aperture investors

March 31, 2021

Aperture European Innovation Fund Q1 2021 Commentary

@anisinnovation /AnisInnovation
/in/anis-lahlou/ @anisinnovation

Performance

March was a strong month for European equities with the MSCI Europe, one of the region’s key indices and our Fund’s benchmark, gaining +6.47% in the month to finish the quarter up +8.35%. The Fund (Ticker: APEIIED LX, Institutional EUR Dis) outperformed its benchmark during the quarter by +0.10%, finishing up +8.45% for Q1 2021. This quarter was particularly characterized by the rising trajectory of government bond yields, especially in the US with 10-year yields up from 0.91% at the end of 2020 to 1.74% by the end of the first quarter this year[1]. The rise in yields led to rising volatility in longer duration assets and sharp sector and factor rotations.

Contributors: During the quarter, some of the strongest contributors to performance included our positions in the semiconductor equipment manufacturers ASML (Ticker: ASML, ‘Q1 21:+30.05%) and ASM International (Ticker: ASM, ‘Q1 21: +37.82%), as well as Swedish online poker and iGaming enabler Evolution Gaming (Ticker: EVO, Q1 ‘21: +54.05%).

Both ASML and ASM were buoyed by a very supportive backdrop of semiconductor shortages globally, the need to build more capacity as well as the ongoing US-China decoupling and onshoring of foundry capabilities.

Evolution Gaming reported a strong set of results and unveiled more potential upside from recently acquired NetEnt and their expansion in the US market.

Detractors: Notable detractors for the quarter included positions in Renewable and Energy transition such as EDP Renovaveis (Ticker: EDPR, Q1 ‘21: -21.04%) and Subsea 7 (Ticker: SUBC, Q1 ‘21: -2.21%), as well as French digital payment processing company Worldline (Ticker: WLN, Q1 ‘21: -9.68%).

EDP Renovaveis’ stock price was under pressure from the negative ESG ETF flows and their €1.5bn capital increase which was announced in February and subsequently completed in March.

On the other hand, Worldline’s stock price declined as we saw continental Europe gradually enter into a third lockdown and technology-related stocks, which were perceived to be relatively expensive, sell off in the market as investors rotated towards cheaper stocks and sectors.

1. Source: Bloomberg Finance L.P.,10-year yields refers to the US Generic Govt 10 Yr (USGG10YR Index) as of 31 March 2021.

Market Review

Beneath the strong market performance and modest outperformance of the Fund during the quarter, there are three highlight events that I believe led to volatility in relative performance.

Firstly, early in the year on January 6th we saw a quick rise in US government yields (with the 10-year up from 0.91% to 1.05%) which led to an intraday sharp value rotation that self-corrected a few days later.

Then, in the last week of January the unwinding of gross exposures related to the retail-induced short squeeze in GameStop (Ticker: GME) and the subsequent rescue of hedge fund Melvin Capital led to another technical, but longer-lived, rotation.

Finally, during the last week of February, US yields continued to rise with the 10-year bond reaching 1.61%. Unabated by the Fed's commentary, we witnessed a sharper rotation towards value, cyclical and less COVID-resistant names. And while technology, secular growth and COVID-resilient names acted as funding for shorts and sold off, we saw additional pressure towards the end of the month in names related to the Archegos Capital unwind.

The first two events created volatility in relative returns but were met by no targeted action on our Fund's portfolio composition. However, the last event, which we deemed less technical than the former two, led us to take profits in some secular, expensive stocks and rotate into more value[2] ideas, increasing the Fund's exposure to value re-rating opportunities. This resulted in our value exposure rising to 45% from 20-25% earlier in the year. Our active share has dropped marginally from ~90% to closer to 85%.

Outlook and Positioning

Looking ahead, we continue to see 2021 as a year of strong economic recovery with opportunities, we believe, on both sides of growth surprise and value where European equities are well represented. The magnitude in earnings growth in 2021 (consensus expectations in the range of +40% to +50%) is a feat we haven't seen for many years. Typically, with such a high magnitude, there lies more risk to the upside than downside as forecasts tend to underestimate the operational leverage of companies who have permanently reduced parts of their cost base.

