Desjardins
SocieTerra Emerging Markets Equity

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF MARCH 31, 2021

COMGEST

PORTFOLIO MANAGER:
Comgest

INCEPTION DATE:
September 5, 2018

CIFSC CATEGORY*:
Emerging Markets Equity

Contributors to performance

→ Some dominant trends from 2020 continued, including strong performance by the technology and communication services sectors. This development supported our positions in TSMC, NetEase and Naspers/Tencent. Value securities in the energy, materials and banks sectors were particularly well positioned owing to the favourable dynamics of supply and demand and global growth that was better than expected for the first two sectors as well as higher rates and an improved outlook for the resumption of lending in the case of banks. These sectors should post strong growth in earnings per share (EPS) in 2021, from the lowest points of 2020, expected to level off thereafter.

→ Power Grid of India stood out. The company saw 12% growth in sales and a 24% gain in EPS in Q4 2020. The dividend should increase, buoyed by strong cash flows from operations and lower capital spending. Ongoing projects were up 15% from the previous year, while calls for tenders planned over the next 18 to 24 months amount to 1,000 billion rupees, with 40% to 45% likely to be won by Power Grid if we refer to past data.

Detractors from performance

→ In the current market environment, sectors heavily weighted in growth stocks struggled; consumer non-cyclicals and cyclicals fell, while health lost the ground it had recently gained.

→ This quarter, close to half of the ten main negative contributions to performance come from positions in China, a reflection of the effects of the recent unwinding of speculative positions. Brazil continues to suffer from a weak currency, a consequence of high inflation and budget challenges.

→ Shandong Weigao Medical was mismanaged. The price was affected by concerns tied to China's new pooled purchasing centre, which emphasizes volume at the expense of price. However, the company's forecasts for 2021 (18-20% growth in sales and gross margin recovery to 60%) are promising.

→ Portfolio insurance stocks dragged down performance overall. However, some clear trends indicate that the factors that were harmful in 2020 should be beneficial in 2021.

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Major changes to portfolio in the period

- → True to its approach, the manager took profits on companies that no longer offered upside potential due to their recent share price performance, like TSMC, NetEase and Yili, whose valuations became excessive. The manager liquidated the position in China Life to refocus exposure in the Chinese insurance sector on higher quality stocks, such as Ping An and AIA.
- → The manager took advantage of the antitrust investigation to strengthen the position in Alibaba; the growth outlook for e-commerce and cloud activities remains firm. The manager increased the position in Suzuki; based on its controlling interest in Maruti in India, the maker should benefit from the market recovery after a difficult 2020.
- → The manager made the most of the weakness in the Chinese health sector to build up positions in two medical device manufacturers, Lepu Medical and Weigao.

*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/.