Investor Newsletter, July 2023

Key Points:

● Our internal model for trend S&P 500 earnings suggests the S&P 500 is currently overvalued and over-earning relative to trend.

● S&P 500 earnings are likely to come in lower than expected over the coming two years as a result of the lagged impact of contractionary monetary policy.

● Despite low unemployment, initial jobless claims suggest incoming weakness in the labour market.

● We intend on endorsing a defensive position and minimizing our exposure to mega-cap technology.

● The Alpha Squared Fund has returned 9.5% YTD vs. 9.3% for its benchmark, while the SRI Fund has returned 2.6% YTD vs. 14.2% for its benchmark.

Dear Investors,

We would like to first start with an introduction of ourselves as the new Strategists for the MMF class of 2024.

SRI Fund Strategist: My name is Daniel Buhler and I was born and raised in Montreal. Prior to beginning the MMF program, I completed a Bachelor's degree in Honours Biochemistry at McGill. I developed a passion for investing at the age of sixteen and since then have been very interested in analyzing companies with innovative new ideas, particularly in healthcare. In my free time, I enjoy playing golf and pickleball with friends.

Alpha Squared Fund Strategist: My name is James Thayer and I am from Massachusetts. I completed my undergraduate studies at Skidmore College in Saratoga Springs, New York and worked for three years in wealth management at Goldman Sachs. Like Daniel I am boldly passionate about investing and putting together macro research, some of which I share with you in this note.

We are excited to be serving as the new Strategists and are grateful for this incredible opportunity.

Equity markets have staged a remarkable comeback so far this year. Indeed, the economic landscape has improved considerably, with headline inflation under control, labour markets proving to be resilient, and recent earnings coming in better than feared. In response, the market conversation has taken a more bullish tone, moving away from the “higher for longer” and “hard-landing” narratives that dominated last year. Most investors are now looking ahead to a recovery next year, and investor sentiment is the most bullish it has been since November of 2021. Accordingly, equity markets have risen dramatically year-to-date, and the market is currently pricing-in above trend growth for 2024 & 2025.

However, historical analogues and current market pricing suggest a degree of caution is warranted. In particular, we believe that market participants are not adequately considering the lag with which monetary policy affects markets and the economy. While the labor market and earnings have proven resilient, this is to be expected based on the current configuration of the yield curve. Counter-intuitively, yield curve inversions tend to coincide with business cycle peaks. With regards to the labor market, there is a strong correlation between the slope of the yield curve and the unemployment rate with troughs in the slope of the yield curve aligning with troughs in unemployment and vice versa (Figure 1). Thus, it should not come as a surprise that the unemployment rate is presently low, and we should only expect to see the unemployment rate rise materially once the Federal Reserve starts cutting rates and the yield curve begins steepening. In short, despite pundit commentary suggesting otherwise, recent strength in the economy and labor market are in-line with what is commonly observed at this point in the business cycle during yield curve inversions.

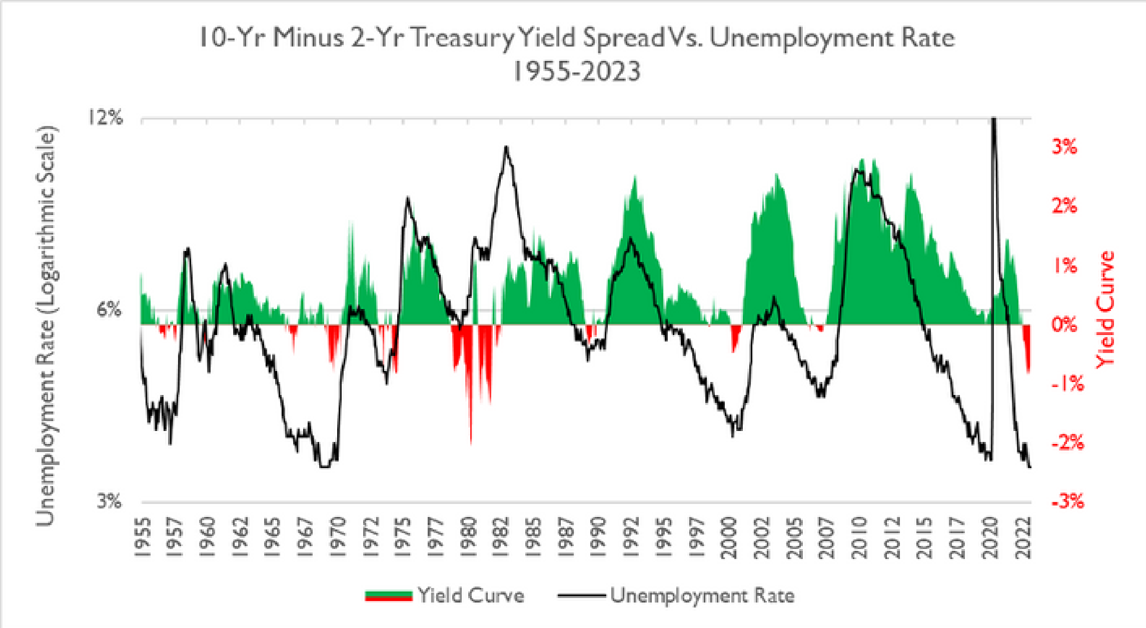


Figure 1

Initial jobless claims are starting to rise, and suggest that we should expect the unemployment rate to slowly start rising this year. It is important to note that initial claims figures have tended to lead the observed unemployment rate by about six months historically. Based on recent initial claims data, we should expect unemployment to rise to between 4% and 4.5% by year's end in the United States. Moreover, recent initial claims data have been in-line with average figures during episodes of yield curve inversion (Figure 2).

