Desjardins

SocieTerra Canadian Bond Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2020

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
June 8, 2015

CIFSC CATEGORY*:
Canadian Fixed Income

Positive and negative factors affecting performance

→ In Q3 2020, the financial markets saw economic activity gradually regain momentum and unprecedented interventions on the bond market. The 2- to 10-year interest rate curve steepened by 0.08%, and the Canadian government 10-year rate ended at 0.56%, up 0.03% during the period. Against this backdrop, the bond portfolio's performance beat its benchmark in Q3, resulting in a total return of 0.83% versus 0.77% for the management target. This management target was changed in Q2 to exclude issuers associated with fossil fuels. Added value for the period arose from positioning the portfolio to take advantage of a steeper interest rate curve and overweighting corporate securities. However, underweighting long-term corporate securities contributed negatively to added value. Changes this quarter include the reinvestment of several short-term (1–1.5 years) bank securities in the provincial and federal agency sector with a 3- to 4-year maturity, an extremely attractive level historically.

→ Green, sustainable and social bonds accounted for 10.7% of the portfolio compared with 16% in the last quarter. This drop is due to a decrease in the Ontario and Quebec green bonds held because of their valuation compared to that of Canadian agencies. Furthermore, CIBC's social bond security, maturing on September 14, 2021, had to be reinvested in long-term issuers due to time and performance. Currently, there is no security like it in Canada that encourages promoting women to key positions within a company.

→ In terms of selecting securities, the manager participated in a new issuance by the International Bank for Reconstruction and Development (World Bank), which promotes sustainable development (sustainable development bonds). In Q4, the manager is expecting to increase the portion of funds invested in green bonds through new issuances.

→ The manager takes the scope of climate change risk into account when selecting issuers. In Q4, the portfolio's carbon footprint was 36.7% lower than the average on the FTSE Canada Index.

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Positive and negative factors affecting performance (cont'd)

→ Next quarter will see a return to a neutral position on the interest rate curve once we reach our intervention targets. Against this backdrop, we'll continue to buy long-term provincials and specific corporate securities if the valuation is justified. Moreover, holdings of green bonds should increase thanks to new issuances.

*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/.