

# Desjardins Overseas Equity Growth Fund



QUARTERLY COMMENTARY AS OF DECEMBER 31, 2022



PORTFOLIO MANAGER:  
**Baillie Gifford**

INCEPTION DATE:  
**March 23, 2010**

CIFSC CATEGORY\*:  
**International Equity**

## Contributors to relative performance

- The holdings in Moderna, Zalando and ASML contributed positively to performance.
- Zalando's share price reacted positively to the release of its third quarter results. Europe's largest inline fashion company exceeded 50 million active users for the first time. Those results also showed that management are working increasing profitability.
- The share price of ASML, the Dutch lithography machines manufacturer, reacted positively to both the reporting of its Q3 results and its Capital Markets Day. Its sales and gross margin came above management guidance, and it reported record net bookings. The semiconductor market is expected to double in size in the ten years to 2030, driving an increase in global demand for wafers. To meet this future demand, management adjusted the group's production capacity. They also provided the market with new 2030 targets for sales growth and gross margin improvement. As a key enabler of digitisation, the long-term outlook for ASML is positive.

## Detractors from relative performance

- Geopolitical and macroeconomic headwinds continued to dominate during the fourth quarter. In response to profound global shocks, central banks carried on increasing interest rates. In this context, we did not change our investment approach.
- Stocks which contributed negatively to performance included Tesla, Spotify and M3.
- The share price of Swedish music streaming company Spotify weakened following the reporting of its third quarter results. The group grew the number of premium subscribers at a double-digit rate year-on-year, which was still surprisingly resilient. But the growth in advertising revenue began slowing down, coming below management's expectations in a challenging macro-economic environment. We still believe in the long-term blue-sky for Spotify as it is still early in terms of monetisation of audio. But we fear there could be further short-term weakness to come as the cost-of-living crisis might cause people to switch to free, albeit lower quality, music streaming services.

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## Detractors from relative performance (cont'd)

- Wix is a cloud-based website development platform. It provides website templates that allow small and medium size enterprises to build professional-quality websites easily. Whilst its Q3 revenues were better-than-expected, its bookings fell short of expectations. Its exposure to SME formation and management near-term focus on cost control, seem to make the market sceptical of Wix's ability to meet management revenue target of \$2.5bn by 2025. We remain confident in the group's long-term growth opportunity. SMEs will carry on needing websites, and so will web agencies, which management have actively been targeting as they represent an even bigger growth driver.

## Major changes to portfolio in the period

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

- New purchases
  - Ganfeng Lithium Gp – Ganfeng Lithium is the leading Chinese lithium company, and number three worldwide. The investment case is predicated on structural growth in demand for lithium over the next decade as the energy transition continues. Ganfeng has a strong and improving position in the market, is expanding production and is also developing a recycling business.
  - AutoStore Hdgs – AutoStore is a Norwegian manufacturer of warehouse automation equipment. We believe that the company benefits from a number of long-term tailwinds. These include increased labour shortages, rising e-commerce penetration, and the falling cost of robotics.
  - Mobileye Global Inc. – Mobileye is an Israel-based ADAS (Advanced Driver Assistance Systems) technology group. We used to be shareholders on behalf of clients until Intel's acquisition in 2017. Since then, we have been impressed by the company's progress, both commercially and technologically. Using its strong position in ADAS, Mobileye has laid out a credible and arguably unique pathway towards autonomous driving.

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

- Prysmian – Prysmian is an Italian manufacturer of underground and submarine electrical cables for the telecoms and energy sectors. The cable industry has been characterised by a stable competitive environment, a high degree of capital intensity, and moderate growth. We believe the growth potential is increasing, as our global energy systems shift to a model based on renewables.
- Complete sales
- MorphoSys AG – Morphosys is a German biotech focused on the discovery and development of antibodies for a range of currently incurable diseases, including many blood cancers. Our original thesis was that it could transition from a drug discovery platform to a fully integrated biopharma company selling its own drugs. Having waited for more than five years, our patience has now run out. We have lost faith in the new management team, which has seen a high level of turnover indicating something is not quite right with the internal culture. Morphosys' business model has also shifted from R&D to M&A, which is a significant change and inconsistent with our investment case.
  - Alibaba Group Holding – Growth in Alibaba's core e-commerce business has significantly slowed, as the company faces rising penetration and increased competition. This was largely anticipated. The investment case has increasingly been predicated on success in new initiatives, notably cloud computing. While we believe there remains a large opportunity from the under-penetration of cloud services in China, as we have seen with AWS in other markets, the competitive landscape is notably less favourable. This combination of slower growth in the core

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

and tougher competition in the cloud business means that the prospect of extreme share-price upside from this point is diminished. We have therefore decided to sell your holding.

\*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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