

THEMATIC INNOVATION FUND

MONTHLY COMMENTARY

January 31, 2021



As vaccines are globally distributed, our barbell strategy is working very well so far. On one side, we invest in dominant firms that have seen their moats reinforced by COVID that have capacity to benefit from acceleration in structural innovative forces and a positive exposure to the gradual reopening of economies. Deere is a position that fits this description right now, with their growth driven by their precision agriculture segment sales. On the other side, we invest in innovation enablers, with our themes of predilection moving from “manipulation of digits” (software, social media, etc.) to “manipulation of atoms” (robotics, automation, AI, smart energy and genomics). An example here would be Vontier, with their electric vehicle charging opportunity. As we’ve shown for nearly five years now, we continue to work on our stock selection process while focusing on risk management to keep a portfolio that will do relatively well whenever volatility rises, like we’ve seen in January. 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. In our view, some parts of the market are currently pricing a full reopening of the economy later this year. We think companies able to exceed expectations and give better visibilities on their growth potential will outperform this year. We think it will be important to continue to be nimble tactically and adjust our risk exposure accordingly.

I think we should expand a little on retail investor behaviours we have seen in the last few weeks. Let’s

just start by saying that retail investors using social media to share ideas and opinions is obviously nothing new. What is new is adding to that an ideology and specifically targeting one type of investor, in this case hedge funds using a short-selling strategy. Sadly, for many, this has already ended in a very bad way as most of these situations have already deflated in a significant way. It’s important to note that this frothiness has been concentrated in a few small to mid-sized companies where potential systemic risk for the overall market is very low. It’s tough to say what will happen in the short term but this is a good opportunity to remind ourselves of some basic investing principles. In the short run, the market could be a voting machine, but the fundamental value of a business will emerge at some point over the long term.

This situation also blurred significant positive news at the end of January. Johnson & Johnson announced that their COVID-19 vaccine reduces hospitalizations by 85% and takes the ultimate tail risk, death, completely off the table. This number holds true for the U.K. and South African variants as well. Given that the Johnson & Johnson vaccine is stable, easily distributed, a single dose and has plenty of manufacturing capability, this vaccine news should have been the most celebrated news of that day. Instead, CNBC was asking a famous rapper for his views on GameStop!

We will conclude this letter by mentioning an important feature of the strategy. We do impact investing. Not only do we aim to generate financial returns but also to foster positive outcomes from an environmental and social point of view. In fact, it’s been in our investment process DNA since day one. Two of the four big themes of the strategy, smart energy and next-generation

genomics, are basically revolving around creating a greener future with healthier people. As examples, we are literally spending our times reading about wind energy opportunities and how to cure cancer. There are many ways to incorporate ESG in an investment process but we always thought that impact investing should be central. Let's dive a little in smart energy. It is one of the four big themes of the strategy (along intelligent connectivity, industrials digitisation and next-generation genomics). Currently about 10% of the fund is invested in the following themes: renewables, battery

technology, electric vehicles, agricultural tech and smart grids. These themes are currently well supported by the confluence of technological of political cross-currents. Surprisingly, the number of public companies within those themes is currently fairly limited in the U.S. market. We look forward to seeing new companies coming to market in the next two years, which might be an opportunity to increase our allocation towards them. 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

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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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