Desjardins
SocieTerra Canadian Bond Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF JUNE 30, 2021

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
June 8, 2015

CIFSC CATEGORY*:
Canadian Fixed Income

Positive and negative contributors to performance

- In the second quarter of 2021, global vaccination continued to progress despite the emergence of variants. Job creation seems to be at the centre of the Fed's stance at the moment and is probably becoming the most important indicator for anticipating any tightening of monetary policy, as inflation is being pushed to the back burner. The trend observed in the first quarter has therefore been reversed. The 2- to 10-year yield curve flattened by 0.39%, and the Canadian government 10-year yield ended the quarter at 1.39%, down 0.17% over the period. Against this backdrop, the bond portfolio slightly outperformed its benchmark in the second quarter, resulting in a total return of 1.64% versus 1.62% for the benchmark target. The value added during the period came from an overweight position in certain peripheral provinces compared to Quebec and Ontario, as well as positioning for a flattening of the long-term Canadian government yield curve during the month of June. However, the allocation to the financial sector contributed negatively to performance during the period.
- Taking into consideration the return on the FTSE Canada, which ended the quarter at 1.66%, the portfolio trimmed 0.02%. However, the opportunity cost associated with the exclusion of the fossil fuel sector was around 0.06%. This was partially due to the fact that these securities have longer maturities. The overweighting in municipal securities contributed positively to performance, while the allocation to financial securities was negative. On a net basis, the advantage of our overweighting in the corporate sector was mitigated by our underweighting in provincial credit.
- With respect to fund flows, the portfolio recorded $339.6 million in contributions over the period.
- We enter the next quarter with a neutral duration bias, but the flattening of the yield curve could continue over the long term. We remain constructive on corporate credit and the allocation to this asset class should increase during the period.
- For the second quarter of 2021, the Fund achieved a quality score of 6.9 on the MSCI scale. The portfolio's benchmark index showed a score of 7.1 for the same period. The portfolio allocation in corporate securities with an ESG rating of A or higher was 79%, while it was 86% for the benchmark.

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Positive and negative contributors to performance (cont'd)

→ Green, sustainable and social bonds accounted for 11.1% of the portfolio compared with 10.7% in the last quarter.

→ In terms of securities selection, the manager participated in new green issues by the following:

- Algonquin Power Co.: A Canadian renewable energy and regulated utility conglomerate in North America
- Lower Mattagami Energy: A complex consisting of 4 hydroelectric power plants on the Mattagami River
- Dream Industrial REIT: A real estate company that owns several industrial properties in North America and Europe, whose funds help improve the energy efficiency and sustainable water management of buildings

→ In addition, Bell Canada, Telus and National Bank of Canada issued sustainable development bonds, which may include social and environmental components, acquired by the Fund over the quarter.

→ In the coming quarters, the manager expects to increase the portion of funds invested in green, sustainable and social bonds through new issues.

→ The manager takes the scope of climate change risk into account when selecting issuers. In the second quarter, the portfolio's carbon footprint was 45.2% lower than the average on the FTSE Canada Corporate Bond Index.

*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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