INVESTMENT FUNDS

THEMATIC INNOVATION FUND

QUARTERLY COMMENTARY

September 30, 2021

A perfect storm of lockdowns impacting manufacturing in Asia, mandatory electricity usage reduction in China and rising energy prices are further delaying in 2022 the normalization of supply chains around the world. In the short term, this results in a deceleration of economic growth along with another bout of transitory inflation supporting rising interest rates. Historically, supply-shock-driven inflation has always planted the seeds of its own demise as inevitable supply flows and demand destruction eventually create the opposite, a deflationary wave. That should be true for most supply chains this time as well, except maybe for the oil and gas, and mining industries, which have seen their access to capital markets becoming limited and forced into a significant reduction in growth investments. That could result in higher energy prices in the next few years. In the meantime, a colder winter could also put more upward pressures on energy prices as well.

The energy transition theme has become a priority around the world and comes along with significant investment needs over a relatively long period spanning decades. Along with robotics, automation and transportation platforms, these third-generation technologies are more capital intensive at first but ultimately way more disinflationary. This will certainly create some friction along the way as long-term objectives create short-term problems that will need to be overcome. A striking example lately is the Chinese government deciding to shut down factories in many provinces to meet their yearly greenhouse gas (GHG) reduction objectives. These factories also had to deal with rising electricity costs as production capacity (coal) was shut down on the same premise. Over the long term, these supply shocks are creating higher incentives to fast forward energy transition investments as the break-even of new technologies becomes lower compared to the current problematic economics of energy consumption. In the next few years, as demographics continue to change, we think this environment could increasee government and public support of the energy transition, but clearly, accelerating investments there should not go along with disappearing traditional energy investments in order to avoid the risk of an energy crisis.

Adoption of the automation theme is also being accelerated by the current environment in the labour market. For example, we've heard full-service restaurant companies highlighting that to adjust to the current labour shortage, they are deciding to permanently replace part of their staff with technologies. We are seeing the same for retailers and customer service departments across industries. We are also hearing about the drug industry, which is expected to shrink the number of salespeople by 10% as telework enables one to take 10 virtual meetings a day instead of driving to five different offices, as an example. The adoption of robotics was also accelerated by the

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pandemic and is no longer confined to a few industries, like automotive. There are three million industrial robots working globally, and we expect this number to reach five million in 2025. We live in a dynamic world and companies are quick to adjust to new realities; we saw a great example of that last year.

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% and 15% in small- and mid-cap stocks. While everyone is focused on supply shortages and logistics problems, we think it's best to turn our attention to themes that don't really have supply chain. Here are a few examples: streaming platforms, video games, enterprise software, infrastructure software, cybersecurity and digital payments. We see many firms with interesting compounding potential, and we think, over time, this will largely overcome any exposure to rising interest rates from a longer duration profile. We also like the Health Care sector as it is also relatively immune to supply chains worries and we are sensing better times ahead, as we should get clarity on potential regulatory reform along with a new FDA chair at some point early next year. We will continue to work on our unique thematic style while incorporating our differentiated view of the future.

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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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