

March 2021

FEIFA Masterclass Q1 2021

The outlook for the technology sector

Important information

Investment involves risk. The value of investments and the income from them can go down as well as up and you may not get back the amount originally invested. Our portfolios are designed to work over a typical investment cycle of 7-10 years, so we recommend you stay invested for at least 7 years.

The investments discussed in this document may not be suitable for all investors. Past performance is not a reliable indicator of future performance.

The tax treatment of all investments depends upon individual circumstances and may be subject to change. Investors should discuss their financial arrangements with their own tax adviser as the value of any tax reliefs available is subject to individual circumstances. Levels and bases of taxation may change.

Where investment is made in currencies other than the investor's base currency, the value of those investments, and any income from them, will be affected by movements in exchange rates. This effect may be unfavourable as well as favourable.

Important information

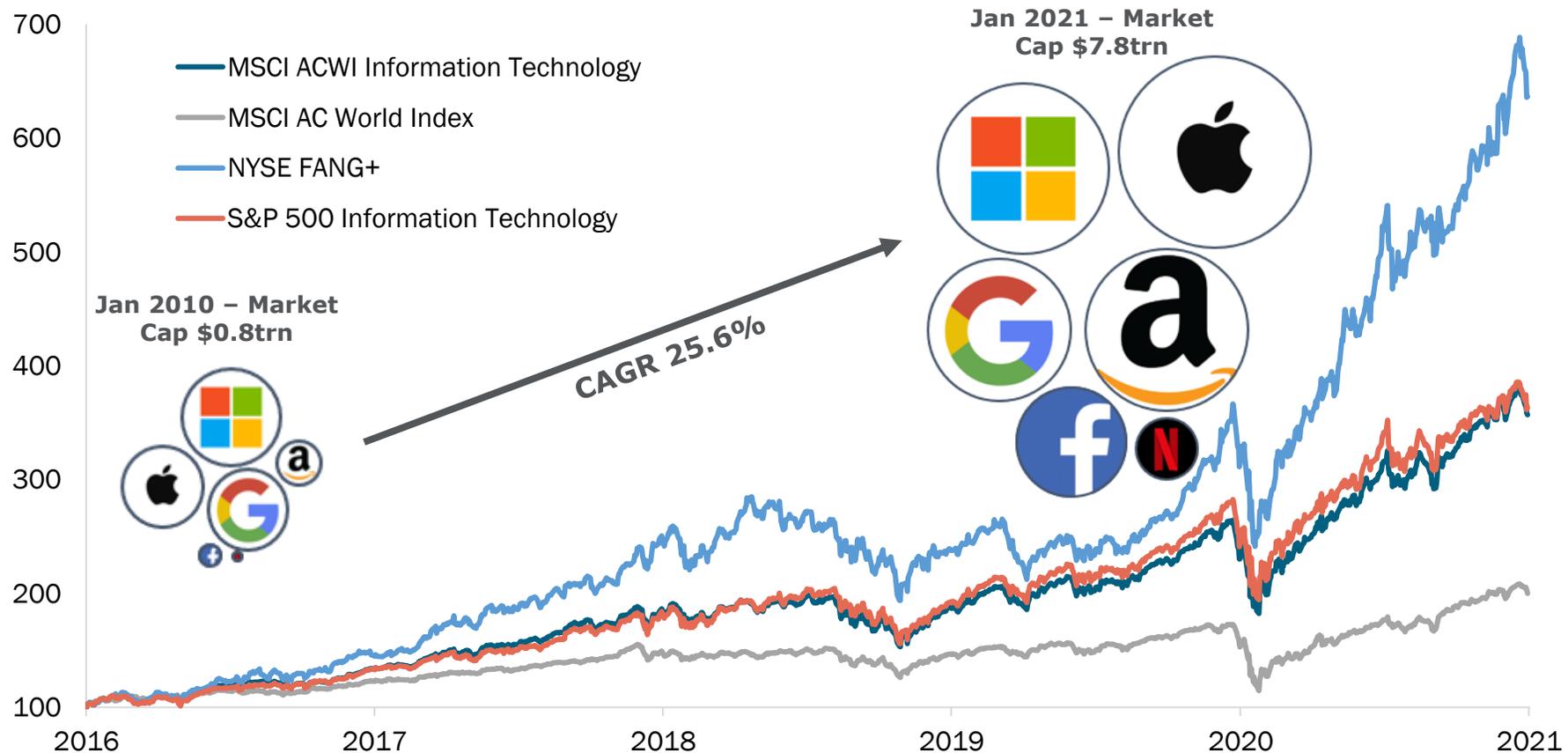
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Technology – what's not to like?

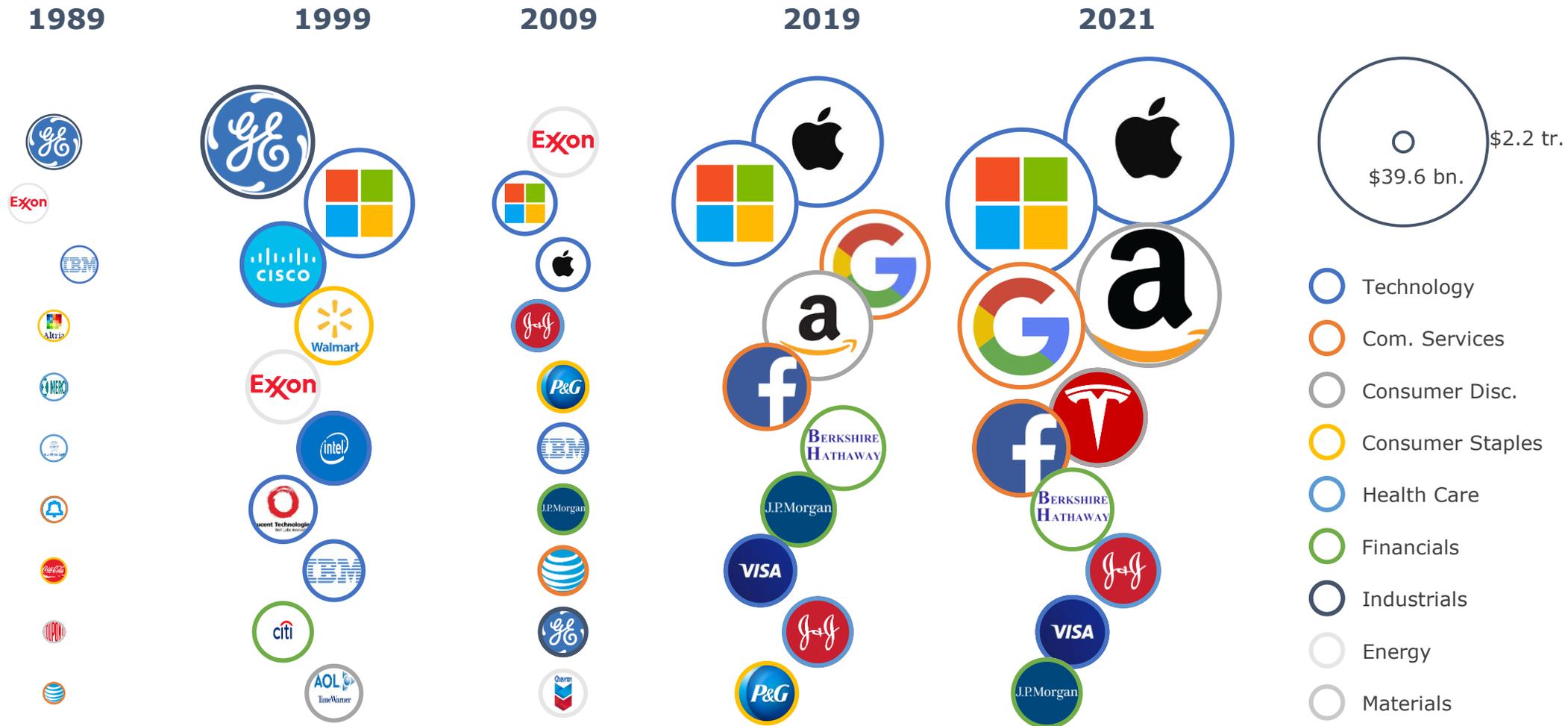
One of the most consistent and profitable trends in financial markets has been the outperformance of technology stocks.



Past performance is not necessarily a guide to future performance.

Four decades of US stockmarket leadership

As inconceivable as it seems now, why should the leaders in ten years' time still be dominated by the current incumbents?



Themes within technology

The technology theme contains many sub themes, including:



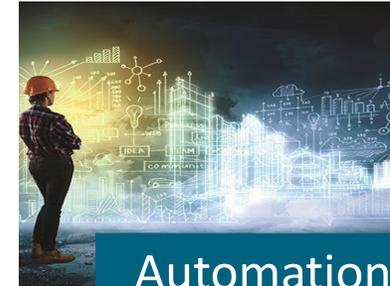
S.a.a.S.



A.I.



