

DESAUTELS

CAPITAL

MANAGEMENT

2018

Global Equity Fund

October 2018 REVIEW & OUTLOOK

GEORGE KOUTSOS

Global Equity Fund

DCM AND BENCHMARK PERFORMANCE

Dear Investors,

The Desautels Global Equity fund returned 5.2% gross of fees for the first 10 months of 2018, compared to (0.2)% for our benchmark. Our fund proved resilient during the year's various market swings, and our 5.4% outperformance was accomplished with a beta of 0.95, but with slightly higher volatility than that of our benchmark.

Individual stock selection was the primary contributor to our outperformance. Aritzia, Health Insurance Innovations, and Boingo were some of DCM's biggest winners, significantly outperforming their sector benchmarks. Details on selected holdings are provided further below.

GLOBAL EQUITY FUND RETURNS		As of Oct 31, 2018	
Time Period	Gross Return	Net Return	Benchmark
YTD Return	5.2%	4.1%	(0.2%)
Oct-18	(5.0%)	(5.1%)	(5.9%)
Sep-18	0.1%	0.0%	(0.7%)
Aug-18	3.6%	3.4%	0.9%
Jul-18	3.4%	3.3%	1.7%
Jun-18	0.5%	0.4%	1.8%
May-18	3.8%	3.6%	3.2%
Apr-18	(0.4%)	(0.5%)	1.0%
Mar-18	(0.6%)	(0.6%)	(0.9%)
Feb-18	(0.6%)	(0.7%)	(1.8%)
Jan-18	0.7%	0.5%	0.7%
Since Inception*	8.7%	7.2%	8.3%

*Returns are annualized.

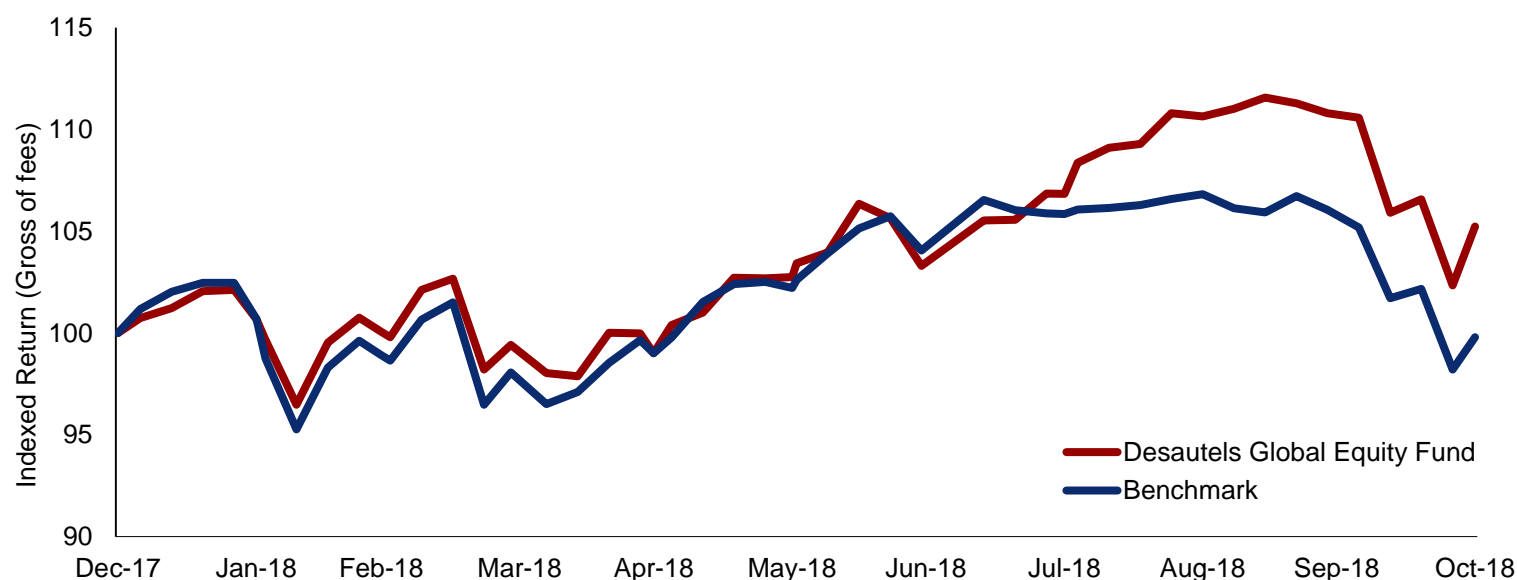
PERFORMANCE METRICS SINCE INCEPTION		
	Equity Fund	Benchmark
Annualized Return	8.7%	8.3%
Annualized Std Dev	10.4%	10.9%
Annualized Sharpe Ratio	0.61	0.55
Beta	0.76	
Annualized Gross Alpha	1.8%	
Weekly Tracking Error	0.9%	

Performance metrics are calculated gross of fees.

