

Quarterly Update: FinTech

FinTech: Despite short-term headwinds, long-term relevance remains intact



Summary

- Underperformance versus benchmark given challenging environment for young, fast-growing companies.
- Significant number of transactions underlines our repositioning to weather the macroeconomic uncertainty.
- Differentiated outlook across sub-themes offers repositioning opportunity.

Performance review

	1M	3M	YTD	1Y	Issuance
FinTech	-17.3%	-31.8%	-42.1%	-	-51.8%
MSCI ACWI Net TR	-8.4%	-15.7%	-20.2%	-	-19.2%

Source: MSCI, Vontobel. The return of the strategy may go down as well as up due to changes in rates of exchange between currencies. Past performance is not a reliable indicator of current or future performance.

Looking at the performance year-to-date, and especially in the last three months, the Fintech strategy has significantly underperformed the MSCI ACWI benchmark. The reason for this is the acceleration in interest rate hikes by the Federal Reserve that has unfolded since the beginning of the year. This restrictive monetary policy is impacting growth stocks, especially the ones of younger and faster-growing companies. Although we have moved slightly more defensive a few months ago, the Fintech theme *per se* is at an earlier stage of the growth curve, hence the Strategy has a tilt toward young and fast-growing companies, which explains the relative underperformance.

Graph 1: Net performance Vontobel FinTech AMC vs. MSCI ACWI TR Index, in USD



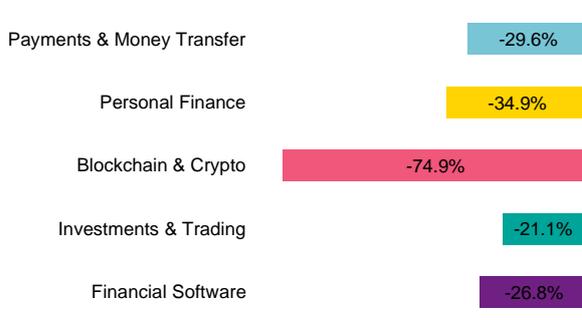
Source: MSCI, Vontobel. The return of the strategy may go down as well as up due to changes in rates of exchange between currencies. Past performance is not a reliable indicator of current or future performance.

Regarding the sub-themes, Blockchain & Crypto was the worst performing with a performance of -74.9% over the quarter. The two bitcoin miners (Riot Blockchain and Marathon Digital) fell the most following the slump in crypto prices. Indeed, the bitcoin price has more than halved from its USD 45k level, at the end of March 2022. Investors are becoming less comfortable investing in a market that is unregulated and unprotected by financial authorities, hence activity levels have fallen throughout the crypto industry.

The second most impacted sub-theme was Personal Finance, in which we had most exposure to young and, for some, unprofitable companies. Opendoor and Zillow suffered from the interest rate hikes and unemployment fears, which impact housing affordability, while DocuSign suffered from slowing post-pandemic demand and rising competition from Adobe Sign. Regarding Upstart, the company suffered from increasing funding costs and more recently from a slowdown in origination.

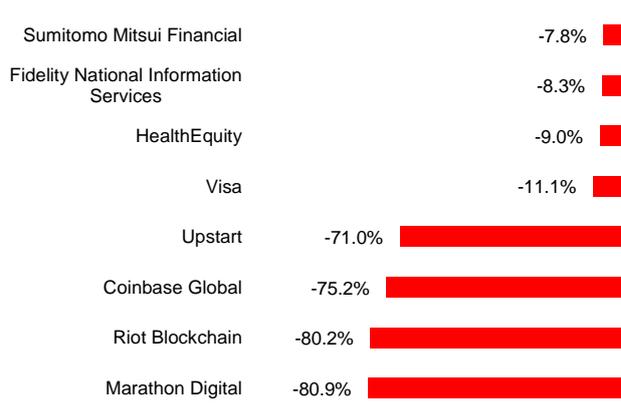
On a more positive note, banks and exchanges stood up pretty well with a performance close to the benchmark, as banks benefit from an increase in interest rates, while exchanges profit from an increase in trading activity/volume.

Graph 2: Sub-themes quarterly performance, in USD



Source: Bloomberg

Graph 3: Top/bottom quarterly performers, in USD



Source: Bloomberg

Transactions in Q2 2022

We made a significant number of transactions in the FinTech strategy this quarter. In total, we initiated positions in 11 stocks and sold our positions in 17 stocks. The detail of the transactions as well as the rationale for each are presented in Table 1 at the end of this document.

