2017 HIM ANNUAL REPORT

DESAUTELS CAPITAL MANAGEMENT
GESTION DE CAPITAUX DESAUTELS

DESAUTELS | McGill

"An investment in knowledge pays the best interest"
- *Benjamin Franklin*

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A MESSAGE FROM THE STRATEGISTS

DEAR INVESTORS,

On behalf of all Honours in Investment Management students, we would like to thank you for your commitment to our program. Your support and confidence have provided us with invaluable learning opportunities and allowed us to dedicate ourselves to our passion.

Every year, a new cohort of students joins Desautels Capital Management and continues to surpass expectations with impressive achievements, both inside and outside the classroom. Since it first began ten years ago, the program has drastically improved and this cohort was no exception. All graduating students have secured a full-time position, and all juniors will be completing a summer internship at industry-leading firms. Job placements vary across industries, including investment banking, consulting and asset management, and geographies with students working in Montreal, Toronto, New York, Los Angeles and London. Our HIM alumni community also keeps expanding, and we are extremely proud to share that it currently spans across multiple industries and geographies (for more details on our alumni please see pages 164 to 171).

In addition to securing impressive internships and jobs, we had several extra-curricular accomplishments this year. In January, Sabrina Frias won first place at the Jeux du Commerce Debate Competition. Antoine Francoeur, Ariane Laurin, David Meyers and Eric Van Hees were finalists at the first McGill International Portfolio Challenge. Ariane Laurin and Alexander Bibic were awarded the Management Undergraduate Society's Club of the Year Award for their accomplishments as Co-Presidents of the McGill Investment Club. Ariane Laurin was also a finalist at the University of Southern California's Case Competition in Los Angeles. Victoria Perlman, Ludovic Van den Bergen, and Matei Popescu placed second at the BlackRock Investment Management ETF Pitch Competition. Charles Feng won first place in the Stock Pitch and Stock Simulation at the Financial Open. Finally, Alaa Hachem placed first at the McGill Hult Prize Challenge.

Over the past year, we also received highly coveted awards. Kyle Costanzo was awarded the HSBC Scholarship for his academic merit and extracurricular involvement. Alaa Hachem and Daniel Milne both received the Li Ka Shing scholarship, giving them the opportunity to participate in a summer exchange program at Shantou University in China. Daniel Milne was also awarded the Academic All-Canadian Award for playing on the McGill Varsity Hockey Team while maintain a high academic standing. Sabrina Frias was awarded the Scotiabank Scholarship for her impressive academic achievements. Our incoming Global Equity Strategist, George Koutsos, was awarded the Letko Brosseau Investment Management Award for academic excellence and outstanding contribution to the HIM program. Ariane Laurin received the Deloitte Seat at the Table Award for excelling in male dominated spaces and empowering other women to do the same. Lastly, Alexander Bibic will proudly represent the HIM program during Convocation as the Valedictorian of the Class of 2018.

Once again, we would like to thank you for your continuous support. We speak on behalf of all the students at Desautels Capital Management when we say this program has truly been a defining part of our experience at McGill. We look forward to another eventful year at DCM.

Best Regards,
Alaa Hachem, Global Equity Strategist
Ariane Laurin, Fixed Income Strategist

Desautels Capital Management

EXECUTIVE TEAM

DESAUTELS CAPITAL MANAGEMENT | GESTION DE CAPITAUX DESAUTELS

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.

Ken Lester
Co-Chief Investment Officer

Ken Lester is the Co-Chief Investment Officer and registered Advising Representative for Desautels Capital Management. Ken has been teaching Applied Investments to BComs and MBAs at McGill since 1992 and currently also teaches Behavioural Finance. Ken has over 20 years of experience in the investment management industry and was until recently the President and CEO of Lester Asset Management.

Vadim di Pietro
Co-Chief Investment Officer

Vadim di Pietro is Co-Chief Investment Officer, Chief Compliance Officer, and registered Advising Representative for Desautels Capital Management. He joined the Faculty of Management as a Faculty Lecturer in Finance 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.

Jan Ericsson
HIM & MMF Program Director

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

BOARD OF DIRECTORS

DESAUTELS CAPITAL MANAGEMENT | GESTION DE CAPITAUX DESAUTELS

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.

Peter Bethlenfalvy
Chief Investment Officer

C.S.T. Consultants Inc

Mr. Peter Bethlenfalvy is Chief Investment Officer at Canadian Scholarship Trust (CST) where he is responsible for the investment strategy and management of the $4 Billion CST investment portfolio, including aspects of risk, regulations and oversight. Prior to joining CST, Mr. Bethlenfalvy was Senior Vice President, Financial Regulations at Manulife Financial Corporation

Eammon 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.

Nicolas Morin
Partner

Davies Ward Phillips &Vineberg

Mr. Morin is a partner at Davies Ward Phillips & Vineberg LLP in the Capital Markets, Mergers & Acquisitions, and Corporate/Commercial practices.

OUR TEAM

DESAUTELS CAPITAL MANAGEMENT | GESTION DE CAPITAUX DESAUTELS

WHO MAKES UP DCM?

SPOKEN LANGUAGES	12
FEMALE	30%
AVERAGE GPA	3.80
ENTREPRENEURS	7
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HIM STRATEGISTS

Alaa Hachem | Global Equity Strategist

Alaa is a Lebanese-Canadian, born and raised in Kuwait. She graduated from the International Baccalaureate program before coming to study Finance at McGill. Alaa was inspired to study finance mainly by the students, courses, professors and industry veterans around her at McGill. Other than finance, Alaa is also passionate about social entrepreneurship, gender equality, and philanthropy.

Professional Experience

Investment Banking Analyst
- Moelis, New York (Incoming 2018)
Investment Banking Summer Analyst
- Moelis, New York (Summer 2017)

Ariane Laurin | Fixed Income Strategist

Born and raised just outside Montreal, Ariane graduated from Marianopolis College in Pure and Applied Science before joining McGill. Coming from an entrepreneurial family, she discovered her passion for finance through her involvement in the family business. Curious and eager to learn more about the financial markets, she joined the McGill Investment Club and HIM program to deepen her understanding of the business world and push her limits further.

Professional Experience

Investment Banking Analyst
- Greenhill, New York (Incoming 2018)
Investment Banking Summer Analyst –
Leveraged Finance and Syndication
- TD Securities, New York (Summer 2017)
Portfolio Management & Operations Intern -
Infrastructure Group
- PSP Investments, Montreal (Summer 2016)

HIM ANALYSTS

Sabrina Frias | Senior Analyst

Sabrina was born in Santiago, Chile. She then lived in Caracas, Venezuela for part of her childhood before immigrating to Toronto, Ontario. In high school, she developed a keen interest in debating, which led her to discover a passion for research, a skill which she has harnessed in order to execute all her investment strategies at DCM. She has continued her debate career at McGill and is a member of the McGill Martlet's Women's Varsity Rugby team.

Professional Experience

Investment Banking Analyst
- Goldman Sachs, New York (Incoming 2018)
Investment Banking Summer Analyst
- Goldman Sachs, New York (Summer 2017)
International Wealth Management Intern
- Scotiabank, Toronto (Summer 2015, 2016)

Noah Gillard | Senior Analyst

Born and raised in Santa Barbara, California, Noah developed an interest for investing in his senior year of high school. Upon his arrival at McGill, Noah was keen on joining the Honours in Investment Management program. His time at McGill has so far been filled with extracurricular involvement, in both finance and non-finance related fields. His most recent activity involved starting the Desautels Outreach Committee with fellow HIM student Michael Fishman.

Professional Experience

Associate Consultant
- Bain & Company, Toronto (Incoming 2018)
Private Equity Summer Analyst
- Ulysses Management, New York (Summer 2017)
Investment Banking Summer Analyst
- Cappello Global, Los Angeles (Summer 2016)

Alexandra Ma | Junior Analyst

Alexandra was born in Montreal and raised in Toronto, where she studied piano performance at an arts school before attending McGill. She developed an interest in finance after getting involved with the McGill Investment Club where she had the opportunity to learn about the financial landscape. Alexandra's interest for finance stems from her desire to expand her knowledge of the markets and challenge herself to think critically about world events.

Professional Experience

Relationship Investments Summer Analyst
- CPP Investment Board, Toronto
(Incoming 2018)

Tejas Saggi | Junior Analyst

Tejas was born in India and raised in a small town in the suburbs of Vancouver, Canada. Growing up, his career interests ranged from chemical engineering to law, but he eventually found his way to finance. At McGill, he's actively involved with the Investment Club, where he spearheads the Club's recruiting-oriented initiatives. Outside of academics, Tejas is a basketball enthusiast and enjoys staying late enough in Bronfman to justify ordering delivery.

Professional Experience

Summer Analyst, Strategic Advisory
- PJT Partners, New York (Incoming Summer 2018)
Summer Analyst, Private Investments
- CPP Investment Board, Toronto (Summer 2017)
Analyst, FinTech
- SproutChange, Montreal (Winter 2016)

HIM ANALYSTS

Thomas Milne | Senior Analyst

Thomas was born in Belleville but spent the majority of his life in various countries across Asia. He discovered his passion for finance and business at the Singapore American School where he had the opportunity to be taught introductory finance by an author of multiple business novels. Thomas enjoys pretty much any sport, but decided to focus on his passion for rugby at McGill where he played two years on the varsity team.

Professional Experience

Business Analyst
- McKinsey & Company, Toronto (Incoming 2018)

Summer Business Analyst
- McKinsey & Company, Toronto (Summer 2017)

Intern, Investment Analyst
- Rosen Partnership, Montreal (Summer 2016)

Kyle Costanzo | Junior Analyst

Born and raised in Princeton New Jersey, Kyle grew interested in finance after interning at an energy brokerage firm after high school. When he's not working on stock pitches for HIM's energy sector, Kyle serves as the co-president of JED Consulting, McGill's student-run consulting firm. During the 2016/2017 year, he helped scale JED's revenues by 10x as Head of Sales, and managed three consulting mandates as a project manager.

Professional Experience

Investment Banking Summer Analyst
- LionTree, New York (Incoming 2018)

Corporate Banking Summer Analyst
- J.P. Morgan, Toronto (Summer 2017)

Energy Research Analyst
- Liquidity Energy, New York (Summer 2015 & 2016

Sunny Wu | Junior Analyst

A third-year student at the Desautels Faculty of Management, Sunny was born and raised in Montreal. Before transferring to Desautels, he briefly studied engineering before realizing that he was far more interested in pursuing a career in finance. Now he resides semi-permanently on Bronfman 2nd floor. Outside of school, Sunny enjoys skiing, cooking and riding his bike.

Professional Experience

Investment Banking Summer Analyst
- Evercore Partners, Houston (Incoming 2018)
Venture Capital Summer Analyst
- Celtic House Venture Partners, Ottawa (Summer 2017)

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HIM ANALYSTS

Mackenzie Chisholm | Senior Analyst

Born and raised in Toronto, Mackenzie developed a strong interest for Finance through case competitions in high school. Being a part of the McGill Investment Club harnessed her interest in investing and led her to the Honours in Investment Management program. She incorporates her interest in Accounting and Economics into her investment strategies. When not studying and following stocks, she is playing tennis, or planning her next travel destination.

Professional Experience

Investment Banking Analyst
- J.P. Morgan, New York (Incoming 2018)
Investment Banking Summer Analyst
- J.P. Morgan, New York (Summer 2017)
Summer Financial Analyst
- RBC Personal & Commercial Banking, Toronto (Summer 2016)

Antoine Francoeur | Senior Analyst

Born and raised in Montreal, Antoine discovered his passion for finance upon reading Warren Buffett's annual letters to shareholders. He is fascinated about the power of finance and technology to improve society. Upon graduation, Antoine strives to pursue a career in investment banking. Always seeking challenges, he is passionate about triathlon and competes in Ironman 70.3 races.

Professional Experience

Investment Banking Summer Analyst
- RBC Capital Markets, New York (Summer 2017 and Incoming Summer 2018)
Private Equity Summer Analyst
- Novacap, Montreal (Summer 2016)
Intern, Private Wealth 1859
- National Bank Financial, Montreal (2015-2016)

Josiah Derksen | Junior Analyst

Josiah (Joe) was born in Winnipeg, but his family moved to the Cayman Islands a few weeks after he was born. Surrounded by one of the world's leading financial industries as a child, he developed a passion for finance at a young age. After graduating from Cayman International School as valedictorian of the 2015 class, he entered McGill's Desautels Faculty of Management as a U1 student.

Professional Experience

Incoming Private Equity Summer Analyst
- Altas Partners, Toronto (Incoming 2018)
Summer Analyst
- Five Continents Financial Limited, Cayman Islands (Summer 2017)
Financial Advisory Intern
- Deloitte, Cayman Islands (Summer 2016)

Emilie Granger | Junior Analyst

Emilie Granger was born and raised in Montreal, Canada. Growing up with a brother in Investment Banking, Emilie always knew she wanted to undertake a career in Finance. At McGill, Emilie is an ambassador for Women in Capital Markets, the largest network of professional women in the Canadian capital markets industry. Outside McGill, Emilie enjoys playing soccer and countryside hiking. She also competes in sprint triathlons.

Professional Experience

Summer Financial Analyst, Restructuring
- Houlihan Lokey, Los Angeles (Incoming Summer 2018)
Summer Analyst, Global Investment Banking
- RBC Capital Markets, Montreal (Summer 2017)
Summer Analyst, Public Market Investments
- PSP Investments, Montreal (Summer 2016)

Victoria Perlman | Junior Analyst

Victoria was born and raised in Montreal. While she has always shown an affinity towards mathematics, she truly recognized her passion for finance upon entering university. At McGill, Victoria is actively involved in the Investment Club, where she helps bridge the gap between students and the financial markets. Outside of school, Victoria dabbles in the realm of photography and videography. She also enjoys spending time with her dog, Maddie

Professional Experience

Investment Banking Summer Analyst
- RBC Capital Markets, New York (Incoming 2018)

Wealth Management Summer Intern
- Bank of America Merrill Lynch, Boston (Summer 2017)

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HIM ANALYSTS

David Meyers | Senior Analyst & COO

Born and raised in the world's financial epicenter, New York City, David has been fascinated by finance, business and economics since a 5th grade school trip to the NASDAQ stock exchange. After graduating with honours from the High School of American Studies, David decided to journey through Israel and Ethiopia. Throughout his travels, David worked as an emergency medical first responder, media analyst and community development leader.

Professional Experience

Investment Banking Analyst
- Perella Weinberg Partners, New York (Incoming 2018)

Investment Banking Summer Analyst
- Perella Weinberg Partners, New York (Summer 2017)

Analyst, Private Equity & Alternative Investments
- Palomino Capital Corporation, Montreal (Summer 2016)

Thomas Boucher-Charest | Junior Analyst

Thomas was born and raised in Montreal. He was drawn to finance after taking part in a stock market competition at his high school. Specifically, his interests lie in equity research where he can apply his strong mathematics background, along with his natural curiosity, to finding overlooked gems. Thomas is also involved with a non-profit organization called PennyDrops, whose mission is to teach financial literacy to high school students across Canada.

Professional Experience

Equity Research Intern, Global Long/Short
- PSP Investments September 2017 - Present

Intern, Emerging Market Portfolio,
- PSP Investments (Summer 2017), Montreal

Chief Operating Officer
- PennyDrops August 2017 - Present

HIM ANALYSTS

Charles Feng | Senior Analyst

Born in France and raised in Montreal, where he competed as a national competitive swimmer before entering McGill University. Charles finds inspiration in Michael Phelps famous quote: “You can’t put a limit on anything. The more you dream, the farther you get”. From a young age, he was intrigued by the dynamic nature of the financial markets. In his free time, Charles enjoys going on road trips, swimming and snowboarding.

Professional Experience

Investment Banking Analyst
- Moelis & Company, Los Angeles (Incoming 2018)
Equity Research Summer Analyst
- Evercore Partners, New York (Summer 2017)
Investments Summer Analyst
- Lester Asset Management, Montreal (Summer 2016)

Noah Petkau | Senior Analyst

Noah has the fortune to call richly cultural Montreal his hometown. Growing up during the 2007-2008 financial crisis drew him into the world of economics and finance, driven to achieve a deeper understanding of the forces behind everyday life. This interest was further cultivated through case competitions while studying Honours Commerce at Marianopolis College, inspiring him to join the HIM program at McGill and turn his interest into strong financial skills.

Professional Experience

Consulting Intern
- Roland Berger, Montreal (2017)
Investment Analyst
- Fidelity Investments, Toronto (Summer 2017)
Financial Committee Intern
- Artistri Sud, Montreal (2015 - 2016)

George Koutsos | Junior Analyst

George was born and raised in Montreal where he completed his International Baccalaureate before continuing his studies at McGill University. For the longest time, George was certain he was destined for a career in engineering. That all changed once he discovered infrastructure finance. Since then, it is impossible to peel him away from his infrastructure literature and intends to pursue career in this industry.

Professional Experience

Incoming Summer Intern, Global Real Assets
- J.P. Morgan, London (Summer 2018)
Investment Finance Intern
- PSP Investments, Montreal (Summer 2017)

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HIM ANALYSTS

Jaskrit Singh | Senior Analyst

Jaskrit was born and raised in India, where he attended boarding school for six years before coming to McGill. He discovered his passion for finance and investing while participating in a virtual stock simulation during high school. Ever since, he has been following the markets and also manages his personal investment portfolio in India. Outside of school and investing, Jaskrit enjoys soccer and travelling.

Professional Experience

Analyst
- Canada Pension Plan Investment Board, Toronto (Incoming 2018)

Multi-Strategy and Asset Management Intern
- PSP Investments, Montreal (Summer 2017)

Investment Banking Summer Analyst
- Dexter Capital Advisors, New Delhi (Summer 2016)

Ian Jiang | Junior Analyst

Ian was born and raised in Yangzhou, China. When he was 15 years old, he came to Canada alone and continued his secondary education in Delta, BC. In his senior year, Ian helped his school football team win the British Columbia AAA Provincial Championship. He then came to McGill and became increasingly interested in finance through the McGill Investment Club.

Professional Experience

Investment Banking Summer Analyst
- RBC Capital Markets, Toronto (Incoming 2018)

Summer Analyst, Private Equity Search Fund
- Calistix Capital, Toronto (Summer 2017)

Summer Intern, Business Management
- MaoLiYa Business Management Yangzhou (Summer 2016)

HIM ANALYSTS

Alexander Bibic | Senior Analyst

Born and raised in Ottawa, Alex decided to study commerce after starting and growing a landscaping company in high school. Upon his arrival at McGill, Alex quickly sparked an interest in finance after attending MIC events. As a TMT Analyst, Alex is most excited to explore different technologies and learn about the various valuation techniques used across the sector.

Professional Experience

Investment Banking Analyst
- BMO Capital Markets, Toronto (Incoming 2018)

Investment Banking Summer Analyst
- BMO Capital Markets, Toronto (Summer 2017)

Credit & Risk Summer Analyst
- BMO Commercial Banking, Ottawa (Summer 2016)

Robert Chen | Senior Analyst

Born in China, Robert moved to the small town of Fredericton, New Brunswick at the age of three. As a child, Robert sparked a curiosity for finance after reading Warren Buffett's The Snowball and eventually set out to pursue his interests at McGill University. Robert hopes to pursue a career in investment banking after graduating. Outside of class, Robert enjoys playing fingerstyle guitar, learning new card tricks and the occasional game of chess.

Professional Experience

Investment Banking Analyst
- Credit Suisse, Toronto (Incoming 2018)

Investment Banking Summer Analyst
- Credit Suisse, Toronto (Summer 2017)

Daniel Milne | Junior Analyst

Daniel Milne was born in London, England and raised in Unionville, Canada. Prior to McGill, Daniel played Division 1 hockey at the University of Michigan and three years of semi-professional hockey in the Ontario Hockey League for the Owen Sound Attack. Now, Daniel plays for McGill's varsity hockey team while building his financial skills in the TMT sector of HIM.

Professional Experience

Investment Banking Summer Analyst
- Lion tree, New York (Incoming 2018)

Summer Analyst, Sales & Trading
- Eight Capital, Toronto (Summer 2017)

Summer Analyst, Financial Advisor
- Gardens for Life, Kabul (Summer 2016)

Eric Van Hees | Junior Analyst

Eric was born and raised in Oakville, Ontario, a small town just outside Toronto. His interest in finance originates from his involvement with his high school investment club. His time at McGill has been filled with extracurricular involvement including being a member of the Varsity Lacrosse team and the McGill Investment Club. As a analyst in the TMT sector, Eric is most excited to learn about the various business models within the sector.

Professional Experience

Investment Banking Summer Analyst
- RBC Capital Markets, Toronto (Incoming 2018)

Summer Analyst
- RBC Capital Markets, Toronto (Summer 2017)

HIM ANALYSTS

Victoire Gekas | Junior Analyst

Victoire was born next to Paris but grew up in the beautiful Quebec City. She started university at 17 years old. It is during her exchange at HEC Paris that she developed her passion for finance while meeting students that had an interest in investment banking. Outside of the classroom, Victoire enjoys volunteering with non-profits or can be found practicing Taekwondo (earned her black belt in 2014).

Professional Experience

Investment Banking Summer Analyst
- Credit Suisse, Toronto (Incoming 2018)

Portfolio Management and Operations, Global Private Markets Intern
- PSP Investments, Montreal (Summer 2017)

Economic Development Intern
- Artois Urban Community, France (Summer 2016)

Matei Popescu | Junior Analyst

Matei was born in Romania and emigrated in Canada when he was only 5. He started out studying mathematics in Cegep but wanted to get a better understanding the movement of money in society. He joined the Economics and Finance program at McGill and now has the opportunity to combine those two interests in the Fixed Income group. He also enjoys taking part in different finance competitions and learning about the meaning of life through TV shows like Rick and Morty.

Professional Experience

Secondaries and Co-Investments Summer Analyst
- Canada Pension Plan Investment Board, Toronto (Incoming 2018)

Ludovic Van den Bergen | Junior Analyst

Born in Brussels and raised in the south of France, Ludovic completed a BA Hons. in Economics and Middle Eastern studies in 2017. As he was pursuing his passion for economics through his studies and internships, Ludovic realized that finance would be the most exciting real-world application of economic theory. Covering DCM's fixed income fund's investments has kept on strengthening his interest for valuation and finance.

Professional Experience

Summer Business Analyst
- McKinsey and Company, Montreal (Incoming 2018)

Economic Section Intern
- Embassy of Belgium in Iran, Tehran (Summer 2017)

Intern
- Credo Business Consulting, London (Summer 2016)

Ad augusta per angusta

ANNUAL REPORT 2017

GLOBAL EQUITY MARKETS

ALAA HACHEM

DESAUTELS CAPITAL MANAGEMENT

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PERFORMANCE SUMMARY

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DESAUTELS CAPITAL MANAGEMENT

PERFORMANCE SUMMARY
GLOBAL EQUITY FUND

Dear Investors,

The Global Equity Fund returned 5.3% gross of fees in 2017, compared to 10.9% for our blended benchmark (60% S&P TSX, 40% S&P 500 in CAD). Since inception in January 2010, the Global Equity Fund has produced a Sharpe ratio of 0.68, in line with that of the benchmark (see figure 2).

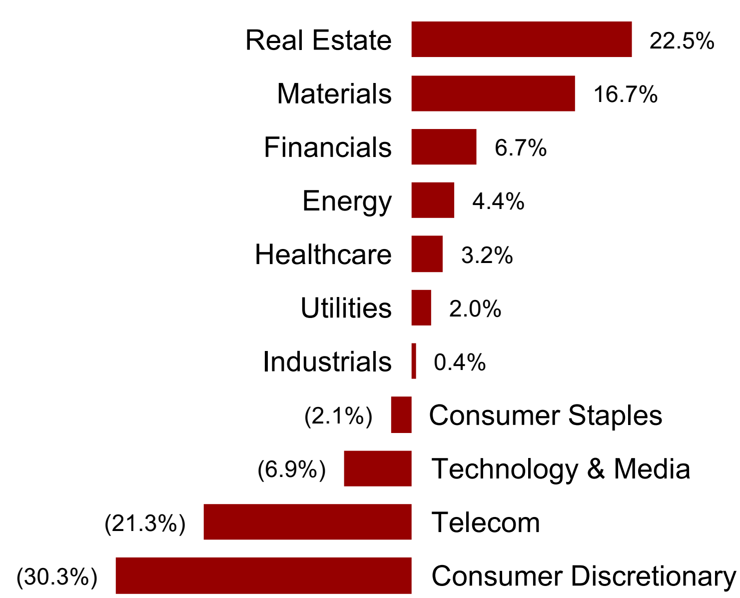
Based partially on political uncertainty, we headed into 2017 cautious of a potential market correction, and our defensive positioning did not help our relative performance. Some of our investment theses, however, did play out as predicted. Two examples include Cummins (NYSE:CMI) in our Industrials sector, and Citrix Systems (NASDAQ:CTXS) in our TMT sector. Cummins returned 26% in 2017, largely as a result of our first investment thesis, that they are insulated from negative sentiment due to product quality and compliance, materialized. Throughout the year, Cummins was able to recover the market share it had lost in both their heavy and medium duty trick engine segments. Furthermore, CTXS returned 23% in 2017, largely as a result of our second investment thesis; that a dividend recapitalization could create value, given activist investor Elliot Management's history of performing value creating debt-fueled buyback. Indeed, in November, the company announced a $2bn share repose program for 2018.

To be sure, we were equally wrong on some other calls. We bought Macy's in Q1 of 2016 on a view that the market was underappreciating the company's real estate value, which we felt could provide downside protection amid the carnage in the broad retail space. Unfortunately, headwinds facing the retail sector in 2017 at a particularly adverse effect on Macy's, resulting in a revenue CAGR of -4.3% over the past 3 years.

Given competition from e-commerce giants such as Amazon, we expected this trend to continue in the short-term. Furthermore, throughout the year our primary thesis began to materialize, for instance, Macy's announced that they found a buyer for one of their flagship stores, but the market failed to react. Therefore, we ultimately decided to exit in November at a loss of 58%. We have not had much success of late within the consumer discretionary sector and our relative underperformance there has been a drag on our overall performance (see figure 1).

Recent additions to the global equity fund include Live Nation Entertainment (NYSE:LYV) and Aritzia (TSE:ATZ) to our Consumer Discretionary sector, LegacyTexas Financials Group (NASDAQ:LTXB) to our Financials Institutions Group sector, ARC Resources (TSE:ARX) to our Energy sector, and lastly, Boingo (NASDAQGS:WIFI) to our Technology, Media and Telecommunications sector. Full details on individual holdings are provided in the sector sections that follow.

Figure 1 – DCM Sector Performance vs. Benchmark



Source: Bloomberg

PERFORMANCE SUMMARY
GLOBAL EQUITY FUND

Figure 2 – Global Equity Fund Returns

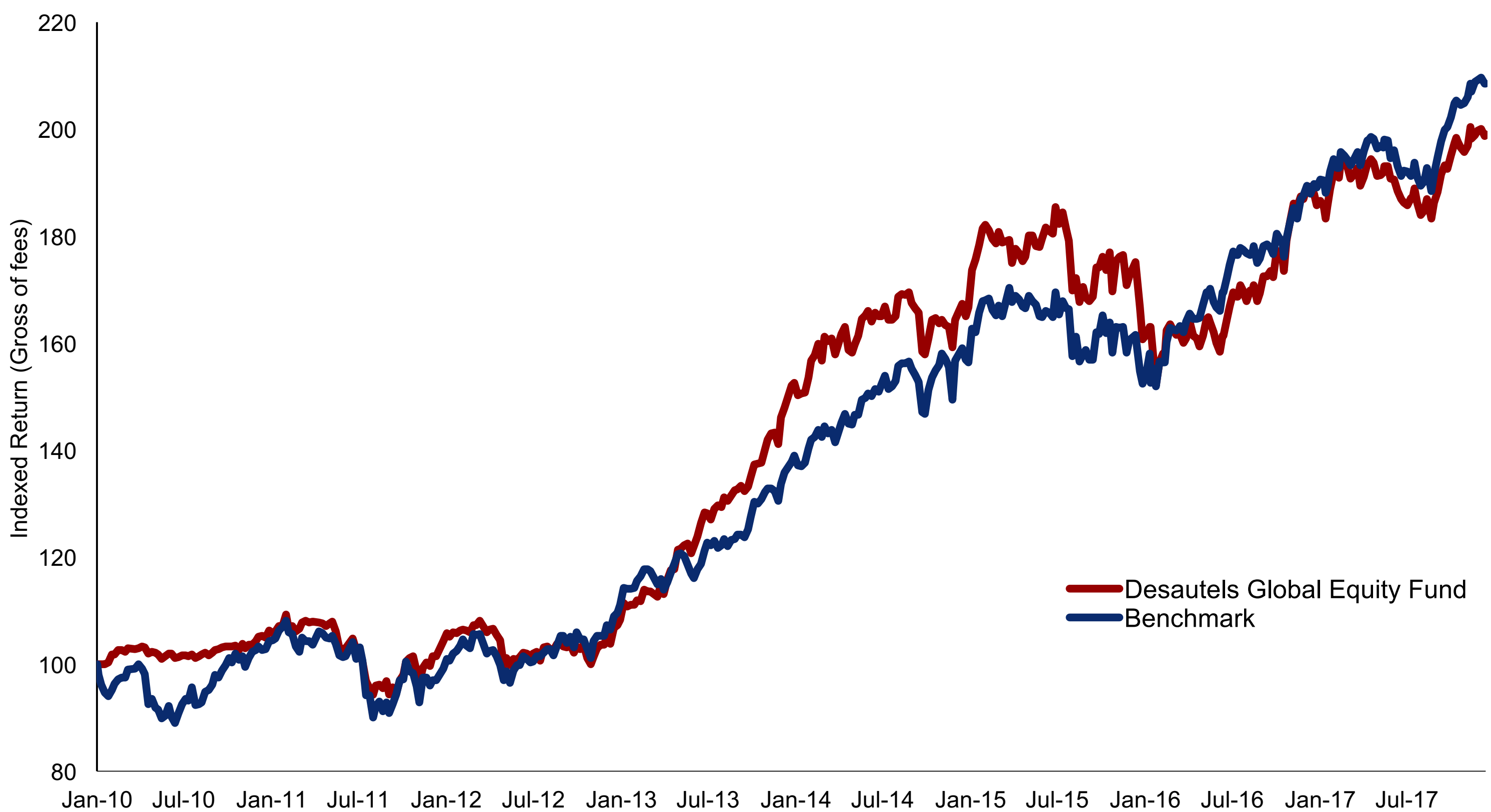
PERFORMANCE METRICS SINCE INCEPTION	Equity Fund	Benchmark
Annualized Return	9.0%	9.6%
Annualized Std Dev	9.8%	10.9%
Annualized Sharpe Ratio	0.68	0.67
Beta	0.72	
Annualized Gross Alpha	1.4%	
Weekly Tracking Error	0.9%	

Performance metrics are calculated gross of fees.

EQUITY PERFORMANCE METRICS 2017	Equity Fund	Benchmark
Annualized Return	5.3%	10.9%
Annualized Std Dev	6.8%	6.3%
Annualized Sharpe Ratio	0.43	1.35
Beta	0.95	
Annualized Alpha	(5.2%)	
Tracking Error	0.4%	

Performance metrics are calculated gross of fees.

Figure 3 – Global Equity Fund Performance



**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.*

Source: Bloomberg

PERFORMANCE SUMMARY
GLOBAL EQUITY FUND

Figure 4 – Global Equity Fund Current Sector Allocation

Global Equity Fund - Current Sector Allocation			
Sector	**Global Equity Fund**	**Benchmark**	**(+/-)**
CAD	4.9%	0.0%	4.9%
Telecommunication Services	7.3%	3.9%	3.4%
Financials	31.6%	29.5%	2.1%
Health Care	7.6%	5.8%	1.8%
USD	0.6%	0.0%	0.6%
Consumer Staples	5.4%	6.1%	(0.7%)
Information Technology	9.0%	10.0%	(1.0%)
Materials	7.3%	8.4%	(1.1%)
Consumer Discretionary	6.8%	8.0%	(1.2%)
Industrials	8.2%	9.7%	(1.4%)
Utilities	–	2.9%	(2.9%)
Energy	11.3%	15.8%	(4.5%)
Total	**100.0%**	**100.0%**	**0.0%**

Figure 5 – Global Equity Fund Size Exposure

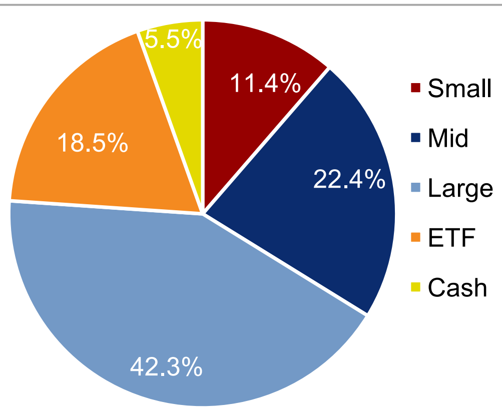
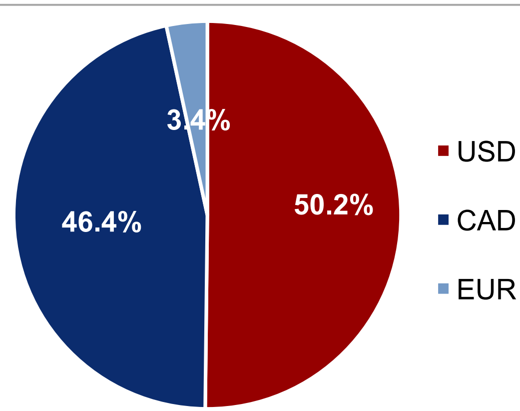


Figure 6 – Global Equity Fund Currency Exposure



Source: Bloomberg

PERFORMANCE SUMMARY
GLOBAL EQUITY FUND

Figure 7 – Global Equity Fund Holdings List

Global Equity Fund - Holdings List as of (31/12/2017)									
#	Security Name	Sector	Currency	Size	# of Units	Local Cost / Unit	Local Price / Unit	Base Market Value	Position Size %
1	INDUSTRIAL ALLIANCE INS & FINL	Financials	CAD	Mid	2,912	$40.01	$59.82	$174,196	5.8%
2	CANADIAN IMPERIAL BK OF COMM	Financials	CAD	Large	1,350	$104.02	$122.54	$165,429	5.5%
3	ISHARES S&P/TSX CAPPED MAT	Materials	CAD	ETF	11,497	$13.43	$13.57	$156,014	5.2%
4	TIME WARNER INC	Information Technology	USD	Large	1,350	$81.07	$91.47	$154,720	5.2%
5	CANADIAN DOLLAR	CAD	CAD	Cash	146,994	–	$1.00	$146,994	4.9%
6	BANK OF AMERICA CORP	Financials	USD	Large	3,850	$15.01	$29.52	$142,400	4.7%
7	BOINGO WIRELESS INC	Telecommunication Services	USD	Small	4,980	$23.58	$22.50	$140,393	4.7%
8	PEMBINA PIPELINE CORP	Energy	CAD	Large	3,000	$37.85	$45.51	$136,530	4.6%
9	LEGACYTEXUS FINANCIAL GROUP	Financials	USD	Mid	2,500	$39.24	$42.21	$132,218	4.4%
10	PFIZER INC	Health Care	USD	Large	2,800	$45.95	$36.22	$127,069	4.2%
11	ISHARES U.S. INDUSTRIALS	Industrials	USD	ETF	675	$133.23	$147.39	$124,695	4.2%
12	MARATHON PETROLEUM CORP	Energy	USD	Large	1,500	$44.14	$65.98	$124,004	4.1%
13	CUMMINS INC	Industrials	USD	Large	550	$137.83	$176.64	$121,727	4.1%
14	DREAM OFFICE REIT	Financials	CAD	Mid	5,400	$20.98	$22.16	$119,664	4.0%
15	APPLE INC	Information Technology	USD	Large	550	$109.92	$169.23	$116,620	3.9%
16	EMERA INC	Financials	CAD	ETF	2,400	$45.23	$46.98	$112,752	3.8%
17	FRESENIUS MEDICAL CARE AG & CO	Health Care	EUR	Large	1,550	$38.63	$52.55	$102,056	3.4%
18	CORBY SPIRIT AND WINE LTD	Consumer Staples	CAD	Small	4,400	$23.07	$23.11	$101,684	3.4%
19	ISHARES S&P/TSX CAPPED	Financials	CAD	ETF	2,600	$30.28	$38.64	$100,464	3.4%
20	MADISON SQUARE GARDEN CO/THE	Consumer Discretionary	USD	Mid	350	$168.57	$210.85	$92,465	3.1%
21	ARC RESOURCES	Energy	CAD	Mid	5,400	$14.94	$14.75	$79,650	2.7%
22	CITRIX SYSTEMS INC	Telecommunication Services	USD	Large	700	$118.69	$88.00	$77,182	2.6%
23	LIVE NATION ENTERTAINMENT INC	Consumer Discretionary	USD	Mid	1,400	$45.44	$42.57	$74,673	2.5%
24	ALACER GOLD CORP	Materials	CAD	Small	28,300	$2.38	$2.23	$63,109	2.1%
25	ISHARES GLOBAL CONSUMER STAP	Consumer Staples	USD	ETF	450	$90.77	$105.94	$59,732	2.0%
26	ARITZIA INC	Consumer Discretionary	CAD	Small	2,800	$12.50	$12.69	$35,532	1.2%
27	U.S. DOLLAR	USD	USD	Cash	13,393	–	$1.00	$16,780	0.6%
28	PERFORMANCE SPORTS GROUP LTD	Consumer Discretionary	CAD	Small	10,985	$7.16	$1.00	$10,985	0.4%
						Total		$2,998,751	100.0%

Source: Bloomberg

ANNUAL REPORT 2017

EQUITY MARKETS

2017 REVIEW & 2018 OUTLOOK

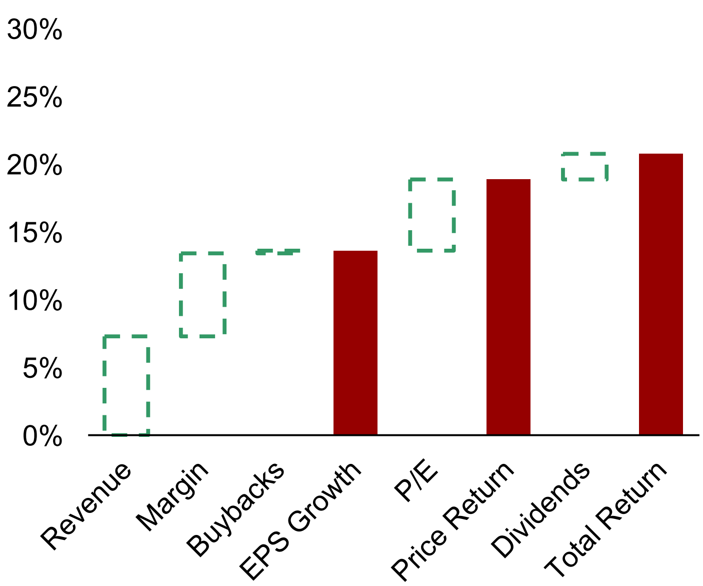
DESAUTELS CAPITAL MANAGEMENT

EQUITY MARKETS
2017 REVIEW

'Alternative Facts', 'FANGS', 'En Marche', 'covfefe', and '#MeToo' are only some of the phrases that dominated what turned out to be a very eventful 2017. The beginning of the year was packed with economic releases and market movers, political hurdles in the U.S. and Europe, and higher than expected rate-hikes from the Fed. Nonetheless, equity markets started the year off strong, continued moving upwards, and ended 2017 with a synchronized global recovery, low volatility, and tepid inflation. The S&P 500 posted a total return of 18.4%, while in Canada the S&P/TSX Composite returned only 5.2%, weighed down by the poor performing Energy and Financials sectors as well as fears surrounding the future of NAFTA.

Breaking down the S&P 500 return we see that both fundamentals (revenue growth and margin improvements) as well as optimistic sentiment (multiple expansion) played significant roles in driving the index higher.

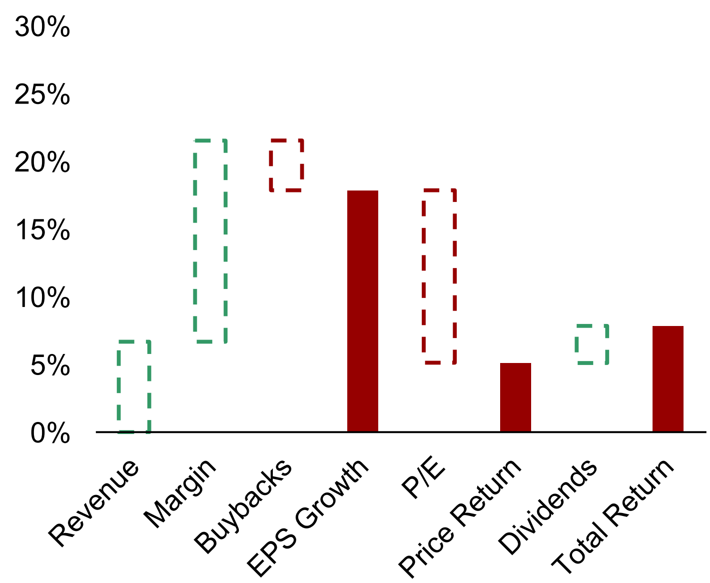
Figure 1: 2017 S&P 500 Performance Breakdown



Source: Bloomberg

North of the border the returns were not nearly as impressive, and the decomposition looks significantly different. Figure 2 shows that the return was driven mainly by fundamentals. Although revenue only gained 2.3%, margin improvement was significant.

Figure 2: 2017 S&P TSX Performance Breakdown



In the U.S., buybacks were much lower compared to 2016, something we view as a reassuring sign. Last year many investors argued that buybacks were artificially inflating stock prices. A decline in buybacks therefore shows that there is more to this bull market than financial engineering. In Canada, equity issuance exceeded buybacks in 2017, with issuance in the Energy sector more than offsetting record repurchases by major Canadian banks.

EQUITY MARKETS
2017 REVIEW

AN APPETITE FOR RISK

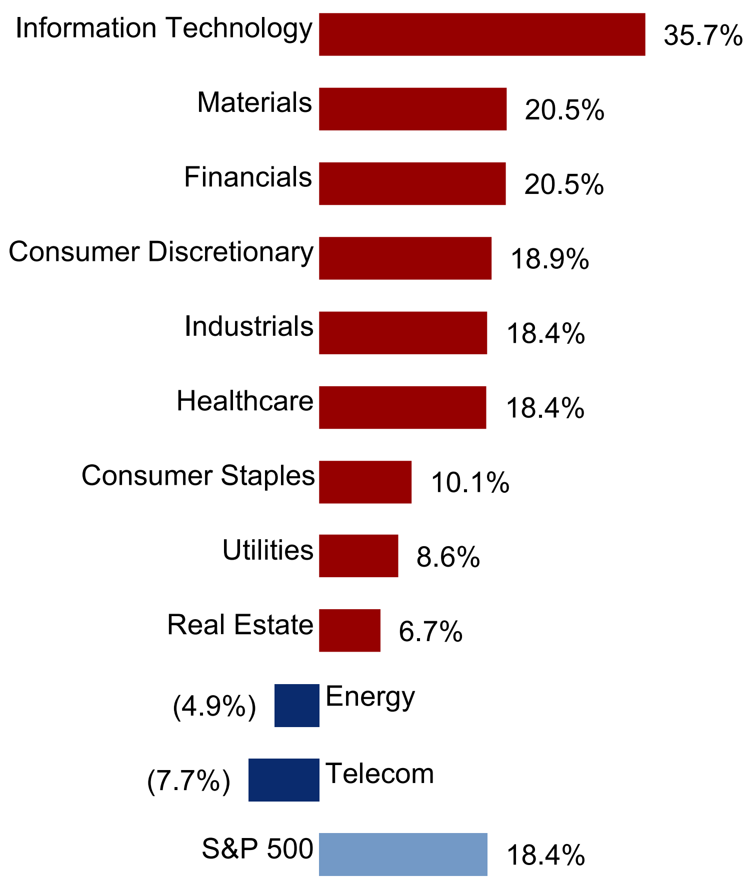
Despite the political and macro surprises this year, 2017 has seen a decline in the implied volatility level. In July the CBOE Volatility Index (VIX) fell to its lowest level since 1993, and with lower volatility comes the ability to take on larger positions. With volatility having been so low for so long, it will be interesting to see how investors react to any upticks in vol. Indeed, volatility tends to be mean-reverting in the long run, and it's only a matter of time before we return to more normal levels of uncertainty. In the current political climate, it would not be too surprising to see volatility spike up in 2018. As we explain later, however, we would expect these spikes to be temporary, and our baseline view is for continued moderate volatility for the foreseeable future.

Another sign of investors' increased risk appetite is their investment in EM. Apart from a brief sell-off in August and September, EM equity funds saw continuous solid inflows throughout the year.

The Institute of International Finance expects EM capital inflows to rise to $1.1 trillion this year, which is a 57% improvement from the $763 billion number last year. Investors continue to be upbeat on the prospects for emerging markets despite concerns over North Korea, and turmoil in Venezuela. In fact, the International Monetary Fund predicts that economic activity in emerging and developing economies will grow from 4.3% in 2016 to 4.8% in 2018.

The outperformance of more cyclical sectors, including Consumer Discretionary, Materials, and volatile sectors such as Technology is yet another indicator of investors' risk-on mode (see figure 3). The one exception to this trend is Healthcare's outperformance. However, the overall sector's performance has largely been driven by Biotechnology; a higher beta segment.

Figure 3: U.S. Equities Saw Continued Growth in 2017



After the U.S. presidential elections in 2016, small-cap stocks rallied, gaining around 16% from November to December. However, since December they went nowhere – and the beginning of 2017 was no different, even though almost all other equity markets were showing large gains. U.S. small-caps did not rally until October; but their gains were short-lived. By the end of the month they dropped again following the House's announcement of a plan that would reduce the U.S. corporate tax gradually. Investors, who assumed the tax cuts would be immediate reacted negatively to this announcement and caused a sharp downturn in small-caps.

Source: Bloomberg

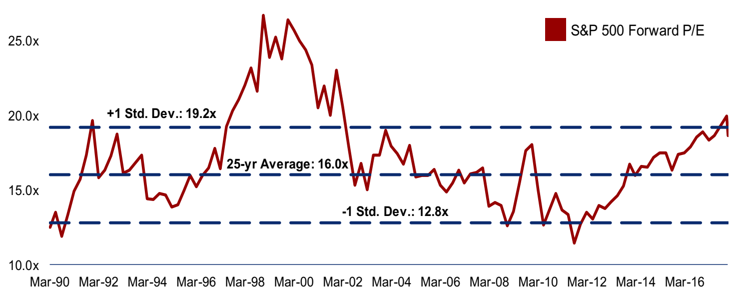
EQUITY MARKETS
2017 REVIEW

STILL RIDING THE BULL

The bull market is now going into its ninth year (currently at 105 months), making it the second longest bull cycle historically; behind only the 115-month bull market that began in October 1990. It has also experienced the highest growth, of ~295% since the late 90s. Furthermore, both the S&P 500's forward P/E multiple and Shiller's P/E (cyclically adjusted price-to-earnings ratio) are currently above their 25-Year average (see figure 4).

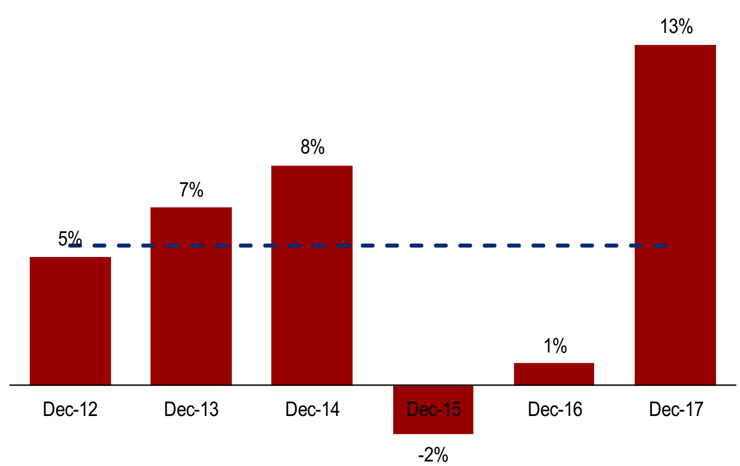
Figure 4: S&P 500 Valuation

Current S&P 500 Valuations			Historical Perspective	
Valuation Measure	**Description**	**Current**	**25-Year Avg.**	**Std. Diff.**
P/E	Forward P/E	18.2x	16.0x	0.7
CAPE	Shiller's P/E	32.4x	26.4x	1.0
Div. Yield	Dividend Yield	2.0%	2.0%	0.1
P/B	Price to book	3.1x	2.9x	0.2
P/CF	Price to cash flow	12.8x	10.7x	1.1
EY Spread	EY minus Baa yield	1.3%	-0.2%	-0.8



First, forward P/E multiples and the CAPE ratio, while being the most popular methods of valuation are not the only ways to value equity markets. For instance, the spread between earnings yield and bond yields do not suggest an overvalued equity market (see Figure 4). Moreover, it's also important to note that even though PE ratios tend to be mean-reverting, a high PE ratio does not imply equity prices are bound to drop. The decrease could also materialize from an increase in earnings. Indeed, while earnings had been in a slump for a few years, they are now showing signs of very strong improvement (see figure 5).

Figure 5 – S&P 500 Earnings per Share Growth



Forward P/E ratios are used as a common measure of market valuations, which compares the S&P 500's current price to analyst's consensus expectation for earnings over the next year. The CAPE aims to measure earnings over the course of an entire business cycle. Having both multiples at points higher than their historical average could indicate that valuations are stretched, and indeed market bears are forecasting a large correction. We, however, have reason to believe this bull market still has room to run.

In terms of the CAPE ratio, we have often pointed out that the measure is likely skewed due to the massive drop in earnings that took place in the 2008/09 financial crisis and recession that followed. That data point will soon drop out of the past ten years of data used to compute the metric, and the PE will normalize downward accordingly. In short, above average current P/E levels appear warranted in our view and we believe strong growth is sustainable.

Source: Bloomberg

EQUITY MARKETS
MAJOR THEMES OF 2017

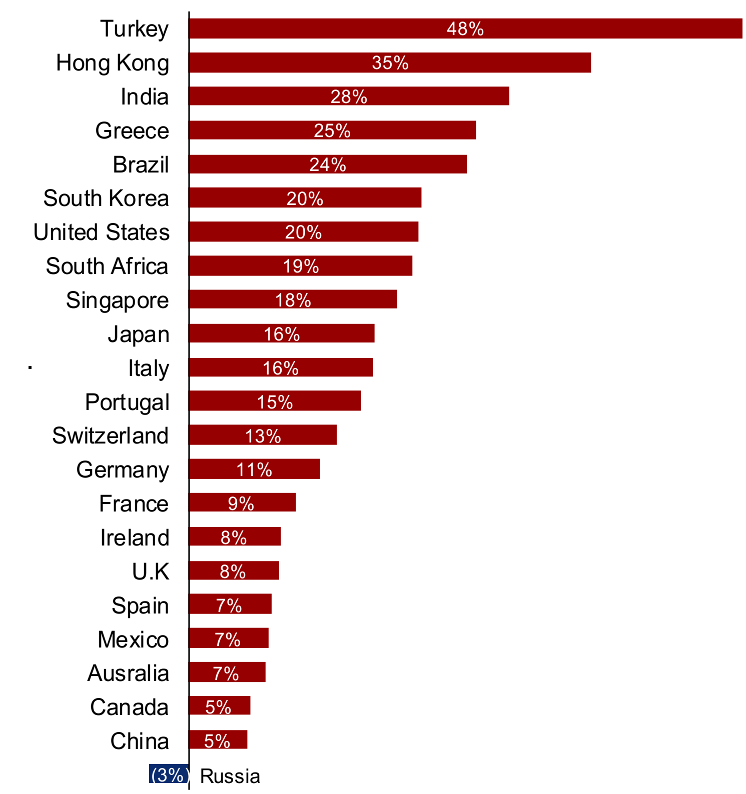
Despite major political hurdles this year, market growth was resilient. In fact, 2017 saw easy monetary policy and rising global growth come together to deliver blockbuster returns for the world's emerging markets.

There were four major themes that defined the year.

1. SYNCHRONIZED GLOBAL GROWTH

The first, and most dominating theme of 2017 was global synchronized growth. For the first time since 2007, growth has been accelerating and stock markets around the world have been hitting record highs (see figure 6). Revenue and earnings are up year over year, not only in the U.S., but worldwide.

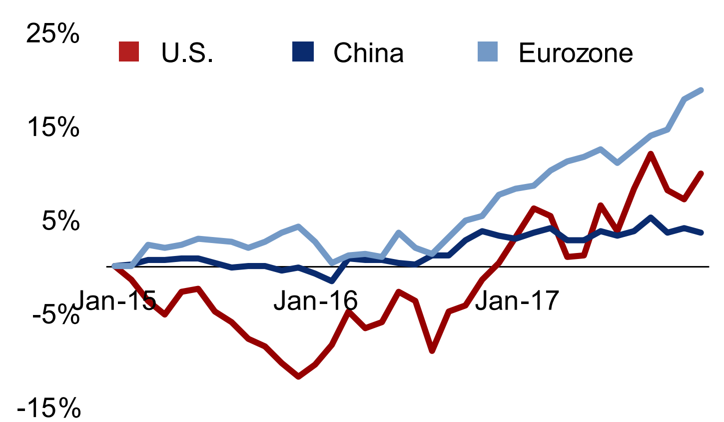
Figure 6 – Equity Markets by Country



The U.S. economy grew 2.5% in 2017, and unemployment levels are at their lowest since 2000. x Blue-collar wage growth is outstripping the rest of the economy. The Canadian economy surprised by delivering robust growth; prompting the Bank of Canada to raise interest rates twice during the year. The economy saw solid employment gains and appreciation of housing prices continued to fuel consumer spending in Canada. The Eurozone was an especially bright spot, with growth at a ten-year high, and unemployment at a nine-year low. Emerging markets also had a very strong year; EM GDP grew ~4.5% compared to the ~2.25% growth for developed markets. China's economic growth alone was at 6.9% in 2017, beating its target of 6.5%.

Despite constant threats of protectionism, led by United States President Donald Trump, 2017 saw accelerating global trade. The acceleration in manufacturing PMIs, an indicator of the economic health of the manufacturing sector, reflect optimism that the global economy has picked up pace (see figure 7).

Figure 7 – Global Purchasing Managers' Indexes



2. MARKET MOVERS & SHAKERS – TRUMP KEEPER OF PROMISES?

On January 20th 2017, Donald Trump was sworn in as the 45th president of the United States.

Source: Bloomberg

EQUITY MARKETS
MAJOR THEMES OF 2017

On January 21st hundreds of thousands of protestors gathered in Washington D.C. and other cities worldwide to protest his presidency; making it the largest single-day protest in U.S. history. Since then, many more protests have followed.

Trump, surprisingly, delivered on several of his campaign promises. In his first few days at the oval office, Trump withdrew from the Trans-Pacific Partnership (TPP). In January, Trump elected conservative judge Neil Gorsuch for the U.S. Supreme Court, who was ultimately confirmed by the Senate in April. In April, Trump ordered the biggest non-nuclear "Mother of All Bombs" on an Islamic State stronghold in Afghanistan. On June 1st, Trump withdrew the U.S. out of the Paris climate deal, as part of his "America First" campaign, stimulating widespread criticism from its allies. Finally, in December, Trump delivered on his promise to lower the corporate tax rate and implement huge tax cuts for working Americans.

Nonetheless, Trump only party delivered on other campaign promises. Despite constant threats to pull out, Trump did not withdraw from NAFTA, and instead said that Canada and the U.S. have agreed to negotiations. Trump also promised to ban all Muslims from entering the country, but switched to extreme vetting instead; he introduced two travel bans, and the Supreme Court ruled that his ban against travellers from Chad, Iran, Libya, Somalia, Syria and Yemen can go into full effect, pending legal challenges. One of his trademark promises was repealing and replacing Obamacare, yet the Republican healthcare plan has been unable to pass the Senate, and has been criticized and attacked by the medical industry because of its deep cuts to Medicaid. Yet, Trump still succeeded in dismantling parts of the law.

Other campaign promises were either completely abandoned, or have seen no progress yet; including building a wall paid for by Mexico, deporting all illegal immigrants, ditching NATO, prosecuting Hillary Clinton and spending big on the country's infrastructure.

Although Trump failed to act on some of his more extreme campaign promises, the decisions he made throughout the year sparked passionate responses and protests from the American people, and ultimately highlighted the growing political divide in the U.S.

A report from the Pew Research Center shows that the partisan split between Democrats and Republicans is at its widest point in over two decades; this is especially true with regards to the topic of race and environmental protection. With regards to both topics, Trump's presidency has added fuel to the fire. Trump's reaction to the Charlottesville riots in August are only one example. His statement "We condemn in the strongest possible terms this egregious display of hatred, bigotry and violence, on many sides. On many sides", was criticized as being "unpresidential". In fact, his response to the riots sparked more backlash against him than any other action he took in 2017. Trump's withdrawal from the Paris agreements similarly faced substantial criticism. It was condemned by global leaders, scientists, and big business heavyweights.

