Desjardins Global Equity Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF JUNE 30, 2020

LAZARD ASSET MANAGEMENT

PORTFOLIO MANAGER:
Lazard Asset Management

INCEPTION DATE:
July 25, 2018

CIFSC CATEGORY*:
Global Equity

Contributors to performance

→ Stock selection in Utilities and Real Estate:

- A lack of exposure to utilities and real estate contributed to performance, as the sectors lagged the MSCI ACWI Index during the period.

→ Stock selection in Financials:

- In the financial sector, shares of financial data and ratings provider S&P Global continued to rise after the company reported quarterly earnings above expectations in late-April, driven by solid results across its businesses, with credit ratings delivering especially strong performance.

Detractors from performance

→ Stock selection in Consumer Discretionary:

- Stock selection and an underweight in consumer discretionary sector detracted from performance. Catering services provider Compass, a diversified and high return on capital business, has experienced direct impact from the virus-driven lockdown due to its sporting events and convention business essentially not operating. The company made the difficult decision to sell additional equity to strengthen their balance sheet during these uncertain times, which weighed on investor sentiment. We continue to have confidence in the company's best-in-class business model and strong financial productivity, which is supported by structural outsourcing trends.

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Detractors from performance (cont'd)

→ Stock selection in Consumer Staples:

- Stock selection in the consumer staples sector also detracted from performance. Shares of Coca-Cola Company lagged, due to concern over the company's vulnerability to global shutdowns in their restaurant and convenience store channels and material weakness in emerging markets currencies. The company's restaurant business, which has higher profit margin than their overall business, has been hardest hit and slowest to recover amid COVID-19. We continue to hold the shares due to their high levels of financial productivity and believe their refranchising and volume-to-value strategy and will continue to improve profitability. Additionally, shares of Tesco fell as investors saw margin pressure from supply chain difficulties, product mix and costs associated with social measures. We continue to see upside in the valuation for Tesco, as competitive dynamics modestly ease and the company shows clear signs of capital discipline.

Major changes to portfolio in the period

→ In the consumer discretionary sector, we initiated a position in Sands China Ltd, a Macau casino and resort owner/operator as recent weakness in the shares due to temporary COVID-19 shutdowns provide an attractive entry point. While there remains uncertainty in the pace of recovery of the entertainment industry and trade tensions between the US and China, the risk-reward dynamics favor Sands China. The company benefits from Chinese regulation limiting gambling to Macau. As one of six licensed casinos in Macau, the company enjoys a supply-constrained landscape, tailwinds from rising living standards and improving transportation infrastructure to Macau. Sands China has the least exposure to low-margin VIP business, a solid balance sheet and specific capacity-related growth drivers that we believe will provide upside in share price.

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

→ In the industrials sector, we initiated a position in the world's largest wind turbine producer Vestas Wind Systems. Vestas is a market leader in this attractive industry with the best capital efficiency, cost flexibility and balance sheet. The offshore wind market shows strong long-term growth prospects, as many countries implement wind energy targets, and governments focus on environmental policies as part of COVID-19 economic stimulus plans. Vestas has a high ROE and a very strong balance sheet and is benefiting from a shift in their business toward more profitable servicing contracts. As the market for renewable energy expands and barriers to entry rise, we see significant room for Vestas to benefit from its market leading position.

→ In the information technology sector, we exited our position in Cisco Systems which had performed well through the volatility in recent months. While parts of Cisco's business benefited from increased working from home, network spending by large corporate customers is likely to stay depressed until there is greater clarity on the outlook for the pandemic and, by extension, the global economy.

→ In the healthcare sector, we exited our positions in Novartis to rotate capital into higher conviction opportunities which have become more attractive in the recent volatility. In addition, Novartis faces several challenges due to the COVID-19, including inhibited product launches and weakness in certain businesses as patients postponed treatments that required a trip to a medical facility.

*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/.