Desjardins
Dividend Growth Fund

Desjardins
Wealth Management
Investments

QUARTERLY COMMENTARY AS OF MARCH 31, 2021

JARISLOWSKY FRASER
GLOBAL INVESTMENT MANAGEMENT

PORTFOLIO MANAGER:
Jarislowsky Fraser

INCEPTION DATE:
January 15, 2009

CIFSC CATEGORY*:
Canadian Dividend & Income Equity

Portfolio positioning

The portfolio delivered strong returns during the quarter, outperforming its benchmark. Most of the outperformance resulted from the decline in gold (-13.8%) within the benchmark—given our relative underweighting—and from strong securities selection. The benchmark's top performers were energy (+20.3%), followed by financial services (+13.9%) and consumer discretionary (+12.5%), all of which have recovered amid expectations of vaccine driven improvements in the economy. In contrast, we saw a decline in materials (-6.9%), caused by a pull back in gold and gold stocks, and also in technology (-1.1%) following last year's outstanding rally in the sector owing to the accelerated adoption of digital technologies.

It was an active quarter in terms of portfolio changes. We initiated positions in three companies (**National Bank of Canada, Franco Nevada** and **Morneau Shepell**), finished liquidating **Pembina** and reduced **TD** and **CAE**.

We sold our position in Pembina while the price was favourable, as we believe other securities in the portfolio offer better risk adjusted returns. We reduced TD due to anticipated hurdles, which are related to a US corporate tax hike, increased regulatory scrutiny of bank fees for political reasons, and also TD's growing interest in US acquisitions. We reduced CAE due to valuation, as the stock has appreciated substantially from the prices at which our position was expanded in 2020.

We opened a position in National Bank due to its attractive positioning in the Quebec market, its outstanding management team, its attractive valuation and our strong confidence in its disciplined capital allocation. The bank showed strong resilience in 2020, notching 8% in revenue growth despite a challenging year.

Franco Nevada is another position we opened during the quarter. The company is the world's largest precious metals streaming or royalty financing company, with an asset base (exposure to mines) over twice that of its nearest rival.

Lastly, we opened a position in Morneau Shepell for the large cap portfolio. In addition to being Canada's largest pension and benefits consultant and administrator, the firm is an employee assistance program leader.

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Investment thesis

Our Canadian equity management strategy is focused on large cap blue chip equities and industry leaders that post solid dividends and continuous growth. We don't target cyclical industries, and we maintain significant diversification to avoid concentrations in sectors with exposure to commodity prices. Our diversification has improved thanks to investment in foreign corporations that pay dividends and are active in sectors not available in Canada. Moreover, we've demonstrated continuous growth, high returns, dominant positions on global or local markets and solid financial results in order to reduce financial risk. No changes were made to the investment thesis during the quarter.

Securities that made headlines

Top contributors during the quarter were engineering firms **Stantec** (+31%) and **SNC Lavalin** (+24%), and life insurer **Manulife** (+21%), as well as specialty label producer **CCL Industries** (+21%) and **Magna** (+23%).

Both engineering firms got a boost from the across the board momentum fuelled by potential infrastructure projects, given the significant fiscal stimulus announced in the United States, as well as the spending required for bridges, roads and buildings. In addition, Stantec benefited from decent organic growth in its water related operations and from favourable acquisitions (GTA Consultants in Australia). SNC won major nuclear power and infrastructure engagements in the United Kingdom.

Manulife recovered with the rise in long term interest rates and reasonable results indicating that its business model is more resilient today than during the global financial crisis.

CCL also proved to be much more resilient than expected due to its diversified exposure (automotive, food and beverage, consumer retail, etc.) which helped it deliver record results in 2020. The company also makes patient, well thought out acquisitions, which could drive further organic growth in the years to come.

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Securities that made headlines (cont'd)

Magna continues to capitalize on higher automotive production due to pent up demand and low inventory levels as a result of the pandemic. Recently, automobile demand in the United States has been strong (in March, the seasonally adjusted annual rate was 17.8 million units), and we expect production to follow suit despite the current semiconductor shortage.

*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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