iA Investment Management

INVESTMENT FUNDS

Q1 2020 Quarterly Commentary

Fund name: Dividend Growth Fund

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The S&P/TSX 60 had a negative quarter with a return of -18.48%. During the quarter, all eleven sectors of the index realized a negative return, with Information Technology, Utilities and Communication Services being the best performers. The largest sector of the index (financials) was down more than 20% during the quarter, and Energy was down more than 30%.

In terms of (gross) relative performance over the first quarter, the Fund underperformed its index. Allocation was positive in the quarter mainly driven by an underweight in Energy coupled with an overweight in Utilities and Consumer Staples, which are more defensive by nature. Stock picking was negative for the quarter, mostly in the Materials sector with an overweight in Methanex that was affected negatively by the market downfall and lost more than half of its value. In Industrials, not holding Bombardier was positive for the Fund, however, this was offset by an underweight position in the Canadian railroads that outperformed the index. In Health Care, owning Johnson and Johnson and Stryker was positive as they are both defensive by nature and outperformed the index during this period.

Global equity markets sharply sold off in the quarter as COVID-19 halted global economic growth, and we have entered both a recession and a bear market. The Canadian market was particularly hurt due to the country's large exposure to energy, as oil prices tumbled to lows after experiencing both demand and supply shock from slowing economic growth and the Saudi Arabia/Russia oil feud. Meanwhile, central banks and governments are using all tools available to alleviate investor fears and provide emergency assistance to unemployed citizens.

Unfortunately, dividend stocks have not been immune to the selloff, as large and liquid stocks have been sold in unison with the rest of the market. Attempting to predict the next few quarters of earnings for our companies will be as tough as anytime in history, as the speed of economic slowdown has been so fast that it will be almost impossible to model. We have taken this opportunity to add a few new names to the portfolio. These are companies which we had researched and followed for a long time but avoided solely due to valuation. While we didn't foresee this major event, we have been cautious for the last few quarters, and believe we have a portfolio of companies that are resilient and should perform well though the downcycle. We remind clients that our investment process attempts to filter out companies that are over-levered and gravitates toward companies that have strong management teams. These are the types of companies that should not only survive, but eventually thrive at the expense of weaker competitors. We feel these company attributes will become increasingly important to investors as we move though 2020.

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