In the face of the many challenges the year posed, Trump consistently cited the American economy as evidence of his success. The U.S. stock market, which has been rallying since the Obama administration, continued to do well this year. Further, Trump promoted recent hiring and GDP numbers as evidence of his achievements; although job growth has not seen significant changes from the months before he took office.

Source: Bloomberg

EQUITY MARKETS

MAJOR THEMES OF 2017

The next theme discusses in more depth how despite the political hurdles and the rollercoaster that is their president, the U.S. economy managed to experience significant growth.

2. MARKET MOVERS & SHAKERS – EUROPE

Across the Atlantic, Europe was suffering from its own political hurdles. 2016 saw a worldwide trend in increased nationalism, and against globalization with the election of Trump in the U.S., and with the Brexit vote in June. With several elections taking place in 2017, including the Dutch general election, the French presidential election and the German elections, all eyes were looking to European leaders to see whether this trend would continue.

The year started off well with the Dutch election results, which were very pro-European. The election results saw Geert Wilders' anti-immigration party fail to become the largest in parliament. Instead, the centre-right Prime Minister Mark Rutte's VVD party won by some margin. The Prime Minister's party won 33 out of 150 seats, a loss of eight seats relative to the previous parliament, whereas Wilders' Freedom Party came in second with 20 seats, a gain of five. German Chancellor Merkel lauded a "good day for democracy".

In May, the pro-EU trend continued, and investors breathed out a sigh of relief when pro-EU candidate Emmanuel Macron defeated his far-right rival Marine Le Pen, by 66.06% to 33.94% in the French presidential elections. After his decisive victory Macron vowed to unite a divided and fractured France. His victory was praised by his supporters as holding back a tide of populism after the Brexit vote and Trump's victory in the U.S..

Although Macron defeated Le Pen by a wide margin, her score still marked a historic high for the French far right. The anti-immigration, anti-EU Front National's supporters declared that the party had a principal place as an opposition force in France.

The German elections in September were not as reassuring. Although Angela Merkel secured a fourth term as chancellor, her authority was diminished. The radical right-wing Alternative for Germany (AfD) entered parliament as the third-largest party. Merkel's CDU's performance on the other hand, had its worst electoral performance since 1949. The September elections significantly changed the German political scene. For the first time since the 1950's, Germany will have six parties in the Bundestag. The largest beneficiaries of this election are the nationalist right-wing AfD and the pro-business FDP, who after four years have returned to the parliament and will likely return to the government.

In the U.K., although the "Brexit" vote took place in June 2016, the vote itself was merely advisory. Prime Minister Theresa May officially invoked Article 50 of the Lisbon Treaty, the move "from which there can be no turning back" on March 29th, 2017. Britain therefore has until March 29, 2019 to negotiate the terms of its departure. For the rest of the year, negotiations took place, to no avail. It was not until early December that Britain and the EU reached an agreement on several critical preliminary issues, including how much Britain should pay to settle its debt to the EU. Assuming the deal holds, both sides can focus on deciding the rules that will govern their future economic relationship. Unless a deal is signed and delivered by March 29, 2019, Britain faces a "hard Brexit".

Source: Bloomberg

EQUITY MARKETS

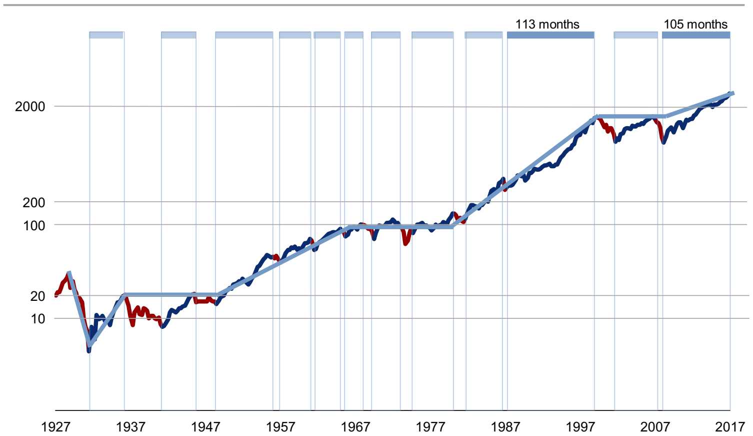
MAJOR THEMES OF 2017

3. HIGH GROWTH

Despite the major political crises that took place in 2017, global equity markets had a momentous year. The first theme consistent across global markets was that of high growth and low volatility. We saw this across all major markets, including U.S., Canada, Europe, and Emerging Markets.

First, in the United States, the S&P 500 saw an 18.4% gain throughout the year, bringing the U.S. equity markets into their second longest bull run; only behind the 113 month bull run in 1990 (see figure 8). The strengthening bull run in the U.S. helped to lift global economies, and spur optimism across global markets.

Figure 8 – S&P 500 Saw Continued Growth in 2017



Since the Obama Administration, U.S. unemployment has continued to fall, and the stock market continued to climb. Although some of this growth can be attributed to the fact that the world economy is enjoying its strongest synchronized upswing since 2010, Trump's legislative accomplishments have also had a role. Despite his grenade-throwing campaign, Trump has not carried out his worst threats; including 45% tariffs on all Chinese goods, ditching the North American Free-Trade Agreement, and deporting 11 million illegal immigrants.

Instead, his aversion to regulation has been one of the major drivers of the U.S. stock markets in 2017. Expectations of the tax reform, which was eventually realized on December 20th, boosted U.S. stocks throughout the year. The tax reform cut rates and simplified rules that were regressive and unfunded. The U.S. financials sector especially benefited from a combination of higher interest rates and deregulation.

In addition to synchronized global growth, and Trump's deregulatory reforms, the technology sector was a significant driver of U.S. equities performance. Tech was easily the winning sector in 2017 with FAANG stocks largely contributing to much of the S&P 500's gains. The two worst performing sectors were Energy and Telecom. Despite the fact that oil prices saw some improvement in 2017, energy companies are still suffering from historically lower energy prices. Telecom's underperformance is mainly a result of the competitive nature of the industry, resulting in constant, expensive update cycles, price wars; which together have put pressure on profitability.

Despite major devastating news events including, the massacres in Las Vegas and Texas, terrorist attacks in New York, escalated tensions with North Korea, several hurricanes, U.S. markets remained eerily calm. The VIX, the market's collective "fear gauge", hit an all time low of 9.14 in November, and dropped over 17% in 2017. Some justified the market's low volatility levels by claiming that there were no "real" drivers of volatility this year – instead most of the random news events that occurred in 2017 were "fake news". Others claim the increased trend in passive investing resulted in lower volatility. Some credited the increased stability in interest rates as the cause of the low volatility levels. However, prolonged periods of low/moderate volatilities are the norm, not an exception.

Source: Bloomberg

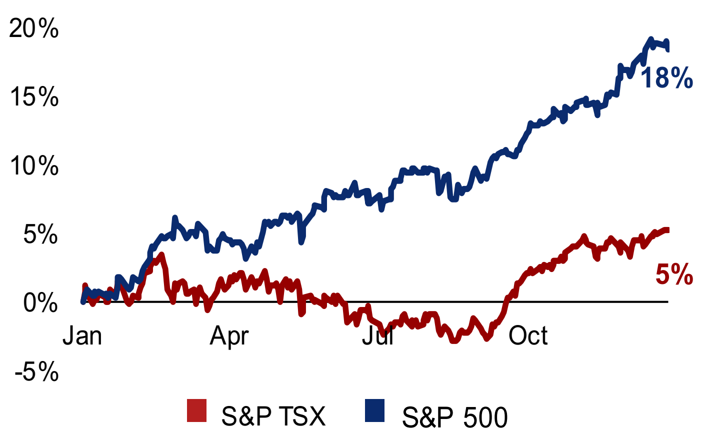
EQUITY MARKETS

MAJOR THEMES OF 2017

While headline grabbing scandals could lead to temporary spikes in volatility, a permanent regime shift to high equity volatility is unlikely in our view given the current steady economic backdrop.

Second, while the Canadian economy exceeded expectations this year, its stock market was one of the weakest global performers. Canadian equities muddled along for most of 2017, and only began responding to reflation and rising oil prices in Q4 (see figure 9).

Figure 9 – Canadian vs. U.S. Equity Performance



Canadian equities' underperformance can be attributed to three reasons. Sector composition, as is often the case, played a huge role as the underperforming Energy and Financials sectors make up roughly 50% of the index. Furthermore, the technology sector, which as mentioned earlier largely contributed to the strong performance of the S&P 500 this year, makes up only 4% of the S&P/TSX Composite, versus 38% in the S&P 500.

Second, Trump's constant threats of abandoning, or aggressively changing, NAFTA weighed down on Canadian equities. Investors' worries began in January, when Trump quickly acted on his campaign promise to withdraw from the Trans-Pacific Partnership.

Throughout the year, Trump also mentioned he supports a "form of tax on the border", called out for substantial changes to NAFTA, singling out the Canadian dairy industry, and noted a "Buy American and Hire American" order might shut out Canadian firms from U.S. government procurement. Therefore, when key NAFTA talks opened in Mexico in November, it did not look promising. Furthermore, Canada's chief negotiator Steve Verheul said the U.S. side was unwilling to budge and was being very inflexible during the talks, doing little to reassure investors' concerns.

Lastly, although WTI, the U.S. crude oil price, saw a 7% uptick in 2017, Canada's Western Canadian Select finished the year 6% below the opening year price. The Western Canadian Selects 21% drop in December was a result of uniquely Canadian pipelines issue, and consequently affected only the S&P/TSX composite.

Although Canadian equity performance was significantly weaker than its U.S. counterpart in 2017, when comparing the two markets over a period of two years, the gap does not look as drastic. Canadian equities performed extremely well in 2016, besting the S&P 500 by 11% on a price basis in Canadian dollar terms, and offering a higher dividend yield. On a total return basis, the S&P/TSX stands 32% higher over the past two years versus a 24% total return in Canadian dollars for the S&P 500.

4. EARLY STAGES OF MARKET EUPHORIA

The world has not looked so poised for growth in at least a decade; and people have started to notice.

Despite its successes, this bull run has been often dubbed the most hated, due to the role played by central banks in fueling it through vast stimulus plans introduced in 2008. However, as we move into 2018, people have finally begun to warm up to it.

Source: Bloomberg

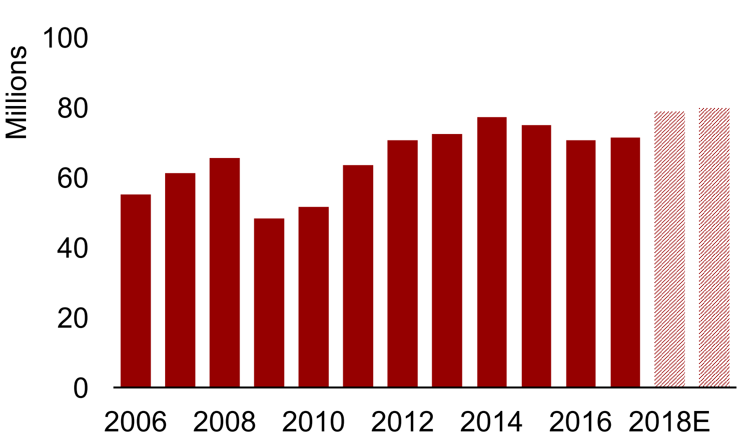
EQUITY MARKETS
2018 OUTLOOK

Although the stock market experienced stronger growth under Obama, Americans have only started to notice that their stock market and jobs have been rallying this past year. While typically hard to measure, we have seen a few indications that market euphoria has arrived.

First, media coverage suggests belated euphoria. The ongoing cryptocurrency craze alone exhibits bubble psychology. Furthermore, a good sentiment survey, by the American Association of Individual Investors, shows that as of January 2018, 59.75% of investors are bullish, and only 15.5% are bearish; vs. 37% bullish and 34% bearish a month earlier, in December 2017. Corporations also seem to finally accept the bull market, as capital expenditure as increased, and expected to continue to do so for the next two years (see figure 10).

Second, until recently, the economic recovery in most markets has largely been driven by the consumer. Corporate investment in capital expenditure however, has been lagging historical norms. Although consumer spending is still expected to be strong in 2018, improving capex, and hence productivity growth, will likely be a major theme in 2018; specifically in U.S. and Europe.

Figure 10 – U.S. Capital Expenditures



Source: Bloomberg

2018 OUTLOOK

The number one question people are asking as we go into 2018, is whether this growth will continue. Although the U.S. is clearly in the late-stages of this cycle, we believe it still has room to run. Despite low unemployment rates, a positive output gap, and rising interest rates, we have yet to see overheating in key sectors.

There are two main themes we see coming to fruition in 2018.

STABLE GROWTH, LESS UPSIDE

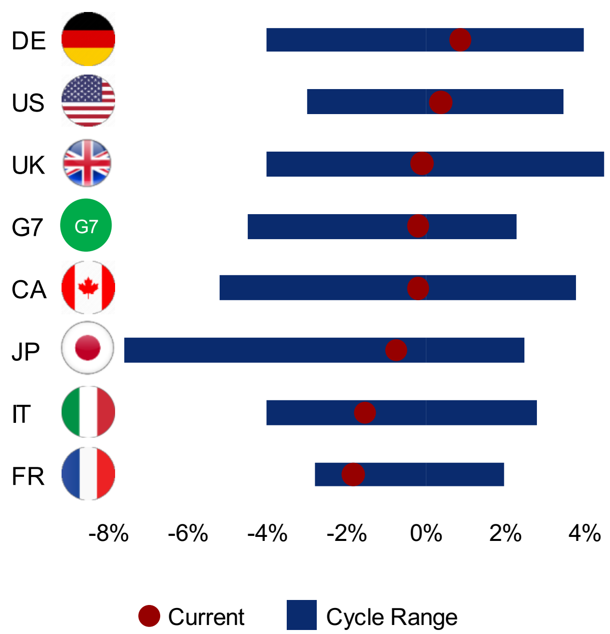
Equity markets delivered exceptional returns in 2017. Although we expect this trend to continue in 2018, we predict narrower performance as markets begin anticipating the peak rate of change on growth and deteriorating financial conditions. Equity markets in the U.S. will benefit from growing optimism as Americans become more upbeat about the labor market and business conditions. A tight labor market and rising productivity have been lifting wages. Additionally, these increases in wealth may maintain high consumers spending levels. Consumer confidence may also hit highs not seen since 2000.

Furthermore, the output gap, the difference between actual output and economic potential levels in the U.S. is shrinking, and joining Germany, the U.K and Canada in running at near full capacity. Nevertheless, when growth it only slightly above trend, economies can run beyond potential for a long time before peaking.

Plenty of spare capacity in parts of Europe means the developed world still has a substantial output gap. Therefore, although the U.S. is in the late stages of a bull cycle, most other countries are not as far along (see figure 11).

EQUITY MARKETS
2018 OUTLOOK

Figure 11 – G7 Output Graph



Within emerging markets, the expected slowdown of growth in China, which is also in the late stages of the cycle, will likely be offset by improvements in other developing nations; many of which are still in the early innings of recovery. India is on track to lead the way with an estimated 7.5% GDP growth this year, as demographic and digital trends continue to drive expansion.

Nonetheless, the longer the cycle lasts, the more investors worry about its demise. However, even if positive growth surprises are behind us, we expect the above trend level of grow to continue to be positive for risk assets.

GEOPOLITICAL RISKS ABOUND

Although we did not see a significant impact of geopolitical risks on equities in 2017, there are two main sources of geopolitical risks that could hinder 2018's performance.

Source: Bloomberg

1. THREATS TO TRADE

First, NAFTA talks are set to continue in 2018. Although in early January of 2018 Canadian Foreign Minister Chrystia Freeland said it was "absolutely possible to have a positive outcome" if all three sides showed good will, the U.S. has recently been inflexible in negotiations. Freeland also told reporters that the U.S. should be taken seriously when it says it might walk away from NAFTA, as Ottawa becomes increasingly convinced that Trump will pull the plug. The Canadian and Mexican currencies, and stocks of companies that are heavily reliant on North America's integrated economy fell following Freeland's announcement, showing an increased likelihood of a U.S. withdrawal.

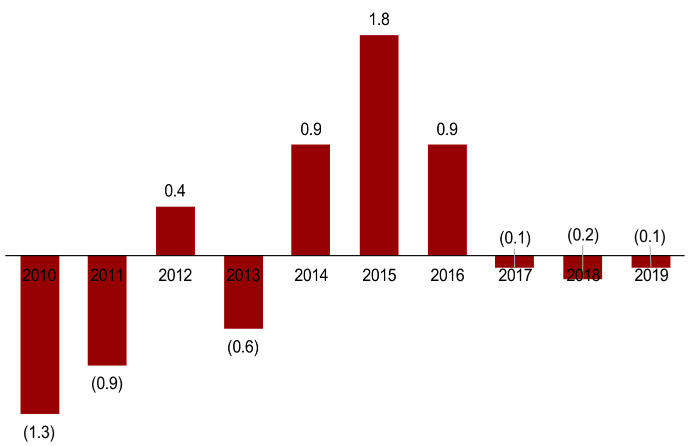
Furthermore, a disruption to global trade, as a result of increased protectionist measures, could offset the trend of increased capital expenditures in the U.S. and Europe.

2. OIL MARKETS

In 2017, the world saw oil markets shrug off major geopolitical risks. In June, several countries, led by Saudi Arabia cut diplomatic ties with Qatar, the world's largest source of liquefied natural gas. In September, Iraqi Kurds voted for independence for three provinces of Iraqi Kurdistan, including the oil-rich Kirkuk. Lastly, in October, the Trump administration raised the possibility of re-imposing sanctions with Iran. Any of these events should have impact oil prices. However, the global supply glut has made the markets largely immune to geopolitical risks. These geopolitical risks and supply shocks will be more relevant in 2018 as the markets tighten, due to a combination of stronger demand and shrinking inventories (see figure 12).

EQUITY MARKETS
2018 OUTLOOK

Figure 12 – Implied Stock Build / Draw



EQUITY ALLOCATION

Given our expectations for 2018 and the current state of the market, DCM is bullish on three main sectors.

First, we are bullish on Energy in the U.S., since the sector has typically outperformed in late-cycle environments. Industrials is also expected to outperform, as capital spending continues to increase. Lastly, we believe U.S. financials will outperform. They are expected to benefit from higher interest rates and less regulation, as the Trump Administration continues to actively work towards reducing regulatory burden on financial institutions. Furthermore, in 2017 we saw the effects of tech disruption in almost all sectors. Therefore, going into 2018 DCM will continue to focus on companies that show continued technological innovation.

With regards to geographical allocation, moving into 2018 DCM will reduce allocation to USD assets, and instead increase allocation to both Canadian assets, and Emerging Market assets, as we forecast continued growth for both.

DCM UPDATE

As the school year comes to an end, we are beginning to hand off student leadership roles to the incoming seniors. I would like to take this opportunity to congratulate George Koutsos on his election as Global Equity Strategist. I look forward to seeing the program continue to thrive under his leadership.

I would like to once again take this opportunity to thank our investors for their generous investment in the fund and continuous support of our program. We look forward to another eventful year at DCM.

All the best,

Alaa Hachem

Global Equity Strategist

Source: Bloomberg

ANNUAL REPORT 2017

RISK MANAGEMENT

2017 REVIEW

ANTOINE FRANCOEUR

DESAUTELS CAPITAL MANAGEMENT

RISK MANAGEMENT
2017 OVERVIEW

INTRODUCTION

Figure 1: Performance Metrics

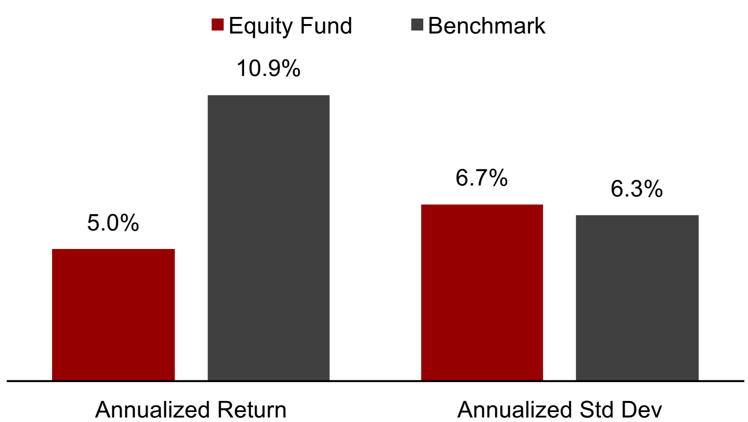
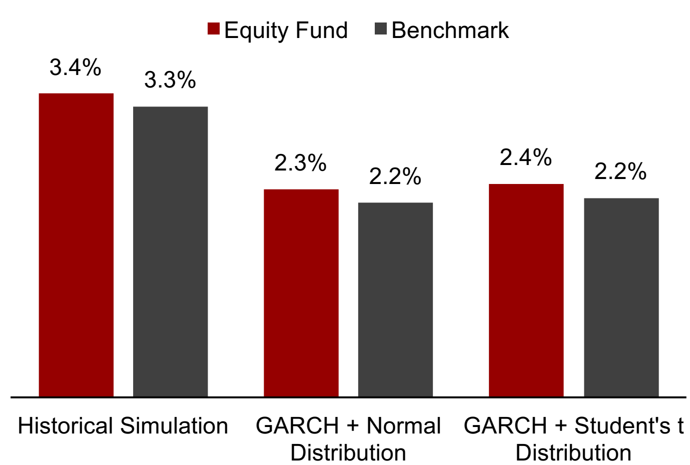


Figure 2: 1-Day 1% VaR (December 31st, 2017)



Risk is a key consideration behind every investment decision at DCM, and risk management tools ensure that DCM's portfolio is aligned with our views. In 2017, DCM continued to advance the risk management toolkit to monitor our holdings and assess potential additions. In 2014, DCM incorporated several quantitative tools to monitor market risk exposures, including rolling beta risk exposure, Value-at-Risk (VaR), and variance analysis. Following the bankruptcy of Performance Sports Group in 2016, a DCM holding, we added procedures and tracked metrics that emphasize company specific risk. First, we added more stringent tests in the valuation models to factor worst case scenarios. Companies with high leverage are subject to further stress testing to ensure that their balance sheet is sufficiently strong. We also closely monitor each sector's volatility with respect to their benchmarks throughout the year. This simple tracking dashboard enables us to quickly identify our sector holdings that are potentially riskier than the benchmark. Any unusual findings is further investigated before taking action on the sector's recommendation. The decision to sell West End Indiana and replace it with LegacyTexas was partly driven by these newly implemented practices, as the liquidity risk was above our tolerance level. These recent improvements are part of a larger initiative to advance the tools and resources available to the investment team at DCM.

In 2017, the equity fund realized an annualized standard deviation of 6.7%, slightly higher than the 6.3% for our benchmark. DCM continually monitors its implied VaR to assess the potential downside of our portfolio. Given the inherent limitations of VaR, DCM tracks two types of estimates: (1) based on historical simulation and (2) based on a GARCH volatility model with conditional distribution assumptions meant to capture the non-normality of portfolio returns. Based on historical simulation, the 1-day 1% VaR of the Global Equity Fund is 3.4% ($72,000) compared with 3.3% ($67,500) for its benchmark (see Figure 2). This is up from 2.2% and 1.9% in 2016, reflecting the increased volatility early in the year and effects from the USD/CAD exchange rate. Ultimately, increased VaR estimates reflect more volatile markets, but not an increased risk appetite from the Global Equity Fund. Going into 2018, we expect the current geopolitical environment to result in increased levels of volatility, which will be reflected in our VaR estimates.

Source: Bloomberg, DCM NAV Reports.

RISK MANAGEMENT
MARKET RISK EXPOSURE

MARKET RISK FACTORS REVIEW

DCM is constantly monitoring its exposure to various external risk factors. To estimate our exposure, we monitor the fund's sensitivity (beta) to selected factors, which include our blended stock market benchmark, oil, and the USD/CAD exchange rate. Rolling betas are computed at the end of each week by regressing the simulated portfolio returns against those of the selected risk factors in the last 3 months and 12 months. Comparing the betas of the fund with those of the benchmark provides insights on the alignment of the portfolio with our views. Moreover, this quantitative tool helps explain divergence in relative performance. Figure 4 plots DCM's and the benchmark's time-varying 3-month beta exposures to selected risk factors. In 2017, the Global Equity Fund's overweight allocation to U.S. assets (50%) compared with the benchmark (40%) dragged our returns and resulted in underperformance. The USD's depreciation against the CAD from 1.37 in early May to 1.21 in September worked against the fund, highlighted by the higher beta of the equity fund with the USD (see Figure 4). This was partially mitigated by the fact that our beta to the USD/CAD did not rise as much as our benchmark during the year – leaving us relatively less exposed to the exchange rate risk (see Figure 3). As of December 31st 2017, the 12-month rolling beta was 0.64, compared with 0.60 for our benchmark. As the U.S. approaches the end of its economic cycle, our fund managers will be aiming to replace some U.S. holdings by Canadian holdings to realign our allocation closer to the 40% U.S. weighting in our benchmark.

Figure 3: Common-Sized 1-Year Rolling Beta with USD(1)

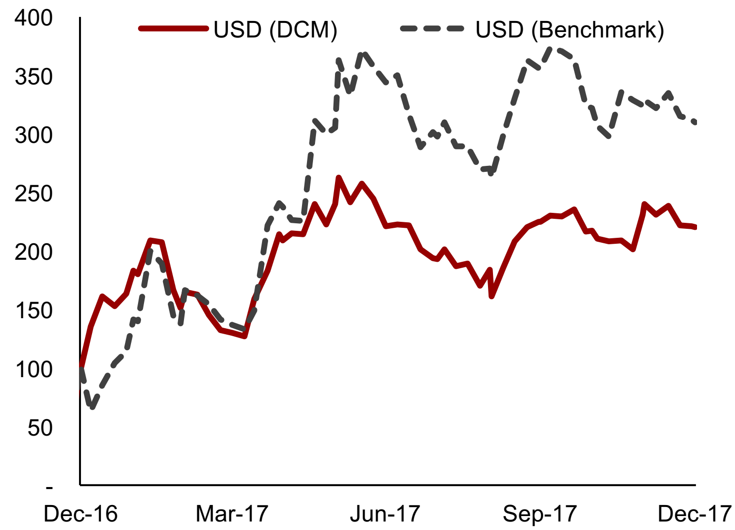
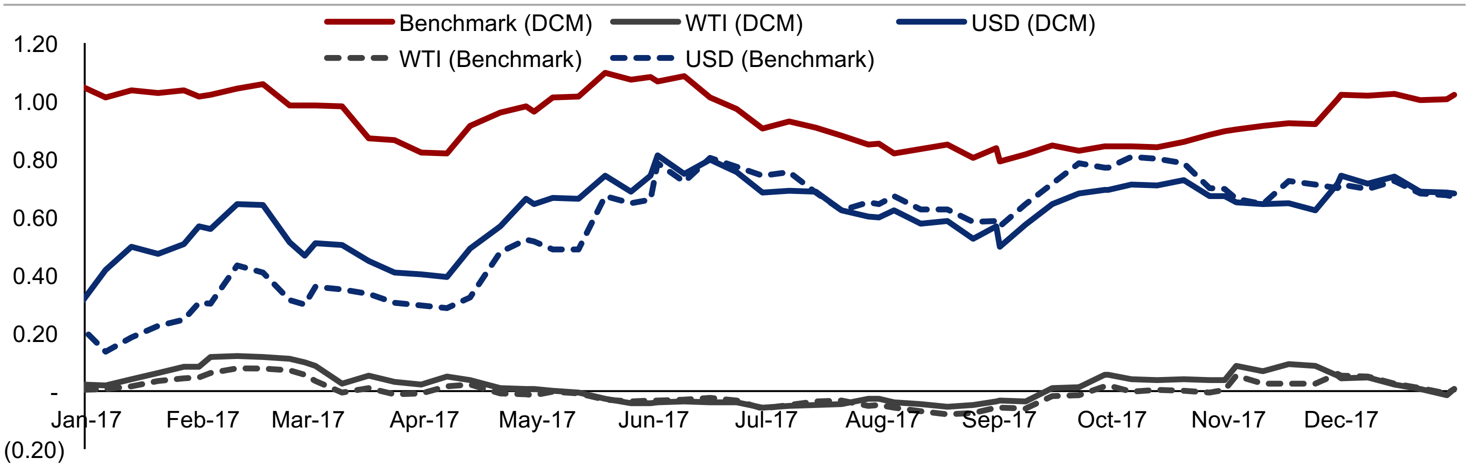


Figure 4: Risk Exposure – 3-Month Rolling Betas(2)



(1) Starting point of 100 for both Betas on December 31st, 2016.

(2) Solid lines represent our rolling exposure to the risk factors, and dotted lines represent our benchmark's exposure to the risk factors.

Source: Bloomberg, DCM NAV Reports, St-Louis Federal Reserve, Bank of Canada.

RISK MANAGEMENT

IDIOSYNCRATIC RISK EXPOSURE

VOLATILITY ANALYSIS

A quantitative indicator of the idiosyncratic risk exposure is the volatility of the Global Equity Fund. With 22 individual holdings and 4 ETFs, the DCM portfolio can be considered well diversified. This is reflected by the Global Equity Fund's 2017 annualized volatility of 6.7%, only slightly above our benchmark's 6.3%. Analyzing sector-level volatility compared with sector benchmark volatility enables us to assess the relative risk of each sector. Within a sector DCM has less holdings than its benchmark; it is normal that they have higher volatilities than their benchmarks.(2) Figure 5 shows the annualized volatility of each sector against their benchmark. Materials and consumer discretionary were the two sectors with the highest volatility. Materials' volatility was paired with significant outperformance relative to their benchmark (+27.0% vs. +10.3%). In August 2017, DCM sold Western Forest Products, which was behind the sector's strong performance. Consumer discretionary was the second most volatile sector, driven primarily by high volatility, and underperformance in Macy's. Figure 6 shows the 1-month rolling volatilities of the Global Equity Fund and its benchmark. Volatility movements were largely in line with the benchmark throughout 2017. The Global Equity Fund exhibited slightly higher volatility in H1, starting the year at about 9.6% compared with 8.4% for our benchmark (3-month rolling volatilities). As the year progressed and the USD depreciated against the CAD, the 3-month rolling volatility converged in July 2017.

Figure 5: Annualized 12-Month Volatility by Sector(1)

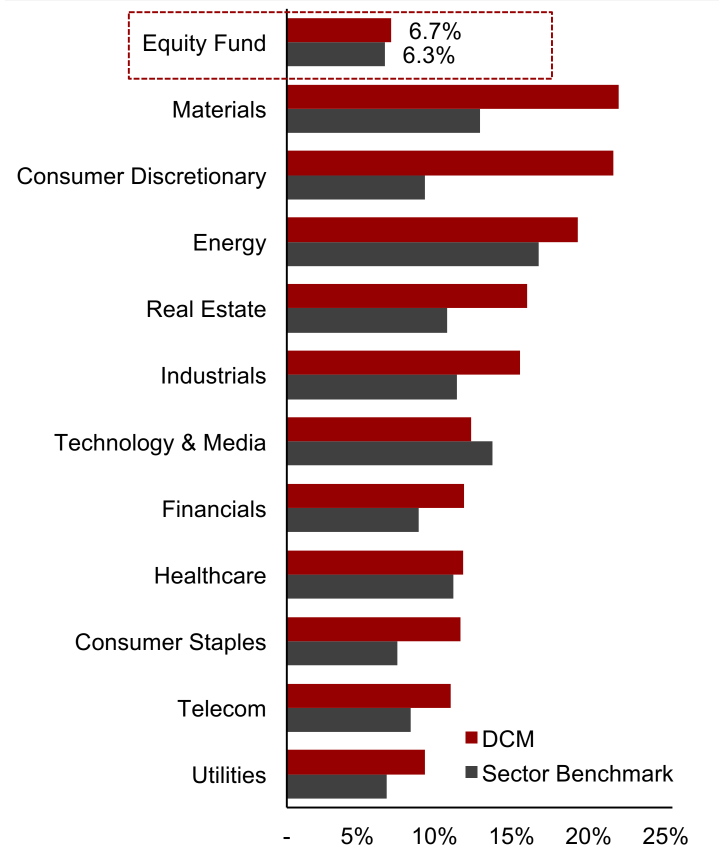
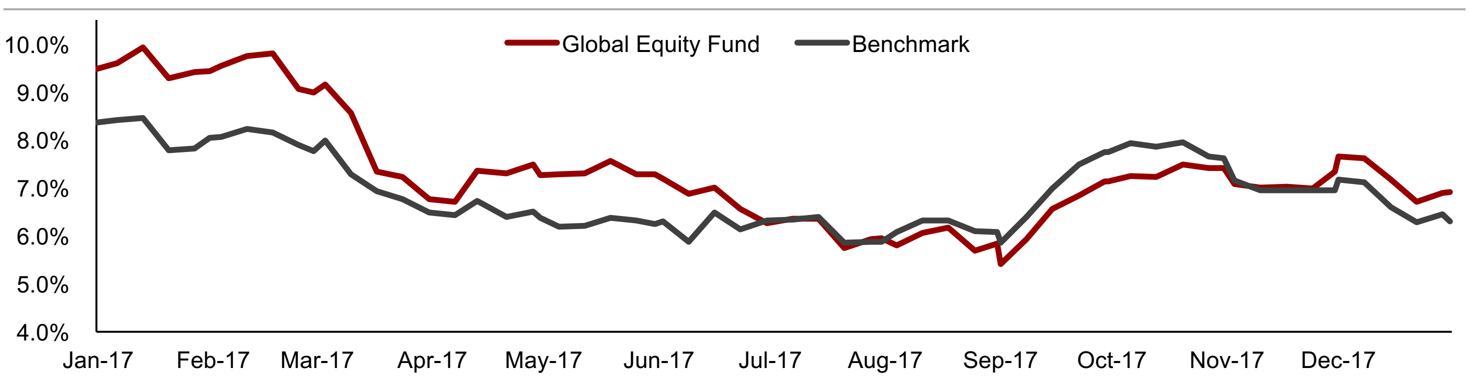


Figure 6: DCM Global Equity Fund Annualized 3-Month Rolling Volatility



(1) The benchmark for the Equity Fund bar is the fund's benchmark (60% TSX and 40% S&P 500).

(2) Each sector typically holds between 2 to 4 individual holdings.

Source: Bloomberg, DCM NAV Reports.

RISK MANAGEMENT
IDIOSYNCRATIC RISK EXPOSURE

RETURNS ANALYSIS

The Global Equity Fund had a gross return of 5.0% in 2017, compared to 10.9% for our blended benchmark, a significant underperformance. Figure 7 shows the gross monthly returns of the Global Equity Fund compared with its benchmark. The fund's performance was dragged down by a challenging start of the year, as several holdings declined sharply in January. Poor performers in January included Macy's (-18%), Ten Peaks Coffee (-15%), MEG Energy (-27%) and Crescent Point Energy (-17%)[1]. Even as the fund was underweight energy, the sector underperformed its benchmark by 4.1% in January – but outperformed for 2017. Unlike the energy sector, consumer discretionary underperformed its benchmark by 10.3% in January *and* 30.3% for 2017. Figure 8 shows the distribution of 2017 weekly returns. The Global Equity Fund experienced both more weeks with negative returns and larger losses, with more weeks with losses greater than 1.5%. Despite the underperformance in 2017, the Global Equity Fund is still matching our Benchmark's 0.67 Sharpe ratio since inception, with a slightly lower average return and lower volatility.

Figure 7: Monthly Returns Analysis

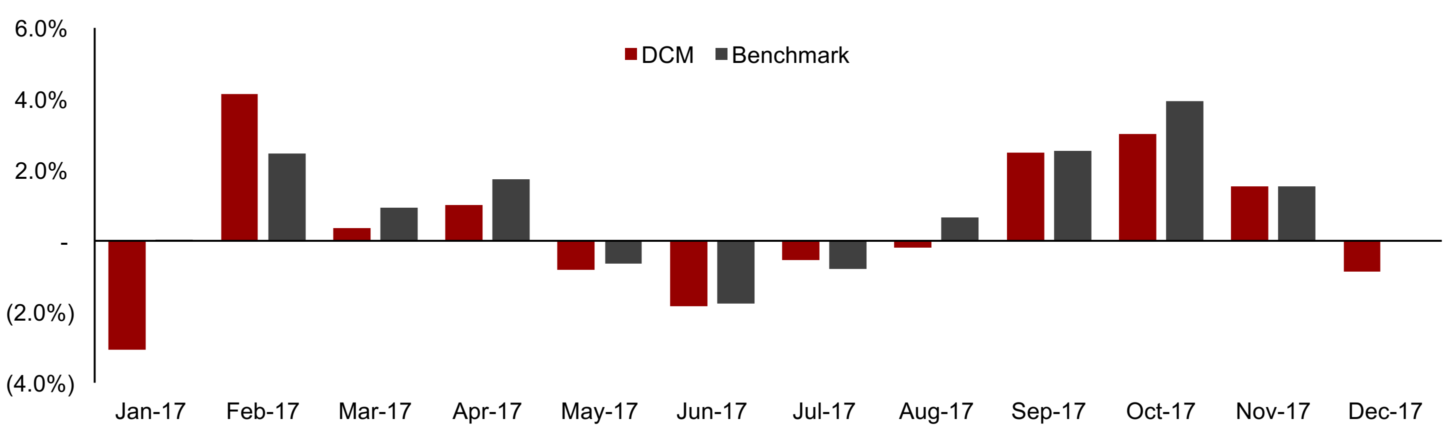
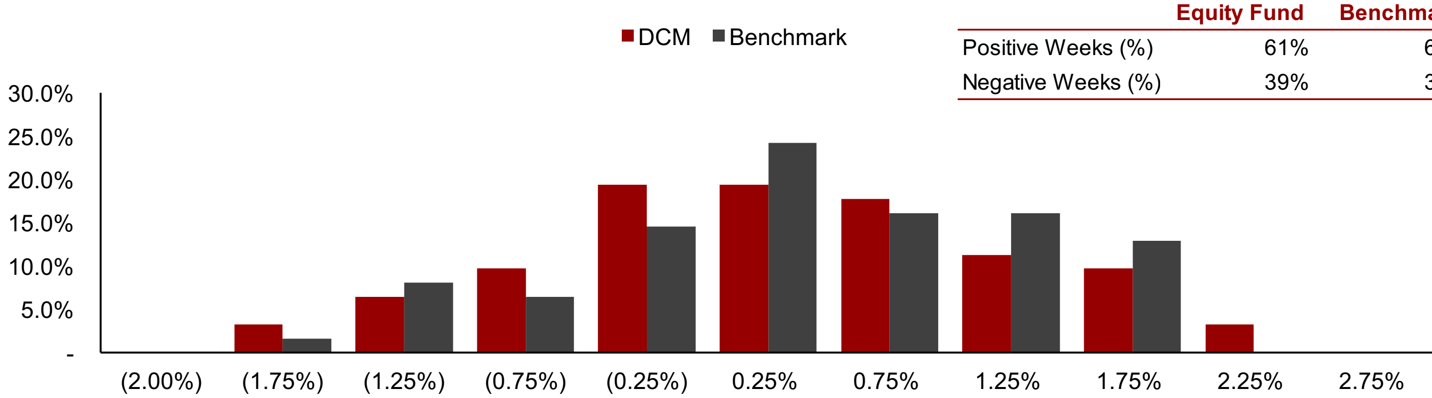


Figure 8: Distribution of Weekly Returns in 2017



	Equity Fund	Benchmark
Positive Weeks (%)	61%	69%
Negative Weeks (%)	39%	31%

(1) Returns of selected holdings represent the change in price between December 31st, 2016 and January 31st, 2017.
Source: Bloomberg, DCM NAV Reports.

FINANCIALS

2017 REVIEW & 2018 OUTLOOK

MACKENZIE CHISHOLM
JOSIAH DERKSEN
ANTOINE FRANCOEUR
EMILIE GRANGER
VICTORIA PERLMAN

FINANCIALS
SECTOR PERFORMANCE

FINANCIALS SECTOR

We witnessed strong overall growth in the financials sector, primarily driven by the real estate sector. DCMs financial sector yielded a positive return of 16.3%, with real estate yielding 20.6% gross returns. Our benchmark, which is composed of 60% TSX and 40% financials, returned 9.6%. DCM attributes the financials sector's outperformance to the modest rise in interest rates, as well as improving consumer finances, which has been supportive of loan growth.

CANADIAN BANKING

After a difficult year in 2015, Canadian banks bounced back with a strong showing in 2016 (+25.5%), and continued their ascension in 2017, returning 8.7% (excl. dividends). Banks challenged all-time highs before the year end, and were strong on all fronts: ROE, revenue growth, and book value growth stood at 15.2%, 8.2% and 8.3%, respectively(1). In 2017, Canadian banks distributed 60%(1) of profits to shareholders, in the form of dividends and share buybacks, the highest rate since pre-recessionary levels. DCM believes this will provide banks with a fair amount of flexibility in deploying their capital in 2018. Furthermore, rigorous financial regulations have forced banks to hold larger cash reserves, lowering risk: CET1 is at ~11%, up from 8% in 2012.

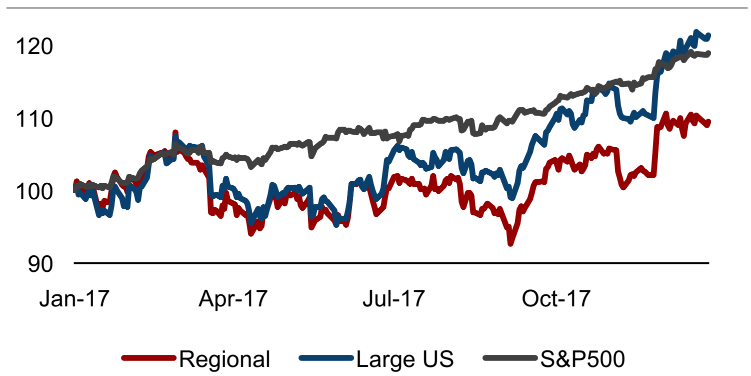
Canadian banks trade at 1.9x BV, which is in line with the 10Y average. P/E is at 12.5x, which is above the 10Y average of 10.9x, but still well below the 13.3x peak. Together with increased EPS from higher interest rates, and cost cutting from closing branches, DCM believes the current environment and valuation will provide potential incremental share price appreciation in 2018.

(1) Average of RBC, TD, BMO, Nova-Scotia, and CIBC
Sources: Bloomberg, CapIQ, Company Fillings

U.S. BANKING

Consistent with expectations of a much anticipated Republican tax bill to reduce the corporate rate, large U.S. Banks have been rallying since the Trump election (+62.8%). On December 22, 2017 President Donald Trump signed the $1.5T tax overhaul plan, of which financial institutions are expected to reap the greatest long-term benefit. Despite cutting the corporate rate from 35% to 21%, many of the large U.S. banks posted significant one-time hits in the fourth quarter of 2017, due to revaluation of their deferred tax assets. However, the financial sector outperformed the S&P 500 (+20.3% vs. +18.5%) and analyst earnings expectations for the next three years have become increasingly optimistic following the signing of the tax bill. The U.S. banking sector benefited from rate hikes following the 2008 financial crises era, which has provided a boost to net interest income and margins across most of the large U.S. banks. Regional banks were relatively flat for the year, up 9.4%, with the bulk of returns coming in the fourth quarter. Smaller financial institutions were poised to benefit from Trump's promised deregulation and unwinding of Dodd-Frank at the beginning of the year, however this has yet to materialize. Despite this, regional banks have experienced margin expansion from rate hikes, improved credit quality, but loan growth has been disappointing.

Figure 2: US Bank Performance



FINANCIALS
SECTOR PERFORMANCE

P&C / L&H INSURANCE

Property & Casualty insurers rose 9.1% in 2017, with L&H insurers up 15.2%, both underperforming the S&P. 2017 was a year marked by catastrophe-related losses, leading to greater earnings volatility and an overall negative effect on P&C insurance. Measured as a percentage of earnings premium, Allstate Corporation, the second largest P&C insurer in the U.S., saw an 8.3% catastrophe losses effect. Despite strong business fundamentals (sturdy balance sheet and underwriting capabilities), the segment is trading at elevated multiples. Furthermore, L&H EPS accreted an average of 7.0%. Multiples are now trading near pre-recessionary levels of 2006-2007. Further valuation gains will therefore be limited unless returns on equity increase. The segment was aided by the rising interest rate environment. Due to the long term nature of their liabilities, life insurers benefit from rising rates (assuming the duration of their liabilities exceeds that of their assets). However, yields in 2017 remained relatively low. Therefore, the industry did not witness the growth expected at the beginning of the calendar year.

Continuing with the consolidation trend which began in 2015, the industry witnessed heavy M&A activity last calendar year. KPMG International maintains that 84% of insurance companies planned to make between one and three acquisitions in 2017, with the U.S. leading this activity. Western Europe had the most assets up for sale, with many companies seeking divestiture opportunities. This activity is primarily an impact of the European Union's Solvency II regulations. Asia-Pacific has also become an area of focus. Moreover, the industry has begun to shift away from using brokers to more direct models. As the industry continues to consolidate, leaders will experience stronger pricing power.

CANADIAN REITS

Canadian REITs returned 9% last calendar year (2016), and were up 4% relative to the S&P/TSX REIT index this year, performing in line with the benchmark. Canadian REITs closed the year at 12x NTM FFO, approximately 6% below their average NAV. REIT performance in 2017 was influenced by the volatility of the Canadian dollar, oil and commodity prices as well as slight interest rate volatility. Canadian properties witnessed modest property fundamental deterioration this year. As in previous years, Retail and Office accounted for nearly 70% of Canadian REIT value, making them two of the most important sectors.

The negative sentiment towards retail played a key role in the significant relative underperformance of retail REITs this year. Operationally, however, retail REITs reported one of their best years, reporting growth in NOI and ROA. Nonetheless, with the Sears Canada bankruptcy announcement in June 2017 after 65 years of operations, sentiment has continued to deteriorate. Office REITs have experienced oversupply due to office vacancies and falling rents. Office vacancy rates hovered near 12% throughout the year. Calgary and Alberta reported the highest vacancy rates. Rental rates have been lowered to combat this issue.

Nonetheless, Canadian Industrial REITs have outperformed other REIT sectors due to the surge in Canadian e-Commerce. Industrial properties are in high demand to be used as warehouses. New construction project costs have been relatively low, with quick turnover, adding to the profitability.

M&A activity picked up in 2017. Notable acquisitions consist of Milestone Apartment REIT by Starwood Capital and the consolidation of Brookfield Office into Brookfield Property Partners.

Sources: Bloomberg, CapIQ, Company Fillings, KPMG International, CIBC World Markets

FINANCIALS
CANADIAN BANKING OUTLOOK

INNOVATION AND MODERNIZATION

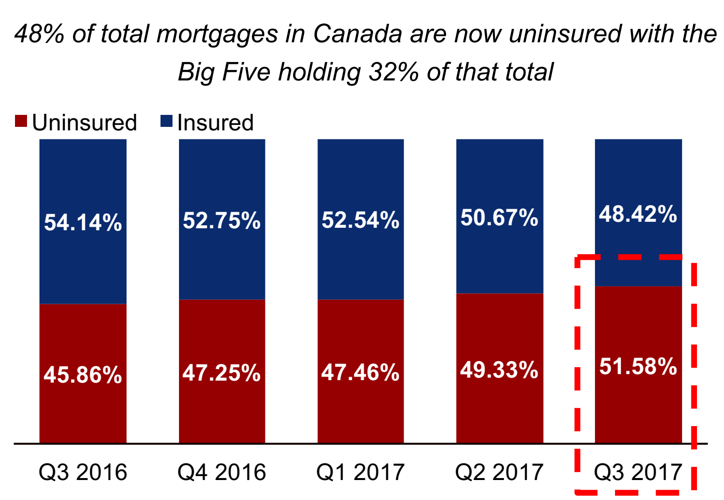
The Canadian banking sector saw the "Big Five" — BMO, CIBC, National, RBC, Scotiabank and TD — delivering strong and healthy results despite intense competition. FinTech companies, among other non-traditional competitors, have continued to challenge the status quo. As customers are looking for continuous payment infrastructure upgrade, Canadian banks have been making substantial investments in technology and digital banking.

Canada's national payments system is old-fashioned, and has proven to be a significant source of customer friction. Cash use has decreased by 20% since 2011, as Canadian have been quick to embrace new technology and digital payments. In response, Payments Canada unveiled a $97M modernization plan where it envisioned a modern payments system that is fast, flexible and secure. Canadian Banks have had to keep pace with these developments by investing significantly in increasing speed and operability of their payments capacities. This includes completing transactions more quickly, while providing more details on the transactions. Banks have been far more collaborative with FinTechs to speed-up progress and create an environment where innovation can thrive. Canada's FinTech Sector is growing and maturing. In 2016, there were 27 equity financing (US$274M, and in the first three quarters of 2017, there were 20 equity financing (US$200M). FinTech has been on pace to deliver a solid 2017. Canada's growing FinTech sector creates an imminent opportunity for banks to capitalize on the transformative potential in forthcoming years. However, innovation and modernization comes at a cost. This includes increasing competition, shrinking margins, information security and customer churn. DCM will pay close attention to the impact of these threats on its holdings going forward.

HOUSING HANGOVER

The Canadian banking sector may have to manage a housing-related hangover. Sales across Canada fell 12% YoY, and prices fell almost 1.0%. Vancouver sales were down 29%, and prices fell 1.7%; Toronto sales fell 1%, while prices moved 1.6% higher. Mortgage demand has been pulled by the new B-20 lending guidelines requiring stricter stress testing for uninsured mortgages, which took effect on January 1st. The new guidelines are expected to weigh on Canadian Banks mortgage numbers, as the guidelines apply to all federally regulated financial institutions. The "Big Five" are calling for 5-12% slowdown in mortgage originations in 2018. 10% of low-ratio mortgages will not qualify under the B-20 lending guidelines. CIBC continues to lead the "Big Five" when it comes to mortgage growth. Thus, it is more exposed to a housing downturn and the B-20 lending regulations At DCM, we will pay close attention to whether the decline in volume could be offset by higher net interest margins, as well as from stronger credit books. It is likely that the increase in mortgage regulation will only negligibly hamper the profitability of Canadian banks in 2018.

Figure 3: Canadian Residential Mortgages



Sources: PWC, StatCan, OSFI, Company Fillings,

FINANCIALS

US BANKING OUTLOOK

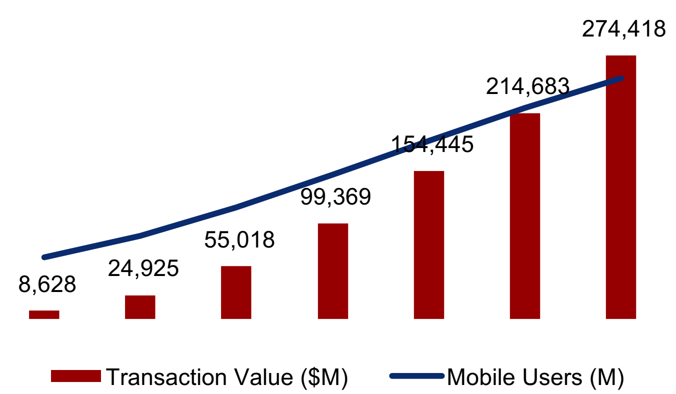
TECHNOLOGY MANAGEMENT

Technology resources and infrastructure systems at banks are becoming increasingly difficult to manage, as legacy systems require significant capital to maintain sufficient performance. While banks are expected to maximize value and minimize disruption as they update their legacy infrastructure, the potential for cyber risk is also on the rise. Given the increasing integration of banking on various platforms and third party applications, banks are subject to more cyber threats now than ever before. As a result, banks are expected to increase spending on replacing and improving their proprietary technologies. This has a three-fold benefit for banks: Clients will receive greater protection from fraudulent activity and theft, the bank will be able to automate more processes and improve margins, and clients will receive greater customer experience which will increase loyalty. As a result of increased digital presence, the banking industry has experienced increased activity among disruptive tech firms entering the online banking, wallet, and payment space. However, incumbent players are expected to maintain market share over the medium term due to regulatory barriers, client stickiness to the banking system, and the capital of large banks to absorb or partner with Fintechs. Given high costs of regulatory compliance and developing proprietary technology, it is likely that banks will form partnerships with Fintechs moving forward, serving in data analytics and payment processing capacities. Consequently, the total payment volume processed online, along with the number of mobile users, is expected to increase significantly over the next 5 years (figure 1).

REGULATORY RECALIBRATION

2017 marked a year of significant regulatory reform and obstacles for banks operating in the U.S.. Since implementation of Dodd-Frank and Basel III, banks have experienced increased capital and liquidity requirements, litigation charges and compliance costs, now 25% higher than 2008 levels. Since the election of the Trump Administration in late 2016, there has been elevated efforts to repeal parts of Dodd-Frank and change the regulatory framework that was set in place post-2008 financial crisis. The Financial Choice Act, set forth by the GOP and now awaiting a senate vote, is expected to provide regulatory relief to banks with less than $50B in assets. Additionally, banks will benefit if the act is successful in unwinding the Volcker Rule – a ruling that prevents banks from engaging in proprietary trading, which would allow U.S. banks to reopen trading divisions that were forced to close following the enactment of the rule. Brexit has also presented regulatory challenges for U.S. banks operating in Europe, with many financial institutions setting up entities in Europe to avoid operational disruption as there is continued uncertainty over negotiations between the United Kingdom and the European Union.

Figure 4: Shift to Mobile Payment Processing



Sources: Company Fillings, Statista, EY, Deloitte

FINANCIALS
INSURANCE OUTLOOK

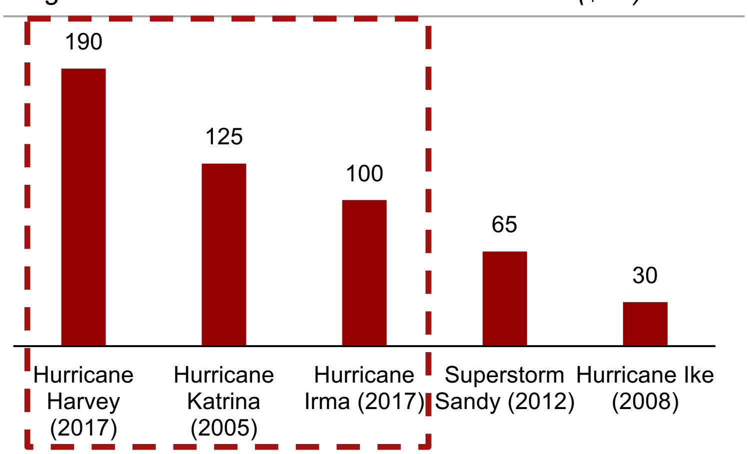
P&C PREMIUM RATE INCREASES

After a year filled with back-to-back catastrophe losses, P&C insurers will be raising rates in 2018 to reconcile significant earnings hits and replenish lost reserves. The effects of the hurricanes alone are estimated to have produced over $100bn in losses for the industry. Moreover, auto insurance claims have increased in frequency and severity over the past three calendar years, leading to higher claims costs for P&C insurers, forced to pay higher medical costs and damage repair. This trend is expected to continue into 2018, another ground for higher premiums.

Nonetheless, Fitch estimates that the P&C industry should return to break-even levels in 2018, assuming catastrophe losses return to long-term averages. Moody's also expects more favourable trading conditions in 2018 due to economic expansion as well as resilient solvency capabilities. When combined with the premium rate hikes, performance is expected to remain fairly stable throughout the year.

However, as in previous years, low investment yields will negatively affect profit margins. Although, the rising rate environment should begin to prove fruitful for the industry.

Figure 5: Natural Disaster Losses in the US ($bn)



Sources: Deloitte, PWC, Cavignac & Associates, Fitch, Statista, Investopedia

THE RISE OF INSURTECH

InsurTech, or the use of technological innovations to increase efficiency within the insurance industry, will be a big trend among L&H insurers in 2018. Several insurers have begun experimenting with data analytics tools to shorten the application process from weeks to minutes, significantly lowering costs as well as the consumer dropout rate caused by the waiting period. PWC explains that underwriting will be further accelerated as insurers can access medical histories, drug prescription data and even possible facial analytics technologies (which can indicate age, gender and BMI) in order to estimate applicants' life expectancies.

InsurTech can also be used to expand the L&H client base. Younger demographics can be targeted by offering a more virtual experience, as the lack of process digitalization proved to be a large barrier to entry. Deloitte suggests that the likelihood of applicants purchasing an insurance plan increases from roughly 70% to nearly 90% as the application process quickens. Insurers can also launch direct-to-consumer online platforms to complete these processes, as done by InsurTech startup, Abaris.

InsurTech can be the much needed catalyst within L&H insurance to increase returns on equity, market share, as well as maintain competitive positions and therefore raise valuation multiples, rather than keeping them at stagnant levels.

