NOVEMBER 2019

INVESTOR NEWSLETTER

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MESSAGE FROM OUR STRATEGISTS

Dear Investors,

June marked the beginning of our journey as McGill graduate students and as Analysts at Desautels Capital Management, where we manage the Alpha Squared and Socially Responsible Investment Funds. Working at DCM represents for all of us an important inflection point in our personal and professional lives. Although we only recently joined DCM, we've already gained valuable experience in research analysis, valuation, compliance, fund operations, marketing, and client communications.

We are also pleased to report that the Alpha Squared and SRI Funds both received $1M subscriptions earlier this year, bringing each fund's AUM to approximately $2M. This brings DCM total AUM to $8.5M once we include the Global Equity and Fixed Income Funds managed by students in the undergraduate Honours in Investment Management program.

On behalf of the entire Master of Management in Finance 2020 cohort, we would like to sincerely express our gratitude for your continued support, and for entrusting your wealth with DCM. We look forward to an exciting year ahead, and firmly believe that our ambition and dedication will create value for investors and raise DCM to new heights.

Sincerely,

Olivier Arsenault
Alpha Squared Equity Fund

Pier-Olivier Laflèche
SRI Equity Fund

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ALPHA SQUARED FUND

ALPHA SQUARED FUND

Fund Performance

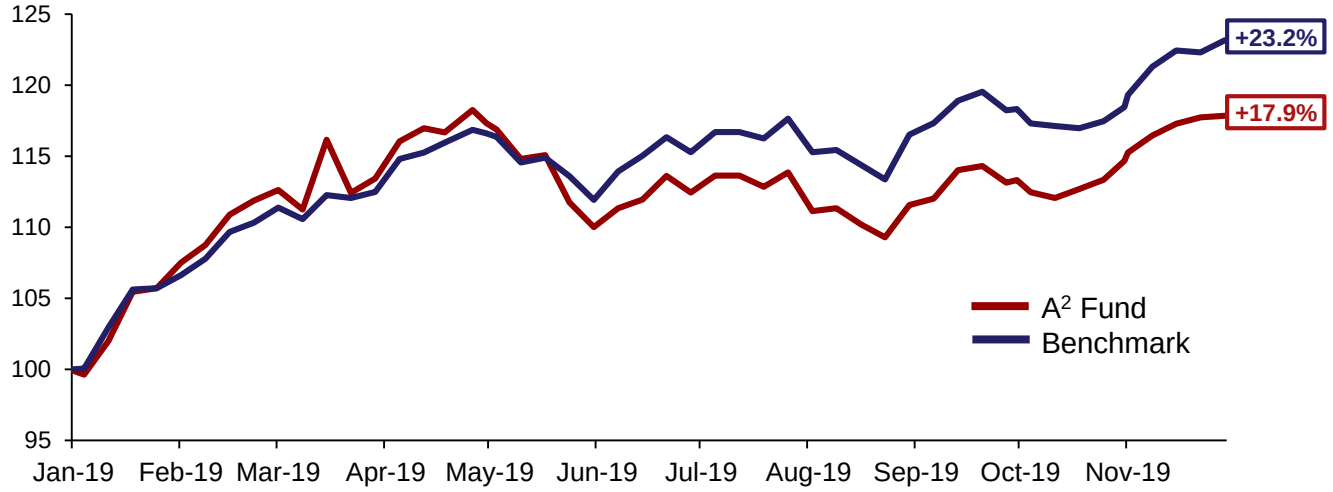
The Desautels Alpha Squared Fund generated a gross return of 17.9% YTD, underperforming its benchmark by 5.3%. Many of our investment theses played out as predicted. Terreno Realty Corporation, an industrial REIT, was one of our best performers, up 66.7% YTD due to its relentless focus on acquiring new property, increasing its offerings to customers and strategically positioning itself amid the rising demand for warehouses, data centers and other industrial properties. A few of our positions, however, exhibited significant losses. Biotelemetry, a company that provides ambulatory outpatient management solutions, was down 31.8% due to its exposure to the uncertainty generated by the "Medicare for All" bill proposed by congress earlier this year. As a result, we decided to exit the position.

At the end of August, we significantly re-balanced our portfolio. First, we exited positions based on our quantitative momentum screen: stocks that were in the bottom third of their respective sectors over the prior 12 months were sold. Divested securities included Zions Bancorp, Enerplus, First Quantum Minerals, Autodesk, Encana and Biotelemetry. We also reweighted positions in selected securities based on our top down sector outlook. Overall, we took a slightly defensive tilt based on our macro outlook.

	YTD		Since Inception *	
Metrics	**A2**	**Bench.**	**A2**	**Bench.**
Total Returns	17.9%	23.2%	4.7%	9.1%
Std. Deviation	10.4%	7.9%	12.0%	10.0%
Sharpe Ratio	1.46	2.46	0.23	0.66
Beta	1.04	N/A	1.04	N/A
Alpha	-4.6%	N/A	-4.1%	N/A
Tracking Error	0.05	N/A	0.06	N/A

Note: Performance is gross of fees.
**Since inception metrics are annualized.*

Alpha Squared Fund YTD Performance

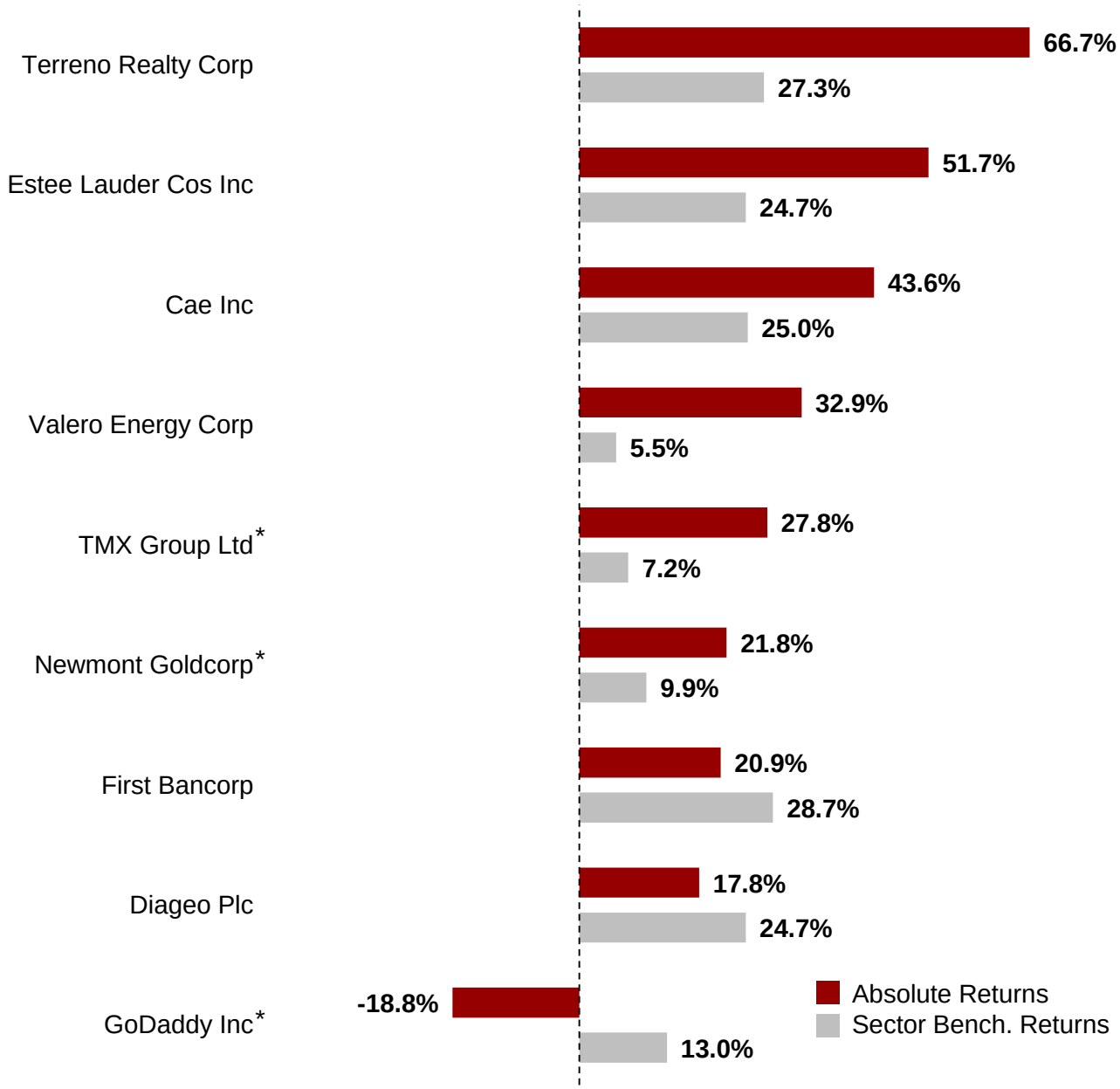


Note: Benchmark is 60% S&P/TSX Index and 40% S&P 500 Index (measured in CAD). Fund inception date is February 14, 2017.

ALPHA SQUARED FUND

The table below shows the YTD performance of the individual stocks that we held as of November 30 after the recent rebalancing. While most of these positions have performed quite well, our analysis and valuation suggest they still have further upside potential.

Current Stock Holdings Performance



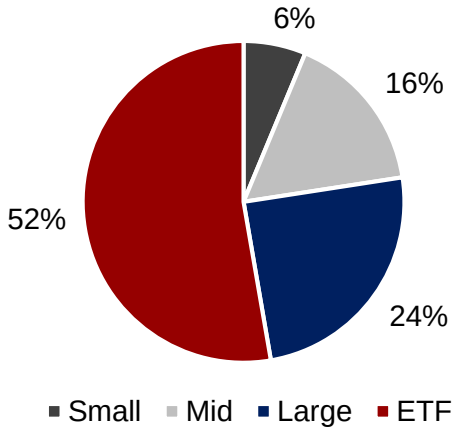
*Note: Returns are YTD, except for stocks with *, where returns are calculated since the positions were initiated on April 22, 2019.*

ALPHA SQUARED FUND

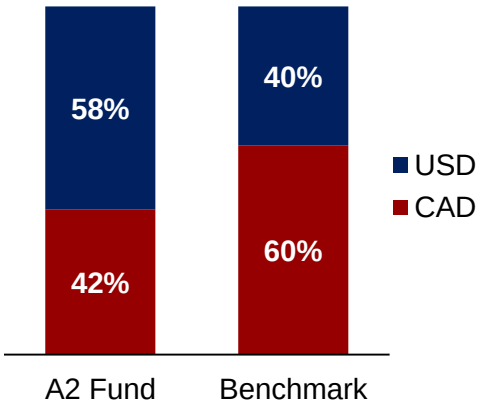
The fund is 53% invested in ETFs, which is due to the stock divestitures mentioned above. We recently concluded our first round of stock pitches, however, and will be reallocating from ETFs into new names that satisfy our quantitative screens and for which our fundamental analysis suggests upside potential. The table and graphs below provide full details on our holdings as of November 30, 2019.

