INVESTMENT FUNDS

THEMATIC INNOVATION FUND

MONTHLY COMMENTARY

February 28, 2022

Suddenly, nobody is worried about COVID anymore and everyone is worried about the implications of the war between Russia and Ukraine. Nobody wins in a war and our thoughts are with the people who are suffering greatly from this tragic and inexcusable situation. Historically, over any five-year period, the probability to experience a shock, or a "black swan," is close to 95%. It's the main reason why long-term forecasting is quite often worthless as no one is willing to include such a shock in their forecasting horizon. The global financial crisis of 2008 and the COVID pandemic of 2020 can certainly be described as shocks to the financial system, both at the time deserving a significant rethinking of investment strategies. Now the question is: does the current situation fit the description? Are we experiencing a second shock in 24 months? Unfortunately, as we're writing this, the odds are getting higher.

Let's start with a quick recap of the macro situation before the recent actions of the Russian army. Supply chain problems were finally starting to be resolved, as inflation readings were peaking and the market was pricing an aggressive Fed determined to raise interest rates this year. What changed within the last few weeks? The energy and agriculture flows are disrupted, leading to a surge in prices, while the Fed signalled it will still go ahead with its rate increase plan unless financial conditions start to deteriorate meaningfully. Sanctions are hitting hard on both sides and Apple, Amazon, Boeing, Coca-Cola, Mastercard, Visa, FedEx, Shell, Volkswagen, Samsung, and many more have stopped doing business in Russia. Russia and Ukraine are now effectively cut off from global trade flows. What initially looked like a special operation lasting a few days is now officially a full-scale invasion that could last weeks, if not months, with the risk of further escalation in the region not being zero.

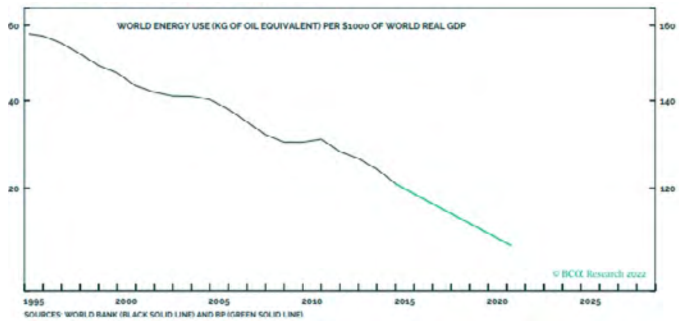
What happens when the largest wheat exporter in the world invades the fifth largest one? Immediate spikes in agriculture commodity prices. Adding to worries is the fact that the planting season in Ukraine is usually at the end of March and early April and we can start to assume that there won't be one this year. The risk that prices further increase and contribute to an already elevated food inflation problem, is not insignificant. It would be a tragedy for countries from Egypt to Indonesia and compromise their food security. The next derivative would be a higher level of political unrest. The Arab Spring was mainly caused by a tripling in agricultural commodity prices in one region; let's hope global prices don't surge too much this time.

What happens when around five million barrels of crude oil is at risk of getting pushed out of global energy flows? Immediate spikes in oil and gasoline prices. The next two months will be critical on that front, as this is approximately the storage capacity available to Russia after which, they will have to start to shut production. In the meantime, we should expect highly volatile prices and the start of demand destruction. If this situation persists, this is the only way this market could rebalance, and the market prices needed to accomplish that could be higher. This could lead economies right into recession as oil spikes have been quite often accessory in this outcome. We can add to that the massive spike in natural gas prices in Europe and in other commodities directly impacted by the situation like copper, palladium, aluminum, etc.

Are we seeing any long-term ramifications from these? Yes, the most obvious would be an acceleration in the trend of economies becoming less energy intensive (see chart). In the last 25 years, the world has become way more efficient from an energy standpoint with way less energy consumption per every dollar of GDP. As an example, from here, a durable spike in gasoline prices would be a formidable economic incentive to move towards more electric cars. A higher percentage of electricity generation from renewable sources, especially in Europe, would also be needed to achieve a higher level of energy independence. This could also increase the pace of industrialization in the U.S., which has really picked up within the last few years, and increase investment from an equipment and technology standpoint.

We have already adjusted the portfolio as we moved many cyclical positions in the Financials and Consumer sectors towards more defensive ones. We continue to like our significant overweight in Health Care from here as we see limited impacts to this industry and increasing long-term opportunities. We are not afraid to adjust our views when new material information comes in. It's effectively a cornerstone of our investment process, something called Bayesian thinking. Thus, we will continue to closely monitor the situation and make changes to the strategy if warranted.

Our focus is on risk management and stock selection. We refrain from selecting stocks based solely on their thematic exposure, it must make sense from a valuation standpoint. We use a discounted cash flow model to help our selection and we see many opportunities in secular growth stories with positive free cash flow yield that we see as currently dislocated following big selloffs. Position sizing is very important for us and we apply strict guidelines to keep a strong discipline and not let emotions get in the way. In terms of selection, we think that investing is about the future and will continue work on our unique thematic style while incorporating our differentiated view of the future.



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JEAN-PIERRE CHEVALIER, CFA

— 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

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
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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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