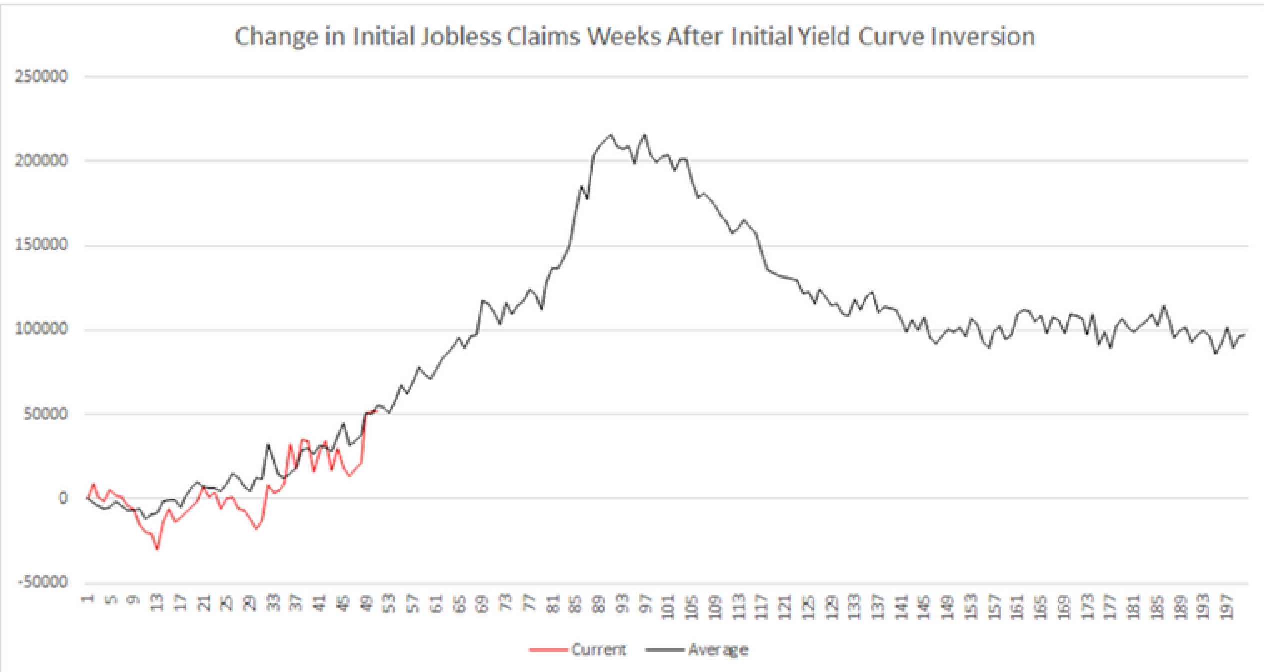


Figure 2

Similarly, earnings have taken three years to trough after the initial point of yield curve inversion on average (Figure 5). Thus, considering the yield curve is presently deeply inverted, and this month marks the one-year anniversary of yield curve inversion, we expect that the adverse influence of contractionary monetary policy on earnings has not fully materialized yet. Moreover, we find that forward-looking earnings expectations are overly optimistic considering the S&P 500 is already over-earning relative to trend. To be specific, earnings peaked at roughly 70% above trend for this cycle in 2022 (Figure 3). It is important to note that earnings drawdowns have been much more severe following periods of "over-earning" historically (Figure 4). If we were to look at the historic performance of earnings following past yield curve inversions, our departure from the long-term trend suggests S&P 500 earnings could fall as much as 70% from their 2022 highs, troughing sometime in 2025 around $75 per share (Figures 4 & 5). For reference, analysts are currently forecasting $252 in earnings per share for 2025 (Figure 5).