#	Security Name	Sector	Currency	Size	# of Units	Local Currency Cost	Local Currency Price	CAD Value	Weight
1	First Bancorp/Southern Pines NC	Financials	USD	Small	2,500	$ 35.82	$ 39.10	$129,814	6.2%
2	Valero Energy Corp	Energy	USD	Large	1,004	$ 73.36	$ 95.49	$127,320	6.1%
3	CAE Inc	Industrials	CAD	Mid	3,535	$ 29.93	$ 35.69	$126,164	6.0%
4	GoDaddy Inc	Information Technology	USD	Large	1,385	$ 68.53	$ 66.38	$122,093	5.8%
5	Newmont Goldcorp Corporation	Materials	CAD	Large	2,159	$ 50.53	$ 51.04	$110,195	5.3%
6	TMX Group Ltd	Financials	CAD	Mid	1,028	$ 96.93	$106.78	$109,770	5.3%
7	Terreno Realty Corp	Real Estate	USD	Mid	1,322	$ 47.17	$ 57.72	$101,336	4.9%
8	Estee Lauder Cos Inc	Consumer Staples	USD	Large	293	$165.74	$195.47	$76,059	3.6%
9	Diageo Plc	Consumer Staples	USD	Large	350	$160.35	$163.44	$75,968	3.6%
10	iShares U.S. Telecomm.	Communications/Tech	USD	ETF	5,232	$ 28.10	$ 29.65	$206,014	9.9%
11	iShares S&P/TSX 60 Index	Market	CAD	ETF	8,034	$ 24.68	$ 25.57	$205,422	9.8%
12	Vanguard Health Care	Health Care	USD	ETF	745	$167.77	$186.47	$184,489	8.8%
13	iShares S&P/TSX Utilities	Utilities	CAD	ETF	4,616	$ 24.36	$ 26.70	$123,247	5.9%
14	iShares S&P/TSX Financials	Financials	CAD	ETF	2,480	$ 37.50	$ 40.69	$100,911	4.8%
15	iShares S&P/TSX Energy	Energy	CAD	ETF	10,000	$ 7.92	$ 8.43	$84,300	4.0%
16	iShares U.S. Industrials	Industrials	USD	ETF	336	$153.16	$167.76	$74,857	3.6%
17	Vanguard Cons. Discretionary	Consumer Discretionary	USD	ETF	300	$164.02	$184.78	$73,618	3.5%
18	Vanguard Comm. Services	Communications	USD	ETF	315	$ 81.08	$ 92.15	$38,549	1.8%
21	Canadian Dollar	Cash	CAD	Cash	-	-	-	$9,939	0.5%
22	U.S. Dollar	Cash	USD	Cash	-	-	-	$8,577	0.4%
							Total	**$2,088,643**	**100.0%**

Fund Allocation



Currency Allocation



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SOCIALLY RESPONSIBLE INVESTING EQUITY FUND

MESSAGE FROM OUR CSO

Dear Investors,

At the Socially Responsible Investing (SRI) Equity Fund it is our mandate to invest in line with your values. Our analysts search for companies that have social responsibility at the core of their strategies and that are leaders in environmental, social and governance (ESG) practices relative to peers. It is our belief at the SRI Equity Fund that investing in companies that have both strong fundamentals and leading sustainability practices benefit society without compromising returns.

We continue to add value for our investors through our screening, assessment, and due diligence processes. All investments must respect all our negative screening requirements to be considered a potential investment. Examples of negative screens include tobacco and child labour activities. Investments that do not meet these requirement are automatically excluded from the universe of securities we consider. In addition to negative screens, our analysts look for positive screens that demonstrate companies are taking positive actions supported by disclosed data.

After meeting the screening requirements, analysts leverage industry-standard practices and our own proprietary assessment methodology. Analysts use ESG scores as a reference to help guide their preliminary assessment; however, ESG scores are not looked at in isolation. Analysts create value through extensive company research, including examining its value chain.

Lastly, analysts summarize their findings to the Sustainability Team, which is overseen by the Chief Sustainability Officer. The objective is to take an impartial position in evaluating the suitability of the investment and is completed in coordination with the SRI Strategist.

We are confident that our screening requirements, proprietary assessment and due diligence processes in combination ensures that our investments meet our mandate of investing in socially responsible companies. Thank you for your continued support and trust.

Sincerely,

Mitchell McEwen
Chief Sustainability Officer

SOCIALLY RESPONSIBLE INVESTING EQUITY FUND

Fund Performance

The SRI Fund returned 21.8% gross of fees YTD. While this represents a slight 3.1% underperformance relative to our benchmark, the SRI Fund showed signs of resilience during periods of heightened market volatility. While some of our holdings lagged their sector benchmarks, we maintain conviction in the positions and expect our investment theses to play out over the medium to long term.

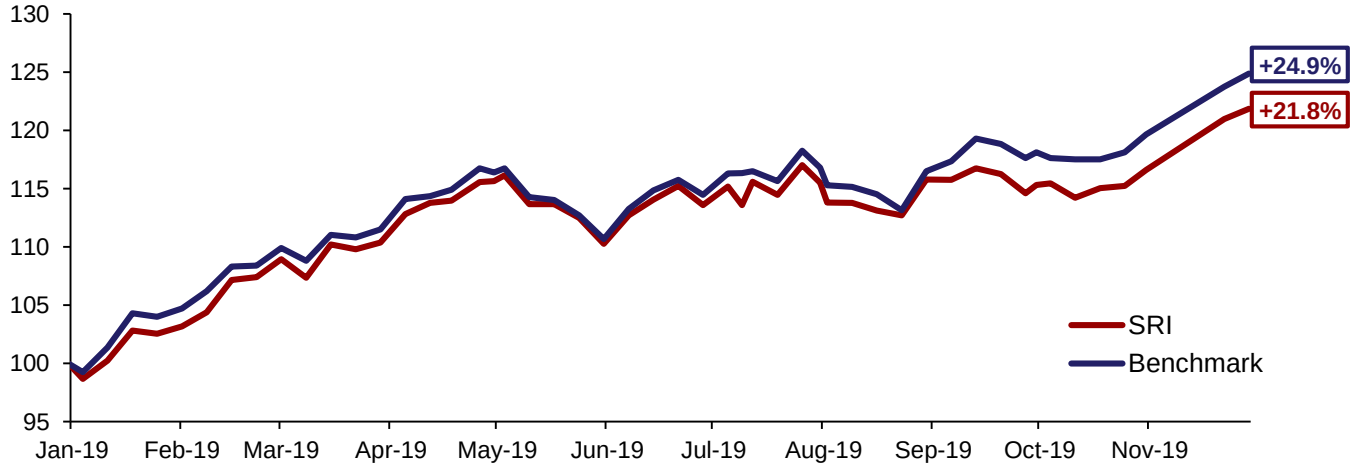
One example is Square, a financial services, merchant services, and mobile payment company. Although the company had a difficult year thus far, we see significant upside over the next 2-5 years. We are not concerned with the company's sale of Caviar and exit from the food delivery business, and expect robust growth from their Cash App, which has seen an increase in customer engagement in recent months.

	YTD		Since Inception	
Metrics	**SRI**	**Bench.**	**SRI**	**Bench.**
Gross Return	21.8%	24.9%	8.4%	10.9%
Std. Deviation	8.9%	8.5%	12.9%	12.5%
Sharpe Ratio	1.92	2.29	0.47	0.57
Beta	0.97	N/A	1.00	N/A
Alpha	(1.7%)	N/A	(2.0%)	N/A
Tracking Error	3.3%	N/A	3.3%	N/A

Note: Performance is gross of fees. Inception was August 31, 2018.

One of our better performing stocks this year was Coherus Biosciences. The biosimilar maker saw a strong uptake of UDENYCA, a biosimilar for Neulasta, a drug that stimulates white blood cell production in patients undergoing cancer treatment. We remain very bullish on the biosimilar space as a high revenue growth outlook more than justifies current valuations in our view. We also expect continued favourable legal rulings in the company's bid to bring further biosimilars to market. Details on individual holdings are provided in the Sector Sections that follow.

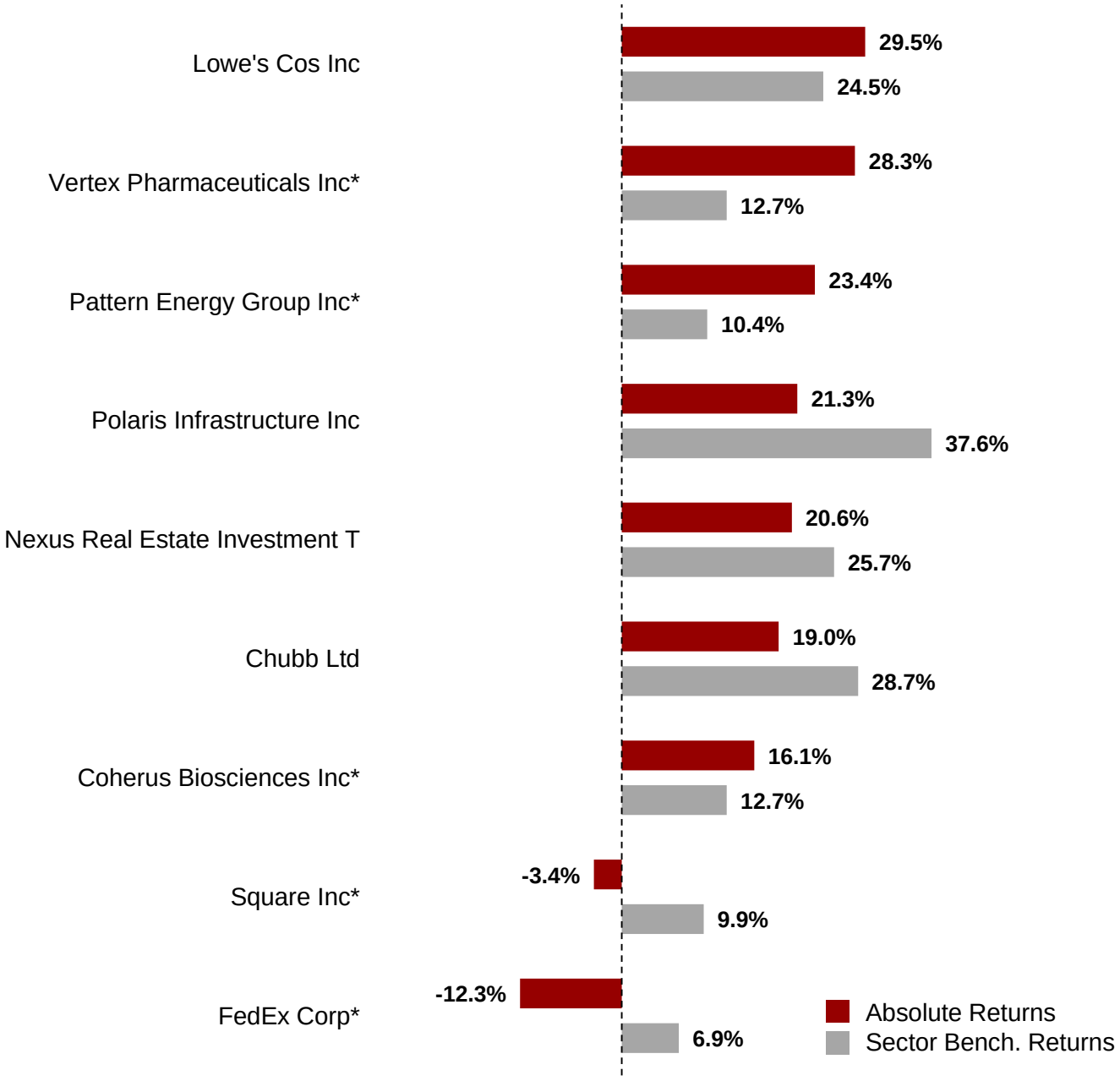
SRI Equity Fund YTD Performance



Note: Benchmark is 80% S&P 500 Fossil Fuel Free Index (measured in CAD) and 20% S&P/TSX 60 Fossil Fuel Free Index. Fund inception date is August 31, 2018.

