

Desjardins

SocieTerra Emerging Markets Equity Fund



QUARTERLY COMMENTARY AS OF MARCH 31, 2020



PORTFOLIO MANAGER:
Comgest

INCEPTION DATE:
September 5, 2018

CIFSC CATEGORY*:
Emerging Markets Equity

Contributors to performance

The securities we selected led to an overweighting in the communications sector, which has been outperforming during the lockdown.

NCsoft, NetEase, Tencent, Naspers and Autohome, all companies active in this sector, outperformed.

The South Korean gaming company NCsoft ranked highest in terms of individual contribution. The success of its most recent game, Lineage II Mobile, released in December, was a major sales generator during the quarter.

NetEase, one of the primary Chinese game publishers, released solid results for 2019, reaffirming our confidence in this company. In all likelihood, the propensity to consume entertainment will be affected by a recession; however, judging from the past, the impact should be relatively limited on the company, which offers low-cost forms of entertainment. Furthermore, social distancing and quarantining should cause the demand for mobile gaming to grow.

The securities we selected led to an overweighting in the consumer staples sector, which has been outperforming during the lockdown. Moreover, our selection in this sector has been profitable (Hengan, Inner Mongolia Yili, BIM). Hengan's net profit grew 4% in 2019, which is higher than expected, while sales of paper products increased 12%. The company is in the process of increasing its production capacity and launching new, higher value-added products. Hengan remains optimistic about its outlook for 2020, supported by the growing interest on the part of Chinese consumers in personal care products such as wet wipes and masks.

Detractors from performance

The massive global sell-off taking place on emerging markets is indiscriminately impacting quality as well as growing companies in which we're investing and others (such as companies in the oil and

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commodities sectors, or some financial securities recording meagre results).

Our selection of securities led to underweighting in China compared with the index, although this market has remained strong despite the drop.

Our selection of securities led to overweighting in Brazil and South Africa compared with the index, which put a damper on relative performance for the quarter. These two countries were affected by their depreciating currencies and by the fact that their markets are geared more toward commodities.

Consequently, the companies that had the roughest time in the portfolio were those located in countries in which the currencies were the target of heavy sell-offs. This was certainly the case for several positions in Brazil (Cogna Educação, Localiza, CCR) and South Africa (Discovery, Sanlam, MTN).

Major changes to portfolio in the period

We took advantage of volatility to gradually improve the quality of the portfolio by purchasing securities whose valuations had fallen to new lows in the last few years. To do this, we initiated three positions. The South Korean cosmetics giant LG H&H focuses on the high-end skin care segment and enjoys a strong brand. Its products are underrepresented in China, where spending per capita on cosmetics is far below that of the other markets in the region. We also bought China Resources Gas, which provides access to the increasing consumption of gas in China, as the state focuses on reducing air pollution and promotes the use of cleaner fuels. In India, we also bought Housing Development Finance Corporation (HDFC), a prudent, top-notch financial company that is well-managed.

Moreover, we took advantage of the excessive currency weakness—taking into account solid and stable fundamentals—to strengthen our positions in Localiza, Alibaba, Discovery, BIM and Suzuki (which has access to the Indian motor vehicle market through its equity stake in Maruti Suzuki).

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We sold off three positions, namely those in the Chinese advertising group Focus Media and in Ultrapar. Unilever was arbitrated in favour of companies posting higher growth on the emerging markets. We also reduced positions in WEG and NCsoft that had outperformed. Lastly, we reduced the position in Samsung Life, which is expected to be affected by persistently low interest rates in Korea.

*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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