Desjardins Global Equity Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF DECEMBER 31, 2020

LAZARD ASSET MANAGEMENT

PORTFOLIO MANAGER:
Lazard Asset Management

INCEPTION DATE:
July 25, 2018

CIFSC CATEGORY*:
Global Equity

Contributors to performance

→ Stock selection in Information Technology
- Shares of software and service developer PTC rose after the company reported strong earnings driven by annual recurring revenue. We continue to see upside as the company transitions to a higher margin subscription-based model which could enable it to grow cash flow and earnings.

→ Stock selection in Industrials
- A position in Canadian flight simulator CAE rose as the company reported results that demonstrated an improvement in profitability and cash flow, largely driven by increased fleet utilization in Aerospace and Defense. We believe the company is bolstered by its strong balance sheet and resiliency in its Defense business, and growth in the Civil business could return upon vaccine availability.

Detractors from performance

→ Stock selection in Consumer Discretionary
- Shares of Alibaba declined as a result of regulatory pressure, despite reporting solid earnings results early in the period. We believe their leadership position and asset-light high returns in the core e-commerce business and growing cloud computing business remain attractive.
- Technology service provider Accenture also lagged during the quarter as weakness in their European business weighed on results. However, we feel the company's competitive position remains very strong and growth for the year remains quite resilient considering the challenging environment.

→ Stock selection in Financials
- Ratings provider S&P Global reported better-than-expected quarterly results, which were driven by strong revenue growth and operating margin improvement as a result of increased demand for market data and continued robust high yield issuance trends. However, shares fell after S&P announced plans to acquire IHS Markit (INFO) for $44 billion. We think the company can continue to consolidate its position as a leading data and analytics provider and further diversify revenues, and we believe the deal is a prime example of that.

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Major changes to portfolio in the period

→ We purchased Pernod Ricard, a Compounder and the second largest wine and spirits company in the world. Pernod Ricard has a high exposure to premium and prestige part of the market and is # 1 in this segment. It owns 16 of the world's top 100 spirit brands including: Chivas Regal, Jameson, Martell, Absolut, Ballentine and Glenlivet. The company offers one of the most attractive long-term growth prospects in global beverages, driven by its high exposure to brown spirits such as whiskeys (brown spirits generate over 60% of its sales and more than 70% of profits). This exposure offers a higher long-term growth rate than other alcohols as they are growing faster and have provenance and aging requirements, which create a larger moat as it takes longer to build brands in this category. Additionally, the growth rate is supported by the company's high exposure to faster growing regions such as China and India. We are also attracted to the company as we believe structural margin improvement will occur due to management's new efficiency programs which are particularly focused on European operations. Following the COVID-19 related sell off, we see fundamentals recovering over the next year and believe shares are undervalued. Pernod Ricard trades at a discount to in line with its peers while offering higher sales growth and margin improvement outlook and therefore deserve to trade at a premium in our view.

→ We also started a position in Improver Inditex, one of the world's largest fashion retailers with 8 major brands, including Zara. The company has consistently delivered strong growth versus peers and has differentiated itself by investing for the future, e.g., its investment in multi-channel functionality which allows them to reach customers online without the need for as much physical store presence. As the shift to online continues, we believe Inditex is reaching a turning point in its cash generation making the business materially less capital intensive. A new inventory management rollout of radio-frequency identification (RFID)will enable tighter inventory management reducing the level of discounting on excess inventory. We believe that Inditex business model is increasingly differentiated from its peers which will allow it to outperform, despite the challenged retail environment.

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

→ Alcon, an Improver, is the Swiss eye care division spun out of Novartis in early 2019. The stock had recovered meaningfully from March lows and looks fully valued relative to its financial productivity. We sold the position and rotated capital to more attractive opportunities.

→ Compounder Sanlam is a South African financial services company and the largest insurer in Africa. We sold the position as we began to question the results of its diversification strategy outside South Africa. Ultimately, we believe there are better opportunities elsewhere.

*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/.