Technology of the Future Fund

We find the leaders of the future

Maxim Achkasov
Chief Investment Officer
ma@fundtechfuture.com

MONTHLY REPORT

October 2021

Executive Summary

In September, the markets finally entered a consolidation phase with weak performance that included declines for bonds and equities. That came amidst jitters over Evergrande, rising energy prices and hence inflationary pressures, as well as a hawkish turn from multiple central banks. Investors cast increasing doubt on the sustainability of current valuations. So, the markets ended September 2021 in a notable risk-off manner, and the major equity indices fell back for the first time since January. The key highlights for September:

- Inflation expectations were at a multi-year high
- Inflation was higher than expected and economic data was lower than expected
- There were more central bank hikes than cuts
- In the 1st week of October 2021, the Bloomberg Commodity Spot Index finally exceeded its 2011 high. This brings the index's gains since the post-pandemic low in March 2020 to +95%.

The Technology of the Future Fund had a -4.22% return in September, in line with other major equity indexes, slightly outperforming the benchmark MSCI World Index (USD), which had a return of -4.29%.

Economy and Markets

The Deutsche Bank institutional survey highlights higher yields and inflation as currently the top two risks for the markets for the first time since June 2021. Weaker economic growth is in the top 3 risks for the first time. Overall, for September 2021:

The negatives are obvious and revolve mainly around the COVID-19 Delta variant, weaker than expected growth, the energy crisis, ever higher inflation, and tighter central bank policy.

The positives are that the base effects with numerous lockdowns imposed in Q4 2020 to at least the start of Q3 2021 mean that it won't be that difficult for growth to still be numerically healthy for a few more quarters. So, once the disappointment of growth not being as high as was hoped at this stage fades, we should still be left with decent growth. Covid should play less and less a part in our lives over the year ahead as vaccines and better treatments (e.g., Merck antiviral pill) become more widespread. In addition, stimulus and excess savings remain high and financial conditions are still very loose.

The global energy crunch fueled inflation fears, further clouding investor sentiment. In the "big picture," the world is looking at the collateral damage to economic growth and households' real incomes caused by the ambitious energy transition. In early October Brent Crude oil prices closed above $81/bbl. for the first time in nearly three years. The analysts at highly respected commodities research boutique Goehring & Rozencwajg point out that a structural gap will soon emerge between supply and demand. As early as Q4 of 2022, demand will approach world oil-pumping capability - the first time in 160 years of oil history. Demand might also outpace the supply at some point in 2022. So, we expect oil prices to remain firm — something to keep an eye on. On October 5, 2021, there were astonishing moves in natural gas prices:1) In the UK, +19.54% marking the biggest daily percentage increase in over a year and a +183.3% move since the start of August; 2) Benchmark European natural gas futures up by +20.04% to a record €116.02 per megawatt-hour; and 3) In the U.S., gas future was up +9.20%, reaching its highest closing level since December 2008. So, an ambitious, politically motivated lead to substantial green investments resulted in underinvestment in the last few years in oil and gas production. At the same time, skyrocket prices for metals, which may be at the beginning of a new supercycle, are pushing inflation higher.

Central banks globally continue to hike rates. The Czech central bank increased its benchmark rate +75bps, beyond the 50bps expected and the largest hike in nearly 25 years. The Reserve Bank of New Zealand raised its cash rate by a quarter of a percentage point to 0.5% — the 1st rate hike in seven years.

Investment Strategy and Portfolio Changes

We expect more growth downgrades, more inflation upgrades, and more interest rate hikes as we advance. Overall, we are concerned that the global economy and markets are moving in a more worrying direction: higher interest rates, higher inflation, unsustainable amounts of debt, and rising volatility. 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 higher than the 2000 and 2007 market tops. It should however be noted that global growth has peaked, albeit at very high levels. We do not expect for the yields to increase to the level when they will imperil the economy. Any further upward move is likely to be gradual. The tapering should be well communicated. Progress on the vaccination campaign, continued accommodative monetary and fiscal policies suggest that stock returns should be positive over the next 12 months and any correction should be limited to 5-10%.

We continue to maintain the defensive bias we have been highlighting in the last few monthly reports. At the same time, we use the market volatility to increase our strategic positions in disruptive innovators – where long-term earnings growth is based on innovative breakthrough technologies. Regardless of what is happening in the general market or economy, these stocks will become the source of risk diversification and outperformance.

In September, we sold one of our core holdings, **ASM International**, a stellar performer in our portfolio. ASMI has surprised even the most aggressive bulls, both in its delivery of growth (sales 27% 18-21E CAGR) and its share price performance (2021 YTD +100%). We have now become more cautious about its valuation and near-term earnings estimate momentum. We also sold our position in Danish big pharma company Novo Nordisk, where the valuation became too demanding.

We have used the September volatility to open two new positions: Biotech company **AbCellera Biologic** and AI platform developer **Veritone**.

