

Desjardins

Short-Term Income Fund



QUARTERLY COMMENTARY AS OF DECEMBER 31, 2020

PORTFOLIO MANAGER:

Desjardins Global Asset Management

INCEPTION DATE:

June 30, 1965

CIFSC CATEGORY*:

Canadian Short-Term Fixed Income

Contributors to performance

- The portfolio was positioned to take advantage of a flatter yield curve, but the announcement of a vaccine caused the curve to steepen. We were able to offset the negative impact through the gradual extension of corporate debt coupled with shorter-term federal securities. We adjusted duration throughout the period with a long underlying bias, enabling us to gain a few basis points despite maintaining a cash portion due to the positioning on the curve. The Bank of Canada's support of the under 5-year sector continued to favour corporate debt, as well as provincial and federal agency securities. General overexposure to these assets compared to government securities contributed significantly to the fund's growth. Furthermore, federal holdings were concentrated in agency securities that performed well compared to their peers. Although we are closing the quarter slightly below the target in terms of corporate debt held, its average duration is longer. We extended BBB securities and redeployed overweighting for senior debt in other sectors offering better potential, particularly real estate and energy. The combination of participants looking for returns and the abundance of liquidity continued to favour riskier issues.

Detractors from performance

- The lowest average duration for corporate debt led to a shortfall in terms of total exposure to interest rates, since we were underweighted in the sector with the best performance on the curve. However, yield spreads generally flattened despite the steeper federal curve, which more than offset this shortfall. The overweighting in municipal securities also proved to be unfavourable in relation to the index, but to a lesser extent than the other government securities. Unrated issues mature much sooner, which explains why they underperform, just like corporate debt. However, the excess returns offered by these instruments make up for this over time.

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Positioning

- The flattening bias will be maintained throughout the upcoming period. Based on our scenarios for administered interest rate changes, 5-year bonds offer more value. The Bank of Canada's patient tone regarding a potential tightening of its monetary policy and the possibility of a partial rate cut spurred us to maintain a slightly long bias, which we will adjust over the quarter. This positioning will also be advantageous should the COVID-19 situation worsen.

*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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