



# AUGUST 2020

INVESTOR NEWSLETTER ■ H1'20 EDITION



DESAUTELS

Capital Management  
Gestion de capitaux

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# MESSAGE FROM OUR STRATEGISTS

Dear Investors,

The month of June marked a transition period for Desautels Capital Management, as our incoming cohort of graduate students inherited the reins from the 2020 MMF class. This year marks a unique and challenging time for the world. The coronavirus pandemic has cultivated an unprecedented need for creative communication solutions in order to function at optimal capacity without sacrificing quality. As such, incoming students and analysts have not only begun a new and exciting journey in graduate school but have started it remotely.

DCM provides students with an unparalleled opportunity to cultivate new knowledge and put theory to practice in financial markets. Our cohort has been in constant communication through Zoom, amongst other social and media platforms, in order to continue to provide value to investors. Despite these challenging times, we could not be more excited to be managing the Alpha Squared and Socially Responsible Investment Funds.

Currently, both funds have just over \$2M in Assets Under Management and have significantly outperformed their benchmarks year-to-date. We truly appreciate the excellent work done by the previous cohort of MMF students to put us in this position and it has made the transition for our class much more manageable. So far, our efforts have focused on Risk Management, taking part profits where appropriate and rebalancing the funds to make them more resilient to current market conditions.

On behalf of the entire Master of Management in Finance 2021 cohort, we would like to thank our investors for granting us this unique opportunity. Without your trust and confidence in us, this learning experience would not be possible, not just for our cohort but all those before us and those to come. We are confident the MMF Class of 2021 will continue to push the DCM program to new heights and provide value and reassurance to our investors during these challenging times.

Sincerely,

**Vartan Tanielian**  
*Alpha Squared Equity Fund*

**Dakota Zaharichuk**  
*SRI Equity Fund*



## ALPHA SQUARED FUND

### Fund Performance

The Desautels Alpha Squared Fund has proven resilient in the wake of the first wave of the Corona Virus pandemic, delivering a gross return of 1.6% in H1 2020, vs a loss of 3.8% for our benchmark. Our 5.4% outperformance was largely due to stock selection. We also benefited from sector allocation, as we had been positioned defensively going into 2020, and underweight sectors that were hit hardest (Materials, Financials, & Energy).

Our top performing holding in H1 was Veeva systems, an American cloud-computing company focused on pharmaceutical and life sciences industry applications. The stock was up an impressive 66.7%, vs only 15% for its IT sector benchmark, due to competitive advantages, overall cost efficiency, agile IT architecture and supplier data integrity. Additionally, as a result of the current pandemic there is an increased global demand for healthcare cloud computing services

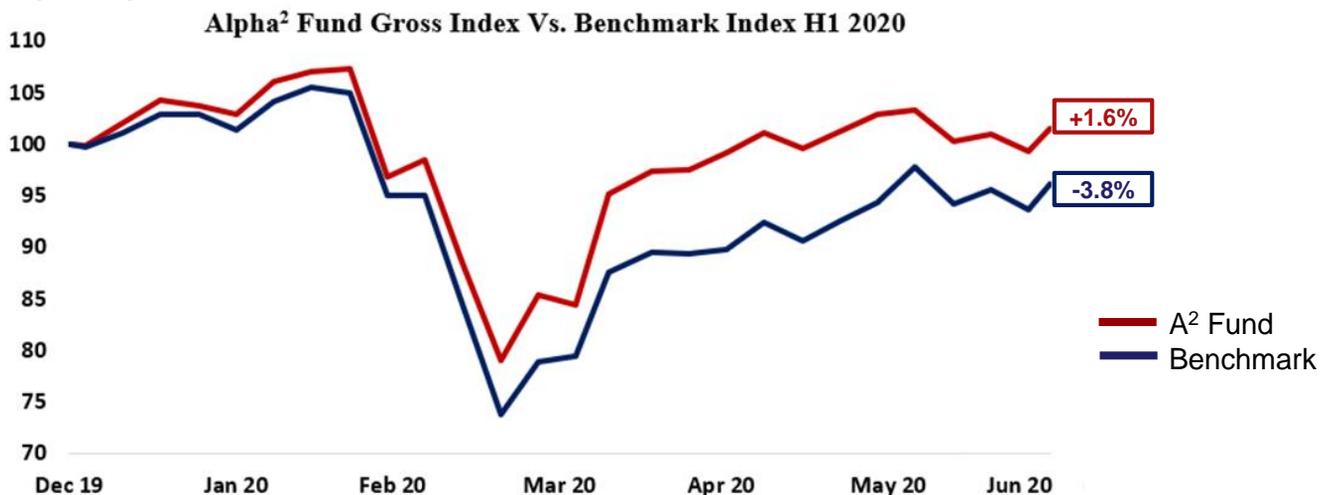
Metrics	YTD		Since Inception*	
	A2	Bench.	A2	Bench.
Total Returns	1.6%	-3.8%	4.4%	6.4%
Std. Deviation	34.6%	34.8%	16.7%	16.2%
Sharpe Ratio	0.21	-0.08	0.27	0.39
Beta	0.96	N/A	0.97	N/A
Alpha	9.9%	N/A	-1.5%	N/A
Tracking Error	8.4%	N/A	5.8%	N/A

