates and FMCSA's newly established Commercial Driver's License Drug and Alcohol Clearinghouse are exerting pressure on capacity. Many staples companies have already implemented risk-mitigating measures to reduce the impact of freight headwinds given their 2018 experience; however, those retailers more at risk will shortly begin to realize the impact of these further increased costs.

OVERALL OUTLOOK

Broadly speaking, we should remain selective in our stock picking process across the Consumer Staples sector. Staples is an appealing subsector given the benign yield environment and broader market volatility. However, in an environment of slower top-line growth and pressured gross margins, the focus should be on sustained organic sales growth. Given this environment, discrepancies in fundamental performance will emerge as companies with firm-specific drivers will maintain their growth trajectory and consistently record market share gains while companies that benefitted more from short-term and industry-wide drivers specific to 2019 won't, since these benefits are likely to dissipate in 2020.

Source: Bloomberg

Consumers

2019 HOLDINGS REVIEW

ARITZIA INC. (TSE: ATZ)

COMPANY OVERVIEW

- Aritzia is a women's fashion brand that designs apparel and accessories for its collection of exclusive, in-house brands
- Headquartered in Vancouver, Aritzia is positioned as an "affordable luxury" brand that addresses an expansive range of style preferences and lifestyle requirements
- The company operates 90+ retail stores across Canada and the United States, targeting women aged 14 to 30.
- Aritzia sells in-house brands such as Wilfred, Le Fou, TNA, etc. as well as third-party brands like Levi's, Adidas, Mackage, and more

CATALYSTS

- Increased brand adoption and awareness in the United States
- Continued strong consumer confidence and spending habits would benefit sales in the affordable luxury category

RISKS

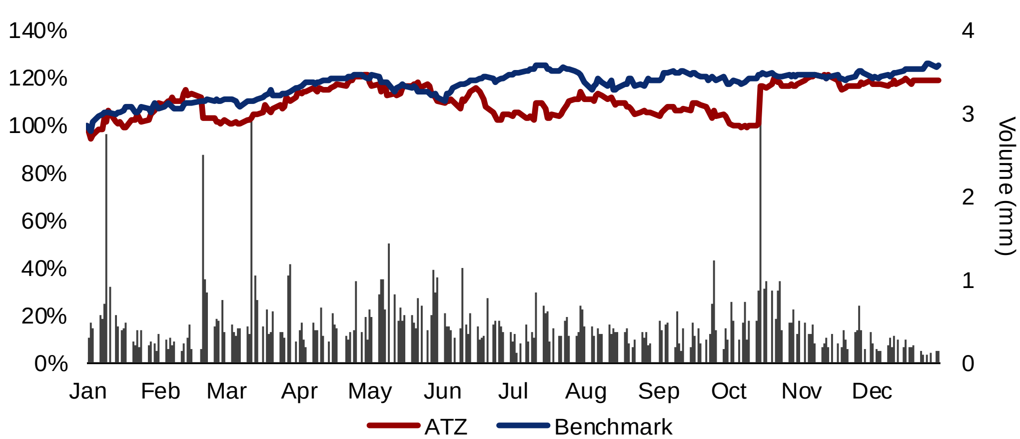
- Potential wage increases in various regions may exert pressure on margins
- Cannibalization of old stores due to aggressive store openings in Canada and the United States, as Aritzia plans to open 5 - 6 new stores per year

INVESTMENT THESES

1. **Investors clumping Aritzia with traditional brick and mortar retailers despite Aritzia being more comparable to modern retailers due to its private label brands and low-density store portfolio**
   - Aritzia's "Amazon proof" product mix, driven by premium private label brands, enhances Aritzia's brand strength and enables the company to control prices, markdowns, and distribution while hedging against online threats through its exclusive distribution channels
   - Low-density store portfolio in premier high-traffic malls increases its brand presence in strategic locations
2. **Market is underestimating Aritzia's US store expansion opportunities**
   - Current pipeline of new US store openings is the most robust to date due to Aritzia's growing popularity
3. **Investors failing to price in the growth potential from the development of Aritzia's e-commerce platform**
   - E-commerce platform is experiencing accelerated growth, on track to achieving Aritzia's target e-commerce penetration of 25% of total net revenue by 2021

We decided to <u>HOLD</u> ATZ until gross profit margin reach 43%

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: DCM, Bloomberg, Company Filings

POSITION SNAPSHOT

Average Cost (CAD)	$14.92
# of Shares	5,300
Value Invested	$100,965
Portfolio Weight	3%
2019 HPR	16%
2019 HP Benchmark Return	19%
Excess Return	(3%)

LOBLAW COMPANIES LIMITED (TSE: L)

COMPANY OVERVIEW

- Loblaw, the leading food and pharmacy company in Canada, engages in the grocery, pharmacy, health and beauty, apparel, financial services, and wireless mobile services businesses
- Headquartered in Brampton, Ontario, Loblaw is the largest retail and wholesale food and staples distributor in Canada, operating under 22 banners including Loblaws, No Frills, T&T Supermarket, etc.
- The company operates 1300+ stores, both corporate-owned and franchised, across Canada
- Loblaw controls more than 8000 private-label brands including President's Choice and noname
- The company acquired Shoppers Drug Mart in 2014

CATALYSTS

- Successful execution of Loblaw's multi-year plan, initiated in 2018, that focuses on improving its operational efficiencies
- Appreciating CAD relative to the USD (Loblaw purchases 60% of inputs in USD)

RISKS

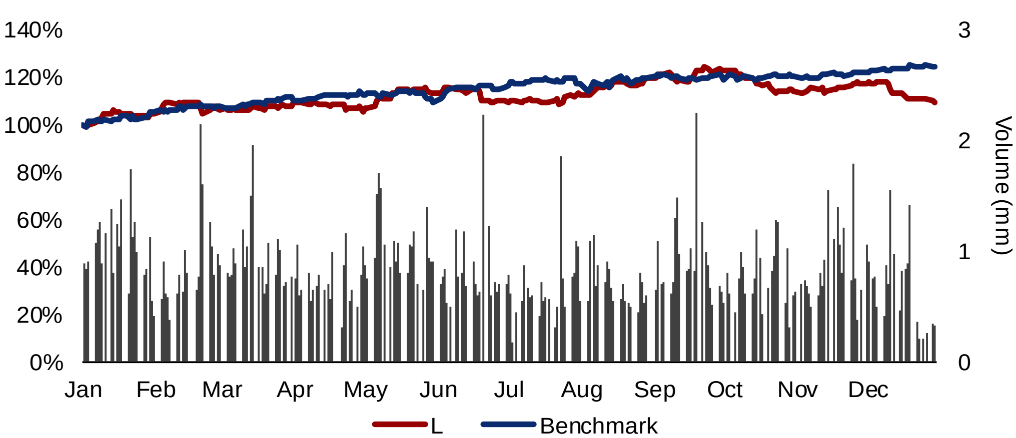
- Accelerating cost pressures such as increasing transportation costs and tariffs may exert pressure on margins
- Risk from discount grocers entering the market
- Further generic drug price-cutting initiatives within the healthcare reform

INVESTMENT THESES

1. **Overblown fears of external threats that Loblaw can ward off given its Canadian grocery "moat"**
   - "The Click and Collect grocery pick-up business model is most beneficial to consumers and retailers in terms of cost and convenience, with all major Canadian grocers venturing into this space
   - Loblaw, withholding the advantage of high store density which translates into high Click and Collect store conversion potential, has the foothold in the grocery pick-up space; 500+ locations have been converted
2. **Shoppers Optimum and PC Plus merger creates higher switching costs relative to internal competition**
   - Market hasn't fully priced in the informational advantages and increased switching costs associated with the merger of the two loyalty programs to create the largest, stickiest loyalty platform in Canada
3. **Loblaw is relatively insulated against "twin" headwinds: minimum wage increase and healthcare reform**
   - Loblaw can weather minimum wage increases by raising product prices without materially changing demand due to the price inelasticity of groceries and the drug price reform due to its focus on supply chain

We decided to <u>HOLD</u> L until gross profit margin reached 31%

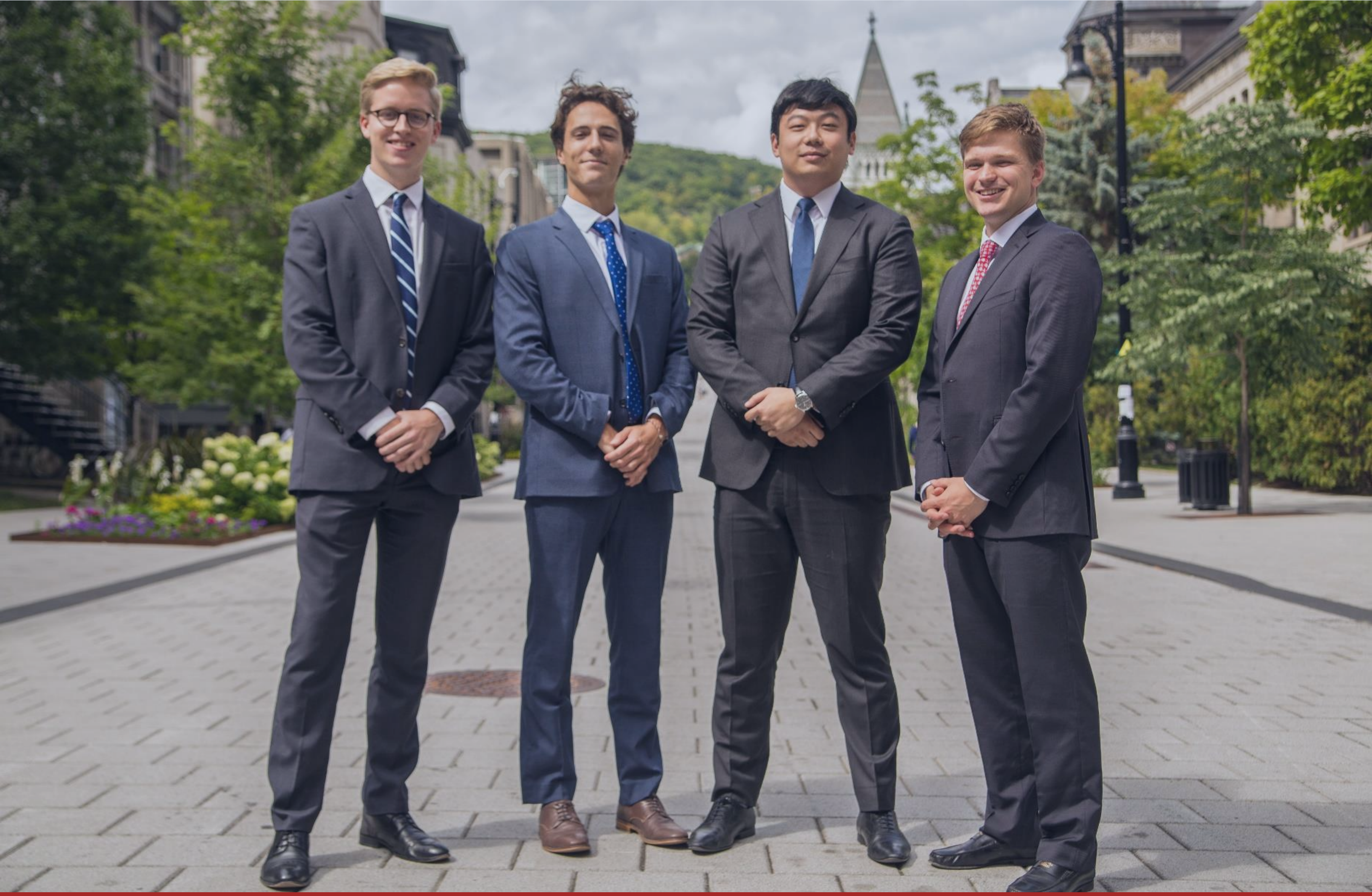
STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: DCM, Bloomberg, Company Filings

POSITION SNAPSHOT

Average Cost (CAD)	$20.29
# of Shares	1,580
Value Invested	$105,860
Portfolio Weight	3%
2019 HPR	10%
2019 HP Benchmark Return	13%
Excess Return	(3%)



ENERGY & UTILITIES

Alessio Marcogliese | Senior Analyst
Riley Wolever | Senior Analyst
Duncan McHattie | Junior Analyst
Zhao Kang Chen | Junior Analyst

ENERGY
2019 REVIEW

ENERGY SECTOR PERFORMANCE

The Energy sector's benchmark this year returned 5.9% against an S&P return of 30.4%. Compared to other sectors in the economy, Energy had a very tough year, and had the lowest benchmark return of any sector. Depressed oil prices globally led to a sluggish year for upstream producers in particular.

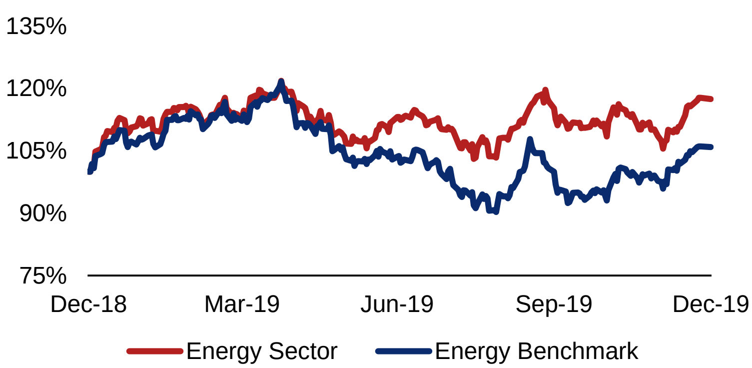
DCM ENERGY PERFORMANCE

Figure 1: DCM Energy Performance in 2019

ENERGY PERFORMANCE METRICS YTD		
	Sector[1]	Benchmark
YTD Return	*17.4%*	*5.9%*
Annualized Return	17.4%	5.9%
Annualized Std Dev	8.5%	8.0%
Annualized Sharpe Ratio	1.8	0.4
Beta[2]	0.8	
Annualized Alpha	12.2%	

On the bright side, DCM's energy sector significantly outperformed our benchmark in 2019, delivering a YTD return of 17.4%. We achieved an annualized alpha of 12.2%, and a Sharpe Ratio of 1.8. Despite having the worst performing benchmark, Energy delivered a Sharpe ratio 4.5 times that of the benchmark.

Figure 2: 2019 Energy Performance vs. Benchmark



Source: DCM, Bloomberg, Baker Hughes, Company Filings

2020 VISION

In the beginning of 2020, Canada's active rig count grew from 85 to 203 according to data from Baker Hughes. This arrives as the curtailment policy is beginning to be rolled back. This 118 rig count increase has been contributing to a new oil price "blowout". The Canadian oil price discount has been severely handicapping the industry over the past 5 years and it is a worry for oil sands producers that this will continue throughout 2020. As of January 13, 2020, prices for heavy crude have hovered around the mid-35$ range despite fairly robust WTI prices. WCS prices have been trading at a discount relative to WTI of about $23 per barrel so far in 2020, which is a larger discount than was seen even after the Keystone pipeline leaked a few months ago. Although the differential is natural due to quality, the spread has increased due to Canada's inability to transport oil to market. Toward the end of 2018 the discount had dropped to as low as $13 primarily attributed to the NDP's curtailment policy which had generated controversy for Canadian majors. If the differential continues to exceed $25, the Kenney government may have to intervene.

Canadian major oil producers (CNRL, Suncor, Husky and Cenovus) had mixed feelings towards the policy. Mark Little, the CEO of Suncor, one of the largest players in the oil sands as well as a current holding, opposed the curtailments in light of admitting that this policy helped ameliorate Suncor's Q1 results.

"In the fourth quarter of 2018, there were low benchmark prices with wide heavy and light crude oil differentials. Whereas, in the first quarter of 2019, there were higher benchmark prices and narrow differentials"

- Mark Little, CEO of Suncor

ENERGY
2019 REVIEW

ENERGY SECTOR OVERVIEW

Global consumption of petroleum was approximately 100 million boe/d in 2019, driven by an increase in non-OECD consumption that more than offset the small decrease in OECD consumption. OPEC accounted for approximately 35% of oil production in 2019, a 2% decrease from 2018.

Several major themes defined the year for the Energy industry both globally and within North America. Globally, increased unease in the Middle East following aggression from Iran and uncertain outlook for global trade have strengthened oil prices. Regionally, North American energy as been defined by increasing decline rates in the Permian, pipeline glut in Canada, and lower exports to China.

Increased climate awareness in 2019 has had negative impacts on the energy industry through outflow of capital from the industry, and multiple depletion has been in part a result of institutional investors augmenting their ESG emphasis. The IYE Energy index lost 11% of it's value during the climate strikes of September, which drew massive global attention.

Increased unease in the Middle East has been a catalyst for oil price appreciation during the year. This has been marked by the September attacks on Saudi Aramco's facilities which caused a 10% and 9.5% increase in Brent and WTI oil prices respectively. There has also been increased uncertainty concerning the Straight of Hormuz, a waterway in the Middle East that sees around a quarter of the world's oil supply pass through it. The Straight has been a recent target for Iran aggression against oil tankers, and there has been increased security on tankers among other precautionary measures. This risk has been a tailwind for oil prices and for North American companies.

The trade dispute between China and the US has been reflected in WTI prices. This dispute is seen as a major factor regarding global growth and positive proceedings have been met with oil price appreciation whilst the opposite has been true for negative proceedings. Prior to the beginning of the trade war in June of 2018 the United States exported 16,627 mboe. However since the trade war began, the US has exported an average of 5,467 mboe per month to China.

CANADIAN ENERGY SECTOR

2019 was a lively and underwhelming year for the Canadian Energy Sector. During the summer, the Trans Mountain Pipeline was approved by the Liberal government. This pipeline promises the option to export petroleum products to Asia so that Canada isn't reliant on the United States. However TMX underwent significant pressures from environmental groups and First Nations groups. Also during the summer two bills were passed that are seen as headwinds for the Canadian Oil and Gas sector. Bill C-48 prohibited oil tanker ships from operating on the North Coast of BC, which is detrimental to efforts to get oil and LNG to Asia. C-48 is a powerful headwind for Canada's efforts to no longer rely on a single buyer of their petroleum products, as 99% of their exports currently go to the US. Bill C-69 increased the regulations and the steps required to build and approve new pipelines. This bill will increase the length of the process of implementing new pipelines. This will be detrimental considering Canada is in desperate need of new pipelines in order to increase capacity, strengthen WCS pricing and rejuvenate the sector.

Fall of 2019 was marked by the Canadian Federal Election which saw the Liberals get elected for another term. The result of the election initially dissuaded the Energy industry a great deal, and feelings

Source: DCM, Bloomberg, Company Filings

ENERGY
2019 REVIEW

of Western separatism became prominent. However, in efforts to appeal to the Western provinces the Trudeau government is seemingly committed to getting TMX built. Furthermore, Canadian energy ended the year on a high note with the finishing of the Canadian portion of Enbridge Line 3 on December 2nd.

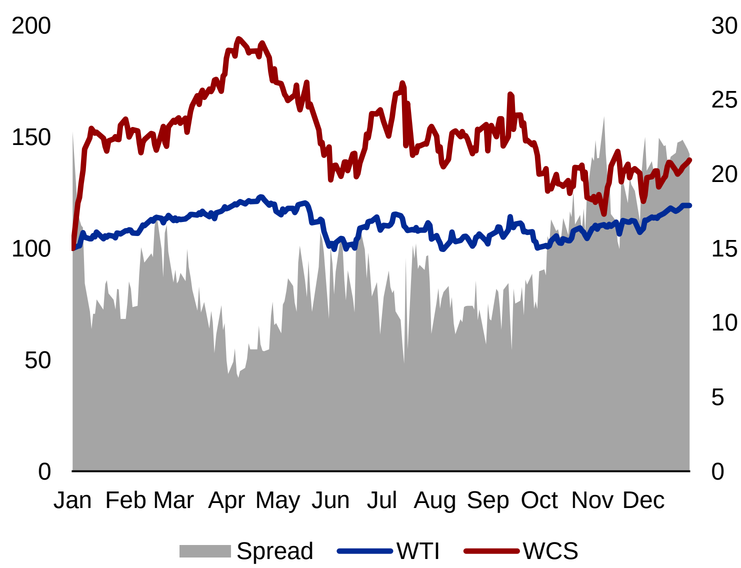
This volatile year for the industry has resulted in record low multiples for Canadian Energy companies. As seen in Figure 4, Canadian intermediate upstream companies trade at a significant discount to their American counterparts based on EV/EBITDA. While Canadian oil majors traded in line with their American counterparts for most of 2019, they've traded at slight discount since November. As exemplified in the table, Oil and Gas companies in both countries trade at much lower multiples than a blend of the S&P and TSX does.

Figure 4: EV/EBITDA Valuation, 2019

	SPTSX	Canada		US	
		Major	Interm.	Major	Interm.
Jan	12.7x	6.2x	4.9x	6.6x	6.3x
Feb	12.9x	6.4x	4.8x	6.6x	6.4x
Mar	13.x	6.5x	4.9x	6.7x	6.4x
Apr	12.5x	6.2x	4.8x	6.6x	6.4x
May	12.2x	5.9x	4.6x	5.9x	6.1x
Jun	12.2x	5.7x	4.2x	5.6x	5.7x
Jul	12.x	5.8x	4.2x	5.8x	5.8x
Aug	12.x	5.5x	4.x	5.4x	5.2x
Sep	12.2x	5.7x	4.2x	5.5x	5.3x
Oct	11.4x	5.7x	4.x	5.4x	5.x
Nov	11.6x	6.x	4.2x	6.5x	5.2x
Dec	11.8x	6.1x	4.5x	6.8x	5.5x

Figure 5: Effect of C-48. Moratorium area prohibited to tankers (stopping, loading, unloading at ports or other marine installations) shown in green

Figure 6: WTI and WCS Returns and Spread in 2019



Source: Bloomberg, BOE Report, CBC News, Library of Parliament

ENERGY
2020 OUTLOOK

IMMEDIATE EGRESS RELIEF

As it stands Canada currently enjoys 3.9 million boe/d of egress capacity while producing 4.3 million boe/d. This production glut negatively impacts the price of WCS. Pipeline relief is the most obvious solution to handle this matter adequately. Getting pipelines both approved by the government and built in timely fashion has proved to be incredibly complicated. As per Angus Reid Polling, 65% of Canadians approve the construction of new energy infrastructure projects to transport crude oil to market. Despite the majority support, opponents of the projects have found ways to delay the process. TMX, which would increase capacity by 590 MBoe/d, is viewed as the most important pipeline for the sector. Meanwhile, if there are no further delays and complications, then the pipeline should be operational by mid-2022. KXL is another major project that would deliver 830 MBoe/d of heavy crude to the Gulf Coast. The future of the pipeline seems bleak as President Trump faces re-election later this year as all his Democratic opponents have vowed to repeal KXL's permit.

