

# Desjardins

## Short-Term Income Fund



QUARTERLY COMMENTARY AS OF SEPTEMBER 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 an overweight position in corporate debt relative to sovereign assets throughout the quarter. However, a buy protection position on the CDX index will have partially reduced the excess return generated, partially offset by a currency gain on the position. Our positioning in favour of municipalities relative to provinces also generated value, but to a lesser extent. NHA mortgage-backed securities, which generate higher carry, combined with an overweight of BBB and below issuers during a credit-friendly quarter accounted for all of the selection gains. The overweight in subordinated debt also contributed positively to the excess return.

### Detractors from performance

- Duration management subtracted nearly 1 basis point in a quarter characterized by rising rates and a steepening curve. Although the positioning in longer-term corporate debt allowed us to achieve a better return on the curve over time, the steepening of the longer-term yield curve dominated any tightening of spreads. This explains the negative contribution to the curve positioning of corporate debt. A reverse positioning of government issuers, however, reduced this underperformance.

### Positioning

- The flattening bias initially in place in the third quarter was reversed in anticipation of further steepening of the yield curve. While 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, we believe that it will be possible to fill this portion of the yield curve at even more advantageous levels. To implement this positioning, the 3- and 4-year sectors will remain underweighted, as well as the 5-year sector, against the 2-year sector. Duration will be kept short to neutral and will be tactically adjusted based on observed implicit rates. Higher volatility is expected in the final quarter in connection with the Federal Reserve's intentions to end its quantitative easing program. In addition, any indication of more persistent

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### Positioning (cont'd)

inflationary pressures could pre-empt implementation of the potential tightening of monetary policy. In terms of debt issues, government agencies will be favoured over provinces with maturities of less than 4 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 and BB corporate securities. Provincial issues will be concentrated at the further end of the curve, where they offer more relative value. The overweight in corporate debt will remain, and the risk level will be maintained around the current level. Valuation spreads are narrower, so selection will be key.

\*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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