EQUITY PERFORMANCE YTD (As of Oct 31, 2018)		
	Equity Fund	Benchmark
Annualized Return	5.2%	(0.2%)
Annualized Std Dev	11.8%	11.3%
Annualized Sharpe Ratio	0.24	(0.23)
Beta	0.95	
Annualized Alpha	5.3%	
Tracking Error	0.6%	

Performance metrics are calculated gross of fees.

Global Equity Fund Performance vs Benchmark YTD



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

Global Equity Fund

Holdings

Global Equity Fund - Holdings List as of (31/10/2018)

#	Security Name	Sector	Currency	Size	# of Units	Local Cost / Unit	Local Price / Unit	Base Market Value	Position Size %
1	BOINGO WIRELESS INC	Communication Services	USD	Small	4,980	\$23.58	\$31.33	\$204,898	6.6%
2	OAKTREE CAPITAL GROUP LLC	Financials	USD	Large	2,990	\$39.95	\$41.83	\$164,250	5.3%
3	CANADIAN IMPERIAL BANK OF COMMERCE	Financials	CAD	Large	1,350	\$104.02	\$113.68	\$153,468	4.9%
4	BMO GLOBAL COMMUNICATIONS ETF	Communication Services	CAD	ETF	6,900	\$21.70	\$20.96	\$144,624	4.6%
5	BANK OF AMERICA	Financials	USD	Large	3,850	\$15.01	\$27.50	\$139,040	4.5%
6	MARATHON PETROLEUM	Energy	USD	Large	1,500	\$44.14	\$70.45	\$138,778	4.4%
7	SHIRE PLC	Health Care	USD	Large	575	\$152.53	\$181.80	\$137,281	4.4%
8	PEMBINA PIPELINE	Energy	CAD	Large	3,000	\$37.85	\$42.58	\$127,740	4.1%
9	LEGACYTEXAS FINANCIAL GROUP	Financials	USD	Mid	2,500	\$39.24	\$38.53	\$126,499	4.1%
10	PROLOGIS INC	Financials	USD	Large	1,270	\$62.24	\$64.47	\$107,525	3.4%
11	INVESCO DYNAMIC SOFTWARE ETF	Information Technology	USD	ETF	1,000	\$78.33	\$76.07	\$99,899	3.2%
12	EMERA INC COM NPV	Utilities	CAD	Mid	2,400	\$45.23	\$40.62	\$97,488	3.1%
13	LIVE NATION ENTERTAINMENT	Consumer Discretionary	USD	Mid	1,400	\$45.44	\$52.30	\$96,156	3.1%
14	ISHARES S&P/TSX CAPPED	Financials	CAD	ETF	2,600	\$30.28	\$35.89	\$93,314	3.0%
15	FINCANTIERI SPA	Industrials	EUR	Mid	48,610	\$1.37	\$1.29	\$93,234	3.0%
16	LOBLAW COS COM STK	Consumer Staples	CAD	Large	1,300	\$68.66	\$65.84	\$85,592	2.7%
17	HEALTH INSURANCE INNOVATIONS	Financials	USD	Small	1,240	\$28.56	\$48.90	\$79,630	2.6%
18	EROS INTERNATIONAL	Information Technology	USD	Large	5,950	\$11.70	\$9.98	\$77,982	2.5%
19	CUMMINS INC	Industrials	USD	Large	400	\$137.83	\$136.69	\$71,803	2.3%
20	ISHARES U.S. INSURANCE ETF	Financials	USD	ETF	840	\$65.77	\$61.35	\$67,680	2.2%
21	FMC CORP	Materials	USD	Large	660	\$93.97	\$78.08	\$67,675	2.2%
22	ARC RESOURCES LTD	Energy	CAD	Mid	5,400	\$14.94	\$12.26	\$66,204	2.1%
23	ISHARES U.S. INDUSTRIALS ETF	Industrials	USD	ETF	355	\$133.23	\$139.45	\$65,012	2.1%
24	TEXTAINER GROUP HOLDINGS	Industrials	USD	Small	4,200	\$11.20	\$11.73	\$64,699	2.1%
25	ALACER GOLD CORP COMMON	Materials	CAD	Small	28,300	\$2.38	\$2.15	\$60,845	1.9%
26	ISHARES GLOBAL CONSUMER	Consumer Staples	USD	ETF	900	\$45.39	\$49.55	\$58,564	1.9%
27	THE STARS GROUP INC	Consumer Discretionary	CAD	Mid	1,990	\$27.18	\$27.38	\$54,486	1.7%
28	ARITZIA INC SUBORDIATED	Consumer Discretionary	CAD	Small	2,800	\$12.50	\$19.37	\$54,236	1.7%
29	FRESENIUS MEDICAL CARE AG	Health Care	EUR	Large	955	\$38.63	\$39.08	\$49,012	1.6%
30	SUMMIT MATERIALS INC	Materials	USD	Mid	1,750	\$28.57	\$13.50	\$31,026	1.0%
31	ISHARES GLOBAL HEALTHCARE	Health Care	CAD	ETF	570	\$43.94	\$46.95	\$26,762	0.9%
32	OLD PSG WIND DOWN LTD	Consumer Discretionary	CAD	Small	10,985	\$7.16	\$1.00	\$10,985	0.4%
33	CANADIAN DOLLAR	Cash	CAD	Cash	(54,390)	–	\$1.00	(\$54,390)	(1.7%)
34	U.S. DOLLAR	Cash	USD	Cash	198,454	–	\$1.00	\$260,619	8.3%
Total								\$3,122,617	100.0%

