

Desjardins SocieTerra Emerging Markets Equity Fund



QUARTERLY COMMENTARY AS OF MARCH 31, 2023



PORTFOLIO MANAGER:
Comgest

INCEPTION DATE:
September 5, 2018

CIFSC CATEGORY*:
Emerging Markets Equity

Contributors to relative performance

- Mercado Libre saw its share price rise (+55.4% in CAD) thanks to continued strong results, strict loan control (with bad debts below expectations) and the bankruptcy of Lojas Americanas, which held 10% to 15% of the e-commerce market. The e-commerce division has demonstrated that Mercado Libre is strengthening its leadership position in Latin America by gaining market share and improving profitability.
- The portfolio benefited from an overweight position in Mexico, which continues to exhibit strong currency. FEMSA, the fund's largest holding, announced a long-awaited restructuring plan to reduce the significant discount to its net book value
- TSMC has better control of its market, as evidenced by Q4 2022 results: year-over-year revenue growth of 43% and gross margin of +62%, above consensus. Management has recognized an inventory digestion phase for the next two quarters but expects demand to recover again in S2 2023.
- A new series of good results allowed WEG to continue its outperformance. Q4 2022 sales growth was 27% while EBITDA increased by 39%. Domestic and international sales grew by 32% and 21% respectively; good performance given the slowing global economy.
- Encouragingly, growth and quality look increasingly attractive relative to value stocks. This situation is promising for our investment style. We believe this trend will continue and that the consistency of good results will ultimately be rewarded.

Detractors from relative performance

- Samsung's Q4 2022 results showed losses for the first time since Q1 2009 on the combined memory front, but DRAM (dynamic random access memory) and logic products remained profitable. Forecasts for Q1 2023 are mixed due to continued strong themes of weak demand and reduced customer inventories.

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Detractors from relative performance (cont'd)

- LG H & H declined in the quarter. Hopes for improved sales due to Beijing's abandonment of its zero-COVID policy have so far not been realized. Consumers remain cautious and spending has focused on immediate consumer products and domestic travel.
- Korea-based video game company NCSoft detracted from performance and its weighting was also reduced. Q4 2022 results were disappointing, with the first quarterly loss in a decade due to high employee bonuses and the normalization of Lineage games following the launch of Lineage W. In addition, the competitive landscape in a relatively saturated domestic market has become more complicated, while the company's international ambitions have yet to prove themselves.

Major changes to portfolio in the period

- We continue to take advantage of lower prices to invest in securities exposed to a recovery in growth that is expected to occur over the course of 2023. We remain extremely mindful of valuations in light of the opportunities presented by market volatility and growth uncertainty.
- Our positions in Samsung Electronics and TSMC were further strengthened in anticipation of a recovery in their production cycles. We initiated a position in Hong Kong Exchanges & Clearing Limited (HKEX). We expect foreign investment in Chinese equities to increase given the underweight of emerging market and international funds. In addition, earnings per share (EPS) growth for Chinese companies is expected to be strong in 2023, supported by favourable benchmarks and a recovering economy. We have reinforced LG Chem on the decline of the share price while we have slightly reduced Mercado Libre by taking advantage of the rise in share price.

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

We reduced our exposure to HDFC during the quarter. The stock performed well in Q4-2022 on improving demand and mortgage availability. However, the Indian market is relatively expensive and investors are moving away from India to China.

*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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