eCommerce



Automation



Fintech



EVs



Cloud



Cyber security



Digital media



5G



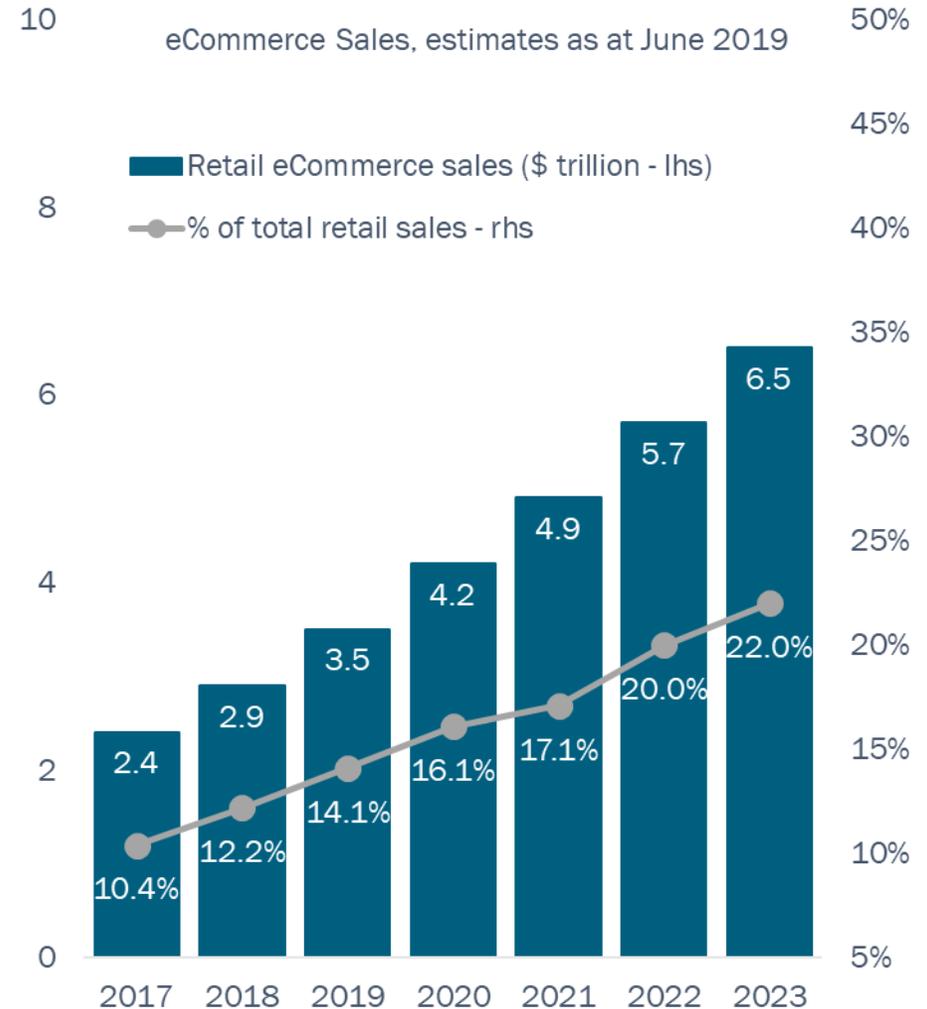
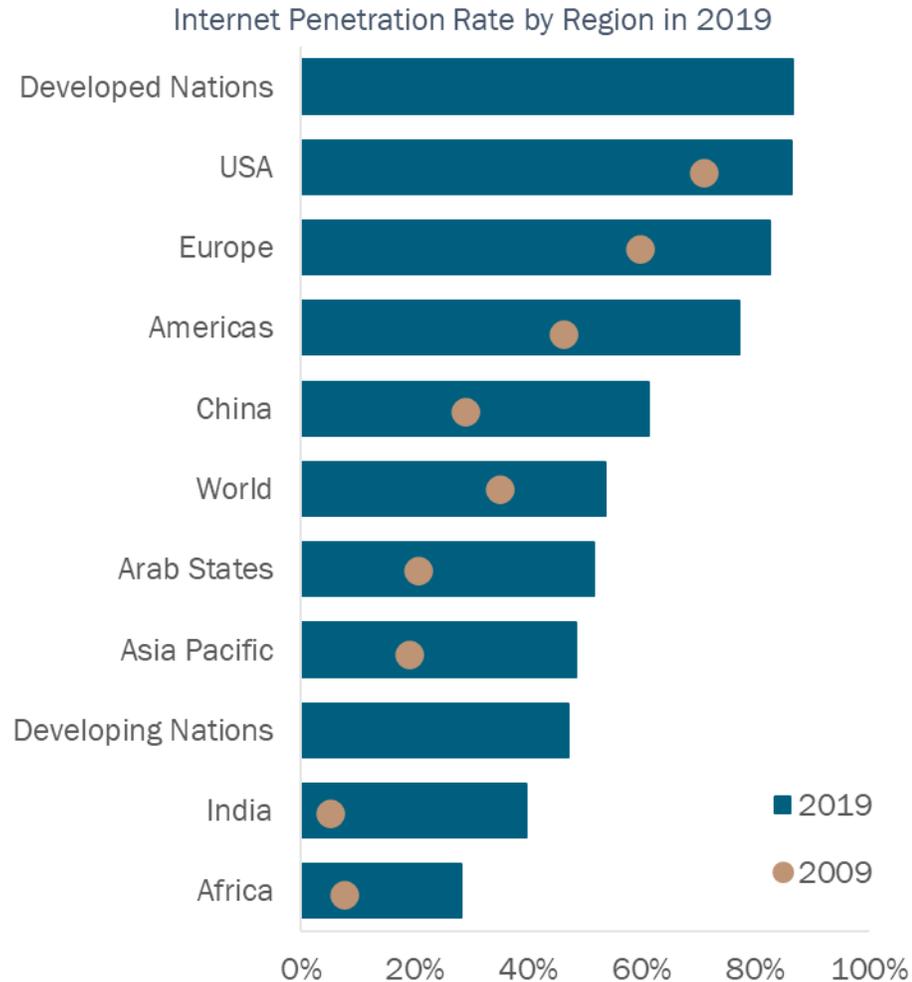
Entertainment



Clean energy

Technology fundamentals

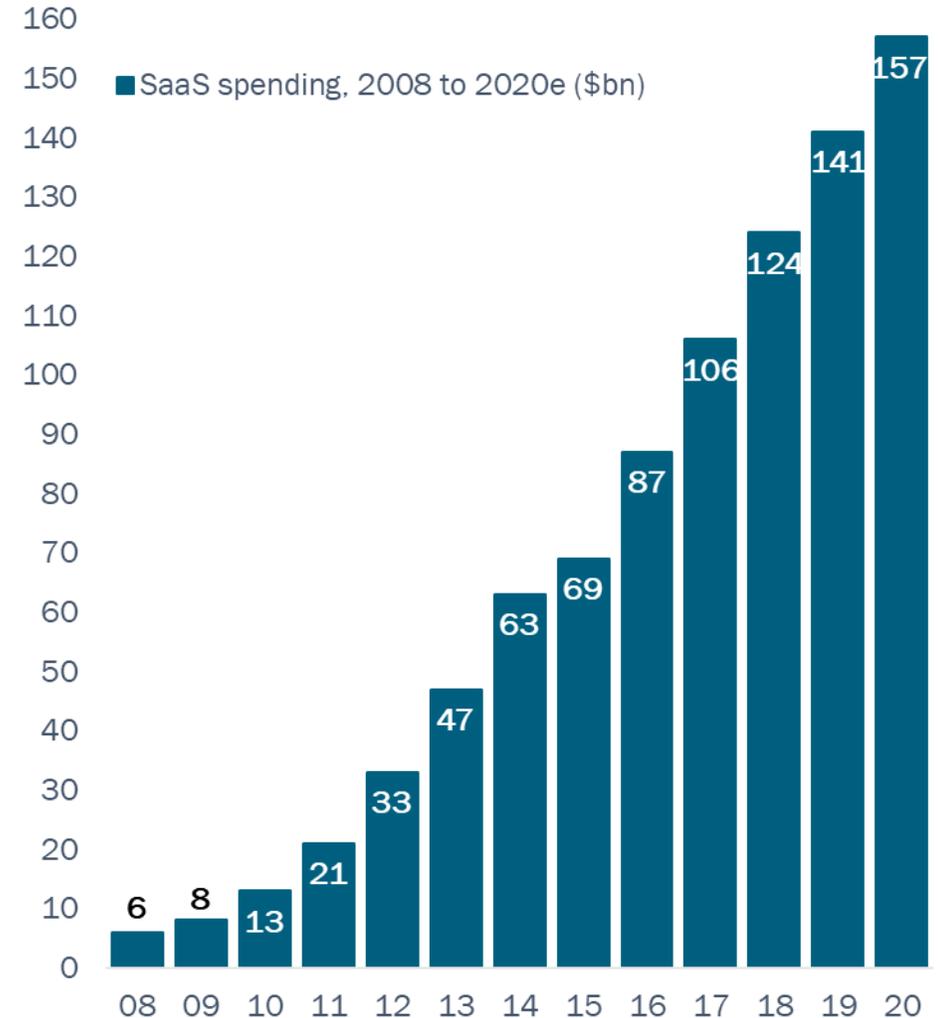
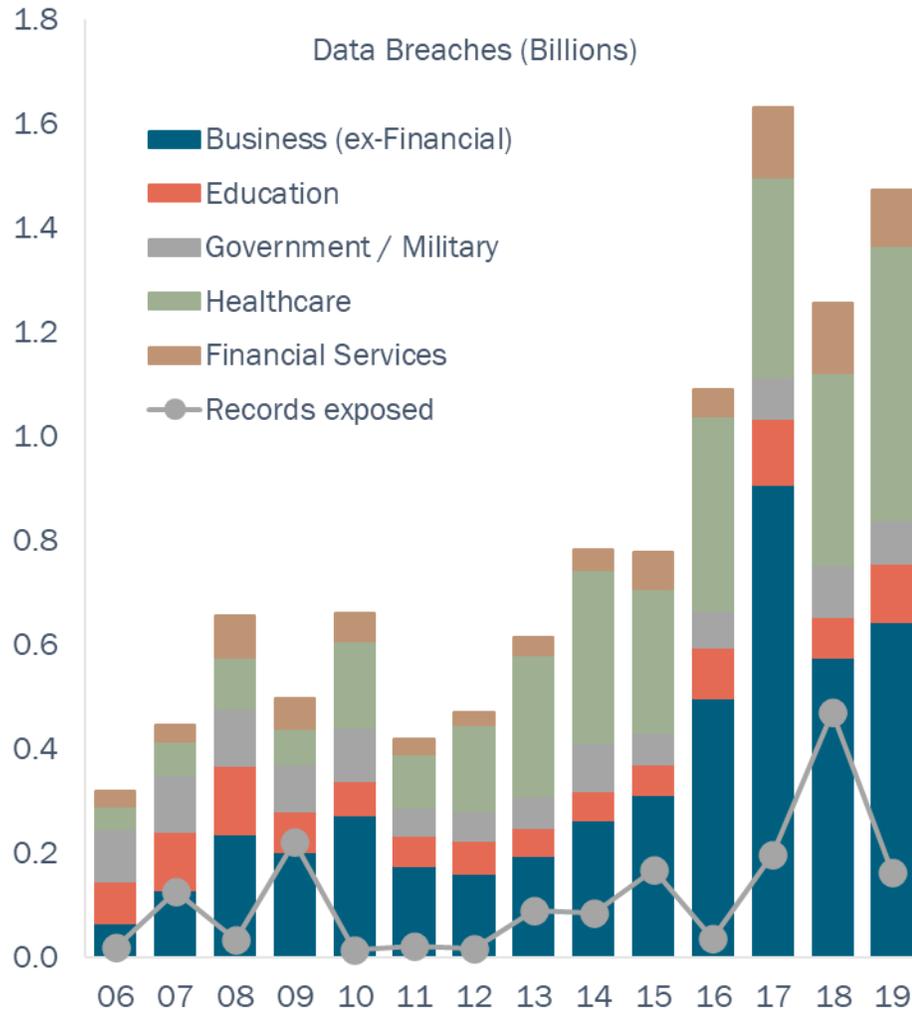
eCommerce was showing strong growth even before COVID-19.



Source: CGWM, eMarketer, Statista.

