2017 MMF ANNUAL REPORT

DESAUTELS CAPITAL MANAGEMENT
GESTION DE CAPITAUX DESAUTELS

DESAUTELS | McGill

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

TABLE OF CONTENTS

EXECUTIVE TEAM

DESAUTELS CAPITAL MANAGEMENT | GESTION DE CAPITAUX DESAUTELS

Morty Yalovsky
President

Professor Morty Yalovsky is the President of Desautels Capital Management. He joined the faculty in 1974, and in addition to his academic responsibilities, he has assumed several senior administrative roles, including Vice-Principal (Administration and Finance) at the University level. Professor Yalovsky's research interests include Statistical Methodology, Forecasting Methods, and Modeling. He has also consulted in the areas of Applied Statistics and Information Technology for several leading Canadian corporations.

Ken Lester
Co-Chief Investment Officer

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

Vadim di Pietro
Co-Chief Investment Officer

Vadim di Pietro is Co-Chief Investment Officer, Chief Compliance Officer, and registered Advising Representative for Desautels Capital Management. He joined the Faculty of Management as a Faculty Lecturer in Finance in 2009. Prior to Desautels, Vadim was an investment strategist at J.P. Morgan in London from 2007 to 2009. He holds a B.Eng. from McGill University, a Master's in Mathematical Finance from the University of Toronto, and a PhD in Finance from the Kellogg School of Management. Vadim is also a CFA charterholder.

Jan Ericsson
HIM & MMF Program Director

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

BOARD OF DIRECTORS

DESAUTELS CAPITAL MANAGEMENT | GESTION DE CAPITAUX DESAUTELS

Yves Caron
Director, Investments

Caisse de dépôt et placement du Québec

Prior to his current role, Mr. Caron was Vice President at iNFiNi-t Wealth Management Advisers Inc, and prior to that he spent 10 years managing alternative investment portfolios for institutional investors globally at HR Strategies Inc.

Peter Bethlenfalvy
Chief Investment Officer

C.S.T. Consultants Inc

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

Eammon McConnell
Portfolio Manager

Kensington Capital

Mr. McConnell is a member of the Kensington Investment Committee and is the Kensington advising representative. Mr. McConnell is also an equity partner of Gryphus Capital, a Private Equity firm he co-founded in 2002 based in Singapore and was the Deputy Chairman of the Alternative Investment Management Association (AIMA) Canada from 2008 to 2013.

Richard Pan
VP and Head of Corporate Finance

Power Corporation

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

Nicolas Morin
Partner

Davies Ward Phillips &Vineberg

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

OUR TEAM

DESAUTELS CAPITAL MANAGEMENT | GESTION DE CAPITAUX DESAUTELS

WHO MAKES UP DCM?

3.64

AVERAGE GPA

694

AVERAGE GMAT*

*For International Students

14

MONTHS AVERAGE WORK EXPERIENCE

13

STUDENTS WITH 1-4 YEARS OF FULL-TIME WORK EXPERIENCE

42

EXCLUSIVE COHORT

AVERAGE AGE - 23

FEMALE/MALE - 16/26

11

NATIONALITIES

16 Canadian; 12 Chinese; 4 Indian; 2 American; 2 French; 1 Indonesian; 1 Iranian; 1 Norwegian; 1 Rwandese; 1 Senegalese; 1 Vietnamese

17

LANGUAGES

Arabic, Albanian, Chinese, English, French, German, Gujarati, Hindi, Indonesian, Italian, Japanese, Kinyarwanda, Malagasy, Mandarin, Norwegian, Persian, Spanish

 # OF MMF STUDENTS WHO SPEAK AT LEAST 4 LANGUAGES - 4

 # OF MMF STUDENTS WHO SPEAK AT LEAST 3 LANGUAGES - 11

PREVIOUS EDUCATION

6 Accounting; 2 Commerce; 8 Economics; 1 Education; 15 Finance; 1 Medicine; 4 Science; 4 Engineering; 1 Marketing

MMF STRATEGISTS

Irvin He | Alpha Squared Strategist | MMF Analyst

Irvin was born and raised in Zhejiang, China. Before coming to McGill, Irvin spent his previous years in Toronto, where he obtained a Distinction Bachelor of Commerce degree with a major in Finance from University of Toronto. Irvin discovered his passion to pursue a career in finance after having interned in a boutique investment bank as summer analyst in his 3rd year. He has been able to utilize his industry knowledge in covering the Consumer Discretionary sector. Irvin is currently a CFA Level II candidate.

Professional Experience

Investment Banking Analyst
- Kerburn Rose (Summer 2016)
Junior Salesperson
- Greentown Real Estate (Summer 2015)

Justin Spielman | Alpha Squared Quant Strategist

Justin was born and raised in New York City, where he spent much of his pre-university studying music. He earned his BA in economics at McGill, where he became increasingly interested in applying the theory he learned to the forces underlying financial markets. He is passionate about exploring how technology is shaping the ways we understand and participate in markets.

Professional Experience

Private Equity Summer Intern
- PSP Investments (Summer 2018)
Reinsurance Solutions Intern
- Agam Capital (Summer 2016)
Financial Modeling Intern
- CoPower (Winter 2016)

CONSUMER DISCRETIONARY

AUTO AND COMPONENTS

MMF ANALYSTS

Simranjit Saluja

Born and brought up in India, Simranjit acquired an understanding of the complexities of business from an early exposure to family business. He obtained a Bachelor's of Business Administration (Marketing) from Amity University, Uttar Pradesh, India and joined his family business where he learned about the various operational challenges that a small scale firm faces. However, his passion for learning brought him to McGill University for the Masters of Management in Finance program.

Professional Experience

Business Manager (Operations)
- M/S A.G. Trading Company, Orissa, India (2016-2017)
Summer Intern (Marketing)
- WOOPLR, a fashion startup, India. (Summer 2015)

Sarah-Anne Brault

Sarah-Anne was born in Lévis, Québec, and subsequently raised in Winnipeg, Manitoba. She has spent the last few years travelling the world in her quest to represent Canada at the Olympic games in the sport of triathlon. Along the way, she has completed a degree in Economics and a degree in Finance at West Virginia University, fascinated by the way financial and capital markets interact and lead to value creation and a platform for business and economic growth. She is currently a CFA level II candidate.

Professional Experience

Natural Resources Team Intern
- PSP Investments (Summer 2018)
Canadian Triathlete, 2013-2016
Head Coach, NSH Triathlon, 2017

Jiayi Shen

Jiayi was born in China. He graduated with a double major in Accounting and Finance with summa cum laude honors at Saint Mary's University in 2014. That same year, he also became a lifetime member of Beta Gamma Sigma. He worked for Morningstar as a fund data analyst from 2015 to 2016. He has an unwavering determination and a passion for equity research, which lead him join the MMF program at McGill to enhance his knowledge of industry analysis. Jiayi is presently a CFA Level III Candidate.

Professional Experience

Fund Data Analyst, Data Management Division
- Morningstar, China (2015-2016)

Ad augusta per angusta

MMF ANALYSTS

Daoran Wang

Born and raised in Shanghai, China, Daoran has developed his interests in finance through IBDP courses in high school. Upon completionn of his Bachelor degree in Finance & Economics at University of Toronto, he decided to join the MMF program to further expand his knowledge in quantitative skills. He is currently working as an analyst for the Media industry at DCM. Daoran is interested in soccer, music production, and Chinese calligraphy in his spare time.

Professional Experience

Intern
- Risk Advisory - FSI, Deloitte (Spring 2017)

Intern
- Commercial Banking, Industrial and Commercial Bank of Chin (2015)

Equity Analyst Intern
- Joyee Asset Management (Summer 2013)

Siyun Wang

Siyun Wang was born and raised in Chengdu, China. She graduated with an Honours Bachelor Degree of Business Administration (Accounting) from Wilfrid Laurier University. During her studies, She discovered her interests in Finance. Upon graduation, she started her full-time internship as a credit analyst at China Merchants Bank Chengdu Branch. She decides to pursue a Master of Management in Finance and hopes further expand her knowledge and experience in the field of Finance

Professional Experience

Credit Analyst Intern
- China Merchants Bank (2016-2017)

Accountant Assistant
- Value-Added Accounting & Tax Service (Summer 2014)

Customer Representative Intern
- China Merchants Bank (Summer 2013)

Wanyi Hu | Media

Born and raised in China, Wanyi obtained a Bachelor of Commerce Degree, specialized in Accounting, with a minor Bachelor's Degree of Arts from Shanghai International Studies University. Wanyi developed a keen interest in finance and data analysis after her completion of several finance internships and decided to challenge herself in McGill's MMF program, where she currently covers the Media sector. She is currently a candidate of CFA Level II.

Professional Experience

Retail Banking IG Intern
- Standard Chartered Bank Shanghai (2016)

Audit Intern
- PricewaterhouseCoopers, Shanghai (2015-2016)

Management Trainee
- Manulife Financial, Hong Kong (2015)

Ad augusta per angusta

MMF ANALYSTS

Joanie Grimard

Raised on the North shore Montreal, Joanie graduated with a Bachelors of Business Administration (finance) from University of Quebec in Montreal. She completed an exchange semester in Hong Kong at Lingnan University. During her studies, Joanie worked at the Royal Bank of Canada as an Account Service Agent and taught figure skating to young talented skaters. Besides finance, Joanie has interests in Asian-Pacific politics and the world economic situation.

Professional Experience

Global Rotational Program in Commercial Banking
- HSBC (Summer 2018)
Account Service Agent
- RBC (Since 2014)
Figure Skating Coach (2010-2014)

Julie Hazard

Born and raised in Normandy, in the North West of France, Julie chose to study sciences at first. After doing classe préparatoires in Louis-le-Grand in Paris, she attended Ecole Centrale of Paris for a master degree in general engineering. There, she discovered the field of finance through her mathematical finance classes, and was accepted in the MMF program to pursue a double-degree in that field. Curious to broaden her knowledge, she will have the opportunity to use her analytic skills in the Consumer Discretionary sector.

Professional Experience

Consultant
- Bain & Company (Incoming 2018)
Project Intern
- A supermarket in Saclay

Yi Sun

Yi was born and raised in China. She obtained the Honours Bachelor of Science degree with double majors in Economics and Statistics at University of Toronto. During the study of financial economics, she developed a passion for further study of finance and decided to join the MMF program. She would also like to put quantitative skills from statistics into practice in the process of financial analysis. In her spare time, she likes reading, traveling and listening to music.

Professional Experience

Summer Intern as Client Manager
- China Everbright Banking Corp. Ltd.(Yantai)

Riyad Allimamode

Riyad discovered his passion for finance during High School, when he did an internship in Mauritius Island. Determined to achieve his goal, he decided to move to Canada where he studied economics at University of Montreal, before continuing his journey to McGill, where he is currently getting a degree in the Masters of Management in Finance program. With all this economical experience in hand, Riyad could be of great help to the consumer discretionary sector at DCM, his sector of predilection.

Professional Experience

Tutoring
- Blitz Tutorat (2016-2017)

Finance Internship
- Island Premier Traders FX Ltd (2013)

MMF ANALYSTS

Mengdie Lyu

Mengdie was born and raised in Liyang, China. She graduated with a Bachelor of Science (Finance) from Shanghai University of International Business and Economics. Mengdie discovered her passion in investment after reading several novels about finance when she was in high school. She is currently working as an analyst for the consumer staples sector at DCM. She wants to learn more about financial management and to make her contribution in this team

Professional Experience

Administration Internship
- SABIC, Shanghai (2017)
Administrative Assistant
- Xiamen International Bank, Xuhui Sub-branch, Shanghai (2015)

Sheng Li

Sheng was born and raised in Zhejiang, China. She graduated with Bachelors of Commerce (Accounting) in Ningbo University. She recognized her interests in corporate finance field throughout her part-time works, as she provided management accounting service to her clients. With her passion to explore more in financial world, Sheng decided to join MMF program and is currently covering the Consumer Staples sector.

Professional Experience

Management Accounting Analyst(Part-time)
- Ningbo Accounting Development Center (2016-Spring 2017)
Audit Assistant
- Ruihua Certified Public Accountants, China (Winter 2014 & 2015)

Yidan Song

Born and raised in China, Yidan graduated with Bachelor's degree in Economics at Renmin University before entering McGill. Driven by her strong interest and passion for Finance, she decided to challenge herself in the MMF program. As a member of the Consumer Staples Team, she is looking forward to combine theory with practice and gain different experiences. In her free time, Yidan enjoys swimming, cooking and playing the piano.

Professional Experience

Economic Analyst
- BMW Group, Beijing (Spring 2017)
Host Country Liaison Officer
- National Development and Reform Commission, Beijing (2016-2017)

Xinyue Shi

Xinyue was born and raised in Hubei, China, where she obtained her Bachelor of Management (Financial Management) from Wuhan University. She determined to pursue a career in finance during her international exchange study at the University of Birmingham. At Desautels Capital Management, Xinyue is responsible for the Consumer Staples Sector in which she skillfully applies the financial management principles to solve real-market problems. She aims at conducting further analyses on various business cases after graduation.

Professional Experience

Audit Intern
- Zhongrui Accountancy Firm, Wuhan (2016)
Bank Intern
- China Merchants Bank, Shiyan(2016)

MMF ANALYSTS

Nguyen Quan

Quan obtained his undergraduate degree from Foreign Trade University Vietnam and had a chance to transfer to the US to pursue his degree California State University Fullerton where he found his passion on investment finance. Upon his graduation, he worked as a full time intern at HSBC Vietnam where he covered energy sectors. With this valuable internship, he is able to leverage his knowledge to contribute to the DCM's energy team; Quan is also looking to enrich his experience by learning from resourceful peers and professors

Professional Experience

Wholesales Banking Intern
- HSBC Vietnam (2017)
Risk Management Intern
- PVCombank Vietnam (2015)

Hagen Sagli

Hagen was born and raised in Norway before moving to Calgary, Alberta. In Calgary, Hagen completed a diploma in Energy Asset Management, as well as a Bachelor of Business Administration with a focus in finance and economics. With a passion for finance and the energy industry, he decided to join the MMF program to further expand his understanding of valuation of firms in the energy sector.

Professional Experience

Equity Research Analyst
- Desautels Capital Management (2017)

Sarah Travis

Sarah was born and raised in Toronto. Before attending McGill, she graduated from Queen's University with a Bachelor in Civil Engineering and a Bachelor of Economics. Through her education at Queen's she discovered she had an interest in finance and decided to join the MMF program at McGill. She has previously worked in the renewable energy industry and hopes to build on that knowledge at McGill.

Professional Experience

Intern Analyst (Total Fund Strategy)
- PSP Investments (Summer 2018)
Operations Analyst (Summer 2016)
Engineering Intern (Summers 2013-2015)
- Clear Blue Technologies

Jordan Arnold-Andrasko

Jordan was born and raised in South Texas. He immigrated to Canada in 2011 and graduated from the University of Alberta with a Bachelor of Commerce in 2017. Jordan discovered his passion for finance while attending a corporate finance class during the last semester of his undergraduate degree. Jordan's interest in investment management led him to McGill's MMF program, where he is currently covering the Energy sector.

Professional Experience

Financial Analyst
- ATB Financial (Incoming 2018)
Research Assistant (Winter 2016)
- University of Alberta
Financial Services Coordinator (2014)
- Bank of Montreal
Customer Service Representative (2013)
- Bank of Montreal

Zacharie LeBlanc

Zacharie was born and raised in Moncton, New-Brunswick. He graduated with a Bachelors of Business Administration (Accounting) from the Université de Moncton. His interest in finance grew during his undergraduate studies, which led him to pursue his newly found passion at McGill University. During his free time, Zacharie enjoys playing tennis and hockey.

Professional Experience

Investment Analyst
- Placements Louisbourg Investments (2018)
PricewaterhouseCoopers LLP (Summer 2016)
CFIA (Summer 2015)

Ad augusta per angusta

MMF ANALYSTS

Nicolas Genest

Born in Sept-Îles and raised in the surrounding areas of Montreal, Nicolas earned a Bachelor of Science at Barton College, North Carolina. There, he majored in both Accountancy and Business Administration (finance) while playing on the Barton Bulldogs Varsity Tennis team. Upon graduation, Nicolas stayed involved in tennis by coaching elite players. Besides tennis, he helped manage the family's portfolio with a value-oriented strategy and developed a growing interest for capital markets.

Professional Experience

Investment Banking Summer Analyst
- TD (Summer 2018)
Investment Banking Analyst
- TD Securities, Montreal (Incoming 2018)
Equity Analyst
- Family Portfolio Management, Montreal (2016-2017)
Accountant
- Powrmatic, Montreal (Summers 2014, 2015)

Seyedali Ghaziasgar

During his undergraduate studies, Seyedali took the opportunity of doing a student exchange program at HEC Paris where he completed his master's degree at a top-tier business school. Taking part in the CFA Research Challenge competition, Seyedali realized the significance of hands-on experience in learning. These experiences led him to pursue the McGill's MMF program in which students are privileged to learn from brilliant faculty and apply at DCM. Seyedali covers the Financial sector and is currently a CFA Level II candidate.

Professional Experience

Intern Analyst (Emerging Markets Portfolio)
- PSP Investments (Summer 2018)
Intern-Investment Research Dept. (Sep-Nov 2016)
Intern-Risk Management & AML Dept. (Jul-Aug 2016)
- KAMCO Investment Company, Kuwait

Gabriel Vincent-Girard

Gabriel was born and raised in Trois-Rivières. He graduated from HEC with an Honours Bachelor of Business Administration (Finance) and also studied at National University of Singapore. Before undertaking his finance degree, Gabriel attended the Naval Officer Training Center where he graduated as a Royal Canadian Navy Officer. He worked as a Settlement Manager at Natixis Paris and was responsible for business development at National Bank Financial.

Professional Experience

Consultant
- Deloitte (2018)
Business Development
- National Bank Financial (Summer 2017)
Settlement Manager
- Natixis (Summer 2015)
Maritime Officer
- Royal Canadian Navy (2014-2015)

Ad augusta per angusta

MMF ANALYSTS

Justin Spielman

Justin was born and raised in New York City, where he spent much of his pre-university life focused on studying music. He earned his Bachelor of Arts in economics at McGill, where he became increasingly curious about financial markets and the mathematical study of randomness. In the summer of his senior year, he completed an internship at Agam Capital that solidified his intent to pursue a career in finance.

Professional Experience

Private Equity Summer Intern
– PSP Investments (Summer 2018)
Reinsurance Solutions Intern
- Agam Capital (Summer 2016)
Financial Modeling Intern
- CoPower (Winter 2016)

Adeetya Kaul

Hailing from Mumbai, India, Adeetya obtained his bachelor's degree in Business Administration with a specialization in finance from NMIMS University. Driven to achieve a better theoretical and practical understanding of finance, he decided to join the MMF Program. Adeetya developed a keen interest in finance during his stint as a Financial Analyst, where he researched on various industries and prepared several financial models.

Professional Experience

Private Equity Summer Analyst
- Partner One Capital (Summer 2018)
Financial Analyst
- TresVista Financial Services, Mumbai (2016 - 2017)

Kevin Sun

Born in China and raised in Vancouver, Kevin had always wondered how Adam Smith's "invisible hands" are shaping our economy. Excelling in Math and Physics in high school, he naturally went on to obtain a Bachelor's degree in Computer Engineering from the University of Toronto. His desire to pursue a career understanding and predicting the economy led him to McGill's MMF program. As a financial equity analyst, he conducts research on the health of the banking and capital markets sectors as well as their institutions.

Professional Experience

Technology Analyst
- Institutional Clients Group,Citigroup, Toronto (2016 – 2017)

Equity Research Associate
- Perspectec, Toronto (2017)

Software Engineering Intern
- AMD, Toronto (2015)

Ad augusta per angusta

MMF ANALYSTS

Nika Fall

Born and raised in Indonesia, Kevin graduated with Bachelor of Medicine and Master of Management degree before entering McGill University. He developed a keen interest in finance through managing his family equity portfolio and personal trading. He passed FRM Level II exam in 2017 and is currently a CFA Level III candidate.

Professional Experience

Analyst, Executive Compensation
- Korn Ferry Hay Group, Toronto (2016 – 2017)
Intern, Finance
- Housing Bank of Senegal, Dakar (Summer 2013)

Kevin Yulianto

Dorart was born in Albania grew up in Toronto since the age of ten. He completed a Bachelor of Science with concentrations in Biochemistry & Immunology the University of Toronto in 2014. He then went on to study Medicine at Queen's University before ultimately deciding his true passions lay in the field of quantitative analysis.

Professional Experience

Research Analyst
- Alpine Macro (2018)
Junior Doctor
- Atma Jaya Hospital, Department of Neurology and Oral Health (2017)
Freelance Contributor
- Getty Images (2012- Present)

Dorart Piro

Dorart was born in Albania grew up in Toronto since the age of ten. He completed a Bachelor of Science with concentrations in Biochemistry & Immunology the University of Toronto in 2014. He then went on to study Medicine at Queen's University before ultimately deciding his true passions lay in the field of quantitative analysis.

Professional Experience

Mathematics and Science Teacher
- Ivy Ed Centres for Enhanced Learning, Vaughan (2016-2017)
Medical Research Assistant
- Queen's Cancer Research Institute, Kingston (2016)
Undergraduate Research Assistant, Department of Molecular Genetics
- The Donnelly Centre for Cellular and Biomolecular Research (2012-2014)

Hua Hao (Alex)

He recently completed his Bachelor of Science in Anatomy & Cell Biology with Distinction at McGill University. In 2015, he joined the China-Canada Junior Chamber of Commerce as a member of the Board of Directors. One year later, he founded the Asia-Pacific Youth Entrepreneurship Foundation with the mission of building a cross-Pacific startup ecosystem to connect global opportunities with Canadian ideas. Alex decided to join the MMF program to prepare himself for a career in Venture Capital and Private Equity.

Professional Experience

Consultant
- Immobilier Qube Inc, Montreal (July 2017 – Present)
Marketing and Customer Service Coordinator
- BOBOIS Residential Project, LaSalle (Sept 2016 – Present)
Co-Founder and Vice-President
- GIOLEX Global Inc., Montreal (Mar 2015 – Present)

MMF ANALYSTS

Raphael Doyon

Raphaël pursued a Bachelor of Science in Mathematical and Computational Finance at Concordia University. During his undergraduate studies, Raphaël also completed several internships, where he was able to get exposure to issues arising in different spheres of the financial industry. Those experiences, alongside his interest for asset management, led him to McGill's MMF program, where he currently covers the Industrials sector.

Professional Experience

Fixed Income Analyst (Global Markets Summer Associate Program)
- RBC Capital (Summer 2018)
Winter Analyst, Wealth Management
- National Bank of Canada, Montreal (2017)
Summer Analyst, Risk and Due Diligence
- Innocap, Montreal (2016)
Summer Analyst, Risk and Due Diligence
- Innocap, Montreal (2015)

Mark-Anthony Sagaria

Mark-Anthony graduated with a Bachelor's (B. Eng.) and Master's (M. Eng.) in Civil Engineering from Concordia University and is part of the Quebec Order of Engineers. Upon graduation, he worked in the consulting industry for CANARAIL Consultants. Mr. Sagaria advised provincial governments, Crown corporations, municipalities and mining companies on the technical engineering, procurement and financing of complex capital projects. He is currently pursuing a Masters of Management in Finance.

Professional Experience

Project Manager
- Infrastructure Projects CANARAIL Consultants, Montreal (2013-2016)

Nicolas Clavea

Nicolas was born and raised in the city of Montreal. He graduated in 2015 with a Bachelor of Business Administration (market finance) from HEC Montreal, where his passion for finance began. Throughout his bachelor degree, Nicolas was privileged enough to intern in several companies which enabled him to develop his financial skills and gain substantial knowledge of the capital markets. His internships led him to the McGill's MMF program, where he currently covers the industrial sector for DCM.

Professional Experience

Corporate Credit Summer Analyst
- CDPQ (Summer 2018)
Private Equity Winter Analyst,
- Caisse de dépôt et placement du Québec, Montreal (2017)
Trading and Securities Lending Summer Analyst,
- Caisse de dépôt et placement du Québec, Montreal (2016)
Custody Services Summer Analyst,
- State Street Corporation, Montreal (2015)

Rock Regimbald

Rock was born and raised in Gatineau, but travelled across the province of Quebec as a hockey player. While completing an undergraduate degree at McGill in Economics, he developed an interest in the world of finance through personal incentives to read financial books. Rock desire to learn more about quantitative method and investment strategies in finance led him to join the MMF program and Desautels Capital Management. During his free time, Rock enjoys travelling, playing golf and video games.

Professional Experience

Financial Analyst
- Air Canada (2018)
Financial Analyst
- Government of Canada (2016)

MMF ANALYSTS

Geetanjali Kanwar

Geetanjali was born and raised in New Delhi. Prior to attending McGill, she graduated with a Bachelor of Commerce(Honors) from University of Delhi and worked in accounting and real estate. She enjoys reading about the latest innovations in the IT sector. Driven by an inherent affinity towards finance, she joined the MMF program to attain specialised knowledge in the domain. Upon graduating, Geetanjali hopes to work in capital markets.

Professional Experience

Fall Internship
- BDC Canada (Fall 2018)
Analyst
- Rezone Investment advisors Pvt Ltd (2015 – 2017)
Audit Associate
- Ernst and Young (2014 – 2015)

Inkingi Fred Gatali

Fred graduated with an Honors BBA, specializing in Finance. During his Bachelors, he worked in a portfolio fund as a research analyst and later as a portfolio manager, learning the world of investments. He joined the IT sector after extensive research and interest in financial technology within Canada, in which he published his paper on banking biometrics in an international conference. He hopes to further develop his quantitative skills in the MMF program and leverage his skills to bring out the best performance in DCM and beyond.

Professional Experience

Portfolio Manager
- SEED Portfolio
Research Analyst
- SEED Portfolio
Brokerage Intern
- Global Risk Advisors

Shivi Lakhtakia

She completed her undergraduate degree in commerce from the University of Delhi with a specialization in Finance. She went on to join PwC as an Actuarial Consultant and has worked on various actuarial audits for major insurance companies in UK. At PwC, Shivi also worked on non-traditional actuarial projects such as mergers for companies restructuring their portfolios. This led her to pursue the MMF course at McGill.

Professional Experience

Public Equities Analyst Co-op Intern
- bcIMC (Summer 2018)
Actuarial Consultant,
- PricewaterhouseCoopers LLP UK (August 2015- April 2017)

Shuaibo Huang

Shuaibo is the Co-Chief Operating Officer of DCM, as well as an analyst in the IT sector. He has recently received his Bachelor of Science degree in Computer Science and Psychology from McGill University. His passion for quantitative analysis, technology, and client services led him to the MMF program, where he can combine his interests and knowledge. At DCM, he covers the IT sector investments and oversees its operation.

Professional Experience

Business Intelligence Consultant
- Bell Canada (2018)
Analytic Project Research Assistant
- Faculty of Law, McGill University
Summer Intern
- Marketing Department, Triumph International

Xiang Zhang

Xiang completed an undergraduate degree at Shandong University of Finance and Economics,in Finance. She found her passion for finance and investment after her internship in several financial organizations and decided to joined the MMF program to combine theory into practice. At Desautels Capital Management, Xiang covers the Information Technology Sector and incorporates her knowledge of finance into her investment strategies.

Professional Experience

Bank Intern in Sales Department
- China Everbright Bank, Shandong(2016)

Audit Assistant
- Shandong Yongda Certified Public Accountants, Shandong(2016)

Bank Intern in Credit Department
- Yantai Bank,Shandong(2015)

Ad augusta per angusta

MMF ANALYSTS

Jamie Steinmetz

Jamie completed his Bachelor of Science B.Sc.) in Psychology with a Minor in Interdisciplinary Life Sciences at McGill University. Following the completion of this degree, Jamie's career experiences fuelled his interests in finance and more specifically, the real estate sector. Through the MMF program, he hopes to gain further proficiencies in financial analysis, drawing from his experiences managing real estate and studying behavioural psychology.

Professional Experience

Acquisition Analyst
- CAPREIT (2018)

Junior Property Manager
- Douek Industries (Canada) Inc. (2017)

Consultant to Property Management
- Cote St Luc Building Corp. (CSLBC) (2016)

Operations Assistant
- Westcoast Connection/360 Degree Student Travel (2015-2016)

Erika Savage

Erika was born and raised in Montreal, where she earned a Bachelor's degree in Education with a specialization in mathematics, from McGill University. Erika came to recognize her interest in finance after completing several financial mathematics courses throughout the course of her undergraduate degree. She is currently pursuing her Masters of Management in Finance and hopes to pursue a career in financial consulting, where she can leverage both her quantitative and communication skills.

Professional Experience

High School Mathematics Teacher
- English Montreal School Board (2017, 2018)

Mario Hennessey

Mario completed a Bachelor of Commerce degree at Mount Allison University with a specialization in Accounting and Finance. During his undergraduate degree, he developed a passion for portfolio management. As an intern at Ernst & Young, he also developed a strong understanding of financial statement analysis. Driven to leverage his skill in accounting and knowledge in finance, Mario was inspired to pursue the Masters of Management in Finance program where he would o gain experience as an analyst at DCM

Professional Experience

Wealth Management Associate Program
- Scotiabank (Incoming 2018)
Audit and Tax Staff Professional - Intern
- Ernst and Young LLP (2016)
Customer Service Representative - Intern
- Mabe - General Electric (2015)

Ad augusta per angusta

ANNUAL REPORT 2017

ALPHA SQUARED EQUITY FUND

2017 REVIEW & 2018 OUTLOOK

IRVIN HE

DESAUTELS CAPITAL MANAGEMENT

2017 PERFORMANCE SUMMARY & ATTRIBUTION

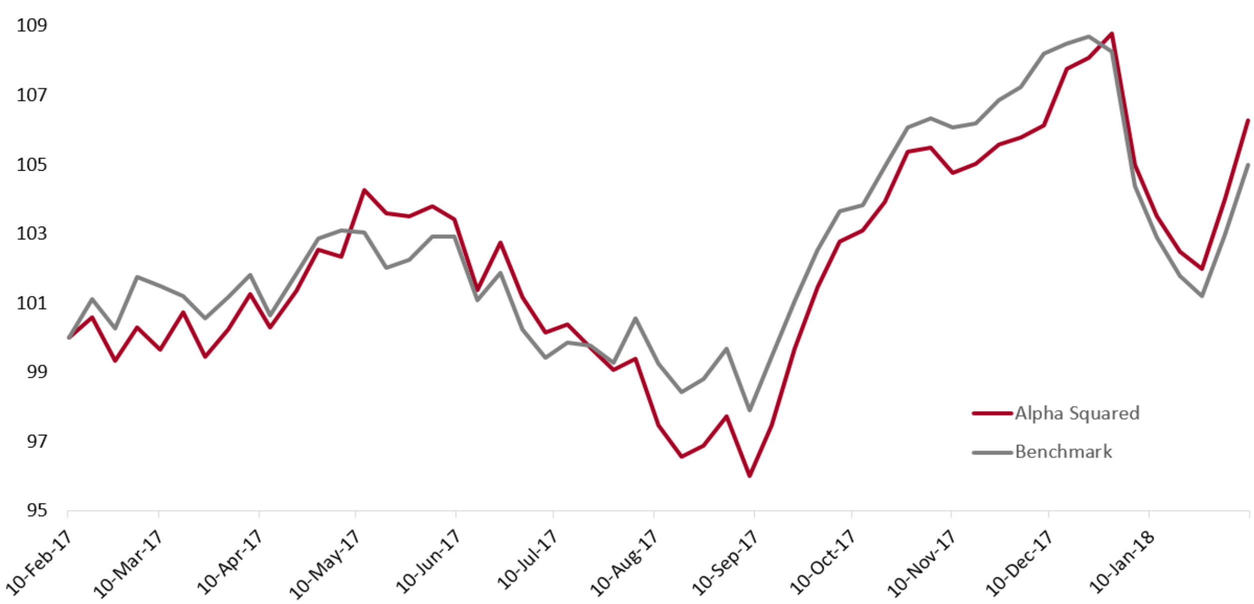
Dear Investors,

The Alpha Squared Equity Fund was launched on Feb 14, 2017, and we are pleased to report that in its first 12 months of operations the fund returned 6.3% gross of fees, compared to 5.7% for our blended benchmark (60% S&P TSX, 40% S&P 500 in CAD). As of June 30, 2018, the Fund is up 13% since inception, representing a 1.2% outperformance. Full details on individual holdings are provided in the sector sections that follow. Risk management remains a key part of our investment process, and a complete analysis is provided in the Risk Management section.

As a reminder, the Alpha Squared Fund selects stocks based on a combination of quantitative signals and fundamental analysis. Our reliance on momentum as a quant signal proved effective this year as the trend following strategy returned to profitability after underperforming in 2016. Our quant team recently developed a new strategy, based on a combination of momentum, value, low vol, and quality. Complete details are provided in the Quant Strategy section.

This year we also started to incorporate Environmental, Social, and Governance (ESG) criteria into our investment decision process. These are important factors that can effect a company's long-run performance and sustainability, and are now a standard element in our fundamental analysis. We are also excited to be launching a new dedicated Socially Responsible Investing fund later this month. Further details are provided in the SRI section.

ALPHA SQUARED EQUITY FUND RETURNS			As of Feb 14th, 2018
Time Period	**Gross Return**	**Net Return**	**Benchmark**
One Year	6.28%	4.80%	5.68%
Q4 2017	1.19%	0.81%	-3.10%
Q3 2017	7.74%	7.47%	6.94%
Q2 2017	-6.51%	-6.91%	-5.01%
Q1 2017	4.27%	3.89%	7.36%



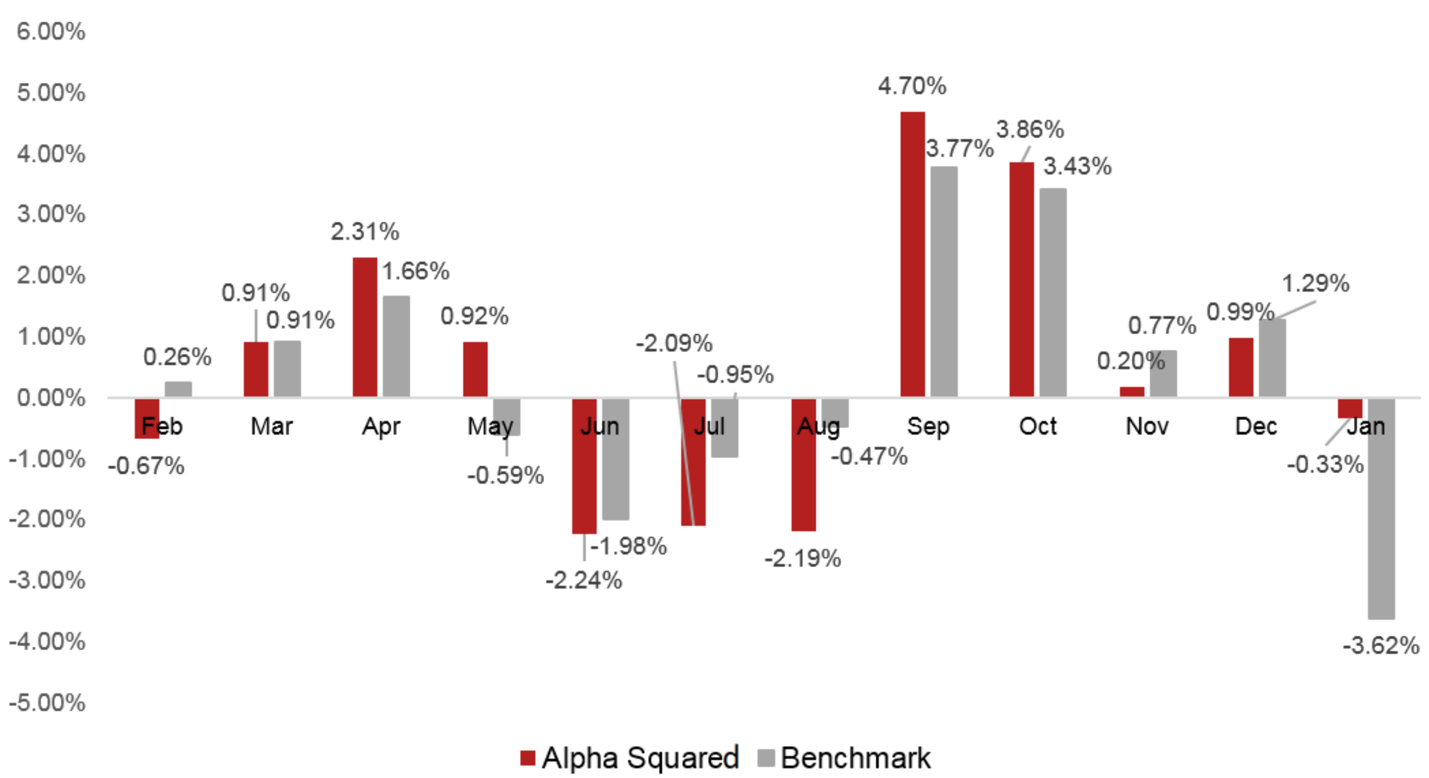
Source: Bloomberg

2017 PERFORMANCE SUMMARY & ATTRIBUTION

Figure 1: Alpha Squared Equity Fund 2017 Sector Returns vs. Sector Benchmarks

Sector Returns			
Sectors	**Sector Return**	**Benchmark Return**	**+/-**
Information Technology	42.62%	20.33%	22%
Healthcare	10.50%	3.67%	7%
Consumer Staples	9.50%	2.80%	7%
Energy	0.97%	-1.24%	2%
Industrials	7.46%	5.87%	2%
Real Estate	3.45%	3.56%	0%
Consumer Discretionary	15.08%	15.31%	0%
Financials	3.40%	4.50%	-1%

Figure 2: Alpha Squared Equity Fund Monthly Returns vs. Benchmark



Source: Bloomberg

2017 PERFORMANCE SUMMARY & ATTRIBUTION

Figure 3: Alpha Square Equity Fund 2017 Sector Allocation

Alpha Squared Equity Fund - Current Sector Allocation			
Sectors	**Alpha Squared Equity Fund**	**Benchmark**	**+/-**
General ETF	15.1%	0.0%	15.1%
Consumer Staples	3.6%	0.0%	3.6%
Consumer Discretionary	11.5%	8.1%	3.3%
USD	0.0%	0.0%	0.0%
Utilities	2.8%	3.4%	-0.6%
Real Estate	1.7%	2.9%	-1.2%
Telecommunication	2.4%	3.7%	-1.3%
Industrials	8.5%	9.8%	-1.3%
Healthcare	4.7%	6.1%	-1.4%
Energy	12.6%	14.2%	-1.6%
Materials	5.1%	8.1%	-3.0%
CAD	2.1%	5.5%	-3.4%
Financials	23.1%	26.7%	-3.6%
Information Technology	6.8%	11.4%	-4.6%
Total	**100.0%**	**100.0%**	

Figure 4: Size Exposure

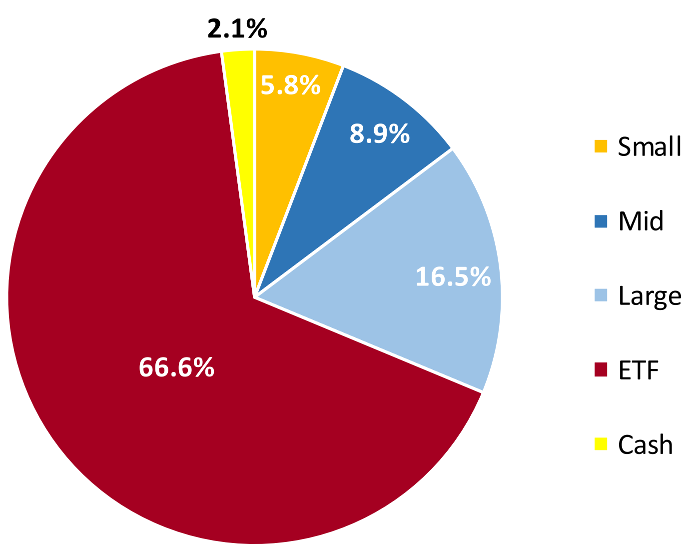
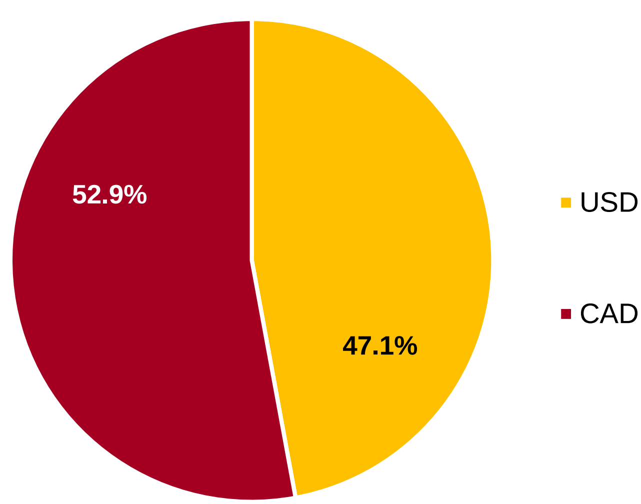


Figure 5: Currency Exposure



Source: Bloomberg

2017 PERFORMANCE SUMMARY & ATTRIBUTION

Figure 6: Alpha Square Equity Fund Holdings List

Alpha Squared Equity Fund - Holdings List as of Feb 14th, 2018									
#	Security Name	Sector	Currency	Size	# of Units	Local Cost/Unit	Local Price/Unit	Market Value	Position Size %
1	iShares S&P/TSX Capped Financials	Financials	CAN	ETF	1630	36.49	38.65	62,999.50	10.8%
2	iShares S&P/TSX 60	Market	CAN	ETF	2515	23.59	24.15	60,737.25	10.4%
3	iShares US Financials	Financials	USD	ETF	370	102.35	119.43	55,550.12	9.5%
4	iShares S&P/TSX Capped Material	Materials	CAN	ETF	2270	14.74	13.58	30,815.25	5.3%
5	SPDR S&P500 ETF Equity	Market ETF	USD	ETF	90	258.56	266.86	30,192.27	5.2%
6	iShares PHLX Semiconductor ETF	Information Technology	USD	ETF	140	141.17	169.81	29,885.54	5.1%
7	iShares U.S. Healthcare	Healthcare	USD	ETF	130	156.74	174.23	28,473.19	4.9%
8	AO Smith	Industrials	USD	Large	355	61.31	61.28	27,347.46	4.7%
9	Valero Energy Corp	Energy	USD	Large	220	67.59	91.91	25,418.81	4.3%
10	Dollarama Inc	Consumer Discretionary	CAN	Large	160	158.24	157.05	25,128.00	4.3%
11	iShares S&P/TSX Capped Energy	Energy	CAN	ETF	1894	12.00	12.27	23,239.38	4.0%
12	Linamar Corp	Consumer Discretionary	CAN	Mid	315	66.62	73.21	23,061.15	3.9%
13	Estee Lauder	Consumer Staples	USD	Large	135	124.07	127.24	21,593.71	3.7%
14	Lions Gate Entertainment -A	Consumer Discretionary	USD	Mid	490	34.12	33.81	20,826.25	3.6%
15	Kinsale Capital Group	Financials	USD	Small	360	43.00	45.00	20,365.02	3.5%
16	WSP Global Inc	Industrials	CAN	Mid	330	37.67	59.91	19,770.30	3.4%
17	iShares S&P/TSX Capped Utilities	Utilities	CAN	ETF	740	22.16	23.04	17,049.60	2.9%
18	Kelt Exploration Ltd	Energy	CAN	Small	2060	7.55	7.19	14,811.40	2.5%
19	iShares US Telecommunications	Telecom	USD	ETF	390	34.21	29.41	14,418.81	2.5%
20	iShares U.S. Energy	Energy	USD	ETF	249	34.58	39.65	12,411.16	2.1%
21	iShares US Technology	Information Technology	USD	ETF	55	147.33	162.77	11,254.00	1.9%
22	iShares US Real Estate	Real Estate	USD	ETF	100	78.20	81.01	10,183.77	1.7%
									100.0%

Source: Bloomberg

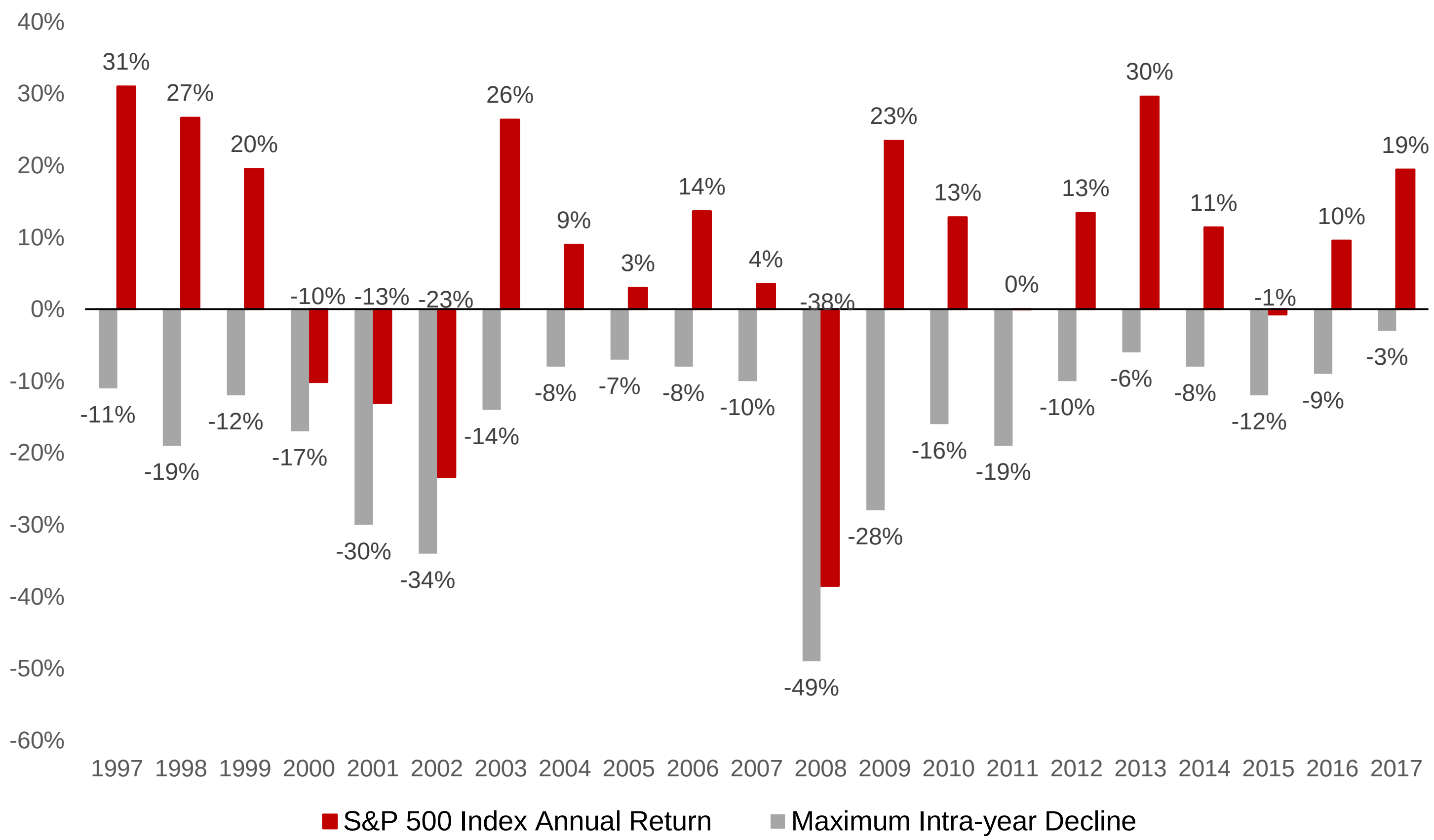
MARKET COMMENTARY

U.S. MARKET OVERVIEW

In 2017, the S&P 500, Dow Jones Industrial Average, and NASDAQ returned 19.4%, 25.1% and 28.2%, respectively, representing their largest annual gains since 2014. This was mainly due to positive earnings surprises, optimism over corporate tax cuts, improving labor market conditions, and big rallies from several tech giants. Even geopolitical tensions from the escalating rhetoric over North Korea did not seem to scare investors, and the second longest bull market ever kept charging ahead.

