Master of Management in Finance

ANNUAL REPORT 2020

DESAUTELS Capital Management
Gestion de capitaux

"An investment in knowledge pays the best interest."

\- Benjamin Franklin

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A MESSAGE FROM THE STRATEGISTS

Dear Investors,

We are pleased to report that the Desautels SRI and Alpha Squared Funds returned 31.0% and 13.4% this past year, significantly outperforming their respective benchmarks. In the sections that follow, we provide further details on that outperformance, a review of key factors that drove markets in 2020, our outlook for 2021, notes on sustainability, economics, quant strategies and risk management, and detailed outlooks for all equity sectors as well as for our current holdings.

2020 has been a truly challenging year in many different ways. Among the lessons learned, one of our big picture takeaways has been the concept of resiliency. Economies, stock markets and humankind persevered through unprecedented times, and it has been remarkable to see. At Desautels Capital Management, we believe we have adapted well to the current environment and continue to work diligently for our investors. Our focus remains on rigorous fundamental, quant and ESG analysis, which we believe will allow us to block out noise and continue to generate alpha in the long run.

The knowledge gained in the MMF program and at DCM has also proven beneficial in representing McGill at case competitions. Recently, a team of five MMF students (Neil Wiacek, Andy Yu, Bruce Chen, Haiwen Lou, and Audrey Wu) won first place at the local finals of the CFA Challenge. This is the second year in a row that MMF students took home the top prize.

The ongoing opportunity of managing Desautels Capital Management's investment funds has been an incredible learning experience, which would not be possible without your trust in our program. On behalf of the current Master of Management in Finance cohort, we would like to thank you for your continued support. We hope you enjoy this Annual Report.

Bruce Chen
Strategist, Alpha Squared Fund

Dakota Zaharichuk
Strategist, SRI Fund

Program Leadership

Executive Team

Morty Yalovsky | President

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

Vadim di Pietro | Co-Chief Investment Officer

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

Jiro Kondo | Co-Chief Investment Officer

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

Jan Ericsson | MMF Program Director

Professor Ericsson joined the Desautels Faculty of Management in 1999 with a PhD from the Stockholm School of Economics. Professor Ericsson's current research focuses on risk premia in corporate bond and credit derivative markets, and has been published in, among others, the Journal of Business and the Journal of Finance. He is a frequent guest speaker at industry conferences and has carried out consulting projects for a Nordic real estate investment firm, the Swedish National Debt Office, as well as for a hedge fund startup in Scandinavia.

Board of Directors

Yves Caron | Director, Investments

Caisse de dépôt et placement du Québec

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

Eamonn McConnell | Portfolio Manager

Kensington Capital

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

Richard Pan | VP and Head of Corporate Finance

Power Corporation

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

Our Team

2021 Class Profile

Students 32

Women 38%

Nationalities 11

1 Algerian
1 American
10 Canadians
12 Chinese
1 Cameroonian
1 Colombian
1 French
2 Lebanese
1 Moroccan
1 Russian
1 Taiwanese

Average GPA 3.66

Average GMAT 654

Previous Education 11

1 Business & Commerce
4 Economics
1 Engineering
19 Finance
2 Law
3 Mathematics
2 Science

Languages 12

Arabic
English
French
German
Greek
Hindi
Japanese
Korean
Mandarin
Minnan
Russian
Spanish

Average Work Experience

4 MONTHS

Average Work Experience (Full Time)

3 STUDENTS

With 1 to 4 Years of Full-Time Work Experience

Job Placements

Summer and Full-Time Positions

Class of 2021 Employers
(As of April 19, 2021)

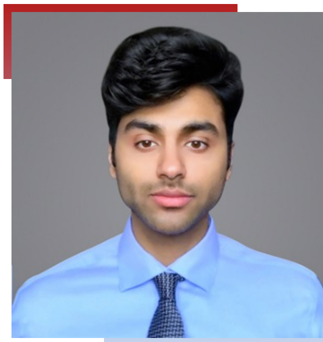
Accuracy
ALPINEMACRO
AXIUM INFRASTRUCTURE
citi
DAVIES
Desjardins Capital
CAPITAL
EY Building a better working world
FIERA COMOX
GALLIANT
HARRIS
HITACHI Inspire the Next
i80 Group
IQ Investissement Québec
J T & N
MSCI
MFS
PLUG AND PLAY
RBC Capital Markets
东吴证券 SCS SOOCHOW SECURITIES
Scotiabank

MMF Executives

Dakota Zaharichuk
SRI Strategist

Bruce Chen
Alpha Squared Strategist

Lily Ouyang
Chief Operating Officer



Umang Saksena
Chief Economist

Cole Corlett-Hedley
Chief Sustainability Officer

Keyliam Ngassa
Head of Quantitative Strategy

Andy Yu
Head of Marketing

Yehya Siddiqui, P.E.
Head of Risk Management

MMF STRATEGISTS

Bruce Chen | Alpha Squared Strategist

Bruce was born and raised in Hangzhou, China. Prior to McGill, Bruce was in Winnipeg for high school where he developed an interest for a business career. He then obtained a Distinction Honours Bachelor of Commerce degree with a major in Finance from McMaster University. Bruce discovered his passion for finance after having interned at a Chinese investment bank as a summer Equity Research Analyst. He has used his industry knowledge in covering the IT sector at DCM.

Professional Experience

- Equity Research Analyst
  Soochow Securities, Shanghai (Off-Cycle 2021)
- Equity Analyst
  Zhejiang Spring Air, Hangzhou (Summer 2019)
- Equity Research Analyst
  Changjiang Securities, Shanghai (Summer 2019)

Dakota Zaharichuk | SRI Strategist

Dakota was born and raised in Edmonton, Alberta. Prior to McGill, Dakota spent time playing junior hockey in both Canada and the United States before pursuing a Bachelor of Business Administration with an emphasis in Finance from NAIT after he became interested in Finance through his readings on Warren Buffett. He has grown increasingly passionate about ESG and how these initiatives can impact firm performance. Dakota is currently a CFA Level II candidate.

Professional Experience

- Business Analyst
  i80 Group, Montréal (Summer 2021)
- Research Analyst
  LGK Wealth Management, Edmonton (2016-2020)

Consumers
Equity Analysts

Amine Zemzami

Amine is an Equity Analyst at Desautels Capital Management in the Consumer Discretionary group. Born and raised in Morocco, Amine moved to Canada in 2016. Prior to joining the MMF program, he graduated from the University of Ottawa in 2020 with a BCom. in Finance. His passion for finance and his experience as Assistant Financial/Accounting Officer within the Conseil des Écoles Publiques de l'Est de l'Ontario are the reasons why he decided to continue his learning journey in the same field by joining the MMF program.

Professional Experience

- Accounting/Finance Officer
  CEPEO (Conseil des écoles publiques de l'Est de l'Ontario), Ottawa (Summer 2019)

Audrey Wu

Audrey was born and raised in China and came to Canada for university in 2016. She earned an Honours Bachelor of Business Administration at Wilfrid Laurier University with a concentration in Insurance & Risk Management and a minor in Economics. Audrey started her first internship in the summer of her 2nd year when she decided to pursue her career in the finance industry. She has a strong interest in the consumers industry and is currently growing her expertise in this area by covering the sector at DCM.

Professional Experience

- Finance Summer Intern
  Hua'An Securities Co., Quanzhou (Summer 2017)

Consumers

Equity Analysts

Benjamin Wu

Benjamin was born and raised in Taipei, Taiwan. Before attending McGill, Benjamin spent 4 years in Kelowna, where he obtained a Bachelor of Business Management degree with a major in Finance from the University of British Columbia. Benjamin developed an interest in corporate finance and the automotive industry after interning at Faurecia as a financial and shopfloor analyst in his 2nd year. He is currently covering the Consumer Discretionary Sector to further develop his industry knowledge and experience.

Professional Experience

- Financial Analyst
  Faurecia, Shanghai (Summer 2018)
- Summer Intern
  Giga-Byte Communications, Taipei (Summer 2015)

Jiaxi Zhou

Jiaxi was born and raised in Shaanxi, China. She completed her Bachelor of Commerce with double majors in Finance and Supply Chain Management, with High Distinction, from Carleton University. Through several internships in various financial institutions, she saw a gap in her experience and viewed the MMF program as a perfect fit for furthering her education. Jiaxi has passed the CFA level I exam and is currently covering the Consumer Discretionary sector at DCM.

Professional Experience

- Securities Intern
  Essence Securities, Maoming (Fall 2019)
- Sales Account Manager Intern
  Bank of Communications, Shenzhen (Summer 2019)
- Research Assistant Intern
  Yangling Industrial Park Construction & Investment Co., Yangling (Summer 2016)

Consumers
Equity Analysts

Xi Jin

Xi was born and raised in Nanjing, China. Before joining McGill, she obtained a Distinction Bachelor of Financial Economics degree at the University of Rochester in New York State. Xi gradually developed her interests in pursuing a career in finance after her internship at a boutique investment bank, Nova Capital Global Markets, as a summer analyst in her junior year. She currently covers the Consumer Staples sector at DCM and is a CFA level II candidate.

Professional Experience

- Investment Banking Analyst
  Nova Capital Global Markets, New York (Summer 2018)
- Assistant Business Officer
  Bank of East Asia, Nanjing (Summer 2017)

Communications

Equity Analysts

Alyona Pereslavtseva

Alyona was born and raised in Russia, where she earned a Bachelor of Science in Applied Mathematics from the top research university. Following her dreams and career aspirations, she moved to Canada in 2015 and continued her postgraduate education by obtaining two degrees with Honours in Financial Planning and Fraud Investigation from George Brown and Seneca Colleges. Prior to joining McGill, Alyona spent four years with Meridian Credit Union and Motus Bank in various risk management and regulatory compliance roles. This experience alongside the desire to deepen her knowledge in investment banking led her to the MMF program. At Desautels Capital Management, Alyona covers the Communication Services sector and incorporates acquired knowledge into personal investment strategies.

Professional Experience

- Senior Anti-Money Laundering Compliance Officer
- Anti-Money Laundering Compliance Officer
- Financial Services Representative
  Meridian Credit Union, Toronto (2016-2020)

- Analyst, Fraud Risk Management
  Motus Bank, Toronto (2018-2019)

Yuchen Xu

Bethany was born and raised in Chengdu, China. She earned her BA in commerce at McGill and became increasingly interested in pursuing a career in finance after having attended a financial forum. The insights and enthusiasm of industrial leaders solidified Bethany's desire to become a financial analyst. She has been able to utilize her knowledge in covering the Communication Services sector at DCM.

Professional Experience

- Loan Department Intern
  Bank of China, Chengdu (Summer 2019)

- Human Resources Department Intern
  Huidong Corporation Ltd., Zigong (Summer 2018)

Communications

Equity Analysts

Dahui Sun

Dahui was born and raised in Jiangsu, China. Before joining the MMF program, she received a BA in Economics at McGill. Her current coverage at DCM is in Communication Services and she greatly appreciates collaborating with her teammates in the sector. This coming summer, she will start her internship position at EY China. She is curious about the unknown and passionate about her future career.

Professional Experience

- Incoming Strategy and Transaction Service Intern
  EY China, Kunming (Summer 2021)

Katerina Paraschis

Katerina is born and raised in Montreal. She completed her undergraduate degree in civil law at the University of Ottawa with honours. Throughout her legal studies, Katerina interned at Stikeman Elliott LLP's Montreal office where she participated on various public and private M&A deals and capital markets transactions. After passing her Quebec Bar, she decided to pursue her graduate studies in finance to bridge her gap in transactional finance and market dynamics.

Professional Experience

- Incoming Investment Banking Summer Analyst
  RBC Capital Markets, Montréal (Summer 2021)
- Student-at-Law
  Stikeman Elliott LLP, Montréal (Summer 2018, 2019, 2020)
- Research Student
  Global Affairs Canada, Ottawa (Winter 2018)
- Coordinator
  Isologic Radiopharmaceuticals, Montréal (Winter 2017)

Communications

Equity Analysts

Lily Ouyang | Chief Operating Officer

Lily Ouyang was born and raised in Hefei, China and came to Canada to pursue a Bachelor's Degree in Finance at Western University. Lily is very passionate about financial research and analysis. After the MMF program she is set to begin an internship in the consulting industry, which she is very excited about.

Professional Experience

- Facilities Communication Coordinator
  Sun Life Financials, Toronto (Summer 2019)

Nathan Gao

Nathan was born in Liaoning, China. He earned his Bachelor of Commerce degree with a major in Finance at York University. He has been interested in finance since an early age and is very passionate about the Technology sector. Nathan passed all three CFA level exams on his first attempts.

Professional Experience

- Investment Analyst Intern
  Three Gorges Xintai Fund (VC), Beijing (Off-Cycle 2021)
- Capital Markets Intern
  JT&N Law Firm, Shenyang (Spring 2020)
- Investment Banking Intern
  China Securities, Shenzhen (Winter 2020)
- Financial Analyst
  Sun Life Financial, Toronto (2018-2019)

Energy
Equity Analysts

Jean-Christophe Azzopardi

Jean-Christophe is a first-year MBA candidate covering the Energy sector for DCM. Prior to the start of his MBA program, he worked as a Field Engineer for Schlumberger in Rock Springs, WY. In this role, he led the on-site execution of hydraulic fracturing projects in the western United States, predominantly in the Green River and Powder River basins. He is passionate about researching investment opportunities relating to large engineering projects and the future of the energy landscape. Jean-Christophe holds a bachelor's degree in Civil Engineering from McGill University.

Professional Experience

- Investment Analyst Intern
  Axium Infrastructure, Montréal (Summer 2021)
- Field Engineer
  Schlumberger, Rock Springs, Wyoming (2018-2020)

Marc-Olivier Lê

Marc-Olivier was born in Amos, Québec and raised in Montreal. Before starting his Master's degree at McGill, he studied at HEC Montreal, where he earned a Bachelor's degree in Commerce with a major in Finance and Economics. He is currently covering the Energy Sector for the Alpha Squared Fund. He is passionate about exploring how a shift towards renewable energies will affect markets and investing opportunities. Marc-Olivier is currently a CFA Level II candidate.

Professional Experience

- Commercial Financing Analyst
  Hitachi Capital Canada, Montréal (Summer 2021)
- Structured Credit Intern
  Hitachi Capital Canada, Montréal (Summer 2019)
- Administrative Assistant
  TOHU, Cité des Arts du Cirque de Montréal (Summer 2018)

Financials

Equity Analysts

Andrew Gillich

Andrew was born and raised in Montreal where he pursued his passion for finance and economics by earning a BCom at McGill. After completing an internship at State Street in the Fund Accounting department, he wished to deepen his understanding of finance and economics by joining the MMF program and covering the Financials sector at DCM.

Professional Experience

- Research Analyst
  Alpine Macro, Montréal (Summer 2021)
- Fund Accounting Intern
  State Street, Montréal (Summer 2019)
- Summer Intern
  Investors Group, Montréal (Summer 2018)

Eugenie Zhang

Eugenie was born and raised in Luxembourg and earned her bachelor's degree in business and finance at Sorbonne in Paris. She always dreamed of going to university in North America and took the opportunity to complete an exchange year at the University of Toronto. Thereafter, she decided to pursue the MMF program to prepare for a career in finance. She interned in the Strategic Partnerships team at CDPQ London, which confirmed her interest to work in investment management. In her free time, Eugenie enjoys travelling, exploring restaurants and shops, watching TV shows and playing video games occasionally.

Professional Experience

- Incoming Investment Banking Summer Analyst
  DNA Capital, Montréal (Summer 2021)
- Intern Analyst, Strategic Partnerships
  CDPQ, London, United Kingdom (Winter 2020)

Financials

Equity Analysts

John Xu

John was born and raised in Ningbo, China. He earned his Bachelor of Science in Software Engineering at East China Normal University in Shanghai. He is interested in capital markets, and worked in functions including foreign exchange, wealth advisory and fund management. Now at McGill, he strives to further develop his quantitative skills and apply them to the investment process.

Professional Experience

- Senior Investment Manager
  CreditEase, Shanghai (2015-2020)
- Wealth Advisor
  United Overseas Bank, Shanghai (2014-2015)
- Treasury Service
  Citibank, Shanghai (2012-2014)

Ken Qin | Head of Compliance

Ken was born in China and moved to Montreal when he was 10. He earned his BCom with a major in finance at McGill, where he discovered his passion to pursue a career in finance. After completing an internship at SPDB in commercial banking, he decided to broaden his knowledge and deepen his analytical skills by joining the MMF program as an analyst for the financials sector.

Professional Experience

- Customer Manager
  Shanghai Pudong Development Bank, Chongqing (Summer 2019)
- Bankruptcy Administrator
  BDO China, Shanghai (Summer 2017)

Healthcare
Equity Analysts

Cole Corlett-Hedley | Chief Sustainability Officer

Cole was born and raised in Winnipeg, Canada. Prior to coming to McGill, Cole received his Bachelor of Commerce at the University of Manitoba. Cole discovered his passion for capital markets after competing in a stock picking challenge during his undergraduate studies. He is looking to continue to develop his knowledge of sustainable investing and how it can integrate into investment decisions as he begins his career in equity research. Cole is currently a level I CFA candidate.

Professional Experience

- Equity Research Summer Associate
  MFS Investment Management, Toronto (Summer 2021)
- Intermediate Finance Agent
  Air Canada, Winnipeg (Winter 2019)

Jasmine Mussani

Jasmine was raised in Ottawa, Ontario where she spent much of her time playing competitive sports prior to undergraduate studies. She attended Queen's University to pursue her Bachelor of Science with a Specialization in Kinesiology and Physiology and has had numerous experiences in clinical and academic research settings. Jasmine discovered her interest in finance while working in research, which pushed her to gain an understanding of the greater market factors impacting business decisions. She is passionate about exploring the bridge between healthcare and finance, and has been able to use her industry knowledge as a Healthcare Analyst at DCM.

Professional Experience

- Private Equity Intern
  Fiera Comox, Montréal (Summer 2021)
- Research Student
  University of Ottawa Heart Institute, Ottawa (Summer 2018, 2019)
- Research Student
  Ottawa Hospital Research Institute, Ottawa (Summer 2017)

Healthcare
Equity Analysts

Umang Saksena | Chief Economist

Originally from Texas but raised in Toronto. Umang obtained a Bachelor of Commerce degree with dual specializations in Finance and Economics, with Distinction, from the University of Toronto. His interests in applying fundamental frameworks to financial markets brought him to McGill where he currently serves as DCM's Chief Economist as well as Healthcare Equity Analyst. Umang is currently a CFA Level II candidate.

Professional Experience

- Econometric Research Assistant
  University of Toronto, Toronto (Spring 2020)
- Lead Cloud Analyst
  IBM Canada, Toronto (2018-2019)
- Summer Intern
  Scotiabank, Toronto (Summer 2017)

Information Technology

Equity Analysts

Andy Yu | Head of Marketing

Andy was born in China and moved to Ottawa with his family when he was 12. Before attending McGill, Andy earned an Honours Bachelor of Commerce with double majors in finance and accounting, and graduated Summa Cum Laude from University of Ottawa. Andy discovered his passion to pursue a career in cross-border transactions advisory after completing co-op placements, internships and employments with technology startups, a public accounting firm, and the federal government. Andy is an equity analyst covering the IT sector, with interests in cloud-computing, SaaS, electronics and electric mobility technologies. Andy is currently a CFA Level III candidate.

Professional Experience

- Analyst, Mergers & Acquisitions
  Harris Computer System, Montréal (Summer 2021)
- Staff Accountant
  Andrews & Co. CPA Professional, Orléans (2019-2020)
- Banking Advisor, Personal & Commercial Banking
  Royal Bank of Canada, Ottawa (Winter 2018)
- Valuation Analyst, Corporate Development
  Homesail Inc., Ottawa (2016-2017)
- Business Analyst, Aerospace, Defense and Marine Branch
  Industry Canada, Ottawa (Winter 2015)

Avinoam Kaufman

Avi was born and raised in Thornhill, a suburb of Toronto. He spent his youth working in the entertainment industry as a clown and a DJ, then went on to study Mechanical Engineering at Ryerson. After graduating into a recession in 2009 Avi went on a journey to Israel where he pivoted and became a Rabbi. Since becoming a Rabbi he's taken multiple roles throughout North America. Recently Avi decided to pivot once again back to a career that would be more demanding on his analytical skill; he decided to do an MBA. Avi found a passion for finance and financial markets and decided to apply and join DCM where he covers the IT sector.

Professional Experience

- Director/Founder
  Jewish Outreach for McGill/UCSB Students (2016-2020)
- Project Manager/Educator
  Aish HaTorah (2014-2016)
- Logistic Engineer
  Weston Bakeries (2009-2010)

Information Technology

Equity Analysts

Bruce Chen | Alpha Squared Strategist

Bruce was born and raised in Hangzhou, China. Prior to McGill, Bruce was in Winnipeg for high school where he developed an interest for a business career. He then obtained a Distinction Honours Bachelor of Commerce degree with a major in Finance from McMaster University. Bruce discovered his passion for finance after having interned at a Chinese investment bank as a summer Equity Research Analyst. He has used his industry knowledge in covering the IT sector at DCM.

Professional Experience

- Equity Research Analyst
  Soochow Securities, Shanghai (Off-Cycle 2021)
- Equity Analyst
  Zhejiang Spring Air, Hangzhou (Summer 2019)
- Equity Research Analyst
  Changjiang Securities, Shanghai (Summer 2019)

Esteban Fernandez | Head of Alumni Relations

Esteban was born and raised in Bogota, Colombia. Before coming to McGill, Esteban was in Frankfurt, Germany, where he obtained a Distinction Bachelor’s in general management with a major in Finance at the European Business School. Esteban discovered his passion for finance after working in several fields within sales and IT in Berlin, Rotterdam, Dusseldorf, London, and Mexico City. Esteban secured an internship with Gartner Consulting as Market Analyst and an internship with Applause in sales intelligence. Additionally, he was able to work as a Delivery Consultant for Marlin Green, which places high-skill consultants in IT projects across Europe. He was also part of the investment resort and part of the Finance Magazine at EBS University. Esteban has enjoyed using his industry knowledge in covering the Information Technology sector at DCM. Esteban is currently a CFA Level I candidate.

Professional Experience

- Activate Audit/Risk Development Program
  Scotiabank, Toronto (Summer 2021)
- Delivery Consultant
  Marlin Green, Düsseldorf, Germany (2019-2020)
- Market Analyst
  Gartner Consulting, Düsseldorf, Germany (Summer 2018)

Information Technology

Equity Analysts

Noah Itovitch

Noah grew up in Montreal where he played competitive hockey in his youth. While earning his B.C.L/J.D. at McGill's faculty of law, Noah interned at Davies Ward Phillips & Vineberg where he collaborated on public and private transactions in a variety of sectors. After passing the Quebec bar, Noah pursued an MMF to compliment his legal education. Noah has been able to leverage the approach to problem-solving he developed in his legal training to evaluate investment opportunities in the Technology Sector.

Professional Experience

- Student-at-Law
  Davies Ward Phillips & Vineberg, Montréal (2018-2021)
- Student Associate
  LexisNexis, Montréal (2017-2018)

Rayan Chelli

Rayan was born and raised in Ontario, Canada and spent his teen years in Dubai. Before commencing his postgraduate studies at McGill, he spent his previous years in Boston and abroad in Japan and New Zealand, where he obtained his Bachelor of Science with Finance and Entrepreneurship concentrations at Babson College with Magna Cum Laude honors. Rayan discovered his passion for finance and research after working alongside Finance professors on peer reviewed papers. He spent his 3rd and 4th academic years as a co-founder on a tech startup, Idle System, a tax streamlining software.

Professional Experience

- Co-Founder
  Idle System, Boston, MA., Montréal (2019-2020)
- Auditing Summer Intern
  KPMG, Dubai (Summer 2018)

Information Technology

Equity Analysts

Yahan Li

Yahan was born and raised in Shandong, China. Before attending McGill, she graduated from Wilfried Laurier University with a bachelor's degree in Economics and Financial Management with Distinction. Yahan found her passion in investment & equity research in the finance industry and decided to join the MMF program where she could gain both practical and theoretical in-depth knowledge of financial markets. Yahan is an analyst covering the Information Technology sector to further enrich her experience through equity research and valuation. Yahan is currently working towards the CFA designation.

Professional Experience

- Rotational Analyst
  Citigroup, Shanghai (Summer 2021)
- Investment Banking Summer Analyst
  CITIC Securities, Shanghai (Summer 2020)

Materials
Equity Analysts

Harsh Tulsiani

Harsh Tulsiani was born in India. Prior to Joining McGill, Harsh obtained a Bachelor's degree in Mechanical Engineering from Pennsylvania State University. In his professional career, Harsh worked at KPMG India as an analyst in M&A Consulting in the Logistics and Transportation Industry. During his time there he developed a keen passion for Finance and thus decided to take on the MBA at McGill to pivot into a more finance centric role.

Professional Experience

- Executive Consultant
  KPMG India, Mumbai (Spring 2019)
- M&A Consulting Analyst
  KPMG India, Mumbai (Summer 2017)
- Technical Sales Representative
  Econocaribe Consolidators Inc., Miami, FL. (Summer 2016)

Keyliam Ngassa | Head of Quantitative Strategy

Keyliam Ngassa was born in Cameroon (Africa). Prior to joining McGill, she obtained her Bachelor's degree in mathematics and statistics from the university of Montreal with distinction. She is also pursuing a certificate of Machine Learning at McGill. Working at Desjardins' business department focused her interest in finance. Keyliam is interested in using her technical skills to contribute to the growth of the quantitative finance field. She enjoys traveling, reading books and learning new skills.

Professional Experience

- Business Development Specialist
  Desjardins

Materials

Equity Analysts

Tony Habis

Tony was born and raised in Byblos, Lebanon. Before joining the MMF program, Tony graduated with a BASc in Mining Engineering from the joint Coop program of Polytechnique Montreal and McGill University. Following his first internship experience, Tony became intrigued by the importance of finance and economics in the natural resources sector and discovered his passion to pursue a career in the mining financial advisory industry. At DCM, Tony leverages his mining experience in covering the Materials sector.

Professional Experience

- Investment Banking Summer Analyst
  Desjardins Capital Markets, Toronto (Summer 2021)
- Mining Operations Engineering Intern
  Stornoway Diamond Corporation, James Bay (Winter 2019)
- Project and Cost Management Intern
  Glencore Group, Montréal (Fall 2018)

Real Estate
Equity Analysts

Elaine Hu

Elaine was born and raised in Zhejiang, China. Before coming to McGill, she obtained an Honours Bachelor of Science with a double major in actuarial science and computer science from the University of Toronto. She is passionate about exploring how quantitative models and methods are improving the efficiency of financial markets. Elaine has enjoyed using her industry knowledge in covering the Real Estate sector at DCM.

Professional Experience

- Quantitative Analyst Intern
  Huaxia Bank, Ningbo (Summer 2018)
- Quantitative Analyst Intern
  Essence Securities, Ningbo (Summer 2017)

Hugo Badina

Hugo was raised in France and Spain where he spent much of his pre-university playing high level tennis. He then decided to fulfill his dream of studying in Canada where he obtained his BBA degree with a major in Finance and Business Analytics from HEC Montreal. His studies and involvement in various student communities at HEC have allowed him to discover a real passion for business and in particular for the financial world. As a result, through his experience at DCM, he is acquiring a particular expertise in the real estate sector in which he plans to work in the near future.

Professional Experience

- Treasurer
  NOVA HEC Montréal, Montréal (2019-2020)
- IT Assistant
  HEC Montréal, Montréal (Winter 2018)
- Accountant
  Go Concept, Lyon (Summer 2018)

Renewables
Equity Analysts

Dakota Zaharichuk | SRI Strategist

Dakota was born and raised in Edmonton, Alberta. Prior to McGill, Dakota spent time playing junior hockey in both Canada and the United States before pursuing a Bachelor of Business Administration with an emphasis in Finance from NAIT after he became interested in Finance through his readings on Warren Buffett. He has grown increasingly passionate about ESG and how these initiatives can impact firm performance. Dakota is currently a CFA Level II candidate.

Professional Experience

- Business Analyst
  i80 Group, Montréal (Summer 2021)
- Research Analyst
  LGK Wealth Management, Edmonton (2016-2020)

Nazim Baza

Nazim was born in Algeria and raised between Canada and France. He earned his Bachelor of Commerce degree with a major in Accounting from Université Toulouse Capitole I. He also obtained, with distinction, a Bachelor of Commerce with a concentration in Finance from Concordia University. Nazim is passionate about Economics, History, and the ways they influence financial markets.

Professional Experience

- Private Equity and Private Debt Intern
  Investissement Québec, Montréal (Summer 2021)
- Commercial Banking Associate Intern
  TD Bank, Montréal (Fall 2020)
- Analyst Intern, Strategy
  CDPQ, Montréal (Winter-Summer 2020)

Renewables
Equity Analysts

Neil Wiacek

Neil was born and raised in Brantford, Ontario. Before attending McGill, he graduated from Wilfrid Laurier University with a Bachelor of Business Administration (Finance). Throughout his undergraduate studies, Neil completed several co-op placements, which enabled him to discover a passion for capital markets. Those experiences led him to McGill's MMF program, where he has covered both the consumer staples and renewables sectors for DCM. Neil is currently a CFA level II candidate.

Professional Experience

- Research Analyst
  Alpine Macro, Montréal (Summer 2021)
- Analyst, Fundamental Credit
  OMERS Capital Markets, Toronto (Fall 2018)
- Staff Accountant
  Millards CPA, Brantford (Winter 2018)
- Financial Analyst
  Hendrix Genetics, Kitchener (Summer 2017)

Yehya Siddiqui, P.E. | Head of Risk Management

Yehya was born in a little valley in the Himalayas - Kashmir. He received his undergraduate degree in Civil Engineering from the University of Nottingham, followed by a master's degree in Coastal Engineering from the University of Florida. His passion for the world of finance stemmed from personal trading, and the desire to broaden his finance knowledge led him to pursue his MBA at McGill. His prior experience in designing coastal structures to prevent cities from climate change impacts led him to join the renewable energy equities team at DCM. Yehya is passionate about identifying undervalued growing companies making important contributions to reduce the impacts of climate change.

Professional Experience

- Investment Strategy and Risk Management
  BCI, Victoria (Summer 2021)
- Project Manager
  Taylor Engineering, West Palm Beach, FL. (2015-2021)
- Estimating Engineering
  Manson Construction, Jacksonville, FL. (2013-2015)

ANNUAL REPORT 2021

STRATEGIST REVIEW

2020 MARKET REVIEW & 2021 OUTLOOK

BRUCE CHEN, ALPHA SQUARED STRATEGIST
DAKOTA ZAHARICHUK, SRI STRATEGIST

DESAUTELS CAPITAL MANAGEMENT

2020 MARKET RECAP

2020 marked a year that defied expectations. The year finished much like it had started: stocks in a bull market, notching fresh all-time highs. This result came as a major surprise to many investors, including ourselves, considering the historic events that shook the world and drove the global economy into the deepest recession since World War II. What followed was an unprecedented stock market recovery. The S&P 500 and TSX rallied 70.2% and 58.3% from their March lows to finish the year up 18.4% and 4.7%, respectively. Global equity markets soared even past pre-pandemic forecasts, spurred on by enormous fiscal aid packages, unprecedented central bank liquidity injections, record low bond yields, and successful vaccine developments. This last point is truly a remarkable medical achievement and perhaps a reminder to never bet against human ingenuity.

Across sectors, there were significant shifts that played out over the course of the year. Market participants were quick to identify investment opportunities that would benefit from the new normal of remote work. The Technology sector was the clear winner, leading growth stocks to outperform value stocks by the widest margin in decades; although this trend began to reverse at the beginning of November following positive news on the vaccine front.

While Technology helped propel the overall market into positive territory, several sectors ended the year deep in the red. Energy was down 37% and 31% in the US and Canada, respectively, as slowing economic activity sent oil prices plunging. Figures 1 and 2 summarize the past 1, 5, and 10-year returns for S&P 500 and TSX sectors. Technology's 78% outperformance over Energy this past year represents the biggest spread between best and worst performing S&P 500 sectors since 2000 when the tech bubble burst and Utilities outperformed Telecom by 80%. Interestingly, and perhaps also of concern, is that the year prior, in 1999, Technology had outperformed Utilities by 90%.

Figure 1

	2020	5-year	10-year
S&P 500	**18%**	**103%**	**267%**
Technology	41%	220%	491%
Consumer Discretionary	30%	108%	350%
Communication Services	20%	48%	82%
Materials	17%	69%	75%
Health care	9%	59%	251%
Industrials	8%	65%	166%
Consumer Staples	6%	36%	135%
Utilities	-5%	55%	99%
Financials	-6%	53%	148%
Real estate	-7%	13%	13%
Energy	-37%	-34%	-42%

Figure 2

	2020	5-year	10-year
TSX	**6%**	**56%**	**75%**
Technology	55%	236%	494%
Consumer Discretionary	14%	39%	130%
Communication Services	-8%	13%	70%
Materials	19%	93%	-28%
Health care	-24%	-84%	-44%
Industrials	15%	95%	217%
Consumer Staples	3%	32%	229%
Utilities	11%	51%	43%
Financials	-3%	30%	68%
Real estate	-13%	9%	57%
Energy	-31%	-25%	-53%

Source: Bloomberg

2020 MARKET RECAP

While many businesses struggled to survive in lockdown conditions, total bankruptcies and proposals in North America were actually lower in 2020 than in 2019, partially due to government support programs. Another surprising development seen in 2020 was the decade high level of IPOs, with USD $331 billion raised across 1,591 listings – a 42% increase compared to 2019. Across sectors, Financials led the way with USD $108 billion raised, despite the fact that the sector was among the hardest hit by the pandemic and ensuing low-rate environment.

2020 also saw a remarkable rise of retail investing. While the global pandemic kept people indoors, and away from casinos and sporting events, it seems many turned to financial markets as an alternate source of gambling and entertainment. The rise in retail investment activity has been further propelled by an ideal storm of a bull market and the introduction of free online stock trading platforms from multiple online brokerages. According to Investor Economics, discount-online brokerages in Canada added 500,000 new accounts in Q1 2020 alone, representing a threefold increase to the usual growth pace.

As retail investors pour into markets, we must continue to pay close attention to their impact on stock prices. In many cases, retail investors care less about long-term capital appreciation and more about zeroing in on the hottest stocks of the day. In rising markets, pursuing short-term gains can be all too attractive, especially for novice market participants who have limited knowledge of the risks they are exposed to. Such inexperience, mixed with the possibility for large losses in these volatile markets, is a recipe for trouble. Once the excitement passes, this behavior can scare away retail investors, as witnessed following the Dotcom Crash. Going forward, we will continue to steer clear of so-called *meme stocks* as these are clearly inconsistent with our investment philosophy of selecting companies with strong long-term potential at attractive prices.

The biggest driver of a robust global economic recovery in the year to come is the ongoing distribution of COVID-19 vaccines. Although short-term headwinds challenge the wide-spread distribution of vaccines, this should be resolved in the coming months, making this the last wave of the virus. Wide-spread vaccination will enable economic re-openings in the coming months and elevated savings levels from significant fiscal stimulus has led to massive pent-up demand. Further contributing to this pent-up demand is the rally in housing and asset markets, which has also boosted wealth for many. It has been estimated that excess savings above pre-COVID trends equates to $1.4 trillion. This number currently excludes the $900 billion package passed in December, and the expected stimulus package likely to come in March. The additional stimulus will be fuelling an already accelerating economy. Corporations will also be on a spending spree as we expect inventory levels, capex spending, and M&A activity to all increase in the coming year. This is supported by growing CEO confidence, predictable trade policy, and low interest rates, making this a potent combination to fuel the economy.

Heading into the new year, investors need to be cognizant of the highs and lows from a turbulent year. Although we expect markets to move higher, we expected heightened volatility to persist – as well as the potential for more surprises. Some potential unknowns include how robust the economic recovery will be and the timing of another fiscal stimulus package. Additionally, higher inflation and bond yields have the ability to shock the markets and put downward pressure on valuations. Considering central banks, in particular the Federal Reserve, have commented on allowing inflation to run higher than the standard 2% target, this poses a significant risk in the coming years. This risk is something our analysts are very cognizant of and we will continue to monitor this development to ensure our funds are properly positioned.

Source: Bloomberg

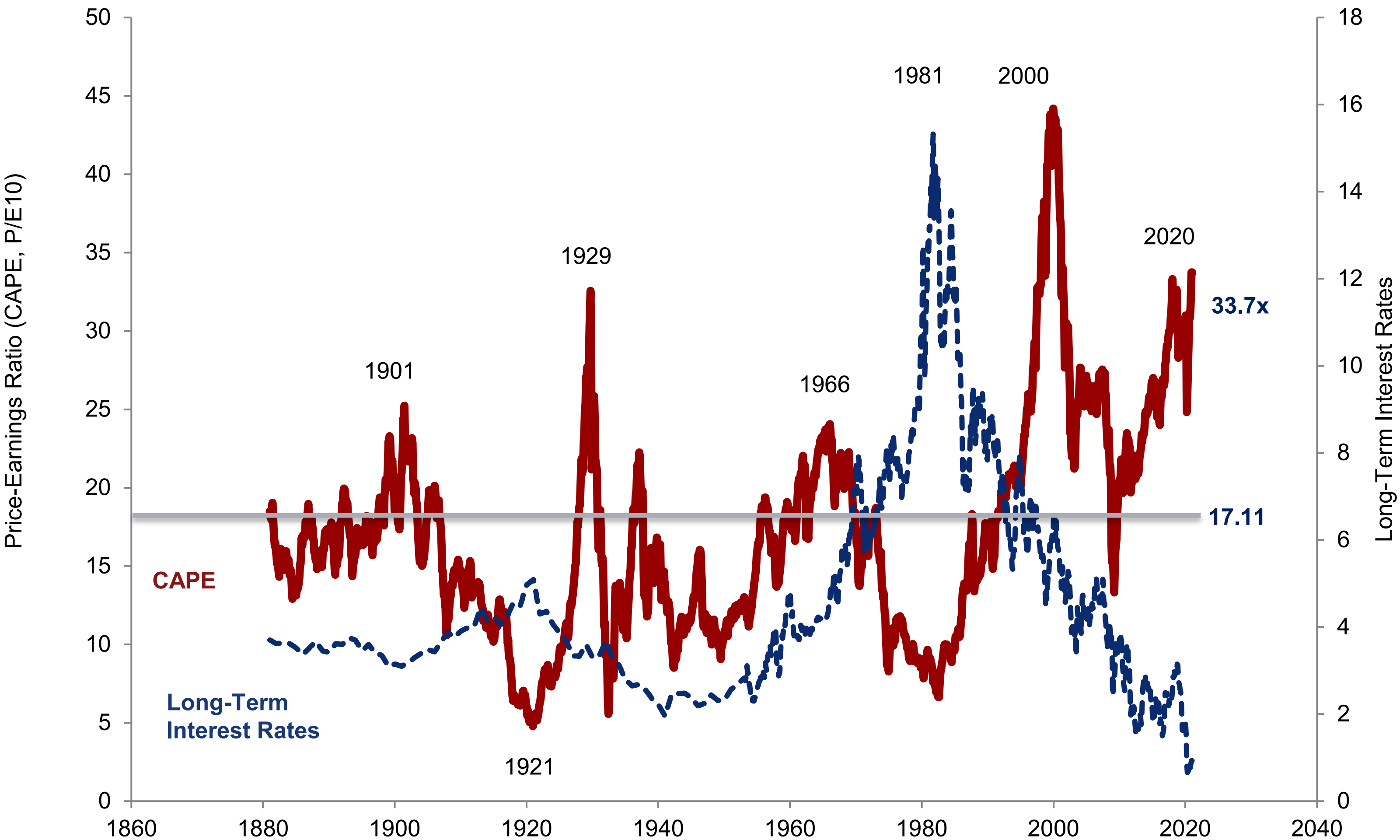
2021 MARKET OUTLOOK

VALUATION

Relative to historical averages, both the S&P 500 and TSX are trading at high valuations. At the end of 2020, the US index was trading at an all-time high LTM P/E of 30.1x. This exceeds even levels seen during the dot-com bubble and represents a 52% premium to its 20-year historical average. Meanwhile, the TSX was trading at 26.3x LTM P/E at the end of 2020, representing a 35.4% premium to its 20-year historical average. Moreover, when looking at the Cyclically-Adjusted P/E (shown in Figure 3), which uses earnings adjusted for inflation, over a 10-year period to smooth fluctuations in corporate profits that occur over different periods of the business cycle, we see the market is trading at a 96% premium versus its historical average.

Although LTM multiples are significantly higher than historical averages, they remain supported by a combination of low interest rates and high earnings growth prospects. Indeed, S&P 500 earnings are forecast to increase from lows of 122 to 220 by 2024. Thus, a P/E contraction to more normal levels in the coming years will be driven by a rising E, rather than a dropping P. To be sure, there is a fair bit of optimism currently priced into those 2024 S&P 500 earnings figures and any negative news regarding the vaccine or a change monetary policy could put significant downward pressure on the index. On the balance, we remain cautiously optimistic.

Figure 3



Source: Bloomberg

2021 MARKET OUTLOOK

VALUE VS GROWTH

The value effect is a well-known anomaly in finance: over the very long-run value stocks have outperformed growth stocks on a risk adjusted basis. But this anomaly has been turned on its head in the past few years. In 2020 the Fama-French Value minus Growth portfolio returned -47%, its worst performance on record going back to 1927. Interestingly, the second worst year for the value factor was in 1999, which preceded the factor's best-ever year in 2000 when the tech bubble burst. While we are not forecasting a tech crash, we do believe that current market conditions favour a continued value rotation. Moreover, valuation spreads between value and growth recently hit record levels with the Price-to-Book ratio of the MSCI World Growth index exceeding that of the MSCI World Value index by 2.5 standard deviations from the median. Historically, such extreme valuation gaps were followed by strong value outperformance. Observing ETF flows, value saw inflows in November and December amounting to roughly $8 billion and $5.6 billion, respectively. Investors have become optimistic about an economic recovery as value stocks typically outperform coming out of recessionary environments. This is a trend we believe will persist through 2021. The global recovery, and higher bond yields will also provide support for both value and cyclicals. Bank stocks should also benefit from higher net interest margins as the yield rises and steepens, and from stronger revenues as credit growth improves.

