Honours Investment Management

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,

On behalf of this year's Honours in Investment Management class, we would like to thank you for your continued support and guidance. It has been an incredible experience having the opportunity to manage the Desautels Capital Management funds, all of which would not be possible without your investments and continued support of our program.

This has been an unprecedented year for HIM program. The program transitioned to online platforms as of March 2020. Despite the virtual setting, all of our students have remained dedicated to the same level of active engagement in pitch meetings and presentations via videoconference.

Both the Global Equity and Fixed Income Funds have come a long way since their inception, improving their processes to provide students with an optimal experiential learning experience. The format of our Risk and Analytics team was adapted this year. The team will continue to oversee and improve our risk management practices, but has taken a more active role in the investment process, particularly around position exits. The goal is to incorporate more quantitative methods in our investment approach, analyzing current performance and providing unbiased recommendations.

Additionally, Professor Jiro Kondo has been committed to integrating additional experiential learning opportunities for our students, organizing multiple advisory engagements for the valuation of a startup. Furthermore, a Chief Sustainability Officer position was added to provide active feedback on the impacts of our investment positions as well as process improvements.

Our students have continued to place exceptionally well both in summer internships and full-time positions. Following this school year, students will be working across investment banking, consulting, asset management, private equity, and Sales & Trading. We are also proud to say that DCM's presence has been growing, with students now securing more positions this year in New York, London, Toronto, Montreal, and Houston. This success would not be possible without the continued support from our alumni network, to whom we are very thankful (see page 94 for a full list of HIM alumni).

We speak on behalf of the entire program when we say that we are proud of what we have learned and accomplished this past year. Looking ahead, the program is in great hands, with an excellent group of Juniors coming back for their Senior year, led by newly elected strategists Frank Shen and Grace Danner. We would like to extend a special thank you to Vadim di Pietro, Jiro Kondo, and Anisha Ghosh for their continuous help and encouragement

Yours truly,

Lauren Kirigin,
Fixed Income Strategist

Darius Kuddo,
Global Equity Strategist

Program Leadership

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Executive Team

Morty Yalovsky | President

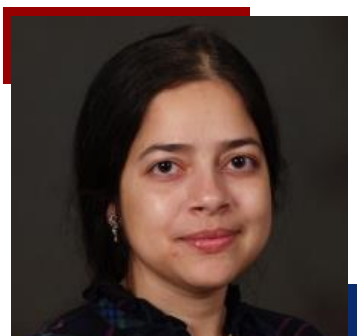
Professor Morty Yalovsky is the President of Desautels Capital Management. He joined the faculty in 1974, and in addition to his academic responsibilities, he has assumed several senior administrative roles, including Vice-Principal (Administration and Finance) at the University level. Professor Yalovsky's 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.



Anisha Ghosh | HIM Academic Director

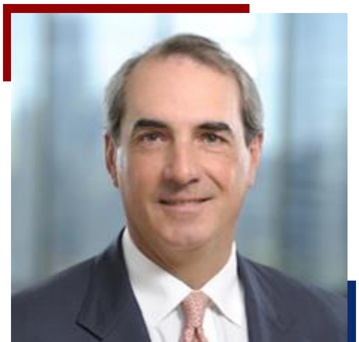
Professor Ghosh joined the Desautels Faculty of Management in 2017, having formerly been a faculty member in the finance area at Carnegie Mellon University's Tepper School of Business. Professor Ghosh's research lies at the interface of macroeconomics and finance and has been published in, among other journals, the Journal of Finance and the Review of Financial Studies. She holds a PhD in Economics from the London School of Economics.

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.

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Who Makes Up HIM?

Students	39
Women	31%
Spoken Languages	16
Average GPA	3.91
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Job Placements

Summer and Full-Time Positions

Class of 2021 & 2022 Employment Statistics

61% Investment Banking

18% Consulting

8% Private Equity

13% Other

49% Toronto

29% Montreal

14% New York

Class of 2021 & 2022 Employers

BAIN & COMPANY

BARCLAYS

BCG

BMO Capital Markets

citi

CREDIT SUISSE

EVERCORE

Goldman Sachs

HOULIHAN LOKEY

LionTree

MACKENZIE Investments

Monitor Deloitte.

Morgan Stanley

NATIONAL BANK OF CANADA FINANCIAL MARKETS

nmg CONSULTING

NOVACAP

OLIVER WYMAN

RBC Capital Markets

Roland Berger

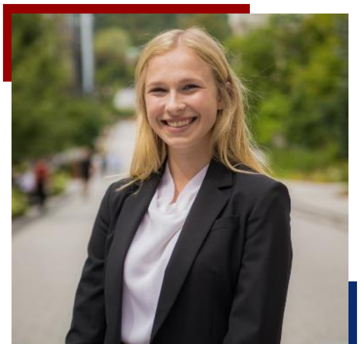
TD Securities

UBS

HIM Executives

Darius Kuddo | Global Equity Strategist

- Strategy Consultant
  Monitor Deloitte, Toronto (Incoming 2021)
- Strategy Consultant
  Monitor Deloitte, Toronto (Summer 2020)
- Treasury Intern
  Transurban, Virginia (Summer 2019)



Lauren Kirigin | Fixed Income Strategist

- Investment Banking Analyst
  Credit Suisse, Toronto (Incoming 2021)
- Investment Banking Summer Analyst
  Credit Suisse, Toronto (Summer 2020)
- Capital Markets Non-Trading Risk Analyst
  CIBC, Toronto (Summer 2019)

Marc Latif | Chief Operating Officer

- Strategy Consultant
  Roland Berger, Montreal (Incoming 2021)
- Private Equity Analyst
  Novacap, Montreal (Summer 2020)
- Private Equity Analyst
  BPE Partners, Cairo (Summer 2019)

Umema Rajput | Chief Sustainability Officer

- Co-Founder
  OpAI Innovations, Montreal (2019-2020)
- Finance Intern
  Signify Philips, Riyadh (Summer 2019)

Consumers
Senior Analysts

Kanishk Shah | Senior Analyst

- Private Equity Analyst
  Goldman Sachs, London (Incoming 2021)
- Private Equity Summer Analyst
  Goldman Sachs, London (Summer 2020)
- Private Equity Summer Analyst
  Altas Partners, Toronto (Summer 2019)

Alexandra Tremblay | Senior Analyst

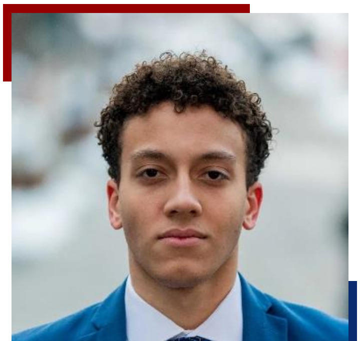
- Investment Banking Analyst
  BMO Capital Markets, Montreal (Incoming 2021)
- Investment Banking Summer Analyst
  BMO Capital Markets, Montreal (Summer 2020)
- Rotational Summer Analyst, Capital Markets
  BMO Capital Markets, Montreal (Summer 2019)

Consumers

Junior Analysts

Annina DeLuca | Junior Analyst

- Investment Banking Summer Analyst
  BMO Capital Markets, Toronto (Incoming 2021)
- Wealth Management Foundations Associate
  Scotiabank, Toronto (Summer 2019)



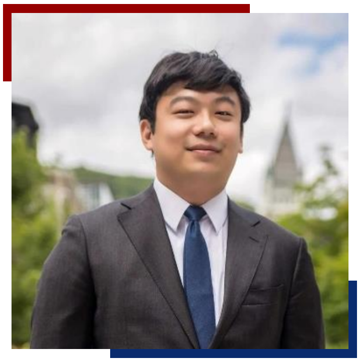
Killian Anthony Ladal | Junior Analyst

- Investment Banking Summer Analyst
  Credit Suisse, New York (Incoming 2021)
- Summer Analyst
  Aon, Montreal (Summer 2020)
- Corporate Accounts Summer Intern
  Aon, Montreal (Summer 2019)

Joshua Levy | Junior Analyst

- Investment Banking Summer Analyst
  BMO Capital Markets, Toronto (Incoming 2021)
- Sourcing Analyst
  Prosight Partners, Vancouver (Summer 2019)

Energy & Utilities

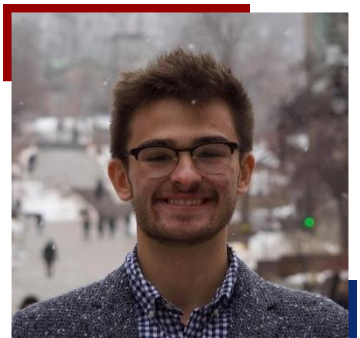


Zhao Kang Chen | Senior Analyst

- Investment Banking Analyst
  Evercore, Houston (Incoming 2021)
- Investment Banking Summer Analyst
  Evercore, Houston (Summer 2020)
- Commercial Banking Summer Analyst
  Scotiabank, Ottawa (Summer 2019)

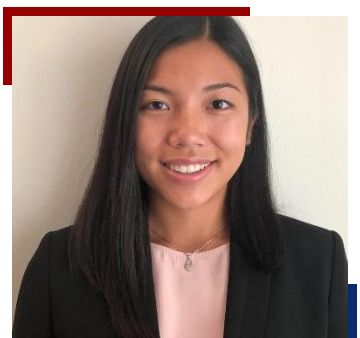
Duncan McHattie | Senior Analyst

- Consultant
  NMG Consulting, Toronto (Incoming 2021)
- Credit & Private Market Investment Risk Analyst
  PSP Investments, Montreal (Summer 2020)



Ben Takacs | Junior Analyst

- Park Attendant
  Niagara Peninsula Conservation Authority, Niagara (Summers 2018 - 2020)



Zoe Wong | Junior Analyst

- Investment Banking Summer Analyst
  UBS Investment Bank, Toronto (Incoming 2021)
- Private Equity Summer Analyst
  CDPQ, Montreal (Summer 2020)

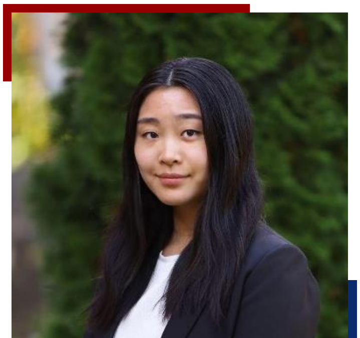
Financial Institutions

Frederic Lam | Senior Analyst

- Associate
  Boston Consulting Group, Montreal (Incoming 2021)
- Summer Associate
  Boston Consulting Group, Montreal (Summer 2020)
- Business Strategy and Transformation Summer Analyst
  Cirque du Soleil Entertainment Group (Summer 2019)

Shelly Qian | Senior Analyst

- Investment Banking Analyst
  LionTree, New York (Incoming 2021)
- Investment Banking Summer Analyst
  LionTree, New York (Summer 2020)
- Business Analyst
  RBC, Toronto (Summer 2019)



Ze Yi Lin | Junior Analyst

- Investment Banking Summer Analyst
  National Bank Financial, Montreal (Incoming 2021)

Mohammed Souit | Junior Analyst

- Investment Banking Summer Analyst
  LionTree, New York (Incoming 2021)
- Summer Investment Analyst
  Barrage Capital, Montreal (Summer 2020)
- Summer Research Analyst
  Government of Canada, Ottawa (Summer 2019)

Healthcare

Jesse Li | Senior Analyst

- Associate Consultant
  Bain & Company, Toronto (Incoming 2021)
- Private Equity Summer Analyst
  Ulysses Management LLC, New York (Summer 2020)
- Corporate Strategy and M&A Analyst
  BRP, Montreal (Summer 2019)

Sean McNally | Senior Analyst

- Consultant
  Oliver Wyman, Montreal (Incoming 2021)
- Private Equity Summer Analyst
  Altas Partners, Toronto (Summer 2020)
- Investment Banking Summer Analyst
  National Bank Financial, Montreal (Summer 2019)

Leo Tousignant | Junior Analyst

- Investment Banking Summer Analyst
  Morgan Stanley, Toronto (Incoming 2021)
- Summer Analyst
  Ivanhoé Cambridge, Montreal (Summer 2020)

Sayeed Yousuf | Junior Analyst

- Investment Banking Summer Analyst
  RBC Capital Markets, Toronto (Incoming 2021)
- Public Audit Summer Intern
  Deloitte, Toronto (Summer 2020)
- Microfinance Summer Analyst
  Grameen Bank, Dhaka (Summer 2019)

Industrials & Materials

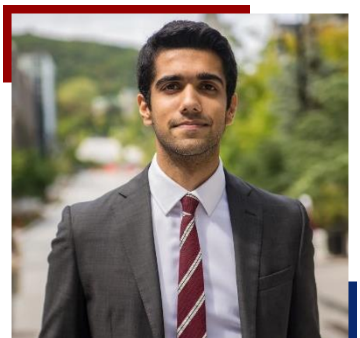
Senior Analysts

Maxime Barbeau | Senior Analyst

- Product Intern
  Mackenzie Investments, Montreal (Fall 2020)
- Inside Sales Intern
  Mackenzie Investments, Montreal (Summer 2020)
- Insurance Intern
  EgR, Montreal (Summer 2019)

Serge Krikorian | Senior Analyst

- Private Equity Analyst
  Novacap, Montreal (Incoming 2021)
- Private Equity Summer Analyst
  Novacap, Montreal (Summer 2020)
- Private Equity Fall Analyst
  Novacap, Montreal (Fall 2019)



Hashaam Nadeem | Senior Analyst

- Private Equity Summer Analyst
  Novacap, Montreal (Incoming 2021)
- Fall Investment Analyst
  Fuel Venture Capital, Miami (Fall 2020)
- Summer Financial Analyst
  Finllect, Dubai (Summer 2020)

Industrials & Materials

Junior Analysts

Jeremy Chalifoux | Junior Industrials Analyst

- Corporate Finance Summer Analyst
  KPMG, Montreal (Summer 2020)
- Investment Analyst Intern
  SSQ Insurance, Quebec City (Summer 2019)

Umema Rajput | Junior Industrials Analyst

- Co-Founder
  OpAI Innovations, Montreal (2019-2020)
- Finance Intern
  Signify Philips, Riyadh (Summer 2019)

Frank Shen | Junior Materials Analyst

- Investment Banking Summer Analyst
  BMO Capital Markets, Toronto (Incoming 2021)
- Private Equity Summer Analyst
  Heeney Capital, New York (Summer 2020)

Benjamin Soucy | Junior Materials Analyst

- Investment Banking Summer Analyst
  BMO Capital Markets, Montreal (Incoming 2021)
- Financial Analyst Intern
  CMHC, Ottawa (Summer 2020)

T M T
Senior Analysts

Amine Kabbadj | Senior Analyst

- Investment Banking Analyst
  Barclays, Toronto (Incoming 2021)
- Investment Banking Summer Analyst
  Barclays, Toronto (Summer 2020)
- Venture Capital Summer Analyst
  BDC Capital, Montreal (Summer 2019)

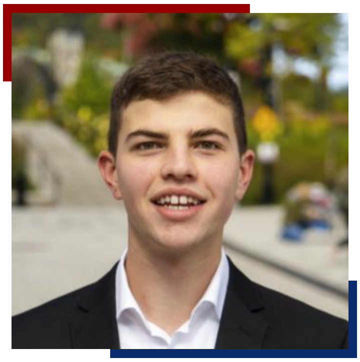
Marc Latif | Senior Analyst

- Strategy Consultant
  Roland Berger, Montreal (Incoming 2021)
- Private Equity Analyst
  Novacap, Montreal (Summer 2020)
- Private Equity Analyst
  BPE Partners, Cairo (Summer 2019)

Paul Mangoni | Senior Analyst

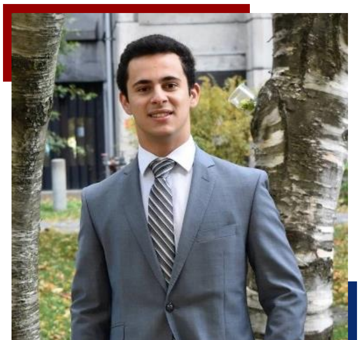
- Investment Banking Analyst
  Houlihan Lokey, New York (Incoming 2021)
- Investment Banking Summer Analyst
  HSBC, New York (Summer 2020)
- Summer Intern
  Gildan, Montreal (Summer 2019)

T M T
Junior Analysts



Morgan Gill | Junior Analyst

- Associate Consultant Intern
  Bain & Company, Toronto (Incoming 2021)
- Business Analyst
  Capital One, Toronto (Summer 2020)
- Business Development Manager
  Stay22, Montreal (Summer 2019)



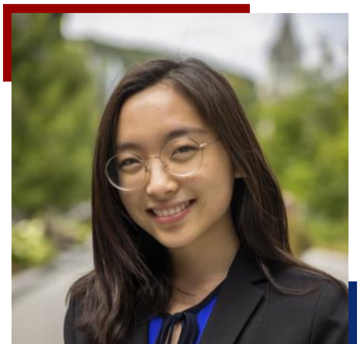
Brian Spivak | Junior Analyst

- Investment Banking Summer Analyst
  TD Securities, Toronto (Incoming 2021)
- Online Financing Summer Analyst
  BDC, Montreal (Summer 2020)

Risk & Strategy

Darius Kuddo | Global Equity Strategist

- Strategy Consultant
  Monitor Deloitte, Toronto (Incoming 2021)
- Strategy Consultant
  Monitor Deloitte, Toronto (Summer 2020)
- Treasury Intern
  Transurban, Virginia (Summer 2019)

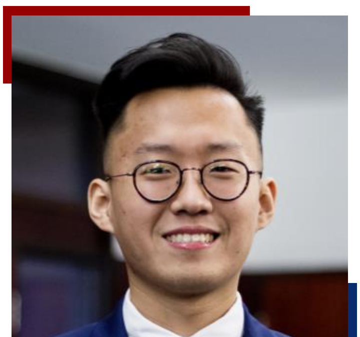


Jinghong Lin | Senior Analyst

- Investment Banking Analyst
  LionTree, New York (Incoming 2021)
- Investment Banking Summer Analyst
  LionTree, New York (Summer 2020)
- Wealth Management Summer Intern
  Oceanpath Inc, Montreal (Summer 2019)

Dillon Graveline | Junior Analyst

- Sales & Trading Summer Analyst
  Citibank, Toronto (Incoming 2021)
- Summer Analyst
  Chapados Couture Capital, Montreal (Summer 2020)
- Initiative Manager
  Bank of Montreal, Toronto (Summer 2019)



Kyrie Tong | Junior Analyst

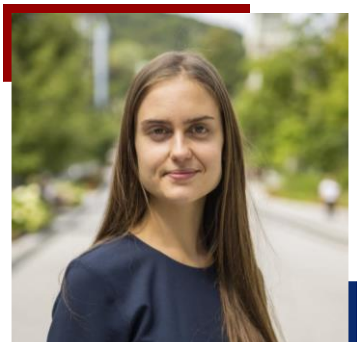
- Investment Banking Summer Analyst
  National Bank Financial, Montreal (Incoming 2021)
- Corporate Strategy Summer Analyst
  Geely Holdings, Hangzhou (Summer 2019)
- PE, VC, and Secondary Market Research Intern
  Noah Wealth Management, Shanghai (Summer 2017)

Fixed Income

Senior Analysts

Lauren Kirigin | Fixed Income Strategist

- Investment Banking Analyst
  Credit Suisse, Toronto (Incoming 2021)
- Investment Banking Summer Analyst
  Credit Suisse, Toronto (Summer 2020)
- Capital Markets Non-Trading Risk Analyst
  CIBC, Toronto (Summer 2019)



Ekaterina Semenova | Senior Analyst

- Investment Banking Summer Analyst
  Citibank, London (Summer 2021)
- Private Equity Winter Analyst
  PSP Investments, Montreal (Winter 2021)
- Investment Banking Summer Analyst
  RBC Capital Markets, Toronto (Summer 2020)

Sisi Wang | Senior Analyst

- Investment Banking Analyst
  Morgan Stanley, Toronto (Incoming 2021)
- Investment Banking Summer Analyst
  Morgan Stanley, Toronto (Summer 2020)
- Summer Analyst
  Knightstone Capital, Toronto (Summer 2019)

Fixed Income
Junior Analysts

Grace Danner | Junior Analyst

- Global Markets Summer Analyst
  RBC Capital Markets, Toronto (Incoming 2021)
- Client Contact & Document Processing Centre Business Analyst
  Business Development Bank of Canada, Toronto (Summer 2020)

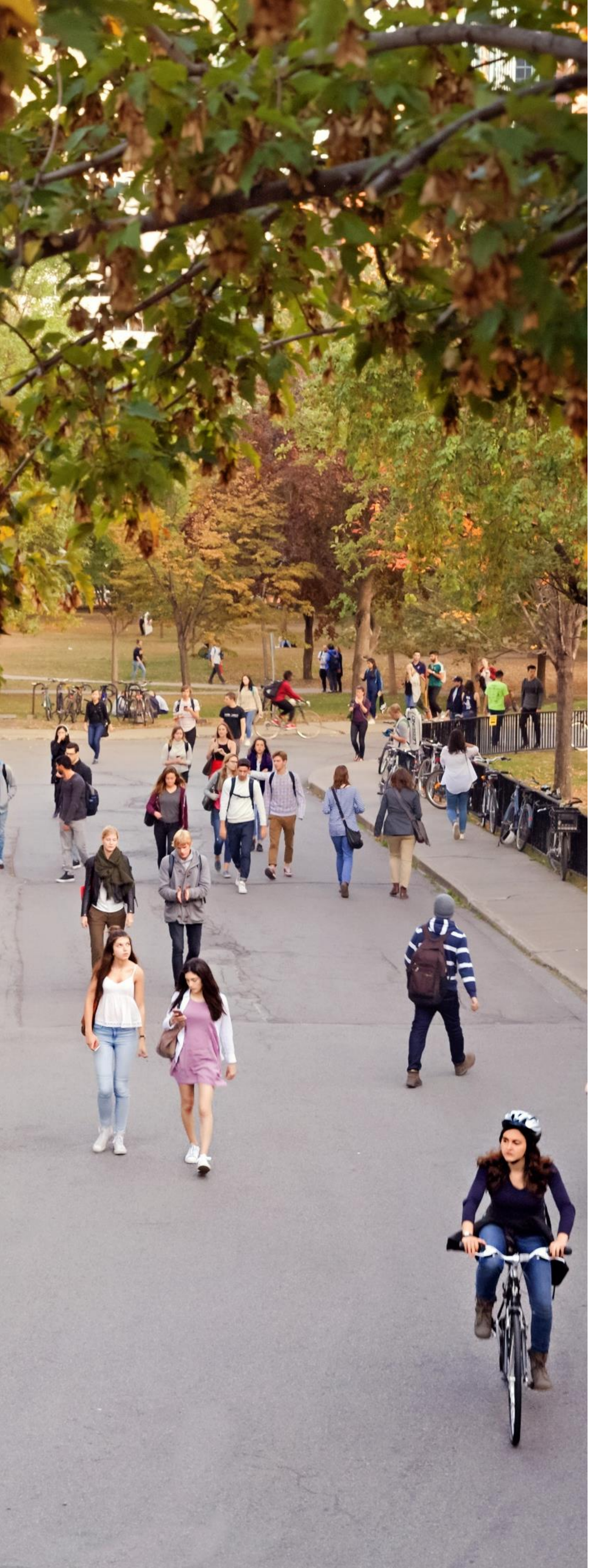
Mirella Deng | Junior Analyst

- Investment Banking Summer Analyst
  TD Securities, Toronto (Incoming 2021)
- Management Consulting Intern
  Solv Advisors, Ottawa (Summer 2020)

Economic Analysis

Seth Obadia | Senior Analyst

- Investment Banking Summer Analyst
  Barron International Group, New York (Summers 2018, 2019)
- Marketing Intern
  CultureSonar, New York (Summer 2017)



Global Equity Fund

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Fund Performance

A shaky beginning but strong finish

Darius Kuddo, *Global Equity Strategist*

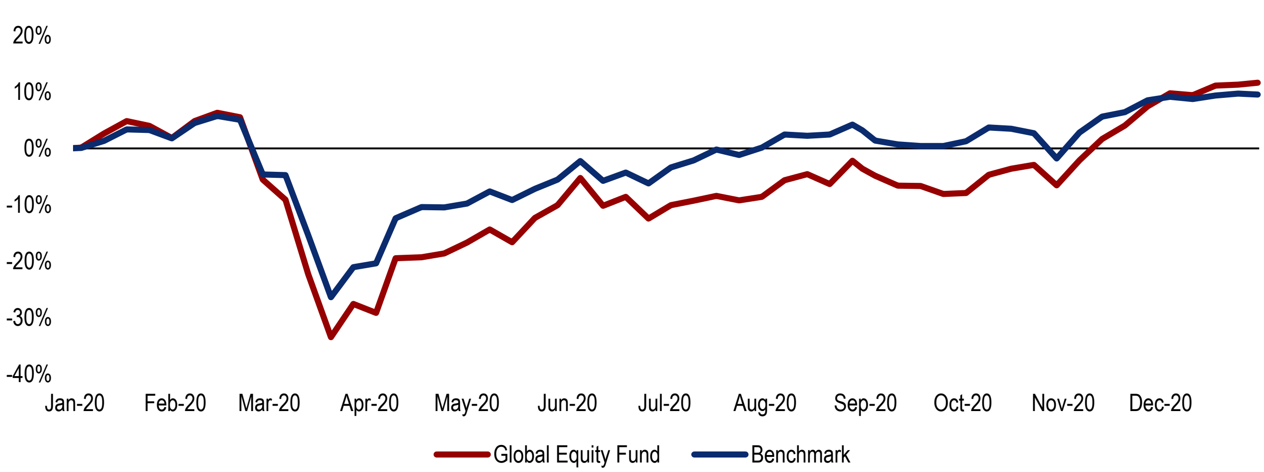
Dear Investors,

The Global Equity Fund returned 11.6% gross of fees in 2020, compared to 9.5% for our blended benchmark (60% S&P TSX, 40% S&P 500 in CAD). This year was undoubtedly one of the craziest years we have seen in our lifetimes, from threats of war at the beginning of the year, to the pandemic, to the volatile and seemingly irrational markets, to the political instability seen towards the end of the year. We were certainly tested as a fund, but we remained resilient in the face of the strong volatility and kept true to our mandate of bottom-up fundamental investing with a long-term mindset.

We started out the year on a strong footing in January, with strong Q3 2019 earnings coming out for many of our holdings, particularly Aritzia, which led us to outperform in the first few weeks of the year. Like many active funds, we consider a range of risks in our portfolio, from economic factors to commodities, but we were caught off guard by the risk of a pandemic of this scale. We underperformed in the initial market crash due to several holdings that significantly lost value due to COVID-19, such as Simon Property Group affected by social distancing restrictions, and Orchard Therapeutics which saw drug approval timelines extended out. Many such holdings performed poorly due to COVID-specific factors, but were otherwise fundamentally stable. We were ultimately able to overperform our benchmark by maintaining a long-term mindset with such holdings, rebalancing several times to shift more defensive, and because of a surge in value and small-cap stocks towards the end of the year, which we had been overweight.

Even in the midst of all the crises this year, we placed several excellent bets. Some examples of these include Blackberry, on which we realized a 39% return following a rally surrounding one of our fundamental investment theses, and Nabriva Therapeutics with a 36% return over a one month holding period. Many of our holdings coming into this year did particularly well, such as SVB Financial Group (+54%), Adobe (+52%), and Prosus (+46%). Further details on our fund performance, holdings, and investment theses are provided in the sections that follow.

Figure 1: Global Equity Fund Performance 2020



Sources: Bloomberg, CIBC Mellon

Figure 2: Global Equity Fund Returns

Performance Metrics Since Inception	As of Dec 31, 2020	
	Equity Fund	Benchmark
Annualized Return	9.4%	10.2%
Annualized Standard Deviation	14.0%	12.9%
Annualized Sharpe Ratio	0.53	0.64
Beta	0.95	
Annualized Gross Alpha	(0.4%)	
Annualized Tracking Error	6.9%	

Performance metrics are calculated gross of fees.

Performance Metrics 2020	As of Dec 31, 2020	
	Equity Fund	Benchmark
Annualized Return	11.6%	9.5%
Annualized Standard Deviation	32.7%	25.8%
Annualized Sharpe Ratio	0.30	0.29
Beta	1.21	
Annualized Gross Alpha	0.2%	
Annualized Tracking Error	10.7%	

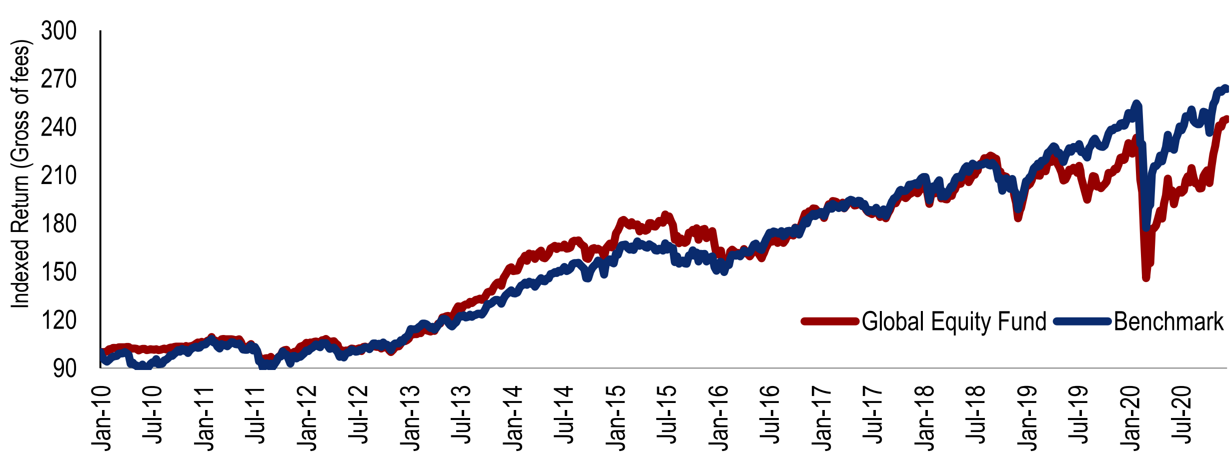
Performance metrics are calculated gross of fees.