Nevertheless, L&H insurers will not be the only sector to benefit from InsurTech. P&C insurers have begun using drones, AI, and enhanced data analytics in order to cut costs. InsurTech startups will be focused on improving customer experience through the use of innovation and faster technology. At the moment, these companies are focused on front-end applications and back-end claim services.

FINANCIALS

CANADIAN REIT OUTLOOK

NATIONAL VACANCY RATES

Although typically US REITs tend to outperform the market in rising rate environments, this does not hold true in the Canadian market. Canadian REITs, on average, have longer lease terms and lower tenant turnover, making it difficult for property owners and landlords to raise rents.

However, attractive investment opportunities still exist in Canadian REITs, specifically within office and retail in urban areas. National vacancy rates decreased from 3.7% in 2016 to 3.0% in 2017, returning the rate to its 10 year average, after a two year hike. Vacancy rates are expected to decrease further in 2018 as demand for Canadian rental properties continues to grow. Toronto office properties are expected to benefit most from the declining vacancy rates. JLL Research estimates that office vacancy rates dropped to 12% in 1Q17, the first decline in over four years. However, in previous years, construction of office spaces outpaced the demand for new office rentals. Therefore, in 2018, one can expect less office property production, which should enable further vacancy rate decreases.

Moreover, Alberta witnessed significant property value recovery. Vacancy rates fell from 8.1% to 7.5% in 2017. In 2014, Alberta witnessed a significant oil price shock, weakening its economy. However, as recovery continues, Alberta is expected to experience the third largest rental growth, behind Ontario and Quebec.

David Hutniak, Associations chairman, has demanded for the Canadian federal government to reexamine rental tax policy, which he feels is holding back proper supply of commercial properties. With the rise of a housing bubble, investors are becoming more reluctant to invest in Canadian properties. Hutniak ascertains that if properties were purpose-built for demand, national vacancy rates would continue to drop.

CANADIAN E-COMMERCE BOOM

E-Commerce has witnessed tremendous growth in Canada in recent years, growing at a CAGR of ~9%, from $18bn in 2016 to an expected $29bn by 2021. E-Commerce has penetrated nearly 65% of the total Canadian population but shows no signs of slowing. This growth has fueled expansion in the industrials sector, specifically logistics and distribution centers, creating unparalleled demand for industrial REITs. For example, there are talks of several “mega” industrial projects to begin in Montreal over the next few years. However, the growth of e-Commerce, paired with the negative sentiment towards the retail sector has proved to have a negative effect on Canadian retail REITs.

Moreover, the growth of Canadian urbanity and e-Commerce is also being driven by technological expansion, particularly in Montreal, Toronto and Vancouver. These technological advancements have led to increasingly automated industrial warehouses and distribution centers. Companies have been able to maximize efficiency within their properties. So, while the need for these properties are ever-increasing, footprints and costs of these properties are decreasing. As technology improves, the logistical needs of industrial properties will continue to evolve.

To conclude, in 2017, DCM’s FIG performance benefited from the rising rate environment, a reduction of the corporate tax rate as well as industry consolidation. However, it was hindered by disappointing loan growth in U.S. banks, relatively low insurance yields and modest property fundamental deterioration. Nonetheless, going into 2018, DCM’s financials team will be focusing on the evolution of the industry due to Fintech and InsurTech, future regulatory in U.S. banking and well as further growth in e-Commerce affecting industrial REITs.

Sources: Deloitte, PWC, Cavignac & Associates, Fitch, Statista, Investopedia

FINANCIALS

2017 HOLDINGS REVIEW

DESAUTELS CAPITAL MANAGEMENT

BANK OF AMERICA CORP (NYSE:BAC)

COMPANY OVERVIEW

- Bank of America – headquartered in Charlotte, North Carolina and founded in 1998 – represents one of the largest U.S. banks
- Bank of America is one of the world's leading financial institutions, serving individual consumers, small and middle-market business and large corporations through the following four core business units:
  - Consumer Banking
  - Global Wealth and Investment Management
  - Global Banking
  - Global Markets

CATALYSTS

- Republican Tax Bill passed on December 22, 2017 is expected to provide strong headwinds to the U.S. financial sector
- Rising rates by the Federal Reserve continue to expand net interest margins (expected to further increase in March 2018)

RISKS

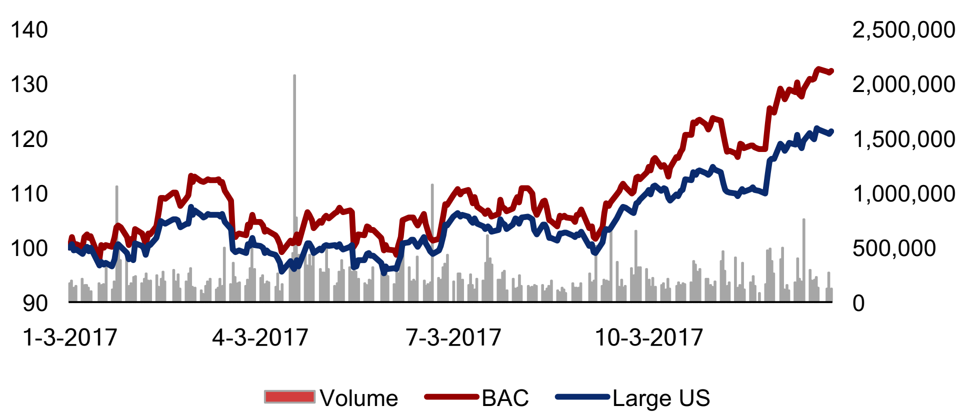
- Credit risk: delinquency and default on loan payments
- Interest rate risk: contractionary monetary policies tend to compress net interest margins
- Regulatory risk: a changing regulatory environment of capital requirements and tax rates will increase expenses and shape operations

FINANCIAL SUMMARY

Public Market Overview	**NYSE: BAC**
(In US$ millions, as of Dec. 31, 2017)	
Stock Price	$39.50
Shares Outstanding (mm)	10,287.3
Market Capitalization	**406,351**
+ Preferred Stock	$27,798
+ Minority Interest	$0
+ Total Debt	$586,817
- Cash	$196,049
Enterprise Value (mm)	**$418,566**
Beta (1-Year)	1.99
Dividend Yield	1.50%

Financials	**FY2016A**	**FY2017A**	**FY2018E**
(values in US$ millions)			
Revenue	99,751.9	104,548.7	114,998.7
% Growth		*5%*	*10%*
EPS	2.25	3.11	3.56
% Growth		*38%*	*14%*
CET1	*12.4%*	*13.2%*	
ROE	*6.7%*	*6.7%*	*10.5%*
P/E	10.5x	13.1x	12.8x
P/B	0.66	1.0x	1.3x

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

In CAD, unless noted	
Average Cost (USD)	$15.01
# of Shares	3,850
Value Invested	$142,872
Portfolio Weight	5%
2017 HPR	27%
2017 HP Benchmark Return	10%
Excess Return	17%

BANK OF AMERICA CORP (NYSE:BAC)

INVESTMENT THESIS

1. **Bullish on US banks due to favorable rates and improving operational environment**
   - Since 3Q15 Bank of America has reported year-over-year improvements to net interest income on a quarterly basis; in-line with the Fed's hawkish outlook on interest rates that began in the late months of 2015. Bank of America has benefited from net interest margin expansion as upward pressures on borrowing costs have lagged for long enough to provide favorable rates to borrowing and lending activities. As rates continue to increase, as is expected at the Fed's March 21st meeting, the FIG team expects Bank of America to continue to benefit
   - The GOP's tax bill, signed in late December of 2017, is expected to reduce Bank of America's tax liability by 1/3 ($7.3Bn). We expect the lower corporate tax rate to allow Bank of America to increase their international exposure, as they can now compete with European competitors who have been taxed at lower rates for years. Additionally, Bank of America is expected to see higher net income with increased net flows to their wealth management division as corporations repatriate cash at favorable rates
2. **Street view: What has changed? – Materializing**
   - We continue to believe that BAC's trading multiple will converge closer to those of JPM and WFC (JPM and WFC will continue to trade at a premium vs. BAC as long as they continue to have superior ROE). BAC is now closer to JPM and WFC in terms of P/B than it was when pitched in March 2016 (.65x then versus 1.30x now)

ANALYSIS OF PERFORMANCE

Since initiating our position, Bank of America has outperformed all of the large U.S. banks, experiencing total per share price appreciation of 111%, which represents a 54% annualized return. Morgan Stanley is trailing closely behind and all other banks have experienced a positive return since we initiated our position. Bank of America continues to experience strong tailwinds from relatively high short-term interest rates and, like all other large U.S. banks, is expected to benefit from a lower U.S. corporate tax rate. The Fed raised the target rate from 1.25% to 1.50% at their December meeting however the market believes it is unlikely they raise rates at their January 31st meeting (18.0% chance of hike, 0.0% chance of cut). Despite this, it is likely that rates will increase on the Fed's second or third meeting of the 2018 year (February 21 or May 2).

Since the tax bill was signed in late 2017, analyst earnings estimates for 2018 have risen by nearly 70%, with a positive outlook for large U.S. banks over the next three years. Among the six large U.S. banks, Bank of America has the highest expected annual EPS growth over the next three fiscal years.

VALUATION SUMMARY

US Banks						LTM Metrics			NTM
In $ billions	Market Cap	1-Yr Beta	Div Yield	Tier 1 Capital	ROE	P/E	P/B	P/TB	P/E
Wells Fargo & Company (NYSE: WFC)	$314.1	1.33	2.4%	14.5%	11.0%	15.7x	1.7x	2.0x	13.4x
Citigroup Inc. (NYSE: C)	$201.2	1.23	1.6%	14.0%	(2.8%)	28.8x	1.1x	1.3x	12.4x
The Goldman Sachs Group, Inc. (NYSE: GS)	$96.6	1.60	1.2%	13.7%	5.1%	28.4x	1.4x	1.4x	11.9x
Morgan Stanley (NYSE: MS)	$102.7	2.00	1.7%	19.8%	8.0%	18.5x	1.5x	1.7x	12.7x
JPMorgan Chase & Co. (NYSE: JPM)	$387.0	1.28	2.0%	14.5%	9.6%	17.9x	1.7x	2.1x	12.8x
Mean	$220.3	1.49	1.8%	15.3%	6.2%	21.9x	1.5x	1.7x	12.6x
Median	$201.2	1.33	1.7%	14.5%	8.0%	18.5x	1.5x	1.7x	12.7x
Bank of America Corporation (NYSE: BAC)	$326.3	1.99	1.5%	13.2%	6.8%	20.3x	1.3x	1.9x	12.8x

Source: Bloomberg

CANADIAN IMPERIAL BANK OF COMMERCE (TSX:CM)

COMPANY OVERVIEW

- CIBC (CM: TSX, NYSE) is a leading Canadian-based financial institution with a market capitalization of $50 billion
- CIBC is Canada's 5th largest bank in terms of assets and market capitalization
- Through its four strategic business units – Canadian Personal and Small Business Banking, Canadian Commercial Banking and Wealth Management, U.S. Commercial Banking and Wealth Management, and Capital Markets, CIBC's 45,000 employees provide a full range of financial products and services to 11 million individual, small business, commercial, corporate, and institutional clients across Canada, the U.S. and the rest of the world

CATALYSTS

- The acquisitions of PrivateBancorp and Geneva Advisors expand CIBC's U.S. presence, which has the potential to diversify earnings and strengthen their platform for long-term growth in the U.S.
- The acquisitions create a platform for CIBC to improve their high-quality banking capabilities, which would advance their client-focused strategy

RISKS

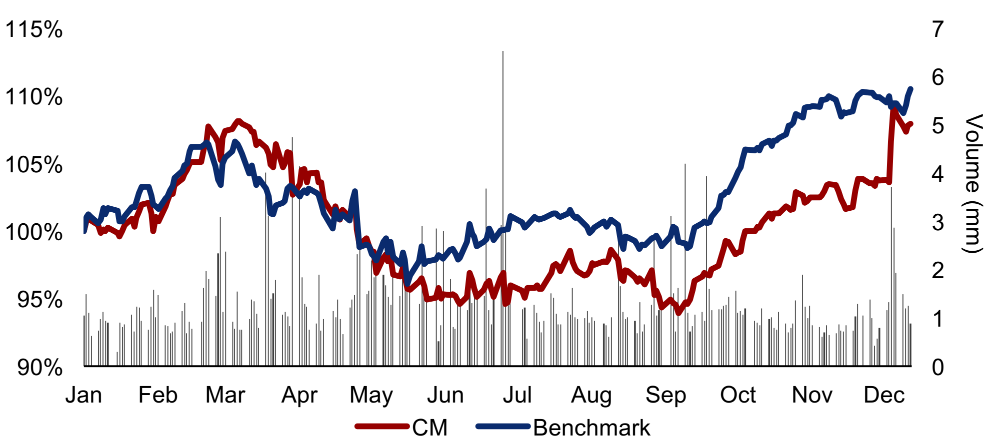
- CIBC has the lowest CET1 ratio of the Canadian banks. This is primarily reflecting the offset from Geneva Advisors and PrivateBank share issuance, but could be perceived as a weak capital position
- CIBC continues to lead the "Big Five" when it comes to mortgage growth. Thus, it is more exposed to a housing downturn and the B-20 lending regulations

FINANCIAL SUMMARY

Public Market Overview	
(values in CAD M, as of Dec. 31, 2017)	
Stock Price	$122.41
Shares Outstanding (mm)	439.13
Market Capitalization (mm)	**$53,754**
+ Preferred Stock	$1,797
+ Minority Interest	$202
+ Total Debt	$94,321
- Cash	($3,440)
Enterprise Value (mm)	**$92,880**
Beta (1-Year)	1.2
Dividend Yield	4.5%

Financials	**FY2016A**	**FY2017A**	**FY2018E**
(values in $mm)			
Revenue	$15,035	$16,280	$17,616
% Growth		*8%*	*8%*
EPS	$10.2	$11.1	$11.2
% Growth		*9%*	*1%*
CET1	11.3%	10.6%	-
ROE	19.9%	18.3%	-
P/E	10.0x	10.3x	10.5x
P/B	1.9x	1.8x	-

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg, CapIQ, Company Fillings

POSITION SNAPSHOT

In CAD, unless noted	
Average Cost (CAD)	$104.02
# of Shares	1,350
Value Invested	$165,429
Portfolio Weight	6%
2017 HPR	17%
2017 HP Benchmark Return	10%
Excess Return	7%

CANADIAN IMPERIAL BANK OF COMMERCE (TSX:CM)

INVESTMENT THESIS

1. **Trading at an attractive valuation compared with Canadian bank peers**
   - CIBC continues to trade at a discount in term of P/B from its 2-year, 5-year, and 10-year historical P/B, as well as in terms of P/E, despite stronger fundamentals and lower risk. However the discount to average P/E has been closing down, which suggests our 1st thesis is starting to materialize. This is something DCM will keep an eye going into 2018
2. **Relative to other Canadian banks, CIBC has favorable exposure to macroeconomic trends and factors**
   - US Growth Potential: CIBC closed its deal with The PrivateBank and Geneva Advisors, adding +C$10bn in Assets Under Management. This will unlock a source of future growth that should begin to create value for the company as early as in the next year
   - CET1 Absorbing Ability: CIBC currently has a CET1 ratio in line with that of the "Big Five" banks. This is primarily reflecting the offset from the Geneva Advisors and The PrivateBank share issuances, as well as higher RWA from the regulatory floor adjustment. Historically CIBC had the highest CET1 ratio of the "Big Five", giving it the ability to absorb more negative shocks coming from the Canadian economy
   - Potential to capitalize on technology sector growth: CIBC acquired Wellington Financial as part of its plan to grow its business in the technology sector. The firm will become part of *CIBC Innovation Banking*, a service business that delivers strategic advice and funding to North American technology and innovation clients

ANALYSIS OF PERFORMANCE

Since DCM initiated its investment in November 2016, the position is up 19%. CIBC underperformed the benchmark 83% of the year, but finished 2017 on par with the Canadian banks benchmark (up ~8%). One of the contributing factors is the strong U.S. Commercial Banking and Wealth Management performance. Net income for the year in this sector totalled $203M, up $116M, resulting in EPS growth of 133% YoY. On the wealth side, Assets Under Administration increased 68% YoY and Assets Under Management increased 55% YoY, reflecting strong growth in the year together with the acquisition of PrivateBancorp and Geneva Advisors. As CIBC continues to navigate through a challenging Canadian economy, we expect the company to outperform its peers as it adjusts its strategy and acts to improve its operating efficiency and grows its business in the U.S.. DCM continues to believe that the firm's strong revenue growth, low PCLs, growing exposure to the U.S. market with the acquisitions of PrivateBancorp and Geneva Advisors, and exposure to the technology sector with the acquisition of Wellington Financial, will continue to drive value creation for the bank.

VALUATION SUMMARY

					Valuation Multiples			Tier 1 Common
	Share Price	Div. Yield	Market Cap ($B)	ROE	P/E (LTM)	P/E (NTM)	P/B	Equity Ratio
RBC	$101.30	3.6%	$147.17	15.7%	13.65x	12.82x	2.22x	10.9%
TD	$72.41	3.3%	$133.41	14.7%	13.70x	15.58x	1.99x	10.7%
BNS	$81.81	3.9%	$98.12	14.6%	12.81x	12.04x	1.84x	11.5%
BMO	$100.06	3.7%	$65.21	13.3%	12.14x	12.05x	1.66x	11.4%
NA	$63.38	3.8%	$21.56	15.8%	12.96x	11.09x	2.02x	11.2%
Mean	**$83.79**	**3.7%**	**$93.09**	**14.8%**	**13.05x**	**12.72x**	**1.95x**	**11.1%**
Median	**$81.81**	**3.7%**	**$98.12**	**14.7%**	**12.96x**	**12.05x**	**1.99x**	**11.2%**
CIBC	**$119.00**	**4.5%**	**$53.74**	**18.3%**	**10.34x**	**10.51x**	**1.78x**	**10.6%**
Premium / (Discount) to Average		23.0%		23.6%	(20.8%)	(17.3%)	(8.5%)	(4.8%)

Source: Bloomberg, CapIQ, Company Fillings

DREAM OFFICE REIT (TSX:D.UN)

COMPANY OVERVIEW

- Previously known as Dundee REIT, Dream Office is Canada's largest pure-play office REIT. Its portfolio consists of 46 office real estate properties throughout Canada
- The company owns 8.5 million square feet of office properties geographically focused in central districts and suburban office areas
- Dream has 3 asset tiers: Core assets, Private Market and Value Add
- In 3Q17, Dream Office substantially completed its Strategic Plan, announced in 1Q16. The company will now focus on becoming a value-add REIT focused on unlocking value in its core properties through redevelopment and intensification

CATALYSTS

- Increases in occupancy rates due to the profitable redevelopment of core properties
- Increasing market sentiment due to the closing of the discount in NAV/share compared to peers
- Further growth in Canadian e-commerce will lead to further investments in industrial properties held by Dream Industrial REIT

RISKS

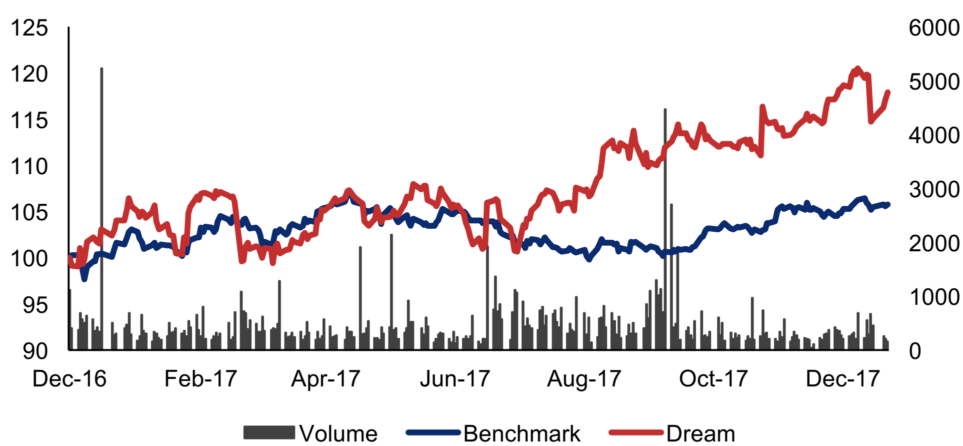
- Failure to increase occupancy rates will lead to further property vacancies and a decrease in profitability for Dream Office
- Continued decreases in distributions and lower than expected FFO/share will decrease market sentiment

FINANCIAL SUMMARY

Public Market Overview	
(values in CAD mm, as of Dec. 31, 2017)	
Stock Price	$22.16
Shares Outstanding (mm)	74.6
Market Capitalization (mm)	**$1,653**
+ Preferred Stock	$0
+ Minority Interest	$0
+ Total Debt	$1,472
- Cash	($260)
Enterprise Value (mm)	**$2,865**
Beta (1-Year)	0.85
Dividend Yield	5.5%

Financials	**FY2016A**	**FY2017E**	**FY2018E**
(values in $mm)			
Revenue	$581	$391	$289
% Growth		*-33%*	*-26%*
EBITDA	$374	$264	$186
% Margin	*64%*	*67%*	*64%*
FFO/Share	$2.5	$2.0	$1.6
% Growth		*-21%*	*-21%*
NOI	$317	$258	$151
% Growth		*-19%*	*-41%*

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

In CAD, unless noted	
Average Cost (CAD)	$20.99
# of Shares	5,400
Value Invested	$119,226
Portfolio Weight	4%
2017 HPR	21%
2017 HP Benchmark Return	(2%)
Excess Return	23%

DREAM OFFICE REIT (TSX:D.UN)

INVESTMENT THESIS

1. **Redevelopment opportunities will lead to higher occupancy rates**
   - With the completion of its strategic plan, Dream Office will now focus on becoming a value-add REIT focused on unlocking value in its core properties through redevelopment and intensification
   - Dream experienced a number of lease vacancies this quarter from key tenants. However, as it embarks on its redevelopment journey, it expects to fill these vacancies
2. **Dream Office's investment in Dream Industrial REIT will provide access to a profitable REIT segment**
   - Dream Office took a C$25mn position in Dream Industrial REIT through a private placement in 3Q17, for a total of 5.3mn units, or 25.5% of total voting units of Dream Industrial. Dream Office also announced a C$75mn equity offering to help fund the acquisition of a portfolio of four industrial properties in the U.S.
   - Canadian Industrial buildings have been in high demand as online shopping and exports continue to grow. In 1Q17, Blackstone entered into a definitive agreement to acquire Vancouver-based Pure Industrial REIT
3. **Attractive valuation compared to peers**
   - 4.8% dividend yield with monthly payout provides safe, long term dividends
   - Dream Office currently trades at a slight discount to its C$22.40 NAV, while other Canadian REITs are trading, on average, at 16% premium

ANALYSIS OF PERFORMANCE

Since we initiated our position in Dream Office, the company has outperformed our benchmark, returning 17% compared to 4% in 2017 alone. This calendar year, Dream Office substantially completed its Strategic Plan, which began in 1Q16 with the intention of disposing $1.2 billion of its Private Market Assets over a three year period. By 2Q17, Dream Office had disposed of $1.7 billion of property, surpassing its initial goal. The company also disposed of its 50% interest in a core property, Scotia Plaza, as no future value could be added. While this sale did not align with the Strategic Plan, it allowed the firm to better focus its efforts on fiscal responsibility to its shareholders. Dream Office's portfolio now consists of 49 high-quality assets, down from 166 at the start of its Strategic Plan, with most properties located in urban Toronto. It will now focus on enhancing the value of current properties through redevelopment in the hopes of filling vacancies. These redevelopment efforts are expected to be accretive to the firms FFO.

VALUATION SUMMARY

Name	Share Price	Market Cap ($B)	Yield Q3 2017	NAV Q3 2017	P/AFFO FY2017	P/AFFO FY2018	Net Debt EBITDA	P/NAV Q3 2017
H&R REIT	$21.07	$6.49	6.5%	$25.40	12.6x	12.2x	8.3x	83%
CREIT	$46.18	$3.39	4.0%	$50.10	15.9x	16.0x	7.0x	92%
Artis REIT	$14.00	$2.11	7.7%	$14.90	12.4x	12.2x	9.3x	94%
Allied Properties REIT	$42.24	$3.92	3.7%	$40.00	24.6x	22.6x	7.8x	106%
Average	**$30.87**	**$3.98**	**5.5%**	**$32.60**	**16.4x**	**15.8x**	**8.1x**	**93.8%**
Median	**$31.66**	**$3.65**	**5.3%**	**$32.70**	**14.3x**	**14.1x**	**8.1x**	**93.0%**
Dream Office REIT	**$22.16**	**$1.65**	**4.4%**	**$22.40**	**14.8x**	**17.6x**	**7.0x**	**97%**
Premium / (Discount) to Average				(31.3%)	(9.6%)	11.7%	(13.6%)	

Source: Bloomberg

INDUSTRIAL ALLIANCE GROUP (TSX:IAG)

COMPANY OVERVIEW

- Industrial Alliance is an insurance and financial services provider headquartered in Quebec City with operations in both Canada and the U.S.
- The company operates through four main segments: individual insurance, individual wealth management, group insurance, and group savings and retirement
- In recent years, Industrial Alliance has been expanding its business outside of traditional life insurance into other financial services, with several notable acquisitions in the wealth management subsector such as the acquisition of HollisWealth
- In 3Q17, the company acquired U.S. based Dealers Assurance Company and Southwest Reinsure, Inc. (DAC) for $135M cash. The acquisition more than doubles the scale of IAG's vehicle warranty business and continues to grow its Auto and Home business

CATALYSTS

- Successful integration of recent U.S. acquisitions such as DAC will enable the firm to grow market share in its Auto and Home loan business
- Replacement of IFRS 4 will put forward the conservatism of Canadian accounting standards for Lifecos versus their U.S. counterparts

RISKS

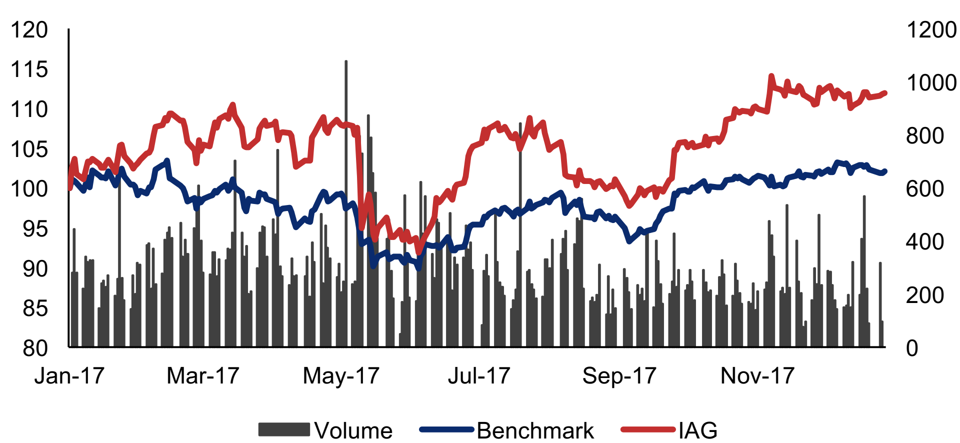
- Continued experience losses in individual insurance, its main operating segment, can negatively affect market sentiment towards he firm
- Market failure to recognize Industrial Alliance's strong business fundamentals

FINANCIAL SUMMARY

Public Market Overview	
(values in CAD M, as of Dec. 31, 2017)	
Stock Price	$59.76
Shares Outstanding (mm)	108
Market Capitalization (mm)	**$6,448**
+ Preferred Stock	$375
+ Minority Interest	$0
+ Total Debt	$2,331
- Cash	($1,237)
Enterprise Value (mm)	**$7,917**
Beta (1-Year)	0.84
Dividend Yield	2.3%

Financials	**FY2016A**	**FY2017E**	**FY2018E**
(values in $mm)			
Revenue	$9,370	$10,521	$12,243
% Growth		*12%*	*16%*
Net Income	$555	$525	$580
% Margin	*6%*	*5%*	*5%*
Return on Equity	12.4%	11.4%	11.8%
% Growth		*-8%*	*3%*
BV/Share	41.0	44.2	47.8
% Growth		*8%*	*8%*

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

In CAD, unless noted	
Average Cost (CAD)	$40.01
# of Shares	2,912
Value Invested	$174,196
Portfolio Weight	6%
2017 HPR	15%
2017 HP Benchmark Return	10%
Excess Return	5%

INDUSTRIAL ALLIANCE GROUP (TSX:IAG)

INVESTMENT THESIS

1. **Stronger business fundamentals are not reflected in valuation multiples**
   - Industrial Alliance reported the highest book value per share among its peer group at $43.27, up 12% YoY. Dividend distribution increased 9% to $0.38/share. IAG has strong cash conversion due to its short net operating cycle. Moreover, IAG has a more conservative business model, holding more investment grade bonds and conservative assets than other Canadian lifecos. Nonetheless, it remains discounted in terms of P/E and P/B
2. **Auto and Home loans growth potential**
   - With the acquisition of DAC in 3Q17, Industrial Alliance more than doubled its distribution network of Auto and Home loans, gaining access to a $15bn market opportunity in the U.S.. The industry remains very fragmented with significant opportunity for growth and consolidation. DCM believes IAG can gain market share in this industry
3. **What is the market missing? Canadian accounting policies**
   - Despite stronger business fundamentals, Canadian lifecos trade roughly in-line with their U.S. counterparts. In our view, the market is not properly pricing in the difference in accounting standards between the two countries. Under IFRS, Canadian life insurers are required to change their reserves set aside each quarter, whereas under U.S. GAAP lifecos are not required to do so. We expect Canadian Lifecos to benefit from a multiple expansion once U.S. life insurers adopt of IFRS in 2018

ANALYSIS OF PERFORMANCE

Since the initiation of our position in October 2015, Industrial Alliance has appreciated nearly 50% to $59.75 at year end, outperforming its benchmark. Upon the closing of its HollisWealth acquisition in 3Q17, Industrial Alliance became the largest non-bank wealth management firm in Canada. With the acquisition of DAC in 3Q17, IAG gained exposure to the US market, increasing growth potential in its Auto and Home loans. However, these two acquisitions proved to have a negative effect on its return on equity, decreasing to 12.5%. Nonetheless, as at 3Q17, the firm's book value per share, a key industry was up 12% YoY, at $43.27. This calendar year, Industrial Alliance experienced impressive growth within all of its main operating segments. As at 3Q17, sales within Individual Insurance increased 25% YoY, with premiums and deposits up 5% due to the completion of the HollisWealth acquisition. Finally, retail wealth management experienced the largest sales growth, increasing 37% YoY.

VALUATION SUMMARY

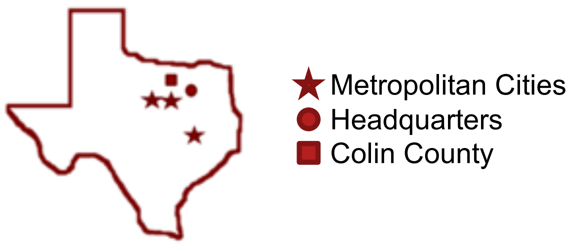
Name	Share Price	Market Cap ($B)	1-Year Beta	P/B Q3 2017	P/E LTM	P/E FY2018	ROE Q3 2017	MCCSR Q3 2017
Great-West Lifeco Inc.	$34.99	$35.08	1.0	1.8x	13.9x	11.5x	13.3%	233%
Sun Life Financial Inc.	$51.49	$30.36	0.4	1.5x	11.8x	11.4x	16.2%	232%
Manulife Financial Corporation	$26.39	$52.18	1.4	1.3x	14.4x	10.8x	10.6%	234%
Average	**$37.62**	**$39.21**	**0.9**	**1.5x**	**13.4x**	**11.2x**	**13.4%**	**233%**
Median	**$34.99**	**$35.08**	**1.0**	**1.5x**	**13.9x**	**11.4x**	**13.3%**	**233%**
Industrial Alliance	**$59.75**	**$6.37**	**1.3**	**1.4x**	**11.7x**	**11.4x**	**12.50%**	**213%**
Premium / (Discount) to Average				(7.9%)	(12.4%)	1.1%	(6.5%)	(8.6%)

Source: Bloomberg

LEGACYTEXAS FINANCIAL GROUP INC (NYSE:LTXB)

COMPANY OVERVIEW

- LegacyTexas is a commercially oriented community bank founded in 1952 and is headquartered in Plano, Texas
  - Operates 44 banking offices in 19 North Texan cities
  - Annual loan growth of $999mm, or 20%
  - No. 1 in deposit share in Collin County (17.74%)



CATALYSTS

Fight for Amazon's HQ

- Amazon currently planning second headquarters and Dallas is in the running
  - Amazon's real strength lies in focusing on direct employees
  - Will create 50,000 jobs, with minimum 6-figure salaries

RISKS

Impact of Natural Disasters on Loan Portfolio

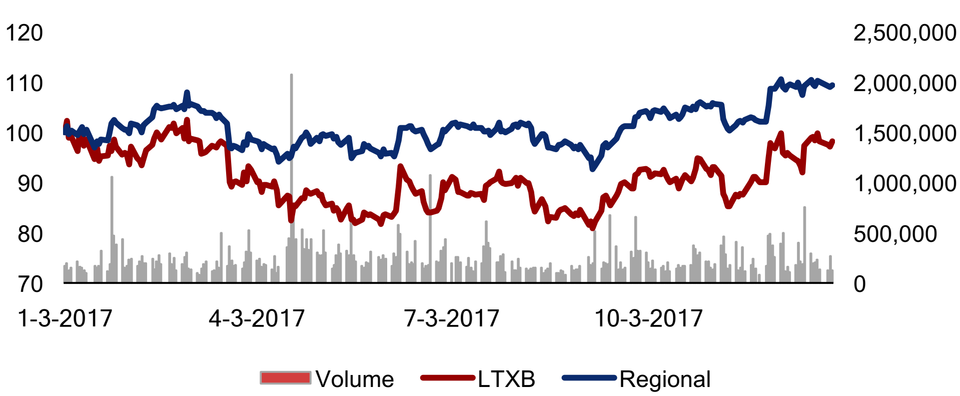
- Hurricane Harvey, 2017
  - Short term difficulties relating to damages, business interruption and lower loan revenues
- Grand Forks Flood, 1998
  - Spike in loan provisions for first 3 quarters following flood

FINANCIAL SUMMARY

Public Market Overview	NasdaqGS: LTXB
(In US$ millions, as of Dec. 31, 2017)	
Stock Price	$44.17
Shares Outstanding (mm)	51.8
Market Capitalization	**1,967**
+ Preferred Stock	$19
+ Minority Interest	$0
+ Total Debt	$1,315
- Cash	$360
Enterprise Value (mm)	**$973**
Beta (1-Year)	2.12
Dividend Yield	1.40%

Financials	FY2016A	FY2017A	FY2018E
(values in US$ millions)			
Revenue	310.7	388.0	421.0
% Growth		*25%*	*8%*
EPS	2.07	2.19	3.08
% Growth		*6%*	*41%*
CET1	*9.3%*	*9.3%*	
ROE	*11.5%*	*11.2%*	*14.1%*
P/E	15.4x	20.5x	14.5x
P/B		2.2x	2.0x

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

In CAD, unless noted	
Average Cost (USD)	$39.24
# of Shares	2,500
Value Invested	$132,184
Portfolio Weight	4%
2017 HPR	6%
2017 HP Benchmark Return	1%
Excess Return	5%

LEGACYTEXAS FINANCIAL GROUP INC (NYSE:LTXB)

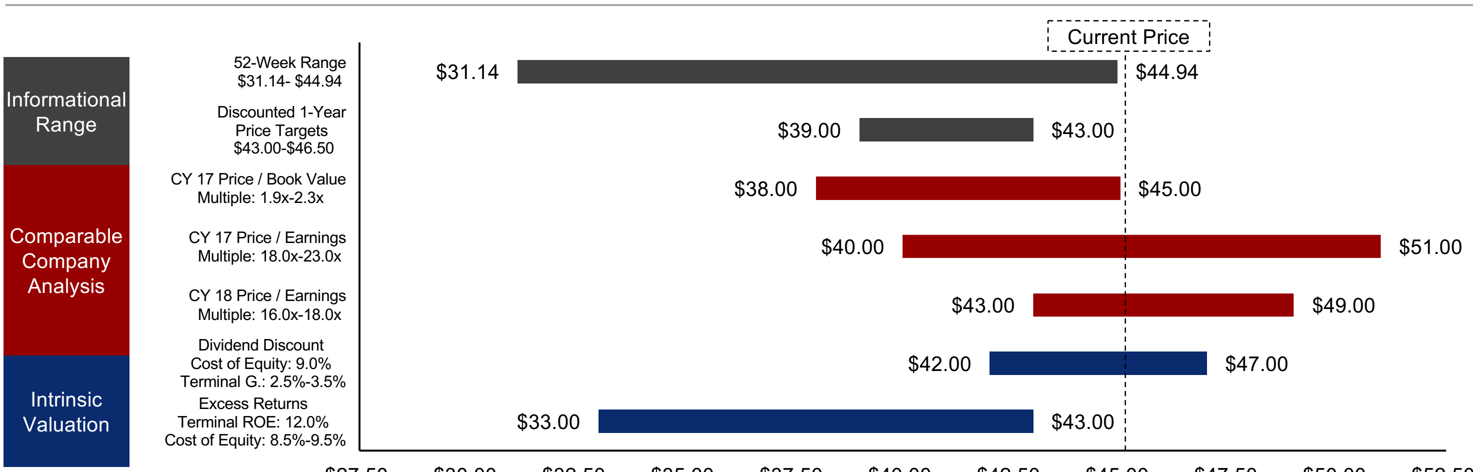
INVESTMENT THESIS

1. **Positioning in attractive Collin County should justify a premium**
   - Southwest region trading in-line with other U.S. regions, despite more favorable economic conditions
   - Economic powerhouse, real-estate center, highly competitive tax environment
2. **Warehouse Lending, driver of loan book safety, remains untapped by peers**
   - Despite strong loan growth YoY (~30%), Legacy has observed decreasing NPLs, PCLs, and charge-offs
   - Warehouse Lending: 20% of loan portfolio is essentially "risk-free"
3. **Attractive valuation with conservative assumptions**
   - Price target of $45 yields potential upside of 12%
   - LegacyTexas continues to attract deposits and provide loans at better-than-market interest rates

ANALYSIS OF PERFORMANCE

Purchased on November 21, 2017, LegacyTexas represents one of Desautels Capital Management's newest holdings. Since initiating our position, the per share price has appreciated significantly (+14.1%). This is likely due to a combination of factors, including the release of Amazon's list of second headquarters locations, which includes Dallas, Texas. Additionally, the market is likely pricing in the proceeding with the Financial Choice Act and signing of the GOP's Tax Bill, both of which are expected to provide a significant boost to regional banks. DCM will closely monitor LTXB's loan portfolio (Total loans, non-performing loans, delinquent payments, and default rates) moving into the fourth quarter earnings release period to affirm our stance on their Warehouse Lending segment and sustainability of loan growth.

VALUATION SUMMARY



Source: Bloomberg

ANNUAL REPORT 2017

ENERGY

2017 REVIEW & 2018 OUTLOOK

THOMAS MILNE
KYLE COSTANZO
SUNNY WU

DESAUTELS CAPITAL MANAGEMENT

ENERGY
A YEAR IN REVIEW

DCM ENERGY SECTOR PERFORMANCE

DCM outperformed the Energy benchmark by 4.4% in 2017, amid a weak year for the sector, which returned -7.1%. on the surface, the sector's underperformance is somewhat surprising given that wti prices were up 16.3% over the year. however, over the same period, the oil futures curve went into backwardation, suggesting the market believes these gains may only be temporary. indeed, the historically strong correlation of 0.64 between the return of S&P 500 energy stocks and spot energy prices fell to 0.52 in 2017. The energy sector within DCM outperformed the benchmark in 2017 on a risk adjusted basis, generating an alpha of 3.5%, while maintaining a beta of 0.9 to the energy benchmark. This outperformance can mainly be attributed to two holdings: Marathon Petroleum and Pembina Pipelines, which returned 24.7% and 12.8%, respectively. The performance of these stocks were counterbalanced by weak performances in other holdings, including Crescent Point and ARC Resources. DCM exited its position in Crescent Point during 2017 in order to reposition the portfolio based on the fund's new outlook. The energy sector will continue to reposition the fund's holdings throughout 2018 in order to capitalize on industry trends and evolving views of the market.

NORTH AMERICAN PERFORMANCE AND SECTOR MULTIPLES

2017 has been an interesting year in the North American Energy landscape. Even though US shale has fueled global production increases and even though WTI prices rallied to finish above $63/bbl at the end of 2017, US E&P players continued to lag the broader markets. This trend has been a constant for 6 of the past 7 years, with US E&Ps returning -23% in 2017. Much of this underperformance for shale companies has been a result of their inability to generate FCF even though they maintain an advantageous positions on the cost curve. Looking forward, shale players should strive under continued stability.

Energy multiples have been trading at historically high levels since energy prices began crashing at the beginning of 2015. Since then, a gradual recovery of oil prices has led to more moderate multiples in 2017. Energy multiples began to readjust downwards at the end of 2017 as WTI prices showed strength, properly reflecting the inverse correlation between world energy prices and EV/EBITDA multiples amongst major energy players. DCM expects the S&P500 energy multiples to tick slightly upwards in 2018, as energy prices revert to the $50-$60 per barrel (WTI).

Figure 1: Energy Sector Performance vs Benchmark

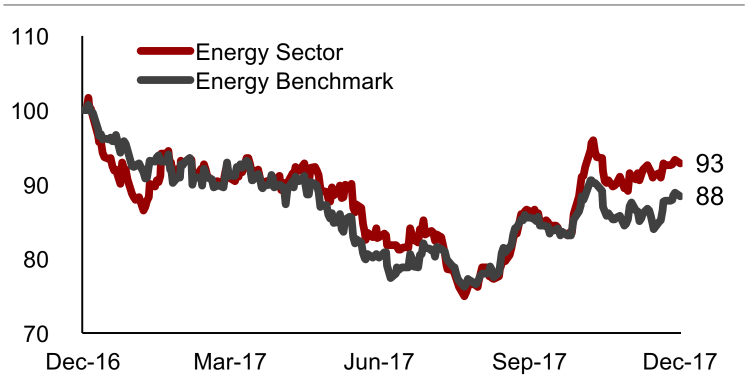
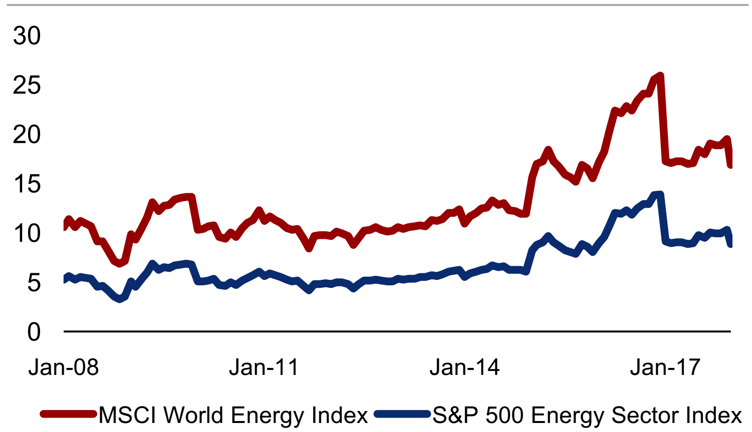


Figure 2: EV/EBITDA Multiples in the Energy Sector



Sources: Bloomberg, JP Morgan

ENERGY

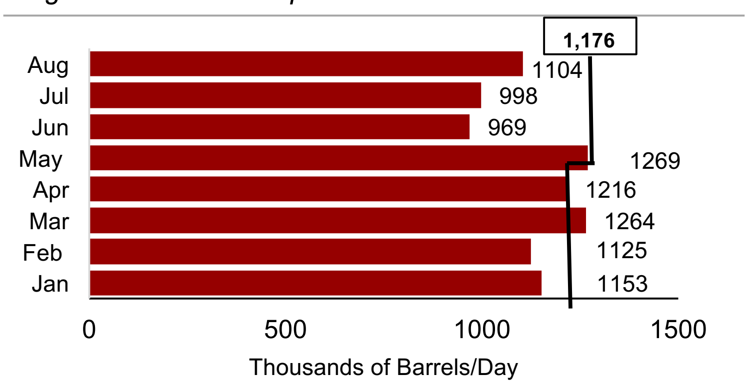
2017 PRODUCTION DYNAMICS

OPEC PRODUCTION CUTS

In 2017, OPEC pushed to extend cuts through to the end of 2018. The cut reduced output by 1.8 million barrels per day, or roughly 4.56% of OPEC's 2016 daily average output. In addition to OPEC members agreeing to reduce output, a total of 10 non-OPEC producers also agreed to cut output through 2018. Importantly, Russia achieved the second highest level of cuts by reducing output at 61% of Saudi Arabia's reduction in total output. The extension of cuts by OPEC in 2017 revealed to the market a willingness to protect oil prices below $55/bbl, which was a major factor supporting oil prices in 2017.

OPEC's production continues to be restricted by global strife, although OPEC's offline and spare capacity is unlikely to be a future lever on oil prices. Analysis has shown that conflict-related production issues, namely supply disruptions in Nigeria and Venezuela, do not represent a significant percentage of global supply and are unlikely to significantly alter global oil prices. A sizeable portion of the uptick in global oil prices at the end of 2017 was a result of OPEC's November 30 announcement to extend its crude oil reductions through the end of 2018. Market prices going into 2018 will continue to be meaningfully impacted by OPEC's future stance on cuts, which DCM forecasts to continue in the short-term.

Figure 3: OPEC Compliance with Production Cuts

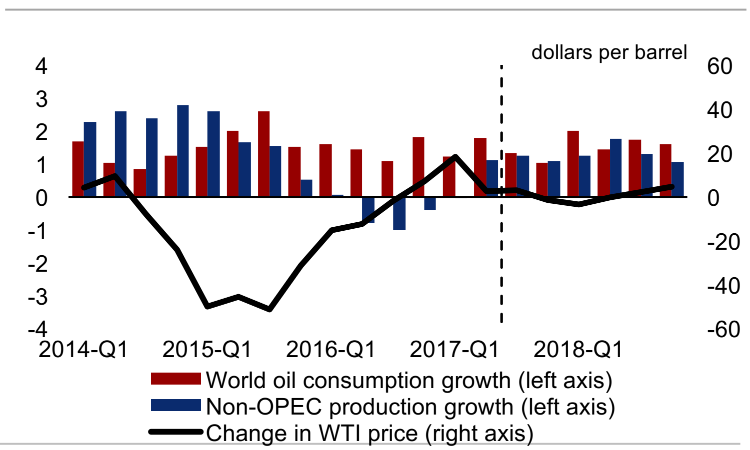


Sources: Bloomberg, JP Morgan, OPEC

U.S. SHALE DRIVES OIL PRICES

The United States continued to be the most pivotal player in world oil production in 2017, absorbing much of the world demand increases. This is forecast to continue, with the United States increasing production at an expected rate of 3.8 million barrels a day through 2022. This growth in American production will outpace expected demand increases from 95.4 million barrels a day in 2016 to 102.3 million barrels a day in 2022. This dynamic of U.S shale crowding out demand has been at play since 2012, and is largely a result of cost efficiencies, as average U.S. shale breakeven prices have plummeted at an annual CAGR of 17% since 2012. Throughout 2017, breakeven prices per barrel rose for the first time since 2012, from $34.9/barrel to $36.5. Although these low breakevens may seem to signal that an increase of net-reinvestment in capex should occur, even with historically low WTI prices, through-cycle returns for many North American E&P players remained dubious in 2017, at just below $50/bbl. For this reason, continued WTI prices above $60, as seen at the end of 2017, are seen as unsustainable by DCM in 2018. The end of 2017 was marked by crude inventories falling to their lowest levels since 2015, at 419 million barrels, releasing much of the supply pressure that caused oil prices to drop in the first place.

Figure 4: Non-OPEC Production Crowding Out Demand



ENERGY
TAXES & FUTURES

TAX PLAN: A BOON FOR SHALE PLAYERS

Trump's presidency has already proven to be fruitful for domestic oil producers, as was expected with a firm Republican grip on Congress. The general consensus on the Tax Cuts and Jobs Act of 2017 is that the energy sector is set to benefit disproportionately under the plan, especially in the short-run. One reason for this is that energy companies have a higher median tax rate than the remainder of the American economy, with a median rate of 36.8% over the last 11 years, compared to 30% for the S&P 500.

More specifically though, the Energy sector benefits from being the most capital intensive sector of the S&P 500. For this reason, a provision in the tax bill allowing companies to deduct capital expenses in the year of occurrence will allow energy companies a disproportionate advantage, by increasing their deductions over the next five years, and by reducing the effective tax rate of E&P companies in the short-run.

Arguably, the bill advances the interests of MLPs, master-limited partnerships, the furthest of any subsector within energy. The tax bill reduces pass-through rates, whereby MLPs are deemed pass-through entitles, and lowers taxes on profits from the personal rate paid by investors to a set 20% rate. The 2017 Tax Plan will be highly impactful for domestic energy firms.

BACKWARDATION IS BACK

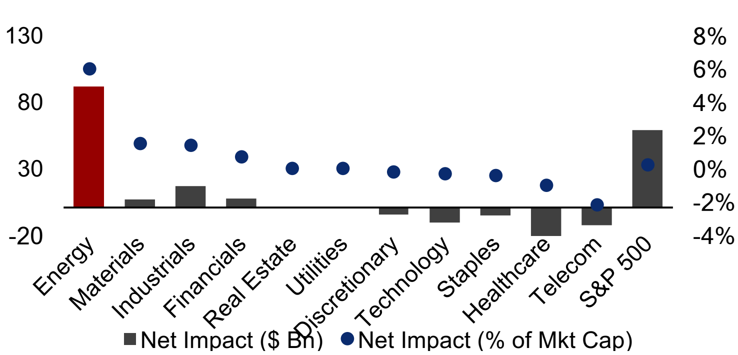
Backwardation occurs when the current price of oil is higher than the futures price, and it is seen as a sign of higher temporary demand and/or temporary limited supply. WTI had not seen backwardation since 2014, when prices hit $120.

Recently, the market was pushed into backwardation again (Figure 6) largely because of two main factors: 1) The Keystone pipeline spill in South Dakota and corresponding bottleneck preventing Canadian oil from reaching the US, and 2) High OPEC compliance (90%+). to the extent that these factors are transitory, their impact should dissipate over the longer run and oil prices should stabilize at lower levels.

Looking forward, backwardation is expected to continue throughout 2018. According to a Morgan Stanley report, oil markets were under-supplied by 0.5mmbbl/d in 2017, and in 2018 the markets will be undersupplied by 0.2mmbbl/d. Since inventories are a key driver of the forward curve, and since they will continue to be under-supplied, backwardation will persist in the short-term.

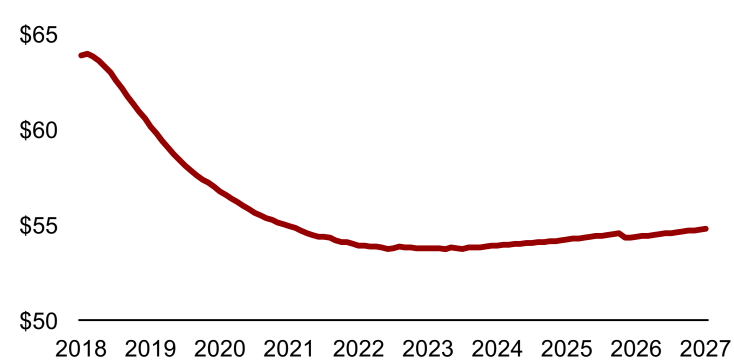
looking forward, if oil prices do not decrease, as is currently priced into the futures curve, we would expect OPEC producers, who usually sell at spot, to outperform shale players, who tend to hedge.

Figure 5: Cap Ex Expensing Expected Impact by Sector



Sources: JP Morgan, Reuters, Barclays

Figure 6: WTI Futures Curve is in Backwardation



ENERGY
AMERICAN OUTLOOK

UNITED STATES: 2018 OUTLOOK

The U.S. shale revolution is far from over, especially with WTI prices cresting over $63/bbl in 2017. Given recent fundamentals in the market, forecasts project U.S crude oil production in 2018 to average 10.3 million barrels per day, up 1.0 million barrels per day from 2017. If these forecasts come to fruition, then 2018 will represent the highest annual average on record, surpassing the previous record set in 1970. For this reason, the world will likely witness US shale production spikes crowding out incremental increases in demand in 2018.

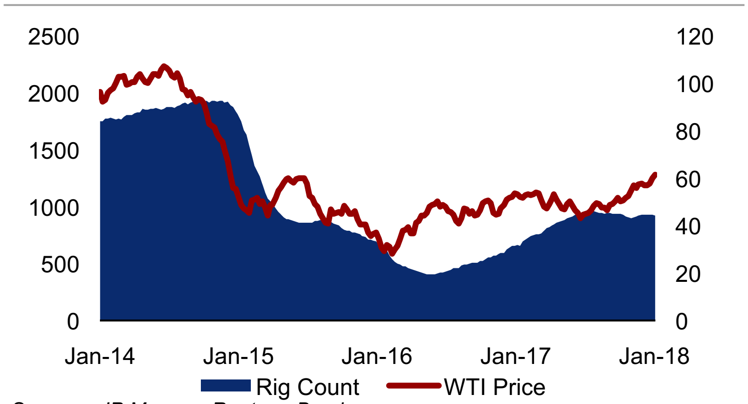
The end of 2017 was marked by a rise in oil prices, which was largely a result of inventory reductions of 0.4 million barrels per day and extensions of OPEC's cuts for all of 2018. Although, this generally benefited the North American energy industry, DCM's exposure to Canadian oil and gas players, which have witnessed extensive takeaway issues throughout 2017, failed to translate into market performing results. However, DCM expects a reversion to more sustainable WTI prices in 2018, as American E&P producers increase production as a result of strong end of the year oil prices. DCM forecasts that American E&P players in 2018 will expand capital expenditure budgets and drilling activity. Overall, DCM expects a reversion of WTI to $50-$60/bbl

MORE REPEALS OF REGULATION & OFFSHORE DRILLING

The Trump administration is expected to have a protracted impact on the energy industry. At the start of 2018, the Trump administration released a plan to open all federal offshore waters, currently barring Florida, to drilling. Although this dominated media headlines and could potentially represent the largest ever government lease sale, the viability of this plan is questionable in the current environment. Specifically, heavy political opposition from at least 12 senators, coupled with poor offshore economics amid low historical prices, represents a major barrier. Further, the lack of modern seismic data and infrastructure in the area, has left many analysts doubting whether the short-term impact of this controversial move will be substantial.

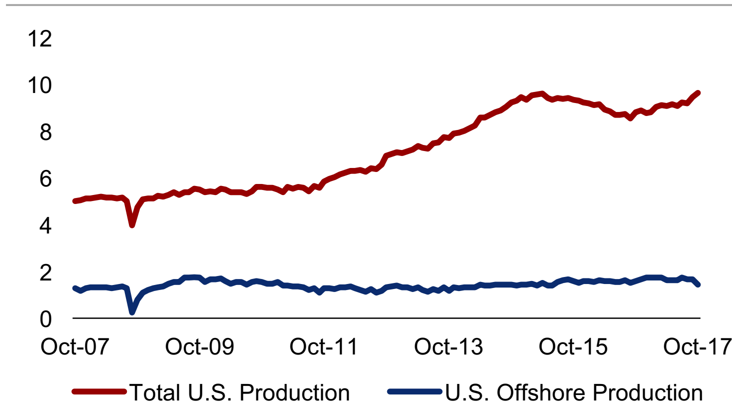
Besides this, the Trump administration in 2017 also began the process of easing regulations for drilling in national parks, and authorized drilling in the Arctic National Wildlife Refuge. On top of this, the new administration has fought clean energy initiatives, with the EPA planning to repeal the Clean Power Plan. Going forward, the Trump administration can be expected to expand offshore drilling and repeal regulation, although the impact of this at low oil prices is unclear. U.S. offshore drilling has remained largely stagnant over time, rising only 14% over 10 years.

Figure 7: Rig Counts Uptick Amid Rising Prices



Sources: JP Morgan, Reuters, Barclays

Figure 8: Offshore Drilling vs Total Crude Production



ENERGY
CANADIAN OUTLOOK

PIPELINES, POLICY & PENTANES

Despite the improved global price environment, the Canadian energy industry has been hampered by issues concerning transportation and uncertainty surrounding regulation throughout 2017. As a result, forecasted total oil sands capital spending for 2017 is C$15bn; declining for the third consecutive year. On the other hand, CAPP raised their long-term Canadian production forecast to 5.12 Mbbl/d in 2030; up from 4.9 Mbbl/d last year.

Growth is expected to be stronger between 2018 and 2020 than in years beyond 2020. This is supported by projects under construction or completed in recent years. Growth past 2020 should be slower due to underinvestment in new projects caused by uncertainty surrounding prices, takeaway capacity, and regulation.

