Technology of the Future Fund

Maxim Achkasov
Chief Investment Officer
ma@fundtechfuture.com

MONTHLY REPORT

November 2020

Executive Summary

In October, the discrepancy continued to narrow between the straggling COVID-19 economy and the markets, which has been priced for the Best-Case Scenario. The COVID-19 winter came early, and it has proven to be quicker and greater than we had thought. As Europe went into soft lockdown and the U.S. numbers worsened, markets had to correct accordingly.

The Technology of the Future Fund was more resilient during this period of volatility than were major indexes, due to not having high-flying, overpriced IT stocks in our portfolio. The fund had a return of -1.39% in October, outperforming the benchmark MSCI World Index (USD), which had a return of -3.14%. YTD the fund delivered a +13.27% return, significantly outperforming the benchmark MSCI World (USD), which had a return of -2.78%.

We expect the volatility to stay high at the year's end, as the pandemic and protracted election uncertainty, power transitions, and potential legal battles in the U.S. will continue to weigh on the markets. In the middle and long terms, we continue to maintain our neutral to positive view on equities. The market volatility creates opportunities for investors to reposition their portfolios for 2021 any weakness is seen as buying opportunity.

Economy and markets

Global equities largely maintained their trading range in October, albeit with bouts of volatility. Investors were balancing positive news about the economic re-opening against negative headlines about COVID-19. Three factors—the virus, real economy, and financial markets—continue to be interconnected, but the influence of the virus is changing, having lesser effect than it did at the beginning of the year. Today, the world is better equipped with regard to testing and local containment measures and there is less likelihood of a global lockdown hurting the economy.

High-frequency economic indicators in the U.S. and Europe point to an ongoing, V-shaped recovery, continuing into 3Q20. However, the significant surge in new cases of COVID-19 in the U.S. and Europe suggests downside risks to 4Q20. Despite this, recovery is underway, thanks in particular to China and the other Asian economies that are reinforcing their roles as global growth engines.

The U.S. elections have remained one of the key market drivers in the last few weeks. We still believe that both Trump and Biden would engage in greater stimulus. But for equities, the crucial factor is the Fed staying dovish regardless of the winner. "Fed put" should support the markets, should fiscal assistance be slower in coming. The probability of an easier fiscal policy in the short term has dramatically declined, though investors considered it a market driver. The contested presidential election and how the transition plays out cloud the possibility of a pandemic-related stimulus package for U.S. businesses and households. We do not rule out that the U.S. Supreme Court may end up deciding a contested election.

Despite Biden's victory, there is attention on the remaining Senate races. It appears likely that a pair of run-off elections in Georgia on January 5th will determine which party controls the Senate over the next two years. However, the most likely outcome is a divided government. U.S. politics have been the major source of volatility in the last few years, so we recommend that investors include a buffer for the unexpected, like deep-value, high-dividend stocks, which have limited downside.

Overall, the current positive environment suggests a continued focus on growth stocks and implies low interest rates forever, no inflationary pressures, and high valuation. A rotation from super-high-growth stocks into more quality value areas also started to materialise.

The potential slow exit of CBs from extreme accommodation will remain the core risk in 2021. Yet the measures introduced to fight the pandemic will be difficult to withdraw, and governments and CBs will likely need to do more. It is unlikely that this risk will materialize in the short and middle terms.

Our main conclusion is that any market volatility will create opportunities for investors to reposition their portfolios for 2021. Positive November 2020 to April 2021 seasonality will limit downsides and support equity markets in the short term.

Investment strategy and portfolio changes

In October, we continued to deploy cash in the portfolio, using market volatility. During downward market movement, we added to our core strategic holdings and opened two new positions: Raytheon Technologies and MakeMyTrip, which have compelling risk/reward.

Raytheon Technologies provides technology products and services to the defence and aerospace industries. This investment is based on our belief that there will be movement from super-high-growth companies into selected quality value companies. These companies should be able to manage throughout this difficult economic period and benefit as the U.S. and global economies rebound and inflation returns.

MakeMyTrip is an online travel company in India. It should benefit not only from the global digitalization trend but also from India's economic recovery and increase in travel and tourism.