*Note: Performance is gross of fees.*

*\*All metrics are annualized, except for H1 Returns.*

that is sure to last well into the foreseeable future. Our second-highest earner, Newmont Corporation, is the world's largest gold mining company and is based in Greenwood Village, Colorado. Over H1 the corporation produced an impressive 49.7% return for our fund, dwarfing its sector return of 2% over the same period. Newmont's outperformance can be attributed to a few driving factors, including the 65% gold price rally since March (current price, \$2,055). The massive rise in the safe haven asset is not surprising given heightened market

### Alpha Squared Fund YTD Performance



*Note: Benchmark is 60% S&P/TSX Index and 40% S&P 500 Index (measured in CAD). Fund inception date is February 14, 2017.*

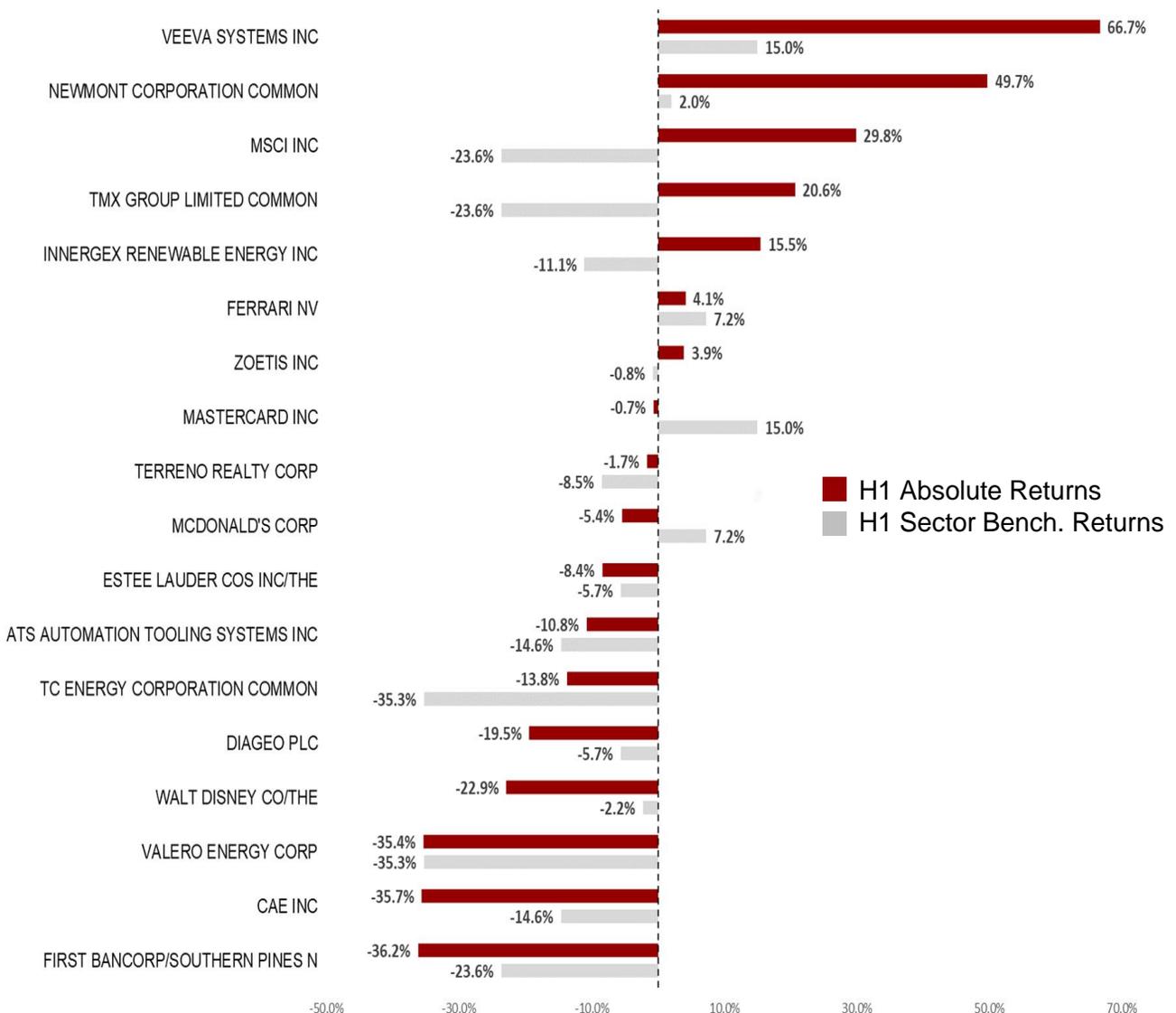


# ALPHA SQUARED FUND

volatility, economic uncertainty, and in particular the printing of trillions of dollars by central banks across the world. Newmont also benefitted from favourable Wall Street coverage, management's commitment to shareholders, and a strong first quarter earnings report, which all helped Newmont's stock reach new all time highs.

Our worst performing holdings were, not surprisingly, in sectors hardest hit by the global economic slowdown. Valero Energy (a Fortune 500 international manufacturer and marketer of transportation fuels, other petrochemical products, and power) was down 35.4%, in line with the Energy sector's 35.3% decrease over the same

## Current Stock Holdings Performance



## ALPHA SQUARED FUND

period. We remain bullish on the stock going forward as Valero has consistently performed better than its benchmark, has not missed an earnings estimate in years and has a number of projects underway expected to bear positive returns once the demand for oil returns to normal levels.

In light of the possibility of a second wave of COVID-19, which could lead to another economic shutdown, coupled with an unpredictable US election this November, we have decided to take a slightly defensive tilt for the second half of 2020. Accordingly, we recently increased our allocation to defensive sectors, including positions in Utilities

and Healthcare ETFs. Our goal is to shift out of these ETFs and into individual names once we identify high conviction trades in those sectors. In addition, we trimmed positions in some of our best performers, including Newmont, Innergex, MSCI, Zoetis and TC Energy Corp. The part-profit-taking was due to Risk Management considerations as the weights in these positions had become quite sizeable after very large gains.

Looking ahead, we expect volatility to remain elevated in H2 and would not be surprised to see vol spikes around the November election period. In fact, VIX futures are pricing in an expected VIX level of 30 around then, compared to 23 currently.

