Desjardins
Dividend Growth Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF MARCH 31, 2023

JARISLOWSKY FRASER
GLOBAL INVESTMENT MANAGEMENT

PORTFOLIO MANAGER:
Jarislowsky Fraser

INCEPTION DATE:
January 15, 2009

CIFSC CATEGORY*:
Canadian Dividend & Income Equity

Portfolio positioning

In Canadian equities, no new positions were initiated; however, we took the opportunity to add to our new position in **TC Energy**. The stock continues to be impacted by funding issues related to cost overruns at Coastal GasLink. We are confident that the company will solve these challenges. In the meantime, we are being compensated for being patient, considering the dividend yield of nearly 7% and its historically modest valuation. We have reduced our stake in **Saputo**. The stock performed well in 2022 and much of its earnings improvement is reflected in its valuation. We also trimmed our positions in **Stantec** and **WSP** following strong stock price appreciation and relatively high portfolio size.

On the international side, we have decided to sell our position in the French insurer **AXA**, which has reached its expected return. Position that we had already significantly reduced in the previous quarter.

Investment thesis

We remain true and consistent with our investment logic. After a difficult first half of 2022, higher-quality stocks rallied to more normal levels in many markets. Opportunities remain, but given the possibility of a slower economic environment, careful stock selection is extremely important.

Indeed, conditions for access to credit are already tightening before problems with U.S. regional banks arise. Recent bank failures are adding to this trend, which means recession risks have increased. We do not believe that the recession will be particularly severe as we also anticipate a decline in inflation that will provide an opportunity for central banks to reduce interest rates. The risk here is that if inflation were to persist, central banks would be constrained if they wanted to lower interest rates or help ensure liquidity for banks. The series of interest rate hikes is already affecting the economy and a more cautious credit environment is tilting the evidence towards a lower inflation scenario. This also provides a more positive environment for financial assets.

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Securities that made headlines

All sectors of the Canadian equity portfolio contributed positively in the first quarter, excluding the modest negative contribution from our underweight in the utilities sector (+ 6.7%).

The engineering firms in the portfolio had an impressive quarter, with **SNC** (+ 39%), **Stantec** (+ 22%) and **WSP** (+ 13%) all reaping significant gains. During the recent quarter, SNC reported strong revenue growth (11%) and a strong backlog, which bodes well for future growth as it continues to win contracts. Despite the share price appreciation in the first quarter, we believe SNC is trading at a substantial discount to its intrinsic value. Similarly, Stantec and WSP's recent quarterly results highlighted their strong organic and resilient growth prospects driven by unrealized demand from investments in aging infrastructure, repatriation of local production and climate change. U.S. economic stimulus bills are expected to contribute positively to the secular growth of engineering services firms.

Information technology (+ 25.9%) was the second best contributor, with strong price appreciation in **Open Text** (+ 31%), **CGI** (+ 12%), **Shopify** (+ 38%) and **Kinaxis** (+ 22%). Our underweight position in energy (-2.3%) served us well during the quarter. Open Text (+ 31%) provided the second best contribution to first quarter performance. Its stock rebounded after investors were unhappy with its acquisition of Micro Focus. Management, which had the opportunity to disclose more information following the closing of the transaction (January 2023), focused on the substantial operational synergies and improvements that will follow the acquisition by Open Text (e.g., systems integration and the transfer of Micro Focus customers to Open Text cloud). We expect the valuation to normalize as the company generates tangible cash flow to bring its debt to pre-transaction levels over the next 18 months.

Our relative outperformance was also aided by our lack of exposure to TD Bank (-7%), which was down. The U.S. banking turmoil and deposit nervousness impacted TD's multiples and the value of its investment in Schwab. In addition, the exceeding of the closing date for the First Horizon acquisition raises concerns about the bank's ability to close the transaction.

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Securities that made headlines (cont'd)

Encouragingly, there were no significant detractors from portfolio performance in the first quarter. On a relative basis, our lack of exposure to Constellation Software (+ 20%) was somewhat negative and our holdings in **Magna** (-4%) and **Intact Financial** (0%) were slightly negative. Magna is well positioned for the long term, but the industry continues to suffer from supply chain constraints for semiconductors, which prevent it from realizing its full potential and generating normal margins. Intact's stock stalled after rising 18% in 2022. The integration of RSA is on track and the strengthening of the P & C cycle should continue to act as a catalyst.

In U.S. equities, our positions in **Amazon.com** (+ 23%) and **Microsoft** (+ 20%) – which we increased last quarter when they were in a bad way – also proved strong.

Finally, on the international front, our position in the French luxury goods conglomerate LVMH (+26%) also performed well during the first quarter of 2023.

*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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