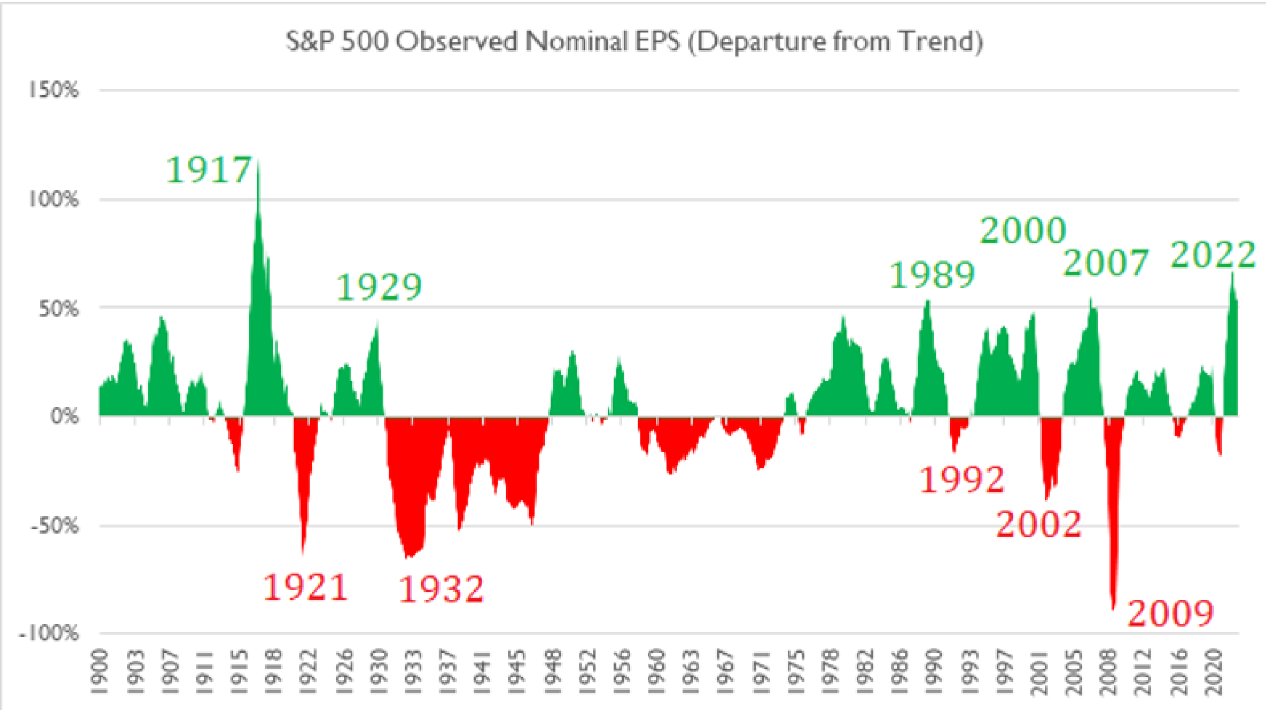


Figure 3

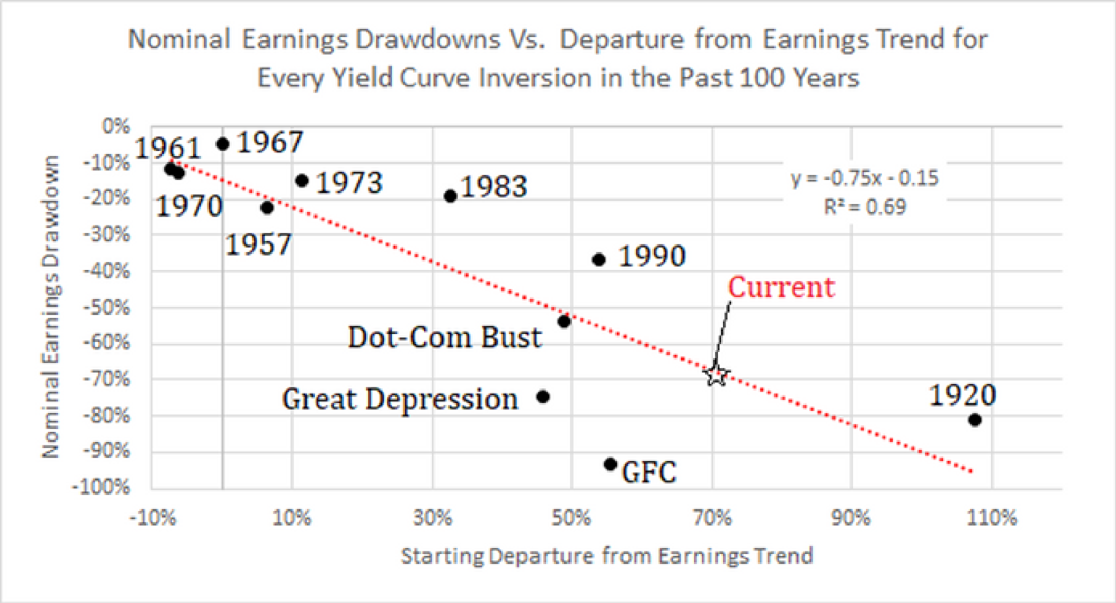


Figure 4

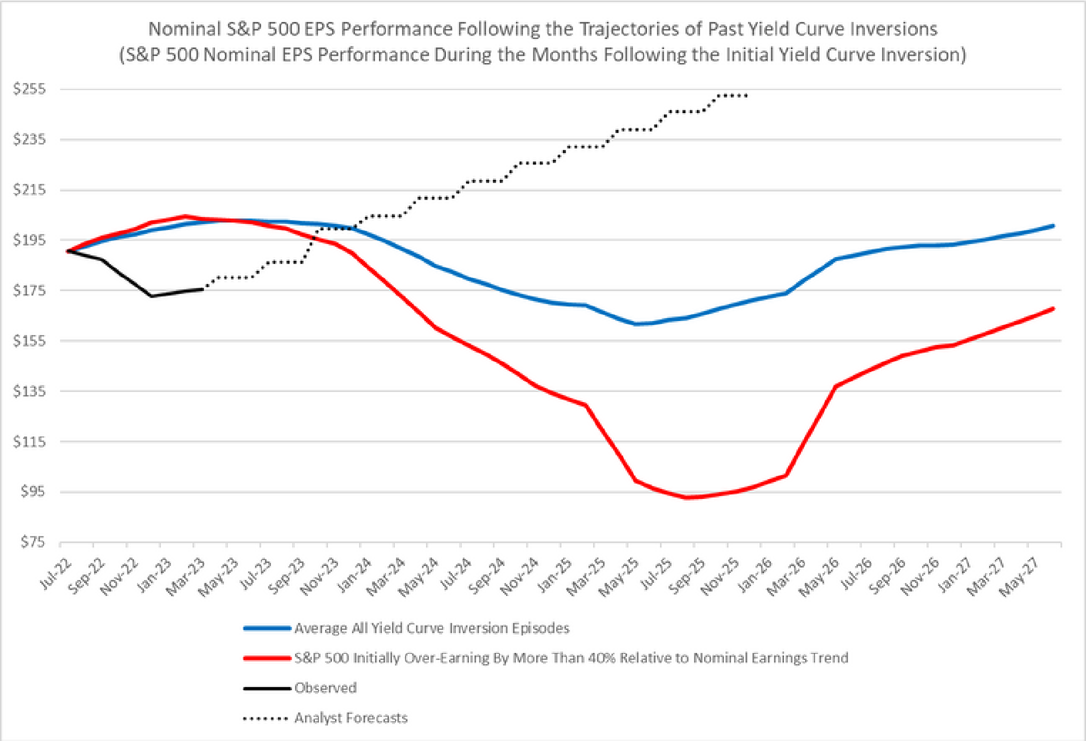


Figure 5

We also believe that it is important to take into consideration the fact that equities are currently trading at lofty valuations relative to history and relative to other asset classes. Increases in the risk-free rate have materially eroded the equity risk premium in recent experience. As measured by the commonly cited "Fed Model," equities are trading at a moderate discount relative to fixed income products. Granted, this discount is the lowest it has been since the period immediately preceeding the Global Financial Crisis. As mentioned however, forward-looking expectations for earnings appear overly optimistic, and thus the attractiveness of stocks relative to bonds may be overstated in the Fed Model.

Equities are also trading at markedly high valuations relative to historical averages. The S&P 500 has recently been trading at a CAPE Ratio in the low 30's, or almost twice its long-term average of 17. If we were to take a look at 2-year forward returns for periods when the S&P 500 was trading at a valuation this high during yield curve inversions, they were always negative, with the average return being around -33% (Figure 6).

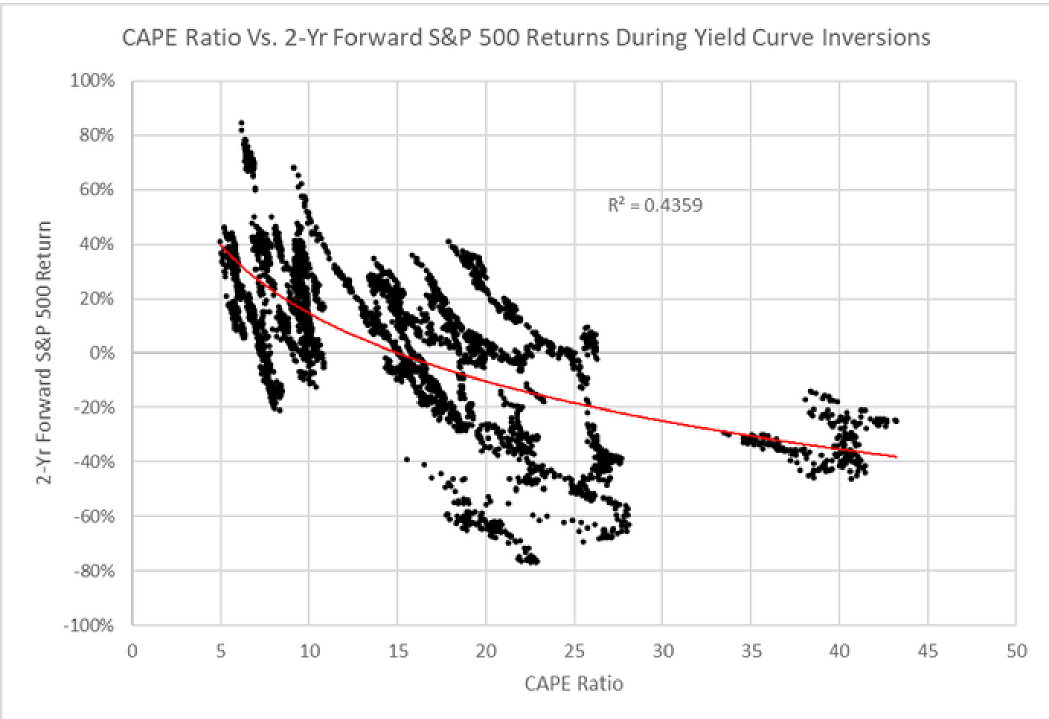


Figure 6

Our team uses two different methods when gauging cyclically-adjusted earnings values for the S&P 500. We use the aforementioned CAPE ratio formula as designed by Robert Schiller, but we also use our own proprietary metric. As opposed to Robert Schiller's model, which focuses on inflation-adjusted earnings over 10-year periods, our model focusses on nominal earnings per share vs. their 123-year cyclically-adjusted line of best of fit. The S&P 500 CAPE ratio (Figure 7) and our proprietary CAPE 2 (Figure 8) ratio are given below. At present, both valuation models suggest a cyclically-adjusted multiple in the low-to-mid 30's for the S&P 500.

