

# Desjardins

## Canadian Equity Income Fund



QUARTERLY COMMENTARY AS OF MARCH 31, 2020



PORTFOLIO MANAGER:  
Lincluden Investment Management

INCEPTION DATE:  
October 18, 2013

CIFSC CATEGORY\*:  
Canadian Dividend & Income Equity

### Contributors to performance

- The material cash position acted as a buffer during these unprecedented times and helped to protect capital.
- The higher exposure to defensive sectors including Communication Services and Consumer Staples helped protect capital. Telecommunication holdings BCE, Rogers, Shaw, and TELUS were positive contributors, highlighting the increased need for internet, television and wireless services in the current environment. The positions were increased opportunistically in this downturn. Consumer Staples holdings fared well, especially grocer Metro, which benefitted from being one of the few essential retailers.
- Within the Financials sector, the position in Intact Financial was trimmed earlier in the quarter as the shares had benefited from their recent strategic acquisitions. Our holdings in Manulife was eliminated in late January as news of the virus surfaced in Asia; the stock had been a very strong performer in 2019 with limited further upside while facing a potentially damaging headwind. Both added to our cash position in advance of the market declines.

### Detractors from performance

- Energy holdings already hurt by demand declines due to COVID 19, were struck with a surprise price war as OPEC and Russia were unable to agree to supply reductions. The unprecedented collapse in oil prices impacted these holdings.
- The Real Estate holdings would normally be expected to hold up in this low interest rate environment. However, the virus impacted their business operations with mandated retail (malls and strip plazas) shutdowns for non-essential services as well as concerns over rent deferrals by tenants (office, retail, and apartment) and caused corporate credit rates to increase despite the general decline in government yields.
- The portfolio was not exposed to Information Technology or the Gold subsector, detracting from the performance as those sectors achieved returns that while negative, were sharply ahead of the market. It should be noted that the majority of the stocks in these aforementioned sectors have traditionally not met our multiple criteria of valuation, quality, and dividends.

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### Major changes to portfolio in the period

- During this chaotic period, the material cash position offered us the ability to take advantage of distressed pricing. With markets in panic and price discovery essentially broken, we took the opportunity to look through the crisis and to redeploy some of the cash into selected holdings and two new positions, CN Rail and Magna. Both companies boast world class operations and strong management teams. We had been monitoring these companies for several years and were now able to purchase them at a price that met our valuation criteria.
- With many of our holdings reaching irrationally depressed levels we opportunistically deployed cash to increase our holdings in Banks and select Real Estate companies offering both strong opportunity for gains and impressive yields while we await the end to the crisis.
- The portfolio cash position remains significant to be further deployed towards candidates that meet our multiple criteria of quality, stability, dividend yields and discount valuations. Sticking to this discipline allows us to protect capital in times of uncertainty and elevated valuations while also affording us the ability to purchase stocks opportunistically. As this particular crisis evolves, we expect to continue using market volatility as an opportunity to acquire more exceptionally priced high-quality companies, as we did during the credit crisis. It is our belief that the portfolio offers exceptional potential for gains along with a healthy 5.8% dividend yield that will provide compelling overall returns as the crisis subsides and as we progress to more orderly markets.

\*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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