Global Equity Fund

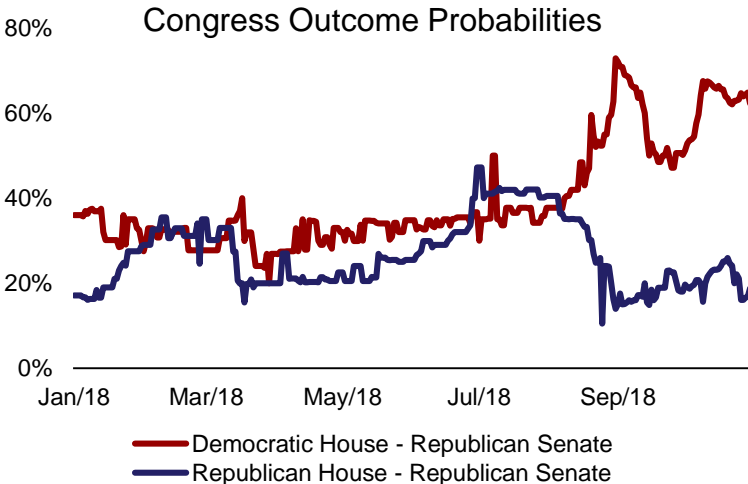
Market Commentary and Outlook

Midterm Elections: Lame Duck?

As we progress into the longest bull run since World War II, markets are increasingly nervous in front of risks to the global economy. We'll focus on two threats that we've identified as creating significant uncertainty: the midterm elections, and the potential trade war with Asia.

Whatever the result of the Mueller investigation may be, the Republican's legislative control is in serious jeopardy. Precursor signs already point to a Democratic wave in the November midterm elections. Across the country Democrats have won elections they would have normally lost by double digit margins.

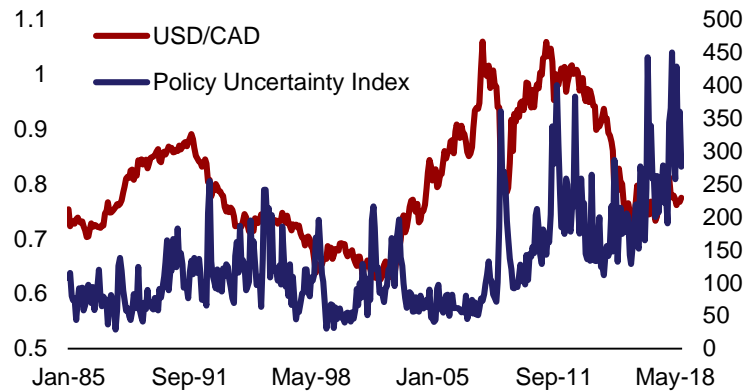
This is unsurprising given that midterm elections tend to favor the party in opposition. At DCM, our opinion is that Congress will be hung in November. This result would have severe consequences on Trump's policy agenda as without significant compromises, remaining political goals of immigration, welfare, and healthcare reform will not be achieved, all the while increasing the possibility of a government shutdown. However, it is unlikely that any party would want to significantly rock the boat a year before the next presidential election cycle kicks off. Given this, we do not expect any major consequences on U.S. or world stock markets.



