

Desjardins

SocieTerra Canadian Equity Fund



QUARTERLY COMMENTARY AS OF JUNE 30, 2020

PORTFOLIO MANAGER:
Desjardins Global Asset Management

INCEPTION DATE:
November 15, 2017

CIFSC CATEGORY*:
Canadian Equity

Canadian stock market

Following the stock markets' major and abrupt downturn in the first quarter, they posted a solid rebound in the last three months. Encouraged by tax programs and monetary authorities' initiatives, investors seem to be anticipating that the economic slowdown caused by the pandemic will be relatively short. They don't appear overly concerned about the negative impacts of the crisis on companies' results for the current year. In fact, the stock markets continued to climb in June, and some indexes with significant exposure to the technology sector, such as the Nasdaq 100, reached new heights. For the three-month period ended June 30th, the S&P 500 rose nearly 20%, its best quarterly performance since 1998. In Canada, the S&P/TSX advanced 17%. The technology sector posted the index's best performance, up 68.2%. Shopify's stock rose by more than 118.8%. In May, Shopify outperformed Royal Bank to become the largest company in terms of market capitalization in the country. The gold sector, with a quarterly return of 50.6%, also posted solid growth. Precious metals securities were among the top contributors to the portfolio's performance during the quarter.

Worsening economic conditions and uncertainty tied to pandemic developments led analysts to adjust their estimates considerably and spurred companies to withdraw their earnings guidance for the current year. As downward pressure continues to be felt on profitability, we remain cautious and are keeping an eye on the situation.

Outlook for the S&P/TSX Composite

Based on a number of evaluation criteria, the North American stock markets aren't very attractive, and a growing number of observers are predicting a major correction. Without any alternatives, investors haven't appeared to be overly concerned by these fears, as they've continued to increase their equity positions.

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Outlook for the S&P/TSX Composite (cont'd)

Key factors to be monitored:

- The spread of the virus in certain countries and the surges in many US states;
- Trade tensions between Beijing and Washington;
- Authorities' ability to enforce social distancing measures as economies reopen;
- Developments following the events in Minneapolis;
- The rise of Democrats in the polls.

Shareholder engagement

As part of its shareholder engagement activities, DGAM carried out a number of dialogues during the quarter. During the proxy voting season, we discussed ESG issues with the board of directors and a few companies in the financial services sector. We also met with a dozen companies in the industrials, real estate, consumer and materials sectors. During these meetings, we had the chance to address ESG disclosure data, climate risk, workforce management, supply chains, diversity and other important issues. We also had discussions with all these companies about managing the public health crisis.

Portfolio positioning

We are maintaining a generally defensive position in all strategies, and we continue to favour high-quality, large-cap securities. Amid continued uncertainty, despite a strong rebound by the financial markets in the second quarter, we prefer to deploy our cash in order to purchase securities with a significant competitive edge.

In a world seeing constant change, which has been amplified by COVID-19, it's becoming increasingly clear that the ongoing adoption of new technology is critical for Canadian companies to remain competitive around the globe. We are therefore maintaining a large position in Shopify, which has benefited from the shift toward e-commerce.

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Portfolio positioning (cont'd)

Shopify is now the largest Canadian company in terms of market capitalization (\$154B) and positively contributed to the TSX's performance of 3.3% this year, following an increase of 157% as at June 30. The year-to-date return for the TSX is -9.1%, compared to -12.4% if Shopify is excluded from the index.

We also continue to benefit from our exposure to gold securities due to the price of gold, which is currently trading at its highest level since 2012. The strong rebound in silver prices, which have benefited even more from industrial demand tied to the economic reopening, is also worth noting.

For now, we are maintaining an underweighting in certain more cyclical sectors, such as financial services and basic materials. However, we've observed that copper prices and the Chinese stock markets are currently doing very well, an early indicator of the strength of the economic recovery. We will take the necessary steps in order to adjust our position in these sectors as needed.

Contributors to performance

- The following sectors contributed positively to the fund's performance: utilities (+0.91% compared with the benchmark) and energy (+0.24%).
 - Within these sectors, we note a number of securities that contributed to added value. First, in the utilities sector, Boralex Inc. saw a 24.32% return, adding 48 basis points to the overall portfolio.
 - In second position was Parkland Corp., which grew 37.15%, adding 24 basis points.

Detractors from performance

- Conversely, the materials and consumer discretionary sectors contributed negatively to the fund's relative performance (-2.44% and -0.86%, respectively).

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Detractors from performance (cont'd)

- Firstly, in the materials sector, Barrick Gold Corp. (+41.67%) reduced the fund's performance by 132 basis points due to a lack of shares in the fund.
- Secondly, Alimentation Couche-Tard Inc. (+28.42%) decreased the fund's performance by 56 basis points due to a lack of shares, as it was excluded from the investable universe.

Major changes to portfolio in the period

- The 4 main transactions that occurred over the quarter were:
- Purchase of 1.50% of Canadian National Railway Co. shares;
 - Purchase of 1.19% of Wheaton Precious Metal Corp. shares;
 - Purchase of 1.44% of Granite REIT shares;
 - Sale of 0.77% of Franco-Nevada Corp. shares

*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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