What was particularly interesting in 2017 was the ultra low equity market volatility. Figure 7 shows the yearly returns of the S&P500 as well as maximum intra-year declines, going back to 1997. While 2017 was only the 7th best year for the index in this sample period, it had the lowest drawdowns. Similarly, the average level of the VIX reached historic lows in 2017. This is not something we would have predicted following President Trump's election.

Figure 7: S&P 500 Index Annual Returns vs. Drawdowns



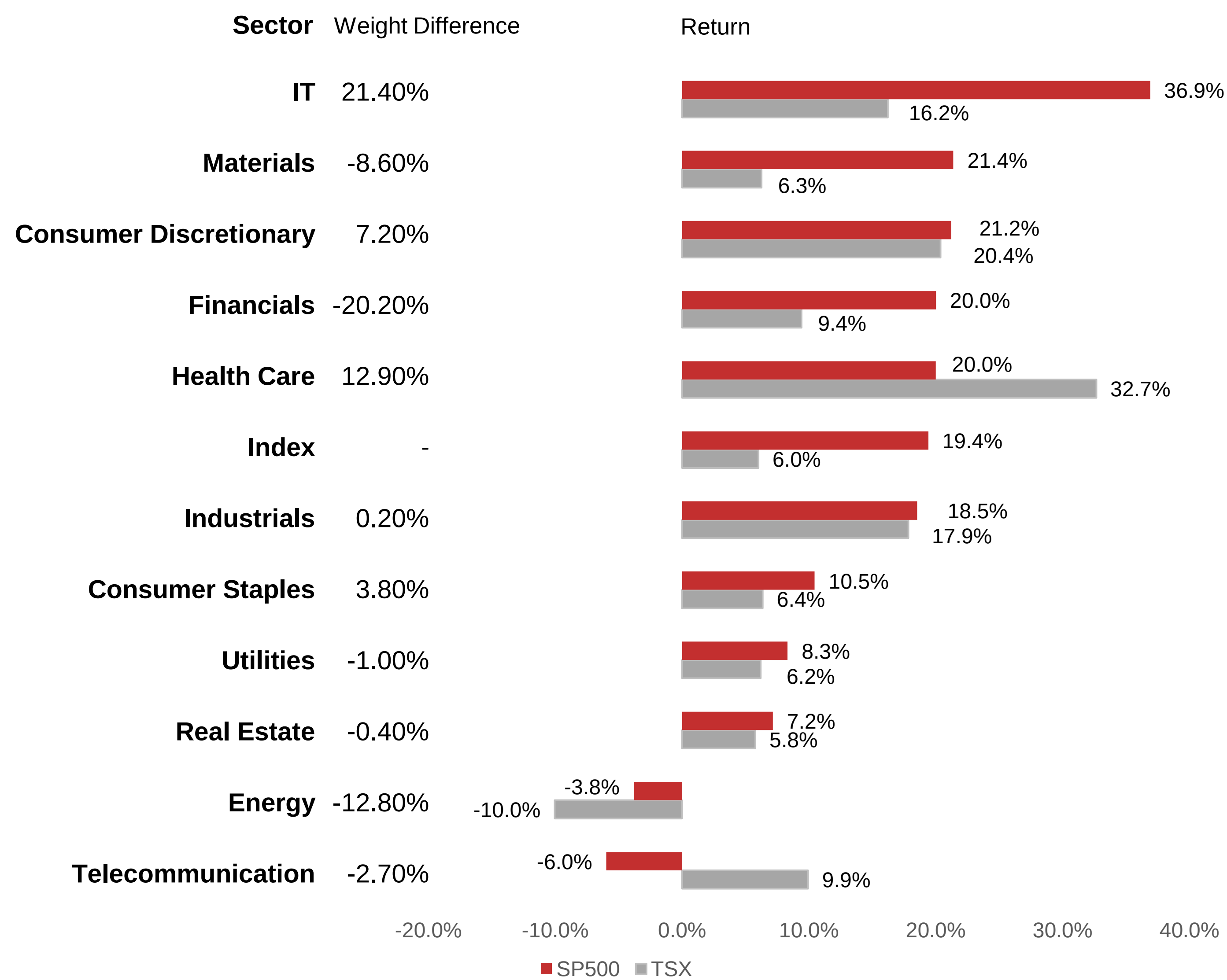
Source: Dow Jones MarketWatch, Financial Times, the Economist

MARKET COMMENTARY

CANADA MARKET OVERVIEW

North of the border, the TSX index returned 6.0% in 2017, not far off the average annual return of 7.5% seen from 2009 to 2016. Canadian equity underperformance vs. the US was partially due to differences in sector weightings (Figure 8). In particular, the Canadian market was hurt by its heavy exposure to Energy and low exposure to IT. The Canadian market also continued to be influenced by external factors: among all the times where the TSX incurred a daily return of more than +/- 0.7%, half were related to energy and commodity price swings, one third were related to news in the U.S., and only the remaining portion were related to Canadian-specific events, including interest rate changes and macro releases.

Figure 8: US and Canada Equity Market Sector Performance Comparison



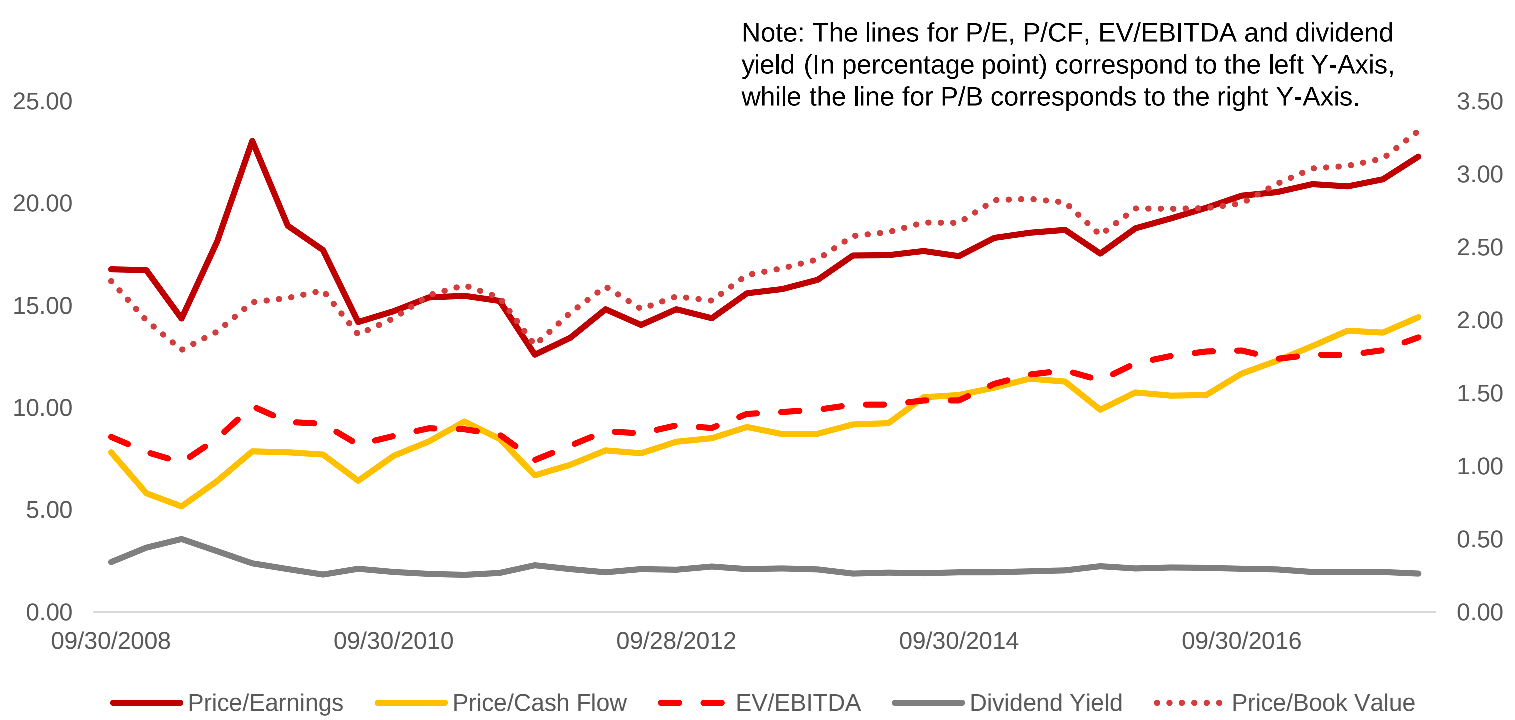
Source: Dow Jones MarketWatch, Financial Times, the Economist

2018 MACRO THEMES

THE END OF THE BULL?

As can be seen in Figure 9, while the dividend yield of the S&P 500 remained approximately steady at 2%, all other valuation metrics have been steadily climbing upward since 2009. As of December 29, 2017, the index's P/E ratio sits at 22.3x, a 33.5% increase from 2009. While rising valuation multiples are a potential warning sign for an impending correction, we believe the multiple expansion since the great recession is justified. The Fed's quantitative easing program lowered interest rates and gave rise to favorable business conditions. Moreover, the economy should also benefit from President Trump’s tax cuts and infrastructure spending proposal, which will further spur economic growth. To be sure, there are two important risk factors that could put an end to this bull market. First, if inflation proves to be be higher than expected, the Fed would be forced to raise rates agressively, which could seriously dampen economic growth. We elaborate on this point further below. Second, a trade war between the US and the rest of the world would likely lead to overall economic inefficiencies and dampen global economic growth. Overall, given the balance of a positive economic backdrop with two important risk factors, we feel equities are priced about where they should be. Looking forward, our focus will remain on rigorous bottom-up stock selection, without the constraints of a strong bearish or bullish bias.

Figure 9: US Equity Valuation Metrics



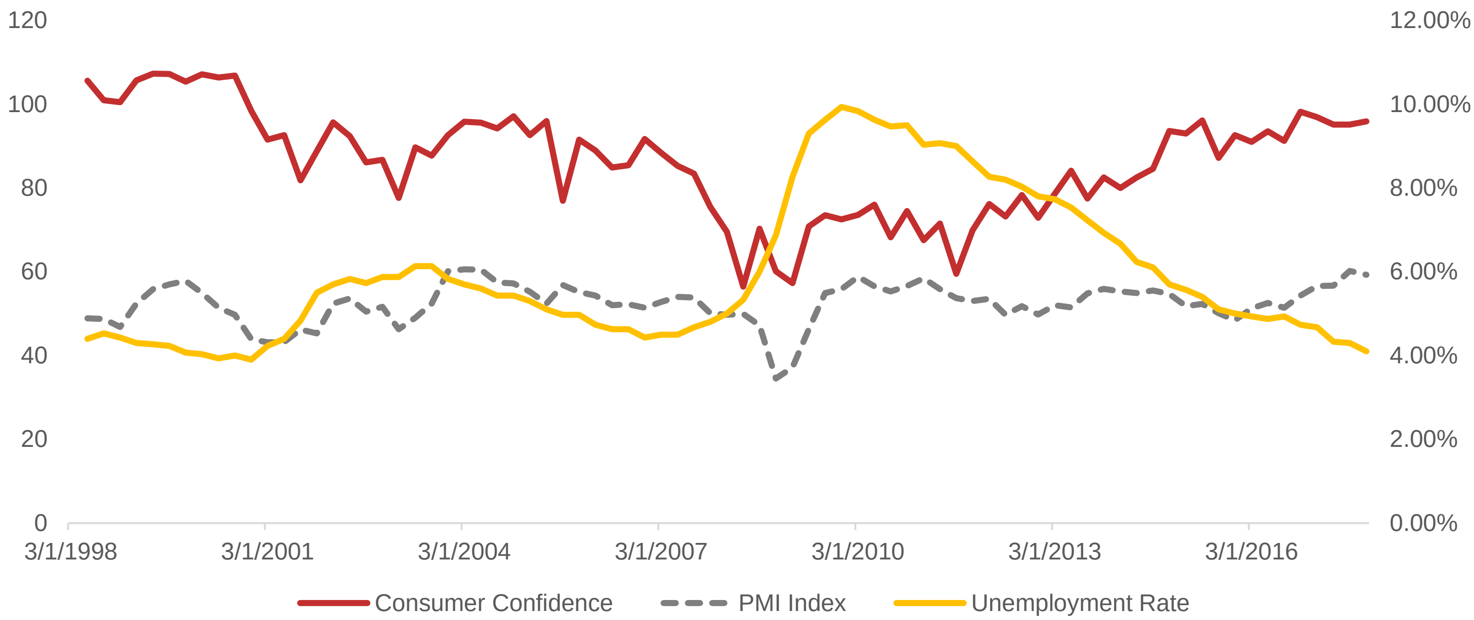
THE YARDENI MODEL

We also note that equities look cheap when compared to corporate bonds, at least based on the *Yardeni Model*. The model compares the index earnings yield to a justified yield, which in turn is a function of the yield on A-rated corporate bonds and consensus 5-year earnings growth projections. According to the model, the justified yield for the S&P 500 is currently 1.6%, compared to an actual earnings yield of 4.30%. The model suggests the index PE should expand to bring the earnings yield down to 1.6%. The model, however, ignores the importance of volatility, and a low volatility environment, like the one seen recently, should typically be more favourable for corporate bonds rather than equities. As such, we take the Yardeni model with a grain of salt, and do not view it as a reason to be particularly bullish. Rather, we view it as a reason to justify not being bearish.

Source: Bloomberg

2018 MACRO THEMES

Figure 10: US Economic Data Historical Trend



TAKING ADVANTAGE OF THE CHANGE IN FISCAL AND MONETARY POLICIES IN THE U.S.

The Fed raised the overnight rate three times from 0.75% to 1.5% in 2017, and the consensus amongst FOMC members is three rate hikes in 2018. Some FOMC members, however, believe it better to wait and implement a more restrictive approach only after seeing sustained higher inflation levels. Currently, inflation hovers barely above the Fed's target of 2.0%. Jerome Powell, with a reputation of being dovish, was appointed to be Janet Yellen's successor as the chairman of the Federal Reserve. Overall, our view is that the Fed will retain a dovish approach, and will avoid raising rates too aggressively, reducing the likelihood of a hard landing for U.S. equity markets in this rate tightening cycle.

A steady and measured rate increase could benefit the financial sector in particular, as higher rates tend to be associated with higher net interest margins. Corporate tax cuts are expected to further benefit the financial sector as increased free cash flows could potentially increase M&A activity.

Source: Bloomberg

2018 MACRO THEMES

UNCERTAINTY OVER RATE HIKES IN CANADA

The Bank of Canada raised rates two times in 2017, from 0.5% to 1.0%, and the market is pricing in another three hikes in 2018. This tightening comes against the backdrop of higher inflation, wage increases, low unemployment, strong purchasing manager index figures, and high GDP growth. The tightening policy could, however, face an abrupt halt if NAFTA negotiations were to show signs of deterioration, and/or the Trump administration were to impose more protective tariffs, putting the Canadian economy at risk.

With Stephen Poloz's repeated comments about increasing debt levels in Canada, many fear that the expected rate hikes could hurt consumption and investment. Indeed, the average Canadian household faces a debt-to-disposable income ratio of 155%. However, the full-time employment rate in Canada along with the prime working-age population are also increasing steadily. This suggests a limited negative impact on the Canadian banking sector, as households are still showing a strong ability to absorb higher interest rates.

Complete Sector Outlooks and individual stock holdings are discussed in the Sector Sections of this report.

Source: Bloomberg, National Bank of Canada, Federal Reserve Bank of St.Louis

ANNUAL REPORT 2017

QUANT STRATEGIES

2017 REVIEW & 2018 OUTLOOK

JUSTIN SPIELMAN
SARAH TRAVIS
SEYEDALI GHAZIASGAR

DESAUTELS CAPITAL MANAGEMENT

QUANTITATIVE STRATEGY

TWO-TIER INVESTMENT PROCESS

Since its inception, the Alpha Squared Equity fund has used a two-tier model for its investment decisions that merges quantitative filtration with fundamental analysis. This allows us to incorporate top-down views on data-driven indicators into our investment process.

Our quantitative strategy operation has two core phases: research and implementation.

In our research, we source ideas from practitioners and academic literature. Before implementing a quantitative filter, we subject it to a rigorous historical performance analysis, or backtest, using historical data. The ultimate goal of the backtesting process is to observe how a given strategy would have performed relative to a benchmark as we vary its sensitivity or behavior along different dimensions.

Our backtests are programmed with careful attention to how our design choices might introduce biases into our conclusions. We also ensure that the automated behavior in our backtests does not conflict with our fund's mandate; that is, we produce long-only equity strategies with medium-to-low turnover.

In the implementation phase, we specify screening methodologies that each team of analysts uses to focus their opportunity set when evaluating potential investments. Generally, this means specifying minimum relative scores in a given quantitative indicator above which a stock becomes eligible for selection. This is known as setting an "entry signal". We also derive "exit signals" from scores below which a stock must be sold. It is important to note that, while our exit signals are non-discretionary, a stock may still be sold under other conditions; our analysts may rule that the stock has reached its target price, or that the thesis underlying its purchase no longer holds.

HISTORY SINCE INCEPTION

In our first year since fund inception, we implemented a momentum filter that marked the beginning of our foray into factor investing. In this pure momentum strategy, we assigned each stock a score based on its trailing returns between one year and one month from the screening date. This filter specified a top-tercile entry rule and a bottom-tercile exit rule. As our first hallmark strategy, this filter was used by both the first and second cohorts of analysts in the Alpha Squared Equity Fund.

We also implemented a pairs trading filter designed to identify exploitable deviations from long-run correlation within stock pairs. Specifically, we identified pairs of stocks with historical log-price series that were both integrated of order 1. We then constructed stationary linear combinations of these series. Whenever the pair's log-price ratio deviated from its mean by more than two standard deviations, we bought the relatively underpriced stock, and held the position until the log-price ratio returned to its long-run expectation.

ACTIVE BETA FILTRATION

Beginning in March 2018, we will be implementing an Active Beta filter with the intention of building on the factor-based precedent set by our pure momentum strategy. Rather than giving the momentum factor sole priority in the screening process, this strategy will also incorporate value, low-volatility, and profitability factors.

As a default, this filter computes a final score for each stock as an equally-weighted average of its four factor scores, where higher final scores are more favorable. As a result of this filter's mechanical similarity to pure momentum, its planned entry and exit rules are also top-tercile and bottom-tercile, respectively.

QUANTITATIVE STRATEGY

OVERVIEW OF FACTOR INVESTING

The volatility factor compares stocks based on the volatility of their trailing twelve-month returns, and scores lower-volatility stocks more highly. Under the standard logic of Modern Portfolio Theory, we would expect assets with lower volatility to provide lower returns, because pricing would directly reflect risk compensation. Empirically, however, we observe the opposite over several measures and intervals. Baker, Bradley, and Wurgler (2010) frame this anomaly using behavioral models. In one interpretation, demand for high-volatility assets is persistently biased upward due to a preference among investors for “lottery” payoff dynamics; due to their limited liability, equity investors receive skewed payoff profiles with remote probabilities of large returns. Similarly, assuming that “[applying] Bayes’ rule is not an ingrained skill”, investors may underappreciate the probability of failure in high-risk assets. They also frame the anomaly in terms of limits to arbitrage, arguing that institutions with the most power to extinguish the low-volatility anomaly are implicitly restricted by benchmarking to information ratio evaluations.

Within the quality factor, we score stocks based on their last-reported Return on Assets (ROA). Higher-ROA stocks are scored more highly. The literature of the quality anomaly, like that of the low-volatility anomaly, reconciles the persistent outsize risk-adjusted returns to portfolios that select stocks based on the strength of their fundamental ratios with the efficient markets hypothesis. Generally, hypotheses that attempt to link the quality factor’s excess returns to risk compensation using the operational risk of its constituents’ projects are poorly supported by empirical evidence.

Bouchaud et al. instead relate the anomaly to analysts’ behavioral tendency to systematically underweight information about fundamental indicators when forecasting returns (2016). That is, they find that the observed errors between analyst forecasts and average realized returns are predictable based on public information, and that these forecast errors are negatively correlated with quality indicators.

Within the value factor, we rank stocks based on their last-reported market-to-book ratio, where lower ratios are scored more highly. Chen and Zhang (1998) argue that outsize returns to the value factor are economically justifiable given that they generally have depressed earnings, high financial leverage, and accordingly, substantially uncertain future earnings. They borrow from Fama and French (1995), who present empirical evidence against the claim that returns to the value factor are driven by investors underappreciating a tendency for recently depressed earnings to mean-revert, and instead show that firms with high Book-to-Market ratios tend to be persistently distressed. Chen and Zhang also illustrate that the value factor’s performance is stronger in more developed, lower-growth markets; for example, its returns are persistent in North America, but are significantly weaker in Taiwan and Thailand. This is analogous to arguing that all assets’ market betas tend to converge in “good” times; in higher-growth macroenvironments, the risk differential between value and non-value assets is smaller.

Sources: “Understanding the Low Volatility Anomaly” (Baker et al. 2010), “The Excess Returns of ‘Quality’ Stocks” (Bouchaud et al. 2016), “Risk and Return of Value Stocks” (Chen and Zhang 1998), “Size and Book-to-Market Factors in Earnings and Returns” (Fama and French 1995)

QUANTITATIVE STRATEGY

The momentum strategy described above has similar roots in factor literature. Jegadeesh and Titman (1993) reject the claim that its returns are attributable to investors' underreaction to information releases, primarily by citing evidence that short-run return persistence tends to be followed by longer-run return reversal. As an alternative to this logic, they propose that "positive feedback" traders, or momentum traders, help to force return persistence. They also propose that investors tend to underreact to information about short-term performance, while overreacting to information about long-term performance. This is consistent with the intuition that investors generally evaluate firms' short-run and long-run potential in very different structures.

STRATEGIC BENEFITS

A multi-factor approach allows us to easily diversify our factor exposure. Following long-only ETFs that proxy the performance of factor strategies in the American market, we can see the time-varying behavior of these strategies. In the equity market correction of early 2018, for instance, we can see that the momentum factor outperformed the market, while the value factor underperformed (Figure 1). Between 2013 and 2017, we can see that the low volatility factor has generally performed in line with the market, given shorter-run performance cycles (Figure 2).

We find Active Beta investing attractive for two main reasons. First, it fits extremely easily into a low-turnover, long-only mandate. Second, and most importantly, it paves the way for us to experiment with macro-level factor timing techniques. This strategy recognizes that the any factor-based portfolio design decision is inherently active, and provides flexibility accordingly.

Note that factor strategies are an inherently indirect way of targeting the underlying drivers of asset returns; consensus is rare in the factor literature, and as a result, consensus frameworks for explaining the time-varying risk premia that these strategies are designed to harvest are also rare. From our perspective as investors, this implies a strong incentive to develop proprietary factor timing strategies to exploit these imprecisely-understood dynamics.

Figure 1: Long-Only Momentum, Long-Only Value v. S&P, January-February 2018

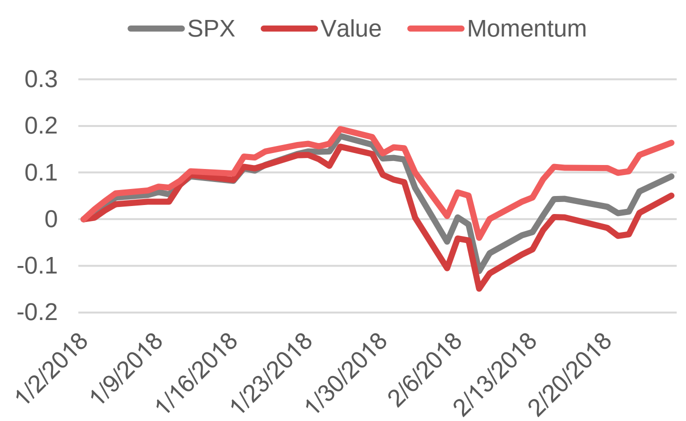
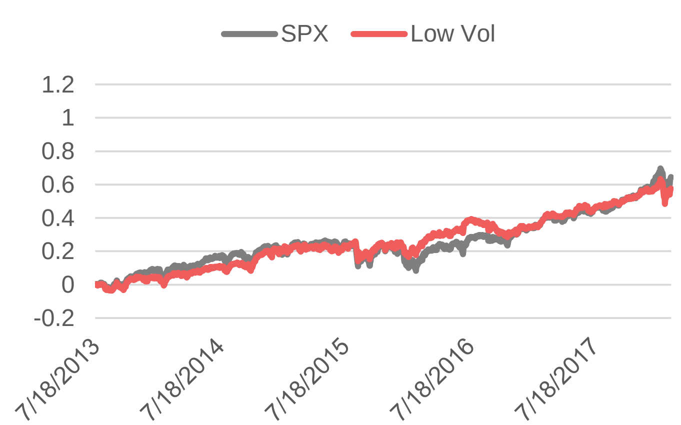


Figure 2: Low Volatility v. S&P, 2013-2017



Sources: "Returns to Buying Winners and Selling Losers" (Jegadeesh and Titman, 1993)

ANNUAL REPORT 2017

RISK MANAGEMENT

2017 REVIEW & 2018 OUTLOOK

KEVIN YULIANTO

DESAUTELS CAPITAL MANAGEMENT

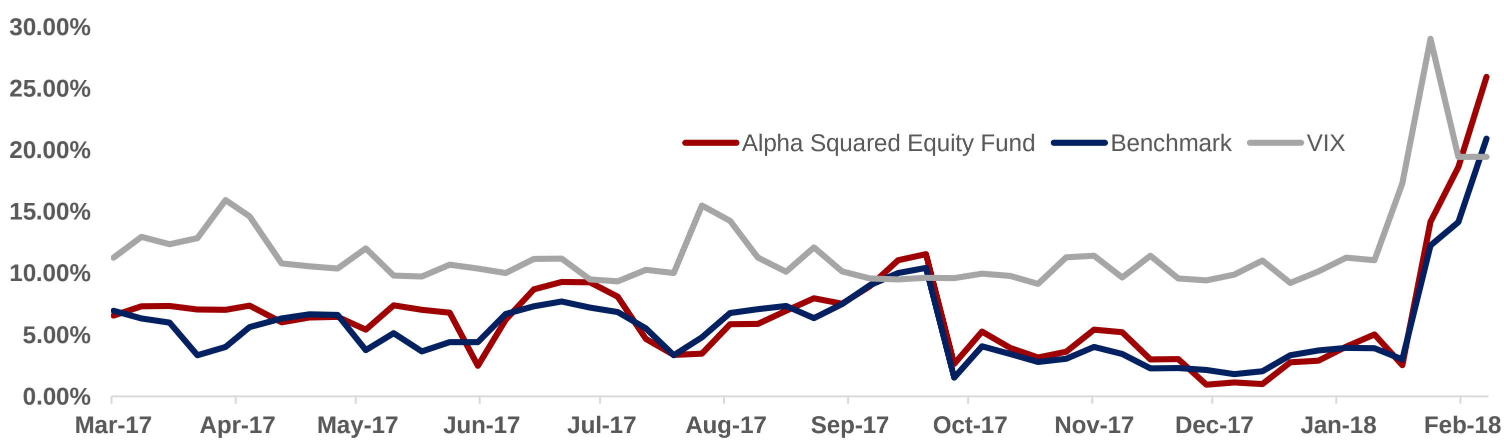
RISK MANAGEMENT
INTRODUCTION

Benjamin Graham once said, “The essence of investment management is the management of risks, not the management of returns”. In managing the risk exposure of our portfolio, we utilize the risk management tools outlined in this section to make investment decisions and monitor our holdings. Our quantitative analyses include rolling volatility, rolling beta risk exposure, and Value-at-Risk (VaR) metrics.

1 Year Equity Performance Metrics	Alpha Squared Equity Fund	Benchmark
Gross Return Since Inception	6.27%	5.68%
Net Return Since Inception	4.80%	5.68%
Annualized Standard	10.29%	8.77%
Sharpe Ratio	0.50	0.52
Beta	1.09	
Annualized Alpha	0.10%	
Weekly Tracking Error	0.50%	

In our first year of operations, our fund realized an annualized standard deviation of 10.29%, versus 8.77% for our benchmark. Figure 1 shows the 1-month rolling volatilities of the Alpha Squared Equity Fund against our benchmark. Volatility had been fairly muted and trended lower in 2017, with the exceptions of abrupt increases in April and August 2017 due to tensions in Syria and North Korea. However, the increase in expected inflation at the beginning of 2018 brought the end of low volatility period as North American stock market corrected on two consecutive weeks, before rebounding in the second week of February.

Figure 1: DCM Alpha Squared Equity Fund 2017 Annualized 1-Month Rolling Volatility



Portfolio Asset Allocation and Beta Risk Exposure

The Alpha Squared Equity Fund’s 2017 beta to its benchmark was 1.09, which is within with our risk tolerance. We also monitor beta exposures to various factors including the WTI spot price, the USD CAD exchange rate, and various market indices based on monthly ending portfolio composition, which allows us to visualize and structure risk exposures as we change our portfolio allocation.

To monitor our risk exposures, we simulate 12 months of trailing portfolio returns using the weighting and composition observed at the end of each month. These simulated monthly returns are then regressed against key risk factors to calculate factor betas using 12 months of data (Figure 2).

**Inception date for Alpha Squared Equity Fund is February 14th 2017*

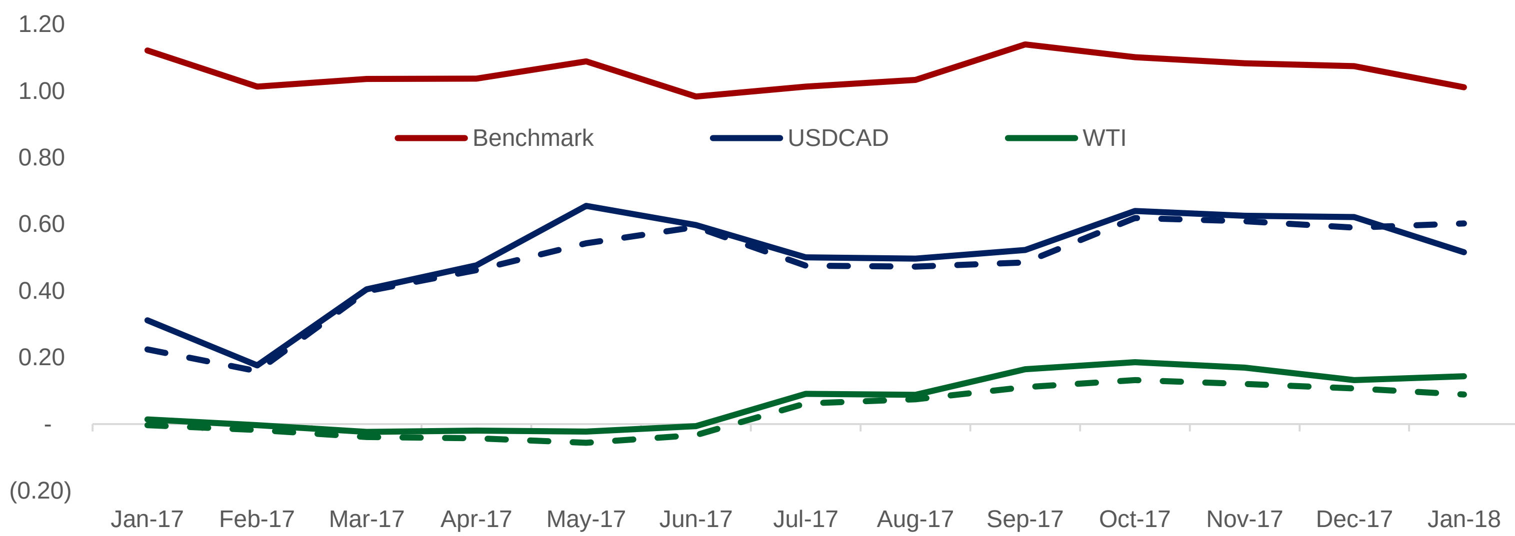
***Benchmark is calculated as the total return of TSX * 60% + total return of S&P500 * 40% adjusted by the USDCAD currency value. The benchmark is rebalanced on a weekly basis to prevent excessive drift on the benchmark weight.*

RISK MANAGEMENT

The calculated rolling betas show how our portfolio's current exposures to various risk factors change over time. Using the simulated returns for the last 1 year, our portfolio exposure to the benchmark decreased from a 1-year beta of 1.12 In January 2017 to 1.07 in December 2017. Meanwhile, the fund's exposure to WTI increased, consistent with the benchmark, from 0.01 in January 2017 to 0.13 in December 2017. This could be explained by the fund overweighting the energy sector by 1.14% compared to the benchmark and oil's price recovery in the Q4.

During the same period, our exposure to the USD CAD increased from 0.31 to 0.62. Relative to the benchmark, the Alpha Squared Equity Fund overweighs its USD allocation by 12.22%, exposing the fund to downside risk from depreciation of the USD against the CAD, but at the same time act as a buffer during market correction when USD strengthen against major currency pairs.

Figure 2: 1-Year Rolling Beta Based on Month-End Holdings



Portfolio Value-at-Risk

VaR is the most common tool used in financial institutions to monitor and manage the downside risk of a portfolio. Simply defined, VaR x% is the minimum loss that we can expect to happen x% of the time. VaR has three components: the loss size, the probability of a loss greater than or equal to the specified loss size, and a time frame. DCM monitors its 1-Day 1% VaR and 1-Day 5% VaR using two different models: historical simulation and a parametric approach. Details of the results are presented in Table 1.

Method	1-Day 1% VaR		1-Day 5% VaR	
	DCM	Benchmark	DCM	Benchmark
Historical Simulation	1.19%	0.99%	0.76%	0.66%
Parametric Method	1.15%	1.06%	0.79%	0.73%

Table 1: Alpha Squared Equity Fund Value-at-Risks as at Dec 31, 2017

Source: Bloomberg

RISK MANAGEMENT

To calculate VaR based on the parametric approach, we use a t-distribution to reflect the non-normal nature of stock returns. The 1% VaR is derived from standard deviation of the portfolio returns in the last 12 months multiplied by the t-value, which depends on the degree of freedoms and confidence intervals.

Figure 3: Alpha Squared Equity Fund Historical Simulation as at Dec 31, 2017

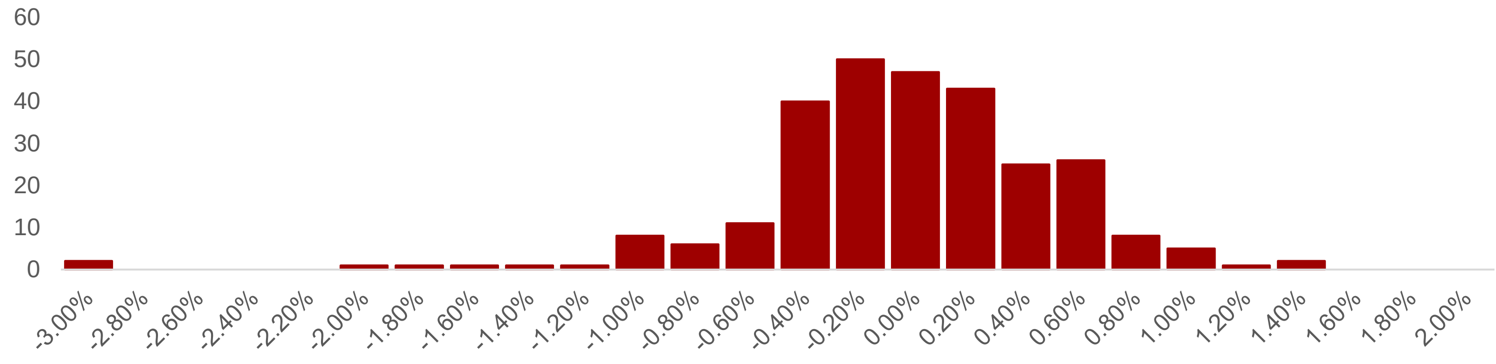
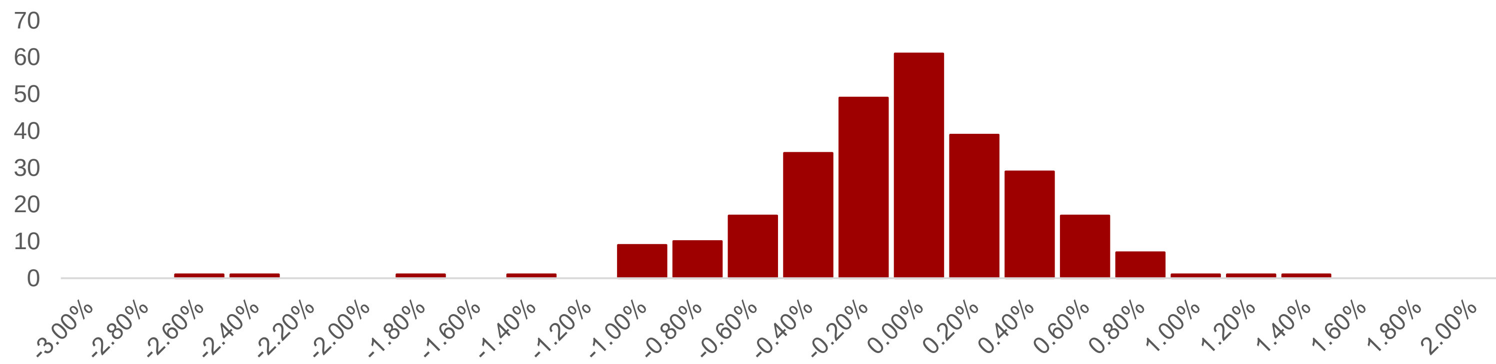
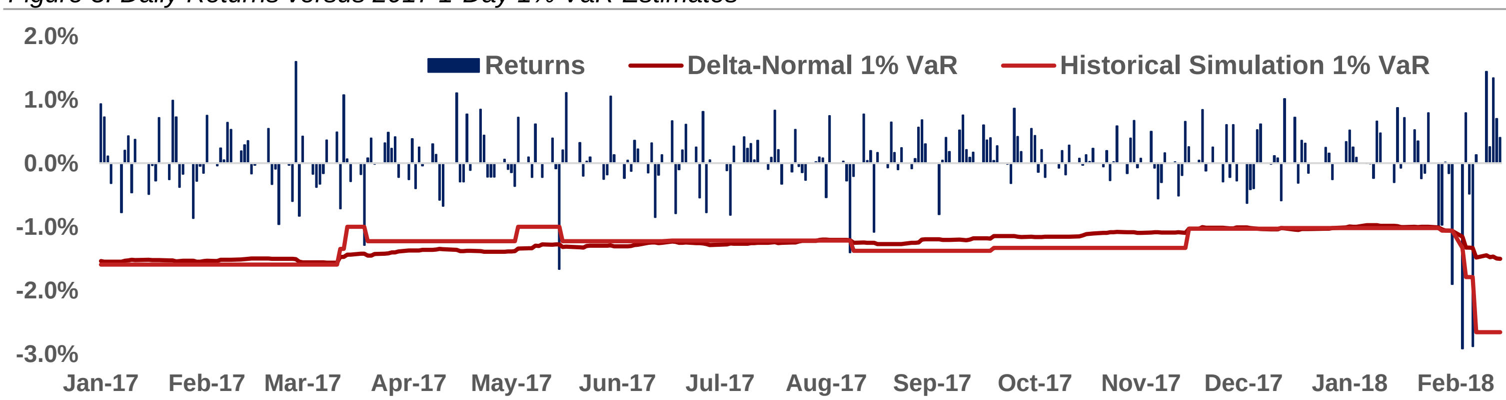


Figure 4: Benchmark Historical Simulation as at Dec 31, 2017



Our fund violated the 1-Day 1% VaR based on the historical simulation and parametric approach six times in the first year of operations. Meanwhile, the benchmark violated the 1-Day 1% VaR four time and five time, based on the historical simulation and parametric approach. The violations were mostly occurring during the market correction in the beginning of 2018, which occurred after a long period of low market volatility.

