



Newsletter Q3 2014

Global Equity Fund

Dear Investor,

The Desautels Global Equity Fund returned 1.0% gross of fees for the 3 months ending September 30, 2014, lagging our benchmark by 1.1%. Year-to-date, the Fund is up 11.6% compared to 13.1% for the benchmark. Over the past 2 years and since inception we are outperforming the benchmark by an annualized 5.4% and 1.8%, respectively.

Our recent underperformance can be attributed to the underperformance of small caps relative to large caps and also to a couple of underperforming picks whose investment theses did not materialize (discussed below).

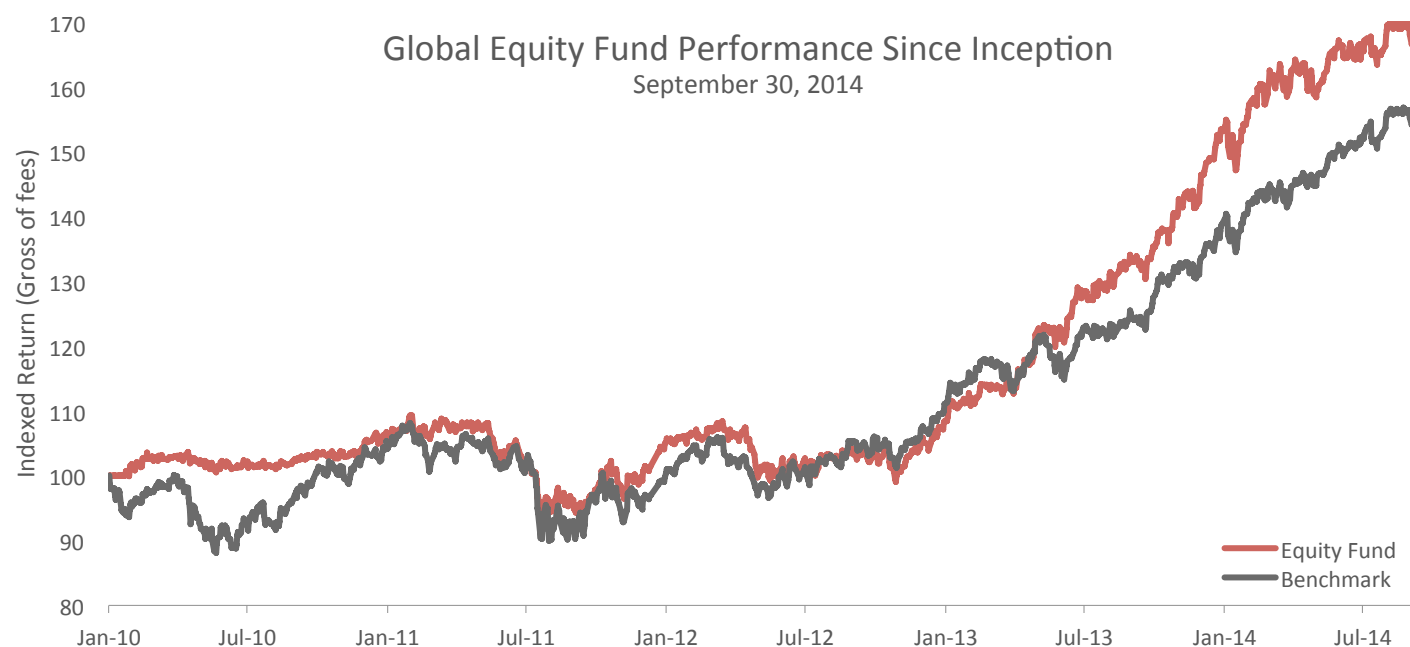
Sector Weighting <i>October 17, 2014</i>			
Sector	Equity Fund	Benchmark	+/-
Technology	16.1%	8.4%	7.7%
Industrials	13.4%	8.8%	4.5%
Currency	1.2%	0.0%	1.2%
Consumer Staples	5.0%	5.0%	0.0%
Telecom	4.1%	4.3%	-0.2%
Healthcare	6.5%	7.6%	-1.0%
Energy & Utilities	19.8%	20.8%	-1.1%
Consumer Disc.	6.5%	8.1%	-1.6%
Materials	5.9%	8.1%	-2.2%
Financials	21.5%	28.7%	-7.2%

Global Equity Fund Returns <i>September 30, 2014</i>			
Time Period	Gross Return	Net Return	Benchmark
Most recent quarter	1.0%	0.7%	2.1%
Previous quarter	1.7%	1.3%	4.5%
6 month	2.7%	2.0%	6.7%
YTD	11.6%	10.3%	13.1%
1 year	25.5%	23.6%	24.4%
2 year*	26.9%	25.0%	21.5%
Since Inception*	11.4%	9.8%	9.6%

**Returns are annualized.*

Equity Performance Metrics Since Inception <i>September 30, 2014</i>		
	Equity Fund	Benchmark
Annualized Return	11.4%	9.6%
Annualized Std Dev	10.1%	11.6%
Annualized Sharpe Ratio	0.88	0.61
Beta	0.65	
Annualized Alpha	4.3%	

Performance metrics are calculated gross of fees.



**Note: Performance is calculated gross of fees. Benchmark is a blended 60% S&P TSX, and 40% S&P 500 (measured in CAD). From inception until February 28, 2013, benchmark was the MSCI World Index. Inception date is January 20, 2010.*

Market Commentary and Outlook

In Q3 2014, the S&P/TSX was down 0.59% while the S&P 500 was up 1.5% (including dividends). The US dollar displayed a lot of strength, especially relative to commodity sensitive currencies; it appreciated by nearly 5% versus the loonie. In Canadian dollar terms, the S&P 500 returned 6% in Q3.

Since the end of Q3, North American and global equity markets have experienced a lot of volatility, as investor fear and skepticism about global growth dominate market headlines. The CBOE Volatility Index (VIX), a measure of Wall Street fear levels, recently reached 30.88, its highest value since June 2012 when investors feared a Eurozone breakup. Since the end of Q3 and up until the close on October 17, the Desautels Global Equity Fund has performed in line with the benchmark, both declining by about 4.5%.

The energy and materials sectors have led the S&P/TSX downward with the Capped Materials and Energy Indices down more than 15% from early September. The selloff was driven by declining commodity prices due to global growth concerns as well as the booming US oil supply from shale plays (discussed below).

Looking forward, our key macro and market views are as follows:

(1) Optimistic about a robust US recovery...

The US economy has created an average of 227,000 jobs per month this year, bringing the unemployment rate down to 5.9%, its lowest level in more than 6 years. The key concern in interpreting this number remains the declining labour force participation rate, which recently fell to a 36 year low of 62.7%. This explains the Fed's decision to no longer link the target policy rate to a fixed unemployment rate.

Despite job gains, the US economy is still well below full employment, with an output gap of close to 4% of potential GDP (see Exhibit 1). If the economy succeeds in reaching "escape velocity", we would see strong growth in the short-to-medium term and a longer than average economic recovery as the output gap closes. Indeed, as we expected, the 2.1% decline in Q1 US GDP was mostly weather related and Q2 GDP bounced back strongly to 4.6%.