Figure 3: Global Equity Fund Monthly Returns

Monthly Returns 2020				As of Dec 31, 2020
Time Period	Gross Return	Net Return	Benchmark	(+/-)
2020 Return	11.6%	10.1%	9.5%	2.1%
Dec-20	3.9%	3.9%	0.9%	3.0%
Nov-20	15.0%	14.9%	10.5%	4.5%
Oct-20	1.7%	1.5%	(2.2%)	3.8%
Sep-20	(4.6%)	(4.7%)	(2.7%)	(1.9%)
Aug-20	5.5%	5.3%	3.1%	2.4%
Jul-20	4.4%	4.3%	6.8%	(2.4%)
Jun-20	(2.7%)	(2.8%)	(0.7%)	(1.9%)
May-20	10.5%	10.4%	5.5%	5.0%
Apr-20	12.4%	12.2%	13.4%	(1.0%)
Mar-20	(23.3%)	(23.4%)	(17.2%)	(6.1%)
Feb-20	(7.2%)	(7.4%)	(6.3%)	(0.9%)
Jan-20	1.8%	1.7%	1.8%	0.0%
Since Inception*	9.4%	7.7%	10.2%	(0.8%)

**Returns are annualized.*

Figure 4: Global Equity Fund Performance Since Inception



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

Sources: Bloomberg, CIBC Mellon

Figure 5: Current Sector Allocation

Sector	DCM	Benchmark	(+/-)
Information Technology	18.9%	17.2%	1.7%
Healthcare	7.0%	6.1%	1.0%
Energy	8.4%	7.6%	0.8%
Industrials	11.4%	10.9%	0.5%
Financials	22.6%	22.3%	0.3%
Utilities	4.0%	4.2%	-0.2%
Communication Services	6.8%	7.3%	-0.4%
Materials	8.3%	9.3%	-1.0%
Consumer Discretionary	6.1%	7.4%	-1.3%
Real Estate	1.4%	2.8%	-1.5%
Consumer Staples	3.0%	4.9%	-1.9%
CAD	2.2%	0.0%	2.2%
USD	0.0%	0.0%	0.0%
Total	**100.0%**	**100.0%**	**0.0%**

Figure 6: DCM Sector Excess Return vs Benchmark

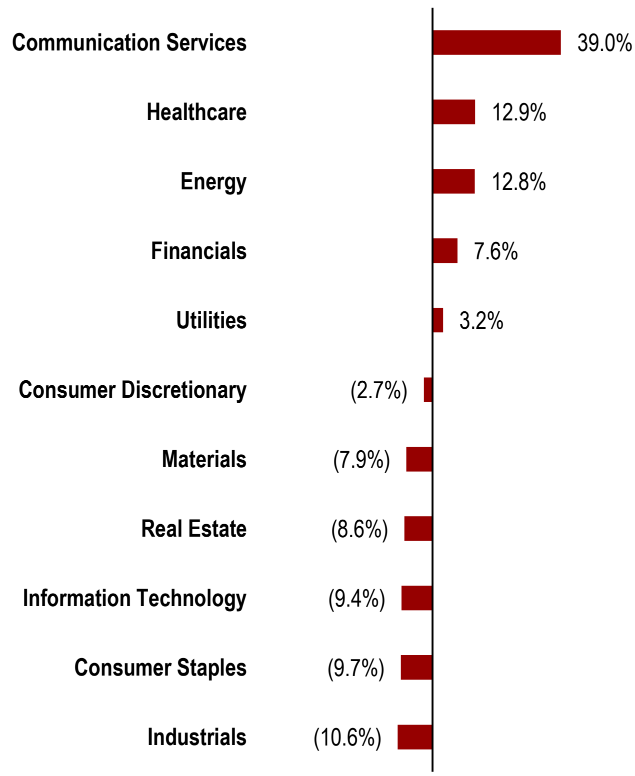


Figure 7: Current Size Exposure

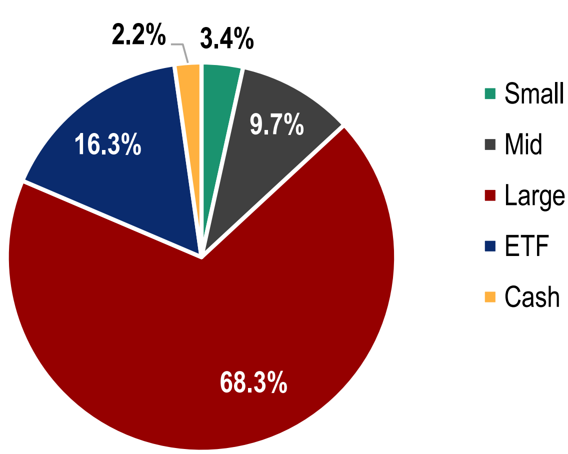
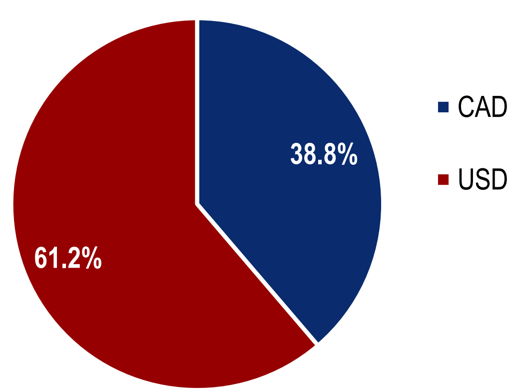


Figure 8: Current Currency Exposure



Sources: Bloomberg, CIBC Mellon

Figure 9: Current Holdings As of December 31, 2020

Security Name	Sector	Currency	Units	Price	CAD Value	Weight
Bank of Montreal	Financials	CAD	2,375	$96.78	$229,853	6.9%
SVB Financial Group	Financials	USD	400	$387.83	$197,537	5.9%
Adobe Inc.	Information Technology	USD	300	$500.12	$191,048	5.7%
Bank of America	Financials	USD	4,770	$30.31	$184,099	5.5%
Prosus	Information Technology	USD	5,550	$21.69	$153,285	4.6%
Vanguard Information Technology Index ETF	Information Technology	USD	330	$353.79	$148,665	4.4%
Fiserv Inc.	Financials	USD	1,000	$113.86	$144,984	4.3%
iShares Expanded Tech – Software Sector ETF	Information Technology	USD	310	$354.10	$139,777	4.2%
iShares S&P/TSX Capped Utilities Index ETF	Utilities	CAD	4,600	$29.07	$133,722	4.0%
Canadian Pacific Railway	Industrials	CAD	295	$441.53	$130,251	3.9%
Electronic Arts	Communication Services	USD	700	$143.60	$127,997	3.8%
Ulta Beauty	Consumer Discretionary	USD	300	$287.16	$109,697	3.3%
Teck Resources	Materials	CAD	4,700	$23.10	$108,570	3.2%
Volkswagen	Industrials	USD	4,000	$20.85	$106,197	3.2%
Catalent	Healthcare	USD	800	$104.07	$106,014	3.2%
HLS Therapeutics	Healthcare	CAD	5,800	$18.00	$104,400	3.1%
Facebook	Communication Services	USD	290	$273.16	$100,870	3.0%
Loblaw Companies Limited	Consumer Staples	CAD	1,580	$62.81	$99,240	3.0%
iShares S&P Global Consumer Discretionary Index ETF	Consumer Discretionary	CAD	1,800	$46.13	$83,034	2.5%
Brunswick	Industrials	USD	800	$76.24	$77,664	2.3%
Nornickel	Materials	USD	1,900	$31.48	$76,162	2.3%
Seven Generations	Energy	CAD	10,700	$6.61	$70,727	2.1%
Transdigm	Industrials	USD	85	$618.85	$66,981	2.00%
Suncor	Energy	CAD	2,750	$21.35	$58,713	1.8%
Tourmailine Oil Corp	Energy	CAD	3,300	$17.16	$56,628	1.7%
Pembina Pipeline Corp	Energy	CAD	1,750	$30.10	$52,675	1.6%
Summit Materials	Materials	USD	1,950	$20.08	$49,859	1.5%
Simon Property Group	Real Estate	USD	420	$85.28	$45,608	1.4%
Parex Resources	Energy	CAD	2,500	$17.52	$43,800	1.3%
iShares S&P/TSX Capped Materials Index ETF	Materials	CAD	2,400	$17.76	$42,624	1.3%
Orchard Therapeutics PLC	Healthcare	USD	4,600	$4.32	$25,304	0.8%
Performance Sports Group LTD	Consumer Discretionary	CAD	10,985	$1.00	$10,985	0.3%
U.S. Dollar	USD	USD	956		$1,217	0.0%
Canadian Dollar	CAD	CAD	73,706		$73,706	2.2%
				Total Asset Value	$3,338,490	

Sources: Bloomberg, CIBC Mellon

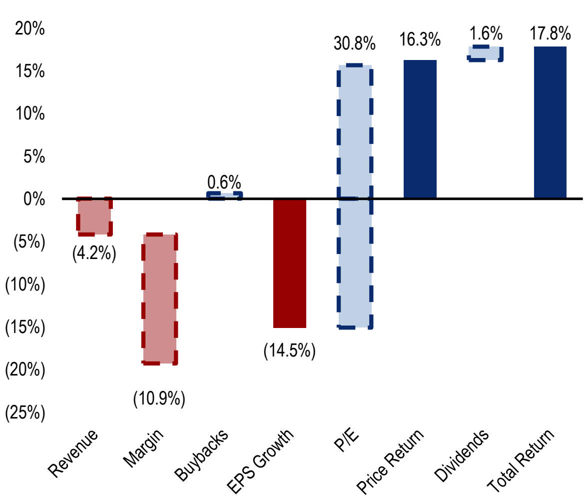
Equity Markets: 2020 Review

Closing Out a Year in Crisis

No doubt most people will regard 2020 as one of the most memorable years they have seen. Especially for a student-led program like ours, it is a once-in-a-lifetime experience to watch equity markets melt the way they did in March and watch exchange circuit breakers trip on live TV. The COVID-19 pandemic that brought us here wasn't even the only shocking thing to happen over the year. We were keenly monitoring the threat of war in Iran in the beginning of the year over the assassination of Qasem Solemani, watching the horrific fires burn in Australia in February, and, of course, the political instability in the US leading up to and following the election.

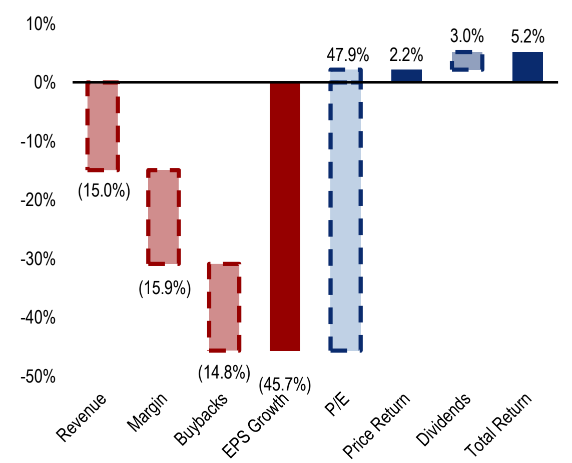
Despite all of this, and the economic carnage that went with it, equity markets still ended up closing at record highs for the year, primarily on the back of unprecedented central bank action.

Figure 1: 2020 S&P 500 Performance Breakdown



The S&P 500 returned 17.8% in 2020 as shown in Figure 1. Just as in 2019, the vast majority of these returns were driven by P/E multiple expansion. One-year forward P/E rose from 16.5x at the beginning of the year to 21.6x, a gain of almost 31%. Much of this can be attributed to the lower discount rates prompted by the Fed cutting interest rates to near-zero. Corporate fundamentals deteriorated somewhat substantially across the index, with EPS declining 14.5% as both revenue and profit margins eroded because of decreased demand from economic shutdowns and increased costs in response to the pandemic.

Figure 2: 2020 TSX Performance Breakdown



The Canadian stock market experience a much weaker year than the US. Corporate fundamentals performed much worse, with EPS declining over 45% with a trifecta of revenue losses, margin declines, and increased issuances. Despite much more robust multiple expansion, nearly 48%, this only ultimately led to a 5.2% return in the index, which is still amazing given the economic fundamentals.

In the Global Equity Fund, as with most active funds, we had not considered the risk of a global pandemic and the sector and stock-specific effects it would have. As our risk management section below goes into more detail, we were hit extremely hard by the significant underperformance of value and small-cap firms, both of which we are positively exposed to, in addition to a beta of 1.2, that led us to underperform the benchmark by as much as 9% at one point. This

Source: Bloomberg

factor underperformance has reasonable economic rationale, however, considering growth is heavily skewed towards tech companies immune to lockdowns, who performed spectacularly in 2020, as well as large firms generally being better able to maintain financial stability in the midst of such a crisis. As a long-term, fundamentally-oriented fund, we rode out this crisis and ultimately were able to outperform for the year as value and small-cap made a huge resurgence in Q4.

A Remarkable Recovery in Markets

Our last two annual reports speculated on increased uncertainty and volatility in markets; 2020 was the year that it finally boiled over. In the midst of the initial crash, the VIX volatility index spiked to a record high close of 82.69 on March 16th. While pandemic volatility was extreme, it was shorter-lived than during the Great Financial Crisis (GFC). Of the 50 highest closing values of the VIX going back to 1990, 14 of those were seen between March 12 and April 1, 2021, while the remaining 36 were seen in Q4 2008.

Despite following some of the worst economic releases in history, most asset classes performed better than they did in the GFC when measuring peak-to-through, as shown in Figure 3. Nearly every asset class performed fairly poorly, particularly oil prices and alternative investments like private equity, real estate, and infrastructure. The S&P 500 faired much better this crisis than last, declining 34% at its worst point vs. 56% in 2008-2009. There are some exceptions, particularly the US Dollar, Gold, and investment grade debt, that performed relatively better in the GFC than they did this year.

Looking at individual sector performance this year, almost all ended up with a positive return for the year, as shown in Figure 4. In many cases, there was a substantial difference in sector returns between US and Canadian markets, particularly in IT, Communications Services, and Healthcare. As expected, pandemic-resistant Information Technology was the best performing sector in 2020, while Energy performed the worst.

Figure 3: Peak-to-Trough Performance, 2020 vs. GFC

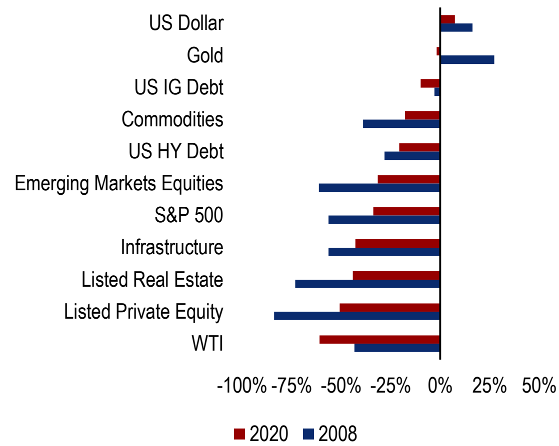
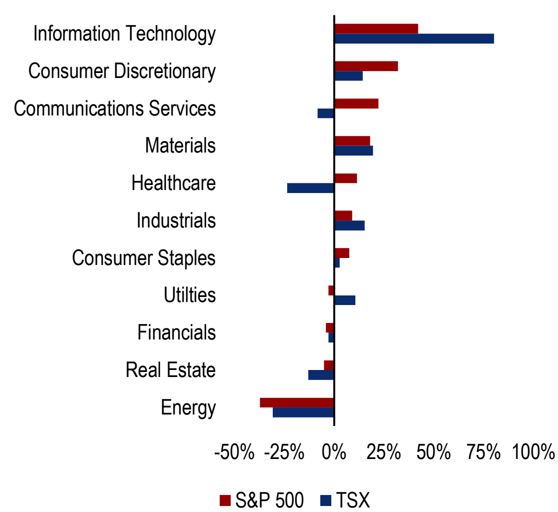


Figure 4: S&P 500 and TSX Sector Performance 2020



In Canadian markets, IT obviously was the strongest performer by a large margin, gaining 80% vs. 42% for IT in the US. The main reason for a near double return is because of the composition of the TSX IT index, which contains only 10 companies. Shopify, which comprises 62% of the index by market cap, returned 178% as a result of the need for e-commerce services in a socially distant environment, producing most of the returns for the index. IT also generally did well because of the obvious resilience against social distancing restrictions. Consumer Discretionary also did fairly well in 2020, even representing middle-of-the-pack returns in the initial crash which was

Source: Bloomberg

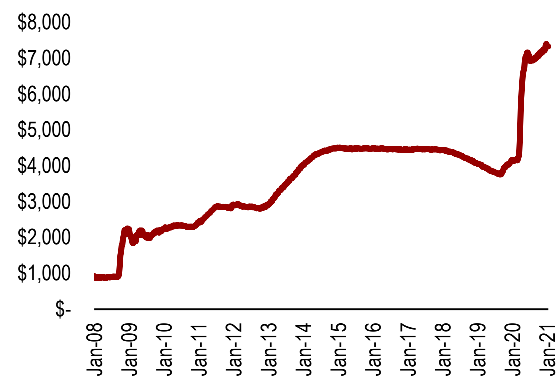
interesting as consumer spending took a large hit, but investors are pouring a lot of money into the sector as a recovery play once vaccines unleash pent-up demand with consumers. More macro-driven sectors like Materials and Industrials had fair performance in 2020 given they were less economically affected by public health measures. In fact, manufacturing confidence reached its highest level in December since April 2018 on the back of surging new orders and exports.

In a year defined by public health, the Healthcare sector ended 5th of 11 sectors in the S&P 500 and 10th of 11 in the TSX by returns. While certain segments, particularly those supporting vaccine development or production, did quite well, many other firms saw a decreased demand for discretionary services or had drug approval timelines pushed back as coronavirus-related developments were prioritized. The obvious loser in 2020 was the Energy sector, declining 30-40% between the US and Canada. The sector saw headwinds on many different ends, from the reduced demand for oil products as everyone began working from home and air travel effectively halted, to the Russia–Saudi Arabia oil price war that began on March 8, 2020.

The Central Bank as a Savior

No doubt many agree that most, if not all, of the market's successes and gains in 2020 can be attributed to one person: Jerome Powell of the Federal Reserve. In the last year, we have seen the Fed take unprecedented action to thwart a financial crisis and prop up markets, ultimately adding over $3 trillion to the Fed's balance sheet, as shown in Figure 5. While this represents the largest dollar increase in its history, proportionally to pre-crisis it is actually much smaller than the action taken in the Great Financial Crisis, a ~75% increase versus a 150% increase after the immediate spike. After a decade of QE, it is difficult to envision how the Fed will be able to reduce its balance sheet by a meaningful amount, especially given recent statements to continue buying securities indefinitely until its policy goals are met.

Figure 5: Federal Reserve Total Assets ($ billions)



In the beginning of the crisis, the Fed stepped in with fairly traditional tools to supply liquidity to the markets. But they also took less conventional measurs, becoming a direct buyer in a variety of financial markets so they could continue to operate, ranging from money market funds, commercial paper, municipal debt, and asset-backed loans, to even direct lending from the well-known Paycheck Protection Program (PPP) to the Secondary Market Corporate Credit Facility which allowed them to buy corporate debt and support new issuances.

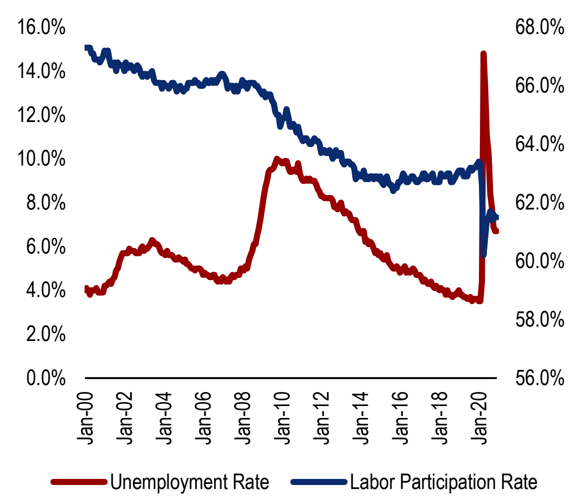
While these actions heavily supported markets, some controversy surrounds the credit risk that they took on with many of these direct crisis lending facilities as opposed to safe-haven Treasuries and MBS. The Treasury Department capitalized these facilities against default risk with $215B, which has first-loss exposure, adding to the Fed's pre-existing $39B in capital. While credit delinquencies and defaults have generally remained muted, excessive credit losses could have significant political implications for the Fed surrounding their role in any future crises.

Troubles Persist in Employment

While the Fed supported the stability of markets, they have a big task ahead of them with their formal policy goals. On an employment front, metrics generally are a bit misleading. As shown in Figure 8, unemployment spiked to its highest level ever in June to 13% but has since come down to a more reasonable, but still high 6.7%. This does not show the full picture, however, as

Sources: Bloomberg, Federal Reserve, Bank of Canada, Brookings labor force participation is down almost 2% from pre-pandemic levels, and is at its lowest level since 1976. Some analysts estimate that unemployment would be around 9.5% given no drop in labor participation. Job losses this year were primarily focused on lower-wage, lower-hour jobs, particularly in restriction-sensitive industries like leisure and recreation, which remain among the worst performing industries going into 2021. Average wages took a surprising turn in April, gaining 5% MoM because so many low-earning workers were laid off that the metric also became misleading.

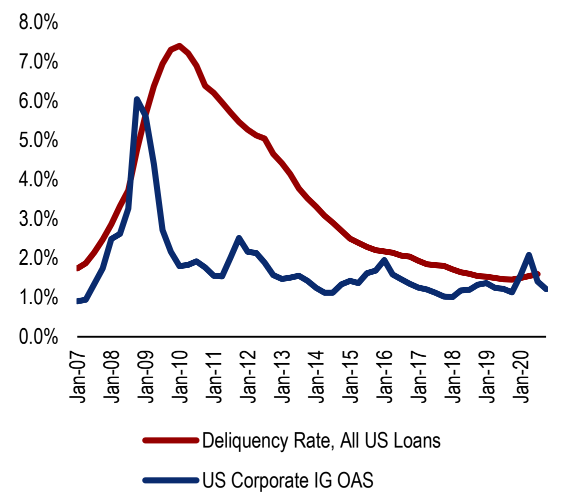
Figure 6: US Unemployment and Labor Participation



Stable Credit Quality

One of the key differences between the 2020 and 2008 crises was the impact on credit markets and corporate credit quality. While some sectors, like Energy, were particularly hit hard, for the most part credit quality in the US was fairly stable despite the fact that so many businesses had to curtail their operations due to public health restrictions. As shown in Figure 7, corporate credit spreads across all investment grade public debt in the US rose to roughly 2.1% in the heat of the crisis earlier in the year, which is far lower than the high of 6% in 2008. When looking at delinquency rates for all loans in the US, an even brighter picture is painted as they rose to roughly 1.2% by the end of the year versus the 7.2% peak in 2008. While it is difficult to isolate the health of vulnerable small businesses, the economy seems to be on a strong footing in terms of credit quality going into a new wave of shutdowns in 2021.

Figure 7: US Credit Quality

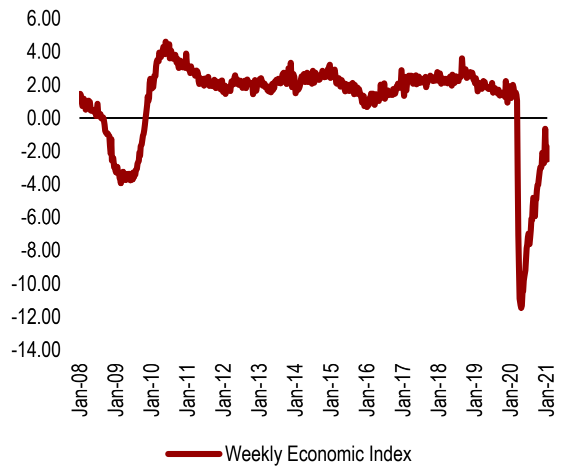


A Large Drop But Fast Recovery

This year was one full of records, including an unprecedented drop in output. While numbers for Q4 2020 are yet to be released, economists expect US GDP contracted 3.5% over the year, while it is expected that Canadian GDP dropped slightly more at 5.3%. Most of this contraction was frontloaded in Q2, which dropped at a record annualized-31.4% in the US before a dramatic V-shaped 33.4% recovery in Q3. It is clear that economic growth is on a very positive trend moving into 2021. As shown in Figure 8, the New York Fed's Weekly Economic Index, a near-real time proxy for GDP, has risen quite sharply since the lockdowns in March/April, although growth has slowed in the last few weeks of the year due to a spike in COVID-19 cases and increasing lockdown restrictions associated with it.

Sources: Bloomberg, St. Louis Fed, New York Fed

Figure 8: US Weekly Economic Index



Strong Fiscal Stimulus

One cannot complete the story of 2020's record decline and subsequent recovery without speaking of the two massive fiscal stimulus bills passed by Congress, although not without heavy controversy on why more aid has yet to be passed, a key priority for the incoming Biden administration. The first round of stimulus came in March with a $2T price tag. Among what was included were individual checks of $1,200, $359B in small business loans through the Paycheck Protection Program, $600/week in unemployment benefits, $46B in loans to specific industries, $330B for municipal government aid, and $454 billion for loan guarantees and secondary market purchases by the Federal Reserve. The second round of stimulus passed in late December was comparatively much smaller, with a total price tag of $900B. More individual payments went out, albeit at only $600 per eligible person. Additional unemployment benefits of $120B were extended, in addition to $325B in small business relief, $84B for education, and $70B for a range of public health measures. While these are important to prevent further economic collapse, the implications on public debt cannot be ignored. US public debt closed the year at $28T, a record high and up 19% from the end of 2019.

Sources: Bloomberg, Conference Board

Equity Markets: 2021 Outlook

A market driven primarily by earnings

Outlook Summary

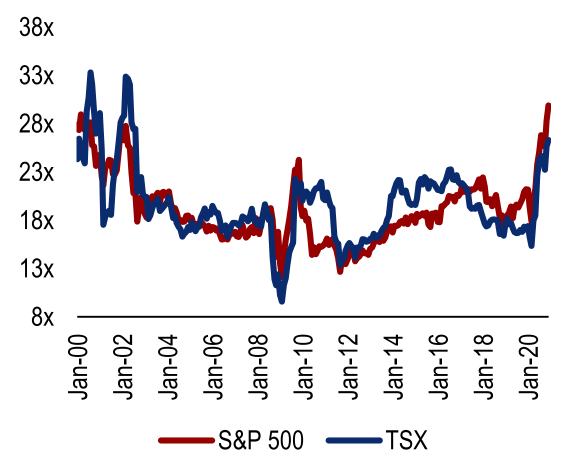
At a high-level, we expect significantly more stable markets in 2021. While we are bullish, we expect lower returns than what we have seen over the last decade considering we do not view that valuations can grow very much more than where they are now given central bank rates are at lower bounds and growth expectations, apart from the one-off recovery from 2020, will not be significant in light of the underlying economic situation. We believe returns will be driven primarily by improving earnings growth and will be in the mid-to-high single digits, and we give a slight preference towards Canadian markets. We do not believe we will see a hawkish change in central bank policy for at least several years.

We acknowledge the fact that the economic situation may remain somewhat muted in Q1 given a surge in public health restrictions, with further downside if vaccine rollout faces delays or setbacks, but we also see that manufacturing confidence is at multi-year highs and consumers have a lot of pent-up demand ready to be unleashed. We expect value will begin to outperform growth, a radical shift from the last decade, on the basis of stable or shrinking valuations, increased inflation, and a steepening yield curve. As such, we are beginning to move into more cyclical recovery plays on hard-hit sectors poised for recovery in earnings and valuations. We plan to be overweight in Financials, Materials, and Consumer Discretionary, while underweight Staples, Real Estate, and Healthcare. This said, our mandate is to deliver alpha through bottom-up fundamental analysis. We will continue our long-standing policy to keep sector allocations within +/- 3% of our benchmark.

Valuations and EPS Expectations

No matter which way you look at it, where LTM or forward, valuations on both the US and Canadian stock markets are highly elevated. As shown in Figure 9, LTM Price-to-Earnings for the S&P closed at around 27x, while the TSX has maintained a ~3x discount to the US and closed at around 24x at the end of 2020. This discount has been present since 2017, and many blame it on the underperforming financial sector in Canada, composing a third of the index, and the risk of a real estate crash amid record household debt and interest rate hikes. We could potentially see this discount reduce, but we generally don't see much more runway for multiple expansion given central banks can't do much more to lower discount rates, and a lot of growth is already priced in.

Figure 9: LTM P/E – Last 20 Years



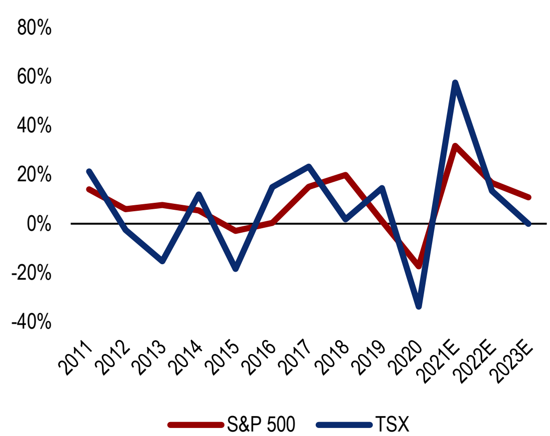
While buybacks slowed in 2020 and are poised to come back this year and generate additional equity market returns, we think that markets will be driven primarily by earnings. YoY, consensus estimates put 31% earnings growth in the S&P 500 to $165/share and 58% in the TSX to $1044/share in 2021, although these only represent 8.7% and 4.2% growth, respectively, from where they were at the end of 2019. Moving forward past this year, US markets are generally expected to grow faster in terms of earnings than in Canada.

We generally take the view that we will see high

Sources: Bloomberg

single-digit returns in both markets this year given a strong earnings comeback and likely buybacks, but likely reduced multiples as we return back to normal. This could put the S&P 500 between $4000-4150 and the TSX at around CA$19,200. We still see some outstanding risk around delayed vaccine rollouts and a brief market pullback amid the levels we are seeing, but decreased uncertainty could also provide a catalyst to markets. The VIX still remains elevated at around 23% versus a normal state of 14-15%.

Figure 10: S&P 500 and TSX YoY EPS Growth

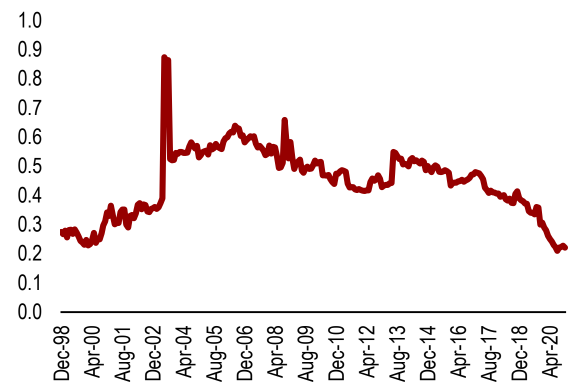


A Resurgence of Value Investing

Historically, since markets first opened, value has outperformed growth, and this remains an underpinning assumption of many factor models, particularly by Fama & French. Since the Great Financial Crisis, however, this has proved to not be the case, with the MSCI World Growth Index outperforming its comparable Value index by 174% from 2010 to 2020. Valuations have been the primary driver of growth outperformance over the last decade, particularly as they have significantly outpaced value valuations amid highly accommodative monetary policy. As shown in Figure 11, the ratio of value versus growth Price-to-Book has dropped from around to 0.5 to 0.2 since 2010. This obviously was a boon to growth prices.

Our view is that moving forward, valuations will not increase by any meaningful extent, especially in

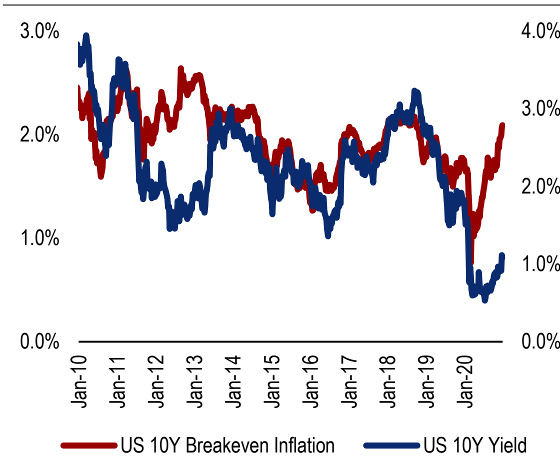
Figure 11: Value vs. Growth Relative P/B Ratio



growth, given limited Fed ammunition. We would expect this ratio to either stay constant or even reverse, but we think returns will primarily be driven by earnings as stated earlier, which is supportive of value stocks moving into early-cycle economic growth.

We also think there are other fundamental reasons why value could outperform, particularly rising inflation and a steepening yield curve. Over the last 10 years, we have seen an interesting phenomenon where the TIPS-implied inflation rate has moved in near-lockstep to the 10-year Treasury yield, as can be seen in Figure 12.

Figure 12: Inflation Expectations vs. Bond Yield



One notable exception is clearly seen from 2012 to 2013, but in every other period, there is strong

Sources: Bloomberg, Conference Board

correlation. Very recently, we have seen implied inflation rise significantly while longer-term Treasury yields have remained flat. Given the previous trend, we expect, and are to some extent already seeing, yields to catch up to this rising inflation and steepen the yield curve given short term rates are expected to remain near zero for the next few years. This has implications for value vs. growth because of the duration of both sets of assets. Value stocks can be thought of as shorter-duration assets versus growth peers whose earnings may only come in the somewhat distant future. Higher inflation and rising long-term interest rates both causes such longer-term cash flows for growth companies to be valued less today, leading to value outperforming on a relative basis. We already began to witness this in Q4, which ultimately led to our fund outperforming for the year. As a bottom-up fundamental fund, we are already biased towards value, so this gives us great hope moving into the rest of 2021 for our returns.

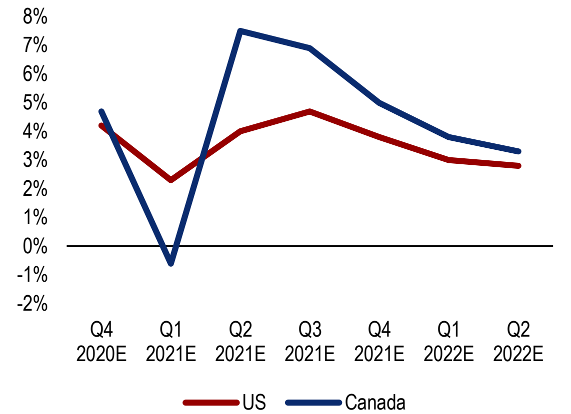
Economic Growth

GDP took a record hit in 2020, as mentioned previously, but there is great hope moving into 2021. Global growth is expected to be 4.2% this year, although big portions of this are driven by Asian economies who have successfully managed the spread of COVID-19. China is expected to grow a massive 8%, contributing to over one third of all global growth. India follows close behind at 7.9% expected growth, although it had a poor 2020 performance at -9.9%. Following a rough 2020 at -7.5%, the Euro area is expected to grow 3.6%

On a whole, Canada is expected to see higher GDP growth than the US in 2021, despite an expected decline in the first quarter as a result of heavy lockdowns instituted across multiple provinces. The OECD projects a total 3.5% YoY growth in GDP for Canada while 3.2% for the US, but growth then closely converges moving into 2022 and beyond.

Some industries could see much faster growth than others after being hard hit in 2020, particularly in transportation, mining & support activities,

Figure 13: Real GDP QoQ% SAAR Estimates



entertainment, recreation, and accommodation which all suffered greater than 15% YoY drop in output in Q3 as a result of reduced output and public health restrictions.

