DESAUTELS Capital Management
Gestion de capitaux

2014 Annual Report

McGill

DESAUTELS Capital Management
Gestion de capitaux

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

Table of Contents

Dear Desautels Capital Management Investors,

The Honours in Investment Management (HIM) program is now entering its fifth year; over this period students in the program have managed our two flagship funds: Global Equity and Fixed Income. It is perhaps thus appropriate to reflect on the model created and determine if the program has grown and evolved as anticipated. As a reminder, students in the HIM program are required to take advanced investment and risk management courses, and benefit from frequent guest lectures presented by industry leaders who are members of our Global Expert Panel. Most importantly, the HIM program provides students an opportunity to operate a fully incorporated, licensed wealth management firm, Desautels Capital Management. In this way, students not only learn about the art and science of investing, but also the business of investing, including regulation, compliance, accounting, marketing, and client communication. In short, there is no substitute for the real thing.

So, how have we done? Well, this very ambitious and almost unique university program has succeeded in almost every measure beyond our expectations. Recruiters and financial institutions inform us that our students are generally a head above those from other universities. HIM students "hit the ground running" is a term often used to describe our students as they enter the work force. Indeed, our graduates are highly coveted for that reason. The program’s reputation is also attracting some of the world’s top students, who seek admittance to the Desautels Faculty of Management for a chance to work as student-analysts at Desautels Capital Management.

The program’s combination of academics and application has proven successful. Perhaps the most successful aspect of HIM is the way the two year program has half the participants (seniors) mentoring the other half that are just beginning. This system of always "paying it forward" creates a strong sense of student ownership and accountability as well as providing an atmosphere where students are always looking for ways to improve the program while leaving their distinct mark. Indeed, for us the most rewarding part of being HIM program mentors is witnessing the passion and incredible hard work that our students dedicate to managing our clients’ funds.

We are also pleased to report that the Global Equity Fund received an additional $1M subscription this past year, bringing total AUM close to $4M across both funds. We thank all our investors for their continued support and look forward to another exciting year ahead.

Sincerely,

Morty Yalovsky, Ken Lester, Vadim di Pietro, Jan Ericsson

Morty Yalovsky, President

Professor Morty Yalovsky is the President of Desautels Capital Management and the Interim Dean of the Desautels Faculty of 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, Chief Investment Officer

Ken Lester is the 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 is President and CEO of Lester Asset Management.

Vadim di Pietro, Deputy Chief Investment Officer

Vadim di Pietro is Deputy 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 chartholder.

Jan Ericsson, HIM 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.

DCM Board of Directors

Ann-Maureen Hennessy, Chair

Independent Consultant

Ms. Hennessy has over 30 years experience in the investment industry and is currently an independent consultant. From 2001 until the end of 2008, she was Senior Portfolio Manager, Small Cap U.S. Equity portfolio, at the Caisse de dépôt et placement du Québec.

Peter Bethlenfalvy, Director

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

Eamonn McConnell, Director

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.

Elliot Greenstone, Director

Partner, Davies Ward Phillips &Vineberg

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

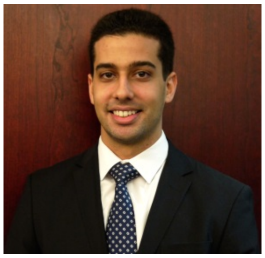
Richard Pan, Director

VP and Head of Corporate Finance, Power Corporation

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

Our Team

Strategists



Belal Yassine

Global Equity Strategist

2015 Full Time

Analyst, Mergers & Acquisitions

RBC Capital Markets, Toronto

Daniel Sorek

Fixed Income Strategist

2015 Summer

Analyst, Investment Banking

Goldman Sachs, New York

Risk Management

Andrew Marcovitch

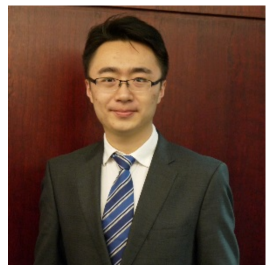
Global Risk Manager

2015 Full Time

Analyst, Investment Banking

Bank of America Merrill Lynch, Palo Alto

Economic Analyst



Yuhao Archer Shen

Economic Analyst

2014 Summer

Analyst, Corporate Banking

China Merchants Bank, China

Consumers

Colton Dick

Senior Analyst

2015 Full Time

Analyst, Private Investments

CPP Investment Board, Toronto

Alyssa Obert

Senior Analyst

2015 Full Time

Analyst, Investment Banking

J.P.Morgan, New York

Sean Saggi

Junior Analyst

2015 Summer

Analyst, Private Investments

CPP Investment Board, Toronto

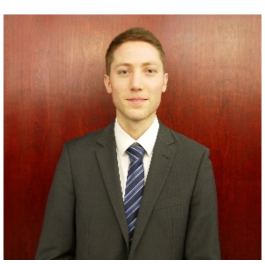
Ronald Cheung

Junior Analyst

2015 Summer

Analyst, Investment Banking

CIBC World Markets, Toronto



Yannick Muller

MBA Analyst

Past Experience

FX Sales Trader

UBS, Lausanne

Our Team

Energy

Jeremy Kertzer

Senior Analyst

2015 Full Time

Analyst, Investment Banking

RBC Capital Markets, Calgary

Debra Kelsall

Senior Analyst

2015 Full Time

Analyst, Investment Banking

Goldman Sachs, New York

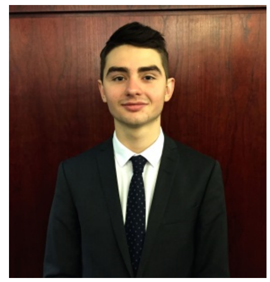
Christophe Lussier

Junior Analyst

2015 Summer

Analyst, Investment Banking

CIBC World Markets, Calgary



Philippe Rich

Junior Analyst

2015 Summer

Analyst, Investment Banking

Morgan Stanley, Toronto

Financials

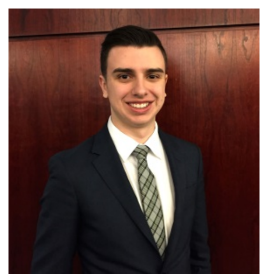
Xavier Le Sieur

Senior Analyst

2015 Full Time

Analyst, Investment Banking

Bank of America Merrill Lynch, Montreal



Drew Allen

Junior Analyst

2015 Summer

Analyst, Investment Banking

Goldman Sachs, Calgary

Christie Wei

Junior Analyst

2015 Summer

Analyst, Equity Research

J.P.Morgan, New York

Healthcare

Alexandra Witteveen

Senior Analyst

2015 Full Time

Analyst, Investment Banking

Credit Suisse, Calgary

Naomie Gendron

Junior Analyst

2015 Summer

Analyst, Investment Banking

Credit Suisse, Toronto

Our Team

Industrials

Edouard Charles Gaudry

Senior Analyst

2015 Full Time

Analyst, Investment Banking

Bank of America Merrill Lynch, Toronto

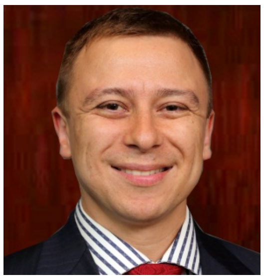
Jordan Owen

Junior Analyst

2015 Summer

Analyst, Investment Banking

Tremblant Capital, New York



Eugene Fedorinov

MBA Analyst

Past Experience

Senior Derivatives Trader

Kingship Capital

Materials

Joseph Kaprielian

Senior Analyst

2015 Full Time

Analyst, Investment Banking

BMO Capital Markets, Toronto

Alexandre Veronneau

Junior Analyst

2015 Summer

Analyst, Private Equity

Ulysses Management, New York

Technology, Media and Telecommunications

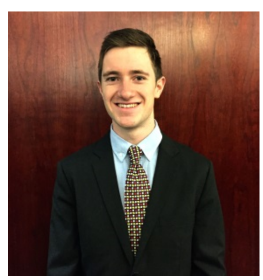
Daniel Kraminer

Senior Analyst

2014 Summer

Analyst, Investment Research

Goldman Sachs, London



Henri St-Pierre

Junior Analyst

2015 Summer

Associate, Consulting

Boston Consulting Group, Montreal

Luohan Wei

Junior Analyst

2015 Summer

Associate, Consulting

Bain & Co., Toronto

Alexander Castonguay

MBA Analyst

Past Experience

Director, Commercial Lines

Intact Insurance

Fixed Income

Laura May

Junior Analyst

2015 Summer

Analyst, Sales & Trading

Goldman Sachs, New York

Peter Huo

Junior Analyst

2015 Summer

Analyst, Sales & Trading

CIBC World Markets, Toronto

Alexander Ohrn

MBA Analyst

Past Experience

Associate, Institutional Business

Franklin Templeton Investments, London

Faicy Hussain

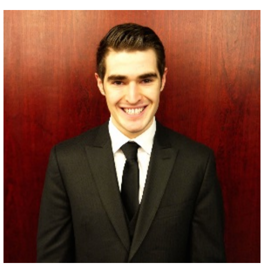
MBA Analyst

Past Experience

Manager, Private Investments

Pride Financial Asset, Dubai

Support Team



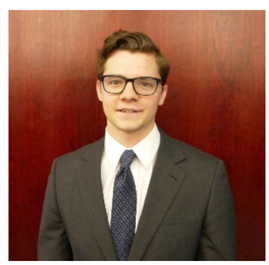
Nathaniel Kirsh

Accounting Manager

2015 Summer

Accountant

Richter, Montreal



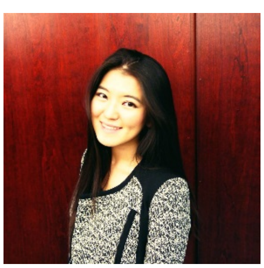
Maxwell Reilly

Information Systems Manager

2015 Summer

General Intern

CI Financial, Toronto



Gabby Cao

Marketing and Communications Manager

2015 Spring

Analyst, Consulting

Accenture, Montreal

Desautels Global Equity Fund

2014 Performance Summary & Attribution

By Belal Yassine, Global Equity Strategist

Global Equity Fund: 2014 Performance Summary & Attribution

Dear Investor,

The Desautels Global Equity Fund returned 11.5% gross of fees in 2014, compared to 16.0% for our benchmark (60% S&P TSX, 40% S&P 500 in CAD). On a risk adjusted basis, the fund generated a Sharpe ratio of 0.77, versus 1.34 for the benchmark. Our long-term track record, however, remains encouraging. Over the past 2 years and since inception we are outperforming the benchmark by an annualized 4.5% and 1.1%, respectively. On a risk adjusted basis, we have generated 3.6% of annual alpha since inception. We are also pleased to report a great start in 2015, with the fund up 6.3% in January compared to 2.8% for our benchmark.

Looking at the performance of sectors within the Equity Fund, our Healthcare and Consumer Discretionary sectors were the best performers on both an absolute and relative basis after beating their respective benchmarks by 26.5% and 25.9%. Our Energy, Technology and Consumer staples sectors were the key laggards, underperforming their respective benchmarks by 5.6%, 12.5% and 26.5%.

Global Equity Fund Returns

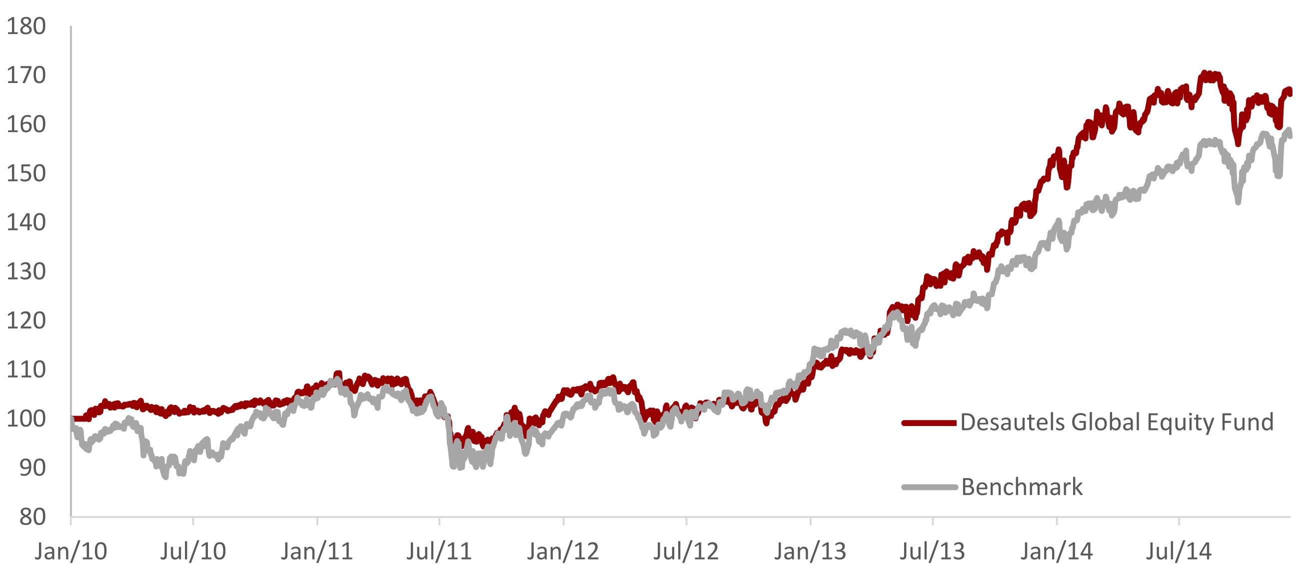
Time Period	Gross Return	Net Return	Benchmark
Most recent quarter	(0.0%)	(0.4%)	2.6%
Previous quarter	1.0%	0.7%	2.1%
6 month	1.0%	0.3%	4.7%
2014	11.5%	9.9%	16.0%
2 year*	25.7%	23.8%	21.2%
Since Inception*	10.8%	9.2%	9.7%

**Returns are annualized.*

Performance Metrics

	Global Equity Fund		Benchmark	
	2014	Inception	2014	Inception
Annualized Return	11.5%	10.8%	16.0%	9.7%
Annualized Std Dev	11.8%	10.3%	10.1%	11.7%
Annualized Sharpe Ratio	0.77	0.81	1.34	0.61
Beta	1.05	0.67		
Annualized Alpha	(5.2%)	3.6%		
Daily Tracking Error	0.3%	0.5%		

Performance metrics are calculated gross of fees.



Note: Performance is as of Dec. 31, 2014, gross of fees. Benchmark is the MSCI World Index from inception to February 28, 2013 and a 60% S&P TSX, 40% S&P 500 (measured in CAD) blended benchmark thereafter. Fund inception date is January 20, 2010.

Global Equity Fund: 2014 Performance Summary & Attribution

Figure 1: Global Equity Fund 2014 Sector Returns vs Sector Benchmarks

Sector Returns			
	DCM (gross fees)	Benchmark	+/-
Healthcare	61.7%	35.2%	26.5%
Consumer Discretionary	36.5%	10.7%	25.9%
Metals & Mining	4.5%	(10.4%)	14.9%
Telecom	21.7%	8.4%	13.4%
Financials	17.1%	14.4%	2.7%
Industrials	11.1%	14.9%	(3.8%)
Energy	(17.5%)	(11.9%)	(5.6%)
Technology & Media	16.5%	29.0%	(12.5%)
Consumer Staples	6.0%	32.5%	(26.5%)

Note: Details for sector benchmarks can be found in the individual sector reports.

Figure 2: Global Equity Fund Monthly Returns vs Benchmark

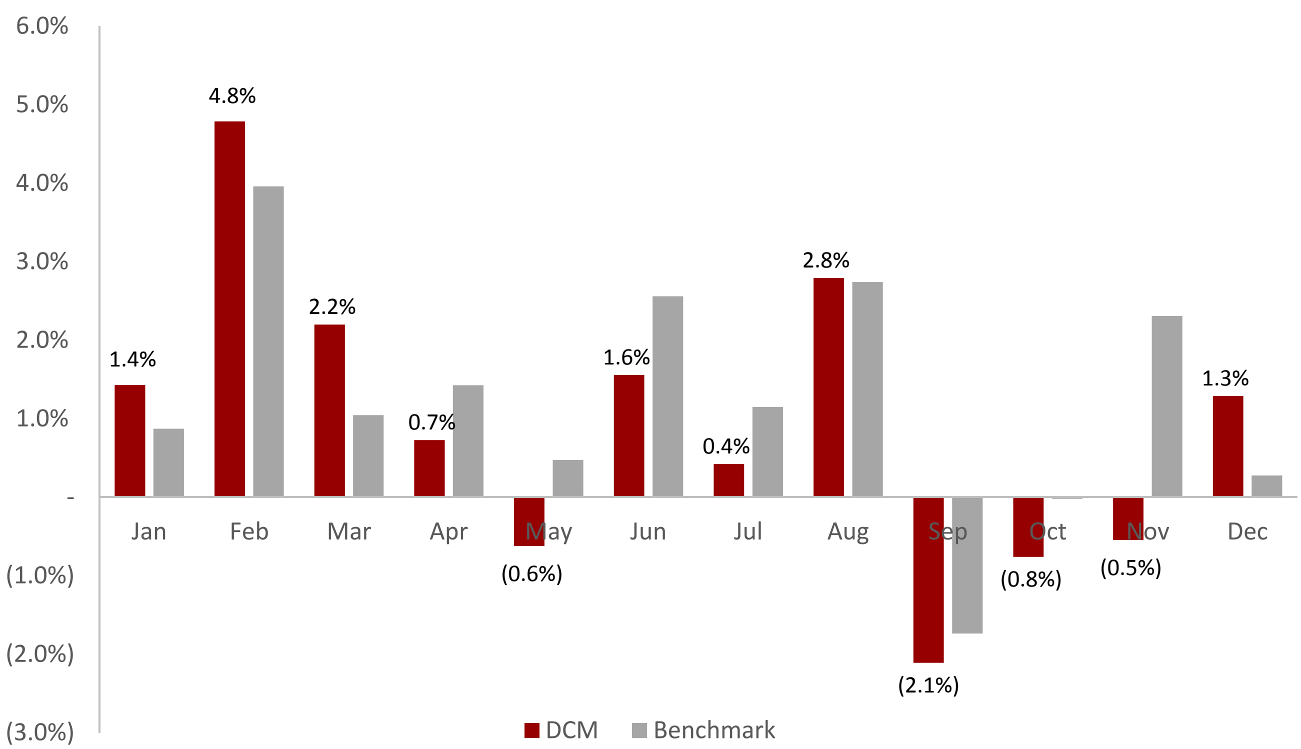
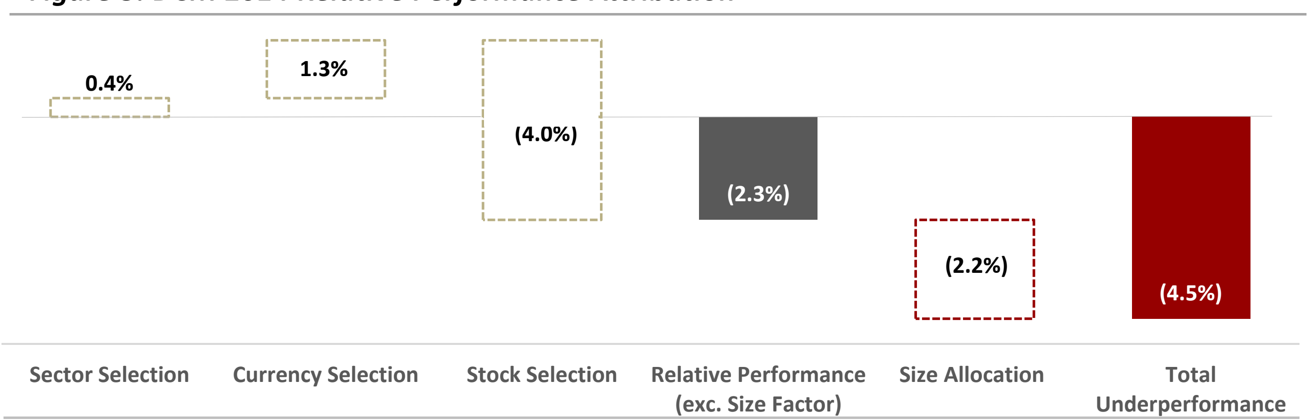


Figure 3 shows the key drivers of our relative performance in 2014. Currency and sector allocation had a positive contribution (+1.3%, and +0.4%, respectively). For currency, we made an active decision to overweight USD exposure due to our bullish view on the U.S. relative to Canada (more on this later). In terms of sector weightings, our policy is generally to set allocations based on the strength of the individual ideas within each sector while limiting deviations from benchmark sector weights.

While many of our individual stock investment theses played out nicely in 2014, there were several notable exceptions. Geospace is a manufacturer of equipment used in the acquisition of seismic data by oil and gas companies. Our original thesis was centered on the company's long-term growth opportunities in wireless seismic devices and reservoir monitoring. The industry dynamics proved to be challenging for the company, contributing to further contract delays and a lack of revenue visibility. We decided to acknowledge the mistake and exit the position on October 9, 2014 at a 58% loss, which was a good thing as the stock has since lost another 38%. Other underperformers this year included MEG Energy, Pulse Seismic, and YuMe. As a result, individual stock selection detracted 4% from our overall performance. With the exception of Geospace, we maintain our conviction in the above positions and believe they remain attractive long term buys. Indeed, some of these holdings have recovered quite well so far in 2015. Details are provided in the sector sections.

Another factor that affected our overall performance was our size exposure. Our overweight position in small caps detracted 2.2% from our relative performance as small cap stocks significantly underperformed their large cap peers (more on small cap performance later). Our exposure to small caps is an active decision dictated mainly by the flow of ideas into the fund, and partly by our macro views on the U.S. economy. From an idea generation perspective, given their lower degree of coverage, we believe small caps represent an area where the right analysis can identify undervalued stocks with solid fundamentals. From a macro perspective, and consistent with our U.S. macro views, small caps are generally less exposed to an appreciating USD and more exposed to the U.S. economic recovery.

Figure 3: DCM 2014 Relative Performance Attribution



Global Equity Fund: Portfolio Positioning

Global Equity Fund - Sector Allocation			
Sector	**Global Equity Fund**	**Benchmark**	**(+/-)**
Information Technology	16.4%	9.3%	7.1%
Industrials	13.4%	9.4%	4.0%
CAD	3.1%	0.0%	3.1%
USD	1.3%	0.0%	1.3%
Materials	8.8%	7.5%	1.3%
Telecommunication Services	4.0%	3.9%	0.1%
Utitlities	2.3%	2.6%	(0.2%)
Consumer Staples	4.7%	6.0%	(1.3%)
Consumer Discretionary	6.7%	8.6%	(1.9%)
Health Care	5.1%	7.8%	(2.7%)
Financials	23.7%	28.6%	(4.9%)
Energy	10.4%	16.3%	(5.9%)
Total	**100.0%**	**100.0%**	**–**

Figure 4: Size Exposure

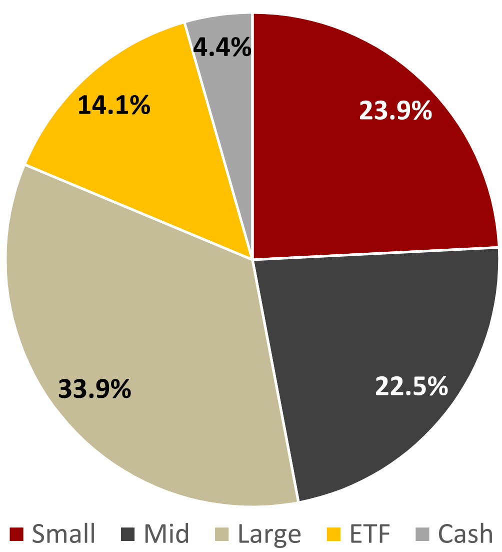
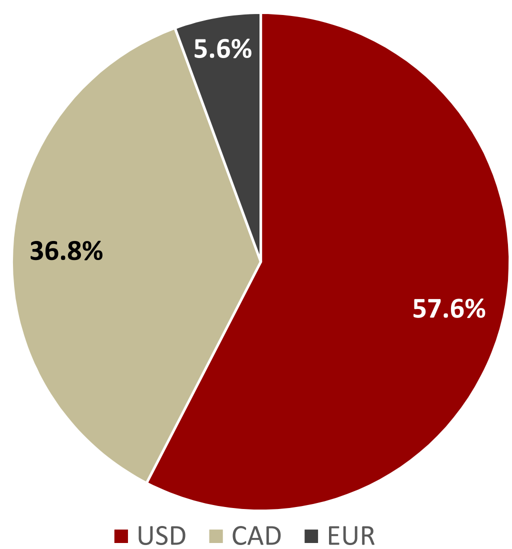


Figure 5: Currency Exposure



Note: All values are as of Dec. 31, 2014.

Global Equity Fund: Holdings List

Global Equity Fund - Holdings List								
#	Security Name	Sector	Currency Exposure	# of Units	Local Cost / Unit	Local Price / Unit	Market Value (C$)	Position Size %
1	IShares S&P/TSX Capped Financials	Financials	CAD	5,760	$30.9	$31.7	$182,477	6.7%
2	General Motors	Industrials	USD	3,690	32.0	34.9	149,203	5.5%
3	Wells Fargo	Financials	USD	2,011	32.7	54.8	127,689	4.7%
4	Performance Sports Group	Consumer Discretionary	CAD	5,985	13.0	21.1	126,523	4.7%
5	Yume	Information Technology	USD	21,160	5.7	5.0	123,523	4.6%
6	Pulse Seismic	Energy	CAD	40,973	2.9	2.9	120,051	4.4%
7	Meadwestvaco	Materials	USD	2,330	43.0	44.4	119,796	4.4%
8	New York Reit	Financials	USD	9,300	11.1	10.6	114,073	4.2%
9	Teradata	Information Technology	USD	2,184	43.3	43.7	110,494	4.1%
10	Intesa Sanpaolo Spon ADR	Financials	EUR	5,410	19.2	17.3	108,529	4.0%
11	Capital One Financial	Financials	USD	1,132	73.0	82.6	108,235	4.0%
12	BCE Inc	Teleco	CAD	2,025	40.4	53.3	107,892	4.0%
13	Meg Energy	Energy	CAD	5,195	33.2	19.6	101,562	3.8%
14	Vascular Solutions	Health Care	USD	3,150	28.1	27.2	99,093	3.7%
15	Ishares Global Consumer Staples	Consumer Staples	USD	920	87.2	89.6	95,488	3.5%
16	Union Pacific	Industrials	USD	685	82.4	119.1	94,518	3.5%
17	Intel	Information Technology	USD	2,065	25.3	36.3	86,798	3.2%
18	Canadian Dollar	CAD	CAD	83,474	1.0	1.0	83,474	3.1%
19	Amazon	Information Technology	USD	220	306.7	310.4	79,082	2.9%
20	Bmo Equal Weight Util Idx	Utitlities	CAD	4,065	15.8	15.5	63,129	2.3%
21	Parex Resources	Energy	CAD	8,060	7.3	7.6	61,095	2.3%
22	Conrad Industries	Industrials	USD	1,500	22.2	35.0	60,808	2.2%
23	Lundin Mining	Materials	CAD	10,500	4.8	5.7	60,060	2.2%
24	Pangaea Logistics Solutions	Industrials	USD	10,749	5.4	4.8	59,138	2.2%
25	Mcewen Mining	Materials	CAD	45,000	1.5	1.3	58,500	2.2%
26	TJX Companies	Consumer Discretionary	USD	700	63.0	68.6	55,603	2.1%
27	STMicroelectronics ADR	Information Technology	EUR	4,975	9.3	7.5	43,044	1.6%
28	Ishares Global Healthcare ETF	Health Care	USD	350	87.5	99.6	40,360	1.5%
29	US Dollar	USD	USD	30,535	1.2	1.0	35,367	1.3%
30	Colabor Group	Consumer Staples	CAD	9,640	4.3	3.4	32,294	1.2%
					Total		$2,707,897	100.0%

Note: All values are as of Dec. 31, 2014.

Desautels Global Equity Fund

Equity Markets Review and Outlook

By Belal Yassine, Global Equity Strategist

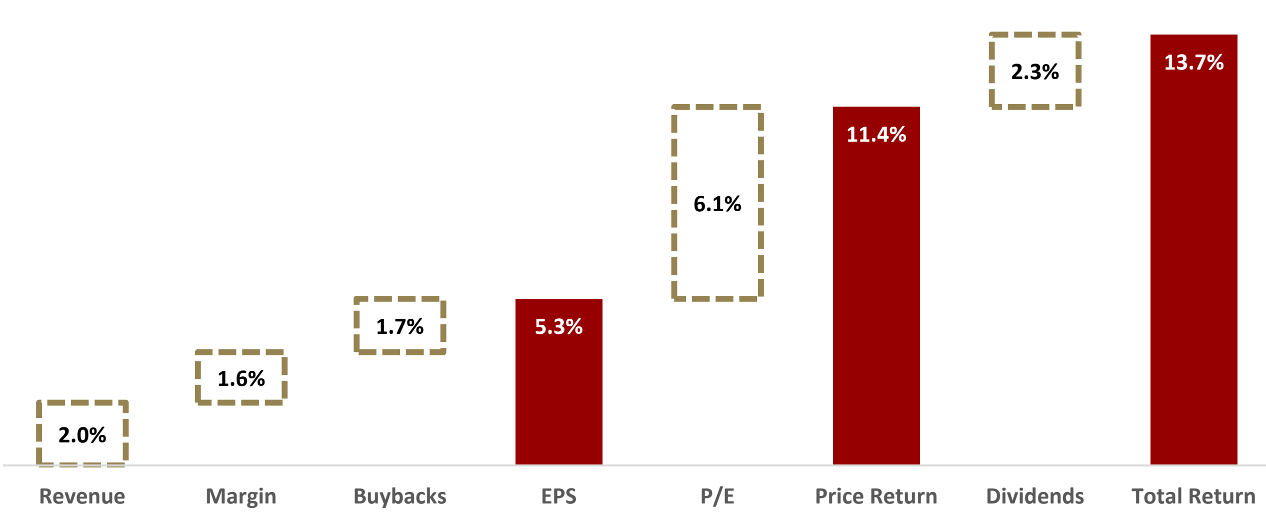
No bull lives forever, but the bulls kept marching in 2014. The S&P 500 posted a total return of 13.7% and has now tripled in value since the start of the six year bull market. The story wasn't too different north of the border. After being up more than 14% by September, the S&P/TSX Composite Index finished the year up only 7.4% (total return of 10.6%) as the Q4 slump in oil and metal prices weighed heavily on the commodity dominated index. However, if one were to apply S&P 500 sector weights to the S&P/TSX, the result would be a return of 22% for the Canadian index. As such, the S&P/TSX underperformance relative to the S&P 500 can be attributed entirely to sector weightings.

Heading into 2014, we were bullish on the US economy and USD relative to CAD, we were hopeful that Europe's growth prospects would improve, and were cautious on equity valuation multiples. Our average 57% exposure to the USD in 2014 (compared to 40% for our benchmark) paid off as the USD rallied 9% versus CAD in 2014 and by another 9% in January 2015. Europe disappointed as growth expectations were significantly revised downward, but we continue to look to the region for attractive opportunities. Our views on valuation are discussed extensively later in this report.

S&P 500 Performance Attribution

Figure 6 decomposes the 2014 S&P 500 return into EPS growth, multiple expansion, and dividends. In contrast to 2013, when multiple expansion was the key driver, this factor only contributed 6% of the overall S&P 500 return in 2014. On the other hand, earnings growth continued to accelerate due to revenue growth, margin expansion, and share buybacks. At this stage in the equity bull market and considering current valuation multiples, we expect EPS growth to be the determining factor in driving equity market returns over the next few years.

Figure 6: S&P 500 2014 Return Decomposition



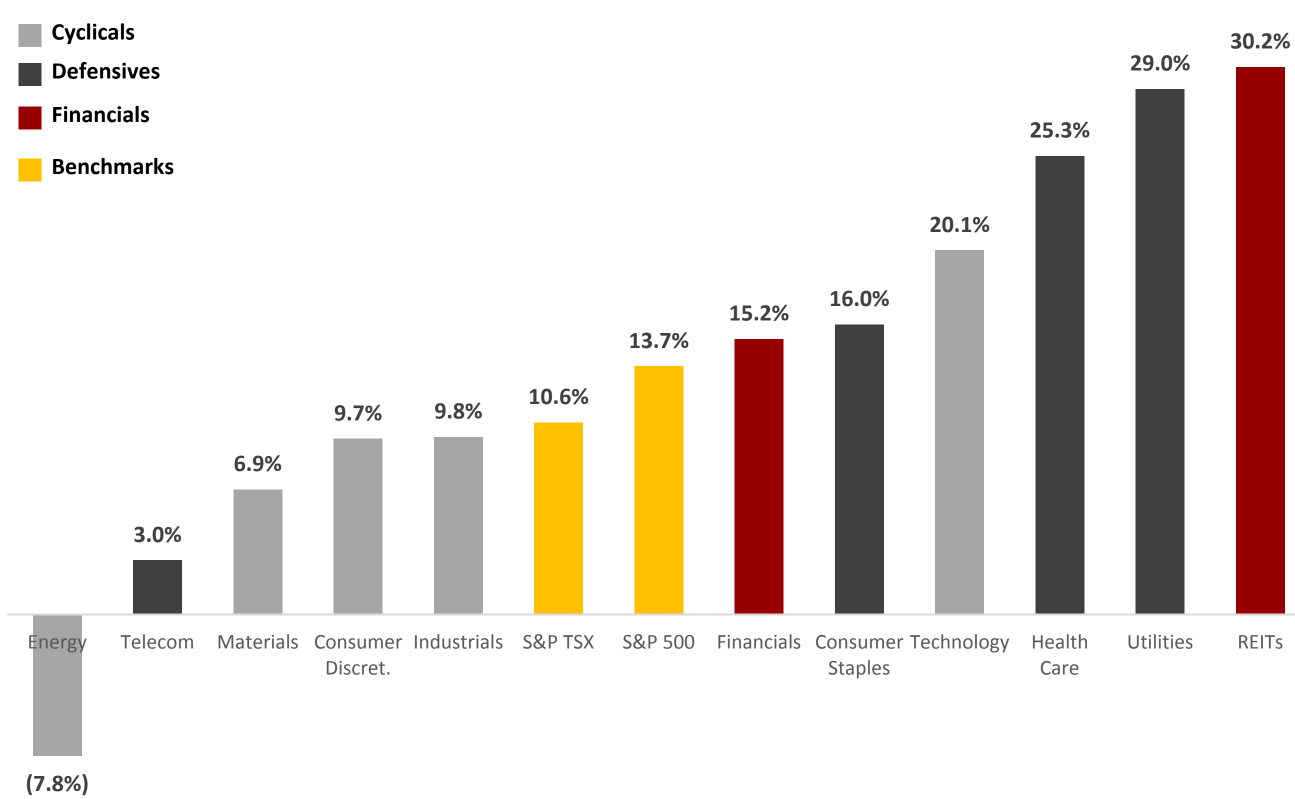
As of Dec. 31, 2014. Note: EPS growth and its components are change in next twelve months expectations.
Source: Bloomberg

Performance of Small Caps and Different Sectors: Good Defense Pays Off

From a sector rotation perspective, 2014 was a year to play defense as defensive sectors significantly outperformed cyclical ones, with the only exceptions being the Technology and Telecom sectors (Figure 7). REITS, Utilities, Health Care, and Consumer Staples were among the top performers returning 30.2%, 29.0%, 25.3%, and 16.0%, respectively. The S&P 500 Energy Sector declined 7.8% and was the worst performing sector of 2014 due to the collapse in oil prices.

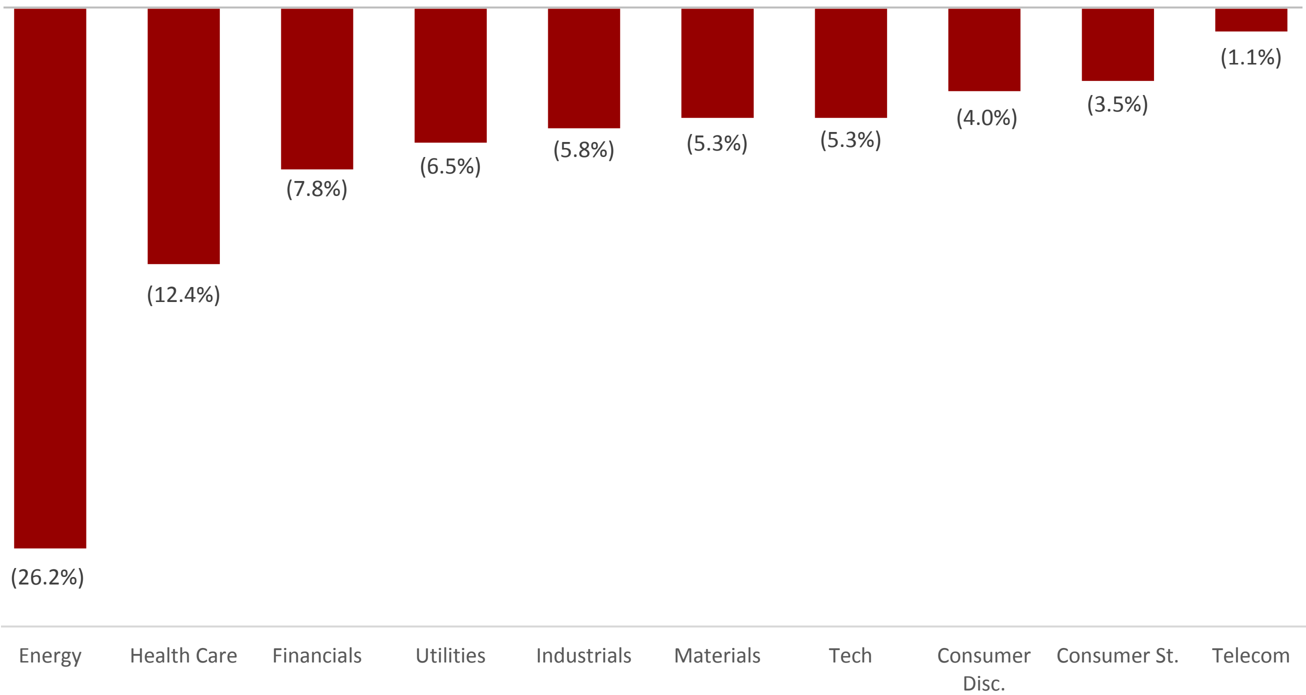
The market's risk-off attitude was also evident in the performance of small cap stocks. After the stellar returns for small cap stocks in 2013 (returning ~40%), the Russell 2000, a good proxy for US small cap companies, was up only 3.5% in 2014, compared to the S&P 500's return of more than 11% (excl. dividends). The underperformance was consistent across sectors as well, with all 10 sectors in the S&P Small Cap 600 Index underperforming their large cap peers in the S&P 500 (Figure 8). Our exposure to small cap companies, comprising about 25% of the portfolio, helps explain our underperformance relative to our large-cap weighted benchmark.

Figure 7: 2014 Sector Total Returns



Note: All performance data is for S&P 500 Sectors, S&P 500, and S&P/TSX.
Source: Bloomberg

Figure 8: Small Cap Sector Relative Outperformance (Underperformance)



Note: The S&P 500 is used for large cap and the S&P Small Cap 600 is used for small cap.
Source: Bloomberg

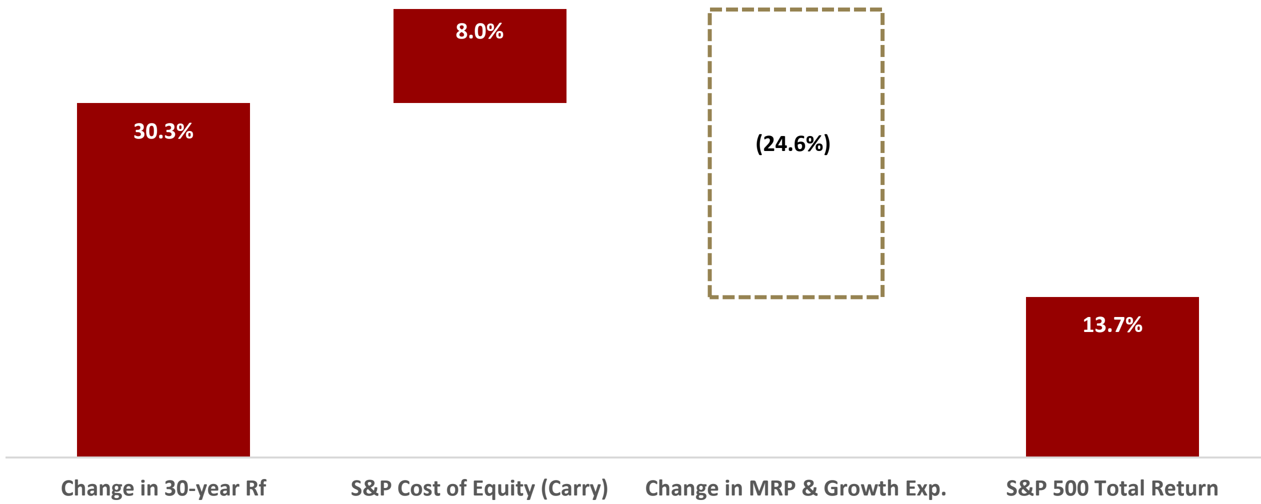
The 2014 Paradox: Risk Off in A Bull Market

Although the market recorded double digit returns in 2014, we believe investors had a risk off attitude as evidenced by the underperformance of small caps and cyclical sectors. How can the markets be risk-off during a bull market and a year of double digit returns? This was the key paradox in 2014 and Figure 9 helps resolve it.

Using the latest estimates of S&P 500 duration of 25[(1)], we are able to attribute the performance of the S&P 500 driven by the decrease in risk free rates (U.S. 30-year treasury rate in this case). Ceteris paribus, the change in the risk free component of the S&P 500 discount rate contributed a 30.3% return to the index. Using a cost of equity of 8% (carry) for the S&P 500 pushes the return up another 8% to 38.3% in 2014. The remaining portion of the S&P 500 return is due to a change in the other component of the discount rate (i.e., the market risk premium), or a change in cash flow growth expectations. Hence, we attribute a 24.5% decline in the S&P 500 to an increase in risk premiums and/or a decrease in growth expectations. This resolves the paradox by showing that there was indeed a risk off attitude in 2014 but it was offset by the decline in risk free rates. In other words, if risk free rates were unchanged in 2014, the stock market would have declined by 16.6%.

(1) Source: S&P Indices Estimate for S&P 500 Duration as of 2011 year end. +/- 5, which does not affect the story.

Figure 9: Using the Concept of Stock Duration – S&P 500 2014 Return Attribution



Note: Contribution from change in 30-year risk free rate is determined as (S&P 500 Modified Duration) x (Change in 30-year US Treasury Rate in 2014). Cost of equity is equal to 30-year risk free rate of 3.75% (as of beginning of 2014) + 4.25% market risk premium. Change in MRP and Growth Exp. refers to S&P 500 returns driven by change in Market Risk Premiums and Growth Expectations.

A Year of Surprises and Contradictions

2014 can best be described as a year of surprises and contradictions. Who expected the yield on the U.S. 10-year to decline from 3% all the way to 2.2% in the very same year that the Federal Reserve ended its bond-buying program? Who would have thought oil would hover around its 5-year high a few months before plunging to its 5-year low? Or who would have thought that the best performing sectors at this stage in the economic cycle would be defensive ones like Utilities and Health Care? 48 of 49 economists, who were surveyed by the Wall Street Journal in January 2014, expected the 10-year Treasury yield to exceed 3% by year-end, with an average forecast of 3.52%.

As a bottom-up fund, we analyze the macroeconomic landscape from a risk management and positioning perspective, but we are careful not to place all of our eggs in one macro basket. Our primary focus remains bottom up analysis to identify companies that trade at substantial discounts to their intrinsic value. Our aim is to use this approach to generate superior risk adjusted returns over the long run.

Theme I - The US Macro Picture: Slowly but Surely…

The key characteristic that stands out about the U.S. economic recovery is its pace. It is by far the slowest economic recovery since World War II, with cumulative U.S. GDP growth significantly below other economic recoveries. So why does this matter? A lot of market bears claim that this recovery has gone on for a long time and it should end soon. However, economic recoveries do not end just because they have gone on for a long time. Since the U.S. economy is far from overheating and as inflationary pressures remain at bay (economic output gap at 3.1% of GDP, See Figure 12), we believe that a slow, yet steady, economic recovery will result in a longer than average economic cycle.

Theme II - The US Macro Picture: A Beautiful Deleveraging

An important by-product of the financial crisis and a key contributor to the slow recovery is the deleveraging spiral we've seen since 2008. U.S. corporate and household leverage ratios have declined to all-time lows (See Figures 10 & 11), while corporate cash balances have reached all-time highs. As described by Ray Dalio, the founder of the world's largest hedge fund, the deleveraging spiral has been truly beautiful given its scale, especially when compared to the painful consequences of past deleveraging cycles. Money printing and the Federal Reserve's QE policy have balanced out the deflationary forces of debt reduction resulting in positive growth, declining leverage levels, and nominal GDP growth levels outpacing interest rates (though not a tough benchmark at these levels). This has made for a relatively painless deleveraging.

Figure 10: Household Debt Service Ratio

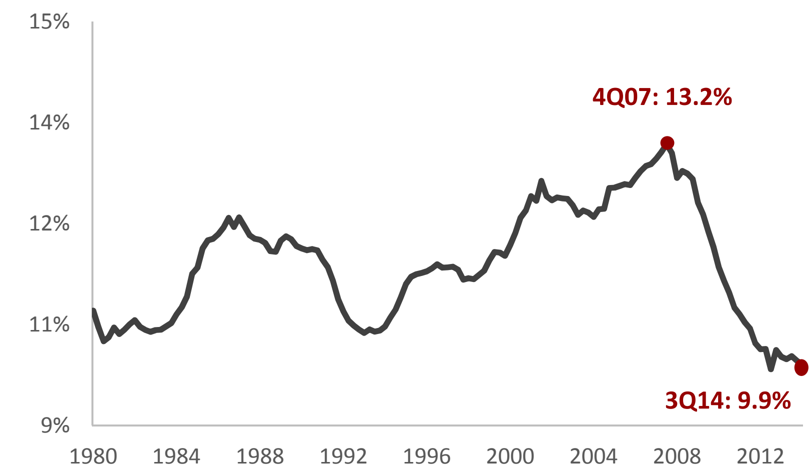
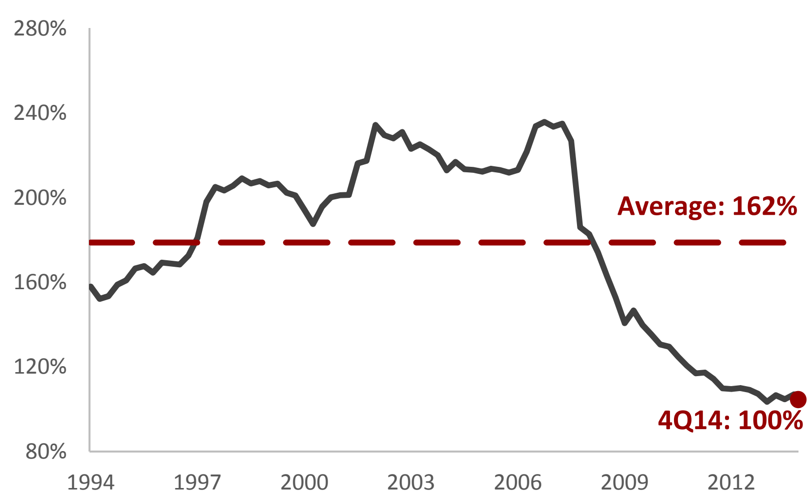


Figure 11: S&P 500 Total Debt to Equity



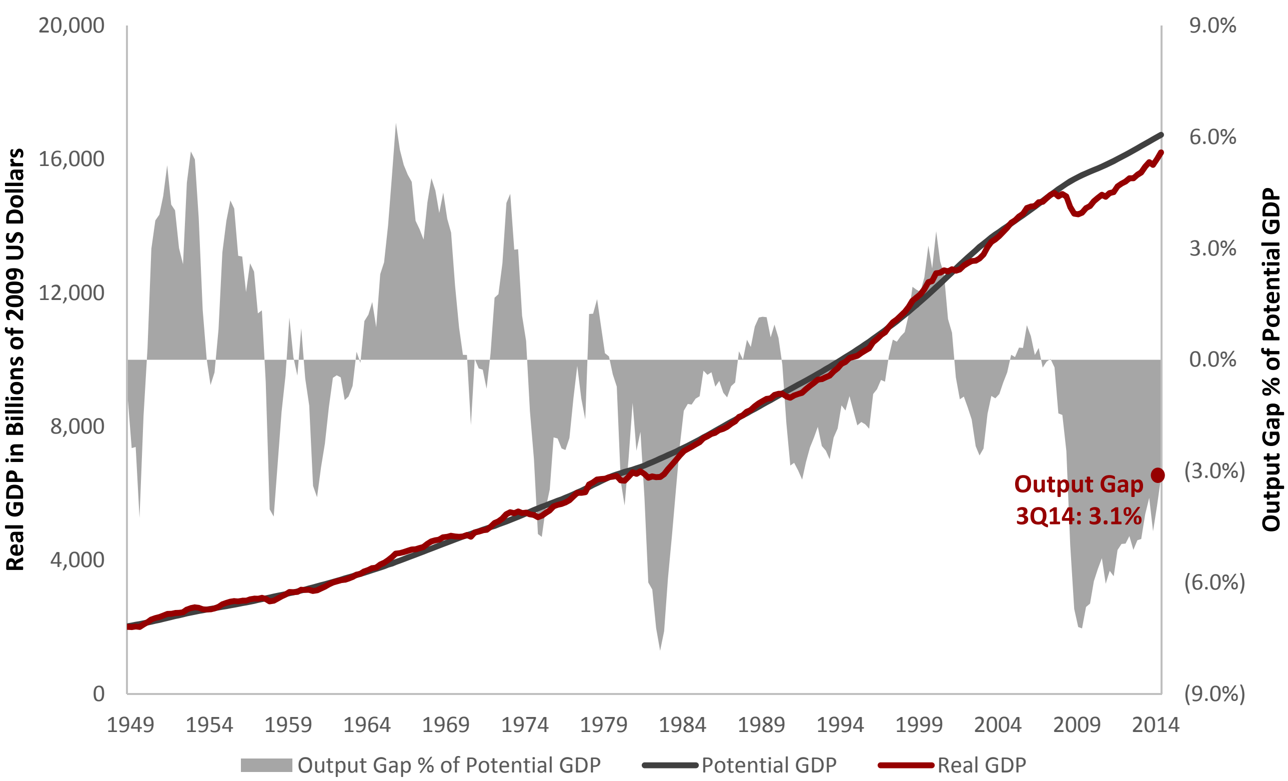
Source: Bloomberg

Theme III - The US Macro Picture: Get Ready for Takeoff – Escape Velocity

This deleveraging has resulted in the economic output gap taking much longer to close (See Figure 12). Going forward, and as the deleveraging wave plateaus (it already did, See Figure 11) and consumer confidence continues to recover, the U.S. Economy will witness a period of stronger than average economic growth. If the economy succeeds in reaching “escape velocity”, we could see a period of strong growth in the short-to-medium term and a longer than average economic recovery as the output gap closes. We estimate that the U.S. Economy will grow at the growth rate of potential GDP plus 1% resulting in real GDP growth north of 3% and the economic output gap fully disappearing over the next 3-4 years. Of course, this will only materialize in the absence of any significant economic shocks from overseas.

