Desjardins
Global Equity Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF MARCH 31, 2021

LAZARD ASSET MANAGEMENT

PORTFOLIO MANAGER:
Lazard Asset Management

INCEPTION DATE:
July 25, 2018

CIFSC CATEGORY*:
Global Equity

Contributors to performance

→ Stock selection in Information Technology
- Shares of NXP Semiconductors rose after the company reported fourth quarter earnings above expectations and provided positive first quarter guidance driven by auto recovery. We continue to see upside as we believe NXP remains well positioned for profitable growth given content expansion in key end markets.

→ Stock selection in Consumer Discretionary
- Shares of Off-Road Vehicle (ORV) maker BRP rose after the company reported strong fourth quarter earnings and outlook driven by ongoing strong demand and historically low inventory levels leading to a strong pricing environment. We believe BRP is well positioned to continue to gain share through better innovation, and to benefit from exceptionally strong seasonal demand for power sports vehicles and an expanding overall market.

Detractors from performance

→ Stock selection in Financials
- Shares of financial exchange operator and data provider Intercontinental Exchange fell as investors rotated capital into more rate-sensitive financial stocks. We continue to own Intercontinental Exchange as we believe strong financial productivity, increased market volatility, and strength in its data business could continue to improve valuation. We also anticipate an acceleration of digitization in mortgage processing to help the company, as its recent acquisition of Ellie Mae adds the next leg of growth in a large mortgage processing market.

→ Stock selection in Consumer Staples
- Stock selection and an overweight position in the consumer staples sector also detracted from performance. Shares of Unilever fell after the company reported lower than expected margins driven by higher marketing and COVID-19 related costs. We expect that margin increases in 2021 and continued revenue momentum may drive upside for the stock.

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Major changes to portfolio in the period

→ Added

- BRP, Inc., a Compounder, is one of two dominant players in the design, development, and manufacturing of powersports vehicles. This duopoly structure in a niche industry, along with the company's brand, has created high barriers to competition, which we believe should last several years. BRP has been winning market share through innovation and strong dealer relationships in a market that is growing in the mid- to high single digits. Within the industry, BRP is dominant in seasonal personal watercraft and snowmobile markets and is the challenger in the side-by-side vehicle (SSV) and all-terrain vehicle (ATV) markets. BRP experienced exceptional retail demand across all of its product lines since early 2020 as people looked to socially distanced outdoor activities for recreation amid the pandemic. Those trends have continued into 2021, even as restrictions have loosened and vaccine rollouts have begun. Ongoing strong demand has resulted in inventory levels falling to historic lows and a favorable pricing environment. BRP recently announced plans to develop electric models for each of its product lines over the next five years, with the goal of introducing its first product in the next two years. Approximately 30% of customers last quarter were new entrants into the powersport vehicle market, and we believe BRP's innovation in electrification will further expand the market and strengthen the company's competitive advantages.
- Brewer Carlsberg, an Improver, managed very well through a difficult 2020, increasing margins despite seeing revenue declines in the high single digits. During the pandemic, much of the concern about beverage companies has centered around "trade exposure," such as restaurant sales. However, Carlsberg and other beer companies have relatively low exposure to trade sales compared to other beverages. Management expects to see a strong recovery in profit growth in 2021 as travel, sporting, and bars gradually move towards normalization.

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

We also believe margins will improve through the company's focus on optimizing price/mix in Western Europe, where there is a significant gap versus the competition. Nearly 80% of revenues in Western Europe are in top market share positions and focus is on premiumization, where Carlsberg is leading in craft and zero alcohol trends. Carlsberg has a strong position in Asia with best and second-best positions in key beer markets, and strong premium beer portfolio with margins twice that of other regions. Carlsberg's Asia exposure has been established as the company's growth engine, with consistent double-digit revenue growth and 40% of profits, and we think it is materially undervalued. Management has a proven track record of nearly doubling returns in the last five years, and we are confident in their ability to execute the long-term strategy of focusing on volume, profit, and free cash flow.

- Banco Bradesco, a Compounder, is a leading banking franchise and the largest insurance business in Brazil. The growth outlook for Brazilian banking, insurance, and asset management services remains robust given the country's moderate financial sector penetration. Brazilian banking is a highly regulated, yet very profitable market, earning high and stable net interest margins. The market is very concentrated, with the five largest banks accounting for 78% of deposits and 73% of credit. ROE is in excess of 16%, which is almost twice that of European banks. Bradesco's insurance business is also very attractive given its high margins; it is one of the market leaders in Brazil in both life and non-life and is well positioned to benefit from secular growth in premium penetration. Loan growth remains strong and we expect a relatively robust 2021 (as compared to a weak 2020), with earnings growing more than 30%.

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

→ Sold
- The Compounder Symrise, a flavors and fragrance company whose products are key to many foods, beverages and scents, was sold due to valuation concerns. The company, a long-time holding in the portfolio, has performed well. Unfortunately, we think the business's current multiple is overly rich for the level of financial productivity it is generating, and hence we decided to rotate our capital elsewhere.

*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/.