The most plausible pipeline relief that could help the industry is the construction of the American portion of Enbridge Line 3, which is "expected" to be finished in the second quarter of 2020. The replacement of the old pipeline could contribute 350 MBoe/d of additional capacity. On December 2, 2019, the Canadian portion of Enbridge Line 3 was finished, which added about 100 MBoe/d. While this provided some relief to the industry, the American portion needs to be optimized for EL3 to contribute materially to Canadian egress problems.

AMERICAN PRODUCTION

America's shale oil era of rapid growth due to hydraulic fracturing is finally slowing down as producers are tapping the breaks on production breaks. A recent global oil report by Goldman Sachs argued that production outside the group's countries is set to stop growing around 2021. It is our belief that geologists severely underestimated the amount of reserves in their wells. For years, the rapid growth of the industry in Texas diminished the importance of Canadian energy. Although Canadian producers are struggling with egress issues, they can potentially fill the gap that would be left from the decline in American production.

GLOBAL CONFLICT

On September 14, 2019, a coordinated air strike via 10 UAVs had damaged Saudi Aramco facilities in Abqaiq and Khurais. The strike affected more than half of the Kingdom's production, causing an outage of 5,700 mboe/d, which accounts for 5% of world production (as a reference, in 2018, Canada produced 4,600 mboe/d). As a result, oil prices skyrocketed on the news, with Brent and WTI gaining more than 15%. However, as the dust settled, both indices pared gains as Aramco assured that capacity would be restored "in no time". Nearly all gains were lost within the week, leaving some investors scratching their heads.

To kick off the new decade, the US assassinated Qasem Soleimani, a top Iranian general, commander of the Quds force (labeled as a terrorist organization), and second most powerful man in Iran. The Islamic country retaliated by striking US bases in Iraq, with tensions resulting in the accidental downing of a civilian passenger aircraft. Oil prices seemed rather disconnected to the potential supply disruption this time however, with minimal gains of ~3%, which were quickly lost.

Source: DCM, BOE Report, Statistics Canada

Energy & Utilities

2019 HOLDINGS REVIEW

Seven Generations Energy (TO:VII)

COMPANY OVERVIEW

- Seven Generations Energy Ltd. is an oil and natural gas exploration and production company focused on tight-rock natural gas resource plays in the Montney Formation in North-Western Alberta.
- Their core asset is the Kakwa River Project, which is a liquids rich natural gas play covering 500,000 acres
- Liquids-heavy production accounts for approximately 60% of sales, and Seven Generations is the largest condensate producer in Canada
- Distribution to markets outside of Alberta provides pricing premium to gas producing peers
- Condensate, their main product, is commonly used to dilute bitumen, in competition with synthetic crude production from upgrading

CATALYSTS

- Expansion of the Trans-Mountain Pipeline, Keystone XL or Line 3 Pipeline increases Canadian takeaway capacity and thus increases condensate demand
- Oil producers accelerate switch to dilbit from synthetic crude oil if current cost differential persists

RISKS

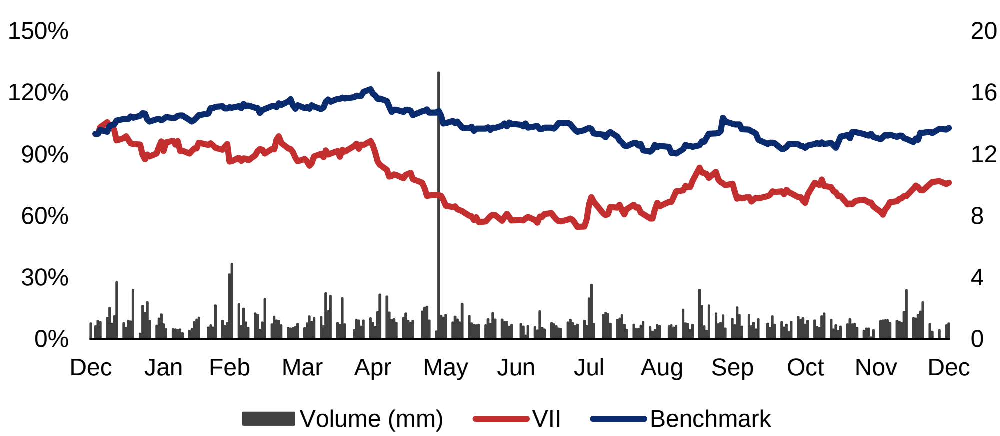
- Further unexpected U.S production increases depress gas sales, driving down margins
- Technological improvements to reduce condensate demand for dilbit in Alberta
- Drop in oilsands heavy crude production reduces diluent demand

INVESTMENT THESES

1. **Seven Generation's unique access to superior markets is not yet priced in**
   - Contract commitments for the sale of dry natural gas are entirely in higher-priced American markets
   - Competition in Alberta greatly trails in terms of market access – and selling in Alberta means a 60% discount. The competition cannot get this access because they lack the purchasing power
2. **Valued among natural gas competitors despite liquids heavy production mix**
   - Natural gas peers in Alberta are depressed by a lack of takeaway capacity – Seven Generations is compared with them in equity research despite nearly 60% of production being liquids
3. **Their flagship, premium product, condensate, is facing steady and growing local demand**
   - Synthetic crude as competition to diluting crude with condensate is shrinking, while oilsands production is steadily increasing – local condensate production can't meet demand

We initiated the position in Q4 2019 and have decided to <u>HOLD</u> our investment.

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: DCM, Bloomberg, Company Filings

POSITION SNAPSHOT

Average Cost (CAD)	$8.08
# of Shares	10,700
Value Invested	$90,629
Portfolio Weight	3%
2019 HPR	5%
2019 HP Benchmark Retu	9%
Excess Return	(4%)

First Solar Inc. (NASDAQ: FSLR)

COMPANY OVERVIEW

- First Solar Inc. is a photovoltaic (PV) solar module manufacturer based in Arizona specialized in thin-film panels, a leading technology within the sector
- It is currently one of the largest solar panel manufacturers in the world, with 25 GW of modules shipped since founding
- Operations are divided in 2 segments:
  - Systems (~32%)
  - Components (~68%)
- Over 2H18 and 2019, the company introduced the Series 6 technology, and have been transitioning from Series 4 over the year. Costs associated with ramp-up in production and other adaptations caused some fluctuation in stock price.

CATALYSTS

- Regulatory challenges were favourable to First Solar, as its thin-film technology was part of a loophole of the Trump Tariffs
- Strong profitability allows company to compete without subsidies, which provides significant advantage in China.
- Series 6 promises lower costs and higher efficiency

RISKS

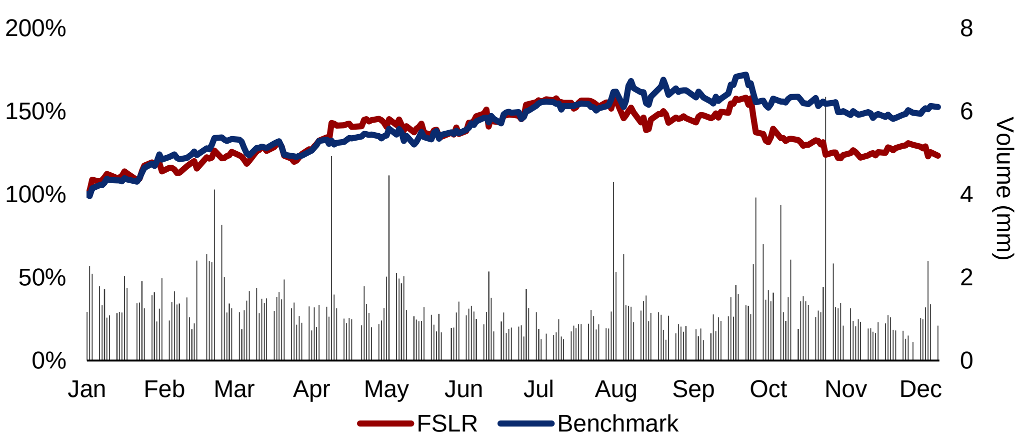
- Series 6 technology may be eclipsed very soon
- Polycrystalline technology may see advances that could see it outpace advances in thin-film technology, both in terms of costs and efficiency
- Potential worldwide market saturation of solar energy

INVESTMENT THESES

1. **Best positioned to weather near-term pricing headwinds**
   - High Cash-to-Revenue and Cash-to-Debt ratio, which created an attractive cash buffer in Q4 2018
   - Strong cash position allowed the company to fully capitalize on development of new Series 6 products, which was poised to become a leading technology in the solar industry
2. **Niche in Thin Film**
   - Current leading technology in solar modules (vs. polycrystalline)
   - Company's new Series 6 promised higher efficiency and lower costs
   - With a strong cash position, it is able to fully capitalize on the introduction of the new product

With both our theses materialized, we believe that all current growth potential have been priced in by the market, and decided to <u>SELL</u> FSLR ahead of Q3 2019 earnings release, fearing considerable downside in contrast to a lack of potential upside.

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: DCM, Bloomberg, Company Filings

POSITION SNAPSHOT

Average Cost (USD)	$48.02
# of Shares	1,160
Value Invested	$55,721.41
Portfolio Weight	2%
2019 HPR	14%
2019 HP Benchmark	(6%)
Excess Return	20%

FINANCIAL INSTITUTIONS

Miller Cressman | Senior Analyst
Jared Gaffe | Senior Analyst
Frédéric Lam | Junior Analyst
Marc Latif | Junior Analyst
Shelly Qian | Junior Analyst

FINANCIAL INSTITUTIONS

2019 REVIEW

OVERALL PERFORMANCE

The DCM Financials portfolio (excluding real estate) generated a 28.5% return in 2019, over a benchmark return of 19.6%. With a beta of 1.47, DCM generated 0.8% alpha in the financial sector. Financials' gross return ranked sixth among DCM sectors, representing a positive year for the fund. In addition, real Estate was DCM's best performing sector in 2019. Its gross return of 48.2% and excess return of 29.9% both ranked first among DCM sectors. With a beta of 1.18, DCM's Real Estate portfolio generated an annualized alpha of 27.1%. Much of this success can be traced back to Prologis REIT, one of DCM's best performing holdings of the year.

Figure 1: 2019 Financials Returns

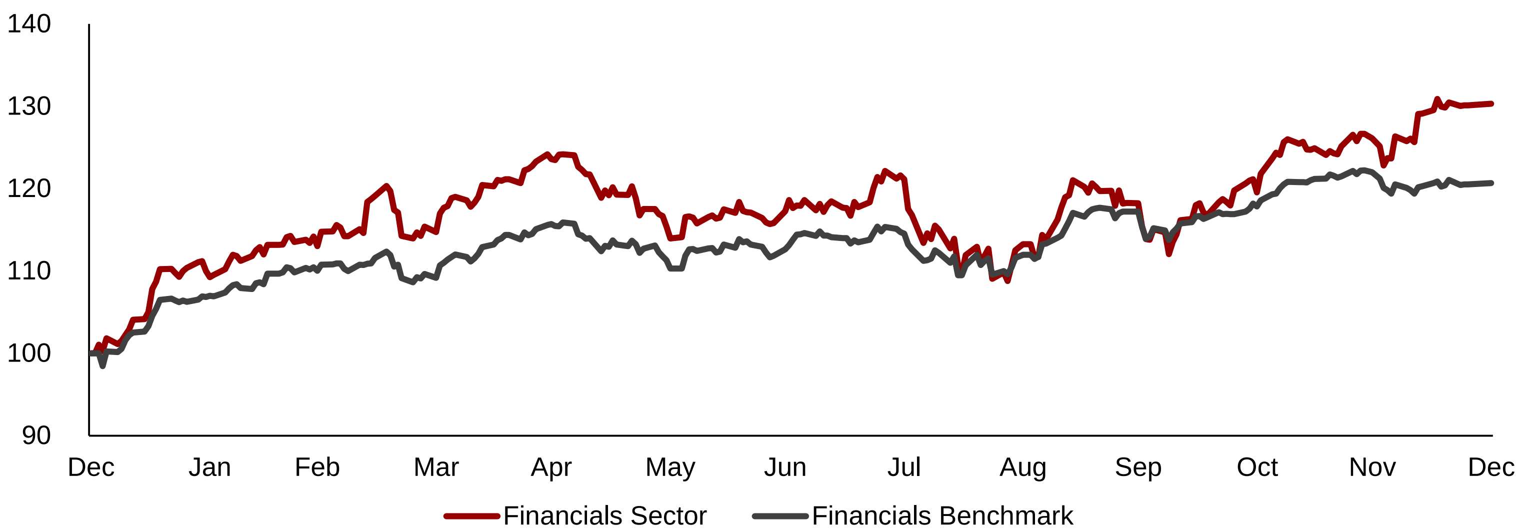
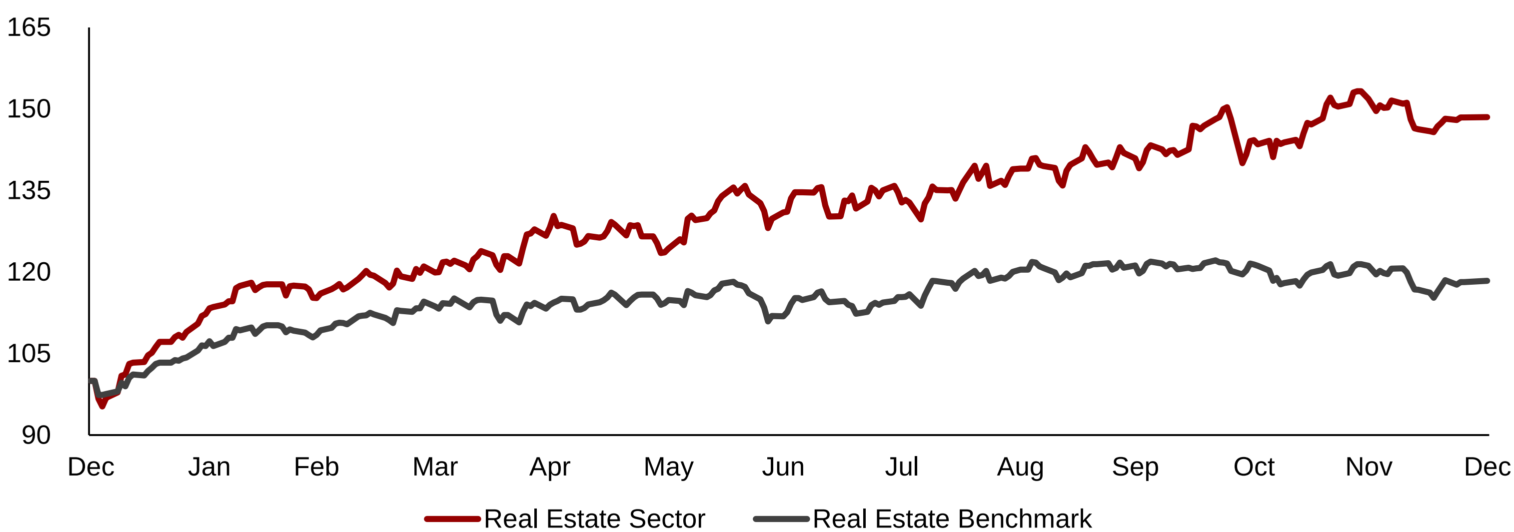


Figure 2: 2019 Real Estate Returns



Source: Bloomberg, Company Filings, S&P Global, Deloitte

FINANCIAL INSTITUTIONS

ASSET MANAGEMENT & REITS

ASSET MANAGERS

2018 was a tough year for asset managers, and 2019 was no different. In a bull market where active funds are finding it more and more difficult to justify their hefty fees, investors are maintaining their preference towards passive funds. Over the past decade, US passive funds had seen their performance CAGR and AUM CAGR increase at rates of 12% and 18%, vs 10% and 6%, respectively for active funds.

After a year of bad performance, asset managers believe diversification of both their products and the markets they operate in will be the way to improve results; hence the strong M&A activity observed within that field for the past 12 months. Indeed, it is estimated that over 272 M&A deals were closed in 2019, such as the Brookefield & OakTree deal that had affected our fund's holdings in 2019. Investment managers are eager to integrate offerings vertically, and diversify solutions presented to their clients to incorporate offerings such as financial data, advisory services and alternative investments opportunities.

REITS

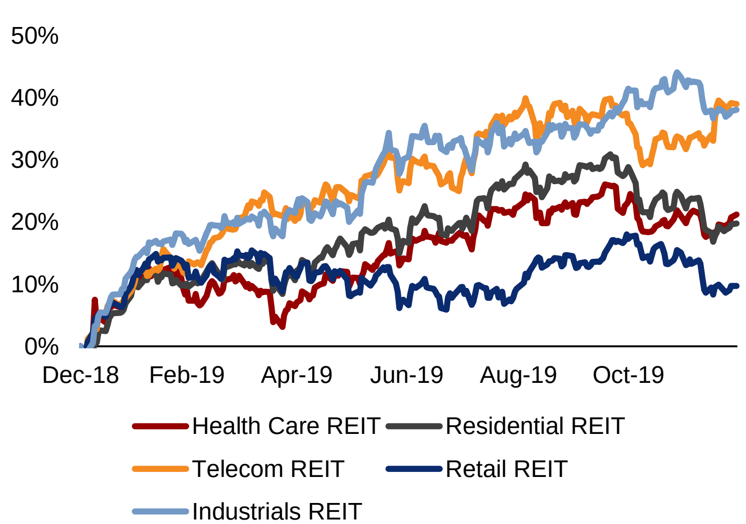
In 2019, North American REITs returned on average a solid 23.92%, slightly below the S&P 500 returns of 28.34%. However, the real estate investment trusts market saw mixed results between the various REIT sub-sectors. The industrials REIT saw the strongest returns with 41.48% in 2019. This sector was spearheaded by Prologis, 3rd biggest REIT by market cap, that returned 56.30% throughout the past 12 months. In parallel, the mall and general retail sector was amongst the lowest performers in 2019, generating only 12.21%. As e-commerce keeps booming year over year, it is understandable to see retail REITs underperforming vis-à-vis the overall REIT world, especially the industrials REITs whose warehouses serve as crucial storage locations for some of the biggest transnational companies in the world, like Amazon (biggest customer for Prologis), Wal-Mart, FedEx and much more.

With occupancy rates remaining at a strong 96% and above, in addition to strong net effective rent changes in 2019 of up to 37% for some REITs (vs 22.6% in 2018), we can see why 2019 was a strong year for the real estate market, especially industrial REITs.

The much anticipated arrival of 5G technology in 2020 will create strong demand for additional data centers and warehouses for telecom companies, proving to be a strong sub-sector for 2020 (and was the second best performer in the REITs universe in 2019 with 41.39% returns within the past 12 months).

After a weak performance in 2018, the strong performance of REITs has led to the sector to see its average P/B jump from 2.0x to 2.4x, and is expected to breach the 2.5x mark in 2020.

Figure 3: 2019 REIT Returns by Sector



Source: Bloomberg, Company Filings, S&P Global, Deloitte

FINANCIAL INSTITUTIONS

FINANCIAL SERVICES

INSURANCE

The insurance sector performed quite well in 2019. Overcoming interest rate cuts in the US throughout 2019, the insurance industry still saw returns of 25.08%, just under the S&P's 28.34%. In the first half of 2019, US insurers saw their profits decrease slightly from those of 2018 but still remained positive with an underwriting gain of $5.4B and a profitable combined ratio of 97.3%. Although not fully consolidated yet, the market estimates that non-life premiums grew approximately 3% in 2019, with a small growth figure of 1.8% in advanced markets and an impressive 7% growth in emerging markets. In the P&C space, we saw a hardening market worldwide; with strong increases in premiums in all major geographic regions such as 18% in the Pacific region, 6% in the UK, 5% in the US and 2% in Europe. These increases were mainly due to financial/professional liabilities and property coverages due to intensified disaster losses over the past couple of years.

With insurers providing strong returns for 2019, we have seen an impressive multiple expansion within the past 12 months from a P/B of 0.9x to over 1.2x heading into 2020.

PAYMENTS AND DIVERSIFIED FS

2019 was one of the strongest years to date for the financial services sector. With all 4 top credit card companies (Visa, MasterCard, Discover and American Express) outperforming the S&P 500 in 2019, 2020 looks to be a promising year for the sector once again.

The entrance of large-scale newcomers such as Apple into the digital and online payments space has offered new growth possibilities for some existing players, especially MasterCard who has partnered with Goldman Sachs to handle the fraud detection and transaction processing side of the newly released Apple credit card. This new partnership, in addition to various other growth opportunities have been the cause behind MasterCard's impressive 57.37% returns this year. In addition, further partnerships between major financial services companies and airlines and e-commerce websites have improved investors' optimism regarding the sector; placing hefty price tags on its stocks. In 2019, we saw a jump from a P/E ratio of 20x to over 35x.

With emerging markets offering unparalleled growth opportunities for e-commerce and cashless transactions, North American companies have been eager to initiate agreements with foreign companies to offer their technology and services to those untapped markets, justifying the hefty valuation. For instance, as Japan still sees 85% of all its transactions occurring with cash, the Japanese government has been eager to launch its "Cashless Vision" program, offering discounts to consumers paying with either credit/debit cards or digitally. As the government hopes to have 40% of all transactions be cashless by 2025, we have seen the entrance of American companies like Square into the Japanese market, by launching all of its products and services earlier in 2019.

Throughout 2019, financial services companies such as American Express and Discover Financial have been able to grow loans by double digits while Amex maintains a write-off rate of just 2%, indicating that the risk of default on the company's loans is overblown.

Although major credit card issuers have kept their domestic fees constant (approximately 2.3% of transaction value), we have seen a cut in the interchange rate of international transactions to improve North American companies' market share in foreign markets.

Source: Bloomberg, Market Watch, Company Filings, Deloitte

FINANCIAL INSTITUTIONS

CANADIAN BANKING

2019 OVERVIEW

After an 8% decline in 2018, Canadian bank equities recovered in 2019, returning 9% during the year. Nonetheless, the sector trailed the overall Canadian equities market, which climbed 18% in the same period.

Profits have been sluggish across all banks. Each of the big six banks, except for National Bank of Canada, missed earnings at least once throughout the year, as overall profits declined 5% year-over-year. The mean ROE among the big six banks fell from 15.8% at the end of 2018 to 15.0% as a result. The decrease in profitability was driven by a significant increase in loan losses. Banks remained rather conservative, increasing their PCL ratio in 2019 in anticipation of a slowdown of the economy. The outlier, National Bank, performed better relatively to peers due to a stronger Quebec economy and less mortgage exposure in Toronto and Vancouver.

