DESAUTELS | Capital Management
Gestion de capitaux

2013 Annual Report

McGill

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"An investment in knowledge pays the best interest."

- Benjamin Franklin

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Commentary from the Global Equity Strategist

2013 was a breakthrough year in terms of performance for DCM's Global Equity Fund; our team returned 41.5% gross of fees, compared to a benchmark performance of 25.4% (Benchmark is 60% S&P TSX and 40% S&P 500). This 16.1% outperformance was achieved with only a marginally higher standard deviation than our benchmark (9.8% versus 9.3%), yielding a Sharpe ratio of 3.97 versus 2.48 for the benchmark. Moreover, our beta was only 0.86. *Please note that all DCM and benchmark performance figures in this report are in Canadian Dollar terms. Any U.S. holdings' performance has been adjusted for currency gains/losses.*

One of our goals this year was to deepen our understanding of the business models that we invest in. As a result, our portfolio became slightly more concentrated, we began using a more bottom-up style of investing, and we increased our allocation to small and medium cap stocks. Based on a view that we could add the most value through fundamental bottom-up research, our sector allocation process was largely driven by the quality of stock pitches as well as our collective conviction in each position. Although macroeconomic research was still an important aspect of our work, we gave more importance to company-specific information and catalysts.

Outperformance in 2013 was broad, with 6 out of 9 DCM sectors outperforming their respective benchmarks, and with our five best performers coming from four different sectors. In addition, the positions for which we had the strongest convictions, and hence the largest allocations, ended up performing best. It should be noted that our positions undergo a diligent review process on a timely basis, and we rebalance the portfolio in order to ensure that no one position represents too large a portion of the fund. Moreover, our internal restrictions do not allow for more than a 10% allocation to any individual stock and in 2013 none of our positions exceeded an allocation of 8%. More details on our individual holdings, risk management, and an analysis of performance attribution can be found in the next sections of the report.

This year, we narrowed in on stocks that offered enticing growth profiles at a reasonable price (also known as a GARP strategy). As our time horizon for investments was between one and two years, we also preferred stocks that had near to medium-term catalysts that we could follow.

At the beginning of the year, our macro outlook favored the U.S. economy compared to its Canadian counterpart. Much of the reasoning behind this rationale was based on a better U.S. housing market, financially healthier consumers, productivity issues that were plaguing Canada, and a more diverse American economy. We felt that these factors were not fully reflected in the relative valuation of the TSX and the S&P 500. As such, we took a bullish view on U.S. equities in 2013. Consequently, a lot of our best ideas ended up being American companies and we had a 52% allocation to U.S. stocks, compared to 40% in our benchmark, as of December 31, 2013.

Outlook for 2014

Looking forward to 2014, our outlook remains positive and our strategy unchanged. In the U.S., economists are raising GDP growth forecasts and corporate profits rose at their fastest pace in two years in the last quarter of 2013. We anticipate that American consumer confidence and spending continue to improve, fueled by a recovering housing market. Moreover, as an increasing number of Americans return to positive home equity territory, we will see home prices support consumer wealth and confidence. We also expect to see increases in personal wealth and consumption as the average U.S. citizen has already deleveraged substantially and the debt-service ratio is at historically low levels. Given that 70% of U.S. GDP comes from consumption, we have reason to be optimistic about growth of the U.S. economy.

As of late, unemployment is the biggest damper on the economy, and it remains core to all economic issues. While we generally expect a recession to have an impact on unemployment, the 2008 financial crisis has had unprecedented effects on the labor market. Historically, it has taken the unemployed about 15 weeks to find a new job, but after 2008 that number spiked to 41 weeks. As a result, many Americans have given up the job hunt and left the labor force. However, as consumption increases and business confidence improves, we expect employment to follow suit.

Tapering of QE3 by the Fed is always a popular topic of discussion, especially now that it has begun. In our opinion, tapering will be nothing but a speed bump on what otherwise will be a smooth road for 2014. We expect some short-term volatility in global markets, especially in emerging markets, but remain confident that the bull market will prevail. At the end of the day, Bernanke has made it clear that "a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens". Janet Yellen seems to be on the same boat, so we can expect the central bank to support the economy for quite some time. The Fed has also communicated that the unemployment rate will need to drop below 6.5% to justify a rate hike. So while QE3 might be coming to a close in 2014, we can continue to expect accommodative policy from the Fed. Therefore, we are not changing our strategy in the face of tapering.

On the Canadian front, our outlook has improved since 2013. Despite some lingering productivity issues, we believe the new Governor of the Bank of Canada will succeed in increasing inflation and exports. Poloz has already caused a drastic shift in the market's expectations for interest rate movements, largely a product of his relatively dovish stance when contrasted with Carney. In the months preceding his first day as Governor, the Canadian dollar traded at around $0.98 USD. On December 31st 2013 the Canadian dollar was worth $0.94 USD. As the dollar continues to recede through 2014, we will likely see significant impacts on the Canadian economy. In particular, Canadian manufacturing: Jayson Myers, President and CEO of Canadian Manufacturers & Exporters, has stated "we are already seeing the impact of a lower Loonie. Business looks to invest in equipment, hire new staff and increase sales. Overall, I have to say the outlook is good for 2014". We have reason to believe that the dollar will continue to fall as economic growth in the U.S. continues outpacing that of Canada and as the Bank of Canada becomes increasingly dovish.

On the commodities front, we look to China and global growth; China and emerging markets do not give us reason to be particularly bullish on commodities this year given the Chinese government's focus on tackling debt-fueled investment and achieving manageable growth based on local rather than international demand. While this will probably prove to be a good decision in the long run, we don't anticipate China's growth rate to accelerate in the near future due to some lingering credit issues. Consequently, our outlook on commodities is not particularly rosy and we will continue in our approach of investing in specific assets and operators as opposed to making macro-level bets on specific commodities. Our detailed outlook on oil can be found in the Energy section of the report.

With European GDP potentially set to grow in 2014 and equities still trading at depressed multiples, we will be on the lookout for opportunities that match our risk profile. Europe, like the U.S., has undergone a deleveraging phase with assets to equity decreasing from just over 4x in 2007 to just under 3x in 2013. With austerity measures set to slow down in 2014 for much of Europe, we can expect to see much better economic growth and hopefully a comeback in employment as well.

Our biggest concern in the U.S., from an equity perspective, is that much of the economic improvement and growth may already be priced in as the S&P 500 saw a 22% increase in P/E multiples last year. Although equity market cycles typically precede economic cycles by a few months, it may be the case that this year equity markets are a little ahead of schedule with regards to multiple expansion. Therefore, valuation will be important, as the risk of choosing an overvalued company, and suffering multiple compression, is substantially higher than it was last year. While this problem is not as concerning in Canadian markets, we remain cognizant that multiples expanded by about 15% over the year. We are keeping our eyes open for Canadian opportunities that may benefit from a weaker Canadian dollar but trading at attractive valuations – consistent with our GARP strategy. In the U.S., we expect little to no multiple expansion, and earnings growth between 7% to 12%. While the growth portion of our GARP strategy will continue to drive returns for us in 2014, we acknowledge that the "reasonable price" portion of the strategy will be most important for us.

To our investors, thank you for your continued support. Also, we'd like to thank the numerous expert panel members that have come in to speak with us and guide us throughout this process. As a team, we look forward to tackling new challenges in 2014 and learning along the way.

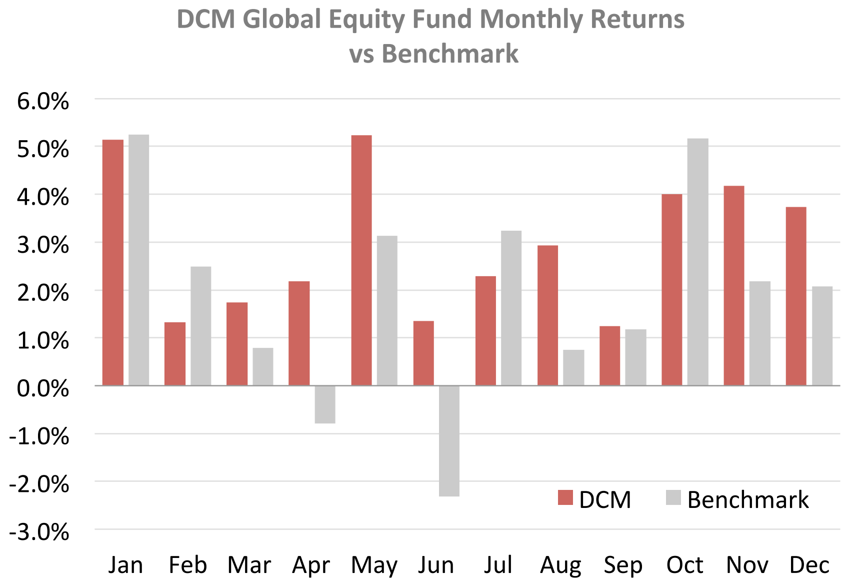
Sincerely,

Nicholas Di Giorgio
Global Equity Strategist

Performance Summary

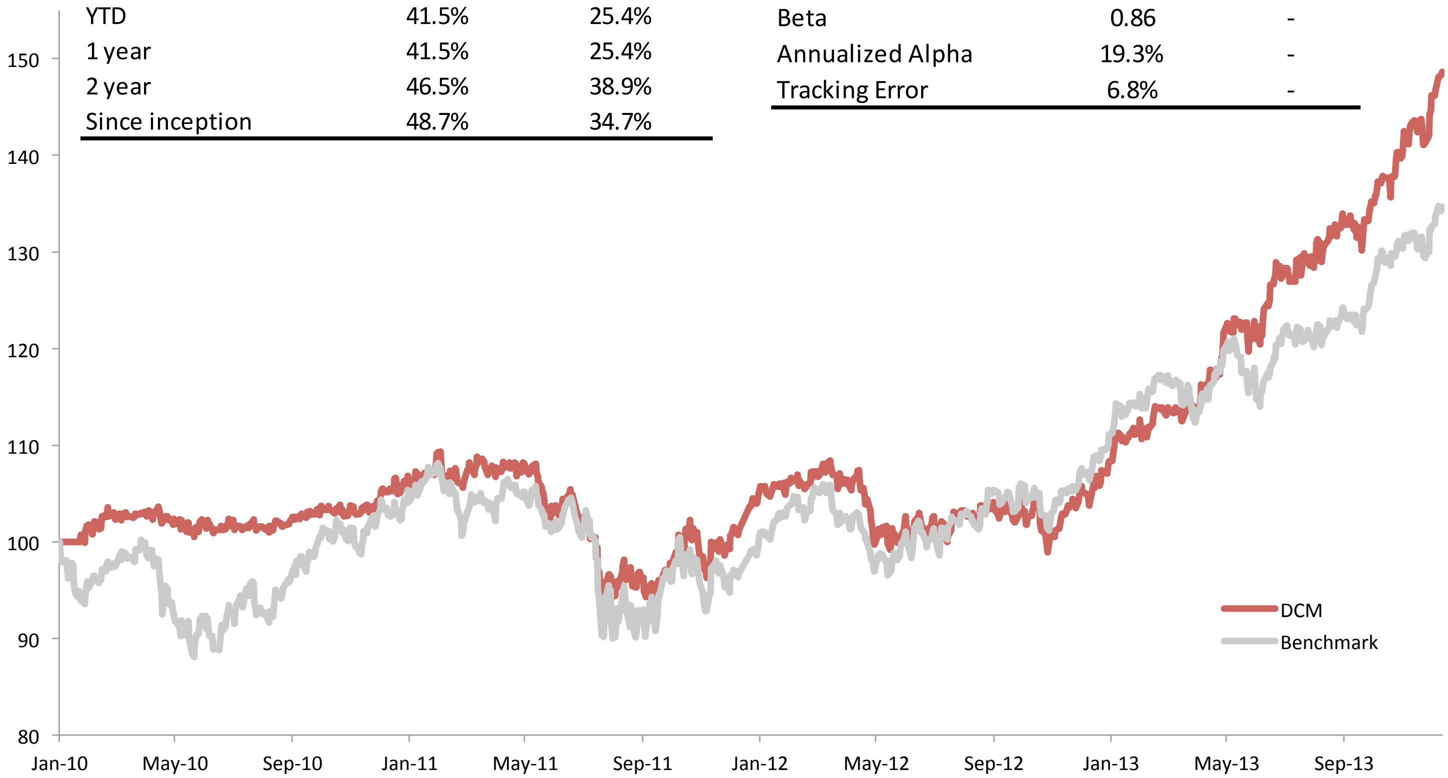
2013 was a great year for DCM's equity fund. Gross returns of 41.5% far outpaced the blended benchmark* return of 25.4%, resulting in an outperformance of 16.1% over the year. While annualized standard deviation of the equity fund returns were slightly higher than the market (9.8% vs. 9.3%), returns displayed a beta of 0.86 through 2013. As a result, the fund generated a 19.3% CAPM alpha over the year.

Looking at the performance of individual sectors within the equity fund, our Healthcare, Energy & Utilities, and Industrials sectors led the bulk of the outperformance in 2013. A discussion of performance attribution follows on the next page.



Desautels Global Equity Fund		
Time period	DCM (gross fees)	Benchmark
1 month	3.7%	2.1%
3 month	12.4%	9.7%
6 month	19.8%	15.4%
YTD	41.5%	25.4%
1 year	41.5%	25.4%
2 year	46.5%	38.9%
Since inception	48.7%	34.7%

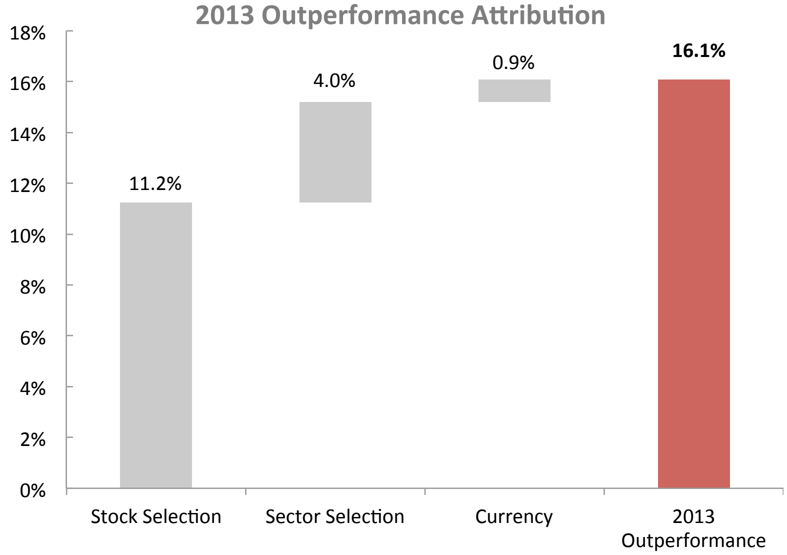
2013 Performance		
	DCM (gross fees)	Benchmark
Return	41.5%	25.4%
Annualized Std Dev	9.8%	9.3%
Sharpe Ratio	3.97	2.48
Beta	0.86	-
Annualized Alpha	19.3%	-
Tracking Error	6.8%	-

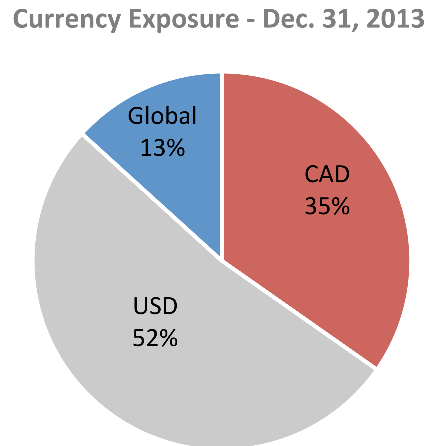


**Note: Performance is as of Dec. 31, 2013, gross of fees. Benchmark is the MSCI World Index from inception to February 28, 2013 and a 60% S&P TSX, 40% S&P 500 (measured in CAD) blended benchmark thereafter. Fund inception date is January 20, 2010.*

Note: All DCM's performance figures are reported in CAD

Performance Attribution





Sector Returns		
Sector	DCM (gross fees)	Benchmark
Healthcare	83.1%	51.2%
Energy & Utilities	49.9%	21.3%
Industrials	68.3%	50.0%
Metals & Mining	4.3%	-8.6%
Financials	35.1%	32.9%
Technology	36.2%	35.5%
Consumer Disc.	42.3%	47.9%
Telecom	13.3%	23.1%
Consumer Staples	-0.8%	26.0%

Details for sector benchmarks can be found in the individual sector reports

Sector Weightings - Dec. 31, 2013			
Sector	DCM	Benchmark	+/-
Technology	13.1%	8.6%	**4.5%**
Industrials	12.7%	9.1%	**3.6%**
Healthcare	10.6%	7.4%	**3.3%**
Currency	2.5%	0.0%	**2.5%**
Telecom	3.5%	3.8%	**-0.3%**
Energy & Utilities	19.9%	20.9%	**-0.9%**
Consumer Staples	4.0%	5.7%	**-1.7%**
Consumer Discretionary	5.9%	8.2%	**-2.3%**
Metals & Mining	6.5%	9.0%	**-2.5%**
Financials	21.2%	27.3%	**-6.1%**

Turning to performance attribution, we can break up the total 16.1% outperformance over the benchmark into stock selection, sector selection, and currency appreciation. As seen above, the respective contributions to the overall outperformance are 11.2%, 4.0%, and 0.9%, respectively. Our philosophy within the fund is to set sector allocations depending on the strength of the individual ideas within the sector, choosing to have a bottom-up focus. For risk management purposes, however, we try not to deviate too far from the benchmark sector weightings. We are pleased with the fact that stock selection lent the largest contribution to our outperformance, fueled by gains in stocks such as Jazz Pharmaceuticals (+137.7%) and Conrad Industries (+110.6%).

It should be noted that small caps outperformed large caps in 2013 with the Russell 2000 returning 38.3%. Thus, part of our outperformance relative to our large cap benchmark could be attributed to a small cap factor exposure. Nevertheless, DCM outperformed even the Russell 2000, with significantly lower volatility (9.8% vs. 14.4%). Moreover, the weighted average market capitalization of our holdings was $50.5B vs. $1.8B for the Russell 2000. In short, we generated alpha even after controlling for firm size. Based on the Fama-French three factor model, which controls for firm size and book-to-market ratio, our 2013 alpha was 17.7%.

Portfolio Stress Test

As DCM's global equity fund has grown, our risk management framework has evolved as well. In addition to monitoring the sizes of individual holdings and overall sector allocation, we also analyze the correlations of our holdings, their contribution to the fund's total risk, and the impact of adverse macroeconomic conditions on our returns.

To estimate the effect of negative economic shocks on our fund, we analyzed a stress test model. By using industry index price data from 1990 up until 2013 and regressing price changes against changes in the U.S. 10yr yield, consumer confidence, and unemployment, we attempted to determine the impact of macroeconomic shocks on the share price performance of different sectors. The results can be seen in the table below. As an example, we find that the Energy, Financials, and Industrials sectors are most negatively correlated to increases in unemployment. Next, we determined our sector holdings' sensitivities to the sector benchmarks. Combining these two sets of results, we were able to create a model to estimate the share price changes in our individual holdings dependent on changes in the U.S. 10yr yield, consumer confidence, and unemployment. In one bear case simulation for the fund, we inputted the lowest yield seen in our sample (1.6%), the lowest consumer confidence (26.9), and the highest unemployment (9.9%) to estimate a "crisis" scenario. Using these extreme results, our model returned a 27.3% loss for our fund, and a 29.5% loss for the S&P 500. The result suggests that our fund is not more exposed to "tail risk" than the S&P 500. Going forward we will continue to monitor our tail risk exposure using a number of different models.

Sector		US 10yr Yield	Consumer Confidence	US Unemployment
Financials	Coefficient	0.0997	0.3366	(0.4887)
	p-value	26.38%	0.00%	2.39%
Healthcare	Coefficient	0.0211	0.0987	(0.3409)
	p-value	77.85%	8.37%	6.00%
Consumer Disc	Coefficient	0.1896	0.1875	(0.2796)
	p-value	1.49%	0.16%	13.05%
Consumer Staples	Coefficient	(0.0142)	0.1073	(0.1976)
	p-value	83.78%	4.27%	23.55%
Technology	Coefficient	0.3386	0.1037	(0.3097)
	p-value	0.73%	26.97%	29.82%
Industrials	Coefficient	0.1783	0.1836	(0.4716)
	p-value	1.52%	0.11%	0.77%
Energy	Coefficient	0.2717	0.0102	(0.5751)
	p-value	0.02%	84.66%	0.08%
Utilities	Coefficient	(0.0798)	0.0737	(0.3434)
	p-value	28.28%	19.05%	5.57%
Materials	Coefficient	0.3328	0.0930	(0.2786)
	p-value	0.01%	12.91%	15.15%
S&P 500	Coefficient	0.1654	0.1345	(0.3980)
	p-value	0.97%	0.55%	0.94%

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Fund Holdings - Dec. 31, 2013

Equity Holdings - Dec. 31, 2013						
#	Security name	Shares	Purchase Price	Market Price	Market Value	% of Market Value
1	WELLS FARGO + CO	2,011	$32.50	$48.24	$97,006	6.3%
2	JAZZ PHARMACEUTICALS PLC	655	$57.07	$134.47	$88,078	5.7%
3	WHITECAP RESOURCES INC	6,800	$8.36	$12.64	$85,952	5.6%
4	TERADATA CORP	1,650	$45.54	$48.33	$79,750	5.2%
5	CONRAD INDUSTRIES INC	1,928	$12.55	$39.23	$75,631	4.9%
6	MEG ENERGY CORP	2,380	$30.95	$30.61	$72,852	4.7%
7	PULSE SEISMIC INC	13,948	$2.42	$4.79	$66,811	4.3%
8	PAREX RESOURCES INC	10,000	$4.72	$6.58	$65,800	4.3%
9	CAPITAL ONE FINANCIAL CORP	800	$72.44	$81.40	$65,119	4.2%
10	GENERAL MOTORS CO	1,445	$29.59	$43.42	$62,748	4.1%
11	ISHARES S+P/TSX CAPPED FINANCIALS	2,025	$29.19	$29.14	$59,009	3.8%
12	TAKE TWO INTERACTIVE SOFTWARE	3,150	$16.03	$18.46	$58,135	3.8%
13	INTEL CORP	2,100	$21.83	$27.58	$57,923	3.8%
14	ISHARES GLOBAL CONSUMER STAPLES	630	$91.31	$91.47	$57,626	3.7%
15	ISHARES GLOBAL HEALTHCARE ETF	625	$86.57	$91.48	$57,176	3.7%
16	BCE INC	1,100	$34.34	$46.00	$50,600	3.3%
17	UNION PACIFIC CORP	280	$159.78	$178.50	$49,980	3.2%
19	LUNDIN MINING CORP	10,500	$4.85	$4.60	$48,300	3.1%
20	TJX COMPANIES INC	700	$66.15	$67.71	$47,399	3.1%
21	ISHARES GLOBAL FINANCIALS ETF	760	$58.35	$59.65	$45,333	2.9%
22	ISHARES S+P/TSX 60 INDEX FUND	2,300	$19.58	$19.69	$45,287	2.9%
23	ISHARES GLOBAL MATERIALS ETF	672	$59.09	$66.23	$44,504	2.9%
24	ISHARES US FINANCIALS ETF	470	$70.60	$85.17	$40,030	2.6%
18	US DOLLAR	36,878	$1.05	$1.06	$39,183	2.5%
25	BAUER PERFORMANCE SPORTS LTD	2,650	$9.83	$14.17	$37,551	2.4%
26	ISHARES CORE S+P 500 ETF	165	$192.20	$197.25	$32,547	2.1%
27	TSO3 INC	18,500	$1.32	$0.71	$13,135	0.9%
Total NAV					**$1,543,462**	**100.0%**
Top 5 holdings					*$426,416*	*27.63%*
Top 10 holdings					*$759,745*	*49.22%*

All currency values in CAD

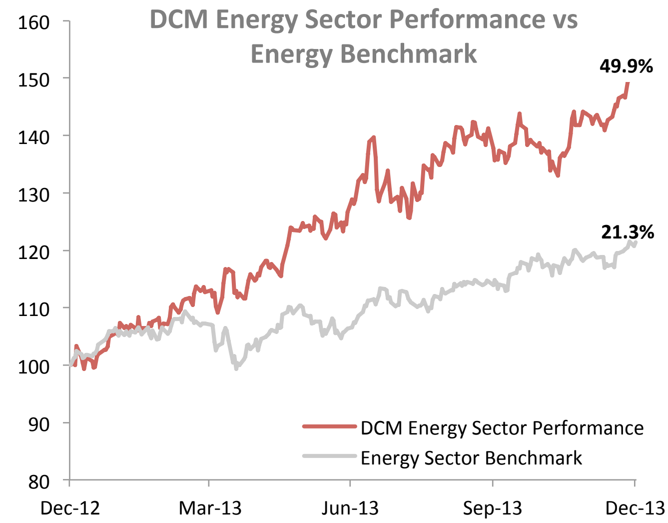
Sector Performance and Outlook

The energy sector underperformed the broad local and global markets in 2013; the MSCI Global Energy Sector returned 12.1% and the S&P 500 Energy Sector returned 23.9%. Given the stellar year for U.S. equity markets, that makes the S&P 500 Energy Sector the third worst performer of all ten sectors in the S&P 500 in 2013. Our Energy team, however, posted a 49.9% gain in 2013, an outperformance relative to our benchmark of 28.6%.

