INVESTMENT FUNDS

NORTH AMERICAN EQUITY

# MONTHLY COMMENTARY

April 2022

April was a brutal month for risk assets. More than two months after Russia unleashed war on Ukraine, there is no sign yet of a potential resolution. The conflict is dragging down the European Union economy and the probability of seeing a recession is on the rise. The Europe Commission is working on a plan to unwind decades of Russian energy dependence, but some landlocked countries are opposed to the implementation of a Russian oil embargo. Energy prices were already on the rise in Europe in 2021 but the conflict is exacerbating that situation.

In regard to crude oil, global supply was already struggling to keep up with demand before the invasion of Ukraine. With the reluctance of some shippers to load Russian crude, the barrel is now trading above $100 per barrel. IEA countries will release strategic inventories over the next months, but it does little more than slap a band-aid on a much deeper problem. OPEC countries are facing issues of their own with difficulties increasing their production. Energy equities continue to screen well on valuation based on the futures strip despite the recent volatility. Canadian energy large-cap stocks are trading well below their 10-year historical average.

The Covid lockdown measures in China are heavily impacting the economy. China manufacturing PMI was already weak, and the deterioration continued in April with weaker activity and greater supply chain issues due to the zero Covid policy. So far, China's pledge to support the economy and the property market has failed to quell concerns and industrial metals are now under pressure. Concerns about weaker demand are outweighing tight supplies.

We recently added to the portfolio two lithium development companies engaged in exploration and development of lithium assets, Lithium America and Arena Minerals. Both companies own assets in The Lithium Triangle in Argentina which is home of the world's highest-grade collection of lithium rich properties.

The Canadian portion of the fund is well exposed to energy producers and mining companies. We have had some success with our overweight energy exposure since the beginning of 2021. We are still overweight, but less than previously. We will look to increase our technology exposure at some point, but not before we see what will happen in the next 3 to 6 months. With higher inflation and rates, an emphasis on active stock picking should, as usual, be a key differentiator to produce alpha with active management over the next months.

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iA Investment Management

Within the U.S. portion of the fund, there is currently seismic change going on in the digital advertising theme resulting in disruption for many and opportunities for some. It's the kind of structural change we are looking to take advantage of with a deep understanding of the fundamentals and its meaning for individual stocks. We think that while bigger challenges are making headlines, this is one theme with big alpha potential in the long term.

2021 brought a lot of changes to 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 applications on our smartphones), brought forth major barriers in the sharing of third-party data between apps. 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, Facebook estimated that the changes would have a $10B negative impact 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 soon 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 from Apple and Google will bring about what we call a 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 App Store. In other words, they are taking advantage of their market power at the benefit of their bottom-line. On the other hand, we favour internet platforms and applications that have large pools of users which 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 an important player 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 streaming TV is another area of interest. At the time of this writing, close to 80% of households had a smart TV, while the advertising budget is still largely skewed in favor of cable TV. We see the recent change of tone from Disney and Netflix with regard to advertising as an important catalyst with the potential to accelerate the shift in advertising budgets from cable to streaming TV. Advertising software firms focused on streaming TV should thus benefit from the introduction of advertising embedded in popular streaming platforms leading to the migration of advertising spend towards streaming TV. In these periods of turmoil, we continue to work on our differentiated thematic process and focus on the future.

### MARC GAGNON, M. Sc., CFA

- Principal Portfolio Manager, North American Equities
- Joined iAIM in 1998
- More than 25 years of investment experience
- MBA in Finance, Université Laval
- Bachelor's degree in Business Administration, Université Laval

### 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

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|---|---|
| ✓ | Canadian Equity Growth |
| ✓ | Real Estate Income |
| ✓ | Global True Conviction |
| ✓ | Canadian Equity Growth Hybrid 75/25 |
| ✓ | Global True Conviction Hybrid 75/25 |
| ✓ | IA Clarington Canadian Leaders Class |

## iAIM snapshot

- Principal asset manager for iA Financial Group
- Major player in the asset management industry
- 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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