The impact of worsening fundamentals was however offset by improving macroeconomic conditions at the end of 2019, as the housing market stabilized, and the labor market remained strong. Loan growth accelerating throughout the year was also a positive indicator for investors. As a result of these tailwinds, mean P/E overall expanded slightly, increasing from 10.6x at end of 2018 to 10.9x in 2019, while P/B stayed practically the same at 1.6x. The P/B ratio sits at the middle of the historical range of 1.3-2.1x (see Figure 3). We believe that investors remain prudent despite an improving environment, as this year has shown that favourable conditions can quickly reverse, and vice versa. On top of that, Canadian banks have record-high CET1 ratios in 2019, the mean being at 12.7%, reflecting a well-capitalized banking system, which could show resilience in the scenario of worsening credit conditions.

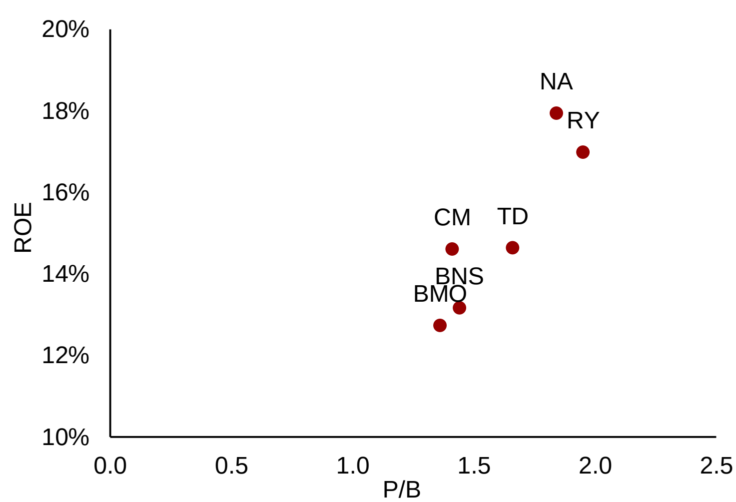
2020 OUTLOOK

Looking ahead into the new year, we believe that the recent de-escalation of the trade war between the US and China, the reduced uncertainty surrounding the USMCA trade agreement – which is one step closer to ratification following the approval of the Senate Finance Committee and the House of Representatives – as well as an consumer credit in Canada will spur economic growth in 2020 and encourage investments and loan growth, particularly business loans.

The Bank of Canada has been increasingly optimistic with regards to the state of the Canadian economy in the past few months, making the prospect of a rate cut much less likely. It left interest rates unchanged at 1.75% at its December meeting; the last adjustment dates back to October 2018. Canadian banks should benefit from this, as it will relieve some of the NIM pressure.

Given the tailwinds mentioned above, we believe that there is room for multiple expansion in the coming year, and we maintain a positive outlook on the Canadian banking sector.

Figure 4: ROE and P/B of Major Banks



Source: Bloomberg, Financial Post, Company Filings.

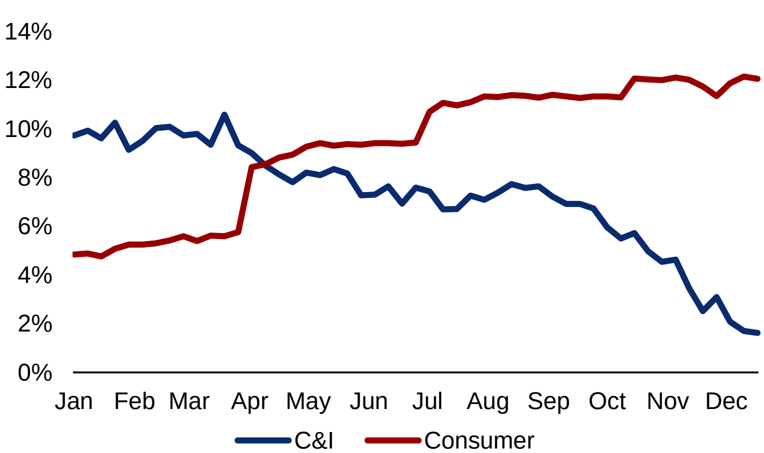
FINANCIAL INSTITUTIONS
US BANKING

2019 OVERVIEW

Despite trade tensions, slowing commercial loan growth, and considerable NIM pressures resulting from the Federal Reserve's 3 interest-rate cuts throughout the year, US banks outperformed in 2019 after a moderately weak 2018. The Average P/E ratio among US banks increased from 10x to 12.1x while the average P/B ratio increased from 1.1x to 1.3x. Overall, US Bank stocks appreciated 15.6% throughout the year.

2019's superior performance can be attributed to an increase in M&A activity and resilient US consumers. Consumer lending increased 12% primarily as a result of the healthy job market over the past decade. On average, over 2.2 million jobs were created each year. Although the banks were underperforming the market at the beginning of the year, improvements in macroeconomic conditions towards the end of 2019 such as easing trade tensions, a normalization in the yield curve, and expectations of a pause in further interest rate cuts allowed the banks to recover. Since the end of the third quarter, the US Bank Index outperformed the broader market with a 10.4% gain compared to a 8.5% gain in the S&P 500.

Figure 5: YoY Commercial and Consumer Loan Growth



Source: Bloomberg, Company Fillings

2020 OUTLOOK

US banks are expected to continue to face fundamental pressures throughout 2020. Although the futures markets are anticipating only one more rate cut in 2020, the Federal Reserve stated their intentions to keep rates steady. Either way, banks will continue to struggle with boosting net interest margins and become more reliant on fee revenue. However, the growing trend towards passive investing and the rise of robo-advisors may threaten this source of revenue as well.

The updated Current Expected Credit Loss Model (CECL) coming into effect in 2020 will require banks to reserve for expected losses throughout the lifetime of the loan rather than the current model which allows banks to set aside reserves over time. Although the upfront reserve build will improve solvency in the event of an economic downturn, the new accounting standard will result in a sizable hit to book value upon adoption due to the substantial increase in expected loan losses. Comparability will also be limited across banks as those with longer-dated loans will be impacted more severely. Consumer loans, primarily card lender portfolios, are expected to be relatively more affected given the higher loss rates and an average loan life greater than the industry standard reserving period of 1 year of losses. The new accounting standard may also incentivize banks to lend less during periods of stress due to the upfront provisions required.

Given the continuous challenges in fundamentals, we maintain a moderate outlook on US banks as further stock appreciation may become more reliant on improvements in macroeconomic conditions and sustained expansion. However, 2020 will likely experience muted economic growth. The Fed forecasts a slowdown in GDP to 2.0% in 2020 from 2.2% in 2019.

Financial Institutions

2019 HOLDINGS REVIEW

SILICON VALLEY BANK FINANCIAL GROUP (NASDAQ: SIVB)

COMPANY OVERVIEW

- SVB Financial is a commercially oriented bank founded in 1983 and is headquartered in Silicon Valley, California
- SVB offers a full-service of banking products, with a specialty in PE/VC capital call lines and the life sciences segments
- SVB Financial is the world leader in banking for the innovation economy with over 50% market share in the US & 25% worldwide
- The company operates 29 branches in cities in North America, Europe and Asia

CATALYSTS

- Continuous healthcare industry convergence will lead to increased capital markets activity
- Pricing-in of Leerink acquisition
  - As it continues to build its M&A practices, a greater prominence of Leerink as a driver of revenue will improve market sentiment

RISKS

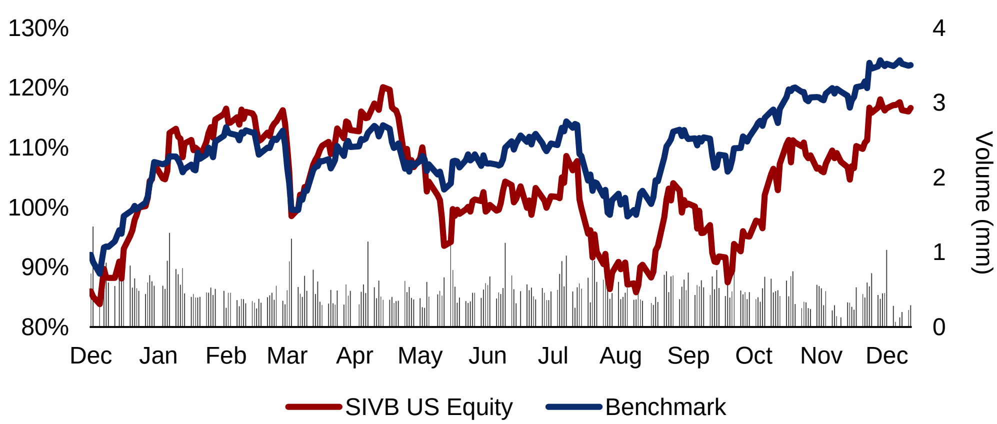
- Regulation of capital call lines
- Large exposure to Silicon Valley puts SVB at risk to systemic shocks within Silicon Valley
- Political uncertainty ahead of the upcoming 2020 election may threaten M&A activity within healthcare

INVESTMENT THESES

1. **Capital calls are a unique driver of solid growth and loan book safety**
   - The innovation economy remains strong despite a weakening global economy. 2020 median US VC fund size is expected to reach all-time highs, topping $110 million
2. **SVB is priced like a typical regional bank despite not being one**
   - SVB Financial operates in a defensible niche, and is able to maintain their competitive advantage through their 35+ years of experience in Silicon Valley
   - 70% of venture backed companies that went public in the third quarter of 2019 were clients of SVB
3. **Vertical Integration in high-potential healthcare space through acquisition of Leerink Partners**
   - M&A activity within the healthcare sector is forecasted to remain strong as companies strive to achieve scale to invest in the infrastructure necessary to meet the needs of the aging population

Given the positive outlook on the PE/VC environment, we maintain a HOLD recommendation on SIVB

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg, Company Fillings

POSITION SNAPSHOT

Average Cost (USD)	*$231.37*
# of Shares	*300*
Value Invested	*$97,830*
Portfolio Weight	*3%*
2019 HPR	*26%*
2019 HP Benchmark Return	*20%*
Excess Return	*6%*

BANK OF MONTREAL (TSE: BMO)

COMPANY OVERVIEW

- Bank of Montreal (BMO) is a financial services provider, providing a range of personal and commercial banking, wealth management and investment banking products and services
- BMO conducts its business through three operating groups: Personal and Commercial Banking (P&C), Wealth Management and BMO Capital Markets. The P&C business includes two retail and business banking operating segments, such as Canadian Personal and Commercial Banking (Canadian P&C), and the United States Personal and Commercial Banking (US P&C)
- BMO has over 1,500 bank branches in Canada and the United States, and is a Schedule I bank under the Canada Bank Act

CATALYSTS

- Strong dividend growth
- Faster growth in non-interest revenue segments
- Market realizing BMO's superior positioning in international expansion

RISKS

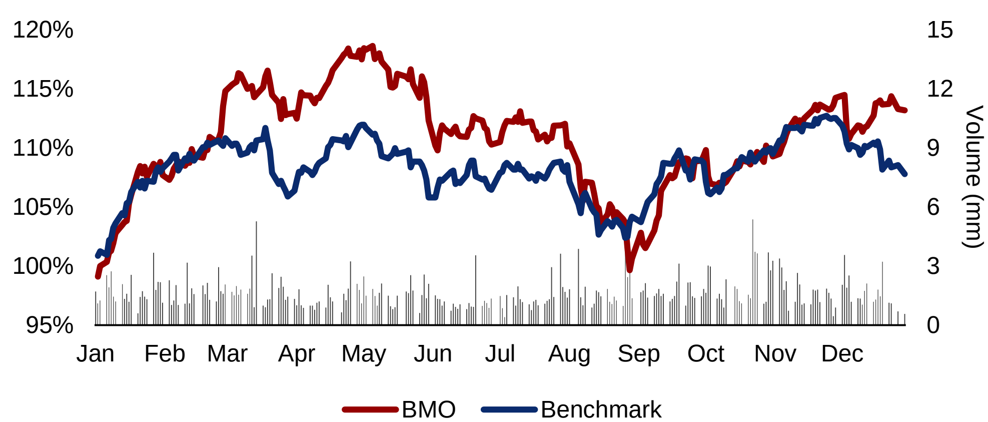
- Oil price volatility and Energy issues in Canada
- Recession in US affecting BMO's US commercial banking business, as well as residual impact on the Canadian economy
- Regulatory risk faced by banks

INVESTMENT THESES

1. **Underexposure to the housing market makes it likely to outperform peers**
   - The slow residential mortgage growth, the threat of another housing correction and a deteriorating credit quality of households represent significant headwinds for the Canadian housing market
   - BMO is the bank that is least exposed to the housing market, as it focuses on business loans
2. **Favorable international exposure as a key driver of success relative to peers**
   - Low non-US international exposure allows for high loan quality, as peers with high exposure to these markets
   - International expansion driven by quality US business loans that have yielded NIM above peers
3. **Proven track record in dealing with previous rate cuts, an asset in today's low rates environment**
   - BMO would maintain a strategic advantage in terms of positioning compared to peers if rates stay low

We decided to <u>BUY</u> BMO in November 2019 and will monitor the holding closely

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg, Yahoo Finance

POSITION SNAPSHOT

Average Cost (CAD)	*$100.56*
# of Shares	*1,550*
Value Invested	*$155,992*
Portfolio Weight	*5%*
2019 HPR	*(0%)*
2019 HP Benchmark Return	*(1%)*
Excess Return	*1%*

HEALTHCARE

Arasan Thangavelu | Senior Analyst

Jesse Li | Junior Analyst

Sean McNally | Junior Analyst

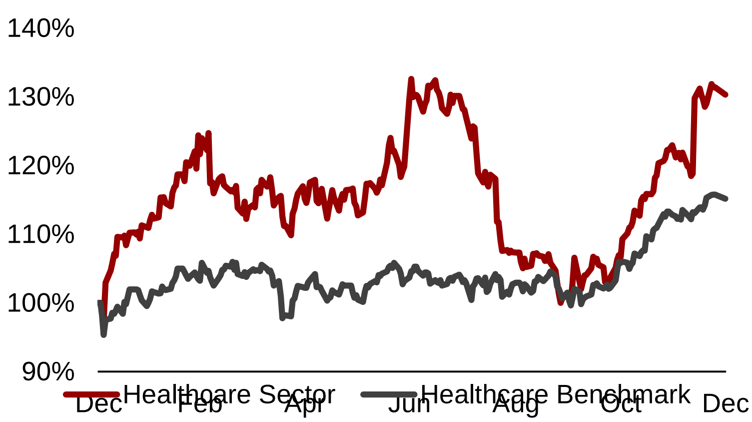
HEALTHCARE

2019 REVIEW

A WILD RIDE IN 2019

The DCM Healthcare sector returned 30.3% in 2019, strongly outperforming the iShares Dow Jones US Healthcare (IYH) benchmark return of 15.2%. However, various idiosyncratic events from several holdings resulted in large fluctuations in month-to-month returns. A FDA complete response letter (CRL) regarding accelerated approval on one of Sarepta's major pipeline drugs resulted in a more than 35.0% decline in the company's stock and a 16.2% overall decline in the sector's performance in August. Fresenius Medical Devices was up only 8.3% due to U.S. political headwinds related to home dialysis care and kidney dialysis healthcare costs. Our overall sector outperformance was mainly driven by Takeda's takeover of Shire in early January, which led to a 64.4% premium of Shire's last day trading's closing price. DCM's investment in the defensive medical devices company Medtronic also resulted in a realized gain of 31.2% largely driven by positive earnings surprises and improved free cash flow generation to shareholders. In addition, we initiated two long positions in Savaria and Alcon to increase our medical device exposure.

Figure 1: Healthcare Performance vs. IYH Benchmark



Source: Bloomberg

THE RISE OF MEDICAL DEVICES

EV/Sales multiples in medical devices continue to expand, rising from 3.9x in 2014 to 5.2x in early 2020. Expansion has been spurred by increased consolidation within the industry as well as higher growth expectations from trends including a rapidly aging global population. We continue to be bullish on medical devices in 2020, expecting continued outperformance for leaders such as Medtronic relative to the industry as a whole.

FDA SENTIMENT REVERSAL

In mid-August, the FDA issued a CRL denying accelerated approval for Sarepta's golodirsen citing IV infections and renal toxicity (despite not being observed in the clinical studies) for the franchise. The news came as a shock to investors and to CEO Doug Ingram, who mentioned that the agency did not raise concerns throughout the approval process. The stock plunged 52% by end of September.

The above suggestion may be given credence following the FDA's approval of golodirsen in December 2019 after the Company filed a formal dispute resolution request in a total reversal of the FDA's previous stance; the stock was up 35% on the news. This was both a win for Sarepta and the DMD community alike as golodirsen will treat up to an additional 8% of the DMD population, bringing Sarepta up to 20% market share in the U.S. and 2 years ahead of NS Pharma and Wave.

Despite the tumultuous year, Sarepta still returned ~20% in 2019 and we feel it has reached an inflection point as reflected in their recent partnership with Roche to commercialize SRP-9001 outside the U.S. The company remains the clear leader with its closest competitors Solid Biosciences and Wave Life sciences down 84% and 80% in 2019 respectively driven by disappointing clinical data.

HEALTHCARE

2020 OUTLOOK - BIOPHARMA

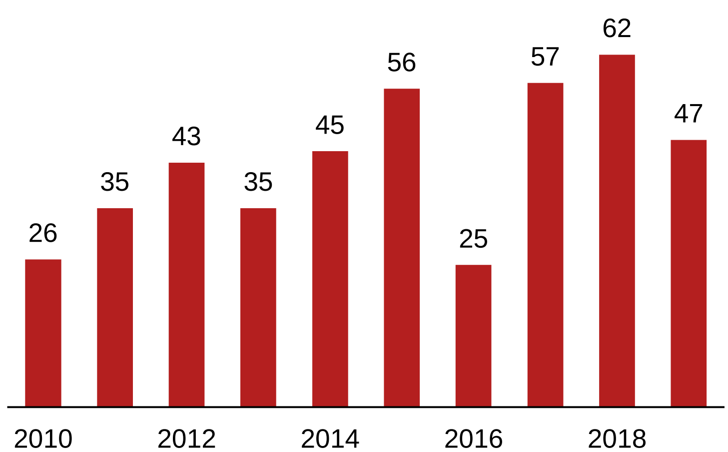
BIG ARRIVALS IN 2020

Biopharma is set for some large advances in growth in 2020. With less sales growth in vaccines, a larger proportion of R&D is set to be invested in oncology, which has a larger peak sales potential. We also expect faster acceleration of product approval for certain biopharma drugs, leading to the commercialization of high price tag drugs. Increased focus of R&D in rare diseases also indicates high spending in clinic trials, which we expect to be even higher in 2020.

US REGULATORY APPROVAL

In recent years, biopharma has seen a slight uptick in the number of US FDA approvals. These FDA approvals provide a positive investor sentiment towards biopharma as the US is the biggest acquirer of medicines globally. Figure 3 shows the overall increasing trend in the total number of biopharma related drug approvals in the US, with a significant uptick since 2017. We believe the increasingly cooperative and transparent relationship between the US FDA and biopharma companies will give investors more confidence that many of these novel treatments will be able to reach the market.

Figure 2: Total NME + Biologicals Approved from FDA

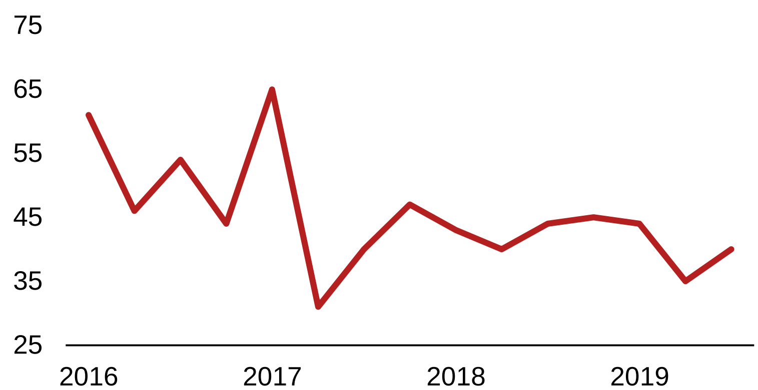


Source: Bloomberg, Vantage

POTENTIAL RISE IN M&A

Although 2019 experienced several mega M&A transactions such as the takeovers of Celgene by Bristol Meyers and AbbVie by Allergan, the total number of deals per quarter remained relatively flat.

Figure 3: Quarterly Pharma and Biotech Transactions



We believe the increased cash and capital available to larger biopharma companies in 2020 may spur acquisitions to find new sources of revenue growth. We expect larger companies to explore investments in mid-cap immunology, oncology, and rare diseases due to the continued rise of new biotech including gene therapy and hormone growth. Among our holdings, Sarepta is a likely target for acquisition in 2020. Interest in Sarepta's assets was highlighted by its sale of the ex-U.S. rights for SRP-9001 to Roche for US$1.15bn upfront ($750mm in cash and $400mm in equity) with a further US$1.7bn to be received as performance milestones are achieved.

WILL THE MOMENTUM CONTINUE?

We remain bullish in the biopharma sector. Improved flexibility from the FDA as well as increasing investment in new areas of biopharma leaves us to believe there exists much upside to be captured in the sector. Though we remain cautious with larger conglomerates with thinning pipelines, a boost in M&A activity may be able to revive revenue growth in 2020.

HEALTHCARE

2020 OUTLOOK – HEALTH TECHNOLOGY

A LARGELY UNMET NEED

As big data becomes critical for companies across all industries, healthcare will be no exception. Despite having to manage swaths of information ranging from supply chain, claims, payroll, etc., hospitals and health systems across North America surprisingly continue to operate antiquated legacy systems to manage said data, which makes it ripe for disruption and innovation (see Figure 5).

ATTRACTIVE VALUE PROPOSITION

With an aging population will come a growing number of patients shifting from commercial payer reimbursement models to public payer ones, materially driving margins down for hospitals and clinics. As such, these institutions will need to turn to cost-cutting approaches, looking first at ways to reduce wasteful spending which currently accounts ~$1,000bn on aggregate in the U.S. This form of unnecessary spending often comes in the form of improper care, inefficiency, outright fraud or corruption (i.e. things that can be mitigated using proper data management). The health system is in need of more digitization (see figure 4) to offset the drop in margins and healthtech companies are poised to grow.

