

Desjardins

SocieTerra Emerging Markets Equity Fund



QUARTERLY COMMENTARY AS OF DECEMBER 31, 2022

COMGEST

PORTFOLIO MANAGER:
Comgest

INCEPTION DATE:
September 5, 2018

CIFSC CATEGORY*:
Emerging Markets Equity

Contributors to relative performance

- Geographically, our exposure to South Korea and India positively contributed relative performance thanks to astute security selection. South Korean video game developer NCsoft's stock rose by 46.6% in Q4 2022 in CAD. From a sector perspective, financial services and consumer staples contributed to the portfolio's outperformance, again due to favourable stock picks. Our overweight to India and consumer staples also buoyed relative performance.
- FEMSA was the top contributor to performance for the quarter. The highly defensive Mexican non-cyclical consumer goods company posted regular double-digit earnings-per-share (EPS) growth over the year. It also announced a strategic review for Q1 2023, a simplification of its holding structure and some governance changes which appear to be benefiting the company.
- Both BBSE and WEG posted strong EPS growth in 2022, leading to upward earnings estimate revisions. WEG stock was lifted by a series of good results, with year-over-year sales growth of 28% in Q3 2022, despite difficult comparables, and EPS up 42%. The company's results are increasingly being driven by renewable energy projects (wind turbines, solar power generation), while water purification presents an enormous and still relatively untapped opportunity. BBSE has also published above-expectation results every quarter and is now forecasting EPS growth of 20% in 2023, while offering a return of 9% and a 12-month price-to-earnings ratio of just 9x—why it's one of the portfolio's top 5 holdings.

Detractors from relative performance

- In early 2022, the portfolio was repositioned to be more defensive and less concentrated, a position we've maintained. At times, that's meant keeping a higher than normal cash cushion, which weighed on performance for the quarter.
- Inner Mongolia Yili, a leading Chinese dairy product producer, was the biggest drag on performance. The group suffered from rising commodity prices, which squeezed margins. However, it was able to cut costs and we expect it to deliver far better

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Detractors from relative performance (cont'd)

- EPS growth in 2023 thanks to easier comparables and lower production costs.
- Bafang suffered from export supply chain disruptions throughout the year. Also, now that the world is moving beyond the COVID-19 pandemic, enthusiasm for e-bikes may start to level off, although the long-term potential remains promising.
 - PagSeguro stock fell after it released its Q3 2022 results and saw a slowdown in sales associated with a decline in its merchant base (-5%), which surprised markets. The company did still manage to post net earnings in line with market expectations, however.

Major changes to portfolio in the period

- We've increased our holdings in Walmex and Shenzhen Mindray, which we had added to the portfolio in Q3 2022. Walmex, the Mexican arm of retail chain Walmart, is expected to generate stable and resilient earnings. Shenzhen Mindray, a Chinese-based major global provider of patient monitoring and hematology devices, was also added to the portfolio. We also took advantage of a price drop to buy more Globant shares. The software solutions company announced solid Q3 2022 results and confirmed its sales growth forecast of 37% for 2022. We reduced our position in Chinese insurance company Ping An after its share price rallied. We also trimmed our holdings in Chilean retailer Falabella.

*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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