Desjardins
SocieTerra American Equity Fund

QUARTERLY COMMENTARY AS OF DECEMBER 31, 2020

PORTFOLIO MANAGER:
ClearBridge Investments

INCEPTION DATE:
June 14, 2016

CIFSC CATEGORY*:
U.S. Equity

Contributors to performance

→ Stock selection in the information technology (IT), utilities, communication services, consumer discretionary and industrials sectors

Detractors from performance

→ Stock selection in the health care, real estate and materials sectors

Major changes to portfolio in the period

→ Addition of Array Technologies (ARRY) in the portfolio with an average weight of 0.17% and a weight of 0.99% at quarter end.

- Array Technologies is an equipment manufacturer that makes trackers and associated software for ground-mounted solar projects. Trackers align the panels with the sun throughout the day. The company has patent protection (10 years left) on its version of the technology, which includes a combination of motors, gearboxes, driveshaft and clutch at the panel. Tracker is ~12% of solar project cost.
- We expect U.S. ground-mounted panel installations to grow 16GW in 2020 to 19.6GW by 2023—6% CAGR. Array's business should grow high single digits, driven by increased market penetration of trackers (70% currently up from 60% in 2017) and continued growth in its market share. The international growth story is also meaningful.
- Array has strong environmental attributes, offering a key enabling technology with the lowest levelized cost of energy (LCOE). A study published by the Solar Energy Research Institute of Singapore in July 2020 found that single-axis trackers with bifacial solar panels would deliver the lowest LCOE of any mounting system across 93.1% of the world's land area and that single-axis trackers with monofacial solar panels would deliver the second-lowest LCOE of any mounting system across 87.9% of the world's land area.

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

→ Addition of CVS Health (CVS) in the portfolio with an average weight of 0.61% and a weight of 2.03% at quarter end.

- CVS Health (CVS) is a leading health care services company created as the result of the 2007 merger of CVS drug store chain and Caremark Rx pharmacy benefit manager (PBM). CVS acquired health insurer Aetna for about $70 billion, helping it compete as a large vertically integrated health care services company with a new business model aimed at providing better health outcomes at lower costs. CVS has a unique set of assets consisting of 10,000 retail pharmacies, 90 million lives covered by the Caremark PBM and over 22 million Aetna health plan members. CVS has scope and scale to play an active and constructive role as the industry transforms. CVS has a unique set of assets and a strong forward-thinking management team that should be able to adopt to the ever-changing health care services landscape.
- CVS is well-positioned to help define the future of health care in terms of its costs, quality and convenience. Its physical locations remain quite valuable as they can function as consumer-centric health hubs where pharmacists may serve as trusted advisers. Its ability to help administer COVID-19 vaccines, ensuring compliance will aid in solving the pandemic and should help establish CVS's health hub strategy, focused around its Minute Clinics' expanded services, which include chronic care (for example for hypertension, depression and overall wellness). CVS's new CEO is very supportive of this strategy, which should lower costs, lower premiums and gain share.
- CVS has long been a leader among healthcare services peers with respect to its consideration of and commitment to social issues. As CVS transitioned its identity from a retail to a health care company, it led the industry in eliminating business lines, like tobacco and vaping supplies, that were inconsistent with its health care mission, and willingly sacrificed profits to do so. CVS has been forward thinking about the evolution of its business and willing to take radical action to keep its economic model ahead of competitors. CVS was the first company to combine drug retail and PBM services, as well as to further integrate into health insurance benefits.

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

→ Addition of Marriott International (MAR) in the portfolio with an average weight of 0.95% and a weight of 1.87% at quarter end.

- Marriott (MAR) encompasses a portfolio of more than 7,400 properties under 30 leading brands spanning 135 countries and territories. As one of the largest global players, MAR benefits from scale, desirable brands and a strong customer loyalty program, positioning the company well to continue to grow its market share in the years ahead.
- The travel industry has come under tremendous pressure during the pandemic with occupancy and revenue down substantially; however, due to a capital-light business model and royalty/fee-based revenue streams, the company remains financially healthy and stands to benefit as demand returns.
- Marriott's sustainability goals are focused on carbon and water intensity reduction. While it is still prioritizing some sustainability goals, the largest areas of improvement appear to be with the company's goal to reduce waste, primarily through the reduction of single-use plastics. The company is also transitioning toward larger pump-style soap/shampoo dispensers in hotels and maintaining its partnership to recycle single-use soaps with Clean the World. 17% of seafood is sourced sustainably and 77% of paper product is sourced sustainably. While at times there are some challenges in getting owner-operators to deploy initiatives, the company appears to be on track with its goal of 100% of hotels certified by a recognized sustainability standard with 36% of hotels currently certified.

→ Addition of Morgan Stanley (MS) in the portfolio with an average weight of 0.30% and a weight of 1.67% at quarter end.

- Morgan Stanley is a leading bank holding company offering a variety of financial services worldwide, and is one of the largest broker-dealers, investment banks and wealth managers in the U.S. The recent acquisitions of E*Trade and Eaton Vance increase the recurring revenue streams and lowers its capital

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

requirements, which we think will result in a higher valuation on the business over time and should help it generate better than industry growth in AUM. We believe MS is well-positioned to return excess capital to shareholders over the next 1–2 years.