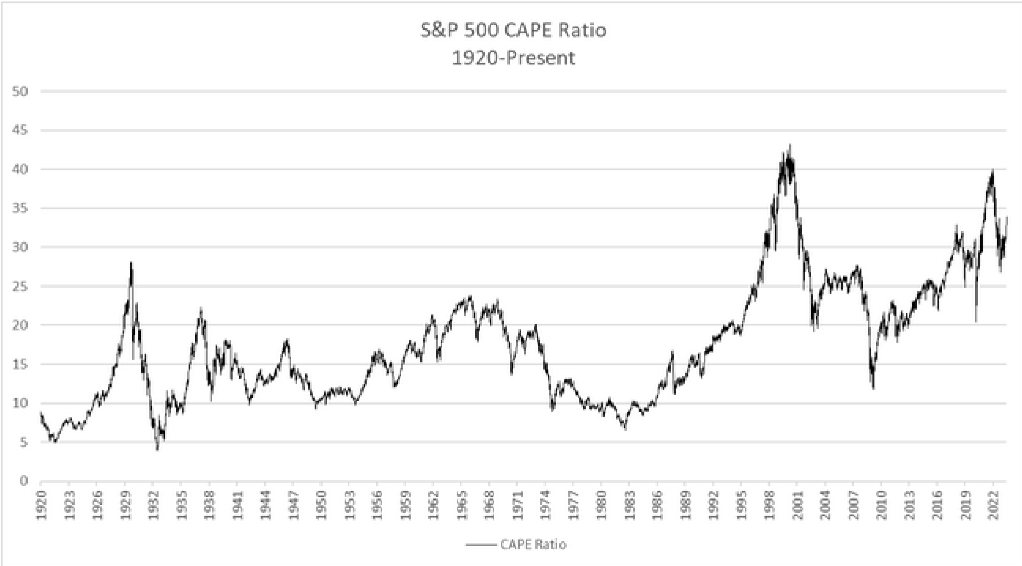


Figure 7

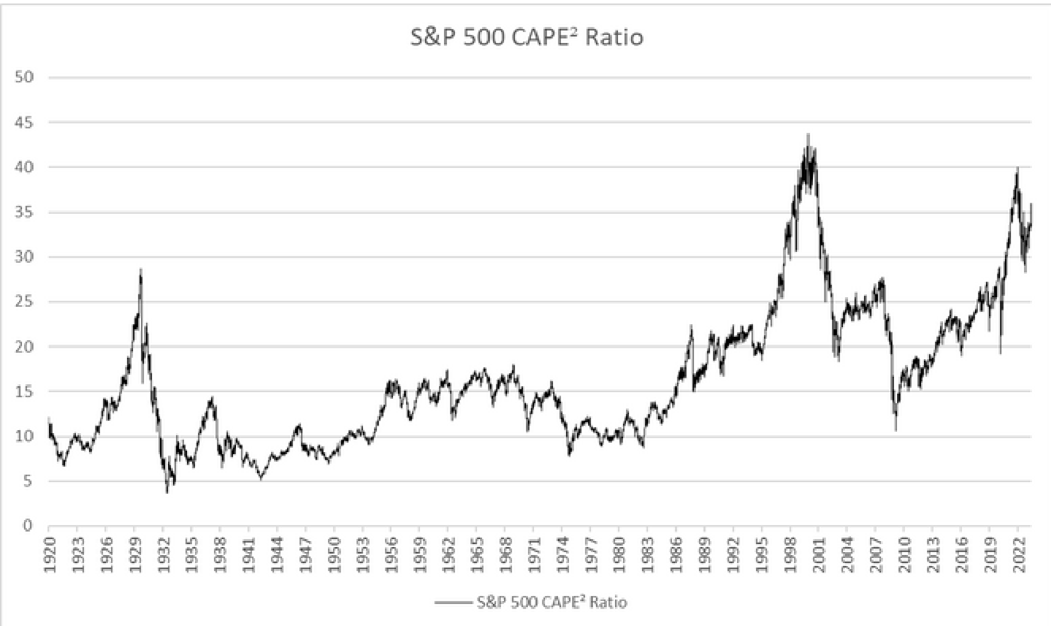


Figure 8

This statistic alone, paired with the recent unfavorable change in the risk-free rate and likely downside in forward earnings, suggest a degree of caution should be warranted among investors.

We also recognize that the major indexes currently possess an abnormally high concentration risk to a handful of mega-cap growth names. Moreover, these mega-cap growth names are trading at concerningly high premiums relative to their historical valuations and relative to the valuations of other growth stocks (Figure 9).

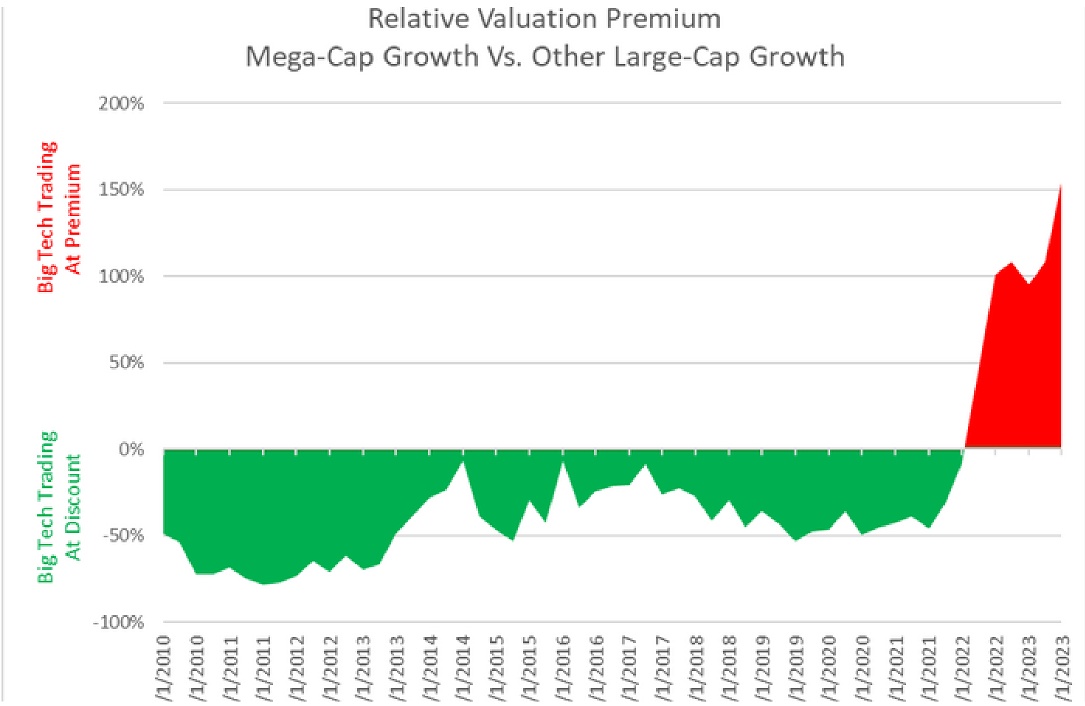


Figure 9

Additionally, we find the recent outperformance of the mega-cap growth stocks relative to other growth stocks to be alarming provided historical precedent. Beneath the surface, small-cap, speculative growth stocks such as $CHGG, $MARA, $CHWY, $Z, and most SPACs peaked around February of 2021; while mid & large-cap growth stocks such as $PYPL, $SE, $SHOP, $UPST peaked around November of 2021. These cohorts of growth stocks are at least 80% below all-time highs in aggregate, but one would never know this looking at the performance of mega-cap technology stocks such as the FANG+, which are trading near all-time highs (Figure 10).