Figure 5: Daily Returns versus 2017 1-Day 1% VaR Estimates



Source: Bloomberg

RISK MANAGEMENT

Contribution to Portfolio Variance

In addition to monitoring portfolio volatility, beta exposures, and downside risk, we also monitor the contribution of individual holdings to overall portfolio variance. Component Variance (Cvar) allows us to understand which of the portfolio holdings contribute the most to risk. Each stock's contribution to portfolio variance is based on that stock's weighting, variance, and covariances to all other stocks. Contributions to portfolio variances are then normalized to sum up to 100%. Results are shown in Figure 6.

The portfolio variance is rooted in many sectors, although financials, energy, and consumer discretionary are the top three contributors. Volatility in the financials sector was primarily caused by the surge in financial stocks following tax cut agreements in the US. Meanwhile, volatility in the energy sector resulted from conflicts in Middle East that caused an appreciation of oil prices. Aside from monitoring each individual stock's contribution to portfolio variance, we also compare the variance contribution of each sector to its weight in the portfolio, as shown in Figure 7. In conclusion, we do not observe disproportionately significant risk contribution from any of the sector that is above our risk tolerance.

Figure 6: Contribution to Portfolio Variance (%)

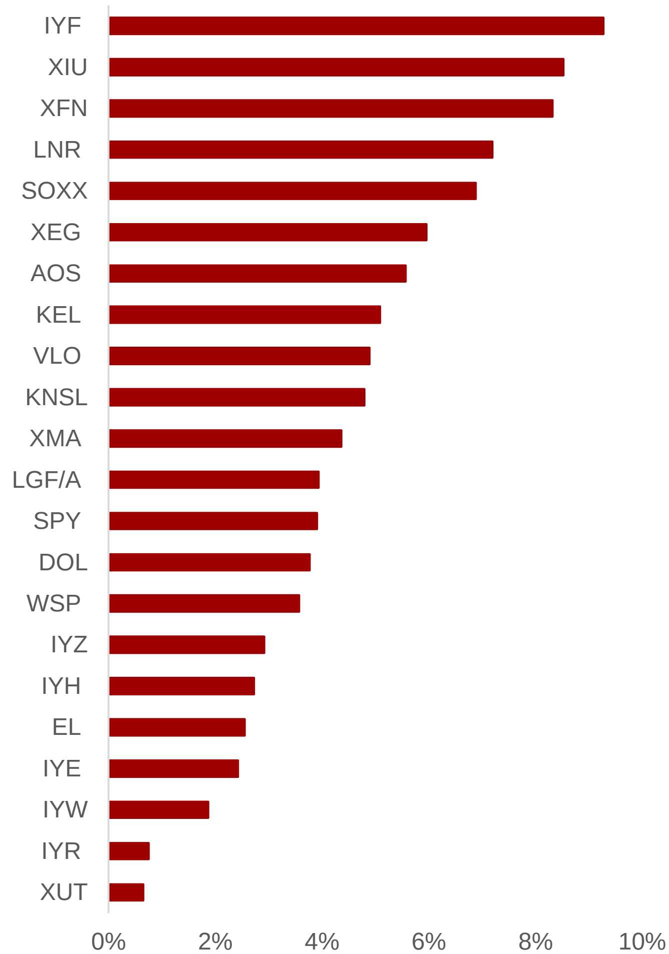
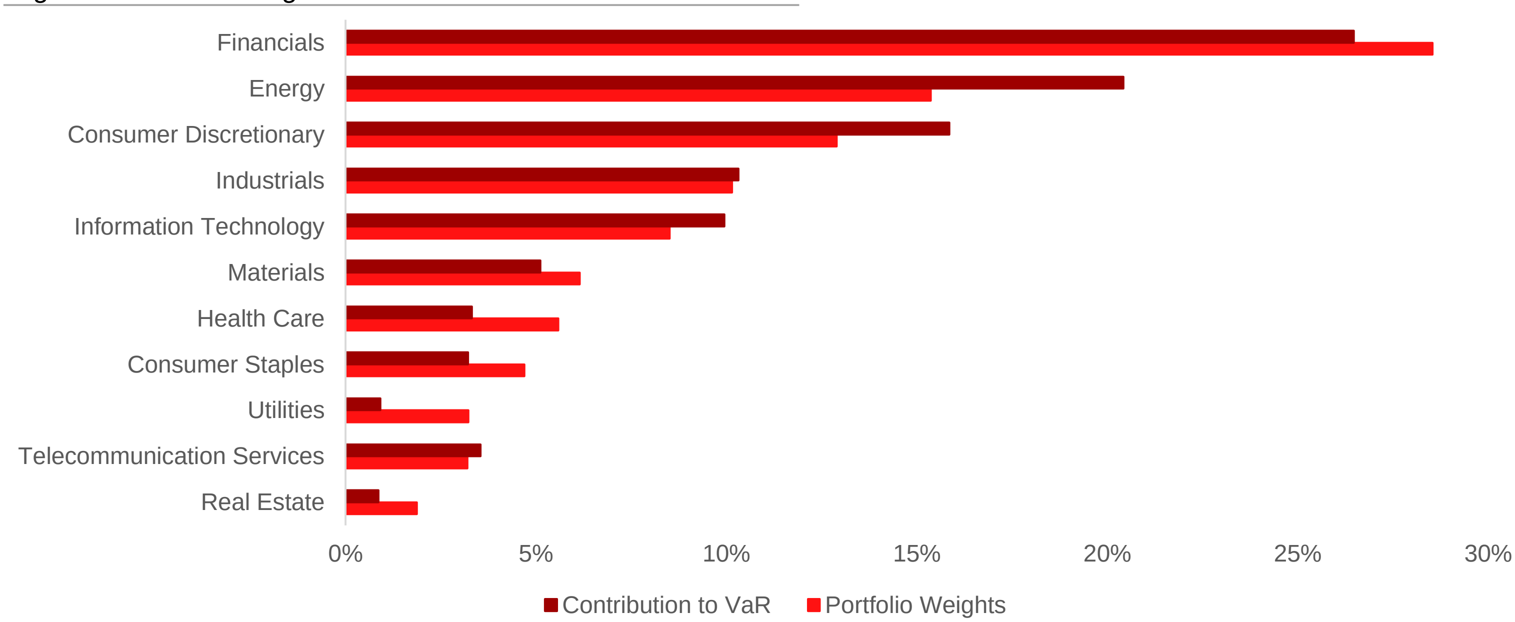


Figure 7: Portfolio Weights and Contribution to Variance



Source: Bloomberg

ANNUAL REPORT 2017

SOCIALLY RESPONSIBLE INVESTING

2017 REVIEW & 2018 OUTLOOK

DORART PIRO
JULIE HAZARD
SARAH-ANNE BRAULT
SHUAIBO HUANG
SIMRANJIT SALUJA

DESAUTELS CAPITAL MANAGEMENT

SOCIALLY RESPONSIBLE INVESTING

WHAT IS SRI?

Background

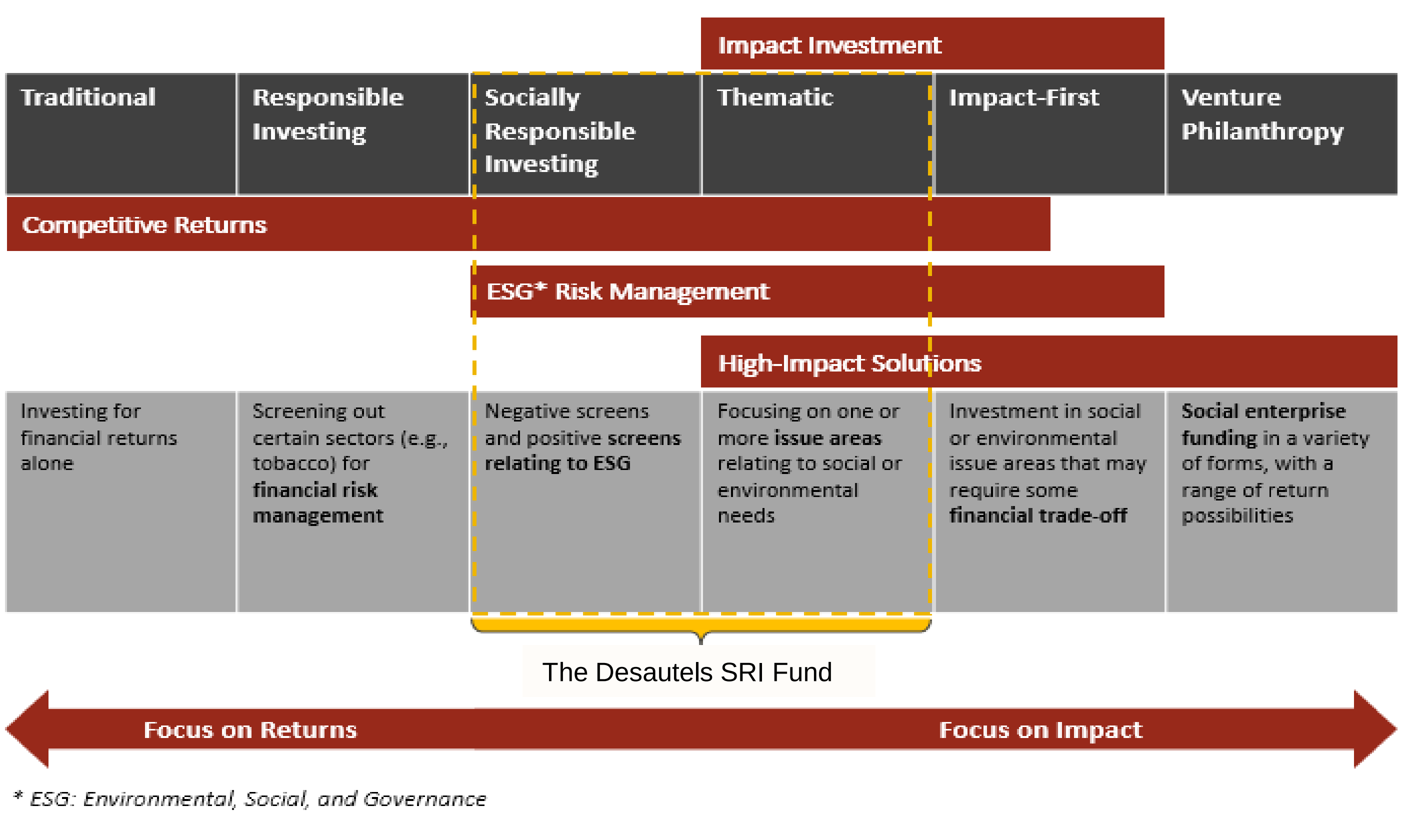
Over the past few years, more and more investors are thinking about their investments not only in terms of financial return, but also in terms of social and environmental impact. It is estimated that close to $9tr of AUM are currently allocated to strategies that incorporate some degree of social responsibility, representing a 33% increase over the past 2 years.

The figure below illustrates the spectrum of Socially Responsible Investing. On one extreme, social philanthropy is focused on the social and environmental impact of its investments, with relative disregard for financial performance. At the other end of the spectrum, we find traditional investing, which focuses solely on financial gains.

Most SRI investing is situated in the middle ground, where financial returns are important, but certain screens are used in order to avoid companies that engage in unethical business practices. One goal of SRI is to encourage companies to act responsibly, as good corporate citizens.

Three of the most common criteria that are considered in socially responsible investing are Environmental, Social, and Governance, known as ESG. Environmental factors include pollution, climate change, and sustainability. Social factors include human rights, working conditions, diversity, and consumer protection. Finally, Governance is concerned with management structure and the extent to which that structure promotes the long-term sustainability of the company.

Socially Responsible Investing Spectrum



SOCIALLY RESPONSIBLE INVESTING
WHAT IS SRI?

Assessing ESG Performance

There are several tools that can be used to assess the ESG practices of a particular company or their dedication to improving their environmental and social impact. Sustainalytics, the major player in the industry, has rated over 7000 public companies. Indices such as the Morningstar Sustainable Benchmark Series, the S&P/TSX Renewable Energy and Clean Tech Index, the Stoxx Global ESG Leaders Index, as well as the Jantzi Social Index, all use Sustainalytics ratings to find the best in class for each sector. Sustainalytics rates companies on a multitude of factors, ranging from water usage to diversity of the board to reach a final number.

RobeccoSam is another important player in the industry, with over 3000 companies under review each year. The rating process includes a survey where each company answers 80-120 questions, which is then used to assess 600 data points, over 3 dimensions and 60 industries.

Most SRI/ESG funds are based on either positive screens, negative screens, or a combination of both. A typical negative screen would be to entirely avoid companies where more than 5% of revenues come from sales of goods such as tobacco, alcohol, nuclear power, GMO’s, or military contracting.

Positive screens are slightly harder to implement, as they require seeking out companies that have demonstrated a proven track record or ESG initiatives, or those who have policies in place to encourage, diversity, community involvement, sustainable production, etc...

Industry ranking allows companies that may inherently score lower on the environmental scale (such as in the oil and gas sector) to be compared to their peers rather than the entire universe of companies. As a result, investors who don't want to shun an entire industry can still select the best ESG-based companies within that industry.

Source: Bloomberg

SOCIALLY RESPONSIBLE INVESTING

WHAT IS SRI?

Historical risk and return

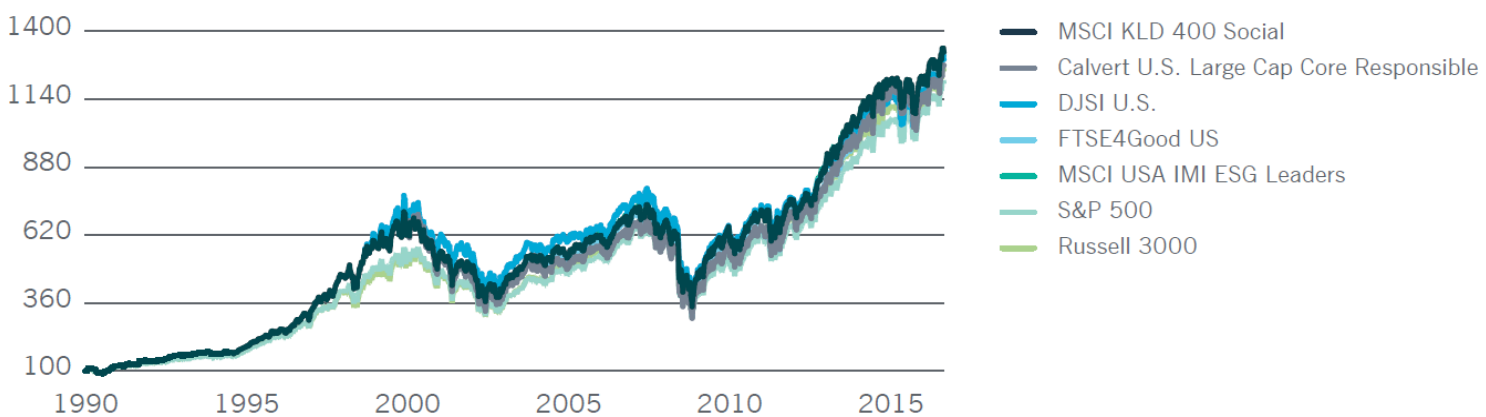
A number of research papers have focused on ESG fund performance. Most studies conclude that incorporating ESG criteria into the investment process does not negatively impact returns. For example, in the TIAA report titled "Responsible Investing: Delivering competitive performance", it was found that "no statistical difference in returns" exist between SRI equity indexes and traditional benchmarks. As another example, Managi, Okimoto, and Matsuda (2012) similarly found that "Investors can take ESG criteria into consideration without sacrificing risk or return."

Standard finance theory would suggest that limiting the investment opportunity set would limit the benefits of diversification and lead to subpar risk-adjusted performance. The above studies, however, suggest that sufficient diversification can be achieved, even when screening companies based on ESG criteria.

To be sure, in order to ensure that an ESG fund is adequately diversified, investors must be careful on how their portfolios are constructed. As an example, a fund invested exclusively in wind power companies would certainly not be well-diversified. In short, prudent risk management remains a key component of SRI/ESG-based investing.

It is tempting to state that companies with good ESG criteria should necessarily be good investments. For example, shouldn't companies with better governance produce better stock returns than companies with poor governance? Maybe, but not necessarily. What matters, as is generally the case, is what is *priced in the market*. It could be that those companies with good corporate governance already trade at a premium because the market is correctly pricing in their superior governance. As such, one would not expect governance quality to predict future returns. Indeed, SRI investors should even be wary of a potential SRI bubble, if investors indiscrimantely bid up the price of highly ESG-rated stocks simply because they have high ESG scores. To protect against this risk, SRI investors should also base their investment decisions on rigorous fundamental analysis, concrete valuation, and proper due diligence.

Cumulative Returns: Five U.S. SRI Indexes vs. S&P 500 and Russell 3000 indexes



Data through 12/31/2016. Series indexed to 100, inception dates: S&P 500, Russell 3000, and MSCI KLD 400 Social, 5/4/1990; DJSI U.S., 1/1/1999; Calvert U.S. Large Cap Core Responsible, 4/28/2000; MSCI USA IMI ESG Leaders, 12/22/2000; and FTSE4Good US, 1/3/2003. MSCI indexes include aggregated, multisource histories prior to acquisition on 9/1/2010.

It is not possible to invest in an index. Performance for indices does not reflect investment fees or transactions costs.

Sources: FactSet Research Systems Inc., Morningstar, Inc., MSCI Inc., and TIAA

Source: TIAA report "Responsible Investing: Delivering competitive performance", Bloomberg

SOCIALLY RESPONSIBLE INVESTING

SRI at DCM

The Desautels SRI Equity Fund

The proposed Desautels SRI Fund will seek to provide investors with superior risk-adjusted returns while incorporating a mixture of positive and negative screens (outlined in the adjacent table). Positive screens would be based on a mix of available ratings and in-house ESG analysis. The SRI fund will be long-only ,North American equity, with no leverage, and no use of derivates for speculation.

As with our existing funds, DCM analysts assigned to the SRI Fund will be split according to their sector of expertise. Analysts will develop investment theses for potential investments, and support their recommendations with rigorous fundamental analysis. The goal will be to select only those stocks that are considered to have significant long-term upside potential. Prior to purchasing a stock we always ensure that a proper follow up due diligence has been performed and that the trade is also appropriate from a risk management point of view.

Positions are continuously monitored and once we believe a stock no longer has significant upside potential (either because the price target has been reached, or because the investment theses no longer hold), we exit the position. We also plan to carefully monitor company ESG activities, and any changes in their ESG criteria in particular, to determine if an exit is warranted.

We are very excited to have played a key role in the creation of DCM's fourth fund, and very much look forward to commencing operations in the near future.

Screens for the Desautels SRI Fund

Negative screens
Firearms
Child Labor
Gambling
Adult Entertainment
Tobacco
Fossile Fuel Activities

Positive screens guidelines
Employer Commitment to Equity and Diversity
Community Involment
Reduced Environmental Impact of Operations
Supply Chain Sustainability
Board and Executives Diversity
Commitment to Improving ESG Practices

Source: TIAA report "Responsible Investing: Delivering competitive performance", Bloomberg

ANNUAL REPORT 2017

CONSUMER DISCRETIONARY

2017 REVIEW & 2018 OUTLOOK

DESAUTELS CAPITAL MANAGEMENT

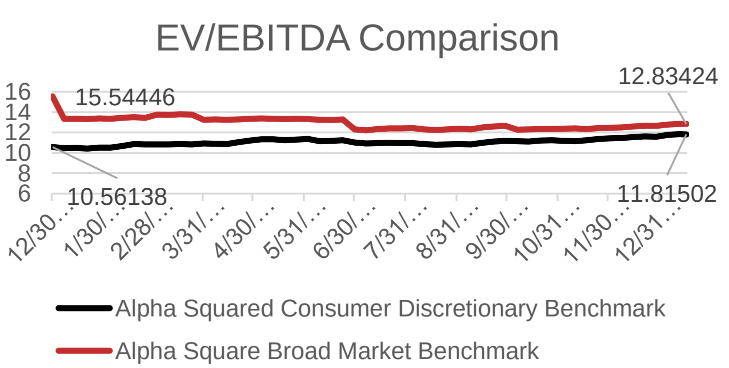
CONSUMER DISCRETIONARY
SECTOR PERFORMANCE

Consumer Discretionary Benchmark

The Consumer Discretionary benchmark earned 15.31% while the SPTSX/SP500 broad equity market benchmark earned 6.21% return in 2017. This is mainly due to depreciation of the USD in 2017, higher consumer confidence, a lower unemployment rate and upward trending wages.

DCM Consumer Discretionary Sector Performance

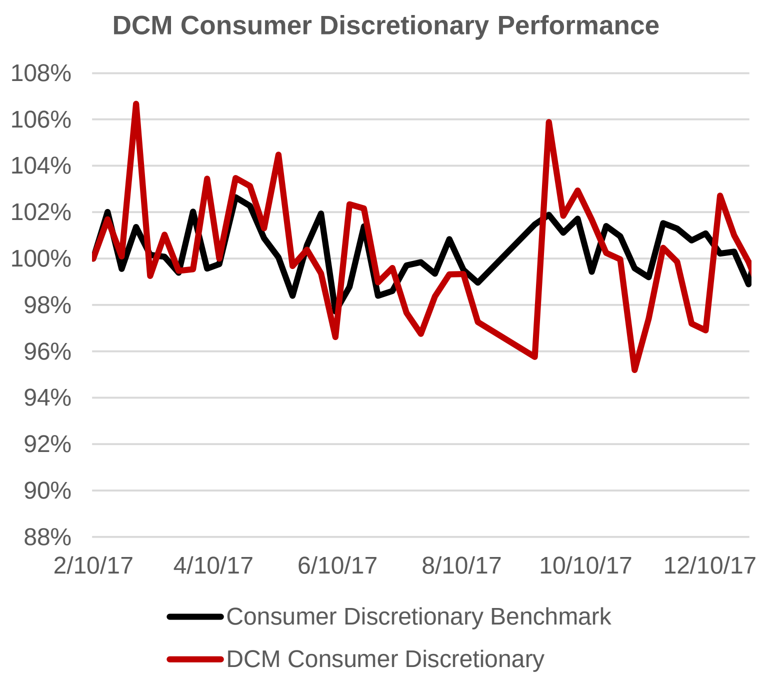
The Alpha Squared Fund Consumer Discretionary sector realized a 15.08% return in 2017 while the sector benchmark returned 15.31%. Our holdings during 2017 consisted of diversified consumer discretionary companies: Sleep Country Canada Holdings (TSE:ZZZ); Restaurant Brands International (TSE:QSR); Home Depot (NYSE:HD); Linamar Corp (TSE:LNR); Dollarama Inc (TSE:DOL); and Lions Gate Entertainment –A (NYSE:LGF/A). Our under-performance can be attributed to strong fluctuation of Sleep Country Canada Holdings because the company's expected earnings were far below analysts' expectations during the second and third quarter of 2017. However, Home Depot brought us nearly 15% from February until we sold it in November. Other stocks are in-line with the benchmark during the year. Therefore, we have underperformance compared with the sector benchmark mainly due to the negative effect of Sleep Country Canada Holdings outweigh the positive return of other holdings.



Source: Bloomberg

Consumer Discretionary Overview

In 2017, consumer discretionary earnings have significant positive upside relative to the broad equity market. First, the Consumer Confidence Index of Canada jumped dramatically from 102.36 to 121.83 in 2017. A higher index represents a better economic environment, which in terms stimulates higher consumption by the population. Secondly, relatively low interest rates in recent years supported consumer borrowing and spending. Thirdly, the unemployment rate in Canada continued dropping down from 6.8% to 5.7%. In addition, the unemployment rate of US hit a historical low of 4.1% in 2017. Finally, upward trending wages could be a driving factor for this sector since consumers have more disposable income to spend. All these factors drive the consumer discretionary sector to outperform the broad equity market. From the following chart, we can see the gap between the Consumer discretionary benchmark and the Broad market benchmark significantly reduced. This could be an indication that the potential upside in 2018 will be lower, after the tremendous growth of 2017.



ANNUAL REPORT 2017

AUTO INDUSTRY

2017 REVIEW & 2018 OUTLOOK

COLIN SHEN
SARAH ANNE BRAULT
SIMRANJIT SALUJA

DESAUTELS CAPITAL MANAGEMENT

AUTO INDUSTRY
OVERVIEW & OUTLOOK

2017 SECTOR PERFORMANCE

Over 2017, the auto sector performance closely followed the consumer discretionary performance, albeit with larger swings in value, indicative of important volatility. Both increased significantly more than the market over the same period, 17% and 15% respectively, compared to 7% for the market. We believe those are the results of multiple factors. Macro indicators have all been positive, with unemployment at its lowest in a many years, interest rates expected to be raised for the first time since the financial crisis, and consumer confidence high, as indicated by the Consumer Confidence Index hitting 100 in November.

In terms of total car sales, 2017 wasn't a stellar year, as the North American region saw a drop of 1.5% compared to 2016, while the total word car sales increased by less than 1%, after an increase of 4.6% in 2016. Supplementary data indicates that Americans do keep their cars for an increasingly longer period, up to 11.6 years , but also pay more per car (25,670 vs 25,119 in 2016). A positive for the North American industry is that the exports did increase by 5.3 %, up to 158B. The numbers reported in the graph below relating to the S&P500 auto sector benchmark include only a few select stocks. With returns above average, Martinrea (82%) and Borgwarner (27%) played a big role in driving the up the return of the index.

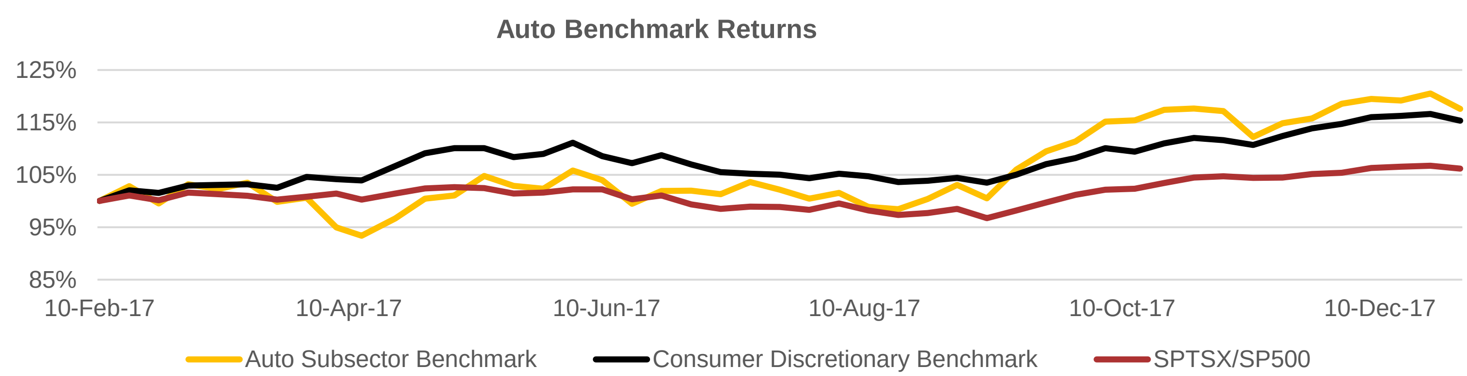
Big players such as Ford (-1%) and Goodyear's (3.6%) numbers were a better reflection of the north American situation.

Linamar (LNR), the only holding in the Auto sector within the Alpha squared fund was able to earn a positive return of 25% since February '17. We attribute this growth to strong growth in Asia and Europe, as well as to the strategic acquisition of MacDon, which helped offset a negative earning surprise in Q3, 2017

Looking forward, we foresee the nature of the auto industry is changing very rapidly, with Electric Vehicles (EV) becoming popular and a push towards autonomous cars. At the same time social shift towards ride-sharing is one of the factors bringing car sales down, especially in North America. Adding to that, the cloud of doubt over NAFTA, especially for Canadian based manufacturer, and we don't believe these higher than average returns are sustainable.

CANADIAN PLEDGE TO GO ELECTRIC

Although the Canadian manufacturers have been late to step up in the electrification and hybridization game, Canadian auto industry did see a number of new manufacturing units set up last year.

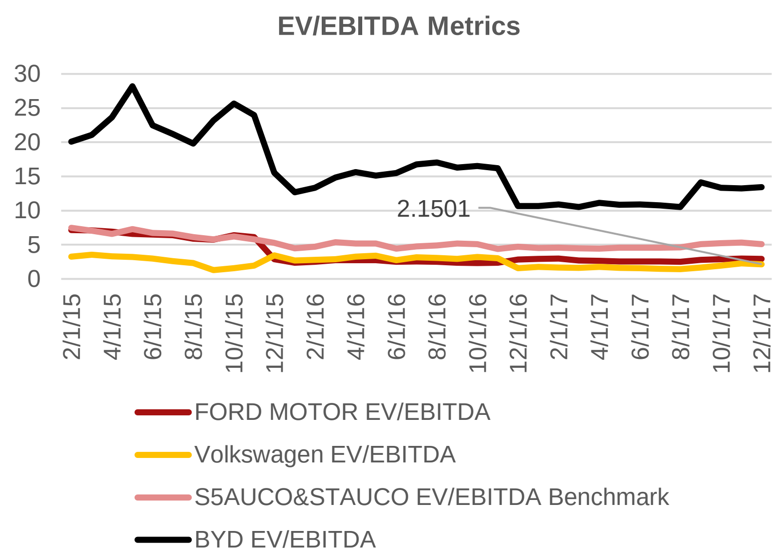


Source: Bloomberg

AUTO INDUSTRY
OVERVIEW & OUTLOOK

The Government of Canada also seems to be in full support of taking a lead in research into the automated and electric vehicle industry. With a promise of a funding of over CAD 100M to Linamar, Canada's second largest auto parts manufacturer, the Department of Innovation reflected its commitment towards taking Canada a step forward in areas of research and development.

The province of Ontario cleared a way for autonomous cars in Canada, opening up doors for autonomous vehicle manufacturers. The reception of these news by the market was fairly neutral, and the market valuation of major Canadian players have stayed below market



CANADA FOLLOWS THE WORLD

These measure described above will help Canada keep pace with the rest of the world, as China, the world's biggest market with expected sales of 26M cars in 2018, is announcing draconian measures regarding EV sales. Under the credit structure, every manufacturer who makes or imports more than 30,000 vehicles annually will be required to have 10% of its sales credited to EV, which experts expect will add up to 4-5% of total sales in 2020.

The exemption for the license-plate lottery system, which allows Chinese citizens to skip the line, or avoiding bidding wars when waiting to earn the right to buy a car is another policy which should encourage EV sales, but more consumer oriented. The sum of Policies should boost EV sector R&D and production, even at the cost of short-term profitability.

The main targets are public vehicles, although the necessary R&D spending and supporting infrastructure will quickly trickle down to the consumer market.

Source: Bloomberg

VALUATION GAPS

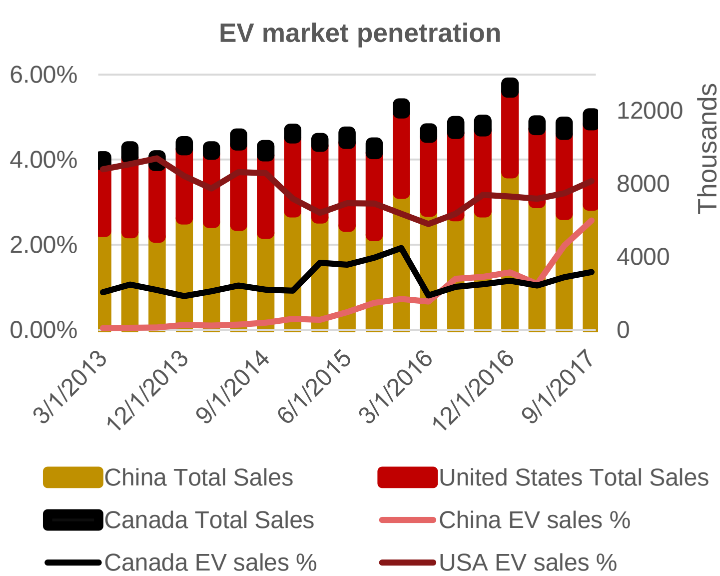
Even though the EV/EBITDA ratio of both Tesla (which reached 650 in 2015 before settling around 200 in 2017) and BYD dropped down sharply over last three years, it is still significantly higher than traditional OEMs. Assuming the market values EV potential very highly, we looked at the relationships between valuation of OEMs by the market and their alternative fuel vehicle sales. Finding none, we have come to the conclusion that the market isn't appropriately pricing efforts by the traditional OEMs to capture the growing EV market, or that it is grossly overestimating the market share that new players will occupy in the long run. The OEMs will incur Capital Expenditure and R&D costs as they need to shift their focus and upgrade facilities to play the game, however, we foresee the valuation gap between the traditional players and the new entrants closing eventually.

AUTO INDUSTRY
OVERVIEW & OUTLOOK

BATTERY COST BOTTLENECK

The cost difference between traditional vehicles and EV hovers around 15%, which is mainly due to the battery pack, as the rest of the components except the drive-train are mainly equivalent. In order to reach price parity, battery prices need to drop by half (after dropping 70% since 2010). Such technological advancements are expected to happen by 2026, as costs need to reach 100$/kWh. At that point, policy support will stop being a key factor in middle class consumption choices. The development of solid state technology batteries could be a catalyst to the entire process.

We foresee policy to have an impact in Europe and Asia, however, under the current government, US car manufacturers have time to transition into the EV market for the middle class.



CLOUD OF DOUBT OVER NAFTA

Amidst growing uncertainties about the future of the NAFTA agreements, the Canadian auto industry remains vulnerable to the trade renegotiations. The White House has been trying to push the Rules of Origin requirements close to approximately 80%, from the current level of 62.5%. Canadian auto manufacturers are the most at risk, as companies like Magna, Linamar and Martinrea could be negatively affected. Looking forward, we believe that NAFTA will be crucial in shaping the future of the automobile industry since most of the Canadian product is exported.

Although cancellation of the existing NAFTA agreement would have negative consequences for all the trade partners, Canadian manufacturers would be most affected. According to experts, a collapse of NAFTA would undeniably push prices up for the consumers. Highly restrictive trade renegotiation are also likely to impact end-prices, while slightly restrictive trade negotiations might be absorbed in the already thin OEM margins. Luckily, outside of Trump's sphere of influence, the trade barriers are falling, with TPP and ASEAN making progress in the Pacific region.

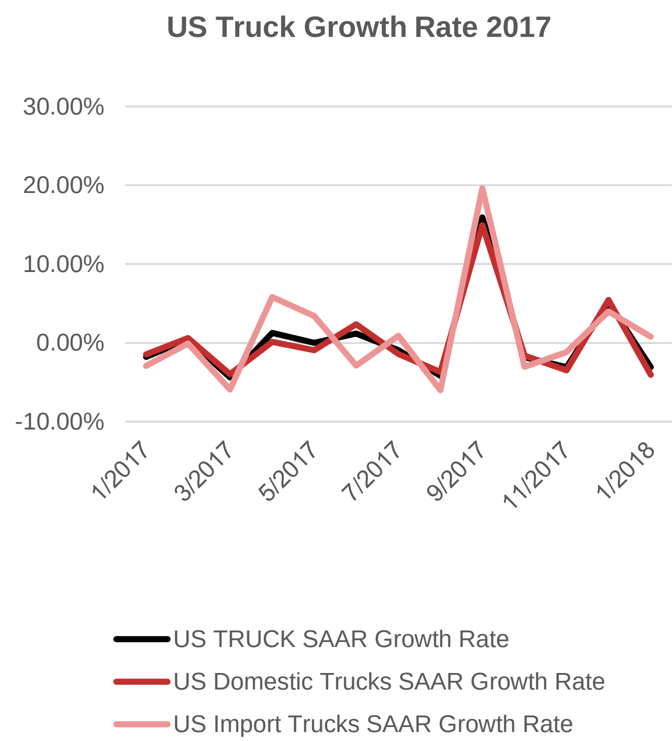
Trade reports suggest a similar pattern. The total exports increased by 0.6% to CAD $46.5 B in December,2017, showing an increase for 3 consecutive months. Overall, in 2017, exports went up by 5.3% to CAD $573.2 B. However, the exports to US declined by 0.8% to CAD $34.9 B in the month of December,2017. Overall , exports for the entire year increased by 4.9% for non US countries and by 4.7% for US.

Source: Bloomberg

AUTO INDUSTRY
OVERVIEW & OUTLOOK

THE TRUCK GAME

We noticed that the light truck sales increased sharply during 2017 in the North American market. The reasons could be that light truck have more capacity, a higher vantage point for drivers, and also carry most of the features that make a passenger car attractive, such as connected car features, comfortable seating, and attractive styling. These vehicles are also considered safer due to their larger size and more power, and also preferred for their off-roading capabilities. We believe the middle-class market for cars is moving away from small, urban vehicles and more towards utility vehicles and light trucks with mutli-purpose and longer life spans.



THE ELECTRIC TREND

While the recent announcement of Tesla to come up with an all electric line of trucks have caught the attention of auto enthusiasts worldwide, the electric trend is not limited to cars and trucks now. An Ontario based startup, Havelaar, launched the first all electric pickup truck recently and is believed to be on roads sometime in 2018. The startup has been working with the Electrical Vehicle Research Centre at the University of Toronto and has received subsidies from the Government of Ontario, enabling it to reduce its R&D cost by approximately 40% . This not only highlights the fact that the future of auto might be all electric, but also reflects the fact that the Canadian automakers don't want to be left behind in this race.

AUTO INDUSTRY

2017 HOLDINGS REVIEW

DESAUTELS CAPITAL MANAGEMENT

LINAMAR (TSX: LNR)

COMPANY OVERVIEW

- Linamar is a manufacturing company producing precision metal parts for drivetrains and industrials
- The second largest auto parts manufacturer in Canada, Linamar is based out of Guelph, ON, with operations in 11 countries
- 2016: CAD 6B of revenue, with a CAD 5.1B market cap and strong balance sheet.
- Areas of operation: Automobile, Agriculture and Industrials.

CATALYSTS

- Cheap USD, making exports more profitable for Canadian companies
- Provincial support for research and development in electrification and automation of vehicles
- Agricultural growth in North America , high revenues for MacDon could balance out the slow growth from automotive division.

RISKS

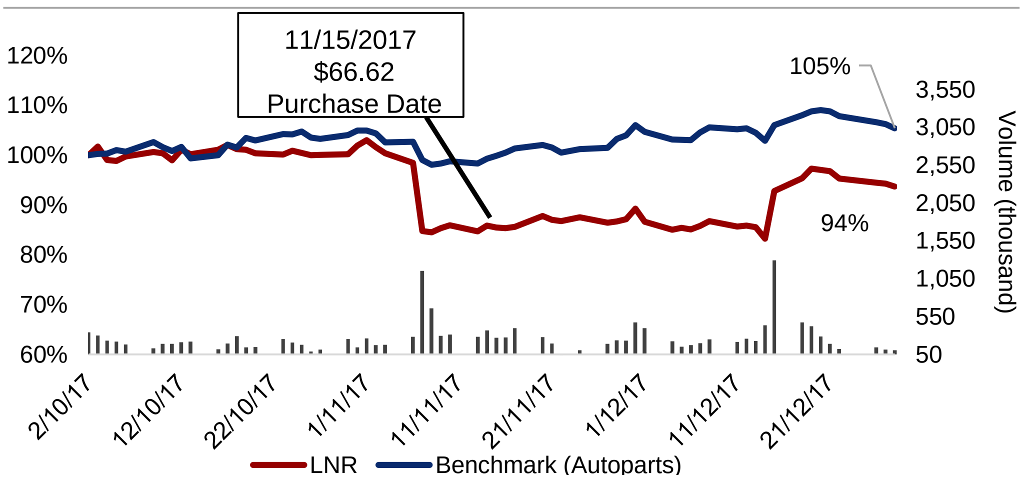
- Political risks: Uncertainty over NAFTA agreement creating unease with investors
- Shifts to EV and hybrid technology, as well as automation of vehicles changing the landscape of the industry
- Slow vehicle sales in N.A. trend expected to continue

FINANCIAL SUMMARY

Public Market Overview	
(values in CAD M, as of Dec. 31, 2017)	
Stock Price	$73.12
Shares Outstanding (mm)	65.3
Market Capitalization (mm)	**$4,775**
+ Preferred Stock	$0
+ Minority Interest	$0
+ Total Debt	$1,472
- Cash	$524
Enterprise Value (mm)	**$5,723**
Beta (1-Year)	1.305
Dividend Yield	0.66%

Financials	FY2015A	FY2016A	FY2017E
(values in $mm)			
Revenue	5,162	6,006	7,126
% Growth		*16%*	*19%*
EBITDA	$869	$1,622	$1,203
% Margin	*17%*	*27%*	*17%*
EPS	6.63	7.92	9.85
% Growth		*19%*	*24%*
ROE	22.2%	21.5%	25.1%
ROIC	17.8%	15.4%	15.9%
EV/EBITDA		5.6 x	4.8 x
P/E		9.1 x	7.4 x

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Average Cost	$66.62
# of Shares	315
Value Invested	20,986
Portfolio Weight	3.88%
2017 HPR	10.88%
HP Benchmark Return	3.61%
Excess Return	7.27%

LINAMAR (TSX: LNR)

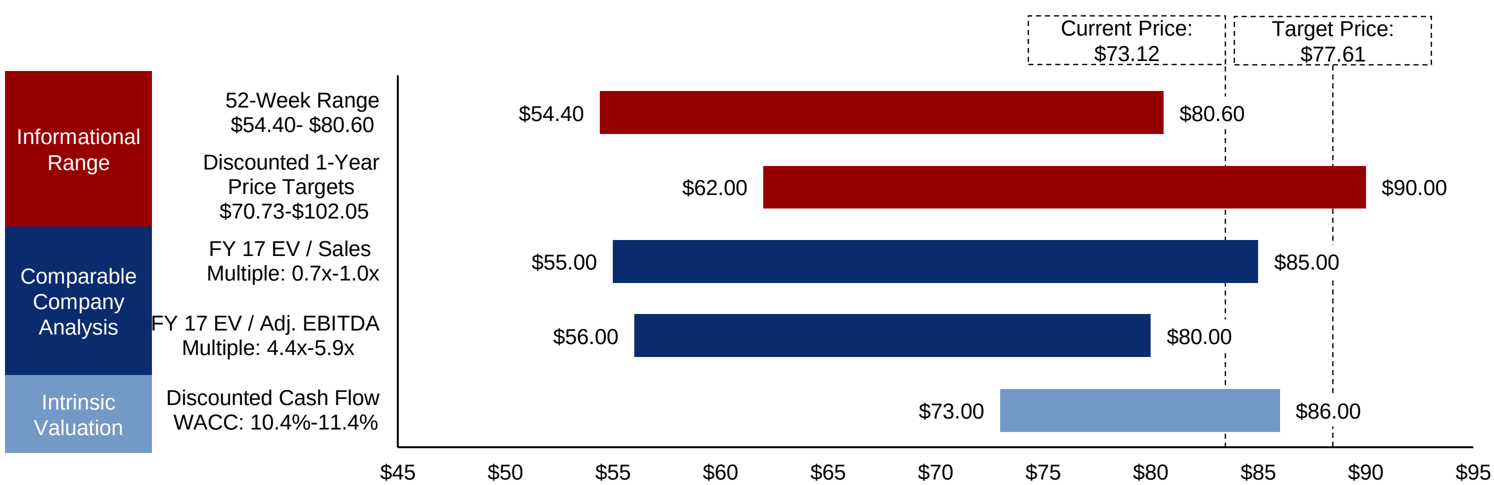
INVESTMENT THESIS

1) **Highest production margins amongst competitors indicates high transfer of value from revenue to EPS**
   - High manufacturing efficiency to produce key auto components at lower costs.
   - High competitive advantage over other companies in the same industry.
2) **Diversification of business ventures outside the auto parts components**
   - Unique risk management amongst competitions, with over 15% of revenue from industrials and agriculture business.
   - Management ability to seek out profitable ventures that will increase revenue and add value to existing business lines.
3) **High growth opportunities in Europe and Asia which are not priced in by the market**
   - Content per vehicle growth in Asia and Europe increasing by 150% and 400% respectively over past 5 years.
   - Increasing market share in both areas, expected to represent 50% of sales by 2020.

