Technology of the Future Fund

We find the leaders of the future

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MONTHLY REPORT

November 2021

Executive Summary

- There are more companies with supply backlogs, hiring difficulties, and rising input prices that are eating into profits – this trend appeared in the latest reporting season.
- 75% of U.S. companies beat earnings estimates in the 3Q but forecasts for the 4Q were only flat, breaking a run of more than a year of rising expectations.
- **US real yields are at the lowest level in 70 years**. On a spot basis, real yields are c.-4.6%.
- **US inflation has already spent six months above the 5% level**, with US CPI at 6.2% YoY in October. At the start of 2021, the forecast was 2.0%.
- Has the turnaround in investment sentiment towards China started?
- **Quality - the best strategy in the current business cycle and most of the macro scenarios.**
- The Technology of the Future Fund had a +5.11% return in October. This was in line with other major equity indexes, slightly underperforming the benchmark MSCI World Index (USD), which had a return of +5.59%. In the new reality of extreme valuations, we prefer to manage the downside risks and stick to our strategy of low beta portfolio of "undiscovered values" and deep value stocks which are out of favor (Chinese tech). As we expect volatility to rise in 2022, we avoid mainstream overpriced stocks which drive the main equity indexes in today's environment (FANG, US Large Cap Tech, etc.).

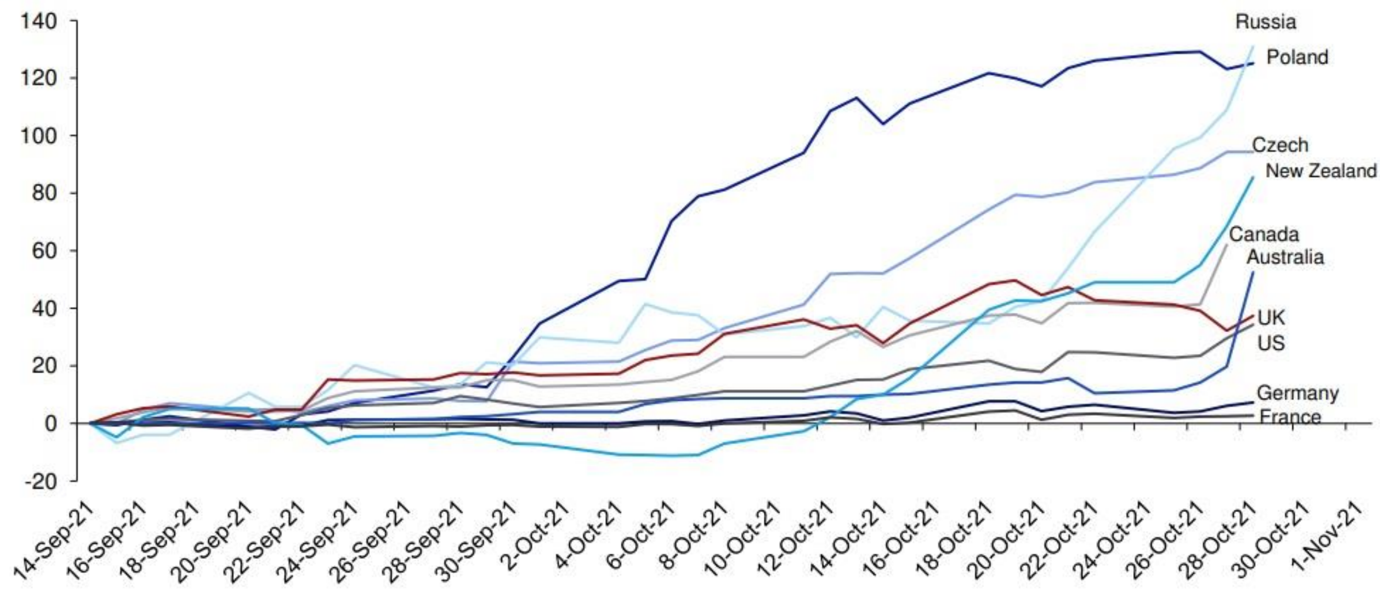
Economy and Markets

October 2021 was a hectic month of higher inflation expectations and commodities making new highs. Equity markets have rebounded strongly. Bonds underperformed across the board, but these small negatives masked great volatility and stress under the surface. The last week of the month saw heightened intraday volatility within rates, as markets brought forward the expected timing of central bank policy actions across advanced economies while revising growth expectations downward.

The Nov 2021 Fed meeting resulted in a significant market pricing shift, investors going from expecting less than one full rate hike by Dec 2022 to more than two.

Has the silent tantrum started?

