INVESTMENT FUNDS

THEMATIC INNOVATION FUND

MONTHLY COMMENTARY

August 31, 2021

Six years ago, I thought the thematic style of investing was the way to go, and today I think it will continue to be for the next decade. For decades, traditional equity investors have effectively outsourced the first step of the investment process. To define the investible universe, they follow the global industry classification standard or GICS, which means that the vast majority approach the market with the same lens and from the same angle. In our view, as new business models rise and a faster pace of innovation makes industry boundaries muddier, GICS is becoming less representative of reality. A few examples of this: Visa and Mastercard are classified in Information Technology, why not in Financials? Uber is in the trucking industry in the Industrials sector, why not in Technology? Texas Instruments, that mostly supplies chips for cars and industrial processes is in Information Technology, why not in Industrials? A few years ago, GICS decided to reshuffle their classification, moving Alphabet (Google) and Facebook from Information Technology to Communications Services, resulting in significant portfolio rebalancing among GICS driven investors as most became suddenly underweight Information Technology. How crazy is that? For us, the thematic style of investing means a total redesign of the investible universe to enable a more reliable and lasting investment process. The thematic style is one part of our competitive advantage.

The other part is a relentless desire to understand and generate alpha from the understanding of a faster pace of innovation. Choosing a theme around disruptive innovation is a great combination, Thematic Innovation. Also, designing a core strategy with a strong focus on risk management differentiates versus high octane, highly volatile funds that we see in the market. This summer, with work from home helping, I would be shooting hoops every day during lunchtime (I need that range game more than ever, can't bully my way to the basket like I used to…) and thinking about what I call the upcoming new breeds of themes. These are themes that we are already invested in to a certain extent and plan to increase gradually in the next few years, themes like: Analytical and Genetic Technologies, Population Health, Smart Grid, Battery Technology, Manufacturing Automation, and Metaverses. These are more atoms than bits and will contribute significantly to the diffusion of technology across the economy in the next few years. I think that means that data-era built economies, like the U.S., will sustain their advantage versus other developed and emerging economies that have not kept the pace in the last 20 years.

Going into the last few months of the year, a wall of worries is in sight. Delta and potential other variants, the Infrastructure bill and debt ceiling negotiations in the U.S., QE tapering, and China's "Common Prosperity" mandate are all candidates that could bring volatilities to the markets in the next few months.

Of course, the opposite is also possible, where each of these situations gets resolved or starts to improve and markets climb over this wall of worries—until new risks emerge. Obviously we're not managing according to news feeds, but our job is, at any point in time, to have a few game plans ready for whatever happens next. We are always looking to improve the portfolio as we measure current and potential positions' relative risk-reward and contribution to portfolio volatility. In this industry, being cautious and talking about downside scenarios is quite often interpreted as wisdom, while being optimistic and looking for upside is viewed as reckless. If we put aside this strange perception, the right approach is quite often somewhere in between while remaining ready to adjust whenever new material information comes in.

In the meantime, we'll continue with our barbell strategy, looking for the big winners of tomorrow on the innovators side of the portfolio while making sure we're in the right dominant companies that benefit from the diffusion of innovation across the economy. We like this design a lot as it helps with risk management versus some of the purer play high octane, highly volatile innovation strategies. The impact of technology is broad and across all industries. Most investors see it as a sector of the market (GICS) and fail to incorporate this. In our view, how companies are dealing with innovation is central in terms of stock selection as we think that investing is about the future. Clearly, we will continue to work on our unique thematic style while incorporating our differentiated view of the future.

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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
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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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