

# Desjardins

## SocieTerra Canadian Bond Fund



QUARTERLY COMMENTARY AS OF DECEMBER 31, 2020

PORTFOLIO MANAGER:

Desjardins Global Asset Management

INCEPTION DATE:

June 8, 2015

CIFSC CATEGORY\*:

Canadian Fixed Income

### Positive and negative contributors to performance

- The arrival of a COVID-19 vaccine in the third 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 performed slightly better than its benchmark in the fourth quarter, resulting in a total return of 1.03% versus 1.00% for the management target. This management target was modified in the second quarter to exclude issuers associated with fossil fuels. Excluding these securities has generated a return around 1% below the FTSE Canada Universe Bond Index since April 1, causing a major outperformance by fossil fuels in the second quarter.
- 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 credit and corporate securities was reduced slightly in order to solidify profits generated by these asset classes. With a positioning closer to the credit exposure target, we shielded the portfolio in anticipation of a new issue schedule that will start early in the new year.
- Green, sustainable and social bonds accounted for 10.5% of the portfolio, compared with 11.2% in the last quarter. Their significant contribution to the portfolio over the period, amounting to nearly \$225 million, explains the slight reduction in our holdings of this asset class.
- In terms of securities selection, the manager participated in the new issue by the Société de Transport de la Ville de Laval, which promotes sustainable development by focusing on public transit. In 2021, the manager expects to increase the portion of funds invested in green bonds through new issues.

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### Positive and negative contributors to performance (cont'd)

- The manager takes the scope of climate change risk into account when selecting issuers. In the fourth quarter, the portfolio's carbon footprint was 36.8% lower than the average on the FTSE Canada Corporate Bond Index.
- 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.

\*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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