We are bullish on the Canadian dollar moving into 2021, after a 2% appreciation in 2020. We expect inflation in Canada to be higher than in the US over the next few years, especially in light of recent central bank statements on both sides. While policy rates target 0-0.25% in both countries, Canada's effective rate is slightly higher. Both of these dynamics, in addition to slightly higher growth expected in Canada, lead us to target more CAD-denominated securities on the basis of exchange rates and to move closer to our benchmark. Consensus median estimates point to a 2% further appreciation in CAD in 2021.

Central Bank Policy

In 2020, the Federal Reserve in the US more or less used up their ammunition in terms of policy rates. Jerome Powell himself has shot down any sort of rumors about possibly lowering the target rate into negative territory as in Europe, and we see little to no likelihood of this happening ourselves. The Bank of Canada has adopted a similar stance, stating in December that it could potentially drop its benchmark rate below 0.25% as it is now, but emphasized that it is very unlikely it would venture below 0. It is worth noting that they did still state that it was "in the toolkit," although we don't envision a likely scenario where

Sources: Bloomberg, Conference Board

such extreme measures would have to be taken.

As of its last meeting date in December 2020, no FOMC member in the US projected rates would increase in 2021; Fed Funds futures are actually currently pricing in a lower effective rate, although we think this is just market noise. Even for 2022, only one member projects a quarter-point hike. They are a bit more optimistic for 2023, with 5 members projecting as much as 4 hikes, but the majority still believe rates will remain where they are until past then. Market-implied rates for Canada are slightly more bullish than US-counterparts, but still are effectively where they are at now.

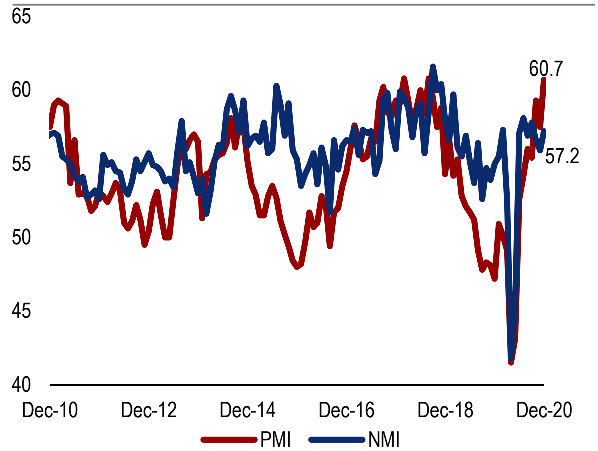
The Fed made headlines in August as they announced a significant shift in inflation policy, where they would seek to maintain an average 2% inflation over time, implying they would let inflation rise above that target in the short term. For months, this seemed like more of a dream as inflation remained persistently low, but the 5-year breakeven inflation rate implied by Treasury Inflation-Protected Securities broke above 2% on the first day of the year, showing hope. The Bank of Canada recently gave a statement that Canada's inflation would not tick above 2% until 2023 based on their projections.

Quantitative easing remains a key policy tools for both banks. The Fed made a notable wording change recently regarding this, saying they would buy $120B per month of securities until "substantial further progress has been made" towards their policy goals rather than giving an indication of a timeline of when they would stop. The BoC will continue at its current pace of $16B in purchases per month.

Strong Confidence and Demand

We are highly confident in the strength of the consumer and the strength of manufacturing and services sectors, especially in the US. As shown in Figure 18, Manufacturing PMI reached a record level since August 2018 on the back of expanding new orders and exports. Services are also seeing strong confidence, although this has been a consistent trend as the sector has grown in every month, apart from March and April 2020, since 2009.

Figure 14: Manufacturing and Services PMI

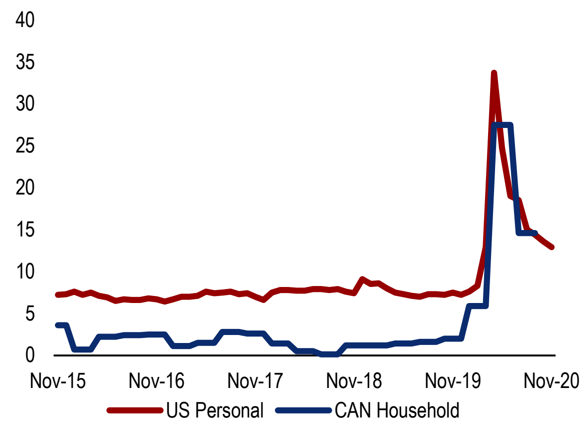


This level of confidence and growth in business activity even comes amid increasing restrictions. 16 of 18 manufacturing industries and 14 of 18 services industries grew in November and December of 2020, although companies and supplies report that absenteeism, short-term sanitization disruptions, and hiring difficulties are headwinds towards further growth. We generally are bullish on Industrials and Materials sectors as a result of this confidence, but we note that valuations may be stretched in some instances.

On a consumer level, we are generally bullish on pent-up demand but acknowledge that the employment situation is weighting down heavily on consumer confidence, which has nowhere near recovered or even bounced back from its lows after the onset of the pandemic in March of last year. This said, we believe that both US and Canadian consumers will drive a lot of growth once vaccinations pick up and the economy begins to fully reopen. Savings rates, as shown in Figure 19, are significantly elevated at 12-15%, signifying consumers have a fair amount to spend. That said, we also know in Canada that household debt as a percentage of disposable income as at record highs, 171% as of Q3, which poses significant risks as well.

Sources: Bloomberg, Bank of Canada, Federal Reserve, Institute for Supply Management

Figure 15: Savings Rate



A New President and New Policies

Our fears of political stability in the US have largely subsided following the successful transfer of power, albeit with an insurrection at the Capitol in the middle. For the large part, markets have reacted to Biden's election positively despite fears of increased regulation, particularly on the financial front with Janet Yellen as his Treasury Secretary pick, as he has publicly announced trillions in additional planned stimulus and war-like efforts to roll out a vaccine quickly. Figure 16 shows the Biden Administration's major proposed policies that could materially impact markets.

Many of these policies could impact our stock selection process in certain sectors due to significant changes in market dynamics. Particularly in Energy, Biden is expected to significantly curtail any new developments, including the Keystone XL pipeline which would have strong repercussions on the Canadian energy industry, although this likely has been priced in given the setbacks it has already faced. Healthcare has always been a highly divisive issue, but with increased general support and a full Democratic majority, a single-payer system might actually be implemented. Corporations may see higher expenses through increased tax rates and minimum wages, although this could be partially outweighed in the markets by increased government spending and consumer consumption. While we are generally bullish on Financials, Biden has expressed support for a transactions tax, likely on any security trade as Bernie Sanders once announced, but no further details have been announced yet. Sectors like Materials, Industrials, and Utilities may see benefits through Biden's ambitious infrastructure and renewable energy plans. As with market consensus, we are also of the view that Biden's stimulus goals will outweigh any negative effects his policies may have on a broad level, but we will have to begin looking more closely on a regulatory level in many industries.

Figure 16: Biden's Major Policy Proposals

Corporate Taxes	Raise corporate rate to 28%; create minimum tax rate of 15% on book income
Personal Taxes	Restore top rate to 39.6%; raise capital gains tax to ordinary rate for those earning >$1mn; wealth tax
COVID-19	Free testing; hire 100K people to set up a national contact-tracing program
Healthcare	Add public insurance option to Obamacare; Medicare to negotiate prices; link domestic to int'l prices
Energy	Ban new leases for drilling offshore and on federal land; partially supports Green New Deal; end fossil fuel subsidies; supports carbon tax
Finance	Support a financial transactions tax
Infrastructure	$1.3T plan, including green proposals
Wages	Raise minimum wage to $15/hour

Sector Allocation

Moving into 2021, we generally intend to shift from a slight defensive tilt to a more aggressive, cyclical stance, particularly in sectors that were hard hit in 2020 but are poised to make a strong recovery. We believe Financials represent a strong opportunity,

Sources: Bloomberg, JP Morgan

given it was hard hit, remains cheap, stands to benefit from reflation, has stable balance sheets relative to the GFC, and has seen better earnings revisions versus the rest of the market, which could have a secondary effect on dividend returns. We think Materials companies may also represent great opportunities as a play on the resurgence of value as well as strong industrial confidence and global recovery. We are also bullish on Consumer Discretionary with strong pent-up household demand ready to be unleashed with a reopened economy. Despite trading somewhat high, we think Utilities have strong fundamental backdrop amid Biden's renewable energy plan.

We think Healthcare, a traditionally defensive sector with a strong fundamental backdrop priced in, will likely struggle versus other sectors with lower earnings momentum compared to the rest of the market. We feel similarly towards Consumer Staples, which is expected to have a limited earnings recovery, and long-term bond yields are expected to rise and weigh on returns as they traditionally have. While generally a good early-recovery play, we see no reason to be bullish on Real Estate amid continued social distancing and long-term trends around virtual work which will weigh down on occupancy rates.

While these represent our general views, there could be specific opportunities within any these sectors where we believe we could generate alpha. The US market generally has a larger investment universe than in Canada, including ADRs, but we plan to retreat a bit away from our heavy overweighting in USD holdings.

DCM Note

DCM's entry into its second decade certainly came with a bang. I speak for all of us in the program when I say that this past year represented a once-in-a-lifetime learning experience to manage a fund amid a market crisis. We are also very glad to have been able to beat our benchmark, both gross and net of fees, amid such a meltdown. While we rapidly transitioned to a virtual environment in the middle of the year, we still kept going on just as we normally do. As we approach the end of this school year, I would like to take this chance to congratulate Frank Shen for his selection as the next Strategist for the Global Equity Fund. I am confident in Frank's ability to both successfully manage the fund to deliver outsized returns for our investors as well as reshape and improve the program moving forward.

As always, we are deeply grateful to our investors and supporters of the program for allowing us the opportunity for this once-in-a-lifetime learning experience. All of us, from past graduates, to rising Seniors, have felt the impact of this program on our academic and professional lives, and for that we will be eternally grateful.

All the best,

Darius Kuddo, *Global Equity Strategist*

Sources: Bloomberg, JP Morgan

Risk Management
2020 Review

Darius Kuddo, *Global Equity Strategist*
Jinghong Lin, *Senior Analyst*
Dillon Graveline, *Junior Analyst*
Kyrie Tong, *Junior Analyst*

Performance via Factor Exposure

While as much as we can point to specific sector or stock-specific reasons why we may have under or overperformed as a fund, we make great use of factor models to explain performance as a function of exposure to a specific set of risk factors, above just market risk as you would find with the CAPM. Figure 1 briefly outlines the risk factors we have statistically significant exposure to. Figure 2 shows our betas to each of the listed factors for 2020. Figure 3 shows the performance of these factors over the year.

Figure 1: Risk Factor Descriptions

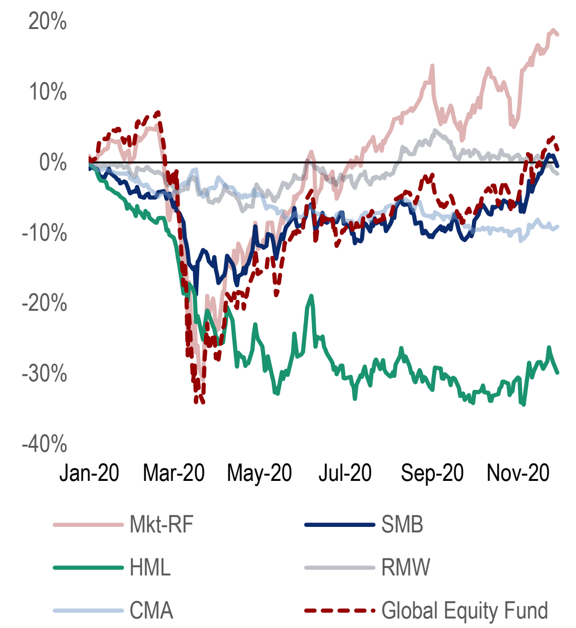
Factor	Description
Mkt-Rf	Exposure to market returns
SMB	Performance of small vs. large cap firms
HML	Performance of value vs. growth firms
CMA	Performance of conservatively vs. aggressively investing firms
RMW	Performance of robust vs. weak profitability firms
MOM	Performance of recent strongly vs. poorly performing stocks

Figure 2: 2020 Risk Factor Exposure

α	β_{Mkt}	β_{SMB}	β_{HML}	β_{CMA}	β_{RMW}	β_{MOM}
0.0%[1]	0.99	0.10	0.20	-0.64	-0.02	-0.05

Overall, our exposure to these 6 factors are able to explain 97.4% of the variation in our returns in 2020. We had positive exposure to small-cap firms and value stocks, indicated by their positive betas, and negative exposure to the other three non-market factors. In the initial market crash in March 2020, both small-caps and value stocks significantly underperformed their large-cap and growth peers. As we had a positive beta to both of these, these naturally dragged our fund's performance down, peaking at -9% underperformance versus the benchmark at its worst. However, as the year progressed and the economy began to reopen gradually, we saw a sharp reversal in both of these factors in Q4. The outperformance of these factors strongly correlates with our performance to the benchmark at the end of the year, ultimately leading to us beating it for the year. While we have a strong exposure to aggressively investing firms, this factor performed relatively stable over the course of the year and did not cause large swings in relative performance compared to the others, but nonetheless would have slightly boosted performance. Figure 4 shows our rolling factor betas since the inception of the fund. We have almost perpetually kept a positive exposure to small-caps and value, which generally characterizes our bottom-up, fundamental stock

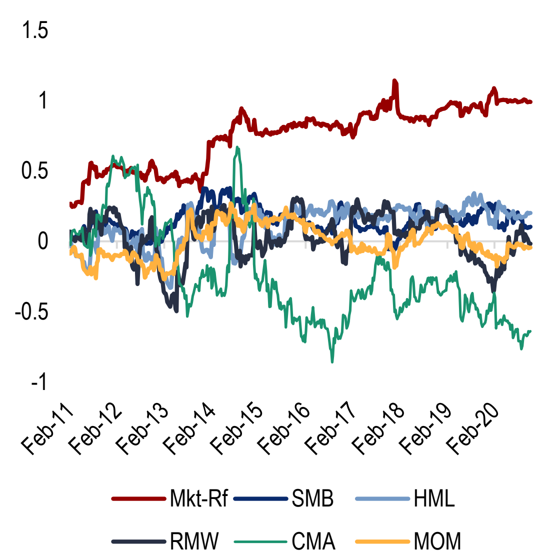
Figure 3: Risk Factor Performance, 2020



Sources: Kenneth French

selection process over our history in which we tend to search for undervaluation and mispricing by the market, usually conducive to small-caps. Over the life of the fund, we have seen a increase in the market risk that we take, as well as a tendency to select firms that aggressively invest. Our relative exposure to profitability and momentum has oscillated around zero since inception, the latter of which is another result of our fundamental investment philosophy.

Figure 4: Rolling Factor Betas Since Inception

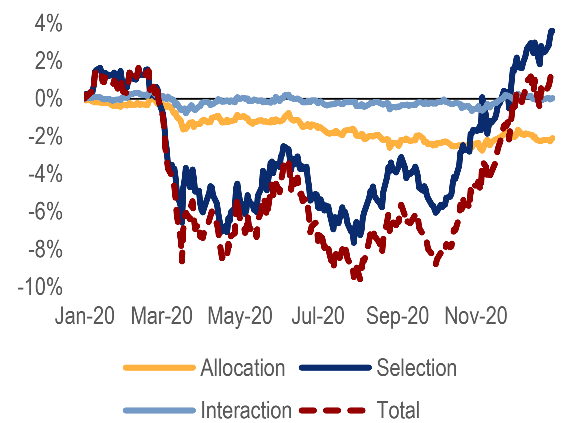


Performance via Attribution

In addition to explaining our performance via factor models, we also leverage the Brinson Hood Beebower (BHB) model to decompose our relative performance versus the benchmark into sector allocation and stock selection decisions. Figure 5 shows this decomposition for our fund for 2020.

Since we do not take a strong tilt in sector allocation, only taking sector tilts +/- 3% or less, the relative performance of the Global Equity Fund's returns is primarily driven by stock selection. Coming into the crisis, we held a suboptimal sector allocation, overweighting sectors such as Real Estate and Energy on the expectations of economic growth, both of which significantly underperformed. The crash

Figure 5: Relative Performance Attribution, 2020



period represents most of the underperformance driven by allocation. Our ultimate overperformance for the year came about through a reversal in many of our holdings that were hit hard by the crisis, more than compensating for the loss from sector allocation.

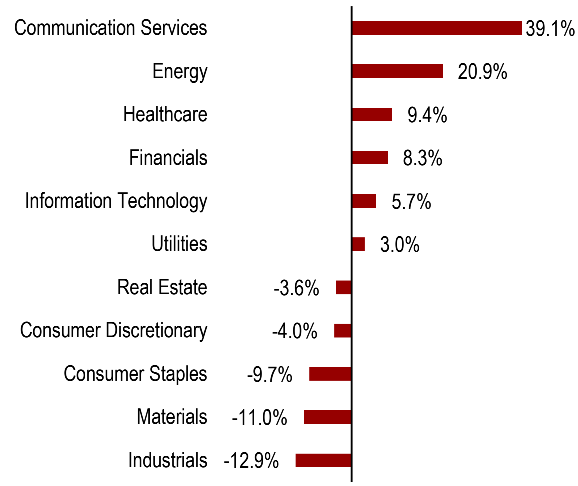
Alpha per Sector

Looking at our each of our sectors, we took excess risk, compared to their benchmarks and measured by beta, in all sectors apart from Communication Services, Healthcare, and Information Technology, who had betas of 0.96, 0.69, and 0.76, respectively.

Figure 6 shows our alpha on a sector-level. We did exceptionally well in certain sectors, but underperformed in others. Communication Services delivered the highest alpha in the fund in 2020, at 39.1%. This outperformance was mainly driven by Facebook, which had resilient advertisement revenue throughout the COVID-19 pandemic. Healthcare also delivered exceptional outperformance, and our Energy holdings were able to bounce back from the significant oil market disruption that took place in mid-2020 and nearly all outperformed their benchmark.

Sources: Bloomberg, Kenneth French

Figure 6: Sector Alpha, 2020



Our two worst performing sectors last year on an alpha basis were Industrials and Materials. We attribute our Industrials sector underperformance to economic conditions unevenly impacting our transportation holdings. Our Consumer Staples sector was hit hard as we only had one holding for most of the year, Loblaw, which did well during the crisis itself because of the spike in demand for groceries but then failed to keep up with the index and ended up shedding value for the year.

Best and Worst Performers

2020 saw a lot of dispersion of returns in our fund. Figure 7 shows our best and worst HPRs for the year.

While we only held Teladoc for the first two months, it was our best performing holding for the year, gaining 52.6% until we sold it and contributing just above 1% of our total fund return in 2020. Similarly, Adobe and Silicon Valley Bank performed very well, contributing 2.5% and 2.0% to our fund return, respectively. On the flip side, Orchard Therapeutics saw our lowest HPR, but only drug down our returns by a relatively small 0.7% as we had an intentionally small weight in it as a risky biotech firm. Suncor and Simon Property Group did very poorly as well given they were hit hard by the economic shutdown, contributing -2.0% and -1.2%, respectively.

Sources: Bloomberg

Figure 7: Best and Worst Performing Holdings, 2020

Sector	Company	2020 HPR
TMT	Teladoc HEALTH	52.6%
Financials	svb Silicon Valley Bank	51.5%
TMT	Adobe	48.7%
Healthcare	Orchard therapeutics	-65.7%
Energy	SUNCOR ENERGY	-49.8%
Real Estate	SIMON PROPERTY GROUP	-41.2%

Value-at-Risk

We monitor our risk through traditional metrics like standard deviation, but we find value-at-risk a more valuable metric as it focuses on tail-losses, which have historically driven most of our underperforming periods in the history of the fund. VaR specifically indicates how much our fund or sectors can expect to lose on the 5th percentile of daily returns. As shown in Figure 8, our fund-level 1-day VaR was roughly 1.2%, based on one-year trailing returns for all of our holdings. This was slightly higher than that for our benchmark at 0.8%, indicating we were taking slightly higher relative risk, but this could be attributed to how we are naturally less diversified than our benchmark, considering we target 30-40 holdings in order to be able to generate alpha from our individual stock selections. Naturally, as the pandemic hit and markets crashed, the VaR for our fund and the benchmark spiked with the more extreme returns we saw, more than tripling for both. We ended the year with an approximate 4%, 1-day VaR at a 5% level versus 3.1% for our benchmark.

Figure 9 shows the 5% 1-day VaR for each of our sectors individually as a percent of the total assets of the fund, roughly indicating their contribution to total risk. We saw a similar pattern in which VaR spiked amid the market crash in March and stabilized thereafter, but some sectors saw an increase in risk

Figure 8: Global Equity Fund 5% Value-at-Risk, 2020

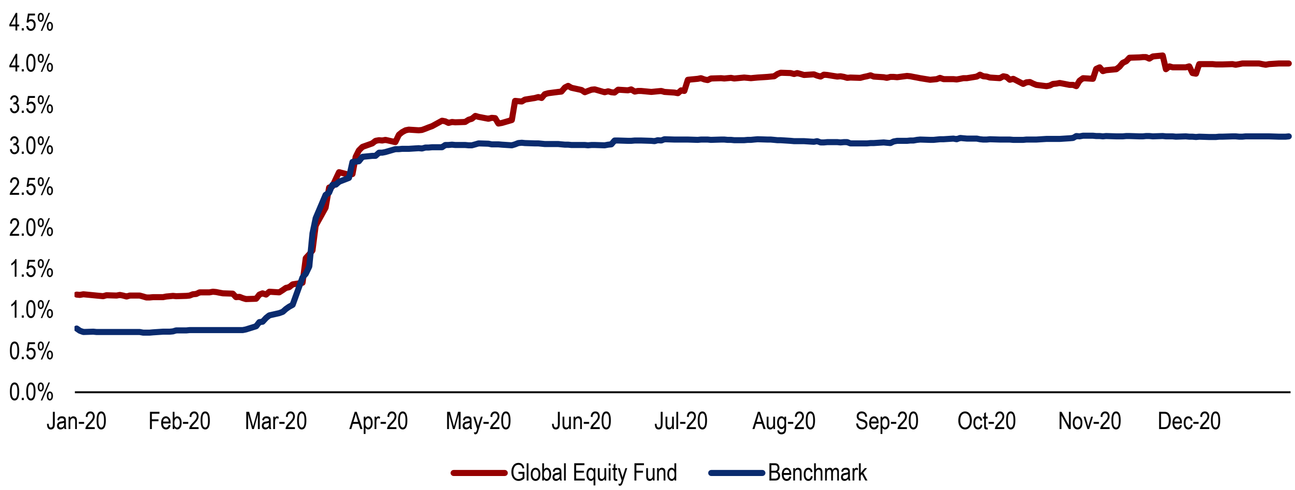
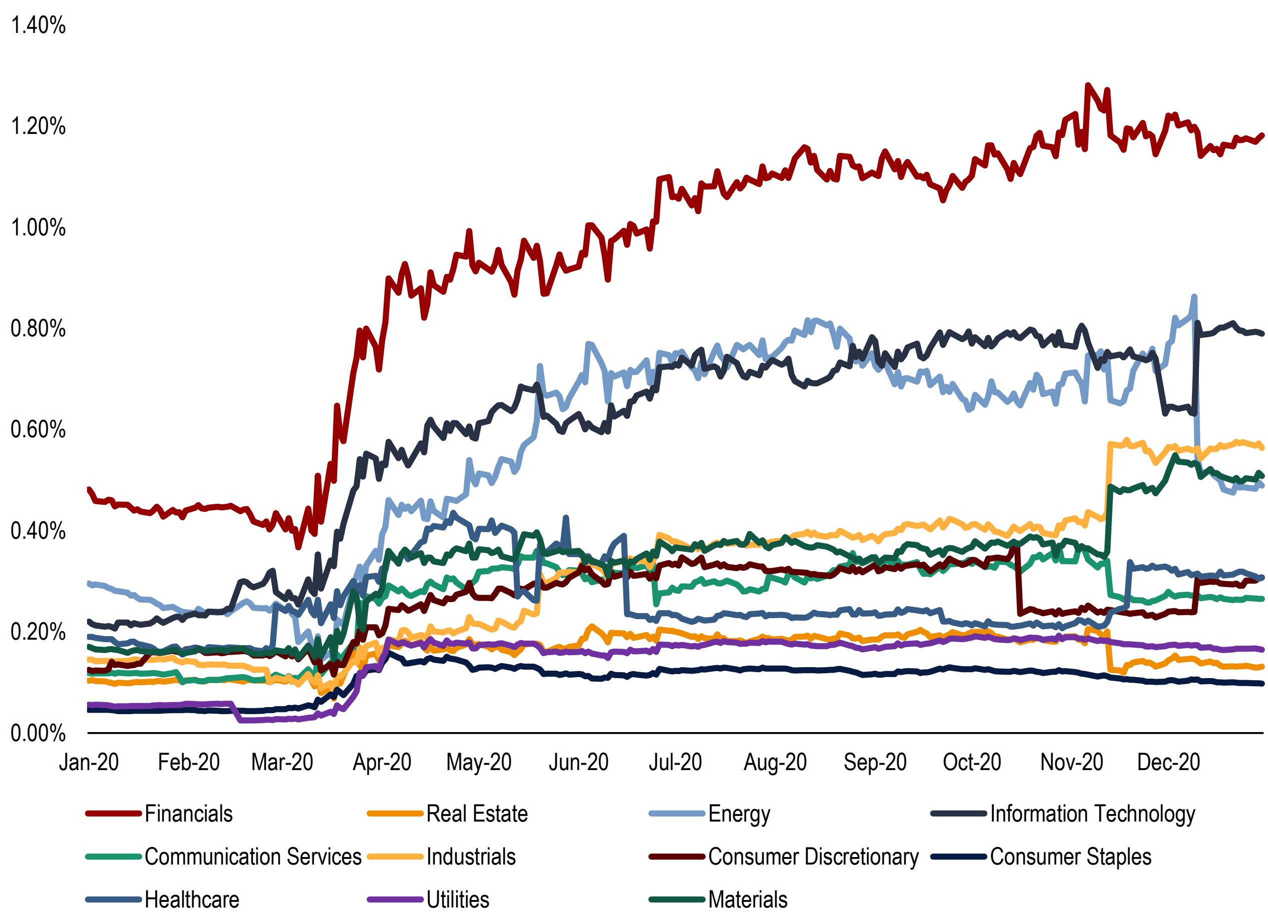


Figure 9: Global Equity Fund 5% Value-at-Risk Per Sector, % of Total Portfolio Value, 2020

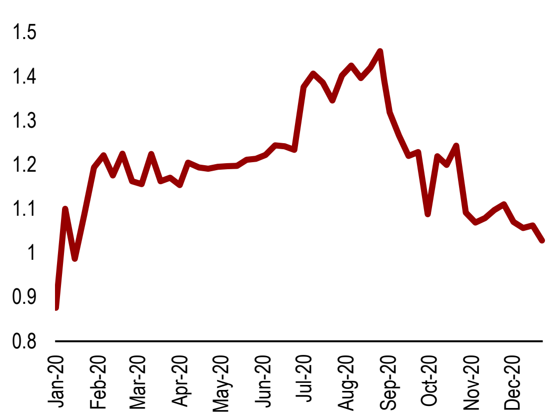


exposure, whether caused by a change in the underlying holdings or us adding risk or de-risking. Financials naturally represents the largest contribution to risk of the fund considering its large weight, but it gradually increased over the year with sustained volatility in our holdings. Various drops in VaR can be see throughout the year, namely de-risking in Energy, Real Estate, and Communication Services. Towards the end of the year, we added risk in Consumer Discretionary, Industrials, and Materials, reflecting our bullish views in those sectors moving into 2021.

Rolling Beta

In addition to VaR, we also look to rolling beta as a measure of risk in the fund. As shown in Figure 10, our beta generally averaged above 1.2, indicating slightly higher market risk taken in the fund as has been the case for the last several years. Our risk notably spiked in the middle of the summer, as we placed some trades to move away from some of our ETF holdings and into individually securities to get greater exposure as markets began to unwind from the crash in March. Notably, our beta did not spike much in the crash itself. This spike in beta corresponded to a decrease in relative performance versus our benchmark, but starting in September, we saw our beta come back down as we placed some rebalancing trades to take some excess risk off the table with some holdings which had proved to be quite volatile over the year.

Figure 10: 3 Month Rolling Beta to Benchmark

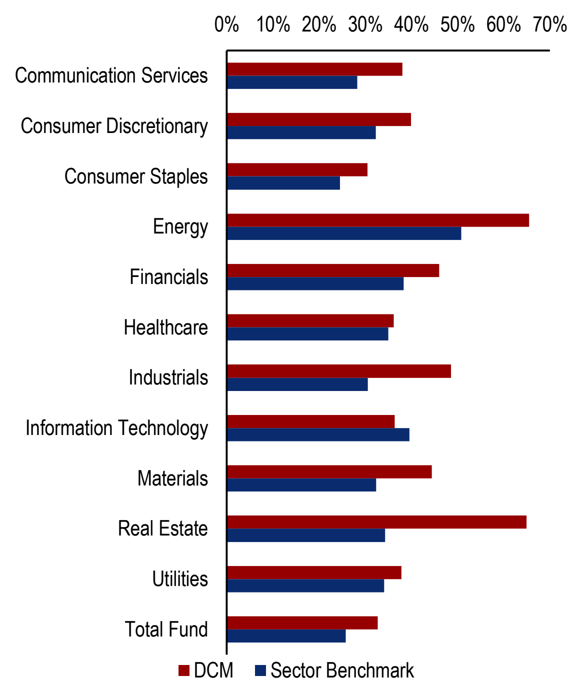


Sources: Bloomberg

Sector Historical Volatility

In 2020, volatility climbed high due to the COVID-19 pandemic. It initially peaked during March and April and gradually faded for the rest of the year. There were a few spikes after the initial peak, as uncertainty related to COVID-19 and vaccine development made investors unsure of the recovery of economic activities. Nevertheless, economic conditions were in favor of some sectors and against others. In nearly every sector in the fund, volatility was higher than its benchmark, although part of this can be attributed to the relative level of diversification as we tend to hold 5 or fewer stocks in a given sector. Figure 11 shows our volatility per sector in the fund versus its benchmark.

Figure 11: Sector Annualized Volatility

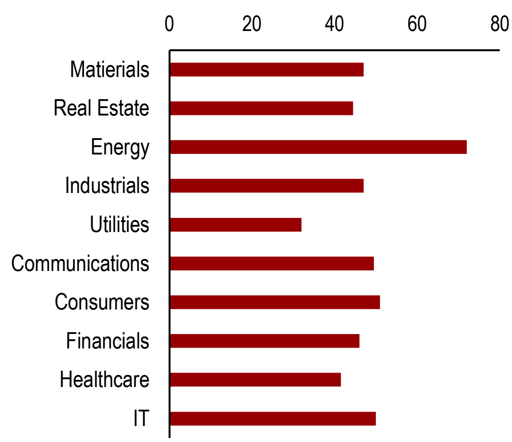


Despite the difference in portfolio diversification, some sectors had considerably higher volatility than their benchmark. Most notable is Real Estate with near double volatility, likely attributed to our holdings being more exposed to social distancing restrictions while the benchmark has a greater level of business diversification in different types of real estate, not all of which saw same levels of decline in 2020.

Sector Implied Volatility

We recently began using a new way of measuring risk by replicating the VIX index with each of our individual sectors. The index generally represents the market's expectation of 30-day forward looking volatility based on options prices. In our fund, sector VIX measurements can provide a real-time view on how different events are impacting the market and influence if we should take risk off the table. The 30-day forward-looking volatility (VIX) was calculated for each company using CBOE's VIX methodology. Each calculation is organized by sector and displayed in Figure 12.

Figure 12: Sector VIX

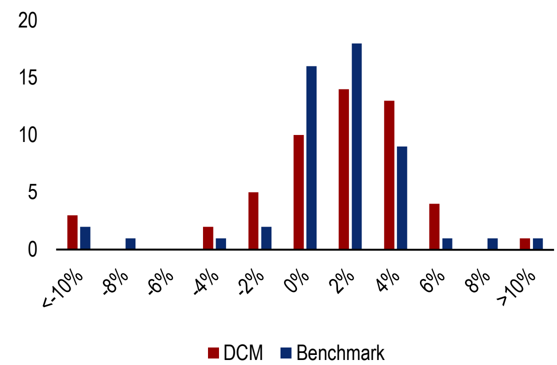


Utilities has the lowest VIX at 16.19 points below the average. Energy has the highest VIX and was 24.3 points above the average. The reason why the average VIX of 48 is much larger than the SPX VIX of 29 is because the S&P 500 has far greater diversification than the VIX in these per-sector calculations, which as stated earlier, is because we only hold few stocks in each sector.

Return Distribution Profile

Overall, the equity fund had slightly more extreme negative returns than the benchmark, but compensated with slightly more extreme positive returns. We believe that our high beta (1.24) was a partial explanation for the higher volatility. Suboptimal stock selection coming into the pandemic also contributed to multiple weeks of extreme underperformance.

