

8 APRIL 2020

COVID-19: YOU'RE NOT GOING TO KILL US ALL BUT MAYBE MAKE US BETTER

A Personal Message by our CEO

I, like many others, wonder if the world will be a better or worse place once the peak of the COVID-19 pandemic is behind us and once we can return to a more “normal” life. In any case it will not be as before. The answer may be found in the duration of the current crisis and its impact on our health and economic prospects.

During the past few days and weeks, we have seen the best and the worst of human behavior. On the one hand, we have seen an extraordinary outpouring of generosity from people, companies, and states, while on the other hand, some have acted with great selfishness. As it is often the case during such tragedies, some people, companies, and criminals are taking advantage of the situation at the expense of many others.

We have countless examples of proper behavior, but unfortunately, we have many cases of bad ones too. We have seen companies such as Adidas deciding unilaterally not to pay their rents anymore. When the German government intervened and urged financially sound companies not to take advantage of the situation and to show solidarity, the company apologized for their behavior. It said it was going to pay the rents for April.

What would be happening if everyone decided to do as they please? While this might be the desire of some politicians around the world, it would lead to the end of modern society as we know it and would inevitably lead to fights and pain for most.

Might it be the beginning of the end for large corporations? I don't think so, but what I really believe is that it might be the beginning of the end of a system and management style that exclusively focus on short-term profits at the expense of everything else.

At AtonRâ Partners, we have been managing investment themes for many years with strong convictions based on many variables, including, where possible, ethical ones. As this healthcare crisis unfolds everywhere, with potentially profound consequences on the future for us all, we have decided to pay even more attention to ethical standards in the companies we invest in.

The day of reckoning has not come yet as we are still in the doldrums of this health crisis. I believe that good ethics comes not from what is written on any company's guidelines or brochures but comes from concrete actions undertaken during tough times.

I want to think, even if I'm not 100% sure, that corporations behaving with strong ethics are the ones that will stand out. The world started to change before this crisis unfolded, and I like to believe that this crisis acts as an additional catalyst and speeds up changes that were already perceptible. It is not about following absurd ESG exclusion factors that are impossible to apply similarly to everyone and everywhere but judging a company and its management team on concrete actions.

While the COVID-19 health crisis and its economic consequences are particularly severe for the poorest, they also impact, though at different levels, the wealthier and many of the people that were thought to be safe from any possible economic shocks.

What would make people's behavior change is the duration of this crisis, how much they are personally affected in their health, their financial situation, and their trust in the future.

I believe that the costs of this crisis will be eventually shared by everyone, whether in the form of higher taxes (a COVID-19 tax) or by any other means. But for such measures to be truly useful, everyone should pay a piece of the bill, and this bill is likely to be a recurring one over the next few years.

Governments should take the opportunity of this depressing event to tackle many problems such as energy independence and efficiency, climate change, better healthcare system, the rethinking of the overall transportation infrastructure, pollution, and smarter cities among many others.

Such recovery plans would provide the basis for the creation of millions of jobs. In addition, they would also give people the needed faith in the future and possibly translate into higher birth rates, notably in countries with unfavorable demographics. With economies conceivably running at high gear following the implementation of these plans, the collection of additional taxes would enable the down payments of debts we are taking on today on the backs of future generations. If we fail to do so, the risks for a global economic depression would be so severe that higher poverty would be the norm going forward.

In our past reports, we already wrote that some relief would come to the markets once we would see evidence of positive results from countries that have enacted social distance measures. For Italy, this is the case, as the number of people under intensive care as well as the number of new severe cases is starting to decrease. The country is currently exploring the best actions to be taken once the lockdown is lifted.

We now all understand that the first battle against the virus was lost as it did spread just about everywhere. The planet we live on is so interconnected and goes so fast that it was almost impossible to stop the virus. At the same time, nearly none of the westernized healthcare systems were prepared to fight something of this magnitude, and most of the world had no choice but to lockdown.

Italy, as every government in the world, would need to make a trade-off between the health of people and the possibly long-lasting consequences of an economic recession or depression if it lasts for too long. Governments would need to work on minimizing the risk of having COVID-19 spreading once again and having as many people as possible returning to work as fast as possible.

Some countries, the poorest notably, might have no other choices but to allow their citizens to work despite the risks of having many of them infected with no access to any healthcare system.

Testing thus becomes one of the most critical elements. No one would take the risk of having infected (most especially asymptomatic) people returning to work without being sure that all the necessary measures have been enacted, to lower the risk of a new uncontrolled spread of the virus. Similarly, more and more governments are obliging their population to wear masks, and enacting surveillance systems tracking.