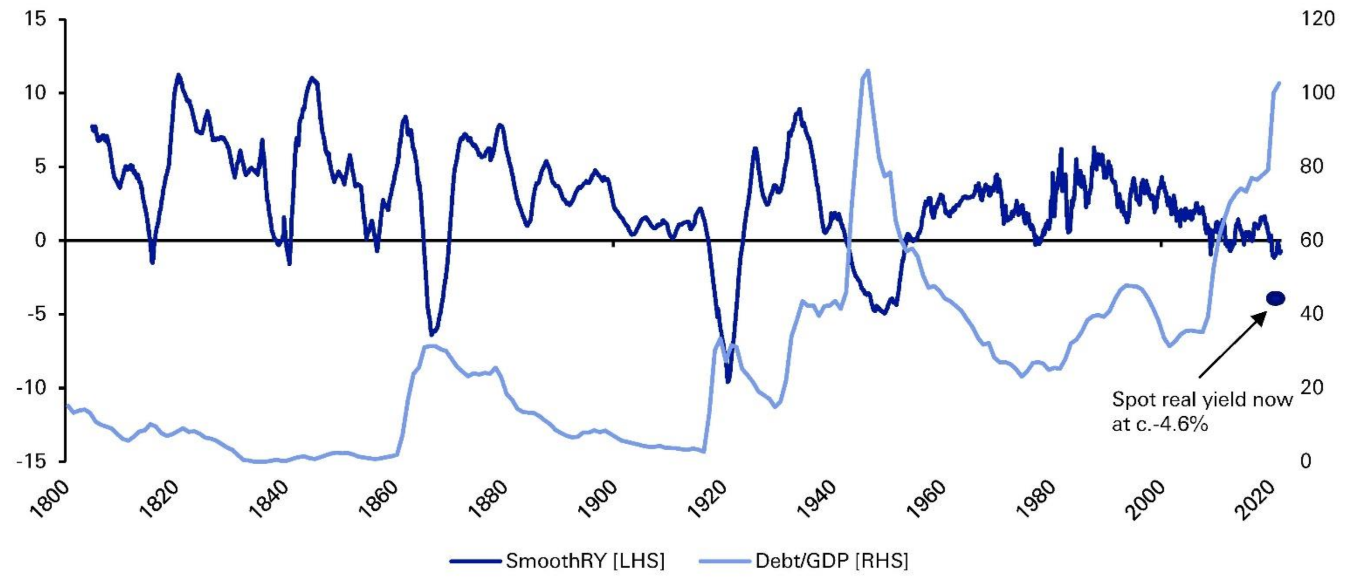
The chart below shows 2-year government yield moves since mid-September (events within just 45 days!) for a selection of developed market DM and EM countries. There have been remarkable developments at the front end of the yield curves. Hawkish statements from the Bank of Canada and Reserve Bank of Australia have surprised the markets and resulted in a jump in volatility. However, this is starting to create real international divergence. The NZ, Australia, and Canada markets have been moving to price imminent rate hikes in at various stages over the last month. The US, which still hasn't started tapering yet, is struggling to price in rate hikes as quickly but is being dragged along. In the Eurozone, pricing-in of rate hikes extends to beyond 2022.



