Desjardins
Dividend Income Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF DECEMBER 31, 2020

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
January 1, 1994

CIFSC CATEGORY*:
Canadian Equity Balanced

Tactical asset allocation of the fund had a positive impact on the fourth quarter's return, adding 0.03%. An underweighting in Canadian bonds was the main source of added value over the period, while an overweighting in cash detracted slightly from the return. Security selection trimmed 0.09%. A slight overweighting in Canadian equities was initiated in the portfolio over the quarter in response to the vaccine discoveries, resulting in a rotation toward value-style securities. They make up a significant portion of the Canadian stock market index and could therefore benefit from this advance. We maintained a slight overweighting in preferred shares. These positions are backed by an underweighting in Canadian bonds, which may continue to see higher yields given the prospect of returning inflation and a bright spell for the economy following the vaccine discoveries.

Fixed income market

The arrival of a COVID-19 vaccine in the last quarter of 2020 gave the financial market a boost. The 2- to 10-year yield curve steepened by 0.16%, and the Canadian government's 10-year yield ended the quarter at 0.68%, up 0.12% over the period. Against this backdrop, the bond portfolio's performance beat its benchmark in the fourth quarter, resulting in a total return of 0.70% versus 0.63% for the benchmark target. Added value over the period stemmed from positioning the portfolio to take advantage of the steeper yield curve and an overweighting in corporate securities. However, an underweighting in long-term corporate securities detracted from added value. In terms of quarterly changes, the allocation to provincial and corporate credit was reduced by around 5% in order to solidify profits generated by these asset classes. With a positioning closer to the benchmark in terms of credit exposure, we shielded the portfolio in anticipation of a new issue schedule that will start early in the new year.

Yields will likely continue to steepen next quarter. However, we plan to move back toward a neutral position on the yield curve once we reach our targets. In the current climate, we'll continue to buy provincial and corporate securities with long-term maturities if the valuation is justified.

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Preferred shares

The preferred share market had a third consecutive strong quarter, with the benchmark posting a 7.3% return for the period. Last quarter's momentum helped end the year on a positive note, with the index generating a +6.02% return for 2020. Based on prices alone, the index closed the year with a return of +0.1%.

Investors' appetite for risk, narrowing credit spreads and the impact of limited recourse capital notes (LCRNs) contributed to the markets' strong performance. The arrival of LCRNs in the previous quarter was clearly a long-term game changer for the preferred share market, impacting both the primary market (fewer new issues) and the secondary market (issue redemptions by companies).

For the last few quarters, rate reset preferred shares have been decorrelated from interest rates, unlike what we have seen in recent years. This type of share was more in line with shrinking credit spreads and the stock market rebound. Although interest rates should stay low for an extended period of time, a potential hike in interest rates could bring back the correlation effect and would be favourable to rate reset shares. With all of the factors supporting preferred shares, they are still an attractive asset class, both in absolute terms and compared to many other types of investments.

The portfolio outperformed the index by 23 basis points. This was mainly due to the selection of rate reset shares.

Canadian stock market

The Canadian and US stock markets continued to advance in the fourth quarter. The total return of the S&P/TSX index was +9%, while the S&P 500 was at +12.1% and the NASDAQ at +15.7%. In Canada, 9 of the 11 sectors were up at the end of the quarter. The healthcare sector had the best return of 2020 but finished the year at -23%. In negative territory for the last 3 months of the year, the materials (-3.7%) and consumer staples (-5.6%) sectors posted the index's worst performances.

The fourth quarter was marked by a rebound in value-style securities, which had underperformed since the onset of the pandemic. Investors pivoted to more cyclical securities, such as those in the consumer discretionary and natural resources sectors,

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Canadian stock market (cont'd)

which could benefit from the anticipated economic recovery. We therefore boosted our exposure in the automobile sector in anticipation of the return of volumes and demand for vehicles. On the energy side, we maintained our overweighting in renewable energy, which is benefiting from the energy transition and the ESG theme.

The equity portfolio ended the quarter 19 basis points below the benchmark. The following sectors contributed positively to the fund's performance: materials (+0.43% compared with the benchmark), utilities (+0.36%) and financial services (+0.09%). In the materials sector, First Quantum Mining Ltd. saw a 92.50% return, adding 33 basis points to the overall portfolio. Conversely, the real estate and energy sectors contributed negatively to the fund's relative performance (-0.24% and -0.22%, respectively). In the energy sector, Imperial Oil Ltd. (+53.04%), helped bring down the fund's performance by 10 basis points due to a lack of shares in our fund.

*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/.