

Desjardins SocieTerra

International Small Cap Equity Fund



QUARTERLY COMMENTARY AS OF JUNE 30, 2023



PORTFOLIO MANAGER:
Baillie Gifford

INCEPTION DATE:
June 21, 2022

CIFSC CATEGORY*:
Global Small/Mid Cap Equity

Contributors to relative performance

As active growth managers, portfolio performance is predominantly driven by stock-specific factors:

- **Global UniChip (GUC)**, the Taiwanese fabless chip company that designs application-specific integrated circuits (ASICs), has continued to benefit from the proliferation of semiconductors in more and more industries and the fervor around AI.
- **Hypoport**, the German mortgage origination software provider, has seen some results translating to positive share price performance following its recent cost-saving efforts and its continued focus on its core markets and its innovative ways to stay ahead of the competition.
- **ESI Group**, the French simulation software provider, has seen share price strength after suggestions of a potential sale to a large suitor were followed by an agreed offer for the company.

Detractors from relative performance

- **Airtac International Group**, the Taiwanese pneumatic equipment manufacturer, experienced some share price weakness after being one of the top contributors last quarter, due to a slowdown in market demand for its battery business but it still expects double-digit revenue growth for 2023.
- In spite of recent share price weakness as a result of the interest rate environment, **Avanza Bank**, Sweden's leading platform for savings and investments, remains one of the strongest contributors to performance over the long term.
- **Keywords Studios**, the video game outsourcer, has been grappling with the disruptive threat of AI on its translation and art divisions as markets worry that new technologies such as AI for automated testing and machine translation could pose a threat.

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Major changes to portfolio in the period

- New Purchases
- **Oxford Nanopore Technologies PLC** — We have taken a holding in Oxford Nanopore, a manufacturer of nanopore-based sequencing kits.

Edge: It is the only company in the world to market this technology. Their products have several advantages over traditional techniques, including cost, portability, and the ability to read native DNA, and therefore can analyse entire genomes more efficiently than alternative sequencing technologies. Their intellectual property is well protected and supported by strong relationships with the scientific community.

Opportunity: The novel technology opens up new sequencing opportunities in academic and clinical settings which have the potential to revolutionize healthcare, public health, and commercial biology and translate to extraordinary growth potential for the company.

Scalability: The company's razor blade business model, centred around selling hardware and generating recurring revenues from 'flow cells' consumables, is scalable and has the potential to be highly profitable.

Alignment: Led by a long-standing team of highly committed scientists, with two of the founders still running the business today. The management team owns around 7% between them, and there are several large strategic holders including Tencent and IP Group.

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

Sustainability: Sequencing in general has the potential to have a transformative impact on healthcare outcomes longer term. Nanopore has the important advantage of helping democratise sequencing through its lower cost and smaller form factor, opening up the technology to a far wider group of potential beneficiaries around the world.

Insight: Baillie Gifford has owned the business indirectly through our IP Group position for over a decade and now holds it widely post-IPO. We also have a long history with their main rival Illumina. This has allowed us to build a deep institutional understanding of the sequencing market and excellent access to the companies and thought leaders in this space.

- **Appier Group Inc** — Appier is a Taiwanese software company listed in Japan. Founded in 2012, its SaaS-based software uses AI to help clients acquire and understand customers' behaviour, and automate the associated business processes.

Opportunity: It is still very early days for AI. Significant opportunities come from adding new clients and cross-selling Appier's product suites to existing clients. This is key to the investment case.

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

Edge: Appier's clients achieve fantastic returns from Appier's products, which in turn get better with increasing adoption. The breadth of the product portfolio represents another source of edge.

Scalability: Inherent scalability is very good with extremely strong underlying unit economics. The main bottleneck is the time it takes to educate clients.

Alignment: This is an ambitious business led by founders with impressive AI credentials, and the business model is closely aligned with clients' success.

Sustainability: The material factors are cybersecurity, data privacy and employees. Appier is at an early stage in disclosure but is moving in the right direction.

Insight: After multiple engagements over the past year, we have been impressed by the ambition of the leadership, the apparent effectiveness of the products, and the company's operational performance. That said, we are still building our understanding and therefore conviction in this investment, so we are starting with a modest position.

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- Complete Sales
- **Bactiguard Hdg** — We have chosen to sell your holding in Bactiguard, the Swedish medical technology business. While we still believe the company's novel antibacterial coating has a number of useful properties that could be applied in a wide range of medical procedures to reduce the risk of infection, ultimately we have been disappointed by the pace of adoption and commercial execution. These concerns coupled with notable changes in the executive team have moved us to redeploy the funds into higher conviction holdings.
- **Biocartis Gp** — Biocartis aims to provide cancer diagnostics at the point of treatment, fulfilling a critical gap in patient care.

Scale: Biocartis has struggled to extend commercial products to actual market penetration and is now looking increasingly unlikely to succeed.

Alignment: The catalysts for selling were the recent departure of the CEO and the likely need for future funding. We will, as ever, reflect on any lessons we can learn from this failed investment but continue to seek growth companies that are trying to provide vital solutions to unmet needs.

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- **Cafe24** — Café24 is a Korean e-commerce platform. We invested on the basis of the e-commerce opportunity both domestically and outbound, as well as an aligned founder-led management team. However, while both of these points arguably still stand, Cafe24's execution in recent years has been disappointing, and its competitiveness has declined relative to larger rivals such as Coupang and Naver. In combination with a weak financial position, we feel that the probability of a significant turnaround is limited and we decided to exit this position.

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