

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
November 15, 2017

CIFSC CATEGORY*:
Canadian Equity

Canadian stock market

- In the wake of monetary easing and reduced trade tensions, stock markets began 2020 on a high note, with the S&P 500 up 5%, reaching a record high in mid-February. The subsequent change in tone was dramatic. The impact from the coronavirus and, to a lesser extent, the lifting of limits on Saudi oil production created a shock wave. A mere 22 days after peaking on February 19, the S&P 500 index was down 30%. The VIX volatility index reached a level (85) near its 2008 peak (89). Despite the rapid succession of announcements on an unprecedented range of fiscal and monetary aid and the S&P 500's dramatic 17% rebound in the space of five days at the end of March, most stock markets ended the quarter posting declines fluctuating between 20% and 30%, including 22% in Canada and -20% in the United States.
- No sector recorded a positive return during Q1. As expected, the more defensive sectors, such as utilities (-6%), telecommunications (-9%), and consumer staples (-10%) were best able to resist the market downturns. Still, technology posted the best return at -4%. On the other hand, real estate, healthcare and energy plunged more than 35% during the same period.
- It's important to be vigilant regarding valuation information because significant downward revisions could modify the current picture. The earnings multiple forecast for the S&P/TSX index is a little over 10x compared with a historical average of 14.5x. The S&P 500 index, for its part, is trading at a discount over its long-term average, i.e., 13.6x the current earnings forecasts, compared with 15.5x historically.

Certain sectors are doing relatively well despite the situation, while others are lagging.

- If we divided the quarter into its bullish portion (until mid-February) and the "post-coronavirus" period (mid-February to the end of March), we would see that the technology, utilities and consumer staples sectors performed well in both situations. Shopify continues to stand out with an impressive 14% growth for the first quarter.

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- However, both the healthcare and energy sectors posted returns that were sharply below the S&P/TSX Composite index for both periods. The collapse in oil prices caused some securities in the sector to drop up to 80%.
- During the post-coronavirus period of the quarter, the gold sector outperformed the S&P/TSX (-12% vs. -29%), while Barrick Gold led the pack with a decrease of only 1%. Still, no gold benchmark securities posted positive returns during the coronavirus period.

Battle of the titans: A devastating virus against government programs that are unprecedented in scope.

- After affecting the aviation and tourist industries, the coronavirus is now having an impact worldwide on all activities deemed non-essential. The economic impact has been significant, whether it's the surge in unemployment insurance claims or the challenges that individuals and companies are facing to meet their financial commitments, since they are unable to work normally.
- Governments and central banks seem to be drawing on the experience they gained in 2008, given how quickly they reacted, and the scope of the measures implemented to help the economy bridge the gap during this period of extremely weak activity.

Key factors to be monitored

- Changes to the number of coronavirus cases, access to screening tests, and the gradual lifting of economic restrictions
- Success of the government's measures: credit spreads, absence of market dislocation, rapidity and efficiency in providing help to individuals and companies
- Political/social tensions: a crisis situation can create political tensions among various entities, such as within the European Union or even among regions within the same country.

Outlook for the S&P/TSX Composite

Contrary to previous crises, this crisis is due to a public health issue, not an economic one. We therefore think that it will be difficult for markets to experience a sustained upward trend without at least

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some good news about the spread of the coronavirus, which would allow the economic restrictions to be lifted. We believe that the government and central bank measures will prevent the most pessimistic scenarios, but we remain prudent, favouring companies that are currently allowed to operate, such as consumer staples, utilities, telecommunications and, in certain cases, technology.

Shareholder commitment

In the context of its shareholder commitment activities, DGAM held a number of dialogues during the quarter. In anticipation of the proxy voting season, we discussed ESG issues with the boards of directors of several financial sector companies. We also took part in an investor conference during which we either initiated or continued dialogues with roughly 15 companies mostly active in the energy and utilities sectors. During these meetings, we had the opportunity to discuss ESG data disclosure, climate risk, employee health and safety, diversity, and other major issues

Portfolio positioning

Positioning remains defensive. We're maintaining liquidity, which we'll use strategically to take advantage of the market's considerable fluctuations. In such a volatile and uncertain environment, we're continuing to retain quality and large cap securities.

One theme that we're currently following is to position ourselves in companies providing essential services according to the definition given by the various provincial governments. We believe that this will boost the sales of grocers such as Metro and Loblaws and discount retailers such as Dollarama.

We're also different from our peers in that we're maintaining an above-average weighting in the gold sector. We believe that the sector could outperform like it did after the 2008 financial crisis because of the central banks' quantitative easing (QE) programs.

We have underweighted the energy and basic materials sectors. With the price of West Texas Intermediate (WTI) oil at US\$20 per barrel,

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Western Canada Select (WCS) at less than US\$5, and commodity prices down sharply, these companies will have to reduce their dividends and put their growth projects on hold.

Contributors to performance

- The following sectors contributed positively to the fund's performance: financial services (+1.43% compared to the benchmark), energy (+0.92%), and consumer staples (+0.61%).
- Within these sectors, there were a few securities that contributed to the added value.
- First, in the financial services sector, Canadian Imperial Bank of Commerce yielded a -22.76% return, adding 48 basis points to the entire portfolio as a result of our significant underweighting in this security.
- Canadian Natural Resources, which declined 53.07%, came in second, contributing 104 basis points to added value because of our underweighting. In addition, the lack of Alimentation Couche-Tard Inc. (-19.39%) securities in the portfolio contributed positively to relative performance by adding 33 basis points.

Detractors from performance

- Conversely, the IT and real estate sectors contributed negatively to the fund's relative performance (at -0.60% and -0.47% respectively).
- First, in the IT sector, CGI Inc. (-29.89%) trimmed 19 basis points from the fund's return. In second spot, CAE Inc. (-48.03%) helped bring down the fund's performance by 46 basis points.

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Major changes to portfolio in the period

- Purchase of 3.54% of BCE Inc. shares
- Purchase of 2.71% of Canadian Pacific Railway Ltd shares
- Sale of 4.79% of Enbridge Inc. shares
- Sale of 2.14% of Brookfield Infrastructure shares

*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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