ANALYSIS OF PERFORMANCE

We initiated our position in Linamar on November 15th, 2017 at 315 shares. The stock has returned 12.5% over that period, while the benchmark (S&P AUTO&COMPONENTS) returned almost 8%. On November 8th, the stock lost 15% after a negative earnings announcement. We entered the position at CAD 66.62 for a total value of CAD 20,986. On December 14th, Linamar announced the acquisition of MacDon, a privately held tractor manufacturer, for 1.2B. The stock shot up 11% on the day of the announcement, with estimated high single digit accretion to EPS effective immediately. The price has hovered between CAD 76 and CAD 72 since the announcement, while investors are waiting on government decisions regarding NAFTA, and the completion of the Macdon acquisition. The capital structure has shifted towards debt, however the diversification benefit from the agricultural segment and immediate revenue outweighs the financial stress, as we still see upside for the Linamar stock in 2018.

VALUATION SUMMARY



Source: Bloomberg

RETAILING

2017 REVIEW & 2018 OUTLOOK

IRVIN HE
JOANIE GRIMARD
JULIE HAZARD
RIYAD ALLIMAMODE
SUN YI

CONSUMER DISCRETIONARY
RETAILING AND CONSUMER SERVICES

INTRODUCTION

Consumer discretionary sector had a successful year in 2017. Both subsectors retail (27.76%) and services (24.56%) performed better than the benchmark. The performance was driven by its biggest stocks, such as Amazon (30% of the total market cap, 58% return) : an ex-Amazon benchmark would have delivered a 13.91% return in 2017.

With a return of 9.17%, The Alpha Squared Fund's retail sector has underperformed the retail benchmark over the same period (which returned 26.52%). Overall, most of the investments thesis held and the three stocks delivered a solid performance compared to the global benchmark, while underperforming the retail benchmark. Dollarama increased by 1.97% in value compared to 3.92% for the benchmark during the same period; Home Depot generated a holding period return of 14.56% and Sleep Country 12.66%, whereas the retail benchmark returned respectively 22.60% and 15.29% during both holding periods. Restaurant Brand International (QSR), the only stock in the Services subsector, returned 9.03% throughout its holding period, as the consumer services benchmark generated 13.20%.

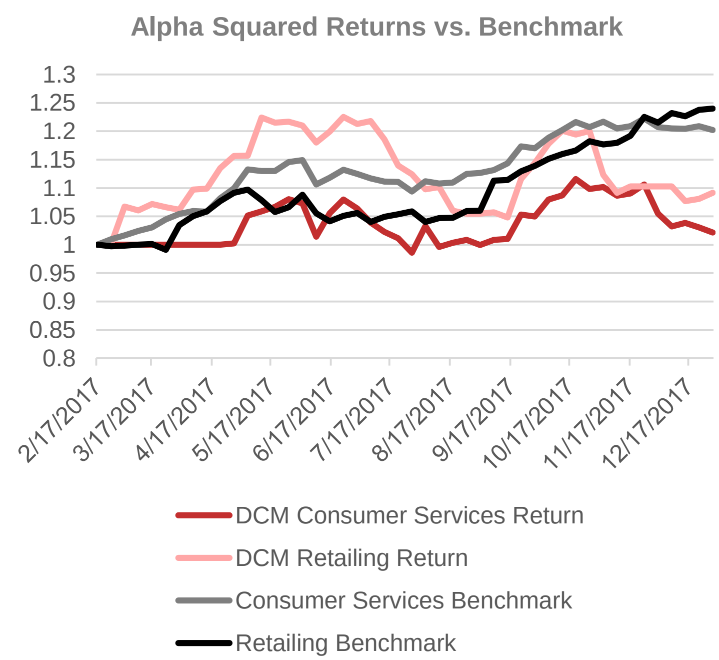
2017 OVERVIEW

Overall, both retail and services subsectors benefited from recent good economic climate.

GDP has been growing steadily in Canada and USA, leading to a high consumer confidence. Consumer spending has increased by 2.6% in 2017, the result of a 4% decrease in job claims and a decrease in saving rate from 3.7% to 2.9%.

The online retailing trend is highly profitable for the companies that exploit this opportunity while it represent a big competitor for traditional retailers. In the US, online sales now represent a higher percentage of total U.S. retail sales: it has increased from 8.2% in 2016 to 9.1% in 2017. For example, Amazon, pioneer of the online retailing generated 58% of return this year ; while Macy's, a traditional retailer saw its share price decreasing by 9.11%.

The main drivers of the consumer services sub sector were also positive this year which explain the good performance of the subsector (24.56% return). For example, the restaurant industry has been performing well, as the Restaurant Performance Index, a monthly composite index that tracks the health of and outlook for the U.S. restaurant industry, increased from 100.1 to 102.1 in 2017, every point over 100 signifying expansion of the industry. The high returns of Restaurant Brand International (20.4%) and McDonald's (45.57%) highlight that trend.

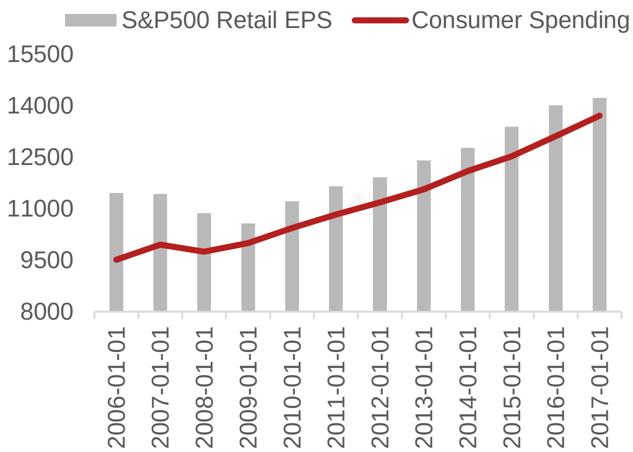


Source: Bloomberg, Yahoo Finance; Statista

RETAILING
SECTOR OUTLOOK

In 2017, the economy has shown satisfying consumption data. Despite having three rate hikes and the inflationary pressure on consumers, the last Consumer Spending Index results still saw robust growth. As shown in Figure 1, the consumer spending has grown steadily over the last decade, and we expect this trend to continue but at a slower pace as the Fed plans to raise the rate at least three times in 2018. We think consumption growth in 2018 will mainly be fueled by an expected continuing low unemployment rate and higher wage supported by the Republican-held Congress' tax plan in the U.S.

Figure 1 :US consumer Spending ($Billions) and Retail EPS

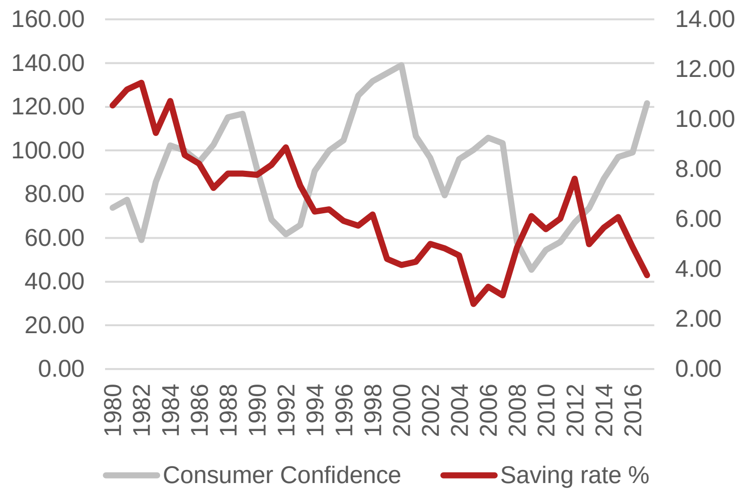


The projection of consumption growth could be justified by the current high level of Consumer Confidence Index and the recent downward trend of the saving rate (Figure 2), which have reacted positively to the tax plan.

The current level of the consumer confidence has been preceding by an increasing trend since the end of the crisis. Looking back to the history, that increasing trend pattern was observed in the early 90s, when the economy and the stock market were booming. That trend kept rising during 8 years as of now. As a result, the market projects these trends to cease widening for 2018, but we expect this trend to remain due to the tax reform as mentioned earlier.

Source: Bloomberg;
Fred, Saint-Louis FED Economic Data, Ibis World

Figure 2 : Consumer Confidence Index and Saving rate



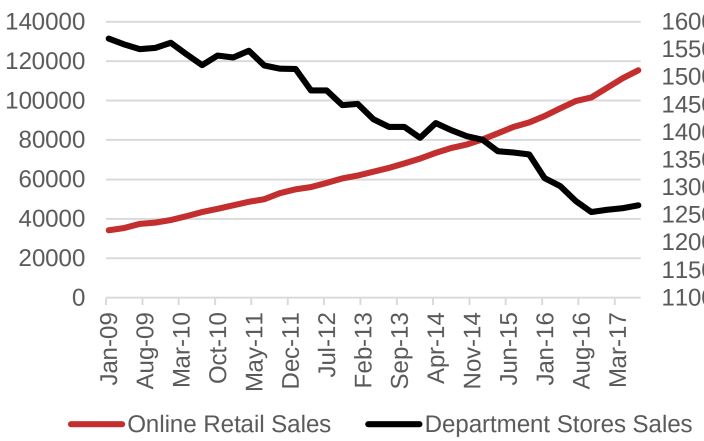
TRANSFORMATION OF RETAIL SECTOR

Specifically, the retail sector is currently in a transition stage in which the traditional physical store format is being replaced by e-commerce, as we can see in Figure 3. Beginning in 2016, some of the largest traditional retail companies like RadioShack and Macy's have closed more than 5,000 stores amid slumping sales and increased competition from online sellers like Amazon. The U.S. is expected to see a record high of 8,600 stores closing in 2018, even more than the number of stores closed during the financial crisis in 2008.

This is also reflected in our valuation part below.

RETAILING
SECTOR OUTLOOK

Figure 3: Quarterly Sales in $ Million



VALUATION ANALYSIS

Historically, the retail sector has been trading at a premium of 29% on average compared to the S&P 500 index. Currently, the sector has a P/E ratio which is 1.58 times of S&P500 index P/E ratio. When we compare the ratio between the P/E of the retail sector and S&P500 index (Figure 4), it can be seen that the ratio has been hovering around 1.5 times, however in 2017, the ratio has increased to 1.7 times, which indicates that the PE of retail sector increased faster than the whole market. The increase in P/E ratio was the result of both the subpar earnings increase of traditional retailers and the increase in the market cap of companies since October because of favorable economic environment.

Historically, we tend to see an earnings boost at the beginning of each year, dragging down the P/E ratio, and the ratio increases later along the year as price catches up with the earnings increase.

In terms of online retail, a dramatic increase can be spotted in the trend of its P/E after October in 2017 compared to the whole retail sector. Historically, the online retail sector has been trading at 2.2 times on average relative to the retail sector. The trend seems to be relatively stable across time and starts to decrease (see Figure 5).

The current P/E of traditional and online retail is 21.02x and 64.87x respectively. This difference in P/E ratio can be justified by the higher expected growth rate of online retail (20.77%) than that of traditional retail (7.88%). From a risk perspective, we believe the beta of online retail would likely decrease as online shopping integrates further into consumers' daily life, which would lead to higher valuation multiple in the future. Traditional retail, on the other hand, would most likely suffer from a decrease in its P/E ratio, as a result of earnings catching up to the current price level, and the whole sector becoming more volatile when consumers have larger discretion over choosing other shopping methods than

Figure 4 : Retail P/E Analysis

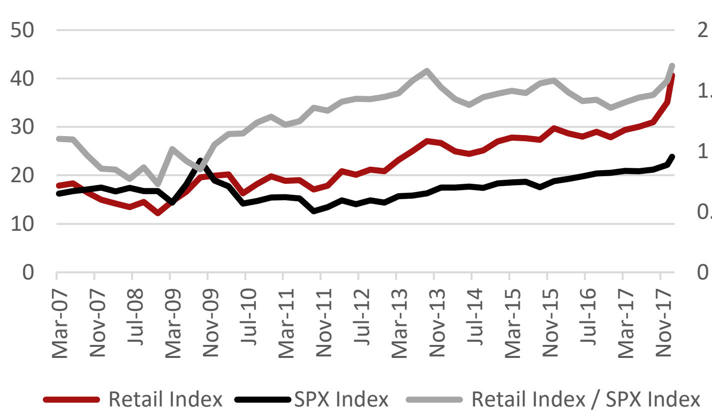
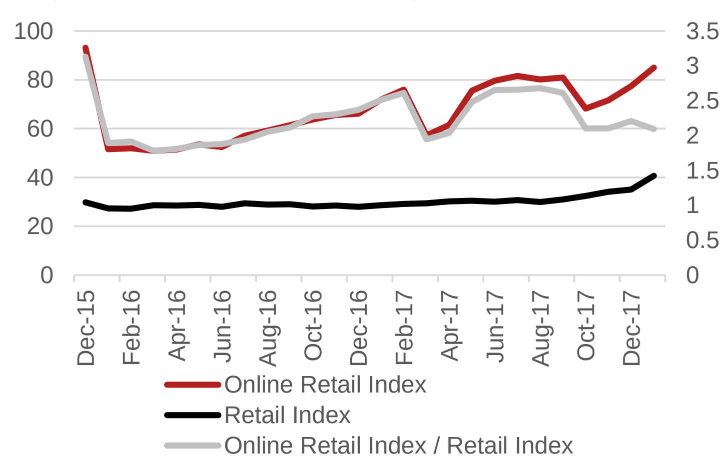


Figure 5 : Online Retail P/E Analysis



Source: Bloomberg;

RETAILING

2017 HOLDINGS REVIEW

Dollarama Inc. (TSE:DOL)

COMPANY OVERVIEW

- Dollarama Inc. is a retailing family business founded in 1910 managed by the Rossy family.
- The company's headquarters are located in Montreal, Quebec and the dollar store chain is operating 1095 stores across Canada.
- Dollarama offers a well-proportioned targeted mix of merchandise at compelling values, including private label and nationally branded products. It consists of general merchandise, consumable products and seasonal products, all sold in a price range of $0.82 to $4.00.

CATALYSTS

- Less-than-expected penetration from competitors like Dollar Tree or Miniso due to failure to understand Canadian consumer demographics
- Stronger CAD currency after the rate hikes, which decrease Dollarama's cost of imports
- Additional robust revenue stream from its recently introduced online platform for bulk orders

RISKS

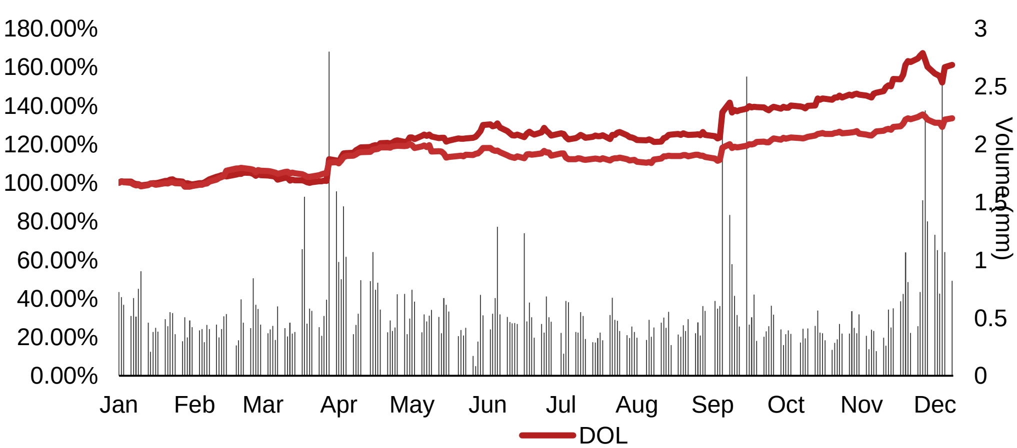
- Fluctuation of rental expenses for stores may affect the profit of the company
- Oil price affect both consumer spending and the transportation cost of the business
- Exchange rate between CAD and CYN

FINANCIAL SUMMARY

Public Market Overview	
(values in CAD M, as of Dec. 31, 2017)	
Stock Price	$157.05
Shares Outstanding (mm)	111.681559
Market Capitalization (mm)	**$17,540**
+ Preferred Stock	$0
+ Minority Interest	$0
+ Total Debt	$1,517
- Cash	($77)
Enterprise Value (mm)	**$18,979**
Beta (1-Year)	0.85
Dividend Yield	0.3%

Financials	**FY2016A**	**FY2017A**	**FY2018E**
(values in $mm)			
Revenue	2,650	2,963	3,284
% Growth		*12%*	*11%*
EBITDA	$597	$703	$876
% Margin	*23%*	*24%*	*27%*
EBIT ADJ	404	474	586
% Margin	*15%*	*16%*	*18%*
NET INCOME	385	446	554
% Margin	*15%*	*15%*	*17%*

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Average Cost	$158.24
# of Shares	160
Value Invested	25,319
Portfolio Weight	4.20%
2017 HPR	1.97%
HP Benchmark Return	8.76%
Excess Return	(6.79%)

Dollarama Inc. (TSE:DOL)

INVESTMENT THESIS

1. **Unsaturated dollar stores market with strong growth opportunities in Canada**
   - The Canadian industry of dollar store is unsaturated compared to the US market
   - Possibility of growth toward saturation

2. **Dominant position amongst competitors**
   - Dominant dollar store chain across Canada with notable brand awareness
   - Generate higher profitability than competitors
   - Few direct competitors

3. **Cost advantages**
   - Multi-price point strategy that allows the company to be better positioned for cost increase and inflation
   - Economies of scale due to lower fixed cost compared to their competitors
   - Advancement toward technology to improve inventory management and consumer service
   - Lower cost of good sold due to efficient supply chain

ANALYSIS OF PERFORMANCE

Since we initiated our position in DOL in November 2017, DOL has underperformed our benchmark, returning 1.97% compared to 8.8%. However, since the beginning of the year, DOL was returning 26.32% above the benchmark. Before the third quarter result, DOL reached its highest price of CAD164.90 on November 28 followed by a drop of CAD 6.73 as of December 1st. One potential explanation could be that the market feared the company might not be able to meet its 3rd quarter earning's expectations and wanted to cash out their existing position, which caused a downward impact on the price. In their earning report, Dollarama beat the earnings per share estimates by $0.04, but generated lower comparable sales by 1.28% and therefore lower FY gross margin by 1% compared to the analysts' estimates. Thus, after the earnings release, the stock price increase by $2.75 as of December 31st. Hence, it will be important for us to follow carefully DOL's gross margin's performance in 2018.

VALUATION SUMMARY

Source: Bloomberg

ANNUAL REPORT 2017

MEDIA

2017 REVIEW & 2018 OUTLOOK

DAORAN WANG
SIYUN WANG
WANYI HU

DESAUTELS CAPITAL MANAGEMENT

MEDIA
SECTOR OVERVIEW

In 2017, the media sector returned 1.71% (2017/02/14 - 2018/02/16) compared to 28.31% in the previous year, while the S&P 500 Index and consumer discretionary sector saw 16.88% and 21.45% returns. The underperformance of the media sector was mainly due to the weakening of traditional media companies.

SECTOR PERFORMANCE

Although the increasingly frequent mergers and acquisitions activity became a strong driver of sector performance, it was not enough to overcome investors' concerns about more severe cord-cutting and customer churn from traditional media platforms. Over 2017, the media sector's earnings increased by 0.37%, which was at similar level of the estimated 0.10% sector earning growth by analysts but lower than 1.76% upside move of consumer discretionary sector's 2017 earning. The media sector's P/E increased by 6.44% over 2017, compared to 19.15% increase in the P/E for the consumer discretionary sector.

OTT STREAMING & CORD-CUTTING

The currently growing prevalence of Over-The-Top streaming video is changing customers' video consumption patterns and the media industry as a whole. The growth rate of consumers' viewing hours on OTT platforms accelerated over the past several years as pure play OTT publishers and MVPDs offer wider variety of OTT services. Aided by technological development, customers are able to get access to OTT offerings through different devices, tablet and mobile included.

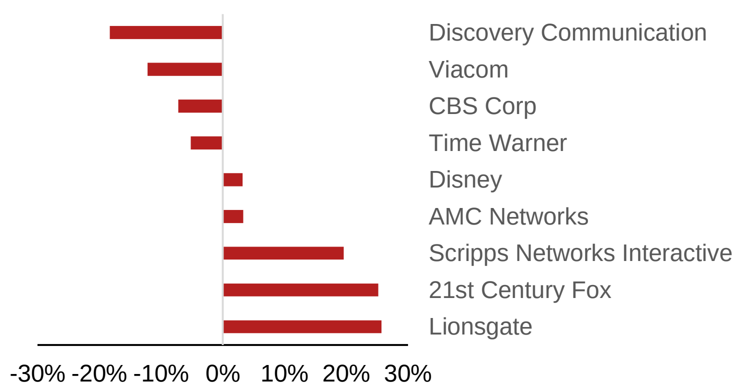
With more choices and convenience on OTT streaming platform from the internet, the cord-cutting trend started to accelerate, transferring customers to high-tech streaming service providers which offer lower subscription fees than cable TV providers do. This generated impact on both cable television distributors and content providers. As cord-cutting drove more customers to tech giants such as Netflix, Amazon (Amazon Prime Video), and Google, which are the leaders of OTT streaming service but are not in the media sector, the media sector underperformed market last year.

Since the popularity of OTT platforms led to a relatively weak performance of traditional media companies, cable television providers are attempting to diversify their service offerings as well, through mergers and acquisitions for instance.

M&A TREND

Following the on-going AT&T/Time Warner merger deal, the media sector has experienced continued M&A trend throughout 2017, with one of the biggest deals between Walt Disney Company and Twenty-First Century Fox announced in Q4 2017. The main driver of this trend is technological development. As consumers gradually shift to OTT streaming services backed up with high-tech and mobile devices, more M&A happened especially between content providers and distributors vertically to achieve mutual benefits (for example: Lionsgate/STARZ acquisition).

Figure 1: Media Company Stock Performance (Fiscal Year 2017) (Partial)



Source: Conviva; Bloomberg

MEDIA
SECTOR OUTLOOK

NOT MUCH TO ABATE M&A

As OTT services gain traction, mergers and acquisitions waves will not diminish in 2018. For smaller players who have unique contents but lack scale of audience, they have plenty of opportunities to engage in either vertical acquisitions with main content distributors or horizontal acquisitions with other content creators to pool resources and enlarge their audience base. Convergence will continue the blend of traditional media sector and the telecommunication industry, thus stimulating M&A activities across the two industries. AT&T showed an intensive interest in worldwide broadcasting channels and top content by trying to acquire Time Warner, aiming to integrate the distribution channel HBO and control access to massive contents. Therefore, such M&A activity would remain attractive to media giants who are ambitious in expansion.

SECTOR BLEND OF TELE & MEDIA

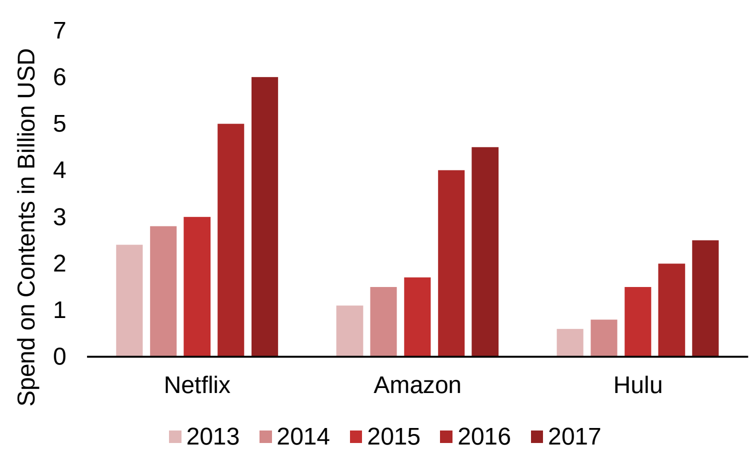
On Nov. 15th 2017, S&P Dow Jones Indices announced that it would combine telecommunication and media & entertainment stocks into one sector in late September 2018. This action reflects the recent waves of M&A across the two industries and the evolution of communication approach. The list of candidates may include stocks such as Facebook Inc. (FB.O), Amazon.com Inc. (AMZN.O), Netflix Inc. (NFLX.O), Google parent Alphabet Inc. (GOOGL.O) and AT&T Inc. (T.N). Since big names (such as Facebook, Google and Netflix) are leading firms in their own sector, they will draw more attention after being combined into one sector.

ORIGINAL CONTENT IS THE KEY

Both traditional and newly-developed distribution channels started to increasing investments in acquiring high quality and user-generated contents through direct purchase, investment, and self-production to satisfy customers' customized needs, strengthening customer loyalty and encouraging subscription and subscription renewal. The major distribution channels such as Netflix, Amazon, and Hulu are increasing expenditure annually on choosing appropriate contents that satisfy audience's preferences (graph 2). More specifically, Netflix and Amazon doubled their spending in 2016. This new investment focus was originally driven by the change in new generations' viewing habits. Contrary to previous generations who have no preference over contents provided by cable television, new generations have more access to multiple platforms and have specific watching preferences of the contents.

Since OTT and streaming service is becoming a prevalence in media industry, traditional broadcasting companies and offline channels (theaters) start their transformation by providing their own OTT streaming services to compete with newly-developed platforms, intensifying competition within the media industry.

Figure 2: The Growth of Major Players' Spend on Contents



Source: The Wall Street Journal, Business Insider, Variety

MEDIA
SECTOR OUTLOOK

These leading broadcasting companies, with a specific size of customer base, are likely to become a potential investment target if they make significant progress in transformation.

The evolution in the distribution methods, such as directly publishing on online platform, invokes distribution channels' attention to high-quality content. Superior content creators can benefit from the competition for high-quality content. They would have a more advantageous position in contract negotiation with distribution channels and realize better pricing.

TECHNOLOGICAL BOOM

VR & AR is inevitable in the transit from the niche gaming industry to mainstream intermediaries of social media, entertainment, and news. Although companies like NYT, CNN, YouTube and Facebook made a huge investment in VR & AR technologies, they did not take the first mover's advantage and reaped benefits. The time to actually reaping benefits from existing matured is ambiguous. However, in the following years, because of the advent of 5G mobile networks and the continued explosion of wearables, VR & AR are likely to trigger a significant revolution among publishing, advertising, and film & entertainment industries. It will infuse new blood into companies in declining industries such as publishing industry.

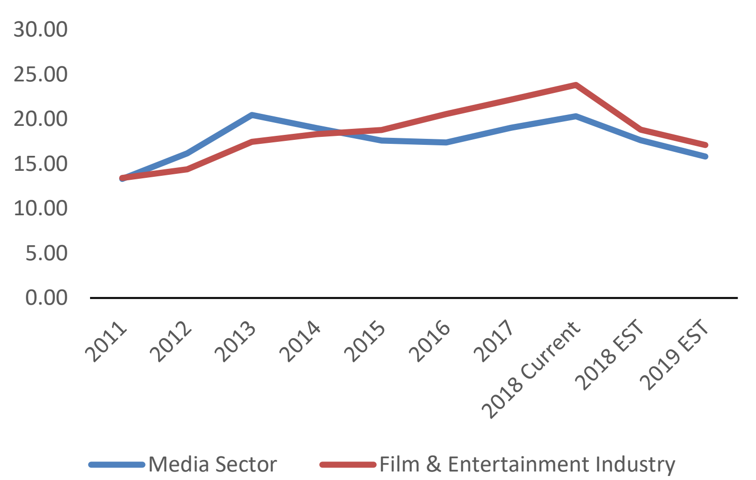
ABANDON OF NET NEUTRALITY

At the end of 2017, the net neutrality law was officially abandoned. The foremost consequence is raising competitions among platforms and channels that heavily rely on the speed of bandwidth; meanwhile, the abandon of the law is a good news for major players such as Netflix and Amazon. The non-existence of evenly allocated bandwidth will provide major distribution channels the chance to use capital to upgrade their bandwidth and internet speed. Moreover, better user experience provided by those major players will further accelerate the speed of squeezing out small players, thus speeding up the progress of industrial aggregation.

P/E RATIO INSIGHTS

It is forecast that P/E ratio in film & entertainment sub-industry is about to decrease in the next two years. This decrease is primarily contributed by the estimated increase of earnings. Specifically, as major players in OTT, including VOD fields, significantly increase their budget for investments on contents, the content producer becomes the largest beneficiary. OTT platforms that offer a premium price will remain the constant buyers of streaming contents, which will produce a stable cash inflow for content creators. Therefore, the predicted downward P/E ratio curve does not necessarily mean a pessimistic future of the industry; however, a rational recognition on the valuation of the industry is mostly owing to the growth in earnings generated by contents production.

Figure 3: P/E Ratio



Source: Bloomberg

MEDIA

2017 HOLDINGS REVIEW

LIONSGATE (NYSE:LGF.A)

COMPANY OVERVIEW

- Lionsgate is a global content platform which produces films, television series, digital products and linear and over-the-top platforms reaching next generation audiences around the world.
- Lionsgate's film slate grossed nearly $10 billion at the global box office over the past five years, with its and its predecessor companies films earning 122 Academy Award® nominations and 30 Oscar® wins.
- In December 2016, Lionsgate acquired Starz, a leading premium pay television network with a fast-growing OTT subscriber base and a slate of hit series including Power, Outlander, The Girlfriend Experience along with critically-acclaimed new series American Gods and The White Princess.

CATALYSTS

- Starz successfully renewed a multi-year agreement with Verizon to maintain and expand distribution
- Success of 'Wonder' in both viewer rating and box office would positively affect the upcoming quarter report in February 2018
- New 'Robinhood' series is expected to be another successful franchise as 'The Hunger Games'

RISKS

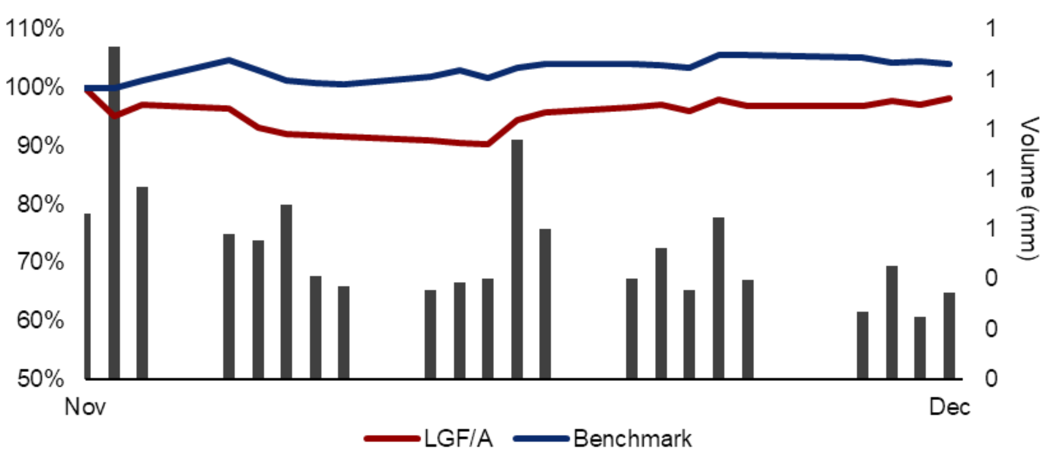
- The Starz acquisition could fail to bring expected synergies to the company
- Potential Takeover bids for Lionsgate may affect the stock price
- Future movie segment revenue is highly volatile since it depends on individual box office performance

FINANCIAL SUMMARY

Public Market Overview	
(values in CAD M, as of Dec. 31, 2017)	
Stock Price	$33.81
Shares Outstanding (mm)	81.4
Market Capitalization (mm)	**$6,991**
+ Preferred Stock	$0
+ Minority Interest	$98
+ Total Debt	$2,447
- Cash	($239)
Enterprise Value (mm)	**$9,297**
Beta (1-Year)	0.368
Dividend Yield	0.0%

Financials	**FY2016A**	**FY2017A**	**FY2018E**
(values in $mm)			
Revenue	2,347	3,202	4,397
% Growth		*36%*	*37%*
EBITDA	($12)	$47	$317
% Margin	*-1%*	*1%*	*7%*
Gross Box Office	665	885	
% Growth		*33%*	

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Average Cost	$34.12
# of Shares	490
Value Invested	16,719
Portfolio Weighting	3.56%
2017 HPR	(0.91%)
HP Benchmark Return	4.02%
Excess Return	(4.93%)

LIONSGATE (NYSE:LGF.A)

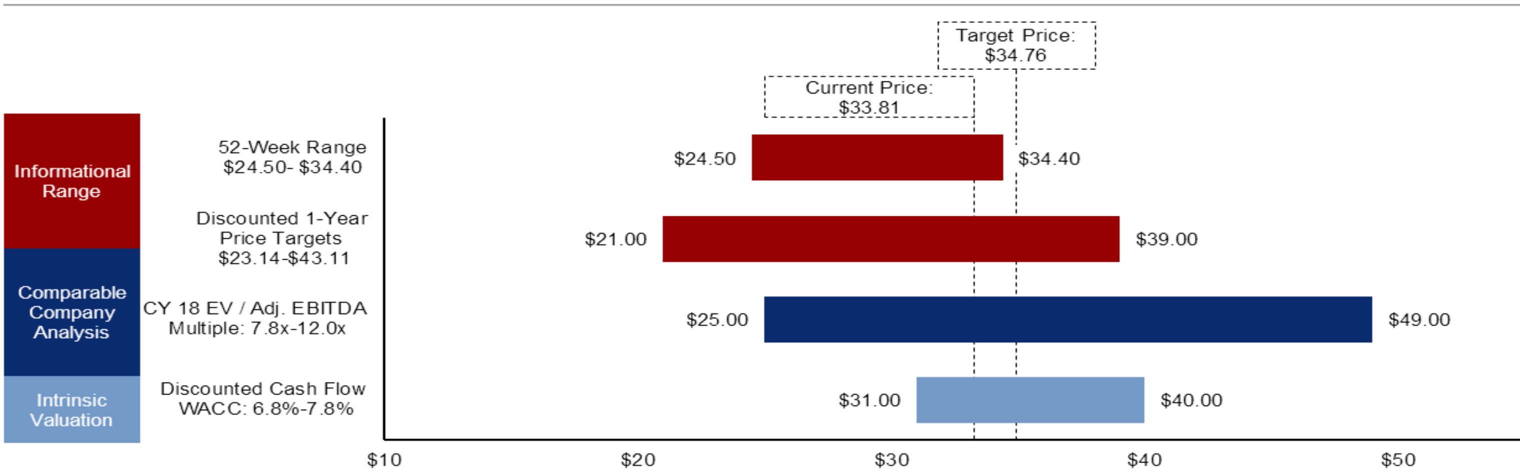
INVESTMENT THESIS

1. **Positive Film Industry & Franchise Success**
   - Global film industry is growing steadily in recent years especially in Asia Pacific Market
   - Lionsgate has expertise in small-budget movies, especially Action and Horror; it also has strong ability to turn small-budget movies into successful Franchises
   - Lionsgate recently opened a Hunger Game theme park in Dubai, and more parks under construction worldwide. This would positively benefit the financial of Lionsgate.
2. **Video Streaming Boom & Market Expansion**
   - The number of Scripted Original Series increased averagely 9% annually after 2008, mainly driven by the emerging Online streaming market
   - Lionsgate also successfully reached collaboration with Sony, Amazon Prime and iQiyi for content distribution to cover worldwide online streaming market
3. **Starz Acquisition: Strong Potential Acquisition Synergies**
   - Starz gets a formidable pipeline to feed their content, while Lionsgate gains an outlet to distribute its portfolio of TV shows and films.
   - Combined marketing strategies increase expenditure efficiency across all OTT channels
   - Multiple networks strengthen position with 3rd party platforms for market expansion

ANALYSIS OF PERFORMANCE

In November 2017, we invested 3.56% of our fund assets in Lionsgate after its release of second quarter report of FY2018. We entered at $34.12/share, which was incited by the positive result of its quarter report. However, just shortly after our purchase, Zacks investment research downgraded its recommendation on Lionsgate, which negatively affected stock price of Lionsgate. Following this, the Trump's tax bill also had a unfavorable price influence on Lionsgate stock. In December, the stock price dropped to $33.81, which led the stock to underperform our benchmark by 4.93% However, the stock price change showed a strong resistance level around $32 and given the low trade volume, we still expect Lionsgate to perform well in the future, especially after the third quarter report release in February which shows the continuous positive synergy effects of Starz acquisition.

VALUATION SUMMARY



Source: Bloomberg

ANNUAL REPORT 2017

CONSUMER STAPLES

2017 REVIEW & 2018 OUTLOOK

MENGDIE LV
SHENG LI
XINYUE SHI
YIDAN SONG

DESAUTELS CAPITAL MANAGEMENT

CONSUMER STAPLES
SECTOR OVERVIEW

INTRODUCTION

Consumer Staples had a relatively weak performance in 2017, gaining only 3.9% vs. 16.9% for the S&P 500. Our holding in the sector, Estee Lauder, had a strong year, with a return of 13.8%, due to strong sales growth in emerging markets along with the successful acquisitions of Too Faced and Becca.

SECTOR SUMMARY

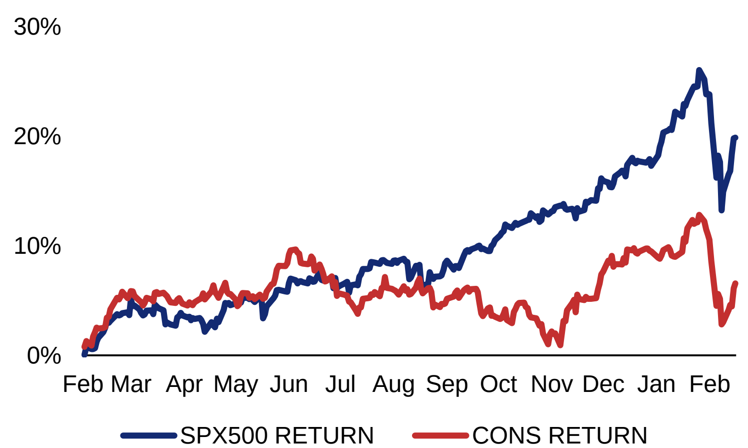
During the first two quarters of 2017, consumer staples stocks kept pace with the sustained growth of the stock market, primarily due to the hope that tax cuts and a rollback of regulations would help spur consumer spending. As the economy got into full employment, consumer staples companies returned to the strained condition caused by increasing wage pressures and vicious competition, and the sector lagged the S&P500 Index by approximately 6% for the five months following the second quarter. However, with upward revisions to sector outlooks, consumer staples bounced off the bottom, rose sharply and outperformed the S&P500 Index at the end of 2017.

The Consumer Staples Sector includes manufacturers and distributors of food, beverages, tobacco and producers of non-durable household goods and personal products. It also includes food & drug retailing companies as well as hypermarkets and supercenters. In the recent year, personal products is the fastest growing subsector with a sharp increase of 15.27%, while the food products market, which had negative revenue growth, remained in the doldrums. For 2018, we also expect to see continued expansion and development in the personal product market.

Stocks in consumer staples sector are considered defensive in economic downturns. Regardless of the state of the economy and financial condition of consumers, the majority of stocks in this sector have steady, non-cyclical return and low price elasticity towards demand, providing a significant diversifying effect to the entire portfolio. In the past 12 months, our sector achieved a cumulative return of 3.86%, lower than S&P500 benchmark of 16.88%. However, this relatively weaker performance was in line with our analysis, low return rate did not indicate consumer staples sector should be dropped off from the portfolio. Its stable performance in the entire economic cycle provides downside risk protection to overall security portfolio.

In terms of gross return , the performance in the whole consumer staples sector was not so satisfying due to low market beta. Normally stock return has a positive linear relationship with Beta, which measures its exposure to market risk. In other words, consumer staples sector sacrifices part of its returns in exchange of downward risk protection features.

Figure 1: Sector benchmark and S&P500 performance



Source: Bloomberg

CONSUMER STAPLES
SECTOR OVERVIEW

DRIVING FACTORS

▪ MARKET TREND: LIVE LIGHT AND GREEN

In recent years, non-artificial, natural, organic, and related terms have dominated the market. Customers prefer healthier and nutritious products. Higher middle-class weighting in emerging market and Millennial generation in high-welfare countries pursue a much healthier lifestyle now. Statistically, packaged Foods & Meats subsector had a -3% return rate in last calendar year 2017, while Fresh Food Retail harvested a gross return of 24%.

Amazon successfully caught this new trend by acquiring Whole Food in Aug.28th 2017, since then its stock prices soared from $946 to $1169 on Dec.29th . Nonetheless, this acquisition transaction benefited IT sector, while greatly hurt our hypermarket subsector. Walmart, Costco and other large player were forced to fight back through a series of leveraged buyout transactions.

▪ CURRENCY FLUCTUATION

The value of the dollar index(DXY), which tracks the dollar against six major global currencies, has fallen continually since February. Meanwhile, other major currency units like Japanese yen fluctuated up and down through entire year. Exchange value volatility affects multinational corporation with respect to foreign exchange loss, more specifically, a rise in local currency pulled up their manufacturing cost and overall expense while a fall in local currency shrank the gross revenue when converted to home currency.

Walmart, the most prominent player in consumer staples regarding its market size of 316B, has 28% of retailing revenue earned overseas, exposed to this currency factor directly. Nestle, a big participant in beverage and food industry, suffered large currency transformation loss last year because of the foreign currencies appreciation(3% loss in the Greater China Region, 9.7% loss in United Kingdom and 14.3 loss in Mexico.)

