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Global Equity Strategy

Dear Investor,

We are very pleased to report that Desautels Capital Management (DCM) returned 11.8% net of fees for the 4 months ending August 31, 2013; this brings our year-to-date net return to an impressive 23.2%. By comparison, our benchmark is up 2.9% over the past 4 months, and 10.5% year to date.

Figure 1: Performance Table (As of Aug. 31, 2013)

| Desautels Global Equity Fund | | | |
|------------------------------|-------------------|-----------------|-----------|
| Time Period | Fund (Gross Fees) | Fund (Net Fees) | Benchmark |
| 1 month | 2.92% | 2.81% | -0.26% |
| 3 month | 6.69% | 6.33% | 0.97% |
| 6 month | 16.69% | 15.91% | 3.83% |
| YTD | 24.29% | 23.18% | 10.53% |
| 1 year | 27.31% | 25.59% | 16.66% |
| 2 year | 33.03% | 29.36% | 24.39% |
| Since Inception | 30.51% | 23.98% | 18.67% |

In the U.S., increased optimism and continued monetary stimulus fueled stock price growth through the beginning of summer. However, a change in sentiment began toward the end of May when Bernanke hinted at a tapering of monetary stimulus later in the year. This fostered a paradoxical situation

where negative economic news resulted in positive equity gains; the worse was the news, the higher was the chance the Federal Reserve would continue providing stimulus into 2014. Needless to say, ever-changing sentiment regarding the timing of tapering became a hot theme for this summer's equity market performance.

At DCM, we think there will likely be tapering in the near to medium term and that sentiment will continue to improve surrounding consumer and U.S. housing market data; consequently, we see a reduction in the need for stimulus. The U.S. economy grew by 2.5% in the second quarter, beating the forecasts of a number of economists who predicted growth at a feeble 1%. These higher than expected numbers only help to reinforce this view. On the other hand, inflation continues to hover at or below 2% and employment remains weak. Thus, it is our opinion that the Fed rate will stay at 0-0.25% well into 2014. This is consistent with the Fed's "unchanged" guidance, which is contingent on unemployment improving to 6.5%. A more detailed discussion of DCM's broader macro views can be found in the fixed income portion of this newsletter.



Capital Management
Gestion de capitaux

Global Equity Strategy

The second quarter earnings season kicked off in early July. At first glance, overall results seemed positive, and were reflected in market performance.

Approximately two-thirds of S&P 500 companies beat the street estimates, with a median surprise of 2.9%, as of August 9, 2013. Second quarter earnings were up 3% from the previous year, and by early August the index crossed the 1700 mark. This may seem encouraging, but as noted by David Einhorn of Greenlight Capital, while a large proportion of companies indeed beat their earnings estimates, a similar proportion also lowered guidance with respect to future earnings. Moreover, excluding the stellar performance of the financial sector, earnings were actually down 2.9% from last year's second quarter.

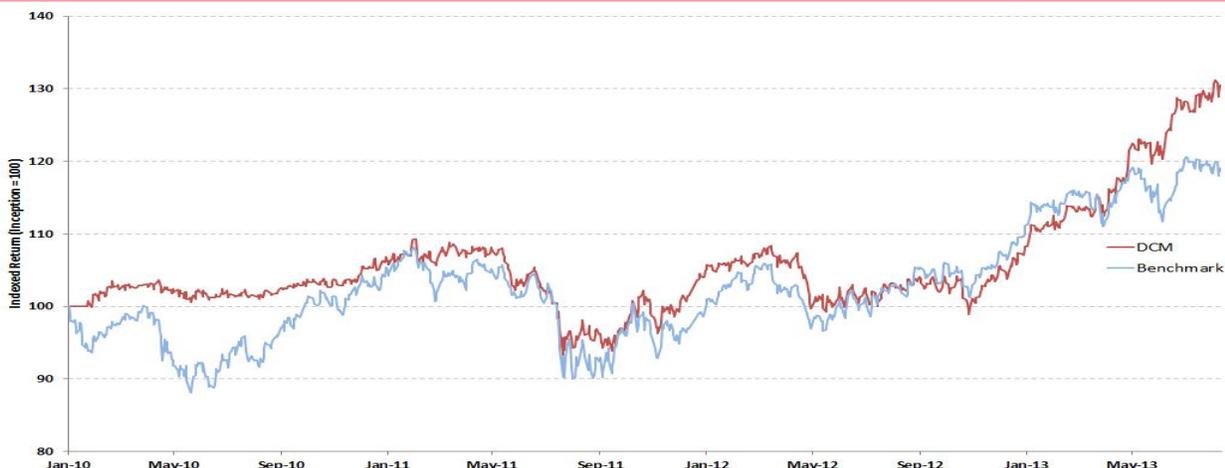
In Canada, the housing market and consumer debt levels were once again popular discussion topics. As well, while interest rates remained low and the housing market continued to cope, we witnessed a comeback in oil and the broader Canadian energy sector. We maintain our view that Canadian oil assets have solid earnings power and are attractively priced; Warren Buffett recently accumulated a stake in Canadian oil sands through Suncor Energy, suggesting we are not alone in this view.