Figure 13: Distribution of Weekly Returns



	DCM	Benchmark
Positive Weeks	32	30
Negative Weeks	20	22

Sources: Bloomberg

Consumers

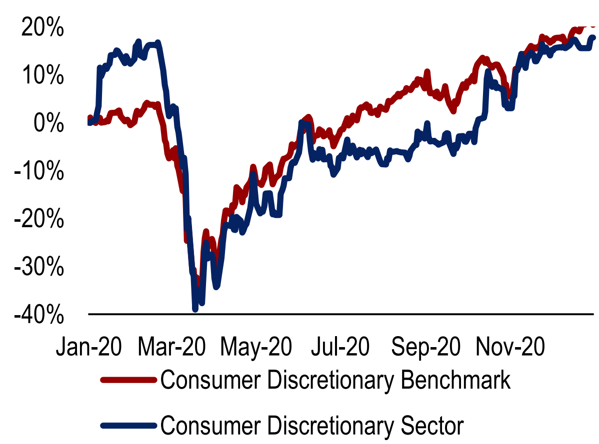
2020 Review

Kanishk Shah, *Senior Analyst*
Alexandra Tremblay, *Senior Analyst*
Annina DeLuca, *Junior Analyst*
Killian Ladal, *Junior Analyst*
Joshua Levy, *Junior Analyst*

Reviewing Our Previous 2020 Outlook

At the end of 2019, the outlook was positive for Consumers sectors, particularly for North American Discretionary sub-sectors, despite uncertainties in the global markets. Companies within the sector were set to benefit from stagnant interest rates in Canada and relatively low inflation rates across the continent. At the time, unemployment levels were at a historic low, indicating that both consumer confidence and consumer spending would remain sturdy. In the first two months of 2020 however, the effects of these uncertainties were still felt, particularly as the prospects of a COVID-19 health crisis began looming and consumer preferences began to shift.

Figure 1: DCM Consumer Discretionary Performance



Performance Review

Much of the sector's underperformance this year was driven by high unemployment rates in North America, coupled with rising uncertainty across many sub-industries within the sector. Demand shifted to retailers with the appropriate omni-channel infrastructure and overall product-mixes to accommodate an online, socially-distanced reality. As such, changes in consumer preferences were further driven by technology and accessibility, paired with value-orientated spending and diminishing brand loyalty.

Overall, 2020 was an interesting year for both consumer staples and discretionary stocks. DCM's Discretionary sector began 2020 by substantially outperforming the benchmark until the market crash in March. Consumer Discretionary yielded an annual return of 17.8% while our benchmark achieved returns of 20.4%. This is primarily attributed to the performance of previously held shares in McDonald's and Aritzia which yielded returns of 25.7% and 20.1% this year, respectively.

Additionally, our current holding in Ulta Beauty returned 5% after less than one month of holding.

Staples Remain Sluggish

While the Consumer Staples industry is typically known for its resistance to business-cycle sensitivities, this subsector was no stranger to the challenges brought by the COVID-19 pandemic. This year, DCM was uniquely exposed to the Grocery & Supermarket subsector, one that theoretically fared quite well throughout the early stages of lockdown. In fact, the subsector returned an average total positive return of approximately 21%.

Unfortunately, the Consumer Staples sector also experienced underperformance in 2020, with a fund return of -5.8% compared to a benchmark return of 3.9%. In fact, DCM's holding Loblaws was one of the few North American grocers to see negative total returns for 2020. Victim of its own success, grocers awaited Loblaws' decisions and subsequent consumer reactions before adjusting their own strategies, helping them outshine the Canadian market leader. However, as the concerns of the pandemic linger, Staples will continue to be an important aspect in DCM's portfolio.

Sources: Bloomberg

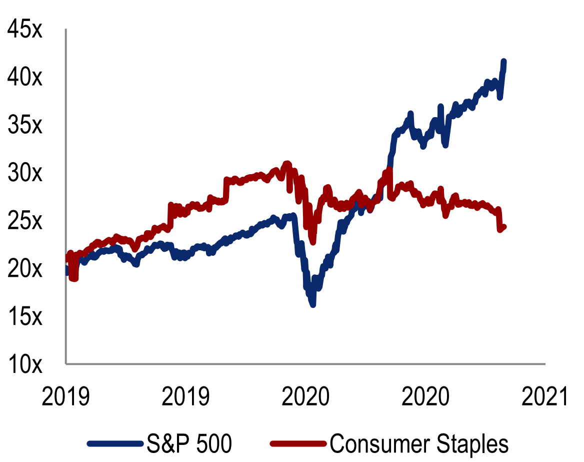
Consumers

2021 Outlook – Consumer Staples

Overall Outlook

For the year of 2020 consumer staples valuations remained relatively flat. Staples stocks remained quite stable throughout the pandemic as other sectors saw significant drops in values. While we were exposed to this through Loblaws, looking forward we do not see a lot of major changes in the staples market vs. the S&P500. We see multiples remaining quite stable due to no major shifts in valuation or purchasing habits. While there is a large shift to online channels, we observe that large staples companies have already made that transition and are not at risk to any major shifts in purchasing habits. Some market share losses may occur, but nothing massive enough to have an impact on valuation.

Figure 2: Consumer Staples P/E Multiples



2021 Headwinds

A diminishment in brand loyalty over the past year has changed the industry's ability to raise product prices unfettered. For decades, the earnings stability within the sector was attributed to companies' abilities to increase the price of their products without fearing a consumer exodus.

Nowadays, for brands like Gillette, there are a multitude of lower-cost alternatives available to consumers. This will continue to erode operating margins for the broader staples sector

2021 Tailwinds

As lockdown continues and work-from-home initiatives persist, consumers' increased time spent at home will continue to increase consumption and demand for everyday staples products. While it is uncertain how long it will take to return to pre-pandemic norms, research suggests that some of society's altered habits will be structural. The share of working days spent at home is expected to rise structurally, by approximately 300% compared to pre-Covid levels (Federal Reserve Bank of Atlanta). As such, 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.

Additionally, the zero-interest rate environment poises consumer staple stocks as a stable dividend provider for investors. Bonds and other short-term vehicles are becoming less appealing as a viable income-generating alternative in the current environment which is seeing historically low rates carried out by the Fed.

Moving forward, the performance of this sector will be heavily correlated with the rate at which the economy recovers from the damage caused by the lockdowns that have accompanied the Covid-19 pandemic. We are in agreeance with Robert Pavlik (CIO at SlateStone Wealth LLC) who suggests that some exposure to the staples is good but to be careful of overexposure: "They're not going to be the group that leads when the market begins to see a turnaround in the economy."

Sources: Bloomberg, Thomson Reuters, Fidelity

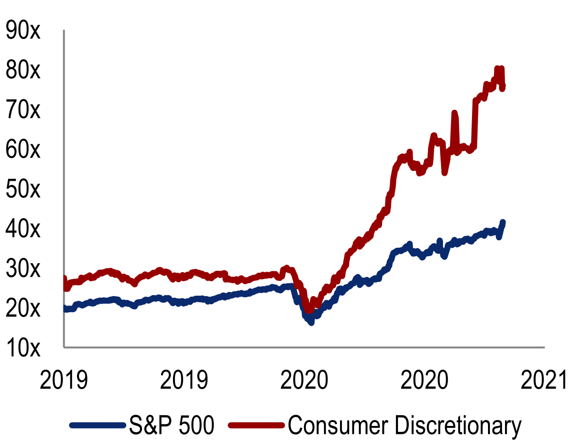
Consumers

2021 Outlook – Consumer Discretionary

Overall Outlook

The majority of discretionary spending companies were hit hard in 2020 due to the pandemic and the resulting decrease in disposable income across major economies like the US, Canada, and Europe. This meant that consumers were less likely to buy medium-to-high ticket items and were looking at more lower cost alternatives as a way to save money. In a sector with record high P/E multiples, we believe there is an overvaluation in the consumer discretionary market. Moving forward, potential holdings will be filtered based on looking for radical innovation within existing sub-industries such as meal kit services, which are constantly adapting to ever-evolving consumer purchasing behaviours. As such, we believe that these companies who are best positioned to capitalize on shifting industry patterns will make promising investments.

Figure 3: Consumer Discretionary P/E Multiples



2021 Tailwinds

In 2020, temporary changes from the pandemic included a greater proportion of household income being allocated to products rather than services because of the health implications associated with consuming certain services (e.g. restaurants/bars).

As the pandemic eases in 2021, we expect that a return to demand for services will be driven by the growing “experience economy”. Since 2012, Personal Consumption Expenditures shows that spending on services has far outpaced spending on goods. Long term, consumers’ shift away from goods and toward experiences will continue to push growth in the travel and leisure segment.

Moreover, in 2020 as a result of the pandemic we saw a massive disruption in the consumer discretionary sector as services were forced to adapt to low consumer confidence and lockdown measures. Technology, in particular, was used to better drive inventory management, in-store customer experiences, and interaction with customers’ mobile devices. This rapid move to digitization, especially within the restaurant industry, is likely to support sales well into next year.

Throughout the pandemic, stores and restaurants quickly adapted to evolving modes of distribution for much of the past year, with investments in digital kiosks, mobile apps, and delivery options like curbside pickup. These efforts resulted in double- to triple-digit growth in digital sales for some of these companies, which may bode well for future growth as digital customers tend to visit more frequently than non-digital customers. Furthermore, digital relationships with customers can have additional benefits through personalization, data collection, and analysis. This trend will continue to be fueled by two underlying drivers: the importance that consumers have started to place on convenience and experience.

Sources: Bloomberg, Thomson Reuters, Fidelity

Consumers

Holdings Review – Loblaw Companies (TSX: L)

Company Overview

- Founded in 1919 and headquartered in Brampton Ontario, Loblaw is the leading food and pharmacy company in Canada
- As the largest retail and wholesale food and staples distributor in Canada, Loblaw engages in the grocery, pharmacy, health and beauty, apparel, financial services, and wireless mobile services businesses
- Loblaw operates over 2,400 stores, both corporate-owned and franchised, across Canada
- The company owns about 30 different retail banners and three private label brands, including noname

Catalysts

- Post-pandemic high retention rate of the customers acquired through Loblaw's e-commerce channel during the pandemic
- Appreciating CAD against the USD; Loblaw purchases

Risks

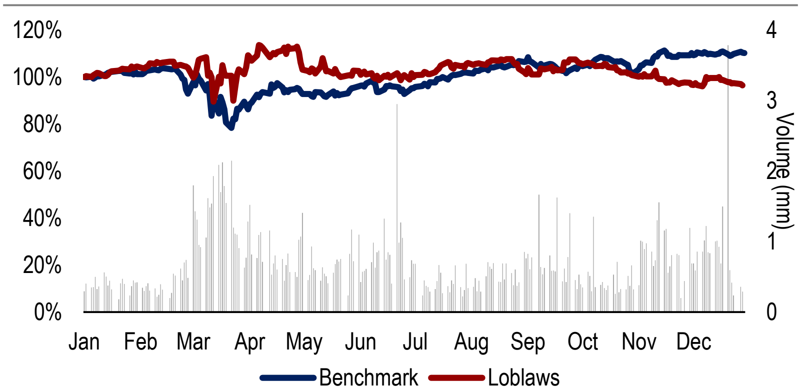
- The pandemic could have a long-term impact on Loblaw's value chain, which would contract Loblaw's margins
- Consumer shift to value could make the demand shift to discount grocers over the long-term
- Further generic drug price-cutting initiatives withing the healthcare reform

Investment Theses

1. **Overblown fears of external threats that Loblaw can ward off given its Canadian grocery "moat"**
   - "The Click and Collect grocery pick-up business model is most beneficial to consumers and retailers in terms of cost and convenience, with all major Canadian grocers venturing into this space
   - Loblaw, withholding the advantage of high store density which translates into high Click and Collect store conversion potential, has the foothold in the grocery pick-up space; 500+ locations have been converted
2. **Shoppers Optimum and PC Plus merger creates higher switching costs relative to internal competition**
   - Market hasn't fully priced in the informational advantages and increased switching costs associated with the merger of the two loyalty programs to create the largest, stickiest loyalty platform in Canada
3. **Loblaw if relatively insulated against "twin" headwinds: minimum wage increase and healthcare reform**
   - Loblaw can weather minimum wage increases by raising product prices without materially changing demand due to the price inelasticity of groceries and the drug price reform due to its focus on supply chain

We decided to HOLD L until gross profit margin reaches 31%

Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost	$54.50
# of Shares	1,580
Value Invested	$86,110
Portfolio Weight	3.0%
2020 HPR	(5.9%)
HP Benchmark Return	8.5%
Excess Return	(14.6%)

Sources: Loblaw, Capital IQ, Company Filings

Consumers

Holdings Review – Ulta Beauty (NASDAQ: ULTA)

Company Overview

- Ulta Beauty is the largest beauty retailer in the United States
- Headquartered in Bolingbrook, Illinois, the company operates over 1,200 stores across 50 states and sells its products through its website
- Ulta Beauty partners with about 500 emerging beauty brands to offer over 25,000 products ranging from cosmetics and fragrance to hair care products and salon services
- The company plans to expand into international markets; starting with Canada in mid-2021

Catalysts

- Successful implementation of the Target partnership, increasing the number of Ulta loyalty member over the long-term
- Protraction of the makeup trends created by social media influencers

Risks

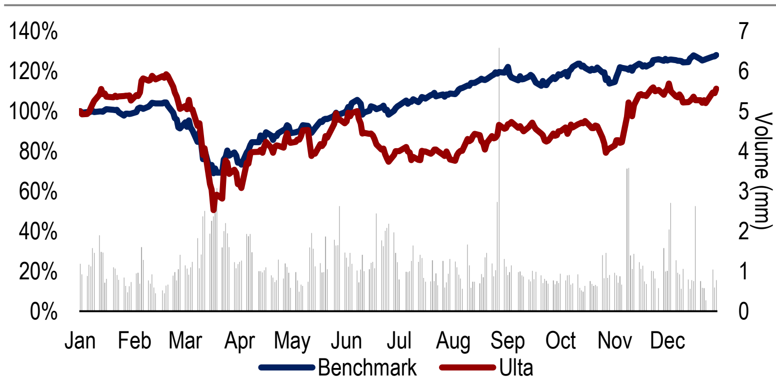
- Increased minimalism trend where customers decide to consume less makeup
- Cannibalization of sales from new Target stores
- Failure to convert Target customers to prestige beauty

Investment Theses

1. **Over pessimism on cosmetics industry leads to the market disregarding the COVID-19 catalyst**
   - Market is concerned the decelerating growth in the makeup industry could indicate structural changes. DCM is confident on the long-term prospects of the industry on the basis that it is currently facing cyclical challenges.
   - Ulta's growing skincare revenue stream allows the company to diversify its top-line segments which will allow it to weather the short-term downturn in makeup
2. **Target partnership will generate significant synergies, amplifying top line growth and expanding margins**
   - In 2020, the market reacted negatively to Ulta announcing a partnership with Target based on the partnership affecting Ulta's brand image and potentially reproducing the Sephora & JC Penney partnership.
   - DCM believes the market failed to price in the consumer retention opportunity the partnership will represent for Ulta

We decided to HOLD ULTA until gross margin reaches 40%

Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost	$264.22
# of Shares	300
Value Invested	$79,266
Portfolio Weight	3.3%
2020 HPR	(7.1%)
HP Benchmark Return	1.8%
Excess Return	5.3%

Sources: Ulta, Capital IQ, Company Filings

Energy
2020 Review

Zhao Kang Chen, *Senior Analyst*
Duncan McHattie, *Senior Analyst*
Ben Takacs, *Junior Analyst*
Zoe Wong, *Junior Analyst*

Sector Performance in 2020

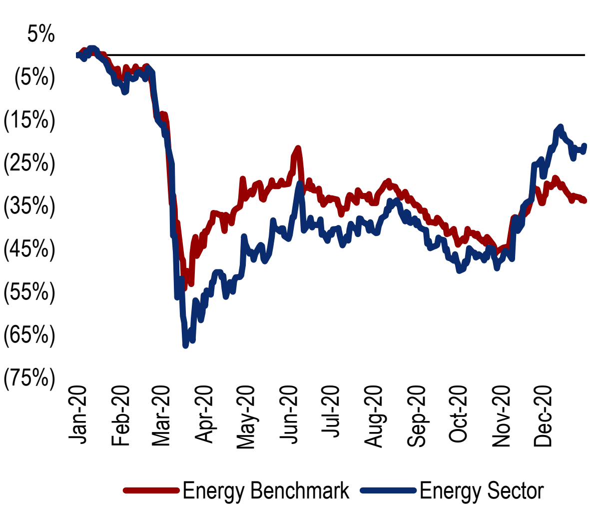
In the past year, the Energy sector returned -21.1% vs a sector benchmark of -33.9% and fund benchmark of 5.6%. Compared to the rest of the economy, Energy had a very tough year, and had the lowest benchmark return of any sector. Depressed oil prices globally from the double black swan event of 2020 led to a sluggish year for players across the sector.

Figure 1: DCM Energy Performance

Energy Performance Metrics 2020	Sector	Benchmark
Annualized Return	(21.1%)	(33.9%)
Annualized Std. Dev.	16.7%	13.3%
Beta	0.7	
Relative Outperformance	12.8%	

On the bright side, DCM's energy sector significantly outperformed our benchmark in 2020, suffering a loss of 21.1%. We achieved a relative outperformance of 12.8%, largely driven by successful stock selection following the market crash, which allowed the sector to rally past the benchmark in late 2020.

Figure 2: DCM Energy Performance vs. Benchmark



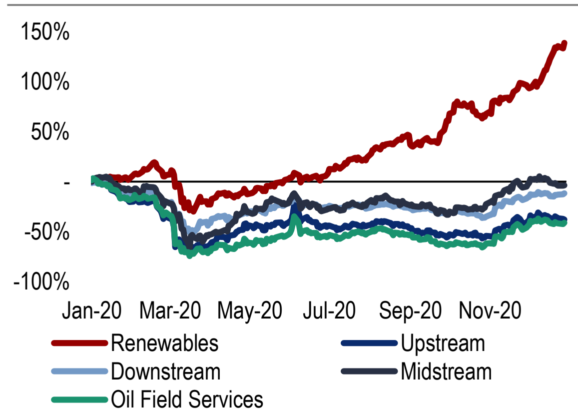
Sources: Bloomberg, EIA, WSJ

Energy Sector Overview

Global consumption of petroleum was approximately 93 mmboed in 2020, a 7% decrease from 2019, largely driven by a dramatic decrease in demand as a result of the COVID-19 pandemic.

2020 turned out to be one of the most eventful years for energy markets in recent history. Globally, the OPEC+ price war between Saudi Arabia and Russia set the stage for oversupply issues in early 2020, which was then coupled with non-existent demand following the spread of the COVID-19 virus. The effect of the virus eventually overtook the supply issues caused by the Saudi-Russian price war, as OPEC+ countries united to shut-in production to mitigate further losses to the value of oil. As such, it was no surprise that positive news regarding the COVID-19 vaccine led to increases in crude prices, as we saw when WTI and Brent rose 13.9% and 15.8% respectively in late October.

Figure 3: 2020 Energy Performance by Subsector

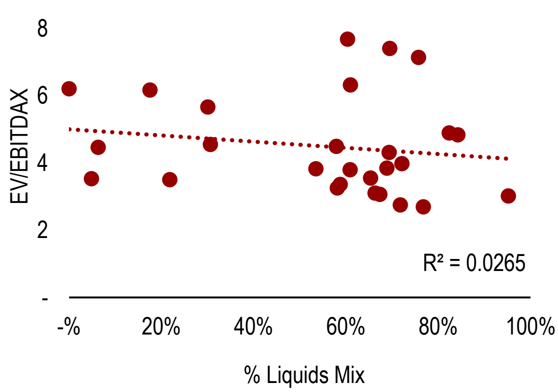


A major theme observed in the year was investor capital shifting heavily to renewable energy, accelerated by WTI prices falling negative in late April, coupled with a Biden campaign led on the issues of climate change. As shown above, renewables returned nearly 150%, while even stable midstreams had negative returns.

COVID-19 Pandemic

Oil and Gas was one of the sectors hit hardest by the COVID-19 pandemic. On January 2nd, 2020, a barrel of West Texas Intermediate (WTI) crude oil sold for $61.17 (in wake of Soleimani's death), but on April 20th, 2020, the same barrel of WTI fell to an unprecedented low of -$36.98. This marked the first time in history that WTI prices plunged into negative territory. The negative oil prices occurred due to a supply surplus, which led oil producers to pay people to take the oil off their hands because they had maximized their storage capacity. The short-term impact of the Great Recession on the Oil and Gas industry pales in comparison to the on-going COVID-19 pandemic.

Figure 4: EV/EBITDAX Multiples vs. % Liquids Mix



The above regression illustrates a trading multiple, EV/EBITDAX, vs. the oil mix of upstream companies found in XOP, an Oil & Gas Exploration and Production ETF. The average enterprise values from March-July 2020 and the EBITDAX from FY2019 for each company were used to portray the time period where oil prices suffered the most. We believed that gas players would be less impacted, valuation-wise, compared to oil players because gas prices remained stable relative to oil prices. However, the regression results revealed that the market did not appear to agree with out hypothesis.

The COVID-19 pandemic has led to an imbalance between the supply and demand for oil and gas. On one hand, there was an over-supply from OPEC+ countries. On the other hand, there was a reduced global demand for commodities, including crude oil, refined petroleum products, and natural gas due to numerous lockdowns and travel restrictions. Despite having risen significantly since their all-time low, oil prices struggle to fully recover due to the uncertainty surrounding the extent and duration of the pandemic.

OPEC + Oil War

The Saudi Arabia-Russia oil war was another significant event affecting the Oil and Gas industry in 2020. Concerns over the lower demand for oil in Asian countries and globally, due to the COVID-19 pandemic, led OPEC+ members to convene to discuss their collective response. Saudi Arabia suggested curtailing total production by 1mmbbl/d in order to maintain high oil prices and higher revenues, a proposal which Russia did not agree with. In response, Saudi Arabia increased its oil supply while reducing export prices to start a price war with Russia. This led both WTI and Brent prices to experience their worst single day drop since 1991 on March 9th, 2020, causing panic in the markets.

On April 9th, 2020, OPEC+ members agreed to reduce crude oil production by 10mmboed from May 1st, 2020 to June 30th, 2020, by 8mmboed from July 1st, 2020 to December 31st, 2020, and by 6mmboed from January 1st, 2021 to April 30th, 2022, putting an end to the price war. Although this spurred market optimism and raised oil prices from historical lows, prices remained depressed due to the continued reduced demand.

LNG Canada

Despite the challenges posed by the COVID-19 pandemic, LNG Canada remains on track to meeting its goal of transporting liquified natural gas (LNG) to Asian markets by the middle of the decade. This project will provide relief for Canadian pricing, as producers will no longer be required to sell to North American markets. Instead, they can sell LNG to Asian countries with rising demand and realizing prices far higher than in Canada. LNG currently trades

Sources: EIA, Forbes, OECD, CNBC, Vox, OPEC, Bloomberg at over $30 in China, but Canadian producers may miss out on these prices because LNG Canada is only scheduled to come into service in 2023. When the pandemic first hit in March 2020, LNG Canada had to reduce its workforce by half in order to ensure the safety of workers. It has now implemented safety measures, which allow workers to resume work on the project. Over 75% of the space needed for the Coastal GasLink pipeline has been cleared and approximately 7% of the pipes have been put into place. However, there are delays in the 78km section that passes through the Wet'suwet'en First Nation territory, where anti-pipeline protests took place in Spring 2020.

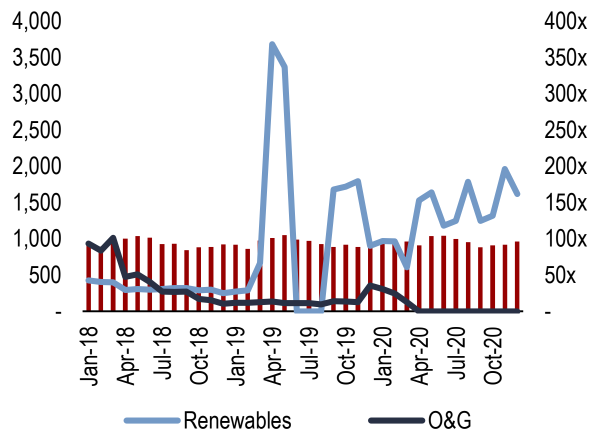
Pipelines Update

2020 proved to be a promising year in terms of overall pipeline development, with one key exception. Enbridge Line 3 had a full year of commercial service, with US work expected to be completed in 2021. The Trans Mountain pipeline experienced delays in 2020 due to worker restrictions in BC, as the government feared the spread of COVID-19. However, the pipeline has guaranteed long-term contracts with shippers for 80% of its capacity, a good sign for long-term hopes. With the Biden Administration campaigning on a promise to kill the Keystone XL pipeline, hopes for the nearly 2,000km pipeline capable of delivering 830mboed from Alberta to Nebraska have been momentarily crushed. Although TC Energy has promised to power the pipeline fully using renewable energy, the outcome of the pipeline is currently unknown, which could have negative implications on the future of Canadian energy.

Renewables

2020 was a big year for renewable energy, as the sector received unprecedented levels of investor interest due to the crash in oil prices and a market realization that a Biden presidency would lead to a massive government investment in clean energy. As a result of this capital infusion, valuations soared for green companies in tandem, with P/E multiples surpassing 200x at their peak.

Figure 5: Renewable & O&G Industry Valuation (P/E) vs. U.S Renewable Energy Consumption (left; tn BTU)



Despite U.S renewable consumption remaining relatively unchanged from 2018 levels, markets began pricing in the extreme growth opportunities that renewable companies are poised to capitalize on, with major countries like the US and Canada setting 2050 targets to become fully carbon-neutral.

Sources: BOE Report, Company Filings, Deloitte, EIA, Financial Post, Vancouver Sun, Coastal GasLink

Energy
2021 Outlook

Biden Presidency

With Joe Biden having succeeded Donald Trump to become the 46th President of the United States on January 20th, 2020, the oil and gas industry is set to see numerous regulatory changes. The Biden-Harris Administration, keen on fighting climate change, opposes fossil fuels in favor of clean energy.

The Biden-Harris Administration has pledged to ban hydraulic fracking at certain times and levels, and on federal land. Fracking on federal land and waters is one of the key originations of US oil and gas, thus these policies could prove to be detrimental for US oil and gas producers. We believe that the likelihood of this policy being implemented is relatively low in the near future. Federal agencies have significant power in influencing the growth of the midstream and downstream verticals, as they oversee the approval of pipeline projects, and export, refinery and shipping facilities. Biden rescinded Keystone XL Pipeline's permit on his first day, an action with serious repercussions for the Canadian oil industry, namely forcing producers to sell at lower prices.

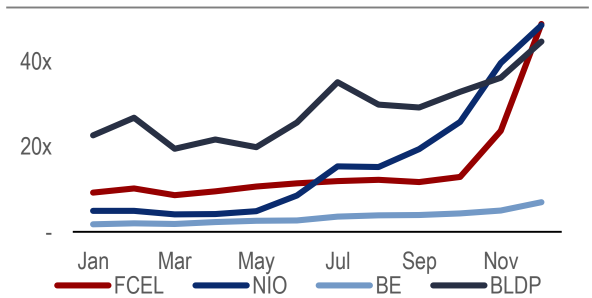
The Biden-Harris Administration is likely to lead to an increase in crude oil imports and a decrease in local crude oil production. According to a Forbes article by Dan Eberhart, the Biden-Harris Administration is likely to limit crude oil US output to range between 11mmboed to 11.5mmboed, which could result in a loss of between 0.8mmboed to 1mmboed in by 2025, versus the Trump Administration. This, along with the regulatory changes, is likely to shift investors away from fossil fuels towards renewable energy. We believe that the transition to renewable energy will not happen overnight. Thus, we look favourably upon alternative and cleaner fuels, including LNG, which will be essential during the transition away from fossil fuels towards clean energy.

Freedom Fuel

As investors have become wise to key renewable segments like solar and wind, and have pushed equity valuations to record levels, we are interested in exploring higher-upside alternative energy companies, particularly those involved with hydrogen energy.

While there is some interest in hydrogen in North America, the attention is mainly centered in two regions – China and the European Union. China's interest largely stems from the country's want to dominate global energy and technology markets, while the EU released the EU Hydrogen Strategy last year, which calls for the installation of 6GW of renewable hydrogen electrolyzers by the end of 2024, and a minimum of 40 GW by 2030. From an equity perspective, we saw this materialize through valuations of China-based NIO, which utilizes Hydrogen fuel cells in their vehicles. Likewise, North American hydrogen equities like Fuel Cell Energy, Bloom Energy, and Ballard Power Systems also saw massive multiple expansion as the year progressed.

Figure 6: Major Hydrogen Company EV/Sales



This may lead to a contraction in 2021, especially as most of these businesses remain unprofitable. However, we are also facing a time in history with unprecedented levels of ESG-capital in the markets, which has the potential to lead to a prolonged period of high valuations for green companies. As such, we are bullish on alternative energy, but remain cautious in terms of individual equity selection

Source: Forbes, CBC, Utility Dive, WSJ

Energy

Holdings Review – Suncor Energy (TSX: SU)

Company Overview

- Suncor is a vertically integrated oil & gas player based in Calgary, operating primarily in Athabasca
- It has significant exposure to Syncrude, an upgraded grade of oil from bitumen, and WCS, a heavy crude produced by blending bitumen with Syncrude and condensate
- The company is engaged in E&P, downstream Refining & Marketing (Petro-Canada), as well as upgrading its own production. It also maintains offshore operations off the Canadian East Coast and in the North Sea
- Upstream production is expected to average 740,000 to 780,000bbl/d in 2021

Catalysts

- Increased consumer demand following rapid administration of COVID-19 vaccinations
- Nations' success at combatting the pandemic and easing of current social restrictions, including cross border travel, stimulating global demand for oil

Risks

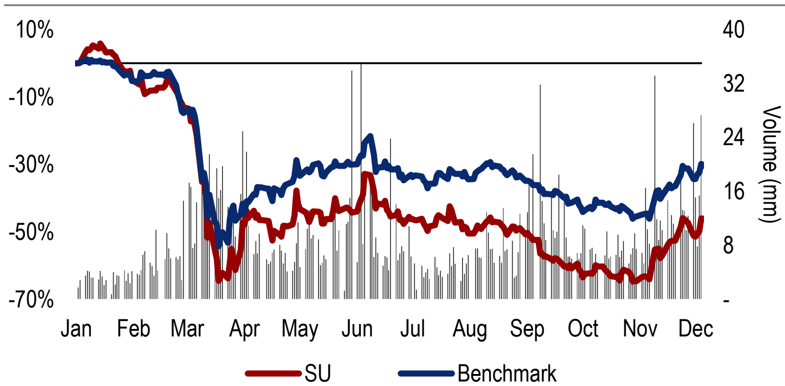
- Volatile oil prices due to uncertainty surrounding newly elected President Biden's energy policies
- Challenges with the COVID-19 vaccine rollout leading to continued lockdown and travel restrictions reducing the demand for oil
- Deteriorating crack spreads, which is the primary reason why the stock underperformed in 2020

Investment Theses

1. **Suncor is more efficiently integrated**
   - Suncor refinery utilization is expected to average 90%-96% in 2021 vs. US 5-year average of 89%. Suncor can leverage its integrated asset base, focus on value over volume, to react to changing market conditions
2. **Downstream more robust than competition in downturn scenario**
   - Due to being a fully-integrated company, Suncor fairs better than purely upstream peers, as lower crude costs can be partially mitigated by its downstream operations. However, until the demand for gasoline and diesel increases, there is little capacity to capitalize on decreased crude prices in the short-term
3. **Unjustified market pessimism**
   - Although Suncor faces financial risk when crude prices fall, its disciplined capital management has allowed it to maintain reasonable debt levels. It is expected to repay between $500mm to $1bn of debt in 2021

We initiated the position in Q1 2019 and have decided to HOLD SU, despite the difficulties faced in 2020, because we believe that our investment theses have yet to materialize and to be priced-in by the market

Stock Price and Sector Benchmark Performance



Sources: Company Fillings, Yahoo Finance, EIA

Position Snapshot

Average Cost	$42.50
# of Shares	2,750
Value Invested	$116,875
Portfolio Weight	1.8%
2020 HPR	(47.3%)
HP Benchmark Return	(33.9%)
Excess Return	(13.4%)

Energy

Holdings Review – Whitecap Resources (TSX: WCP)

Company Overview

- Whitecap Resources is an upstream O&G player based in Calgary, focused on the acquisition, development, optimization, and production of crude oil and natural gas in Western Canada.
- The company acquires assets with discovered petroleum initially in place and low recovery factors
- The company is the majority owner of the Weyburn Unit in southeast Saskatchewan, the largest carbon dioxide capture and sequestration unit for the oil and gas sector in the world.
- As of Q3 2020, WCP was producing 51.5mbbld of crude oil, 4.7mbbld of NGLs, and 63.2mmcfd of natural gas, for total production of 66.7mboed
- Purchased May 25th, sold on December 25th

Catalysts

- Increased demand for travel upon mass vaccine distribution leading to macro demand increases
- Strong supply regulation by OPEC+ countries keeping oil prices at attractive levels

Risks

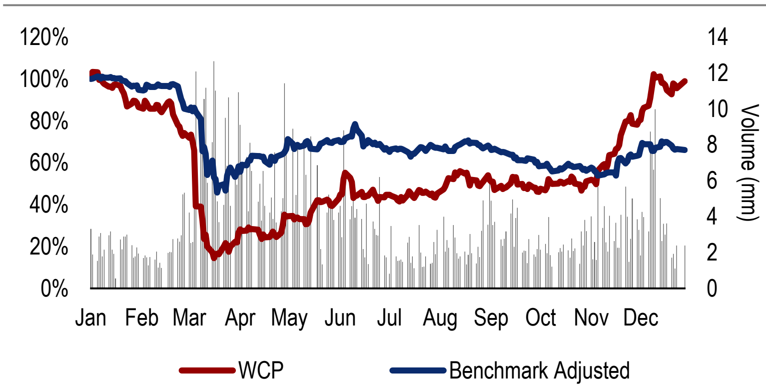
- Biden presidency effectively shutting down hopes of the Keystone XL pipeline, negatively impacting Canadian upstream producers
- Lower percentage of hedged production than years past, making the company more at risk of fluctuating crude prices than ever before

Investment Theses

1. **Whitecap Possesses Superior Risk Management Skills**
   - Hedging added $1.65/bbl in Q3 2020, leading to realized hedging gains of $10.1mm
   - While Q4 2020 has over 46% of production hedged, 2021 production is sitting at only 12% hedge protection
2. **Market Pricing in Too Much Liquidity Risk**
   - Q3 2020 balance sheet was strong, with key leverage and coverage ratios well-within covenant restrictions
   - WCP remains in excellent financial strength, but fear of bankruptcy no longer exists as it did in the early days of the COVID-19 crisis.
   - Given outperformance of WCP relative to peers since acquisition, we feel it is highly probably the market has begun to price in this risk

With both our theses materialized, and a massive rally placing WCP's value beyond what we believe is fair, we decided to SELL WCP after its Q3 2020 earnings release, fearing more downside risk than upside potential in addition to wanting to balance our holdings away from upstream crude producers.