In fact, the economic recovery is already starting to accelerate. After a 2.1% decline in Q1 2014 due to weather conditions, the US economy has gone on to expand by 4.6% in Q2 and by 3.9% in Q3. It has also created an average of 246,000 jobs each month this year, making 2014 the best year for job creation since 1999. This has resulted in the US unemployment rate declining to 5.6%, its lowest level in more than 6 years.

Figure 12: Real GDP vs. Potential GDP — A Wide but Narrowing Economic Output Gap



Source: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis.

Theme IV - Commodities and Canada

It is difficult to develop a view on Canada without taking into account commodity prices and their effect on our economy. While the oil market dynamics are discussed extensively in the Energy Section of this report, we will take this opportunity to look at its effects on our economy. In mid-December, the Bank of Canada estimated that weaker oil prices would decrease 2015 GDP growth by 0.33% from an overall level of 2.4%. Oil prices have declined by more than 20% since, and we believe the impact on growth could be much worse if oil prices remain at these levels. This is also anecdotally reinforced by numerous announcements of budget and job cuts from oil and gas companies in Canada.

There are multiple positive factors that might dampen the negative effect of declining oil prices. These include enhanced competitiveness of other Canadian products due to a weaker Canadian dollar, a positive shock to the U.S. economy, and lower gasoline prices which boost consumer spending in both the U.S. and Canada. However, we remain worried about the elevated levels of household debt in Canada and the overheating housing market. Our greatest concern is that a commodity triggered economic slowdown could be the perfect storm that magnifies these structural problems in the Canadian economy.

Other risks that we've discussed extensively in the past are the fundamental problems that plague the Chinese economy or what we refer to as China's impossible trinity. We believe that China would need to accept a lower growth rate in order to deal with its ballooning private debt levels and structural constraints as well as its pollution problems. Otherwise, it will face a worse outcome down the road. This remains a key risk to the global economy in general and commodity weighted countries like Canada in particular.

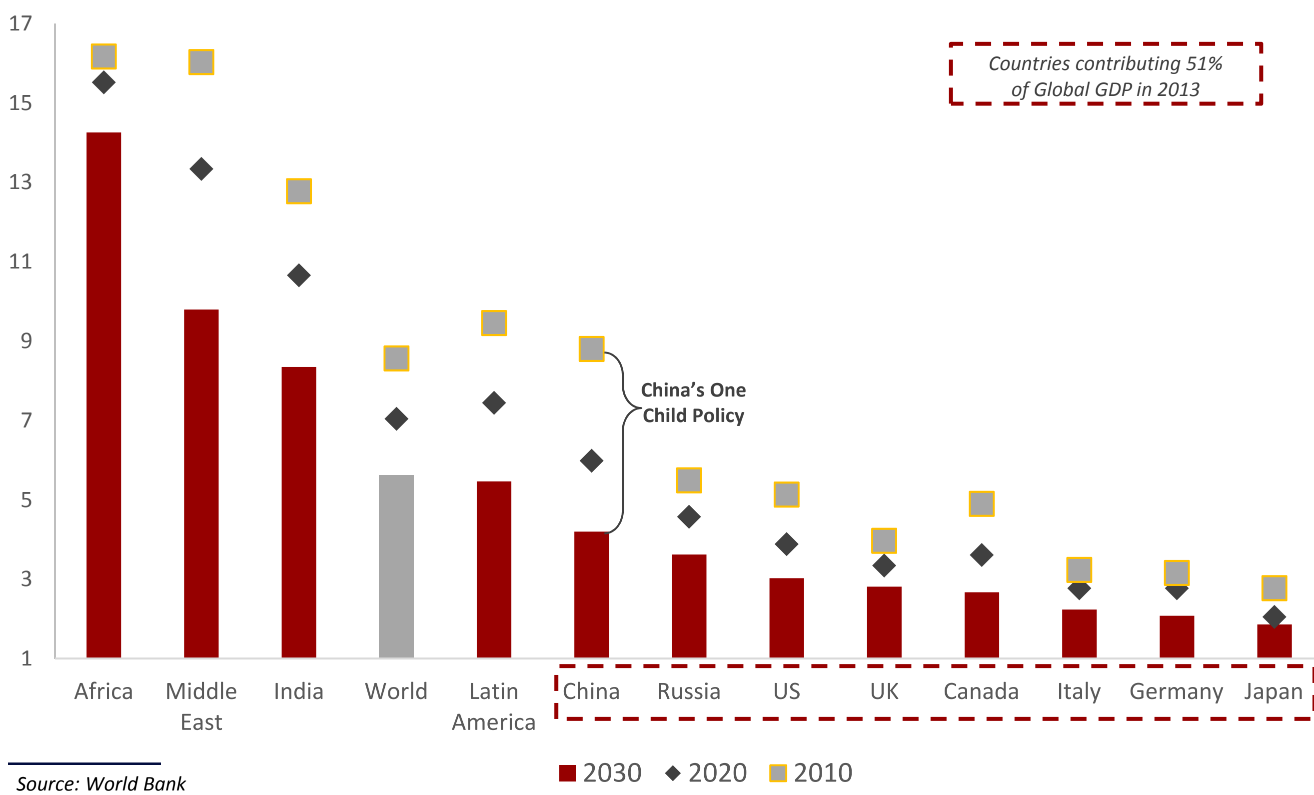
We have been underweight Canada and the Canadian dollar for quite some time now. This has been driven by both our macro views and the flow of ideas into the fund. It has paid off in 2014 after the relative underperformance of the S&P/TSX and the 9% depreciation of the Loonie versus the USD.

Theme V - Long-Term Outlook: A New Normal?

While monetary policy and the economic cycle determine the economy's performance in the short-term, demographics and productivity growth (driven by technological innovation) are the key anchors to economic performance in the long-term. In the long run, the economy grows because there are either more people generating output (a larger labour force) or more output is generated per person (higher productivity).

We are particularly worried about the demographic challenges in the developed world presented by an aging population and therefore slower labour force growth. By 2030, the ratio of working age individuals to retired individuals in the world will decline to 5.6 from a current value of 8.6 (See Figure 13). In other words, there will be 35% less working age people available to support each retired individual. The numbers are even worse in countries like China, Russia, US, UK, Canada, Italy, Germany, and Japan, which contributed more than 50% of Global GDP in 2013. So are we heading into a "new normal" of slow GDP growth in the long-term? Many governments will suffer from a declining tax base, rising pension and healthcare costs, and will be forced to make budget cuts. All in all, it will be a major drag on economic growth. Japan had similar demographic challenges a few decades ago and has suffered from a long period of slow growth.

Figure 13: Aging Population: # of Working Age People Per Retiree (2010 – 2030)



Source: World Bank

Valuations Have Expanded but are Not at Alarming Levels Yet

With the S&P 500 returning more than 200% since the market bottom of February 2009 and the beginning of the 6-year bull market, we are keeping a very close eye on market valuations. The number of cheap bargains offered by the market is continuously on the decline.

While the market has recovered from a state of ultimate fear back in 2009 and market valuations are now trending in the opposite direction, we do not see this as a major reason for concern or a sign of a bubble developing. Figure 14 compares current S&P 500 valuations (as of Dec. 31, 2014) to historical averages based on a variety of metrics. The S&P 500 currently trades at a P/NTM Earnings of 16.2x, about 3.8% above its 25-year average of 15.6x. Excluding the bubble period between 1997-2001, the 25-year average becomes 15.2x, about 6% below current levels.

Figure 14: S&P 500 Valuation Metrics

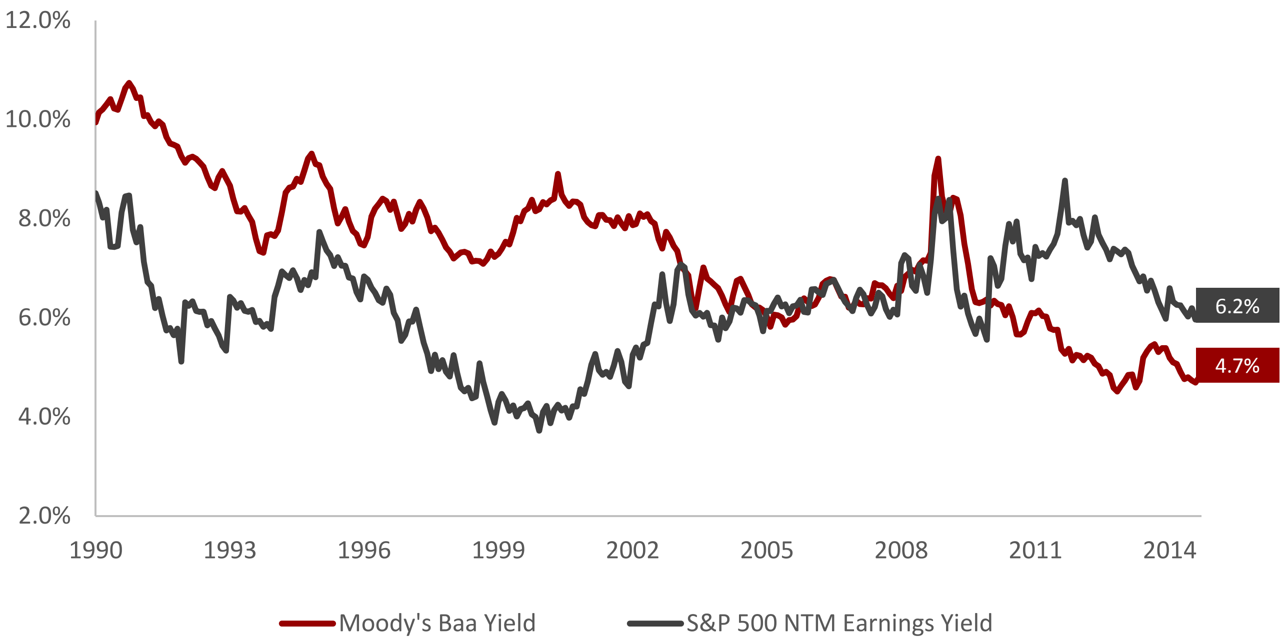
Current S&P 500 Valuations			Historical Perspective			
Valuation Measure	**Description**	**Dec. 31, 2014**	**1-year ago**	**5-year avg.**	**10-year avg.**	**25-year avg.***
P/E	Price to NTM Earnings	16.2x	15.4x	13.5x	13.8x	15.6x
CAPE	Shiller's P/E	27.3x	25.5x	22.5x	22.9x	25.3x
TTM Div. Yield	Dividend Yield	1.9%	1.9%	2.0%	2.0%	2.1%
REY	Real Earnings Yield	3.7%	3.7%	4.3%	3.3%	2.3%
P/B	Price to Book	2.9x	2.7x	2.3x	2.4x	2.9x
P/CF	Price to NTM Cash Flow	11.4x	10.8x	9.3x	9.7x	11.3x
EY Spread	NTM EY Minus Baa Yield	1.5%	1.6%	2.2%	1.3%	(0.7%)

**P/CF ratio is a 20-year avg. due to cash flow data availability.*
Source: JP Morgan Guide to The Markets

It's All Because of TINA (There Is No Alternative)?

Deciding what multiple should be applied to 2015 S&P 500 Earnings is not as simple as taking the average of the past x number of years. As described in previous newsletters, current market conditions are quite unique. All other things being equal, the continued low interest rate environment justifies a lower earnings yield on the S&P 500. Further, an interesting point to note is that the S&P 500 earnings yield spread to the Moody's Baa corporate bond yield is currently at 1.5%, well above 10 year and 25 year averages (Figure 15). All in all, this indicates that equity market valuations are reasonable, especially when assessed relative to bonds. Or as many market commentators put it: It's all because of TINA (There is No Alternative).

Figure 15: S&P 500 Earnings Yield vs. Baa Bond Yield



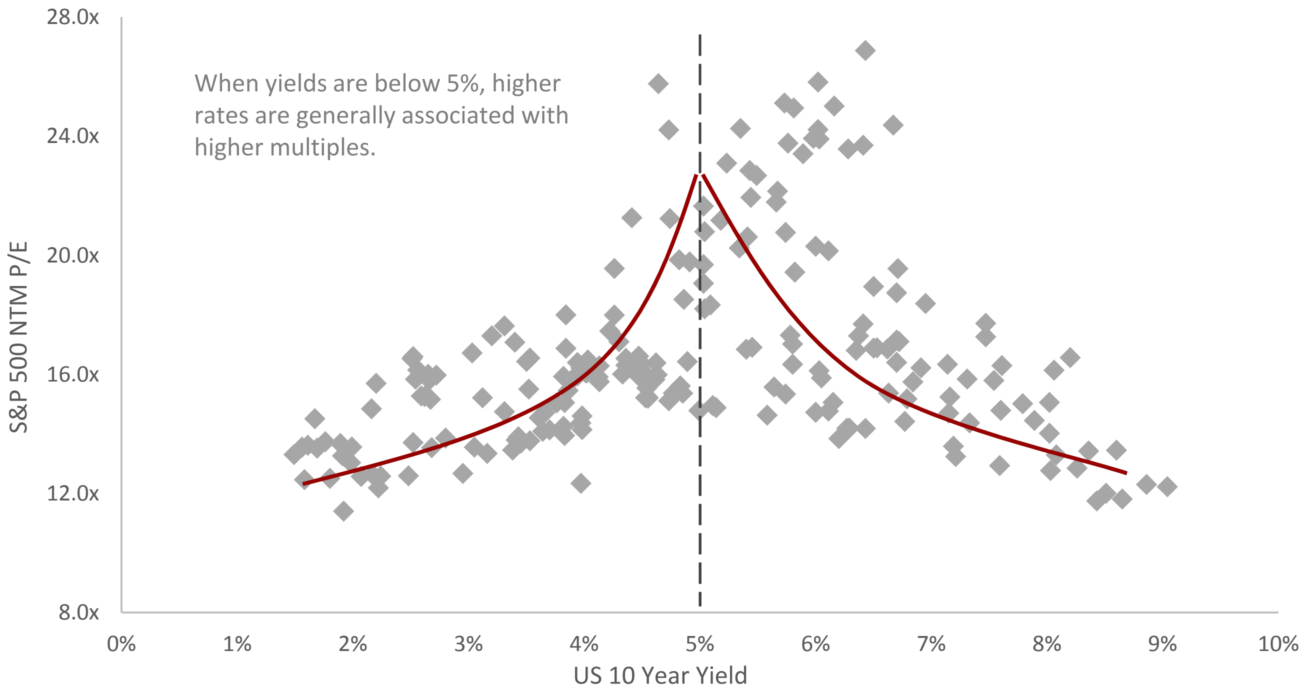
Source: Bloomberg

While one might argue that the current interest rate environment is unsustainable and rising rates might prove to be a headwind for equities (see the Fixed Income section for a detailed discussion on interest rates), historical data suggests that interest rates and equities display positive correlations when the 10-year yield is below 5%. Figure 16 shows that when rates are below 5%, higher interests rates are generally associated with higher multiples. The relationship is rather intuitive. In the absence of inflationary pressures, a rise in interest rates happens simultaneously while the economy is accelerating.

With a potential interest rate hike by the Fed in 2015, we analyze the effects on equity markets using historical data. According to data by Kenneth Fisher (Figure 17), the anticipated interest rate hike might not be a reason for concern. Although the S&P 500 records rather low returns in the first 12 months following a Fed rate hike, the returns are reasonable over the next 3 year period with only 2 negative returns out of the 9 initial rate hikes since 1970. However, since the Fed usually increases interest rates in anticipation of inflationary pressures, we took the analysis a step further by analyzing real returns instead. The S&P 500 has an average annualized real rate of return of only 3.1% or a median of 6.3% 3 years following the initial rate hike (Figure 19). The real returns are much lower for the first and second year after initial Fed tightening and this is a reason for concern.

Valuations: A Swinging Pendulum

Figure 16: S&P 500 NTM P/E vs US 10 Year Yield



Source: Bloomberg, Monthly Data between 1990 and 2014.

Figure 17: S&P 500 Annualized Nominal Returns After Initial Fed Tightening

Tightening Start Date	S&P 500 Annualized Nominal Returns From Start of Tightening 12-Months Forward	24-Months Forward	36 -Months Forward
16-Jul-71	8.4%	3.2%	(6.7%)
16-Aug-77	5.7%	5.2%	7.8%
21-Oct-80	(8.9%)	2.7%	8.0%
22-Mar-84	14.3%	22.0%	23.9%
04-Dec-86	(11.5%)	3.6%	11.6%
30-Mar-88	13.3%	14.8%	13.3%
04-Feb-94	1.9%	16.3%	18.9%
30-Jun-99	6.0%	(5.6%)	(10.3%)
30-Jun-04	4.4%	5.5%	9.6%
Average	**3.7%**	**7.5%**	**8.4%**
Median	**5.7%**	**5.2%**	**9.6%**

Debunkery by Ken Fisher, Page 119.

Figure 18: U.S. Annualized Inflation Rate

Tightening Start Date	Annualized Inflation From Start of Tightening		
	12-Months Forward	24-Months Forward	36 -Months Forward
16-Jul-71	2.9%	4.3%	10.0%
16-Aug-77	7.8%	9.8%	10.8%
21-Oct-80	10.1%	7.6%	6.0%
22-Mar-84	3.7%	3.0%	3.0%
04-Dec-86	4.4%	4.4%	4.5%
30-Mar-88	5.0%	5.1%	5.0%
04-Feb-94	2.9%	2.8%	2.8%
30-Jun-99	3.7%	3.5%	2.7%
30-Jun-04	2.5%	3.4%	3.2%
Average	**4.8%**	**4.9%**	**5.3%**
Median	**3.7%**	**4.3%**	**4.5%**

Source: U.S. Department of Labor Bureau of Labor Statistic.

Figure 19: S&P 500 Annualized Real Returns After Initial Fed Tightening

Tightening Start Date	Annualized Real Return After Initial Tightening		
	12-Months Forward	24-Months Forward	36 -Months Forward
16-Jul-71	5.3%	(1.0%)	(15.2%)
16-Aug-77	(2.0%)	(4.2%)	(2.7%)
21-Oct-80	(17.3%)	(4.6%)	1.9%
22-Mar-84	10.2%	18.5%	20.3%
04-Dec-86	(15.3%)	(0.8%)	6.8%
30-Mar-88	7.9%	9.2%	7.9%
04-Feb-94	(0.9%)	13.2%	15.6%
30-Jun-99	2.2%	(8.7%)	(12.7%)
30-Jun-04	1.8%	2.0%	6.3%
Average	**(0.9%)**	**2.6%**	**3.1%**
Median	**1.8%**	**(0.8%)**	**6.3%**

Note: Real returns calculated as (1+Nominal)/(1+Inflation) – 1.

A Long-Term Return Model

Model Overview & Rationale: We project S&P 500 EPS for the next 10 years, apply a P/E at t=10, and then calculate annualized 10-year returns for different scenarios (assuming dividends are reinvested)

Key Takeaway: Under fairly reasonable and not too conservative assumptions, our model suggests that the S&P 500 offers low real returns over the next 10-years (3.32% in our Base Case), well below its historic average.

Model Assumptions Overview

Key Value Driver	10-Year CAGR / Average	Justification
Real Revenue Growth	2.4%	Real Potential GDP growth rate plus about 1% in the first 3 years until the output gap closes, and then at real potential GDP growth rate thereafter
T=10 NTM P/E Multiple	(0.6%)	Base: Reverts to 25-year average of 15.2x (Exl. Bubble period of 1997-2001) by t=10 Bear: Reverts to 13.2x by t=10 Bull: Increases to 17.2x by t=10 supported by low interest rates
EBT Margins	13.1%	We believe that margin expansion is increasingly difficult at this stage. S&P 500 profit margins are close to historic highs. Besides, we believe there are multiple headwinds for margins in the coming years. First, the long-awaited increase in interest rates should be a drag on profitability. Second, wage growth, although absent in the past few years, should begin detracting from profit margins as the economy soon reaches full employment. These headwinds will be partially offset by lower commodity prices and a transition towards "knowledge" based industries with higher profitability. **We model a 1% decrease in EBT margins by 2020 in our Base Case.**
Share Count	(0.8%)	Projected to continue to contribute ~1.3% to EPS growth in the next 3 years as companies have high cash balances and incremental leverage capacities to support their buyback programs; however, this smoothly reverts to 0% by year 10
Dividend Payout %	31.8%	Smoothed until it reverts to its 25-year average of 32.8% by t=10

Model Results: Scenario Grid (Real & Nominal)

S&P 500 Annualized 10-Year Real Return

T=10 P/E Mult.		EBT Margins by 2020 (+/-): Bear (2.0%)	Base (1.0%)	Bull –
Bear	13.2x	1.16%	1.98%	2.75%
Base	15.2x	2.49%	**3.32%**	4.10%
Bull	17.2x	3.66%	4.51%	5.29%

S&P 500 Annualized 10-Year Nominal Return

T=10 P/E Mult.		EBT Margins by 2020 (+/-): Bear (2.0%)	Base (1.0%)	Bull –
Bear	13.2x	3.14%	3.98%	4.76%
Base	15.2x	4.49%	**5.34%**	6.13%
Bull	17.2x	5.69%	6.55%	7.35%

Note: Nominal return scenario grid simply assumes an inflation rate of 2%.

(1) Good Defense is the Best Offense

In light of our long-term return model, we see two likely scenarios for the markets at this stage: a long period of low returns, or a significant market correction in the short-term which restores a higher return environment. Given our views on a longer than average economic cycle and the absence of any recessionary indicators for the U.S. economy, the first scenario seems to be the more likely one.

However, unpredictable risks at home and abroad might spook the markets and the current return environment does not provide an adequate margin of safety should any of these risks materialize. For this reason, we will gradually shift to a more cautious stance, and opportunistically take advantage of changes in market conditions that would result in a more attractive return environment.

(2) More Dispersion: Focus on Stock Selection

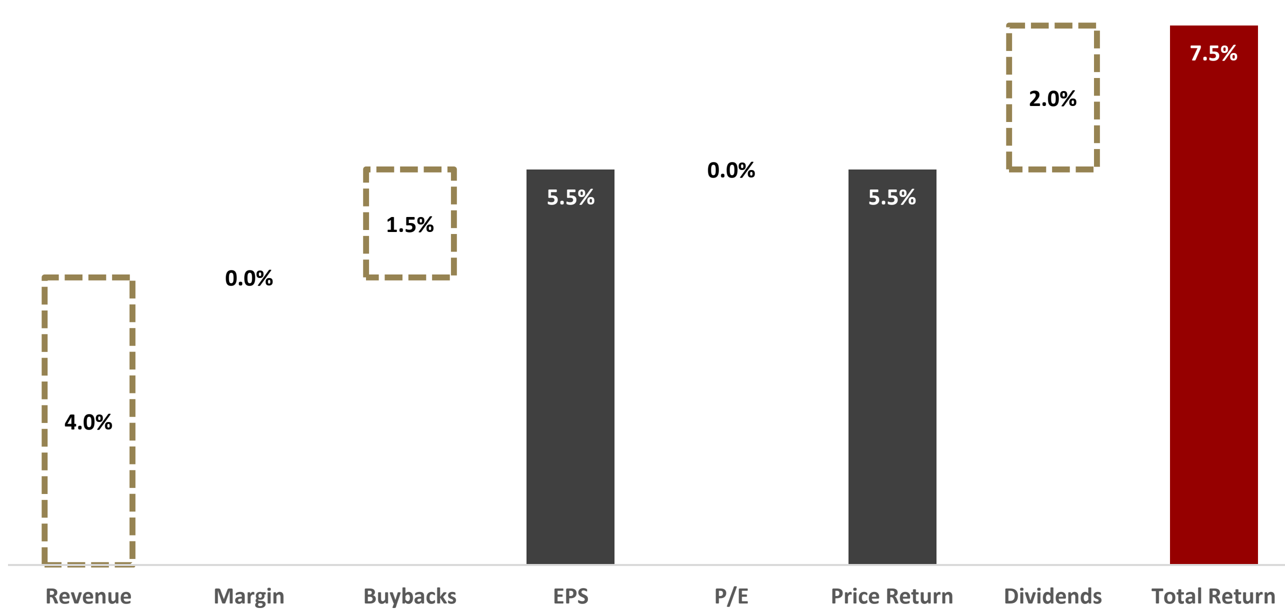
At these valuations and in the current macro environment, we believe stock selection will become more important than ever. Although dispersion among stocks is currently at low levels, we believe this will increase since broad multiple expansion is unlikely at this stage. We have increased the flow of ideas into the fund while also becoming more selective. Of the 21 in-depth stock pitches that were presented by DCM analysts in 2014, only 11 made it into the portfolio, whereas we continue to monitor the rest as part of our watch list, which also includes a large number of stocks analyzed in mini-pitches.

(3) 2015 Return Forecasts: A Multi-Scenario Approach

We forecast 2015 equity market return drivers based on our views of the macro environment as reflected in the following three scenarios (see Figures 20 a, b & c):

- **Base Case:** In our base case, we project the S&P 500 generating a total nominal return of 7.5% in 2015 driven mainly by EPS growth of 5.5% and dividend return of 2%. Our EPS growth estimate is based on 4% revenue growth (consistent with our views on US GDP), no margin expansion and 1.5% share buybacks. This is below consensus analyst EPS growth estimates for the S&P 500 in 2016, as analyst estimates have proven to be revised downwards by 1-2% on average. We factor in no multiple expansion as we believe it is becoming increasingly difficult at these valuations levels.
- **Bull Case:** In our bull case, we factor in EPS growth (8.5%) slightly higher than analyst estimates. This assumes that the US recovery gains traction, and that the low interest rate environment continues for the most part of 2015, allowing companies to further increase their income margins through operating leverage.
- **Bear Case:** We see global headwinds and slower global growth taking their toll on the US Economy and derailing the recovery. This results in low revenue and margin growth for S&P 500 companies (0% to be conservative) and share buybacks being the only contributors to EPS growth. The global slowdown would result in multiple contraction by 10% as investors start to worry about future growth and increased volatility. Due to these aforementioned factors, we see the S&P 500 declining by 6.5% in our Bear Case.

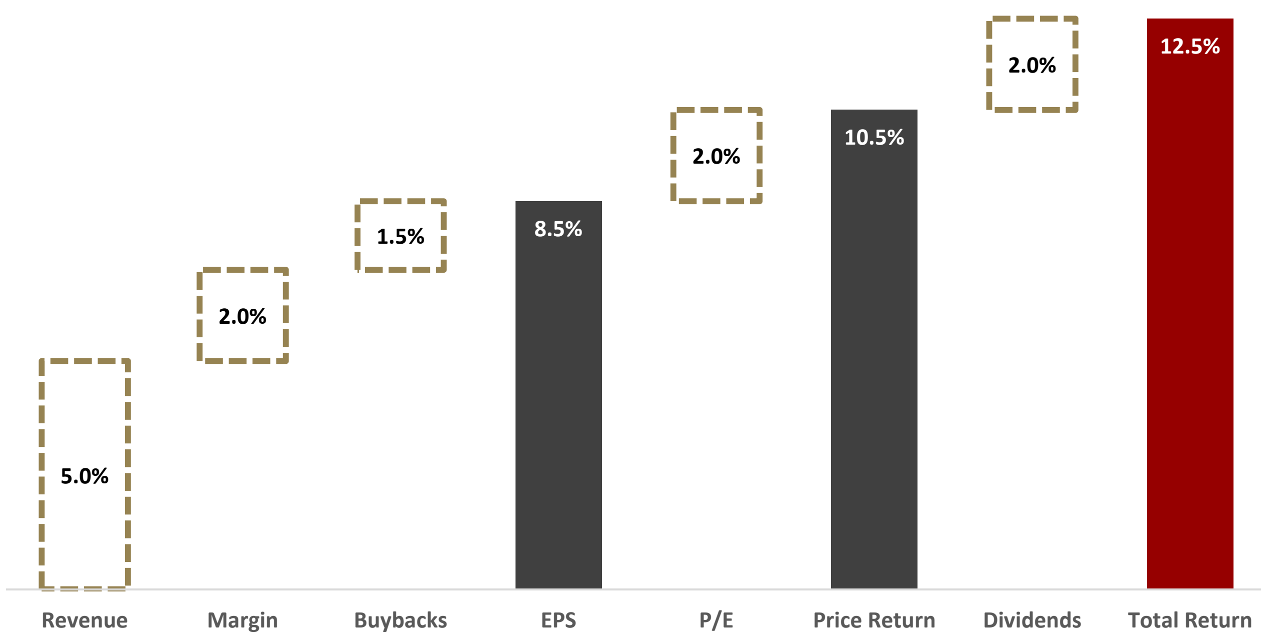
Figure 20-a): S&P 500 2015 Return Scenarios – Base Case



Source: DCM Forecasts.

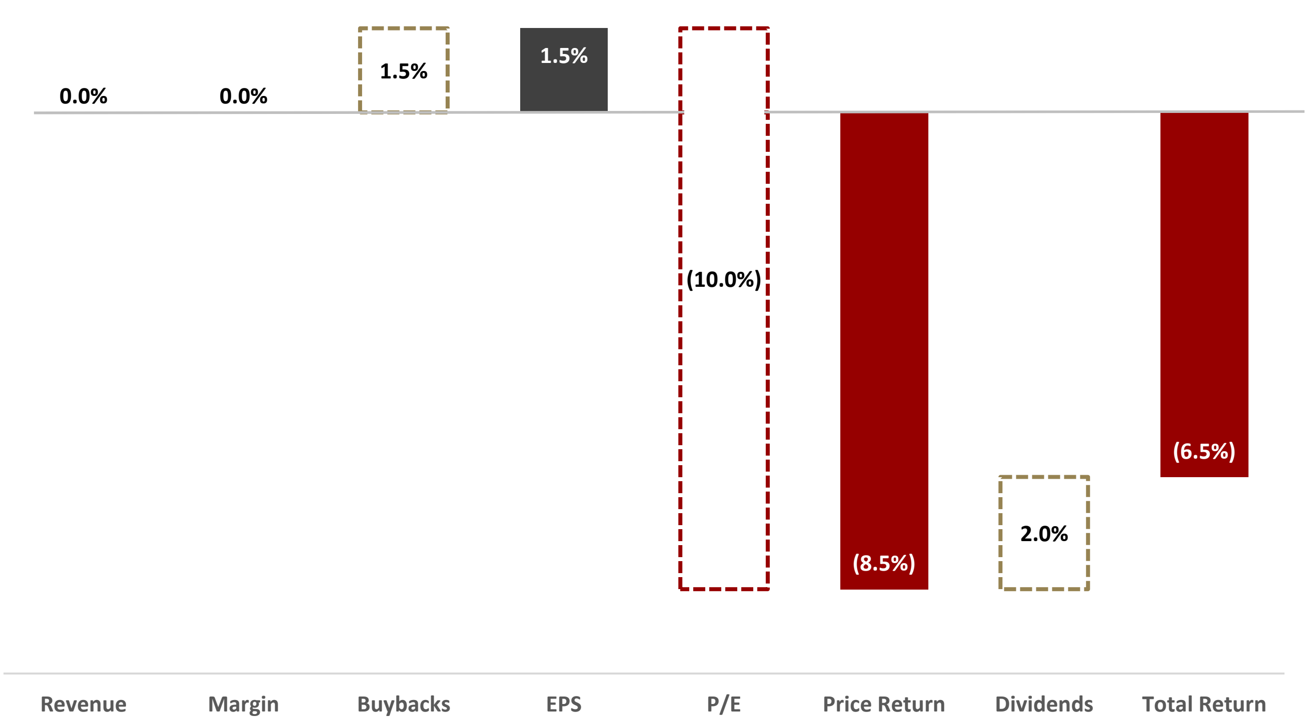
Putting it All Together: Where Do We Go from Here?

Figure 20-b): S&P 500 2015 Return Scenarios – Bull Case



Source: DCM Forecasts.

Figure 20-c): S&P 500 2015 Return Scenarios – Bear Case



Source: DCM Forecasts.

Risk Management

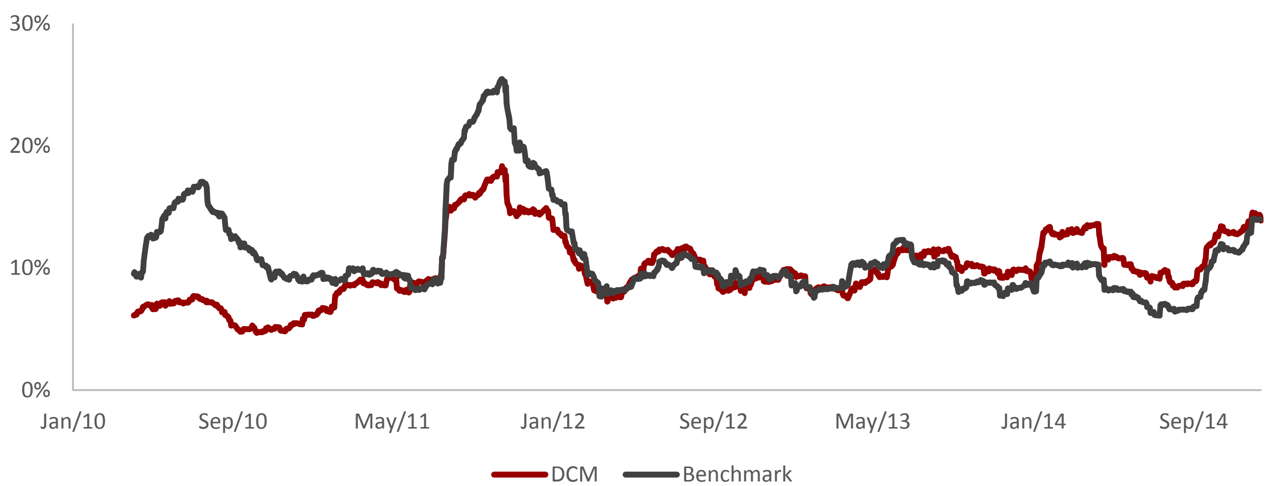
Overview of Risk Monitoring Practices

By Andrew Marcovitch, Global Risk Manager

Introduction

In 2014, DCM significantly advanced the tools and analysis used to actively monitor and manage portfolio risk. To monitor downside tail risk, we compute our portfolio Value at Risk (VaR) using several different methodologies, making sure to incorporate time-varying volatility and non-normality. To ensure DCM is able to preemptively identify and address risk exposures, we compute rolling Betas to significant risk factors, including the price of oil and the USD/CAD exchange rate. We also compute rolling fund standard deviations as well as each of our holdings' contribution to total volatility, allowing us to understand the various sources of risk in our portfolio. Finally, a self-updating excel file was developed to actively monitor insider buying and selling, short interest, volatility, and beta for each holding. Any unusual findings raise a flag and lead to further analysis. These recent improvements are part of a larger initiative to advance the tools and resources available to the investment team at DCM.

Figure 1: DCM Global Equity Fund Annualized 3-Month Rolling Volatility, Since Inception



Analysis of Value at Risk

Value at Risk (VaR) is an important risk metric widely used by industry professionals to provide a sense of the potential downside for a given portfolio. The 1 day 1% VaR denotes the loss such that it will only be exceeded 1% of the time in the next trading day. For illustration, if we consider a portfolio of $100, a 1 day 1% VaR of 2% implies that there is a 1% chance that the firm will lose more than 2% of the portfolio's value ($2) in the next trading day.

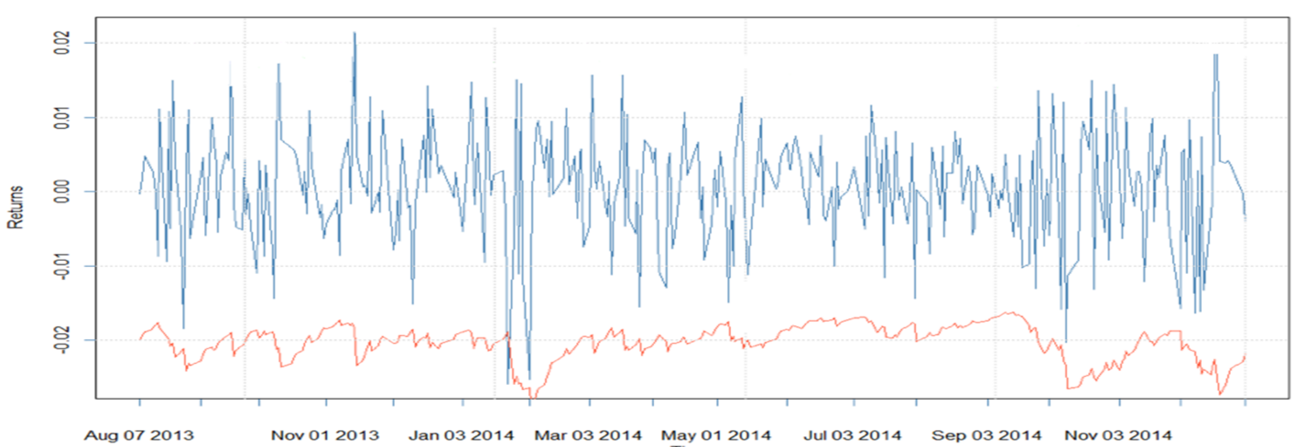
There are various ways of estimating a portfolio's VaR. Indeed, if not done properly, one could get very misleading results. We use 4 different methods to compute VaR each day: simple historical simulation, weighted historical simulation, GARCH with a normal distribution, and GARCH with a standardized student-t distribution. Each method has advantages and disadvantages (see Table).

In order to calculate VaR on a given day it is important to use the portfolio's current weights in each holding and to generate portfolio returns for that portfolio going backwards. The logic behind this starting point is that if actual historic portfolio returns were used we would not be accounting for changes in security holdings over time. Ultimately, the calculations in this section of our risk management report will give a short term depiction of how much risk the Global Equity Fund has taken on.

Desautels Global Equity Fund 1-day 1% Value at Risk as at Dec 31, 2014

Method	1-Day 1% VaR	Commentary
Simple Historical Simulation	2.02%	Portfolio returns are simulated using historical individual stock returns. The simulation computes portfolio returns based on historical stock returns using *current* portfolio weights. The 1% VaR is then simply the 1 percentile return of that distribution.
Weighted Historical Simulation	1.84%	Weighted Historical Simulation is as above, except rather than give each simulated portfolio return the same weight in the simulated distribution, more weight is given to more recent observations. Intuitively, more recent data is more informative, and is thus given more importance.
GARCH + Normal Distribution	1.87%	GARCH volatility forecasting takes into account time-varying volatility: volatility changes over time and shocks to volatility can persist but eventually revert back to a long run mean. Parameters in the GARCH model are estimated using Maximum Likelihood Estimation. Given these parameters and historical data, one forecasts volatility. This, together with an assumption on the shape of the return distribution yields the VaR.
GARCH + Standardized Student-t Distribution	2.19%	It is widely known that stock returns are non-normal. To account for this, we combine GARCH volatility forecasting (as above) with a standardized student-t distribution, where the degrees of freedom (which controls the fatness of the tails) is estimated using method of moments analysis.

Figure 2: Daily 1-day 1% VaR using GARCH + Standardized Student-t Distribution



Evaluation of Value at Risk models

In this particular sample period, there was not much difference across the 4 different methodologies, with each yielding an approximate 2% VaR as at Dec 31, 2014. This is a very reasonable level of tail risk, especially given that the 1% VaR of the S&P 500 was in the 2% - 3% range.

One of the most common ways of evaluating the soundness of a VaR model is by looking at the frequency of losses that exceed that day's estimated 1% VaR. Logically, the 1 day 1% VaR should be breached about 2 or 3 times a year (1% of the ~250 trading days in a year). In 2014 DCM breached the 1 day 1% VaR estimate on each day using the GARCH model with a student t distribution 2 times. We therefore conclude our estimates for VaR to be fairly accurate.

Beta Risk Exposures

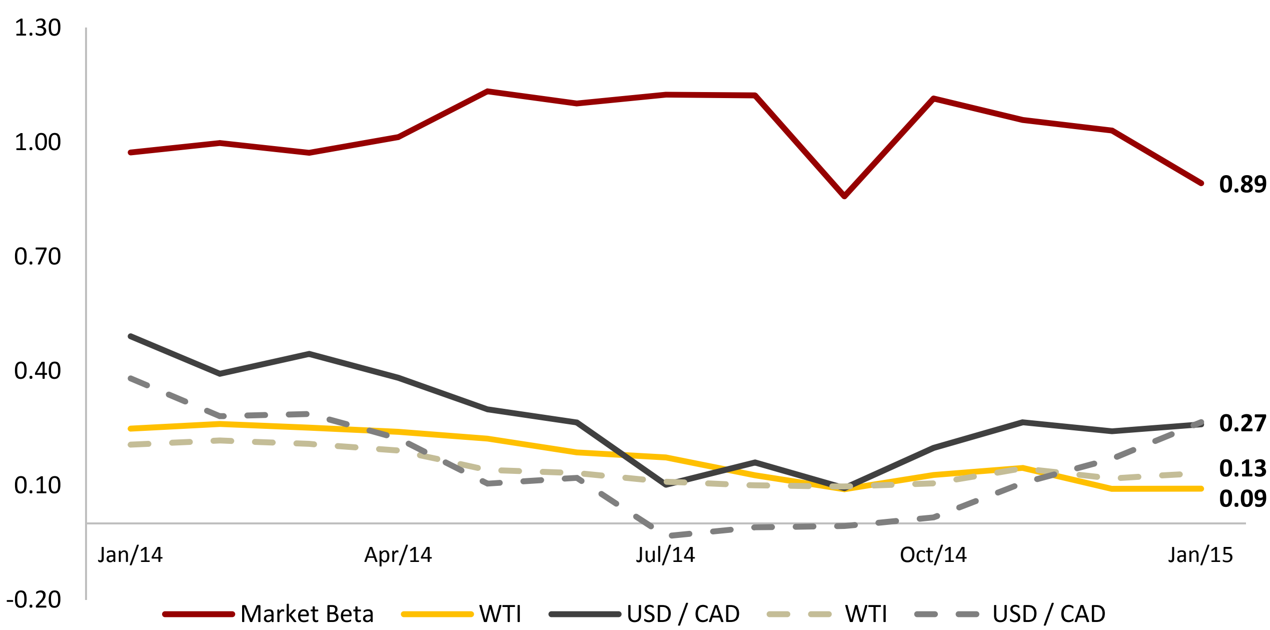
DCM is constantly monitoring its risk exposures. One way this is done is by analysing the fund's sensitivity (Beta) to various risk factors, including stock indices, oil, and the USD/CAD exchange rate. DCM aims to understand these exposures and how they compare to those of our benchmark. As such, we can ensure that our portfolio positioning is not inconsistent with our macro views, and we can better understand our tracking error.

Every month, we simulate the performance of our fund going back one year based on historical stock returns and *current* market weights. The simulation ensures that the sensitivities we estimate reflect current positions, not past positions. Next, rolling Betas are computed at the start of each month by regressing the simulated portfolio returns against those of the mentioned risk factors, again using 1 year of data.

Figure 3 plots DCM's and the benchmark's time-varying beta exposures to selected risk factors. Going into the summer of 2014 our exposure to oil was higher than that the benchmark and this lead to some underperformance when oil prices crashed. Currently, the fund beta to oil is 0.09 compared to the 0.13 for the benchmark. In other words, all else equal, for a 10% increase in the price of oil we would expect a 0.9% (1.3%) increase in the value of the Equity Fund (benchmark). This is consistent with our conservative view on the energy sector.

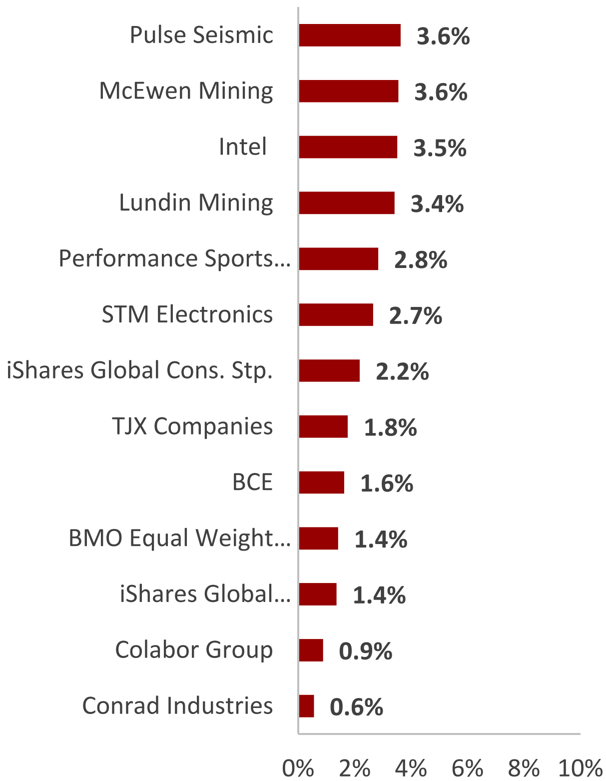
Figure 3: Risk Exposure over time

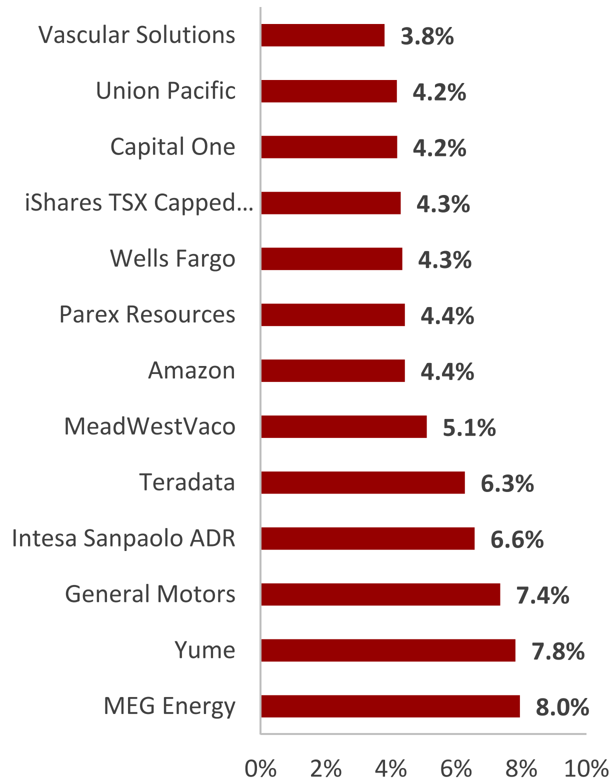
Note: Solid lines represent our rolling exposure to the risk factors, and dotted lines represent our benchmark's exposure to the risk factors.



Rolling beta is found by using weights at the beginning of the month for each time period and finding returns using constant weights going back 1 year. Returns are then regressed against the returns of key indicators. This is repeated at the start of every month.

Figure 4: Contribution to Portfolio Variance (%)





Portfolio Variance Commentary

Another way in which DCM monitors its risk is through the percentage contribution to the portfolio's variance, using current stock weights. The portfolio variance is first theoretically calculated based on current weightings, each stock's variance over the past year, and the correlations between each stock. It is important to note the dismissal of two stocks: New York REIT and Pangea as both are recent IPOs and have insufficient data.

The results tell two stories: first, that of the 5 main variance contributors, MEG, Yume, GM, Intesa, and Teradata combine for a total portfolio weight of ~23% while contributing ~36% of the variance. While most of this variance can be attributed to unique circumstances and events (for example, MEG's stock price reacted strongly following the drop in oil prices), it is to be noted that both YUME and Teradata represent the bulk of our technology holdings. Going forward, our analysts will keep a watchful eye on the inherent risk in the sector should these variance trends continue.

Second, the story of low-variance , high-performing stocks – or as we like to call them, the steady risers. Specifically, Performance Sports Group, which returned a considerable +51.4% while only contributing to 2.8% of portfolio variance. BCE and TJX also displayed a noticeably asymmetric risk-return profile by returning +15.6% and +8.1% for a 1.6% and 1.8% contribution to variance, respectively. Overall, the results suggest our risk concentration is modest.

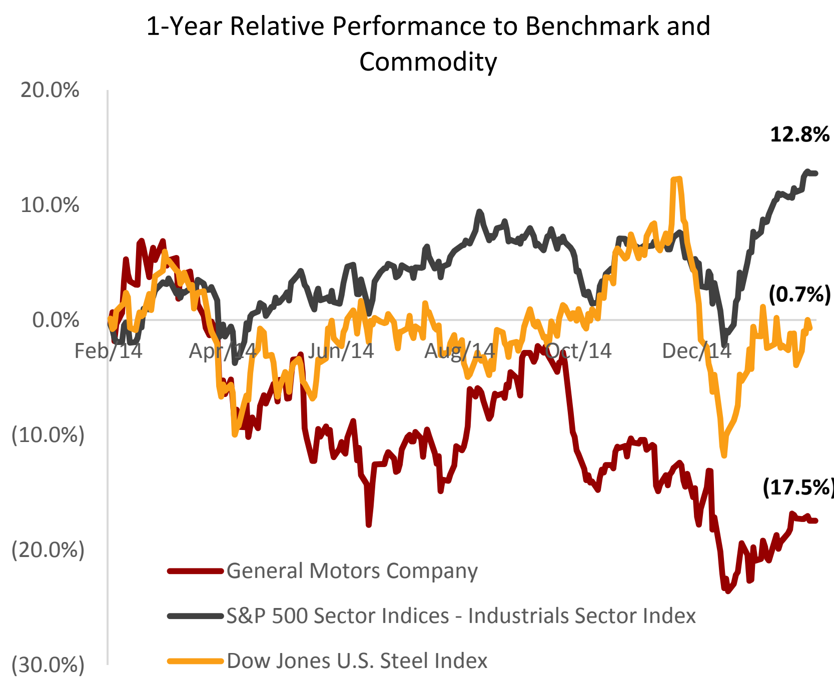
Active Risk Monitoring Toolkit

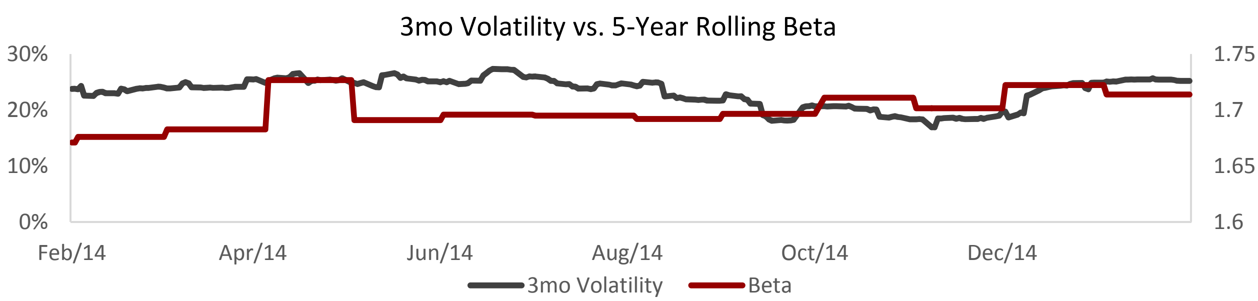
In order to actively monitor our holdings and manage risk, a risk management excel template was developed by the DCM risk manager**.** The template is *self-updating* (based on S&P Capital IQ plugin) each time the file is opened, and allows the viewer to quickly glimpse 1-year performance vs. its respective benchmark, equity research analyst target prices, beta, volatility, net insider ownership change and short interest – all of which should give insight to the relative risk inherent in our positions. An example of the template output is shown below for General Motors:

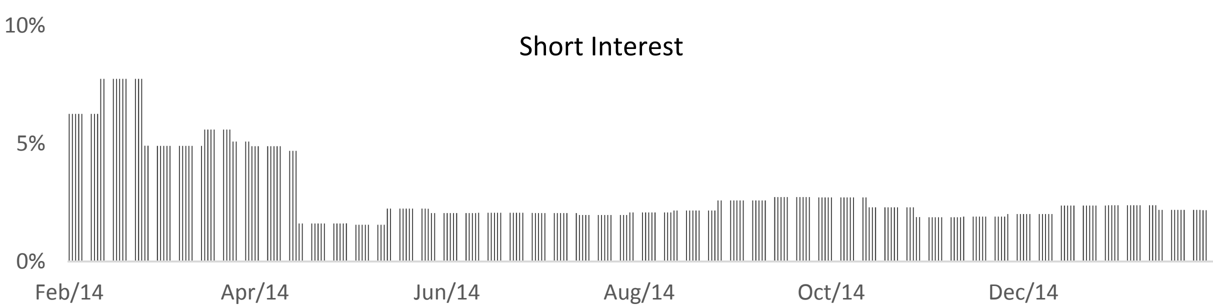
Active Risk Monitoring Toolkit (Sample Output – General Motors)

Summary Statistics

Stock Price	32.07
Target Price	41.44
Upside (Downside)	**29.21%**
Market Cap	51,470
1-Year Return	**-17.45%**
6-Month Return	-7.29%
3-Month Return	-7.53%
5-year Beta (Today)	**1.71377**
Std Dev	1.49%
Mean Return	-0.08%
Correlation to Benchmark R	53.33%
Correlation to Commodity F	42.52%
Insider Buying (3-months)	0.001
Insider Selling (3-months)	-0.00872
Net Insider Change	**-0.00772**







Consumer Discretionary Sector

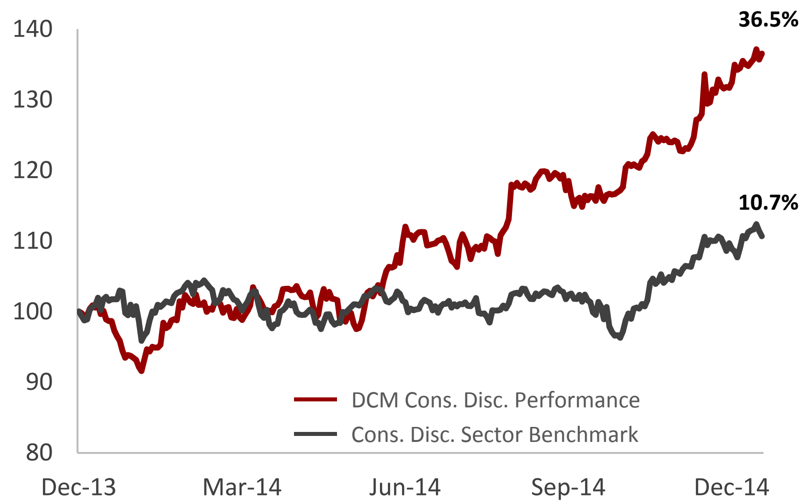
2014 Review & 2015 Outlook

By Colton Dick, Alyssa Obert, Sean Saggi, Ronald Cheung & Yannick Muller

DCM Performance

The DCM Consumer Discretionary sector realized a 36.5% return in 2014 compared to 10.7% for the sector benchmark. Our outperformance can be attributed to the success of the TJX Companies (NYSE:TJX) and Performance Sports Groups (TSE:PSG). TJX's off-price retailer business model was successful in 2014, showing strong same store sales growth as well as investment in new stores. That being said, PSG was our biggest outperformer in 2014, leveraging its multi-sport platform to generate a total return of approximately 50% for the year.