Global oil prices remained volatile in 2013 thanks in part to sluggish global growth and continued unrest in Egypt, Libya, and Syria. The possibility of a U.S. military intervention in Syria, along with the fears of Iran closing the Strait of Hormuz – through which about 20% of the world's petroleum is shipped – pushed the risk premium, and consequently, oil prices higher during the summer. On the other hand, the historical deal reached between the P5+1 group and Iran, which could lead to a resolution of Iran's nuclear issue, saw geopolitical tensions abate… slightly. Although the deal would have a limited impact on Iranian oil supply in the next few months, a final resolution could lead to the lift of Iranian oil sanctions resulting in a gradual increase in Iranian oil exports back to pre-sanction levels of 2.5 million bbls/d (current production estimate: 1 million bbls/d). While the geopolitical risk premium in oil prices has eased, expectations for stronger global economic growth in 2014 as well as market exuberance helped fuel an approximate 6% gain in 2013 for both the West Texas Intermediate (WTI) and Brent oil benchmarks.

Economic growth and geopolitical risk continued to be the main drivers for global energy markets in 2013. The story in North America, however, was strikingly different. The development of horizontal drilling and hydraulic fracturing, or "fracking", has unlocked massive reserves of shale oil and gas, spurring U.S. production which has translated into the decoupling of North American energy prices from their global benchmarks. The WTI crude oil benchmark, historically having traded at a slight premium to Brent, traded at an average discount of $9.40 over the year. North American refineries were the main beneficiaries of the increasing domestic oil supply and the WTI discount as it provided them with cheaper crude feedstock. The Oil & Gas Refining and Marketing energy subsector was the best performer in the energy sector, returning more than 39% in 2013.

Natural gas has also been a popular topic of discussion as it is a more regional commodity than oil, meaning that its trading characteristics are highly based on local geographic trading fundamentals, due to infrastructure constraints as natural gas can only be transported by pipeline in its gaseous state. North American natural gas has experienced an even more significant decoupling from global prices in recent years than WTI, with the U.S. Henry Hub benchmark posting an average price of $3.72/mmbtu in 2013 compared to $10.65/mmbtu



Benchmark: 40% Energy Select Sector SPDR (XLE) measured in CAD, 60% iShares S&P/TSX Capped Energy Index (XEG.TO)

in the UK. However, due to cold weather and expanding natural gas consumption capacity in the automobile, aviation and power-generation sectors, natural gas prices (at Henry Hub) were on average 35% higher than in 2012. While Liquefied Natural Gas projects that transport the commodity to higher-priced markets seems like the solution to erode the current differential, we believe that these projects remain a number of years down the road.

The S&P/TSX Energy index underperformed both the MSCI Global Energy Sector and the S&P 500 Energy Sector, returning only 8.7% in 2013; much of the underperformance was due to concerns over price differentials for Canadian oil as well as access to higher priced export markets. The Keystone XL pipeline, which is proposed to transport 830,000 barrels of oil per day to the Gulf Coast, continued to be a controversial topic in 2013. While the governor of Nebraska approved TransCanada's proposed route and the U.S. Department of State released a Draft Supplementary Environmental Impact Statement confirming that there would be no significant impacts to most resources along the proposed route, the Obama administration continued to kick the can down the road, postponing final approval of the project. It became clear that Keystone XL critics believe that the main environmental risk associated with the pipeline is that it will lead to development of the oil sands.

The second half of 2013 proved positive for the energy sector as the S&P/TSX Energy Sector returned more than 12%. Warren Buffett announced that he was taking a stake valued at more than $500 million in Canada's largest oil sands producer, Suncor Energy. Equally, the industry's ability to find innovative solutions to access higher priced markets through rail provided reason for optimism. To boot,

Note: All DCM's performance figures are reported in CAD

in late summer TransCanada announced plans to go ahead with their Energy East Pipeline which contributed to improved investor sentiment. In December, we saw developments for two major export pipelines; first, Kinder Morgan filed for the expansion of the Trans Mountain pipeline, which carries crude from Edmonton to Vancouver area and second, the National Energy Board recommended approval for Enbridge's Northern Gateway pipeline, a proposal that will carry oil sands crude to Kitimat, British Columbia.

Desautels Capital Management's Energy Sector posted a 49.9% gain in 2013, an outperformance of 28.6% relative to the benchmark. The outperformance can be attributed to active sub-sector allocation in seismic data and light-oil exploration and production companies. In early 2013, the energy sector saw an increase in crude oil discounts between WTI and Brent. The discount was largely a result of the major bottleneck in Cushing, Oklahoma caused by a lack of infrastructure to support the U.S. shale production boom. Canadian Oil Sands producers were hit by bottlenecks upstream from Cushing in Western Canada and the U.S. Midwest and as a result, the Western Canadian Select (WCS) heavy oil benchmark traded at a $25.20 or 26% average discount to WTI in 2013. Canadian heavy oil has faced a much larger discount to WTI than Canadian light oil because supply is growing at a much higher rate and the majority of refining capacity is in the U.S. Gulf Coast region, which has proven difficult to access by pipeline. At DCM, we decided to position ourselves in light oil production companies to capture the higher netbacks on light-oil relative to the discounted heavy oil. This proved to be a winning strategy, as light-oil equities in the United States and Canada were among the biggest winners in the exploration and production space.

Outlook for 2014

Looking ahead to 2014, the oil industry in North America is experiencing lower bottlenecks, higher refinery utilization rates and increased netbacks for exploration and production companies. DCM projects that WTI will trade in the $90-$100/bbl range during the year, as it stands at $96 in the beginning of the year.

The next year will be a very important one for Canadian heavy oil, as we expect to gain clarity on issues surrounding development and transportation of the oil sands. The anti-oil sands movement continues to play a key role for pipeline delays as mass protests have caused significant interruptions. This will remain a key theme in 2014 as more than half a dozen pipelines seek regulatory approval. Key pipelines such as Keystone XL, Enbridge Northern Gateway, Trans Mountain Expansion, and TransCanada Energy East are expected to receive regulatory rulings in 2014 and 2015. This will have large impacts on DCM's energy holdings and remains a key catalyst and risk going into the New Year. Approval of these pipelines will lead to improved American investor sentiment in the Canadian energy space. This should allow for Canadian Exploration & Production companies to realize price appreciation through multiple expansion as they resume trading in line with American peers.

Keystone XL, the most contentiously debated pipeline, continues to be mired in a regulatory review process. At time of writing, the US state department is completing a final report assessing the environmental risks of building the pipeline. We believe the pipeline will be approved this year, as it is in the United States' best interest to gain access to Canadian heavy oil rather than relying on the sources that have historically provided them heavy oil, namely Mexico and Venezuela as these countries are wrought with political instability and are experiencing declining production. Given recent developments around rail and other export pipelines, critics will have a hard time justifying their argument that blocking Keystone XL will hinder oil sands development, as it seems that the oil sands producers will and have found solutions to get their product to market regardless.

Enbridge's Northern Gateway pipeline is expected to receive a decision from the federal government at the end of 2014. While the National Energy Board's recommendation for approval is a positive sign, we believe this pipeline is a very long-term project and may not be operational for many years. Opposition from numerous Aboriginal and Environmental groups will continue to be the largest hurdle, and if the federal government does give final approval for the project, the hearings processes for claims from these groups will likely continue far beyond the date of the federal government's decision. Kinder Morgan's proposed Trans Mountain expansion is expected to receive a decision at the end of 2014, which we believe is the more likely West Coast pipeline to gain approval, as it will entail a twinning of an existing right-of-way, compared with Gateway, which will require construction of an entirely new route.

TransCanada's Energy East Pipeline, proposed to transport 1.1 mmbbls/d of crude from Alberta to Eastern Canada, is expected to file regulatory applications in mid-2014, and will await final approval in Q4 2015. While this pipeline is admittedly a few years away, we believe it will gain approval, as it is in Canada's interest to provide Eastern Canada with access to Western Canada's abundant oil resources.

In 2014, crude by rail will provide important optionality for exploration and production companies looking for market access while pipelines are waiting for regulatory approval. Current projections are for crude by rail capacity out of Canada to reach 900 mbbls/d by the end of 2014. This method of transportation is not expected to provide a permanent solution, as current costs to the U.S. Gulf Coast (~$25/bbl) are much higher than what is charged by major pipeline operators. This could result in a temporary widening of WCS price differentials when oil sands projects are producing near capacity.

Natural gas production out of the U.S. is expected to increase in 2014, taking over coal as the most popular electricity source. This may result in lower natural gas price realizations in Canada and the United States, depending on demand. In this case, exploration and production companies with significant exposure to natural gas will have lower overall operating netbacks as measured on a Barrels of Oil Equivalent basis. Companies with a major oil weighting as a percentage of overall production will trade at a premium due to the higher overall operating netbacks that they can realize.

We also expect Canadian exploration and production companies to see price appreciation through multiple expansion in order to trade more in line with their American peers. This will largely be sparked by pipeline approvals (notably Keystone XL) as American investor sentiment improves toward the Canadian energy space. The anti-oil sands movement continues to play a key role in pipeline delays as mass protests have caused significant interruptions. This will remain a key theme in 2014 as more than half a dozen pipelines seek regulatory approval and will be a catalyst for the price appreciation among Canadian Exploration & Production Companies.

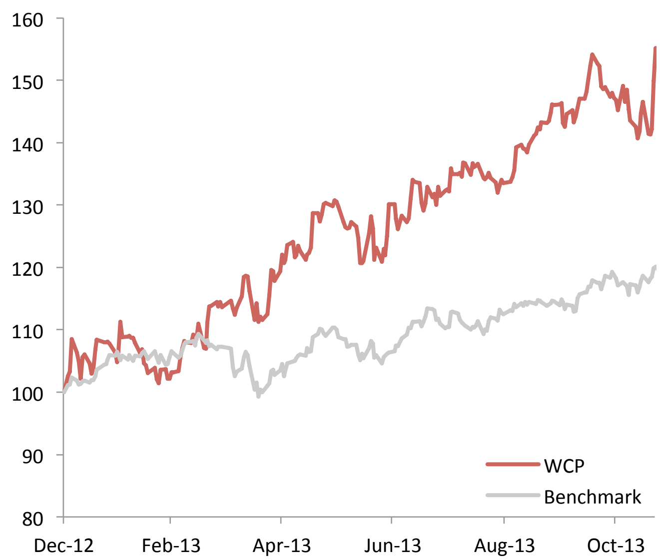
Our energy team will look to continue using strategic sub-sector allocation in an attempt to outperform the benchmark. 2013 was the year for an overweighting in Canadian light-oil due to the higher netback realizations. Going forward we will have a larger exposure to heavy oil with the addition of MEG Energy to the portfolio. This is due to the expectation that, as price differentials narrow through rail capacity expansion and new pipeline capacity, heavy oil companies will be able to realize higher prices. Subsequently, we expect investor sentiment to improve in the heavy oil and oil sands space as higher operating netbacks flow to the bottom line. However, if several key pipelines do not get approved, the energy sector will take a hit, and we feel relatively protected from that risk because of the investment in MEG. Through rail commitments, MEG has the optionality to bypass the congestion in Alberta that is currently causing the Canadian heavy oil discount, which is unique among oil sands producers. MEG allows us to gain upside exposure to improving heavy oil fundamentals, while largely mitigating the downside risk from the non-approvals of pipelines.

We have positioned ourselves in companies with very little to no natural gas exposure, and this move has paid off in recent years as the benchmark was partly weighed down by the natural-gas-exposed E&Ps. Going forward, we will continue to evaluate the natural gas space in North America; however, we think it is unlikely that price discounts in the region will be resolved in the short-term given that Liquefied Natural Gas projects will only materialize several years down the road.

Selected Energy Sector Holdings

Whitecap Resources

Market Summary	
Price (Dec 31, 2013)	*$12.64*
DCM 2014 year-end target price	*$14.50*
Market Cap. ($M)	*$2,177*
Enterprise Value ($M)	*$2,554*
P/E	*36.1x*
Dividend Yield	*5.4%*
52wk High	*$12.94*
52wk Low	*$8.55*

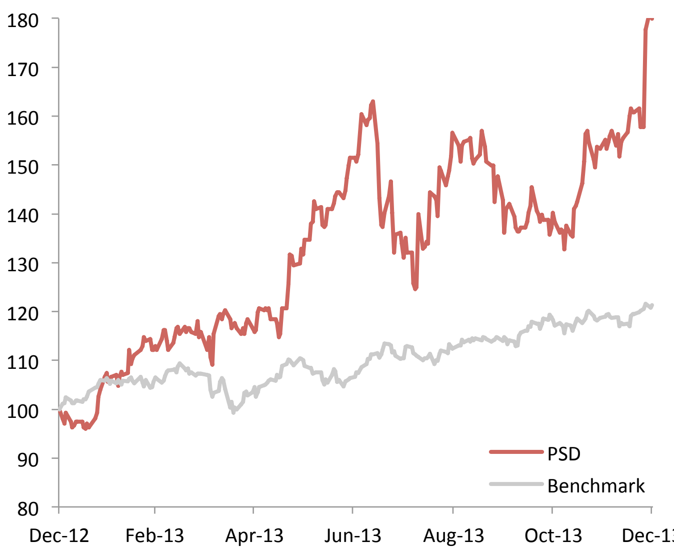


Benchmark: 40% Energy Select Sector SPDR (XLE) measured in CAD, 60% iShares S&P/TSX Capped Energy Index (XEG.TO)

Whitecap Resources (TSE: WCP), a light oil exploration and production company located in Western Canada, returned 54.6% in 2013. This past year marked a transitional period for WCP as they moved to the dividend-based model that has been popular across the entire mid-cap E&P space. Whitecap's attractive valuation along with its high netback and recycle ratio (common profitability measure, the higher the better) business model were key reasons why the DCM Energy team decided to make Whitecap a core holding in November 2012. The Company rolled out the dividend model with an initial $0.05 monthly dividend which has since been raised to $0.05625 per month. Whitecap Resources has made strategic acquisitions in 2013 to better position themselves in their core operating areas of the Viking, Cardium and Montney Formations in Alberta and Saskatchewan. Consolidating their working interest in many of their key plays has given WCP the ability to increase their netback to $45.21 in Q3 2013 ($42.97/boe in Q3 2012). In 2014, the DCM Energy team expects Whitecap Resources to make further acquisitions in their core operating areas, which will give them the ability to improve operational efficiency. In November, we decided to take partial profits and rebalance the fund by selling 1.5% of what used to be a 6.5% position in the portfolio, realizing a 56.6% gain. Whitecap Resources remains one of the best operators in the dividend light oil space. Based on current valuations DCM is still comfortable maintaining a 5.5% position in WCP, due to the company's superior operational performance as well as the likelihood of another dividend increase in 2014. Whitecap currently trades in the high 11's and we have a price target of $14.50.

Pulse Seismic

Market Summary	
Price (Dec 31, 2013)	*$4.79*
DCM 2014 year-end target price	*$5.15*
Market Cap. ($M)	*$284*
Enterprise Value ($M)	*$303*
P/E	*n/a*
Dividend Yield	*1.7%*
52wk High	*$4.96*
52wk Low	*$2.58*

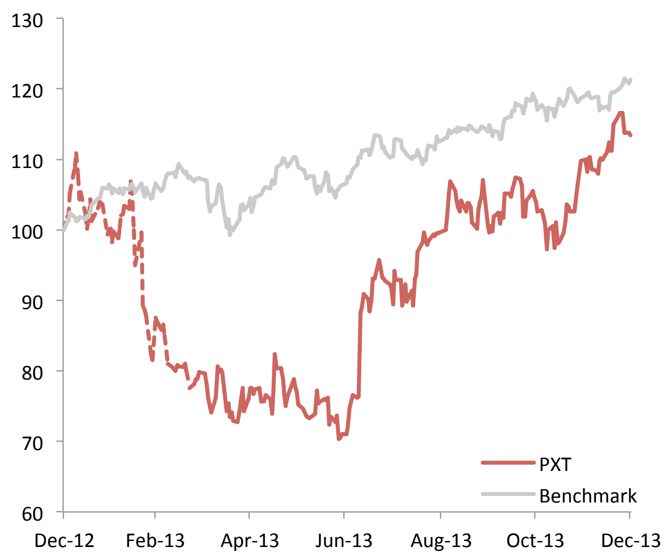


Benchmark: 40% Energy Select Sector SPDR (XLE) measured in CAD, 60% iShares S&P/TSX Capped Energy Index (XEG.TO)

Pulse Seismic Inc. (TSE: PSD), an owner of Canada's second largest seismic data library, returned 80.0% in 2013, making it one of our best performing holdings. Seismic data is subsurface imaging used by oil and natural gas E&P companies to assist in exploring and developing new reserves, in establishing the extent of existing reserves, and in managing producing reservoirs. Our view on Pulse's business model has not changed since we made the initial investment more than 2 years ago. The marginal maintenance cost of Pulse's library and its extremely lean business model (only 27 employees for a $250 million market cap company) equips the company with high cash flow generation capabilities, converting every $1 of revenue to around $0.76 of cash EBITDA. However, the volatile and unpredictable nature of seismic business along with the small size of the company has kept away institutional fund managers. This year was different as despite disappointing revenue numbers, partly due to the volatility of the seismic business, institutional investors were drawn to Pulse as they realized its efficient cash flow generation capabilities and analysts began initiating coverage on the stock. Along with an increase in institutional interest, narrowing Canadian oil discounts could also be a tailwind for Pulse's stock in 2014 as it would improve industry sentiment, drive up capital expenditure, and hence increase demand for seismic data.

Parex Resources

Market Summary	
Price (Dec 31, 2013)	*$6.58*
DCM 2014 year-end target price	*$8.15*
Market Cap. ($M)	*$713*
Enterprise Value ($M)	*$778*
P/E	*49.6x*
Dividend Yield	*0.0%*
52wk High	*$6.80*
52wk Low	*$4.05*

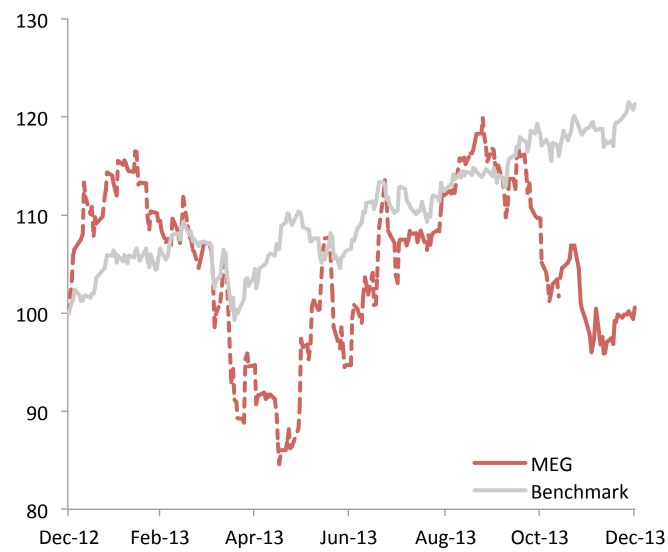


*Holding period represented by solid line
Benchmark: 40% Energy Select Sector SPDR (XLE) measured in CAD, 60% iShares S&P/TSX Capped Energy Index (XEG.TO)

Parex Resources Inc. (TSE: PXT), a Canadian exploration and production company in Colombia, has returned 46% since we first initiated the position in March 2013. Our investment thesis was centered on two major points. First, the company was trading close to its core NAV and the stock price did not reflect its exploration and development growth potential. The main reason for that is that the market was punishing the stock for recent growth targets misses. Second, the market was discounting the stock because of Colombian political risk. We saw an opportunity, given the decrease in Columbian-CDS spreads and the increase in foreign direct investment over the past few years, as well as the ongoing negotiations between the Columbian president Juan Manuel Santos and the FARC to reach a historical peace treaty. In July, Parex released its mid-year reserves update showing a 47% increase in 2P reserves, beating the market's depressed expectations and pushing the stock price upwards. In 2014, we believe Parex's disciplined management guidance will be beaten due to continued strong operational results. This, along with continuous reserves growth and an improving political landscape in Columbia, should help drive the stock up towards our estimated fair value of $8.15/share.

MEG Energy

Market Summary	
Price (Dec 31, 2013)	*$30.61*
DCM 2014 year-end target price	*$49.00*
Market Cap. ($M)	*$6,811*
Enterprise Value ($M)	*$9,052*
P/E	*n/a*
Dividend Yield	*0.0%*
52wk High	*$36.69*
52wk Low	*$25.50*



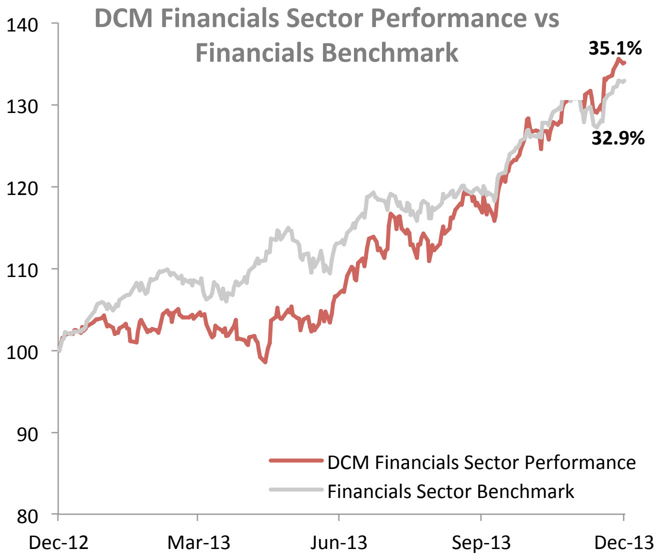
*Holding period represented by solid line
Benchmark: 40% Energy Select Sector SPDR (XLE) measured in CAD, 60% iShares S&P/TSX Capped Energy Index (XEG.TO)

MEG Energy (TSE: MEG), a pure play Canadian oil sands company located in the Southern Athabasca region of Alberta, is the most recent addition to our portfolio. Investor sentiment in the heavy oil space in Canada remains at an all time low, due to fears of market access and financing constraints. MEG has been able to avoid many of these problems by having a unique marketing strategy and a superior balance sheet position. The Company has a clearly defined growth plan and continues to be one of the strongest operators in the industry. MEG's Christina Lake property is considered one of the marquee properties in the entire Athabasca region and has allowed MEG to achieve one of the lowest operational costs per barrel ($10), and one of the highest netbacks in the industry at $59.59 in Q3 2013. In 2014, DCM expects investor sentiment to improve in the heavy oil space. A decision out of Washington on the Keystone XL pipeline is expected, along with several other pipeline approvals. MEG Energy will benefit from a decrease in the price disconnect between WCS and major world oil grades. In 2014, MEG Energy will also be submitting for regulatory approval of their Surmont property. Surmont has some very similar characteristics to the Christina Lake property, and will be a key driver of future production growth. Current estimates are for 2013 exit production to be 40,750 bbl/d and roughly 67,000 bbl/d in 2014. DCM currently has a 4.7% allocation to MEG. Our price target for MEG is $49.

