

Desautels Capital Management

Honours in Investment Management

HIM Application Process and Stock Pitches

Executive Team

Holden Kangas, President

Alyson Charles, Vice President

November 26, 2024





Holden Kangas

Fixed Income | Senior Analyst
President



Fun fact: Can dunk a basketball on a 10ft hoop



Alyson Charles

Financial Inst. | Senior Analyst
Vice President



Fun fact: Good with faces,
bad with names

Desautels Capital Management

Honours in Investment Management

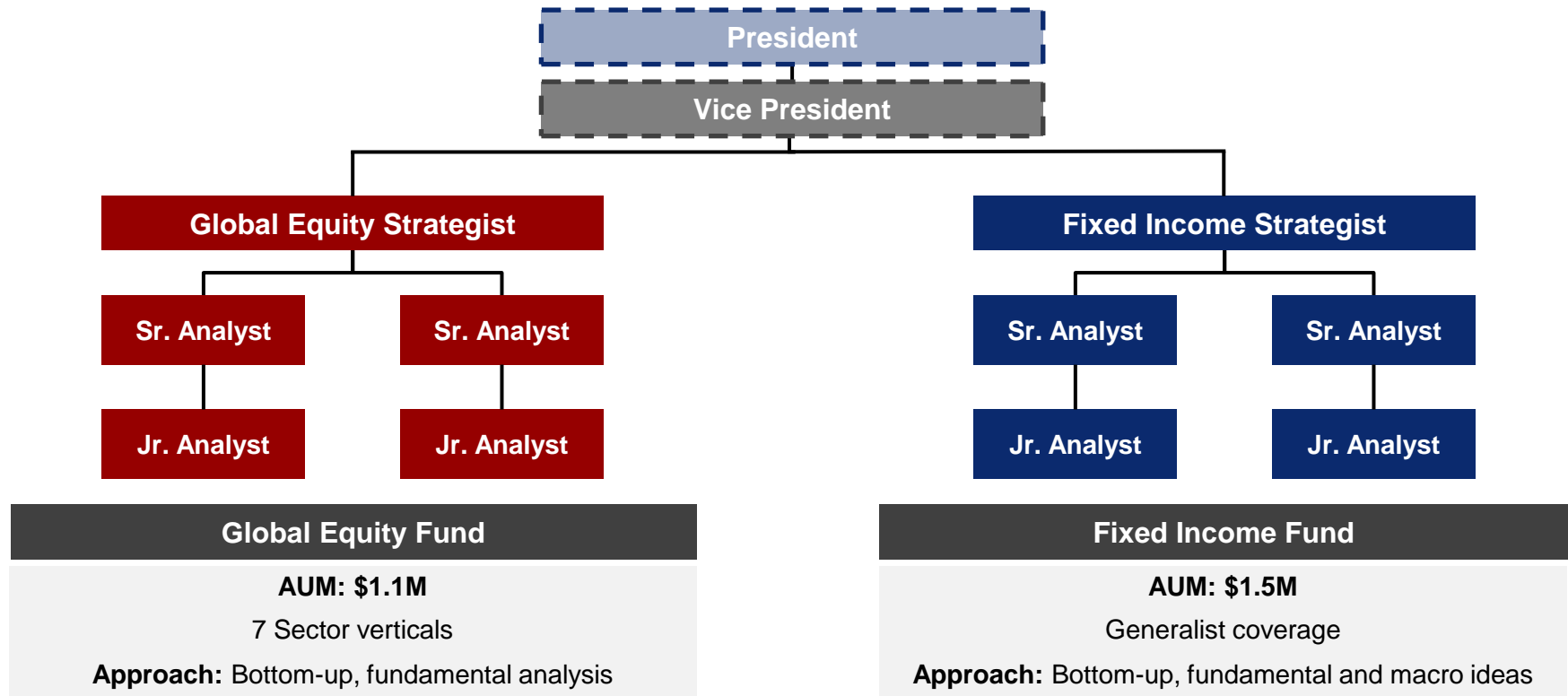
Quick Intro to DCM

Section I



Honours in Investment Management Program Structure

Global Equity Fund and Fixed Income Fund



Other Roles

Chief Operating Officer (COO)

In charge of developing the HIM schedule, organizing guest speakers, planning HIM trips and retreats, and coordinating alumni events. COO also serves as head of HIM bonding,

DCM Network Director

In charge of cultivating the alumni network, attracting sponsors, and choosing guest speakers. The DCM Network director also works to create recruiting pipelines with top firms to allow for juniors to find the best internships possible.

Source: DCM

Honours in Investment Management Program Verticals

The HIM Program Selects ~18-20 Students per Year to Become Junior Analysts

HIM: ~40 students in their last or second-to-last year

Global Equity Fund

Fixed Income Fund



**Consumers
Sector**



**Energy & Utilities
Sector**



**Healthcare
Sector**



**Investment
Grade**



**Technology, Media &
Telecommunications
Sector**



**Financial Institutions
Sector**



**Diversified Industrials
Sector**



**High
Yield**



**Materials
Sector**

Source: DCM

2025-2026 HIM Class Profile

Class of 2025 & 2026



Who makes up HIM?

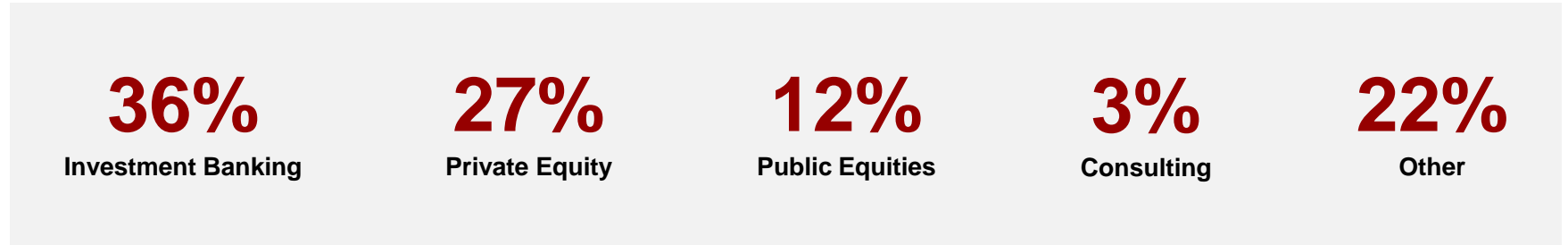


Source: DCM

2025-2026 HIM Class Employment

Summer and Full-Time Placements

Class of 2025 & 2026 Employment Statistics



Class of 2025 & 2026 Employers



Source: DCM

Desautels Capital Management

Honours in Investment Management

Application and Interview Process

Section II



HIM Events

Information sessions and timeline

Events	Time/Location
Info Session #1 <i>Introduction to HIM and Why You Should Apply</i>	Monday, Nov 18, 2024, 5:30pm, Bronfman 151
Info Session #2 <i>Introduction to Stock Pitches and the Application Process</i>	Tuesday, Nov 26, 2024, 6:00pm, Bronfman 001
Women's Roundtable <i>Open Discussion with Women in the Program</i>	Wednesday, Nov 27, 2024, 6:00pm, Bronfman 301
HIM Open House <i>Come See an HIM Stock Pitch!</i>	TBD (Early January)



Follow us for the latest updates

www.desautelscapital.ca



mcgill_him

HIM Recruitment Timeline

Key Dates for Joining the Program

- **End of November**
Stock list released on website
- **1st Week of School in January**
HIM Open House – Come see a stock pitch!
- **January 12th**
Resume + Cover Letter + Transcript Due
- **End of January**
Interviews (7-minute stock pitch, behavioural/light technicals, HIM alumni interview)
- **Beginning of February**
Acceptances sent out
- **February, March, April**
As an incoming junior, seniors will go through recruitment with you:
 - Bootcamps
 - Mock interviews
 - Reach out to HIM alum / current HIMers to land that offer!



