

# Desjardins

## Quebec Balanced Fund



QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2021

PORTFOLIO MANAGER:  
**Desjardins Global Asset Management**

INCEPTION DATE:  
**June 20, 1997**

CIFSC CATEGORY\*:  
**Canadian Neutral Balanced**

The Fund's tactical asset allocation had a positive impact on the third quarter's return, adding 0.08%. While an underweighting in Canadian bonds was the primary source of added value, an overweighting in equities also added value over the period. With respect to securities selection, the quarter was just as beneficial, with a gain of 0.32%. 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 Quebec equities. In the event of a minor market correction, he would also be inclined to increase the overweighting in equities. He is maintaining an overweighting in fixed-income securities. If government stimulus plans produce the desired effect and vaccinations continue to ramp up, monetary authorities may gradually review their policies and trigger a further rise in long-term bond yields.

### **Fixed income market**

Last quarter, we pointed to the possibility of better-than-expected financial updates that could in turn reduce the high borrowing requirements initially announced by the provinces. Thus, it was no surprise that the announcements were along these lines, but the magnitude was somewhat unexpected. Clearly, the provinces were either very conservative in their budgets, or they overestimated the cost of the pandemic. On the revenue side, provincial tax revenues have been boosted by generous but taxable COVID-related federal assistance programs. Several provinces have already announced significant improvements to their budgets and Quebec is expected to do likewise with their November update. In the third quarter, 5- and 10-year spreads narrowed by 4 and 1 basis point, respectively.

The bond portfolio ended the quarter 6 basis points above the benchmark. This outperformance is explained primarily by the allocation to corporate bonds. The allocation to preferred shares, with a performance of +1.84%, added value to the fixed-income class.

### **Canadian stock market**

Portfolio positioning is split between defensive and cyclical securities. We continue to favour quality large-cap securities. In an environment that remains uncertain despite the strong recovery in North American markets, we increased cash holdings slightly during the quarter.

After a start to the year characterized by a rebound in value-style securities and more cyclical sectors, the drop in interest rates in the third quarter mainly favoured an outperformance in high-quality and growth-style securities.

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### Contributors to performance

- The following sectors contributed positively to the Fund's performance: materials (+0.20% compared with the benchmark), and financial services (+0.15%).
- In the materials sector, Transcontinental Inc. reported a return of -12.75%, adding 13.1 basis points to the overall portfolio given that the security was not part of our portfolio. In the financial services sector, Laurentian Bank of Canada reported a return of -7.09%, contributing 8.9 basis points of added value due to the security's absence in our portfolio.

### Detractors from performance

- Conversely, the healthcare and consumer staples sectors weighed on the Fund's relative performance (-0.09% and -0.02% respectively).
- In the healthcare sector, BELLUS Health Inc. (+100.78%) trimmed the Fund's performance by 8.4 basis points due to a lack of shares in the portfolio. In the consumer staples sector GURU Organic Energy Corp. saw a return of -4.00%, helping to bring down the Fund's performance by 3.0 basis points due to our overweighting in the security.

\*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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