In our opinion, the recent surge of a third wave of COVID infections in Europe is simply delaying the recovery but not cancelling it. The successful vaccinations in Israel leading to a collapse in infection numbers, as well as the reopening of the US and UK economies offers an interesting roadmap for what we may expect in the months ahead in Europe and other regions of the world.

In this context, we expect innovation to continue to play a key role in providing operational leverage on the way up and we see upside driven by a) earnings surprise b) valuation dispersion and c) cheap valuations in Europe.

We have therefore positioned the Fund in a way such that we believe it should benefit from both earnings' growth surprise and valuation. The rotation experienced in the month of March we saw as an opportunity to reinforce some of the names that we thought had been sold indiscriminately amongst the technology and COVID-resilient names (e.g. semiconductor equipment manufacturers) while also adding to existing and new positions in the value camp.

2. Value here refers to exposure to names we perceive to be cheaper than the market based on price-to-earnings and free cash flow (FCF) measures.

Outlook and Positioning (cont'd)

We hear the argument that the higher interest rate environment may hurt duration assets and therefore innovation exposed assets. We would caution, however, against such hasty conclusions and blanket generalisations. While higher rates make it incrementally more difficult for higher price-to-earnings (P/E) stocks to outperform lower P/E stocks, we would not be indiscriminately selling all high P/E stocks, but will instead be selective with positioning in the "expensive" category.

Similarly, not all low P/E stocks will outperform at the same time. We have seen, during the March rotation, stocks such as Adyen (Ticker: ADYEN) that are trading above 100x P/E hold up rather well, while some cheaper stocks such as Roche (Ticker: ROG), trading around 15x P/E, continued to underperform. This is one of the reasons we believe it is important to have a balanced portfolio with opportunities on both sides of the growth and value opportunity set and tactically reinforce value exposure when opportunities arise. An example of this in our portfolio took place in November last year, post-Pfizer vaccine announcement, and as a result we have outperformed the MSCI Europe Growth Index (Ticker: MSGEUNTR) by around 7.0% since then.

Finally, the multi-year innovation adoption curves should continue in different parts of the European and global economies across areas such as digitalization, acceleration of electric vehicle adoption and infrastructure, healthcare, renewable energy, the circular economy, industry 4.0 and artificial intelligence and we will aim to continue to position our Fund to benefit from these innovations throughout the year as new opportunity sets emerge in under-appreciated growth, competitive advantage and, of course, valuation re-rating.

3. Source: Refinitiv - "STOXX 600 Earnings Outlook"

Depositary: State Street Bank International GmbH, Luxembourg Branch.

You may, under certain conditions, convert all or part of your shares of one compartment into shares of one or more other compartments. Information on conversion right procedure is set out in Chapter 8 of the Prospectus.

The Fund offers other share classes for the categories of investors defined in its prospectus.

Depending on your tax regime, any capital gains and income arising from the ownership of shares in the Fund may be subject to taxation. We advise you to consult your financial advisor for more information on taxation.

Details of the Management Company's up-to-date remuneration policy, including, but not limited to, a description of how remuneration and benefits are calculated and the identity of persons responsible for awarding the remuneration and benefits, including the composition of the remuneration committee, are available at the following website www.generaliinvestments-luxembourg.com and a paper copy of such remuneration policy is available to investors free of charge upon request at the registered office of the Management Company.

The net asset value is available upon simple request from the Management Company and on its website www.generali-investments-luxembourg.com.

This is an advertising document. This Fund is subject to authorisation and regulation in Luxembourg by the Commission de Surveillance du Secteur Financier (CSSF). Generali Investments Luxembourg S.A. is authorised in Luxembourg and regulated by the Commission de Surveillance du Secteur Financier (CSSF).

In Switzerland, the representative is ACOLIN Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zurich, whilst the paying agent is InCore Bank AG, Wiesenstrasse 17, P.O. Box, CH-8952 Schlieren.

