2022 Annual Report

Honours in Investment Management

DESAUTELS Capital Management
Gestion de capitaux

On behalf of the entire Honours in Investment Management program, we send our deepest condolences to Marcel Desautels' children, Paul and Renée, and their families. Without Mr. Desautels, none of this would be possible. The school has lost a great trailblazer and leader, but his legacy will live on.

We draw confidence, inspiration, and values from Mr. Desautels, whether through his impact, big picture ideas, or always thinking of others. We thank you for making the Desautels Faculty of Management a world-class business school and are forever grateful for your generous contributions to the university and broader community.

"We wanted to make a broad impact in the world of business by helping to shape well-rounded leaders with the ability to think analytically and create value across disciplines."

– **Marcel Desautels**

Honours in Investment Management Class of 2022-2023

"An investment in knowledge pays the best interest."

- Benjamin Franklin

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A Message from the Strategists

Dear Investors,

On behalf of the current Honours in Investment Management cohort, we want to express our heartfelt gratitude for your unwavering support and dedication to our program throughout 2022. Your commitment has made it possible for us to have one of the most immersive and rewarding learning experiences as we manage the Desautels Capital Management funds.

As with each year, 2022 brought new challenges and opportunities for the HIM program, and we are delighted to share the progress we have made this year. We were thrilled to resume our weekly meetings fully in person and resume our team building events as well. Moreover, we had the exceptional chance to meet dozens of alumni in two financial hubs, Boston and New York, as part of the fall and the winter HIM trips, respectively. The students benefitted from connecting with established professionals in various fields and learning from fellow HIMers paths.

Just like the previous cohorts, we approached the year with unyielding drive and eagerness to learn and excel. Our dedication to our craft and the field of investment management resulted in yet another successful year of recruitment for HIMers. Our students secured coveted full-time positions and summer internships in top firms spanning investment banking, consulting, asset management, private equity, and sales & trading. The strong network of mentors and industry professionals associated with the HIM program has been instrumental in facilitating these placements in cities such as New York, Toronto, Montreal, and Los Angeles. To our esteemed alumni, we extend our deepest appreciation for your continued support, which has been crucial to our placement success (see page 90 for a full list of HIM alumni).

At the beginning of 2022, we set forth ambitious goals as Strategists, aiming to enhance various aspects of the HIM program. We are pleased to announce that we have made considerable strides in achieving those goals. One notable addition to our investment process was a complementary pre-pitch call with investment management experts. Additionally, the launch of our formal Mentorship Program provided students with an unparalleled opportunity to learn from industry veterans and prepare for a fulfilling career in finance. We would like to extend our thanks to the experts and mentors that graciously gave their time in helping our students this past year.

Reflecting on the past year, we take great pride in what we have achieved and learned. As we look ahead, we are confident that the HIM program is in exceptional hands with a talented group of Juniors returning for their Senior year. Our success would not have been possible without the unwavering guidance and encouragement provided by Professor Vadim di Pietro, Professor Jiro Kondo, Joy Bennett, Lynn Marks and, of course, you, our esteemed investors. Your continuous support has been invaluable, and we are deeply grateful for your trust in our potential.

Yours truly,

Julien Séguin,
Global Equity Strategist

Rachel Tang,
Fixed Income Strategist

Our Team

Executive Team

Morty Yalovsky | President

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

Vadim di Pietro | Co-Chief Investment Officer

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

Jiro Kondo | Co-Chief Investment Officer

Professor Kondo joined the Finance group at the Desautels Faculty of Management in 2012 after having served on the faculty at Northwestern University's Kellogg School of Management. Prior to becoming an academic, he was a proprietary trader at Goldman Sachs. He holds an undergraduate degree in Economics from Princeton University and a PhD in Financial Economics from MIT's Sloan School of Management.

Board of Directors

Richard Pan | VP and Head of Corporate Finance
Power Corporation

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

Sharon Stern | President
Metro Investment

Ms. Stern is a Canadian entrepreneur and real estate investor. Ms. Stern is the President of Metro Investments and President of Eastmore Management. Ms. Stern also serves on the Board of Directors of Cedar Realty Trust (NYSE: CDR), a Real Estate Income Trust specializing in grocery-anchored retail properties. At Cedar, Ms. Stern serves on both the Audit and Compensation committees.

Neil Murdoch | Former President
Aston Hill Asset Management

Mr. Murdoch is an active investor and has served on the boards of many private and public companies, including his current portfolio of businesses. He is the former President of Aston Hill Asset Management, having retired in December 2015. Mr. Murdoch has a strong track record of leadership and execution in the retail investment world.

Who Makes Up HIM?

Students	36
Women	25%
Spoken Languages	11
Average GPA	3.85
Club Leadership Roles	30
Awards & Scholarships	30

Job Placements

Class of 2022 & 2023 Employment Status

53%	11%	14%	22%
Investment Banking	Consulting	Private Equity	Other

Class of 2022 & 2023 Employers

BMO

BANK OF AMERICA

RBC

CREDIT SUISSE

NATIONAL BANK

CITIC CAPITAL 中信資本

LAZARD

Fidelity INVESTMENTS

WALTER FINANCIAL

soundskrit Hear the impossible.

EVERCORE

PSP Investments

CONSTELLATION SOFTWARE INC.

Monitor Deloitte.

LionTree

agentis CAPITAL

EY

BARCLAYS

NOMURA

BNP PARIBAS

BAIN & COMPANY

PINESTONE ASSET MANAGEMENT

HIM Executives

Julien Séguin | Global Equity Strategist

- Investment Banking Analyst
  National Bank Financial, Montreal (Incoming 2023)
- Investment Banking Summer Analyst
  National Bank Financial, Montreal (Summer 2022)

Rachel Tang | Fixed Income Strategist

- Investment Banking Analyst
  BMO Capital Markets, Toronto (Incoming 2023)
- Investment Banking Summer Analyst
  BMO Capital Markets, Toronto (Summer 2022)

Alexa Goulas | Chief Operating Officer

- Investment Banking Analyst
  Lion Tree, New York (Incoming 2023)
- Investment Banking Summer Analyst
  Lion Tree, New York (Summer 2022)

Wenhan Hu | Chief Sustainability Officer

- Private Equity Summer Analyst
  Whitehorse Liquidity Partners, Toronto (Incoming 2023)
- Investment Banking Summer Analyst
  RBC Capital Markets, Toronto (Summer 2022)

Consumers

Marc-Antoine Millaire | Senior Analyst

- Investment Banking Analyst
  National Bank Financial, Montreal (Incoming 2023)
- Investment Banking Summer Analyst
  National Bank Financial, Montreal (Summer 2022)

Julia Jin | Senior Analyst

- Investment Banking Analyst
  Nomura, New York City (Incoming 2023)
- Investment Banking Summer Analyst
  National Bank Financial, Montreal (Summer 2022)

Alan Zhang | Junior Analyst

- Investment Banking Summer Analyst
  National Bank Financial, Toronto (Incoming 2023)
- Investment Banking Analyst
  Blue Focus, Shanghai (Summer 2021)

Kelly Zhang | Junior Analyst

- Private Equity Summer Analyst
  PSP Investments, Montreal (Incoming 2023))
- Summer Analyst
  RBC Capital Markets, Toronto (Summer 2022)

Energy & Utilities

Quynh Huynh | Senior Analyst

- Associate Consultant Intern
  Bain & Company, Toronto (Incoming 2023)
- Investment Banking Summer Analyst
  Barclays, Toronto (Summer 2022)

David Fishman | Senior Analyst

- Financial Analyst
  Soundskirt, Montreal (Incoming 2023)
- Summer Business Analyst
  Train Fitness, Vancouver (Summer 2021)

Jordan Rindler | Junior Analyst

- Investment Banking Summer Analyst
  BNP Paribas, New York (Incoming 2023)
- Hedge Fund Summer Analyst
  Wolfson Group, New York (Summer 2022)

Thibault Quelavoine | Junior Analyst

- Strategy Consultant
  Monitor Deloitte, Montreal (Incoming 2023)
- Internal Consultant
  Danone Global Environmental Markets and Strategy, Paris (Summer 2022)

Financial Institutions

Julien Séguin | Senior Analyst

- Investment Banking Analyst
  National Bank Financial, Montreal (Incoming 2023)
- Investment Banking Summer Analyst
  National Bank Financial, Montreal (Summer 2022)

Matt Pein | Senior Analyst

- Corporate Development Analyst
  Constellation Software, Montreal (Incoming 2023)
- Research Intern
  River Road Asset Management, Kentucky (Summer 2022)

Philippe Bardot-Rabello | Junior Analyst

- Junior Analyst – Global Equities
  PineStone Asset Management, Montreal (Incoming 2023)
- Investment Banking Summer Analyst
  National Bank Financial, Montreal (Summer 2022)

Tina Zhang | Junior Analyst

- Summer Business Consultant
  EY, Vancouver (Incoming 2023)

Healthcare

Alexa Goulas | Senior Analyst

- Investment Banking Analyst
  Lion Tree, New York (Incoming 2023)
- Investment Banking Summer Analyst
  Lion Tree, New York (Summer 2022)

Bingcheng Peng | Senior Analyst

- Investment Banking Analyst
  RBC Capital Markets, Montreal (Incoming 2023)
- Investment Banking Summer Analyst
  RBC Capital Markets, Montreal (Incoming 2022)

Charles Kiriazis | Junior Analyst

- Associate Consultant Intern
  Bain & Company, Toronto (Incoming 2023)
- Risk Management Intern
  Business Development Bank of Canada, Montreal (Summer 2022)

Industrials

Param Sahajpal | Senior Analyst

- Investment Banking Summer Analyst
  Credit Suisse, New York (Incoming 2023)
- Investment Banking Summer Analyst
  RBC Capital Markets, Toronto (Summer 2022)

Beatrix Mogos | Senior Analyst

- Investment Banking Analyst
  BMO Capital Markets, Toronto (Incoming 2023)
- Investment Banking Summer Analyst
  BMO Capital Markets, Toronto (Incoming 2022)

Britton Quirk | Junior Analyst

- Investment Banking Summer Analyst
  RBC Capital Markets, Los Angeles (Incoming 2023)
- Senior Research Analyst
  CrossPoint Financial, Ottawa (Summer 2022)

Yoakim Turgeon | Junior Analyst

Materials

Benjamin Williamson | Senior Analyst

- Investment Banking Analyst
  Evercore, Toronto (Incoming 2023)
- Investment Banking Summer Analyst
  Evercore, Houston (Incoming 2022)

Alexis Bruneau | Junior Analyst

- Global Investment Banking Summer Analyst
  Bank of America Merrill Lynch, Toronto (Incoming 2023)
- Fundamental Research Platform Intern
  PSP Investments, Montreal (Summer & Fall 2022))

Colin Murphy | Junior Analyst

- Restructuring and M&A Summer Analyst
  Lazard, New York (Incoming 2023)
- Special Situations Summer Analyst
  CION Investments, New York (Summer 2022)

Technology, Media, & Telecom

Michael Long | Senior Analyst

- Private Equity Summer Analyst
  Ulysses Management, New York (Summer 2022)
- Card Game Coach and Mentor
  Personal Start-Up, Guelph (2017-2020)

Declan Kingston Fry | Senior Analyst

- Investment Banking Analyst
  Bank of America Securities, Montreal (Incoming 2023)
- Investment Banking Summer Analyst
  Bank of America Securities, Montreal (Summer 2022)

Jeremy Moses | Junior Analyst

- Financial Analyst Intern
  Walter Public Investments, Montreal (Incoming 2023)
- Manager
  Quai des Glaces, Montreal (2019-2022)

Roy Liu | Junior Analyst

- Private Equity Summer Analyst
  CITIC Capital, Hong Kong SAR (Incoming 2023)
- Private Equity Analyst Intern
  Viva Partners, Vancouver (Summer & Fall 2022)

Risk, Strategy, & Economics

Jasmine Liu | Senior Analyst

- Investment Banking Analyst
  National Bank Financial, Montreal (Incoming 2023)
- Investment Banking Summer Analyst
  National Bank Financial, Montreal (Summer 2022)

Serena Hua | Junior Analyst

Fixed Income

Collin Wang | Senior Analyst

- Investment Banking Analyst
  National Bank Financial, Toronto (Incoming 2023)
- Investment Banking Summer Analyst
  National Bank Financial, Montreal (Summer 2022)

Rachel Tang | Senior Analyst

- Investment Banking Analyst
  BMO Capital Markets, Toronto (Incoming 2023)
- Investment Banking Summer Analyst
  BMO Capital Markets, Toronto (Summer 2022)

Wenhan Hu | Senior Analyst

- Private Equity Summer Analyst
  Whitehorse Liquidity Partners, Toronto (Incoming 2023)
- Fundamental Equity Analyst
  Clear Skies Investment Management, Montreal (Summer and Fall 2021)

Larry Ge | Senior Analyst

- Investment Associate
  Ontario Teachers' Pension Plan, Toronto (Incoming 2023)
- M&A Analyst
  Constellation Software, Ottawa (Summer 2022)

Fixed Income

Sophie Song | Senior Analyst

- Investment Banking Analyst
  Barclays, Toronto (Incoming 2023)
- Investment Banking Summer Analyst
  Credit Suisse, New York (Summer 2022)

Benjamin Doherty | Junior Analyst

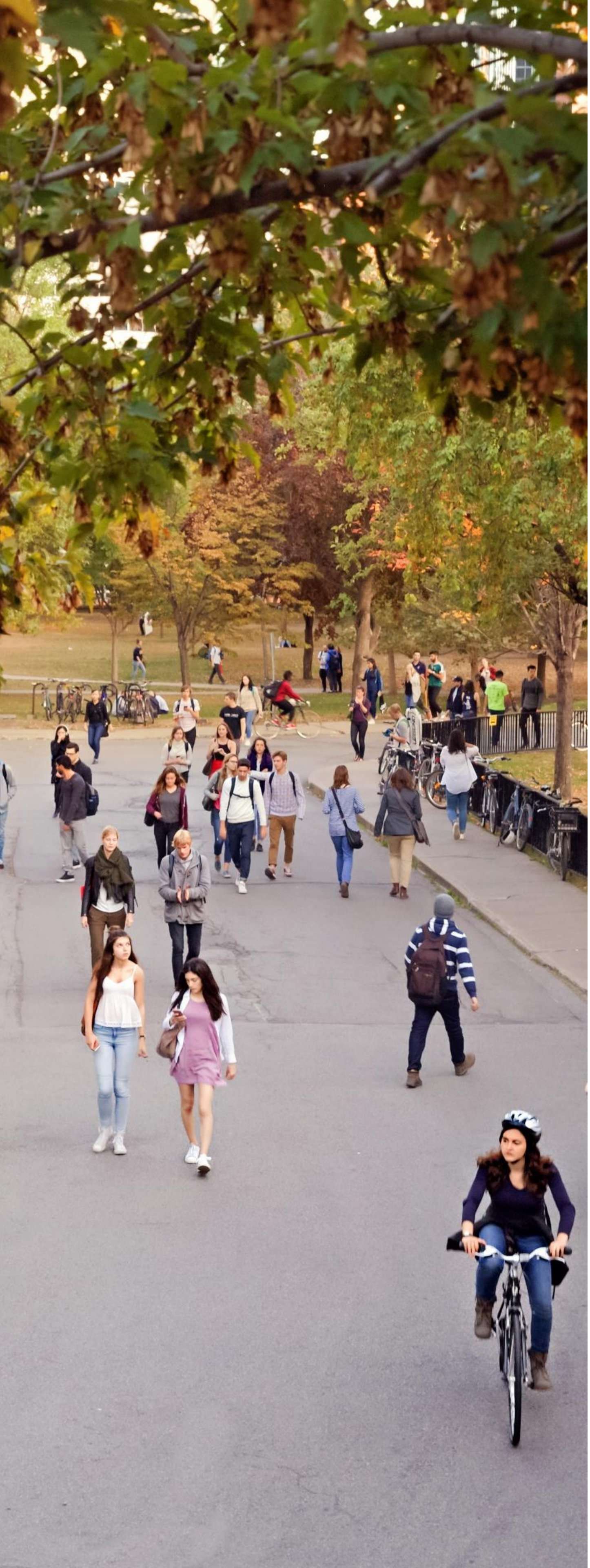
- Summer Analyst
  Validus Risk Management, Toronto (Incoming 2023)

Ryan Murray | Junior Analyst

- Private Equity Intern
  BDG & Partners, Montreal (Incoming 2023)

Owen Anderson | Junior Analyst

- Investment Banking Summer Analyst
  Agentis Capital, Toronto (Incoming 2023)
- Business and Client Service Analyst
  RBC Capital Markets, Toronto (Summer 2022)



Global Equity Fund

Global Equity Fund

Fund Performance and Outlook

Julien Séguin , Global Equity Strategist

Dear Investors,

The Global Equity Fund returned (22.8%) gross of fees in 2022, compared to (8.7%) for our benchmark (60% S&P TSX, 40% S&P 500). Since inception of the fund in January 2010, the fund has returned 6.4% annually, compared to 8.9% for our benchmark.

Coming into 2022, we were moderately bullish. While equity multiples were high, we believed another year of strong earnings growth would come to justify current valuations. To benefit from the ongoing economic strength, we positioned ourselves overweight Financials, Energy, and Consumer Discretionary, while being underweight Consumer Staples, Healthcare, and Real Estate. We also had a slight bias towards growth stocks. Unfortunately, this proved to be our undoing as growth stocks had their worst annual performance vs value stocks since the bursting of the tech bubble in 2000.

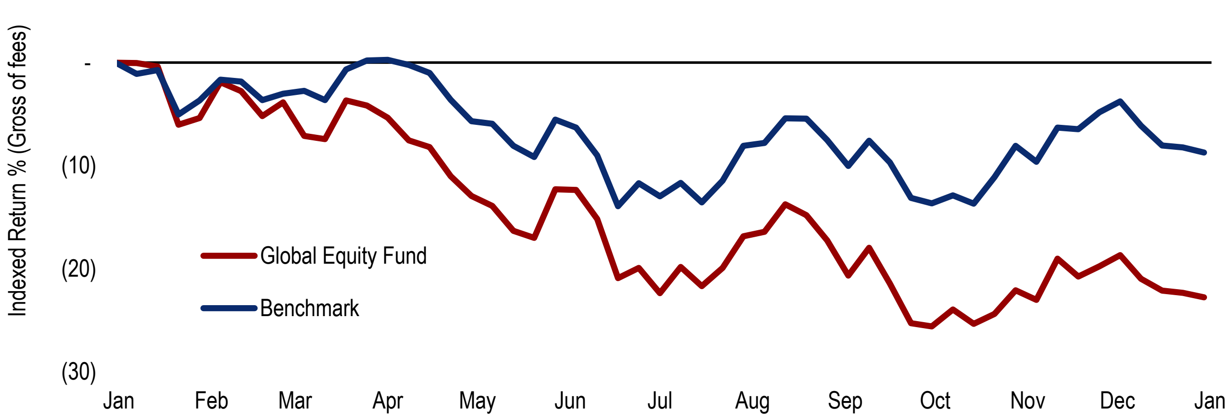
In addition, many of our holdings had long-term growth theses, and thus high implicit duration. These positions came under significant pressure when central banks across the world started aggressively hiking rates to fight inflation.

This past year's experience served as an important learning lesson for our cohort. First, diversification is best achieved not only through a mixture of stocks from different sectors, but also by a mixture of stocks from across the growth and value spectrum.

Second, given the vulnerability of growth stocks to changes in market sentiment, one must ensure a very high margin of safety when considering investments in those more speculative stocks. In fact, I would like to close this section with a favourite quote of mine by Seth Klarman, the CIO of Baupost Group and a rule that we at DCM should live by:

"A margin of safety is achieved when securities are purchased at prices sufficiently below underlying value to allow for human error, bad luck or extreme volatility."

Figure 1: Global Equity Fund Performance in 2022



**Note: Performance is calculated gross of fees. Benchmark is a blended 60% S&P TSX, and 40% S&P 500 (measured in CAD).*

Sources: Bloomberg, CIBC Mellon

Figure 2: Global Equity Fund Returns

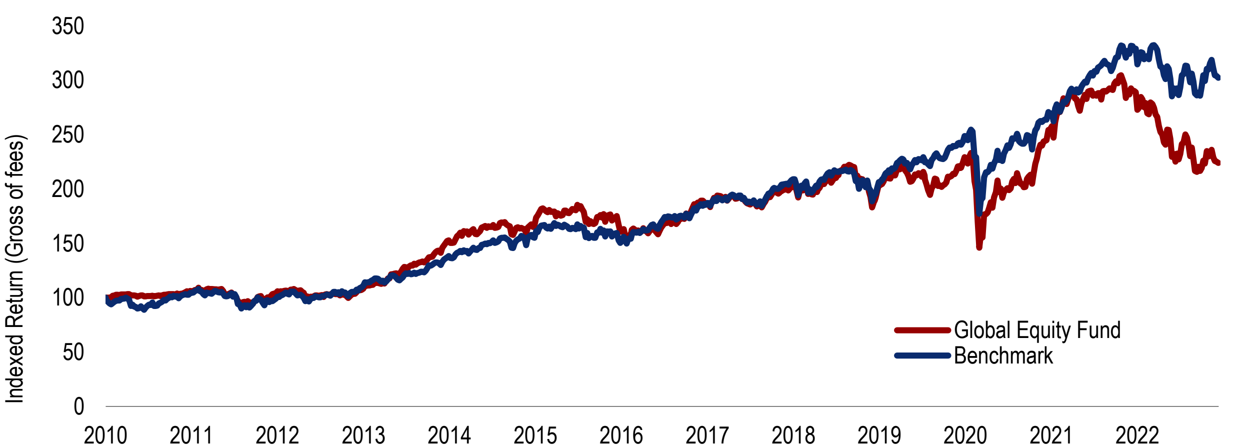
Performance Metrics Since Inception	As of Dec 30, 2022	
	Equity Fund	Benchmark
Annualized Return	6.4%	8.9%
Annualized Standard Deviation	14.5%	12.9%
Annualized Sharpe Ratio	0.30	0.53
Beta	0.98	
Annualized Gross Alpha	(2.4%)	
Annualized Tracking Error	7.0%	

Performance metrics are calculated gross of fees.

Performance Metrics YTD 2022	As of Dec 30, 2022	
	Equity Fund	Benchmark
Return	(22.8%)	(8.7%)
Annualized Standard Deviation	20.1%	16.0%
Sharpe Ratio	(1.23)	(0.67)
Beta	1.17	
Alpha	(12.1%)	
Annualized Tracking Error	7.7%	

Performance metrics are calculated gross of fees.

