Desjardins
Canadian Equity Income Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2020

Lincluden

PORTFOLIO MANAGER:
Lincluden Investment Management

INCEPTION DATE:
October 18, 2013

CIFSC CATEGORY*:
Canadian Dividend & Income Equity

Contributors to performance

→ The lack of exposure to the expensive Information Technology sector was a slight contributor to the performance as the sector posted a return that lagged the market. In addition, the decline in cannabis related stocks helped as the portfolio does not own these companies due to their expensive valuations and lack of cash flows and earnings.

→ Consumer Staples holdings Metro and North West added to the performance. In particular, North West reported a very strong quarter with revenues and earnings exceeding expectations. Strong sales in both Canada and internationally were a result of continued re-stocking of perishable and non-perishable items by consumers during this pandemic. Increased government income support programs and at home dining trends helped. The company also announced a dividend increase and its intention to buy back shares.

→ Several holdings had strong returns including Arc Resources, Brookfield Property Partners, Canadian Tire, Chartwell REIT, Hydro One, Nutrien, Power Corp. and Shaw Communications. These holdings generally benefited from a continued reopening of the economy, improving the outlook for their businesses.

Detractors from performance

→ The lower exposure to Industrials affected the performance as the sector had a strong return during the period. Shares in CN Rail performed well due to better than expected traffic and volume trends combined with management's disciplined cost efforts that were implemented during the crisis.

Major changes to portfolio in the period

→ During this volatile period, we took the opportunity to orient the overall portfolio towards a more defensive stance while upgrading the quality of the holdings.

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Major changes to portfolio in the period (cont'd)

- In the energy sector Cenovus, Enerplus and Husky were eliminated and a position in Suncor was initiated, resulting in reducing overall risk while maintaining significant upside potential and improving the dividend yield.
- In the real estate sector, the position in Riocan REIT, which has significant retail exposure, was eliminated while a position in Canadian Apartment REIT was initiated.
- A position in grocer Empire and diversified financial asset management company Brookfield was established.
- The position in Bank of Montreal was eliminated with part of the proceeds going to increase the position in CIBC, which offers a better return and risk profile.
- The position in Brookfield Renewable Partners was eliminated as the valuation had reached our target price and no longer offered a compelling opportunity.

→ The portfolio cash position remains meaningful which provides us with a safety cushion as well as the funds necessary to take advantage of opportunities as they emerge. As this crisis evolves, we will use market volatility to both trim and add to existing holdings as well as purchase new candidates that meet our multiple criteria of quality, stability, dividend yields and discount valuations.

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Major changes to portfolio in the period (cont'd)

Though price volatility is likely to continue in the intermediate term, the portfolio offers exceptional potential for gains over our investment time horizon along with an attractive and sustainable dividend yield of over 4%. In addition, Canada remains an attractive market to invest given our relatively stable political, regulatory, and social environment vis-à-vis other markets.

*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/.