Life moves pretty fast if you don't take a second to stop and look around once in a while

Resume & Cover Letter

Key to getting the interview... but not the job

General Resume Guidelines

- Keep them **clean and updated ALL THE TIME**
- Use the Desautels resume template (see right)
- Keep it to **one page and one page only**
- **EDIT MULTIPLE TIMES:** zero tolerance for typos
 - Have your resume **reviewed** by as many people (peers, parents, professors, etc.) as possible before you send it out
- **Be honest and truthful – never lie about your experiences but be proud of your achievements!**
- **Consistency is KEY**
 - Pay attention to **formatting** (the structure and focus of your resume); margins, alignment, and spacing
 - Grammar, verb tenses, numbers
 - Canadian vs. American spelling; oxford vs. standard comma
 - Types of bullets, dashes (- vs. –), dates, bold and italicized text

Cover Letter General Guidelines

- Use the **same header** as your resume
- Keep the entire document to less than **¾ of a page**; think about quality, not quantity
- Focus on elements **not** found on your resume
- **EDIT multiple times:** 0 tolerance for typos
- **Have a different cover letter for every firm** – it will show if you always use the same one
 - Make sure to **highlight contacts** that you have networked with
 - Personalize to **what unique things you have learned** about the firm
- **Note:** Cover letters are becoming more and more obsolete
 - As **networking** becomes more popular, it is replacing the need for a cover letter
 - Nevertheless, writing a cover letter is useful as it forces you to articulate your experiences

For your HIM cover letter, try to emphasize your curiosity, passion for finance, and willingness to work hard

Desautels Capital Management

Honours in Investment Management

Pitching Advice

Section III



Elements of a (brief) Stock Pitch

You can make decisions on what is more/less relevant for your specific stock

Main Sections

- **Executive Summary (Necessary and important to start with a bang!)**
 - Very quick introduction to the company and what they do
 - Quick summary of where the company trades relative to peers (trading multiples)
 - Summary of investment thesis, with a target price and implied upside/downside
- **Company/Industry Overview (don't spend too much time if it's a simple business)**
 - Clear Explanation of What it Does and its key competitors
 - Breakdown of Company by Segments and/or Geography
 - Historical Performance (Stock Price and Key Financials – e.g., Revenues, Margins, Valuation Multiples)
 - Economics of Core Markets (e.g., Barriers to Competition, Customer/Supplier Analysis, Key Risks)
- **Qualitative Investment Thesis**
 - What Do You Believe is Attractive About the Company?
 - Evidence of This (Micro and/or Macro)
 - Realistically, Why is This Important and Why is This Not Priced by the Market?
 - Clear explanation of how the qualitative idea is quantified and how it translates to your valuation
- **Quantitative Valuation**
 - DCF and/or Comparables-Based
 - Sensitivity Analysis

Stock pitching is more of an art than a science

Elements of a (short) stock pitch

You can make decisions on what is more/less relevant for your specific stock

Main Sections

- **Executive Summary (Necessary and important to start with a bang!)**
 - Very quick introduction to the company and what they do
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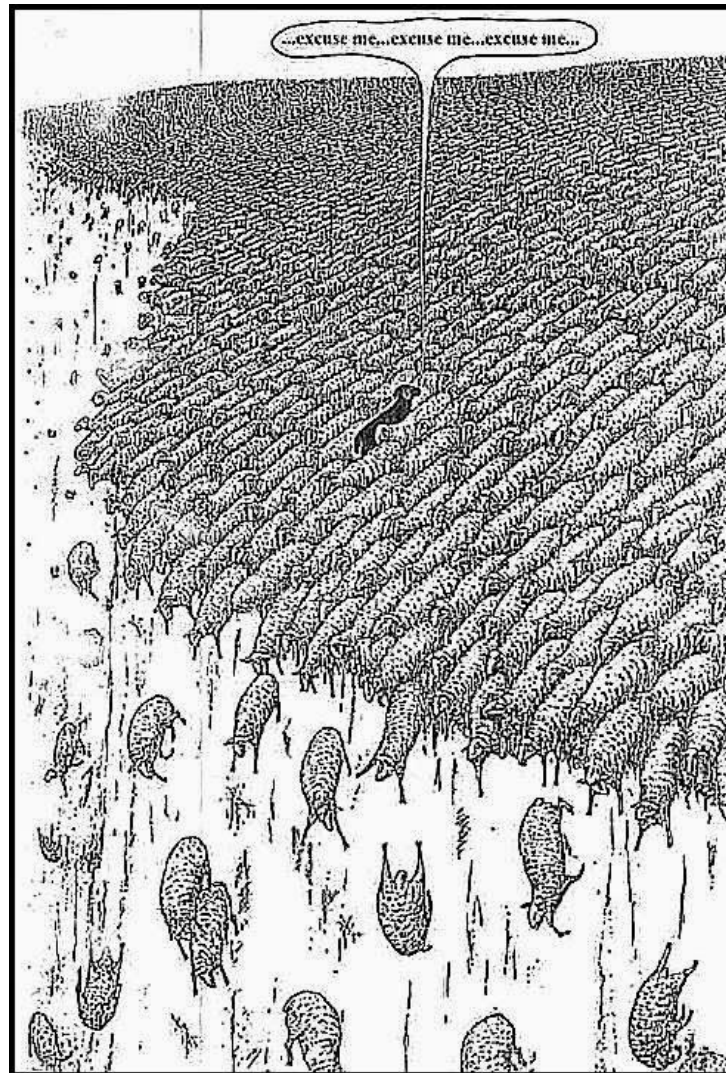
2/3



Stock pitching is more of an art than a science

Being a Contrarian Investor

What does it mean to be a black sheep?