- Morgan Stanley has been a leader in helping direct capital to address global sustainability challenges. Its sustainability efforts include capital markets actions such as issuing green bonds, helping wealth management and investment management clients. It was early in its support for sustainability in investing and its concern for the environment. It has committed to carbon neutrality across its operations by 2022 and committed to reaching net-zero financed emissions by 2050 by providing financial and advisory support to facilitate the transition to a low-carbon world.
- It also has strong governance structure in place, with 11 of 14 directors independent and 13 of 14 non-management members. Only two directors have been on the board for more than 8 years. It also has a separate Chairman and CEO, which has worked well for shareholders. It has a good record managing risk, including cybersecurity and protecting clients' data.
- Employees are the most important assets of the company and this is evident in the company's care for and development of its workforce. Progress has been made on diversity, but there is room for further improvement.

→ Addition of Resideo Technologies (REZI) in the portfolio with an average weight of 0.05% and a weight of 0.98% at quarter end.

- Resideo Technologies is a home electronics company spun off from Honeywell that focuses on mostly residential comfort, thermal and security solutions and maintains an installed base of over 150 million homes. The spin-off management team launched a series of connected DIY-type devices to position itself as a smart home play but neglected its core professional installer customer in the process. New management from private equity plans to refocus on the professional installer and outsource manufacturing.

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- While historic operations have resulted in a $140 million a year environmental reimbursement obligation, most of Resideo's products enable energy and water conservation and should grow with as they enable sustainability in the home.

→ Addition of Vital Farms (VITL) in the portfolio with an average weight of 0.51% and a weight of 0.80% at quarter end.

- Vital Farms is a leader in the fast-growing niche of pasture-raised eggs. The company primarily sells premium pasture-raised shell eggs and is expanding into adjacent categories within dairy. Vital is a Certified B Corporation — described as a business that balances profit and purpose to meet the highest verified standards of social and environmental performance, public transparency and legal accountability — and is focused on sustainable agriculture. Given the growing appetite by U.S. consumers for traceable, sustainable and humanely treated food, Vital Farms is in a unique position as the largest producer of pasture-raised eggs (76% market share) and butter.
- Committed to conscious capitalism, Vital prioritizes the long-term benefits of each of its stakeholders (farmers and suppliers, customers and consumers, communities and the environment, crew members and stockholders). Business decisions consider the impact on all stakeholders, in contrast with the factory farming model, which principally emphasizes cost reduction at the expense of animals, farmers, consumers, employees, communities and the environment.
- Vital maintains a high level of supply chain responsibility (including labor and environmental responsibility). In its Springfield, Missouri processing plant, Egg Central Station, it invests in employees (daylighting, climate control, slip resistant floors in the egg grading room) the community and environment (consulting with the community before it built the facility, restoring native vegetation on the property, best-in-class storm water management) and customers and consumers (making food safety and maintenance investments far beyond regulatory requirements).

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→ Addition of Workday (WDAY) in the portfolio with an average weight of 0.94% and a weight of 1.35% at quarter end.

- Workday is a software-as-a-service (SaaS) and cloud company focusing on enterprise resource planning (ERP) applications, consisting of transactional applications that run the back office. Workday's next-generation SaaS-based ERP suite should continue to take share of this large market indefinitely, with the rising tide of digital transformation as a key driver, and WDAY's uniquely customer-centric stance and reputation as an early pioneer of true SaaS-based ERP suite allowing it to build upon its early successes.
- Workday is focused on reducing its carbon footprint and investing in renewable energy programs to offer a carbon-neutral cloud. It achieved 100% renewable electricity for the first time in FY19 and continues to work to achieve net-zero carbon emissions by 2021.
- Workday's employee-first culture leads to it being highly rated on best-company-to- work-for lists. Its Opportunity Onramps provides training, internships and job opportunities for non-traditional candidates from diverse backgrounds.

→ Sale of Automatic Data Processing (ADP) from the portfolio with a beginning weight of 1.34% and an average weight of 0.29%.

- We exited Automatic Data Processing to fund our purchase of Workday. The company had accomplished many of the self-help initiatives to improve its margins and returns, and we thought it was fairly valued.

→ Sale of Brookfield Renewable (BEPC) from the portfolio with a beginning weight of 0.54% and an average weight of 0.25%.

- We exited our holdings in C-corp shares of Brookfield Renewables, preferring to hold units of Brookfield Renewable Partners LP.

→ Sale of Alphabet (GOOGL) from the portfolio with a beginning weight of 2.50% and an average weight of 1.78%.

- The formal launch of a Department of Justice investigation, as well as different state lawsuits, created an overhang on Alphabet that we think will serve to limit capital appreciation.

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→ Sale of Vail Resorts (MTN) from the portfolio with a beginning weight of 0.91% and an average weight of 0.16%.

- We bought Vail Resorts prior to the pandemic and needed to recalibrate our expectations of how the company will perform with substantial operating and travel restrictions in place. We exited once the stock recovered to a level we thought represented fair value.

→ Sale of Ormat Technologies (ORA) from the portfolio with a beginning weight of 1.18% and an average weight of 1.29%.

- Ormat is a geothermal power producer. We sold the stock over concerns that investment in utility-scale battery storage is crowding out new geothermal investment in California and other key markets for Ormat.

→ Sale of Rockwell Automation (ROK) from the portfolio with a beginning weight of 1.34% and an average weight of 1.13%.

- After strong performance, we took the opportunity to exit Rockwell Automation at what we considered fair value.

*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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