SMALL VS. LARGE CAP

As the pandemic unfolded in H1 2020, large cap stocks initially outperformed small cap stocks as investors felt large cap companies would be better suited to navigate the ensuing economic turbulence. But just as value started outperforming growth in Q4, so did small cap vs large cap, so much so that the Fama-French Small-minus-Big portfolio ended 2020 up 13.1%. ETF flows in the U.S. also favoured small caps, with December small-cap inflows reaching $7 billion while the top 3 ETFs following the S&P 500 saw outflows amounting to $12.1 billion. But will this small size rotation continue in the years to come? History suggests it will. Table 4 shows that historically small-cap stocks were the biggest beneficiaries coming out of recessions – and we see no reason why this would change in the current economic environment.

Figure 4

	Return Year-1		Return Year-2	
Bear Market - End Date	**Large Caps**	**Small Caps**	**Large Caps**	**Small Caps**
Jun-32	162%	316%	-7%	2%
Mar-35	84%	143%	24%	44%
Apr-42	61%	148%	7%	16%
Jun-49	35%	35%	28%	30%
Oct-57	31%	47%	16%	19%
Jun-62	31%	31%	22%	19%
Oct-66	21%	75%	14%	39%
May-70	35%	43%	13%	8%
Oct-74	26%	33%	20%	37%
Mar-78	20%	29%	6%	7%
Aug-82	44%	73%	6%	-6%
Dec-87	17%	25%	32%	16%
Oct-90	33%	59%	10%	9%
Oct-02	21%	43%	9%	12%
Mar-09	50%	63%	16%	26%
Average	**45%**	**78%**	**14%**	**19%**
Prob. of Outperformance		**87%**		**67%**

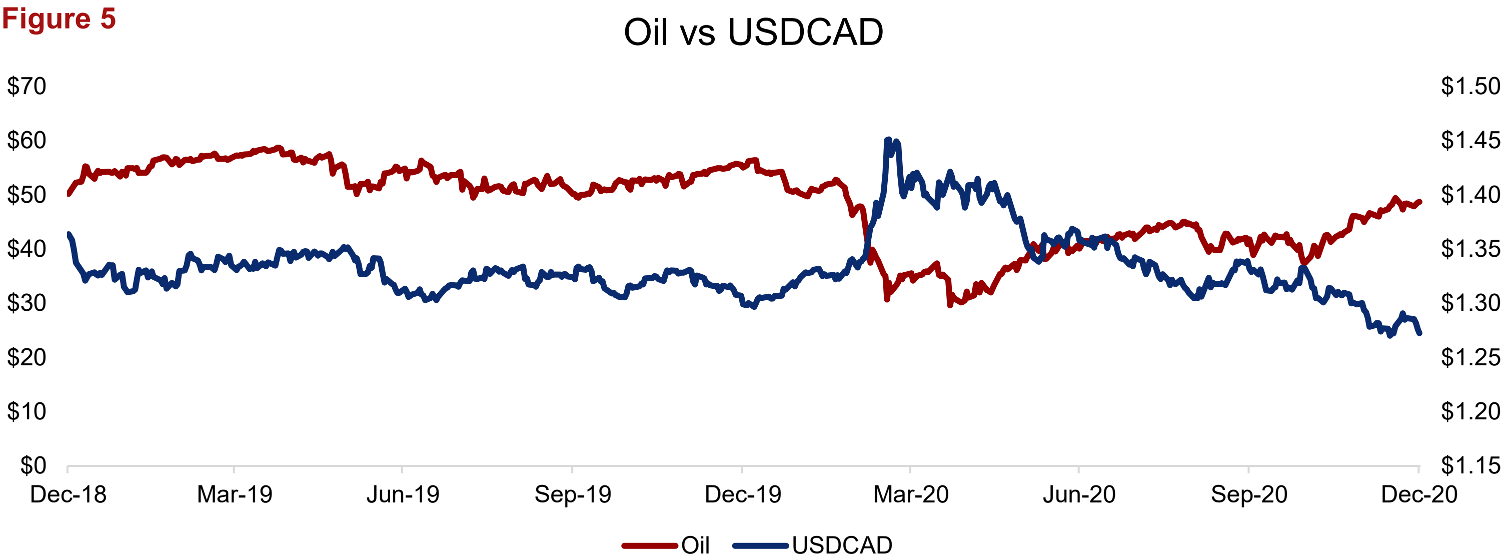
Source: Bloomberg

2021 MARKET OUTLOOK

CURRENCY

As markets and oil demand crashed in March 2020, so did the Loonie with USDCAD reaching as high as 1.45 (shown in Figure 5). Since then, oil prices have recovered and so has the Loonie. But while oil prices have recovered to pre-pandemic levels, the Loonie has rallied even further and is currently 5% stronger than it was prior to COVID-19. This additional gain can be explained by the exceptionally loose monetary policy employed by the Fed who have committed to near-zero rates for the foreseeable future, even if inflation exceeds 2%. Going forward, we expect continued USD weakness vs the Loonie based on i) favourable oil prices, particularly given recent inventory numbers, ii) continued loose monetary policy at the Fed vs that at the BoC, and iii) continued rotation away from the safe-haven USD as market sentiment improves. Of course, conditions can change quickly, so it will be important to monitor these factors throughout the year.

Figure 5



CONCLUSION

There are several risk factors that could negatively impact our optimistic market outlook. Any negative COVID surprise, like vaccine deployment delays or vaccine resistant variants could easily derail the economic recovery and spook markets. While we view the probability of this risk factor as low, the impact could be severe. As noted previously, market valuation multiples are currently high by historical standards and a lot of earnings growth is required to justify current valuations. But we do believe strong growth is coming as the effects of the pandemic and lockdowns start to fade. Furthermore, a broad-based recovery would expand the range of industries that would benefit, ultimately broadening out the gains within the market from IT and E-Commerce to include cyclical sectors like Energy, Materials, and Industrials. Indeed, we expect the overall market will see new record highs in 2021 as the lagging sectors play catch up to the industries that were propelled forward by the pandemic.

Finally, looking beyond the post covid recovery, it is important to also think about what lies even further ahead. Will the years to come be structurally different than what has been observed in the past? Will we see a higher growth trajectory, driven by a new fiscal monetary paradigm? Or will we observe stagflation, propelled by high debt levels, aging demographics, and digital disruption? While our focus will continue to be on bottom-up fundamental analysis, these are some of the important questions that we will have in the back of our minds as we try to determine which companies are likely to emerge as winners in the years to come.

Source: Bloomberg

ANNUAL REPORT 2021

ALPHA SQUARED EQUITY FUND

2020 REVIEW & 2021 OUTLOOK

BRUCE CHEN
FUND STRATEGIST

DESAUTELS CAPITAL MANAGEMENT

2020 PERFORMANCE SUMMARY & ATTRIBUTION

We are delighted to report that in 2020 the Alpha Squared Fund returned 13.4% gross of fees, compared to 9.3% for our blended benchmark (60% S&P TSX, 40% S&P 500 in CAD). As of Feb 5, 2021, the Fund has an annualized return of 7.3% since inception (Feb 2017), underperforming the benchmark by 1.8%.

As a reminder, the Alpha Squared Fund selects stocks based on a combination of quantitative signals and fundamental analysis. The Fund invests primarily in high-quality equities in North America. Investment decisions are based on a variety of quantitative technical signals and bottom-up fundamental analysis. Top-down macro analysis may also be used to determine sector and country allocations.

Our outperformance in 2020 was mainly attributable to excellent stock selection and sector allocation. We benefitted from overweighting the utility/renewable energy sector by 6.6% and underweighting the financial sector by 9.6%. However, detracting from performance was our overexposure of 3.3% to the energy sector.

Out of 28 holdings in the Alpha Squared Equity Fund, 19 stocks outperformed their respective sector benchmark in 2020. Veeva Systems Inc, an American cloud-computing company focused on pharmaceutical and life sciences industry applications, was our best performer returning an astounding 93.6% in 2020, outperform its benchmark by 30.50%. Veeva is a company that benefited greatly from the work from home culture created by the pandemic as demand for cloud computing spiked.

MSCI Inc., an American finance that serving as a global provider of equity, fixed income, hedge fund stock market indexes, multi-asset portfolio analysis tools and ESG products, was our second best performer in 2020. The stock went up 74.39%, despite the Financial Sector had incurred a -1.76% loss in 2020, outperformed its benchmark by 76.15%

We also had some positions that we hit hard by Covid like TC Energy and the Texas Based Valero Energy Group. However we are not as concerned as the return is in line with the energy sector which has been hit the hardest over the past 8 months. This is not surprising as Energy was the worst performing sector in 2020. TC Energy' share price went down 20.75% in 2020 and Valero Energy Group's share price went down 35.60% , while the energy sector is down 33.68% over the same period.

TC Energy is a major North American energy company, that develops and operates energy infrastructure in Canada, the United States, and Mexico. The company operates three core businesses: Natural Gas Pipelines, Liquids Pipelines and Energy. Valero Energy Corporation is a Fortune 500 international manufacturer and marketer of transportation fuels, other petrochemical products, and power.

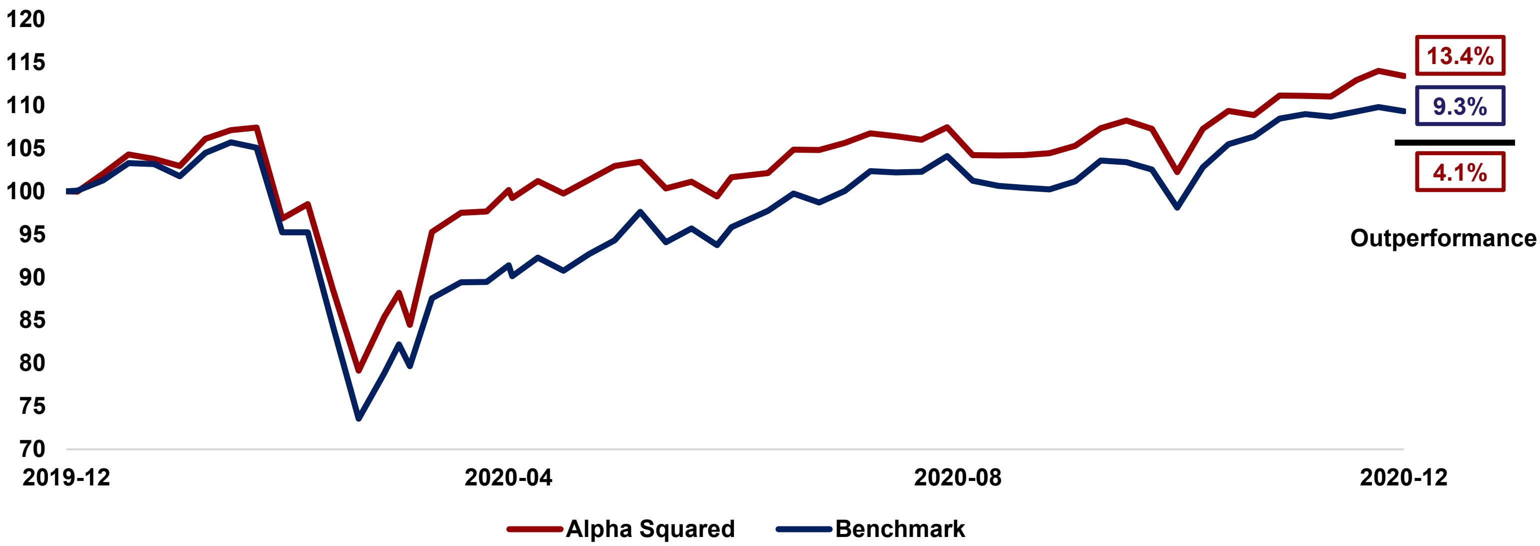
Looking ahead, we believe our portfolio is well positioned for 2021. We continue to hold positions where our investment theses have not yet fully materialized and where we see continued upside potential. Most recently we added the following names to the portfolio: Danaher, RBC, Lundin Mining and Equinix. Full details on individual holdings are provided in the sector sections of the Annual Report. Risk management and quant screening are also vital parts of our investment process. A complete analysis is provided in the Risk Management and Quant Strategy sections that follow.

Bruce Chen
Strategist, Alpha Squared Fund

Source: Bloomberg

2020 PERFORMANCE SUMMARY & ATTRIBUTION

Figure 1: Alpha² Equity Fund 2020 Returns vs. Blended Benchmark



*Benchmark: 60% TSX TR index & 40% S&P 500 TR index

Figure 2: Alpha² Risk & Performance Metrics

Alpha² Return VS. Benchmark Return			
Period	Gross Return	Benchmark	Outperformance
Since Inception	7.6%	9.3%	-1.8%
2020	13.4%	9.3%	4.1%
Q4 2020	7.7%	8.0%	-0.3%
Q3 2020	3.6%	5.6%	-2.0%
Q2 2020	15.2%	16.6%	-1.4%
Q1 2020	-11.8%	-17.8%	6.0%
2019	18.5%	23.3%	-4.8%

Annualized Risk Metrics 2020 YTD		
	Alpha²	Benchmark
Standard Deviation	25.98%	26.20%
Sharpe Ratio	0.53	0.11
Beta	0.96	-
Alpha	2.5%	-
Tracking Error	6.6%	-

Source: Bloomberg

2020 PERFORMANCE SUMMARY & ATTRIBUTION

Figure 3: Alpha² Over/Underweight per Sector

Sector Allocation-Alpha Squared Equity Fund			
Sector	**A2 Equity Fund**	**Benchmark**	**+/-**
Utilities	11%	4%	7%
Consumer Staples	9%	5%	4%
Energy	11%	8%	3%
Real Estate	4%	3%	1%
Health care	7%	6%	1%
Consumer Discretionary	7%	7%	0%
Communication Services	7%	7%	0%
Information Technology	16%	18%	-2%
Industrials	7%	11%	-3%
Materials	4%	9%	-5%
Financials	13%	22%	-9%

Figure 4: Size Exposure

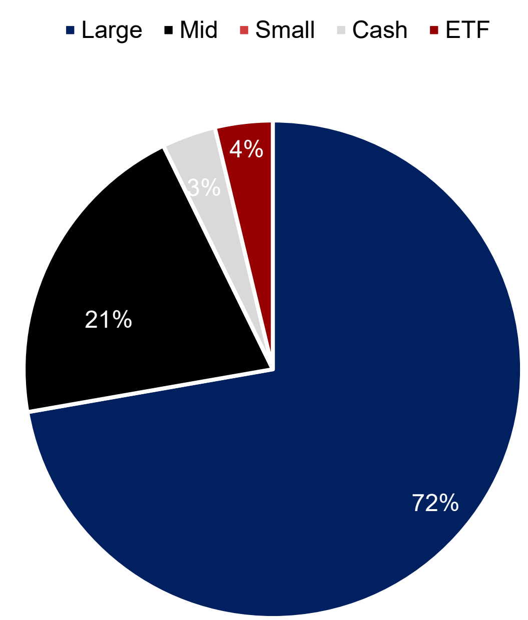
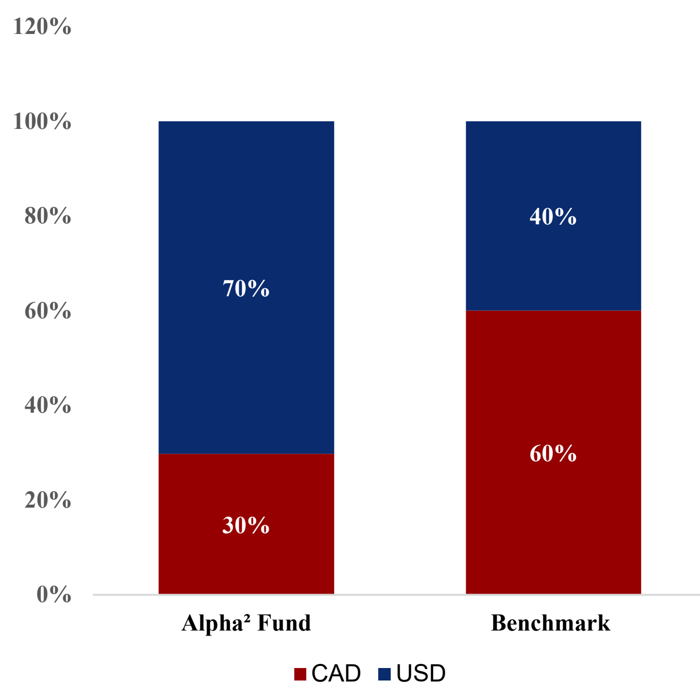


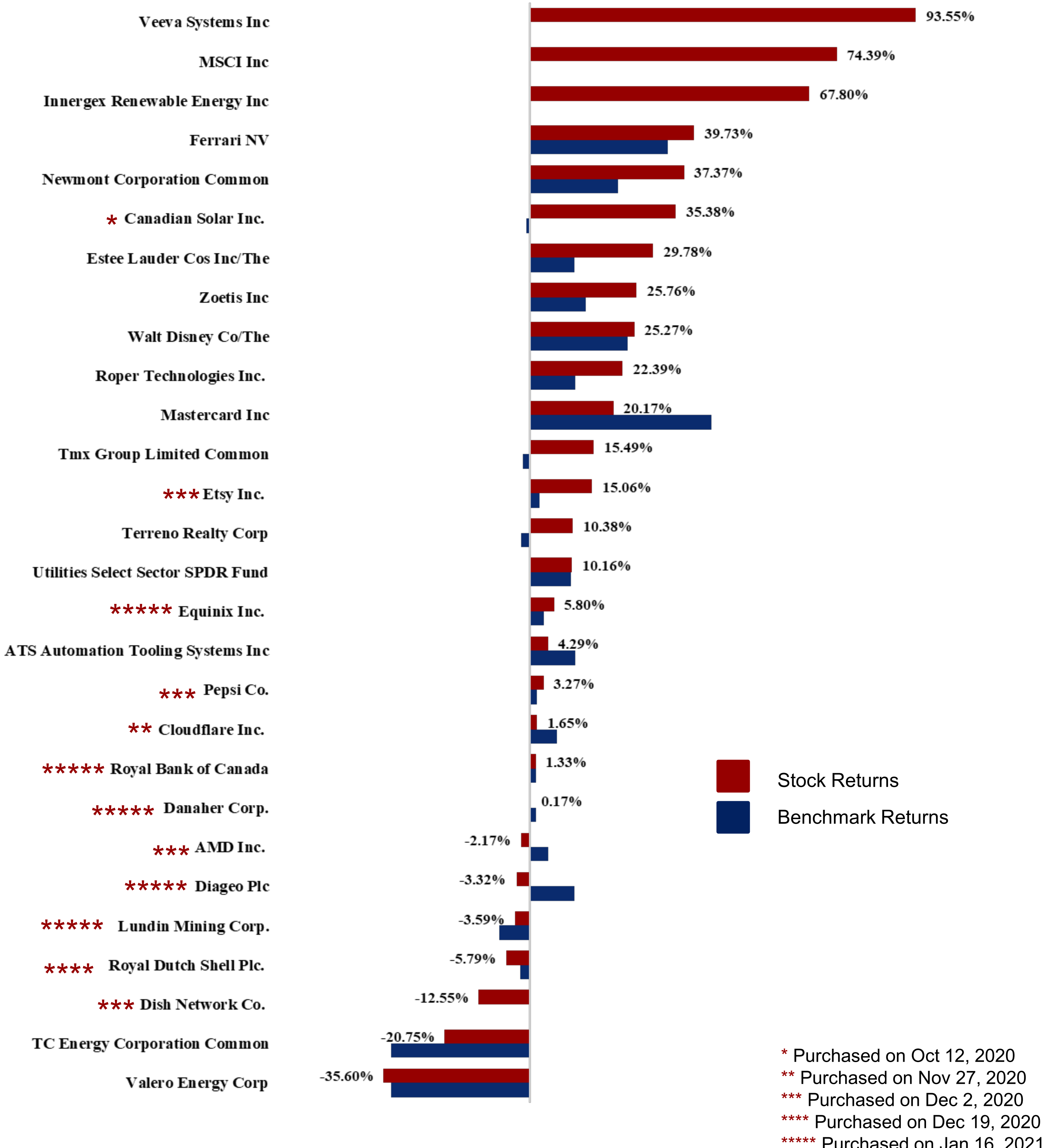
Figure 5: Currency Exposure



Source: Bloomberg, as of 31/12/2020

2020 PERFORMANCE SUMMARY & ATTRIBUTION

Figure 3: 2020 & Since Purchase Performance vs Sector Benchmarks



Source: Bloomberg

2020 PERFORMANCE SUMMARY & ATTRIBUTION

Figure 6: Alpha Square Equity Fund Holdings List

#	Bloomberg Code	Security Name	Sector	Currency	Size	# of Unit	Cost	Price	CAD Value	Weight
1	DISH US Equity	**Dish Network Co.**	Communication Services	USD	Large	1439	$36.12	$31.21	$57,289	2.50%
2	DIS US Equity	Walt Disney Co/The	Communication Services	USD	Large	464	$146.02	$181.16	$107,225	4.39%
3	ETSY US Equity	**Etsy Inc.**	Consumer Discretionary	USD	Large	336	$152.02	$231.12	$99,058	3.80%
4	RACE US Equity	Ferrari NV	Consumer Discretionary	USD	Large	288	$166.77	$202.68	$74,459	2.95%
5	DEO US Equity	Diageo Plc	Consumer Staples	USD	Large	330	$142.20	$162.82	$68,539	2.88%
6	PEP US Equity	**Pepsi Co.**	Consumer Staples	USD	Large	356	$145.88	$140.96	$64,012	2.48%
7	EL US Equity	Estee Lauder Cos Inc/The	Consumer Staples	USD	Large	210	$124.07	$272.81	$73,079	3.11%
8	VLO US Equity	Valero Energy Corp	Energy	USD	Large	1004	$67.59	$61.72	$79,045	3.52%
9	TRP CN Equity	TC Energy Corporation Common	Energy	CAD	Large	1519	$68.89	$55.15	$83,773	3.53%
10	RDS/A US Equity	**Royal Dutch Shell Plc.**	Energy	USD	Large	2000	$34.77	$37.48	$95,619	4.02%
11	RY CN Equity	**Royal Bank of Canada**	Financials	CAD	Large	770	$107.04	$106.68	$82,144	3.40%
12	X CN Equity	Tmx Group Limited Common	Financials	CAD	Mid	790	$85.56	$125.42	$99,082	4.03%
13	MSCI US Equity	MSCI Inc	Financials	USD	Large	229	$293.97	$429.81	$125,553	5.18%
14	DHR US Equity	**Danaher Corp.**	Health Care	USD	Large	340	$236.28	$235.59	$102,176	4.15%
15	ZTS US Equity	Zoetis Inc	Health Care	USD	Large	341	$128.15	$159.28	$69,284	2.94%
16	ATA CN Equity	ATS Automation Tooling Systems Inc	Industrials	CAD	Mid	4860	$21.25	$26.01	$126,409	5.67%
17	ROP US Equity	Roper Technologies Inc.	Industrials	USD	Large	90	$439.38	$404.95	$46,490	1.82%
18	AMD US Equity	**AMD Inc.**	Information Technology	USD	Large	775	$92.91	$87.90	$86,897	3.53%
19	NET US Equity	**Cloudflare Inc.**	Information Technology	USD	Large	1083	$71.00	$85.56	$118,199	4.62%
20	MA US Equity	Mastercard Inc	Information Technology	USD	Large	202	$298.57	$338.75	$87,286	3.50%
21	VEEV US Equity	Veeva Systems Inc	Information Technology	USD	Large	236	$138.69	$298.15	$89,756	3.79%
22	LUN CN Equity	**Lundin Mining Corp.**	Materials	CAD	Large	3750	$12.31	$12.16	$45,600	2.13%
23	NGT CN Equity	Newmont Corporation Common	Materials	CAD	Large	701	$42.40	$75.59	$52,989	2.06%
24	EQIX US Equity	**Equinix Inc.**	Real Estate	USD	Large	52	$670.60	$754.29	$50,033	1.83%
25	TRNO US Equity	Terreno Realty Corp	Real Estate	USD	Mid	533	$37.29	$59.93	$40,746	1.60%
26	XLU US Equity	**Canadian Solar Inc.**	Utilities	USD	Mid	1165	$58.09	$62.51	$92,341.02	4.47%
27	CSIQ US Equity	Utilities Select Sector SPDR Fund	Utilities	USD	ETF	1685	$38.10	$57.88	$124,406	3.74%
28	INE CN Equity	Innergex Renewable Energy Inc	Utilities	CAD	Mid	4444	$16.98	$29.43	$130,787	4.69%
29		CAD CASH	Cash	CAD			$69,808.30	37$1.00	$69,808.30	2.83%
30		USD CASH	Cash	USD			$16,310.88	$1.00	$20,806.16	0.84%
								Total	**$2,468,704**	**100%**

Source: Bloomberg

ANNUAL REPORT 2021

SOCIALLY RESPONSIBLE INVESTING FUND

2020 REVIEW & 2021 OUTLOOK

DAKOTA ZAHARICHUK
FUND STRATEGIST

DESAUTELS CAPITAL MANAGEMENT

2020 PERFORMANCE SUMMARY & ATTRIBUTION

The Desautels SRI Fund returned 31.0% in 2020, representing a 15.2% outperformance over our blended benchmark (80% S&P 500 Fossil Fuel Free in CAD and 20% TSX Fossil Fuel Free). As a reminder, the SRI Fund aims to invest in stocks of socially responsible companies where our fundamental analysis suggests potential for high risk-adjusted returns. After implementing a defensive tilt in early July, the Fund continued to show signs of resilience during periods of high market volatility, offering our investors excellent upside potential as well as downside protection.

Recently, we added the following names to the fund: AMD, Canadian Solar, Cloudflare, Danaher, Dish, Equinix, and RBC. Details on our individual holdings can be found in the Sector sections that follow. However, I will briefly comment on some of our best performing positions in 2020. Square and Okta continued their strong performance, outperforming their IT sector benchmark by 204% and 76.5%, respectively. Square is an American financial services, merchant services aggregator, and mobile payment company. The growth prospects around the company continue to remain favorable. The company's Cash App saw record downloads throughout the year as the trend toward digitalization continued. Moreover, Visa reported that debit activity was twice the rate that had been seen pre-COVID-19, which is a positive development for Square as interchange fees are lower on debit transactions, which will help boost gross margins.

Okta provides cloud software that helps companies manage and secure user authentication into modern applications. The company's cloud solutions were well-positioned for the transition to remote work that existed throughout the year and remains the de facto standard in Identity. We continue to expect robust growth from Okta in 2021.

The SRI Fund also continues to see strong performance in renewable energy positions with Boralex and Innergex returning 97.1% and 67.8% in 2020, respectively. The companies are involved in the development, construction, and operation of renewable energy power facilities that utilize wind, hydroelectric, thermal, and solar fuel sources. Boralex and Innergex both operate in Canada, France, and the US. The companies continue to secure new Power Purchase Agreements (PPAs) and are strategically positioned to capitalize on a rapidly growing industry. Additionally, our renewable energy holdings are positioned to capitalize on the Democrats' $2 trillion climate pledge. We continue to believe our holdings in this sector will further benefit from other government and company initiatives as the world moves towards carbon neutrality.

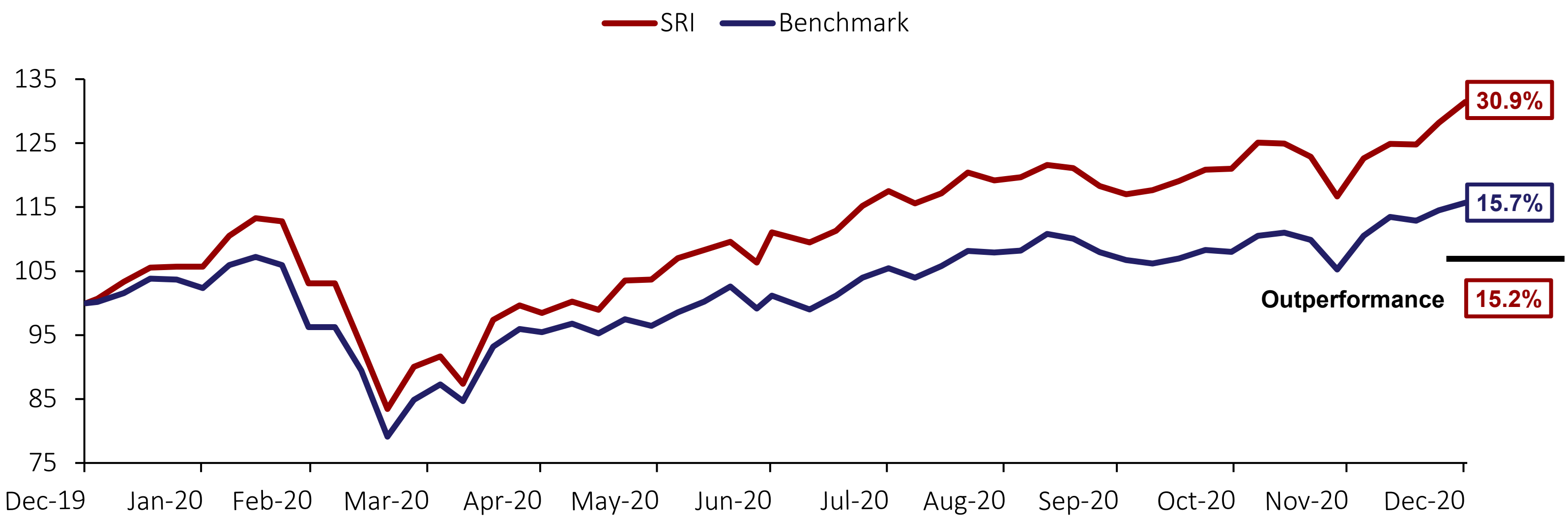
Most of our outperformance versus our blended benchmark was attributable to strong stock selection within sectors as shown in Figure 6. Sector weighting also played a role in our relative performance as we had been bullish and slightly overweight two of the best performing sectors, Renewable Energy and IT. Lastly, we remained aligned with our benchmarks currency allocation, which provided a neutral effect on the Fund.

Environmental, Social and Governance criteria remain cornerstones of the SRI fund. Our fund's performance this year is further evidence that investing in socially responsible companies need not detract from financial performance. Indeed, it may improve it! Further details on sustainability in the SRI fund are provided in a dedicated Sustainability section later in this Annual Report.

Dakota Zaharichuk
Strategist, SRI Fund

2020 PERFORMANCE SUMMARY & ATTRIBUTION

Figure 1: SRI Equity Fund 2020 Returns vs. Blended Benchmark



*Performance is gross of fees. Benchmark: 80% S&P 500 Fossil Fuel Free Index (measured in CAD) and 20% S&P/TSX 60 Fossil Fuel Free Index

Figure 2: SRI Risk & Performance Metrics

Portfolio Return VS. Benchmark Return			
Period	**Gross Return**	**Benchmark**	**Outperformance**
Since Inception	15.0%	11.3%	3.8%
2020	31.0%	15.8%	15.2%
Q4 2020	8.4%	6.9%	1.5%
Q3 2020	8.6%	7.1%	1.5%
Q2 2020	21.4%	15.9%	5.5%
Q1 2020	-8.3%	-12.7%	4.4%
2019	20.7%	25.3%	-4.6%

Annualized Risk Metrics 2020		
	SRI	**Benchmark**
Standard Deviation	25.6%	23.5%
Sharpe Ratio	1.17	0.62
Beta	1.06	-
Alpha	11.7%	-
Tracking Error	6.6%	-

Source: Bloomberg

2020 PERFORMANCE SUMMARY & ATTRIBUTION

Figure 3: SRI Over/Underweight per Sector

SRI Equity Fund - Sector Allocation			
Sector	**SRI Equity Fund**	**Benchmark**	**+/-**
Utilities	17%	3%	14%
Real Estate	6%	2%	4%
Consumer Staples	7%	7%	0%
Health Care	12%	12%	-1%
Consumer Discretionary	8%	10%	-2%
Communication Services	8%	10%	-2%
Energy	0%	3%	-3%
Information Technology	22%	25%	-3%
Industrials	5%	9%	-4%
Materials	0%	5%	-4%
Financials	9%	15%	-6%

Figure 4: Size Exposure

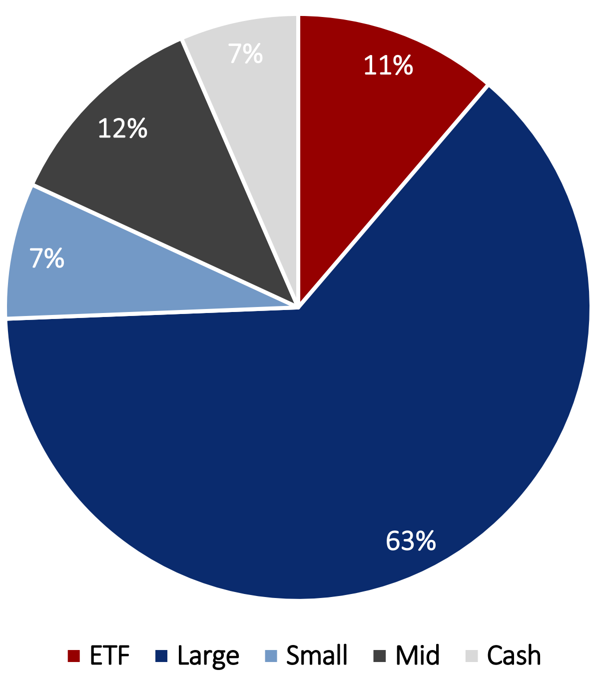
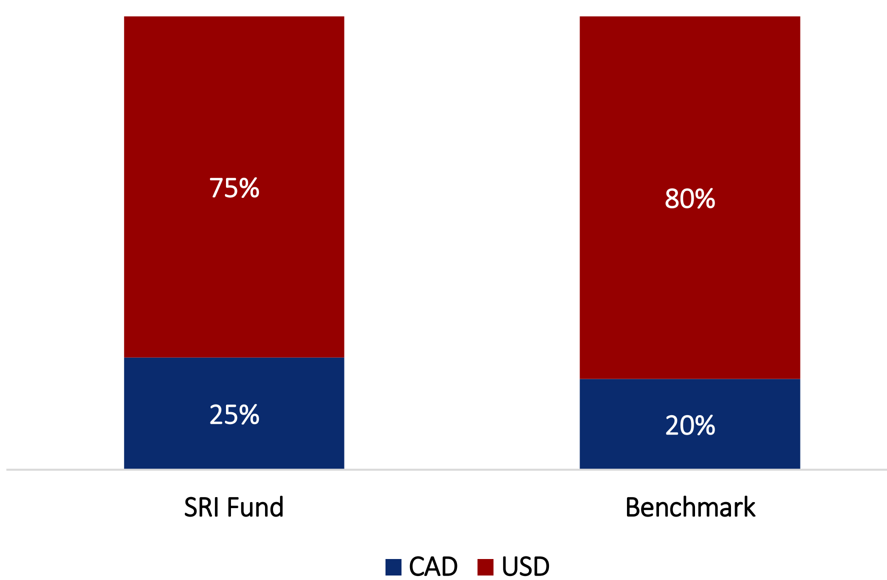


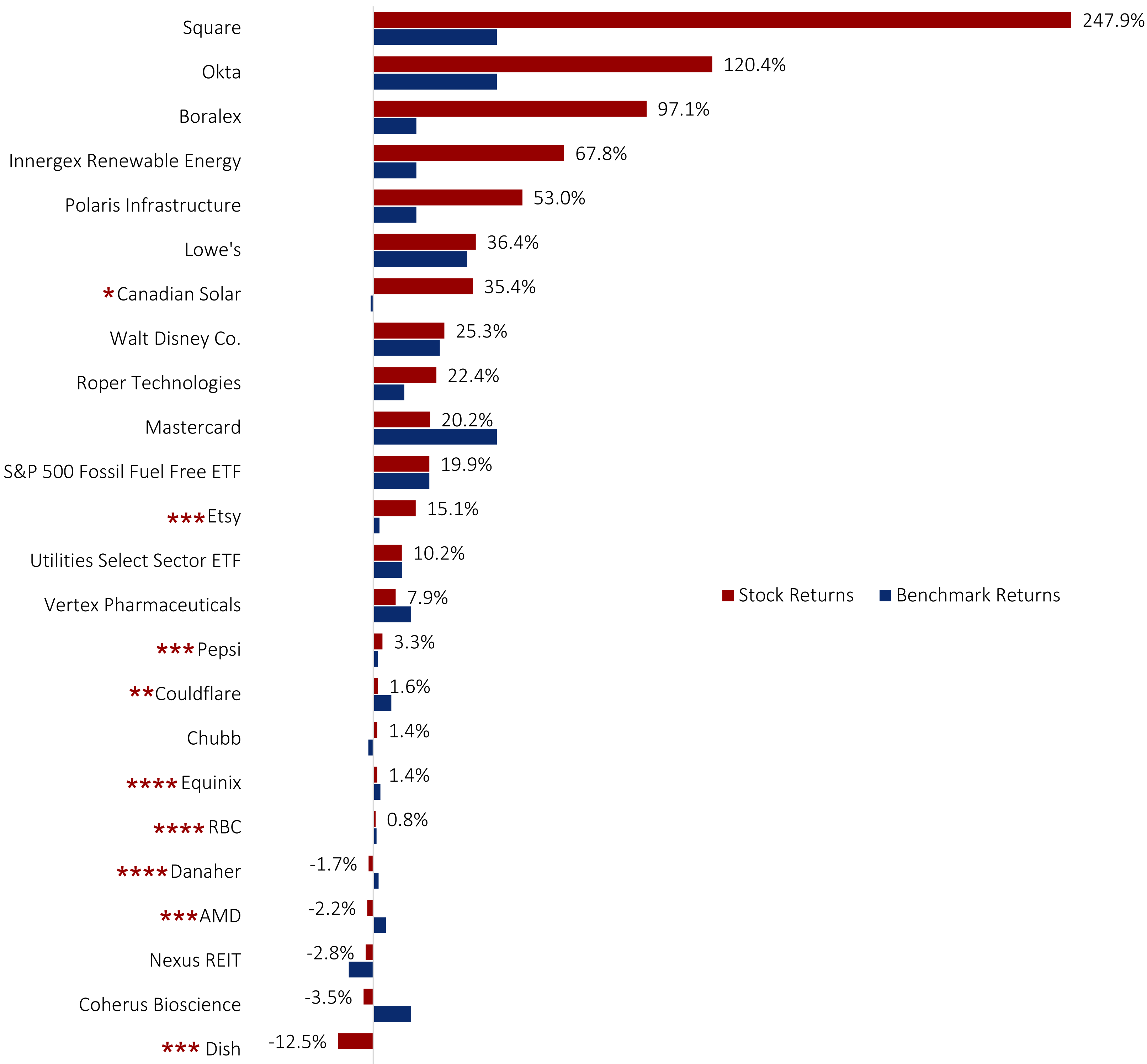
Figure 5: Currency Exposure



Source: Bloomberg

2020 PERFORMANCE SUMMARY & ATTRIBUTION

Figure 6: 2020 & Since Purchase Performance vs Sector Benchmarks



* Purchased on Oct 12, 2020
** Purchased on Nov 27, 2020
*** Purchased on Dec 2, 2020
**** Purchased on Dec 21, 2020

Source: Bloomberg

2020 PERFORMANCE SUMMARY & ATTRIBUTION

Figure 7: 2Holdings Report

					Local Currency			
#	**Security Name**	**Sector**	**Size**	**# of Units**	**Cost**	**Price**	**CAD Value**	**Weight**
1	SPDR S&P 500 Fossil Fuel Reserves Free ETF	Real Estate	ETF	1,854	$69.81	$92.82	$219,447	7.83%
2	**PepsiCo Inc**	Consumer Staples	Large	994	$145.88	$141.39	$179,219	6.39%
3	**Danaher Corp**	Information Technology	Large	477	$225.78	$236.75	$144,008	5.14%
4	**Royal Bank of Canada**	Information Technology	Large	1,326	$103.61	$108.33	$143,646	5.12%
5	Lowe's Cos Inc	Market	Large	570	$111.21	$171.34	$124,541	4.44%
6	Roper Technologies Inc	Industrials	Large	230	$355.17	$411.62	$120,726	4.31%
7	Boralex Inc	Utilities	Mid	2,287	$24.74	$52.79	$120,731	4.31%
8	Cloudflare Inc	Information Technology	Large	1,205	$71.00	$77.85	$119,626	4.27%
9	Square Inc	Information Technology	Large	394	$71.73	$227.75	$114,428	4.08%
10	Utilities Select Sector SPDR Fund	Utilities	Large	338	$118.05	$252.99	$109,043	3.89%
11	**Canadian Solar Inc**	Utilities	Mid	1,600	$38.10	$51.27	$104,607	3.73%
12	Walt Disney Co/The	Utilities	Large	475	$146.02	$171.44	$103,845	3.70%
13	Nexus Real Estate Investment Trust	Real Estate	Small	47,810	$2.00	$2.12	$101,357	3.62%
14	Mastercard Inc	Consumer Discretionary	Large	240	$297.41	$323.26	$98,933	3.53%
15	DISH Network Corp	Utilities	Large	2,329	$36.12	$33.12	$98,364	3.51%
16	Vertex Pharmaceuticals Inc	Healthcare	Large	340	$172.62	$225.55	$97,791	3.49%
17	Utilities Select Sector SPDR F	Utilities	ETF	1,196	$58.09	$62.99	$96,069	3.43%
18	Innergex Renewable Energy	Utilities	Mid	3,225	$16.98	$29.75	$95,944	3.42%
19	Chubb Ltd	Healthcare	Large	450	$132.55	$155.19	$89,054	3.18%
20	**Advanced Micro Devices Inc**	Utilities	Large	789	$92.91	$88.21	$88,751	3.17%
21	**Equinix Inc**	Industrials	Large	78	$703.76	$707.76	$70,398	2.51%
22	**Etsy Inc**	Financials	Large	259	$152.02	$204.42	$67,515	2.41%
23	Coherus Biosciences Inc	Consumer Discretionary	Small	2,780	$15.24	$17.73	$62,854	2.24%
24	Polaris Infrastructure Inc	Utilities	Small	2,687	$11.22	$18.60	$49,978	1.78%
25	U.S. Dollar	Cash	Cash	1,298	-	$1.00	$1,655	0.06%
26	Canadian Dollar	Cash	Cash	180,974	-	$1.00	$180,974	6.46%
						Total	**$2,803,504**	**100%**

Source: Bloomberg

SUSTAINABILITY

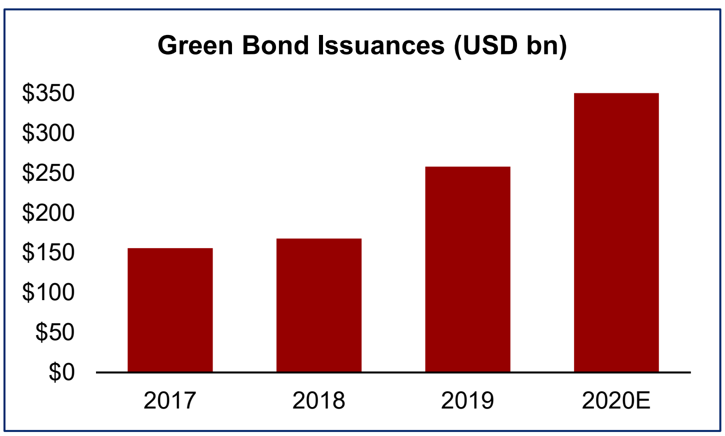
2020 REVIEW & 2021 OUTLOOK

COLE CORLETT-HEDLEY
CHIEF SUSTAINABILITY OFFICER

ESG INVESTMENTS

THE GROWTH OF GREEN BONDS

As countries continue to focus more on environmental, social, and governance (ESG) issues, the corporate world has also made large strides into integrating sustainable practices into their operations and undertaking environmental and social projects intended to help the company as well as provide benefits for the world. One of the methods used to fund these sustainable projects are the use of green bonds. Green bonds are bonds where the proceeds are used exclusively for the financing of green projects that provide clear environmental benefits. The growth in the green bond market has been especially prevalent over the past few years. From 2017 to 2019, green bond issuance grew from just over US$150 billion to US$260 billion and is projected to reach US$350 billion in 2020.