No joke, this picture is hung on the wall of many Brookfield board rooms

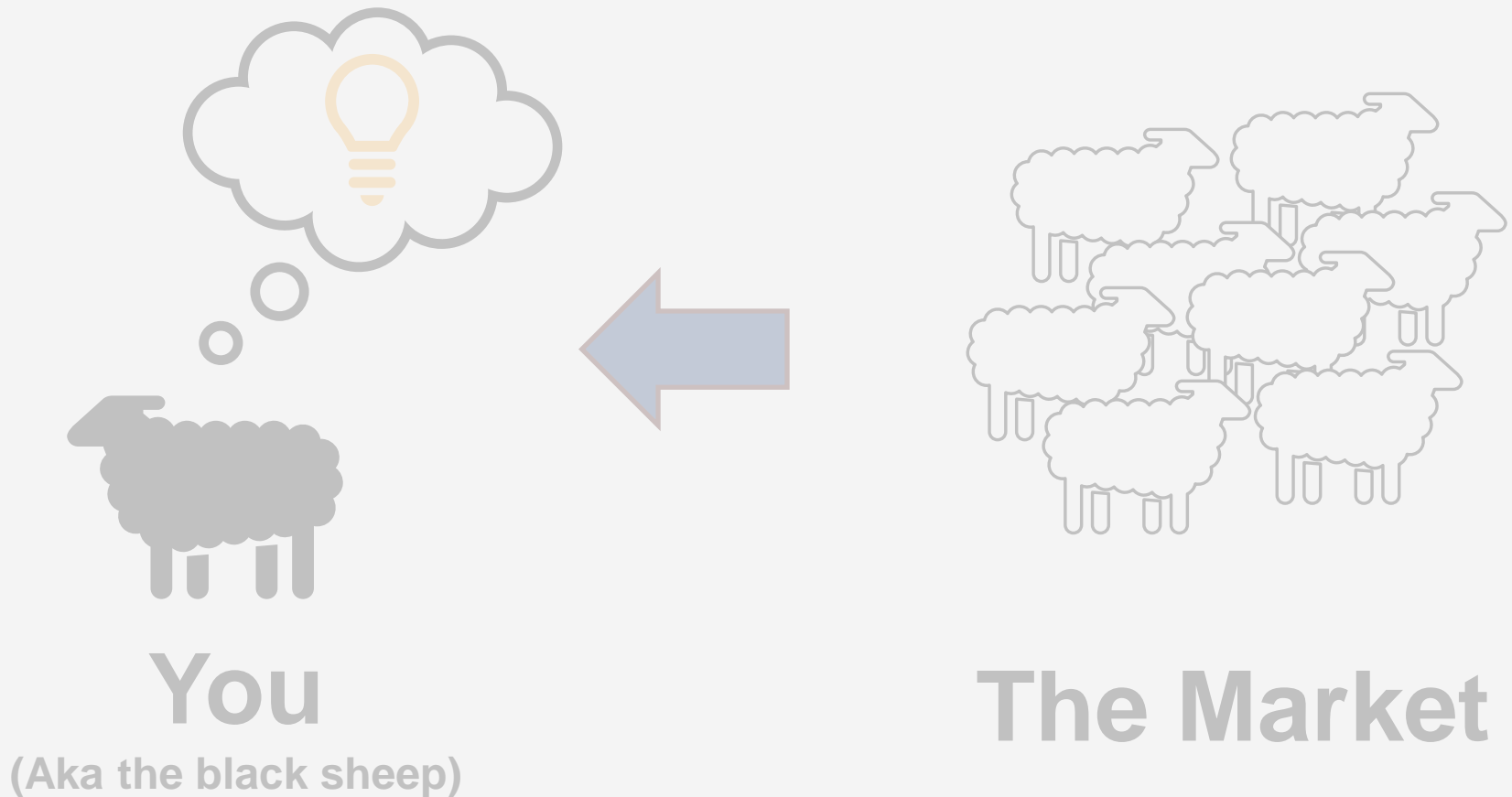
What are we Trying to Achieve With a Stock Pitch?

We want to generate alpha (outperformance)

$$\text{Alpha}_{\text{stock}} = R_{\text{stock}} - [R_{\text{risk-free}} + \text{Beta}_{\text{stock}} * (\text{Market Risk Premium})]$$

Fundamental Analysis:

Finding “ α ” generating investments by finding what the market is missing



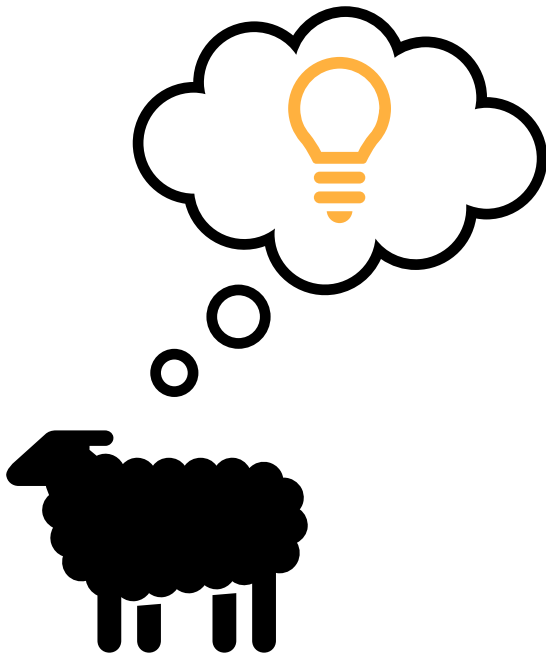
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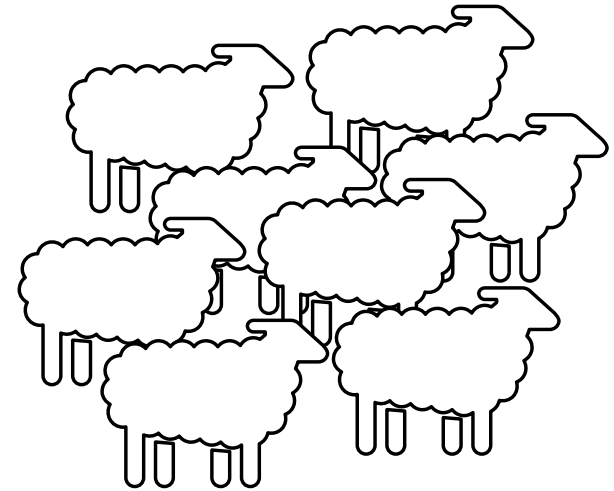
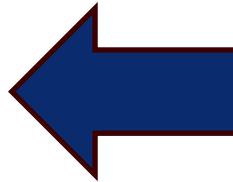
Fundamental Analysis:

Finding “ α ” generating investments by finding what the market is missing



You

(Aka the black sheep)



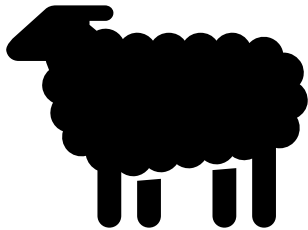
The Market

What are we Trying to Achieve With a Stock Pitch?

We want to generate alpha (outperformance)

Company A should be worth \$35
because market is missing X

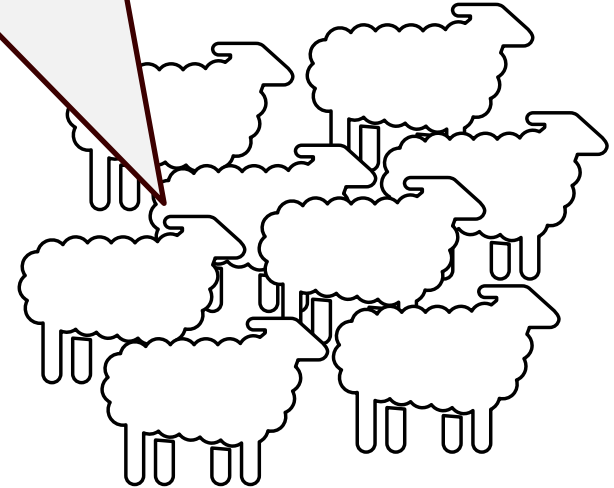
Company A is undervalued



You

(Aka the black sheep)

Company A is worth \$20



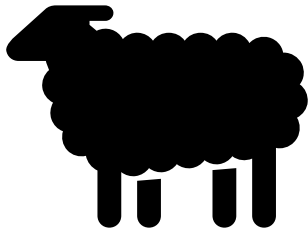
The Market

What are we Trying to Achieve With a Stock Pitch?

