Desjardins Sustainable American Equity Fund

Desjardins Wealth Management Investments

QUARTERLY COMMENTARY AS OF DECEMBER 31, 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 financial services and communications sectors

Detractors from performance

- → Stock selection in the health care, consumer discretionary and information technology sectors
- → Overweights to health care and materials

Major changes to portfolio in the period

- → Addition of **ServiceNow** (NOW) in the portfolio with an average weight of 1.11% and a weight of 1.59% at quarter end.
  - ServiceNow (NOW), in the IT sector, provides an end-to-end software-as-a-service (SaaS) platform to help enterprise customers automate and standardize business processes in areas such as IT, human resources, customer service, sales and data security. ServiceNow has a differentiated product and is one of the few software companies providing a true platform solution to enterprises. Its SaaS platform is becoming increasingly mission critical to its enterprise clients (98% customer retention) and is displacing legacy solutions and manual processes given its strong value proposition and a broader trend towards software vendor consolidation. This should enable the company to continue growing rapidly and gaining market share within very large addressable markets. The company also has one of the most credible and monetizable generative AI use cases in its AI agents. Its products are also highly innovative, and the company is investing more than 20% of sales back into R&D every year to maintain that leadership. ServiceNow's platform has use cases with positive social impact like helping better manage HR systems, employee satisfaction, data security, governance and business risk, as well as a specific ESG data solution. More broadly, ServiceNow's platform has a meaningfully positive impact on economic productivity, which aligns with Sustainable Development Goal 8: Decent Work and Economic Growth. The company also has a great culture, a high-quality and diverse leadership team and leading environmental initiatives: it has already achieved its goal of sourcing 100% renewable power and has goals to reduce emissions by 70% by 2026 and to be net zero by 2030.

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→ Addition of **Bank of America** (BAC) in the portfolio with an average weight of 0.23% and a weight of 1.51% at quarter end.

- Bank of America (BAC), in the financial services sector, is the nation's second-largest bank. Bank of America has significant scale advantages in an industry where scale is paramount as it allows the biggest banks to leverage regulatory, marketing and technology spend over a larger, more diversified asset base. This has resulted in Bank of America having stable-to-growing market share across key areas like deposits, investment banking and trading. Additionally, it has de-risked its balance sheet meaningfully following the Global Financial Crisis, which should result in relatively more favorable credit outcomes through cycles. Over the intermediate term, Bank of America is tactically well-positioned to deliver above-peer earnings growth as the bank is underearning meaningfully on spread income after prematurely extending the duration of assets early in the tightening cycle. Coupled with stabilizing/improving trends on the funding side, this should result in a long runway for gradual net interest margin expansion as those assets are reinvested at higher rates over time, driving top-line growth and operating leverage. Bank of America is staying the course of its long-term strategy for "responsible growth" by adopting tighter underwriting standards and strong credit quality. The company has meaningfully improved its loss ratio relative to peers in the Fed's annual stress test. Responsible growth also includes treating customers fairly (e.g., through provision of credit and pricing of products). Bank of America has been a leader in sustainability disclosure: CEO Brian Moynihan was a Chairman of the WEF International Business Council, which is guiding industry on standardizing ESG disclosures. Bank of America is committed to maintaining a diverse workforce with high employee satisfaction and minimum wage for employees to increase to $25 by 2025 (currently at $24). Bank of America is a leader in carbon neutrality and net-zero advisory services to clients and has a target to achieve net zero in its financing activities, operations and supply chain by 2050. Since 2021, it has deployed $560 billion of $1.5 trillion targeted for sustainable finance by 2030, of which $316 billion went toward environmental transition. A significant part of the sustainable finance commitment is earmarked for inclusive social development.

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→ Addition of **MetLife** (MET) in the portfolio with an average weight of 0.44% and a weight of 1.21% at quarter end.