FINANCIAL ADVANTAGE OF GREEN BONDS?

Financial institutions and corporate entities have truly established their place as the major issuers of green bonds over the past couple years, making up approximately 60% of the issuance market. Given the high demand for green bonds, one might expect that they would be issued at lower yields compared to otherwise similar conventional bonds. But the empirical studies on this question are mixed.

HISTORY SINCE INCEPTION

While green bond yields tended to be issued at lower yields, between 10 to 45 bps, than their conventional counterparts, the variance of this still remained quite high. As one study showed, the volatility between issuers was over 27 bps therefore rendering the premium on green bonds to not be statistically significant. Additionally, another study examined municipal bonds that were issued by the same issuer at virtually the same time with identical risk. Tranches that were certified green were comparatively measured against non-green tranches. The resulting yield differences show that in 85% of cases, there was no difference in the yields of green bonds versus non-green bonds. The remaining 15% was split between lower yields for green bonds and lower yields for non-green bonds. This demonstrates that the perceived benefit of receiving lower yields from green bonds, may not actually be present in many cases.

RISK OF GREENWASHING IN GREEN BONDS

As the popularity in green bonds continues to grow and the expectations that firms invest in sustainable practices rises, there is an increased risk in companies getting involved in greenwashing which is the process of providing a false impression of your green credentials. Companies may do this by issuing green bonds and using the proceeds for projects that may not truly align with material ESG related issues. This can occur as the company either aims for lower yields on their bonds or to simply alter sentiment about their firm's sustainability. As one study has shown, up to 15% of green bonds were found to fail their minimum criteria for assessing these bonds.

ESG INVESTMENTS

In order to tackle this problem, there needs to be a remedy to the lack of consistency in sustainability related disclosures. Thankfully, the big four accounting firms have recently developed ESG reporting standards that they are aiming to have in place for the 2021 reporting period. With the integration of standardized reporting, the consistency and comparability of disclosures will improve and help invalidate the greenwashing issuers.

NOTABLE GREEN BOND ISSUERS

The firms listed below include some of the largest green bond issuers of 2019. The table indicates the amounts issued and the use of those proceeds.

Issuer (Amount USD)	Use of Proceeds
Apple ($2.2 Billion)	For low carbon design and engineering, energy efficiency projects, renewable energy development, carbon mitigation, and carbon sequestration. (Implement 100% recycled alloy in Mac and MacBook computers)
ENGIE ($4.6 Billion)	Dedicated for renewable energy projects, maximizing energy efficiency on established sites, and clean mobility projects. (Developing solar and wind farms in Europe and NA)
TenneT ($1.9 Billion)	Used for transmission of renewable electricity from offshore wind farms to onshore grids. (Offshore wind farm off north German coast)
NEXCO 東日本 ($1.4 Billion)	Projects to reinforce seismic resistance, address highway infrastructure, and reduce carbon emissions. (Redesign highway to reduce emissions from traffic jams)

HYBRID METRICS

Financial reporting has evolved over decades to allow corporations and investors to assess the profitability of an enterprise. Environmental, Social and Governance (ESG) reporting, however, is still in its infancy. Indeed, very few companies reported ESG data to shareholders until a few years ago. Recently, hybrid metrics, which combine ESG performance with standard measures of financial performance, have started to gain traction.

These new metrics allow investors to assess company profitability relative to their ESG impact and could incentivize companies to improve their internal decision-making framework to optimize both social and financial outcomes.

INDUSTRY SPECIFIC METRICS

Just as with standard profitability metrics, different hybrid metrics are also being developed for different industries. EBITDA/Carbon intensity for the electricity industry aims to determine the most profitability decarbonizing firm, whereas. EBITDA/Contribution to Daily Adjusted Life Years could be relevant for the medical devices' subindustry. The table below summarizes other interesting industry specific hybrid metrics.

LIMITATIONS AND IMPLEMENTATION OBSTACLES

The successful adoption of hybrid metrics still faces a number of obstacles, including quantification, disclosure, reliability, and manipulation. Metrics like Daily Adjusted Life Years or Financial Well-being are inherently difficult to quantify and thus subject to misreporting and manipulation.

Interpretation and consistency of metrics across companies may also prove problematic due to heterogeneous operating models, even for companies within the same industry. Additionally, firms are not currently required to report ESG metrics. And if they do, they could be subject to litigation if disputes arise over the accuracy of those metrics.

Despite the above limitations, we expect hybrid metrics will become more reliable as standards of best practice emerge. As such, these metrics will grow in popularity as a useful tool to assess company ESG and financial performance.

ESG INVESTMENTS

While of particular interest to Socially Responsible Investors, conventional investors would also be wise to incorporate at least some of these metrics in their valuation models. For example, one could argue that, all else equal, a company with a higher EBITDA/Carbon intensity ratio should trade at a lower EV/EBITDA ratio since the firm with the higher carbon intensity would be at risk of future costly regulatory changes. Indeed, this is an area of research we plan to pursue at DCM in order to satisfy our dual mandate of identifying socially responsible companies that will provide our investors with high risk adjusted returns.

Potential hybrid metrics – ideas for various sectors

Sector	Metric
Energy	EBITDA/CO_2 Intensity
Crop Nutrition	EBITDA/yield per hectare
Retail	Cost of goods sold/value of waste avoided
Pulp & Paper	Revenue/tons of CO_2 sequestered
Medical Devices	EBITDA/contribution to daily adjusted life years
Service Industries	EBITDA/percent of workforce above living wage
Industrial Production	Cost of raw materials/tons of recycled plastics used
Financial Services	Revenue per customer/financial wellbeing

MACROECONOMIC THEMES

2020 REVIEW & 2021 OUTLOOK

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CHIEF ECONOMIST

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ANDY YU
HUGO BADINA, NOAH ITOVITCH
MARC-OLIVIER LÊ
DAHUI SUN, AUDREY WU

ECONOMIC ACTIVITY INDICATORS
LABOUR MARKET
INFLATION
CENTRAL BANK
FISCAL POLICY

2020-2021 MACRO THEMES

OVERVIEW

- Weakened consumption in the services sector, negative non-farm payroll growth and rising cases of COVID-19 cases have led to 3.5% YoY US GDP contraction

- While PMI posted 7 straight months above 50 indicating manufacturing flexibility, growth potential is a limited moving forward based upon labour market difficulties and restrictions

- Low velocity of money persists despite Fed fund rate dropping to 0.25% in March 2020. BoC adopts floating interest rate between 0% and 0.25% and unlikely to change in foreseeable future

- Inflation remains low despite initial worries that financial relief will drive prices upward; lack of spending and unemployment lead to estimates that inflation will not cross 2% until 2023

- Biden's plans on expanding stimulus packages and raising corporate taxes are already priced into the market, tackling growing debt levels and net debt deficit become a priority moving forward

- 10.7 million unemployed by end of 2020 coupled with prolonged inactive job-seeking behavior result in UR of 6.7%; Biden proposal to raise minimum wage to $15/hr in 2021

ECONOMIC ACTIVITY INDICATORS

Real GDP posted a year-over-year contraction of 3.5% in 2020, compared to the 2.2% increase in 2019. This is the first contraction in economic activity since 2009 and the largest drop in full year GDP since 1946. With the fourth quarter and 2020-year advance estimate release on January 28th, projections slate real GDP to increase at an annual rate of 4.0% in Q4 2020, compared to the record 33.4% increase in the third quarter. Continued rise of COVID-19 cases and subsequent restrictions on activity were the primary contributors to modified consumer spending causing a decrease in personal consumption and public expenditure, while business and housing investment remained robust, as did export levels. Non-farm payroll growth turning negative is another likely contributing factor to weakened consumer spending power. Personal consumption in Q4 increased at only a 2.5% annual rate missing many expectations and declining from the 41.0% rate in the third quarter, most notably seen in depressed services spending in December.

2020 saw consumer confidence decline significantly resulting from the pandemic. The February reading of 132.6 was quickly followed by April's low of 85.7. The index started to improve towards the end of Q3 rising above 100, but this trend ended abruptly as COVID infections hit record numbers and lockdown restrictions were implemented for the second time. The Index declined in both November and December to end the year with a reading of 88.6. Though it is important to note, the confidence index remained well above prior cyclical lows despite the sudden historic collapse in economic activity. Unparalleled monetary and fiscal support, along with positive vaccine developments likely contributing factors keeping confidence data above past recession lows.

PMI data gave a similar story. The index reported figures below 50 in March, April, and May indicating a contraction of the manufacturing sector, followed by 7 straight months above 50 which showed rising activity to end the year, the strongest growth since 2017. The manufacturing economy's steady recovery in the second half the year represents firm ability to adapt and operate in reconfigured factories to accommodate COVID protocols. However, until the pandemic subsides, manufacturing growth potential will be limited by these policies and labour market difficulties, which impede firms' ability to operate a maximum capacity.

Source: Bloomberg

2020-2021 MACRO THEMES

LABOUR

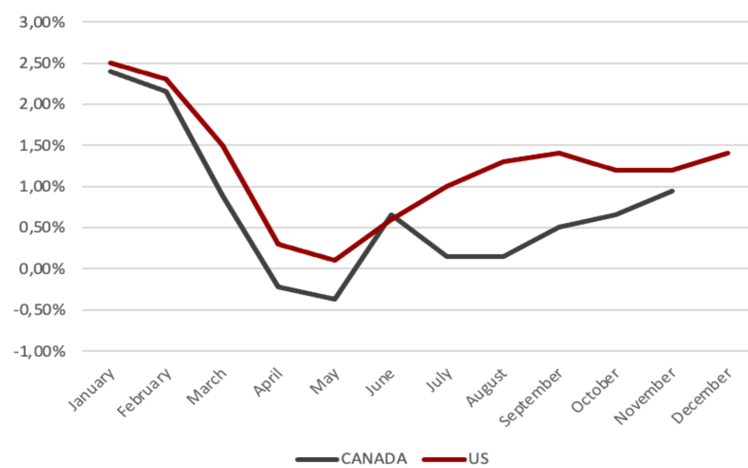
The ongoing pandemic has profoundly impacted the lives of millions of people. As of December 2020, the unemployment rate in the U.S. remained high at 6.7% showing a stagnant recovery in the labor market primarily due to the surge of new infection cases that snapped the hiring streak across the nation. The number of unemployed at the end of 2020 was 10.7 million with another 787,000 Americans filing for unemployment benefits. The labor participation rate was unchanged at 61.5%, a flat line for the past several months, further indicating prolonged inactive job-seeking behavior from the workforce. Within sectors, growing unemployment was concentrated in leisure and hospitality, mining, and extraction industries; however, other industries posted solid job gains to wrap up the challenging year.

As President Joe Biden inherited a tumultuous economy in 2021, the pace of accelerated hiring will be halted until a considerable number of vaccines get allocated to the general American population. The current distribution, however, is slower than expected and creates a potential impact to hold back on the recovery of the labor economy. The new virus strains brought to the U.S. are also expected to trigger extended lockdowns and restrictions that will hinder job hiring in the coming months. Within the context of unemployment, as most vaccinated Americans were essential workers and the elderly, this implies the job gains will remain flat in the immediate term. Biden administration unveiled another $1.9 trillion commitment to repair the shattered U.S. labor economy, with a new government proposal to double the minimum federal wage in 2021, this is expected to uplift the overall employment outlook and accelerate the economic recovery.

INFLATION

In response to the Covid-19 pandemic and the ensuing economic crisis which forced businesses to shut down for extended periods, the Bank of Canada and the Federal Reserve Bank have printed money to spend on the pandemic's relief. The expectation was that this unprecedented level of monetary stimulus would result in inflation. However, the pandemic also caused consumers to put off spending and led higher unemployment which hurt the economy. Therefore, the demand of good and services dropped or did not increased as intensely as expected leading to a level of moderated inflation. Notably, in the months of April and May Canada suffered its first deflation month (Figure 1) since September 2009. Additionally, in the United States, the CPI increased by only 1.4% in 2020, the smallest increase since the 0.7% increase in 2015.

Figure 1: 2020 Inflation Rate Evolution in Canada & USA



Looking ahead, in 2021 analysts are anticipating that macroeconomic forces will pull towards and against inflation with non-inflationary forces dominating in the short and intermediate terms. On the one hand, vaccination against Covid-19, leading to reopening of the economy is expected to drive an increase in consumer spending – particularly on services – leading to upward pressure on pricing. The flip side is that residual slack in the labor market from the pandemic should keep some downward pressure on wages. Ultimately, analysts are predicting that 2021 will be plagued with unwarranted inflation scares that would likely only materialize on a longer horizon.

Source: Bloomberg, StatsCan, Federal Reserve

2020-2021 MACRO THEMES

MONETARY POLICY: FED & 2020 MEASURES

To combat the contractionary forces of COVID-19, the Fed cut their policy rate from 1.75% to 0.25% in March 2020. At the same time, they announced a QE plan totaling $700 billion and in June, Chairman Powell announced that purchases would be maintained until further notice. Even with the rate cut, the United States posted in Q2 2020 the lowest velocity of money since the measure was first recorded back in the 1960s. The velocity of money is measured by the number of times a dollar moves from one entity to another. A low ratio means that consumption is disrupted, which signals a poor state of the economy. As of Q4 2020 this ratio stood at 1.147, compared to 1.104 for the prior quarter.

Following recent signs of rising inflation, rate hike expectations have been slightly pulled forward. Fed funds futures are pricing in an expected policy rate of about 25bp by Dec 2022, compared to a current effective Fed Funds rate of less than 10bps. The Fed also recently reiterated their commitment to low rates for the foreseeable future, which is anchoring expectations in the near term. But the evolution of the policy rate over the longer term remains a very open question. Indeed, both the 10-year and 30-year yields are up about 50bps YTD. In fact, the Fed could soon find itself in the awkward position where the more it commits to stimulative low rates in the short-term, the more long-term inflation gets priced in, leading to higher long-term yields. A rise in long-term yields could be problematic for economic activity, the housing market, and could also exert significant downward pressure on equity market valuations. Long-term inflation expectations will perhaps be the most important macro theme to monitor in 2021 and beyond.

MONETARY POLICY: BOC & 2020 MEASURES

As in the US, the Canadian Central Bank was forced to cut rates from 1.75% to 0.25% in March 2020. QE was also used by the BoC to lower interest rates with purchases of up to $4 billion per week. Currently the policy rate is set to a range of between 0% and 0.25%. Moreover, the recently appointed governor of the Central Bank, Tiff Macklem, mentioned in November 2020 that negative interest rates could be targeted if the health of the Canadian economy further deteriorated. A negative policy rate is, however, currently viewed as unlikely.

FISCAL POLICY: UNITED STATES

With the fed funds rate reaching a historically low point in response to the economic slump brought by the pandemic, a set of stimulus packages have also been rolled out to ease the pressure felt by American households. With new stimuls, growing concerns around the worsening debt burden and widening of the net debt deficit remain open questions. Despite these red flags, as some parties have pointed out, most Americans support the stimulus policy. The Democratically controlled Congress and the newly elected U.S. president Joe Biden will likely raise corporate tax rates and levy new costs on corporations to raise more revenue and invest in social programs going forward. The FOMC announced that they will keep the interest rate at around 0.1% until inflation reaches 2%, which is not predicted to happen until 2023 at the earliest. Overall, we expect the Treasury and the Fed will continue to spend more and maintain a low interest rate throughout 2021 to help the fragile economic recovery.

FISCAL POLICY: CANADA

As reported by the IMF, Canada's budget has deteriorated the most in the Group of 20 this year due to extensive fiscal intervention. Statistics Canada and the Parliamentary Budget Office (PBO) also predict that total government net debt will reach historical highs in 2021 and only gradually decrease when economic activity approaches pre-crisis levels. The PBO also noted that fiscal policy is only sustainable at the federal level and has made plans to alleviate debt deterioration for provincial governments that cannot finance their stimulus rollouts in the long run. Monitoring government finances in Canada and in the rest of the world will also be important themes to monitor closely in the years to come.

Source: Bloomberg

ANNUAL REPORT 2021

QUANT STRATEGIES

2020 REVIEW & 2021 OUTLOOK

KEYLIAM NGASSA
HEAD OF QUANT STRATEGIES

DESAUTELS CAPITAL MANAGEMENT

QUANTITATIVE STRATEGY

QUANT AT DCM

The Alpha squared fund seeks to generate alpha using both quant screens and rigorous fundamental analysis. Over the years we have used a variety of signals, including pairs analysis, low volatility, leverage and earnings quality. Recently, we have been using a momentum screen.

In our research, we source ideas from practitioners and academic literature. We consider both well-established strategies as well as our own proprietary models. While candidate strategies must perform well in a rigorous back-test, we are cognizant that past performance is not always indicative of future performance. Thus, we aim to understand the market ineficiencies driving historical performance and whether those ineficiencies are likely to still be present and benefit the quant strategy going forward.

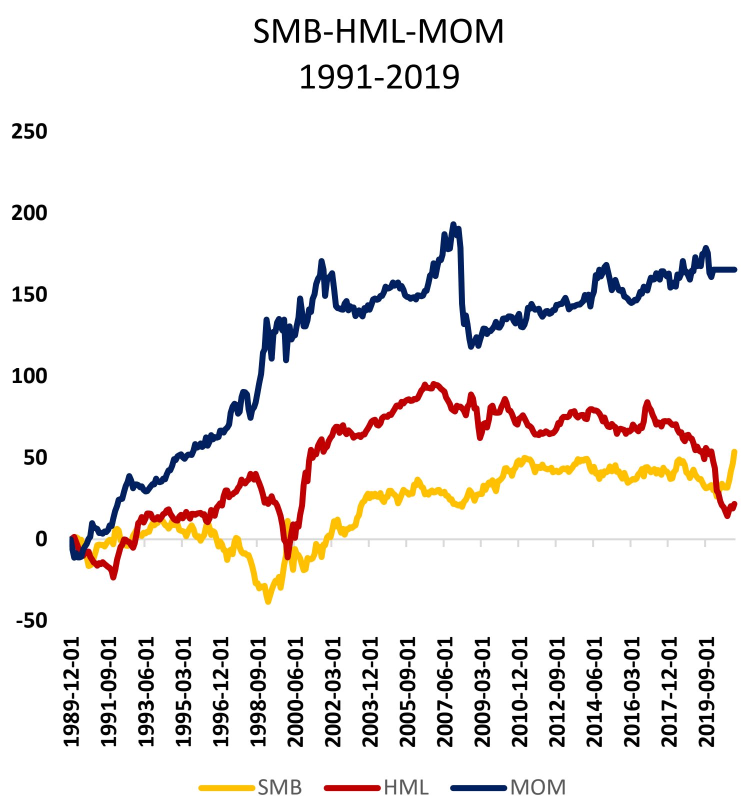
Our backtests are programmed with careful attention to how our design choices might introduce biases into our conclusions. We also ensure that the strategies do not conflict with our fund's mandate; that is, we produce long-only equity strategies with medium-to-low turnover.

In the implementation phase, we specify screening methodologies that each team of analysts use to focus their opportunity set when evaluating potential investments. Generally, this means specifying minimum relative scores in a given quantitative indicator above which a stock becomes eligible for selection. This is known as setting an "entry signal". We also derive "exit signals" from scores below which a stock must be sold. It is important to note that, while our exit signals are non-discretionary, a stock may still be sold under other conditions; our analysts may rule that the stock has reached its target price, or that the thesis underlying its purchase no longer holds.

MOMENTUM PERFORMANCE

Since fund inception, we have implemented and optimized a momentum filter. A momentum strategy looks at past returns in order to predict the cross section of future returns. The basic Idea of a momentum strategy is to buy stocks that have consistently been doing well and sell stocks that have consistently doing poorly. At DCM, we implement our long-only momentum screen by sector.

Over the last 30 years, Momentum (MOM) has outperformed other popular quant signals such as the Fama-French HML (Value minus Growth) and the SMB (Small minus Big) factors. The momentum strategy remains the most reliable and can also be enhanced using other signals such as price ratios and recent volatility.



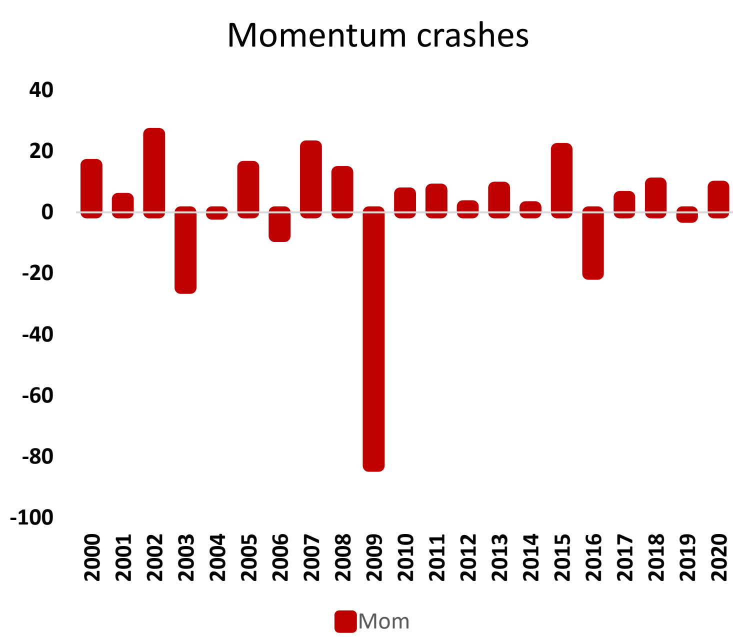
QUANTITATIVE STRATEGY

MOMENTUM PERFORMANCE

The strong positive average returns of momentum strategies are punctuated with occasional crashes. The momentum returns are negatively skewed.

One well know crash occurred from March to May 2009 when the past Losers decile portfolio rose by 163% and the past Winners decile portfolio gained only 8%. Following the financial crisis, the momentum strategy, along with many traders, were short Financials. Thus, the sector's spectacular turnaround in 2009 led to huge losses for the momentum strategy.

These momentum crashes tend to occur during times of market stress when the market has fallen and when volatility is high. In *Market States and Momentum (2004),* Cooper, Gutierrez, and Hameed, found that the momentum premium falls when the past three years market return has been negative, and the momentum premium is low when market volatility is high.



QUANT SIGNAL

In our continuous research for additional quantitative signals that can be implemented in our funds, we have begun exploring some of the following strategies:

Insider Trading: This consists of tracking and mimicking insider buying of company shares in order to generate returns for our investors. Insiders are likely to be the best informed about their company's prospects. The strategy backtest period was from 1975 to 1985. We found that :

- Opportunistic traders show significant predictive power for future news announcement while trades placed by routine insiders do not.
- Small firms provide better signaling than big firms.

One explanation behind this behavior is the fact that small firms are subject to more asymmetric information and receive less coverage than large firms. The market is slow to adjusting to managerial signals and tends to ignore this valuable information at first.

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QUANTITATIVE STRATEGY

QUANT SIGNAL

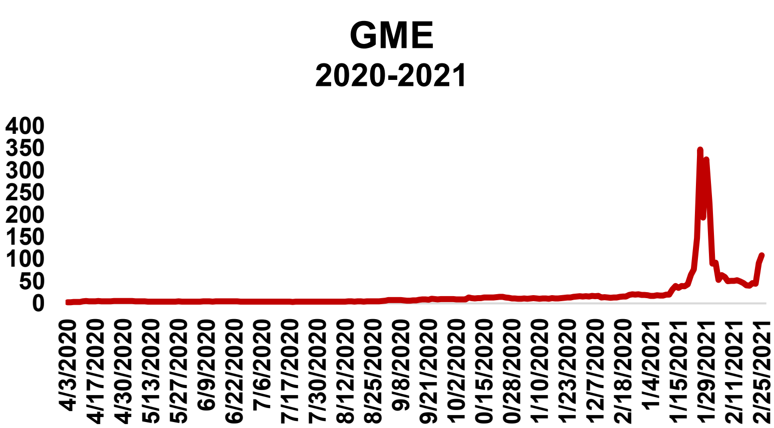
- **Value Anomaly :** refers to high spread of returns between value and growth strategies

Value stocks are the ones with high book-to-market ratio and growth stocks have low book-to-market ratios. The strategy was backtested from 1975 to 1995 . We found that:

- The value premium was higher for US small cap stocks compared to large cap stocks
- The expected value premium is high in times when the value spread in book-to-market is wide
- The earnings growth spread between value and growth is a positive predictor of value minus growth (HML)

Over the past few years, however, value stocks have significantly underperformed growth stocks. This is largely related to the exceptional recent performance of the Tech sector. We don't necessarily expect this short-term trend to continue. Indeed, the valuation gap between growth and value firms is currently at historically high levels. As noted above, this tends to be when value does particularly well.

Risk of overcrowded strategies



RISK OF OVERCROWDED STRATEGIES

The recent events with GME (GameStop) shows what can happen when a trade becomes overcrowded.

GME is a US multichannel video game retailer with negative net income for the past 3 years.

The short interest effect is a quantitative strategy based on the observation that stocks with high levels of short interest tend to experience negative abnormal returns on average. One possible explanation is the Information hypothesis (Gutfleish and Atzil 2004): short sellers are well-informed traders.

In the middle of January 2021 high profile short sellers like Andrew Left announced they were shorting GameStop. Many hedge funds bet billions of dollars on the company going bankrupt and the number of shorted shares was more than 113% of total outstanding shares. What followed is now well-known: demand for the stock from retail investors skyrocketed following attention on social media websites. This led to an incredible short-squeeze that saw GME's stock price go from under $20 at the start of the year to over $400 at the height of the squeeze. The lesson we take from this event is clear: beware of overcrowded strategies.

RISK MANAGEMENT

2020 REVIEW & 2021 OUTLOOK

YEHYA SIDDIQU
AVINOAM KAUFMAN

RISK MANAGEMENT
INTRODUCTION

Daniel Wagner once said, “Some risks that are thought to be unknown, are not unknown. With some foresight and critical thought, some risks that at first glance may seem unforeseen, can in fact be foreseen. Armed with the right set of tools, procedures, knowledge and insight, light can be shed on variables that lead to risk, allowing us to manage them”. In managing the risk exposure of our portfolio, we utilize the risk management tools outlined in this section to make investment decisions and monitor our holdings.

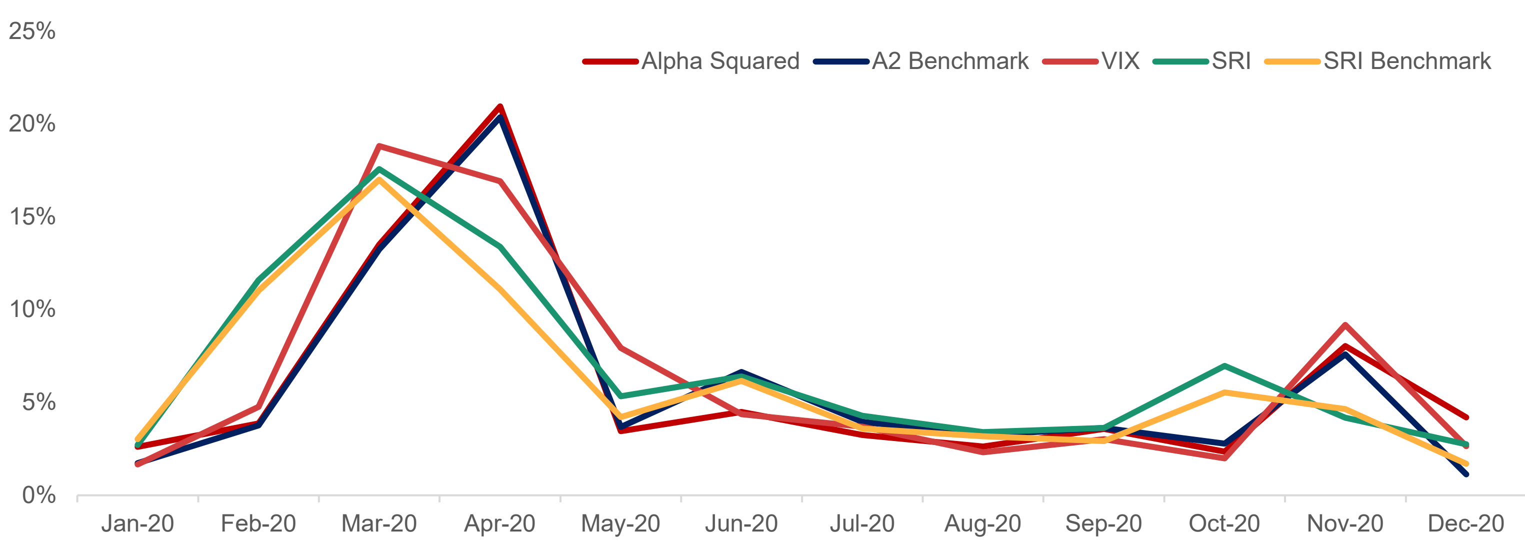
Portfolio Asset Allocation and Beta Risk Exposure

2020 has been a brutally unpredictable year for equities and the data makes it clear that market volatility has been unprecedented. It began with an evolving pandemic, that resulted in a major spike in volatility across all markets, including our funds and their benchmarks as seen in Figure 1. This was fueled by a lot of fear and concern around the pandemic which altered the way we live, work and invest. This was followed by a relative calm as the markets slowly began to recover, and investors were able to digest the possible outcomes of the pandemic. The second spike in volatility at the tail end of the year was primarily a result of the Presidential and Congressional elections, which many voters viewed as an election with an impact that would be felt for years to come. The Alpha Squared and SRI Fund betas with respect to their benchmarks were 0.96 and 1.06 respectively, which are within our risk tolerance. We also monitor beta exposures to various factors including the WTI spot price, the USD/CAD exchange rate, and various market indices based on weekly ending portfolio composition. This allows us to visualize and structure risk exposures as we change our portfolio allocation.

2020 Fund Performance Metrics

	Alpha²		SRI	
	Gross Return	Benchmark*	Gross Return	Benchmark*
Gross Return	13.4%	9.3%	31.0%	15.8%
Annualized Standard	26.2%	26.0%	25.6%	23.5%
Sharpe Ratio	0.53	0.09	1.17	0.62%
Beta	0.96		1.06	
Annualized Alpha	2.5%		11.7%	
Tracking Error	6.6%		6.6%	

Figure 1: Alpha² and SRI Annualized 1-Month Rolling Volatility

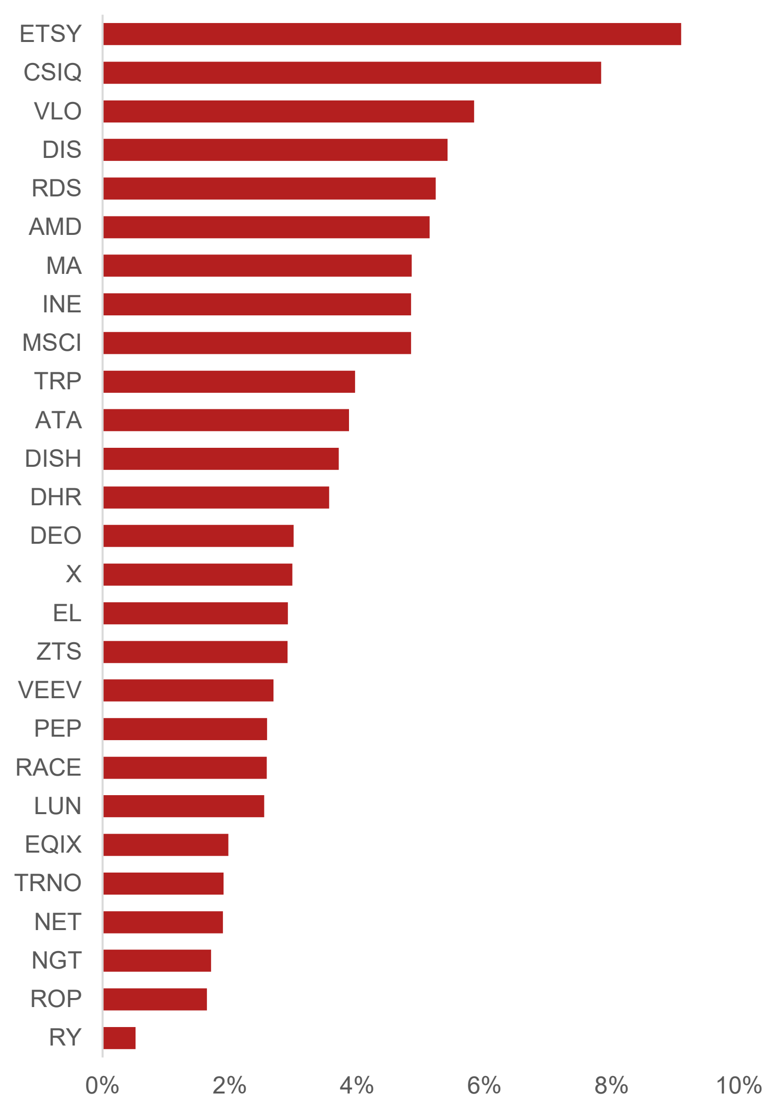


RISK MANAGEMENT

Contribution to Portfolio Variance

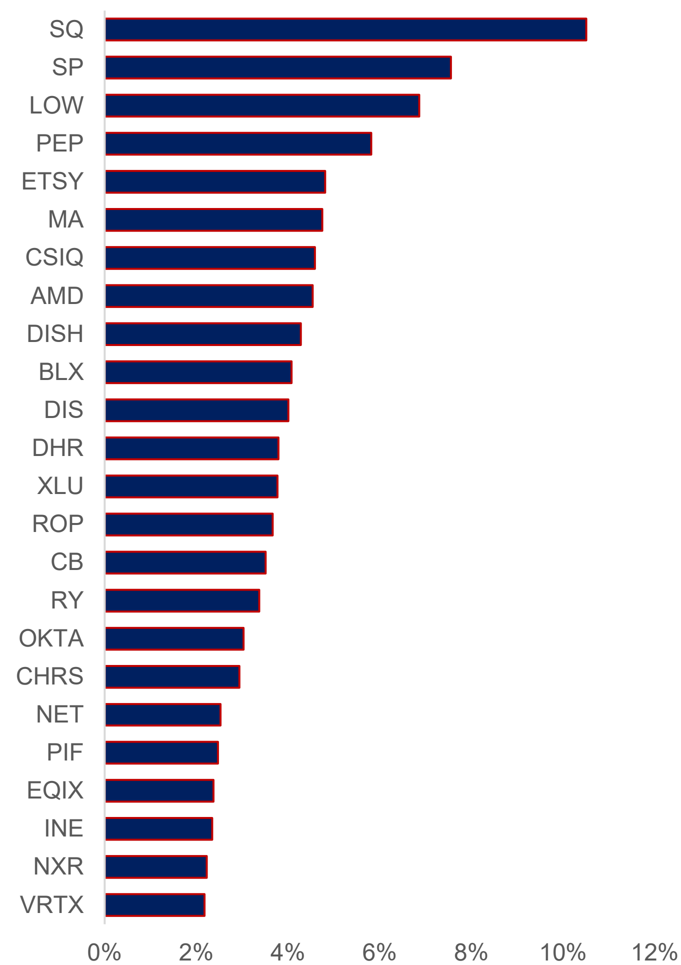
In addition to monitoring portfolio volatility, beta exposures, and downside risk, we also monitor the contribution of individual holdings to overall portfolio variance. Component Variance (Cvar) allows us to understand which of the portfolio holdings contribute the most to risk. Each stock's contribution to portfolio variance is based on that stock's weighting, variance, and covariances to all other stocks. Contributions to portfolio variances are then normalized to sum up to 100%. Results are shown in Figure 2 and 3.

Figure 2: A2 - Contribution to Portfolio Variance (%)



Source: Bloomberg

Figure 3: SRI - Contribution to Portfolio Variance (%)



Although Square and Etsy where among the highest contributors of volatility to their respective funds, they were also among the best performing stocks in 2020.

Aside from monitoring each individual stock's contribution to portfolio variance, we also compare the variance contribution of each sector to its weight in the portfolio, as shown in Figures 4 and 5. The portfolio variance is rooted in many sectors, but it can be seen that IT, utilities, and consumer discretionary were among the top four contributors to volatility to both the SRI and Alpha Squared funds.

RISK MANAGEMENT

Contribution to Portfolio Variance

In the A2 fund volatility in the energy sector contribution was higher in relation to the weight of this section, this was primarily caused by the plunge in the price of oil following the economic shut down stemming from the pandemic. The Financial sector's low correlation with the Alpha Squared fund helped reduce the overall volatility of the portfolio. In conclusion, we do not observe disproportionately significant risk contribution from any of the sectors that is above our risk tolerance.

Figure 4: A2 - Portfolio Weights and Contribution to Variance

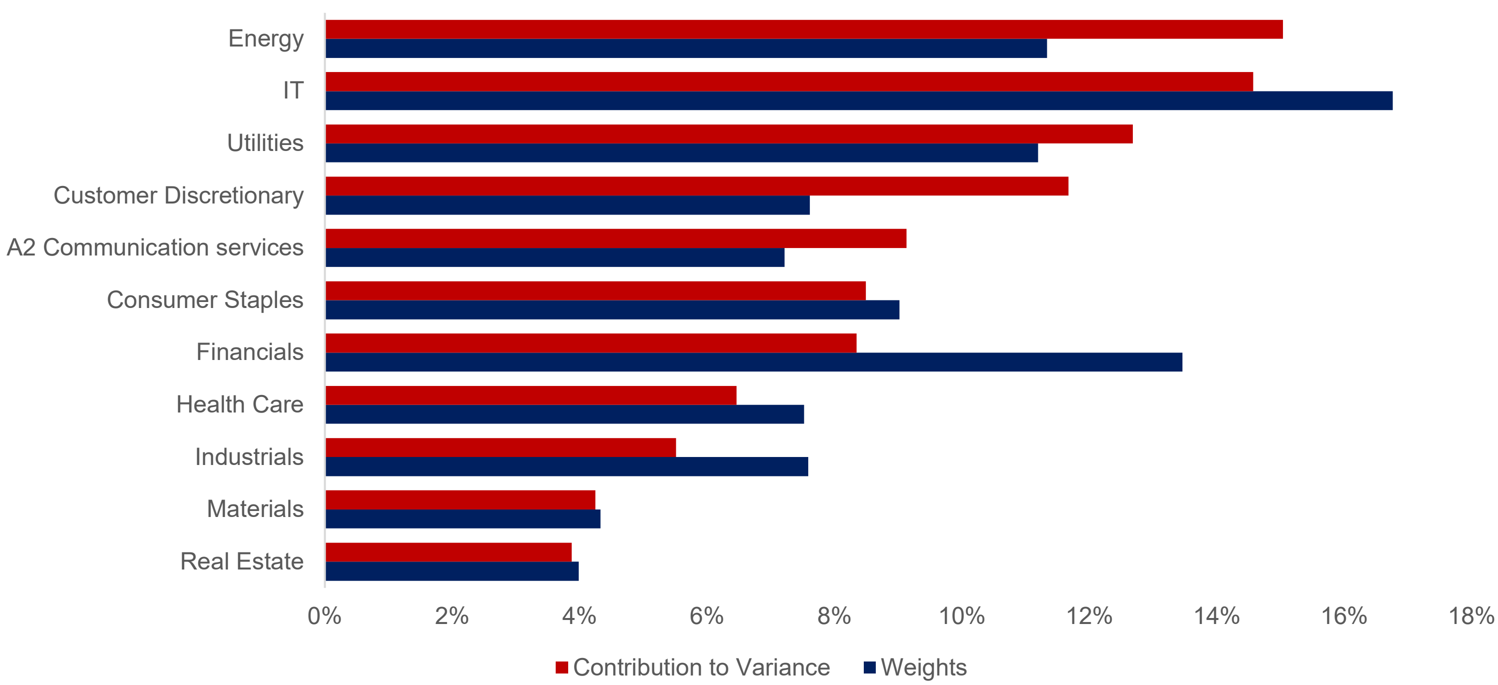
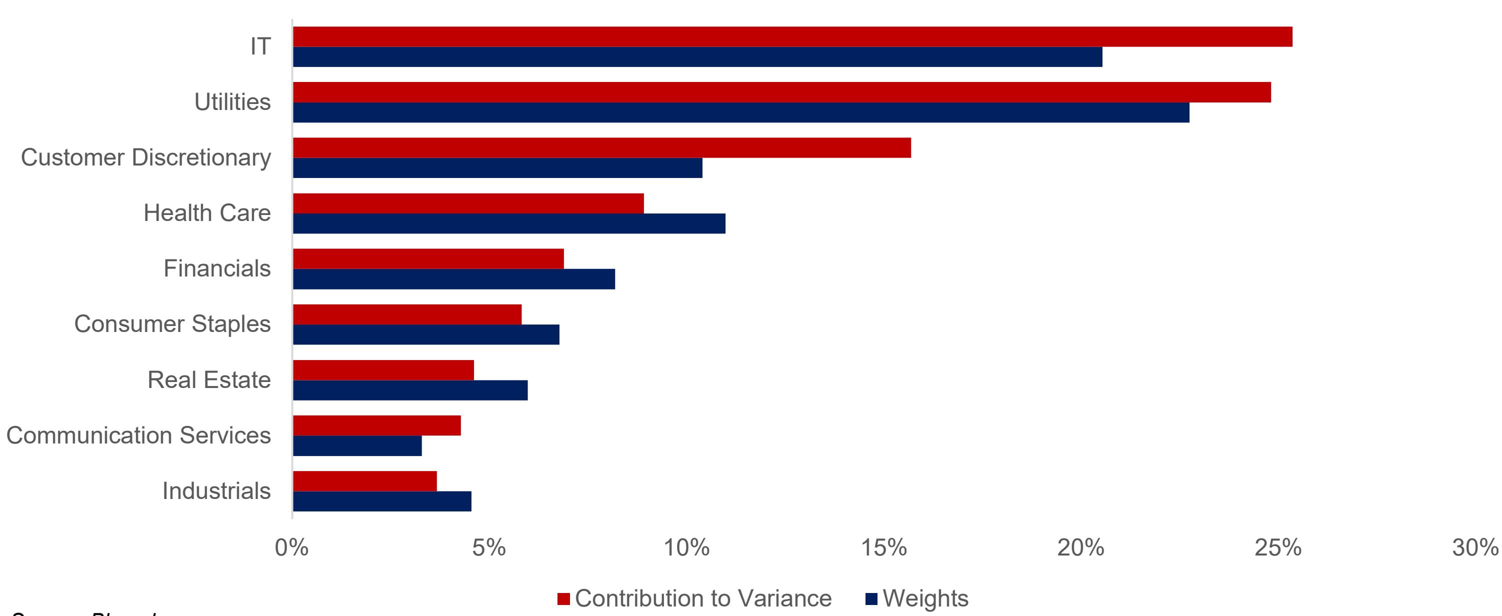


Figure 5: SRI - Portfolio Weights and Contribution to Variance



Source: Bloomberg

RISK MANAGEMENT

Value-at-Risk

VaR is the most common tool used in financial institutions to monitor and manage the downside risk of a portfolio. Simply defined, x% VaR is the minimum loss that we can expect to happen x% of the time. VaR has three components: the loss size, the probability of a loss greater than or equal to the specified loss size, and a time frame. DCM monitors its 5-Day 5% VaR using historical simulation and a parametric approach. Details of the results are presented in Figures 6 and 7.