#	Security Name	Sector	Currency	Size	# of Units	Local Currency			Weight	
						Cost	Price	CAD Value		
1	Walt Disney Co/The	Communications	USD	Large	654	\$146.0	\$112.2	\$99,513	4.7%	
2	McDonald's Corp	Consumer Discretionary	USD	Large	475	\$197.1	\$183.5	\$118,240	5.5%	
3	Ferrari NV	Consumer Discretionary	USD	Large	288	\$166.8	\$172.2	\$67,253	3.1%	
4	Diageo PLC	Consumer Staples	USD	Large	484	\$142.2	\$137.2	\$90,071	4.2%	
5	Estee Lauder Cos Inc/The	Consumer Staples	USD	Large	390	\$124.1	\$191.6	\$101,361	4.7%	
6	TC Energy Corp	Energy	CAD	Large	1,519	\$68.9	\$58.1	\$88,315	4.1%	
7	Valero Energy Corp	Energy	USD	Large	1,004	\$67.6	\$56.3	\$76,725	3.6%	
8	<b>Trimmed</b> TMX Group Ltd	Financials	CAD	Mid	790	\$85.6	\$133.4	\$105,402	4.9%	
9	First Bancorp/Southern Pines N	Financials	USD	Small	2,500	\$37.3	\$23.0	\$77,823	3.6%	
10	<b>Trimmed</b> MSCI Inc	Financials	USD	Large	229	\$294.0	\$342.1	\$106,271	5.0%	
11	<b>New</b> iShares U.S. Healthcare ETF	Healthcare	USD	ETF	553	\$219.5	\$218.9	\$164,172	7.7%	
12	<b>Trimmed</b> Zoetis Inc	Healthcare	USD	Large	341	\$128.2	\$137.7	\$63,672	3.0%	
13	ATS Automation Tooling Systems	Industrials	CAD	Small	4,860	\$21.3	\$19.1	\$92,680	4.3%	
14	CAE Inc	Industrials	CAD	Mid	3,535	\$26.9	\$20.9	\$73,882	3.5%	
15	Mastercard Inc	Information Technology	USD	Large	324	\$297.4	\$302.4	\$132,906	6.2%	
16	Veeva Systems Inc	Information Technology	USD	Large	385	\$138.7	\$242.0	\$126,397	5.9%	
17	<b>Trimmed</b> Newmont Corp	Materials	CAD	Large	1,265	\$42.4	\$82.8	\$104,793	4.9%	
18	Terreno Realty Corp	Real Estate	USD	Mid	1,665	\$37.3	\$54.2	\$122,360	5.7%	
19	<b>New</b> Utilities Select Sector SPDR F	Utilities / Renewable Energy	USD	ETF	2,270	\$58.1	\$57.9	\$178,276	8.3%	
20	<b>Trimmed</b> Innergex Renewable Energy Inc	Utilities	CAD	Mid	4,444	\$17.0	\$19.5	\$86,658	4.1%	
21	Canadian Dollar	Cash	CAD	CASH	0	-	\$1.0	\$59,105	2.8%	
22	U.S. Dollar	Cash	USD	Cash	0	-	\$1.4	\$0	0.0%	
								<b>Total</b>	<b>\$2,135,874</b>	<b>100%</b>

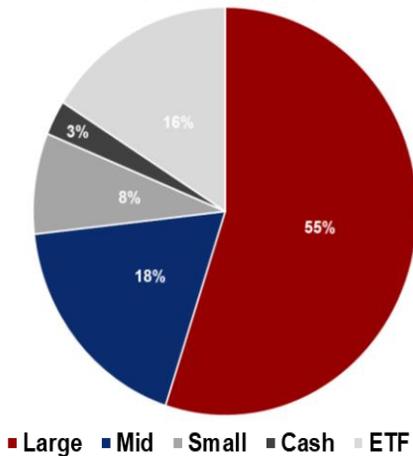
## ALPHA SQUARED FUND

Although we have taken a defensive tilt for H2, we plan to keep a mix of defensive and cyclical holdings going forward so as not to miss the boat should the economy surprise on the upside. Bottom-up fundamental analysis can be particularly challenging in the current market environment, where much of a company's success will depend on how the pandemic unfolds, how the economy responds, and how central banks and governments support the economy. On the other hand, volatile periods can

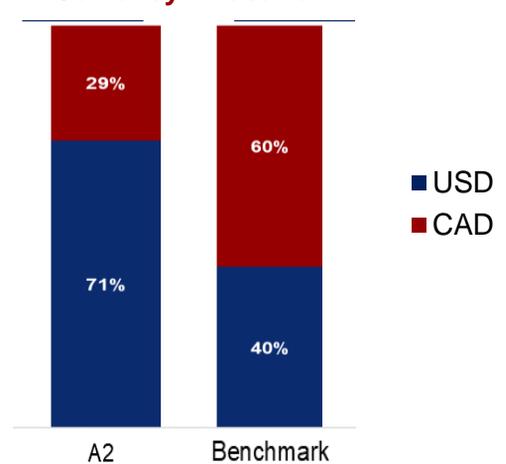
cause market panic and confusion and give rise to significant stock mispricings. Identifying those mispricings is easier said than done, but we remain as resolved as ever to working hard and doing the necessary due diligence to generate alpha for our investors in what is sure to be a very exiting year ahead. As always, we thank you for your continued support.