SOCIALLY RESPONSIBLE INVESTING EQUITY FUND

Current Stock Holdings Performance



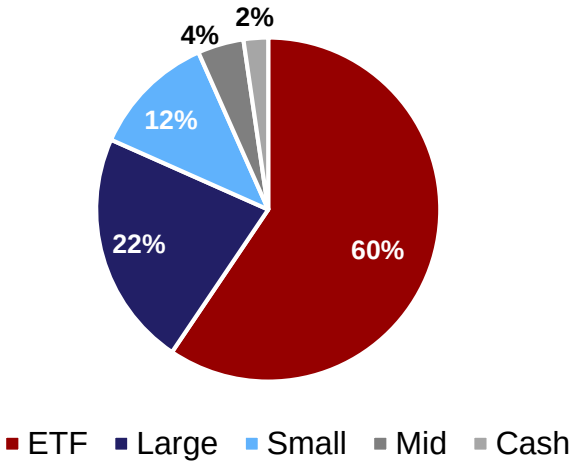
*Note: Returns are YTD, except for stocks with *, where returns are calculated since the positions were initiated on April 22, 2019.*

SOCIALLY RESPONSIBLE INVESTING EQUITY FUND

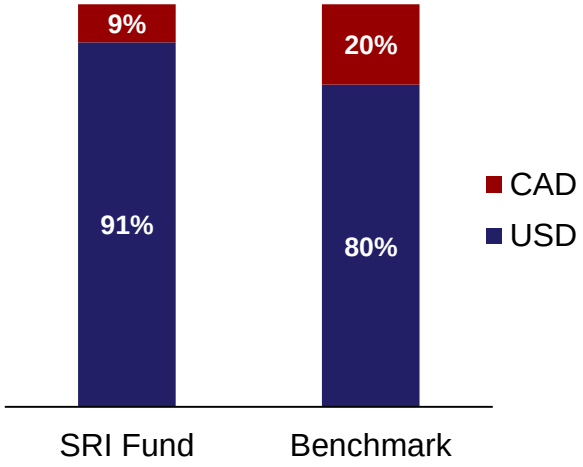
We note that the SRI fund is currently allocated approximately 60% in ETFs. Given that the fund is relatively young, we are still in the process of identifying high conviction stocks. The goal is to shift out of ETFs and into individual names. Indeed, we recently concluded our first round of stock pitches for the semester and have identified about five companies that are leaders in ESG practices and where fundamental analysis suggests upside potential. These positions will be added to the fund over the next week.

						Local Currency			
#	Security Name	Sector	Currency	Size	# of Units	Cost	Price	CAD Value	Weight
1	Chubb Ltd	Financials	USD	Large	450	$141.8	$151.5	$90,538	4.2%
2	Coherus Biosciences Inc	Healthcare	USD	Small	2,780	$18.3	$18.0	$66,426	3.1%
3	FedEx Corp	Industrials	USD	Large	430	$166.0	$160.1	$91,409	4.3%
4	Low e's Cos Inc	Consumer Discretionary	USD	Large	570	$106.1	$117.3	$88,812	4.2%
5	Nexus Real Estate Investment T	Real Estate	CAD	Small	47,810	$2.0	$2.1	$101,357	4.8%
6	Pattern Energy Group Inc	Utilities	USD	Mid	2,400	$25.2	$27.5	$87,725	4.1%
7	Polaris Infrastructure Inc	Utilities	CAD	Small	5,955	$12.9	$11.7	$69,793	3.3%
8	Square Inc	Technology	USD	Large	1,300	$64.2	$69.1	$119,347	5.6%
9	Vertex Pharmaceuticals Inc	Healthcare	USD	Large	340	$176.3	$221.8	$100,140	4.7%
10	SPDR S&P 500 Fossil Fuel Reser	Market	USD	ETF	12,410	$69.8	$77.1	$1,270,045	59.5%
11	Canadian Dollar	Cash	CAD	Cash	14,221	-	$1.0	$14,221	0.7%
12	U.S. Dollar	Cash	USD	Cash	25,140	-	$1.0	$33,391	1.6%
							Total	**$2,133,203**	**100.0%**

Fund Allocation



Currency Allocation



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ECONOMIC OUTLOOK

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ECONOMIC OUTLOOK

Canada

The Canadian economy grew at an impressive annualized rate of 3.7% in 2Q19, slightly outpacing the American economy which grew at roughly 1.9%. Canadian growth was higher than analyst expectations, fueled by an increase in exports – fishing products, non-metallic minerals, and aerospace & defense products. The results for 3Q19 will be released on November 29th, 2019. The consensus expects growth to cool moderately as global trade uncertainties intensify.

The Bank of Canada left its benchmark rate (1.75%) unchanged at its last meeting on Oct 30. This comes within the context of continued interest rate cuts in the U.S. Canadian exports may begin to take a hit if this trend persists and the Canadian dollar continues to appreciate. However, this is unlikely, considering the Fed's suggestion that future cuts are unlikely. The Bank of Canada's reluctance in reducing rates seems to be driven by current inflation stability in Canada. In fact, the Consumer Price Index rose 1.9% y/y in September, well within the Bank of Canada's 1-3% target.

The unemployment rate remained steady at 5.5% in October, following two consecutive months of employment growth. The labor market remains strong in Canada, and employment growth is fueled by increases in finance, insurance, and real estate. However, manufacturing and construction employment decreased over the same time period. Construction and manufacturing employment is viewed by some as a leading proxy for economic health, as managers estimate future demand for their products.

On Oct 21, 2019, the Liberal party won a minority mandate in the federal election – ending months of speculation and "too close to call" polling between the reigning party and the conservatives.

The election has sparked sentiments of western alienation and has pitted the western-backed conservatives against the renewed bloc Quebecois party, lead by Quebec favorite Yves-Francois Blanchet.

It remains unclear as to how Liberals will act to mediate this federal disagreement. With potential implications for domestic climate policy, immigration, oil & gas regulation and national unity, the upcoming session of parliament will be important to monitor.

ECONOMIC OUTLOOK

United States

The US economy grew at 1.9% in 3Q19, weakening less than expected, and extending the longest bull market in history, as well as the best performing one since World War II – with the S&P500 growing 468% since March 2009.

The Fed has cut rates by 75 basis points during 2019, setting the FFR in the 1.5%-1.75% range. The main reasons behind the Fed's decision were ongoing uncertainties regarding the US-China trade war and a subpar level of inflation. One major difference with September's meeting was the Fed's high conviction that no further cuts will take place in the near future, with the economic outlook being considered as "favorable".

The manufacturing sector remained in the contraction area for a third consecutive month, per ISM, with sentiment remaining mostly cautious. New factory orders dropped at the fastest pace in four months, adding to the gloomy manufacturing outlook. The Services sector has rebounded from a three-year low in October; both new orders and employment have witnessed positive surges, easing concerns regarding the vulnerability of the US economy.

The labor market remained robust, with unemployment at the lowest levels since 1969, resulting in a sustained growth in wages. With reigning indecisions in the economic environment, businesses are still skeptical to undergo large projects and commit to spending. In addition, profit margins are being flattened mostly due the aforementioned high wages in a tight labor market. This could encourage firms to decrease their workforce to preserve these margins in times of indecision, ultimately affecting future consumer spending.

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COMMUNICATION SERVICES SECTOR

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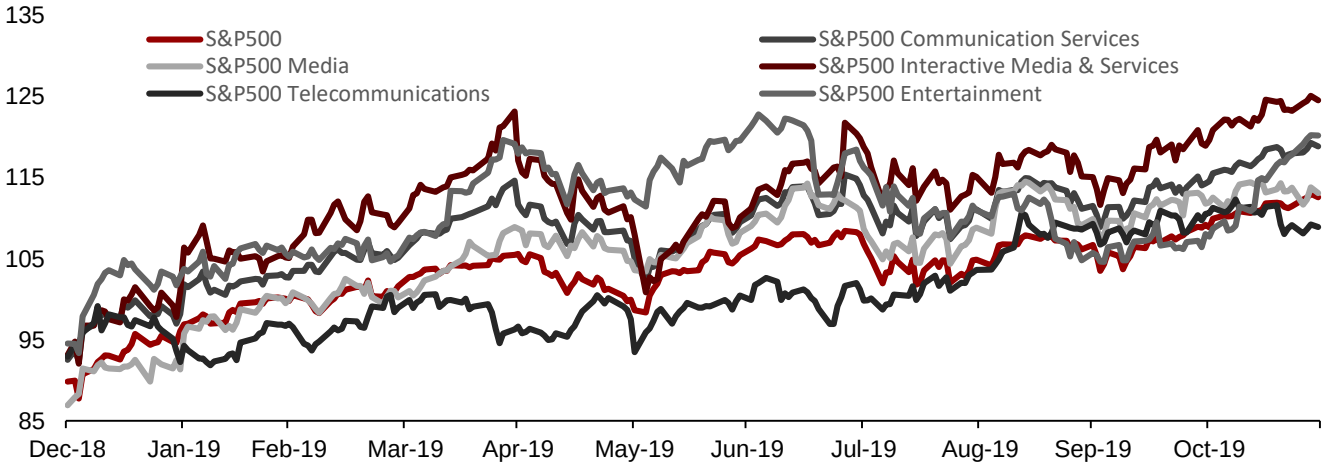
YTD Performance

Communication Services is up 28.4% YTD, outperforming the market by 3.1%. Interactive Media & Services was the strongest sub-sector, up 33.7%, while Telecommunications was the weakest, underperforming the sector by 11.2%.

An important theme in the sector continues to be a shifting of consumer habits, with the streaming industry growing, and traditional TV bundle subscriptions declining, though at a slow pace.

	U.S. (S&P500)			
Indexes	**1M**	**Bench**	**YTD**	**Bench**
Market	3.4%	-	25.3%	-
Communication Services	3.7%	0.3%	28.4%	3.1%
Media	1.0%	-2.7%	30.1%	1.7%
Interactive Media & Services	4.1%	0.3%	33.7%	5.3%
Telecommunications	-1.5%	-5.3%	17.2%	-11.2%
Entertainment	11.6%	7.8%	27.1%	-1.3%



November Performance

The overall sector returned 3.7% this past month, roughly in line with the S&P 500. The Entertainment industry, however, performed particularly well, up 11.6%. Key factors to look out for include:

- Promising new releases over the next few quarters should spur expansion for video game developers, including Activision and Electronic Arts, and we expect Take-Two and Ubisoft to continue executing at a high level.
- Spending on video games is expected to increase to 14% of total entertainment spending globally in 2021 vs. 9% in 2012 and 12.3% in 2017, according to a report by Frost & Sullivan. The trend is being fueled in particular by markets such as China, where gaming attracts a larger share of entertainment spending.
- Pressure on pay-TV bundle could cause traditional subscriptions in the U.S. to drop by 65 million by 2024, a quarter the size of streaming's potential 275 million.

Source: Bloomberg

Stocks on our Watchlist

Mkt Cap (USD)	Price (USD)
$260.61B	$151.58

The month of November set Disney on a winning streak with its positive Q4 earnings surprise and the release of Disney+ in North America. The stock was up **+14.18%** reflecting strong revenue growth and positive reaction to the company's streaming business. YTD Disney is up to **38.24%**.

Disney Q4 Earnings Report

Disney shares were up **5%** after its earnings report, beating market expectations with revenues at $19.1 billion against the market estimate of $19.04 billion. The earnings per share were at $1.07 versus the market expectation of $0.95.

The company included a new segment called "**Direct-to-Consumer**" which includes all the streaming services it owns (Hulu, ESPN+ and Disney+) and recorded revenues of $3.4 billion. The big revenue generators were ESPN+ and Star India (acquired from 20th Century Fox) while they reported losses from Hulu and Disney+ launch, impending at that time on November 12th.

The **Media segment** reported a decrease in operating income of 3% due to increase in costs of broadcasting and reduced sales in their broadcasting segment.

Parks, Experiences and Resorts reported increase in operating income of **17%** due to increases from merchandising licenses, Disney

land Resort and Disneyland Vacation Club.