SECTOR OUTLOOK

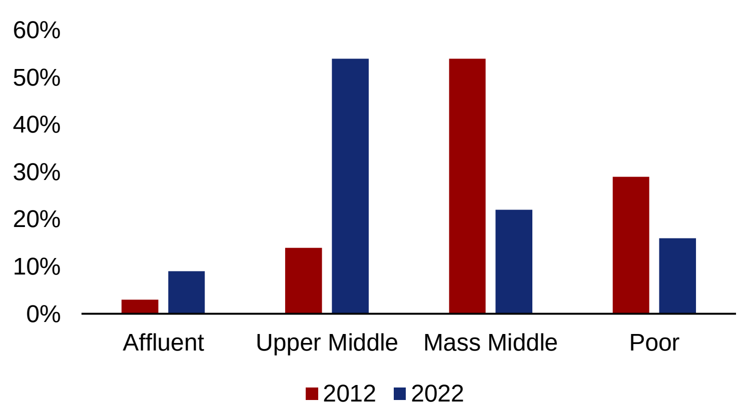
▪ MULTINATIONAL COMPANY

The consumer staples sector is dominated by companies that are multinational, such as Coca-Cola, P&G, Estee Lauder, and Walmart. Taking Estee Lauder as an example, its beauty products are distributed to more than 150 counties in the world. Multinational companies look particularly attractive since they offer a mix of geographic and product diversification and, over time, those who can successfully adapt to local preference can often gain market share over local businesses.

▪ EMERGING MARKET

Consumer staples companies with sizable emerging-market exposure may offer some of the sector's most robust earnings-growth prospects. For instance, net sales of Estee Lauder in emerging markets rose 11 percent in constant currency in fiscal 2017 with the substantial growth from China, Russia, and Mexico. A burgeoning middle class and faster population growth than in developed markets make these countries attractive end markets for large multinational staples companies in 2018 and beyond.

Figure 2: China's Middle Class as Percent of Urban Household



Source: McKinsey&Company

CONSUMER STAPLES
SECTOR OVERVIEW

▪ DEVELOPED MARKET

Driven by millennials, the more developed countries consumers increasingly favor foods that are made locally and prefer to buy whole, raw ingredients and prepare more of their meals by themselves. The earnings of larger packaged-food companies could be influenced by the trend away from processed foods. However, the challenge still brings opportunities to some companies who have successfully changed consumers' perception of their product lines to appear more natural and organic. For instance, in 2017, Pilgrim's Pride Corp, the world's second-largest chicken producer, acquired smaller rival GNP Company in a $350 million deal that can increase its organic and antibiotic-free offerings.

▪ THREATS FROM TECH GIANTS

Hypermarket and super-centers are hurting from Amazon's aggressive expansion into the retail market. Long existing players in this sector fightback by increasing their e-commerce investment. Costco, Walmart, and other local retailers updated their searching and site stability, frequently prompting online discount sales to win back online market. To maintain customer loyalty, companies discount their membership fees and provides extra member benefits.

To fight against tech giants, hypermarkets scarify part of their pricing power to retain market share. The Walmart's rapid expansion of its developing markets will help it compete against Amazon, Hypermarkets had started lowering prices on goods supplied by its independent merchants, absorbing the cost difference itself.

This threat directly influences the valuation of almost every subsector in consumer staples, with so many uncertainties involved, future growth perspective of staples sector should be further discounted.

▪ FEDERAL TAX REFORM

Federal tax reform could benefit consumer spending, some companies have already announced employee bonuses and higher wages in the wake of this legislation. With sufficient disposable income, households change their choice from discount grocery stores and low-end products to more delicate, organic food stores and high-priced items. Such trend obvious will benefit our personal care subsector, companies like L'Oréal, Unilever, Estee Lauder are expecting next sales booming year 2018. However, effect brought by tax reform is short-termed and needs to be discounted when incorporating into the valuation model.

In terms of valuation, 1yr forecasting multiples like P/E ratio and EPS of personal care subsector keep stable at around 33 and 2.75, right fit our investment thesis and expectation towards equity market.

Source: Bloomberg

CONSUMER STAPLES

2017 HOLDINGS REVIEW

ESTEE LAUDER (UN:EL)

COMPANY OVERVIEW

- We choose the stock of Estee-Lauder, a cosmetics company in the consumer staples sector with market cap of $51 billion, ranking after the first cosmetics player L'Oreal.
- Estee-Lauder focuses solely on prestige makeup, skin care, fragrance and hair care with a diverse portfolio of more than 25 exceptional brands. Clinique, Estee-lauder, Tom Ford and La Mer are the most famous ones while Becca and Too faced are brands newly acquired. We purchased the stock on November 29th, 2017 at the price of $124.07, and our initial target price was $144.

CATALYSTS

- The increasing purchasing power of consumers worldwide. With the development of world economy, consumers tend to spend more on beauty products.
- The development of online shopping. Customers tend to do online shopping more frequently, and Estee Lauder has developed its e-commerce progressively.

RISKS

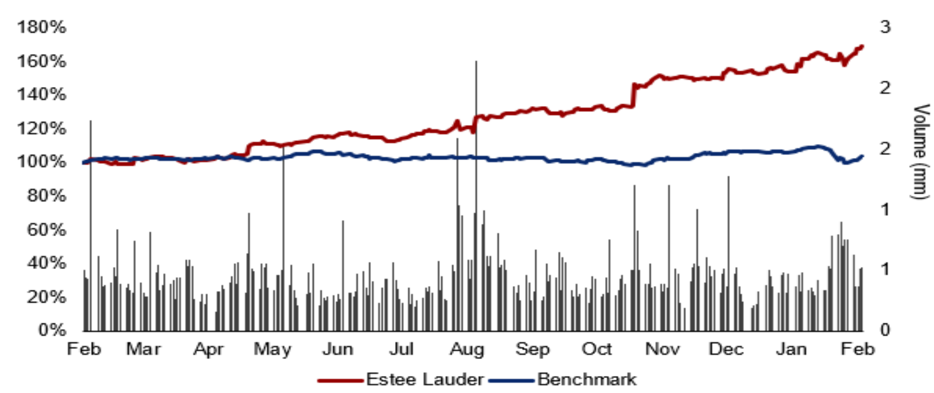
- Competition in the beauty industry. Due to the substitution effect, the Estee Lauder faces fierce competition from its main rivals.
- M&A decisions. Unsuccessful M&A decision is costly and risky. Estee Lauder faces the risk of choosing the wrong target or unbeneficial purchasing methods.

FINANCIAL SUMMARY

Public Market Overview	
(values in CAD M, as of Feb. 16, 2018)	
Stock Price	$141.04
Shares Outstanding (mm)	368
Market Capitalization (mm)	**$51,903**
+ Preferred Stock	-
+ Minority Interest	$18
+ Total Debt	$7,166
- Cash	($1,136)
Enterprise Value (mm)	**$57,951**
Beta (1-Year)	0.74
Dividend Yield	1.3%

Financials	**FY2016A**	**FY2017A**	**FY2018E**
(values in $mm)			
Revenue	11,262	11,824	12,890
% Growth		*5%*	*9%*
EBITDA	$2,185	$2,347	$2,774
% Margin	*19%*	*20%*	*22%*
EPS	3.2	3.47	3.97
% Growth		*8%*	*14%*
ROE	31.00%	28.00%	31.44%
ROIC	20.81%	18.99%	19.49%
EV/EBITDA		16.65x	15.3x
P/E		28.19x	25.32x

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Position Snapshot	
Average Cost	$124.07
# of Shares	135
Value Invested	16,749
Portfolio Weight	3.67%
2017-18 HPR	13.68%
HP Benchmark Return	0.49%
Excess Return	13.18%

ESTEE LAUDER (UN:EL)

INVESTMENT THESIS

- Steady growth opportunity: Although in 2015, the acquisition failure of 4 brands posed Estee-Lauder in a dilemma, the growth rate increased rapidly after 2015, especially in Asia/Pacific. We predict the growth of sales will remain constant in Americas and EMEA, while the most potential expansion lies in China. From 2018 to 2022, China is expected to take the lead on the world economy, with a boost of middle-class and their consumptions. Meanwhile, growth in the make-up sales in China also ranked the first, with Estee-Lauder taking the lead on online shopping.

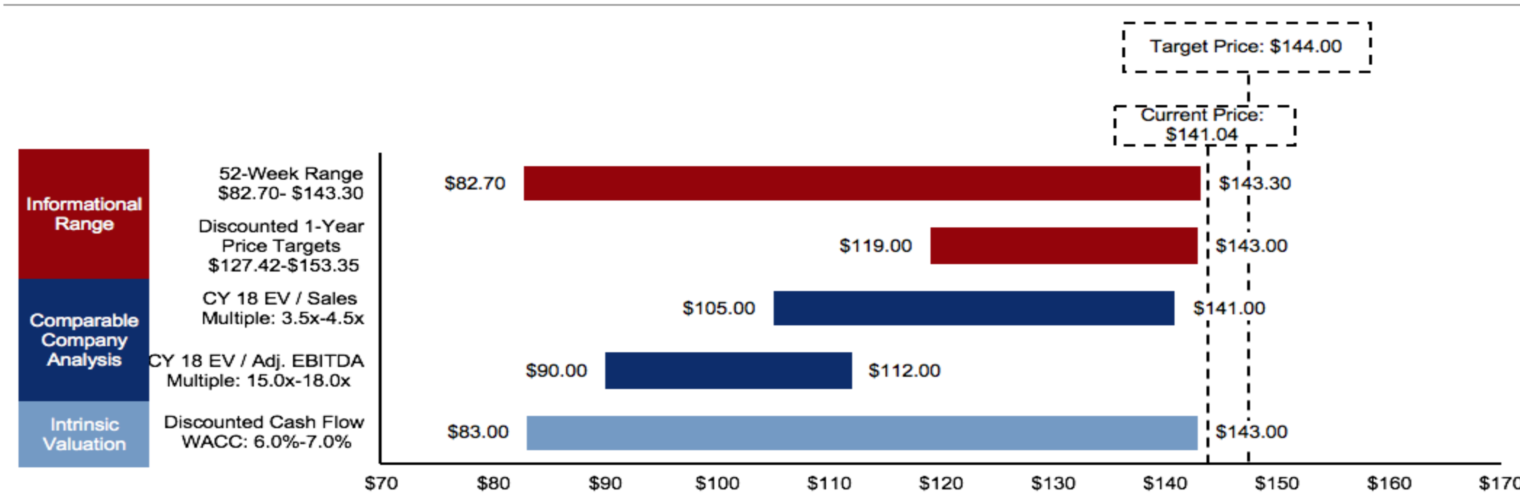
- Successful acquisition: Estee-Lauder acquired Becca and Too Faced in 2017, and both of them are famous among young people. It turns out to be a successful acquisition because the stock price increased from $110 to $121 after the 2018 Q1 financial report was released, which illustrated that Estee-Lauder had a sales growth rate of 16%. Besides, Tom Ford, MAC, and Clinique are always the best sellers in the recent few years.

- Comparable analysis to L'Oreal, the most prominent player in the beauty industry: The brands of Estee-Lauder mostly focus on people with strong purchasing power, while L'Oreal has more low-end brands. We think the low-end brands are not very promising in the future, because consumers tend to spend more on cosmetics. Besides, Liliane Bettencourt, the inheritor of L'Oreal passed away recently, making L'Oreal get into some equity dispute and scandals.

ANALYSIS OF PERFORMANCE

- Since we purchased the stock, the price kept rising steadily, and what we mentioned in our investment thesis has played an important role. As suggested by the CEO of Estee-Lauder, during the new year holiday, more travelers from mainland China and other Asian countries went to Hong Kong, contributing to the increasing sales in duty-free shops. Besides, it was noted that the newly acquired brands are popular among young people.
- Concerning the competition with L‘Oreal, Estee-Lauder has apparently gained an advantage. In the November of 2017, the Chinese entry-exit bureau found many unqualified products of Lancôme and YSL—the famous brands of L'Oreal. These products were not allowed to enter into China and then destroyed. However, such incident was not the first time. In addition, the newly acquired brand IT cosmetics which cost L'Oreal $1.2 billion U.S dollars did not perform much well like Too faced and Becca did among the young.

VALUATION SUMMARY



Source: Bloomberg

ENERGY

2017 REVIEW & 2018 OUTLOOK

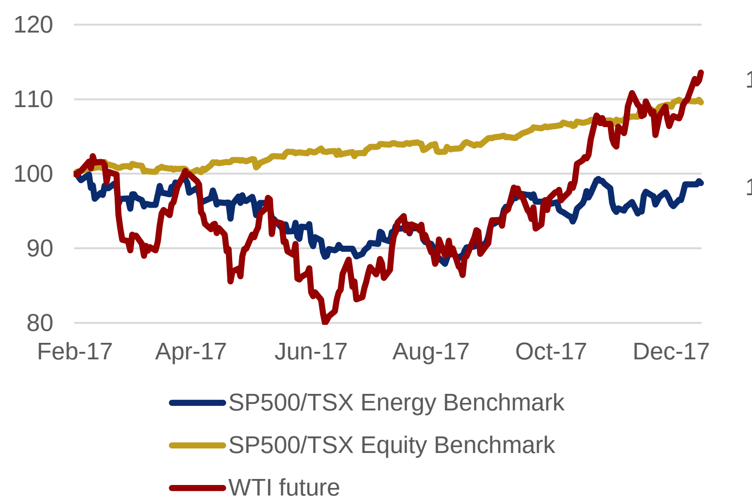
HAGEN SAGLI
JORDAN ARNOLD-ANDRASKO
QUAN NGUYEN
SARAH TRAVIS
ZACHARIE LEBLANC

ENERGY
2017 PERFORMANCE REVIEW

BENCHMARK PERFOMANCE

In 2017 the energy sector benchmark underperformed the equity market benchmark by 10%. The 2017 performance is shown in Figure 1.

Figure 1: Energy sector return vs Equity Benchmark return (SP500 and TSX)

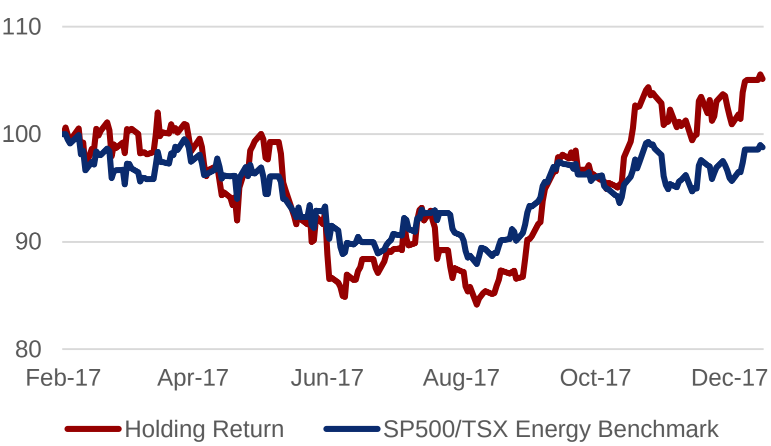


This underperformance was especially prominent in the first 3 quarters of 2017. A significant contributor to this underperformance was a 12% decrease in the WTI crude oil prices from $53.20 per barrel to $47.20 per barrel at the end of August. During the last quarter of 2017 oil prices surged, exceeding $60.00 per barrel and leading to a rebound in performance for the energy sector at the end of 2017. Overall, the sector still underperformed because the Canadian energy sector, which constitutes 60% of the benchmark, did not react as strongly to the oil price surge.

DCM ENERGY PERFOMANCE

The DCM energy portfolio returned 5.1% for the year, outperforming the sector benchmark by 6.4%, despite underperforming in the middle of the year. The 2017 returns of the DCM portfolio and the benchmark are shown in Figure 2.

Figure 2: Holdings return vs Energy Benchmark



The stronger performance towards the end of the year was due to a higher weight placed on Valero Energy, almost 40% of the portfolio. Valero returned 36% since its purchase in 2017. Additionally, the stocks CES Energy Solutions and Parsley Energy were removed from the portfolio after returning -25% and -20% respectively.

Kelt Exploration's return was negative for the year but the stock performance has been improving, supported by oil price surge. Kelt's year-end return was -5%.

Supported by high gasoline prices, Valero returned 36.5% during the year, confirming our thesis. The spread between WTI and Brent widened by $4 due to spike in shale production locally in US, which decreased input costs for Valero as a refiner.

Source: Bloomberg

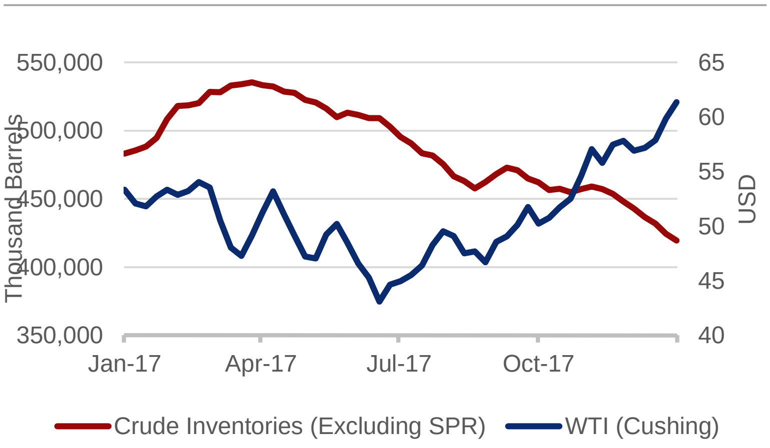
ENERGY
CRUDE OIL

The energy sector had a slow start in 2017 as evidenced by its declining market capitalization. Due to higher demand and higher commodity prices, however, we saw increased performance towards the second half of the year.

US PRODUCTION

2017 was a turning point for the crude oil market, which reached prices not seen since the downturn in December 2014. Although production numbers in the US continued to rise, so did global demand, resulting in a significant decrease in the crude stockpile throughout 2017, shown in Figure 3. After WTI hit a low of $42 per barrel in June, the year ended with crude oil prices above $60 per barrel. Although minor reversals are possible, the overall price environment is likely to remain higher throughout 2018, given stable demand.

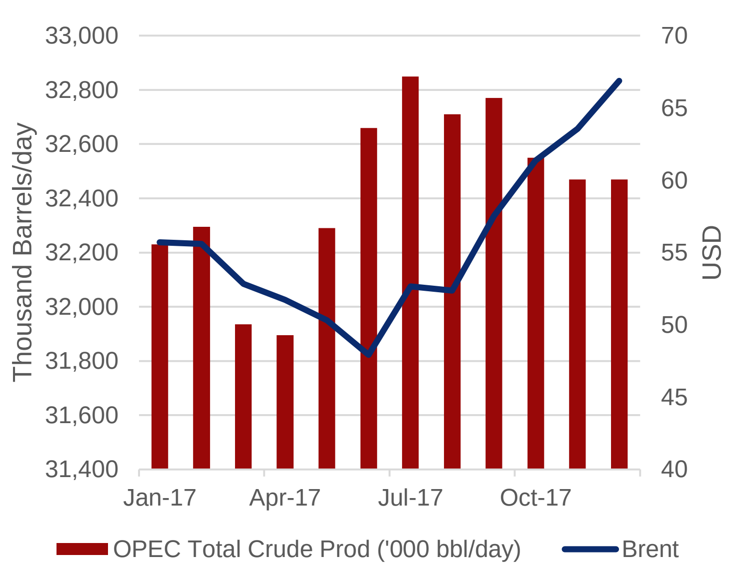
Figure 3: US Crude Stock vs. WTI



OPEC & RUSSIA PRODUCTION CUT

In November, OPEC and Russia agreed to extend their production cuts through the end of 2018, amounting to a reduction of 1.8 million barrels per day. Although the extension was largely anticipated by the market, a significant price hike was observed in December following the official announcement of the deal. The OPEC cuts were initially implemented at the end of 2016 and have been in place since. Total OPEC production for 2017 is shown in Figure 4.

Figure 4: OPEC Production vs. Brent



RUSSIA: THE UNCERTAIN FACTOR?

Russia is less reliant on high oil prices than its Middle Eastern counterparts because it does not require the same price level in order to balance its budget. Although it was not a major surprise that Russia agreed to extend their portion of the cuts, they may be the uncertain factor if crude markets overheat in 2018.

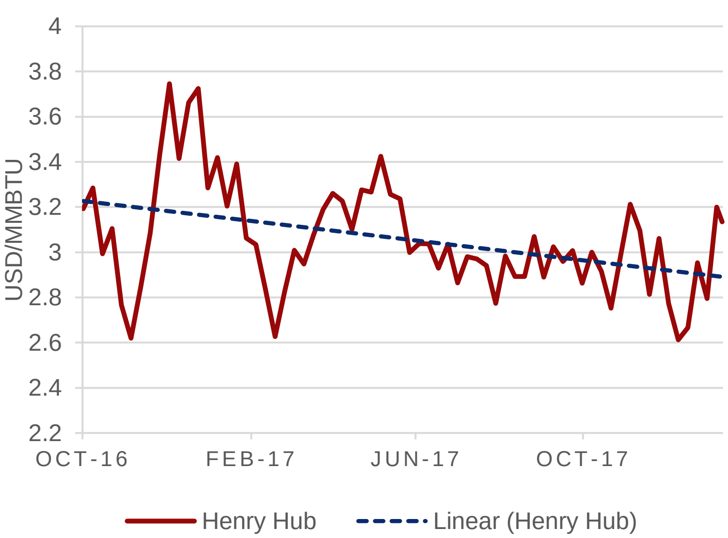
Source: Bloomberg

ENERGY
NATURAL GAS

UNITED STATES

As expected, natural gas in the US has seen major volatility, with prices ranging between $2.60 and $3.75 mcf, shown in Figure 5. Additional deviations have also affected the differentials for E&P companies due to regional weather driven demand throughout the year. Although the US is aiming to greatly increase its usage of natural gas to meet climate goals, natural gas prices are likely to remain low.. This is largely due to the significant increase in supply from the continued expansion in shale production. There is a positive outlook on differentials as pipeline access increases in important regions, including Marcellus.

Figure 5: Henry Hub 2017 Prices



Source: Bloomberg, EIA

The Energy Information Administration's (EIA) forecast for well productivity of individual wells is assumed to grow as technology improves, which may not be sustainable in the future. An additional factor that may contribute to the overstatement of production is the compounding of growth year over year. This means that the estimates for 2020+ may be vastly overstated because there is no guarantee for these technological improvements to continue. Although fracking has led to higher production capabilities, a major portion of the production growth seen today and moving into the future may be a result of a lower price environment as drillers shift focus to sweet spots with higher initial extraction rates. As a limited commodity these reserves are doomed to deplete over time, forcing the E&P sector to move to less productive plays, and lower production growth in the future. What remains to be seen is when this threshold will be reached for these relatively young shale producers.

CANADA LNG

As the demand for Liquified Natural Gas (LNG) increases in Asia Pacific, Canada has yet again showcased its inability to capture its share of this rapidly growing market as additional projects were cancelled this year. This includes the $36bn Pacific Northwest LNG project, which was approved but canceled due to the slow and impeding political debate regarding the hub location and climate considerations. Although there are potential projects on the horizon, the future of Canadian LNG remains highly uncertain.

ENERGY
SECTOR OUTLOOK

US PRODUCTION GROWTH

U.S. based exploration and production companies have been able to adjust their cost of production to become profitable in a lower price environment in recent years. Therefore, they should be able to fund production growth in the future. The U.S. currently supplies approximately 5% of the worlds' crude oil, however, an increase in production could decrease the price of crude due to the narrow balance of the world's supply and demand.

US TAX REFORM

The new tax rate in the US will make energy companies pay on average 15% less than they had been paying over the last 11 years. This will free up capital spending for the US based energy companies, therefore this should also increase production. If the demand does not increase with the supply worldwide, there might be a decrease in oil price. This would negatively affect companies outside the US since they are not getting these advantages and selling the oil at a lower price. However, U.S. companies will profit largely from this because estimates state that every 1% cut in taxes will increase the EPS by $2. Therefore, even will a slight drop in oil prices, U.S. companies should still come out ahead.

NATURAL GAS

As for the natural gas prices, they might be experiencing downwards pressure as the productivity of oil increases and the rise of renewable energy. People will be looking for most convenient energy source, and if the other sources become more accessible and affordable, the price of natural gas will have to go down as well. However, there will also be an increase in the natural gas demand because there will be an increase in infrastructure which will make natural gas accessible in more locations. It will be interesting to watch which factor will dominate in 2018 and how the price of natural gas will react.

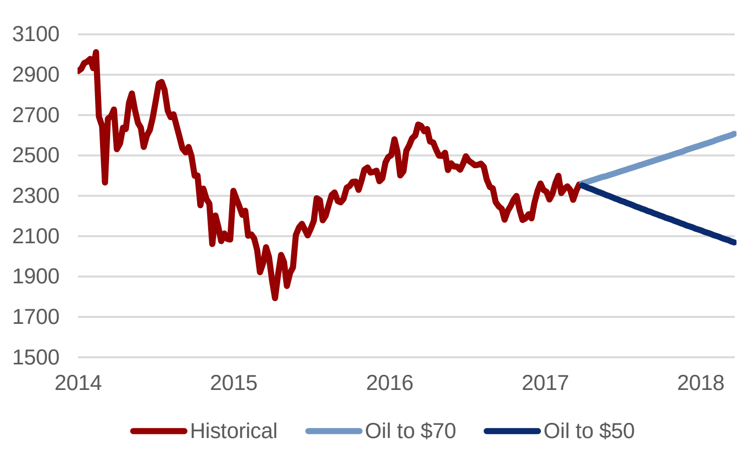
RENEWABLE ENERGY GROWTH

Renewable energy should experience growth in 2018 as the recent technological advances are easing the integration of renewable energy in the world. Its growth will also depend enormously on the policies that the US Department of Energy puts in place in order to incite the use and production of renewable energy. Which is uncertain under the current US administration, as they are planning to withdraw from the Paris climate accord.

CANADIAN MARKET PREDICTIONS

Figure 6 shows the predicted value of the energy sector based on different oil price scenarios. These predictions are based on their historical correlation, and it shows the impact that oil prices should have on the Canadian market. It will be very interesting to see how the oil price react to the trends that will happen in 2018, specifically how the United-States activities could affect the oil prices and therefore affect the Canadian industry.

Figure 6: Energy Sector Value Forecast



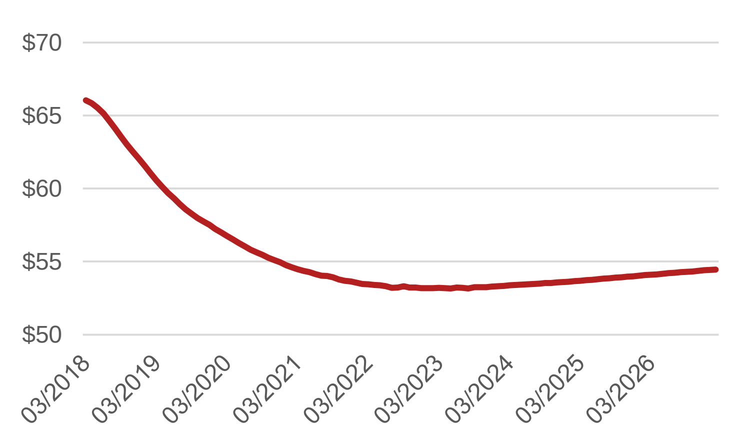
Source: Bloomberg

ENERGY
SECTOR OUTLOOK

OIL FUTURES CURVE

The recent rebound in oil prices reflects the reduction in global oil inventories, largely due to OPEC meeting its goal to limit crude oil output to 32.5 million bpd throughout 2017 and its commitment to extend production cuts through the end of 2018. 2017 marked the first year of global inventory draws since 2013. The rebound in oil prices has shifted the crude oil futures curve, shown in Figure 6, into backwardation for the first time since 2014. This reflects the uncertainty that the recent increase in oil prices will be sustained beyond the short to medium term.

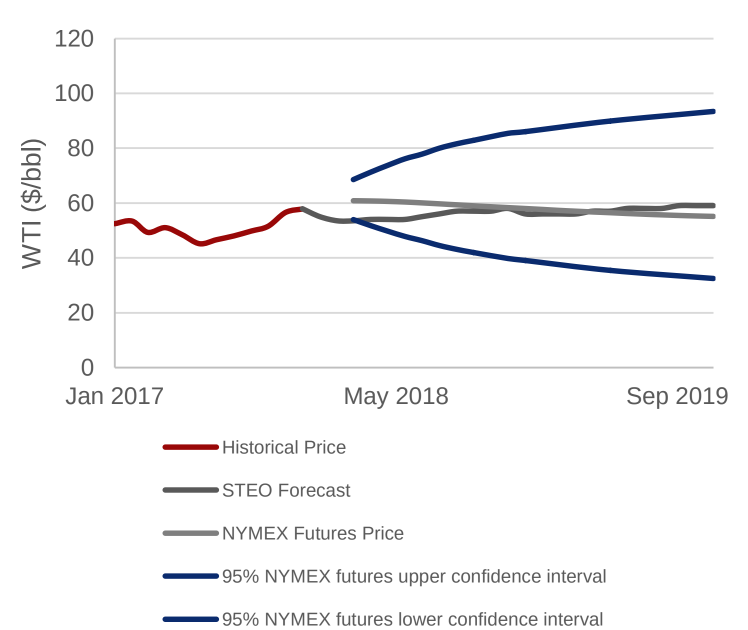
Figure 6: WTI Futures Curve



2018 SUBSECTOR OUTLOOKS

With US production projected to increase to 10.8 million bpd in 2018 (up from 9.3 million bpd) and the possibility that OPEC fails to keep its agreement, global inventories are expected to increase 0.2 million bpd in 2018 creating uncertainty in the sustainability of increased prices. EIA forecasts the Brent crude oil spot price will average $60.00 per barrel in 2018 and $61.00 per barrel in 2019 with WTI prices forecasted to be $4.00 per barrel lower than Brent prices. The price discount of WTI to Brent is expected to decrease because current constraints on transportation capacity from Cushing to the US Gulf Coast will gradually lessen. With the ability of OPEC and US shale producers to quickly cut production, it is unlikely that oil prices will decrease significantly in the near future. With oil prices range bound in the short term, it is probable that current valuations for the exploration & production subsector reflect the current oil price levels and future uncertainty.

Figure 7: EIA WTI Crude Oil Price Forecast



With a price to earnings ratio that is double the five-year average and crack spreads likely to decrease in 2018, the refining subsector has little room for growth this year.

Increased demand for natural gas in North America driven by the increased share of electricity generated by natural gas and decreased price differentials as a result of improved infrastructure will drive earnings for natural gas producers higher in 2018 and push valuations for the subsector up.

Source: Bloomberg, EIA

ENERGY

2017 HOLDINGS REVIEW

ENERPLUS (TSX:ERF)

COMPANY OVERVIEW

- Enerplus Corp. is an oil and gas E&P company focused on crude oil and natural gas assets.
- The company operates both in Western Canada and the United States. The company has mature crude oil and natural gas properties in the Western Canada, as well as shale and natural gas properties in North Dakota and Northeastern Pennsylvania.
- Enerplus as of December 2016 had 2P reserves of 382mm barrels of oil equivalent, with an asset mix of approximately 48% liquids and 52% natural gas.

CATALYSTS

- Pipeline approval in Northeaster US could lead to increased natural gas production and reduced differentials
- Higher oil prices could prompt aggressive expansion and increased production levels for crude oil

RISKS

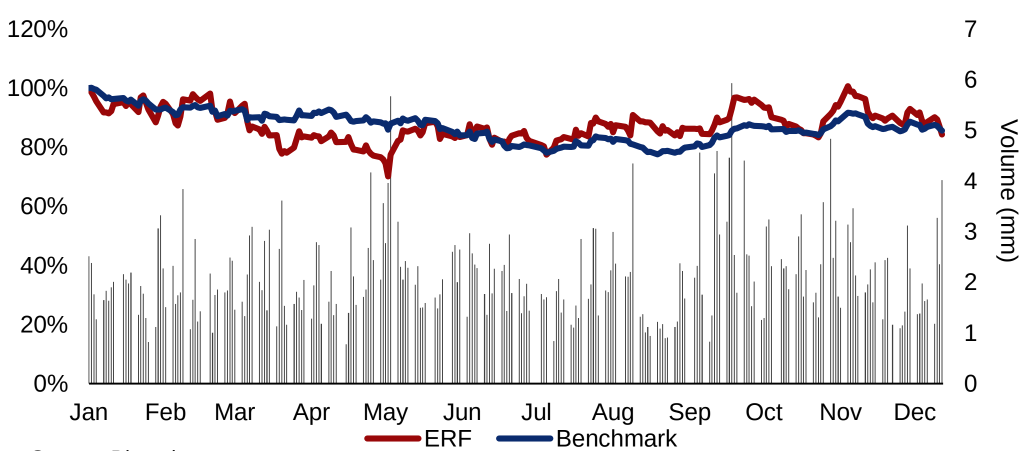
- Low oil prices could reduce company's profitability and hurt dividend potential
- Increased environmental regulations

FINANCIAL SUMMARY

Public Market Overview	
(values in CAD M, as of Dec. 31, 2017)	
Stock Price	$12.31
Shares Outstanding (mm)	242.128
Market Capitalization (mm)	**$2,981**
+ Preferred Stock	$0
+ Minority Interest	$0
+ Total Debt	$667
- Cash	$349
Enterprise Value (mm)	**$3,299**
Beta (1-Year)	1.79
Dividend Yield	0.9%

Financials	FY2016A	FY2017A	FY2018E
(values in $mm)			
Revenue	963	1,100	1,300
% Growth		*14%*	*18%*
EBITDA	$582	$492	$636
% Margin	*61%*	*45%*	*49%*
Production (boe/d)	93,125	84,000	91,000
% Growth		*-10%*	*8%*
EPS	$1.75	$1.01	$1.10

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Average Cost	$0.00
# of Shares	0
Value Invested	0
Portfolio Weight	0.00%
2017 HPR	0.00%
HP Benchmark Return	0.00%
Excess Return	0.00%

ENERPLUS (TSX:ERF)

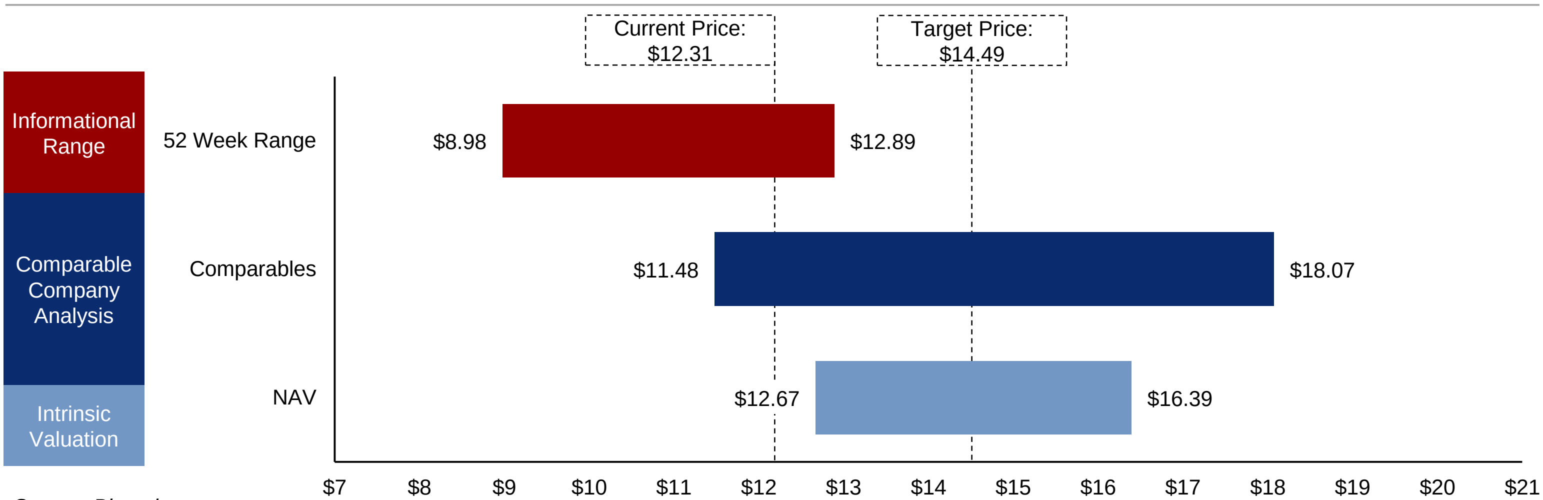
INVESTMENT THESIS

1. **Increased production targets for North Dakota oil**
   - Aggressive expansion in North Dakota properties, high capital expenditure and increased well drilling
   - Improvements in initial production rates for new wells drilled in 2017
2. **Natural gas pipeline access in the Northeastern US**
   - Multiple pipeline projects set to be approved by late 2018
   - Significant increase in transportation capacity diminishing natural gas bottle neck and reducing differentials
3. **Operating efficiency advantages**
   - Improved operating technology for water transportation leading to decreased operating costs in North Dakota

ANALYSIS OF PERFORMANCE

Since we pitched Enerplus in late November of this year, it has outperformed our benchmark, returning 9% compared to a benchmark return of 6%. In terms of yearly performance, we saw Enerplus return -4%, where as the benchmark returned -10%. Enerplus has divested many of their non-core assets in 2017 and focused production growth mainly on their North Dakota crude oil properties. There was significant production growth in Q4 of approximately 12% from Q3 and this increased production is expected to continue into 2018 with most of this growth coming from the North Dakota properties. In addition, in 2017 Enerplus issued a cash dividend of CDN $0.01 in June and it is expected that a dividend will be issued in the upcoming year. Throughout 2017 Enerplus posted positive earnings in each quarter. We believe that Enerplus has worked hard to streamline operations to improve profitability and optimize their financial position ensuring that they will continue to be profitable moving into 2018.

VALUATION SUMMARY



Source: Bloomberg

BANKS

2017 REVIEW & 2018 OUTLOOK

GABRIEL VINCENT-GIRARD
NICOLAS GENEST
SEYEDALI GHAZIASGAR

BANKS
2017 REVIEW

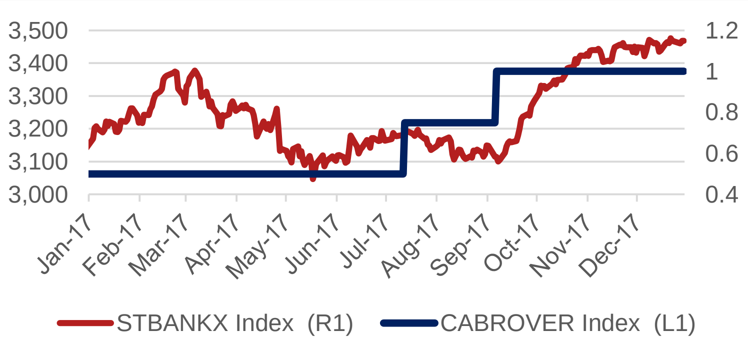
SHIFT IN INVESTORS' CONFIDENCE

Overall, the blended bank index (60/40 TSX/SPX) produced returns of of 14.26%, which is 3.76% more than our benchmark. Because the Fund did not have a team of analysts specializing in financials during the first half of 2017, we were heavily invested in the ETF financials of both the S&P 500 and the S&P TSX. This passive strategy allowed us to capture the exposure offered by both market subsectors.

The Canadian banks outperformed the overall market, producing returns of 12.56% compared to 5.23% for the S&P TSX. We attribute this performance mainly to the interest rate hikes, which have driven investors confidence in the Canadian economy. The Bank of Canada overnight rate started the year at 0.5% and following hikes in July and September, finished the year at 1%. Also, those increase positively impacted the Canadian banks net interest margin. During the two months following the September hike, prices have jumped by 10.62%, which represents a multiple expansion of 7.74%.

The landscape did not look as promising at the beginning of the year. One month before Q1 release, the bank index suffered from a major downturn, following the scandal surrounding Home Capital and speculations about a real estate bubble in major Canadian cities.

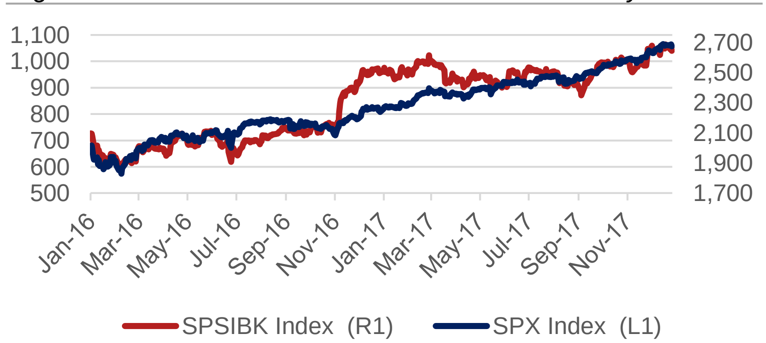
Figure 1: Canadian Banks Index Vs Bank of Canada Overnight Rate



Source: Bloomberg

The US banks performance lagged 9.75% behind the overall market, producing returns of 8.67% compared to 18.42% for the S&P 500. We attribute this underperformance mainly to the fact that banks rallied in November 2016, following the Presidential elections, and then traded sideways. In 2017, regional banks returns have lagged 13.11% behind the larger banks, mainly because they were faster at rallying the year before. During November only, banks surged 26% against 4.98% for the S&P 500. While this rapid multiple expansion of the P/E (which moved upwards by 7.90%, from 15.9x to 17.1x) happened in 2016, the US banks have been trading sideways for the first 3 quarters of the next year. The rate hikes of March, June and December didn't succeed in calming the uncertainty arising from contrasting signals, as the Federal Reserve closed the year with rates at 1.5%, a 75 basis points increase. Indeed, tensions between the US and North Korea, along with natural catastrophes, ranging from hurricanes to massive fires in California, raised uncertainty about the stability of financial institutions. This led to a contraction in multiples, which were standing at their 3-years moving average around September. The last quarter of 2017 was positively impacted by the tax bill of President Trump, as investors were pricing the likelihood of the tax bill receiving the House and Senate approval. This caused the P/E and P/B multiples to go from 15.2x to 18.2x and 1.3x to 1.5x respectively.

Figure 2: U.S. Banks Index Vs S&P 500 in the last 2 years



BANKS
2018 OUTLOOK

TRUMP TAX REPERCUSSION

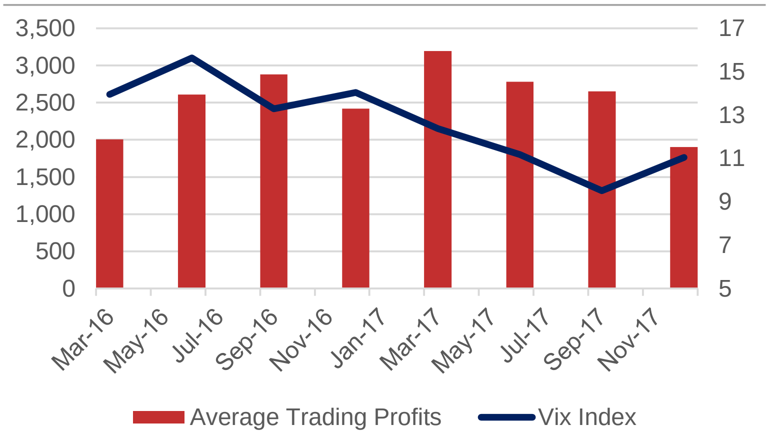
Despite a strong rally in the last quarter of 2017, we remain bullish on the banking sector for 2018 and believe there is still room for multiple expansion. First, the interest rates should continue to increase in 2018 on both side of the border. Second, the Trump tax cut that was finally approved should give a boost to deposit growth, loan growth, and investment banking division fees generation. Lastly, the sales and trading desks revenue generation should increase as investors evaluate the value creation or destruction of the extra liquidity held by corporations.

