Desjardins Dividend Growth Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2020

JARISLOWSKY FRASER
GLOBAL INVESTMENT MANAGEMENT

PORTFOLIO MANAGER:
Jarislowsky Fraser

INCEPTION DATE:
January 15, 2009

CIFSC CATEGORY*:
Canadian Dividend & Income Equity

Portfolio positioning

During the quarter, we increased our positions in **CAE** and **Magna**, two companies with strong potential for cyclical appreciation in a more favourable climate.

CAE has a sound balance sheet compared to airlines. The company has adjusted its cost structure to current less favourable conditions, and will likely benefit from growing outsourcing trends. In addition, pilot training is still mandatory.

Magna, the automobile industry's third-largest supplier in the world, has a solid track record for generating available cash flow and advantageous global economies of scale, surpassing worldwide production growth by approximately 5% annually during the last cycle. Magna benefits from a number of sustainable operational drivers (e.g., electric vehicles, self-driving vehicles, mobility as a service), regardless of what happens to the automobile industry in the future.

We completed the liquidation of our position in **Royal Bank of Canada** during the quarter in order to invest in opportunities that we feel offer better growth potential for the next 3 to 5 years. In our opinion, the extremely low interest rates will hinder growth in banks' earnings per share for the next few years, and Royal Bank of Canada's relatively high valuation reflected its pre-pandemic levels.

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 concentration 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.

JARISLOWSKY FRASER
GLOBAL INVESTMENT MANAGEMENT

PORTFOLIO MANAGER:
Jarislowsky Fraser

INCEPTION DATE:
January 15, 2009

CIFSC CATEGORY*:
Canadian Dividend & Income Equity

Securities that made headlines

The index's rebound was fairly widespread with industrials (+13.6%) leading the way, followed by utilities (+9.2%), consumer staples (+9.1%) and materials (+9.0%). Financials (+4.0 %) continued to lag while energy (-8.1%) was the only major sector to post a decline.

Gildan (+25%), which manufactures and sells basic activewear worldwide, has turned itself around after a very difficult start to the year. We are reassured that the company is generating available cash flow and demand in its end market is improving despite a 71% drop in sales in the second quarter. We expect the company to return to more normal margins in the second quarter and emerge from the crisis in a more competitive position.

Canadian National Railway (+19%), which has weathered the crisis remarkably well, saw strong growth this quarter. The company's resilience stems from a significant improvement in its productivity ratio and a greater capacity to adjust its costs to a less favourable environment. Its share price was boosted by the return of rail volume to pre-pandemic levels and multiple expansion. Our lack of exposure to Suncor (-28%) also played a key role.

Lastly, our lack of exposure to gold stocks, such as Kinross (+20%) and Agnico Eagle (+23%), continued to drag down performance. In our view, current gold prices aren't sustainable in the long term.

Since the start of the year, the portfolio has underperformed the benchmark due to the negative impacts of the information technology and materials sectors. Although the information technology sector appears to be somewhat overweighted, we continue to like the expected returns for the companies in our

Desjardins Dividend Growth Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2020

JARISLOWSKY FRASER
GLOBAL INVESTMENT MANAGEMENT

PORTFOLIO MANAGER:
Jarislowsky Fraser

INCEPTION DATE:
January 15, 2009

CIFSC CATEGORY*:
Canadian Dividend & Income Equity

Securities that made headlines (cont'd)

portfolio. The negative contribution by the materials sector stemmed from our lack of exposure to gold stocks. This sector has a mixed track record for creating long-term shareholder value, and we wonder about the sustainability of oil prices in what we expect to be an improving climate over the next 12 to 24 months.

*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/.