Sector Performance and Outlook

The financial sector outperformed the overall market in 2013. S&P 500 Financials rose by 33.2% versus the S&P 500 increase of 29.6%, while Canadian financials fared a lot better against the Canadian market on a comparative basis, as the S&P TSX Capped Financials rose by 22.1% versus a more modest growth of 9.6% in the S&P/TSX Composite. The growth in the financials reflects increasing investor confidence towards the financial system, something we have not seen since the crisis. Much of this growth was driven by macro as well as industry specific factors, and while many banks continued paying record fines for their involvement in the activities that led to the crash five years ago, the market has shown sustained confidence in these banks to weather the storms aftermath. Growth in investment banking was fuelled by businesses expansion on the back of economic growth, resulting in higher M&A activity levels; as per the December 2013 report by Merrill Datasite, total buyouts had already surpassed 2012 by value, going from US$134.3 Billion to US$134.7 Billion, despite a very slow Q4. Insurance companies like AIG, MetLife, Manulife and Prudential all saw their share prices rise by more than 45%, driven in part by the existing and planned expansion to emerging markets, which should help both diversify their business models as well as help drive higher volumes in the immediate future.

Our team's investments earned a return of 35.1% during 2013, thus outperforming the sector benchmark by 2.2%. Much of the returns for our financial sector investments were driven by Home Capital Group and Wells Fargo, earning returns of 36% and 32% respectively during the year, before adjusting for currency returns. On a comparative basis, our sector has held a more bullish view on U.S. financials during the year vis-à-vis Canadian financials. This was a product of the increased optimism surrounding the U.S. economy, where we felt improving credit quality and increasing consumer confidence would drive growth for the banking sector. In line with our outlook, we exited our position in BMO earlier in the year while retaining Wells Fargo as part of our strategic rebalancing across the border. However, we were not all bearish on Canadian financials; while we felt that there was uncertainty surrounding the mortgage market for the big Canadian banks, we remained bullish for much of the year on Alt-A mortgage lenders in Canada, and thus held our position in Home Capital until November when we closed the position. As we continued receiving signals of an improving U.S. economy, we initiated a position in Capital One later in 2013, as we felt this company was best positioned to capitalize on growth in consumer spending as well as improving credit quality in the U.S. Our thesis has paid off, with the stock gaining an impressive 11% in the first month that we held it.



Benchmark: 40% iShares US Financials (IYF) measured in CAD, 60% iShares S&P/TSX Capped Financials Index (XFN.TO)

Outlook for 2014

Looking at investment opportunities across the Atlantic, 2013 marked the year of recovery in the U.S., we anticipate similar developments in Europe as economies like Greece, Portugal and Ireland are already showing signs of recovery; Ireland has already officially exited their recession as of September, Spain as of October, and Greece predicted for 2014. While many still harbour doubts as to a full recovery anytime soon, signs of a turnaround will be good news for European banks, which have been burdened by the Eurozone crisis. Europe will be one of our main focus points in 2014 as we feel that there is opportunity for us to identify banks that can capture both the European recovery as well as global growth. However, both U.S. and Canada will continue to be on our radar, as we feel that continuing economic strength in the U.S. is an opportunity for us, and Canadian markets bear the potential for a value investment. On a comparative basis, we remain more bullish on the U.S., as we expect another year of U.S. financial sector outperformance. While 2013 M&A activity finished a little slow, as discussed earlier, we remain bullish for 2014. In the "2014 Deal-Making Outlook" published by RR Donnelly, a survey of industry players reported significant optimism for 2014 on most fronts when they were asked whether they expected an increase/decrease of M&A activity, including private equity buyouts, regional M&A for North America, global M&A, as well as private equity exits. The U.S. is likely to drive much of this growth as equity markets have done very well in 2013 and signs for 2014 remain positive. The start of tapering to QE is a signal of confidence that unemployment will continue improving in 2014 from its current levels at 7.0% to below 6.5% by the end of the year. Outlook for the housing market in the U.S. is also promising, with housing starts to cross the 1 million threshold to 1.2 million by end of 2014, and existing home

Note: All DCM's performance figures are reported in CAD

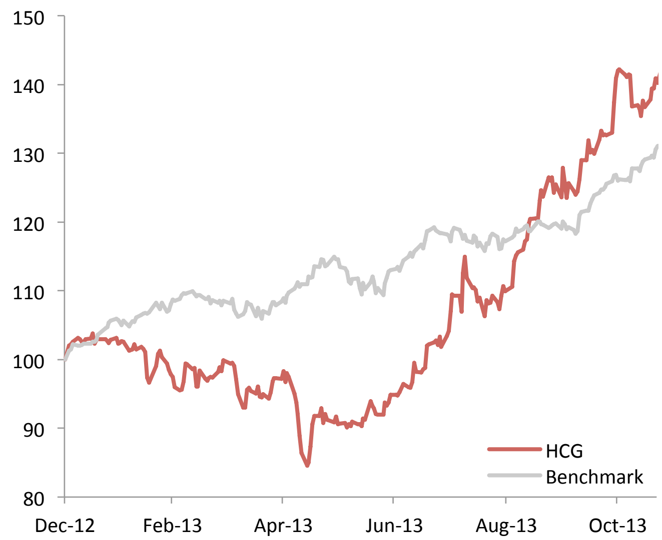
sales are expected to increase by about as much as 10% by 2014 year end. These and other factors should contribute to much stronger economic growth for the U.S. economy, with real GDP holding the potential to grow by a healthy 2.9-3.0% for much of 2014 as per forecasts. By comparison, the Canadian economy is expected to grow by 2.3-2.4% over the same period, and while unemployment is expected to finish below 7.0% for the year, the housing market may remain a challenge as housing starts are expected to decline from 2013 levels. Overall, the better outlook for the U.S. economy coupled with improving confidence in the financial sector is likely to drive multiple expansions for the sector, improving valuations.

It should be noted that growth for some financial sub-sectors in the U.S. may be limited in 2014; the Volcker Rule has already led to the some of the top bank proprietary traders to leave and set up their own hedge funds. However, looking forward into 2014, we remain bullish for the financial sector as a whole given the above discussed conditions, and expect another year of outperformance by the sector against the overall market.

Selected Financials Sector Holdings

Home Capital Group

Market Summary	
Price (Dec 31, 2013)	*$80.93*
Market Cap. ($M)	*$2,812*
P/E	*13.9x*
Dividend Yield	*1.4%*
52wk High	*$85.85*
52wk Low	*$49.65*



Benchmark: 40% iShares US Financials (IYF) measured in CAD, 60% iShares S&P/TSX Capped Financials Index (XFN.TO)

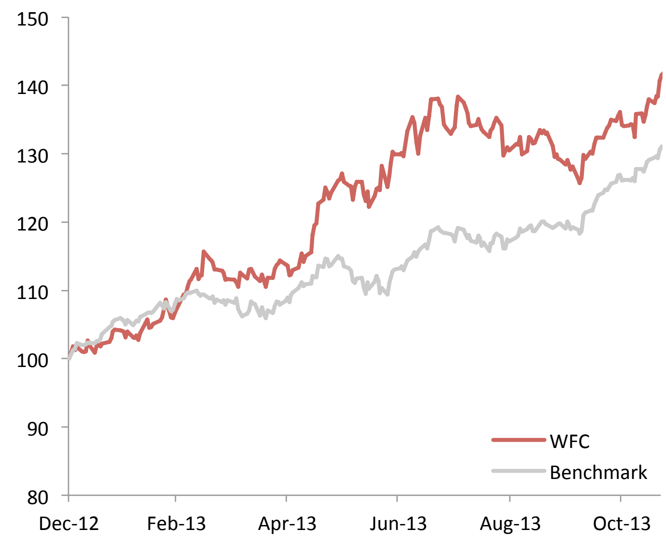
Our total average return on the stock since initiating the position in November 2012 amounts to 54%, making it the most profitable investment for our sector, in addition to being one of the best for the fund overall. HCG's outperformance of the financials benchmark by 10% can be attributed to two main factors. First, HCG saw its customer base increase due to the stricter prime mortgage lending regulations, shifting once prime borrowers to Alt-A ones. Consequently, HCG increased the credit quality of its loan portfolio with continued low non-performing loans and credit losses resulting in higher than expected bottom-line figures. Second, during Q3, the Office of the Superintendent of Financial Institutions confirmed the necessary adjustment to HCG's Asset-to-Capital Multiple regarding its securitized mortgages late in 2012. This favourable ruling confirmed that off-balance sheet capital treatment is acceptable for securitized mortgages and resulted in an immediate increase of HCG's lending capacity by over $600 million, without requiring any additional capital.

Our original investment thesis played out and we believed that it was the right time to liquidate our position in November as HCG was no longer trading cheaper than the banks who shared credit risk in their consumer lending portfolio and commercial lending portfolio, but who have lower ROE and growth profiles. HCG's P/E and P/B ratios were trading very close to that of the prime lenders and we were not as bullish with the valuation after the rally in share prices throughout the year. Equally, the amount of exposure to the hot housing market was not attractive to us anymore as in 2012, at the time of our investment, we felt as though the market was very pessimistic on Canadian housing and therefore a lot of the risk was therefore being priced into the stock's valuation. After a decent performance in 2013, and what looked like the beginning of a soft landing, Home Capital's stock price approached what we viewed was a fair valuation.

We exited the position at what appears to be the peak of its 7-month rally. We cannot be certain as of yet, but hindsight would suggest that our timing was good on the decision to sell since the stock finished flat for the rest of the year.

Wells Fargo & Company

Market Summary	
Price (Dec 31, 2013)	*$45.40*
DCM 2014 year-end target price	*$51.00*
Market Cap. ($M)	*$239,149*
P/E	*12.6x*
Dividend Yield	*2.6%*
52wk High	*$45.64*
52wk Low	*$34.43*



Benchmark: 40% iShares US Financials (IYF) measured in CAD, 60% iShares S&P/TSX Capped Financials Index (XFN.TO)

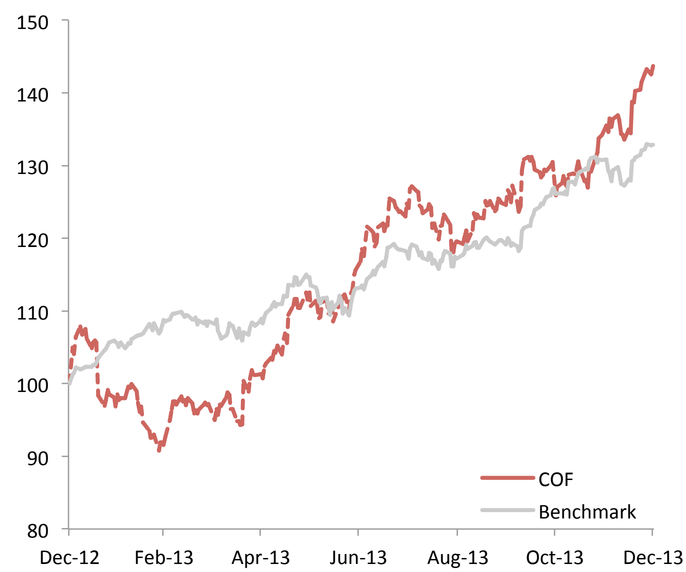
Wells Fargo & Company performed well in 2013 bringing the total returns of the stock to 46.4% since initiating in late 2012. WFC outperformed the financials benchmark by 13.5% in 2013, and ranks as one of DCM's top performers for the year. The outperformance can be attributed to an overall recovery of the U.S. economy that resulted in better asset quality and modest increases in loan issuance. The increase in asset quality has led to lower net-charge off rates and delinquencies, which in turn resulted in significant loan loss reserve releases. Equally, WFC's successful cost-cutting measures, coupled with improved credit quality on its book and the resulting release of loan loss reserves significantly increased net profit margins from 23.1% in Q4 of 2012 to 27.2% in Q3 2013. WFC has beaten earnings estimates for 14 consecutive quarters. Last, WFC has successfully grown revenues from segments such as investment banking, wealth management, and retail banking in order to offset the decrease in mortgage activity following the tapering talks of mid-2013.

As we look toward 2014, several of the original investment thesis points still hold potential. As there remains significant optimism surrounding the U.S. recovery, WFC still benefits from the same competitive advantage brought about by its industry leading net-interest margin, cross-sell rate, and cost of deposits and they continue to grow their non-mortgage business segments. In addition to the original arguments, the expansion in the net-income margin brought about by the expected increase in interest rates should further benefit the profitability of banks. That being said, WFC also faces a number of challenges in the upcoming year: new mortgage issuance is expected to decline given the increase in long-term yields, and reserve releases seem unsustainable in the long-term as net charge-off rates approach pre-2008 lows. While WFC faces challenges in maintaining and enhancing its profitability going forward, we believe that the company's fundamentals remain strong, and the long term prospects remain intact.

Altogether, we believe the U.S. financials sector still holds value as the U.S. economy continues to recover. WFC is well positioned to benefit from the continued recovery, and an expansion of the net-interest margin, increased efficiency, and strong fundamentals should contribute to capital appreciation in 2014.

Capital One Financial

Market Summary	
Price (Dec 31, 2013)	*$76.61*
DCM 2014 year-end target price	*$82.00*
Market Cap. ($M)	*$44,238*
P/E	*10.7x*
Dividend Yield	*1.6%*
52wk High	*$76.71*
52wk Low	*$50.21*



*Holding period represented by solid line

Benchmark: 40% iShares US Financials (IYF) measured in CAD, 60% iShares S&P/TSX Capped Financials Index (XFN.TO)

As a recently initiated position, Capital One's returns have already impressed: the stock posted a holding period return of 11.8% since initiating the position on November 13th 2013. Over the period, the stock has outperformed the financials benchmark by 8.1%. The outperformance can mainly be attributed to strong gains in U.S. consumer spending and consumer confidence indicators released in December. As we look toward 2014, the original investment thesis remains the same. Namely, a recovering and increasingly optimistic U.S. economy will lead to higher consumer spending, asset quality, and consumer confidence; all of which should benefit COF's top and bottom lines as one of the only pure play credit card issuers in the U.S. Similarly, COF's acquisitions of ING Direct's deposit book and HSBC's credit card portfolio in late 2012 have helped improved COF's foothold in the financial sector by giving it a cheaper and larger deposit base to finance loans, as well as reach a more premium segment than where it currently plays. As the company finalizes the integration of these divisions, management is beginning to shift focus from growth to improving asset quality and returning value to shareholders. Lastly, COF's fundamentals show positive signs entering 2014 with increasing revenue, net interest margins, tier 1 capital ratios, and efficiency ratios.

DCM's outlook on Capital One continues to be positive. Our valuation shows that the market is discounting COF by 25% on a P/B level, and our dividend discount model yielded 10% upside using conservative assumptions. COF is well positioned to take advantage of increases in consumer spending and consumer confidence as one of the best plays in the credit card business. Further, a full integration of the recent acquisitions will help increase asset quality while establishing COF's position as a leading U.S. financial institution: COF is now the 4th largest automobile lender, 6th largest deposit holder, and the 4th largest credit card issuer in the U.S., all while maintaining the strongest capital and liquidity positions in its history.

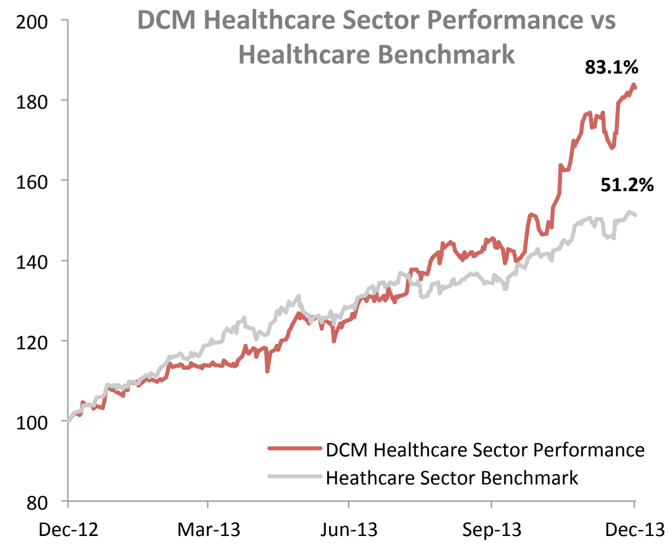
Sector Performance and Outlook

This past year we witnessed impressive returns from the healthcare sector at DCM. Since the beginning of the year, our holdings returned 83.1%, which was 31.9% better than our benchmark return of 51.2%. Comparing healthcare to the other sectors covered by DCM, we see that it was one of the top performers. That said, excess return in the fund was mainly due to individual security selection. The strong performance of healthcare in 2013 can be explained in part by increases in approved therapies, productive research and development, and an active acquisition environment. Healthcare was in fact the 2nd highest performer when looking at sub-sectors of the S&P 500 (consumer discretionary was first).

Key themes for the year included the upholding of the Affordable Healthcare Act (Obamacare), outperformance of biotech, and underperformance of healthcare equities in emerging markets. Though officially signed into law on March 23, 2010, the Affordable Healthcare Act commenced on October 1, 2013 when Americans without employer-covered health insurance were able to "shop" for health insurance from online health insurance exchanges. While the notion of having more insured Americans appears to be a positive for the sector, the benefits from an expanded customer base are offset by price-pressure for some subsectors including managed care. Pharmaceutical companies and medical device manufacturers on the other hand likely applaud the introduction of the legislation. Regarding biotech, 2013 was an especially strong year with the Nasdaq Biotech Index (NBI) delivering a return of nearly 53.0% in 2013, its largest return since 1999, on the back of increased R&D productivity, several new approvals, and an active M&A environment.

Pharmaceuticals and biotech both had an above-average year if we focus on the FDA approval of New Molecular Entities (NMEs), which are molecular entities that have not previously been approved by the FDA. In 2013 a total of 27 NMEs were approved, with numbers in the past 10 years remaining in the low to mid 20s. This follows an approval of 39 NMEs in 2012.

Healthcare equities in emerging markets underperformed in 2013: the MSCI Emerging Markets Healthcare Index finished up 10% compared with 26% for the MSCI World Healthcare Index. Concern over QE coming to an end led equity investors to stray away from foreign securities. Additionally, slower growth than expected in China and other nations prevented the sector from realizing similar returns to those in the United States and other Western nations.



Benchmark: iShares US Healthcare (IYH) measured in CAD

Outlook for 2014

Emerging markets: China and beyond

We see emerging countries as a key opportunity for growth in the healthcare sector. Rising incomes and associated appetites for a better standard of living should help boost revenues for pharmaceutical producers, hospital managers, and medical device manufacturers. Privatisation is a theme we will be watching closely in 2014. Countries like Thailand, Mexico, South Korea, China and India that have rapidly rising income levels which combine with low government healthcare expenditure to foster a strong market opportunity for private healthcare providers. Capitalizing on this trend will not be a simple task for major pharmaceutical multinationals as barriers to entry and entry-risks remain significant. For example, in September 2013, we saw four senior Chinese executives at GlaxoSmithKline detained over allegations the company funnelled up to $3 Billion Yuan ($490M) to travel agencies in order to bribe doctors and officials to boost sales of its medicines. Nevertheless, there is much to be optimistic about in the Chinese healthcare space, with the potential for growth stoked by favourable demographic trends, continuing urbanization, an increasing disease burden, the overall economy's healthy expansion and income growth. Big pharma multinationals will face resistance from Chinese President Xi Jinping's anti-corruption program as they will come under more regulatory scrutiny, furthur reinforcing the national tendency to privilege domestic companies over multinationals. Looking at China's healthcare spend from 1995 onwards we see that relatively very little is spent as a percentage of GDP (the figure in the U.S. was 15% in 2012). As a percentage of GDP, China has been spending between 3.5 and 5.5% since 1995.

Note: All DCM's performance figures are reported in CAD

Animal Health: A play on land scarcity and food security

Digging deeper on the emerging markets opportunity, we added Zoetis, formerly Pfizer Animal Health to our watchlist. After its IPO in February 2013, Zoetis officially became separated from Pfizer, of which it had been a successful division for more than 60 years. Since its IPO Zoetis has shown its ability to operate as an independent entity. We believe that Zoetis is ideally positioned to take advantage of two major themes: the increasing consumption of animal protein across the globe (emerging markets in particular) and the expanding spend on companion animals. Alongside its ability to generate strong cash as an independent entity, we feel that the market is overly pessimistic on Zoetis' operational capabilities and their ability to leverage these very strong macro themes. The company has a profitable, well-diversified portfolio of products, experienced management and is the only animal-health pure play. Pfizer's shedding of non-core businesses like Zoetis as a means of refocusing their branded drug segment highlights a shift away from inefficient, if not heavy, business models for big pharma. We anticipate this trend continuing into 2014.

Obamacare: Opportunities for those who can control cost and understand the landscape

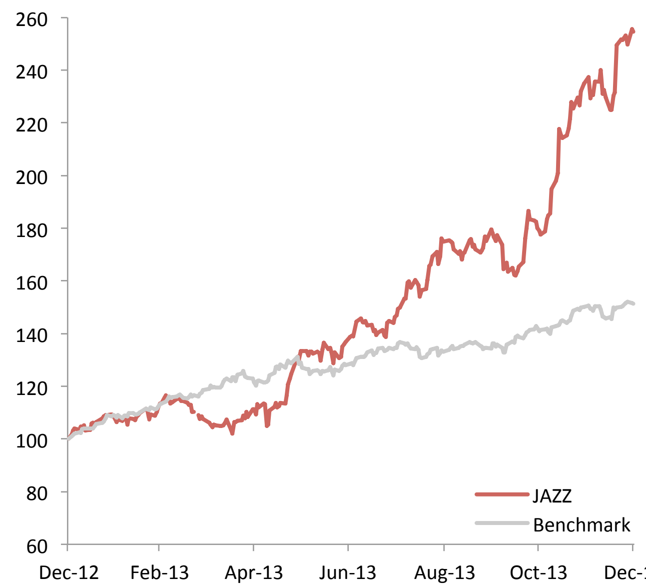
The North American healthcare supply chain has been gearing up for the stringent demands of the Affordable Care Act by focusing on operational improvements. Pharmacy Benefits Managers (PBMs), who saw large gains in 2013 due to cost cutting initiatives and large volumes of patent expirations, should continue to benefit from the usage of generic alternatives. The chart below provides an overview of major drug franchises that have expired or are set to expire in the next 3 years (values in $billions of annual revenue).

In addition, taking advantage of branded price inflation (positive implications for branded drug companies with monopolistic/oligopolistic pricing power like Jazz) should help boost gross margins. Integrated specialty drug distribution models like CVS's Maintenance Choice may threaten contracts that require retail and mail-order fulfillment. Although 2013 was positive for PBMs as companies were sent reeling from the shock of Obamacare and forced to compensate with a short-term patch to gross margins by enlisting the services of a PBM, a longer-term solution for these companies may be a less resource-intensive, in-house drug distribution model. Regarding pharmaceutical and biotech companies, we believe Obamacare presents a net-positive for the year with an increased customer base for therapies offsetting potential restrictions on reimbursement. A similar argument could be made for medical device manufacturers, although we see stagnant innovation in the subsector representing a significant hurdle for growth.

Selected Healthcare Sector Holdings

Jazz Pharmaceuticals

Market Summary	
Price (Dec 31, 2013)	*$126.56*
DCM 2014 year-end target price	*$170.00*
Market Cap. ($M)	*$7,314*
Enterprise Value ($M)	*$7,277*
P/E	*41.0x*
Dividend Yield	*0.0%*
52wk High	*$128.49*
52wk Low	*$50.76*



Benchmark: iShares US Healthcare (IYH) measured in CAD

Jazz Pharmaceuticals is a specialty pharmaceutical company focused on acquiring products in niche therapeutic areas where limited alternative treatments are available. Since acquiring the Orphan Drug Company in 2005 (developer of Xyrem), Jazz has displayed accretive acquisition activity and outstanding revenue growth.

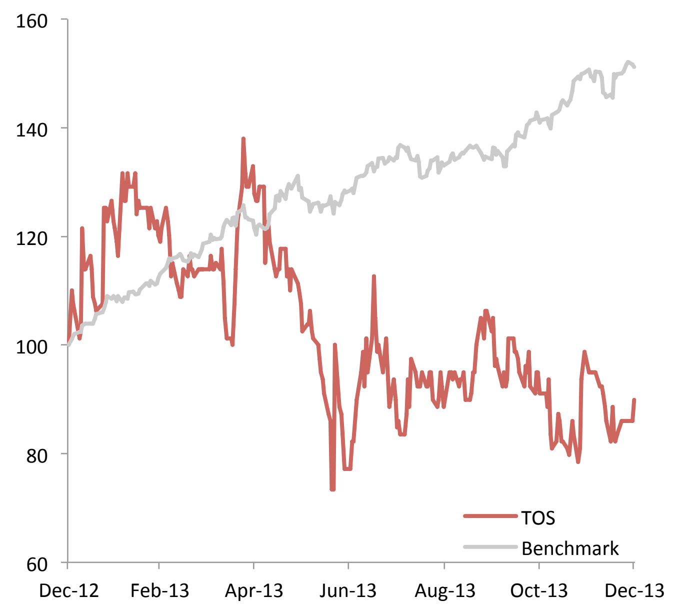
Our original investment was focused on the legal uncertainty surrounding Xyrem, their flagship product. We believed the market was too pessimistic on legal proceedings involving a generic threat to Xyrem and that Jazz would retain patent protection until at least 2018. In 2013 we saw major price appreciation suggesting that market sentiment is improving, the lawsuit however is still unresolved and limited new information has been made available.