The SRI and Alpha Squared funds saw 4 and 3 VaR breaks in 2020. Not surprisingly these occurred at the onset of the pandemic and during the election period when market volatility spiked. Observing a few VaR breaks per year is entirely normal and indicative of a realistic modelling approach that is neither too liberal or conservative.

Figure 6: Rolling VaR at 5% based on monthly returns A2 fund

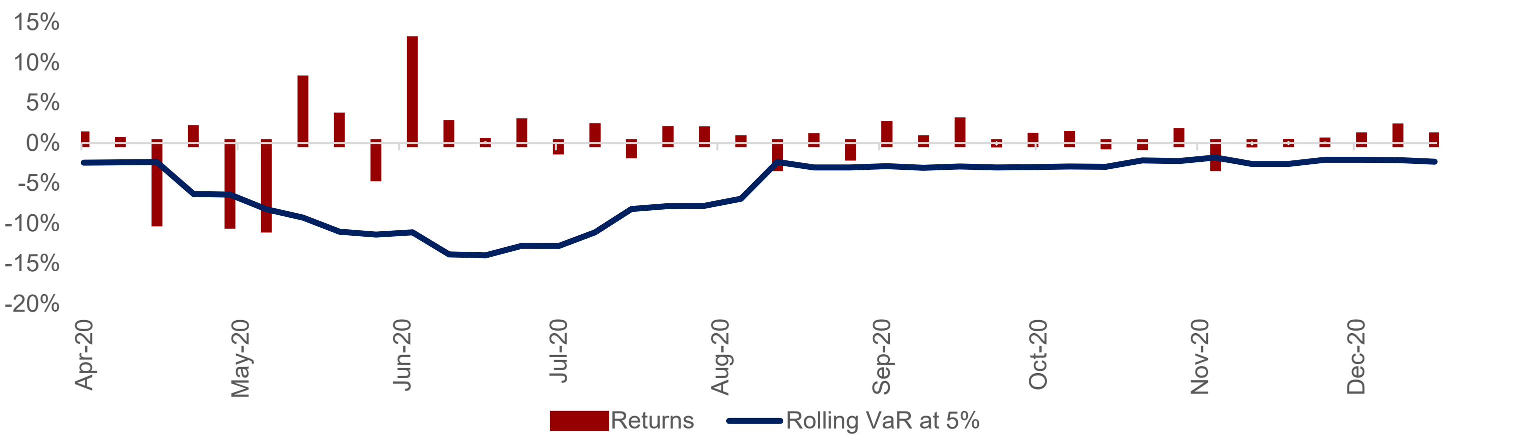
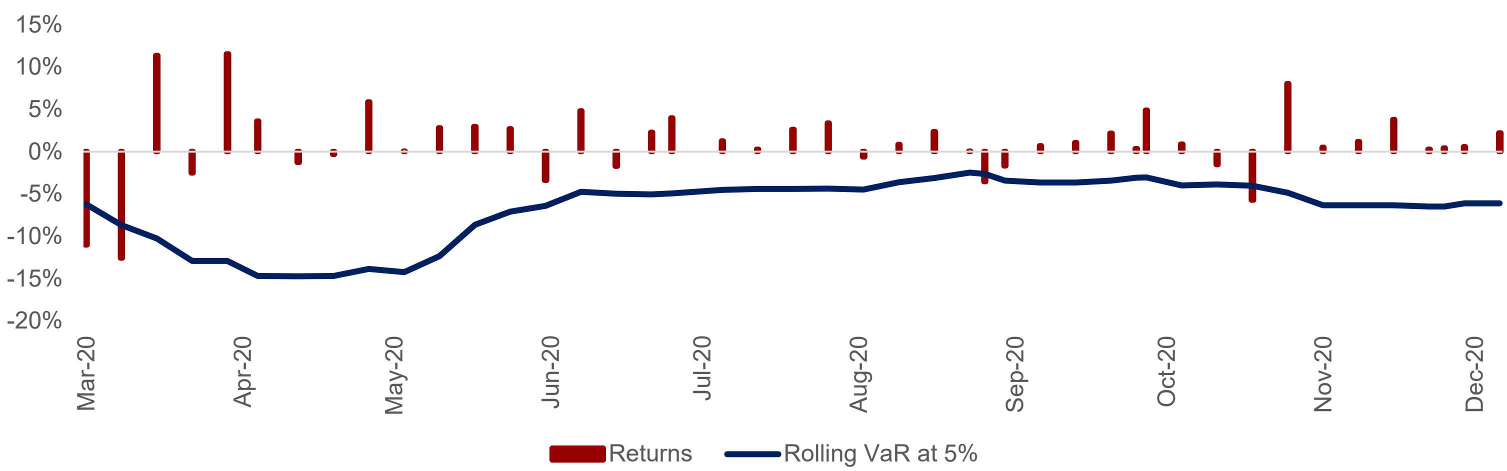


Figure 7: Rolling VaR at 5% based on monthly returns SRI fund



Source: Bloomberg

RISK MANAGEMENT

Rolling Beta – USDCAD

To monitor our risk exposures to currency fluctuations between our funds and the USDCAD exchange rate, we simulate trailing portfolio returns using the weighting and composition observed at the end of each month vs the returns of the USDCAD exchange rate. These simulated monthly returns are then regressed against key risk factors to calculate factor betas (Figure 8 and 9).

Figure 8: A2 Rolling Beta Based on Month-End Holdings

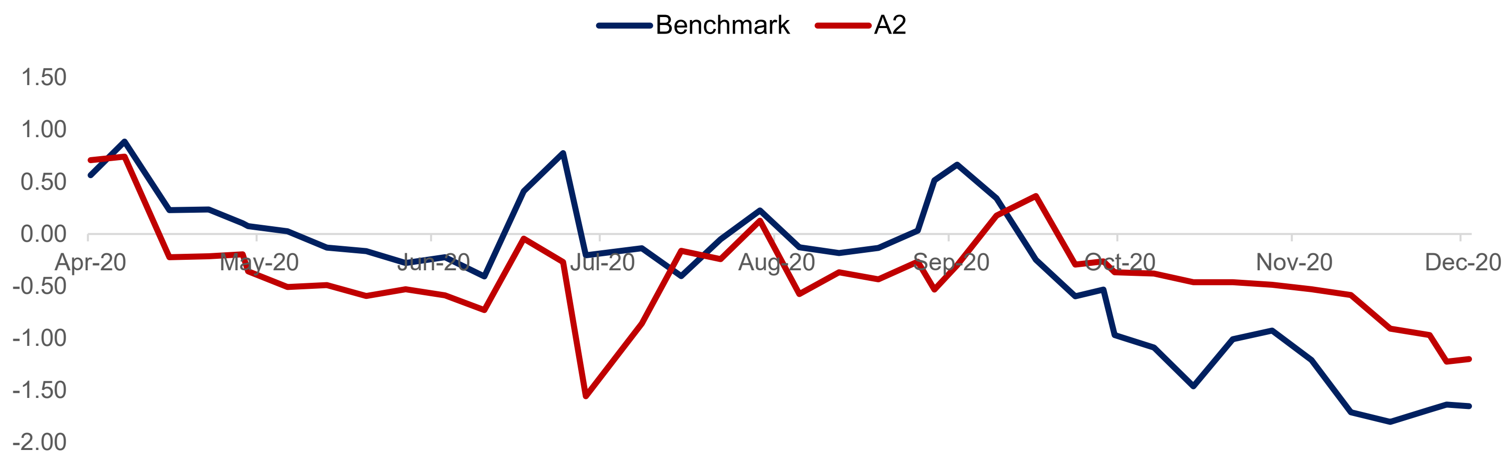
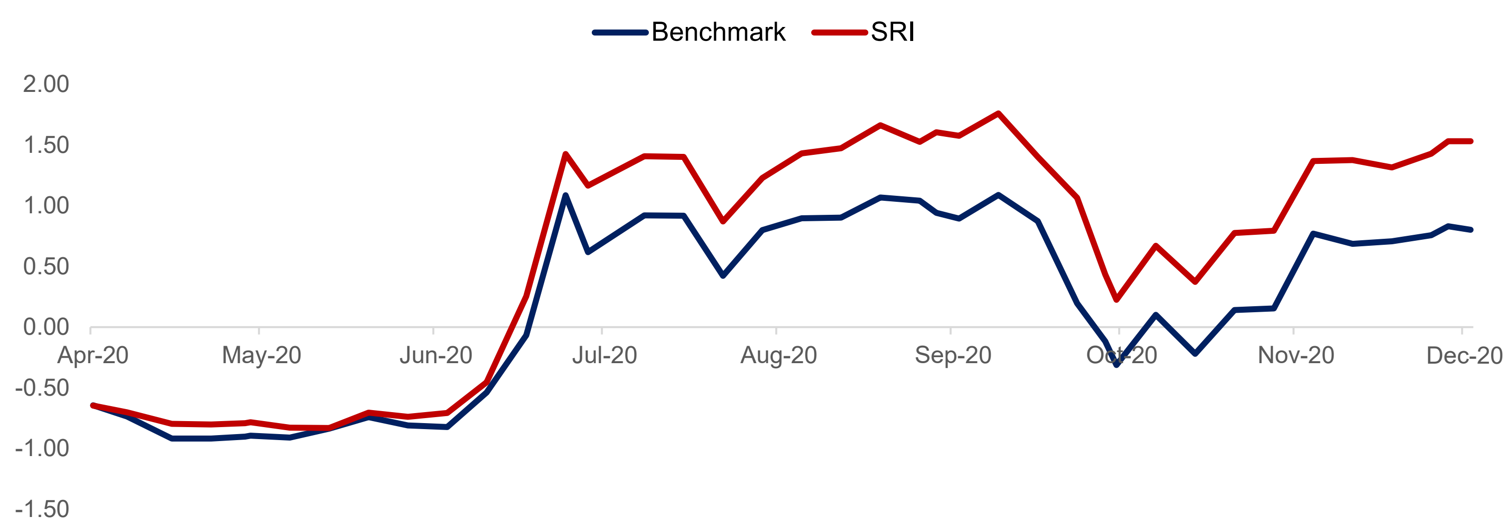


Figure 9: SRI Rolling Beta Based on Month-End Holdings



Source: Bloomberg

RENEWABLES & UTILITIES

2020 REVIEW & 2021 OUTLOOK

NAZIM BAZA
YEHYA SIDDIQUI
NEIL WIACEK
DAKOTA ZAHARICHUK

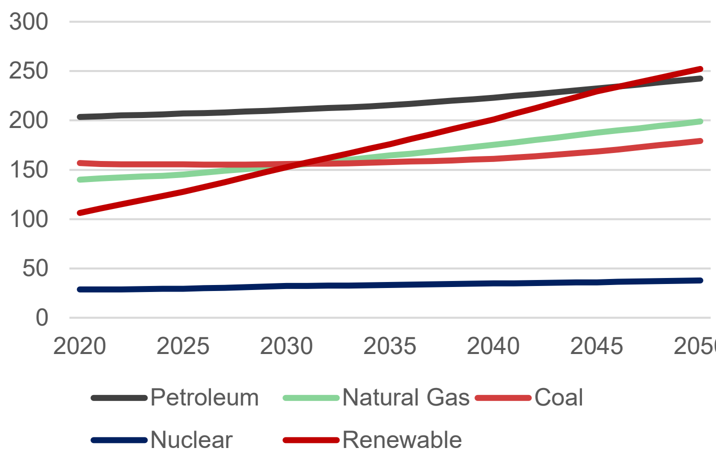
DESAUTELS CAPITAL MANAGEMENT

Renewables

SECTOR OUTLOOK

The Covid-19 crisis is hurting – but not ceasing – the global growth in renewable energy power generation. Due to the unprecedented pandemic, 2020 has seen the first annual decline in the renewable sector in 20 years in new power installations worldwide. However, given current growing trends stemming from supportive government policies, expansion is projected to resume in 2021 as most of the postponed developments come online.

Figure 1: Forecasted world energy consumption by fuel, quadrillion British thermal units



Source: EIA as of 06/02/2021

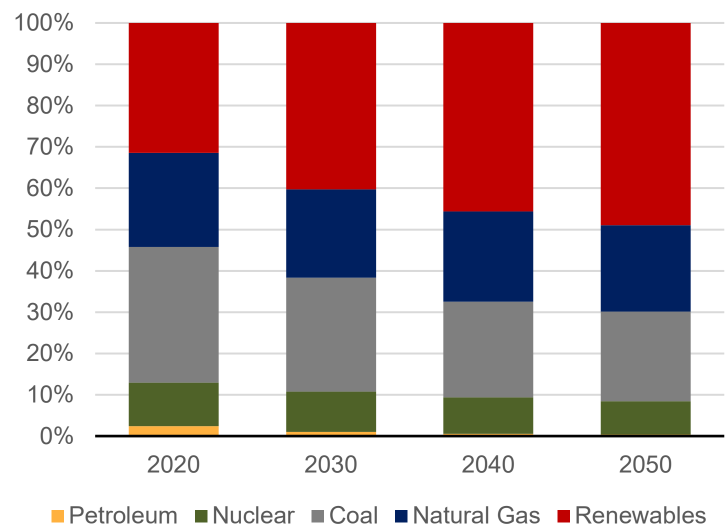
As the EU aims to stimulate a post pandemic recovery through clean-energy spending, the prospective for a green stimulus package has increased. The combination of Joe Biden as president and democratic control of the Senate will enable the endorsement of the Biden Climate Plan, which seeks to implement $2 trillion in investments in climate change initiatives. The administration's plan to achieve a carbon-free power sector by 2035, coupled with a focus on job creation, will possibly favor increased support for solar energy projects.

Source: Bloomberg;
Fred, Saint-Louis FED Economic Data, Ibis World

This ever-increasing backing U.S. and EU renewable policy has bolstered sector sentiment, which has resulted in sector related stocks trading at significantly high multiples.

Although renewable energy companies are trading at significantly higher multiples compared to conventional utility companies, we believe future initiatives by governments and companies will continue to drive exponential growth for this sector as the world moves to carbon neutrality.

Figure 2: World share of net electricity generation,



Source: EIA as of 06/02/2021

Worldwide, the overall demand for renewables is expected to continue to increase due to the use of renewable energy in the electricity sector. Even though there was a decline in end-use electricity demand falling substantially due to lockdown measures, low operating costs coupled with priority access to the grid in various markets allowed renewables to function at near 100% capacity, facilitating the growth of renewable energy generation.

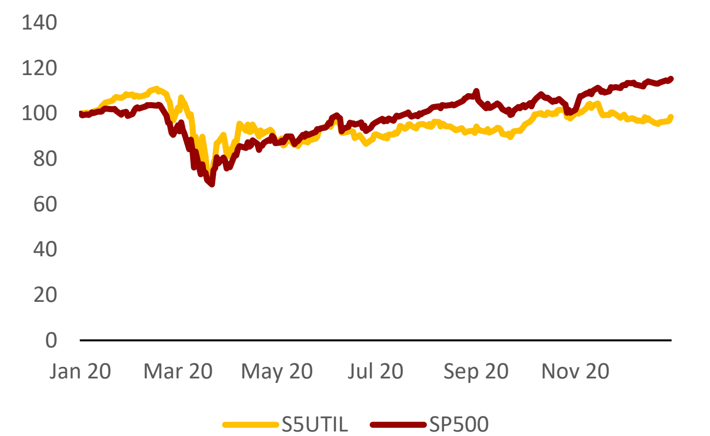
UTILITIES

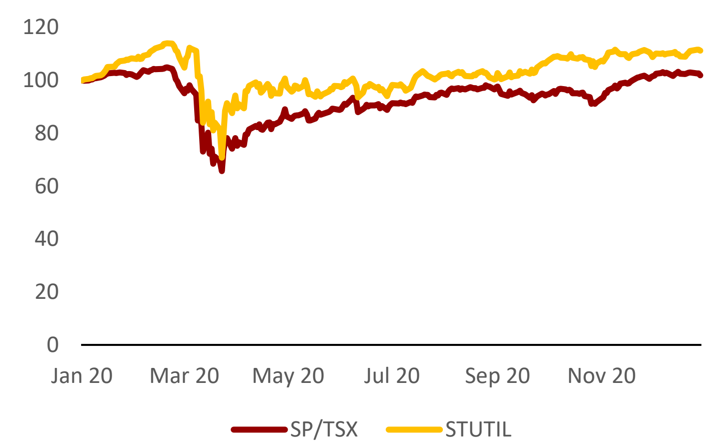
2020 PERFORMANCE REVIEW

BENCHMARK PERFOMANCE

In the U.S, the utilities index underperformed the broader market index by 17.9%. In Canada, the sector index outperformed the S&P/TSX index by 9.7%

Figure 1&2: Utilities sector returns vs Equity Benchmark returns (S&P500 & S&P/TSX)





Most of the constituents of the US index have assets in the natural gas industry, which saw a retreat at the benefit of greener sources of energy. In Canada, the index has been pushed by strong performances from Brookfield Renewable Partners, Boralex, and Northland Power. Renewable power sources are seen as a viable means to generate returns. As more investors were looking for diversification from oil's underperformance in 2020, renewable companies benefited.

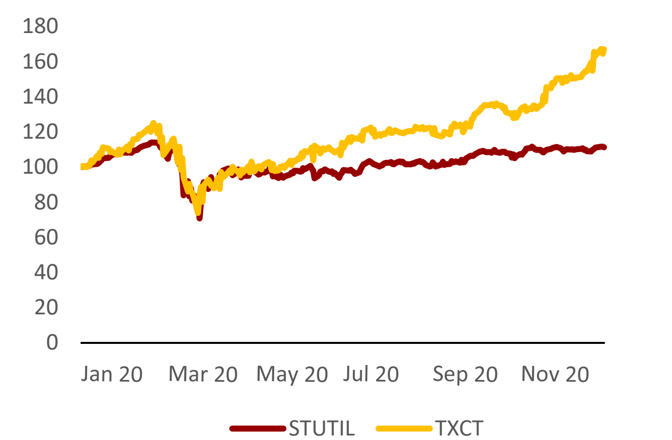
Source: Bloomberg

SUBSECTOR PERFOMANCE

In 2020, the Renewable Energy and Clean Technology index has outperformed its broader sector index by 59.1%).

The renewable subsector has seen tremendous growth over the past year. Despite a rocky start at the beginning of 2020, the renewable energy and clean technology index (TXCT) has outperformed the overall utilities index thanks to strong performance from most of its constituents (of which we own Boralex).

Figure 3: Subsector returns vs Utilities Benchmark (STUTIL)



Renewable companies and by extension their assets (wind turbines, solar panels, storage…) are more and more seen as an important diversification element on several fronts. Prominent financial institutions are integrating ESG in their investment strategies (e.g., BlackRock launched Aladdin Climate – a data analytics tool that assesses ESG risk in portfolios). Moreover, the difficulties encountered by the oil & gas industry forced investors to look for alternative solutions.

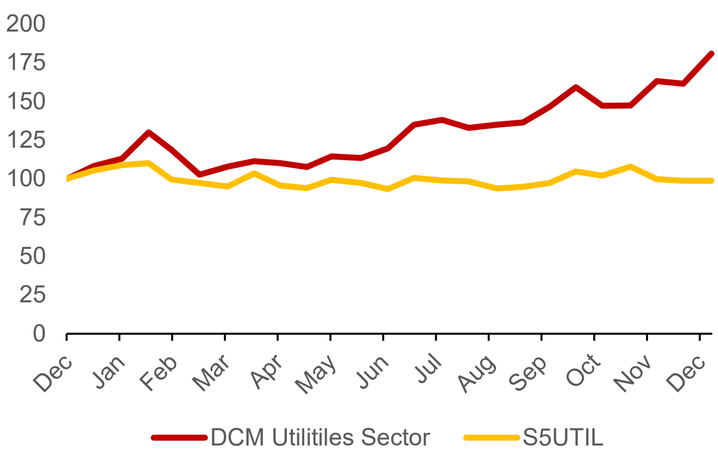
The outcome of the US election was an end-of-year factor to the acceleration seen in *Figure 3* as investors saw Biden's election as a strong signal for a push towards clean energy .

UTILITIES

2020 PERFORMANCE REVIEW

DCM SECTOR PERFOMANCE

The utilities holdings across both Alpha Squared and SRI Funds had an impressive year, outperforming the S&P Utilities Index by 80.75%. Exposure to renewable and clean energy drove this outperformance as the subsector showed resilience through the pandemic and felt the tailwinds of a newly elected President Biden's support for the industry.



All holdings had sizable returns in 2020, led by Boralex (TSE:BLX) gaining 93.1%, Innergex Renewable Energy (TSE:INE) 62.3%, and Polaris Infrastructure (TSE:PIF) 44.6%. Canadian Solar (NASDAQ:CSIQ) added to the fund in October, returned 35.4% during the holding period. These holdings outperformed the broader utilities index throughout the year, gaining momentum in the final months as the outcome of the US election became certain. Biden's commitment to rejoin the Paris Accord, invest $1.7 trillion in clean energy, and goal of net-zero carbon emissions by 2050 all driving factors which contributed to the gains seen in the final months of 2020.

Source: Bloomberg

RENEWABLES & UTILITIES

2020 HOLDINGS REVIEW

DESAUTELS CAPITAL MANAGEMENT

Canadian Solar Inc. (NASDAQ: CSIQ)

COMPANY OVERVIEW

- Founded in 2001, Canadian Solar designs, manufactures, and sells solar module products that convert sunlight into electricity for a variety of uses.
- The company operates through two business segments: Module & System Solutions and Energy.
  - **MSS:** Designs, manufactures, and sells solar module products
    - Plans to list this segment on a Chinese exchange through a carveout
  - **Energy:** Develops, operates, and sells solar power plants (recently sold a solar plant to Goldman Sachs)
- The company has a strong presence in 23 countries across the globe.

CATALYSTS

- CSIQ has an advantage over other energy producers as it is in full control of the upstream manufacturing that goes into its power generation segment
- Chinese exchange listing will close valuation gap and provide lower-costs of capital for expansion plans
- Increasing global demand for solar energy

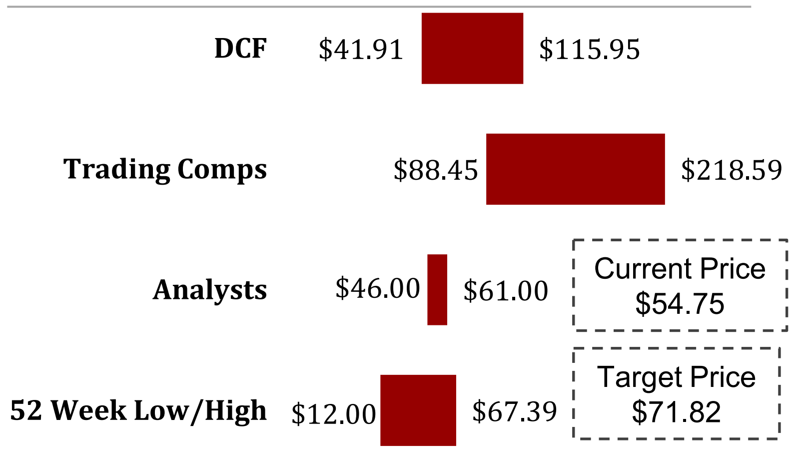
RISK FACTORS

- Overestimation of solar demand, panel supply and market consolidation
- Governmental actions that adversely impact companies bottom line

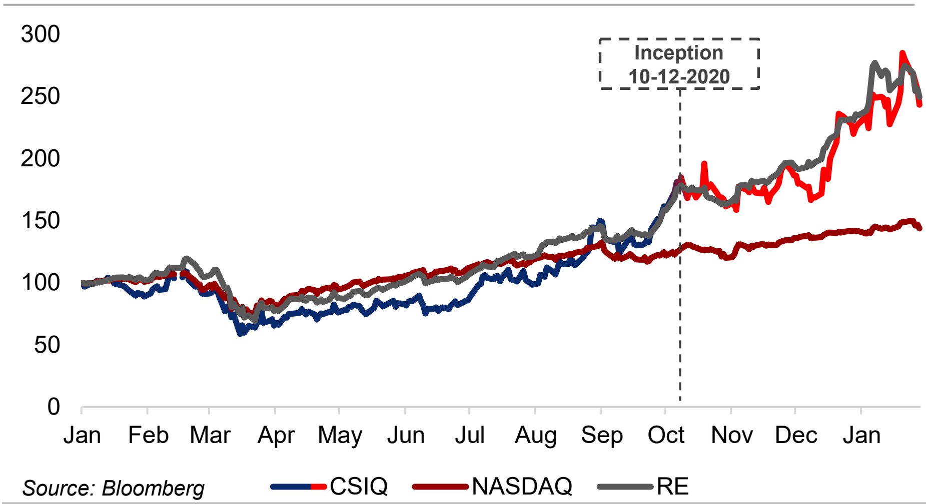
INVESTMENT THESIS

1. ***Global Footprint:*** The market is underestimating the strong and innovative global project pipeline of Canadian Solar in a growing industry
   a) Canadian Solar's key markets are significantly under-penetrated
   b) Ability to gain an early mover advantage in a rapidly growing energy storage solutions market
2. ***Exposure to China:*** The market is overestimating the company's exposure to China
   a) Plans to list MSS segment on a Chinese exchange to close the valuation gap between Chinese and North American investors

VALUATION SUMMARY



STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Date of Inception to DCM		2020-10-20
Average Cost (USD)		$38.10
Shares Acquired: A2 Fund		1,685
SRI Fund		1,600
Total Value Invested		$125,158.50
Portfolio Weight: A2 Fund		5.24%
SRI Fund		4.05%
Holding Period Return		44.65%
Benchmark: NASDAQ	34.59%	Outperform
S&P Global RE	2.13%	Outperform

Innergex Renewable Energy (TSX:INE)

COMPANY OVERVIEW

- Innergex is a Canadian Renewable Energy company founded in Quebec in 1990.
- The Company is a developer, owner and operator of run-of-river hydroelectric facilities, wind energy, and solar farms in North America, France, and chile.

INVESTMENT THESIS

- Market underestimates the growth potential of the U.S. renewable energy sector
- Market cannot entirely price the impact of future development projects

HISTORICAL PERFORMANCE

- Added to the fund in Dec 2019 and sold in Feb 2021, INE was an excellent performer for the SRI fund earning a return of 71.1%.
- Underperformed the TSX Renewable Energy and Clean Technology Index which gained 95.1%
- Contributing factors: strategic partnership with Hydro Quebec ($500M committed future co-investment) and the new US administration's focus on climate change.

HOLDING & FUTURE OUTLOOK

- By Feb 2021, INE exceeded our target price and the investment thesis had been realized.
- At the current valuation, our assessment of the firm's growth prospects and project development pipeline were fully reflected in the share price, leading to the decision of realizing our gains on the Innergex position.

Boralex Inc. (TSX: BLX)

COMPANY OVERVIEW

- Founded in 1982, Boralex is a power producer that develops, builds, and operates renewable energy power facilities in four power generation types: wind, hydroelectric, solar, and thermal.
  - **Wind:** Main segment of the company with more than 85 sites generating 1,795MW
  - **Hydro:** Second power type with 16 sites generating 182 MW

INVESTMENT THESIS

- Market underestimates Boralex's leadership position in France: The company's technologic improvements in wind energy will help Boralex increase its portion of the market share
- Less is more, Boralex's capacity factor is underestimated : Boralex's wind turbines are more efficient in France than the overall market

HISTORICAL PERFORMANCE

- Bought in December 2019, Boralex generated tremendous returns for our fund with a holding period return of 107.44%
- Outperformed both its benchmarks (TXCT: 93.1% and TTUT: 15.8%)
- Catalysts: Client base expansion (enterprises), strong pipeline, and diversification into solar and storage

HOLDING & FUTURE OUTLOOK

- Diversification into solar and energy storage will help Boralex grow as these sources of power will become the main drivers of global power capacity
- Expansion of its customer base to enterprises will allow the company to diversify its revenue streams
- Maintained leadership in legacy markets

Source: Boralex Annual Report

Polaris Infrastructure (TSX: PIF)

POLARIS

COMPANY OVERVIEW

- Polaris Infrastructure Inc. is a Canadian-based firm that operates in two reportable operating segments, acquisition, exploration, development and operation of geothermal projects and hydroelectric projects, which are conducted in Nicaragua and Peru respectively.

INVESTMENT THESIS

- Political Risk: The market is overestimating the geopolitical risk in Latin America
  - Pricing in harm to infrastructure, off-taker payment default, and expropriation.
- Acquisition capability: The market is underestimating the company's competitive acquisition capabilities
  - Management has significant experience in merger and acquisition

HISTORICAL PERFORMANCE

- Added to the fund in April 2018 and sold in Feb 2021, PIF was an excellent performer for the SRI fund earning a return of 82.2% during its holding period
- Underperformed the TSX Renewable Energy and Clean Technology Index which gained 126.4% during the same holding period

HOLDING & FUTURE OUTLOOK

- Although PIF had not reached our target price the investment thesis had been realized
- PIF continues to generate over 97% of revenue from a single geothermal facility located in Nicaragua. This concentrated revenue and political volatility were added factors that contributed to the sale of the security

Source: Boralex Annual Report

ANNUAL REPORT 2021

CONSUMER STAPLES

2020 REVIEW & 2021 OUTLOOK

XI JIN
AUDREY WU
BENJAMIN WU
AMINE ZEMZAMI
JIAXI ZHOU

DESAUTELS CAPITAL MANAGEMENT

CONSUMER STAPLES

2020 SECTOR OVERVIEW

BENCHMARK PERFORMANCE

The Consumer Staples sector underperformed the S&P 500 Index by 8.6% in 2020. Of the three subsectors that we have holdings in, the personal products subsector outperformed the staples benchmark by 14.9%, while the beverage and food subsectors underperformed the sector benchmark by 1.3% and 5.3%, respectively.

Due to the defensive nature of the consumer staples sector, it outperformed the S&P 500 index from March to May, by as much as 12.4%. But by year-end this outperformance turned into underperformance as fiscal and monetary stimulus coupled with favourable vaccine trial outcomes turned sentiment from panic to positive. At this stage of the business cycle, the consumer staples sector typically underperforms the overall market. While longer-term price momentum has held up, we believe that growing confidence in the economy will weigh on staples' relative performance going forward.

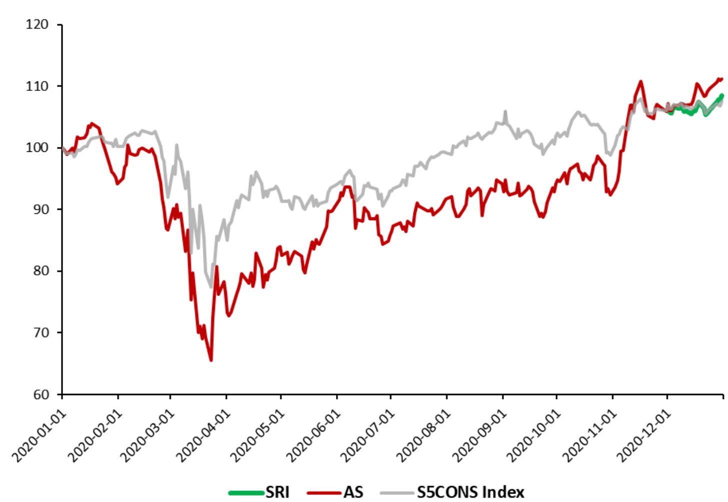
DCM SECTOR PERFORMANCE

The Consumer Staples benchmark increased by 7.1% in 2020, compared to 10.4% for the Staples holdings in the Alpha Squared Fund and 7.8% for the Staples holdings in the SRI Fund. Our holdings during 2020 consisted of three companies: Diageo (NYSE: DEO), PepsiCo. (NYSE: PEP) and Estee Lauder (NYSE: EL). Our outperformance is mainly credited to the consistent performance of Estee Lauder, which outperformed the sector benchmark by 28% in 2020. Pepsi also outperformed the benchmark by 0.69%, although we only added it at the end of 2020. Diageo underperformed the benchmark by 13.33% by the end of 2020 but has shown clear sign of improvement for first month of 2021. The underperformance was around 7.79% by the end of January.

The weekly net return of DCM Consumer Staples sector is almost in-line with the sector benchmark but much more volatile, mainly due to the small amount of stocks we hold in the sector.

Figure 1： S&P Consumer Staples vs. S&P 500

Figure 2: DCM sector performance vs. S&P Consumer Staples



Source: Bloomberg

CONSUMER STAPLES

SECTOR OUTLOOK

CONSUMER STAPLES

Besides, the short-term volatility of COVID-19 and stay-at-home directives have shifted public consumption channels and had a disproportionate impact on demand for certain everyday products.

While the timing and trajectory of the recovery back to pre-pandemic norms is up for debate, it does appear that some of society's altered habits will be structural. According to the Stanford Institute for Economic Policy Research, an estimated 42% of workers who were employed in early March have transitioned to fully working from home by the end of December. Importantly, while some of those workers will ultimately return to the office, a Federal Reserve Bank of Atlanta survey suggests that the percentage of working days spent at home is expected to rise structurally, by approximately 300% compared to pre-COVID-19 levels.

As a result, the shifting channel dynamics and large demand swings, as a result of consumers spending more time at home, is unlikely to end in the near term. As stated before, the sector index has shown a sign of decline in recovery and will likely to keep underperform S&P 500 as the economy gradually recovers.

FOOD PRODUCTS & BEVERAGE

Pandemic has structurelly changed the consumption pattern, which is the biggest driver of food and beverage trends in 2021.

At the same time there's a shift of focus of consumers to healthier food and beverages. Products that promote health, wellness and value will be in the spotlight because they provide relief from many of the challenges consumers are facing due to the pandemic.

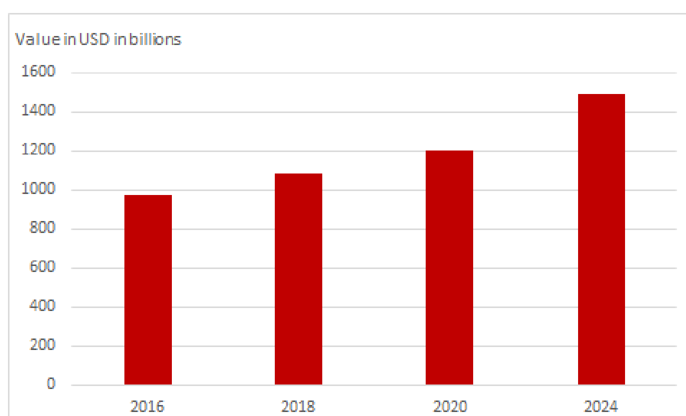
In 2021, health and wellness will be focused on maintaining a healthy body and mind by staying physically fit, eating a better diet and taking measures to improve emotional health. Hence, a new consideration for the food and beverage industry will be the need for safer and healthier food and beverage products.

Consumers will also be more cost-conscious because of economic uncertainty which will drive demand for value. However, there will still be space for products that provide exciting experiences to fill the void of other forms of entertainment that consumers are missing because of the pandemic, including eating at restaurants.

Last but not the least, as mentioned above, since people will continue to work from home for at least the first half of 2021, we should expect the increase in consumption of beverage and snacks to continue in 2021.

So far data has shown that non-alcoholic beverage industry is growing at an increasing speed. As shown in figure 3 , the global non-alcoholic beverage market size was valued at USD 970 billion at the end of 2016. The value is estimated to reach US $ 1885 billion by 2023. The industry will be valued at US$ 1488 billion in the year 2024.

Figure 3: Market size of non-alchoholic beverage industry



Source: Bloomberg, Pipecandy Blog

CONSUMER STAPLES
SECTOR OUTLOOK

PERSONAL PRODUCTS

Consumers changed their behavior and preferences due to the pandemic, and companies are changing their distribution channels as well as go-to-market strategies accordingly.

Most personal products companies increased their reliance on online and omnichannel as a means of reaching and engaging consumers. One example being Estee Lauder, which held over 1 million virtual try-on sessions in January 2021.

Although there's still a negative impact of potential decrease of consumption of personal products, especially make up products in the context of our holdings, we still see a steady growth trend in both the global color cosmetic makeup market as well as natural cosmetics products as shown in figures 4 and 5.

In general, PR firms are using this period of great change to make improvements across all aspects of their businesses and operations necessary for future success.

Figure 5: Market size of global natural cosmetics products

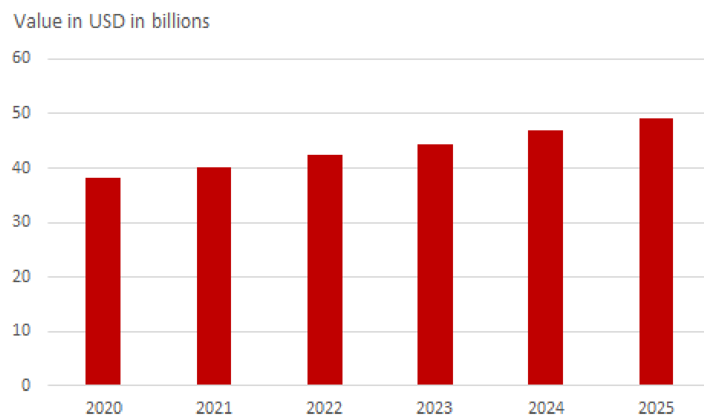
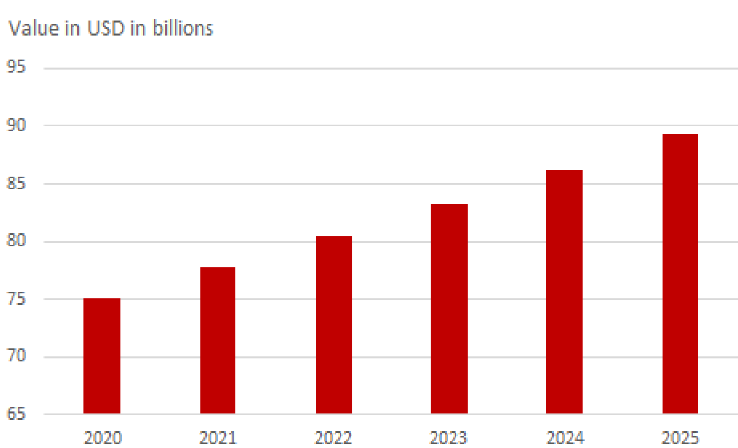


Figure 4: Market size of global color cosmetic makeup market



Source: Yieldify

CONSUMER STAPLES

2020 HOLDINGS REVIEW

PepsiCo (NYSE:PEP)

PEPSICO

COMPANY OVERVIEW

- PepsiCo is the world's second largest food and beverage company founded in 1965
- The company's headquarters are located in Harrison, New York and it has operations in more than 200 countries and regions
- PepsiCo has been expanding steadily through both organic growth and mergers & acquisitions. PepsiCo acquired Bare Foods and SodaStream in 2018, and BFY Brands in 2019. In 2020, PepsiCo entered into a deal to acquire Rockstar Energy for $3.85 billion

CATALYSTS

- Surge in demand for at home snacks due to COVID-19 increases PepsiCo's snack and cereal sales
- Shifting of preferences towards healthier snack and salty snacks move consumers to PepsiCo's offerings
- Growing snacking trend around the world, especially in developing countries

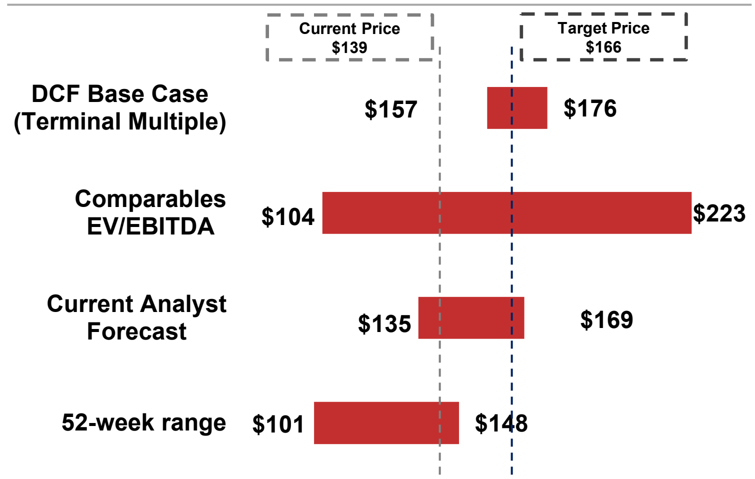
RISK FACTORS

- Food safety and packaging regulation
- Increasing awareness of reducing plastic usage and other non-recyclable packages
- Consumer preference changes

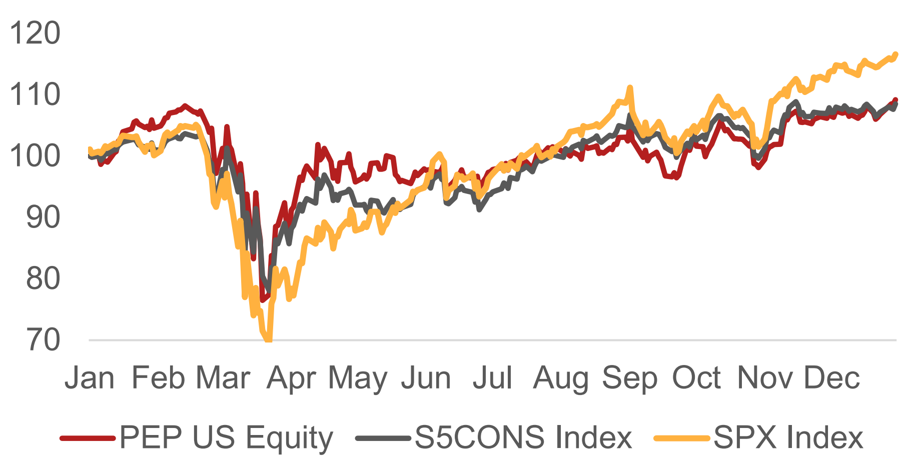
INVESTMENT THESIS

1. Constant innovation with diversified portfolio of offerings
   - PepsiCo has hundreds of brands and more than thousands of product offerings
   - Ongoing product improvement and modification to keep up with market trends
2. Growth opportunity in International market
   - Strong global presence and market share gaining potential
   - "Win Locally" Strategy

VALUATION SUMMARY



STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Date of Inception to DCM		2020-12-02
Average Cost (USD)		$145.88
Shares Acquired: A2 Fund		356
	SRI Fund	994
Total Value Invested		$196,938
Portfolio Weight: A2 Fund		2.70%
	SRI Fund	6.27%
Holding Period Return		2.55%
Benchmark: S5CONS		0.18% Outperform
S&P500 Consumer Staples Index	1.23%	Outperform

Estee Lauder (NYSE:EL)

COMPANY OVERVIEW

- Estee Lauder is a leading producer of cosmetics, fragrances, and skin and hair care products.
- It is headquartered in NYC and has presence in over 150 countries and regions.
- The company owns more than 25 well-known brands and has a market capitalization of USD$90.87B

INVESTMENT THESIS

- There is huge growth opportunity in international market, especially in Asia Pacific market for EL. This mainly credits to increasing purchasing power of millennials and growth of travel retail as well as e-commerce.
- History of successful mergers and acquisitions has expanded EL's portfolio and captured a wider market. Its ability to grow through M&A is proven.