The fund posted a return of -1.39% in October, outperforming the MSCI World Index (USD), which returned -3.14%. The positive outperformance was primarily attributed to the fact that we shy away from overpriced, super-high-growth stocks. After high volatility in September, our positions in the Biotech sector—which has the largest weight in the fund—bounced back in October, which also limited downside move. Allocation of capital during September and October to deep value stocks (e.g., Raytheon Technologies, CNOOC, banking stocks) additionally increased portfolio protection.

Monthly performance %

As of 30.10.20

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	-0.11%	+0.79%	-7.86%	+6.45%	+8.51%	+6.03%	-0.17%	+1.51%	-0.22%	-1.39%	-	-	+13.27%

Technology of the Future Fund performance vs. major equity indexes

	October 2020	YTD 2020
Technology of the Future Fund (USD)	-1.39%	+13.27%
S&P 500 (USD)	-2.77%	+1.21%
NASDAQ (USD)	-2.29%	+21.61%
DJ Stoxx 600 (USD)	-5.76%	-14.46%
MSCI EM (USD)	+1.98%	-1.00%
Micex, Russia (USD)	-9.54%	-31.00%
Shanghai Composite (USD)	+1.66%	+9.98%
MSCI World (USD) (Fund's benchmark)	-3.14%	-2.78%

Performance contributors

October 2020

Top contributors	Return %	Contribution
Dicerna Pharmaceuticals	+16.7%	+1.0
Zogenix	+18.9%	+0.8
Axon Enterprises	+9.0%	+0.5

Bottom contributors	Return %	Contribution
eHealth	-15.1%	-0.9
Ratheon Technologies	-5.6%	-0.2
Intel	-14.5%	-0.4

Performance contributors, October 2020

The shares of the biotech companies **Dicerna** and **Zogenix** rebounded after weak performance in September. There are no fundamental factors behind that performance.

The shares of **Axon Enterprise**, a provider of law enforcement technology solutions, were up as the company continues to expand globally. In October, the London Metropolitan Police purchased 19,000 Axon Body 3 cameras and 3,000 Axon Flex 2 cameras. The company is capitalizing on the one of our investment themes: an increase in usage of wearable IoT gadgets. (In the case of Axon, this is body cameras for police officers.) We did not execute any actions in the winners of the portfolio; rather, we maintained our position.

The shares of the online insurance provider **eHealth** were down after the company announced in 3Q20 results that the closely-watched member churn figure remained at an elevated ~42%. We do not judge the company's performance based on trailing quarter results, as the management team continues to address the issue. The company offers a compelling value proposition to help beneficiaries navigate through COVID-19-related lockdowns, making all decisions online. We maintained our position in the stock without changes.

The shares of **Raytheon Technologies** went down. The company, in the 3Q20 results presentation, forecasted weak demand from airlines as the COVID-19 pandemic impacted the air travel industry. However, the company's FCF exceeded analyst expectations by USD 1BB (Q3 FCF of $1.2BB versus estimates of $164MM). The company continues to weather COVID-19 related uncertainties with right execution and wise cost savings. We have increased our position in the company, as we are confident that the long-term business fundamentals and earnings power of Raytheon Technologies remain strong.

The shares of **Intel** went down after 3Q20 results. Intel's model remains very profitable, though margins remain under pressure as Intel ramps up new technologies, expands its product breadth, and faces intensifying competition. We view Intel as one of the best-positioned deep value players to benefit from the expansion of edge computing, data centre computing, AI/ML, autonomous things, and 5G-enabled-computing, a likely structural l-term trend of expansion in computing applications that should drive outperformance. We maintained our position in Intel without changes.

Portfolio Structure

In October, we continued to build out the long-term portfolio and deploy cash as volatility returned. Despite positive news in relation to the U.S. elections in the first days of October, we maintain our portfolio protection bias and keep high levels of cash, as we expect the volatility to bring more investment opportunities towards the year's end. We maintain the greatest weight in the Biotech and IT sectors, as those areas show sustainable growth. In the coming months, we plan to increase the weight in Alternative Energy and Intelligent Automation segments, as we complete ongoing research about certain companies.

Portfolio structure