

# Desjardins SocieTerra

## Global Opportunities Fund



QUARTERLY COMMENTARY AS OF DECEMBER 31, 2023



PORTFOLIO MANAGER:  
Impax Asset Management

INCEPTION DATE:  
September 10, 1990

CIFSC CATEGORY\*:  
Global Equity

### Contributors to relative performance

Contributors tended to be backed by positive earnings delivery and displayed good inflation resilience.

- **Cintas** (Diversified Support Services, US) is a leader in the North American uniform rental and facilities services market and an example of a high-quality sharing economy business model. The firm delivered sales and earnings above expectations with organic growth accelerating from 8% in prior quarters to 9% and the company also raised full year guidance. Margins have continued to trend higher, and the company is benefiting from growth in multiple end market as well as cost synergies from cross-selling of products.
- **Microsoft** (Systems Software, US) continues to be a favoured beneficiary of interest in the artificial intelligence (AI) theme. The move higher has been supported by strong results, with both revenues and profits above consensus. The Azure cloud platform continues to be an engine of growth with revenues rising 29%, driven by a strong product offerings and early adoption of their AI offerings.
- **Schneider** (Electrical Components & Equipment, US) has experienced strong investor interest as it is well aligned to secular growth in digital industries though its exposure to data centres and rising demand for electrification and improved building energy efficiency. The company announced solid earnings and mid-term growth targets which include expectations of margin expansion.

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### Detractors from performance<sup>1</sup>

Earnings announcements have tended to be a factor for a number of detractors.

- **Lonza** (Life Science Tools & Services, Switzerland), a contract manufacturer of pharmaceuticals, fell after announcing cuts to long-term growth rates and lowering margin expectations. Sentiment towards the stocks is being impacted by ongoing uncertainty about the CEO replacement and demand for biologics more broadly. While the company noted that lower bio- tech spending at customers could impact over the near-term, expectations are still for low double-digit growth.
- **Aptiv** (Auto Parts & Equipment, US) delivered solid earnings but declined due to lower-than-expected excess growth versus the automotive end markets as some manufacturers are reigning in spending on future electric vehicle capacity. The company was also temporarily adversely impacted by the auto workers strike in the US. While growth in electric vehicles (EVs) may moderate, the investment team believes Aptiv is well placed to benefit from the trends of increasing electrification of vehicles, autonomous driving and a focus on safety features.
- **Becton** (Health Care Equipment, US) Underperformance was driven by the company's Q4 earnings report and FY24 guidance. Guidance was only modestly below expectations, but the market reacted negatively to the company indicating the first quarter might be weaker, with growth tilted towards a second-half acceleration.

<sup>1</sup>Please note stock commentary is based on absolute contribution to return.

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### Major changes to portfolio in the period

→ Added:

- **Marsh McLennan** (Insurance Brokers, US) is a leading insurance and reinsurer broker with an attractive long-term defensive growth profile and is highly cash generative. The insurance brokerage sector is more consolidated than the insurance underwriters and the broker owns the client relationship. This enables Marsh to generate higher margins than the insurance underwriters, without carrying the risk. It has additional tailwinds from a strong commercial insurance and reinsurance cycle. As a top insurance and reinsurance broker they lead the market in pricing for climate and property risks and are helping the largest companies in the world manage their exposures, including their real climate risk.
- **MSCI Inc** (Financial Exchanges & Data, US) provides critical support tools and services for the global investment community and is a direct way to invest in the continued growth, complexity and customization of financial markets. The company has a robust growth profile with consistent low double-digit revenue growth and an asset-light business model. A weaker share price presented an opportunity to enter this high-quality company.
- **Veralto** (Environmental & Facilities Services, US): the position is the result of receiving shares after the spinout of the business from parent company Danaher in September.

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

→ Sold:

- **Partners Group** (Asset Management & Custody Banks, Switzerland): the stock was exited after a period of strong share price performance driven by expectations of lower interest rates, resulting in lower upside potential in the share price.
- **Lonza** (Life Sciences Tools & Services, Switzerland) was exited on lower conviction following significant management change in recent years coupled with potentially weaker margins due to lower profitability resulting from lower utilization of the company's bioprocessing manufacturing facilities.
- **Vertex** (Biotechnology, US): the stock was sold following strong performance backed by strength in the core cystic fibrosis franchise, however valuation upside was viewed as limited as there is uncertainty over the strength of the future drug pipeline.
- **Kubota** (Agricultural & Farm Machinery, Japan): exited position given concerns that inventory replenishment of agricultural and construction equipment in the key US market largely complete, which may result in more challenged profitability with recent price-supported revenue growth potentially abating. The company has also benefitted from a perception as a beneficiary of US infrastructure stimulus spending despite modest exposure to this opportunity.

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

- **Veralto** (Environmental & Facilities Services, US) - exited residual position in Veralto following the company's spin-off from parent company Danaher.

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