Figure 1: DCM Consumer Disc. Performance

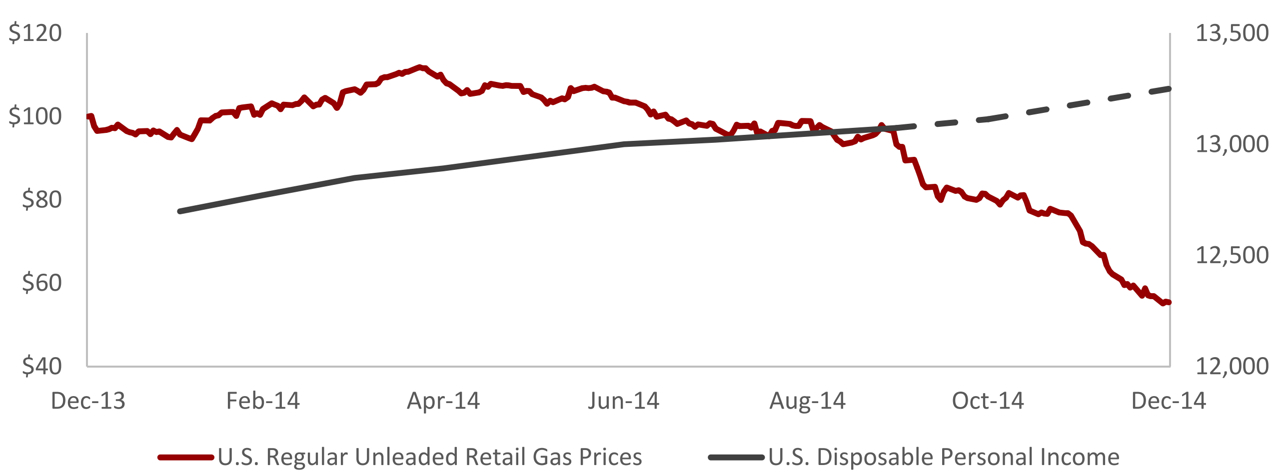


Benchmark: 100% RXI US Equity.

Both holdings benefitted from an improving U.S. economy with the backdrop of a strong labor market, a continued housing recovery, and positive consumer sentiment. These factors, coupled with the decline in oil prices in the latter part of 2014, allowed for both TJX Companies and Performance Sports Groups to reap the benefits of increased consumer disposable income.

As well, expectations for the 2014 holiday period for retailers was especially positive, with consumer sentiment at a post-recession peak and the National Retail Federation predicting a 4.1% increase in retail sales in the US for the months of November and December. The foregoing positive sentiment was primarily driven by the improving economic outlook in the US as well as the extended shopping season (with discounts beginning earlier and Black Friday deals apparent throughout the month of November). Both TJX and PSG benefitted from the positive expectations for the 2014 holiday period.

Figure 2: U.S. Retail Gas Prices vs. U.S. Disposable Personal Income



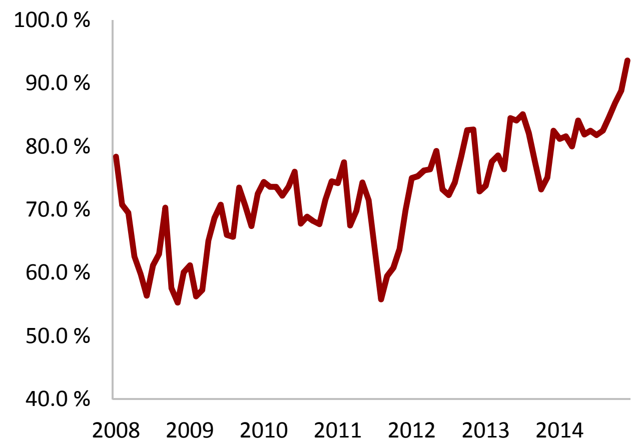
Note: Dashed segment of line in graph shown above indicates DCM expectations that disposable personal income will have risen for the month of December given the large decline in observed fuel prices.

Consumer Discretionary

For our 2015 outlook, we see increased consumer spending driven by five-year low gasoline prices, a robust job recovery, increasing wages, and record low borrowing costs. In the face of historically low household leverage and higher disposable income, we believe consumers might experience a propensity to finance deferred investment in durable goods, such as household durables and electronics. Despite our bullish outlook, we remain cautious of a declining labor force participation rate, rising equity valuations, increasing geopolitical tensions in the Middle East, and a potential increase in interest rates.

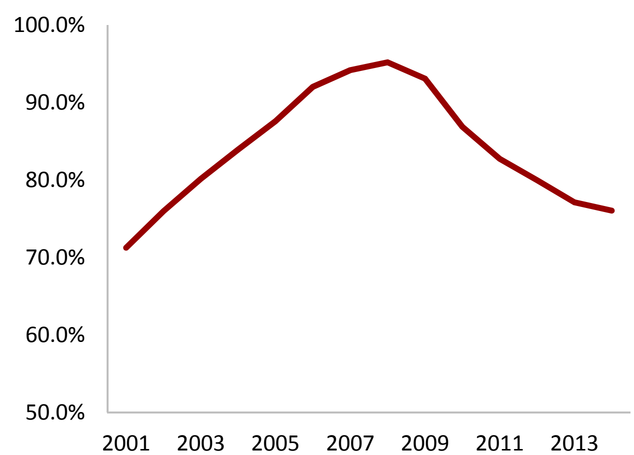
Falling energy prices have generated savings of approximately $550 per household (U.S. Energy Information Administration). Leading economists expect the drop in oil prices to result in a shift of $1.1tn from oil producers to consumers, as evidenced by an increase in December holiday sales by 3.3% year-over-year. As a result, consumer sentiment is at its post-recession peak, as shown in the graph on the right. However, we believe that the increase in consumer sentiment has not been fully reflected, as equities in the consumer discretionary sector have remained relatively flat following the increase in consumer confidence.

Figure 3: Consumer Sentiment Index



U.S. household debt as a percentage of GDP has decreased from 98% (in 2009) to 76%, a level last seen in 2002. We believe this provides ample room for consumers to make large ticket purchases through deferred investments, supporting our positive stance on subsectors such as household appliances.

Figure 4: Household Debt-to-GDP



Although we are bullish on the sector in 2015, certain headwinds remain. Firstly, a broad, sustainable economic recovery would encourage the Fed to increase interest rates, which could negatively impact the housing recovery. Secondly, rising food prices threaten to reduce consumers' disposable income, which would negatively impact consumer spending.

Thirdly, escalating geopolitical tensions in the Middle East and Russia threaten to cause a negative oil supply shock, which would increase gasoline prices and reduce consumer spending power. Lastly, equities are trading at valuations that seem hard to justify, which make it difficult to find attractive investment opportunities. Despite these factors, we continue to remain bullish in the durable goods subsector, as we believe the market performance does not fully reflect the shift in consumer sentiment. As such, for 2015, we will focus our efforts on this space and seek to discover attractive opportunities.

Consumer Staples Sector

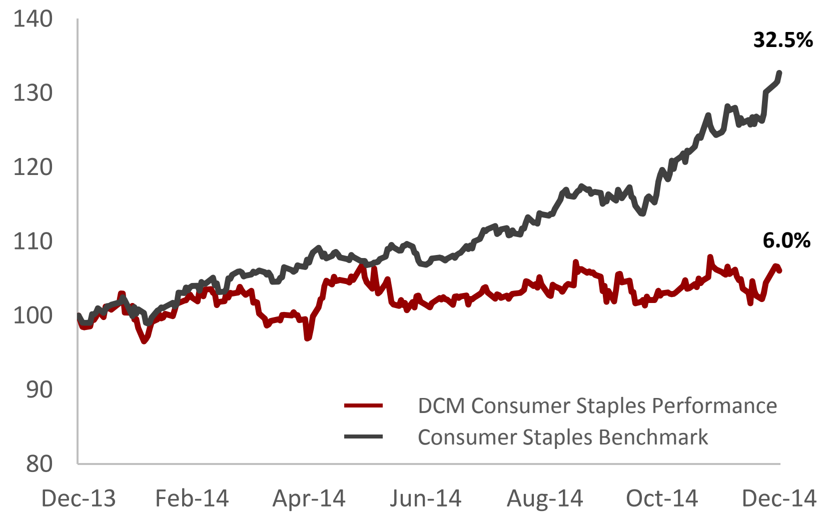
2014 Review & 2015 Outlook

By Colton Dick, Alyssa Obert, Sean Saggi, Ronald Cheung & Yannick Muller

Sector Performance

Over the past year, the Consumer Staples sector blended benchmark realized an annual return of 32.5% while our consumer staples allocation returned 6%, representing an underperformance of 26.5%. Last year, we anticipated that Consumer Staples would underperform Consumer Discretionary due to our bullish views on the US economic recovery and the resulting sector rotation away from non-cyclical towards cyclical sectors. Given our outlook, we decided to search for companies with long-term prospects and sustainable business models that were priced at attractive valuations.

Figure 1: DCM Consumer Staples Performance

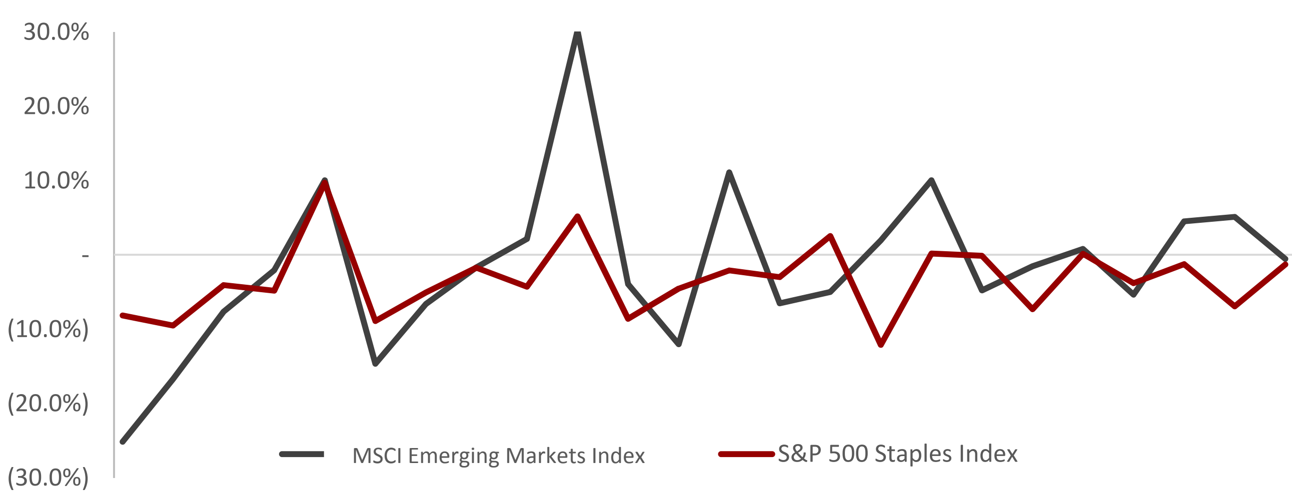


Benchmark: 40% KXI US Equity & 60% XST CN Equity.

During the past year, we only found one company that met our criteria, Colabor (TSX:GCL), which was our sole position in the Consumer Staples sector. This company underperformed our benchmark due to restructuring and debt overhang concerns.

Contrary to our predictions, the Consumer Staples sector outperformed the Consumer Discretionary sector for a variety of reasons. Firstly and perhaps most obvious, was the relative cheapness of this industry. In early 2014, Staples traded at 16.8x P/E which was in-line with it's historical average. However, compared to the overall market (S&P 500), Staples only traded at a 6% premium. This was well below the historical 10% premium the sector has typically traded at and the resulting convergence was a large driver of performance. Furthermore, increased market penetration in emerging markets and the exploitation of the sector's inelastic pricing power increased earnings.

Figure 2: Comparative Returns – S&P 500 Consumer Staples vs. Emerging Markets Index



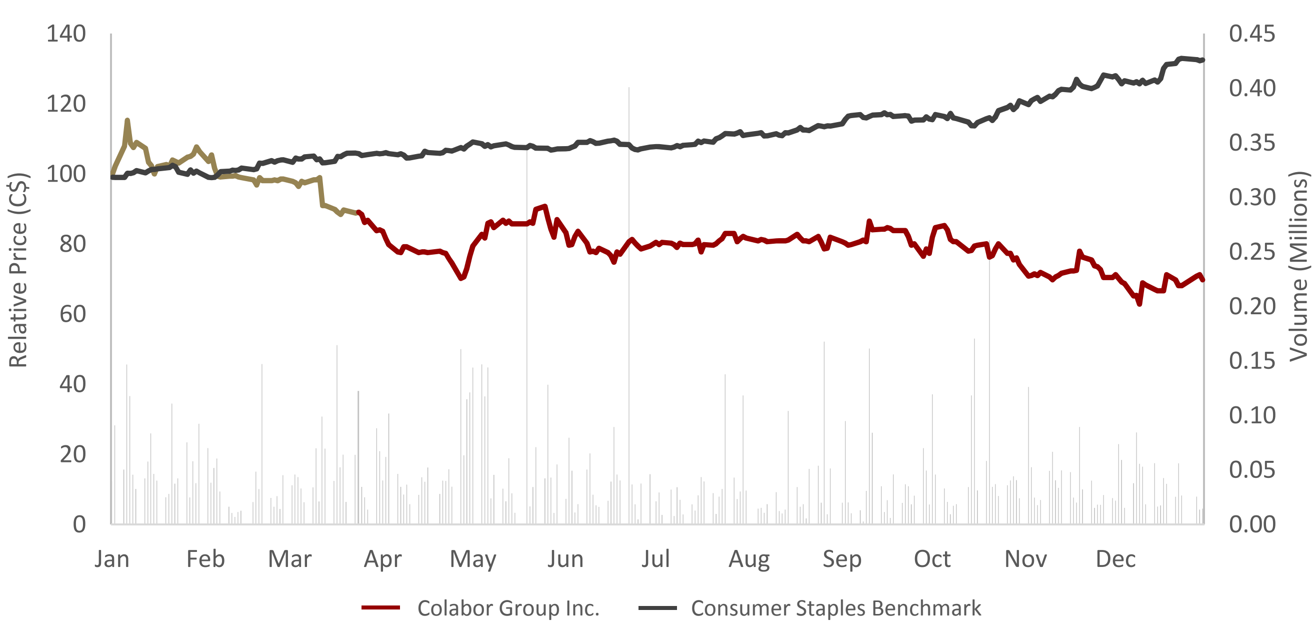
Sector Performance

In our selected holdings review, we have decided to exclude Colabor as we no longer have conviction in the stock and intend to sell it. In early 2014, we purchased Colabor due to its attractive valuation as well as our belief in its turnaround prospects.

From our analysis, Colabor's stock price yielded a ~30% upside based on a conservative base-case valuation. It was also trading at a significant discount to its historical forward multiple. Additionally, we believed the market was being overly pessimistic about its leverage levels, which were largely in-line with their Canadian peers. We concluded that a recently extended credit facility, term loan, and relaxed covenants would help lower Colabor's debt level while improving performance. Furthermore, we saw a reduced dividend as a means to significantly improve free cash flow and allow for deleveraging. Finally, we believed that a new management team (including a new CEO) would improve margins through a focus on acquisitions and revamping sales teams, while raising cash by selling underutilized assets. In summary, it was our opinion that market pessimism surrounding a dividend cut and leverage concerns were weighing excessively on Colabor, despite its turn-around prospects and attractive valuation.

In-line with our investment thesis, Colabor has increased its free cash flow, while management followed through on its Action Plan by restructuring the Quebec sales team, selling underutilized assets, moving into higher margin products, and making strategic acquisitions to increase its presence in a highly fragmented market. Additionally, Colabor's risk profile has improved, as litigation surrounding its conversion to a public company and Bertrand acquisition have been resolved. However, the market has failed to realize the value in Colabor and the stock price has nevertheless suffered because of negative perception from an increasingly competitive landscape and debt overhang concerns. Furthermore, there was no reaction in EBITDA margins despite lower oil prices. We see no upcoming catalysts for value realization and as such, have decided to sell the holding.

Figure 3: Colabor Market Performance

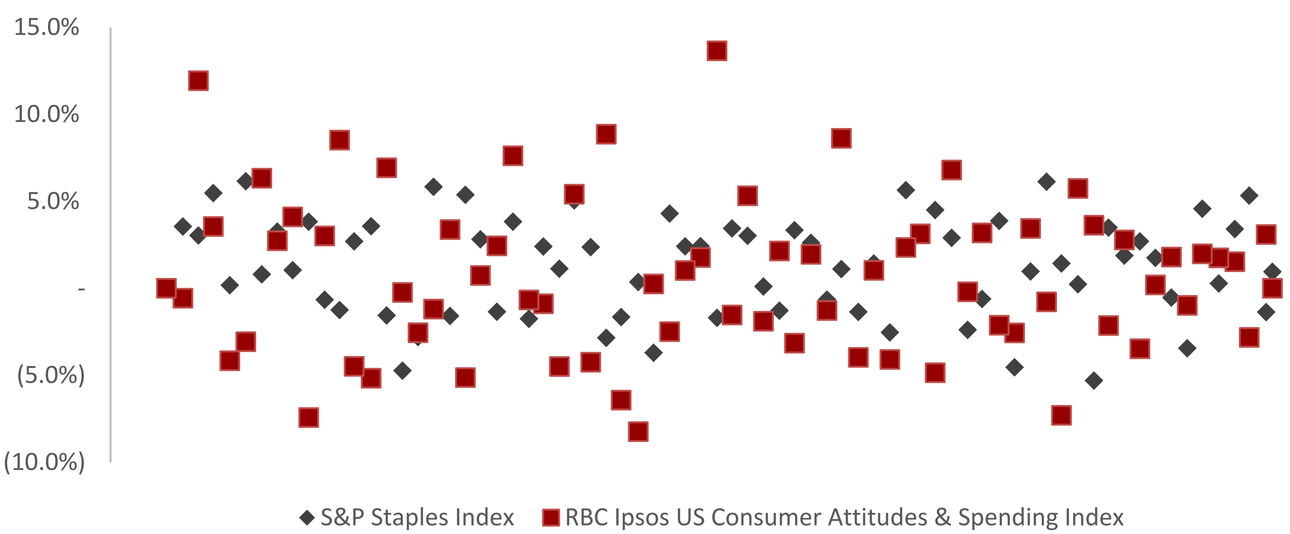


Consumer Staples

Although we maintain a view that consumer spending should rise with the current macroeconomic environment given lower oil and gasoline prices, we realize that staples stocks have a lower beta to consumer spending than its discretionary counterpart. In recent years, growth in the Consumer Staples sector has primarily been driven by emerging markets as increases in household income provide families with the ability to purchase relatively expensive day-to-day items. However, given the slowing growth of incomes in emerging markets coupled with the devaluation of their currencies, we expect a deterioration of growth and sales in staples companies with foreign operations. We've noticed that a positive correlation exists between the S&P staples index and the emerging markets ETF Index, suggesting that U.S based staples stocks are likely to be negatively impacted by the slowing growth in emerging markets. Moreover, the continuing appreciation of the U.S dollar, supported by expectations of interest rate hikes, should pose as a near-term head-wind to the earnings of U.S companies with significant overseas operations.

In addition to currency risks associated with the sector, we may begin to see price wars with the slowing growth, negatively impacting margins and earnings as competitors strive to retain market share through undercutting their peers. The deceleration of global economic growth in 2014 is worrisome as the trend is expected and likely to continue into 2015, especially in the European and emerging markets where consumers will see their real disposable income fall. North America seems to be a relatively more optimistic area as many staples companies are reporting signs of improving trends; however, given the historical insensitivity between economic fluctuations and staple stocks in developed countries where average incomes are high enough for consumers to purchase day-to-day items without hesitation, we do not view the sector to be particularly attractive. As mentioned before, this is not prevalent in emerging markets as those items represent a much larger portion of household income and any decline in real disposable income may dampen staples sales and consequently earnings.

Figure 4: Low correlation between Staples returns and U.S discretionary spending



Despite our underweight consideration towards the Staples sector, potential tailwinds do exist. Given the decline in oil prices, companies utilizing the commodity as a main input cost may see margin improvement, hedging against the impacts of the appreciation of the U.S dollar. In general, during times of increased discretionary spending in the U.S, we look for strong performing staples companies with pricing power, whether it be through brand strength or certain competitive advantages.

Consumer Staples

In years of increased consumer spending, we tend to see underperformance in the Staples sector. This relationship can be illustrated in Figure 3 on the previous page as we have historically seen negative correlation between staples returns and consumer spending. As such, it is prudent to identify market leading, differentiated companies. Overall, we maintain a more bullish stance towards the U.S economic environment compared to Europe or emerging markets and we favor domestic companies with little exposure to emerging markets or currency risks. Consistent with the theme of increased consumer discretionary spending from a decline of oil prices, the staples sector index is not likely to see high volatility since consumers, in general, have a certain financial threshold for day-to-day shopping goods, regardless of their level of discretionary income. In conclusion, while our team intends to focus more on the Consumer Discretionary space, our fund follows a fundamental, bottom-up philosophy; in all economic environments and industries, we seek to find innovative and differentiated companies at attractive valuations.

As such, we will continue to dig for unique opportunities within the space with bottom-up, fundamental analysis. Our search will again be driven by companies with long-term prospects and sustainable business models at attractive valuations. Further, we will look towards companies within the space that display cyclical growth patterns and are more receptive to a favorable consumer spending environment.

Consumers Sector

Holdings Overview

Performance Sports Group (TSX: PSG)

Company Overview

- Performance Sports Group (formerly Bauer) designs, manufactures, and markets sports equipment and related apparel in the hockey, lacrosse and baseball/softball segments under the BAUER, MISSION, MAVERIK, CASCADE, INARIA, COMBAT, and EASTON brands
- In April 2014, the company acquired EASTON baseball/softball business from EASTON-Bell Sports in a $330M all cash transaction
- Recently announced on January 9th to open premium stores in Boston and Minneapolis to offer product education

Catalysts

- Well-positioned for NHL jersey license which comes up in 2016, worth an estimated $200MM/year
- Significant Baseball growth with 30% market share in fragmented market with ~12 competitors
- Long Term: Proven target acquisition strategy; Leverage PSG platform to establish and integrate target companies

Risks

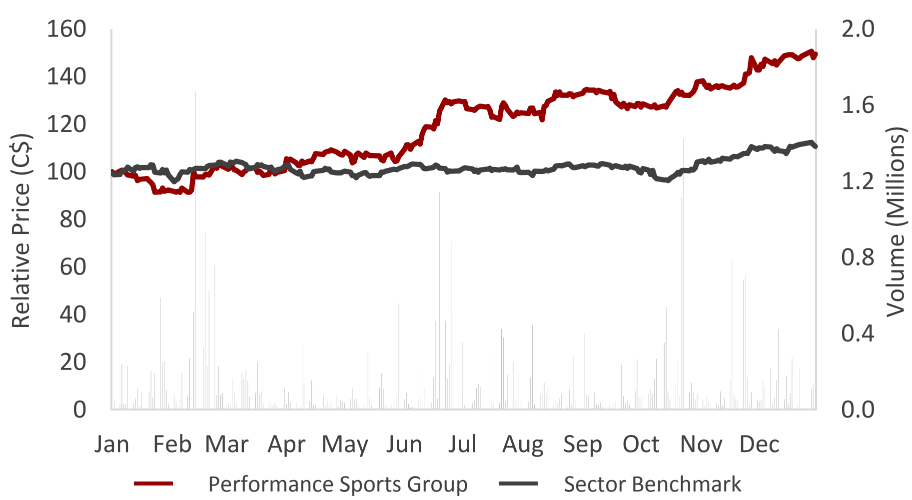
- Inability to pursue strategic acquisitions may dampen growth
- Inability to clear current inventory at existing prices could diminish near term sales and hinder ability to pay off debt

Financial Summary

Public Market Overview	
(values in $mm, as of Dec. 31, 2014, except for Share Price)	
Share Price	$21.14
Shares Outstanding (mm)	42.7
Market Cap.	**$903**
+ Total Debt	420
+ Minority Interest	-
+ Preferred Equity	-
- Cash	6
Enterprise Value	**$1,317**
Beta	0.35
Dividend Yield	--
ROIC	4.0%
52-Week High	$21.31
52-Week Low	$12.93

Financials & Multiples	LTM	FY2015E	FY2016E
(values in $mm)			
Revenue	$494	$712	$762
% Growth		*44.1%*	*7.0%*
EPS	$1.30	$1.40	$1.60
% Growth		*16.0%*	*16.0%*
P/E	22.3x	22.1x	19.5x
EV/EBITDA	11.4x	11.2x	10.3x
EV/Sales	1.6x	1.6x	1.5x
FCF Yield	2.0%	3.0%	3.0%

Market Performance



Benchmark: 100% RXI US Equity.

Position Snapshot

Average Cost	*$13.0*
# of Shares	*5,985*
Value Invested	*$126,523*
Portfolio Weight	*4.52%*
2014 HPR	*49.2%*
HP Benchmark Return	*10.7%*
Excess Return	*38.5%*

All figures in CAD

Investment Thesis

1. **Multiple Rerate & Valuation:** *We had believed that the company would gain from a multiple rerate as it transformed into a true multi-sport platform. This has been realized throughout the year as the company now trades in-line with its peer set*
2. **Renewed & Diversified Growth:** *The company's intrinsic value is heightened by virtue of hockey & diamond sports' high single-digit CAGRs*
   - The company has continued to deliver strong quarterly results for the past few announcements, following the integration of EASTON. Market sentiment is at a very high level given the company's strong growth within all its segments
3. **Leverage Discount:** *We had believed the market was discounting the intrinsic value of the EASTON acquisition given the company's high leverage*
   - Management has not decreased leverage levels significantly and the company still has ~3x as much debt as competitors. Given that the company now trades at a premium to its peers, we believe the market has appropriately valued their latest acquisition

Analysis of Performance

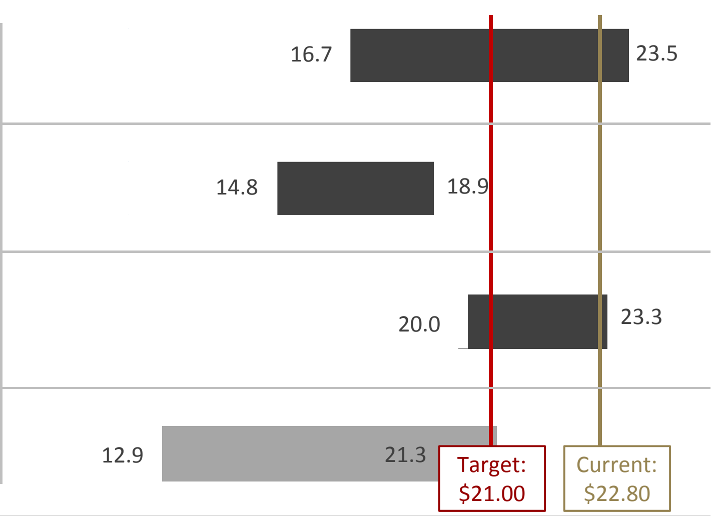
Over the past year, Performance Sports Group has returned almost 50%. We have seen a multiple re-rate as the company now trades at a premium to other multi-sport platforms such as NIKE at 11.7x EV/EBITDA and 17.5x P/E. Consequently, we no longer believe the stock to be attractive at these levels.

In order to justify holding this position, we would have to take a view on the company's growth prospects. At current prices, the market is forecasting high double digit organic growth for the next few years with little consideration of the integration/execution risks associated with the EASTON acquisition. Even with our most optimistic estimates, we project growth in the high single digits of 7-9%, well below the ~15-18% growth embedded in the price today.

Overall, the stock has more than surpassed our bull case target price of $21 and is trading at all time highs. In this way, we believe it prudent to exit the position now given current valuation multiples, the materialization of the main points of our investment thesis, and no view on near-term catalysts.

Valuation Summary

Method	Metric	Illustrative Value Range
DCF	WACC: 9.0 – 11% Terminal EBITDA: ~150-200mm Terminal Multiple: 9.0x – 11.0x	16.7 – 23.5
Comparable Trading	9.0x – 11.0x FY2015E EBITDA ($116 mm)	14.8 – 18.9
Premium to VWAP	Premium: 20-40% VWAP: $16.65	20.0 – 23.3
52 Week Trading	Low – High	12.9 – 21.3



The TJX Companies Inc. (NYSE: TJX)

Company Overview

- The TJX Companies, Inc. operates as an off-price apparel and home fashions retailer in the United States and internationally
- TJX offers a wide selection of name brand and designer apparel, accessories, footwear, and home fashions for the entire family internationally (off-price business model indicates the company offers these quality brand name items at significantly discounted prices)
- The company operates in four segments: Marmaxx, HomeGoods, TJX Canada, and TJX Europe

Catalysts

- Growth in two key segments:
  - Growth in TJX Europe through leveraging lean inventory practices resulting in same store sales growth and margin expansion
  - Growth in HomeGoods division fuelled by momentum of U.S. housing recovery

Risks

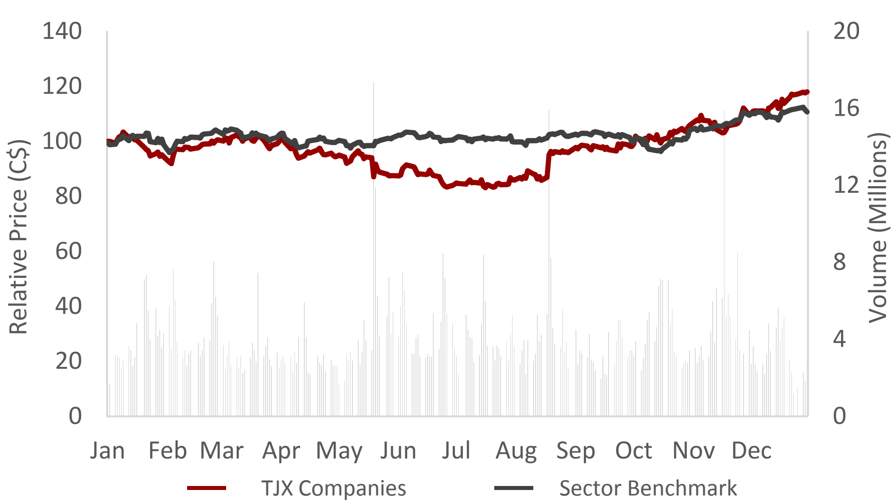
- Consumer shift away from off-price retailers given improving U.S. economy and consumer sentiment
- Stagnant growth in Europe as a result of troubled economic climate in euro zone

Financial Summary

Public Market Overview	
(values in $mm, as of Dec. 31, 2014, except for Share Price)	
Share Price	$68.58
Shares Outstanding (mm)	692.9
Market Cap.	**$47,522**
+ Total Debt	1,624
+ Minority Interest	-
+ Preferred Equity	-
- Cash	2,431
Enterprise Value	**$46,715**
Beta	0.87
Dividend Yield	1.0%
ROIC	57.1%
52-Week High	$68.58
52-Week Low	$52.23

Financials & Multiples	LTM	FY2015E	FY2016E
(values in $mm)			
Revenue	$28,583	$29,040	$30,920
% Growth		*1.6%*	*6.5%*
EPS	3.07	3.11	3.52
% Growth		*16.0%*	*16.0%*
P/E	22.3x	22.1x	19.5x
EV/EBITDA	11.4x	11.2x	10.3x
EV/Sales	1.6x	1.6x	1.5x
FCF Yield	4.0%	3.9%	4.3%

Market Performance



Benchmark: 100% RXI US Equity.

Position Snapshot

Average Cost	*$66.1*
# of Shares	*700*
Value Invested	*$55,603*
Portfolio Weight	*1.99%*
2014 HPR	*18.6%*
HP Benchmark Return	*10.7%*
Excess Return	*7.9%*

All figures in USD

Investment Thesis

1. **Growing Target Market:** *TJX targets a more attractive consumer, less low income, relative to other competitors*
   - Growing brand-conscious value-seeking shopper
   - Shopper penetration in the U.S. remains below department stores
2. **Global Buying Organization:** *Entrenched role in global ecosystem, acts as a barrier to entry for competitors*
   - Superior sourcing for procurement, allowing for most attractive product offering coupled with a strong platform to support international growth
3. **Opportunities Among Segments:**
   - **Marmaxx:** Continual store remodel program to provide a shopping experience comparable to department stores – Management continues to focus on initiatives driving customer traffic and comp sales
   - **HomeGoods:** Beneficial exposure to housing recovery through HomeGoods & HomeSense franchises. There is low US market penetration, providing promising growth potential (there are approximately 100 markets where TJX operates Marmaxx without HomeGoods)
   - **Europe:** Sole off-price retailer in Europe, providing first mover advantage. There is substantial growth potential in current markets, and plans for expansion into new markets (TJX will enter the Austrian market in the first half of 2015)

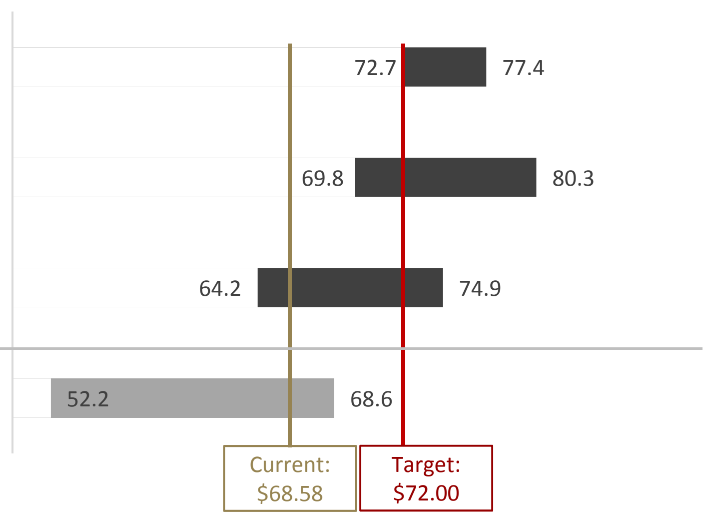
Analysis of Performance

The investment thesis stemmed from our belief that off-price retailers stood to gain from an increasingly cost-conscious, value seeking population. Over the course of the year, this general theme as well as the tenets of our investment thesis were partially realized and the stock yielded an approximate 8% excess return. Points to highlight for TJX's performance include increased consolidated comparable same store sales growth (up 2% compared to 5% a year ago in Q3 FY2015 earnings), management's focus on HomeGoods as a key growth driver, and a commitment to return cash to shareholders. We continue to focus on TJX's growth in the European market and headwinds related to economic uncertainty in the euro zone.

Valuation Summary

Method	Metric
DCF	**2024E EBITDA (8.9B ± 1.0B)**
	Terminal EBITDA (9.0x ± 1.0x)
	WACC (8.7% ± 1.0%)
Comps	**52 Week Trading Range**

Illustrative Value Range



Energy Sector

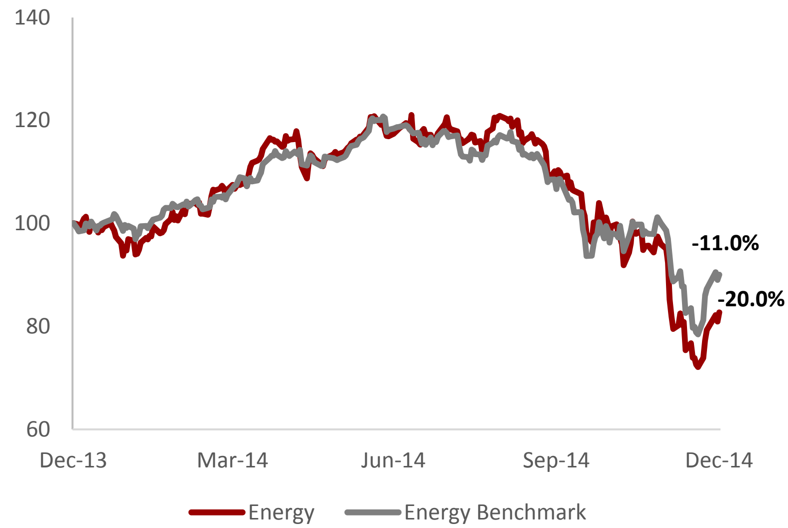
2014 Review & 2015 Outlook

By Jeremy Kertzer, Debra Kelsall, Christophe Lussier & Philippe Rich

Introduction

2014 was a story of two halves. In H1 the S&P 500 Energy Sector posted an outperformance of 10% over the S&P 500. But in H2 the price of oil experienced one of its largest drops in history, declining from US$105 to US$55. Not surprisingly, energy stocks underperformed local and global equity markets in 2014; the S&P/TSX Capped Energy Index was down 18.1% in 2014, and the S&P 500 Energy Sector was down 9.9%, compared to a gain of 11.8% for the S&P 500 Index. The DCM Energy Sector posted a 17.5% loss, representing a 5.6% underperformance relative to our blended Canada/US energy sector benchmark.

Figure 1: DCM Energy Performance



Benchmark: 40% XLE US Equity & 60% XEG CN Equity.

How We Got Here: The Fundamental Factor

Beginning in the mid-2000s, the United States began to see a surge in its oil industry development. New extraction techniques coupled with increased demand, made some of the most expensive forms of extraction economical. The result was a massive boom in the oil industry and an end to a multi-decade decline in U.S. oil production. Geopolitical risk and rising demand resulted in prices continuing to climb year after year in the late 2000s to early 2010s (except for the large decrease during the 2008 recession). Production around the world would continue to increase and prices would continue to rise as long as the status quo of high geopolitical risk and increased demand from China remained. One hiccup in either of these, however, and we could easily see a break in the system. This hiccup materialized in early September 2014 as China began to report lower than expected growth and demand. The oil market began to suffer immediately and a three-month drop in oil prices ensued.

The situation that has played out recently is reminiscent of the oil industry in the mid-1980s. Beginning in the early 1980s, we saw OPEC start to reduce its oil production in order to support prices. Over this period however, we saw non-OPEC production continue to ramp up and OPEC lose much of its market share. By the mid-1980s, OPEC members decided to abandon their swing producer status and continue to ramp up production. The positive supply shock eventually led to lasting changes around the world. All-time high U.S. production put OPEC and the U.S. in a fierce price war that would have profound effects on the North American oil industry for decades to come. United States oil production slid year after year between 1986 and 2008. Unemployment in Texas rose to nearly 10% in 1986, compared to the national average of 7%. Producers around the world pulled out of the United States and the entire industry declined for almost a quarter of a century.

There are many parallels to draw between what happened in the 1980s and what is happening in the market today. One of the events that really defined this recent oil collapse was the November 27th OPEC meeting.

How We Got Here: The Fundamental Factor

Oil prices had already fallen by double digits by the time of the OPEC meeting. However, it was this meeting that would set the tone for the industry going into 2015 and beyond. A decision to not cut production and maintain a 30 million barrel per day cap sent the entire oil market into a frenzy, with WTI dropping below $70.

The tight oil producers that have shaped the next generation of U.S. oil production over the past 7 years will run into a host of difficulties with sustained depressed oil prices. In addition, most of the marginal supply of oil will be unprofitable at this level, which will result in a slowdown of U.S. production growth if prices remain at this level for an extended period of time.

The fundamental reason for the fall in oil prices is fairly simple to understand: there is just too much oil on the market. High U.S. production and slower demand growth were the cause for the recent fall off in oil prices, and may be the solution as well. A pick-up in demand will put us in a similar situation that was experienced in the mid-to-late 2000s; supply continued to increase but demand increased by such a large amount that the price of oil continued to climb (apart from the massive drop during the financial crisis). A shake off in U.S. production growth would also support a higher price.

Fundamentals brought us to where we are today and it was the financial side of oil that caused such a rapid decline in the price. The financial side of oil has proven to be more reactionary to fundamental changes that have already taken place. Consequently, it is likely that it will be the fundamentals that will get us out of this slump. Once the market begins to see a cut in supply or a pick-up in demand, then it will begin to revise its expectations for the market in the future.

How We Got Here: The Financial Factor

Fundamental factors ultimately drive the market in the long run, but speculative positions in financial markets, via futures and options trading, can exacerbate price moves and increase market volatility. Net long speculative positions built up significantly starting in 2010 and continued to build tremendously in the following years. Quantitative Easing in the United States resulted in investors looking for an inflation hedge and as a way of betting on the economic recovery. Once the growth alarm bells starting ringing in emerging markets and the Fed began to usher in an end to QE, the speculative net long positions fell dramatically (~50% over the past 6 months). This exacerbated the massive drop in the price of oil even though the fundamental factors have remained fairly unchanged in the past 6 months. Future supply and demand expectations have changed considerably, and this is why the drop ultimately took place.

Caution needs to be taken when interpreting financial flow data. Before the summer hit it could have been that prices were artificially high due to speculative long positions. It is our view that the environment we are currently in is made up of prices being pushed too low to the downside. Sentiment and momentum trading typically move prices in either direction beyond their “fundamental value” range, so it is possible we have a period of prices below the current level before we see a recovery.

How Low Can It Go?

Breakeven prices for producers in North America are now being tested. The shale producers that contributed the majority of supply growth face some of the highest breakeven prices. Canadian producers also face very high breakeven prices. A sustained period of sub-$70 oil will result in mass capital expenditure cuts across the oil industry. Many large Canadian producers cut capital expenditure forecasts for 2015 in early December. This coupled with a cut in spending for U.S. producers will result in less growth in North American oil production. Therefore we could see support coming in for the price of oil at mid-$55 and an upward trajectory going forward simply due to the economics of North American producers. West Texas Intermediate has traded at a discount to Brent for over 6 years. Supply shocks out of North America however, could push this spread down and the market could witness parity between Brent and WTI for the first time post the 2008 financial crisis.

How to Invest?

Investing in an environment with a lot of macro uncertainty is always tricky. Investors are very fearful of energy names right now due to heightened volatility and uncertainty. But tremendous value can be found in times of fear and when blood is on the streets. The current energy market could be one of the best opportunities investors have seen in a long time. But how and where should one position in this environment. Capital expenditure cuts will result in production cuts, decreased cash flow, asset write-downs and eventually heightened leverage metrics. A company with too many commitments could find itself under water before it has a chance to turn itself around. The companies that will best weather this storm are ones with far-out debt commitments, high netbacks and downstream exposure.

Where the oil Sands Stand

Canadian oil sands companies have some of the highest production costs and many would believe that this would be the first production to get cut in an oil price slump. However, the dynamics of an oil project could be the main reason why this very crucial Canadian industry stays afloat. Oil sands projects require enormous initial investments and have very long production lives. A short-term slump in oil prices may result in near-term capital expenditures getting cut, but will unlikely result in a complete shut-down in production due to the high sunk cost nature of the project. In addition, oil sands companies have benefited partially from the fall in oil prices due to lower diluent costs and a lower Canadian dollar that has resulted in a decrease in cash costs in Canadian dollars relative to oil prices in U.S. dollars.

A sustained period of low oil prices will surely hurt the oil sands industry significantly; however, given an expectation for a slight recovery in mid to late 2015, oil sand companies may sustain scars in the current environment but will not be completely slaughtered.

At What Price Will The Spending Cuts End?

While companies across the oil industry are slashing capex to stay afloat, it might seem premature to think about growth. However, to justify even many of the so-called “value plays” growth does need to be expected eventually. World oil prices will have to recover significantly before we see any major growth in the oil patch. An $80 level will be needed before we see shale oil and oil sands development pick up again.

What This Means for Natural Gas

Natural gas is often considered a domestic commodity, whereas oil is a world commodity. Natural gas prices are largely a function of local weather conditions, some worldwide geopolitical events (most relevant today is the conflict in Russia and the Ukraine) and local supply conditions. A reduction in capital expenditures from oil companies will result in a fall in natural gas supply as well since natural gas is a by-product of oil drilling.

Going forward, the natural gas supply and demand balances will tighten which will support the price. Natural gas has held up quite well in the past few months, and natural gas weighted companies proved to be an excellent place to hide once the selloff in oil names began. Going into 2015 we expect a similar situation, with natural gas names being a good place to weather the storm but not an area to look for deep value opportunities.

Outlook for 2015

The energy industry, with a focus on the oil and gas sector will surely continue to face challenges in 2015. However we could still see a slight rebound in the price of crude as traders find a bottom and some production comes offline in North America. Equity valuations largely reflect the lower capital spending and thus lower production targets that companies will experience in the coming years. The most volatile companies in the recent oil price decline were oil producers with high financial leverage and a junior production profile. Thus any rebound in the price of oil and these companies should be positioned for the most upside. The challenge remains in finding what oil price is currently priced into the market and whether our expectation is a higher average oil price in the coming year. Indeed, futures markets are pricing in $55 WTI, and from our analysis, equity valuations are pricing in a sub $50 WTI into 2017.

The year ahead will prove challenging for equity investors in the energy space. Nevertheless, investors who take a long-term approach will find that there is significant value to be found at current valuations given a rebound in the price of oil in the long run.

The year ahead will be defined by who in the energy market will blink first. At DCM we place a very low probability that OPEC will be the first to cut production in order to support prices. There are many members of OPEC who will have significant issues in balancing budgets at the current oil price. However, we believe that the decisions of the cartel are being driven exclusively by Saudi Arabia who would prefer maintaining their share of worldwide oil production instead of having a higher price of crude. It is our view that it will be the high cost offshore producers, along with the marginal players in the United States that will be the first to cut production. This has already started to take shape as we have seen many American oil producers slash their capital expenditure budgets right before the winter holidays. As a result we believe that oil will trade fairly sideways in the first half of 2015, but will begin an upward trend once the summer months hit as mid-year production targets are released in the United States.

A decline in oil production growth in the United States will result in decreased market share. Canada will face a similar situation but its market share will be fairly supported due to the long project life nature of oil sand projects. Many of the costs for existing projects are already sunk and therefore it is unlikely that producers will touch their current production base. The issue will come in future project plans and whether or not the oil price at the time will support these projects. With U.S. production being cut by mid-year, we believe that many of the oil sand projects that currently appear to be in jeopardy will actually go through. Therefore we view that estimates for future Canadian production growth will decrease in the first half of 2015, but these will be quickly revised once we enter the second half of 2015 due to the situation that will be playing out in the United States. This will result in Canadian market share being supported going forward, but U.S. market share being curtailed.

Outlook for 2015 (Con't)

At first glance these factors would result in an overall positive sentiment for oil producers in Canada. However we believe that a divide will begin to form among oil producers in Canada. Canadian light oil producers will face a similar situation as American producers. Slashing spending will be quickly felt among light oil producers in Canada and once the oil price recovers they will be found with a lower production base than they would have liked to have. Due to the nature of oil sands production, Canadian oil sand companies will be found with fairly poor earnings numbers over a few quarters, but will reap gains once the light oil production in North America decreases, as much of the oil sand production will be fairly untouched. As a result, at DCM we have positioned ourselves with an overweight position in oil sand producers.

Our base case scenario for crude oil in 2015 is for OPEC to continue to maintain its production targets, but for American producers to reduce supply in the second half of the year. Production growth out of Canada will be fairly depressed entering 2016, but will face a resurgence as many projects that were sidelined end up going through. The weak production numbers entering 2016 will be as result of light oil producers in Canada cutting their production targets.

We expect producers in North America will continue to cut their capital expenditure budgets, which has already started significantly in Canada. This will be a short-lived phenomenon and we expect capital expenditure budgets to pick up in 2016.

Taken together, our view is that oil will rebound somewhat starting in the second half of 2015 as North American crude oil production grows by less than previously expected due to shale producers and light oil producers in Canada drilling fewer wells than previously planned. Overall however, we are bullish on the sector as we believe this is one of the best opportunities investors have had in quite a long time.

The companies who have suffered the most in the recent oil price decline, will surely be positioned to reap the most gains once the trend reverses. One must be cautious though to stay away from the companies that have suffered too much as they may be so highly levered and their business model impaired to the point where they will have trouble continuing as a going-concern. At DCM we have positioned ourselves in companies that will be able to weather the recent decline and are making steps to position themselves as best as possible for any trend reversal in the industry.