We are also encouraged by the recent announcement by TransCanada that it plans to move forward with the

Energy East Pipeline project, sending about 1.1 million barrels of oil per day from Western oil sands to refineries in Eastern Canada. The news was well received by the market as the project will aid in alleviating the current supply bottleneck in the oil sands and thereby lessen the discount at which Canadian oil producers are forced to absorb on selling prices. The next big event to look out for continues to be the Keystone XL pipeline; TransCanada management has stated that a final answer from the U.S. government can be expected, at the very latest, within the next six months.

Our energy holdings massively outperformed the energy sector, with Pulse Seismic returning around 35% and Parex Resources just over 28%. Pulse reported weak earnings but has since been the recipient of institutional interest, which over the second quarter, rose by 4% with two analysts initiating coverage on the stock - both of which were buys. Consequently, the stock price is now hovering around 52 week highs. Our investment thesis centers on Pulse's business model, which is characterized by very high cash margins. As the second largest seismic database in Canada, their data library helps exploration and production companies map out their sub-surface assets. Oil and gas companies pay Pulse for non-exclusive and non-transferable use of this library. The company obtains its data through capital

Figure 2: Global Equity Fund Performance: as of August 31, 2013



Note: DCM performance is gross of fees. Benchmark is the MSCI World index from inception to February 28, 2013 and a 60% S&P TSX / 40% S&P 500 blended benchmark thereafter. Fund inception date is January 20, 2010.

Global Equity Strategy

expenditures or acquisitions, and is able to earn revenues on that same data recurrently. This, combined with a low cost of data maintenance, leads to very high cash margins. Despite the attractive business model, the current valuation may present reason to take some profits off the table and reduce exposure, given the recent earnings miss. We are currently reevaluating the position.

Meanwhile, Parex soared as the company reported a 47% increase in 2P reserves and equity analysts increased price targets. Core NAV, as estimated by both management and DCM, stands at \$4.50 per share, with about \$3.00 of risked NAV upside. The stock price on August 30 was \$5.78. Despite seeing lower netbacks recently, we remain bullish on Parex. We believe that the current share price reflects a fair valuation of the inherent political risk, and that continued positive drilling news will help convert risked NAV to stock price appreciation.

Home Capital Group (HCG) also had an exciting summer. After reporting strong first quarter earnings and beating both the street's and internal estimates, the stock price lost around 10%. This came after New York hedge fund manager Steven Eisman announced at the Sohn Investment Conference that he was bearish on the Canadian housing market. In fact, he specifically focused much of his attention on HCG, and singled it out as a good way to bet against the decline. At DCM, our original investment thesis remains intact and we saw a potential buying opportunity during this sell-off. However, given our already significant exposure to the stock, at about 6.4% of the portfolio as of April 30, 2013, we elected to stay put. The valuation of HCG is still attractive, but is getting close to our target price. We will keep a close watch as the next earnings release approaches, and as OSFI banking regulations continue to be introduced.

