

Desjardins

Canadian Preferred Share Fund



QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2021

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
April 11, 2016

CIFSC CATEGORY*:
Preferred Share Fixed Income

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. All structure types ended the quarter with positive returns, but rate reset shares posted the best performance.

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.

There was a single primary market subscription. Emera launched a new fixed-rate issue. Even though the return offered no concessions, this subscription was very successful.

Over \$15 billion in limited recourse capital notes (LRCNs) was issued in the past year. Keep in mind that the regulatory authorities put a limit on the weight of LRCNs in financial institutions' AT1 tranche. The latter won't be able to substitute LRCNs for preferred shares infinitely. Unless there is another regulatory change, the phenomenon observed over the past year should slow down in the coming quarters. In the short term, the factors that have supported preferred shares for the past few quarters remain. However, as mentioned in the last quarter, capital appreciation is more limited than in past quarters. The current yield component may be more significant than the capital gain component in upcoming quarters.

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The portfolio outperformed the benchmark by 20 basis points. This outperformance is explained primarily by the overweighting in rate reset shares and the selection of securities.

*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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