While many parts of the world could afford a two to three months lockdown, a prolonged period would have such consequences that the lockdown cure would be more harmful than the virus itself. It is for this precise reason that many governments might want to have separation (contaminated vs. non-contaminated), testing, and surveillance measures performed as fast as possible. With this in mind, we might have regions and countries getting out of lockdowns at different times.

As the economic recovery is not likely to be V-shaped, nor synchronized, we have made some changes to the thematic portfolios that we are managing. We have notably cut exposure in companies levered to cyclical growth (capital-intensive business models) and increased exposure to those companies which are to benefit from the current trends (edge computing, testing, etc.).

I believe that in the current environment, only companies that adapt swiftly to the fastchanging landscape and those companies with the highest ethical standards are the ones to prosper in the next few years as this crisis has the potential to reshuffle the cards of the investment landscape.

Like in the aftermath of the 2004 tsunami in Asia, where measures were taken to better predict new disasters, governments around the world will take the same measures to minimize the possible return of a global pandemic. To do this, they will have to collaborate as much as possible.

In these difficult times for each of us, the whole team of AtonRâ Partners does everything it can to best serve all its partners while respecting the rules of conduct and ethics that are in line with our philosophy.

Take good care of yourself and your loved ones.

Stefano Rodella
CEO of AtonRâ Partners

We herewith highlight the changes that we have made in the different portfolios.

■ **Artificial Intelligence & Robotics**

As written in our 10 March 2020 research note, "[The Unexpected Consequences Of COVID-19](#)", we see the automation theme benefiting from this crisis. The COVID-19 impact on the thinking of people towards economics would lead to a reassessment or at least a different approach to globalization.

We believe that many companies might want to relocate some of their manufacturing production closer to where goods are purchased. Still, in doing so, they need to be even more efficient (more automatization). This won't happen overnight, and projects, where high initial capital expenditures are required, are likely to remain shelved until the situation normalizes, which might take a few more quarters.

In the current environment, many corporations would prefer maintaining as long as possible their existing infrastructure before embarking into large items expenditures. With this in mind, we believe that companies focused on helping their customers having higher efficiency rather than those focused on the scaling up of operations are the ones to benefit the most in the short-to-mid-term.

Edge computing might also benefit if more governments adopt tracking measures as they would be performed through mobile phones. Cloud/Datacenters are also vital for home working and online shopping and should thus benefit in the current context.

We have changed roughly 20% of the portfolio but maintained country and currency exposure mostly unchanged.

■ **Biotechnology & Healthcare M&A**

Many clinical programs are now delayed or suspended, especially those involving the recruitment of new patients or healthy volunteers as sites close or are put in quarantine, there's a lack of supplies and much disruptions among the medical staff.

The most impacted are Phase I clinical trials as healthy volunteers are not taking the risk of going to hospitals. In terms of therapeutic areas, the field of oncology and rare fatal diseases (life-threatening conditions) are the least affected as patients need their treatment/testing regardless of the situation. Besides, some medicines are delivered to pharmacies, local laboratories, or even directly at home (e.g., Vertex Pharmaceuticals).

To face this unprecedented crisis, the FDA issued guidance on how to conduct clinical trials during this outbreak.

For example, on trial participants, companies should use alternative methods for safety assessments (e.g., phone contact, virtual visit, alternative location for evaluation, including local labs or imaging centers). The FDA and all the other agencies around the world would be more flexible than usual if data are missing, but companies would have to adapt their protocols.

In both of our portfolios, we increased exposure to companies that help the sector to conduct virtual trials or manufacture the necessary ingredients. Biotech and pharmaceutical companies can out-source their manufacturing and development to CDMOs and their research to CROs. Their functions are also to monitor clinical trial sites. Both can help to ensure consistent and continuous trials and make the switch to digital more easily and quickly.

Companies such as Veeva, which provides cloud computing solutions in the form of software-as-a-service (SaaS) to the life sciences industry, can help ensure data continuity. Without continuity in the processing of clinical data, companies run the risk of having to start all over again if the data are statistically insignificant.

On the other hand, we cut some exposure to those companies that are still at an early stage and those companies where such delays might oblige them to tap the market with capital raises or companies that, despite current disruptions has decided to proceed with commercialization. Esperion is one of those companies, and we thus decided to reduce the exposure significantly.