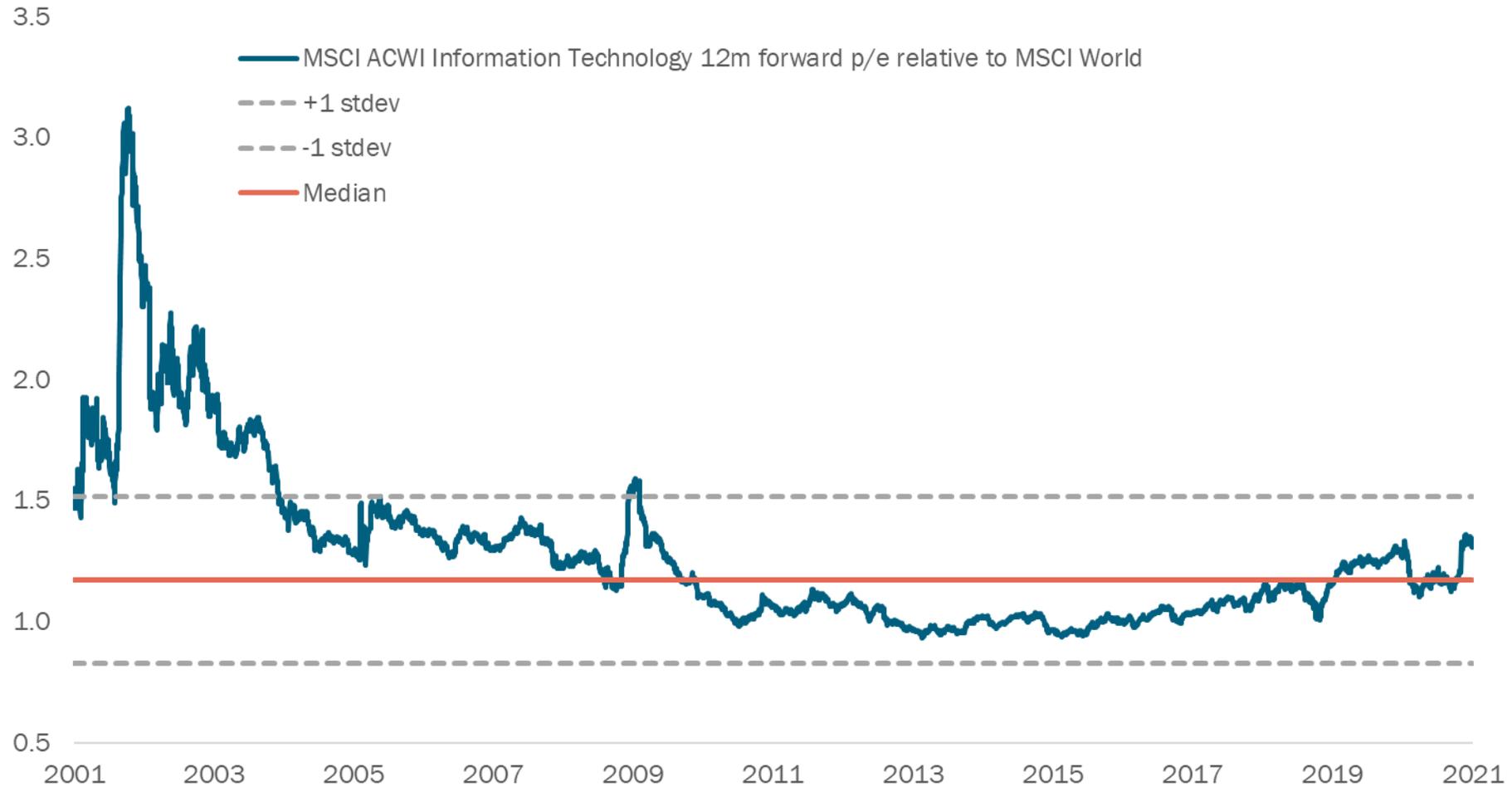
Technology fundamentals

Cyber security is an area we like. Software as a Service (SaaS) is a high growth but popular theme.



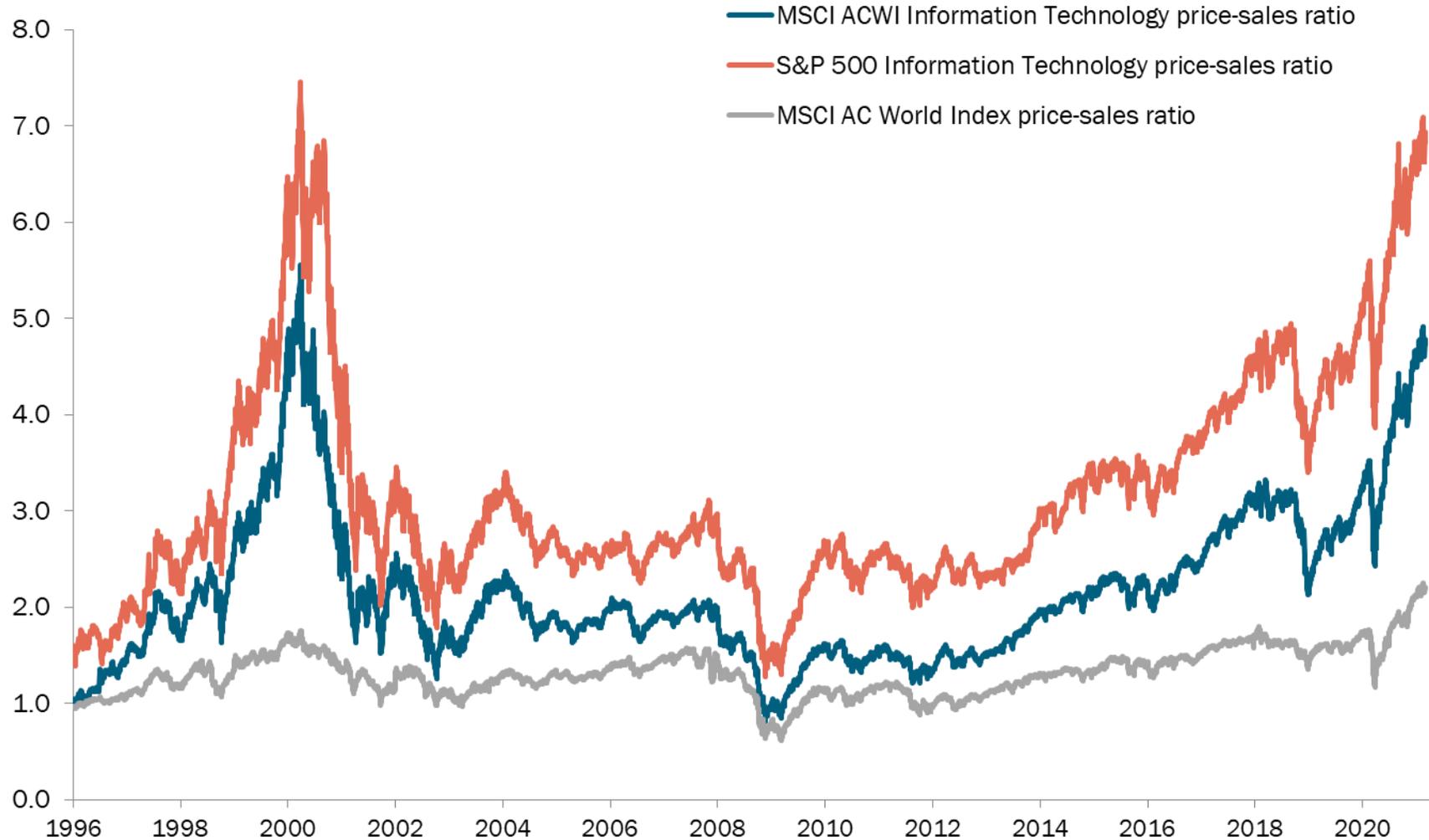
Technology valuations

The sector is trading at a premium to the market but not to the extremes seen in the past.



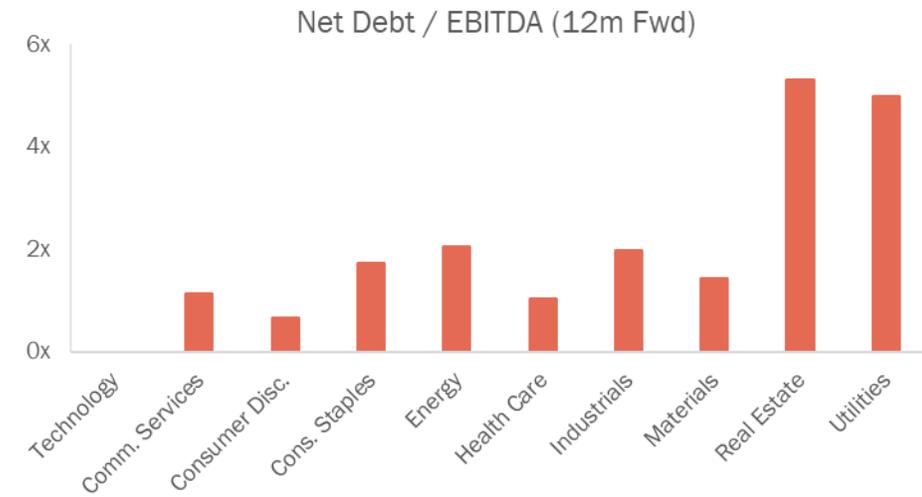
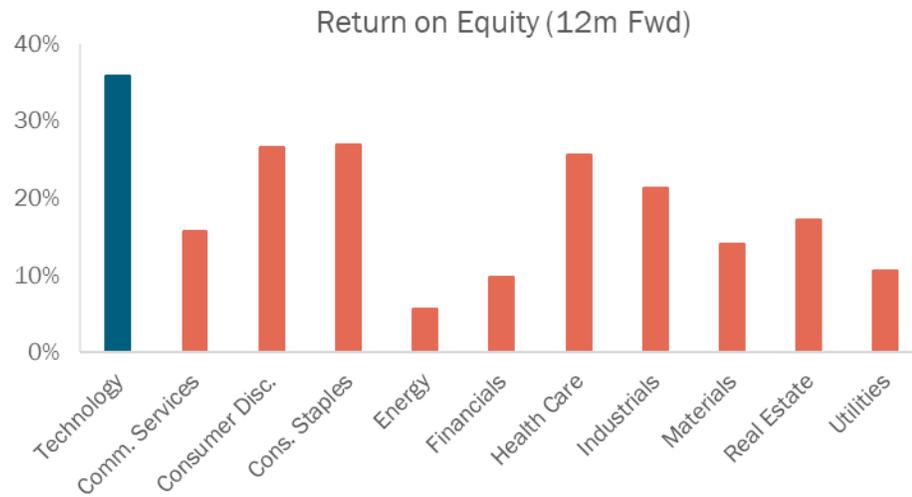
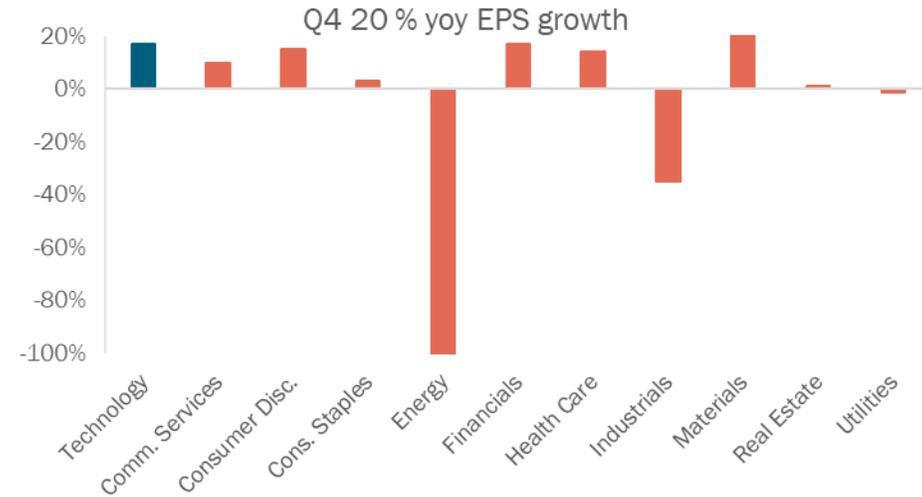
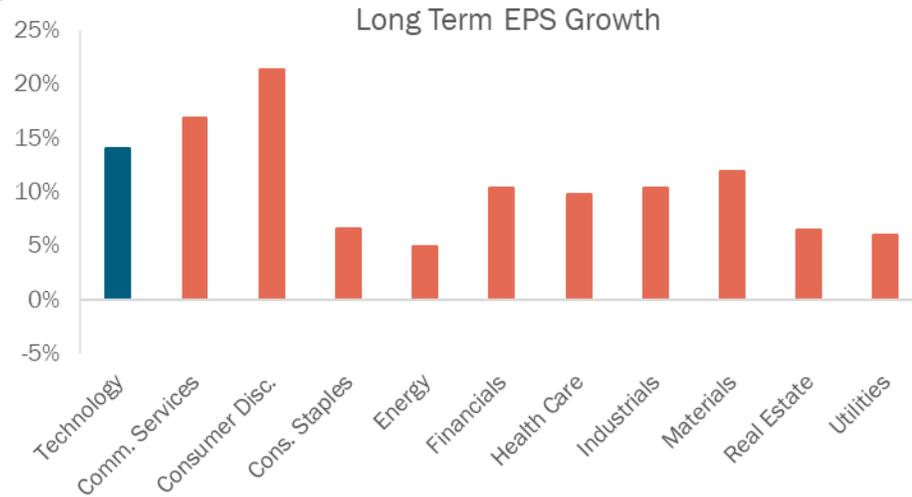
Technology valuations

On a price-sales basis, the picture is more extreme.