In 2013 Jazz Pharmaceuticals came out with one positive earnings release after another; all showing strong earnings growth as well as revenue diversification. To close out the year, Jazz announced the acquisition of Gentium S.p.A., a biopharmaceutical company with a focus aligned with that of the Jazz business model: the development and manufacturing of therapies to treat and prevent a variety of rare diseases and conditions that currently have few or no treatment options. The deal is a cash tender offer of $57.00 per share for all outstanding Gentium ordinary shares, representing a transaction value of approximately $1 billion. The acquisition will help diversify Jazz's drug portfolio as well as complement the company's clinical experience in hematology and oncology. Part of our initial investment decision centered on the strength of management as we felt, and continue to feel, that the executive team has a wealth of experience in the biopharmaceutical space, which is reflected in stellar sales growth and positive acquisition activity, as the Gentium S.p.A. deal illustrates.

Going forward, we will continue to hold Jazz with a price target of $170. Not only has the legal battle surrounding Xyrem not been settled, but secondary parts of our thesis remain intact. Improving financial guidance and the company's ability to bring to market niche products commanding generous price premiums give us reason to continue to hold our position.

TSO3

Market Summary	
Price (Dec 31, 2013)	*$0.71*
DCM 2014 year-end target price	*$1.25*
Market Cap. ($M)	*$52*
Enterprise Value ($M)	*$41*
P/E	*n/a*
Dividend Yield	*0.0%*
52wk High	*$1.10*
52wk Low	*$0.51*



Benchmark: iShares US Healthcare (IYH) measured in CAD

TSO3 Inc. was down 10.1% in 2013 as U.S. Regulatory Agency delays and a lawsuit and settlement with 3M plagued the company. Engaged in the research, development, commercialization, and licensing of a low temperature sterilizer for heat-sensitive medical devices, they are the only company to have developed a product that uses ozone as the sterilant, which is superior to existing technologies in terms of capacity, compatibility, cost and safety.

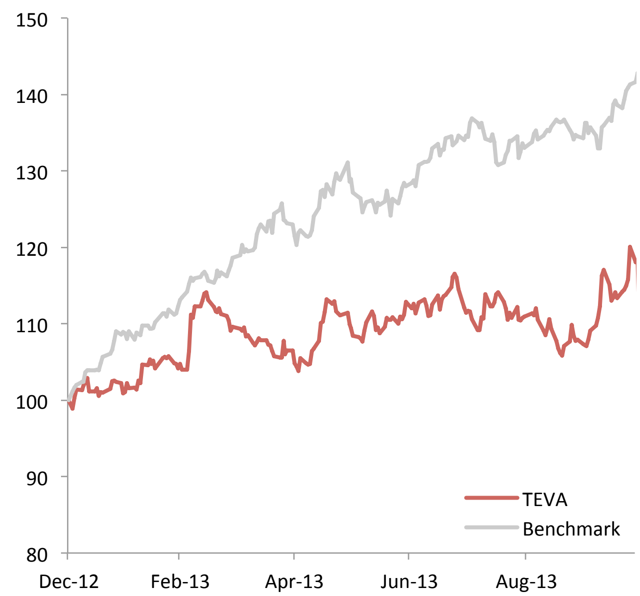
Our original investment thesis stated that the uncertainty around the pending FDA approval of Sterizone in the U.S. had them highly discounted in the market based on the fact that 40%-50% probability of approval had been priced in, while past data suggests 75%-85% of devices get approval and only 5% of devices take over a year to get approval. However, 2013 was spate with delays and legal issues making U.S. clearance the gating factor to everything that matters.

Early in 2013, the FDA requested additional information on the TSO3 case, prompting the first delays. In July, they switched to work through the 510(k) process, rather than to move to the de novo process of registering a novel product as previously discussed leading to another string of delays. Equally during June of 2013, TSO3 settled a dispute with 3M Company over a disagreement about TSO3's right to terminate a prior agreement whereby 3M had exclusive supply, distribution, license and service of the new Sterizone 125L+ Setrilizer branded as the 3M Opteroz 125-Z. An amount of $1,923,398 million inclusive of the repurchase of inventory and settlement fees will be paid by TSO3 to 3M.

Despite frustration over the lack of positive developments for the company, we continue to hold TSO3 going forward given the small size of our position and prospect for an FDA approval of Sterizone. Their technology platform is game changing and applicable across multiple products and end markets, the cash balance is sufficient to fund current burn rate through until the end of the year and U.S. clearance, a matter of when and not if in our eyes, should make TSO3 an acquisition target following successful FDA outcome.

Teva Pharmaceuticals

Market Summary	
Price (Dec 31, 2013)	*$40.08*
Market Cap. ($M)	*$33,868*
Enterprise Value ($M)	*$45,397*
P/E	*15.6x*
Dividend Yield	*3.3%*
52wk High	*$41.74*
52wk Low	*$36.26*



Benchmark: iShares US Healthcare (IYH) measured in CAD

Still the largest generic drug producer in the world, Teva develops, manufactures, and sells pharmaceutical products, both generic and branded. Grossly underperforming peers Mylan and Actavis PLC in 2013, Teva returned about 18.1% over the year. Our original investment thesis focused on the company's principal branded pharmaceutical product Copaxone, a treatment for multiple sclerosis. Our view was that the market remained overly pessimistic on Teva and that Copaxone's patent expiry and that patent protection would be retained until 2015. In late 2013 it was announced that the drug would go off-patent in May 2014, well over a year earlier than the anticipated date of September 2015. This development, combined with persistent management issues, led us to sell our shares in late October for approximately $41, realizing a loss of about 17%. Coincidentally, just days after we sold our shares Chief Executive Officer Jeremy Levin stepped down in light of disagreements with other management on how to restructure the company.

Sector Performance and Outlook

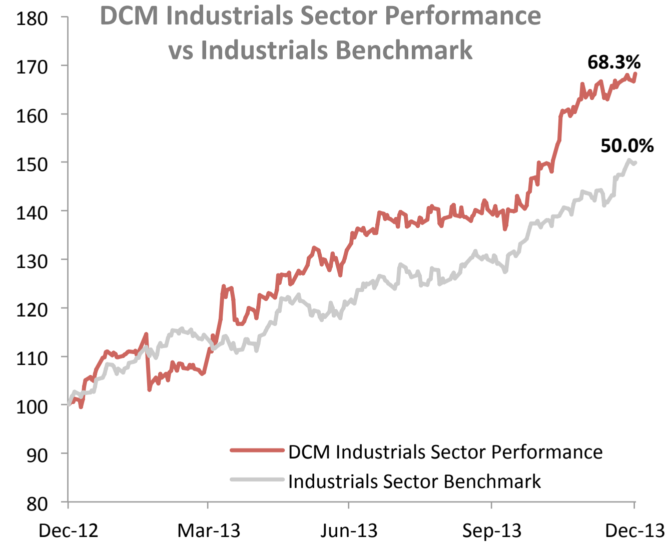
DCM's Industrials sector had yet another strong year in 2013, returning 68.3%. This is an outperformance of the sector benchmark of 18.3%. The Aerospace & Defense, Industrial Machinery and Transportation subsectors led the outperformance in Industrials. Lower domestic energy costs, due to the oversupply of cheap natural resources such as coal and natural gas, combined with the ongoing global wage inflation and flat U.S. labour costs led to a "manufacturing renaissance." Several companies have been repatriating production by expanding U.S. manufacturing capacity.

We are pleased to announce that all of DCM's holdings beat the sector benchmark. Conrad Industries, one of DCM's legacy holdings, spearheaded the sector's outperformance, returning 126% on the year and becoming our first ever "three-bagger." We added two new holdings in 2013, General Motors and Union Pacific, which also positively contributed to performance. The only drag on performance was the realization of a 15% loss on Patrick Industries, which we decided to sell earlier in the year after the company released earnings two days later than expected, causing widespread panic. Given that the earnings, once released, did not meet our fund's expectations we were content with the loss. While we are extremely pleased with our results in 2013, our performance could have been superior had we not sold our position in Patrick Industries as the stock returned 111.5% by the end of the year since we sold. Also, we liquidated our stake in CAE in April in exchange for General Motors which allowed us to close out the year having achieved our goal of diversifying away some of the risk inherent in our small cap holdings, without sacrificing superior returns.

Outlook for 2014

Going into 2014, our sector is pleased with the current portfolio allocation as it gives us exposure to the accelerating recovery of the U.S. economy, which we feel will trigger firm-specific catalysts. We will continue to apply our selection methodology of stocks that have strong core competencies, trade at depressed multiples but offer a risk-off perspective. Equally, we will target investments that we anticipate will benefit from what we feel are the key themes for 2014; specifically, gaining exposure to the increased construction activity in the U.S., decreased uncertainty around Chinese economic expectations and the increased optimism surrounding European countries having underwent structural reform, while avoiding subsectors which will be hurt by the U.S. government's budget cuts.

One of the main themes we anticipate for 2014 is a rebound in thermal coal volumes. The depressed prices of the past year have not only created opportunities for U.S. businesses to convert their energy production to coal but also for international arbitrageurs to import U.S. coal at a significant discount. In fact, even though the European Union is pushing to close down several coal plants, thermal coal exports to Europe have increased over 50%. Unlike oil and natural



Benchmark: iShares US Industrials (IYJ) measured in CAD

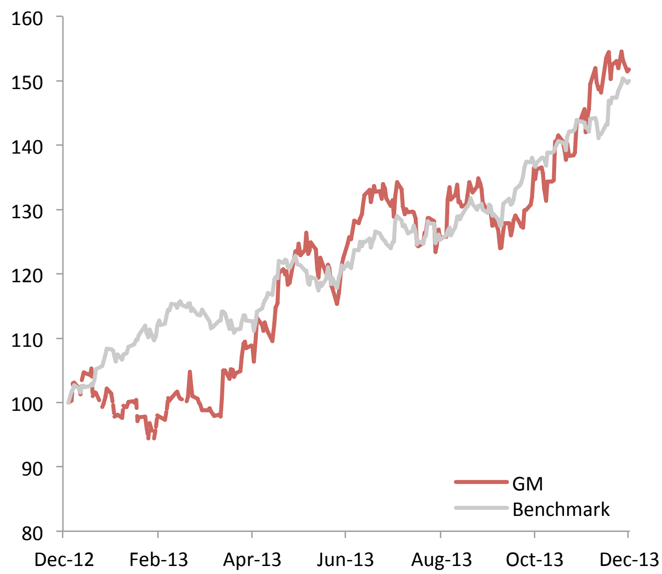
gas, the mechanics of exporting coal overseas are quite simple and require little additional infrastructure. Another positive sign has been a 10% increase in electricity generated from coal in the past year whereas total U.S. electric output grew by a modest 0.3%. Another important factor about U.S. coal is its indifference to the Chinese economy as exports to China represent less than 0.5% of total U.S. production. Chinese coal prices are disconnected from European and U.S. markets and therefore China does not pose a direct threat on pricing. Finally, coal inventories have been depleting, which should be a positive driver for the commodity going forward. Although coal is more related to energy, several stocks in Industrials are heavily influenced by the trends in this commodity.

Note: All DCM's performance figures are reported in CAD

Selected Industrials Sector Holdings

General Motors

Market Summary	
Price (Dec 31, 2013)	*$40.87*
DCM 2014 year-end target price	*$52.00*
Market Cap. ($M)	*$56,771*
Enterprise Value ($M)	*$70,627*
P/E	*13.3x*
Dividend Yield	*0.0%*
52wk High	*$41.85*
52wk Low	*$26.19*



*Holding period represented by solid line

Benchmark: iShares US Industrials (IYJ) measured in CAD

Since the initiation of a 3.5% position in mid-April, General Motors has returned 51.5%, beating our benchmark by 20.9%. Shares, which were acquired at $28.86, are now trading above $40, surpassing our one-year target of $36, which we have now revised to $52 based on a 4.5x EV/EBITDAP multiple against 2014 consensus earnings.

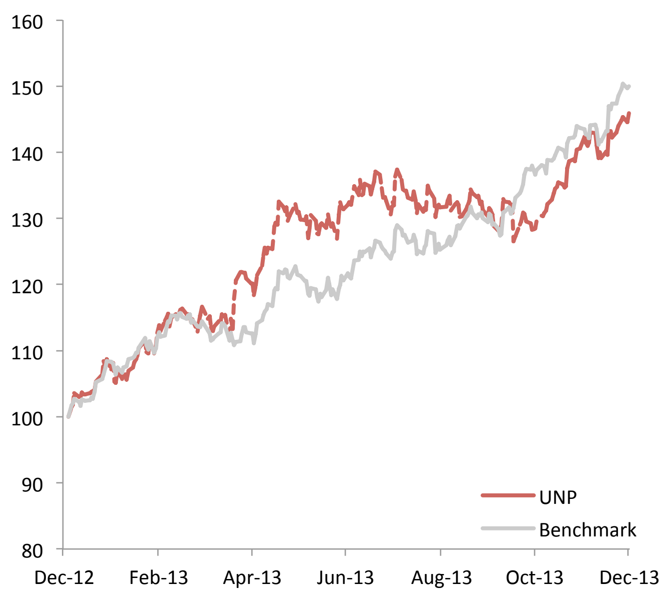
Our original investment thesis centered on the average age of cars in the U.S. being above the historical average, the recovery in the American housing market stimulating high-margin pickup sales, the growth in Chinese sales, the sale of the remaining equity stake of the U.S. Government, a relisting on the S&P 500, as well as the new 2013 fleet.

At time of writing, year-to-date U.S. car sales increased by 5.6% and truck sales increased by 11.3% compared to 2012. Over the same time period, GM's car sales went up by 8.8% and its truck sales by 12%. Light-vehicle sales came in even stronger than expected with November's seasonally adjusted annual rate reaching 16.3 million, its highest level since February 2007. Fuelled by the recovering housing market, American pickup sales increased by 13.7%. This translated into a 15% YoY improvement in GM's operating margins. The carmaker saw its Chinese sales increase by 11.4% YoY, with exceptional performances by its luxury brands Cadillac and Oldsmobile. Nevertheless a weak Yen led to a slight loss in market share and pricing power as Toyota increased selling incentives. Finally, its 18 completely redesigned vehicles contributed to increased sales, notably for the Chevrolet Silverado, up by 19%, and the Spark, up by 219%.

Going forward, GM's European division moving back in the black is the main catalyst for share price appreciation in 2014. Successful cost cutting initiatives combined with investments in the revamping of Opel-Vauxhall's product line as well as the appointment of new executives in the region helped halve losses in 2013 and could very well see the division return to profitability before the end of 2014. As significant European losses are priced into the stock, DCM believes that Europe getting back in the black will cause substantial momentum in the stock price. Nevertheless the tough macroeconomic conditions overseas remain a significant risk with car sales remaining low compared to historical standards. In North America, the reduction of sales incentives, which dropped by $2,000 in 2013, combined with better pricing on new and redesigned vehicles will help improve GM's margins. Finally, the performance of electric and alternatively-fuelled vehicles, in which we believe GM is well positioned, could provide additional upside as their market share continues to expand.

Union Pacific

Market Summary	
Price (Dec 31, 2013)	*$168.00*
DCM 2014 year-end target price	*$195.00*
Market Cap. ($M)	*$77,376*
Enterprise Value ($M)	*$85,465*
P/E	*18.6x*
Dividend Yield	*1.9%*
52wk High	*$168.24*
52wk Low	*$127.32*



*Holding period represented by solid line
Benchmark: iShares US Industrials (IYJ) measured in CAD

DCM initiated a 3.2% position in UNP in early November, and the stock has returned 11.9% since then, beating the benchmark by 3.2%.

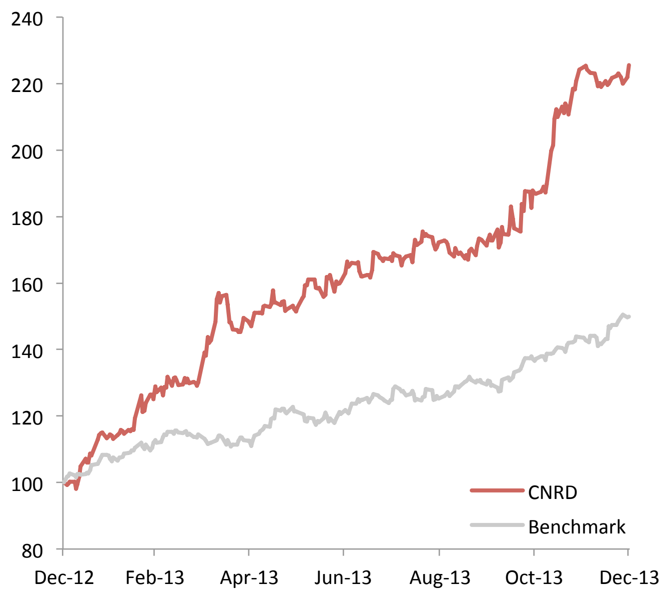
Prior to initiating this position, we built three discounted cash flows models, one for Union Pacific, CSX Corporation, and Norfolk Southern, using similar growth assumptions in each revenue segment in order to identify the most undervalued American rail operator; Union Pacific, offering 20% upside, appeared as the best investment opportunity. Our investment thesis relied on excessive coal pessimism being priced into the stock, optimism regarding the future of intermodal transportation at the expense of trucking, a rebound in U.S. agriculture after severe droughts in 2012, and industry-leading operational efficiency. This investment reflects DCM's bullish view on the U.S. economy as the automobile, industrial and intermodal segments are highly correlated to American GDP.

The 7.9% YoY growth of building permits for November in the U.S. contributed to the appreciation of the stock in the last month. DCM also believes that subsiding coal pessimism has driven stock price growth as American electrical power coal stockpiles diminished by 5% in November.

As this is a relatively young holding, our investment thesis hasn't significantly changed. The main catalyst for stock price appreciation is still growth in the intermodal segment, which is highly correlated to GDP, as the U.S. economy continues to recover. Furthermore, the loss of efficiency in the trucking industry due to the implementation of new hours-of-service legislation and increases in fuel prices should also help grow UNP's intermodal revenue. The realisation of our coal thesis could also generate significant momentum, particularly if steel was to rebound and natural gas prices in North America were to rise as exports to Europe grow. Finally, the rail operator's stock price would certainly benefit from continued cost cutting and improvements to gross and net margins, which currently stand at 43% and 19% respectively.

Conrad Industries

Market Summary	
Price (Dec 31, 2013)	*$36.92*
DCM 2014 year-end target price	*$48.00*
Market Cap. ($M)	*$269*
Enterprise Value ($M)	*$239*
P/E	*12.8x*
Dividend Yield	*0.0%*
52wk High	*$38.99*
52wk Low	*$17.25*



Benchmark: iShares US Industrials (IYJ) measured in CAD

Conrad Industries, one of our legacy holdings, returned 126% in 2013, beating the benchmark by 76%. The shipbuilder has also paid a special dividend of $2.00 in December and became DCM's first ever "three bagger" as its share price reached $36.60.

Our original investment thesis was based on Conrad's attractive valuation due to the BP oil spill in the Gulf, its attractive backlog, the company's good use of its strong balance sheet to invest in capital expenditures with the goal of improving margins and remaining the best small to medium shipbuilder in the industry, and that returning cash to investors would be prioritized given the Conrad family's 47% stake in the business.

Conrad was able to increase its backlog to $185M for the first three quarters of 2013, slightly beating its 2012 performance by $3M. Amid a 0.7% drop in the construction segment's margins due to the mix of jobs, the important capital expenditures made in the last years seem to be contributing to a higher-margin conversion and repair segment which has seen its margins increase from 13.9% to 18.7% during Q3. Better pricing, combined with a favourable revenue mix, should bring EPS growth for 2013 up into the 25% range.

Going into 2014, the main driver for stock price appreciation should be expanding margins as past investments are continuing to pay off and the higher-margin repair and conversion segment grows. The market will likely react positively if the company were to change its dividend policy by making this December's $2.00 special dividend an annual event, bringing the dividend yield up to 5.5%. Such a change could be expected, as the shipbuilder should end the year with $48M in cash, representing about 25% of the company's market capitalization. Longer-term, as Conrad's new state-of-the art Deepwater facility becomes operational, revenues should increase without negatively impacting margins, effectively solidifying its competitive advantage. A mitigant remains a decrease in oil exploration in the Mexican Gulf as the Brent-WTI spread tightens, especially if proposed pipeline projects were to come online in the next years.

Sector Performance and Outlook

The materials sector outperformed the benchmark overall in 2013, experiencing a return of 4.3% and an outperformance of 12.9% compared with DCM's blended benchmark. This lackluster performance in the stock market tracked closely falling commodity prices throughout 2013.

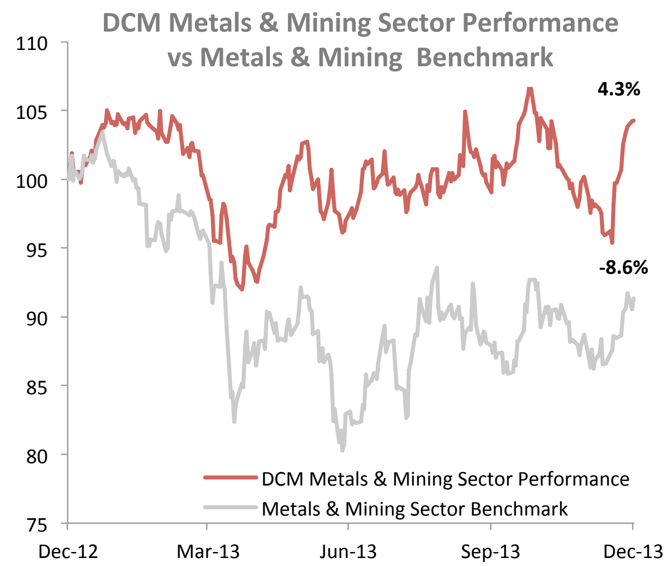
2013 was undoubtedly one of the most bearish and volatile materials markets, and much like the restructuring occurring at the world's major mining firms, the Desautels Capital Management Materials team took the increasingly bearish markets as an opportunity to restructure and reposition itself for the upcoming recovery in the mining cycle. Below we discuss a few of the major components of the materials markets, noting major trends and performance in 2013 as well as our fund's outlook for these factors in 2014.

Fueled by the ever increasing metals prices of the early 2000s, the years leading up to 2012 were characterized by some of the most ambitious M&A decisions in the mining sector in recent history. Mining majors like Barrick, Rio Tinto, and Newcrest set the tone for the entire industry: growth at all cost. It was a time of inflated Feasibility Study economics, overzealous investors, and ultimately expansion for the sake of expansion. However, due to steady increases in production costs and major decreases in some commodity prices, this 'party' attitude and hugely bullish market began to crash in 2012 and continued to trend downwards in 2013. Sentiment dropped and investors panicked, as those same big names that had been buying countless mines the year before were recording billions of dollars' worth of asset write-downs on their recent acquisitions.

Thus, 2013 was characterized by a polar shift in growth strategy, from expansion at all costs to severe focus on core, producing assets and the bottom line. Majors were forced to identify their most important assets and focus on reducing costs and increasing efficiencies at these principal mines, while divesting their smaller, non-core assets to mid-market mining firms. Meanwhile, the junior miners were left out to dry, since investors withdrew funds from a perceived risky industry, and miners continue to struggle to find financing for both exploration and development projects.

Outlook for 2014

As a result, M&A activity in 2013 reached markedly low levels, the lowest it's been in almost three or four years and currently has investors wondering when the trough will arrive. We note a particular polarization in the market, some prophesising a turnaround as soon as 2014 while others believe that this mining cycle will take much longer to recover than previous ones, with another two to three years of bearish sentiment. Our team is more supportive of the latter opinion, as we do not believe that a significant upturn is likely to happen in 2014. Instead, we see continued uncertainty with respect to commodities prices and thus continuing focus on firms' own balance sheets and assets. The little M&A that does surface, we



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

believe, will come from those mid-market players with strong cash balances, tight operational efficiencies, and technically sound (and profitable) mineral reserves, as they take this unique opportunity to buy out quality assets at discounted valuations.

