Desjardins Sustainable American Equity Fund

(formerly Desjardins SocieTerra American Equity Fund)

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2024

ClearBridge Investments

PORTFOLIO MANAGER:
ClearBridge Investments

INCEPTION DATE:
June 14, 2016

CIFSC CATEGORY*:
U.S. Equity

Contributors to relative performance

→ Stock selection in the health care sector

→ A lack of energy holdings

Detractors from performance

→ Stock selection in the IT and communication services sectors

Major changes to portfolio in the period

→ Addition of Nvidia (NVDA) in the portfolio with an average weight of 1.35% and a weight of 2.31% at quarter end.

- Nvidia, in the IT sector, is the leading developer of graphic processing units (GPU) for use in generative AI as well as gaming and enterprise applications. The GPU, which can quickly perform complex mathematical calculations, was initially used primarily for the PC gaming market, but it now has become the dominant technology that powers AI models, a nascent and quickly growing market. We took advantage of a recent pullback to establish a position in this high-growth opportunity. While we have concerns about near-term overinvestment and delayed monetization of AI, the valuation has become more palatable, and long-term compute demands for AI will rise, albeit potentially not linearly. At the same time, Nvidia is an undisputed leader in AI, is on the fastest innovation cadence in the industry, has a software-enabled moat around the business, and is very profitable. Power usage is an important consideration in AI penetration and Nvidia's focus on driving continued power efficiencies in its products help enable more sustainable use of computing power.

→ Addition of Vulcan Materials (VMC) in the portfolio with an average weight of 0.27% and a weight of 1.03% at quarter end.

- Vulcan Materials, in the materials sector, is the largest producer of construction aggregates such as crushed stone, sand and gravel in the U.S. Aggregates account for 90% of the business, of which ~50% is driven by state and federal public spending, ~25% by single family housing and ~25% by non-public commercial construction. Geographic exposure is skewed to the southern U.S. in states such as Texas, Georgia and Alabama. We view Vulcan Materials as a long-term compounder in a regional monopoly/oligopoly with high

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barriers to entry, which drives time-tested pricing power as well as volume growth over time. Growth is both organic and inorganic, with consolidation further enhancing pricing. Price share has compounded at 12%, which is reasonable over the long run. While the market appears to understand the quality of the business, Vulcan Materials shares have underperformed due to concerns over 2025 volumes, which provided an opportunity for us to purchase the stock. Aggregates play an essential role in constructing all types of infrastructure (roads, bridges, buildings), and infrastructure is a key foundation of economic development and a tenet of the UN's Sustainable Development Goals (SDG). There is no reliable substitute for aggregates and their production process tends to carry a low-emissions profile. The public's focus on this need should drive continued growth of volumes for Vulcan Materials.

→ Sale of McCormick (MKC) with a beginning weight of 0.52% and an average weight of 0.01% in the quarter.
- We exited McCormick, in the consumer staples sector, as our thesis around stable mid-single-digit growth has been challenged by heightened competition and eroding pricing power.

→ Sale of Aptiv (APTV) with a beginning weight of 0.56% and an average weight of 0.15% in the quarter.
- We elected to sell our position in Aptiv, in the consumer discretionary sector. Recent order cancelations and partnerships between others in the auto industry have reduced the likelihood of Aptiv's software-defined vehicle platform becoming a long-term growth driver for the business, which reduces the company's differentiation among other tier 1 auto suppliers.

→ Sale of Marvell Technology (MRVL) with a beginning weight of 0.86% and an average weight of 0.33% in the quarter.
- Marvell Technology, in the IT sector, is a networking and storage semiconductor company in the 5G, data center and automotive ethernet end markets. We purchased the stock at the same time as semiconductor developer Broadcom (AVGO) with the expectations that the broadening out of AI

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spending beyond GPUs would benefit both companies' exposure to custom silicon. However, since our initial purchase date, we believe that the visibility on the turnaround in Marvell's non-AI business has been pushed further out. At the same time, our research and analysis strongly suggest that Broadcom is in a stronger position to win more deals in the custom silicon space. Ultimately, we decided to sell Marvell and subsequently re-allocate the proceeds to increase our investment in Broadcom.

→ Sale of Cisco Systems (CSCO) with a beginning weight of 1.27% and an average weight of 0.50% in the quarter.

- Cisco Systems, in the IT sector, provides IT and networking services in the form of network security, software development and cloud computing. While the company is the global market share leader in networking equipment, Cisco has been unable to stabilize market share losses to rivals, particularly in its data center business, where competitive threats to the company continue to intensify. This, combined with weaker demand for networking equipment as enterprises prioritize other areas of IT spending such as AI and cybersecurity, has resulted in disappointing earnings growth and led to our decision to exit the position.

*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/.