Possibly the biggest challenge faced by Canadian energy producers is lack of market access due to insufficient midstream infrastructure. High production and low takeaway capacity in Western Canada is creating a supply glut in the region, keeping prices depressed relative to American benchmarks. This was clearly observed during the WTI and Brent rally in December, which failed to translate to Canadian price growth. At year-end the WTI-Edmonton Par spread widened to US$8.50 from the Jan-Nov average of US$2.49.

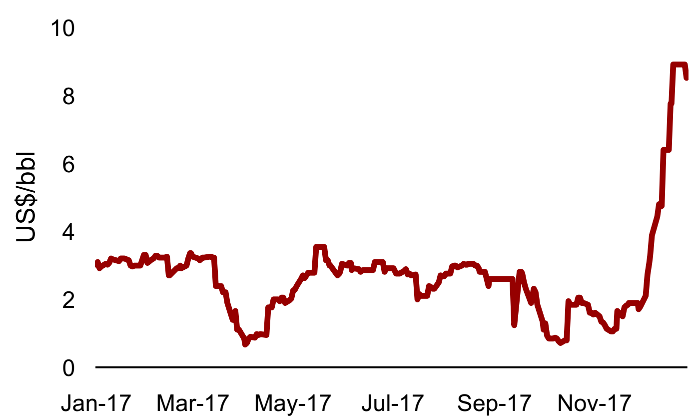
The main catalyst DCM will be looking out for in the medium term is regulatory approval and successful construction of new midstream infrastructure to the United States or Asia. Although 2017 was a shaky year with major projects such as the Pacific NorthWest LNG plant and the Energy East pipeline being cancelled, construction is expected to pick up in 2018 with Line 3 and the Trans Mountain expansion scheduled to be in service by late 2019 and Keystone XL expected in 2020.

These projects are crucial catalysts for price increases and capital spending in new upstream projects in Western Canada. As a result, we will be looking out for any new hurdles that may hamper their development. We expect increased opposition to these projects in 2018 as substantive progress is made.

Pentanes and condensates production has also increased markedly in recent years. This trend is expected to continue due to gas producers targeting liquids-rich gas plays. Condensate production is forecast to increase to 361 Mbbl/d in 2030 from 261 Mbbl/d in 2016. Successful construction of pipelines transporting bitumen will further drive condensate demand for use as diluent.

Finally, environmental policy will also be a big factor in Canadian Energy's future. In December 2016, the federal government and all provinces except Saskatchewan signed the Pan-Canadian Framework to reduce GHG emissions by 30% by 2030. In Alberta, the NDP's carbon emission tax – introduced at $20 per tonne at the beginning of the year – is set to rise to $30/MT on January 1st, placing a strain on the fossil fuel industry. Environment Minister Shannon Phillips says that there will be no further increases until at least 2021.

Figure 9: WTI-Edmonton Par Spread



Sources: Bloomberg

ANNUAL REPORT 2017

ENERGY

2017 HOLDINGS REVIEW

DESAUTELS CAPITAL MANAGEMENT

ARC RESOURCES (TSX:ARX)

COMPANY OVERVIEW

- ARC Resources Ltd. (TSE: ARX) engages in the exploration, development, and production of crude oil and natural gas
- ARX's current production is ~129,000 boe/d, weighted 71% to natural gas and 29% to oil and liquids
- Northeastern BC Montney assets have been the centerpiece to ARX's strategy of organic reserves and resource growth
- Industry-leading low leverage provides ARX strategic flexibility that other firms do not have in the short term
- Canada-leading production and geographic optionality provides long-term strategic flexibility that is unique among Canadian E&Ps

CATALYSTS

- Continued shift towards low operating cost plays, and corresponding netback increases
- Material change in production mix from struggling crude oil to NGLs (ARX is significantly reducing investment in crude oil plays)
- Addition of takeaway capacity in Montney

RISKS

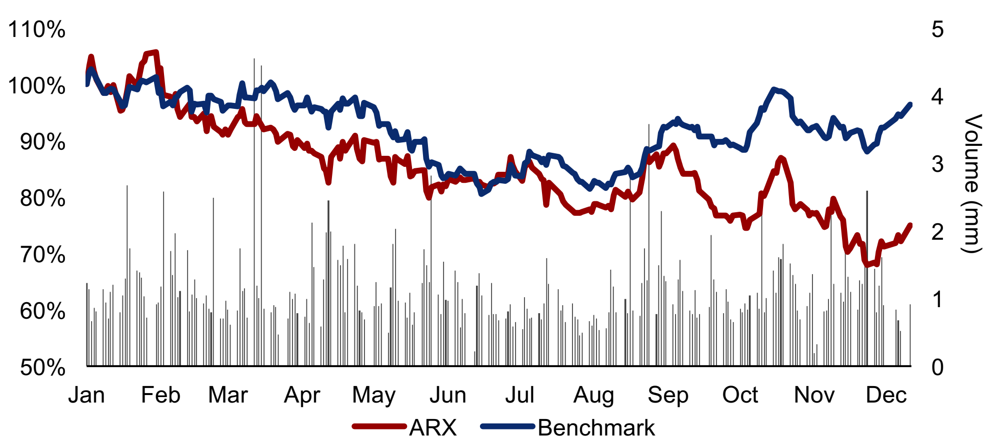
- Continued pipeline bottlenecks and increased supply could keep Canadian energy prices low
- Pipeline project delays in the Montney and neighboring regions could have a negative impact on Montney players

FINANCIAL SUMMARY

Public Market Overview	
(values in CAD M, as of Dec. 31, 2018)	
Stock Price	$14.75
Shares Outstanding (mm)	353.8
Market Capitalization (mm)	**$5,219**
+ Preferred Stock	$0
+ Minority Interest	$0
+ Total Debt	$922
- Cash	($333)
Enterprise Value (mm)	**$5,808**
Beta (1-Year)	1.39
Dividend Yield	4.5%

Financials	**FY2016A**	**FY2017E**	**FY2018E**
(values in $mm)			
Revenue	$1,191	$1,250	$1,348
% Growth		*5%*	*8%*
EBITDA	$694	$856	$766
% Margin	*58%*	*69%*	*57%*
Production (boe/d)	118,671	115,129	113,410
% Growth		*-3%*	*-1%*
2P Reserves (Mboe)	736,700	864,542	956,351
% Growth		*17%*	*11%*

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Sources: Bloomberg

POSITION SNAPSHOT

Average Cost (CAD)	$14.94
# of Shares	5,400
Value Invested	$79,367
Portfolio Weight	3%
2017 HPR	(1%)
2017 HP Benchmark R	2%
Excess Return	(3%)

ARC RESOURCES (TSX:ARX)

INVESTMENT THESIS

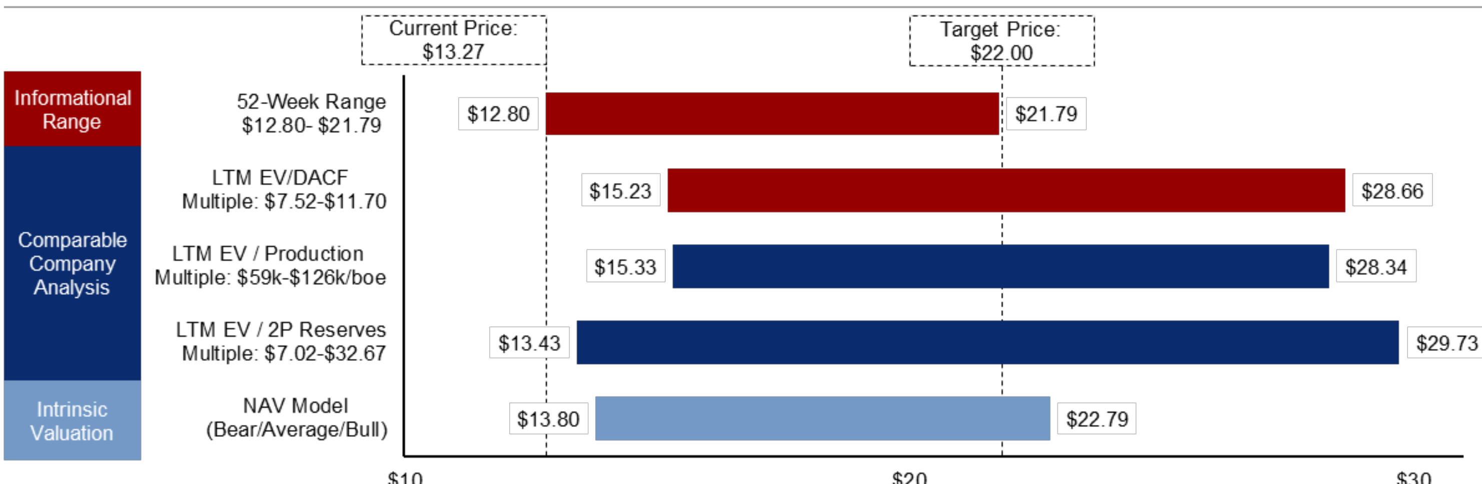
1. **Product optionality as a future strategic advantage over peers**
   - ARC's diversity of plays with different product mixes enables it to capitalize on future catalysts better than peers
   - In their most recent capital budget, ARX re-sequenced projects to capitalize on favorable liquids conditions and unfavorable crude oil conditions, and can similarly adapt to future market dynamics better than peers
2. **Geographic optionality through secure pipeline access and strategic location**
   - ARC is less exposed to pricing pressures at AECO, due to dual takeaway capacity to higher priced markets
   - Especially significant in the current environment of pipeline bottlenecks in Alberta
3. **ARC continues to position itself towards lower operating cost plays**
   - ARC will see LT improvements in netback that the market is currently misunderstanding, due to the lack of detailed netback exposure
   - Planned investment at Sunrise and Dawson, which have lower operating costs/boe than almost every peer, and this will improve overall netbacks dramatically

ANALYSIS OF PERFORMANCE

ARX underperformed its benchmark this past year, declining by 25% in CY 2017 vs. a 6% decline for the benchmark. This decline was largely due to price pressure for natural gas at AECO, the Alberta natural gas hub where ARX sells much of its product (although it is less exposed to this benchmark than peers).

The main driver of ARX's 16% decline since initiating our position on December 11th, 2017 is takeaway capacity for Canadian E&Ps, which is one of ARX's strengths relative to others. After an oil spill in South Dakota, much of Canada's takeaway capacity has shifted from pipeline to rail, driving up transportation costs, thus hurting WCS prices and Canadian E&Ps. DCM believes that the market is over-penalizing ARX for short-term takeaway capacity issues that affect others relatively more than ARX, given ARX's superior medium-run end-market optionality.

VALUATION SUMMARY



Sources: Bloomberg

EMERA INC. (TSX:EMA)

COMPANY OVERVIEW

- Emera Incorporated is a publicly traded energy and services company with $29 billion in assets and 2016 revenues of $4.3 billion
- Based in Halifax, Nova Scotia, Canada, the company invests in electricity generation, transmission and distribution, and gas transmission and utility energy services
- As of 2016 the Emera group of companies had over 7,400 employees
- Emera acquired TECO Energy, Inc. in mid-2016, giving them ownership of Tampa Electric, which provides electricity to the greater Tampa and Central Florida area

CATALYSTS

- EMA is waiting on the response to an RFP to provide clean renewable energy for more than 9 terawatt-hours of hydro and onshore wind energy and 1,600 megawatts of offshore wind energy
- Timeliness of implementation of $850M investment in solar at Tampa Electric
- Positive progress on major projects (no delays)

RISKS

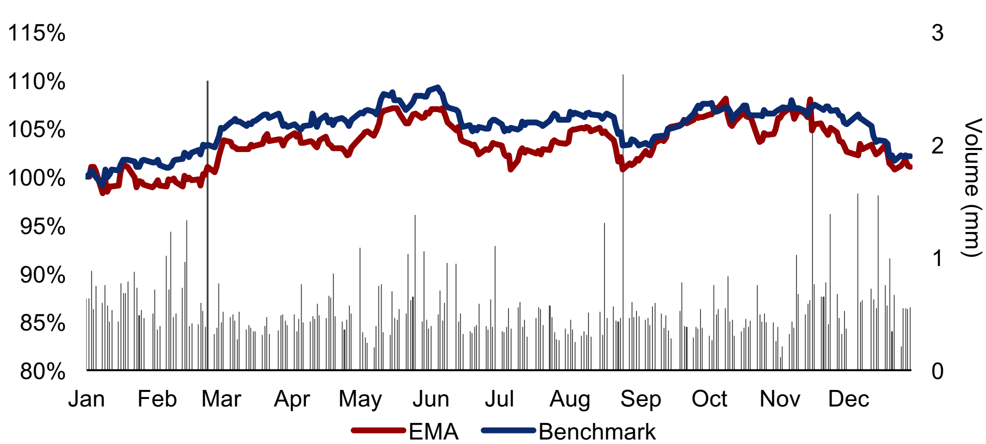
- Loss of Massachusetts clean energy RFP
- Delays of Labrador Link or Maritime Link projects
- Not being able to sustain 8% annual dividend growth

FINANCIAL SUMMARY

Public Market Overview	
(values in CAD M, as of Dec. 31, 2017)	
Stock Price	$46.98
Shares Outstanding (mm)	227.8
Market Capitalization (mm)	**$10,703**
+ Preferred Stock	$709
+ Minority Interest	$109
+ Total Debt	$15,103
- Cash	($221)
Enterprise Value (mm)	**$26,403**
Beta (1-Year)	0.23
Dividend Yield	4.9%

Financials	FY2016A	FY2017A	FY2018E
(values in $mm)			
Revenue	2,549	2,800	3,000
% Growth		*10%*	*7%*
EBITDA	$1,078	$1,893	$2,331
% Margin	*42%*	*68%*	*78%*
EV/EBITDA	19.9	11.2	10.4
% Growth		*-43%*	*-7%*
P/E	16.9x	18.7x	16.4x
% Growth		*11%*	*-12%*

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Sources: Bloomberg

POSITION SNAPSHOT

Average Cost	$17.44
# of Shares	5,650
Value Invested	103,113
Portfolio Weight	4.05%
2017 HPR	5.10%
HP Benchmark Return	28.80%
Excess Return	(23.70%)

EMERA INC. (TSX:EMA)

INVESTMENT THESIS

1. **Underappreciated growth profile following the integration of TECO acquisition**
   - The Solar Base Rate Adjustment (SoBRA) from $850mm solar investment in Florida will drive growth via roughly US$850 million of incremental rate base additions for Tampa Electric through 2020
   - EMA is looking at opportunities to displace coal-fired generation at Tampa Electric with lower emission natural gas-fired generation and even more renewables
2. **Well positioned to capitalize on rapid growth of renewable energy**
   - On November 6, 2017, the Florida Public Service Commission unanimously approved a settlement agreement enabling Tampa Electric to significantly expand its use of solar power
   - Once installed, Tampa Electric will have the highest percentage of solar-energy generation in Florida
   - This project results in Tampa Electric investing about USD 850 million in total through to 2021
3. **Attractive valuation and high dividend growth with low business risk**
   - “Confidence in the performance of the business has also resulted in a decision by the Board to increase our annual dividend by 8% to $2.26 for 2018, in line with our dividend growth target”- CEO Chris Huskilson

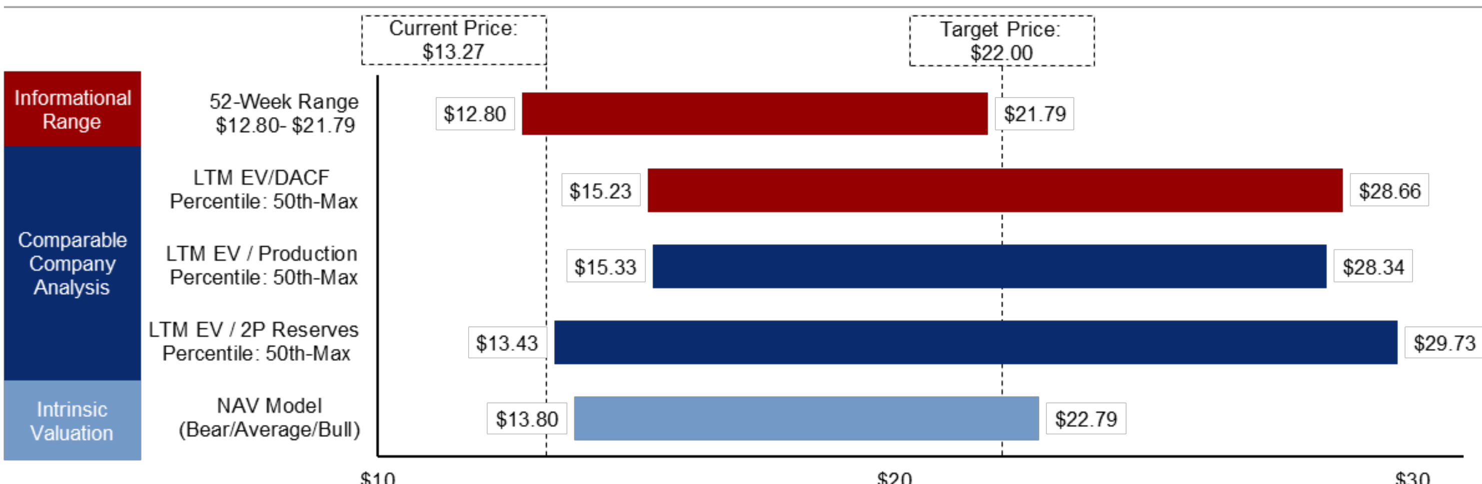
ANALYSIS OF PERFORMANCE

Emera traded flat this year, in line with the industry benchmark. There were a few key factors that moved Emera’s stock this year. First was Hurricane Irma in Florida, which affected their Tampa Electric business. However, Emera had set aside enough in reserves to weather the storm, and their price was not materially adversely affected. In fact, after Irma, Emera’s price jumped from $46 to $49, partially reflecting the market’s confidence in Emera to handle potentially catastrophic situations.

Emera is also engaged in a few large-scale projects which have progressed over the course of the year. Their Maritime Link Transmission Project is on budget and on track to be in-service in early 2018. The Labrador-Island Link is also expected to be on schedule, with an expected in-service Date of mid-2018. The market reacted positively to the lack of delays or higher-than-expected costs.

Finally, Emera’s price rose in June when it bid in an RFP to provide hydro power to Massachusetts. They expect to receive a response early in 2018.

VALUATION SUMMARY



Sources: Bloomberg

MARATHON PETROLEUM CORP. (NYSE: MPC)

COMPANY OVERVIEW

- Marathon Petroleum Corp. is a Midstream and Downstream energy company focused on the refining and transportation of crude oil and the marketing of petroleum products
- Marathon Petroleum operates in three segments: Midstream, Refining and Marketing, and Speedway
- Marathon operates refineries throughout the Midwest and Gulf Coast regions
- Marathon's Midstream segment is operated in conjunction with its Master Limited Partnership (MPLX)
- The Speedway segment operates in the gas station and retail space, and was considered for a spinoff until the plan was scrapped in Q3 2017

CATALYSTS

- Colder than usual winter in North America can drive demand for refined products and have a favorable effect on margins
- Increased global demand for petroleum products drives crack spreads and margins

RISKS

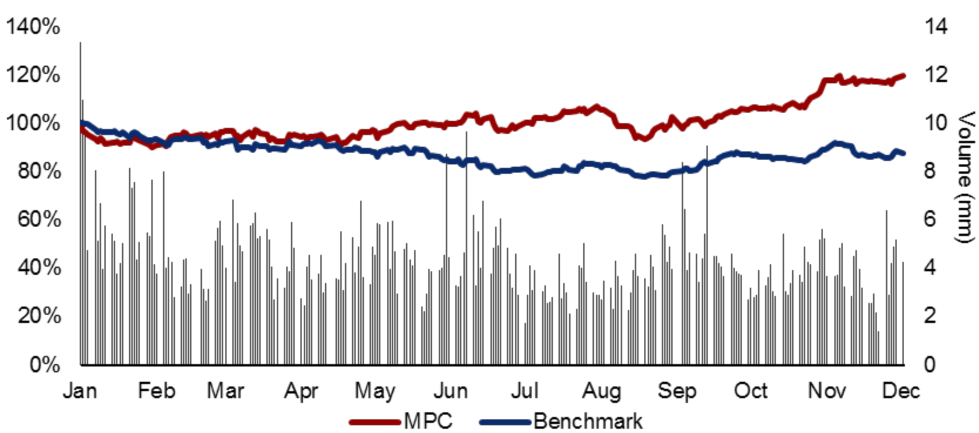
- Continued increases in crude prices will place pressure on crack spreads
- Large rally in H2'17 due to crack spread expansions may lead to decelerated returns in 2018 as market sentiments cool off

FINANCIAL SUMMARY

Public Market Overview	
(values in USD M, as of Dec. 31, 2017)	
Stock Price	$65.98
Shares Outstanding (mm)	532
Market Capitalization (mm)	**$35,112**
+ Preferred Stock	$7,872
+ Minority Interest	$0
+ Total Debt	$12,782
- Cash	$2,088
Enterprise Value (mm)	**$53,678**
Beta (1-Year)	1.46
Dividend Yield	2.1%

Financials	**FY2016A**	**FY2017E**	**FY2018E**
(values in $mm)			
Revenue	$61,602	$71,551	$77,871
% Growth		*16%*	*9%*
EBITDA	$4,278	$5,930	$6,794
% Margin	*7%*	*8%*	*9%*
EPS	$1.96	$3.86	$5.01
% Growth		*97%*	*30%*
Dividend/Share	$1.36	$1.52	$1.66
%Growth		*12%*	*9%*

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

Benchmark: 60% XEG; 40% XLE

POSITION SNAPSHOT

Average Cost	$17.44
# of Shares	5,650
Value Invested	103,113
Portfolio Weight	4.05%
2017 HPR	5.10%
HP Benchmark Return	28.80%
Excess Return	(23.70%)

MARATHON PETROLEUM CORP. (NYSE: MPC)

INVESTMENT THESIS

1. **Strategically located assets offer competitive positioning**
   - Refineries focused on PADDs II and III allow Marathon easy access to the low production cost Utica and Marcellus shale plays
   - New pipeline projects such as Keystone XL and Enbridge's Line 3 expansion will increase access to low-cost Canadian feedstock in the Gulf Coast (PADD III) and Midwest (PADD II) respectively, and widen crack spreads in the regions
2. **Drop-down of midstream assets to MLP unlocks value by removing effects of double taxation**
   - Throughout 2017, Marathon has accelerated its dropdowns to MPLX, announcing the sale of ~US$1.4bn EBITDA worth of assets for US$11.2bn consideration, with the final dropdown expected to close on February 1st, 2018. With this final dropdown, the second investment thesis will be fully realized
   - Announced a ~US$10.1bn agreement to exchange Marathon's GP/IDR units in MPLX for LP units. This is expected to be accretive to MPLX's distributable cash flows and decrease MPLX's cost of capital
3. **Diversification of revenue streams away from refining**
   - Marathon decided in September to scrap the plan to spinoff its Speedway segment. Reasons cited include: loss of ~US$270-US$390 of synergies, loss of diversity of revenues and a net use of cash in order to meet the leverage and liquidity requirements of a Speedway spinoff

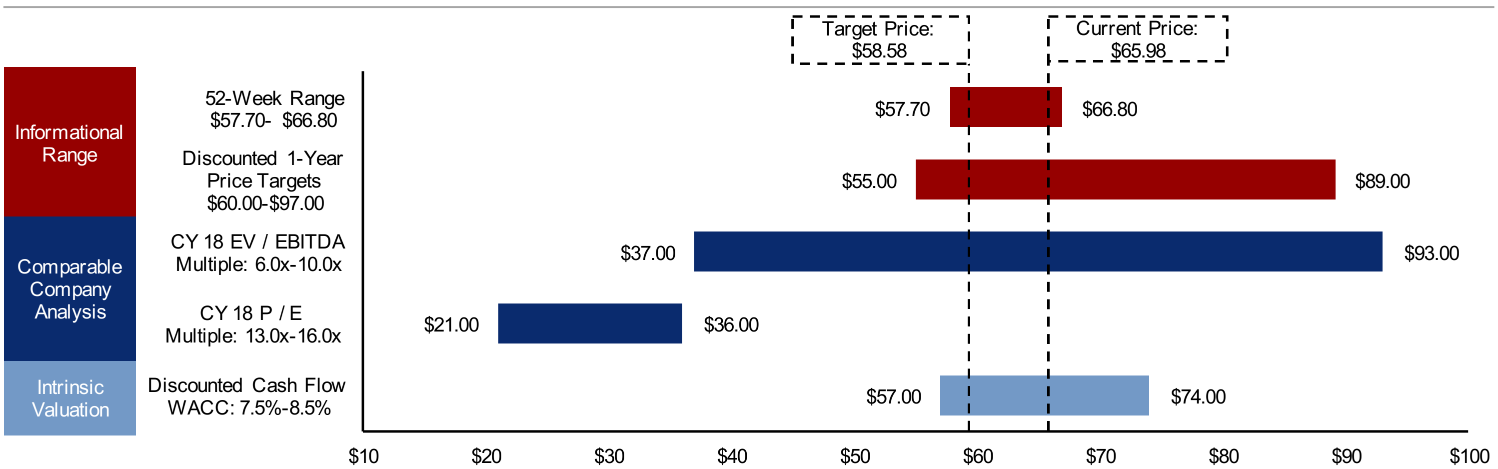
ANALYSIS OF PERFORMANCE

Over 2017, Marathon has significantly outperformed our benchmark index, returning 24.7% versus the benchmark's 10.0% loss. This difference becomes more apparent when considering dividends paid out over the course of the year, which generated an additional 2.9% in returns. In total, Marathon outperformed the benchmark by 37.6%.

Marathon has successfully met its plan to accelerate its asset dropdowns and has caused our second thesis point to be realized. During Hurricane Harvey, Marathon's PADD II refineries experienced record runs and inflated crack spread due, offsetting losses from the shutdown of their PADD II

Regarding our third thesis point, Marathon has decided to keep Speedway integrated within the company and has scrapped plans for the spinoff. This means that our third investment thesis has failed to realize, and the resulting increase in SOTP valuation we expected will materialize. Marathon shares closed 4.6% lower upon the announcement. However, we do see this decision lowering operational risk for Marathon as it operates in more segments of the petroleum value chain.

VALUATION SUMMARY



Source: Bloomberg

Benchmark: 60% XEG; 40% XLE

PEMBINA PIPELINE CORP. (TSX: PPL)

COMPANY OVERVIEW

- Pembina Pipeline Corp. is an integrated midstream energy infrastructure company operating across Canada and the United States
- Its focus is on being a pure-play energy infrastructure provider for players in the Western Canadian Sedimentary Basin, in the Bakken region and in the Niobrara Basin (post Veresen acquisition)
- Pembina has four business segments; Conventional Oil Pipelines, Oil Sands and Heavy Oil Pipelines, Gas Services and Midstream

CATALYSTS

- Regulatory approval for construction of new pipelines would increase takeaway capacity from Western Canada, driving demand for Pembina's arterial gathering pipelines.
- Increases in Bitumen transportation by pipeline which will increase demand for C5+ for use as diluents, and grow demand for Pembina's NGL operations

RISKS

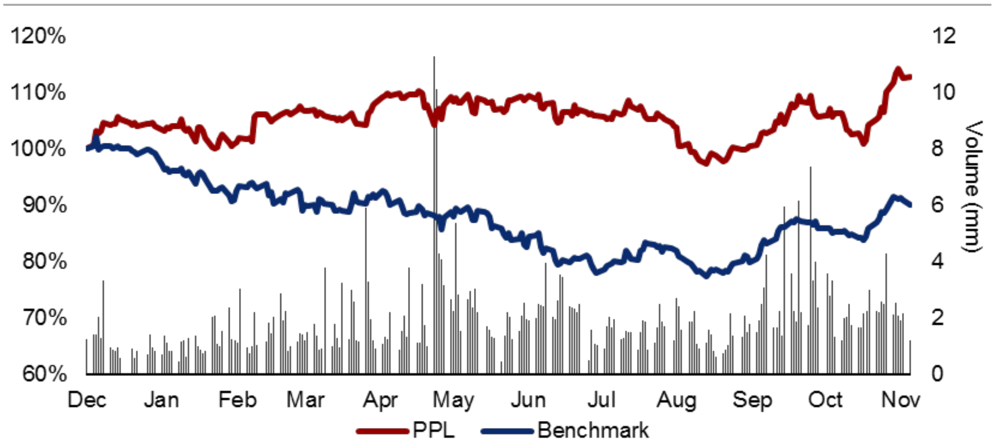
- Regulatory hurdles and construction setbacks could hamper Pembina's growth plans
- Counterparty risk from E&P clients unable to fulfil their end of the contract

FINANCIAL SUMMARY

Public Market Overview	
(values in CAD M, as of Dec. 31, 2017)	
Stock Price	$45.51
Shares Outstanding (mm)	366
Market Capitalization (mm)	**$16,658**
+ Preferred Stock	$1,509
+ Minority Interest	$0
+ Total Debt	$4,151
- Cash	$35
Enterprise Value (mm)	**$22,283**
Beta (1-Year)	1.01
Dividend Yield	4.7%

Financials	**FY2016A**	**FY2017E**	**FY2018E**
(values in $mm)			
Revenue	$4255	$5522	$8112
% Growth		*30%*	*47%*
EBITDA	$1,158	$1,597	$2,534
% Margin	*27%*	*29%*	*31%*
EPS	$1.02	$1.48	$2.05
% Growth		*45%*	*39%*
Dividend/Share	$1.90	$2.06	$2.20
%Growth		*8%*	*7%*

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

Benchmark: 60% XEG; 40% XLE

POSITION SNAPSHOT

Average Cost	$17.44
# of Shares	5,650
Value Invested	103,113
Portfolio Weight	4.05%
2017 HPR	5.10%
HP Benchmark Return	28.80%
Excess Return	(23.70%)

PEMBINA PIPELINE CORP. (TSX: PPL)

INVESTMENT THESIS

1. **The market overestimates Pembina's exposure to oil prices and ties its performance to that of the overall energy industry despite Pembina's business model shielding it from oil price shocks**
   - Post-acquisition of Veresen, the combined entity is expected to generate over 85% of its cash flows from fee-for-service contracts; therefore exposing less than 15% of its cash flows to commodity prices
   - Pembina's one-year beta to the XEG index has decreased from 0.53 in 2016 to 0.37 in 2017 and its beta to WTI has decreased from 0.26 to 0.11. It appears the market is decreasing the correlation between PPL shares to oil prices
2. **Pembina is over-penalized for its significant exposure to unprofitable Canadian oil sands producers when the risk of this exposure is vastly overestimated**
   - Canadian oil sands producers are still operating and completing projects constructed before the oil price crash at a profit as the CERI estimates average breakeven prices – excluding CapEx but including blending and transportation costs – at around US$42 WTI
   - Pembina continues to diversify away from oil sands as the Veresen acquisition increases its exposure to natural gas and NGL midstream operations

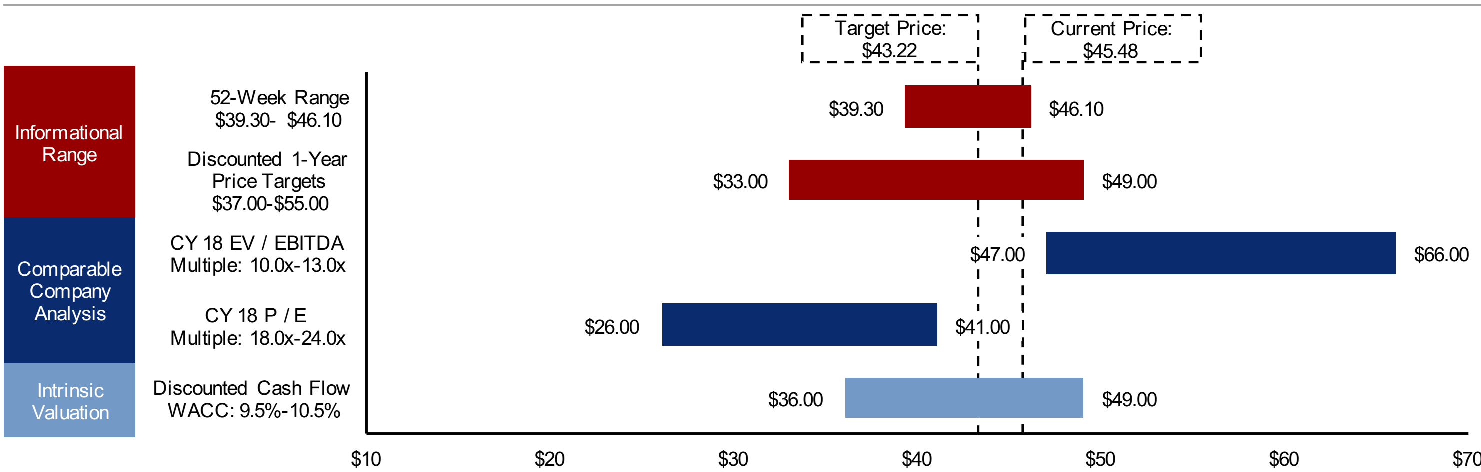
ANALYSIS OF PERFORMANCE

During the 2017 year, Pembina outperformed our benchmark index, returning 12.8% versus the benchmark's 10.0% loss. In addition, the dividends paid out over the year yielded an additional 5.1% return; showing a 27.2% over performance of the benchmark index.

We think that this is partly due to the market realizing that Pembina is well insulated from oil prices – observed in the decrease in correlation of Pembina's stock price to oil prices and the overall Canadian energy index. In addition, Pembina has been diversifying its revenue streams away from oil sands with the acquisition of Veresen. In September, Veresen resubmitted an application for the construction a previously-rejected US$10bn LNG terminal, which is more likely to be approved in light of the acquisition. Pembina shares increased 3.4% following the news.

Pembina prices also shot up 3.0% after the announcement of its 2018 capital program, which includes the construction of a Prince Rupert LPG terminal to export petroleum gas to Asian markets.

VALUATION SUMMARY



Source: Bloomberg

Benchmark: 60% XEG; 40% XLE

ANNUAL REPORT 2017

Technology, Media & Telecom

2017 REVIEW & 2018 OUTLOOK

ALEXANDER BIBIC
ROBERT CHEN
DANIEL MILNE
ERIC VAN HEES

DESAUTELS CAPITAL MANAGEMENT

TMT
2017 REVIEW

OVERVIEW

The Global Equity Fund's Technology & Media sector returned 19.2% in 2017, 6.9% below our benchmark. The sector achieved an annualized alpha of 6.0% and Sharpe ratio of 1.4, compared to our benchmark's 1.8. The Telecom sector returned -7.4% in 2017, 21.3% below our benchmark. The sector achieved an annualized alpha of (12.0%) and Sharpe ratio of (0.9), compared to our benchmark's 1.4.

Figure 1: Technology & Media Returns

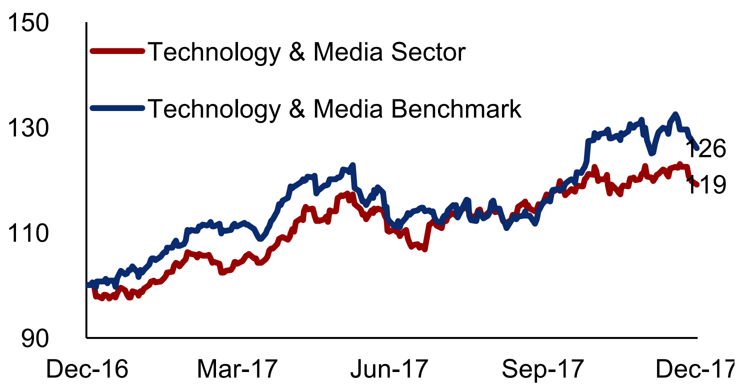
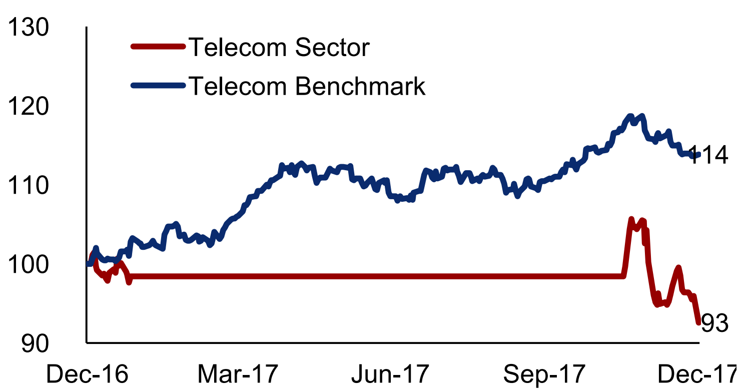


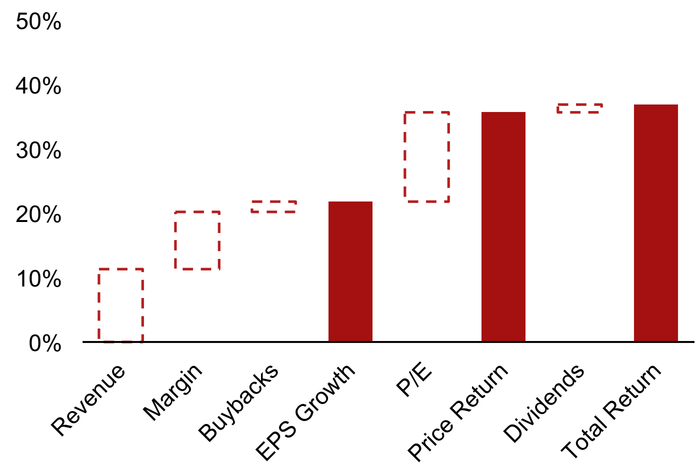
Figure 2: DCM Technology & Media



TMT started the year holding Apple, Cogent, WebMD, Time Warner and Solium Capital. In January, the team decided to sell Cogent based on contract renewal risks with larger ISPs as we predicted a Republican-led FCC would repeal net-neutrality regulations that benefitted Cogent. As a result, we held no Telecom stocks until adding BOINGO in November. WebMD was acquired by KKR in July 2017 for 66.50$ in cash, representing a premium to our 65$ price target. We also sold our position in Solium in November due to the company reaching its price target, despite lower than expected growth in its domestic segment. We then added positions in Citrix in May and BOINGO in November.

SPOTLIGHT ON IT

Figure 3: Technology Total Shareholder Return



The Information Technology Sector returned 37% in 2017, compared to a ~22% return in the S&P 500 for 2017. As shown in Figure 3, this return was driven by both fundamentals and future expectations with limited cash flow effects. EPS growth was 20%, evenly driven by both an increase in sales and profit margin expansion. Sector-wide multiple expansion drove 14% return, reflecting the market's bullish view on future earning potential. Finally, buybacks and dividends did not drive a significant portion of 2017 returns. Fundamental performance remained generally in-line with 2016; however, 2016 saw a multiple contraction that reflected the market's uncertainty that IT companies could continue to grow at historical levels. Looking into 2018, we acknowledge that there are many trends that will help drive IT fundamentals but we are cognisant that future growth may already be priced in by the market.

Sources: Bloomberg

MEDIA

OVERLY CROWDED CONTENT INDUSTRY

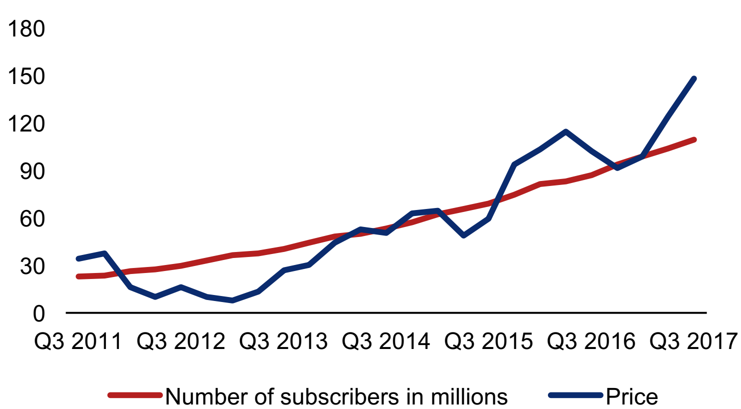
OTT COMPETITION

Over-the-top content ("OTT") is defined as the audio, video, and other media content delivered over the internet. The convenience of access and long tail of content provided by various OTT companies has been a major catalyst in the expedition of global cord-cutting.

The accelerated growth within this industry has sparked fierce competition between companies such as Netflix, Hulu, Disney, and Amazon. These major OTT companies are competing for users by differentiating themselves with original content. Netflix, the original dominant player, has pledged to spend ~$8bn on creating content in 2018 a 33% increase from 2016. Netflix's competitors are also incurring major expenditures in the hopes of creating a hit series that will drive user base growth. Shows such as *Game of Thrones* and *House of Cards* are examples of shows that have significantly increased the user base of HBO Go and Netflix, respectively.

OTT company stock prices have been driven by subscriber growth as seen in Figure 9. We expect this to continue into the foreseeable future until the industry becomes more stable and profits become a priority for investors as growth slows.

Figure 9: Netflix Stock Price & Subscriber growth

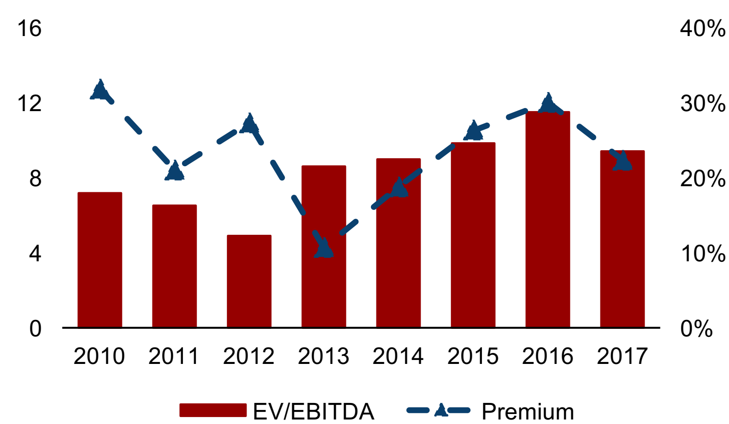


Sources: Bloomberg, CapIQ

EVOLVING TRADITIONAL MEDIA TRENDS

In 2017 traditional media companies aggressively competed to stay relevant by improving content and distribution methods. This gave rise to corporate finance transactions such as: Walt Disney/Fox, the pending Time Warner and AT&T merger and many more. Traditional distribution companies are merging with world class media conglomerates as the benefit of having exclusive quality content coupled with the distribution rights and network effects is realized. Figure 10 shows that in 2017 media M&A multiples slipped off from their high in 2016. The acquisition frenzy has slightly cooled off as companies are now shifting their focus to integrating new acquisitions and driving users to their platform.

Figure 10: Media M&A Premiums and Multiples



DCM Conclusion

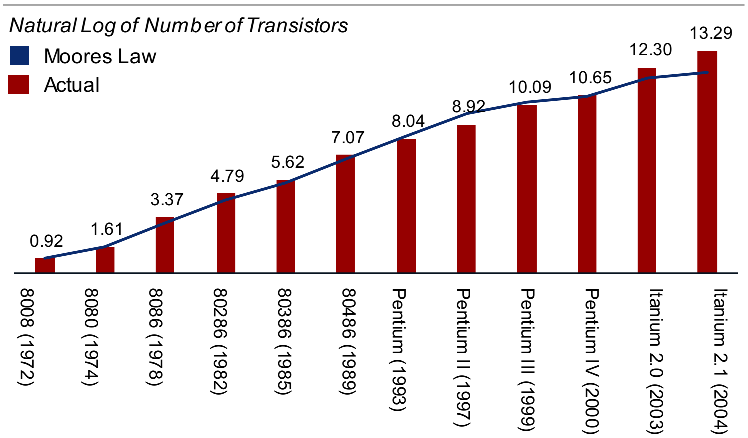
Traditional media is in a period of disruption, which has shrunk valuations as the industry tries to find a way to compete in a digital world. At DCM we believe that content will remain king and companies who are able to drive user base growth and innovate their business model may act as attractive investment opportunities given the discounted nature of the industry.

TECHNOLOGY
THE RACE FOR QUANTUM

REINVENTING THE WHEEL

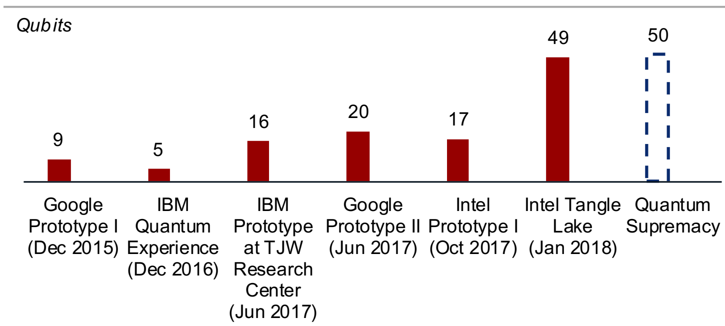
Since the invention of the computer chip centuries ago, computers have proliferated to envelop almost every aspect of modern society. During the golden age, even Moore's Law – the prediction that the number of transistors (and subsequently speed) of a chip would double every two years – was outpaced by reality (Figure 4). However, Moore's era is quickly proving to be both finite and dwindling as we approach chip architectures where heat from high levels of transistor saturation begins to pose as a technological ceiling.

Figure 4: Moore's Law (1972 – 2004)



Enter the era of quantum. Unlike classical computers, which operate on Bits – capable of taking on a value of either 1 or 0 – quantum computers utilize Qubits which leverage quantum properties to represent a probabilistic distribution between 1 and 0. Quantum computers are essentially exploiting this "representational richness" to run algorithms which are in a fundamentally different class than classical computers, opening up a wide array of previously unfeasible computing possibilities. Pharma companies could simulate chemical reactions to develop new and complex drugs and many sales companies could begin to leverage millions of Terabytes of untapped Big Data to optimize their operations. However, one of the yet most important consequences of quantum algorithms lies in the cybersecurity sector - more specifically the RSA encryption process. Currently, the safest way to send information over the internet is by encrypting information as the product of two extremely large prime numbers. Since multiplying two large numbers is computationally easy but factoring the product is almost impossible through classical computing, this one-way-process serves as an effective locking mechanism. However, there have already been quantum algorithms developed which could in theory factor these large prime products. The implications are that crucial information such as credit card PINs, government defense data, etc. would suddenly become unsafe. For a quantum computer to feasibly perform these computations, they must reach a threshold which scientists are calling "Quantum Supremacy" with ~50 Qubits or more in the processor. Although it becomes exponentially more difficult to add Qubits at higher numbers, tech giants such as Google, IBM and Intel have been at the forefront of this quantum race for years with Intel just announcing their 49 Qubit Tangle Lake chip in January 2018 (Figure 5).

Figure 5: Quantum Race Timeline



When mankind first discovered the classical computer, no one could have imagined the way it ultimately revolutionized industry and society. Today, we take for granted the ability to walk around with a microprocessor in our back pockets. Now just try to imagine what sort of revolution we are once again potentially on the brink of.

Sources: Statista, Morgan Stanley, ScienceNews

TECHNOLOGY
BITCOIN BEARS & AI

BITCOIN

Looking back at 2017 we see many resemblances between Bitcoin's rapid price increase and many of the great bubbles of history, especially the tulip bubble of the 1600s. The cacophony of cryptocurrency acolytes, (supported by Blockchain technology) has caused a record high of $19,343 USD in late December, 2017. Like Bitcoin, in the 1600s Tulip bulbs took an exponential price increase, such that people were becoming tulip *millionaires* overnight and fueling this tulip bull market. Further, an *investor* gained significant social capital by owning tulip bulbs and felt left out if they didn't participate. Eventually, people realized that tulip bulbs were not that exciting/resembled a commodity and a major selloff followed. Like tulips, Bitcoin has become unbelievably expensive, but what are investors actually paying for, we ask: what value does the underlying *asset* hold? Further, there is now a large number of Bitcoin millionaires and, like tulips, Bitcoin has become "cool" to own. To conclude, we are wary about the future of Bitcoin not just for valuation issues but also liquidity concerns and believe it may only be able to serve as a form of currency for emerging markets where domestic currencies have struggled to hold value.

We do think there is value in the underlying technology of Blockchain and the decentralized system that it offers. Companies that are able to use Blockchain in an accretive manner, not just posing as Blockchain companies, may offer attractive investment opportunities for DCM in the future.

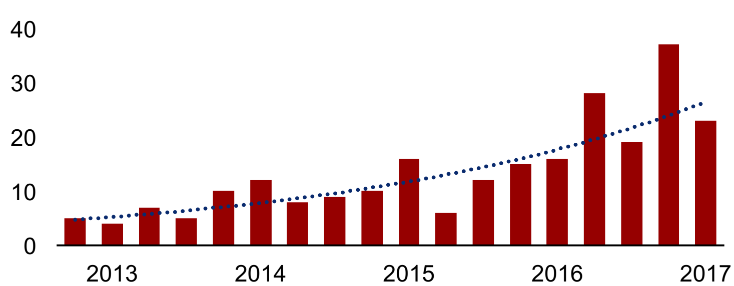
ARTIFICIAL INTELLIGENCE

During 2017, the popularity of Artificial Intelligence ("AI") skyrocketed as the benefits of AI became more apparent than ever. Facebook, Google, and Alibaba, to name a few, have been leveraging their large cash balances or high levels of funding to fuel AI projects.

AI is a loose definition as it covers many different topics including: cognitive computing, deep-learning, machine learning and reasoning, natural language processing, and predictive computing. In 2017 companies such as Facebook and Google dealt with the issue of fake news and how they could use AI to eliminate inaccurate or fictitious news from their sites. AI also entered the traditional car industry as Tesla, Volkswagen and other competitors experimented with AI technologies to conceive a self-driving car with the hopes of achieving full autonomy by 2019. Going forward it will be important to establish the vertical of AI that stands to benefit corporations/society the most and the companies that are able to optimally use the technology.

2017 saw another spike in AI acquisitions as large corporations tried to optimize or transform their business model by using artificial intelligence. M&A multiples continued to be very high for AI companies because the implied growth opportunities are significant and competition is fierce for the best companies. We think it is imperative while analyzing the technology sector to find world-class companies whose implementation of AI will revolutionize their business model and increase their competitive moat. Further, with AI being a very expensive industry we need to find world-class companies at a good price and ensure that we do not overpay for investments.

Figure 6: AI Quarterly M&A Transactions Since 2013



Sources: Bloomberg, Cbinsights

TECHNOLOGY

SEMI-CONDUCTORS & AUTONOMOUS EVS

SEMI-CONDUCTORS

In terms of semiconductors with relation to the overall market, Figure 7 shows the correlation (+0.84) between semiconductors and the S&P 500 over the past 9 years. The positive correlation is uncanny and we believe that semiconductor success is a massive driver of the overall market. Recently, in the last two years, we've seen semiconductors outperforming the broad market, and we expect this strong sectoral performance to act as a tailwind for the entire market.

Furthermore, our conviction in the growth in automated EVs and a shift to a shared auto industry can be seen by looking at Figure 8 – this chart illustrates the percentage of total miles shared. The key takeaway from this figure is that, while global miles driven are growing at a linear rate, shared miles are growing at an exponential rate. The only way these numbers can be reached are through autonomous shared-vehicles. Keeping this in mind, we believe that semiconductors are one of the most important steps in the supply chain that will drive this growth. Specifically, we will be looking into IDMs (integrated device manufacturers, which include both semiconductor design and semiconductor manufacturing), for the year ahead.

ELECTRIC VEHICLES

Our outlook on EVs is that by the second half of 2020 they will hit their inflection point of adoption, mainly due to plunging lithium-ion battery prices. According to Bloomberg, the EV revolution will have many important ramifications. Three interesting highlights are: 1) By 2040, EVs will account for 54% of new car sales – higher than the previously forecasted 35%; 2) Lithium-ion battery prices are set to fall by more than 70% by 2030, leading to a massive influx of EV adoption; 3) By 2040, EVs will displace 8 million barrels of transport fuel per day, and add 5% to global electricity consumption. Specifically playing on this theme, we believe that an investment in companies that support the EV supply chain are critical to not only thrive, but survive in the asset management space. Not only are EVs a threat to ICE (internal combustion engine) vehicles, but we also believe the private automobile ownership automotive business model will be disrupted; heading towards a shared, autonomous vehicle market. DCM believes that the winners in the automotive market will be the companies who can adapt quickest and leverage electric vehicles in 2018 and beyond. Look for the major auto incumbents to compete with Tesla for market share.

Figure 7: Semiconductor Index vs. S&P 500 2009-2017

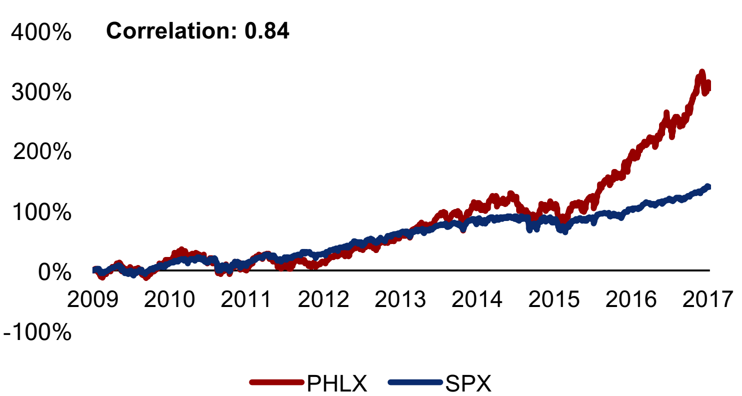
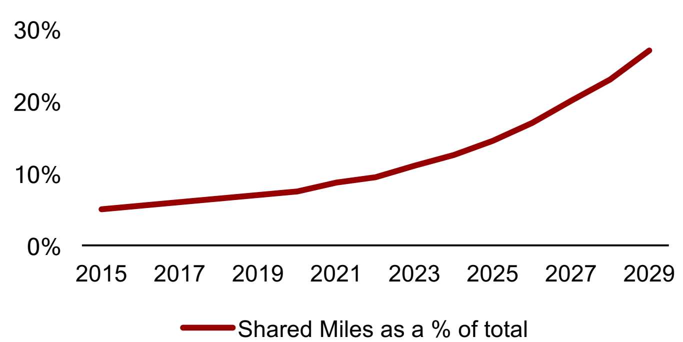


Figure 8: Global Shared Miles as a % of Total Miles Driven



Sources: Bloomberg

TECHNOLOGY
5G ROLLOUT & SMALL CELLS

5G ROLLOUT AND SPECTRUM

What is 5G? 5G stands for 5th generation and is the next progression in telecom. Specifically, the main aim of 5G is threefold: 1) To enhance mobile broadband, thereby enabling support for applications like VR (virtual reality) and a massive influx in data traffic; 2) To increase reliability of communications, including but not limited to, very low latency (sub-1ms). These latencies are a cornerstone for autonomous vehicles and mobile healthcare; 3) To allow for large machine-type communications, which enable low cost IoT (internet of things) and indoor coverage. In DCM's opinion, this 5G rollout, which is expected to be commercially implemented by 2021, will carry two major tailwinds. Firstly, this means that new spectrum bands will be auctioned and agreed upon at WRC-19 (world radio conference 2019). Secondly, we expect to see a shift from large cell to small cell densification, which will be touched upon in the adjacent column. Diving deeper into spectrum, with an ever-increasing demand for data-heavy mobile video, we expect companies that own the most spectrum to succeed. As can be seen Figure 11, global mobile data is expected to grow at a 45.28% CAGR from 2017-2021. The companies best able to meet this demand will be highly profitable in 2018.

SMALL CELL DENSIFICATION

As the previous column eluded to, the 5G rollout will be a tailwind for companies that can capitalize on small cell densification. The idea of small cell densification can be thought of using an automotive highway. The current telecom framework can be compared to a one-lane highway with high congestion and low speed. Alternatively, the shift to small cells can be thought of as a new lane opening – resulting in lower congestion and increased speed. Due to the nature of the American telecom space, any carrier who can offer an even marginally better speed will have a competitive advantage within the oligopoly. With that in mind, we believe that companies that can build the infrastructure first, to support this disruption, will be the winners during this 5G rollout. According to this outlook, in calendar Q4 of 2017 we initiated a position in Boingo Wireless, Inc. (NASDAQ:WIFI). Boingo is the largest indoor DAS provider. DAS or distributed antenna systems are a form of small cell architecture and with their massive infrastructure in place, we believe they are best positioned to take advantage of this trend. As can be seen in Figure 12, over the next five years, small cells will provide 42% of the global data capacity increase.