Over the long-term, however, we are wary of the demographic challenges that developed economies are facing. By 2030, the ratio of US working age to retired individuals will decline to 3.3, from 5.3 currently. This means that there will be 38% less working age people available to support retirees. This will result in a major drag on long-term growth, unless a reformed immigration policy is implemented.

(2) ...but wary of global economic shocks.

The IMF recently lowered its 2014 global growth outlook to 3.3%, from its April estimate of 3.7%. This downward revision can be attributed to geopolitical tensions in the Middle East and Ukraine, as well as slower than expected emerging market growth. Most notably, the IMF expressed concerns about a housing bubble in China and warned that "credit booms of similar size have often led to sharp corrections". Indeed, this is a fear we've had for some time now. Our concern was China's impossible trinity and how the country would

need to accept a lower growth rate in order to deal with its ballooning private debt levels and structural constraints, as well as its pollution problems. Otherwise, it will face a worse outcome down the road. We remain focused on how the Chinese economy will impact commodity weighted economies like Canada.

(3) Valuations are reasonable but be careful with high flying stocks

Exhibit 2 compares current S&P 500 valuation (as of September 30 2014) and its historical averages based on a variety of metrics. The S&P 500 currently trades at a Price to Next Twelve Month Earnings ratio of 15.2, 10% above its 10 year average of 13.8, but 2.6% below its 25 year average of 15.6. Given current market conditions we feel a 15.2 ratio is reasonable. As we have noted previously, the current low interest rate environment justifies a lower earnings yield on the S&P 500. Of note, the S&P 500 earnings yield spread to the Moody's Baa corporate bond yield is currently at 1.8%, well above 10 year and 25 year averages (Exhibits 2 & 3). While the number of bargain opportunities in the market has declined over the past few years, our view remains that broad equity market valuations are not at alarming levels.

However, certain industries and so-called "story stocks" are trading at valuations that seem hard to justify by fundamentals. In July, US Federal Reserve Chair Janet Yellen warned about "substantially stretched" valuations in certain corners of the market, including biotechnology and social media stocks. This reminds us of Alan Greenspan's "irrational exuberance" comments, 3 years before the burst of the dot-com bubble. We are keen to avoid these high flying stocks, and limit our exposure to such industries.

(4) Small cap stocks not feeling the love

The Russell 2000, a good proxy for US small cap companies, is down more than 5% YTD, and down 7.65% in Q3. This compares to the S&P 500's YTD and Q3 returns of 6.7% and 0.62% (excl. dividends), respectively. Our exposure to small cap companies, around 25% of the equity fund, helps explain our recent underperformance relative to our 40% S&P 500 and 60% S&P/TSX benchmark.

Going forward we remain confident of our exposure to small caps. From an idea generation perspective, we believe this is an area where we can find under-covered hidden gems and value opportunities through fundamental bottom-up analysis. From a macro-exposure perspective, small caps are most levered to the US economic recovery given their degree of operating leverage. Moreover, they have a relatively more domestic revenue stream compared to large caps. For this reason, small cap fundamentals are somewhat less exposed to global economic shocks and an appreciating US dollar.

(5) Oil market commentary and energy sector strategy

Collapsing oil prices have triggered a sell-off in equities in the energy sector (both oil & gas and renewable energy stocks). Brent and WTI prices have declined by more than 20% from their highs in June; \$630 billion was wiped out from the market value of the largest 60 oil companies. The month of September saw the largest increase in oil

supply in more than 2 years, while demand growth slowed significantly. Most notably, OPEC production grew again in September after almost two years of decline, compounding the effect of the booming US shale oil supply. One hypothesis is that OPEC might be testing the breakeven prices of unconventional oil producers in North America.

We believe that the selloff in Canadian energy equities is excessive. Since the beginning of September, the S&P/TSX Energy Index has declined by about 23% in USD dollar terms, compared to a decline of about 15% for the S&P 500 Energy Sector. It is important to understand the insulating effect that a declining loonie has on Canadian producers, whose costs are in CAD while their oil price realizations depend on the global USD denominated oil prices. The West Texas Intermediate (WTI), a benchmark for US oil prices, is about 20% below its level a year ago (in US\$). On the other hand, the Western Canada Select (WCS), a blended benchmark for realized prices of Canadian producers, is more than 5% higher than its level a year ago (in C\$). This is mainly due to the decline in the Canadian dollar, and a narrowing of price differentials between Canadian heavy oil and US light oil prices which is consistent with the views we expressed last year. We believe that the market might be overlooking Canadian oil pricing dynamics during the recent selloff.

We remain confident about our holdings and overall positioning in the energy sector. Despite the declining oil price environment, we believe that it is possible to generate alpha in the energy sector through: (1) High quality operators with reasonable breakeven prices (e.g. Whitecap Resources, MEG Energy & Parex Resources); (2) Producers with short-term catalysts and drilling news flow (e.g. Parex Resources); (3) Partially hedged production (Whitecap & Parex); (4) Heavy oil producers where the effect of declining oil prices is dampened by the narrowing of differentials relative to light oil prices (MEG Energy). (5) Differentiated business models with a high degree of economic moat and strong cash flow generation (Pulse Seismic).

Outlook Summary

While we remain positive about the US economy during the next few years, we are cautious about external global shocks that might derail the recovery. Broad equity market valuations remain reasonable, especially when assessed in the context of a low interest rate environment. However, certain areas of the market are unjustifiably expensive and trading at unreasonable valuations.

Holdings: Winners and Losers

In this section, we highlight some of our key individual holdings:

TSO3 Inc (TSX: TOS) – Up 104.9% in Q3

The core thesis remains unchanged and we are highly confident the FDA will approve STERIZONE VP4 before the end of 2014 as the company indicated on September 18 that they have moved past discussions on the science of the product and are onto labeling. The FDA process began in June 2011 and has gone on much longer than anyone anticipated due to changes in guidelines at the FDA, mismanagement of the application by TSO3 and likely some form of importance bias within the FDA (micro Quebec-based firm with obscure sterilization technology). We feel this marks the final step to

approval for TSO3 given historical precedent on applications of this nature as well as communications from management and the FDA.

We are expecting one of four outcomes: first and most likely, they obtain FDA approval and announce a supply chain agreement; second and what we feel would be most rewarding for investors, they obtain FDA approval and get bought out by a larger player (Getinge, J&J, 3M, etc.); third, they get bought out by a larger player prior to receiving FDA approval; and finally and least likely, they fail to get FDA approval.

The company has sufficient funding to last until Q2 2015 assuming conservative cash burn rates of ~\$700,000 per month. We are confident STERIZONE VP4 will get approval in the current year and are holding our position with a price target of \$1.60.