Stock Price and Sector Benchmark Performance



Source: Bloomberg, Capital IQ, WSJ

Position Snapshot

Average Cost	$2.17
# of Shares	21,000
Value Invested	$45,570
Portfolio Weight	1.8%
2020 HPR	132.7%
HP Benchmark Return	(1.5%)
Excess Return	134.2%

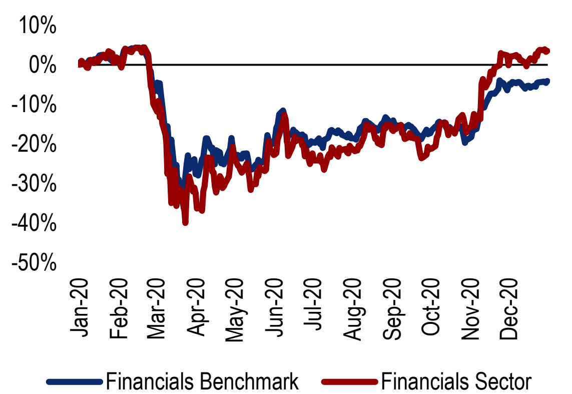
Financial Institutions
2020 Review

Frederic Lam, *Senior Analyst*
Shelly Qian, *Senior Analyst*
Ze Yi Lin, *Junior Analyst*
Mohammed Souit, *Junior Analyst*

Overall Performance

The DCM Financials portfolio (excluding real estate) generated a 3.45% return in 2020, outperforming our benchmark, which returned -4.15% during the same period. This outperformance is driven by the strong price appreciation of some of our holdings, including SIVB, which grew 52.5% in 2020. The overall financials sector was one of the worst performers in the market in 2020, after the energy, real estate, and healthcare sectors.

Figure 1: 2020 Financials Performance

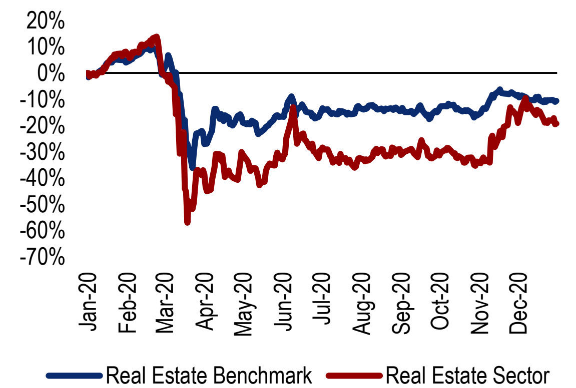


The DCM Real Estate portfolio generated a -19.20% return in 2020, compared to our benchmark annual return of -10.64%. This could be attributed to our position in SPG, which was down 39% since we initiated our position in February. REITs have been strongly impacted by the pandemic, in particular those operating in the entertainment, hospitality and retail industries. However, we believe that, in the year ahead, widely available vaccination is a significant tailwind for these REITs, and that SPG is well positioned to recover.

US Banking

U.S. banks have seen a spectacular 2019, as the Dow Jones U.S. Banks Index grew 32%. The year 2020 was quite a different story, with banks down as much as 50% in March. This drop in equity prices was

Figure 2: 2020 Real Estate Performance



driven by extreme macroeconomic uncertainty when the COVID-19 pandemic started unfolding across the globe, as unemployment surged up, and near-zero interest rates, which put additional pressure on net interest margin.

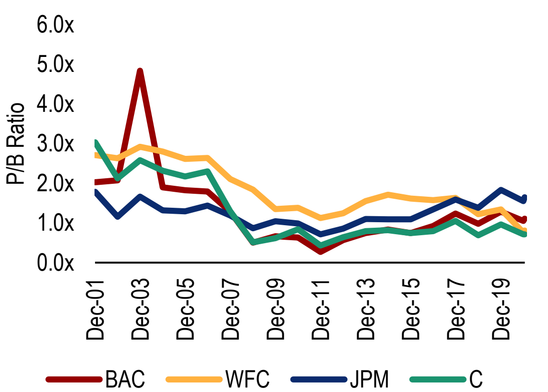
At the start of the pandemic, large U.S. banks laid out a grim scenario, putting aside $112B in loan loss reserves in anticipation of significant loan defaults. This sent as a signal to investors that credit quality was likely to quickly deteriorate. Furthermore, the Federal Reserve Bank put restrictions on banking institutions' dividend payments, as well as their ability to buy back shares. There was however a bright spot during this difficult period: the large loan loss reserves in the consumer banking segments were partly offset by a surge in fee-generating activities, as banks' trading and underwriting revenues saw double-digit growth YoY. As equity markets started recovering, bank equity prices remained depressed throughout most of the year.

The situation improved significantly toward the end of the year: business started picking up, which pushed unemployment down, and the news of the approval of COVID-19 vaccines gave hope for an economic recovery in the coming months. Banks also released a significant portion of their loan losses, as they did not materialize, sparking optimism for a quick economic

Sources: S&P Global, Financial Times, Bloomberg recovery in the coming months. Banks also released a significant portion of their loan losses, as they did not materialize, sparking optimism for a quick economic recovery. This led to positive earnings surprises for the Big 4 U.S. banks, as loan losses flowed back through banks' income statements. The Federal Reserve Bank also easing restrictions on dividend payments drove price appreciation. The Dow Jones U.S. Banks Index was down 17% at the end of 2020.

Valuation multiples are down from 2019. This may reflect the decline in expected growth for banks' loans portfolio, as well as worsened credit quality. This is in line with our expectations, as investors, while optimistic about the economic recovery, recognize the fragility of the current environment.

Figure 3: US Banks' P/B Ratios

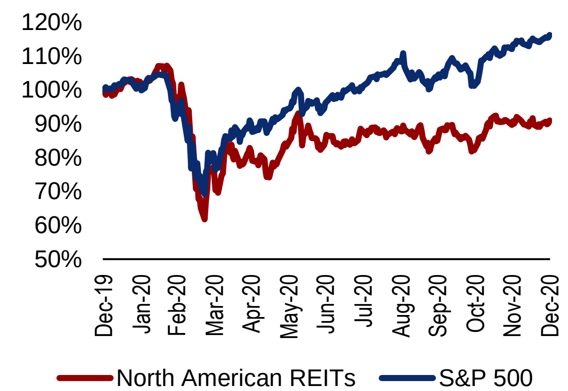


REITs

Throughout 2020, REITS underperformed the broader equity market with a 9% decline relative to the S&P's 16% gain. However, positive COVID vaccine news fueled a rally, with the index increasing 6% since November.

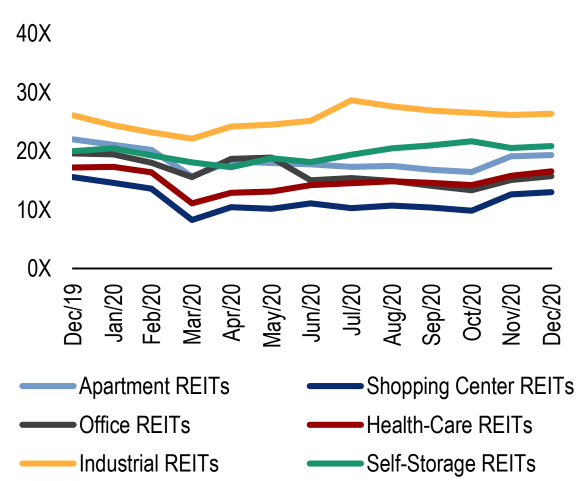
REITs concluded 2020 below where they ended in 2019 with an average forward 12-month FFO multiple of 18.4x compared to 19.5x in 2019. However, due to the varying economic impacts of COVID on different sectors, certain REITs were hit harder than others. As seen in Figure 2, shopping center REITs ended 2020 with an average forward FFO multiple of 13.0x, representing a 29% discount to the overall average. Already hurt from the rapid shift to e-commerce and

Figure 4: REIT Performance vs. S&P 500



multiple bankruptcies of large department stores, previously regarded as anchor tenants, COVID forced many malls to temporarily shut down. As a result, many retailers struggled to pay rent thus hurting property owners' cash flow. Moreover, despite re-openings, persisting social distancing measures, such as temperature checks and capacity limits, continue to disincentivize in-person shopping. However, multiples began to recover as news of a vaccine were announced.

Figure 5: Forward 12-Month FFO Multiple



On the other hand, as COVID further accelerated the shift towards e-commerce, industrial REITs continued to trade above its peers as demand for warehouses remained strong. The sector's average forward FFO multiple of 26.4x represents a 43% premium to overall REITs.

Sources: S&P Global, Financial Times, Bloomberg

Financial Institutions

2021 Outlook

US Banking Landscape

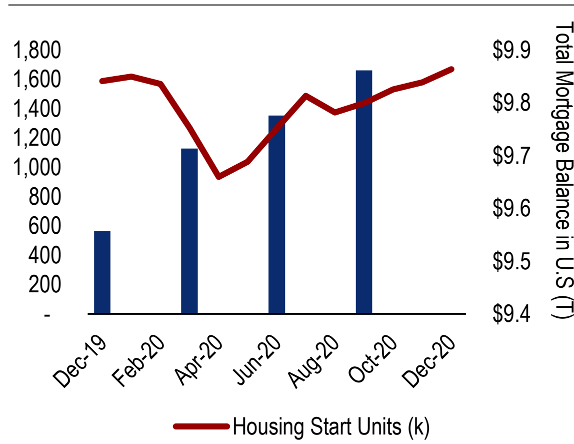
The banking landscape is continuously changing as the pandemic is further accelerating digital transformation. Banks feel the need to adapt as they face fierce competition from fintech innovations, such as banking-as-a-service. Subsequently, we can expect banks to continue closing branches in 2021 to reduce costs further and incentivize the development of mobile and online banking platforms, primarily using AI.

Since banks tend to lend for extended periods, their profitability is expected to improve as short rates stay near-zero and long-term interest rates edge up. An upward trend in Treasury yields can potentially relieve some pressure on NIM. With the expectation that banks have set aside excess provisions for losses, it can translate into extra cash available to lend out in the future, when credit card and commercial loan demand picks up. In the meantime, lending profits become more reliant on mortgage origination. Demand for housing is expected to grow into 2021 as Covid-19 has drastically changed working behaviors and introduce flexibility in the longer-term, as seen in Figure 1. Nonetheless, banks are incredibly dependent on the economic recovery as bank shares jumped 13% on positive vaccine news. Additionally, optimistic news about stimulus also led major U.S banks to release close to $6bn from their reserves in the last quarter of 2020. Furthermore, fee income will continue to grow as trading revenue will likely normalize, and excess liquidity in the market will pave the way for a surge in M&A activity and IPOs. However, regional banks don't benefit from diversified operations and are expected to perform worse than larger peers. Aside from being more sensitive to how Covid-19 spreads, those who loaned to hospitality, travel and entertainment companies will likely see a faster deterioration of asset quality.

Valuations

After a strong performance in 2019, the banking sector underperformed the broader market in 2020. P/B ratios suffered a drop at the beginning of last year as banks set aside $112bn for pending soured loans. However, near the year-end, banks recovered with an average P/tanBV of 1.5x for large and midcap banks and 1.1x for small-cap banks. Given the excess liquidity stemming from provisions for losses that haven't materialized, we believe that ROE and P/B ratios will continue to expand. Additionally, the cash surplus can be used for intensive share buybacks, a critical value driver for its share price, as the Federal Reserve lifted the restrictions. Although dividend caps are still being maintained, the operating environment is improving. Credit quality assessment has been difficult with forbearances, deferrals, and a new wave of stimulus at play. As these aid programs expire, credit losses could become more prominent in the latter half of 2021, lowering valuation in the process. Despite challenging fundamentals, we believe that the sector is currently undervalued. Since banks lend in the long-term and have excess liquidity to deploy, we believe that higher profits are on the horizon. More clarity on losses and further announcement of capital redistribution will be a catalyst for a market correction.

Figure 6: US Housing Starts and Mortgage Balance



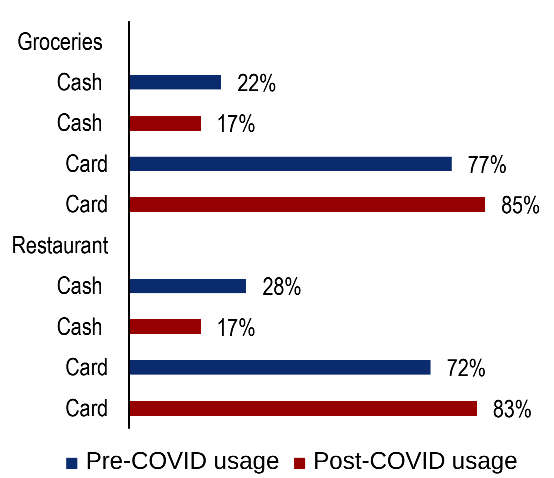
Sources: PwC, Bloomberg, Financial Times, FRED, New York Fed

The Year of Fintech

After an extremely eventful year, one player that appeared to be winner is the diversified financials space, particularly the fintech space. Although the negative impact on many industries due to the pandemic, it was a positive catalyst for others. With fintech firms such as Square and Adyen reaping the benefits from thematic secular switches. We have seen two important themes emerge in the payment subsector. Firstly, given the growth in ecommerce from Covid-19, networks, payment processors and merchant acquirers have all rapidly shifted their operations to capture market share in the online space and find new areas to compensate for their retail losses. Secondly, the fight to attract SMEs to the payment space has accelerated as larger merchant acquiring players join the field. The main appeal being the growth opportunities to a space that previously had a larger amount of cash transactions but has now shifted due to Covid-19 as seen in figure 1.

However, the biggest question hanging over these companies has been the valuation. Although the KBW Fintech index, on average has always traded to a premium to the S&P 1500 of 36% in the past 5 years. 2020 saw that spread to 62 percent. Heading into 2021, the growth fintech's have enjoyed looks unstainable and could ultimately impact future valuation.

Figure 7: Change in Payment Methods during COVID



Source: Bloomberg, Thompson Reuters

Not Much Luck with REITs

The outlook for 2021 remains heavily uncertain, given the continuing risks from Covid-19. In addition, the lack of any historical precedent since the Spanish flu complicates projections for next year.

Vacancy rates have increased in 2020 for most property types. Performance was mixed outside of the traditional sectors of retail, industrial, retail, and healthcare.

Hotels mostly operated at severely low occupancy levels during the early months of the pandemic. Travel volumes have rose for the past six months, however, and many hotels have reopened and reported rising occupancy rates. In the health care sector, skilled nursing and senior housing have suffered alarming drops in occupancy, as well as higher costs derived from PPE and staffing. These sectors will not have a complete recovery until the pandemic is brought under control and vaccine rollouts become more prominent.

There is greater uncertainty about valuations due to the low level of transactions since the pandemic hit. Prices have turned lower in both retail and office markets, declining 3.2% and 3.8%, respectively, in the third quarter compared to one year ago.

Valuations of multifamily and industrial properties, in contrast, have continued to rise steadily. Each of these property markets faces a favorable supply-demand balance over the medium to long term. Residential properties have had the chance to profit from all time low borrowing rate sand the shift of work from home demands leading to prices at an all time high in suburban markets. Industrial REIT's average 26x multiple represents a 44% premium to overall REITs, as demand for warehouses, driven by e-commerce, has maintains its strength heading into 2021.

Financial Institutions

Holdings Review – Fiserv (NASDAQ: FISV)

Company Overview

- Fiserv is a leading provider of outsourced technology services to 12K clients worldwide, primarily US mid-sized banks and credit unions
- The company operates through three different segments: core processing, issuer processing for financial institutions and merchant acquiring
- In July 2019, Fiserv merged with Fist Data to form one of the largest payment companies in the industry
  - Brings tighter integration across the payments value chain by combining Fiserv's strength in core processing with First Data's focus on card issuer processing and merchant acquiring
  - Helps expand legacy Fiserv geographically

Catalysts

- Lifting Covid-19 related restrictions could boost purchase volume and transactions, which improved significantly after the first lockdown in spring amid lower consumer confidence
- Improved integration of POS software with legacy systems could lead to significant growth, potentially leading an increase in synergy targets

Risks

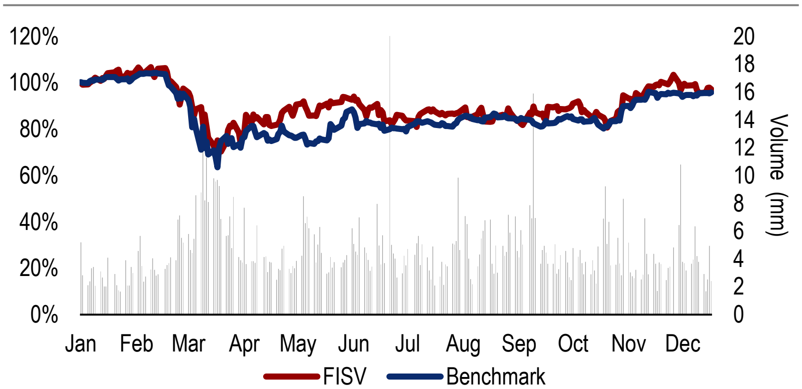
- Open banking innovations, such as companies offering banking-as-a-service could threaten Fiserv's closed architecture with more personalized and cheaper product offerings
- Smaller merchants and financial institutions are at higher risk of bankruptcy amid lower revenue periods

Investment Theses

1. **More resilient mix of clients: Fiserv showed a strong recovery despite lower consumer spending**
   - Fiserv has a larger base of non-discretionary merchants than peers
   - Small and medium enterprises (SMEs) have been receiving fiscal support during Covid-19 and adapting through online storefronts
2. **Customer stickiness: Fiserv's long-term contracts protect it from competitive shocks**
   - High termination fees and changes in payment behaviors support all three of Fiserv's business segments
3. **More cross-selling opportunities: Fiserv can further leverage its large network of financial institutions to expand its new merchant acquiring business**
   - Fiserv's newly integrated infrastructure and focus on SMEs creates a competitive advantage in the long-run since smaller businesses are more likely to outsource its payment structure

We decided to <u>HOLD</u> FISV until consumer spending volume recovers and our theses materialize.

Stock Price and Sector Benchmark Performance



Source: Bloomberg

Position Snapshot

Average Cost (USD)	$104.80
# of Shares	1,000
Value Invested	$109,346
Portfolio Weight	4.3%
2020 HPR	2.9%
HP Benchmark Return	3.2%
Excess Return	(0.3%)

Financial Institutions

Holdings Review – Simon Property Group (NYSE: SPG)

Company Overview

- Simon Property Group, Inc (SGP) is a managed real estate investment trust, or REIT that owns, develops and manages premier shopping, dining, entertainment and mixed-use destinations, which consists primarily of malls, Premium Outlets, and the Mills.
- The Company owns or holds an interest in 206 income-producing properties in the United States, which consists of 107 malls, 69 Premium Outlets, 14 Mills, four lifestyle centres, and 12 other retail properties.

Catalysts

- Reopening facilities would significantly increase foot traffic in a majority of their properties. With an improvement in SPG's revenue, investors' confidence in SPG's business would increase.
- Potential pent demand post-vaccine implantation within society could significantly spike the potential demand curve.

Risks

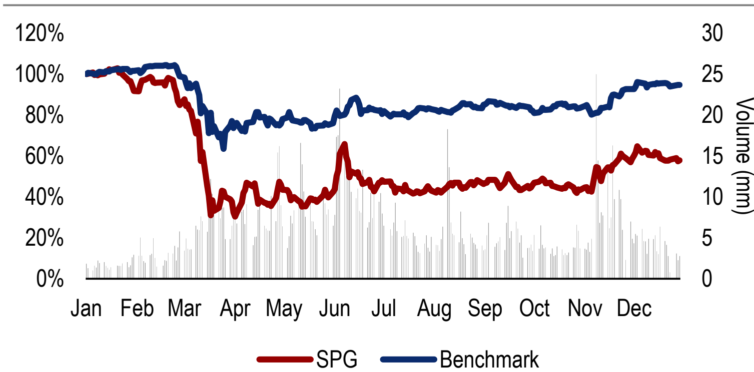
- Prolonged lockdown from COVID-19 could hinder tenants' ability to generate necessary revenues
- Potential falling out of favor of dense cities; any post COVID-19 trend that prompts households to shy away from concentrated urban areas will influence how the retail landscape evolve particularly in large metropolitan areas.

Investment Theses

1. **Malls that are able to adapt to the changing retail environment will thrive in the long-run**
   - Despite negative tailwinds given the pandemic, we believe the firm has well adjusted to the circumstances and will thrive in the future from pent-up consumer demand and adjusting operations to new consumer standards.
2. **SPG is overly punished due to the industry in which it operates**
   - Given the increasing reach of ecommerce platform, retailers have had a problematic time from the limits of federal and state lockdown measures but also the increasing popularity of online shopping. We believe that as a leisure platform, SPG is still set to succeed in the POST-Covid era.
3. **Acting as a big player in buying out bankrupt tenants will allow SPG to generate strong returns**
   - After the success SPG held with the acquisition and revamp of retail businesses such as Aeropostale and Forever 21, the firm has been a willing bidder of distressed retailers. Becoming owners in players such as Brooks Brothers, Lucky Brand, and J.C. Penney, which filed for bankruptcy in May.

We decided to HOLD SPG

Stock Price and Sector Benchmark Performance



Source: Bloomberg

Position Snapshot

Average Cost (USD)	$139.46
# of Shares	720
Value Invested	$100,409
Portfolio Weight	1.4%
2020 HPR	(42.0%)
HP Benchmark Return	(5.3%)
Excess Return	(36.7%)

Healthcare

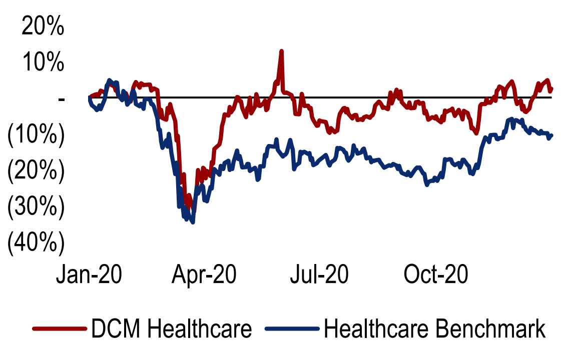
2020 Review

Jesse Li, *Senior Analyst*
Sean McNally, *Senior Analyst*
Leo Tousignant, *Junior Analyst*
Sayeed Yousuf Ahmed, *Junior Analyst*

Overview

In 2020, the DCM Healthcare sector returned 2.5%, outperforming the healthcare benchmark by 12.9%. Outperformance was mainly driven by share appreciation in biotech companies Nabriva Therapeutics and Sarepta Therapeutics following positive clinical trial or regulatory approval results. Poor performance from the health benchmark was mainly due to a sluggish performance by the Canadian healthcare companies. We believe our diligent selection of companies with resilient balance sheets has enabled them to weather the COVID-19 financial strain more favorably during this pandemic.

Figure 1: DCM Healthcare Sector Performance



Sources: Bloomberg

Healthcare is Not Monolithic

The Healthcare sector saw tremendous volatility in 2020 stemming from the COVID-19 pandemic and a fraught presidential election. Much of our outperformance resulted from resisting the temptation to gain exposure to pharmaceutical companies seeking to develop therapeutics and/or vaccines against the coronavirus, with hype and enthusiasm pushing stock prices up and simultaneously increasing our discomfort with potential entry points.

Gilead Sciences is an interesting case in point. The Company's drug, Remdesivir, is the lead therapeutic in the fight against the coronavirus. Since April, Remdesivir (marketed as Veklury), surpassed analysts' sales expectations, having sold ~$2.8bn worth (~10% of its total 2020 revenue). The drug's success is an unfortunate reflection of a global surge in cases, despite a better understanding of the virus and how it spreads. The hype that bolstered the stock in April was erased in the ensuing months.

Where to Get Exposure?

Gilead confirmed our early presumptions that investors inflated these companies' valuations as they sought safety from many plummeting sectors. Rather than screening for companies tied to the COVID-19 relief, our team screened for companies unfairly punished by negative investor sentiment. Naturally, this led us to small-cap stocks. This led us to a small biopharma company that develops novel anti-infective agents called Nabriva Therapeutics, which was punished early due to delayed drug approvals but was also reeling from an unwarranted complete response letter from the FDA. In a stroke of both prescience and good timing, Nabriva received a positive EU opinion on its flagship product, Xenleta, for community-acquired pneumonia, earning us a rapid 60% return.

However, our good fortunes did not span across the sector. Our holding in Orchard Therapeutics has performed poorly amidst a strategic and management restructuring over the course of 2020. Uncertainty and change in a zero revenue-generating business like Orchard undoubtedly led to investor pessimism, but we continue to believe the business has a rich lineup of catalysts in 2021 and is effectively managed by former founder and former-CSO Bobby Gaspar.

Looking Ahead

As we inch closer to a post-pandemic world with vaccine rollouts, the focus in the Healthcare team is to focus on steady, cash-flow generating businesses. Abiding by this principle, our final trades of 2020 were in HLS Therapeutics, a specialty pharma player, and Catalent, a global CDMO and biologics player – both stocks are up 4.8% and 9.7%, respectively.

Healthcare

2021 Outlook

Times are Changing

COVID-19 accelerated the use of telehealth, with consumer adoption skyrocketing from 11% of US consumers in 2019 to 46% in 2020. Pre-COVID, total annual revenues of US telehealth players amounted to $3bn, mostly centred around the virtual urgent care segment. However, with the acceleration of consumer and provider adoption of telehealth, and expansion of this phenomenon beyond virtual urgent care, up to $250bn of current US healthcare spending could be potentially virtualized. In our view, this is not just a temporary surge in usage spurred by the pandemic, but the beginning of the virtual healthcare era.

How Big is This Opportunity?

There are 5 models for virtual care that can be analyzed to see the full potential of telehealth: on-demand virtual urgent care, virtual office visits, near-virtual office visits, virtual home health services, and tech-enabled home medication administration. The combined impact of these changes amount to 20% of all office, outpatient, and home health spend across Medicare, Medicaid, and commercially insured populations (Figure 2).

Attractive Value Proposition

The telehealth sector has outperformed the broader index by over 150% (Figure 3). However, the current valuation levels of 15.3x revenue imply that the market expects the industry to generate total revenues much lower than the potential $250bn. In our view, this may show the market's optimism regarding the vaccine ending the pandemic and increasing physical visits, or an underestimation of the growth potential. Given the developments made towards virtual care, increased customer adaptation and interest in telehealth moving forward, we view this as an attractive value proposition.

Figure 3: Telehealth Relative Performance

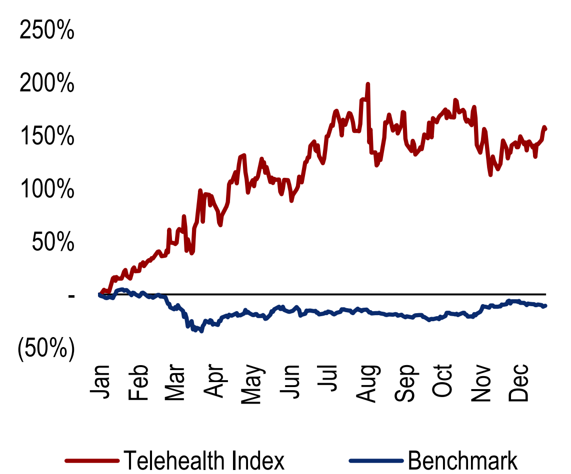
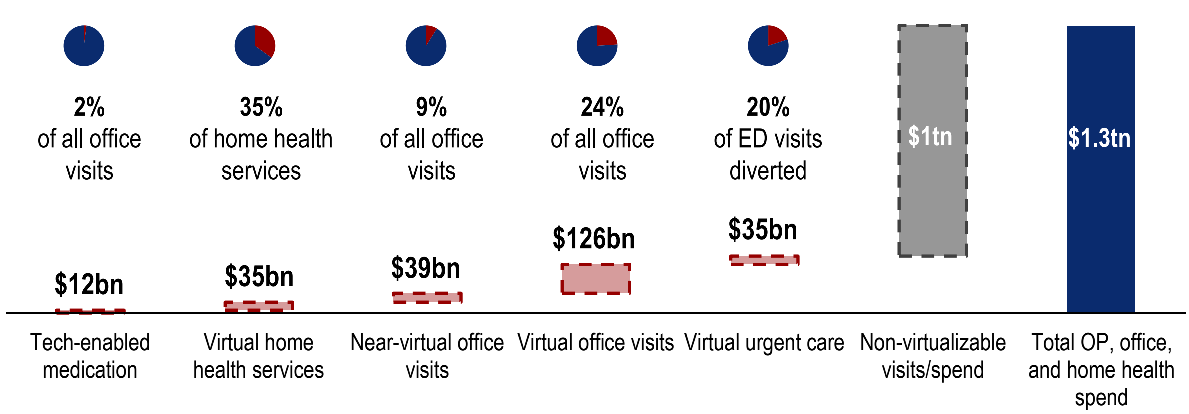


Figure 2: The Virtual Healthcare Opportunity



Sources: Biopharma Dive, Capital IQ, McKinsey

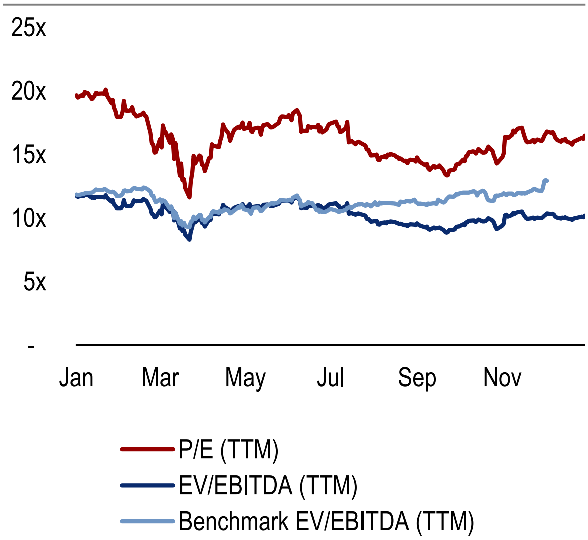
COVID-19 Crisis

The year 2020 has been marked by COVID-19 induced financial stress along the care value chain. However, amid the most important sanitary crisis of the century, healthcare insurers have been the exception to the rule and profited from the reduction in healthcare expenditures related to elective care to improve their bottom line. The story was grimmer for Americans with employer-sponsored plans as around ~15mm lost their coverage due to COVID-19 related unemployment.

Consequently, political actions have been undertaken to reform the availability and affordability of healthcare. While Republicans spearheaded initiatives to overturn the Affordable Care Act in Supreme Court, Democrats advocated for democratizing healthcare access through programs such as Medicare-for-all.

