

Desjardins

SocieTerra Positive Change Fund



QUARTERLY COMMENTARY AS OF MARCH 31, 2020



PORTFOLIO MANAGER:
Baillie Gifford

INCEPTION DATE:
September 5, 2018

CIFSC CATEGORY*:
International Equity

Contributors to performance

- Robust company fundamentals mean the portfolio has been on a strong footing and held up well, relative to the benchmark, throughout the quarter. Earnings growth, revenue and cash flow growth are strong, leverage is low, and balance sheets for the portfolio are generally robust.
- Positioning towards companies that are having a positive impact on society, and therefore away from areas that have been hardest hit during the coronavirus crisis (heavily geared cyclicals, oil and gas and travel and leisure) has also been a positive. All in all, we remain confident in our positioning.
- Tesla, the electric car manufacturer, has been the top stock contributor during the quarter. Tesla reported extremely strong FY 2019 results. Deliveries of their mass market model 3 cars were in line with guidance, the company continues to improve cash flow generation, their Shanghai factory is operational, and a new factory announced in Berlin was also taken as a positive. We continue to believe Tesla can help to lead the transition towards a carbon neutral transport industry and to become hugely more valuable in the process.

Detractors from performance

- Discovery Limited (South African Life insurance business) Bank Rakyat Indonesia (Indonesian micro lender) and HDFC (Indian mortgage lender) are all financial institutions which saw shares weaken due to fears around the broad global economic impacts of the Coronavirus. We hold a small position in Discovery and remain enthused about the potential for its Vitality platform which is used by a range of global insurance partners. Bank Rakyat Indonesia and HDFC both remain well capitalised. They are leaders within their respective markets, and we believe they are well placed to weather the economic impacts resulting from coronavirus.

Major changes to portfolio in the period

- In general, your Baillie Gifford portfolio follows a long-term investment strategy – as such few changes are made over a quarter

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→ Being bottom up stock pickers, any changes are for stock specific reasons

Transactions for Quarter to March 31, 2020

New Purchases

→ MercadoLibre

- MercadoLibre is Latin America's largest e-commerce platform and is emerging as a leader in the region's financial technology (FinTech) industry. MercadoLibre's e-commerce platform connects millions of merchants and consumers, providing a more convenient and efficient way to trade. E-commerce penetration is still low in Latin America and the long-term growth opportunity is attractive. MercadoLibre benefits from network effects, which should enable it to capture a significant part of the growth opportunity. On FinTech, MercadoLibre provides a range of online and mobile payment solutions and financial services. These enable small businesses and consumers to transact and access financial services more easily than before. We believe that MercadoLibre is a great example of a business using mobile and digital technologies to leapfrog legacy infrastructure and, in the process, reducing hurdles faced by small businesses and those living on low-income. We have therefore taken a holding on your behalf.

→ Deere & Co

- Improving agriculture productivity while reducing its negative environmental impact will be crucial for a more sustainable food system going forward. Precision agriculture, by using sensors, data and automation to improve yields and reduce fertiliser and pesticide usage, will be an important tool to achieve this goal. Deere is the world's largest agriculture equipment maker and the leader in precision agriculture. Deere's commitment to the area, its scale in research and development, and its relationship with farmers and dealers, should provide the company with a strong competitive advantage and enable it to benefit from the growth in precision agriculture. We believe that these opportunities are currently under-appreciated and have therefore taken a holding on your behalf.

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Complete Sales

→ Tencent

- Through leveraging the power of technology and smartphones, we believe Tencent is enabling connections and access to important services, providing utility to a large and growing population. Having owned Tencent in the Positive Change strategy for 3 years, we have gained more experience in how we think about the positive change that the company is delivering. Tencent's gaming business, which remains a large contributor to revenues and profits, is an area that we have long debated for its contribution to society. We have taken the decision to sell your holding in Tencent and to redeploy your capital in companies where we have greater conviction in the positive contribution they can provide to society.

→ Pigeon

- Pigeon manufactures predominantly baby-care products. We have sold the company in order to fund more exciting opportunities elsewhere. Having recently reviewed the impact that Pigeon's product has had over our holding period, we feel there are other businesses in which we have greater conviction.

*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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