Figure 11: Global Mobile Data Traffic in Exabytes/Month

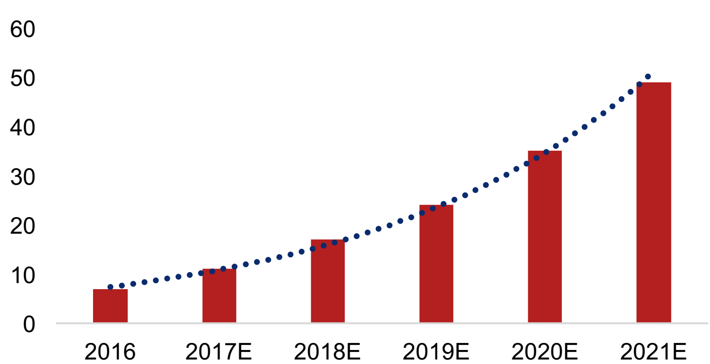
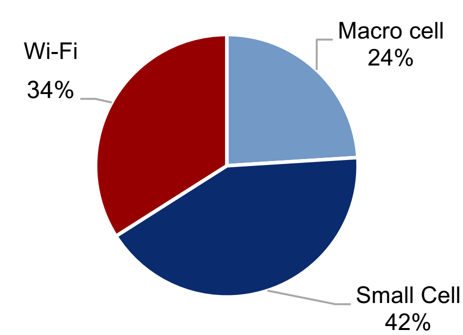


Figure 12: Data Capacity Allocations 2018-2022



Sources: Bloomberg, Senza Fili Consulting, Statista

ANNUAL REPORT 2017

Technology, Media & Telecom

2017 HOLDINGS REVIEW

DESAUTELS CAPITAL MANAGEMENT

APPLE INC. (NASDAQ:AAPL)

COMPANY OVERVIEW

- Apple is a large-cap, US-based multinational technology company that designs, develops, and sells consumer electronics, computer software, and online services
- Their products include the iPhone, iPad, iPod, Apple Watch, MacBook, and Apple TV player. Their services include the iTunes Store, iOS App Store, Mac App Store, Apple Pay, and iCloud
- With $228.5bn in revenue in FY 2017, Apple is currently the world's largest information technology company by revenue and the world's largest technology company by total assets

CATALYSTS

- Newfound growth in Apple Services segment driven by new revenue streams (Apple Pay) and growing installed user base
- Investments in international markets such as China can provide new sources of revenue growth through market penetration

RISKS

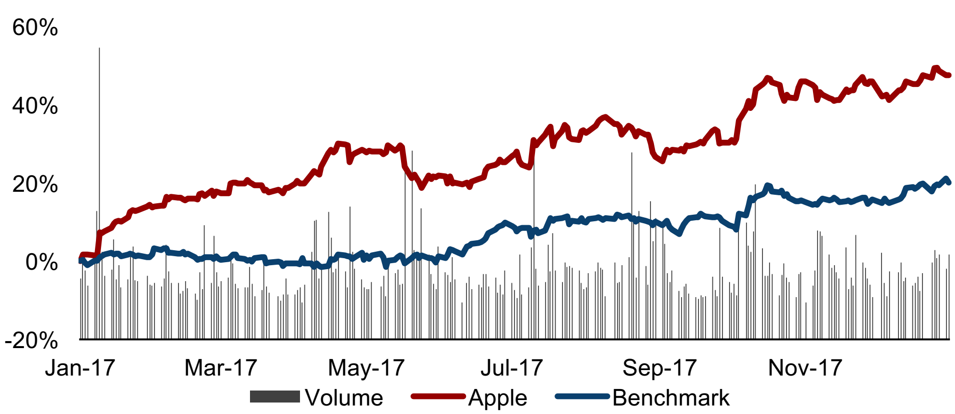
- Aggressive native smartphone competitors (Oppo, Vivo, Xiaomi, Huawei) could potentially extinguish Apple's presence in crucial foreign markets
- Significant dependency on declining iPhone business (61.4% of FY 2017 net revenues) creates pressures to find other sources of growth

FINANCIAL SUMMARY

Public Market Overview	
(values in US mm, as of Dec. 31, 2017)	
Stock Price	$177.09
Shares Outstanding (mm)	5126.2
Market Capitalization (mm)	**$907,799**
+ Preferred Stock	$0
+ Minority Interest	$0
+ Total Debt	$115,680
- Cash	($268,895)
Enterprise Value (mm)	**$754,584**
Beta (1-Year)	1.10
Dividend Yield	1.36%

Financials	**FY2016A**	**FY2017A**	**FY2018E**
(values in $mm)			
Revenue	$215,091	$228,594	$274,004
% Growth		*6%*	*20%*
EBITDA	$69,981	$70,953	$86,150
% Margin	*33%*	*31%*	*31%*
EPS	$8.26	$9.13	$11.47
% Growth		*11%*	*26%*
EV/EBITDA	*9.70x*	*12.63x*	*8.71x*
P/E	13.90x	18.40x	15.43x

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Sources: Bloomberg

POSITION SNAPSHOT

In CAD, unless noted	
Average Cost (USD)	$109.95
# of Shares	550
Value Invested	$117,006
Portfolio Weight	4%
2017 HPR	39%
2017 HP Benchmark Return	26%
Excess Return	13%

APPLE INC. (NASDAQ:AAPL)

INVESTMENT THESIS

1. Market is over-discounting decline in iPhone revenues

- The current DCF model implies that holding all else constant, iPhones sales must decline by 1.1% every year forever for the current discount to be warranted. We believe this implied decline is overly pessimistic and iPhone demand will remain stable in the future

2. Silver lining: rapid growth in Apple Services segment

- Recent growth in the Apple Services segment, driven by a growing installed user base, higher in-app purchases, and new streams such as Apple Pay, will help cushion net revenue declines

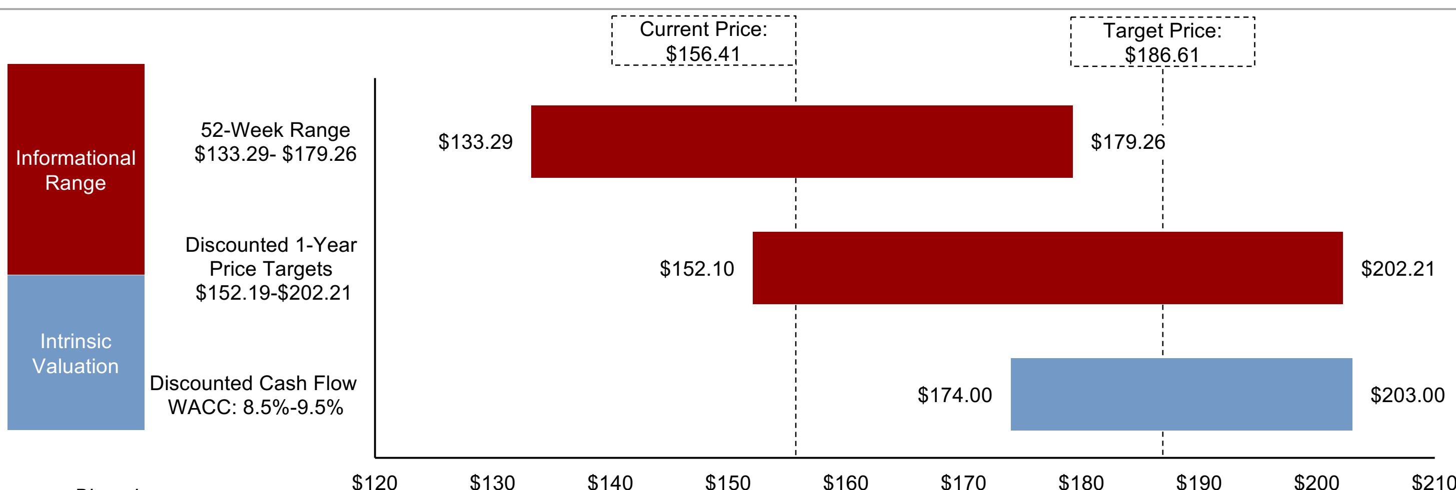
3. Still room for growth: internationalization opportunities

- Despite maturing iPhone markets in the Americas, Apple has still just only achieved revenue growth and tertiary penetration in large emerging markets such as China
- This thesis has begun to materialize as Apple has realized revenue growth in the greater China region over the past two quarters

ANALYSIS OF PERFORMANCE

Since we initiated our position in Apple in 2016 Apple has outperformed our benchmark, returning 60% compared to 50%. Specifically in 2017 Apple outperformed our benchmark by ~20%. Apple had a strong closing to the fiscal year with a great Q4 earnings release, which resulted in a 5% bump immediately following the release and has since appreciated about 14%. The Apple Watch experienced its third consecutive quarter of over 50% growth; this coupled with the double digit growth in Apple services has helped Apple diversify its revenue stream away from solely iPhones. In Q4 greater China area revenues increased by 12% which was the first increase since 2016, as Apple finally proves its ability to penetrate the Chinese market.

VALUATION SUMMARY



Sources: Bloomberg

BOINGO (NYSE:WIFI)

COMPANY OVERVIEW

- Boingo Wireless, Inc. is a leading global provider of wireless connectivity solutions for smartphones, tablets, laptops, wearables and other wireless-enabled consumer devices
- Boingo has solutions for a variety of different consumers including; military, corporations, consumers, and advertisers
- Boingo generates revenue in 4 ways
  - Subscription basis network access
  - Long term contracts for access to DAS networks
  - Display advertisements on sign in pages
  - Arrangements with wholesale Wi-Fi providers

CATALYSTS

- Increasing demand for adequate cellular coverage – Boingo's Distributed Antenna System (DAS) expertise and leading market share are primed to capture industry tailwind
- 2018 5G rollout, creating increased demand for DAS systems to improve cellular connectivity

RISKS

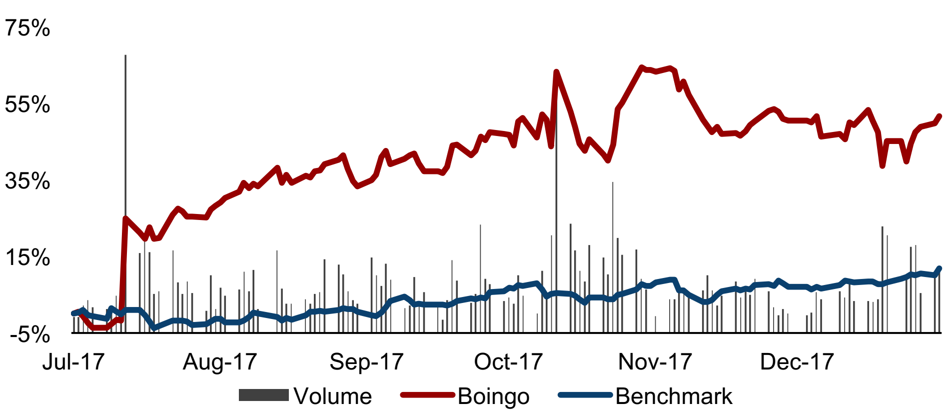
- Large telecommunications companies developing DAS systems internally to support their network and cutting out Boingo

FINANCIAL SUMMARY

Public Market Overview	
(values in US mm, as of Dec. 31, 2017)	
Stock Price	$22.32
Shares Outstanding (mm)	40.8
Market Capitalization (mm)	**$911**
+ Preferred Stock	$0
+ Minority Interest	$1
+ Total Debt	$10
- Cash	($22)
Enterprise Value (mm)	**$900**
Beta (1-Year)	0.7
Dividend Yield	NA

Financials	**FY2016A**	**FY2017A**	**FY2018E**
(values in US $mm)			
Revenue	$159	$192	$232
% Growth		*21%*	*21%*
EBITDA	$27	$49	$78
% Margin	*17%*	*26%*	*34%*
Cash from Operations	$99	$115	$135
% Growth		*17%*	*17%*
EV/EBITDA	*18.00x*	*21.49x*	*17.41x*
EV/Sales	3.01x	4.92x	4.07x

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Sources: Bloomberg

POSITION SNAPSHOT

In CAD, unless noted	
Average Cost (USD)	$23.58
# of Shares	4,980
Value Invested	$140,858
Portfolio Weight	5%
2017 HPR	(7%)
2017 HP Benchmark Return	(3%)
Excess Return	(4%)

BOINGO (NYSE:WIFI)

INVESTMENT THESIS

1. Boingo is best positioned to capitalize on network densification
- Existing contracts with 2 of the big 4 telcos and several airports/venues across the US
- Boingo already has 37 DAS networks in place and 81 projects in the pipeline allowing for a swift expansion of their network

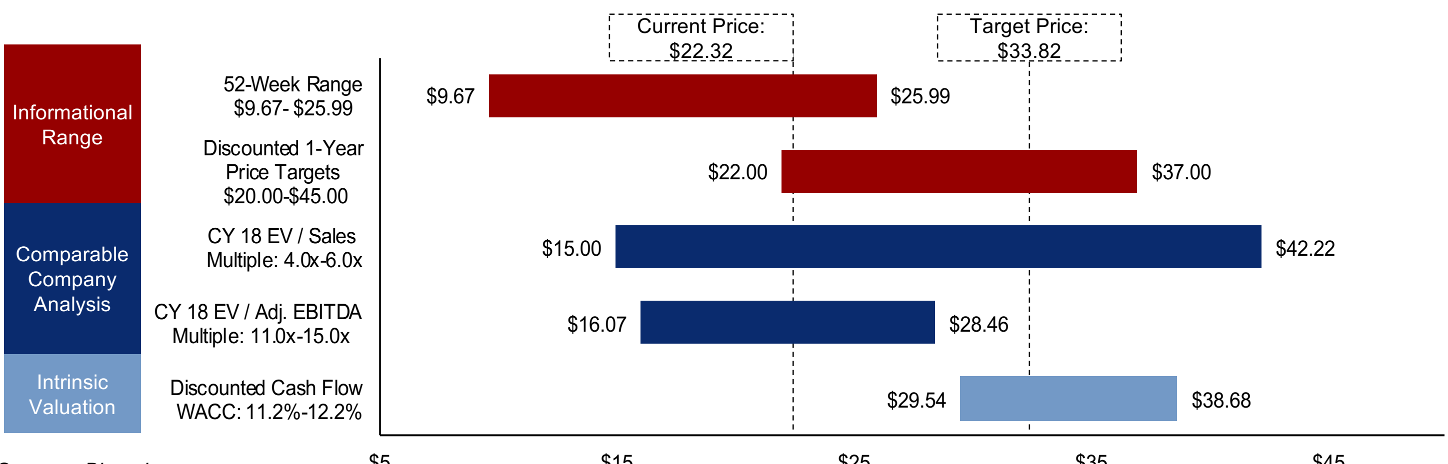
2. Boingo is well placed to take advantage of military tailwinds
- National Defense authorization act plans to increase troop count which should reduce the vacant spots in existing Military bases where Boingo has contracts in place thus increase total addressable market
- Due to existing infrastructure Boingo has significant operating leverage in Military segment as they do not require additional capex to register another customer

3. Ideal acquisition for multiple sub-verticals
- Boingo has already established long term contracts with key customers and in key markets posing an excellent strategic option for an acquirer
- Cost analysis suggests significant synergies between small cells and Wi-Fi
- Hidden NOLs and underleverage provide opportunity for acquirer to extract value currently not forecasted by market

ANALYSIS OF PERFORMANCE

Since we initiated our position in late November Boingo has underperformed our benchmark, returning ~1% compared to 7%. Specifically in 2017 Boingo outperformed our benchmark by 25%. Due to our short holding time we have not experienced any major events that drove the stock price. Further, we will monitor the status of the 2018 National Defense Authorization Act and how the increased military spending translates into more military Wi-Fi subscribers and subsequently increased revenues. In 2018 the 5G network is expected rollout which will require a stronger and faster network to operate on. With a busier network we expect demand for DAS networks to increase as large telecommunication companies compete to ensure the fastest network for their clients.

VALUATION SUMMARY



Sources: Bloomberg

CITRIX SYSTEMS INC. (NASDAQ:CTXS)

COMPANY OVERVIEW

- Citrix Systems is an infrastructure software company that specializes in providing integrated, comprehensive technology for secure delivery of content outside of the organization
- Activist investor Elliot Management entered a 7% position in June 2015 and has been implementing value-creating cost measures since initiating their position
- The company's Workspace Services segment represents approximately half of Citrix' revenues and comprises of virtualization services that allows users to access applications and desktops from any cloud
- The Delivery Networking segment is software-defined security designed for digital infrastructure

CATALYSTS

- A Trump tax holiday would benefit Citrix as they have a significant amount of cash held abroad
- Elliot Management has a history of selling a company or its parts when implementing an activist campaign

RISKS

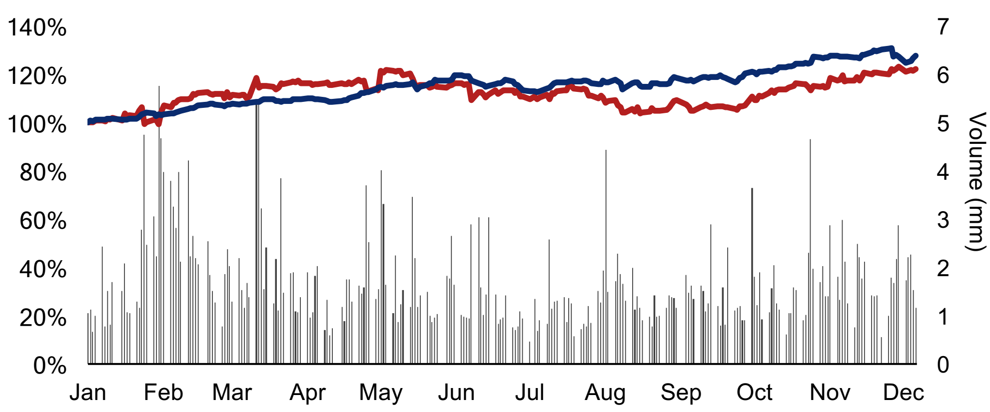
- A cyber attack or breach of security would undermine the company's product capabilities
- A decrease in IT spending would have an adverse effect on the company's top-line

FINANCIAL SUMMARY

Public Market Overview	
(values in USD M, as of Dec. 31, 2017)	
Stock Price	$88.00
Shares Outstanding (mm)	150.68
Market Capitalization (mm)	**$13,260**
+ Preferred Stock	$0
+ Minority Interest	$0
+ Total Debt	$1,417
- Cash	($1,504)
Enterprise Value (mm)	**$13,173**
Beta (1-Year)	1.27
Dividend Yield	0.0%

Financials	**FY2016A**	**FY2017E**	**FY2018E**
(values in $mm)			
Revenue	3,418	2,825	2,882
% Growth		*-17%*	*2%*
Gross Profit	$2,860	$2,451	$2,491
% Margin	*84%*	*87%*	*86%*
EBITDA	$1,027	$1,036	$985
% Margin	*30%*	*37%*	*34%*
EPS	4	5	5
% Growth		*23%*	*1%*

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



POSITION SNAPSHOT

In CAD, unless noted	
Average Cost (USD)	$86.74
# of Shares	700
Value Invested	$77,437
Portfolio Weight	3%
2017 HPR	(7%)
2017 HP Benchmark Return	5%
Excess Return	(13%)

Sources: Bloomberg; Index is 60% U.S.A. Information Technology and 40% Canadian Information Technology

CITRIX SYSTEMS INC. (NASDAQ:CTXS)

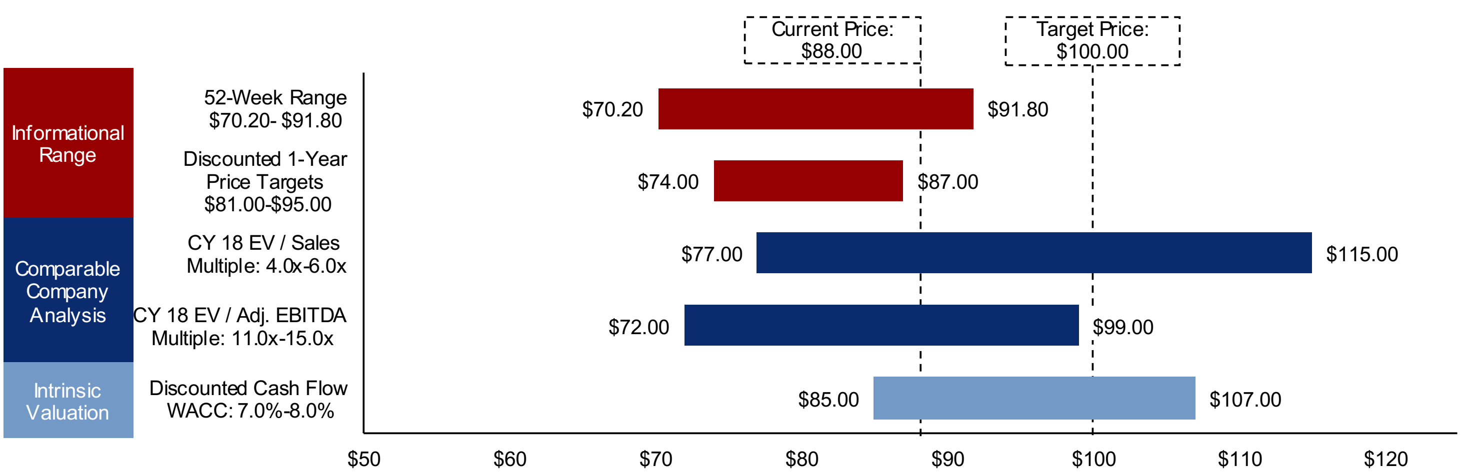
INVESTMENT THESIS

1. **The market is overemphasizing the risk of cloud for Citrix' virtualization segment**
   - Citrix' products and services target hybrid-cloud customers, which are being threatened by the highly growing cloud technology. We believe these fears are overblown given that organizations will continue to prioritize keeping data secure over the additional costs of running internal servers relative to cloud services
2. **A dividend recapitalization could create value**
   - Activist investor Elliot Management has a history of performing debt-fueled buybacks that have historically created value for shareholders
   - At time of purchase, valuation implied Citrix was under-levered compared to peers and could create value as the market is not currently pricing DCM's optimal capital structure
3. **Attractive valuation despite the potential for near-term catalysts**
   - The company currently trades at a discount to blended peer multiple
   - Intrinsic valuation suggests the market is pricing slow growth in hybrid-cloud segment, which is being threatened by cloud technology. Since initiating the position, sales figures in this segment have outperformed DCM's estimates, which are higher than the street's

ANALYSIS OF PERFORMANCE

Since we initiated our position in CTXS in May of this year CTXS has slightly underperformed our benchmark, returning **5.1%** compared to **28.8%**. Throughout our holding period, Bloomberg reported that Citrix engaged Goldman Sachs to explore a potential sale, with a consortia of financial sponsors including Bain Capital and Thoma Bravo being the most likely sponsors. Despite these rumours, no sale was announced or go-private transaction was announced. Citrix' CEO resigned In July, with David Henshall, CFO and COO at the time, becoming the new CEO. The press speculated that Henshall would more likely to engage in a go-private transaction or outright sale. Despite this news, the market continued to punish Citrix for slight revenue misses and perceived increased competition from cloud services. However, the stock recovered once the new shareholder return program was announced. In November 2017, the company announced a $2bn share repurchase program for 2018, an increase of $1.7bn from their previous guidance. In addition, the company announced the underwriting of a $750mm senior note to fund the share repurchase program, all of which is consistent with our second thesis.

VALUATION SUMMARY



Sources: Bloomberg

THE MADISON SQUARE GARDEN CORPORATION (NYSE:MSG)

COMPANY OVERVIEW

- MSG is a leader in sporting and entertainment with its portfolio of marquee assets which it monetizes through events, franchising, and media rights
- Founded in 2010 as a spin off of Cablevision
- MSG's portfolio is divided into two segments
  - MSG Sports: the company's professional sports franchises notably including the New York Knicks (NBA), the New York Rangers (NHL), the New York Liberty (WNBA), and recently Counter Logic Gaming, an eSports franchise which they acquired in July 2017
  - MSG Entertainment: the company's real estate assets with notable venues including Madison Square Garden, Radio City Music Hall, the Beacon Theatre, the Forum, The Chicago Theatre, and the Wang Theatre

CATALYSTS

- Eventual market reversal of Dolan Discount as management proves competency of acquisitions;
- Management's continued integration of 62% TAO Group stake acquired in 2017 could drive growth
- Acquisition of Counter Logic Gaming franchise to align MSG with burgeoning E-Sports media space

RISKS

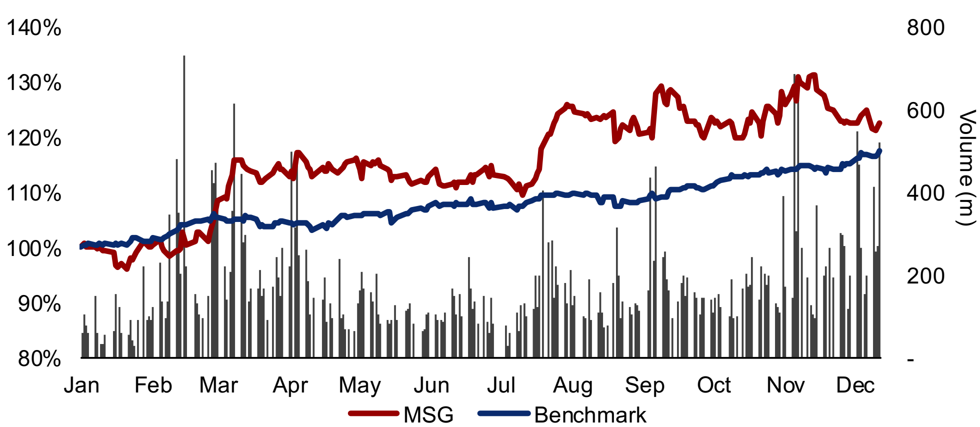
- The Dolan family's strategy of aggressively growing the MSG empire through acquisitions could be misaligned with the best interest of shareholders in the near-term
- Concentration of value in few marquee assets; although unlikely, if these assets were to devalue (professional sports go out of popularity), MSG would be exposed to the full downside risk

FINANCIAL SUMMARY

Public Market Overview	
(values in CAD M, as of Dec. 31, 2017)	
Stock Price	$210.85
Shares Outstanding (mm)	23.6
Market Capitalization (mm)	**$4,968**
+ Preferred Stock	–
+ Minority Interest	$100
+ Total Debt	$106
- Cash	$1,164
Enterprise Value (mm)	**$6,337**
Beta (1-Year)	0.55
Dividend Yield	–

Financials	**FY2016A**	**FY2017A**	**FY2018E**
(values in $mm)			
Revenue	$1,115	$1,318	$1,522
% Growth		*18%*	*15%*
EBITDA	$51	$56	$141
% Margin	*5%*	*4%*	*9%*
Capex	$74	$45	$63
% Margin	*7%*	*3%*	*4%*
Net Debt	($1,444)	($1,133)	($1,093)
Net Debt to EBITDA	*(28.3x)*	*(20.2x)*	*(7.8x)*

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Sources: CapIQ, company filings

POSITION SNAPSHOT

In CAD, unless noted	
Average Cost (USD)	$168.57
# of Shares	350
Value Invested	$92,771
Portfolio Weight	3%
2017 HPR	15%
2017 HP Benchmark Return	13%
Excess Return	2%

THE MADISON SQUARE GARDEN CORPORATION (NYSE:MSG)

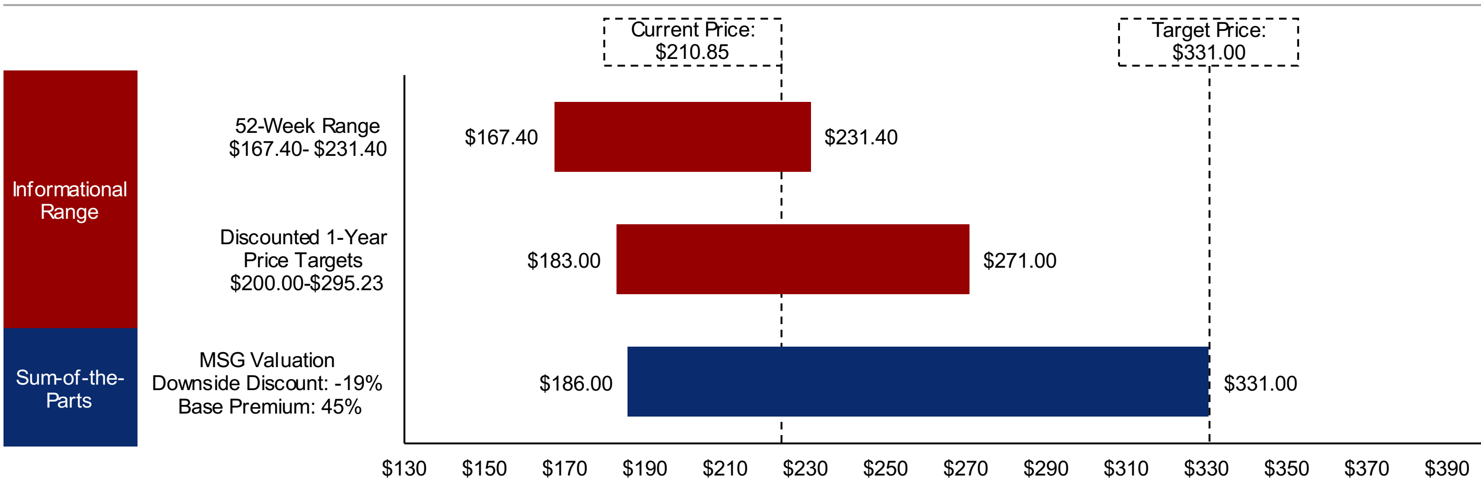
INVESTMENT THESIS

1. **Marquee asset portfolio provides downside protection with upside optionality**
   - MSG is protected by it's marque assets where it holds extremely valuable real estate. In the long run, we anticipate the Marquee assets will converge to their private value
2. **Dolan Discount on large cash balance is unwarranted – based on perception rather than fundamentals**
   - Market questions the Dolans' abilities to make accretive investments due to their history of questionable acquisitions. However, we believe the market is over-compensating for this risky management and the value of MSG's cash on the dollar will inflate as transparency increases surrounding future investments
   - As of Q1 FY18, MSG holds $US1.16bn in cash and cash equivalents. Although they additionally had no debt at the time of our pitch, they have since taken on a small amount of leverage to finance their acquisition of a 62% stake in nightlife conglomerate TAO Group in January 2017. Currently, they still host an impressive net debt of -$US1.09bn
3. **Complex "hidden assets" such as NOLs and air rights not fully understood by market**
   - The market is underestimating the value of obscure assets such as the ~2mm sqft of air rights and residual NOLs which they can translate to future tax savings upon reaching positive pretax income
   - We believe they are still on track to monetize their NOLs - as of a Q1 FY18, MSG has -$US59.5mm of LTM pre-tax income (EBT)

ANALYSIS OF PERFORMANCE

Since we initiated our position in MSG in November of FY2016 MSG has robustly outperformed the S&P 500, returning 22.58% compared to 17.44%. Despite a mix of earnings beats and slight misses in FY17, we hold conviction that the market views the lion's share of MSG's value as entrenched within the private market value of their marquee asset portfolio. In FY17, MSG continued to develop and diversify their empire at a consistent pace, most notably by acquiring a 62% stake in nightlife conglomerate TAO Group in January, the Counter Logic Gaming E-Sports franchise in July, and creative studio Obscura Digital in November. Shareholders seem to have reacted favorably to management's recent capital spending decisions, aligning themselves with media tailwinds in emerging niches such as E-Sports viewership. We remain resolute in our thesis and believe that there still remains worthwhile upside potential in holding this position.

VALUATION SUMMARY



Sources: CapIQ, company filings

TIME WARNER INC. (NYSE:TWX)

COMPANY OVERVIEW

- Time Warner Inc. is a media and entertainment company, which operates in the United States and internationally
- Time Warner has three operating segments: 1) Turner; 2) Home Box Office ; 3) Warner Bros.
- CEO: Jeffrey Bewkes; CFO: Howard Averill; CMO: Kristen O'Hara
- The company is currently pending an acquisition by AT&T Inc. (NYSE:T)
  - The merger is under litigation by the Department of Justice and is set to close in the second quarter of the calendar year

CATALYSTS

- Over the last 5 years, Time Warner's international segment revenues have grown at a CAGR of 9%; further international content expansion may be a catalyst for Time Warner
- HBO Now, Time Warner's OTT streaming service, is still relatively new (launched in April 2015); widespread adoption of this service

RISKS

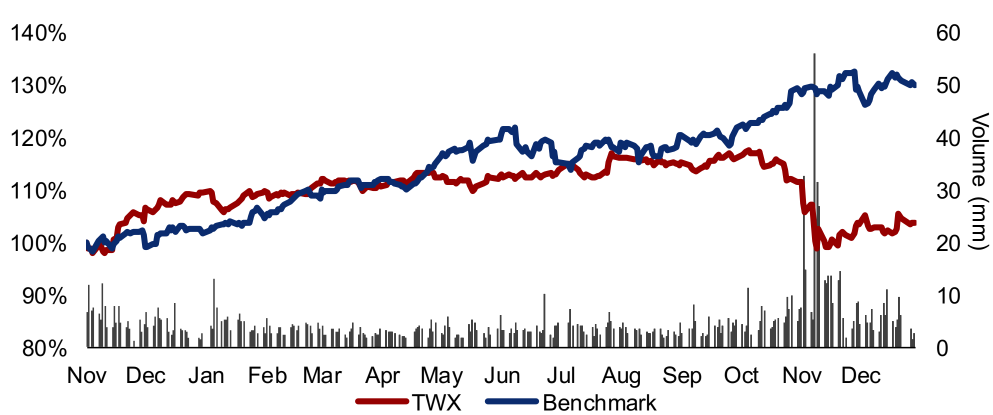
- Merger either gets drawn out longer and does not close until CQ3 2018 or does not close at all
- Slow demand and increased competition in the media industry may present a pressure for HBO fees, which may result in a decrease in HBO U.S. subscription revenues

FINANCIAL SUMMARY

Public Market Overview	
(values in USD M, as of Dec. 31, 2017)	
Stock Price	$92.05
Shares Outstanding (mm)	778.61
Market Capitalization (mm)	**$71,671**
+ Preferred Stock	$0
+ Minority Interest	$37
+ Total Debt	$23,055
- Cash	($2,621)
Enterprise Value (mm)	**$92,142**
Beta (1-Year)	0.7
Dividend Yield	1.75%

Financials	**FY2016A**	**FY2017A**	**FY2018E**
(values in $mm)			
Revenue	$29,318	$31,021	$32,483
% Growth		*6%*	*5%*
EBITDA	$8,387	$8,876	$9,300
% Margin	*29%*	*29%*	*29%*
EPS	$6	$6	$7
% Growth		*7%*	*6%*
EV/EBITDA	10.6x	11.6x	10.5x
P/E	15.8x	18.6x	17.4x

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Sources: Bloomberg

POSITION SNAPSHOT

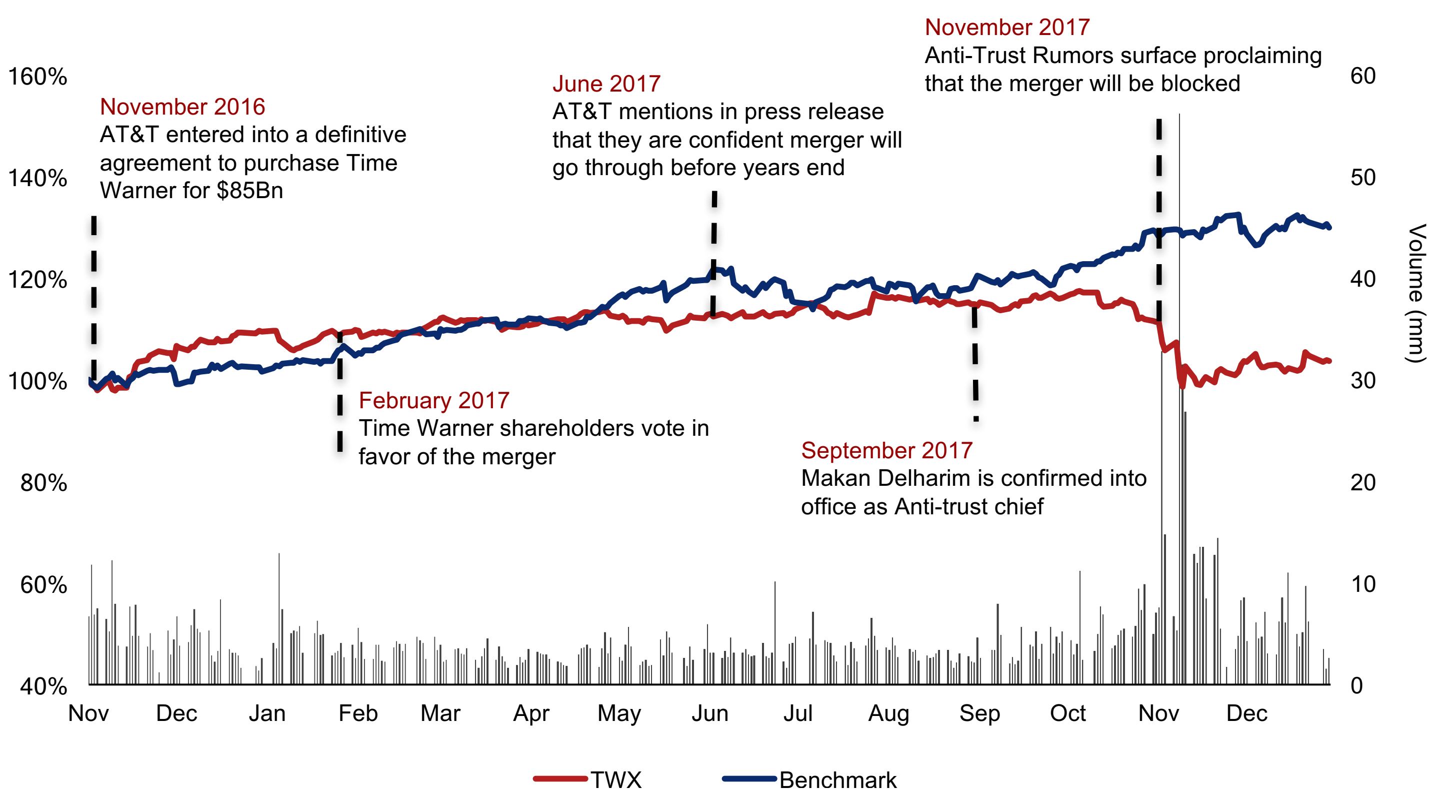
In CAD, unless noted	
Average Cost (USD)	$81.07
# of Shares	1,350
Value Invested	$154,561
Portfolio Weight	5%
2017 HPR	(10%)
2017 HP Benchmark Return	26%
Excess Return	(36%)

TIME WARNER INC. (NYSE:TWX)

MERGER UPDATE

On October 22nd, 2016, AT&T entered into an agreement to acquire Time Warner Inc. for $82.9B USD. The consideration paid will be $107.50 per share, of which $53.75 per share will be paid in cash and the remaining $53.75 per share will be paid in AT&T stock. The AT&T stock consideration is subject to a collar, whereby if AT&T's average closing stock price is below $37.411 then Time Warner shareholders will receive 1.437 AT&T shares; if AT&T's average closing stock price is above $41.349 then Time Warner shareholders will receive 1.3 AT&T shares. On February 15th, 2017, 78% of Time Warner shareholders voted on the proposed merger, where 99% voted yes. Then, on February 27th, 2017, Ajit Pai, the chairman of the FCC, said they will not review the merger. Finally, on November 20th, 2017, the Department of Justice announced a litigation to block the merger. AT&T has pushed for the trial date to start circa February 20th, 2018; however the DoJ is pushing for a May 17th, 2018 start date. DCM believes this merger will ultimately be completed, the strongest rationale for this belief is Comcast's 2011 comparable acquisition of NBCUniversal. In 2009 Comcast announced a definitive agreement to acquire 51% of NBCUniversal – Comcast's strategy being akin to AT&T's, to vertically integrate their company. That being said, this deal came under major regulatory scrutiny as well, but was ultimately approved. Two common factors that the AT&T, Time Warner merger share with the Comcast, NBCUniversal merger are: 1) They share a common judge, Judge Richard J. Leon of the D.C. U.S. District Court; 2) The Comcast, NBCUniversal merger was subject to a lengthy list of arbitration, which the AT&T, Time Warner merger have proposed as well.

MERGER TIMELINE – ANNOTATED PRICE CHART



Sources: Bloomberg, CapIQ

ANNUAL REPORT 2017

CONSUMERS

2017 REVIEW & 2018 OUTLOOK

SABRINA FRIAS
NOAH GILLARD
ALEXANDRA MA
TEJAS SAGGI

DESAUTELS CAPITAL MANAGEMENT

CONSUMERS
2017 OVERVIEW

DISCRETIONARY SECTOR LEADING THE PACK

We witnessed strong overall growth in the Consumers sector in 2017, driven primarily by the Consumer Discretionary subsector. Unfortunately, DCM was not poised to capture on this growth, which led to an underperformance in both of our subsectors. In the Consumer Discretionary subsector, we yielded an annual loss of -17.3% while our benchmark achieved returns of 13.0%. The Consumer Staples subsector was closer to our target, with a fund return of 4.4% and a benchmark return of 6.6%. This discrepancy between subsectors is understandable given the current market conditions. During expansionary periods, Consumer Discretionary historically has outperformed Consumer Staples due to greater consumer spending driven by increased economic activity.

By breaking down Consumer Discretionary's growth rate, we see that the fastest growing industry was Internet & Catalog Retail, with a one-year growth rate of 55.4%. The high growth of Internet & Catalog Retail comes without surprise given the widespread shift towards e-commerce platforms, which explains the astronomical 3-year and 5-year growth rates the industry has experienced (246% and 362%). At DCM, we recognize the importance of keeping these trends in mind when choosing our investments. We previously held shares of Macy's which was the fourth largest online retailer in the U.S.. However, we concluded that market was unwilling to look past Macy's' large physical footprint, and therefore continued to punish it for weaker same-store sales. Consequently, we shifted our allocation to Aritzia, a recently public Canadian-based retailer. Like Macy's, Aritzia operates on an omni-channel platform, selling to customers both in-store and online. However, Aritzia distinguishes itself with a much smaller store format (<100 stores) that serves as a marketing tool just as much as a selling space. Therefore, it is in our opinion that this holding will allow us to capture the internet retail growth, while still utilizing its existing stores to generate consistent cash flows.

SLUGGISH STAPLES

Moving on to Consumer Staples, we see that the industries are much less sensitive to business cycles and therefore experience a capital outflow as investors prioritize higher growth stocks over defensive companies during expansionary periods. However, the subsector did include some high-returning industries. The Personal Products industry grew by 46% last year. Although we contemplated investing in the Personal Products industry late last year, due to valuations already being quite high (median P/E of almost 40x), we felt that the market may be overly optimistic in the growth assumptions baked into prices. We were, however, exposed to the second fastest growing industry, Beverages, both directly and indirectly. We own shares in Canadian alcohol manufacturer and distributor, Corby Spirit and Wine, and recently exited our position in Ten Peaks Coffee, a premium green coffee decaffeinator based in British Columbia. Unfortunately, the gains in the overall industry did not translate into portfolio gains. We attribute this valuation discrepancy primarily to the lack of coverage that smaller Canadian equities experience. Given the lack of analyst exposure, there is a delay between industry growth and actual equity valuations. Due to these reasons, we continue to hold Corby and are actively in search of another Staples company to replace our position in Ten Peaks Coffee.

Source: Bloomberg

CONSUMERS

CONSUMER DISCRETIONARY OUTLOOK

MACROECONOMIC OUTLOOK

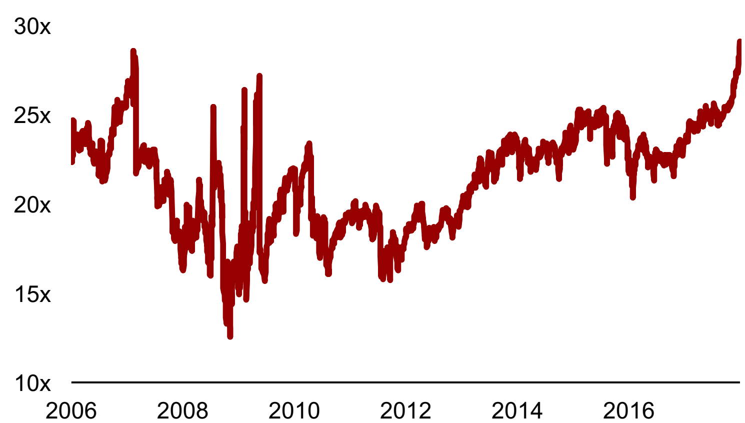
Macroeconomic conditions in 2017 cultivated a positive spending environment for U.S. and Canadian consumers with confidence levels at all-time highs, unemployment rates in the U.S. at a record low of ~4%, and rising real incomes. As the U.S. economy continues to inch towards the Federal Reserve's 2% inflation target (with the most recent Core CPI measurement coming in at ~1.8%), we expect the rising rate environment witnessed in 2017 to continue into 2018. As a result, as the cost of borrowing increases, we expect discretionary spending to decrease for U.S. and Canadian consumers. Although Discretionary stocks typically tend to underperform in rising rate environments, because the Fed has been quite gradual in its rate hikes, we do not believe Discretionary stocks will be adversely impacted. Moreover, the economic stimulus provided by the Trump administration's tax reform partially offsets the impact of a higher cost of borrowing.

The tax reform has been particularly welcomed by retailers due to their relatively higher tax brackets. Further, we do not believe that the full impact of the tax reform on Consumer Discretionary stocks has been priced into the market since tax savings resulting from the reform will likely prompt companies to undertake new projects as capital expenditures are now immediately tax deductible. The ability to deduct capital expenditures in combination with a lower corporate tax rate will lead to significant savings that can be distributed to shareholders, employees, or consumers in the form of lower prices or higher quality products. As a result, although we see rates continuing to rise into 2018, net-net, we expect Consumer Discretionary stocks to continue to capitalize on general macroeconomic growth.

VALUATIONS AT ALL-TIME HIGH

Average valuations for Consumer Discretionary stocks are reaching all-time highs (Figure 1), and have peaked above pre-2008 levels, suggesting that the Discretionary subsector as a whole is relatively overvalued compared to its historical average. Although we do not interpret this as a signal of an impending downturn in the market, we do appreciate that with valuations at such levels, it is difficult to find value in the markets. As a result, we must take extra caution in verifying that the growth forecasts being priced into certain stocks are indeed achievable prior to making investment decisions.

Figure 1: Consumer Discretionary P/E Multiple By Time



Despite being near full-employment levels, wage growth in 2017 was minimal. Moving forward, we will be monitoring wages and inflation levels, which are expected to catch up to other macroeconomic indicators in 2018, and likely signal that the economy is approaching a downturn. Hence, we will be monitoring the effect of increased wages on our retail stocks, and favouring companies and subsectors that are poised to outperform in the case of a milder economic environment.

Source: Bloomberg, CNBC

CONSUMERS

CONSUMER DISCRETIONARY OUTLOOK

TRENDS WITHIN DISCRETIONARY

It is no secret that Consumer Discretionary companies are not what they once used to be. As technological advancements are made, the Discretionary subsector continues to adapt to said advancements. Even the once thought-to-be plain-vanilla retail industry has been disrupted through the rise of e-commerce. As the "typical" consumers company evolves, we have identified three trends we expect to play out in 2018. In the coming fiscal year, we will aim to identify companies which we believe are at the forefront of these trends.

1. DIGITALIZATION

In 2018, we expect digitalization in the way products are consumed to continue, especially within the retail industry. Over the past few years, we have seen companies such as Amazon come to dominate the retail industry due to their e-commerce prowess. While we expect the shift towards e-commerce to continue, we appreciate that some companies with a strong foothold in e-commerce are currently at high valuations. As a result, we will aim to identify those retailers, which are undervalued despite having a strong online presence. This explains our recent investment in Aritzia, a leading affordable luxury retailer with a strong e-commerce presence, that was trading below peers.

2. CONVERGENCE WITH TECH

Technology is not only changing the way we consume products, but it is also transforming the actual product being consumed. As companies such as Spotify and Netflix employ technology to disrupt consumer goods, the line between consumer companies and technology companies has become blurred. In 2018, we expect this trend of technological transformation of traditional consumer goods to continue. While we understand that it is difficult, if not impossible, to predict future innovation, we will aim to identify companies at the forefront of this integration between consumers and technology to invest in companies that are likely to outperform in this increasingly high-valuation environment.

3. THE EXPERIENCE ECONOMY

The third trend we have identified is largely due to the rise of the millennial workforce. The millennial is a lot of things – tech-savvy, civic-oriented, and maybe even "hungry for likes" – but one thing the millennial is not is materialistic. In fact, according to studies conducted by organizations, including the Harris Group (Eventbrite), millennials prefer to spend money on experiences over material goods. In 2018, as millennials continue to represent an increasingly larger portion of the U.S. and Canadian economies, we expect to see a shift in discretionary spending from material goods to more experience-based items. Particularly within the Discretionary subsector, we expect to witness an inflow of capital into the Entertainment & Media subsector, the largest representative of experience-based goods. This trend towards the so-called "experience economy" was the primary impetus behind our recent investment in Live Nation Entertainment, the world's frontrunner in live entertainment.

LOOKING FORWARD

With valuations at all-time highs, it can be difficult to find value in the market, as we aim to do at DCM. However, we believe that by identifying companies which are capitalizing on the aforementioned trends, we can outperform our benchmark.

Source: Bloomberg, Eventbrite

CONSUMERS

CONSUMER STAPLES OUTLOOK

2018 TAILWINDS

Macroeconomic prospects for 2018 remain broadly supportive for equities within consumer staples. The macro conditions experienced in 2017, with equity valuations the highest they had ever been, are not expected to continue in 2018. This reversion to the mean could bring higher volatility. For this reason, Staples, being a stable sector, could experience an inflow of capital.

The sector also stands to gain from Trump's tax plan. Since most companies in the space compete on margin rather than growth, the tax cut will leave all companies better off. However, the Food and Beverage subsector stands to gain the most given the fact that companies within this subsector have the smallest margins in the sector.

2018 HEADWINDS

The Consumer Staples subsector received a significant shock this year after the acquisition of Whole Foods by Amazon, with grocer market caps dropping by $22.4bn the day the deal was announced. Looking ahead, we will monitor grocers as they respond to this action competitively. We expect the most effective course of action to be the adoption of an omni-channel retail model. Such is the case with Wal-Mart, which saw online sales rise over 50% year over year last quarter.

While many are paying attention to the trend shift away from brick and mortar to online stores, this digital revolution has also given rise to a new type of competitive platform, subscription services for consumer goods, which is a disruptive innovation that has the potential to challenge incumbents in all subsectors within staples.

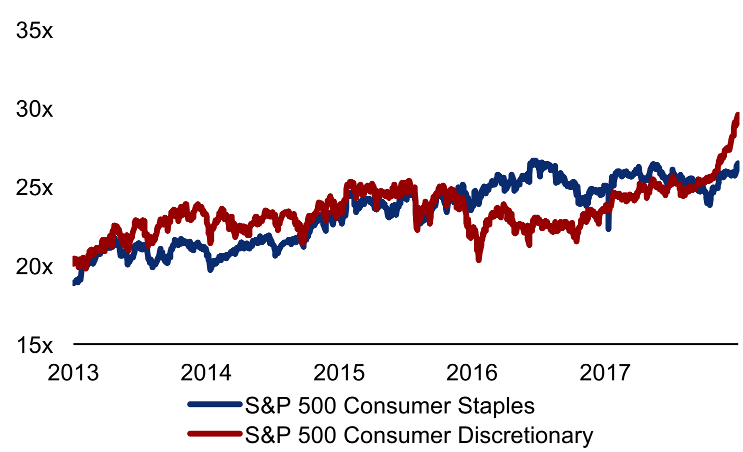
The most obvious example of this is Blue Apron, which took advantage of the consumer trend toward raw ingredients and accessibility by providing meal kits. The company made headlines in June 2017 when it IPO'd and again at the end of the year when it was named worst performing IPO of the year, losing 72% of its value over the course of its tenure on the exchange. However, we expect as more competitors emerge in this space that traditional retailers will have no choice but to respond in order to offset that headwind to sales.

Given the headwinds the Consumer Staples subsector has faced this year, which we predict will only get stronger into 2018, we believe that within Consumers, Staples will continue to underperform as compared to Discretionary into 2018.

SO WHAT?

Although we believe our current holding, Corby Spirit and Wine (CSW.A) is positioned to endure 2018's headwinds, we currently do not hold any stocks that will capitalize on 2018's tailwinds. For this reason, looking to 2018 we will continue to search for undervalued, technologically savvy staples companies that can quickly respond to consumer needs in the quickest and most efficient way.

Figure 2: Average P/E Ratios Over Time



Source: Bloomberg

ANNUAL REPORT 2017

CONSUMERS

2017 HOLDINGS REVIEW

DESAUTELS CAPITAL MANAGEMENT

ARITZIA (TSE:ATZ)

COMPANY OVERVIEW

- Aritzia is a women's fashion retailer based in Canada with operations in the U.S.
- Aritzia primarily sells company-owned private label brands and a small selection of third-party brands through its brick-and-mortar stores and e-commerce platform
- Positions itself as an "affordable luxury" brand, targeting women from ages 14-30
- Currently has 81 stores across the Canada and the U.S.
- On October 3rd 2016, Aritzia completed its IPO followed by a secondary share offering

CATALYSTS

- Increased brand awareness and adoption in the U.S.
- Continued strong consumer confidence and spending habits would benefit sales in the affordable luxury category

RISKS

- Potential wage increases may put pressure on margins
- Cannibalization of old stores due to more aggressive store expansions and openings

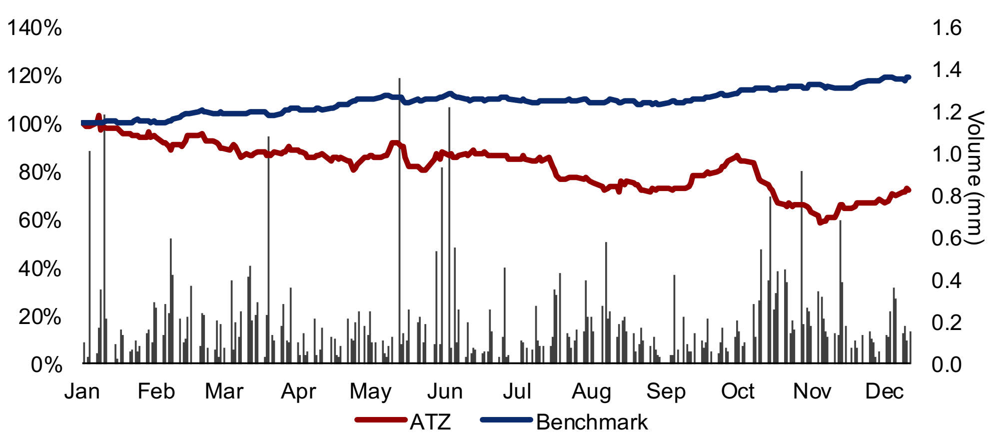
FINANCIAL SUMMARY

Public Market Overview	
(values in CAD M, as of Dec. 31, 2017)	
Stock Price	$13.69
Shares Outstanding (mm)	111.4
Market Capitalization (mm)	**$1,525**
+ Preferred Stock	$0
+ Minority Interest	$0
+ Total Debt	$134
- Cash	($105)
Enterprise Value (mm)	**$1,554**
Beta (1-Year)	1.31
Dividend Yield	0.0%

Financials	**FY2016A**	**FY2017A**	**FY2018E**
(values in $mm)			
Revenue	$543	$667	$744
% Growth		*23%*	*12%*
EBITDA	$67	$2	$131
% Margin		*0%* [1]	*18%*
Gross Profit	$198	$266	$298
% Margin		*40%*	*40%*
EPS	$0.31	($0.45)	$0.64

[1] Realized a net loss of $56 million due to a one-time non-cash stock-based compensation expense

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Average Cost	$12.50
# of Shares	2,800
Value Invested	$35,532
Portfolio Weight	1%
2017 HPR	2%
HP Benchmark Return	(1%)
Excess Return	3%

ARITZIA (TSE:ATZ)

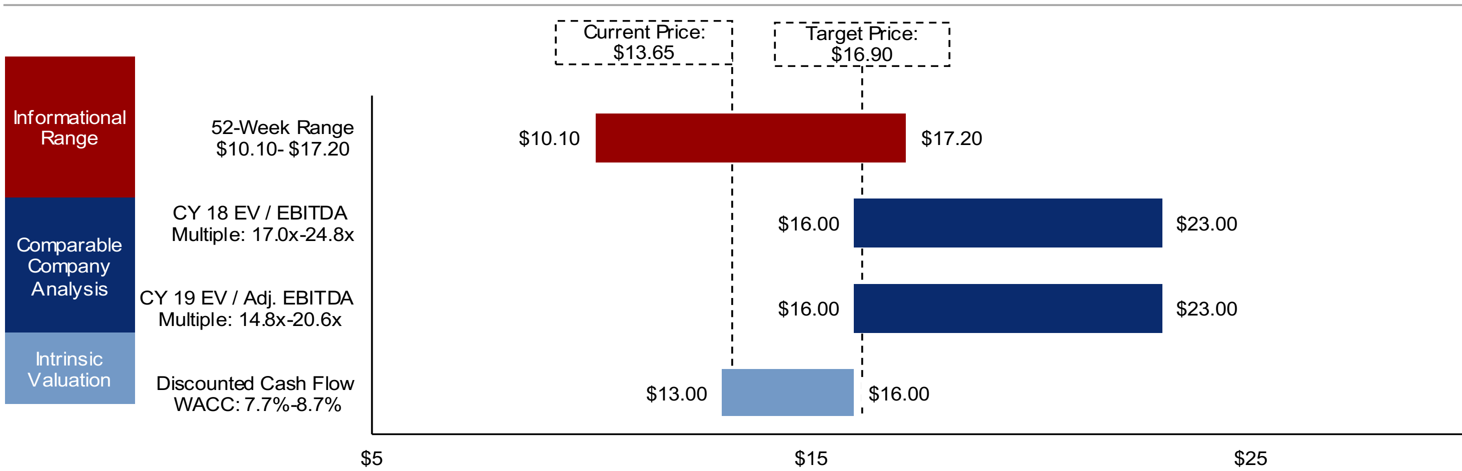
INVESTMENT THESIS

1. **Investors clumping Aritzia with traditional brick and mortar equities despite Aritzia being more comparable to modern, e-commerce-oriented retailers due to the company's**
   - "Amazon proof" product mix driven by premium private label brand
     - 90% of Aritzia's collection is private label, similar to successful peers such as Canada Goose, lululemon and Michael Kors
     - Aritzia has complete control over markdowns, prices and distribution of products
   - Low-density portfolio in premier high-traffic locations
     - Low store density enhances store productivity, making Aritzia one of the most productive apparel in the industry with sales of up to $1,650/sqft, significantly outperforming oversaturated traditional retailers
   - Strong balance sheet & low leverage
2. **Investors underestimating Aritzia's growth potential**
   - Market underestimating U.S. store expansion opportunities
     - New stores in the U.S. will drive productivity as they expand more aggressively
   - Only recently launched e-commerce platform, the full impact of which is not fully understood by the market

ANALYSIS OF PERFORMANCE

Aritzia is up 1.02% since we purchased the stock in November 2017 mostly due to strong earnings in Q3. They also announced the completion of their new POS systems, the successful expansion of 3 stores, and a growing e-commerce penetration suggesting that they are on target to meeting their five-year plan. The implementation of Paypal and Apple Pay on their e-commerce platform should support the increased online traffic. We believe the momentum will continue into the next quarter as Visa reported a 4.9% increase in holiday season sales growth that boosted the retail industry as a whole, despite the worsening industry climate. With retailers such as Macy's and Kohl's recovering towards the end of 2017, we believe investors have a more positive outlook on the retail industry going into 2018. We believe that after the holiday season earnings are released, the market will be able to better distinguish the winners and losers of the industry since "dampened consumer spending" is no longer an excuse for weak sales. As a result, this may slightly alleviate the "brick-and-mortar discount" to price in Aritzia's growth initiatives more accurately.