We want to generate alpha (outperformance)

Company A should be worth \$5
because market is missing X

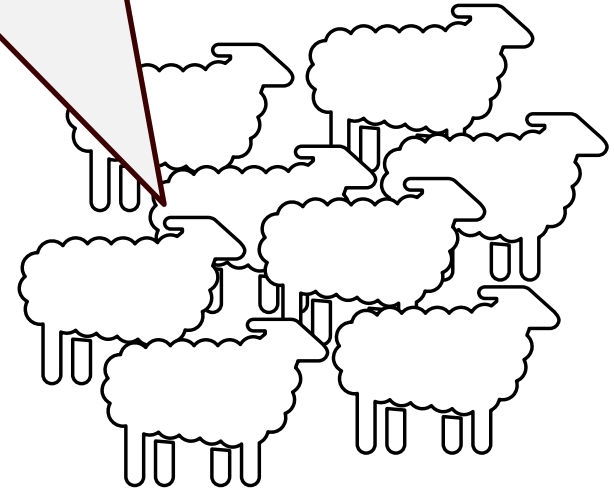
Company A is overvalued



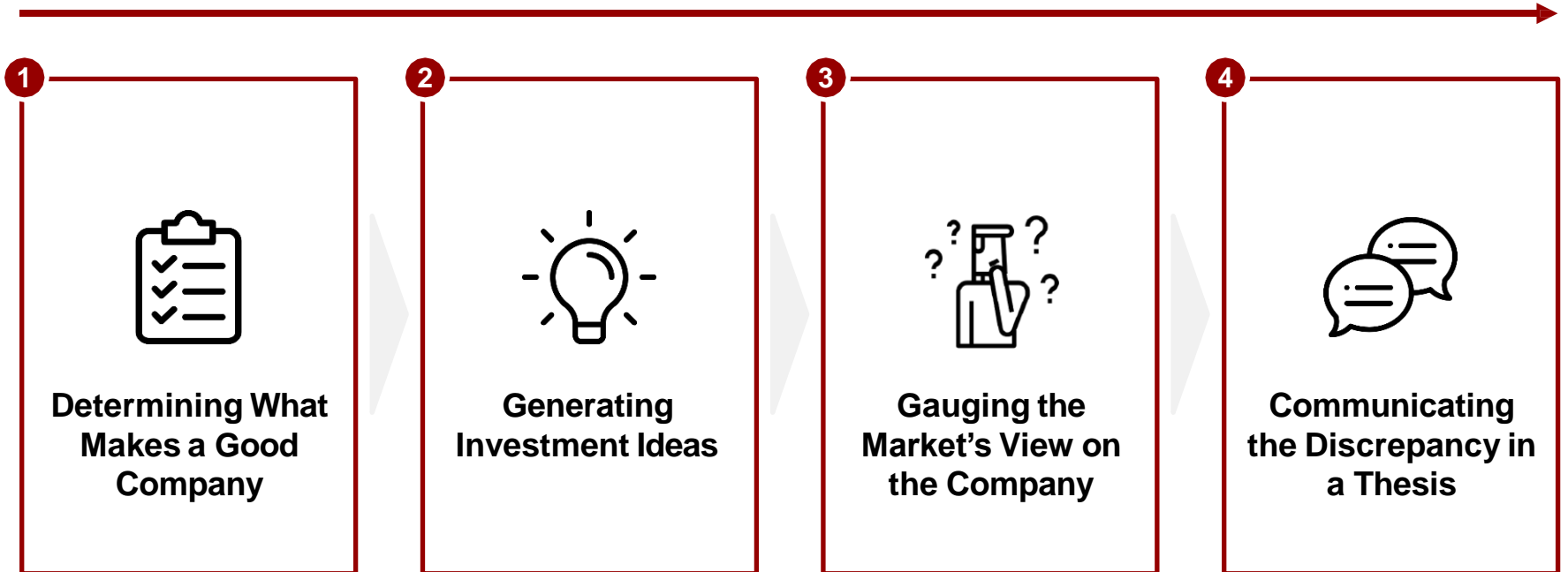
You

(Aka the black sheep)