**Vartan Tanielian**  
*Strategist, Alpha Squared Equity Fund*

**Fund Allocation**



**Currency Allocation**



# **SOCIALLY RESPONSIBLE INVESTING EQUITY FUND**



# MESSAGE FROM OUR **CSO**

Dear Investors,

As a new cohort of MMF students begin the 2020-2021 academic year amidst the challenges of the coronavirus pandemic, we would like to thank you for continuing to invest with the Socially Responsible Investing (SRI) Fund. At the SRI Fund, it is our mandate to invest inline with your values and it is our belief that investing in firms with strong fundamentals, paired with industry leading environmental, social, and governance (ESG) practices, can benefit society without jeopardizing returns.

We will continue to provide value to you through our screening, assessment, and due diligence processes. In order for company to be considered eligible for the SRI fund it must pass our negative screens, which include, but are not limited to, armament manufacturing, tobacco companies, fossil fuel companies, and firms that exploit child labour. In addition to negative screens, we also strive to invest in companies that actively meet our positive screens. This includes companies that have committed to equity and diversity practices, engage in supply chain sustainability, and look to improve their operations through ESG practices.

Analysts in the SRI Fund rely partially on ESG scores from data providers to screen stocks. ESG scores alone, however, are not sufficient to determine suitability. Our analysts thus also use our proprietary evaluation methodology coupled with extensive company research to ensure candidate companies are truly acting in a socially responsible manner.

The SRI suitability analysis is conducted by fund analysts and their assessment is presented to the Sustainability Team, which is headed by the Chief Sustainability Officer. The Sustainability Team in conjunction with the SRI Fund Strategist provide an impartial viewpoint in evaluating the suitability of the selected investment and signs off on the eligibility of the company. Once a stock is considered eligible, analysts move on the equally important stage of rigorous fundamental analysis to assess whether the stock is undervalued in their view. Our goal is to invest in companies with strong ESG practices, but also where we expect to realize high risk-adjusted returns.

Thank you once again for your continued support and stay safe out there.

Sincerely,

**Cole Corlett-Hedley**  
*Chief Sustainability Officer*

## SOCIALLY RESPONSIBLE INVESTING EQUITY FUND

### Fund Performance

The first half of 2020 has been incredibly productive for the SRI Fund, as it returned 11.3% gross of fees. Since the beginning of the year, the fund has outperformed its benchmark by 10.2%, exhibiting strong downside protection and resiliency through an extremely challenging and volatile period.

Two of our best performing stocks, Okta and Square performed exceptionally well in H1, outperforming their IT sector benchmark by 55.7% and 49.4%, respectively. Okta provides cloud software that helps companies manage and secure user authentication into modern applications. The company's cloud security solutions were well positioned for the pandemic as employees transitioned to working from home, increasing the demand for necessary cloud protection. This is a trend that will continue to increase as Global IT spending is expected to increase, allowing ample opportunity for Okta. Square is an American

Metrics	H1		Since Inception *	
	SRI	Bench.	SRI	Bench.
Gross Return	11.3%	1.2%	12.6%	9.0%
Std. Deviation	33.2%	31.7%	21.0%	20.2%
Sharpe Ratio	0.67	0.05	0.6	0.33
Beta	1.01	N/A	0.99	N/A
Alpha	20.6%	N/A	5.9%	N/A
Tracking Error	9.1%	N/A	6.2%	N/A

