

Desjardins

SocieTerra Emerging Markets Equity



QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2021



PORTFOLIO MANAGER:
Comgest

INCEPTION DATE:
September 5, 2018

CIFSC CATEGORY*:
Emerging Markets Equity

Contributors to performance

- HDFC has been the primary driver of performance. Its asset quality remains strong. Net interest income increased 22% y/y, driven by growth in assets under management (+7.5%). The net profit margin improved from 2.3% to 2.8%, due to the cost of funds falling faster than loan returns, the drying up of excess liquidity, and capital raising. Earnings from strategic businesses increased 71% y/y.
- MercadoLibre, a recent addition to the portfolio, posted strong results in Q2 2021: net revenues are up 103% (y/y) and its operating profit margin increased 9.8%.

Detractors from performance

- Despite the quality of the companies in the portfolio, year-to-date performance has been very disappointing.
- Korea's overweighting and India and Taiwan's underweighting proved detrimental. Security selection in these countries detracted from performance, as did the lack of exposure to the Arabian Peninsula countries and the oil sector. Security selection in the communication services sector was a detractor, as the mishandling of a new game launch by Korean game company NCsoft more than offset the positive impact of Tencent underweighting.
- Alibaba was the main drag on the Fund's performance. Sales fell short of expectations, although the cloud segment grew 30%. Operating results fell 11%, but free cash flow rose 77% q/q. These measures will continue to weigh on the growth of the strategic e-commerce segment in the near term, but its longer-term drivers of incremental growth, particularly the market-leading cloud activity, which is in line with government development plans, remain in place.

Major changes to portfolio in the period

- The manager reduced or sold positions in companies that could bear the brunt of rising input prices and/or are at a disadvantage in terms of price-setting power. This repositioning was conducted in conjunction with some

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

rebalancing of the size of the portfolio positions. As a result, we reduced our positions in Samsung Electronics and Suzuki. The manager eased the position on Ping An, as the earnings recovery is still pending. Telekom Indonesia was sold due to its less attractive long-term growth profile. Following corporate governance weaknesses, Naspers was arbitrated in favour of Tencent, in which Naspers has a stake.

*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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