

Desjardins

Overseas Equity Growth Fund



QUARTERLY COMMENTARY AS OF MARCH 31, 2021



PORTFOLIO MANAGER:
Baillie Gifford

INCEPTION DATE:
March 23, 2010

CIFSC CATEGORY*:
International Equity

Contributors to performance

- Positive contributors to performance this quarter included ASML (the world leader in the manufacturing of lithography machines), Atlas Copco (a Swedish industrial compressors manufacturer) and Nestlé (the Swiss multinational food and beverage company).
- ASML is the leading maker of lithography machines, an essential part of the manufacture of sophisticated semiconductors, we firmly believe the business is crucial to extending Moore's Law. Over the period its share price rose after two of its largest customers, Intel and TSMC, announced significantly expanded capex programmes in response to global chip shortages driven by the shift in demand towards digital devices. 2020 was a good year for ASML, in the latest set of results, they reported better than expected returns with sales and gross margins remaining strong. But what is more pleasing to see is management's continued investment into R&D and their willingness to lead the industry in innovation.
- Atlas Copco, is a long-standing holding, it operates a group of decentralized industrial manufacturing and services business. The main businesses are compressors and vacuum pumps. Order growth has picked up with fourth quarter orders up 7% year-on-year organically. Revenues were flat and margins unchanged (21 % operating margin). Compressor and vacuum technique divisions held up especially well both in top and bottom line terms; the business hit the hardest over the year has been industrial technique where revenues fell 14% year-on-year and operating profits fell 40%.

Detractors from performance

- During the first quarter, we have seen some sector rotation and a cooling off in some of the names held in your portfolio, after a very strong performance through 2020. At the same time, the stock prices of many 'old economy' stocks (energy, financials (banks), and offline retailers), had a positive quarter.

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Detractors from performance (cont'd)

- Detractors to performance included M3, MercadoLibre and Spotify. These digitally native companies all delivered stellar stock performances in 2020 but suffered some pull backs in their share prices at the beginning of this year. This occurred as market participants sold these growth stocks to buy companies whose businesses were hurt by the spread of COVID-19.
- M3 operates multiple online medical platforms worldwide and has a presence in telemedicine. It continued performing well operationally, as indicated by recently reported results. Operating income increased 58% year-on-year driven by strength in both its medical platform business and its overseas division. In the long run, sources of growth for the company include the core Japanese business, overseas expansion and diversification into new businesses.

Major changes to portfolio in the period

- This is a long-term portfolio and there were no major changes in overall positioning.
- Stock level new buys:
 - **Auto 1** – Auto1 is an online marketplace for used cars in continental Europe. Used car sales have been late to come online but we feel are very well suited to a transparent marketplace model, due to the opacity of the process usually felt by customers and the inventory risk usually faced by dealers.
 - **Pinduoduo** – Pinduoduo addresses e-commerce users, with less disposable income in lower-tier cities, who are poorly served by other platforms. These customers represent a key force within China's consumption upgrade.
 - **Vestas Wind Systems** – Vestas is a Danish wind turbine manufacturer that was previously held in the portfolio over a decade ago. In some ways the investment case is little changed: wind energy is now cost-efficient vs fossil fuels, and Vestas continues to have a strong position in an industry with moderately high barriers to entry. The significant change is the globally recognised need to decarbonise the economy, and the huge long-term demand implications.

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

Estimates of the contribution played by renewable energy, and specifically wind, are likely to continue rising, and we see Vestas as a prime beneficiary.

→ Stock level complete sales:

- **Softbank** – We have sold your holding in SoftBank, the Japanese holding company. We hugely admire Masayoshi Son, the company's founder, as a visionary long-term investor and talented operator of telecom assets. However, we are increasingly concerned over the growing influence of former investment bankers at the company.

*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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