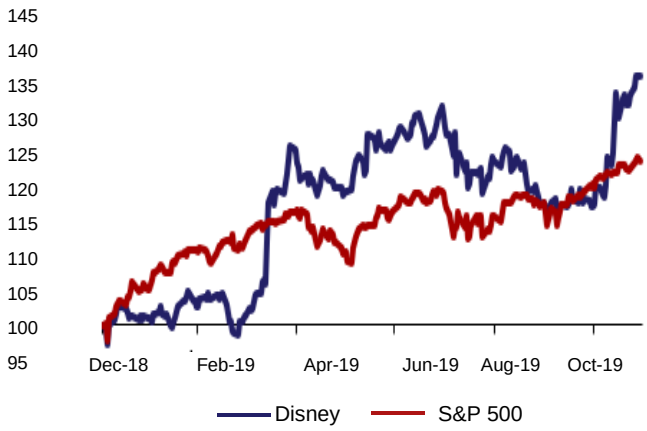
The **Studio segment** reported operating income increase of **79%** due to outstanding performances of their flagship movies such as: The Lion King, Toy Story 4 and Aladdin.

Launch of Disney+

Disney+ launched across North America on November 12th. It was a roaring success as the subscriptions of the service sore to **10 million subscribers** in a single day! The market reacted positively to this result and the stock was up **7.34%** on the day, reaching an all-time high of $153.

Frozen 2

Frozen 2 raked in $287.6 million domestically in its first two weeks and $451 million overseas to become the highest grossing animated movie in a week of its release. The movie is on its way to become the 6th Disney movie to enter the billion dollar club this year.



Source: Bloomberg

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CONSUMER DISCRETIONARY SECTOR

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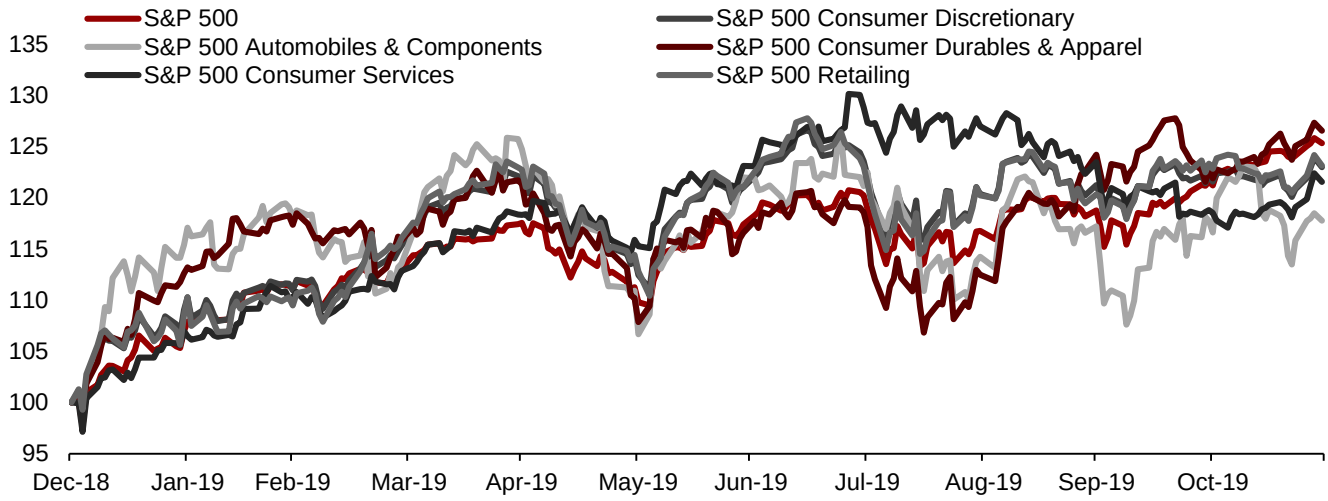
YTD Performance

Consumer Discretionary is up 24.5% in the U.S. and 19.3% in Canada YTD, slightly underperforming both the U.S. (S&P500 27.6%) and Canadian (S&P/TSX 22.3%) markets, respectively. The underperformance was mainly due to softening (although still robust) consumer spending, which was affected by the trade war and softening labor growth during the year.



November Performance

The U.S. and Canadian Consumer Discretionary sectors were up 1.3% and 5.5% this month, compared to 3.6% for both the S&P 500 and the S&P TSX. The Canadian sector outperformance was mainly due to strong performance in Consumer Durables & Apparel and Retailing, while the U.S. underperformance was due to the softening consumer spending, for the same reasons noted above.

Tiffany & Co was a notable recent outperformer in the US consumer durables & apparel industry, up 38% since just before LVMH made their initial offer on October 28 to purchase the company for $120 per share. The two firms agreed to the deal on November 25, following LVMH's decision to increase the offer price to $135.

Looking ahead, key factors affecting consumer confidence and the Consumer Discretionary sector include global economic growth and the labour market, trade deals, Brexit, and the US presidential election. Overall, we remain mildly bullish on the sector in the near-term.

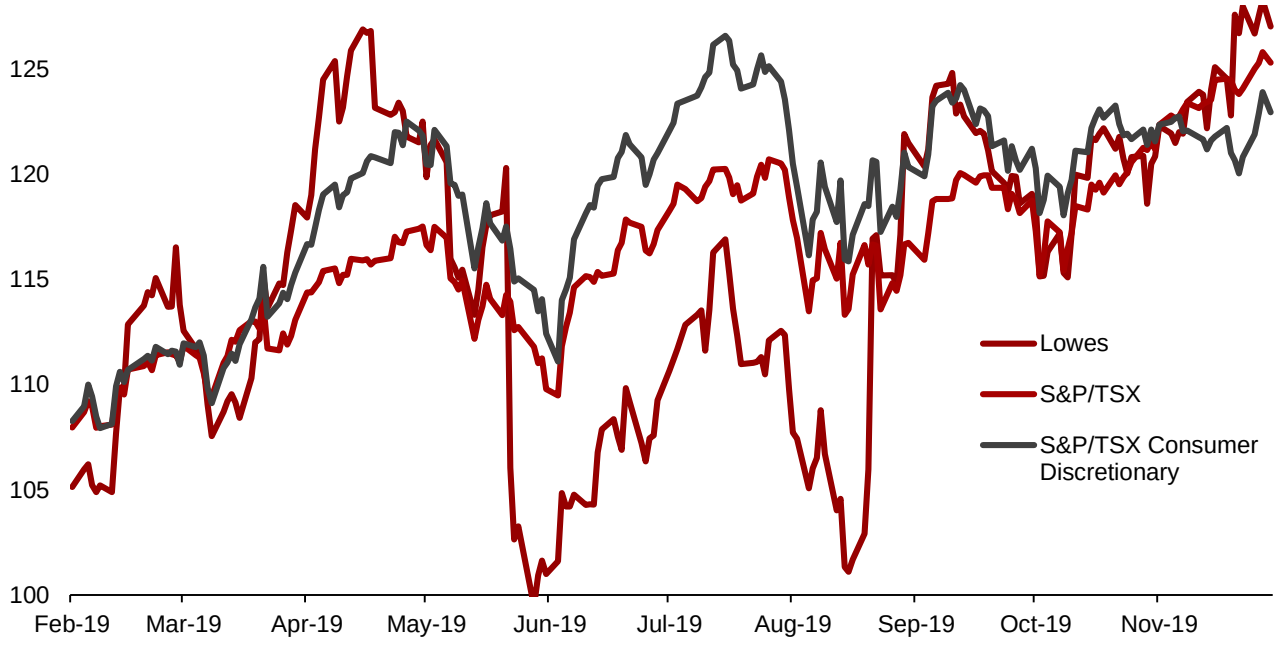
Source: Bloomberg

Holdings Performance

Mkt Cap (USD)	Price (USD)
$90.5B	$117.3

Lowe's was up 5.4% in November, outperforming the Specialty Retail sub-sector by 5.9%, largely due to their Q3 earnings beat. YTD, the stock is up 30.6%, outperforming the Specialty retail subsector by 0.4%. While the retailer missed Q1 EPS expectations by 8.1%, they were able to turn things around in Q2 and Q3, beating expectations by 6.5% and 4.5%, respectively.

Our original investment thesis centered primarily on Lowe's management turnaround strategy. We think the positive momentum seen in Q2 and Q3 is likely to continue in 2020 as the market sees further evidence of the strategy's success. A majority of analysts also share our overweight recommendation for the stock.



Source: Bloomberg

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ENERGY SECTOR

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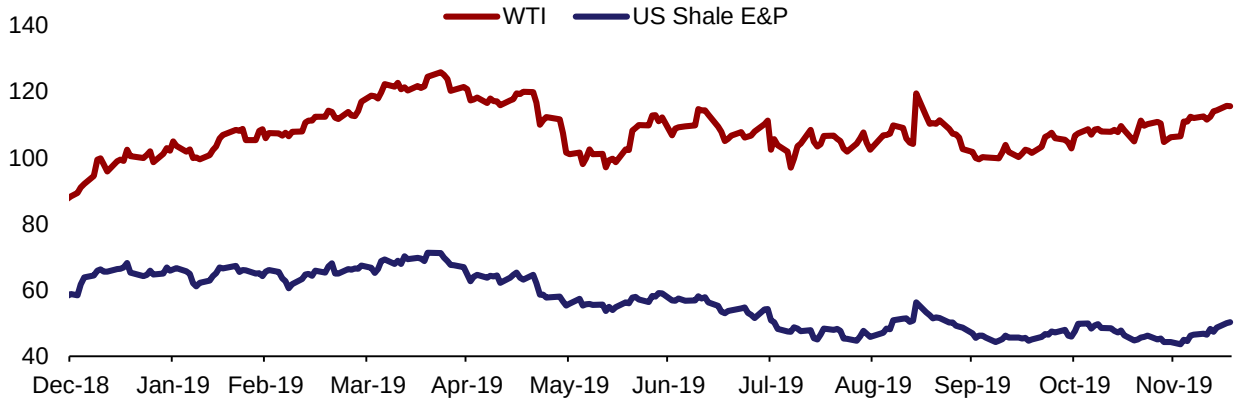
YTD Performance

The Energy sector is up 0.3% YTD in the U.S and 9.3% in Canada, representing massive underperformances of 22.8% and 8.6% to the S&P 500 and TSX, respectively. That Energy is the worst performing sector of the year may come as a surprise given WTI's 21.5% YTD gain. Indeed, the correlation between U.S shale-based producers and WTI already started weakening in mid 2017 (see graph below).

In our view, this untethering is attributable to investors deserting Permian based players amid a series of underwhelming quarters on the operating efficiency and capital allocation fronts. Permian E&P was also badly hit by extremely depressed natural gas prices, cutting into associated gas revenues that historically boosted profits.

A second explanation for the correlation breakdown lies in the underlying drivers of WTI prices YTD. Geopolitical factors, including US sanctions on Venezuela and the Aramco attacks drove up the short end of the oil futures curve and also pushed the curve further into backwardation. But since energy companies are valued based on future earnings, the fact that the long end of the curve remained largely unchanged YTD helps explain energy producers' underperformance.

Finally, another concern for the Oil and Gas sector is the long-term threat from renewables. Overall, we remain neutral on the sector, with a preference for midstream and downstream players. We also note that hedge funds have recently turned more bullish on the oil space.



