Desjardins Sustainable Cleantech Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF DECEMBER 31, 2024

IMPAX Asset Management

PORTFOLIO MANAGER:
Impax Asset Management

INCEPTION DATE:
June 14, 2016

CIFSC CATEGORY*:
Global Small/Mid Cap Equity

Contributors to relative performance[1]

The portfolio had a particularly strong earnings season. Results from holdings with construction-related exposure continued to be robust, as did those in digital infrastructure.

- **Trimble (efficient IT, US)** made the strongest positive contribution to performance over the quarter. The producer of geolocation software and equipment reported Q3 results which were extremely well received by the market. A strategic update earlier in the year means the company is now more focused on software and related high-margin areas. The result has been successive upgrades to earnings guidance.
- **Herc (resource circularity & efficiency, US)** boosted portfolio returns. The equipment rental company delivered a strong quarter of results thanks to better growth from megaprojects. Numbers were robust, although the comparison was slightly flattered given Herc's baseline exposure was lower running into 2024. Shares also rallied after the company upgraded its annual guidance on growth against low market expectations and relatively stronger performance vs key peers like Ashtead and United Rentals.
- **Altair (efficient IT, US)** delivered robust performance over the quarter. In October, the simulation software company announced an agreement for it to be acquired by German technology conglomerate Siemens. At $113 per share, the takeover represents a 19% premium to the undisturbed share price. This followed Q3 results in which the company delivered another quarter of robust revenue growth.

[1] Please note stock commentary is based on absolute contribution to return.

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Detractors from performance[2]

Donald Trump's victory in the US presidential elections prompted a shift in equity markets, the effects of which were threefold: first, the US – to which the portfolio is underweight – outperformed as a whole. Second, the quarter saw a marked pullback in stocks that are likely to suffer under the new administration. This included renewable independent power producers (IPPs), as well as makers of solar and wind equipment. While the strategy has modest exposure in three sub-sectors, negative investor sentiment was compounded by a shift up in bond yields. Third, stocks deemed likely to benefit from the new administration's policy rallied strongly.

- **DSM Firmenich (speciality chemicals, Switzerland)** experienced profit-taking after a nine-month period of strong performance. Strong fragrance growth is expected to moderate in Q4 and into 2025 because of challenging year-on-year comparisons. DSM-Firmenich is in the process of disposing of its animal nutrition business, which is causing some uncertainty due to lack of visibility on the timing of the exit.
- Shares in **Monolithic Power Systems (efficient IT, US)** fell in Q4 on concerns about the durability of its data centre growth. This occurred despite the company reporting results that beat expectations and its management raising forward guidance. Investors were concerned that Monolithic's relationship with NVIDIA (for whom Monolithic is a sole supplier) could be at risk. However, the concerns appear to be overdone. Management has long trailed NVIDIA's desire for another supplier and has factored this into guidance. Equally, growth opportunities exist across a range of other business segments, including automotive, consumer electronics and industrials.
- Shares in **EDPR (renewable energy developers & IPPs, Europe)** declined over the quarter, along with most of the portfolio's other holdings in independent power producers (IPPs). Donald Trump's clean sweep in the US presidential elections prompted both a challenge to sentiment for the sector, and a rise in the 10-year Treasury yield. EDPR was further impacted by its quarterly results. While numbers for the

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Portuguese IPP were largely in line, commentary around earnings for 2025 was less optimistic.

Major changes to portfolio in the period

Added:

- **nVent (smart & efficient grids, US)** is a provider of electrical products and solutions,
- and was purchased with the proceeds of Stericycle's sale. The company is split 60/40 between two divisions: Enclosures and Electrical & Fastening Solutions. The former provides storage and cooling products for data centres; the latter connects electrical components in buildings. nVent has a track record of delivering double-digit margins since its listing in 2018 and shares traded at a P/E multiple 20% below peers, which the team viewed as an entry opportunity.
- **Xylem (water distribution & infrastructure, US)**. Shares in the water infrastructure company weakened sharply after its Q3 results, trading at ~40% below its peak multiple set in 2021. This created an entry point for the team into a company which continues to expect stable revenue growth and robust cash flows. The team used the proceeds of its sale of Badger Meter to initiate a position in Xylem.
- Having exited several companies with renewables exposure, the investment team made two new purchases in the space: **Boralex** and **Shoals Technologies. Boralex (renewable energy developers & IPPs, Canada)** a Canadian-listed IPP whose shares pulled back following Donald Trump's re-election. However, the US accounts for a relatively small amount of the company's 6.4GW pipeline, which is spread across Canada, France and the northeastern US.

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(formerly Desjardins SocieTerra Cleantech Fund

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Sold:

- The team exited **Badger Meter (water efficiency, US)** on valuation grounds. The water metering company was held in the portfolio for over two decades, delivering consistently strong contributions to performance. However, the investment team saw little further upside.
- The team sold Stericycle (hazardous waste management, US) following successful takeover bids. Stericycle is a market-leading medical waste disposal company. Sector peer Waste Management (not held) announced a takeover in June and the shares traded close to the offer price.
- The team consolidated some of its holdings with renewables exposure, selling stocks where lower-than-expected business quality has added to the pressure of sustained high interest rates and soft power prices. In solar, SolarEdge Technologies (solar energy generation equipment, US) and Xinyi Solar (solar energy generation equipment, China), sustained weak demand combined with poor capital discipline from Chinese producers resulted in a loss of conviction for the team. The latter had also rallied meaningfully following Chinese stimulus.
- **Vestas (wind power generation equipment, Denmark)** a maker of wind turbines, reported successive disappointing margins. These were driven by accounting adjustments from its services division, historically seen as a superior quality business relative to peers. With lingering questions about margin recovery, increased Chinese competition and management quality, the team exited 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/.