Figure 4: Level of Digitization by Industry

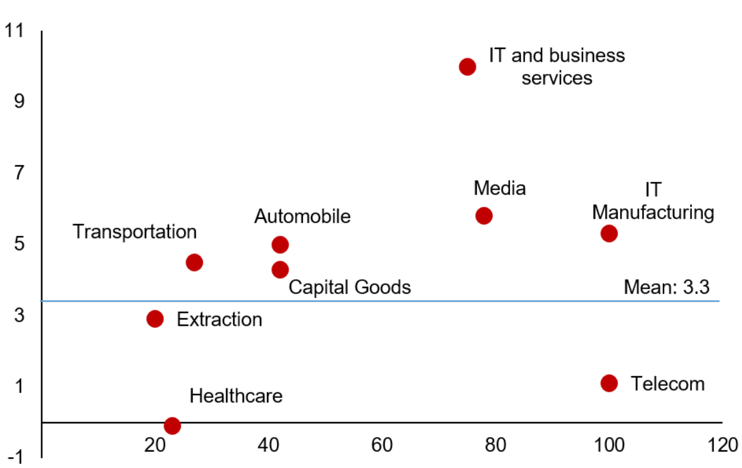
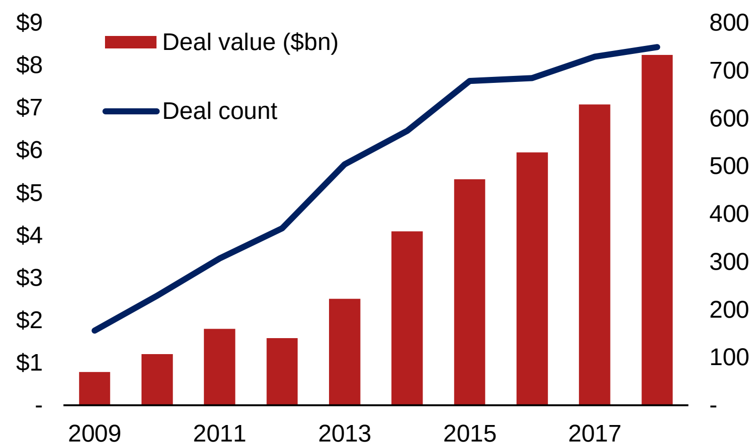


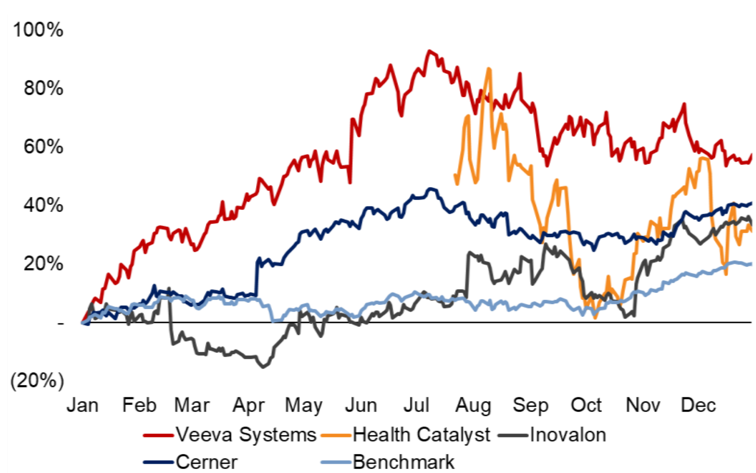
Figure 5: Venture Capital Flows in HealthTech



PATH TO HIGH GROWTH

While the healthtech sector is vast with various subsectors ranging from biometrics and wearables to virtual telehealth solutions, we are most bullish on operations and care management. As mentioned, antiquated legacy systems are vulnerable to disruption and are being phased out by data-driven systems to both cut costs and optimize patient outcomes. The figure below shows the overall performance of operations-focused healthtech players, which generally outperformed the market with the exception of Health Catalyst which recently IPO'd in July 2018.

Figure 6: Large Players Relative Performance



Sources: McKinsey, Pitchbook, CapIQ, Bloomberg

Healthcare

2019 HOLDINGS REVIEW

SAVARIA (TSE: SIS)

COMPANY OVERVIEW

- Headquartered in Laval, QC, Savaria manufactures and markets stairlifts, platform lifts, and residential and commercial elevators
- Operates through two segments: accessibility and adapted vehicles
- LTM Revenues of $346mm and LTM EBITDA of $44mm (as of October 2019)
- Dominant player (by sales and profit margins) in the North American platform lift and elevator market, driven partly by Garaventa and Span acquisitions
- Recent stock price decline has been mainly due to tough integration of newly acquired companies, despite displaying favorable revenue and earnings growth

CATALYSTS

- Successful execution on new tuck-in acquisitions to consolidate accessibility industry and gain new market access
- Potential upwards EV/EBITDA multiple re-rating from accessibility pure play to broader medical devices
- Acquisition target for a larger diversified medical devices company

RISKS

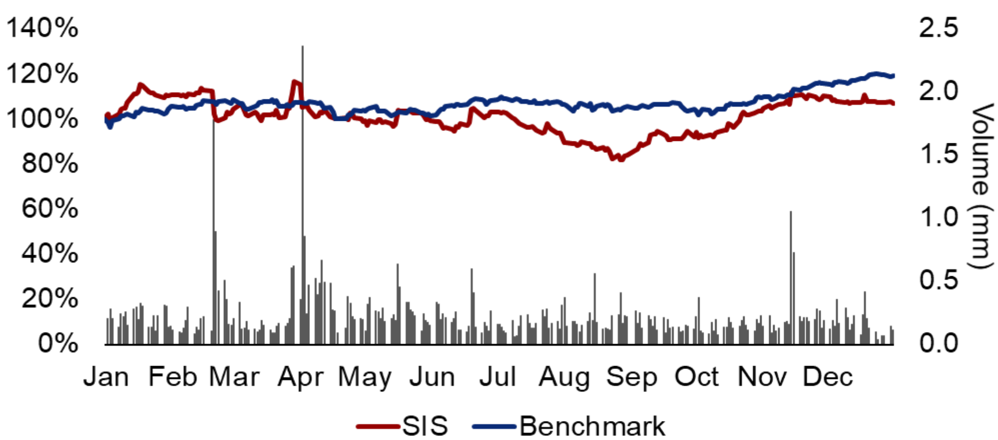
- Longer-than-expected realization of synergies from recently acquired companies
- Political trade talks between U.S., Canada and China can disrupt integration of new Chinese supply plant
- Change in product mix driven by consumer preferences preference to age in their homes

INVESTMENT THESES

1. **The Garaventa Lifts acquisition has been overly punished by the market due to its short-term margin impact, yet it will be value accretive in the long-term**
   - Garaventa acquisition has been punished by market due to lower-than-expected synergies during first quarter of integration, but long-term synergies will be value-accretive
   - New acquisition of Garaventa provides global diversification with new access to European markets and south coast of U.S. in addition to lower COGS from new supply plant in China
2. **Savaria is executing on a tuck-in acquisition strategy, with both the debt capacity and strong acquisition track-record/expertise to continue its success in consolidation**
   - Savaria possesses the financial flexibility to execute on tuck-in acquisitions to expand market share in the N.A. lift segment while management has demonstrated strong cost discipline in its prior transactions

We initiated a <u>BUY</u> for TSE: SIS with a 1-3 year $15.00 PT with revenue growth and margin expansion from long-term tuck-in acquisition synergies in addition to a potential upwards multiples re-rating.

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: DCM, Bloomberg, Company Filings

POSITION SNAPSHOT

Average Cost	$14.29
# of Shares	4,350
Value Invested	60,683
Portfolio Weight	1.9%
2019 HPR	(4.5%)
HP Benchmark Return	5.6%
Excess Return	(10.1%)

SAREPTA THERAPEUTICS (NASDAQ: SRPT)

COMPANY OVERVIEW

- Headquartered in Cambridge, Mass., Sarepta is an emerging leader in biotechnology, focused on treating rare neuromuscular diseases through genetic medicine
- They are primarily focused on the treatment of Duchenne Muscular Dystrophy and Limb-Girdle Muscular Dystrophy
- The firm's technologies include RNA-based exon skipping and gene therapy
- Its stock price has been linked to FDA sentiment
  - Stock plunged after CRL in mid-August which both investors and CEO hadn't expected
  - Equally surprising, the stock jumped after PRV approval of golodirsen in Dec. 2019

CATALYSTS

- Successful implementation of $1.15bn partnership with Roche Holding AG which facilitates Sarepta's SRP-9001 drug to be launched outside the U.S.
- Potential acquisition target with the natural buyer now being Roche, but Piper Jaffray notes "other strategics" may still be in question
- Positive data for new dosage of LGMD patient cohort

RISKS

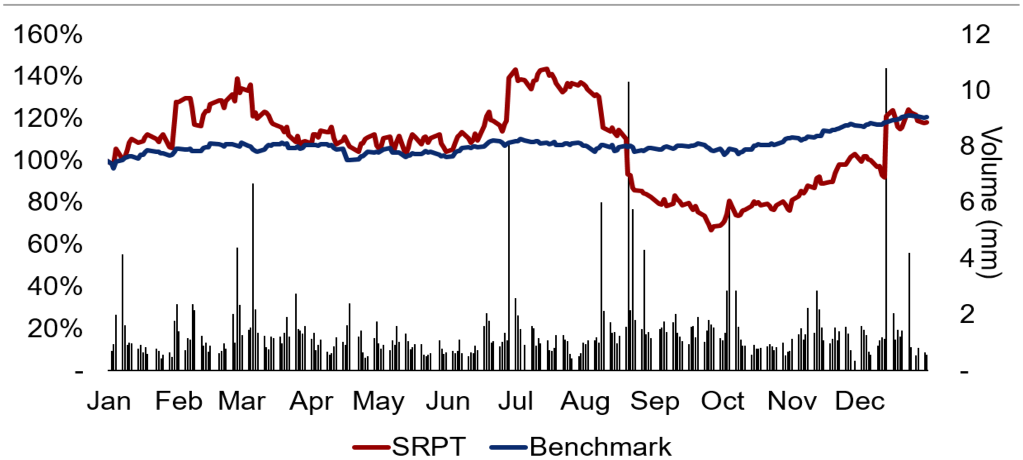
- Regulatory rejections or delays regarding their two non-commercial exon-skipping drugs
- Sarepta has historically had difficulty getting approved in Europe, which will be a key issue going forward with the Roche deal
- Gene therapy manufacturing issues

INVESTMENT THESES

1. **Market overestimates the development failure risk associated with Sarepta's exon skipping franchise.**
   - Despite fears of a strained relationship with the FDA following the CRL in mid-August, the administration approved golodirsen, Sarepta's second exon skipping drug, in December 2019
2. **Market underestimates potential peak sales associated with the microdystrophin gene therapy program.**
   - Roche's deal with Sarepta for the rights to distribute SRP-9001 and other "certain future DMD-specific programs" is a step forward out of traditional markets given Roche's strong ex-US commercial infrastructure
3. **Market undervalues Sarepta's pipeline outside of Duchenne muscular dystrophy, ignoring candidates in limb-girdle muscular dystrophy and CNS diseases being undervalued.**
   - Acquisition of Myonexus (gene therapy company focused on LGMD) and encouraging data from phase 1/2 trial show signs of a potential market sentiment shift regarding Sarepta's limb-girdle focus

We decided to <u>HOLD</u> SRPT with $175 PT as several near-term catalysts are ahead with a renewed relationship with the FDA

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: DCM, Bloomberg, Company Filings

POSITION SNAPSHOT

Average Cost	$132.43
# of Shares	450
Value Invested	75,430
Portfolio Weight	2.4%
2019 HPR	(11.5%)
HP Benchmark Return	8.8%
Excess Return	(20.3%)

INDUSTRIALS

Timothy Sung **|** Senior Analyst

Maxime Barbeau-Di Meo **|** Junior Analyst

Hashaam Nadeem **|** Junior Analyst

Serge Krikorian **|** Junior Analyst

INDUSTRIALS
2019 REVIEW

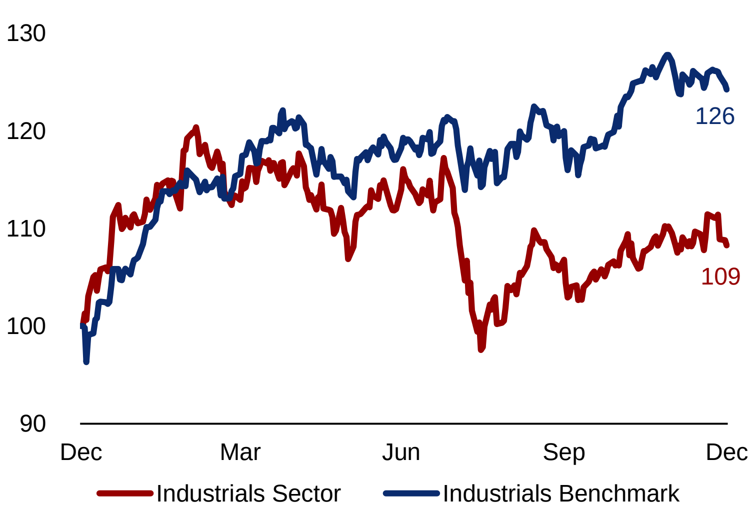
2019 PERFORMANCE

The DCM Industrials sector returned 11.4% in 2019, underperforming our sector benchmark by 14.6%. The industry itself performed closed to par relative to the S&P 500.

Our performance lagged due to our Textainer position, which we have decided to close at a loss. While the company seemed to be trading at a discount compared to its peers, a very poor quarter over the summer demonstrated that their fundamentals were deteriorating faster than we had anticipated due to the trade war. Furthermore, we have decided to sell our Fincantieri holding at a loss. Our theses had materialized, but unfortunately there was no significant price movement as our theses were too conservative. Finally, we decided to sell our Cummins position primarily due to their exposure to slowing end market demand and materialized theses.

Our portfolio for industrials changed significantly over the past year as macro conditions impacting our holdings evolved in unexpected manners. Nonetheless, we believe we are well-positioned for the future.

Figure 1: DCM Industrials Sector 2019 Performance

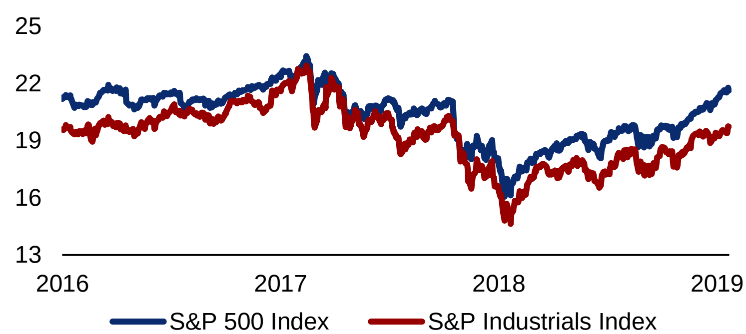


Source: Bloomberg, J.P. Morgan, ITR Economics

2020 OUTLOOK

Trade negotiations have been and are still one of the major factors impacting the industrials sector. Ever since the trade war intensified in 2018, there has been a divergence in the P/E of the S&P 500 Industrials sector relative to the S&P 500. Nonetheless, we expect less uncertainty surrounding the trade talks as the U.S. heads into election season and new trade deals are being negotiated. Consequently, we expect ~~a~~ multiple expansion for the sector.

Figure 2: Divergent P/E Ratios Expected to Converge



Furthermore, as greater fiscal and monetary easing occurs globally due to slowing global GDP growth, manufacturing should slowly recover. This recovery is currently underway and is being demonstrated by the rebound in manufacturing PMIs, a key indicator of manufacturing strength. In particular, the Chinese manufacturing PMI recently rebounded to 50.2 after contracting for 6 months, which is a positive sign considering that China is responsible for 45% of global manufacturing production.

Overall, we expect Industrials to perform on par with the market throughout 2020, with the possibility of outperformance through multiple expansion and greater stimulus. Considering our 2020 outlook, we recently initiated a position in Transdigm, a company with a defensive and enticing business model within A&D.

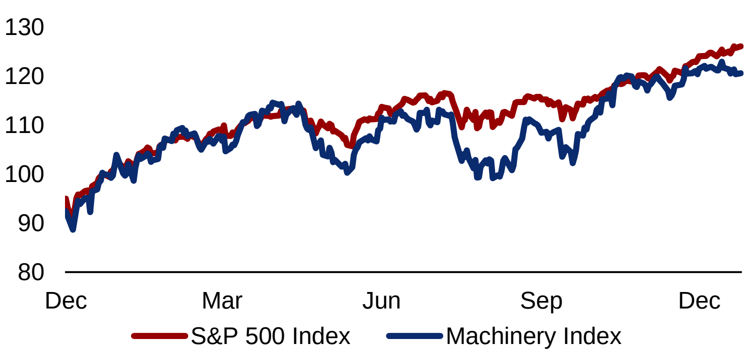
INDUSTRIALS

2020 OUTLOOK - CAPITAL GOODS

ROBOTS ARE COOL

Heading into 2020, we believe the uncertainty due to trade negotiations is partly resolved and with key data points signaling a recovery in the manufacturing sector, we expect the Capital Goods sector to perform in line with the market, if not better with positive developments.

Figure 3: One-Year Historical Performance



Furthermore, this sector is poised to benefit from improving business sentiment and the slow recovery within the global manufacturing sector. Currently, key data points such as the Chinese manufacturing PMI are demonstrating positive developments. However, some such as the German manufacturing PMI are still lagging and so we will wait to see if they improve in the near term. Nonetheless, output and new orders have begun to inflect upwards, a positive sign that the economy is slowly recovering, which could be a stimulus for capital expenditures.

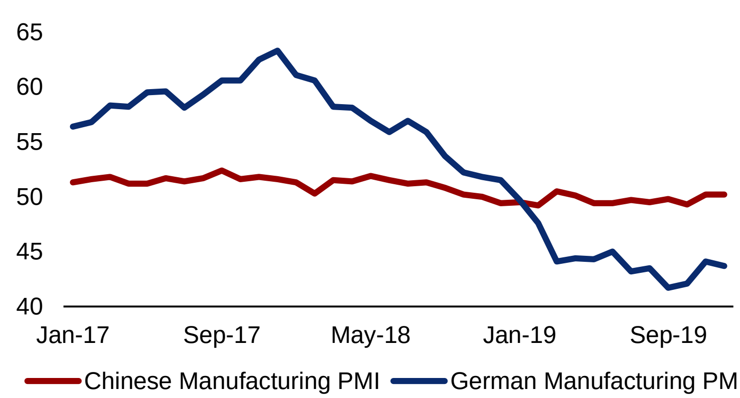
During 2020, trade negotiations will still be a major factor to consider when evaluating the performance of the sector. Most industrial companies are inherently geographically diversified and are consequently vulnerable to changes in trade regulations. As a matter of fact, the USMCA trade deal will greatly impact car manufacturers and the way they allocate their budgets. As trade deals solidify and uncertainty decreases, companies will start spending more on capital goods.

ACCESS TO CHEAP CAPITAL

Global fiscal spending is set to benefit industrials over the long-term. China issued ~$140Bn in bonds for local government spending. Considering the proportion of manufacturing within the Chinese economy, some of the funds will likely be utilized to promote the manufacturing sector, a major purchaser of capital goods.

Furthermore, mentality shifts in key manufacturing hubs may promote greater spending on capital goods. For instance, there is currently a leftward shift in German politics which will likely result in greater expansionary measures, hopefully saving the German manufacturing sector, which accounts for ~20% of their GDP. Overall, these are both positive developments for companies that are looking to purchase capital goods.

Figure 4: Key Data Points of Manufacturing Hubs



Additionally, most of the world is currently shifting towards easier monetary policy, with 80% of central banks having cut rates during the past year, compared to 40% in 2018. Consequently, we expect companies will have access to cheaper borrowing, further incentivizing the purchase of costly capital goods.

Overall, we believe the capital goods sector is poised to have a fair performance during 2020 based on a positive macroeconomic outlook, lower uncertainty and greater monetary incentives.

Source: Bloomberg, JPM, WSJ

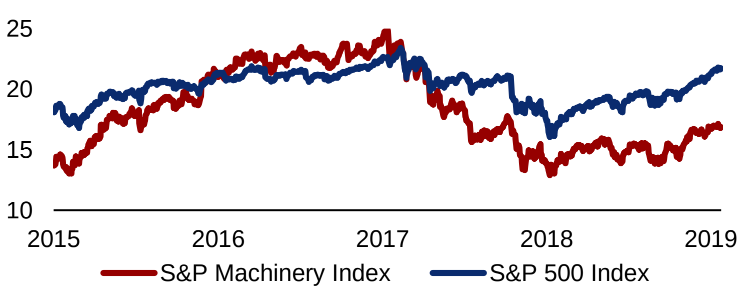
INDUSTRIALS

2020 OUTLOOK - MACHINERY

2020 OUTLOOK

We project that 2019 will be a mixed year for machinery as the uncertainty within the economy will cause hesitation on behalf of corporations to purchase expensive machinery. Nonetheless, there are a few key trends that we believe will greatly benefit the sector. Historically speaking, machinery has often traded in line with the S&P 500 on a P/E basis and considering the following trends, the sector is undervalued and should witness multiple expansion in the near-term.

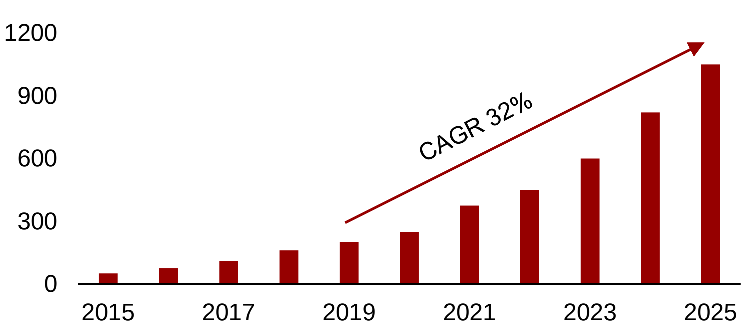
Figure 5: Historical OPEC Production Levels



INDUSTRIAL INTERNET OF THINGS

The machinery sector is set to benefit from the increased adoption of digital and service capabilities within manufacturing. These companies utilizing "industrial internet of things" or IIoT are obtaining data which can be used to enhance their processes while increasing margins and revenues. First movers would be the main benefactors of this trend.

Figure 6: Global Internet of Things Market Size



A major factor contributing to the rapid growth of IIoT is the transition of China to a consumer and technology-driven economy. For example, China has the largest robot market in the world and the government is further subsidizing its growth. Necessarily, we will be looking for companies that are providing IIoT solutions in the machinery sector as we believe they are a strong derivative play on the rapid market growth of the IIoT market.

While the market is expected to grow at an impressive CAGR of 32% until 2025, there are a few headwinds ahead considering the mass amount of data that is utilized in IIoT. Data security and 5G are the main inhibitors preventing even faster market growth. Nonetheless, data concerns are being addressed by industrial companies through strategic partnerships while 5G is slowly starting to be implemented on a global scale.

M&A TO ENCOURAGE SPENDING

During 2019, many U.S. industrial companies began streamlining their operations and focusing on their core products. These normally diversified companies are realigning around key markets in order to offer better value to their customers. Some are turning to mergers, acquisitions and divestitures to better target their clients. As companies shift from diversified to focused operations, we expect them to strengthen their capabilities by investing in focused machinery.