These events were reflected in the valuation multiples of health insurers (figure 1). In March, uncertainty about the COVID-19 crisis caused multiples to plunge at a faster rate than the benchmark. However, they quickly rebounded and experienced a sharp increase in November after the Democrat presidential election win.

Figure 4: Healthcare Insurance Multiples, 2020



Medicare Advantage

Medicare Advantage (MA), a plan that provides Medicare benefits through a private-sector health insurer, has been put forward to solve the dual problem of affordability and availability of healthcare. This initiative experienced bi-partisan support as it allows to lower costs via efficient private services and increase availability via all-encompassing coverage.

We believe that this trend is one of the most compelling growth opportunities in a sector that has been historically slow-moving. MA's proportion of Medicare plans is expected to grow from 35% in 2018 to 50% in 2025, and 70% in 2035. Combined with the organic increase in TAM due to demographic tailwinds, opportunities will be created every step of the insurance value chain. Observing historical data, we think this shift is currently underappreciated by the markets as the trading multiples are at a similar level to 3 years ago.

Digital Disruption

Consumers' appetite for healthcare technology solutions has changed drastically following the COVID-19 pandemic. As such, the willingness to purchase insurance from Big Tech (Apple, Amazon, Google, etc.) firms went from 17% in 2016 to 44% in April 2020.

In our opinion, fears about Big Tech taking insurer roles are exaggerated due to the industry's strict regulatory and capital requirements. However, we believe that they will be key actors in the democratization of coverage and reduction of costs, an enthusiasm shared by public investors. For instance, AI-powered Medicare insurer Clover Health went public in 2020 at ~10x revenue, almost 9x above the benchmark. Even if multiples are high, we think it is partly due to the lack of public investable options in the space and that a lot of value will be captured by digital challengers in the long-term.

Sources: Bloomberg, Capital IQ, McKinsey, NE Journal of Medicine

Healthcare

Holdings Review – HLS Therapeutics (TSX: HLS)

Company Overview

- Headquartered in Etobicoke, ON, HLS Therapeutics is a specialty pharma company focused on acquiring late-stage development or commercialized pharmaceutical products in North America
- Primarily targets two therapeutic areas: central nervous system and cardiovascular diseases
- Currently have two commercialized drugs: Clozaril and Vascepa, and an $11mm/year royalty portfolio
- LTM Revenues of $53.6M and LTM EBITDA of $20.1M (as of Q3 2020)
- Stock decline in 2020 was due to an adverse court ruling against Amarin, Vascepa's patent company in the US, and COVID-19 related liquidity concerns

Catalysts

- Canadian Agency for Drugs and Technologies in Health (CADTH's) reimbursement of Vascepa for primary patients on a public plan will increase TAM by 400,000
- Management has a track record of acquiring drug portfolios that create shareholder value. Any such future acquisitions will positively impact shares

Risks

- Delay in rolling out Vascepa nationwide due to COVID-19 related hurdles
- Potential equity dilution if Vascepa rollout is unsuccessful, and the current cash burn continues due to launching expenses

Investment Theses

1. The market is unjustly coupling HLS' performance with Amarin's

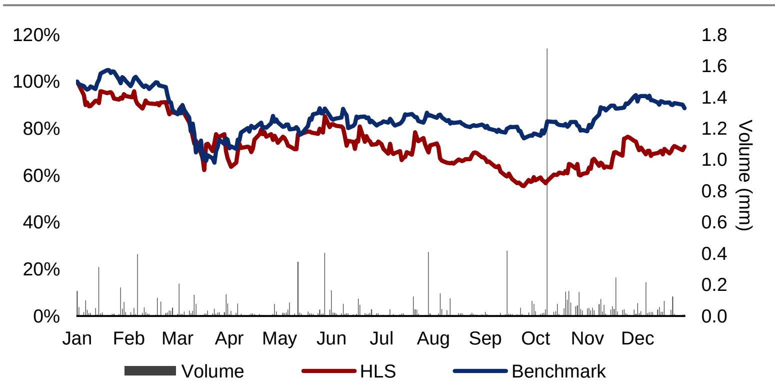
- HLS acquired the exclusive Canadian distribution rights to Vascepa, a cardiovascular drug, from parent company Amarin, that lost patent protection to Vascepa in the U.S. due to obviousness
- However, this court decision negatively impacted HLS' share price as well, despite Health Canada granting data exclusivity for 8 years (until 2027), and CADTH recommending reimbursement for the drug
- Vascepa addresses a life-threatening condition for which there is no other treatment on the market. A successful launch in Canada may cause an upward revision to HLS' share price

2. Market is overly concerned about HLS' liquidity position

- HLS' temporary steep cash burn due to COVID-19 and Vascepa's launch is being extrapolated by the market, despite low probability of equity dilution in the future, and a recent share buyback agreement

We decided to BUY HLS with a 2-year $20.00 PT, since it is trading at an unjustified discount due to Amarin's legal situation, which we expect the market to realize following Vascepa's successful launch in Canada

Stock Price and Sector Benchmark Performance



Sources: Capital IQ, Company Filings, Fierce Pharma

Position Snapshot

Average Cost	$15.57
# of Shares	5,800
Value Invested	$90,297
Portfolio Weight	3.1%
2020 HPR	1.7%
HP Benchmark Return	1.0%
Excess Return	0.7%

Healthcare

Holdings Review – Catalent (NYSE: CTLT)

Company Overview

- US-based contract development and manufacturing organization (CDMO) providing delivery and development solutions to pharmaceutical companies
- Business segments divided in 4 categories: softgel & oral technologies, biologics, oral & specialty delivery, clinical supply services
- Produces ~73B doses for nearly 7,000 products annually and counts as customers 86 of top 100 branded drug companies
- Involved in almost half of new drugs products approved by the FDA in the last decade
- LTM Revenues of $2.7B and LTM EBITDA of $552M

Catalysts

- Vaccine approvals with existing players/contracts with new players would boost revenue
- Resorption of COVID-19 pandemic would allow to resume paused FDA trials
- Historical strategic M&A could continue and increase CTLT footprint in key CDMO verticals

Risks

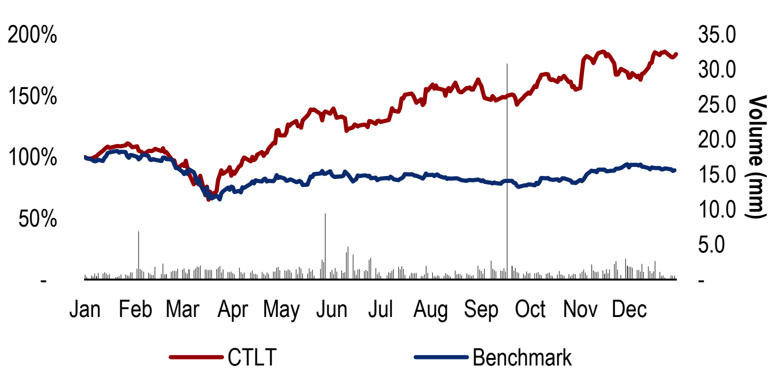
- Peak multiple payed to enter the position could dampen short to medium-term upside
- Increased competition in Biologics space would shrink margins and hinder market share expansion
- Catalent's past aggressive acquisition spree left it burdened with a sub-optimal capital structure

Investment Theses

1. **Market rightly prices COVID-19 revenues**
   - CTLT is one of the leading CDMO for COVID-19 vaccine production worldwide and signed partnerships with key vaccine candidates such as Moderna, AstraZeneca, and Johnson & Johnson
   - "Picks-and-shovel" nature of the company's operations allows DCM to have exposure vaccine-related market upside without having to bet on a specific candidate
2. **Market is underpricing growth from biologics post COVID-19**
   - Industry tailwinds for Biologics CDMO include the growing need for omnichannel solutions by small biotech firms, increased outsourcing by larger pharmaceuticals, and the rise of gene/cell therapy products
   - CTLT's recent acquisition of Paragon Bioservices and MaStherCell and dominant position as an end-to-end CDMO will allow CTLT to maintain an above-industry growth rate for +4 years

We initiated a BUY for CTLT with a $125.00 price target in 2-4 years, closely monitoring the changes in biologics' share of revenue mix from 33% in 2020 to 50+% expected in 2024

Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost (USD)	$104.64
# of Shares	800
Value Invested	$106,014
Portfolio Weight	3.2%
2020 HPR	(0.5%)
HP Benchmark Return	(1.2%)
Excess Return	0.7%

Sources: Bloomberg, Capital IQ, Company Filings, DCM, Thomson One

Industrials

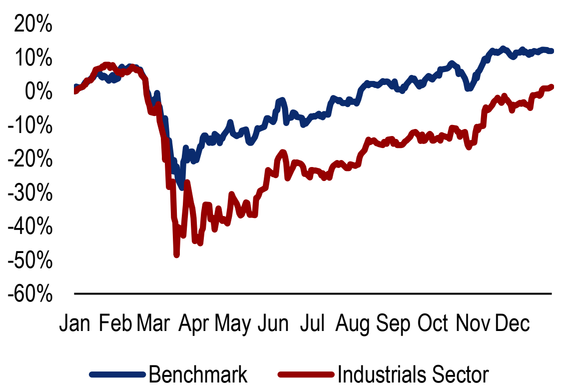
2020 Review & 2021 Outlook

Maxime Barbeau di Meo, *Senior Analyst*
Serge Krikorian, *Senior Analyst*
Hashaam Nadeem, *Senior Analyst*
Jeremy Chalifoux, *Junior Analyst*
Umema Rajput, *Junior Analyst*

A Tough Year

The DCM Industrials sector returned 1.33% in 2020, severely underperforming our sector benchmark return of 11.92%. The industry itself underperformed relative to the S&P 500, returning 15.3%.

Figure 1: DCM Industrials Sector 2020 Performance



Performance mainly lagged due to our position in Fincantieri which was exited at a loss in late February. This ended up being a good decision as the cruise boat producer was highly impacted by the COVID-19 pandemic. That said, the pandemic still hurt our sector as we were highly exposed to the A&D sector at the beginning of the year, through TDG.

We came to decide to sell half of our units in TDG in Q4'20 to initiate a position in Brunswick Corporation, due to its potential in the recreational boating sector. We will continue to monitor our position in TDG as we see it being prospective owing to the company's recent M&A activity in the defense sector.

Our portfolio for industrials changed significantly over the past year. Our first addition was Canadian Pacific, a defensive pick amid the uncertainty. We believed that their operational efficiency was being underappreciated by the market, eventually leading to a multiple expansion.

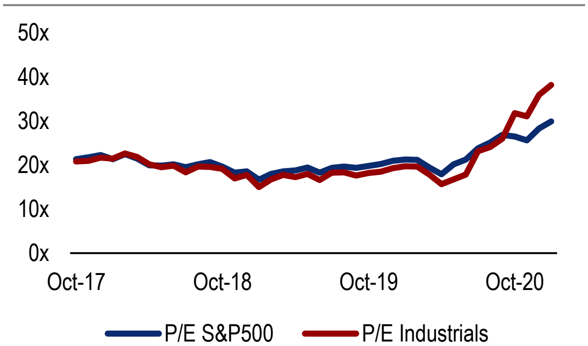
This thesis has materialized as the subsectors' multiples have expanded towards other infrastructure peers such as ports. More recently, we decided to open positions in both Volkswagen and Brunswick Corporation. More information can be found below regarding our theses.

Our recent picks outperformed the benchmark at the end of the year, closing the gap that opened due to bad positioning for the pandemic.

2021 Outlook

The COVID-19 pandemic has been the most important factor impacting the industrials sector. Especially at the beginning of the year, many companies had trouble adapting to supply chain bottlenecks and workforce disruptions due to lockdowns around the globe. This led to low earnings for most of the sector throughout the year.

Figure 2: DCM Industrials 2020 Sector Valuations



The market has been expecting a relatively quick recovery from COVID-19, as seen by a multiple expansion in recent months despite earnings that are not stellar. The main points affecting the industrials sector during 2021 will be an effective vaccine rollout and continued government fiscal stimulus to help demand for industrial products recover.

A&D Continues to Struggle

Lower aircraft demand and restrictions on the movement of people and goods due to the pandemic led to a breakdown of many essential A&D supply chains. This has resulted in an impact on smaller

Sources: Bloomberg

suppliers, especially those with heavy exposure to commercial aerospace and the aftermarket business. The crisis will likely continue to affect suppliers, depending on whether they focus on commercial aerospace, defense, or the aftermarket, where defense is expected to remain relatively stable. The challenge is accentuated as many suppliers serve both commercial aerospace and defense, and any spillover from the commercial side could leave defense OEMs vulnerable about sourcing critical parts for their platforms. As a result, suppliers that depend primarily on the commercial aftermarket are expected to experience lower volume for several years due to reduced flying hours, a glut of used serviceable material, and inventory destocking.

Space, Satellites, and More

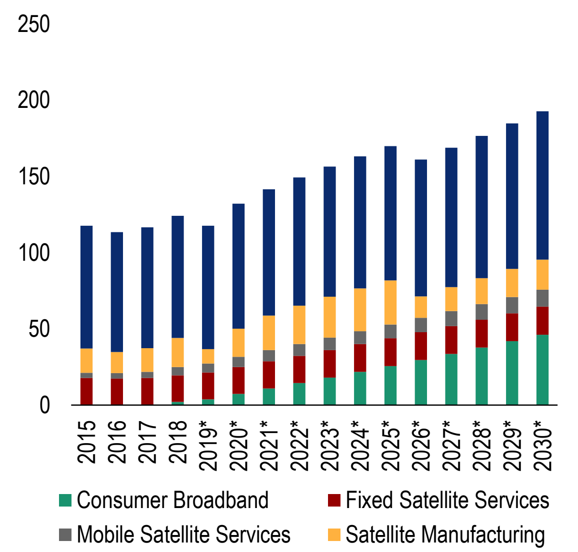
Declining launch costs, advances in technology and US Space Command all have contributed towards a spurred momentum in space investments to remain at $12.1bn and continue to show strong growth in 2021. With space exploration expected to continue to evolve and companies in the space ecosystem to reach critical mass, the space industry is likely to experience increased opportunities fueled by cost reductions, primarily in satellite broadband internet access. Where launch costs for a satellite having the potential to fall to as low as $5 mm compared to $200 mm in the past decade, driven by reusable rockets and mass production of satellites, the sector looks promising to drive growth in the future.

Emerging Tech and Growth

Emerging technologies are expected to transform the A&D industry and drive long-term growth. While the industry has been affected by the pandemic, continued technological developments in 2021 are likely to drive growth and shape the A&D industry over the long term. Some technologies that could transform the A&D industry include: Advanced Air Mobility (AAM), hypersonics and hydrogen powered aircrafts. This will allow the A&D segment to take advantage of the pandemic and drop in demand to transform supply chains in order to drive future growth for the industry.

In 2021, the industry's focus is likely to shift toward transforming supply chains into more resilient and dynamic networks, where collaboration with regional players to build capabilities and shift manufacturing capacity when needed could make the A&D supply chain more robust and help the industry manage business disruptions.

Figure 3: Global Space Economy Revenue ($ bn)

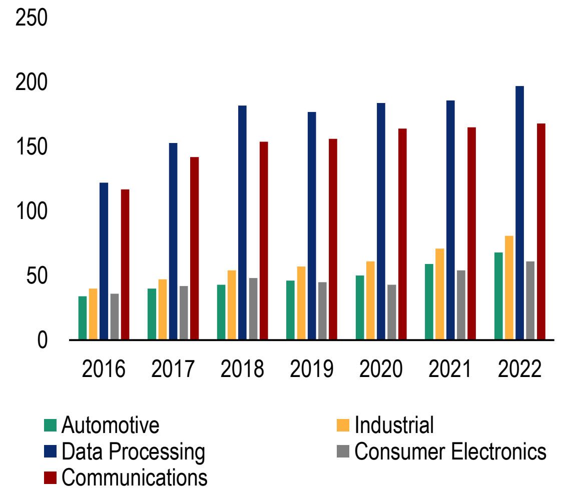


Prospective Semiconductors

Strong global economic growth since the 2008 recession has propelled the semiconductor industry's revenues, but an even more important factor involves the continued rise of the technology sector. Although the semiconductor companies have developed effective crisis-management strategies during other difficult periods such as the dotcom bubble in 2000, the COVID-19 crisis presents entirely new challenges that make it different from any previous downturn. Currently, the sector is in a seminal transition period, where scale and skill to manage market volatility serve to determinants of market success.

Sources: Bloomberg, Industry Reports, Haver Analytics

Figure 4: Market Size by Application Type ($ bn)

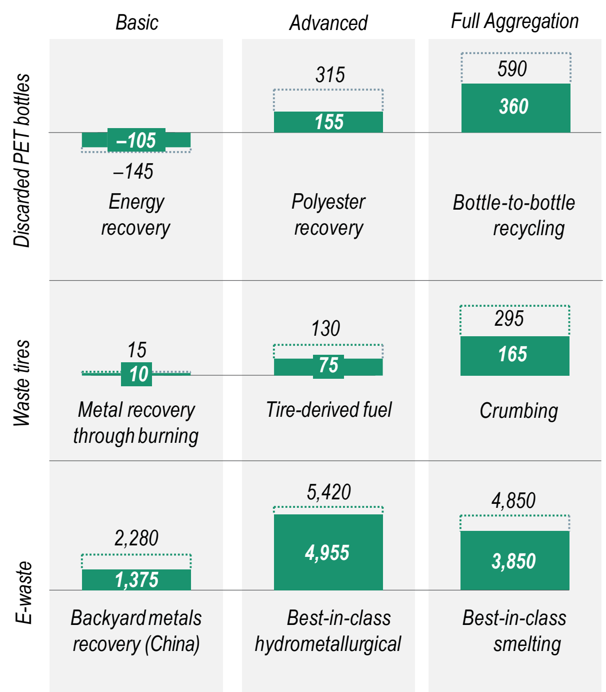


Big structural changes often lead to shakeouts, especially in fragmented industries. Given the importance of scale and the essential benefits it conveys, the semiconductor sector may be due for a period of consolidation, where size matters but size alone will not guarantee success. Meeting the needs for accelerated speed to market and pursuing an active corporate development and M&A agenda to form alliances will help create value going forward.

Reduce, Reuse, Recycle

A potential sector where we see we market gaining momentum is the waste management industry. Its global market is growing significantly with a CAGR of 6% to reach a value of $484.9 bn in the year 2024. Rapidly growing economies, urbanization and the increasing population have led to an increase in resource consumption. Observing from a global perspective, current waste and resource management lacks a holistic approach which covers the whole chain of product design, production, recycling and waste management.

Figure 5: Solving the E-Waste Problem ($/metric ton)



Aggregating flows and providing necessary scale can yield high-performing value recovery as shown in the figure above. The figure above is an example of how solutions for aggregating and organizing solid-waste flows, increasingly augmented by product-stewardship provide some instructive examples to be later followed.

Sources: Industry Reports, PwC, Plastic News

Industrials

Holdings Review – Brunswick Corporation (NYSE: BC)

Company Overview

- Brunswick Corporation is an American-based boat, engine and parts manufacturer since 1845
- Global market leader consistently gaining market share, headquartered in Mettawa, Illinois
- Mercury engines, Boston Whaler boats and other nationally recognized brands positions the company uniquely in the boating industry
- Their core product offering constitutes the P&A segment, where they lead in global marine market
- Experiencing significant US and international retail market share gains through aggressive new product launches

Catalysts

- New customer segments, more female boaters and a younger generation are facilitating increasing diversity and hence more boat club members
- Improved product offerings through the technological advancements adapting to changing consumer needs and preferences

Risks

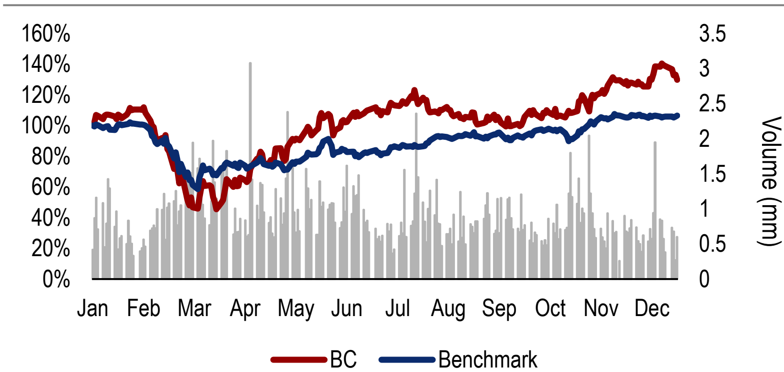
- Median income level being severely affected due to the pandemic as boating within itself is considered as a luxury
- GHG emission concerns in the recreational boating industry according to the Renewable Fuel Standard Program

Investment Theses

1. **Underappreciated growth profile for Brunswick's boat segment**
   - BC is home to 3 of the top 4 nationally recognized marine brands and prioritizes to improve its boat segment led by its recently revised leadership team
   - Boat buyer insights allows Brunswick to access and tap into new consumer segments, helping adapt its product offerings to consumer needs and preferences in the recreational boating industry
2. **Global leader in Parts and Accessories segment, helps reduce cyclicality during economic downturns**
   - Mercury Marine is a leader in $6bn global P&A products market and continues to deliver profitable long-term growth opportunities for BC
   - Existing installed base and increasing boat registrations drive aftermarket P&A sales, where new reporting segments highlight attractive P&A businesses

We decided to initiate a position in BC in Q4'20 due to unrealized growth of its boat segment and its market-leading position in the P&A segment

Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost (USD)	$76.24
# of Shares	800
Value Invested	$77,664
Portfolio Weight	2.3%
2020 HPR	4.2%
HP Benchmark Return	(1.3%)
Excess Return	(5.5%)

Source: Bloomberg, Capital IQ, Company filings

Industrials

Holdings Review – Volkswagen (OTC: VWAGY)

Company Overview

- VW AG was founded in 1937 and is the parent family of many car brands with headquarters based in Wolfsburg, Germany
- The company operates in four segments: Passenger Cars, Commercial Vehicles, Power Engineering, and Financial Services
- Manufactures and sells automobiles primarily in Europe, North America, South America, and the Asia-Pacific
- VW operates through multiple different brands, including Volkswagen, Audi, SEAT, ŠKODA, Bentley, Bugatti, Lamborghini, Porsche and Ducati

Catalysts

- An adoption of Volkswagen's MEB platform across more OEMs can serve as a large revenue stream going forward (only a deal with GM in place right now)
- Higher then expected drop in battery prices and new technology increasing BEV range can make VW's EV segment more profitable than expected

Risks

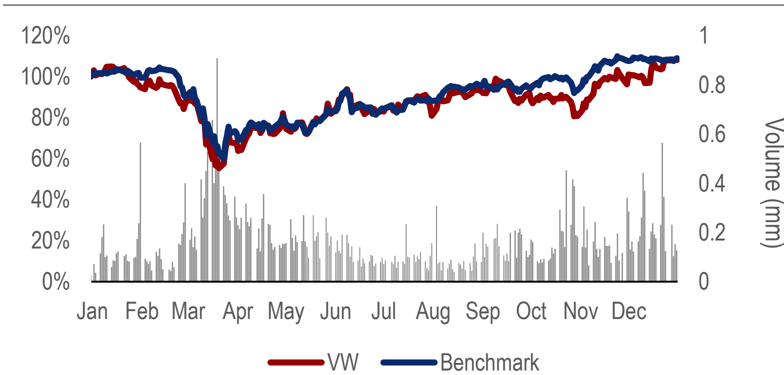
- Growth in the number of Chinese OEM startups (that are successful) will hinder on one of VW's main growth avenues: Chinese market
- COVID-19 headwinds persist beyond expectations and passenger car volumes keep slowing down through 2021

Investment Theses

1. **VW should be trading at a premium due to their aggressive EV strategy**
   - The stock is currently trading as a pure ICE OEM, having little reaction to BEV advancements
   - VW's goal to shift into a pureplay EV OEM by 2030 is backed by an aggressive EV model release schedule
2. **Ideally positioned to meet changing EV consumer demands across the main markets**
   - As interest for EVs grow, consumers across different demographics have preferences that could work in favor for VW in near term and the future
   - The well-balanced product offering, material cost reductions coupled with VW's popularity in China positions the brand well for its EV market penetration strategy and targets
   - A renewed focus on structural drivers like reduction in GHG emissions would facilitate VW's electrification

We decided to initiate a position in VW this past quarter because of underappreciated growth opportunity

Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost (USD)	$19.18
# of Shares	4,000
Value Invested	$76,700
Portfolio Weight	3.2%
2020 HPR	8.7%
HP Benchmark Return	1.1%
Excess Return	7.6%

Source: Bloomberg, Company filings

Materials

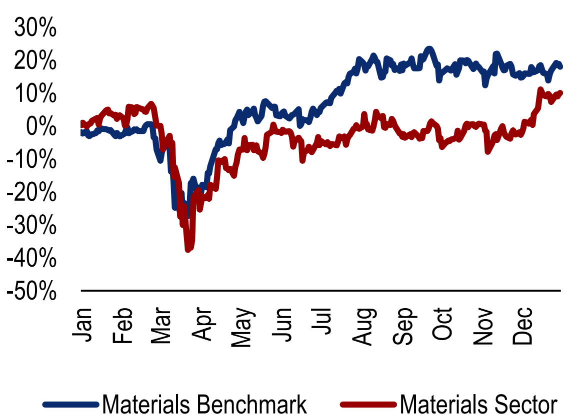
2020 Review

Maxime Barbeau di Meo, *Senior Analyst*
Serge Krikorian, *Senior Analyst*
Hashaam Nadeem, *Senior Analyst*
Frank Shen, *Junior Analyst*
Benjamin Soucy, *Junior Analyst*

Overall Performance

The Materials sector returned 10.1% versus our Material benchmark's 18.0% in 2020, driven primarily by an outperformance of gold and copper producers on the back of periods of uncertainty, yet strong fiscal and monetary stimulus by governments and central banks. Lumber producers also experienced a strong year with record demand in housing throughout North America due to near-zero interest rates. Overall, all of the individual materials subsectors finished off the year in the green.

Figure 1: DCM Materials Sector Performance, 2020



The Materials sector trailed our benchmark by 7.9% due to Summit Materials' (NYSE: SUM) poor execution throughout the year. The American cement and concrete producer's share price fell by 16.02% after construction activities in its key geographic regions were slow to start up following initial closures mandated by the pandemic.

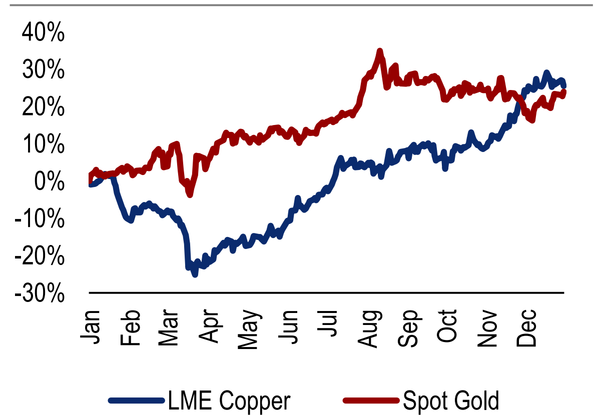
Our second holding, Nornickel (OTC: NILSY) was flat YoY after a late surge in its share price. On May 29th, Nornickel announced a major diesel oil spill after one of its fuel storage tanks failed. The company was hit with a $273mm fine, but we believe that they still are the best in class nickel and palladium mining company.

Towards the end of the year, we added Teck Resources (TSX: TECK.B), a world class metallurgical coal and copper miner. He hypothesized that the company's QB2 project was being undervalued during a time where the demand for copper was set to surge. You may find more detailed investment rationales for two of our holdings further below.

Copper and Gold: A Tale of Two Metals

Both copper and gold experienced a spectacular year, but in a different fashion. Copper experienced weakness early on after the coronavirus led to an economic slowdown in Asia. However, the base metal ended the year in fashion, up 25.5%. As a safe haven asset, investors flocked to gold as the pandemic ravaged the world. The precious metal finished 23.9% higher in 2020.

Figure 2: DCM Materials Sector Performance, 2020



US policy makers injected trillions of dollars to keep the economy afloat in 2020. Moving forward, the Fed's desire to keep interest rates low should benefit the price of gold. Likewise, we believe that there is a bright future for copper since it is heavily used in renewable energy sources.

Source: Bloomberg, Company Filings

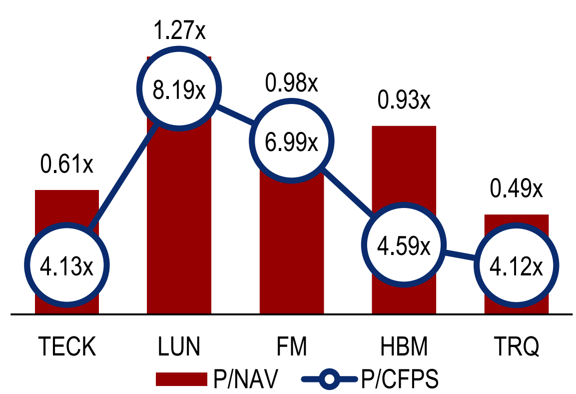
Materials

2021 Outlook

A Golden Year for Metals?

Commodities prices surged in the latter months of 2020. While the strong rebound in prices may be viewed as a "V shaped" recovery from March lows, Goldman Sachs thinks that we are at the beginning of a new structural bull market for commodities. While Goldman's call might be bold, we believe that industrial metal prices will be heavily dependent on a growth in Chinese demand and a rapid economic recovery from the rest of the world. With the Democrats winning control of the Senate, the shift towards green energy will accelerate demand for copper, nickel, aluminum, and zinc, resulting in multiple expansion for many of these miners and producers.

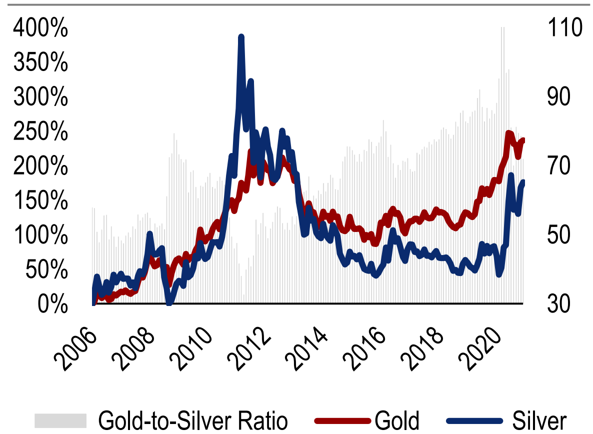
Figure 3: Canadian Base Metal Miner Multiples ('21E)



At current base metal prices, we believe that the risk-reward ratio for Canadian miners is skewed to the upside. However, we remain selective given the fact that there are many project specific and execution risks associated with some of the smaller miners.

With the 10-year US TIPS yielding -1.06% at year end and a weakening US dollar, there are still catalysts for the price of gold to hover near all time highs as we march into a new year. The faith of gold prices in 2021 will largely depend on the strength of the global economic recovery and countries' abilities to curve the transmission of COVID-19. Naturally, if the economic outlook improves, investors would become risk-on, creating a headwind for gold prices to move any higher.

Figure 4: Where Do Gold/Silver Prices Move Now?



Among the gold players, we believe that Newmont (TSX: NGT, NYSE: NEM), which trades at 1.41x P/NAV and 7.63 P/CFPS, and Kirkland Lake Gold (TSX: KL, NYSE: KL), which trades at 1.07x P/NAV and 5.82x P/CFPS have the lowest geopolitical risk exposure and are truly the best in class.

Housing Market & Lumber

Wood product prices surged at the end of 2020 due to the strong housing markets and the limited supply in North America because of the COVID-19 pandemic. Economic lockdowns have impacted the supply of lumber which created a shortage that is expected to last into Q2 2021 or longer. Currently, 31% of construction contractors report a shortage of lumber.

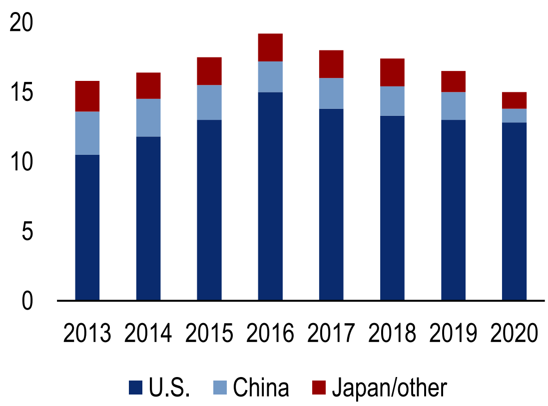
In 2021, we think that low rates will continue to boost activity in the housing market which could contribute to increase the shortage even more and boost lumber prices.

