

Thematic Innovation Fund

QUARTERLY COMMENTARY

December 2022



The fourth quarter delivered positive gains

Unexpectedly strong earnings

The US stock market ended a tumultuous year on a positive note, with the fourth quarter delivering solid gains. The rebound in the last quarter was driven by unexpectedly strong earnings across almost all sectors of the S&P 500. Sentiment also turned positive amid early signs from the Federal Reserve that the pace of policy tightening would slow and that the peak in inflation was behind us. China was also a focus, as the country announced a complete reversal of its zero-COVID policy, which should drive growth for a number of global industries.

Entering 2023 with a cautiously optimistic stance

We are cautiously optimistic as we enter 2023. We are already seeing signs of a slowing economy, and the market is pricing in the negative impact of last year's interest rate hikes. GDP growth held up in 2022, but the effect of the hikes should be felt this year.

Performance analysis

On the sector allocation front, our exposure to communication services was a negative. Our underweight position in financials, which was one of the best-performing sectors for the period, also subtracted value.

On the stock selection front, the communication services and industrials sectors were the main drivers of underperformance. ZoomInfo Technologies, Take-Two Interactive and PubMatic underperformed after announcing earnings that were below expectations. In industrials, Uber underperformed at the end of the quarter on news that fares for taxis and Ubers would increase by more than 20% in New York City by year-end.



Jean-Pierre Chevalier, CFA

Senior Director, Portfolio Manager, US Equities and Thematic Investing

- Senior Portfolio Manager, U.S. Equities
- Joined iAIM in 2011
- 15 years of experience in the industry
- Bachelor's degree in Business Administration, Université Laval

Positioning: Barbell strategy with more emphasis on dominant companies

In times of higher volatility, many stocks become dislocated and undervalued in relation to their fundamentals.

“We expect volatility in the first half of 2023 and will take advantage of it to continue to improve the Fund's risk-return profile.”

We think the best approach is a barbell strategy with greater emphasis on dominant companies that focus on free cash flow generation. We will gradually increase our allocation to such companies as their business models become proven and they reach attractive levels of profitability, in what we think will be the themes of the next few decades: the energy transition, robotics, automation and next-generation computing platforms.

Key Takeaways

- US equities ended the year on a positive note with unexpectedly strong earnings across almost all sectors.
 - We are cautiously optimistic as we enter 2023.
 - We are maintaining our focus on dominant firms while gradually increasing our exposure to what we consider the themes of the decades to come.
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