

Desjardins

Emerging Markets Fund



QUARTERLY COMMENTARY AS OF JUNE 30, 2021

LAZARD
ASSET MANAGEMENT

PORTFOLIO MANAGER:
Lazard Asset Management

INCEPTION DATE:
January 17, 2007

CIFSC CATEGORY*:
Emerging Markets Equity

Contributors to performance

- Security selection in the health care and consumer staples sector had the most positive attribution over the period as well as Hong Kong and Brazil.
- Shares of Pet Center Comercio Participacoes, a Brazilian seller of pet products, rose nearly 50% in 2Q21, as growth in digital and physical stores exceeded expectations.
- Banco BTG Pactual, a Brazilian Financial services company focusing on investment banking and wealth management, reported strong Q1 numbers with its wealth management division notching record inflows of new money.
- Shares of Chinese e-commerce company, Alibaba, benefited from the outperformance of growth in June and recovered some of the losses incurred earlier in the year from Anti-trust fines.
- Shenzhou International, a Chinese clothing manufacturer, rose on the back of a stronger-than-expected demand recovery globally and less-than-expected negative impact over concerns of forced labor in Xinjiang to source cotton.

Detractors from performance

- Security selection in the information technology, communication services, and materials sector were negative as well as China, Taiwan, and South Korea.
- Despite strong fundamentals in its fourth quarter FY2021 results, HDFC Bank, an Indian financial services company, declined after the outage of its mobile banking app affected selected customers. Shares recovered in May but were again under pressure as rising COVID-19 cases negatively affected market sentiment. Shares also felt pressure after the Reserve Bank of India imposed fines on them for deficiencies in regulatory compliance.
- ICBC, a Chinese state-owned bank, traded lower along with the broader financial industry in China and Hong Kong as Huarong Asset Management, China's biggest distressed debt investor, missed a deadline to report earnings and suffered its first credit rating downgrade.

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Detractors from performance (cont'd)

- 21Vianet Group, China's largest provider of carrier-neutral internet data center services, declined as part of the market-wide selloff for Chinese technology names in May. Shares seemed to bottom at the end of May, showing signs of recovery as they reported first quarter 2021 earnings that slightly outpaced analyst estimates. In their earning call, the company gave guidance for strong demand and acceleration in the second half of the year from cabinet growth which has seen utilization increase from 15k to 25k annually from 2021-2023.
- New Oriental Education, a Chinese provider of private educational services, declined after China's Ministry of Education implemented new rules for the private tutoring industry, dictating where and when classes can take place, as well as the fees charged by education companies and what advertisements could be used. Across many sectors, increased Chinese regulation has been a theme of 2021 and like Alibaba, Meituan, and DiDi, New Oriental Education saw its share price suffer.

Major changes to portfolio in the period

- Over the period, we had three new buys:
 - **Realtek Semiconductor**, a developer of integrated circuits in Taiwan, as the company is a key beneficiary of a hybrid work environment as consumers and businesses continue to upgrade their technology.
 - **Cemex**, a building materials company in Mexico, as the company is benefitting from strong US demand and would continue do so with the approval of a US infrastructure package.
 - **China Mengniu**, a dairy product manufacturer based in Hong Kong, as we believe the company will continue to benefit from solid dairy demand and strong sales.

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

→ We exited four positions over the quarter:

- **Largan Precision**, a designer of optical lenses in Taiwan, due to concerns that pricing pressure may lead to lower margins going forward.
- **Shenzhen Sunway Communication**, a Chinese manufacturer of mobile terminal antennas, due to margin pressure from rising competition on traditional antenna products and a higher mix of lower-margin wireless charging products.
- **Gruma**, a Mexican corn flour and tortilla manufacturing company, due to weaker margins from higher corn prices.
- **Ternium**, a steel product manufacturer with operations across Latin America, as it benefited from strong demand recovery and higher cyclical prices.

*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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