Investment Management

INVESTMENT FUNDS

Quarterly Market and Fund Update

Fund name: Thematic Innovation

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Market index comment

The S&P 500 had its worst first quarter in history with a return of -20% and -11.75% in Canadian Dollars. During the quarter all eleven sectors of the index posted negative returns, with Energy, Financials, Industrials and Materials being the worst performers. Information Technology, which represents almost a quarter of the index, was the best performer with a low single digit decline during the quarter. Health Care and Consumer Staples, which are more defensive by nature, were less impacted by the situation and only decreased in the mid single digits.

Comment on the Fund

In terms of (gross) relative performance over the first quarter, the Fund outperformed its index. An underweight position in Energy and Financials paired with an overweight position in Health Care and Information Technology contributed positively to the Fund's relative performance, with Health Care and Information Technology being the two-best sector in the index.

Stock picking was positive during the first quarter. In Consumer Discretionary, an overweight position in Amazon was a good contributor of performance with Amazon delivering positive returns in this environment, driven by the fast adoption of e-commerce and cloud computing. Within Industrials, being underweight airlines was also a positive driver, the sector being negatively impacted by the travel ban around the world. Stock picking in real estate was also positive with overweight positions in Crown Castle and Digital Realty.

Comment on risks and opportunities going forward

As an investor, ignoring the indisputable parabolic growth of technological progress across industries and economies is not an option. The nature of the Fund's strategy is to add value by benefitting from an understanding of the pervasive impacts of disruptive technological innovations. Those impacts are having an increasing influence in every sector of the economy, creating multiple winners and losers from an investment perspective. We believe that the continuing evolution of the internet and the emergence of artificial intelligence, DNA sequencing, robotics and battery technology makes it an interesting time in history, comparable to the rise of the automobile, electricity and telephone technologies at the beginning of the 20th century.

During the first quarter, there was a clear division between relative winners and losers. Most of the winners were already positively exposed to many of the structural changes listed above and had a solid balance sheet, their growth being mostly organically driven and capex-light this not requiring additional debt to fund growth. By contrast, losers were overburdened levered companies, with an already high level of disruption in their respective industries.

Going forward, we think social distancing will have the effect of accelerating the adoption of most themes we follow closely. Effectively, the infrastructure supporting eCommerce and work from home will become a priority for many and we should see rising investments and ways to benefit from that as an investor. Also, the incredible efforts to find treatments and vaccines will put the spotlight on medical innovation and should support research and innovation. The fact that this crisis is bringing the health system to its limit will also bring forward the need to modernize and make the US health system more efficient.

We think the pandemic will see its peak in upcoming months. In our view that's the most important dynamic to follow as it is leading government decisions regarding social distancing and economic data in general. We can say that it is leading the leading economic indicators. The important amount of liquidity injected by central banks and fiscal measures taken all around the world should also help in reducing volatility and bring back consumption. The world will nonetheless be different, and behaviours will change.

In terms of positioning, we are looking for tomorrow's leaders in Health Care and Information Technology, and we are also looking for dominant firms that are seeing their market price dislocated from their fundamentals. We think there is opportunity to buy good companies at a discount right now. We will also say caution is needed as there are many industries that look cheap but are seeing their valuation permanently impaired, we will stay away from those. We are willing to flip our mindset from defense to offense, in a fundamentally responsible way.