Sources: Bloomberg, TD Securities, St Louis Federal Reserve

Canadian Forestry

With the recent surge in lumber prices, Canadian forestry companies saw their sales surge. The strong US housing market really helped them since the US purchase approximately 65% of Canada's lumber production which is used mainly for home construction framing. In general, Canadian forestry companies have outperformed the TSX over the last twelve months. 2021 looks promising for Canadian wood producers because of positive demand indicators and low inventories throughout the supply channels.

Figure 5: Canada Lumber Exports



With the many permanent sawmill closures in 2019, the industry production is expected to decline by 3.7% over the next year. This could add pressure to the already low inventory levels.

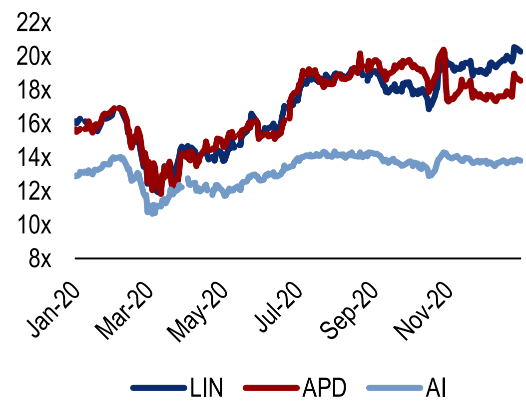
In terms of valuation, we observe that the lumber peers' EV/EBITDA is currently 7.43x which is below the 1 year historical average of 12.6x which is due to the higher recent EBITDA associated with the higher prices. Lumber prices are expected to remain highly volatile, and the recent surge in sales is unlikely to be sustainable over the long-term, making the sector less attractive for DCM.

Industrial Gases

Global industrial gases players remained very resilient despite the COVID-19 pandemic in 2020. The industry is underpinned by an oligopolistic structure with strong volume and margin protection.

Recently, industrial gases players started to focus on making cleaner processes and this is aligned with where the manufacturing industry is heading. In 2020, Linde and Air Products announced significant green hydrogen projects. Over the coming years, we believe that investments in green hydrogen will be an important share price driver. With those new projects, the companies' multiples could expand to recognize the resilient and environmentally friendly earnings growth potential. However, there is an additional risk associated with those long-term projects and we expect many delays to come.

Figure 6: EV/EBITDA Multiples



Linde has historically traded at a premium to APD, but that premium vanished once COVID-19 struck and reappeared in November as investors started to place a greater value on Linde's more stable and resilient earnings growth. We believe that Linde is the best in class and that the current premium is justified.

Sources: TD Securities, CIBC, Morgan Stanley, Madison's Lumber

Industrials

Holdings Review – Summit Materials (NYSE: SUM)

Company Overview

- Summit Materials is a leading vertically integrated materials-based company that supplies aggregates, cement, read-mix concrete and asphalt in states located along the Mississippi river
- They provide construction materials and related downstream products in the public infrastructure, residential, and non-residential end-markets
- Approximately 60% of their profits are derived from their cement and downstream segments, which have experienced recent weakness
- Anne Noonan took over as President and CEO on September 1st 2020, following Tom Hill's 11-year tenure; she is currently conducting a thorough business review

Catalysts

- Newly appointed CEO Anne Noonan has a strong track record of execution and unlocking shareholder value
- A prolonged low interest rate environment will serve as a tailwind for housing and infrastructure, which ultimately benefits Summit

Risks

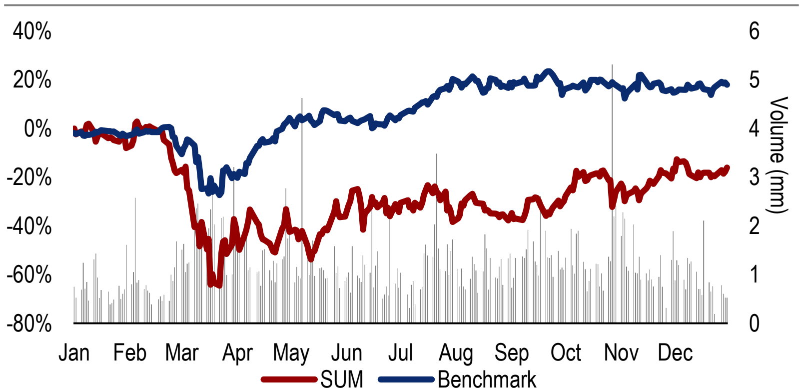
- Poor execution as well as M&A integration in recent quarters has negatively impacted the company's operating performance
- A slowdown in private spending on non-residential projects may negatively impact one of Summit's largest business segments (31% of revenue)

Investment Theses

1. **Industry tailwinds favor Summit's geographic exposure**
   - 31% of Summit's revenue is derived from residential end markets and they have little exposure to commercial high-rise development. Summit's end markets have seen weakness in recent months – they have been unable to fully capitalize on the strong demand for construction due to their weak geographic mix
   - Since Summit is a smaller player in the materials industry, their business is mostly oriented towards smaller projects that are considered to be more volatile during periods of heightened uncertainty and budget cuts
2. **Summit suffers from an unjustified size discount**
   - Summit still trades at a 50-55% discount compared to its competitors MLM and VMC on an NTM EV/EBITDA basis due to its larger downstream operations and higher leverage. Summit will never trade at the same multiples as MLM and VMC, but we believe that the discount should significantly close over time

We decided to HOLD SUM and will be closely monitoring the company's execution next quarter

Stock Price and Sector Benchmark Performance



Source: Capital IQ

Position Snapshot

Average Cost (USD)	$26.88
# of Shares	1,950
Value Invested	$49,859
Portfolio Weight	1.5%
2020 HPR	(16.0%)
HP Benchmark Return	18.0%
Excess Return	(34.0%)

Industrials

Holdings Review – Teck Resources (TSX: TECK.B)

Company Overview

- Teck Resources is Canada's largest base metals mining company. Teck is a steelmaking coal, zinc and copper miner. It has production facilities in Canada, USA, Peru and Chile
- Currently, 46% of sales are from coal, 18% from copper and 17% from zinc. Copper production is expected to double by 2024 with the QB2 project
- Teck announced three new senior executives who strengthen the project execution capabilities. Harry "Red" Conger has been appointed as Teck's Executive VP and COO. He was previously the president and COO of Freeport-McMoRan and has 40 years of global mining industry experience

Catalysts

- Faster recovery than anticipated and positive impact on key metals prices
- Successful spin-off of Fort Hills could positively impact Teck's share price and ESG rating

Risks

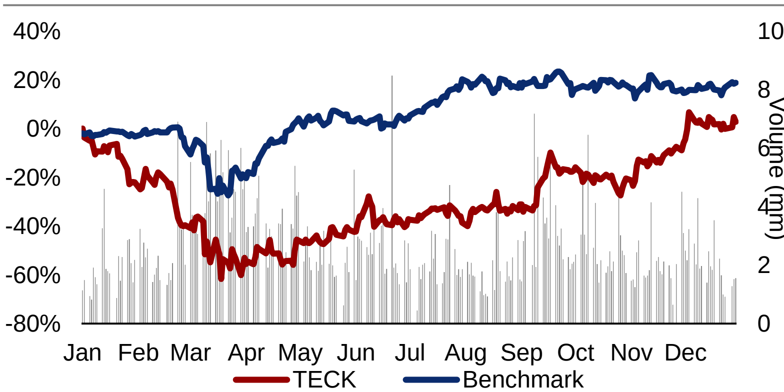
- Operational issues and strikes in Chile could limit Teck's ability to ship and sell key metals
- Delays and budget overruns at the QB2 project has negatively impacted the company's operating performance in recent quarters

Investment Theses

1. **Low-risk producer well positioned in the industry**
   - Teck operates in low-risk jurisdictions in order to minimize the impact of political and social risk on its operations. Teck trades at a discount even if its geographic portfolio is less risky than peers
   - Teck has implemented significant cost saving initiatives which places it well and helps to reduce risk
   - Teck has a strong balance sheet to fund its growth initiatives. Teck has strong liquidity with no senior debt maturities until 2030
2. **TECK should be trading as a copper miner, not a coal miner**
   - Teck trades at coal miners' multiples, but offers a growth profile similar to that of copper producers
   - Withdrawing from the Albertan oil sands will resolve part of the ESG overhang that has plagued Teck's stock price

We decided to initiate a position in TECK this past quarter because of underappreciated growth opportunity

Stock Price and Sector Benchmark Performance



Source: Capital IQ

Position Snapshot

Average Cost (USD)	$20.00
# of Shares	4,700
Value Invested	$94,091
Portfolio Weight	3.2%
2020 HPR	15.5%
HP Benchmark Return	(0.1%)
Excess Return	15.6%

TMT

2020 Review

Amine Kabbadj, *Senior Analyst*
Marc Latif, *Senior Analyst*
Paul Mangoni, *Senior Analyst*
Morgan Gill, *Junior Analyst*
Brian Spivak, *Junior Analyst*

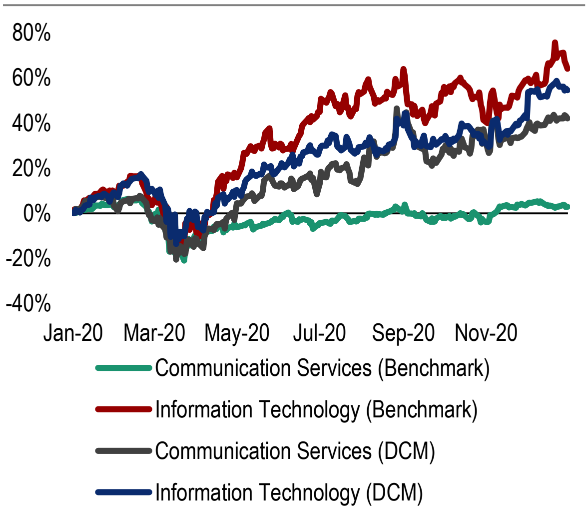
Sector Overview

The Technology, Media and Telecommunications group had a great year in 2020, due to the nature of the COVID-19 pandemic which forced the entire world to stay at home and accelerated the adoption of technological innovation in everyone's homes. As a consequence, the TMT sector was one of if not the leading sector in terms of returns this past fiscal year, and significantly helped the DCM fund outperform its benchmark.

The Communications Services sub-sector was the star of the show for DCM in 2020, as it saw returns of almost 42% versus an insignificant 3% benchmark return over the same time period; thus outperforming by a staggering 39%.

The Information Technology sector however did not perform as impressively over the past year. Although it saw a return of 55% over the past year, its benchmark returned almost 64% over the same time period, which meant our IT sub-sector underperformed its benchmark by almost 9%.

Figure 1: TMT Performance vs. Benchmark



Source: Bloomberg, McKinsey, Capital IQ

Technology

Following a troublesome start to the year, the technology sub-sector saw a very strong performance throughout the rest of 2020 thanks to the "Stay at Home" initiatives; as seen by the expansion of multiples within the industry. For instance, in early 2020, the NASDAQ-100 Technology Sector Index (NDXT) was already trading at high multiples: 18.53x EV/EBITDA and 30.62x P/E. By the end of the year, NDXT was trading at 26.66x and 44.81x respectively, indicating how strong the technology sector's performance was in 2020.

In order to capture the benefits of this strong expansion in multiples, we have seen an important series of tech IPO's throughout the year in the American stock market. Some of the most important offerings included Palantir Technologies, Asana, Lemonade, the relisting of McAfee and much more. In parallel, the Canadian market also saw interesting tech listings within 2020, including the IPO of electronic payment processor Nuvei, which has become the biggest technology IPO in TSX history.

DCM's primary holding in the technology space over the course of 2020 was Blackberry (BB). Although the fund had seen a poor performance initially, the TMT group remained quite optimistic regarding the Enterprise Software developer's penetration of the smart cars and IoT space. In early December, Blackberry announced it had reached an agreement with Amazon Web Services to launch a cloud based automobile sensor software and platform. This partnership was positively perceived by investors and allowed BB's stock to jump by over 50%; allowing the TMT group to lock in significant returns from its position.

Media

In recent years, subsectors of the media industry have gone through complete and drastic changes, driven by differing consumer demands for content. The arrival of Covid-19 and the 'stay at home' paradigm has propelled this change, pushing the adoption of OTT subscription platforms such as Netflix, Hulu, and Disney even further (discussed further in 2021 outlook). As media companies have scaled their OTT platforms through M&A, the most recent competition in the industry has been over breadth of content. Netflix spent $17B on content in 2020, up from $15B in 2019, with most of it being allocated to original series. The current phase in the media industry is pushing many companies to be cash-flow negative due to the up-front expenditures.

The recent focus for media companies has been to shift some of their content creation to cater to international markets, as it is expected to grow from $85.16B in 2019 to $194.2B in 2025. This push internationally has been very beneficial for companies like Netflix, as their international subscriber base grew by 30.5% in 2020 while their domestic subscriber base grew by only 9.3% over the same period. The foreign subscriber base has grown to 63.7% of their entire subscriber base, up from 59.5% in 2019.

Finally, the release of new video game consoles in the latter months of 2020 was a strong catalyst for many companies in the media industry. Video game developers such as Ubisoft, Activision Blizzard, and DCM holding Electronic Arts have thrived as the new console releases have spurred increased usage from current gamers and new adopters. As the supply of consoles continue to increase in 2021, coupled with new game releases, the increased usage and growth experienced by video game developers will be further sustained.

Telecommunications

The 'work from home' paradigm has forced the telecommunications industry to go through rapid changes in 2020. The augmented digitization in many industries has put a larger emphasis on a robust and resilient broadband connection, in which consumers are willing to pay a premium for. This had led to strong potential for the 5G rollout to garner a premium, as seen with consumers willing to currently pay a premium for fibre optics. Due to the pandemic, the rollout of 5G was affected as many cell tower developers were not able to set up their new infrastructure as previously planned.

Although, even with the rollout being postponed, the increased demand for high quality internet service could possibly mitigate the previously mentioned issues. Companies like AT&T and Verizon have stated that they expect to be deploying their standalone 5G networks in July of 2021, which means that they will no longer use 4G infrastructure to run 5G technology.

Cell Tower corporations are an example of a part of the industry impacted by Covid-19 by not being able to roll-out their 5G infrastructure. However, most are currently trading in line with their pre-Covid levels (American Tower corp. and Crown Castle as examples), as their postponed projects have been mitigated by the increased current demand for internet and the potential for new products that will be developed for the 'work from home' paradigm.

One key component of the telecommunications industry that will be a driver for growth going forward is the monetization of advanced wireless networks through products, services, and business models. This will be a trend prevalent in multiple industries and will be facilitated by 5G capabilities.

Sources: Deloitte, McKinsey, Bloomberg

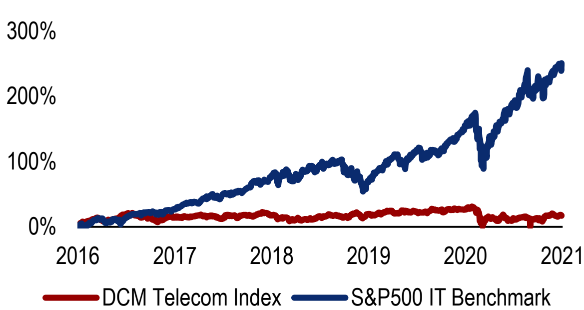
T M T

2021 Outlook

5G and the Internet of Things

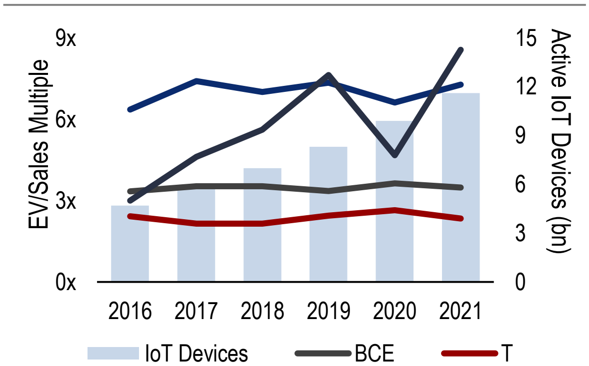
5G, the highly anticipated successor to 4G broadband, is one of the most exciting and revolutionary technologies today. While its predecessor drastically improved connectivity speeds and network capacity, 5G takes it to a whole new level and will enable an array of technology that completely changes industries and generates an estimated USD$700bn in economic value. A Deloitte study on advanced wireless network technologies found that "86% of surveyed networking executives believe that the technology will transform their organization within three years, and 79% say the same about their industry." That being said, as mentioned in last year's report, establishing the infrastructure for 5G is expensive, time-intensive, and highly competitive. Because of these three elements, as well as the astonishing momentum of many tech stocks through the coronavirus pandemic and the slower rollout of 5G than anticipated, many telecommunications companies are overlooked for their more news-worthy counterparts. As shown in Figure 2, major telecom firms have strongly underperformed the broad IT sector over the past five years as growth stocks in IT skyrocketed.

Figure 2: Telecom Leaders vs. IT Sector Performance



While capital continues to flow into major tech firms bringing their sales multiples to levels reminiscent of the dot com bubble (e.g. Snap at 34x), telecom companies are positioning themselves for immense growth. This growth comes in the form of vertical and horizontal integration into a newly developing but critically important area for society: the Internet of Things (IoT). This term refers to an interconnected network of physical objects that are packed with sensors and software that constantly collect and exchange data with other devices. 5G will provide speeds up to 100x faster, a capacity up to 1000x greater, and latency up to 3x lower than 4G, allowing for split-second data analysis across a larger number and variety of IoT devices. One example of this is smart home security. Over the past few years, every major telecom provider has launched smart home security services, with the most recent being Telus through their CAD$700mm acquisition of ADT's Canadian arm. A newer area of integration is cybersecurity, as 5G's higher bandwidth and quicker speeds provide more opportunities for hackers. Telecom firms are responding by incorporating cybersecurity platforms into their offering. As new problems arise with the onset of 5G, telecom companies find new solutions that bring them closer to tech companies than ever, a change that has yet to be reflected in the valuations. Figure Y demonstrates this underpricing by comparing the EV/Sales multiples of two major telecoms (Bell and AT&T), a legacy cybersecurity firm (Checkpoint), and a smart home company (Alarm.com). Further, we see the uptrend in the multiple with growing IoT devices which is not reflected at all in the telecom multiples.

Figure 3: Telecom Leaders vs. IT Sector Performance



Sources: Capital IQ, Bell, Deloitte, Ericsson, Telus, Verizon, Wall Street Journal

The State of Streaming

Competition in the video streaming sub-sector is ramping up significantly as traditional media players (Disney), sports companies (ESPN, WWE), telecom leaders (AT&T, Comcast) and tech giants (Apple, Amazon) alike vie for the consumer attention Netflix has largely monopolized for years. DCM sees 2021 as a crucial year for companies to prove the value of their services to customers as streaming remains incredibly popular amid the COVID-19 pandemic and the assortment of options put pressure on consumer willingness-to-pay.

The State of the Streaming Market

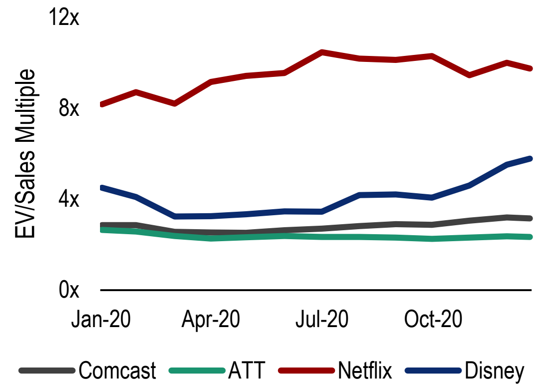
The video streaming market is expected to continue growing at a rapid pace beyond the pandemic. According to Fortune, the industry is set to reach over $840bn in global revenue by 2027, implying a 12% CAGR. The major drivers for this growth are the diffusion of existing technologies in under-penetrated markets (including high-quality smartphones) and the advancement of innovative technologies such as 5G.

This combination will foster expansion in domestic and international markets alike, allowing the most established players, such as Netflix, to continue boasting strong growth figures. In 2020, Netflix maintained subscriber growth in the US and abroad, with shares shooting up as much as 13% following this announcement despite also missing earnings estimates

Disney+ Enters Strong

Since launching in November 2019, Disney+ has asserted itself as a major competitor to Netflix and Prime Video in the streaming industry. The platform currently has the third-largest subscriber base in the industry and second largest for a pure-play service given Prime Video is offered to every Amazon Prime subscriber. Investors have taken notice and rewarded Disney with an elevated valuation compared to prior levels for the media giant, as can be seen in Figure 4.

Figure 4: Streaming Competitors EV/Sales Multiples



Undervalued Players

DCM believes that legacy telecom companies entering the streaming industry represent promising bets. These companies have not yet enjoyed increased valuations for their efforts and many have strong content libraries behind them. We will continue to monitor their ability to gain traction in this hypercompetitive subsector to identify the most attractive opportunities.

Sources: Fortune, Wall Street Journal

TMT

Holdings Review – Electronic Arts (NASDAQ: EA)

Company Overview

- Electronic Arts (EA) is the second largest video game publisher and developer in Europe and the United States behind Activision Blizzard
- The firm owns notable franchises such as Battlefield, Need for Speed, and The Sims, and licenses the rights to create games for the Star Wars, NHL, NFL, and FIFA franchises
- EA expands primarily through inorganic growth, currently owning and operating through studios like EA Tiburon, DICE, BioWare, and Respawn
- The company stands at a market cap of approximately USD$41.2bn as of January 9, 2021 and generated $5.5bn in revenue with an EBIT margin of 28.9% for fiscal 2020

Catalysts

- Accelerated timeline and successful EA Originals game releases would spark organic growth and add new franchises to the portfolio
- Strong acquisition history and large cash balance position well to pursue acquisitions, particularly in the highly fragmented and quickly growing mobile gaming market

Risks

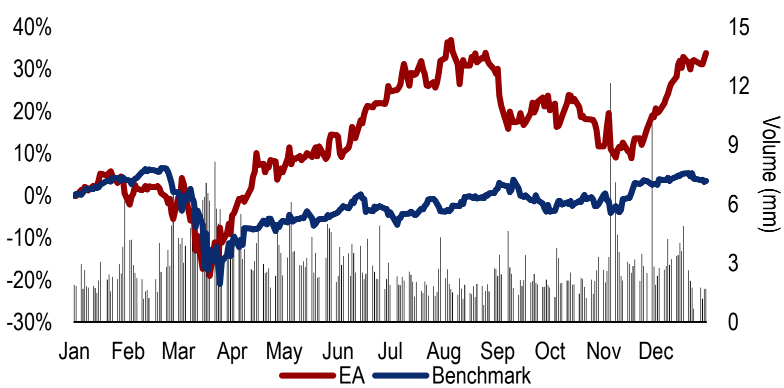
- New gambling legislation, particularly in European countries, could strongly inhibit microtransaction growth
- Production and development difficulties could lower customer engagement and reduce franchise success

Investment Theses

1. **Electronic Arts is the best positioned developer for next-generation consoles**
   - EA strongly outperformed competitors post-2013 console release due to their superior multiplayer products
   - The company's recent partnership with Microsoft's Xbox Game Pass and ease of entry games provide open door for significant partnership synergies
2. **EA's monetization capabilities and new IP from Originals segment are undervalued**
   - Highest margin live services revenue as percentage of total sales has grown at CAGR of 17% over past five years
   - Notable EA Originals upcoming releases such as It Takes Two and Lost in Random have received great reviews and create opportunity for new wave of IP

We decided to HOLD EA until deemed fairly priced following the heavily anticipated next-gen consoles

Stock Price and Sector Benchmark Performance



Source: Company filings, Yahoo! Finance

Position Snapshot

Average Cost (USD)	$118.35
# of Shares	700
Value Invested	$82,845
Portfolio Weight	3.8%
2020 HPR	19.9%
HP Benchmark Return	0.4%
Excess Return	19.5%

T M T

Holdings Review – Facebook (NASDAQ: FB)

Company Overview

- Facebook is the premier social networking company, owning and operating several of the Internet's top social media platforms
- Nearly all company revenue is derived from the sale of advertising products
- The company's platforms/verticals operate worldwide and include Facebook, WhatsApp, Messenger, Instagram and Oculus
- Oculus is a small but growing portion of company revenue through the sale of gaming hardware
- The company stands at a market cap of approximately USD$762.1bn as of January 9, 2021

Catalysts

- Increased advertising expenditures amid a broader economic recovery from the COVID-19 pandemic
- Oculus VR reaches significant scale, incentivizing AAA developers to dedicate further resources to game development on the platform

Risks

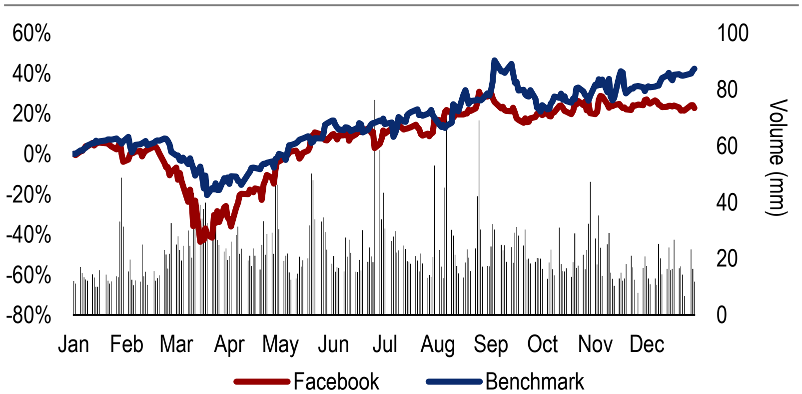
- Renewed interest in antitrust regulation in the US
- Increased public scrutiny and potential boycotts due to the use of Facebook's platforms by extremist groups
- Elevated user engagement subsides as COVID-19 restrictions are lifted globally

Investment Theses

1. **The market is overly punishing Facebook for regulatory risk despite strong fundamentals**
   - Facebook's involvement with the 2016 Cambridge Analytica scandal sullied the brands reputation and created perceived regulatory risk that was overestimated by investors
   - Partisan disagreements among lawmakers regarding the most effective way to regulate big tech means meaningful impacts are likely further off than the market believes
2. **Facebook's value to advertisers protect it from reductions in ad expenditure**
   - Amid COVID-19, Facebook's advertising revenue continued to grow year-over-year each quarter
   - The company withstood an advertising boycott during Q3 to boast 11% YoY revenue growth in the quarter
3. **Facebook is set to benefit from secular mobile trends**
   - Increased mobile penetration globally will boost Facebook users, thereby increasing revenue

We decided to HOLD FB until the degree of advertising recovery can be more clearly assessed in 2021.

Stock Price and Sector Benchmark Performance



Sources: Company Filings, Yahoo! Finance

Position Snapshot

Average Cost (USD)	$196.62
# of Shares	290
Value Invested	$57,019
Portfolio Weight	2.6%
2020 HPR	27.4%
HP Benchmark Return	2.9%
Excess Return	24.4%

Fixed Income Fund

Overview

Fund Performance 85

Market Review & Outlook 89

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Fixed Income Fund

Performance Summary

Lauren Kirigin, *Fixed Income Strategist*
Ekaterina Semenova, *Senior Analyst*
Sisi Wang, *Senior Analyst*
Mirella Deng, *Junior Analyst*
Grace Danner, *Junior Analyst*

2020 Year in Review

Dear Investors,

2020 was a record-breaking year for the fixed income asset class with the Canadian and US 10-Year yields dropping to historical lows of 43bps and 51bps respectively following unprecedented Central Bank monetary stimulus, which saw the Fed cut rates to near-zero levels and expand their balance sheet by $3tr.

On the corporate side, spreads widened to levels not seen since 2016. Spreads on the S&P US IG Corporate Bond Index widened 170bps in April before nearly fully recovering by year-end. Spreads on the S&P US HY Corporate Bond Index expanded by as much as 450bps in May but then narrowed significantly to end the year only 80bps wider. The spread differential between IG and HY remains nearly 100bps wider than pre-pandemic levels.

Spread dynamics coupled with the decrease in yields have been favourable for the asset class as a whole. The Fixed Income Fund returned an impressive 4.0% in 2020, although slightly below the 4.8% benchmark return. In general, our performance can be attributed to multiple factors: duration, credit selection, currency exposure, sector exposure, and performance of individual corporate bonds. Our slight underperformance in 2020 was due to a lower effective duration just prior to the pandemic and thus we did not benefit as much as the benchmark did when yields collapsed. This effect was counteracted by the strong performance of our corporate holdings, which we elaborate on in the next section. Looking forward, we aim to close our duration gap with the benchmark and focus alpha generation on corporate bond selection based on rigorous fundamental analysis.

Figure 1: Performance Metrics Since Inception

Performance Since Inception		As of Dec 31, 2020
	Fixed Income Fund	Benchmark
Annualized Return	4.2%	2.6%
Annualized Standard Deviation	4.9%	5.6%
Annualized Sharpe Ratio	0.67	0.31
Beta	0.55	
Annualized Gross Alpha	2.3%	
Tracking Error	0.6%	

Performance metrics are calculated gross of fees.

Figure 2: Performance Metrics In 2020

Performance Metrics 2020		As of Dec 31, 2020
	Fixed Income Fund	Benchmark
Annualized Return	4.0%	4.8%
Annualized Standard Deviation	5.7%	7.4%
Annualized Sharpe Ratio	0.54	0.53
Beta	0.63	
Annualized Gross Alpha	0.6%	
Tracking Error	0.6%	

Performance metrics are calculated gross of fees.

