

Desjardins

SocieTerra Emerging Markets Equity



QUARTERLY COMMENTARY AS OF DECEMBER 31, 2020



PORTFOLIO MANAGER:
Comgest

INCEPTION DATE:
September 5, 2018

CIFSC CATEGORY*:
Emerging Markets Equity

Contributors to performance

The strength of the semiconductor industry was a boon to Korea and Taiwan, and TSMC was one of the top contributors to the fund's performance. The company produced solid results throughout the year, leading the BoD to upgrade its 2020 forecasts by more than 20%. This was in spite of the public health crisis and the loss of Huawei as a customer due to sanctions imposed by the United States. Samsung Electronics also performed well thanks to better product pricing, sustained by supply constraints, and continuous improvements to governance.

The main contributors to performance were in Asian countries, and many of these securities are players in the new economy, which is testament to the rapid growth of digital technology in an increasing number of sectors. However, it also likely demonstrates a certain amount of excess stemming from the exceptional conditions tied to the pandemic. Our holdings in NetEase and NCSOFT benefited from this dynamic. These two companies, along with Tencent/Naspers, capitalized on the expansion of their potential markets and continued to develop their competitive game pipelines on a global scale, which generated strong results.

Detractors from performance

The portfolio's performance suffered from its exposure to countries whose currencies plunged due to capital flight. Some of the key positions that had a negative impact on performance were in South Africa and Brazil, which were particularly hard hit by weak currencies.

Although the portfolio's insurance companies outperformed the financial sector, overall, they had a negative impact on absolute return. Discovery, AIA and Ping An were up, but China Life saw a major correction.

Other new economy securities, many of which performed well in 2020, suffered from the Chinese authorities' clear desire to tighten regulations and limit the dominant positions of such companies in an ever-growing number of sectors of the economy.

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Detractors from performance (cont'd)

Following the suspension of Ant Group's initial public offering, Alibaba is now the subject of a formal investigation for suspected monopolistic practices by the state market supervision administration. The company was the main drag on performance over the quarter.

Major changes to portfolio in the period

We bolstered our holdings in HDFC, a well-managed Indian financial company. The long-term outlook is promising due to growth in demand and market share gains, while valuations have reached their lowest level in the last decade. We also strengthened our position in Discovery, as the company is expected to benefit from new banking transactions. Given Naspers' discount of over 40% discount compared to Tencent, we increased our holdings in the first company to the detriment of the latter company.

We reduced our positions in Inner Mongolia Yili and Mail.ru, as their valuations have become less attractive. We sold our holdings in BIM due to operational uncertainty weighing on the company.

*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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