This pattern of fading participation according to market capitalization has only happened twice in the history of the United States equity market -in the lead ups to the Great Depression and Dot-Com bear markets. During the Dot-Com bust, speculative, small-cap internet IPOs generally peaked throughout 1999, while mid and large-cap growth stocks peaked in unison in March and September of 2000. During the lead up to the Great Depression, small-cap growth stocks such as Cluett Peabody & Co, Certain Teed Products, and Manhattan Shirt Company peaked in April of 1928; mid & large-cap growth stocks such as Chrysler, National Cash Register, and Adams Express peaked between the fall of 1928 and spring of 1929; and the largest stocks in the market -analogous to today's FANG+- such as Standard Oil of New Jersey, Allied Chemical, General Electric, and Union Carbide saw a broad double-top between September of 1929 and April of 1930. (Figure 11).

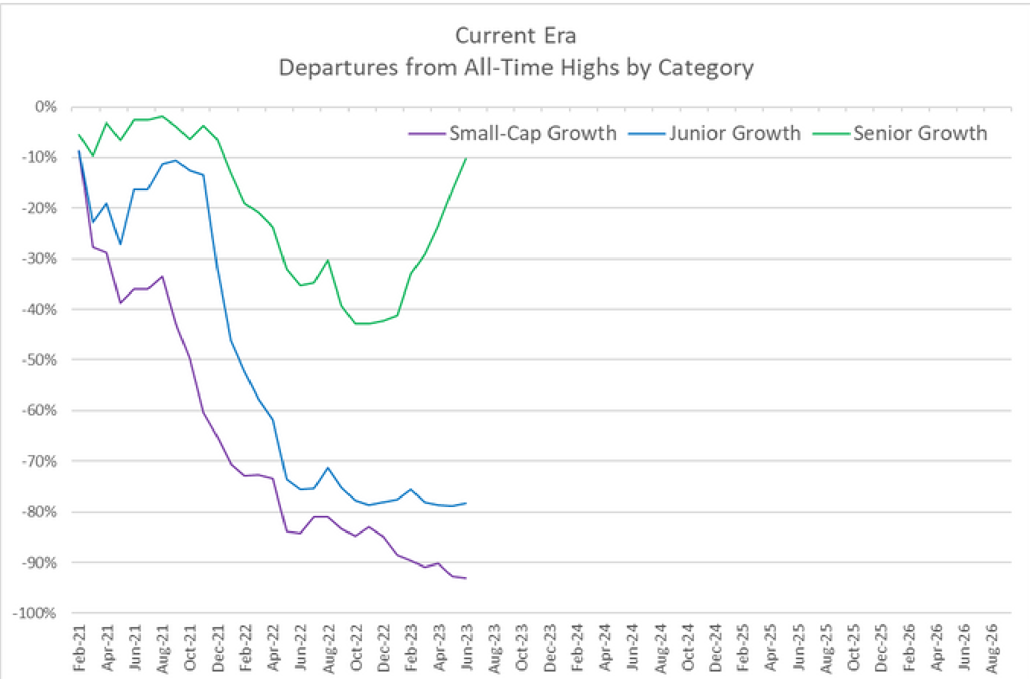


Figure 10

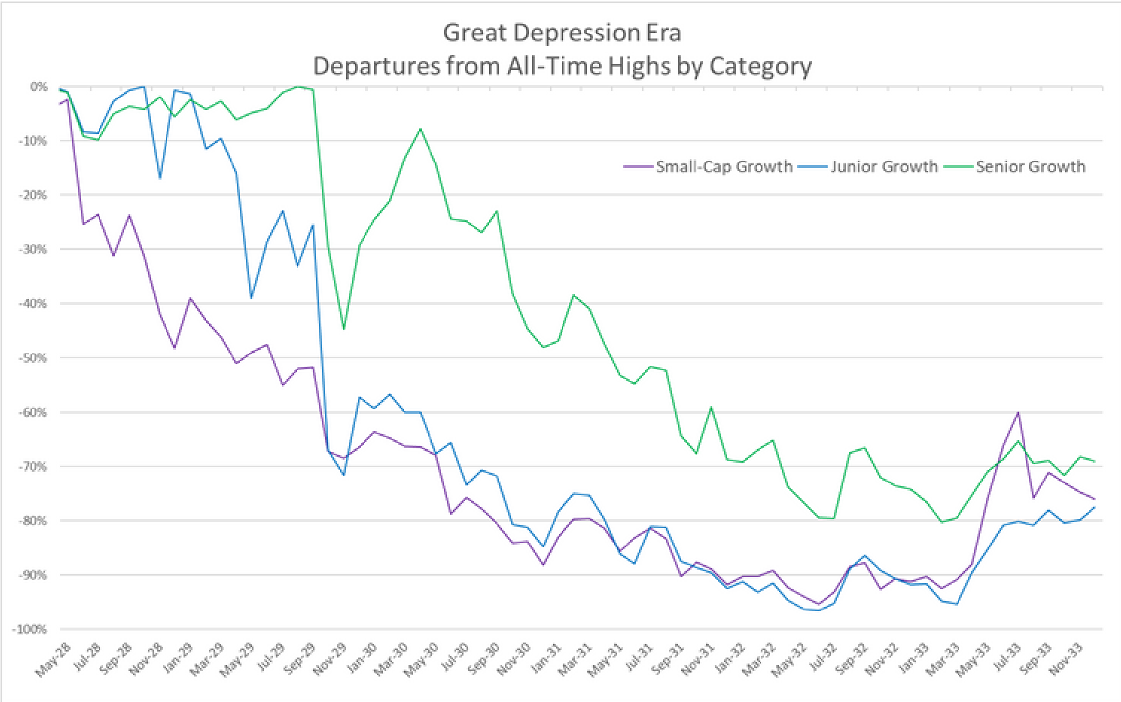


Figure 11

In-line with our aforementioned observations, we anticipate a contraction in earnings during the next year, and recognize that both elevated equity valuations and poor market internals may translate into a market that is fragile. In response, we are looking to position both the Alpha Squared and SRI Funds more defensively to mitigate our downside risk. We aim to purchase stocks that will contribute to lowering the beta values of both funds, as well as overweighting defensive industries where appropriate.