Energy Sector

Holdings Overview

MEG Energy Corp. (TSX: MEG)

Company Overview

- MEG Energy is a pure play Canadian oil sands company focused on sustainable in situ and SAGD development and production in the southern Athabasca region of Alberta
- The Company has one of the highest quality assets in the industry illustrated by its low supply costs and low SOR of 2.4x
- The Company has a clearly defined growth plan and has consistently been able to beat production expectations
- Recently, MEG lowered its 2015 capex budget amid the oil price volatility in order to keep its balance sheet intact

Catalysts

- Crude oil price stability would reduce the negative sentiment overhanging Canadian Oil Sands and open-up the market's eyes on MEG's production track-record, marketing positioning and intact balance sheet
- Regulatory approval of Surmont Projects and updates on brownfield project expansion
- Marketing to U.S. Gulf Coast via pipe, rail and barge

Risks

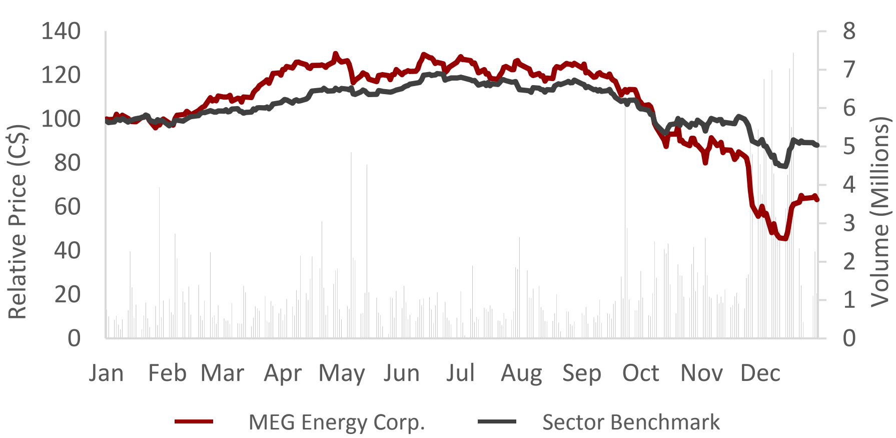
- A long-term low oil price environment would force MEG to either maintain its dwarfed capital expenditures and production growth, or draw on its loan facility – beefing up its debt burden and potentially leading to a credit rating decrease
- Increases in natural gas prices, as it is a key input in SAGD oil sands operations

Financial Summary

Public Market Overview	
(values in C$mm, as of Dec. 31, 2014, except for Share Price)	
Share Price	$19.55
Shares Outstanding (mm)	223.8
Market Cap.	**$4,376**
+ Total Debt	4,218
+ Minority Interest	-
+ Preferred Equity	-
- Cash	777
Enterprise Value	**$7,817**
Dividend Yield	--
ROIC	5.4%
52-Week High	$40.10
52-Week Low	$14.05

Financials & Multiples	**LTM**	**FY2015E**	**FY2016E**
(C$mm; Base Case, see Leverage & Downside Analysis section for all scenarios)			
Production	$70,213	$80,595	$85,770
% Growth		*15.0%*	*6.0%*
Diluted CFPS	3.40	2.69	3.65
% Growth		*(21.0%)*	*36.0%*
EPS	($0.47)	$0.97	$1.85
% Growth			0.9x
EV/DACF	7.6x	10.0x	7.2x
Net Debt/OCF	4.4x	5.1x	3.1x
OCF /Interest Expense	3.9x	2.5x	2.9x
(OCF - Maintenance Capex) /Interest Expense	2.8x	1.4x	1.9x
Risked NAV/share	$45.14		
Unrisked NAV/share	$59.52		
EV/2P	$2.74		
EV/2P + 2C	$1.21		

Normalized Stock Price and Sector Benchmark Performance



Benchmark: 40% U.S. Energy index (XLE) in CAD, 60% S&P/TSX Capped Energy Index (XEG).

Position Snapshot

Average Cost	*$33.2*
# of Shares	*5,195*
Value Invested	*$101,562*
Portfolio Weight	*3.63%*
2014 HPR	*-36.2%*
HP Benchmark Return	*-11.9%*
Excess Return	*-24.3%*

All figures in CAD

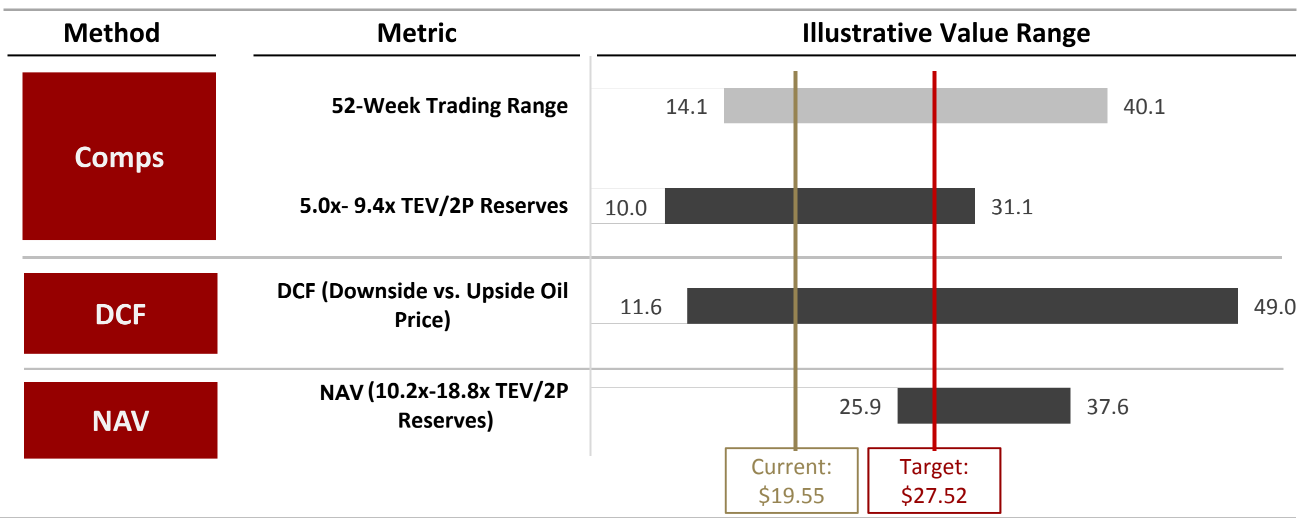
Investment Thesis

1. **Overblown sell-off following the broad-based Energy sector decline:** *The -53.3% drop since October 2014 amid the falling oil prices is a market overreaction and does not reflect MEG's true underlying value*
   - MEG's organic growth model remains intact with its 15% production growth in 2015, internally funded at virtually any oil price
   - On an asset basis, MEG trades at an EV/2P+2C of $1.21 – much lower than its peers ($4.08 average)
   - The market's perceived financing risk is overblown given MEG's undrawn $3B credit facility and its capacity to keep its capital structure intact at lower oil price levels (sub $50 WTI). MEG's current debt is being phased out in far-out periods (2020+) when MEG will have significant and sustainable cash flow to pay back that debt and to start returning capital to shareholders
2. **MEG's "hub and spoke" marketing strategy and strategic initiatives:** *The company's Access Pipeline and rail capacity allow it to opportunistically access higher priced markets in the South. Also, MEG has one of the greatest PADD III exposure via rail access and Flanagan/Seaway South. In 2014, its RISER patented technology allowed to bring Christina Lake Phase 2B online at an impressive speed, and will prove useful when MEG ramps up its capex budgets once oil prices have recovered*
3. **Oil Sands favorable macro environment relative to shale and light oil:** *A weak Canadian Dollar, new technologies for SAGD projects, better transport facilities, lower diluent costs and U.S. refineries' design all favor oil sands producers in the long-term*
4. **MEG's low cost advantage:** *MEG's long-term competitive cost advantage should become increasingly evident to investors as the company successfully weathers the depressed macro environment and continues to obtain improved price realizations*

Analysis of Performance

2014 was all about MEG's operational strength and impeccable execution. The Company surprised to the upside with better than expected ramp-up of Christina Lake phase 2B and production figures, and quicker than expected implementation of its rail marketing strategy. MEG registered the highest CFPS growth (235%) and production growth (99%) among its peers. During the oil price sell-off, MEG underperformed the benchmark due to its high beta to oil, early-stage position for an oil sands development company (i.e. high capex required to maintain growth), and sensitive leverage to capital expenditures. In December, the stock recovered slightly after MEG's management alleviated debt concerns by restricting its short-term spending to maintenance capex.

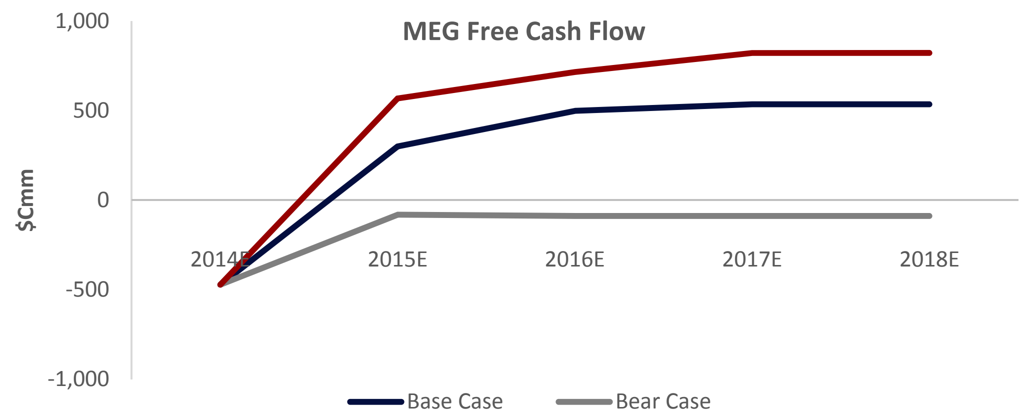
Valuation Summary

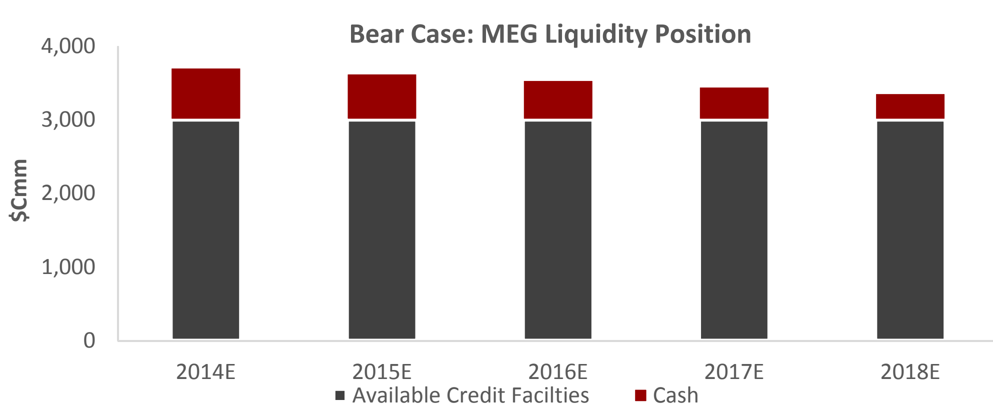


Leverage & Downside Analysis

- Under all oil price scenarios, MEG is able to maintain its credit facility untouched. Under our Bear case scenario - oil prices at $50/bbl in the long-term - free cash flow is always negative (see line graph), but given MEG's extremely low Capex budget and strong cash position, the company is able to pay its interest expense without drawing on its revolver facility (see bar graph)
- MEG maintains a healthy Interest Coverage ratio under our Base and Bull case. In our Bear case, the ratio drops below 1.0x, but MEG's liquid assets allows it to pay the remaining interest expense (post-OCF) without touching its bank facilities
- MEG's breakeven oil price comes in at $48-49/bbl WTI, but its solid cash and cash equivalents on hand gives the company some leeway to continue producing at virtually any price
- MEG's required maintenance spending is in the range of $200 - $225mm per year. MEG's recent reduction in capex budget (from $1.2B to $305mm) is a great optionality that allows the company to weather the storm with no impact to production rates prior to 2017
- We see MEG switching back to its production-growth path by ramping up spending and accelerating pre-established growth initiatives as soon as oil prices recover in the $70-$80 range

Oil Price Scenario	2013A	2014A	2015E	2016E	2017E	2018E
Base Case - Street	98.01	93.60	68.42	78.25	79.92	79.92
Bear Case	98.01	93.60	50.00	50.00	50.00	50.00
Bull Case	98.01	93.60	82.50	90.00	95.00	95.00





*As the objective of our analysis is to measure leverage in extreme scenarios (and not growth), we maintain production constant after 2016.

Parex Resources (TSX: PXT)

Company Overview

- Parex Resources (PXT) is a Canadian company headquartered in Calgary, which explores for, develops, and produces oil in Colombia and Trinidad & Tobago
- The company's 2P reserves increased by 80% to 58mm boe following the acquisition of Verano Energy Limited announced in June 2014
- Parex revised its base capital budget from $300 million to $145-$155 million for 2015, allowing the Company to provide year over year annual production growth of 18% fully funded from cash flow from operations

Catalysts

- Results from multiple wells in Colombia will most likely prompt more drilling updates from Parex's planned E&P program
- Should the Colombian government and the FARC come close to their long-awaited Peace Treaty, Colombia will be viewed as relatively safer for E&P companies to operate in – allowing Parex to enjoy better market valuation

Risks

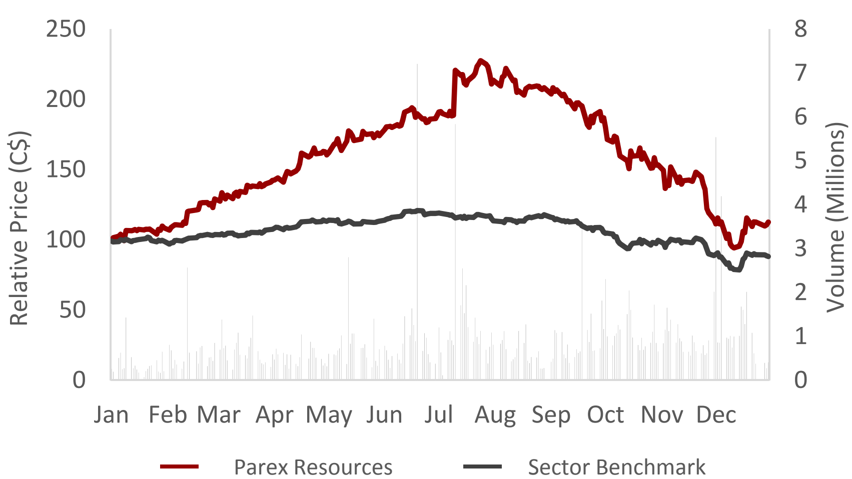
- Operational difficulties in Colombia and exploration risks remain important at this stage
- Change in royalties or taxes by the Colombian government in attempt to solve its alarmingly increasing deficit

Financial Summary

Public Market Overview	
(values in C$mm, as of Dec. 31, 2014, except for Share Price)	
Share Price	$7.58
Shares Outstanding (mm)	134.7
Market Cap.	**$1,021**
+ Total Debt	42
+ Minority Interest	-
+ Preferred Equity	-
- Cash	34
Enterprise Value	**$1,029**
Beta	2.60
Dividend Yield	--
ROIC	21.4%
52-Week High	$15.33
52-Week Low	$6.35

Financials & Multiples	LTM	FY2015E	FY2016E
(value in C$mm)			
Revenue	$669	$761	$825
% Growth		*14%*	*8%*
EBITDA	$380	$292	$426
% Margin		*38%*	*52%*
EPS	$0.49	$0.04	$0.25
% Growth		*-91%*	*464%*
EV/EBITDA	*2.9x*	*3.8x*	*2.6x*
P/E	*15.5x*	*172.3x*	*30.6x*
P/CFPS	*4.4x*	*3.5x*	*2.8x*
Risked NAV/share	$15.38		
P/NAVPS	*0.5x*		

Normalized Stock Price and Sector Benchmark Performance



Benchmark: 40% U.S. Energy index (XLE) in CAD, 60% S&P/TSX Capped Energy Index (XEG).

Position Snapshot

Average Cost	*$7.3*
# of Shares	*8,060*
Value Invested	*$61,095*
Portfolio Weight	*2.18%*
2014 HPR	*15.2%*
HP Benchmark Return	*-11.9%*
Excess Return	*27.1%*

All figures in CAD

Parex Resources (TSX: PXT)

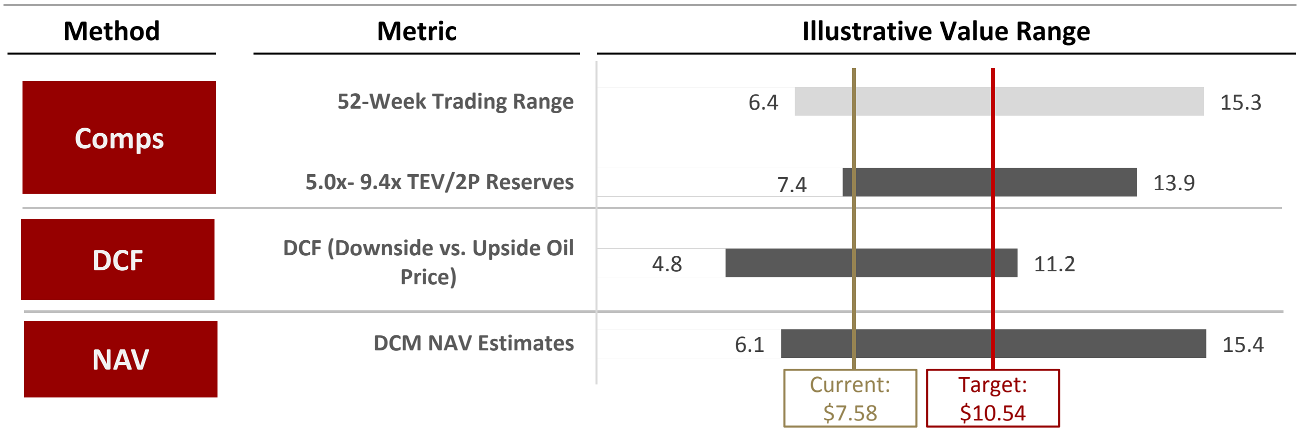
Investment Thesis

1. **The Colombian E&P market is heavily discounted**: *There is a discount priced into the stock because of the perceived risk in the Colombia E&P market, which we believe is overestimated*
   - The Colombian government is actively supporting growth in the oil industry and is therefore incentivized to minimize operating risks for foreign companies such as Parex
   - Lower oil prices resulted in Federal decrees to reduce approval time to reduce approval time from 18 months to 5 months, allowing Parex to bring online new wells at a much faster pace
   - Attacks by rebels and criminal groups on oil infrastructure were down 44% in 2014 from the previous year, and have never touched Parex's assets located in the safer North-Eastern region
2. **Balance sheet strength and operational success story:** *Parex's very high netback gives the company a nice cushion in low commodity price environment, which deserves a premium valuation compared to peers*
   - Parex remains debt-free with its working capital being in excess of long-term debt at $50-$60/bbl Brent
   - Parex has consistently beat expectations through its 30+% yearly production increases. If prices move above $50-60/bbl, Parex will be able to maintain its growth momentum in 2015
3. **Favorable M&A environment**: *The Colombia E&P market is experiencing a large number of acquisitions of junior oil producers and Parex is a prime takeout target for larger players*
   - Big oil players, such as ExxonMobil, Nexen, Shell and state-controlled Ecopetrol, have shown interest in Colombian assets in a recent auction of seven exploration blocks
   - Parex's diverse reserve base – no field represents more than 20% of of the company's overall assets – represents an attractive buying opportunity

Analysis of Performance

Parex has been a great success story for the Energy sector, outperforming our benchmark by 27.1% this year. The important foreign direct investments in Colombia opened investors' eyes to Parex's experienced management, diverse asset base and strong emphasis on costs and cycle times. In 2014, Parex over-delivered on all facets: its reported material growth of reserves, production and RLI, maintained an intact balance sheet, and completed strategic acquisitions at attractive prices, while peacefully cohabiting with Colombian inhabitants. Parex's netbacks are much higher than Canadian and U.S. peers, allowing the company to have a much lower breakeven price of oil. Still, the stock price has fallen considerably in the declining oil price environment, indicating that an unwarranted discount weighs on the stock. Given its operating efficiency and high quality assets, Parex should trade at a much higher TEV/2P multiple (currently close to 5.0x). Our DCF model yields a lower valuation, as we use very conservative assumptions: little growth in production the next two years, high capex and very high market risk premium in Colombia.

Valuation Summary



Pulse Seismic Inc. (TSX: PSD)

Company Overview

- Pulse Seismic is one of the largest licensors of seismic data in Western Canada. The company is a leader in both 2D and 3D seismic data
- The majority of the seismic library (60%) is for natural gas properties
- Pulse Seismic owns data across the Western Canada Sedimentary Basin, in addition to the Northwest United States
- The replacement value of Pulse's library is estimated at over $2 billion

Catalysts

- LNG project approvals would spur natural gas exploration in Canada
- Higher natural gas prices
- M&A activities in the E&P space should pick up over the year benefiting PSD due to the lack of transferability of data between the acquirer and the target company

Risks

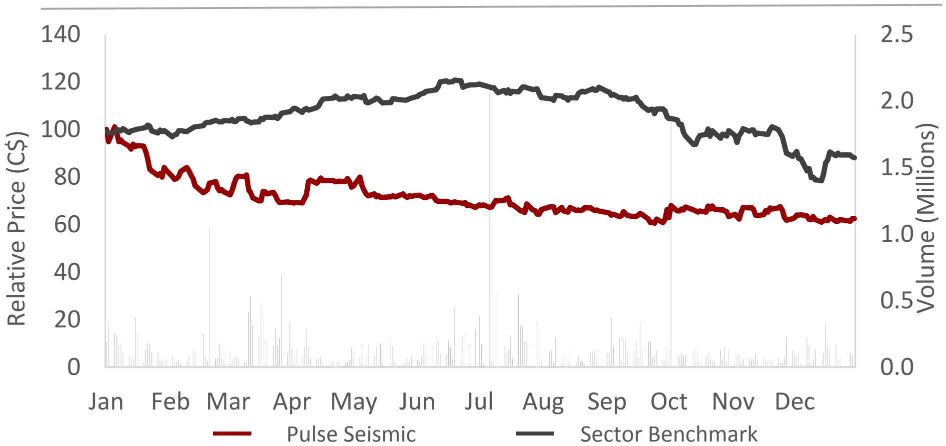
- Lower commodity prices
- Reduction in exploration activity in Western Canada
- New technologies that make their business model obsolete

Financial Summary

Public Market Overview	
(values in $mm, as of Dec. 31, 2014, except for Share Price)	
Share Price	$2.93
Shares Outstanding (mm)	57.6
Market Cap.	**$169**
+ Total Debt	11
+ Minority Interest	-
+ Preferred Equity	-
- Cash	1
Enterprise Value	**$179**
Beta	0.31
Dividend Yield	2.7%
ROIC	0.9%
52-Week High	$4.79
52-Week Low	$2.84

Financials & Multiples	**LTM**	**FY2015E**
(values in $mm)		
Revenue	$32	$39
% Growth		*21.9%*
EBITDA	$25	$31
% Margin		*80.0%*
EPS	$0.01	$0.13
% Growth		*1200.0%*
EV/EBITDA	*7.3x*	*5.8x*
P/E	*293.0x*	*22.5x*

Normalized Stock Price and Sector Benchmark Performance



Benchmark: 40% U.S. Energy index (XLE) in CAD, 60% S&P/TSX Capped Energy Index (XEG).

Position Snapshot

Average Cost	*$2.9*
# of Shares	*40,973*
Value Invested	*$120,051*
Portfolio Weight	*4.29%*
2014 HPR	*-37.3%*
HP Benchmark Return	*-11.9%*
Excess Return	*-25.4%*

All figures in CAD

Pulse Seismic Inc. (TSX: PSD)

Investment Thesis

1. **Economic moat:** *Attractive business model with a very high barrier to entry*
   - Wide margin of safety and high barriers of entry due to proprietary data accumulated over decades
   - Lean business model allows for very high margins
   - Recurring revenue stream with virtually no maintenance
   - Replacement cost of library is roughly 4 times the current enterprise value of the company and constitutes a significant barrier to entry for potential competitors
2. **Low risk and defensive profile:** *Company can enter hibernation mode in order to cut down on costs in periods of poor industry fundamentals*
   - Despite its dependence on natural resource prices, PSD's lean operating model allows it to literally go into "hibernation mode," burning little cash to sleep through difficult times
   - Reduces portfolio's exposure to commodity prices uncertainties and offers good diversification benefits within the sector
3. **Pick up in natural gas exploration:** *Short-term catalysts that will increase optimism for natural gas exploration in Canada*
   - Upcoming approvals from Petronas and ExxonMobil for LNG projects in Western Canada look likely

Analysis of Performance

Pulse Seismic underperformance (-25.3% relative to our benchmark) in the year of 2014 was mostly attributable to its poor performance in the first half of the year. PSD was trading near its all-time high in early January due to an artificial inflation of the stock price, caused by an increased interest from hedge fund managers. The stock then fell rapidly, readjusting to its previous level. However, and more importantly, PSD traded relatively flat in the second half of the year, posting a decline of only 2.68% from August 1st to December 31st while oil prices fell by almost 50% during the same period. This performance is attributable to the company's lean operating model and the stock's low correlation to the WTI (0.33) and the S&P/TSX Capped Energy Index (-0.18). Because of its defensive nature and attractive business model, we believe PSD still offers good diversification benefits within the sector in a low oil price environment and maintain our $3.90 price target for the year of 2015.

Valuation Summary

	Market	Enterprise	Net Debt /	P / CF	EV / EBITDA		P / E	
Company	Cap	Value	EV	LTM	2015E	2016E	2015E	2016E
Dawson Geophysical	$91.6	$53.5	N/A	2.4x	1.3x	1.1x	N/A	N/A
ION Geophysical	$412.2	$470.1	12%	2.8x	3.7x	2.2x	13.2x	7.4
Geospace Technologies	$340.6	$287.4	N/A	4.7x	7.8x	4.2x	N/A	10.9
Essential Energy Services	$164.3	$231.0	29%	5.3x	3.3x	2.8x	6.3x	5.9x
Average:			**21%**	**3.8x**	**4.0x**	**2.6x**	**9.7x**	**8.1x**
Pulse Seismic	**$169.0**	**$179.0**	**6%**	**16.0x**	**5.0x**	**5.0x**	**36.0x**	**16.0x**

- Sporadic revenue due to lumpy contracts and lower exploration activity in 2014 result in forward multiples being very difficult to use to infer any sort of answers
- High depreciation resulting in fully depreciated value in 7 years whereas they continue to derive revenue from seismic data they shot 50 years ago. This reduces depreciation expenses going forward and explains PSD's inflated forward P/E multiples.

Financials Sector

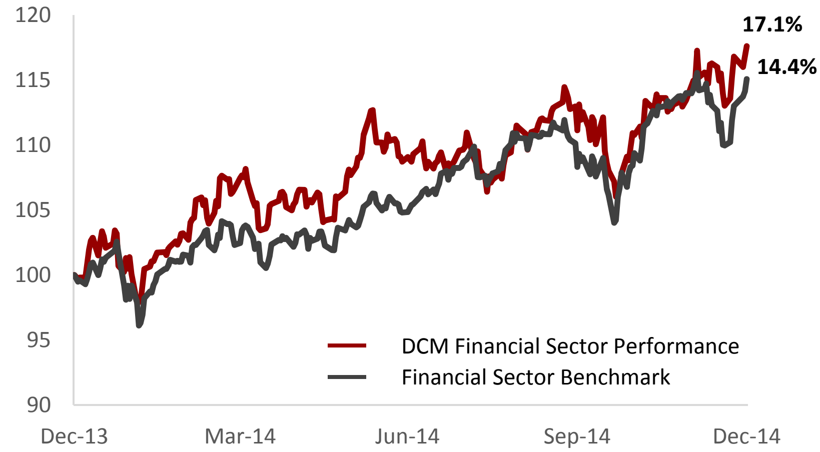
2014 Review & 2015 Outlook

By Xavier Le Sieur, Drew Allen & Christie Wei

2014 Performance Review

The DCM Financials sector returned 17.1% in 2014, outperforming our sector benchmark by 2.7%. Our outperformance was driven by a 14.7% return in Wells Fargo (NYSE: WFC). We purchased Wells Fargo in 2010 to gain exposure to the U.S. economic recovery. Since that time, Wells has outperformed the SP500 Financials index by over 40%, which is the reason why DCM prefers Wells over any US Financials index, given the fact that as the Financial sector fares well, WFC almost always performs better.

Figure 1: DCM Financials Performance



Benchmark: 40% U.S. Financials index (IYF), 60% S&P/TSX Capped Financials Index (XFN).

DCM prefers Wells Fargo to other American financial institutions due to its superior ability to cut costs and grow EPS even in a low interest rate environment. It has done this through ongoing infrastructure, risk, and cyber investments. Our sector outperformance was also driven largely by being overweight U.S. financials versus Canadian financials, as we benefited from the appreciation of the U.S. dollar.

One of our poorer performing investments was Intesa SanPaolo, which we purchased in late March, and still hold as of December 31st. A variety of factors affected Intesa's performance, such as the geopolitical tensions in Ukraine, a further deterioration of the Italian economy, and the inability of Italian Prime Minister Matteo Renzi to reduce government red-tape surrounding business and labour laws. Despite these factors, we remain bullish on Intesa, primarily due to its outstanding performance in the ECB Comprehensive Assessment test, the results of which were published on October 26th. With much support from the ECB surrounding economic stimulus, we maintain our position going into 2015.

North America

U.S. Financials outperformed the market yet again in 2014, with the S&P 500 Financials index rising 15.6%, compared to an 11.8% return on the S&P 500. Sector outperformance was driven by a 30.0% return in the REIT subsector and a 19.0% return for Diversified Financial Services. Banks and insurers were the underperforming subsectors, posting gains of 12.2% and 9.8%, respectively. In Canada, the TSX S&P Capped Financials index rose 9.1%, compared to a 7.7% return on the TSX S&P. Growth in the Canadian financial sector was led by big banks, which remained profitable from a boost in domestic lending as well as capital market and wealth management fees, despite the low interest rate environment that has persisted for so long.

Europe

In Europe, Financials underperformed the overall market in 2014. The MSCI Financials Index returned 2.6%, versus the MSCI Europe Index which returned 4.6%. The underperformance was partially driven by the persistent lack of lending in many Euro-zone countries. Despite the ECB's efforts to spur credit through rate cuts, many European economies slumped in 2014, leading to a selloff in the sector. The ECB Comprehensive Assessment which was released in late October identified 25 failing banks that had a capital shortfall on their balance sheets. As a result, investor confidence in the European financial sector was weakened significantly.

Outlook: United States

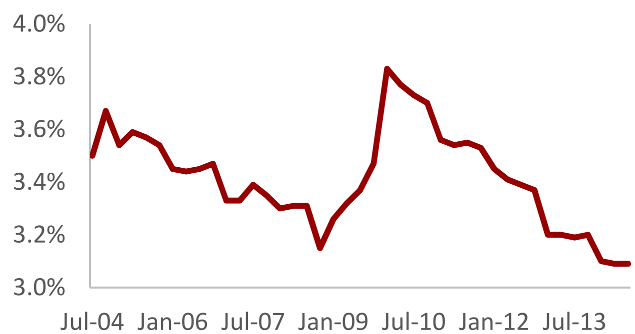
With the U.S. expected to lead the global recovery in 2015, the outlook for U.S. financials looks more favourable than other developed market financials. At the top of investors' minds this year are interest rate hikes in the U.S., with the market expecting a move around the middle of 2015.

The story remains the same: interest rate increases will lead to net interest margin expansion, from the current decade low of 3.09% for U.S. banks. In such a setting, interest rate sensitivity will be a differentiating factor in banks and insurers.

Last year, returns of U.S. national and regional banks outperformed the market following the Federal Reserve stress tests as most banks were proven to be well managed, leading the Fed to approve a stream of dividend and buyback programs. However, banks subsequently underperformed through October, as long-term interest rates fell during the shock of the bond market 'flash crash'. This year a key risk for banks is the possibility of a delayed rate hike, as well as a flattening yield curve as long term rates continue to fall.

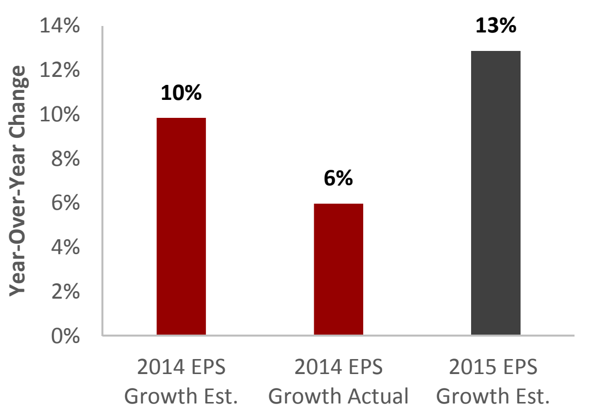
Litigation and regulatory risk are also a current theme continuing from last year, especially with respect to banks. The six largest U.S. banks have paid out $143 billion in cumulative post-crisis legal and liability costs, although the worst of the storm may already be over. Implementation of new capital requirements and the phasing in of Basel III may also affect companies' ability to return capital, although most systemically important banks already meet requirements. Currently, banks are well capitalized with an average Tier 1 Basel I capital to RWA of 10.9%.

Figure 2: All U.S. Bank Net Interest Margins



This provides them with flexibility to return capital to shareholders, increase dividend payout ratios and continue with share buybacks. Bank dividends increased an average of 23% in 2014 and is expected to grow by a similar amount in 2015.

Figure 3: Financials EPS Growth



As for real estate, office, industrial, and retail REITs should stand to gain from the economic recovery at a lagged pace. With a stronger job market and the unemployment rate falling to 5.6% as of January 2015, office space vacancies should decline and rental rates should increase, especially in urban areas with limited supply such as New York City. Likewise, both industrial and retail REITs are tied to consumer spending, and should also track the economic rebound.

Overall, the financials sector performance will largely depend on the general performance of the U.S. economy. In the coming year, loan growth and continued improving credit quality will be a boon for banks and consumer finance companies while segments of the commercial real estate market should benefit from stronger employment and higher consumer spending.

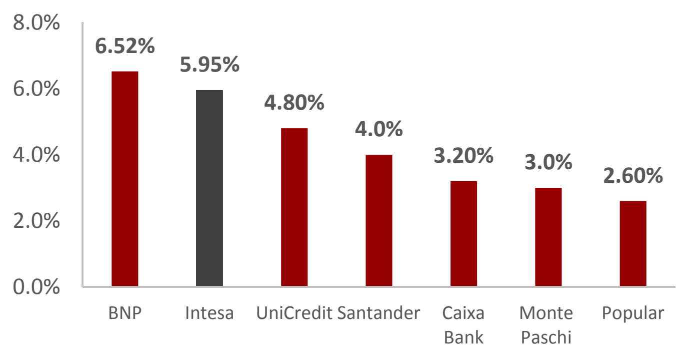
Sources: Federal Reserve Bank of St. Louis, FactSet, Fidelity Investments.

Outlook: Europe

There are two words that will be the center of attention in 2015 for the European financial landscape: quantitative easing. In early September 2014, ECB President Mario Draghi announced that the bank plans to engage in a form of quantitative easing through the purchase of private sector credit. Since this time however, the Central Bank has failed to deliver on specific details pertaining to the QE plan, such as the timing and size of the plan, or how the funds will be distributed across countries. As 2014 drew to a close, pressure mounted for Draghi to take action, as inflation continued to lag the ECB's target rate.

Moving into 2015, DCM's outlook for the Euro-zone financial sector is positive. Despite Italy being in yet another recession, we are encouraged by the steps taken by the ECB to show that it is dedicated to reviving the European economy. We are confident that the ECB will undertake a quantitative easing program, due to the fact that all other measures taken to stimulate the economy have seemingly failed. Should we see such a plan come into effect, we foresee revived market confidence in many European financial institutions, as increased liquidity gives rise to a surge in credit. One major development that gives our group confidence in our lone Italian investment is the recent news that Intesa SanPaolo was granted ~6% of the most recent Targeted Long-Term Refinancing Operation (TLTRO), which are essentially interest-free loans that the ECB grants to banks, and will continue to do so in 2015. As seen in the graph below, Intesa ranked 2nd in terms of funds received by European banks.

Figure 4: % of ECB Stimulus Received



With a relatively large portion of these TLTROs going towards Intesa, DCM foresees this as a positive sign that should the European Central Bank undertake a Quantitative Easing program, that Italy, and specifically Intesa, will be a primary target recipient of the ECB's liquidity injection. Should this be the case, we foresee a turnaround in the Italian economy, as banks fuel economic recovery through a credit injection, and revive investment in businesses and infrastructure.

Outlook: Italy

On February 22nd, 2014, Matteo Renzi became Prime Minister of Italy, overtaking his predecessor Enrico Letta, who was removed from office by the Italian President. Since assuming office, Renzi has been very outspoken about plans to remove governmental red-tape, in aim to revive the Italian economy. As we have seen, many of these efforts have failed to leave a resounding impact, as Italy entered its third recession since 2008 in Q2 2014. Despite the unforeseen downturn in the Italian economy, DCM remains positive on the Italian macro situation, due to Renzi's persistency in parliament to reform the nation's legal system, and pave the way for businesses to begin investing in growth once again. We predict that an Italian recovery would spell a large amount of regained market confidence in Intesa, as the bank would profit significantly from an upswing in the economic landscape, and show the market how fundamentally strong it is.

Despite our confidence in Renzi, there will be a variety of things that we will be paying close attention to in 2015. It is expected that Italian President Giorgio Napolitano will step down in January, and there is much debate over who his successor will be. This, coupled with persistent stone walling that Renzi has faced in parliament, could make it very difficult for the Italian Prime Minister to deliver on his promises of economic reform. We will be monitoring the evolution of the Italian government, and subsequently reassess our confidence on the Italian macro landscape as new developments occur.

Outlook: DCM Financials

Over the course of 2014, DCM was able to largely diversify our holdings, which had previously been focused on North American banks. By adding in exposure to a European economic recovery, as well as a REIT, we are pleased with the overall diversification that we achieved in our sector in 2014.

Going forward into 2015, we plan to continue our diversification of the financials portfolio, looking specifically into the insurance industry, as well as more “grey” areas of financials, such as payment companies that use technological innovation to change the way consumers pay for the goods that they purchase.

DCM has a neutral view for the sector moving into the new year. Although financials performance tends to be positively correlated to economic growth, the S&P 500 financials trailing P/E is substantially above the 20-year median and thus we refrain over-allocating in U.S. financials. On the European front, banks look cheap relative to historical multiples and appear healthier after deleveraging, but performance will likely be volatile given political and monetary policy uncertainties. Our position will be contingent on how key events unfold, such as January’s ECB meeting, Greek elections, and Federal Open Market Committee meeting.

Financials Sector

Holdings Overview

New York REIT (NYSE: NYRT)

Company Overview

- New York REIT is a newly public REIT that is geographically focused on the New York City metropolitan area office space
- The company was formed as a non-trading REIT in 2010, and since then has deployed over $2 billion, with $1.8 billion being deployed in 2013
- The company is externally managed by American Realty Capital (ARC), one of the largest REIT managers in the world

Catalysts

- NYRT was recently added to the MSCI REIT Index, which will likely result in greater equity research coverage and eventually garner institutional interest
- A merger/acquisition from another REIT seems likely as NYRT is reportedly engaged in merger talks with Empire State Realty as of October 2014

Risks

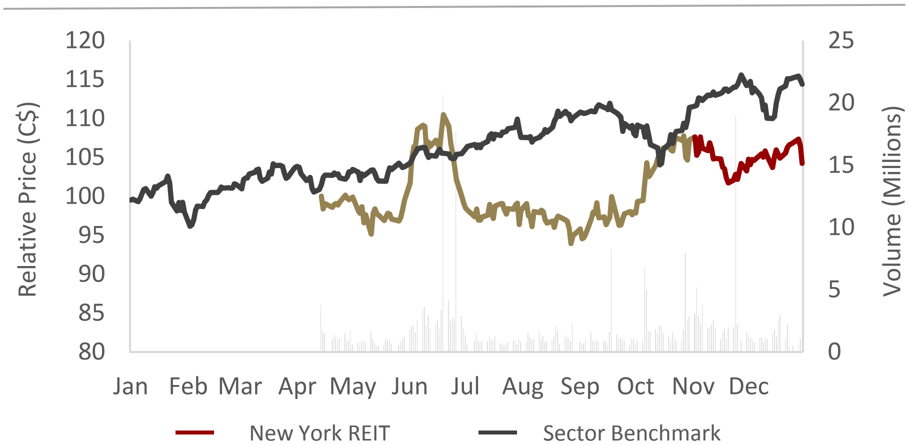
- American Realty Capital Properties', a public REIT managed by ARC, November accounting blunders have hurt investor confidence in ARC's management, which may affect NYRT's ability to engage in M&A activity
- NYRT's parent company, American Realty Capital, established a new non-traded REIT almost identical to NYRT following the success of NYRT's IPO, which may be a drag on NYRT's share price

Financial Summary

Public Market Overview	
(values in $mm as of Dec. 31, 2014, except for share data)	
Share Price	$10.59
Shares Outstanding (mm)	162.2
Market Cap.	**$1,718**
+ Total Debt	797
+ Minority Interest	14.91
+ Preferred Equity	-
- Cash	26
Enterprise Value	**$2,556**
Beta	0.42
Dividend Yield	3.7%
ROIC	(3.6%)
52-Week High	$12.12
52-Week Low	$10.21

Financials & Multiples	**LTM**	**FY2015E**	**FY2016E**
(values in $mm)			
Revenue	$131	$187	$203
% Growth		*42.4%*	*8.8%*
FFO	129	131	133
% Margin		*70.2%*	*65.5%*
AFFO	93	94	97
% Growth		1.1%	3.2%
P/NAVPS	1.0x	1.0x	
P/FFO	13.8x	13.6x	
P/AFFO	19.3x	19.0x	

Normalized Stock Price and Sector Benchmark Performance



Benchmark: 40% U.S. Financials index (IYF), 60% S&P/TSX Capped Financials Index (XFN).

Position Snapshot

Average Cost	*$12.5*
# of Shares	*9,300*
Value Invested	*$114,073*
Portfolio Weight	*4.08%*
2014 HPR	*0.0%*
HP Benchmark Return	*2.5%*
Excess Return	*-2.5%*

All figures in CAD

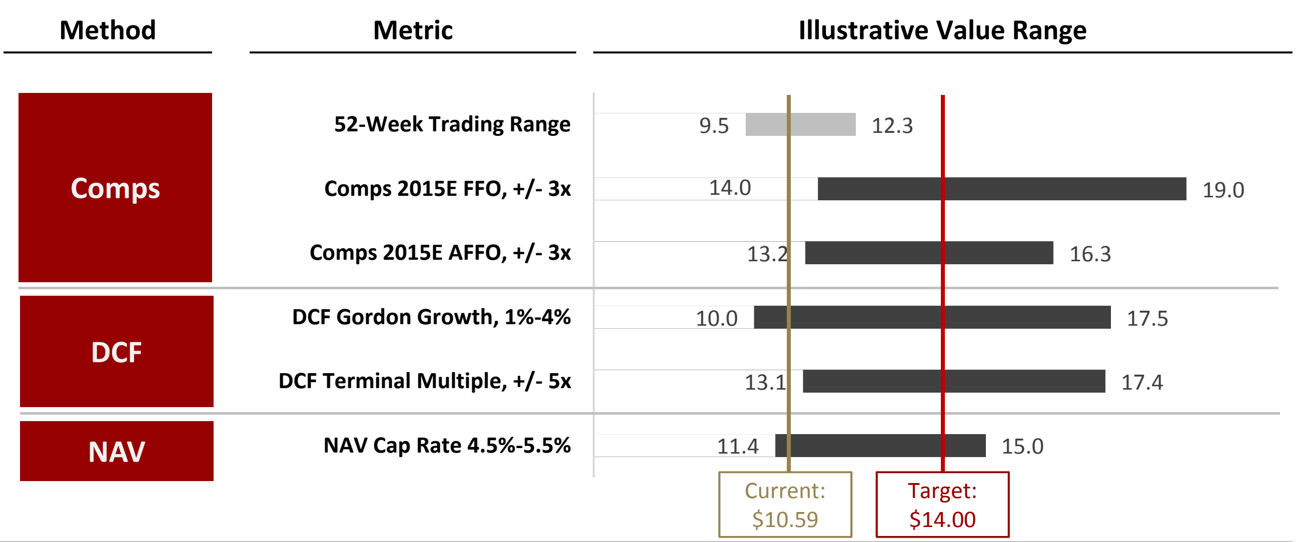
Investment Thesis

1. **IPO Discount Provides Attractive Buying Opportunity:** *REITs, as a general rule, tend to have a very high percentage of institutional ownership in their shares*
   - Large REITs usually have institutional ownership of ~90%, leading us to believe that garnering institutional interest is key in creating demand for shares
   - It is not unusual for institutional investors to wait for REITs to build-up a dividend track record and further research coverage before investing
   - Having IPO'd less than a year ago, we feel the company still trades at a discount due to its lack of track record
2. **Extremely Attractive Valuation With Low Downside Risk:** *NYRT is discounted on a number of different metrics, including a ~25% discount on 2015E P/FFO, P/AFFO, NAV, and DCF basis*
   - Under bullish scenarios (i.e. all growth opportunities come to fruition) upside stands at ~60%
   - Even with no growth, NYRT's high dividend yield of 4% amongst peers and REIT industry averages is attractive
3. **Quality Lease Portfolio & Experienced Management:** *NYRT has the highest direct exposure to Manhattan of any public REIT. Since 1990, there has been a net decrease in the supply of office space in Manhattan, making market rent prices largely demand determined, meaning that in strong economic times, there is a significant increase in Manhattan rent prices*
   - NYRT's portfolio is made up of high quality assets in key areas, with credit worthy tenants, and no near term lease expirations or debt maturities

Analysis of Performance

Since initiating our position in mid-November 2014 at an average price of $10.78, NYRT closed out 2014 at a price of $10.59. In late November, NYRT was added to the MSCI REIT index, which was one of our main driving catalysts. The share price climbed as high as $10.88 in the following weeks. On December 15th, Nicholas Schorsch, the Chairman and CEO of American Realty Capital, announced his resignation from the company, which resulted in the share price falling to its end of year level. Despite Schorsch's resignation, the external management team, responsible for the majority of NYRT's acquisitions, is still in tact, giving us confidence in our position moving into 2015

Valuation Summary



Intesa SanPaolo (BIT: ISP)

Company Overview

- Operates in 5,302 branches in Italy, and over 1,300 branches in the rest of Europe
- One of the best "cost-cutters" in Europe, with a cost-income ratio of 49%, the best amongst any of its Italian peers
- Has strongest capital ratios amongst its peers, and has already repaid its Long Term Refinancing Operation to the ECB

Catalysts

- $1.3 trillion Quantitative Easing plan recently announced by the ECB should inject liquidity into the market and spur credit growth for many financial institutions
- Potential to acquire a weaker bank at a discount following the results of the ECB Comprehensive Assessment

Risks

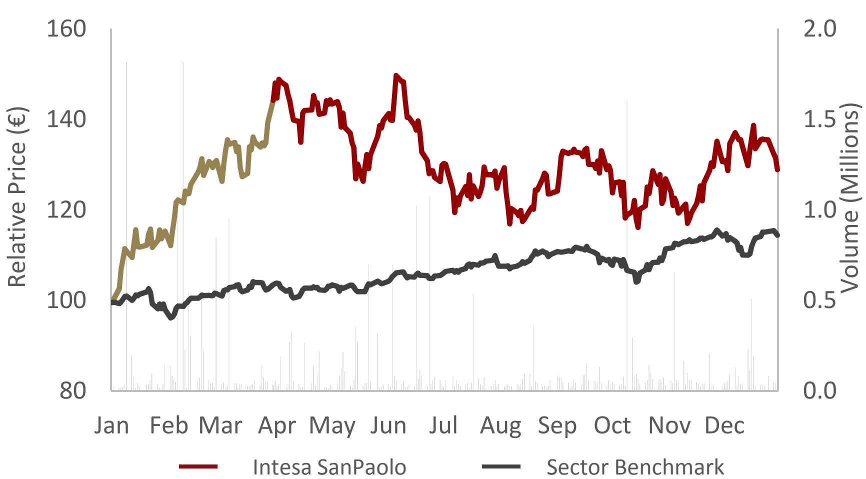
- ISP's exposure to Italy leaves it vulnerable to a fragile economy and population
- Intesa could be forced into helping or acquiring weaker Italian banks which failed the ECB's Asset Quality Review test

Financial Summary

Public Market Overview	
(values in $mm as of Dec. 31, 2014, except for share data)	
Share Price	$17.32
Shares Outstanding (mm)	2641.0
Market Cap.	**$45,742**
+ Total Debt	215,002
+ Minority Interest	512.00
+ Preferred Equity	-
- Cash	8,997
Enterprise Value	**$270,254**
Beta	1.23
Dividend Yield	1.9%
ROIC	1.2%
52-Week High	$21.36
52-Week Low	$14.67

Financials & Multiples	LTM	FY2015E	FY2016E
(values in $mm)			
Revenue	$18,930	$16,947	$17,505
% Growth		*(10.5%)*	*3.3%*
EPS	0.14	0.11	0.19
% Margin		*(21.0%)*	*73.0%*
ROE	3.9%	6.5%	7.7%
% Growth		66.7%	18.5%
P/E	20.7x	12.4x	9.8x
TBV/Share	2.4x	2.4x	2.51

Normalized Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost	*$21.3*
# of Shares	*5,410*
Value Invested	*$108,529*
Portfolio Weight	*3.88%*
2014 HPR	*-9.1%*
HP Benchmark Return	*10.6%*
Excess Return	*-19.7%*

All figures in CAD

Benchmark: 40% U.S. Financials index (IYF), 60% S&P/TSX Capped Financials Index (XFN).

Investment Thesis

1. **Italian Macro Landscape is an Unfair Drag On ISP's Share Price:** *DCM holds the view that the Italian macro situation is at a turning point, given the recent $1.3 trillion stimulus plan introduced by the ECB, as well as continued efforts by Prime Minister Matteo Renzi to reduce governmental red tape that is inhibiting business growth. There are certain European banks which are better capitalized and stronger fundamentally than the market is pricing in*
    - Through analysis of the discrepancies between bank valuations in different sovereign nations, it seems as though strong banks in weak economies may have been punished more than they deserve
2. **Strong Fundamentals:** *The ECB Comprehensive Assessment was seen as a catalyst for the market to give credit to Intesa for its relatively strong capital positions*
    - Intesa SanPaolo has stronger efficiency and capital ratios than its Italian peers. They have been growing EPS due to increases in fees and commissions and better cost cutting efforts, through ongoing infrastructure/risk/cyber investments
3. **Valuation:** *Lower-tier bank multiples have the potential to expand to mid-tier and even high-tier levels in the medium term given the signs of a European recovery. The recent QE plan announced by the ECB should benefit Intesa in the long-run, as the monetary injection leads to a spur in credit, resulting in increased business growth and investment*

Analysis of Performance

Since initiating our position in late March 2014, the Italian macro landscape has deteriorated, contrary to DCM's initial outlook. In Q2 2014, Italy entered its third recession since 2008, which resulted in a large selloff of many Italian stocks, with Intesa's share price falling 8% over the following two weeks. On September 4th, the ECB announced that it would cut its benchmark interest rate to 0.05%, in an attempt to spur lending and boost the European economy. This resulted in Intesa gaining 9.8% in the following week. On October 26th the ECB released the results of the Comprehensive Assessment, which was the main catalyst of our investment thesis. Intesa was one of three Italian banks to pass all three tests conducted by the ECB in the Assessment. The company also had the strongest Common Equity Tier 1 Ratios among its Italian peers. However, Italy as a whole did not fare well in the Assessment, with 9 of the 25 failing banks coming from Italy. This dampened the effect of the positive results on Intesa's share price. Eventually, in mid-November, the market regained confidence in Intesa's strong fundamentals, which saw the share price appreciate 18%, peaking at a price of €2.55 on December 8th.