Geospace Technologies (NASDAQ: GEOS) – Down 36.2% in Q3

Geospace was down 36.2% in Q3 bringing our holding period return to -56% since we initiated the position in March. Our original thesis was centered on the company's long-term growth opportunities in wireless seismic devices and reservoir monitoring technology. In addition, we thought the market was excessively penalizing the stock due to the delay of some of its contracts.

The industry dynamics proved to be challenging for the company, contributing to further contract delays and a lack of revenue visibility. This resulted in a much lower normalized earnings level than we had originally expected. Moreover, the challenging industry dynamics are forcing the company away from sales and into the rental business model. The latter has a much lower return on invested capital due to the high capital outlay required in order to hold inventory and fund working capital, as well as the high inventory risk and obsolescence costs. We see this transition as a significant red flag. We've decided to acknowledge the mistake, exit the position, and move on.

Yume (NYSE: YUME) – Down 15.3% in Q3

Yume, a digital video advertising provider, enables brands to reach their target audience across websites and apps, while enabling the website and app owners to monetize their content.

The stock trades at an EV/2014E Sales multiple of only 0.53, while analysts and we project 20%+ revenue CAGR in the foreseeable future. More broadly, industry experts are expecting 30% CAGR for digital video ad spending until 2018.

We believe the company's recent international growth and sales force expansion have had a misleading impact on current profitability metrics, which has led to an undervaluation in the stock price. In 2012, YuMe's EBITDA margins were at around 10%, before its major international expansion efforts began. What has changed since? Gross margin % has remained fairly stable, but Sales & Marketing expenses increased significantly leading to EBITDA margin erosion. But this erosion should only be temporary. Going forward, as the company's international business matures, and as its overall business gains more scale, EBITDA margins will go back to 2012 levels. Assuming a conservative normalized EBITDA margin of 10%, and a 2016E EBITDA multiple of 8.5 (which implies ~5% growth rate) gives us an \$8.6 target price, compared to \$5.0 currently.



Finally, we've seen a lot of insider buying lately. Over the past few months, insider buys totaled \$1M compared to only \$50K of insider sales. This further reinforces our conviction in the stock, and in the attractiveness of YuMe's risk/reward profile. We recently increased our allocation to YuMe from 2.6% of the portfolio to 4.3%.

DCM Company Update

We kicked off the academic year in September with our "Annual Boot Camp and Cottage Retreat". The event, which has become an annual tradition, involves a full day of interactive lecturing and case studies on investing, fundamental analysis, valuation, and key research resources. Our newly recruited junior analysts presented their views and findings on our current holdings as well as an investing book review. Finally, the event concluded with a weekend of team building activities at Ken's cottage.

It is my honour to welcome our new junior analysts to the equity fund: Sean Saggi (Consumers), Ronald Cheung (Consumers), Philippe Rich (Energy), Christophe Lussier (Energy), Naomie Gendron (Healthcare), Drew Allen (Financials), Christie Wei (Financials), Jordan Owen (Industrials), Alexandre Véronneau (Materials), Luohan Wei (TMT), and Henri St-Pierre (TMT).

Finally, I would like to thank Andrew Marcovitch, DCM's Risk Manager, for his continued work and efforts to optimize our risk procedures and performance analytics.

On behalf of all of the DCM team, I would like to thank you for your generous investment in the fund. Your support has and continues to allow for an invaluable learning experience for all of us. We recently received an additional \$1M allocation to the Desautels Global Equity Fund, bringing AUM to approximately \$2.6M.

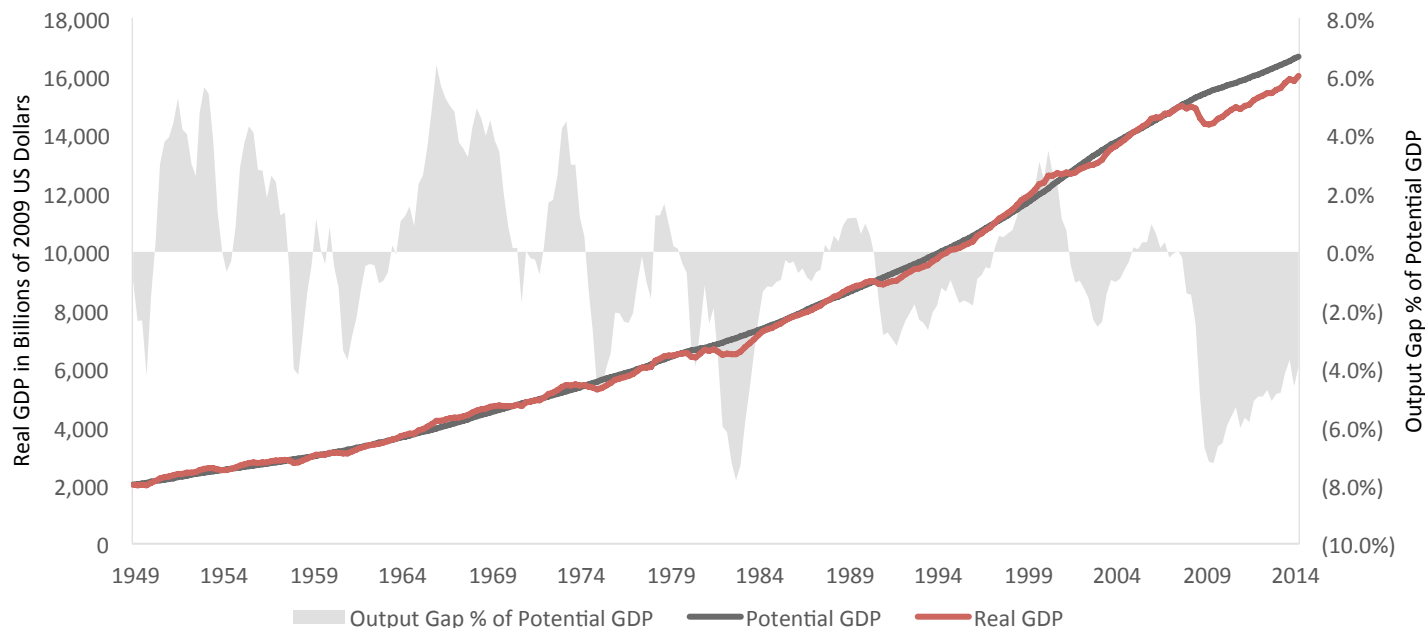
We look forward to another exciting quarter ahead. We'll be sticking to our guns; bottom-up and fundamental analysis to uncover hidden gems and good value opportunities. We continue to increase the flow of ideas into the fund. In these markets, you need to turn many rocks before finding true bargains.

