

Desjardins

Canadian Preferred Share Fund



QUARTERLY COMMENTARY AS OF MARCH 31, 2021

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
April 11, 2016

CIFSC CATEGORY*:
Preferred Share Fixed Income

The preferred share market remains hot, with the benchmark returning +8.84% in the first quarter. All structure types ended the quarter with positive returns, but variable rate shares notched the best performance, followed by rate reset shares.

Limited recourse capital notes (LRCNs) continue to impact the preferred share market, especially as insurance companies are now using this type of instrument. In fact, The Empire Life Insurance Company has already announced the redemption of one issue after issuing an LRCN. The market anticipates that it's only a matter of time before other insurance companies follow suit.

Earlier this year, Pembina Pipeline announced its intention to issue a hybrid debt security for the purpose of redeeming two issues of preferred shares. The transaction was successful. TC Energy followed suit, also issuing a hybrid debt security and announcing the redemption of a preferred share issue. The energy companies are joining the banks, BCE and Brookfield Asset Management, which were already driving down market capitalization in the preferred share market.

In addition to share buybacks and the expectation of significant buybacks this year, rising interest rates have certainly boosted the preferred share market. The 55-basis point increase in the 5-year Government of Canada bond yield was a boon to reset rate shares.

For the first time in a year, there was a primary market offering. Sagen MI Canada launched a new fixed rate perpetual issue. This is the first time the company has raised capital in the preferred share market.

The factors that have supported preferred shares for the past few quarters remain. However, the market levelled off at the end of the quarter. As the market has risen over the past year, more issues are now trading around par. Capital appreciation is therefore more limited than in past quarters. While there are still many issues trading at a discount, the current yield component may be more significant than the capital gain component in the upcoming quarters. The impact of share buybacks on the market remains to be seen.

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The portfolio outperformed the benchmark by 23 basis points. This was mainly due to the selection of rate reset 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/>.

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