Desjardins SocieTerra
International Small Cap Equity Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2023

BAILLIE GIFFORD

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:

- **Bengo4.Com,** the Japanese online platform connecting lawyers with clients helped performance driven by its market-leading CloudSign service, which was launched in 2015 as Japan's first web-based electronic contracting service.
- **Chroma Ate,** a Taiwan-based company that makes testing equipment for electronic components, has continued to benefit from the growing demand for EVs in emerging markets and the increasing adoption of new technologies such as 5G and artificial intelligence.
- **Nayax,** the Israeli payments company, reported strong revenue growth of 36% for its quarter ended in June. It expects to grow at a similar pace over the year thanks to a number of growth initiatives: it intends to expand into adjacent verticals like EV charging and attended retail.

Detractors from relative performance

- **Addtech** is a Swedish serial acquirer of niche, profitable, growing engineering businesses. Recently the market might have been distracted by relatively slower growth after last year’s unusually high sales and earnings growth.
- **Global UniChip** is a Taiwanese chip designer. Although recent results were very good, there are two possible reasons for its share price performance over the past quarter: a cooling off of AI-related names and sluggish results by TSMC, Global Unichip’s largest customer and shareholder.
- **Hypoport** helps mortgage brokers match lenders (banks) with borrowers (homebuyers) by comparing interest rates. Although sales were down 9% in the past quarter and the company reported a loss, it remains one of our highest conviction ideas.

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Major changes to portfolio in the period

New Purchases :

→ Hanatour Service : **Hanatour** is a leading South Korean provider of package holidays.

Opportunity: For a series of historical and cultural reasons (language, politics, holiday allowance, etc...) South Korea's international travel market is extremely immature relative to global peers. Hanatour is well placed to benefit from the pent-up, structurally growing demand. It also has the potential to digitise the Korean travel market as over time, investment into its digital app may allow it to build a second major leg as an online travel hub similar to Booking.com or TripAdvisor in the US.

Edge: The company has a significant scale advantage and first-mover positioning. This helps them secure superior inventory with airlines, hotels, and experience providers.

Scalability: Margins should improve significantly from here as the various self-help measures implemented during the pandemic feed through the business.

Alignment: Very supportive PE holder who has helped raise money through the pandemic and has placed and empowered the current CEO Mi Sun Song. Song is the driving force of the turnaround here, having made a series of tough-but-necessary changes during the pandemic, and she has driven significant investment into the digitisation of the business.

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Sustainability: This is a weaker element of the case. One can argue that package holidays provide a more efficient option than solo travel, but there are still clearly question marks around the environmental and social impact of travel/tourism.

Insight: In developed markets, the package holiday market is sub-scale and has largely been disrupted by digital competition. The insight here is around the structural, competitive and cultural differences within South Korea which leave it well suited for a large, innovative package holiday provider. This insight is combined with our alignment with the vision of the CEO, and a compelling valuation following several years of pandemic-related challenges.

→ CellSource Co., Ltd.: Cellsource is a Japanese regenerative medicine company that develops cell-based therapies to treat diseases such as osteoarthritis.

Opportunity: Cellsource is providing an innovative treatment for osteoarthritis in Japan, a country estimated to have 8-10 million sufferers. The treatment, which lasts between 12-18 months, stimulates muscle regeneration and is seen as a less cumbersome option than the weekly hyaluronic acid injections commonly used. Additionally, it has applications for other medical conditions such as infertility and sports injuries, providing Cellsource with a vast market opportunity.

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Edge: Cellsource is the largest player in the industry and is expanding its capacity by nearly 10x, which would make its current position stronger. In addition, having a patented manufacturing process for its end product which is in powder form (freeze-dried) means that barriers for new and existing players are quite high if they want to replicate Cellsource's business model

Scalability: This is essentially a manufacturing business where fast sales growth should naturally result in meaningful margin expansion. Upcoming capacity expansion, where the company is looking to expand production capacity by 10x, should be supportive for margins and returns in the long run.

Alignment: Cellsource is managed by its two co-founders who between them own nearly 60% of the company thereby ensuring strong alignment.

Sustainability: Through its treatment, Cellsource is providing a viable alternative to a medical condition where surgery is the only other option. By improving the quality of people's lives, at some level, Cellsource is contributing to a healthier society in Japan and in some cases, this is even resulting in patients being able to return to work thereby raising overall productivity.

Insight: The market is currently fixated on just the current opportunity set within osteoarthritis, but we think management has ambitions to expand beyond this into other areas and given the scalability of the

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business model, such an expansion would take minimal capital. We think the business could be a lot bigger than it is currently given these various growth avenues.

Complete Sales:

→ Naked Wines : We have sold your holding in **Naked Wines**, the online wine retailer. Despite having built a popular subscription business model over the years, the recent history of the business has been characterised by some mistakes in the pursuit of rapid growth. This has been at the expense of their cost-base and inventory levels, alongside struggles to recruit and retain new customers into their recurring community of 'angels'. We also think the alignment case for our investment has been weakened, with both management and board exits following this difficult time. While we still admire the business and its commitment to fostering a direct-to-consumer wine market, given these challenges, we have chosen to reallocate the capital elsewhere.

→ CleanSpace Hdgs : **CleanSpace** manufactures innovative respiratory equipment that is critically more efficient, safe and environmentally sustainable than legacy products in healthcare and industrial applications.

Opportunity: Whilst their product had achieved some promising commercial recognition and success in the period we had taken a holding, through some operational mistakes and bad luck relating to timing, the product had struggled to achieve the penetration we had

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hoped to see in the healthcare industries. The company has also since shifted focus toward its industrial segment, which in our view has a smaller growth runway and profitability.

Alignment: The CEO, whom we had found to be an impressive figure with over two decades of experience in B2B medical technologies, and a long tenure at Cleanspace overseeing the commercialisation of the technology, has also recently departed.

Bearing in mind that alongside these changes, a need for future funding is also likely, we have decided to sell our remaining small holding and make room for other higher-conviction ideas.

→ Colopl Inc: **Colopl** is a Japanese video game company that specialises in the development and publishing of mobile games. The company was founded in 2008 and has since released a wide variety of games for iOS and Android devices. Our initial enthusiasm in the Colopl investment case was based on management's early investments in virtual reality technology. However, there has been insufficient progress to warrant maintaining the position. We have also been disappointed with the lack of new game launches and the company continues to rely on historical games for its sales and profits. We have therefore sold the holding.

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