Jazz Pharmaceuticals, an investment we made in April, is up 54% and is another contributor to our recent outperformance. Despite a slight earnings miss, the market reacted very well to the company's ability to

diversify its revenue mix, as the Erwinaze drug went from contributing 3% to 22% of revenue. Erwinaze was a product of EUSA Pharma, a Jazz acquisition from 2012. This, coupled with the stock's undervaluation and a string of acquisitions in the Irish pharmaceuticals market, make Jazz an attractive M&A target. By way of example, Elan Corp. and Warner Chilcott were Irish healthcare companies that were both bought out over the summer, spurred by Ireland's low corporate tax rates. The market is speculating that Jazz may be next in line. We are monitoring the situation closely.

Some other notable investment performances include General Motors, Conrad Industries, Take-Two Interactive and Wells Fargo.

Figure 3: Global Equities Sector Weighting

| Sector Weighting - Aug. 31, 2013 | | | |
|----------------------------------|-----------|--------|--------|
| Sector | Benchmark | DCM | +/- |
| Healthcare | 5.79% | 10.45% | 4.66% |
| Technology | 7.91% | 12.07% | 4.16% |
| Industrials | 7.31% | 11.03% | 3.72% |
| Consumer Discretionary | 7.17% | 9.79% | 2.62% |
| Currency | 0.00% | 2.21% | 2.21% |
| Consumer Staples | 6.14% | 6.86% | 0.71% |
| Telecom | 4.10% | 3.47% | -0.63% |
| Energy & Utilities | 22.81% | 20.41% | -2.40% |
| Materials | 15.03% | 7.97% | -7.06% |
| Financials | 23.85% | 15.74% | -8.11% |

All in all, DCM had a great summer. However, we continue to keep Einhorn's words in the back of our heads. With a steepening yield curve in both Canada and the U.S., it will be interesting to see how both the stock market and the economy react to a higher interest rate environment. Will there be a slowdown in economic growth? Will there be acceleration of debt-financed M&A activity, as companies anticipate higher interest rates in the near future? It's difficult to predict what exactly will happen, but historically, stock market reactions to tapering stimulus programs have been negative – at least in the short term. With that said, we remain cautiously optimistic regarding equity market performance over the next year.

Global Equity Strategy

To mark the start of the new academic year we once again held our annual “weekend boot camp”. The incoming junior analysts Colton Dick, Edouard Charles Gaudry, Joseph Kaprielian, Debra Kelsall, Jeremy Kertzer, Daniel Kraminer, Xavier Le Sieur, Andrew Marcovitch, Alexandra Witteveen, and Belal Yassine spent an entire day discussing and debating our current holdings, and suggesting recommendations

going forward. The event was a huge success and rings confidence that the year ahead will be a great one.

Sincerely,

Nicholas Di Giorgio
Global Equities Strategist

Fixed Income Strategy

Dear Investor,

For the four months ending August 31, 2013, the fixed income fund was down 1.51% while the benchmark was down 4.07%.

This summer saw a continuation of last spring's trend; the economy is continuing to heal, slowly but surely, and we can see a general increase in global risk appetite in both equity and fixed income markets. U.S. housing and employment continue to improve at a slow but steady pace. Though we remain wary of instability in Europe, we do note signs of progress as debt levels continue to decline as reform measures are implemented across the board. The Bank of Japan's April announcement of a new stimulus program has led to increased volatility in Japanese markets, but we believe the long-term result will be strong economic

growth in the coming years. Though many of the headwinds we had noted in past newsletters have abated, several persist, such as the threat of a Chinese slowdown, and others emerge, such as tension in Syria, which threatens to disrupt oil prices.

On the Canadian front, the threat of rising household debt has begun to plateau. After reaching a record high 162.6% of disposable income in the third quarter of last year, the figure has fallen to 161.8% as Canadian households heed warnings of the pitfalls of over-borrowing. Since household debt has been a central topic of discussion when addressing a possible rate hike, its decline significantly reduces the likelihood of a rate increase in the near to medium term.

In terms of Canadian economic indicators we have seen the most alarming weakness in that of the job

Figure 1: Fixed Income Fund Performance: as of August 31, 2013



Note: Performance is as of August 31, 2013, gross of fees. Benchmark is comprised of 45% Dex Universe, 45% Barclays Aggregate, and 10% Citigroup World Treasury Index Ex-US.