	U.S. (S&P 500)				Canadian (S&P TSX)			
Indexes	**1M**	**Bench**	**YTD**	**Bench**	**1M**	**Bench**	**YTD**	**Bench**
Market	3.4%	-	23.1%	-	3.4%	-	17.9%	-
Energy Index	1.1%	-2.3%	0.3%	-22.8%	4.7%	1.3%	9.3%	-8.6%
Upstream Index	3.1%	2.0%	-5.9%	-6.2%	8.7%	4.0%	-10.1%	-14.8%
Midstream Index	0.3%	-0.8%	18.1%	17.8%	3.0%	-1.7%	23.3%	18.6%
Downstream Index	-2.9%	-4.0%	17.2%	16.9%	7.9%	3.2%	33.9%	29.2%
Valero	-1.5%	1.4%	25.8%	8.6%	-	-	-	-

Source: Bloomberg, Intercontinental Exchange, The Economist

Holdings Performance

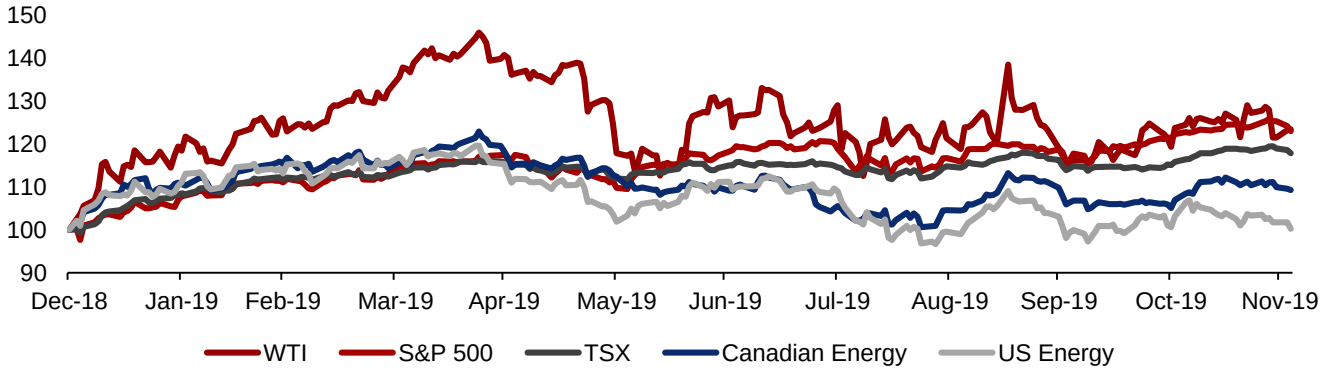
Mkt Cap (USD)	Price (USD)
$1.15B	$95

Valero was down 1.5% this past month, underperforming the S&P Energy index by 2.6%, despite an earnings beat: EPS of $1.48, vs. consensus estimate of $1.35. The lagging performance was likely due to the closing of two of the company's Ethanol plants on November 6, barely a year after buying them, because of lacking Chinese demand and soaring corn prices.

On the positive side, in an effort to further its push into South America, VLO signed terminal use agreements in Guadalajara, Monterrey and Altamira, Mexico, where margins and growth opportunities are high.

VLO also recently completed its central Texas pipeline and terminal project, which are expected to reduce cost and expand the company's supply chain inland. By doing so, VLO hopes to increases its biofuel blending capacity as well as be better positioned to supply its high growth refined products market. We remain bullish on the stock on a view that investors will increasingly pay attention to VLO's capital discipline going forward, following its recent series of acquisitions and capital projects.

	U.S. (S&P 500)			
Indexes	**1M**	**Bench**	**YTD**	**Bench**
Energy	1.1%	-	0.3%	-
Downtrean	-2.9%	-4.0%	17.2%	16.9%
Valero	-1.5%	-2.6%	25.8%	25.5%



Source: Bloomberg, Valero Annual Reports, Thomson One

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FINANCIALS SECTOR

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YTD Performance

The US Financials sector is up 28.7% YTD, outperforming the broader market by 1.0%. The sector, and banks in particular, had been lagging for most of the year, partly due to a weakening economic outlook, lower interest rate expectations and an inverted yield curve. Those factors generally reversed in Q4, spurring a recovery for the sector. In Canada Financials is up 24.5% YTD, outperforming the overall Canadian market by 2.2%, led by the Insurance and Diversified Financials subsectors, which are up 24.2% and 42.3%, respectively.

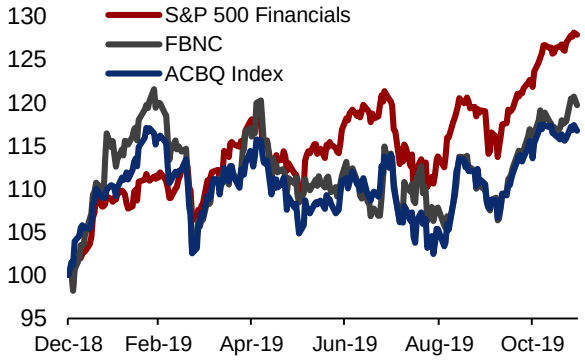
Holdings Performance

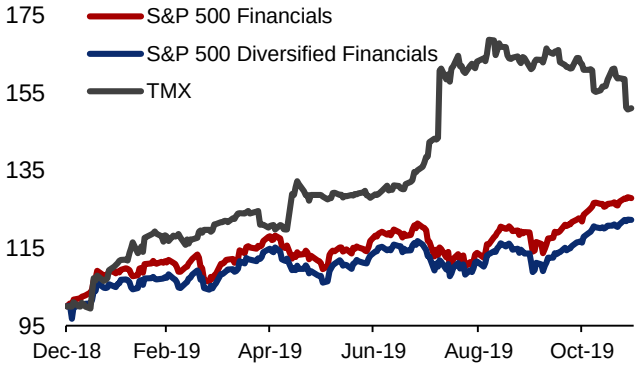
Mkt Cap (USD)	Price (USD)
$1.15B	$39.10

Mkt Cap (CAD)	Price (CAD)
$6.0B	$106.78

First Bancorp was up 3.6% in November, outperforming the ABA Community Bank Index by 0.8%. The stock price jumped 2.2% after the Chinese government tighthened Intellectual Property regulations to cooperate with one of the key demands from U.S. trade negotiators. FNBC performance is highly linked to trade war news as China is one the biggest customers for North Carolina agricultural products. YTD, FBNC is up 20.9%, outperforming the ABA Community Bank Index by 4.2% due to higher revenues and lower costs in 2019.

The TMX group was down 6.8% last month, underperforming the financial sector by 9.9% due to a Q3 earnings miss. YTD, however, the company is performing extremely well, up 61.9%. Overall, the company has benefited from disciplined cost-management measures, which reduced operating expenses by 4%. The firm has also put an emphasis on diversification with 30% of its income now coming from outside of Canada, over half of which is recurring revenue from long term contacts.





Source: Bloomberg

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HEALTH CARE SECTOR

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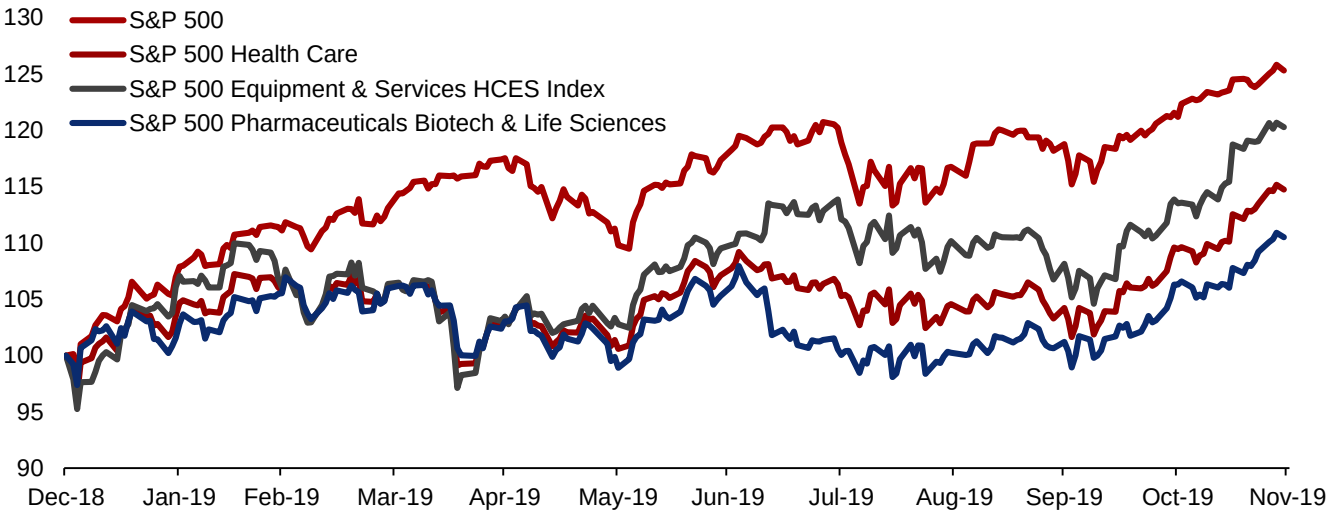
YTD Performance

Healthcare was the second worst performing sector this year, with a total return of 14.7% as of November 30, some 10.6% below the S&P 500. The underperformance is mainly due to potential reform in US healthcare, including "Medicare for All" and the Trump administration's plan to lower drug prices. The sector is also vulnerable to state and federal opiod lawsuits.



November Performance

Healthcare was up 4.8% in November, outperforming the S&P 500 by 1.4%. The outperformance is largely due to the 8.3% monthly gain in the Biotech subsector, which outperformed due to a batch of positive clinical results, earnings beats, and deal activity.

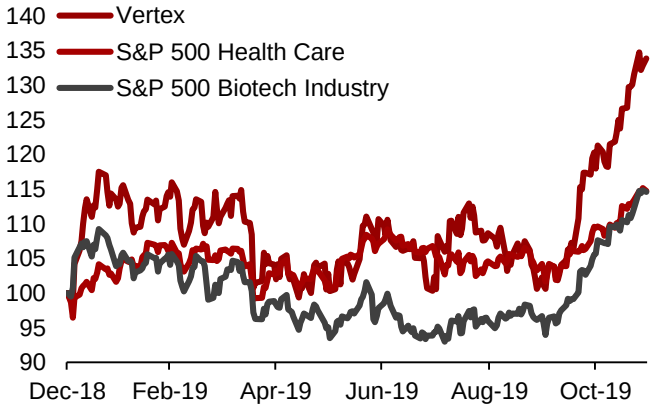
Overall, we recommend underweighting Pharmaceuticals and Biotechnology due to their exposure to possible drug price reform. One company we do have on our watch list, however, is Zoetis, a global animal health company, which is unlikely to be affected by drug price reform given the market they cater to. The company has over 300 product lines and markets their products in approximately 45 countries. Our preliminary analysis suggests the stock has reasonable upside potential. Further analysis will be provided in future publications.

Source: Bloomberg

Holdings Performance

Mkt Cap (USD)	Price (USD)
$57B	$221.75

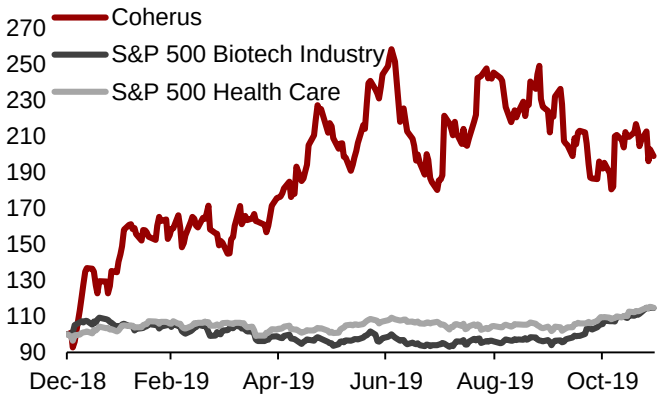
Vertex Pharmaceuticals' cystic fibrosis drug Symdeko continues to impress and gives confidence in boosted top-line guidance. Recent U.S. approval in younger patients will aid growth and leaves room to top consensus. In Europe, Northern Ireland and Wales have accepted Vertex's offer for access to all liscensed Cystic Fibrosis Medicines. On November 18th, Vertex announced that a strategic research collaboration with Molecular Templates Inc. has been set in motion, where researchers will discover and develop novel targeted conditioning regimens that may enhance the hematopoietic stem cell transplant process. On November 19th, Vertex announced positive interim data from the first two patients with severe hemoglobinopathies treated with the investigational CRISPR/Cas9 gene-editing therapy CTX001 in ongoing Phase 1/2 clinical trials. On November 20th, Vertex announced that the French Authorities (Comité économique des produits de santé, or CEPS) approved national reimbursement of ORKAMBI® (lumacaftor/ivacaftor) for people ages two and older with cystic fibrosis (CF). The above factors contributed to strong returns this past month.