VALUATION SUMMARY



Source: Bloomberg

CORBY SPIRIT AND WINE (TSE:CSW.A)

COMPANY OVERVIEW

- Corby Spirit and Wine Limited ("Corby") is a Canadian manufacturer, distributor and marketer of spirits and imported wines
- Corby generates revenue through selling Corby-owned case goods, and commission from distributing Pernod Ricard brands in Canada
- Corby distills and bottles all products at the Hiram Walker & Sons distillery owned by Pernod Ricard who owns 46% of Corby's common shares
- Corby accounts for approximately 21% of spirits sales in Canada, and has operations in both the U.S. and the U.K.

CATALYSTS

- Growth in the spirits industry, particularly categories that Corby is exposed to (whisky, gin, wine)
- Increasing deregulation in the wine industry
- Dampening consumer sentiment in the U.K may cause consumers to shift to lower-priced spirits giving a boost to Corby's Lamb's rum

RISKS

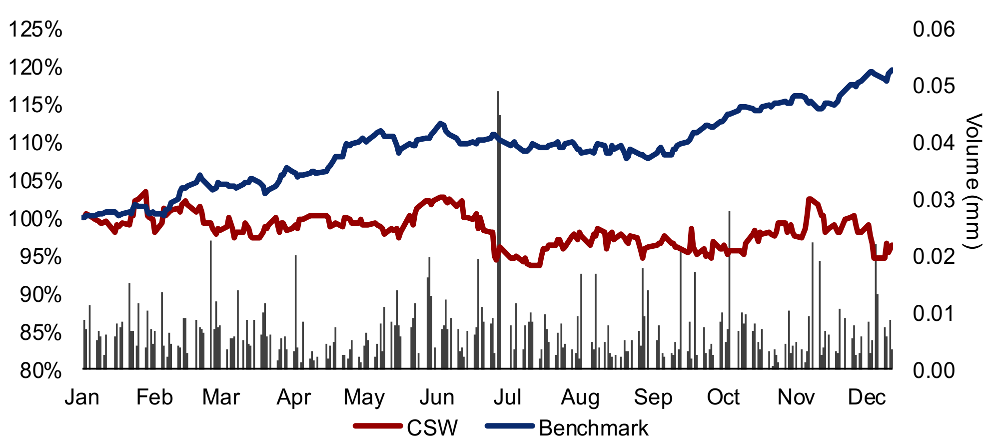
- The Foreign Winery Acquisition integration fails or requires more SG&A than expected
- Approaching end of distribution contract with PR USA in June 2018 leads to uncertainty of the partnership

FINANCIAL SUMMARY

Public Market Overview	
(values in CAD M, as of Dec. 31, 2017)	
Stock Price	$21.74
Shares Outstanding (mm)	28.5
Market Capitalization (mm)	**$620**
+ Preferred Stock	$0
+ Minority Interest	$0
+ Total Debt	$0
- Cash	($68)
Enterprise Value (mm)	**$551**
Beta (1-Year)	0.57
Dividend Yield	4.0%

Financials	**FY2016A**	**FY2017A**	**FY2018E**
(values in $mm)			
Revenue	$140	$144	$149
% Growth		*3%*	*4%*
EBITDA	$42	$42	$43
% Margin		*29%*	*29%*
Net Income	$26	$26	$26
% Margin		*18%*	*17%*
EPS	$0.89	$0.90	$0.91

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Average Cost	$23.08
# of Shares	4,400
Value Invested	$101,684
Portfolio Weight	3%
2017 HPR	8%
HP Benchmark Return	7%
Excess Return	1%

CORBY SPIRIT AND WINE (TSE:CSW.A)

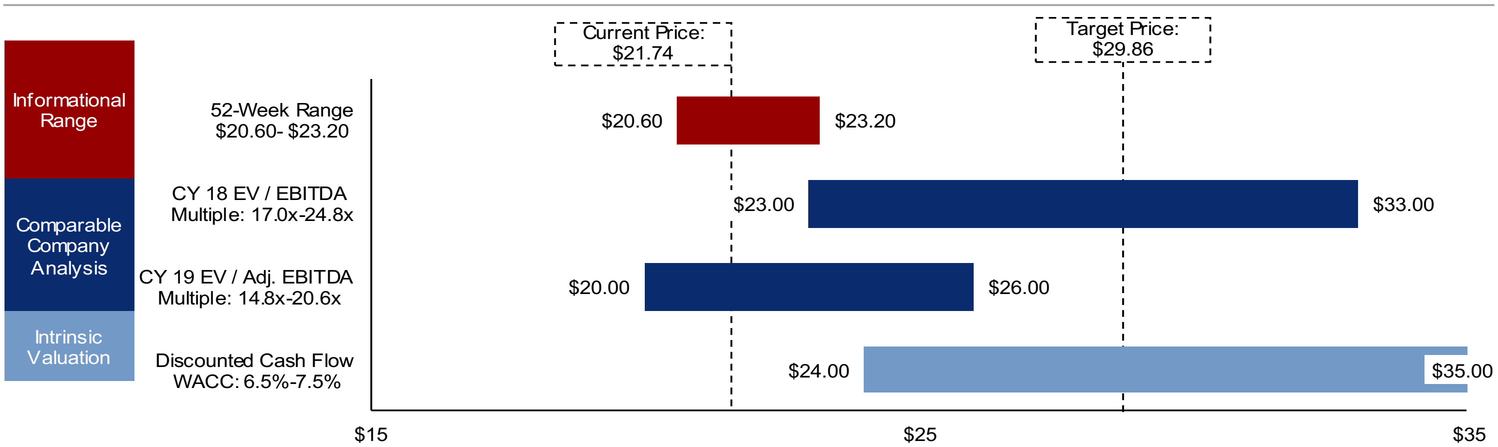
INVESTMENT THESIS

1. **Recession proof and resilient business model**
   - Economic downturns historically have not harmed alcohol sales in Canada and instead often led to sharp increases in total sales
2. **Relationship with Pernod Ricard provides stability and growth prospects**
   - Recently increased commission structure and entered into distribution agreements within the U.S. and the U.K.
   - Potential to grow geographic presence through leveraging their relationship with Pernod
3. **Strong brands in the growing craft spirits space**
   - Corby strategically situated to take advantage of strong growth prospects in the craft spirits space
     – Recently acquired Ungava Spirits Brands expands their premium gin portfolio and drives top line growth
4. **Valuation**
   - Trades at a significant discount to peers on an EV/EBITDA basis and our model yields a 33% upside in our base case

ANALYSIS OF PERFORMANCE

Since we initiated our position in CSW last year, it has slightly underperformed our benchmark. Our third thesis point is beginning to materialize as Corby shifts its focus on expanding its premium spirits portfolio and promoting its premium whisky brands in the U.S.. Although the U.S. entrance was not smooth initially due to the saturation of the market, the new strategy focusing on premium whisky brands contributed towards a 31% increase in value shipments in the most recent quarter. We expect the strong performance of Ungava Spirits Brands to continue into 2018 as the premium gin category continues to grow. Corby is also taking advantage of its excess cash flow by expanding into higher growth categories demonstrated by their acquisition of Niagara-based The Foreign Winery Affair's portfolio and winery. Moving forward, we expect a boost in volume and value shipments due to the new wine additions which will be partially offset by integration costs in SG&A. We believe Corby's lack of debt and large cash balance will allow them to continue to seek opportunities to expand their portfolios into new categories in the coming years.

VALUATION SUMMARY



Source: Bloomberg

LIVE NATION ENTERTAINMENT (NYSE:LYV)

COMPANY OVERVIEW

- Live Nation Entertainment is the world's largest ticket seller and promoter of live entertainment
- The Company was formed in 2009 from the merger of Live Nation (largest event promoter) and Ticketmaster (largest ticketing agent)
- The Company primarily promotes live music events but sells tickets for all forms of live entertainment around the globe
- The Company is divided into three core business segments: Concerts, Ticketing, and Sponsorship & Advertising

CATALYSTS

- Increased introduction of Wi-Fi at entertainment venues to bolster onsite monetization
- Expiration of existing contracts between venues and other ticketing agents to create opportunities for Ticketmaster to gain new business

RISKS

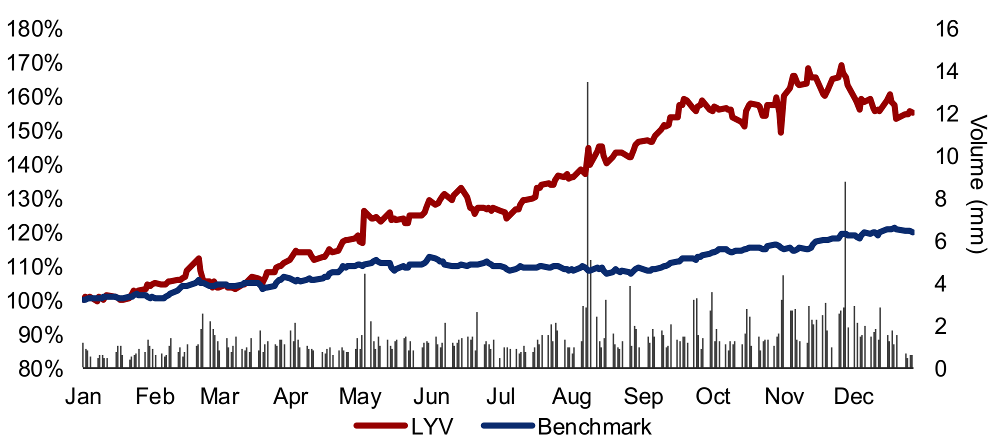
- Stricter regulation surrounding secondary ticket sales may negatively impact ticketing revenue and margins
- Macroeconomic downturn would have a more severe impact on sales and margins in Concerts segment due to the discretionary nature of live entertainment

FINANCIAL SUMMARY

Public Market Overview	
(values in CAD M, as of Dec. 31, 2017)	
Stock Price	$43.76
Shares Outstanding (mm)	205.3
Market Capitalization (mm)	**$8,983**
+ Preferred Stock	$0
+ Minority Interest	$236
+ Total Debt	$2,312
- Cash	($1,801)
Enterprise Value (mm)	**$9,730**
Beta (1-Year)	1.164
Dividend Yield	0.0%

Financials	**FY2016A**	**FY2017A**	**FY2018E**
(values in $mm)			
Revenue	$8,355	$9,245	$10,134
% Growth		*11%*	*10%*
EBITDA	$592	$705	$793
% Margin	*7%*	*8%*	*8%*
EBIT	$188	$286	$359
% Margin	*2%*	*3%*	*4%*
No. Tickets Sold (mm)	186	199	213
% Growth		*8%*	*7%*

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Average Cost	$45.44
# of Shares	1,400
Value Invested	$74,921
Portfolio Weight	3%
2017 HPR	(8%)
HP Benchmark Return	2%
Excess Return	(10%)

LIVE NATION ENTERTAINMENT (NYSE:LYV)

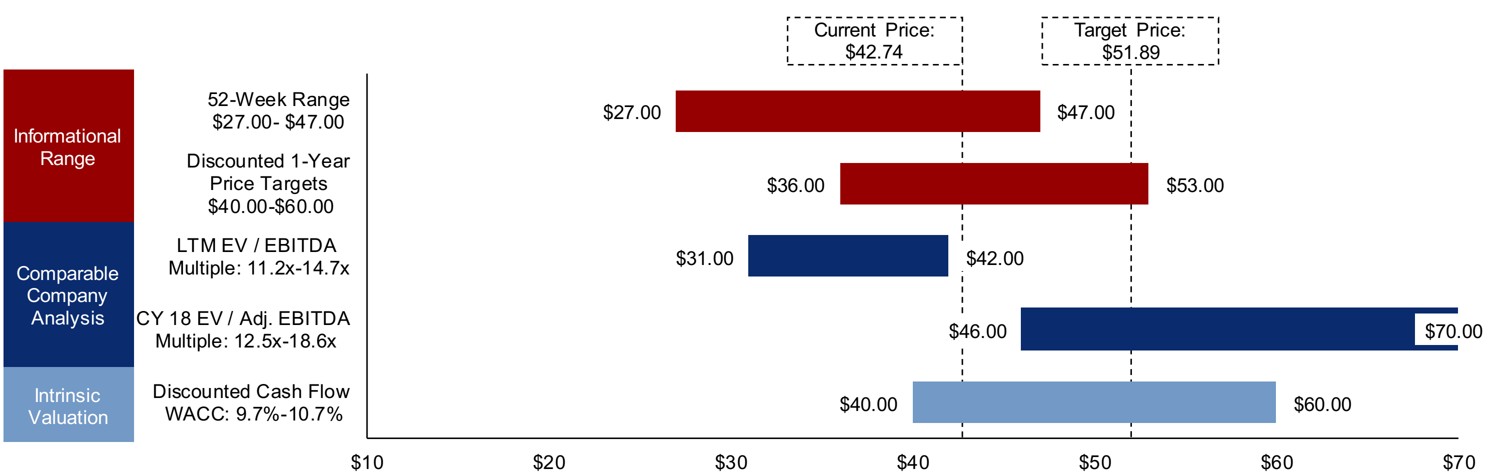
INVESTMENT THESIS

1. **Margins are poised to expand due to**
   - Ancillary revenue growth outpacing non-ancillary revenue growth, resulting in an expansion in Concerts
     - Ancillary revenue margins (~50%) are greater than those of non-ancillary revenue margins (<1%)
     - Rise in outdoor events and introduction of Wi-Fi to venues resulting in growth in onsite monetization
   - Secondary ticketing growth outpacing primary ticketing growth, resulting in an expansion in Ticketing
     - Secondary ticketing margins (~72%) are greater than those of primary ticketing margins (~15%) due to a lack of service fees remitted to venues on secondary tickets
     - Permeance of “bots” spiking gross transaction volumes and growing secondary ticketing market
   - Ticketing growth outpacing Concerts growth, resulting in an expansion on the firm-level
     - Ticketing margins (~10%) are greater than those of Concerts margins (<1%)
     - Vertical model incentivizes venues to partner with Ticketmaster to gain business from Concerts segment; as more venues partner with Ticketmaster, web traffic grows and makes Ticketmaster a more attractive ticketing partner, which in turn attracts more venue partners, creating a feedback loop

ANALYSIS OF PERFORMANCE

Since initiating our position in November 2017, the stock is down 5.9% to date. Historically, the stock reacts significantly to earnings releases. However, since this position was initiated recently, much of the fluctuation in the stock price has been due to general market trading as well as the market slump in the first week of February. Prior to the slump, LYV was up 1.2% since DCM’s investment. The recent dip in LYV’s stock price was largely due to the discretionary nature of the sector Live Nation operates in (entertainment and media) and reflects the market’s belief that a rising rate environment may deter some consumers from spending on live entertainment. Although we remain confident in our thesis on Live Nation’s margin expansion, we will gain more color on the impact of rising rates on Live Nation when the Company releases its annual report on February 22nd and provides outlook for fiscal year 2018.

VALUATION SUMMARY



Source: Bloomberg

ANNUAL REPORT 2017

INDUSTRIALS

2017 REVIEW & 2018 OUTLOOK

CHARLES FENG
NOAH PETKAU
GEORGE KOUTSOS

DESAUTELS CAPITAL MANAGEMENT

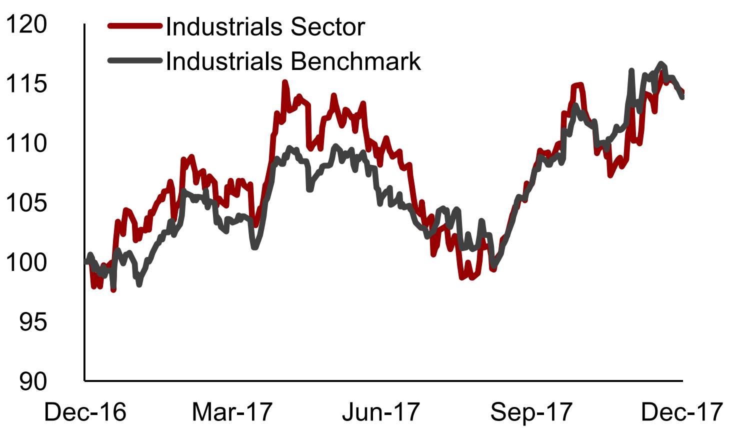
INDUSTRIALS

DCM AND BENCHMARK PERFORMANCE

OVERALL PERFORMANCE

The DCM industrials sector returned 14.3% in 2017, compared to our sector benchmark return of 13.8%.

Figure 1: DCM Industrials Performance



The outperformance was largely due to our position in Cummins, which gained 26.4% over the year. The company manufactures engines for truck original equipment manufacturers. Our investment theses played out nicely in 2017 as the company: i) gained 6% market share, ii) positioned itself to become a leader in the electric truck space, and iii) benefitted from its high fuel emissions standards. Full details are provided in the Holdings Review section. Additionally, after we sold our stake in Union Pacific in September, a large proportion of our sector funds were invested in an ETF tracking the U.S. Industrials market. This explains why we tracked our benchmark so closely in the latter portion of the year.

Figure 2: S&P 500 Industrials Subsector Returns

Industrials Subsectors	Performance	Weight
Subsector	*(1Y, 2017)*	*(EOY, 2017)*
Aerospace & Defense	39%	28%
Industrial Conglomerates	(11%)	17%
Machinery	39%	17%
Road & Rail	33%	9%
Air Freight & Logistics	16%	7%
Electrical Equip.	24%	5%
Airlines	11%	5%
Comm. Svcs. & Supp.	19%	3%
Building Products	10%	3%
Professional Svcs.	0%	3%
Trading Cos & Distributors	23%	2%
Construction & Engineering	8%	1%
Industrials Overall	**19%**	**100%**

In September we exited a position in Union Pacific Corporation, UNP, which had contributed a return of 1% over the first 7 months of the year, underperforming the S&P Rail Index by 11.7% due to its larger exposure to the failing coal sector. It turns out we sold the position too early and missed out on a big year-end rally that saw the Railroad subsector gain 35.0% on the back of strong rail volume growth. Still, we feel that exiting Cummins was the right decision as the long-term prospects for the coal sector do not bode well for the stock.

Sources: Bloomberg

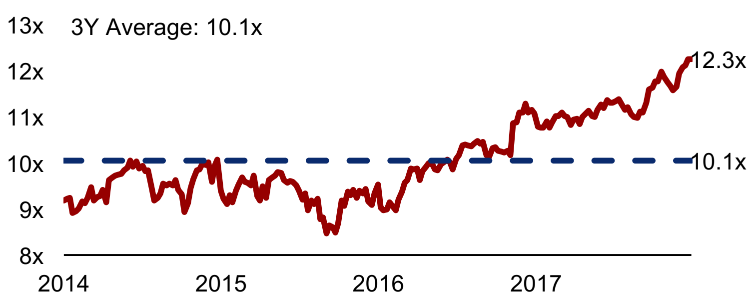
INDUSTRIALS

SECTOR OVERVIEW

SECTOR OVERVIEW – 2017

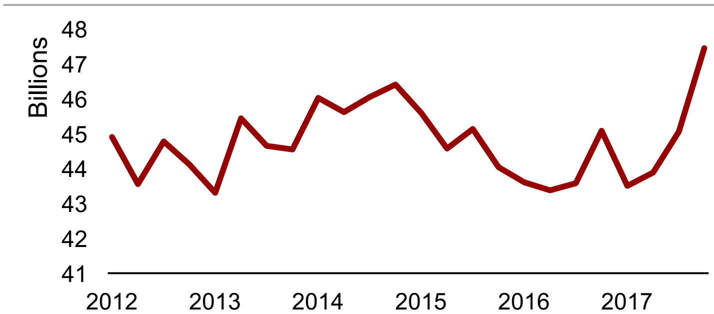
In the first month following the election of Donald Trump, the EV/EBITDA of the S&P Industrials Index rose from 10.2x to 11.1x, driven by both Trump's vocally pro-U.S.-industry rhetoric and the expectations of a U.S. corporate tax reform. A combination of high valuations, and cyclically-high EBITDA performance led the industrials team to conclude that the sector was relatively expensive, and to adopt a cautious investing attitude. However, the sector defied our expectations, with valuations making a steady climb throughout 2017 as the Trump administration successfully passed its tax reform and the world economy moved into global synchronised growth.

Figure 3: Industrials 3Y EV/EBITDA



This depreciation of the American dollar can be attributed to political turmoil, along with re-energized investor sentiment towards Europe. Another important tailwind was a broad improvement in the global economic outlook, which is especially impactful in a sector that is often driven by macro cycles and sells into a range of end-markets.

Figure 4: U.S. Capital Goods Exports

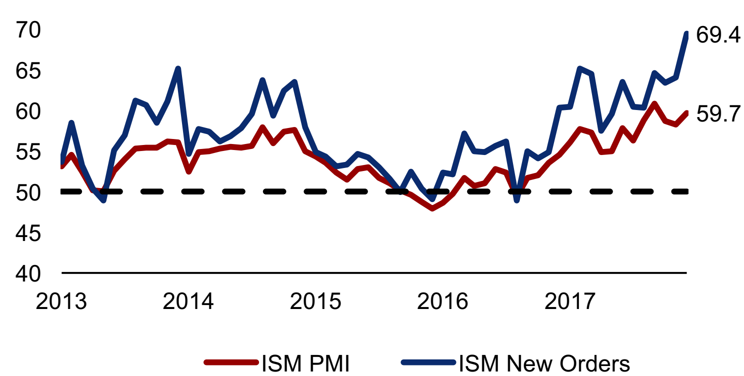


Sources: Bloomberg

SECTOR OUTLOOK – 2018

Positive sentiment looks only to have grown stronger leading into 2018. Sector-wide EV/EBITDA now sits at an inflated 12.3x, well above the three-year average of 10.1x. For underlying performance expectations, we look to the Purchasing Managers Index (PMI). The PMI is a survey of over 300 supply managers measuring activity on several economic metrics, including production and new orders, and serves as an indicator of sentiment in the manufacturing and industrial sector – a figure over 50 indicates an expansion of activities. The PMI rose steadily over the course of 2017, briefly reaching 61 in September – a level not surpassed since the 1980s – indicating strong positive sentiment going forward and continued expansion of industrial activity. Momentum going into 2018 appears robust as the New Orders sub-index, the best leading indicator for industrial activity, closed 2017 on a 10-year high of 69.

Figure 5: U.S. PMI and Order Index



At the beginning of 2017, the industrials team was hesitant to invest at such elevated valuations without a clear path towards improved fundamentals. With the subsequent USD devaluation, the PMI climbing to recent highs, and the global synchronised recovery

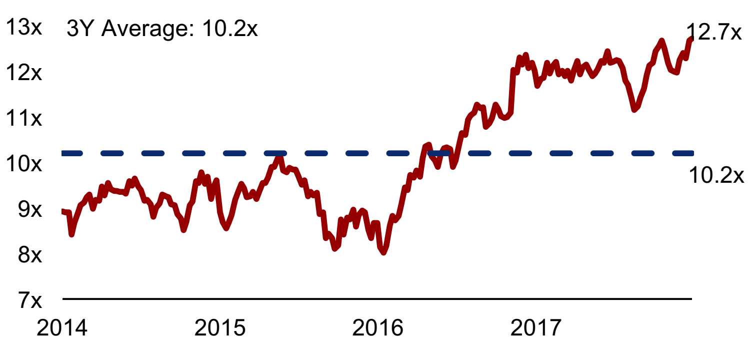
INDUSTRIALS
SUB-SECTOR ANALYSIS

picking up steam, this path has become clearer to us. Consequently, our investment strategy will be to focus on industries that are cheaper relative to the overall sector while exploring smaller subsectors.

MACHINERY OVERVIEW

The machinery subsector is driven by sales into a variety of end markets, most importantly construction, agriculture, mining, oil & gas and trucks. 2017 saw a simultaneous rebound across global end-markets, paired with increased global industrial production as World GDP growth ticked upward, allowing for robust growth in the machinery space. Subsector valuations are closely in-line with the overall industrials sector, having also risen to just under 13x EBITDA following elevated post-election expectations, and buoyed by improved fundamentals throughout 2017.

Figure 6: Machinery 3Y EV/EBITDA

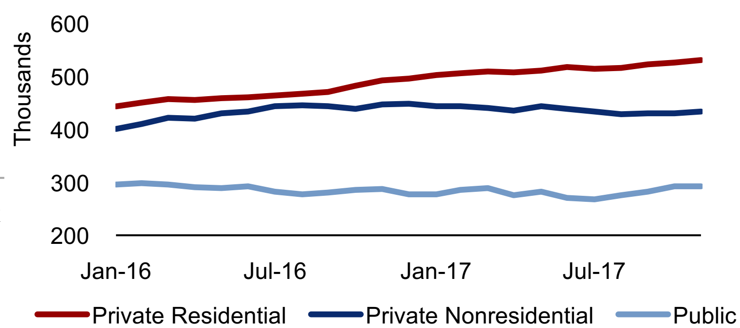


Furthermore, improving investor confidence in the subsector was largely driven by the U.S. tax reform, which was highly anticipated for most of the year before materializing in late December. Not only do lower corporate tax rates directly affect the large number of machinery firms based in the U.S., through decreased tax bills, but the new policy of 100% capex deduction also supports increased capital expenditure on machinery products.

CONSTRUCTION MACHINERY

The construction industry continued into its seventh year of growth in 2017. Early concerns of deceleration in non-residential construction spending, which drives about a third of construction capex, did not materialize to the extent feared; leaving all three categories of spending trending upward in the last 4 months of the year. In 2018, a major catalyst for the subsector will be the Trump Administration's ability to deliver on pledges to boost infrastructure investment into policy change, feeding continued momentum to this healthy construction environment.

Figure 7: U.S. Construction Spending, USD



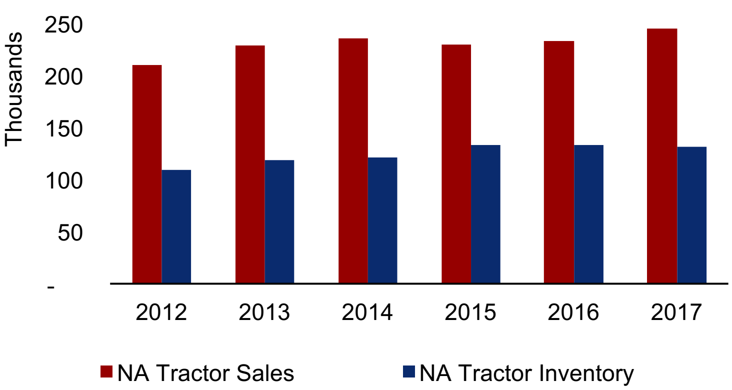
AGRICULTURAL MACHINERY

The ongoing abundance of crops of the past few years continued to depress farmer incomes in 2017 as demand has not kept pace. However, it appears the agricultural equipment markets have bottomed out: North American tractor sales grew 5% in 2017, while inventories fell for the first time since the Great Recession by -2%. Going forward, our outlook remains pessimistic as supply rebalances and low crop prices persist. However, it appears farmers can no longer put off capital investment and incremental growth may be supported as producers accept this "new normal".

Sources: Bloomberg

INDUSTRIALS
SUB-SECTOR ANALYSIS

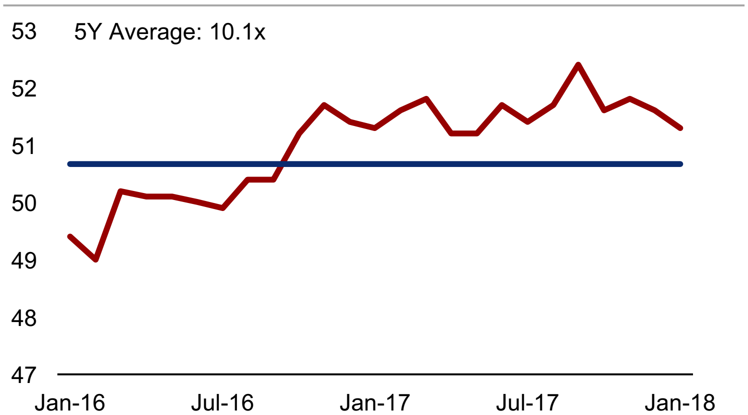
Figure 8: North America Tractor Sales, Units



CHINESE INDUSTRIALS

China's manufacturing sector has long been its engine of growth and an important gauge of its economic health. This September, China's PMI reached its highest peak since 2011 of 52.4%. 2017 saw a solid increase in consumption, mainly due to the higher holiday expenditures and oil prices as compared to the previous year. However, China's manufacturing industries still face two long-standing challenges: the climbing raw materials costs and the "still-weak" domestic consumer demand. In order to overcome its weak demand, China must focus on helping its low-income demographic; lifting people above the poverty line is the key to unleashing future domestic demand in China. In fact, it is projected that the Chinese middle-class will number of 1.4 bn consumers by 2030.

Figure 9: PMI in China



CHINA'S BELT AND ROAD

In 2018, the heads of relevant state-owned infrastructure companies will be under intense pressure to complete projects as the central government in Beijing has become frustrated with the slow pace of project realization. While China is supporting the international expansion of its businesses, we believe the Chinese government will grow its soft-power initiatives in 2018. Specifically, we expect the government to increase investments in strategic industries (e.g. Piraeus Port) and lending to foreign countries for infrastructure projects.

INFRASTRUCTURE

The aggregate value of infrastructure deals announced in 2017 stands at $337 bn, a decrease of 28.3% from $470 bn in 2016, due to the difficulty of finding attractively-priced assets. Unlisted fund managers are increasingly competing with corporate and institutional investors for assets, and the high prices paid for these assets are diminishing potential returns for investors. Breaking it down by project stage, in 2017, Greenfield represented 24% of the deals, Brownfield represented 4%, and the 72% remaining were Secondary stage. Industry data shows that renewable energy assets attracted the most attention in 2017, with 51% of the infrastructure deals; representing an increase of 5% from 2016.

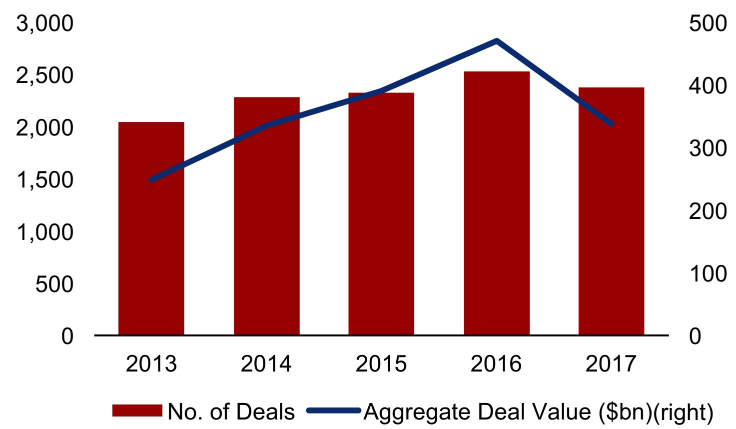
This scarcity of investment opportunities has also played out in the public markets. In the past three years, EV/EBITDA multiples have increased from 10.6x to 11.5x. Going forward there is reason to believe that this

Sources: Prequin, Mckinsey

INDUSTRIALS
SUB-SECTOR ANALYSIS

increase in valuations may not persist, as the Macron and Trump governments have indicated that they wish to increase the involvement of the private sector. As this involvement increases, the scarcity effect on valuations will be reduced as the pool of possible investments grows. Given that the environment going into 2018 is dominated by low returns from traditional assets, we believe investors will be looking to infrastructure assets, which can produce strong risk-adjusted returns, while providing a downside protection and portfolio diversification.

Figure 10: Global Annual Infrastructure Deals



AIRPORTS

This past year was marked by great tumult in the transportation sector. In February, Hanjin Shipping, one of the largest container shipping lines, declared bankruptcy. This was followed in April, August and October with the respective bankruptcies of Alitalia, Air Berlin, and Monarch Airlines. Together, these airlines represented over 6% of the European air travel market.

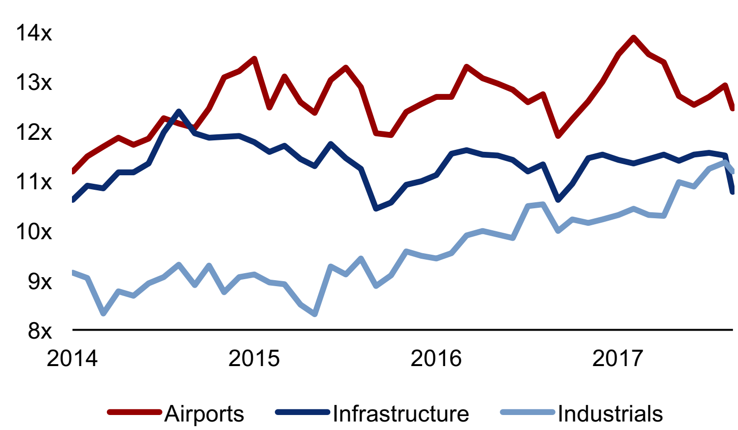
Although bankruptcies in such industries can be wrenching for their countries, they are necessary in ensuring profitability for the industry as a whole. Historically, these industries have been characterized by long periods of overcapacity and by letting these firms fail, governments have set these industries on the path of sustainable profitability.

There is however, still a ways to go until we reach the level of consolidation that prevails in the American market. Many airlines continue to fly despite negative economic fundamentals, propped up by their respective governments. Thus, for the foreseeable future the competitive environment of European airlines will remain unfavourable to investors. As airlines are not the only segment in the air travel value chain, we may still consider gaining exposure to European air travel through the airport sector. In fact, in Europe, many airports have long been privatized and publicly listed.

In addition, the airport space is one of the most present infrastructure subsectors on world stock markets. It interests us due to its strong resilience during recessions. Passenger traffic at major hubs tends to be downwards sticky due to arcane slotting rules, and their role as feeder airports. Additionally, airports allow investors to share in the large gains of the airline industry during good economic times without being at risk of the boom and bust cycle that characterizes them.

Finally, due to these characteristics, infrastructure and airports have historically traded above the average industrials EV/EBITDA multiple, as shown below.

Figure 11: Historical EV/EBITDA Multiples



Sources: Bloomberg, ISM, FT

Industrials

2017 HOLDINGS REVIEW

CUMMINS (NYSE:CMI)

COMPANY OVERVIEW

- Cummins is an American designer and manufacturer of diesel, natural gas, electric engines, and their components
- Cummins sells the majority of its engines to firms in North America. It has a sizeable presence in the emerging markets of China, India and Brazil. In fact, it has the most exposure to China as compared to its peers
- Cummins will enter the electric truck and bus market by 2019
- Cummins is the last remaining independent engine manufacturer in North America and serves most truck original equipment manufacturers (e.g. Navistar, PACCAR, Volvo)

CATALYSTS

- Faster than expected shift towards more stringent emission and fuel efficiency standards in America, China and India
- A recovery in oil and gas capital expenditures on machinery due to higher crude oil and natural gas prices

RISKS

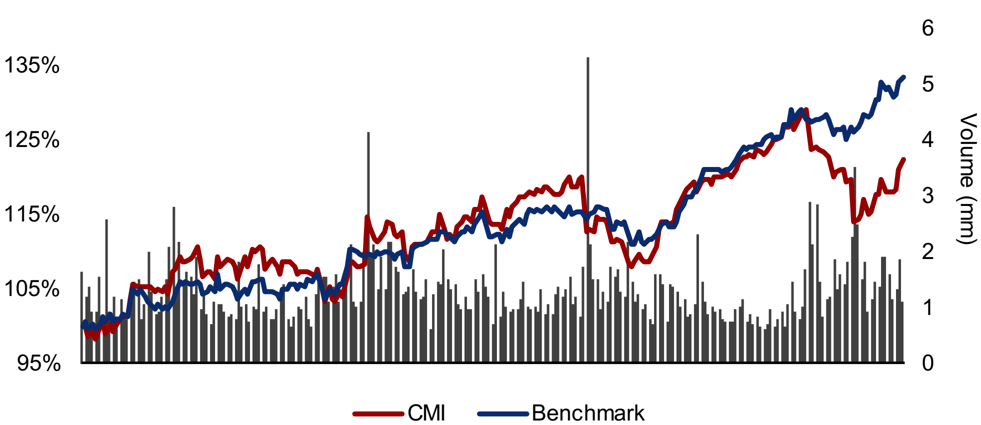
- Rollback of emission and fuel efficiency standards and withdrawal of California's authority to set statewide standards
- Warranty and quality control problems with older engine models

FINANCIAL SUMMARY

Public Market Overview	
(values in CAD mm, as of Dec. 31, 2017)	
Stock Price	$176.64
Shares Outstanding	166.0
Market Capitalization	**$29,317**
+ Preferred Stock	$0
+ Minority Interest	$932
+ Total Debt	$2,255
- Cash	($1,444)
Enterprise Value	**$31,060**
Beta (1-Year)	1.46
Dividend Yield	2.3%

Financials	**FY2016A**	**FY2017A**	**FY2018E**
(values in $mm)			
Revenue	$17,509	$20,130	$21,356
% Growth		*15%*	*6%*
Gross Profit	$4,452	$5,033	$5,531
% Margin	*25%*	*25%*	*26%*
EBIT	$1,928	$2,434	$2,723
% Margin	*43%*	*26%*	*12%*
Diluted EPS	$8.23	$10.22	$11.74
% Growth		*24%*	*15%*

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Sources: Bloomberg

POSITION SNAPSHOT

In CAD, unless noted

Average Cost (CAD)	$45.23
# of Shares	2,400
Value Invested	$111,365
Portfolio Weight	3.7%
2017 HPR	8.3%
2017 HP Benchmark Return	6.3%
Excess Return	2.0%

CUMMINS (NYSE:CMI)

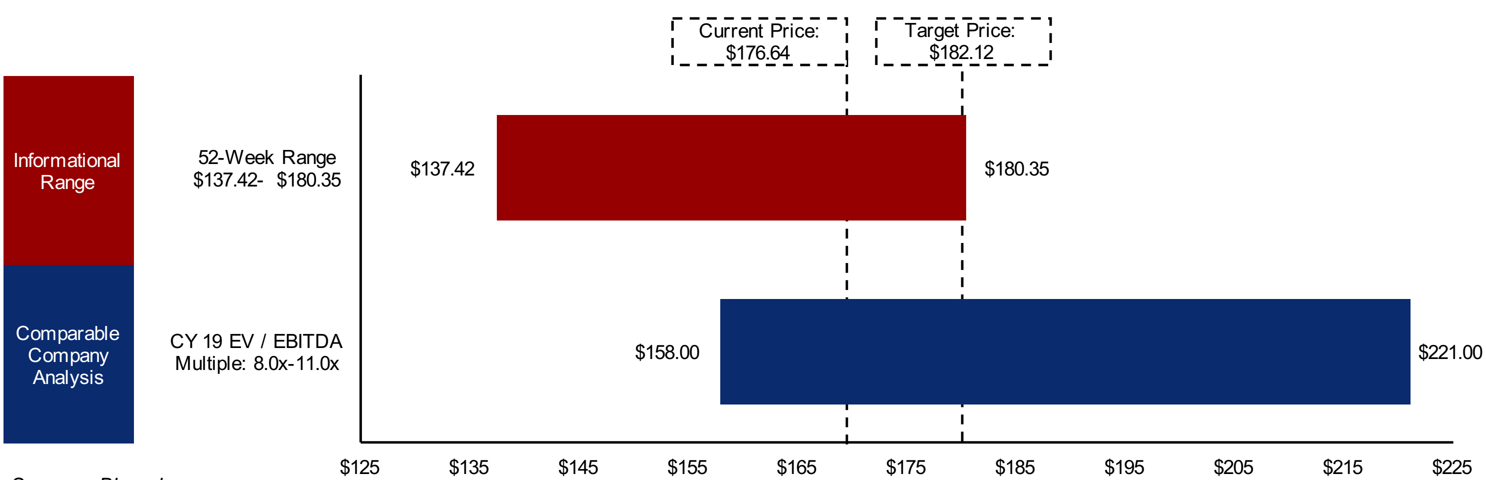
INVESTMENT THESIS

1. **Industry-leading operator insulated from negative sentiment due to product quality and compliance**
   - Cummins' market share has increased from its trough. Indeed, the heavy-duty truck engine market share has increased from less than 32% when we first initiated our position to over 38%
   - This is mirrored in the medium-duty truck engine segment where its share has gone from 54% to over 80%
   - Finally, Cummins has positioned itself into becoming one of the leaders in electric trucks by partnering with Eaton in a transmission joint-venture and by aiming to develop a range of electric vehicles by 2020
   - This goal is supported by its recent acquisition of Brammo, a manufacturer of battery packs
2. **High exposure to ramp-up in emerging markets through its joint ventures**
   - China has driven Cummins earnings in the past year due to increased construction activity and the effect of the new maximum truck payloads regulations
   - However, Cummins' market share in emerging countries has stayed relatively stable and will only begin to grow once the stricter NS6 standards in China come into effect in 2020
3. **Valuation yields upside at current prices**
   - Our current valuation of Cummins continues to yield an implied upside of 3.2%.

ANALYSIS OF PERFORMANCE

Since we initiated our position in CMI, Cummins has significantly outperformed our initial price target of 155.33$, returning over 28% during the year. This performance can be attributed mainly to the post-election bump which saw the industrials sector being one the largest winners, as well as the materialization of our first thesis. Indeed, Cummins has proven that the market's fears of engine internalization by original equipment manufacturers (e.g. Navistar & PACCAR) were overblown. In fact, CMI's share of engines in different classes of trucks has reached historic highs since their trough in 2016. Despite this, Cummins is still viewed as the black sheep amongst its peers, as even slightly negative news leads to large decreases in its stock price. The most obvious example of this was on November 17th, when Tesla unveiled its fully electric truck. This event also explains Cummins underperformance as compared to the machinery index. Despite no clarity on price and a widely ambitious timeline, CMI fell by over 5% whereas its peers' stock prices reacted less negatively, due to the fact that they are OEMs. We believe, as Cummins maintains and increases its market share, the market will fully give it credit and erase the discount. However, as our 3 theses have mostly materialized, we are actively examining whether to continue holding CMI or not.

VALUATION SUMMARY



Sources: Bloomberg

ANNUAL REPORT 2017

MATERIALS

2017 REVIEW & 2018 OUTLOOK

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DESAUTELS CAPITAL MANAGEMENT

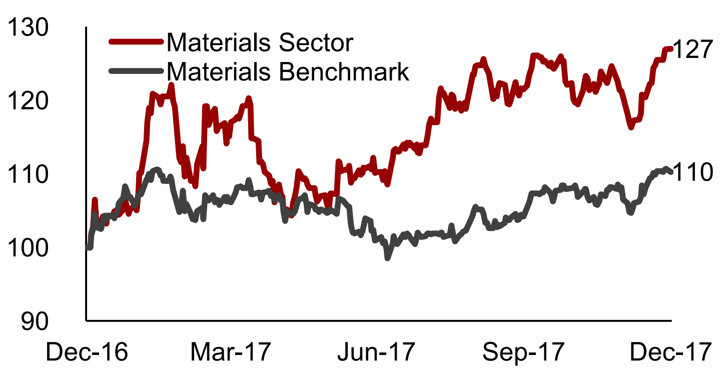
MATERIALS
2017 REVIEW

2017 PERFORMANCE

The Global Equity Fund's Materials sector returned 27.0% in 2017, outperforming our sector benchmark by 16.7%. One of the drivers of our outperformance was our main holding, Western Forest Products (WEF), a Canadian forest products company. Towards the end of summer, we made the decision to sell WEF as we felt most of our investment theses had been realized.

Our second individual holding, Alacer Gold Corp. (ASR), a Canadian mining company with operations in Turkey, traded up 33% in early 2017, but ended the year on a relatively flat note.

Figure 1: Materials 2017 Performance



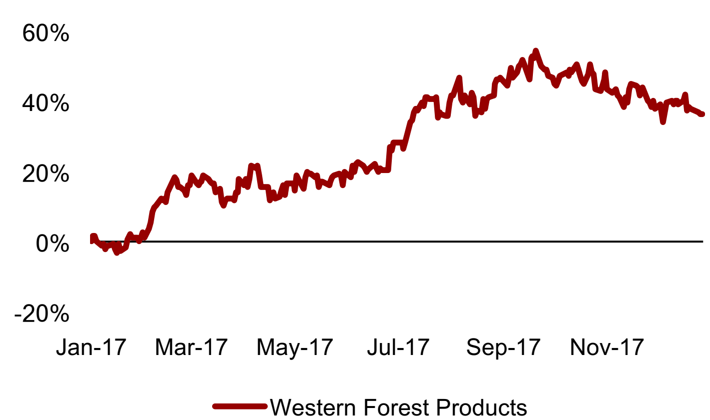
LUMBER: NAFTA, DUTIES & HURRICANES

The share price of Canadian lumber producers including Western Forest Products and its peers had been relatively subdued since late 2016. In October 2016, the one year grace period to renegotiate the Canada - US Softwood Lumber agreement had expired without any breakthroughs following months of talks. The US government and US producers believe that their Canadian producers get unfair subsidies from the government, and as a result are able to supply at cheaper prices to the US market.

Currently, around 30% of the lumber used in the US is imported from Canada. The lumber dispute between the US and Canada dates back to the 1980's. Since then, five lumber agreements have been signed under the purview of NAFTA. However, with President Trump's Administration and the review of NAFTA, the US took a harsher stance in 2017. Stocks of Canadian producers were subdued as the market was expecting very high countervailing and anti-dumping duties to be imposed on Canadian lumber exports.

However, in April 2017, the US announced duties ranging from 10% to 24% on different Canadian producers, much lower than the 17% to 31% range that the market was expecting. This provided a mild relief to the otherwise aggrieved Canadian lumber producers, who are still trying to fight this. Western Forest Products also benefitted from their diverse geographical reach, relying on the US market for just 18% of their revenues, which is much lower than their peers. Towards the end of summer 2017, lumber prices and demand also received a boost from the unfortunate damage caused by the hurricanes. A combination of these factors caused the price of WEF to move way beyond our price target and we took the decision to sell our position.

Figure 2: WEF Stock Price Performance



Sources: Bloomberg

MATERIALS
2018 OUTLOOOK

LOOKING FORWARD

After a big rebound from its trough in 2016, the Materials sector was a mixed bag in 2017. Sectors such as Chemicals and Lumber soared high while metals had a flat year despite a late surge towards the end of the year. 2017 was also a momentous year for niche specialty chemicals such as Titanium Dioxide (TiO2) with prices gaining more than 25% due to macro trends that drove up demand.

For 2018, our aim is to identify attractive subsectors within the broader Materials sector that are well supported by macro trends and commodity prices. At DCM, we will be looking into the Lithium, Agrochemicals and Construction Materials subsectors as we search for potential investments to add to our portfolio moving forward in 2018.

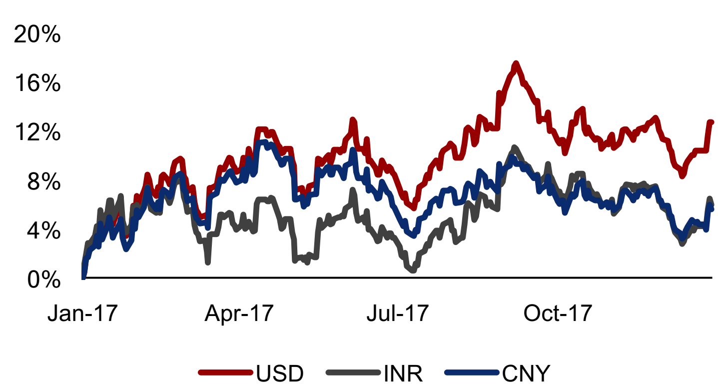
GOLD OUTLOOK

The global economy picked up pace in 2017, and this was evident in equity performance across the globe – the S&P 500 rose 19%, the Shanghai Composite was up 22% and India's Sensex gained 28%. Given this backdrop, gold performed remarkably well in 2017 and investors added gold to their portfolios as incomes increased and uncertainty loomed. Gold prices rose 13% against the US Dollar in 2017 as compared to roughly 5% against the Indian Rupee and Chinese Yuan. Gold's impressive performance in 2017 doesn't seem like an anomaly when compared to the long term trend. Since 1978, gold has returned an annualized return of ~10%, outperforming other commodities during the same period. Moving into 2018, we expect gold to continue its impressive rally.

China affords special mention when looking at gold trends since it is the world's largest gold market. We expect the Chinese economy to grow, but more importantly transition to a consumer-led model. In India and China, demand for gold rises with income, especially gold bars and coins. which are viewed as safe investments. In India, the world's second largest gold market, we expect to see the results of government policies such as the demonetization drive and implementation of the Goods and Service Tax (GST). These policies were implemented to increase the tax base and convert the cash-based economy into a formal sector, which should help spur the demand for gold.

Elsewhere, we are witnessing asset prices that have reached multi-year highs across the world. Investors have been forced to take on additional risks to generate excess returns in a low-rate environment. While most signs point to a continuation of the bull market through 2018, we must be wary of high asset valuations and the changing central bank policy. In this regard, we believe investors could benefit from having exposure to gold if things turn south.

Figure 3: Gold Performance in Selected Currencies



Sources: Bloomberg

MATERIALS
2018 OUTLOOK

LITHIUM RALLY CONTINUES

In 2017, lithium miner stocks have been the biggest winners among their materials peers, supported by the maturing electric vehicles (EV) technology. Lithium prices have enjoyed a great ride, up 34% and 30% for lithium carbonate and lithium hydroxide, respectively. In 2018, we expect the price will continue to rise due to the persistent imbalance between supply and demand.

REGULATORY TAILWINDS FOR EV

Fossil fuel-free technology is an equalizer for traditional automakers and specialized new entrants. These companies, most of whom are subsidized by the government, drive the demand for lithium. After struggling to grasp internal-combustion engine techniques for decades, China eventually tapped into electric vehicles with the intention of capturing a first-mover advantage. The country has initiated tax rebates for EV buyers, and green license plates that facilitate preferential traffic policies. Further, the government set a 2019 deadline for car makers, requiring a minimum 10% of their annual sales to be generated from PHEVs or HEVs. As China's biggest competitor, the U.S. has also retained its $7,500 tax credits for EV buyers under the new Republican tax plan. Meanwhile, India is also considering following in China's footsteps to promote the adoption of EVs to combat their pollution problems.

Consequentially, traditional automakers have pledged to deliver all-electric or electrified fleets before 2023. We believe that 2018 is a tipping point for electric vehicles specifically, as car makers further tackle their production bottlenecks. This trend will make lithium an even more indispensable material.

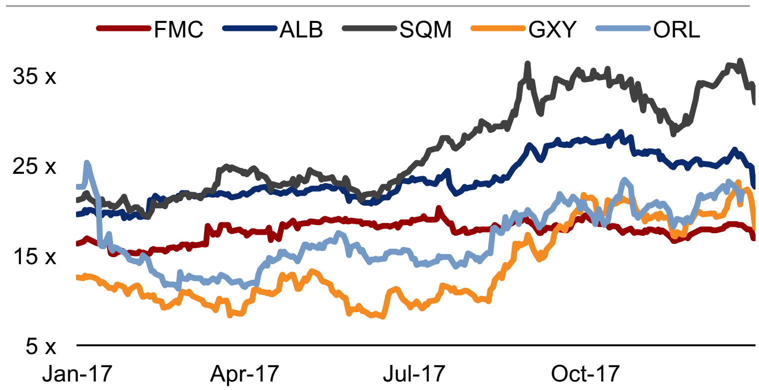
SUPPLY-DEMAND DYNAMICS

Most of lithium today is extracted from hard rock mines, located in China and Australia. Intermediate miners will deliver roughly 90,000t LCE collectively from this source. Meanwhile, senior miners operating on salt flat (brine) in the South American '*Lithium Triangle*', such as ALB, SQM, and FMC, are also ramping up their production. The supply and demand gap will tighten in the coming year.

VALUATION

The industry's estimated 1-Year Fwd. P/E multiple (*Figure 3*) has enjoyed favorable trends in 2017, especially for intermediate miners because of their higher operating cost. The multiple contracted in January 2018 after SQM's production agreement with Chile. We believe that the market has been over-reacting to the new supply addition. The offtake agreements newly initiated by both car makers and governments secure the future cash flow for lithium miners. Therefore, we see the industry multiple recovering and sustaining at a high level in 2018. Senior lithium miners with stable production volume and medium operating cost are best positioned to take advantage of the current market condition.

Figure 4: 1-Yr Forward P/E Ratio



Sources: Bloomberg

MATERIALS
2018 OUTLOOK

INELASTIC CROP PROTECTION CHEMICALS DEMAND

For the past few years, crop prices have plummeted due to favorable weather conditions, which kept both crop yield and inventory levels high. The high stock-to-use ratio will continue in 2018, squeezing grain farmers' profit margins. However, North and Latin America are expected to have a decreased inventory entering the second-half of 2018 as local growers scaled back in the previous seeding seasons. The crop commodity price in these regions should experience an uplift.

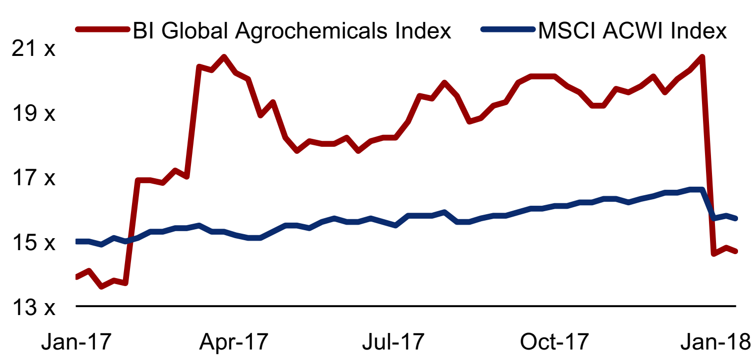
We have different views on the demand elasticity of fertilizer and crop protection chemicals, with both being categorized as agricultural chemicals. For certain crops, such as milled rice, corn and wheat, fertilizer accounts for the largest percentage of cost, while providing limited marginal yield improvement. In 2018, the fertilizer supply addition and cheaper energy input cost will put a lid on the fertilizer price. Comparatively, crop protection chemicals are seen to have greater growth potential. The demand for pesticide is no longer based on the crop build-out, because pests and weeds grow increasingly persistent to the current pesticide formula. Further, as arable land decreases over time, while the world's population and consumption of protein per capita increases, higher crop yield is required. Farmers could only do so by using fertilizer, crop protection chemicals, and GMO seeds, despite the general public's dubious attitude. Digital farm solutions will also become more popular in 2018, products such as digital precision spray sniper and tractor can effectively distinguish weed and limit the accidental drift of chemicals that might impact neighboring crops. In 2018, the crop protection chemicals industry is forecasted to perform well, despite of the suppressed crop price.