HISTORICAL PERFORMANCE

- Earned a return of 28.88% in 2020 and HP return of 104.9%
- Outperformed consumer staples benchmark by 21.26% and the personal products sub sector by 26.4% throughout 2020
- Contributing factors to 2020 outperformance: Strong marketing effort and global sales, especially in China

HOLDING & FUTURE OUTLOOK

- Although the pandemic has resulted in decreased demand for cosmetic products, Estee Lauder's well-developed online business channel and marketing strategy has positioned itself to be more resilient than most of its competitors
- Continuing strong sales growth in emerging markets, especially China, and e-commerce development provide Estee Lauder with more revenue growth opportunity.

Diageo (NYSE: DEO)

COMPANY OVERVIEW

- Diageo is a UK-based company that is a global leader in spirits and liqueurs production. The company offers a wide range of branded beverages, including vodkas, whiskeys, gins, and beer.
- Diageo has more than 200 global, local, and luxury brands. It operates in beverages subsector of consumer staples.

INVESTMENT THESIS

- Shifting towards premium spirits as a market trend. Diageo owns 22 of the world's top 100 premium spirits labels.
- Growing Indian market. Indian alcohol market has a compound annual growth rate of 8.8% compared to 4.2% for global alcohol market because of the increase in urban population and sizable middle class.

HISTORICAL PERFORMANCE

- Earned a return of -5.71% in 2020 and HP return of 14%
- Underperformed consumer staples benchmark by 7.44% and the beverage sub sector by 13.33% throughout 2020
- .Contributing factors to 2020 underperformance: closure of bars, restaurants, and nightclubs influence its on-trade sales

HOLDING & FUTURE OUTLOOK

- While social distancing caused a dip on alcohol sales, Diageo's management team will implement cost mitigation strategies to ensure a healthy profit margin
- We are bullish on their online business development plan
- Economic recovery and relaxation of social distancing policies will likely boost company sales

Source: Bloomberg

CONSUMER DISCRETIONARY

2020 REVIEW & 2021 OUTLOOK

XI JIN
AUDREY WU
BENJAMIN WU
AMINE ZEMZAMI
JIAXI ZHOU

CONSUMER DISCRETIONARY

2020 Sector Review

Benchmark Performance

The Consumer Discretionary sector outperformed the S&P 500 by 15.8% in 2020. The Internet & Direct Marketing Retail sub-sector had the highest outperformance to market at 52.2%, followed by Hotel, Restaurant, and Leisure subsector, with outperformance to market at 2.0%.

Reasons for benchmark outperformance were the reopening of the economy in the second half of 2020 and the sector's highly diversified subsectors. Economic reopening from lockdown, government stimulus checks, and wide distribution of COVID vaccine in Q3 and Q4 drove sector outperformance as businesses reopened. The consumer discretionary sector benefited from this recovery due to its cyclical nature. Additionally, diversified sub sectors allowed consumer discretionary to remain resilient during the pandemic. Despite poor performance in most sub-sectors during the initial outbreak, internet retail and household durables remained strong due to increased online shopping and this helped the sector weather the storm in Q1 and Q2.

Internet & Direct Marketing Retail

Internet & Direct Marketing Retail particularly outperformed the market benchmark due to increasing internet usage and online consumption during COVID.

The subsector rose during the initial lockdown, forcing brands to pivot toward digital channels. Even with COVID vaccine distribution, the sub-sector continued outperforming as consumers became accustomed to online shopping and worried about the new COVID variant.

2020 DCM Sector Performance

The Consumer Discretionary benchmark increased by 20.4% in 2020, compared to 21.3% for the DCM Alpha Squared Fund Consumer Discretionary Sector Performance. Our holdings during 2020 consisted of three companies: Ferrari NV (NYSE: RACE), Etsy Inc. (NYSE: ETSY), and McDonald's Corp (NYSE: MCD). Our slight outperformance could be partly attributed to the purchase of Etsy in December, which brought us nearly 20% in that same month. Ferrari also outperform its sector.

Figure 1: 2020 DCM Sector Performance

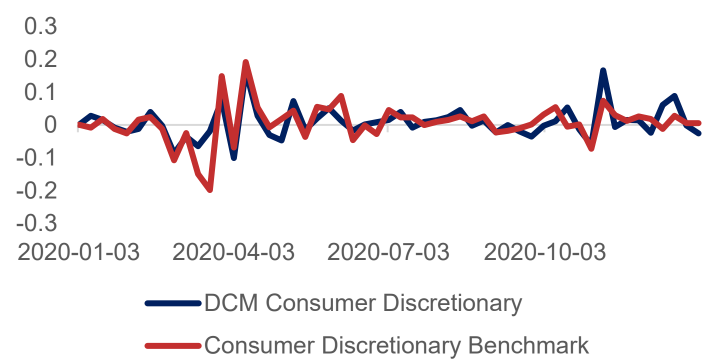
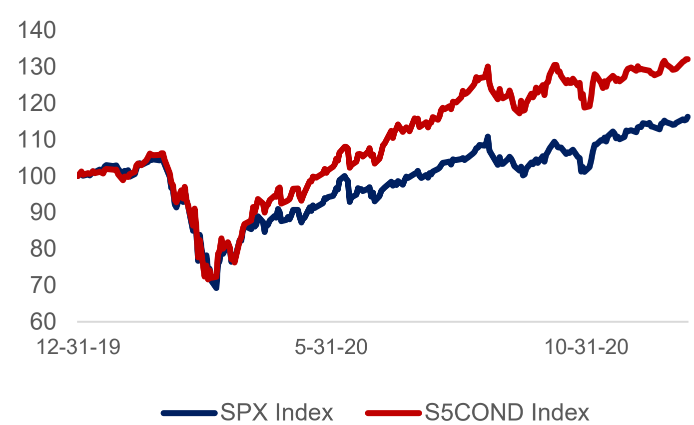


Figure 2：S&P Consumer discretionary Vs. S&P500



Source: Bloomberg

CONSUMER DISCRETIONARY

SECTOR OUTLOOK

CONSUMER DISCRETIONARY

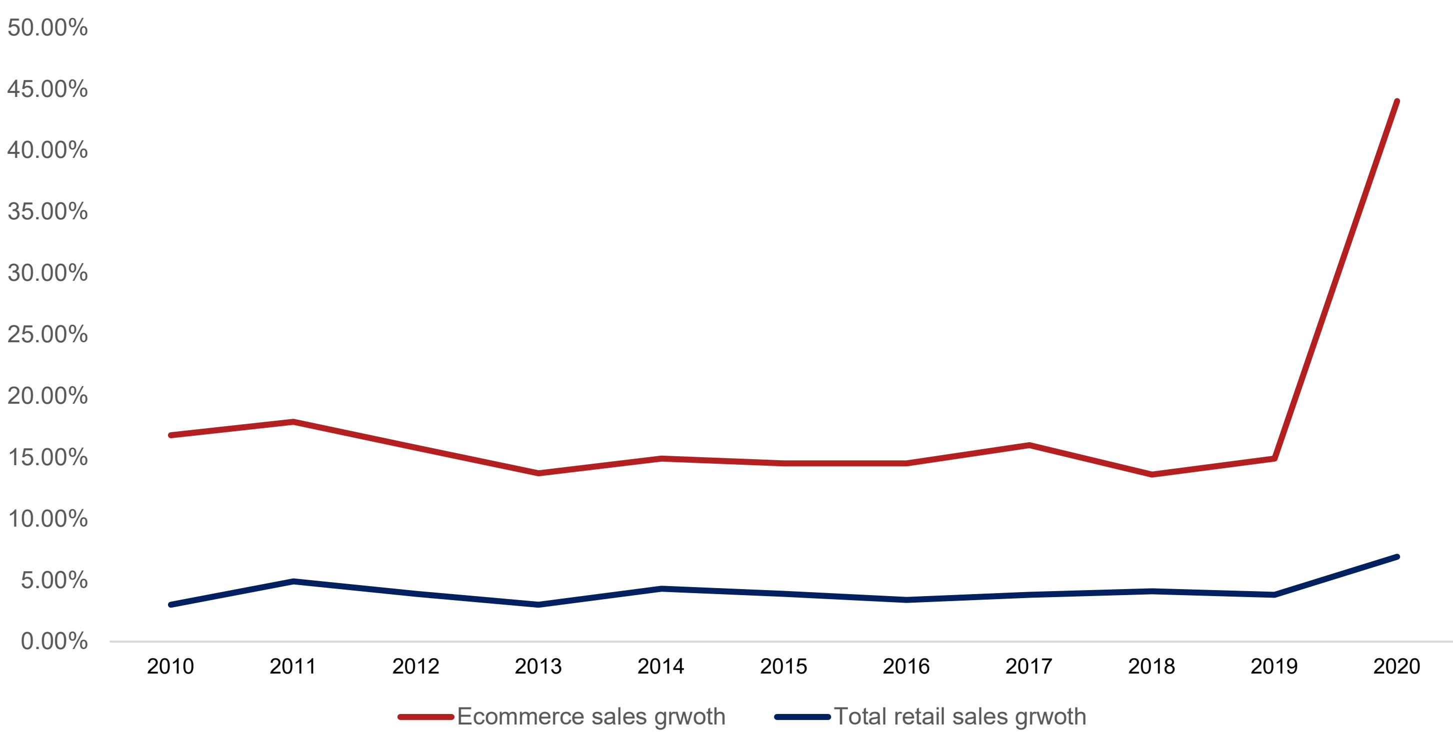
Stimulative low interest rates and loose monetary policy for the foreseeable future should continue to support the Consumer Discretionary sector. Consumer confidence and spending is also expected to improve as unemployment decreases, vaccinations help ease lockdown restrictions, and as a result of the Biden administration's $1.9 trillion economic rescue package. Companies in areas such as travel and leisure, dining out and luxury goods that depend heavily on consumer discretionary spending will see significant earnings growth. To be sure, the speed of recovery for these subsectors is highly dependent on the availability and success of widespread vaccination in combatting COVID-19 infection rates. We expect a meaningful recovery only towards the latter part of 2021.

Internet & Direct Marketing Retail

While Hotels, Restaurants & Leisure subsector growth is expected after the economic reopening, the outlook for Internet & Direct Marketing Retail is mixed. Consumers spent $861 billion online with U.S. merchants in 2020, up 44% year over year. Online retail share of total retail sales steadily increased as well. In 2020, the ecommerce penetration rate hit 21.3%, up from 15.8% in 2019 and 14.3% in 2018. Total retail sales growth also reached a record high during the coronavirus pandemic. Not surprisingly, all this growth came from ecommerce.

The big question in retail is whether consumers will continue to shop online once they have other options. Overall, we are bullish on ecommerce and believe that the change in behavior seen during the pandemic will have strong lasting impacts in a post-pandemic world.

Figure 3: US ecommerce vs. total retail sales YOY growth, 2010-2020



Source: Bloomberg;

CONSUMER DISCRETIONARY

SECTOR OUTLOOK

Internet & Direct Marketing Retail will continue to benefit from further digitalization and technological advances, which should steadily fuel growth for the subsector. Accelerated digitalization brought about by COVID-19 will continue and further enhance efficiency and productivity and in turn propel economic growth.

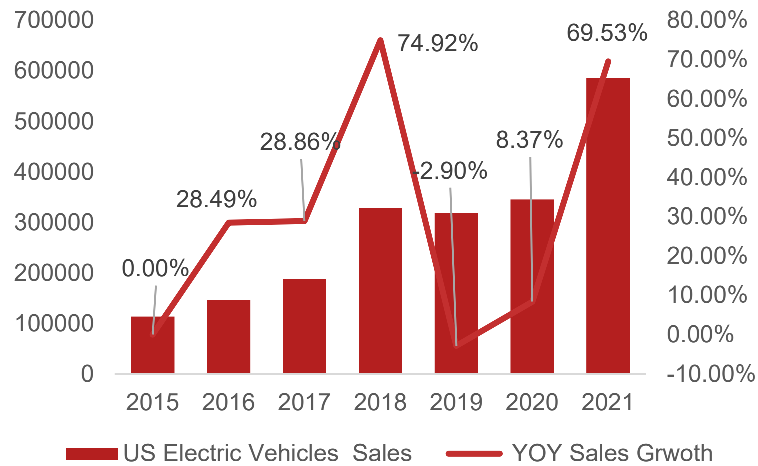
Before the pandemic, consumer discretionary companies were already using technology to drive better inventory management, in-store customer experience, and interaction with consumer mobile devices. The pandemic accelerated this trend, especially with consumer-facing technologies. This should bode well for future growth as digital customers tend to visit more frequently than non-digital customers. While the retail market is expected to recalibrate and online retail sales are expected to fall in 2021, growth opportunities still exist, particularly with omni-channel companies focusing on technological advances.

Automobile & Component

The COVID-19 pandemic has changed the future of the automotive industry. With an improving macro environment in 2021, sales are expected to improve, although not reaching 2019 levels.

The most important trend in the sector is of course vehicle electrification. While the cost gap between traditional and electric vehicles (EV) remains a challenge, we remain bullish on EV. Indeed, Cleantechnica estimates EV sales in the U.S. will increase 70% Y/Y in 2021.

Figure 4: US Electric Vehicles YOY Sales Growth: 2015-2021



An important threat facing the automotive sector is the increasing work-from-home trend, which could structurally decrease demand for personal transport vehicles.

Overall, while Consumer Discretionary is trading at elevated valuation levels, and much of the recovery is priced in, we remain bullish on the sector. We expect further outperformance as the economy continues to recover, supported by further stimulus and improving employment numbers. To be sure, a delay in the recovery due to, for example, an inability to bring COVID-19 under control, would of course hurt the sector. Our plan is to look for companies that are not particularly sensitive to the speed of the economic recovery. Rather, we seek to identify companies that are making the right investments and are following the right strategies to fully exploit the benefits of technological change and digitization.

Source: Cleantechnica

CONSUMER DISCRETIONARY

2020 HOLDINGS REVIEW

Etsy (NASDAQ:ETSY)

COMPANY OVERVIEW

Etsy is a two-sided e-commerce platform made for sellers and buyers, and it mainly promotes hand-made and vintage items. It is known for its rigorous verification process to ensure that vintage and handmade items are respecting a minimum set of rules and characteristics.

The platform is known for offering many advantages to manufacturers and stores selling self-made items, such as marketing services and a streamlined delivery process. Etsy has two main revenue streams, the most important one is its marketplace, where they apply, among other fees, a 5% transaction fee on every sale a store owner makes. The other revenue stream is Services revenue, which is comprised of the fees that the seller pays for the optional services and consists primarily of advertising services, for instance, paying a fee to have a placement advantage in search results.

INVESTMENT THESIS

1. Etsy is well positioned to retain and expand its customer base for future growth: The four pillars form this new plan, which was shared by the current CEO, are increasing marketing investment, enhancing humanity and vibrancy in the marketplace, further removing buyer barriers to purchase and Improving the services available for Etsy sellers

2. Favorable consumer preference and small business trends fuel Etsy's future growth: We based our choice on the start of an increase of the preference towards customizable products, in addition to the rising support from new generations for small stores.

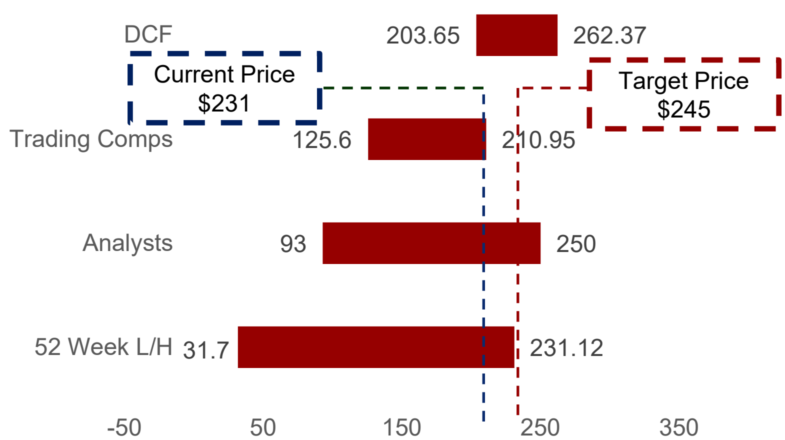
CATALYSTS

- The permanency of this migration of shoppers online depends on how positive they find their online experience to be. Etsy is constantly working on improving its platform. The latest addition is an Augmented Reality viewing option.
- The market of customizable items is forecasted to grow by $7.3bn/year from 2020 to 2024.

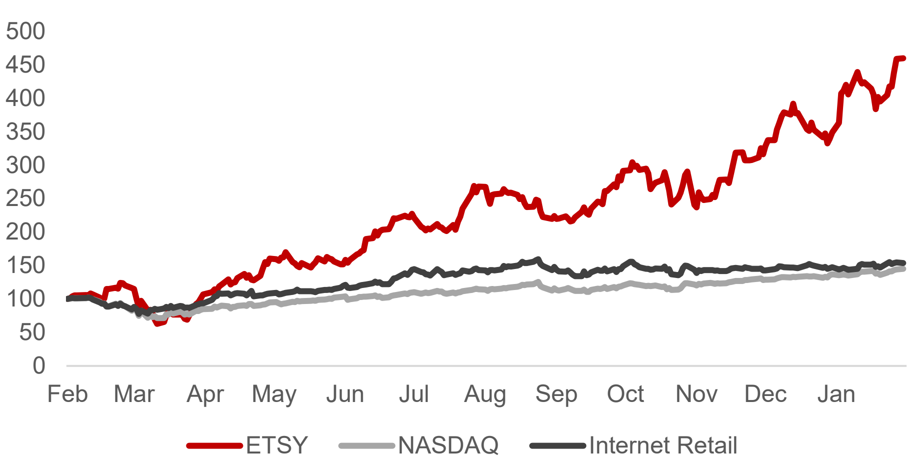
RISK FACTORS

- Store owners dislike the changes made by Etsy: Promoting the platform by resorting to famous individuals, or prioritizing stores with free shipping.
- Shopify attracts small shops who are becoming brands. Etsy's defensive strategy is to offer unbeatable advantages to said stores, and in-house website building tools (Etsy Pattern).

VALUATION SUMMARY



STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Date of Inception to DCM		**2020-02-20**
Average Cost (USD)		**$152.02**
***Shares Acquired:* A2 Fund**		**336**
SRI Fund		**259**
Total Value Invested		**$90,451**
***Portfolio Weight*: A2 Fund**		**4.34%**
SRI Fund		**2.38%**
Holding Period Return		**49.78%**
***Benchmark:* NASDAQ**	**36.79%**	**Outperform**
S&P Internet Retail	**45.33%**	**Outperform**

Ferrari NV (NYSE: RACE)

COMPANY OVERVIEW

- An Italian-Dutch sports car manufacturer based in Italy founded in 1939
- Produces and sells performance cars, provides maintenance/ parts, and brand licensing to retailers of goods and sponsorships
- Under the Automobile & Component subsector with market capitalization of 38 billion dollars

INVESTMENT THESIS

- Underappreciation of the SUV launch: Expanding into previously untapped segment allows Ferrari to increase shipments, maintain exclusivity, and grow their bottom-line without cannibalizing existing lines
- Market Undervalues the potential of Chinese markets: Ferrari can attract new customer bases while maintaining brand exclusivity and brand image

HISTORICAL PERFORMANCE

- Ferrari earned 38.7% total return in 2020
- Outperformed benchmark in consumer discretionary by 6.2% and the Automobile & Component sub sector by 26.4% in 2020
- Contributing factors to 2020 outperformance: Strong customer demand during pandemic (order book increased 22% vs in 2019) and reopening of assembly line and shipment fulfilment in Q3

HOLDING & FUTURE OUTLOOK

- Uncertainty in CEO replacement, doubtful 100% electrification future, lagging performance in Chinese market, and struggling F1 performance pose threats to future performance
- Ferrari's proven resilience during crisis, brand exclusivity, volume growth, and pricing power are the driving factors to future outperformance and reasons to continue holding the stock

Lowe's (NYSE: LOW)

COMPANY OVERVIEW

- Lowe's is the world 2nd largest home improvement retailers operating in the U.S. and Canada with more than 2,200 stores.
- Lowe's provides product lines in appliances, fashion fictures, lawn & garden sales, plumbing & electrical, tools and hardware, lumber &material, and others.
- Under home improvement retail subsector with market capitalization of $126 billion

INVESTMENT THESIS

- Market underestimation of the synergy benefits of management restructuring: New management together brought 100+ years of experience in home improvement, improving operational execution.
- Market underweights the future growth of remodeling activities. Consumer spending on remodeling is upward sloping and stable despite downturns.

HISTORICAL PERFORMANCE

- Lowes earned 33.74% total return in 2020
- Outperformed consumer discretionary benchmark by 1.5% and home improvement retail subsector by 8.41% throughout 2020
- Contributing factors to 2020 outperformance: Bullish housing improvement market driven by the pandemic lockdown. Stimulates consumer need for home renovation

HOLDING & FUTURE OUTLOOK

- Slowing population growth and rising house improvement costs pose threats to Lowe's future performance
- Lowe's cost reduction and operation improvements by management in 2020, continued strong income of remote workers, and more moving into prime home-buying age are key factors driving performance and reasons to continue holding the stock

COMMUNICATIONS

2020 REVIEW & 2021 OUTLOOK

NATHAN GAO
LILY OUYANG
KATERINA PARASCHIS
ALYONA PERESLAVTSEVA
DAHUI SUN
BETHANY XU

Communications

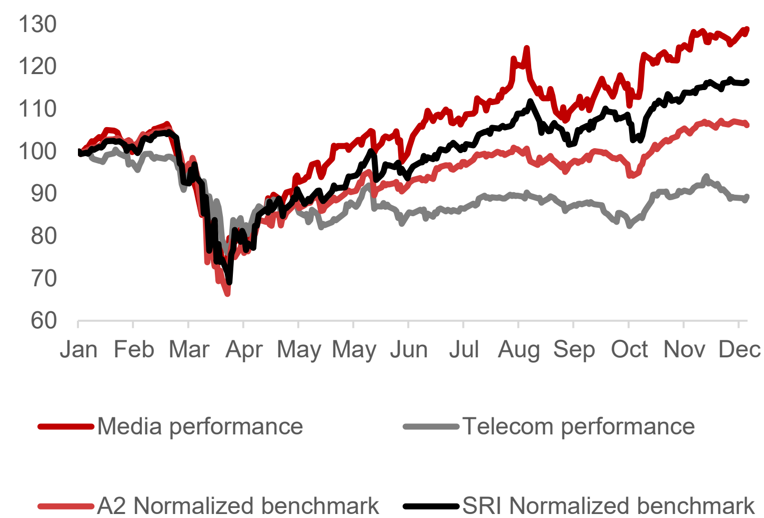
SECTOR OVERVIEW

2020 DCM Sector Performance

In 2020, the DCM Communication Services sector overperformed the sector benchmark (6%), returning 13.4% (Figure 1). The outperformance was primarily due to two sudden price jump in Disney shares. On Nov.10th two pharmaceutical companies announced that their vaccine candidate against the SARS-CoV-2 virus is more than 90% effective, revealing signs of a return to normal consumer behavior. On Dec.10th, Disney announced releases of more than 100 movies and shows in the upcoming years, with 80% of those going directly to Disney+, and more mature content for its users. Disney shares climbed 13.5% (to a record high) after this announcement and ended up 21% for the year. Investors have been bullish on Disney's direct-to-consumer service since the Covid-19 pandemic forced millions of people to find their entertainment at home. Overall, we remain confident in our direction and strategy going into 2021.

Figure 1: DCM Communication Services sector performance

Figure 2: Communication Services Subsector Performance



Subsector Performance

In 2020, the Media subsector performed better than the Telecom subsector in the Communication Sector with a return of 29%, while the Telecom subsector's YTD return in 2020 was -11%. Currently both funds in DCM do not have holdings in the Telecom subsector. However, Dish is expected to transform into a telecommunication company with their 5G deployment plan. Therefore, it is important to track the performance of the telecom subsector in the future.

The Media subsector has outperformed both the SRI and A2 benchmark in 2020, up 12% and 23% respectively, which showed strong resilience despite the impact of Covid.

Factors such as increase volume of work-from-home and quarantine benefited the Media subsector with more demand for online entertainment services and digital business building.

On the other hand, the Pay-TV industry has shown a trend of switching from Cable/Satellite TV to Internet/Over-The-Top (OTT) media with a declining market size. DCM should pay attention to the defensiveness of its holdings in this industry against this unfavorable trend. Lastly, the telecom industry expects to have a faster shift to 5G in the coming year and DCM will keep tracking the performance of this subsector.

Source: Bloomberg

Communications

SECTOR OUTLOOK

Telecommunications:

During the pandemic and Covid-19 lockdowns, telecom companies have been strategically important to the economy and social well-being. Working from home and streaming entertainment services have resulted in a substantial rise in data usage on fixed networks in 2020. After the commercial launch of 5G services for consumers, the shift to 5G services for industrial purpose – leveraging the Internet of Things - has begun. The resulting expected strong data growth requires telecom operators to expand coverage, and further densify their mobile networks. In the short term, economic conditions continue to be dominated by Covid-19, and national lockdowns have meant many employees have been working from home. As they continue to do so in 2021, the demand for cloud and network services will increase as will the demand for connected assets and IoT applications.

Cybersecurity efforts increase as the complexity and importance of telecom networks grows. Now that more people work from home, routers and devices, for example, are attacked more often to gain access to company networks. As the complexity of telecom networks increases, cybersecurity also becomes more complex. The extra speed and additional potential points of attack on the internet of things fuel cyberthreats in 5G. Therefore, the roll-out of 5G should go hand in hand with extra efforts to secure networks and data in 2021.

Media & entertainment:

We are optimistic about the future development of this subsector. Firstly, new technologies such as VR/AR games and cloud games are gradually evolving and have been put into commerce step by step. Secondly, although the pandemic is expected to further influence the media & entertainment industry in 2021, we have seen some businesses start to update iteratively. For example, with the situation that cinemas are closed, services can be accessed partially through streaming media. These developments on products allow businesses to be expanded easily without heavy barriers of borders. At the same time, consumers will be more and more adaptable to the form of online services. Therefore, we believe that the negative influence brought by the epidemic will be gradually eliminated and the overall industry performance will progressively recover to its pre-crisis level in 2021.

Primary future risks related to this subsector include the insufficient supply of high-quality content and lower than expected industry growth. Besides, if companies are trying to provide worldwide services, possible regulatory risks should also be taken into consideration.

Source: Bloomberg

COMMUNICATIONS

2020 HOLDINGS REVIEW

DISH NETWORK CORP. (NASDAQ: DISH)

COMPANY OVERVIEW

- Dish is a communications company situated in Englewood, Colorado and operates in two business lines.
- They are the second largest satellite Pay TV provider. Their Pay TV segment also includes Sling TV which was the first ever OTT media service introduced to the American market.
- Since 2008, Dish has been purchasing wireless spectrum as the company transitions to a mobile future. Following Sprint and T-Mobile's merger, Dish benefitted from receiving certain assets from Sprint, including the divestiture of their prepaid business, Boost Mobile, which now accounts for 30% of Dish's revenue stream.
- Dish plans on deploying America's only standalone cloud-based 5G network and becoming the fourth largest wireless communication services provider.

INVESTMENT THESIS

1. Dish is a mature company that has strategically pivoted its business into the wireless services industry.
2. Dish's Pay TV business is in a more resilient position than its peers. The market is overestimating the impact of the overall industry decline on Dish.

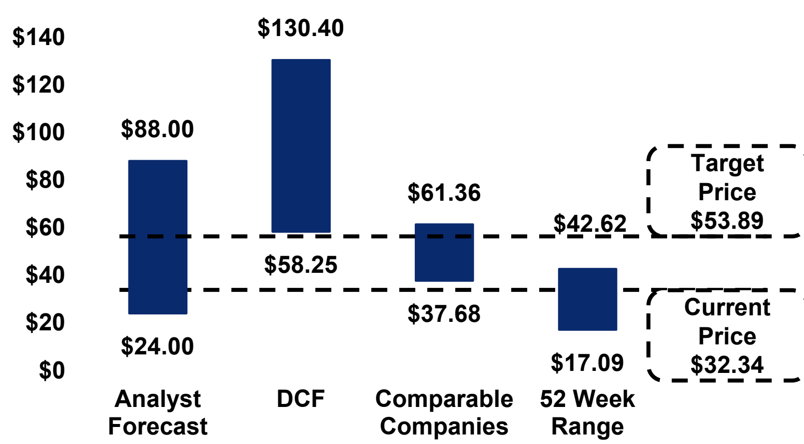
CATALYSTS

- Successful pivot and execution into the wireless industry in line with 5G adoption
- Benefits of revenue diversification with established prepaid and postpaid acquisitions
- Steady predictable cashflows from Pay-TV segment

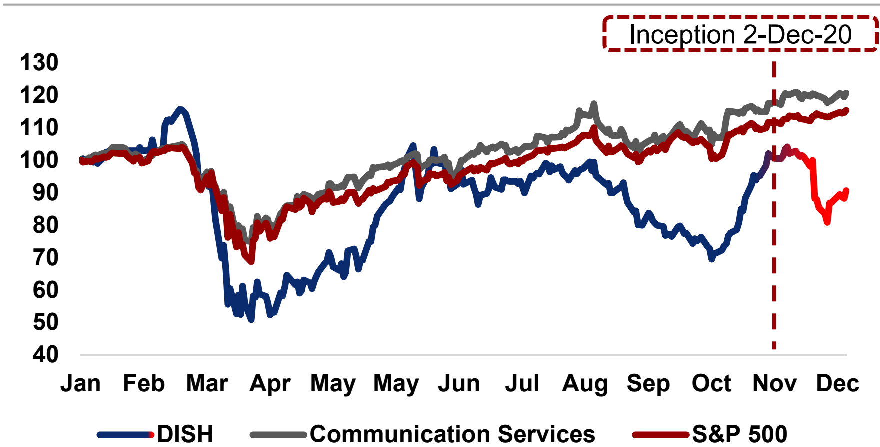
RISK FACTORS

- Execution risks related to not meeting 5G deployment deadlines and not capturing large enough market share
- Difficulty financing $10B 5G build-out plans
- Acceleration of consumer shift to streaming services for media content and cable-cutting

VALUATION SUMMARY



STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Date of Inception to DCM	**2020-12-02**
Average Cost (CAD)	**$36.12**
***Shares Acquired:* A2 Fund**	**1,439**
SRI Fund	**2,329**
Total Value Invested	**$136,100.16**
***Portfolio Weight*: A2 Fund**	**4.24%**
SRI Fund	**5.59%**
Holding Period Return	**-10.47%**
***Benchmark:* S&P500 Index**	**-12.84% Underperform**
S&P500 Communication Services Index	**-10.55% Underperform**

WALT DISNEY CO (NYSE: DIS)

COMPANY OVERVIEW

- The Walt Disney Company is an American diversified multinational mass media and entertainment conglomerate.
- It operates four primary business segments. Direct-to-consumers and international now takes the biggest share on revenue.

INVESTMENT THESIS

1. Disney's relatively new streaming service, Disney+ matures to a real business. Disney+ has 86.8 million paid subscribers as of December and will expand to cover a broader area
2. Disney has been slowly building into a subscription-based revenue model, which make the company more stable and predictable, both operationally and financially.

HISTORICAL PERFORMANCE

- In 2020 when the market came crashing down under huge pressure from the pandemic outbreak, Disney was one of the worst hit stocks out there. It has underperformed the sector benchmark. Disney's stock price fell 41% in March.
- Then the stock recovered along with the rest of the market and outperformed the sector benchmark after a price jump on Dec.10th, when the company announced its plans and strategies for the next few years.

HOLDING & FUTURE OUTLOOK

- The expansion of streaming services will be the major growth factor for Disney, the company projected global subscriber base of 300 to 350 million by 2024, including 230 to 260 million users on Disney+.
- Disney has a rich IP portfolio; this IP portfolio is one of the core competitive advantage for Disney's streaming services in the long-term.

ENERGY

2020 REVIEW & 2021 OUTLOOK

JEAN-CHRISTOPHE AZZOPARDI
MARC-OLIVIER LÊ

DESAUTELS CAPITAL MANAGEMENT

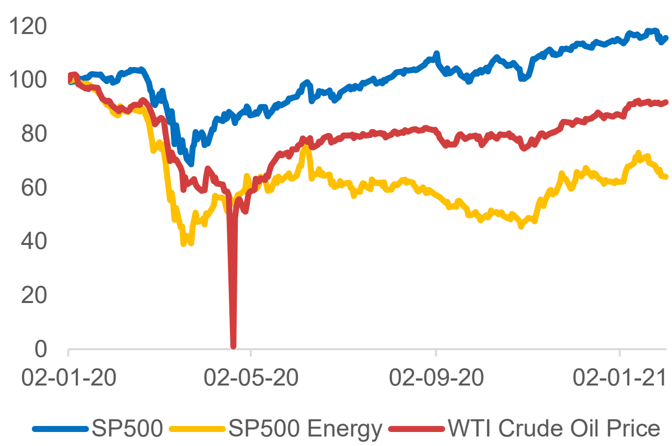
ENERGY

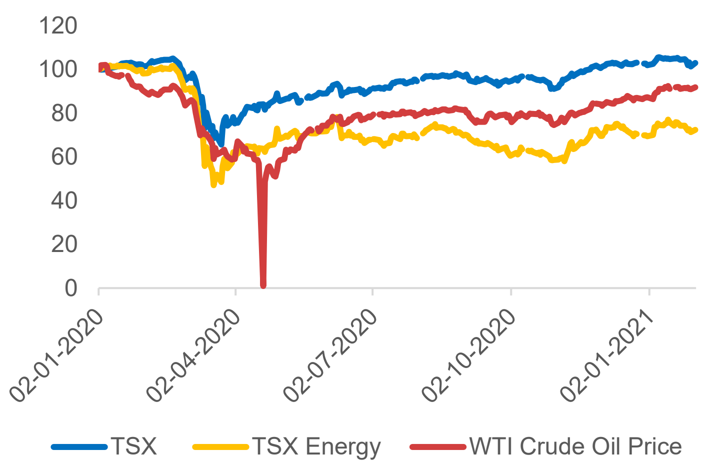
SECTOR OVERVIEW: GENERAL

BENCHMARK PERFOMANCE

The 2020 coronavirus epidemic caused an unprecedented demand shock in the energy sector. Both Canadian and US Energy indices underperformed their respective broader market indices.

Figure 1&2: Energy sectors returns vs Relative Equity Benchmark return (SP500 & SP500/TSX)





The underperformance in both markets can be attributed to global public health measures implemented in response to the first wave of COVID-19 infections. Travel restrictions reduced demand for products such as gasoline and jet fuel, leading to a crash in oil prices. With lower crude oil prices, diminished demand and increased uncertainty, the energy sector suffered.

DCM ENERGY PERFOMANCE

The DCM energy portfolio returned -14.77% for the year, outperforming the US sector benchmark by 18.90% and the Canadian sector benchmark by 10.49%.

Figure 3: Holdings return vs Energy Benchmark

	2020 Returns	
	Absolute	**Relative**
Total DCM Energy	-14.77%	
SP500 Energy	-33.67%	18.90%
SP/TSX Energy	-25.26%	10.49%
SP500	18.39%	-33.16%

The outperformance was largely attributable to our subsector allocation within Energy, where we were overweight in midstream transportation (TC Energy). Midstream companies typically do not take on commodity price risk since pipeline tolls and tariffs are stabilized in collaboration with regulators. Additionally, transported volumes are contracted on a long-term basis with clients, reducing usage risk.

Source: Bloomberg

ENERGY

SECTOR OVERVIEW: OIL

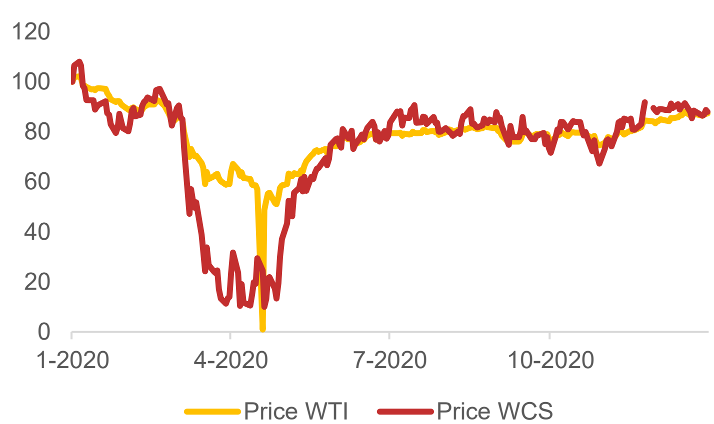
OIL PRODUCTION AND PRICES

Travel restrictions imposed to combat the 2020 COVID-19 epidemic caused a significant decrease in products such as gasoline and jet fuel. With a crumbling demand and a stable supply, the equilibrium price of oil was bound to drop.

UNITED STATES

Negative WTI oil prices were seen for the first time ever in April 2020, with front-month WTI contracts briefly bottoming out at US$-40.32/BBL on April 20th due to concerns about insufficient storage capacity at Cushing, OK. With 675 active rigs drilling for oil in early 2020, drillers were forced to stack their rigs in response to the diminished demand for crude, hitting a minimum active rig count of 172 by August. Multiple factors explain why producers were slow to shut-in (*switch off)* wells in the US, ranging from legal (loss of land lease) to technical (produced water and reservoir pressure concerns). US production decreased from nearly 13MB/D in January 2020 to a minimum of just under 10MB/D in August, before climbing back to 11MB/D in December. Shale plays typically have steep production decline, so stacking rigs had the effect reducing supply and stabilizing prices to a near-recovery by the end of the year (Fig 4).

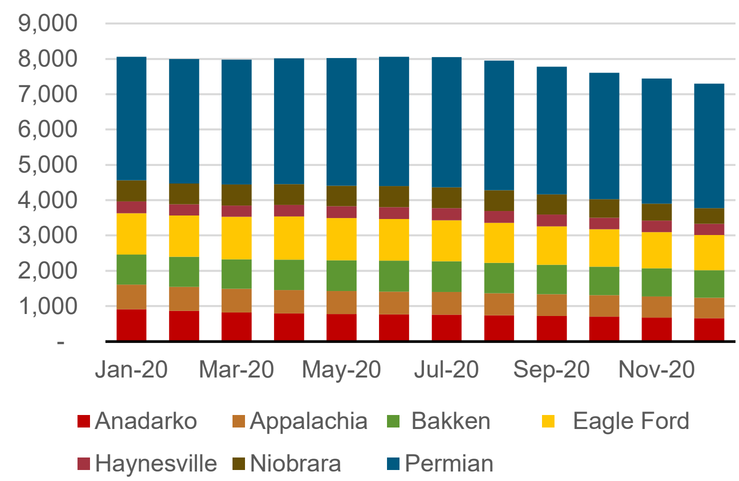
Figure 4: Price of WTI Crude Oil compared to price of WCS Crude Oil



Source: Bloomberg, Baker Hughes, EIA, Journal of Petroleum Engineering

Reduced drilling activity in 2020 has decreased the number of Drilled but Uncompleted (DUC) wells from 8000 to 7200 over the course of the year (Fig 5). By tapping into DUC inventory, producers are able to bring production online while limiting new investment. An average of 492 wells were completed per month in Q4 while only 329 wells were drilled. As such, drilling activity is likely to pick up as DUC inventory decreases.

Figure 5: Inventory of Drilled but Uncompleted Wells by US Region



CANADA

Like their US counterparts, Canadian drillers also responded to the oil demand shock by decreasing rig count to reduce supply. Rigs were slower to be brought back online following spring break-up, a period of the year where Canadian oilfield services activity is traditionally low. Increased transportation and refining costs of WCS in comparison with WTI placed further pressure on Canadian producers in an oversupplied market. Canadian crude production achieved a better recovery to its pre-pandemic output than WTI, falling from 4.5MB/D in January to a minimum of 3.6MB/D in June, before rising back to just under 4.3MB/D in October (last available data). Like WTI, prices achieved a near-recovery (Fig 4).