As the state of the U.S. and the Canadian economies are improving, both the Federal Reserve and the Bank of Canada announced they would be taking actions to optimize the level of interest rates. Not only are they trying to stabilize expected inflation, but they also seek to build concrete leverage on which they could rely on in case of a financial crisis. In laying the foundation to achieve this strategy, we expect the Federal Reserve to target at least three rate hikes in 2018, in line with analysts' consensus. This would set the Fed Fund rate at 2.25% for the end of 2018. On the Canadian side, the Bank of Canada announced a rate hike at the beginning of January, and is expected to target two subsequent hikes, bringing the overnight interest rate at 1.75% in Canada. It signals a strong North American economy and should continue to improve banks net interest margin, which already increased from 3.02% on Q1 of 2017 to 3.15% on Q3 of 2017. As a result, we should continue to see multiple expansion despite the already higher than historical averages P/E multiples.

Furthermore, the Trump tax cut that took place on January 1st will give a liquidity boost to many companies. It should increase the amount of deposits generated as well as potential expansion plans, such as reinvestment in the company or acquisition potentials. This should have a positive impact on bank earnings release in the first half of 2018, as more loans can be generated. Moreover, investment banking divisions should see an increase in the number of deals they are generating, thus increasing the revenue generation from commissions and fees.

Finally, a major discussion point that impacted the banks negatively in 2017 was the all time low level of trading activity, that often goes pair to pair with a low VIX index. Many analysts believe the market are inflated at the moment and multiples are high, thus keeping a significant part of their investable asset under management in cash. This drove trading activities down, negatively affecting earnings reports of all the major banks in the second half of 2017 (see figure 3). We do not expect this low level of trading activity to last indefinitely in 2018. Now that the tax cut has been priced in, companies are now expected to take decisions regarding what they will do with the extra liquidity generated. This has the potential to create or destroy value as management team make wise or bad decisions. This should drive individual companies up and down and generate higher trading activities. Sales and trading desks of banks should see higher revenues as a result.

Figure 3: U.S. Big Banks Trading Profits Tend to Lag the Trend of the VIX Index



Source: Bloomberg, Federal Reserve Bank of St. Louis

BANKS

2017 HOLDINGS REVIEW

FIRST BANCORP (NSDQ: FBNC)

COMPANY OVERVIEW

- First Bancorp is the largest independent community bank and 4th largest bank headquartered in North Carolina with 105 branches in NC & SC, USA
- The bank completed acquisitions of Carolina Bank Holdings, Inc. (CLBH) in the first quarter, Bear Insurance in the second quarter, and ASB Bancorp, Inc. (ASBB) in the fourth quarter.
- Total loans and deposits grew by 29.4% and 25.4% respectively as of Q3 2017, YOY
- The bank's core deposits are deposits in the bank's natural demographic market which not only provide stable source of funds and cost predictability, but also are less vulnerable to changes in short-term interest rates
- Total cost of funds was 1.15% as of Q3, YOY

CATALYSTS

- Further acquisition of other community banks
- Realization of expected cost savings from recent deals and retention of high core deposits
- Further increase in small business activity following tax cuts, leading to higher loan growth and enhanced non-interest income
- Improved economic & demographic forecasts for NC

RISKS

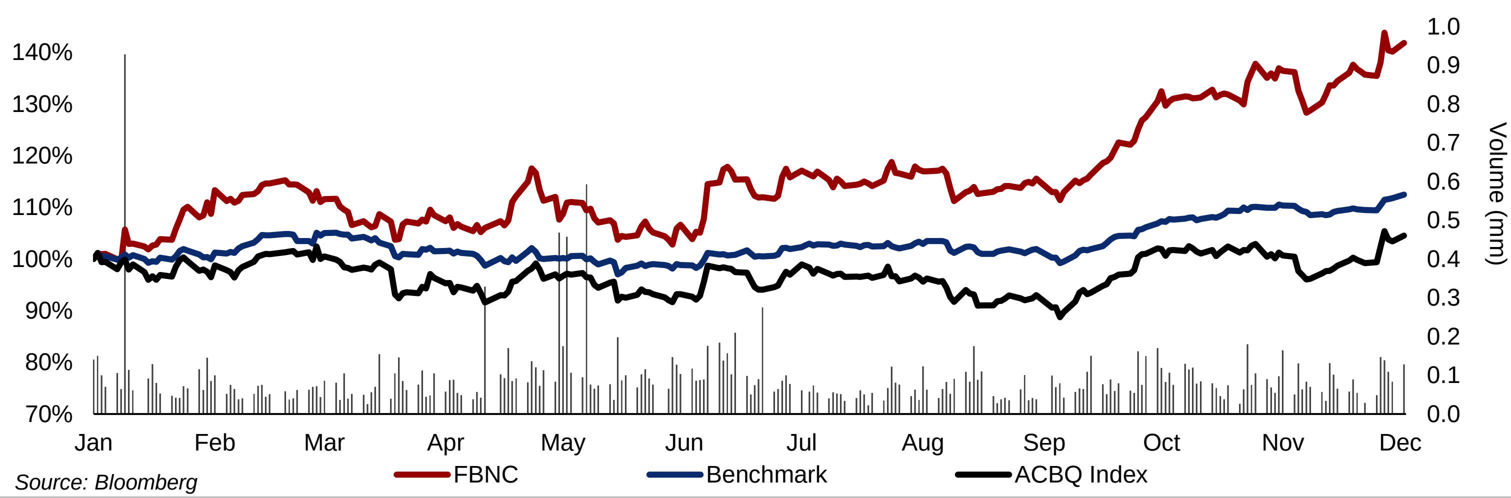
- Acquisition of other banks does not result in expected loan growth, cost savings and synergies
- Reduced taxes in other states decrease the prior low-tax advantage of North Carolina as a tax friendly state for doing business
- Economic downturn and reduced interest rates lead to lower NIM and raise the pressure on lending as the principal activity of the community bank

FINANCIAL SUMMARY

Public Market Overview	
(values in USD M, as of Dec. 29, 2017)	
Stock Price	$35.31
Shares Outstanding (mm)	29.64
Market Capitalization (mm)	**$1,047**
+ Preferred Stock	$0
+ Minority Interest	$0
+ Total Debt	$397
- Cash	($409)
Enterprise Value (mm)	**$1,035**
Beta (1-Year)	1.3
Dividend Yield	0.9%

Financials	**FY2016A**	**FY2017E**	**FY2018E**
(values in $mm)			
Revenue	157	233	296
% Growth		*49%*	*27%*
Net Interest Income	$123	$170	$223
Net Interest Margin	4.0%	3.7%	4.4%
Assets	3,615	5,479	6,068
% Growth		*52%*	*11%*
Deposits	2,947	4,329	4,861
Gross Loans/ Deposits	*92%*	*93%*	*94%*

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

FIRST BANCORP (NSDQ: FBNC)

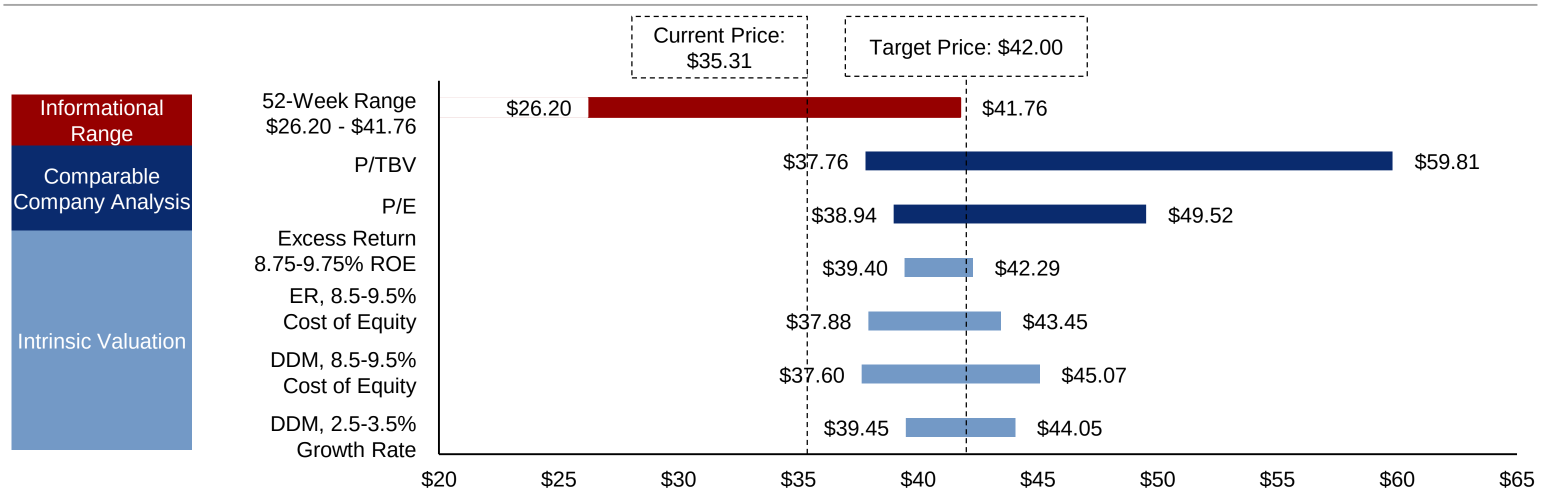
INVESTMENT THESIS

1. **Attractive Market with Prospective Growth**
   - The strong GDP growth in North Carolina, educational & employment opportunities, high migration to the sate and growing metropolitan areas, provide the bank with favorable economic prospects.
   - The strategic expansion into faster growing metro market and populous cities will enable the bank to exploit low-cost rural deposits in order to fund-high growth metro loans.
2. **Community Banks Advantage**
   - Maintaining closer ties with entrepreneurs as a community bank compared to large banks, the acquisition of SBA Complete, and increase in small business activity following tax cuts, will boost non-interest income.
   - By originating and servicing loans guaranteed by the Small Business Administration, First Bancorp has a competitive advantage, relative to other community banks, to serve small businesses as a "one stop shop".
3. **Accretive Acquisition Potential**
   - Forecasted acquisition of smaller community banks with high core deposits will provide loan growth and synergy potential through branch consolidation and cost savings on non-interest expenses.
   - Retaining core deposits of such acquisitions will allow maintaining low-cost of funds while expanding into higher competitive metropolitan areas.

ANALYSIS OF PERFORMANCE

The stock price rose by 30.8% over the year, outperforming both the benchmark (12.7% increase) and the NASDAQ Americas Community Bankers Index (0.8% increase). The Fed rate hikes during the year and the GOP tax plan are evident performance drivers; however, FBNC's expansion and augmented non-interest income strongly contributed to the upturn. Following CLBH transaction, total deposits grew by 28.4% as of Q1 2017, YOY, of which 13% was attributed to organic deposit growth. In addition, consulting services fees and insurance commissions rose by 36% as of Q3 2017, YOY. Bolstering the theses, the following research findings from *FDIC* and *Federal Reserve System* provide additional support to performance: "*Consolidation activity involving big banks was associated with lower loan growth, whereas community bank consolidations and a greater presence of community banks in the market were associated with higher loan growth*", "*Community banks are better able to form strong relationships with informationally opaque small businesses, while megabanks tend to serve more transparent firms.*" Relative outperformance is thus expected to continue given forecasted acquisitions, and supplementary growth in loans and non-interest income.

VALUATION SUMMARY



Source: Bloomberg

FINANCIALS

2017 REVIEW & 2018 OUTLOOK

ADEETYA KAUL
GABRIEL VINCENT-GIRARD
JUSTIN SPIELMAN
NICOLAS GENEST
SEYEDALI GHAZIASGAR

FINANCIALS
INSURANCE SECTOR REVIEW

In recent years, insurers' profits have suffered as they maneuvered through historically low interest rates, political changes, and arduous new regulatory and accounting rules. In 2017, the insurance sector underperformed the S&P500 by 4%, mainly due to underperformance of the reinsurance subsector, which was adversely affected due to the hurricanes in the US. The reinsurance composite increased 0.8%, whereas the SP500 increased by 18%. *(Figure 1).*

REGULATORY LANDSCAPE

Insurers have had to proactively initiate implementation plans to address the changes introduced by the new IFRS17 Insurance Contracts, which changes the method in which insurers recognize and present their cash flows. The amendment required significant implementation work from insurers across their operations – potentially including new or upgraded technology, as well as revamped processes and controls. Also, the EU's General Data Protection Regulation will be effective from May 2018 and with the two year post-adoption grace period almost over, insurers still need to address the impending challenges.

VALUATION

Life insurance underperformed in 2017 due to low interest rates as well as the drop in sales of fixed and variable annuity sales. However, the sector will benefit from tax cuts and interest rates, both of which support current valuations.

Hurricanes Harvey, Maria and Irma caused catastrophic losses upwards of $50bn, which led to the major underperformance of the reinsurance sector. The sub-sector's PE ratio increased from 10.4 in July to 56.8 in December due to losses from the hurricanes. Additionally, multiple years of price reductions has put pressure on already reducing underwriting profits, which further caused industry returns on equity dropping below the cost of capital.

In 2017, the P&C insurers suffered from large catastrophe losses, however, rise in premiums, operating efficiencies, and enhanced data analytics led to better fundamentals. The tax cuts and higher interest rates will increase the earnings going forward, however, the sub-sector is still trading at relatively higher multiples *(Figure 2).*

Figure 1: SP500 v. Reinsurance, Life & Health, and P&C Composites

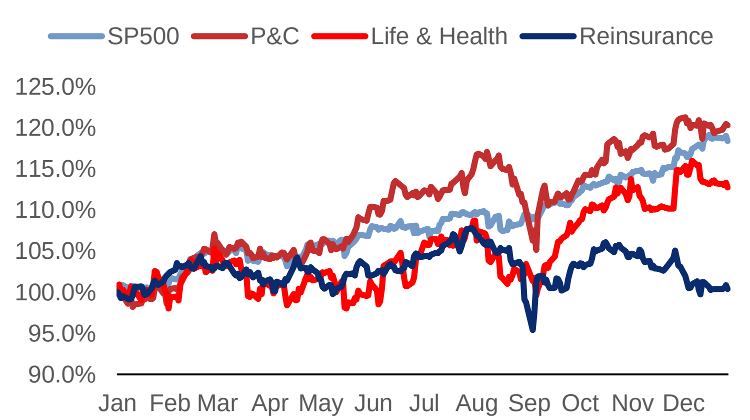
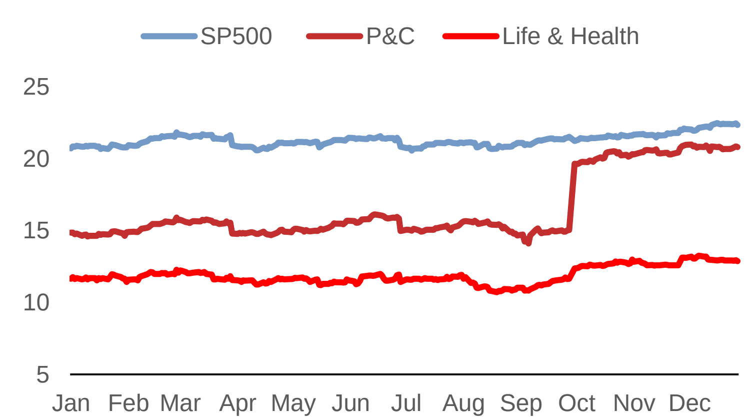


Figure 2: Price/ Earnings Multiples of subsectors



Sources: (1) EY Insurance Report, Bloomberg,

FINANCIALS

P&C INSURANCE REVIEW

The P&C subsector outperformed the SP500 by 1% by year end, despite declining by as much as 9% midyear as catastrophe incidence grew. Composite P/E grew steeply relative to the market as large carriers reported the a wave of catastrophe losses in 3Q17 earnings.

HURRICANES AND WILDFIRES

In August, the US' most destructive hurricane season since 2005 began. Damages from the hurricanes Harvey, Irma, and Maria totaled more than USD $290B. In 2H17, wildfire seasons in British Columbia and California both proved record-breaking in terms of damages and population displacement.

These catastrophes sent shockwaves through P&C carriers' 3Q earnings, and most severely, those with significant dependency on commercial property lines. This raised US carriers' composite combined ratio to 100.7% through the loss incidence channel *(Figure 1)*, in a range observed only three times since 2005.

Generally bearers of the earliest and most severe catastrophe losses, reinsurers suffered most, with loss ratios more than doubling in 3Q17 over 3Q16 in some cases (e.g. Everest Re's increase to 138% from 60%).

PRICING AND EARNINGS RISK

Composite price levels declined throughout the year in the US *(Figure 2)*, in line with a global trend, despite hikes in commercial lines that lost momentum in 4Q. As catastrophe losses put dents in carriers' bottom lines, surplus capacity, a measure of market supply, expanded to pad earnings with new underwriting activity *(Figure 1)*. Some players cut underperforming accounts to reduce potential underwriting losses. Fed rate hikes in March, June, and December solidified market expectations of rising yields to P&C carriers' fixed-income-dominated portfolios. This yield effect typically dominates the negative valuation effect of rate hikes given typically-positive duration gaps in the P&C space.

ILS, CAT BOND MARKETS REACH RECORD CAPITALIZATION

Issuances in catastrophe bonds and insurance-linked securities grew to USD $12.6B in 2017 over $7.0B in 2016, and risk capital outstanding reached $31B. These securities offer powerful risk management capabilities to P&C and reinsurance carriers, and their proliferation contributed to a negative pressure on policy pricing.

Figure 1: Composite US P&C Combined Ratio (left) v. Surplus Capacity ($US B, right)

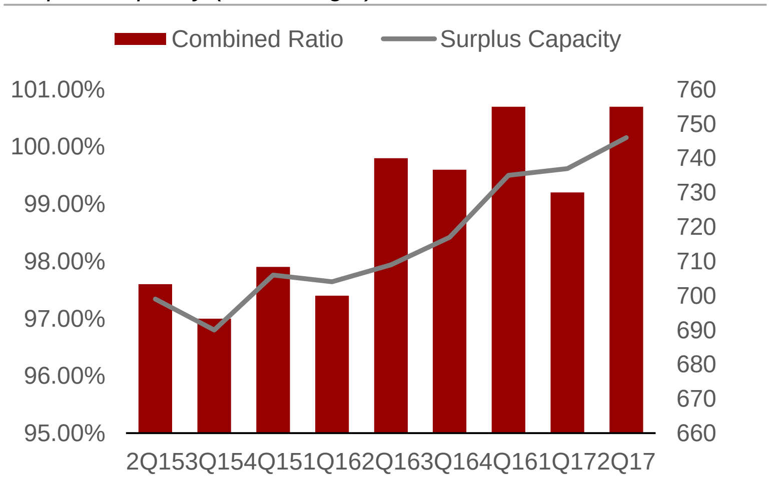
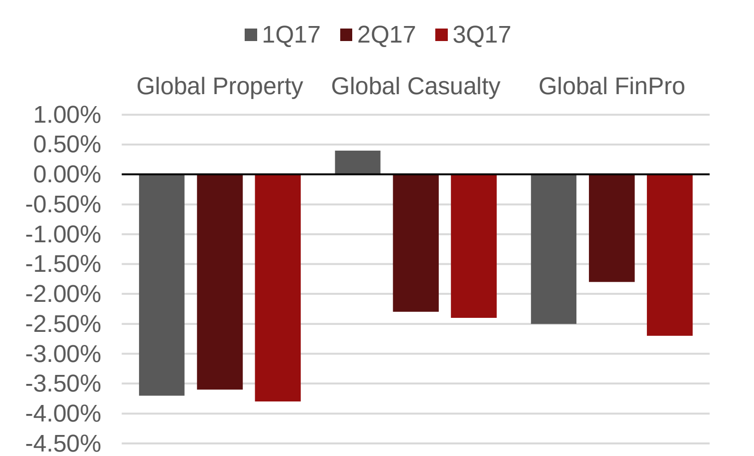


Figure 2: US Composite Price Rate Change by LOB



Sources: (1) National Oceanic and Atomspheric Adminstration (NOAA), Marsh Global Insurance Market Index, Bloomberg, Artemis

FINANCIALS
INSURANCE SECTOR OUTLOOK

FIDUCIARY REGULATIONS

The Trump administration delayed the Labor Department's Fiduciary Rule until July, 2019, however, the state insurance commissioners are expected to act aggressively and implement the rules states-wide. The ruling will force insurers to reassess key fundamentals of their business, from compensation models to distribution and sales processes.

INTEREST RATE SIGNALS

Increase in global growth and rebound in employment levels should have favorable implications for the sector. As the central banks turn bullish, interest rate increments, if sustained, will be an upside for insurers as this would lead to the revival of investment income that would have allowed favorable returns for customers on assured return products.

However, the life insurance industry needs 3 to 8 years to retrace 70-80bps of compression from 2010-16. Additionally, the Fed's lowered estimate of long-term rates from 3.0% to 2.8% could lead to reduced margin gains, especially for products priced with higher average rate assumptions. Investment income being a major revenue source for life insurers *(Figure 1)*, interest rate is going to be an important metric to track.

FOCUS ON TECHNOLOGY

With low organic growth in US, an uptick in global investments and divestiture of non-core assets and run-off business is expected in the sector. Insurers seeking to enhance distribution, customer experience, data collection, and operational efficiency will be focusing on InsurTech investment and acquisition targets.

The Internet of Things (IoT) is a major driver of technology upgradation in the industry. Several insurers are incentivizing customers to use home sensors so that they can proactively mitigate risks for customers. This collection of near real-time data equips insurers with a rich data pool that will increasingly become the key competitive lever for insurers to differentiate themselves. IoT and analytics are enabling more dynamic and personalized insurance pricing.

Digital distribution, connected devices, cybersecurity, Blockchain technology are some of the thematic areas where reinsurers invested in to expand the scope of the products they offer, and with the increasing focus on tech, this is expected to increase.

Figure 1: Life Insurer's Revenue By Type

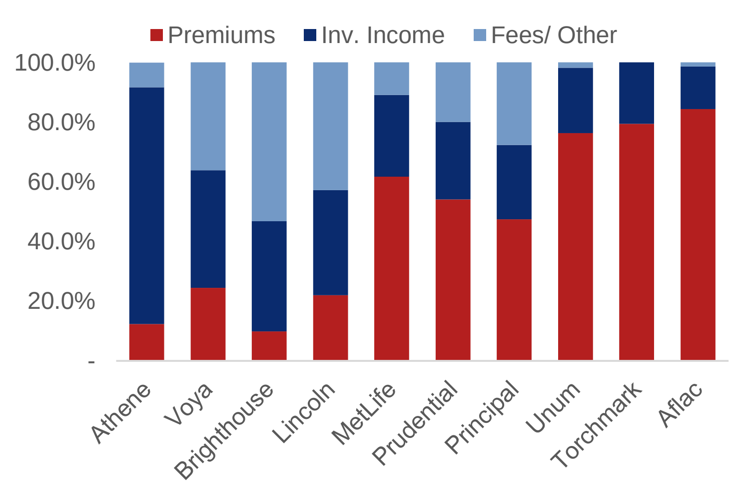
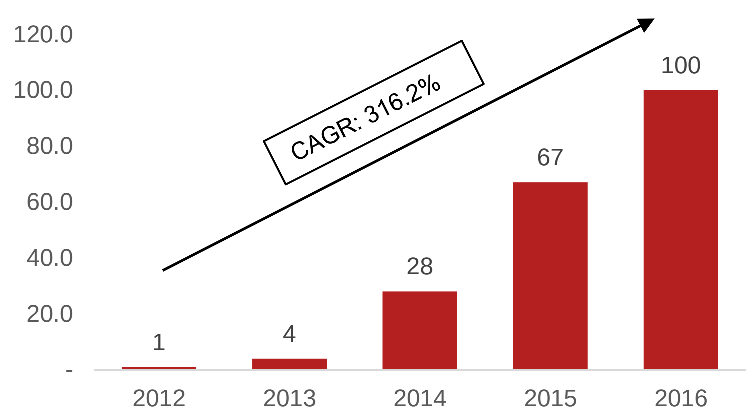


Figure 2: Private Tech Investments by Reinsurers



Sources: Bloomberg, CBInsights, EY Insurance Report

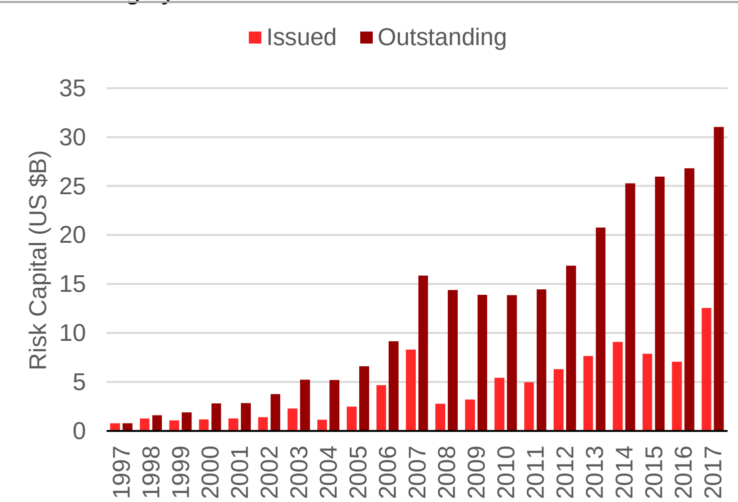
FINANCIALS
P&C INSURANCE OUTLOOK

RISK MODELING PRECEDENTS

The outsize catastrophe incidence observed in 2017 implies a need for North American P&C and reinsurance carriers to re-evaluate underwriting assumptions about these events' average severity. This is primarily because the year's losses have put pressure on industry players to take active stances on the systematic nature of climate change. This decentralized pressure would create an important dimension of near-term competition, especially for reinsurance carriers. If carriers begin to effectively implement these changes, larger surplus capacity and more aggressive pricing strategies could contribute negatively to premium rates in 2018. This effect is contingent on carriers' abilities to ratchet prices upward as 2H17 catastrophe claims continue surfacing.

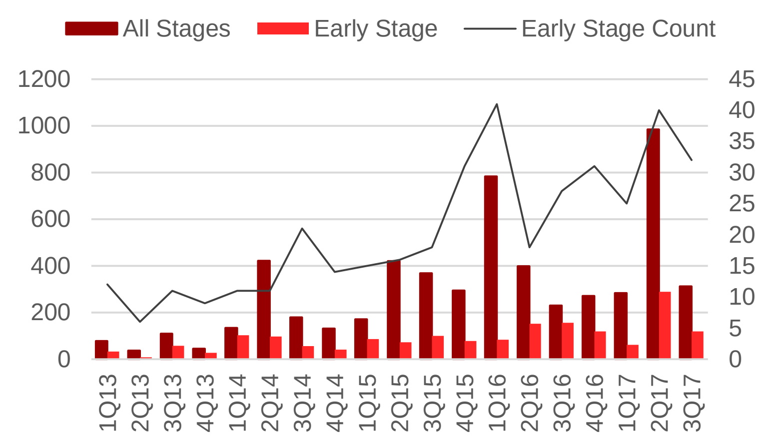
The near-doubling of catastrophe bond and insurance-linked security issuance between 2016 and 2017 is evidence that carriers are paying close attention to such risk management opportunities *(Figure 1)*. As risk capital continues flowing into these securities, issuances may grow more complex to meet innovative demand for structuring and collateralization.

Figure 1: Catastrophe Bond & ILS Risk Capital Issued & Outstanding by Year



Sources: Bloomberg, Artemis, Willis Towers Watson, Accenture

Figure 2: Insurtech investment (USD $M, left) v. early stage deal count (right)



This competitive pressure may be reflected in P&C carriers' operating ROE, which declined through 2017. However, Price/Book ratios increased, suggesting that the market may be overestimating carriers' leverage in hiking near-term price rates.

TAILWIND FOR INSURTECH

If market perceptions of systematic catastrophe risk reach a tipping point in 2018, the resultant competitive pressure could provide a backdrop for substantial insurance technology investment. Since 2013, insurtech investment has typically spiked in dense catastrophe seasons as average deal size has increased, despite considerable volatility. This pattern is pronounced in early-stage investments.

However, shifting catastrophe risk perceptions could create sticking power for the relatively high volume of insurtech investment in 2017, especially in early-stage projects, where average deal size reached record levels during the year. Expected near-term rate hikes by the US Fed could contribute to this effect if yield on short-duration, fixed income-based portfolios eases earnings growth and, in doing so, increases insurers' tolerance for the risk inherent in early-stage private investments.

FINANCIALS

2017 HOLDINGS REVIEW

KINSALE CAPITAL GROUP (NASDAQ:KNSL)

COMPANY OVERVIEW

- Kinsale Capital Group, Inc. is a an excess and surplus specialty insurance company. The Company markets and sells property, casualty, and specialty risk insurance products through a network of independent insurance brokers
- The company's commercial insurance offerings include construction, small business, general casualty, energy, excess casualty, professional liability, product liability, management liability, and inland marine, as well as homeowners insurance
- The company raised about $105.6 million though its IPO. It plans to use the bulk of the proceeds to pay down debt

RISKS

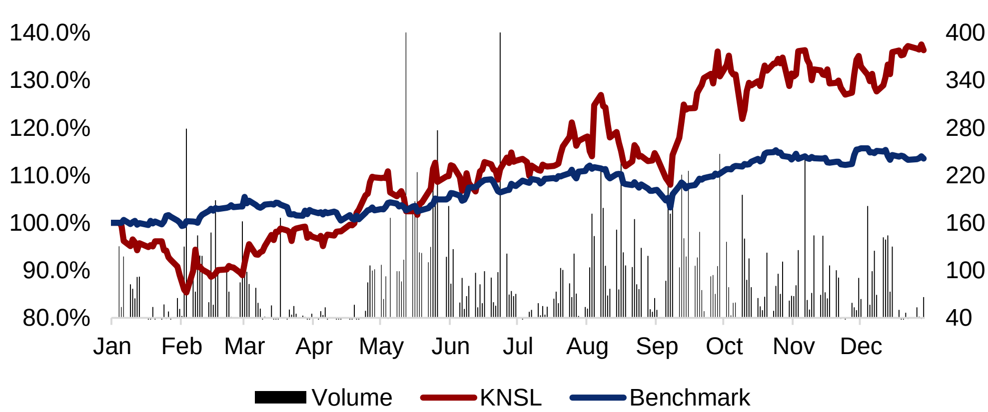
- As a bearer of risks deemed inherently low-quality by mainstream markets, we need to track how effectively Kinsale manages its top-level exposures to systematic factors like catastrophe risk.
- Kinsale must leverage its proprietary technology infrastructure to minimize the risk of fraudulent underwriting through its broker network.
- Industry-wide insurtech investment and competitive forces in declining-price markets could allow mainstream carriers to compete with Kinsale in the E&S space.
- Weak regulatory power under the Trump administration could encourage large mainstream carriers to enter E&S lines by reducing their expectations of future compliance costs.

FINANCIAL SUMMARY

Public Market Overview	
(values in USD M, as of Dec. 31, 2017)	
Stock Price	$45.00
Shares Outstanding (mm)	21.0
Market Capitalization (mm)	**$946**
+ Preferred Stock	$0
+ Minority Interest	$0
+ Total Debt	$0
- Cash	($97)
Enterprise Value (mm)	**$849.30**
Beta (1-Year)	1.20
Dividend Yield	0.50%

Financials	FY2016A	FY2017E	FY2018E
(values in $mm)			
Revenue	$141	$185	$214
% Growth		31%	15%
Net Income	$26	$27	$41
% Margin	18%	15%	19%
Adj. EPS	0.71	1.27	1.89
% Growth		79%	48%

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Average Cost	$43.00
# of Shares	360
Value Invested	15,480
Portfolio Weight	3.45%
2017 HPR	4.65%
HP Benchmark Return	(0.26%)
Excess Returns	4.91%

KINSALE CAPITAL GROUP (NASDAQ:KNSL)

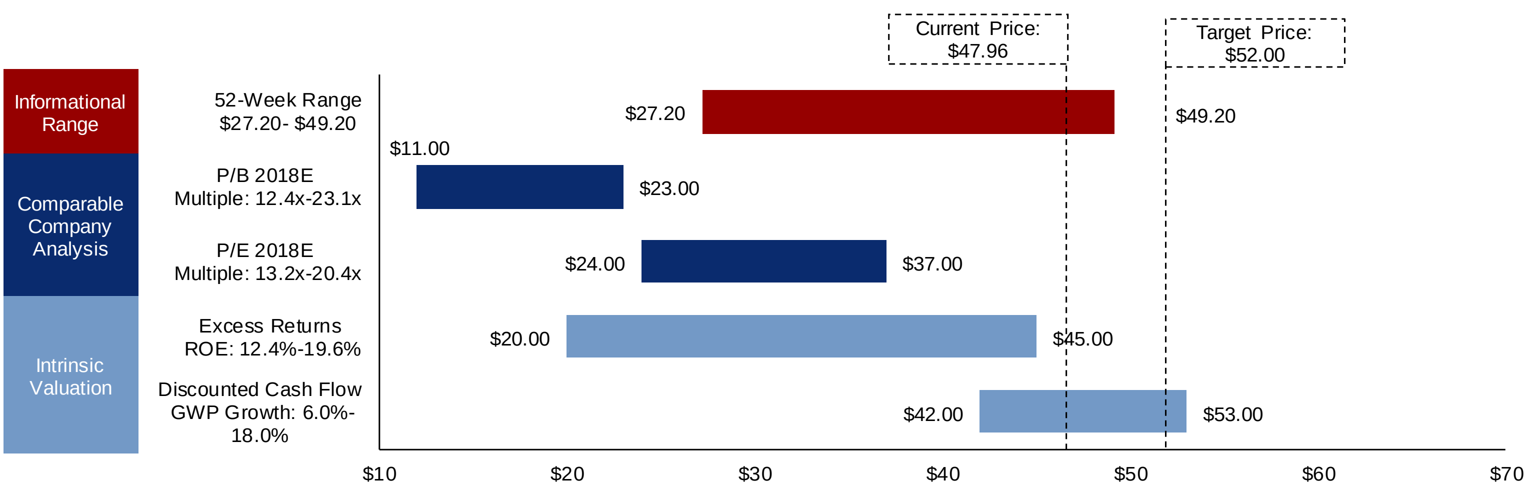
INVESTMENT THESIS

1. **Entirely In-House Underwriting and Claims Management**
   - Underwriting is never outsourced and is conducted by highly specialized teams
   - In-house underwriting enables Kinsale to easily dive deep into claims investigations and control costs
   - A significant portion of underwriters and claims specialists' remuneration is stock options, which promotes long term incentive compatibility with the company
2. **Proprietary Technology**
   - End-to-end integration with the brokers equips them to appraise insurance premiums within a day, whereas the average computation time for the Kinsale's peers is a week
   - Data warehousing and data analytics enable Kinsale to be more reliable in their pricing and risk identification
   - Customized proprietary system helps to reduce the risk of administrative errors in policy forms and include all of the necessary exclusions for the specified risk
3. **Independent Brokerage Network**
   - Broker network allows for regional flexibility and is conduit to smaller, less competitive contracts
   - Lower average broker commissions due to superior service and bargaining structure

ANALYSIS OF PERFORMANCE

Since we initiated our position in KNSL in October of last year, KNSL has outperformed our benchmark, returning 12.2% compared to 10.1%. On November 2nd, when the company posted it's Q3 results, the stock price increased by 3.7% even though the loss ratio increased by 31.6% to 94.5% Y-o-Y, due to the hurricanes in the US. The rationale behind the price movement is that the P&C insurance industry's combined ratio for Q3'17 is over 110.0%, and this solidifies our thesis of Kinsale having superior underwriting skills. The company also announced that it's brokerage subsidiary, Aspera's sales were up 46%. The next catalyst for the company's price movement is going to be the annual results which are scheduled to be released as of February 26th.

VALUATION SUMMARY



Source: Bloomberg

ANNUAL REPORT 2017

HEALTHCARE

2017 REVIEW & 2018 OUTLOOK

ALEX HUA
DORART PIRO
NIKA FALL
KEVIN YULIANTO

DESAUTELS CAPITAL MANAGEMENT

HEALTHCARE
SECTOR OVERVIEW

REGULATORY UNCERTAINTY TRUMPS HC

The healthcare benchmark (a 60/40 composite of the TSX and S&P 500 healthcare indices) underperformed the broad equity markets, as the sector experienced high volatility amid talks around the repeal of the Affordable Care Act. The Affordable Care Act appears to be a centerpiece for the industry and we expect the increased volatility to persist over the course of the coming year as a resolution is reached. Interestingly enough, while regulatory uncertainty still pervades the healthcare sector, we have witnessed a record-breaking year of generic drug approval by the FDA, which will likely foster growth and innovation in the sector going forward.

The healthcare benchmark rebounded strongly towards the end of FY 2017, and its year-end performance outpaced the broader equity markets by a significant margin. The healthcare benchmark's cumulative returns reached 25%, while the composite TSX and S&P 500 returned only 7.8%. This outperformance could be explained by an increased need for medical services due to the aging population, the strong financials displayed by pharmaceutical firms, or the observed increase in the number and size of mergers and acquisition within the sector.

CANADA DRIVES BENCHMARK RETURNS

DCM's 2017 healthcare holdings' performance was driven mainly by Five prime therapeutics Inc, whose share price plummeted two weeks after the date of purchase. Following the firm's announcement that it had missed consensus earnings estimates, DCM exited its position at a loss of 22%. The subsequent acquisition of the iShares U.S Healthcare ETF in March 2017 has yielded returns of 12.1%.

The performance of the Healthcare benchmark was boosted towards the end of the year, predominantly by gains in the TSX healthcare sector. Shares of medicinal and recreational marijuana producers increased drastically in value following optimistic prospects in Canada. The Canadian government's prospective rollout plans for the drug will likely spur the markets and cause the healthcare benchmark to rally further.

Figure 1: Healthcare benchmark historical performance

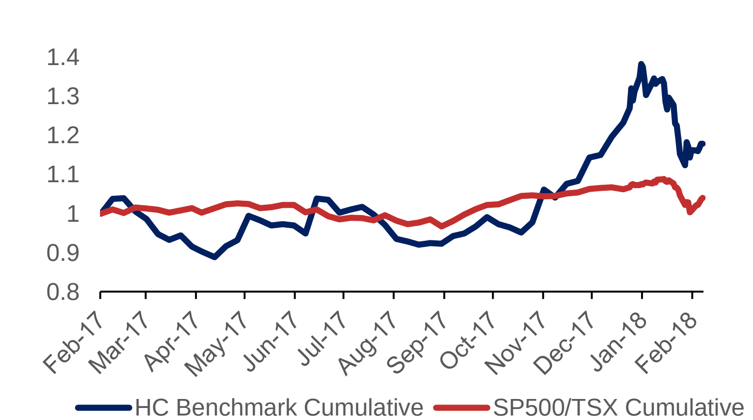
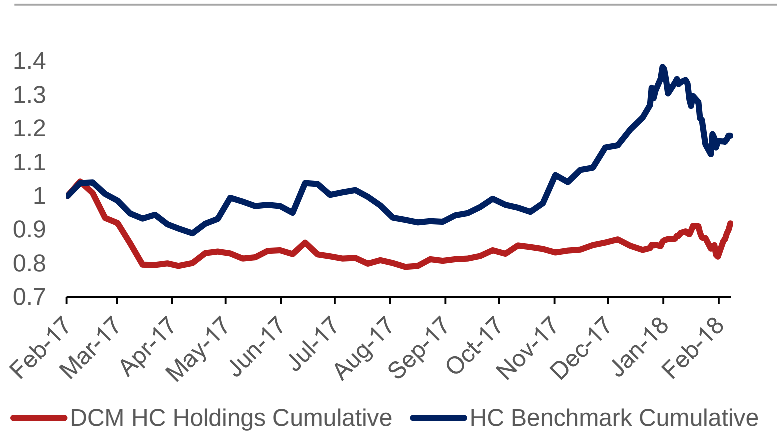


Figure 2: DCM holdings historical performance



Source: Bloomberg

HEALTHCARE
SECTOR OVERVIEW

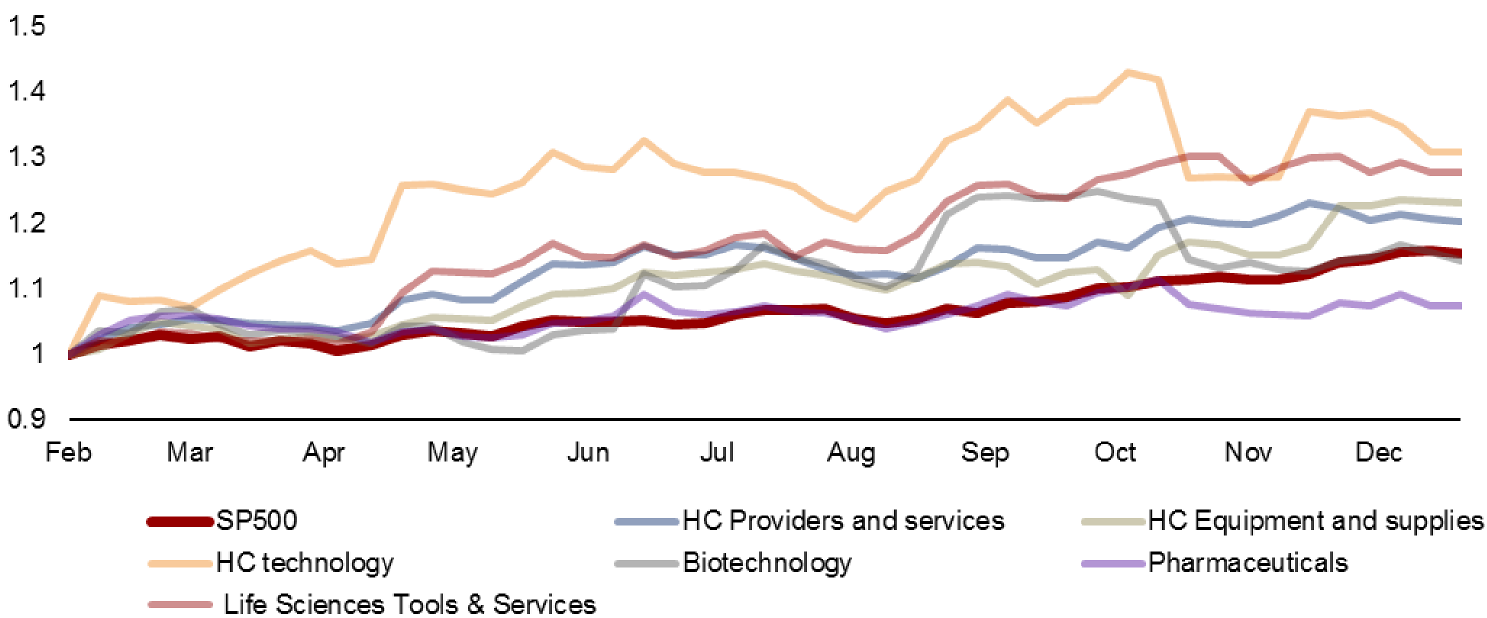
AN INTERESTING PLAY FOR VALUATION

Broadly, healthcare sector earnings surprised on the upside this year. The S&P 500 healthcare index returns were 1.8% higher that those of the parent S&P 500 index. These returns were driven mainly by strong performances from the healthcare technology and life sciences tools sub-industries and the bounce back of the biotechnology industry.

While the sector has experienced earnings growth that is expected to persist this coming year, it still trades at a discount to global market equities. The valuation gap might be explained by the market's reaction to political developments in the United States.

