Desjardins
SocieTerra American Equity Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF JUNE 30, 2020

ClearBridge Investments

PORTFOLIO MANAGER:
ClearBridge Investments

INCEPTION DATE:
June 14, 2016

CIFSC CATEGORY*:
U.S. Equity

Contributors to performance

- → Stock selection in the information technology (IT), industrials and healthcare sectors.

Detractors from performance

- → Stock selection in the consumer discretionary and materials sectors.
- → A lack of energy holdings.

Major changes to portfolio during the period

- → Addition of Amgen (AMGN) in the portfolio with an average weight of 0.84% and a weight of 2.06% at quarter end.
  - Amgen (AMGN) is a global biotechnology company focused on oncology, cardiovascular, neurology, inflammation and bone health. Over the past decade, AMGN has developed and launched a number of innovative, first-in-class drugs that provide meaningful benefits for patients, including Repatha for cholesterol, Prolia/Xgeva and Evenity for bone health, and Aimovig for migraine. We expect the company's strategy of following the science to continue to drive the next wave of innovative pipeline launches in the early 2020s. AMGN's track record on capital allocation has generally been positive with timely share repurchases, consistent dividend growth and reasonable business development activities. The company was historically more reliant on price increases for growth but has notably reduced prices on two key launch products (Repatha and Aimovig) to improve patient access and driven patient uptake.
- → Addition of Aptiv (APTV) in the portfolio with an average weight of 0.28% and a weight of 1.44% at quarter end.
  - Aptiv is an electronic connector manufacturing company, primarily for automotive components, that benefits from growing trends of vehicle electrification as its connectors support emissions control or hybrid electrification content in EVs.

ClearBridge Investments

PORTFOLIO MANAGER:
ClearBridge Investments

INCEPTION DATE:
June 14, 2016

CIFSC CATEGORY*:
U.S. Equity

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

- Aptiv's products enable hybrid and EV automakers' efforts to meet increasingly stringent emission standards. The company also has numerous environmental initiatives in place to manage greenhouse gas emissions (which are down 11% over 2013–16) and lower water consumption and waste disposal per employee (down 17% and 23%, respectively, over 2013-16).

→ Addition of Booking (BKNG) in the portfolio with an average weight of 0.40% and a weight of 1.56% at quarter end.

- Booking is an online travel agency (OTA). While travel stocks have been hurt in 2020 due to COVID-19-induced travel restrictions, Booking's solid growth prospects, good margins and defensible moats are attractive characteristics looking past near-term disruption in travel trends.
- Booking is led by a tenured management team with a history of disciplined capital allocation and has above average governance practices versus peers.

→ Addition of T-Mobile (TMUS) in the portfolio with an average weight of 0.12% and a weight of 1.49% at quarter end.

- We initiated in T-Mobile as its merger with Sprint has put into focus its strong competitive position as the best network at the best price. The merger should add years of competitive advantages in its network and we expect the company to continue to execute well, realize substantial merger synergies and gain share overtime with the benefit of its superior spectrum position and fast 5G rollout.
- T-Mobile has a much lower carbon footprint than other telecom providers, using significantly less power than either AT&T or Verizon (2.3 Mwh relative to the 25 Mwh that T and VZ use combined), and has committed to using 100% renewable energy by 2021. This goal will likely change as it incorporates Sprint's assets (Green America rated Sprint's commitment to clean energy a D, and its progress an F on its last report card), but given T-Mobile's plans to eventually de-commission most of Sprint's existing network, this should be a significant net-positive for industry energy usage.

ClearBridge Investments

PORTFOLIO MANAGER:
ClearBridge Investments

INCEPTION DATE:
June 14, 2016

CIFSC CATEGORY*:
U.S. Equity

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

T-Mobile has also put out a target to reduce 95% in Scope 1 and 2 greenhouse gas emissions and reduce 15% per customer for Scope 3 by 2025. These are by far the most ambitious targets of any U.S. telecom company.

→ Addition of TE Connectivity (TEL) in the portfolio with an average weight of 0.56% and a weight of 1.47% at quarter end.

- TEL makes connectors for a wide range of uses from automobiles to data centers and medical devices. In addition to consistently outgrowing light vehicle production as electronic content per vehicle continues to grow, TEL is a major beneficiary of the secular trend of vehicle electrification (EV), enjoying double the per-vehicle content for EVs compared to traditional internal combustion engine vehicles.
- TEL has best-in-class environmental policies that complement its impact as it supports the broad growth of EVs. The company has reduced its energy use intensity by 30% and reduced its greenhouse gas intensity by 38% over the past decade. The manufacturing process for connectors is also very water intensive, but the company has been able to reduce its water usage by 30% over the past decade as well. The company has been working to improve its commitment to responsible sourcing and has been working to find alternatives to problematic materials such as cobalt for enablement of EVs, despite the fact that cobalt is not a directly sourced material for TEL itself.

→ Sale of U.S. Bancorp (USB) from the portfolio with a beginning weight of 1.46% and an average weight of 0.02%.

- U.S. Bancorp is a super-regional bank based in the U.S. mid-west and west. Lower-for-longer interest rates will be a headwind to U.S. Bancorp.

→ Sale of Xylem (XYL) from the portfolio with a beginning weight of 1.57% and an average weight of 0.78%.

ClearBridge Investments

PORTFOLIO MANAGER:
ClearBridge Investments

INCEPTION DATE:
June 14, 2016

CIFSC CATEGORY*:
U.S. Equity

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

- Xylem has been negatively impacted by the downturn in municipal fundamentals due to the pandemic. This is a critical end market and the visibility into improvement is poor. Additionally, Xylem has mis-executed during the last several quarters, revising estimates down a number of times, which has caused our confidence in management to deteriorate.

→ Sale of Colgate-Palmolive (CL) from the portfolio with a beginning weight of 1.78% and an average weight of 1.23%.

- We are expecting Colgate-Palmolive to face significant FX headwinds that will affect top and bottom lines and supply chain disruptions; given the breadth of Colgate-Palmolive's emerging market distribution, it is disproportionately exposed to disruptions in these markets, particularly India and Brazil. These headwinds should considerably impact EPS for the near term, and given a valuation we view as full we exited our position.

→ Sale of Starbucks (SBUX) from the portfolio with a beginning weight of 1.97% and an average weight of 1.84%.

- Starbucks is improving from COVID-19-induced setbacks, but results are somewhat disappointing compared to some competitors. Results reflect SBUX's morning daypart exposure, higher metro exposure, lower drive thru exposure, and higher dine-in exposure in an environment where morning routines to school/work remain disrupted, whereas other competitors are benefiting from the convenience of drive-thru/delivery for the lunch and dinner dayparts. Lowering our estimates to also reflect worse international, US store closures, and higher interest expense, we exited our position.

ClearBridge Investments

PORTFOLIO MANAGER:
ClearBridge Investments

INCEPTION DATE:
June 14, 2016

CIFSC CATEGORY*:
U.S. Equity

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

→ Sale of Merck (MRK) from the portfolio with a beginning weight of 2.91% and an average weight of 1.54%.

- Merck delivered mixed clinical results for its leading cancer immunology drug, Keytruda, in a phase 3 trial treating small-cell lung cancer. Lacking this catalyst, we felt there was better opportunity elsewhere in the market.

*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/.