

FUND COMMENTARY

Purpose Global Innovators Fund

FUND DETAILS

ETF TICKER	PINV
MGMT FEES	1.00%
SERIES F	PFC4301
MGMT FEES	1.00%
SERIES B	PFC4300
MGMT FEES	2.00%

Inception date: APR 05, 2018

FUND MANAGERS

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Q3 OVERVIEW

Technology continues to be an area that investors are using as a source of funds as rotations start to take a hold. The increase in the US 10yr seems to be driving the narrative, with investors rotating into more defensive areas. We also had meaningful concern over regulation as China paved the way for a crackdown of their tech sector, implementing very heavy fees on the basis of antimonopoly violations.

Over Q3, The Purpose Global Innovators fund was up 0.4%, vs. the NASDAQ down 0.4%, the S&P500 up 0.2%, and the TSX down 0.5%. Growth assets saw some rotation enter the scene after concerns about the rising 10yr came back into the narrative over the quarter. Throughout Q3, our top contributors in the fund were Atlassian, Sprout Inc., MongoDB, Snowflake, Rover,

Datadog, and AMD while our top detractors were Dicerna, Stem Inc., Skillz, Micron, and Twilio.

For this issue, I'd like to focus on the software component of the portfolio, which is still where a majority of the holdings are.

If we rewind to last year, the S&P was up 16% vs. software indices up around 49%, while the NASDAQ was up 41%. 2020 really was a landmark year for these sticky, resilient revenue-based companies with high gross margins. Right now, there's all this talk about growth assets falling behind, but if we look at the YTD picture, the S&P is up 17% vs. software indices up around 15%, which is showing there is still a lot of institutionalized demand that is stepping in and buying the dip in these growth assets. We had this exact same narrative back in

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February of this year, when a rise in interest rates made people question the higher valuation in the software industry – only for it to recover after the rotation eased off.

When you look at interest rates, the rationale behind an increase in interest rates leading to a decline in growth assets is because software assets are typically viewed as longer duration assets. By longer duration I mean that cash flows are pushed out to future dates as the companies invest heavily in R&D, sales, and marketing to focus on revenue growth.

MARKET MISCONCEPTIONS

However, I think this market assumption is wrong when looking at software assets for two reasons: the first is if you look at one of the top holdings in the fund – Adobe – for every \$1 of revenue, they drop about 47 cents of that dollar directly down free cash flow. That's not EBITDA, that's free cash flow to the company. They can then either reinvest in the business or what a lot of these larger market cap companies are doing is buying up other software companies that go on sale. For example, a couple weeks ago

Adobe bought Fram.io, a workflow management software company.

If you think about the total addressable market for software, it's growing at one of the best rates that public investors have access to because everything is shifting to cloud, which is what a lot of people in the industry are calling digital transformation. This narrative of long duration assets I believe is a bit broken when looking at the large cap companies that are generating incredible free cash flow profiles.

The second misconception is that a rise in the 10yr will cause a rotation out of equities. But if you look to recent inflation readings, what we have is very strong inflation starting to rear its head. If you combine rates still at historic lows in the market with high inflation, you get negative real rates. When you have negative real rates in the market, capital crowds elsewhere because there is no yield. And where this crowds is equities. And since you must outgrow inflation, I believe there is still a very strong picture for capital flows towards growth assets – there are no growthier assets in the entire stock market than software companies.

VALUATION

The next point I want to bring up is valuation. People are concerned that higher multiple stocks will sell off in an increasing rate environment. However, if you look at multiples, they have two components: price and fundamentals. What's happening here is that throughout COVID, we saw that big tech's earnings are incredibly resilient and they even continued to grow at a rapid pace. Last year, I do agree that valuations were stretched, but when we're in an environment where tech and software is drastically outgrowing the S&P, yet the performance is nearly the same on a YTD basis, what you have are relative valuations right now at extremely attractive levels.

At the end of the day, I think software is growthiest subsector of the tech industry and investors still very much have an appetite for growth. There is going to be volatility, as that's the nature of tech investing. But over the 3-5yr period, returns have absolutely trounced the market indices. These will continue to do so as long as the fundamental backdrop continues to improve and we have deeply negative rates, which really points at growth assets continuing to outperform.

Until next time – Happy Investing,

Nick Mersch, CFA
Portfolio Manager

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FUND PERFORMANCE

ALL PERFORMANCE DATA AS OF SEPTEMBER 30, 2021

GLOBAL INNOVATORS FUND	1 MONTH	3 MONTHS	6 MONTHS	YTD	1 YEAR	3 YEARS	5 YEARS	SINCE INCEPTION
SERIES A	-3.80%	0.09%	8.19%	2.78%	17.57%	12.72%	12.11%	10.70%
SERIES B	-3.79%	0.10%	8.22%	2.82%	17.62%	12.76%	12.15%	10.73%
ETF	-3.71%	0.37%	8.79%	3.64%	18.88%	13.99%	-	13.27%

All data sourced from Bloomberg unless otherwise noted.

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