Fixed Income Strategy

numbers; in July 2013 the Canadian economy shed 39,500 jobs, which included a record loss in the public sector, more than offsetting gains among private employers. It was the second consecutive month where Canada's economy shed jobs – a sign of economic trouble. The joblessness rate ticked higher to 7.2%, matching April and March levels. Though this raises concern, we do note that recent job losses have been concentrated to the public sector, and private sector job growth remains relatively constant.

Along with poor employment statistics, Canadian GDP also showed signs of weakness, as Canada's economy shifted into lower gear in the second quarter, contracting in June for the first time in six months, partially due to flooding in Alberta and a construction strike in Quebec. GDP grew by 1.7% on an annualized basis in the second quarter, and was largely powered by consumer spending while business investment, inventories and exports proved to be a drag on growth.

One of the main issues relating to GDP is the makeup; indebted consumers continue to do most of the heavy lifting in the economy, while corporations are sitting on the sidelines. However, as consumers begin to deleverage, we will see downward pressure on GDP growth.

We continue to observe weakness in new home construction as building permits in the residential sector continue to fall. Consumer spending and retail sales have been edging upwards, contributing to a slightly higher but still tame headline CPI at or below the low end of the Bank of Canada's 1% to 3% target. A catalyst for increased inflation would be the approval and implementation of Keystone XL, which, as previously discussed, would resolve some of the bottleneck causing the discount in Canadian Western Crude, though approval will not come until at least the end of the year due to environmental and economic concerns.

The new governor of the BoC, Stephen Poloz, is

settling into his new role. Given his background in exports, it is not surprising that the BoC's latest press release has shown a heightened sense of concern for the global economy, particularly the United States and emerging markets. The BoC has called attention to the potential withdrawal of monetary stimulus in the U.S. and how that may impact demand for Canadian goods. As usual, the concern with emerging markets is the impact that a slowdown would have on global commodity prices. The BoC now states that "in a number of emerging market economies, financial volatility has increased, adding uncertainty to growth prospects, although China continues to grow at a solid pace." In short, the problems facing Canada today are a mixture of weakening domestic indicators and uncertainty of foreign economies, both of which would see the perfect storm if met with rising interest rates. For this reason, we do not expect a significant departure from the BoC's current policy, especially in light of the recent decline in household debt levels.

In the United States, we continue to see a slow improvement in the economy, though recent indicators have proved to be a mixed bag. The U.S. economy is seeing brighter days as damage inflicted by the financial crisis and pressures from subsequent reform are being gradually absorbed. The U.S. labour market is improving with a steady reduction in the unemployment rate and falling joblessness. Household debt has returned to reasonable levels, suggesting that the American consumer has the capacity to increase spending.

As we predicted, housing continues to be a bright spot for the American economy. The residential real estate market is heating up, with housing starts nearing 1 million units and home prices up 11% year over year. In June, builders sought the most permits for single-family homes in five years. Americans are buying more new homes, and builders are increasingly optimistic about a steady rise in demand. Both trends should spur more construction. New-home sales jumped in

Fixed Income Strategy

June to their highest level in five years.

Though the relatively low interest rate environment continues to bolster demand, we are wary of rising interest rates; the rate on a 30-year fixed loan was at 4.51% as of August from a November low of 3.31%, according to Freddie Mac data. Nevertheless, we are confident that housing demand and construction will represent a significant positive contribution to GDP in the medium to long term.

Though consumer confidence is largely supportive of a strengthening U.S. economy, we did see a small drop in August from a six-year high as interest rates edged up and tensions grew in the Middle East. Higher mortgage rates are threatening to slow momentum in the housing market, and turmoil in Egypt in addition to the threat of potential U.S. intervention in Syria is raising the specter of higher fuel prices.

The U.S. economy remains sensitive to federal budget trimming and any withdrawal of accommodative policy from the Fed, which has helped bolster the economy. In a statement released in July, the Fed announced it will continue with the \$85 billion asset purchase program and will also hold rates steady at 0-0.25%. The Fed maintains its inflation outlook at or below 2% for the near to medium term, but noted that budget cuts in Washington and rising mortgage rates may continue to dampen the general economic outlook. One of the main themes this summer was a fear of Fed tapering; volatility in the bond market increased sharply as investors debated when said taper was to begin. As the need for that stimulus dissipates, the program will be slowed and eventually reversed, allowing yields to move to levels reflective of normal demand for a real return on fixed income investments.