Sincerely,

Belal Yassine
Global Equity Strategist

Global Equity Fund Exhibits

Exhibit 1: US GDP Output Gap



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

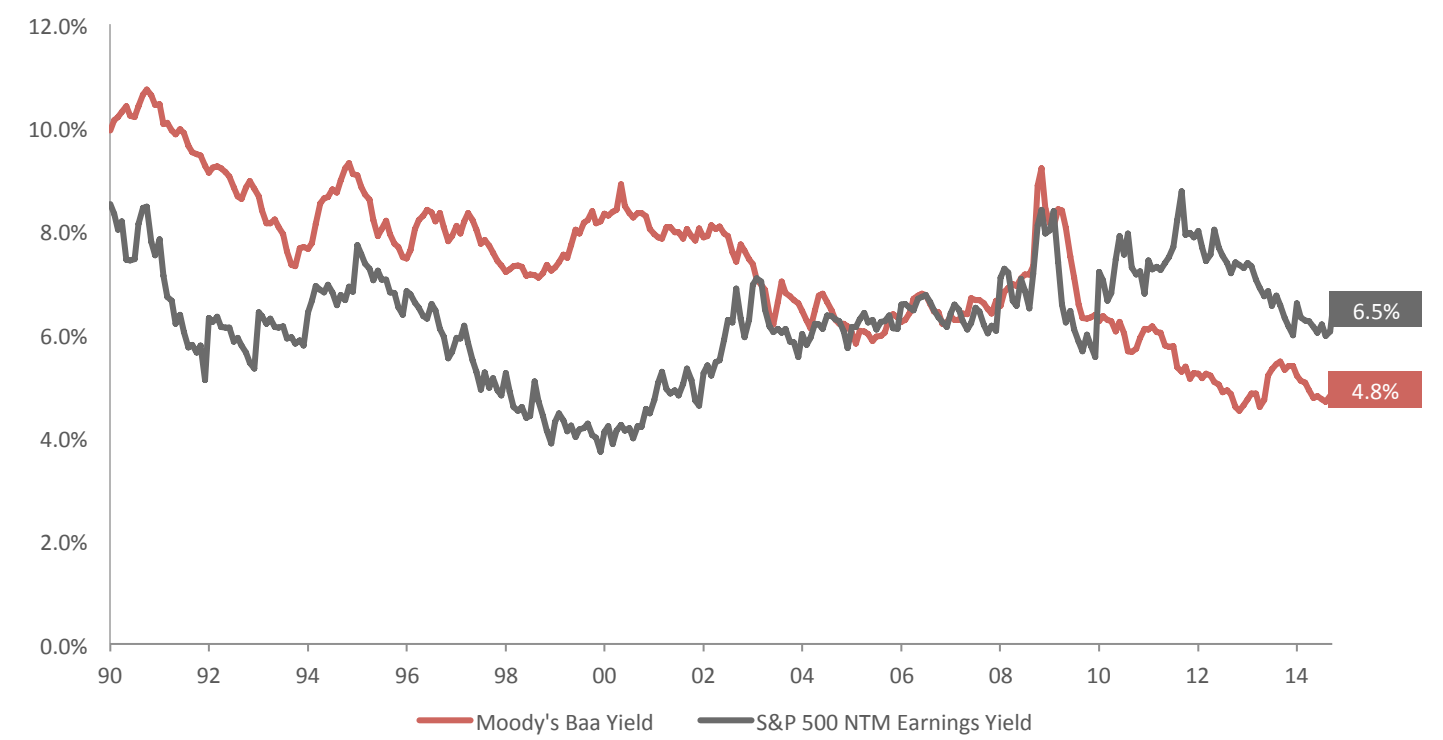
Exhibit 2: S&P 500 Current and Historical Valuations

Current S&P 500 Valuations		Historical Perspective				
Valuation Measure	Description	Sep. 30, 2014	1-year ago	5-year avg.	10-year avg.	25-year avg.*
P/E	Price to NTM Earnings	15.3x	14.2x	13.4x	13.8x	15.6x
CAPE	Shiller's P/E	26.3x	25.0x	22.1x	22.9x	25.2x
TTM Div. Yield	Dividend Yield	1.9%	2.0%	2.0%	2.0%	2.1%
REY	Real Earnings Yield	3.8%	3.7%	4.2%	3.2%	2.2%
P/B	Price to Book	2.7x	2.6x	2.3x	2.4x	2.9x
P/CF	Price to NTM Cash Flow	10.7x	10.6x	9.2x	9.7x	11.3x
EY Spread	NTM EY Minus Baa Yield	1.8%	1.5%	2.1%	1.2%	(0.7%)

*P/CF ratio is a 20-year avg. due to cash flow data availability

Source: JP Morgan Guide to The Markets

Exhibit 3: S&P 500 Forward Earnings Yield vs Moody's Baa Yield



Source: Bloomberg

Global Equity Fund Holdings

Equity Fund Holdings							October 17, 2014	
#	Security Name	Sector	Currency Exposure	Units	Purchase Price	Market Price	Market Value	% of total
1	ISHARES S+P/TSX 60 INDEX ETF	TSX	CAD	9,440	\$21.83	\$20.70	\$195,408	7.6%
2	ISHARES S+P/TSX CAPPED FINAN	Financials	CAD	5,760	30.86	30.59	176,198	6.8%
3	MEG ENERGY CORP	Energy & Utilities	CAD	4,545	34.17	28.73	130,578	5.0%
4	PULSE SEISMIC INC	Energy & Utilities	CAD	40,973	2.89	3.08	126,197	4.9%
5	GENERAL MOTORS CO	Industrials	USD	3,690	34.57	34.00	125,450	4.8%
6	CONRAD INDUSTRIES INC	Industrials	USD	3,083	23.76	39.91	123,045	4.8%
7	YUME INC	Technology	USD	21,160	6.32	5.60	118,470	4.6%
8	WELLS FARGO + CO	Financials	USD	2,011	32.50	54.74	110,082	4.3%
9	PERFORMANCE SPORTS GROUP LTD	Consumer Discretionary	CAD	5,985	12.96	18.30	109,526	4.2%
10	TERADATA CORP	Technology	USD	2,184	46.03	47.54	103,837	4.0%
11	INTESA SANPAOLO SPON ADR	Financials	Global	5,410	21.28	18.73	101,329	3.9%
12	CAPITAL ONE FINANCIAL CORP	Financials	USD	1,132	77.98	85.93	97,269	3.8%
13	BCE INC	Telecom	CAD	2,025	40.38	47.33	95,843	3.7%
14	ISHARES GLOBAL CONSUMER STAPLE	Consumer Staples	USD	920	93.45	96.46	88,744	3.4%
15	PAREX RESOURCES INC	Energy & Utilities	CAD	8,060	7.30	10.75	86,645	3.3%
16	UNION PACIFIC CORP	Industrials	USD	685	87.26	119.62	81,940	3.2%
17	TAKE TWO INTERACTIVE SOFTWARE	Technology	USD	3,350	18.94	24.19	81,049	3.1%
18	ISHARES GLOBAL MATERIALS ETF	Materials	USD	1,202	62.87	64.01	76,946	3.0%
19	ISHARES GLOBAL HEALTHCARE ETF	Healthcare	USD	700	94.46	104.16	72,913	2.8%
20	INTEL CORP	Technology	USD	2,065	26.03	35.28	72,851	2.8%
21	CUBIST PHARMACEUTICALS INC	Healthcare	USD	935	77.58	74.08	69,262	2.7%
22	BMO EQUAL WEIGHT UTIL IDX ET	Energy & Utilities	CAD	4,065	15.77	14.82	60,243	2.3%
23	WHITECAP RESOURCES INC	Energy & Utilities	CAD	3,850	8.36	14.89	57,327	2.2%
24	LUNDIN MINING CORP	Materials	CAD	10,500	4.85	5.08	53,340	2.1%
25	TJX COMPANIES INC	Consumer Discretionary	USD	700	66.15	67.90	47,533	1.8%
26	STMICROELECTRONICS NV NY SHS	Technology	Global	4,975	10.27	7.57	37,642	1.5%
27	COLABOR GROUP INC	Consumer Staples	CAD	9,640	4.27	3.80	36,632	1.4%
28	TSO3 INC	Healthcare	CAD	18,500	1.13	1.10	20,350	0.8%
Value of Securities							\$2,556,649	98.8%
29	CANADIAN DOLLAR		CAD	16,112	1.00	1.00	\$16,112	0.6%
30	US DOLLAR		USD	13,272	1.00	1.12	\$14,921	0.6%
Value of Cash & Securities							\$2,587,683	100.0%
<i>Top 5 holdings</i>							\$753,831	29.1%
<i>Top 10 holdings</i>							\$1,318,791	51.0%

