Desjardins
SocieTerra Canadian Equity Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2020

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
November 15, 2017

CIFSC CATEGORY*:
Canadian Equity

Canadian stock market

The financial markets continued to advance in the third quarter, and some indexes heavily exposed to the technology sector reached new heights. Generating better-than-expected results, the announcement of new programs to support the economy and the sharp drop in bond yields led investors to take more risks in hopes of achieving higher returns. For now, investors don't seem to be too concerned about the crisis's negative impact on corporate results for the current year and are focused more on the analysts' positive reviews and the higher earnings forecast for next year. Under these circumstances, the S&P 500 was up more than 5% for the 3-month period ending September 30th after rising more than 20% in the previous quarter. In Canada, the S&P/TSX composite index gained 3.9%. The index's industrials performed the best, climbing 13.2%. Canadian National Railway's and Canadian Pacific Railway's securities rose more than 18.6% and 17.6%, respectively. The utilities sector also posted solid gains. Renewable energy securities are among those that contributed the most to performance during the quarter. One of the securities that performed well in this sub-sector was Brookfield Renewable Partners, which saw gains of more than 36% during the quarter.

Despite the recent decline in market volatility, the outlook for returns is limited given the numerous uncertainties (pace of economic recovery, second quarter financial results volatility, China-US relations, bond market interventions and vaccine development). Under these circumstances, we remain cautious and are monitoring the situation as it evolves.

Canadian market outlook

North American stock markets continue to trade at a historically high price-to-earnings ratio. In relative terms, the TSX is ahead, trading at roughly 17x earnings in the next 12 months compared to nearly 22x for the S&P 500 and more than 30x for the NASDAQ. However, the technology sector's low weight in the Canadian index mostly explains this valuation and performance gap since the beginning of the year. Despite the seemingly limited outlook for returns due to already high multiples, the lack of an investment alternative caused by low interest rates is forcing investors to hold or increase their position in Canadian and U.S. equities.

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Canadian market outlook (cont'd)

Key factors to be monitored:

- The second wave of COVID-19 currently hitting Canada, the United States and several European countries, and its impact on global economic recovery;
- Donald Trump's health and the U.S. presidential election in early November;
- The negotiations currently underway in the United States to agree on a second, multi-billion-dollar stimulus plan;
- The weakness of the U.S. dollar in recent months and the impact on commodities (e.g., gold, copper and oil);
- The variation in interest rates and the impact on the bond market and various stock market indexes.

Shareholder engagement

In the context of its shareholder commitment activities, DGAM held several dialogues in the quarter. We've spoken with several companies in the mining sector, with an emphasis on their relations with local communities and their protocols to manage the health crisis. We also note a remarkable improvement in ESG disclosure. The dialogue process seems to be bearing fruit, with a significant number of the companies incorporating social responsibility issues into their operations and their corporate culture. The progress, on average, is real, but not all objectives have been achieved. The team also analyzed in detail the REIT sector in which there's been a noticeable improvement compared to the status quo of previous years. We met with several companies in this sector, and DGAM will continue discussions with the companies in this sector. In Q3, DGAM also released its first report on responsible investing.

Portfolio positioning

Our position remains defensive generally for all strategies, and we continue to favour quality, large-cap equities. In an environment that remains uncertain due to the instability facing the U.S. election, we prefer to use our cash to buy securities that have a significant competitive advantage.

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Portfolio positioning (cont'd)

In a constantly changing world, heightened by the arrival of COVID-19 into our lives, it's increasingly clear that adopting ecommerce is critical. With this in mind, we initiated a position in Cargojet, an air freight shipping company. We bought it because of its business model, which benefits from the cyclical and secular trends that ecommerce offers, the long-term contracts that give it a quasi-monopoly in air freight shipping until 2025 and the industry's major barriers to entry.

On the other hand, we reduced our underweighting in gold in anticipation of market volatility relating to the U.S. election in November. There's also been strong interest in the sector due to the potential for acquisitions by senior gold producers looking to rebuild their reserves. The portfolio remains strategically positioned in this sector.

On the energy side, we maintained our underweighting in oil and gas producers to keep our overweight in the renewable energy sector, which is benefiting from the ESG approach. For now, we have reduced our underweighting in financial services to benefit from value-style trends. We will be proactive, modifying our position in these sectors as needed.

Contributors to performance

The sectors that contributed positively to the fund's performance are utilities (+1.13 % compared with the benchmark index), healthcare (+0.18 %) and information technology (+0.17 %).

Within these sectors, we note a number of securities that contributed to the added value.

First, in the utilities sector, Boralex Inc. saw a +25.19% return, adding 47 basis points to the overall portfolio. In second position is Bausch Health Cos. Inc., which dropped -16.67%, helping to add 7 basis points due to a lack of shares in our portfolio. The third security that contributed the most to the portfolio's performance was Shopify Inc., with a return of +5.58%, adding 10 basis points to our portfolio.

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Detractors from performance

Conversely, the financial and industrial sectors contributed negatively to the fund's relative performance (at -0.32 % and -0.18 %, respectively).

First, in the financials sector, Canadian Imperial Bank of Commerce (+11.06%) brought down the fund's performance by 25 basis points due to a lack of shares in our portfolio. In second position, Ritchie Bros. Auctioneers Inc. (+43.40 %) served to decrease the fund's performance by 14 basis points due to a lack of shares in our portfolio

Major changes to portfolio in the period

→ The 3 main transactions that occurred during the quarter were:

- Purchase of 0.78% of Cargojet Inc. Shares;
- Purchase of 0.64% of Wheaton Precious Metals Corp. shares;
- Sale of 0.53% of Canadian Tire Corp. shares.

*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/.