

Desjardins SocieTerra

Global Opportunities Fund



QUARTERLY COMMENTARY AS OF JUNE 30, 2023

IMPAX Asset Management

PORTFOLIO MANAGER:
Impax Asset Management

INCEPTION DATE:
September 10, 1990

CIFSC CATEGORY*:
Global Equity

Contributors to relative performance

Contributors came from a variety of sectors but were characterised by good earnings delivery and positive outlooks. Information Technology was the largest contributor as semiconductor related holdings performed well and benefitted from interest in increased use cases for artificial intelligence (AI). Financials and Industrials also contributed, with Industrial holdings rallying as inflation continued to abate and recession fears receded.

- **Microsoft (Systems Software, US)** rose due to continued investor optimism regarding the company's ability to benefit from recent AI innovations through both the provision of cloud computing power through their Azure platform, together with impressive integration of AI solutions into the Microsoft product suite. The stock has also benefitted from 'safe-haven' status due to the company's strong balance sheet and ability to generate positive free cash flow.
- **Alcon (Health Care Supplies, Switzerland)**, which is a leading player in cataract surgical equipment, announced revenues above expectations and strong, double-digit growth in four of its five divisions. The outlook for the company also looks positive, demonstrating its relative defensiveness against a more uncertain environment.
- **IQVIA Holdings (Life Science Tools & Services, US)** a contract research organisation (CRO) focussed on patient trials for pharmaceuticals, experienced headwinds earlier in the year from concerns over biotech funding and the impact of higher interest rates. The company has announced strong results which showed growth in its core businesses. Sentiment towards the sector and the stock has improved as these concerns fade and focus returns to the growth opportunities.

Detractors from performance

Negative contribution came from Consumer Discretionary, where the Fund's auto component exposure fell due to weaker sentiment towards the sector. Several companies in the fund have experienced inventory corrections in parts of their business as a result of post-Covid inventory adjustments, or in some cases due to lower end market demand. Life science tools companies in general are under pressure in the market as post-covid de-stocking trend has clouded demand visibility for products.

- **Sartorius (Life Sciences Tools & Services, Germany)** makes single use technology (SUT) drug fermentation bags used in bio-manufacturing. The bags offer manufacturers greater flexibility and help speed the time to

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Detractors from performance (cont'd)

market in drug development, but inventory destocking has resulted in a lower orders trend and poor visibility.

- **Thermo Fisher Scientific (Life Sciences, US)** has experienced similar trends to Sartorius, and the stock has also been under pressure. Recent results confirmed growth in the core business. The investment team remains positive on the long-term demand for both these companies' products and is waiting for the de-stocking cycle to be naturally worked through.
- **DSM-Firmenich (Speciality Chemicals, Switzerland)** has trended lower on weaker vitamin and supplements demand together with the need to demonstrate synergies from the recent merger. The Flavour & Fragrance division has also experienced a longer-than-anticipated destocking period. The company has announced action to reduce its exposure to commodity vitamins and to focus on post-merger cost synergies.

Major changes to portfolio in the period

- Added:
 - **DSM-Firmenich (Sustainable Agriculture, Switzerland)** – the fund's holding of Royal DSM was exchanged into shares in the newly merged entity DSM-Firmenich on satisfaction of the conditions for completion of the transaction.
 - **Kerry Group (Packaged Food & Meats, Ireland)** – is a global manufacturer of taste and nutrition solutions for the Food, Beverage and Pharmaceutical markets. The company, which has quality defensive characteristics, was added to on share price weakness. Kerry operates across two divisions: Taste & Nutrition and Kerry Dairy Ireland. Kerry's Taste & Nutrition division is particularly well aligned with the global transition to consumers eating less processed, and more nutritional, food with the overwhelming majority of the company's raw material inputs coming from natural ingredients. Kerry works with its customers on new product innovation and reformulation helping them meet their sustainable targets, such as removing plastic from their value chain. Through acquisitions and organic growth, Kerry has built up an attractive product portfolio that is capable of delivering superior growth in the short to medium term.

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

→ Sold:

- **Royal DSM (Sustainable Agriculture, Netherlands)** – the fund's holding of Royal DSM was exchanged into shares in the newly merged entity DSM-Firmenich (as per above) on satisfaction of the conditions for completion of the transaction.
- **Globe Life (Life & Health Insurance, US)** was exited on ESG factors after attempts to engage with the company over a recent controversy were unsatisfactory. The company is facing allegations related to workplace practices at a sales agency that solely sells Globe Life products. The company's unwillingness to engage on the subject was viewed as highly unusual, resulting in an ad-hoc ESG review and downgrade, and an exit from the position.

*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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