

Desjardins

SocieTerra Environment Fund



QUARTERLY COMMENTARY AS OF MARCH 31, 2021

IMPAX Asset Management

PORTFOLIO MANAGER:
Impax Asset Management

INCEPTION DATE:
September 10, 1990

CIFSC CATEGORY*:
Global Equity

Contributors to performance

Top contributors over the quarter tended to be names which benefitted from economies reopening following COVID-19 as well as positive stock specific factors.

- **Prudential** (Life & Health Insurance, UK) announced a plan to raise capital to improve the financial flexibility of their Asian operations after they spin off their US business later this year. While the stock initially fell on the news, it subsequently rallied as investors focused on the valuation discount of the attractive Asian insurance franchise relative to regional peers.
- **ASML** (Semiconductor Equipment, Netherlands) benefited from rapid growth in demand for the company's leading-edge semiconductor manufacturing equipment from Taiwan Semiconductor Corporation and potentially Intel, both of which have recently announced large increases in capital expenditure plans.

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

Detractors from performance

Market rotation away from quality and COVID-19 beneficiaries has affected the performance of some names, despite continued solid fundamentals. Aside from this broader trend, detractors from returns were largely stock specific.

- **Keyence** (Electronic Equipment & Instruments, Japan) reported Q1 results which exceeded market expectations but suffered from profit taking over the quarter.
- **Lonza** (Life Sciences Tools & Services, Switzerland), which performed well last year on COVID-19 vaccine news, drifted lower despite producing a solid set of results and forecasts. Lonza remains on track with its mid-term plan which includes the divestment of its specialty chemical division.
- **TeamViewer** (Application Software, Germany) share price declined as the market discounted an increase in advertising spending, aimed at increasing brand awareness with both personal and enterprises users.

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Major changes to portfolio in the period

→ Added:

- **Analog Devices** (Semiconductors, US) is a leader in the design and production of industrial analog semiconductors. The sector is benefitting from structural growth as chips become pervasive across the global economy, a trend which accelerated in the wake of COVID-19 with increased demand for "Internet of Things" solutions, electric vehicles (EV's) and 5G. Analog is acting as a consolidator in the industry, increasing its economies of scale and technological offering in the process. An acquisition in the summer is set to increase its exposure to EV and 5G end markets.
- **Ashtead Group** (Trading Companies & Distributors, UK) is a leading industrial rental equipment company with strong market positions in the US, Canada, and UK. The company is well-placed to benefit from the ongoing structural shift from owning to renting capital-intensive industrial equipment. The penetration of rental is increasing as customers recognise the clear financial and environmental benefits of a sharing economy model which improves asset utilization. Ashtead was bought to gain exposure to a high-quality cyclical company with strong secular tailwinds.
- **Wolters Kluwer** (Research & Consulting Services, Netherlands) is a leading global professional information and service company. The company has transitioned from print media to primarily becoming a digital business, providing essential specialist information sets, advice, and workflow tools to a range of professionals. The company leverages its deep expert knowledge and cloud-based content to provide services which enhance efficiency by enabling its customers to make better and faster decisions. In addition, the company has a favourable operational returns profile and an attractive relative valuation.

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

→ Sold:

- **Danone** (Packaged Food and Meats, France) was sold on lower conviction on management's ability to deal with multiple issues facing the company such as lower emerging market growth, the interruption from COVID-19 on water sales, as well as the slow response by management to improve corporate governance.
- **IPG Photonics Corp.** (Electronic Manufacturing Services, US) was sold on valuation concerns as the stock discounted a sharp recovery in volumes and margins. The company benefits from exposure to rising EV, solar and 5G demand but changes in the business mix and increased Chinese competition mean that peak margins may be lower than in the last cycle. In addition, the high exposure to China means that the company will face difficult competition ahead of peers as China recovered earlier than the US and Europe.

*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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