

THEMATIC INNOVATION FUND

MONTHLY COMMENTARY

February 28, 2021



An excerpt on our last November monthly letter where we outline our 2021 outlook:

“We think the pitfall here is to have a narrative that fails to adjust for the significant re-rating of cyclicals since the first vaccine announcement. There is a good chance that very early in the new year, the markets will be pricing a full reopening of the economy. We think it will be important to be nimble tactically and reinvest in other parts of the market.”

Fast forward to early March 2021, the U.S. equity market has been strongly led by cyclicals, with the Energy and Financials sectors in first and second place in terms of performance, year to date. In our view, cyclicals are pricing in a full reopening of the economy and some inflation worries to add to this. Interest rates have been going higher at a fast pace, a negative for longer duration equities, which have given up some of last year’s strong gains. We also are at a point where many experts’ narratives claim that it’s time to go all in cyclicals after, in our view, an unsustainable level of outperformance since the first vaccine announcement. I would also add that we are going through the peak of inflated expectations in the hype cycle in many emerging theme companies, which usually happens when their stocks are pricing expectations exceeding reality.

Gartner Hype Cycle: when to invest?



Each Hype Cycle drills down into the five key phases of a technology's life cycle.

Source: <https://www.insights4print.ceo/2017/02/key-concept-technological-innovations-gartner-hype-cycle-perfect-storm/>

The Gartner Hype Cycle is a framework we have used successfully over the last five years to gauge when it’s time to invest aggressively in one theme. It provides graphic representation of the maturity and adoption of technologies and applications, and how they are potentially relevant to solving real business problems and exploiting new opportunities. It wasn’t specifically designed to forecast stock prices, but we have found that it can give good intel when supplemented to our valuation process. We use it along with

our traditional discounted cash flow model to help us determine the fundamental intrinsic value of a company. In doing so, we're able to assess where current market valuation sits along that framework, from the technology trigger to the productivity plateau. Currently, we think caution is warranted in some themes like future mobility, fintech and renewable energy. These areas have seen hype from new public companies lately and strong share price performance of many leading stocks of last year, like Tesla, for example. As a reminder, we sold our position in Tesla last fall as we could no longer justify the share price level. We are looking forward to building new positions when great companies' stock prices will reach the trough of disillusionment, which could be sooner than expected at the pace of correction we are seeing in some situations.

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 on the other side. We like this design a lot as it helps with risk management versus some of the purer play innovation high-octane strategies that are very popular right now in the ETF space. While we are using this hype cycle in our process, we want to be able to add value by focusing on the right side of the trough of disillusionment and avoid significant exposure to the left side of it. As usual, we will continue to work on our unique thematic style while incorporating our differentiated view of the markets.



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JEAN-PIERRE CHEVALIER, CFA

- 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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