ENERGY

SECTOR OVERVIEW: NATURAL GAS

NATURAL GAS

UNITED STATES

Natural Gas did not suffer the same COVID-related shocks as did Oil in 2020. Natural gas is mostly used in power-generating applications (Fig. 6), making the price of this commodity correlate strongly with extreme weather events since vast amounts of power are required for heating and cooling. A colder than expected winter allowed the price of natural gas to rise in late 2020 (Fig 7). Since demand was generally unaffected by COVID-related travel restrictions, prices did not move alongside WTI.

Figure 6: Natural Gas % Consumption by Sector in US, 2020

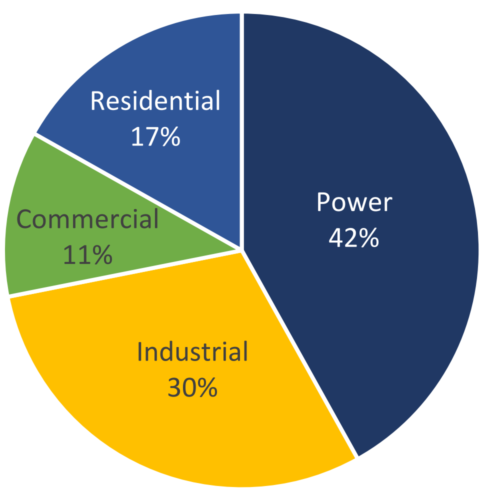
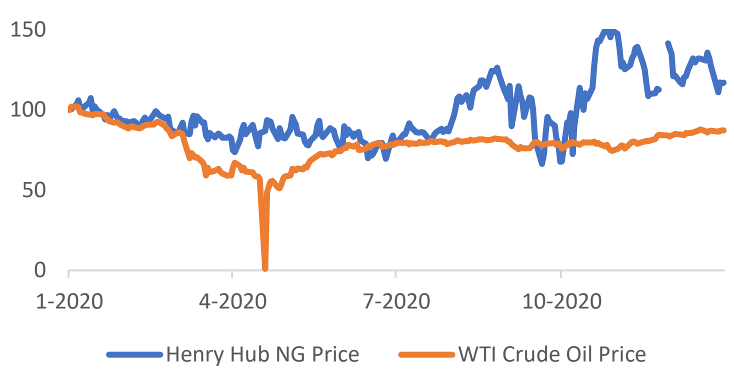


Figure 7: Price of WTI Crude Oil compared to price of Natural Gas



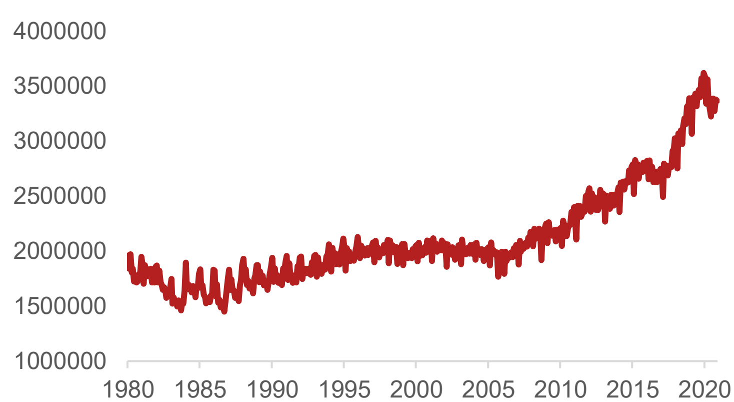
EIA forecasts an increase in natural gas prices moving into 2021. With more people working from home, an expected increase in consumption from the residential sector is expected, though the power generating sector's consumption is expected to fall as renewables continue to gain traction. For 2021, EIA expects a total decrease in consumption of 2.8% to 2.3Bcf/d.

Decreased drilling activity in 2020 (Figure 8) is expected to be reflected by a slight decrease in production in the early part of 2021, placing upward pressure on prices. Reduced US consumption will be offset by an increase in Mexican and overseas demand. US natural gas exports are expected to reach 9.8Bcf/d in 2021, up from an average of 6.5Bcf/d in 2020. US LNG export terminals are operating near capacity.

Canada

Once completed and operational, Canadian export terminals such as LNG Canada in Kitimat, BC will be well-positioned to supply the Asian market in response to bottlenecked US exports. Canadian midstream operator TC Energy has partially divested from Coastal GasLink, a pipeline connecting western Canadian resources to Kitimat. First Nations were provided with an option to acquire a 10% equity stake in the project.

Figure 8: Natural Gas Withdrawals in the US (in MMCF)



Source: Bloomberg, EIA

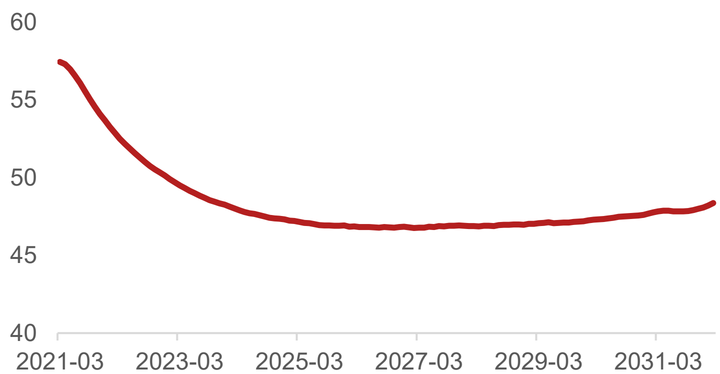
ENERGY

SECTOR OUTLOOK

OIL AND GAS FUTURES CURVE

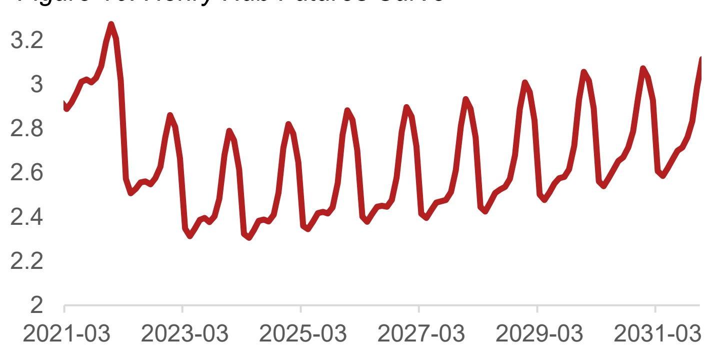
The recent rebound in oil prices reflects reactive reduction in global oil inventories, demonstrating the industry's capacity to adjust to current events. The rebound in oil prices has shifted the crude oil futures curve, shown in Figure 9, into backwardation. This reflects the uncertainty linked with future oil prices as demand is still extremely volatile and OPEC is starting to ease their restrictions on crude oil supply.

Figure 9: WTI Futures Curve



Therefore, while the futures curve indicates a stable price in the short run, it should be taken with a grain of salt as many factors are still in play, such as the speed of the vaccination campaigns and the multiple variants of COVID-19. All of those variables could potentially delay the scheduled recovery of the oil industry in the short term.

Figure 10: Henry Hub Futures Curve



Source: Bloomberg, EIA

The curve for the Henry Hub futures also shows a backwardation of the commodity price in Figure 10. However, it is less pronounced. This can be attributed to the market pricing in the future increased demand of natural gas in developing countries.

SUBSECTORS OUTLOOK

Due to high uncertainty around the recovery from COVID-19, any short-term forecasts are at risk of substantial revisions as the situation unfolds. Companies with predictable cash flows are more likely to benefit from such uncertainty, while upstream and service companies may be more likely to benefit only once a public health recovery is established with greater certainty.

The upstream subsector is expected to recover at the slowest pace due to stable crude oil prices. As mentioned earlier, the increased supply combined with the current capacity in storage of the commodity will keep this price stable in the short run. Midstream companies, on the other hand, are slated to recover to their pre-pandemic levels in the mid-term due to the increasing demand in oil since those firms are compensated based on the volume they transport. As drilling activity rebounds, so will production and transported hydrocarbon volumes through pipelines. Finally, the downstream sector is also expected to recuperate quickly as the crack spread is expected to increase, expanding the profits made by firms operating in this subsector.

It also important to mention that some energy companies are starting to invest in renewables. With a peak demand for refined oil occurring in the 2040s according to the IEA, energy companies that are investing right now in green energies will benefit from this shift down the line. This is an important factor that motivated our recent purchases, which will be presented next.

ENERGY

2020 HOLDINGS REVIEW

Royal Dutch Shell (NYSE: RDS.A)

COMPANY OVERVIEW

- Royal Dutch Shell is a Dutch integrated energy company. Most of the firm's revenues are derived from its downstream activities.
- The company has ventures all around the globe. Shell also owns the biggest network of retail gas stations compared to its competitors.
- Shell is also a major player in liquified natural gas, which is natural gas that is liquified at low temperatures.
- Renewables is also part of the long-term plan of Shell, as it has started to invest in alternative sources of energies. Most notably, Shell is investing in hydrogen and offshore wind turbines.

CATALYSTS

- Demand for oil and gas will increase in the short run as lockdowns and restrictions will be lifted.
- The shift towards greener energies has been accelerated by the current pandemic in developed countries
- LNG is seen as the best replacement for coal in developing countries

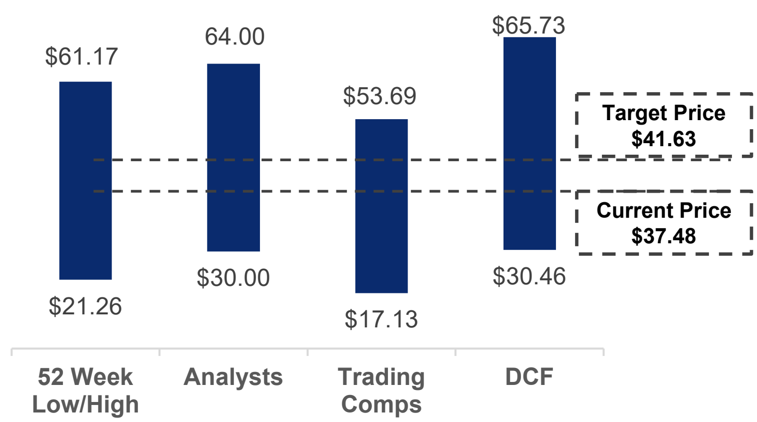
RISK FACTORS

- Regulations represent a major risk for all energy companies. With changes in administration come volatility in legislation, which could disrupt oil and gas related activities.
- The volatility in O&G supply and demand makes predicting future prices extremely difficult.

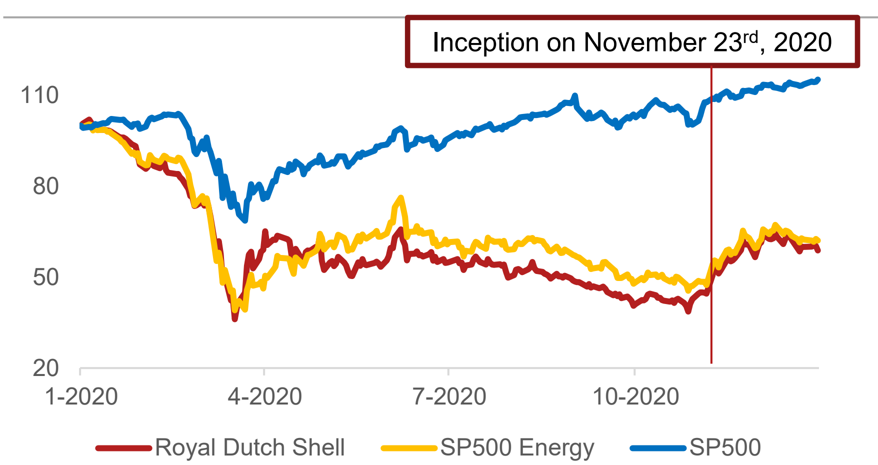
INVESTMENT THESIS

- Shell will be able to profit from the growing demand of LNG through its leadership position in this sector. With projects such as Prelude LNG and Coastal GasLink in play, the firm is bound to take advantage of the increasing demand of LNG in developing countries.
- Shell's exposure to renewables makes the firm better prepared for a greener future. Moreover, the company will be able to use those green energies in its retail network, which is a differentiating factor.
- The historical dividend cut of Q2 2020 has scared investors away from Shell, which in turn led to the stock to be undervalued in our view

VALUATION SUMMARY



STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Date of Inception to DCM	2020-11-23
Average Cost (CAD)	$34.77
Shares Acquired: A2 Fund	2000
SRI Fund	0
Total Value Invested	$69,658.00
Portfolio Weight: A2 Fund	4.19%
SRI Fund	0%
Holding Period Return	-0.20%
Benchmark: S&P500 Index	-5.35% Underperform
S&P500 Energy Index	-0.31% Underperform

Valero Energy Corporation (NYSE:VLO)

COMPANY OVERVIEW

- Valero is an American company that operates in the downstream sector. The firm owns 15 refineries across the US, Canada and United Kingdom. The company is the largest global independent refiner, with a total refining capacity of 3.2 million barrels per day.
- Valero is also invested in renewable diesel and is set to become the largest producer of this commodity in 2023 with its joint-venture Diamond Green Diesel.

HISTORICAL PERFORMANCE

- The energy sector as a whole underperformed the SP500 due to the lower demand for refined oil. The SP500 returned 18.39% while the SP500 energy index returned -33.7%.
- Valero also underperformed the SP500 energy benchmark due to its high debt levels. Valero returned -35.6% in 2020.
- Despite the overall conditions for the energy sector, Valero was still able to beat its earnings for all quarters of 2020.

INVESTMENT THESIS

- The firm's positioning of US refineries is advantageous as they are located on the coast of the Gulf of Mexico, opening up multiple trade routes.
- Valero's investment in renewable diesel is a way to diversify the firm's offering in the long run. This investment will also reduce its cost incurred due to the RIN obligations.

HOLDING & FUTURE OUTLOOK

- With the lifting of lockdowns and restrictions, the demand for energy used in the transportation sector will increase, leading to higher refined oil prices. Moreover, with still a lot of crude oil in storage in the US, the price of this commodity should remain stable in the short run. Therefore, we should see refineries benefit from the spread between the two measures.
- With investments in renewable diesel, Valero will be able to diversify its sources of revenues and achieve its RIN obligations at a lower cost.

TC Energy Corporation (TSX: TRP)

COMPANY OVERVIEW

- TC Energy (formerly Trans Canada Energy) is a Canadian Energy Infrastructure company that owns and operates projects across Canada, the US and Mexico
- The vast majority of TC Energy's revenue is generated through its Natural Gas pipelines, while only around 1/5 is generated through its high-profile Liquids pipeline projects.

HISTORICAL PERFORMANCE

- Reversal of regulator support for Keystone XL likely already priced in by investors, limited loss by TC Energy due to Albertan government spending on construction costs
- De-risking of Coastal GasLink project through 65% divestment in project
- TC Energy total return outperformed the S&P500/TSX Energy Index (STENRS) by 5.8%

INVESTMENT THESIS

- Multiple projects in place and in construction, such as Coastal GasLink, allow TC Energy to benefit from increased North American energy exports
- Mexican operations well positioned to capture growth in Mexican natural gas demand
- Stable and predictable utility-like cash flows through Take or Pay contracts in regulated industry

HOLDING & FUTURE OUTLOOK

- TC Energy's familiarity with using renewable energy to power its pipelines is gaining traction among analysts.
- Energy transition presents a growth opportunity for TC Energy to expand beyond core hydrocarbon business, leveraging expertise in developing and operating large regulated infrastructure projects along linear corridors

Source: Bloomberg, TC Energy

FINANCIALS

2020 REVIEW & 2021 OUTLOOK

ANDREW GILLICH
KEN QIN
JOHN XU
EUGENIE ZHANG

DESAUTELS CAPITAL MANAGEMENT

FINANCIALS

2020 SECTOR REVIEW

BENCHMARK PERFORMANCE

The Financial sector significantly lagged the S&P500 throughout 2020, ending 22% below the broad index by the end of the year. Banks were the worst performers, earning -34% while insurance was not far behind, at -22% return, followed by Diversified Financials coming in at -8% relative to the benchmark.

BANKS

The banking sector suffered the most throughout 2020 largely because of the challenging macroeconomic environment caused by the COVID-19 pandemic. A low interest rate environment and flat yield curve was damaging to bank margins while low loan growth and increased credit risk forced intense loan loss provisions building throughout 2020. Performance is expected to improve substantially as uncertainty subsides.

INSURANCE

The insurance sector also felt the pain of COVID-related uncertainty and low interest rates in 2020, hurting investment income. Business interruption litigations have also been widely pursued in the industry, with courts overwhelmingly ruling in favour of insurers. COVID-related losses have been far less than early 2020 predictions ($25B Vs. $100B).

DCM FINANCIALS PERFORMANCE

	2020 Returns	
	Absolute	**Relative**
Total DCM Financials	18.9%	
SP500 Financials	-1.8%	20.7%
SP500/TSX Financials	1.6%	17.3%

Our Financials holdings (Chubb, MSCI, TMX, RBC) significantly surpassed benchmark returns, delivering a solid 18.9% return over 2020, outperforming the S&P500 Financials benchmark and the S&P/TSX Financials benchmark by 20.7% and 17.3% respectively.

One factor explaining our overperformance relative to our benchmarks is our underexposure to banks, which were the worst performers within Financials. Diversified Financials performed the best, as illustrated by MSCI's rally, which we purchased at $294 in February and which reached $450 at the end of 2020, representing an impressive 53% return. TMX also remained resilient during 2020 and delivered a 15.5% return.

We purchased RBC at the end of 2020 and maintain our bullish outlook as the bank is better positioned than peers to minimize COVID-19 impacts and losses resulting from the low interest rate environment.

Figure 1: SP500 Financials v. SP500

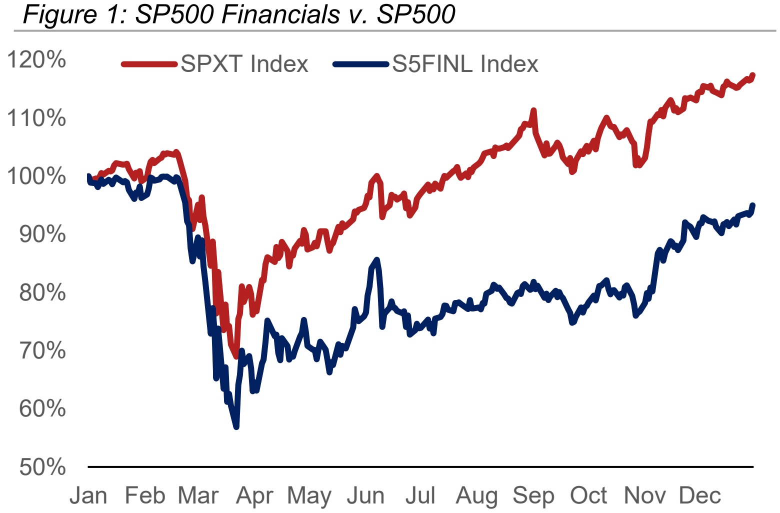
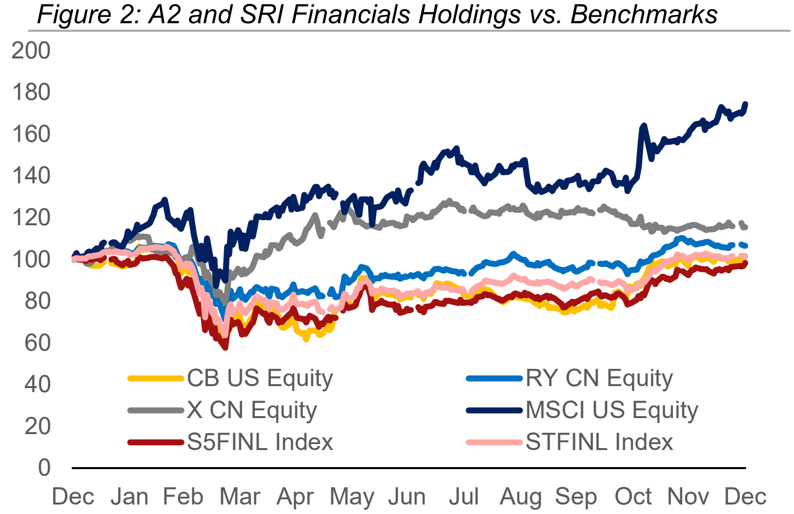


Figure 2: A2 and SRI Financials Holdings vs. Benchmarks



Source: Bloomberg

FINANCIALS
SECTOR OUTLOOK

OVERWEIGHT ON TAILWIND INTO 2021

We are overall positive on the high-beta financial sector given gradual vaccine rollout, further fiscal stimulus worldwide, continued yield curve steepening and still modest valuation expansion since Q2 2020. Ongoing investment in fin-tech will also help expand market reach and lower expense in the long run. Risks to our view include regulation and tax increases. These risks, however, are low in our opinion with the political focus still on economic recovery in the coming year.

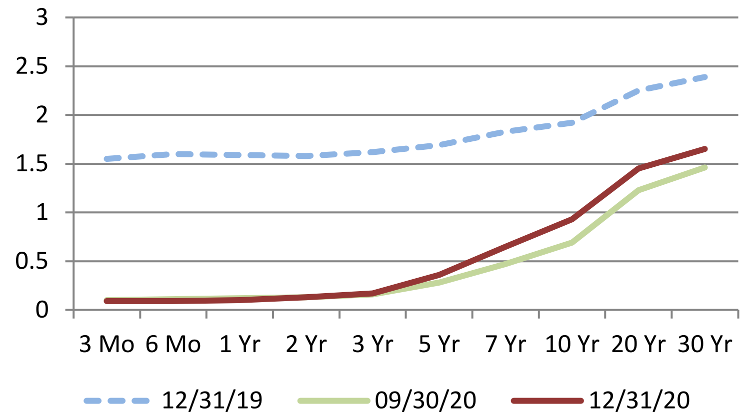
BANKS

Valuations across the subsector are reasonable given the better economic outlook. Large US banks are trading around 1.3x price/tangible book, 2.4% dividend yield and 14 forward P/E. Yield curve steepening, 10y US treasury yield is up 23 bps in Q4 2020, could help on Net Interest Margin. Stimulus from the Democratic sweep will cushion credit quality and potentially spur loan demand. Strong capital markets and retail brokerage trend is expected to continue, and the Fed allowing bank stock buybacks could be an extra boost to share prices. We are overweight the subsector in 2021.

INSURANCE

Our outlook for the P&C and Life insurance sector leans positive for 2021, with easing concern on COVID-19 related claims. We believe P&C insurers will incur manageable claims in the workers' compensation, event cancellation, and business interruption. For the life insurers, we do anticipate high mortality claims but the impact should have been already priced-in by the market. Rising yield curve, improving credit quality and a buoyant equity market should help on insurers' investment income, compensating for the more modest growth in underwriting income. With stock prices still sharply lagging relative to market, we are overweight and expect value rotation inflow to propel catch-up.

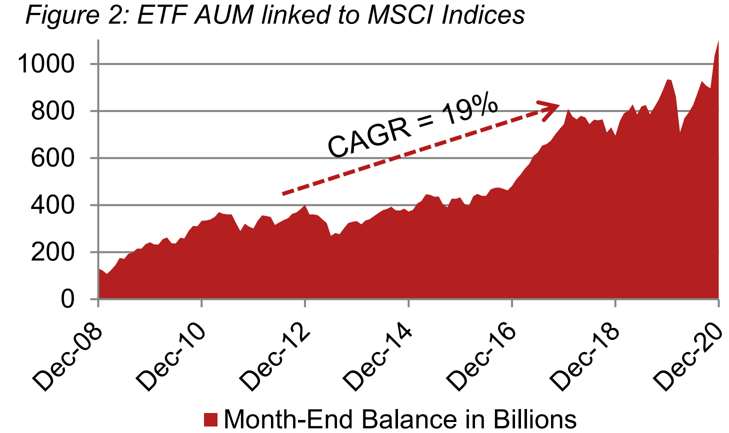
Figure 1: US Treasury Yield Curve



DIVERSIFIED FINANCIALS

Among the diversified financials subsector, exchanges and financial information services benefited from the heightened volatility from the pandemic and are enjoying structural trend tailwind from electronification and passive ETF investment. In 2021, we expect robust equity listing activities on high market valuation, liquidity and retail enthusiasm. A reflationary environment could also boost FICC derivative trading at CME, ICE, TMX and TradeWeb. Information providers like MSCI, have outperformed the sector by a wide margin in 2020. We continue to like their uninterrupted revenue growth, international opportunities and in particular ESG exposure, but valuation north of 60x remains a concern. Thus, we are currently neutral (market weight) on the subsector and will be buyers on a correction.

Figure 2: ETF AUM linked to MSCI Indices



Source: Bloomberg, US Treasury, MSCI

FINANCIALS

2020 HOLDINGS REVIEW

ROYAL BANK OF CANADA (TSX:RY)

COMPANY OVERVIEW

- RBC is a global financial institution with over 8,600 employees. As Canada's biggest bank, it provides diversified financial services to 17 million clients in Canada, the U.S. and 34 other countries.
- With C$1.43 trillion in total assets, RBC is the largest bank in Canada, closely followed by TD Bank.
- RBC has an exceptionally diversified business model with the traditional borrowing and lending business accounting for only 45% of its earnings, 24% for the Capital Markets segment, 19% for the Wealth Management, 7% for the Insurance and 5% for the Investor and Treasury Services.

CATALYSTS

- RBC and BlackRock Canada brought their ETF families together under one new banner: RBC iShares. With a combined total of 150 ETFs, RBC iShares was immediately Canada's most comprehensive ETF offering. As such, RBC is strategically well positioned to capitalize on the shift of investors' preference

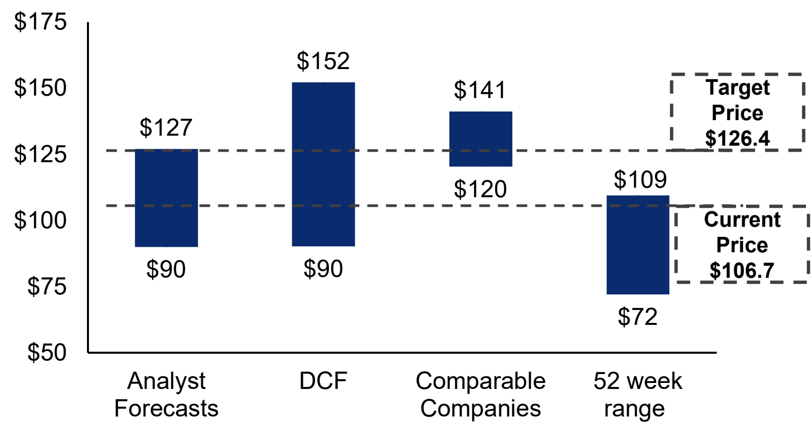
RISK FACTORS

- The slower than expected distribution of vaccines and uncertainty regarding its effectiveness are particularly concerning to banks as it dictates when the economy could be once again opened.

INVESTMENT THESIS

1. ***Resilience***: RBC has only 14.4% COVID-sensitive sector exposure: the lowest level among the Big Five. Combined with a creditworthy customer base and CET1 ratio of 12.5%, we believe RBC is well positioned to continue to deliver value to its shareholders in a post-pandemic era.
2. ***Interest Rates***: RBC's fee-based income accounts for more than 50% of its revenue, which is the highest among its peer group. We believe its diversified business model can more than offset the headwind led from low real rates environment.

VALUATION SUMMARY



STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE

Source: Bloomberg

POSITION SNAPSHOT

Date of Inception to DCM		**2020-12-21**
Average Cost (CAD)		**$104.87**
***Shares Acquired:* A2 Fund**		**770**
SRI Fund		**1326**
Total Value Invested		**$219,804.00**
***Portfolio Weight*: A2 Fund**		**5.12%**
SRI Fund		**3.53%**
Holding Period Return		**0.01%**
***Benchmark:* SP/TSX Index**	**3.57%**	**Outperform**
S&P System Software	**11.58%**	**Outperform**

CHUBB LIMITED (NYSE: CB)

COMPANY OVERVIEW

- Headquartered in Zurich, Chubb is the world's largest publicly traded P&C insurance company. Chubb sells P&C insurance, life insurance and reinsurance through subsidiaries, to commercial and personal customers in 55 nations.
- The largest segments are North America Commercial P&C Insurance (over 40% of net premiums earned) and Overseas General Insurance (some 30% of net premiums earned).

INVESTMENT THESIS

- **Life insurance:** Chubb is well positioned to gain life insurance market share in Asia Pacific, especially in China, where insurance services remain an underdeveloped industry, through its majority stake in Huatai Insurance (to be completed by end of 2021)
- **Cyber insurance:** Chubb remains among the 3 main players in the US cyber insurance industry, that is forecasted to grow at an annualized rate of 6.2% to a market of $3.4 bn in the next 5 years to 2025

HISTORICAL PERFORMANCE

- Chubb returned -1.12% over 2020, outperforming its subsector by 1.9% and sector by 3%.
- Chubb demonstrated resilient growth despite a weak economy with its P&C net premiums in Q320 growing 6.5%, supported by a lower level of accident claims due to the pandemic.
- Global P&C ex-catastrophe combined ratio was 85% in Q320, which improved 3.3% over prior year.
- Q320 Earnings missed expectations due to higher catastrophe losses related to severe wildfires

HOLDING & FUTURE OUTLOOK

- Chubb has consistently outperformed not only North American, but also global peer average combined ratio over the past years. Chubb's three-year average ratio equals 92% whereas peers' combined ratio equals 99.3%.
- Both investment theses remain strong; Chubb's exposure to fast growing international markets, its diverse product mix and its combined ratio consistently above peer average make Chubb a stock we want to keep in our fund in the foreseeable future

TMX Group (TSX: X)

COMPANY OVERVIEW

- TMX is a multi-asset class exchange group operating cash and derivative markets and clearinghouses for equities, fixed income and energy markets.
- It provides clearing facilities, data products and other services to its clients
- Operates TSX, TSXV, Alpha and MX exchanges

INVESTMENT THESIS

- Due to its extreme market dominance in Canada, TMX is poised to benefit disproportionately from post-COVID growth
- Increased IPO listings volume in the innovations sector will drive revenue and be a source of growth
- Market underestimates Derivatives volume growth potential to Asia and other foreign markets

HISTORICAL PERFORMANCE

- Outperformed the TSX 60 Financials sector by 11% and outperformed the average of their competitors by 9% in 2020
- Total cumulative return of 42% since it was added to A2 fund in 2019
- Revenue is partially volume driven, so its relatively lower IPO volume over the last year was offset by high trading volume across equities and derivatives

Source: Bloomberg

HOLDING & FUTURE OUTLOOK

- In the midst of executing a growth strategy over the last 5 years and has shown excellent progress
- Recent acquisition of AST announced, to close by 2022 with expected synergies of $16M
- Continues to launch new interest rate futures contracts, adding to their flagship products
- Extending trading hours to align with Asian market
- Trayport geographical expansion to Washington is excellent exposure for TMX

MSCI INC. (NYSE: MSCI)

COMPANY OVERVIEW

- MSCI is a financial information service company that operates in three segments: index (subscription and asset-based fees), analytics, and others (including ESG and Climate products)
- Founded in 1969, it has 3300 employees, and counts blue-chip asset owners/managers and other financial intermediaries as its customers
- Covers equity, FICC, and other private markets

HISTORICAL PERFORMANCE

- For the year of 2020, outperformed the S&P Financials sector by more than 70%, stock price reaching all time high at the end of December
- An impressive return of 53% since it was added to the Alpha Squared Fund in Feb 2020, at a price of $294
- Business gains across all segments, with high margin index business and promising ESG business both growing at mid-teens rate

INVESTMENT THESIS

- Pure play index provider with index revenue highest among peers at 60%, enjoys structural tailwind from index-linked ETF AUM growth and derivative trading
- ESG and Climate related services like data, research and ratings, have high growth in the medium term and could gain strong support from macro backdrop
- Well positioned international exposure, especially in the high growth China and HK markets

HOLDING & FUTURE OUTLOOK

- Investment thesis remain valid and looking better, we recommend hold for now on valuation, will be buyer on market correction
- ESG business across fixed income and equity to be a focus for the management going forward, has been highlighted as a Standalone Reporting Segment
- Continued investment in technology and data capabilities gives confidence in continued high customer retention rate (92.6% at end of 2020)

Source: Bloomberg, MSCI Inc. IR

HEALTHCARE

2020 REVIEW & 2021 OUTLOOK

COLE CORLETT-HEDLEY
JASMINE MUSSANI
UMANG SAKSENA

DESAUTELS CAPITAL MANAGEMENT

HEALTHCARE

SECTOR OVERVIEW

DCM HEALTHCARE SECTOR PERFORMANCE 2020

The healthcare holdings of DCM's MMF funds generated a return of 8.02% in 2020. This consisted of full year holdings of Vertex Pharmaceuticals (VRTX), Coherus Biosciences (CHRS), and Zoetis (ZTS), as well as the new acquisition in December of Danaher (DHR). Comparatively, the healthcare benchmark returned 11.43% through 2020, which represents an underperformance of 3.41% by the healthcare holdings.

For most of the year, DCM's holdings outperformed the benchmark, largely driven by Vertex's strong growth in the Cystic Fibrosis market and positive expectations tied to Zoetis' increased exposure to the veterinary diagnostics industry.

However, this outperformance ended abruptly upon the news of Vertex's discontinuation of therapy VX-814. This led to price drop of nearly 20% and effectively erased DCM's outperformance up to that point.

To finish off the year, DCM's holdings performed in line with the benchmark with fairly flat returns over the past couple of months.

HEALTHCARE BENCHMARK PERFORMANCE 2020

Over the course of 2020, the healthcare industry underperformed the broader market of the S&P 500 by 4.83%, generating 11.43% compared to 16.26%.

As shown in Figure 2, the defensiveness of the healthcare industry held true as the broader market suffered more significant losses and lagged behind healthcare through August. However, as restrictions began to lift in the summer, the S&P 500 caught ground and eventually surpassed healthcare for the remainder of the year. Even as case counts mounted in the fall and restrictions were reapplied, investors looked forward to the impending vaccine and remained optimistic that the market and economy would continue on its upward trajectory. This contributed to the market's outperformance of healthcare to end the year.

Figure 1: DCM's MMF Healthcare Holdings Performance

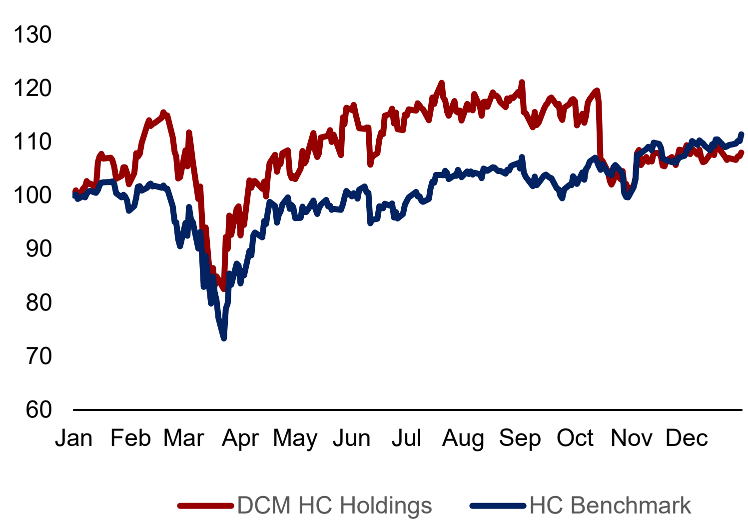
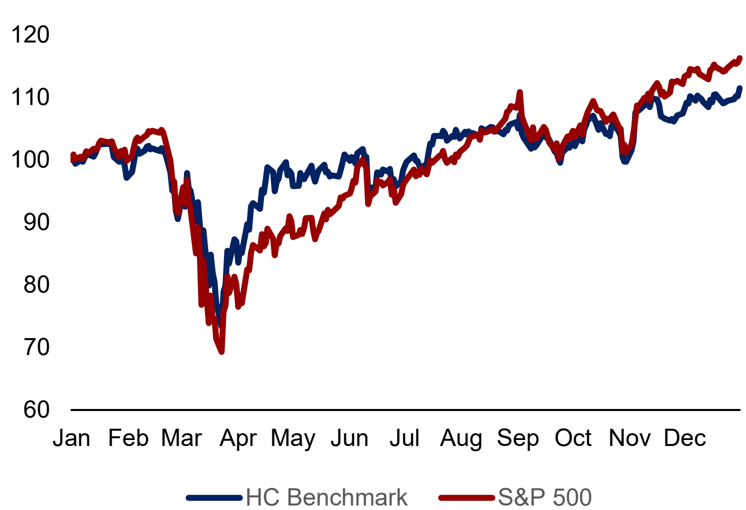


Figure 2: Healthcare Benchmark Performance



HEALTHCARE

SECTOR OVERVIEW

HEALTHCARE BENCHMARK & SUBSECTOR PERFORMANCE 2020

Surprisingly, despite the onset of the pandemic, the creation of a vaccine, and the associated benefits from innovations in the healthcare universe, related sub sectors such as pharmaceuticals and biotechnology lagged significantly behind over the course of the year.

Throughout 2020, pharmaceuticals and biotechnology returned 4.45% and 5.89% respectively. Together they represented the two lowest performing subsectors in the healthcare industry.

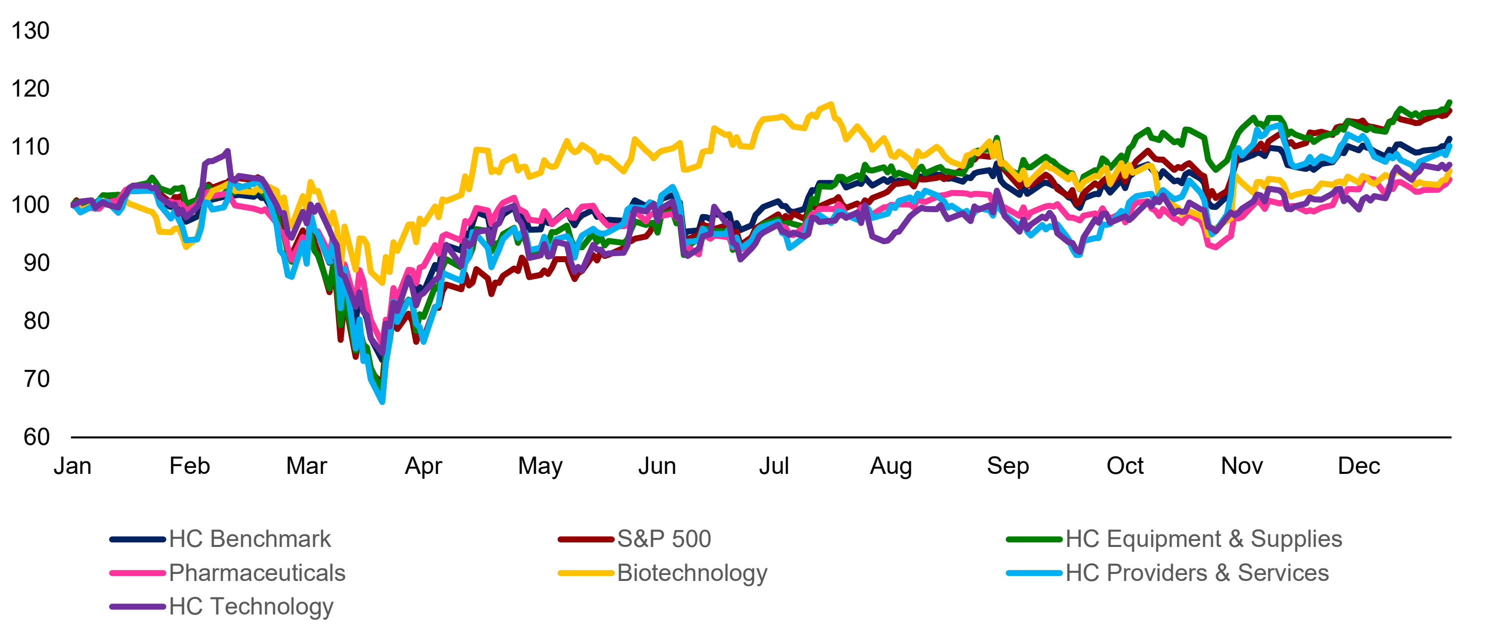
Biotechnology struggled as two of the largest biotech firms, Amgen and Gilead, performed poorly through the year. Amgen felt the impact of increasing competition, as sales for their legacy therapies showed flat or decreasing revenue expectations through 2020 and into 2021. Whereas Gilead, which was expected to be at the forefront of the COVID solution, was unable to produce a vaccine as quick as Pfizer or Moderna and also had their Remdesivir treatment denounced by the WHO.

Pharmaceuticals similarly had multiple high-profile firms perform either negatively or generated minimal positive returns for 2020. One such firm generating poor returns was Bristol Myers Squibb. However, BMS' poor returns were tied to their failed brain tumor trial, dropping sales forecasts and causing a credit downgrade.

Conversely, healthcare equipment and supplies was the lone subsector to outperform the S&P 500 and the one that really lifted the overall healthcare returns.

Many firms in this subsector, including Abbott, Intuitive Surgical, and the newly added Danaher, performed extremely well through 2020. These firms, and others in the subsector, have seen strong growth expectations, coupled with multiple expansion, as the subsector is trending away from the defensiveness of healthcare and towards the high growth of IT. As technology and med devices become increasingly connected, innovation and technological advancement will become the norm for the subsector, and high growth expectations will continue.

Figure 3: Healthcare Subsector Performance vs. S&P 500



Source: Bloomberg

HEALTHCARE
SECTOR OUTLOOK

ACCELERATION & INCREASED ADOPTION OF TELEHEALTH

Telehealth has been gaining in popularity for years. At the beginning of 2020, few health care organizations could have predicted that most of their non-clinical workforce would be working from home. The COVID-19 pandemic not only accelerated but catalyzed several aspects of the future of health that might have otherwise taken years, including telehealth. Telehealth, has helped expand and deliver broad access to care to consumers at a time when the pandemic restricted patients' ability to physically see doctors and seek help. Consumer adoption accelerated significantly, from 11% of US consumers using telehealth services in 2019 to 46% of consumers in 2020, as this presented a solution to cancelled in-person healthcare visits. Moreover, the types of services available for telehealth have greatly expanded, with Centers for Medicare & Medicaid Services (CMS) approving more than 80 new services this past year. Pre-COVID, the total annual revenues of US telehealth players were estimated at $3 billion, however newfound acceleration of consumer and provider adoption, and technology driven innovation, there is potential to create $350 to $410 billion in annual value by 2025.

