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Aperture European Innovation Fund
2021 Review & 2022 Outlook

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Performance (net of fees)[1]

The fourth quarter ended with the European market rallying to the finish line. The MSCI Europe Net TR EUR Index (one of the region's key indices and our Fund's benchmark) was up +5.52% in the month to finish the quarter up +7.68% and the year up +25.13%. The Fund (net of fees) finished Q4 up +8.73%, bringing year-to-date performance up +28.73%.

The Fund (net of fees) returned +3.73% in December, underperforming its benchmark by -1.79%, giving back some of the outperformance from October and November, when the Fund outperformed by +1.65% and +1.09%, respectively.

RETURNS AS OF YEAR-END (%, net of fees)

	Oct	Nov	Dec	Q4	2021
Fund	6.31	-1.40	3.73	8.73	**28.73**
Benchmark	4.66	-2.49	5.52	7.68	**25.13**
Relative Performance	1.65	1.09	-1.79	1.05	**3.60**

Key Contributors and Detractors in Q4

Contributors: During the final quarter of 2021, some of the strongest contributors to performance included positions in Belgian family-owned holding company, D'Ieteren (Ticker: DIE BB, 'Q4 21: +35.1%), Danish pharmaceutical company Novo Nordisk (Ticker: NOVOB DC, 'Q4 21: +18.3%), and German semiconductor producer Infineon Technologies (Ticker: IFX GY, 'Q4 21: +14.7%).[2]

D'Ieteren continued to re-rate, reflecting the underlying value of key vehicle glass repair asset Belron and the accretive acquisition of online parts distributor TVH Parts. Novo Nordisk was a meaningful contributor, driven by strong results pre-announced in October. At that time, it raised FY21 guidance following better-than-expected growth in diabetes product Ozempic and obesity product Wegovy, which had a promising early launch in the US. This performance came despite the company's announcement on December 20th that supply of Wegovy in the US would be negatively impacted in 1H22 due to a filling issue at a 3rd party supplier.

1. *Returns refer to the IY Accumulating EUR Share Class. The Aperture European Innovation Fund charges a management fee of 0.30% and a performance fee that is equal to 30% of the over performance of the Net Asset Value of the share class over the applicable performance fee benchmark. The overall fee will be adjusted to reflect the impact of share class hedging and distribution fees, where applicable.*
2. *As of December 31, 2021 (Fund holdings as a % of NAV): DIE BB (2.43%), NOVOB DC (4.25%), IFX GY (3.10%). Contribution figures are shown gross of fees.*

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Infineon saw strong share price performance following its CMD event on October 5th. Q4 results were strong, with segment profit 10% above expectations and FY22 guidance raised, reflecting strong trends in the xEV (pure Electric Vehicle) and renewable energy markets. Infineon's ability to pass on price increases also contributed to its solid operating results.

Detractors: Notable detractors for Q4 2021 included aerospace company Airbus (Ticker: AIR FP, 'Q4 21: -2.4%), Dutch payments company Adyen (Ticker: ADYEN NA, 'Q4 21: -4.3%), and British cybersecurity company Darktrace (Ticker: DARK LN, 'Q4 21: -48.8%).[3]

News of reinstated travel restrictions due to the spread of Omicron on November 26th negatively impacted Airbus. Adyen was a negative contributor to the strategy as shares dropped amid a broad rotation away from expensive growth stocks which started when Amazon decided in mid-November to ban Visa payments in the UK. Darktrace came under pressure when Deep Defence - a subsidiary of Vitruvian Partners and one of Darktrace's largest investors - sold £70m worth of its shares at an 8.3% discount to the share price in early November. The £70m block represented a third of Vitruvian's position. Shares have remained weak since (as of this writing). We sold or significantly reduced our positions in all three names.

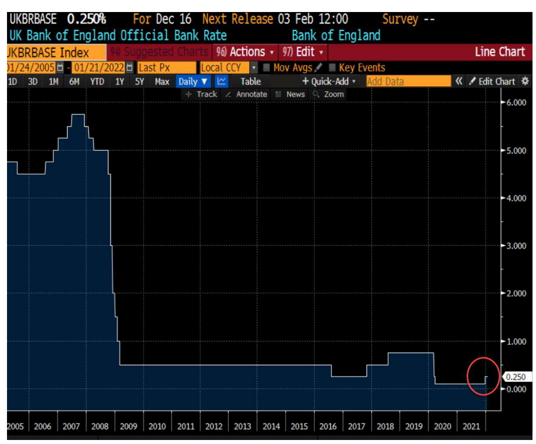
The Setup for 2022

Last September we spoke about how 2021 saw repeated swings in 10-year government bonds that coincided exactly with the end of calendar quarters. These large swings essentially reflected the expectation of higher inflation. Then, at the end of Q4 2021, the expectation changed to reality as the US Fed removed the word "transitory" from its inflation commentary. This brought inflation from the realm of expected, future events to the here and now and the reality of dealing with faster tapering and faster, potentially larger rate increases.

