Desjardins Dividend Income Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF SEPTEMBER 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 third quarter's return, adding 0.054%. 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 period was more difficult with a reduction of 0.22%. 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 minor market correction, he would be inclined to increase the overweighting in equities. He is maintaining an underweighting 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

In the third 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. The 2- to 10-year yield curve steepened slightly from 0.94% to 0.98%, and the Canadian government's 10-year yield ended the quarter at 1.51%, up 0.12% over the period. Against this backdrop, the bond portfolio slightly outperformed its benchmark in the third quarter, resulting in a total return of -0.47% versus -0.51% for the benchmark target. The value added during the period came from a portfolio allocation favouring an overweighting in corporate securities, and an overrepresentation in long-term provincial bonds. In addition, positioning for a steepening of the 10-year Canadian government yield curve will contribute added value.

We enter the next quarter with a neutral duration bias, but the steepening of the yield curve could continue in the next quarter. We remain constructive on business credit and the allocation to this asset class should increase during the period.

Preferred shares

Once again, the preferred shares market generated a positive return over the quarter, making it the seventh straight quarter with improving performance. The benchmark index posted a return of +2.8% over the period and reached its highest level since October 2018.

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Preferred shares (cont'd)

In July, we marked the first anniversary of limited recourse capital notes (LRCNs). The latter have been a definite game changer for the preferred shares market, by creating a persistent imbalance between supply and demand. This phenomenon explains the market's ongoing strong performance this quarter. There was a little more than $3 billion in preferred share redemptions in the third quarter, which pressured the secondary market.

The increase in Government of Canada bond yields, along with expectations of longer-lasting inflation and its potential impact on monetary policy, supported floating rate and rate reset shares.

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

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 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.

Contributors to performance

- The sectors that contributed positively to the Fund's performance were materials (+0.21% compared with the benchmark) and consumer staples (+0.20%).
- Within these sectors, we note a few securities that contributed to the portfolio's added value.
- First, in the materials sector, Barrick Gold Corp. reported a negative return of -9.77%, adding 19.8 basis points to the Fund's performance due to our portfolio's lack of exposure. Second, in the consumer staples sector, Costco Wholesale Corp. gained 13.78%, adding 10 basis points due to our overweighting.

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Detractors from performance

→ Conversely, the financial services and energy sectors contributed negatively to the Fund's relative performance (-0.27% and -0.15%, respectively).

→ In the financial services sector, Element Fleet Management Corp. (-11.16%) trimmed the Fund's performance by 13.4 basis points, given our overweight position. In second place, in the energy sector, Tourmaline Oil Corp. (+27.61%) trimmed the Fund's performance by 10.7 basis points due to its zero position 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/.