While this shift in spending is not inevitable, the prospective improvements from broadening access and integration of technology to medicine are immense. Impacts namely would include improved convenience and access to care in both rural and urban settings, better patient outcomes, and an overall higher level of efficiency in the healthcare system. While healthcare providers will need to implement new ways of working to broadly set up providers for success in this area and support this shift, there is huge potential to improve their future position which should not be overlooked.

'THE BIG SQUEEZE': EXPECATIONS FOR HEALTHCARE RETURNS

The 2008-09 financial crisis led to a net outflow as commercially insured employees transitioned to being uninsured, and the Affordable Care Act brought a $130 billion injection of funding into the healthcare sector. Following the COVID-19 pandemic, a similar injection of funding to mitigate the $70-100 billion outflow due to coverage shifts and state budgetary pressures in 2020 may not take place by 2022. As such, it's estimated that COVID-19 could depress the healthcare industry earnings by between $35-75 billion compared to baseline expectations. While certain high-growth segments including telemedicine, specialty pharmacy, and home health care will remain lucrative, with expected increases of 10% over the next 5-years which will disproportionately drive growth in the sector, other segments and industries may experience stagnation or even decline all together.

This being said, despite pressures on earnings, organizations with businesses operating in the lower-growth segments may be able to surprise on the upside to deliver higher-growth returns by improving efficiency and productivity. An estimated $280-550 billion opportunity within healthcare delivery exists, achievable through productivity gains. Further, a shift in health care delivery out of hospitals could be increasingly provided in distributed sites of care, focused around patient-centered ecosystems and driven by at-scale players pursuing proven models that drive outperformance. Larger and geographically diversified providers have been able to weather the financial impacts of COVID-19. These systems also own a substantial share of outpatient assets that could continue to drive growth in the 'new normal'. Such a trend in patient care presents a significant opportunity for companies going forward.

Source: Deloitte Insights, McKinsey Industry Reports

HEALTHCARE
SECTOR OUTLOOK

PHARMACEUTICAL INDUSTRY: DIGITAL TRANSFORMATION & AI

While digital transformation in the pharmaceutical subsector was already underway before the pandemic, many of the industry's core activities were moved into the virtual sphere in 2020. With over 40% of US consumers using digital technologies in managing their health and 60% of consumers likely to continue using digital tools post-covid, business models must now accommodate new constraints, travel bans, supply-chain bottlenecks and marked slowdowns in clinical-trial recruitment. With medical conferences that present a crucial platform for delivering clinical-trial updates and solidifying relationships with key opinion leaders adapting to online formats, increased data availability and remote-monitoring devices have also begun to open up possibilities for virtual clinical trials. As a result, healthcare professional adoption of digital tools as a way of overcoming physical barriers to interaction, facilitating information flow with patients, encouraging treatment adherence, and enabling informed self-management is now becoming necessary in the future pharma landscape.

With increased digitization, rising pressure to reduce costs and advances in technical infrastructure, the prevalence of AI in healthcare is primed to significantly grow moving forward. BCG reports that the pharma industry will gain from improvements in R&D, target identification, clinical-trial recruitment, sales and manufacturing. In terms of efficacy, ~90% of healthcare industry respondents reported that AI improved system efficiencies while increasing patient access to care. Moving forward, issues of security and data privacy must be carefully managed with the benefits of having machine learning using large sources of data to better inform patients.

M&A: NEW MARKET OPPORTUNITIES

As a result of the short-term lack of liquidity in the loan market brought by the pandemic, deal volume in the acquisition market significantly reduced with expectations of a sustained pause in M&A amongst large acquirers to last until mid-2021. This environment leads to two direct short-term effects, (1) The gap left in the buyer's market as a result of the weakened acquisitions market create first mover advantages (2) Decreased competition among acquirers has led to a significant reduction in deal values across the board. We thus envision in the short-term (1H2021) for valuable consolidation to take place for the market's biggest acquirers. With this first mover advantage, upcoming acquisitions may prove instrumental in establishing firm dominance after the pandemic.

Looking ahead, we expect deal size and volume in the healthcare M&A space to rebound to pre-pandemic levels by the end of 2021 to early 2022. Fundamental drivers that normally drive M&A in the industry such as divestitures of non-core assets, large companies reshaping portfolios towards more specialization and increasing interest in biotech companies are expected to continue in the mid to long-run while current focus is concentrated on covid-related vaccines, diagnostics and med devices. From a regulatory and government standpoint, the high economic cost of the crisis will put fiscal pressure on governments to reduce prices for generic and specialty drugs. Subsequently, we expect that this will lead to the distressed sales of low-margin inefficient suppliers in the short-term and more favorable regulatory sentiment towards third-party capital with greater innovative practices in the mid to long-run.

Source: BCG Industry Reports, JP Morgan, Tribeca Knowledge

ANNUAL REPORT 2021

HEALTHCARE

2020 HOLDINGS REVIEW

DESAUTELS CAPITAL MANAGEMENT

DANAHER CORP. (NYSE: DHR)

COMPANY OVERVIEW

- Danaher is a medical conglomerate that focuses on the design, manufacturing, and marketing of professional, medical, industrial, and commercial products and services.
- They operate in three main segments: Diagnostics, Environmental & Applied Solutions, and Life Sciences.
- Danaher operates using a razor-and-blade business model which focuses on providing a steady stream of consumables at higher margins to existing customers that are part of Danaher's extensive installed base of equipment and devices.
- Since inception in DCM funds, Danaher has outperformed both their respective subsector and the greater market by 2.39% and 1.90% respectively.

INVESTMENT THESIS

1. ***Weakened Acquisitions Market***: The ongoing pandemic has caused a weakened acquisitions market and led M&A events to transact at lower than expected valuations. Danaher's strong balance sheet, untapped credit facilities, and overall skill allows them to take advantage of this environment.
2. ***Growth of Healthcare M&A Market***: The healthcare M&A market is expected to grow substantially over the next few years. Danaher has shown an ability to maximize value from their acquisitions through their implementation of DBS and the growth in the M&A volume will lead to incremental value creation over competitors.

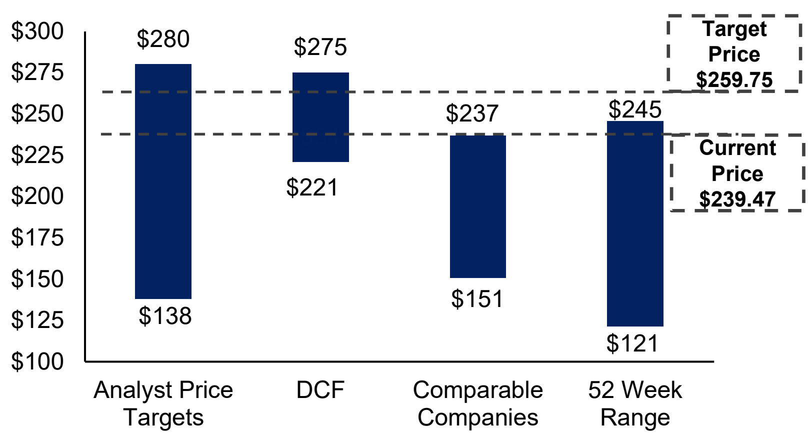
CATALYSTS

- Continued development and increased consolidation of bioprocessing and life sciences industries offers a strong growth profile post pandemic.
- COVID related tailwinds has increased Danaher's installed equipment base and broadened their market share to funnel their consumables line of products.

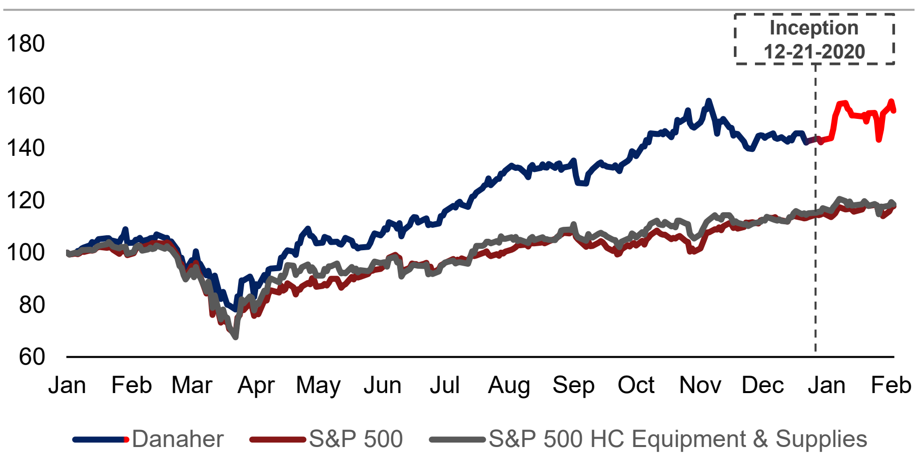
RISK FACTORS

- Technological advancement increases the rate of obsolescence and can shorten the life of medical devices putting pressure on continued development.
- Medical device industry is heavily regulated and new regulation is unpredictable and potentially damaging.
- Lack of attractive M&A targets for Danaher to acquire can mitigate the effects of the DBS system.

VALUATION SUMMARY



STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg, Cap IQ, Deloitte, DHR Earnings Reports, CFRA

POSITION SNAPSHOT

Date of Inception to DCM		**2020-12-21**
Average Cost (USD)		**$230.27**
***Shares Acquired:* A2 Fund**		**340**
SRI Fund		**477**
Total Value Invested		**$188,032.26**
***Portfolio Weight*: A2 Fund**		**4.59%**
SRI Fund		**5.24%**
Holding Period Return		**6.44%**
***Benchmark:* S&P 500 Index**	**1.90%**	**Outperform**
S&P HC Equip & Supplies	**2.39%**	**Outperform**

VERTEX PHARMACEUTICALS (NASDAQ: VRTX)

COMPANY OVERVIEW

- Vertex is a Massachusetts-based pharmaceuticals company that develops transformative medicines for people with serious diseases.
- Currently has multiple approved therapies for treating the cause of Cystic Fibrosis.
- Vertex also has ongoing clinical trials for other diseases such as for Beta Thalassemia, Muscular Dystrophy and Type 1 Diabetes.

INVESTMENT THESIS

- Underestimation of FDA approval of triple combination therapy Trikafta.
- Overestimation of competitors and threat of new entrants in Vertex's competitive landscape.
- Exaggerated market concerns regarding Vertex's to develop pipeline therapies.

HISTORICAL PERFORMANCE

- Vertex returned 7.70% over 2020, underperforming the healthcare sector by 3.52% and outperforming pharmaceuticals subindustry by 3.5%.
- Vertex continued to consolidate the Cystic Fibrosis market in the US and entered into the EU market.
- VX-814 (AAT Deficiency therapy) was discontinued leading to significant drawdown in share price.
- 34.79% cumulative returns since purchase in 2019.

HOLDING & FUTURE OUTLOOK

- Vertex will continue to take control of up to 90% of the CF market as there are not competitors beyond phase 2 of FDA trials.
- Multiple drugs in the pipeline will report results in 1H21, with Vertex hinting at positive results thus far.
- Entrance into the EU should lead to a 40-50% increase in CF patients over the next few years.
- Expectation of FDA approval to allow approved therapies to be given to children under 12.

COHERUS BIOSCIENCES INC (NASDAQ: CHRS)

COMPANY OVERVIEW

- Coherus is a commercial stage biotherapeutics company operating in the biosimilars market.
- Currently has one major biosimilar product on the market (Udenyca) which was the most successful pharmaceutical drug launch in the U.S in 2019.
- The company continues to develop biosimilar products in three main areas including oncology, ophthalmology and immunology.

INVESTMENT THESIS

- Coherus potential position to capitalize on pharmaceutical market trends, specifically patent expirations occurring between 2019-2024.
- The biosimilars market is undervalued due to deflated growth expectations attributed to complexity involved in product creation and development.

HISTORICAL PERFORMANCE

- Coherus returned -5.13% in 2020, underperforming healthcare sector by 16.35% underperforming the pharmaceutical sub-sector by 9.33%.
- COVID-19 disrupted regularly scheduled oncological procedures/treatments which had a negative impact on Udenyca's share of the pegfilgrastim market (which itself declined 7% in 2020).
- 9.98% cumulative returns since April 2019 purchase.

HOLDING & FUTURE OUTLOOK

- FDA and FTC join effort to deter anticompetitive practices suppressing US biosimilar marketplace may lead to revenue increases for Coherus and other major biosimilar makers.
- Pre-BLA meeting with the FDA for a Lucentis biosimilar.
- Initiation of Phase III clinical trial for Eylea biosimilar with projected market launch by 2025.

Source: Bloomberg, JP Morgan

ZOETIS INC (NYSE: ZTS)

COMPANY OVERVIEW

- Zoetis is the largest pharmaceutical company specializing in developing, commercializing and manufacturing medicines, vaccines, and diagnostic products for pets and livestock.
- Known as the market's first mover, recently launched Simparica Trio, a one-of-a-kind chewable tablet for dogs aimed to protect against ticks, heartworm disease and hookworms.

INVESTMENT THESIS

- Zoetis has an ideal business profile for sustaining long term growth: extensive integrated product lines, robust drug pipeline and growing demand in companion animal market.
- Product diversification and overall risk profile make Zoetis a safe investment: high brand loyalty, less regulation compared to human pharma and generally unaffected following political/global events.

HISTORICAL PERFORMANCE

- Zoetis returned 23.8% over 2020, outperforming the healthcare sector by 12.6% and outperforming the pharmaceutical sub-sector by 19.6%.
- Simparica Trio launched at end of Q1 2020, key driver in 21% increase in the company's companion animal division.
- 15% increase in pet adoption in the American market coincided with 70% increase in pet related medicine and other products during the same period in 2020.
- 24.1% in cumulative returns since purchase in 2019.

HOLDING & FUTURE OUTLOOK

- Simparica Trio sales expected to ramp up in 2021 due to greater marketing efforts, projections of revenues to top $1.5 bn by 2022.
- Increased prevalence of zoonotic and food-borne diseases expected to create shift in demand for greater animal vaccines and pharmaceuticals.
- Acquisitions of ZNLabs and Ethos Diagnostic Science in 2019 and 2020 strategically positioned to capture market share in the rapidly growing veterinary diagnostic space.

Source: Bloomberg, JP Morgan

MATERIALS

2020 REVIEW & 2021 OUTLOOK

TONY HABIS
KEYLIAM NGASSA
HARSH TULSIANI

MATERIALS

SECTOR OVERVIEW

DCM MATERIALS SECTOR PERFORMANCE 2020

The DCM SRI and Alpha Squared funds both held Newmont Corporation throughout 2020. More recently, on January 6, 2021, Lundin Mining was added to the A² fund giving DCM exposure to the base metals segment of the Metals & Mining industry.

Newmont Corporation returned 35.0% in 2020, significantly outperforming the S&P/TSX Materials index, which had a return of 19.5% over the same period. Comparatively, Metals & Mining companies, making up ~84% of the Materials index, returned 23.3%.

Newmont's outperformance came during and particularly following the market's heavy correction in Q1 2020. Newmont was able to recover very fast from its 20% drop in early March, growing 120% in the next couple of months to reach its all-time high in mid-May. The stock then shed some gains mainly caused by a moderate pull back in the prices of precious metals which have been rallying since late 2018, and then started to trade virtually in line with the overall sector.

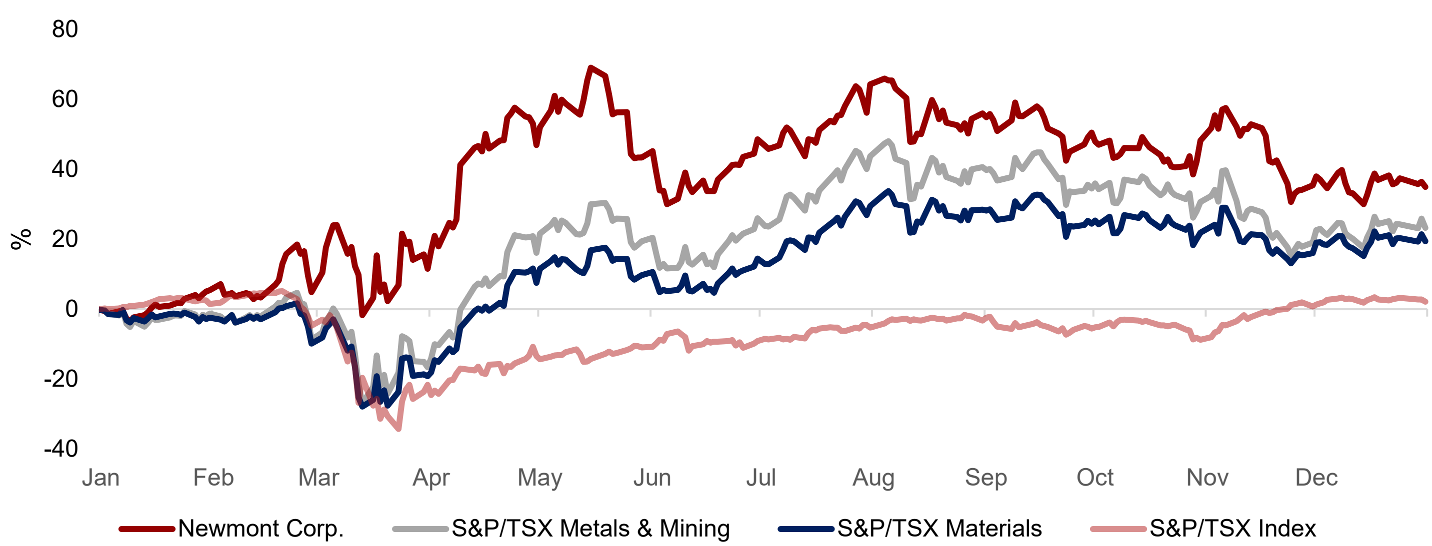
MATERIALS BENCHMARK PERFORMANCE 2020

The overall Materials sector outperformed the S&P 500 by 3.2%. This performance was mainly driven by the Metals and Mining subsector.

The key factor behind the astonishing performance of Metals and Mining is the exposure to precious metals upside. Precious metal producers benefited from COVID-19 threats, geopolitical tensions (trade wars), a low interest rate environment and skyrocketing global government debt.

The chemical industry underperformed during the COVID-19 crisis due to a drop in demand, closing of some factories and temporary closing of the border. This created huge disruptions in the supply chain since the chemical industry relies heavily on international trade.

Figure 1: DCM's MMF Materials Holdings Performance



Source: Bloomberg

MATERIALS
SECTOR OUTLOOK

METALS & MINING

Following a strong showing in 2019, Precious Metals continued to lead the way within the M&M industry in 2020 due to their safe-haven and store of value features. However, what was more unique in 2020 in contrast to recent years was the rally in Base Metals prices, especially clean energy metals such as Copper and Nickel, as China and East-Asian emerging countries led the global market recovery post COVID-19. Gold and Silver ended the year up 25.1% and 47.9%, respectively. On the other hand, Copper and Nickel had yearly reruns 28.8% and 18.1%, respectively with more than 90% of the gains coming in Q4 2020.

The macroeconomic environment continues to be supportive of further upside in the Precious Metals segment, as market participants remain on the hunt for opportunities to hedge out predominant risks related to high unemployment levels, geopolitical tensions and expansionary monetary policies.

The stellar performance of Base Metals to end the year suggests the beginning of a new Bull cycle in this segment of the M&M industry, which motivated DCM to gain exposure via adding Lundin Mining to our portfolio. Key drivers of the new cycle would revolve around an accommodative monetary policy and the global governments' willingness to kick start the economic recovery by increasing spending on green infrastructure. Conversely, despite seeing a pickup in consumer confidence as positive news is emerging and the vaccine is being rolled out globally, a slow employment recovery and any setbacks in reopening plans or delays in stimulus and infrastructure investments, are considered key risks looking forward.

In terms of valuation, both the Precious and Base Metals producers are trading slightly below historical values. Global Precious Metals pure plays are currently trading at 9.0x EV/LTM EBITDA Vs 10.3x historically. Base Metals miners are trading at 9.1x EV/LTM EBITDA Vs 10.4x historically.

CHEMICALS

The chemicals sector is recovering after facing supply disruptions and shrink in revenues due to the COVID-19 pandemic.

The chemicals industry played a vital role in providing personal, disinfection and sanitarian products and plastic packaging during the COVID-19 pandemic. The plastic resign segment was the only one to post positive growth during the pandemic. Other segments like basic and speciality chemicals declined.

The industry is expected to rebound as consumer demand is growing and export markets are stabilizing.

The total chemicals production is expected to grow by 3.9% and as the economy recovers customers are anticipated to spend more. Chemicals used for building and automotive will see a surge in demand. The shift to sustainable chemicals, decarbonisation and E-commerce growth are major trends that will impact the US chemical industry moving forward.

Basic and diversified chemicals rely on US petrochemicals. Local production volume is increasing but is not expected to reach Pre-COVID levels in terms of market share due to the faster recovery in the Chinese markets. Speciality chemicals products volume is expected to move in line with historical levels in 2021, as monetary stimulus will push demand upwards. Finally, packaging and healthcare are expected to be strong end markets for the industry.

In term of valuation, the speciality chemicals subsector is trading at 12x EV/LTMEBITDA compared to 11x EV/EBITDA historically. The basic and diversified chemicals subsector is trading at 9x EV/LTMEBITDA compare to 7x EV/EBITDA historically.

Source: Bloomberg

MATERIALS
SECTOR OUTLOOK

PAPER PRODUCTS

As of November 2020, paper prices have started to stabilize based on capacity cuts in production and low demand. Currently many paper/forest product companies are cutting down on production due to the low demand. The factors that have led to such an outcome are the following:

COVID 19 has had a negative impact on the demand for commercial printers, businesses and schools. As a result, the overall demand for paper dropped by 39% in May which was preceded by a 33% drop in April. After falling since the first quarter of 2020, the paper and forest products industry has made a slight come back, but not to pre-COVID 19 levels.

The operational margins of many paper companies have improved due to capacity cuts in operations. The shipments to capacity ratio which is a key indicator for paper companies fell to 57% in May 2020 compared to 87% in May 2019. Total industry shipments fell by 41% while the average capacity cut was 10% within the industry. Currently the shipments to capacity ratio is back up to 90%, attributed largely to capacity cuts and an increase in demand from greater businesses/schools and an election related bump. Producers of coated-freesheet paper have announced a 2-5% increase in products as of December and January despite the low demand.

As the pandemic continues to increase uncertainty of businesses coming back to normal, the production of printing and writing paper continues to decline. Fast Markets RISI reported 1.6 million tons of market-related and unplanned production outages this year (10% Capacity of 2019). If the demand for printing and writing paper does not return to pre-pandemic levels, the threat of further permanent shutdowns are likely.

FOREST PRODUCTS

As of November 2020, lumber prices are expected to stay relatively high after a surge correction. Due to an unprecedented rally in 2020 the framing-lumber-composite price to an unsustainable level of 64% higher than the previous price. Despite the correction, it is expected that prices of lumber would remain above the historical average due to the increased activity in the housing sector.

Lumber prices rallied for 23 weeks which lifted the Random Lengths Framing Lumber Composite Price to 174%. This represents a new peak level for the price which came up to $955 per thousand board feet which is 64% higher than the previous peak of $582 set during the previous September. This increase occurred due to the short supply that resulted from production cuts due to the pandemic. This increase however proved to be short-lived as production started to resume resulting in a 42% drop. As the new year approaches the price of lumber is expected to drop to $414 which is the third highest level in 25 years.

After the plunge in prices in April, the prospects for US home construction picked up in June due to low interest rates, hefty government stimulus, low value of existing homes and increase in relocation to less densely populated areas.

Source: Bloomberg

MATERIALS
SECTOR OUTLOOK

CONTAINERS & PACKAGING

As of November 2020, Corrugated Packaging had a huge increase in demand during the COVID-19 Pandemic which could lead to a second round of price hikes in early 2021. However, it is important to realize that this surge may not continue once the COVID-19 pandemic subsides. The factors driving this strong growth are listed as follows:

Box shipments are still frequent due to a large boost in online shopping during the duration of the COVID-19 pandemic. Compared to 2019 the deliveries have increased by 2.6% in 2020.

The significant increase in demand, and a lower growth in supply of container board has resulted in higher prices. As of November 2020, the inventory levels of container board has dropped by 9% compared to the 5-year average while in May 2020 the inventory levels were higher than the 5-year average by 10%.

Given that many countries and governments are extending/reinstating lockdowns in 2021, the demand for container board will continue to be high for the foreseeable future.

Figure 2: Summary of Sub-Sectors Recommendation

Metals & Mining	Overweight
Chemicals	Neutral
Paper Products	Underweight
Forest Products	Neutral
Containers & Packaging	Overweight

Source: Bloomberg

ANNUAL REPORT 2021

MATERIALS

2020 HOLDINGS REVIEW

DESAUTELS CAPITAL MANAGEMENT

Lundin Mining (TSE: LUN)

COMPANY OVERVIEW

- Lundin Mining is a Mid-Sized Diversified Base Metals mining company. Lundin Mining operates in Brazil, Portugal, Sweden, Chile and the US.
- The cumulative revenue earned as of Q3 2020 is ~$1,512 million. 67% of the revenues come from Copper followed by 13% from Gold, 8% from Zinc, 7% from Nickel and 5% from other metals (including Lead and Silver).
- As of June 30 2020 Lundin Mining has the potential to mine 5,518 kt of copper, 3123 kt of zinc, 100kt of nickel, 936 kt of lead and 6.9 million ounces of gold
- For all metals except for Zinc Lundin mining has either exceeded or ended up in the upper quartile of their production guidance in 2020. Zinc was within range but in the lower quartile

CATALYSTS

- Very well positioned to capitalize on a new Copper bull market (mid-sized diversified producer)
- Organic growth potential through promising exploration
- Strong balance sheet allowing further M&A activity and increased operational efficiency

RISK FACTORS

- Unforeseen schedule delays and cost overruns related to key expansion projects
- Lower than expected grades
- Currency volatility due to global presence
- Inability to secure required licences/permits in a timely manner

INVESTMENT THESIS

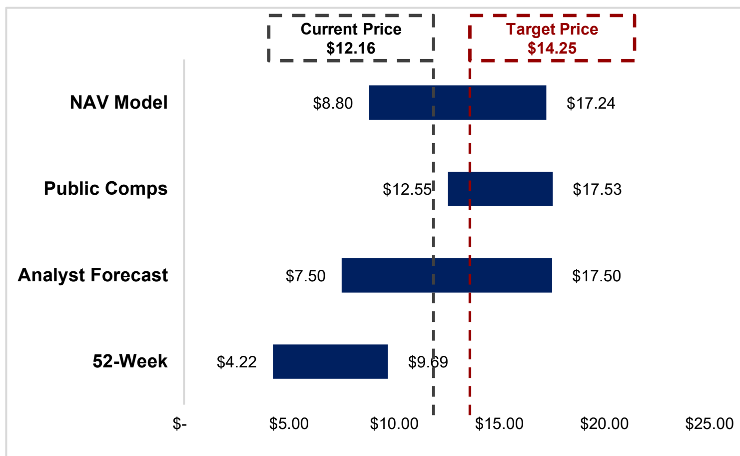
Thesis 1: Exposure to prospering Copper and Other Clean Energy Base Metals prices

- Has ~ 2% of the Global Copper Market Share (231,000 mt in 2020)
- Strong pickup in demand and fundamental balances are shifting into structural deficits

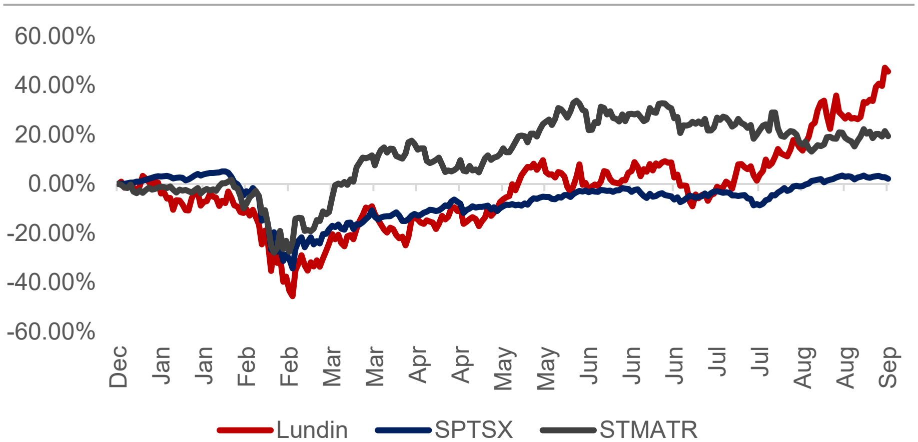
Thesis 2: Ideal Risk/Reward investment opportunity in the Materials Sector

- Operates in 5 different low-risk mining jurisdictions
- Industry leading Copper C1 Cash Cost position
- Low leverage and flexible balance sheets allow further cash returns to shareholders and/or M&A
- Provides good diversification for our DCM Materials Sector holdings

VALUATION SUMMARY



STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg, Lundin Quarterly Report (Q3)

POSITION SNAPSHOT

Date of Inception to DCM		06 Jan 2021
Average Cost (CAD)		12.31
Shares Acquired: A2 Fund		3750
SRI Fund		NA
Total Value Invested		46,200.38
Portfolio Weight: A2 Fund		2%
SRI Fund		NA
Holding Period Return		1.59%
Benchmark: S&P/TSX	43.45%	Outperformed
S&P/TSX - Materials	26.16%	Outperformed

Newmont Corporation (TSE: NGT)

COMPANY OVERVIEW

- Newmont corporation explores acquires and develops mineral properties . The company focuses on gold and produces around 3 billion ounces of gold annually.
- The company was ranked top mining company on fortune's 2020 list
- It has generated total revenues of 11B USD in 2020, which was an increase of 13.78% compared to 2019

INVESTMENT THESIS

- Thesis A: Gold price upside exposure
- Thesis B: Underpriced M&A deals Newmont Goldcorp.
  - Monopoly
  - Underestimated merger synergies

HISTORICAL PERFORMANCE

- Newmont outperformed the S&P 500 and the material index by 16.44% and 12.83% respectively
- Following the merger of Newmont and Goldcorp in 2019 revenues grew by 34.28% driven by an increase gold prices as well as produced ounces as the company became the top player in the gold market.

HOLDING & FUTURE OUTLOOK

- Newmont expects to fully recover in 2021 from COVID-19 related shutdowns.
- The company's momentum should extend as it has lowered mining costs at key operating mines
- The company revenues are expected to maintain the upward trend due to upside in precious metal prices (Gold and Silver)
- Newmont is currently trading at a discount, with a P/E ratio of 14.4, vs 25.7 for the median of peers.

Bloomberg

INFORMATION TECHNOLOGY

2020 REVIEW & 2021 OUTLOOK

RAYAN CHELLI
BRUCE CHEN
ESTEBAN FERNANDEZ
NOAH ITOVITCH
AVINOAM KAUFMAN
YAHAN LI
ANDY YU

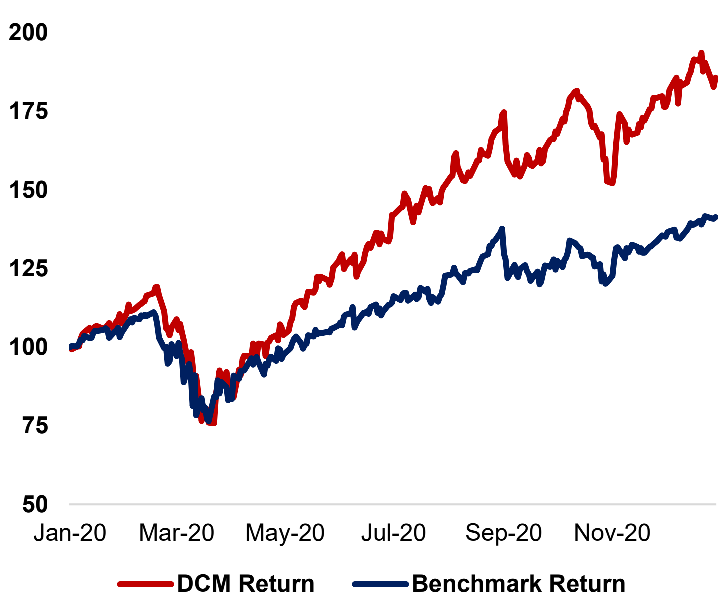
INFORMATION TECHNOLOGY

2020 REVIEW

TECH ON THE UP AND UP

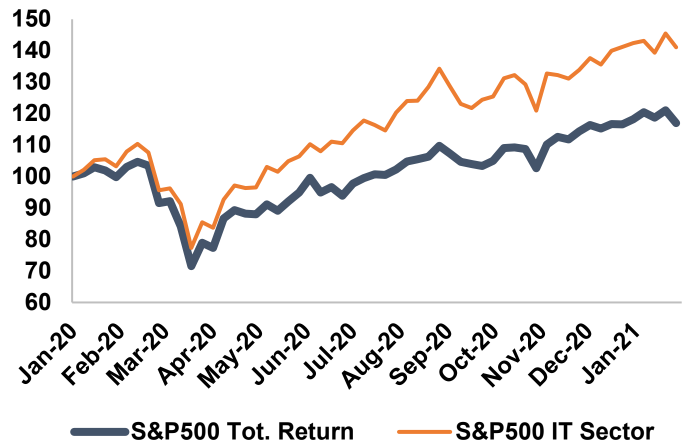
Tech has dominated markets through 2020, as a result of the global economy being shuttered by the coronavirus. Our IT holdings generated a return of 85.7% in 2020, outperforming the S&P 500 IT Sector by 44.4% (Figure 1). DCM's investments in the IT sector have been rallying since late March. We can see that our DCM IT sector performance has continuously beaten the sector benchmark, mostly driven by investments in Veeva, Square and Okta. Those stocks are in the software industry, specifically in the cloud-computing industry. This strategic focus on US stocks, along with investment in the rapid cloud-migration amidst the COVID-19 and WFH environment, led our holdings to outperform the IT benchmark by approximately 44%.

Figure 1: DCM IT Sector Returns vs the IT benchmark



Sector Performance Review 2020

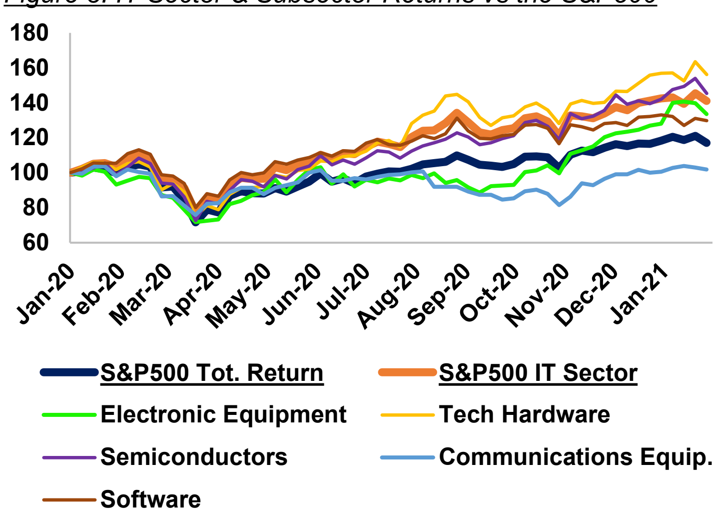
Figure 2: IT Sector Returns vs the S&P500



During 2020, the IT Sector started off by closely following the S&P500 benchmark, falling by over 14.5%. After reaching the lowest point in mid-March/early April due to COVID, we can see the IT Sector started to outperform the S&P500 benchmark as it benefited from a faster recovery from the pandemic shock with a variety of different markets and industries in the IT Sector looking for online solutions for both work and home issues.

While most subsectors outperformed the benchmark over the year, the best performing subsector was Tech Hardware, and the lowest performing subsector was Communications Equipment.

Figure 3: IT Sector & Subsector Returns vs the S&P500



INFORMATION TECHNOLOGY

2021 OUTLOOK

IT OVERVIEW

The year 2020 brought significant changes within all industries in the economy. This adaptation through the pandemic generated a negative impact in several industries. In contrast, within the IT sector, there were a few differences. First, there was a boost in Cloud services providers, increase demand on 5G equipment and overperformance on semiconductors. Additionally, it is expected that this year will bring higher international IT spending, increased sales in IT services and change in cloud markets.

BUSINESS SPENDING BOOSTING TECH SECTOR GROWTH

Worldwide IT spending is projected to total $3.9 trillion in 2021. This represents an increase of 6.2% compared to 2020. Meanwhile, worldwide IT spending declined by 3.2% in 2020 as CIOs prioritized spending on technology that were critical during the initial stages of the pandemic. This pattern is projected to be temporary: all IT spending segments are forecast to return to growth in 2021. Enterprise software is expected to have the strongest rebound at +8.8%, as remote work environments are expanded. Overall, returning global recovery back to 2019 spending rates will not occur until 2022, although many countries will recover earlier.

Figure 3: Business spending breakdown for 2020/2021

Billion Dollars	2020		2021		2022	
	Spending	*Growth*	*Spending*	*Growth*	*Spending*	*Growth*
Data Center Systems	215	0	228	6.2	236	3.4
Enterprise Software	465	-2.4	506	8.8	557	10.2
Devices	653	-8.2	705	8	715	1.3
IT Services	1-12	-2.7	1073	6	1140	6.3
Comms. Services	1350	-1.7	1411	4.5	1457	3.3
Overall IT	**3695**	**-3.2**	**3923**	**6.2**	**4105**	**4.6**

Source: Gartner, Forrester, Bloomberg

5G BOOSTING SALES

The global 5G-cycle launch has been disrupted by COVID-19, impacting mainly units and average selling price. Even if 2020 was a weak year in shipment and revenue, the coming 5G cycle should turn 2021 into a stronger year. Mainly, boosting the demand of smartphones by 9% with an increase in revenue of 12% and keeping communication equipment companies with exposure on 5G delivering double-digit share gains.

COVID-19 IMPACT

Covid 19 has accelerated multiple technology projects across enterprises to make them more agile and remote-work-friendly. At the same time, it has reduced fixed cost footprint, including data center. For instance, companies in the electronic manufacturing sector are transforming workplaces to a smaller, distributed model where cloud IT is suitable, Furthermore, sales has expanded for companies exposed to public cloud due to learn and work-from-home demand, while traditional hardware needs for applications outside of work-from-home fell sharply and may recover at the end of 2021

EXPONENTIAL GROWTH IN CLOUD SERVICES

We expect cloud services growth to be a driving force for the overall software industry with Gartner forecasting the total cloud market to grow 18.5% in 2021 to a total market of $304.9 billion. Looking within segments, IaaS is expected to grow particularly fast as its proportion of the software market cannibalizes other segments in SaaS.

SEMICONDUCTOR GROWTH

UBS bank estimates that worldwide semiconductor revenue was $439 billion in 2020, an increase of 7 percent from 2019, and will grow by 12% in 2021 to $492 billion. Major factors pushing growth are an increased demand for memory, growth of the 5G market, and the fast-paced growth of cloud infrastructure.

INFORMATION TECHNOLOGY

2021 OUTLOOK

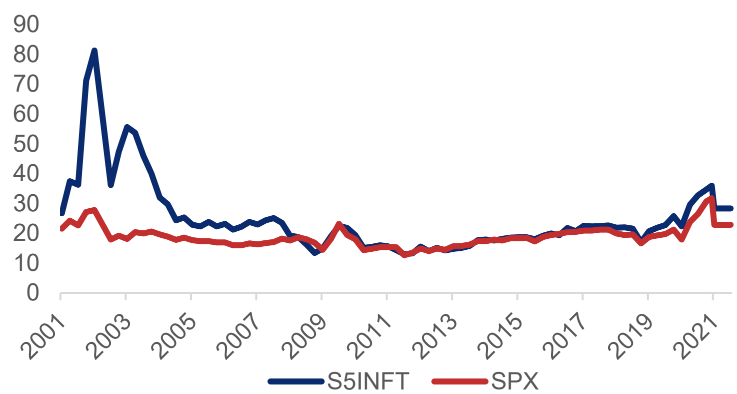
BIDEN & TECH

After Joe Biden was elected the 46th President of the United States, it is relevant to understand implications under his administration. First, his election platform highlights commitments to innovation within clean energy, negative emission, micro-macro mobility and Agro-Tech. Nonetheless, other subindustries such as social media will face scrutiny over its response to election misinformation. Furthermore, Big-Tech could be supported or opposed depending on whether Biden will follow-up with the view of different Democrats. For instance, Elizabeth Warren supports increasing taxes and regulating big-tech, but Kamala Harris opposes this stance. Additionally, Biden has said he will take a strong stance on China, and many pundits expect him to implement protectionist policies, this may help firms that choose to manufact

IMMINENT GROWTH

Given the exceptional recent performance of the Tech sector, many are wondering if we are witnessing another bubble. Indeed, the notion of a possible Tech bubble has been discussed many times over the past decade. Our view is that we are not in a bubble and that valuations are justified based on a healthy growth outlook. Indeed, looking at the forward PE ratio for the sector shows that valuations are not at bubble like levels. The forward P/E ratio for the Tech sector is estimated to be 28.3 for 2021 vs a current P/E ratio of 34.7. This compares reasonably well with the S&P 500, where the current P/E is 30.7 and the forward P/E is 22.8 (Figure 4). To be sure, we are likely to see a few high-flying Tech companies come crashing down. In this environment, more than ever, rigorous fundamental analysis and being able to separate true growth potential from hype is more important than ever.

Figure 4: Price to Earnings ratio comparison



With cloud infrastructure driving growth across all subsectors of tech, the expected adoption of 5G, the growing need for semiconductors in the automotive industry, and the new semiconductor technology on the horizon we believe that 2021 is going to be a good year for the IT sector overall. While one might look back on 2020 and suggest that the accelerated growth that came for tech will slow down in the coming year, that would be a mistake. The accelerated adoption of technology helped large firms to see their gaps and develop plans to fill them. While the market might have priced in large corporation adoption of cloud infrastructure, SMEs have been left behind unsure of when they can act. As the economy opens and the stimulus makes its way through out the economy SMEs will begin to build their cloud infrastructure. We suggest overweighting the IT sector in 2021. The expected sales growth and the reduction in costs as adoption grows will make 2021 a good year for returns from IT.

