Desjardins Short-Term Income Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF JUNE 30, 2021

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
June 30, 1965

CIFSC CATEGORY*:
Canadian Short-Term Fixed Income

Contributors to performance

→ The portfolio benefited from government issuer selection, particularly by overweighting NHA mortgage-backed securities and, to a lesser extent, by favouring peripheral provinces over central provinces. However, the underweighting in mortgage bonds compared to sovereign issues countered these effects. With regard to corporate debt, all selected issuers outperformed the target, which more than offset asset class allocation effects. Maintaining the bias towards riskier sectors has been beneficial. The real estate, energy and industrials (retirement homes) sectors, all BBB issuers, outperformed compared to other sectors. Duration management allowed us to generate almost one basis point.

Detractors from performance

→ The portfolio was positioned to capitalize on a flatter yield curve with a neutral bias. 5-year rates remained unchanged during the period, but the 1- to 4-year portion adjusted upwards, which was favourable to us. The municipal overweighting added value, but its positioning on the curve was not optimal. The excess return offered on these securities is akin to bank debt, which is expected to stabilize their value for investors in the very short-term portion of the curve.

Positioning

→ The flattening bias will be maintained throughout the upcoming period. 5-year bonds offer even more value under our administered rate scenarios on an implicit rate basis, especially compared to the 3- and 4-year segments of the bond curve. To implement this positioning, the 3- and 4-year sectors are underweighted against the 5- and 2-year sectors. The duration will be kept short to neutral and will be adjusted tactically. More volatility is expected over the summer quarter, if only because of the reduced depth of the markets. Any new information regarding the potential tightening of monetary policy could lead to spikes in volatility. In terms of debt issues, government agencies will be favoured over provinces with

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Positioning (cont'd)

maturities of less than 3 years, if valuation justifies it. We will maintain our NHA securities positioning at the current level as well as our maximum exposure to unrated municipal securities. Provincial issues will be concentrated at the further end of the curve, where it offers more value. The corporate debt weighting will remain overweight, and further rotation into riskier issuers is planned, taking advantage of the favourable economic situation associated with the economic recovery.

*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/.