On the topic of commodities, copper and base metals experienced weakening demand from China, the world's largest consumer of industrial metals like copper, accompanied by an overall oversupply of metals in the market. Thus, both current and futures prices fell and copper miners' profits were hit, as they operated with surplus capacity and a weak pricing environment. This trend continued through most of 2013, but copper prices unexpectedly gained 4% in December, as Chinese imports of the metal increased despite lower growth and export levels in the country copper prices gained 4% in December. Despite this favorable price trend, we believe there is still too much uncertainty on the horizon to make any concentrated bets on copper or any other base metal that relies so heavily on Chinese demand. We will thus continue to monitor the information and data coming out of the emerging markets, with a focus on identifying organic industrialization and development of urban "grids", not just the government's artificial project creation, to fuel any big copper investment decisions.

Gold, on the other hand, may provide the opportunities we are searching for. Typically viewed by investors as a safe haven during times of economic uncertainty, gold was one of the hardest-hit commodities in 2013 with prices plunging 28%. From signs of U.S. economic revival, a strengthening U.S. dollar, and fears of the central bank's selling gold, we began to see a dip in gold prices in Q1/13. This was promptly accompanied by further drops amid the Cyprus bailout, an outflow from gold ETFs and liquidations by macro hedge funds. June saw gold prices fall below US$1,300/oz, already down 23% in Q2/13, amid talks of tapering and low lingering inflation. Thus, as gold plummeted throughout 2013, so did gold producers and their

Note: All DCM's performance figures are reported in CAD

stock prices, some dropping over 50% until finally, on December 20th 2013, the commodity stopped its price freefall and even gained 1% by December 31st.

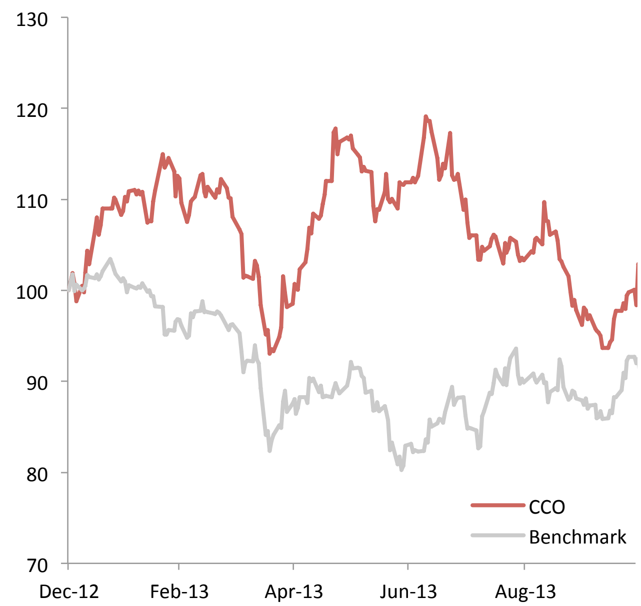
Entering 2014, we will consider entering the gold space by evaluating those major gold producers who continue to work towards earnings growth through tightening operational efficiencies and who are already showing increasing margins as a result of actions taken in 2013. We believe that these firms who are able to achieve significant earnings growth even in times of commodity price uncertainty stand to gain the most if the gold price recovery does materialize. These companies would also avoid significant losses in unfavorable pricing environments.

In terms of our stock holdings, the DCM Materials sector underwent major transformation and restructuring in 2013. We started the year with investments in uranium and forestry (Cameco and Mercer), and ended it with a shift to diversified metals in Lundin Mining. In this section, we will briefly describe each of these holdings, the investment rationale behind them (including how it has changed over time), and finally, how the investments performed in 2013.

Selected Metals & Mining Sector Holdings

Cameco

Market Summary	
Price (Dec 31, 2013)	*$22.04*
Market Cap. ($M)	*$8,716*
Enterprise Value ($M)	*$9,830*
P/E	*31.3x*
Dividend Yield	*1.8%*
52wk High	*$23.49*
52wk Low	*$17.89*



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

Cameco returned 0.1% during the time we held it in 2013, outperforming the benchmark by 7.3%. It is one of the world's largest uranium producers, accounting for 14% of the world's production from its mines in Canada, the U.S. and Kazakhstan. Its operations and investments span the nuclear fuel cycle, from exploration to electricity generation. The investment thesis for initiating our investment in Cameco was based on strong industry fundamentals, Cameco's solid business model, and its growth opportunities.

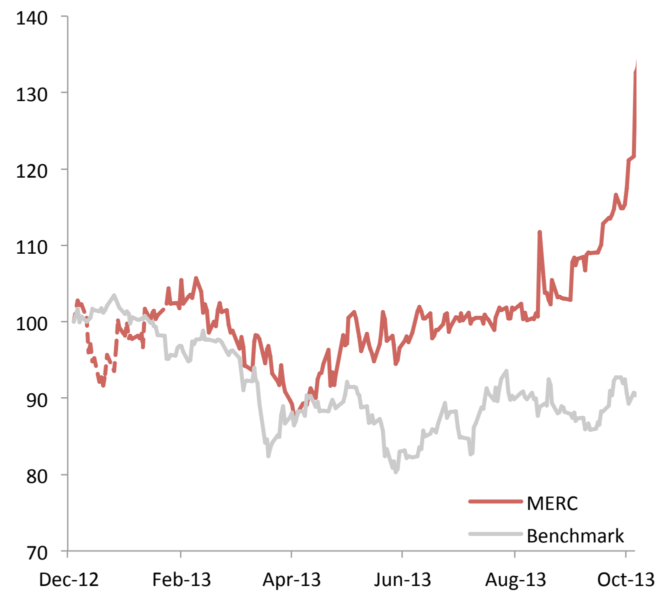
Firstly, the existing uranium supply-demand gap was expected to widen with increasing demand for nuclear energy (and thus, uranium) and simultaneous decreasing secondary supplies as a result of the expiration of the HEU agreement at year-end 2013, putting upward pressure on uranium prices in the long term. In terms of Cameco's business model, it has less exposure to spot uranium prices than junior miners and its relationships and contracts with utilities ensure demand. It also owns several of the world's highest-grade deposits and it adds value through vertical integration.

With these fundamentals in place, we believed sentiment around nuclear energy and uranium was overly depressed as a result of the Fukushima disaster of 2011. We believed that the restarting of nuclear plants in Japan, rumored to occur in 2013 and 2014, would be the start of a turnaround for uranium and nuclear energy around the world. However, despite action in July 2013 as four utilities firms applied to restart twelve reactors, we began to realize a higher level of uncertainty regarding how long this application process would take and when the potential restart would occur. In addition to this uncertainty, we were faced with news in September of an ongoing tax dispute between Cameco and the Canada Revenue Agency resurfacing in the press. To put it briefly, we discovered that if Cameco loses the trial against the CRA, they could owe up to $850 million, which accounts for about 35% of their annual revenue or 11% of their market cap. The case will go to trial next fall with a court decision expected in 2015, and while it is admittedly difficult to estimate the probability of Cameco losing this case, we realized that this potentially massive loss could offset any of the pricing gains we were counting on in the initial investment thesis, which are themselves very uncertain due to a delay in the restarting of nuclear plants in Japan.

Therefore, we decided that the short term uncertainty in the stock would not match our long term views on uranium pricing, and sold our position in Cameco in October 2013.

Mercer International

Market Summary	
Price (Dec 31, 2013)	*$9.97*
Market Cap. ($M)	*$555*
Enterprise Value ($M)	*$1,407*
P/E	*n/a*
Dividend Yield	*0.0%*
52wk High	*$10.55*
52wk Low	*$5.87*



*Holding period represented by solid line

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

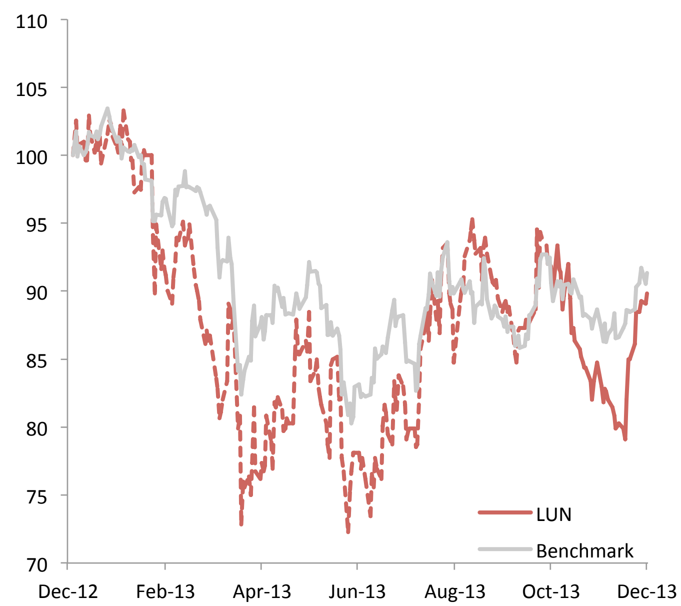
Mercer International (MERC) is a producer of non-bleached softwood kraft (NBSK) pulp, with three main plants located in Germany and British Columbia, Canada. By virtue of its pulp production process, Mercer's plants are also net energy producers, and the firm exports this energy to the communities and governments where its plants are located.

We had initially issued a buy recommendation for Mercer in December 2012 and initiated a position in the stock in early February 2013 at $7.15 per share. At the time, we believed in a strong recovery in softwood pulp prices throughout 2013, lead by an increasing demand in China and other industrializing countries for specialty and tissue papers (a leading softwood pulp product). We further believed that if Mercer were to shift more of its focus to growing its revenues as an energy exporter, it could diversify its earnings and capitalize on a forecasted high growth rate within that alternative energy space. By October 2013, however, these factors were not materializing at the rate we had expected. Although a steady pulp pricing recovery was occurring, we did not see a similar rise in Mercer's stock price. And although we believed in the firm's operational capabilities and management's goal to shift focus to the energy exporting side of the business, by the time Q2 earnings were announced, the firm had already experienced a longer than anticipated plant maintenance shutdown and its revenue mix remained unchanged.

Therefore, we decided to exit the position prior to the announcement of Q3/13 earnings in October and thus realized a gain of 14%, outperforming the benchmark over the holding period by about 18.5%.

Lundin Mining

Market Summary	
Price (Dec 31, 2013)	*$4.60*
DCM 2014 year-end target price	*$5.40*
Market Cap. ($M)	*$2,688*
Enterprise Value ($M)	*$2,762*
P/E	*37.5x*
Dividend Yield	*0.0%*
52wk High	*$5.37*
52wk Low	*$0.00*



*Holding period represented by solid line
Benchmark: 40% SPDR S&P Metals & Mining ETF (XME) measured in CAD, 60% iShares S&P/TSX Capped Materials Index (XMA.TO)

The Metals and Mining sector began a restructuring process in late 2013, which began by selling our holdings in Cameco and Mercer, and by initiating a position in Lundin Mining (LUN), a diversified mid-tier base metals mining company that engages in exploration, development, and mining in Portugal, Sweden, Spain, and Ireland. It is the 2nd and 3rd largest Zinc and Copper producer respectively on the TSX, and has been a prominent mid-tier player for decades.

As discussed in the first section of this report about merger and acquisition activity in the mining industry, our investment thesis for Lundin is based on the firm's superior positioning, which will allow it to buy quality brownfield projects at cheap valuations. Our belief that Lundin will be able to realize these opportunities stems from the company's healthy cash balance, balance sheet, and ongoing operations, as well as its proven success in acquiring the "right" projects and efficiently operating them.

A major part of our investment thesis is based on our view that the mining industry will be approaching a trough in the pricing cycle within the next couple years, as investors continue to shy away from the sector and senior miners continue to focus on their bottom lines, in part by curtailing capital spending and divesting non-core assets. As more of these senior miners' quality assets make it to market and junior miners continue to struggle financing projects on their own, we will see an ideal buyers market for the mid-level miners where cash is king. Lundin has already picked up one of these assets in the summer of 2013 from Barrick Gold (the Eagle Property), but with a very strong cash position and a low leverage ratio, we know that it has the capacity to acquire more such mining projects.

We also have strong conviction in the management team's ability to pick the right projects – those that are technically sound and will generate significant profit – since it not only demonstrated restraint by not participating in the shopping spree of 2011, but it also has a track record of success when it comes to the mines they purchased between 2005-2007 and the quality of earnings delivered thereafter. Lundin continually delivers exactly what is promised at its mines, even beating expectations at times, with none of the marketing and technical report tricks some other miners have historically employed in bull markets.

In short, we believe that Lundin is one of the gems of the mid-tier miners, whose current operations will continue to deliver, especially with its Eagle Mine ready to produce in 2014. We believe that the firm is poised for acquisition in 2014 and 2015, which would not only improve its positioning in the current bear markets, but could also lead to a multiple expansion during the eventual recovery.

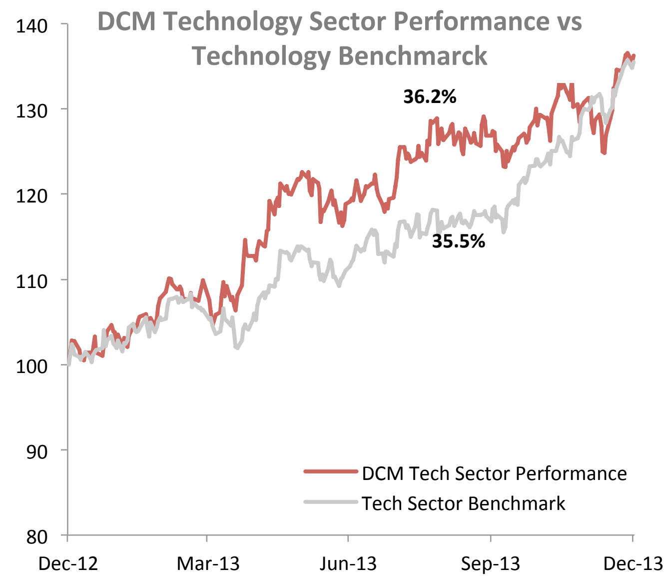
Lundin was purchased at $4.85/share, and experienced an overall loss of 3.8% as of December 31, 2013, underperforming the benchmark by 2.4%; however, we have already started to see a recovery in the price entering 2014, and we expect this to continue with a price target of $5.40.

Sector Performance and Outlook

In 2013, our benchmark returned 35.5%. Our team performed in line with the benchmark returning 36.2%. Breaking down our performance through 2013, we held shares of Intel for the full year (gain of 40.2%), shares of Microsoft until March 22 (gain of 6.2%), rotating into an investment in Take Two Interactive for the remainder of the year (gain of 15.2%), and shares of Nvidia until November 8 (gain of 28.0%), rotating into an investment in Teradata for the remainder of the year (gain of 6.1%).

Throughout 2013, a number of tech companies operating in markets where analysts had predicted slowing innovation generated strong returns. In fact, 2013 was a great year for contrarian investing in the tech sector, where investing in less popular sub-sectors of the industry, such as PCs, actually yielded good results. Attractive returns were found in the dynamic RAM and hard disk drive spaces, where investors had anticipated a sharp drop in PC sales to materialize during the year. With tablets and smartphones being increasingly used as complements to PCs, rather than substitutes, a crash in PC sales was averted through the year. As a result, these sub sectors performed extremely well. Leading the pack, Micron Technology returned 240% in 2013, aided by the closing of the acquisition of Japanese rival Elpida. Shares of Western Digital and Seagate, which control 85% of the hard disk drive industry, rallied 101% and 89%, respectively.

That being said, there was no shortage of sexy growth plays in the sector, as we'd expect from the universe of technology companies. One important theme that we observed was in social media, and the monetization of these companies' mobile users. Successful campaigns on this front by the likes of Facebook and Google, for example, led to stock appreciation. At the start of the year, investors had concerns that social media and internet firms would have trouble advertising on smaller mobile device screens but as 2013 progressed, Facebook made leaps and bounds with 49% of Q3 2013 revenue coming from mobile, versus only 18% in Q3 2012. This result spurred Facebook to a 105% gain in 2013. Google also delivered strong progress in mobile advertising in 2013, rolling out its "Enhanced Campaign" platform, which bundles together desktop and mobile advertising slots. With the number of paid clicks up 26% YoY in Q3 2013, investors are increasingly confident that Google will be able to smoothly transition to mobile advertising. Google stock was up 58% in 2013. In addition, Twitter held its IPO in November 2013, with shares trading up 73% during the first day. The stock is up 145% from the IPO price to the close on December 31, 2013 giving the firm a $35 billion valuation. As worldwide smartphone adoption continues to increase, with nearly 1 billion units estimated to have been sold in 2013, versus 315 million PC sales, consumers are spending a greater proportion of time on mobile devices. The strong performance in shares of social media and internet firms largely reflects investors accepting that mobile monetization is not only possible, but already bringing cash in the door for innovative firms.



Benchmark: iShares US Technology (IYW) measured in CAD

Outlook for 2014

As we look towards 2014, we are faced with an investing environment where many great opportunities have already been realized. As a result, we will continue to rely on a disciplined investment approach to find firms whose future results are being overly discounted by the investment community, and not simply extrapolate recent performance into the future. As investors lessen their expectations on further declines in PC sales, we are beginning to see less bearish sentiment in the sector. As a result, there are fewer investment opportunities to be had playing a recovery in PCs. However, we still feel confident that there is room left to run in the PC space and that our investment in Intel will continue to benefit from these developments. In terms of smartphones, our team is of the view that as technology progresses, the hardware itself will become greatly commoditized, creating a difficult environment for consumer electronic companies who seek to sell devices at significant premiums. As incremental versions of smartphones are released, it is unlikely there will be significant innovation outside of slight performance increases in screen resolution, camera quality, and processor power. With the majority of smartphones already boasting specifications which the mainstream consumer is more than content with, prices of phones will fall as a result of cheaper competitors entering the market, namely Huawei, Lenovo, and LG.

To contrast with the above discussion, we feel that, as stock pickers, there are still numerous opportunities available in the technology space to investors with a discerning eye. As our world grows and becomes increasingly interconnected, the data being produced from human-to-human, human-to-machine, and even machine-to-machine communication is exploding in quantity. Agile and analytical corporations are able to take advantage of the proliferation of data to determine trends, identify patterns, and craft real time decision-making. For example, data is enhancing our capabilities to identify

Note: All DCM's performance figures are reported in CAD

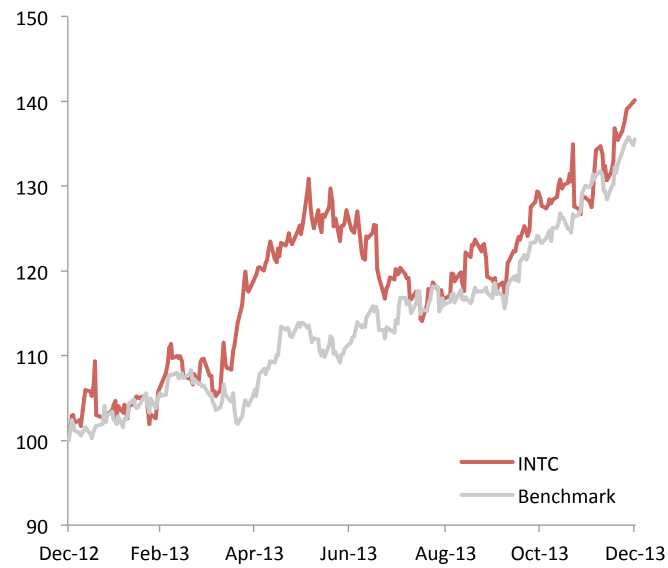
credit card fraud, deliver customized sales offers to online shoppers, and even to predict the spread of diseases. The most recent investment for our technology sector was the purchase of shares of Teradata, a firm providing data warehousing products. The goal of a data warehouse is to gather data from underlying databases and aggregate the information into a useable, searchable, and consistent structure, which can be queried to provide valuable insights.

On a positive note in terms of macro trends in the sector, we feel that 2014 could be a breakout year for the "Internet of Things". Recent years have brought a proliferation of networking technology such as Wifi, Bluetooth, and cellular, in addition to cheap computing being available through the progress of Moore's Law. As a result, we are heading towards an environment where all our devices, not just computers, smartphones, and tablets, can be connected. By placing sensor and computing technology within everyday devices such as healthcare equipment, power and utilities grids, traffic lights, and regular household appliances, we will be able to collect, share, and analyze data from all kinds of objects in our everyday life. The Internet of Things can be used to monitor the heart rate and blood sugar level of people in hospitals or seniors' homes, to identify kinks within a manufacturing process in a factory, or to inform you when you are out of eggs in your fridge. As we move towards an increasingly connected world, there will no doubt be attractive investments in telecom companies which facilitate machine-to-machine communication, software players which write code to collect and process the deluge of new information, and hardware players which will manufacture the physical sensors and microprocessors to advance the Internet of Things. As the year progresses, we will look to find underappreciated winners who play on this emerging trend.

Selected Technology Sector Holdings

Intel

Market Summary	
Price (Dec 31, 2013)	*$25.96*
DCM 2014 year-end target price	*$30.00*
Market Cap. ($M)	*$129,022*
Enterprise Value ($M)	*$123,506*
P/E	*17.8x*
Dividend Yield	*3.5%*
52wk High	*$26.04*
52wk Low	*$20.10*



Benchmark: iShares US Technology (IYW) measured in CAD

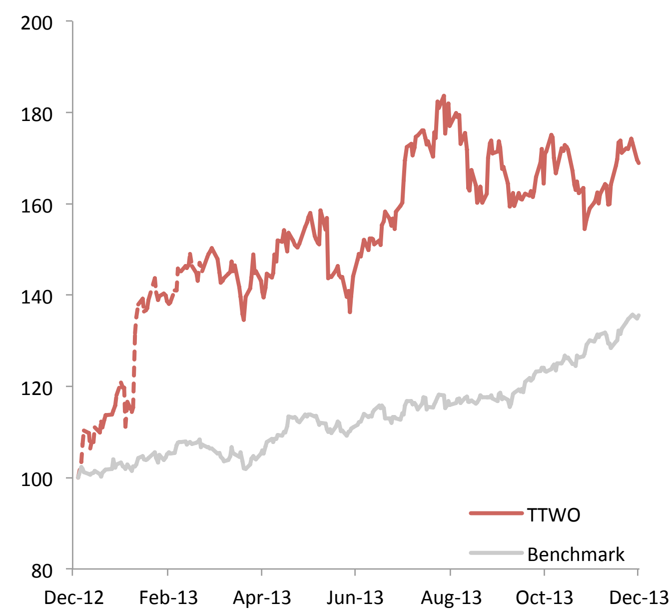
Despite grim PC sales, Intel Corporation's stock returned 40.2% in 2013. In 2012, the decline in PC shipments exceeded analyst expectations as demand slipped by 7%. This past year was no better, with PC sales falling 10%, and touching levels not seen since the market absorbed the macro effects of the financial crisis in 2008. The fact that Intel outperformed our benchmark by almost 5% points to the possibility that investors had priced in the lack of growth in PC sales, and were probably even overly pessimistic. In fact, at the beginning of the year, the IDC had predicted a 10.1% decline in PC sales for 2013, which was essentially in line with the actual outcome. This may be evidence that investors were pricing in more bearish scenarios than the major research firms, leading to Intel's gains during the year.

In addition to the slightly better than expected result in the PC market, investors grew more confident in Intel's progress in its mobile division. The Other Architecture Group, which houses the mobile division, reported strong gains in the third quarter and posted a 13.5% increase in revenues compared to the second quarter. Investor optimism in Intel's mobile future can be attributed to a new strategy outlined by incoming CEO Brian Krzanich, which saw the creation of the Mobile & Communications division, and significant contracts won by Intel's mobile unit, including the powering of Samsung's Galaxy Tab 3 Android tablet device. In addition, the company continues to be at the forefront of technological advancement as it manufactures faster and smaller chips. These developments position Intel extremely well to lead the next technological waves, including the rise of Android devices, wearable technology, and the introduction of never before seen Internet-connected devices.