Source: Bloomberg

ANNUAL REPORT 2021

INFORMATION TECHNOLOGY

2020 HOLDINGS REVIEW

DESAUTELS CAPITAL MANAGEMENT

CLOUDFLARE, INC. (NYSE:NET)

COMPANY OVERVIEW

- Cloudflare is a prominent system infrastructure and cloud-computing company providing CDN and cloud-delivered cybersecurity services. It is headquartered in San Francisco, California, USA.
- They have a wide range of products under different segments including application and network security, website performance and reliability, edge-computing gateway access, and Cloudflare One Network-as-a-Service (NaaS) enterprise solutions.
- Cloudflare has a network of servers spanning over 200 cities in more than 100 countries. More than 50% of revenue comes outside of North America. The fast-growing enterprise user acquisitions are from health care, e-commerce, and public/government services.

CATALYSTS

- Cloudflare aims to expand enterprise user accounts as the rapid cloud-migration triggers a rising demand amid the ongoing global pandemics.
- Normalized remote culture accelerated the arrival of the next-gen edge-processing technology prompting Cloudflare to expand its existing cloud infrastructure.

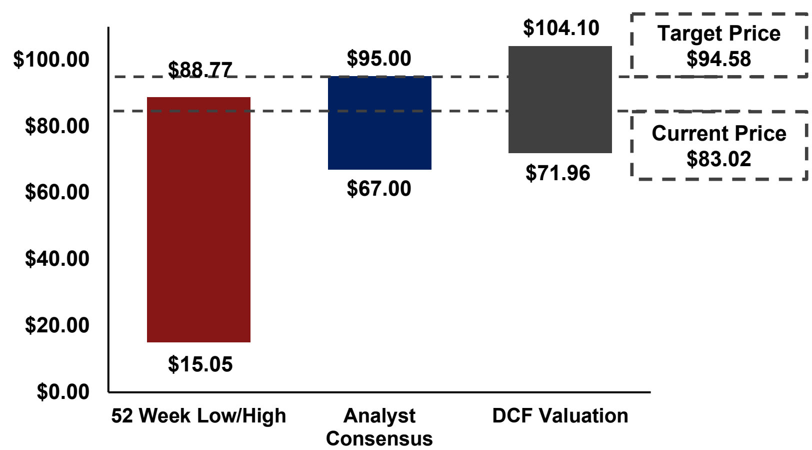
RISK FACTORS

- The hurdle of growth is a primary concern due to the competitive nature in the cloud industry.
- Regulatory compliance plays a key role in governing user privacy and data breach related legal issues.
- The pandemics and vaccination will sway the market sentiment towards cloud companies.

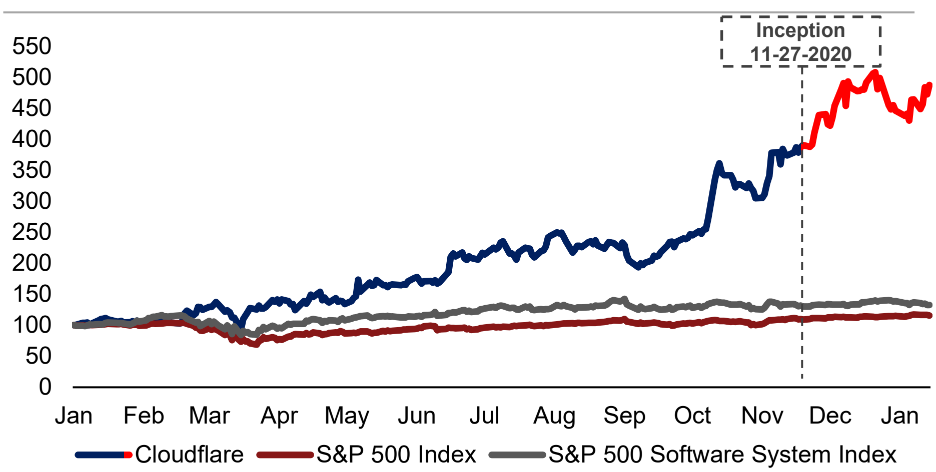
INVESTMENT THESIS

1. ***Market Growth***: The ongoing pandemic accelerates the rapid cloud-migration and digital transformation that allows Cloudflare to capture a secular growth of demand for enterprise cybersecurity services.
2. ***Global Footprint***: Cloudflare achieved a sustainable cloud-infrastructure ecosystem to redefine its market dynamics with hundreds of tech-business partners, a fleet of new edge-computing product solutions, and more than 3 million active users across the globe.
3. ***Niche Segments***: The total addressable market has expanded to $47b as Cloudflare moved into multiple niche markets including health care and blockchain.

VALUATION SUMMARY



STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Date of Inception to DCM		2020-11-27
Average Cost (USD)		$71.00
Shares Acquired: A2 Fund		1,083
SRI Fund		1,205
Total Value Invested		$162,448.00
Portfolio Weight: A2 Fund		4.46%
SRI Fund		4.71%
Holding Period Return		11.05%
Benchmark: S&P 500 Index	3.57%	Outperform
S&P System Software	11.58%	Outperform

ADVANCED MICRO DEVICES, INC. (NASDAQ: AMD)

COMPANY OVERVIEW

- Advanced Micro Devices, Inc. is an American multinational semiconductor company based in California, that develops microprocessors and related technologies for business and consumer markets.
- AMD develops a broad range of different CPU and GPU microprocessors within their computer & graphics and embedded enterprise revenue streams. AMD microprocessors are used in PCs, notebooks, servers and gaming consoles inclusively.
- AMD uses the fabless business model. In other words, unlike their primary competitor, Intel who both designs and manufactures their own chips, AMD outsources production of their microprocessors to manufacturers such as Global Foundries and TSMC.

CATALYSTS

- TSMC committed to spend $28 billion in capital investments over the next year, 80% of which will be allocated to cutting edge chips. The move should allow AMD to sustain their performance advantage.
- Continually improving relationships between AMD and large scale OEMs demonstrated through public attestations.

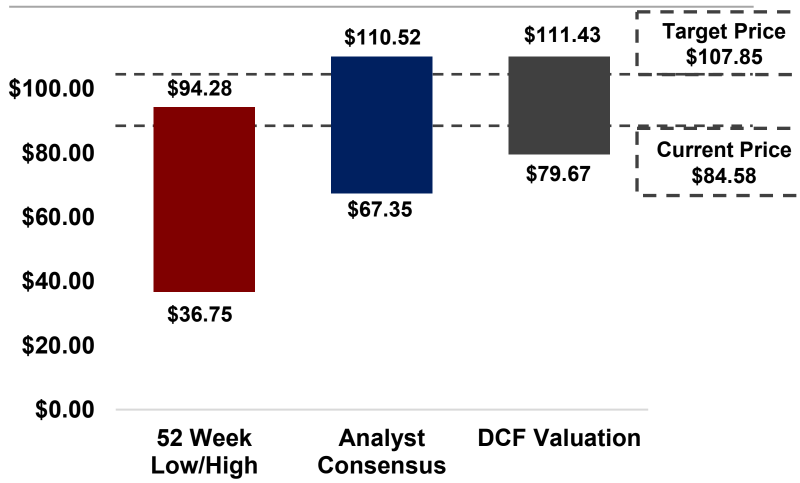
RISK FACTORS

- The largest threat to AMD is Intel's pursuit to remedy their manufacturing problems. The hire of new CEO Pat Gelsinger has been interpreted as an attempt to bring Intel back to an execution culture.
- AMD has been suffering from short-term supply chain issues related to the pandemic. If they persist market share losses from Q42020 could continue.

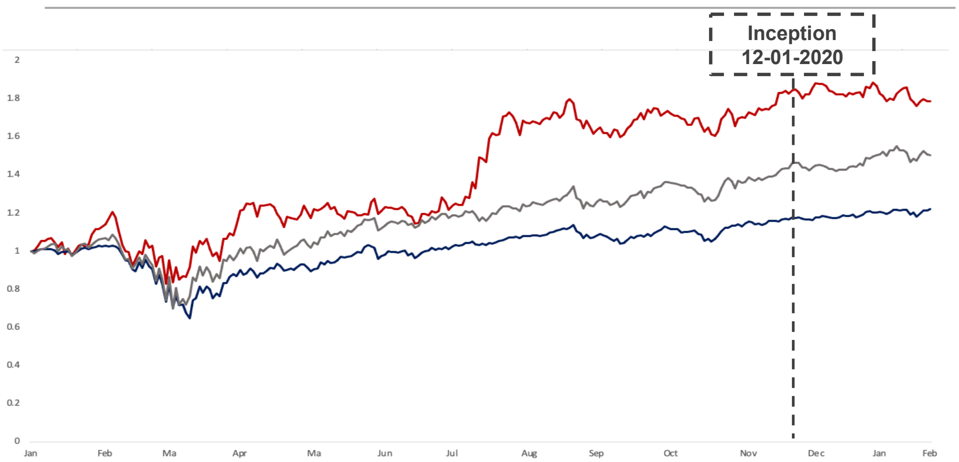
INVESTMENT THESIS

Crossing the Chasm: Our central thesis is that AMD is on the cusp of crossing the chasm and winning dominant market share in the PC and notebook CPU markets. For three years and up until Q4 2020, AMD has consistently won market share in these domains away from Intel, winning 19.3% and 19% share respectively. Due to AMD's increasingly superior CPU performance as well as Intel's major manufacturing missteps, AMD is emerging as a more reliable partner for OEMs. If Intel is unable to remedy their manufacturing problems in the near future, AMD has an opportunity to win a dominant market share. The market is failing to incorporate the magnitude of the opportunity into AMD's share price.

VALUATION SUMMARY



STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Tom's Hardware; Bloomberg as of February 4, 2021

POSITION SNAPSHOT

Date of Inception to DCM	**2020-01-12**
Average Cost (USD)	**$92.91**
***Shares Acquired:* A2 Fund**	**775**
SRI Fund	**789**
Total Value Invested	**$145,311.24**
***Portfolio Weight*: A2 Fund**	**%3.68**
SRI Fund	**%3.12**
Holding Period Return	**-5.46%**
***Benchmark:* S&P 500 Index**	**5.71%**
S&P Semiconductor & Semiconductor Equipment	**7.88%**

SQUARE, INC. (NYSE: SQ)

COMPANY OVERVIEW

- Square is a company that provides a cohesive ecosystem of payment processing and other services for both businesses and individuals.
- Square provides hardware (a square-shaped card reader) and software to merchants and other service providers that enable them to accept credit card payments

INVESTMENT THESIS

- Square Ecosystem: Broader ecosystem creates stickiness and pricing flexibility
- Square Cash App: Testing new stock-trading service and bitcoin business

HISTORICAL PERFORMANCE

- Square is one of the businesses that benefit from the covid-19 pandemic; over the course of 2020, its share price increased 248%
- The Cash App revenue accounts for 27% of the total revenue, but during Covid the revenue segment accounted for 60% of its total revenue. As of 2020 Q3, Square's revenue increased 140% compared with 2019 Q3.

HOLDING & FUTURE OUTLOOK

- We believe Square's seller business has substantial room to grow. Square has expanded its addressable market to $85 billion. With a base of 3.5 million mostly-U.S. merchants, it's penetrated just 3% of this opportunity.
- For Square POS, we saw comparably robust metrics in Q4, suggesting that, although GPV growth might be slow down in the near term due to COVID-19, engagement and market share are expected to enhance.

VEEVA SYSTEMS INC. (NYSE: VEEV)

COMPANY OVERVIEW

- Veeva is a SaaS firm that provides CRM and cloud-based solutions tailored to the life sciences industry's regulatory needs. It is one of the fastest-growing firms globally while generating substantial profits unrivalled by its SaaS peers.
- Its cloud-based software and mobile apps are used by pharmaceutical and biotechnology companies to manage critical business functions.

INVESTMENT THESIS

- Indirect exposure to the Health Care sector, in line with Alpha Squared defensive approach.
- Industry expansion provides new runway for existing products.
- Switching costs economic moat locks in customers while generating economic value.

HISTORICAL PERFORMANCE

- Veeva is another company that benefited from the covid-19 pandemic; over the course of 2020, its share price increased 94%.
- Revenue/EPS of $377.5mm/$0.60 ahead of the market estimation of 361.0mm/$0.68 estimates. (Q3 2020)
- Total revenue increased 34.4% Y/Y and was ahead of expectations as Life Science customers showed the start of a rebound that fueled further optimism for 4Q21.

HOLDING & FUTURE OUTLOOK

- RM add-ons and Data Cloud present largest growth opportunities in Commercial Cloud
- Also provides good diversification value for the fund

Source: Bloomberg, JP Morgan

ANNUAL REPORT 2021

REAL ESTATE

2020 REVIEW & 2021 OUTLOOK

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DESAUTELS CAPITAL MANAGEMENT

REAL ESTATE

2020 OVERVIEW

DCM Performance

Over 2020, DCM's real estate portfolio, including TRNO, NXR-U, EQIX and GNL (sold) returned -3.12%, slightly outperforming sector benchmarks S&P 500 Real Estate and S&PTSX Composite Real Estate by 0.78% and 8.49%, respectively (Figure 1).

The major reason of this negative return lies in our exposure to retail and office REITs, two of the most negatively affected subsectors by Covid-19, at the beginning of 2020. As a result, GNL was sold, where half of its portfolio are under office REITs, because it did not have conditions to recover well comparing to other competitors. Unlike GNL, another holding NXR-U also has large exposure to retail and office REITs, but most properties it owns are for essential use, for example, pharmacies and provincial liquor store etc. TRNO, under industrial REITs, was the main positive driver of our portfolio as it benefitted from the prosperity of e-commerce since Covid-19. Finally, for the purpose of diversifying our portfolio and continuously benefitting from the acceleration of digital transformation brought by Covid-19, EQIX, under data center REITs, was added. Ineed, after GNL was sold and EQIX was added in December, DCM's Real Estate return surpassed the S&P 500 sector benchmark return.

Sector Benchmark Performance

Real estate was one of the worst-performing sectors in the S&P 500, with a relative return of -19.19% (Figure 2), due to the disproportionate effects from economic shutdowns on commercial real estate. Even after the recent market rebound following positive vaccine news, real estate was still significantly underperforming the broader market.

Data Center & Industrial REITs

While real estate underperformed the S&P 500, there are two types of REITs performing quite well, data center and industrial REITs, as these two types of properties can thrive regardless of whether people are able to go out or not. Data centers returned 17.23%, outperforming the real estate sector by 21.13%, due to the growing trend of online activities and need of cloud services. Industrial REITs, with a return of 13.36%, have benefitted as well because these properties can serve as physical distribution places of e-commerce. Both subsectors have experienced a slight drop after vaccine news, as it was an indication of life getting back to normal. However, according to some research, Covid-19 will raise online consumption by 21% in the long run; therefore, demand for data centers and industrial properties will also grow in the long run.

Figure 1: DCM Return vs Sector Benchmark

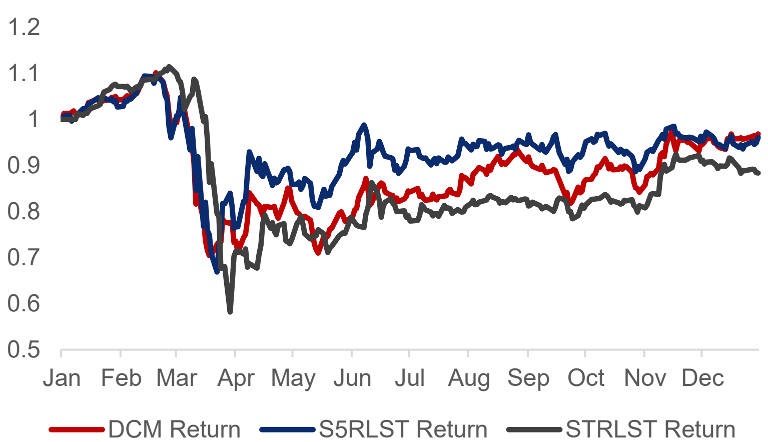
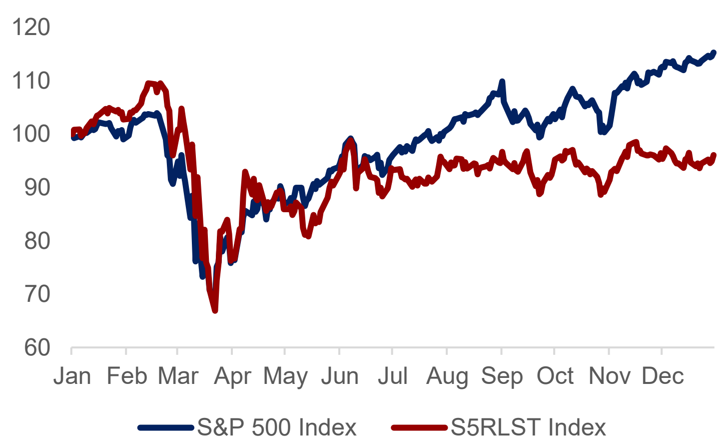


Figure 2: Real Estate sector vs Benchmark



Source: Bloomberg; fool.com/millionacres/

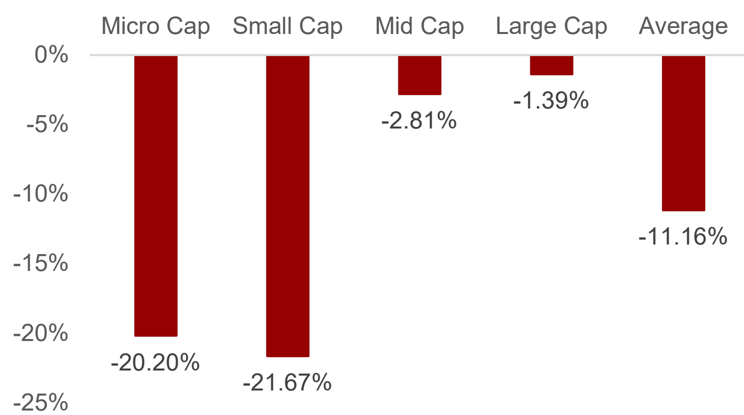
REAL ESTATE
2020 OVERVIEW

Retail, Hotel & Office REITs

On the other hand, some subsectors, which require consumer-facing abilities, were hit hard by the pandemic. As the social distancing rules and curfew were implemented, retail and hotel REITs were down by over 50%. In March 2020, some leading REITs in these subsectors lost over 80% in stock price, even though they had strong balance sheets and financial data. Another subsector, office REITs, was also one of the worst performers as people started to work at home. Even worse, remote working may become the new norm. By statistical forecasts, 26.7% of American workforce will continue to work remotely after Covid-19 and this is a 90% increase of the number of remote workers prior to the pandemic. However, the good news is these subsectors have experienced quite a large rebound after positive vaccine news. If the vaccine is as effective as expected and life returns to normal, this could be a good entry point into subsectors that could see a solid rebound.

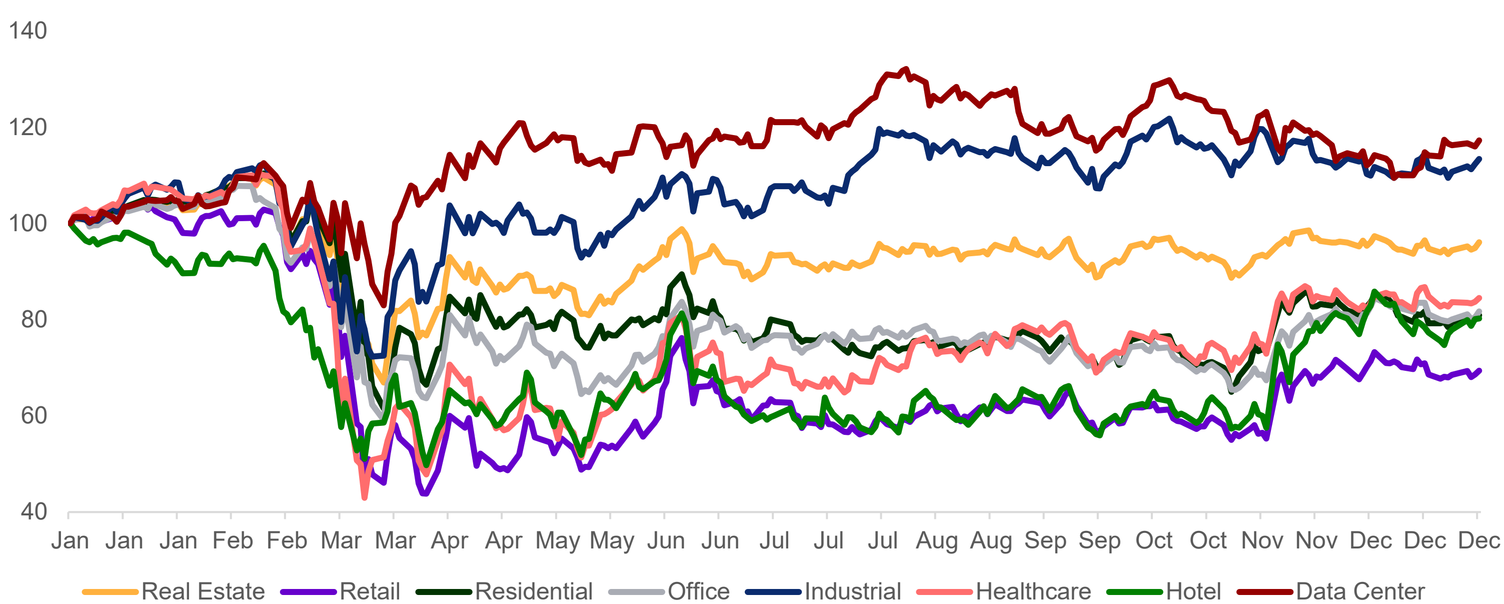
Large cap vs small cap

Figure 4: REIT Performance by Market Capitalization Size



Over 2020, there has been a strong correlation between YTD return and market cap size. Large cap REITs have outperformed small and micro REITs by 20.28% and 18.81% respectively (Figure 4). Micro and small cap companies are recovering, but at a slower pace than their larger competitors.

Figure 3: REIT Performance by subsector



Source: Bloomberg; fool.com/millionacres/; SeekingAlpha

REAL ESTATE
2021 OUTLOOK

REITS OUTLOOK

Today perceptions for 2021 remain uncertain in part because of the ongoing risks associated with the coronavirus, which has caused dramatic changes in consumer behavior.

At the sub-sector level, the pandemic has had two very distinct impacts on the different types of REITs. Indeed, the accommodation, restaurant, office, healthcare and retail REITs experienced a more significant weakening compared to the industrial and data center markets. However, those REITs that have been the most affected by the crisis could experience a more vigorous recovery in 2021 because they are currently undervalued and therefore have greater potential for upward gains as the COVID-19 vaccine is administered and the economy returns to more normal conditions.

Figure 5: YTD Return by sub-sector

Index/Property Sector	2020: YTD Return
Equity REITs	-10,9%
Residential	-13,1%
Industrial	9,8%
Retail	-28,3%
Data Centers	17,2%
Office	-13,9%
Healthcare	-19,9%
Lodging/Resorts	-27,2%

Loose Fed monetary policy could potentially lead to long-term inflation fears, which could provide a boost to the real-estate sector due to investor demand for real assets. Inflation fears could, however, also drive up long-term mortgage rates, which normally would be a negative for the real-estate sector. However, as those rates increase, potential buyers may be tempted to pull the trigger on purchases fearing even higher future rates if they don't act fast enough.

Source: Bloomberg; Nareit

In 2021, it will be important to consider the transitional effects that the pandemic has had on the REIT market in terms of how real estate will be used in the future.

The two main long-term changes refer to the boom in e-commerce and new ways of working such as teleconferencing and work-from-home. Indeed, the e-commerce trend has greatly accelerated the closure of retail stores and for this reason there has been a transition to hybrid retail models, such as online ordering with pick-up. On the other hand, this trend has directly benefited the industrial sub-sector with the demand for logistics space experiencing a boost that will be confirmed in 2021 with the sustained construction of new logistics platforms and warehouses to support this new activity. This new way of working at home is becoming a natural part of people's habits with at least 20% of the population estimated to be working at home 4 to 5 days a week by the end of 2021. Thus, it will be necessary to keep a close eye on the impact this will have on the business of office, hotel and apartment REITs.

Funds From Operations (FFOs), an essential metric in real estate, fell in 2020 due to a sharp drop in rent collections caused by store closures and high exposure risks for tenant employees and customers. However, we see this as a growth opportunity in the lodging, healthcare and retail sectors as their rent collection started to increase again at the end of 2020, a sign of better health in the future. Regarding occupancy rates, these are estimated to trend lower in the other sectors with decreasing rents making a full recovery of FFO in 2021 unlikely, which will have to be managed more carefully by REITs to avoid oversupply and declining revenues in 2021.

REAL ESTATE

2020 HOLDINGS REVIEW

EQUINIX (NASDAQ: EQIX)

COMPANY OVERVIEW

- Equinix Inc (REIT), based in Redwood City, California, is the world's largest provider of data center and infrastructure hosting services based in 27 countries around Europe Middle East & Africa, Asia Pacific and America.
- The company owns, manages and develops a $67 billion portfolio of data center REITs, which operate in three types of services: colocation, hyperscale and interconnection.
- Currently, Equinix has 266 properties providing access to data storage for their customers, who are mostly major-cloud providers such as Google, Oracle, Amazon and Salesforce.

CATALYSTS

- Equinix has significant exposure to colocations and with spikes in demand, defaults and turnovers are better handled.
- Take advantage of the FLAP market (Frankfurt, London, Amsterdam, Paris) that is becoming a key cluster of connectivity.

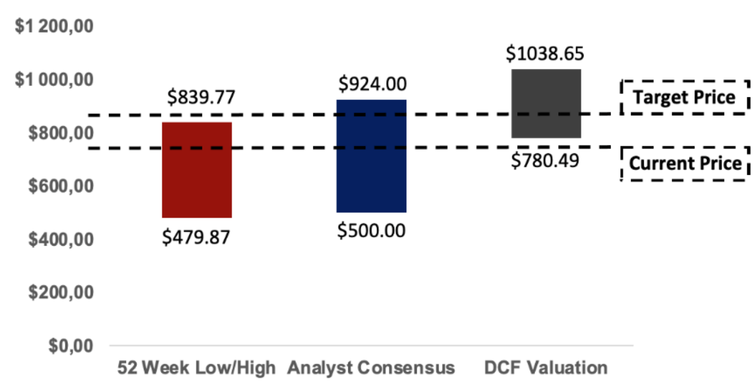
RISK FACTORS

- Risk of technological obsolescence with an average lifespan of equipment of 10 years. High maintenance costs to replace equipment to avoid data transfer malfunctions.

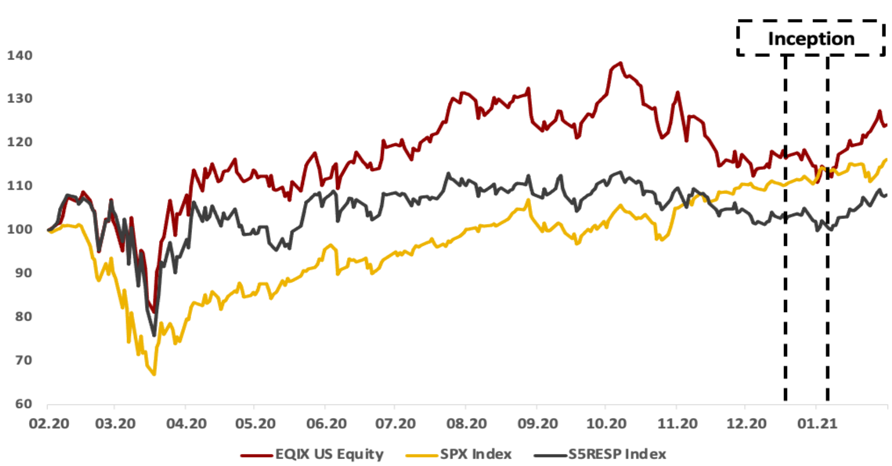
INVESTMENT THESIS

- Current transformation into a digital world will raise the demand for data needs which will benefit data centers operations over the next few years.
- Equinix has growing opportunities in hyperscale which has shown an extraordinary surge in the last three years.
- The firm will rely on its strong fundamentals to continue to grow thanks to its domination in the colocation data center asset class and its exposure to the FLAP region.

VALUATION SUMMARY



STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Date of Inception to DCM (A2)	**06.01.21**
Average Cost (USD)	**$670.59**
Shares Acquired: A2 Fund	52
Date of Inception to DCM (SRI)	**21.12.20**
Average Cost (USD)	**$703.76**
Shares Acquired: SRI Fund	78
Total Value Invested ($)	**635,764.28**
Portfolio Weight: A2 Fund	2.1 %
Portfolio Weight: SRI Fund	2.67 %
Holding Period Return	**12.24 %**
***Benchmark*: S&P 500 Index**	**8.35 %**
Benchmark: S&P Data Center REITs	**3.8 %**

TERRENO REALTY (NYSE: TRNO)

COMPANY OVERVIEW

- Terreno is a typical US industrial REIT, which acquires, owns and operates functional, flexible properties in infill locations at discounts to replacement cost within six markets (Los Angeles, Northern New Jersey/New York City, San Francisco Bay Area, Seattle, Miami and Washington, D.C.)
- 93.5% of their portfolio are warehouses and the rest include R&D and transshipment.

INVESTMENT THESIS

- Market Advantage Relative to Competitors: their value-added strategy is difficult to match for competitors.
- Geographical Positioning & Demographics: the investment strategy focused in 6 major coastal markets consistently demonstrates the strong operating fundamentals of lower vacancy and higher rent growth.

HISTORICAL PERFORMANCE

- Terreno returned 9.20% over 2020, outperforming S&P 500 real estate index by 13.10% benefitting from Covid-19.
- Underperformed the S&P 500 Index and S&P 500 Industrial REIT Index by 6.28% and 4.16% respectively due to the impacts from short term unsatisfactory performance of E-commerce market and temporary migration to less-populated cities.

HOLDING & FUTURE OUTLOOK

- The inventory levels of companies are rising as a precaution for any supply-chain disruptions related to Covid-19.
- Recent acquisition and renewal activities indicate an increasing demand for Terreno's properties.
- Supply constraints, in line with value-added strategy, lead to future development opportunities for the company.

NEXUS REIT (TSE: NXR.UN)

COMPANY OVERVIEW

- Nexus is an emerging growth-oriented Canadian diversified REIT focused on acquiring, owning and managing a portfolio of stable income producing commercial properties.
- Nexus has a quality portfolio of 73 properties in the industrial, office and retail subsectors.

INVESTMENT THESIS

- The market underestimates Nexus' ability to take advantage of internal/external growth opportunities
- Attractive valuation provided a compelling entry point

HISTORICAL PERFORMANCE

- Nexus returned -6.17% over 2020, outperforming the real estate sector by 9.32% and diversified REITs by 24.55%.
- Debt-to-asset of 48% indicate Nexus has a conservative debt paying schedule.
- P/FFO of 0.96 is lower than the competitor median of 1.84. We expect that valuation gap to narrow going forward.

Source: Bloomberg

HOLDING & FUTURE OUTLOOK

- Office and retail REITs have experienced a huge recovery following positive vaccine developments.
- Canada industrial REITs are less volatile than in the US.
- Attractive dividend yield (7.62%) vs industry (5.0%)
- Nexus just finished the move from TSX-V to TSX, which brings exposure to a much larger investor base, which could boost demand for the stock.

Program Alumni

Program Alumni

2017

Graduating Class of 2017

Razan Alobaidi
MMF Graduate
PhD Finance
HEC Montréal

Francis Arseneau
MMF Graduate
Innodem Neurosciences
Montréal

Mostafa Barakat
MMF Graduate
Letko Brosseau & Associates
Montréal

Yilan Cai
MMF Graduate
Accenture
Toronto

Hannah Cheng
MMF Graduate

Peiyao Dai
MMF Graduate
Guangzhou Municipal Bureau
Guangzhou, China

Jesse Ehrlick
MMF Graduate
NXTSENS
Montréal

Kisa Giebink
MMF Graduate
Okra Solar
Toronto

Mohamad Hijazi
MMF Graduate
Air Canada
Montréal

Ting Huang
MMF Graduate
Niatross Investments
Montréal

Yixiao Li
MMF Graduate
GuangFa Securities
Guangzhou, China

Sophie Mahdavi
MMF Graduate
Restaurant Brands International
Toronto

Sarah McCullough
MMF Graduate
MFS Investment Management
Toronto

Munjal Patel
MMF Graduate
Montrusco Bolton Investments
Montréal

Anthony Rago
MMF Graduate
Bank of America Merrill Lynch
Toronto

Vivek Sharma, CFA
MMF Graduate
Scotiabank
Montréal

David Yan
MMF Graduate
Restaurant Brands International
Toronto

Tian Yang
MMF Graduate
TD Canada Trust
Toronto

Chengyu Zhang
MMF Graduate
PhD Finance
McGill University

Gang Zhao
MMF Graduate
Shagang Capital
Shanghai, China

Program Alumni

2018

Graduating Class of 2018

Riyad Allimamode
MMF Graduate
DNA Capital
Montréal

Jordan Arnold-Andrasko
MMF Graduate
Goldman Sachs
Phoenix, USA

Sarah-Anne Brault
MMF Graduate
BCI
Victoria

Nicolas Claveau
MMF Graduate
CDPQ
Montréal

Raphaël Doyon
MMF Graduate
National Bank of Canada
Montréal

Nika Fall
MMF Graduate
Fieldstone
Dakar, Senegal

Fred Gatali
MMF Graduate
Galliant Advisors
Montréal

Nicolas Genest
MMF Graduate
TD Securities
Montréal

Seyedali Ghaziasgar
MMF Graduate
CMPA
Montréal

Joanie Grimard
MMF Graduate
TD Securities
Montréal

Julie Hazard
MMF Graduate
Bain & Company
Paris, France

Yicheng Irvin He
MMF Graduate
WinnerMax Capital
Toronto

Mario Hennessey, CIM
MMF Graduate
Scotia Wealth Management
Ottawa

Wanyi Hu
MMF Graduate
FirePower Capital
Toronto

Hao (Alex) Hua, FMVA
MMF Graduate
Scotiabank
Vancouver

Shuaibo Huang
MMF Graduate
WealthSimple
Toronto

Geetanjali Kanwar
MMF Graduate
MacKinnon, Bennett & Co.
Toronto

Adeetya Kaul
MMF Graduate
Constellation Software
Toronto

Shivi Lakhtakia
MMF Graduate
BCI
Victoria

Zacharie LeBlanc
MMF Graduate
EY
Moncton

Sheng Li
MMF Graduate
Citco
Montréal

Program Alumni

2018

Graduating Class of 2018

Mengdie Lyu
MMF Graduate
Dalfen Industries
Montréal

Quan Nguyen
MMF Graduate
DBRS
Toronto

Dorart Piro
MMF Graduate
Paladin Labs
Montréal

Rock Regimbald
MMF Graduate
National Bank of Canada
Montréal

Mark-Anthony Sagaria
MMF Graduate
WSP
Montréal

Hagen M. Sagli
MMF Graduate
Trans Mountain
Calgary

Simranjit Saluja
MMF Graduate
Mount Murray Investment
Montréal

Erika Savage
MMF Graduate
English Montreal School Board
Montréal

Jiayi Shen
MMF Graduate
Qiaosheng Investment
Guangzhou, China

Xinyue Shi
MMF Graduate
Shenzhen Securities
Shenzhen, China

Yidan Song
MMF Graduate

Justin Spielman
MMF Graduate
Ontario Teachers' Pension Plan (OTPP)
Toronto

Jamie Steinmetz
MMF Graduate
CAPREIT
Montréal

Kevin Sun
MMF Graduate

Yi Sun
MMF Graduate

Sarah Travis
MMF Graduate
Potential Renewables Inc.
Toronto

Gabriel Vincent-Girard
MMF Graduate
Deloitte
Montréal

Daoran Wang
MMF Graduate
MightyHive
Shanghai, China

Siyun Wang
MMF Graduate
China Reform Holdings Corporation Ltd.
Beijing, China

Kevin Yulianto, CFA, FRM, CAIA, PFM
MMF Graduate
Alpine Macro
Montréal

Xiang Zhang
MMF Graduate
CIBC
Toronto

Program Alumni

2019

Graduating Class of 2019

Yasmine Abdellaoui
MMF Graduate
Revolut
London, UK

Emilio Acosta
MMF Graduate
Scotiabank
Toronto

Mathieu Brillon
MMF Graduate
Fiera Comox Partners
Montréal

Arnold Cheung
MMF Graduate
Juno Capital Partners
Toronto

Maud De Witte
MMF Graduate
EY-Parthenon
Paris, France

Josh Diamond
MMF Graduate
National Bank Financial
Toronto

Wenjia (Cindy) Duan
MMF Graduate
ICCSINO
Shanghai, China

Wissam El Khatib
MMF Graduate
Potential Renewables Inc.
Toronto

Patrick Elliott
MMF Graduate
BoA Merrill Lynch
Toronto

Ying Fan
MMF Graduate

Linghang Fang
MMF Graduate
PricewaterhouseCoopers
Toronto

Jean-Baptiste Foult
MMF Graduate

Louis Goulet
MMF Graduate
National Bank Financial
Montréal

Zakaria Hammama
MMF Graduate
Laurentian Bank of Canada
Montréal

Nipun Kalra
MMF Graduate
J.P. Morgan
Mumbai, India

Carl Kilajian
MMF Graduate
Partner One Capital
Montréal

Jaewon Kim
MMF Graduate
ADF Asset Management
Seoul, South Korea

Bertrand Leyrit
MMF Graduate

Kaili Ma
MMF Graduate
Gluskin Sheff
Toronto

Loic Martel
MMF Graduate
United Nation (UNDP)
Geneva, Switzerland

Alexandra Melendez Lahura, AFM
MMF Graduate
Scotiabank
Toronto

Yassine Nassiri
MMF Graduate
Teralys Capital
Montréal

Program Alumni

2019

Graduating Class of 2019

Allan Obuchowski
MMF Graduate
PricewaterhouseCoopers
Brussels, Belgium

Qianqi Pan
MMF Graduate

Carlos Panozo
MMF Graduate
BNP Paribas
Montréal

Pierre-Louis Patault
MMF Graduate
National Bank Financial
Montréal

Salman Zia Rana
MMF Graduate
Laurentian Bank of Canada
Montréal

Laura Santiago
MMF Graduate
Jarislowsky, Fraser Ltd.
Montréal

Corey Saxe, CFA
MMF Graduate
PSP Investments
Montréal

Youssef Sennaji
MMF Graduate
EY
Montréal

Parth Shah
MMF Graduate
Canaccord Genuity
Toronto

Celec Soriano-Francis
MMF Graduate
CDPQ
Montréal

Jingying (Sue) Sui
MMF Graduate

Roy Sun
MMF Graduate
DNA Capital
Montréal

Garima Syal
MMF Graduate
Algonquin Power & Utilities Corp.
Toronto

Jiaqi Wang
MMF Graduate
Great-West Life Co.
Toronto

Shuoyao Wang
MMF Graduate
BNP Paribas
Montréal

Yingting (Ariel) Wang
MMF Graduate
PSP Investments
Montréal

Xiangyu Xiao
MMF Graduate

Yayu Xu
MMF Graduate
Scotiabank
Toronto

Pratyaksha Yadav
MMF Graduate
Boston Consulting Group
Toronto

Bingfu (Brett) Yu
MMF Graduate

Program Alumni

2020

Graduating Class of 2020

Arpit Agarwal
MMF Graduate

Nikhil Agrawal
MMF Graduate
Cordiant
Montréal

Florent Arès
MMF Graduate
Novacap
Montréal

Olivier Arsenault
MMF Graduate
Scotiabank
Montréal

Noor Alaali
MMF Graduate
PricewaterhouseCoopers
Dubai, UAE

Christy Barakat
MMF Graduate
PricewaterhouseCoopers
Dubai, UAE

Keven Barré
MMF Graduate
National Bank Financial
Montréal

Nazim Baza
MMF Graduate
Investissement Québec
Montréal

Claudio Cammuso
MMF Graduate
Targray
Montréal

Yang Chen
MMF Graduate
Capital One
Toronto

Kaylyn Chrystian
MMF Graduate
CIBC
Calgary

Ana Garcia
MMF Graduate
Scotiabank
Toronto

Michelle Guo
MMF Graduate
CM-CIC Investissement
Montréal

Guillaume Hervault
MMF Graduate
National Bank Financial
Montréal

Jared Holaday
MMF Graduate
Cogent Capital Group
Montréal

Mathilda Zixuan Jin
MMF Graduate
Sunlife Financials
Montréal

Arthur Jolivet
MMF Graduate
Accuracy
Montréal

Bets Joseph
MMF Graduate
CN
Montréal

Roxanne Jousse
MMF Graduate
SaniSource
Montréal

Mathew Kwan
MMF Graduate
McGill Endowment
Montréal

Pier-Olivier Laflèche
MMF Graduate
CDPQ
Montréal

Program Alumni

2020

Graduating Class of 2020

Wen-Ting Lee
MMF Graduate

Xinyi Li
MMF Graduate

Bolei Liu
MMF Graduate
BCI
Victoria

Zhijun Liu
MMF Graduate

Felix Lu
MMF Graduate

Catherine Ma
MMF Graduate
Cossette Media
Montréal

Celesta Mariam Mathew
MMF Graduate
Canalyst
Montréal

Mitchell McEwen
MMF Graduate
TD Securities
Toronto

Daman Mody
MMF Graduate
Ubisoft
Montréal

Mark Moudabber
MMF Graduate
Sarwa
Montréal

Yinka Odedeyi
MMF Graduate
PSP Investments
Montréal

Parker Olineck
MMF Graduate
Export Development Canada
Ottawa

Christian Pettigrew
MMF Graduate
CIBC
Toronto

Scarlett Shi
MMF Graduate
CDPQ
Montréal

Min Su
MMF Graduate
Scotiabank
Toronto

Lakshay Syal
MMF Graduate

Aïcha Traoré
MMF Graduate
National Bank Financial
Montréal

Camille Tremblay
MMF Graduate

Zhixiu (Tim) Xie
MMF Graduate

Chen Xu
MMF Graduate
Mount Murray Investments
Montréal

Fiona Wang
MMF Graduate

Xinyan Wang
MMF Graduate
Acies Group Real Estate
Montréal

Anna Wastle
MMF Graduate
Alberta Investment Management Corp (AIMCo)
Edmonton

Program Alumni

2020

Graduating Class of 2020

Joshua Wolman
MMF Graduate
Futures First
Montréal

Yidi Wu
MMF Graduate

Aamir Zargham
MMF Graduate
Piccles
Montréal

Eugenie Zhang
MMF Graduate
DNA Capital
Montréal

Yuting Zhao
MMF Graduate

Kerwin Zheng
MMF Graduate

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