

Desjardins

SocieTerra Positive Change Fund



QUARTERLY COMMENTARY AS OF JUNE 30, 2020



PORTFOLIO MANAGER:
Baillie Gifford

INCEPTION DATE:
September 5, 2018

CIFSC CATEGORY*:
International Equity

Contributors to performance

- **Tesla** was once again among the top contributors to performance. After a period of uncertainty, the Californian plant reopened in May with safety measures in place. At the new factory in Shanghai resumed full production in February, volumes continue to rise, and costs continue to fall, enabling Tesla to reduce prices and expand margins. We remain optimistic that there is sufficient long-term demand to meet this robust production; For example, the Model 3 became the top selling car in the UK in April.
- Latin American company **MercadoLibre** saw its share price rally on the back of strong growth on its e-commerce platform, and online payments volumes continuing to rise as the stay-at-home economy pushed consumers to digital solutions.

Detractors from performance

- Over the quarter **Xylem**, the water equipment and solution provider, experienced delays to utilities projects with factory shutdowns and spending delays. Xylem's competitive advantage stems from its technology and innovation. Longer term growth is expected from the maintenance and repair of existing water infrastructure in developed markets, the build-out of new water infrastructure in developing markets, as well as greater emphasis on water conservation.
- Despite ending the quarter in positive territory, **Sysmex**, the Japanese medical testing company, was a relative detractor over the period given the strength of the market. Sysmex has superior technology and a good chance of launching new and differentiated products. In March, the company announced that it had obtained the first marketing approval in Japan for a COVID-19 testing kit. We are pleased that Sysmex is among the many companies in the portfolio that is assisting in the fight against coronavirus.

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Major changes to portfolio in the period

- Your Baillie Gifford Positive Change portfolio follows a long-term investment strategy – as such no changes have been made during the quarter
- Being bottom-up stock pickers, any changes are for stock specific reasons
- New purchases:
 - **Beyond Meat** – Beyond Meat is a leading company in the plant-based meat market. Studies suggest that regular consumption of animal meat has many undesirable consequences, including increased risks of cancer and cardiovascular diseases and harmful environmental impacts. Awareness of those factors are increasing and are driving higher demand for plant-based alternatives. Historically, the barriers to adoption have been taste and price. Beyond Meat is aiming to change this by replicating the sensory experience of eating animal meat with plant-based proteins whilst simultaneously driving down costs to below that of animal meat. If successful, Beyond Meat could unlock a large growth opportunity for plant-based meat. An encouraging sign is that 93% of the consumers who bought Beyond Meat products in a US supermarket chain were meat-eaters, demonstrating Beyond Meat's broad appeal. Beyond Meat's competitive advantage comes from a combination of brand, pace of innovation and scale. In particular, Beyond Meat has high brand awareness thanks to its early mover advantage and brand ambassadors. This is reinforced by prominent shelf spaces in supermarkets and restaurants who market the Beyond Meat brand on their menus. We believe that there is a decent probability that Beyond Meat could continue to grow at a high pace for many years to come, and in the process, drive increasing demand for plant-based meat and generate attractive returns for shareholders. As a result, we have taken a holding in the company on your behalf.

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

- **Alibaba** – Alibaba is a leading company in China's digital economy. It is the largest e-commerce business in the country by a significant margin and is emerging as a leading provider of cloud-based services. We believe that Alibaba will play an important role in developing China's digital economy, which will bring numerous benefits such as improving access to services, widening financial inclusion and improving efficiency of the economy. The growth opportunity for Alibaba is significant and the opportunity in e-commerce alone can justify the current valuation. In addition, we believe that the entrepreneurial management team will generate significant value for shareholders over the long-term through innovation and new products and services.

→ Complete sales:

- **Signify** – We initially took a holding in Signify based on the potential of a successful transition from a legacy incandescent light bulb business to a growing LED lighting business with a much wider variety of end uses. Despite some signs of success, growth in the LED lighting business has been mostly offset by the decline of the legacy incandescent light bulb business. We no longer believe that Signify can meet the growth hurdle over our investment horizon, and have therefore decided to sell the holding and reinvest the proceeds in companies in which we have greater conviction.

*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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