ECB Comprehensive Assessment Results – Italian Banks

				CETI Ratios (%)		
Italian Banks	Non-Derivative Revaluations	Derivative Models Pricing	Core Process Review	2013 Reported	AQR adj. 2013	Difference
Unione Di Banche Italiane Societa…	Yes	No	No	12.3	11.8	-0.5
Intesa Sanpaolo	**Yes**	**Yes**	**Yes**	**12**	**11.7**	**-0.3**
Credito Emiliano	No	No	No	11.1	10.9	-0.2
Iccrea Holding	No	No	No	11.1	10.6	-0.5
Banca Monte dei Paschi di Siena	Yes	No	Yes	10.2	7	-3.2
Banco Popolare	Yes	No	No	10.1	7.9	-2.2
UniCredit	**Yes**	**Yes**	**Yes**	**9.8**	**9.6**	**-0.2**
Banca Popolare di Vicenza	Yes	No	No	9.4	7.6	-1.8
Medibanca	Yes	Yes	Yes	9.3	8.4	-0.9
Banca Popolare Dell'Emilia Romagna	Yes	No	No	9.2	8.4	-0.8
Banca Poccolo Credito Valtellinese	No	No	No	8.8	7.5	-1.3
Banca Popolare di Sondrio	Yes	No	No	8.2	7.4	-0.8
Banca Popolare Di Milano	Yes	No	No	7.3	6.9	-0.4
Veneto Banca	Yes	No	No	7.3	5.7	-1.6
Banca Carige SPA	Yes	No	No	5.2	3.9	-1.3

Capital One Financial Corp. (NYSE: COF)

Company Overview

- Diversified financial holding company whose primary line of business is credit card services, which accounts for over 50% of revenues
- Engages in auto, commercial, industrial and mortgage lending across any of its 1000 branch locations across the United-States
- Fourth largest credit card issuer in the world as well as ninth largest deposit holder in the USA

Catalysts

- Expected continuation of share buybacks and dividend increases
- Interest rate hikes should boost net interest margins, especially given that Capital One is relatively asset sensitive compared to peers in the consumer finance space

Risks

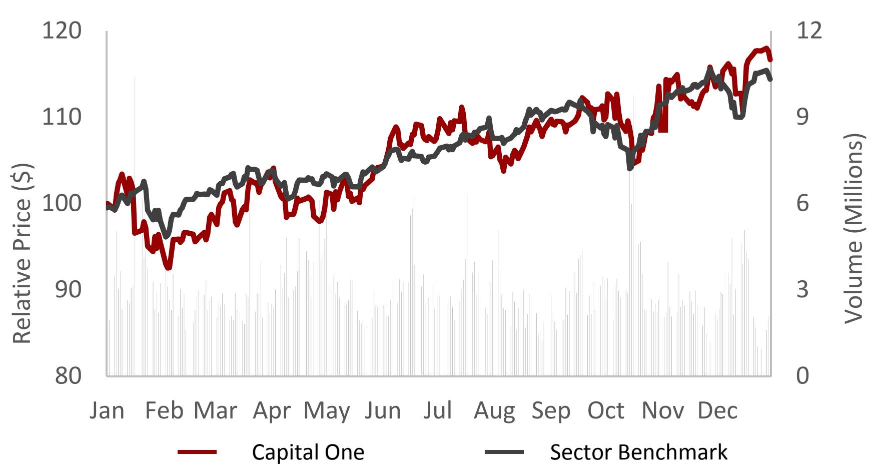
- Loan growth, especially in the mortgage segment, may not be fast enough to offset portfolio run-off
- Strong competition in all business segments due to mature nature of the industry, especially within the consumer banking and commercial banking segments, may depress yields

Financial Summary

Public Market Overview	
(values in $mm, as of Dec. 31, 2014, except for Share Price)	
Share Price	$82.55
Shares Outstanding (mm)	556.0
Market Cap.	**$45,895**
+ Total Debt	42,243
+ Minority Interest	-
+ Preferred Equity	-
- Cash	2,652
Enterprise Value	**$85,486**
Beta	1.02
Dividend Yield	1.5%
ROIC	7.7%
52-Week High	$84.95
52-Week Low	$68.66

Financials & Multiples	**LTM**	**FY2015E**	**FY2016E**
(values in $mm)			
Revenue	$23,627	$23,147	$24,564
% Growth		*(2.0%)*	*6.1%*
EPS	7.52	7.70	8.19
% Growth		*2.4%*	*6.3%*
P/E	11.0x	10.7x	10.1x
P/BV	1.0x	1.0x	0.9x
P/TBV	1.5x		

Normalized Stock Price and Sector Benchmark Performance



Benchmark: 40% U.S. Financials index (IYF), 60% S&P/TSX Capped Financials Index (XFN).

Position Snapshot

Average Cost	*$78.0*
# of Shares	*1,132*
Value Invested	*$108,235*
Portfolio Weight	*3.87%*
2014 HPR	*20.6%*
HP Benchmark Return	*14.4%*
Excess Return	*6.2%*

All figures in CAD

Capital One Financial Corp. (NYSE: COF)

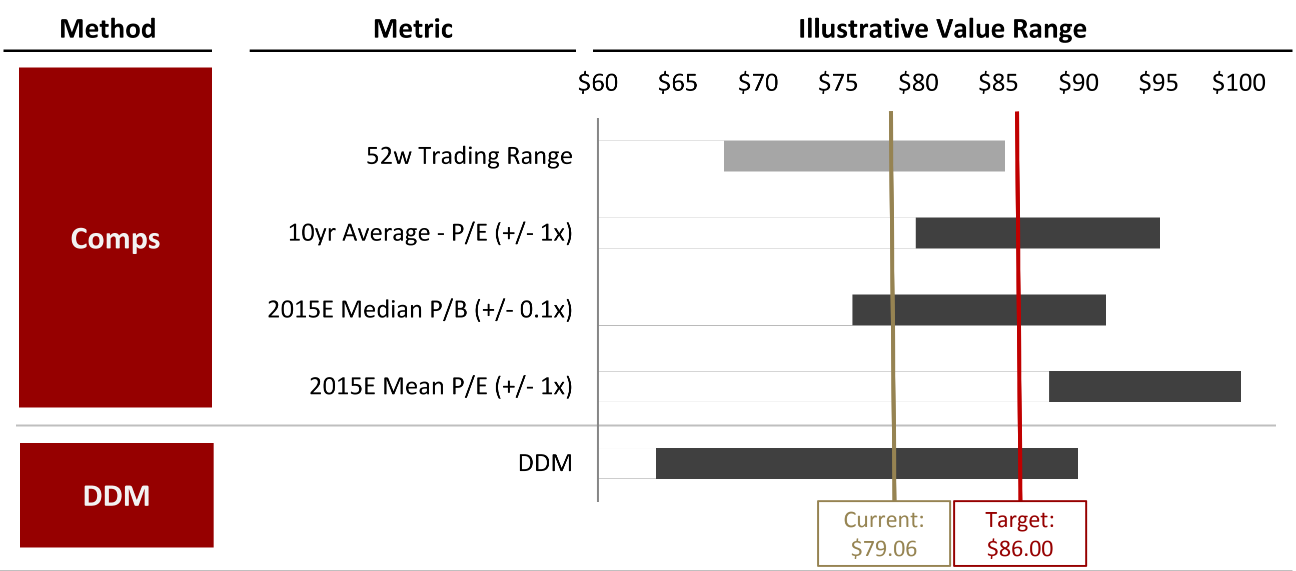
Investment Thesis

1. **Improved Credit Quality and Improving Efficiency Ratios Will Lead to Higher Valuation Than Current Market Estimate:**
   - COF has been focused on acquiring higher credit quality clients in order to improve the overall quality of its assets. It has been doing so through acquisitions, namely the acquisition of HSBC's credit card portfolio which consists of luxury retail cards of Neiman Marcus and Saks Fifth Avenue stores
2. **Revenue Diversification:** *Ambitions on their commercial banking book will help compliment their credit card business, creating a diversified lending platform*
   - Advantages of scale and access to deposit funding and capital will place them well in the banking industry vis-à-vis its peers American Express and Discover Financial Services
   - Large size of deposits, which increased 75% YoY after the ING and HSBC acquisitions in 2012, will keep funding costs low
3. **Returning Capital to Shareholders***: COF will continue to return shareholder value through share repurchases and dividend payments*
   - COF announced a $2.5B in share repurchases for the year in March 2014

Analysis of Performance

DCM entered a position in COF in December 2013 and has since added to our position at an average purchase price of $66.10. As anticipated by our thesis, COF's price-to-book ratio has expanded from 0.95x at initiation to 1.00x currently, and is now trading in line with peers on a P/TBV vs ROE basis. However, COF share prices ended 2014 with a fizzle, with 2014 Q3 earnings hindered by increased provision for credit losses as well as higher marketing expenses. Despite margin compression, growth in the domestic card segment, such as purchase volumes up 17.4% YoY in Q3, are encouraging. Going forward, we expect credit normalization as we exit an industry-wide trough in net charge-offs; COF is well-positioned, having built up reserves as management expects tighter credit conditions. Capital One is also well capitalized with CET1 ratio of 12.7%, above Basel III target of 8%, giving management ample room to continue buybacks and dividends. All in all, COF will provide DCM with exposure to loan growth and a stable credit environment in a recovering U.S. economy.

Valuation Summary



Healthcare Sector

2014 Review & 2015 Outlook

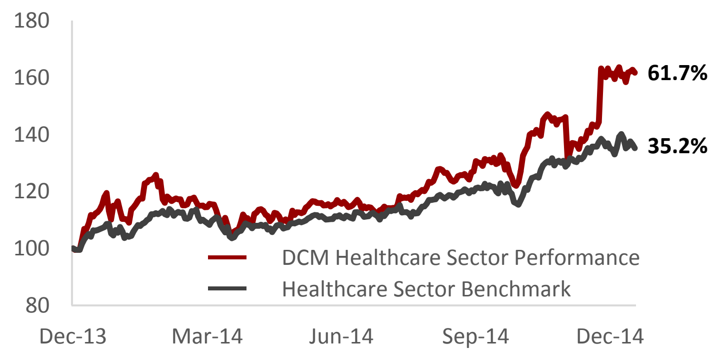
By Alexandra Witteveen & Naomie Gendron

2014 Sector Performance

DCM's Healthcare sector had yet another strong year in 2014, returning 61.7%, some 26.5% above our sector benchmark. The strong performance is attributable to individual security selection and large scale price appreciation on the back of an explosion in M&A, multiple expansion and a calmer legislative environment (although the roll out of Obamacare largely took place at the start of this year, its impact was priced-in during 2013). In point of fact, the Healthcare sector, which returned 24.5% over the year, was the second best performer of the S&P500 sectors (Utilities came first with 29.9% returns).

DCM Performance

Figure 1: DCM Healthcare Performance



Benchmark: 100% iShares U.S. Healthcare ETF (IYH)

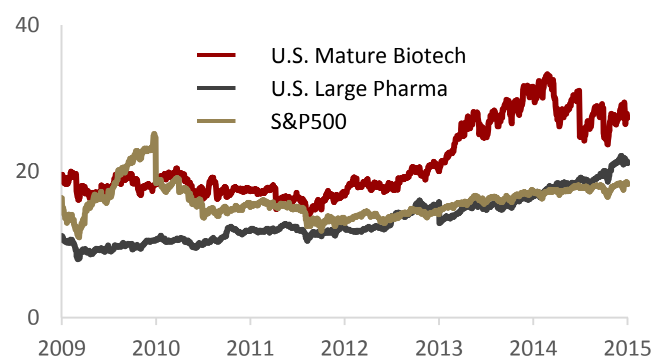
We are pleased to report that each of DCM's Healthcare holdings outperformed the benchmark this year. TSO3, one of DCM's oldest holdings, finally paid off returning 146% year to sale price of $1.65 per share after their potentially game-changing sterilization product STERIZONE VP4 came a step closer to receiving US regulatory clearance (see individual holdings review for more details). In addition, we recently exited our position in Cubist Pharmaceuticals at $97 per share as they are being bought out by Merck in a deal valuing Cubist at $8.4B – a 35% premium (see individual holdings review for more details). As a result, DCM's Healthcare portfolio is currently comprised of a single holding: Vascular Solutions that was added towards year-end. We anticipate a big 2015 for the Company as they shake off negative investor sentiment following a lawsuit that hit them hard this November.

2015 Sector Outlook

Going into 2015, we anticipate Healthcare will enjoy a strong run as fundamentals remain robust with bottom and top line growth driving prices for larger companies and strong M&A fueling valuations on smaller stocks. The next twelve months have plenty of catalysts and optimism is high given 2014's track record. The following is a brief overview of themes we anticipate will play out over the year.

Biotech is Back

Figure 2: P/E Ratio Over Time



The biotech industry has risen almost 300% during the past five years; going into 2015 the focus will be on sustaining said growth. Multiple expansion was the main driver over the past couple years, as illustrated by the chart below.

1. **M&A Pharma dipping into biotech:** Going into 2015, we are especially interested in small to medium sized biotechs operating within a niche market – similar to the Cubist story. As the biotech industry represents a core drug discovery engine for the pharma industry, enticing competitive licensing deals and M&A, large companies are particularly keen to bring in new assets, using deals as a way to bolster pipelines. Generous premiums often trigger reassessment of drug asset values across the entire area. The transactions in the table below are all instances of pharma dipping into biotech and paying hefty premiums to do so (average premium above 50%).

Figure 3: Biotech Precedent Transactions

DATE	TARGET	ACQUIRER	TOTAL VALUE	PREMIUM TO 1-MONTH AVG PX
8/24/2014	InterMune	Roche Holding	$7,808	54%
4/23/2012	Ardea Biosciences	AstraZeneca	$1,123	51%
4/19/2012	Human Genome Sciences	GlaxoSmithKline	$3,013	84%
6/30/2010	Abraxis BioScience	Celgene	$2,733	23%
3/1/2010	OSI Pharmaceuticals	Astellas Pharma	$3,259	61%
2/28/2010	EMD Millipore	Merck KGaA	$6,806	42%

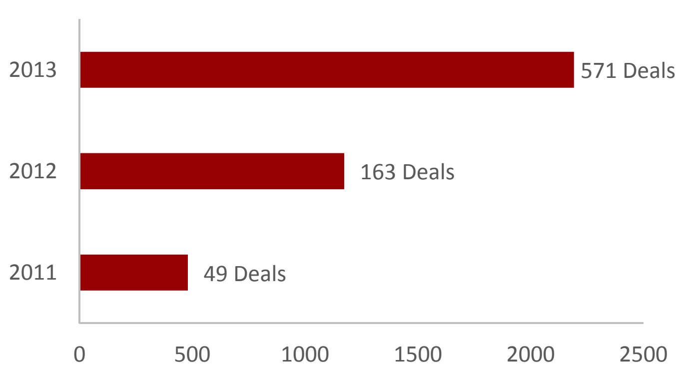
2. **FDA designations:** When forecasting revenues from Phase III drugs, the approval timeline carries nearly as much importance as the potential sales figures. The following developments to the legislative landscape will be a critical driver of FDA approvals moving forward.
    - Interchangeability designation: The FDA has authority to deem a biosimilar as “interchangeable” with original branded drug and currently under review are guidelines on how to establish said designation. If set higher, the clinical bar – which calls on extensive R&D – would make biosimilar encroachment less of a threat to biotech.
    - Breakthrough therapy designation: In July 2012, the FDA created the Breakthrough Therapy Designation to accelerate development of new drugs for difficult-to-treat critical illnesses. As more companies master the BTD process and submit applications, a new status quo in drug approval timelines may emerge.

In sum, biotech will continue to be a central focus for DCM as we look to fill the void left in our portfolio from the Cubist acquisition – ideally a small to medium sized company with a carved out market niche

Healthcare IT

Information Technology companies are turning their focus to healthcare – a $3.8 trillion addressable market. The healthcare sector has lagged in leveraging efficiencies from data and technologies – only $211 million invested in 2010. Going forward, we anticipate a drastic increase in IT spending by Healthcare companies. Hinting at this wave of change, the chart below illustrates Healthcare IT VC funding which has exploded in recent years.

Figure 4: Healthcare IT VC Funding ($mm)



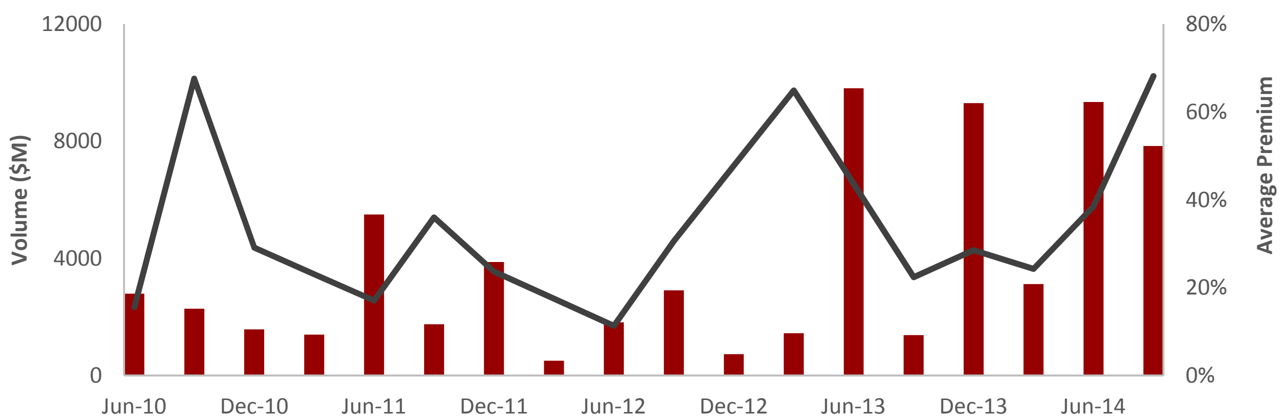
In 2009, the Health Information Technology for Economic and Clinical Health Act was adopted and since, over $20B was invested to encourage the adoption of electronic health records for patients. Supporting our positive outlook, investors are warming up to the idea as the Healthcare Information Technology Index is up 86% since 2011. The increase in funding, illustrated above, has fueled growth in the sector with a growing number of IPOs and acquisitions.

Specialty Pharma

The Specialty Pharma industry is often overlooked by large drug companies; however, this profitable segment generates $42 billion in sales with 14% annual revenue growth in the last five years. Driven by niche markets with a small number of high-prescribing specialty physicians, this industry lives off of M&A and in-licensing deals.

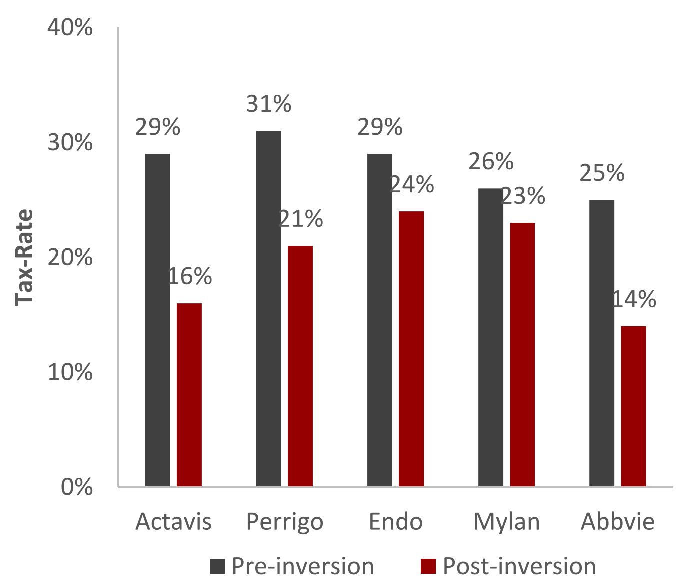
1. **M&A vs. R&D:** As large pharma becomes increasingly inefficient in the R&D department, they're compensating via M&A and in-licensing deals with specialty pharma companies. Below is a time series of Specialty Pharma M&A that clearly highlights an increase in the average premium paid – a trend we see continuing moving forward. A small niche player would be the ideal fit for DCM.

Figure 5: Specialty Pharma M&A



2. **The tax inversion isn't dead yet:** Recently, such deals have stirred political debate and even given rise to anti-inversion proposals. In September 2014, the US Treasury made a move to curb inversion deals and shares in potential targets subsequently fell by as much as 6%. While the bill may create a fog of uncertainty around the transactions and or trim the potential tax savings, they will not eliminate the inversions all together – something many investors seem to be forgetting. Smaller (<$1B) companies with a tax-cheap home base warrant a higher multiple based on their increased likelihood of being taken out. To corroborate this point, the graph below illustrates the benefits for larger Pharma players as highlighted through pre and post-investors tax rate guidance.

Figure 6: Inversion Effect on Tax Rate



In sum, 2015 will be a transformative year for DCM's Healthcare portfolio. We will continue in our aim to add value by investing in small to medium sized (<$10B) companies that allow us to capitalize on structural changes in the healthcare landscape and on inflexions in company specific valuations.

Healthcare Sector

Holdings Overview

Vascular Solutions (Nasdaq: VASC)

Company Overview

- Vascular Solutions is a medical devices company focused on clinical solutions for coronary and peripheral vascular procedures
- Currently markets 80 products in the catheters, hemostats and vein segments and has 40+ products at various stages of development in their pipeline to ensure future organic growth
- Operates in the US and internationally through 91 direct US sales representatives and established independent distributor network covering nearly 50 countries
- Strong balance sheet characterized by high cash level and no debt gives them the ability to make tuck-in acquisitions

Position Snapshot

Average Cost	*$31.9*
# of Shares	*3,150*
Value Invested	*$99,093*
Portfolio Weight	*3.54%*
2014 HPR	*-8.0%*
HP Benchmark Return	*3.4%*
Excess Return	*-11.4%*

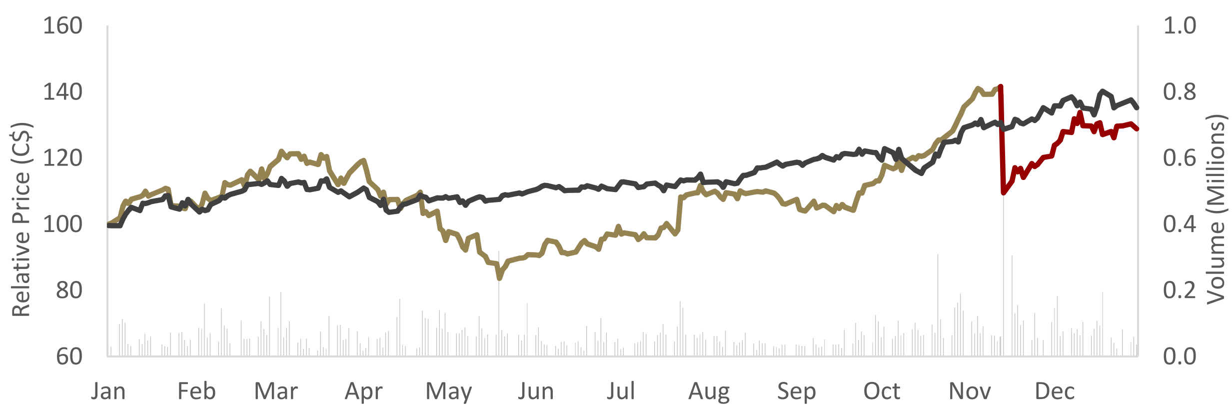
All figures in CAD

Financial Summary

Public Market Overview	
(values in $mm, as of Dec. 31, 2014, except for Share Price)	
Share Price	$27.16
Shares Outstanding (mm)	17.2
Market Cap.	**$467**
+ Total Debt	0
+ Minority Interest	-
+ Preferred Equity	-
- Cash	42
Enterprise Value	**$425**
Beta	0.82
Dividend Yield	--
ROIC	20.0%
52-Week High	$30.54
52-Week Low	$18.78

Financials & Multiples	LTM	FY2015E	FY2016E
(values in $mm)			
Revenue	$122	$141	$161
% Growth		*16.2%*	*14.0%*
EPS	0.72	0.89	1.13
% Growth		*24.0%*	*26.5%*
P/E	11.0x	10.7x	10.1x
EV/EBITDA	18.2x	15.9x	
EV/Sales	3.69x		

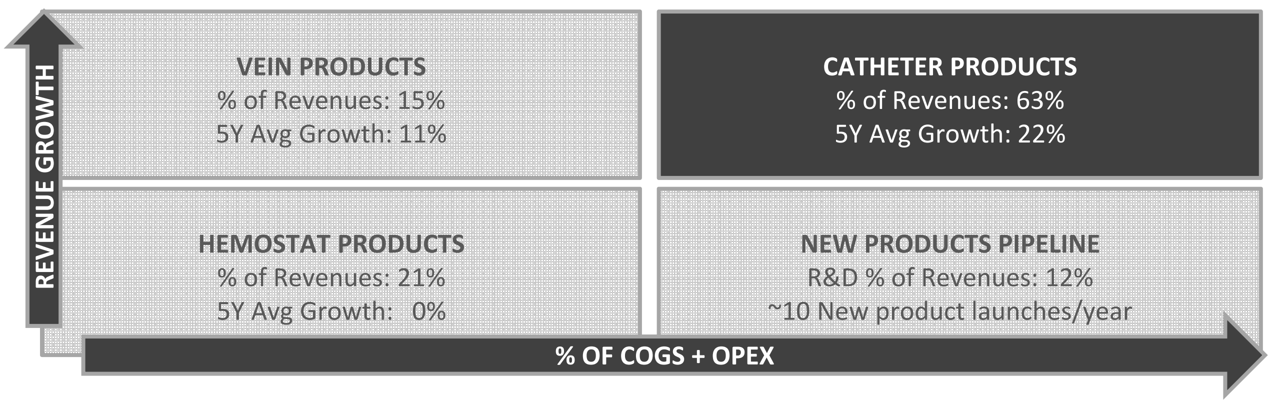
Market Performance



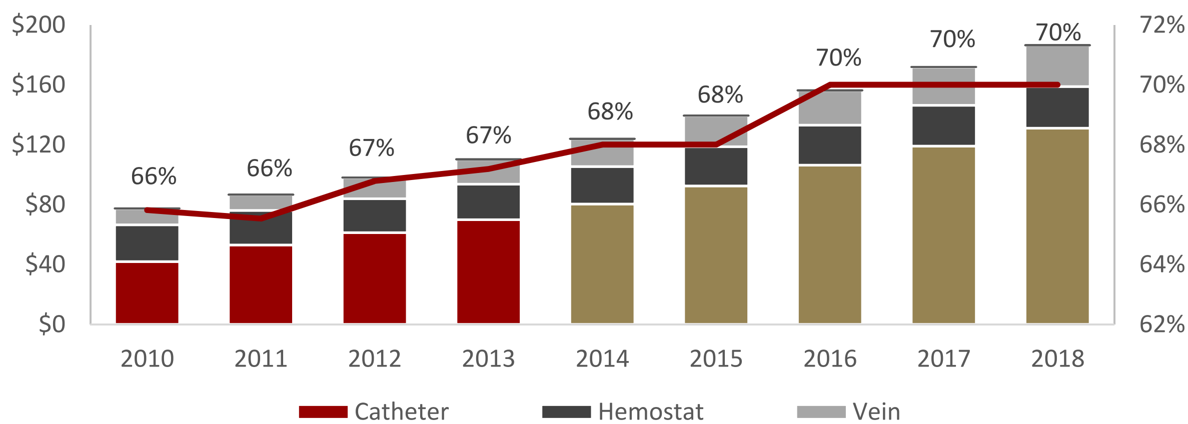
Benchmark: 100 % iShares U.S Healthcare ETF (IYH).

Investment Thesis

1. **Internal strength:** *The company is currently in its 10th consecutive year of greater than 10% annual revenue growth in what has been US Healthcare's most turbulent 10 years on record*
   - Hitting lots of singles and doubles wins games: The combination of a steady cadence of new product launches (~10/year) as well as no one product accounting for more than 20% of revenues makes the business stable and less subject to regulatory risk
   - Strong margins: The lean business model drives operating leverage such that they are able to grow EPS at a higher rate than revenue growth (4Y average revenue and EPS growth are 12.75% and 22.18% respectively)
2. **External positioning:** *The company has created a "safe space" within the Medtech space where the industry negatives (excise tax, secular growth) crushing the larger players hardly impact VASC due to unique size, revenue growth and profitability*
3. **Changing product mix leads to increased margins:** *Management has demonstrated a consistent ability to allocate expenses proportionally to revenue contribution and growth potential as to maximize growth without sacrificing margins. See below for 2013 numbers by segment*



   - We forecast a shift in revenue contribution by segment toward Catheter products which will in turn drive higher margins as it is the highest margin segment – see below for our forecast.



Recent News: Litigation (continued)

- **Situation:** *CEO and co-founder Howard Root was indicted on November 13, 2014 on charges of conspiring to sell a varicose-vein treatment device for unapproved uses. In addition, the grand jury also indicted the corporation on the same nine counts for allegedly encouraging doctors to use the Vari-Lase Short Kit device for off-label uses.*

Vascular Solutions (Nasdaq: VASC)

Recent News: Litigation (continued)

- **Company response:**
  - Vehemently denies: Root, co-founder and largest individual shareholder (3%) disputes the charges as absurd and has vowed to fight them in court
  - $20M share repurchase plan: Subsequently, the Company announced a repurchase plan to support the stock through the coming litigation
  - Insider buys: Director Richard Kramp acquired 1,475 shares the day after the 22% drop – this represents a 25% increase in his holding size
- **Actions:** The 22% drop was grossly unjustified given the magnitude of the lawsuit. Equally, the lawsuit does not impact sales or operations going forward. In our view, this lawsuit is not indicative of any wider spread legal problems. Therefore, we increased our position from 1.5% to 3.2% following the announcement.

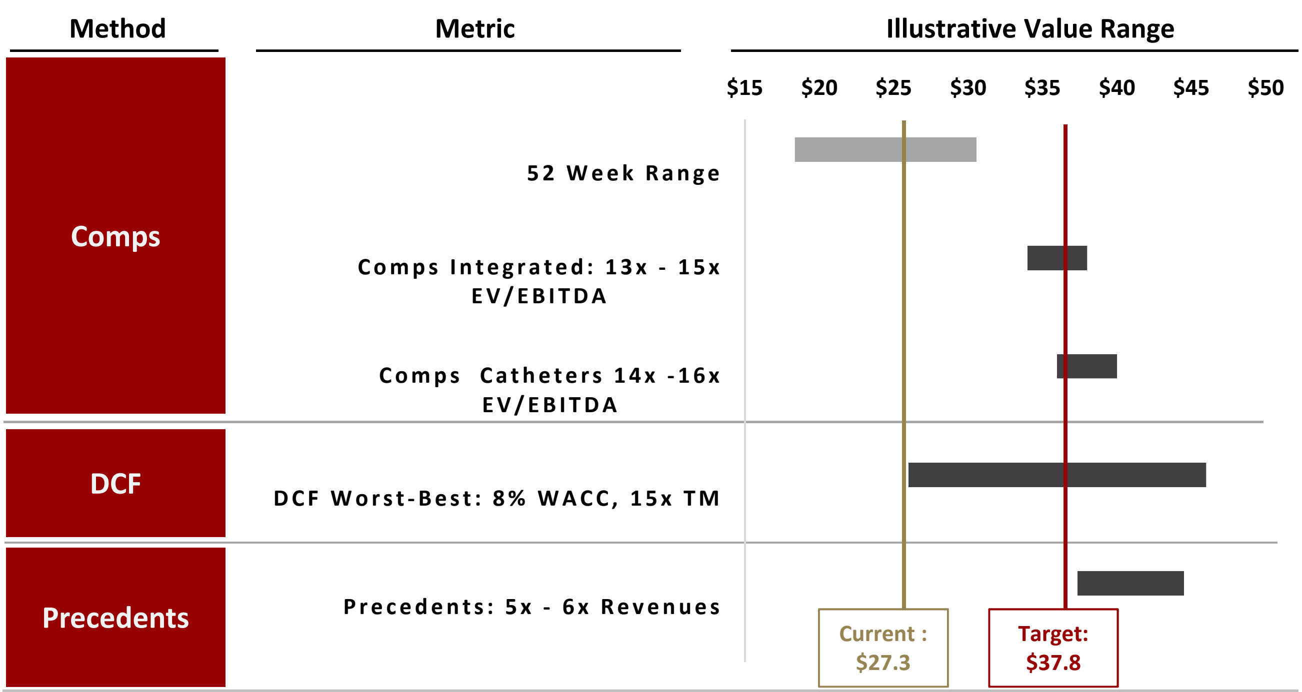
Catalysts

- Research is pricing of BSX litigation expenses based on original settlement timeline of Q4 2014; we foresee better than expected numbers to come out early this year
- Ex-US presence in Japan and Europe has potential if VASC can sustain growth (40% YoY growth)
- Increasing size through growth will attract investor attention ($500M market cap 2H2015)

Risks

- Further healthcare reform legislation leading to a repeal or change to the additional taxes or reimbursement policy could prove a punishing blow
- Continually higher litigation expenses, both from the lawsuit around Vari-Lase and from other successful products, could weigh on margins
- Slow secular growth in US

Valuation Summary



Cubist Pharmaceuticals (Nasdaq: CBST)

Company Overview

- Bio-pharmaceutical company focused on pharmaceutical products that address unmet medical need in the acute care environment
- Currently markets CUBICIN, ENTEREG, DIFICID and SIVEXTRO
- Cubist operates in the niche market of antibiotic resistance that targets life-threatening infections caused by dangerous bacteria categorized as serious and urgent public threats
- Inorganic-growth business model uses tuck-in acquisitions to build pipeline of potential drugs (generally in phase II or III)

Recent News & Sale

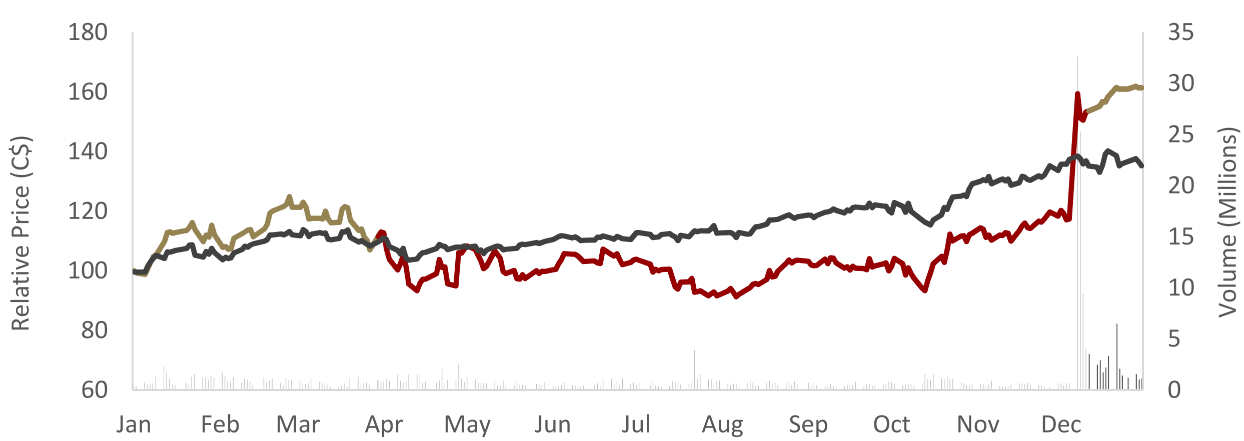
- On December 8th, 2014 Merck announced an offer to purchase Cubist for $102/share cash plus the assumption of outstanding debt ($1.1 billion)
  - Total value: $9.5 billion
- We sold our position at $96.5/share on December 14th for the following reasons:
  - Merck had a breakup option allowing them to pay $250 million to kill the deal
  - Hours after announcement several CUBICIN patents were invalidated bringing it to patent cliff in 2016 instead of 2018
  - There was an upcoming PDUFA announcement on a Cubist drug that was expected to be the next blockbuster

Financial Summary

Public Market Overview	
(values in $mm, as of Dec. 31, 2014, except for Share Price)	
Share Price	$100.65
Shares Outstanding (mm)	76.3
Market Cap.	**$7,679**
+ Total Debt	843
+ Minority Interest	-
+ Preferred Equity	-
- Cash	687
Enterprise Value	**$7,836**
Beta	0.48
Dividend Yield	--
ROIC	5.4%
52-Week High	$100.71
52-Week Low	$60.05

Financials & Multiples	LTM	FY2015E	FY2016E
(values in $mm)			
Revenue	$1,165	$1,402	$1,566
% Growth		*20.4%*	*11.7%*
EPS	0.87	2.46	3.66
% Growth		*181.4%*	*49.0%*
P/E	11.0x	10.7x	10.1x
P/BV	1.0x	1.0x	0.9x
P/TBV	1.5x		

Market Performance

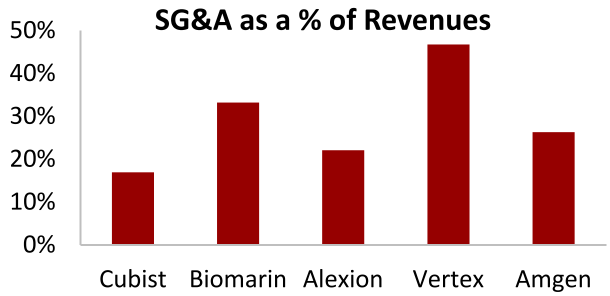


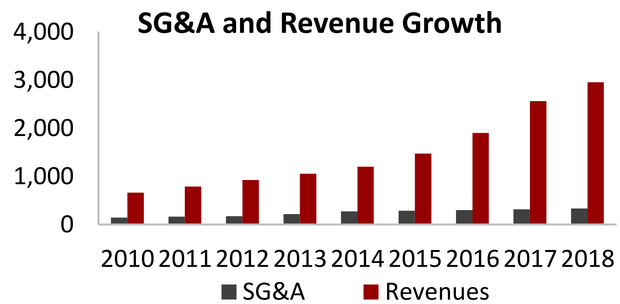
Benchmark: 100% iShares U.S. Healthcare ETF (IYH).

Cubist Pharmaceuticals (Nasdaq: CBST)

Original Investment Thesis (03/20/2014)

1. **Efficient business model (SG&A + R&D):** *This proven business model has been able to grow revenues without associated expansion in SG&A and R&D*
   – SG&A: The business to business model (i.e. selling to hospitals and other acute care environments directly) has made SG&A efforts more efficient compared to peers. Therefore, SG&A hasn't been tied to sales growth – see below for forecast





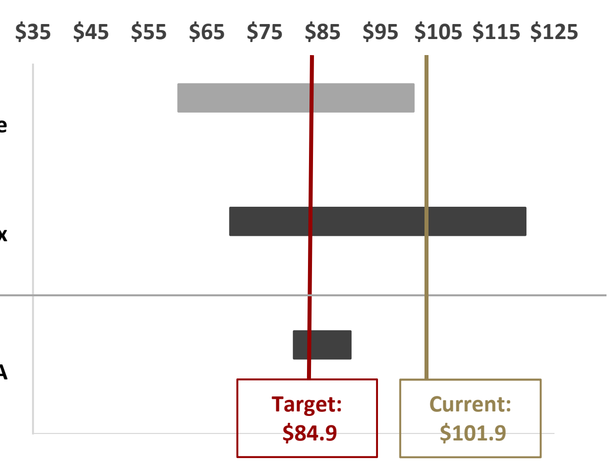
   – R&D: Recent R&D expenditure generated value as phase III product has made their way through the regulatory hurdles. The growth from Phase III drugs and those in earlier stages will compensate for CUBICIN patent expiration

2. **Strong product pipeline, overly discounted:** *Cubist has a flagship product supported by a robust pipeline that has been overly discounted given prior phase results*
   – June 22 2014: Tedizolid, a product of recent acquisition of Trius Therapeutics, has reached PDUFA judgment on phase III clinical trials. We anticipated approval
   – Mid-May 2014: Cubist sued Hospira on patent infringement for planned generic version on CUBICIN with most-likely outcome a delay to early 2015
   – December 2014: CXA-201 (ZERBAXA) PDUFA announcement
   – Early 2015: CUBICIN decision of appeal on Hospira case

3. **M&A target given niche market space:** *A unique player in the industry and a nice size for larger players, Cubist has proven to be an extremely accretive acquisition (keep productive R&D, replace sales staff)*

Valuation Summary

Method	Metric	Illustrative Value Range
DCF	52 Week Range	
	DCF Worst-Best: 10% WACC, 16x TM	
Comps	Comps 15x - 17x EV/EBITDA	



Company Overview

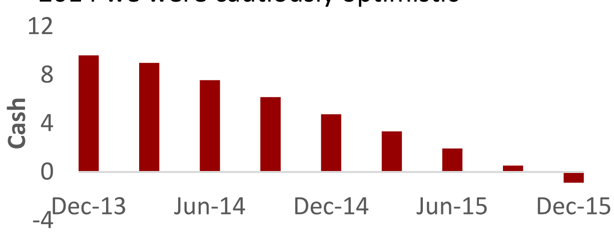
- TSO3 Inc. is an innovator in low-temperature sterilization technologies for medical devices
- It is engaged in the research, development, commercialization, and licensing of sterilization processes for heat-sensitive medical equipment
- In January 2014 the Company issued a collective dismissal in an effort to preserve cash whilst awaiting FDA approval for STERIZONE VP4
- On December 17th. 2014 the Company received long awaited FDA approval for their main product STERIZONE VP4

Recent News & Sale

- On October 22nd, 2014 TSO3 announced it has submitted revised labeling for the sterilizer VP4, showing tangible evidence that progress is being made towards final clearance
  - Stock price following the announcement jumped to $1.75
- We sold our position at $1.70/share on November 5th for the following reasons:
  - We had reached our pre-announcement target price of $1.70
  - The potential incremental upside of waiting upon approval to exit our position was not worth taking the risk

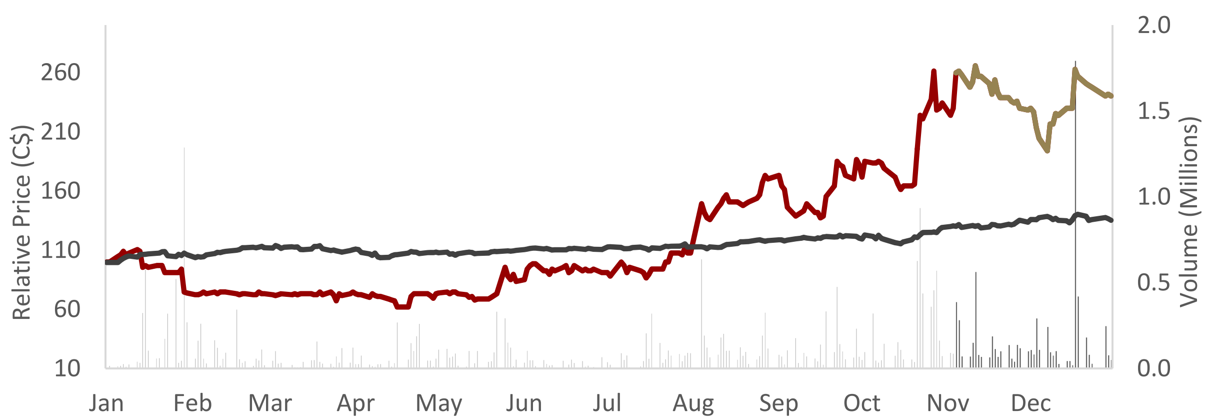
Original Investment Thesis & Possible Outcomes

- TSO3 has an industry-changing sterilization product that makes them an extremely attractive acquisition target given FDA approval
- With sufficient cash to last until ~2016 and an approval expected before the end of 2014 we were cautiously optimistic



1. Obtains FDA approval and announces supply chain agreement
2. Obtains FDA and gets bought out by large player (Johnson & Johnson, 3M, Getinge…)
3. Gets bought out by large player before receiving FDA approval
4. Does not get FDA approval

Market Performance



Benchmark: 100% iShares U.S. Healthcare ETF (IYH).

Industrials Sector

2014 Review & 2015 Outlook

By Edouard Charles Gaudry, Jordan Owen & Eugene Fedorinov

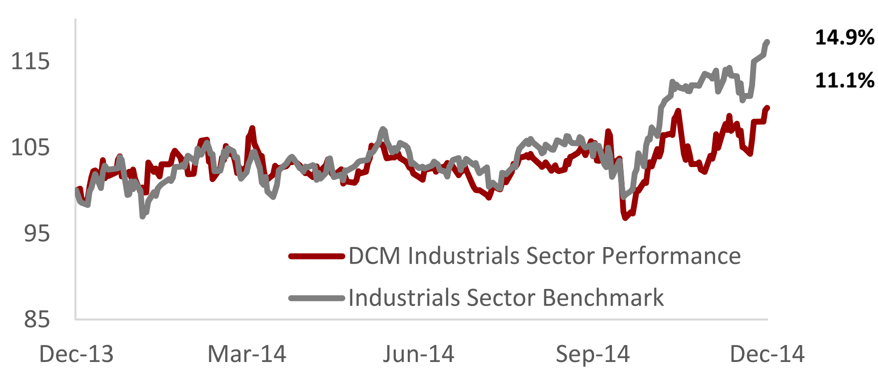
Industrials Benchmark Performance

The Industrials benchmark's slight outperformance compared to the S&P 500, which returned 12.4%, can mainly be attributed to strength in transportation stocks that rose by 26.2% in 2014. The sector was able to outperform the S&P 500 despite relatively expensive valuations going into 2014 (following a 50% rally for the sector in 2013), which left little room for multiple expansion.

DCM Performance

The Equity Fund Industrials sector returned 11.1% in 2014, compared to 14.9% for the Industrials sector benchmark. The underperformance of the Equity fund's Industrials sector can mainly be attributed to our investment in General Motors, and to a lesser extent to our investment in Conrad Industries.

Figure 1: DCM Industrials Performance



Benchmark: 100% iShares Dow Jones Industrials ETF.

General Motor's stock fell from its high of $41 last December, to a low of $28.82 amid the massive vehicle recall in October 2014. Nevertheless, we believe these material charges were only one-time expenses and do not change our thesis on the stock. Furthermore, we think the street excessively punished GM and we seized the opportunity to increase our position on September 24th, 2014. As seen on the graph below, we believe that the U.S. light-vehicle SAAR has a lot of momentum going into 2015. Since then the stock has rebounded ~4%.

Our sector's performance was also affected by the recent weakness in oil prices as Conrad Industries lost nearly 20% of its value after announcing Q3 results. The shipbuilder, whose main clients engage in Oil & Gas exploration in the Gulf of Mexico, has seen a dramatic drop in their backlog as the price of oil collapsed.

Our strongest performer was Union Pacific, which returned 59.2% in 2014. The largest railroad operator in the US outperformed the benchmark due to an increase in operating margins, strong U.S. housing starts and impressive revenue growth. Housing starts helped stimulate volume growth in construction material shipments and revenue growth was fuelled by robust pricing and strength in the intermodal segment, which is mainly attributed to Mexico's booming manufacturing industry.

Figure 2: Value of U.S.- Mexico Rail Imports

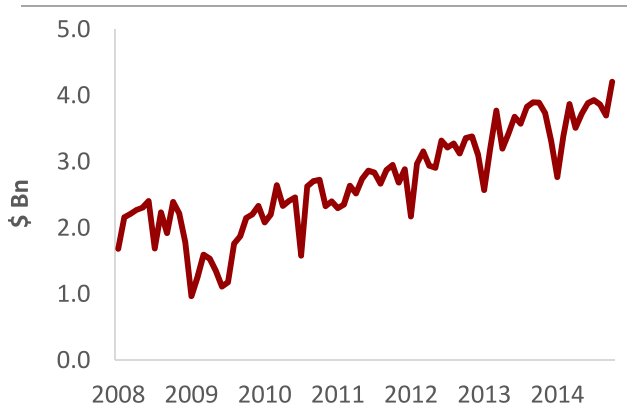
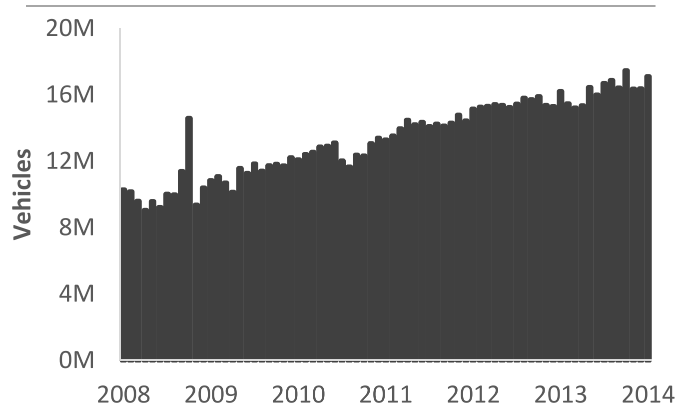


Figure 3: U.S. Monthly Light-Vehicle SAAR



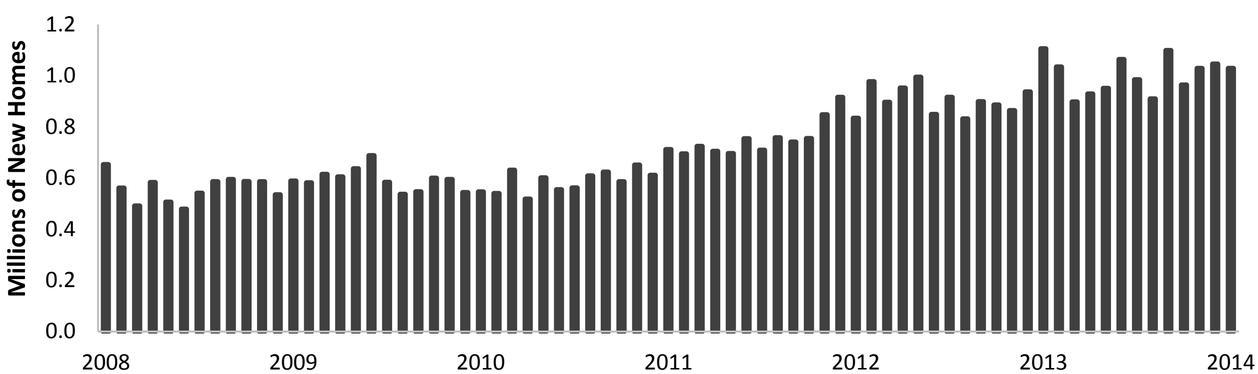
Sector Outlook

Going into 2015, we are neutral on the sector as a whole as valuations are in line with historical averages and fair in our view. We do see greater opportunities in North American companies as uncertainty about emerging market GDP growth and a tough macroeconomic climate in Europe will prove challenging for industrials in these areas. Dow Jones Industrial Average's average P/E is currently at 16x, while the MSCI Europe Average P/E stands at 22x.

Transportation

The transportation sector could face challenges in the year ahead. Despite strong fundamentals and sustained freight volume growth, uncertainty regarding world oil prices will have a material influence in shaping the competitive landscape as transporters could simultaneously face negative volume growth of petroleum segment whilst experiencing decreasing costs. In the short term, these depressed prices could also improve the competitiveness of trucking companies relative to railroads as these companies don't transport oil and are experiencing a drop in their fuel expenses. We foresee lower shipping costs for land transportation in the near term due to depressed oil prices and slower global economic growth than expected, despite sustained strength in the U.S. housing industry. The bulk shipping industry could also recover, as the Baltic Dry Index is currently at its five year low, we expect it to rebound throughout the year as tighter supply of tonnage should meet a slow volume growth driven by higher commodities exports, notably in Brazil and Australia.