Going forward into 2014 and beyond, we feel that the market is still underappreciating the role that PCs will play in the future, and the success that Intel will realize through its newest technological innovations. Intel has always been a company at the forefront of semiconductor innovation, with industry observers noting that Intel controls a technological advantage of at least 2 years in its manufacturing process, allowing smaller and more powerful chips to be produced before any other firm in the world. As Intel sets its sights on gaining ground in the mobile market, management is equally clear in pointing out that it is investing ahead of demand in the Internet of Things. Through the introduction of its Quark chip, which provides low power computing capability to be embedded in everyday items, it is clear that Intel plans to continue its dominance in computing innovation, whether that is through a PC, a tablet, a smartphone, or any of the objects we interact with on a daily basis.

Take Two Interactive

Market Summary	
Price (Dec 31, 2013)	*$17.37*
DCM 2014 year-end target price	*$21.00*
Market Cap. ($M)	*$1,687*
Enterprise Value ($M)	*$1,468*
P/E	*n/a*
Dividend Yield	*0.0%*
52wk High	*$19.25*
52wk Low	*$11.11*



*Holding period represented by solid line
Benchmark: iShares US Technology (IYW) measured in CAD

We initiated our position of 3,150 shares of TTWO on Mar 22nd, 2013 at $15.66. The stock price has gained 15.2% as of Dec 31st, 2013 against a 26.5 % return on the benchmark during the same period.

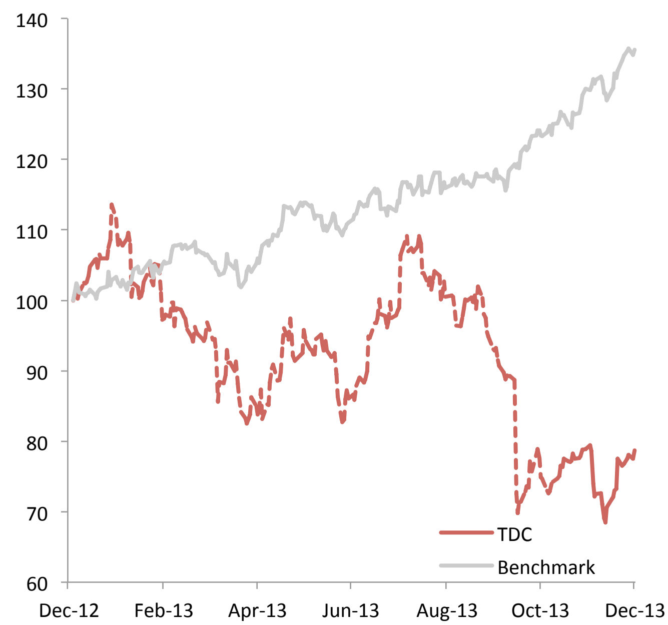
Our original investment was based on the firm's evolving business model where revenues were becoming increasingly diversified through the release of a handful of multi million unit games, and from the near term catalysts of Grand theft Auto 5 (GTA 5) and the new video gaming console releases – namely PlayStation 4 and XBOX One – which we felt would spur renewed interest in the sector.

With the release of GTA 5 in September, results blew past analyst expectations, and even our own, with sales of 29 million units in the first six weeks. With retail sales of $1 billion in only three days, GTA V was the fastest video game, movie, or book, to ever reach this mark. Many analysts had predicted a number within the 14-18 million unit range, which was clearly far off the mark in hindsight. However, the market may have been anticipating low ball estimates from the sell side, with the stock price largely unchanged after these results were announced. In addition, Take Two announced in November that it had repurchased Carl Icahn's 11% stake in the firm for over $200M, financed through the internal cash generated from the blockbuster GTA sales. While the mechanics of the transaction result in a lower share count, and an avoidance of value destroying actions such as an ill heeded acquisition following a large cash windfall, the exit of a seasoned investor such as Carl Icahn was troubling to many investors, and the stock traded down 5% upon announcement. It is important to note that Icahn exited the investment with an 81% gain, opening the possibility that he was simply taking profits off the table. In any case, we remain wary of adverse changes in the business after the exit of Icahn.

We feel that the market is underappreciating Take Two's diversifying business model. With the dust settling from the GTA launch, and the sequel most likely 4-5 years away, it would be imprudent to write off the company over the next few years. Management has indicated that there are 10 titles in the pipeline for the next generation consoles, and that there will be multiple new releases during the next fiscal year. During the first few months of calendar year 2014, we expect to have further visibility on which titles will be released next. Over the past 5 years, management of Take Two has built a complete roster of games, filling a void for a company which truly was a one hit wonder before this. This time period saw the creation of popular franchises such as Red Dead Redemption, Bioshock, and Borderlands. Together, these franchises are creating positive cash flow in non-GTA years. During the most recent earnings call in October, CEO Strauss Zelnick told analysts that Take Two would be profitable on an annual basis during the next fiscal year, and in every foreseeable fiscal year after that. This is a strong statement that has never been made by top management of the firm, and reflects a commitment to building numerous franchises that can sustain the business. As a result, we are confident in holding shares of Take Two as this evolving business model plays out.

Teradata Corporation

Market Summary	
Price (Dec 31, 2013)	*$45.49*
DCM 2014 year-end target price	*$60.00*
Market Cap. ($M)	*$7,433*
Enterprise Value ($M)	*$6,826*
P/E	*24.3x*
Dividend Yield	*0.0%*
52wk High	*$69.65*
52wk Low	*$39.16*



*Holding period represented by solid line
Benchmark: iShares US Technology (IYW) measured in CAD

Our most recent investment in the technology sector was in Teradata Corporation, a market leader in data warehousing, big data analytics, and integrated marketing. On November 8th, 2013, we initiated a position at a purchase price of $43.40, which has returned 6.1% since inception to December 31st, 2013.

Our initial investment thesis rested on two main pillars. First, we saw a secular growth story in the data warehousing and analytics industry. We firmly believe Teradata is strongly positioned to benefit from a continued trend, whereby companies are attempting to extract as much information from their data in order to make better-informed business decisions. In the words of CEO Mike Koehler, "these are three (data warehousing, big data analytics, and integrated marketing) strategic and growing markets that will remain high priorities for companies around the world for the next several years".

Secondly, we are attracted by TDC's recurring and high margin business model. Its clients are spread across virtually all industries, as their value proposition is relevant and critical in all fields of business. Adding to this, the penetration rates across these industries are staggering, with 95% of telecommunication firms in the Global Fortune 500 as clients, and very high penetration rates across other verticals. Since a data warehouse is an essential component of a firm's technological infrastructure, we are confident that the high switching costs and customer "stickiness" to Teradata's offerings effectively shield it from competitive threats.

On October 14th, management lowered its guidance for Q3 2013, citing dropping demand in Asia, Middle East, and Africa. With the purchase of data warehousing technology representing a low single digit million-dollar purchase for large corporations, the decision to go ahead with a project is no small matter. Management of Teradata has seen a reluctance to purchase new technology and upgrade existing warehouses as a result of macroeconomic uncertainty around the globe. The stock plunged 16.5% in reaction to the lowering of the earnings guidance. Following this drop, we believe that this presented a very attractive entry point to buy a solid company with an appropriate margin of safety. Looking into the future, we expect to see a pick-up in upgrades to existing warehouses, as approximately half of Teradata's clients are relying on older versions. As the capabilities of older data warehouses are stretched from the influx of new data, and more complex queries from business analysts, we feel that companies will need to spend on upgrading their warehousing technologies.

The market appears to be wary of new entrants such as Hadoop and Redshift which could aggressively compete on price. We believe these fears are, by and large, exaggerated. TDC's recognized performance and security should dwarf, at least in the near term, unproven technological solutions.

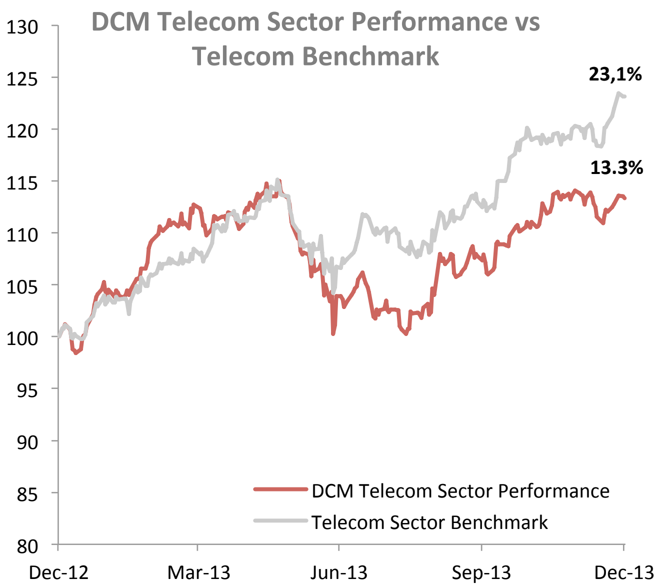
Sector Overview and Outlook

In 2013, the S&P Global Telecommunications Index returned 21.8%. The index itself is highly concentrated, with only 34 components, reflecting the consolidated nature of the telecommunications industry. The index's performance benefitted from a 60.2% gain on shares of Vodafone Group, which also represents 14.9% of the index, making it the largest component. Investors in Vodafone were rewarded through a deal where a 45% stake in Verizon Wireless was sold back to Verizon, providing Vodafone with a $130B mix of cash and stock to pay down debt and fund further capital expenditures. Another breakout performance in 2013 came from shares of Softbank, which gained 193.0% throughout the year. In July, Softbank completed the $21.6B acquisition of Sprint Corporation, allowing the Japanese firm to enter the U.S. market, and leverage increased buying power in phones and networking equipment to drive down costs. Investors are also confident that Softbank will be able to infuse significant capital into Sprint, allowing for more aggressive bids during spectrum auctions and a faster rollout of LTE networks, effectively letting Sprint gain ground in wireless subscribers against AT&T and Verizon. DCM's telecom sector underperformed against the benchmark, returning 13.4% during 2013. With BCE being the only holding within the telecom sector, our fund was explicitly betting on the Canadian telecom market. As a result, part of the underperformance came from our geographic allocation, with U.S. equity markets significantly outperforming those in Canada in 2013.

Outlook for 2014

Looking into the future, we are still confident that the Canadian telecom market is attractive relative to that of the U.S. In Canada, device penetration is considerably lower than that of the U.S., where there are 1.04 phones in use per capita, while Canada has 0.74 mobile phones in use per capita. In addition, Comscore estimates that 62% of Canadian mobile phone users are using smartphones, while only 50% of U.S. subscribers are using smartphones. As a result, the Canadian market is composed of higher value customers, and seems relatively underpenetrated when compared to the US market.

In addition, competition in the Canadian telecom space is relatively low, with the strength of BCE, Rogers, and Telus creating an oligopoly within the market. The new mobile entrants largely failed in 2013, with Public Mobile, Mobilicity, and Wind Mobile unable to mount significant pressures against the big three wireless incumbents. In June, two private equity firms acquired Public Mobile as it struggled to gain a critical mass of subscribers and create positive cash flow. Surprisingly, in October, Telus announced an acquisition of Public Mobile and its 280,000 subscribers, which was later approved by the Competition Bureau and Industry Canada. Mobilicity also put itself up for sale in 2013, with Telus making a $380 million bid for the carrier. However, the Canadian government blocked the deal. Mobilicity continues to look for a buyer, with reports that Wind has made another offer for the firm at about half of the amount that Telus had offered. Wind Mobile itself was the center of acquisition talks during the summer of 2013, with Verizon reported to be considering an acquisition in order to enter the Canadian wireless market. In August, Verizon dismissed any plans of acquiring Wind in 2013, and instead opted to purchase Vodafone's 45% in the Verizon Wireless business.



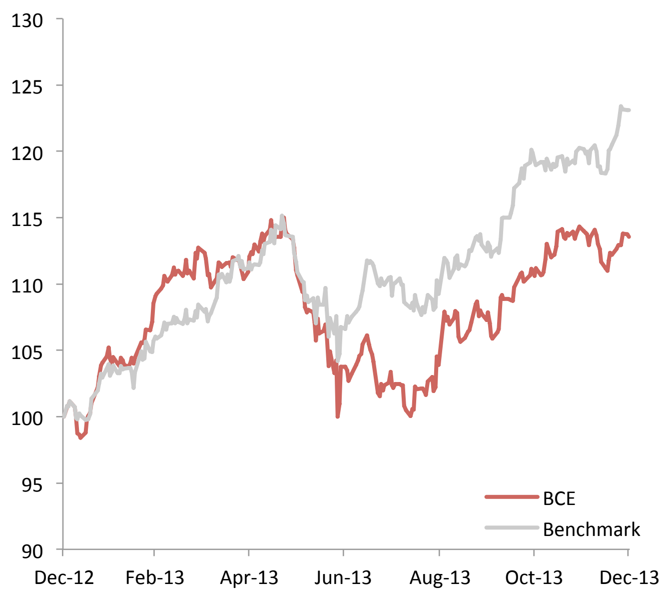
Benchmark: 40% iShares US Telecommunications (IYZ) measured in CAD, 60% Canadian Telecom Index

Note: All DCM's performance figures are reported in CAD

Selected Telecom Sector Holding

BCE

Market Summary	
Price (Dec 31, 2013)	*$46.00*
DCM 2014 year-end target price	*$52.00*
Market Cap. ($M)	*$35,691*
Enterprise Value ($M)	*$58,920*
P/E	*16.8x*
Dividend Yield	*5.1%*
52wk High	*$48.90*
52wk Low	*$40.58*



Benchmark: 40% iShares US Telecommunications (IYZ) measured in CAD, 60% Canadian Telecom Index

In 2013, shares of BCE returned 13.3%. This compares to a 23.1% return on our benchmark.

BCE's sustainable revenues and management's commitment to cost cutting both point to a solid operating model, which serves to lower the overall risk of our portfolio against unforeseen macroeconomic headwinds. BCE has managed to improve its operating margin year over year in 2012 and 2013 and has also maintained a sizeable 5.1% dividend yield. In addition, BCE offers a more attractive investment opportunity over its closest competitors, namely; Rogers and Telus, as a result of BCE's consistent progress in the Canadian wireless market, and control of significant media assets. While BCE has managed to continually increase its average revenue per customer (ARPU) for the last 15 consecutive quarters, and deliver continued subscriber growth, Rogers has seen declines in both areas with ARPU declining roughly 2% in Q3 2013 over Q3 2012 and net postpaid subscriber additions coming in 16% lower than in 2012. Rogers also experienced negative growth in wireless revenue of 2% in Q3 2013.

BCE distinguishes itself from Telus by aggressively pursuing and acquiring valuable media assets, which going forward, will serve as a strategic advantage in the from of maintaining existing customers and attracting new consumers who place great value on this content. Bell has also been very effective in building out their IPTV service, which will serve as the distribution network for the Internet and TV content consumers demand.

The telecommunications industry in Canada as a whole benefitted from Verizon's move to buy back Vodafone's share of the firm, signalling an end to the speculation of American entry in the near future. In 2013, BCE also completed its purchase of Astral Media, further bolstering its stake in content producing entities. BCE's new Fibe TV service, which represents the future of the firm's TV and Internet services, realized significant market traction in 2013 as their subscriber base grew to 420,000 in Q3 2013, representing a 110% increase over Q3 2012.

BCE remains a well-positioned firm with strong fundamentals. BCE's services are poised to take advantage of Canada's changing media consumption preferences as their Wireless platform and TV and Internet offerings continue to improve and evolve with technological changes.

Sector Performance and Outlook

Despite lackluster GDP growth and tepid (though steady) improvements in employment, the Consumer Discretionary sector benchmark boasted an impressive return of 47.9% in 2013 (currency-adjusted). The year saw U.S. consumers face negative implications from the largely controversial payroll tax increases, the $85 billion sequestration of U.S. Government spending, as well as the two week government shutdown in October. Though these headwinds impacted consumer & business confidence, the U.S. consumer proved its resilience through increased spending, largely on durable goods. This underlines the power of growing household wealth, driven by housing and portfolio gains and supported by steady consumer deleveraging since 2008. Finally, corporate M&A activity within the consumer discretionary space offered interesting cross-border transactions for 2013, highlighting the pursuit of strategic opportunities, as firms put their record cash balances to work. Most notably, this summer brought about the strategic acquisition of Saks Fifth Avenue to HBC for US$ 2.9 billion in an all-cash transaction, with Ontario Teachers' Pension Plan backing the deal through a US$500M equity investment. Similarly, Neiman-Marcus was sold to CPPIB and Ares Management for US$6 billion as the financial sponsors purchased the American luxury retailer from Warburg Pincus, who had taken the company private in 2005.

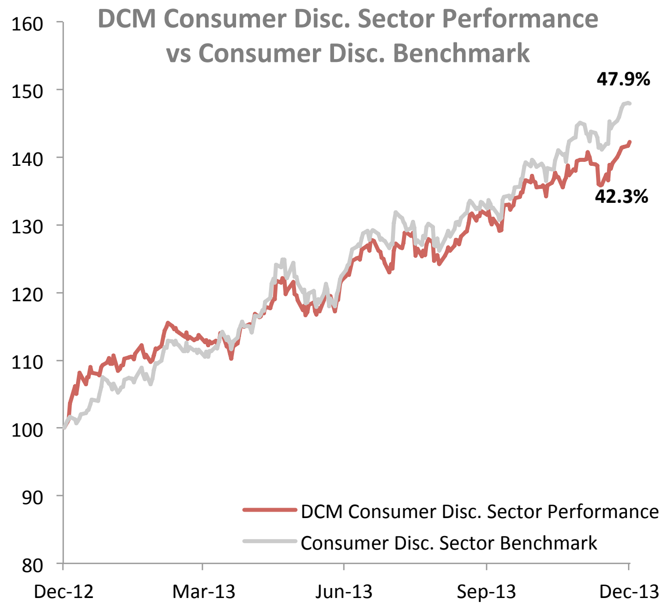
The DCM Consumers team returned 42.3% in 2013, representing an underperformance of 5.6% versus the benchmark.

Outlook for 2014

For our 2014 sector outlook, we see continued increases in U.S. household wealth, coupled with historically low consumer leverage translating into increased consumer spending, particularly on durable goods. As a result, we see particular interest in the Household Durables sub-sector, including home furnishing, household appliances and housewares. Moreover, we see this theme being driven by the U.S. housing recovery, and historically low U.S. household debt and disposable personal income levels.

The housing market continues to recover, despite a significant rise in mortgage rates, which we believe underlines the resilience and sustainability of the housing recovery. Solid demand for mortgages and easier lending standards were also reported for consumers, confirming our positive view on the housing market. Looking at pent up demand and the affordability of homes seems to point towards a bullish view as well. Though housing revenues during the year were lower than expected, we note that the housing recovery's ability to still generate meaningful growth following a significant increase in mortgage rates is indicative of the recovery's resilience, and bodes very well for its future momentum.

U.S. household debt as a percentage of disposable personal income levels remains at a low of 92%, compared to a high of 114% in March



Benchmark: iShares Globl Consumer Discretionary (RXI) measured in CAD

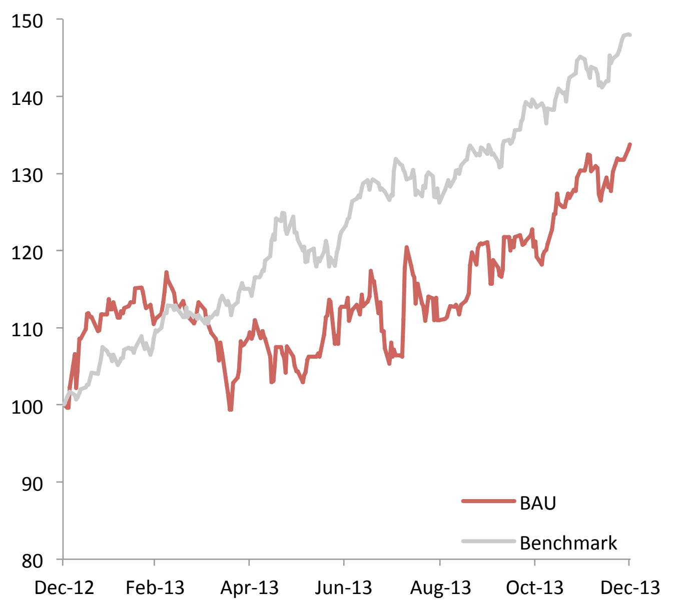
of 2009, speaking to the significant household deleveraging experienced since 2008. Moreover, when compared to a historical 10 year average of 104%, we believe that the improving economic landscape will result in favorable consumer spending. We believe this will provide households with the ability to spend an increased amount of disposable income. Additionally, in the face of historically low household leverage, we believe consumers might experience a propensity to finance deferred investments in durable goods, including aging household appliances and furniture.

Though we are bullish on the fundamental nature of the sector's continued outperformance in 2014, certain headwinds still remain. We are cautious of tepid unemployment numbers and critical of declining participation rates and an unequal distribution of gains in household wealth throughout the recovery. It is our opinion that the effects of the recovery have been skewed and have left a number of U.S. Consumers becoming more cost-conscious and value-seeking. This presents an opportunity in catering to the differing consumer environments. This past fall we've expressed our view of the growing value-conscious population by initiating a position in The TJX Companies. For 2014, we see numerous opportunities in the space, and will focus particularly on those coinciding with durable goods and the housing recovery, driven by the benefactors of the recovery thus far.

Note: All DCM's performance figures are reported in CAD

Bauer Performance Sports

Market Summary	
Price (Dec 31, 2013)	$14.17
DCM 2014 year-end target price	$15.25
Market Cap. ($M)	$596
Enterprise Value ($M)	$803
P/E	15.9x
Dividend Yield	0.0%
52wk High	$14.49
52wk Low	$10.43



Benchmark: iShares Globl Consumer Discretionary (RXI) measured in CAD

Over the twelve months starting January 1st, 2013, Bauer Performance Sports has appreciated by 33.8%, resulting in a 14.1% underperformance versus our benchmark.

Our initial interest in Bauer stemmed from our view that it was being undervalued by the market due to concerns about the falling global hockey participation rates and illiquidity. In recent years, global hockey participation growth rates have fallen to 1–2% a year, which could be seen as an indication of limited growth opportunities for Bauer, as the majority of its revenues are derived from the sale of ice hockey equipment. However, upon closer inspection, hockey participation rates in North America have in fact been growing by 5% annually over the past 5 years. As 75% of Bauer's sales are derived from the North American market, we believed that Bauer was in an excellent position to capitalize on this growth and continue to drive overall sales, contrary to the market's opinion. In addition, we believed the market was also neglecting the presence of several other growth opportunities, mainly in the Lacrosse and Apparel segments. We believed that Lacrosse represented a very attractive market as it was growing at 10% annually in North America, and Bauer was able to capitalize on this trend by acquiring a Lacrosse company named Maverick in 2010. We also saw an opportunity for Bauer to continue growing its high margin apparel lines by entering the team apparel and licensed apparel segments, which would drive both its top and bottom lines. At the time of purchase, 65% of Bauer's shares were owned by private equity firm Kohlberg and Company. As a result, there was very limited float for the stock, which was causing it to trade at a discount due to illiquidity. We saw this as a very attractive opportunity to buy into the stock, as we believed that it would appreciate as Kohlberg gradually exited its position. This belief came to fruition over the past year, as Kohlberg undertook two separate secondary offerings in an effort to trim its position in Bauer to approximately 12.1%. In the days following the completion of the secondary offerings, Bauer's shares appreciated slightly more than 3% each time.

As a result of these factors, in March 2012, just before our purchase, Bauer was trading at a significant discount to peers, with a Forward EV/EBITDA of 7.4x compared to the average at 10.6x, and a Forward P/E of 9.5x compared to the average at 17.2x. In light of this, we saw Bauer as a very attractive investment opportunity, and were able to purchase at an average price of $9.83.