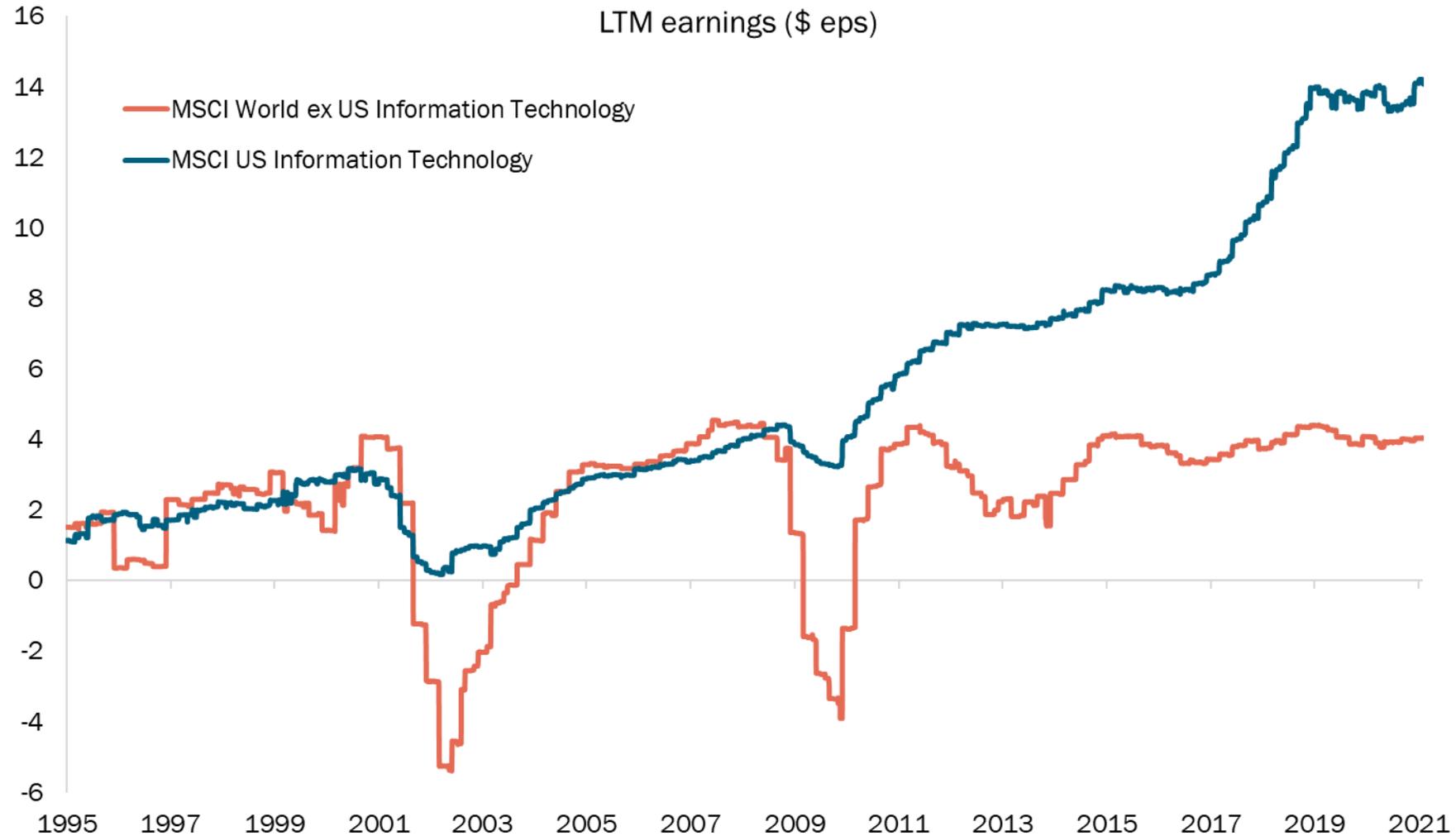
Technology corporate strength

S&P - high return on equity, no net debt and one of the best growth outlooks when compared to other sectors.



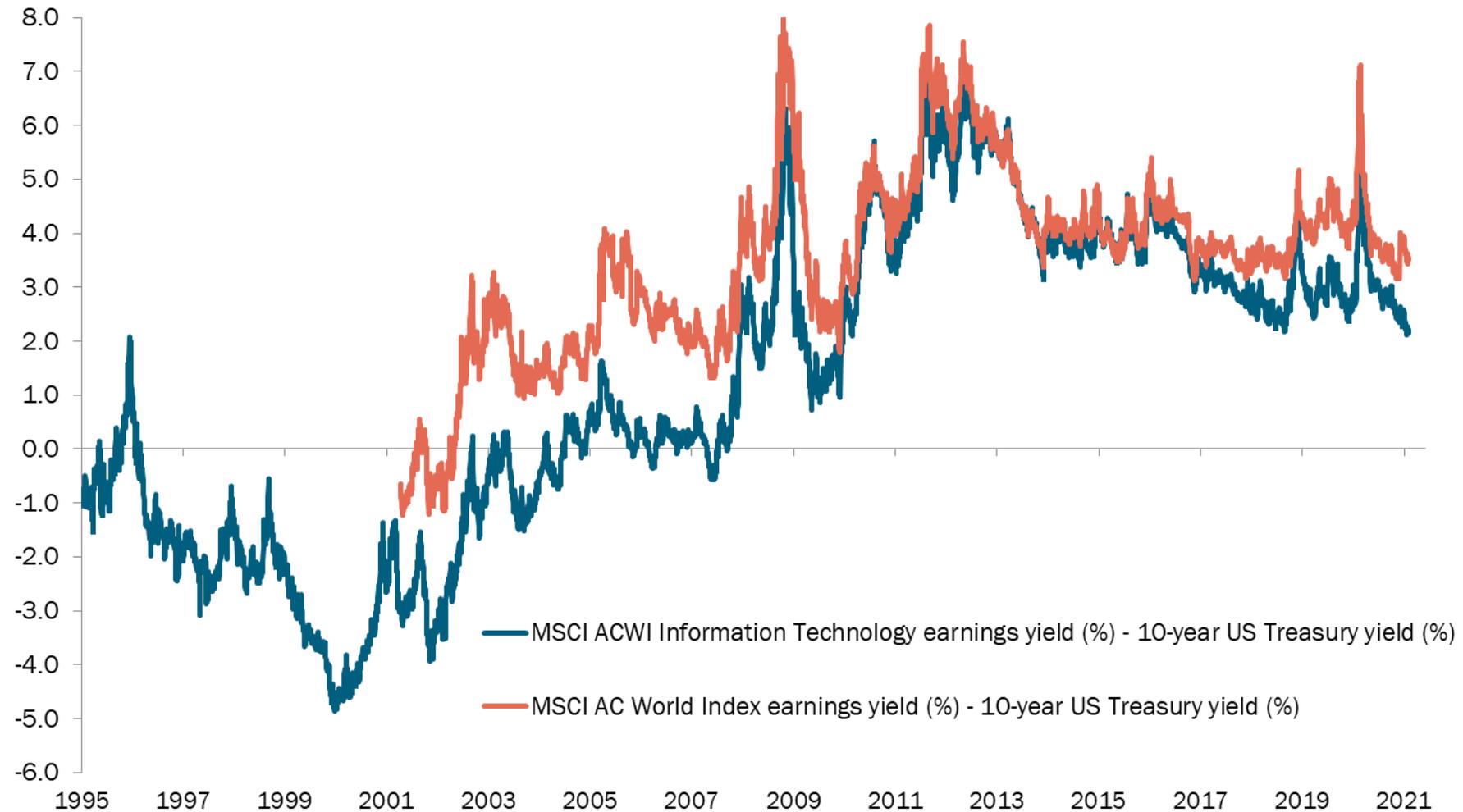
Technology earnings

Technology has driven all the increase in earnings since 2009.



Technology earnings yield support

A marked difference compared to the TMT bubble at the end of the 1990s.



Technology and inflation

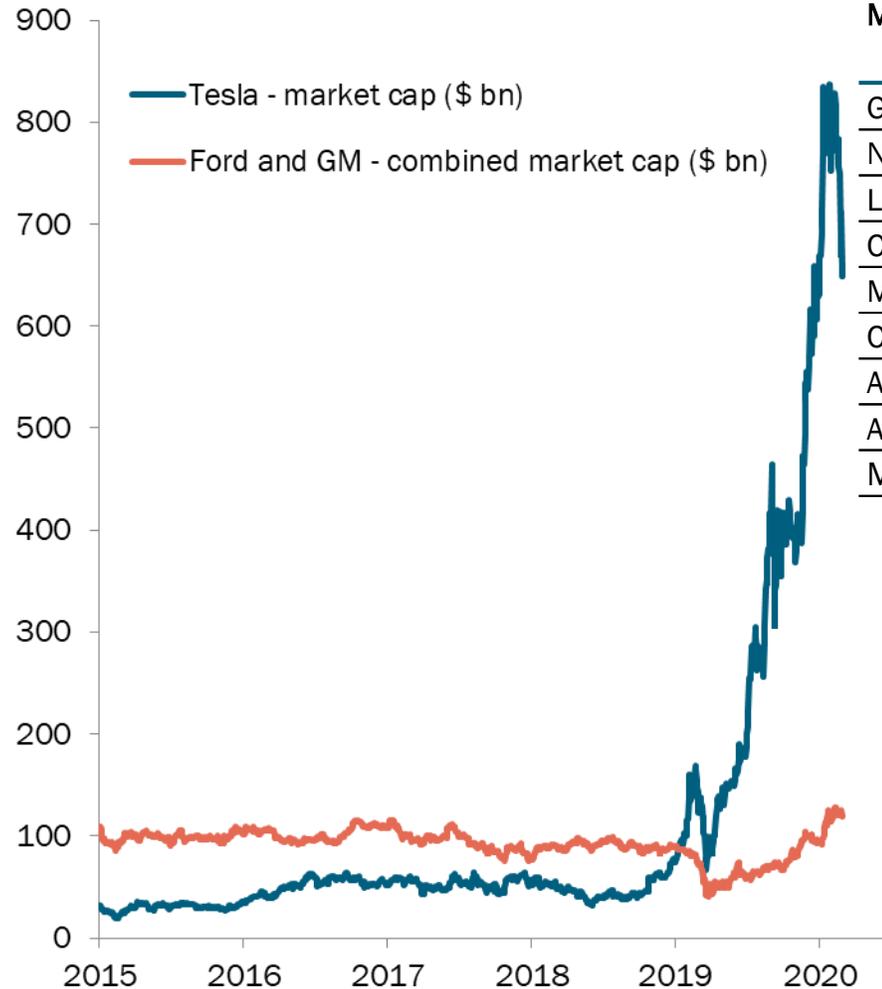
If you believe inflation is going to increase, do you want to own tech?

