

Desjardins

Canadian Preferred Share Fund



QUARTERLY COMMENTARY AS OF MARCH 31, 2020

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
April 11, 2016

CIFSC CATEGORY*:
Preferred Share Fixed Income

The preferred share market, like 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.

Nevertheless, there was a pause in the correction late in the quarter. At the worst point of the meltdown, the benchmark index had tumbled 35.4%. A 19.5% rally during the last seven days calmed things down.

Just before the pandemic outbreak, Intact launched a new issuance of fixed-rate perpetual shares. This was the first subscription on the primary market since May 2019. It was the only company that was active in terms of new issuances, however.

Liquidity proved to be even more scarce than usual. Many institutional investors wanted to avoid selling at such depressed levels, but they didn't want to buy during the slump either, opting instead to wait for signs of the markets stabilizing. It was reported that a significant number of transactions were made from exchange-traded fund (ETF) trading desks. Nearly \$200 million in ETFs were redeemed.

The current levels offer attractive returns. However, it's debatable whether the risk premium will be revised permanently upward. The corrections experienced at the end of 2015 and in late 2018 left their marks, with the index never returning to the levels seen before them.

Nonetheless, certain issuances undoubtedly offer a good risk/return ratio at the current levels.

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The portfolio outperformed the index by 50 basis points. The overweighting of fixed-rate perpetual shares and the security selection among rate reset securities in the financial sector explain this outperformance

*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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