Sources: Iowa Electronic Markets, Bloomberg, USMCA, Politico

War of Worlds

With hours to spare, Canada agreed to join the newly formed US-Mexico-Canada Agreement (USMCA). Although scarce in details, it is clear that very few meaningful changes have occurred. Most notably, the agreement includes an increase in tariff-free access to the Canadian dairy market, changes to IP rights, as well as additional North American automobile content requirements. Visibly relieved, Saputo's share price increased by 5.7% the day of the accord, whereas the S&P/TSX 60 remained flat. This latter result is slightly confounding, given that uncertainty around NAFTA should have dissipated (as witnessed by the Canadian economic policy uncertainty index), and the relatively benign future economic effects. However, this reaction may be due to the fact that American approval is far from assured given the likely hung Congress, and that the economic and investment consequences of the 6-year optional review periods as well as clause 32.10 (non-market economy FTA) remain unclear.



Overall Summary

At DCM, our key takeaway from this agreement, is that Trump's trade bluster is just rhetoric. We do not see a full-blown trade war between America and China occurring. Consequently, we are actively seeking out industries disproportionately affected by fears of a trade war.

Global Equity Fund

Winners, Losers, and Recent Trades

Health Insurance Innovations (NASDAQ:HIIQ) – UP 95.99% YTD

DCM first initiated its position in Health Insurance Innovations, a cloud-based platform that distributes individual and family health insurance plans, in April 2018. We initially invested in HIIQ due to the more favourable regulatory environment for short term insurance plans (IFPs), as well as its strong and improving operating metrics. Indeed, we believed that the successful repeal of certain aspects of the Affordable Care Act would create a shift from traditional ACA plans towards short term IFPs, greatly benefiting HIIQ given their focus on this market. Additionally, HIIQ was trading at a very attractive valuation.

A significant portion of our gains were a result of better than expected earnings. Further deregulation of IFPs, as we had hoped for, served as another catalyst. Despite the recent gains, we continue to see upside potential. Nevertheless, we took part of our profits on September 26 and sold a third of our position.

Alacer Gold Corp (TSE:ASR) – Down 3.59% YTD

Alacer Gold Corporation is a Canadian-listed gold miner with assets focused solely in Turkey. We initiated our position in November 2016 as we believed the company had strong potential as an acquisition target, a misunderstood capital and tax structure, and an attractive valuation. We also believed the market was unfairly punishing Alacer for its exposure to Turkey.

While the stock is close to flat YTD, it is down over 30% from its July peak. The decline was driven by continued political uncertainty in Turkey as well as the recent announcement that gold production was on the lower end of FY18 forecasts. We continue to hold the position on a view of upside potential relating to the pivotal result of their sulfide ore production facility.

Sources: Bloomberg, DCM, Company Filings

Aritzia (TSE:ATZ) – UP 52.64% YTD

Aritzia is a Canadian online and brick & mortar women's fashion retailer targeting the affordable luxury customer segment. We initially invested in Aritzia based on our belief that the market was unfairly lumping it in with the traditional physical retailers, despite its positioning as a luxury retailer, its "Amazon-proof" product mix, and its strong financial flexibility. Additionally, we believed that the market was underestimating its growth potential. Finally, taken together with the fact that Aritzia traded at an attractive valuation, we felt confident initiating a position in the stock.

The stock's stellar performance since our investment is attributable to multiple earnings beats, as well as accelerating same-store sales and EBITDA growth.

DCM Company Note

As the school year comes to an open and we welcome a new talented group of Junior Analyst, my colleagues and I would like to thank our recent graduating Senior Analysts, Vadim, and Ken for their continued guidance, mentorship, and contribution to this program. At the end of the day, DCM is only as strong as its people.

Finally, to our investors, I would like to sincerely thank you for your unwavering support through good times, and bad. There is not a day that goes by where we do not reflect on the unique learning opportunity that you have provided for us, and we will always work towards strengthening this program. We look forward to another eventful year.

