

Desautels Capital Management

Desautels SRI Equity Fund

Opportunity: Provide a framework for Desautels students to learn through practice about Socially Responsible Investing.

“An investment in knowledge pays the best interest.”
- Benjamin Franklin

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Desautels SRI Equity Fund: Fact Sheet

- **Manager:** Desautels Capital Management Inc.
- **Custodian:** CIBC Mellon Trust Canada
- **Legal Advisor:** Border Ladner Gervais LLP
- **Fund Auditor:** Deloitte LLP
- **Inception Date:** July 2018
- **Minimum Investment:** \$50,000
- **Liquidity:** Every Friday on 30 days' notice
- **Benchmark:** 80% S&P 500 Fossil Fuel Free Index (measured in CAD) and 20% S&P/TSX 60 Fossil Fuel Free Index
- **Management Fee:** 1.5% per annum
- **Investment Objective:** Exceed benchmark return by 150 basis points, net of fees, per year, as measured over a four-year rolling period
- **Investment Strategy:** Socially Responsible
Investing based on ESG criteria, rigorous fundamental analysis, and prudent risk management
- **Long/Short:** Long-only equity
- **Target Number of Securities:** 20-60
- **Maximum in Emerging Markets:** 10%
- **Maximum per Individual Stock:** 10%
- **Maximum in Cash/Cash Equivalents:** 10%
- **Minimum in Equities:** 90%
- **Derivatives:** The Fund may only use derivatives for hedging purposes
- **Leverage:** The use of leverage is not permitted

Socially Responsible Investing (SRI): A Brief Overview

What does it mean to invest responsibly?

- An investment strategy focused on seeking financial returns through social consciousness
- **Negative screening:** avoiding investments that do not meet certain social, environmental or ethical criteria
- **Positive screening:** investing in companies with a commitment to responsible business practices, producing positive products/services or addressing environmental or social concerns