Mkt Cap (USD)	Price (USD)
$1.3B	$17.99

This past month has been a bit of a rollercoaster ride for Coherus BioSciences, a biosimilar producer. The stock reached a high of $21.37 and a low of $16.84. YTD performance remains very strong, up 91.9%, mainly due to a strong market uptake of UDENYCA®, which is a biosimilar for Neulasta, a drug that stimulates white blood cell production for patients undergoing cancer treatment.

On November 7th, Coherus stock spiked following its Q3 earnings announcement in which it beat estimates by $0.36 per share, a 75% positive surprise. This marks the third earnings beat for the company in the last four quarters. We remain bullish on the stock with a general favourable outlook for the Biomedical and Genetics industries. Coherus also recently acquired the rights to the leading Lucentis biosimilar, a drug that treats age-related vision loss.



Source: Bloomberg

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INDUSTRIALS SECTOR

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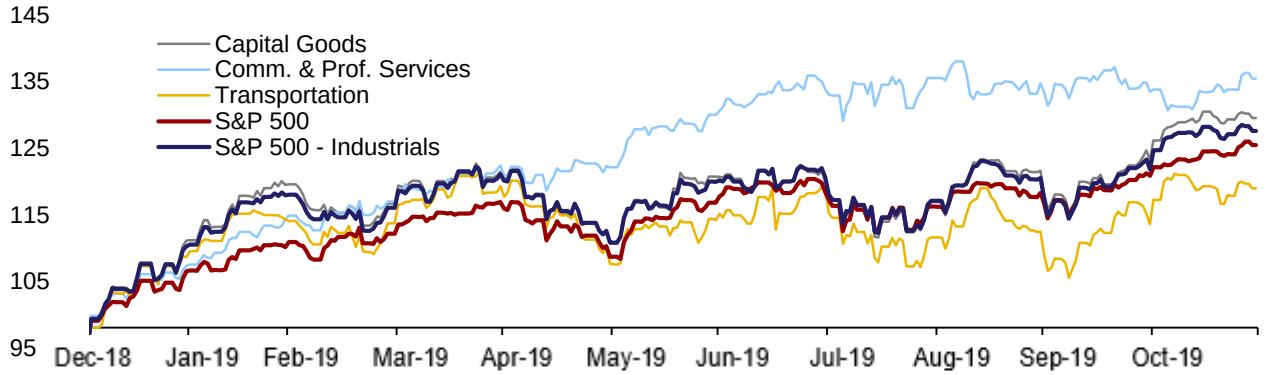
YTD Performance

The Industrials sector was up 29.4% YTD, outperforming the broader market by 1.8%. The sector is currently the 3rd best performing sector YTD, recently benefitting from positive developments in US-China trade war negotiations. In terms of US manufacturing activity, following a decade-low of 47.8 in September, the Purchasing Managers' Index (PMI) was up in both October and November, but missed expectations. In addition, the figure is still below 50, indicating contraction in manufacturing activity. Interestingly, however, cyclical sectors have historically outperformed the market during the 12 months following a manufacturing downturn, with Industrials leading the way. One potential explanation is that while Industrials quickly prices in anticipated economic weakness, it also bounces back quickly once the trend shows signs or reversing.

	U.S. (S&P500)				Canadian (S&P/TSX)			
Indexes	**1M**	**Bench**	**YTD**	**Bench**	**1M**	**Bench**	**YTD**	**Bench**
Market	3.6%	-	27.6%	-	3.6%	-	22.3%	
Industrials	4.5%	0.8%	29.4%	1.8%	3.8%	-0.7%	25.0%	-4.5%
Capital Goods	4.8%	0.4%	31.3%	1.9%	5.8%	1.3%	8.7%	-20.8%
Comm. & Prof. Services	1.4%	-3.1%	35.9%	6.5%	3.1%	-1.3%	27.9%	-1.5%
Transportation	4.4%	0.0%	21.3%	-8.1%	3.5%	-1.0%	29.2%	-0.3%



November Performance

The Industrials sector was up 4.5% in Nov, outperforming the S&P 500 by 0.8%. Manufacturing growth is at a current 7-month high both in the US and China. Interestingly, China's National Bureau of Statistics PMI indicated improved business confidence, up to 51.3 in Nov from 49.5, despite cutting factory jobs in Nov and further deterioration in profits for Chinese manufacturers as output prices have fallen to three-month lows. With China's growth slowing to nearly a 30-yr low and manufacturing profitability shrinking, it is likely that China will need to implement additional stimulus more swiftly and aggressively despite adding to its historically high debt level.

Source: Bloomberg

Holdings Performance

	U.S. (S&P500)			
Indexes	**1M**	**Bench**	**YTD**	**Bench**
Industrials	4.5%	-	29.4%	-
Transportation	4.4%	-0.1%	21.3%	-8.1%
Air & Freight	4.4%	-0.1%	14.6%	-14.8%
FedEx	4.8%	0.3%	0.4%	-29.0%

FedEx was up 4.8% in November, outperforming the Industrials sector by 0.3%. The outperformance can be explained by the expansion of the firm's International First Service: FedEx will now serve 14 new Asian countries bringing it to a total of 25 countries. International First Service, being the fastest option within FedEx's services (customs-cleared, door-to-door, 1-2 days shipping), will allow FedEx to capture a more important part of the growing Asia-Pacific market. The Memphis based firm was subject to criticism regarding its capital expenditures, which investors judged insufficient following the 2017 tax reform. FedEx's CEO defended the company's strategy by suggesting that the slowdown in capital expenditures was a consequence of trade disputes. The company is set to announce its Q2 earnings on December 17th. Key items that we will focus on include FedEx's ability to face macroeconomic pressures, cost pressure steaming from its acquisition of TNT Express, and capital investments to improve efficiency to reduce costs as e-commerce grows.

	U.S. (S&P500)			
Indexes	**1M**	**Bench**	**YTD**	**Bench**
Industrials	4.5%	-	29.4%	-
Capital Goods	4.8%	0.3%	31.3%	1.9%
Aerospace & Defense	4.6%	0.1%	34.8%	5.4%
CAE	8.1%	3.6%	43.6%	14.2%

CAE was up 8.1% in November, outperforming the S&P Industrials index by 3.6%. This impressive run was caused by CAE's most recent earnings announcement on November 13, 2019. CAE announced EPS of 0.28, beating consensus analyst estimates of 0.23. Additionally, CAE secured $1.0 billion in new orders for a total backlog of $9.2 billion, suggesting that the 21% year-over-year revenue growth is stable and could continue throughout the rest of FY2020. Operating margins grew to 13.9% from 13.3% a year prior, hinting that the promised synergies related to its acquisitions of BBAT and SIMCOM may finally be materializing. CAE has also made moves recently to promote its ESG exposure. On November 28, CAE announced its plan to become carbon neutral in Summer 2020 and raised more than $1 million for United Way Montreal. These initiatives demonstrate CAE's commitment to ESG factors, and highlights management's ability to identify contemporary issues that may impact long-term performance. Overall, we believe CAE's recent market performance to be indicative of its solid fundamentals and continue to be bullishly optimistic about its prospects into the next quarter.

Source: CAE Annual Reports, Bloomberg, FedEx website

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MATERIALS SECTOR

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YTD Performance

The Canadian Materials sector returned -0.1% in November, underperforming the broader market by 3.7%. Metals & mining and chemical companies, which together make up ~90% of the index, were down 0.2% and 0.4% respectively over the same period. Although containers & packaging companies returned 2.9%, their mere 5% weight within the materials index did not tick the balance much.

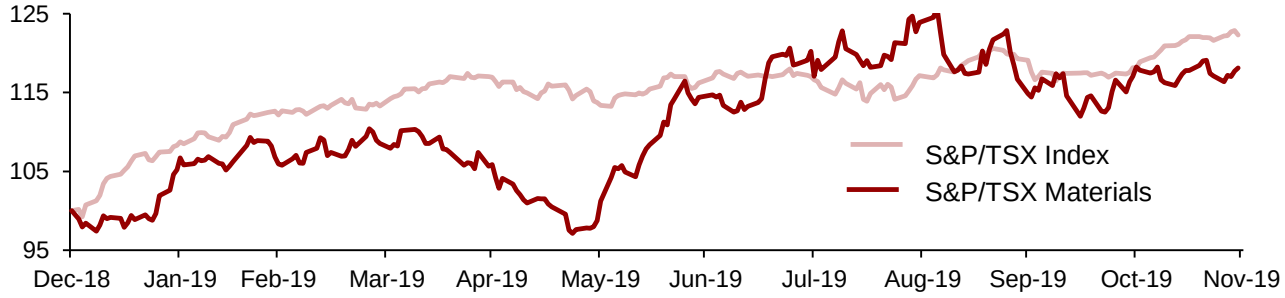
Canadian metals & mining stocks (+25.6%) greatly contributed to sector total returns of 18.0% YTD, although still underperforming the broader market by 4.3%. The price of gold reached a high of $1,531.13 in August and closed at $1,463.97 on Nov 29 (+8.3% YTD). The VanEck Vectors Gold Miners ETF, which tracks worldwide gold mining companies, is up 28.4% year-to-date, highlighting strong performances from gold stocks within the metals & mining sector. North American gold mining companies make up ~70% of the ETF, with top constituents including Newmont Goldcorp, Barrick Gold, Franco-Nevada, Agnico-Eagle Mines and Wheaton Precious Metals.

Canadian mining companies also operate in the extraction of silver and copper, both of which have seen flat or positive price increases year-to-date. In fact, silver closed at $17.03 on Nov 29 and is up 9.9% since the beginning of the year, while copper closed at $2.65 and remains flat over the same period.

Insight

Barrick Gold's merger with Randgold Resources in late 2018 set the table for a wave of consolidation across the industry in 2019. Recent data from Mining Technology estimates total Canadian mining M&A at $15.6B through 3Q19, higher than the $13.4B reported in 2018. Notable deals include Newmont's $12.5B acquisition of Goldcorp, Newcrest Mining's acquisition of a 70% JV interest in Red Chris from Imperial Metals for $804M, and St. Barbara's $502M acquisition of Atlantic Gold. A wave of consolidation could potentially signal that mining companies are preparing to enter the next gold bull market, a market that producers haven't seen since 2011.