Figure 4: U.S. Housing Starts



Aerospace & Defense

Within the defense subsector, we favour military aerospace and marine as these should experience faster than expected revenue growth: the U.S. Army will increasingly concentrate its resources towards the Pacific Ocean as operations in the Middle East come to an end and less resources are deployed within the region, despite uncertainty regarding the geopolitical situation in Syria, as China continues its ascendance as a superpower, and North Korea remains a threat. Another trend we see in the sector is increased military spending in emerging countries such as South Korea and Russia that should favour cost efficient companies offering products at competitive prices as these nations attempt to grow their weapon stockpiles rapidly, but can't afford the latest cutting-edge technology.

Sources: Wall Street Journal, Bloomberg.

Industrials Sector

Holdings Overview

Pangaea Logistic Solutions (Nasdaq: PANL)

Company Overview

- Founded in 1996 and headquartered in Rhode Island, Pangaea Logistic Solutions is a company that provides seaborne transportation services for dry bulk commodities worldwide. It transports commodities such as grains, pig iron, bauxite, clinker, limestone, etc…
- Operates a fleet of approximately 60 vessels: 20 vessels which it owns and 35-45 vessels it charters-in
- The company began trading on NASDAQ on October 3rd 2014 after being acquired by Quartet Merger Corp, a public search fund

Catalysts

- Future earnings releases provide an opportunity for the company to prove the important upside offered by Artic Shipping
- Sell-off on Quartet investors exercising their put-option will stop putting downward pressure on share price

Risks

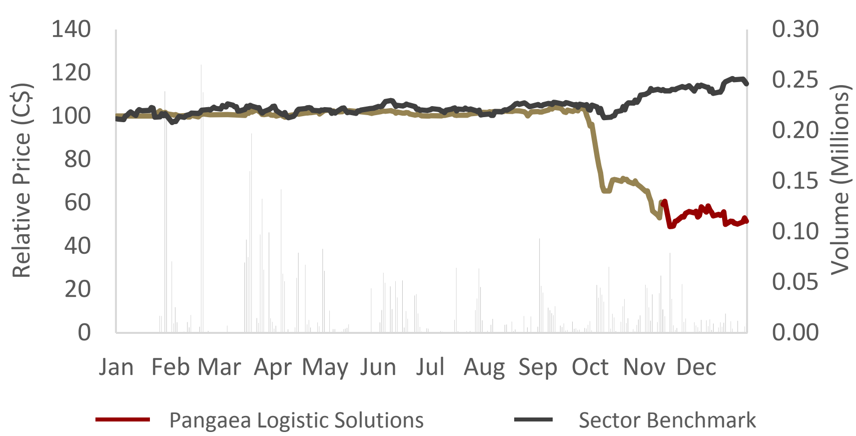
- Prolonged weakness in the Baltic Dry Index
- Slowdown in commodities exports, particularly in Brazil and Australia
- Slowdown in economic growth and base metals imports in China and India

Financial Summary

Public Market Overview	
(values in $mm, as of Dec. 31, 2014, except for Share Price)	
Share Price	$4.75
Shares Outstanding (mm)	34.6
Market Cap.	**$164**
+ Total Debt	131
+ Minority Interest	32
+ Preferred Equity	--
- Cash	20
Enterprise Value	**$307.40**
Beta	0.63
Dividend Yield	--
ROIC	7.5%
52-Week High	$10.10
52-Week Low	$4.61

Financials & Multiples	LTM	FY2015E	FY2016E
(values in $mm)			
Revenue	N/A	$211	$253
% Growth	N/A	N/A	*19.9%*
EPS	N/A	0.10	0.14
% Growth	N/A	N/A	*40.0%*
P/E	N/A	10.7x	10.1x
P/BV	N/A	1.0x	0.9x

Normalized Stock Price and Sector Benchmark Performance



Benchmark: 100% iShares Dow Jones Industrials ETF.

Position Snapshot

Average Cost	*$6.1*
# of Shares	*10,749*
Value Invested	*$59,138*
Portfolio Weight	*2.11%*
2014 HPR	*-12.0%*
HP Benchmark Return	*2.5%*
Excess Return	*-14.5%*

All figures in USD

Pangaea Logistic Solutions (Nasdaq: PANL)

Investment Thesis

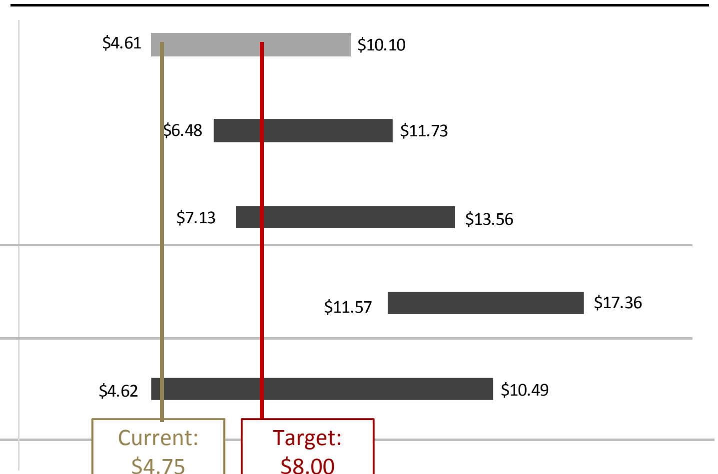
1. **Industry Leader in Artic Shipping:** *The company is a leader in the niche market of Artic shipping, owning 30% of the world's 1-A Ice-Class tonnage*
   - This niche market is very profitable as there is limited supply, voyage costs are on average 20-45% lower than that of traditional routes and premiums tariffs, up to +75%, can be exercised on world spot prices as this route enables freight to be delivered ~14 day earlier
   - One of the most promising opportunities is the North Sea Route, as dry bulk cargo in major Baltic ports have grown by a CAGR of 11.5% over the last 4 years and days navigable per year continue to increase steadily YoY as ice levels in the Artic have been consistently declining
2. **Focus on Backhaul to Drive Profitability:** *By focusing on obtaining long-term Contracts Of Affreightment on the less-traveled "backhaul" route (or return trip), Pangaea can grow revenues and voyage days with less capex than its peers*
   - By transporting goods in these less commoditized routes, Pangaea builds a loyal-customer base by becoming embedded in its client's supply chain as well as charge a premium of 13% on worldwide spot prices, currently around $10 700 per day to rent a Panamax vessel
   - Asset-light strategy consists in chartering-in additional vessels to meet excess demand, if needed, and not having to make payments on unutilized ships in market downturns
3. **Consistent, Acyclical Growth at an Attractive Valuation:** *45% CAGR in adjusted EBITDA from 2009-2013 in an environment of declining revenue, 3 year average ROE of 19.5% and EBITDA margin standard deviation of 2.1%, the lowest of its peers who's profitability is highly vulnerable to swings in spot prices. We believe the attractive valuation to be a consequence of some investors in Quartet merger Corp. (the public search fund that acquired Pangaea) exercising their embedded put options to sell their shares as they don't want to invest in the acquired company. Given the low trading volume on the stock, 6 000 shares traded per day on average, and the fact that it attracts almost no attention from Wall Street, this suffices to exercise significant downward pressure on the stock*

Analysis of Performance

Since initiating our position in mid-November 2014 at an average price of $6.13, PANL closed out 2014 at a price of $4.75. The stock has been exposed to downward pressure and volatility, as some investors in Quartet Merger Corp. exercised their put options to sell back their shares at a strike price of $10 and the stock has limited trading volume. Going into 2015, we are confident that the stock price volatility will dissipate as these options expire, and that the stock price will reflect the company's strong fundamentals.

Valuation Summary

Method	Metric	Illustrative Value Range
Comps	52-Week Trading Range	$4.61 – $10.10
	EV / 2015E EBITDA: 9.5x - 11x	$6.48 – $11.73
	Price / 2015E Earnings: 9.5x - 11x	$7.13 – $13.56
NAV	NAV: 0.8x - 1.2x Market Value of Vessels	$11.57 – $17.36
DCF	2014-2021: Margin Expansion 1.2-2.9% Revenue CAGR 7.6 - 9.3%	$4.62 – $10.49



General Motors Company (NYSE: GM)

Company Overview

- General Motors Company designs, builds and sells cars, trucks and automobile parts worldwide
- GM emerged from bankruptcy and was able to restructure its North American operations by getting rid of large pension obligations and renegotiating more favourable labour agreements
- The company also provides automotive financial services through General Motors Financial Company, Inc. GM Financial offers financing to consumers who are unable to obtain financing from traditional sources

Catalysts

- Macro factors, such as low pump prices and expansion of subprime credit are positive tailwinds
- GM is a market leader in China; the country's economy is expected to grow by 7-8% every year until 2020 and the population residing in urban areas is expected to rise to 60% from approximately 53% in 2014, which will drive mobility demands

Risks

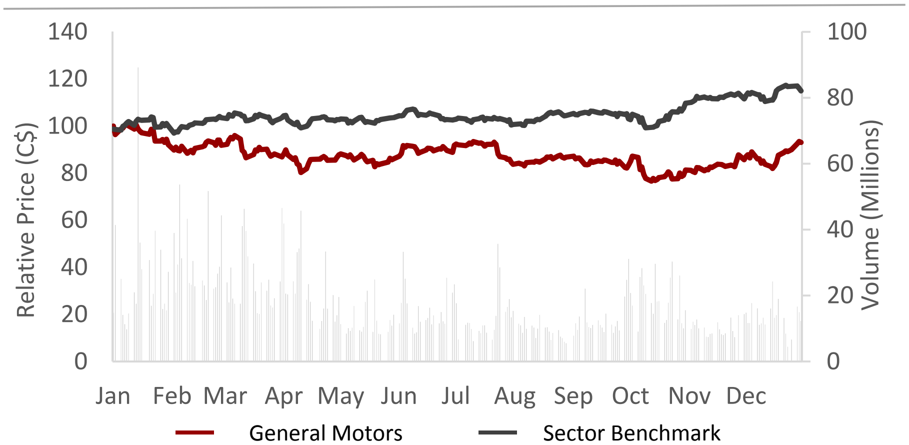
- Volatility in oil prices may cause a shift in consumer demand towards smaller, more fuel efficient cars, which provide lower profit margins
- GM management has been stubborn in the past and restructuring efforts have been slower to realize than expected, elongating the period of losses in the GME segment

Financial Summary

Public Market Overview	
(values in $mm, as of Dec. 31, 2014, except for Share Price)	
Share Price	$34.91
Shares Outstanding (mm)	1606.7
Market Cap.	**$56,090**
+ Total Debt	41,105
+ Minority Interest	561.00
+ Preferred Equity	156.00
- Cash	27,630
Enterprise Value	**$70,282**
Beta	1.59
Dividend Yield	2.6%
ROIC	1.1%
52-Week High	$40.95
52-Week Low	$29.69

Financials & Multiples	LTM	FY2015E	FY2016E
(values in $mm)			
Revenue	$156,797	$159,498	$161,210
% Growth		*1.7%*	*1.1%*
EPS	2.37	4.32	4.69
% Growth		*82.5%*	*8.4%*
P/E	11.0x	10.7x	10.1x
P/BV	1.0x	1.0x	0.9x
P/TBV	1.5x		

Normalized Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost	*$34.6*
# of Shares	*3,690*
Value Invested	*$149,203*
Portfolio Weight	*5.33%*
2014 HPR	*-2.9%*
HP Benchmark Return	*14.9%*
Excess Return	*-17.8%*

All figures in CAD

General Motors Company (NYSE: GM)

Investment Thesis

1. **Pent-Up Demand in the U.S.:** *Average age of cars in the U.S. has decreased from 13 to 11 years over the course of the last two years, which remains above the historical average of 8 years and will likely continue to fall helped by aggressive lending and an improving economy*
   - U.S. light-vehicle SAAR is on a upward trend and this year's numbers were at a 5-year high
   - Competitive positioning to harness sales growth and drive margin expansion going forward; North American operating margin to reach 10% by 2015
2. **International Operations:** *China segment reaches 40% of total sales and restructuring in Europe will be profitable in 2015*
   - Sales were up 13.5% in China and GM has plans to invest a total of $12Bn in the next 4 years to open 5 new plants
   - GM expects their European segment to be profitable in 2015 through divestment of non-core assets and rationalization of production facilities
3. **Valuation:** *GM trades at a significant discount compared to the overall market, which was likely caused by short-term concerns over recalls in 2014*
   - On an EV/2014 EBITDAP basis, GM trades at a significant discount to Ford, its best comparable, with a multiple of ~2.6x compared to ~5.5x. Companies with significant defined benefit liabilities will see P&L data affected by the addition of pension liabilities and since pensions are non-cash items, we think it makes sense to adjust the enterprise value
   - Negative impact of recalls have been fully priced in the stock, leading to a situation where the stock is overly discounted, offering upside by both revenue growth and multiple expansion

Analysis of Performance

Despite the issue of recalls GM has faced in 2014, the company has managed to see sales growth in the U.S. market, selling over 274,000 vehicles, representing a 19% increase compared to 2013. This increase is also attributable to favorable macro trends such as low interest rates and falling oil prices. Ford has not been able to produce vehicles fast enough, and GM was able to take advantage by selling over 81,000 pick-up trucks, representing a 35% increase compared to 2013.

Valuation Summary

Method	Metric	Illustrative Value Range (Low)	Illustrative Value Range (High)
	52-Week Trading Range	32.0	42.9
Comps	2016E Sales: 2x - 3x	32.8	46.3
	2015E EBITDA: 8x - 11x	35.0	45.9
Precedents	2016E Sales: 2.75x - 3.5x	42.9	53.0
	2015E EBITDA: 10x - 12x	45.9	53.1
DCF	Terminal Growth Rate: 0.75% - 2.25%	45.8	51.8
	Terminal Multiple: 7x - 9x	43.9	51.0
	Discount Rate: 8.5% - 10.5%	46.4	48.6

Current: $32.61

Target: $45.00

Materials Sector

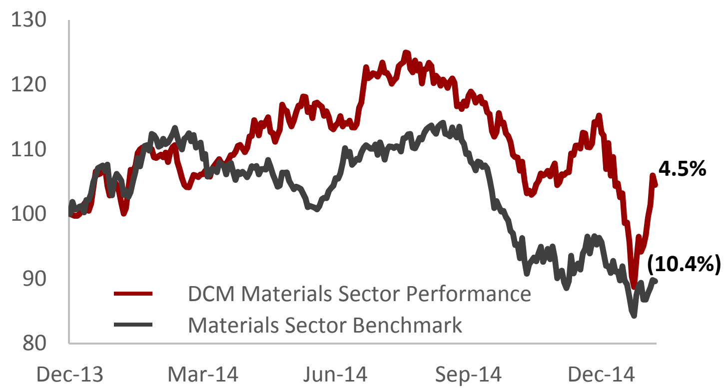
2014 Review & 2015 Outlook

By Joseph Kaprielian & Alexandre Veronneau

DCM Performance

In 2014, the Global Equity Fund's Materials sector returned 4.5%, representing a 14.9% outperformance over the sector benchmark. Our outperformance can largely be attributable to Lundin Mining, which rallied 23.5% this past year. This more than offset a 12.2% decline in our other major holding, McEwen Mining, which we purchased in November. We are continuing to build our position in McEwen with a target size of about 2.5% of the fund. The materials sector was among the worst sectors in 2014, which comes as no surprise given the steep selloff in commodities.

Figure 1: DCM Materials Performance



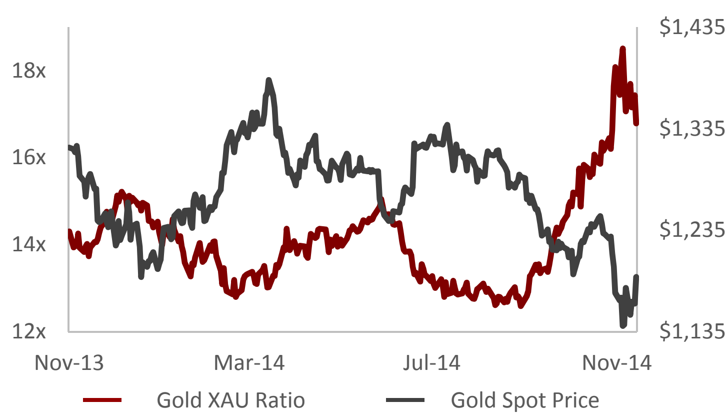
Benchmark: 40% SPDR S&P Metals & Mining ETF (XME), 60% iShares S&P/TSX Capped Materials Index (XMA.TO).

Gold & Base Metals

Reflecting on the past year, we saw gold prices reach as high as $1,385/oz to just below $1,150/oz. In the first half of the year, most of that volatility was due to a fluctuation in global demand as well as heightened geopolitical tensions in Ukraine and Gaza. However, the announcement of the end of the Federal Reserve's Quantitative Easing program in late October caused the price of gold to decline sharply. As a sector, we believed the market oversold gold equities after the announcement. As we can see from the graph below, the widening gap between the gold XAU ratio and the spot price of gold in November supported our view that gold equities had been greatly oversold when compared to similar gold price fluctuations over the year. The gold XAU ratio represents the gold spot price divided by the Philadelphia gold and silver index (16 largest precious metals companies). Whenever the red line (gold XAU ratio) is above the grey line (gold spot price), it signifies that the market is overselling gold equities as gold prices are falling resulting in producers' margins shrinking. The 1-year historical mean of the XAU ratio was 14x, whereas, in November, this ratio had risen to 18x signifying an attractive entry opportunity for gold equities, which was partly a reason why we initiated our position in McEwen Mining.

One of the major trends in the base metals sub-sector is senior producers' divestment of non-core assets in order to deleverage their balance sheets. Over the past few years, major base metals companies were focused on buying long dated projects with high capex requirement and high operating costs in order to fuel their growth pipelines. Most of these acquisitions were made with debt issuances leading to high leverage on their balance sheets. This new trend presented an opportunity for intermediate and junior companies with strong cash positions to engage in tuck-in acquisitions. Indeed, Lundin Mining acquired $1.8 billion copper asset from Freeport-McMoRan in October 2014. There were many similar deals throughout the year and we expect to see more of these in the coming year.

Figure 2: Gold XAU Ratio vs Gold Price Relationship



DCM Materials

As we look towards the beginning of 2015, we expect precious metals prices, namely gold, to pick up due to a heightened demand ahead of the Chinese New Year festivities that begin in February. Also, we expect unconventional monetary policies implemented by the European Central Bank to have a positive effect on gold prices as Draghi attempts to give the European economy a boost with an outright quantitative easing program similar to that of the Federal Reserve. A big risk for gold, however, is further pricing-in of interest rate hikes in 2015 as the increased appeal of money market investments would reduce the demand for gold. What is certain is that expectations of a rise in U.S. interest rates have been postponed. However, if the Federal Reserve is satisfied with labor market conditions and inflation expectations, it will most likely start raising interest rates causing a sell-off of gold.

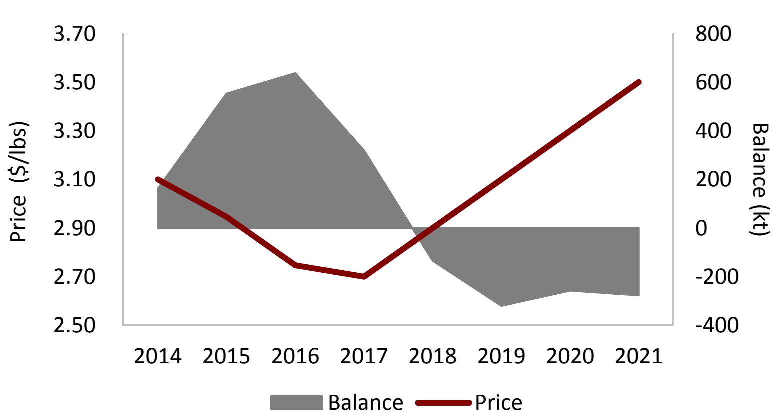
We believe the continued pressure on gold prices will result in management teams' willingness to create shareholder value through mergers with peers in order to expand economies of scale and reduce costs. We expect to see intermediate and junior gold producers looking to merge with companies that have low leverage and high grade exploration & development projects that will allow them to fuel their project pipeline for the coming years. Ideally, a gold producer would want to merge or acquire another producer with good quality assets that are of close proximity to its own assets. This allows them to extract bigger volumes of ore while taking advantage of cost synergies. Having a low development capital expenditure cost is another major factor that is considered before making a big purchase. As such, we are confident in our position in McEwen Mining as it has a strong base of operations, low costs and a potential to be bought out by one of its peers. On a related note, with the major base metals producers still looking to deleverage their balance sheets, we expect to see a continuing of divestment of non-core assets. Thus, going forward, we will be looking to invest in companies with strong cash positions, low leverage and lacking pipeline of exploration/development projects as they should be able to pick up assets on the cheap.

Copper

2013 and 2014 were above average years for world refined copper consumption with growth exceeding 5% per year due to reasonable economic growth, lower copper prices, restricted scrap availability and healthy demand from China. Despite the increased demand, base metal prices wilted this past year as supply outpaced demand growth and as demand growth failed to meet expectations, particularly in China at the later part of the year. Indeed, there is a current 264kt global market copper surplus.

Going forward, we expect the current copper surpluses and depressed prices to cause mine production cutbacks, especially from higher cost producers. Also, these market conditions are likely to pressure miners into restraining exploration budget. These two factors are expected to lead the long-term copper market balance into a deficit, thus increasing copper price in the long-term as shown in the chart to the right.

Figure 3: Copper Long-Term Market Balance Forecast



2015 Focus

Entering 2015, the Materials team will look to further explore the base metals space, specifically with regards to a commodity other than copper in order to diversify our existing sector holdings.

Materials Sector

Holdings Overview

Lundin Mining Corporation (TSE: LUN)

Company Overview

- Lundin Mining is a diversified mid-tier base metals mining company that engages in exploration, development and production in Portugal, Sweden, Spain, DRC, USA and Chile. The company produces copper, zinc, nickel and lead
- Through 2014, the company completed the acquisition of 80% of the Candelaria Copper Mine in Chile, which was acquired from Freeport-McMoRan for approximately $1.8B
- The company recently ramped up commercial production at the Eagle nickel/copper mine

Catalysts

- Eagle Mine to reach full production in 2Q 2015
- Smooth transition of Candelaria with successful implementation into Lundin's current operations

Risks

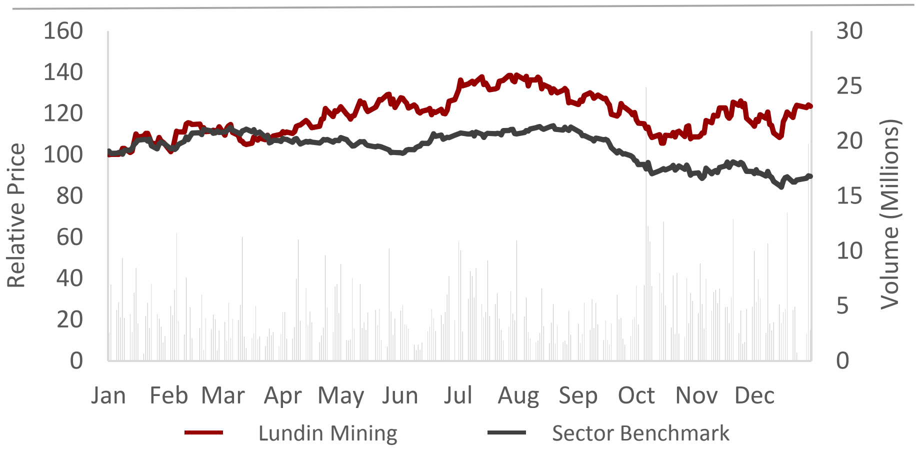
- Difficulties while implementing most recent acquisitions into current operations with low integration costs
- Difficulty in managing debt obligation in the long-term
- Commodity price risks

Financial Summary

Public Market Overview	
(values in C$mm as of Dec. 31, 2014, except for share data)	
Share Price	$5.72
Shares Outsdtanding (mm)	718.1
Market Cap.	**$4,108**
+ Total Debt	$360
+ Minority Interest	$0
+ Preferred Shares	$0
- Cash	$164
Enterprise Value	**$4,303**
Beta	1.66
Dividend Yield	--
ROIC	3.6%
52-Week High	$6.42
52-Week Low	$4.60

Financials & Multiples	LTM	FY2015E	FY2016E
(values in C$mm)			
Revenue	$2,093	$2,827	$2,879
% Growth		*35%*	*2%*
EBITDA	$1,282	$1,693	$1,659
% Margin		*60%*	*58%*
EPS	$0.81	$1.34	$1.27
% Growth		*65%*	*-5%*
EV/EBITDA	2.8x	2.1x	2.2x
P/E	7.0x	4.3x	4.5x
P/NAV	0.6x	0.7x	0.7x
EV/Cu Production lbs	8.1x	5.0x	5.2x

Normalized Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost	*$4.85*
# of Shares	*10,500*
Value Invested	*$60,060*
Portfolio Weight	*2.15%*
2014 HPR	*24.3%*
HP Benchmark Return	*(10.4%)*
Excess Return	*34.8%*

All figures in CAD

Benchmark: 40% SPDR S&P Metals & Mining ETF (XME), 60% iShares S&P/TSX Capped Materials Index (XMA.TO).

Lundin Mining Corporation (TSE: LUN)

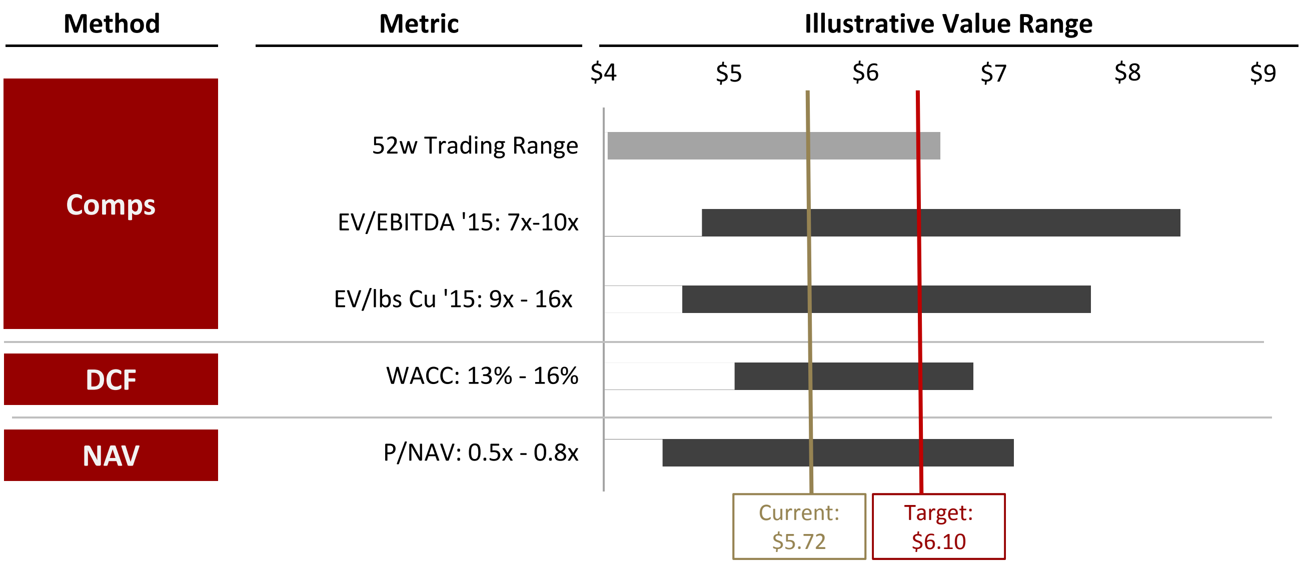
Investment Thesis

1. **Favorable industry movements:** *Upcoming M&A activity and opportunity to buy quality brownfield projects for cheap: Management has to fill up the pipeline of project under development after the Eagle Mine ramps up*
   - Lundin will benefit from a strong cash position and cash flows in upcoming quarters allowing the company to look for further acquisitions or to pay down debt
   - Willingness from management to diversify assets both across different commodities and geographically as shown by the ownership of assets all around the globe
   - Senior diversified producers looking to divest in order to deleverage their balance sheets will enable Lundin to acquire high-grade assets at cheap prices
2. **Management continues to prove its superior operating abilities:** *The management team has demonstrated an ability to control its operations by meeting its production and cash cost guidance*
   - We believe that Lundin Mining will continue to maintain a strong financial position with its recent acquisition of the Candelaria Copper Mine, which was structured in such a way that enables the company to leverage its balance sheet
   - The transaction was immediately accretive on operating and financial metrics including cash flows and earnings per share
3. **Strong track record of successful project development:** *LUN has proven to be successful in acquiring the right projects and in efficiently operating them. We believe that the company will continue on this path with the successful implementation of the Candelaria Copper Mine into its current operations*

Analysis of Performance

We initiated our position in Lundin in October 2013 at a price of $4.85. Our initial investment thesis was based on the potential increase in M&A activity in the industry in the coming years, which we believed would create acquisition opportunities at discounted price for the company who was looking to fill up its project pipeline. Through 2014, part of our original thesis played out as Lundin announced the acquisition of the Candelaria copper mine and as the successful ramp up of the Eagle nickel/copper mine was completed on budget and a quarter ahead of schedule. Based on these events, we revised our price target to $6.10 and decided to hold our position in Lundin as we continue to believe that the company is a superior operator and developer.

Valuation Summary



McEwen Mining (TSE: MUX)

Company Overview

- Gold & silver exploration and production company with operations in the Americas
- Founded and led by Robert McEwen, former CEO and founder of Goldcorp
- Mr. McEwen owns 25.5% of MUX shares and has 29 years of experience in the mining industry
- The company was created in 2012 with the merger of US Gold and Minera Andes. Its primary assets are the San José Mine and the El Gallo Complex in Mexico. Other operations are located in Nevada, Mexico and Argentina

Catalysts

- Reduction in all-in sustaining cost and cash costs and increase in production
- Final construction permit at Gold Bar
- Successful ramp up of the El Gallo II and Gold Bar projects (2016 & 2017)

Risks

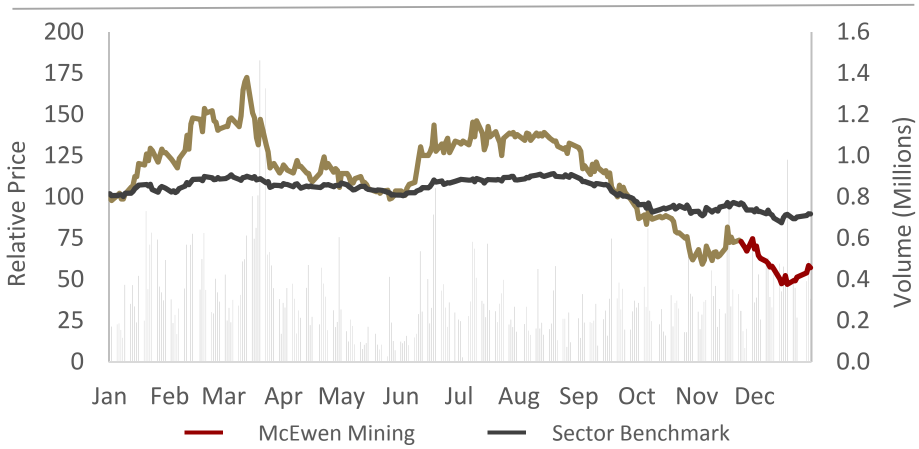
- Failure to reduce cash costs at current operating mines
- Delay in ramp up of El Gallo II and Gold Bar development projects, altering short term production levels
- Unfavorable commodity prices

Financial Summary

Public Market Overview	
(values in $M, as of Dec. 31, 2014)	
Share Price	$1.30
S/O (mm)	298.0
Market Cap.	**$387.4**
+ Total Debt	$0
+ Minority Interest	$0
+ Preferred Shares	0
- Cash	$18
Enterprise Value	**$369.8**
Beta	1.41
Dividend Yield	--
ROIC	(25.3%)
52-Week High	$3.93
52-Week Low	$1.07

Financials & Multiples	**LTM**	**FY2015E**	**FY2016E**
(values in $M)			
Revenue	$216	$282	$438
% Growth		*31%*	*55%*
EBITDA	$6	$32	$95
% Margin		*11%*	*22%*
EPS	$0.01	$0.07	$0.24
% Growth		*600%*	*243%*
EV/EBITDA	*--*	*13.7x*	*4.6x*
P/E	*--*	*21.7x*	*6.5x*
P/NAV	*0.5x*	*0.5x*	*0.6x*
EV/ Au Production Koz	*2.5x*	*1.9x*	*1.2x*

Normalized Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost	*$1.5*
# of Shares	*45,000*
Value Invested	*$58,500*
Portfolio Weight	*2.09%*
2014 HPR	*(12.2%)*
HP Benchmark Return	*(7.0%)*
Excess Return	*(5.2%)*

All figures in CAD

Benchmark: 40% SPDR S&P Metals & Mining ETF (XME), 60% iShares S&P/TSX Capped Materials Index (XMA.TO).

McEwen Mining (TSE: MUX)

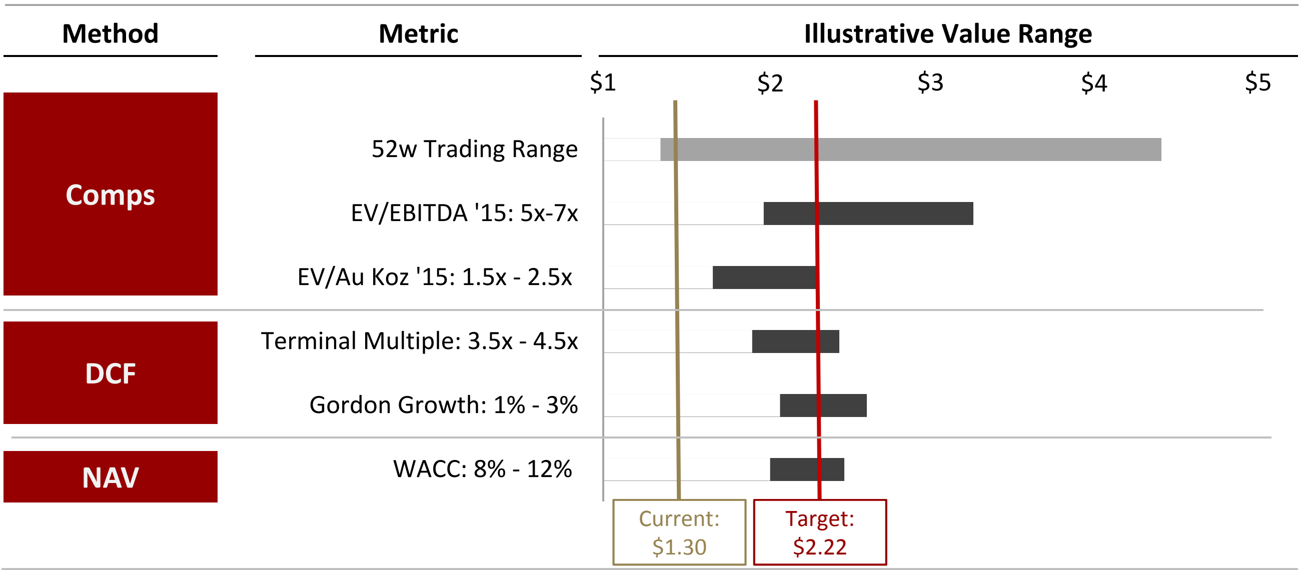
Investment Thesis

1. **McEwen Mining proves to be a strong performer:** *Robert McEwen is known for consistently under promising and over delivering when it comes to operating and production guidance*
   - MUX aggregate production is forecasted to top 300kozs by 2017 with the expected ramp up of two currently under development projects, the El Gallo II and the Gold Bar project
   - The management team has set a clear development plan for most of the company's assets
   - The company's All-In Sustaining Costs are forecasted to decrease by 10%, form $1,100 to $990 per ounce which will help improve margins. McEwen has relatively low cash costs compared to peers of similar size allowing it to remain competitive in a weak gold price environment
2. **The company has a lot of value locked in the ground:** *The El Gallo complex, which is expected to be fully ramped up by 2016, promises strong production according to the economic feasibility study. Also, an undergoing expansion will increase El Gallo I capacity by 50%*
   - McEwen owns good quality assets, which will allow to process less ore than peers for the same level of production and therefore reduce costs. Also, McEwen's exploration territories have shown promising drilling results where all necessary permits are in place to start digging
   - On a valuation perspective, we only assigned a NAV to the San Jose Mine, the El Gallo Complex and the Gold Bar Mine to get a NAVPS of $3.17, to which we applied a multiple of 0.70x based on comparables to get our price target. Despite this, we believe that the market will attribute a value to the company's exploration assets once prefeasibility studies are conducted
3. **We see McEwen as a potential acquisition target:** *The company owns high grade assets that are located near senior gold producers such as Goldcorp and Barrick Gold who are looking to acquire long-term developing and exploration projects. All assets owned by the company are located near previously proven territories for significant gold extraction*

Analysis of Performance

We initiated our position in McEwen Mining in the end of November 2014 an have been building our position at different prices leading to an average entry price of $1.50. McEwen's performance through the end of 2014 was impacted by the fluctuation in gold prices, which can be expected from the stocks beta to gold of 3.3. Being our only gold position in the portfolio, this holding also acts as a hedge in the event of an equity market selloff.

Valuation Summary



MeadWestvaco (NYSE: MWV)

Company Overview

- Founded in 2002 through the merger of the Mead Corporation and Westvaco, MeadWestvaco is a conglomerate with businesses spanning across packaging, specialty chemicals, and community development
- One of the largest packaging companies in the world, packaging materials for the food & beverage, home, and industrial industries
- Plans to separate its specialty chemicals business into a separate publicly traded company after pressure from activist investor Starboard Value

Catalysts

- Continued pressure from Starboard Value will drive margin improvements across the paper packaging segments
- Future earnings release following the Specialty Chemicals' spin-off provides an opportunity to reduce unallocated corporate expense

Risks

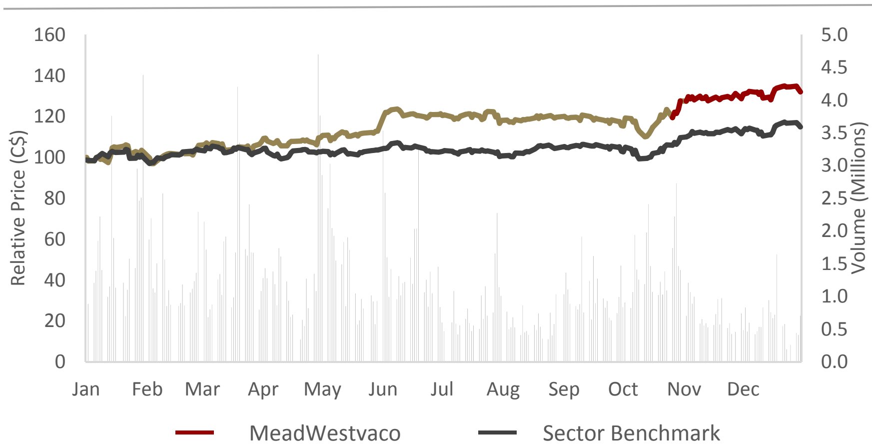
- Management's decision to continue operating the Specialty Chemicals business would erase the stock price gains seen after the announcement (7%)
- Starboard Value's decision to sell its stake would undermine the ongoing improvements witnessed since their involvement
- Announced merger with RockTenn fails
- Management is unable to realize cost savings

Financial Summary

Public Market Overview	
(values in $mm, as of Dec. 31, 2014, except for Share Price)	
Share Price	$44.39
Shares Outstanding (mm)	166.7
Market Cap.	**$7,401**
+ Total Debt	1,886
+ Minority Interest	159.00
+ Preferred Equity	-
- Cash	400
Enterprise Value	**$9,046**
Beta	1.14
Dividend Yield	4.5%
ROIC	9.4%
52-Week High	$53.96
52-Week Low	$34.15

Financials & Multiples	LTM	FY2015E	FY2016E
(values in $mm)			
Revenue	$5,573	$5,822	$5,972
% Growth		*4.5%*	*2.6%*
EPS	1.68	2.19	2.42
% Growth		*30.4%*	*10.7%*
P/E	11.0x	10.7x	10.1x
EV/EBITDA	10.9x	9.3x	9.0x

Normalized Stock Price and Sector Benchmark Performance



Benchmark: 100% IYJ U.S. Equity in USD.

Position Snapshot

Average Cost	*$48.4*
# of Shares	*2,330*
Value Invested	*$119,796*
Portfolio Weight	*4.28%*
2014 HPR	*11.1%*
HP Benchmark Return	*11.7%*
Excess Return	*-0.6%*
DCM Price Target	*$53.3*

All figures in CAD

MeadWestvaco (NYSE: MWV)

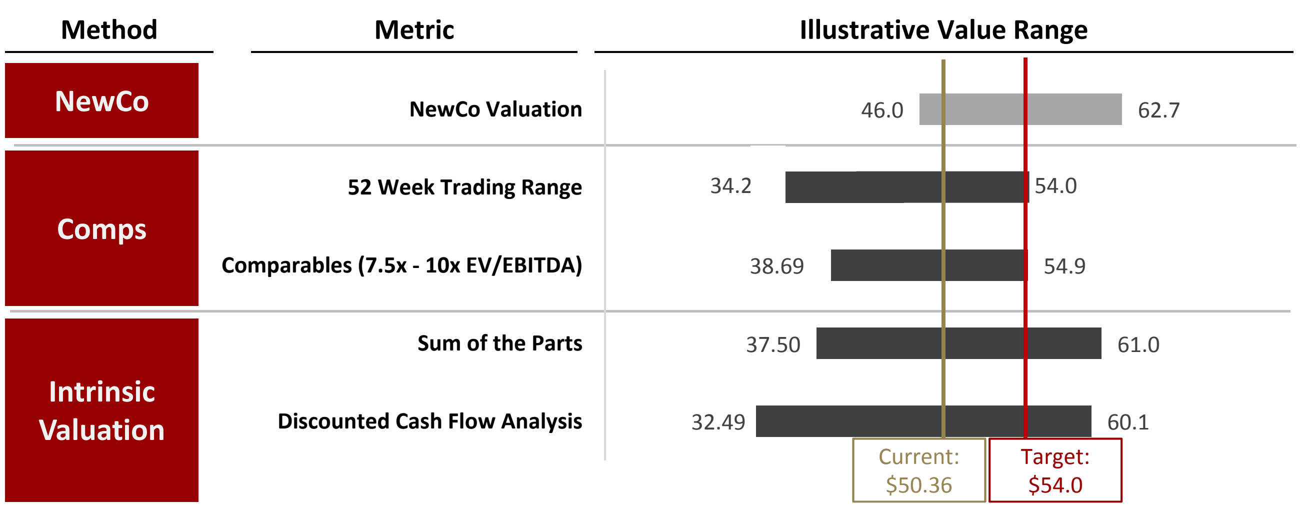
Investment Thesis

1. **Corporate overhead and inferior operating margins:** *Excessive corporate overhead and inferior operating margins cause structural inefficiency and discounted valuation*
   - Several opportunities to eliminate unnecessary expenses and improve operating margins would increase equity value by ~55% by 2015
   - Reducing corporate overhead in-line with peers would yield cost savings of $160mm, significantly higher than management's estimates of $50mm-$62.5mm
2. **Hidden value in assets:** *The conglomerate structure is discounting the value of non-core assets*
   - Announced spin-off will help realize shareholder value of 3-3.5x EBITDA of Specialty Chemicals unit, which the market was undervaluing due to its inclusion in the conglomerate
3. **Negative market sentiment surrounding negative FCF:** *Capital allocation decisions have poised the company to expand but negative FCF leads to poor market perception*
   - Capital expenditures have increased by 120% ($300mm to $665mm) in the past two years due to significant investments in Virginia and Brazil to develop paperboard and container board facilities leading to negative cash flow in 2012 & 2013
   - FCF Yield will improve as a result of this investment in growth and in cost reduction initiatives by management

Analysis of Performance

DCM initiated a position in MWV in November 2014. In the third quarter earnings release, MWV reported a significant increase in operating margins across their paper packaging segments due to investments undertaken in previous years, in-line with our investment thesis. Furthermore, management announced that they expected to exceed their cost savings target of $75mm, also in-line with our investment thesis. We had anticipated an increase in FCF as capital expenditures declined to normalized levels and in-line with our thesis, FCF increased by ~50% y/y to $61mm. MWV announced in January 2015 a separation of its Specialty Chemicals business into a publicly listed company, which we had anticipated as we believed it was being undervalued due to its inclusion in the conglomerate structure. Lastly, we suggested that a merger was the only way to monetize MWV's overfunded pension asset and most recently (Jan. 2015) they announced a merger with RockTenn, a company with a significantly large pension liability.

Valuation Summary



TMT Sector

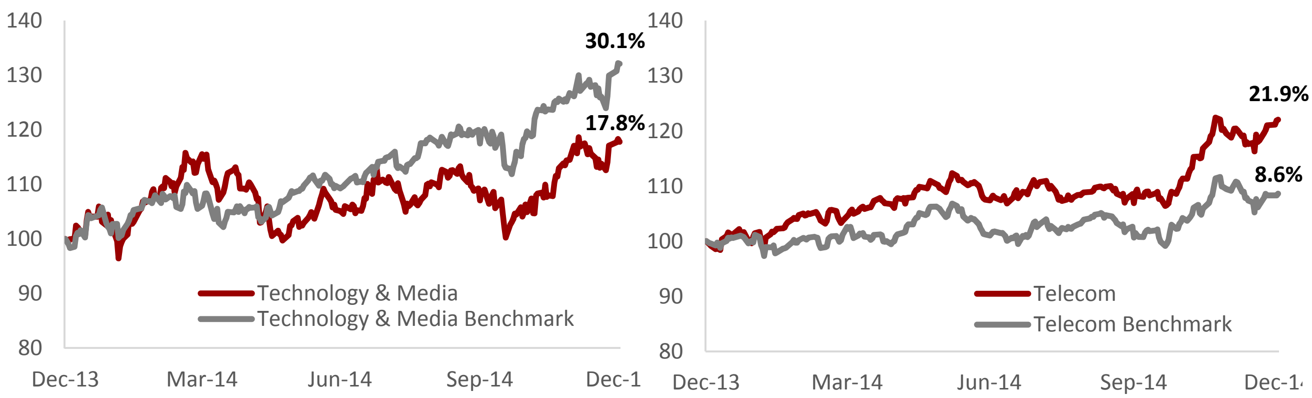
2014 Review & 2015 Outlook

By Daniel Kraminer, Henri St-Pierre, Luohan Wei & Alexandre Castonguay

DCM Performance

The Global Equity Fund's Technology, Media & Telecommunications (TMT) sector returned 17.5% in 2014 versus 26.9% for our sector benchmark. Breaking down the sector into technology/media and telecommunications provides further insight into our relative performance. Our technology/media holdings underperformed their benchmark by 12.5% while our telecommunication holdings outperformed their benchmark by 13.4%. Our underperformance in the technology/media sector was largely due to a stagnant Teradata and poorly performing Yume. Our allocation to both these firms will be covered in the following analysis but can be boiled down to market mistiming in our view as both firms remain very attractive but have yet to realize the price appreciation potential we saw in them when we initiated our positions. Our telco outperformance can be attributed to BCE as Canadian telco's outperformed their U.S. counterparts and BCE led the big three in Canada.

Figure 1: TMT performance vs Benchmark



Benchmark: US iShares Technology (IYW) in CAD. *Benchmark: US iShares Telecom (IYZ) in CAD.*

2014 Performance Analysis

In 2014 we positioned ourselves to take advantage of three key themes: 1) the explosion of data and the need for it to be stored and analyzed, 2) the media shift away from television and towards a multi-platform environment, and 3) The increased demand for technology that monitors our environment, namely the Internet of things (IoT).

Within these 3 key areas, we found the greatest value in Teradata for data, Yume for media-shift, and STMicroelectronics and Intel for the IoT. We also held positions in Bell, Take Two Interactive and Amazon, based purely on compelling bottom-up valuation.

2014 was an interesting year in TMT as some of the world's largest companies dealt with data breaches, further raising privacy concerns among consumers. These instances caused massive rallies in the cyber security space with names such as Palo Alto Networks and Fortinet rallying over 110% and 60%, respectively. Two key consumer trends that emerged in 2014 were the appetite for drones and wearable devices, both of which are poised for significant growth in the coming year with Apple's much anticipated smart watch and GoPro's foray into drones coming to bear.

While 2013 was a stand out year for American media corporations as investors sought out the content producers in the entertainment value chain, and the subsector rallied over 60%, 2014 was flat. Indeed, this was our expectation, based on already fair valuations, and we avoided the subsector altogether.

2014 Performance Analysis (Cont'd)

A similar situation unfolded in the telecommunications space as the sector benchmark was up 8.4% in 2014 and Canada's big 3 diverged between healthy appreciation for Bell and Telus and a drop off for Rogers. The big stories in North American telco remain price wars and government regulation. Regulators in the U.S. are in a heated debate regarding the ability of telco providers to alter the nature of their pricing model away from "net neutrality", treating all consumption equally, towards a tiered pricing system to punish high bandwidth usage such as video streaming. A similar discussion will likely unfold in Canada. Both markets are also highly consolidated and in Canada the big 3 will continue to face pushback from regulators and a will to increase competition. The most notable innovation in the space, and what has helped our investment in BCE-is an increase in demand and availability of Internet based television services, or IPTV, with BCE driving the shift in Canada through its Fibe TV offering. This innovation increases the case for a television subscription model and should help increase customer stickiness.

2015 Outlook

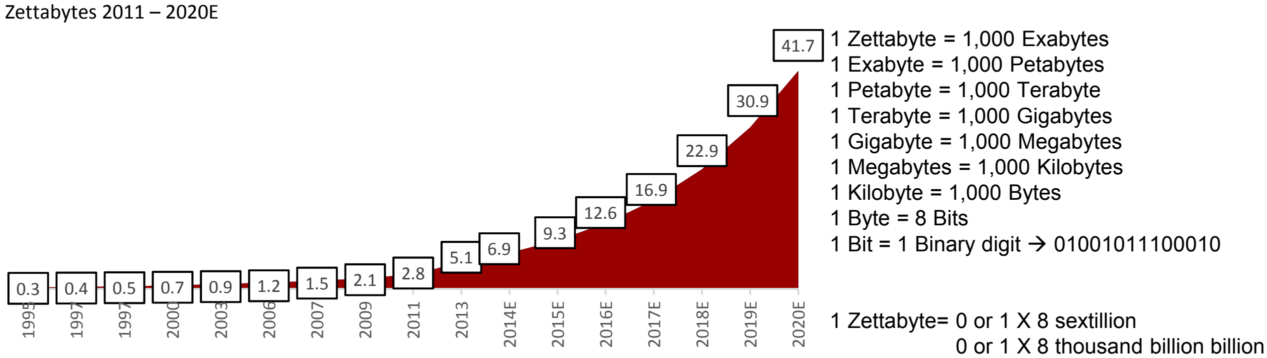
While 2014 was a good year for TMT, the reemergence of grumblings about a tech bubble crept back into the investor lexicon and have placed restraint on our outlook for 2015. We are confident in both the sector and our ability to find interesting investment opportunities in 2015 but are concerned with avoiding some potential value traps and busts in the coming year. Some of the subsectors with potential for a burst in their bubble include untested data analytics firms and mobile gaming companies with singular revenue streams.

