

Desjardins SocieTerra

Emerging Markets Equity Fund



QUARTERLY COMMENTARY AS OF JUNE 30, 2023



PORTFOLIO MANAGER:

Comgest

INCEPTION DATE:

September 5, 2018

CIFSC CATEGORY*:

Emerging Markets Equity

Contributors to relative performance

- The portfolio's two largest country overweights, Mexico and Brazil, performed well with each experiencing strongly appreciating currencies. Mexico's economy is stable and should increasingly benefit, at China's expense, from nearshoring and market concerns that afflicted Brazil when Lula was elected President have largely dissipated. India has also been a beneficiary of China's problems. Having made some beneficial reforms, economic growth is picking up and geopolitics are currently India's friend.
- In China, we have maintained high exposure to some more defensive companies such as those in the medical space which we believe will benefit from the aging Chinese population. Conversely, we maintained underweight positions to the Chinese IT sector and new economy, where government interference remains, albeit lighter than before, and where EPS growth has deteriorated.

Detractors from performance

- LG H&H was among the largest detractors from performance in Q2'23. A combination of weak Chinese consumption, concern over the company's core Whoo cosmetics brand, issues with its distributors and limited travel by the Chinese population to Korea have each affected the business.

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Major changes to portfolio in the period

- NCsoft, the Korean gaming company, was sold. Results have been disappointing with the first quarterly loss in 10 years due to high employee bonuses and Lineage games normalising post the launch of Lineage W. In addition, the competitive landscape in a fairly saturated domestic market has become fiercer, while the company's international ambitions are unproven. The earnings have become increasingly unpredictable, thereby eroding the quality.
- The leading and best quality white spirit company, Kweichow Moutai, was re-introduced. The company has consistently delivered good returns, with the premium product in its sector and one unlikely to be affected by geo-politics. Because China has been out of favour, it gave us a valuation entry point which had not been available for some time.

*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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