

Desjardins

SocieTerra Environment Fund



QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2021

IMPAX Asset Management

PORTFOLIO MANAGER:
Impax Asset Management

INCEPTION DATE:
September 10, 1990

CIFSC CATEGORY*:
Global Equity

Contributors to performance

The Fund benefited from the rotation back to quality names with secular growth drivers, as rising COVID-19 delta variant cases, and supply constraints damped growth expectations earlier in the quarter. Stock selection was the primary driver of performance, with strong selection in Industrials, Materials, Information Technology, and Health Care more than offsetting weaker selection in Financials.

- **Keyence** (Electronic Equipment & Instruments, Japan) reported earnings which beat expectations as sales and profitability hit record levels. They were unaffected by the tightening in supply and demand for parts in the Factory Automation industry as they had increased inventory to manage the disruption. There is also scope for further recovery in domestic operations as Japan has lagged other economies on a slower vaccine rollout.
- **Thermo Fischer Scientific** (Life Science Tools & Services, US) responded positively to a good set of results which showed strong organic growth coming from its base business. Having put COVID-19 cash-flows to good use, the company is now in a good position to accelerate top and bottom-line growth over the medium term. In addition, with the forthcoming acquisition of PPD, a global contract research organisation, the company will see a significant increase in its end-market exposure to pharmaceuticals and biotechnology.
- **Croda International** (Specialty Chemicals, UK) also produced a strong set of results. The Pfizer vaccine (lipids business) tailwind looks set to continue, with additional emerging market penetration expected to come in the second half of the year. In addition, the strength of recovery in Personal Care positively surprised the market, while the integration of the Iberchem acquisition is progressing well.

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

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Detractors from performance

Underperformance was largely stock specific:

- The outlook for **Grifols** (Biotechnology, Spain) deteriorated as the increase in the COVID-19 delta variant in the US negatively impacted the main geography for plasma collections. In addition, the stock reacted poorly to the company's Capital Market Day, where management expressed their intention to focus on new areas of business.
- **Vertex Pharmaceutical** (Biotechnology, US) posted steady results, demonstrating strength in its cystic fibrosis business, and maintaining good margins, but has underperformed the market in line with the broader Health Care sector which has been out of favour with investors as it is not viewed as a beneficiary of economies re-opening.
- **AIA Group's** (Life & Health Insurance, Hong Kong) share price has struggled amid industry wide concerns on growth and margin outlook due to the "Common Prosperity" agenda in China, and COVID-19 related delays to re-opening the Hong Kong -China border.

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Major changes to portfolio in the period

- Added:
 - **Alcon** (Health Care Supplies, Switzerland) represents one of the few pure-play investments in the attractive and structurally growing ophthalmology industry. The company is well positioned to benefit from demographic trends driving growth in cataract surgery, which provides an opportunity to grow top line and expand margins.
 - **CooperCompanies** (Health Care Supplies, US) is one of the top players in the highly consolidated, high margin corrective contact lens market which is seeing steady growth because of a sustained user upgrade cycle. The company is also well positioned through its investments in Research & Development to benefit from the nascent, but potentially enormous, myopia management market. The stock was purchased on price weakness to build out the Fund's vision opportunities holdings.

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

- **Hannover Rueck** (Reinsurance, Germany) is a mid-sized reinsurance company, but a leader in terms of balance sheet strength, profitability and earnings predictability. The company plays a key role in enabling primary insurance providers to manage their risk and capital as they underwrite policies across Property & Casualty and Life & Health, including vital areas such as natural catastrophe and critical care insurance. There is currently a healthy pricing environment for reinsurers and the company's smaller size will allow it to outgrow peers in this positive environment.
- **United Rentals** (Trading Companies & Distributors, US) is a leading industrial rental equipment company in North America. The company is well-placed to benefit from the ongoing structural shift from owning to renting capital-intensive industrial equipment, in addition to consolidation in the highly fragmented rental market. The penetration of rental is increasing as customers recognise the clear financial and environmental benefits of a sharing economy model which improves asset utilization.

→ Sold:

- **TeamViewer** (Application Software, Germany) was sold on lower conviction after results which indicated higher churn than expected in the key Enterprise Market, alongside increased marketing spending which highlighted a change in approach to client acquisitions.
- **Alexion Pharmaceuticals** (Biotechnology, US), a global leader in the Research & Development of speciality drugs for rare diseases, was exited due to the pending acquisition of the company by AstraZeneca in a cash and stock deal which allows the companies to leverage off each other's drug pipelines.

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

- **Grifols** (Biotechnology, Spain) was sold due to concerns regarding strategy following a company update indicating their intention to enter new business areas, together with worries regarding longer term relevance of blood plasma given continued news flow on alternative therapies being developed.

*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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