Desjardins Dividend Income Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF JUNE 30, 2021

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
January 1, 1994

CIFSC CATEGORY*:
Canadian Equity Balanced

Tactical asset allocation of the Fund had a positive impact on the second quarter's return, adding 0.06%. While an underweighting in Canadian bonds was the primary source of added value, an overweighting in Canadian equities also added value over the period. Security selection trimmed 0.23%. The recent reopening of economies, supported by falling numbers of COVID-19 cases around the world, has prompted the portfolio manager to maintain an overweighting in Canadian equities. In the event of a correction, he would be inclined to increase the overweighting in this asset class, as earnings growth is expected to support prices in the quarters ahead. He is maintaining an overweighting in fixed-income securities. As long as central banks keep key rates at current levels and bond buyback programs continue, short term rates will hover around their current levels. However, if government stimulus plans produce the desired effect and vaccinations continue to ramp up, monetary authorities may gradually review their policies and trigger additional increases in long term bond yields. If that happens, it would be prudent to further reduce exposure to government bonds with longer maturities.

Fixed income market

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 lagged slightly behind its benchmark in the second quarter, resulting in a total return of 1.65% versus 1.66% for the benchmark target. This negative contribution was primarily due to the flattening of the yield curve. However, an overweight position in certain peripheral provinces compared to major urban centres (Quebec and Ontario) had a positive impact on performance over the period.

Preferred shares

The preferred share market continued to surge for a sixth consecutive quarter. The benchmark index posted a return of +5.02% for the second quarter.

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Preferred shares (cont'd)

The market's strong performance primarily stemmed from the same factors as in recent quarters, such as the substitution of preferred shares with LRCNs by financial institutions and hybrid debt instruments by energy companies. Sun Life followed the example of other financial institutions by issuing its first LRCN. There is still an imbalance between supply and demand.

While the 5-year Government of Canada bond yield remained relatively unchanged, an increase of 17 basis points in the 2-year Government of Canada bond yield and anticipations of a rise in inflation and a more aggressive monetary policy by the Bank of Canada bolstered rate reset and floating rate shares.

The portfolio slightly outperformed the benchmark. This was mainly due to the selection of rate reset shares.

Canadian stock market

The Canadian and US stock markets continued to rebound, ending the second quarter of 2021 with the following total returns: +8.6% for the S&P/TSX, +8.6% for the S&P 500 and +9.7% for the NASDAQ.

In Canada, 9 of the 11 sectors closed the quarter with gains, but total returns varied widely, ranging from 23% to -11.7%. In the technology sector, a significant weighting of 63% in Shopify (SHOP) yielded the best return thanks to its rapid rise starting in mid-June. The energy sector came in second place, posting a 12.6% gain. This was due to OPEC's management of the tight oil supply and the global economic recovery. With an increase of 9.9%, the real estate sector came in third place. Renewed investor confidence in the value of commercial and industrial real estate as well as office towers was a boon to the sector.

Portfolio positioning

The portfolio positioning is split between defensive and cyclical securities. We continue to favour quality, large cap securities.
After a year marked by a rebound in value-style securities, which had underperformed for several years, and an investor rotation to cyclical sectors, in the second quarter, the change in the trend for interest

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Portfolio positioning (cont'd)

rates slowed down the shift of investors to more cyclical sectors of the economy. We took advantage of the pullback by some securities to bolster positions in others that will serve as short- and long-term catalysts. For example, we increased our position in Dollarama.

Contributors to performance

Among the sectors that boosted the Fund's performance were consumer staples (+0.20% compared with the benchmark) and information technology (+0.16%). In the consumer staples sector, Alimentation Couche-Tard Inc. posted a 12.41% return, adding 3.5 basis points. Lightspeed POS Inc. came in second place, gaining 31.28% and adding 9.2 basis points due to our overweighting.

Detractors from performance

Conversely, the financial services and energy sectors contributed negatively to the Fund's relative performance (-0.32% and -0.18%, respectively). In the financial services sector, Bank of Montreal (+14.46%) dragged down the Fund's performance by 21.9 basis points. In second place, Tourmaline Oil Corp. (+48.85%) trimmed the Fund's performance by 11.6 basis points due to a lack of shares in the Fund.

*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/.