For these reasons, we do not anticipate a change in the Fed funds rate in the near to medium term, though we do remain cautious of Fed tapering as the U.S. housing market and consumer spending improve.

We are pleased with recent developments in the
Desautels Capital Management Inc.

Eurozone. Declining bond yields indicate that investors believe it has become a safer place to invest. True tail risks appear to have shrunk and we believe policymakers have demonstrated a growing ability to steer the economy and financial markets through crisis. That said, Cyprus will likely need more help, and their possible exit from the Eurozone is still cause for concern. Slovenia and other peripheral countries may also require aid in the coming months. Draghi kept the ECB's benchmark rate at 0.5% and remains cautious on Eurozone growth as he notes prominent and persisting downside risks.

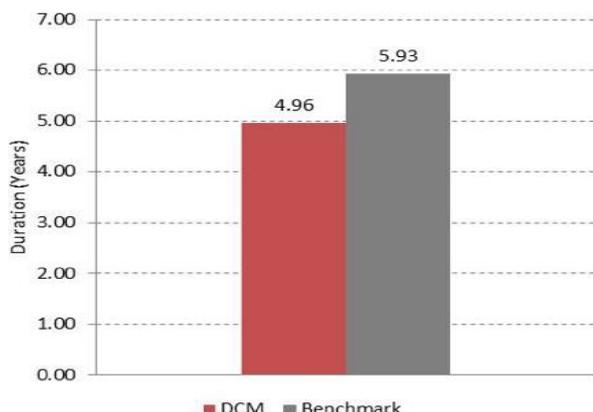
We believe that the ECB is in a solid position to use the full range of its policy toolkit. After months of holding rates steady and a significant decline in inflationary pressures, the ECB can employ "unconventional" policy measures, such as asset purchases, to bolster Eurozone growth. In our opinion, the ECB has sufficient wiggle room to tailor its policy as needed in the coming months.

Duration Views

In the United States, we remain short duration versus our benchmark. Given the slow improvement in both the U.S. housing sector and consumer spending, we continue to be optimistic about the trajectory of the U.S. economy. As such, our interest rate expectations are to the upside for the belly and long end of the yield curve. The Canadian economy, however, has displayed numerous weaknesses, remaining vulnerable as the consumer deleverages and employment and GDP growth continue to waiver. Given the underlying trends and recent economic data, we are more bullish on the U.S. economy than on the Canadian economy, and will therefore continue to remain shorter duration in the U.S. than in Canada. Overall, we remain short duration versus our benchmark, by about 1 year. But as our expectations for a rate hike in Canada get pushed farther down the line, we will look to add to the duration of our Canadian bond portfolio.

Fixed Income Strategy

Figure 2: Fund Duration (As of Aug 31, 2013)



Credit Views

Credit remains extremely resilient, with compressed spreads at pre-crisis levels and corporate credit default swaps in the US falling to 3-year lows. To capture value and yield, the fixed income fund continues to seek bonds trading cheaply in the high yield and lower quality investment grade space. In particular, Canada's oil producers are an area of interest, as we look to a final resolution in the Keystone XL debate by the end of the year. As reported in the March newsletter, we purchased an Aimia bond, which has tightened by about 50 bps since the time of purchase.

Other Views

We hold a 3.3% position in the Brazilian Real, and thus continue to monitor their economic and monetary conditions. Currently, we expect increasing inflation, which could lead to a rate hike, thereby continuing to strengthen the BRL. Increased food and energy costs and still-tight labour markets have increased headline inflation above the official central bank target of 4.5% +/- 2% over the past five months. Further monetary tightening is likely, as the Central Bank recently increased the SELIC rate to 8.50%. We expect the consumer price inflation rate to remain above 6% over the next 18 months. Brazil's central bank recently launched a \$60 billion currency intervention program aimed at supporting the country's currency, which will

run until December. Though the Real has experienced recent weakness due to the combined effect of softer economic growth at home, moderating economic activity in China and a synchronized emerging-market sell-off, we do believe that an influx of high profile events requiring infrastructure spending, such as the Olympics and the World Cup, will bring an inflow of foreign funds over the next 3 years.

