

Desjardins

Canadian Preferred Share Fund



QUARTERLY COMMENTARY AS OF DECEMBER 31, 2020

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
April 11, 2016

CIFSC CATEGORY*:
Preferred Share Fixed Income

The preferred share market had a third consecutive strong quarter, with the benchmark posting a 7.3% return for the period. All structure types ended the quarter with positive returns, but rate reset shares recorded the best performance. Last quarter's momentum helped end the year on a positive note, with the index generating a +6.02% return for 2020. Based on prices alone, the index closed the year with a return of +0.1%.

Investors' appetite for risk, narrowing credit spreads and the impact of limited recourse capital notes (LCRNs) contributed to the markets' strong performance. The arrival of LCRNs in the previous quarter was clearly a long-term game changer for the preferred share market, impacting both the primary market (fewer new issues) and the secondary market (issue redemptions by companies).

BCE announced that it would be initiating a normal course issuer bid for preferred shares. The company plans to redeem up to 10% of each of its existing issues between now and November 8, 2021. These transactions will reduce the size of the preferred share market and will likely have a positive impact on security valuations as a result. It will be interesting to see how many companies other than BCE, banks and insurance companies will be tempted to redeem existing shares. Brookfield Asset Management already initiated a normal course issuer bid for preferred shares.

AltaGas caught investors off guard by redeeming one of its rate reset securities, which was trading at a discount and had a low likelihood of redemption. After TD Bank announced the redemption of one of its securities at a premium the previous quarter, BMO also decided to redeem a fixed-rate perpetual share, which is a non-viable contingent capital (NVCC) instrument. These factors helped support preferred share prices.

There were no subscriptions on the primary market during the period.

Desjardins

Canadian Preferred Share Fund



QUARTERLY COMMENTARY AS OF DECEMBER 31, 2020

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
April 11, 2016

CIFSC CATEGORY*:
Preferred Share Fixed Income

For the last few quarters, rate reset preferred shares have been decorrelated from interest rates, unlike what we have seen in recent years. This type of share was more in line with shrinking credit spreads and the stock market rebound. Although interest rates should stay low for an extended period of time, a potential hike in interest rates could bring back the correlation effect and would be favourable to rate reset shares. With all of the factors supporting preferred shares, they are still an attractive asset class, both in absolute terms and compared to many other types of investments.

The portfolio outperformed the index by 37 basis points. This was primarily due to the selection of rate reset shares and a slight overweighting in the communications sector.

*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/>.

The information provided in this document is presented for illustration and discussion purposes only. It should not be considered as investment advice or securities transaction recommendations or recommendations on specific investment strategies. This document should in no case be considered or used for the purpose of buying units in a fund or any other offer of securities, regardless of jurisdiction. Said information is intended to be general and intended to illustrate and present examples relating to management of the portfolio manager cited in this document. All views, comments and opinions are subject to change without notice. The information presented on the market context and strategy represents a summary of the cited portfolio manager's observations with regards to the markets as a whole and its strategy as of the stated date. Different perspectives can be expressed based on different management styles, objectives, opinions or philosophies. Under no circumstances may this document be reproduced, in whole or in part, without obtaining written permission from the cited portfolio manager.

The Desjardins Funds are not guaranteed, their value fluctuates frequently, and their past performance is not indicative of their future returns. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The Desjardins Funds are offered by such registered dealers.

The Desjardins brand is a trademark of the Fédération des caisses Desjardins du Québec, used under licence.