

THEMATIC INNOVATION FUND

MONTHLY COMMENTARY

April 2022



This monthly commentary is brought to you by Maxime Houde, Associate Director and Associate Portfolio Manager on the thematic equity team. Maxime is covering, among other themes, digital advertising. There is currently seismic change going on with regards to this theme, resulting in disruption for many companies and opportunities for some. It's the kind of structural change we are looking to take advantage of combined with a deep understanding of fundamentals and its meaning for individual stocks. While bigger challenges are making headlines, we believe this theme has a significant alpha potential in the long term.

For most of the 20th century, people would get ahold of information and entertainment from print media, radio, and television. Advertisement campaigns were mostly deployed within these mediums, as they attracted the most attention. Since then, consumer electronics have evolved into faster and more user-friendly devices. Democratized Internet access has led to the creation of large media platforms that, as we all know, switched our attention towards the cyberspace. This brought forward a rapid shift in advertising spending, with 2018 being the first year where Internet advertising spending outpaced cable TV spending.

Technological advancements in smartphones created a radical change in the way we consume content. With the creation of millions of apps, we saw orders of magnitude increase in third-party data, which rapidly became the bread and butter for targeting in the advertising ecosystem. As social media became widespread, they gained enormous market share of advertising spending driven by the high traffic they were generating, as well as all the first- and third-party data to which they had access.

2021 brought in a lot of changes in the ecosystem, driven by an increased focus on privacy by the two major companies, Apple and Google. These changes, which look benign to users (we've all seen the new request for sharing data and permission between apps), brought forth major barriers in the sharing of third-party data between apps. A lack of data access through third-party apps had a tremendous impact on all social media and e-commerce platforms. Hence, targeting became less efficient as the usual data acquisition process was hindered. For example, it was estimated by Facebook that those changes would have a negative impact of \$10B on their revenue. Relatively speaking, the impact is even more negative for all the small and medium businesses that were relying on these platforms to target their potential consumers. Looking forward, we expect increased focus on privacy to continue.

Another wave of major changes could come about as early as June of this year at the Apple Worldwide Developers Conference, where they are expected to reveal their new iOS 16. With that and future changes from Google in 2023, we see the advertising market moving into an era of obsolete third-party data. This focus on privacy by Apple and Google will bring the forthcoming of what we call the “content fortress”: a collection of first-party data content supported by owned ad tech infrastructure that has no reliance on external sources.

Our focus is on the opportunity this evolving environment is creating. On the one hand, we would stay away from mobile gaming advertising software, as we see increased risk from Apple gaining a key competitive advantage from their large pool of first-party data from their AppStore. In other words, they are taking advantages of their market power to the benefit of their bottom line. On the other hand, we favour internet platforms and applications having a large pool of first-party data that will emerge as content fortresses and should benefit from increasing advertising revenue in the future. The high-margin

nature of this potential revenue pool should be a key driver of performance for these companies going forward. We also see opportunities in advertising inventory suppliers as they will emerge as important players in targeting. Their strategic positioning with publishers will give them access to large amounts of first-party data, allowing them to increase accuracy in targeting. Finally, the rise of connected TV is another area of interest, at the time of this writing, close to 80% of households had a connected television, while the advertising budget is still largely skewed in favour of cable TV. We see the recent change of tone from Disney and Netflix on advertising as an important catalyst with the potential to accelerate the shift in advertising budgets from cable to connected TV. Advertising software firms focused on connected TV should thus benefit from the introduction of advertising embedded in popular streaming platforms leading to the migration of advertising spend towards connected TV. In these periods of turmoil, we continue to work on our differentiated thematic process, focus on 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

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- 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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