Sector performance during periods of rising inflation (annualised)

Sector	30/04/1998	30/06/2002	31/10/2006	31/7/2009	30/4/2015	Average
	30/04/2000	30/09/2005	31/07/2008	30/09/2011	31/07/2018	
Technology	60.1%	10.4%	1.0%	10.5%	20.7%	20.5%
Energy	5.3%	23.7%	18.6%	8.6%	1.2%	11.5%
Real Estate	n/a	15.9%	-9.1%	28.7%	6.8%	10.6%
Utilities	8.2%	15.1%	7.1%	12.6%	9.5%	10.5%
Industrials	10.5%	9.0%	1.1%	12.2%	12.0%	9.0%
Discretionary	17.3%	6.3%	-13.0%	18.8%	14.6%	8.8%
S&P 500	15.8%	8.8%	-2.7%	9.0%	12.0%	8.6%
Communication	22.7%	6.6%	-5.3%	11.9%	3.0%	7.8%
Healthcare	7.8%	5.7%	-0.4%	8.7%	8.7%	6.1%
Materials	-7.5%	7.8%	13.5%	4.7%	7.6%	5.2%
Staples	-11.1%	3.8%	6.1%	13.3%	6.1%	3.6%
Financials	0.4%	7.7%	-22.5%	-3.2%	13.7%	-0.8%

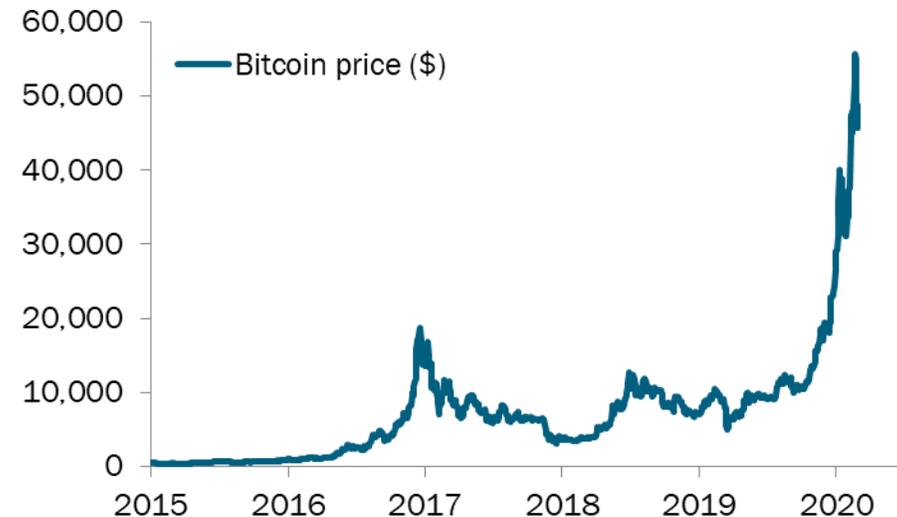
Signs of froth and speculation

Tesla may be the best car company the world has ever seen, and Bitcoin may be the future, but...



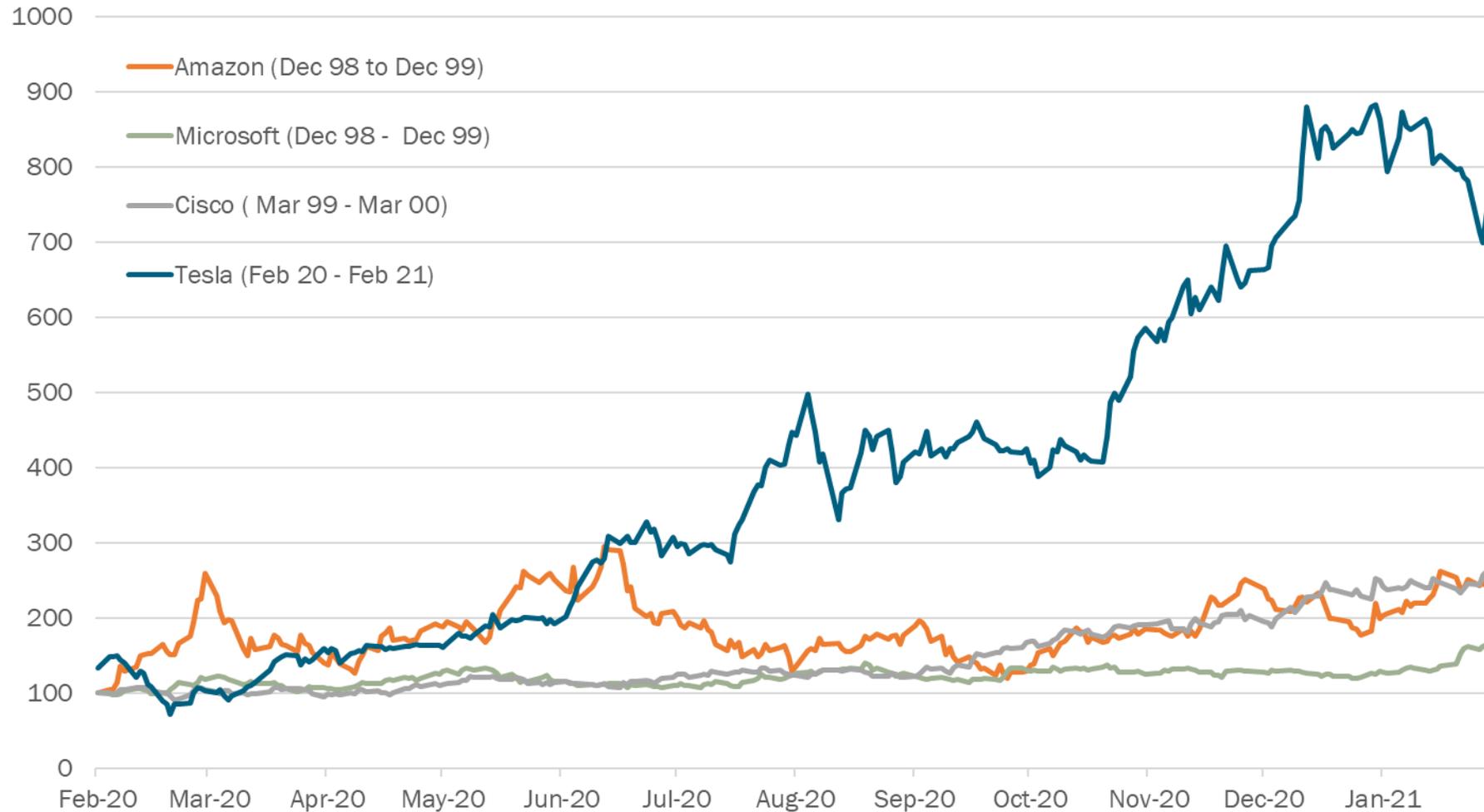
Metals Tesla needs to build 20m cars a year (2030 target)

	Materials required (t)	Production 2019 (t)	% of production
Graphite	1,028,775	1,100,000	94%
Nickel	750,410	2,460,000	31%
Lithium	127,302	77,000	165%
Copper (vehicle)	1,820,000	21,000,000	9%
Manganese	20,811	19,000,000	0%
Cobalt	68,315	122,000	56%
Aluminium (battery)	16,544	64,000,000	0%
Aluminium (vehicle)	3,380,000	64,000,000	5%
MagREO (NdPr, Dy, Tbj)	18,000	46,000	39%



Surpassing TMT returns

Tesla's 12-month share price growth far exceeds the returns delivered by tech stalwarts in the last year of the TMT boom.



Bitcoin

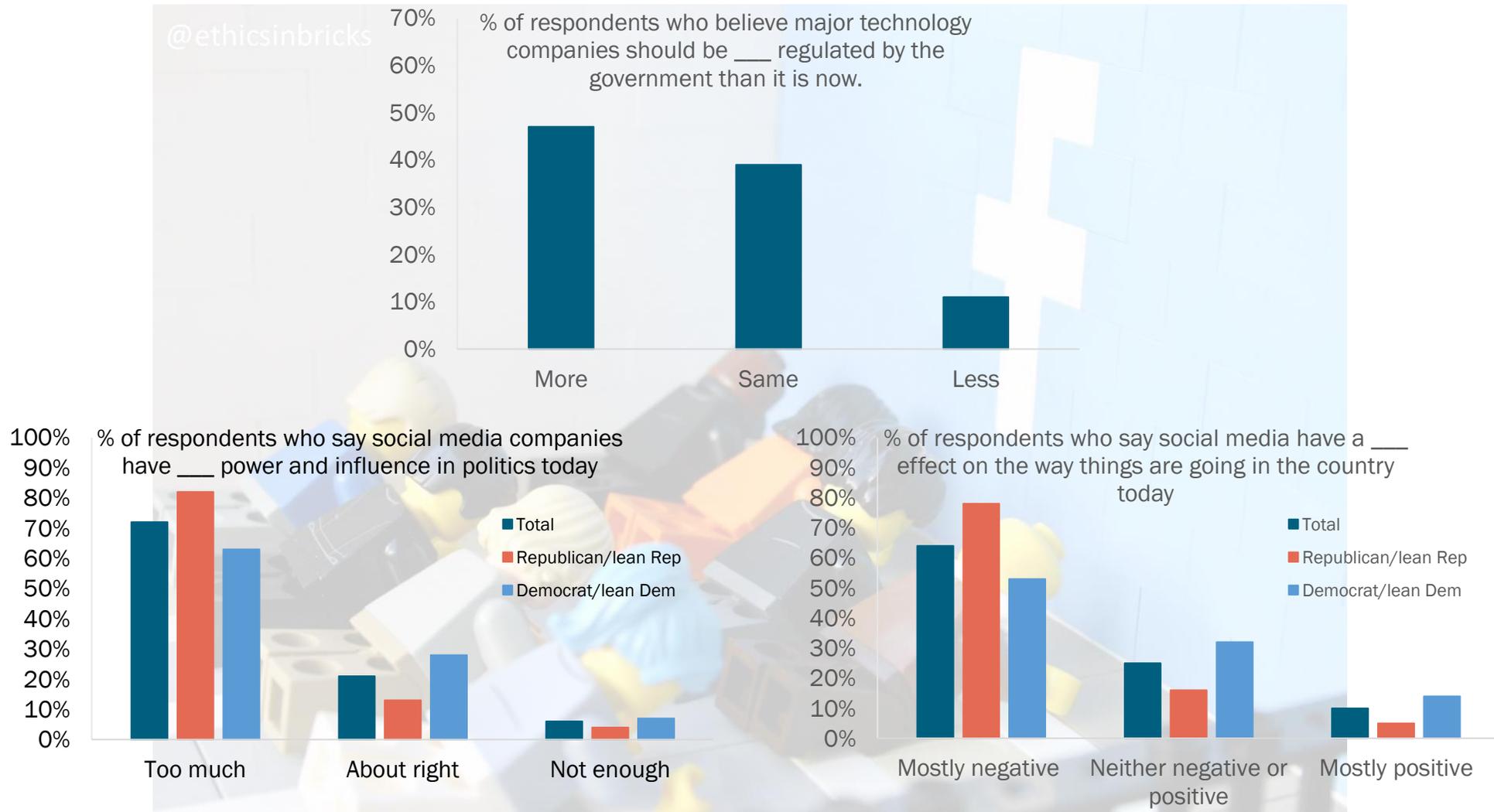
The mother of all bubbles?