Performance Update:

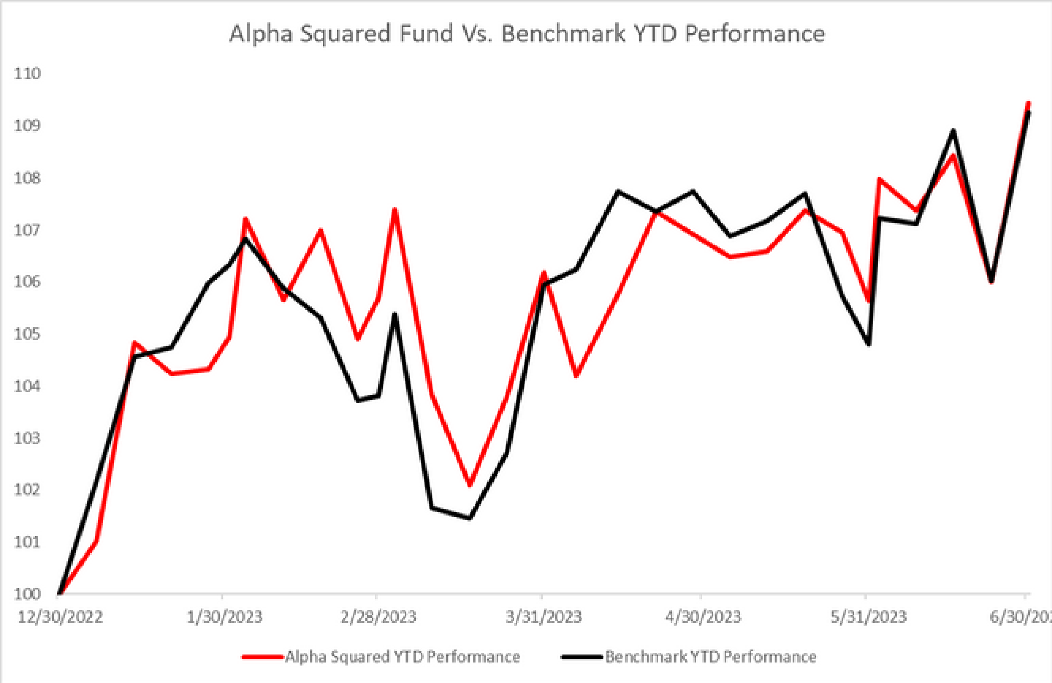
Alpha Squared Fund:

The Alpha Squared fund has returned 9.5% gross of fees year-to-date, vs. 9.3% for our benchmark (40% S&P 500 and 60% S&P TSX). The top three performing stocks were ATS Corporation, up 44.8% YTD; Sterling Infrastructure Inc, up 70.1% YTD; and ON Semiconductor Corporation, up 51.6% YTD. Based on risk management considerations, we are considering taking part profits on some of these positions given that they now represent our top three holdings. And we may soon exit ON Semiconductor altogether as the stock is getting close to being fairly valued in our view.

We also wanted to make note of two of our underperformers -Bank of America and Northland Power Inc- which are down 13.4% and 25.6% YTD, respectively. We find that the market's reaction to the banking crisis in the spring may have been exaggerated in Bank of America's stock price, and our Financials team believes the company is undervalued at current levels. Likewise, we believe Northland Power is trading at a very attractive valuation relative to its future growth prospects, and thus do not believe it would be wise to exit the position at this time.

Further details and outlooks for our individual positions will follow in future publications. A complete holdings list as well as our sector weightings is shown below.

Going forward this year, we intend on lowering our portfolio’s beta as a means of reducing our risk to generate alpha during a period we anticipate may prove difficult for equity markets. Moreover, we intend on remaining underweight the information technology sector relative to our benchmark due to concentration risk within the benchmark indexes and the relatively high valuation at which the industry trades.



Alpha Squared Fund Performance Metrics:

2023 H1	Alpha Squared Fund	Benchmark
Return	9.5%	9.3%
Standard Deviation	5.93%	6.40%
Sharpe Ratio	0.98	1.02
Beta	0.86	1
Alpha	2.06%	0%

2022	Alpha Squared Fund	Benchmark
Return	-11.0%	-8.4%
Standard Deviation	8.45%	9.58%
Sharpe Ratio	-0.64	-0.55
Beta	0.92	1
Alpha	-3.12%	0%

Since Inception	Alpha Squared Fund	Benchmark
Return (annualized)	6.1%	9.7%
Standard Deviation	11.32%	11.88%
Sharpe Ratio	0.33	0.5
Beta	0.89	1
Alpha (annualized)	-1.80%	0%

Alpha Squared Sector Weightings:

Alpha Squared Fund			
Sector	Fund	Benchmark	(+/-)
Financials	23.2%	19.7%	3.5%
Real Estate	2.1%	2.5%	-0.4%
Consumer Discretionary	6%	8%	-2%
Cash	5.6%	0%	5.6%
Utilities	4.9%	3.4%	1.5%
Consumer Staples	6.2%	5.7%	0.5%
Healthcare	7.8%	8.2%	-0.4%
Materials	1.5%	6.2%	-0.4%
Energy	10%	9.1%	0.9%
Information Technology	18.1%	26.8%	-8.7%
Industrials	14.6%	10.6%	4%

Alpha Squared Holdings:

Sector	Security	Currency	Shares	Market Price Local	Market Value Local	Market Value CAD	Weight
CONSUMER DISCRETIONARY	Spin Master Corporation	CAD	1779	$ 35.05	$ 62,353.95	$ 62,353.95	2.5%
CONSUMER DISCRETIONARY	Etsy Inc.	USD	218	$ 84.61	$ 18,444.98	$ 24,434.99	1.0%
CONSUMER DISCRETIONARY	NIKE Inc., Class "B"	USD	455	$ 110.37	$ 50,218.35	$ 66,526.76	2.7%
CONSUMER STAPLES	Alimentation Couche-Tard Inc.	CAD	1300	$ 67.93	$ 88,309.00	$ 88,309.00	3.5%
CONSUMER STAPLES	PepsiCo Inc.	USD	279	$ 185.22	$ 51,676.38	$ 68,458.28	2.7%
ENERGY	TC Energy Corporation	CAD	759	$ 53.54	$ 40,636.86	$ 40,636.86	1.6%
ENERGY	Tourmaline Oil Corp.	CAD	1535	$ 62.42	$ 95,814.70	$ 95,814.70	3.8%
ENERGY	Energy Transfer LP	USD	2300	$ 12.70	$ 29,210.00	$ 38,695.95	1.5%
ENERGY	Shell PLC	USD	1000	$ 60.38	$ 60,380.00	$ 79,988.41	3.2%
FINANCIALS	Bank of America Corp	CAD	5800	$ 15.33	$ 88,914.00	$ 88,914.00	3.5%
FINANCIALS	BSR Real Estate Investment Trust	CAD	2520	$ 16.97	$ 42,764.40	$ 42,764.40	1.7%
FINANCIALS	Intact Financial Corporation	CAD	550	$ 204.54	$ 112,497.00	$ 112,497.00	4.5%
Financials	iShares S&P/TSX Capped Financials Index ETF	CAD	1200	$ 44.85	$ 53,820.00	$ 53,820.00	2.1%
FINANCIALS	Royal Bank of Canada	CAD	770	$ 126.52	$ 97,420.40	$ 97,420.40	3.9%
FINANCIALS	TMX Group Limited	CAD	3950	$ 29.81	$ 117,749.50	$ 117,749.50	4.7%
FINANCIALS	MSCI Inc.	USD	129	$ 469.29	$ 60,538.41	$ 80,198.26	3.2%
HEALTH CARE	Danaher Corporation	USD	177	$ 240.00	$ 42,480.00	$ 56,275.38	2.2%
HEALTH CARE	Medtronic PLC	USD	650	$ 88.10	$ 57,265.00	$ 75,861.81	3.0%
HEALTH CARE	Veeva Systems Inc., Class "A"	USD	257	$ 197.73	$ 50,816.61	$ 67,319.30	2.7%
INDUSTRIALS	ATS Corp	CAD	2430	$ 60.95	$ 148,108.50	$ 148,108.50	5.9%
Industrials	iShares S&P Global Industrials Index ETF(CAD-Hedge)	CAD	1739	$ 44.50	$ 77,385.50	$ 77,385.50	3.1%
INDUSTRIALS	Sterling Infrastructure Inc	USD	2000	$ 55.80	$ 111,600.00	$ 147,842.10	5.9%
INFORMATION TECHNOLOGY	CGI Inc., Class "A"	CAD	600	$ 139.70	$ 83,820.00	$ 83,820.00	3.3%
Information Technology	Communication Services Select Sector SPDR Fund	USD	1320	$ 65.08	$ 85,905.60	$ 113,803.44	4.5%
INFORMATION TECHNOLOGY	Enphase Energy Inc	USD	250	$ 167.48	$ 41,870.00	$ 55,467.28	2.2%
INFORMATION TECHNOLOGY	ON Semiconductor Corporation	USD	1200	$ 94.58	$ 113,496.00	$ 150,353.83	6.0%
INFORMATION TECHNOLOGY	Roper Technologies Inc.	USD	90	$ 480.80	$ 43,272.00	$ 57,324.58	2.3%
MATERIALS	Franco-Nevada Corp.	CAD	201	$ 188.81	$ 37,950.81	$ 37,950.81	1.5%
REAL ESTATE	Equinix Inc.	USD	52	$ 783.94	$ 40,764.88	$ 54,003.27	2.2%
UTILITIES	Northland Power Inc.	CAD	2000	$ 27.63	$ 55,260.00	$ 55,260.00	2.2%
UTILITIES	Clearway Energy Inc.	USD	1800	$ 28.56	$ 51,408.00	$ 68,102.75	2.7%
					Cash	$ 99,860.00	4.0%
					Total	$ 2,507,321.01	100.0%