Overall, the healthcare sector's performance in 2017 can be attributed primarily to increased M&A activity, attempted healthcare reforms, innovation in R&D and fast-tracked drug approvals. The Healthcare sector has produced relatively high total returns even amid political uncertainty. As the political climate surrounding healthcare tempers, we look for the sector to similarly outperform the market in 2018.

Figure 3: Healthcare subsector performance vs. S&P 500



Source: Bloomberg

HEALTHCARE
SECTOR OUTLOOK

THE RISE OF TELEMEDICINE AND OUTPATIENT CARE

For a long time telemedicine has been regarded as the universal solution to access and workforce issues that affect urban and rural communities alike. The development and deployment of a universal technology-enabled care delivery system in the United States has, however, been limited by reimbursement models and state scope of practice laws. New parity laws and increasing focus in Congress may serve as the catalyst to render the advent of telemedicine a reality for many Americans. The number of states with parity laws currently stands at 29, double what it was just three years ago, with another eight states having draft parity laws pending further action. Consumers are eager adopters of telemedicine, with some surveys showing that one in two patients prefer an e-visit over an in-person physician appointment.

The telemedicine investment space in the US is comprised of over 220 companies operating across 30 different subsectors. These firms provide a range of services, including clinical monitoring, post-acute follow-up, chronic disease management and care delivery. The 40 million insured lives added by the Affordable Care Act, the aging population as the Boomer generation enters retirement and the looming physician shortages from proposed budget cuts demonstrate the need for efficient remote care delivery platforms. Similarly, increased consumer smartphone use presents an attractive opportunity. It is then unsurprising that the global telemedicine market was valued at USD 22 billion in 2015 and is anticipated to grow at a CAGR of about 20% over the next five years. We look for telemedicine companies to be among the key performance drivers of the health care sector in 2018.

VALUE OVER VOLUME: MANAGING HEALTHCARE EXPENDITURE

Global healthcare expenditure is projected to rise to 8.7 trillion USD by 2020, up from 7 trillion USD in 2015. The three main contributors to this expense remain the same as they have been over the past several years, in order: hospital care, physician salaries and prescription drugs. In 2017, the US retained its standing as the OECD nation with the highest cost of health care, both in absolute dollar terms ($3 trillion) and as a fraction of GDP (16.9%). It is not apparent that these dollars are translating into value for patients, as the US ranks below the OECD mean in life expectancy and patient outcomes. As evidence to this point, Institute of Medicine study found that roughly $765 billion of all US medical spending was wasted on unnecessary services, excessive administration costs, fraud and other problems.

In an era of shrinking hospital margins, physicians in North America and elsewhere are being encouraged to move away from traditional fee-for-service models to risk-bearing coordinated care models. The 2015 Medicare Access and CHIP Reauthorization Act (MACRA) provides incentives for physicians to use technology to better patients' health by offering bonuses to physicians who submit yearly performance data on their patients. The ABIM foundation's Choosing Wisely campaign aims to reduce low value health care by advancing a national dialog on avoiding unnecessary and wasteful medical tests, treatments and procedures. Such trends imply the shift of patient care from traditional hospital settings to more integrated community settings, which we feel presents a significant opportunity for companies specializing in in-home and in-community care.

HEALTHCARE
SECTOR OUTLOOK

ARTIFICIAL INTELLIGENCE IN DRUG DEVELOPMENT

The cost of drug development has been increasing dramatically for the past several years. According to the Tufts Center for the Study of Drug Development, the process of developing a new prescription drug costs more than 2.5 billion dollars and lasts more than a decade. Recent advances in artificial intelligence (AI) have the potential to reduce the cost and duration of drug development. The first step in drug discovery involves screening millions of small molecules or for potential candidates, a laborious, time-consuming and costly process. AI is well equipped to analyze dense, complex biological data rapidly, identifying distinct patterns and trends. This is an era of new opportunities for the Biopharmaceuticals industry to revolutionize the R&D process rather than falling victim to the spiraling costs of drug development. Instead of relying on traditional in-vitro and in-vitro screening methods, AI algorithms enable researchers to model interactions between molecules. Big Pharma companies are now starting to make investments in AI for drug discovery to gain long-term competitive advantages. Last May Sanofi announced a strategic partnership with Exsceintia, a British AI-driven drug discovery company, to discover new biospecific small-molecules to treat diabetes. In return Exscientia will receive up to 273 million jn research funding in the form of millstone payments. Two months later, Exscientia entered another collaboration agreement with GlaxoSmithKline (GSK) valued at $43 million. Last December, the Silicon Valley based venture capital fund Andreessen Horowitz launched a new $450 million bio-focused fund.

One of the fund's three ares of focus is the application of machine learning and artificial intelligence to biology. Although AI is still in its infancy, initial promising results have already made public its great potential. With more private investments and research funding allocated into this field, we believe that AI is likely to disrupt the healthcare industry landscape in the 21st century, especially at the early stages of drug development. This upside potential may not be fully priced into the current valuation of biopharmaceutical companies who have already incorporated AI strategy as part of their future growth plan.

CAR-T & CRISPR-CAS 9

CAR-T, or Chimeric Antigen Receptor T-Cell Immunotherapy, is an emerging cancer treatment that programs a person's own T-cells to fight against cancer cells expressing unique antigens. This therapy has been approved by FDA in 2017 to treat children with acute lymphoblastic leukemia and adults with advanced lymphomas. According to the Leukemia & Lymphoma Society, blood cancer accounts for approximately 10.2% of new cancer cases in United States. High incidence rates drive the demand for CAR-T therapy products and the North American market is forecasted to grow at a double digit in the next 10 years to reach the size of more than 3 billion dollars. On Jan 22, 2018, Celgene announced a $9 billion acquisition of Juno Therapeutics, a well recognized pioneer in this field. Other key players such as Novartis and Kite Pharma (acquired by Gilead in 2017) have invested billions of dollars over the past several years. Novartis's Kymriah and Gilead's Yescarta received FDA approval in August and October of last year respectively. Although the issues of scalability and manufacturing still need to be addressed, the growth potential looks optimistic.

HEALTHCARE
SECTOR OUTLOOK

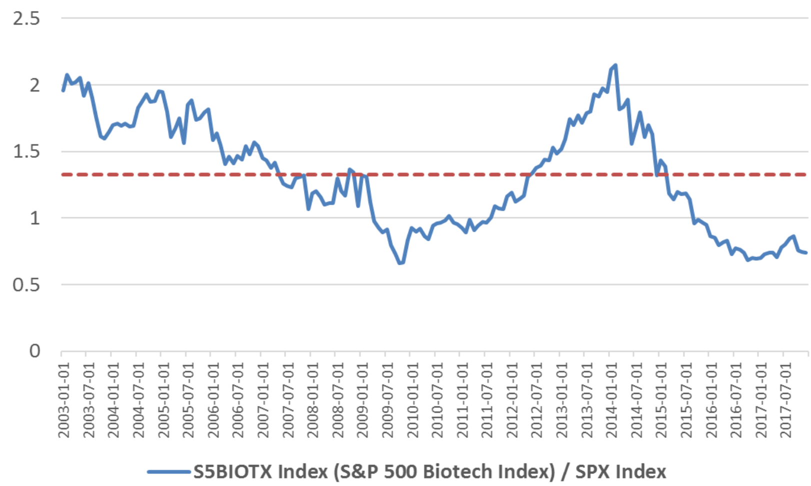
CRISPR-Cas 9, a targeted genome-editing technology, has been on the headlines since 2012 when it was first introduced by scientists at University of California, Berkeley. Named "the biggest biotech discovery of discovery in 21st century" by MIT Technology Review, CRISPR-Cas 9 has the potential to become a powerful tool for treating genetic disorders and some cancers of genetic origin. Recently CRISPR Therapeutics (NASDQ: CRSP) has filed an application jointly with Vertex Pharmaceuticals for the first clinical trial using CRISPR-Cas 9. The trial is expected to begin in 2018 and will examine the viability of CRISPR-Cas 9 as a treatment for β-thalassemia and sickle cell disease. Editas Medicine (NASDQ: EDIT) and Intellia Therapeutics (NASDQ: NTLA) are planning to start clinical trials of their own later in 2018. This year will mark an important milestone for this genome editing technology as it transitions from academic research to real-world applications for treating disease. Positive outcomes of clinical trials will have rippling effects across the entire biopharmaceutical industry.

OUTLOOK FOR BIOTECH AND PHARMACEUTICALS

The P/E ratio of the S&P 500 Biotechnology Index relative to the S&P 500 index is below its 15-year historical mean as of December 31st, 2017 (Figure 1). The political rhetoric of unfair drug pricing has caused uncertainty among investors over the past three years. Despite short-term fluctuations, several key drivers are likely to spur long-term growth potential.

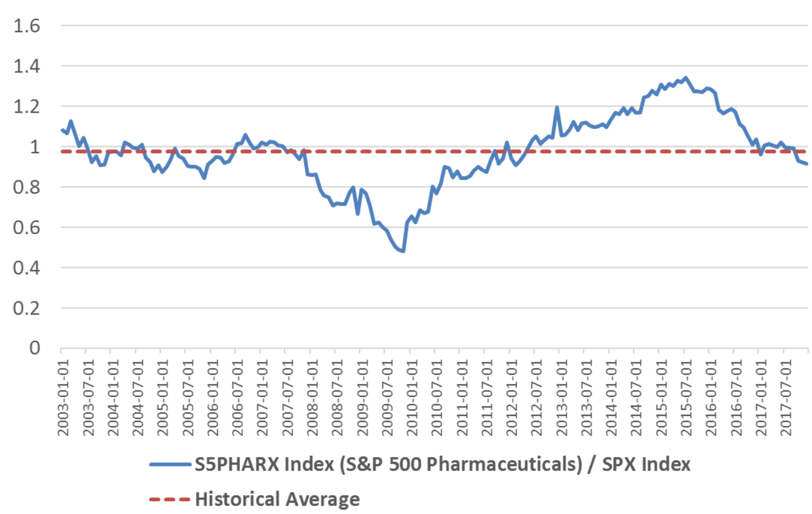
- Emerging breakthrough technology such as Artificial Intelligence for use in Drug Development, CAR-T, and CRISPR-Cas 9 mentioned above.
- Upcoming waves of mergers and acquisitions. Tax reforms may create a tailwind for Big Pharma companies looking to acquire cutting-edge technolgy.
- The FDA will update its regulations to expedite the R&D process, leading to more drug approvals in the future.

Figure 1:Relative P/E Ratio of S&P 500 Biotechnology Index



The P/E ratio of the S&P 500 Pharmaceuticals Index relative to the S&P 500 index is also slightly below its 15-year historical mean as of December 31st, 2017 (Figure 2). In recent years, R&D expenses have remained relatively constant while goodwill as a percentage of total assets has increased steadily as a result of M&A activity (Figure 3). High R&D costs for new prescription drugs incentivizes companies to acquire attractive targets with strong revenue potential.

Figure 2: Relative P/E Ratio of S&P 500 Pharmaceuticals Index



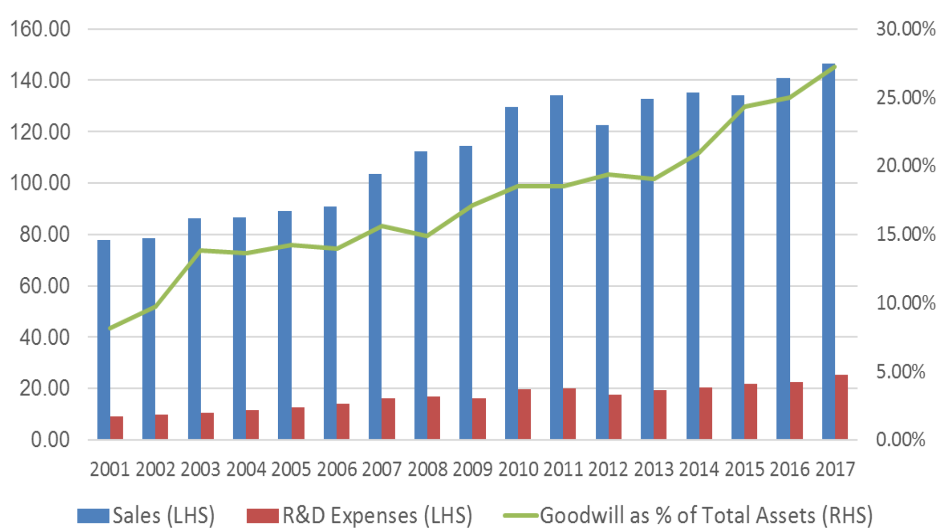
Source: Bloomberg

HEALTHCARE
SECTOR OUTLOOK

We expect that the M&A trend will continue in 2018 for several reasons:

- Increasing costs of research and elopement to bring new drugs from the laboratory to the market
- Negative pricing pressure from governments and generic drug makers leading to the need for expanding existing pipelines to maintain high sales revenue in the near future.
- Big pharma players facing patent cliffs on their blockbuster drugs (ex. Herceptin, Avastin and Rituxan, which account for half of Roche's annual sales)
- U.S. tax reforms providing incentives for pharmaceutical companies to repatriate overseas cash reserves to participate in the global M&A market.

Figure 3: Sales, R&D Expense, and Goodwill as % of Total Assets (per share basis) of S&P 500 Pharmaceuticals Index



Source: Bloomberg

ANNUAL REPORT 2017

HEALTHCARE

2017 HOLDINGS REVIEW

DESAUTELS CAPITAL MANAGEMENT

Emergent Biosolutions (NASDAQ: EBS)

COMPANY OVERVIEW

- Emergent Biosolutions is a global specialty life sciences company focused on developing, manufacturing, and commercializing medical countermeasures that address public health threats.
- The main revenue generator for EBS is Biothrax, a vaccine for anthrax. EBS also provides contract manufacturing services and receives grants from the United States government to develop new drugs and medical injection devices.
- Over the past year, EBS continued to grow through internal development (manufacturing of NuThrax) and through the acquisition of drugs for the treatment of public health threats (ACAM2000 and raxibacumab).

CATALYSTS

- Approval of NuThrax, which is currently undergoing phase 3 trial with expected completion in 2018.
- New contracts and renewal of existing contracts from the US, Canada, and EU nations for Biothrax and other EBS products
- Advancement of various EBS pipeline products to the next phase of clinical trial

RISKS

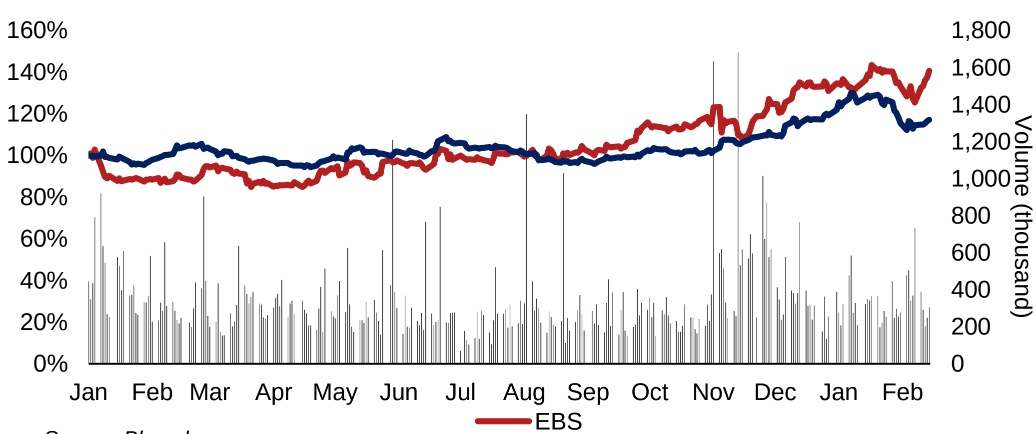
- EBS is highly dependent on US government and CDC contracts, if the Strategic National Stockpile (SNS) priority changes, this will impact future revenues significantly
- EBS growth is dependent on FDA approvals; delays and failures in any phase of clinical trial will prevent EBS from realizing the full value of its pipeline

FINANCIAL SUMMARY

Public Market Overview	
(values in CAD M, as of Dec. 31, 2017)	
Stock Price	$46.47
Shares Outstanding (mm)	40.2
Market Capitalization (mm)	**$1,867**
+ Preferred Stock	$0
+ Minority Interest	$0
+ Total Debt	$249
- Cash	$341
Enterprise Value (mm)	**$1,775**
Beta (1-Year)	1.25
Dividend Yield	0.0%

Financials	**FY2016A**	**FY2017A**	**FY2018E**
(values in $mm)			
Revenue	489	560	762
% Growth		*14%*	*36%*
EBITDA	$130	$180	$250
% Margin	*27%*	*32%*	*33%*
EPS	1.13	1.86	2.76
% Growth		*64%*	*49%*
ROE	7.8%	15.6%	19.7%
ROIC	5.7%	10.8%	14.5%
EV/EBITDA		9.9 x	7.1 x
P/E		25.0 x	16.9 x

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Average Cost	$47.17
# of Shares	483
Value Invested	22,783
Portfolio Weight	5.15%
2017 HPR	61.21%
HP Benchmark Return	17.90%
Excess Return	43.31%

Emergent Biosolutions (NASDAQ: EBS)

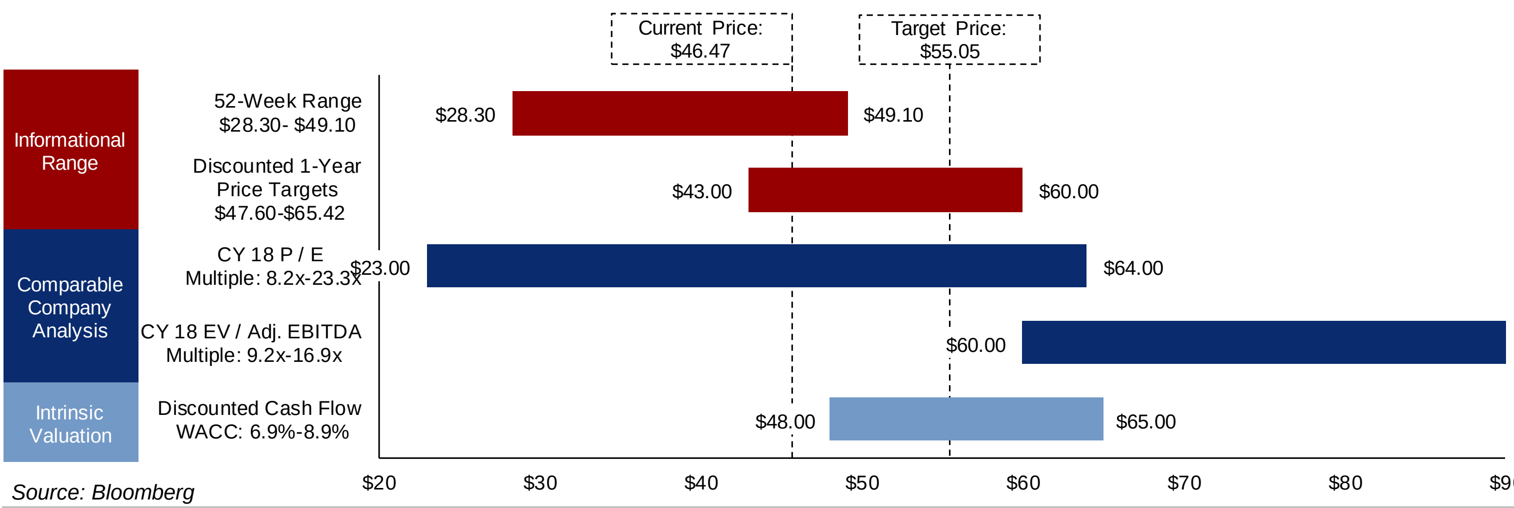
INVESTMENT THESIS

1. **Long-term government contracts as a safety net**
   - In 2017 EBS received awards from BARDA worth $23.1m and $63.3m respectively to develop Mapp Biopharmaceutical Viral Hemorrhagic Fever MCM Platform and advanced stabilized isoamyl nitrite for intra-nasal treatment of cyanide exposure. EBS also received an award from JPM-MCS to develop a novel dual drug delivery device auto-injector.
2. **Promising EBS pipelines: Nuthrax as the leading next generation anthrax vaccine**
   - EBS focuses on the development and manufacturing of high-priority threats defined by the Public Health Emergency Medical Countermeasures Enterprise (PHEMCE)
   - PHEMCE high priority threats include anthrax, botulism, cyanide, emerging infectious diseases, MDR anthrax, nerve agents, pandemic influenza, nuclear/radiological agents, smallpox, marburg, and ebola. EBS products and pipelines cover over 60% of these threats.
3. **Expansion into European market and Canada**
   - The EU commission has taken initiative for the joint procurement of medical countermeasures and the improvement of vaccine coverage. This includes taking action to strengthen vaccine supplies and stock management, improve vaccine confidence and tackle hesitancy, and increase the effectiveness of vaccine research and development within the EU.

ANALYSIS OF PERFORMANCE

Since we purchased EBS on February 8th of this year, it has returned 5.91%. However during the year, EBS was trading above the benchmark, returning 4.45% during the period, while the benchmark returned -10.7%. We set our target price for EBS at $ 55.05/share, a further potential upside of 10.19% from the February 16th, 2017 closing price. We will continue to monitor further developments regarding the approval of Nuthrax, which is expected in the beginning of 2018.

VALUATION SUMMARY



Source: Bloomberg

ANNUAL REPORT 2017

INDUSTRIALS

2017 REVIEW & 2018 OUTLOOK

NICOLAS CLAVEAU
MARK SAGARIA
RAPHAEL DOYON
ROCK REGIMBALD

DESAUTELS CAPITAL MANAGEMENT

INDUSTRIALS
2017 SECTOR PERFORMANCE

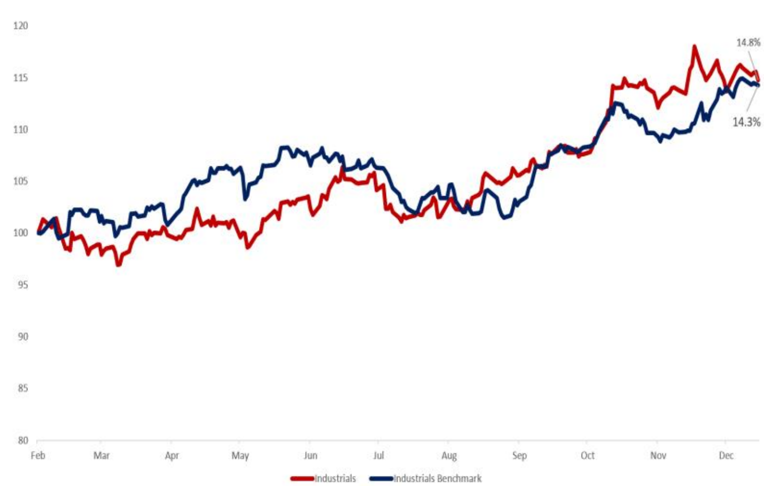
The DCM Industrial sector returned 14.8% in 2017, compared to 14.3% for the sector benchmark. Industrials was among the top performing sectors last year mainly due to the outperformance of specific sub-sectors including Aerospace & Defense, Building Products and Machinery. Moreover, President Trump's infrastructure plan and potential $1 trillion investment is still perceived by investors as an event to keep a close watch on and that should materialize in the near future. Lastly, there is a general excitement with respect to the tax reform as this could be translated into more liquidity and capex investment, and thus we expect this will have a positive impact on the industrial sector as a whole.

With respect to the performance of the Industrials benchmark, a major contributor is the Aerospace & Defense sector which greatly exceeded initial expectations. The major factor explaining this outperformance is the increase in demand resulting from lower oil prices and thus, the increase in air travel demand from passengers. Another strong big-ticket item which increased the industrial benchmark performance is the increase in housing starts mainly due to low mortgage rates and population growth, which returned favorable stock price dynamics in the Building Products sector. The current DCM portfolio contains two stocks, WSP Global Inc., purchased at $48.01 CAD in April 2017 and A.O. Smith Corp, purchased at $61.31 USD at the end of November 2017, as well as cash invested in an industrial ETF. The major reason the DCM Industrial sector slightly outperformed the benchmark is due to the incredible performance of WSP, closing the year at $59.91 CAD, thus returning YTD return of 24.79% since the stock purchased.

The main reason for the surge in stock price is due to the strong growth in the number of advisory-type work contracts secured, and a greater amount of sub-consulting work insourced due to their diversification of expertise, as opposed to hiring external consultants. More specifically, their transportation, structural, environmental and energy departments are all consistently improving margins and increasing the number of consulting projects completed. Lastly, WSP had great growth, both organically and by acquisition. In 2017, they successfully completed 8 acquisition transactions on an international scale, further diversifying and increasing their expertise and revenue streams.

With regards to A.O. Smith, the stock closed the year at $61.28 USD, thus staying close to par since our purchase. However, on a positive note, at the time of writing this report, we are pleased to announce that AOS returned 9% in the month of January 2018. This correspond to an outperformance of the U.S Industrials sector, which returned 5.3% during the same month. More on our investment thesis regarding A.O Smith and an analysis of performance can be found in the holdings review section.

Figure 1: Holdings return vs Industrials Benchmark



INDUSTRIALS

2017 SECTOR PERFORMANCE

AEORSPACE & DEFENSE

The aerospace industry did exceptionally well in 2017 and exceeded initial expectations for air traffic growth with 7.7% YTD growth, exceeding the long-term trend of 5% which was forecasted by the industry. This overperformance is mainly due to the increase in demand from lower oil prices. In September, Hurricanes in the US disrupted air traffic, but October traffic bounced back following disruption. Air travel, as measured by the conventional Revenue Passenger Kilometers metric, expanded by 6.3% in 2016 and 7.4% in 2017. With parked aircrafts only representing about 6.6% of the current fleet, a historically low level for airlines, there are few aircrafts to call back into service. Deliveries in 2017 are up about 4.3% from 2016, with Boeing and Airbus consistently increasing their production in both their jets and passenger plane sector.

BUILDING PRODUCTS

Year to date, housing starts are tracking slightly better than last year, increasing by 2.4% driven by high growth in single-family units, partially offset by declines in multifamily construction. The boom and improvements in single-family construction likely reflects the start of delayed homes from Hurricanes Harvey and Irma in the South, which saw a 16.6% month over month increase from September.

Relatively low rates and population growth should continue to drive and increase demand for housing. Because of this, our view with respect to the housing cycle is healthy and optimistic. This should support favorable demand dynamics for building product manufacturers and thus the industry as a whole.

MACHINERY

Over the last several months, the ISM New Orders Index remains well above 60 and orders have been above the upper threshold expansionary level in 22 of the last 24 months, reinforced by continued improvement in Durable Goods data. Distributor level sales data continues to show double-digit improvement with lead times having decreased and thus reflecting that inventory levels are more in line with demand than in prior cycles. In the last quarter of 2017, the incremental margin issues affecting the machinery sector as whole were largely a function of ramp up expenses, increased material costs, and growth investments. Management teams have stipulated that they believe price/cost will improve in 2018, and ramp up costs should flatten out as well. However, as specifically outlined by CAT, growth investments appear likely to continue, it is also noted that it will begin to fund more growth rather than driving margin in 2018 and beyond.

With respect to the transportation sector, we continue to favor trucks as they once again demonstrate economic efficiencies (high utilization, positive freight rates, tight capacity, etc.), which should result in a reacceleration in CAPEX from fleet operations. Industry truck forecasts for 2018 are as high as +26% y/y. Data for 2017 outlines truck tonnages transported is constantly higher than rail volume and Class 8 truck orders are up as well compared to its historical average. Used equipment prices have been from stable to slightly positive in several sectors such as construction and mining equipment, and trucking and farm equipment.

INDUSTRIALS
2017 SECTOR PERFORMANCE

STEEL

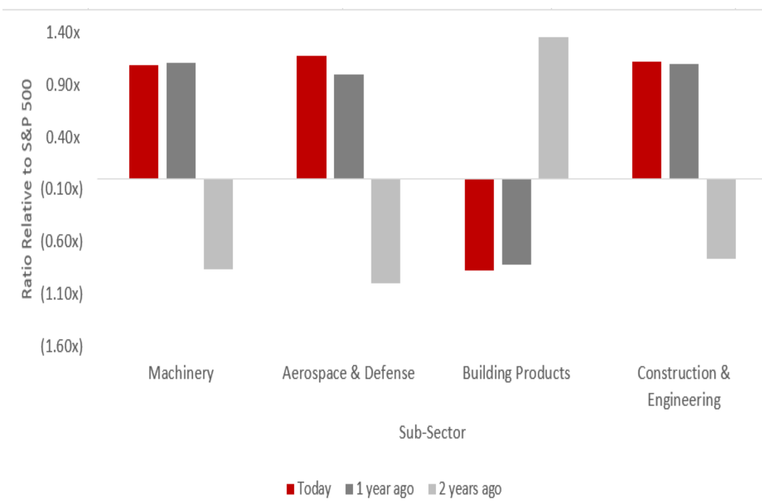
The US steel sector trends have moved positively throughout 2017. Raw materials and finished steel prices as well as steel production continue to exhibit seasonal strength as supply-side pressures are alleviated on an increase of import demand. With respect to pricing, US domestic scrap prices moved +$20/t-30/t higher MoM and domestic hot rolled steel prices are up approximately +$25/t MoM thus prove to be margin accretive. In 2017, global steel fundamentals have consistently been on the rise with raw material prices failing to contract meaningfully as previously anticipated.

As captured in Figure 2, Aerospace and Defense stocks trade at a slight premium to the market, likely reflecting a possible boost in US defense spending as announced by the US Senate. With respect to the Building Products, the current relative valuation has improved slightly as construction markets, particularly residential, are positioned to see solid growth in 2018 with a forecasted increase in housing starts. Machinery valuations have started to trend a bit lower as underlying fundamentals are approaching stock valuations. With respect to the Construction & Engineering sector, infrastructure projects and spending have been on the rise and thus engineering companies benefited from this favorable business environment.

VALUATION

Industrials have been important performers over the last few years in both small cap and large cap. They demonstrate a number of positive characteristics and we like the fact that it fits a number of themes including higher overseas exposure and a group that can take advantage of an improving global economy. Valuation matters a great deal and is thoroughly analyzed compared to the current market fundamentals. However, at the end of 2017 with the excitement regarding the US tax reform and positive impact it could have on the Industrials sector, the market hit new record highs. The strong performance of Industrials makes it one of the most expensive small and large caps. In large-cap core, the sector moved from an early Underweight in 2017 to a consistent Overweight at the end of the year. This was highlighted as the Industrials group was at its highest weight relative to the Russell 1000.

Figure 2: Industrial Sector P/E Relative to the S&P 500



Source: Bloomberg, as of 24/01/2017

INDUSTRIALS
2018 Sector Outlook

POSITIVE FORECAST FOR THE YEAR

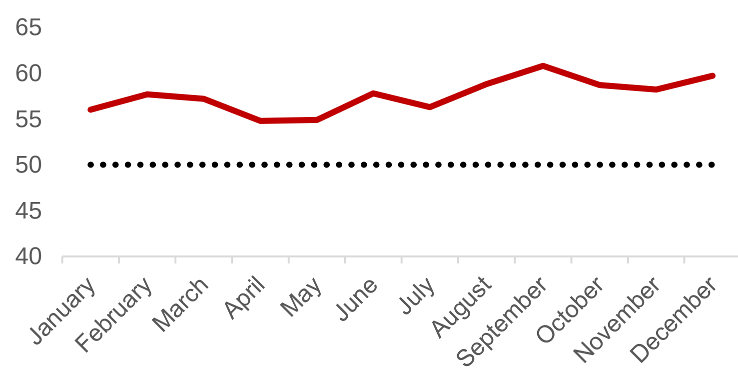
The industrials sector and the market as a whole did better than anticipated in 2017. The industrial sector benchmark returned 14.3% as oppose to 21.83% for the market. As we enter 2018, our expectations are positive for the sector, but relatively more conservative with respect to last year's outstanding results. From a fundamental point of view, there is no reason for us to believe that the industrials sector will not perform well relative to other sectors. Based on our analysis, we believe that we are in the late mid-cycle phase of the industrial cycle. This phase is characterized by a positive but more moderate rate of growth than that experienced during the early-cycle phase. Profitability is healthy against an accommodative, though increasingly neutral, monetary policy backdrop. In order to prevent an overheated economy, the Federal Reserve is expected to increase rates up to 4 times in 2018, which is a good indicator of a late mid-phase cycle.

WHAT FACTORS WILL DRIVE THE SECTOR

Overall, 2017 has been full of events that drove the market to new record highs. In 2018, we expect that the lack of regulations from the Trump administration will continue to stimulate capital expenditure. Strong worldwide GDP growth will continue to support demand for Canadian and American companies. On the other hand, it will be interesting to see if the companies will be able to boost productivity and match that demand, considering the very low availability of labor with an unemployment rate of 3.7% in the US. The tax reform will also affect the US' companies valuations for the coming year, and the industrial sector makes no exception.

The Purchasing Manager Index (PMI) is an economic indicator of the health of the manufacturing sector. It is based on five components: new orders, production, supply deliveries, inventory and employment environment. As demonstrated in Figure 3, the PMI was above 50 for all of 2017, which is a sign of an expanding manufacturing sector. On the other hand, a PMI below 50 would result in a contracting manufacturing sector. In 2017, the PMI average was 57.6 and we expect that the average will be around the same level for the upcoming year.

Figure 3: Purchasing Managers Index (PMI)



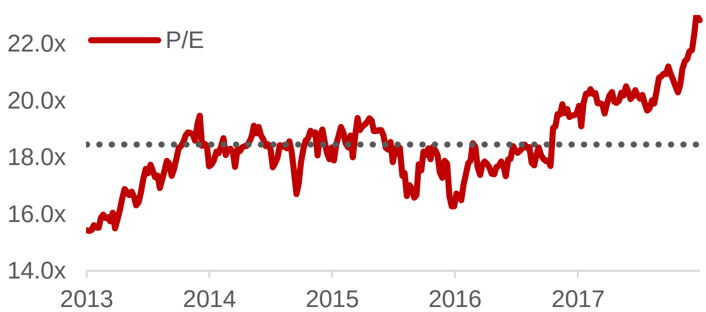
VALUATION

Last year's results have caused valuations to increase significantly. Figure 4 shows that on a P/E basis, industrial stocks are trading at very high multiples when compared to the historical average. We think that for most of the subsectors, the market is pricing in the events that occurred in 2017 that will affect future growth projections, such as the US tax reforms. Nevertheless, some subsectors are still presenting interesting opportunities from a valuation perspective.

Source: Bloomberg, as of 24/01/2017

INDUSTRIALS
2018 OUTLOOK

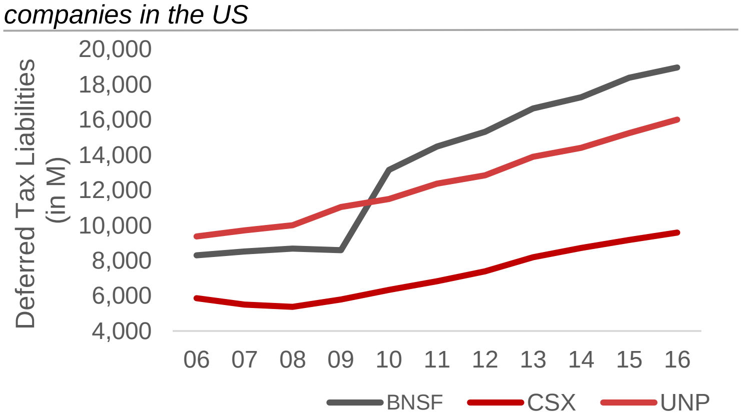
Figure 4: Industrials Index 5-year P/E



ROAD & RAIL

The Road & Rail industry is one of the subsectors that may see its demand increase because of the global growth in GDP. Likewise, the subsector should benefit the most from lower tax rates because of the large deferred tax liabilities and on-going capital expenses. Figure 5 illustrates the increasing deferred tax liabilities of some of the biggest rail & road companies. Under a lower tax rate, DTLs will likely be written down and result in a lower debt/equity ratio. This de-leveraging will lead to healthier balance sheets for the major Road & Rail companies. Holding debt/equity constant, US rails could repurchase significant portions of outstanding shares. On a P/E basis, this industry is currently trading close to its historical average. We believe the tax effect on the deferred tax liabilities is not fully priced in and that the industry should be trading at a higher multiple.

Figure 5: Deferred tax liabilities of 3 of the largest rail companies in the US

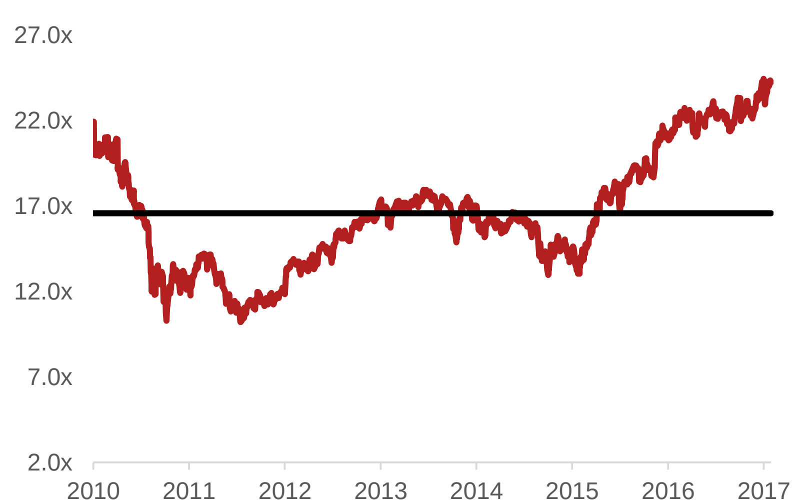


Source: Bloomberg, as of 24/01/2017

MACHINERY

North America's housing market is looking looking like it will have a very promising year in 2018 and we expect that this will result in a higher valuation for the machinery subsector. From a P/E perspective, the market is trading at his highest since 2010, but it's important to note that the fundamentals have never looked as promising as they do now. Consequently, our analysis suggests that the valuation will continue to increase in the near future. Strong private investment coming from low unemployment and higher wages, combined with higher demand for commercial machinery caused by high commodity prices should result in higher valuations than what the market is currently pricing. Because of its recent outperformance, the S&P Machinery Index is trading at a higher P/E multiple than the S&P 500 (19.5x and 18.7x respectively). Still, our position is that this premium is justified and not high enough as the machinery subsector is one of the subsectors that will benefit the most from the tax cut and the overall re-investment cycle coming from companies in the US.

Figure 6: Machinery Subsector's P/E ratio



ANNUAL REPORT 2017

INDUSTRIALS

2017 HOLDINGS REVIEW

DESAUTELS CAPITAL MANAGEMENT

A.O. SMITH (NYSE:AOS)

COMPANY OVERVIEW

- A.O. Smith (AOS) has been manufacturing water heating equipment for more than 80 years. AOS is now America's largest player, serving both the residential and commercial markets.
- The firm expanded in China more than 15 years ago, securing over 25% of the market share in the water heater market.
- AOS recently entered residential water treatment and air purification industries in China and India.
- 64% of revenues come from North America water heater sales, 26% from China water heater sales and 5% from China water treatment solutions.
- AOS sales come from wholesale plumbing distributors, flagship stores and large hardware retailers such as Lowe's, Sears and Home Depot.

CATALYSTS

- Higher than expected US residential and commercial construction numbers
- Sales of water and air treatment products gain traction in tier-2 and tier-3 cities in China
- Favorable data for Chinese economy, supporting demographic shift towards upper-middle class and increased urbanization

RISKS

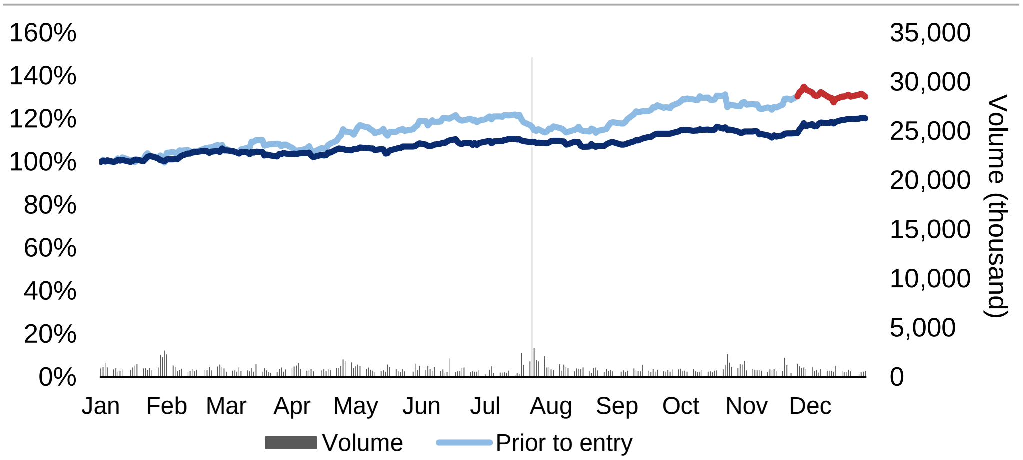
- Sustained rise in steel price increases input costs and harms ability to pass on higher prices to customers in the US market
- Higher than anticipated costs become necessary to expand to tier-2 and tier-3 cities in China, reducing operating margins

FINANCIAL SUMMARY

Public Market Overview	
(values in USD M, as of Dec. 31, 2017)	
Stock Price	$61.28
Shares Outstanding (mm)	145.8
Market Capitalization (mm)	**$8,936**
+ Preferred Stock	$0
+ Minority Interest	$0
+ Total Debt	$1,376
- Cash	($330)
Enterprise Value (mm)	**$9,981**
Beta (1-Year)	1.33
Dividend Yield	0.9%

Financials	FY2016A	FY2017E	FY2018E
(values in $mm)			
Revenue	$2,686	$2,985	$3,310
% Growth		*11%*	*11%*
EBITDA	$526	$583	$722
% Margin	*20%*	*20%*	*22%*
EPS	$1.9	$2.1	$2.7
% Growth		*14%*	*27%*
ROE	20%	24%	31%
ROIC	18%	13%	16%
EV/EBITDA	14.9 x	19.2 x	15.5 x
P/E	25.6 x	29.1 x	22.9 x

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Average Cost	$61.31
# of Shares	355
Value Invested	21,765
Portfolio Weight	4.64%
2017 HPR	0.93%
HP Benchmark Return	5.93%
Excess Return	(5.00%)

A.O. SMITH (NYSE:AOS)

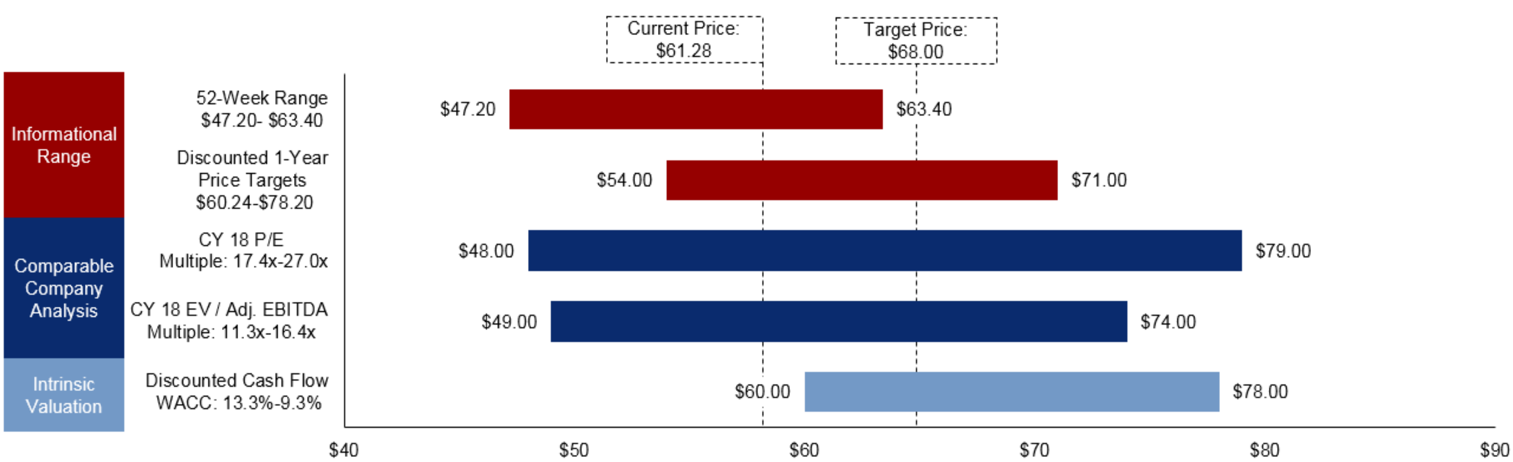
INVESTMENT THESIS

1. **Regulations requiring higher efficiency will help sales in the more mature US water heater market**
   - Scale and size come with significant R&D capacity, resulting in superior products and higher barriers to entry for competitors.
2. **The shift from middle class to upper-middle class in China will increase demand for premium residential water treatment solutions and air purifiers**
   - Growing awareness that heavy manufacturing activity and an aging water distribution infrastructure result in the presence of heavy metals and chemicals in drinking water.
   - With intense recent smog waves, air purifiers are becoming a staple home appliances in large cities.
   - With higher disposable income, households are willing to invest in their health by paying for premium products.
3. **Competitive advantage of A.O. Smith in the premium product segment**
   - High income Chinese consumers show a clear preference for foreign brands, especially high end home appliances, often associating foreign brands with higher quality.
   - Brand name that customers already know from long term track record of producing the highest quality water heaters, local management team, and local manufacturing and R&D facilities.
   - Patented reverse osmosis technology makes water filters 50% more durable than competition.