Additionally, it is important to consider that the M&A market is expected to slow down in terms of volume, but increase in deal size. In other words, industrial companies are engaging in big acquisitions instead of many smaller ones, which would support our belief that companies will be purchasing expensive machinery because of these business reorganizations.

Source: Bloomberg, Fidelity Investments, Deloitte, FactSet, IoT Analytics Research

Industrials

2019 HOLDINGS REVIEW

TransDigm Group Incorporated (NYSE: TDG)

COMPANY OVERVIEW

- TransDigm Group is a designer, producer, and supplier of highly engineered aircraft components on commercial and military aircraft
- The company breaks down revenues into three key segments: Power & Control, Airframe, Non-Aviation
- They operate on a global scale through many different subsidiaries which allows them to have access to key relationships in the sector
- TransDigm Group operates similarly to a PE firm as their strategy revolves around acquiring existing businesses with an established client base

CATALYSTS

- Greater utilization of predictive maintenance from airlines and OEMs as it would stabilize and potentially increase aftermarket revenue
- Strategic consolidation of logistics and distribution within the MRO sector which would result in a stickier market for TDG
- Wartimes

RISKS

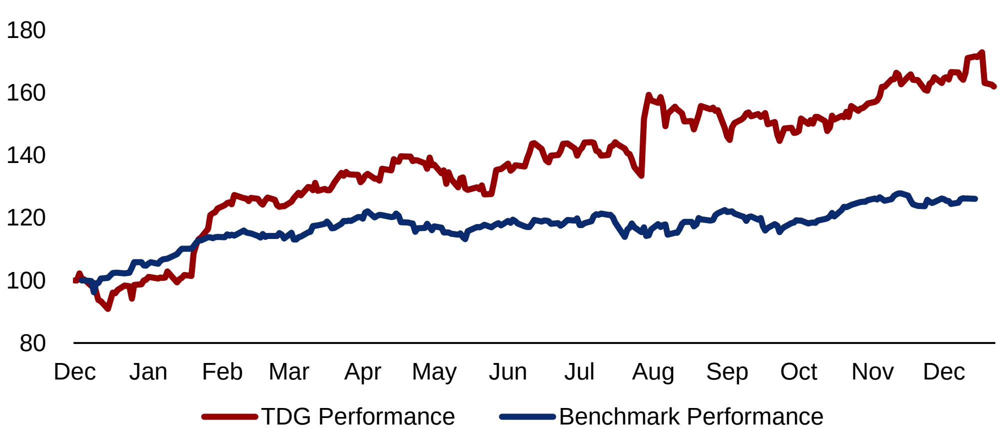
- Plane crash or breakdown due to a faulty TDG part
- Government intervention concerning TDG's monopoly over certain parts and items
- Recession stalls the production of planes and the purchase of parts

INVESTMENT THESES

1. **Underestimated defensive business model and recurring revenue**
   - Company has a strong historical track record during economic slowdowns
   - Current relationships with the US DoD, commercial OEMs and MRO providers are sticky and cash flows are expected to be constant regardless of the economic climate
   - Company is well-diversified in terms of their client and product concentration, allowing them access to most major long-term contracts
2. **Guaranteed revenue and cost synergy leading to significant multiple expansion**
   - TDG operates somewhat like a PE firm by consistently engaging in M&A
   - The company has a disciplined acquisition and restructuring strategy that fuels TDG's growth
   - Their most recent Esterline Technologies acquisition will shift TDG's revenue mix, resulting in a multiple expansion closer to that of HEICO, their main competitor

We decided to <u>initiate</u> a position in TDG this past quarter because of underappreciated growth opportunity

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: DCM, Bloomberg, Company Filings

POSITION SNAPSHOT

Average Cost (USD)	$549.09
# of Shares	150
Value Invested	$109,116
Portfolio Weight	3%
2019 HPR	(2%)
2019 HPR Benchmark Return	(1%)
Excess Return	(1%)

MATERIALS

Timothy Sung **|** Senior Analyst
Maxime Barbeau-Di Meo **|** Junior Analyst
Hashaam Nadeem **|** Junior Analyst
Serge Krikorian **|** Junior Analyst

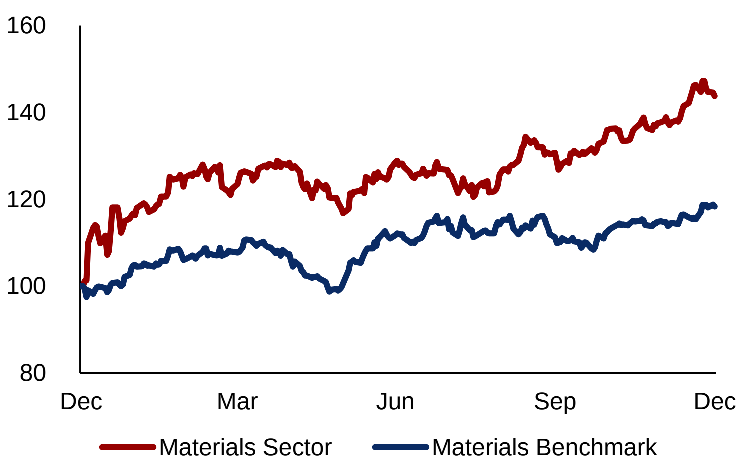
MATERIALS
2019 REVIEW

OVERALL PERFORMANCE

The Desautels Capital Management Materials sector performed exceptionally well in 2019, returning 43.8%, outperforming the sector benchmark by 25.4%. This was primarily driven by our main holding, Summit Materials Inc. (SUM), which is an American construction materials company with operations in the United States and British Columbia. SUM traded up a significant 83.6% in the past year.

Our second individual holding is Nornickel (NILSY), a vertically integrated nickel and palladium mining and smelting company based in Russia. It remained steady for the first half of 2019, but ended the year on a very high note, trading up 65%.

Figure 1: DCM Materials Sector 2019 Performance

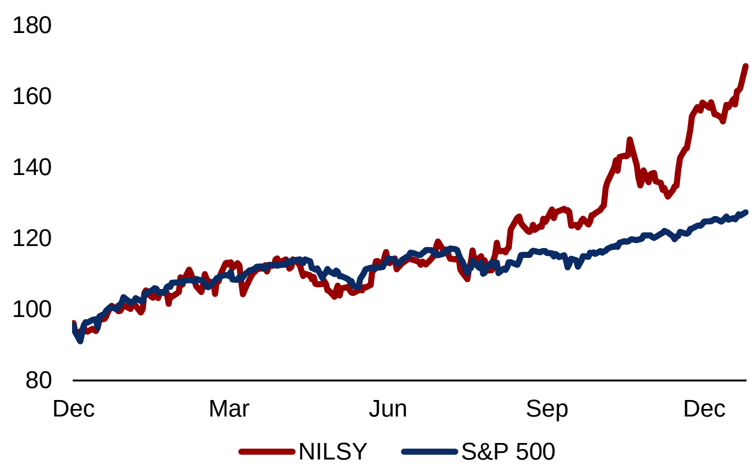


NICKEL ORE EXPORT: BANNED

Nickel prices began to surge in the second half of the year given the speculations of a ban on the nickel ore exports of the largest producers, Indonesia. Market speculations were confirmed when the government announced a ban being placed from 2020. The ban led to an increase in the price of the commodity, with the nickel producers experiencing a strong boost in revenues.

Nornickel, being the single largest nickel miner, benefitted greatly from the ban, reflected with a rise in revenues later in the year. Combined with Nornickel's expansion projects mapping to a goal of increasing production by 15%-20% in the next few years lead to an earnings surprise. Placing Nornickel in a sweet spot to close the gap in the market.

Figure 2: Nornickel Stock Price



CONSTRUCTION: GOOD GROWTH, BAD WEATHER

Riding on the back of expanding economic growth and low unemployment, residential construction across the U.S picked up and is on track for a CAGR of 2.3% until 2023. Whereas, non-residential construction saw an uptick of 4.4% in 2019.

These macro trends acted as tailwinds for Summit Materials, leading to an impressive growth in revenues. However, significant bad weather had a large impact on Summit's margins and partially offset those gains later in the year. With the Mississippi River flooding and Minneapolis experiencing the worst weather on record, the cement segment's margin took a hit leading to an earnings miss. Given the improving weather, we expect Summit to regain those margins going into 2020.

Source: Bloomberg, Company Filings

MATERIALS
2020 OUTLOOK

LOOKING FORWARD

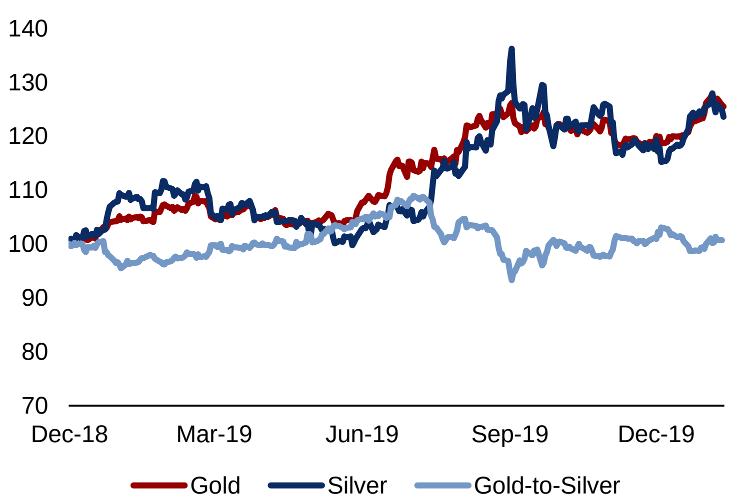
In 2020, we aim to explore various subsectors within the broader Materials sector to identify domains that are favored by macroeconomic trends and commodity prices. As such, we will be taking a closer look at Precious Metals as well as the Containers and Packaging subsectors in search for potential investments to add to our portfolio.

GOLD AND SILVER

With the current interest rate environment, and the geopolitical uncertainties, precious metals continue to hold high spot prices going into 2020. The US economic cycle reaching maturity, the Fed's outlook on the slowing economic growth and the uncertainty of the trade relations between the US and China have been pushing up the prices of gold, seen as a safe-haven in volatile environments. Recent tensions between the US and Iran have given the prices an extra push to the spot prices at the start of the new decade.

Given that the large share of gold demand is Jewellery, a sluggish Chinese demand could lead consumption

Figure 3: Gold Prices vs. Silver Prices



Source: Bloomberg

to decline. However, we believe investments may gain on geopolitical uncertainties including fear over the health of the Chinese economy, ongoing negotiations with the US, unpredictable Brexit and uncertainty about the recent Iran-US tensions.

With the current high Gold-to-Silver ratio of 88, combined with the rising industrial demand of silver for solar panels and electric vehicles , as well as the role of silver with the global rollout of 5G, we believe there is a greater potential upside in the silver sector.

PLATINUM GROUP METALS

Palladium prices have surged in the past year due to supply deficits and the rise in end-market uses for the metal. Catalytic converters being one of the largest end-uses of palladium, has increased the demand of the metal, given a global shift to electric vehicles. With the expected growth of CAGR 21% in electric vehicles till 2025 combined with the rising deficit in the supply of palladium, we believe that the upswing will sustain through 2020.

The increase in the price of Palladium has also been reflected in its sister metal Platinum. Platinum prices remained steady for most of the year and witnessed a steep increase closer to the third quarter mainly due to an increase in investments in the commodity. However, we believe that the spike will not persist going forward given the rising surplus in the market and the declining trends in the end-markets of platinum. Mainly a cut in the production of diesel engine vehicles; for which platinum is used in the catalytic converters.

MATERIALS
2020 OUTLOOK

METAL & PLASTIC PACKAGING

In 2019, Metal-Based Packaging stocks were the star performers among their North American Packaging peers, mainly driven by altering consumer tastes and a preference for the more environmentally friendly packaging option. We also see favourable conditions for plastic-based packaging stocks going forward due to trends in emerging markets.

CONSUMER TAILWINDS

Rising income in emerging markets coupled with greater health concerns, is fueling growth in demand for bottled water. As polyethylene terephthalate (PET) bottles are widely used for packaging water and soft drinks, global sales of PET bottles is expected to grow by 4% annually till 2023, mainly driven by bottled water, expected to account for 82% of the expansion.

Demand for non-water beverages is expected to rise by 5% globally through 2023, with beer leading the way, accounting for 30% of the gain, followed by carbonates at 22% and ready-to-drink tea at 13%. Of the expansion in beer packaging through 2023, it is expected that Metals will account for about 72% of the growth, capturing market share from glass bottles, which are expected to face a 1.2% decline in unit growth.

With the changing lifestyle of millennials, including a shortened time spent on meal preparation, we expect increased demand towards processed, frozen and pre-prepared food. Metal-based packaging having the largest share in this portion of the market is set to experience the most growth.

Source: Bloomberg

Materials

2019 HOLDINGS REVIEW

SUMMIT MATERIALS (NYSE:SUM)

COMPANY OVERVIEW

- Summit Materials is a leading vertically integrated materials-based company that supplies aggregates, cement, ready-mix concrete and asphalt in the United States and British Columbia, Canada
- Is a single-source provider of construction materials in the public infrastructure, residential and non-residential end-markets
- Summit has a strong track record of successful acquisitions since its founding and continues to pursue growth opportunities in new and existing markets

CATALYSTS

- Expansion of infrastructure initiatives in the public sector
- Strengthening growth of residential and non-residential construction

RISKS

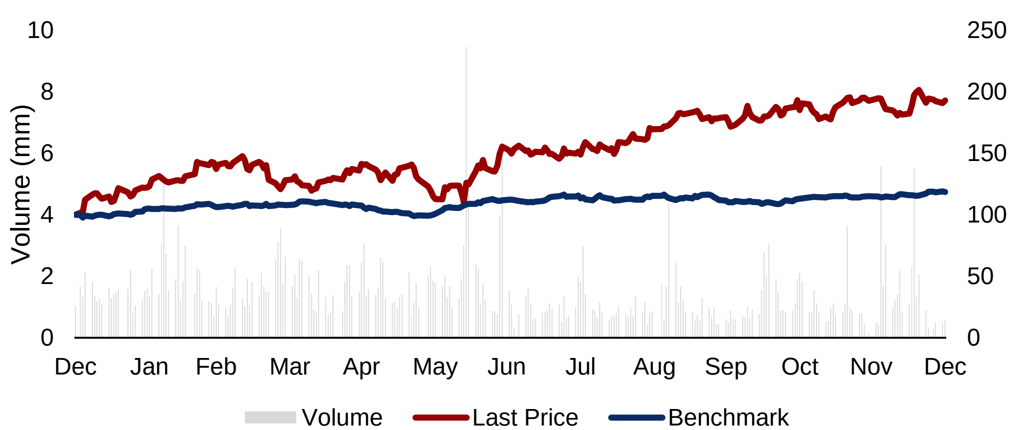
- Continued deterioration of the weather and natural disasters in the region of operations
- A shift in governments position on the infrastructure in public sector

INVESTMENT THESES

1. **Industry tailwinds favor Summit's geographic exposure**
   - USA residential and non-residential construction has performed well in the past quarter and is expected to grow further at a CAGR of 2.9% through 2023
   - 5 key states for Summit have been self-funding infrastructure projects including highway and other transport projects at record high levels in 2019
   - Summit is still well-positioned to reap the benefits from the tailwinds in the industry
2. **Summit suffers from an unjustified size discount**
   - Summit experienced a slowing acquisition due to previous leverage. However, the CEO has mentioned in recent earnings call that the acquisition pipeline is active due to successful deleveraging
   - Summit remains at a discount compared to its two main competitors, MLM and VMC. However, they seem to be closing the gap over time

We decided to <u>HOLD</u> SUM until our theses have completely materialized

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg, Company Filings

POSITION SNAPSHOT

In CAD, unless noted

Average Cost (USD)	$26.86
# of Shares	2,550
Value Invested	$79,168
Portfolio Weight	2%
2019 HPR	84%
2019 HP Benchmark Return	18%
Excess Return	65%

TECHNOLOGY, MEDIA & TELCOMMUNICATIONS

Cody Jones | Senior Analyst

Amine Kabbadj | Junior Analyst

Paul Mangoni | Junior Analyst

TMT
2019 REVIEW

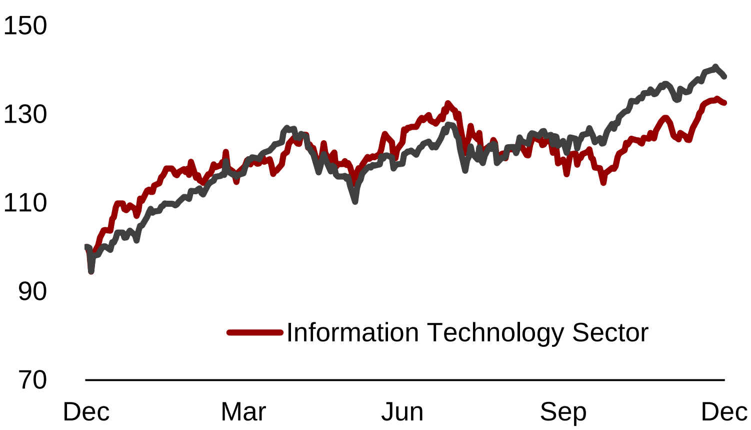
OVERVIEW

The Information Technology benchmark returned 38.5% in 2019, making it the best performing sector in the S&P500. Some of the drivers behind this impressive performance included strength in the semiconductors subsector and significant gains by Apple. DCM's Information Technology holdings generated a gross return of 32.6% in 2019 (Figure 1), led by strong performances by software giant Adobe as well as Teladoc Health, a leading player in the emerging Telehealth industry.

The Communication Services benchmark returned only 14.2% in 2019, making it the 4th worst performing sector in the S&P500. The mediocre returns came as a result of robust performance by major Internet and Media constituents such as Facebook and Disney mixed with underperformance by telecom operators including Sprint and T-Mobile, which are currently awaiting approval to merge from regulators.

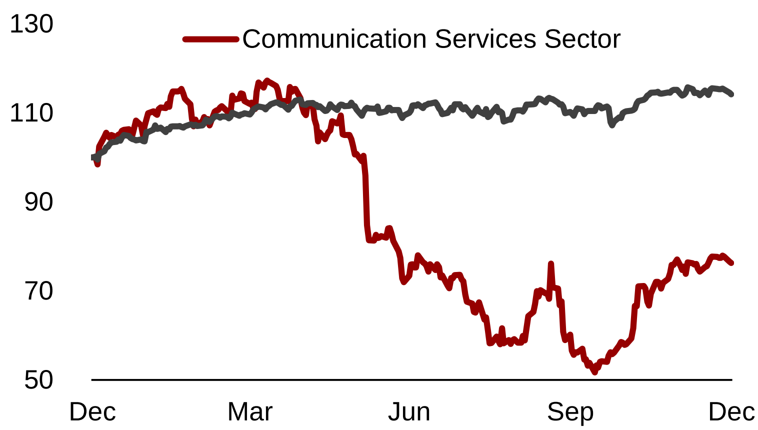
In 2019, the DCM Communication Services sector significantly underperformend the sector benchmark, returning -23.7% (Figure 2). Losses were primary due to an idiosyncratic event involving Eros International, a producer and distributor of Indian language film.

Figure 1: 2019 DCM Information Technology Returns



The stock experienced significant losses after CARE, a ratings agency, reduced its rating on Eros' long-term loan facilities from BBB- to D due to debt servicing issues. A report revealing misleading accounting practices used by the company was later released and class action lawsuits against the company were launched as a result. The stock fell 82.5% in June. We decided to cut our losses and have since exited the position. While 2019 was a challenging year for DCM's TMT sector, we remain confident in our direction and strategy going into 2020.

Figure 2: 2019 DCM Communication Services Returns



Source: Bloomberg, Capital IQ, Proactive, Markets Insider, Yahoo Finance, Fortune, PR Newswire, The Globe and Mail

TMT
2019 REVIEW

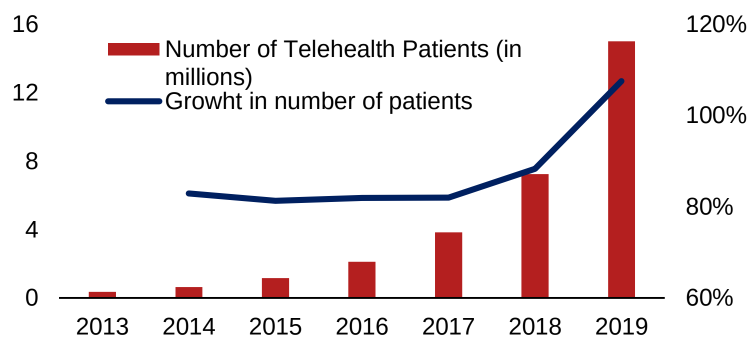
TECHNOLOGY

Much like 2018, 2019 was a very exciting and volatile year for the Technology subsector. After the large sell off towards the end of 2018, the industry rebounded to new all time highs, with Microsoft and Apple leading the way with their upwards of 1 trillion dollar valuations. Both companies held up better than other large technology companies such as Google and Facebook as they faced persistent scrutiny concerning their privacy policies. Investors' concerns continued to grow, prompted by threats of more stringent antitrust enforcement, and even the possibility of dismantling the 5 largest companies in the sector.

Growth in the Telehealth industry spiked in 2019. This trend is a factor of growth in telestroke, remote patient monitoring and other routine systems, but more importantly can be attributed to specialized fields starting to invest heavily in telemedicine apps and software programs. Industry participants have begun attempting to incorporate AI, predictive analysis and automatic data collection in their services. The biggest driver for investment in this market has been the need to reduce health care costs, which will only continue to rise as the population continues aging. The faster speed of regulatory approval from federal agencies has also allowed for increased patient access and competition in the market. This has prompted a faster acceptance of the service, bringing the number of Telehealth subscribers to 15 million patients (Figure 3). This trend has benefitted Teladoc, currently the largest telehealth company in the world, which has been a DCM holding since late 2018.

Finally, in 2019, the technology subsector experienced a substantial shift in valuations and the market expects to see changes from large technology companies, stemming primarily from the highly anticipated, yet disappointing, Uber, Lyft and Peloton IPOs. Each of these companies experienced large decreases in share price just days after their IPOs in 2019. The main takeaway is that the market is no longer optimistic on growth companies and investors expect to see a clear path towards profitability.

Figure 3: Number of Telehealth Users and Growth



MEDIA

2019 saw a large increase in cord cutting, which represents the rate at which the public is opting out of paying for cable television. There was a 6% decline in pay-TV subscribers in 2019, which increased from a 4% decline in 2018. 2019 was the first year in which the average person spent more time consuming internet per day than cable television. The main contributor has been the popularity of OTT platforms such as Netflix, YouTube, Disney+ and HBO. Not all platforms benefitted as anticipated, as we saw a convergence towards the more straightforward platforms such as Netflix and Disney+. This rapid acceleration of cord-cutting has also created positive momentum for antenna manufacturers such as Channel master, as the number of households using TV antennas increased by 9.7% in 2019 compared to 4.5% in 2018.

