

Desjardins SocieTerra

Canadian Bond Fund



QUARTERLY COMMENTARY AS OF MARCH 31, 2023

PORTFOLIO MANAGER:

Desjardins Global Asset Management

INCEPTION DATE:

June 8, 2015

CIFSC CATEGORY*:

Canadian Fixed Income

Contributors to relative performance

- An overweight position in the banking sector at the short end of the interest rate curve was a positive for performance. Corporate spreads five years and under outperformed the rest of the interest rate curve, despite the turmoil associated with the problems of a few U.S. regional banks. Duration, which remained shorter than the benchmark, was a negative factor during the quarter due to the general decline in yields. However, the interest rate curve positioning more than offset this loss with the steepening of the interest rate curve from 5 years to 30 years, generating a positive return for both factors (curve and duration).

Detractors from relative performance

- The March 28 federal budget generated a lot of volatility in Canada Mortgage and Housing Corporation (CMHC) securities at the end of the quarter. The Canadian government announced a consultation period next October for the possibility of incorporating this federal agency's funding requirements into its own. The objective of this decision is to reduce the cost of the program at the time of new issuance. The impact on investors is that an asset class, which generates an excess return for Canadian government bonds, disappears over time. The initial reaction to the announcement was an outperformance of CMHC securities, which saw spreads tighten by approximately 5 basis points as at March 31 following the budget announcement. During the quarter, an underweight position in Canadian agencies detracted 4 basis points from performance. In addition, an underweight position in the short-term provincial sector detracted value relative to FTSE Canada as spreads tightened 5 basis points during the period.

Major changes to portfolio in the period

- We initiated a reduction in the corporate sector before the start of the U.S. events. Allocation is three per cent lower than last December.

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ESG analysis

- Green, sustainable and social bonds account for 10.7% of the portfolio. Some ESG bonds from the supernational sector were sold for valuation reasons and the amount was reinvested in Canadian government securities. We take the scope of climate change risk into account when selecting issuers. In Q1, the portfolio's carbon footprint was 78% lower than the average on the FTSE Canada Corporate Bond Index.

*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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