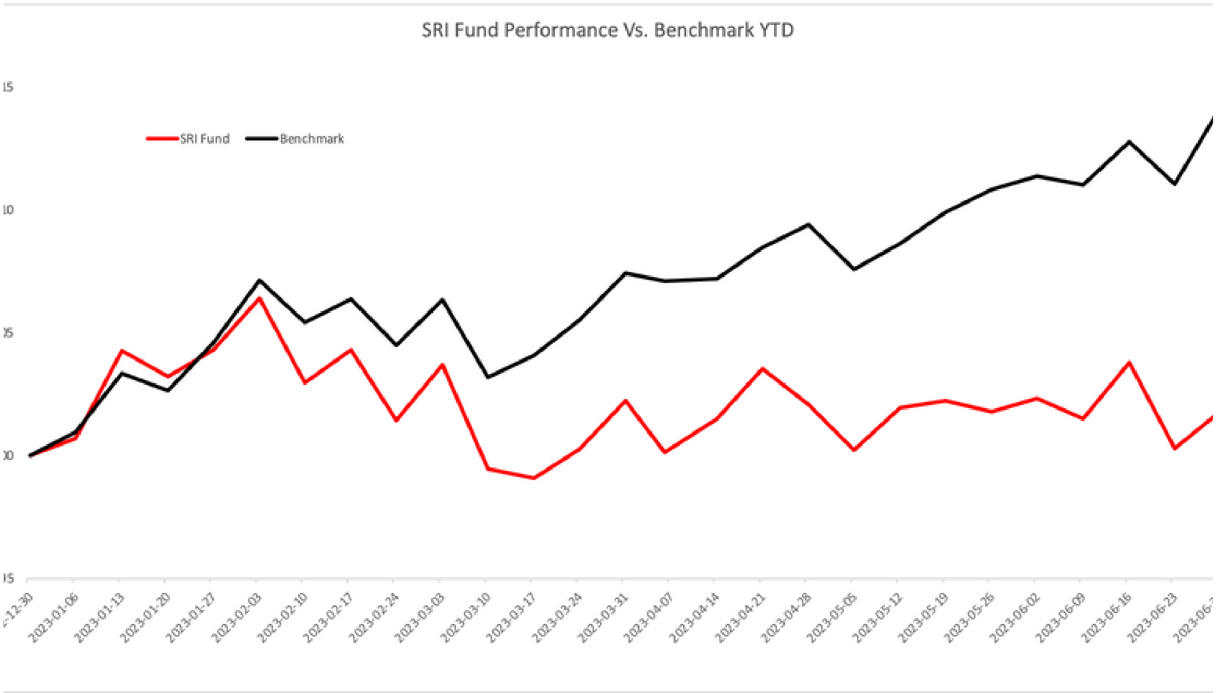
SRI Fund:

As a reminder, the SRI fund has a mandate to invest in companies that meet social, environmental and governance standards while also beating the benchmark. In H1 2023, the SRI fund returned 2.6% gross of fees representing an 11.6% underperformance of our benchmark (80% S&P 500 Fossil Fuel Free and 20% S&P TSX Fossil Fuel Free). We attribute this underperformance to our lack of exposure to mega cap technology companies such as Apple, Microsoft and Nvidia, which have driven most of the S&P 500's performance so far this year. We maintain our view that these stocks are trading at a significant premium and do not intend to add exposure to megacap growth stocks.

Our underperformance can also be attributed to Enphase Energy Inc. (-36.8% YTD) and Etsy Inc. (-29.4% YTD). We purchased Etsy on the premise that their increased marketing spending and strong demand for e-commerce would drive growth. The recent underperformance can be attributed to lower growth in sales volume in the post-pandemic period. Nevertheless, after careful consideration we still believe that Etsy and Enphase have considerable long-term growth prospects and continue to hold these positions for the time being.

Our two top outperformers are Advanced Micro Devices (AMD) Inc. (75.9% YTD) and Netflix Inc. (49.4% YTD). AMD, which is an american semiconductor manufacturer has performed extraordinarily well this year due to the market's anticipation of high growth in artificial intelligence (AI). AMD's new chips have the potential to capitalize on the rapidly growing AI market and compete with rivals such as Nvidia.

Our class has started to evaluate our fund's positions and decided to trim our exposure to Axsome Therapeutics Inc. for risk reduction purposes. We still maintain our view that Axsome should be held in our portfolio as it continues to have an impressive amount of pharmaceuticals in late-stage development, which have the potential to come to market in coming years.