All figures in Canadian Dollars

Fixed Income Fund

Dear Investor,

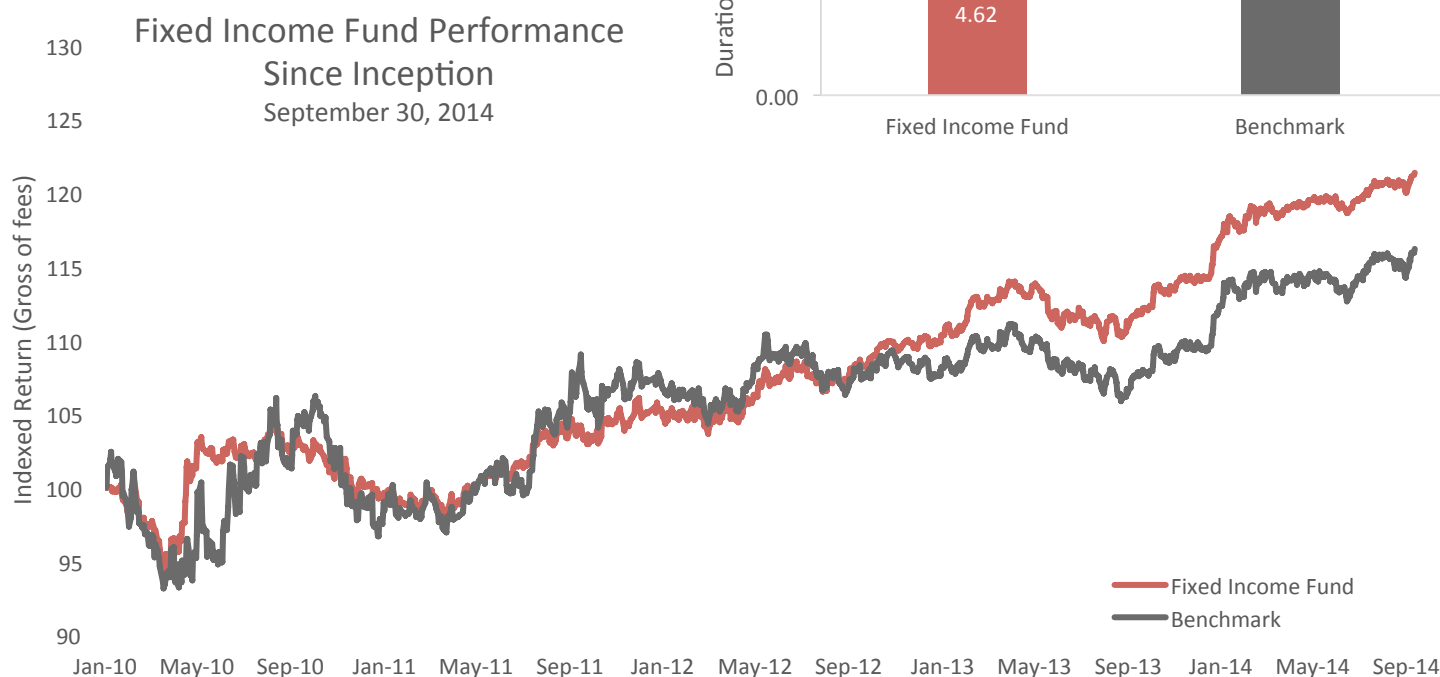
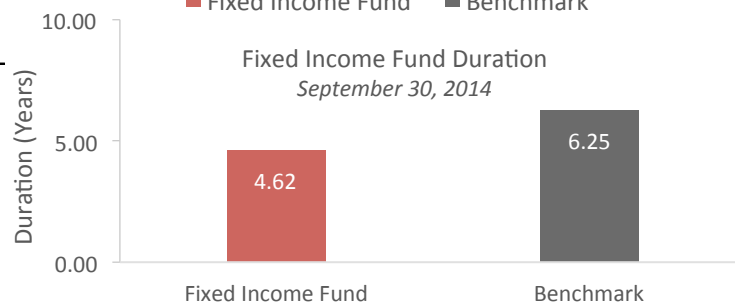
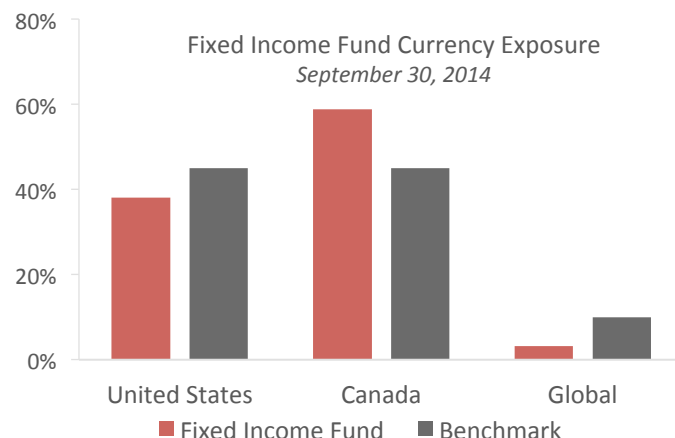
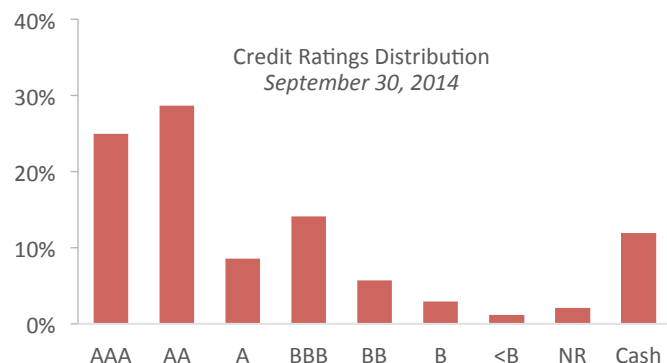
In Q3 2014 the Desautels Fixed Income Fund returned 2.0% (gross of fees) compared to our blended benchmark's performance of 2.3%. Year-to-date, the fund and benchmark are both up about 6.3%. Our Q3 underperformance was largely due to a lower duration exposure.

