

Desjardins

Dividend Income Fund



QUARTERLY COMMENTARY AS OF DECEMBER 31, 2022

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
January 1, 1994

CIFSC CATEGORY*:
Canadian Equity Balanced

Tactical asset allocation decisions contributed negatively to the fund's fourth-quarter performance, subtracting 0.04%. While managers' tactical shifts over the period had very little impact, it was the cash strategy for managing fund outflows that was largely behind the negative contribution. In terms of security selection, it was a productive quarter, with a 0.49% positive contribution to performance coming mainly from Canadian equities.

While the worst of inflation appears to be behind us, we're in the final stretch of rate hikes, with central banks still saying they'll be able to deliver a soft landing. They're hoping that the economic impact of their actions will be limited to employers eliminating open positions as opposed to announcing mass layoffs, which could lead to a severe recession. That would be quite the feat, particularly in a context where, just a few months ago, we saw inflation at the highest it's been since the early 1980s. Against this backdrop, financial markets had a good showing in the final quarter of 2022.

As in recent quarters, the fund manager still anticipates significant uncertainty ahead, as well as an increasing likelihood of a recession. They'll be looking to take advantage of any number of opportunities that could arise.

Fixed income market

Contributors to relative performance

- Sector allocation contributed positively over the period thanks to an overweight to corporate securities at different points along the yield curve. Most corporate sub-sectors positively contributed to quarterly performance, with banking holdings providing a notable lift. Shorter-than-benchmark duration was another contributor due to widespread rate rises.

Detractors from relative performance

- The fixed income component outperformed its benchmark 0.22% in the fourth quarter, with asset class biases contributing positively to the fund's relative performance.

Major changes to portfolio in the period

- It was an excellent quarter for corporate bonds, which outperformed government bonds at every maturity along the yield curve. It marks a reversal of what we'd been seeing since the start of the year. We've been gradually upping the portfolio's

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

exposure to corporate bonds over the course of the year, whenever they've been spotted underperforming, with the most recent round of purchases in October. That means we've been taking full advantage of narrowing spreads

Preferred shares

Contributors to relative performance

- Picks of rate reset shares in financials and energy.
- Picks of fixed-rate perpetual securities, particularly Loblaws and Intact.
- Allocations to institutional preferred shares, which significantly outperformed the benchmark.
- An underweight to real estate. Mainly composed of Brookfield Office Properties, the sector had a very poor quarter.

Detractors from relative performance

- An underweight to minimum rate-reset shares weighed on relative performance.

Major changes to portfolio in the period

- There were no major changes over the period.

Canadian stock market

Contributors to relative performance

- The sectors with the most positive impact on fund performance were industrials (+0.62% over the benchmark) and information technology (+0.43%).
- In the industrials sector, Schneider Electric returned +24.27%, contributing 28.9 basis points due to its overweighting in the portfolio. In information technology, Oracle Corporation returned 34.38%, adding 36.9 basis points due to its overweighting.

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Detractors from relative performance

- The materials and energy sectors contributed negatively to the fund's relative performance (-0.68% and -0.44% respectively).
- In materials, Agnico Eagle Mines Limited (+21.49%) detracted - 17.3 basis points from overall fund performance due to its absence from the fund. In energy, Cenovus Energy Inc. (+24.83%) dragged on performance by 23.1 basis points, again due to its absence from the fund.

Major changes to portfolio in the period

- The 4 largest transactions over the quarter were:
 - Purchase of 2.04% of Bank of Montreal
 - Purchase of 1.60% of Oracle Corp.
 - Sale of 2.11% of Canadian Imperial Bank of Commerce
 - Sale of 0.97% of Brookfield Corp.

*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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