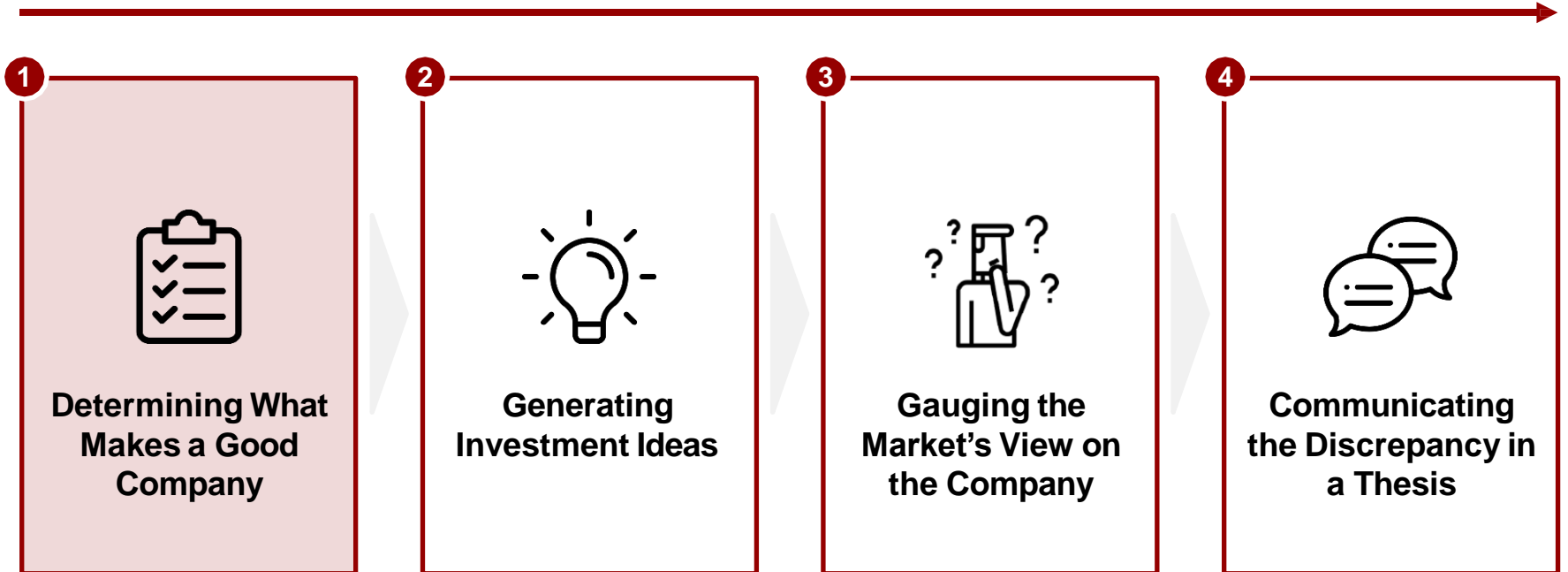
Company A is worth \$20



The Market



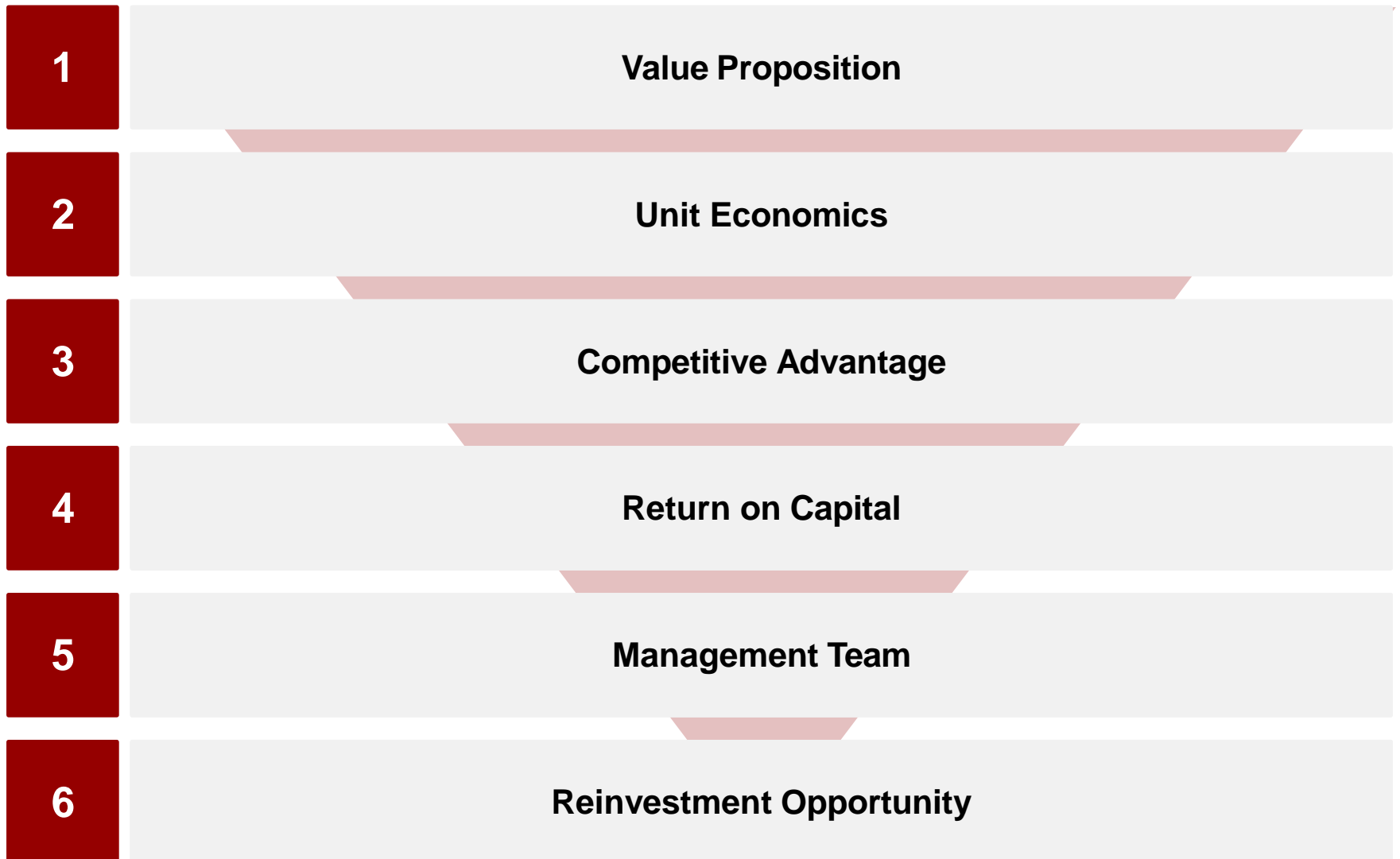
“Investing is more art than science” – Howard Marks



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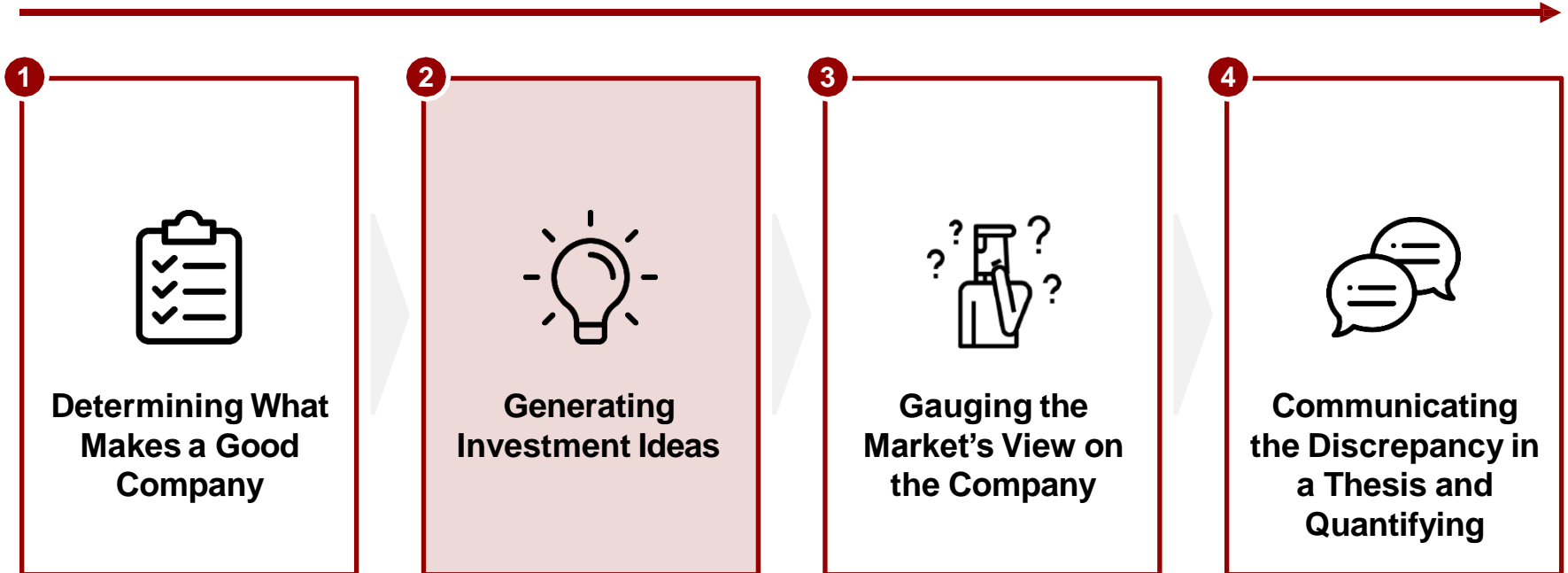
1. What Makes a Good Company?

