Desjardins
Dividend Growth Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF JUNE 30, 2020

JARISLOWSKY FRASER
GLOBAL INVESTMENT MANAGEMENT

PORTFOLIO MANAGER:
Jarislowsky Fraser

INCEPTION DATE:
January 15, 2009

CIFSC CATEGORY*:
Canadian Dividend & Income Equity

Portfolio positioning

During the quarter, we opened a new position in Magna International and added to our position in Altus.

We liquidated our position in Canadian Natural Resources and reinvested the proceeds in more attractive securities in various fields.

Magna, the automobile industry's third-largest supplier in the world, has a solid track record for generating available cash flow and advantageous global scale effects, surpassing worldwide production growth by some 5% annually during the last cycle. Magna benefits from a number of sustainable operational drivers (e.g., electric vehicles, self-driving vehicles, mobility as a service), regardless of what happens to the automobile industry in the future. Magna shares are trading at just 1.3x book value, representing good value for a high-quality cyclical company. Historically, the shares have traded at 10x earnings and 1.7x book value, offering a potential gain of 30% merely based on the valuation. Given its conservative discounted cash flow and modest terminal value of around 5.5x enterprise value/EBITDA, the current share price provides a margin of safety of 50%.

Investment thesis

Our Canadian equity management strategy is focused on large-cap blue-chip equities and industry leaders that post solid dividends and continuous growth. We don't target cyclical industries, and we maintain significant diversification to avoid concentration in sectors with exposure to commodity prices. Diversification is improved by investing in foreign corporations that pay dividends, operate in sectors not available in Canada and, in order to reduce financial risk, demonstrate continuous growth, high returns, dominant positions in global or local markets and solid financial results. No changes were made to the investment thesis during the quarter.

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Securities that made headlines

The index's top-performing sectors during the second quarter were information technology (+68.3%), materials (+41.9%) and consumer discretionary (+32.8%). After a dismal first quarter, consumer discretionary benefited from a recovery thanks to strong returns by companies such as Restaurant Brands International (+32%) and more cyclical sectors, including motor vehicle parts manufacturers and recreational goods companies. The strength of the materials sector is tied to gold mining, which continued to enjoy high gold prices (~$1,800 per ounce) due to pandemic-related fears and real rates, which are very low or negative. Shopify (+119%) continues to lead the IT sector, as it's very well positioned to take advantage of the accelerated adoption of digital technology. Defensive sectors, such as communication services (-0.9%), real estate (+11.7%) and utilities (+3.7%) underperformed the index in the second quarter, as did financial services (+6.2%), despite the reassuring, albeit weak, quarterly results announced by banks and insurance companies.

The three key factors that have contributed positively to the portfolio's returns since the beginning of the year are our lack of exposure to Suncor (-45%) and BMO (-26%) and our overweighting in Stantec (+15%). In our opinion, Stantec is well positioned to take advantage of infrastructure projects and other government-related projects in the future. Our underweighting in Shopify (+150%), our lack of exposure to Barrick (+52%) and our overweighting in Gildan (-45%) negatively impacted our returns. The severe market downturn in the third quarter gave us the opportunity to open a position in Shopify, which now represents a substantial portion of the portfolio (4.3% versus 6.3% of the index).

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Securities that made headlines (cont'd)

However, the security more than doubled in the last quarter when it became clear that trends for the adoption of digital technology by consumers were accelerating. Gildan struggled during the quarter as it continued to feel the impact of cancelled events, concerts and sporting events. Nevertheless, we firmly believe that the company is well positioned for a strong recovery in the future, given its low level of debt and its production costs, which are among the lowest.

*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/.