- MetLife (MET), in the financial services sector, is one of the largest life and group insurance companies in the U.S. with operations both in the U.S. and abroad. The business has structurally improved its return on equity and derisked its business relative to the past with divestitures of much of its legacy business and improvements in the market interest rate environment. Profitability levels have risen closer to levels consistent with other strong financial companies and MetLife has also improved free cash flow generation while returning large amounts of capital to shareholders. At the same time, MetLife's valuation continues to reflect subdued profitability. The company has a strong balance sheet and solid management and shareholder friendly governance. Its products provide solutions to address clients' insurance and savings needs, resulting in greater physical, social and financial stability across its global footprint, which includes underpenetrated emerging economies. These attributes benefit the business as the global population ages.

→ Addition of **McKesson** (MCK) in the portfolio with an average weight of 0.57% and a weight of 0.95% at quarter end.

- McKesson (MCK), in the health care sector, is the leading distributor of pharmaceuticals to retail drug stores, physicians' offices and hospitals in the U.S. McKesson also has the largest specialty drug and oncology business in the U.S., which is the fastest-growing, highest-margin segment of drug distribution. Drug distribution is a non-cyclical business with an attractive market structure consisting of three large, rational players, resulting in steady double-digit earnings growth compounding over time. Outside of the growth in drug distribution, the company is seeing outsize growth in its prescription technologies business, where it is growing organically and through M&A. As a drug distributor with an additional business in prescription authorization, McKesson plays an important role in broadening access to prescription drugs, which has a positive impact on society and helps to drive growth.

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→ Addition of **Chewy** (CHWY) in the portfolio with an average weight of 0.18% and a weight of 0.82% at quarter end.

- Chewy (CHWY), in the consumer discretionary sector, is a pure play e-commerce company focusing on pet products. Growth for Chewy is being driven by the underpenetrated e-commerce category of pet products moving further online and pet ownership normalizing from the post-COVID and inflation-driven slowdown. Furthermore, there is potential for margin expansion driven by fulfillment center efficiencies, rising private label products, pharmacy growth, higher spending per customer and advertising revenue. Strong free cash flow conversion provides further optionality. Chewy's fundamental story is enhanced by the continued focus of pet parents on animal welfare — the outlook for which is enhanced by the demographics of lower birth rates. This points to increased availability of disposable income to be spent on pets — a trend we observe in developed countries with very low birth rates. Operationally, Chewy enjoys high customer satisfaction and has increased wages for fulfillment center workers to match industry leaders like Amazon, while at the same time improving fulfillment center efficiency, which benefits margins.

→ Addition of **Reddit** (RDDT) in the portfolio with an average weight of 0.30% and a weight of 0.63% at quarter end.

- Reddit (RDDT), in the communications sector, is a global online platform of communities where members engage in authentic conversations, explore passions, research new hobbies, exchange goods and services and create new experiences. Reddit is a unique destination for community and conversation on the internet. As the platform has grown, management has significantly increased initiatives around content safety, relevance and moderation, making Reddit a safe space for communities to engage. The company also publishes semi-annual transparency reports for public review, detailing its content safety actions. Given the adverse social aspects of many social media businesses, Reddit stands out from the group, which should continue to help drive engagement and users — the company is growing users and monetization at the highest rate in the social media space while remaining cost disciplined. Reddit's community ecosystem has resulted in a robust library of contextual and interest-based content that creates attractive advertising

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opportunities. The potential for compounding of users and revenues is well above 20% per year in the medium term with potential to unlock users internationally, where Reddit is underpenetrated, as well as monetization potential in logged-out users. Beyond advertising, Reddit's large and growing content has proven valuable to third-party developers of generative AI models, underscored by multi-year, non-exclusive licensing deals signed with Google and OpenAI, and represents an additional revenue growth opportunity over time.

→ Sale of **Hologic** (HOLX) with a beginning weight of 1.51% and an average weight of 0.93% in the quarter.
- Hologic (HOLX), in the health care sector, is a medical technology company focused on women's health with leading positions in medical diagnostics, medical imaging systems and surgical devices. While Hologic remains a quality growth-at-a-reasonable-price asset, guidance of growth below long-term trends as well as near-term headwinds, such as tough year-over-year comparables, led us to lower our risk/reward expectations for the stock.

*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/.