Source: Deloitte, Bloomberg, PwC, New York Times, CNN, market insider, Computer Network, InTouch Health , Variety, Los Angeles Times

TMT
2019 REVIEW

TELECOMMUNICATIONS

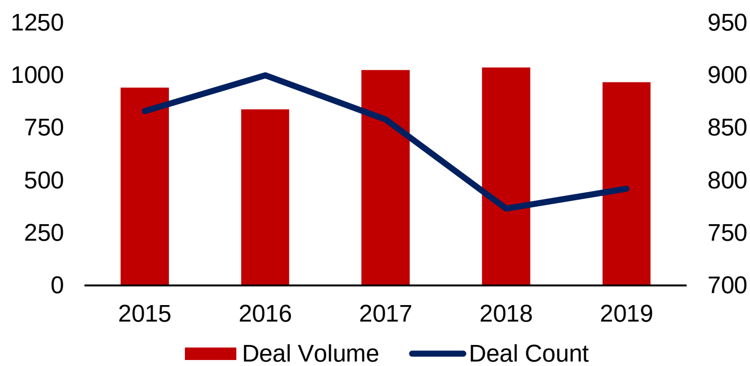
2019 saw the introduction of multiple next-generation, high-performance communication technologies such as 5G, low Earth orbit satellites, mesh networks, edge computing, and ultra-brand solutions. The most anticipated was the rollout of 5G, which was met with mixed feelings. With such high expectations for the new technology, it was very difficult for carriers to meet the demand. The landscape was incredibly competitive amongst carriers, concentrated between Verizon, AT&T, Sprint and T-Mobile, which were all racing to get a first-mover advantage.

A major trend that emerged in 2019 was the race to send low orbit satellites into space. The purpose of these satellites is to provide high-speed internet service to areas where laying fiber-optic cables is not economically viable. Competition is fierce and controlled by a few companies, seeing that the cost and risks associated to the projects are incredibly high. SpaceX is at the forefront of the movement, having launched 60 satellites in May out of the 12,000 they expect to launch. This initiative is a major risk for other internet providers, especially those that supply satellite internet. Companies such as Hughes Network Systems and ViaSat are most vulnerable.

M&A ACTIVITY

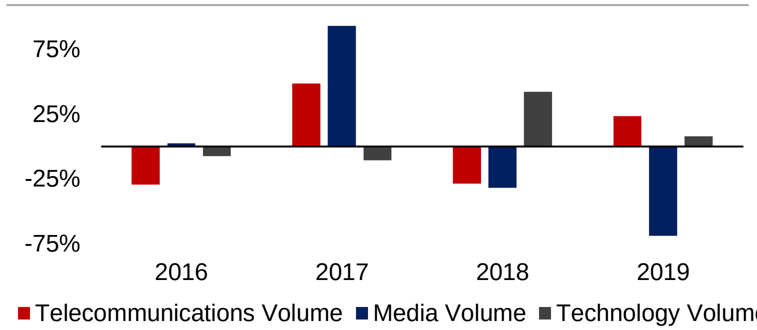
The 2019 TMT M&A market saw a shift in momentum from 2018. The overall deal volume decreased by 6.8% while the overall deal count increased by 2.5% (Figure 4). This compares to the overall M&A market which experienced an increase in volume of approximately 5.6% and a stagnation in deal count. Part of the decrease is attributable to the skepticism in the market after the large selloff, which impacted technology companies the most. The second reason was due to the

Figure 4: TMT M&A Deal Volume and Count ($ bn)



number of megadeals in 2018. The TMT M&A market was driven by deals in both Technology and Telecommunications, which experienced a 7.8% and 23.6% increase in deal volume and a 1.1% and 2.5% increase in deal count respectively. The overall slowdown was caused by large decreases in media, which experienced a 68.9% drop in volume and 13.5% decrease in count (Figure 5).

Figure 5: Growth in Deal Volume per Sector



Technology M&A was driven by the growing demand for data analytics and cloud services from business. Salesforce buying Tableau Software for $15 billion and Alphabet acquiring Looker for $2.6 billion are both examples of this trend. Telecommunications M&A was driven by the large players in the market trying to consolidate and increase their competitive edge as the industry continues to adapt to shifting technology.

Source: Deloitte, Bloomberg, PwC, New York Times, CNN, market insider, Computer Network, Cision, WNP, MarketWatch, BCG.

TMT
2020 OUTLOOK

LOW-EARTH ORBIT SATELLITES

One of the most interesting up-and-coming technological advancements in telecommunications is the recent explosion of low-earth orbit (LEO) satellite proposals. LEO satellites are stationed only 500 km-2,000 km above the Earth's surface, which is far closer than traditional bigger satellites' distances of approximately 36,000 km from the surface.

The idea is to significantly reduce latency – the time that data takes to travel and process between sender and receiver – in order to expand the capabilities of satellites to transmit and receive data. One plan is to develop high-speed Internet coverage in remote and underprivileged areas using these satellites. As signals can move faster in space than via fiber-optic cables, LEO satellites have the potential to even surpass the fastest ground-based networks and disrupt Internet access as we know it today.

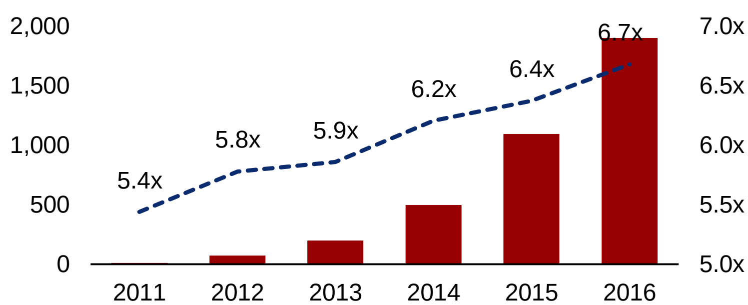
Another potential application is to offer these low-latency services to stock trading firms and other speed-based data-heavy industries, where companies are willing to pay exorbitant fees to reduce data transfer times by mere milliseconds to gain an edge over their competitors. If feasible, this could prove to be a valuable business for high-frequency trading firms who have shifted to a focus on hardware in order to reduce transmission times and compete with peers.

Main players in the new LEO satellite race include Elon Musk's SpaceX, which has deployed 182 satellites as part of its Starlink constellation; this number is expected to grow to nearly 12,000 satellites by the mid-2020s. Additionally, SoftBank-backed OneWeb hopes to secure 25% of global space broadband capacity by the end of 2021, and Amazon is building a new R&D headquarters in Washington to house Project Kuiper – Amazon's own LEO satellite initiative.

5G ROLLOUT RAMPS UP

As mentioned last year, one of the biggest expectations for 5G is that it will require significant investment in equipment buildouts in order to install the new technology required for the networks. Any reduction in these capex expectations could result in a change in cash flow expectations and potential multiple expansion. As shown in Figure 8, Telecom multiples saw consistent expansion following the launch of 4G. Should the launch of 5G go smoothly in terms of adoption and expense management, this pattern could still repeat itself.

Figure 8: Telecom Industry Valuation (EV/FW EBITDA) vs. Global LTE Subscribers Per Year (right; mm)



In 2019, AT&T and Verizon both launched their 5G networks in a limited number of cities, that was compatible with very few phones currently on the market – thus having a negligible effect on the average consumer. Additionally, the majority of the current rollout is a type called low-band 5G (and can be grouped with midband too), which is only slightly faster than 4G LTE and mainly reduces latency. The more interesting and powerful form is called millimeter wave. Using a much higher frequency, this form of 5G allows for remarkable connection speeds that can surpass 1Gbps, which would allow someone to download an entire movie in only a few seconds. However, the caveat is that this higher frequency covers drastically shorter distances and struggles to penetrate through buildings and even easier materials. Thus, the coverage for it is currently

Source: Bloomberg, Capital IQ, CBC News, The New York Times, CNET, Deloitte

TMT
2020 OUTLOOK

limited to very small areas (e.g. an intersection) and is only really feasible in large spaces such as sports stadiums in New York. It is important to note this difference between the 5G spectrums when assessing the impact of new 5G rollout announcements in 2020 in terms of how dramatic the difference will be over 4G LTE for consumers and in which areas.

SOFTWARE-AS-A-SERVICE & IPOs

DCM has also been keeping an eye on how SaaS businesses have evolved since last year, and what the outlook appears to be for 2020. Multiple sources cite an increasing shift towards prioritizing profitability and sustainable growth over the traditional emphasis on reckless growth seen in most early-stage SaaS investing and major technology IPOs.

However, this is difficult to measure as SaaS companies are recurring revenue businesses and operate very differently – companies are forced to spend large sums on customer acquisition costs upfront, but do not realize the entire lifetime value of the customer at once as it is received periodically in the form of recurring revenue. Thus, earlier-stage growing SaaS businesses tend to be unprofitable due to the money being spent intentionally on growth. As SaaS becomes a more well-known and well-studied concept, the focus is beginning to shift towards understanding what constitutes sustainable growth, and being able to forecast whether or not customer lifetime values are high enough to offset the exorbitant acquisition costs paid to gain them.

Beyond SaaS, there is an ongoing shift in general towards an emphasis on profitability over growth for technology businesses. 2019 was a year marked by numerous disappointing unicorn IPOs. As of October 2019, nearly half of all companies that had an IPO in 2019 were trading below their offer prices. According to Goldman Sachs analysts, 2019 IPO companies were on track to be the least profitable cohort since 1999 – a year that preluded the tech bubble and crash. Notable underwhelming IPOs include the highly-anticipated Uber and Lyft offerings. The common theme among most of these failed IPOs was unprofitability, with no clear indication of breaking even in the future. Additionally, these companies branded themselves as software companies but had much lower gross margins (below 50%) than the approximate 75% standard expected in software. This, as well as WeWork's cancelled IPO and headline-grabbing losses in 2019, may suggest a greater emphasis on profitability and sustainable growth in 2020. Thus, DCM is focusing on larger players in SaaS whose earnings are sustainable and resilient to a potential economic downturn, and we maintain our hold position on Adobe Systems as a result.

SOCIAL MEDIA'S EVOLUTION

Social media is another area that experienced various shifts and matured in 2019. Most notably, TikTok emerged as a new contender for the most popular social media platform in the world. In Q4 2019, TikTok was the #1 most downloaded app on the iOS App Store globally, surpassing all of Facebook's social media platforms, Netflix, YouTube, and Snapchat on the list.

TikTok is owned by a Beijing-based company named ByteDance, which was valued at approximately $78 billion in November 2018. ByteDance also operates a separate Chinese version of the platform called Douyin, which now has over 400 million daily active users. ByteDance has clearly proved the feasibility of operating a digital media company in both the U.S. and China – despite the Great Firewall blocking several U.S. platforms such as Facebook – by developing two separate versions of the platform to operate in each

Source: Bloomberg, Capital IQ, CBC News, The New York Times, CNET, Deloitte, SaaStock, Business Insider, Harvard Business Review

TMT
2020 OUTLOOK

market via a tailored approach and an understanding of both markets.

ByteDance, however, has faced regulatory problems in the U.S. The FTC fined TikTok $5.7 million in early 2019, and the U.S. Army has banned soldiers from using the app on government phones due to security concerns. In November, the U.S. government launched a national security investigation on TikTok's $1 billion acquisition and integration of the American social media platform Musical.ly. The resolution of this investigation will serve as a guideline to future digital media companies aiming to operate in both the U.S. and China and may further discourage Chinese companies from attempting to operate in the U.S.

Meanwhile, American digital media platforms have also recently faced regulatory issues in the U.S. In July 2019, Facebook was ordered to pay the FTC $5 billion as the result of a probe following the Cambridge Analytica scandal. Additionally, Facebook and its other "Big Tech" peers have been facing major scrutiny for potential antitrust issues and monopolistic power, with multiple Democratic candidates for the 2020 U.S. Election calling for these companies to be broken up.

However, Facebook has responded and recovered well from the FTC fines, and antitrust issues will prove to be difficult to concretely identify and solve, as Facebook has not committed blatant violations to the same degree that past offenders such as Microsoft had. As a result of this, we initiated a position in Facebook in November, and expect the company to continue performing well in 2020 despite these perceived regulatory risks.

Source: Bloomberg, Capital IQ, CBC News, The New York Times, CNET, Deloitte, SaaStock, Business Insider, Harvard Business Review

TMT

2019 HOLDINGS REVIEW

ADOBE, INC. (NASDAQ:ADBE)

COMPANY OVERVIEW

- Adobe operates in the software subsector, with its core segments being Digital Media and Digital Marketing
- The Digital Media segment consists primarily of their creative cloud product, which utilizes a subscription model and seeks to assist web developers, digital media workers, marketers and content creators in print and electronic content creation
- The Digital Marketing segment sells an integrated platform for advertising and marketing through digital media that allows users to maximize the effectiveness of their marketing strategies

CATALYSTS

- Successful data-driven operating model driving growth across both digital media and digital marketing segments
- Increasing competitive moat stemming from Adobe's ecosystem of partners (most notably Microsoft and SAP)

RISKS

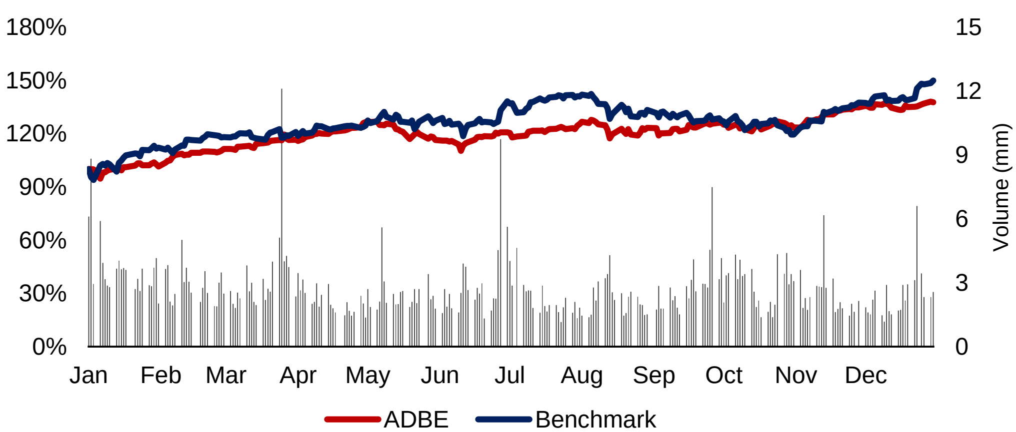
- Continued digital privacy laws limiting digital marketing capabilities
- Headwinds coming from their increased focus on the Digital Experience business

INVESTMENT THESES

1. **Strategic business shift to marketing technology**
   - Marketing technology is a growing market as companies seek to optimize their marketing capabilities to improve their effectiveness in seeking leads and converting them to sales.
   - Adobe holds a leadership position in a winner-takes-all industry
2. **Adobe represents a recession-proof technology player due to its quasi-monopoly in many of its operating segments**
   - Adobe holds a Quasi-monopoly on the Creative Cloud and Document Cloud industries
   - Business trends are growing Adobe's Digital Media segment
3. **Adobe's product segments allow a prime opportunity for cross-selling**
   - The complementarity of Adobe's product line will lead to higher margins.

We decided to <u>HOLD</u> ADBE until margins reach 10%

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg, Capital IQ, Company filings.

POSITION SNAPSHOT

In CAD, unless noted

Average Cost (USD)	$254.39
# of Shares	230
Value Invested	$98,537
Portfolio Weight	3%
2019 HPR	39%
2019 HP Benchmark Return	39%
Excess Return	0%

FACEBOOK, INC. (NASDAQ:FB)

COMPANY OVERVIEW

- Founded in 2004, Facebook is the premier social networking company, owning and operating several top social media platforms
- Nearly all revenue is derived from the sale of advertising products (98.5%) with the majority of ad revenue coming from mobile ads
- The company's global platforms/verticals include:
  - Facebook
  - WhatsApp
  - Messenger
  - Instagram
  - Oculus

CATALYSTS

- Regulatory inquiries into Facebook going forward may struggle to find any blatant violations and fail to culminate in any meaningful penalties
- In the midst of a future economic downturn or shifting ad spend, ad revenue should continue to grow
- Facebook continues to find ways to further monetize its massive user base via new products (e.g. Libra)

RISKS

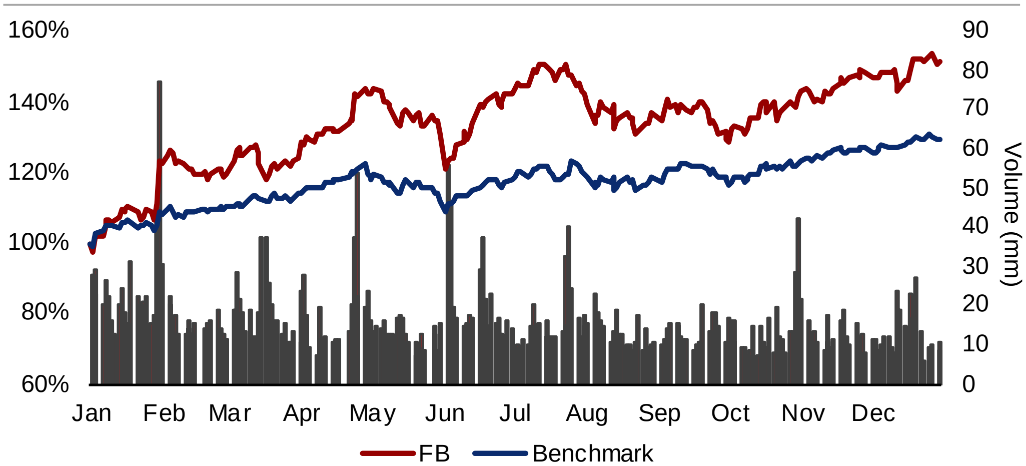
- Inquiries into data privacy, antitrust and content by regulators may materially affect its performance
- Decreased engagement on Facebook platforms could result in stagnant or falling advertising revenue

INVESTMENT THESES

1. **Investors are overly punishing Facebook for regulatory risks despite strong fundamentals**
   - Facebook trades at a deep EV/EBITDA discount to its social media peers despite stronger fundamentals
   - Facebook's stock is more sensitive to antitrust news than Google and other tech peers despite similar risks
2. **Facebook's superior value to advertisers protects it from overall reductions in ad expenditure**
   - During the last recession, cable television ad spend decreased significantly while Internet advertising was the only category that grew in proportion – ad expenditure is reallocated to more efficient media
   - Google advertising revenue was resilient to the economic downturn, and Facebook's ads are even more cost-effective and efficient and poised to benefit from reallocation in the next economic downturn
3. **Facebook is poised to benefit from secular mobile trends**
   - The majority of Facebook ad revenue comes from mobile usage, and as mobile data becomes cheaper and mobile Internet access grows globally, Facebook will benefit from increased usage and ad impressions

We decided to <u>HOLD</u> FB unless it faces severe antitrust or privacy regulatory consequences, with an original price target of $251

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg, Capital IQ, Company filings

POSITION SNAPSHOT

In CAD, unless noted

Average Cost (USD)	$192.64
# of Shares	400
Value Invested	$106,648
Portfolio Weight	3%
2019 HPR	4%
2019 HP Benchmark Return	0%
Excess Return	4%

FIXED INCOME FUND

Stanislav Timoshenko | Fixed Income Strategist
Benjamin Caron | Senior Analyst
Lauren Kirigin | Junior Analyst
Ekaterina Semenova | Junior Analyst
Sisi Wang | Junior Analyst

FIXED INCOME FUND
PERFORMANCE SUMMARY

2019 IN REVIEW

Dear Investors,

The Desautels Fixed Income Fund returned 0.9% in 2019, compared to 3.8% for the benchmark. Going into 2019, we believed 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 lessen our risk exposure 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 or not rates will be lowered. The US 10-year yield dropped about 100bps and our benchmark gained 3.8% YTD. As a result, our lower duration exposure led to only more modest gains. In terms of long-run performance, the Fixed Income Fund is up 3.7% on an annualized basis since inception in 2010, vs 2.1% for our benchmark.

Looking ahead, the market is pricing in about an 88% 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 identifying underlying corporate bonds where fundamental analysis suggest that spreads are too large relative to default risk.

Following this investment strategy we initiated a position in Smartcentres REIT 3.84% 2027. Full details and analysis are provided in the sections below.

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.

FIXED INCOME METRICS SINCE INCEPTION

	Fixed Income Fund	Benchmark
Annualized Return	3.7%	2.1%
Annualized Std Dev	4.8%	5.6%
Annualized Sharpe Ratio	0.27	(0.05)
Beta	0.08	
Annualized Alpha	1.3%	
Tracking Error	0.7%	

Performance metrics are calculated gross of fees.

FIXED INCOME PERFORMANCE METRICS 2019

	Fixed Income Fund	Benchmark
Return	0.9%	3.8%
Standard Deviation	3.6%	3.8%
Sharpe Ratio	(0.40)	0.36
Beta	0.66	
Alpha	(2.4%)	
Tracking Error	0.4%	

Performance metrics are calculated gross of fees.