Fixed Income Fund Returns <i>September 30, 2104</i>			
Time Period	Gross Return	Net Return	Benchmark
Most recent quarter	2.0%	1.9%	2.3%
Previous quarter	0.3%	0.2%	-0.2%
6 month	2.3%	2.1%	2.1%
YTD	6.3%	5.9%	6.4%
1 year	8.6%	8.1%	8.0%
2 year*	5.8%	5.3%	3.7%
Since Inception*	4.2%	3.7%	3.2%

*Returns are annualized.

Fixed Income Fund Metrics Since Inception <i>September 30, 2104</i>		
	Fixed Income Fund	Benchmark
Annualized Return	4.2%	3.2%
Annualized Std Dev	4.6%	7.6%
Annualized Sharpe Ratio	0.61	0.25
Beta	0.44	
Annualized Alpha	2.0%	

Performance metrics are calculated gross of fees.



*Note: Performance is calculated gross of fees. Benchmark is a blended 45% Barclays Aggregate Bond Index, 45% DEX Universe Bond Index, 10% Citi International Treasury Bond Index (measured in CAD). From inception until February 8, 2011, benchmark was the Citi World Bond Index. Inception date is January 20, 2010.



United States Macro Outlook

The US 10-year yield continued to fall in Q3 following concerns of decreased global growth and heightened market volatility. It recently even dipped below 2% following weaker than expected retail data.

Investors and analysts are also concerned with a particular phrase: “considerable time.” We believe that by focusing on this phrase, used by Fed Chair Yellen to describe the FOMC’s decision to avoid raising interest rates, Fed-Watchers have ignored certain economic indicators that may warrant a rate hike sooner than expected. We first point to housing sales. While existing home sales for August were reported at -1.8% m/m, this was largely due to a decrease in supply of distressed homes. Moreover, new sales came in at a very strong 18% increase m/m. We interpret these figures as continued positive signs of a US recovery. To be sure, the recovery is facing certain risks as discussed in the Equity section overview. Going forward, our base case sees a steepening yield curve and an improving economic situation.

Revised annualized GDP growth came in strong at 4.6%. On the same note, US personal income and expenditure figures of 0.3% and 0.5% met consensus targets and support the outlook for a continued recovery. Furthermore, the unemployment rate dropped to its lowest level since 2008 at just under 6%. While we adjust our views given the continued decline in labour participation, we believe that this is an area that may soon lead to accelerating inflation, which would clearly warrant a hike from the Fed.

It is also important to note the tools at the Fed’s disposal as well as the potential for a change in tone. Firstly, the Fed could drop any wording of “considerable time” which could lead to spikes in yields. Furthermore, the Fed is expected to announce the end of its bond buying program at the end of October. The big question now is whether and when they might start selling back those bonds. Due to the above news and reasons, we maintain our lower duration position in the US compared to the benchmark. While we may have missed the chance for additional carry, we do not see cause for a continued decrease in yields that was witnessed to date. In fact, we remind ourselves of the sharp spikes that may occur by looking at December 2013, a month when the 10-year yield jumped from 2.8% to 3% following news of tapering.

Canada Macro Outlook

In Canada, year to date the yield on the 10-year note has fallen from 2.6% to 2.2%. This fall was often accompanied by news of an economy that was not meeting growth estimates on GDP, CPI, and other estimates. This has long been our view, particularly in comparison with the relative growth seen in the US.

Chronically low inflation in 2013 had led to talk and consideration among BOC Governor Poloz and analysts of a decrease in interest rates to avoid deflation. But in 2014 we began to see signs of a pick-up in inflation that at an annualized rate would position Canada within the BOC’s target 2.0%-2.5% range.

But unlike in the US, we do not see inflation accelerating beyond target levels in Canada. For one, the 2.1% August CPI increase was largely due to spikes in energy prices which have more recently

trended downwards. To add, decreasing retail sales of -0.5% in July, 0% GDP growth for the same month, and August figures of unchanged 7% unemployment continue to suggest productivity issues. Furthermore, the recent 2.5% decrease in exports suggests that Poloz’s hopes that export growth will compensate for lagging consumer figures has yet to occur. On the whole, these indicators suggest to us that Canadian interest rate policy will at the minimum lag that of the United States. Going forward we will continue to watch for changes in BOC statements. We will aim to match our benchmark duration in Canada and will consider increasing it following guidance from Poloz. Most recently, the BOC governor made note in a Drummondville, QC speech of his desire not to lower rates to artificially weaken the CAD although the removal of interest rate hike references in his last statement may suggest an environment where yields will continue to fall.

Abroad

Various economic and geopolitical events abroad continue to have effect on both domestic and foreign markets. European growth remains weak and we see continued actions by ECB governor Draghi to lower interests to negative real yields. With the exception of perhaps a few countries, the European economic situation is challenging at best, largely owing to unresolved issues within the financial sector and continued room for recovery. The conflict between Ukraine and Russia persists albeit with improvements that should be viewed positively by world markets. These take the form of the recent Minsk ceasefire agreements and statements by observers and belligerents that the conflict is toning down. The toning down of sanctions against Russia by the international community has also helped to restore clarity for European markets given the possibility of Russian retaliation through a disruption of natural gas supplies.

Finally a note on Brazil. We look to soon sell our Brazilian Real position, up approximately 2% since initiation in April 2012. After year-long protests that rocked the country and led to significant depreciation, the currency appreciated significantly in the months leading up to the FIFA World Cup’s conclusion. We will revisit Brazil for the same appreciation argument based on increasing investments and currency inflows ahead of the 2016 Olympics in Rio de Janeiro. Until then, we aim to reallocate these funds to other emerging markets.

Duration

As discussed above, our strategy is to remain short duration within the United States based on our belief in an ongoing US recovery. In contrast, we aim match our benchmark duration within Canada given the lack of consistent information warranting a rate hike. Our fund’s duration positioning enters Q4 at 4.6 years compared to the benchmark’s duration of 6.3 years.

Credit

Our view remains that credit is resilient despite recent blowouts in the high-yield sector. These changes were largely caused by political events during the summer and decreased world growth forecasts. We nevertheless point to the continued deleveraging within corporate and households that warrant yields to be priced below historical levels (Exhibit 1). In addition to our belief that high-yield outperforms in a rising rate environment, we see room for spread-tightening given



their slight level above pre-crisis levels. This holds for both Canada and the US (Exhibits 2 & 3). Furthermore, these historically impressive leverage metrics do not lead us to believe that default rates should increase significantly beyond their recent 2.1% level.