In technology, our focus remains on the wave of IoT related companies that are best positioned to take advantage of the influx of consumer and industrial demand for intelligent "things", from smart watches and appliances to optimized warehousing and production systems. We feel our current holdings in the space are well positioned but remain on the lookout for possible additions or replacements, which may present more favorable opportunities as valuations change. IoT is poised to make significant inroads in 2015 as technology firms and the public finally begin to see meaningful adoption in the forms of wearable technology and industrial applications.

This is a sub-sector with significant hype and potential for booms and busts. A number of less obvious industries stand to benefit from such innovation. Farming, for example, is expected to face increasing demand for improving crop yields in the face of troubling weather and could stand to benefit from technologies that more accurately monitor and adapt to changing environments, the hallmark of any meaningful IoT product. This increase in Internet connected devices is reshaping the technology industry and creating a massive expansion in the creation and need to analyze data.

Figure 2: Demand For Data

Zettabytes 2011 – 2020E



The commoditized hardware space remains a difficult area for capital allocation in our opinion and will only be given further attention following a pull-back. This may not be the case in emerging markets where mobile computing device penetration is low and beginning to see massive adoption as a growing middle class in India and China emerges. Some local players could present an opportunity for DCM. This may also be true for the cyber security sector, as massive rallies in 2014, coupled with potential significant drops following a failure of their software to secure a network make the space intriguing yet dangerous. However, this danger is coupled with what we believe will be a significant uptick in corporate cyber security spending over the coming years, presenting the potential for generous returns for some stocks and meaningful sell-offs in others. The situation is ripe for diligent stock pickers and could result in an investment on our part.

The gaming industry is one we have invested in in the past, through Take Two Interactive, and is one that is poised to see meaningful growth and change in the coming year. Traditional gaming has not only moved from the console onto the smartphone but the intellectual property behind popular titles has propelled valuations and interest in the sector. Accessing and owning high quality content is a theme throughout the entertainment industry as content distributors race to acquire media assets and purchase exclusive rights to premium content. Securing this content is a challenge faced primarily by telco providers and over the top services such as Netflix and Amazon Instant Video. This content war can only lead, in our opinion, to more favorable conditions for content owning firms and less favorable conditions for the firms trying to acquire it. The telecommunication landscape in North America is not the most favorable while the European market is and will continue to experience meaningful consolidation, giving rise to a potential change in our allocation.

Wearables has definitely been the emerging tech buzzword of 2014. The space will only get more crowded in 2015 as the consumer adoption cycle enters its growth phase. Playing the space through derivative products such as sensor technology is where DCM has focused, and will continue to focus its attention. Companies which are poised to benefit from the sector's overall growth rather than catching a particularly successful end consumer product is how we plan on approaching and investing in the space.

Increasingly, the definition of what constitutes a tech company is expanding and evolving. Industries such as retail, food & beverage, education, and financial institutions are blurring the lines of technology as they implement and pioneer new and more convenient methods of conducting every day transactions. As an example, the everyday shopping experience is not only moving online but taking the online world into the physical sphere as advertisers and retailers harness the power of wireless network technology and the saturation of internet connected devices to interact with customers in real-time to augment their shopping experience. Retailers are beginning to uniquely target customers in their stores through digital ads that are pushed to consumers' devices as they are entering and roaming inside a store. This is not only opening up new demand for sensors and software to manage this interaction but also changing the way we think about brick and mortar retail. The "Uber" phenomenon of seamlessly connecting supply with demand and transacting with ease will be an ongoing theme in technology and the economy throughout 2015 and beyond. Firms outside of the traditional TMT definition are moving towards innovative means of reaching their customers and blurring the lines of the sector.

Overall, our outlook on TMT in 2015 is very positive and we believe the most meaningful contributor to the sectors' positive performance will come from the technology component of TMT. This positive sentiment gives credence to our overweight allocation to the sector. Pinpointing the themes, that will shape the TMT sector in 2015 is by its nature exceedingly challenging as the industry is rooted in its constant renewal and upheaval. The concepts and talking points outlined above represent DCM's areas of focus and have been derived from our analysts' personal, academic and professional experiences. Our investment process in TMT is often based on our ability to breakdown the complexity of the industry into buckets of opportunities, and seek out within each the most compelling risk reward opportunities.

TMT Sector

Holdings Overview

Yume (NYSE: YUME)

Company Overview

- Yume is a digital video advertising provider. Their platform enables brands to reach their target audience across websites and apps running on an Internet connected device such as a smartphone, tablet, PC or TV
- Yume facilitates a means of monetizing digital content and provides brands the most effective method of targeting their audience
- Yume was Founded in 2004, launched in 2007, and had their IPO in August 2013 ($9/share)
- Yume derives revenues from advertisers on a Cost Per Million impression basis

Position Snapshot

Average Cost	*$6.3*
# of Shares	*21,160*
Value Invested	*$123,523*
Portfolio Weight	*4.42%*
2014 HPR	*-22.3%*
HP Benchmark Return	*22.4%*
Excess Return	*(44.7%)*

All figures in CAD

Financial Summary

Public Market Overview	
(values in $mm, as of Dec. 31, 2014, except for Share Price)	
Share Price	$5.04
Shares Outstanding (mm)	33.0
Market Cap.	**$167**
+ Total Debt	0
+ Minority Interest	-
+ Preferred Equity	-
- Cash	62
Enterprise Value	**$104**
Beta	0.49
Dividend Yield	--
ROIC	-4.2%
52-Week High	$8.37
52-Week Low	$4.69

Financials & Multiples	LTM	FY2015E	FY2016E
(values in $mm)			
Revenue	$175	$208	$242
% Growth		*18.8%*	*16.4%*
EPS	-0.17	-0.08	-0.13
% Growth		*(51.2%)*	*60.2%*
EV/EBITDA	855.2x	18.7x	7.2x
P/E	-29.8x	60.7x	-37.9x
EV/Sales	0.6x	0.5x	0.4x

Market Performance

Benchmark: US iShares Technology (IYW) in CAD.

Investment Thesis

1. **The firm's superior technology and experienced management team:** *This will allow Yume to generate sustainable revenue growth with improving operating margins as the firm continues to implement their international growth strategy and ultimately transitions towards a more mature business model*
    - DCM believed Yume would be able to transition back towards double digit EBITDA margins sooner than the market given the masking effect of its international business on its domestic operations. We saw potential for a 10% EBITDA margin in 3Q14, similar to Yume's full-year profitability in 2012
    - Yume's U.S. business was highly profitable on an adjusted-EBITDA basis in the most recent quarter as the firm disclosed the exact profitability of Yume's U.S. operations for the first time since expanding internationally. The U.S. business is currently generating adjusted-EBITDA margins in the range of 12-15%
    - The higher-than-expected adjusted margins reflect the operating leverage in Yume's core operations. As the business has grown since 2012, adjusted-EBITDA margins have increased as well. This provides support to our valuation methodology, which hinges on Yume's ability to bring firm-wide operations towards its long-term operating profile of high-teen EBITDA margins
2. **The market's punitive behavior towards online ad networks:** *We believe this phenomenon is relatively more reflected in Yume as highlighted in comparable valuation suggesting that the market is highly discounting Yume's growth prospects and its ability to deliver on its guidance estimates (See Valuation Section)*
3. **We disagree with the market for the following reasons:** *(1) Yume has a proven platform and impressive customer base with little to no churn (2) The market's perceived pessimism towards the space is unsubstantiated and all industry indicators point towards massive growth going forward (3) Yume has impressive partnerships and a proven business model with a well positioned product offering (4) Yume's management team is very experienced and is poised to over-deliver on their tempered outlook*

Catalysts

- Top line revenues continuing to grow in line with market CAGR and management estimates, giving analysts more confidence in revenue visibility
- Successful implementation of the firm's international growth strategy with gradual margin improvement in line with current domestic operations
- Advertising spending continuing to move in line with time spent on online video consumption
- Potential acquisition from a large technology firm looking to expand their video advertising reach, as evidence by Google's, AOL's and Yahoo's acquisitions in the past year of adometry, Adap.tv and BrightRoll.

Risks

- Competitive Risk: In our opinion, the biggest risk to the investment thesis is competition; if Yume faces new competition from a large firm, such as Google, they may see customer churn and renewed pessimism from market participants.
- Secular Risk: If advertising spending fails to continue to shift towards online and mobile platforms Yume may fail to meat revenue growth estimates.
- International Growth strategy: If Yume fails to successfully grow their international business, in a profitable manner, the market will penalize them.

Analysis of Performance

2014 was a tumultuous year for the Ad tech space as existing members of the industry saw meaningful share price drop-offs and IPO's in the space were priced below anticipated valuation ranges and faltered from the start. Yume was down 22.3% during our holding period.

While the justification for this negative market sentiment is difficult to interpret and no consensus exists, it is DCM's opinion that the answer rests on the threat of big tech entry into the space. 2014 saw a massive increase in M&A activity in the Ad tech space with $7.5 billion in deals including Yahoo acquiring BrightRoll, Facebook acquiring LiveRail, Oracle acquiring Datalogix, Acxiom acquiring LiveRamp and AOL acquiring Adap.tv. Given the interest of large tech companies in the ad tech space a perceived binomial outcome tree exists in the minds of market participants – get acquired or go to zero, dragging down the entire sector We think this mentality is severely misguided.

Looking at the Ad tech space a few key points of differentiation exist among the remaining players: nature of the service and value added benefits. Yume is in our opinion the best positioned company in both these regards. Yume is more than simply a marketplace for content owners and advertisers to buy and sell digital ad space, it is a full-service advertising curator which sources relevant content for advertisers to place an ad, provides first party analytics on that inventory and optimizes the entire process to ensure the highest level of quality and most efficient advertising spend. Yume provides a unique service which depends on its value added proprietary analytics system (Performance Quality Index). Because of this important differentiating factor we believe Yume is the best positioned member of the sector and will be able to remain competitive without a takeover. Having an independent third party analyzing potential advertising inventory is valuable to both the buyer and seller. Moreover, Yume would be a prime acquisition target for any large player looking to bolster its Ad tech offering. Ultimately we believe retail investors lack an in-depth understanding of the industry and the differentiating factors among its players.

Valuation Summary

Comps

	Market Cap	EV	EV/ TTM Sales	EV/ NTM Sales	Y/Y Sales growth	TTM Op. margin
MILLENNIAL MEDIA INC	$205	$129	0.4x	0.4x	24.5%	(46.0%)
CONVERSANT INC	$2,219	$2,208	3.7x	3.3x	3.1%	23.8%
TREMOR VIDEO INC	$125	$47	0.3x	0.2x	10.7%	(15.5%)
ROCKET FUEL INC	$618	$576	1.7x	0.9x	63.5%	(12.6%)
Average	**$792**	**$740**	**1.5x**	**1.2x**	**25.5%**	**(12.6%)**
Median	**$412**	**$352**	**1.1x**	**0.6x**	**17.6%**	**(14.0%)**
YUME INC	**$165**	**$103**	**0.6x**	**0.5x**	**18.9%**	**(2.5%)**

We have a price target of $8.6 derived mainly from our DCF model. Key assumptions and value drivers include:

- Revenue Growth: Reasonable revenue growth based on tempered industry estimates and historical firm specific performance
- Operating margins: Reached as per management's guidance and progression of comparable tech firms in this space from high growth towards maturity

If we look at Yume's U.S. business and apply a conservative 10% EBITDA margin to sales (below reported 3Q14 figures), a roughly 6x EV/EBITDA multiple exists, which for a business with 30%-40% growth is exceedingly cheap and unwarranted.

Amazon (Nasdaq: AMZN)

Company Overview

- Amazon, led by visionary CEO Jeff Bezos, is the world's leading e-commerce retailer
- Amazon is a bundle of businesses including E-Commerce, Kindle, Amazon Prime, and Amazon Web Services. Money from profitable business segments is used to invest in increasing scale and competitive moat
- Amazon believes total shareholder return will stem from its relentless focus on improving the customer experience

Catalysts

- Amazon improves the focus and efficiency of its investments, strengthening its return on invested capital
- Higher top-line growth due to more E-Commerce activity in North American or Asian markets
- Content growth through systems such as Fire TV could lead to increasing user touch points

Risks

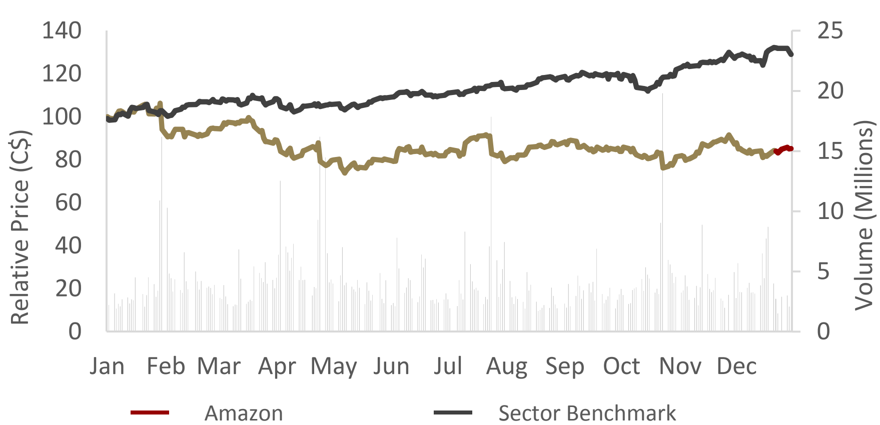
- Competitors start matching Amazon's operational effectiveness in ecommerce segments, eroding the firm's competitive moat
- Increased adoption of IBM, Google, and Microsoft offerings competing with AWS
- Unrestrained vision of management team result in poor investments and lack of focus

Financial Summary

Public Market Overview	
(values in $mm, as of Dec. 31, 2014, except for Share Price)	
Share Price	$310.35
Shares Outstanding (mm)	463.0
Market Cap.	**$143,694**
+ Total Debt	3,099
+ Minority Interest	-
+ Preferred Equity	-
- Cash	6,883
Enterprise Value	**$139,910**
Beta	1.14
Dividend Yield	--
ROIC	0.8%
52-Week High	$407.05
52-Week Low	$287.06

Financials & Multiples	LTM	FY2015E	FY2016E
(values in $mm)			
Revenue	$85,247	$105,965	$124,693
% Growth		*24.3%*	*17.7%*
EPS	-0.48	3.49	6.19
% Growth		*(826.5%)*	*77.6%*
EV/EBITDA	31.6x	17.2x	13.1x
P/E	-646x	89.0x	50.1x
EV/Sales	1.2x	0.8x	0.6x

Market Performance



Benchmark: US iShares Technology (IYW) in CAD.

Position Snapshot

Average Cost	*$356.2*
# of Shares	*220*
Value Invested	*$79,082*
Portfolio Weight	*2.83%*
2014 HPR	*1.2%*
HP Benchmark Return	*-2.3%*
Excess Return	*3.6%*

All figures in CAD

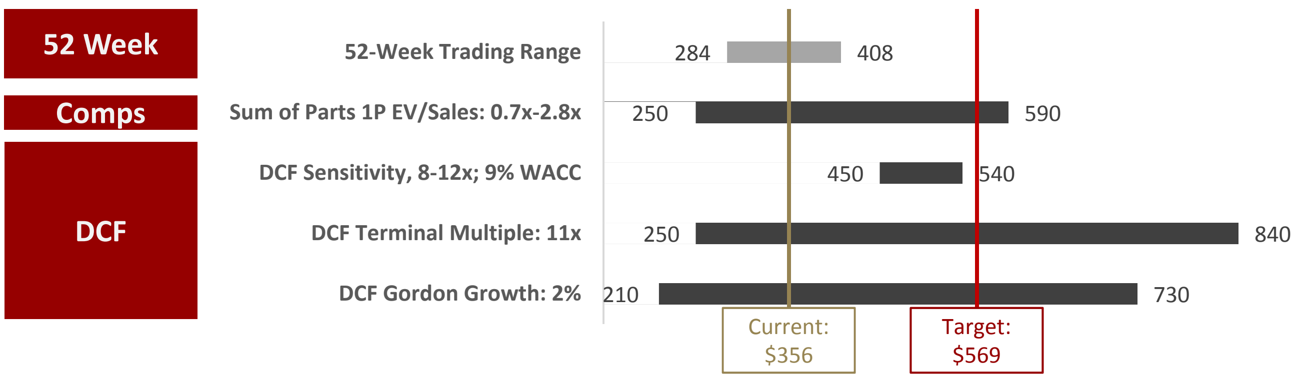
Amazon (Nasdaq: AMZN)

Investment Thesis

1. **Long-Term Value Proposition Exceeds That of Leading Retailers:** Amazon's long term cost structure is more attractive than the world's largest existing retailers, due to proximity to markets and scalability
2. **E-Commerce Has More Room to Grow:** US E-Commerce will grow at a CAGR of 18% from 2013-2018; 21% for global market, with Amazon at #1 or #2 in market share in key growth markets
3. **Growth Today = Value Tomorrow:** Strength in E-Commerce alone justifies higher valuation, as first party segment trades at an implied discount to comparables. Changing mix in segment composition will lead to gross margin expansion and profitability, with the higher margin third party GMV to overtake first party GMV by 2015

Valuation Summary

Method	Metric	Illustrative Value Range



Operating Model Assumptions

Bear	Base	Bull
Revenue: Segment revenues not growing in line with expectations due to poor CAPEX spending and increasing operating costs.	**Revenue:** Segment revenues growing in line with industry and analyst expectations	**Revenue:** Segment revenues growing above industry and expectations, operating costs are decreasing due to increased scale.
1P growth: -4% change in revenue growth	**1P growth:** 10%-20% revenue growth	**1P growth:** 2% change revenue growth
3P growth: -6% change in revenue growth	**3P growth:** 15%-25% revenue growth	**3P growth:** 2% change revenue growth
Prime: -5% change revenue growth	**Prime:** 20%-50% revenue growth	**Prime:** 5% change revenue growth
AWS growth: -5% change in revenue growth	**AWS growth:** 20%-40% revenue growth	**AWS growth:** 3% change revenue growth
Operating Expense: 0.75% increase	**Operating Expense:** no change	**Operating Expense:** 0.5% decrease
Price Target: $239.09	**Price Target: $568.76**	**Price Target: $787.70**

Analysis of Performance

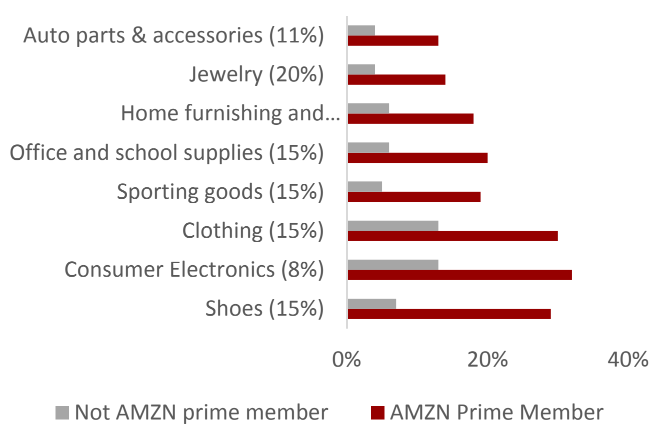
Amazon's stock performance in 2014 lagged the technology and media benchmark due to a series of quarters in which the company missed earnings estimates. In fact, the Q3 2014 earnings call marked a significant tone shift. With analysts disappointed with a lack of bottom line growth, CFO Tom Szkutak reiterated the importance of Amazon's long-term vision while also mentioning the need for Amazon to be more selective in its investments going forward. This prompted DCM to take a closer look into Amazon. In 2014 Amazon witnessed a few misfires such as a $170M loss due to the Amazon Fire Phone. While demand for the phone has been weak, the Amazon Fire TV and Fire TV Stick have sold quite well in tangent with Amazon's Video on Demand services.

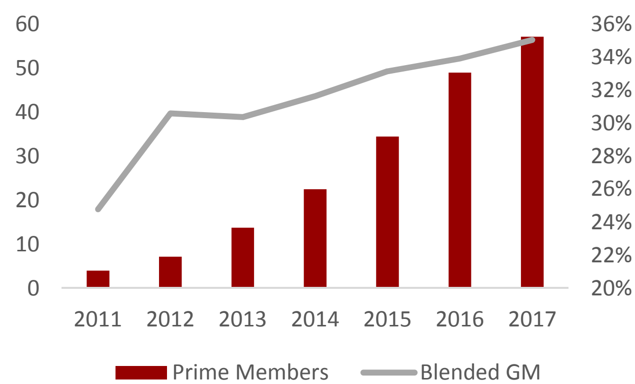
Amazon Prime, now estimated at 40M active members, benefited from record growth in the 2014 holiday season. In a recent press release, Amazon highlighted that 10M new members worldwide tried Prime for the first time this winter. This year, DCM expects Amazon Prime to increasingly affect financial performance through margin expansion and revenue growth as its subscriber base increases in size and loyalty. As Prime grows at a faster rate than E-Commerce shopper growth, Amazon is able to capture a larger share of wallet per customer than competitors. Furthermore, as Amazon increases the utilization rate of its new facilities, scale benefits from previous investments are expected to materialize at the bottom line.

In 2015 Amazon will continue to increase the strength of its competitive moat. This holiday, 10x more items were ordered using same-day shipping than last year, illustrating the consumer need for speed in E-Commerce shipping. As speed becomes a more competitive point of differentiation in E-commerce, Amazon will be best positioned due to its unmatched scale and efficiency in shipping.

In a time of exorbitantly high tech valuations for well-known darlings of the industry, Amazon is trading at par with considerably less "sexy" and "forward-thinking" companies. On an EV/GMV (gross merchandise volume) basis, Amazon is trading at par with Wal-Mart, Target, and Costco. DCM does not share the sentiment that Amazon foregoes maximizing shareholder returns in favor of other investments. With substantial insider ownership by Jeff Bezos (18%) we believe he and the C-Suite is highly invested in Amazon's share performance. However, Amazon believes that market return will stem from long-term value creation and, for now, this requires investing profits into other ventures. However, DCM will continue to heavily monitor Amazon's CAPEX/Sales and margin expansion into 2015.

Margin Expansion due to Amazon Prime Purchase Behavior





Take-Two Interactive (Nasdaq: TTWO)

Company Overview

- Take-Two Interactive Software, Inc. is a developer, marketer and publisher of interactive entertainment for consumers
- The Company's products are designed for traditional console gaming systems, handheld gaming systems, personal computers, and smartphones and tablets
- Successful launch of several titles, including GTA V for Xbox One and PS4 and NBA 2K15

Catalysts

- Diversification of revenue streams through in-game content purchases
- Strong pipeline of future title releases
- Potential acquisition target for larger gaming companies

Risks

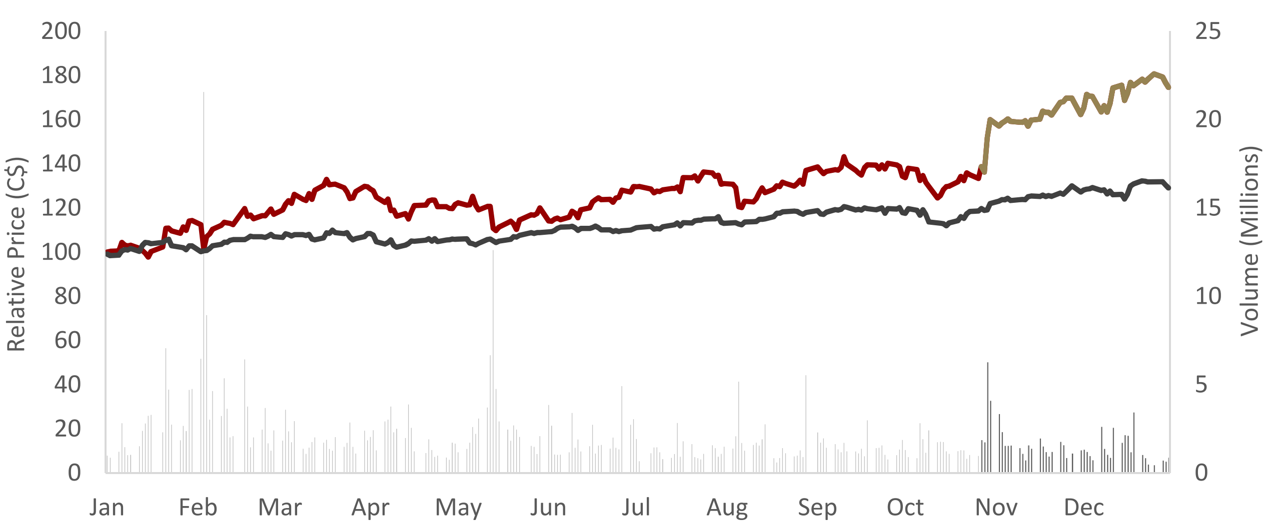
- Severe reliance on Grand Theft Auto needs to be diversified away (68.9% of revenue for FY2014)
- Console Gaming Market is losing market share to PC Gaming and Mobile Games

Financial Summary

Public Market Overview	
(values in $mm, as of Dec. 31, 2014, except for Share Price)	
Share Price	$28.03
Shares Outstanding (mm)	84.1
Market Cap.	**$2,358**
+ Total Debt	465
+ Minority Interest	-
+ Preferred Equity	-
- Cash	804
Enterprise Value	**$2,019**
Beta	1.01
Dividend Yield	--
ROIC	43.1%
52-Week High	$28.99
52-Week Low	$16.68

Financials & Multiples	**LTM**	**FY2015E**	**FY2016E**
(values in $mm)			
Revenue	$2,311	$1,565	$1,707
% Growth		*(32.3%)*	*9.1%*
EPS	3.24	1.43	1.69
% Growth		*(55.8%)*	*17.9%*
EV/EBITDA	2.8x	8.1x	7.5x
P/E	8.7x	19.6x	16.6x

Market Performance



Benchmark: US iShares Technology (IYW) in CAD.

Take-Two — Sector Benchmark

Original Investment Thesis

1. Refresh Cycle Alignment: *TTWO was positioned to benefit from its own product refresh cycle and the console platform refresh cycle*

- The console cycle and major product refresh cycles have materialized in the past year, contributing to TTWO's recent success. The future is unclear for console platforms, as gaming moves increasingly towards different distribution channels

2. Several "Big" Titles in Pipeline: *TTWO has an impressive portfolio of successful IP, including GTA, Bioshock and Red Dead Redemption*

- Following the major success of several of its title sequels, several competitors have seen success with brand new IP (Watchdogs, Destiny). Although TTWO can still rely on previous titles to sell well, it has not proven the ability to develop any recent new IP to assure growth in the long-run

3. Stabilization and Diversification of Earnings: *With the growth of digital sales and different cross platform in-game monetization engines, TTWO had an opportunity to significantly diversify its earnings*

- Although TTWO has started to experiment with various in-game monetization strategies (most notably with GTA), they have yet to produce a material impact, while various other gaming companies have seen significant improvements and growth in this segment - TTWO unfortunately lags behind this important shift in consumer spending habits

Analysis of Performance

2014 was a very good year for most console-based gaming stocks, with EA, TTWO, Ubisoft and even ATVI (until a lawsuit hit their top grossing game) performing very well off the back of the release of a new generation of consoles (Xbox One, PS4). Many had expected consoles to underperform due to shifts in the consumption habits of gamers towards mobile and PC's. It seems that console sales, which were predicted to go the way of PC sales, have much like PCs shown some resilience over the past year as DCM had predicted when initiating our position in TTWO.

TTWO had a soft beginning of the year with no significant new releases until the 3rd quarter. Despite this, TTWO's fiscal performance continued to outperform off the back of the blockbuster GTA V title released in September 2013, which was the fastest selling launch of any entertainment product to date. With the stock price moving from the $17 range, surpassing our initial price target of $22 before stabilizing around $22-$23 in October 2014.

After our price target was achieved, we conducted a review of TTWO's investment thesis and concluded that most of our thesis had been realized and that TTWO was not best positioned to benefit from the trends we saw in the gaming industry. We decided to exit our position before the 3rd quarter earnings release due to this outlook at a price of $22.95. Following our exit the stock price appreciated further towards $26-$28. We believe that the price appreciation reflects the positive sentiment present within the gaming industry as evidenced by gains obtained by EA and Ubisoft during the same period.

Although we miss-timed our exit of TTWO and missed out on potential upside, we feel that at current valuations the risk reward tradeoff is no longer sufficiently compelling to justify owning the stock. Our views on the gaming industry remain positive for 2015. We will be looking at potential investments early on in the year that will benefit from the key trends that we have identified around the importance of strong IP, diversification of monetization and the diversification of gaming platforms.

Teradata (NYSE: TDC)

Company Overview

- Teradata provides data warehousing and big data analytics solutions to enterprise customers
- The company operates worldwide and has three segments: Product sales, Consulting services, and Maintenance fees
- The company has high penetration amongst the Fortune 500, including Walmart, Capital One, Paypal, and Verizon
- 2014 acquisitions include: RainStor, Think Big Analytics, Revelytix, and Hadapt
- Teradata has a 7% stake in Hortonworks, a leading Hadoop distribution provider

Catalysts

- Emergence of Hadoop and Teradata's ability to be the first to market with products versus Oracle, SAP and other competitors
- Capitalize on current worldwide client development efforts to drive top-line growth and revenue diversification away from American large-cap
- Resurgence of corporate IT spending in the U.S

Risks

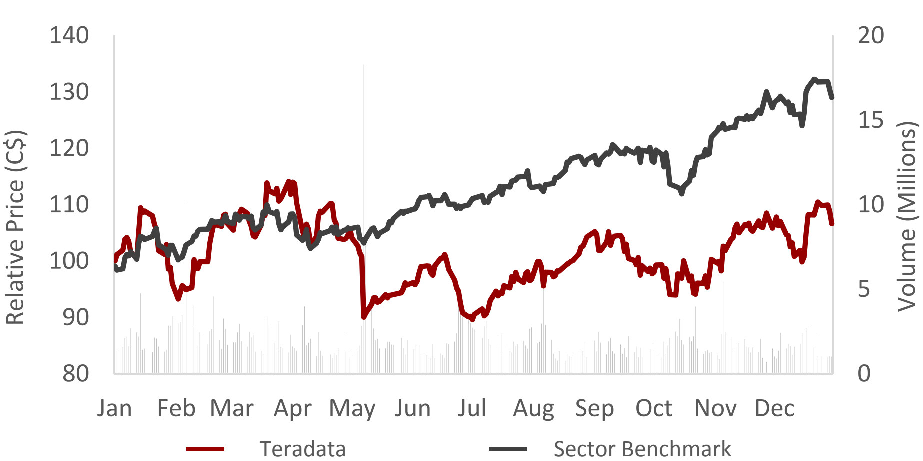
- Failure to adapt to emerging Hadoop technology by not fully integrating the recent acquisitions into Teradata's main product line
- Reduction in large-scale IT Capex spending for their large American customers has lowered their revenues in 2014 and may continue going forward

Financial Summary

Public Market Overview	
(values in $mm, as of Dec. 31, 2014, except for Share Price)	
Share Price	$43.68
Shares Outstanding (mm)	153.0
Market Cap.	**$6,683**
+ Total Debt	255
+ Minority Interest	-
+ Preferred Equity	-
- Cash	848
Enterprise Value	**$6,090**
Beta	1.47
Dividend Yield	--
ROIC	23.9%
52-Week High	$49.19
52-Week Low	$39.54

Financials & Multiples	LTM	FY2015E	FY2016E
(values in $mm)			
Revenue	$2,740	$2,853	$2,995
% Growth		*4.1%*	*5.0%*
EPS	2.46	3.00	3.24
% Growth		*22.0%*	*8.0%*
EV/EBITDA	8.9x	7.7x	7.2x
P/E	17.8x	14.6x	13.5x

Market Performance



Benchmark: US iShares Technology (IYW) in CAD.

Position Snapshot

Average Cost	*$46.0*
# of Shares	*2,184*
Value Invested	*$110,494*
Portfolio Weight	*3.95%*
2014 HPR	*7.1%*
HP Benchmark Return	*29.0%*
Excess Return	*(21.9%)*

All figures in CAD

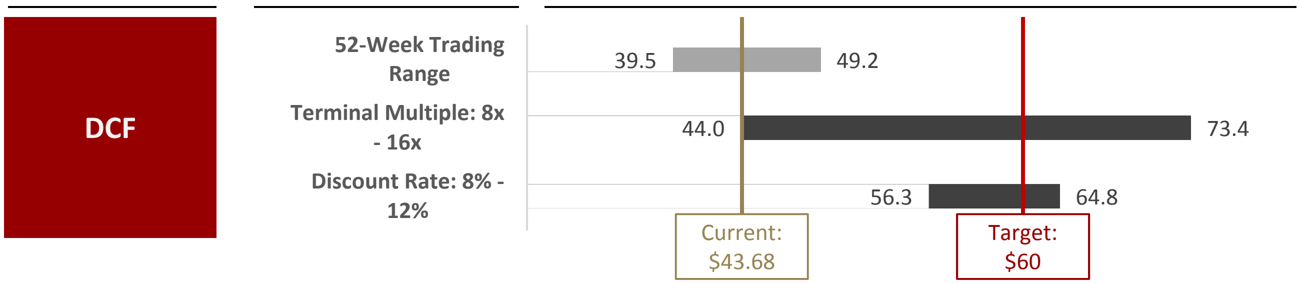
Investment Thesis

1. **Teradata will benefit from secular growth in data warehousing and analytics:** *Teradata was in a strong position to capitalize on secular growth in the data warehousing and analytics industry as corporate IT budgets had been massively undercut following the global recession at the same time that data creation and the need to store and interpret these vast amounts of data was set to explode*
   - Data warehouse industry is forecasted to grow at a 8.3% CAGR until 2020
2. **Teradata's business model includes sustainable recurring revenues:** *The firm's market leading product offering and best in class consultants will allow Teradata to generate sustainable recurring revenues with healthy operating margins. A data warehouse is part of the critical infrastructure of a firm's operations, quality is more of a concern than price making barriers to entry high – There is no price tag for better access to information*
   - Services segments (consulting and maintenance) represent 56% of revenues and provide a combined gross margin of 47.1% as of Q3 2014
3. **Teradata is currently priced at an attractive valuation:** *The recent sell-off in Teradata's equity creates an attractive valuation, with current EV/ LTM EBITDA of 10.2x well below the 15.9x historical average. We currently have a price target of* ***60$*** *on Teradata*

Analysis of Performance

Teradata performed well until April, when management released guidance that lowered their 2014 revenue forecast along with other competitors (Oracle, IBM, SAP). Combined with the backdrop of uncertainty surrounding the emerging Hadoop technology, this has created a sluggish performance for all data warehouse stocks in 2014. However, we do believe the company is well positioned compared to peers due to its strong Hadoop offering and growing worldwide presence. For example, Teradata signed its second highest number of new customers in one quarter in Q3 2014. New product sales take about a year to materialize in Teradata's revenue, so we expect the company to be able to continue to grow at a mid to high single-digit rate in 2015. The resurgence of meaningful top-line growth is at the forefront of the market's and DCM's mind.

Valuation Summary



Terminal EV / LTM EBITDA Multiple

WACC	$0.00	*10.5x*	*11.5x*	*12.5x*	*13.5x*	*14.5x*
	8%	$57.03	$61.03	$64.82	$69.01	$73.01
	9%	$55.05	$58.88	$62.52	$66.55	$70.38
	10%	$53.16	$56.84	**$60.33**	$64.20	$67.87
	11%	$51.37	$54.90	$58.25	$61.96	$65.49
	12%	$49.65	$53.04	$56.26	$59.82	$63.21

Fixed Income Fund

2014 Review & 2015 Outlook

By Daniel Sorek, Laura May, Peter Huo, Alexandre Ohrn & Faicy Hussain

Fixed Income Fund Performance

The Desautels Fixed Income Fund returned 8.6% gross of fees in 2014 compared to 10.0% for our blended benchmark. This 1.4% underperformance was primarily due to our lower duration exposure in a year where interest rates again surprised to the downside. Our shorter duration, however, resulted in a lower standard deviation and our 0.94 Sharpe ratio outpaced that of the benchmark (0.36).

Since inception, our fund has produced an annualized return of 4.4%, versus 3.8% for the benchmark. Below we review the 2014 macro environment, give our outlook for 2015, and analyze some of our individual holdings.

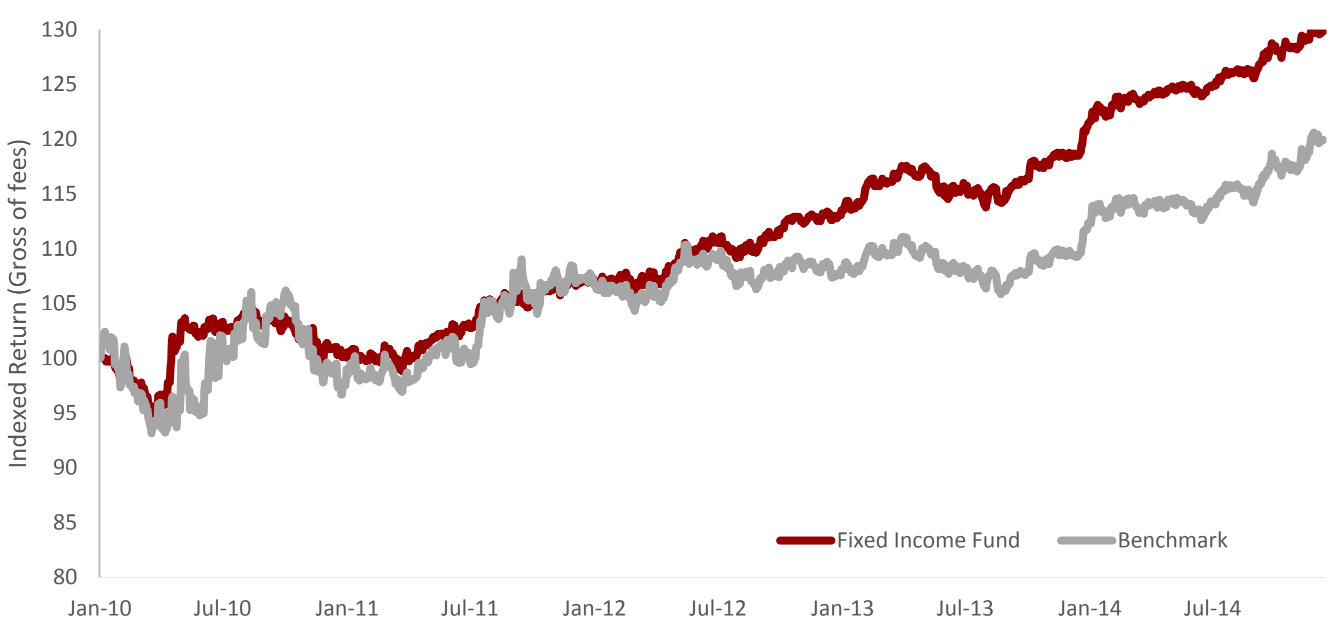
Fixed Income Fund Performance and Risk Metrics

Fixed Income Fund Returns			
Time Period	Gross Return	Net Return	Benchmark
Most recent quarter	2.1%	2.0%	3.4%
Previous quarter	2.0%	1.9%	2.3%
6 month	4.1%	3.9%	5.8%
2014	8.6%	8.0%	10.0%
2 year*	6.0%	5.5%	5.2%
Since Inception*	4.4%	3.9%	3.8%

**Returns are annualized.*

Performance Metrics				
	Fixed Income Fund		Benchmark	
	2014	Inception	2014	Inception
Annualized Return	8.6%	4.4%	10.0%	3.8%
Annualized Std Dev	2.8%	4.3%	4.0%	6.7%
Annualized Sharpe Ratio	2.48	0.70	2.07	0.36
Beta	0.63	0.47		
Annualized Alpha	1.7%	1.9%		
Tracking Error	0.3%	0.7%		

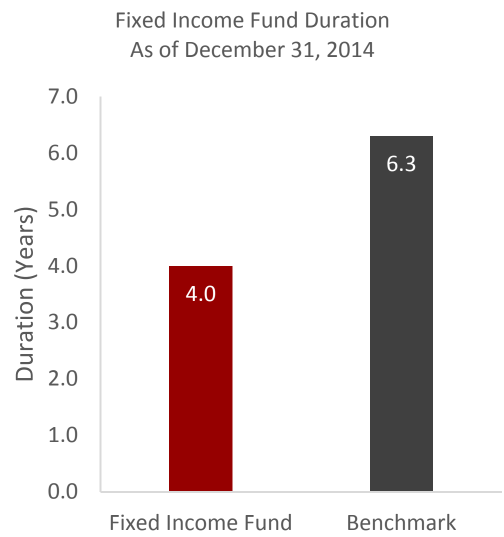
Performance metrics are calculated gross of fees.

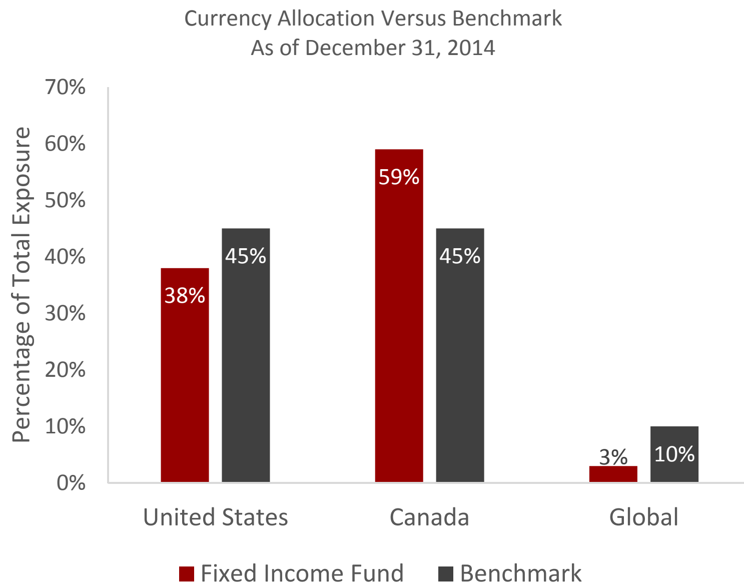


Benchmark is the Citi World Bond Index from inception to Feb. 8, 2011 and a 45% Barclays Aggregate Bond Index, 45% DEX Universe Bond Index, 10% Citi International Treasury Bond Index blended thereafter, measured in CAD. Fund inception date is January 20, 2010.

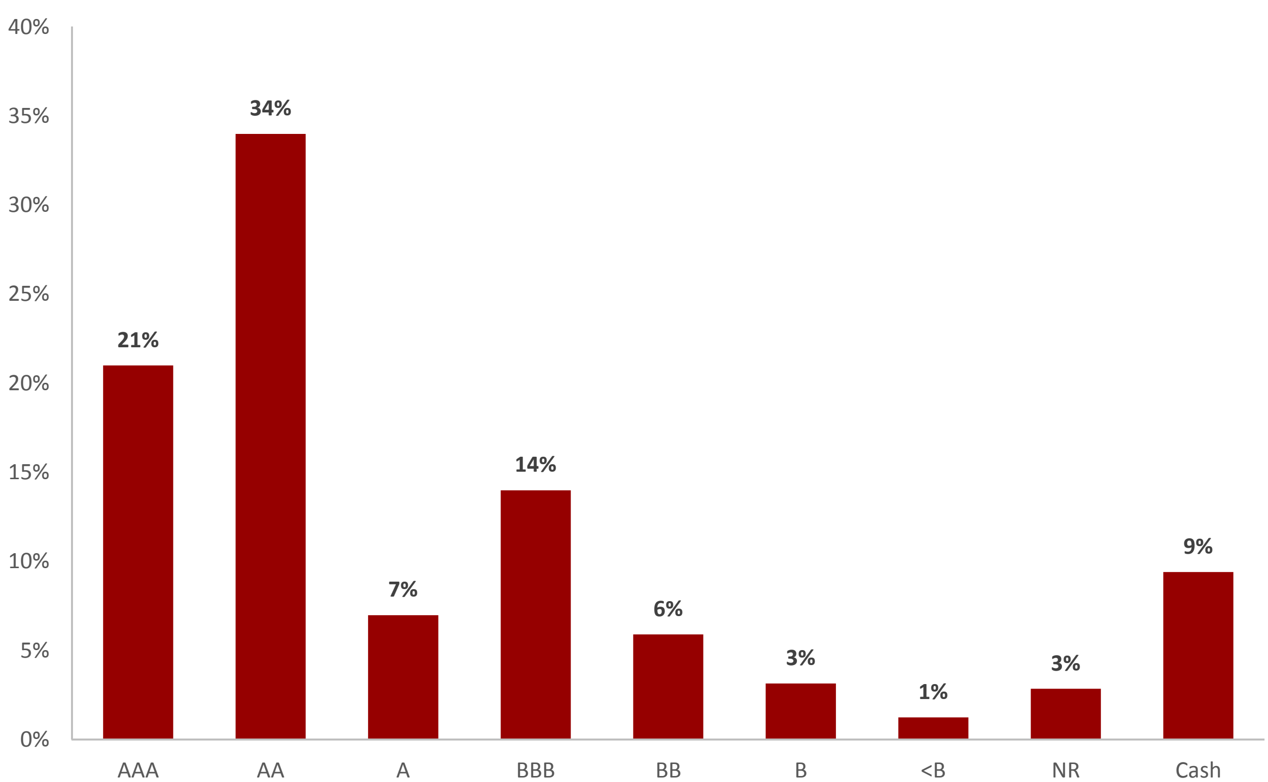
Fixed Income Fund Duration, Currency, and Credit Ratings Exposure

Fixed Income Fund Duration and Currency Allocation





Fixed Income Fund Credit Ratings Exposure



All figures and metrics are represented as of December 31st, 2014.

Fixed Income Fund: Holdings List

#	Security Name	Currency Exposure	# of Units	Local Cost / Unit	Local Price / Unit	Market Value (C$)	Position Size
			Fixed Income Fund Holdings				
1	ISHARES MBS ETF	USD	550	$106.7	$126.6	$69,641	15.1%
2	ISHARES 3 7 YEAR TREASURY BOND	USD	300	$125.4	$141.7	$42,500	9.2%
3	PROVINCE OF ALBERTA	CAD	400	$99.5	$102.3	$40,927	8.9%
4	BANK OF AMERICA CORP	USD	340	$95.7	$106.5	$36,219	7.9%
5	ISHARES CANADIAN HYBRID CORP	CAD	1637	$20.8	$21.0	$34,344	7.5%
6	HOME TRUST CO	CAD	240	$102.3	$102.7	$24,646	5.4%
7	TRANSCONTINENTAL INC	CAD	240	$101.4	$101.5	$24,356	5.3%
8	SPDR BARCLAYS HIGH YIELD BOND	USD	500	$39.4	$44.7	$22,360	4.9%
9	WISDOMTREE INDIAN RUPEE STRATE	INTL	886	$24.0	$24.0	$21,279	4.6%
10	BMO LONG FEDERAL BOND INDEX	CAD	1100	$17.7	$17.9	$19,635	4.3%
11	AIMIA INC	CAD	160	$111.1	$108.8	$17,405	3.8%
12	CI INVESTMENTS INC	CAD	170	$102.7	$102.1	$17,354	3.8%
13	BMO SHORT PROVINCIAL BOND IN	CAD	1077	$15.0	$14.3	$15,423	3.4%
14	CANADA HOUSING TRUST	CAD	130	$111.4	$111.5	$14,500	3.2%
15	NEWALTA CORP	CAD	150	$103.1	$96.5	$14,469	3.1%
16	US DOLLAR	USD	30689	$1.1	$1.2	$35,546	7.7%
17	CANADIAN DOLLAR	CAD	9565	$1.0	$1.0	$9,565	2.1%
				Total		$460,169	100.0%

Note: All values are as of Dec. 31, 2014.

United States Macro and Duration

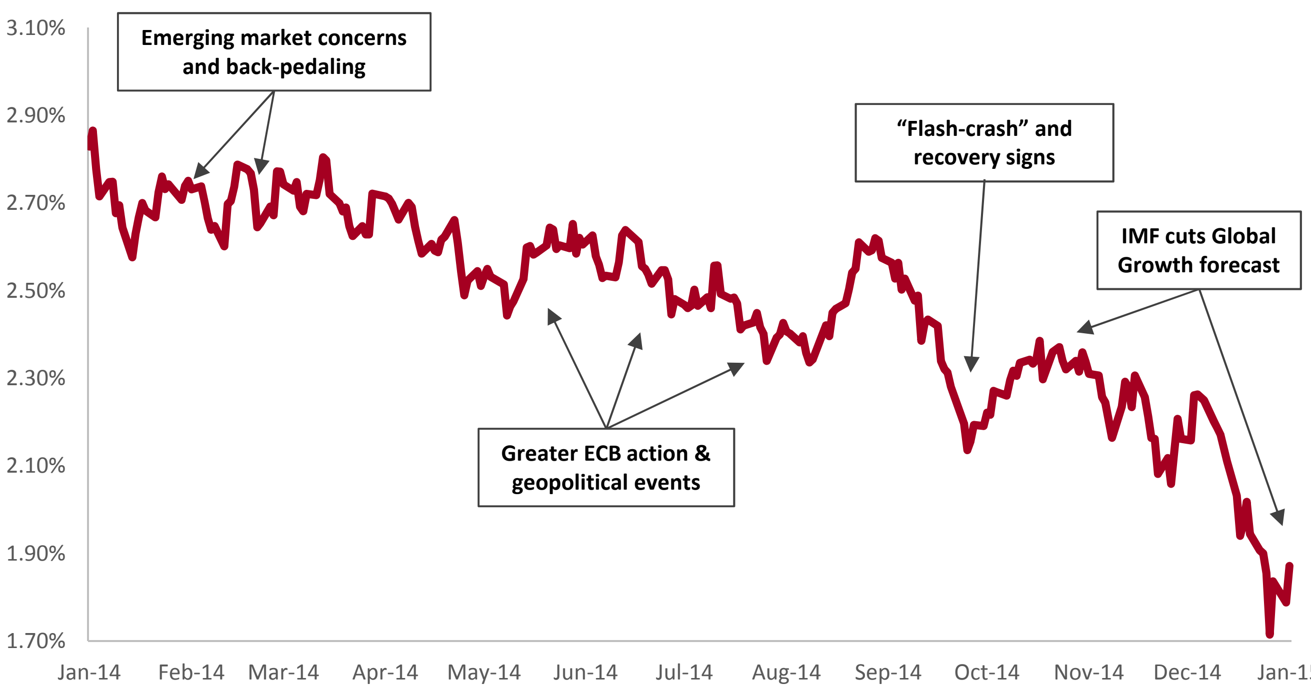
Going into 2014 we were positive on the US macro outlook and short duration relative to our benchmark in anticipation of a rising interest rate environment. But ultimately rates ended up lower, with the 10-year yield falling 80bp to 2.17% by year end. The way we see it, the US economy seesawed between the bullish case for a continued recovery and the flash onset of bearish sentiment. Early in the year cold weather lowered US economic growth. This, coupled with emerging market growth fears led to sharp declines in the 10-year yield.

Uncertainty in fixed income persisted throughout the year, particularly in the summer, when high yield spreads jumped 100bp, following various political events in Europe and the Middle East. And we will certainly remember the mini flash crash on October 15, when following less than expected October consumer confidence figures, the 10-year yield fell intra-day to 1.9%, only to reverse this drop and begin its climb towards a quarter high of 2.4%. This climb was short-lived as declining oil prices soon took a sharp effect.

Looking ahead, we remain bullish on the US economy. Significant and consistent economic gains on a variety of metrics should lead to Fed rate hikes at the earliest in Q2 and most likely in Q3. This view is shared with consensus analysts. Gains continue to be made in employment as the US economy added more than 321,000 jobs in November, well in excess of the 230,000 expected by analysts, marking the tenth consecutive month of jobs gains above 200,000.

