

Desjardins

Quebec Balanced Fund



QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2020

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
June 20, 1997

CIFSC CATEGORY*:
Canadian Neutral Balanced

Tactical management of the fund's asset allocation had a negative impact on the return, adding 0.11%. The underweighting in Quebec equities combined with an overweighting in the money market subtracted value for the quarter based on the strong rebound in the financial markets. The securities selected trimmed 0.01%. We maintained a slight underweighting in Quebec 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 cash.

Fixed income market

Compared to their stellar performance in the second quarter, provincial spreads saw slower tightening and a few bumps along the road in the third quarter. The Bank of Canada's provincial bond purchase program helped buoy bond maturities below 10 years, while the provinces turned to long-term issues to make the most of historically low yields. This dynamic between supply and demand helped steepen the credit curve over the quarter. As a result, 5-year spreads narrowed by 12 basis points, 10-year spreads shrank 8 basis points and long spreads shed 2 basis points.

In the last three months, the provincial borrowing programs have been further clarified and, as anticipated, we should see more than \$150 billion in issues, compared to \$80 billion prior to COVID-19. We should point out that this figure could easily be adjusted upwards and that, so far, the Bank of Canada has only committed to absorbing \$50 billion in provincial bonds with maturities of 10 years or below.

Regarding interprovincial spreads, Quebec's spreads stayed fairly stable until late in the quarter, when the possibility of a Hydro-Québec issue caused it to widen by about 1 basis point compared to Ontario.

As for corporate bonds, the third quarter mirrored the previous quarter, with an average tightening of 26 basis points over the period.

The bond portfolio ended the quarter 13 basis points above the benchmark. This outperformance was primarily due to the allocation to corporate and municipal bonds. The allocation to preferred shares, with a performance of +9.35%, added value to the fixed income class.

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Canadian stock market

The financial markets continued to advance in the third quarter, and some indexes with heavy exposure to the technology sectors set new records. Thanks to the better-than-expected results, the announcement of new programs to support the economy and the sharp drop in bond yields, investors took greater risks in hopes of achieving higher returns. For the time being, investors don't seem overly worried about the negative impacts of the crisis on this year's corporate results and are paying more attention to positive revisions by analysts and the anticipated improvement in earnings for next year. The S&P 500 was up more than 5% for the 3-month period ending September 30 after advancing more than 20% in the previous quarter. In Canada, the S&P/TSX grew 3.9%. Industrials recorded the index's best performance, climbing 13.2%. The utilities sector also posted solid gains. Renewable energy securities were among the top contributors to the quarter's performance.

Despite the recent decline in market volatility, the outlook for returns is limited given the numerous uncertainties (economic recovery pace, second quarter financial results, China-US relations, bond market interventions and vaccine development). Given the circumstances, we're remaining cautious and keeping a close eye on the situation.

The equity portfolio ended the quarter 12 basis points below the benchmark. The following sectors had a positive impact the portfolio's performance: utilities (+0.20% compared with the benchmark), consumer staples (+0.18%) and financials (+0.13%).

Desjardins

Canadian Preferred Share Fund



QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2020

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
April 11, 2016

CIFSC CATEGORY*:
Preferred Share Fixed Income

Canadian stock market (cont'd)

Conversely, communication services and industrials harmed the fund's relative performance (at -0.41% and -0.21%, respectively). In the communication services sector, Cogeco Communications (+12.29%) trimmed the fund's performance by 45 basis points due to the security's underweighting in our portfolio. In second position, Richelieu Hardware Ltd. (+ 21.99%) helped bring down the fund's performance by 28 basis points due to a lack of shares in our portfolio.

*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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