Desjardins Sustainable American Equity Fund

Desjardins Wealth Management Investments

Quarterly commentary as of June 30, 2024

PORTFOLIO MANAGER	INCEPTION DATE	CIFSC CATEGORY*
ClearBridge Investments	**6/14/2016**	**U.S. Equity**

Contributors to relative performance

→ Stock selection in the consumer staples sector
→ A lack of energy holdings

Detractors from performance

→ Stock selection in the IT, consumer discretionary, health care, industrials and real estate sectors

Major changes to portfolio in the period

→ Addition of Amazon (AMZN) in the portfolio with an average weight of 1.30% and a weight of 2.05% at quarter end.

- Amazon.com (AMZN), in the consumer discretionary sector, operates the world's leading e-commerce marketplace and the largest public cloud platform and has a burgeoning advertising business. We added Amazon to the portfolio in April 2024 due to our conviction in sustained margin improvement in its retail businesses as its regionalization efforts are bearing fruit and as its advertising business continues to scale ahead of peers. We believe the profitability ramp is still in the early innings as the company turns its attention to improving costs to serve in areas like inbound shipping and packaging use. We also see Gen AI tailwinds and infrastructure modernization driving re-acceleration in growth at AWS, further enhancing Amazon's free cash flow compounding potential. In addition, following our early 2024 ESG engagements with Amazon (after multi-year engagements) we were positively inclined to see continued improvements in labor relations (health and safety metrics, benefits and wages), as well as in environmental stewardship (climate targets, reducing packaging materials, electric delivery trucks) and innovation (commitments to responsible AI and data privacy). One of the newly announced initiatives on the retail side is consolidating deliveries into fewer boxes, which reduces packaging.

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- → Addition of Republic Services (RSG) in the portfolio with an average weight of 0.09% and a weight of 0.52% at quarter end.
  - Republic Services (RSG), in the industrials sector, is a waste disposal company whose services include non-hazardous solid waste collection, waste transfer, waste disposal, recycling and energy services. It is a stable through the cycle compounder in a consolidated, well-behaved industry. The company should compound free cash flow at a high single-digit/low double-digit rate for a long time. The industry structure is attractive with pricing emanating from landfills, which are 75%–80% consolidated by the three top companies with similar margin and return goals. Regulation (Subtitle D) prevents new landfills from opening, which limits competition. The end market is resilient to cycles, suggesting that earnings are highly unlikely to decline even in a recession. In the next few years, cash flow should grow at the high end of the range as Republic Services benefits from high-returning sustainability investments in polymer recycling and renewable natural gas, which also improve the company's emission and circularity profile. We believe there is upside to consensus estimates, while the stock is defensive at 0.7 beta.
- → Sale of SolarEdge Technologies (SEDG) with a beginning weight of 0.46% and an average weight of 0.30% in the quarter.
  - We exited SolarEdge Technologies (SEDG), in the IT sector, as the company has suffered more than peers in the downturn in terms of top line and margins. Visibility on getting back to attractive margins and top line is low and appears to be further shifting to the right. While Enphase has suffered from the same weak end-market dynamics, it has done a much better job in preserving margins and value.
- → Sale of Shoals Technologies (SHLS) with a beginning weight of 0.47% and an average weight of 0.30% in the quarter.
  - We exited Shoals Technologies (SHLS), in the industrials sector, as the company has struggled with a warranty issue, patent lawsuit and slowing end market. Risks around the patent lawsuit are significant as an adverse ruling would introduce competition into a product with 40%+ gross margins. This points to downside potential in pricing and margins. This is especially troubling for Shoals given that it is wading through warranty issues, which are difficult to forecast.

*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/.