SRI Fund Performance Metrics:

2023 H1	SRI Fund	Benchmark
Return	2.6%	14.2%
Standard Deviation	14.45%	12.28%
Sharpe Ratio	0.23	1.90
Beta	0.97	1
Alpha	-19.31%	0%

2022	SRI Fund	Benchmark
Return	-20.5%	-13.6%
Standard Deviation	24.65%	20.75%
Sharpe Ratio	-0.87	-0.95
Beta	1.05	1
Alpha	-1.00%	0%

Since inception	SRI Fund	Benchmark
Return (annualized)	6.3%	11.3%
Standard Deviation	19.79%	19.20%
Sharpe Ratio	0.33	0.51
Beta	0.90	1
Alpha (annualized)	-2.18%	0%

The SRI fund invests in stocks that operate in an ecologically and socially responsible manner. We would like to highlight one of these stocks, Enphase Energy, a holding in our SRI fund, purchased in 2021. Enphase develops and sells microinverters for solar panels as well as battery energy storage systems and EV charging stations. Since inception in 2006, 64 billion kWh of energy has been generated by Enphase microinverters, reducing 45 million metric tons of carbon dioxide equivalent, this is analogous to providing energy to 5.7 million homes for one year.

Enphase also recycles 100% of waste generated by their business in North America and does not send any material to landfill. They have also done extensive work to ensure that their supply chain is not associated with human trafficking or forced labor and avoid doing business with conflict-affected areas associated with unfair labor practices. Enphase has made extensive donations to many non-profits such as GRID Alternatives, which provides solar installations in low-income communities. We are very proud to have companies such as Enphase Energy in our portfolio and hope that they will help contribute to the development of a sustainable future.

SRI Sector Weightings:

SRI FUND			
Sector	Fund	Benchmark	(+/-)
Financials	23.80%	17.78%	6.02%
Real Estate	6.80%	2.24%	4.56%
Consumer Discretionary	11.50%	9.70%	1.80%
Communication Services	9.50%	8.04%	1.46%
Cash	0.50%	0.00%	0.50%
Utilities	3.40%	2.96%	0.44%
Consumer Staples	6.70%	6.50%	0.20%
Healthcare	10.70%	11.12%	-0.42%
Materials	3.20%	4.04%	-0.84%
Energy	0.00%	2.72%	-2.72%
Information Technology	21.30%	25.10%	-3.80%
Industrials	2.80%	9.90%	-7.10%

SRI Holdings:

Sector	Security	Currency	Shares	Market Price Local	Market Value Local	Market Value CAD	Weight
Utilities	Boralex Inc., Class "A"	CAD	2,287	36.07	82,492.09	82,492.09	3.4%
Real Estate	Nexus Industrial REIT	CAD	5,976	8.48	50,676.48	50,676.48	2.1%
Financials	Royal Bank of Canada	CAD	726	126.52	91,853.52	91,853.52	3.7%
Financials	TMX Group Limited	CAD	4,095	29.81	122,071.95	122,071.95	5.0%
Information Technology	Advanced Micro Devices Inc	USD	789	113.91	89,874.99	119,061.89	4.8%
Communication Services	Alphabet Inc., Class "C"	USD	596	120.97	72,098.12	95,511.98	3.9%
Healthcare	Axsome Therapeutics Inc.	USD	1,850	71.86	132,941.00	176,113.59	7.2%
Financials	Bank of America Corp.	USD	1,330	28.69	38,157.70	50,549.41	2.1%
Information Technology	Canadian Solar Inc.	USD	1,600	38.69	61,904.00	82,007.32	3.3%
Financials	Cboe Global Markets Inc.	USD	432	138.01	59,620.32	78,982.02	3.2%
Industrials	ChargePoint Holdings Inc	USD	5,800	8.79	50,982.00	67,538.40	2.8%
Financials	Chubb Limited	USD	450	192.56	86,652.00	114,792.24	4.7%
Information Technology	Enphase Energy Inc	USD	450	167.48	75,366.00	99,841.11	4.1%
Consumer Discretionary	Etsy Inc.	USD	259	84.61	21,913.99	29,030.56	1.2%
Materials	Freeport-McMoRan Inc.	USD	1,500	40	60,000.00	79,485.00	3.2%
Consumer Discretionary	Lowe's Companies Inc.	USD		225.7	94,794.00	125,578.35	5.1%
Financials	Mastercard Incorporated, Class "A"	USD	240	393.3	94,392.00	125,045.80	5.1%
Healthcare	Medtronic PLC	USD	740	88.1	65,194.00	86,365.75	3.5%
Communication Services	Netflix Inc.	USD	139	440.49	61,228.11	81,111.94	3.3%
Consumer Discretionary	NIKE Inc., Class "B"	USD	518	110.37	57,171.66	75,738.16	3.1%
Consumer Staples	PepsiCo Inc.	USD	497	185.22	92,054.34	121,948.99	5.0%
Information Technology	Roper Technologies Inc.	USD	230	480.8	110,584.00	146,496.15	6.0%
Consumer Discretionary	Tapestry Inc.	USD	890	42.8	38,092.00	50,462.38	2.1%
Real Estate	UDR Inc.	USD	1,400	42.96	60,144.00	79,675.76	3.2%
Consumer Staples	Vizio Holding Corp	USD	4,672	6.75	31,536.00	41,777.32	1.7%
Communication Services	Walt Disney Company (The)	USD	475	89.28	42,408.00	56,180.00	2.3%
Information Technology	Western Digital Corporation	USD	1,504	37.93	57,046.72	75,572.64	3.1%
Real Estate	Weyerhaeuser Company	USD	847	33.51	28,382.97	37,600.34	1.5%
					Cash	11,363.37	0.5%
					Total	2,454,924.51	100%

On behalf of the current MMF cohort and program alumni, we would like to thank you, our investors, for your continuous support over the years. The experience, skills and knowledge gained from our time at DCM could not have been achieved at any other academic institution, and none of this would be possible if not for your continued trust in our firm. Your support means everything to us.

We hope you enjoyed reading this newsletter.

Best,

James Thayer, 24
Alpha Squared Fund Strategist

Daniel Buhler, 24
SRI Fund Strategist

Disclaimer

The print and digital material ("the material") for this report was prepared by the analyst team of Desautels Capital Management (“DCM"). The qualitative and statistical information ("the information") contained in the material is based upon various sources and research believed to be reliable and DCM makes every effort to ensure that the information is accurate and up to date, but DCM accepts no responsibility and gives no guarantee, representation or warranty regarding the accuracy or completeness of the information quoted in the material. For reasons of succinctness and presentation, the information provided in the material may be in the form of summaries and generalizations, and may omit detail that could be significant in a particular context or to a particular person. Any reliance placed on such information by you shall be at your sole risk.

Opinions expressed herein are current opinions as of the date appearing in this material only and are subject to change without notice. In the event any of the assumptions used herein do not prove to be true, results are likely to vary substantially. All investments entail risks. There is no guarantee that investment strategies will achieve the desired results under all market conditions and each investor should evaluate its ability to invest for a long term especially during periods of a market downturn. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those discussed, if any. This information is provided with the understanding that with respect to the material provided herein, that you will make your own independent decision with respect to any course of action in connection herewith and as to whether such course of action is appropriate or proper based on your own judgment, and that you are capable of understanding and assessing the merits of a course of action.

DCM shall not have any liability for any damages of any kind whatsoever relating to this material. You should consult your advisors with respect to these areas. By accepting this material, you acknowledge, understand and accept the foregoing.