Desjardins Dividend Growth Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2021

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GLOBAL INVESTMENT MANAGEMENT

PORTFOLIO MANAGER:
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INCEPTION DATE:
January 15, 2009

CIFSC CATEGORY*:
Canadian Dividend & Income Equity

Portfolio positioning

The Canadian market took a breather in the third quarter after being one of the best stock markets for the first six months of the year. Our portfolio outperformed the S&P/TSX Composite Index, which treaded water with its 0.2% return, increasing again its year-to-date value relative to the Index, which returned 17.5% for the same period.

Over the quarter, we increased our position in CN during its downturn, as we believe the railroad industry offers one of the best business models. We also added to our position in WSP—which we are even more confident in, given its industry's headwinds and merger and acquisition potential—and in the Bank of Nova Scotia (BNS). BNS is still hampered by the political and COVID-19 uncertainty in the Latin American and Caribbean countries to which it is exposed. We believe its multiple largely reflects these issues, which should be resolved over time. We finished liquidating Enbridge and TD during the quarter, mainly due to the more attractive risk/reward profiles we believe other stocks in the portfolio offer.

Investment thesis

Our Canadian equity management strategy is focused on large cap blue chip equities and industry leaders that post solid dividends and continuous growth. We don't target cyclical industries, and we maintain significant diversification to avoid concentrations in sectors with exposure to commodity prices. Our diversification has improved thanks to investment in foreign corporations that pay dividends and are active in sectors not available in Canada. Moreover, we've demonstrated continuous growth, high returns, dominant positions on global or local markets and solid financial results in order to reduce financial risk. No changes were made to the investment thesis during the quarter.

Securities that made headlines

During the quarter, the contrarian trends to be noted were the declining stock prices of **Magna** (-16%), **Saputo** (-12%) and, to a lesser degree, the packaging company CCL (-4%). Magna dropped mainly because of the chip shortage that is restricting global automotive production. Chipmakers had cut back production early in the pandemic, due to a sharp decline in auto sales, and were unable to meet the huge post-pandemic demand due to shutdowns and other COVID-related disruptions. We expect this situation to be temporary and that auto production will eventually revert to more normal levels. Saputo is still affected by the pandemic as the North American

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Securities that made headlines (cont'd)

restaurant business continues to suffer and because it is exporting less than usual due to container issues, port closures and high inventory levels. CCL dropped slightly after strong quarterly results, as management indicated that currency transactions would be a substantial drag in the second half of the year and that it was not tempting to proceed with mergers and acquisitions at current prices. We are not concerned about these issues and, in fact, admire CCL's acquisition approach.

In Q3, the main contributors to the portfolio were the turnaround in **Canadian National Railways** (+13%) at the expense of Canadian Pacific Railway, the contraction in materials (-5.6%), mostly driven by gold stocks, and the continued appreciation in our engineering businesses such as **SNC** (+9%), **Stantec** (+8%) and **WSP** (+5%). CN has recovered after being under pressure since the announcement of the major deal with KSU. While the merger would have solidified CN's position as one of North America's largest railroads, the demise of the deal eliminates integration risk. Our lack of exposure to CP has contributed symmetrically to performance. SNC has performed well again as it continues to win significant new contracts and is making good progress in reducing its riskier fixed-price contracts, which now number only 3 significant contracts. These 3 engineering firms continue to benefit from the infrastructure spending projects that will not be completed until many years to come. **Thomson Reuters** (+14%) and **Brookfield Asset Management** (+8%) continue to perform well.

*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/.