6-Steps Business Quality Framework; A company need not be excellent across the board to be a good investment



Disclaimer:

This section may not fully apply to you, as you are receiving a list of stocks to pitch from



"Investing is more art than science" – Howard Marks

2. How to Generate Investment Ideas?

“All roads lead to Rome”



Idea Generation

Top-Down

1

Following an Investment Thesis

2

Decomposing Industry Structure

Bottom-Up

1

Following Names

2

Quantitative Screening

3

Mimicking the Pros

Others

1

Random Walk

2

Investing Resources

3

Learning Experience Lense

While all techniques are distinct, a combination of them will be necessary to arrive at a compelling investing idea

2. How to Generate Investment Ideas?

“All roads lead to Rome”



Idea Generation

Top-Down

1

Following an Investment Thesis

2

Decomposing Industry Structure

1. Following an Investment Thesis

- **Step 1:** Pick a (sub-)industry and conduct market research to understand its functioning, actors, and trends
- **Step 2:** Develop a personal view on what investments would be worthwhile pursuing based on certain assumptions and criteria
- **Example:**
 - “Fintech companies are innovating [...] We believe the **combination of mobile, digital money, machine learning, and new data sources offers startups a unique opportunity to leapfrog outdated infrastructure and compete with incumbent financial institutions to reimagine the way we manage our finances**” – a16z

Source: Andreessen Horowitz, Bessemer Ventures, OpenVC

2. How to Generate Investment Ideas?

“All roads lead to Rome”



Idea Generation

Top-Down

1

Following an Investment Thesis

2

Decomposing Industry Structure

2. Decomposing Industry Structure

- **Step 1:** Deconstruct the value chain of an industry from the first to last steps, identifying actors, competitors, and power dynamics
- **Step 2:** Find the step of the value chain with the structurally-best company or with the strongest pain-point
- **Example:** Airlines Industry



Source: Harvard Business School, McKinsey & Company, ScienceDirect

2. How to Generate Investment Ideas?

“All roads lead to Rome”



Idea Generation

Bottom-Up

1

Following Names

2

Quantitative Screening

3

Mimicking the Pros

1. Following Names

- **Step 1:** Select a handful of stocks that fit within your investment universe (industry, size, geography, market position, etc.)
- **Step 2:** Monitor regularly the change in business performance and market sentiment to find an attractive entry opportunity
- **Example:**



Select Names

FDA Investigates Multistate Outbreak of E. coli
O26 Infections Linked to Chipotle Mexican Grill
Restaurants

Idiosyncratic Event

Why Chipotle Stock
Tumbled 21% in 2016

Opportunistic Entry

Source: FDA, Motley Fool, Street of Walls

2. How to Generate Investment Ideas?

“All roads lead to Rome”



Idea Generation

Bottom-Up

1

Following Names

2

Quantitative Screening

3

Mimicking the Pros

2. Quantitative Screening

- **Step 1:** Select operational (margins, FCF, etc.), valuation (P/E, EV/EBITDA, etc.), and technical (52-week high low, etc.) factors
- **Step 2:** Run a screen using these relevant factors, and analyze the top quartile of the results one-by-one to find opportunities
- **Example:**
 - Greenblatt Magic Formula (*ask Dillon for his Python script!*)
 - Benjamin Graham Net-Net
 - ERP5
 - Piotroski F-Score

Source: Benjamin Graham “The Intelligent Investor”, Finviz, Joel Greenblatt “The Little Book that Beats the Market”

2. How to Generate Investment Ideas?

“All roads lead to Rome”



Idea Generation

Bottom-Up

1

Following Names

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Quantitative Screening

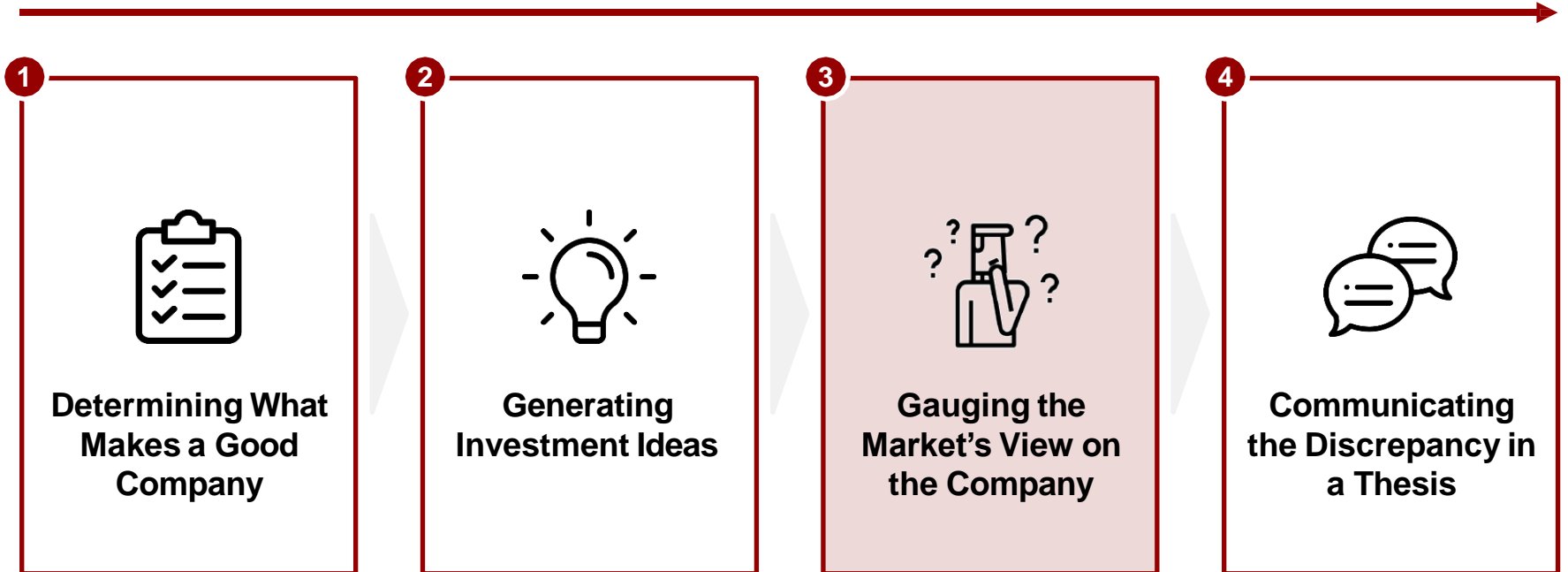
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Mimicking the Pros

3. Mimicking the Pros

- **Step 1:** Find investment funds, money managers, and individual investors that you respect and that disclose their ideas
- **Step 2:** Do your own critical-thinking and homework to determine if their ideas represent mimicable investment opportunities
- **Example:**
 - SEC 13F & 13D Filings
 - Sellside Reports
 - Investor Letters (individual fund or [aggregators](#))
 - WhaleWisdom Heat Map

Source: SEC, WhaleWisdom



"Investing is more art than science" – Howard Marks

3. Gauging the Market

“The stock market is filled with individuals who know the price of everything, but the value of nothing” – Phillip Fisher

#1 – Buyside and Sellside Opinions

- 1. **Look for:**
 - Explicit Opinions:** Buy/Sell/Hold Recommendations, Quotable Opinions
 - Implicit Opinions:** Forecasts, Doublespeak, Second-Order implications of Explicit Opinions
- 2. **Source:**
 - Equity Research Report
 - Buyside Analysis (ex: Canalyst)
 - Etc.