	Canadian (S&P TSX)			
Indexes	**1M**	**Bench**	**YTD**	**Bench**
S&P/TSX Index	3.6%	-	22.3%	-
S&P/TSX Materials	-0.1%	-3.7%	18.1%	-4.2%
Metals & Mining	-0.2%	-0.1%	25.6%	7.6%
Chemicals	-0.4%	-0.3%	-2.0%	-20.0%
Containers & Packaging	2.9%	3.0%	11.2%	-6.8%
Paper & Forest Products	-1.4%	-1.3%	-5.7%	-23.7%



Source: Bloomberg

Holdings Overview

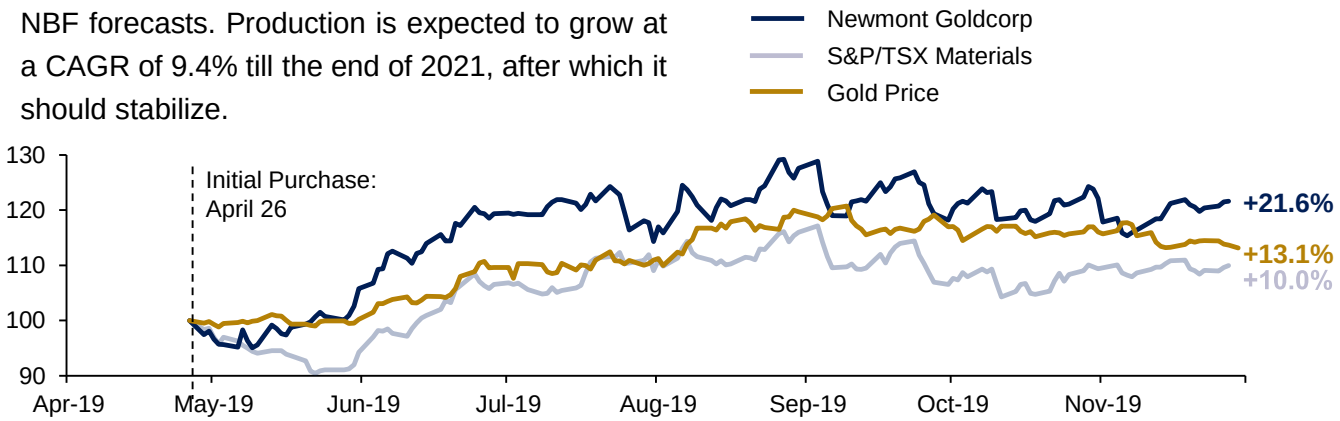
	Mkt Cap (USD)	Price (USD)
NEWMONT GOLDCORP	$31.3B	$49.7

Newmont Goldcorp is the world's largest gold producer and currently runs 15 operations across nine different countries. The company fully owns 11 of its operations, while it partially owns the rest. In fact, it owns 38.5% of the Nevada Gold Mines through a joint venture agreement with Barrick Gold – closed on July 1, 2019 – and it also partially owns Merian, Kalgoorlie, Yanacocha and Pueblo Viejo (75%, 51.35%, 50% and 40%, respectively). In April 2019, Newmont completed its acquisition of Goldcorp for $12.5B, which strengthened its positioning and is set to unlock considerable value moving forward (Newmont shareholders own 65% of the new company). The acquisition should be a key driver in current & future production, as well as EBITDA growth – Newmont added seven new operating mines and almost doubled its gold reserves from 68.5Moz to 121.3Moz. Upon management's successful and timely integration of Goldcorp into Newmont Mining, the market should eventually come to fully appreciate Newmont Goldcorp's potential. Until then, we are actively following management's integration process. The company is expected to produce a total of 6.3Moz of gold in 2019 – an increase of 23.4% y/y, according to NBF forecasts. Production is expected to grow at a CAGR of 9.4% till the end of 2021, after which it should stabilize.

Analysts expect Newmont Goldcorp to report adjusted. EPS of $1.36 for FY2019, a 15.3% increase from $1.18 in 2018. The company is scheduled to release its 2020 guidance on December 2. Among other things, we look forward to the Goldcorp integration update. A reminder that the run-rate synergies are expected to be fully phased in by the end of 2021 – generating total annual synergies of $365M thereafter.

Performance and News

Newmont Goldcorp ("NGT") has provided investors with a total return of 21.6% since April, outperforming the broader Canadian Materials index by 11.6% over the same period. The company recently sold its Red Lake mining assets – part of the $1B to $1.5B divestitures planned by management upon the Goldcorp merger closing – to Evolution Mining for $375M. Additionally, Newmont Goldcorp completed several private placements over the last two months, increasing its ownership stakes in Quebec Precious Metals, Sirios Resources and GT Gold to 19.9%, 19.9%, and 14.9%, respectively. NGT remains a key holding of the A^2 fund, as we expect to see the company climb higher as Goldcorp's integration process unfolds.



Sources: Bloomberg, NBF

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INFORMATION TECHNOLOGY SECTOR

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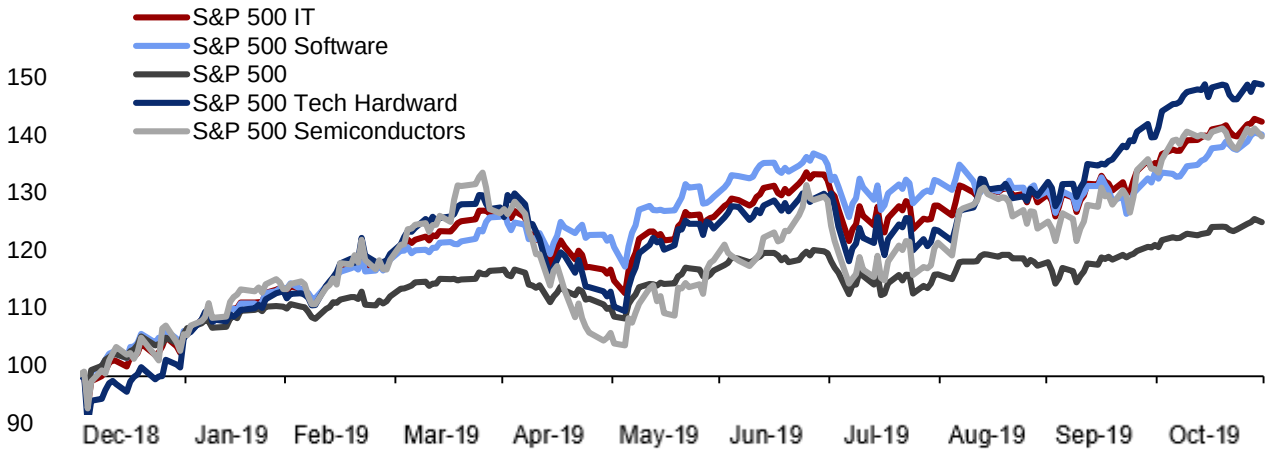
YTD Performance

Information Technology has enjoyed a strong performance in 2019 thus far, up 43.8% YTD, with each of its three constituent subsectors outperforming the S&P 500 by a wide margin. Technology Hardware and Semiconductors both rebounded considerably following significant declines in 2018Q4. Software had been the best performing subsector this year up until the end of August, but inflated multiples proved to be unsustainable and a mild correction ensued.

	U.S. (S&P 500)				Canadian (S&P TSX)			
Indexes	**1M**	**Bench**	**YTD**	**Bench**	**1M**	**Bench**	**YTD**	**Bench**
Market	3.6%	-	27.6%	-	3.6%	-	22.3%	-
Information Technology	5.4%	1.8%	43.8%	16.2%	8.6%	5.0%	59.0%	36.7%
Software & Services	5.7%	2.1%	41.2%	13.6%	8.6%	5.0%	60.9%	38.6%
Technology Hardware	5.2%	1.6%	50.5%	22.9%	8.3%	4.7%	-25.2%	-47.5%
Semiconductors	4.7%	1.1%	42.1%	14.5%	N/A	N/A	N/A	N/A



November Performance

IT was the best performing sector in November, up 5.2%, outperforming the S&P 500 by 1.8% led by continued strong performance in Semiconductors and Hardware. Indeed, nine S&P 500 stocks gained over 20% this past month, including DXC Technology (IT), Qorvo (networking semiconductor maker) and Fortinet (cyber security firm).

Stocks in general have been on fire of late, partially due to optimism around US-China trade negotiations. The optimism took a temporary halt, however, when Trump signed legislation supporting protestors in Hong Kong.

Source: Bloomberg

Holdings Performance

	Mkt Cap (USD)	Price (USD)
GoDaddy	$11.4B	$66.38

YTD Return: 1.16% Monthly Return: 2.08%

GDDY was up 2.1% in November, underperforming both the IT sector and IT Services subsector by 3.1% and 2.7%, respectively. The Internet domain registrar and web hosting company continued to enter partnerships, aiming to differentiate their offerings. Most recently, they partnered with WooCommerce, one of the largest ecommerce engines, with an objective to simplify the process of starting an eCommerce store. Also, GDDY's Websites + marketing platform, an e-commerce toolkit, launched in 2017, is showing growing popularity, recently reaching over a million subscribers.

Earnings Announcement (2019/11/06)

GDDY beat earnings expectations (42 vs 21 cents expected), but missed on revenue projections ($760.5 vs $761.4 million expected). The latest earnings beat is the second in the past four quarters. Relative to the prior quarter, the company saw a 4.6% growth in customer base, and Average Revenue Per User (ARPU) increased by 7.1%. Management also announced a repurchase program of $500 million, resulting in a 10% stock price gain.

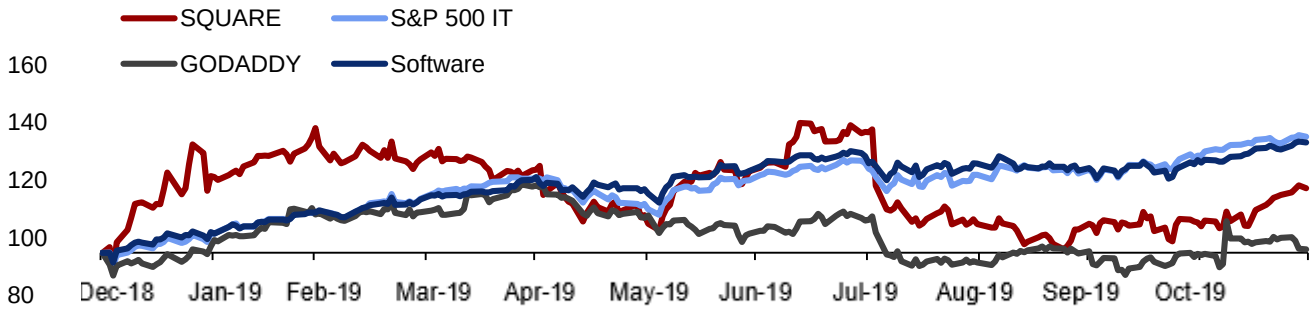
	Mkt Cap (USD)	Price (USD)
Square	$29.7B	$69.12

YTD Return: 23.2% Monthly Return: 12.5%

SQ rallied this past month, up 12.5%, outperforming the S&P 500 IT sector by 7.1%. YTD Square is up 23.2% and is starting to gain momentum. The Cash App is a key driver here and has seen steady growth with the recent news of the ability to buy and sell stocks on the app. The testing started back in September and Square has now begun rolling out the new feature to nonemployees. By the end of 2019 it is expected that this will be available to all users of the Cash App.

Earnings Announcement (2019/11/06)

SQ released earnings on November 6 beating analyst expectations on both revenue and earnings. SQ has surprised on the upside in the past 9 earnings announcements. Still the stock is struggling to recover from a 14% decline following its Q2 release, when it also announced it was selling its food delivery business, Caviar. We viewed the decline as an overreaction and remain confident that the company will deliver on its core operations. To be sure, gross payments volumes have been slowing over the past few quarters. We will keep a close eye on this to gauge what it implies for the company's long-term growth potential.



Source: Bloomberg

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REAL ESTATE SECTOR

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YTD Performance

The Real Estate sector outperformed the broader market as well as most other sectors YTD. The sector is second in the US at 27.9% and fourth in Canada, up 25.8%. Real Estate was boosted by a number of factors, including low interest rates and an inverted yield curve, as well as a boom in e-commerce. Trade uncertainties and recession fears also pushed investors to bid up the prices of safer assets like bonds and real estate. Moreover, the Real Estate sector is generally less affected by trade war considerations. Lower interest rates not only increases the present value of future rental income, but also allows real estate investors to secure attractive financing for acquisitions, increasing demand and prices for properties. There was particularly strong demand for industrial properties due to the rising trend of online merchants and their need for warehousing. Indeed, Industrials has been the best performing sub-sector in real estate due to this trend. The flip side to that story, however, is the underperformance of the retail subsector given less need for brick and mortar stores.

