Desjardins Dividend Income Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF MARCH 31, 2023

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
January 1, 1994

CIFSC CATEGORY*:
Canadian Equity Balanced

Tactical asset allocation decisions contributed negatively to the fund's first-quarter performance, subtracting 0.01%. The management of the cash required to meet the cash outflows during the period largely explains this negative impact, while the impact of other asset classes is practically nil. Stock picking contributed positively to the fund's performance, adding 0.46%, mainly from Canadian equities.

The tone of several central banks was revised during the quarter. While most of them remain in monetary tightening mode, the recognition of the impact of a rate hike cycle combined with some signs of slowing economic activity and inflation has led to caution. The feeling that the end of the tightening cycle was closer than anticipated at the beginning of the year led to a significant steepening of the interest rate curve at the end of the quarter. The turmoil was related to the problems at several U.S. regional banks, as well as Credit Suisse in Europe. In March, financial markets were shaken by the financial troubles experienced by Silicon Valley Bank and other U.S. regional banks. Some contagion to the European banking system via Credit Suisse and Deutsche Bank forced major central banks, including the Fed, to intervene through special programs to reassure the confidence of both investors and savers. The Quebec index nevertheless ended the first quarter of the year with excellent performance, despite the threats from surrounding events.

In the manager's view, volatility, also discussed in recent quarterly reports, is likely to continue and could potentially evolve into a financial crisis. The manager will therefore be prepared to take advantage of the various opportunities that may arise.

Fixed income market

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.

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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. regional banking events. Allocation is 4% lower than last December.

Preferred shares

Contributors to relative performance

- An underweight position in the real estate sector was a positive factor. This segment, which is primarily comprised of Brookfield Office Properties, continued to experience a poor quarter.
- The fund's underweight exposure to rate resets with floors securities also contributed positively to performance. This type of structure was the worst performer in the quarter.

Detractors from relative performance

- The allocation to institutional preferred shares subtracted value. These companies underperformed the index and are not included in the index. Overall, the banking sector underperformed as it was affected by the turmoil caused by U.S. regional banks.

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Detractors from relative performance (cont'd)

→ Security selection within fixed-rate perpetuals, particularly in the financial sector, also contributed negatively to performance.

Major changes to portfolio in the period

→ Reduction of allocation to asset class.

Canadian stock market

Contributors to relative performance

→ Sectors that contributed positively to the fund's performance were information technology (+1.32% vs. benchmark) and energy (+0.46%).

→ In the information technology sector, Palo Alto Networks returned +43.14%, adding 50.1 basis points due to the stock's overweight position in the portfolio. In the energy sector, Cenovus Energy returned -9.83%, adding 18.6 basis points as a result of the stock's absence from the fund.

Detractors from relative performance

→ The materials and financials sectors contributed negatively to the fund's relative performance (-0.63% and -0.54% respectively).

→ In the materials sector, Wheaton Precious Metals (+23.44%) detracted from the fund's performance by approximately -18.5 basis points to the overall fund due to the stock's absence from the fund. In the financials sector, Bank of Montreal (-0.46%) contributed to the fund's negative return of 12.1 basis points due to the fund's overweight position in the stock.

Major changes to portfolio in the period

→ The 4 largest transactions over the quarter were:

- Purchase of 2.30% of Bank of Montreal
- Purchase of 2.18% of Alimentation Couche-Tard Inc.

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Major changes to portfolio in the period (cont'd)

- Sale of 2.40% of Royal Bank of Canada
- Sale of 2.04% of Toronto Dominion Bank

*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/.