FIXED INCOME FUND RETURNS — **As of Dec 31, 2019**

Time Period	Gross Return	Net Return	Benchmark
YTD Return	0.9%	0.4%	3.8%
Dec-19	0.7%	0.7%	0.4%
Nov-19	(1.6%)	(1.6%)	(0.3%)
Oct-19	1.6%	1.6%	0.7%
Sep-19	(1.2%)	(1.3%)	(1.2%)
Aug-19	(0.5%)	(0.6%)	(1.0%)
Jul-19	0.5%	0.4%	1.9%
Jun-19	(0.1%)	(0.1%)	0.3%
May-19	(1.2%)	(1.2%)	0.6%
Apr-19	1.5%	1.4%	1.7%
Mar-19	0.2%	0.2%	(0.8%)
Feb-19	2.1%	2.1%	2.5%
Jan-19	0.2%	0.2%	0.3%
Since Inception*	3.7%	3.2%	2.1%

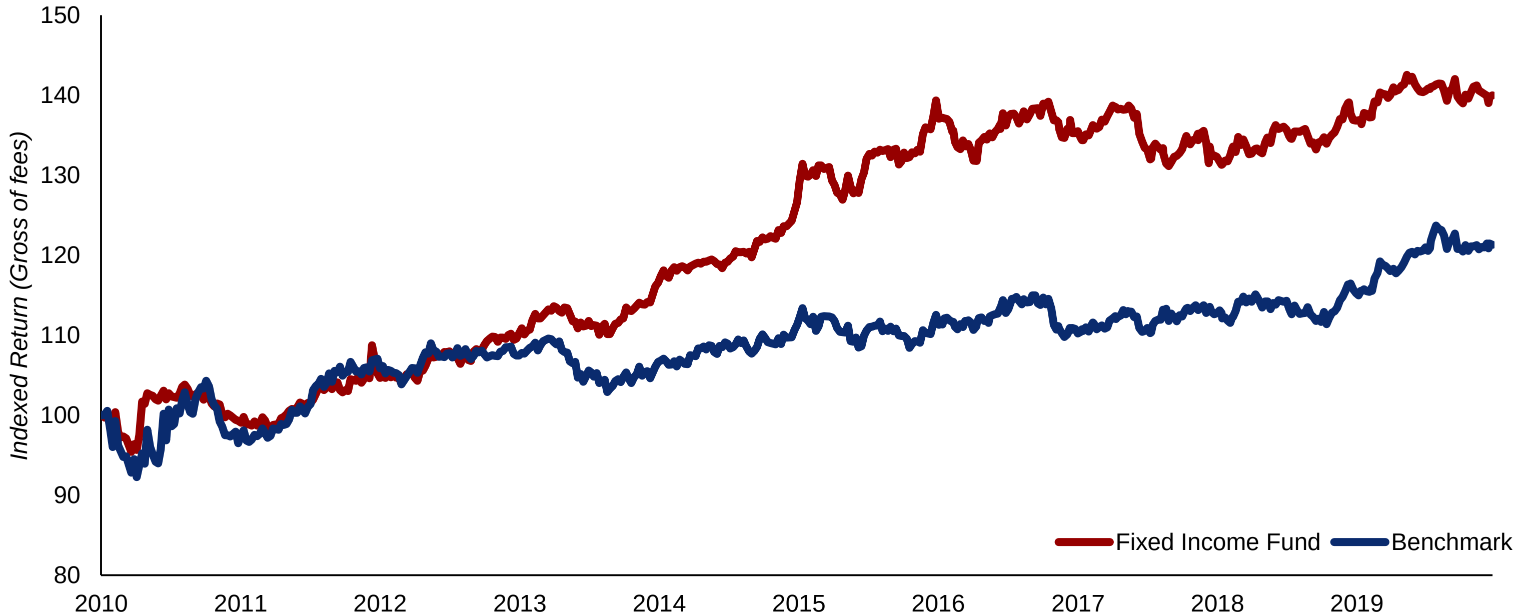
**Returns are annualized.*

Source: Bloomberg

FIXED INCOME FUND

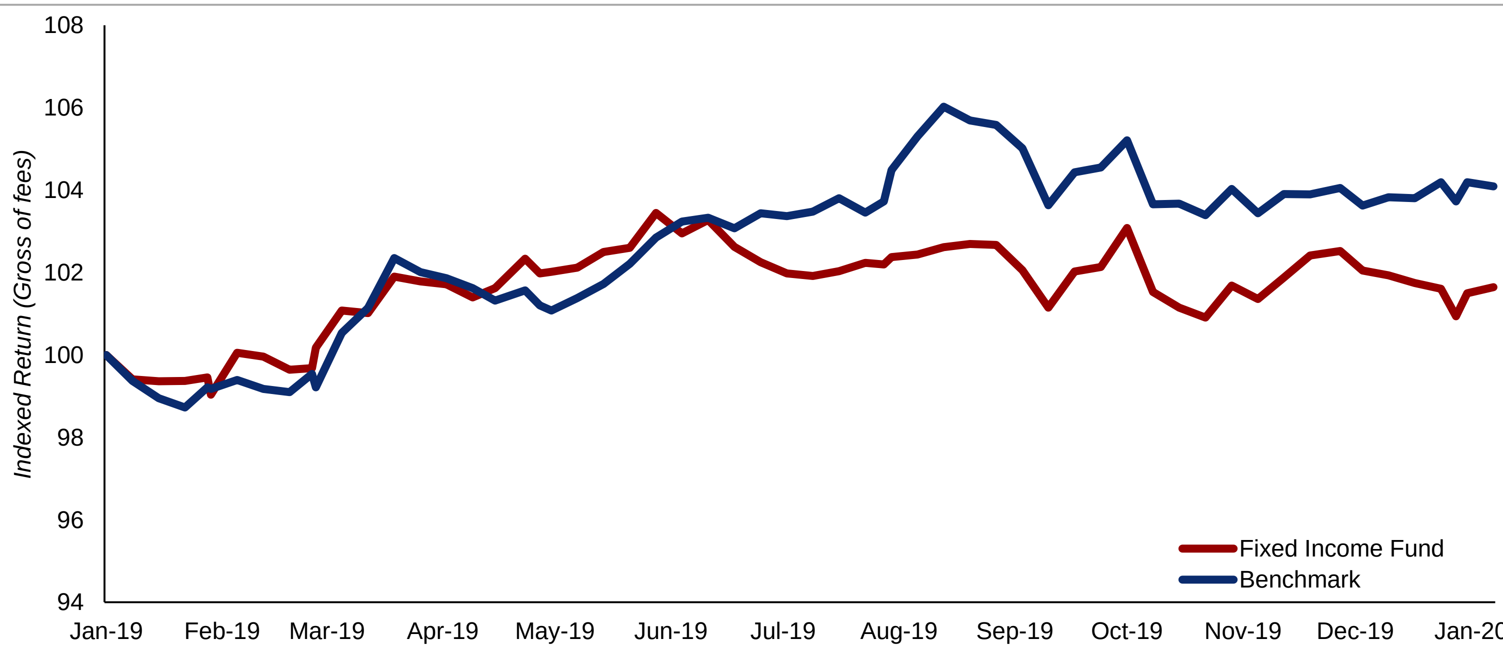
PERFORMANCE SUMMARY

Figure 1: Fixed Income Fund Performance Since Inception



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

Figure 2: Fixed Income Fund Performance 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

Source: Bloomberg

FIXED INCOME FUND
PERFORMANCE SUMMARY

Figure 3: Fixed Income Fund Credit Rating Exposure

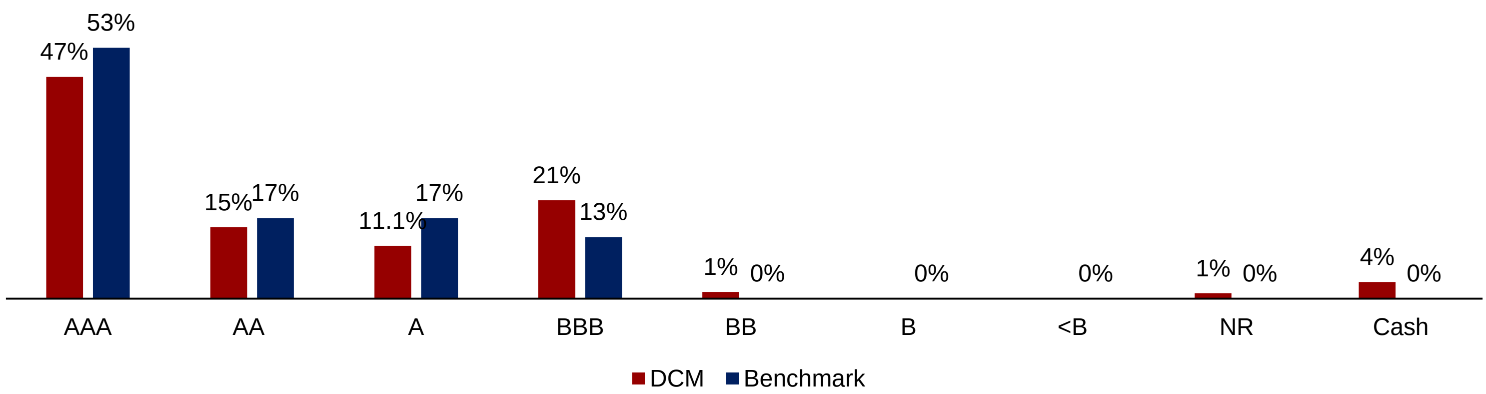


Figure 4: Fixed Income Fund Sector Exposure

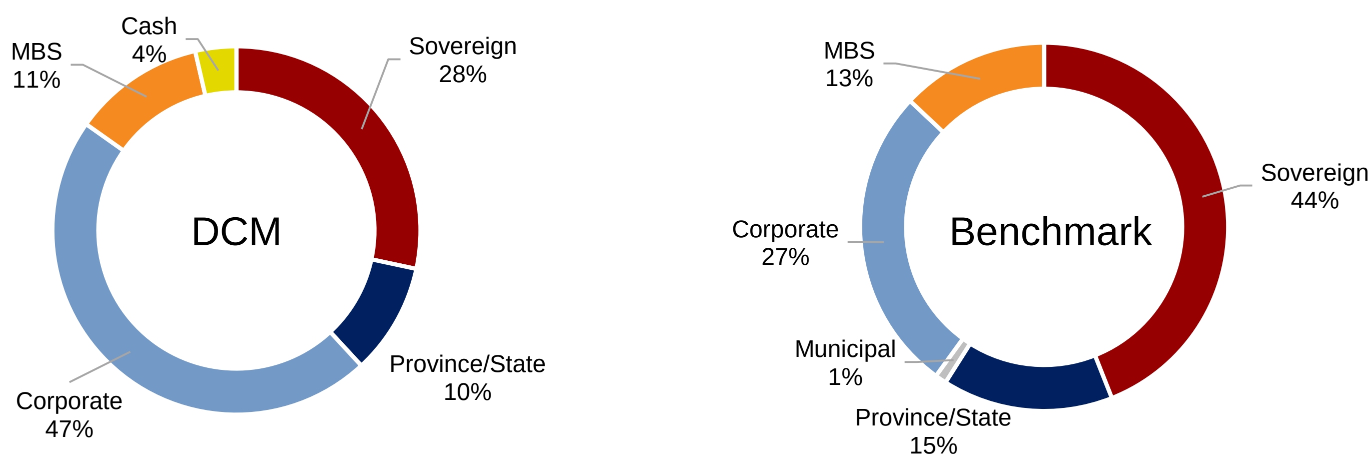


Figure 5: Fund Duration Positioning

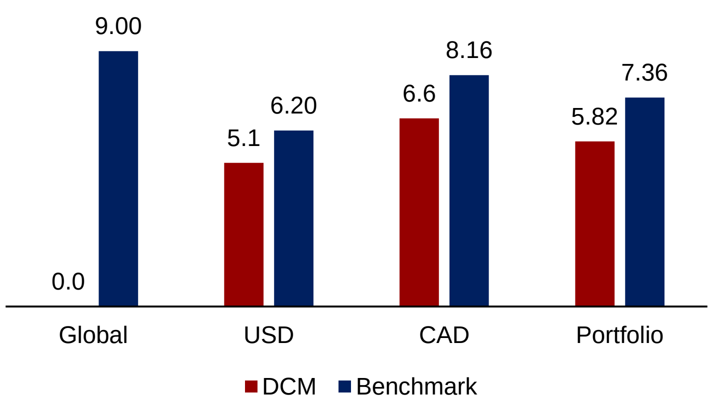
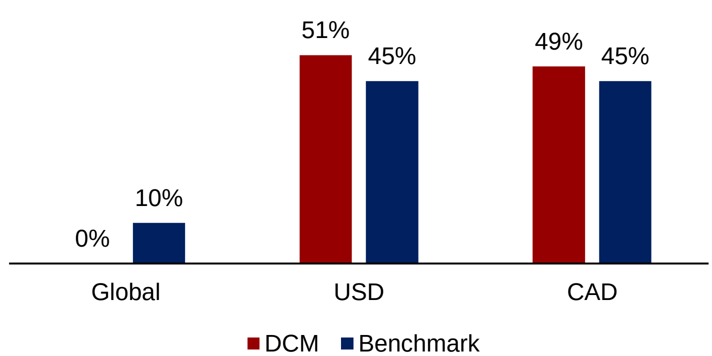


Figure 6: Fund Currency Allocation



Source: Bloomberg

FIXED INCOME FUND
PERFORMANCE SUMMARY

Figure 7: Fixed Income Fund Credit Rating Exposure

Fixed Income Fund Holdings (as at December 31, 2019)											
#	Security Name			Currency	Duration	Rating	Units	Local Price	Local Value	Base Value	%
Corporate Bonds											
1	Cogeco Cable Inc	4.925%	2022	CAD	1.94	BBB-	22,000	104.3	22,951	22,951	2%
2	Dollarama Inc	2.337%	2021	CAD	1.47	BBB	23,000	100.2	23,035	23,035	2%
3	407 International Inc	2.470%	2022	CAD	2.53	BB	20,000	100.7	20,141	20,141	1%
4	Russel Metals Inc	6.000%	2022	CAD	2.06	BBB	25,000	101.3	25,313	25,313	2%
5	Smartcentres Reit	3.834%	2027	CAD	6.82	BBB	20,000	104.5	20,908	20,908	1%
Provincial Bond											
6	Prov Of Alberta	2.550%	2022	CAD	2.79	BBB	40,000	101.9	40,744	40,744	3%
ETFs											
7	Ishares Core Cdn Long Term			CAD	15.63		750	25.7	19,253	19,253	1%
8	Ishares Canadian Universe Bond			CAD	8.04		15,300	31.9	487,764	487,764	34%
9	Ishares Core U.S. Aggregate			USD	6.25		3,520	112.9	397,443	518,763	36%
10	Ishares Mbs Etf			USD	4.00		470	108.4	50,962	66,518	5%
11	Ishares Short-Term Corporate			USD	2.61		500	53.7	26,870	35,072	2%
12	Ishares Short Treasury Bond			USD	0.42		200	110.5	22,100	28,846	2%
13	Ishares Ultra Short-Term Bon			USD	0.68		400	50.4	20,152	26,303	2%
14	Schwab Short-Term Us Treas			USD	1.86		510	50.5	25,760	33,623	2%
15	Vanguard S/T Corp Bond Etf			USD	2.60		250	81.1	20,283	26,474	2%
Cash											
14	USD			USD					5,959	7,778	1%
15	CAD			CAD					42,854	42,854	3%
							Total			1,446,340	100%

Source: Bloomberg

Fixed Income Fund

FIXED INCOME MARKETS REVIEW AND OUTLOOK

FIXED INCOME MARKETS

A ROLLER COASTER RIDE

ENDLESS AND UNPREDICTABLE

2019 has been a somewhat uneasy year for bond investors. A major theme of 2019 was the US-China trade war. As the two countries make up the largest economies in the world, the outcome of their trade talks will inevitably have a great impact on the global political and economic landscape. Thus, as negotiations progress, the unpredictable nature of outcomes and potential retaliations have contributed a significant amount of uncertainty to the market.

For much of the year, the escalation of the trade war, paired with poor business sentiment and declining capital expenditure, has been somewhat worrisome. Investors rushed into the safety of bonds, driving down yields. Most notably, yield curve inversion, commonly viewed as a predictor of recession, occurred throughout the year as President Trump slapped tariffs on billions worth of Chinese goods. Uncertainty started to calm during Q4, while the two countries announced that they would resume negotiations.

ALLEVIATE THE FEAR

The Federal Reserve cut rates three times in 2019, and general consensus is that the Fed will pause for now until at least 2020 Q2. Despite the Fed's effort to alleviate investors' fears, inflation has remained muted. Given that the unemployment rate is at a historical low and wages are rising at a stable pace, one possible explanation for this could be what is referred to as a "liquidity trap." In the long run, we believe that inflation will slowly gain momentum and lead to the eventual recovery of the US economy as low unemployment continues. Chairman Powell indicated that he would support rate hikes after a move up in inflation "that is persistent and that is significant". DCM considers maintaining medium duration when investing in US government bonds in 2020.

Figure 1: US Rates in 2019

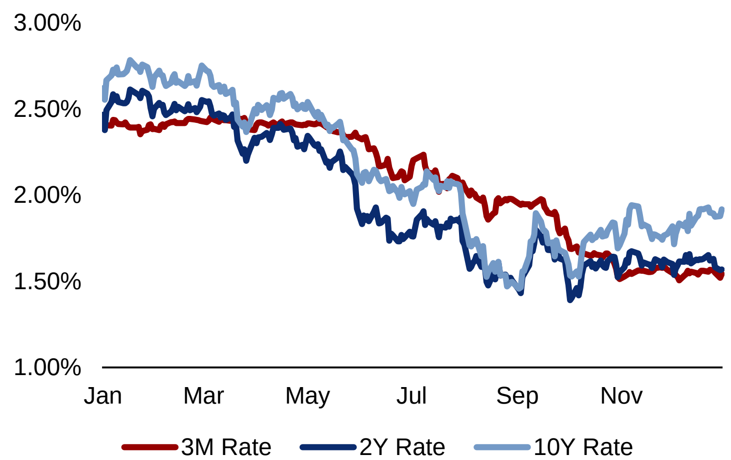
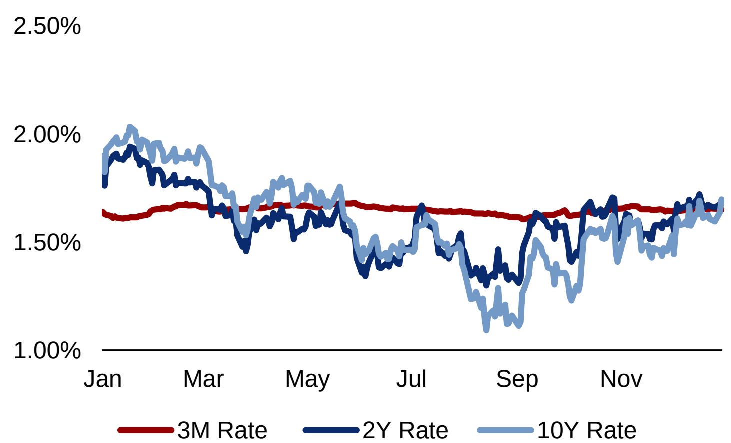


Figure 2: Canada Rates in 2019



Source: Bloomberg

THE BOC's MOVE

Historically, the Bank of Canada has followed the Fed's actions fairly closely when it comes to interest rates. In 2019, yield curve inversion, weak business, and consumer sentiment indicated the need for further easing by the BoC. However, the Canadian housing market has persistently been a source of concern for the economy. Highly indebted households make Canadians very sensitive to interest rate changes. As a result, we believe the BoC will continue to stimulate the economy by leveraging its fairly light balance sheet instead of cutting rates directly.

FIXED INCOME MARKETS

A ROLLER COASTER RIDE

THE CASE FOR QUANT. EASING

The BoC is more limited than the Fed in its ability to raise rates because of Canada's high household debt to disposable income figure. This is one of the main reasons why the Fed was able to adopt more hawkish policies than the BoC starting fall 2018. The BoC's balance sheet is in great shape compared to the Fed. The BoC can still use Quantitative Easing ("QE") by buying treasuries in order to push money supply in the market. The Fed has been trying to unload its balance sheet ever since mid-2014. But in September they had to reverse course and inject liquidity when repo rates hit as high as 10%. It appears, for the time-being, that the spike in repo rates was a one-off event, rather than a broader indication of systematic liquidity problems in the financial sector.

USD REMAINS STRONG

As expected, the progress made between the US and China in their trade negotiation is encouraging risk-taking by investors and weighing on the US dollar. At the same time, CAD benefited from the surge in crude oil prices in addition to the de-escalation of trade tensions. Although multiple factors have been influencing the USD/CAD exchange rate, we believe that the 2Y spread (2Y US – 2Y CA) will remain a good proxy of USD/CAD exchange rate over the long run.

Given the current macroeconomic situation, both the Fed and BoC trend towards dovish policies. However, as the inflation spread (CA-US) enters negative territory and there is weakened business and consumer sentiment in Canada, the economy is expected to be stagnant for the next few years. As mentioned above, the eventual recovery of the US economy fueled by low unemployment rate and resilient consumers will ultimately contribute to the expectations of 2Y yield differential expansion, implying strengthening USD in comparison to CAD. We will monitor both the US and Canada central bank's move in the weeks and months to come.

Figure 3: Fed and BoC Total Assets Level

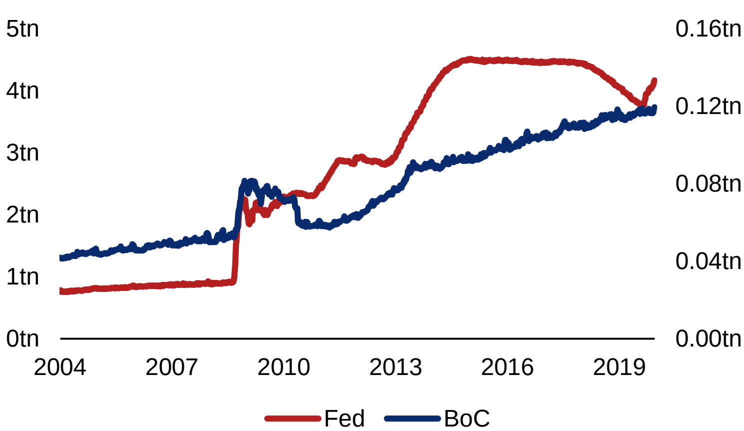
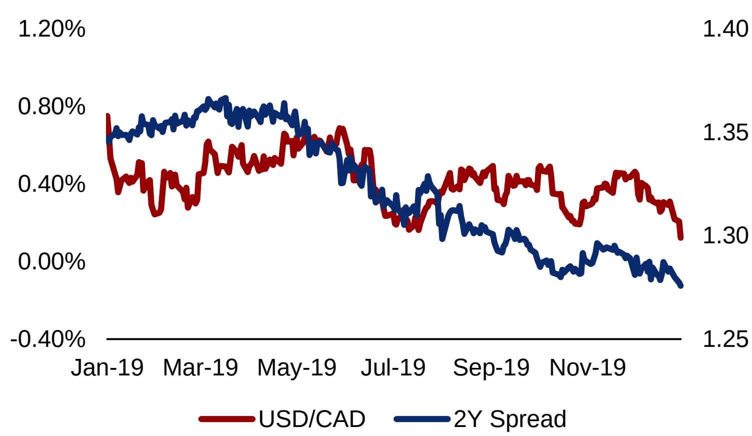


Figure 4: USD/CAD and the 2-Year Yield Spread



Source: Bloomberg

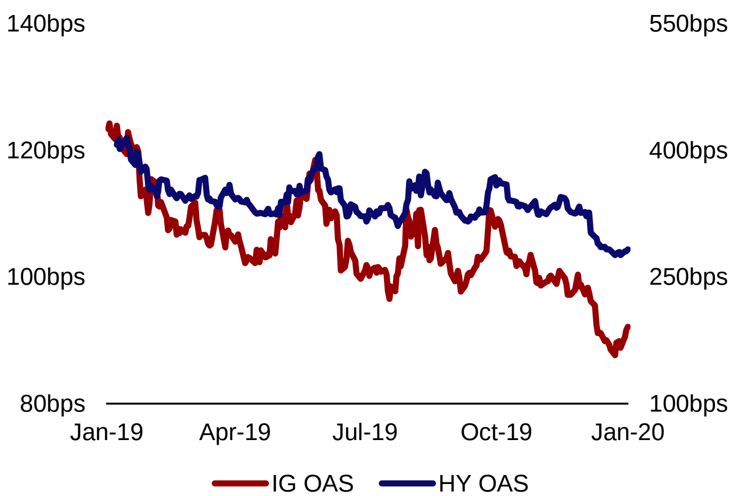
FIXED INCOME MARKETS

A TIME OF COMPRESSION

CREDIT SPREADS

As we enter 2020, bond yields are near all-time lows, hovering below 3 percent. This is due to the decrease in Treasury rates and the tightening of credit spreads. The spread component is mainly driven by an increase in demand for U.S. corporate bonds, as investors move to the bond market in hopes of increasing their returns at a time when interest rates are at very low levels. Furthermore, bond yields outside the U.S. remain low and in some cases are negative. This creates an additional demand for U.S. credit from non-US investors as they are attracted to higher spreads. This has the effect of pushing the spread of those securities even lower.