Source: Bloomberg. Rebased to 100 at trough. Data to 28th February 2021.

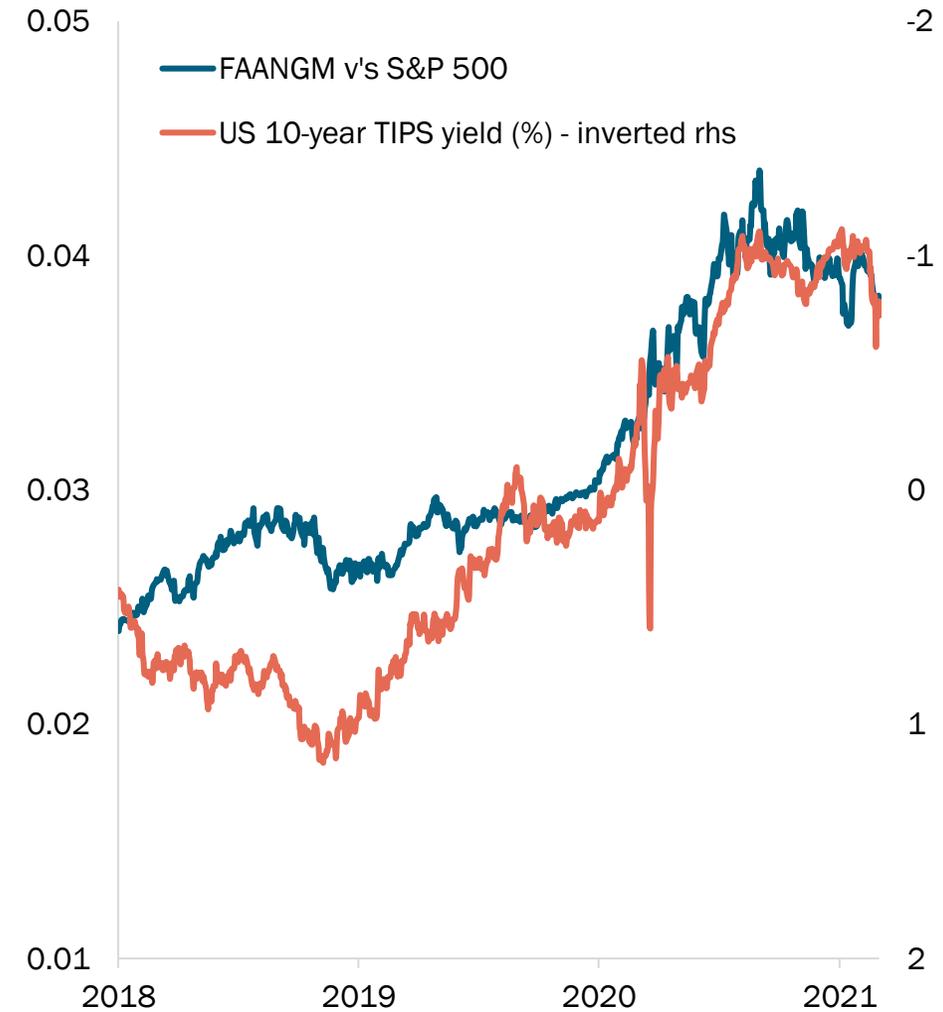
Regulatory pressures

Greater regulation is coming. If you're not paying, the product is you.



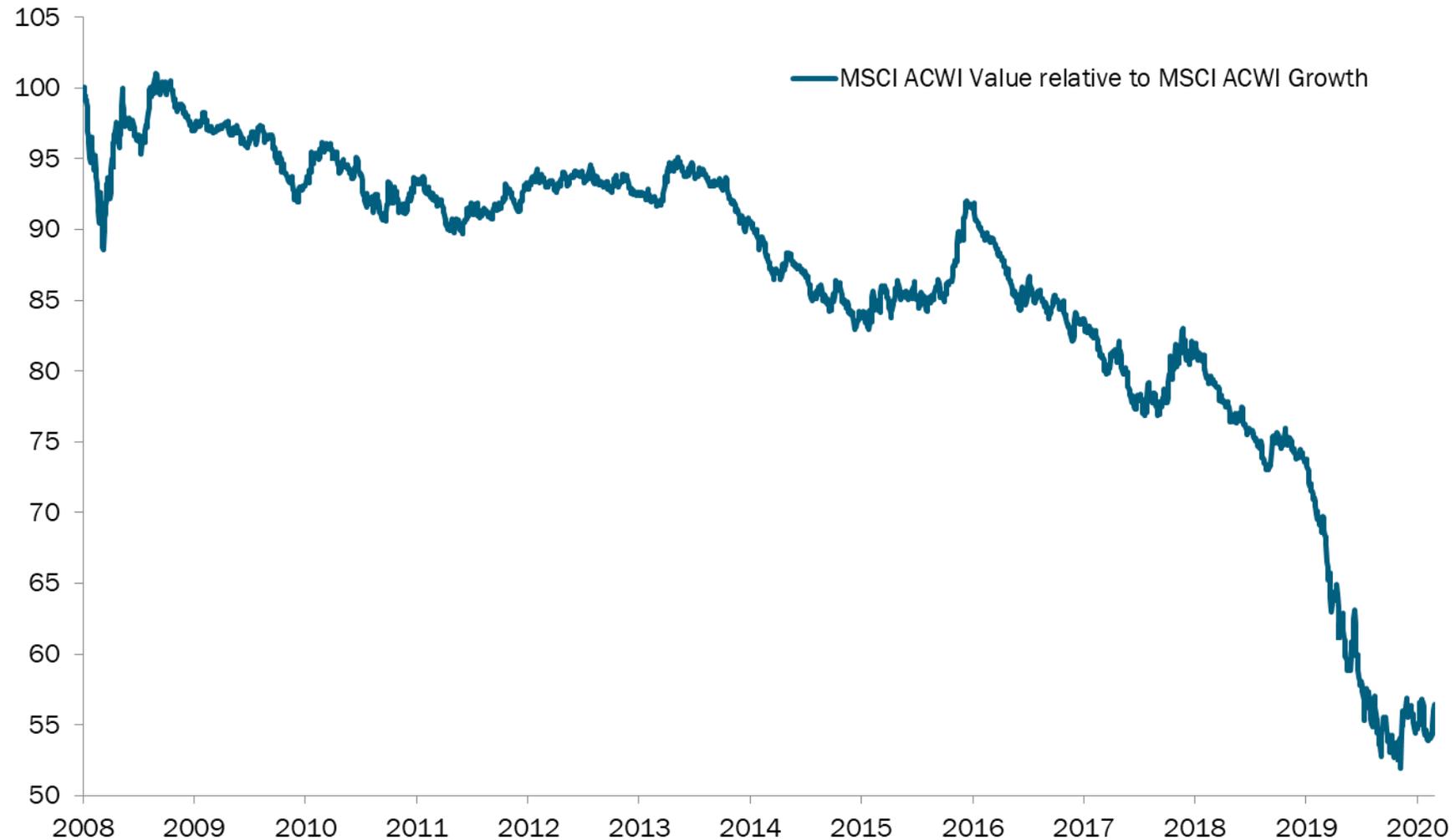
Real yields

The FAANGM stocks appear sensitive to real yields.



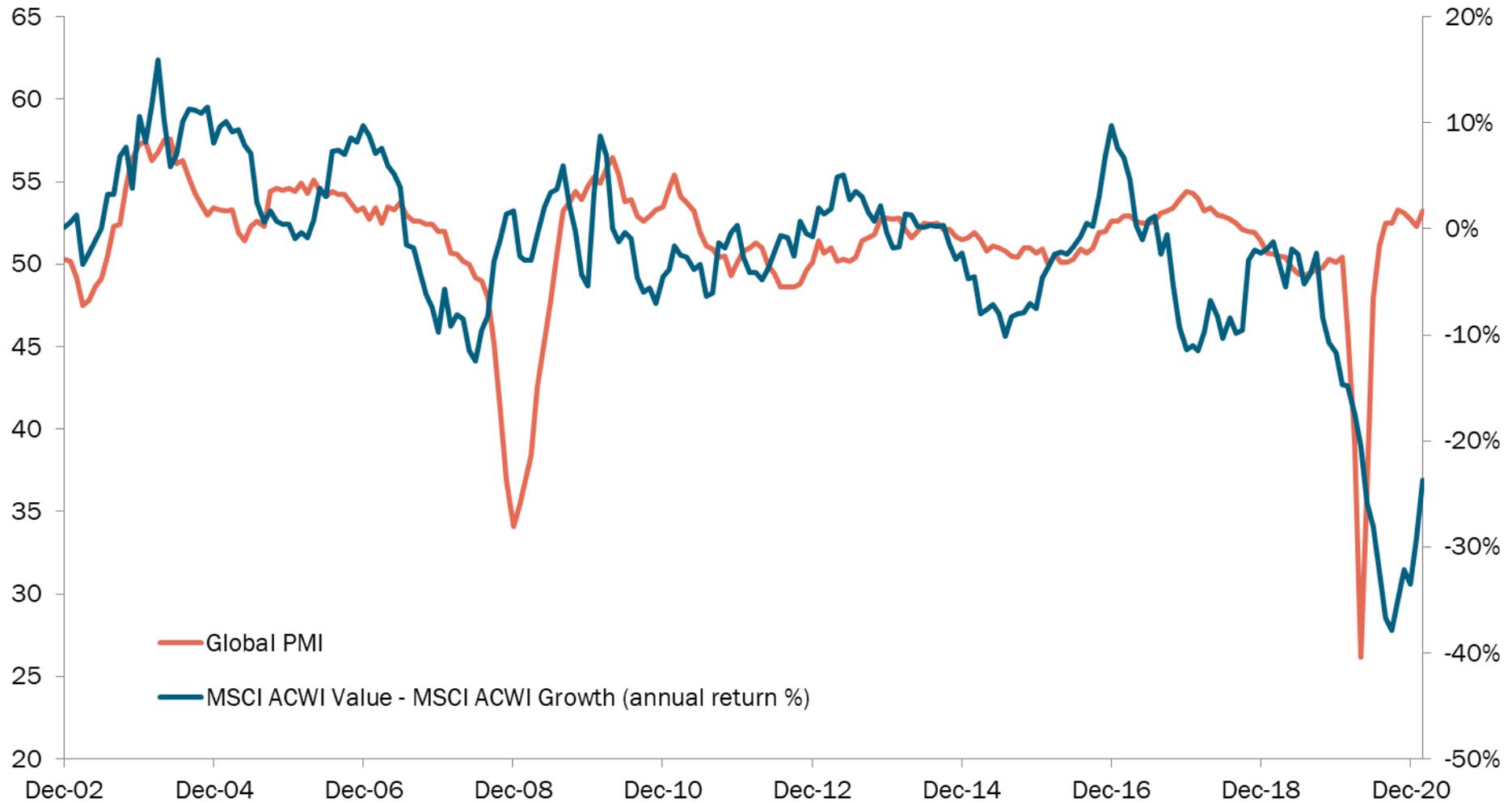
Growth v's value

There are many investors who have never known anything other than growth stock outperformance.