Holdings

Bank of America (BAC 5.15% 05/30/2017) 4.55% annualized YTD return

Our original investment thesis was that BAC is well-positioned to benefit from the economic recovery in the US as well as improve on its cost reduction and capital strengthening efforts.

Indeed, the bank has improved on these areas most notably in decreasing head count and bank centres. At the same time, BAC has seen improvements in aspects of its operations, most recently seeing strong decreases in their net charge-offs and provisions for credit losses.

Going forward, we expect Bank of America's credit profile will improve: there are no longer outstanding major litigation charges associated with the subprime crisis after the most recent settlement. Despite recent market volatility on global growth concerns, we maintain our view of a continuing US recovery and expect BAC's G-spread to tighten, more than reversing the recent widening.

Newalta (NALCN 5.88% 04/01/2021) 5.84% annualized YTD return

Newalta provides cost-effective solutions to industrial customers to improve their environmental performance with a focus on recycling and recovery of products from industrial residues. These services often occur within the backdrop of the energy industry. Our investment thesis was 1) the company was in the process of further diversifying their revenue streams; 2) was increasingly financing its growing M&A Capex through internal cash flows, rather than by issuing more debt; and 3) Newalta deserved a credit rating upgrade after examining company peers.

Q2 results were positive, with double digit revenue growth and improving margins. To add, coverage and leverage ratios saw slight improvements. Also, earlier in the year management announced that the company had hired advisors to seek strategic alternatives for the company's Industrial segments.

Nevertheless, since our purchase in April, Newalta's G-spread has widened from 325bp to 390bp, underperforming the HY sector due to its indirect exposure to oil.

Going forward, we maintain our conviction in the investment. While the sale of the Industrial Division may decrease the company's revenue diversification, we take comfort in the many blue-chip companies Newalta counts as customers and the increased performance gained from disposing of the division with the lowest revenue growth and profit margin. Indeed, we see management's ability to grow revenues and margins as continued fuel for the deleveraging which we have forecasted and expect to occur. Finally, in terms of exposure to oil, we note that Newalta's services in the energy sector are driven by regulatory requirements, and are thus partially shielded from decreased customer discretionary spending.

Morgan Stanley (MS 4.9% 02/23/2017) 4.98% annualized YTD return

Similar to BAC, MS was initiated on a view that US banks were positioned to benefit from the US economic recovery. Specific to MS, we took comfort in the acquisition and continued integration of the Smith Barney wealth management platform. As a financial institution primarily operating in cyclical and volatile lines of businesses such as trading and investment banking, we welcomed a more stable way for the company to generate revenue. Wealth management now accounts for 42% of the bank's revenues and a growing share of margins. To add, litigation related to the financial crisis' aftermath is not expected to be a concern going forward. We aim to replace the holding, however, as the thesis has largely materialized, with the bond's spread standing at 96bp compared to 371bp at initiation.

Other News

We would like to welcome our new class of Juniors. Laura May and Peter Huo have already made significant contributions to the Fixed Income Fund and their efforts are greatly appreciated alongside those of returning seniors Debra Kelsall, Faicy Hussain, Pengchao Liu, and Alexander Ohrn.

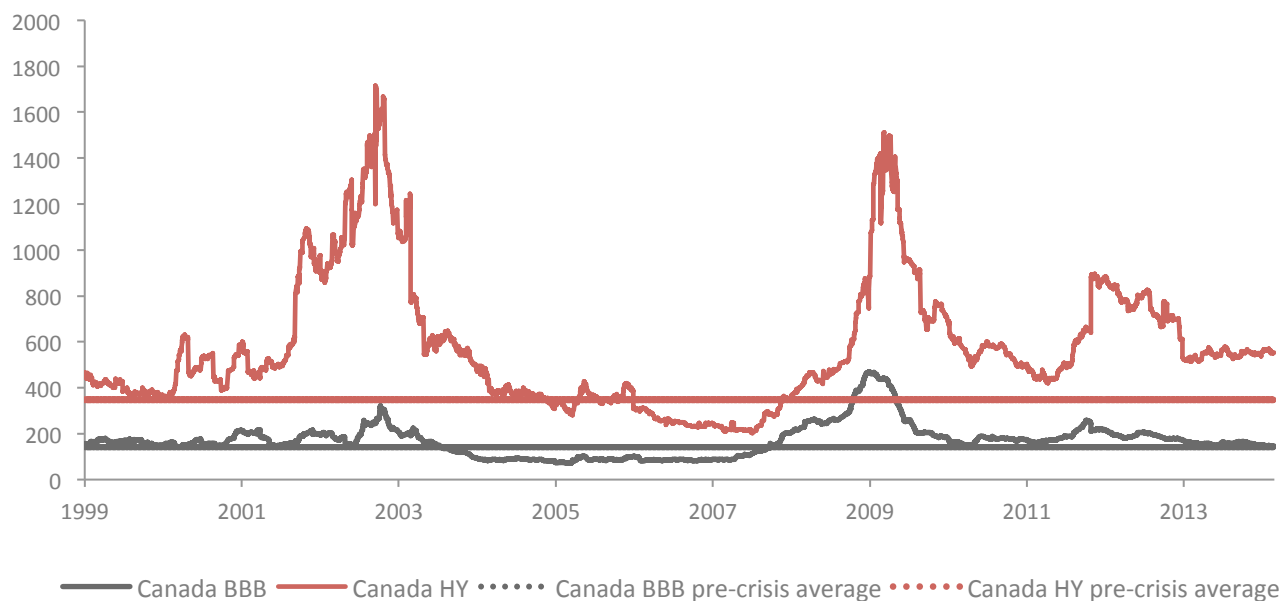
Thank you once again for your support and commitment, without which these learning and work experiences would not be possible.