INDUSTRY CONSOLIDATION

Industry consolidation is catching up as blockbuster M&A transformed specialist agrochemicals suppliers into one-stop shops in 2017. The *seeds+spray* business model has gained prominent popularity, offering growers large selection varieties, and benefiting from complementary product pipelines and cost synergies. In 2017, the agrochemicals valuation was driven to a record level compared to global equities, reflecting optimistic market sentiment post ChemChina's acquisition of Syngenta and the DowDuPont merger. However, as the Bayer-Monsanto deal was called into inquiry by regulators, concerning pesticide innovation, competitiveness and affordability, the valuation has been brought back in line with the industry's fundamentals. We believe that the forward multiple will stabilize at this level until the industry sees margin expansion.

In 2018, as the industry consolidation trend is winding down, we see an opportunity for companies with strong R&D and manufacturing capabilities to expand its profit margin through designing active ingredients, covering different crops' lifecycles and impairing generic competition through reformulation.

Figure 5: 1-Yr Forward P/E Multiple



Sources: Bloomberg

MATERIALS
2018 OUTLOOK

INFRASTRUCTURE STIMULUS

The global infrastructure and non-residential markets have embarked on a positive cycle, and we expect this cycle to continue, as fiscal stimulus is likely to play a bigger role in both developed and emerging markets.

In 2018, American construction companies will enjoy an upturn of the federal contract business, gaining material future cash flow and limited execution risk through long-term contracts. Further, Trump's infrastructure plan is under dispute in Congress. Should it be passed, construction companies and the related industry will benefit from a loosened permitting process and up to a $1.86-trillion budget dedicated to roads, broadband access and aging pipelines. The Republican tax reform will also aid the industry, as the lower corporate tax rate, and a one-time capex write-down will boost industrial construction demand.

Europe is targeting to invest as much as 1 trillion Euro in the next decade, primarily in the gas and electricity network, and other renewable facilities. Construction Industries Confidence of Eurozone has reached a record high. In contrast, the UK's construction outlook remains uncertain due to Brexit, as concerns over the government's ability to deliver stable economic growth persist.

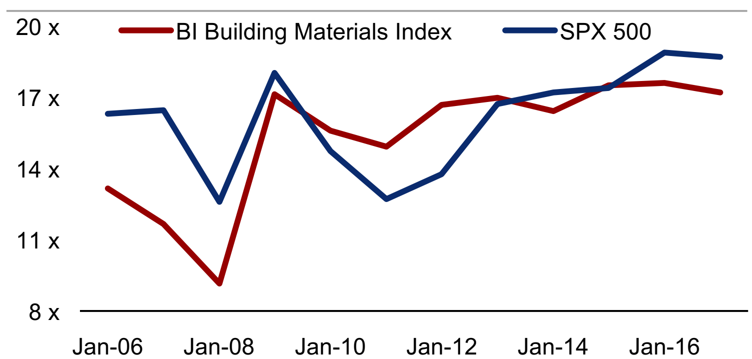
China has identified transportation investment as its top focus throughout the next decade, 1/3 of which will be filled by highway orders. Southern China is expected to expand faster, given its low average mileage per capita and financial wealth. *One Belt One Road* initiative, China's Marshall Plan, aims to improve foreign economies and import revenues from overseas. A total contract worth over $100 billion will continue its first-phase constructions in 2018, including high speed railways and deep-water ports with South Eastern Asian countries, such as Malaysia, Indonesia and Pakistan.

VALUATION

We realize that the building materials industry forward P/E multiple has been rising, yet are still below that of the equity market. We believe this is supported by the construction industry fundamentals. The US economic growth and European recovery will spur building materials demand for the next decade, consistent with at least $26-trillion of investment by 2027. The forward multiple will rise further as a result. Incidental events such as wildfires in California and hurricanes Irma and Maris will also contribute positively.

In 2018, we believe that aggregate and cement markets will gain a greater upside. Given the nature of long-term projects, contractors are incentivized to lock down the long-term material supply contracts before the price surges. PPP also provides an alternative funding source to introduce private capital into infrastructure projects. Both aggregate and cement shared positive pricing momentum, because operating licenses issued on new quarries are still challenging. U.S. cement demand will outpace its supply by 2019. China also has disciplined cement supply control and capacity suspensions due to environmental concerns, implying less excess capacity and better pricing power.

Figure 6: 1-Yr Forward P/E Multiple



Sources: Bloomberg

MATERIALS

2017 HOLDINGS REVIEW

DESAUTELS CAPITAL MANAGEMENT

ALACER GOLD CORPORATION (TSX:ASR)

COMPANY OVERVIEW

- Alacer Gold Corporation is a Canadian intermediate gold mining company with operating assets in Turkey
- ASR has a 80% controlling interest in Copler Gold Mine and a 50% stake in the upcoming Gediktepe Mine project
- ASR is undertaking a Sulfide Expansion Project at their Copler Mine to prolong the life of the mine and improve ore grade
- ASR has 4,987,000 ounces of proven and probable reserves, the majority were assessed in Copler Mine, and the remaining came from Gediktepe Mine
- ASR has a long-term relationship with Turkish mining giant Lidya mining for both their Copler and Gediktepe projects

CATALYSTS

- Successful completion of Sulfide Expansion Project on Copler Mine can effectively increase annual gold production from 160k-180k ozs. to 280k-310k ozs., and decrease AISC from $900/oz. to $450/oz.
- Successful completion of the definitive feasibility study on Gediktepe Mine can further ascertain ore grade and proven & probable reserve

RISKS

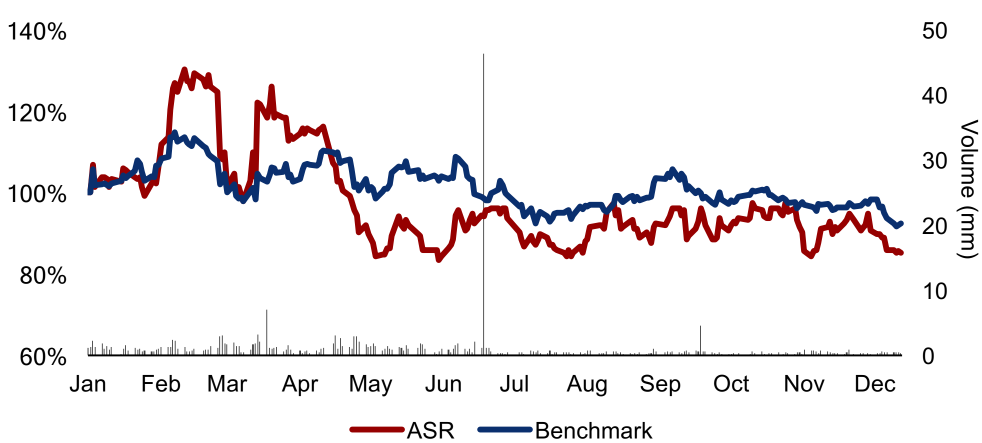
- Deteriorated diplomatic relationship between Turkey and the U.S.
  - volatile exchange rate adds uncertainty to commodity production and exporting
  - negative perception would lead to the company's multiples trading at discount

FINANCIAL SUMMARY

Public Market Overview	
(values in CAD$mm, as of Dec. 31, 2017)	
Stock Price	$2.23
Shares Outstanding (mm)	293.1
Market Capitalization (mm)	**$654**
+ Preferred Stock	$0
+ Minority Interest	$216
+ Total Debt	$158
- Cash	($165)
Enterprise Value (mm)	**$862**
Beta (1-Year)	0.87
Dividend Yield	0.0%

Financials	FY2016A	FY2017A	FY2018E
(values in CAD$mm)			
Revenue	$178	$249	$265
% Growth		*40%*	*6%*
EBITDA	$47	$104	$126
% Margin	*26%*	*42%*	*48%*
Production (koz/year)	119	139	137
% Growth		*17%*	*-1%*
AISC ($/oz)	958	699	829
% Growth		*-27%*	*19%*

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Sources: CapitalIQ

POSITION SNAPSHOT

In CAD, unless noted	
Average Cost (CAD)	$2.39
# of Shares	28,300
Value Invested	$63,109
Portfolio Weight	2%
2017 HPR	(0%)
2017 HP Benchmark Return	10%
Excess Return	(11%)

ALACER GOLD CORPORATION (TSX:ASR)

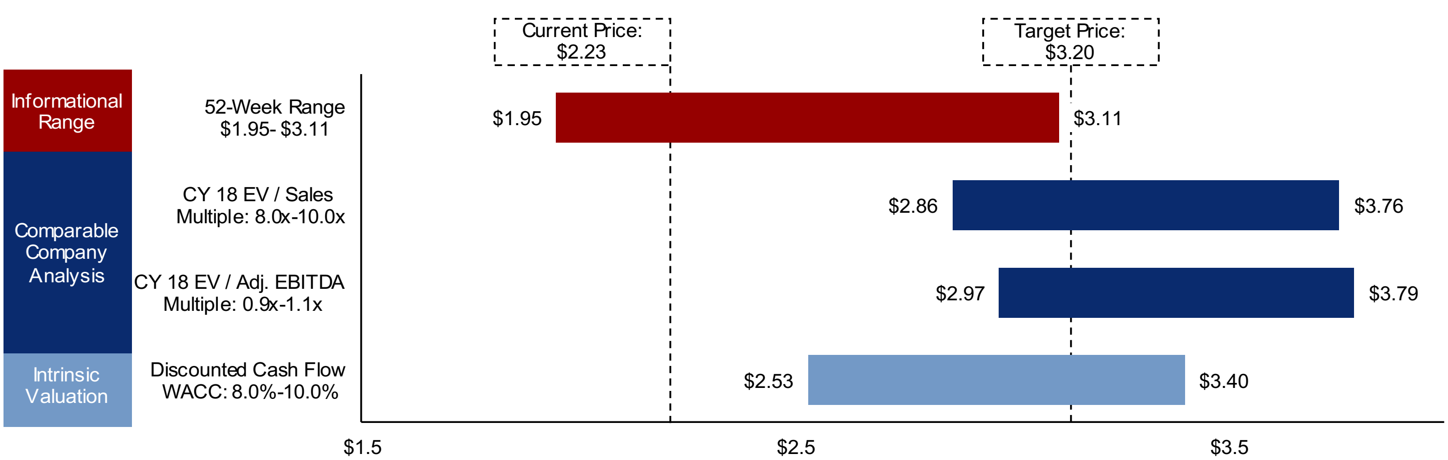
INVESTMENT THESIS

1. **Unfairly punished by market due to a focus on Turkey**
   - The mining industry is sound in Turkey, no mine has ever been abandoned or closed down due to regulatory issues
   - P/NAV discounts of Alacer and Eldorado Gold Corp will continue, given the deteriorated diplomatic relationship between U.S. and Turkey, and Turkey's recent air strikes on American allies in Syria
2. **Misunderstood capital structure and tax savings potential**
   - ASR is underleveraged compared to other foreign gold miners in Turkey. Given the company's healthy balance sheet and its ability to fund its sustaining and expansionary capex, a more aggressive capital structure will lower the cost of capital
   - Corporate tax for Turkey remains low, incentive tax credits in remote regions were attractive to foreign miners. However, the newly announced 21% corporate tax rate in the U.S. will motivate new miners to develop operating assets in the region, impairing the importance of Turkish production
3. **Strong potential as a future acquisition target**
   - The company trades at discount on P/NAV and relatively conservative balance sheet
   - Eldorado Gold has acquired a series of operating assets in Turkey. ASR is well positioned as a target
   - The Sulfide Expansion Project will improve profitability derived from substantial AISC reduction

ANALYSIS OF PERFORMANCE

Throughout 2017, ASR has underperformed our benchmark, falling 5.1% compared to a 2.8% loss. ASR has experienced a more volatile year compared to senior gold miners, primarily because, as an intermediate miner, the company only possesses one operating asset in Turkey. The production cost and ore grade fluctuates in a wide range. Through its heap leach expansion establishment, ASR has been able to produce higher-grade gold. Further, All-in Sustaining Cost has been driven down to $790/oz. from $1190/oz. over the past 12 months. Post its Q3 filing, Alacer adjusted management guidance of annual production to the lower end of 160,000 – 180,000 oz., causing a close to 8% one-day price decrease. In 2018, the completion of the sulfide expansion project will deliver further cost reduction and production volume expansion. On the whole, we continue to see value in the company at current price levels and maintain a hold recommendation.

VALUATION SUMMARY



Sources: CapitalIQ

ANNUAL REPORT 2017

HEALTHCARE

2017 REVIEW & 2018 OUTLOOK

DAVID MEYERS
THOMAS BOUCHER-CHAREST
VIJAY MURARI

DESAUTELS CAPITAL MANAGEMENT

HEALTHCARE PERFORMANCE

A SUCCESSFUL YEAR IN HEALTHCARE

PERFORMANCE & VALUATION

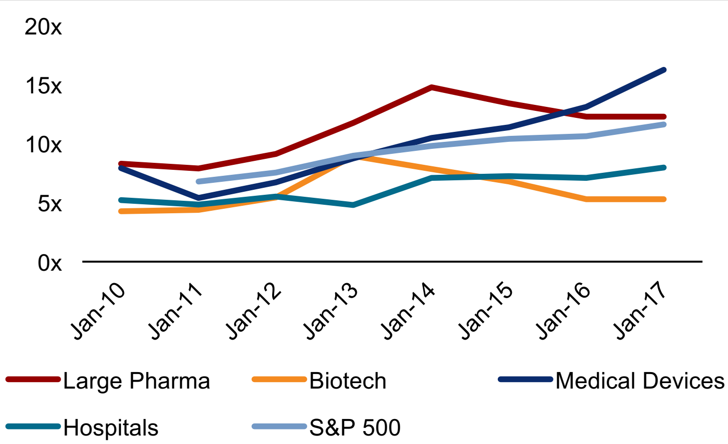
2017 was a challenging and enthralling year for healthcare investors. Shareholders saw a dichotomy of financial performance from the four main sub-sectors: (1) pharmaceuticals, (2) biotechnology, (3) medical devices and (4) healthcare providers. Pharmaceuticals and biotechnology underperformed versus the broader market while, medical devices and providers posted solid relative performance. Much of this divergence was the result of our Affordable Care Act thesis materializing in the United States. While the GOP was unsuccessful in its attempt to repeal the insurance coverage legislation, their attempts created significant uncertainty. These actions depressed pharmaceuticals and biotechnology valuations as investors were concerned about market size and pricing resulting from a lower coverage rate. In contrast, healthcare providers were buoyed by the failed repeal efforts. As predicted at the beginning of 2017, hospitals and clinics reported robust financial performance and solid leverage ratios as a consequence of the increased coverage rates. This resulted in some multiple expansion. Medical devices also experienced multiple expansion due to investors' increased growth forecasts from international development.

HC GROUP PERFORMANCE

The Healthcare Sector at DCM is pleased to report gross returns of 15.8% in fiscal year 2017. This was in excess of our blended benchmark by 3.0%, which returned 12.6% for fiscal year 2017. This represents an alpha of 6.8%. In addition, we are pleased to report a Sharpe Ratio of 1.2 compared to our benchmark Sharpe Ratio of 1.0. This further demonstrates our commitment to allocating capital with the goal of achieving a superior risk to reward profile. Throughout 2017, healthcare sought to increase diversification benefits within its portfolio. As a result, our team took positions in Fresenius ADR, a medical devices and services company, Pfizer, a multinational pharmaceutical manufacturer, and a global healthcare ETF.

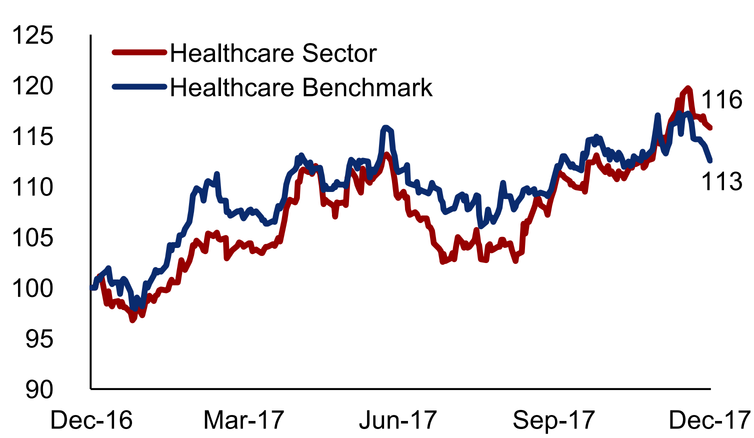
Our outperformance is largely attributed to our shares in Fresenius ADR which appreciated 25.5% during 2017. Our decision to maintain the position in Fresenius was driven by a view of significant tailwinds in the medical devices and services spaces, as well as unseen growth opportunities in new segments. A full review of Fresenius and Pfizer is provided in the holdings review section.

Figure 1: Sub-sector EV / EBITDA Multiples



Source: Bloomberg

Figure 2: Healthcare Group vs. Benchmark



HEALTHCARE 2017 REVIEW

TECHNOLOGY, CONSUMERS & OPIOIDS

THEME 1:TECH AND HEALTHCARE

In recent years, mechanization and digitization have revolutionized manufacturing and services throughout the economy. Now, healthcare services are seeing a wave of increased information technology in the marketplace. One of the largest utilizations for technology in healthcare is telehealth. Telehealth is the process of connecting patients and doctors using online communication. In a phenomenon dubbed “the hospital at home”, more and more patients are receiving clinical diagnosis and doctor consultations via the internet. In addition, communication technology is allowing doctors to more easily collaborate and communicate. According to the National Research Corporation, this segment is going to see an explosion of users from 250,000 in 2017 to 3.2 million in 2018. From a shareholders perspective, this signals an opportunity to identify both companies directly involved in telehealth as well as other firms which may be disrupted by the mass adoption of telehealth, such as walk in clinics. This indicates possible value buying opportunities due to overly positive or overly negative sentiment.

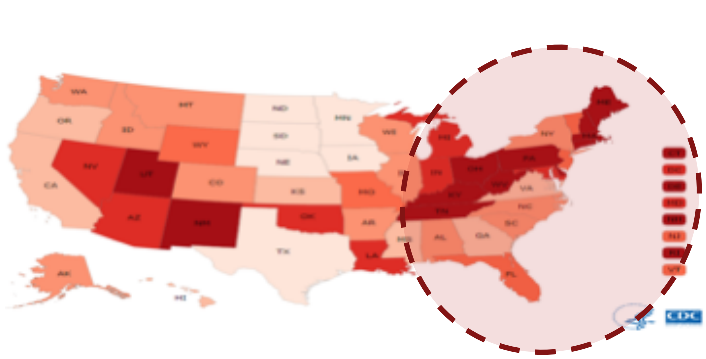
THEME 2: HEALTHCARE CONSUMERISM

Another significant trend in the healthcare space is the increased consumer orientation of the industry, As healthcare costs have risen, insurance companies have placed more financial burden on patients in the form of higher co-pays. In addition, the share of out-of-pocket payers in the United States has increased from 17.1% in 2005 to 24.2% in 2015, according to the study “Who is most at risk for high out-of-pocket health spending.” This increased pressure on individuals has made them more traditional consumers – seeking deals, comparison shopping and limiting usage when possible. This presents significant challenges to providers moving forward. One, individuals often lack the knowledge or information required to make informed healthcare decisions. As a result, patients may wait too long to be diagnosed or engage in ineffective treatments. This places a strain on healthcare services when such patients turn to hospitals and doctors as a last resort. Two, lower utilization places downward pressure on demand and consequently on prices. Three, healthcare companies have become increasingly retail focused. Many have developed over-the-counter drugs to meet the demand of price sensitive patients. We expect these trends to continue into 2018.

THEME 3: THE OPIOID CRISIS

The use of opioid prescription drugs has been a major hurdle for healthcare practitioners in 2017. According to the CDC, opioid related deaths have skyrocketed in the United States, particularly in rural and rust belt states. While this health crisis does not have a direct effect on markets, its development is significant from a legal and regulatory perspective. Increased fatalities may lead the federal government to increase regulations and prosecute litigations against the countries’ largest pharma and distribution companies, as is evident by the NYC lawsuit, which in turn would have a negative effect on shareholders.

Figure 3: The Opioid Crisis



Source: Bloomberg, National Research Corporation, Deloitte

PHARMA & BIOTECH
PIPELINE OVERHAUL

VALUATION DRIVER

Political forces have had a major influence on pharma and biotech in the last year. Following a tweet by presidential candidate Hillary Clinton as well as bold statements on tax reform and drug pricing by Donald Trump, pharma and biotech securities underperformed. Despite these headwinds in 2017, 2018 is off to a robust start due to two drivers -- (1) pipeline updates and (2) M&A. Moving forward, firms in this space expect to continue to face pricing pressures. However, companies are combating these market pressures by focusing on lucrative and high margin products and therapeutic areas, such as immuno-oncology and orphan diseases.

As companies focus on trimming their pipelines, we expect better and more streamlined operations between R&D and commercialization departments. We believe this will be a major boon to margins. Figure 4 clearly shows that companies with an overly diverse product base report lower margins.

OFFSETTING VALUATION

While mega-cap and large cap players trim their pipeline, we also believe that mid-cap companies will pursue this strategy as well. However, we believe that large cap players will purchase companies that develop blockbuster products. This was seen during the 2013-15 M&A frenzy. We believe that a pipeline overhaul could lead to increased:

1. Out-licensing of non-core assets
2. In-licensing of assets of interest
3. Option to acquire agreements upon reaching clinical milestones.

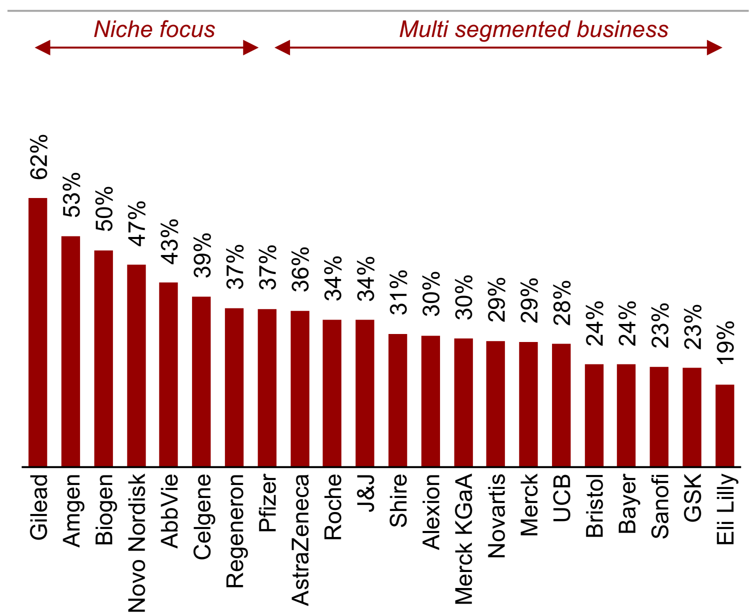
The mystery lies at what stage of development would companies consider partnerships. What is the value proposition in such deals? Who benefits more?

Companies are also looking to develop joint partnerships. In developing such a channel of cooperation, companies would act symbiotically with one developing advanced R&D capability while the other used its established commercial infrastructure to help bring the right product to market.

In the mid-cap space, the key to valuation is the reporting of clinically significant positive trial data. Investors tend to appreciate clinical data that is competitively meaningful from a commercial and reimbursement standpoint. Thus, we believe we can find value in these companies by identifying them before they are acquired or enter a partnership.

Since the current regulatory environment at the FDA is more streamlined, we expect to see products with solid scientific rationale and limited risk profile get approvals and capture traction in markets significantly faster. However, given our aversions to binary events and risk, we would not consider small-cap and mid-cap stocks that rely on a single drug despite their upside return potential in this environment.

Figure 4: Pharma & Biotech EBITDA margin profile



Source: Bloomberg

HEALTHCARE-SERVICES

INDUSTRY TITANS IN MOTION

CVS – AETNA $77BN MERGER

In October 2017, rumors emerged of a possible merger between CVS, a retail pharmacy and pharmacy benefits manager, and Aetna, one of the leading managed care providers in the United States. By December, it was officially announced that CVS would acquire Aetna for $145 per shares in cash and 0.84 CVS shares taking the offer to $207 per shares (or $77bn). The CVS-Aetna merger is on the heels of the unsuccessful Aetna-Humana and Anthem-Cigna mergers in 2015, blocked on anti-trust grounds. The CVS-Aetna merger, however, represents a vertical integration unlikely to impact competition.

The merger represents a major opportunity for CVS and Aetna to redefine the US healthcare system. CVS plans to remodel the nature of its physical retail space in its 9,700 pharmacies towards community healthcare needs. The newly purposed pharmacies will provide medical attention at lower cost compared to hospital visits. For CVS, this plan will revitalize the firm's ailing retail space. For Aetna, it will provide a lower-cost alternative for plan-members for healthcare needs. In addition, CVS and Aetna management believe the merger will lead to more integrated data and analytics, further reducing healthcare costs. One such example provided in the merger press release is fewer hospital readmissions:

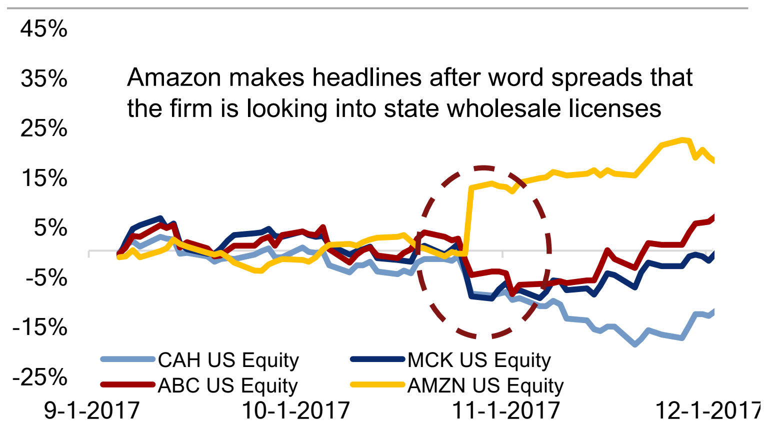
" Twenty percent of Medicare patients are readmitted to the hospital soon after being discharged at significant annual costs, much of which is avoidable. Readmission rates can be cut in half if patients have a complete review of their medication after hospital discharge." – Merger Press Release

The solution to this costly problem would be for selected patients to visit health hub locations and have access to services such as medication evaluations, home monitoring and use of durable medical equipment. By integrating the payer (Aetna) with the provider (CVS), the combined entity can reduce wasteful spending in the healthcare system which is currently an unmet need.

AMAZON IN HEALTHCARE?

Besides the synergies created through the merger, industry experts believe CVS may also be fortifying its competitive position in an attempt to ward off potential industry disruptors, i.e Amazon (AMZN). The two main channels where AMZN could disrupt healthcare is distribution and pharmacy benefit management. Echoing the view of industry experts, we believe the CVS-Aetna merger makes entry into the PBM segment unlikely. Alternatively, the distribution channel would appear to be far more attractive. However, we also see considerable headwinds facing AMZN, chief amongst them is the fact that much of the distribution in the United States is controlled by 3 companies: McKesson, Cardinal Health and AmerisourceBergen. Overcoming these titans could prove difficult.

Figure 1: Market Reaction to AMZN Healthcare Rumours



Sources: Bloomberg, Company Fillings, BMO Equity Research

MEDICAL DEVICES
THE SEARCH FOR GROWTH

THE SEARCH FOR GROWTH

Since 2014, medical device companies have faced two significant drags on growth and earnings – (1) pricing power and (2) market concentration. Pricing pressure has increased in the medical device space as the direct result of increasing healthcare costs in the United States. As providers and clinicians attempt to lower prices and implement a value-based approach to device procurement, manufactures are being squeezed by lower demand. In addition, the space is highly concentrated and competitive. In 2017, the top four medical devices manufacturers controlled 73% of global sales. These two forces have resulted in declining industry profit margins since 2011. At the 2018 J.P. Morgan Healthcare Conference, many medical device companies expressed their intention to spur growth via international expansion.

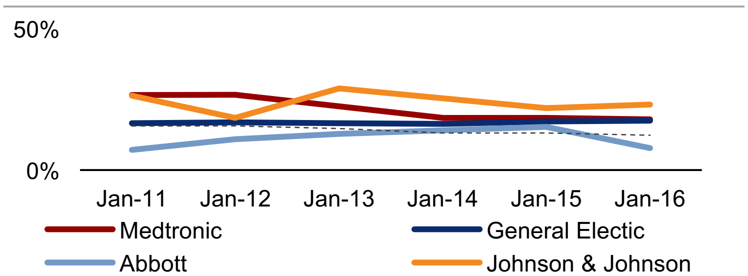
INTERNATIONAL EXPANSION

Medtronic, an industry leader, expressed the importance of international expansion at the 2018 J.P. Morgan Healthcare Conference stating:

"The penetration of existing therapies into Emerging Markets represents the single largest opportunity in Medtech."

Other medical device companies also pointed to intended growth via emerging markets such as GE Healthcare, Abbott and Boston Scientific.

Figure 6: Profit Margins



Source: Bloomberg

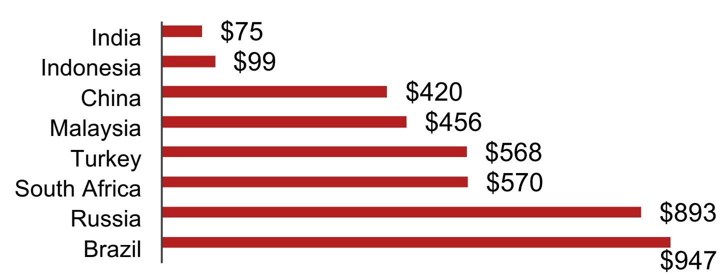
This international expansion guides our outlook on how the medical device industry will spur growth. Successfully executing an international expansion strategy is particularly difficult and complex in healthcare given both pricing and regulatory differences across countries. In addition, companies that do not implement such a play may see their margins further reduced as well as see stunted growth potential. Thus, our team will diligently monitor how effective management teams are at implementing such a growth strategy and continued expansion in the space.

ATTRACTIVE EMERGING MARKETS

As is evident by Figure 7, there are significant discrepancies in infrastructure, wealth and spending across emerging markets. While many companies expressed optimism about expansion into countries like India, such a move may not be prudent at this time. High levels of corruption, a lack of healthcare infrastructure, and low healthcare spending point to negative indicators for medical device sales. Thus, observing, not only if, but where, companies expand is critical.

Healthcare remains an attractive space for value investors. Several themes including pipeline reform and international expansion present positive signals for further analysis and guide our interest in international medical devices players and medium sized pharma.

Figure 7: Emerging market individual healthcare spending



ANNUAL REPORT 2017

HEALTHCARE

2017 HOLDINGS REVIEW

DESAUTELS CAPITAL MANAGEMENT

FRESENIUS MEDICAL CARE (NYSE:FMS)

COMPANY OVERVIEW

- Fresenius is a Germany-based healthcare company focused on treating end-stage renal disease (ESRD)
- FMS has operations around the world. In the firm's mature markets, FMS mainly earns revenue through Dialysis Services. Alternatively, FMS enters newer markets by mainly selling Dialysis Products.
- Fresenius holds a dominant market position in each region where it operates. Competition is fragmented, with few other notable global counterparts.
- FMS trades on the NYSE as an ADR. The firm's primary listing is the German Xetra exchange.

CATALYSTS

- Continued coordinated care growth and improving margins
- NxStage acquisition giving FMS access to the highly attractive home dialysis market
- Impact of tax changes in the United States

RISKS

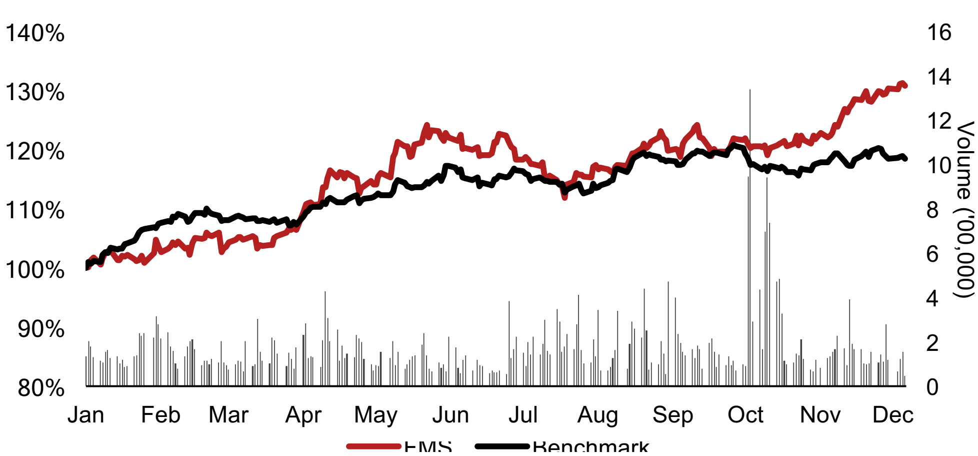
- Pricing pressure from public and private payers
- Currency risk due to large exposure to USD and reporting in EUR

FINANCIAL SUMMARY

Public Market Overview	
(values in USD mm, as of Dec. 31, 2017)	
Stock Price	$52.55
Shares Outstanding (mm)	611.4
Market Capitalization (mm)	**$32,129**
+ Preferred Stock	$1,889
+ Minority Interest	$0
+ Total Debt	$8,572
- Cash	($747)
Enterprise Value (mm)	**$41,843**
Beta (1-Year)	0.904
Dividend Yield	1.1%

Financials	FY2015A	FY2016A	FY2017E
(values in USD mm)			
Revenue	$16,738	$17,911	$21,892
% Growth		*7%*	*22%*
Gross Profit	$5,331	$5,780	$7,400
% Margin	*32%*	*32%*	*34%*
EBITDA	$3,071	$3,346	$4,105
% Margin	*18%*	*19%*	*19%*
Net Income	$1,082	$1,242	$1,479
% Margin	*6%*	*7%*	*7%*

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Sources: Bloomberg, Company Fillings

POSITION SNAPSHOT

Average Cost	$38.63
# of Shares	1,550
Value Invested	59,877
Portfolio Weight	2.06%
2017 HPR	36.03%
HP Benchmark Return	18.00%
Excess Return	18.03%

FRESENIUS MEDICAL CARE (NYSE:FMS)

INVESTMENT THESIS

1. **Fresenius is a market leader in an industry experiencing mega-trend growth:** *Fresenius is operating in an industry set to benefit from the undeniable shift towards obesity and an aging population, thereby increasing the addressable market.*
   - Obesity has been linked to 80-85% of all incidences of Type II Diabetes, the leading cause of end-stage renal failure and the main contributor to new dialysis. Worldwide obesity is estimated to rise to 17% of the world's population in 2025 vs. 13% currently.

2. **Fresenius is operating in a market with low street coverage:** *Fresenius happens to be in a the particular position where its headquartered in Germany and thus the firm is covered mainly by European analysts yet a majority of the firm's revenue are earned in the United States. This leads to information asymmetry where European analysts misunderstand the United States market.*

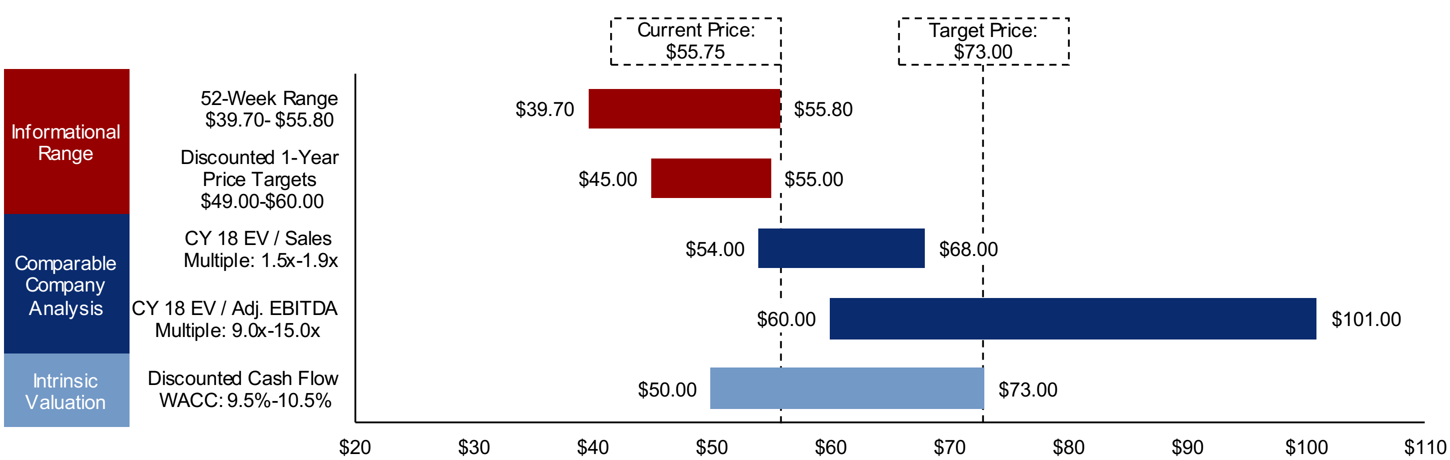
3. **Fresenius has large market potential in China which is largely ignored by analysts:** *With the United States being the firm's most significant market, analyst pay little attention to the market potential from China.*
   - A large portion of our upside is derived from greater than forecasted growth from Asia-Pacific. With coordinated care being launched in China and Australia, our thesis is beginning to materialize.

ANALYSIS OF PERFORMANCE

Our holding return on FMS for 2017 was 36%. Our return since entering the position has been 44%. Mainly, the stock has been driven by upward earnings revisions. Multiples remain relatively low despite the company's high growth potential. For 2018, we would expect the stock price to be bolstered by multiple expansion as well as continued fundamental growth in the business.

In June 2017, we considered exiting our position in FMS. At the time, the stock was trading at an all-time high of $50. Based on our previous price target of $51, it appeared appropriate to exit the position. Upon further analysis we upgraded our price target to $73. The significant increase in price target was driven by 1) Increase from international operations, 2) Greater than expected growth from coordinated care in the United States and in Asia as well as margin expansion.

VALUATION SUMMARY



Sources: Bloomberg, Company Fillings

PFIZER (NYSE:PFE)

COMPANY OVERVIEW

- Pfizer is an American pharmaceutical company that discovers, develops, manufactures, and markets healthcare products worldwide.
- The company's products include medicines, vaccines, medical devices and consumer healthcare products.
- The firm operates through two segments – Pfizer Innovative Health and Essential Health.
  - **Innovative Health** segment accounts for 55% of revenues and includes all current branded drugs with active patents.
  - **Essential Health** segment accounts for 45% of revenues and includes the generics business as well as off-patent drugs.

CATALYSTS

- Major merger with large industry player such as Bristol-Myers or Biogen
- Limited competitive impact on Ibrance and Xeljanz
- Impact of tax changes in the United States as well as implications of new repatriation rates

RISKS

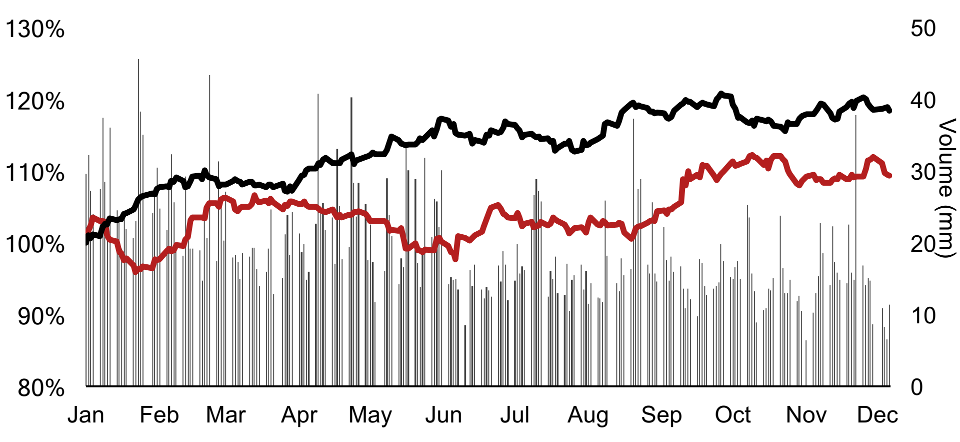
- Risks associated with new product launches and ability to meet promise of "15 blockbuster drugs in next 5 years"
- Inability to enter the Alzheimer's market could lead the stock to fall out of favor compared to peers such as Biogen

FINANCIAL SUMMARY

Public Market Overview	
(values in USD mm, as of Dec. 31, 2017)	
Stock Price	$36.50
Shares Outstanding (mm)	5,951
Market Capitalization (mm)	**$217,212**
+ Preferred Stock	$320
+ Minority Interest	$0
+ Total Debt	$42,086
- Cash	$17,850
Enterprise Value (mm)	**$241,768**
Beta (1-Year)	0.95
Dividend Yield	3.4%

Financials	FY2015A	FY2016A	FY2017E
(values in USD mm)			
Revenue	$48,851	$52,824	$52,554
% Growth		*8%*	*-1%*
Gross Profit	$39,418	$41,194	$41,958
% Margin	*81%*	*78%*	*80%*
EBITDA	$19,551	$21,925	$25,638
% Margin	*40%*	*42%*	*49%*
Net Income	$9,777	$11,398	$15,687
% Margin	*20%*	*22%*	*30%*

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Sources: Bloomberg, Company Fillings

POSITION SNAPSHOT

Average Cost	$32.54
# of Shares	2,800
Value Invested	91,112
Portfolio Weight	3.13%
2017 HPR	12.20%
HP Benchmark Return	18.00%
Excess Return	(5.80%)

PFIZER (NYSE:PFE)

INVESTMENT THESIS

Our investment thesis for Pfizer revolves around a macro view that large pharmaceutical companies are valued together as a group rather than differentiated companies. The complicated nature of the industry has given rise to largely indiscriminate institutional buying of pharmaceutical companies. As such, we believe that PFE is positioned to take advantage of industry-wide undervaluation.

1. **Pfizer's pipeline and patent cliff:** *Pfizer has the strongest pipeline and the lowest measured risk amongst industry peers. The firm consistently invests in typically undervalued research.*

2. **Pfizer's anticipated spin-off for its generics business could unlock value for shareholders:** *We believe the management could create shareholder value through a generics spin-off. Alternatively, given management's proven record of successful acquisition integrations, a large-scale merger could create shareholder value.*

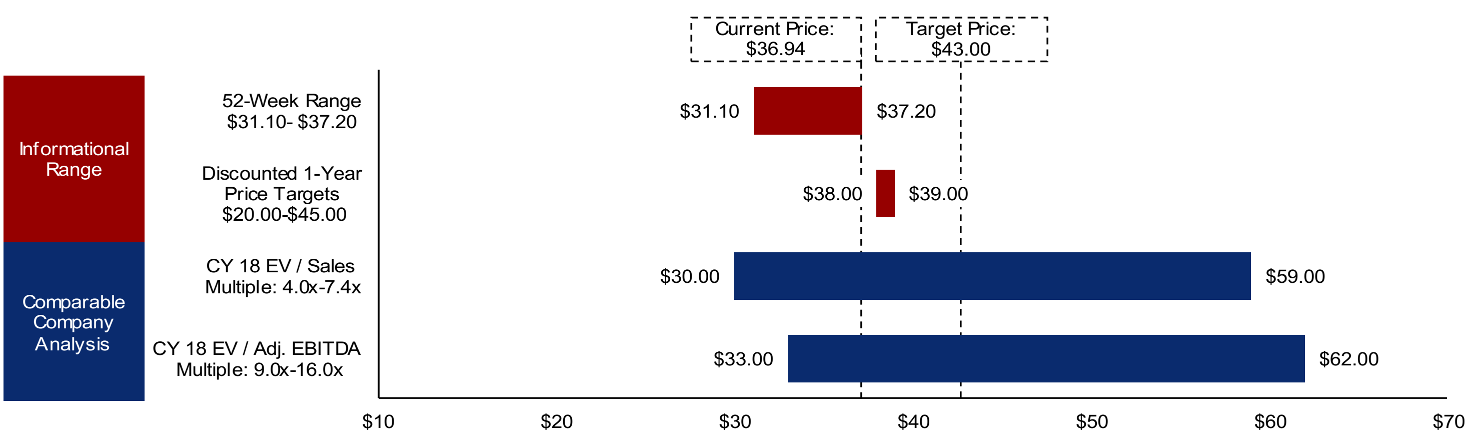
3. **The true off-patent risk of branded pharmaceuticals:** *The market misunderstands Pfizer's off-patent risk, effectively writing-off the value of off-patent drugs in the long-term despite precedence suggesting strong brand loyalty.*

ANALYSIS OF PERFORMANCE

Our holding return for PFE in 2017 was 17%. Our return since entering the position has been 17%. We are pleased with Pfizer's performance. Pfizer is currently going through a challenging transition period with multiple key branded drugs losing patent protection.

On the other hand, 2018 promises to be an promising year for Pfizer on the M&A front. Management commentary in the past pointed to uncertainty related to tax changes as being the largest impediment in pursing any major deal. With the "tax dust" now settling, we believe PFE could be looking for a large merger. There is some speculation that Pfizer could be looking to acquire Biogen, which has a promising Alzheimer's asset (Aducanumab).

VALUATION SUMMARY



Sources: Bloomberg, Company Fillings

ANNUAL REPORT 2017

FIXED INCOME MARKETS

ARIANE LAURIN

DESAUTELS CAPITAL MANAGEMENT

ANNUAL REPORT 2017

PERFORMANCE SUMMARY

2017 REVIEW

DESAUTELS CAPITAL MANAGEMENT

PERFORMANCE SUMMARY
FIXED INCOME FUND

Dear Investors,

2017 started off with high valuations, low volatility and substantial economic and political uncertainty, and ended with even higher valuations, lower volatility and increased market uncertainty. In this challenging year for the fixed income asset class, the Desautels Fixed Income Fund returned -1.8% relative to a -1.4% performance for our benchmark. Our shorter duration relative to our benchmark resulted in a lower standard deviation of 3.6% relative to 4.6%. Since inception, the fund has returned a 3.7% annualized return, compared to 3.0% for the benchmark, resulting in a 1.0% alpha. Our underperformance this past year was largely attributable to a negative credit event for one of our holdings, Home Trust.

In April, we found ourselves at the center of one of the most followed events in the Canadian markets: the Home Capital scandal. We initiated a position in Home Trust 2018 (subsidiary of Home Capital Group) in the Fall of 2014, with the conviction that the company's strategic shift towards higher quality loans would improve its credit quality more than the market was pricing in. After allegations of fraudulent mortgage applications and false declarations by management, markets lost confidence in the company and sent both equity and fixed income valuations plunging. Amid the crisis, HCG's debt was trading below 80 cents on the dollar, with a spread of close to 1,000 bps. Despite holding conviction in the company's ability to recover from the crisis, we decided to sell our position on April 25th as the loss of confidence from customers prevented the company from continuing its operations. Funding its loans through high interest rate savings account, Home Capital saw its deposits decrease by more than 90% in less than two weeks. At this point, we were speculating on the company's ability to attract a lender of last resort, which is not a risk we were willing to take. We thus sold at a price of $85. A week later the company announced it was selling a majority of its loan portfolio and was taking on a $2 billion bridge loan with the hope of injecting enough liquidity in HCG to keep it afloat. The main lesson we remember from this experience is the importance of consumer confidence for financial institutions: soon after allegations of fraud and false statements made their way to the front cover of national news outlet, consumers withdrew their deposits and could have forced the company to cease operations, regardless of whether or not the company would otherwise be solvent.

Summary of Performance

Positive: Currency allocation and lower duration relative to our benchmark

Negative: Home Capital Group scandal and ramifications of US tax bill on Canadian markets

Looking forward, we plan to retain our duration gap versus the benchmark on a view of higher than expected inflation. In the credit space we are wary of very tight spreads and high valuations, and plan to avoid the energy sector, but believe that opportunities still exist for diligent investors. After considerable analysis, we recently added Russell Metals and Ford Credit Canada to our portfolio. Full details and analysis are provided in the sections below.

Source: Bloomberg

PERFORMANCE SUMMARY
FIXED INCOME FUND

Figure 1 – Fixed Income Fund Returns

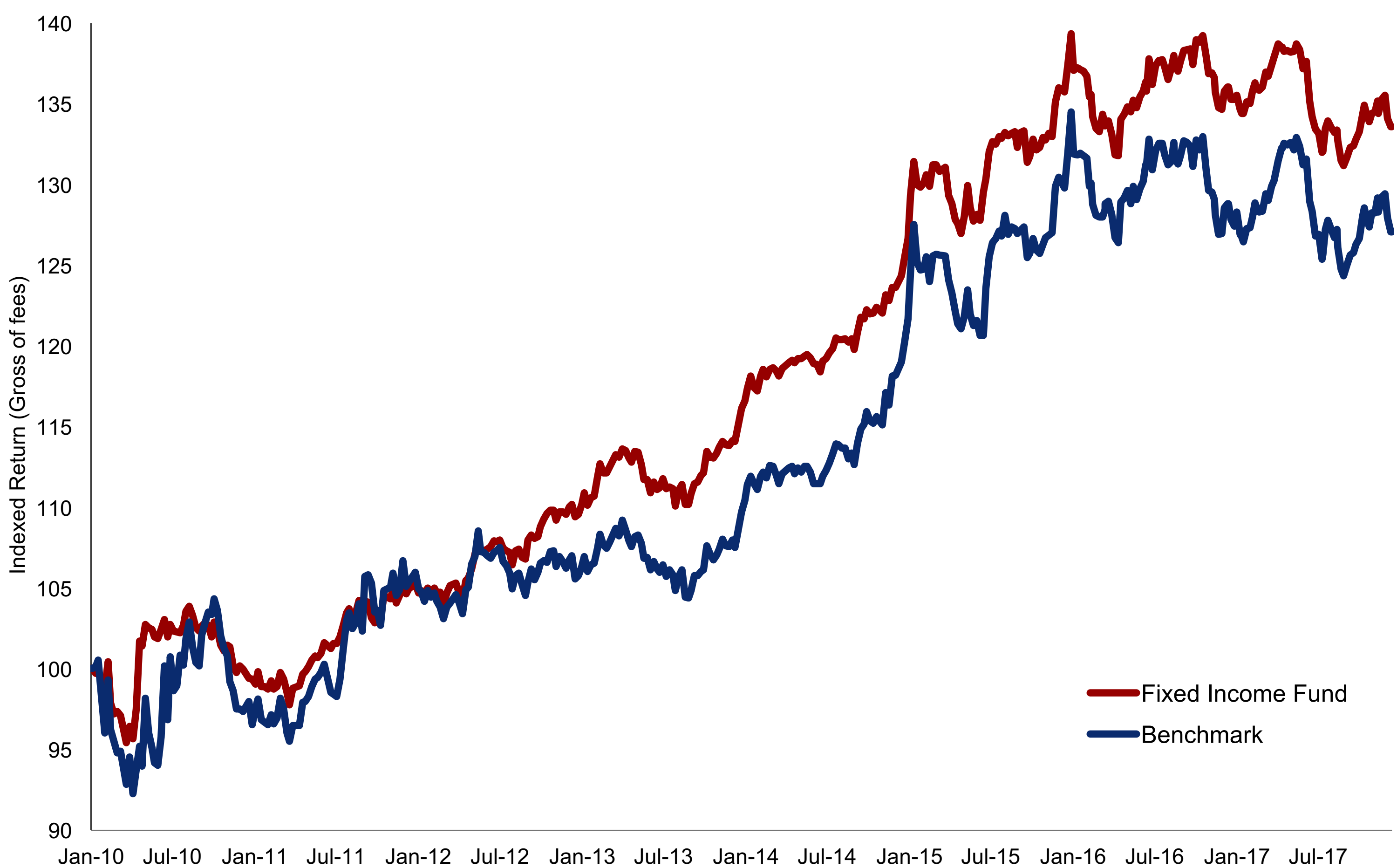
FIXED INCOME METRICS SINCE INCEPTION	Fixed Income Fund	Benchmark
Annualized Return	3.7%	3.0%
Annualized Std Dev	4.6%	6.9%
Annualized Sharpe Ratio	0.29	0.10
Beta	0.54	
Annualized Alpha	1.0%	
Weekly Tracking Error	0.6%	

Performance metrics are calculated gross of fees.

FIXED INCOME PERFORMANCE METRICS 2017	Fixed Income Fund	Benchmark
Return	(1.8%)	(1.4%)
Standard Deviation	3.6%	4.6%
Sharpe Ratio	(1.14)	(0.81)
Beta	0.75	
Alpha	(1.4%)	
Weekly Tracking Error	0.2%	

Performance metrics are calculated gross of fees.

Figure 2 – Fixed Income Fund Performance



**Note: Performance is calculated gross of fees. Benchmark is a blended 45% DEX Universe Bond Index, 45% Barclays Aggregate Index, 10% Citi/S&P International Treasury Index.*

Source: Bloomberg

PERFORMANCE SUMMARY
FIXED INCOME FUND

Figure 3 – Fixed Income Fund Credit Rating Exposure

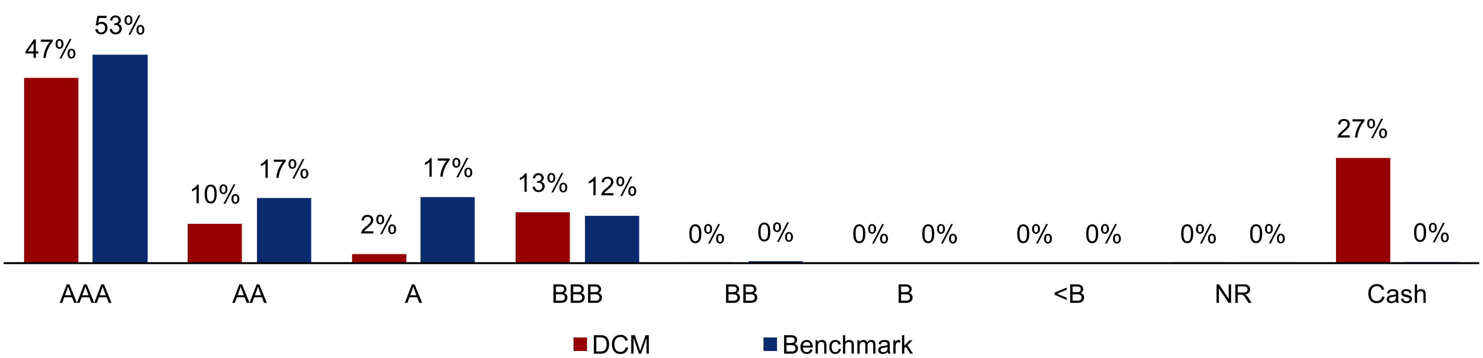


Figure 4 – Fixed Income Fund Sector Exposure

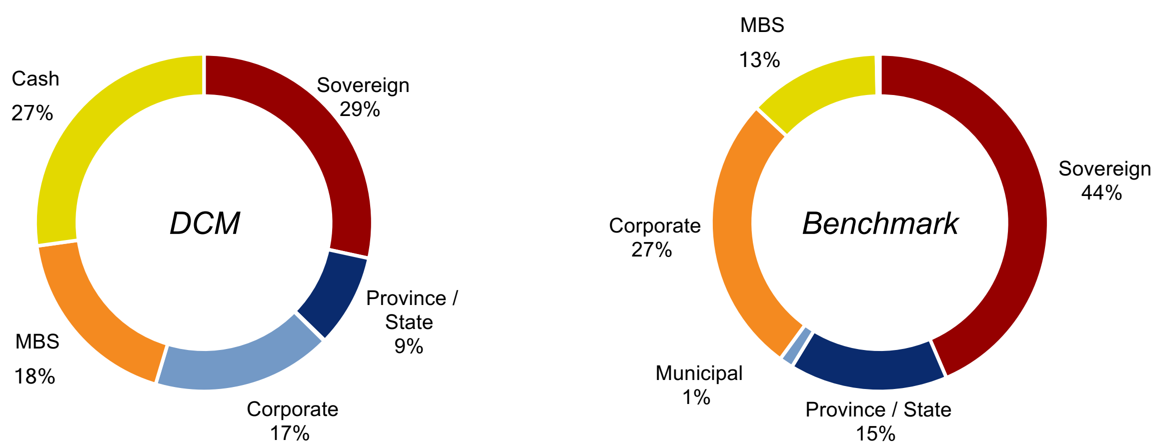


Figure 5 – Fund Duration Positioning

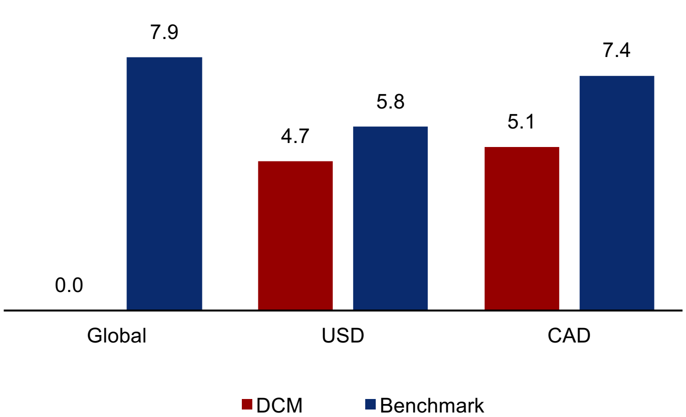
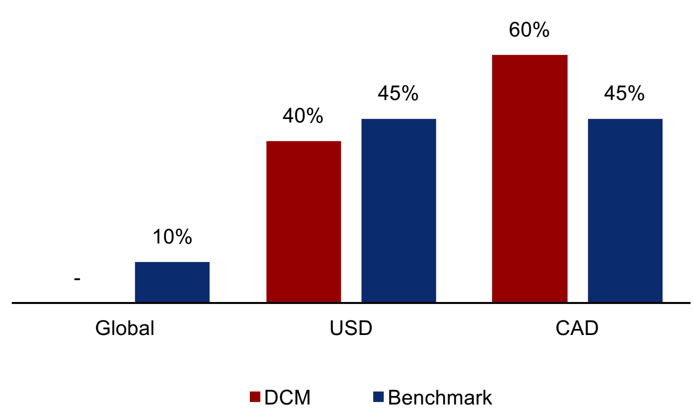


Figure 6 – Fund Currency Allocation



**Note: Performance is calculated gross of fees. Benchmark is a blended 45% DEX Universe Bond Index, 45% Barclays Aggregate Index, 10% Citi/S&P International Treasury Index.*
Source: Bloomberg

PERFORMANCE SUMMARY
FIXED INCOME FUND

Figure 7 – Fixed Income Fund Holdings

Fixed Income Fund Holdings (as of December 31, 2017)								
#	Security Name	Currency	Par Value	Units	Local Price	Local Value	Base Value	%
1	ISHARES MBS ETF	USD	NA	550	106.59	58,625	73,454	15%
2	BMO LONG FEDERAL BOND INDEX ETF	CAD	NA	3,960	17.42	68,983	68,983	14%
3	ISHARES 3-7 YEAR TREASURY	USD	NA	300	122.16	36,648	45,918	9%
4	PROVINCE OF ALBERTA 2.55%	CAD	40,000	NA	101.26	40,505	40,505	8%
5	ISHARES CORE U.S. AGGREGATE	USD	NA	270	109.33	29,519	36,986	7%
6	COGECO CABLE INC 4.925%	CAD	22,000	NA	107.75	23,704	23,704	5%
7	DOLLARAMA INC 2.337%	CAD	23,000	NA	99.09	22,791	22,791	5%
8	ISHARES CANADIAN CORPORATE	CAD	NA	670	21.19	14,197	14,197	3%
9	ISHARES IBOXX INVESTMENT GRADE	USD	NA	37	121.56	4,498	5,635	1%
10	Cash - CAD	CAD	NA	NA	NA	146,994	146,994	29%
11	Cash - USD	USD	NA	NA	NA	16,780	21,025	4%
					Total		**500,192**	**100%**
Proforma adjustment for recent purchases								
12	FORD CREDIT CANADA 2.776% (1)	CAD	25,000	250	98.10	24,525	24,525	5%
13	RUSSEL METALS 6.000% (2)	USD	25,000	255	102.50	26,138	26,138	5%
	Adjusted Cash - CAD	CAD	NA	NA	NA	96,331	96,331	19%
	Adjusted Cash - USD	USD	NA	NA	NA	16,780	21,025	4%

(1) Market values for Ford Credit Canada shown in the table above represent the entry cost on February 28th, 2018.

