

Desjardins SocieTerra Cleantech Fund



QUARTERLY COMMENTARY AS OF MARCH 31, 2023

IMPAX Asset Management

PORTFOLIO MANAGER:
Impax Asset Management

INCEPTION DATE:
June 14, 2016

CIFSC CATEGORY*:
Global Small/Mid Cap Equity

Contributors to relative performance

The fund's natural overweight to industrials was beneficial to absolute returns during the period, with outperformance coming from holdings within environmental market sectors that were primary detractors from absolute performance in 2022: energy management & efficiency as well as water infrastructure & technologies. Strong earnings delivery with resilient and growing end-market demand, as well as margin expansion stemming from abating supply chain headwinds led to a share price rebound in these sectors. The fund's information technology exposure also positively contributed to absolute performance during the quarter. De-rated efficient IT holdings benefitted from a rotation back into quality growth companies with the market rewarding businesses with improved supply chain conditions, a favourable demand outlook, and high degrees of free cash flow growth, leading to strong returns from simulation software and semiconductor holdings.

- **Altair Engineering** (efficient IT, U.S.) rebounded in the first quarter. The company reported strong Q4 results with revenue and margins coming in well above consensus expectations, indicating resilient demand across semiconductor, automotive and aerospace end-markets. With a business model deriving a majority of total revenue from recurring streams, strong demand growth, and increasing penetration across existing customers, Altair should benefit from continued margin expansion and improving profitability.
- **Monolithic Power Systems** (efficient IT, U.S.) is an attractive organic growth, technology-focused company in the analogue semiconductor space. Given its recent design wins, the team believes Monolithic Power Systems should be well positioned to continue outgrowing the industry, sustain its cost advantage versus peers and improve its margin profile. The stock rose after reporting strong results. The company is executing on its playbook for outgrowing peers and is benefitting from solid momentum in datacentres and automotive end-markets.
- **Pentair** (water treatment, U.S.) advanced during the period, following a challenging 2022 in which concerns around slowing U.S. residential activity caused the share price to decline.

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Contributors to relative performance (cont'd)

During the first quarter, Pentair was boosted by a favourable Q4 earnings announcement with full year earnings per share (EPS) coming in above consensus expectations. While top line headwinds will likely persist in 2023, cost cutting measures should lead to margin expansion. Management also raised long-term margin guidance, anticipating contributions from their three core segments: water solutions, pool, and industrial flow control.

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

Detractors from relative performance

- **Stericycle** (hazardous waste management, U.S.) sold off during the first quarter. Following solid Q2 and Q3 results, the company reported disappointing Q4 results with revenue and earnings coming in below consensus expectations, as well as new medium-term guidance with lacklustre free cash flow generation.
- **Herc** (resource circularity & efficiency, U.S.) underperformed as the Silicon Valley Bank crisis led to concerns of tighter lending standards and a slowdown in construction activity, leading to weakness in equipment rental companies. Despite share price weakness, the company reported strong operating results, demonstrating the resilience of equipment rental demand in the U.S., driven by a range of factors including rising appreciation for the benefits of rental vs ownership, continued appetite for equipment to automate processes amid labour shortages, and also the commencement of substantial infrastructure projects as part of the Inflation Reduction Act.
- **Eurofins** (environmental testing & monitoring, France) declined as the company reported underwhelming Q4 earnings, with higher energy costs, labour inflation, strikes and consumer volume pressure leading to weaker margins.

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Major changes to portfolio in the period

→ Added:

- **Shenzhen Inovance Technology** (industrial energy efficiency, China) – Opportunity to invest a high-quality business with a strong market share. The company is well positioned to benefit from secular growth in automation and electric vehicles.
- **Kingspan** (buildings energy efficiency, Ireland) – The investment team re-opened the position following extensive engagement with Kingspan on prior controversies. Kingspan is a leading provider of high-performance insulation and low energy building solutions. The company is benefitting from geographical diversification and increasing penetration of insulation panels driven by stricter energy efficiency standards. The cyclical downturn in March allowed the investment team to initiate the position at an attractive valuation.

→ Sold:

- **Airtac** (industrial energy efficiency, Taiwan) – Airtac was exited on valuation grounds following a period of share price strength.

*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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