Figure 5: HY and IG OAS



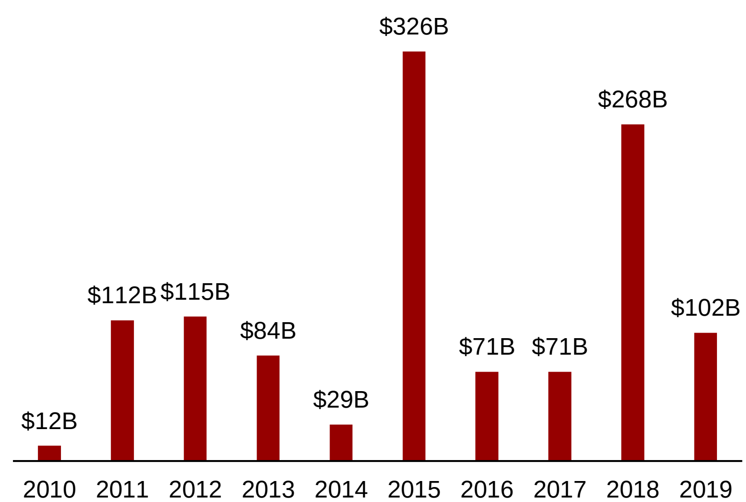
Companies have taken advantage of these low borrowing costs and have increased the demand to raise cash from investors. Issuance in 2019 was up year-over-year in both Investment Grade ("IG") and High Yield ("HY") to $1.31tr and $0.39tr, respectively. For IG, this figure represents a 3% increase whereas HY issuance has increased by 31% from 2018 levels. Despite this increase in 2019, we believe 2020 will see fewer new issuances. Indeed, one of the main factors driving bond issuances is M&A activity. However, political uncertainty surrounding the U.S. elections, as well as other global tensions, will likely limit M&A activity in 2020

DOWNGRADE CONCERNS

There was close to $102B in A-rated bonds downgraded to BBB (Figure 6) in 2019. In this period, 57% of companies were downgraded after making decisions that led to more aggressive credit profiles. Decisions related to M&A accounted for 45% of the downgrades while companies that increased leverage accounted for 12% of the downgrades.

Currently, half of IG bonds are BBB rated, owing their popularity to tempting yields while still falling into the low-risk category. In the case of an economic downturn, these bonds could abruptly be downgraded to high-yield status, making investors sell investments in these types of securities.

Figure 6: Downgrades from A to BBB

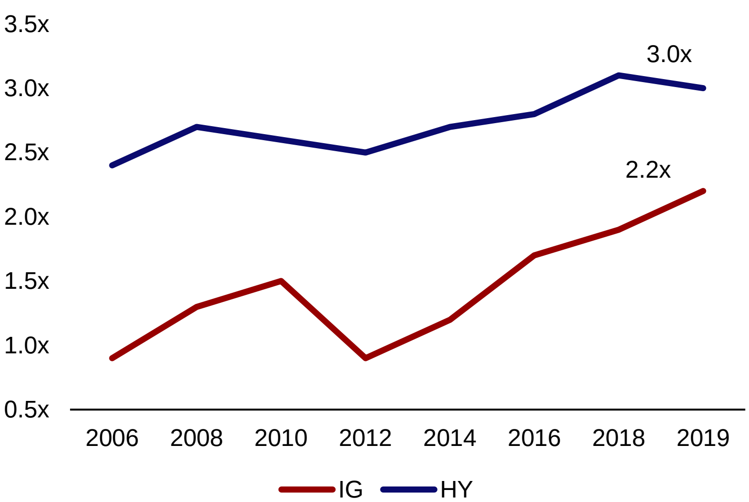


Source: Bloomberg, S&P

FIXED INCOME MARKETS
A TIME OF COMPRESSION

This poses a risk for IG bond investors. However, in 2019, we have seen more commitment from management teams to deleverage the balance sheet in order to improve the companies' ratings (Figure 7). This trend seems to continue for BBB bonds in 2020: "We expect credit metrics will continue to improve in 2020, with the majority of the top 10 maintaining relatively stable metrics and a few achieving more notable improvements" -*S&P analyst*.

Figure 7: IG vs. HY Leverage Ratio

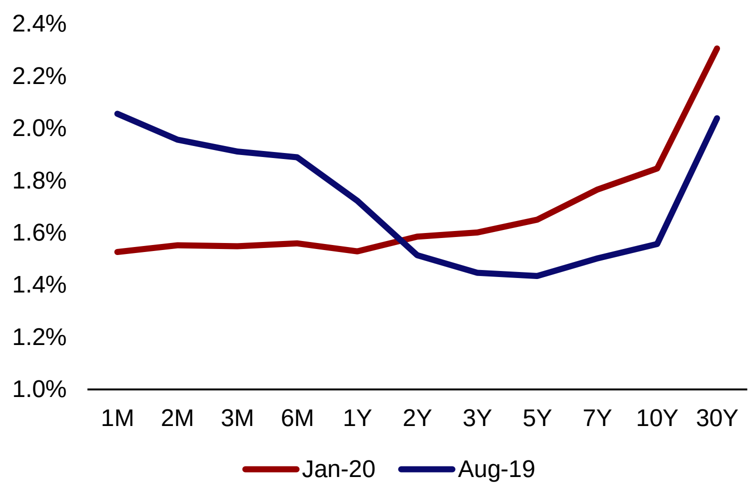


YIELD CURVE STEEPENS

In August 2019, the U.S. yield curve inverted for two weeks, signaling a potential recession. At its worst, the difference between the yields on two-year and 10-year U.S. Treasuries was negative 5bps. The inversion worried investors, although its validity as an indictor is being questioned by economists. However, during the following months, the yield curve has steepened in response to Fed rate cuts.

During the next few months, we expect some modest curve steepening. This will be driven by the Fed's desire to re-anchor long-dated inflation expectations, which will result in them keeping the rates steady even as economic growth improves. Strong wage growth and dovish rate cut expectations will ensure that any steepening is well contained.

Figure 8: U.S. Yield Curve



Source: Bloomberg, S&P

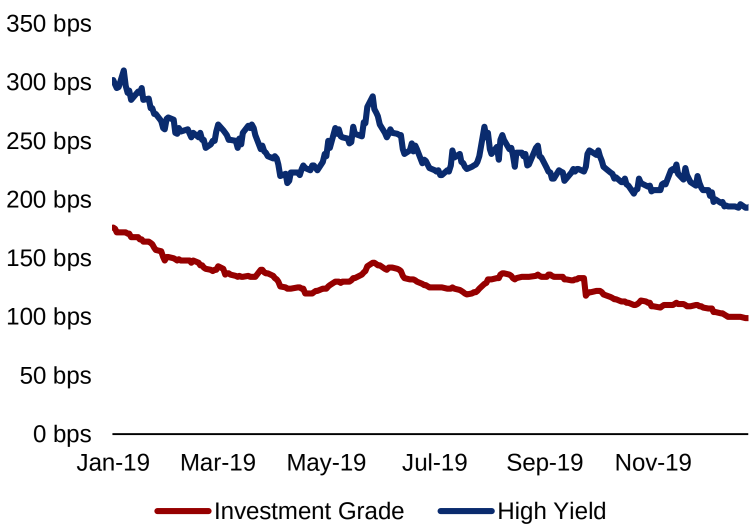
FIXED INCOME MARKETS

SECTOR OUTLOOK

POSITIVE ON DISCRETIONARY

In 2019, the consumer discretionary sector has seen a slight spread compression, driven by an overall compression in the bond market. However, for 2020, we have a positive outlook on consumer discretionary for two main reasons: (1) Low unemployment levels and (2) Increased minimum wage. The U.S. has added 2.14 million jobs in 2019, leaving unemployment at its lowest level since the late 60s at 3.5%. Additionally, salaries for both managerial and minimum wage workers have increased (more than 20 states have pushed the minimum wage to $12/h). This translates into a healthier disposable income, which will benefit the consumer discretionary segment. With the expected economic recovery, we believe that the consumer discretionary sector provides an opportunity for further spread compression.

Figure 10: Consumer Disc. vs. Benchmark OAS

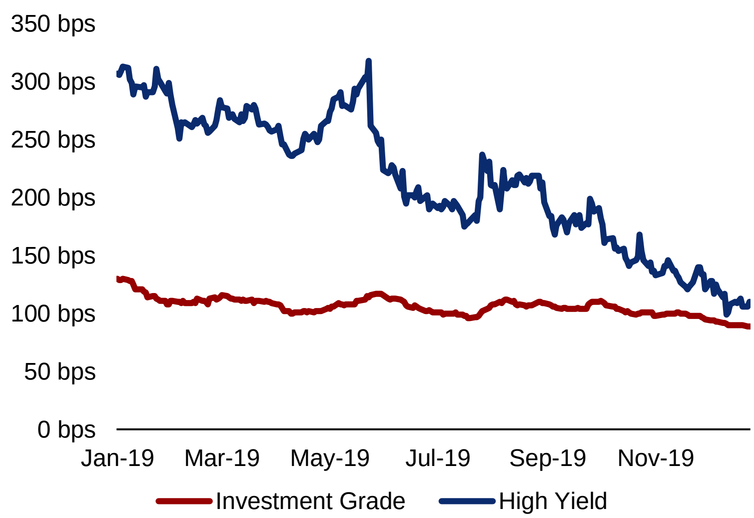


NEGATIVE ON STAPLES

With added macroeconomic uncertainty, the consumer staples sector has attracted investors in 2019 due to its secure and safe nature. This resulted in a large spread compression particularly in the high yield space.

Looking to 2020, in addition to the unattractive valuation levels, we have a negative outlook on the sector for the following two reasons: (1) limited ability to offset inflationary pressures and (2) underlying staples business struggling to compete against technologically-enabled competitors – given already sizable market share and limited room for growth. Combined with the fact that most consumer staple companies hold a large amount of debt on their balance sheet make for a difficult road ahead if underlying fundamentals were to decline.

Figure 11: Consumer Staples vs. Benchmark OAS



Source: Bloomberg, S&P

Fixed Income Fund

2019 HOLDINGS REVIEW

407 INTERNATIONAL INC. (ETRHWY 2.47% 2022)

COMPANY OVERVIEW

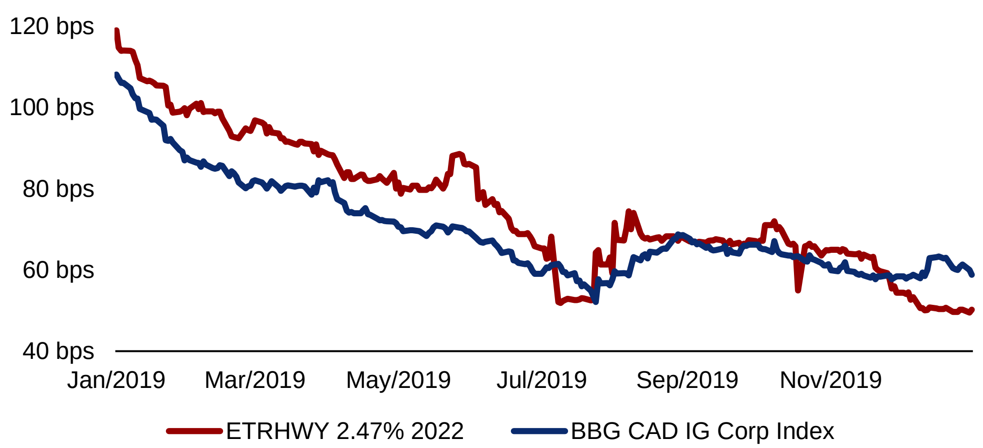
- 407 International Inc. through its subsidiary 407 ETR is responsible for operating, maintaining, expanding, and managing Highway 407 under a concession agreement that is scheduled to expire in 2098
- Highway 407 is an all-electronic open-access toll highway in the Northern part of the Greater Toronto Area. The highway, with a gross length of 108km, stretches from Burlington, ON to Pickering, ON and connects the surrounding suburbs to the major employment zones of Toronto, Mississauga, Vaughan, etc.
- The company reported C$1.5bn of LTM gross revenues and C$1.2bn of LTM operating income

INVESTMENT CONSIDERATIONS: RISKS & MITIGATIONS

1. **Low volatility and high predictability of cash flows mitigate the risks associated with investing in subordinated debt**
   - Revenues and costs are stable with low downside potential during an economic downturn. 407 ETR has had constant revenue growth of 11% CAGR while costs only grew at a 5% CAGR with an overall gross profit margin expansion
   - Reported revenue numbers proved to be in line with the Fixed Income Fund's expectations. Growth was attributable to an increase in toll rates, average trip length, and average number of trips taken. After the implementation of a new toll structure intended to optimize traffic flow and revenues, trip frequency is expected to steady in the future, resulting in the maintenance of total trips taken
2. **Strong economic moat significantly contributes to the attractiveness of the investment**
   - Short maturation of our bond mitigates the potential implementation of a popular alternative means of transportation for commuters, such as a new highway or GO Transit expansion
   - Suburbs' population growth outpacing that of Toronto, combined with already high population density in Toronto, will positively impact expected revenues for 407 ETR. More commuters into Toronto, or other GTA areas, related to suburbs expansion and shipping trucks will favor this lower congestion alternative
   - 407 International is on pace with development projects designed to increase capacity, improve traffic flow, and optimize customer convenience. Namely, the initiative to add additional lanes between Markham Road and York-Durham Line as well as the Sideline 26 interchange, as per schedule

407 ETR Secured Subordinated debt, BBB rated, with considerable yield represents a low risk investment due to the company's high predictability of cash flows, low risk of new entrants, and government backing interests

BOND AND BENCHMARK CREDIT SPREADS



Source: Company filings, Bloomberg 08/01/2020

POSITION SNAPSHOT

Initiated In	Dec-2018
# Units	20,000
Local Price	100.80
Local Currency	CAD
Rating	BBB
Duration	2.491
Portfolio Weight	1%

COGECO COMMUNICATIONS INC. (CCACN 4.925% 2022)

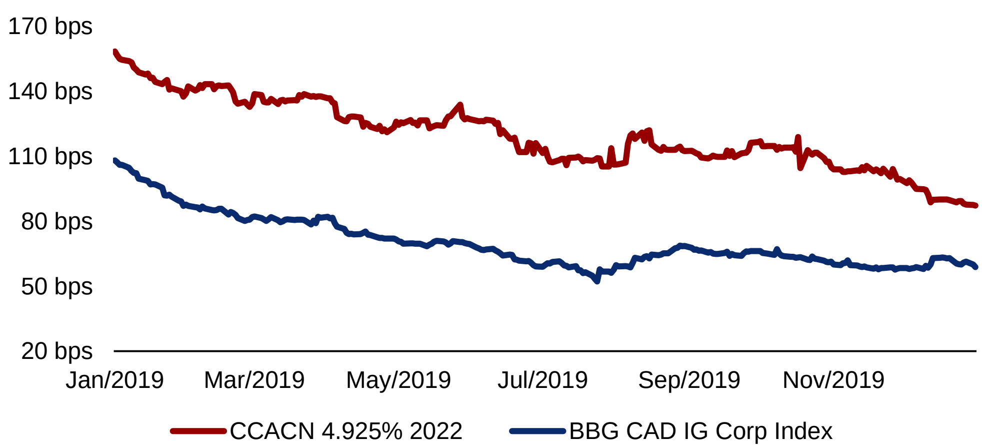
COMPANY OVERVIEW

- Cogeco is a cable company headquartered in Quebec. It operates two cable divisions in Ontario, Quebec and the United States and one business ICT Services division
- The company acquired MetroCast, a cableco that operates in five states in the Northern United States, for $1.4bn. Cogeco's Net Debt/EBITDA metric grew to 3.8x, from 2.5x, following the acquisition. The company is currently in the process of deleveraging
- The company reported a 8% y/y increase in gross revenue to C$2.4bn with a 6.9% increase in operating expenses over FY 2019

INVESTMENT CONSIDERATIONS: RISKS & MITIGATIONS

1. **Pessimistic investor sentiment towards Canadian cableco outlook overlooks Cogeco's competitive advantage through its geographic positioning**
   - We continue to see a decline in users using two or three services compared the previous year for both Canadian and American broadband services. The increase in single service customers y/y is primarily driven by a decline in landline usage. Customers have become more inclined to use their cellphones and online streaming services via internet
   - Additionally, American internet, video and telephony PSUs are showing relatively better performance than Canadian counterparts. This positions the American broadband services segment as a driver of growth for Cogeco Communication
2. **Bumpy Enterprise unit growth period should pave the way for recurring cash flow generation**
   - Cogeco Communications completed the sale of its struggling Cogeco Peer 1 Inc. subsidiary to Digital Colony for $720 million, resulting in a $82.4 million gain on sale. The sale will enable Cogeco Communications to exclusively focus on Canadian and US broadband segments
3. **The nearing completion of the TiVo digital TV rollout in both the Canadian and U.S. segments and its capex dynamics of the TiVo will generate stronger segment FCF generation**
   - The TiVo video platform offers integrated Netflix and YouTube video search together with voice activated remotes. New developments will include the integration of more popular applications and device pairings, the highlight of which being Amazon Alexa
   - Launch of a new mobile app for multi-screen viewing will promote TiVo to Cogeco clients and help promote the slowing video segment, thereby stabilizing cash flows

BOND AND BENCHMARK CREDIT SPREADS



Source: Company filings, Bloomberg 08/01/2020

POSITION SNAPSHOT

Initiated In	Nov-2016
# Units	22,000
Local Price	104.88
Local Currency	CAD
Rating	BB
Duration	1.981
Portfolio Weight	2%

SMARTCENTRES REIT (SRUUCN 3.834% 2027)

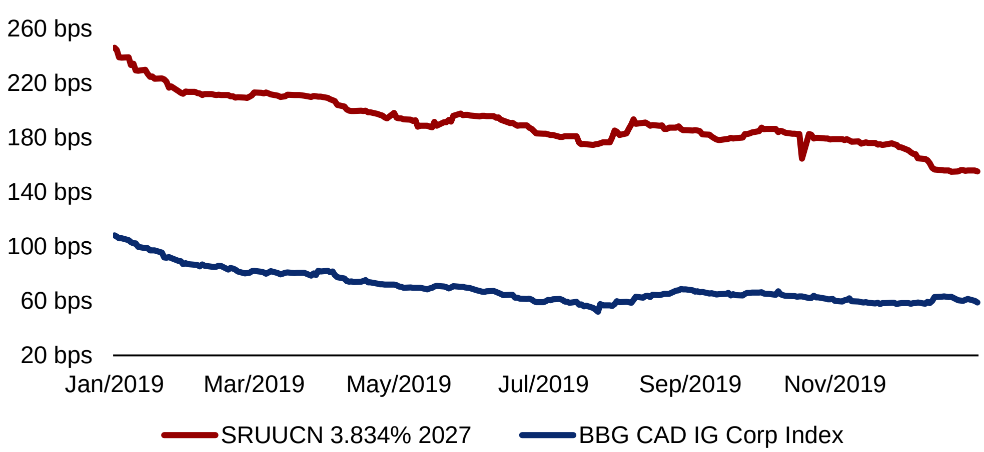
COMPANY OVERVIEW

- 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
- SmartCentres' commercial tenants are strong national and regional retailers, such as Walmart. Additionally, the Trust is working to developing non-retail projects to diversify its revenue stream
- The Trust's portfolio is expanding to include residential properties, retirement homes, offices, and self-storage spaces
- Stability of value tenants continue to ensure the above-industry average occupancy rates of 98.0%

INVESTMENT CONSIDERATIONS: RISKS & MITIGATIONS

1. **Overestimation of recession risks**
    - Trust was able to maintain above-industry average occupancy rates which normally rage from 93-94%
    - The Trust's shopping centers have continued to deliver stable returns, despite the dominance of large online retail platforms such as Amazon. Reason being, SmartCentres tenants are well-capitalized omnichannel retailers. To ensure that tenants are able to remain competitive in a changing landscape, the company has continued working alongside those with existing contracts to facilitate the integration of their evolving omnichannel and e-commerce platforms
2. **Increased traffic driven by intensification and high "switching" costs for tenants make it in their best interest to stay with SmartCentres**
    - The Trust's major tenant, Walmart, has continued to stay with SmartCentres commercial properties. The company accounts for 25.5% of the Trust's annualized rentals from investment properties. There is no indication that Walmart will be looking to reconsider its partnership with SmartCentres in the near future
3. **The new financing that the Trust will need to finance new projects will provide stable recurring cash flow to meet obligations**
    - The Trust has had no difficulty maintaining a ratio of Consolidated Adjusted EBITDA to Consolidated Interest Expense greater than 1.65x. Additionally, with current values of 44.7%, there is no concern that the Trust will break the total debt to assets covenant of no greater than 65.0%
    - The Trust's movement towards developments such as the 50/50 joint venture with Greenwin is consistent with the REIT's strategy of diversifying revenue growth into the residential, senior-living, office, and self-storage spaces

BOND AND BENCHMARK CREDIT SPREADS



Source: Company filings, Bloomberg 08/01/2020

POSITION SNAPSHOT

Initiated In	Apr-2019
# Units	20,000
Local Price	104.43
Local Currency	CAD
Rating	BBB
Duration	6.749
Portfolio Weight	1%

PROGRAM ALUMNI

DESAUTELS Capital Management Gestion de capitaux

Thomas Boucher-Charest, 2019

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Josiah Derksen, 2019

Victoire Gekas, 2019

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Molly Newborn, 2012

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Jehangir Vevaina, 2010

Shu Wai Chi, 2010

Lincoln Zheng, 2010

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