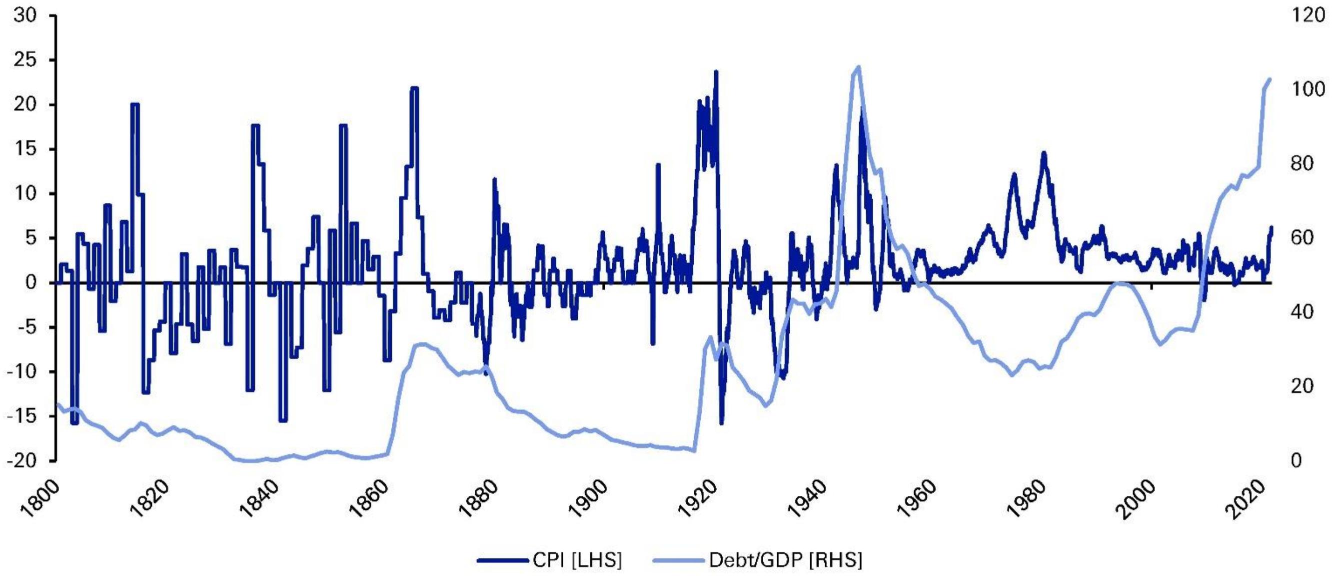
So, central banks and markets are starting to diverge in their response to the inflationary pressures and it is highly unlikely that they are all correct. Therefore, rates volatility is likely to remain elevated while this plays out with policy error risk on both the too hawkish and too dovish side. **Overall, this is a silent tantrum given some of the moves at the front end.** Silent because risk assets are behaving themselves so far but make no mistake, this is a short-end tantrum, and the long end is also in a sulk given the huge flattening seen in October. Will equities move with a lag?

US real yields are at the lowest level in 70 years

With US Consumer Price Index (CPI) at 6.2% YoY in October and 10-year US yields stuck below 1.6%, on a spot basis, real yields are c.-4.6%. This is like the levels seen in the mid-1970s. You'd have to go back to 1951 to find a lower level. We are convinced that real yields will stay negative for the foreseeable future because this has been the historical pattern whenever debt has spiked, as the smoothed series shows in the chart below.



And the consequences are, as the chart below shows, that each of these previous debt spikes coincided with spot inflation hitting around or above 20%. This puts the current 6.2% figure into perspective.



Investment Strategy and Portfolio Changes

Our core assumption going forward - we expect more growth downgrades, more inflation upgrades, and more interest rate hikes as we advance. The main risk for the markets remains the tapering. However, it should be noted that the tapering has been well communicated. Both the Fed and ECB are aware of the impact of tapering on global markets. Markets like predictability, and so far, the markets have been taking tapering developments neutrally.

Quality - the best strategy in the current business cycle and most of the macro scenarios

Going forward, we think quality is the best strategy in the current business cycle under most of the macro scenarios, especially in a post-taper environment. We emphasize technological innovation, sustainable earnings growth, and sustainable competitive advantage as core factors in our definition of quality. We do not play rotation themes (growth > value and vice versa), and we do not participate in momentum plays. In our portfolio we have companies that will become winners in the current business cycle. We spend most of our time analyzing the products of the companies, the addressable market for the products, and the factors influencing companies' profitability.

Supply backlogs and rising input prices have started to impact companies' profitability

The reporting season unveiled more companies with supply backlogs, hiring difficulties, and rising input prices, which are eating into profits. A few companies in our portfolio have reported negative earnings surprises or given negative forward guidance as a result of this trend: Nordex (producer of wind turbines), Proto Labs (digital manufacturer of on-demand 3D printed custom parts for prototyping and short-run production), and Western Digital (developer of data storage devices and solutions). We continue to think that the situation will be balanced by market forces in 2022.

We made two changes in the portfolio in October. We bought back the position in ASM International: see the Performance Contributors section for details. We also opened a new position in Arqit Quantum, a cyber security technology company. The company supplies a quantum encryption Platform-as-a-Service.

We see the beginning of the turnaround in the investment sentiment towards China

We doubled our positions in Chinese tech stocks at the end of July and beginning of August after they fell more than 50% in 2021. The weight of Chinese tech stocks is c. 30% in our portfolio today and they have pressured the performance of the Technology of the Future Fund YTD. In September-October 2021 we saw major investment houses and asset management firms increasing the weighting of Chinese tech stocks and China overall in their asset allocations (Fidelity, Black Rock). The prominent investment bank Jefferies moved its recommendation on China to “overweight”. We think Chinese tech stocks will be the source of outperformance in 2022 as regulatory pressure will be balanced by the market forces and China will continue monetary easing to stimulate the economy.

The Technology of the Future Fund had a +5.11% return in October, in line with other major equity indexes, slightly underperforming the benchmark MSCI World Index (USD), which had a return of +5.59%.