While these improvements did not take place alongside an improvement in participation rates at 62.8%, it is important to note that the labour force grew by 119, 000 and as we await January figures, 2014 is appearing to produce the best year of job gains in 15 years. These economic improvements extended to other metrics: Q3 GDP was revised to have grown by 3.9% compared to 4.6% in the previous quarter.

Figure 1: Annotated US 10-Year Yield Graph



Source: Bloomberg

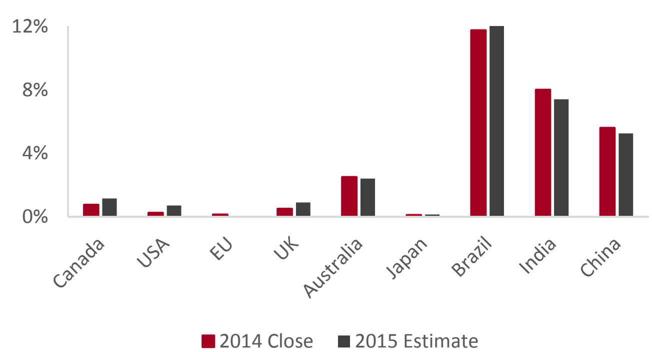
US Macro and Duration Cont.

It is important to note, however, that this Q3 growth rate exceeded analyst expectations of 3% and was largely interpreted as a continued sign of US recovery. Given the above growth and jobs numbers, how long can the Fed stay on hold?

To answer this question, we first look at inflation, which in 2014, remained within a 1.3%-1.5% range, below the Fed's 2% target. But going forward we feel that labour market improvements will put upward pressure on inflation absent a rate hike in 2015. Indeed, the Fed's October meeting minutes note the "likelihood of inflation running below 2% has diminished somewhat since early [2014]". Furthermore, the latest January FOMC statement made particular note of the "solid" economic activity driven by "strong" job gains. To be sure, the recent collapse in oil prices have somewhat decreased headline inflation expectations, and although it is not our base case assumption, we cannot rule out the Fed staying on hold throughout 2015 with longer term rates remaining near record lows.

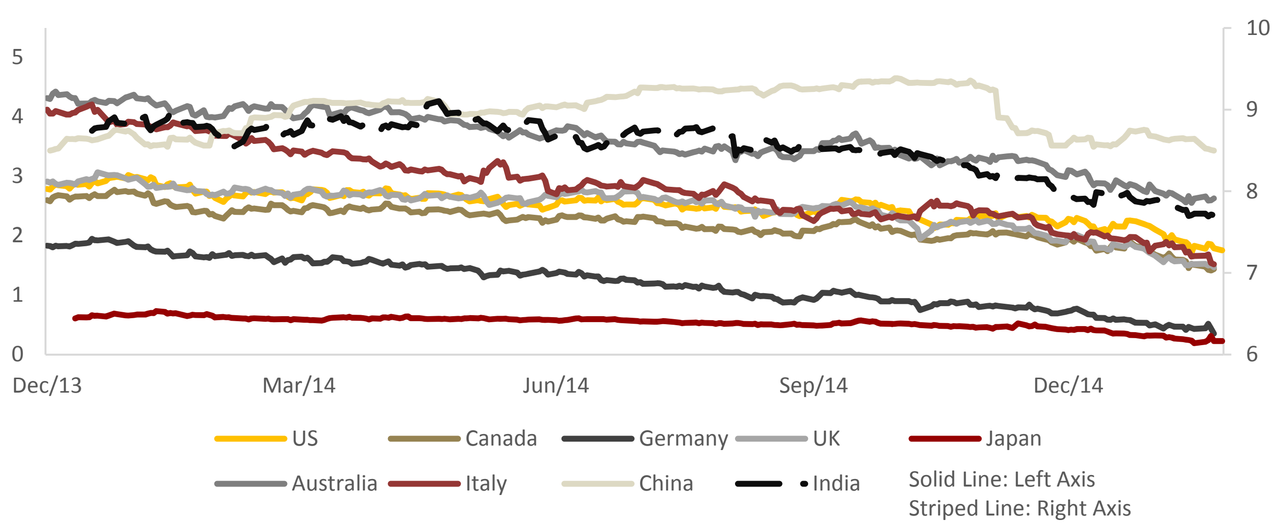
This is particularly true given the increased monetary stimulus which central banks around the world have resorted to in order to increase growth. The January FOMC minutes noted this situation by adding "international development" to the information list it will consider when assessing the timing of normalizing monetary policy.

Figure 2: Foreign Central Bank Prime Rates



Indeed the US finds itself an interesting position in having an economy whose upward trending performance may not be enough to warrant increased interest rates given the economic difficulties and ensuing stimulus observed abroad. This is noted by the market currently pricing continued interest rate cuts by global central banks (Figure 2) in addition to the tendency in the last year for global government bond yields to move in tandem (Figure 3).

Figure 3: Global Government 10Y Yields (%)

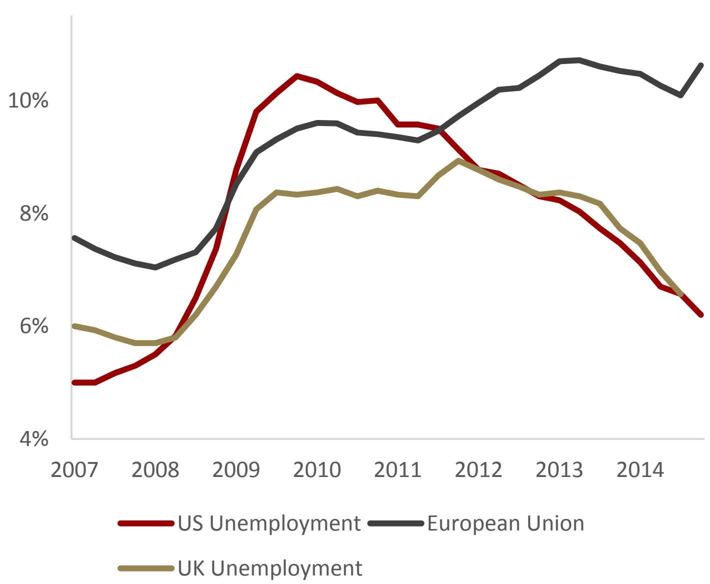


Source: Bloomberg

US Macro and Duration Cont.

The divergence in economic performance can be further observed through economic indicators as well as the actions central banks are expected to take to stimulate their economies. One should note the EU unemployment figures (Figure 4) which have shown little sign of improvement compared to their US and UK peers. To add, some analysts forecast stimulus to rise from their current balance sheet as a % of GDP levels of 27% to 30% by the end of 2015. It is this context which recently caused notable figures at the IMF to make statements as to the EU's uncertain recovery and the ensuing impact on other markets. Chief Economist Olivier Blanchard noted that *"new factors supporting… are more than offset by persistent negative forces, including the lingering legacies of the crisis and lower potential growth in many countries."*

Figure 4: Unemployment



Source: J.P.Morgan

Christine Lagarde, Managing Director of the global institution further commented that *"Six years after the eruption of the financial crisis, the recovery remains weak and uneven. No economy is an island; indeed, the global economy is more integrated than ever before."* From a current risk reward point of view we do not feel the extra carry that can be earned by extending our duration would justify the added risk. Thus, we retain a shorter duration position in the US relative to our benchmark while remaining vigilant ahead of the June meeting when analysts expect the hike to occur at the earliest.

Canada Macro and Duration

Readers of our previous newsletters this year will recall our relative bearish view of the Canadian economy. Accordingly, we have been in the process of extending our Canadian duration position by approximately 2 years. Looking forward, we expect Canadian monetary policy changes to lag those of the US in order to meet Stephen Poloz's growth goals. This view is further reinforced given the recent cut in the key interest rate brought on by a decrease in oil prices, which have greater ramifications for Canadian economic metrics across the board, particularly inflation, unemployment, and exports.

Declining oil prices have already begun to take a hit on the Canadian energy sector: Capex guidance has been reduced and concerns have risen over the profitability of many Canadian energy companies. For an economy as a whole, lower oil prices have begun to derail the export-fueled growth plan outlined by the Bank of Canada; indeed, the month of November saw a 3.5% decrease in exports and Canada's merchandise trade deficit widened from \$321 million in October to \$644 million in November.

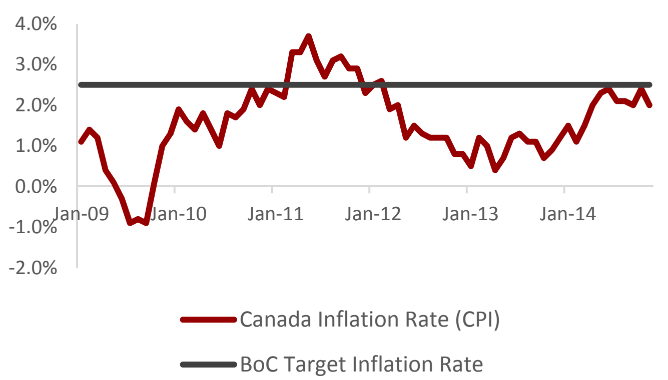
Canada Macro and Duration cont.

Exports of energy products, accounting for approximately 25% of total exports, declined alone by 7.8%. Figures like these suggest that even if Canada manages to meet the necessary 4% export growth to achieve the BOC's GDP growth target of 2.5%, these results will be targeted downwards in 2015.

The same holds for inflation, which most recently dropped to 2% in November following several months of above-target results ranging from 2.5% to 3%. In the bull case that oil prices manage to recover – a possibility which is uncertain and unknown precisely when to occur – we would expect that it would take some time for inflation to rebound to the BOC's targeted range. For the time being, it appears as if oil prices may remain stable at their low level if they do not continue their decline, moving Canada's inflation prospects closer to the disinflation territory that prompted concerns in Q1 of 2014.

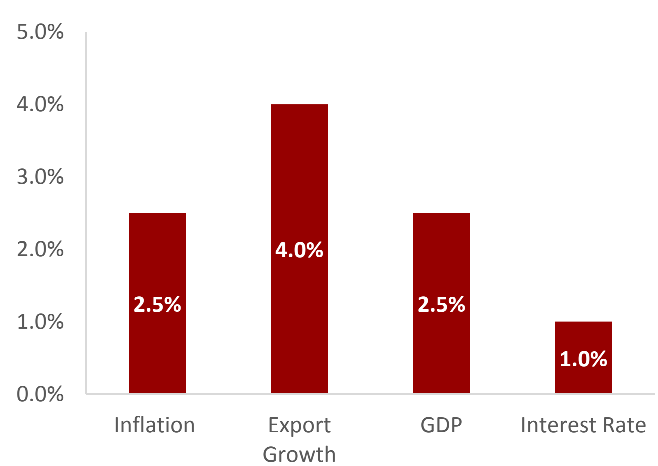
It is important to note, though, that the recent BOC interest rate came as surprise to many observers, particularly to Canadian banks keeping an eye towards the housing market and their mortgage making businesses. We interpret the BOC's actions as a preemptive measure to calm any worries surrounding Canadian GDP growth and to assure the markets that the BOC would take all measures to achieve its goals. Interestingly enough, the BOC's announcement made note of the assumptions incorporated in to their economic forecasts, with the most notable being a price of $60 par barrel of oil.

Figure 5: Canada Inflation Rate



Their explanation for the assumption is that they expect oil prices to recover in the medium term as we approach the end of 2015. While it is difficult to ascertain what direction oil prices will take, it is clear to us that given the export-oriented policy the BOC has disclosed, and the potential for US interest rate policy to be further postponed, Canada's interest rate policy will continue to lag that of the US. Accordingly, we will seek investments that increase our Canadian duration.

Figure 6: BOC Goals set at the beginning of Poloz's tenure



At the beginning of Poloz term, 4% export growth was seen as key to making up for the decline in domestic spending. Currently the BOC expects the Canadian economy to return to full capacity around the end of 2016.

"We would estimate that at this stage that effect [of oil prices], net, on Canada would be to take perhaps a quarter point off Canada's GDP growth for 2015 -- which is sufficient for me to think about it and be concerned about it"

- Stephen Poloz, Oct. 29th, 2014

Source: Bloomberg

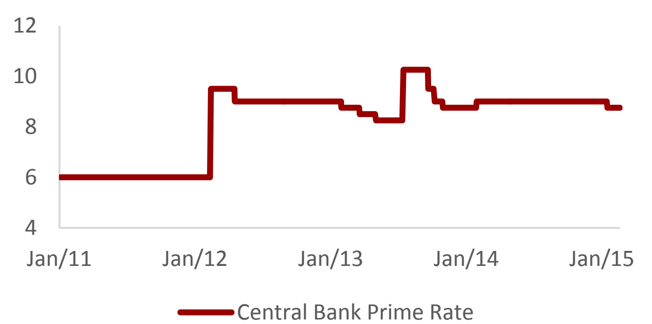
International Macro

The Fixed Income fund has largely avoided investments outside of North America in 2014. Many of these regions have continued to show signs of instability due to weakening credit fundamentals and geopolitical risks. Indeed, the market's reaction to Greek elections are a sign that European problems linger and that the problems of one country may spread if they are not already existent in its neighbors.

Furthermore, tensions between Russia and the Eurozone persisted as sanctions from the international community continued to mount alongside a declining Ruble. Further economic concerns could be found in Chinese GDP growth of 7.3%, representing the slowest growth pace in 5 years and prompting the central bank and government to undertake various simultaneous stimulus measures such as reducing the benchmark lending rate by 40bp in November for the first time since 2012.

We further note the increased power and initiatives outlined by Premier Xi JinPing, whom some have dubbed the strongest leader in the country's history since Deng Xiao Peng, the architect of China's first phase of economic liberalization. His consolidation of power leads us to believe that China remains committed to re-stimulating its rapid growth amid the backdrop of regime stability, increased economic reforms, and the ability to implement policy overnight.

Figure 7: Indian Central Bank Prime Rate %



To cap the year, the Fixed Income Fund initiated a position in a WisdomTree Indian Rupee ETF. This investment was made following the elections resulting in a majority for Narendra Modi, whom many expect to apply his track record of economic growth and bureaucracy elimination as a governor to the entire country. Investments like these require us to take a longer-term view and our investment in India is driven by what we believe to be a secular change in the government's commitment to reform and improved practices.

Credit

Given our views of an improving US economy warranting an interest rate hike, we previously shared our view of the importance of being invested within the high-yield sector. As a reminder, this sector has historically outperformed in a rising-rate cycle as economic fundamentals improve and credit spreads tighten. In recent months, much has been speculated about the threat declining oil prices hold for the high yield sector where spreads have risen though remain slightly below their 10 year average levels.

Indeed, cause for concern may be warranted given that the high yield debt of energy companies make up approximately between 15% and 20% of the broader high yield market. We note that the Desautels Fixed Income Fund has not recently had much exposure to the energy sector outside of our 3% position in Newalta, which we continue to believe is on the safer side of the industry as it provides remediation and other regulatory-inspired services to a diversified client base.

As stated in the above macro sections, we continue to believe that the US economy will improve and that in the short to medium term, high yield investments will become attractive as interest rate expectations rise.

Source: Bloomberg

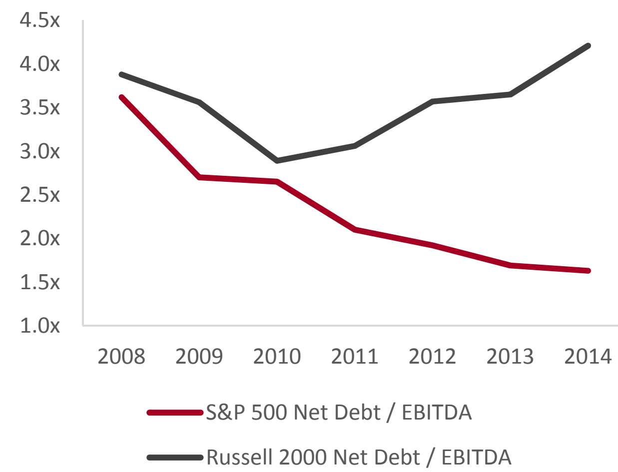
Credit Cont.

In our view, much of the decline in spreads (Figure 8) since the beginning of the recession can be traced to the historic deleveraging we have seen (Figure 9).

Nevertheless we are cognizant of the need to carefully initiate investments in this sector by using diligent bottom-up analysis focused on understanding downside potential. While it is our belief that default rates in the broader high yield space will not rise materially above their 2%-3% levels in 2015, spread changes specifically in the energy subsector may cause room for concern among the broader market.

Figure 8: US High Yield Spreads

Figure 9: S&P 500 & Russell 2000 Leverage



Currency

We maintain our bullishness on the USD versus the CAD. For most of the year, this position was adopted in line with our relatively bullish view of the US economic recovery compared with its Canadian counterpart.

More recently, our view has been supported by decreases in oil prices. Until now, analysts have speculated and held different views on what would qualify as an appropriate floor, often not providing much certainty. What can be observed, however, is that the lower limit of oil prices continues to fall and the impact on the Canadian dollar may be as heavy as a 5 cent decrease for every $10 decrease in the price of a barrel according to BMO.

Source: Bloomberg

Fixed Income Fund

Holdings Review

Bank of America (BAC) 5.15% of 2017

Company Overview

- Bank of America operates in five business segments including consumer and business banking, consumer real estate services, global wealth and investment management, global banking and global markets
- They serve a wide range of clientele including retail consumers, companies and institutional investors
- From a geographical perspective they derive 86% of their revenue domestically

Catalysts

- Ongoing US recovery and increased capital inflows into the US as a result of global uncertainty continue to benefit BAC and an anticipated rate rise should improve net interest income
- Ability to continue meeting its cost reduction objectives will help spread tightening

Risks

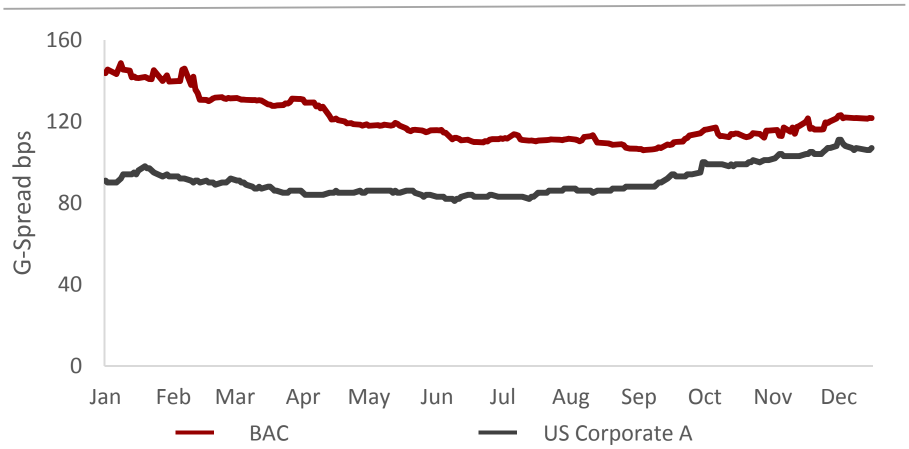
- Litigation risk continues to be the major impediment for BAC going into 2015, even though we believe that the worst is behind them
- Increased regulatory requirement e.g. implementation of Volcker rule, may tie up capital and drive up funding costs

Financial Summary

Bond Overview	
(as of Dec. 31, 2014)	
Price	106.5/106.9
Coupon	5.150%
YTM (Offer)	2.26%
YTW	2.26%
G-Spread	122
Duration	2.258
Amount Outstanding	$338M
Rating (Moody's/DBRS)	Baa3/BBB+
Type	Maple Bond

Financials	LTM	FY2015E	FY2016E
(values in USD $mm)			
Revenue	95,181	86,411	91,034
% Growth		*-9.2%*	*5.3%*
EBIT	6,855	27,592	32,958
EBIT Margin	7.2%	31.9%	36.2%

Bond and Sector G-Spread



Benchmark: BofA Merrill Lynch US Corporate A Option-Adjusted Spread.

Position Snapshot

Average Cost	*$95.7*
# of Bonds	*340*
Value Invested	*$32,538*
Portfolio Weight	*7.80%*
2014 HPR	*7.2%*
HP Benchmark Return	*10.0%*
Excess Return	*(2.8%)*

All figures in CAD

Bank of America (BAC) 5.15% of 2017

Investment Thesis

1. **Cost reduction and capital strengthening:** *Post financial crisis BAC took a new strategic initiative to reduce costs and set forth capital strengthening measures. When we first initiated this position back in 2012, the investment thesis was essentially a vote of confidence on management's ability to execute this strategic objective*
   - As of 2014, BAC continues to meet these objectives. Legacy asset servicing expenses excluding litigation dropped from $2.9bn in 3Q12 to $1.3bn in 3Q14. Full time equivalent employees headcount reduced from 288,700 in 3Q11 to 229,500 in 3Q14. Based on our analysis we believe this trend will continue in 2015
2. **Diversified revenue stream:** *BAC derives its revenues from five business segments with consumer and business banking accounting for the majority of the revenue (approximately 33%*)
   - The acquisition of Merrill Lynch and its successful integration gave BAC a good footprint into the wealth management and investment banking business and we continue to see the effects of this integration playing out favorably going forward
3. **Ability to benefit from US Recovery:** *BAC is a US centric systematically important financial institution and its fortunes are highly correlated with that of the US economy*
   - The US economy has been on the rebound and the ongoing geopolitical crisis and weaker outlook for Europe and emerging markets can result in a flight to quality to US securities. These capital inflows could certainly benefit BAC across all revenue segments

Analysis of Performance

In terms of G-spread, we witnessed a spread tightening from a high of 143.7 bps in the beginning of January 2014 to a low of 106.4 bps during the middle of September, and later it widened to 124 bps to close out the year. The spread widening in Q4 2014 was partly due to the impact of lower oil prices and the flight to quality toward treasuries. We remain optimistic on this holding going forward. Credit ratios have improved significantly since the financial crisis, and we expect further improvement in 2015. BAC has successfully met the FED stress tests and continue to meet and exceed its Tier-1 capital requirements. Tangible common equity ratio improved from 5.0% in 4Q09 to 7.2% in 3Q14. As a systematically important financial institution that derives 86% of its revenue in the US, BAC is uniquely positioned to benefit from the ongoing US recovery. We remain bullish on the US recovery and view this as a positive tailwind for BAC's improving credit fundamentals. We expect a 20-30 bps G-spread compression over the next year.

Valuation Summary

(USD$B)		Leverage		Profitability	Credit Rating	Regulatory Ratios	Bond Valuation		
Company/Security	Market Cap	Net Debt / EBITDA	EBITDA / Interest Expense	EBIT Margin	S&P	Tier 1 Capital Ratio	G-Spread	Ask YTM	Duration
Morgan Stanley (4.9% February 2017)	$66.16	29.63x	3.85x	16.70%	A-	15.9	107	2.01%	1.93
Goldman Sachs (5.25% June 2016)	$77.81	18.83x	3.89x	30.8%	A-	13.2	125	1.94%	1.28
JP Morgan (2.92% September 2017)	$203.69	9.17x	4.23x	29.2%	A	11.4	101	2.01%	2.51
Citigroup 4.6% January 2017)	$142.52	16.56x	2.75x	15.9%	A-	12.97	109	2.05%	1.88
Bank of America (5.15% May 2017)	**$159.63**	**30.91x**	**0.16x**	**7.2%**	**BBB+**	**13.4**	**132**	**2.29%**	2.26

Home Capital Group (HCG) 3.4% of 2018

Company Overview

- Home Capital Group (HCG) is a federally regulated deposit-taking institution that provides mortgage and retail lending
- Focusing on providing fixed rate, single-family residential mortgages in the Alt-A market, HCG targets immigrants and self-employed individuals whose official credit scores don't reflect their actual credit worthiness
- Besides servicing its own loans, HCG has been acquiring mortgage servicing rights which generate a stable yearly revenue of 15bps per $1 of mortgage. In addition, HCG has been securitizing its riskier mortgage portfolio and remove them from the balance sheet

Catalysts

- Increasing proportion of revenues coming from servicing fees, fueled by increasing securitization activities and mortgage derecognition
- Continued strong demand for HCG's traditional mortgage products
- Eventual increase of interest rate in Canada allowing for NIM expansion

Risks

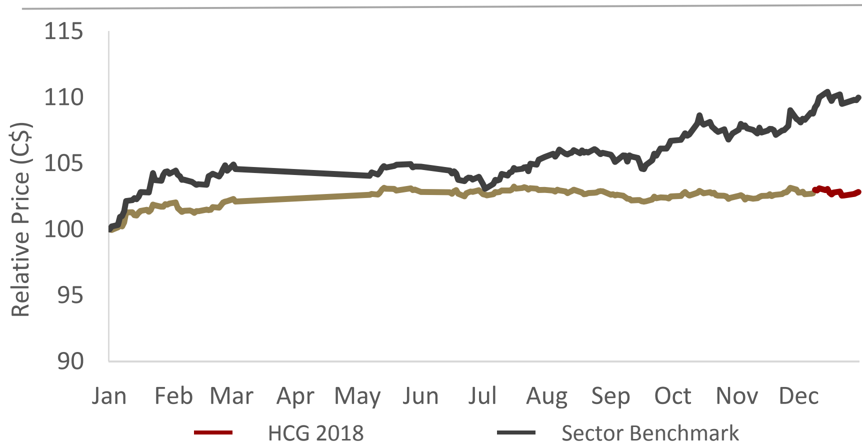
- General housing market crash in Canada, affecting HCG's portfolio of uninsured single-family homes
- Market's overreaction due to the decline in oil prices, from which HCG is well isolated
- Opacity in the reporting of off-balance sheet transactions making it hard for the average investor to understand HCG's fundamental strength

Financial Summary

Bond Overview	
(as of Dec. 31, 2014)	
Price	102.01/102.52
Coupon	3.40%
YTM (Offer)	2.77%
YTW	2.77%
G-Spread	158
Duration	3.63
Amount Outstanding	$300mm
Rating (S&P/DBRS)	BBB/BBBH

Financials	LTM	FY2015E	FY2016E
(values in C$mm)			
Net Revenue	$553	$643	$739
% Growth		*16.3%*	*15.0%*
Servicing fees	$41	$49	$59
% GRowth		*20.0%*	*20.0%*
Net Debt to EBT	10.0x	8.8x	8.5x

Normalized Bond Price and Sector Benchmark Performance



Position Snapshot

Average Cost	*$102.27*
# of Bonds	*240*
Value Invested	*$24,646*
Portfolio Weight	*5.40%*
2014 HPR	*-0.2%*
HP Benchmark Return	*0.7%*
Excess Return	*-0.8%*

All figures in CAD

Benchmark: 45% Barclays Aggregate Bond Index, 45% DEX Universe Bond Index, 10% Citi International Bond Index in CAD.

Home Capital Group (HCG) 3.4% of 2018

Investment Thesis

1. **Increasing proportion of stable revenue stream:** *through securitization, HCG is deleveraging its balance sheet and taking relatively less credit risk, while its servicing revenue is growing at a faster rate than overall revenue*
   - Servicing fees represent a stable, low risk revenue stream and has been growing at 20% YoY in the past 6 quarters
   - HCG sells the interest component of single-family home mortgages while maintaining the servicing rights on them. For riskier mortgages including commercial and multi-nit properties, HCG outsources its servicing rights altogether to reduce its exposure
2. **Strong credit fundamental:** *HCG's strong risk management is being overlooked due its operations in the non-prime mortgage market. The company's main risks are mitigated as follows*:
   - Credit risk on uninsured mortgages: reduced by strategic client targeting and property selection, along with a lower-than-peers average LTV ratio of 67.7%
   - Prepayment risk: reduced by selling interest-only strips and servicing rights
   - Interest rate risk: hedging limits the impact of 100bps shift to ~3% of net interest income
   - Funding risk: launch of new deposits program in 2014 to diversify funding sources
3. **Attractive valuation:** *The market is overlooking HCG's superior operating and financial metrics compared to both prime and Alt-A lenders (see comps table)*

Analysis of Performance

From September 2014 to year-end, the g-spread on HCG 2018 and its comparable bonds have widened by ~20-30bps due to concerns over the negative impact of declining energy prices on Canadians' employment prospects and their ability to repay mortgages. As creditors, we believe that the market is overreacting, because 87% of HCG's uninsured loans are originated in Ontario. In fact, Ontario's g-spread has decreased by ~4 bps since the oil slide, due to the positive effect of lower energy prices on both consumer and industrial sectors in Ontario, which should increase the quality of HCG's loans. In addition, only 4% of HCG's loans are originated in Alberta with an average LTV of 64.9%, giving HCG a much larger margin of safety compared to Equitable Bank , which has 17% of its loans in Alberta. As a result, DCM took the opportunity to initiate a position in HCG. Going forward, we do not consider the energy macro backdrop to be a significant concern for HCG 2018 and expect our bottom-up investment thesis to play out.

Valuation Summary

(in C$B)	Operating Metrics		Financial Metrics		NPL		G-	Ask	
Security	**NIM**	**Efficiency**	**Tier 1 Cap**	**Debt / Assets**	**Ratio**	**DBRS**	**Spread**	**YTM**	**Duration**
Equitable Bank 2.595% of 2017	1.67%	32.1%	13.4%	38.9%	0.46%	BBB	122	2.22%	2.30
First National 5.07% of 2015	0.64%	41.8%	na	na	0.10%	BBB	110	2.14%	0.32
Specialty Lenders Average	**1.15%**	**36.9%**	**13.4%**	**38.9%**	**0.28%**	**BBB**	**116**	**2.18%**	**1.31**
Scotiabank 1.45% of 2018	1.72%	49.1%	12.3%	15.9%	0.91%	AAA	30	1.49%	3.15
RBC 0.75% of 2018	1.88%	56.6%	11.2%	13.6%	0.54%	AA	23	1.42%	3.68
CIBC 1.25% of 2018	2.21%	59.2%	12.2%	6.5%	0.62%	AA	36	1.55%	3.44
TD Bank 2.625% of 2018	2.24%	60.0%	11.0%	10.7%	0.60%	AA	58	1.77%	3.43
BMO 1.45% of 2018	1.77%	65.4%	11.4%	12.4%	0.93%	AA	42	1.61%	3.11
Prime Lenders Average	**1.96%**	**58.0%**	**11.6%**	**11.8%**	**0.72%**	**AA**	**38**	**1.57%**	**3.36**
Home Capital 3.4% of 2018	**2.41%**	**28.3%**	**17.5%**	**25.1%**	**0.35%**	**BBB**	**158**	**2.77%**	**3.63**

Newalta (NAL) 5.875% of 2021

Company Overview

- After announcing the sale of its Industrial Division to Revolution Acquisition LP on Dec. 23, 2014, Newalta Corporation is now a pure-play energy waste management firm
- Proceeds from the sale will immediately be used to pay down debt and reduce net debt to below 2x Adjusted EBITDA at the close of the transaction and to support organic growth investments
- Environmental regulations have forced energy production companies to limit their environmental impact, creating demand for the oilfield waste and environmental remediation services provided by Newalta in its New Markets and Oilfield Divisions

Catalysts

- According to Moody's, the rating could be upgraded if Newalta were to grow its asset base towards US$3 billion from US$1.1 billion without significantly degrading its current leverage
- Recovery in energy prices would improve market sentiment towards high yield energy bonds
- Evidence of increasing contract-based revenue would improve creditworthiness

Risks

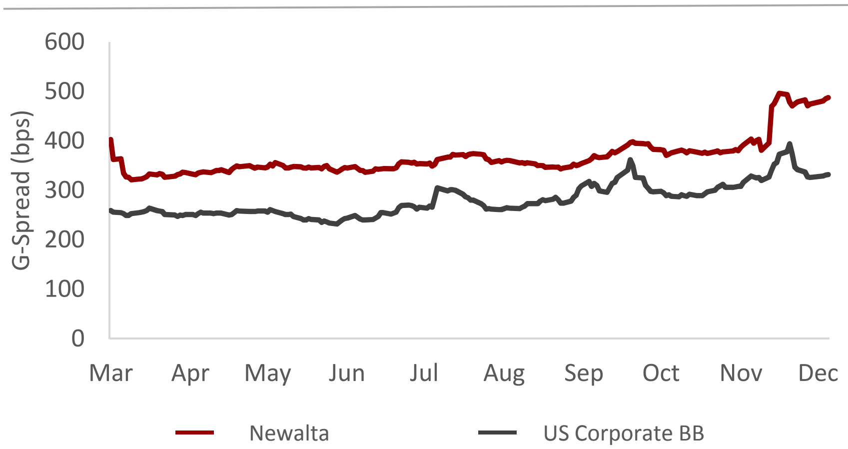
- According to Moody's, the rating could be downgraded if adj. debt to EBITDA appears likely to exceed 3x, or if critical regulatory permits were lost
- Sustained low oil prices may result in lower drilling/ production activity, weighing on revenue
- Increasing competition in the energy waste management industry could erode margins

Financial Summary

Bond Overview	
(as of Dec. 31, 2014)	
Price	97.00/98.50
Coupon	5.875%
YTM (Offer)	6.39%
YTW	6.39%
G-Spread	474
Duration	4.46
Amount Outstanding	$150mm
Rating (Moody's/DBRS)	B1/BB
Next Call Date	17-04-01
Change of Control	@101.00

Financials	LTM	FY2015E	FY2016E
(values in C$mm)			
Revenue	$833	$951	$1,049
% Growth		*14.2%*	*10.3%*
EBITDA	$160	$207	$245
% Margin		*21.8%*	*23.4%*

Bond and Sector G-Spread



Benchmark: BofA Merrill Lynch US High Yield BB Option-Adjusted Spread.

Position Snapshot

Average Cost	*$103.1*
# of Bonds	*140*
Value Invested	*$14,469*
Portfolio Weight	*3.20%*
2014 HPR	*1.7%*
HP Benchmark Return	*5.4%*
Excess Return	*-3.7%*

All figures in CAD

Newalta (NAL) 5.875% of 2021

Investment Thesis

1. **Focused Energy Waste Management firm:** *Newalta is leveraging its strong brand, customer relationships, and proven innovative technology in an industry driven by environmental regulation*
   - Newalta has regulatory permits, strong customer relationships, and proven technological expertise that create competitive advantages
   - In the current oil price environment, companies may outsource their non-core waste processing operations, allowing Newalta to leverage its strong reputation to win contracts
2. **Diversification of customer base and stable revenue streams:** *Newalta's revenues are derived from a high volume of small transactions across a broad set of customers in both Canada and US; furthermore, its contract-based revenues are consistently increasing*
   - Top 25 customers are blue-chip names and only account for 40% of the company's revenues
   - 16% of Q3/14 consolidated TTM revenue was contract-based compared to 13% in Q3/13
3. **Bond has an attractive risk-reward tradeoff:** *The market is punishing Newalta as if it were a pure-play E&P, even though it is better positioned to weather lower oil prices*
   - Financial strength and flexibility is underestimated; after the sale of its industrial division, Newalta has lower leverage and stronger coverage ratios than its more highly rated peers
   - Newalta's EBITDA would have to drop by ~36% before breaching a covenant

Analysis of Performance

This position was initiated when the bond was issued in May 2014. The recent spike in yields can largely be attributed to a broad-based selloff in the high yield energy bond market stemming from the sharp decline in oil prices over the past 6 months; spreads have exploded from ~420 to ~930 bps since September as measured by the Bloomberg US High Yield Energy benchmark. This is a case where the macro environment has overpowered company-specific factors, and for this reason, our investment thesis has yet to materialize. We believe the market has over-punished Newalta as a result of its exposure to the energy sector, even though Newalta is less vulnerable to oil price declines than a pure-play E&P. Although one of our catalysts – the sale of the industrial division – was realized, the market reacted unfavorably, even though the sale should be credit positive, given the resulting stronger balance sheet and lower leverage (net debt/EBITDA of 1.3–1.5x on a pro forma basis). Given our agnostic view on oil prices discussed in the energy section, we will continue to hold Newalta, since we believe the market is overlooking Newalta's ability to leverage its strong brand, customer relationships, and proven innovative technology in an industry driven by regulation, and that these will eventually be priced in. We will continue to monitor any indications of changes in end-market activity and their effects on the sustainability of operations.

Valuation Summary

(in C$B)	Enterprise	Net Debt / EBITDA		EBITDA/Int Exp		EBITDA	Moody's/			
Security	**Value**	**2013**	**2014E**	**2013**	**2014E**	**Margin**	**DBRS**	**G-Spread**	**Ask YTM**	**Duration**
Gibson Energy 6.75% of 2021	$4.1	na	na	8.1x	8.8x	6.4%	Ba3/na	546	6.94%	5.31
Waste Management 4.75% of 2020	$32.7	3.3x	2.9x	7.1x	8.1x	24.3%	Baa3/na	94	2.72%	4.89
Clean Harbors 5.125% of 2021	$4.9	2.5x	2.1x	6.3x	7.5x	14.2%	Ba2/na	322	4.82%	5.59
Newalta 5.875% of 2021	**$1.44**	**2.9x**	**2.1x**	**5.4x**	**7.4x**	**17.9%**	**B1/BB**	**474**	**6.39%**	**4.46**

Transcontinental (TCL) 3.897% of 2019

Company Overview

- Canada's largest printer and a leading provider of media and marketing activation solutions, specialized in printing and delivering multi-platform solutions in North America
- Cost-leader in the industry through efficient printing network
- Recently entered the packaging industry with the acquisition of Capri Packaging
- Family-owned and operated business

Catalysts

- Ratings upgrade to BBB should lead to 45-50bps spread compression
- Realization of synergies from recent acquisition would validate diversification strategy
- Further operating margin improvements would validate cost-cutting efforts

Risks

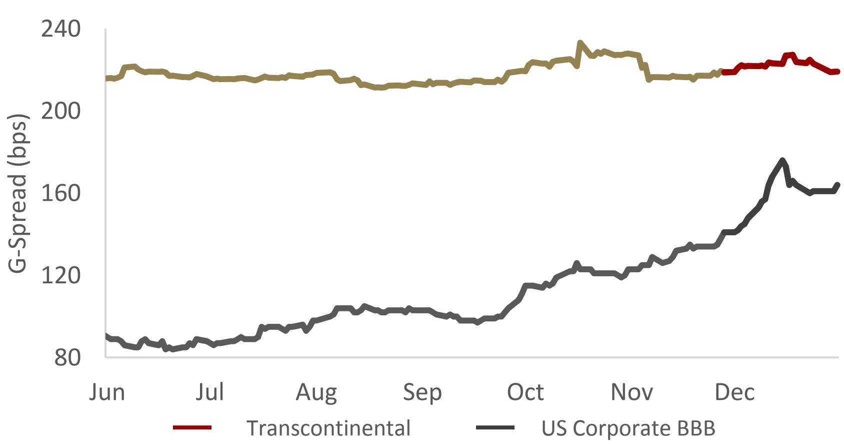
- Owner-family holds a large share of voting rights and could use dividends to pull cash out of the business
- Defaults amongst customers would lead to failure to retain contracted revenues
- Acquisition strategy may prove non-synergetic or non-diversifying

Financial Summary

Bond Overview	
(as of Dec. 31, 2014)	
Price	101.09/101.68
Coupon	3.90%
YTM (Offer)	3.55%
YTW	3.55%
G-Spread	219
Duration	3.96
Amount Outstanding	C$250mm
Rating (Moody's/DBRS)	BBB-/BBBL
Next Call Date	N/A
Callable	@ higher of CA yield +55bps or 100%

Financials & Multiples	LTM	FY2015E	FY2016E
(values in C$mm)			
Revenue	$2,069	$2,010	$1,932
% Growth		*(3.0%)*	*(4.0%)*
EBITDA	$388	$365	$359
% Growth		*18.0%*	*19.0%*

Bond and Sector G-Spread



Benchmark: S&P U.S. BBB Corporate Bond Index.

Position Snapshot

Average Cost	*$101.36*
# of Bonds	*240*
Value Invested	*$24,326*
Portfolio Weight	*5.29%*
2014 HPR	*0.2%*
HP Benchmark Return	*0.0%*
Excess Return	*0.2%*

All figures in CAD

Transcontinental (TCL) 3.897% of 2019

Investment Thesis

1. **Overall pie is shrinking but TC is gaining a larger share:** *TC can benefit from industry consolidation in a slowly shrinking industry as a cost leader with established infrastructure, expertise, and the ability to offer full cross-platform solutions to its strong and enduring customer base*
2. **Cost cutting initiatives and synergistic acquisitions:** *TC has a clear strategy and track-record of divesting non-core assets and improving efficiency of existing operations*
    - New acquisitions allow TC to leverage its core competencies and to diversify its revenue streams, to gain entry into the growing flexible foods packaging industry
    - A proven ability to realize synergies and commitment to maintaining 1.0x-2.0x Net Debt/EBITDA gives us comfort that this strategy reduces the risk profile of the firm
3. **Attractive valuation with room for spread tightening:** *TC is a potential candidate for a ratings upgrade which should trigger 45-50 bps tightening*
    - S&P's stated criteria for upgrading the bond have been met and the firm's credit metrics are broadly better today than when the firm was last rated BBB

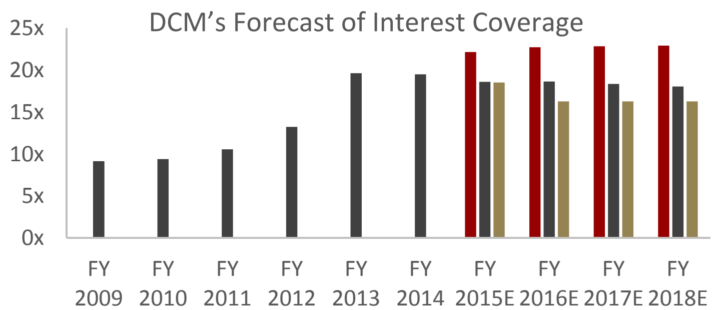
Analysis of Performance

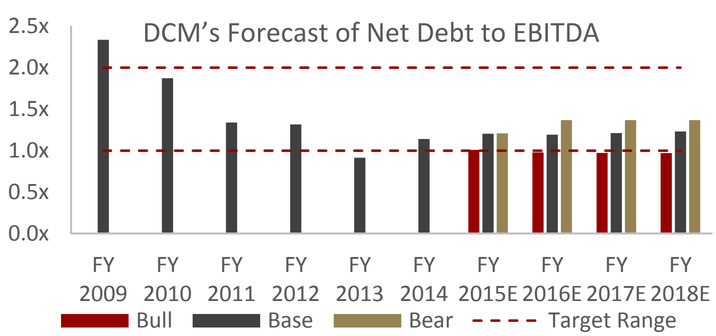
The position was initiated on November 28th 2014 and the investment thesis has yet to materialize although positive signs were indicated in the most recent earnings call.

Management confirmed that contributions from acquisitions and efficiency gains from optimization of the cost structure were instrumental in offsetting reductions on advertising revenues. For FY 2014 this meant that whilst top-line revenue was down by 1% (consistent with the decline of the print newspaper industry of -1.2% p.a.) but adjusted operating profit increased by 10%.

Specific to the diversifying Capri Packaging acquisition, in the six months to close of the fiscal year, the new business line generated C$42 million to revenues and C$10 million to EBITDA which is in line with annualized guidance of C$72 million in revenues and C$17 million in EBITDA contributions.

Credit Fundamentals and Implied Default Probability





Program Alumni

Graduating Class of 2014

Alan Ang
BCom Graduate
Bell, Montreal

Alexandre Castonguay
MBA Graduate
Intact Assurance, Montreal

Angel Bohorquez Colombo
MBA Graduate
PSP Investments, Montreal

Alexander Ohrn
MBA Graduate
McGill Business Consulting Group

Alexis Lemieux-Cardinal
BCom Graduate

Anna Wright
BCom Graduate
BP, Calgary

Faicy Aboobacker Hussein
MBA Graduate
Pride Financial Assets, Dubai

Mak Doric
BCom Graduate
Goldman Sachs, Calgary

Michaela Hirsh
BCom Graduate
J.P.Morgan, New York

Mohammad Chowdhury
MBA Graduate
RBC, Toronto

Nicholas Bigelow
BCom Graduate
CIBC World Markets, Calgary

Nicholas Di Giorgio
BCom Graduate
J.P.Morgan, New York

Pengchao Liu
MBA Graduate
RL Capital Management, Singapore

Rene Boissonnault
BCom Graduate
RBC Capital Markets, Montreal

Rami Karabibar
BCom Graduate
Bain & Company, Toronto

Samantha Fu
BCom Graduate
Cornerstone Research, New York

Sanja Vicentijevic
BCom Graduate
bcIMC, Victoria

Shuang Yun
MBA Graduate
Jarislowsky Fraser Ltd, Montreal

Simon Bibeau
BCom Graduate
Goldman Sachs, New York

Stefano Reghellin
MBA Graduate
Royal Bank of Scotland, Milan

Graduating Class of 2013

Alan Vergel de Dios
BCom Graduate
Stifel Financial Group, Baltimore

Alejandro Cardot
MBA Graduate
Private Family Office, Caracas

Ali Abdullah
BCom Graduate
Sapphire Group, Pakistan

Andy MacDonald
MBA Graduate
AGF Management, Toronto

Antonino Piazza
BCom Graduate
McKinsey & Co., Montreal

Cedric Garnier-Landurie
Bcom Graduate
Cheverny Capital, Montreal

Emily Ren
BCom Graduate
RBC Capital Markets, Toronto

Fei Qi
BCom Graduate
BofA Merrill Lynch, Montreal

Ivan Di
BCom Graduate
RBC Capital Markets, Toronto

Jimmy Xie
BCom Graduate
Capital One, Toronto

Karolina Ksciolek
BCom Graduate
Prime Quadrant, Toronto

Meghan Chen
BCom Graduate
CPP Investment Board, Toronto

Michael Commisso
BCom Graduate
McGill University Law, Montreal

Mohammad Awada
BCom Graduate
RBC Capital Markets, Montreal

Noah Senecal
BCom Graduate
Scotia Capital, Montreal

Rafael Barroso
MBA Graduate
JoMedia Inc., Montreal

Shawn Raza
MBA Graduate
CIBC World Markets, Toronto

Simon Bouchard
BCom Graduate
BofA Merrill Lynch, Toronto

Zeeshan Maqsood
BCom Graduate
Fiera Capital, Montreal

Graduating Class of 2012

Adam Duffy
BCom Graduate
Aberdeen Asset Management, Philadelphia

Brendan Simeson
MBA Graduate
Scotia Capital, Montreal

Graham Litman
BCom Graduate
BCE, Montreal

Alumni

Jakub Kucmierz
MBA Graduate
PSP Investments, Montreal

Johnson Peng
BCom Graduate
ONEX Corp., Toronto

Marc-Antoine Allen
BCom Graduate
CPP Investment Board, Toronto

Matthew Corbett
MBA Graduate
PSP Investments, Toronto

Max Adelson
BCom Graduate
Fidelity Investments, Toronto

Molly Newborn
MBA Graduate
CCFL Investments

Nicolas Bellemare
BCom Graduate
Fidelity Investments, Toronto

Phillip Levy
BCom Graduate
RBC Capital Markets, Montreal

Roberta Klein
MBA Graduate
Prime Quadrant, Toronto

Ryan Mead
BCom Graduate
PSP Investments, Montreal

Shimona Slomowitz
BCom Graduate
TD Securities, Calgary

Yael Klein
BCom Graduate
Prime Quadrant, Toronto

Graduating Class of 2011

Amirali Assef
MBA Graduate
Standard Life Investments, Montreal

Gregory Randolph
BCom Graduate
Baupost Group, New York

Jamie Tucker
BCom Graduate
TD Securities, Toronto

Mark Li
BCom Graduate
PSP Investments, Montreal

Matthieu Boulianne
BCom Graduate
National Bank, Montreal

Michal Marszal
MBA Graduate
Sectoral Asset Management, Montreal

Tigran Karapetian
BCom Graduate
Picton Mahoney, Toronto

Yuangyuou Yu
MBA Graduate
Air Canada Cargo, Montreal

Graduating Class of 2010

Bronwyn James
Bcom Graduate
KKR & Co., New York

Brian Rosen
MBA Graduate
CIBC Wood Gundy, Montreal

Daniel Peretz
BCom Graduate
McGill Medical School, Montreal

Emir Coscum
BCom Graduate
Torch Partners, London

Erdel Altintas
MBA Graduate
Turk Telecom, Turkey

Fatoumata Diana
BCom Graduate
Air Canada, Montreal

Gabriel Bonnel
BCom Graduate
Morgan Stanley, London

Hadi Kamzi
MBA Graduate
BMO Capital Markets, Toronto

Jason Kirsh
BCom Graduate
Waratah Advisors, Toronto

John Tarraf
MBA Graduate
TD Securities, Toronto

Jehangir Vevaina
BCom Graduate
BMO Capital Markets, Toronto

Kyle Marta
BCom Graduate
Picton Mahoney, Toronto

Lincoln Zheng
MBA Graduate
UNB, New Brunswick

Neil Cuggy
BCom Graduate
MTL Capital, Montreal

Philippe Morrissette
BCom Graduate
RDA Capital, Montreal

Raja Uppuluri
MBA Graduate
CIBC World Markets, Toronto

Sara Mahaffy
BCom Graduate
Credit Suisse AG, New York

Shu Wai Chu
BCom Graduate
HSBC, Toronto

Thibaud Sonntag
BCom Graduate
Studio Canal, Paris

Disclaimer

The Desautels Global Equity Fund and the Desautels Fixed Income Fund (hereafter: the Desautels Funds), together with Desautels Capital Management Inc., have been established as a pedagogical venture in order to offer students in the Investment Management Program in the Desautels Faculty of Management at McGill University some meaningful and realistic experience of the investment management industry and of investment research and analysis by working for Desautels Capital Management Inc. All outstanding shares of Desautels Capital Management Inc. are owned by McGill University. Desautels Capital Management Inc. has a separately constituted board of directors, all of whom are independent from McGill, and constitutes a separate legal entity having responsibility for its own affairs. The role of McGill University towards Desautels Capital Management Inc. is limited to the following activities: (i) appointing independent directors to Desautels Capital Management Inc.'s board of directors; and (ii) providing limited financial resources and support to Desautels Capital Management Inc., such as office space and allowing certain of its officers and employees to serve as officers of Desautels Capital Management Inc. or to carry out certain other functions.

Neither McGill University nor the Board of Governors of McGill University has the authority or power to act on behalf of Desautels Capital Management Inc. or the Desautels Funds, or to incur any expenditures on behalf of Desautels Capital Management Inc. or the Desautels Funds. Neither McGill University nor the Board of Governors of McGill University shall be liable for any debts or obligations of Desautels Capital Management Inc. or the Desautels Funds. McGill University is not involved in the daily activities of Desautels Capital Management Inc., including making investment decisions, and therefore does not take any responsibility for Desautels Capital Management Inc.'s activities. More specifically, McGill University has no liability under the Units, does not guarantee or otherwise stand behind the Units nor does it guarantee performance of the Desautels Funds. Any function or activity of Desautels Capital Management Inc. carried out by individuals who are also officers or employees of McGill University is carried out exclusively in the name of Desautels Capital Management Inc. and McGill University shall have no liability as a result thereof.

Neither the information nor any opinion expressed in this Annual Report constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g. options, futures, warrants, and contracts for differences). This Annual Report newsletter is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this Annual Report and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this Annual Report.

All opinions, projections and estimates constitute the judgment of the author as of the date of the newsletter and are subject to change without notice. Prices also are subject to change without notice. Desautels Capital Management Inc. is under no obligation to update this Annual Report and readers should therefore assume that Desautels Capital Management Inc. will not update any fact, circumstance or opinion contained in this Annual Report. Neither Desautels Capital Management Inc., nor any director, officer or employee of Desautels Capital Management Inc. accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this Annual Report or its contents and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

Program Partners

STATE STREET

BORDEN LADNER GERVAIS

DESAUTELS Capital Management
Gestion de capitaux