Figure 3: Global Equity Fund Performance Since Inception



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

Sources: Bloomberg, CIBC Mellon

Figure 4: Current Sector Allocation

Sector	DCM	Benchmark	(+/-)
Financials	23.9%	23.1%	0.8%
Information Technology	14.1%	13.7%	0.4%
Energy	12.6%	12.9%	(0.3%)
Industrials	12.2%	11.5%	0.8%
Materials	7.2%	8.3%	(1.0%)
Communication Services	6.6%	5.9%	0.7%
Consumer Discretionary	6.0%	6.1%	(0.1%)
Consumer Staples	5.8%	5.4%	0.4%
Healthcare	4.5%	6.6%	(2.1%)
Utilities	3.9%	3.9%	(0.0%)
Real Estate	0.0%	2.6%	(2.6%)
CAD	3.1%	0.0%	3.1%
USD	0.0%	0.0%	0.0%
Total	**100.0%**	**100.0%**	**0.0%**

Figure 5: DCM Sector Excess Return vs Benchmark

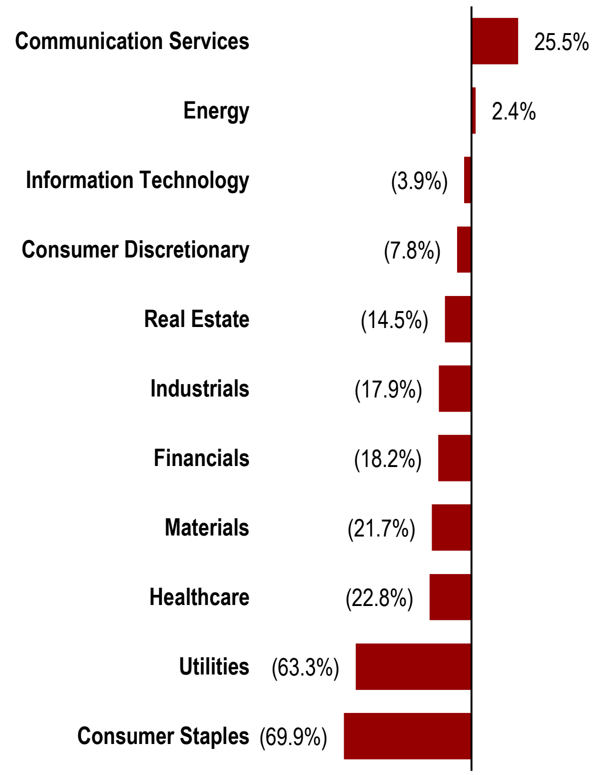


Figure 6: Current Size Exposure

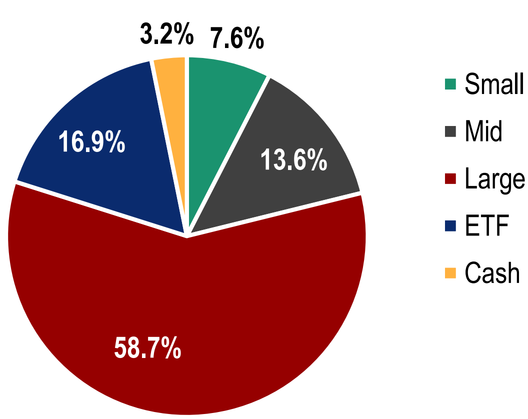
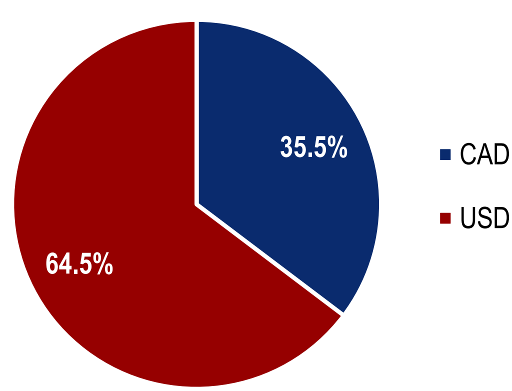


Figure 7: Current Currency Exposure



Sources: Bloomberg, CIBC Mellon

Figure 8: Current Holdings As of December 30, 2022

Security Name	Sector	Currency	Units	Local Cost	Price	CAD Value	Weight
Adobe Inc	Information Technology	USD	169	$295.39	$336.53	$77,086	8.5%
Bank of America Corp	Financials	USD	1,336	$18.19	$33.12	$59,974	6.6%
iShares S&P/TSX Capped Financials Index ETF	Financials	CAD	1,110	$43.23	$44.12	$48,973	5.4%
Fiserv Inc	Financials	USD	280	$109.35	$101.07	$38,357	4.2%
Canadian Pacific Railway Ltd	Industrials	CAD	355	$67.50	$101.04	$35,869	4.0%
SS&C Technologies	Financials	USD	500	$79.34	$52.06	$35,281	3.9%
Tourmaline Oil Corp	Energy	CAD	510	$17.93	$68.32	$34,843	3.8%
Vanguard Consumer Staples Index	Consumer Staples	USD	135	$191.40	$191.57	$35,053	3.9%
Laurentian Bank of Canada	Financials	CAD	1,050	$43.01	$32.30	$33,915	3.7%
T-Mobile US Inc	Communication Services	USD	175	$121.42	$140.00	$33,207	3.7%
BMO Equal Weight Utilities Index	Utilities	CAD	1,390	$22.97	$22.38	$31,108	3.4%
Suncor Energy Inc	Energy	CAD	725	$42.50	$42.95	$31,139	3.4%
Vale SA	Materials	USD	1,275	$18.08	$16.97	$29,326	3.2%
Coterra Energy	Energy	USD	860	$24.76	$24.57	$28,640	3.2%
Best Buy	Consumer Discretionary	USD	250	$79.54	$80.21	$27,179	3.0%
Sleep Country Canada	Consumer Discretionary	CAD	1,200	$30.14	$22.98	$27,576	3.0%
New York Times	Communication Services	USD	600	$45.72	$32.46	$26,398	2.9%
Brunswick Corp	Industrials	USD	224	$73.41	$72.08	$21,884	2.4%
Danaher	Healthcare	USD	60	$283.72	$265.42	$21,585	2.4%
Copart	Information Technology	USD	260	$60.22	$60.89	$21,458	2.4%
Global X Cybersecurity ETF	Information Technology	USD	725	$31.31	$20.75	$20,390	2.2%
Southwest Airlines	Industrials	USD	450	$37.32	$33.67	$20,536	2.3%
Volkswagen Preferred Shares ADR	Industrials	USD	1,200	$26.55	$12.38	$20,136	2.2%
Surge Energy	Energy	CAD	2,170	$8.22	$9.11	$19,769	2.2%
iShares S&P/TSX Capped Materials Index ETF	Materials	CAD	1,000	$17.45	$18.19	$18,190	2.0%
WestRock	Materials	USD	380	$35.17	$35.16	$18,109	2.0%
Ocado Group	Consumer Staples	USD	850	$48.62	$15.36	$17,696	2.0%
UnitedHealth Group	Healthcare	USD	24	$539.35	$530.18	$17,247	1.9%
ATS Automation Tooling Systems	Industrials	CAD	300	$42.99	$42.09	$12,627	1.4%
LendingTree Inc	Information Technology	USD	300	$155.47	$21.33	$8,673	1.0%
Azure Power Global Ltd	Utilities	USD	700	$26.25	$4.31	$4,089	0.5%
Orchard Therapeutics Plc	Healthcare	USD	4,100	$11.98	$0.37	$2,062	0.2%
U.S. Dollar	USD	USD	231			$313	0.0%
Canadian Dollar	CAD	CAD	28,456			$28,456	3.1%
			Net Asset Value			**$907,146**	**100.0%**

Sources: Bloomberg, CIBC Mellon

Global Equity Fund

Fund Performance

Best and Worst Performers

This year, our bottom-up stock selection process yielded a handful of great wins, but also a number of large losses. Figure 9 shows our best and worst holding period returns (HPR) for 2022.

Figure 9: Best and Worst Performing Holdings, 2022

Sector	Company	2022 HPR
Energy	Tourmaline Oil Corp.	56%
Energy	Suncor Energy	30%
Communication Services	T Mobile	30%
Industrials	AirBoss of America Corp.	-79%
TMT	lendingtree	-81%
Healthcare	aveanna healthcare	-87%

After being the worst performing sector in 2020, the Energy sector saw a big rebound in 2021, and the momentum sustained this year. Ongoing gains were led by Tourmaline Oil (TSX:TOU) for a second year in a row, one of Canada's largest and lowest cost natural gas producers. The stock returned 56% and contributed 1.7% of the total fund's return in 2022. On a similar note, the surge in oil prices in the first half of the year benefitted Suncor (TSX:SU) as well. Suncor contributed 1.0% to the fund's return. We trimmed part of the energy holdings in June, as we were seeing the market downplaying the signs of a potential recession which turned out to be a wise decision. Finally, T-Mobile (NASDAQ:TMUS), one of America's largest telecom operators, yielded an outsized return in a mature industry. The market recognized its first-mover advantage in the 5G network deployment in the US.

On the flip side, a number of our investment theses failed to materialize. Aveanna (NASDAQ:AVAH), bought in late 2021, was our worst performer, down 87% in 2022 as the home health company failed to hit growth targets. LendingTree (NASDAQ:TREE) and AirBoss of America (TSX:BOS) did poorly as well, due to several quarterly earnings misses in a row. TREE and BOS contributed -3.5% and -2.9%, respectively, to our fund performance. Further details on individual positons are provided in the sector sections of this report.

Throughout the academic year, we implemented several measures to limit our downside risk and improve our risk management practices. Although an important number of our holdings had a disappointing year, we believe that there are numerous lessons to be learned and apply to our investment process. In fact, one of our most memorable and best calls in 2022 was to sell Silicon Valley Bank as our Financials team had spotted the large unrecognized losses on its Treasury and MBS securities, and decided the position was too risky to hold. Indeed, the stock crashed in March 2023 following a run on the bank, which also sparked a broader regional bank panic.

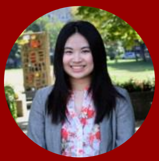
As we reflect on this difficult year for the fund and markets in general, we find ourselves in a much better position than when we started. We decided to exit a number of legacy positions as well as risky ones. We positioned the portfolio to be more resilient to a continued downward market trend by focusing on high-quality and well-capitalized companies, trading at reasonable prices. We believe this year will be an inflexion point for the program in how we approach stock picking as well as portfolio monitoring. Moreover, the students that faced such a difficult market environment will be far better equipped to face another in their upcoming career.

Sources: Bloomberg, CIBC Mellon

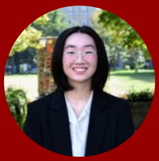
RISK, STRATEGY, & ECONOMICS

2023 OUTLOOK &
MACROECONOMIC UPDATE

Jasmine Liu
Senior Analyst



Serena Hua
Junior Analyst



Economics

Deep-Dive Into the US and Canadian Economies

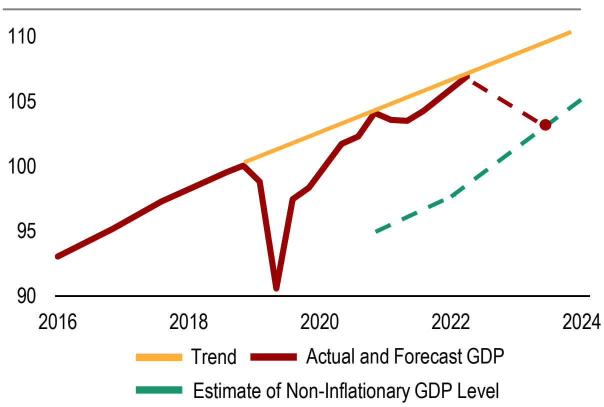
Jasmine Liu, *Senior Analyst*
Serena Hua, *Junior Analyst*

The US Economy: Surprising Resilience but Downturn in the Cards

US real GDP rose at a 2.9% annualized pace in Q4 2022, slightly slower than the 3.2% pace in Q3, although narrowly beating out expectations. Consumer spending weakened from the previous period but remained positive (from -0.2% in Q3 to 2.1% in Q4). Meanwhile, inflation readings moved considerably lower to end off the year after hitting four -decade highs in the summer, reflecting receding price pressures, but remain well above the Fed's 2% target.

Aside from the boost from consumer spending, increases in government spending and private investment further aided growth, while a sharp decline in residential fixed investment pulled it back down. Whereas the Q4 GDP release paints the picture of a still strong economy, the mix of growth is less encouraging. As of now, the American economy has been held afloat by a tight labour market and resilient consumer spending; however, it remains vulnerable to a slowdown in the next few quarters. Consensus expectations currently see US GDP growing by 0.4% y/y in 2023 – higher than prior 0% expectations, but historically on the lower end and a far cry from the estimated 2% drop in GDP needed to close the gap between demand and supply in 2023 (Figure 1). Ultimately, taming inflation could take a recession.

Figure 1: GDP vs. Non-Inflationary Level Estimate



The Canadian Economy: Mild Recession Ahead

The Canadian economy saw GDP growth slow to 2.9% annualized in Q3 2022 from 3.2% in the previous quarter. While nearly doubling expectations, this seemingly strong figure masked underlying softness: exports remained strong in the quarter, but household consumption and business investment growth declined, facing tighter financial conditions and a potential economic slowdown. Despite official Q4 data still being unreleased, most indicators, namely a still robust labour market marked by outsized job gains to end off 2022, point to a milder decline than previously expected heading into 2023. The Canadian economy is now expected to grow 0.5% y/y in 2023, again compared to prior expectations of 0% growth.

Still, initial data releases indicate that overall activity struggled in December – with manufacturing sales and wholesale trade both expected to fall by 1.8% in the month. As the impact of higher interest rates, rising inventories, and consumers pivoting back toward services continues to weigh on goods-related sectors, this slowdown is expected to persist. As such, our view is that the Canadian economy is headed for a shallow recession this year – especially as higher interest rates continue to lower demand.

2022: A Turbulent Year for Markets

These reports cap off a volatile year for the economy: equity markets saw their third worst-performing year since 1976, and bond markets had their worst year by far. However, the stock market has at least started 2023 on slightly better footing, up 6% year-to-date. We view investors driving this rally as being cautiously optimistic and holding the following beliefs:

That (1) inflation is easing; (2) the Fed will soon pivot back towards stimulative policy; (3) interest rates will return to historically low levels; and (4) a soft landing will be achieved, or a recession will be brief and mild.

Sources: St. Louis Fed, Statistics Canada, J.P. Morgan Asset Management, BMO Economics

Economics

Dovish Fed Pivot Still Awaits Amidst Hot but Decelerating Inflation

While we explore whether these beliefs hold up in the following sections, we believe that as 2022 was all about inflation, decelerating-but-still-elevated inflation will continue to be a focus in 2023, along with the looming threat of a global recession in the latter half of the year.

US Inflation: Declining But at a Slower Pace Than Market Expectations

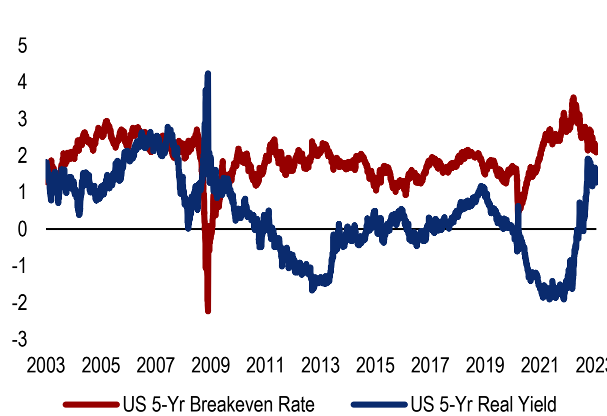
The positive trend in US inflation, which peaked at 9.1% in June 2022, continued in December, with headline price growth dropping lower to 6.5% year-over-year amid decelerations in all major categories, including food and energy, whose year-over-year rates dialed lower to 10.4% and 7.3% respectively. Notably, improvements in global supply chain conditions, waning demand, and falling import prices from a strong US dollar have supported declining commodity and durable goods prices. Indeed, gasoline prices, consisting of 4% of total CPI, have risen more than any other good or service in the CPI basket over the past year, yet, they have declined 9.4% month-over-month and 1.5% year-over-year.

The stickiest driver of high price growth remains wage and services inflation, which can be attributed to three main factors. First, service spending dynamics that are unique to the COVID-19-driven cycle are hard to break: lower-wage workers who are disproportionately employed in the service sector have experienced strong wage growth, supported by the excess savings of higher-income workers. Second, healthy household balance sheets are still supporting services spending, as the unemployment rate in both the US and Canada remain near cycle-lows (3.5% and 5.0%, respectively); employment gains are particularly strong, with US nonfarm payrolls increasing by ~223K in December (the Fed's objective is 100K to consider beginning to cut rates) and Canadians' employment gain reaching 74K: the best 3-month trend since April. Finally, long-term trends, such as aging populations leading to continued worker shortages in many major economies and persistent geopolitical tensions rewiring globalization and supply chains, are keeping production capacity constrained, exacerbating price pressures.

Monetary Policy: Still Hawkish, Pivot TBD

In response to sticky services inflation, the Fed has maintained a hawkish stance with regard to monetary policy. More specifically, Chairman Powell stated, during the December 2022 FOMC meeting, that the Fed will not reduce rates "until it is really confident that inflation is coming down in a sustained way […]" and unless "wage trends come down to be consistent with 2% inflation." Given the strength of the labour market, Fed officials expect rates to stay high, with the median federal funds rate at 5.1% by the end of 2023, before dialing down to 4.1% by the end of 2024. On the other hand, however, markets have started to price for "normalization," or a rapid return from restrictive policy (~5%) to a neutral one (3%), with rates declining as of the second half of 2023. Markets' view is consistent with decreasing inflation expectations: the 5-year real yield has caught up to the 5-year breakeven inflation rate (2.2%), which is currently below pre-pandemic levels (2.5%), as shown in Figure 2.

Figure 2: US 5-Year Real Yield vs. 5-Year Breakeven



Sources: New York Fed, BlackRock, Federal Reserve Bank of Atlanta, UBS

Economics

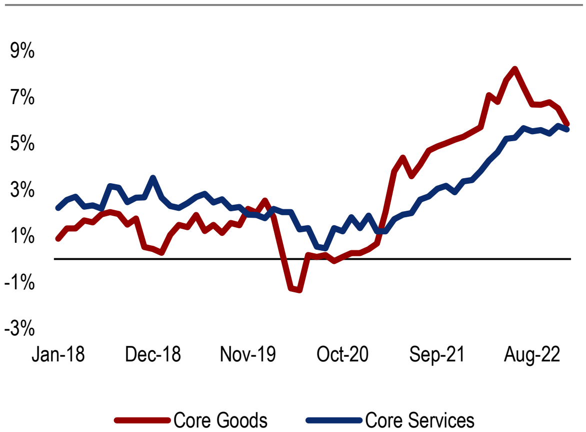
Softening Canadian Inflation on the Lookout

However, we expect rates to remain high at least throughout 2023, given our view that persistent price pressures will dampen at a slower pace than market expectations due to persistent services inflation. Moreover, we believe there is no obvious reason for the Fed to turn excessively stimulative anytime soon, given increasing recessionary risks; higher rates will also provide the Fed with enough room to tighten monetary policy if it needs to stimulate the economy in the future. Our view indicates potential negative impacts for equity markets should expectations of a dovish pivot fail to pan out. All in all, as opposed to market beliefs (2) and (3), outlined initially, we concur that highly stimulative rates seem unlikely in the short-term, barring a serious recession.

Canadian Inflation: A Labour Market Story

The inflation situation in Canada is similar to that of the US: headline CPI fell 0.6% in December, supported by seasonality and a sizeable drop in gasoline prices, bringing the annual rate down to 6.3%. While underlying price pressures remain sticky for now, both core goods and services prices are showing encouraging signs of easing (Figure 3). Thus, monitoring the speed at which inflation decelerates will continue to be key.

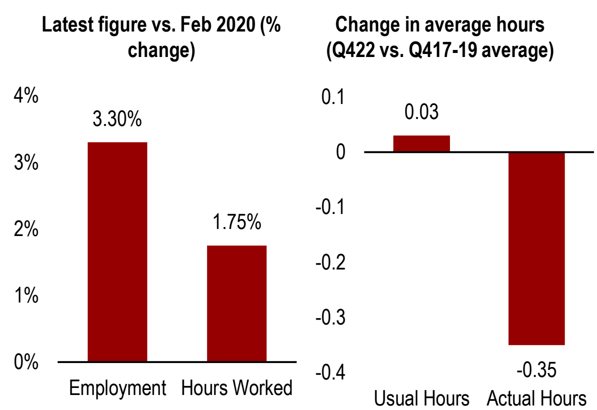
Figure 3: Canada Core Goods vs. Services Inflation



Thus far, all eyes have been on the labour market – a bright spot for the economy but a source of stress for central banks – which has been remarkably resilient, especially in the face of aggressive rate hikes. However, digging deeper into the data reveals that the Bank of Canada should be wary of overemphasizing the role of the unemployment rate as a signpost of excess demand in the economy.

While the current low unemployment rate does reflect strong demand, it also represents a sicker workforce. In fact, much of the recent uptick in hiring and apparent labour market tightness is attributable to increased staff absenteeism due to illness (Figure 4).

Figure 4: Hours worked still lag employment (LHS), but not because of a decrease in the avg work week (RHS)



This lack of supply is inherently inflationary in that additional workers hired in place of those absent further tightens the labour market and increases wage pressures. Nonetheless, while COVID could induce a structural shift in the labour market, as long as the health situation does not worsen and further constrain supply, we believe that 2022's sicker workforce should be a temporary trend whose receding impact will help drive some of the much-needed deceleration in Canadian inflation in 2023. In short, some improvement in inflation will come from factors other than a higher unemployment rate, which should alleviate some stress for the BoC.

Sources: BMO Economics, CIBC Economics, Statistics Canada, J.P. Morgan, Oaktree Capital

Economics

Fading Resilience Foreshadows a Moderate US Recession in '23

US Growth: A Hot Debate

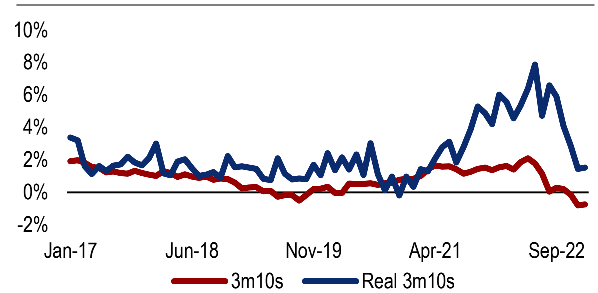
A US recession seems to be all but a foregone conclusion by most investors and economists – case in point, 2 in 3 economists surveyed at the World Economic Forum in January predicted a moderate recession in the second half of 2023. Arguments for an economic downturn are overwhelming, whereas points in favour of a soft landing seem fewer and further between, although they should not be overlooked: a tight (but peaking) labour market, unfurling supply chains, and still anchored long-term inflation expectations. A soft-landing scenario gains further credibility if the Fed ultimately is not as aggressive as it has claimed it will stay. However, opposite market belief (4) outlined initially, we believe that a soft landing is unlikely: circumstances in tightening cycles ending with soft landings (1965, 1983, and 1994) were markedly different from circumstances today – with low inflation and high unemployment as a cushion for rate hikes then versus the highest inflation and lowest unemployment in decades on top of a highly negative real Fed Funds rate at the start of the 2022 hiking cycle.

Our Thoughts? Recession on the Mind

As such, we expect a moderate recession in 2H23, triggered by the Fed's aggressive tightening cycle and the drag from tighter financial market conditions. Key business surveys and indicators also reflect this, strongly signaling an incoming recession. For example, December saw the ISM manufacturing and services prints contract for the first time since May, with ISM new orders minus inventories at -6.6 as of December 22. Consumer spending also showed signs of weakening, with retail sales down 1.1% in December. The effects of Fed rate hikes have already been emerging in more interest-sensitive sectors as well, with housing sales declining by over 25% in 2022 (marking a steeper slide than that seen in the 70s, early 80s, and mid-2000s). Given the lagged effect of monetary policy, the full impact of rate hikes should be felt more fully in 2023 (i.e., as the effect of hikes gradually spreads to less interest-sensitive sectors).

Looking at leading indicators, the Conference Board Leading Economic Index decreased by 1.0% in November 2022, down 3.7% over six months, indicating deteriorating conditions for labour markets, manufacturing, housing construction, and financial markets in the months ahead. The sharp, prolonged inversion of the 2s10s and 3m10s yield curves, a frequently reliable signal, gives additional credence to an eventual recession. However, as a word of caution, recent years have seen the yield curve-growth relationship break down, with many arguing that the current inversion may be a false signal (Figure 5).

Figure 5: Adjusted for inflation, the 3M is still far above the 10Y, implying a simple reflection of hawkish monetary policy and expectations of declining rates



While keeping in mind that predictive signals should be approached with some caution and should not be taken entirely at face value, we still view the case for a recession, however moderate, as substantially more robust. For instance, the near-term forward spread, commonly cited by Fed officials and viewed as an empirically superior signal and recession predictor, has also been inverted since November. Corporate profit reports from the fourth quarter further signal a potential earnings recession: earnings season is in full swing, yet profits are tracking a loss of 3%, even with revenues growing by 4.1%. Despite this, earnings estimates still remain elevated – suggesting that equity valuations will eventually need to come down.