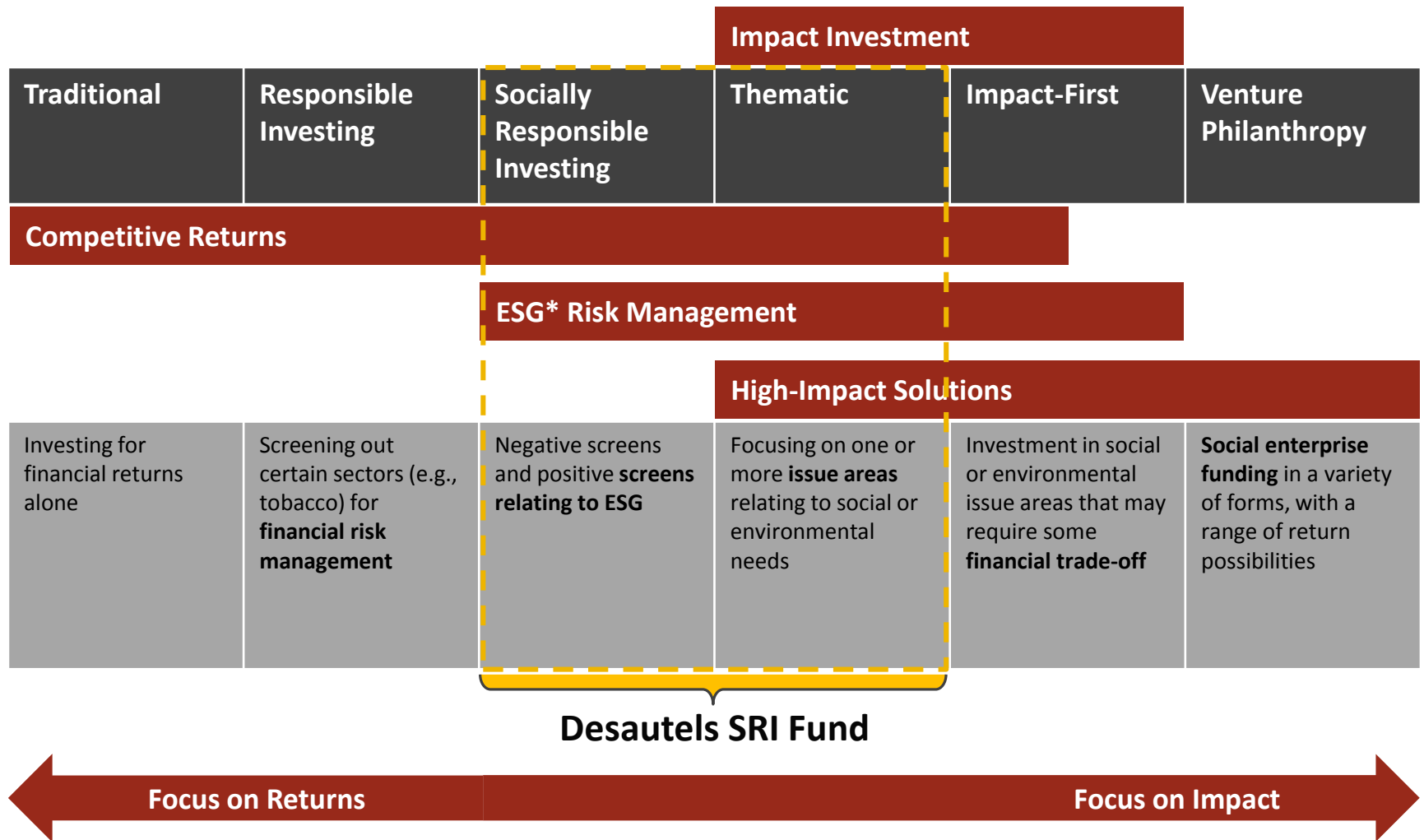


SOCIALLY RESPONSIBLE

ESG Criteria

- Three of the most common criteria that are considered in SRI are Environmental, Social, and Governance, known as ESG.
 - Environmental factors include pollution, climate change, and sustainability
 - Social factors include human rights, working conditions, diversity, and consumer protection
 - Governance is concerned with management structure and the extent to which that structure promotes the long-term sustainability of the company

Spectrum of Investing



* ESG: Environmental, Social, and Governance

Source: RBC Financing Social Good: A Primer on Impact Investing in Canada

How Can We Invest Responsibly?

Desautels SRI Fund screening criteria (non-exhaustive list)

Positive Screens

- Employer Commitment to Equity and Diversity
- Reduced Environmental Impact
- Supply Chain Sustainability
- Board and Executive Diversity
- Commitment to Improving ESG Practices

Negative Screens

- Armament Manufacturing
- Child Labour
- Gambling
- Tobacco
- Adult Entertainment
- Fossil Fuel Activities

- All Desautels SRI Equity Fund holdings must respect the negative screening criteria
- The Fund aims to have a ~50% allocation to stocks that also satisfy the positive ESG criteria
- The extent to which a stock satisfies the screens will be based on ratings provided by ESG rating companies, including Sustainalytics and RobeccoSam, together with our own professional judgement
- We aim to be flexible in a world where SRI/ESG criteria evolves over time
- We aim to construct a portfolio that is well diversified, without excessive risk concentration in any one sector or subsector

