

THEMATIC INNOVATION FUND

QUARTERLY COMMENTARY

December 31, 2020



The fourth quarter of 2020 is coming to an end and once again, the world's stock markets have reached new highs. The combination of massive fiscal stimulus, liquidity injections by central banks and, since November, announcements of the imminent start of a global vaccination campaign have given wings to risky assets during the quarter.

The star of the last quarter of 2020 was the Russell 2000, the U.S. small-cap index, which ended the year with the best quarter in its history, with a performance of more than 30% in the last three months of the year alone. Interestingly, history shows that episodes of strong small-cap performance are generally followed by positive and above-average returns in subsequent quarters.

The main driver for the U.S. market and small caps was undoubtedly the announcement of vaccines, which virtually assured a strong and broad-based recovery in global economic activity, thereby increasing the attractiveness to investors of cyclical sectors.

In terms of relative performance over the fourth quarter, the fund largely outperformed the index. During the quarter, all outperformance was driven by selection while allocation was slightly negative. Within allocation, an underweight in Energy and Financials as well as an overweight in Health Care led underperformance.

In terms of stock picking, Arcturus Therapeutics was a strong contributor, with the stock more than doubling over the quarter, driven by the opportunity for their single dose mRNA COVID-19 vaccine. Fate Therapeutics was also a strong contributor, with the stock more than doubling following positive results in their clinical trial for the treatment of B-cell lymphoma. In Information Technology, the strong overweight in Micron was a clear positive as the stock returned more than 50% over the quarter driven by a positive update of their fourth quarter.

As we head into 2021, consensus is expecting a gradual reopening of the economy as herd immunity is reached from the global distribution of vaccines. Equity markets are already pricing some of this as we note massive outperformance of cyclical industries since last summer and especially in November. We think outperformance opportunities remain in companies that were disrupted by COVID-19, but we think this is very tactical in nature as the market will price this upcoming reopening in advance and very fast.

As the Democrat sweep is completed following the Georgia runoff elections, corporate taxes could be raised, which would mean a 5% to 10% hit to S&P 500 earnings, but it could also mean less unpredictability from the White House along with 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 the negative consensus view on that front and are neutral on the political front.

We think 2021 will be a year of stock picking as concentration among major indices could act as a headwind for their performances. We think some large-caps will face increasing regulatory and earnings pressures from the current environment. As an investor, we think it's time to avoid passive index investing as we see better alpha opportunities by being nimble from an active management standpoint.

In terms of positioning, our portfolio is currently constructed using a barbell strategy. On one hand, we like to have exposure to innovators and keep between 5% and 15% in small-mid capitalizations. On the other hand, we invest in dominant firms where we are currently more exposed to the reopening of the economy. We think that the current recovery will be more targeted towards productivity than new capacity. To take advantage of this, we are currently invested in themes like building efficiency,

smart cities and industrial automation. We also think that the pandemic brought attention to the importance of investing in the future of healthcare. We think the confluence of connectivity and genomics results in opportunities from a stock selection point of view. Let's not forget the big picture here. We think artificial intelligence, genomics and smart energy technologies will drive U.S. equity returns in the next decade, as digital advertising, e-commerce and cloud computing explained most of the returns in the last decade. We live in a world of accelerating change from the adoption of these exponential technologies and COVID-19 also contributed to fast-forwarding all of this. The impact is broad and across all sectors and industries. In our view, how companies are dealing with this is central in terms of stock selection from here. We think that investing is about the future and 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

- 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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