Best regards,

George Koutsos

Strategist, Global Equity Fund

Fixed Income Fund

October 2018 REVIEW & OUTLOOK

Victoire Gekas

Fixed Income Fund

DCM AND BENCHMARK PERFORMANCE

Dear Investors,

The Fixed Income fund returned 0.7% gross of fees YTD, compared to (0.5%) for our benchmark. The outperformance was mainly due to the portfolio's shorter US duration relative to our benchmark as recent inflation fears led central banks to become more hawkish and yields surprised on the upside.

Recent portfolio changes - We recently sold our position in the captive financing company, Ford Credit Canada after seeing several red flags in the last quarter. Notably, 30-60 day delinquencies rose 13.5% YoY. While Ford's loan book is mostly fixed rate, many of their borrowers are exposed to variable rates through other debt obligations. Given the rising rate environment and Canadians' high level of indebtedness, these consumers will find it more and more difficult to service their overall debt burden, possibly leading to higher delinquency rates for Ford Credit. Overall, we felt the bond's 170bps credit spread was not high enough to

justify the risk and exited the position on October 18. The sale proved to be a good decision as the spread widened by another 20bps since then.

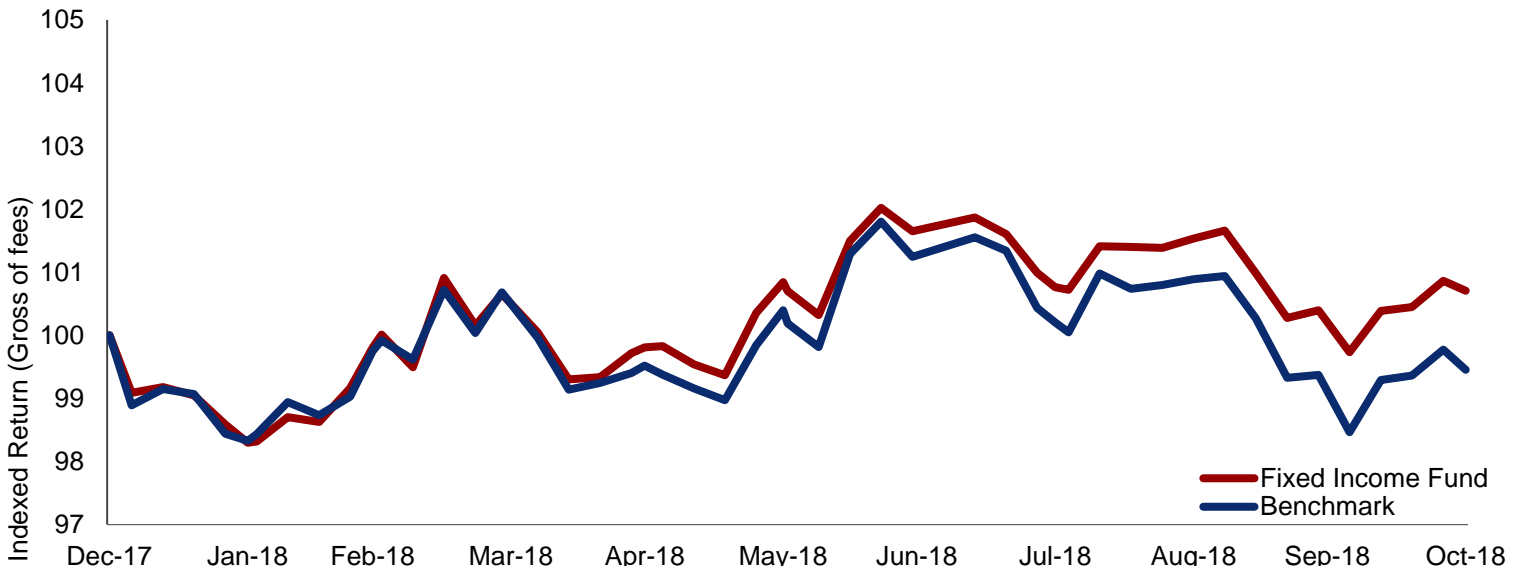
FIXED INCOME FUND RETURNS		As of Oct 31, 2018	
Time Period	Gross Return	Net Return	Benchmark
YTD Return	0.7%	0.3%	(0.5%)
Oct-18	0.3%	0.3%	0.1%
Sep-18	(1.1%)	(1.2%)	(1.5%)
Aug-18	0.8%	0.7%	0.7%
Jul-18	(0.9%)	(0.9%)	(1.0%)
Jun-18	0.8%	0.8%	0.8%
May-18	1.0%	1.0%	0.9%
Apr-18	(0.8%)	(0.9%)	(1.2%)
Mar-18	0.9%	0.9%	0.9%
Feb-18	1.5%	1.5%	1.4%
Jan-18	(1.7%)	(1.7%)	(1.7%)
Since Inception*	3.9%	3.3%	3.1%

*Returns are annualized.