(2) Market values for Russel Metals shown in the table above represent the entry cost on February 28th, 2018.

Source: Bloomberg, CIBC Mellon.

ANNUAL REPORT 2017

FIXED INCOME MARKETS

2017 REVIEW & 2018 OUTLOOK

DESAUTELS CAPITAL MANAGEMENT

FIXED INCOME MARKETS

US MACRO

At the beginning of 2017, the question on everyone's mind was: "How long can this go on for?", and twelve months later, the same doubts remain. While macroeconomic indicators pointed to increasing growth and market confidence, we remained wary of political instability from the Trump administration. A year has now passed since his inauguration, and markets keep reiterating their confidence in the President's pro-business policies, pushing both equity and credit valuations even higher. After a difficult year in the House and Senate, we expect the US administration to push its agenda even more in the coming months to achieve its promised policies ahead of mid-term elections. Political instability will remain a key concern for us throughout a Trump administration, and something we will keep a close eye on.

EXPORTS AND TRADE POLICY

With 22% of US imports coming from China, Trump falsely ignores that Chinese produced goods are first and foremost inputs for American manufacturing as well as goods that are no longer produced in the US. In other words, the perceived rivalry between the two economic powers is erroneous and we think Trump will have no other choice but to treat China as a trade partner more than an economic threat. During his trip to Asia in October, Trump tweeted multiple times that the rules of the game would change, but most importantly that "the massive TRADE deficit must go down quickly", once again highlighting his deep misunderstanding of trade dynamics between the two countries. Given their common goal of denuclearizing North Korea as well as their trade dependence, we believe that Trump will have to accept the current trade deficit and redirect his efforts to other issues. Other than pulling out of the Transpacific Trade Agreement, we do not see any short or middle term changes in US policies with China relations and believe that the above mitigates the impact of potential trade barriers or tariffs on US trade partners.

Trying to promote the false idea that trade is harmful to a country's economy, Trump has rallied workers from outdated industries – the ones where the necessary capital investment to restore existing capacity would in fact be detrimental to the US population.

One of the main uncertainties about the new administration was the implications of their views on climate change on their energy policies. Promising to bring back the coal industry to 100%, the President did everything he could to bolster the industry. He initiated the dismantling of Obama's Clean Power Plan, ended the Obama moratorium on coal leasing on federal land, removed limits on coal waste, and is currently removing the US from the Paris Climate Agreement. Despite his efforts, the number of US coal miners has only risen to 51,900 since last November, an increase of 2,200 jobs. The main opposition to the industry revival came from the utilities companies themselves. Melissa McHenry, a spokeswoman for the American Electric Power, mentions: "We are not planning to build any additional coal facilities. The future of coal is dictated by economics… and you cannot make those kinds of investments based on one administration's policies". Market forces no longer justify the investment in this industry despite efforts by Trump and his Energy Secretary Rick Perry. Despite a slight increase in demand from Asian steel mills, there is little hope for a sustained coal rebound as an additional 13,600 megawatts of coal plant capacity is expected to be shut down in the upcoming year. Following recent cuts in the Clean Power Plan, we believe the US will be the lager in the shift to renewable energies, industries that are still majorly dependent on government subsidies to develop the required technology.

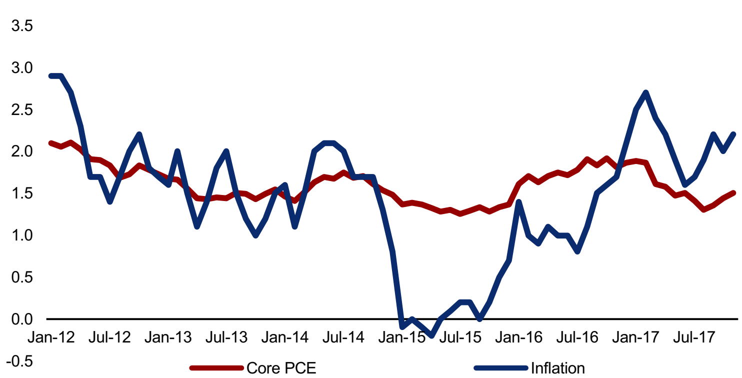
Source: Bloomberg

FIXED INCOME MARKETS

US MACRO

Benefiting from strong market confidence, the US administration has been surfing the strong performance from financial markets and economic data, hoping to "prove the success of its policies".

Figure 1 – Inflation



TAX CUTS

On December 15th, Donald Trump succeeded in delivering one of the key promises from his campaign: a tax reform. Affecting multiple laws in the US tax system, we note the three most significant changes for us to be 1) a permanent lowering of the corporate tax rate from 35% to 21%; 2) the immediate expensing of capital expenditures through 2023; and 3) a one-time repatriation tax of 15.5%. The obvious implication from this new reform will be an increase in cash available to US-based corporations, but most importantly, a shift in corporate finance decision making.

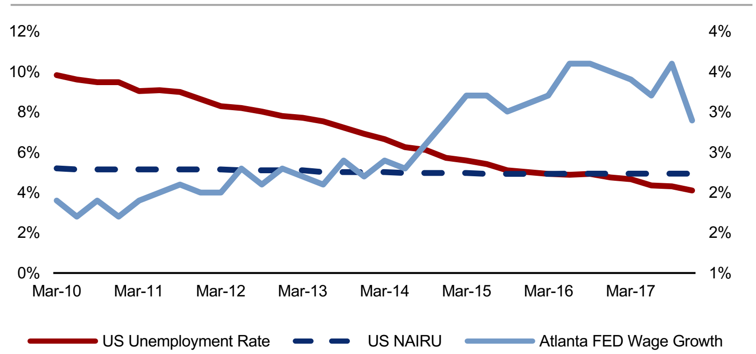
Capital expenditures

With repatriated cash available for investment as well as immediate depreciation of new capital expenditures, US companies have two new incentives to invest in internal growth. Because of excess capacity following the 2008 crash, many corporations delayed investment in capital goods, and the new tax bill provides them with a favorable condition to make those investments. We believe there are three additional factors encouraging firms to invest in capital expenditures in the upcoming year.

First, both business and market confidence have reached pre-crisis levels and the 2017 synchronized global growth momentum highlight an ever-lasting bull market. Despite political uncertainties from Trump's bold and unclear announcements, volatility is at surprisingly (and worryingly) low levels and hovering around 10 for the majority of the year.

Second, the combination of low unemployment and expectations for rising wages will put increasing pressure on firms to increase their productivity. US employment has been below the NAIRU since close to 18 months, and recent job additions reports point to a tightening labor market. After low wage and low skills employees took a longer amount of time to reintegrate the post-crisis labor force, recent jobs reports show they have been leading the 2.1 million job additions over the past year.

Figure 2 – Unemployment Measures



Third, regardless of tax cuts, we see favorable financing conditions for companies that may not benefit as much from those policy changes – firms with low or no offshore cash for example. The year 2017 was marked with a significant increase in corporate debt issuance, especially on the high yield side as firms took advantage

Source: Bloomberg

FIXED INCOME MARKETS

US MACRO

of lower interest rates and rising demand for junk corporate credit to refinance and upsize their outstanding debt. With tightening spreads, investors are ready to accept lower yields and higher leverage for given levels of risk, something we will discuss more in the US Credit section. We thus believe that companies with smaller off-shore cash balances are still poised for an increase in capital investment.

Finally, we believe the increase in capital expenditures will be the most important growth contributor of the new tax bill through the investment component of GDP. Combining the new tax reform as well as the infrastructure investment plan Trump announced, US GDP growth forecasts should be increased by an additional 0.5%.

Mergers & Acquisitions

While we believe tax cuts provide greater incentives for firms to invest in internal growth, we also expect an increase in M&A volume over the year. Companies with large cash balances from repatriated cash have the capacity to make disruptive acquisitions. With equity valuations at all time highs, we are careful of potential M&A growth strategies as 1) they imply a higher execution risk; 2) they have become increasingly competitive as strategic buyers are competing with financial sponsors pressured to deploy capital from dry-powder pilling up. We maintain caution relative to companies growing by acquisitions given the higher level of integration risk relative to organic growth – an amplified concern in the expensive equities environment we expect to see continuing in the coming year.

Dividend and share repurchases

While dividends tend to be stable and sticky, share repurchases have been significantly more cyclical, something we see as a risk for credit markets as large corporations will be pressured to return capital to investors following cash repatriation. Over the past 10 years, US firms have shifted their shareholder returns from distributing 70% of their free cash flows to investors to a peak of 200% in 2017. Academic research on payout policy found that managers would be ready to forego NPV positive projects rather than cut dividends, a decision markets normally associated with the signaling of important disturbances at the firm level. Given the strong market confidence, we expect companies to maintain their increases in dividends to match investors' expectations, and to engage in higher share repurchases, a decision usually associated with end-cycle capital redistribution.

Despite being a robust catalyst for capital investment, the new tax bill's impact on growth will be mitigated by cash redistributions to shareholders, and its impact will differ on a company by company basis depending on internal decisions-making.

TRUMP'S GROWTH CATALYSTS

Concluding the year 2017, markets agree on the growth momentum and its continuity for the major part of 2018. The tightening labor market, favorable financing conditions and strong market confidence provide a good backbone for growth through investment and consumer spending. Taking aside the political uncertainty from potential armed conflicts, the situation almost seems too good to be true: all the stars are aligned.

However, we express concern over the US administration's proposed policies to spur growth even further, thinking about the potential consequences on the next financial crisis. The burden put on the US's balance sheet will certainly slow down recovery from the next recession as the administration will not have the tools available to inject capital in the economy.

Source: Bloomberg

FIXED INCOME MARKETS

US MACRO

By implementing its new tax bill, the Trump administration adds an additional $1 trillion in debt to the country's balance sheet and plans to double that amount through investments in infrastructure. While details about the government's investments plan have yet to be announced, markets estimate it would result in a 0.25% increase to GDP growth on its own. Overall, we think those policies are unnecessary, and point to increased downside in the next crisis. Looking at the amount of capital the government had to inject in the economy following the 2008 market collapse, we express strong concern for the Trump government's fiscal policies, and thus start 2018 with a more cautious approach to our allocation.

INFLATION

Widely discussed topic in financial markets over the year, inflation (or lack thereof) has caused quite a headache to investors. Starting 2017 with conviction in an inflation pick-up, we have not seen the increase in Core PCE we expected. The increased inflation we saw in the fourth quarter was primarily attributable to oil price recovery and did not show price increases in metrics excluding energy and food prices.

We believe three structural changes to the US business environment have been holding inflation down. First, we see the increasing presence of technology in the economy – across all industries – as the main driver of downward pressure on prices. While academic research has proven that online prices are on average equivalent to the ones found in brick-and-mortar stores, we think consumers' ability to compare prices much more easily through the web increases competitivity between firms. The rise of ecommerce puts additional pressures on companies by reducing barriers to entry and allowing consumers to access a much wider range of products.

A specific example is the telecommunications price war in the US. Earlier in 2017, carriers have, one after the other, started offering unlimited data cellphone plans, a decision never seen before, and putting increasing margin pressures on firms.

On the other side, we think the current economic conditions set the table for further inflation increases – driven by core goods, and not only energy prices (oil prices outlook is discussed in the Energy section). We believe that the recent rise in anti-globalization and anti-trade movement will have a direct impact by increasing both labor and raw materials of US firms. The cost of the "Buy American, Hire American" policy will counter balance the positive effects from tax cuts in terms of profitability.

SUMMARY

In summary, we believe the tax reform and US fiscal policy will lead to increasing inflationary pressures, and that 2018 will be the year where inflation surpasses the Fed's 2% target. While markets are currently pricing in two rate hikes, and the Fed announced three potential hikes to come in 2018, we express greater conviction than the market in increasing inflation, and thus agree with the Fed's projection of three rate hikes. For those reasons, we maintain our short duration gap with the benchmark.

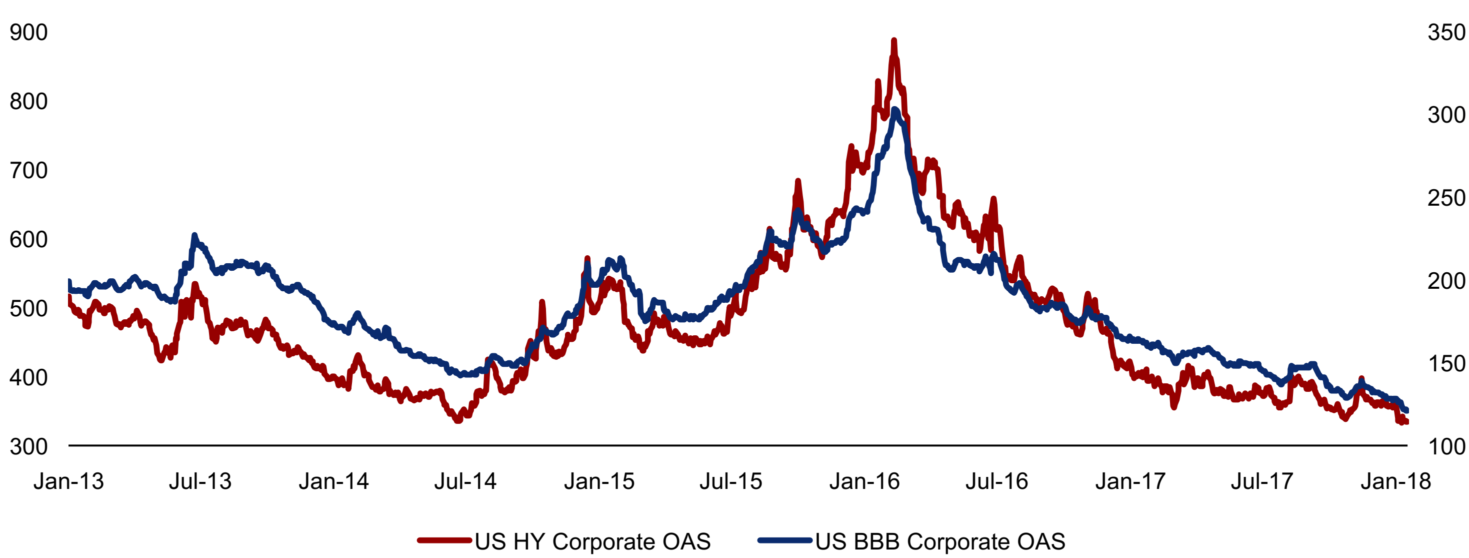
Source: Bloomberg

FIXED INCOME MARKETS
US CREDIT

In both the investment grade and high yield space, we have seen a continued decline in credit spreads with the BBB corporate index moving from 163 bps to 121 bps and the high yield one from 404 to 335 bps. Whereas current valuations would normally point to strong credit fundamentals and economic outlook, we believe prices are falsely inflated by two key elements: first, bold pro-business announcements and policies from the Trump administration, and second, investors acceptance of increasingly low spreads given the competitive environment, creating the rise of forced buyers such as pension funds and other institutional investors.

Over the course of 2017, the spread between the 10-year and the 2-year curve decreased from 125 bps to 72 bps, indicating a flattening of the yield curve. Decomposing the movement in the US yield curve, we see that short-term yields are more reflective of changes in Fed policy and of market's expectations of Jerome Powell' strategy as he enters his new position. On the other side, we see inflation and economic growth expectations reflected in the lowering of long-term yields as we believe the market recognizes the dangers associated with Trump's pro-business policies at the latter stage of the economic cycle. With unemployment at a cycle-low as well as business and consumer confidence reaching pre-crisis highs, we would normally expect a steeper yield curve. However, with the Fed's reputation of fighting inflation as well as its increased issuance in shorter-dated securities, we project a sustained flatter yield curve going into 2018.

Figure 3 – US Credit Valuations



Source: Bloomberg

FIXED INCOME MARKETS

CANADA MACRO

2017 was marked by the Bank of Canada's monetary policy tightening as well as stronger than expected GDP growth in Q1 and Q2. Notably, travel accommodations as well as airplane tickets have been the two best performing services segments, each growing at 6.3% and 6.2%. The recent recovery in oil prices pushed gasoline prices up by 8.6%, once again increasing inflation. On the other side, electricity, computers and digital devices caused a drag with price depreciation. As the output gap and capacity utilization reached pre-recession levels, we believe Poloz felt the urge to hike rates quickly after signs of a stronger recovery early in the year.

In 2017, Canadian unemployment has gone below the 6.5% NAIRU line, a change that was mostly driven by a 4.5% growth in part-time employment while full-time employment grew at 1.5% year-over-year. Recent numbers also show an important increase in self-employment as more than one third of new jobs created over the past year were either full-time or self-employment. As unemployment went down, we have seen the Philips curve in action with sustained hourly wage growth above the 2% mark since the beginning of the year. Accompanied with an 8-year high in consumer confidence and an accelerated growth in household disposable income relative to a flat year 2016, all signals led us to believe that the Canadian economy would feel inflationary pressures sooner than initially expected at the beginning of 2017.

Finally, with shelter being the largest contributor to Canadian CPI at 30% of the basket, we believe that the rise in household debt and the overheating of key real estate markets were the last two boxes to check on Poloz's list before choosing to hike rates. Combined with increased mortgage borrowing rules, particularly for foreign investors who have been held guilty of pushing Toronto and Vancouver real estate transaction values up, and increased borrowing costs, the Bank of Canada won its bet on slowing down the country's hottest real estate markets.

STILL AN OIL COUNTRY

We have identified three main drags on oil supply that will pressure crude prices to remain within the $50 - $65 band in the medium term. First, we believe that political conflicts in Venezuela will force the country to halt its oil production. The main concern is the quality of the oil sent to American, Indian and Chinese refineries as Venezuelan companies – badly hurt by hyperinflation – can no longer afford chemicals required to treat and store the oil they extract. Since the beginning of 2017, the quality of shipments has vastly deteriorated at PDVSA, Venezuela's state-run oil company, and the firm has been accused of sending cargoes soiled with high quantities of salt, water, and metal, causing substantial problems for refineries.

Second, we think that the recent production cuts announced by OPEC and Russia are unlikely to push prices up given the organization's history of adjusting its supply to control prices. By excluding Libya and Nigeria from those cuts, OPEC has allowed the two countries, initially representing 2.8% and 5.4% of total OPEC production, to materially increase their output. Over the course of one month, the two countries were able to compensate for 42% of OPEC cuts, and thus diminish the cuts' impact on crude prices. The street estimates that OPEC will adjust production to maintain prices above the $50 mark, still below some countries' break-even costs, particularly in regions producing heavy oil such as Canada. Given the high cost of transforming and refining Canadian crude from oil sands and dependence on commodities prices, we maintain a bearish outlook on Canadian oil companies' debt and

Source: Bloomberg

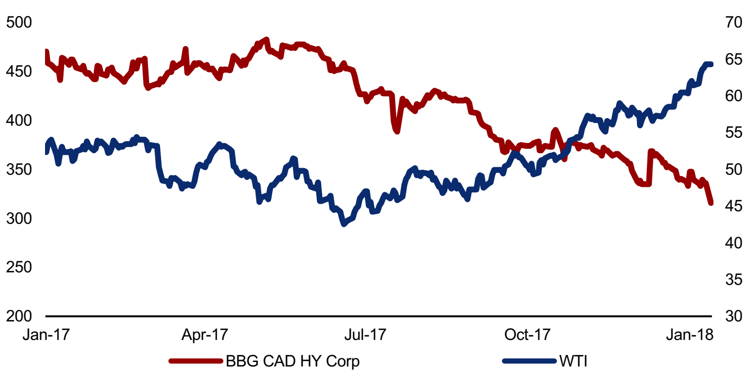
FIXED INCOME MARKETS

CANADA MACRO

choose not to invest in that space.

Third, we think the market is being too optimistic about US shale's growth potential. For the first time in 2017, the breakeven price per barrel has increased as a result of diminishing returns on current facilities. Going forward, we only see two scenarios where shale exploitation would meet the EIA's projection that shale production will double by 2040: prices will either have to increase or companies will need to increase leverage. In both cases, we do not believe in the economic rationale behind investing in shale as the hub has been built around potential reserves, not tangible production capacity and technology.

Figure 4 – CAN HY Index and WTI Prices



Source: Bloomberg

REAL ESTATE MARKET

In 2017, the Canadian household debt as a percentage of disposable income reached a new high of 167.8% as household net worth declined slightly and consumer credit increased sharply. Seen as a sign of both consumer and business confidence in the Canadian economy, we remain cautious about the country's ability to sustain upcoming interest rate increases. Despite maintaining good credit scores and debt service ratios, consumers are at risk should the economic landscape justify accelerated increases in interest rates. However, given our pessimistic outlook for economic growth, we do not see the Bank of Canada adopting an aggressive rate hiking policy in the coming months. With Poloz looking south of the border for signs on Trump's future tax and trade decisions, we foresee a more reactive than proactive approach to central bank policy. Furthermore, the new mortgage application requirements put into effect over the year damper our concerns about future household debt issuances. Requiring a 20% down payment and several mandatory stress tests, new rules are meant to ensure new mortgage borrowers can sustain increases in borrowing costs. The Bank of Canada estimates that ten percent of mortgages issued between mid-2016 and mid-2017 would not have qualified under the new rules, affecting around 100,000 households. Overall, given the new regulation put in place, a slowdown in heating real estate markets and a dovish outlook for 2018 Canadian central bank policy, we express lower concerns relative to the high level of household debt relative to other market participants, a point we also discuss in our coverage of one of our new holdings, Ford Credit Canada.

TAX CUTS

Given recent developments in financial and government policies, we think that 2018 growth prospects for Canada will be lower than the cycle-highs we experienced last year. Several changes to the Canadian business landscape are projected to slow down growth and make the country a less attractive one to do business in.

First, the newly implemented US tax code, reducing the corporate tax rate to 21% compared to the previous 35%, eliminates the Canadian corporate tax advantage. Historically enticed to invest in Canada to benefit from more advantageous tax rates, US firms are now void of their largest incentive to deploy capital north of the

FIXED INCOME MARKETS
CANADA MACRO

border. Moreover, the recent tax cut for small businesses announced by Finance Minister Bill Morneau will be compensated with an increase in personal dividend taxes to prevent “over-integration”, a scenario in which it would become more advantageous for SME owners to earn income through their company. The overall implication of tax changes on both sides of the border is that Canada is a less attractive country for investment from a fiscal perspective.

Second, while we maintain conviction that the US administration will not completely end NAFTA as we know it, we are wary that Trump will most probably impose trade restrictions on Canadian imports, once again in the hopes of reducing the current trade deficit. Often mentioned during the presidential campaign, timber will most likely be the US’ first target, an easy one given the recent expiration of the softwood lumber agreement. Given this risk, we choose not to invest in natural resources sectors as we do not want to take the regulatory nor commodity prices risk, something we can hardly quantify or predict – thus, we choose not to place bets on political events.

Thirdly, despite talks of increasing minimum wage in certain US states, none have implemented the much-debated regulation, compared to Canada, where Ontario has spearheaded the $15/hour wage. Following the announcement of the new policy, we have seen a surge in pressure from other provinces’ workers to follow their counterpart, especially in Quebec. We see this increased labor cost as, once again, a disincentive for foreign companies to invest in Canada or to further develop their existing facilities. After analyzing the impact of this new regulation on our current holdings, we had the opportunity to discuss the matter with Michael Ross, Dollarama’s Chief Financial Officer. He reiterated the company’s view that they would be able to deal with the wage increase: “As long as our competitors are facing the same consequences, we will all be in the same boat and Dollarama will not be as a disadvantage”. This suggests that the wage increases should not have a significant impact on margins for companies like Dollarama, where customers have no e-commerce alternative to make small purchases. Prices will go up in a systemic manner. However, we believe that other retailers, in apparel or electronics particularly, might be forced to raise prices too much to justify keeping brick and mortar locations open.

Finally, Trump’s pushback against environmental regulations creates an even bigger discrepancy between US and Canadian business conditions. Subject to much stricter rules North of the border, companies have a lower incentive to invest in Canada, reinforcing our negative outlook for the country. With the United States’ withdrawal from the Paris agreement, and the elimination of most environmental policies, businesses have much lower costs of compliance with those sets of regulation. Overall, our outlook for the Canadian economy leans towards a more negative view than at the beginning of the year, mostly as a consequence from the implementation of pro-business policies south of the border.

Source: Bloomberg

FIXED INCOME MARKETS

CANADA CREDIT

In the Canadian credit space, we saw a quite interesting phenomenon over the course of 2017: the return of Maple bonds. After having left Canadian markets for a few years, multinational companies issued large CAD-denominated tranches in recent months, increasing diversity in the investment grade space. Usually comprised of large banks, utilities and telecommunications, the Canadian IG market welcomed technology and consumers companies, accepting lower spreads in exchange for diversification. $14.2 billion of Maple bond were issued in 2017, compared to only $1.9 billion in 2016. Companies like Apple and Walt Disney have been able to issue at spreads as low as 80 bps, leaving little spread compression potential. Overall, we think that those investments' high credit quality justifies the low pricing but provides little alpha-generation opportunities for us.

In the high yield space, valuations have been driven by energy issuers given their trend relative to WTI prices. Representing close to 30% of the HY index shown below, oil and gas companies have struggled in the first three quarters of the year as oil prices were hovering closer to the $45/barrel mark. Despite the positive end of year, as mentioned previously, we maintain our bearish outlook on oil prices for 2018 and foresee Canadian high yield valuations staying in line with their current level given O&G's companies' dependence on commodities prices.

Figure 5 – Maple Bond Issuances

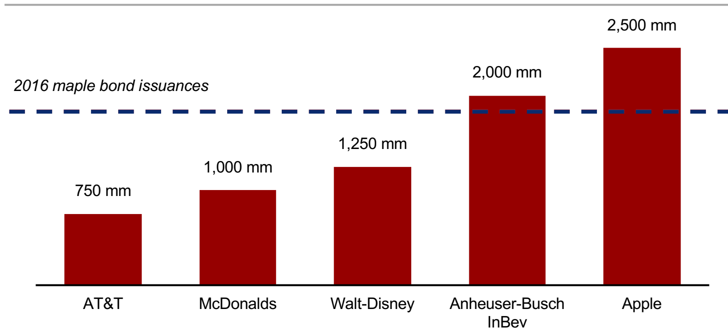
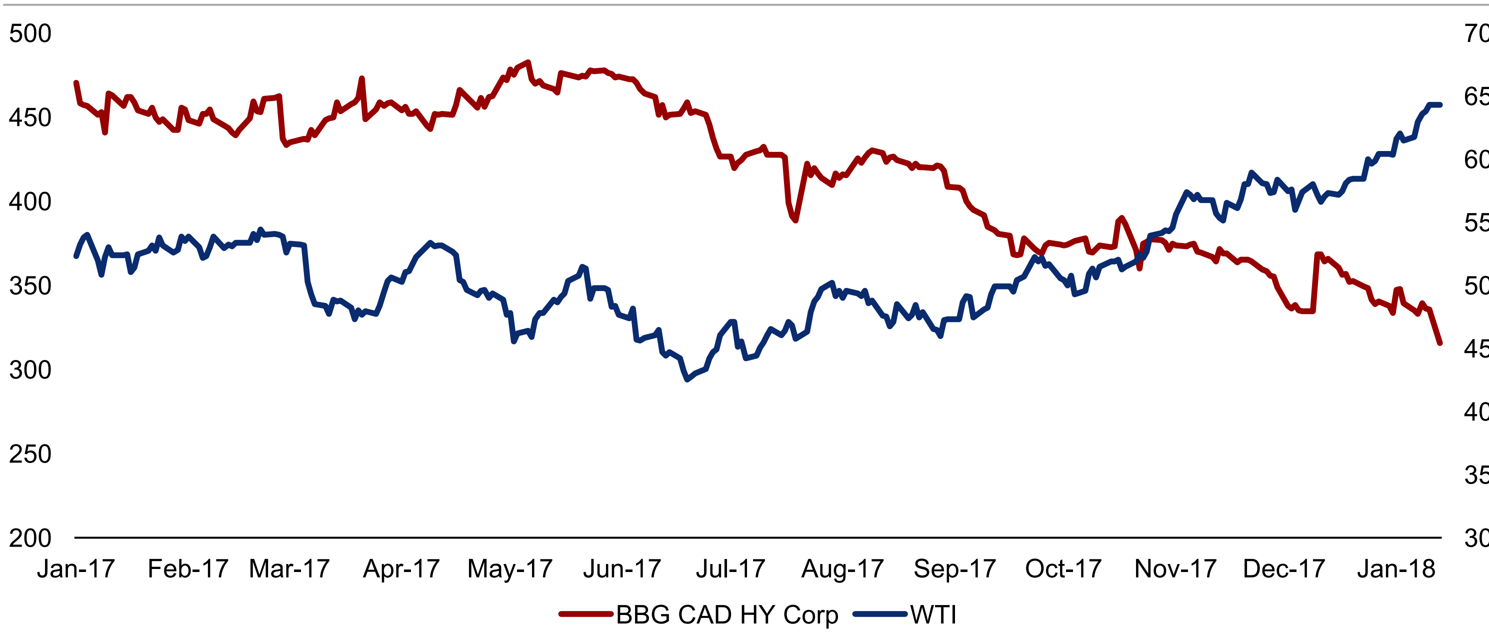


Figure 6 – Canada Credit Valuations



Source: Bloomberg

FIXED INCOME MARKETS
CANADA CREDIT

CONCLUSION

As the academic year comes to an end, I would like to introduce you to the new Fixed Income Strategist, Victoire Gekas. Throughout the year, she has demonstrated a continued commitment to the growth and development of the program and I have great conviction in her ability to lead many successful initiatives in the coming months. 2018 will also be an exciting year for the fund as two senior analysts will be working alongside Victoire: Matei Popescu, former junior Fixed Income analyst, will be leading our government bonds pitches and allocation, and Thomas Boucher-Charest, former junior Healthcare analyst, will be leading our corporate bonds pitches and allocation. Finally, I would also like to welcome two junior analysts to the team, Benjamin Caron and Stanislav Timoshenko.

I would like to thank you, dear investors, for your continued support for our program. As I approach graduation, I reflect on my past two years working at DCM and I am convinced that the HIM program provides the best learning experience for students passionate about finance. I cannot imagine what my Bachelor of Commerce would have been without your trust and commitment to this program.

Sincerely,

Ariane Laurin
Fixed Income Strategist

Source: Bloomberg

ANNUAL REPORT 2017

FIXED INCOME MARKETS

2017 HOLDINGS REVIEW

DESAUTELS CAPITAL MANAGEMENT

COGECO CABLE 4.925% 2022

COMPANY OVERVIEW

- Quebec-headquartered cableco with 3 segments:
1. Cogeco Cable (CAN)
2. Atlantic Broadband (US)
3. Enterprise Data Services (NA & UK)
- Cable and Atlantic Broadband segments: Hybrid fiber-coaxial network, offering digital TV, HSI and telephone to business and residential clients
- Enterprise Data Services segment: Cloud, managed hosting, colocation and IT through datacenter network
- Network focused on underserved regions
- The company follows a growth strategy of coverage expansion and tuck-in acquisitions
  - I. It has completed a US$1.4bn acquisition of MetroCast on January 4th, 2018

CATALYSTS

- Enterprise data segment spin-off or greater than expected increase in profitability
- Sharp decrease in Video consumer loss as streaming services reach a peak audience
- Faster than expected deleveraging of the company's balance sheet following the most recent acquisition

RISKS

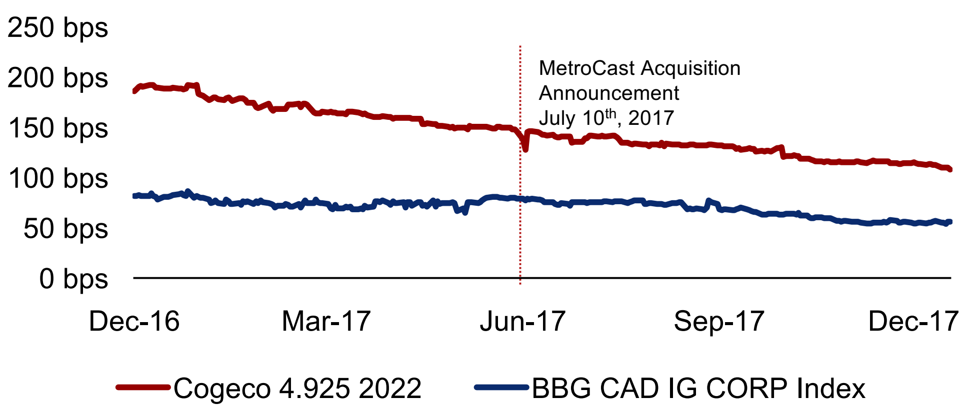
- Accelerated increases in programming costs, particularly in the US where the content market is far less regulated, could lead to decreasing margins
- Faster-than-anticipated secular decline in pay TV as households switch to over-the-top content
- High integration costs for the MetroCast acquisition erode EBITDA and FCF margins

FINANCIAL SUMMARY

Bond Overview	
(values in CAD M, as of Dec. 31, 2017)	
Price	107.535 / 108.034
Coupon	4.925%
YTM	2.903%
YTW	2.903%
OAS	107.86 bps
Modified Duration	3.686
Amount Outstanding	200 mm
Seniority	Senior Unsecured
Rating (S&P) / Outlook	BBB- / Stable

Financials	FY2016A	FY2017A	FY2018E
(values in $mm)			
Revenue	$ 2,185	$ 2,231	$ 2,570
% Growth	*5%*	*2%*	*15%*
Gross Profit	$ 1,475	$ 1,479	$ 1,645
% Margin	*68%*	*66%*	*64%*
EBITDA	$ 983	$ 1,007	$ 1,101
% Growth	*6%*	*2%*	*9%*
Net Debt / EBITDA	5.53x	2.36x	3.42x

BOND AND BENCHMARK CREDIT SPREADS



Source: Bloomberg

POSITION SNAPSHOT

In CAD, unless noted	
Average Cost	$109.41
Par Value	$22,000
Value Invested	$23,704
Portfolio Weight	5%
2017 HPR	3%
2017 Benchmark HPR	(1%)
Excess Return	5%

COGECO CABLE 4.925% 2022

DESCRIPTION OF THE METROCAST ACQUISITION

On July 10th, Cogeco announced a US$1.4bn transaction to purchase MetroCast (MC), a cableco operating in five American states, from Harron Communications LP through its subsidiary Atlantic Broadband (ABB). While the acquisition presents attractive potential synergies with the existing US network, it has been acquired at an 11.6x EV/EBITDA multiple, higher than the average transaction in the industry. The deal is to be closed in January 2018 once it passes regulators' review, meaning we will only see incorporated financial statements in Q2.

The purchase is financed through debt and equity issuance. A US$1.7bn Term B Loan is taken on by ABB, also covering the refinancing of US$535mn of existing debt. A further US$150mn will be borrowed through the subsidiary's credit facility. Finally, CDPQ is purchasing 21% of the subsidiary with a US$315mn equity investment.

RISK REDUCING FACTORS

- More balanced geographic revenue distribution, as US sales are no 36% compared to 26% previously
- Incorporated a population of high-tech adopters that are more likely to use high Internet speed combined with an infrastructure that does not have similar competitors in 92% of its network
- New homes passed have a higher Internet penetration rate leading to higher ARPU and EBITDA margin

RISK INCREASING FACTORS

- Failing Video and Telephony PSUs and penetration rates increase the company's business risk
- Reached the highest Net Debt / EBITDA ratio over the past 9 years. Management has announced it plans on reducing the multiple from 3.6x to 3.0x within the first 18 months following the acquisition completion, a plausible claim if the company maintains its current FCF generation

RATIOS CALCULATION TABLES

	LTM 3Q17 CCA
Revenue	2,219,179
Growth Rate	*3.1%*
EBITDA Margin	45.3%
EBIT Margin	24.5%
Financial Expense	130,751
Net Debt	2,627,820

	December 31st, 2017 estimate		
	MetroCast	CCA	Pro-Forma
Revenue	287.50	2,253.28	2,540.78
EBITDA	151.25	1,021.04	1,172.29
EBIT	151.25	551.40	702.65
Capex	-	437.50	437.50

Pro-Forma Financial Expense	
3Q17 LTM Financial Expense	130,751
Term B Loan Interest 3.54%	75,225
Rev. Cr. Facility Interest 2.92%	5,475
Refinanced Debt Interest 3.28%	(23,985)
New Financial Expense	187,466

Pro-Forma Net-Debt	
3Q17 CCA Net Debt	2,627,820
Term B Loan Issued	2,125,000
Revolving Credit Facility Issued	187,500
Refiannced Debt	(731,250)
New Net Debt	4,209,070

Source: Bloomberg, Company Filings

COGECO CABLE 4.925% 2022

INVESTMENT THESIS

1. **Pessimistic investor sentiment towards Canadian cableco outlook overlooks Cogeco's competitive advantage through its geographic positioning:** Cogeco's focus on small towns and rural areas results in limited Fiber to the Home overlap (45%) versus peers, which we postulated to be sustainable due to a CRTC ruling on 'last-mile' colocation that would make rural FTTH deployment economics unattractive for telecos
   - In 2017, Cogeco increased its Internet service penetration from 44.9% to 43% by offering superior speeds
   - The MetroCast network has a FTTH overlap of only 26%
2. **Enterprise unit restructuring period should pave the way for recurring cash flow generation:** Fierce competition with major players such as Google and Amazon Web Services pressured Cogeco to write-off $434 mm of its Business ICT assets. In response, it is shifting its focus on niche sectors, such as colocation services
   - Revenue is down 3.6% and margins decreased by 130 bps to 31.3% leading to $38mm in FCF for Cogeco, up from a $16mm loss in the previous year when the company was completing its new data centers
3. **The nearing completion of the TiVo digital TV rollout in both the Canadian and US segments and its capex dynamics will generate stronger segment FCF generation:** Similar to Cogeco's Canadian coverage, Atlantic Broadband focuses on rural markets mainly served by telecos, resulting in a limited 25% IPTV overlap in US segment and 43% in Canada
   - The Video customers losses were down 13% this year, houses passed with VOD services increased 1%

ANALYSIS OF PERFORMANCE

We initiated our position in Cogeco 2022 on November 17th , 2015 at an OAS of 204 bps. Over our holding period, the spread compressed 96 bps and was generally decreasing slightly faster than the Canadian investment grade corporate bonds index. However, it continues to trade 27 bps above its comparable bonds, while having superior margins and an overall much lower capital intensity.

One factor that stands out in the above table is the deterioration the company's financial metrics following the most recent acquisition. MetroCast firm presents multiple strengths including a superior network speed relative to its competitors leading to higher ARPU, higher EBITDA margins and a better competitive positioning. MetroCast's strategy is very similar to Cogeco's, as both companies focus on offering high speed internet to underserved regions.

VALUATION SUMMARY

As of December 31st 2017			Operating Metrics		Financial Metrics		Bond Valuation	
		Enterprise Value ($ Bn)	EBITDA / Sales	Capex / Sales	Net Debt / EBITDA	EBIT / Int. Exp.	S&P Rating	OAS
Shaw Communications (SJR 5.5% 2020)	$	17.74	37.5%	27.9%	2.0x	3.6x	BBB-	75.23
Rogers Communications (RCI 4.0% 2022)	$	48.11	33.6%	18.4%	3.1x	4.6x	BBB+	78.81
Bell (BCE 3% 2022)	$	78.88	39.8%	18.3%	2.5x	5.3x	BBB+	87.88
Telus (T 2.35% 2022)	$	40.91	33.6%	23.6%	2.7x	4.5x	BBB+	79.05
Cableco Mean	**$**	**46.41**	**36.1%**	**22.0%**	**2.6x**	**4.5x**		**80.24**
Cogeco Cable (CCA 4.925% 2022)	**$**	**6.35**	**44.8%**	**16.5%**	**2.5x**	**4.4x**	**BBB-**	**107.86**
Cogeco Cable (CCA 4.925% 2022) Pro-Forma		**-**	**46.1%**	**17.2%**	**3.6x**	**3.7x**	**-**	**-**

Source: Bloomberg

DOLLARAMA INC. 2.337% 2021

COMPANY OVERVIEW

- With 1,108 stores, DOL is the market leader (56% market share) in the Canadian value retail industry
- Sells various types of consumer merchandise at fixed price points between $0.77 and $4.00 and most of its stores are in Quebec and Ontario
- Dollarama's product mix consists of general merchandise (46%), consumable products (39%) and seasonal / public holidays specific products (15%)
- Since 2013, DOL has entertained a management contract with Dollar City, a Latin America value retailer. As part of this agreement, DOL acts as a middle man to supply Dollar City with merchandising. This activity accounted for less than 1% of DOL's revenues this year. Moreover, DOL has a call option to acquire a majority interest in Dollar City which becomes exercisable in in February 2020

CATALYSTS

- DOL's slowing growth in store counts (3.6% LTM compared to 5.5% for FY17) is beneficial to creditors, as reduced capex strengthens the firm's ability to fulfill its credit obligations

RISKS

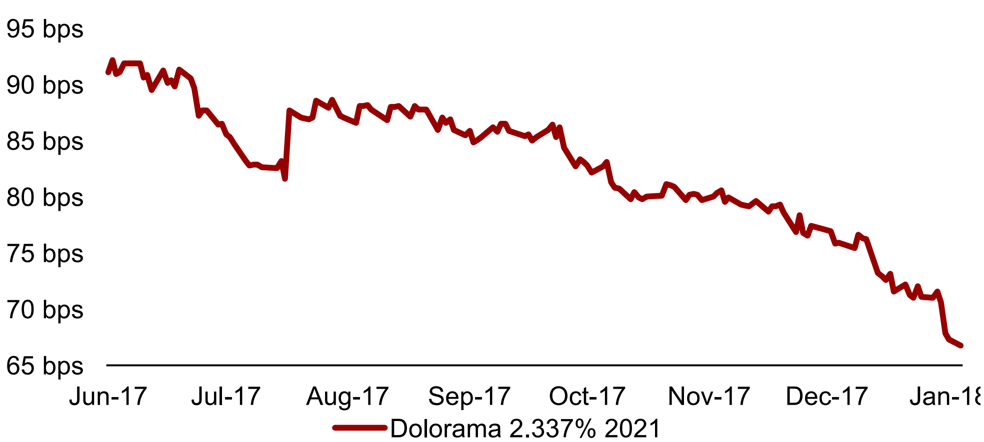
- The minimum wage increase in Ontario and Alberta to $15 in FY19 is expected to limit DOL's operating margin growth, eroding DOL's credit metrics
- If DOL exercised its option to acquire a major equity stake in Dollar City in 2020, DOL's credit position would suffer from expanded operations and capex in a foreign environment

FINANCIAL SUMMARY

Bond Overview	
(values in CAD M, as of Dec. 31, 2017)	
Price	99.31 / 99.44
Coupon	2.337%
YTM	2.541%
YTW	2.541%
OAS	75.67 bps
Modified Duration	3.358
Amount Outstanding	525 mm
Seniority	Senior Unsecured
Rating (DBRS)	BBB

Financials	**FY2016A**	**FY2017A**	**FY2018E**
(values in $mm)			
Revenue	$ 2,650	$ 2,963	$ 3,183
% Growth	*14%*	*12%*	*7%*
Gross Profit	$ 1,033	$ 1,161	$ 1,298
% Margin	*39%*	*39%*	*41%*
EBITDA	$ 598	$ 703	$ 816
% Growth	*30%*	*18%*	*16%*
Net Debt / EBITDA	1.45x	1.80x	2.09x

BOND AND BENCHMARK CREDIT SPREADS



Source: Bloomberg

POSITION SNAPSHOT

In CAD, unless noted	
Average Cost	$100.50
Par Value	$23,000
Value Invested	$22,791
Portfolio Weight	5%
2017 HPR	1%
2017 Benchmark HPR	(1%)
Excess Return	2%

DOLLARAMA INC. 2.337% 2021

INVESTMENT THESIS

1. **Overestimated threat from competitors understates Dollarama's economic moat**
   - DOL has been shielded from investors' growing skepticism towards retail. This is because DOL's offering cannot be economically reproduced by the Amazon/online model. From the supplier's perspective, Amazon fees (min. $.99/item) make the sale uneconomical, and from the buyer's perspective, delivery fees make the purchase prohibitive (dollar priced items are not available to baskets below a 20-30$ size)
   - DOL has retained its leadership position in the value retail segment via its unmatched vertically integrated model: DOL's gross margin in 2017 (39.18%) has remained above its competitors (Dollartree: 30.9%)
2. **Growth Dynamics Not Adverse to Creditors**
   - DOL' store count growth went down in the past year, going down from 5.5% yearly growth 1 year ago, to 3.6% YTD. Moreover, discussion with management confirmed that DOL takes into account cannibalization costs into account in its NPV analysis before any store opening
   - Purchase size has increased (average YoY quarterly growth: 6.08%) while the number of transactions has decreased (average YoY quarterly growth: -.05%). This evolution illustrates a shift in DOL's customer base, from on-the-go shoppers to stable, repeat customers
3. **DOL's through-the-cycle defensive performance and operating risks**
   - DOL has maintained credit metrics exceeding industry standards: 1.8x vs 2x median leverage (see below).

ANALYSIS OF PERFORMANCE

In 2017, Dollarama 2021 compressed by 45bps, a 37.5% tightening. Following an additional year of beating estimates, we believe this compression was mainly driven by the market's realization that DOL's OAS trading in line with its staples peers was not warranted. This evolution reflects the materialization of our first investment thesis. Looking forward, we believe that the strong performance of DOL 2.337% 2021 over 2017 will not be repeated over the next year as we find future spread contraction unlikely. We believe that DCM's fixed income fund benefits from the risk adjusted return DOL provides, and that an exit position is not required at this time. However, if DOL were to cross the 70 bps line and was DCM to require liquidity to enter a sound risk adjusted return investment, we would exit DOL's position first and therefore benefit from the realized spread compression over the year. However, over 2018, we expect DOL 2021 to remain within the current 70-80 bps bandwidth given 2017's compression

VALUATION SUMMARY

As of 12/31/2017		Operating Metrics			Financing Metrics		
	Equity Value ($mm)	SSS Growth	Rev Growth	EBITDA Margin	Net Debt/EBITDA	EBIT Coverage	OAS
		LTM	LTM	LTM	LTM	LTM	
Metro (3.2% 2021)	10,444	1.3%	3.0%	7.3%	1.3x	12.6x	78.10
Canadian Tire Corp (6.325% 2023)	20,620	*nm*	5.9%	12.6%	2.2x	10.9x	164.20
Loblaw Company (4.86% 2023)	36,874	1.0%	0.7%	8.7%	2.3x	4.4x	97.60
Consumer Staples Mean		**1.2%**	**3.2%**	**9.5%**	**1.9x**	**9.3x**	**113.30**
Dollarama Inc	**19,281**	**5.3%**	**10.2%**	**25.3%**	**1.9x**	**374.6x**	**71.20**
Premium (discount) on Mean		*nm*	*217.5%*	*164.9%*	*2.3%*	*nm*	*(37)%*

Source: Bloomberg

FORD CREDIT 2.766% 2022

COMPANY OVERVIEW

- Ford Credit Canada is a captive financing company operating under Ford Motors. It is the first level division of Ford Credit International for the Canadian consumer market
- The captive operates by buying the equipment produced by the parent company and leasing it to its customers. It also provides low cost financing to Ford Motor's customers through asset-backed loans
- Ford Motor sales represented 18.8% of the Canadian auto market in 2017 while 75% of Ford cars sold in Canada are financed by Ford Credit

CATALYSTS

- Implementation of a new credit scoring method enabling lower losses and lower provisions on new loans enabled by their partner ZestFinance
- Parent company's investment in hybrid and electric cars to gain market share in new technologies
- New CEO's strategic loans/leases shift decreasing reliance on residual value of cars

RISKS

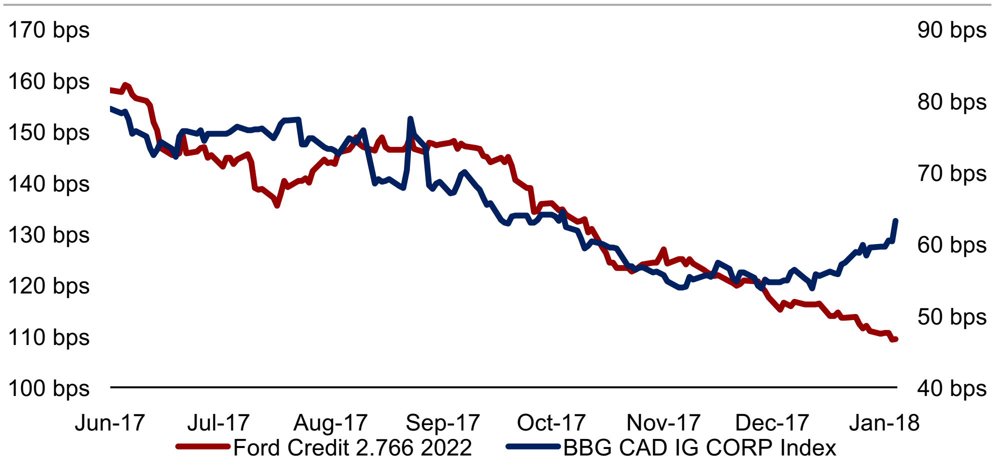
- Car sharing services increase in popularity, reducing individual car ownership
- Electric car companies capture market share from Ford Motors and its competitors
- Diesel truck owners settlement approval to Ford Motors for rigging emission results potentially allows customers to get their cars bought back

FINANCIAL SUMMARY

Bond Overview	
(values in CAD, as of Dec. 31, 2017)	
Price	98.876 / 99.072
Coupon	2.766%
YTM	2.988%
YTW	2.988%
OAS	116.82 bps
Modified Duration	4.17
Amount Outstanding	600 mm
Seniority	Senior
Rating (S&P)/Outlook	BBB/Stable

Financials	FY2016A	FY2017A	FY2018E
(values in CAD mm)			
Revenue	$ 8,154	$ 8,353	$ 8,771
% Growth	*13%*	*4%*	*5%*
Gross Profit	$ 1,027	$ 1,119	$ 1,316
% Margin	*13%*	*13%*	*15%*
EBITDA	$ 9,755	$ 9,579	$ 10,250
% Growth	*9%*	*(6.0%)*	*7%*
Net Debt/EBITDA	12.1x	12.9x	12.5x

BOND AND BENCHMARK CREDIT SPREADS



Sources: Bloomberg

POSITION SNAPSHOT

- DCM initiated a position Ford Credit Canada in late February
- The face value of the position is C$25,000 and represents about 5% of the fixed income portfolio on a proforma basis

FORD CREDIT 2.766% 2022

INVESTMENT THESIS

1. **Strategic shift in lease / loan portfolio paves the way for more stable cash flow generation:** The residual value risk incurred by the captive when leasing a car is not present in the issuance of loans
   - Ford Credit's loan / total portfolio ratio increased by 200 bps in the last year while the shift was confirmed by the current CEO: ''We have had a strategy to take down our lease penetration''
   - By taking fewer leases, the company does not have to sell cars at an estimated residual value at the end of the contract reducing the unwanted residual risk. (ie: Ford's auction values for 24 months leases decreased by 8% from 2012 to 2014 and increased 5% in 2015)
2. **Improved risk management practices from partnership with ZestFinance**
   - The partnership announced will be exploring new ways to assess credit scores by re-categorizing customers and could reduce loss on no/low FICO borrowers by 20%. While top-five US Credit Card Issuer partnered as well, they were able to decrease losses by 15% using ZestFinance's technology
3. **Underappreciated performance of the Canadian loan portfolio:** Market concerns about Canadians' debt level and Alberta's risk are offset by regulations and stability of banking system
   - Canadian sales have a 270bps lower delinquency rate in 2017 than US sales with a 10% higher debt ratio
   - 35% vs 5% delinquency rate in Albertan vs average Canadian sales proves that Albert is no representative

ANALYSIS OF PERFORMANCE

Because of similar operating risk, we valued Ford Credit's spread relative to other Canadian Automobile Captive Financing companies. Based on 700 bps higher margins due to larger loan revenue mix and different credit scoring methods we believe the current spread is unwarranted.

After our pitch, entry conditions were not ideal because of negative news on the company: Ford was sued by truck owners for having used a software that produces fake emission results in its Diesel trucks. Given Ford's past performance, it is fair to say that the lawsuit poses a "parent company" risk for Ford Credit. However, as it was accounted for in January, we did not believe that the increase in risk was substantial enough to justify the increase in yield to a value of 3.241%. Therefore, following our due diligence process, we decided to enter the position on February 28th 2018 at a price of $98.10 for a value of $25,000.

VALUATION SUMMARY

As of December 31,2017		Profitability		Credit		Risk		
	Book Value Of Equity (mm)	Financing Margin	NI Margin	Financial Assets	Interest Coverage	Allowance to Receivables	60+ Days Delinquencies	OAS
GM Financial Canada (2.600% 2022)	$ 9,156	20.0%	5.9%	1.0x	1.4x	219.01	150	118.16
Toyota Motor Credit (2.808% 2022)	$ 9,681	18.0%	1.9%	0.9x	1.1x	65.44	31	70.61
Honda Canada Finance (2.488% 2022)	$ 12,286	24.0%	8.6%	0.7x	2.7x	37.45	21	73.94
Median		20.0%	5.9%	0.9x	1.4x	65.44	31	73.94
Mean		20.7%	5.5%	0.9x	1.8x	107.3	67	87.57
Ford Credit Canada	**$ 13,844**	**33.0%**	**14.1%**	**1.0x**	**1.7x**	**47.97**	**13**	**130.60**
Premium (Discount) on Mean		*60%*	*157%*	*10%*	*(4%)*	*(55%)*	*(81%)*	*49%*

Sources: Bloomberg

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