What DCM Can Deliver

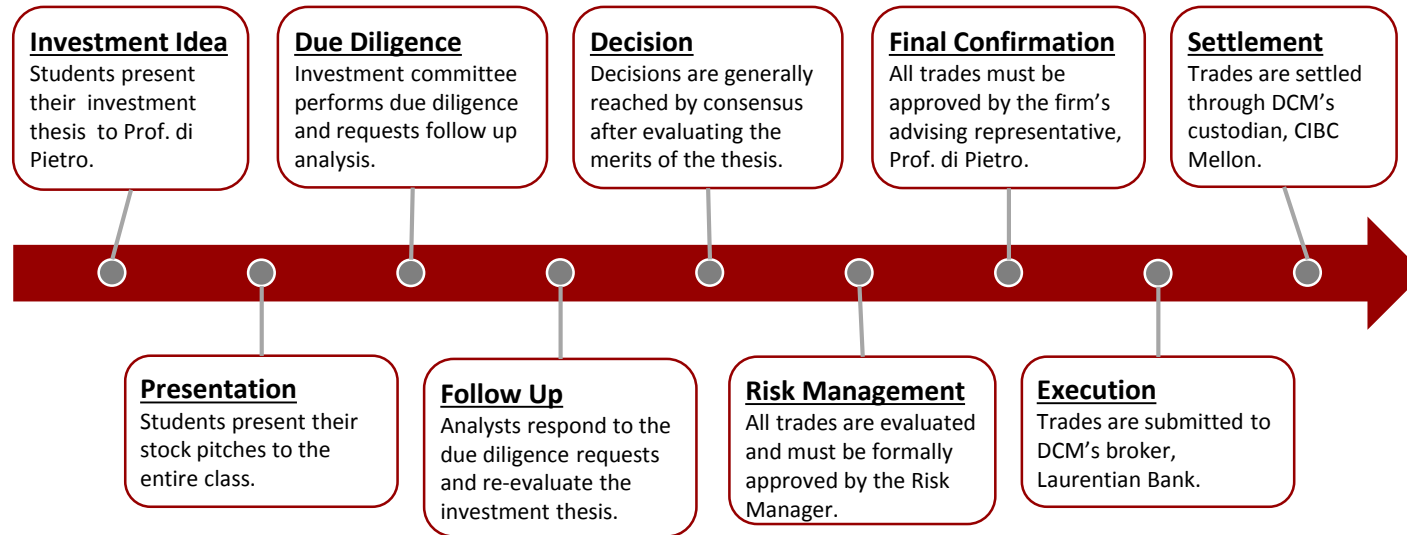
SRI challenges and objectives

- Subjective and time-varying SRI criteria
- Company SRI status can change rapidly
- Portfolio transparency
- Financial performance
- Risk management

DCM solutions

- To cater to the needs of investors, DCM analysts stay abreast of SRI developments and manage the fund according to potentially changing SRI norms
- DCM analysts continuously monitor company specific developments to ensure proper alignment with SRI objectives
- DCM will produce monthly holding reports, confirming the SRI suitability of each position
- DCM will publish quarterly investor newsletters highlighting the performance of the fund and describing the investment theses for key holdings
- Investors are welcome to meet with DCM to discuss fund performance and outlook
- DCM aims to provide competitive returns through comprehensive fundamental analysis
- Students at DCM monitor and manage positions on a continuous basis to ensure the fund is properly diversified and not too exposed to individual sectors, subsectors, or pervasive risk factors

Investment Process at DCM



An iterative process throughout the investment lifetime



Macro Analysis: DCM's Economic Analyst keeps the team abreast of macro conditions and assists the Strategists in formulating macro views and positioning the funds accordingly.

Holdings Review: Students monitor and re-evaluate positions on an ongoing basis and communicate their research to the class prior to and following earnings announcements and other relevant developments. Students produce quarterly Investor Newsletters and a comprehensive Annual Report, available at www.desautelcapital.ca.

Risk Management: The Risk Manager continuously monitors portfolio volatility, beta exposures, downside risk, and tracking error to ensure the portfolio has a sensible risk profile.

Global Expert Panel: DCM analysts benefit from weekly guest lectures from industry professionals, who share their expertise and discuss market conditions.

About DCM

Organizational info

- Established in 2009 as:
 - Portfolio manager
 - Fund manager
 - Exempt market dealer
- Registered with the AMF and OSC
- Wholly owned by McGill University
- Operated by students in:
 - Honours in Investment Management Program
 - Approx. 30 students
 - Masters of Management in Finance Program
 - Approx. 45 students

Fund info

- Desautels Global Equity Fund
- Desautels Fixed Income Fund
- Desautels Alpha² Equity Fund
- **New: Desautels SRI Fund**
(Launch Date: September 2018)
- Funds are set up as *Pooled Fund Trusts*
(Can have multiple investors per fund)
- Investors are unitholders in the Fund
- Only accredited investors can invest

About DCM

- All trades must be approved by DCM's registered advising representative
 - Prof. Vadim di Pietro

About Vadim di Pietro, Chief Investment Officer

Vadim is an Associate Professor of Finance at the Desautels Faculty of Management where he teaches a variety of courses, including Investment Management, Fixed Income Analysis, Market Risk Models, Derivatives and Risk Management Tools, Introduction to Finance, Corporate Finance, International Finance, Real Estate Finance, and Treasury Management. Prior to joining Desautels in 2009, Vadim worked as a research analyst for two years at JPMorgan in London. Vadim is a CFA Charterholder and holds a PhD in Finance from the Kellogg School of Management, a Masters in Mathematical Finance from the University of Toronto, and a BEng from McGill University.

DCM Board Members

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