FIXED INCOME METRICS YTD (As of Oct 31, 2018)		
	Fixed Income Fund	Benchmark
Return	0.7%	(0.5%)
Standard Deviation	3.7%	4.0%
Sharpe Ratio	(0.46)	(0.73)
Beta	0.88	
Alpha	0.9%	
Tracking Error	0.3%	

Performance metrics are calculated gross of fees.

Fixed Income Fund Performance vs Benchmark YTD



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

Fixed Income Fund

Holdings

Holdings as of October 31st, 2018

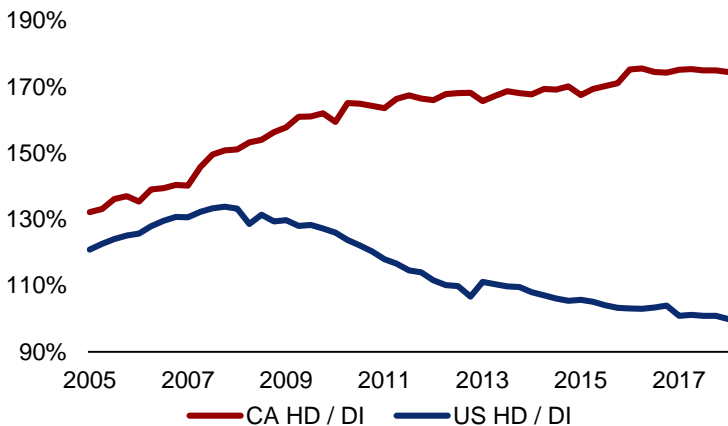
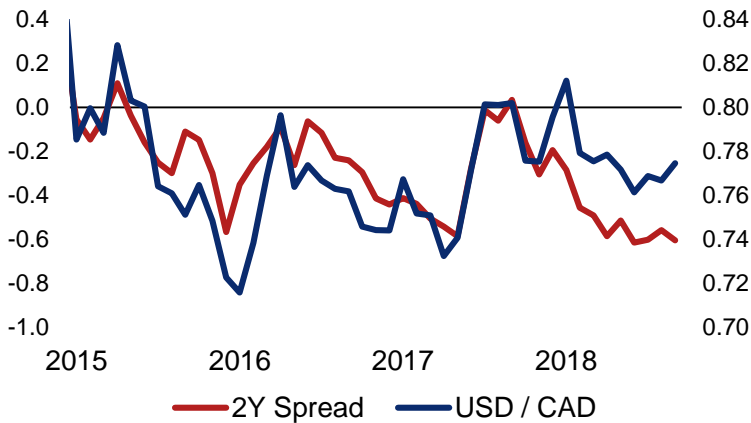
Security	Price (CAD)	Currency	Credit Quality	Geography	Type	Duration	Amount (CAD)	Position Size %
# ETFs								
1 IShares Canadian Corporate	\$21	CAD	BBB	Canada	Corporate	6.43	\$14,077	3.0%
2 IShares Core U.S. Aggregate	\$140	USD	AAA	US	Government	6.29	\$37,812	8.2%
3 IShares Iboxx IG	\$152	USD	NR	US	Corporate	8.85	\$5,630	1.2%
4 IShares MBS	\$137	USD	NR	US	Mortgage	5.83	\$75,310	16.3%
5 BMO Long Federal bond	\$17	CAD	AAA	Canada	Government	15.33	\$68,785	14.8%
6 Ishares 3-7 Year Treasury BO	\$158	USD	AAA	US	Government	4.50	\$47,301	10.2%
Government Bond								
7 Province of Alberta Bond	\$100	CAD	Aa1/A+	Canada	Government	3.98	\$40,152	8.7%
Corporate Bonds								
8 Russel Metals Inc	\$101	CAD	Ba3	Canada	Corporate	0.54	\$25,354	5.5%
9 Cogeco Cable Inc	\$106	CAD	BBB-	Canada/US	Corporate	3.13	\$23,275	5.0%
10 Dollarama Inc	\$98	CAD	-	Canada	Corporate	2.72	\$22,640	4.9%
Cash								
CAD		CAD					\$82,151	17.7%
USD		USD					\$20,901	4.5%
Total						5.16	\$463,388	100.0%