Generali Investment Partners S.p.A. Società di gestione del risparmio acts as a promoter for the Aperture Investors SICAV Sub-Funds within the EU27.

This publication is for information purposes only and does not provide any professional investment, legal, accounting nor tax advice. All information and opinions contained in this publication represent the judgment of the issuers at the time of publication and are subject to change without notice. For more information about costs, risks and conditions in relation to an investment, please always read the relevant legal documents. This publication may not be reproduced (in whole or in part), transmitted, modified, or used for any public or commercial purpose without the prior written permission of the issuers. This publication is not intended for any potential investor outside the jurisdictions in which the mentioned investment manager / investment adviser has been authorised. The latest prospectus and the latest periodical regulatory documents, as well as all other practical information, are available in English free of charge from Generali Investments Luxembourg S.A., 4 Rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg or at the following e-mail address:GILfundInfo@generali-invest.com.

The value of an investment and any income from it can go down as well as up and investors may not get back the original amount invested. Alternative investments can involve a significant amount of risk.

The UCITS funds may be registered or otherwise approved for distribution to the public in one or more European jurisdictions. The fact of such registration or approval, however, does not mean that any regulator has determined the suitability of the product(s) for all investors. Investors should carefully consider the terms of the investment and seek professional advice where necessary before taking any decision to invest in any fund(s).

The Fund or Funds have not been registered under the United States Investment Company Act of 1940, as amended, nor the United States Securities Act of 1933, as amended. None of the shares may be offered or sold, directly or indirectly in the United States or to any US Person unless the securities are registered under the Act, or an exemption from the registration requirements of the Act is available. A US Person is defined as (a) any individual who is a citizen or resident of the United States for federal income tax purposes; (b) a corporation, partnership or other entity created or organized under the laws of or existing in the United States; (c) an estate or trust the income of which is subject to United States federal income tax regardless of whether such income is effectively connected with a United States trade or business.

Aperture Investors, LLC is an investment adviser registered with the U.S. Securities and Exchange Commission (“SEC”) which wholly owns Aperture Investors UK, Ltd (FRN: 846073) who is authorised and regulated by the Financial Conduct Authority (“FCA”). Aperture Investors UK, Ltd is not authorised to actively market products and services within EU27. Information contained in this document may be restricted by laws and regulations applicable to your jurisdiction. Accordingly, you must ensure that your use of this information and any investment decision taken as a result does not contravene any such restrictions.

Emerging markets involve heightened risks related to these factors as well as increased volatility and lower trading volume. REIT investments are subject to changes in economic conditions, credit risk and interest rate fluctuations.

Risk factors: Investing involves risk, including possible loss of principal. Bonds and bond funds will decrease in value as interest rates rise. High yield bonds involve greater risks of default or downgrade and are more volatile than investment grade securities, due to the speculative nature of their investments. In addition to the normal risks associated with investing, international investments may involve risk or capital loss from unfavorable fluctuation in currency values, differences in generally accepted accounting principles or from social, economic or political instability in other nations.

The Fund may invest in derivatives, which are often more volatile than other investments and may magnify the Fund’s gains or losses.

The portfolio information provided in this document is for illustrative purposes only and does not purport to be a recommendation of an investment in, or a comprehensive statement of all of the factors or considerations which may be relevant to an investment in, the referenced securities. Presented information is based on sources and information Aperture considers trustworthy, but such information might be partially incorrect or incomplete.

Past performance of the Fund is no guarantee for future performance. Any performance presented herein is for illustrative purposes only. Historical information is not indicative of future results. Current data may differ from data quoted. Performance information does not take into account the commissions and costs incurred on the issue and redemption of units. Performance information is presented net of fees, but gross of tax liabilities. Each index listed is unmanaged and the returns include the reinvestment of all dividends, but do not reflect the payment of transaction costs, fees or expenses that are associated with an investment in any fund. An index’s performance is not illustrative of a Fund’s performance. You cannot invest in an index.

MSCI. The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)