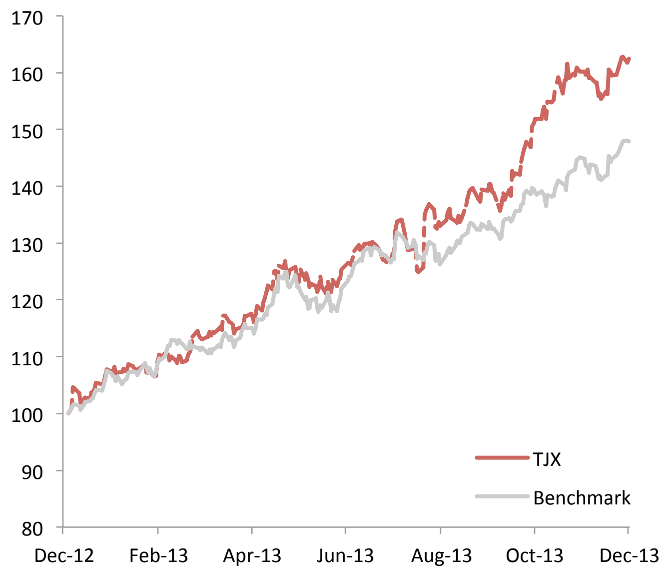
We continue to believe that Bauer's original investment thesis is still intact, though we recognize that the stock is approaching our target valuation. Bauer currently trades at a P/E of 14.6x FY2014E EPS and 12.9x FY2015E EPS, relative to peer averages of 21.2x and 17.5x. Our price target for Bauer is $15.25, derived from a blended analysis of a DCF valuation and comparable analysis, with more emphasis being placed on comparable analysis due to lack of earnings visibility.

Nevertheless, Management has communicated its intentions to focus on areas for future growth, firstly in hockey outside of North America. As well, with the success of the INARIA platform, Bauer is well positioned to bid for the upcoming 2017 NHL apparel license, which represents an opportunity for the Company to grow and develop the apparel portion of its business. Finally, the Company has reaffirmed its commitment to advance top-line growth through successful acquisition strategies that add to their multi-sport portfolio.

Given the growth opportunities outlined above, meaningful upside, and Bauer's strong brand recognition and increasingly diversified portfolio of products, we are comfortable holding Bauer into 2014.

The TJX Companies

Market Summary	
Price (Dec 31, 2013)	*$63.73*
DCM 2014 year-end target price	*$71.00*
Market Cap. ($M)	*$45,325*
Enterprise Value ($M)	*$44,337*
P/E	*22.2x*
Dividend Yield	*0.9%*
52wk High	*$64.09*
52wk Low	*$42.36*



*Holding period represented by solid line

Benchmark: iShares Globl Consumer Discretionary (RXI) measured in CAD

Since initiating our position in November, TJX has returned 2.7%, resulting in a 2.7% underperformance versus the consumer discretionary benchmark over the same holding period. Over this period, TJX traded relatively flat as the stock found support following its 62% return in 2013.

We believe the market is undervaluing TJX's growth potential, both organic and square footage expansion, as well as its future margin expansion across all segments, notably in TJX Europe. First, disciplined buying and inventory management will continue to drive the top and bottom lines. Disciplined inventory management, through increasingly selective buying, has resulted in higher inventory turnover. Consistently fresh inventory has furthered the "treasure hunt" experience, whereby consumers are incentivized to return frequently in light of the continual change in inventory assortment. This drives revenues and margins through increased traffic and fewer mark-downs. We believe the market is undervaluing management's ability to continue operating at peak margins, let alone its ability to see further margin expansion. Equally, their global buying organization and distribution network will serve as a platform for international expansion, as well as provide a significant barrier to entry. We believe the breadth and depth of TJX's buying organization and distribution network is not being fully valued by the market. Its global infrastructure will continue to serve as a unique platform for international expansion, while acting as a barrier for new entrants. Extensive network and disciplined procurement, driven by customer analytics, allows for superior merchandise, lean inventory and a foundation for expansion. Second, TJX Europe stands to gain from the benefits of lean inventory practices and significant square footage expansion. The implementation of these inventory practices in late 2012 has resulted in significant same store sales (SSS) and margin expansion. SSS topline growth is furthered by square footage expansion, both within current and new European markets, as market penetration is well below estimated saturation levels. We believe the market is not fully valuing the potential for European margins to converge to U.S. averages, nor the potential for significant topline growth. Lastly, HomeGoods, TJX's home furnishings and fixtures business, stands to gain from the U.S. housing recovery, which promises continued strength in SSS and significant room for square footage expansion. Margin expansion, due to lean inventory management, is expected to continue driving profitability. We believe the market is not fully valuing future SSS growth, or management's ability to successfully lead square footage expansion.

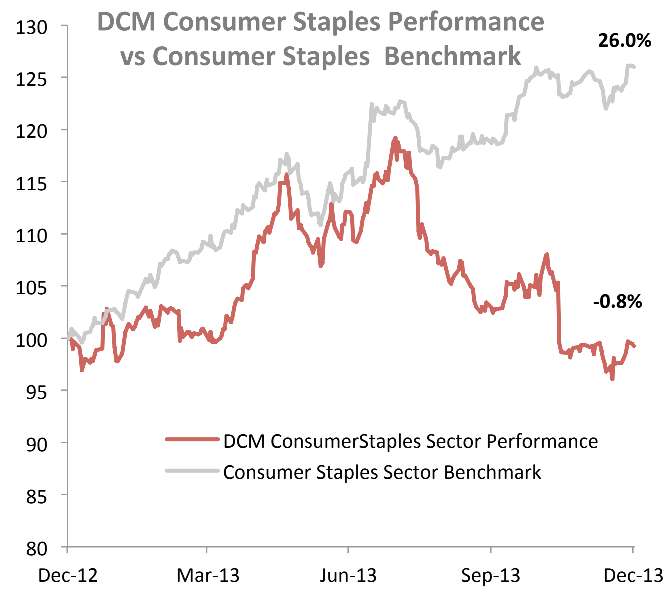
Q3 earnings results have further solidified our conviction in TJX, as we saw aspects of our investment thesis continue to be realized. We continue to be optimistic about TJX's growth prospects across all of its segments, both organically and in square footage expansion, as well as its ability to see margin expansion across all segments, notably in TJX Europe. A highlight from Q3 2013 earnings release outlined that Management's implementation of its U.S. lean inventory practices have positively impacted the shopping experience, driving topline growth, and bolstering a significant increase in margins as it converges to the U.S. average. (Net sales of $972.3M, up 15% YoY with 5% SSS; segment profit increased 130 basis points to 10.4%) These results confirmed our view of HomeGoods as a significant source of growth, both in future SSS and square footage expansion. We further reiterate that the segment will continue to benefit from lean inventory practices, bolstered by the U.S. housing recovery. (Net sales of $739.5M, up 16% YoY with 10% SSS; segment profit increased 110 basis points to 13.1%)

Catalysts to look for in 2014 lie in the continued discipline of inventory management, driving further operating margin expansion and contributing to SSS; successful execution of square footage expansion across business segments, particularly TJX Europe; convergence of TJX Europe operating margins to U.S. levels; and persistent strength in same store sales growth.

Sector Performance and Outlook

Over the past year, the Consumer Staples sector blended benchmark realized an annual return of 26.0%. As mentioned earlier, the consumer spending environment improved significantly in 2013, despite impediments to consumer confidence. As such, investors revisited a risk-on approach, focusing on the growth of the discretionary industries and moving away from defensive industries. During the year, the sector was dominated by industry consolidation in the food retail space, notably led by Loblaw's acquisition of Shopper's Drug Mart for $13 billion and Empire's acquisition of Safeway's Canadian assets for $5.8 billion. The collapse of agricultural commodity prices, specifically sugar and corn, drove margin expansion in food production and packaged food subsectors. The home and personal healthcare subsector, usually reliant on emerging markets for excess returns, experienced fettered growth as BRIC countries experienced an economic cool-down.

In 2013, our Consumer Staples allocation returned -0.8% versus the sector's blended benchmark return of 26.0%. This represents an underperformance of 26.8%. During the year, we only held one Consumer Staples stock – Metro Inc. (TSE: MRU). The drastic shift in Canadian grocer dynamics, especially after Q4 results were released, impaired the investment thesis, and drove the decision to liquidate Metro and purchase an ETF of the global consumer staples sector until a more suitable equity investment could be found. Although our performance was less than desirable, it is important to note that Metro was extremely volatile over the year. At its high, MRU had a YTD return of 19.3%, versus a benchmark return of 22.1%.



Benchmark: 40% iShares Global Consumer Staples (KXI) measured in CAD, 60% S&P/TSX Capped Consumer Staples Index Fund (XST)

Outlook for 2014

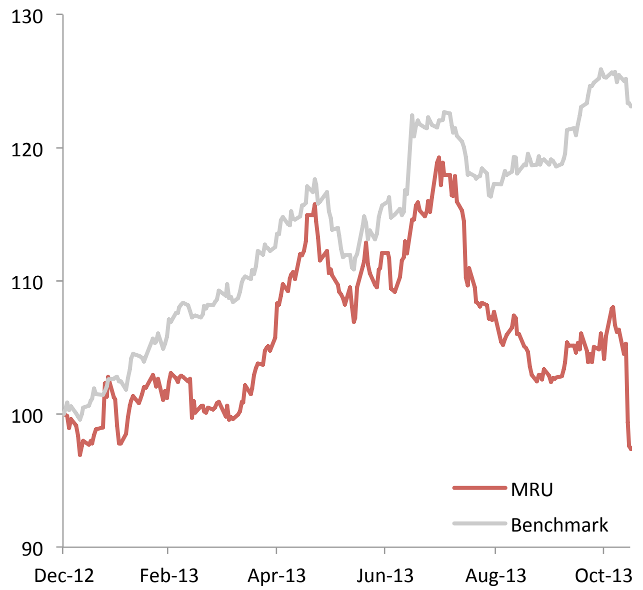
For our 2014 outlook, we anticipate that Consumer Staples will underperform the Consumer Discretionary sector. As mentioned earlier, we remain bullish on the economic recovery in the U.S. We predict increased consumer spending on durable goods, driven by the continued U.S. housing recovery. Since we believe consumer spending will drive cyclical sector growth, investors are likely to shift portfolio weightings in order to participate in this potential upside. As a result, we believe that there will be a flight away from defensive stocks within the Consumer Staples sector and a shift towards more cyclical stocks within the Consumer Discretionary sector. Moving forward, as staples stocks gradually become out of favour, we will look for companies with long-term prospects and sustainable business models at attractive valuations. We will, however, pay particular attention to companies providing innovative value-added products, including specialty niches like organic and gluten-free foods, as their growth is cyclical and supported by a more favorable consumer spending environment.

Note: All DCM's performance figures are reported in CAD

Selected Consumer Staples Sector Holding

Metro Inc.

Market Summary	
Price (Dec 31, 2013)	*$64.90*
Market Cap. ($M)	*$5,873*
Enterprise Value ($M)	*$6,630*
P/E	*15.4x*
Dividend Yield	*1.5%*
52wk High	*$75.81*
52wk Low	*$60.00*



Benchmark: 40% iShares Global Consumer Staples (KXI) measured in CAD, 60% S&P/TSX Capped Consumer Staples Index Fund (XST)

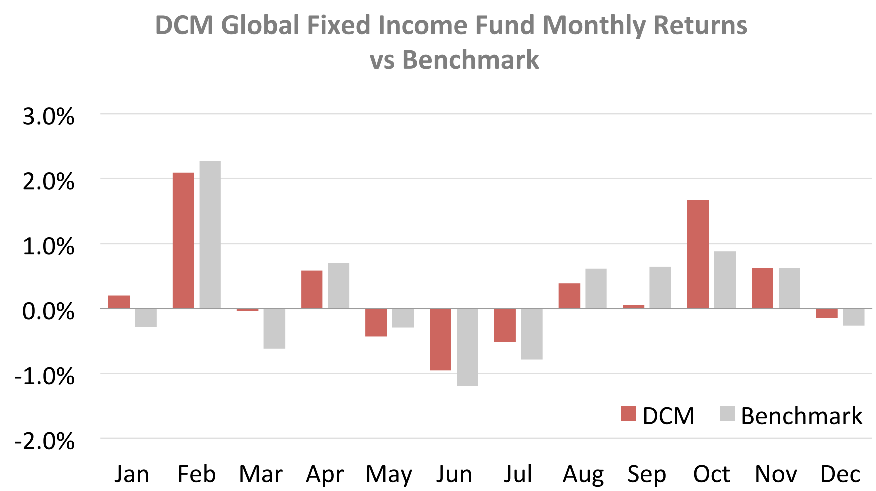
Over the eleven months starting January 1st, 2013 and until the position was liquidated on November 14, 2013, Metro depreciated by 3.7%, underperforming both the S&P 500 and the S&P/TSX Composite by 26.2% and 10.8% respectively, as well as the S&P/TSX Consumer Staples index, which returned 19.4% over the same period.

The original investment thesis was that the market was undervaluing Metro due to exacerbated fears of competitive pressure from new entrants. Furthermore, at time of initial purchase, Metro traded at an unwarranted discount to its peers despite its strong presence in Ontario and Quebec, high ROIC and partnership with Dunnhumby data analytics to increase operational efficiency.

For the first half of 2013, Metro saw substantial share price appreciation, reaching highs of $74.97 during the summer. After the Loblaw-Shoppers and Empire-Safeway deals, investors were generally optimistic that Metro would follow suit with a strategic opportunity of their own. However, after reporting mediocre Q3 earnings, the stock slid by approximately 13%. At that time, we revisited the integrity of the original investment thesis. We noted that the market was becoming impatient with Metro's inability to pursue a "strategic opportunity". Initially, we viewed the approximately 13% selloff to be an overreaction to what we viewed as moderate concerns. Additionally, we viewed the stock to be a bargain given that the valuation still implied a higher stock price. As such, we decided to keep the position until Q4 earnings so as to gain more insight into the severity of the aforementioned concerns. After reporting Q4 earnings, it was determined that due to the intensity of the competition in the Ontario grocer space, the failure to pursue proactive growth strategies, and the overall decrease in sales, adj. EBITDA, and net income, the integrity of the original investment thesis was compromised, which warranted liquidation of the position.

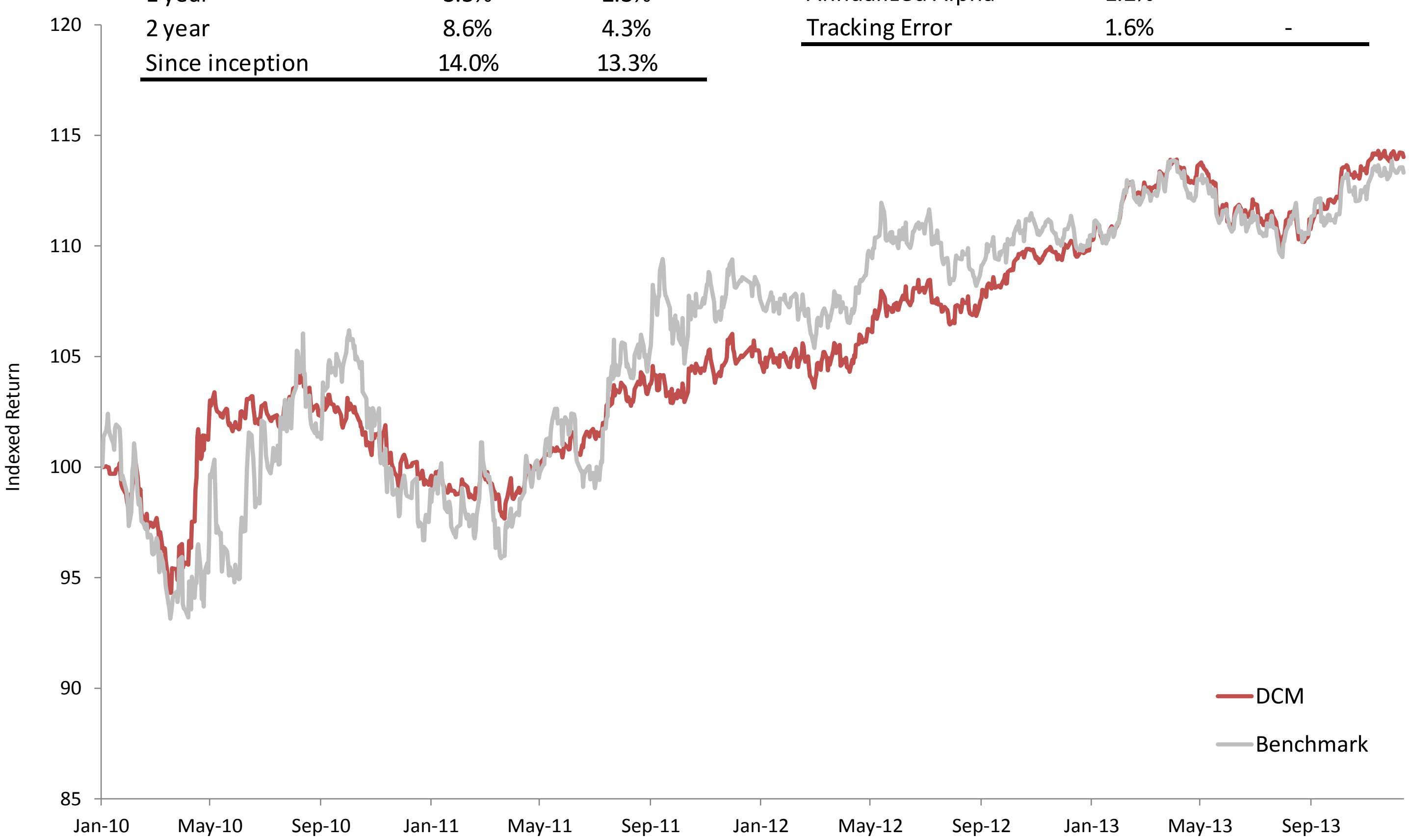
Performace Summary

DCM's Global Fixed Income Fund outperformed the benchmark* in 2013, generating a return of 3.5%, versus the benchmark performance of 2.3%. This return was generated with less standard deviation (3.3% vs. 4.2%), and lower systematic risk, as measured by a 0.56 beta.



Desautels Fixed Income Fund		
Time period	DCM (gross fees)	Benchmark
1 month	-0.1%	-0.3%
3 month	2.2%	1.0%
6 month	2.1%	1.7%
YTD	3.5%	2.3%
1 year	3.5%	2.3%
2 year	8.6%	4.3%
Since inception	14.0%	13.3%

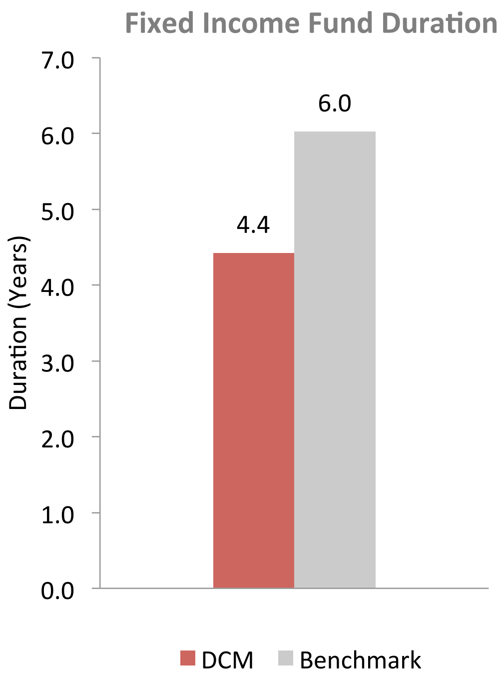
2013 Performance		
	DCM (gross fees)	Benchmark
Return	3.5%	2.3%
Annualized Std Dev	3.3%	4.2%
Sharpe Ratio	0.36	-0.02
Beta	0.56	-
Annualized Alpha	1.2%	-
Tracking Error	1.6%	-

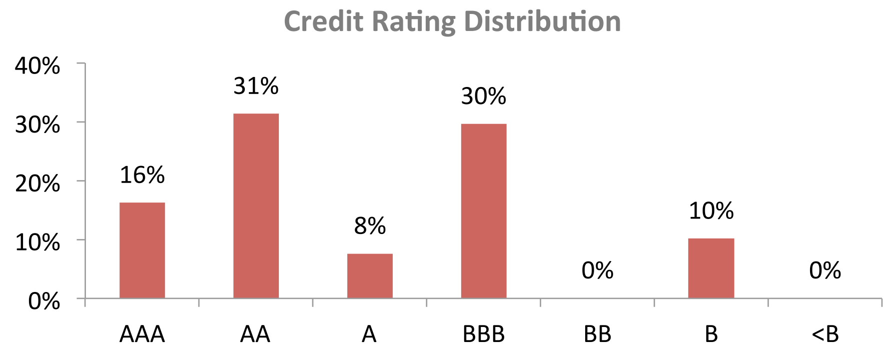


**Note: Performance is as of Dec. 31, 2013, gross of fees. Benchmark is the Citi World Bond Index from inception to Feb. 8, 2011 and a 45% Barclays Aggregate Bond Index, 45% DEX Universe Bond Index, 10% Citi International Treasury Bond Index blended thereafter, measured in CAD. Fund inception date is January 20, 2010.*

Note: All DCM's performance figures are reported in CAD

Duration and Credit Rating





The Global Fixed Income Fund is positioned at a shorter duration than the benchmark (4.4 vs. 6.0 years). This is largely driven by the view that improving macroeconomics in the United Sates will lead to a rise in interest rates, particularly at the long end of the yield curve.

In terms of credit rating, the fixed income fund is largely positioned in investment grade securities, with only 10% allocated to high yield credit.

Fund Holdings - Dec. 31, 2013

Fixed Income Holdings - Dec. 31, 2013						
#	Security Name	Units	Purchase Price	Market Price	Market Value	% of total
1	ISHARES MBS ETF	550	$106.74	$111.11	$61,108	14.4%
2	SPDR BARCLAYS HIGH YIELD BOND	1,000	$39.40	$43.10	$43,095	10.1%
3	ISHARES DEX HYBRID BD INDX F	1,900	$20.84	$20.45	$38,855	9.1%
4	ISHARES 3 7 YEAR TREASURY BOND	300	$125.39	$127.53	$38,260	9.0%
5	PROVINCE OF ALBERTA	40,000	$99.54	$94.45	$37,780	8.9%
6	BANK OF AMERICA CORP	34,000	$95.70	$106.57	$36,235	8.5%
7	MORGAN STANLEY	30,000	$97.60	$107.29	$32,186	7.6%
8	BMO SHORT PROVINCIAL BOND IN	1,465	$15.06	$14.33	$20,993	4.9%
9	CI INVESTMENTS INC	17,000	$102.73	$104.10	$17,697	4.2%
10	AIMIA INC	16,000	$111.14	$110.26	$17,641	4.2%
11	BMO LONG FEDERAL BOND INDEX	1,100	$17.65	$15.74	$17,309	4.1%
12	GOLDMAN SACHS GROUP INC	15,000	$92.35	$103.16	$15,474	3.6%
13	US DOLLAR	14,031	$1.00	$1.06	$14,908	3.5%
14	CANADA HOUSING TRUST	13,000	$111.43	$106.87	$13,894	3.3%
15	WISDOMTREE BRAZILIAN REAL STRA	700	$20.14	$18.38	$12,867	3.0%
16	CANADIAN DOLLAR	6,617	$1.00	$1.00	$6,617	1.6%
Total NAV					**$424,918**	**100.0%**
Top 5 holdings					*$219,098*	*51.6%*
Top 10 holdings					*$343,851*	*80.9%*

All currency values in CAD

Commentary from the Global Fixed Income Strategist

We are pleased to report that the fixed income fund has returned 3.5%, versus the benchmark performance of 2.3% over the course of 2013. 2013 was an interesting year for fixed income markets, as we saw the beginning of Fed tapering on December 18th. Though DCM's fixed income portfolio has a large Canadian allocation, the portfolio has been driven by expectations for U.S. interest rates over the last year. The fund's duration positioning has thus been of the utmost importance. Going into 2013, we believed that the United States was finally well positioned for a year of marked economic growth and healing, and that, slowly but surely, we would see a general increase in global risk appetite in both equity and corporate fixed income markets. DCM's thesis has materialized; global risk appetite is on the rise and U.S. housing and employment continue to improve at a steady and notable pace. In accordance with this view, we have maintained a portfolio that is shorter duration than our blended benchmark by approximately one year. We believed that interest rates would rise at a faster pace than anticipated by the market, and this has also aided our portfolio's relative performance, namely in May 2013 when Ben Bernanke unexpectedly hinted at tapering and in December 2013 when Janet Yellen began tapering, against the expectation of the majority of the market. One of the main drivers of our outperformance in 2013 was DCM's relatively larger allocation to corporate bonds in the high yield and low-end investment grade space.

