

# Desjardins Sustainable

## American Equity Fund

(formerly Desjardins SocieTerra American Equity Fund)



QUARTERLY COMMENTARY AS OF MARCH 31, 2024



PORTFOLIO MANAGER:  
ClearBridge Investments

INCEPTION DATE:  
June 14, 2016

CIFSC CATEGORY\*:  
U.S. Equity

### Contributors to relative performance

- Stock selection in the industrials, consumer discretionary, consumer staples, financials and materials sectors.

### Detractors from performance

- Stock selection in the IT, health care and utilities sectors.

### Major changes to portfolio in the period

Addition of **Adobe (ADBE)** in the portfolio with an average weight of 0.05% and a weight of 0.74% at quarter end.

- Adobe (ADBE), in the IT sector, is a developer of cloud software for marketing and related creative applications. Adobe offers a variety of application software products used for digital media, document productivity and marketing optimization. We believe Adobe will deliver a combination of high growth and margin expansion driven by the monetization of AI products, pricing benefits in the enterprise market and margin leverage in digital media. We believe investor concerns about timing of pricing benefits has created an attractive entry point. Adobe performs above peers on data privacy and security, human capital management and disclosure.

Addition of **Enphase Energy (ENPH)** in the portfolio with an average weight of 0.24% and a weight of 0.47% at quarter end.

- Enphase Energy (ENPH), in the IT sector makes microinverters for residential and small commercial solar PV systems. We re-initiated a position in Enphase, having previously owned and sold it in 2023 because of lack of clarity on demand and industry destocking. The company now has stronger visibility on the bottom in destocking and improving demand. At the same time, Enphase has preserved its margins even as demand has decreased, which suggests pricing and profitability resilience. Having considered its consistent profitability, an end of destocking, and the company's potential for long-term growth, we re-initiated our position.

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

Addition of **Dell Technologies (DELL)** in the portfolio with an average weight of 0.34% and a weight of 0.99% at quarter end.

- Dell (DELL), in the IT sector, is a technology hardware company making commercial and consumer personal computers, servers and storage solutions. Its computers include desktops, workstations, notebooks, displays and peripherals, while its servers, networking, storage and software solutions enable customers to run workloads on premises and in the cloud. Dell is the highest-quality company in a somewhat consolidated PC/server/storage hardware industry, with strong and growing free cashflow yield. Astute management maintains a strong balance sheet, and Dell's capital return strategy provides internalization of free cashflow for the shareholders while protecting downside in a downturn. Dell is enjoying high demand for its AI-optimized servers, while we believe Dell's valuation underappreciates a nascent PC upcycle.

Addition of **LKQ (LKQ)** in the portfolio with an average weight of 0.36% and a weight of 0.98% at quarter end.

- LKQ (LKQ), in the consumer discretionary sector, is the largest wholesale distributor of alternative parts for the auto aftermarket in North America and Europe. LKQ provides "like kind and quality" auto parts as lower-cost alternatives to those provided by auto OEMs. It is the largest wholesale distributor of collision parts (used to repair vehicle exteriors) in the U.S. and Canada and the largest distributor of mechanical parts (used to repair internal

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

components) in Europe. LKQ also runs its own salvage and recycling operations. LKQ is the dominant player in an industry with stable demand that is uncorrelated to the macro economy: demand is driven by repairable car insurance claims, which are a function of vehicle miles traveled (VMT) and weather. VMT have grown steadily for 25+ years, with minimal impact from recessions (excluding pandemic lockdowns). As the world's largest recycler of cars at end of life, recovering 90%+ of the materials from scrap cars for reuse or recycling, LKQ supports resource efficiency and responsible consumption as an investable theme. LKQ has also set a science-based target of 30% reduction in Scope1 and 2 emissions by 2030 versus 2021, and it has a goal to achieve net zero across operations by 2050, which stands out for a non-consumer-facing company with a \$15 billion market cap.

Addition of **Marvell Technology (MRVL)**, in the portfolio with an average weight of 0.54% and a weight of 0.87% at quarter end.

- Marvell Technology (MRVL), in the IT sector, is a fabless semiconductor company levered to the data centre end market, with exposure to enterprise networking, telecom, consumer and auto/industrial end markets. The company's products support the reduction of power consumption within these end markets. The key drivers to the thesis for Marvell are multiple idiosyncratic product cycles in the data centre end market, including those tied to generative AI and traditional cloud infrastructure, as well as a potential cyclical rebound in enterprise networking and carrier

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

infrastructure that should result in revenue growth and margins steadily improving throughout 2024.

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