

Desjardins

Emerging Markets Fund



QUARTERLY COMMENTARY AS OF JUNE 30, 2020

LAZARD
ASSET MANAGEMENT

PORTFOLIO MANAGER:
Lazard Asset Management

INCEPTION DATE:
January 17, 2007

CIFSC CATEGORY*:
Emerging Markets Equity

Contributors to performance

- Stock selection in the communication services and consumer staples sectors, as well as within India and Mexico, helped returns.
- In its first quarter results, Brazilian financial Banco BTG Pactual reported better-than-expected corporate lending revenue and stronger wealth and asset management results.
- Techtronic Industries, a Chinese manufacturer of power equipment and floor care products, including brands such as Milwaukee, Ryobi, Hoover, and Dirt Devil, has continued to hold up relatively well compared to its peers during the pandemic. Techtronic management also expressed confidence in sales growth and margin expansion in 2H 2020.
- Supported by strong sales from its Lineage mobile series and a strong pipeline of content, NCsoft Corporation, a South Korean gaming company, rebounded over the period.
- Polish gaming developer CD Projekt rebounded from its March lows after it exceeded profit expectations for 4Q 2019 and on favorable reviews for its upcoming game release Cyberpunk 2077.
- Tencent, a Chinese gaming and social media company, moved higher on optimism about an economic rebound driving advertising spending and continued strength in its mobile games.

Detractors from performance

- Stock selection in the information technology, consumer discretionary, and materials sectors, as well as within China, Korea, and the Philippines, detracted from performance during the period
- Renewed tensions between the US and China weighed on our Chinese holdings, specifically the financials Industrial and Commercial Bank of China, Ping An Insurance Group, PICC Property & Casualty, and construction materials company China National Building Material.
- BDO Unibank, the largest bank in the Philippines, underperformed on rising provisions during the quarter.

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Major changes to portfolio in the period

→ Over the period we purchased:

- BiliBili, a Chinese online entertainment platform comparable to YouTube, as we believe it will continue to grow its user base, expand its content offerings, and take advantage of monetization opportunities outside of gaming via advertising and membership;
- Lojas Renner, a leading Brazilian apparel retailer, that we believe can continue to gain market share through its differentiated product and service offering, consumer finance capability, and investment in its logistics network;
- Mercadolivre, the leading e-commerce platform in Latin America, as we believe it can capitalize on the increase in e-commerce penetration that is expected to occur over a multi-year cycle, particularly as it continues to develop its logistics network and payments ecosystem;
- Yum China, a fast-casual restaurant operator in China, as we believe its large-scale business model can adjust to operating in a coronavirus environment. Its menu is geared for delivery and off-premise consumption, and it has the potential to grow its operations across lower tier cities;
- Wuliangye, one of China's top five liquor companies, as we believe the spirits producer can benefit from Chinese consumers upgrading their liquor preferences as disposable income rises; and
- Reliance Industries, an Indian conglomerate with operations across petrochemicals, oil and gas, retail, and digital services, as partial sales of specific businesses are accelerating its de-leveraging plans and its transition to faster growing business segments.

→ We also participated in the Hong Kong secondary offering of NetEase, a China based gaming company that we have owned in ADR format.

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Major changes to portfolio in the period (cont'd)

→ We sold out of:

- Hungarian oil refiner Mol due to a deteriorating outlook for refining margins from reduced travel activity and lower demand for transportation fuels;
- Hindustan Zinc, the world's second largest zinc producer based in India, on a weaker demand outlook for zinc as well as global steel demand;
- Brazilian reinsurance business IRB Brasil Resseguros, following rumors of accounting irregularities earlier this year, false information about a sizeable stake by Berkshire Hathaway, and a management change;
- Barloworld, a South African logistics solution provider, as our view on the recovery of its Caterpillar mining equipment distribution business changed; and
- Baidu, a Chinese online search business, as the company has overinvested in new ventures, pushing out the timeline for growth.

*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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