INVESTMENT FUNDS

Thematic Innovation Fund

QUARTERLY COMMENTARY

March 2023

Banking crisis

The banking crisis affects the global financial system

At the end of the first quarter, the global economy was showing signs of weakness. Even though inflation was still a focus, attention shifted to the impact of monetary tightening on growth, employment and financial system stability.

The regional banking crisis in the United States and the subsequent downfall of Credit Suisse sent shockwaves through the global financial system. As a result of massive fiscal and monetary responses to the pandemic, banks around the world found themselves flush with deposits, which they then invested in long-term products, such as loans and long-dated Treasuries. And then, as one of the most aggressive tightening cycles in history pushed the yield curve higher, some U.S. banks started to experience liquidity issues.

Signs of economic slowdown are increasing

The recent stress in the U.S. banking system has affected mainly small and mid-size regional banks, which play an important role in financing small businesses across the broad economy, especially in the services, agriculture and construction sectors. The ripple effect of this credit crunch is still unknown but could prove to have an important impact on growth.

Aggregate data are starting to show clear signs of a slowdown in the economy, which should provide a line of sight into the end of the Fed's hiking cycle. The key variable to monitor will be the rate of change in Inflation as well as the job market, which thus far has proved to be more resilient than expected.

Performance analysis

On the sector allocation front, our overweight exposure to health care was a negative, as was our underweight in consumer discretionary, which was one of the best-performing sectors during the period.

That being said, we more than offset these allocations with our large underweight in the financials sector, which largely underperformed in the wake of the regional banking crisis.

Stock selection was slightly negative and was mostly driven by our not owning Tesla and our underweight in Apple. As well, not owning Nvidia in January adversely affected the portfolio's overall performance as the stock rallied on the rapid uptake of ChatGPT. These negatives were mostly offset by our overweight in Advanced Micro Devices, which also benefited from the hype around ChatGPT.

Health care was also a strong contributor to selection during the quarter, driven mainly by outstanding stock picking in biotechnology, with Natera and Exact Sciences advancing more than 20% during the quarter.

Maxime Houde, CFA

Associate Director and Associate Portfolio Manager,
North American Equities and Thematic Investing

— Joined iAIM in 2015
— Close to 10 years of investment experience
— Bachelor's degree in Finance, Université Laval

A barbell approach with exposure to dominant names

We expect to see continued volatility in the first half of the year and will take advantage of it to further improve the portfolio's risk-return profile.

> "We think the best approach is a barbell strategy with increased emphasis on dominant firms that focus on free cash flow, while gradually increasing our allocation to what we consider the themes of the decades to come: the energy transition, robotics, automation and artificial intelligence."

We think large language models, such as ChatGPT, are this tech cycle's "iPhone moment" and will have major repercussions across the technology ecosystem and the economy as a whole. As the technology matures and use cases are developed, we aim to gain exposure to companies benefitting from mass adoption of such models, while avoiding those at risk of being left behind.

Key Takeaways

— The regional banking crisis in the United States sent shockwaves through the global financial system.

— Aggregate data start to show clear signs of a slowdown in the economy.

— We are maintaining a barbell strategy with increased emphasis on dominant firms, while gradually increasing our allocation to the themes of the decades.

About iAIM

A magnet for top investment talent, iAIM is one of Canada's largest asset managers, with over $100 billion under management across institutional and retail mandates. We help investors achieve their long-term wealth creation goals through innovative investment solutions designed for today's complex markets. We are building upon our historic success, supporting the growth of our core strengths and exploring innovative ways to meet investor needs. We are rooted in history and innovating for the future. Our experienced portfolio managers use a proprietary investment methodology, rooted in iAIM's unifying commitment to strong risk management, analytical rigor and a disciplined, process-driven approach to asset allocation and security selection.

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