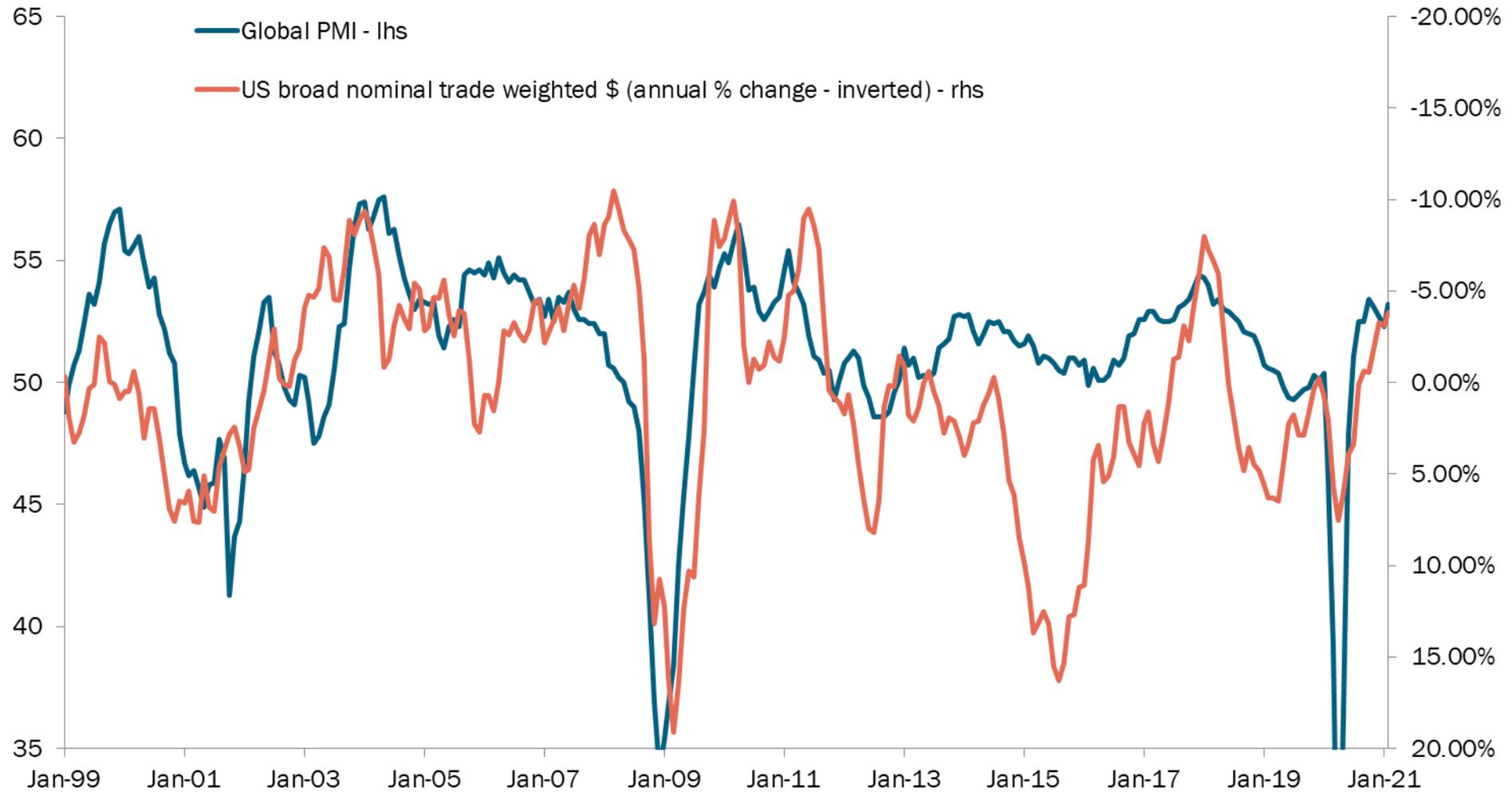
Growth, value and economic activity

Stronger global growth typically helps value stocks relative to growth.



US dollar & technology

If the global economy does strengthen, US\$ weakness can be expected.



Source: Bloomberg. Data to 28th February 2021.

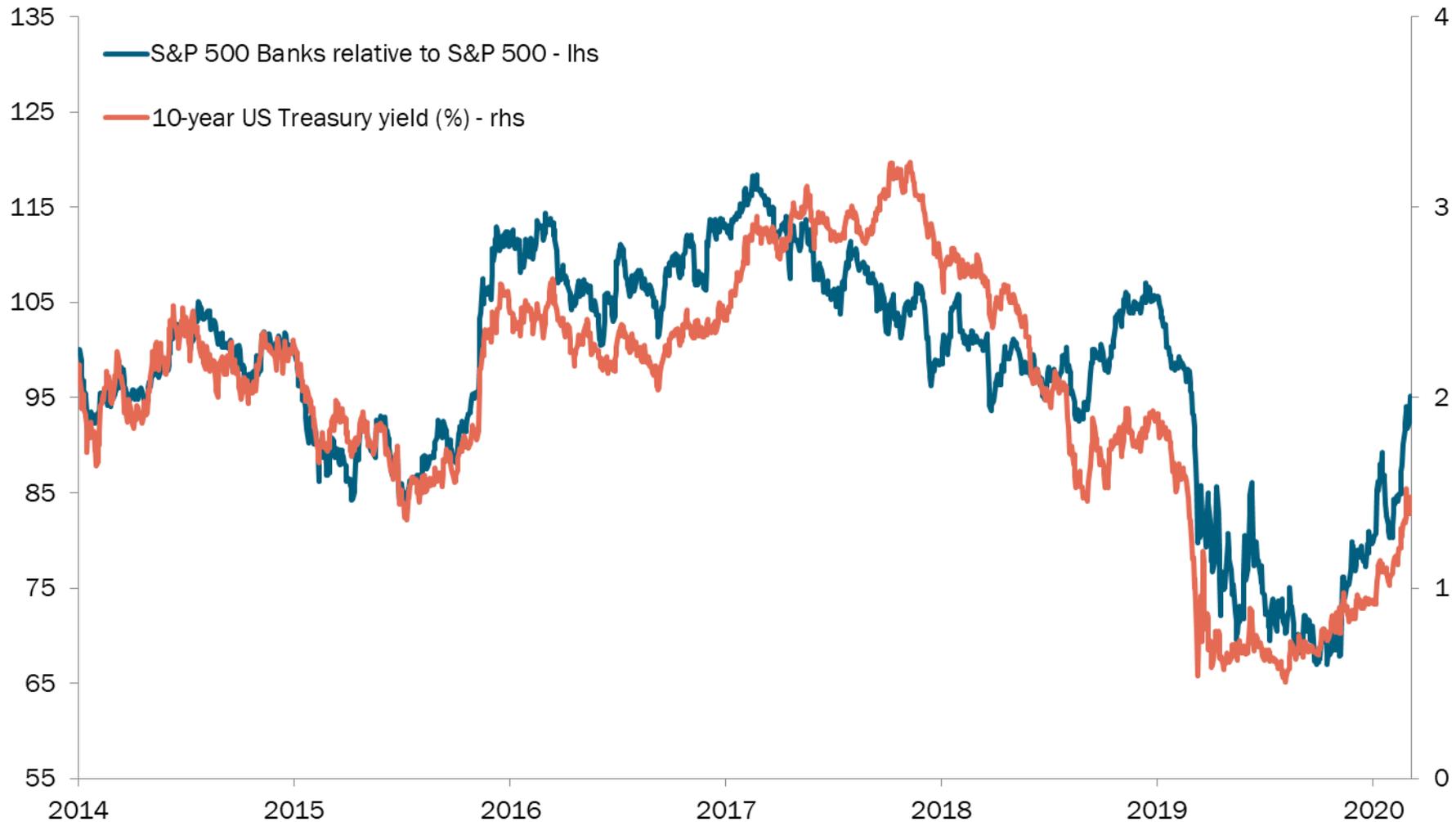
US dollar & technology

If the US dollar does weaken, this would suggest growth stock underperformance of value.



Alternatives to technology

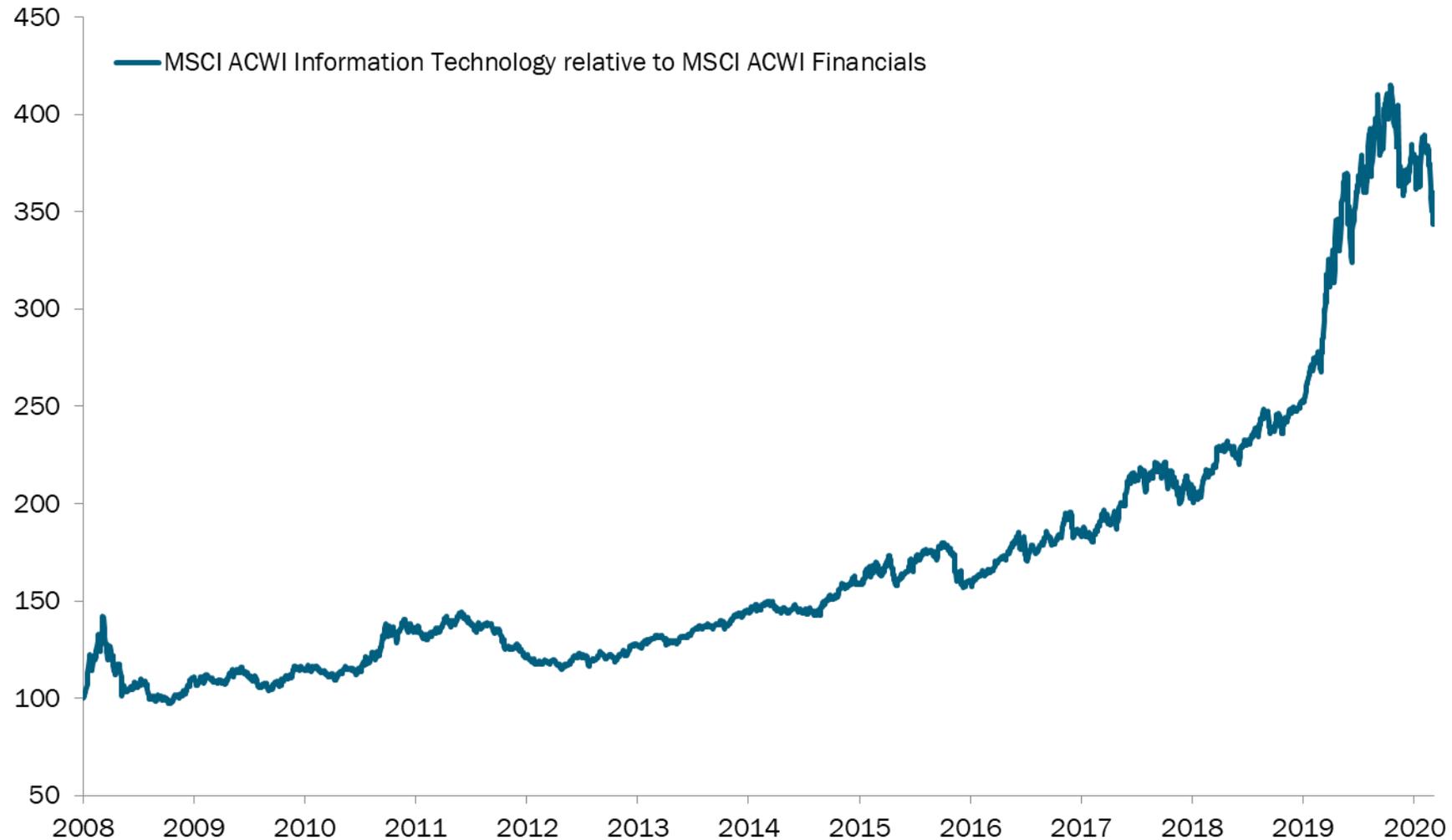
Technology isn't what you want to hold if you think bond yields are rising; banks are.