Sincerely,

Daniel Sorek
Fixed Income Strategist

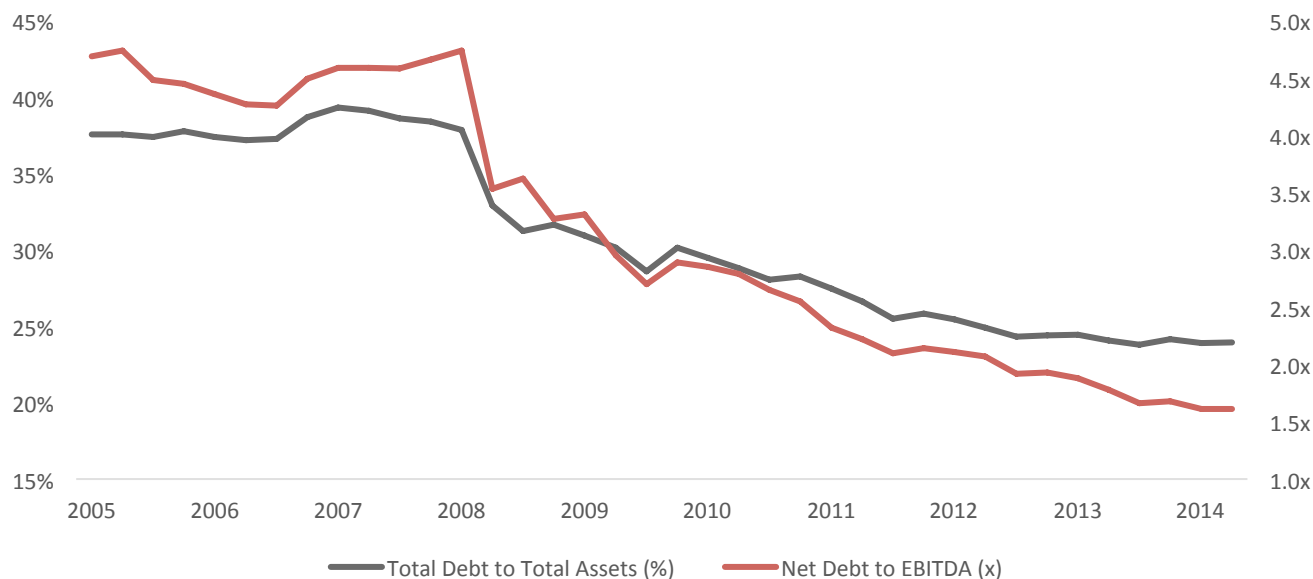
Fixed Income Fund Exhibits

Exhibit 1: Canadian Corporate Bond Spreads



Source: Fitch Ratings

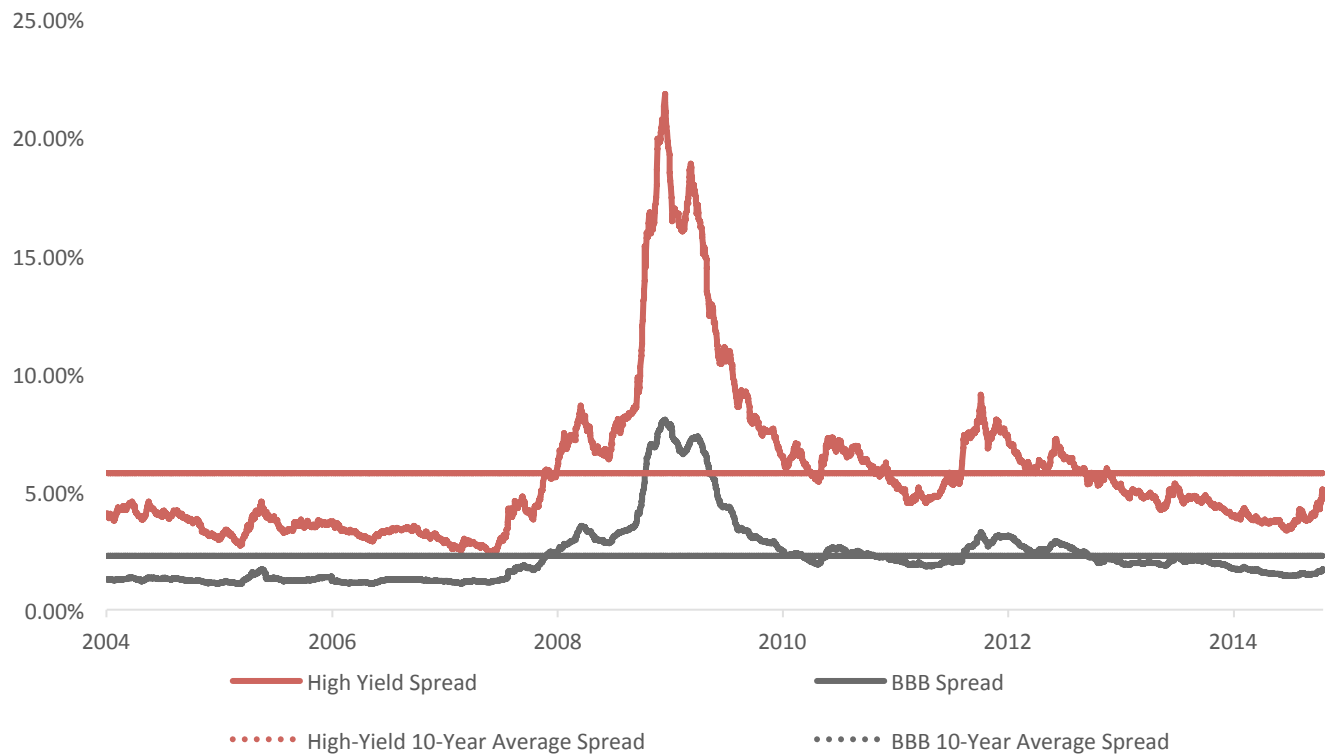
Exhibit 2: S&P 500 Deleveraging



Source: Bloomberg



Exhibit 3: US Corporate Bond Spreads



Source: Federal Reserve Bank of St. Louis

Fixed Income Fund Holdings

Fixed Income Fund Holdings							October 17, 2014
#	Security Name	Currency Exposure	Units	Purchase Price	Market Price	Market Value	% of total
1	ISHARES MBS ETF	USD	550	\$106.74	\$122.61	\$67,436	14.8%
2	ISHARES 3 7 YEAR TREASURY BOND	USD	300	125.39	138.43	41,529	9.1%
3	US DOLLAR	USD	36,680	1.06	1.12	41,237	9.1%
4	ISHARES CANADIAN HYBRID CORP	CAD	1,900	20.84	21.29	40,451	8.9%
5	PROVINCE OF ALBERTA	CAD	40,000	1.00	100.88	40,352	8.9%
6	BANK OF AMERICA CORP	CAD	340	95.70	107.37	36,507	8.0%
7	MORGAN STANLEY	CAD	300	97.60	106.74	32,023	7.1%
8	SPDR BARCLAYS HIGH YIELD BOND	USD	500	39.40	44.98	22,491	5.0%
9	BMO SHORT PROVINCIAL BOND IN	CAD	1,465	15.03	14.34	21,008	4.6%
10	BMO LONG FEDERAL BOND INDEX	CAD	1,100	17.65	17.49	19,239	4.2%
11	AIMIA INC	CAD	16,000	1.11	109.85	17,575	3.9%
12	CI INVESTMENTS INC	CAD	170	102.73	102.60	17,441	3.8%
13	NEWALTA CORP	CAD	150	103.13	102.21	15,331	3.4%
14	CANADA HOUSING TRUST	CAD	130	111.43	110.84	14,410	3.2%
15	WISDOMTREE BRAZILIAN REAL STRA	Global	700	20.14	20.46	14,323	3.2%
16	CANADIAN DOLLAR	CAD	12,793	1.00	1.00	12,793	2.8%
Value of Cash & Securities						\$454,146	100.0%
<i>Top 5 holdings</i>						\$231,005	50.9%
<i>Top 10 holdings</i>						\$362,273	79.8%

All figures in Canadian Dollars

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