Fixed Income Fund

Macro Positioning

USD/CAD Portfolio Positioning

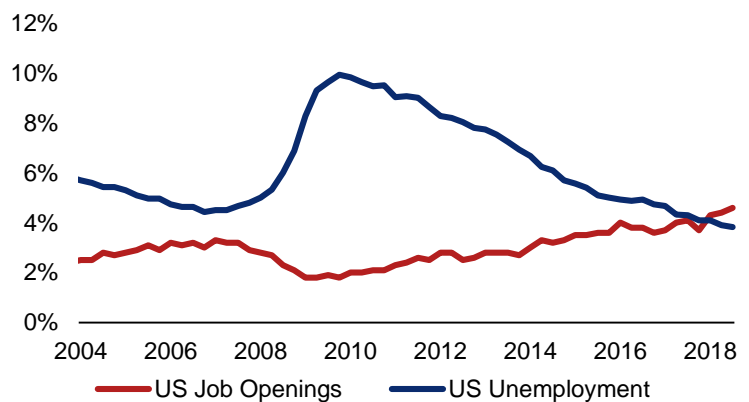
The Fixed Income Fund currently holds 60% of its securities in CAD and 40% in USD, representing a 5% underweight exposure to the greenback. Over the past 3 years, the USD/CAD exchange rate has been driven primarily by changes in the spread between the U.S. and Canadian 2Y yields. Considering record high Canadian indebtedness, stronger U.S. fundamentals and the Bank of Canada's ability to use Quantitative Easing in a future crisis, we believe that the U.S. 2Y rate is more likely to surprise on the upside compared to its Canadian equivalent. Since the 2008 crisis, Canadian households have not decreased their debt levels and are very sensitive to interest rate increases, which we believe will limit hawkishness at the BoC. For the above reasons, we are looking to tilt our portfolio towards USD.



Sources: FRED, Bloomberg.

Duration Portfolio Positioning

YTD, the U.S. yield curve has experienced an upward shift of about 88 bps with a slight flattening. Short term yields were pushed higher by interest rate hikes while long term yields were higher on rising inflation expectations. We currently have a duration of 5.3 years, compared to 6.8 years for the benchmark. Our short duration call, particularly in the U.S., was based on the view that inflation would surprise on the upside. Over the past few years inflation had remained relatively subdued, despite improving labour market conditions. But given recent increases in wage growth, we believe inflation is not far behind, particularly since U.S. job openings now exceed U.S. unemployment. As a result, we plan to maintain our short duration exposure relative to our benchmark.



Credit Strategy

HY fundamentals have improved recently with a default rate of only 1.8%, compared to a 3.1% average over the past 20 years. But HY spreads are too tight in our view, having already tightened 50bps relative to HG spreads over the past year. We have noted in the past that HY can outperform HG in a rising rate environment as rising rates are generally a sign of an improving economy, and

Fixed Income Fund

Macro Positioning

Credit Strategy(Cont'd)

hence lower expected default rates. However, a rising rate environment at this stage of the cycle, where hikes are more a function of the Fed's desire to cool down the economy to contain inflation, could prove detrimental to the HY space. In particular, those HY firms with little liquidity and significant refinancing needs could come under significant pressure. We thus prefer to focus our corporate allocation mainly to the IG space.

Trump Influencing the Fed?

Trump has recently been tweeting about his dissatisfaction with recent rate hikes. He is not the first president to express disagreement with the central bank, but historically the Fed has always kept its independence from politics. But what if Powell started to listen to Trump and keep rates low? We expect this would cause a significant steepening of the yield curve with the 10-year selling off as the departure from central bank independence would increase long-term inflation expectations. We don't expect Powell to be influenced by Trump, but even if he was, we would not want to be long duration.

To conclude, we would like to thank all of our investors for their continued support throughout the years. Managing a real fund has been an incredible learning opportunity that we could not have experienced in any other setting. We look forward to another exciting year ahead.

Best Regards,

Victoire Gekas
Fixed Income Strategist

Sources: FRED, Bloomberg.