THEMATIC INNOVATION FUND

MONTHLY COMMENTARY

June 30, 2020

The S&P 500 had a spectacular second quarter with a return of 20.5% (15.4% in Canadian dollars). During the quarter, all eleven sectors of the index posted a positive return, with Energy, Consumer Discretionary and Information Technology being the best performers. Information Technology, which represents more than a quarter of the index, was the second-best performer with a 30%+ positive return during the quarter. Health Care and Consumer Staples, which are more defensive by nature, underperformed the index in this rally. An overweight position in Information Technology and Consumer Discretionary was positive for the Fund, as was an underweight position in Consumer Staples.

Stock selection was the main driver of outperformance over the second quarter. Within Information Technology, selection in the Semiconductors subsector was positive for the Fund's performance, with overweight positions in Broadcom, Micron, Nvidia and NXP, coupled with a position in Ceva, which all outperformed the index. In Health Care, successful stock selection in the biotechnology sector contributed to the Fund's performance with exposure to Natera, Biomarin Pharmaceuticals and Exelixis. Stock picking in the Pharmaceuticals subsector was also a good contributor with exposure to Eli Lilly and Horizon Therapeutics. Within Consumer Discretionary, exposure to Dr Horton was a positive as it largely outperformed the index.

The nature of the Fund's strategy is to add value by benefitting from an understanding of the pervasive impacts of disruptive technological innovations. These impacts have an increasing influence on every sector of the economy, creating multiple winners and multiple losers from an investment perspective. We believe that the continuing evolution of the internet and the emergence of artificial intelligence, DNA sequencing, robotics and battery technology makes it an interesting time in history, comparable to the rise of the automobiles, electricity and telephone technologies at the beginning of the 20th century.

More than ever, there is a clear division between relative winners and losers. Most winners have the attribute of being positively exposed to the many structural changes listed above and a solid balance sheet as their growth is mostly organically driven and capex-light, meaning they do not require debt to fund growth. An example of this is the software industry, where spending is expected to reach 12%, versus 6.5% pre-COVID, according to a BoFaML survey. By contrast, losers are overburdened levered companies with already a high level of disruption within their respective industries. Examples of this are brick and mortar retail, which were already experiencing recession-like level bankruptcies before the pandemic.

Going forward, we see the world changing on many fronts, and we think this will have an effect of accelerating the adoption of most of the innovation themes we follow closely. In effect, the infrastructure supporting e-commerce and cloud computing is becoming a priority for many and we should see rising investments and ways to benefit from that as an investor. We are also observing many re-shoring (to the U.S.)

initiatives and, in order to remain competitive, this makes robotics and automation technologies a priority in the manufacturing world. Also, the incredible efforts to find treatments and vaccines is placing the spotlight on medical innovation and support research and innovation. The fact that this crisis is bringing the health system to its limit will also bring upfront the need to modernize and make the U.S. health system more efficient. Lastly, fiscal stimulus around the world makes renewables and green technology investments a priority and is accelerating this transition all while investor support is growing strongly.

We are closely monitoring the evolution of the pandemic with cases picking up in many U.S. states that were not severely affected at first like Florida, Texas and Arizona. We take comfort in the fact that mortality rates seem to be declining, but the coming weeks will be critical in terms of the severity of the situation. There are green shoots emerging on the medical front, in terms of vaccine development yes, but also in terms of a rise in the learning curve of treating this virus, which is important to managing hospital capacity.

We are also closely monitoring the upcoming U.S. election with the consensus stating that a democrat sweep (White House, Senate and House of Representatives) is a risk for the market. The fact that Mr. Biden is willing to raise corporate taxes would mean a 5% to 10% hit to S&P 500 earnings, it could also mean less unpredictability from the White House and a roadmap to reducing social tensions on a broad basis. Thus, we are not convinced by consensus view on that front and are neutral on the political front.

In terms of positioning, we are looking for tomorrow's leaders in Health Care and Technology, which are sectors that are relative winners, and we are also looking for resilient firms that are seeing their competitive position improve in the current environment. After every big recession, companies that did not see a big negative fundamental impact to their model are re-rated higher by the market. Thus, we are looking for check-mark shaped recoveries, or companies that are coming out stronger than before all of this. We will also say caution is needed as there are many industries that look cheap but are seeing their valuation permanently impaired.

We **remain positive for now** and think any big positive news on the vaccine front will offset a delayed economic recovery in terms of market performance.

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— Joined iAIM in 2011
— 14 years of experience in the industry
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Main funds managed by the team

✓	Thematic Innovation
✓	U.S. Equity
✓	Global Equity
✓	Global True Conviction
✓	Thetmatic Innovation Hybrid 75/25
✓	Global Equity Hybrid 75/25
✓	Global True Conviction Hybrid 75/25
✓	IA Clarington Thematic Innovation Class
✓	IA Clarington Global Value Fund

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— Manages $97 billion in general portfolios and segregated and mutual funds
— A team of 184 people, including 108 investment professionals (including 44 CFA charterholders)
— Composed of experienced managers who emphasize fundamental analysis, identification of value and long-term investing

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