

Desjardins Sustainable Cleantech Fund

(formerly Desjardins SocieTerra Cleantech Fund)



QUARTERLY COMMENTARY AS OF SEPTEMBER 30, 2024



PORTFOLIO MANAGER:
Impax Asset Management

INCEPTION DATE:
June 14, 2016

CIFSC CATEGORY*:
Global Small/Mid Cap Equity

Contributors to relative performance

The strong performance of mid and small caps – which account for 51% and 23% of the portfolio, respectively – reversed a long-standing headwind. At the same time, the rotation towards more defensive and cheaper stocks translated to significant positive contributions from stock selection, as well as uplifts from sector allocation.

- Pentair (Water Distribution & Infrastructure, US): made the strongest contribution to performance. The maker of water filtration equipment posted results which beat weaker expectations set by Pool Corp, a not-held sector peer which distributes swimming pool supplies. Full-year guidance also narrowed to the upper end of its range with management citing pricing power, footprint optimisation and sourcing as drivers of an improvement in margins. These self-help measures have enabled Pentair's shares to weather recent volatility in construction-exposed names.
- Brambles (Resource Circularity & Efficiency, Australia) also boosted returns. The pallet and logistics company reported quarterly profits and forward guidance that were above expectations, pointing to strong pricing and lower costs. Brambles also hosted a Capital Markets Day highlighting ongoing improvements to operational quality and cash flow generation. Subsequent conversations with management indicated that continued investment in initiatives like automation and digitalisation remain central to reducing the cyclical nature of the business.
- CATL (Advance Road Vehicles & Devices, China) rallied sharply towards the end of the quarter, making it one of the portfolio's strongest absolute performers. Shares in the producer of batteries for electric vehicles and static storage rallied over 30% in response to stimulus announcements from the Chinese government. However, barring some measures to stimulate consumer spending, there is limited direct read-across for the stock. While the team continues to have conviction in its long-term investment case, the extent of the jump was a prompt to review the position size.

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Detractors from performance¹

Stock selection in the consumer staples and utilities sectors made the weakest contribution to returns. In utilities, independent power producer holdings underperformed the sector, despite high visibility of future cash flows.

- Cognex (Industrial Energy Efficiency, US) detracted from performance. Shares in the US specialist in machine vision systems fell sharply following disappointing Q2 results. While the company beat expectations for revenues, forward guidance was lowered. This is due to a combination of weaker industrial demand, softness in automotives (notably in electric vehicles, and in the EU), as well as persistent headwinds in consumer electronics. Longer term, management continues to point towards the continuing penetration of its solutions across industries. However, with limited visibility around a recovery in the near term, the team has not added to the position.
- Spirax Group (Industrial Energy Efficiency, UK) detracted from returns following weaker-than-expected H1 results and a cut to full-year guidance. Extended inventory destocking in bioprocessing has weakened shares in the industrial steam and heating specialist year to date with guidance cut following a further pushing out of this recovery. On top of this, Spirax reported its first organic revenue contraction for the Steam Specialities business since H2 2016 driven by softer global industrial production, notably in China. While macro headwinds remain, the stock trades at the lower end of its historic price to forward earnings multiple.
- Advantech (Industrial Energy Efficiency, Taiwan) weighed on portfolio performance during the quarter. The Taiwanese producer of industrial computing solutions reported Q2 revenues and earnings towards the upper end of expectations. However, like Cognex, forward guidance was weak with management pointing to flat year-on-year revenue growth.

¹ Please note stock commentary is based on absolute contribution to return.

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While the Americas remained an area of growth thanks to semiconductor equipment and China shows signs of recovery, growth in Europe is expected to drop. However, with total orders increasing for four consecutive quarters, medium-term growth expectations remain positive.

Major changes to portfolio in the period

Added:

- Bentley Systems (Efficient IT, US) a provider of software for the planning, construction, and maintenance of infrastructure. Bentley's relatively low cost to clients and subscription-based business model ensures a high level of retention, with construction one of the sectors least penetrated by software adoption. A change of CEO and concerns over cyclical business activity created an attractive entry point.
- Waste Connections (General Waste Management, US) The company is a US-based solid waste disposal company, providing transfer, treatment and recycling services. By targeting markets where it enjoys exclusivity or minimal competition, Waste Connections benefits from high route density, low capex needs and long-lasting contracts. The company targets a defensive growth model through a combination of pricing and asset acquisition. As a result, the stock trades at a justified premium to peers.

Sold :

- Cryoport (Resource Circularity & Efficiency) A producer of efficient refrigeration solutions with a focus on bioprocessing, the company saw its share price struggle on account of extended inventory destocking. However, conversations with management also raised some concerns around capital allocation strategy. As a result, the position was consolidated into Repligen, another holding in the bioprocessing space.
- Shimano (E-Bikes & Bicycles) was exited on account of a less-favourable risk-reward dynamic. Shares in the Japanese maker of bicycle components have rallied sharply, and medium-term upside is limited. At the same time, a product malfunction and

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allegations of forced labour at a company supplier has increased perceived governance risk.

- Terna Energy (Renewable Energy Developers & IPPs, Greece)
The Greek renewables operator is being taken private by Masdar, an Abu Dhabi-based developer. The takeout price is almost double where the team initially started its position four years ago, reflecting attractive valuations currently available across Environmental Markets.

*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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