*Note: Performance is gross of fees.*

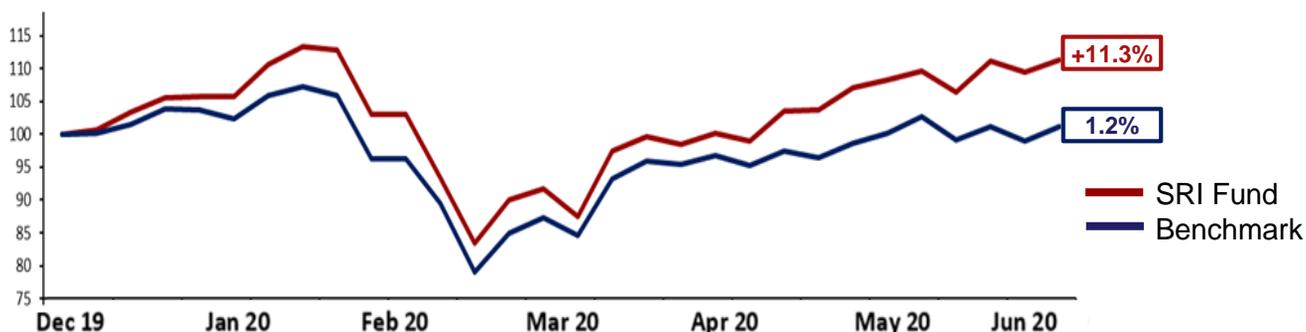
*\*All metrics are annualized, except for H1 Gross Returns.*

financial service, merchant services aggregator, and mobile payment company. The investment prospects around Square continue to be favourable. The company continues to see large deposit increases into its Cash App. Square has the potential to disrupt deposits and payments that are usually transacted through banks, offering a long runway for future growth. Despite the extreme gains, we remain bullish on both Okta and Square. Nevertheless, we found it prudent from a risk management point of view to trim our positions in these two companies and take part profits as the

### Socially Responsible Equity Fund YTD Performance

#### SRI Gross Return vs Benchmark Return

H1 2020



*Note: Benchmark is 80% S&P 500 Fossil Fuel Free (in CAD) and 20% S&P TSX Fossil Fuel Free. Fund inception date is Aug 31, 2018.*

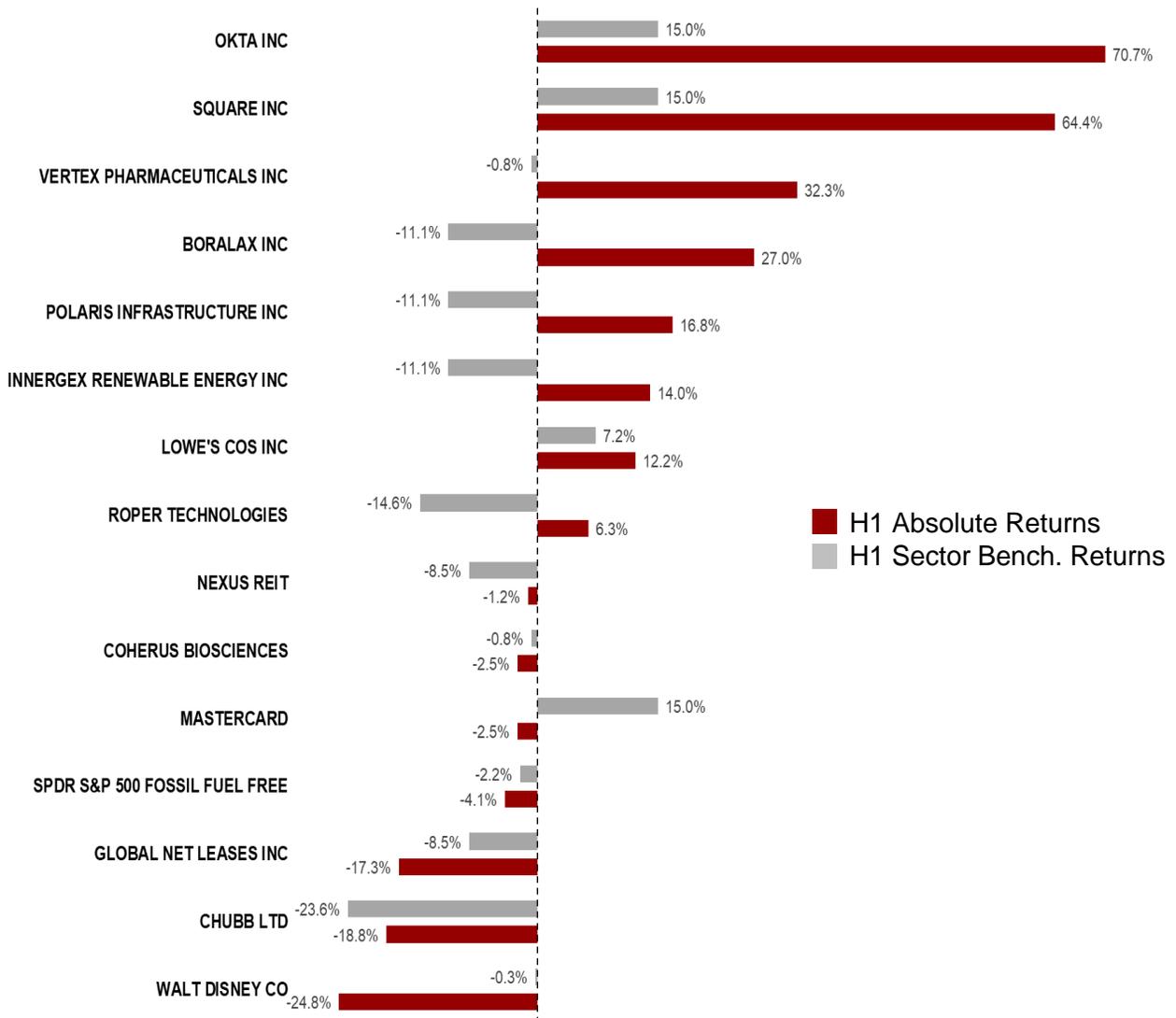
## SOCIALLY RESPONSIBLE INVESTING EQUITY FUND