Sources: New York Fed, St. Louis Fed, J.P. Morgan, Bloomberg, BMO Economics

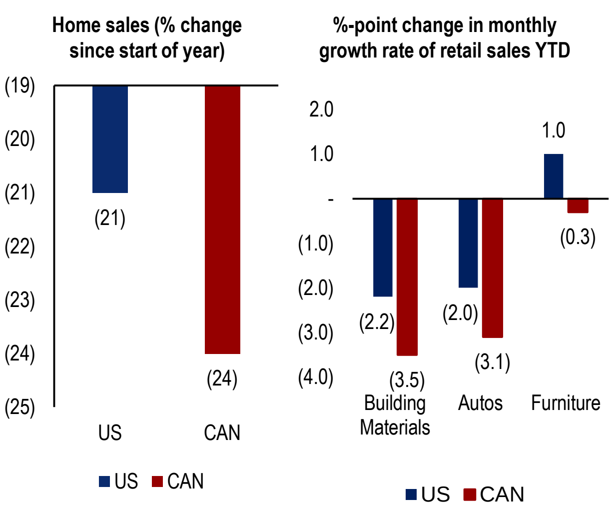
Economics

Canadian Growth Red Flags & Equity Markets Trends

Canadian Growth: Risky Household Debt

We believe that the Canadian market is at a higher risk of recession compared to the US, particularly considering Canadian households' higher levels of indebtedness. In fact, a few factors unique to Canada are driving its housing activity's outperformance – both pre- and post-pandemic – including stronger population growth, lesser scarring from the 2008 housing crash, and its market being more "fertile ground for fear of missing out and increased speculation" (TD Economics). As such, a larger deterioration in housing affordability before and during the pandemic poses a greater downside risk to Canadian home sales and prices over the medium term, as evidenced by Canada's far higher household debt to GDP ratio (99.76 in Canada vs. 75.59 in the US). Canada's debt-burdened households are already spending less in interest-sensitive areas, such as construction, autos, and furniture, at a faster pace than US households, as shown in Figure 6. As such, provided that inflation and the Canadian labour market cool further, we do not foresee the need for more rate hikes from the Bank of Canada in 2023.

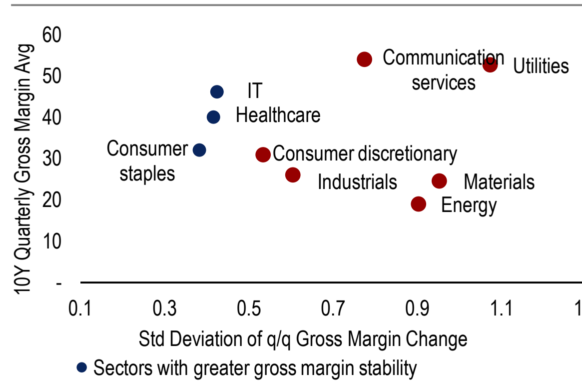
Figure 6: Interest-sensitive areas slowing faster in Canada



Equity Market Implications

Considering our views that a soft landing is unlikely given key economic indicators pointing to an upcoming recession and that earnings are likely to be hit hard with peaking interest rates, we favour companies that (i) pertain to defensive quality segments and (ii) are dividend-paying in the short term (i.e., first half of 2023). Defensive and quality companies benefit from being able to pass on higher costs and operate in fields with high barriers to entry. Moreover, characteristics of individual firms with greater pricing power include greater size or market share (85% of large firms vs. 72% of small firms can pass on more cost increases) and higher, more stable gross margins – historically observed in sectors like consumer staples, healthcare, and IT (Figure 7). As well, financials, healthcare, and industrials are sectors offering more dependable dividends: should the macro backdrop fail to improve and stagflationary pressures persist into 2023, income-paying stocks would prove relatively more resilient, as dividends tend to fall less than earnings during recessions. Once a turning point in the market is reached where a re-rating of equities and shift in central bank rhetoric occur, signaling a slowdown in inflation and increasing recession risk, we will consider rotating toward interest rate sensitive sectors with a growth tilt given decreasing interest rates, such as technology.

Figure 7: Pricing Power of Different Sectors



Sources: TD Economics, Morgan Stanley, Credit Suisse, J.P. Morgan Asset Management

Economics

USD Losing Steam is Helping CAD Gain Traction

Currency Outlook: Diverging Paths

For the most part, 2022 was the year of the USD – outperforming nearly every other major currency. Incredibly hawkish Fed policy drove this outperformance (with US interest rates raised more than any other major economy, up 425 bps in just nine months), as well as flight-to-safety dynamics amid a shaky geopolitical outlook. However, entering 2023 and as the Fed approaches the end of its hiking cycle, an overvalued USD looks increasingly vulnerable, and we expect it to soften and gradually converge to its long-term fair value.

In stark contrast, last year was a rough year for the CAD. Commodity currencies suffered across the board in 2022, unable to benefit from high commodity prices in the wake of the Russian invasion of Ukraine. Following a nosedive in resource prices in light of mounting global recessionary fears, these currencies, including the CAD, were sent even lower. Nevertheless, the Canadian Dollar has started 2023 slightly stronger, supported by moderating Fed policy and a reopening Chinese economy, and we continue to be bullish on its recovery moving forward.

In short, while a powerful USD insulated DCM's returns in 2022, an appreciating CAD relative to the USD will drag on our 2023 returns. Thus, on the basis of a more favourable exchange rate and considering that the new rate backdrop still does not leave US equity valuations looking relatively cheap, CAD-denominated securities look marginally more attractive than US ones moving forward.

Sources: BMO Economics, J.P. Morgan Asset Management

CONSUMERS

2022 REVIEW & 2023 OUTLOOK

Marc-Antoine Millaire
Senior Analyst

Julia Jin
Senior Analyst

Allan Zhang
Junior Analyst

Kelly Zhang
Junior Analyst

Consumers

2022 Overview

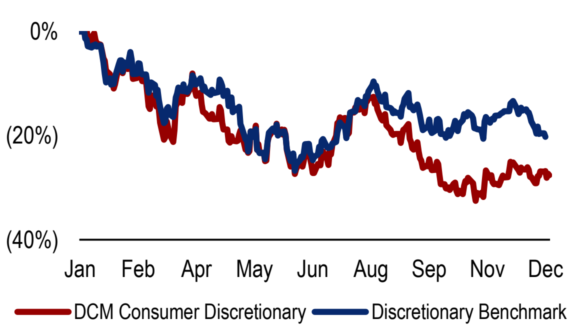
Julia Jin, Senior Analyst
Marc-Antoine Millaire, Senior Analyst
Alan Zhang, *Junior Analyst*
Kelly Zhang, *Junior Analyst*

Overview

Over the last twelve months, the consumer industry has experienced the most stressful period in the last two years. On the supply side, although the global supply chain issues seem to be past the worst of it, there is still a long way to go before returning to "normal" conditions. The Russia-Ukraine conflict adds to the turmoil – the increase in input costs (i.e., grain, plastic and oil), have been disrupting production and profit. Another issue is labour shortages, as we saw some companies miss deliveries in the fourth quarter. On the demand side, we saw the highest inflation rate (CPI) since 1982. Consumers are cutting spending on consumer goods and becoming more price sensitive.

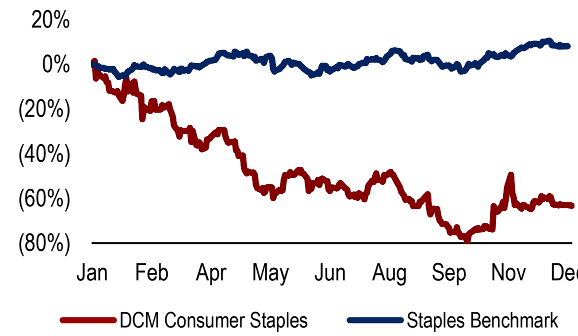
Looking at the subsectors, Consumer Discretionary suffered the most during 2022, heavily driven by the changes in consumer behaviour, which included a higher emphasis on necessities and lower ticket items. DCM's Consumer Discretionary sector followed closely with the benchmark in the first half of the year, but lost momentum in the third quarter, mainly because of Sleep Country's (ZZZ) earning miss and concerns about a possible recession. DCM's Discretionary sector underperformed the benchmark by 7.8% in 2022, with a sector return of (27.6%), compared to a benchmark return of (19.8%).

Figure 1: DCM Consumer Discretionary Performance, 2022



It is not surprising to see that the Consumer Staples sector outperformed the market during this volatile period since it is a defensive sector. However, DCM's Staples sector underperformed the benchmark by 70%, with a sector return of (63.3%), compared to a benchmark return of 6.7%. This discretionary is attributed to Ocado Group (OCDDY), our only Staples holding at the moment. (see Holdings Review).

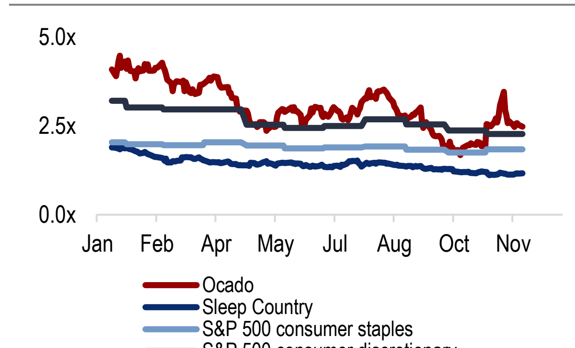
Figure 2: DCM Consumer Staple Performance, 2022



2022 in Review

At the macro level, the sector was impacted by record inflation, supply chain issues, global conflicts, and consumers' shift to lower-ticket items. Over the year, DCM's Consumer Staples subsector was surprised on the downside, mainly due to Ocado's performance, as its technology segment caused it to be much more volatile compared to the broader subsector. On the other hand, Sleep Country traded steadily with no major surprises nor fluctuations in valuation metrics.

Figure 3: Trailing EV/Revenue Multiples, 2022



Sources: Capital IQ, Deloitte, Yahoo Finance, Company Filing

Consumers

2023 Sector Outlook

Julia Jin, Senior Analyst
Marc-Antoine Millaire, Senior Analyst
Alan Zhang, *Junior Analyst*
Kelly Zhang, *Junior Analyst*

Consumer Discretionary

Consumer Discretionary stocks had a solid run from the midst of Covid-19 in March to the end of 2021. Unfortunately, the rise of interest rates in response to inflation numbers among other concerning figures like consumer confidence caused discretionary stocks to underperform the S&P 500. Accumulated excess savings during Covid-19 have likely been spent, suggesting a possible reduction in discretionary spending. According to Deloitte, "4 in 10 consumers surveyed feel their financial situation worsened over the past year." Going forward, interest rates and inflation are the key macroeconomic factors driving valuation. Recent US CPI reports and Federal Reserve data suggest that inflation will cool down (but nowhere near the 2% target level) and that interest rates may inch towards the 5% level in 2023.

On the bright side, 2023 could prove to be successful for many companies. Demand for travel due to border re-openings will give stocks in the travel industry a boost. China's removal of its zero-Covid policy is likely to spur spending, giving companies with international presence like Starbucks a lift. In addition, consumers may continue to spend on home improvement since the hybrid work model is here to stay.

In terms of valuation, average Consumer Discretionary TEV/EBITDA multiples have fallen to 2017 levels. This contraction is mainly driven by a decrease in enterprise value due to the fall in market capitalization. TEV/EBITDA multiples may contract further if the stock prices slip further. Companies with solid financials could be undervalued right now.

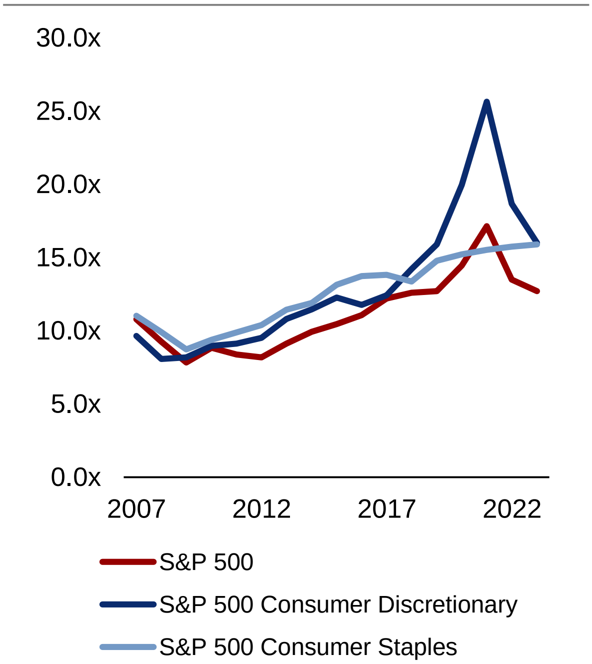
Consumer Staples

Although this defensive sector outperformed the S&P 500 in 2022, Consumer Staples continues to face hurdles in 2023. The key macroeconomic factor driving valuation is inflation due to its significant impact on input costs and consumer behaviour. Input costs will remain high due to the ongoing political conflicts, tight labour market, supply chain issues, and natural disasters to name a few. Therefore, consumers will continue to tighten their wallets and shift their purchasing behaviour.

Elevated inflation and recent mass lay offs give further headway for discount stores, private labels, and wholesale companies as consumers seek for more economical alternatives and value. The use of coupons, loyalty programs, and cost-saving applications will also increase as shoppers become increasingly conscious of what they put into their carts.

In terms of valuation, average Consumer Staples TEV/EBITDA multiples are at a 15-year high. This expansion is due to a higher enterprise value; the increase of debt and market capitalization is greater than the increase in EBITDA. Since this sector is known to be defensive and that many investors are anticipating further economic downturn, the benefits have been priced in and this sector is overvalued.

Figure 1: Average TEV/EBITDA Multiples



Sources: Capital IQ, CNBC, Deloitte, Federal Reserve Board, U.S. Bureau of Labor Statistics

Consumers

Holdings Review – Ocado Group (OTCMKTS: OCDDY)

Company Overview

- Founded in April 2000 and went public on the LSE in July 2010
- One of the world's largest online grocers with specializations in both retail (Ocado) and logistics automation (Ocado Technology)
- Retail arm was formed in February 2019 as a joint venture with Marks & Spencer Group plc
- Logistics automation arm includes physical infrastructure solutions and end-to-end proprietary software solutions
- 12 international partners including Sobeys, Kroger and Aeon

Catalysts

- New partnership agreements, especially in emerging markets
- Opening new Customer Fulfillment Centers (CFCs)
- Consumer Adoption of e-grocery trends
- CFCs remain the top choice for potential partners

Risks

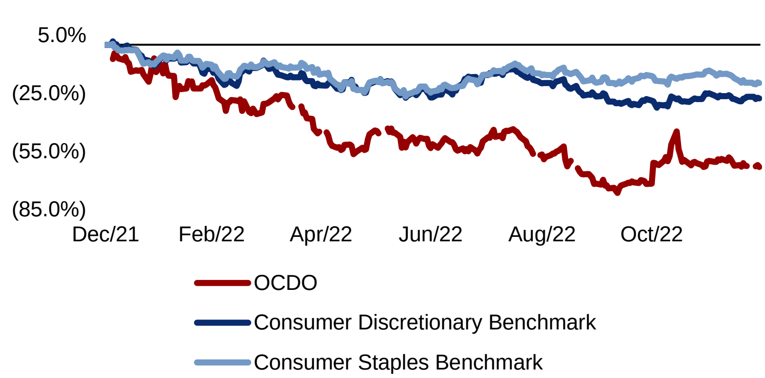
- Failure to find new partnership agreements
- Unfavourable ruling in AutoStore vs. Ocado legal dispute
- Slowdown of e-grocery adoption
- Wage pressures and labour shortages

Investment Theses

1. **Market is overestimating competition from Micro-Fulfillment Center (MFC) Providers**
   - MFCs should not be viewed as perfect substitutes to CFCs and Ocado is the best choice for grocery retailers looking to make a successful digital shift
   - Ocado announced a new partnership with Lotte Shopping, a South Korean retailer, sending the stock price to soar 40.18% by close. Ocado opened 6 new CFCs in H1 of 2022
2. **Market is overestimating immediacy impacts**
   - Immediacy players cater to niche markets through higher grocery premiums and delivery fees. All potential price decreasing levers to attract price sensitive customers lead to similarities with Ocado's CFC model
   - Average orders per week increased 1.9% YoY to 382,000 orders with 940,000 active customers at the end of Q4, a 12.9% YoY increase

Given the company's performance over the past year and low valuation from a DCF, we recommend a sell.

Stock Price and Sector Benchmark Performance



Sources: Capital IQ, Company Filings

Position Snapshot

Average Cost	U$48.62
# of Shares	850
Value Invested	U$41,327
Portfolio Weight	2.0%
YTD HPR	(66.2%)
YTD Benchmark Return	6.7%
Excess Return	(72.9%)

Consumers

Holdings Review – Sleep Country (TSE: ZZZ)

Company Overview

- Sleep Country is Canada's leading specialty sleep retailer with a national retail store network and multiple robust eCommerce platforms, offering numerous omnichannel brands
- The company has 289 corporate-owned stores, 20 warehouses across Canada, and holds 35-40% of Canadian market share
- The retailer offers a variety of products, including mattresses and sleep accessories such as pillows, sheets, etc. The company acquired Endy in 2018, Hush Blankets in 2021, and Silk & Snow in 2022

Catalysts

- TEV/EBITDA multiple has fallen to the 2017 level, causing the company to be undervalued
- New opportunities come from the partnership as we saw the management team implement the acquisition in a planned way
- Supply chain problems will be further alleviated as we see the reopening of China

Risks

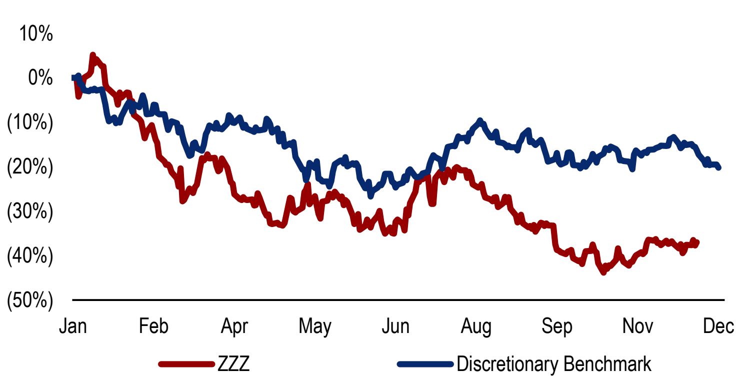
- The economy may go into recession in FY23
- Consumer behaviour has already changed to the preference for small-ticket items
- Continuing inflation and stretching of the dollar may have a negative impact on value through pricing

Investment Theses

1. **Market is overestimating the decrease in the average customer wallet due to the e-commerce shift**
   - Sleep Country's special "Dream Line" platform increases the average online customer wallet, along with the mattress industry's nature to edge against the e-commerce shift
   - Consumers revert to in-store shopping post-pandemic; while Sleep Country is still trying to find out a way to adapt to this e-commerce era, as their online sales represent ~20% throughout the year
2. **Market is underestimating the growth opportunity and the impact brought by its Walmart partnership**
   - The market is underwhelming in response to Walmart's partnership announcement, and Sleep Country's partnership strategy will generate future growth and expansion opportunities
   - Since purchasing the stock, we saw the company's ambition to become the best & largest sleep retailer in Canada. They now have the 17th "Sleep Country Express," the result of their partnership with Walmart, at the pace of 7 new stores per quarter.

We decide to HOLD Sleep Country until it at least reaches our target price for the Base case, $27.78

Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost	U$30.14
# of Shares	1200
Value Invested	U$36,168
Portfolio Weight	3.0%
YTD HPR	(21.0%)
YTD Benchmark Return	(19.8%)
Excess Return	(1.2%)

Sources: Company Filings, Capital IQ

ENERGY & UTILITIES

2022 REVIEW & 2023 OUTLOOK

Quynh Huynh
Senior Analyst

David Fishman
Senior Analyst

Jordan Rindler
Junior Analyst

Thibault Quelavoine
Junior Analyst

Energy & Utilities

2022 Overview

David Fishman, *Senior Analyst*
Quynh Huynh, *Senior Analyst*
Jordan Rindler, *Junior Analyst*
Thibault Quelavoine, *Junior Analyst*

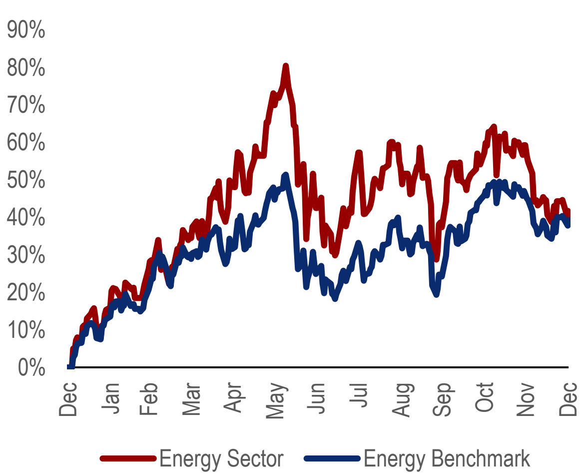
Overview

In 2021, the energy sector rebounded significantly from 2020 record lows buoyed by recovering demand. Energy prices continued to rally in 2022 due to further economic recovery and supply chain issues, notably the supply crisis resulting from Russia's invasion of Ukraine.

Since the beginning of the year, the DCM Energy sector returned an impressive 42% vs. the sector benchmark of 39% and fund benchmark of (8.7)%. We achieved a significant outperformance largely driven by successful stock selection throughout the COVID-19 pandemic, led by Tourmaline Oil Corp, a stellar performer.

After its incredible rally in 2021, the energy sector has continued to remain strong in no small part from the supply crisis in Europe. DCM's upstream E&P holdings have been a main staple of our portfolio's growth and we will continue to hold them until the proper time to sell.

Figure 1: DCM Energy Sector Performance, YTD



2022 in Review

While our analysts expressed confidence in the fundamentals of our sector's holdings, we had previously forecasted a downwards price movement as commodities came down from their 2021 inflated highs and stabilized. It was a series of unforeseen geopolitical events - Russia's invasion of Ukraine, the subsequent UN sanctions and Russia's weaponizing of its energy supply, compounded by the bombing of the NS pipelines - that sent energy prices soaring again.

As is customary for a sector as sensitive to commodity prices as the Energy & Utilities sector, this surge in commodity prices translated almost directly to financial performance. As the WTI rallied above $110, energy stock prices rose to record highs, but the market's average multiples remained relatively stable. DCM's holdings, however, have surprised on the upside, with multiples expansion driving returns on top of strong cash flows. This outperformance marks the success of our investment strategy, which revolved around overweighting upstream E&P companies with high Capex, many drilled but uncompleted well (DUC) and fewer hedging instruments.

Our rationale relied on the market underestimating the global energy crisis, and consequently the duration of inflated prices. Globally, we predicted a production cut by OPEC as we analyzed their inability to meet their quota, which would put additional strain on supply and maintain prices high. In the US, we discussed the overreliance on Strategic Petroleum Reserve drawdowns, which were further increased ahead of US midterms in a bid to appease public discontent over inflated gas prices.

Interestingly, The energy crisis also induced a shift in policy-makers' attitude towards the sector: where previously E&P companies faced significant ESG pressure over their activities – a partial cause for the sector's switch to focusing on shareholder returns through high dividends and buybacks as opposed to expanding operations - these same companies were now being admonished for not drilling more and accused of "war profiteering" as tight energy markets threatened to induce a global supply shortage.

