Desjardins Global Equity Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF JUNE 30, 2021

LAZARD ASSET MANAGEMENT

PORTFOLIO MANAGER:
Lazard Asset Management

INCEPTION DATE:
July 25, 2018

CIFSC CATEGORY*:
Global Equity

Contributors to performance

→ Stock selection in industrials
- Wolters Kluwer is a global provider of professional information, software solutions, and services to professional industries. The company reported better than expected earnings driven by a rapid recovery of non-recurring revenues in health and financial services.

→ Stock selection in health care
- Shares of IQVIA, a CRO (contract research organization) rose following news that Thermo Fisher would acquire another CRO PPD, which highlighted the attractiveness of the CRO business model. The company also reported broadly solid quarterly results, with management providing an optimistic outlook. Finally, the company announced the full purchase of its clinical laboratory joint venture with Quest, called Q2 Solutions. We believe this purchase is a sensible use of capital and will be accretive to earnings.

Detractors from performance

→ Stock selection in consumer discretionary
- Macau hotel and casino operator Sands China reported better-than-expected earnings, as travel restrictions have partially eased. However, management believes a full recovery will be both slow and gradual, as there is little visibility on the further reopening of travel in the region. We believe that the Sands China will return to its previous earnings trajectory as Macau tourism ramps up.

→ Stock selection in information
- Shares of TeamViewer, a European remote technology vendor, fell. The company reported quarterly results with strong billings and stable churn rates, but shares fell as investors feared slowing growth following a sharp increase in business during the pandemic. We exited our position on concern that the company's recent substantial increase in marketing spend for sports sponsorship deals would impact both its return profile and future growth.

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Detractors from performance (cont'd)

- The semiconductor industry is seeing structurally higher growth driven by a number of megatrends such as 5G, datacenter, and AI, but investors pulled back on supply concerns as costs are structurally rising. We believe TSMC can maintain profitability through cost management as well as price increases, and the company has maintained its 50% gross margin target.

Major changes to portfolio in the period

→ Added

- We purchased Compounder TopBuild, an insulation and building materials installer to the US construction industry. Focused on the residential market (78% of revenues), the company is a leader in the fragmented insulation space, and currently commands over 40% market share in new housing starts. TopBuild, twice the size of its next largest competitor, has been actively acquiring peers to further increase its presence. Its size and market share are a competitive advantage as they provide the company with economies of scale in purchasing and efficiency. We believe TopBuild will continue to benefit from a robust housing backdrop coupled with strong pricing power, high margins, and a low capital intensity business model. The potential for tighter regulation around building efficiency and an infrastructure package from the Biden administration that focuses on energy-efficient construction would further support insulation installation over time.
- We also purchased Improver Adidas, one of eight major players in the athleisure apparel and footwear industry, a segment that has experienced a 10% compound annual growth rate (CAGR) since 2007. We believe this growth rate will accelerate post-COVID-19 due to the trend towards more casual apparel, particularly in developed markets.COVID-19 hurt industry sales in 2020, mainly due to store closures. However, Adidas underperformed its peers as its regional footprint (less exposure to the United States, which has recovered faster than other parts of the world) and the nature of its product offering (more focused on team sports versus competitors). We consider the

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

company to be an Improver for two reasons. One, we believe that Adidas is well positioned for cyclical recovery given it is closer to the eye of the storm than its peers are. Two, we believe growth at Adidas will accelerate beyond the cyclical recovery and returns will improve due to management's five-year strategic plan. Management plans to focus on its core competencies in soccer, running, training, outdoors, and lifestyle, and we believe the company will benefit from a favorable product portfolio. The breadth of its new launches suggests the company is seeking to build brand momentum. Additionally, Adidas is poised to grow its direct-to-consumer channel, which should increase the proportion of items sold at full price.

- Finally, we purchased Swatch, the dominant Swiss watchmaker, which has a near-monopoly supplying mechanical watch movements to other luxury Swiss watchmakers. The company owns 18 watch brands covering all price points—from Swatch (mid) to Breguet (luxury), with Omega, Longines, and Tissot being its three largest brands. Swatch derives approximately 50% of its sales from Greater China, with Omega and Longines among the top nine hard luxury brands in China. COVID-19 severely impacted operations in 2020, resulting in the company's first-ever operating loss. In response, management implemented sweeping cost- cutting initiatives, including streamlining its retail store footprint and cost reductions in purchasing, production, marketing, and rent in an effort to lower its structural cost base. We categorize the company as an Improver, as we expect a cyclical recovery in both Chinese and global luxury demand, alongside cost- cutting initiatives, to drive earnings and improving returns going forward.

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

→ Sold
- We sold Compounder and pharmaceutical distributor company AmerisourceBergen. We initially were attracted to its defensive characteristics and attractive valuation during the initial COVID-19 outbreak. The stock has performed well and we decided to rotate capital to other opportunities.

*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/.