INVESTMENT
FUNDS

THEMATIC INNOVATION FUND

QUARTERLY COMMENTARY

June 30, 2021

Reopening of the economy is going very well in the United States. High-frequency data on restaurant reservations, hotel stays, casino visits, and kilometres travelled on U.S. highways indicate that trips and outings have already exceeded 2019 levels. Who could've imagined in March 2020 this level of recovery by June 2021?

Despite this excellent news, we must guard against proclaiming too loudly that the situation in the U.S. is back to normal. After all, the COVID-19 pandemic has brought about profound changes, which (at least in the short term) will continue to have a profound impact on current economic recovery.

The S&P 500 had a second-quarter return of 6.95% in Canadian dollars. During the quarter, all eleven sectors of the index posted a positive return, with Real Estate, Information Technology and Energy being the best performers. Industrials and Materials were two of the worst performers driven by the loss of momentum of thecyclical trade as well as the rise in the U.S. dollar at the end of the quarter.

The Law of Accelerating Returns says that the same exponential growth factors that made Moore's law possible, doubling of semiconductor capacity per square inch every 18 months, have extended themselves to all forms of technological progress. As an investor, ignoring the indisputable parabolic curves emerging across industries and economies is not an option. Thus, the nature of the Fund's strategy is to add value by benefitting from an understanding of the pervasive impacts of disruptive technological innovations. Those impacts are having an increasing influence in every sector of the economy, creating multiple winners and multiple losers from an investment perspective. We think that the continuing evolution of the internet and the emergence of artificial intelligence, DNA sequencing, robotics and battery technology makes it a real interesting time in history comparable to the rise of the automobiles, electricity and telephone technologies at the beginning of the 20th century.

After this summer, we think we will be at peak economic growth driven by peak fiscal and monetary policies, peak reopening, peak inflation in the U.S. and peak China's credit impulse, all of which should favour outperformance of the U.S. equity markets, because of their defensive and structural growth attributes, as markets stop to reward cyclical exposures in the face of slowing improvements going forward. There is already a high level of visibility in all of those except maybe inflation, which could stay at a slightly higher level than expected in the short term, but the jury is still out. Don't get us wrong, we think monetary and fiscal policies will continue to support growth, but we don't think that it will get any better and, historically, that's never good for average cyclical outperformance.

This is leading us back to many themes where we have been seeing rising numbers of investment opportunities over the last few weeks. We apply a technology lifecycle model called the hype cycle along with our traditional discounted cash flows valuation model, which led us to take lots of profits in some of last years winners. Subsequently, this framework did not disappoint, and we saw corrections in many themes that had seen their stock prices get too high, too fast. Fast forward to today, and we are sharpening our pencils and coming back with new positions in themes that have been severely punished year to date.

The best expression of this, is that we are coming back to our big theme of smart energy with renewed exposures to renewables and energy storage. While stock prices corrected significantly there, the big picture improved with an increasing alignment of innovation, public and political support. Last year was a record year in terms of investment in the energy transition and this is just the start as, according to the International Renewable Energy Agency (IRENA), we will need to spend 2.5 times more per year on average until 2050 to get anywhere close to long-term objectives from the 2016 Paris agreement. These targets could also be heightened with the big catalyst coming of the COP26 conference, which will be held in Glasgow this fall, where we expect further engagements from worldwide governments, so stay tuned! To conclude, we will continue to work on our unique thematic style while incorporating our differentiated view of the markets.

In terms of positioning, we construct the portfolio using a barbell strategy. On one side, we like to have exposure to innovators and keep between 5% to 15% in small- and mid-cap stocks. On the other side, we went with dominant firms that provide more exposure to the reopening of the economy, but we have now booked profits in industries like banks and airlines and reinvested in long-term quality compounders in the healthcare sector.

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JEAN-PIERRE CHEVALIER, CFA

- Senior Portfolio Manager, U.S. Equities
- Joined iAIM in 2011
- 14 years of experience in the industry
- Bachelor’s degree in Business Administration, Université Laval

Main funds managed by the team

✓	Thematic Innovation
✓	U.S. Equity
✓	Global Equity
✓	Global True Conviction
✓	Thematic 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

iAIM snapshot

- Principal asset manager for iA Financial Group
- Major player in the asset management industry
- 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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