ANALYSIS OF PERFORMANCE

Since we initiated our position in AOS on November 27th of this year, AOS has underperformed our sector benchmark, returning 0.9% compared to 5.9%. During that period, American industrials stocks high returns were fueled by the tax reform signed by the Trump's administration, a strong purchasing manager index, solid global growth and early positive 2017 Q4 earnings from the US corporations. However, at the time of writing this report, we are pleased to announce that AOS returned 9% in January, as our thesis began to materialize. Going forward, we expect to see further price appreciation as the market begins pricing in further growth, especially in the Chinese water and air purification segments. With those important sales growth prospects in China and the current strong American housing market supporting U.S sales growth, we are comfortable holding the stock entering the new year and expect a strong performance for the rest of 2018.

VALUATION SUMMARY



Source: Bloomberg

ANNUAL REPORT 2017

INFORMATION TECHNOLOGY

2017 REVIEW & 2018 OUTLOOK

GEETANJALI KANWAR
INKINGI FRED GATALI
RAFID AL-HASSANI
SHIVI LAKHTAKIA
SHUAIBO HUANG
XIANG ZHANG

DESAUTELS CAPITAL MANAGEMENT

INFORMATION TECHNOLOGY
2017 REVIEW

TECH ON THE UP AND UP

IT was the best performing sector of 2017, outperforming the S&P 500 by over 20% (Figure 1), last performing best in 2009. DCM's investments in the IT sector saw the highest returns in Q2 2017, mostly driven by investments in semiconductor companies in the US market. This strategic focus on US stocks, along with investment in the favorable semiconductor subsector led our holdings to outperform the DCM IT benchmark by approximately 22% (Figure 2).

THE BIG PLAYERS

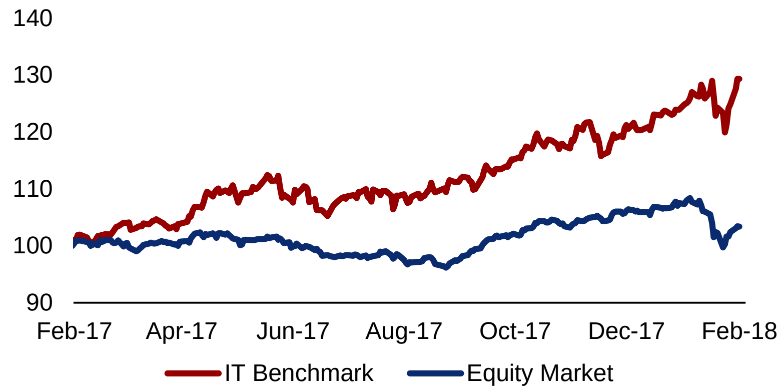
The propulsion of the IT sector was driven by large cap companies such as Apple, Google, Microsoft and Facebook that delivered more than 33% increase in their share prices, at an average return of 44% as a result of strong earnings. The combined market share of these companies accounts for approx. 50% of the S&P 500 IT index. Other sizeable companies such as Oracle, Adobe, and Intel also saw their share price increase by more than 25 %, led by strong fundamentals.

DIVING DEEPER

The IT sector's growth has made significant impact on the S&P500's performance as part of the continued large scale integration of technology in many other sectors for operational efficiency; the biggest buzz being around the applications of artificial intelligence which added value on the projects that the biggest tech companies currently pursue. Additionally, large free cash flow balance, sound balance sheet and repatriation benefits from abroad, alight of the tax reforms in the US had a positive effect on these IT companies.

In 2017, the growth in the Hardware sector was driven by the increased use of smart home devices and other portables. These devices have embedded micro-processing chips, the higher demand for which led the growth in the semiconductor industry by 29%.

Figure 1: Returns of IT benchmark to the overall market

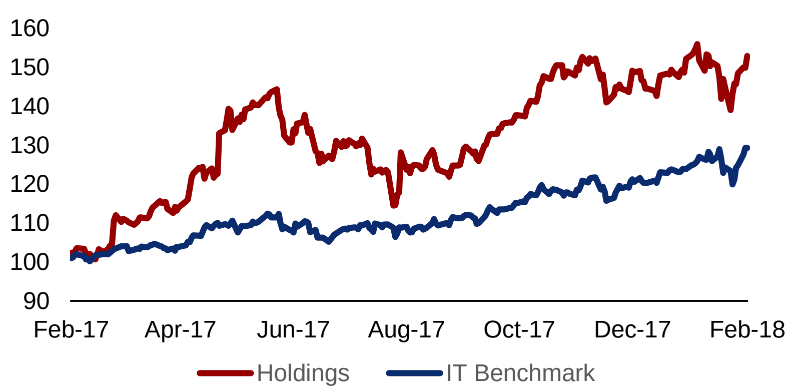


Advancements in Internet of Things, Big Data, Virtual and Augmented Reality also led to an increased interest in software companies.

During 2017, The IT sector dipped a few times, particularly in Q2 2017 after a long run of outperformance and investors' concerns of a possible overvaluation of the sector. However, these concerns were alleviated when IT companies in general beat earnings. The IT sector was also negatively impacted by the US tax reform passed in December 2017. The IT Sector in the US has a relatively low effective tax rate of 18%, and is to benefit the least of all sectors in the S&P 500 index.

The technology sector growth continues to be facilitated by consumers from others sectors, as tech becomes a fundamental integration in the function of people and organizations.

Figure 2: Returns of Holdings to the IT benchmark



INFORMATION TECHNOLOGY
2018 OUTLOOK

TECH STOCKS LEADING THE MARKET

The technology sector continues to harbor growth through its focus on consumers. Enterprises in most sectors are looking to technology to facilitate their own transformations, which is expanding the opportunities for technology companies tremendously. Tech stocks led the market for most of 2017 and expectations are that tech will probably remain the energizer of market sectors in 2018. Another lucrative year seems in store for tech based on these factors:

BUSINESS SPENDING BOOSTING TECH SECTOR GROWTH

Businesses in most sectors are gearing up for a healthy 2018 and will increase their spending on IT projects to support planned growth. According to market researcher, Gartner, the overall IT spending is estimated to grow to USD $3.7 trillion in 2018, up 4.5% over 2017 spending. Businesses plan to increase spending in all areas including enterprise software, devices, IT services, communications services and are moving to artificial intelligence projects that utilize the data that they have collected.

Figure 3: Business spending breakdown for 2018

Billion Dollars	2017		2018		2019	
	Spending	*Growth*	*Spending*	*Growth*	*Spending*	*Growth*
Data Center Systems	178	4.4	179	0.6	179	-0.2
Enterprise Software	355	8.9	389	9.5	421	8.4
Devices	667	5.7	704	5.6	710	0.9
IT Services	933	4.3	985	5.5	1030	4.6
Comms. Services	1393	1.3	1427	2.4	1443	1.1
Overall IT	**3527**	**3.8**	**3683**	**4.5**	**3784**	**2.7**

Source: Gartner, Forrester

SMART HOME DEVICES

Competition in this segment is on the rise as was witnessed at the Consumer Electronics Show 2018 as hundreds of companies compete to make devices that connect seamlessly to the big three- Amazon Echo, Google Home and Apple HomeKit. Several companies announced Alexa or Google Assistant compatibility, meaning that you can connect the devices to the voice assistant using a smart hub or bridge so that you can tell them to control your devices for you.

CYBERSECURITY SPENDING TO INCREASE

In 2018, worldwide cybersecurity spending will reach $96 billion, an 8% increases, as result of regulatory changes, mindset and a growing awareness of threats. The major forces driving the cybersecurity market are strict data protection directives and cyber terrorism. Large companies like IBM and Cisco have already invested in their $2 billion security businesses, other technology companies will keep up with their steps in 2018.

EXPONENTIAL GROWTH IN CLOUD SERVICES

According to Forrester, the total global public cloud market will be worth USD $178B in 2018, up from $146B in 2017, and will continue to grow at a 22% compound annual growth rate and AWS, Google, and Microsoft will capture 76% of all cloud platform revenue in 2018; 80% by 2020.

SEMICONDUCTOR: INCREASED REVENUE

Worldwide semiconductor revenue is forecast to total USD $451 billion in 2018, an increase of 7.5 percent from USD $419 billion in 2017, Favorable market conditions for memory sub sectors that gained momentum in the second half of 2016 prevailed through 2017 and look set to continue in 2018. Prices increases for both DRAM and NAND flash memory are raising the outlook for the overall semiconductor market.

INFORMATION TECHNOLOGY
2018 OUTLOOK

TAX REFORM IMPACT

Due to the significant variances of operational models across subsectors in technology industry, the effects of US tax reform would vary substantially based on an enterprise's global supply chain. For instance, from a domestic tax perspective, proposals to lower the corporate tax rate to 20% with immediate expensing of investments would generally be beneficial across the board. From an international tax perspective, the transition to a territorial tax system where future foreign earnings can be repatriated without additional US tax would competitively align US-based technology companies with the rest of the developed world. Hence, we would put tech companies' worldwide supply chain structure and the location of their customers into consideration when we estimate their value.

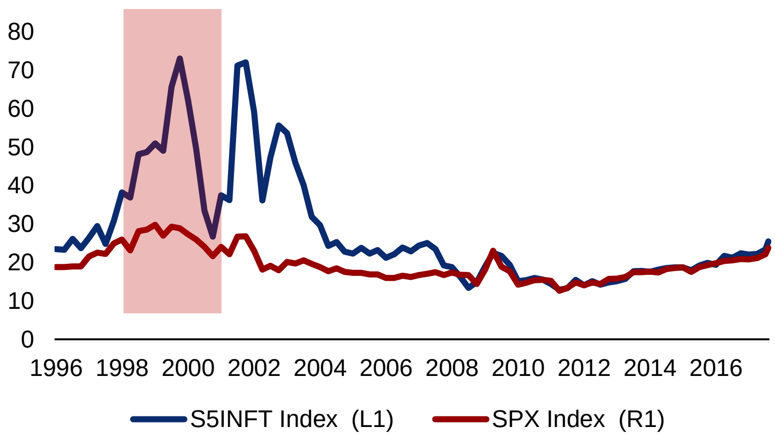
TECH SECTOR: OVERVALUED?

Some investors, including veterans of the tech debacle of the late 1990s, are concerned that the tech sector is overvalued. Yet there is abundant evidence to the contrary, including:

- Current P/E and Forward P/E ratios are key metrics to gauge the level of valuation with other individual sectors and the S&P 500 index overall. Compared with non-tech S&P 500 companies, tech companies have relatively low forward price/earnings (P/E) ratios. The forward P/E ratio for the tech sector is estimated to be at 19.7x for 2018 and 18.1x for 2019 which indicates that lower price per earnings will be paid in the future due to increased earnings driven by the growth factors mentioned before. Current price/earnings (P/E) for tech is trading at 25.5 times earnings versus 23.8 for the S&P 500. By contrast during the dotcom bubble at the end of 1999, tech traded at 44.5 times versus 24.3 times for the broader index.

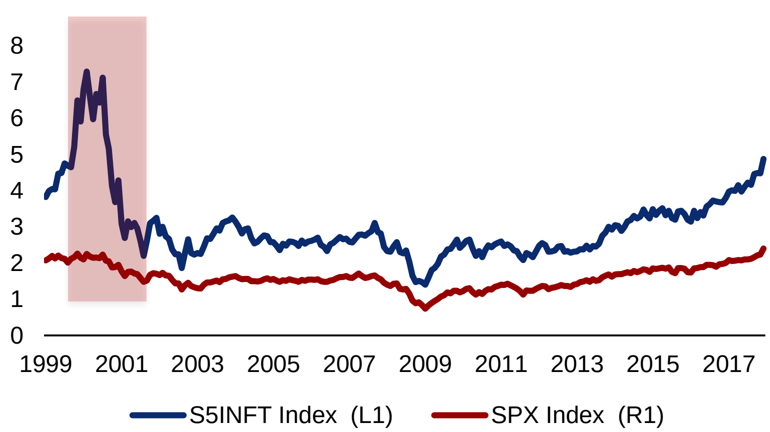
A comparison of the Price to Earnings ratio between the S&P 500 and Information technology index is given in Figure 4.

Figure 4: Price to Earnings ratio comparison



- Higher sales figures have been posted by tech sector relative to the time of the dotcom bubble. Currently, the price for tech stocks is trading at 4.8x sales versus 2.4x for the S&P 500. During the dotcom bubble, tech stocks traded at 6.5x to sales versus 2.25x for the broader index. This shows that the prices for tech stocks are justified in the current time period. A comparison of the Price to Sales ratio between the S&P 500 and Information technology index is given in Figure 5.

Figure 5: Price to sales ratio comparison



Source: Bloomberg

INFORMATION TECHNOLOGIES

2017 HOLDINGS REVIEW

DESAUTELS CAPITAL MANAGEMENT

COHERENT, INC. (NASDAQ:COHR)

COMPANY OVERVIEW

- Coherent, Inc. is a leading global supplier of laser solutions for over 50 years. It is headquartered in Santa Clara, California, USA.
- They have a wide range of products under different segments which include microelectronics, metal processing, OEM components & Instruments, and scientific & government research.
- Coherent also has a strong presence in the Asian market. More than 50% of their revenue comes from East Asia countries.
- Microelectronics is Coherent's leading product line with 51.9% of revenue generated from this sector.

CATALYSTS

- Coherent, Inc. has reached production capacity for the next two years due to the overwhelmingly increase in laser equipment orders. Future M&As will increase their production capacity and drive their revenue.
- Further commercialization of OLED screens by key electronic manufactures

RISKS

- FX is a main source of concerns. More than 70% of Coherent's revenue is generated overseas
- Semiconductor industry is highly cyclical, so having a healthy balance sheet is crucial. Their recent acquisition of Rofin Sinar has increased their indebtedness. However, their debt to equity ratios as well as their current ratio is still above industry average.

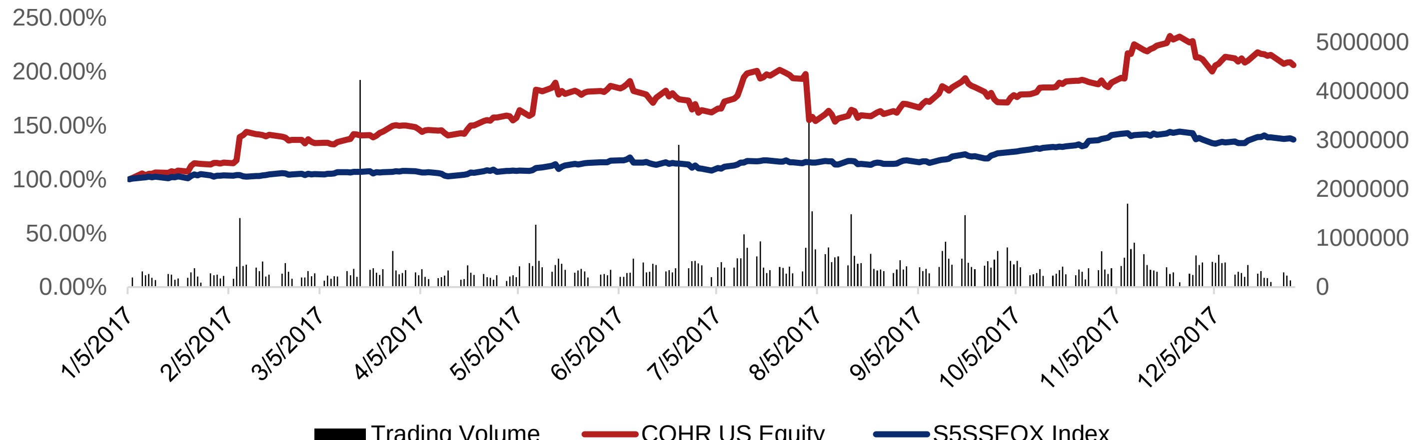
FINANCIAL SUMMARY

Public Market Overview	
(values in usd M, as of Dec. 31, 2017)	
Stock Price	$282.22
Shares Outstanding (mm)	24.777
Market Capitalization (mm)	**$6,993**
+ Preferred Stock	$0
+ Minority Interest	$0
+ Total Debt	$594
- Cash	$477
Enterprise Value (mm)	**$7,110**
Beta (1-Year)	1.06
Dividend Yield	0.0%

Financials	**FY2016A**	**FY2017A**	**FY2018E**
(values in $mm)			
Revenue	857	1,723	2,049
% Growth		*101%*	*19%*
EBITDA	$162	$417	$529
% Margin	*19%*	*24%*	*26%*

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE

POSITION SNAPSHOT



Source: Bloomberg

COHERENT, INC. (NASDAQ:COHR)

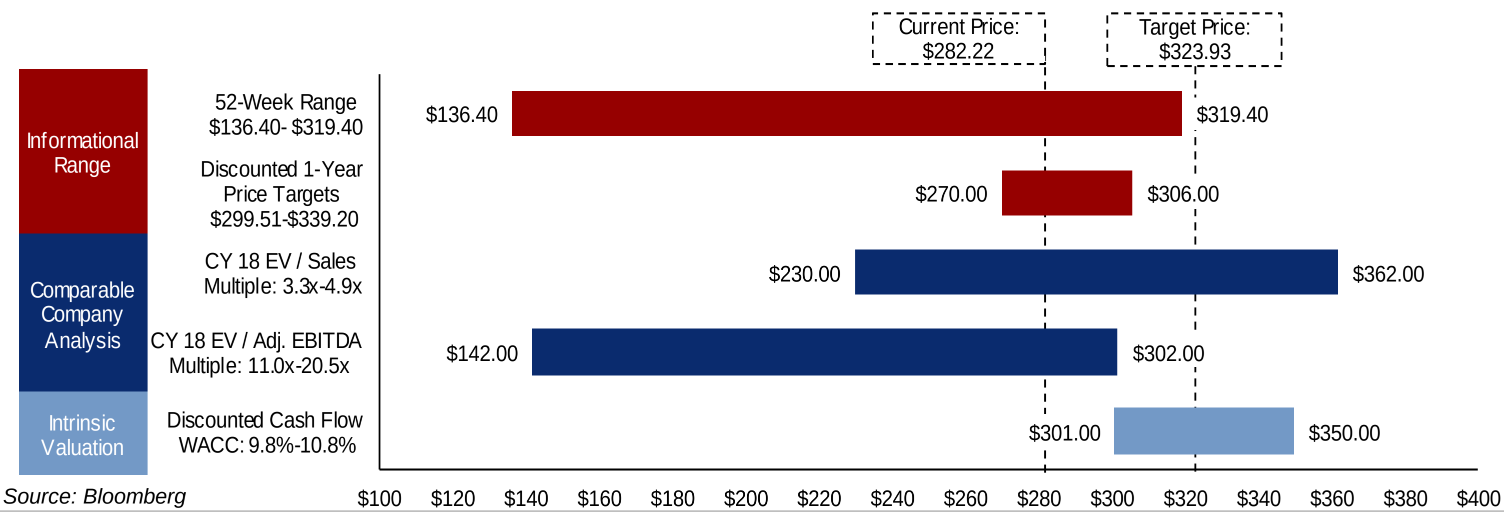
INVESTMENT THESIS

1. **Competitive advantage of propriety technology: Coherent's established and new proprietary technology continue to give it an edge over competitors**
   - Coherent is the sole manufacturer of excimer lasers used in manufacturing OLED screens. Its technology is well protected by patents and significant barriers to entry
   - The OLED market is expected to have a sustained growth in the next few years with a CAGR of approx. 41% (2016 to 2021)
2. **Increased strategic focus on the growing market of fiber lasers materials in its Materials processing segment**
   - In 2016, The Materials processing market is expected to grow significantly with a world CARG of approx. 7.5% and 17% in the APAC region for 2016 to 2021 2016
   - In 2016, Coherent acquired Rofin Sinar, manufacturer of laser-based industrial material processing applications. Materials processing now accounts for around 30% of its business compared to 10% in 2016
   - Coherent now manufactures high-power fiber lasers in this segment for which demand is picking significantly due to cost and manufacturing efficiencies

ANALYSIS OF PERFORMANCE

We currently do not hold Coherent as a stock in our portfolio. In 2017, Coherent outperformed the semiconductor index, with a return of 113.5% compared to 37.4% of the index. The stock reached a high of $319.4 on 21st November 2017. However, it has been significantly impacted by the change in US tax rates which have affected the entire technology and semi-conductor industry due to investors cashing in their returns from technology with an increased preference to invest in sectors benefited by the new tax bill. In response to the news, the stock fell in line with the semi-conductor index, with its recovery being in line as well.

VALUATION SUMMARY



Source: Bloomberg

REAL ESTATE

2017 REVIEW & 2018 OUTLOOK

ERIKA SAVAGE
JAMIE STEINMETZ
MARIO HENNESSEY

DESAUTELS CAPITAL MANAGEMENT

REAL ESTATE
2017 OVERVIEW

INTRODUCTION

The real estate sector's holdings in the portfolio are 100 shares in the iShares US Real Estate ETF as of the end of 2017. We compared the portfolio to a 60/40 US/TSX Real Estate breakdown. The real estate benchmark returned 2.19%. Individual real estate stocks were not purchased until 2018, as a result, comparison relative to the benchmark will be conducted in the next fiscal year. We have decided to focus our analysis on the REIT subsectors. Killam Apartment REIT was purchased in Q1-2018 for $13.85, details are provided in the holding section.

2017 REITS PERFORMANCE

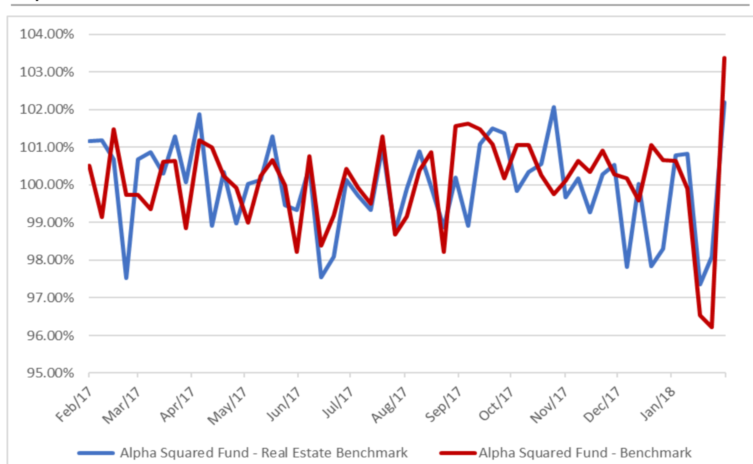
Publicly traded REIT shares trading relatively close to the value of their underlying properties, and with property prices rising toward and generally surpassing their pre-crisis levels, allowing them to keep pace with broader equity markets. There were however, when analyzing the specific sub-sectors, discrepancies in their 2017 performance. In Canada and the U.S., Retail REITs as a whole are trading below NAV, residential REITs are trading close to NAV, and industrial and data-center REITs are trading above NAV. The fear of the decline of brick & mortar retail explains the widespread decline in the retail sub-sector. This trend could also explain the rise in industrial REITs, with the anticipation of the incumbent need for more storage space due to online purchases. Moreover, rising demand in online-store space and the technological advancements can explain the rise of data-center REITs. Finally, office and residential REITs have performed moderately throughout the year due to favorable demographic trends and employment results.

REIT's sector earnings in the U.S. did not surprise nor disappoint. During 2017, the REIT industry generated total returns of approximately 9.27%, according to the FTSE NAREIT All U.S. REITs Index, which is very close to their long-term average. From the beginning of 1972, (when the All U.S. REITs Index was created) through the end of 2017, total yearly return has averaged 9.72%. REITs performance have been remarkably consistent: this year's total returns have been quite close to the average annual industry performance over the past 5 (9.90%) and 15 years (10.62%).

In Canada, when analyzing the REIT subsector through the MSCI Canada IMI REITs Index (constituting a market weight of the top 23 REITs by market cap) the total annual returns were surprising. The total annual return was 18.14%, which is substantially higher than the ten year annualized return of 5.97%.

Considering valuation multiples, other then the relative price of the securities, it is difficult to compare the real estate sector to the broad market. However, it is important to analyze key multiples to see how they have progressed throughout the year. Valuation multiples expanded in Canada and contracted in the US while considering three valuation metrics: P/FFO, P/NAV and Dividend Yields. Further discussion will take place in the following section.

Figure 1:Relative Return Real Estate and Alpha Squared Benchmark



Source: Bloomberg; MSCI Real Estate

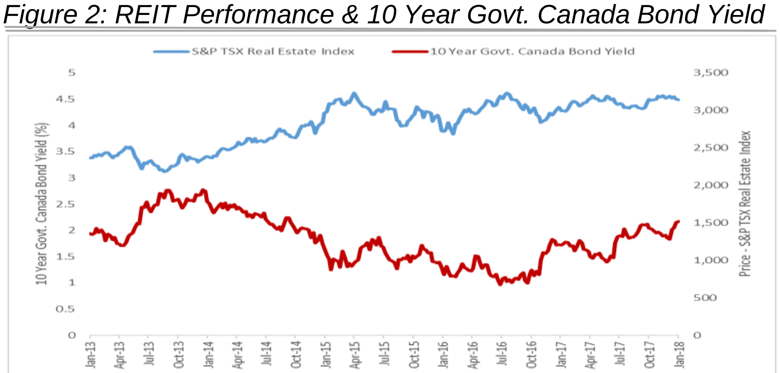
REAL ESTATE
2018 OUTLOOK

CANADIAN REITS

Sector fundamentals such as: inflation, interest rates, vacancy rates, geographic concentration and government policies will be important factors to monitor in 2018, as they are projected to impact the Canadian Real Estate market in the coming year.

When the economy does well, other sectors' cash flows increase by more than real-estate's expected cash flows, so REITs are bond-like in the sense that their cash flows are not as sensitive to the economy. When interest rates rise, REITs may underperform. If the market is experiencing a period of many defaults on property, when the economy is up, this significantly increases cash flows for real estate. Rising interest rates generally lead to higher cap rates, reducing the value of properties and the attractiveness of REITs' high yields. With market predictions exhibiting interest rate hikes, REITs as an alternative investment class may lose appeal in 2018. Nevertheless, real estate investments serve as an inflation hedge, counterbalancing the impact of rising interest rates. We anticipate an even distribution of economic growth across Canada's largest metropolitan markets, resulting in greater rental revenue and NOI. 2018 should see an acceleration of industry consolidation, as big REIT players merge or buy out smaller operators. With property being expensive and REITs being comparatively cheap, REITs will be attractive targets in 2018.

Figure 2: REIT Performance & 10 Year Govt. Canada Bond Yield



Source: Bloomberg; PWC Real Estate; JLL Research

SECTOR FUNDAMENTALS

Office REITs - The Canadian market saw a slight improvement in vacancy rates during 2017. The Vancouver, Toronto, and Montreal real estate markets realized a growth in demand for office space with decreasing vacancy rates that are now sitting at 8.3%, 5.9%, 12.3%, respectively for Q3 2017. The growth in demand is attributed to the development of the tech sector within the previously listed cities. Edmonton and Calgary continued to struggle, as vacancy rates increased over the same period. Their vacancy rates stood at 17.7% and 21.1%, respectively. The national average of vacancy rates for office space was 12.2%. DCM's outlook for the office leasing environment is positive, particularly in the outperforming markets of Vancouver, Toronto, and Montreal, which are experiencing very tight market conditions.

Retail REITs- Canadian retail REITs continued to suffer in 2017. Large retail locations are continuing to deal with the collapse of Target Canada as many property owners continue to struggle to find new tenants to fill the 16 million square feet of vacant space resulting from their departure. The announcement of Sears' insolvency has had significant detrimental effects to the Canadian retail real estate market. Canadian retail REITs are continuing to face a challenging environment and it is anticipated that this trend will continue in 2018, with the future of big-box retailers in Canada looking increasingly uncertain. In this market environment, there remains potential to unlock value with attractive buying opportunities. Finally, the results of the NAFTA negotiations may have an effect on the retail sector, such as potential changes to tariffs on imports. Many retailers in Canada are concerned about a potential increase in the limit of tariff-free imports which will have a consequential effect on the retail sector.

REAL ESTATE
2018 OUTLOOK

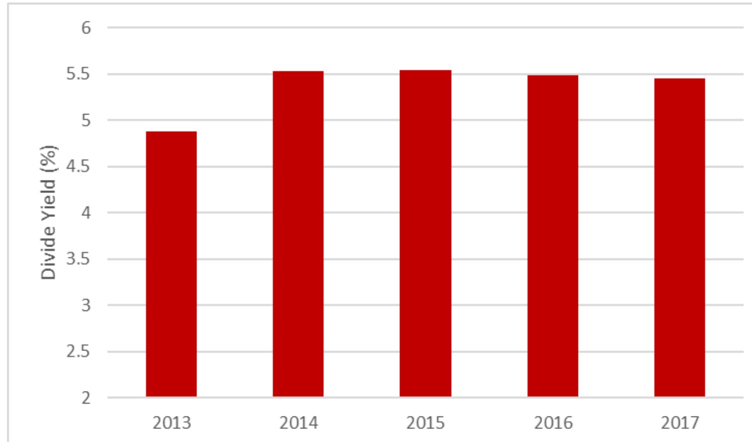
DCM will carefully track the retail real estate sector to find operators with the ability to efficiently manage their properties and to unlock the value found in overly discounted properties.

Residential - The residential real estate sector in Canada was marked by significant changes to mortgage regulations for home buyers. A tightening in home mortgage lending, designed to curb Canadians' high levels of indebtedness, is estimated to disqualify up to ten percent of prospective home buyers. These changes are anticipated to have an impact on the rental market, as those unable to abide by the more stringent mortgage regulations will be looking for alternate living arrangements. With increasing fears of an overinflated residential market in Toronto and Vancouver, it will be important to monitor the government's policies to foster price stability in these growing markets.

VALUATION

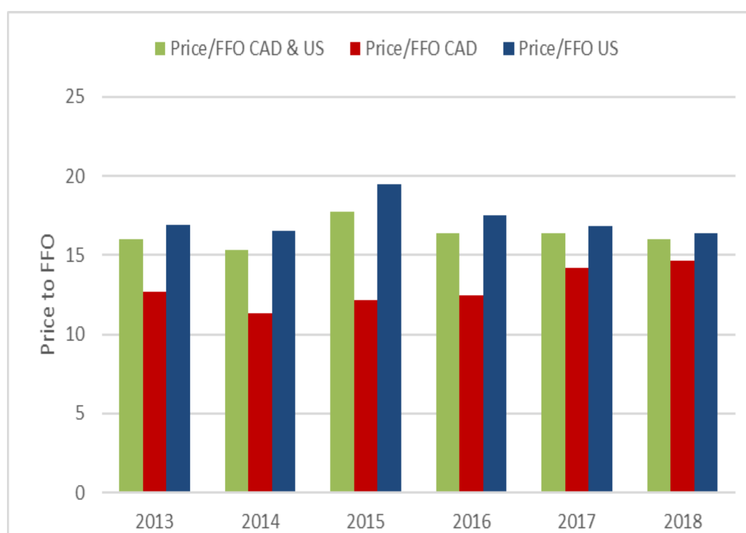
Dividend yields have experienced a slight decrease over the past five years. This is attributed to an appreciation in the price of the REITs as dividend payouts remained rather constant. It is anticipated that this trend will change in 2018. An average decrease in the price of REITs, due to historical drops consistent in rising rates environment, is projected. Due to the strong balance sheets that REITs have developed over the past few years of growth, it is believed that dividends payouts will remain constant. As a result, the relative dividend yield will increase, as price depreciation combines with stable dividend payouts. Moreover, in the US the recent tax cuts on REIT dividends will impact the overall attractiveness of these securities; favoring REITs with high dividend payouts. Our team anticipates targeting a company that will benefit from this change.

Figure 3: Dividend Yield



Concerning P/FFO, North American REITs are trading very close to their five year average. This can be attributed to their consistent price appreciation, along with FFO growth. In the coming year it is anticipated that REITs will trade below the five year average of approximately 16x. Consistent with our view that prices will slightly depreciate, we believe overall FFO will increase due to positive economic and demographic trends in North America. More specifically, in Canada we anticipate a consistent P/FFO multiple relative to 2017, and in the US we anticipate a continued decline for the reasons mentioned above.

Figure 4: Price to FFO Multiple



Source: Bloomberg; The Globe and Mail

REAL ESTATE

2017 HOLDINGS REVIEW

DESAUTELS CAPITAL MANAGEMENT

KILLAM (TSX:KMP.UN)

COMPANY OVERVIEW

- Killam Apartment REIT, based in Halifax, Nova Scotia, is one of Canada's largest residential landlords; owning, operating, managing and developing a $2.2 billion portfolio of apartments and manufactured home community properties (MHCs).
- The company's portfolio includes predominately multi-residential apartment units as well as manufactured home communities. They are involved in the development, management and operations of their properties.
- Currently, Killam has 223 properties - 184 apartments, 35 MHC's and 4 Commercial Properties. Additionally, they have 10 properties either under development or in their pipeline.

CATALYSTS

- Killam has been added to the S&P/TSX Composite: BMO Capital Markets believes that throughout the year this will increase demand by 3.2 million units (equivalent to 15 days of volume).

RISKS

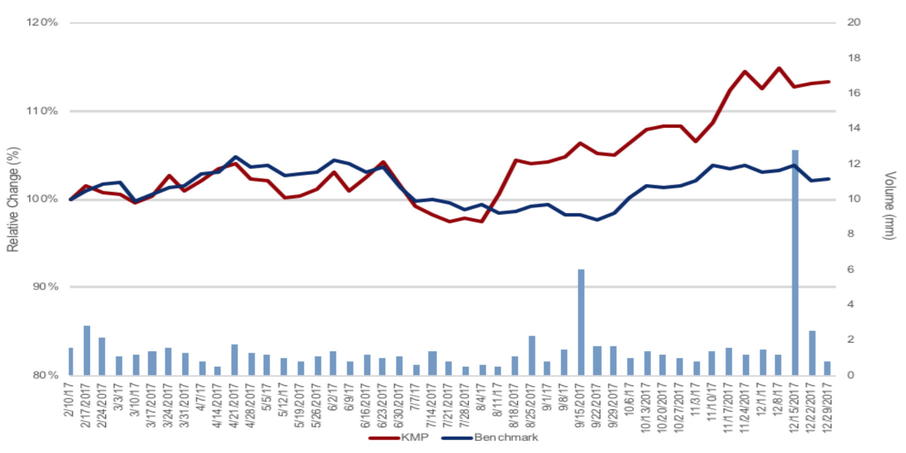
- Significant exposure to interest rate risk due to mortgages and loans payable. This risk is mitigated through management's strategy to have the majority of its mortgages payable in fixed-term arrangements, and by spreading the maturities of debt.
- Risk that cost of developments will exceed estimates and budget. Mitigated by limiting amount of development underway at any given time.

FINANCIAL SUMMARY

Public Market Overview	
(values in CAD M, as of Jan. 17, 2018)	
Stock Price	$13.85
Shares Outstanding (mm)	78.98
Market Capitalization (mm)	**$1,094**
+ Preferred Stock	$0.00
+ Minority Interest	$0.12
+ Total Debt	$1,125.64
- Cash	$4.55
Enterprise Value (mm)	**$2,215**
Beta (1-Year)	0.67
Dividend Yield	4.5%

Financials	**FY2016A**	**FY2017E**	**FY2018E**
(values in $mm)			
Revenue	$176.50	$188.64	$202.43
% Growth		*7%*	*7%*
Expense	$93.00	$101.00	$126.20
% Margin	*53%*	*54%*	*62%*
Interest Cost	$37.70	$36.00	$36.40
% Growth		*-5%*	*1%*

STOCK PRICE AND SECTOR BENCHMARK PERFORMANCE



Source: Bloomberg

POSITION SNAPSHOT

Average Cost	$13.85
# of Shares	700
Value Invested	9,695
Portfolio Weight	1.75%
2017 HPR	N/A
HP Benchmark Return	N/A
Excess Return	N/A

KILLAM (TSX:KMP.UN)

INVESTMENT THESIS

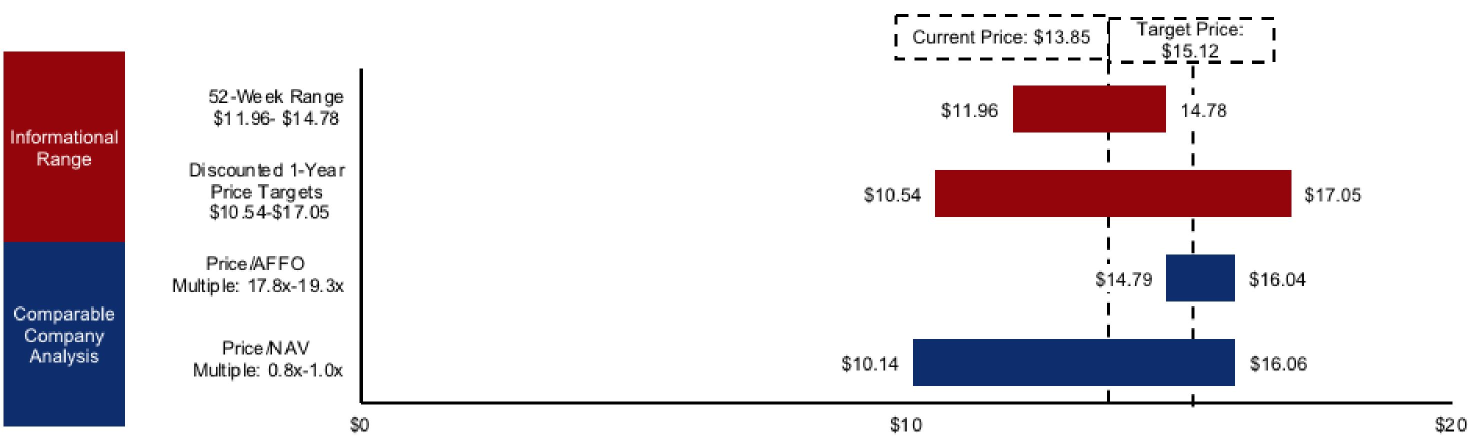
1. **Low operating and financing expenses will persist in the future**
   - Killam is focusing on newer properties that are operating at increased efficiency.
   - Killam is one year into its five-year, $25M energy efficiency program to decrease the heating/utility expenses in the imminent future. An aggregate annual savings of $7 million is expected.
   - Killam's risk against higher interest rates will be mitigated, as less than 30% of loans require refinancing in the next three years. In addition, refinancing rates are expected to be below the current borrowing rates.
2. **Stronger than forecasted rent growth will maintain high same-property rental revenue growth**
   - Rent growth is expected in Killam's core markets, due to a limited supply of rental units in conjunction with the company's focus on capital investment in renovations.
   - Positive demographic trends such as: job, salary, population and GDP growth are present in Killam's main markets (Nova Scotia, New Brunswick and Ontario).
3. **Higher-than forecasted development and acquisition returns**
   - Killam has undergone successful development initiatives - increasing NOI from non-same properties.
   - Further successful initiatives should be expected, with strategic partnerships being developed.

ANALYSIS OF PERFORMANCE

Currently, Killam's average rating remains a buy. Despite the change in price, the rising interest rate environment and the extreme cold weather which will marginally lower Killam's NOI in Q1-2018, the three investment theses continue to hold and remain relevant. Comparing the price of the S&P/TSX Real Estate Index and the price of Killam on the date the investment opportunity was presented, November 21st 2017, to February 16th 2018, we have observed a .24 basis point increase in the value of the index compared to a .51 basis point decrease in the price of Killam.

Killam Apartment REIT was purchased in Q1-2018 for $13.85. As of February 16th, 2018, the stock is trading at $13.78, and the current price target for the stock is $15.12. This presents a 9.16% upside, along with 4.5% dividend yield.

VALUATION SUMMARY



Source: Bloomberg

PROGRAM ALUMNI

DESAUTELS CAPITAL MANAGEMENT | GESTION DE CAPITAUX DESAUTELS

Graduating Class of 2017

Razan Alobaidi
MMF Graduate
PhD Finance
HEC Montréal

Francis Arseneau
MMF Graduate
Innodem Neurosciences
Montreal

Mostafa Barakat
MMF Graduate
Letko Brosseau & Associates
Montreal

Yilan Cai
MMF Graduate
Accenture
Toronto

Hannah Cheng
MMF Graduate

Peiyao Dai
MMF Graduate
Guangzhou Municipal Bureau
Guangzhou

Jesse Ehrlick
MMF Graduate
NXTSENS
Montreal

Kisa Giebink
MMF Graduate
CoPower Inc.
Toronto

Mohamad Hijazi
MMF Graduate
Air Canada
Montreal

Ting Huang
MMF Graduate
Novacap
Montreal

Yixiao Li
MMF Graduate
GuangFa Securities
Guangzhou

Sophie Mahdavi
MMF Graduate
Restaurant Brands International
Toronto

Sarah McCullough
MMF Graduate
MFS Investment Management
Toronto

Munjal Patel
MMF Graduate
Montrusco Bolton Investments
Montreal

Anthony Rago
MMF Graduate
Bank of America Merrill Lynch
Toronto

Vivek Sharma
MMF Graduate
Scotiabank
Montreal

David Yan
MMF Graduate
Restaurant Brands International
Toronto

Tian Yang
MMF Graduate
TD Canada Trust
Toronto

Chengyu Zhang
MMF Graduate
PhD Finance
McGill University

Gang Zhao
MMF Graduate
Shagang Capital
Shanghai

DISCLAIMER

The Desautels Global Equity Fund, the Desautels Fixed Income Fund, the Desautels Alpha Squared Fund, and the Desautels SRI 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

CIBC MELLON

BLG Borden Ladner Gervais