Sources: Statista, Bloomberg, OPEC, Reuters, EIA

Energy & Utilities
2023 Sector Outlook

Upstream Perspective

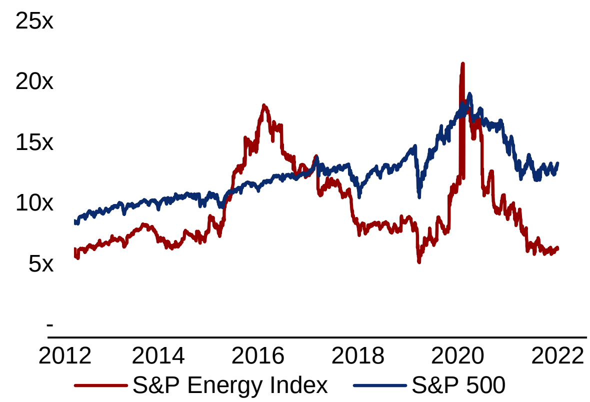
This year, we expect more resilience from the E&P industry than most. This stems from structural deficits we've identified in the industry, specifically a persistent trend of under-investment in the field, a depleted Strategic Petroleum Reserve (SPR), and the continued segregation of the Eastern and Western energy markets.

Upstream companies have employed a conservative capital allocation strategy over the last decade, preferring to return capital to shareholders via share buybacks and dividend issuances rather than reinvesting in oil and natural gas production. This has created a structural supply deficit that will pervade Western energy markets until prices reach an attractive level for producers or until the government intervenes. This supply deficit has been blunted in 2022 by the SPR releases, however the US reserves have been depleted by 40% from 600 to 370 million barrels, and the government has publicly stated that it will begin refilling the reserves at prices between $65-70. This level is well within the profitability range of our oil positions and provides a safe lower limit for crude oil that increases our conviction in our holdings.

Finally, as North America continues to become Europe's de-facto energy supplier, upstream companies will see demand growth that outpaces expectations. The US, and Canada to a lesser extent, have become the primary suppliers of the Western market, which services North and South America, Europe, and some of non-OPEC Africa while Russia and Iran will divert their attention to China, India, and Southeast and Central Asia. We believe that these trends will enable US/Canadian upstream companies to maintain their elevated dividends yields of 6-10% over the next 12-18 months and have positioned ourselves as such.

Sector Valuation

Figure 1: EV/EBITDA Ratio



Valuations remain favorable for the energy sector, hovering around 5x EBITDA, which has proven to be a significant historical level for investors. The multiple compression we've seen since March 2020 has been driven mainly by increased earnings. We believe that once the market becomes more aware of the paradigm shift into a higher energy-price world, industry multiples could expand towards their historical average of 9.6x EBITDA.

Going forward

The energy analysts have identified a promising trend in the midstream (storage and transportation) subsector, which offers the highest stability and least exposure to commodity prices. As US production, consumption, and exports continue to increase, midstream operators will be able to capitalize on the higher transportation volume. We believe that this subsector will provide a very safe 8-15% annual return, which will complement our more volatile E&P positions to form a healthy energy portfolio that can fully benefit from the trends we foresee in 2023 while mitigating as much downside risk as possible. 2023 will likely bring similar levels of turbulence as 2022 did, but we remain confident in our portfolio.

Sources: Company Filings, Capital IQ

Energy & Utilities

Holdings Review – Surge Energy Inc. (TSE:SGY)

Company Overview

- Oil focused upstream producer with 975 net drilling locations in Western Canada (Greater Sawn, Valhalla, Sparky, Shaunavon, SE Saskatchewan)
- Focus on medium to light crude oil reserves (API > 20)
- Dominant position in conventional oil plays, providing over 13 years of drilling inventory
- Met 2022E exit guidance of 21,5000 boe/d with a liquids mix of 86%

Catalysts

- Continued increase in commodity prices caused by global supply shortages
- Increase in demand for Natural Gas Liquids as commodity transportation efforts

Risks

- Decrease in O&G prices as recession fears grip the commodity market
- Operational problems with integrating new acquisitions in ”core area”

Investment Theses

1. Market is Undervaluing Asset Base and Usage of Conventional Reservoirs

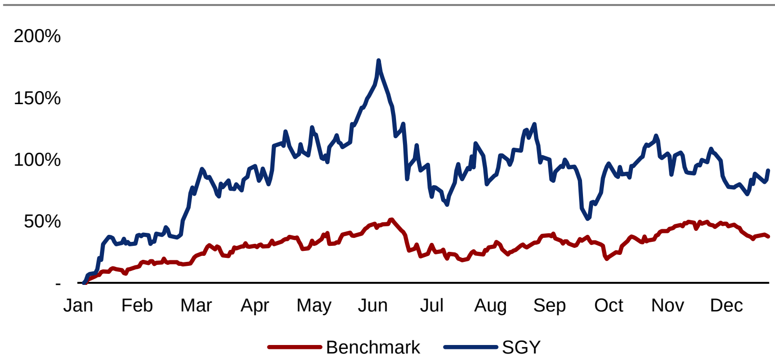
- Surge has a strong base of conventional reservoirs allowing for a better decline rate and strong future potential as well as better FCF generation, which we believe the market fails to recognize
- The recent closure of their acquisition of core area assets in Sparky and SE Saskatchewan has expanded the company's drilling inventory, adding yet another 45 drilling locations. However, the market has failed to recognize the quality of Surge's asset base with no notable increase in stock price corroborating the successful drilling results and planned expansions

2. Market is Over Punishing SGY's Suspended Dividends

- As a consequence of Canadian chartered banks' desire to reduce exposure to reserve-based lending at the onset of the pandemic due to heightened risk levels, Surge was forced to suspend dividends in April 2020 after seeing its CF maximization abilities limited
- After its two-year hiatus the company was able to reinstate an annual dividend of $0.42 per common share and alleviate all prior concern of suspended dividends.

With an original target price of $10.32 we are confident in a HOLD on our position in SGY and monitor its acquisitions and collect dividends.

Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost	U$8.22
# of Shares	2170
Value Invested	U$17,837
Portfolio Weight	2.2%
YTD HPR	13.8%
YTD Benchmark Return	39.4%
Excess Return	(25.6%)

Sources: Bloomberg, Capital IQ, Company Filings, Yahoo Finance

Energy & Utilities

Holdings Review – Tourmaline Oil Corp (TSX:TOU)

Company Overview

- Largest natural gas-focused upstream producer in Canada and 5th largest natural gas producer in North America, with 1,587 wells drilled in two Canadian basins: Alberta Deep Basin and Montney Formation
- Produces liquids-rich natural gas from the NEBC Montney and AB Peace River High production sites, while producing tight natural gas sand at their AB Deep Basin site

Catalysts

- Reduced natural gas demand due to warm winter
- Increased environmental regulation in BC

Risks

- Further increases in commodity prices caused by supply issues
- Expansion of LNG capabilities to capture global demand

Investment Theses

1. Strong Balance Sheet for Accretive Asset Acquisition

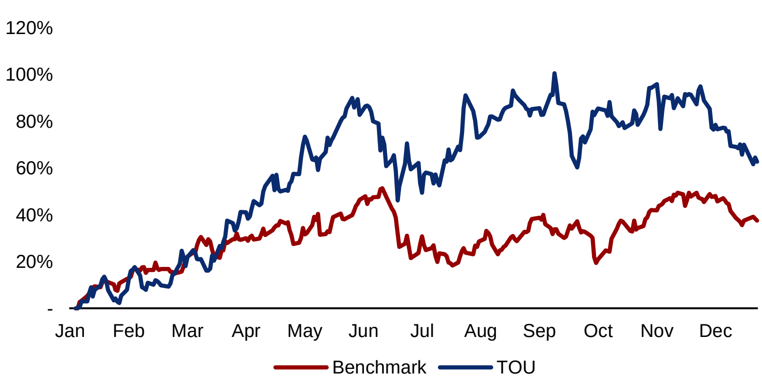
- Since Tourmaline was pitched in W2020, Tourmaline has continued to pursue acquisitions to increase production volume and scale.
- In Q3 2023, Tourmaline completed their acquisition of Rising Star, a small gas producer in NEBC. Current production is approximately 5,700 boe/d, 2P reserves are estimated at 50 mmboe and Rising Star has no outstanding debt. The first half 2022 cash flow from the assets was approximately $43.0 million. This acquisition was made at $191m, or approximately 1.5 times Rising Star's projected 2023 cash flow.
- Tourmaline also unveiled their new 6-year EP program that will stretch until 2028 and is set to increase annual production at a 6% CAGR for a total of 40% increased production by 2028 when the program concludes. Tourmaline now plans EP capital spending of $1.675 billion in 2023.

2. Market is Over Punishing SGY's Suspended Dividends

- Tourmaline's integrated mid-stream infrastructure allows it to continue expanding via acquisitions and well drilling without incurring significant marginal costs on these new projects. In an environment where labor and input costs are rising, Tourmaline has managed to keep OpEx low relative to its competitors.

We recommend a HOLD on TOU as acquisitions and a bolstered E&P program position the company to grow production and continue its shareholder distribution strategy.

Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost	U$17.93
# of Shares	510
Value Invested	U$9,144
Portfolio Weight	3.8%
YTD HPR	86.6%
YTD Benchmark Return	39.4%
Excess Return	47.2%

Sources: Bloomberg, Capital IQ, Company Filings, Yahoo Finance

FINANCIAL INSTITUTIONS

2022 REVIEW & 2023 OUTLOOK

Julien Séguin
Senior Analyst

Matt Pein
Senior Analyst

Philippe Bardot-Rabello
Junior Analyst

Tina Zhang
Junior Analyst

Financial Institutions

2022 Overview

Julien Seguin, *Senior Analyst*
Matt Pein, *Senior Analyst*
Tina Zhang, *Junior Analyst*
Philippe Rabello, *Junior Analyst*

Performance Overview

This year, the DCM financials portfolio suffered a significant underperformance when compared to its sector benchmark. Indeed, after a strong performance in 2021 (29.8% return), DCM financials underperformed by ~18% (-28.8% and -10.6% in 2022). First, the FIG team within DCM has historically been keen to be overexposed to the US equities, believing that higher growth at reasonable valuations could prove to generate alpha for the sector. As it turns out, in 2022, this exposure should have benefited us, as the US benchmark returned -8% whereas the Canadian one, -13%. However, a second factor has to be taken into account. At the beginning of the year our two largest positions; Bank of America and SVB Financial, composed a large proportion of the overall FIG holdings. As you are most likely aware, both would turn out to have large exposures to fixed rate securities which suffered significant losses in a rising rates environment. Fortunately for us, one of our analysts was savvy enough to look beyond the numbers and discern the high risk posed by the held-to-maturities exposure of SVB. In fact, the Q3-2022 results were already showing that SVB's equity was underwater. However, the damage was partially done, and the stock was down ~67% on the year when we took the decision to sell the position in December 2022, avoiding its imminent bankruptcy.

This experience will push us to be even more cautious in our monitoring of our holdings as well as redoubling the due diligence time before we invest in complex companies such as banks. Furthermore, for the upcoming year, the FIG team will focus on portions of the sector wrecked by the current market fears and conditions to try to pick-up high-quality opportunities momentarily discounted by this transient tough period for the banking and credit industry.

Real Estate Sector Highlight

DCM Real Estate matched its benchmark performance (-23.3% and -23.8% in 2022), although we were caught off-guard by the pace and the magnitude of the rising rates by the Federal Reserve, which we did not forecast. With those increases, we were increasingly skeptical about Simon Property Group's ability to navigate this tougher macroeconomic environment, given its retail exposure; sensitivity to consumers spending on top of rapidly-changing shoppers' habits. We therefore decided to sell the position and did not replace it by another name in the sector as we were bearish on the overall industry given the high interest rates, and little compression in valuation multiples. The team will continue to monitor the sector for potential weakness, which could open windows of opportunities.

Figure 1: DCM Financials Sector Performance

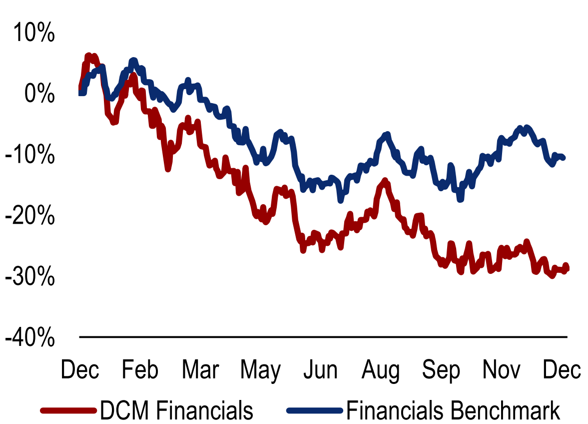
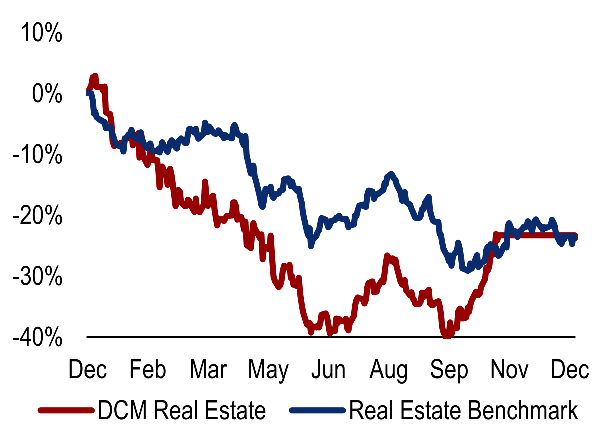


Figure 2: DCM Real Estate Sector Performance



Sources: FRED, Nareit, Reuters

Financial Institutions

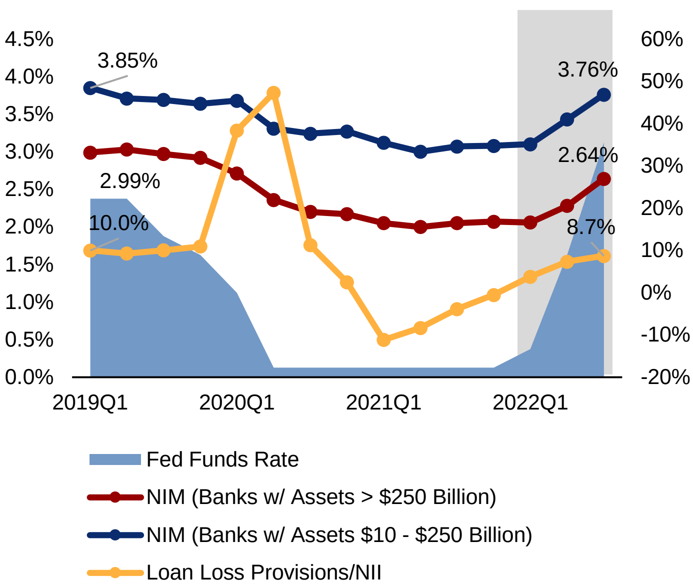
2023 Outlook

Julien Seguin, *Senior Analyst*
Matt Pein, *Senior Analyst*
Tina Zhang, *Junior Analyst*
Philippe Rabello, *Junior Analyst*

Higher Rates Generally Bode Well

2022 saw rising interest rates positively impact banks' net interest margin (NIM), as seen in Figure 2. With central bank rate hikes projected to slow in 2023, we expect margins to stabilize at pre-pandemic levels. On the flip side, higher rates have put pressure on borrowers, causing banks to increase their loan-loss reserves.

Figure 2: US Banks NIM and Loan Loss Provisions



Given the high likelihood of recession in 2023, banks can expect deteriorating credit quality and increased defaults. Fortunately, we believe most major banks are well-capitalized to weather a financial shock; the recent IMF Global Bank Stress Test reveals that, in the most adverse scenario, the global CET1 ratio could decline from 14.1% in 2021 to 11.4% in 2023, just below the pre-pandemic average of 12.5%. Furthermore, the buildup of low-cost liabilities (i.e., deposits), provides a liquidity buffer.

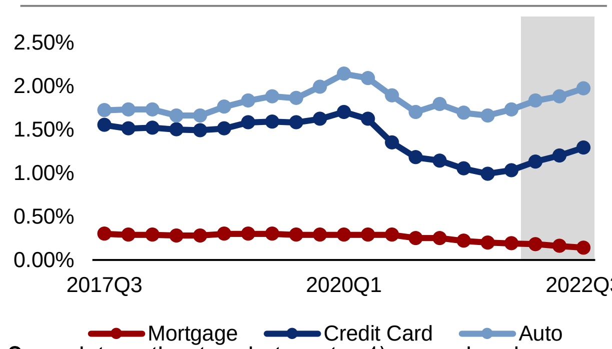
With regards to other financial sub-sectors, insurance companies will benefit similarly from higher rates after sustaining the artificially low-rate environment. Depending on whether their policies are fixed or variable, insurers can reinvest at a higher rate and take spread.

We expect the looming recessionary environment to have an outsized negative impact on discretionary insurers (e.g., life) as opposed to non-discretionary (e.g., property and casualty), as consumers will likely maintain coverage of their homes, vehicles, and personal property even in tighter economic conditions.

Specialty Finance: Overstated Fears?

Specialty finance firms refer to non-bank lenders who service non-prime commercial and consumer borrowers. Take the Canadian consumer as an example: total debt grew 7.3% year-over-year from 2021 to reach $2.36 trillion. The recent economic backdrop has increased credit card demand while also lowering repayment rates. The same has been seen in the higher delinquency rates of auto loans. Finally, though the housing market has cooled, homeowners have found themselves under pressure to refinance as their rates have climbed. Specialty finance firms are therefore positioned to benefit from increased demand for credit, though the market will also price in greater risks associated with credit quality deterioration and defaults.

Figure 3: Canadian Delinquency Rates By Credit Type



Some interesting trends to note: 1) non-prime borrowers are less exposed to mortgage payments due to a lower rate of home ownership (19% vs. Canadian average of 68%), and 2) they have a lower debt-to-disposable income ratio relative to the average consumer (~140% vs. 167%). If specialty firms can drive top-line revenue growth while maintaining adequate capital buffers, it could be argued that they will show greater resiliency – and higher returns – during economic downturns.

Sources: FDIC, IMF, Equifax, Goeasy

Financial Institutions

Holdings Review – Fiserv

Company Overview

Laurentian Bank of Canada provides financial services to personal, business, and institutional customers in North America. It operates three segments: Personal Banking, Commercial Banking, and Capital Markets. The Personal Banking segment offers financial advisory services to financial intermediaries; and operates digital direct-to-customer platform to retail clients. The Commercial Banking segment provides services, as commercial banking, real estate financing, and equipment and inventory financing to companies. The Capital Markets segment offers, research, market analysis, and advisory services; corporate underwriting services; and administrative services. Laurentian was founded in 1846 and is headquartered in Montreal, CA.

Catalysts

- Continuous delivery in 2021 strategic plan target should increase investors confidence in the company and reduce gap in valuation
- Further reduction in employees, infrastructure and administrative expenses, reducing the bank efficiency ratio

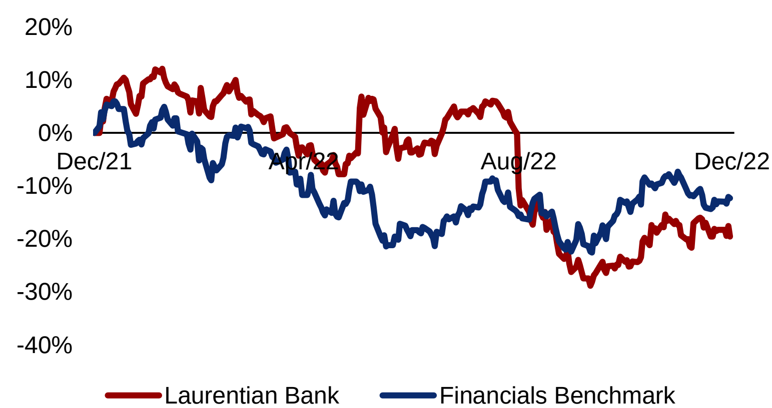
Risks

- Increase in default of commercial borrowers Increase in deposits withdrawals, constraining new loans underwriting
- Difficulty to attract new deposits, increasing their costs

Investment Theses

1. **Difficulties in the retail segment overshadows the strength of its commercial activities (Holding)**
   - § Laurentian Bank Commercial loan portfolio increased by a staggering 29% during the last fiscal year
   - § The impressive growth in its loan book was led by the real estate, construction and retail industries
   - ▪ The difficulties on the retail front also seem to decelerate with personal loans standing at $3.3 billion, down by $0.4 billion, or 11.3%, on the year.
2. **The market underestimates cost-cutting initiatives opportunities (Holding)**
   - § In 2022, Laurentian managed to contain inflationary pressures on wages as well as its technology costs.
   - ▪ The bank was able to cut its rent and property taxes budget by $8M, reducing significantly its network of branches
   - ▪ It increase its adjusted efficiency ratio from 66.5% in 2021 to 68.2% in 2022

Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost	$43.01
# of Shares	280
Value Invested	$30,618
Portfolio Weight	3.9%
YTD HPR	9.46%
YTD Benchmark Return	5.84%
Excess Return	3.60%

Sources: Company Filings, Capital IQ, Bloomberg

Financial Institutions

Holdings Review – Bank of America

Company Overview

Bank of America is one of the largest banks in the U.S. by asset size with $3.2tn, while total deposits are just under $2.0tn.

The Company provides financial services and products to individual consumers, small and middle-market businesses and large corporations through its banking and non-banking subsidiaries throughout the U.S. and selected international markets.

The company operates through four major business segments: Consumer Banking, Global Wealth & Investment Management, Global Banking, and Global Markets.

Catalysts

- Rising interest rates prove to be more permanent versus artificial lows seen in the last decade
- Stickiness of low-cost liabilities proven in rising rate environment

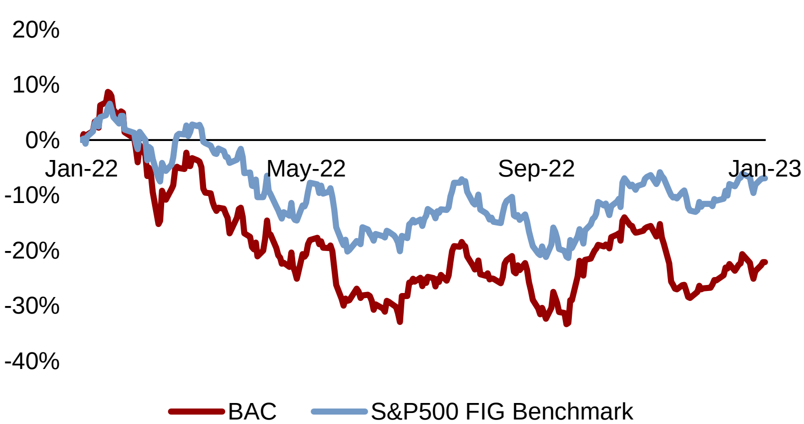
Risks

- Interest rates fall back to artificially low levels
- Cheap liabilities show much less sticky than anticipated
- Dramatic weakening of commercial balance sheets if a recession unfolds

Investment Theses

1. **The Increase in yields increase NIM allowing BAC to exploit its low-cost liabilities**
   - BAC has a net interest yield of 2.22% in the quarter was 16bps higher than the quarter earlier, and 55bps higher than a year earlier. Rising rates has led to record revenue in the Consumer Banking division with NII up 29% YoY.
   - A ~28% reduction in total headcount over the past 12 years is exhibiting large operating leverage for BAC. In combination with higher rates, we should see BAC's efficiency ratio fall and EPS to rise.
   - BAC is well positioned to take advantage of higher normalized interest rates, with earnings expansion in the next five years to highlight the company's low-cost deposit liability base
2. **BAC's loan book is more diversified than peer Citigroup yet trades at a similar level (Materialized)**
3. **Convergence of multiples to JPM's arising from improving BAC perception changes (Materialized)**

Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost	$18.19
# of Shares	1,336
Value Invested	24,302
Portfolio Weight	6.6%
YTD HPR	10.37%
YTD Benchmark Return	5.84%
Excess Return	4.53%

Sources: Company Filings, Capital IQ, Bloomberg

HEALTHCARE

2022 REVIEW & 2023 OUTLOOK

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Healthcare

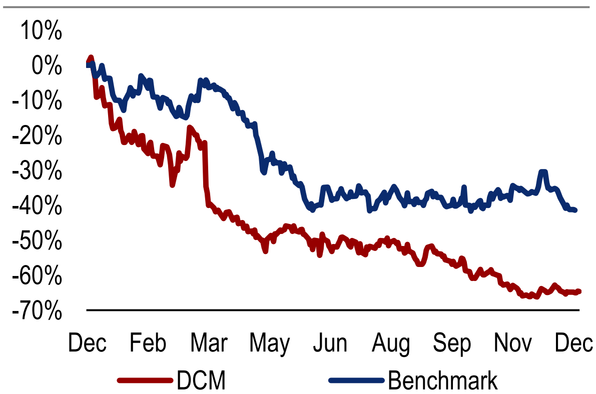
Thriving Through A Volatile Equities Market

Alexa Goulas, Senior Analyst
Bingcheng Peng, *Senior Analyst*
Charles Kiriazis, *Junior Analyst*

Overview

2022 marks an unforgettable year for healthcare equities as global markets encounter multiple facets of headwinds. The rapid rise in volatility throughout the year is an accurate reflection of the increase in geopolitical risks, interest rates and deteriorating economic outlooks. Followed by the COVID-fueled bubble during 2021, the DCM healthcare benchmark experienced a drastic pullback of (42%) mostly attributable to uncertainties in industry outlooks and rising investment risks imposed on middle-markets healthcare equities. The DCM healthcare sector has underperformed the benchmark in 2022 given its high exposure to equities with low market capitalization which resulted in higher levels of volatility. The underperformance mostly occurred during the first half of the year due to the sector's small portfolio of two stocks, Aveenna Healthcare Holdings (NASDAQ: AVAH) and Orchard Therapeutics (NASDAQ: ORTX), which has left the fund performance vulnerable to an unbalanced portfolio distribution across different subsectors within the healthcare industry.