#2 – Short Interest and Investor Base

- 1. **Short Interest:**
 - Number of shares sold short compared to the number of shares available to trade
 - >10% or >4 days to cover = pessimism
- 2. **Investor Base:**
 - Types:** ETFs, Insiders, Institutional, Retail, Strategics
 - Criteria:** Concentration, Directionality, Breadth, Impact, Depth, Duration



#3 – Technical Indicators

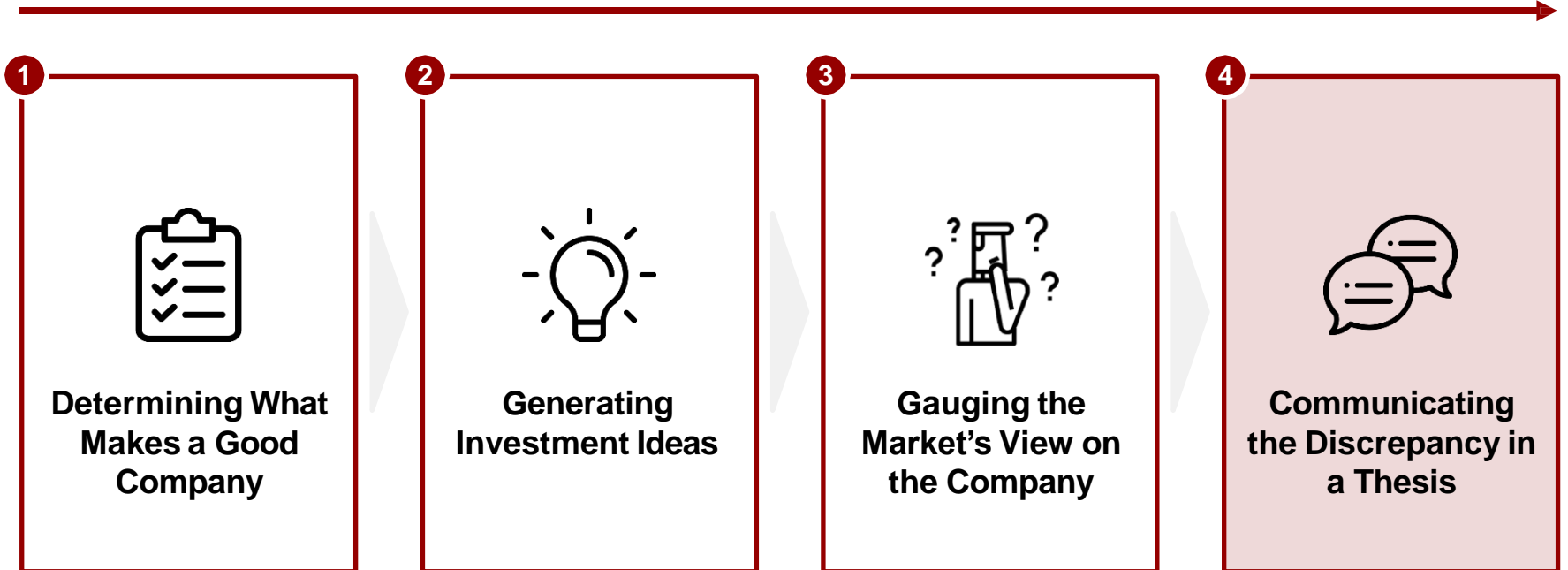
- 1. **Annotated Stock Price Chart:**
 - Visual impact of business events on the price
- 2. **RSI**
 - Recent extreme buying / selling pattern
- 3. **VIX**
 - Implied volatility on a stock / industry / market
- 4. **Others:**
 - High-low Index, MA, BPIs, etc.

#4 – Implied Market Valuation

- 1. **Intrinsic Valuation:**
 - What assumptions are necessary to justify this valuation?*
 - Back out and compare the Revenue, Margins, and FCF trajectory implied by today's price
- 2. **Relative Valuation:**
 - How does the valuation compare to peers?*
 - Multiples are heuristic for growth and risk, and analogous assets tend to be priced similarly

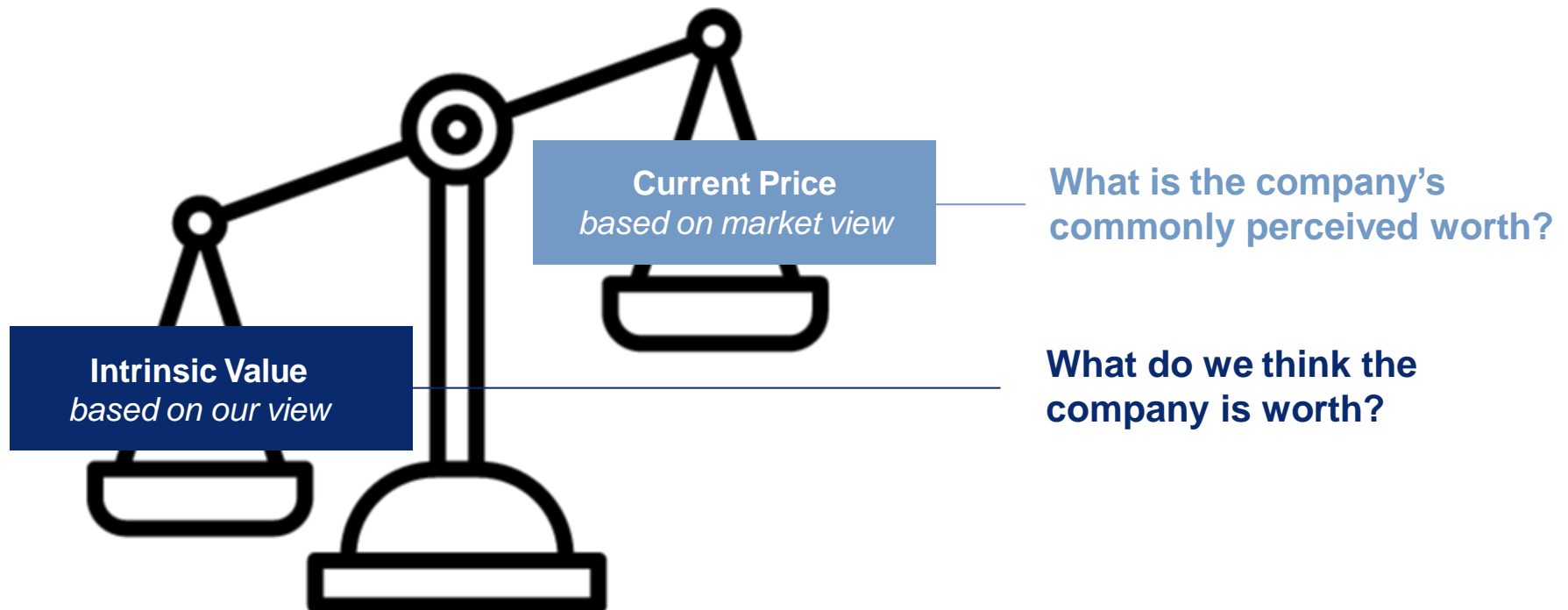
Gauging the market's view correctly is essential in forming a thesis – no discrepancy means that your findings have most likely been priced in

Source: Equity Research Reports, Finviz, Forbes, Peter Wright “Metrics That Matter – Who is Your Investor Base”



“Investing is more art than science” – Howard Marks

What is the market missing / misinterpreting?



