iA Investment Management

INVESTMENT FUNDS

Q1 2020 Quarterly Commentary

Fund name: U.S. Dividend Growth Fund

Portfolio Manager: Donny Moss, CFA, Senior Portfolio Manager, North American Equities

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The S&P 500 had its worst first quarter in history with a return of -20% and -11.75% in Canadian dollars. During the quarter all eleven sectors of the index posted a negative return, with Energy, Financials, Industrials and Materials being the worst performers. Information Technology, which represents almost a quarter of the index was the best performer with a low single digit decline during the quarter. Health Care and Consumer Staples, which are more defensive by nature were less impacted by the situation and only decreased in the mid single digits.

In terms of (gross) relative performance over the first quarter, the Fund slightly underperformed its index. Sector allocation was positive but was offset by negative stock selection during this quarter. In terms of allocation, an underweight position in Energy coupled with an overweight in Utilities was the main contributor, however, this was offset by an underweight position in Information Technology, which was the best performing sector.

In terms of stock picking, not holding most of the application software stocks like Adobe and Sales Force was negative. An underweight position in Microsoft was also negative to the Fund's performance as this subsector had a great run in the first quarter. In Financials, a strong overweight in BlackRock was a positive contributor as it largely outperformed in this volatile environment. Not holding Amazon also detracted from the Fund’s relative performance as it benefited from the E-commerce trend.

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. In addition, the Saudi Arabia/Russia oil feud has further pressured the price of oil, just as demand has begun to drop dramatically. 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 been not 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. 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. In addition, our actions to trim our winners to de-risk the portfolio at the end of 2019 resulted in an above average level of cash in the Fund, which we have been able to deploy to add a few new names to the portfolio and increase the weight in existing names at attractive prices. 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.