INVESTMENT
FUNDS

THEMATIC INNOVATION FUND

MONTHLY COMMENTARY

October 31, 2020

The Thematic Innovation Fund is a U.S. equity fund with a thematic investment style that invests in companies from all sectors benefitting from technological advances or prospering in a perpetually changing environment. It is a well-diversified strategy with over 90 different positions at all times, which allows us to have a strong focus on risk management while benefitting from a deep understanding of long-term innovation themes. Position sizing is also very important for us and we apply strict guidelines in order to maintain strong discipline and not let emotions get in the way. In fact, high-risk, high-return propositions might never make their way to the top 10 positions in terms of weightings, but they certainly will in terms of alpha contributors. In doing so, we make sure to bet on our long-term batting average instead of going for the home runs. Don't get me wrong, we hit over the fence too. In fact, so far in 2020, we have six stocks that returned 100% or more in the fund. Let's highlight a few of them.

First, we have the ultimate AI company. Known as the enabler of this revolution with an incredibly forward-looking CEO, we have held this position since the Fund's inception in 2016. This little-known company back then is now an impossible-to-miss juggernaut. I am, of course, talking about Nvidia. We continue to hold this position as we think the market is still underestimating the long-term exponential potential here.

Second, another significant disrupter with a colourful CEO who has had his fair share of misexecutions in the past but who has finally been able to put it together in the last 18 months. We have been following this company for so long and were finally able to justify a position in the Fund. What made us change our mind is the incredible ramp up of their Chinese factory along with more clarity on the long-term nature of the business model. We bought a position in Tesla early in the year and were able to generate significant value for our unit holders. We made the decision to sell this position completely in the days leading up to the stock split, as our valuation model was no longer pointing to an attractive proposition after a 200% + rally in the stock. We will continue to monitor this company closely and might reinitiate a position in the future.

Lastly, let's talk about a company that is disrupting the electro-cardiography space while significantly improving outcomes for patients. Irhythm Technologies is providing the only two-way communication heartbeat monitor, more like a patch, for people with arrhythmia episodes. The ability to monitor patients remotely is a significant competitive advantage in a COVID world. This company is also doing clinical trials to prove that its devices can also foresee heart problems in asymptomatic populations. The plan is to work with insurance companies and, with access to their databases, offer the devices to high-risk individuals. In doing so, they could be able to save the health system big dollars by preventing heart attacks, for example. They are also developing a new device in conjunction with Verily, a Google subsidiary. We still hold this position.

Market-wise, as I'm writing this, the U.S. election result is still not confirmed but there's a high chance that Mr. Biden will prevail. The Senate results are also still not finalized but we should expect that the two Georgia seats will be decided in a run-off early January, which will decide the majority. Democrats would need to win both seats to have a majority and thus, complete the blue sweep. Even then, there is still a low probability that this will occur and the most likely scenario is the one of a gridlock with Biden as president and a Republican Senate. If that's what happens, it's pretty much the best possible outcome for the U.S. equity market, as it means we can put aside most of Biden's tax raising plans and intent to play hardball against Big Tech companies. It also means that interest rates should stay lower for longer as fiscal stimulus would be smaller in size. It's important to remember that equity market valuation is inversely correlated to the level of interest rates. In the meantime, it could be bumpy for equity markets if we see a harsh transition with rising social tensions. COVID-19 remains a risk factor and let's hope things don't get out of control from here. These factors should be transitory and as we get to 2021, there is a high chance these clouds will dissipate.

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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
✓	Thetmatic 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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