allocation to the stocks was nearing 10% each.

The SRI Fund also saw very strong performance in renewable energy positions, with Boralex and Innergex returning 27.0% and 14.0%, respectively. The companies are involved in the development, construction, and operation of renewable energy

power facilities that utilize wind, hydroelectric, thermal, and solar fuel sources. Boralex and Innergex both operate in Canada, France, and the U.S. We selected the two companies on a view that they had a competitive advantage relative to peers in securing new contracts in the rapidly

### Current Stock Holdings Performance



## SOCIALLY RESPONSIBLE INVESTING EQUITY FUND

growing industry. Indeed, both firms won important contracts this year, helping boost performance. The companies also benefitted from high wind farm production due to favourable wind conditions in France and British Columbia. As with Okta and Square, we remain bullish on Boralex and Innergex but took part profits in July based on the recommendations of our Risk Management team.

Not surprisingly, a few holdings were negatively impacted by COVID-19 in H1. Disney declined 24.8% due to global closures of the company's parks, resorts and cruise lines. While the Parks segment will continue to face headwinds in the near term, we remain bullish on Disney's long-term outlook. Indeed, the company's streaming service saw remarkable growth, reaching more than 50 million subscribers in only 5 months. In addition, we feel the company is well positioned to

monetize an untapped market in India, specifically young individuals with strong digital media consumption.

Like most investors, we have been surprised by the strength of the market rally from March lows. Economic activity indicators and employment numbers rebounded throughout the second quarter, in many cases beating expectations, and several vaccine trials showed promise. While we hope for a smooth and robust economic recovery, we believe that current market valuation levels are too optimistic and not reflecting key real risk factors facing the economy. As such we reallocated the proceeds from our trimmed stock positions more defensively, to Utilities and Consumer Staples ETFs.