We believe that the Pharma/Biotech and overall Healthcare industry is to come out reinforced from this crisis. It would also restore public confidence and awareness that health conditions come above everything else and having a functional and efficient healthcare system is of paramount importance.

We have changed roughly 9% of the Biotech portfolio and 8% of the Healthcare M&A one.

■ **Bionics**

The COVID-19 pandemic is putting some companies at heightened risk, while some others are better positioned to come out almost unscathed or even benefit from the present situation.

All over the world, elective procedures are being delayed or canceled to ensure that medical supplies and capacities meet the high demand of the COVID-19 pandemic.

In China and Italy, the number of elective surgeries has plummeted by 85% / 90% in February and March.

In the U.S., an increased number of hospitals are canceling or delaying elective procedures. Therefore, we expect to see a substantial decline in the sale of medical devices supporting this type of surgery (e.g., cochlear implants, orthopedic devices etc.).

Hospitals are the likely losers in the war against COVID-19. Two are the most significant impacts we forecast, the halt of lucrative elective procedures (e.g., general surgery, urology, hip, and knee replacement) and, as a result, the contraction in the hospitals' capital expenditure such as surgical robots. Disposable instruments make up most of their revenues, and the increase in procedures volume drives their growth.

All in all, we reduced the exposure to medical robots (surgical robots and automated dispensing cabinets), regenerative medicine, and devices for elective procedures. Meanwhile, we increased exposure to digital health solutions, genomics (including molecular diagnostics), and medical devices related to cancer treatment, and non-elective surgeries.

We have also favored more diversified companies where the massive demand for some of their products (diagnostic tests for COVID-19, ventilators, remote monitoring devices, etc.) could offset the negative impact of COVID-19 in other business lines. We believe that the healthcare sector, after the battle against the coronavirus, will inevitably be different.

Governments and regulators are now aware of the importance of diagnostics and health care in general. Temporary reimbursement expansion (e.g., for telemedicine, remote patient monitoring, ventilators) could remain in place after the outbreak.

People are likely to take more proactive actions to improve, manage, and prevent chronic conditions such as diabetes, lung, and heart diseases, for whom COVID-19 could have serious consequences.

We also learned that timing is essential, and technology such as wearables and remote monitoring devices, if well used, can make the difference, allowing as to detect diseases in advance, early before the onset of the first symptoms.

The changes we have made in this portfolio represent roughly 15%.

■ **Mobile Payments /Fintech**

The fintech portfolio had already been reviewed in mid-February 2020 to get exposure to all fintech sub-themes. By taking exposures to new sub-themes of fintech (e.g., RegTech or PropTech), we reduced the overall risk of the portfolio. But despite this recent portfolio review, we still needed to make some minor adjustments to adapt to the new environment caused by COVID-19.

We reduced the exposure to alternative and online lenders. These companies are likely to experience a rise in defaults, which would impact both their balance sheet and income statement as they do not fully securitize the loans taken by their customers. We also reduced exposure to firms whose revenues depend on the level of interest rates. Following the latest monetary decisions in the US, interest rates are unlikely to increase anytime soon.

We allocated the proceeds of the sales to companies that stand to benefit from an increased volume of online sales and payments during the lockdown.

Regarding mobile payments, we made only a minor adjustment by selling exposure we had in companies highly exposed to the travel industry and cross-border payments for individuals.

We believe that the travel industry might be the last one to get out of this situation as traveling would be more difficult (healthcare airport checks, healthcare passports, quarantines, travel restrictions etc.) over the next few months and possibly quarters.

We believe that the Fintech and Mobile Payments themes might be the ones with the most upside in the short-to-medium-term as the use of digital payments is expected to soar due to hygienic measures taken and the rise of online shopping.

The virus has one positive in that it obliges people to adopt it and learn how to and use it. Furthermore, we believe that much of the government's help would take the digital form (for the sake of simplicity and control) and which adds an additional catalyst to both themes.

We have changed 3% of the Mobile Payment and 6.5% of the Fintech portfolios.

■ **Security & Space**

The fast spread and the need to quickly and effectively contain the COVID-19 outbreak proved that proper security could make the difference between thousands and millions infected. Moreover, efficient security systems may solve the problem of whether the business continuity for companies will be in danger or not.

Social distancing and remote working have considerably increased traffic, which has inevitably led to a surge in demand for cybersecurity solutions.

We believe many companies would understand the benefits of remote working, which is to become a big part of our future lives. Therefore, the demand for remote identity and access management, as well as for cloud solutions, would remain high. In the public security space, the need for secure government wireless communications would drive demand for companies contracted by governments for their cybersecurity needs.

