# Quarterly commentary

## Melodia Conservative Income Portfolio

Desjardins Wealth Management Investments

December 31, 2019

## Portfolio Asset Allocation (%)

| | Target | Actual |
|---|---|---|
| **FIXED INCOME** | **71.0%** | **70.8%** |
| **Canadian Fixed Income** | | |
| - Desjardins Canadian Bond Fund | 33.2% | 32.6% |
| - Desjardins Enhanced Bond Fund | 8.3% | 8.3% |
| - Desjardins Short-Term Income Fund | 2.3% | 2.3% |
| - Desjardins Canadian Preferred Share Fund | 2.3% | 2.5% |
| **Foreign Fixed Income** | | |
| - Desjardins Global Total Return Bond Fund | 16.0% | 15.4% |
| - Desjardins Global Tactical Bond Fund | 5.2% | 5.4% |
| - Desjardins Global Balanced Strategic Income Fund (Income portion) | 2.0% | 2.4% |
| - Desjardins Floating Rate Income Fund | 1.7% | 1.8% |
| **Other** | | |
| - Cash and Equivalents | 0.0% | 0.1% |
| **GROWTH** | **29.0%** | **29.2%** |
| **Canadian Equity** | | |
| - Desjardins Canadian Equity Income Fund | 4.7% | 4.9% |
| - Desjardins Dividend Growth Fund | 2.8% | 2.9% |
| - Desjardins Canadian Equity Fund | 1.9% | 1.9% |
| **Foreign Equity** | | |
| - Desjardins Global Dividend Fund | 4.5% | 4.7% |
| - Desjardins IBrix Low Volatility Global Equity Fund | 3.7% | 3.8% |
| - Desjardins Global Equity Fund | 3.1% | 3.2% |
| - Desjardins Global Infrastructure Fund | 3.0% | 3.0% |
| - Desjardins Global Balanced Strategic Income Fund (Growth portion) | 2.9% | 2.3% |
| - Desjardins Global Small Cap Equity Fund | 1.4% | 1.5% |
| - Desjardins IBrix Low Volatility Emerging Markets Fund | 0.6% | 0.6% |
| - Desjardins Emerging Markets Fund | 0.4% | 0.4% |

## Annual Compound Returns (%)

| | 1 Mth | 3 Mth | 6 Mth | 1 Yr | 3 Yr | 5 Yr | 10 Yr | Since Inception |
|---|---|---|---|---|---|---|---|---|
| A-Class | -0.1 | 0.7 | 2.0 | 8.9 | 2.9 | 2.8 | - | 3.4 |
| T4-Class | -0.1 | 0.7 | 2.0 | 8.9 | 2.9 | 2.8 | - | 3.4 |

The fourth quarter of 2019 was marked by renewed optimism in the markets on the heels of a first agreement between China and the United States. The easing of trade tensions contributed to the widespread advance at the world's main global stock markets, particularly those of emerging markets, which gained 9.5% over the quarter.[1] In Canada, the rise in oil prices contributed to strong performance in the energy sector. Overall, the Canadian stock market posted a 2.7% gain during the quarter according to the MSCI Canada Index (net return). For bonds, the Bank of Canada maintained the status quo on the country's monetary policy, despite stronger than anticipated inflation. The FTSE Canada Universe Bond Index posted a decline of -0.85% for the quarter.

In the United States, echoing the improvement in U.S.-China relations, the country's main indexes posted record highs. The MSCI USA Index net return in Canadian dollars advanced 6.73% over the quarter. As to the proceedings to impeach President Donald Trump, the House of Representatives' vote in favour does not seem to have had a major impact on the markets, given that the Senate is expected to vote against impeachment.

1 Based on the MSCI Emerging Markets Index total return in Canadian dollars.

† Desjardins Funds

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In Europe, the election of a Conservative majority to Britain's Parliament lowered the likelihood of a no-deal Brexit, which would have had a negative impact on the country's economy. In the euro zone, Germany managed to avoid a technical recession, posting annualized GDP growth of 0.3% last summer. Despite this, the MSCI Europe Index net return in Canadian dollars is up 4.49% for the quarter.

2019 was an excellent year for the main stock and bond markets. In that respect, the Canadian (22.9%)[2], U.S. (24.3%)[3], international (21.7%)[4] and emerging stock markets (18.1%)[5] all ended the year up sharply. The situation was similar for bonds, including a 6.87% rise in the FTSE Canada Universe Bond Index. The central banks contributed substantially to these strong results by favouring an expansionary monetary policy. Moreover, the trade wars between the United States and several countries have mostly resulted in the signing of economic accords or agreements, resulting in promising signs for global economic growth.

For the fourth quarter of 2019, the Melodia Conservative Income Portfolio posted a return of 0.72%, compared with 1.12% for its composite benchmark. The index is made up as follows: 53% FTSE Canada Universe Bond Index, 18% Barclays Multiverse Bond Index (CAD-hedged), 10% MSCI Canada Index (total return) and 19% MSCI ACWI ex CANADA IMI (total return).[6] The FTSE Canada Universe Bond Index returned -0.85% for the quarter. Unlike the indexes, the portfolio return is established after deducting fees and expenses.

Almost all of the underlying funds generated positive returns for the quarter. The Desjardins Global Tactical Bond (2.26%), Global Dividend (3.63%), Global Equity (3.36%) and Canadian Equity Income (2.14%) funds contributed the most to the portfolio's quarterly return. Conversely, the Desjardins Canadian Bond Fund (-0.88%) brought the portfolio's quarterly return down.[7]

The difference between the portfolio's quarterly return and that of the composite benchmark is primarily due to the underperformance of the Desjardins Low Volatility Global Equity (1.83%), Global Infrastructure (0.98%) and Global Dividend (3.63%) funds.[7]

For 2019, the Melodia Conservative Income Portfolio (Class A shares) posted a return of 8.84%, compared with 11.05% for its composite benchmark. The FTSE TMX Canada Universe Bond Index returned 6.87% for the year. Unlike the indexes, the portfolio return is established after deducting fees and expenses. All underlying funds except one generated positive returns for 2019. The Desjardins Enhanced Bond (7.23%), Canadian Bond (5.23%), Global Tactical Bond (12.76%) and Canadian Equity Income (16.69%) funds contributed the most to the portfolio's annual return. The difference between the portfolio's annual return and that of the composite benchmark is mainly due to the relative underperformance of the Desjardins Global Dividend (13.05%), Low Volatility Global Equity (12.96%), and Canadian Preferred Share (0.44%) funds.[7]

2 Based on the S&P/TSX Composite Index total return.
3 Based on the MSCI USA Index net return in Canadian dollars.
4 Based on the MSCI EAEO Index total return in Canadian dollars.
5 Based on the MSCI Emerging Markets Index total return in Canadian dollars.
6 Note that the benchmark index was modified on April 1, 2019.
7 Return on Class A shares for all Desjardins Funds mentioned in the paragraph.

The Desjardins Funds are not guaranteed, their value fluctuates frequently and their past performance is not indicative of their future returns. The indicated rates of return are the historical annual compounded total returns as of December 31, 2019 including changes in securities value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced 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 as the Desjardins Financial Services Firm Inc., a mutual fund dealer belonging to the Desjardins Group that distributes the Funds in caisses throughout Québec and Ontario, as well as through the Centre financier Desjardins.