

Desjardins

SocieTerra Emerging Markets Equity



QUARTERLY COMMENTARY AS OF JUNE 30, 2020

COMGEST

PORTFOLIO MANAGER:
Comgest

INCEPTION DATE:
September 5, 2018

CIFSC CATEGORY*:
Emerging Markets Equity

Contributors to performance

- The fund's security selection allowed it to advance more than the index, despite the rebound in the oil and commodity sectors, in which the fund is underweighted (limited visibility of these sectors).
- Similarly, although the fund is overweighted in the financial sector, the absence of institutions solely dedicated to banking activities proved to be beneficial.
- The selection of securities in overweighted Korea (see below) and Brazil, also overweighted (e.g., Localiza, B3, Weg), sustained performance during the quarter and the Russian positions recovered. Mail.ru benefited from the announcement of its IPO in Moscow, which should allow it to increase its liquidity.
- The top three contributions were made by communications services sector securities: Naver, NetEase and NCSoft.
- In Korea, Naver posted solid results in Q1 2020, with sales up 16%. The shareholder compensation policy improved with a return of 30% of the average FCF over two years, of which 5% is in dividends and the rest is in share redemptions. Lastly, before the pandemic, the average transaction value (GMV) was up 20%, while it is now up 50–60%.
- China's gaming publisher NetEase released solid results for 2019 and reaffirmed its positive outlook. While social distancing and quarantines led to an increase in the demand for games, the company was already benefiting from satisfactory operations. Based on current data, we do not expect an expansion of its domestic market share (which is already 20%), but the potential for growth abroad is significant. Its Korean counterpart, NCsoft, ranked third in terms of contribution to performance. In Q1, sales reached a record level with the launch of Lineage II Mobile. Here again, the company was already doing well before the COVID pandemic thanks to the successful transition from PC games to mobile games in recent years. NCsoft's interest lies in its pipeline, which is stronger than ever, in terms of the number of new products being developed and the potential for geographic expansion.

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Detractors from performance

- After relatively high performances in the first quarter, Chinese equities fell behind those of other emerging markets, with a particularly weak performance by insurance companies including Ping An Insurance and China Life.
- BBSE's Q1 2020 results were disappointing due to financial results that were well below expectations at Brasilprev, its pension division. Part of this weakness is one-off, and the trend should reverse in the coming quarters. Most of the products are sold through Banco do Brasil agencies, some of which were closed for a few weeks; the company therefore suspended its forecasts. However, the results released in April and May were close to pre-COVID levels, reassuring investors who welcomed the company's statements that the wave reached its lowest point in Q1.

Major changes to portfolio in the period

- Purchase of Coca-Cola Icecek.
- Strengthening of Korean cosmetics giant LG H&H and Housing Development Finance Corporation (HDFC), India's largest mortgage lender. Strengthening of long-term positions due to weak prices, including Sanlam.
- Sale of Samsung Life due to the prolonged drop in interest rates and MTN, as its largest market, Nigeria, will face significant pressure after the sharp drop in oil prices.
- Reduction of Brazilian industrial firm WEG in the wake of the sharp rise in its share price.

*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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