From a top-down point of view, we believe the

#	Security Name	Sector	Currency	Size	# of Units	Local Currency		CAD Value	Weight
						Cost	Price		
1	SPDR S&P 500 Fossil Fuel Reser	Market	USD	ETF	6,754	\$69.81	\$78.26	\$714,868	29.38%
2	<b>New</b> Vanguard Consumer Staples Index Fund ETF	Consumer Staples	USD	ETF	837	\$150.99	\$151.99	\$171,868	7.06%
3	Canadian Dollar	Cash	CAD	Cash	151,623	-	\$1.00	\$151,623	6.23%
4	Vertex Pharmaceuticals Inc	Healthcare	USD	Large	340	\$172.62	\$295.92	\$135,928	5.59%
5	Roper Technologies Inc	Industrials	USD	Large	230	\$355.17	\$397.41	\$123,487	5.08%
6	<b>Trimmed</b> Square Inc	Information Technology	USD	Large	651	\$71.73	\$133.35	\$117,281	4.82%
7	<b>Trimmed</b> Boralex Inc	Utilities	CAD	Mid	3,237	\$24.74	\$32.34	\$104,685	4.30%
8	Lowe's Cos Inc	Consumer Discretionary	USD	Large	570	\$111.21	\$135.75	\$104,537	4.30%
9	<b>Trimmed</b> Okta Inc	Information Technology	USD	Large	338	\$118.05	\$219.78	\$100,360	4.13%
10	Mastercard Inc	Information Technology	USD	Large	240	\$297.41	\$300.15	\$97,321	4.00%
11	<b>Trimmed</b> Innergex Renewable Energy Inc	Utilities	CAD	Mid	4,765	\$16.98	\$19.67	\$93,728	3.85%
12	<b>New</b> Utilities Select Sector SPDR Fund	Utilities	USD	ETF	1,196	\$58.09	\$57.47	\$92,860	3.82%
13	Chubb Ltd	Financials	USD	Large	450	\$132.55	\$127.86	\$77,732	3.19%
14	Walt Disney Co/The	Consumer Discretionary	USD	Large	475	\$146.02	\$116.66	\$74,864	3.08%
15	Global Net Lease Inc	Real Estate	USD	Small	3,250	\$20.01	\$16.83	\$73,896	3.04%
16	Nexus Real Estate Investment T	Real Estate	CAD	Small	47,810	\$2.00	\$1.53	\$73,149	3.01%
17	Coherus Biosciences Inc	Healthcare	USD	Small	2,780	\$15.24	\$18.00	\$67,604	2.78%
18	<b>Trimmed</b> Polaris Infrastructure Inc	Utilities	CAD	Small	2,687	\$11.22	\$14.30	\$38,424	1.58%
19	U.S. Dollar	Cash	USD	Cash	13,860	-	\$1.00	\$18,727	0.77%
<b>Total</b>								<b>\$2,432,943</b>	<b>100%</b>

## SOCIALLY RESPONSIBLE INVESTING EQUITY FUND

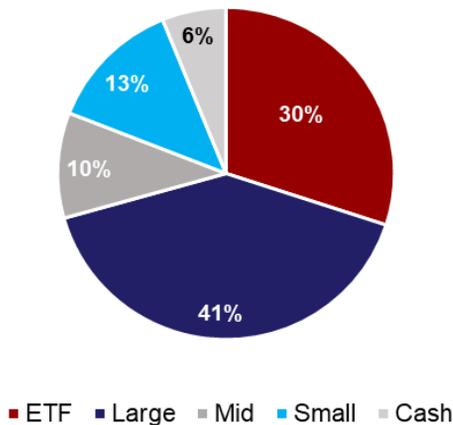
second half of the year will remain volatile. Recent economic data is suggesting the economic recovery is beginning to stagnate, as indicated by an increase in workers applying for jobless benefits for a second straight week. Furthermore, we expect to see escalating tensions between China and the US unravelling throughout the remainder of the year. Lastly, with this being an election year, we expect higher risk for several sectors. For example, the healthcare sector could be vulnerable to a wide range of reforms, including drug price control, while the energy sector could be impacted by regulatory changes.

High volatility, however, will likely present us with greater opportunity to buy companies at a reasonable price. As always, we remain committed to performing rigorous research and

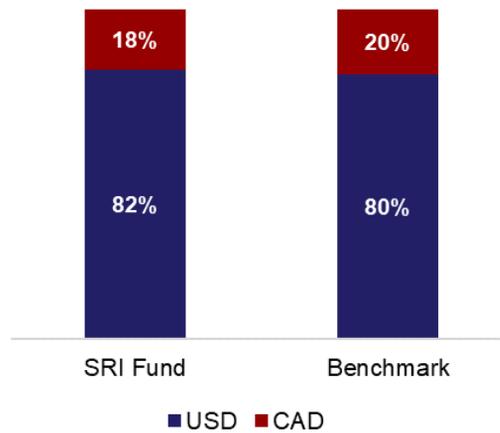
due diligence in order to seek out companies with strong fundamentals and exciting prospects. At DCM, we hope to continue outperforming the market for the rest of the year, while at the same time investing in socially responsible companies.

**Dakota Zaharichuk**  
*Strategist, SRI Equity Fund*

**Fund Allocation**



**Currency Allocation**



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