Figure 1: DCM Healthcare Sector Performance, YTD

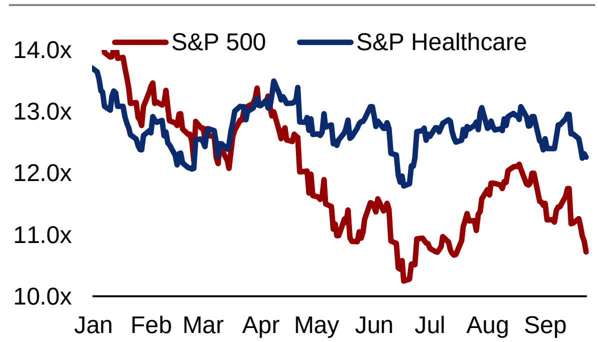


2022 in Review

Towards the end of March 2022, the healthcare sector experienced a significant correction after the disappointing earnings release of Aveenna Healthcare given the raising concerns over the company's profitability and uncertain growth outlooks. The pullback is mainly attributable to the increase in external risks such as the deteriorating labor market. A more detailed summary on AVAH can be found later in the section.

Over the course of 2022, the DCM team took cautious measures to balance its portfolio by adding two defensive stocks, Danaher Corporation (NYSE: DHR) and UnitedHealth Group Inc. (NYSE: UNH), to hedge against the expected increase in market volatility and uncertain economic outlooks. The strategy was proven successful as both companies outperformed relative to the Healthcare benchmark. DCM HC is in favor of an increased holding period as both stocks are well positioned for an uncertain market and are expected to bring a long-term compounded rate of return.

Figure 2: EV/EBITDA Multiple Evolution



As the global economy faces economic slowdown, valuation multiple downturn reflects incremental market pessimism. Throughout 2022, the Healthcare industry experienced lower volatility in its valuation multiple given its lower dependency on economic cycles, consequently its stock performance was mainly driven by earnings growth. The DCM's Healthcare underperformance in 2022 is also attributable to the sector's large exposure to companies with low earnings visibility and ineffective financial leverage during a rising interest-rate period.

Sources: Capital IQ, Bloomberg

Healthcare

2023 Outlook

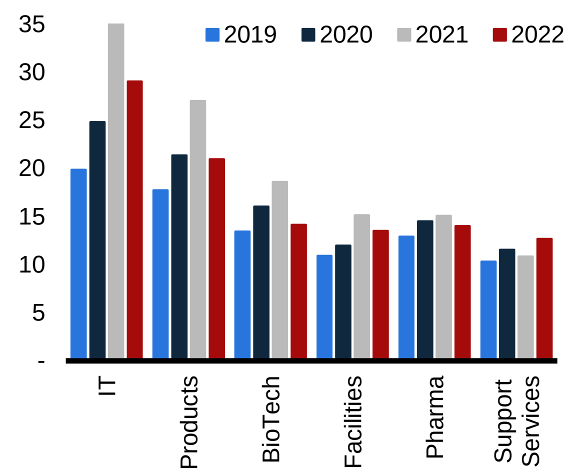
Overview

Although we are not in the complete clear, the hinderance of COVID has taken a few steps back this year and we hope to continue this journey back to normalcy throughout 2023. The Healthcare industry is a relatively defensive sector, as seen in previous market downturns, given the inelasticity of healthcare and the pricing power of the industry. Nevertheless, inflation pressures, capacity constraints, tight labor market, and endemic Covid-19 are affecting different parts of the sector and will likely continue to drive up costs across the healthcare system through 2023. Depending on their positioning within the value chain, companies are using different ways to adapt, such as raising prices, increasing automation, and changing pricing models. Despite these challenges, we see long-term trends around increasing quality and access to healthcare globally, increased technologic abilities, shift to value-based care models and an aging population as key drivers that remain intact.

Sub-Industries We Like

Diversified Managed Care remains a fundamental sector for a range of reasons - scale, diversification, inherent hedges within the business models, attractive financial flexibility, strong cash flow, and M&A opportunities – which is why we recently took a position within UnitedHealth Group (UNH).. As DCM HC looks for more investment opportunities in 2023, healthcare equipment and pharmaceuticals are sub-industries which we are particularly excited to explore. For one, as providers look to automate processes, leverage patient health data, and improve patient care, we are looking to gain exposure to technology providers that provide data and automation services. As biopharma inches beyond COVID centric development, we anticipate companies to re-pivot their focus back to other therapeutic trials. Regarding valuation, the overall HC sector had a strong 2022, and valuations only saw slight pullbacks across the industry from 2021. As previously mentioned, DCM HC sees IT & support services, and pharmaceuticals as attractive subindustries on a qualitative level, however, multiples remain quite high for the former. Given the overall sector's strong performance, some HC stocks may remain expensive in the early parts of 2023, however, we expect further contraction as we expect companies to lower guidance and the economy to continue to trend towards a recession.

Figure 1: Avg. EV/EBITDA Multiples Worldwide



What We're Watching

Throughout 2022, we started to see some return to normal healthcare consumption trends and are continuing to watch COVID and flu rates coming out of the winter season as well as elective care utilization. Moreover, we are closely watching government and regulatory legislation changes, including Medicaid redeterminations and Public Health Emergency extensions. Although the former is somewhat baked into the market, PHE extension could create some uncertainty for the year, especially as we get closer to the 2024 elections. Lastly, we will be watching for the impact of numerous biosimilar and interchangeable products launching in 2023 and the impact of decreasing data requirements for interchangeable applications and approvals within the FDA.

Sources: Capital IQ, Equity Research, Market News, Statista

Sector
Holdings Review – Danaher (NYSE:DHR)

Company Overview

- Danaher Corporation (Danaher) designs, manufactures and markets professional, medical, industrial and commercial products and services.
- Danaher is a conglomerate, operating through three segments: Biotechnology, Life Sciences and Diagnostics.
- Danaher operates through over 20 companies and over 80,000 associates. Its diverse business research and development, manufacturing, sales, distribution, service and administrative facilities are located in over 60 countries.

Catalysts

- The Omicron subvariant XBB.1.5 has continued to take the United States by storm, with nearly half of all U.S. cases being attributed to this variation of the virus, according to the CDC. The spread of this variant should increase all testing-related revenue for Danaher for the foreseeable future

Risks

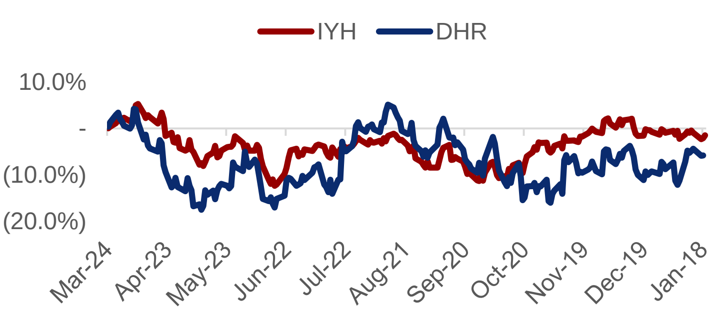
- Through its debt, Danaher is exposed to the risk of rising interest rates and inflation. However, it hedges against this risk through cross-currency contracts, foreign currency denominated debt, and interest rate swaps.

Investment Theses

1. **The Market is misinterpreting growth potential due to COVID related revenue**
   - Even as customers have shifted away from COVID, the non-COVID portion of the business has continued to grow at impressive rates. However, as the Healthcare team had included in their thesis, as we enter the "endemic", COVID-related revenue simply has not seen the drop that the market expected.
2. **The Market is underappreciating DHR's M&A strategy to drive up its long-term value and create catalysts**
   - *DHR has established a conglomerate built on an investment-grade product portfolio construction that will hedge against sub-sector volatility by decreasing singular exposure towards a specific healthcare area. These recent acquisitions have continued to perform well and to drive revenues.*

As Danaher's stock continues to go through a volatile period, we will hold the stock and closely monitor the company's performance, paying special attention to the split of COVID vs non-COVID revenue, as well as any news about the EAS separation.

Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost	U$283.72
# of Shares	60
Value Invested	U$17,023
Portfolio Weight	2.4%
YTD HPR	(6.1%)
YTD Benchmark Return	(41.8%)
Excess Return	35.7%

Sources: Company Filings

Sector

Holdings Review – Aveanna (NASDAQ:AVAH)

Company Overview

- Aveanna Healthcare Holdings Inc., is a diversified home care platform company which provides private duty nursing (PDN), adult home health and hospice, home-based pediatric therapy, and enteral nutrition services in the United States.
- Founded in 2016, Aveanna aims to palliate the structural cost problem of the US healthcare system by focusing on offering care to the higher-cost members of the population.
- Headquartered in Atlanta, Georgia, USA, the company operates 275 locations across 31 states with a network of 35,000 caregivers and more than 1,750 payers. The company went public on April 29th, 2021.

Catalysts

- Home Healthcare reimbursement rates are a hot topic of debate in the United States with companies like Aveanna devoting time and capital to lobbying for increases that could drastically improve business. The rate environment has taken a turn for the worst, but with ongoing lobbying, a legislative shift could happen which would greatly benefit the stock.

Risks

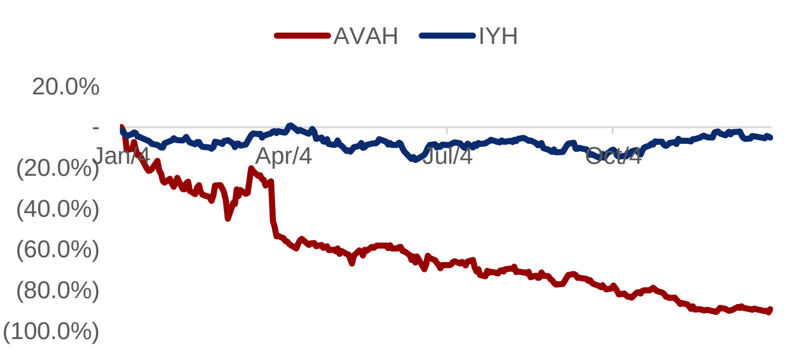
- Investors are worried that Aveanna will violate its debt covenant related to its EV/EBITDA leverage. Management elected not to disclose the figure or the calculation behind it. However, they have told the analysts covering the company that their estimates were incorrect (during earnings calls).

Investment Theses

1. **The Market is underestimating long-term customer preferences towards home nursing**
   - The HHH sector has been heavily affected by labour shortages, inflationary pressures, and possible rate cuts. However, demand has continued to hit all-time highs and HHH admissions have continued to increase, the issue is that the difficult macroeconomic climate has left Aveanna unable to service this demand.
2. **The Market is underappreciating AVAH's business model shift from pediatric to geriatric**
   - *AVAH has established itself in the past as the largest provider in the pediatric, home-healthcare space. The Company will continue to focus on this space for its future expansions, since it is the highest margin segment of their business. Even through these difficult periods, margins have remained consistently high for HHH.*

The Healthcare team elected to sell the stock in December, due mostly to concerns around the leverage level, for which management has not provided the tools necessary for it to be calculated and surrounding the labour shortages. We believe the nursing shortage is due to a lack of academic infrastructure and will drag on past the end of the more general labour shortage.

Stock Price and Sector Benchmark Performance



Sources: Company Filings

Position Snapshot

Average Cost	U$7.29
# of Shares	6300
Value Invested	U$45,927
Portfolio Weight	SOLD
YTD HPR	(88.2%)
YTD Benchmark Return	(41.8%)
Excess Return	(46.4%)

INDUSTRIALS

2022 REVIEW & 2023 OUTLOOK

Param Sahajpal
Senior Analyst

Beatrix Mogos
Senior Analyst

Britton Quirk
Junior Analyst

Yoakim Turgeon
Junior Analyst

Industrials
2022 Review

Beatrix Mogos, *Senior Analyst*
Param Sahajpal, *Senior Analyst*
YoakimTurgeon, *Junior Analyst*

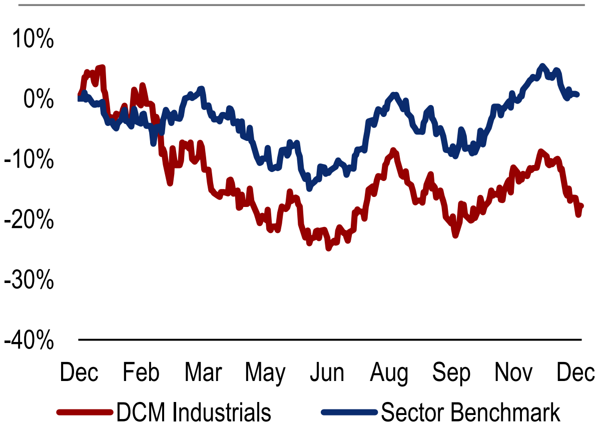
Overview

The DCM industrials sector returned -17.8% in 2022, underperforming the sector benchmark, which returned 0.1% (Figure 1). The industrials sector outperformed the S&P 500, which returned -19.4%.

Despite an underperformance overall, our holdings with lower exposure to consumer demand, such as CP and ATS, outperformed last year. Hence, our underperformance was mostly caused by consumers' recessionary fears and the rising energy costs and uncertainty caused by the war in Ukraine. This was reflected in Volkswagen's return of -46.4%. The portfolio's underperformance can also be partially attributed to declining margins due to higher inflation, resulting in low returns of -28.4% for Brunswick, as well as Continental AG, which we sold on March 28, earning a -31.0% return since the beginning of the year. These returns contributed to the weak annual performance.

On the other hand, the resilience of our other holdings can be attributed to their defensive and B2B positioning, resulting in moderate returns for Canadian Pacific Railway (11.0%) and slightly negative returns for Automation Tooling Systems since it was purchased on March 28 (-3.6%). Finally, Southwest Airlines was recently purchased on December 16.

Figure 1: DCM Industrials Performance, 2022

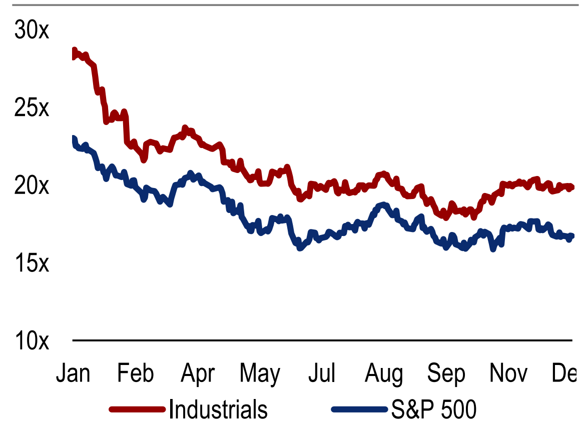


2022 In Review

Inflation and supply chain disruptions both continued to be driving factors for sector performance. The strong inflationary environment failed to push consumers away from big ticket items, with strong demand for premium auto and marine firms. This allowed them to retain pricing power and pass cost inflation to customers, as seen with Volkswagen and Brunswick. The Russia-Ukraine war exacerbated supply chain issues. It led to subdued production due to a lack of inputs, and contributing to inflation through rising energy and commodity costs. This particularly impacted Volkswagen, who was able to partially offset it through favourable mix and pricing. However, companies were affected across the board with project timelines increasing and inventories falling, despite supply chain tensions beginning to ease in 2H22. As a result of these factors, Brunswick, ATS and Volkswagen surprised on the downside while CP surprised on the upside due to its defensive nature.

Valuation multiples for the sector generally followed the market, descending through 2022 (Figure 2), as both the sector and market suffered from inflationary pressures and resulting slowdown, which we expect to continue into 2023. This contrasts our predictions last year, being that inflation would be transitory, eliminating the need for recession-driving rate hikes.

Figure 2: EV / EBIT Progression, 2022



Sources: Capital IQ, Forbes, Wall Street Journal

Industrials
2022 Outlook

Beatrix Mogos, *Senior Analyst*
Param Sahajpal, *Senior Analyst*
Yoakim Turgeon, *Junior Analyst*

Performance Drivers

High inflation has prevailed as a source of concern throughout 2022, largely a result of pandemic-related fiscal policies and supply constraints around the world. As a result of consistent interest rate hikes (up a total of 400 bps in Canada since March 2022), the consensus view is that inflation peaked in 2022, but will continue to remain high above pre-pandemic levels throughout 2023. We expect to see continued high inflation and accompanying interest rate hikes, resulting in a slowdown in overall economic activity that will gradually improve over the next 2-3 years. As long as high inflation persists, the industrials sector will continue to be heavily affected by it - the combination of high input costs (due to industrials firms' dependence on raw materials) and lowered demand (resulting from interest rate hikes causing decreased consumer spending) will continue to put a strain on our holdings into 2023. Going forward, we are focusing on best positioning ourselves to withstand an economic slowdown while being prepared for an imminent recovery.

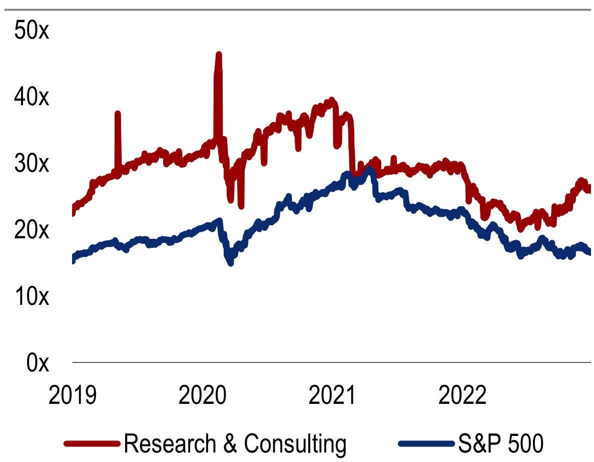
Furthermore, supply chain disruptions have been negatively affecting industrials companies since the pandemic began, as many industrials firms are capital-intensive. Going into 2023, we expect to continue to see supply chain disruptions as lingering effects of the pandemic, particularly for companies sourcing from China - having recently abandoned their zero-Covid policy, we believe this is the only region where we may continue to see shut-downs. Furthermore, the war in Ukraine will likely continue to affect supply chains for European companies such as Volkswagen, which faced decreased production and high energy prices in 2022 as a result of the conflict.

In addition to these repeat factors, we also expect North American economic growth to outpace European growth in the near term given Europe's heightened exposure to the conflict in the Ukraine. We will therefore focus on companies with the majority of their suppliers and customers located in North America to avoid additional risk.

Research & Consulting Services Subsector Valuation

The research & consulting services subsector is trading at an EV/EBIT of 26x, slightly above the S&P 500 EV/EBIT of 17x (Figure 3). Despite still trading at a premium to the S&P 500, the subsector's multiples have contracted ~25% compared to levels before and at the beginning of the pandemic. The subsector suffered a drop in valuation in early 2021, primarily driven by a recovering economy and decreased panic in the markets, reducing demand for its services. Given that we are re-entering a period of economic turmoil over the next 1-2 years, we believe the industry is undervalued, as economic hardship will return demand for the subsector to normal levels in the near future. Furthermore, the subsector will benefit as constituents' main input cost is labor, and current economic conditions favor the employer in labor negotiations. Labor is the only significant input, sheltering constituents from inflation relative to other, more capital-intensive industries.

Figure 3: Research & Consulting Services vs Market EV / EBIT Valuation



Sources: Capital IQ, CNBC, Government of Canada, Scotiabank, World Bank

Industrials

Holdings Review – Automation Tooling Systems (TSX:ATA)

Company Overview

- ATS Automation Tooling Systems Inc. (ATS) is a Canada-based automation solutions provider
- The Company is engaged in planning, designing, building, commissioning and servicing automated manufacturing and assembly systems, including automation products
- It provides an end-to-end manufacturing solution and serves many markets, including life sciences, food & beverage, transportation, consumer products, and energy

Catalysts

- Rising wages inciting companies to reduce headcount with automation
- Large investments in automation by governments to boost local production
- Continued growth from EV industry

Risks

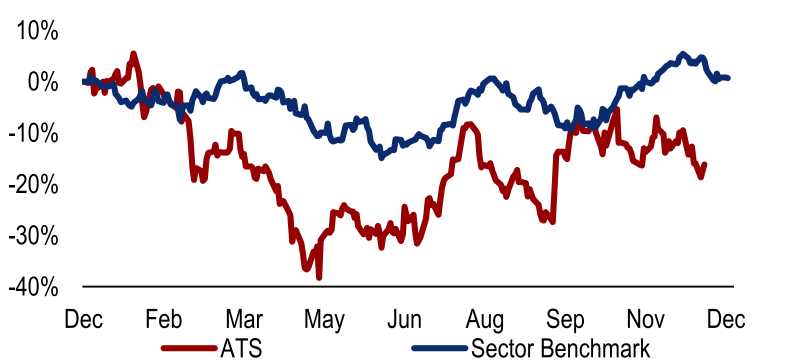
- Increasing interest rates slowing down capital expenditure by industrials companies
- Global recession slowing spending on innovation and automation

Investment Theses

1. **Rising CapEx and inflation creates strong growth drivers for the factory automation industry**
   - The U.S. employee compensations increased by about 1.2% in the past quarter alone. This continues to push companies to find new solutions and automation is one of them.
   - We see this thesis progressively materializing with the recent policies to bring back manufacturing in the U.S. that will need the help of automation if they want to be competitive with China or other developing countries.
2. **Targeting high-value verticals through a robust M&A strategy and organic growth**
   - ATS made many acquisitions in 2021 and in 2022 that allowed the company to diversify its operations and more than double its revenue in the food & beverage sector.
   - We think this thesis is overall materializing rapidly in a very positive way for the company with back-to-back orders of tens of millions of dollar in the electric vehicle industry that position ATS for continued strong growth.

Our target stock price of $62.37 has not been reached yet. We will continue to monitor thesis materialization with the recent acquisitions and the organic growth, and we are confident to reach our target in 2023.

Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost	U$42.99
# of Shares	300
Value Invested	U$12,897
Portfolio Weight	1.4%
YTD HPR	(2.1%)
YTD Benchmark Return	0.1%
Excess Return	(2.2%)

Sources: Thomson One, Bloomberg, Company Filings

Industrials

Holdings Review – Volkswagen AG (OTC: VWAPY)

Company Overview

- Founded in 1937, Volkswagen is the parent company of industry leading passenger car and commercial car brands
- It manufactures and sells automobiles in Europe, North America, South America and Asia-Pacific with over 70% of its revenue stemming from Europe and China
- The firm also operates power engineering and financial services divisions where it manufactures and sells automotive parts while providing customers with financing options for its products

Catalysts

- New EV product launches and kick off of mobility platform
- Lower commodity and raw materials prices

Risks

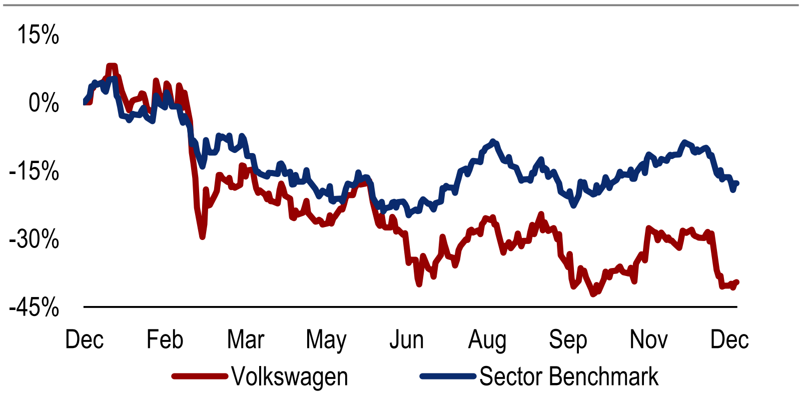
- Continued supply chain disruptions causing delays and resulting in diminished production levels
- Economic downturn reducing demand for consumer discretionary products such as autos

Investment Theses

1. **EV leadership among legacy OEMs is not priced in**
    - VW has outpaced legacy OEMs in terms of R&D spend and capex as it relates to its EV capabilities. This has allowed it to leverage its engineering prowess to build its industry-leading MEB platform. Resultantly, it has established new revenue streams and taken EV market share across all regions.
    - The firm has continued to roll out new EV models which has allowed it to take market share across all regions, igniting a North American comeback as it has become the second largest EV maker in the region.
2. **Ideally positioned to disproportionately benefit from changing consumer demands**
    - Volkswagen has the highest overall auto and EV market shares in Europe and China. As consumers in these regions are most willing to switch to EVs and pay a premium for them, the firm's exposure has helped it, and will continue to allow it to disproportionately win.
    - After a sluggish EV performance in China, the firm adapted its retail strategy and offerings to meet Chinese demand resulting in a strong rebound which has come with exceptional growth in the European EV space.

Our price target of €143.73 has not been reached yet. We will continue to monitor the firm for updates on the materialization of our theses as it executes on its transformation strategy.

Stock Price and Sector Benchmark Performance



Sources: Bloomberg, Capital IQ, Company Filings

Position Snapshot

Average Cost	U$26.55
# of Shares	1200
Value Invested	U$31,860
Portfolio Weight	2.2%
YTD HPR	(28.4%)
YTD Benchmark Return	0.1%
Excess Return	(28.5%)

MATERIALS

2022 REVIEW & 2023 OUTLOOK

Benjamin Williamson
Senior Analyst

Alexis Bruneau
Junior Analyst

Colin Murphy
Junior Analyst

Materials

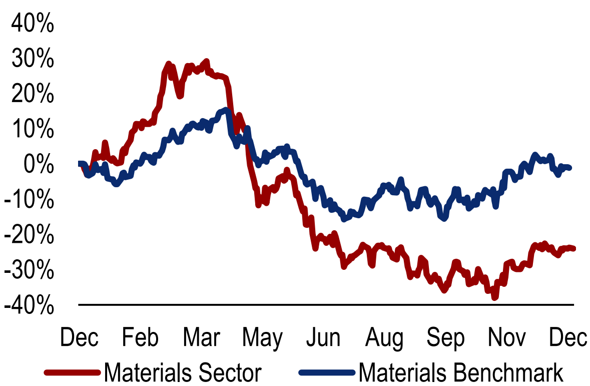
2022 Review

Julien Seguin, Global Equity Fund Strategist
Benjamin Williamson, Senior Analyst
Alexis Bruneau, Junior Analyst
Colin Murphy, Junior Analyst

Overview

The DCM Materials sector ended 2022 returning (24.1%) versus (2.4%) for the Materials benchmark. The overall Materials space outperformed the S&P500 by 15.7%. Prices for nearly all raw materials declined as global growth forecasts were slashed (further commentary below), but iron ore, silver, and copper finished the second half of the year strong approaching January levels. Construction materials and lumber have steadily declined over the past 12 months given softening housing and construction demand due to higher interest rates. Chemicals broke even on the year, and gold prices increased in the face of continued recession concerns.

Figure 1: DCM Materials Sector Performance, 2022



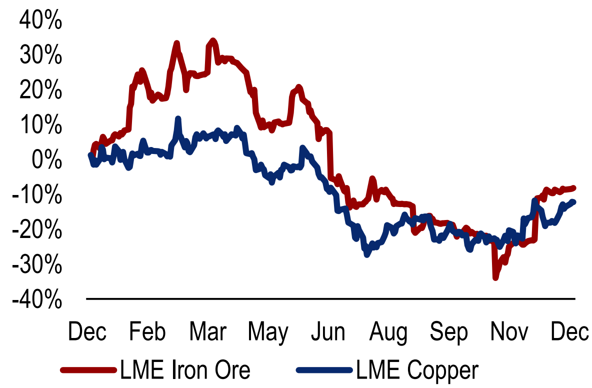
DCM's holding in AirBoss (TSX:BOS) was sold as economic factors began impacting the company's profitability and the team felt our thesis was no longer intact. The addition of WestRock Corp (NYSE:WRK) in November was in time to benefit from paper and packaging's strong year-end.

We currently has one holding in Vale SA (NYSE:VALE), an iron ore producer. Despite weakened Chinese demand throughout the year, iron prices are now trending upward as the Greater China Cluster reopens. VALE is up 6.7% on the year.

Year In Review

While Iron Ore, Silver, and Copper prices experienced a significant decline in the first half of the year, they all finished 2022 strong and rebounded to near January levels. This was the major driver behind VALE's December rally. Iron Ore finished the year down 7.6%, silver finished up 1.1%, and copper down 12.3%.

Figure 2: Iron Ore and Copper Performance, 2022



distress in the Chinese real estate sector caused a major decline in iron ore and steel demand which led to yearly lows in August. However, as China began taking steps towards rolling back its COVID Zero policy, traders began pricing in the economic reopening allowing prices to climb again.

Additionally, the Fed has remained committed to the fight against inflation, and while the hikes are proving effective, Powell has indicated they will continue. Due to this, mortgage rates have climbed to their highest since 2001, and the housing market has softened drastically. Construction materials prices steadily declined over 5.5% and show no sign of stabilizing. Additionally, specialty chemicals prices have also pulled back and finished the year down approximately 1.2%.

We are also closely watching the copper market given the metal's favorable demand in renewable energy, but are concerned that investments made prior to 2017 may come online to flood inventories.

Sources: DCM, Bloomberg

Materials

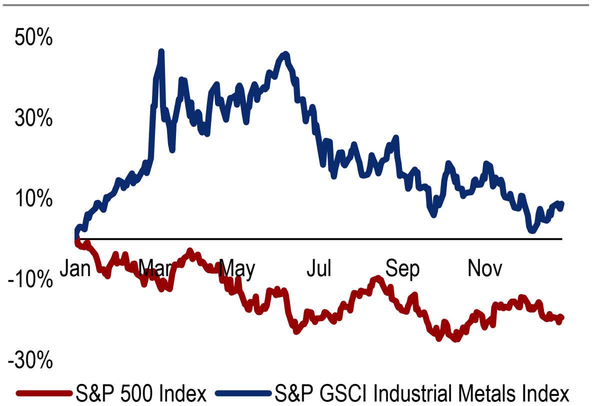
2023 Outlook

Julien Seguin, Global Equity Fund Strategist
Benjamin Williamson, Senior Analyst
Alexis Bruneau, Junior Analyst
Colin Murphy, Junior Analyst

Overview

Early 2022 was a robust period for the metals and mining sector, upheld by record high prices for some commodities, supply chain constraints and rising energy transition-related demand. Macroeconomic conditions worsened going into midyear, however, leading to weakening near-term demand expectations and declining commodity price trends. Deteriorating global macroeconomic conditions are expected to persist into early 2023, representing a downside risk to the metals and mining sector as many commodity prices slide and equity market support weakens. Producers will be impacted by narrowing margins, while the exploration sector will restrain activity amid tighter financing conditions.

Figure 3: S&P 500 Index vs Industrial Metals, YTD



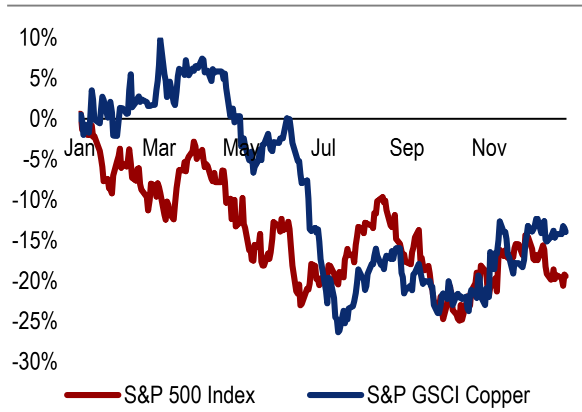
Digging into Metals and Mining

As displayed in Figure 1, 2022 was a great year for metal prices in aggregate. The Materials team has a positive view on commodities for 2023, given the current macro drivers. Specifically, we believe the further sanctions against Russia combined with the lack of investment and maintenance of raw material production and the sustaining demand will be the core drivers of commodity prices. At their current levels, valuations suggest that the upside on the overall sector is limited. The MSCI Materials Index is trading at ~13.1x P/E as opposed to 13.7x over the long-term, and the S&P500 Materials Index is at 16.6x versus 16x. However, we believe opportunities for upside will arise for certain metals as 2023 progresses. Specifically, the Materials teams believes that the increasingly likely Fed pivot could open substantial pockets of alpha in the sector.

Long-term Bullish on Copper

A strong conviction the Materials team has for 2023 and beyond is on the copper commodity. Our analysis had revealed the clear potential for long-term outperformance and while short-term commodity prices are difficult to predict as highlighted in Figure 4, the team believes in the soundness of increasing its exposure to copper miners in 2023. Overall, the team has built a positive view on commodities given the recent lack of CapEx. Despite a near doubling YoY of many commodity prices by May 2022, capex across the entire commodity complex disappointed; estimates suggest that in 2022, sanctioned copper projects will amount to only 263kt, representing the lowest approval volume in the last 15 years. In the team's view, this is the single most important revelation of 2022 – even the extraordinarily high prices seen earlier this year cannot create sufficient capital inflows and hence supply response to solve long term shortages.

Figure 4: S&P 500 Index vs Copper, YTD



Sources: Bloomberg, Capital IQ, Goldman Sachs, Fidelity Research

Materials

Holdings Review – Vale SA

Company Overview

- Brazilian mining company Vale is the world's top producer of metals such as iron ore, iron ore pellets, and nickel, the key raw materials for steelmaking and stainless steel
- Vale reports three segments based on its products and operations: ferrous minerals (79% of sales), base metals (20%), and logistics infrastructure (1%)
- Vale is based in Brazil and has operations in approximately 30 countries and sells its products around the world, with China the leading market (47% sales) followed by Europe (14%)

Catalysts

- Investors noticing Vale's ESG efforts
- Brazilian politics swing in Vale's favour
- Swift licensing approvals
- Renewed commodity bull market

Risks

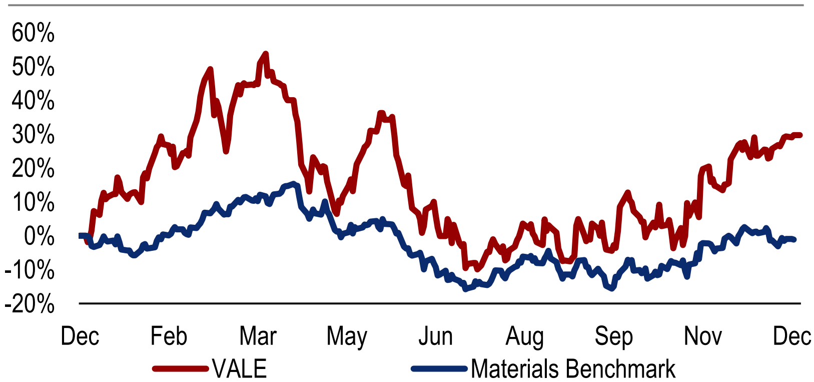
- Another dam collapse
- Difficulty implementing new safety protocols
- Further unforeseen fines resulting from the Brumadinho dam disaster
- Continued politics/worker conflicts

Investment Theses

1. **Vale is capable of strong cash flow generation throughout cycles**
   - High quality iron ore and base metals portfolio is able to generate superior cash flows throughout market cycles, allowing Vale to generate and return capital to shareholders
   - Despite a recent pull back in iron ore prices, we still believe that Vale's low-cost producer profile will enable it to continuously return capital to shareholders, through dividends and share buybacks into the foreseeable future
   - Vale has demonstrated its intent to return excess cash to shareholders by its massive dividends throughout 2022, and we believe this will continue into the future, maximizing shareholder value
2. **Closing ESG gap vs. peers will drive a powerful multiple re-rating**
   - Vale's discount to peers is unjustified given the company's operational and ESG improvements, remediations and reinvention since the Brumadinho accident in January 2019
   - Vale is striving to collaborate with steel partners that are equally committed to a carbon-neutral footprint and attract investors with similar priorities while divesting assets that do not align with this goal

We recommend a HOLD on VALE, as we believe that Vale is well positioned to continue generating excess yields going into the future and has a path towards being an ESG leader

Stock Price and Sector Benchmark Performance



Sources: Capital IQ

Position Snapshot

Average Cost	U$18.08
# of Shares	1275
Value Invested	U$23,052
Portfolio Weight	3.2%
2022 HPR	26.3%
2022 Benchmark Return	2.4%
Excess Return	23.9%

Materials

Holdings Review – Westrock

WestRock

Company Overview

- WestRock is a multinational provider of paper and packaging solutions for consumer and corrugated packaging markets
- WestRock is the second-largest producer of containerboard in North America, as well as a major producer of kraft papers, saturating kraft, preprinted linerboard, and temporary point-of-purchase displays
- The company is also a major manufacturer of folding and beverage cartons, solid fiber partitions, and express mail packages

Catalysts

- Large Adoption of Plastic Substitutes
- Realization of Portfolio Optimization
- Gain in Market Share
- Appreciation of Integration

Risks

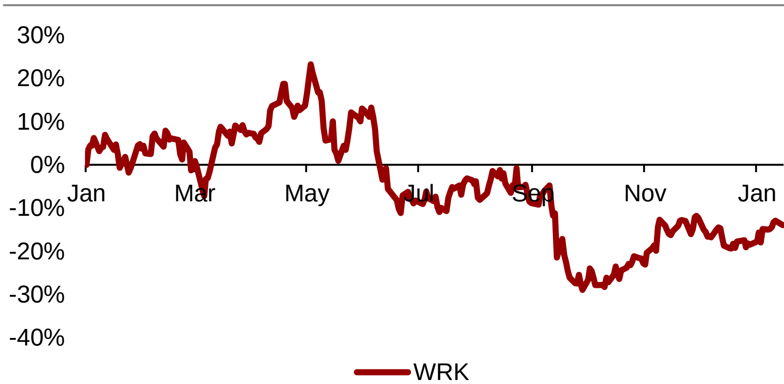
- Portfolio Optimization Backfiring
- Improvement of Competitors' Technology
- Deep Recession
- Loss of Major Clients to Competitors

Investment Theses

1. **The Market Underestimates the Potential for Margin Expansion**
   - There is currently amazing potential to expand margins through: One WestRock (synergies from merger integrations, back-office optimization), innovation and sustainability (patent pipeline plastic elimination), margin enhancement and efficiency (increased capital productivity enhanced supply chain SG&A reduction), and efficient capital allocation (optimize around core businesses focus on high ROIC projects)
   - Management is currently targeting an EBITDA margin of 19.6% under the current plan which transform the firm over its current 16.1% LTM EBITDA margin
2. **The Broader Industry is Oversold and Will Benefit From Multiple Expansion**
   - The subsector is currently undervalued relative to historical multiples levels and discounts to comparable sectors; however it is very difficult to develop an argument that justifies the current dichotomy in valuations
   - When valuing the aggregate subsector, we believe it will deliver very attractive yields relative to the risk.

We recommend a HOLD on WRK as we believe it is well positioned to dramatically expand margins and improve their market position as they optimize their portfolio and advance their sound ESG initiatives

Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost	U$35.17
# of Shares	380
Value Invested	U$13,365
Portfolio Weight	2.0%
2021 HPR	
2021 Benchmark Return	
Excess Return	

Sources: Capital IQ

TECHNOLOGY, MEDIA, & TELECOM

2022 REVIEW & 2023 OUTLOOK

Michael Long
Senior Analyst

Declan Kingston Fry
Senior Analyst

Jeremy Moses
Junior Analyst

Roy Liu
Junior Analyst

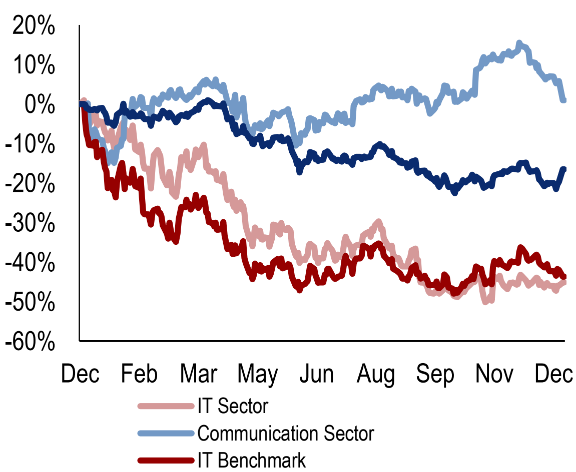
T M T
2022 Review

Declan Kingston, *Senior Analyst*
Michael Long, *Senior Analyst*
Jeremy Moses, *Junior Analyst*
Roy Liu, *Junior Analyst*

Overview

The TMT sector had a relatively turbulent year throughout 2021; furthermore, while the information technology and communication services benchmarks underperformed as a whole, losing ~46% and ~6% respectively. This is contrary to the outperformance granted by said sectors in 2021 amidst interest rate hikes, rising inflation, macroeconomic uncertainty, and global labour market pressures. Overall, the market's unpredictability throughout periods of high inflation, augmented by the increasing regulatory scrutiny and the Russian aggression against Ukraine in February this year, served as significant tailwinds to the TMT sector along with healthcare and consumer discretionary.

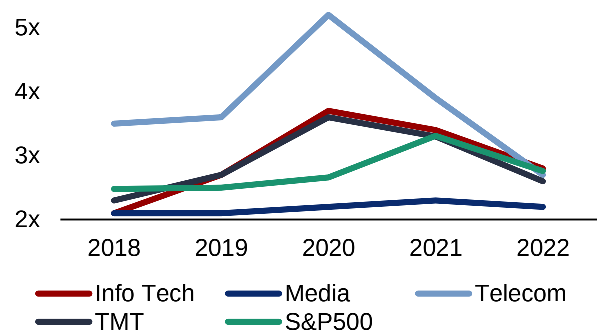
Figure 1: DCM TMT Sector Performance, 2022



2022 In Review

The information technology subsector experienced unexpected economic challenges as EV/Revenue multiples contracted from 3.4x to 2.8x, in line with the broader market. Furthermore, inflation and labour cost increases prompted a significant number of cost-reduction initiatives from firms. These measures primarily included job cuts and price increases, as well as increased adoption of digitalization.

Figure 2: TMT EV/Revenue Multiples



The media subsector performed in accordance with expectations as EV/Revenue remained stable at 2.2x. Streaming accounted for the majority of US viewership at 35%, while pay-TV faced high subscriber churn and had difficulties attracting Gen Z. Mobile platforms like TikTok also attracted significant viewing time as 27% of US households are users, posing a threat to streaming's long-term prospects. Difficulties in household finances have also pushed consumers to make difficult choices about which services are essential versus discretionary.

The telecommunications subsector faced ongoing economic difficulties, as EV/Revenue decreased from 3.9x to 2.7x. However, demand for reliable and high-speed communication persisted amid economic uncertainty. Service providers prioritized improving customer offerings and expediting network upgrades to reduce costs, particularly in energy consumption. Furthermore, the deployment of 5G technology is progressing rapidly, with 5G coverage in urban and rural areas of the US reaching 80% and 65%, respectively. The adoption of 5G is also increasing globally, driven by expanded coverage, the availability of 5G-compatible devices, and the continued growth of data traffic, particularly for video streaming.

Despite significant volatility in the global economy, which had a destabilizing effect on the TMT sector, the drive for innovation persisted and firms continued to transition towards digital infrastructure.

Sources: Capital IQ

T M T

2023 Outlook – Semiconductors, Cybersecurity, Enterprise Software

Semiconductors

As 2023 begins, the semiconductor industry remains impacted by strong macroeconomic and geopolitical forces. The combination of rising interest rates, high inflation, U.S./China tensions, declining consumer confidence, and the overall technology sector decline has resulted in a significant market value depreciation for many companies in the industry. However, given the industry's cyclicality, we believe the slump in growth currently materializing could represent an opportunity for our sector to gain exposure to high-quality players within the space on the back of secular trends. Semiconductor demand is at an all time high, and the market is projected to reach $1.38 trillion by 2029. The strong demand is driven by a multitude of factors; IoT applications and devices, autonomous driving, artificial intelligence, cloud computing, data storage, industrial automation, and wireless communication, to name a few. The dependence on semiconductors is growing across industries, making supply security ever-important. A resulting theme is emerging trade tensions based on domestic semiconductor production capacity, intensifying existing tension between American and Chinese governments. The U.S. is currently catching up to the significant investments made by the Chinese governments to develop dominant capacity and expertise through domestic investments such as the CHIPS and Science Act which set aside $52 billion to boost U.S. fabrication capacity. We believe these incentives, geopolitical uncertainty, and the lingering memory of Covid supply disruptions will play a part in a significant production onshoring theme that will extend beyond the semiconductor industry. We remain especially bullish on analog semiconductor manufacturers which, given their products' extremely long life cycle and shelf life, should be better equipped to weather any macroeconomic turbulence in the year ahead.

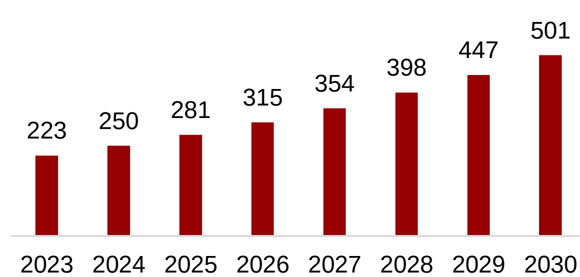
Enterprise Software & SaaS

The software industry is still projected to grow in 2023, but macroeconomic and pandemic-related spending cuts are hindering growth prospects. This has led to longer sales cycles and delayed deals. Enterprise software is likely to fare better amidst current macroeconomic challenges as they continue investing in automation software to modernize and simplify operations. In 2023, both investors and management will focus on balancing growth and profitability, as the capital markets present challenges. The "growth at all costs" mindset is unlikely to return, but software's mission critical role in business and customer experience has prevented an increase in churn, leading to continued growth, albeit at a slower pace than in past years.

Cybersecurity

Demand for cybersecurity remains robust due to increasing cybercrime frequency and complexity. A survey of 4,000 midsize companies measures threat volume to almost double from 2021 to 2022, resulting in yearly cyberattack damage estimated at $10.5 trillion by 2025. Cloud security demand is expected to grow as many end markets are still in the early stages of securing their clouds. Additionally, the industry faces a shortage of skills and personnel, leading companies to seek outsourced security operations centers. The global cyber security market was valued at $202.72 billion in 2022, with a projected 12.3% CAGR from 2023 to 2030.