	Canada (S&P TSX)				U.S. (S&P 500)			
Indexes	**1M**	**Bench**	**YTD**	**Bench**	**1M**	**Bench**	**YTD**	**Bench**
S&P/TSX	3.6%	-	22.8%		3.6%	-	28.1%	-
Real Estate Index	2.5%	-1.1%	25.8%	3.0%	-1.7%	-5.4%	27.9%	-0.2%
Diversified	-0.5%	-3.0%	24.6%	-1.2%	-2.4%	-0.7%	32.1%	4.2%
Health Care	4.4%	1.9%	39.3%	13.5%	-7.3%	-5.6%	20.9%	-7.0%
Industrial	4.3%	1.7%	40.1%	14.2%	3.7%	5.4%	56.5%	28.6%
Office	0.6%	-1.9%	27.1%	1.3%	1.3%	3.0%	24.8%	-3.1%
Residential	3.5%	0.9%	29.3%	3.5%	-3.1%	-1.4%	31.1%	3.2%
Retail	1.7%	-0.9%	19.4%	-6.4%	-1.2%	0.5%	7.2%	-20.7%

November Performance

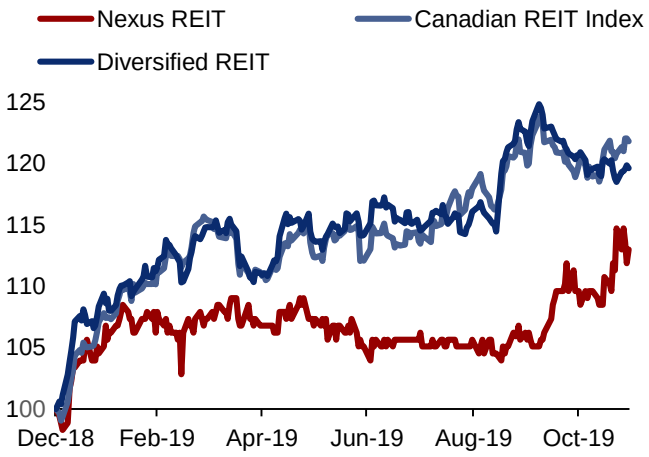
November saw a reversal of fortune for the Real Estate sector as many of the above trends reversed course: higher long-term rates and lower recession and trade war fears. In addition, earnings season in the healthcare subsector was quite weak. All 3 major healthcare REITs, Ventas, Welltower and Healthpeak missed earnings and dropped at least 6% in November. Overall, we think Real Estate is a good place to be currently, particularly given stretched valuations in many other sectors of the market at this time. In addition, the sector remains a good hedge against a potential downturn in the economy. We are particularly bullish on Industrials on a view of continued robust growth in e-commerce, which we don't believe is fully priced in yet.

Source: Bloomberg

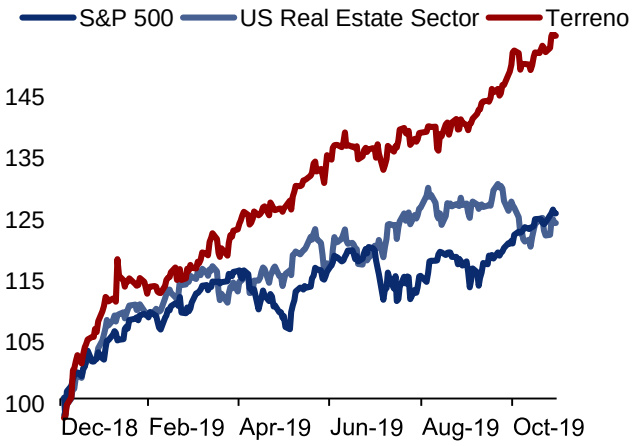
Holdings Performance

	Mkt Cap (CAD)	Price (CAD)	Mkt Cap (USD)	Price (USD)
Nexus REIT	$216.3M	$2.12	$3.9 B	$57.72

Nexus REIT gained 3.4% this month following positive analyst reccomendations and their earnings release. Anticipation of a promising release prompted an initial round of analyst upgrades in October, which brought the price from $2.00 up to $2.05, and by the time of the November 20 earnings release, the price had risen to near its present $2.12. Q3 results confirmed a solid quarter, with revenues, net income, and AFFO per unit all surpassing their performance at this time last year. The company continues to benefit from the upswing in demand for industrial properties, which comprise half of Nexus's rentable square feet, and the company's announcement of plans to graduate from the TSX Venture Exchange to the TSX. The company has distributed consistent monthly dividends of $0.01333 per share, representing a 7.6% dividend yield. Total return year-to-date is 12.2%.



Terreno continued to show positive returns this month, outperforming the US real estate market. The announcement of a non-deal roadshow hosted by Mitsubishi in Seattle and Portland on November 20th and 21st pushed the stock price up. The end-of-month growth seems attributable to positive investor sentiment following the REIT World 2019 annual conference and the acquisition of a property in Seattle that is adjacent to one of their current assets. Year-to-date, the company is up 64.1%, representing a 12.3% outperformance to the US Industrial REITs index. The large gains are mainly due to continuing favorable conditions for industrial real estate as e-commerce business needs for warehouses keeps growing.



Source: Bloomberg; nexusreit.com; terreno.com

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RENEWABLE ENERGY SECTOR

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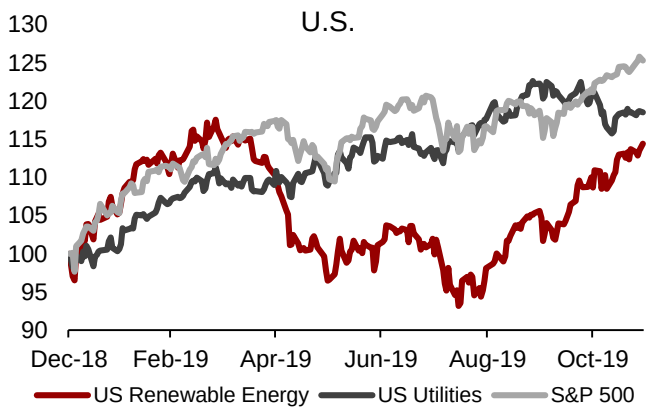
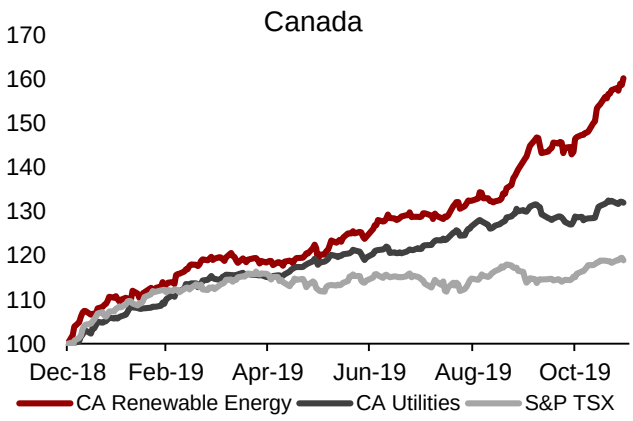
YTD Performance

The Canadian Renewable Energy subsector is up an impressive 46.6% YTD, outperforming the S&P/TSX by 27.6%, and the Utilities sector by 17.7%, the latter being the second-best performing sector in the S&P/TSX. The US Renewable Energy sector gained only 14.4% YTD, for a 10.9% underperformance to the S&P 500, having been hit by trade war factors.

The North American Renewable and Utilities sectors have benefited from supportive policies, especially in Canada, including Renewable Portfolio Standards (RPS) that mandate certain levels of renewable generation are proving successful, as well as the RE growth driven by important federal incentives such as the Investment Tax Credit, which offset upfront costs by 10-30%.





November Performance

The Canadian Renewable Energy sector generated an 11.6% return this month, outperforming the S&P TSX by 8.4% and the Utilities sector by 8.3%. This is mainly due to TransAlta's positive Q3 results and Boralex's success in securing two new projects in France. On the flip side, Brookfield announced Q3 results on November 11 with a net loss of $53 million, explained by the acquisition of Terraform, a renewable energy producer who lately reported a larger than forecast Q3 loss of $62m. This was related to downtime placing their quarter generation below the Long-Term Average production benchmark. Despite the market hit following the Quebec Wind Storm that put half a million Quebecers in the dark over the Nov. 2-5 weekend, Utilities still managed to produce gains for the month.

The American Renewable Energy subsector realized a 4.0% return this past month, while the American Utilities sector lost 1.9%, underperforming the S&P 500 by 4.9%. The underperformance is partially due to the ongoing wildfires in California that forced one of the largest utility companies, PG&E, to cut power to nearly a million homes and businesses across the state. In terms of the global trend for renewable energy, we continue to see very encouraging signs, both in terms of technological improvements as well as on the policy front. On November 14, the European Investment Bank agreed to phase out lending to carbon-emitting sectors by the end of 2021, a movement that could quickly spread to other regions and become widely implemented over the next decade.

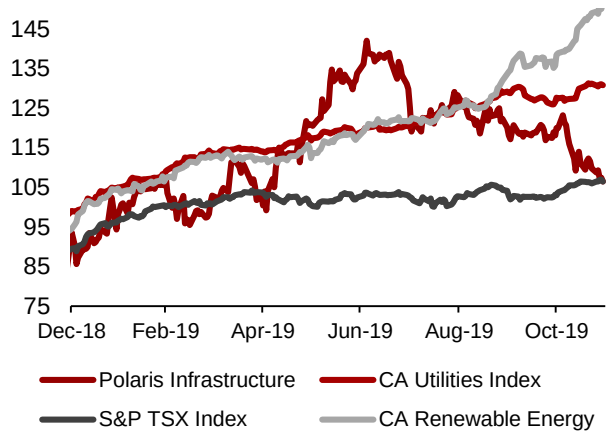
Source: Bloomberg

Holdings Performance

POLARIS

Mkt Cap (CAD)	Price (CAD)
$184.1M	$11.72

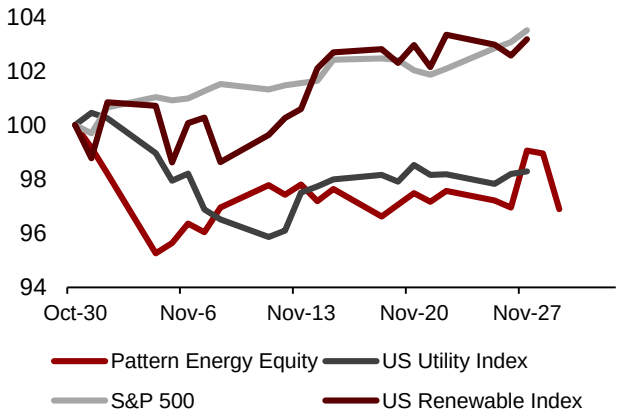
Polaris (PIF) is a Canadian renewable electricity producer operating in Latin America (Nicaragua and Peru). We initiated our position on October 4, 2018 at a price of 11.22 CAD. We felt the market was underestimating the company's growth opportunities and overestimating political risk in Nicaragua. Recently, the company has been strongly impacted by the complex and boiling geopolitical situation in the area. Chilean protests that started in October with the rise of transportation costs and a 10% hike in electricity price are still ongoing and could materially impact the evolution of the Utilities sector in the country. Peru's operations could also be affected for the same reason, following its ongoing institutional crisis. The absolute return of this investment since initiation is 6.5%, underperforming the sector by -24.3% during the same period. The Company is now trading at 68 P/E ratio, similar to the median of its peers. The EV/EBITDA T12M is 6.2, which is lower than the peer group mean of 16.1. While the company is exposed to political risk in Nicaragua, we believe the market still overlooks growth opportunities, and that company fundamentals point to a rebound.



Pattern

Mkt Cap (USD)	Price (USD)
$2.7B	$27.52

Pattern Energy (PEGI) is an American renewable electricity producer, which owns and operates wind and solar energy generation facilities in Canada, the United States and Japan. We initiated our position on April 26, 2019 at a purchase price of 23.06 USD. Our investment thesis was that the market underestimated the benefits of its vertical integration with Pattern Development. The absolute return of this investment since the initiation of our position is 19.3%. In November, the company's total return was -2.7%. The drop was mainly due to CPPIB's announcement that it would acquire the company at a price of 26.75 USD, representing a premium of approximately 15.1% to the 30-day volume weighted average price, but a discount to the USD 27.80 price the day before the announcement. Upon completion of the transaction in Q2 2020, Pattern Energy will become a privately held company. As such we will be looking to exit the position and look for other attractively valued renewable energy companies.



Source: Bloomberg

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