We are very impressed by AbCellera's fastest time on record to find antibodies that its partners can develop into drugs to prevent and treat disease. AbCellera's full-stack, AI-powered drug discovery platform integrates technologies from engineering, microfluidics, single-cell analysis, high-throughput genomics, machine learning, and hyper-scale data science. Veritone, Inc. is an AI platform developer. The company's platform unlocks the power of cognitive computing to transform unstructured audio and video data and analyze it in conjunction with structured data in a seamless, automated manner to generate actionable intelligence. Its cloud-based artificial intelligence operating system (aiOS) integrates and orchestrates an open ecosystem of cognitive engines, together with the company's suite of applications, to reveal valuable multivariate insights from vast amounts of audio, video, and structured data.

The Technology of the Future Fund had a -4.22% return in September, in line with other major equity indexes, slightly outperforming the benchmark MSCI World Index (USD), which had a return of -4.29%. In 2021, YTD, the fund delivered a -5.34% return, underperforming all major indexes and the benchmark MSCI World Index (USD), which had a return of +11.77%. The majority of our positions can be classified as low beta "undiscovered values," which are outside of major equity benchmark indexes and, in most cases, are still not on the radar of the majority of investors. Therefore, short-term underperformance is natural for our portfolio.

Monthly performance %

As of 30.09.2021

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%	-	-	-	-5.34%

Performance since inception (Aug 2019): +32.87% vs MSCI World (USD): +37.44%

Technology of the Future Fund performance vs. major equity indexes

	September 2021	YTD 2021
Technology of the Future Fund (USD)	-4.22%	-5.34%
S&P 500 (USD)	-4.76%	+14.68%
NASDAQ 100 (USD)	-5.73%	+13.98%
NASDAQ Biotech (USD)	-4.91%	+6.85%
DJ Stoxx 600 (USD)	-5.26%	+8.08%
MSCI EM (USD)	-4.25%	-2.96%
Micex, Russia (USD)	+5.49%	+27.45%
Shanghai Composite (USD)	+0.92%	+4.01%
MSCI World (USD) (Fund's benchmark)	-4.29%	+11.77%

Performance contributors

September 2021

Top contributors	Return %	Contribution
Minesto	+22.94%	+1.08
ASM	+2.92%	+0.03
Renewable Energy	+3.68%	+0.18

Bottom contributors	Return %	Contribution
Saniona	-24.91%	-1.05
Geely	-20.46%	-0.70
Tencent Music	-17.99%	-0.37

Performance Contributors, September 2021

The shares of Swedish alternative energy producer **Minesto** (+22.94%) went up with the award by the Swedish Energy Agency to Minesto of a SEK 5.8 million grant for the ongoing commercialization of Minesto's ground-breaking Deep Green technology. The grant co-funds a project through which Minesto will develop and verify a next-generation tether system to facilitate the commercial scale-up of the company's marine energy technology. Also, the company has announced a new range of power plants, the Dragon Class, an upgraded design of the company's Deep Green technology for predictable renewable electricity generation from tidal and ocean currents. The Dragon Class design results in overall increased performance and significantly higher power production with lower costs for manufacturing and assembly. In addition, it simplifies handling during installation and maintenance. These power plants will be delivered and installed in the company's current projects in France, Wales, and the Faroe Islands. The shares of **ASM International** (+2.92%) went up as the management provided very bullish long-term guidance during the analyst event in September 2021. The midpoint of ASMI's 2025E sales outlook is equivalent to 18.5% 5Y CAGR growth in euros, an expected growth rate that makes the company stand out from its peers. The shares of U.S. biodiesel producer **Renewable Energy** (+3.68%) bounced back in line with the price of oil. It is interesting to know that despite poor legislative news (the U.S. Environmental Protection Agency is expected to recommend reducing U.S. biofuel blending mandates below 2020 levels), key insiders have been buying the stock. The shares of Danish Biotech Company **Saniona** (-24.91%) went down in line with European markets. There was no stock moving negative news. Most of the news flow has been positive as the company prepares for its U.S. listing. The shares in Chinese car manufacturer **Geely** (-20.46%)

went down owing to the impact of the pandemic, and the global shortage of chips continued to affect production volumes. The shares of Chinese online music entertainment platform **Tencent Music** (-17.99%) went down as negative sentiment towards Chinese tech stocks still dominates investors' minds.

Portfolio Structure

As I wrote above, we expect the global economy to move towards another major downturn in 2022. We maintain our defensive bias in the portfolio. We have sold all the overpriced stocks and stay away from high flying mainstream names. We continue to move forward with caution as one thing is clear to us — volatility will increase in 2022. At the same time, we use opportunities as they appear. In September, we used saved cash to increase our core strategic holdings and make new investments as the opportunities arose. The markets might rally in 4Q 2021, but we maintain an above-average amount of cash (15%). As we advance, we are confident that the rising volatility in 2022 will offer the opportunity to reload the portfolio with quality stocks.

Top 5 holdings

Company	Portfolio weight
Axon	6.4%
Invisio	5.7%
Baidu	5.4%
Meituan	4.9%
Renewable Energy	4.9%

Portfolio structure