Figure 3: Cybersecurity Market Sizing (bn USD)



Sources: Deloitte, Grandview Research, PWC, Statista

T M T

Holdings Review – Adobe Inc. (NASDAQ: ADBE)

Adobe

Company Overview

- Adobe Inc. operates in the software subsector under its Digital Media and Marketing segments
- Adobe's Digital Media segment consists mainly of their Creative Cloud product, which utilizes a subscription model and seeks to assist web developers, digital media workers, marketers, and content creators in print and electronic content design and creation
- Adobe's Digital Marketing segment sells an integrated platform for advertising and marketing through digital media that allows users to maximize the effectiveness of their marketing strategies

Catalysts

- Increased breadth of products through internal development and acquisitions (à la Figma) increasing cross-selling opportunities
- Successful integration of generative AI and related tools into creative applications cementing Adobe's leadership in a new creative era

Risks

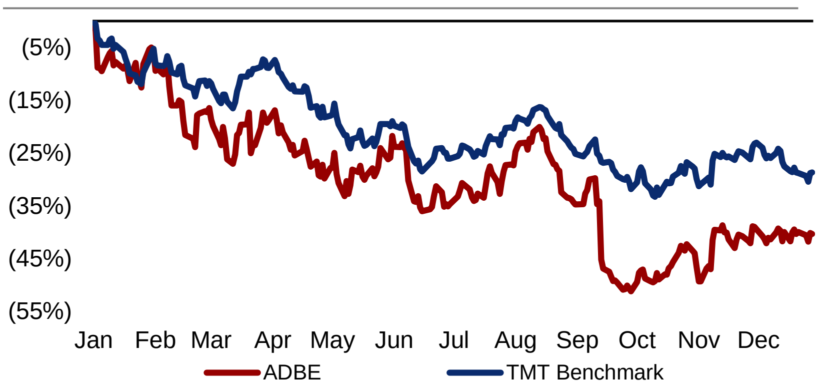
- Internal development capabilities lacking behind that of competitors, pushing Adobe to rely on expensive strategic acquisitions.
- AI disrupting the creator economy on which partially rests the creative cloud suite

Investment Theses

1. **Adobe is poised to take advantage of the business shift to MarTech**
   - Network effects, high switching costs and integration difficulties make marketing technology a winner-take-all industry. We believe Adobe's competitive position within MarTech holds strong growth potential.
   - The resiliency of growth and increasing B2B account sizes are promising. The Digital Experience segment has grown 14.3% YoY, and their B2B revenue per customer has nearly doubled since 2019 with a 120% NDRR.
2. **Adobe is a recession-proof tech player due to its quasi-monopoly in many operating segments**
   - Adobe's near monopoly in the Creative and Document Cloud Industry, driven by their razor-blade model, high switching costs and higher margins, were highlighted as key drivers of growth.
   - Adobe's creative products dominance remains unchallenged. While we believe the market overreacted to the Figma acquisition, the nature, structure, timing and terms of the deal could imply an R&D department caught off-guard by the strength, growth and technology behind Figma's product. We doubled our position in the days following the announcement which significantly contributed to our benchmark outperformance, as we quantified what we judged to be an overly pessimistic market response. While confident in this assessment, we continue to monitor ADBE's M&A strategy for any related signs of weak internal product development.

We remain confident in Adobe's ability to provide above-market returns. HOLD $450.00 PT

Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost	$298.94
# of Shares	169
Portfolio Weight	8.2%
2022 HPR	(14.36)%
2022 Benchmark Return	(28.73)%
Excess Return	14.37%

Sources: Capital IQ, Company Filings, Nasdaq, Statista

T M T

Holdings Review – T-Mobile US (NASDAQ:TMUS)

Company Overview

- Based in Bellevue, Washington, T-Mobile is one of the 3 major American telecommunications firms, primarily focusing on wireless network services
- T-Mobile delivers advanced 4G LTE and is a pioneer in 5G technology, being the first to launch a nationwide 5G network in America that covers 260mm people
- By offering superior network quality and excellent customer service, it has maintained a low churn rate and demonstrated continued growth
- The firm provides its services through subsidiaries as well as flagship brands T-Mobile, Metro by T-Mobile, and Sprint

Catalysts

- T-Mobile's continued expansion of its 5G network will drive growth in customer base and top line
- Accelerated network synergy and increased efficiency strengthens TMUS's leadership position
- Additional spectrum acquisitions will allow TMUS to continue to expand its network capabilities

Risks

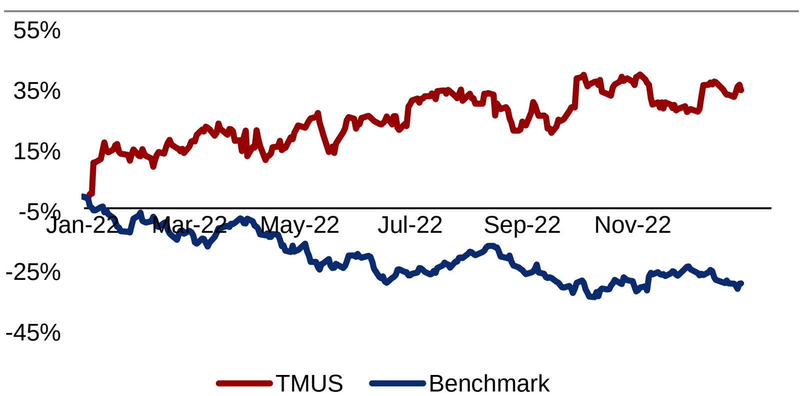
- TMUS faces intense competition from other major wireless carriers such as AT&T and Verizon, as well as from smaller regional carriers and resellers
- The increase in cyberattacks that compromise customer data will delay 5G adoption

Investment Theses

1. **T-Mobile's First-Mover Advantage is Undervalued**
   - T-Mobile's industry leading mid-band spectrum holdings give it a significant edge over Verizon and AT&T in terms of capacity and coverage for its 5G network, which results in higher porting ratios and net adds.
   - T-Mobile is trading at a premium compared to peers at 8.6x LTM EV/EBITDA, but we believe the valuation is justified given the company strong market position and growth prospects.
2. **T-Mobile's Financial Position is Underestimated as New 5G Rollout Risks are Overlooked**
   - T-Mobile spent significantly less on the overpriced C-Band spectrum auction than Verizon and AT&T due to its Sprint acquisition of 2.5GHz, insulating the company from long-term financial damage.
   - Due to the limitations on dividends, AT&T and Verizon have a harder time competing with T-Mobile in spectrum auctions, giving T-Mobile an advantage in acquiring licenses, particularly in rural areas.

We raise our price target to $158 per share as we are bullish on T-Mobile's short- and medium-term top-line growth, and will monitor the firm's revenue and EBITDA growth as well as the financial health of competitors

Stock Price and Sector Benchmark Performance



Position Snapshot

Average Cost	114.43
# of Shares	175
Value Invested	34,175
Portfolio Weight	3.6%
YTD HPR	35%
YTD Benchmark Return	(29%)
Excess Return	64%

Sources: Capital IQ, Company Filings, Nasdaq, Statista

Fixed Income Fund

Fixed Income Fund

Holdings Review

Collin Wang
Senior Analyst

Rachel Tang
Senior Analyst

Wenhan Hu
Senior Analyst

Larry Ge
Senior Analyst

Sophie Song
Senior Analyst

Benjamin Doherty
Junior Analyst

Ryan Murray
Junior Analyst

Owen Anderson
Junior Analyst

Fixed Income Fund
Performance Summary

Rachel Tang, *Strategist*
Sophie Song, *Senior Analyst*
Collin Wang, *Senior Analyst*
Owen Anderson, *Junior Analyst*
Benjamin Doherty, *Junior Analyst*

Overview

With central banks hiking rates to fight 40-year high inflation, it was no surprise that the fixed income asset class had a terrible year in 2022. Still, the Desautels Fixed Income Fund continued its strong outperformance of the benchmark with a 2022 net return of (8.1%) vs (11.6%) for our benchmark. In general, our performance can be attributed to 3 main factors: our corporate selection, duration positioning and exposure to BBB's. Most of the fund's alpha generation comes from bottom-up fundamental analysis of credit as well as duration positioning.

A key lever for the fund throughout the year is our duration strategy, with the fund currently positioned with a 6.7 duration compared to the benchmark of 7.2. With inflation skyrocketing amidst strong economic resurgence post-Covid, 2022 saw a hawkish pivot from the Fed and BoC. Over the course of the year, rates accelerated upward from virtually zero to the highest we have ever seen in HIM's twelve-year history. This surge in rates—accompanied by continual upward expectations of future rates–led yields to respond with a similar upward momentum. Consequently, our short duration position served as a strong source of outperformance. In fact, we can attribute 1.4% of our outperformance to this vital lever.

Lastly, our overexposure to the benchmark in BBB's aided the fund's performance less so than previous years. Amidst widening spreads across all ratings, from January 1st through December 31st, BBB bonds only widened more than AAA and AA categories, outperforming single-A as well as high yield categories.

Over the fiscal year, we initiated a position in Ritchie Bros 4.950% 2029 which was an issuance made in accordance with a prospective acquisition. As the deal fell through, our position was bought out resulting in ~10% annual return over the short time we held the position.

Our government of Alberta position came to maturity in November, reducing the fund's exposure to government bonds. Moreover, alterations in ETF positioning acted as another lever in adjusting our duration positioning.

Looking Ahead

Moving forward, we are continuing to look for strong corporate bond selection based on rigorous bottom-up fundamental analysis while following our duration, credit exposure and currency positioning as discussed in the following sections. We expect 2023 to continue to be an eventful period for bonds with room for continued benchmark overperformance.

Figure 1: Performance Metrics Since Inception

FIXED INCOME METRICS SINCE INCEPTION	Fixed Income Fund	Benchmark
Annualized Return	3.2%	2.0%
Annualized Std Dev	5.0%	6.6%
Annualized Sharpe Ratio	(0.06)	(0.22)
Beta	0.61	
Annualized Alpha	0.6%	
Tracking Error	0.5%	

Performance metrics are calculated gross of fees.

Figure 2: Performance Metrics in 2022

FIXED INCOME METRICS 2022	Fixed Income Fund	Benchmark
Return	(8.1%)	(11.6%)
Standard Deviation	6.9%	7.8%
Sharpe Ratio	(1.68)	(1.94)
Beta	0.77	
Alpha	0.1%	
Tracking Error	0.53%	

Performance metrics are calculated gross of fees.

Sources: Bloomberg.

Fixed Income Fund
Performance Summary

Rachel Tang, *Strategist*
Sophie Song, *Senior Analyst*
Collin Wang, *Senior Analyst*
Owen Anderson, *Junior Analyst*
Benjamin Doherty, *Junior Analyst*

Duration Strategy

In 2022, the Fixed Income Team carefully examined the key inflation levers and central bank policies to form a view on interest rates and duration strategy. Most of our 2022 outperformance was due to our having a shorter duration position than our benchmark. Our industry overview stance was that FED rate hikes would not slow inflation in accordance with market anticipation and subsequently that the FED would act hawkish in response, leading to a higher terminal rate. With inflation coming in higher than expected, we anticipated yields to surprise on the upside and thus determined a continuation of a short duration stance to be beneficial. Our analysis recognized that recently a large surge in retirements and people leaving the labour force has led to tight labour markets. However, the wage-price spiral has been going strong, boosting nominal wages and labour costs. Considering the stagnant real wages and record-low personal savings, we believed that young adults and retirees would return to the workforce, loosening up labour markets by EOY 2023. Meanwhile, we believed US demand for housing would wane given rising mortgage rates, housing unaffordability, and worsening consumer sentiment. Using an in-house regression model, we projected the existing home sales to decline by 14% y/y and the median home price to plateau at 2% y/y. In addition, we posited that the Fed's monetary policies are less effective toward supply-driven inflation, which makes up a high proportion of total inflation. As such, we projected a higher likelihood of policy overreaction, where the Fed overshoots its policy rates, sending terminal rates higher than necessary. We have lengthened our duration, however, from 5.3 (very short) to 6.7 (moderately short) to minimize our exposure to the risk of surprisingly effective monetary policy, quickly cooled inflation and a lower terminal rate. Our duration view impacted our screening for bond positions and was acted upon via reallocation of funds into longer duration ETFs.

Credit Exposure Strategy

Our findings indicate for more opportunities in the HY segment. First, pertaining the IG space, we remark that: 1) investors were flush with cash and thus looking for entry points (TRACE indicated a net increase of ~500mm in IG debt investments across on Sept 22); 2) issuers were restrained (September issuances were falling short of the triple-digit mark). The overall mismatch in supply and demand led us to believe there to be limited opportunities in IG.

Thus, we turned to examining the HY space. Market participants typically use corporate spreads as a leading indicator of future defaults with a one-year lead time. US HY at ~550 bps implied a default rate of 3.4% by June 2023. However, our view believes the distress ratio as a more targeted indicator given its relevance across all credit and economic cycles. Notably, S&P Global's regression that plots default rates against the distress ratio (% of HY issues with an OAS of over 1000 bps relative to treasuries), overall displays an R2 of 0.79. Following this model, the latest distress ratio of 8% implied a default rate of only 2.8% which backs out an implied OAS for the US HY to be, in fact, lower than 550 bps. Therefore, we believe there to be spread compression opportunities.

Next, we empirically make a case for HY through another two observations. One, corporations are de-levering their balance sheets just as inflation mechanically tends to be deflationary as companies pass prices to increase the top line while the nominal debt ins fixed—solvency risk is mitigated. Two, defaults rise when companies are unable to refinance, yet it gives us comfort that <20% of the HY market matures over the next three years. Thus, unless the recession runs deeper than expected, HY holds attractive plays relative to its fundamentals.

Sources: Bloomberg, Federal Reserve, FRED, Trading Economics.

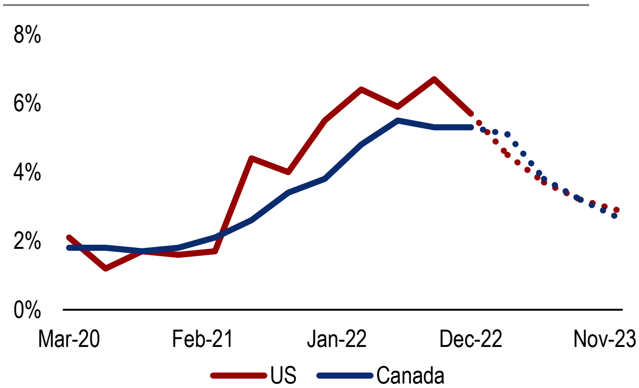
Fixed Income Fund
Performance Summary

Rachel Tang, *Strategist*
Sophie Song, *Senior Analyst*
Collin Wang, *Senior Analyst*
Owen Anderson, *Junior Analyst*
Benjamin Doherty, *Junior Analyst*

Currency Strategy

Last term, we took the position of being overweight USD. This decision was based on relative central bank policies, the commodities market, and the indebtedness of Canadian households. We believed that the US federal reserve would be more hawkish when compared to the Bank of Canada with a predicted 4.5% and 4.1% terminal rate, respectively. As for the commodity market, oil is an important driver of the CAD, thus the team analyzed the correlation between the two. We believed that unique circumstances, including Russia's invasion of Ukraine, had led to an uncertain position between CAD and oil, however, an overall pessimistic view on oil prices added to our overweight USD stance. Lastly, we highlighted the overall higher rate of indebtedness of Canadian households versus their American counterparts as a key vulnerability in the Canadian economy. Roughly ¾ of Canadian household debt stems from mortgages. The large wave of variable mortgage refinancing in 2023 at significantly elevated interest rates should be on the minds of the BoC members and adds to our belief that the central bank will be more dovish than the Fed.

Figure 4: Analyst Inflation Rate Estimates for 2023



2023 Sector Outlook

Across all geographies and asset classes, markets behaved anything but normally over the past year. For one, fixed income securities failed to perform their traditional defensive roles in investors' portfolios, as 2022 marked the first year since the 1870s where both the equity market and the bond market lost over 10% in a calendar year.

Generally, the opinion across the Street is that the first half of 2023 will continue to be challenging as the US economy enters a shallow recession before swinging back up in the second half as the Fed hits terminal and a regime of easy money returns. Supported by the research conducted by our economic team (see Jan '23 Economic Update), our view corroborates this narrative directionally, although we believe there is an opportunity to differentiate in the severity of the recession. For instance, there is an inherent ambiguity when quantifying a "mild" recession even prior to considering compounding risk factors such as the exceptionally challenging rate environment, the potential for further geopolitical shocks, and the Fed's mixed track record when it comes to pivoting. Given the excessive optimism in earnings expectations currently being priced in by markets, we believe there is significant potential for a harder-than-expected landing.

In addition to the economic measures previously discussed, it is important that we continue to monitor fiscal policy as the US has officially broken through the debt ceiling. The Fed's aggressive tightening cycle has brought about the seasonal federal debt discussion earlier than anticipated after being raised to $31.385tn just over a year ago, and, as usual, neither party seems willing to make concessions any time soon. This presents considerable risk as ~25% of our holdings are USD-denominated, and even if the low-probability-high-impact event of default does not explicitly materialize, a prolonged gridlock in Washington would send yields on those assets skywards in a pattern reminiscent of the 2011 debt ceiling crisis. Thus, we are inclined to shift our allocation toward high-quality, Canadian bonds until a compromise is reached.

As markets evolve and additional data comes to light, we will continuously reevaluate the positioning of our outperformance levers highlighted above.

Sources: Bank of Canada, FRED, National Bank Financial Markets, JP Morgan Asset Management, Morgan Stanley

Fixed Income Fund

Figure 5: Fixed Income Fund continues to outperform the benchmark since inception

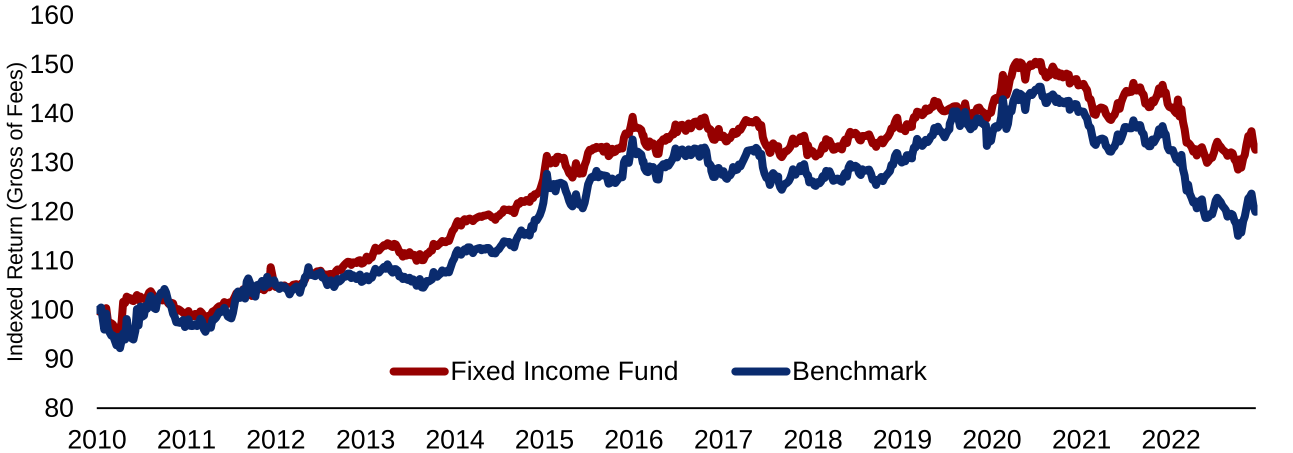


Figure 6: Fixed Income Fund 2022 Performance

FIXED INCOME FUND RETURNS			As of Dec 31, 2022
Time Period	**Gross Return**	**Net Return**	**Benchmark**
2022	(8.1%)	(8.6%)	(11.6%)
Dec-22	(0.7%)	(0.8%)	(0.6%)
Nov-22	2.2%	2.2%	2.6%
Oct-22	(0.9%)	(1.0%)	(1.4%)
Sep-22	(0.4%)	(0.4%)	(1.2%)
Aug-22	(1.4%)	(1.4%)	(1.7%)
Jul-22	3.0%	2.9%	3.3%
Jun-22	(2.1%)	(2.1%)	(2.9%)
May-22	0.3%	0.3%	0.3%
Apr-22	(1.0%)	(1.0%)	(1.8%)
Mar-22	(3.8%)	(3.9%)	(4.3%)
Feb-22	(1.3%)	(1.3%)	(2.0%)
Jan-22	(2.1%)	(2.2%)	(2.4%)
Since Inception*	3.2%	2.5%	2.0%

**Returns are annualized.*

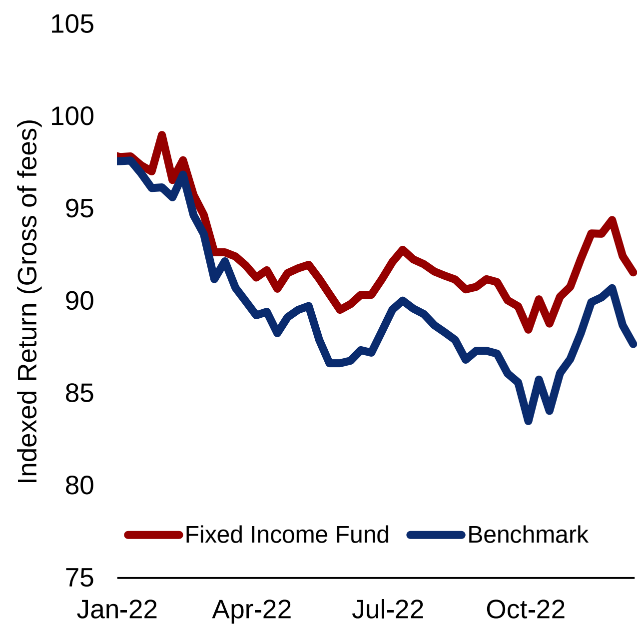
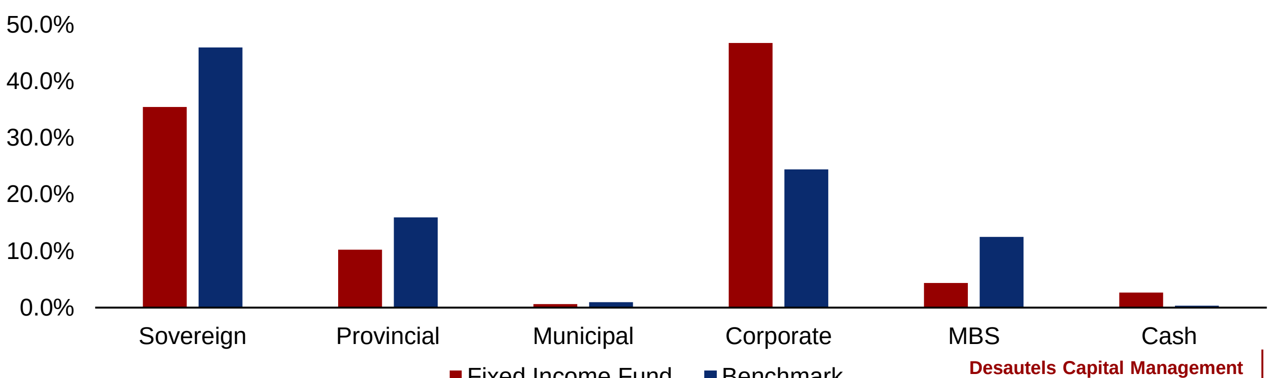