Sources: Bloomberg

Figure 3: Fixed Income Fund Performance Since Inception

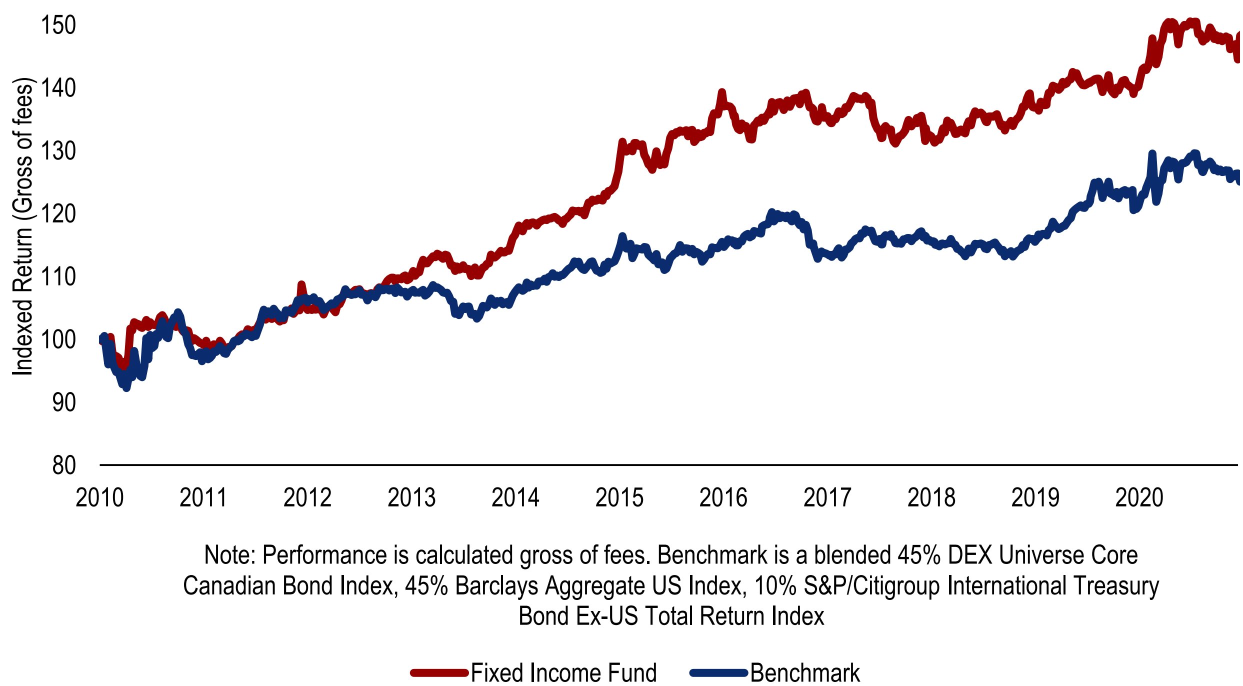
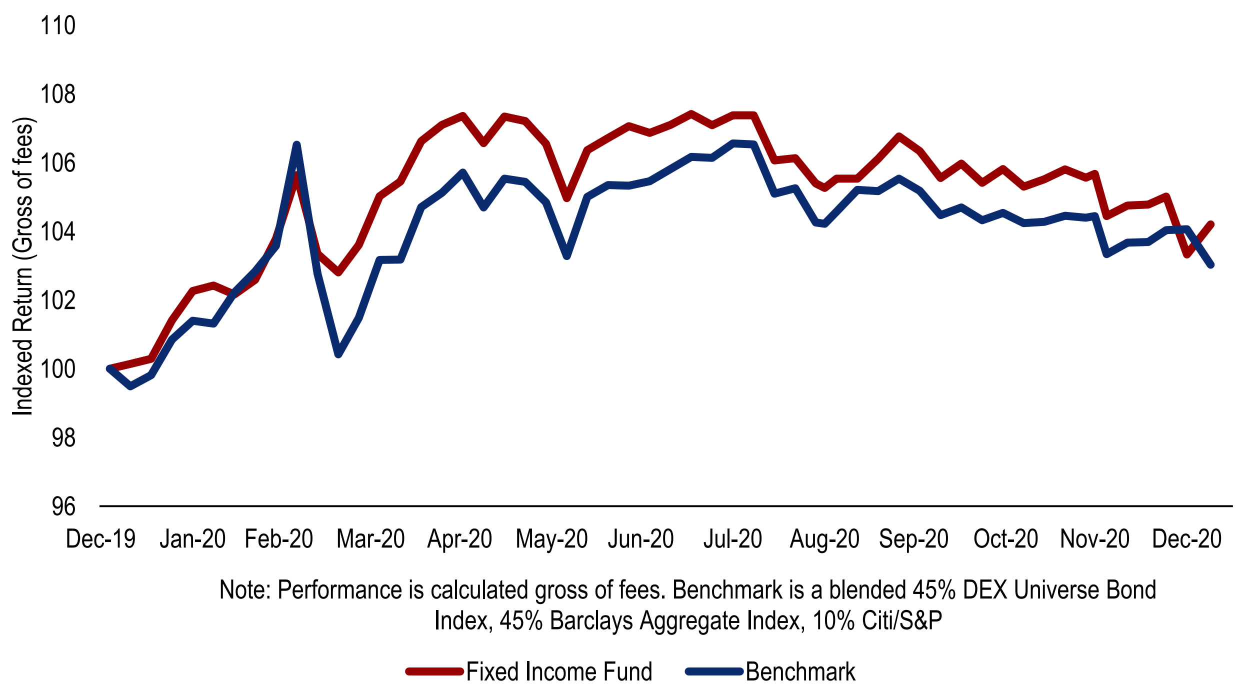


Figure 4: Fixed Income Fund Performance 2020



Sources: Bloomberg

Figure 5: Fixed Income Fund Credit Rating Exposure

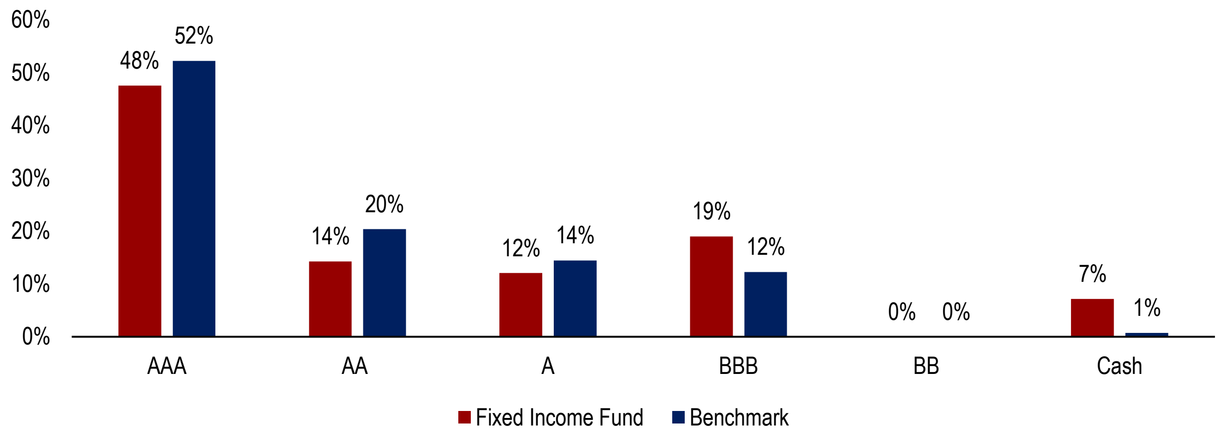
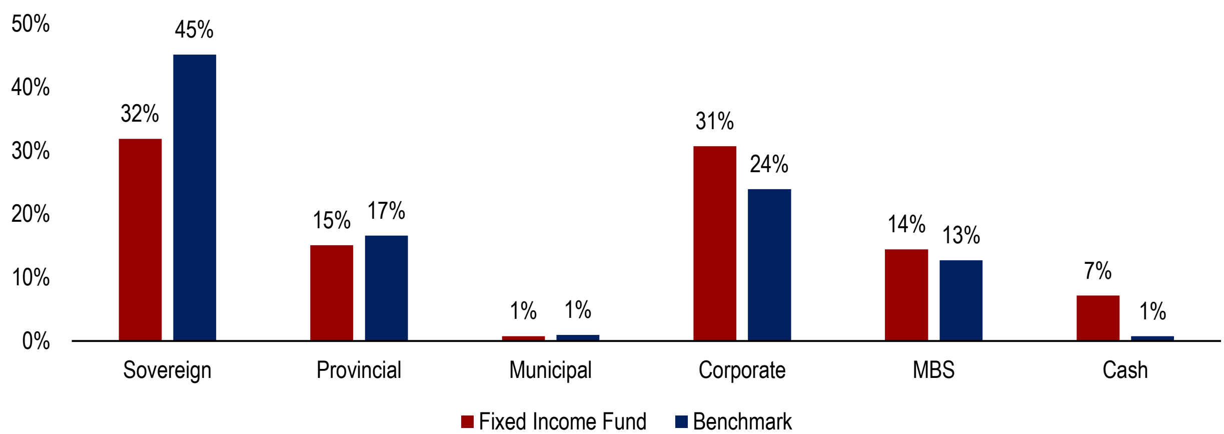
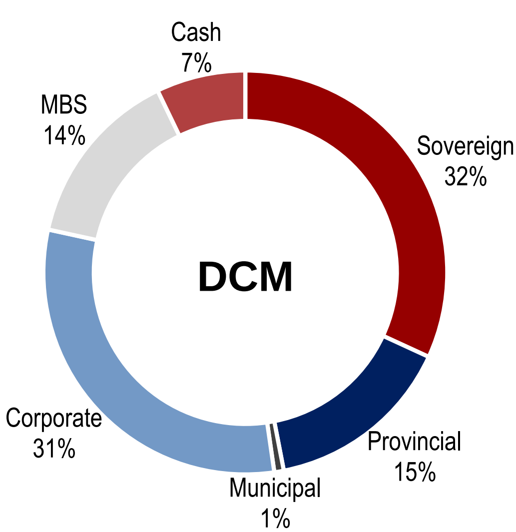
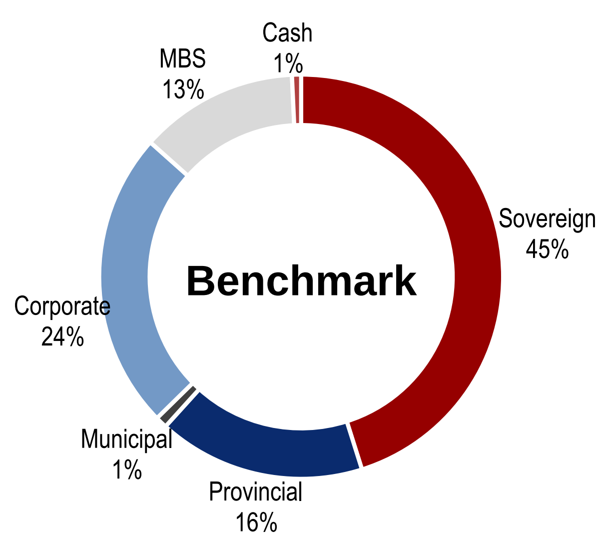


Figure 6: Fixed Income Fund Sector Exposure







Sources: Bloomberg

Figure 7: Fund Duration Positioning

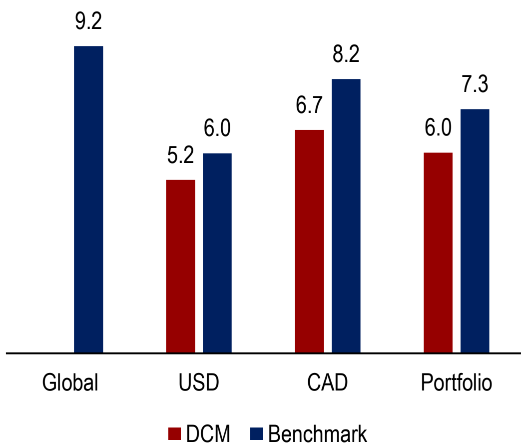


Figure 8: Fund Currency Allocation

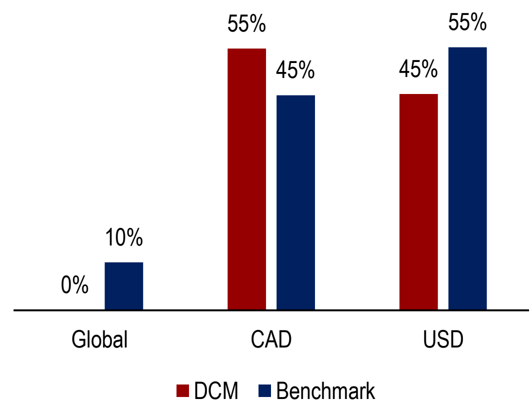


Figure 9: Fixed Income Fund Holdings

Fixed Income Fund Holdings (as at December 31, 2020)											
#	Security Name			Currency	Duration	Rating	Units	Local Price	Local Value	Base Value	%
Corporate Bonds											
1	Cogeco Cable Inc	4.925%	2022	CAD	1.04	BBB-	22,000	104.45	22,979	22,979	2%
2	Dollarama Inc	2.337%	2021	CAD	0.50	BBB	23,000	101.00	23,230	23,230	2%
3	Greater Toronto Airports Auth	7.050%	2030	CAD	7.43	A+	60,000	143.80	86,282	86,282	6%
4	Smartcentres Reit	3.834%	2027	CAD	5.98	BBB+	20,000	111.86	22,372	22,372	2%
Provincial Bond											
5	Prov Of Alberta	2.550%	2022	CAD	1.87	A+	40,000	104.35	41,738	41,738	3%
ETFs											
6	Ishares Core Cdn Long Term			CAD	15.83		750	27.46	20,595	20,595	1%
7	Ishares Canadian Universe Bond			CAD	8.19		15,300	33.55	513,315	513,315	35%
8	Ishares Core U.S. Aggregate			USD	5.98		3,520	118.19	416,029	530,021	36%
9	Ishares Mbs Etf			USD	2.52		470	110.13	51,761	65,944	4%
10	Ishares Short Treasury Bond			USD	2.70		200	110.53	22,106	28,163	2%
11	Schwab Short-Term Us Treas			USD	1.90		510	51.39	26,209	33,390	2%
Cash											
12	USD			USD					13,593	13,593	1%
13	CAD			CAD					104,035	81,660	6%
							Total			1,483,281	100%

Sources: Bloomberg

Fixed Income Fund

2020 Review and 2021 Outlook

Credit Quality

Debt capital markets have seen record high issuances, raising $5.4tn in 2020, up from $4.4tn in 2019 (Figure 1). Corporations took advantage of record-low yields, adding a liquidity cushion to their balance sheets to address the pandemic's uncertainty. Despite the record issuances, the market was receptive and was able to absorb it quickly, keeping downward pressure on yields. However, we believe the abundance of cash on balance sheets, in conjunction with the pressure surrounding the harder hit industries to survive, will potentially fuel an increase in M&A activity in 2021. As a result, if companies become more acquisitive, this could weaken the balance sheet where the additional risk is not reflected in the current spread levels. Additionally, this increased leverage has resulted in a projected default rate of 9% at the end of 2021 in the high yield universe. We expect however, most defaults to occur in those sectors hardest hit by COVID-19 restrictions, such as hotels and retail. We anticipate that a recovery will not be seen in these sectors' credit metrics until well into 2022.

Figure 1: Global New Bond Issuance

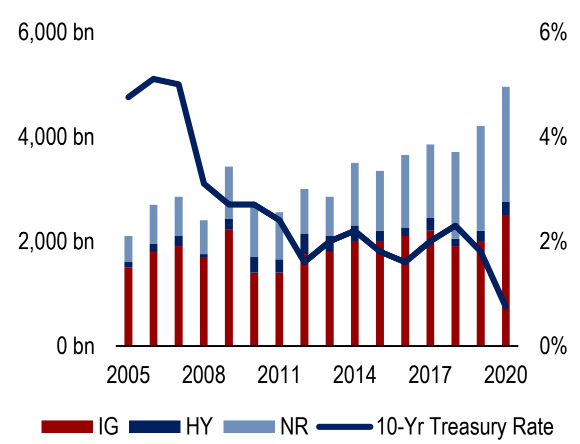


Figure 2: S&P Canada Corporate - OAS

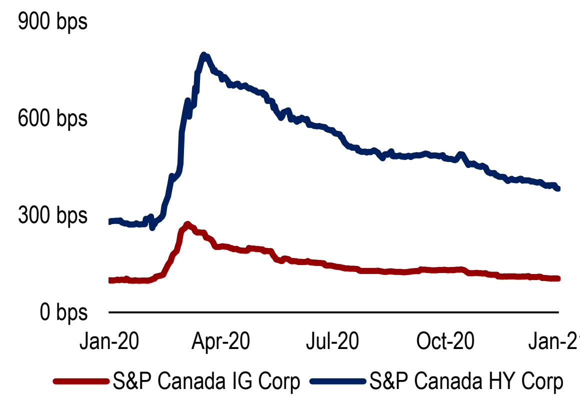


Figure 3: S&P US Corporate - OAS

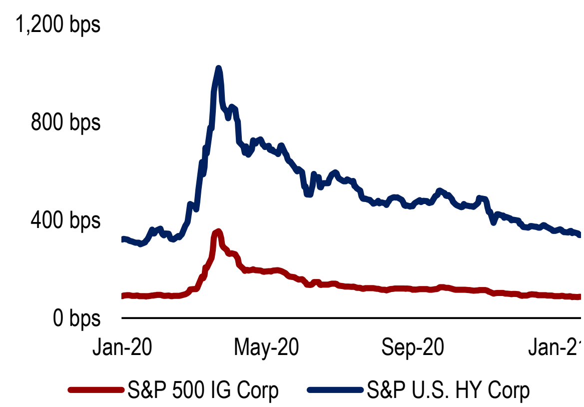
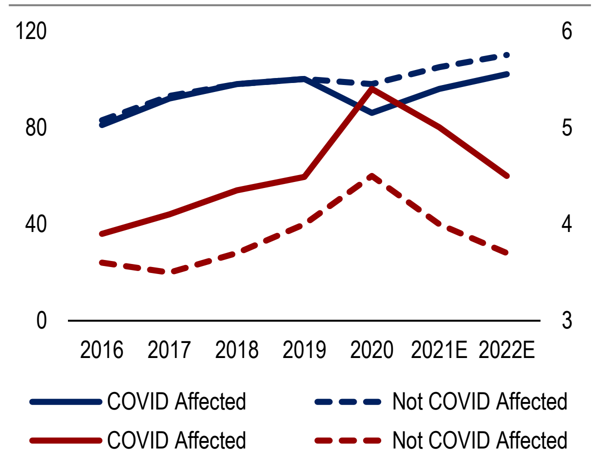


Figure 4: Widening Gaps for COVID-Affected Industries



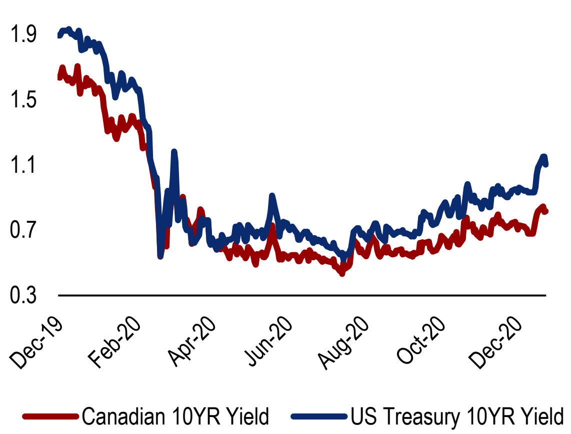
Sources: Bloomberg, Equity Research, Financial Times, Stifma, S&P

Currency Outlook

The USD saw a steady decline in 2020. This was mainly due to massive money printing, long-term inflation fears, economic recovery and loose monetary policy. However, we believe there is potential for a short-term rebound. Treasury Yields have been rising on increased inflation expectations. If this trend continues in the short-term, it can be bullish for the USD. Lastly, despite the disruption caused by COVID19, the stock market is at all time highs. Low interest rates and excess market liquidity have inflated valuations. This suggests that there is potential for a market correction, which can have a positive impact on the USD, given its reserve currency status and safe-haven perception.

However, in the long-term, we believe the USD will underperform. More government spending will push up inflation. However, the Fed is not planning on raising rates and will allow for an overshoot of its inflation target. An increase in inflation not accompanied by an increase in rates is bearish for the USD. Lastly, confidence continues to return to the world economy with the rollout of COVID19 vaccines, which will push the USD lower.

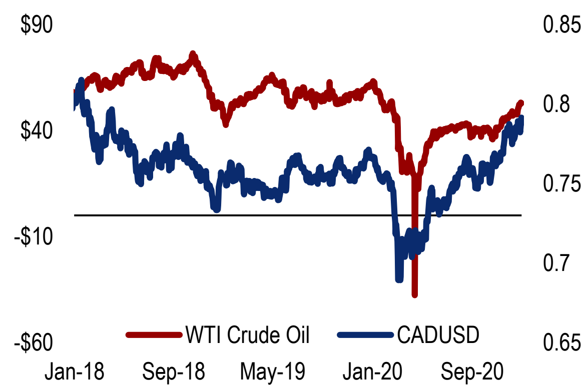
Figure 5: Canada and US 10 Year Yields



Sources: Bloomberg

As for CAD, we believe it will outperform in the long-term. Indeed, as the world slowly returns to normal after COVID, there will be an increase in demand for oil, pushing up prices, which is bullish for the Loonie. As a result, although we believe there is a potential for a slight recovery of the USD in the short-term, we expect CAD to outperform in the long run.

Figure 6: CAD and WTI

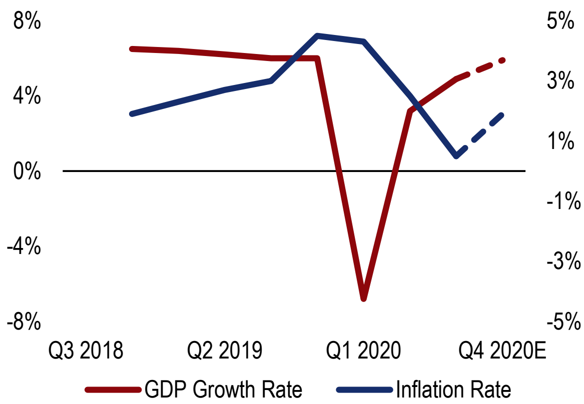


Duration Neutral

Our views on the economic recovery are more bearish than that of the market. We believe that North America will not be able to replicate the success China had in containing the virus. Furthermore, even if China has seen a rebound in GDP in the past quarter thanks to their manufacturing production, global demand has not yet recovered, which could be problematic for the US economy given its partial dependence on global demand.

Normally, with a bearish outlook one would tend to be long duration relative to the benchmark. However, with the Fed's loose monetary policy and tolerance for short-term inflation overshoots the risk is that long-term inflation expectations, and yields could rise, despite a sluggish economy. This would also be accompanied by further yield curve steepening. Thus, on the whole we do not currently have a strong duration outlook and will aim to close the duration gap to the benchmark. Our focus for time time-being will be seeking out corporate names where spreads are wider than justified by our views on fundamentals.

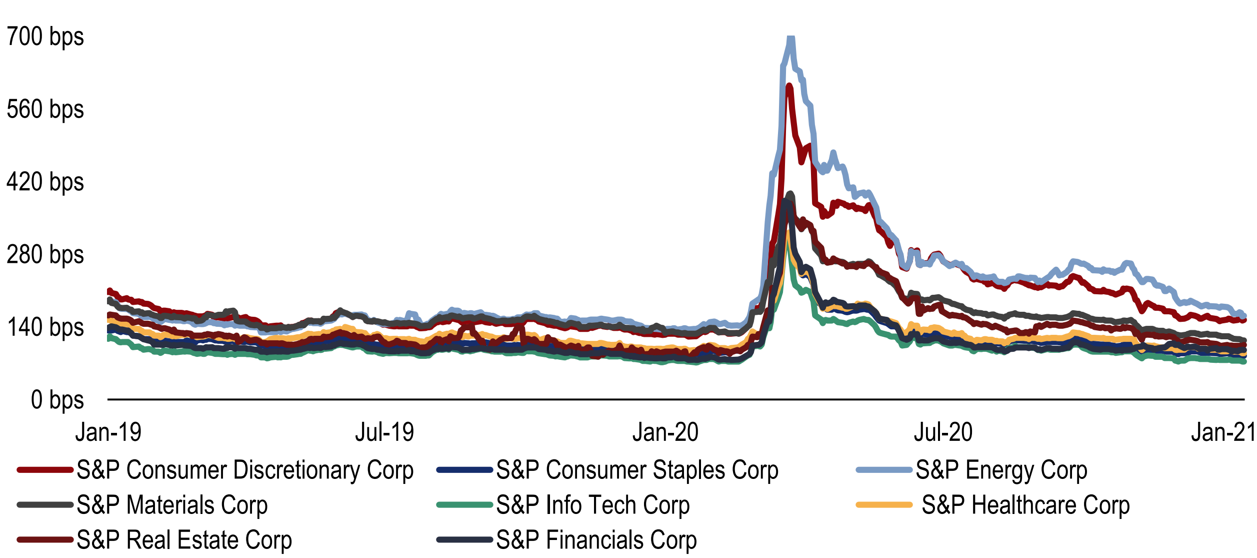
Figure 7: China's Quick Rebound



Sector Fundamentals

March 2020 brought extreme levels of volatility to the financial markets – the corporate bond sell-off was one of the most rapid sell-offs exhibited in recent history. However, thanks to successful Fed and BoC intervention, we have seen a corporate credit rally and spreads have recovered. Notably, the non-cyclical sectors (Consumer Staples, Information Technology, Healthcare and Materials) have completely recovered to pre-pandemic levels; COVID accelerated trends in these industries, which contributed to the stability they offer. However, as we enter into a broad economic recovery phase, the fund has shifted its focus to identifying relative value opportunities in more cyclical sectors (who still have room for spread compression). For example, energy was hit hard from the oil price war and pandemic impacts, while low interest rates dampened banks and financial institution performance. We plan to seek out potentially oversold positions in these sectors, provided spreads are wide enough given our expectations of future company fundamentals.

Figure 8: US Industry Sectors – Corporate Bond OAS



Sources: Bloomberg, S&P Global

Fixed Income Fund

Holdings Performance and Outlook

COVID-19 in Focus

In this section we review our current holdings, with a focus on the impact of COVID-19.

GTAA operates Toronto Lester B. Pearson international Airport via a 60-year ground lease from Her Majesty the Queen. The rationale behind our investment in GTAA was to capitalize on favourable industry trends, namely local population growth and a rise in international middle class, as well as the strong economic moat formed by multiple geographic exposure and route demand elasticity. Recently, the evolving impact of COVID-19 has forced airlines to respond to changing circumstances. While the population in the GTA area has been on the rise, as of September 1st, 16,127 cases of COVID-19 in Toronto have been reported to the Toronto Public Health, with 1,175 reported deaths and 177 cumulative institutional outbreaks. While the industry trend still holds, it is the global health crisis that has decreased demand for air travel, thus decreasing revenues and operations. On July 27th, 2020, GTAA successfully completed an amendment to the Corporation's Master Trust Indenture ("MTI"). The MTI amendment temporarily waives GTAA from complying with its rate covenant prescribed under the MTI, which is comprised of two covenant tests, for fiscal years 2020 and 2021. The waiver was sought in light of the significant decline in passenger and flight activity at Toronto Pearson. In the event of default, the MTI requires GTAA to maintain a series of separate accounts and funds that will be used to make required payments. GTAA completed an amendment to the MTI but for bondholders, GTAA has an internal financial risk tolerance policy that includes a statement that GTAA will always maintain available liquidity of at least $200mm. Therefore, we believe that the amendment will allow GTAA more leeway in ensuring that the outbreak will not have a long-term impact on the financial sustainability of the airport. As we enter into a broad economic recovery phase, we believe that air travel and revenues will recover.

SmartCentres Real Estate Investment Trust is a Canadian real estate provider that manages approximately $9.5 billion of investment properties spanning across 34.1 million square feet. The Trust has seen spread compression of 51.76 bps since DCM's position was initiated. Their success is largely dependent on maintaining high occupancy rates. With its core business in Walmart-anchored open-format centers, and recent diversification into retirement centers and individual developments, SmartCentres has remained resilient throughout the crisis. Walmart's strong tenant position, anchoring 75% of properties, has proved to be a key element of their success throughout the pandemic as Walmart sales have increased significantly through the crisis, which in turn drove more traffic to SmartCentres' shopping centres. As a result, The Trust was able to maintain its industry-leading occupancy levels throughout the pandemic. Rent collection was immediately impacted by the pandemic, reaching lows of 75.7% in April, however, has since recovered, alongside the economy, hitting collections of 89.5% in September. We expect SmartCentres to remain resilient for the remainder of the pandemic and do not expect them to be materially impacted through 2021.

We also currently hold **Dollarama** 2.337% 2021. Dollarama is the Canadian market leader in the value retail industry, selling through 1,291 stores as well as online. It offers a broad assortment of consumable products, general merchandise, and seasonal items at fixed price points between $0.82 and $4.00. Through COVID impacted quarters, Dollarama was able to effectively navigate throughout the downturns. We are confident that Dollarama's low pricing will act as a key growth catalyst to continue to generate sales.

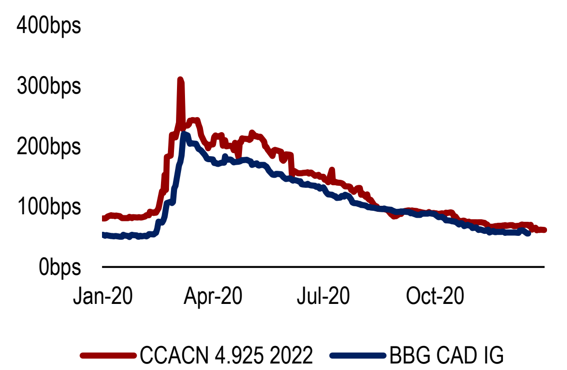
Sources:

Cogeco Communications is a Quebec-headquartered cable company operating in Ontario/Quebec and the Eastern United States. As a result of the nature of their business, Cogeco performed well during the crisis, largely driven by growth in their American broadband services segment. During the year, Cogeco added to their American segment acquiring Thames Valley Communications, a Connecticut broadband service. In addition, the company added to their Cogeco Connexion division with the acquisition of iTéract Inc, a fixed wireless and fibre-to-the-home operator and DERYtelecom, the third largest cable operator in Quebec. Making headlines during the end of 2020, Cogeco received hostile takeover bids from Rogers and Altice USA, which the Audet family did not accept. We expect Cogeco's Atlantic broadband performance to continue to remain strong and Cogeco Communications as a whole, to continue its strong performance through the remainder of the pandemic.

Additionally, our holding in Russel Metals Inc. 6% 2022, one of the largest distributors of metals in North America, was redeemed on November 5th 2020 in order to reduce interest expense for the company.

Lastly, we added **Brookfield Renewable Energy Partners** to the portfolio in January 2021. BAMREP is headquartered in Toronto and one of the world's largest publicly-traded renewable companies. BAMREP owns and operates a diversified portfolio of high-quality assets across the Americas, Europe and Asia, and has majority ownership (57%) by Brookfield Asset Management. There are two main reasons we believe that BAMREP is an attractive investment. Firstly, the nature of their generation assets, long-term contracts and diverse and creditworthy client base will drive top-line metrics and ultimately generate high-quality stable cash flows. Secondly, we believe that their aggressive inorganic growth dynamics will not adversely effect creditors. BAMREP benefits from their acquisition activity as it allows the company to improve its geographic diversification. Their decision to enter low risk countries while simultaneously keeping debt metrics stable, often using non-recourse debt, reduces the risk of their aggressive strategy. We are optimistic on the renewable energy space, especially after proving its resilience through the pandemic, hitting renewable auction volume highs in 2020, and we believe BAMREP is the right company with which to enter this space.

Figure 9: Cogeco 4.925% 2020 Credit Spread



Sources:

Program Alumni

Program Alumni

Benjamin Caron, 2020

Miller Cressman, 2020

Jared Gaffe, 2020

Andrew Guerrand, 2020

Cody Jones, 2020

Rakan Lamy, 2020

Alessio Marcogliese, 2020

Timothy Sung, 2020

Arasan Thangavelu, 2020

Stanislav Timoshenko, 2020

Riley Wolever, 2020

Roy Chen Zhang, 2020

Selena Zhu, 2020

Thomas Boucher-Charest, 2019

Kyle Costanzo, 2019

Josiah Derksen, 2019

Victoire Gekas, 2019

Émilie Granger, 2019

Ian Jiang, 2019

George Koutsos, 2019

Alexandra Ma, 2019

Daniel Milne, 2019

Victoria Perlman, 2019

Noah Thomas Petkau, 2019

Matei Popescu, 2019

Tejas Saggi, 2019

Ludovic Van Den Bergen, 2019

Eric Van Hees, 2019

Alexander Bibic, 2018

Robert Chen, 2018

Mackenzie Chisholm, 2018

Charles Feng, 2018

Antoine Francoeur, 2018

Sabrina Frias, 2018

Noah Gillard, 2018

Alaa Hachem, 2018

Ariane Laurin, 2018

David Meyers, 2018

Thomas Milne, 2018

Noah Petkau, 2018

Jaskrit Singh, 2018

Olivier Babin, 2017

Quentin Batista, 2017

Neil Corber, 2017

Andre Cote-Barch, 2017

Sercan Demirtas, 2017

Michael Fishman, 2017

Kendyl Flinn, 2017

Program Alumni

Jonathan Kamel, 2017

Lambert Lefebvre, 2017

David Marcovitch, 2017

Adam Marcovitz, 2017

Meagan Prins, 2017

Tony Ren, 2017

Michael Saskin, 2017

Anish Shah, 2017

Jayden Van, 2017

Jamie Wilson, 2017

Drew Allen, 2016

Naomie Gendron, 2016

Peter Huo, 2016

Christophe Lussier, 2016

Jordan Owen, 2016

Philippe Rich, 2016

Alexandre Verroneau, 2016

Henri St-Pierre, 2016

Sean Saggi, 2016

Christie Wei, 2016

Angel Bohorquez Colombo, 2015

Colton Dick, 2015

Edouard Gaudry, 2015

Joe Kaprielian, 2015

Xavier Le Sieur, 2015

Andrew Marcovitch, 2015

Alyssa Obert, 2015

Debra Kelsall, 2015

Jeremy Kertzer, 2015

Daniel Kraminer, 2015

Daniel Sorek, 2015

Alexandra Witteveen, 2015

Belal Yassine, 2015

Alan Ang, 2014

Simon Bibeau, 2014

Nicholas Bigelow, 2014

Rene Boissonnault, 2014

Alexandre Castonguay, 2014

Mohammad Chowdhury, 2014

Nicholas Di Giorgio, 2014

Mak Doric, 2014

Samantha Fu, 2014

Rami Karabibar, 2014

Tyler Maxey, 2014

Stefano Reghelin, 2014

Anna Wright, 2014

Shuang Yun, 2014

Ali Abdullah, 2013

Program Alumni

Mohammad Awada, 2013

Rafael Barroso, 2013

Simon Bouchard, 2013

Michael Commisso, 2013

Ivan Di, 2013

Fedric Garnier-Landurie, 2013

Emily Ren, 2013

Noah Senecal, 2013

Jimmy Xie, 2013

Max Adelson, 2012

Marc-Antoine Allen, 2012

Matthew Corbett, 2012

Nicolas Bellemare, 2012

Adam Dufy, 2012

Roberta Klein, 2012

Jakub Kucmierz, 2012

Phillip Levy, 2012

Molly Newborn, 2012

Shimone Slomowitz, 2012

Amirali Assef, 2011

Matthieu Boulianne, 2011

Tigran Karapetian, 2011

Mark Li, 2011

Michal Marszal, 2011

Gregory Randolph, 2011

Jamie Tucker, 2011

Erdel Altintas, 2010

Gabriel Bonnel, 2010

Neil Cuggy, 2010

Emir Coskun, 2010

Fatoumata Dianae, 2010

Bronwyn James, 2010

Hadi Kamzi, 2010

Jason Kirsh, 2010

Kyle Marta, 2010

Sarah Mahafy, 2010

Philippe Morissette, 2010

Daniel Peretz, 2010

Brian Rosen, 2010

Thibaud Sonntag, 2010

John Tarraf, 2010

Raja Uppuluri, 2010

Jehangir Vevaina, 2010

Shu Wai Chi, 2010

Lincoln Zheng, 2010

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Program Partners

CIBC MELLON

BLG Borden Ladner Gervais

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Gestion de capitaux

McGill