Outlook for 2014

We are much less bullish on the Canadian economy going into 2014. Though the threat of rising household debt has largely plateaued, we have begun to notice numerous fundamental issues plaguing the economy. One such problem is chronically low inflation, signaling to the Bank of Canada and the broader public that the Canadian economy is currently in a rut. The broader implication of consistently soft inflation prints will be a dovish BoC, with Poloz already publicly taking note of Canada's persistently weak inflation. Poloz, in a recent interview with Reuters, said that the BoC was "having trouble explaining" why inflation is so weak and why the spillover effects from an improving U.S. economy have not yet hit Canadian business investment and exports. Employment has also been a source of concern, as we have observed a general downtrend in the labour force participation rate, and most gains in employment have been in "low quality" part-time jobs. We believe that the BoC's dovish tone will continue into the future, and we do not foresee rate hikes until the beginning of 2015. The BoC had already removed its tightening bias from its statement, given weak inflation driven by sub-par growth and under-utilized capacity and chronic productivity issues. In fact, OIS pricing indicates a 55% probability of a rate cut in October 2014. DCM believes that the BoC would cut rates if it observed all of the following: inflation below the BoC target for a sustained period of time, continued weak exports, depressed commodity prices due to general economic weakness in China and the emerging markets. We suspect that further Canadian dollar weakening is possible, and that Canadian exports stand to gain from this. We attribute the Canadian economy's underperformance over the past two years to slow growth in the United States, slowing emerging market demand, softer commodity prices and subdued domestic demand; though growth in the U.S. is improving, subdued domestic demand and softer commodity prices will continue to be problematic. China, the world's largest player in commodity demand, may experience slower growth in 2014, as China`s economic expansion trajectory is gradually shifting lower due to a transition to a stage of economic development that relies more on productivity improvements and true domestic demand than factor inputs such as fixed capital investment. President Xi Jinping and Premier Li Keqiang are set to implement economic reforms, which will lead China to a more sustainable growth model, but one that will remain slower in the near to medium term.

Going forward, we believe that the Fed will continue to taper at a reasonable pace; according to Bloomberg, the average economist forecasts the 10-year Treasury at 3.43% by the end of 2014, with some calling for 4.00%. DCM is calling for a U.S. 10-year Treasury yield in the range of 3.3% to 3.5% by the end of 2014; though the Fed will continue its tapering throughout the year, causing a general upward trend in long-term rates, the market will see a significant influx of buyers at slightly higher rates, causing some volatility. However, we still do not expect the Federal Reserve to raise the Fed Funds Rate until 2015, keeping short-term rates relatively low against a backdrop of rising long-term rates. Despite the fact that, over the course of 2013, the U.S. unemployment rate has declined from 7.9% to 6.7%, a large part of this improvement has come from declines in the labour force participation rate, thereby putting pressure on the Fed to relax its 6.5% employment threshold for raising its policy rate. On the whole, we are bullish on the U.S. economy, and believe that steady gains in employment and housing will continue, and we will see a corresponding boost in the USD. There exists plenty of spare capacity as the U.S. output gap is still large, and there is no evidence of inflationary pressures, and thus, no overheating risk. DCM sees key parts of the economy exhibiting promising fundamentals. DCM acknowledges significant housing construction upside, as new home demand and more available mortgage credit will likely be able to withstand rising rates. Solid household balance sheets in the form of low household debt service burden will help boost consumer spending and retails sales. The annual increase in domestic crude oil production will have positive effects on infrastructure spending and the U.S. trade deficit. Lastly, less fiscal drag and a better government balance sheet means less downside risk to growth in 2014 versus 2013.

However, we remain cautious on the Canadian economy. The problems facing Canada today are a mixture of weakening domestic indicators and uncertainty of foreign economies, both of which would see the perfect storm if met with rising interest rates. For this reason, we do not expect a significant departure from the BoC's current policy, especially in light of the recent decline in household debt levels and persistently low inflation. For this reason, we will look to add duration to our Canadian fixed income portfolio in 2014.

For 2014, we will continue to look at corporate bonds, namely the high yield and low-end investment grade space. As we find ourselves in the midst of a rising rate cycle in the U.S., we will look to identify high quality, undervalued high yield corporate names that are short duration and short term in nature. High yield has outperformed in three of the last four rising rate cycles. Though current spreads are low, we foresee compelling high yield performance as corporate fundamentals improve. Additionally, balance sheets are stronger, and leverage is lower, resulting in very low default probabilities. The par-weighted U.S. high-yield default rate decreased to 0.66%, its lowest level since December 2007. Thus, we look to increase our allocation to high yield in 2014, while remaining under our 15% maximum permissible allocation. Additionally, given our relatively high exposure to U.S. financials, we will look to diversify our holdings from a sector perspective in 2014.

2013 was a great year for Desautels Capital Management, in large part due to the support we receive from our expert panel members. We would also like to thank our investors for their continued support. DCM looks forward to another year of serving our clients and continued learning.

Sincerely,

Michaela Hirsh
Global Fixed Income Strategist

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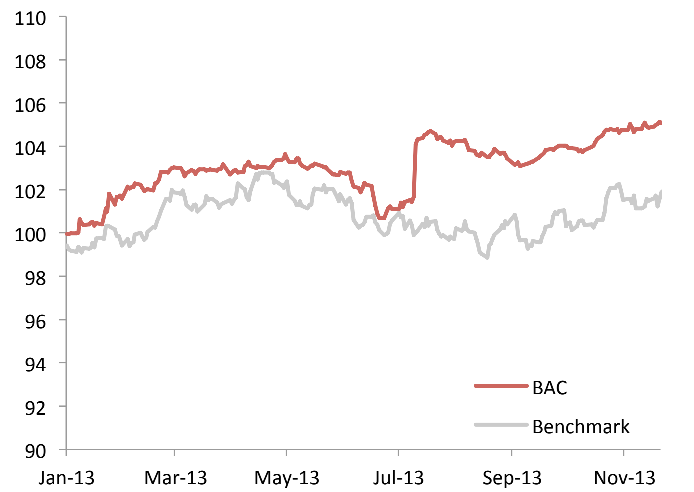
Selected Fixed Income Sector Holdings

Bank of America 2017

Market Summary	
Maturity	*2017*
Coupon	*5.15%*
Price (Dec 31, 2013)	*$106.59*
Yield to Maturity	*3.09%*
G-Spread	*177.4*
Rank	*Subordinated*
S&P/Moody`s/DBRS	*BBB+/Baa3/BBBH*



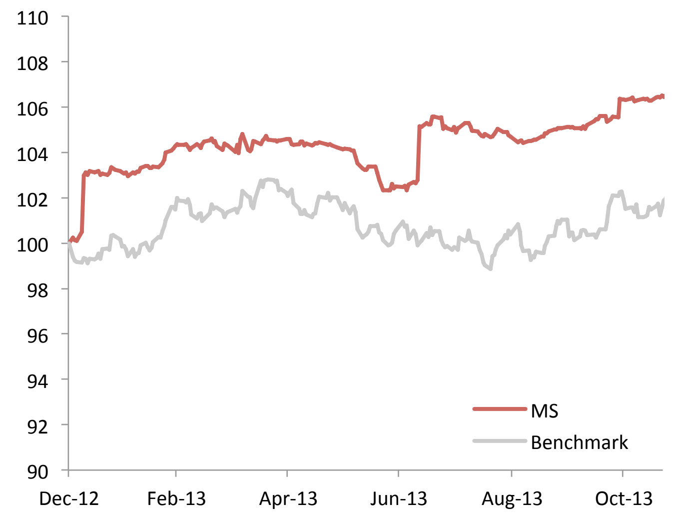
Benchmark: 45% Barclays Aggregate Bond Index, 45% DEX Universe Bond Index, 10% Citi International Treasury Bond Index measured in CAD

Our position in Bank of America 2017 maple bond returned 5.00% in 2013.

In keeping with our fixed income views, the Bank of America bond offers an attractive risk-reward profile with a shorter duration than our benchmark. Entering into 2013, we believed that Bank of America was uniquely placed for sustained outperformance amongst the banks, both in the near term on significant cost savings, increasing reserve releases and a strong capital markets business, the bank's strong retail branch network and core deposit base growth. Our thesis played out. One such manifestation of our thesis was the bank's implementation of the "New BAC" restructuring initiative that is expected to produce $14 billion of cost savings. Though its credit spread is still wider than those of its peers, this can be attributed to the firm's litigation-related uncertainties. Despite this, we expect continued significant cost savings, both from the "New BAC" initiative and from reduced legacy mortgage servicing, to provide a buffer. Going into 2014, we believe that the firm's large scale and diversification will serve it well in the current macroeconomic environment. New home demand and more available mortgage credit in the wake of leaner inventories will boost Bank of America's core mortgage performance. Additionally, we like that the company's revenues are well-diversified across interest and non-interest revenue, with a relatively large portion, approximately 53%, generated from non-interest revenue sources. The bank continues to report loan loss reserve releases as charge-offs decline and general asset quality increases. As bondholders, we take comfort in the fact that, in addition to Bank of America's strong fundamentals, the company is also a systemically crucial financial institution, and has a high likelihood of receiving support from the U.S. government in order to prevent default. Given our fund-wide macroeconomic views and Bank of America's strong mortgage business, we believe it has the most potential to benefit from a housing market recovery. Over the course of 2013, we have observed improving fundamentals, such as increases in the net interest margin, strong commercial related loan growth, strong mortgage originations and investment banking fee growth. Lastly, given our bullish view of the US economy, we believe that Bank of America offers exposure at the individual level through its retail and mortgages operations and at the corporate level through its corporate banking and institutional client services businesses.

Morgan Stanley 2017

Market Summary	
Maturity	*2017*
Coupon	*4.90%*
Price (Dec 31, 2013)	*$107.15*
Yield to Maturity	*2.51%*
G-Spread	*125.6*
Rank	*Senior Unsecured*
S&P/Moody`s/DBRS	*A-/Baa2/AH*



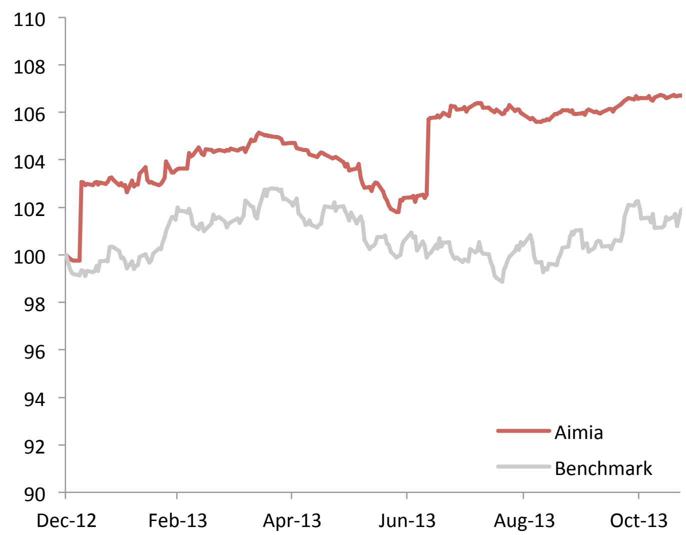
Benchmark: 45% Barclays Aggregate Bond Index, 45% DEX Universe Bond Index, 10% Citi International Treasury Bond Index measured in CAD

Our position in Morgan Stanley 2017 maple bonds returned 6.54% in 2013.

In the wake of the financial crisis of 2008, and the European debt woes of 2011 and 2012, the safety and stability of financial institutions was questioned. In the past, approximately half of Morgan Stanley's revenue had been derived from its institutional securities business, which is considered relatively risky. This was weighing significantly on Morgan Stanley bond spreads. Yet, we held a positive outlook on the bank as we believed that management would succeed in decreasing the volatility and risk associated with its earnings in numerous ways, including a $1.6 billion expense reduction plan, reduced exposure to troubled European countries and a continuously improving leverage ratio to comply with the minimum proposed by U.S. regulators. One of the main facets of our investment thesis in 2013 and going forward into 2014 is Morgan Stanley's growing wealth management business, which acts as a cash flow stabilizer. Morgan Stanley has successfully grown its wealth management franchise to 51% of revenues, up from 40% in 2010. On June 29th, 2013, Morgan Stanley completed its purchase of the Smith Barney wealth management joint venture as a part of the company's four year plan to more than double the size of its wealth management business. Additionally, on October 31, 2013, the company announced that they will take a 30% stake in Mitsubishi UFJ Financial Group's wealth management business, thereby expanding its wealth management franchise in Asia. Another sign that Morgan Stanley is focusing on its core business is the sale of its physical commodities operations, and the announcement that the company is exploring strategic options for its domestic oil ownership interests as a way to reduce exposure to high-risk businesses and reduce its risk-weighted assets to buoy the company's capital position. We believe that these factors were not being fully realized by the market in 2013. Going forward into 2014, we believe that Morgan Stanley will continue to be a strong performer, and take more transformative and strategic initiatives as a way to grow its wealth management businesses, both domestically and globally. We also see the company taking steps to affirm its focus on its strategy of core client franchise, while removing the tail risk associated with businesses like physical storage. We believe that business mix evolution and de-risking will be in bondholders' favour and is not yet priced in.

Aimia 2017

Market Summary	
Maturity	*2017*
Coupon	*6.95%*
Price (Dec 31, 2013)	*$110.65*
Yield to Maturity	*3.26%*
G-Spread	*198.4*
Rank	*First Lien*
S&P/Moody`s/DBRS	*BBB-/N/A/BBB*



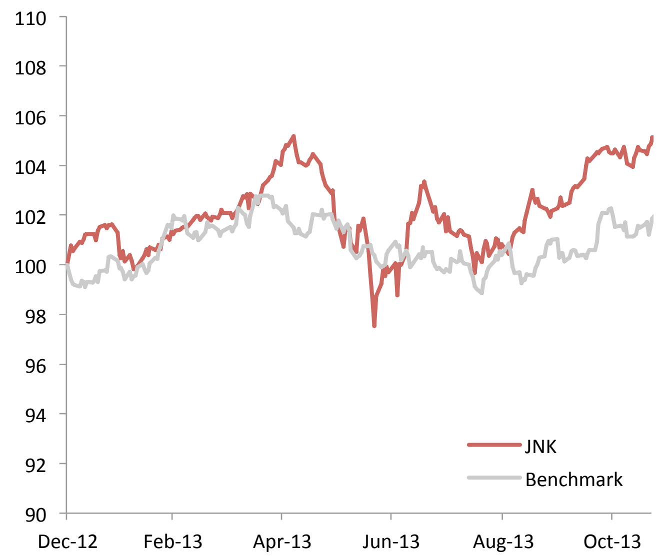
Benchmark: 45% Barclays Aggregate Bond Index, 45% DEX Universe Bond Index, 10% Citi International Treasury Bond Index measured in CAD

Our position in Aimia 2017 bonds returned 6.82% in 2013.

DCM purchased Aimia bonds in March 2013. Aimia is a global leader in loyalty management, with headquarters in Montreal, Canada. Aimia owns and operates some of the world's largest and most popular coalition loyalty program, including Aeroplan. The company offers a full suite of services including coalition loyalty, proprietary loyalty and loyalty analytics. Aimia also manages the loyalty programs of hundreds of clients and some of the world's top brands. DCM's investment thesis is that Aimia is a strong free cash flow generator, and, through expansion and numerous successful acquisitions and partnerships in the U.S., Asia, and Mexico, the company will be able to significantly diversify its revenue streams, resulting in reduced risk and spread tightening. As a loyalty management company, Aimia's business model is dependent on consumer spending habits, and thus its entry into developing markets will expose the company to rising standards of living abroad, and thus, increased purchases using credit cards. The diversification aspect of our thesis has begun to play out in 2013, as the company used to derive 65% of its revenue from its Canadian operations in 2012, and by the end of 2013, this number had decreased to 57%, with the difference being spread between Europe & Middle East and U.S. & APAC. Aimia has consistently proven its ability in integrating complicated acquisitions and penetrating new foreign markets. Additionally, Aimia's primary business, its Canadian Aeroplan brand, is the market leader in Canada, and is therefore somewhat shielded by high switching costs and strong barriers to entry, a strong positive for bondholders. While Aimia has consistently generated positive free cash flow, the company was punished heavily in May 2013, when they reported earnings below consensus. A risk that was widely identified was the CIBC contract loss. We felt that the large sell-off in Aimia's bonds in May was an overreaction, given the attractiveness of Aimia's Canadian business. On September 16, 2013, Aimia announced attractive 10-year agreements with both TD and CIBC. We feel that Aimia has experienced and pushed through numerous headwinds in 2013 that have positioned the company for outperformance in 2014. The company has completed the majority of its major acquisitions, and management has reiterated that it has no appetite for large, transformative and debt metric-inflating corporate action going forward, but rather small tuck-in acquisitions and partnership opportunities. We expect this, in addition to higher gross billings, to drive improvements in debt metrics. Going forward into 2014, we expect higher gross billings and mile issuance across all markets, including Canada with the addition of TD as a financial partner. We are looking to EMEA as economic conditions continue to improve. We believe that Aimia's Italian operations with Nectar Italia have bottomed out in 2013 and will recover in 2014. Additionally, we believe that 2014 will be a transition year for the US and APAC as the company continues to roll out new plans, including a soft rollout of a partnership with Standard Chartered Bank in Hong Kong and management discussions with several grocers with respect to launching a potential U.S. coalition loyalty program.

SPDR Barclays Capital High Yield Bond ETF (JNK)

Market Summary	
Price (Dec 31, 2013)	*$40.56*
Expense Ratio	*0.40%*
Yield to Maturity	*6%*
52wk High	*$41.94*
52wk Low	*$38.70*



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

Our position in SPDR Barclays Capital High Yield Bond ETF returned 5.85% in 2013.

Going into 2013, we felt that holding a high yield index such as JNK would provide much needed yield in a persisting low interest rate environment. JNK is an ETF that consists of U.S. dollar denominated, non-investment grade, fixed-rate corporate bonds with a remaining maturity of at least one year. On the whole, we observed that American companies had been "de-risking" their balance sheets following the recent financial crisis; companies are holding more cash and improving their debt metrics. The net debt to EBITDA of the S&P500 Index was 1.9x in 2013, versus 3.6x in 2008, and is at its lowest point in over 23 years. This provided an opportunity to investors; broad-based deleveraging was decreasing the risk of corporate fixed income securities across the spectrum, and the high-yield space allowed us to take advantage of this extremely attractive risk-reward profile. We felt an ETF was the best way to express this view, as the diversification that the ETF provides shields the fund from concentrated individual name default risk. Additionally, JNK has a duration of 4.2 years, versus a benchmark duration of 5.9 years. Given that we felt that long-term rates would rise at a faster pace than the market was pricing in, being short duration in the ETF fit well with our fund-wide strategy. Our thesis played out in 2013, with JNK outperforming our benchmark by 3.55%. High yield bonds had an outstanding year, outperforming the investment grade index. We believe that the outlook for high yield bonds remains positive, and the underlying fundamentals that drove performance in 2013 remain in place. High yield bonds tend to outperform in times of stable economic growth. Given our belief in steady economic growth in the U.S., we are confident that high yield bonds will have firm reinforcement. If economy-wide growth does not deliver, we still take comfort in robust corporate fundamentals; profit margins and cash balances are strong across all sectors which should keep the default rate at current low levels. Another key support for high yield bonds in 2014 is demand for higher-yielding assets in today's current low yield environment. Despite the most recent announcement of Fed tapering, rates are still low enough that we feel investors will seek returns in the high yield space.

Some of our analysts. From left to right: Daniel Kraminer, Debra Kelsall, Michaela Hirsh, Alexandra Witteveen, Alyssa Obert, Andrew Marcovitch, Xavier Le Sieur

Fund Strategists

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J.P. Morgan, New York

Michaela Hirsh
Global Fixed Income Strategist
2014 Full-Time
Analyst, Investment Banking
J.P. Morgan, New York

Risk Management

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Risk Manager & Senior Analyst (TMT)
2014 Full-Time
Analyst, Corporate Strategy and M&A
Bell, Montreal

Technology, Media, & Telecommunications

Alan Ang
Risk Manager & Senior Analyst (TMT)
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Jarislowsky Fraser Ltd, Montreal

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Intact Assurance, Montreal

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Credit Suisse Securities, Calgary

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PSP Investments, Montreal

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Cornerstone Research, New York

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CPP Investment Board, Toronto

Yannick Muller
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Pride Financial Assets, Dubai

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MBA Analyst
Prior Experience
Global Consultant, Relations Group
Franklin Templeton, London

Pengchao Liu
MBA Analyst
Prior Experience
Research Associate, Investments
RL Capital Management, Singapore

Support Team

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Yiqiong Liu
Communication & Marketing Manager
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McGill University, Montreal

Xavier Guerette
Information Systems Manager

Graduating Class of 2013

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Alejandro Cardot
MBA Graduate
Private Family Office, Caracas

Ali Abdullah
BCom Graduate
Sapphire Group, Pakistan

Andy MacDonald
MBA Graduate
AGF Management, Toronto

Antonino Piazza
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McKinsey & Co., Montreal

Cedric Garnier-Landurie
BCom Graduate
Cheverny Capital, Montreal

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BCom Graduate
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Fei Qi
BCom Graduate
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BCom Graduate
RBC Capital Markets, Toronto

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Capital One, Toronto

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Prime Quadrant, Toronto

Meghan Chen
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CPP Investment Board, Toronto

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McGill University Law School, Montreal

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BCom Graduate
Scotia Capital, Montreal

Rafael Barroso
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JoMedia Inc., Montreal

Shawn Raza
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Simon Bouchard
BCom Graduate
Bank of America Merrill Lynch, Toronto

Zeeshan Maqsood
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Fiera Capital, Montreal

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Brendan Simeson
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Scotia Capital, Montreal

Graham Litman
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BCE, Montreal

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PSP Investments, Montreal

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BCom Graduate
ONEX Corp., Toronto

Marc-Antoine Allen
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CPP Investment Board, Toronto

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BCom Graduate
Fidelity Investments, Toronto

Molly Newborn
MBA Graduate
CCFL Investments

Nicolas Bellemare
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Roberta Klein
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Prime Quadrant, Toronto

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Yael Klein
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Michal Marszal
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Tigran Karapetian
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Picton Mahoney, Toronto

Yuangyuou Yu
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Fatoumata Diana
BCom Graduate
Air Canada, Montreal

Gabriel Bonnel
BCom Graduate
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Jehangir Vevaina
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BMO Capital Markets, Toronto

Kyle Marta
BCom Graduate
Picton Mahoney Asset Management, Toronto

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RDA Capital, Montreal

Sara Mahaffy
BCom Graduate
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Shu Wai Chu
BCom Graduate
HSBC, Toronto

Thibaud Sonntag
BCom Graduate
Studio Canal, Paris

Brian Rosen
MBA Graduate
CIBC Wood Gundy, Montreal

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MBA Graduate
Turk Telecom, Turkey

Hadi Kamzi
MBA Graduate
BMO Capital Markets, Toronto

John Tarraf
MBA Graduate
TD Securities, Toronto

Lincoln Zheng
MBA Graduate
UNB, New Brunswick

Raja Uppuluri
MBA Graduate
CIBC World Markets, Toronto

Ken Lester, Chief Investment Officer

"When our Honours of Investment Management students first started trading in our equity and bond funds in 2010 there were two overriding themes: Create and develop a structure to maximize learning for current and future students, and DO NOT BLOW UP. The second theme was especially a concern given the context of just coming out of the sub-prime crisis and the uncertainty and instability of the financial world following it. The students have executed admirably on both fronts and the terrific outperformance of 2013, while maintaining their strict mandates to safety and learning, is a wonderful example of icing on the cake."

Ken Lester is the CIO and CCO of Desautels Capital. Ken has been teaching Applied Investments to BComs and MBA's at McGill since 1992 and currently also teaches Behavioural Finance at both the BCom and MBA level.

Vadim di Pietro, Deputy Chief Investment Officer

"I'm so proud of our analysts' performance this past year. Not because of their significant outperformance (although that doesn't hurt!), but because of the rigorous and detailed research they put into their investment analyses. Our students have really taken ownership of the funds and their dedication is nothing short of remarkable. Truly impressive."

Vadim di Pietro is Deputy Chief Investment Officer for Desautels Capital Management and a Faculty Lecturer in Finance in the Desautels Faculty of Management. Prior to joining 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.

Ann-Maureen Hennessy, Chair
Independent Consultant

Gisèle Wilson
Founder and Partner, Coriel Capital Inc

Elliot Greenstone
Partner, Davies Ward Phillips & Vineberg

Peter Bethlenfalvy
SVP, Financial Regulations, Manulife Financial

Richard Pan
VP and Head of Corporate Finance, Power Corporation

Eamonn McConnell
Managing Director and Portfolio Manager, Kensington Capital

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