

Desjardins

Dividend Growth Fund



QUARTERLY COMMENTARY AS OF DECEMBER 31, 2020

JARISLOWSKY FRASER

GLOBAL INVESTMENT MANAGEMENT

PORTFOLIO MANAGER:
Jarislowky Fraser

INCEPTION DATE:
January 15, 2009

CIFSC CATEGORY*:
Canadian Dividend & Income Equity

Portfolio positioning

The portfolio posted solid gains compared to its benchmark in the fourth quarter. The outperformance was in large part due to a contraction in gold stocks and a rebound in stocks that were harder hit by the pandemic, many of which we boosted our positions in over the course of the year.

Our top contributors this quarter were **CAE** (+81%), **Gildan** (+36%) and **Magna** (+49%), each of which were impacted by the lockdown due to the pandemic.

Over the quarter, we initiated a position in **Boyd Group Services**, an industry leader in auto and auto body repairs in North America. Boyd Group Services is the only public auto and auto body repair company to operate under a non-franchised model in the United States (85%) and Canada (15%). The company is a geographically diverse group of auto repair shops with a business development strategy focused on growth through acquisitions, which has made it successful over time.

During the quarter, we increased our positions in **CAE**, **SNC**, **Intact** and **Bank of Nova Scotia**, companies with a strong potential for cyclical appreciation in a more favourable climate.

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 concentrations in sectors with exposure to commodity prices. Our diversification has improved thanks to investment in foreign corporations that pay dividends and are active in sectors not available in Canada. Moreover, we've demonstrated continuous growth, high returns, dominant positions on global or local markets and solid financial results in order to reduce financial risk. No changes were made to the investment thesis during the quarter.

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Securities that made headlines

The drop in **gold stock** prices (-15.5%) was likely due to gold prices falling from their annual peak following the approval of COVID-19 vaccines. While we are aware that other factors affect gold prices, such as the US dollar and inflation expectations, we still believe that they will not be viable at their current levels if the vaccines are effective enough to finally end the pandemic.

CAE benefited from improved investor sentiment following the announcements of COVID-19 vaccines and government assistance for a number of airlines around the world. As a result, several airlines stopped reducing their staff, which created renewed demand for pilot training. The company also benefited from a successful share issuance to finance the acquisition of Flight Simulation Company in Europe, and management has indicated that other acquisitions are possible, which we feel reflects a sound capital allocation approach.

Gildan has continued to advance from its low point, posting much stronger results last quarter than anticipated, a sign that the company's sales and fundamentals are firmly improving and on a clear upward trend. The company appears to be gaining market share through major promotions and access to new retail and online channels, as promotional, travel- and event-related expenses for businesses are still under pressure.

Magna, a company we added to the portfolio this year, has benefited from a rebound in global auto production, which picked up more quickly than expected after a few pauses in the second quarter, when auto manufacturers replenished their

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Securities that made headlines (cont'd)

inventories. In the longer term, the company is well positioned to gain market share, as suggested by its recent success assembling Fisker electric cars and its past investments in advanced driver-assistance systems (ADAS) technology, which continue to bear fruit.

*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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