Outlook - FinTech

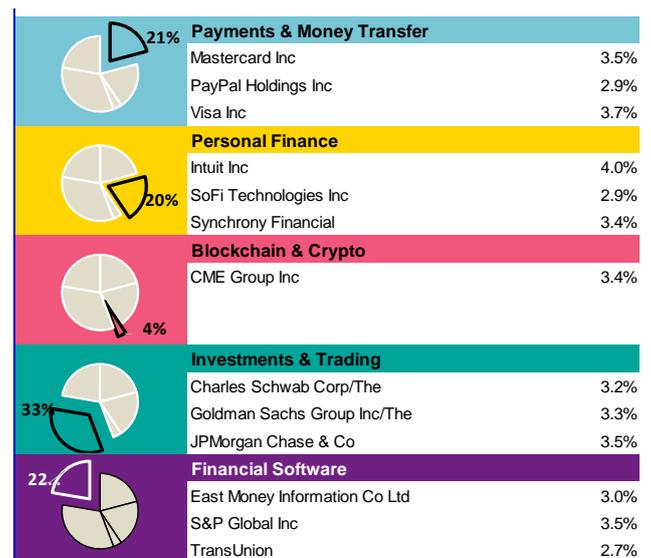
The accessibility, innovation and competitiveness brought by the rise of fintech solutions is here to stay. Despite the short-term headwinds that some of the fintech players are facing, we do not see the trend turning around. The pandemic pushed valuations to all-time highs and some of the stocks lost up to 80% of their value ever since. Companies offering truly differentiated solutions and that are solid enough to weather a possible recession, should thrive in the medium to long term. With now depressed valuations, companies with strong growth prospect could become acquisition targets.

Payments and money transfer companies benefit from the secular shift from cash to card payments. Different trends are impacting consumer spending in the short term. On one hand the post-pandemic period is marked by a return to work and

travel. On the other hand, we could see a slowdown in consumer spending and the number of transactions, although inflation means higher spending per transaction. The consumer finance segment has been particularly impacted by recession fears and the potential worsening of credit performance. Going forward, companies with high credit reserves should be better placed to weather the storm. Cryptocurrency-related stocks are the most uncertain in this environment and their outlook is very difficult to predict. Although we only had small positions in the sub-theme, we decided to sell most of the stocks as we aimed to further de-risk the portfolio.

Within the investment and trading sub-theme, we expect the banks to continue to benefit from interest rate hikes, and the exchanges platform to continue to benefit from heightened volatility that stems from current macroeconomic uncertainty. Financial software companies should continue to be relevant as the ongoing modernization process of financial services and data requirements are aspects that help in work efficiency and are sometimes needed for regulatory/reporting purposes. We hence expect demand to remain robust.

Graph 4: Portfolio excerpt



Source: Vontobel. Data as of 30.06.2022.

Strategic Certificate on the Vontobel FinTech Strategy Index

Reference Currency	ISIN	Index Fee
CHF	CH1124658589	1.25%
EUR	DE000VQ946X2	1.25%
USD	CH1124658555	1.25%

Table 1: Transactions in Q2 2022

POSITIONS BOUGHT 	
Banco Santander	<ul style="list-style-type: none"> Commercial bank with operations in Europe and America. ECB expected to raise interest rates, which should be supportive for the bank's core geographies (except for Brazil).
CME Group	<ul style="list-style-type: none"> World largest futures and options exchange. Benefits from rate hikes and the associated demand for hedging. Organic growth should be supported notably by micro futures, which represent a significant source of volume and revenue growth for CME Group.
East Money Information	<ul style="list-style-type: none"> Online broker and fund distribution platform. Initiate position as we want to get exposure to the Chinese Fintech market. Well-positioned for long-term growth given its strong user traffic and multiple monetization channels.
Goldman Sachs	<ul style="list-style-type: none"> Universal bank, mainly active in global markets, asset management and investment banking with operations worldwide but major exposure to the US (>60% of revenues). Universal banks benefit from both an improvement in the macro environment as well as from a deterioration, which puts them in a position to use their scale and gain market share.
S&P Global	<ul style="list-style-type: none"> Provider of financial information, including ratings, benchmarks and analytics. Strong track record of execution, opportunity for revenue and cost synergies from IHS Markit merger, strong competitive position thanks to proprietary data, and higher margins than peers.
Scout24	<ul style="list-style-type: none"> Online platform for residential and commercial real estate properties in Germany. We sell our position in Zillow, the US equivalent, and initiate a position in Scout24 as we have a better outlook for the German property market, despite macro uncertainty.
SimCorp	<ul style="list-style-type: none"> Provider of highly specialized software for the investment management industry. Best-in-class, end-to-end platform, further enhanced by cloud offering. Product stickiness evidenced by early customer renewals. Proven track record of delivering its guidance (has not missed a guidance in the last 6 years).
SS&C Technologies	<ul style="list-style-type: none"> SS&C provides software solutions to financial services for fund administration, investment services, trading, accounting, reporting and compliance. Benefits from financial services disruption and the substantial data needs given increasing asset complexity. Well-positioned and reliable business model, and strong fundamentals.
Synchrony Financial	<ul style="list-style-type: none"> Largest private label credit card brand in the USA, providing customized financing across multiple categories: retail, health, auto, travel, etc. Recession risk already partially priced in, but high credit reserve levels and adjustable retail sharing agreements help managing potential headwinds.
Tradeweb Markets	<ul style="list-style-type: none"> Fixed income, derivatives, and ETF electronic trading platform. Expansion of electronic trading, processing, and reporting seen as a secular trend. Beneficiary of interest rate hikes which are increasing interest rate and credit spreads volatility.
Workiva	<ul style="list-style-type: none"> SaaS (cloud-based) platform for creating complex documents and aggregating data and content. Large customer base in SEC reporting, growth potential in the non-SEC solutions, first-mover advantage, high level of customer satisfaction and stickiness, tailwinds in ESG reporting.

