



PORTFOLIO MANAGER:

Impax Asset Management

INCEPTION DATE:

June 14, 2016

CIFSC CATEGORY\*:

Global Small/Mid Cap Equity

## Contributors to relative performance

- **Vestas** (Wind Power Generation Equipment, Denmark) and **EDPR** (Renewable Energy Developers & IPPs, Portugal) made the largest and third-largest positive contributions to returns. Both stocks have risen as the prospect of lower interest rates coincides with signs that governments are willing to raise prices paid for renewable power. News that sector bellwether Ørsted (not held) would be re-tendering for part of its Hornsea 3 project in the UK at a significantly higher price point was a particular catalyst in this respect. Vestas and EDPR also both reported Q3 results, which beat expectations. Although underlying trends at EDPR remained weak, the company delivered high asset rotation gains. Vestas by contrast demonstrated increased pricing discipline in onshore wind as well as rising orders. The stock similarly benefited from news that Siemens Energy – a rival – was effectively seeking a bailout from the German government. Doing so limits Siemens' ability to compete in key markets like the US and is likely to give Vestas greater pricing power. Towards the end of the quarter, Vestas announced that it had secured over 7GW of orders in Q4, a record level of intake.
- **Monolithic Power Systems** (Efficient IT, US) further boosted performance. The semiconductor device company has been a beneficiary of this year's tech rally, particularly given its role as a supplier to Nvidia, the main producer of graphical processing units associated with artificial intelligence (AI). However, Monolithic has also backed this enthusiasm up with earnings. Q3 results were in line with expectations, showing fairly broad strength across end markets, notably gaming and hardware. Looking forward, management also

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# Desjardins SocieTerra Cleantech Fund



QUARTERLY COMMENTARY AS OF DECEMBER 31, 2023



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## Contributors to relative performance (cont'd)

pointed to the continued scope for penetration in autos as one of a range of potential new opportunities.

## Detractors from performance

Weaker performance was limited to positions in solar stocks, as well as Asian holdings. Not owning mega-cap technology names (the so-called Magnificent Seven ex-Tesla) also detracted from relative returns.

→ The weakest contributors to performance were **SolarEdge Technologies** (Solar Energy Generation Equipment, US) and Xinyi Solar (Solar Energy Generation Equipment, China). In 2023, the solar sector has been challenged by lower power prices, higher financing costs, US regulatory overhang, and Chinese oversupply of solar panels into Europe. While share prices did recover somewhat as monetary policy expectations changed, these headwinds persisted into Q4. Continuing demand weakness in Europe had a particularly pronounced impact on SolarEdge. The maker of solar optimisers reported Q3 revenues which missed estimates, as European distributors cancelled or pushed out orders. European demand had been expected to offset softness in the US, and shares fell sharply as a result. However, we continue to have conviction in the longer-term investment thesis.

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## Detractors from performance (cont'd)

- **Indraprastha Gas** (Cleaner Energy, India) also detracted from returns. Shares in the distributor of compressed natural gas (CNG) fell after Delhi's government approved a scheme to enforce electric vehicle (EV) usage for cab aggregators by 2030. Automotive CNG use accounts for a material amount of Indraprastha' CNG volumes and such legislation represents a long-term downside risk. However, the price move effectively discounts all auto CNG volume to zero, even though the legislation requires further approvals and existing EV infrastructure in Delhi is minimal. Subsequently reported results showed robust growth and strong margins, helping to reverse some of the decline.

## Major changes to portfolio in the period

- Added:
- **Prysmian** (Energy Management & Efficiency, Italy) manufactures electrical wires for the power grid, as well as fiberoptic cables. Rapid growth in renewables, as well as the electrification of power systems, heating and transport are driving substantial investment in the grid. With substantial market share, particularly in the more operationally demanding High Voltage segment, we believe Prysmian is well-placed to benefit.

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

- **Veralto** (Environmental Services & Resources, US) is a spin-out from US testing and analysis company Danaher, focused on providing quality control services for the water, food, and pharmaceutical markets. As part of Danaher, the company has a track record of high margin recurring business and strong growth.
  - **Mondi** (Food Safety & Packaging, Ireland), added to replace Smurfit Kappa (see below), operates in the paper and packaging sector, and is well positioned as a net producer giving it greater pricing stability and security of supply as cyclical demand picks up.
- Sold:
- **Smurfit Kappa** (Food Safety & Packaging, Ireland) exit triggered by Smurfit's announcement in September that it intended to acquire WestRock, a rival. Some synergies are immediately evident, but there is little clarity on management's broader strategy to lift returns above Westrock's current cost of capital. Proceeds were used to buy Mondi (see above).

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

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