Players operating in the video surveillance sector will significantly benefit from the outbreak as governments and people have understood that cameras can be of great help to everyone, of course, if they respect our privacy. The outbreak has shown that knowing who contacted who may become crucial for containing the pandemic in the early stages. Moreover, players we have added to our portfolio provide thermal security cameras that are becoming mandatory in the border crossing zones across the globe.

We took this rebalancing opportunity to cut some exposure to stocks involved purely in defense and have decided to follow the Norwegian Wealth Fund exclusion list. Other changes in the defense sector include decreased exposure to players that heavily rely on the US government defense budget, which might be drastically impacted by the aftermath of COVID-19.

Given that the Security and Space certificate is exposed to multiple security axes such as cybersecurity, satellite imagery, space security, Cloud and IT security, we reviewed the portfolio to make sure we capture all the opportunities that current market conditions present.

The changes we have made in this portfolio represent roughly 22%.

Sustainable Future

As already stated in our previous notes, we believe that private transportation might gain speed not only in China but everywhere as COVID-19 spreads particularly fast in crowded places, including public transports. Combustion-engine vehicles are not the right solution, but governments (including China) would likely pay less attention to pollution levels once the people are allowed to return to a more "normal" life post-COVID-19.

We believe that people are likely to remain very reluctant to take public transportations (trains and buses notably) and those who can afford not to take public transportation are likely to do so in the foreseeable future. We have confirmation of this with China's latest metrics that show that highway traffic is back above 2019 levels while public passenger numbers remain low.

On the other hand, the current context suggests that massive investments for economic recovery are likely to go towards infrastructure projects to alleviate the pain of this economic recession.

The upcoming fourth US stimulus package is likely to be focused on infrastructure, including water and wastewater projects. Guaranteeing access to safe & clean drinking water as well as adequately treating wastewater is a top priority, and no one is ready to give up on it.

After the pandemic, people would undoubtedly put greater emphasis on maintaining health standards and limiting contamination sources, an area where clean drinking water is critical. Therefore, we have increased our exposure to several innovative U.S.-based companies active in the water industry at the expense of companies linked to public transportations and notably rail.

We still see rail as one of the cleanest modes of transportation but are worried that this industry is to feel the pain for some more time before regaining the lost ground.

We also believe that the next fiscal stimulus in the U.S might be more challenging to achieve as Democrats are likely to require a big chunk of this money going into renewables. While this is a net positive for the Sustainable Future theme, we would like to see first which investments get prioritized.

We have changed roughly 9% of the Sustainable Future portfolio.

DISCLAIMER

About AtonRâ Partners: AtonRâ Partners is an asset management company, founded in 2004 with head office in Geneva, incorporated under Swiss law, duly approved by the Swiss Financial Market Supervisory Authority (FINMA) under the Swiss Collective Investment Schemes Act. AtonRâ Partners is a conviction-driven asset manager combining industrial and scientific research with financial analysis. AtonRâ Partners focuses on long-term trends powerful enough to be turned into thematic equity portfolios.

This report has been produced by the organizational unit responsible for investment research (Research unit) of AtonRâ Partners and sent to you by the company sales representatives. As an internationally active company, AtonRâ Partners SA may be subject to a number of provisions in drawing up and distributing its investment research documents. These regulations include the Directives on the Independence of Financial Research issued by the Swiss Bankers Association. Although AtonRâ Partners SA believes that the information provided in this document is based on reliable sources, it cannot assume responsibility for the quality, correctness, timeliness or completeness of the information contained in this report. The information contained in these publications is exclusively intended for a client base consisting of professionals or qualified investors. It is sent to you by way of information and cannot be divulged to a third party without the prior consent of AtonRâ Partners. While all reasonable effort has been made to ensure that the information contained is not untrue or misleading at the time of publication, no representation is made as to its accuracy or completeness and it should not be relied upon as such. Past performance is not indicative or a guarantee of future results. Investment losses may occur, and investors could lose some or all of their investment. Any indices cited herein are provided only as examples of general market performance and no index is directly comparable to the past or future performance of the Certificate. It should not be assumed that the Certificate will invest in any specific securities that comprise any index, nor should it be understood to mean that there is a correlation between the Certificate's returns and any index returns. Any material provided to you is intended only for discussion purposes and is not intended as an offer or solicitation with respect to the purchase or sale of any security and should not be relied upon by you in evaluating the merits of investing in any securities. The products described in this document may not be directly or indirectly offered or sold in the United States of America or by U.S. Persons.