POSITIONS SOLD 	
Ally Financial	<ul style="list-style-type: none"> Consumer finance company with major exposure to automobile financing (c. 75% of revenue). Headwinds expected due to higher funding costs and increasing credit losses.
Citigroup	<ul style="list-style-type: none"> Universal bank, mainly active in asset management and investment banking with operations worldwide but major exposure to the US (c.60% of revenues). As we intent to limit our exposure to universal banks in the portfolio, we prefer to hold stocks of competitors such as Goldman Sachs and Banco Santander over Citigroup.
Coinbase Global	<ul style="list-style-type: none"> Cryptocurrencies exchange platform. Decrease in crypto prices has resulted in lower volumes traded, which significantly impact Coinbase's revenue. The company has started its cost reduction efforts by laying off 18% of its work-force, but further cost reduction efforts may be needed.
DocuSign	<ul style="list-style-type: none"> Leader in electronic signature solutions, with Adobe Sign being a strongly growing competitor. Strong performance during the pandemic as the electronic signature capability was a must to "work from anywhere". However, the company is now facing meaningful reduction in billings guidance and uncertainty about potential reacceleration. Recent announcement that the CEO is stepping down adds further noise in the short-term outlook.
Fidelity National Information Services	<ul style="list-style-type: none"> Payment services provider, which operates more of a legacy business model (vs. payment fintechs). Economic uncertainty may lead to project delays, which could in turn slow down the modernization of the company. Macro uncertainty could also lead to lower consumer spending. For this reason, we are slightly decreasing our exposure to payments, and sell FIS as we prefer some other stocks.
HireRight	<ul style="list-style-type: none"> Global leader in the pre-hire background screening industry. Outlook more uncertain given a potential decrease in hiring in case of a recession.
Lightspeed Commerce	<ul style="list-style-type: none"> Producer of point-of-sale software for retailers and restaurants. Core retail and restaurant verticals are quite competitive in comparison to some niche markets and may be more at risk of decrease in consumer spending in the months to come.
Marathon Digital Holdings	<ul style="list-style-type: none"> Bitcoin mining company. Decrease in crypto prices significantly impacts revenues as bitcoin miners are remunerated in bitcoin. Uncertain outlook on price recovery.
MercadoLibre	<ul style="list-style-type: none"> Largest e-commerce and payment ecosystem in Latin America, with major exposure to Brazil (c. 55% of revenue). Inflation reached above 12% level in Brazil, which is impacting consumers' purchasing power. Low-income consumers, which are the main clients of MercadoLibre, are the most impacted.
MSCI	<ul style="list-style-type: none"> Provides solutions for portfolio managers and benefits from an industry-leading position in indices, analytics, ESG and private markets. Given that c.26% of revenues come from asset-linked fees, MSCI's earnings are impacted by market declines. We therefore favor S&P Global that has similar margins but much lower P/E.
Network International	<ul style="list-style-type: none"> Payment services provider serving the Middle Eastern and African markets. Given macro uncertainty, we are slightly decreasing our exposure to payments, and therefore sell our position in Network International.
Opendoor Technologies	<ul style="list-style-type: none"> Online platform for residential real estate properties in the USA. Higher interest rates, unemployment, etc. are risks that impact housing affordability.
Riot Blockchain	<ul style="list-style-type: none"> Bitcoin mining company. Decrease in crypto prices significantly impacts revenues as bitcoin miners are remunerated in bitcoin. Uncertain outlook on price recovery.

Silvergate Capital	<ul style="list-style-type: none"> Provides a cryptocurrency exchange platform for institutions to convert cash to cryptocurrencies, and vice versa. Decrease in crypto prices and uncertainty around the crypto markets could slow down the pace of adoption by institutions, impacting Silvergate's revenue.
Sumitomo Mitsui Financial	<ul style="list-style-type: none"> Universal bank active in four main business segments: wholesale, retail, global, and global markets. Although operating worldwide, SMFG has a major exposure to Japan (>60% of revenues). We sell our position to SMFG as we have a weaker outlook on the Japanese economy going forward.
SVB Financial	<ul style="list-style-type: none"> SVB Financial is a diversified financial services company that focusses on the innovation economy (i.e., young growing companies in tech and healthcare, as well as PE and VC). Current market situation, notably the limited IPO/exit opportunities and volatile valuations, is impacting investments in late-stage start-ups, which in turn impacts deposit growth at SVB.
Zillow	<ul style="list-style-type: none"> Online platform for residential real estate properties in the USA. Higher interest rates, unemployment, etc. are risks that impact housing affordability.

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