

Desjardins

SocieTerra Emerging Markets Equity



QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2020



PORTFOLIO MANAGER:
Comgest

INCEPTION DATE:
September 5, 2018

CIFSC CATEGORY*:
Emerging Markets Equity

Contributors to performance

Security selection helped the fund outperform the benchmark.

Despite an underweighting in the portfolio, China posted strong results, and securities in funds such as Autohome and NetEase contributed to the fund's performance. In fact, China will likely be the only major economy in the world to grow in 2020, enabling Mongolia Yili, Midea and SAIC to make highly positive contributions to performance, in addition to posting impressive operational performances and results in Q2 2020.

TSMC saw stellar results in the second quarter, with sales forecasts for 2020 up by more than 20% despite the public health crisis and the loss of Huawei, a major client.

A clear trend is emerging – new economy stocks are taking off. The technology sector and certain communication services and ecommerce stocks, such as Alibaba, posted slightly stronger performances.

Chinese dairy group Yili fared very well. In the first quarter of 2020, problems with inventory and distribution channels had eroded its profitability. These trends were reversed in the second quarter of 2020 as competition was reduced and the company was able to generate growth thanks to new products and expanded distribution channels. In addition, the government is currently running a campaign about milk that promotes its health benefits.

Detractors from performance

The main performance drags were companies operating in defensive sectors or in countries with weak currencies. The depreciation of the Brazilian real harmed companies like CCR and BBSE, which generate all of their revenue from the domestic market. PT Telkom Indonesia was the main detractor from performance. As a telecommunications company, which is considered defensive, it underperformed a growing market driven by higher beta stocks.

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Major changes to portfolio in the period

- Purchased Shandong Weigao.
- Increased HDFC, India's main mortgage lender, and LG Household and Healthcare, a high-end Korean cosmetics brand with a solid growth outlook in China.
- Reduced discount retailer BIM. The company posted excellent results in the second quarter of 2020: sales were up 40% over the previous year; earnings before interest, taxes, depreciation, and amortization (EBITDA) were up 58%; the EBITDA margin was up 9.6%, or 130 basis points. However, the situation in Turkey is reason for caution.
- Reduced B3 in Brazil, Inner Mongolia Yili, Mail.ru, TSMC and NetEase, whose valuations had become excessive, and Indian software supplier Infosys for the same reason.

*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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