A New Academic Year

As we begin a new year at Desautels Capital Management, I am pleased to welcome the new junior class, and two new junior fixed income analysts, Alyssa Obert and Daniel Sorek. Our DCM Bootcamp weekend was very successful and I look forward to what will be an incredible year.

Thank you,

Michaela Hirsh
Fixed Income Strategist

Figure 3: Performance Table (As of Aug 31, 2013)

| Desautels Fixed Income Fund | | | |
|-----------------------------|-------------------|-----------------|-----------|
| Time Period | Fund (Gross Fees) | Fund (Net Fees) | Benchmark |
| 1 month | 0.39% | 0.35% | -0.76% |
| 3 month | -1.08% | -1.21% | -2.21% |
| 6 month | -0.97% | -1.22% | -2.77% |
| YTD | 1.29% | 0.96% | -2.90% |
| 1 year | 3.84% | 3.33% | -2.20% |
| 2 year | 8.37% | 7.30% | 2.51% |
| Since Inception | 11.55% | 9.59% | 5.64% |

Current Holdings

The fund information below is as of August 31, 2013

| Global Equities Fund Holdings | | Fixed Income Fund Holdings | |
|--------------------------------|------|--------------------------------|--------|
| PULSE SEISMIC INC | 8.6% | ISHARES MBS ETF | 15.63% |
| ISHARES GLOBAL CONSUMER DISCRE | 7.5% | SPDR BARCLAYS HIGH YIELD BOND | 10.81% |
| CONRAD INDUSTRIES INC | 7.2% | ISHARES DEX HYBRID BD INDX F | 9.96% |
| METRO INC | 6.9% | ISHARES 3 7 YEAR TREASURY BOND | 9.81% |
| HOME CAPITAL GROUP INC | 6.8% | PROVINCE OF ALBERTA | 9.73% |
| WHITECAP RESOURCES INC | 6.5% | BANK OF AMERICA CORP | 9.22% |
| WELLS FARGO + CO | 6.4% | MORGAN STANLEY | 8.17% |
| JAZZ PHARMACEUTICALS PLC | 5.8% | BMO SHORT PROVINCIAL BOND IN | 5.41% |
| TAKE TWO INTERACTIVE SOFTWARE | 4.5% | BMO LONG FEDERAL BOND INDEX | 4.59% |
| NVIDIA CORP | 4.0% | CI INVESTMENTS INC | 4.58% |
| GENERAL MOTORS CO | 3.8% | AIMIA INC | 4.53% |
| TEVA PHARMACEUTICAL SP ADR | 3.7% | GOLDMAN SACHS GROUP INC | 3.96% |
| PAREX RESOURCES INC | 3.6% | CANADA HOUSING TRUST | 3.59% |
| INTEL CORP | 3.6% | | |
| BCE INC | 3.5% | | |
| MERCER INTERNATIONAL INC | 3.1% | | |
| ISHARES GLOBAL MATERIALS ETF | 2.9% | | |
| ISHARES US FINANCIALS ETF | 2.6% | | |
| BAUER PERFORMANCE SPORTS LTD | 2.3% | | |
| CANADIAN DOLLAR | 2.0% | | |
| CAMECO CORP | 2.0% | | |
| ISHARES GLOBAL UTILITIES ETF | 1.7% | | |
| TSO3 INC | 0.9% | | |
| US DOLLAR | 0.2% | | |

Investment Team

A Message from the Chief Investment Officer

This world-class program now attracts some of the brightest and most talented students from around the world. I would like to take this chance to thank the many contributors who help make all this possible. On behalf of the Desautels Capital Management, I would like to thank everyone for having confidence in us, and we look forward to another exciting new quarter!

Sincerely,

Kenneth Lester

Chief Investment Officer | Desautels Capital Management



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Disclaimer and Disclosure

The Desautels Global Equity Fund and the Desautels Fixed Income Fund (hereafter: the Desautels Funds), together with Desautels Capital Management Inc., have been established as a pedagogical venture in order to offer students in the Investment Management Program in the Desautels Faculty of Management at McGill University some meaningful and realistic experience of the investment management industry and of investment research and analysis by working for Desautels Capital Management Inc.

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