

Desjardins

Dividend Income Fund



QUARTERLY COMMENTARY AS OF MARCH 31, 2020

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
January 1, 1994

CIFSC CATEGORY*:
Canadian Equity Balanced

Tactical management of the Fund's asset allocation contributed negatively to performance by 0.52 %. With the sharp market downturn, value was lost as a result of overweighting in Canadian equities and preferred shares. Underweighting in Canadian bonds further reduced the return because the bond market was up slightly for the period. The selection of securities added 2.15%. A slight underweighting in Canadian equities was initiated in the portfolio near the end of the quarter in anticipation of a deterioration in economic activity resulting from the coronavirus. This underweighting was offset by a slight overweighting in Canadian bonds.

Fixed income market

During Q1 2020, financial markets were hit hard by the COVID 19 pandemic. To respond quickly to the sudden slowdown in economic activity, the Bank of Canada reduced its key rate by 1.5% in March and applied a series of measures to help liquidity in the bond market. The 2- to 10-year yield curve sharpened by 0.27%, and the Canadian government 10-year yield ended the quarter at 0.7%, down 1% over the period. In this environment, the portfolio maintained a longer duration than its benchmark, with a bias for securities with seven-year maturities. The overweight to corporate bonds detracted from value added, as this sector posted the worst bond market performance over the period. Allocation to this sector is essentially made up of AA-rated bank securities that are not a concern.

Preferred shares

The preferred share market, as with all other risky asset classes, was hard hit by COVID 19. In addition to having been impacted by widening credit spreads and the widespread losses on the stock markets, preferred shares were deeply affected by the interest rate cuts. The 5-year rate fell 110 basis points over the quarter. In this climate, the benchmark index posted a return of 22.8% for the period. All structure types ended the quarter with a negative return. However, rate reset and floating rate shares were harder hit by lower interest rates.

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The portfolio slightly outperformed the index. The overweighting of fixed-rate perpetual shares essentially explains this outperformance.

Canadian stock market

In the wake of monetary easing and an easing of the trade dispute between the United States and China, stock markets started 2020 on a positive note, with the S&P 500 up by 5%, reaching a record level around mid-February. This was followed by a drastic change in tone. The impact from the coronavirus, and to a lesser extent the end of the Saudi oil production limits, created a shockwave. Just 22 days after its peak on February 19, the S&P 500 was down by 30%. The VIX volatility index reached a level (85) nearing its 2008 peak (89). In spite of the quickly-announced unprecedented large-scale tax and monetary interventions and a spectacular S&P 500 rebound of 17% within 5 days at the end of March, most stock markets ended the quarter with downturns between 20% and 30%, with 22% in Canada and 20% in the United States.

No sector experienced a positive performance over the first quarter. As could be expected, sectors that were more defensive in nature, such as utilities (-6%), communications (-9%) and consumer staples (-10%), best withstood the decline in the markets. However, technology posted the best performance, at -4%. Conversely, real estate, healthcare and energy fell by more than 35% over the period.

Positioning remains defensive. We are retaining liquidities that we will strategically deploy to benefit from the strong market fluctuations. In an environment that is this volatile and uncertain, we will continue to favour quality, large-cap securities. An approach that we are currently using is to position ourselves in companies providing essential services based on the definition given by the various provincial governments. We are keeping a higher weighting than average in the gold sector. Finally, we are underweighting the energy and basic materials sectors.

The sectors that have positively contributed to the Fund's performance are energy (up 1.33% compared to the benchmark), financial services (up 1.18%) and materials (up 1.03%). Within these sectors, we note a number of securities that contributed to the added value. First, in the energy sector, Pembina Pipeline Corp. saw

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a -44.29 % return, adding 50 basis points to the entire portfolio as a result of our significant underweighting in this security. In second position was Bank of Montreal, which decreased by 28.65%, thereby contributing 78 basis points due to our underweighting.

Conversely, the real estate and industrial sectors contributed negatively to the Fund's relative performance (-0.15% and 0.10% respectively). First, in the real estate sector, Brookfield Property Partners (-51.18%) trimmed 68 basis points off of the Fund's performance. In second place, CAE Inc. (-48.03%) helped to bring down the fund's performance by 26 basis points.

*CIFSC refers to Canadian Investment Funds Standards Committee. The CIFSC has the mandate to standardize the classification of mutual funds in Canada. <http://www.cifsc.org/>.

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