

# THEMATIC INNOVATION FUND

## MONTHLY COMMENTARY

September 30, 2020



Over the third quarter, the Fund outperformed its index, helped by not owning any Energy stocks, given the strong underperformance of the sector. Stock picking was also a driver of outperformance during the third quarter. Within Health Care, Natera benefited from the positive shift to average-risk non-invasive prenatal testing from the American College of Obstetricians and Gynecologists. Fulgent Genetics was also a positive contributor following its continued deployment of at home testing kit for COVID-19. Finally, an overweight in Irythm was a clear positive following the favourable reimbursement rate that they received during the quarter. These stocks delivered more than 20% return over the quarter. Within Consumer Discretionary, Tesla was also a clear positive as the stock doubled during the quarter.

COVID-19 has certainly brought an acceleration in the digital transformation of many industries. The ability to work seamlessly from home for many service jobs will have a long-lasting impact on many levels in our view. As companies learn from this forced experience, we think this will increase the willingness to fast forward the adoption of software and propel investments in cloud computing. We also think the impact is much broader and much bigger than we realize today. In fact, we think there is a high

probability this will result in a gradual redesign of big cities from the structural changes happening to the labour market. When asked about willingness to relocate to suburban locations, more than 40% of urban residents have answered positively in recent surveys. That's probably too high versus what we could realistically expect going forward, but the fact is that most people realize they could probably do their job from anywhere in the country. From a business standpoint, it means that the pool of available labour is also much broader than before. Do people really need to apply for a job exclusively located in their city from now on? Long story short, we think we are at the beginning of a transition process where the labour market will evolve significantly in the next few years. The outcome is very uncertain, but we can already start to see where it's going, by looking at what's happening in the U.S. West Coast tech industry, where some employees have relocated to much lower cost of living areas in exchange for a lower salary.

Going forward, we see the world changing on many fronts and we think this will have the effect of accelerating the adoption of most innovation themes we follow closely. Effectively, the infrastructure that supports 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 are placing the spotlight on medical innovation, support research and innovation in health care. Lastly, fiscal stimulus around the world, makes renewables and green technology investments a priority and is accelerating this transition at a time where investor support is growing strongly. We are very positive on the long-term implications of this transition. As an example, we think we are only at the beginning of an enormous investment cycle in energy storage. As the wind does not always blow and the sun not always shine, the electric grid needs storage capacity in order to bring the contribution of renewable generation to a higher level. We think battery technology is making a real breakthrough and the economic proposition will fast forward investments in the electric grid as well as in the electric vehicle fleets, in the next decade and more.

If I had one theme that I think is underestimated is terms of its impact on the market and the economy, it's artificial intelligence. Artificial Intelligence is still very early with a penetration rate estimated at only 4% across the enterprise world. It's a little bit like the internet pre-search engine. 2020 saw a significant breakthrough with the arrival of a generalized pre-trained model from Open AI Consortium (GPT-3). We think this is a seminal event that will fast forward the adoption of AI within businesses. One important thing to remember is that the benefits of AI will accrue much more to the traditional industries with large footprints like health care and retail. We think it will be a real driver in terms of bringing more a personalized value

proposition to customers in those two industries that will become a hotbed for innovation. In fact, to give you an idea of the relative importance of AI, PwC<sup>1</sup> think it will add \$15.7 trillion in worldwide GDP growth by 2030. Thus, we are becoming much more positive on the impact of AI on a broader basis.

We are also closely monitoring the upcoming U.S. election with consensus stating that a Democratic sweep (White House, Senate and House of Representatives) is a risk for the market. The fact is that Mr. Biden is willing to raise corporate taxes, which translates to a 5% to 10% hit to S&P 500 earnings, could also mean less unpredictability from the White House and a roadmap to reduce social tensions on a broad basis. This could also be totally offset by fiscal stimulus and reversal of trade tariffs, previously implemented by the Trump administration. 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 innovation, and we are also looking for resilient firms that are seeing their competitive positions improve in the current environment. After every big recession, companies that did not see big negative fundamental impacts to their model are re-rated higher by the market. Thus, we are looking for check-mark shaped recovery 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.

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<sup>1</sup> <https://www.pwc.com/gx/en/issues/data-and-analytics/publications/artificial-intelligence-study.html>

**We are staying constructive for now and think any big positive news on the vaccine**

front will offset a delayed economic recovery in terms of market performance.



**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

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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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