Source: CGWM, Bloomberg. Data to 28th February 2021.

Technology relative to financials

Technology relative to financials appears to have peaked in October 2020.



Source: CGWM, Bloomberg. Data to 28th February 2021.

Summary views

Technology stocks have performed extremely well, but there are reasons to believe that other sectors may lead stockmarkets in 2021.



Fundamental attractions behind technology remain.

Valuation premiums to broad equity markets, but not extreme readings.

Corporate strength – low debt, EPS growth, high ROE.

Positive earnings yields; stark difference to 2000.



Increased regulatory scrutiny

US/China tensions may manifest themselves in the tech arena.

Signs of excessive speculation in specific areas.

Market dynamics likely to favour value stocks over growth stocks in 2021.

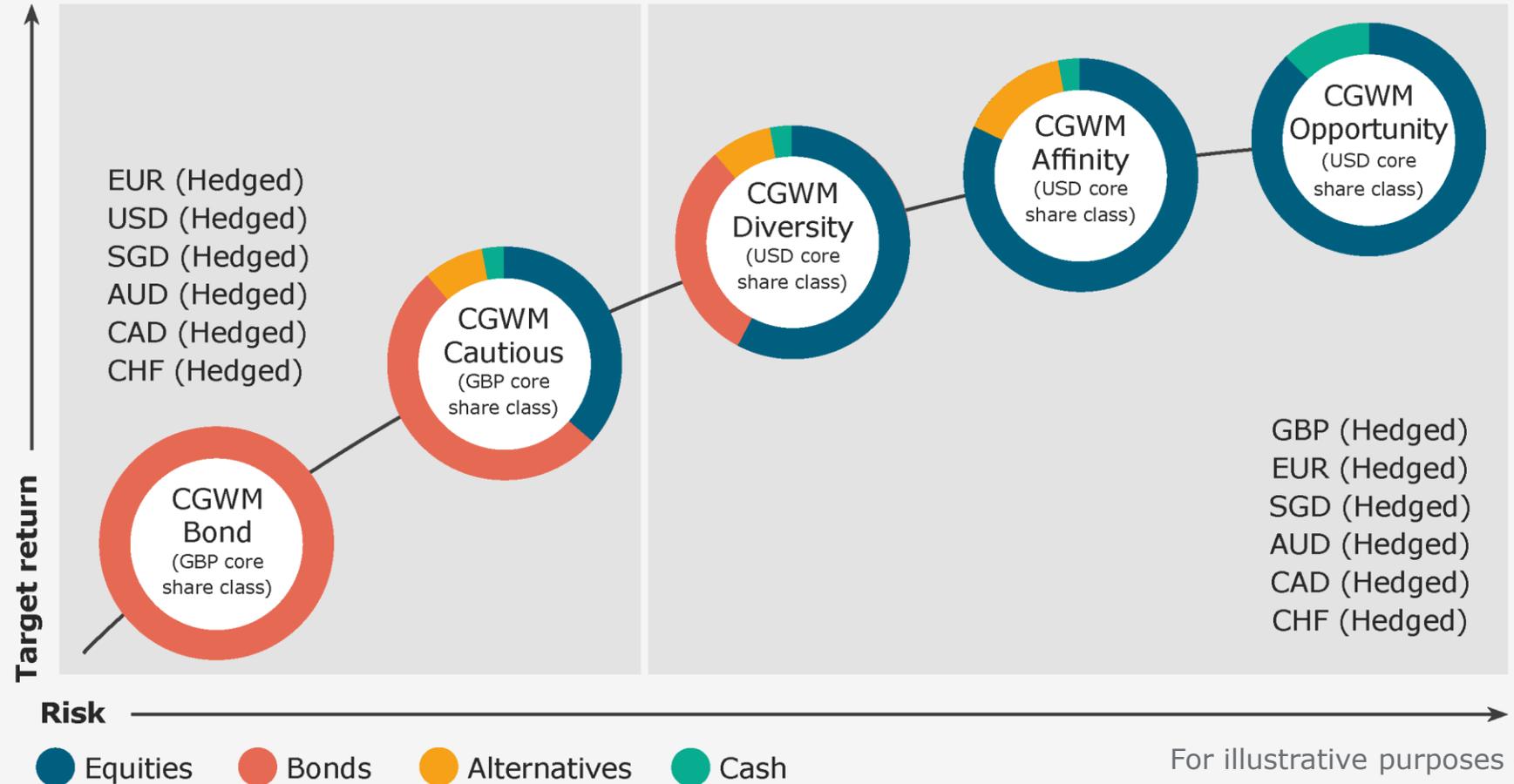
CGWM Fund range

Return vs Risk

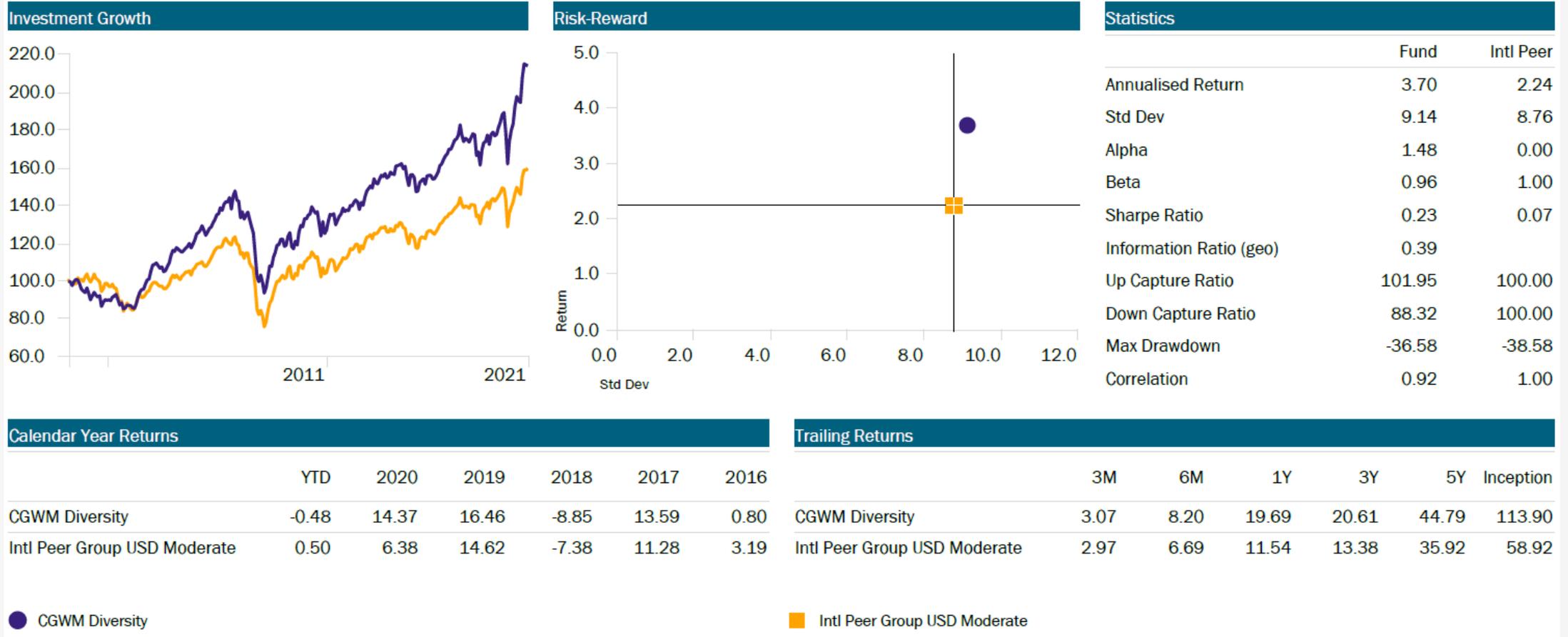
Long-term performance track record

Our first funds were launched in March 2000 and benefit from the input from CGWM's teams of investment professionals.

The funds are actively managed and aim to add value through both asset allocation and investment selection, operating within a rigorous and robust investment process.



CGWM Diversity Fund



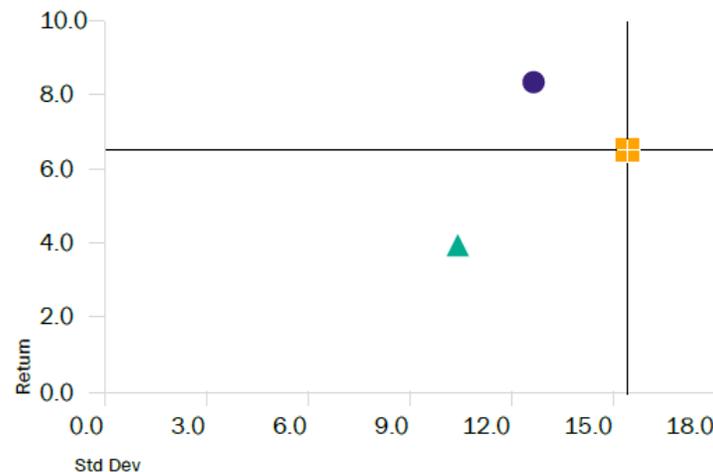
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CGWM Opportunity Fund

Investment Growth



Risk-Reward



Statistics

	Fund	MSCI	Intl Peer
Annualised Return	8.32	6.51	3.93
Std Dev	12.64	15.40	10.39
Alpha	3.00	0.00	-1.06
Beta	0.71	1.00	0.65
Sharpe Ratio	0.56	0.38	0.26
Information Ratio (geo)	0.22		-0.39
Up Capture Ratio	83.95	100.00	63.52
Down Capture Ratio	68.92	100.00	65.31
Max Drawdown	-37.07	-54.03	-36.96
Correlation	0.86	1.00	0.96

Calendar Year Returns

	YTD	2020	2019	2018	2017	2016
CGWM Opportunity Fund	1.42	17.24	19.01	-9.79	21.31	-0.65
MSCI World NR USD	1.54	15.90	27.67	-8.71	22.40	7.51
Intl Peer Group USD Aggressive	1.67	8.74	17.99	-9.75	15.10	3.15

Trailing Returns

	3M	6M	1Y	3Y	5Y	Inception
CGWM Opportunity Fund	5.99	12.19	29.78	26.27	64.56	391.68
MSCI World NR USD	5.85	11.73	29.34	35.92	93.43	249.32
Intl Peer Group USD Aggressive	5.04	9.93	18.00	17.38	47.29	114.96

● CGWM Opportunity Fund

■ MSCI World NR USD

▲ Intl Peer Group USD Aggressive

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How can we help?

If you'd like to know more about how we can help with your investment and wealth management needs, email us at marketing@canaccord.com or call one of the numbers shown on this slide. We'll be delighted to answer your questions and provide more details of our services

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