Desjardins
Dividend Income Fund

Desjardins Wealth Management
Investments

QUARTERLY COMMENTARY AS OF JUNE 30, 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 had a negative impact, shaving 0.08% off the return. Our slight underweighting in Canadian bonds early in the quarter made a minor contribution to the return over the period. However, our overweighting in the money market trimmed value following the market rebound. Security selection subtracted 2.60% in value. We maintained a slight underweighting in Canadian equities in the portfolio in anticipation of a deterioration in economic activity due to a resurgence in coronavirus cases. This underweighting was offset by a slight overweighting in Canadian bonds.

Fixed income market

In the second quarter of 2020, the bond market reacted vigorously to the various measures implemented by the Bank of Canada at the end of the previous quarter to revive the economy and stabilize the financial markets. The 2- to 10-year yield curve flattened somewhat by 0.04%, and the Canadian government 10-year yield ended the quarter at 0.53%, down 0.17% during the period. Against this backdrop, the return on the bond portfolio was higher than that of its benchmark index during the second quarter. Long-term positioning, combined with overweighting in corporate securities, generated added value. In terms of security selection, the overweighting of the peripheral provinces was beneficial thanks to the interventions of the central banks. However, our underweighting of certain issuers in the energy sector shaved a few basis points off the portfolio's performance.

Next quarter, the short-term corporate securities allocation will be maintained against the provinces given the valuation of this sector from a historical perspective. However, longer-term issuers are expected to reduce their risk because there is still a lot of uncertainty.

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Preferred shares

The preferred share market benefitted from investors' renewed appetite for risk. The benchmark posted a return of +15.02% for the period, reducing the effects of the first quarter debacle. Nevertheless, the benchmark index remains in negative territory for the year, down 11.2% for the year to date. Rate reset preferred shares and fixed-rate perpetual preferred shares obviously ended the quarter with a positive return, but the latter also posted a higher return than other types of structures. With very low short-term interest rates likely to remain in place for some time to come, variable-rate equities ended the quarter in negative territory.

Despite the quarter's upswing, current levels still offer an attractive current return. With the programs implemented by the central banks, credit spreads are less prone to significant declines. Even if preferred shares are not included in the central banks' asset purchases, credit stabilization should support this market.

The portfolio outperformed the benchmark. The overweighting of fixed-rate perpetual shares and the security selection among rate reset equities essentially explain this outperformance.

Canadian stock market

Following the stock markets' major and abrupt downturn in the first quarter, they posted a solid rebound in the last three months. Encouraged by tax programs and monetary authorities' initiatives, investors seem to be anticipating that the economic slowdown caused by the pandemic will be relatively short. They don't appear overly concerned about the negative impacts of the crisis on companies' results for the current year.

In Canada, the S&P/TSX advanced 17.0%. The technology sector posted the index's best performance, up 68.2%. Shopify's stock rose by more than 118.8%. In May, Shopify outperformed Royal Bank to become the largest company in terms of market capitalization in the country. The gold sector, with a quarterly return of 50.6%, also posted solid growth.

The Canadian equity portfolio ended the quarter 380 basis points below the benchmark.

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Canadian stock market (cont'd)

After a major market downturn late in the first quarter, which was highly profitable for the portfolio relative to its benchmark (+272 bps), the markets took off in the second quarter, bringing their share of lower-quality securities that had undergone a major correction in the previous months. The materials sector (+41.6%) the gold-mining sub-sector (+50.6%) rose sharply. From a dividend portfolio perspective, lower-quality securities outperformed during the quarter, negatively impacted the portfolio, which seeks solid securities from a fundamental point of view and in terms dividend quality. Conversely, a few high-quality securities posted poor performances during the quarter, such as BCE Inc. (-1.9%), Rogers Communications (-7.1%) and Loblaws (-8.9%).

The materials and energy sectors contributed negatively to the fund's relative performance (-3.19% and -1.06%, respectively). However, our position on the iShares S&P/TSX Global Gold (XGD) index contributed 91 bps to the portfolio, resulting in an underperformance in the materials sector (-2.28%). First, Barrick Gold Corp. (+41.67%) reduced the fund's performance by 116 basis points due to a lack of shares in the fund. In second position, Pembina Pipeline Corp. (+31.14%) helped bring down the fund's performance by 25 basis points as a result of a lack of shares in the fund.

Conversely, the following sectors contributed positively to the fund's performance: information technology (+0,38% compared with the benchmark), utilities (+0.07%) and industrials (+0.01%). Within these sectors, we note a few securities that contributed to the portfolio's added value.

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Canadian stock market (cont'd)

First, US company Microsoft Corp. saw a 29.40% return, adding 34 basis points to the overall portfolio. In second position was Northland Power Inc., which rose 22.12%, adding 13 basis points. The third security that contributed the most to the portfolio's performance was Waste Connections Inc. with a return of 16.73%, adding 27 basis points to the fund.

*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/.