Desjardins
Overseas Equity Growth Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2022

BAILLIE GIFFORD

PORTFOLIO MANAGER:
Baillie Gifford

INCEPTION DATE:
March 23, 2010

CIFSC CATEGORY*:
International Equity

Contributors to relative performance

- The holdings in MercadoLibre, Tesla and Ferrari generated positive share price returns on the back of strong operational performance.
- MercadoLibre is Latin America's largest e-commerce business. In August, the group reported a solid set of second quarter results, showing continued growth. Following our investors' trip to Latam, we remain enthusiastic about the investment case.
- Following a strong decline in its stock price during the first half of this year, Tesla's shares reacted positively to the release of the company's second quarter results in late July. Despite limited production and shutdowns in Shanghai, the company's net income nearly doubled as it delivered 27% more cars than a year ago whilst expanding its margins. Interestingly, its new factories in Berlin and Austin continued to ramp up production during Q2.

Detractors from relative performance

- The world is currently experiencing a 'polycrisis'. The interrelated stresses of war, supply chain disruption, geopolitical tension, inflation shock and change to the interest rate landscape constitutes a tough environment for investing in international growth equities. In this context, the prices of many stocks in the fund declined further during the third quarter.
- Stocks which underperformed in the third quarter included Ocado, Tencent and Alibaba.
- Ocado's share price reacted negatively to the group's trading update in mid-September. Its third quarter sales only rose slightly year-on-year as consumers "shopped smaller baskets and sought value-for-money items" in a rising inflation environment. The group is also facing cost headwinds. Management reduced their guidance for the year and are now expecting a small sales decline.

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Detractors from relative performance (cont'd)

→ Tencent is China's largest social media and gaming company. Its first half results reported in August were lacklustre. Tencent recently participated in the consolidation of the games sector by securing a deal giving it the option to raise its current stake in Ubisoft, France's biggest games developer. Tencent's growth potential remains good. The group has plenty of growth opportunities in the cloud-based enterprise software market.

Major changes to portfolio in the period

This is a long-term portfolio and there were no major changes to overall positioning.

→ New purchases

- Elastic – Elastic is a software business whose core product is enterprise search. This market is highly distinct from the consumer search market with which we are familiar, and is characterized by high volumes of complex, unstructured data. Those data then feed into other functions, such as observability and security, which Elastic has built products to serve. Elastic has a distinctive culture stemming from its open-source history, which we believe gives it a low-friction route to market and access to the innovation efforts of a large development community. We believe the company has a long growth runway and a strong competitive position. We have therefore taken a holding.
- Nu Holdings Ltd. – Nubank is a Brazilian neobank that aspires to reshape the Latin American financial system. Existing customers are poorly served by a system that leaves large numbers unbanked and which has been able to earn far higher returns than in many markets. This is a consequence of historically volatile economic conditions and a degree of regulatory capture. Nubank has managed to acquire tens of millions of customers in short order, and seems well placed to undercut incumbents while also providing a better service. A recent visit to South America confirmed our belief that Nubank is a distinctive enterprise with a long growth runway, a durable cost advantage over incumbents, and a highly motivated and thoughtful leadership team. We have therefore taken a holding.

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- Wise Plc – Wise (previously Transferwise) is a UK-based fintech company that was established in 2010 and listed in 2021. Its purpose is to improve the efficiency, transparency and cost of international money transfers for both individuals and businesses. We think Wise's strong customer proposition provides a long runway for continued growth. In the long run, it has the opportunity to develop into an essential infrastructure layer for the global money-transfer market. We owned Wise in our private company portfolios prior to it coming to market, and believe that the ~50% price decline from its IPO offers an attractive opportunity to take a holding in this disruptive, entrepreneurial business.

→ Complete sales

- Inditex – Inditex, the European fast fashion retailer and owner of brands including Zara, has secured an impressive share of its market and continues to execute well. Its genuinely distinct business model and culture have interacted to create a durable competitive advantage. However, the structure of the fast fashion supply chain raises worries that the industry may see its growth shrink in the coming decade as consumers seek out more sustainable alternatives. Additionally, while Inditex has adapted to online shopping, we suspect that its e-commerce offering is less differentiated relative to competitors. Given increasing competition for capital in the portfolio, we have therefore sold your holding to invest in companies where we have higher conviction and whose share prices have fallen further in the recent period of market weakness.
- Ping An Insuance – PingAn is an admirable company with a structural growth opportunity in the Chinese insurance market. It also has further potential to become an

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

infrastructure provider for other financial companies. However, our work into some of its other tech ventures and subsidiaries has dampened our conviction in the possibility of PingAn being a real outlier investment. We have therefore decided to sell your holding and redeploy the capital into areas with higher upside potential over the long term.

*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/.