In 2021, YTD, the fund delivered a -0.52% return, underperforming all major indexes and the benchmark MSCI World Index (USD), which had a return of +18.02%. Our performance in 2021 highlights significant active bet and low correlation of our portfolio with peers and major equity indexes. The majority of our positions can be classified as low beta "undiscovered values," which are outside major equity benchmark indexes and, in most cases, are still not on the radar of most investors. Therefore, short-term underperformance in the overpriced market is natural for our portfolio.

Monthly performance %

As of 31.10.2021

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%	+18.08%	+3.22%	+38.07%
2021	+2.05%	+0.35%	-3.43%	+3.61%	-0.57%	+3.70%	-4.32%	-2.38%	-4.22%	+5.11%	-	-	-0.52%

Performance since inception (Aug 2019): +39.66% vs MSCI World (USD): +49.05%

Technology of the Future Fund performance vs. major equity indexes

	October 2021	YTD 2021
Technology of the Future Fund (USD)	+5.11%	-0.52%
S&P 500 (USD)	+6.91%	+22.61%
NASDAQ 100 (USD)	+7.90%	+22.98%
NASDAQ Biotech (USD)	-1.89%	+4.83%
DJ Stoxx 600 (USD)	+4.37%	+12.80%
MSCI EM (USD)	+0.93%	-2.05%
Micex, Russia (USD)	+3.74%	+32.21%
Shanghai Composite (USD)	+0.04%	+4.05%
MSCI World (USD) (Fund’s benchmark)	+5.59%	+18.02%

Performance contributors

October 2021

Top contributors	Return %	Contribution
Renewable Energy	+27.49%	+1.64
Geely	+21.03%	+1.02
ASM	+15.73%	+0.84

Bottom contributors	Return %	Contribution
Invisio	-10.96%	-0.30
Saniona	-16.13%	-0.79
JD Health	-8.26%	-0.31

Performance Contributors, October 2021

The shares of U.S. biodiesel producer Renewable Energy (+27.49%) continued to bounce back for the 2nd month in a row in line with the price of oil. The shares of Chinese car manufacturer Geely (+21.03%) have bounced back after falling last month. The management continues strong execution in an environment made challenging by the pandemic and the global shortage of chips which affects production volumes. There was a very interesting development with the shares of ASM International (+15.73%). After we sold the position in early September, the shares fell c. 30%. We bought our position back in early October and the shares have rebounded strongly, as the company has provided an impressive, above consensus 3Q 2021 trading update. Swedish communication company **Invisio** (**-10.96%**) continues to suffer from the effects of pandemic, as certain large orders were postponed. This has been the trend in many quality small-cap companies. So, we are confident that this business will get back to normal in 2022. The shares of Swedish Biotech company **Saniona** (**-16.13%**) continued to slide as investors manifested concern about the liquidity situation in the company and lack of short-term catalysts. We continue to think that the company stock is deeply discounted and offers great value from an investment point of view. Unfortunately, research coverage is poor and little info about the company affairs is available. However, the company management started to improve the communication with investors recently. Shares in the Chinese online healthcare service provider **JD Health** (**-8.26%**) continued to suffer from negative sentiment towards Chinese tech stocks. We are looking forward to a reversal of investor sentiment in 2022.

Portfolio Structure

We continue to move forward with caution, as we expect the global economy to move towards another major downturn in 2022. Our core assumption is that risk management is the basis of outperformance in current market cycle. We maintain our defensive bias in the portfolio and hedge our tech exposure with an above average amount of cash in the portfolio, precious metals, and crypto infrastructure stocks. The biotech stocks in our portfolio (20% weight) will also be a resource for hedging risks for two reasons. First, their performance has low correlation with major equity indexes. Second, they deliver impressive performance once there is positive development in their product line, regardless of the situation in the markets or in the economy. We do not have any overpriced stocks in the portfolio (stocks which trade above their intrinsic value) and we stay away from high flying mainstream names.

There are various macro scenarios for the next 2-3 years, but one thing is clear to us — volatility will increase in 2022. Most of 2021 has been an orgy of speculation. The main factor that might push the volatility higher in 2022 is the current big top in bullish sentiment. Our primary concern is that the global growth slowdown into 2022 might clash with peak investors' confidence (reflected in record ownership) in U.S. equities and margin debt relative to GDP is higher than during the 2000 and 2007 market tops.

Top 5 holdings

Company	Portfolio weight
Axon	6.3%
Renewable Energy	6.0%
Baidu	5.6%
ASM	5.3%
Meituan	5.1%

Portfolio structure