Figure 7: Fixed Income Fund vs Benchmark Aggregate Composition



Fixed Income Fund

Figure 8: OAS of Fixed Income Funds Holding's 2022

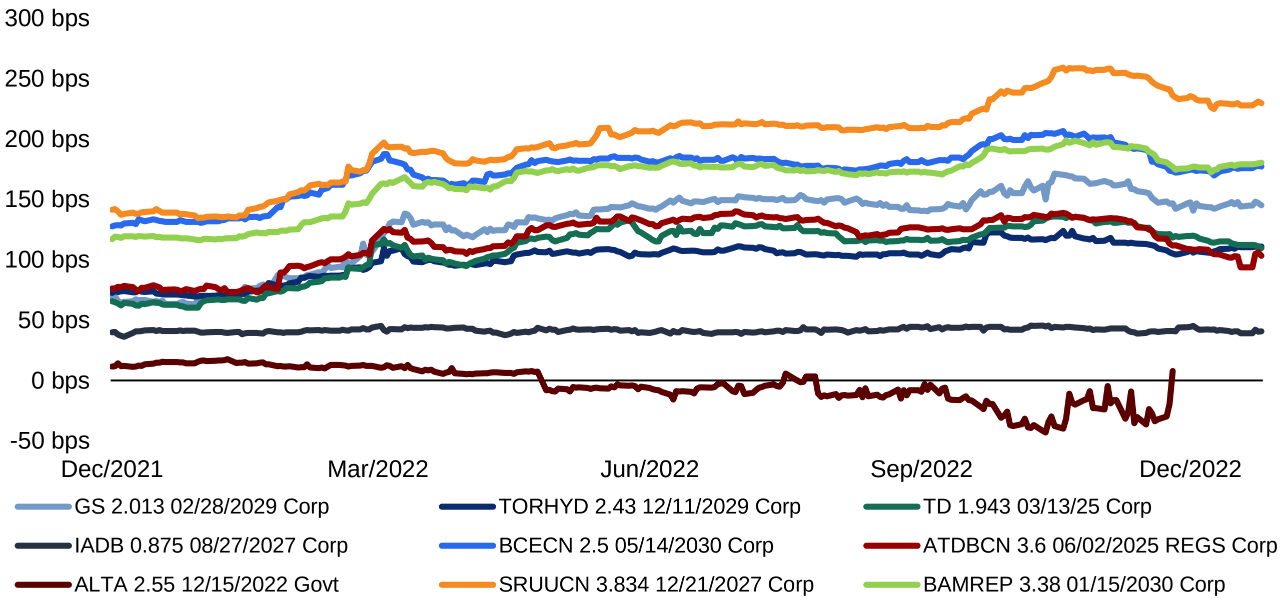


Figure 9: Duration of the Fund vs. Benchmark (As of Jan 15, 2023)

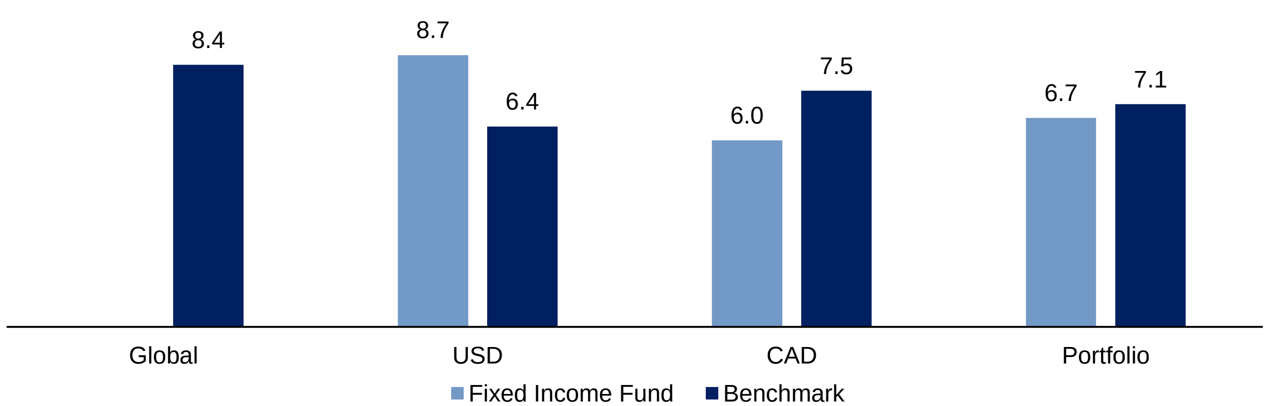
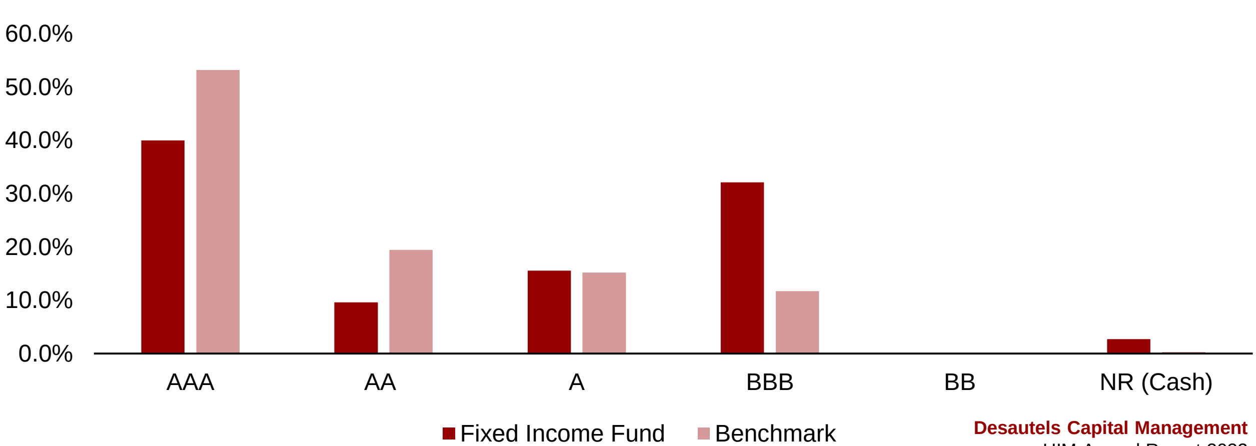


Figure 10: Fixed Income Fund's Credit Exposure (As of Jan 15, 2023)



Sector
Holdings Update

Brookfield Renewable Partners
BAMREP 3.380% 2030

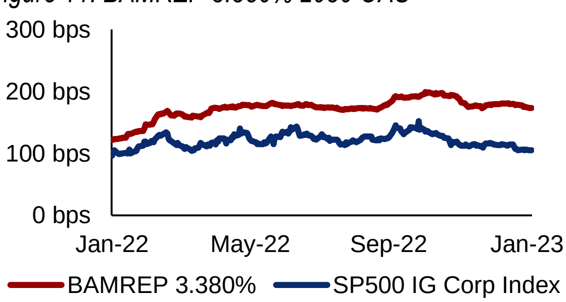
Initially added to our portfolio in January 2021, Brookfield Renewable Partners (BAMREP) is one of the world's largest pure-play renewable power platforms with 5 segments: Hydroelectric, Wind, Solar, Energy Transition, and Corporate. BAMREP has been a key player in the surging decarbonization movement over this past year by virtue of their global portfolio of premium assets.

In our initial research, we identified BAMREP's high percentage of contracted-to-merchant cash flows through a reliable portfolio of long-term PPAs as both a form of insulation against fluctuating power prices and a source of cash flow visibility. The company continued to seek corporate contracting opportunities in Q3 2022, securing contracts to deliver an incremental 2,600 GWh of clean energy annually including 1,200 GWh to corporate off-takers in Q3 alone. Notable developments include a contract Amazon to power the tech giant's operations with 100% renewable energy by 2025.

Last, active capital recycling has left the company sitting on a healthy, investment-grade balance sheet with ~$3.5bn in liquidity. Furthermore, the company reports no meaningful maturing obligations and previous quarter disclosures state that approximately 90% of borrowings are non-recourse, which is advantageous to creditors.

We expect the Q4 earnings call on February 3th to update BAMREP's progress in key energy transition initiatives. In the meantime, we retain our HOLD recommendation for BAMREP 3.380% 2030.

Figure 11: BAMREP 3.380% 2030 OAS



SmartCentres
SRU.UN 3.834% 2027

SmartCentres Real Estate Investment Trust (SRU) is a diversified Canadian REIT that manages ~$11.7 billion of investment properties spanning 34.6M square ft.

To review, we initiated our position in SRU in February 2021 based on an analysis of three key risks that we believed to be overestimated by the market.

Our first thesis focused on the pessimism regarding the ability of REITs to operate in recessionary environments. SRU's ability to navigate downturns was exemplified during the pandemic as they increased the number of properties to 168 and gross leasable area to 34.2 mm sq ft. Should the forecasted recession materialize in 2023, the design of SRU properties to be anchored by stable banners such as Walmart makes them well-prepared for a trade-down in consumer spending. Furthermore, its balance sheet is well-equipped to handle a hawkish turn as 84.1% of SRU's debt are fixed rate with staggered maturities.

Our second thesis addressed mitigating SRU's lease renewal risk. The Company's tenant renewal print rose 3.2% y/y to 85.7%, which marks an 11.6% increase from when we initially pitched the bond in Q1'19. That said, these contracts were renewed at an average dollar rate 8.4% lower than those from the prior year. We will continue to monitor how renewal activity impacts the top line and limit the downside risk.

The third thesis on mitigating liquidity concerns is particularly relevant in our rate environment. The company's cash balance decreased by $42.8M as the cost of a wall of maturities was amplified by rate hikes. However, as previously mentioned, its fixed-rate debt profile, staggered maturities, and low leverage ratio – both historically (down 18.4% y/y) and vs peers (4.3% less) – should hold this thesis moving forward.

To summarize, the continued prevalence of the three theses highlighted above speaks to a continued potential for spread compression. Furthermore, the asset contributes to our high credit quality exposure which will help to mitigate against potential downside shocks in the year 2023. We, therefore, maintain our HOLD recommendation for SRU.UN 3.834% 2027.

Sources: Bloomberg, Company filings, S&P 500, National Bank Financial.

Sector
Holdings Update

Alimentation Couche-Tard
ATDBCN 3.600% 2025

In Q4 2021, the Fixed Income Fund initiated a position in Couche-Tard's 3.600% 2025 bond. Our conviction to buy stemmed from three theses: adequate industry headwind mitigation, high-quality organic growth initiatives, and a sound inorganic growth strategy. In terms of relative valuation, we split Couche-Tard's comparable companies into two categories—merchandising and fuel retailing. Across both categories, we noticed Couche-Tard trading on a higher credit spread despite having stronger credit metrics, a larger market cap, and lower stock volatility. Since Jan 1, 2022 OAS has expanded (% increase) in line with merchandising peers while being slightly wider than the fuel peer group. Focusing on risk mitigation our thesis looked to electrification trends in the automotive industry. ATD's fuel exposure accounted for 46% of FY2021 profits and rose slightly to 47% of profits in FY2022, due to robust margins in an environment of high prices. The company has a considerable presence in Norway — the most electrified country by EV stock. They have continued expanding their EV charging network throughout 2022, and have piloted moves into Scandinavia, the Baltics, Poland and Ireland. Furthermore, we hold that, even in the most aggressive case, the rate of US electrification will remain negligible before this bond's maturity. When factoring another mitigant in ATD's heavy geographic skew towards NA, we see minimal risk as holders of their 2025 bond. Regarding inorganic growth, we focused on management's discipline as evidenced by their track record of realizing projected synergies. After modelling pro-forma outcomes, we concluded that the potential acquisition of EG group would be unlikely to trigger a downgrade. With the deal dying down, we have shifted our analysis to the company's inorganic growth strategy to assess risk in the position moving forward. Although, we recognize the looming threat of potential action on this front. We originally thought the company might shift away from acquisition-based growth, but FY2022 saw larger shares of profit growth attributed to acquisitions (46.54% in 2022 vs 37.6% in 2021).

Going into CY2023, management has signaled a willingness to continue acquisitions, but maintains a strong commitment to improving organic growth through initiatives like "fresh food fast" and smart checkout systems. Overall, ATD has managed a turbulent couple of quarters with continued organic growth and a resiliency amid rising costs, especially in European. Our current outlook is to continue to HOLD this position.

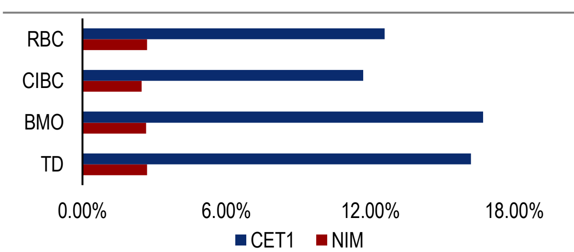
The Toronto Dominion Bank
TD 1.943% 2025

We initiated a position in TD 1.943% 2025 in Q4 2021, after screening for a high quality and shorter duration holding among the largest Canadian banks. We noted that the bond's higher OAS vs peers with similar duration and rating is unwarranted.

On February 28, 2022, TD announced the acquisition of First Horizon Corporation valued at US$13.4 billion. The deal was expected to close before year-end, but its currently targeting a closing date in H1 2023. After failing to close before November 27, 2022, First Horizon shareholders are now entitled to receive, at closing, an additional US$0.65 per share on an annualized basis.

TD has consistently posted among the highest CET1 ratio, NIM, spread, and liquidity coverage among both our Canadian and American comps. Credit agencies have recently raised the concern of the adverse impact which a housing downturn may have on consumer-related loans. We believe TD is the best positioned among peers to navigate such an environment. Notably the bank has an average loan-to-value ratio is 67% on its uninsured Canadian residential mortgage portfolio, which we believe provides a substantial buffer in the event of a housing downturn.

Figure 12: CET1 and Canadian P&CB NIM



Sources: Company filings, DBRS Morningstar Rating Report, Capital IQ.

Inter-American Development Bank

IADB 0.875% 2027

Established in 1959, the Inter-American Development Bank (IDB) is a multilateral development institution owned by 48 country governments, supporting regional development financing for Latin America.

Rated AAA across Moody's, Fitch, and S&P, the IDB issued a $2 billion 5-year sustainable development bond (SDB) in late March 2020. An SDB supports the financing of a combination of green and social projects. Our team determined that this particular investment would provide stable coupon payments and allow the fund to gain low-risk exposure to the increasing prominence of sustainable investing. After conducting a record level of lending volume during COVID, the bank decreased disbursements in 2022 by 23% to $10b, which helped to improve leverage ratios by 22YE. Regarding liquidity, the bank raised $3bn through another sustainable bond issuance in September 2022, which exemplifies the advantage of an intergovernmental of this scale having such easy access to capital markets. Its liquidity ratio of 2.1x (according to Fitch metrics), has remained well above the AAA threshold of 1.5x. Lastly, although the IDB has credit exposure to several weaker-performing Latin American sovereign borrowers with negative outlooks, such as Columbia and Peru, its business profile is exceptionally well-diversified, with its five largest banking exposures accounting for just 53% of its lending (note this is low given the bank's exclusive focus on sovereign borrowers). We will continue to monitor the bank's loan activity over the next twelve months and asses the resulting solvency risk.

The Goldman Sachs Group, Inc.

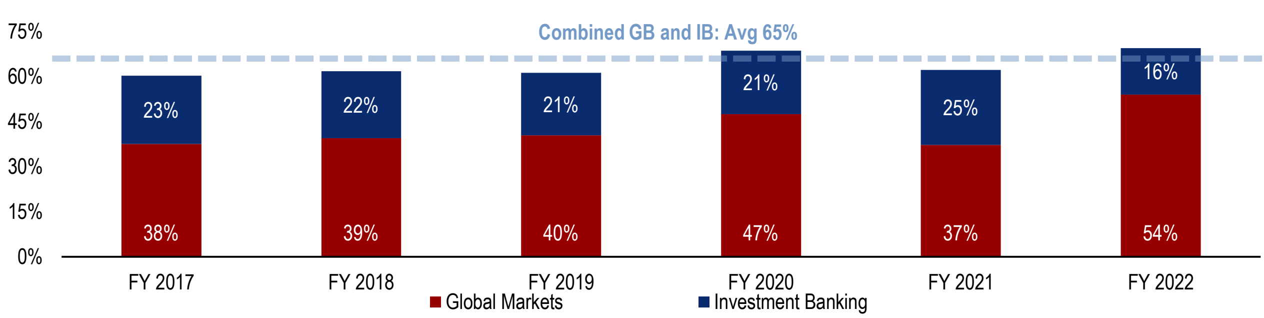
GS 2.013% 2029

We initiated a position in GS 2.013% 2029 in Q4 2021, at an OAS of 66 bps, with a conviction in the bank's well-balanced business portfolio and robust risk management processes. In 2022, the tightening macroeconomic conditions led to a slowdown in GS' major flagship segments. Consequently, our bond's credit spread expanded materially in response to the Bank's heightened revenue volatility coupled with cost structure inflexibility.

With the belief that cyclical slowdowns are part of the industry cycle for the banking sector, we remain comfortable with the risk profile of this holding, given GS' cost mitigation strategies. In Q4 2022, the company has decided to scale back its Consumer segment and focus on strengthening its core business lines. Given the uncertain outcomes of its Consumer initiatives, we view this transition as an ideal way to conserve cash flows and remain nimble, hence credit positive.

It is worth noting that Global Markets and Investment Banking, the two strongest franchises often perform in different directions during a market downcycle, forming a hedge to the total cash flow stability. Last year, GS' Global Markets was the bright spot, a beneficiary of elevated market volatility; Investment Banking, on the other hand, witnessed reduced deal flows, driven by the risk-on sentiment from the broad corporate world. The complementary between these two business segments is shown in *Figure 13.* Additionally, we consider the rising rates environment a catalyst as it helps expand the bank's Net Interest Margin.

Figure 13: Goldman Sachs Segmented Revenue as % of Total Net Revenue



Sources: Company filings and presentations

Sector
Holdings Update

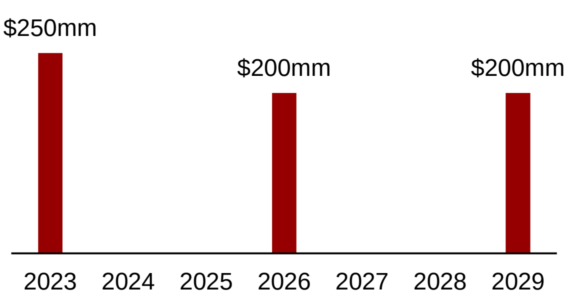
Toronto Hydro Corporation
TORHYD 2.430% 2029

Toronto Hydro Corporation (THC) owns and operates an electricity distribution system servicing ~785,000 industrial, commercial and retail customers in the city of Toronto with its sole shareholder being the city of Toronto. We initiated a position in Dec 2021 primarily driven by strong company positioning in the value chain and robust financials.

While Hydro One exclusively supplies electricity to one customer, THC is an end-market player whose performance is directly exposed to the demographics of its franchise area. We believe that the city of Toronto represents a strong customer base with potential for population growth that will drive the company's top-line recovery. The most recent census data shows that between 2016 and 2021, the city of Toronto's population has grown by 2.3% to 2.794M. During that same period, THC has grown its customer base from ~761,000 in 2016 to ~787,000 in 2021. That represents a 3.4% increase over the same period, 1.1% greater than the growth rate of the city.

THC also has a strong financial profile that ensures high certainty of cash flows. The company is nearing the end of its third year of a five-year Custom Incentive Rate framework that pre-approves CapEx funding and annual increases in unit rates charged to end markets. Such a framework gives visibility into the THC's future financial position. Despite slightly worsened solvency and liquidity ratios, S&P has confirmed THC's "A" credit rating and changed their outlook to "positive" from "stable". As such, we will maintain this holding.

Figure 14: TORHYD Debt Maturity Schedule (CAD)



Sources: Bloomberg, Company filings, DBRS Morningstar Rating Report.

Bell Canada Enterprises
BCE 2.500% 2030

We initiated a position in BCE 2.500% 2030 in Q4 2021. Our initial pitch was anchored on two theses: Bell's creditor-friendly growth prospects and its position of strength throughout the July 2021 5G auction. During our screening process, we uncovered several material risks among BCE's competitors, including Telus' heavy investments into its telehealth service, Rogers' weakening wireless segment, and Shaw's negative wireline growth. Since then, we have revised our view on telehealth but remain optimistic about Bell's position relative to peers. On the Rogers/Shaw deal, regulators continually delayed the process during 2022 and markets are not pricing BCE's spread much different to peers than as at a year ago. The fiasco remains ongoing and has brought forth questions of competition within Canada's telecom industry. Ultimately, spread expansion (% increase) has mirrored Rogers and is slightly less than Telus since Jan 1, 2022, so we are comfortable in its relative position. Our second thesis revolves around the market's overstated fears surrounding BCE's accelerated Capex program around 5G and fibre infrastructure over 2 years. We believed that this investment was necessary to drive long-term subscriber growth and cost efficiencies and something that all peers will have to experience to stay competitive. July 2021's auction only contributed modestly to spread expansion as we predicted. Moving into the 2023 auction, some new rules pose opportunities and threats for BCE. A removal of "set-asides" is good news as BCE can compete for all licences, but in regions where Bell spent aggressively last auction a "cap" system will make further expansion difficult. Overall, we believe that BCE's strong liquidity position combined with the future tax and cost savings from its FTTH and high band investments outweigh modest increases in leverage. Our current outlook is to continue to HOLD this position.

Program Alumni

Program Alumni

Killian Ladal, 2022

Benjamin Soucy, 2022

Mirella Deng, 2022

Zoe Wong, 2022

Jeremy Chalifoux, 2022

Mohammed Souit, 2022

Grace Danner, 2022

Leo Tousignant, 2022

Frank Shen, 2022

Joshua Levy, 2022

Kehui Tong, 2022

Sayeed Yousuf Ahmed, 2022

Annina Deluca, 2022

Brian Spivak, 2022

Ze Yi Lin, 2022

Dillon Graveline, 2022

Benjamin Takacs, 2022

Morgan Gill, 2022

Maxime Barbeau, 2021

Zhao Kang Chen, 2021

Amine Kabbadj, 2021

Lauren Kirigin, 2021

Serge Krikorian, 2021

Darius Kuddo, 2021

Frederic Lam, 2021

Marc Latif, 2021

Jesse Li, 2021

Jinghong Lin, 2021

Paul Mangoni, 2021

Duncan McHattie, 2021

Sean McNally, 2021

Hashaam, Nadeem, 2021

Seth Obadia, 2021

Shelly Qian, 2021

Ekaterina Semenova, 2021

Kanishk Shah, 2021

Alexandra Tremblay, 2021

Sisi Wang, 2021

Benjamin Caron, 2020

Miller Cressman, 2020

Jared Gaffe, 2020

Andrew Guerrand, 2020

Cody Jones, 2020

Rakan Lamy, 2020

Alessio Marcogliese, 2020

Tejas Saggi, 2019

Ludovic Van Den Bergen, 2019

Eric Van Hees, 2019

Program Alumni

Timothy Sung, 2020

Arasan Thangavelu, 2020

Stanislav Timoshenko, 2020

Riley Wolever, 2020

Roy Chen Zhang, 2020

Selena Zhu, 2020

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Josiah Derksen, 2019

Victoire Gekas, 2019

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Ian Jiang, 2019

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Adam Marcovitz, 2017

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Jamie Wilson, 2017

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Alexandre Verroneau, 2016

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Sean Saggi, 2016

Christie Wei, 2016

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Edouard Gaudry, 2015

Joe Kaprielian, 2015

Xavier Le Sieur, 2015

Andrew Marcovitch, 2015

Alyssa Obert, 2015

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Jeremy Kertzer, 2015

Daniel Kraminer, 2015

Daniel Sorek, 2015

Alexandra Witteveen, 2015

Belal Yassine, 2015

Alan Ang, 2014

Simon Bibeau, 2014

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Rene Boissonnault, 2014

Alexandre Castonguay, 2014

Mohammad Chowdhury, 2014

Nicholas Di Giorgio, 2014

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Rami Karabibar, 2014

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Stefano Reghelin, 2014

Anna Wright, 2014

Shuang Yun, 2014

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Mohammad Awada, 2013

Rafael Barroso, 2013

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Michael Commisso, 2013

Ivan Di, 2013

Fedric Garnier-Landurie, 2013

Emily Ren, 2013

Noah Senecal, 2013

Jimmy Xie, 2013

Max Adelson, 2012

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Neil Cuggy, 2010

Emir Coskun, 2010

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Philippe Morissette, 2010

Daniel Peretz, 2010

Brian Rosen, 2010

Thibaud Sonntag, 2010

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Raja Uppuluri, 2010

Jehangir Vevaina, 2010

Shu Wai Chi, 2010

Lincoln Zheng, 2010

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