Desjardins
Dividend Growth Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2022

JARISLOWSKY FRASER
GLOBAL INVESTMENT MANAGEMENT

PORTFOLIO MANAGER:
Jarislowsky Fraser

INCEPTION DATE:
January 15, 2009

CIFSC CATEGORY*:
Canadian Dividend & Income Equity

Portfolio positioning

In the third quarter, the Dividend Growth Portfolio outperformed the S&P/TSX with a return of -0.3% versus the index return of -1.4%. Since the start of the year, the Canadian index has dropped -11.1%, while the portfolio is down -16.2%. The portfolio's underperformance relative to the index as at September 30, 2022, was primarily due to the absence of the energy sector, where prices rose significantly due to supply chain issues caused by the geopolitical risk premia caused by the war in Ukraine.

During the quarter, index returns were highly variable across sectors, with interest rate sensitive sectors such as real estate (-6.4%), communication services (-7.5%) and technology (-4.7%) that fell more than the index, while consumer discretionary (+4.2%), consumer staples (+2.6%) and industrials (+4.2%) outperformed the index. Energy (-5.3%) also retreated given the impact of the economic slowdown on oil demand. Financials (-1.2%) followed the index, which already reflected the risks to the economy. Performance was stronger in all sectors except IT, where it was most negatively impacted by the decline in OpenText (-24.4%) following the announced acquisition of Micro Focus.

In the third quarter, we opportunistically added to our position in CAE, as its valuation has returned to very attractive levels and its civil segment is thriving and should continue to do well. In our view, the problems affecting its defence segment are unlikely to recur. We also added to some of our existing positions, including SNC and Franco-Nevada. Finally, we initiated a new position in Definity Financial Corporation, a recently demutualized property and casualty insurance company.

Investment thesis

Our philosophy regarding the portfolio has not changed: we continue to apply a bottom-up approach and invest in strong companies that have a long-term sustainable competitive advantage. No changes were made to the investment thesis during the quarter. Although there's a higher than normal level of uncertainty in our current assessment of market risks, we believe that a significant portion of the risks are expected to be mitigated by the market. The tightening of monetary and fiscal policy is clear: the

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Investment thesis (cont'd)

energy crisis and the military conflict in the euro zone as well as the problems of China are mostly all well understood and reflected by the current pessimistic mood of investors. In this regard, and by monitoring recession risks, we believe that attractive opportunities are and will be available to investors with a long-term focus.

Securities that made headlines

The largest contributors to the portfolio during the quarter were **CCL Industries** (+10.5%), **Restaurant Brands International** (+14.9%) and **Boyd** (+25.6%). Restaurant Brands performed well in the third quarter due to strong sales at Tim Hortons—as Canada continues to recover from the pandemic—and the success of its "back to basics" strategy. Boyd recovered somewhat after a difficult start to the year marked by supply chain issues and labour troubles that limited its operations. Recent results indicate improvement in its fundamentals, including supply and its ability to pass on price increases to insurers. CCL delivered one of the strongest performances in the quarter due to continued strength in its business. The company has done a good job of incorporating price inflation into its prices and with commodity costs expected to decline profitability should improve further in the medium term.

Portfolio detractors in Q3 were **OpenText** (-24.4%), **CAE** (-33.2%) and **BNS** (-12.6%).

Scotiabank's stock declined despite results in line with expectations and good growth in all segments except market sensitive. Specifically, the market was disappointed by the lack of expansion of the bank's net interest margin in its Latin American operations, given rising interest rates. In our view, timing played a role here, as BNS holds fewer low-cost deposits. Its stock was slowed down by the political instability in its Latin American territory. CAE declined after reporting disappointing quarterly results due to something unfortunate and unforeseen in a defence contract that surprised investors as it occurred shortly after the company held an optimistic investor day. Otex stock reacted badly after announcing the $6 billion acquisition of Micro Focus International, the company's largest ever acquisition. The market, which is unfamiliar with the target business, is concerned about high debt levels, a deteriorating

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Securities that made headlines (cont'd)

growth profile (revenues have declined in the last 5 years) and integration risk. It is reassuring to us to know that management has an impressive track record of executing and integrating acquisitions, that OTEX's debt ratio is expected to return to historic levels over the next 8 quarters. thanks to the imposing and recurring cash flow that it will generate, and that the valuation paid gives the acquisition a clearly accretive character.

*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/.