4. Structuring a Thesis

Formulating a thesis is only half the battle, communicating it is as important

Thesis Development Process

- Iterative Process
- 1 Identify a **relevant value driver** of the business that you have a **differentiated insight on**
 - 2 Formulate a **view on that value driver** based off primary and secondary research
 - 3 **Compare your view with the market's view** of the same value driver (consensus estimates)
 - 4 **Determine who is most likely to be right** given the facts, and quantify the discrepancy
 - 5 If the discrepancy is material to the company valuation, **present your process in a clear and cogent argument**

Quantifying the Thesis

There are **THREE main drivers of stock returns** (and your thesis **HAS** to affect at least **one** of them)

- 1 **Free Cash Flow Growth** (through revenue growth, improving margins, etc. FCF will be higher than expected by the market)
- 2 **Free Cash Flow Yield** (ie., the stable FCF that this stock earns for investors is being undervalued by the market)
- 3 **Change of Trading Multiple** (a multiple re-rating can change the stock price without earnings or EBITDA or cash flow changing)

From HIM Alumni who worked as investors at Fidelity and PSP

How to turn **qualitative** into **quantitative** (numbers)?

- **Bottom-Up Build** to forecast your value driver using the most basic building blocks and assumptions backed by research
- **Linear regression** (Vadim loves these!) of the value driver against another piece of data, and then extrapolate into the future

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DCM Example

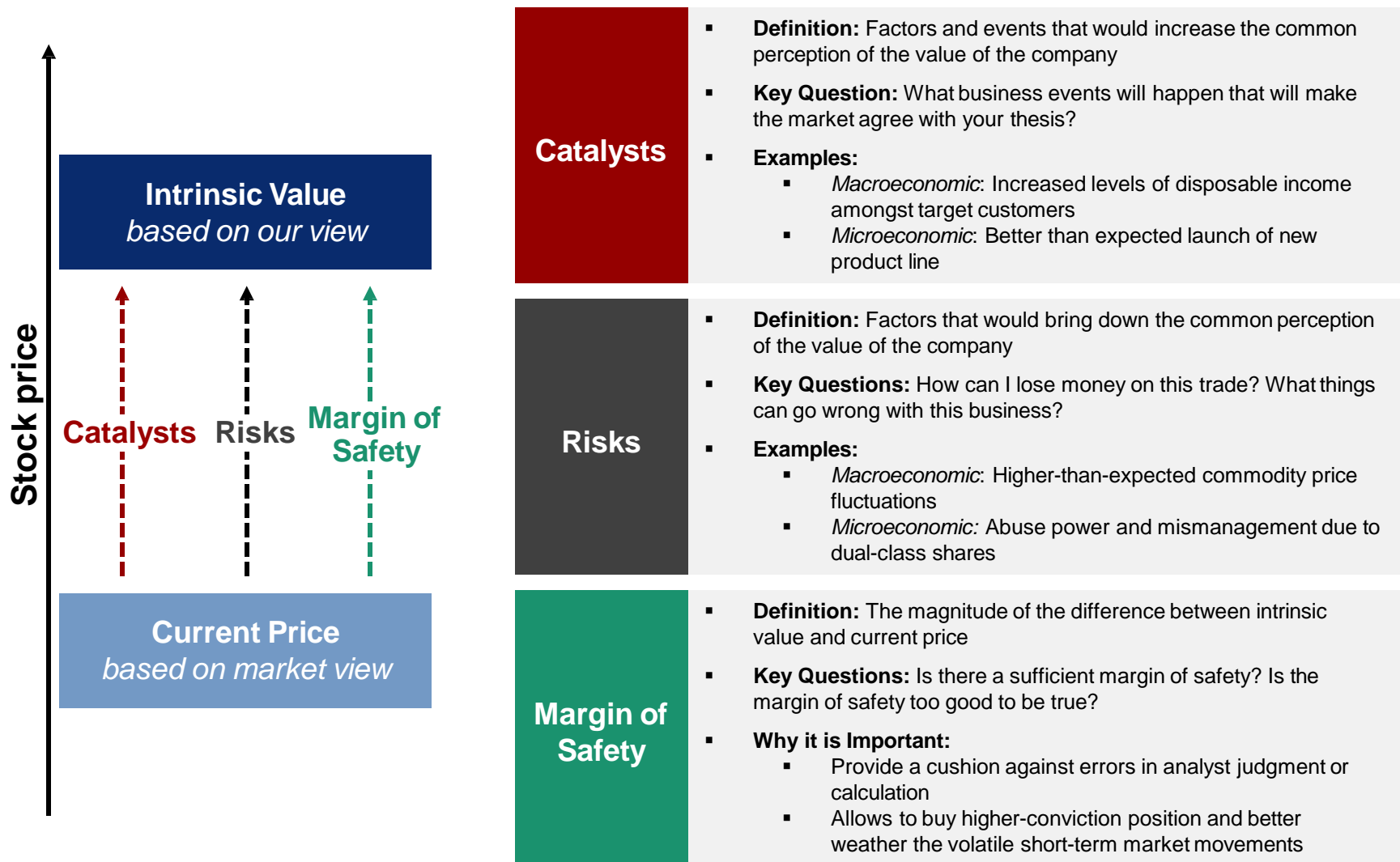
- 1 **Market Positioning** of ARITZIA as **young students with a developed fashion sense**
- 2 DCM thinks ARITZIA is a **archetypal modern retailer** as they own **premium private label brands** and have **low store density in high-traffic locations**
- 3 The **Market lumps ARITZIA with traditional B&M retailer** as proven by similar **EV/EBITDA multiple** and high **correlation coefficient** to S&P B&M retail index
- 4 DCM found that the **market had done that mistake before** with , , and **ZARA**, and that a **multiple rerating** could translate into **+33% upside**

- 5
 - 1 Investors Unfairly Clumping Aritzia With Traditional Brick & Mortars, When They Are More Comparable To Modern Retailers Because of:
 - A "Amazon proof" product mix driven by premium private label brands
 - B Low-density store portfolio in premier high-traffic locations
 - C High Financial Flexibility will prevent them from befalling same fate as retail peers

Screenshot from Aritzia HIM Pitch, 2017

4. Structuring a Thesis

Further Considerations



Source: Andrew Sheiner, Howard Marks "Risk Revisited Again", Seth Klarman "Margin of Safety"

Where Do I Start?

Key resources and advice

Which Company Should I Choose?

Choosing a company is more of an art than a science, but these things may get you thinking the right way

Sector	Company	Ticker
TMT	MemeStonk Inc.	TSE: MEME
Consumers	Widget Co.	NYSE: WIDG
...

- Is there a particular **sector** you are interested in learning about, or know a bit (or a lot) about already?
- After some quick Googling and research, are there **key controversies or debates** surrounding one of the companies that you could pick a side on?
- Does one of the companies have a **complicated** (or **easy to understand**) **business model** that you want to showcase your learning ability with (or make it easier to focus on your thesis and valuation)?
- Does one of the companies **immediately appear undervalued or overvalued** by doing a quick comparison of trading multiples relative to peers?
- Does one of the companies fit key **screening criteria** mentioned earlier in the presentation?

Resources to Use Along the Way

- 1 Google Search**
News, articles, company press releases, SEC filings, training resources, etc.
- 2 Mergent Online (Investext tab)**
Available through the McGill Library website, great for equity research – needs McGill campus wifi or VPN
- 3 Capital IQ and Bloomberg**
Best resources for historical financial data and market data – available on select McGill computers in Bronfman and the finance lab in the library
- 4 YouTube**
Easily accessible place to learn how to do a comparables analysis, how to build a DCF, etc.
- 5 HIM Resources**
Use tips in this presentation, look at sample pitches on the Desautels Capital website (Investor Relations tab)

At the end of the day, don't put too much pressure on yourself – try your best, you will learn a lot

Don't be shy!

Q&A

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