This time the big swing in rates arrived in the form of the 2-year government bond on December 16th when the Bank of England hiked the UK base rate by 15bps. Below we see the set-up in rates markets as we enter 2022: both 2-year Treasuries and BOE rates have a long way to go if inflation is indeed persistent and elevated.

2-year US Treasuries rally in December

First BOE 15bps Hike



Source: Bloomberg, January 2022

From Rotations, to Many Rotations, to Change of Regime

The big 2021 swings in rates which occurred at each quarter end had major repercussions for equity markets. They consistently instigated major so-called "rotations." In equities we have now learned to live with this reality, especially in the swings between Value and Growth complexes.

3.) As of December 31, 2021 (Fund holdings as a % of NAV): ADYEN NA (0.89%). AIR FP and DARK LN were not holdings as of December 31st. Detractor figures are shown gross of fees.

But something else seemed to change in 2021 as well.

We used to have 1-3 rotations per year, each with a performance dispersion (or "pull back") of approximately 15-20%. In 2021, we had 5 rotations, and 25-30% pull backs seem to have become the new norm.

We represent these rotations by looking at the performance of Growth vs. Value basket indices. We also chain-link them by charting their relative performance vs. the broader European index. The chart below shows 12-month relative lows which carry enough momentum to potentially challenge the previous secular growth-at-any-price regime.

Growth/Value basket on 12-month relative low vs. European equities

Source: Bloomberg, January 2022

Outlook and Positioning: Inflation, Tighter Financial Conditions, and European Equities

As we move from quantitative easing (QE) to quantitative tightening (QT) and the secular growth regime is challenged, we believe European equities will have an important role to play in allocators' portfolios.

Tighter financial conditions cut liquidity at every stage of growth including VC funding, higher cost of debt, higher cost of equity and higher discount rates. The valuation framework therefore shifts mathematically; no longer is the benefit of the doubt awarded to higher terminal values, but instead, there is a larger weighting of near-term cash-flows.

So where are these near-term cash flows? We believe they are on the old continent (Europe).

Our traditional European banks have spent the last 15 years cleaning their balance sheets. UK and EU bank regulation are both finished. They have spent considerably on innovation, digitalisation and levelling the playfield with Fintech. This transformation is now engrained in their operational and growth strategies. This means that every euro or pound sterling that flows from a higher deposit rate at the BOE or the ECB is a cash flow earning adding to excess capital. It is therefore, arguably, earmarked to come straight back to shareholders.

The same is true for our old economy European majors who have deleveraged their balance sheets and invested in the energy transition while moving a significant piece of enterprise value from debt to equity. This means that every dollar of commodity inflation is now a cash flow earning that adds to the strong 20%+ distributable income for shareholders.

While rising inflation and rates rarely exist without equity volatility, we've never felt more excited about the valuation dispersion opportunity that Europe offers and, as a result, have invested over one-third of the European Innovation portfolio in Value stocks (at the time of this writing).

This does not mean that growth opportunities are over. Adoption in innovation curves will continue to accelerate regardless of the macro environment globally. xEV adoption, workflow digitalisation, industrial automation and AI should continue on their exponential journey (to name just a few). A strong spirit of inventiveness on the continent should also help to fight higher inflation and spiraling wages while protecting corporate margins.

They key in the Growth and Quality complex is to be more selective. For example, stocks with revenue growth financed by negative earnings and/or cash flows are now facing an even higher hurdle rate, especially if they require further equity or debt funding to establish sustainable margins. This is an area in which Europe is particularly cheap on a relative basis. Less than 15% of the MSCI Europe IMI Growth Index represents loss-generating stocks vs. over 60% of US Russell 3000 Growth stocks.

This setup, combined with relatively elevated valuations, means it is the time of the year to remind ourselves of the importance of remaining invested. We revisit this theme often: being absent from equity markets on the 10 best days of the year is equivalent to missing out on the majority of equity returns for that year. Given the current volatility tailwind, it is important to remember this truth while also preparing to lengthen the equity investment time horizon.

Have a great 2022, everyone!

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Equity Risk: The strategy will be affected by changes in the stock markets and changes in the value of individual portfolio securities. At times, stock markets and individual securities can be volatile, and prices can change substantially in short periods of time. The equity securities of smaller companies are more sensitive to these changes than those of larger companies. This risk will affect the value of the strategy, which will fluctuate as the value of the underlying equity securities fluctuates.

Investment in Smaller Companies Risk: Investment in smaller companies may involve greater risks and thus may be considered speculative. Many small company stocks trade less frequently and in smaller volumes and may be subject to more abrupt or erratic price movements than stocks of larger companies. The securities of small companies may also be more sensitive to market changes than securities in large companies.

Short Exposure Risk: The strategy may proceed with short-term sales of their investment via the use of derivatives. The short exposure risk results from short sales achieved through the use of derivatives and includes the potential for losses exceeding the cost of the investment, as well as the risk that the third party to the short sale will not fulfil its contractual obligations.

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For further information on risks related to the Fund please see the Prospectus.

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