

“You call it monopoly, I call it enterprise.”

—John D. Rockefeller
Congressional hearings, 1913

An election, a vaccine, another rotation

Divided we stand

America’s Republicans and Democrats live and communicate in such hermetic echo chambers that the latest presidential election was almost run in two different countries. One camp was motivated to only vote in person for fear of fraud, while the other was motivated to only vote by mail for fear of Covid. Two fears, two narratives, two realities, two votes. They don’t talk to each other, don’t read the same news, don’t wait in the same line, and both won the election.

Investors too, live in alternate realities

Growth vs Value, Disruption vs Bubble, Tech vs non-Tech divides investors like rarely before. Our investors know where we stand. Magnified and accelerated by the Covid pandemic, digital life *is* real life, digital likes *are* real love, and of course digital politics *are* seriously influential. With user adoption tipping points being crossed everywhere, precipitating social change, technology’s impact on society is tremendous. We think the Left/Right divide is missing **the true political challenge of the time: the role of technology in society**. Is tech fixing our problems or making them worse? We anticipate the political issues of the 2020s to be anti-trust, artificial intelligence, robotic jobs, decentralized finance, universal income, augmented humans and of course climate change. Every step of the way technology plays a central role.

Regulation is starting

- **Google** faces a US Dept of Justice anti-trust lawsuit; 11 US States are also suing; the European Union is suing; India is suing.
- The **FCC’s Section 230** protecting social networks from content liability is under review, possibly imposing on **Facebook/IG/WA, Twitter and Youtube** the same burden of content accountability as media companies Disney, Netflix, Fox, Comcast etc.
- **Amazon** was officially sued on Nov 10 by the European Union in a new case of anti-competitive behaviour.
- **Alibaba’s Ant Financial** \$38b IPO—the biggest ever, with over \$1.3 trillion in domestic Chinese orders—was halted hours before it was set to start trading on Nov 3, under pressure from the banking lobby to apply prudential regulation equally to Fintech and Banks.
- **Nvidia’s acquisition of ARM** is under heavy China scrutiny and it is expected that approval will hinge on China’s access to critical semiconductor technologies.

We expect **Tech Regulation** to **benefit** our **portfolio** of mid/small cap upstarts, challengers, and new disruptors.

Disruption Fund portfolio allocation by market cap

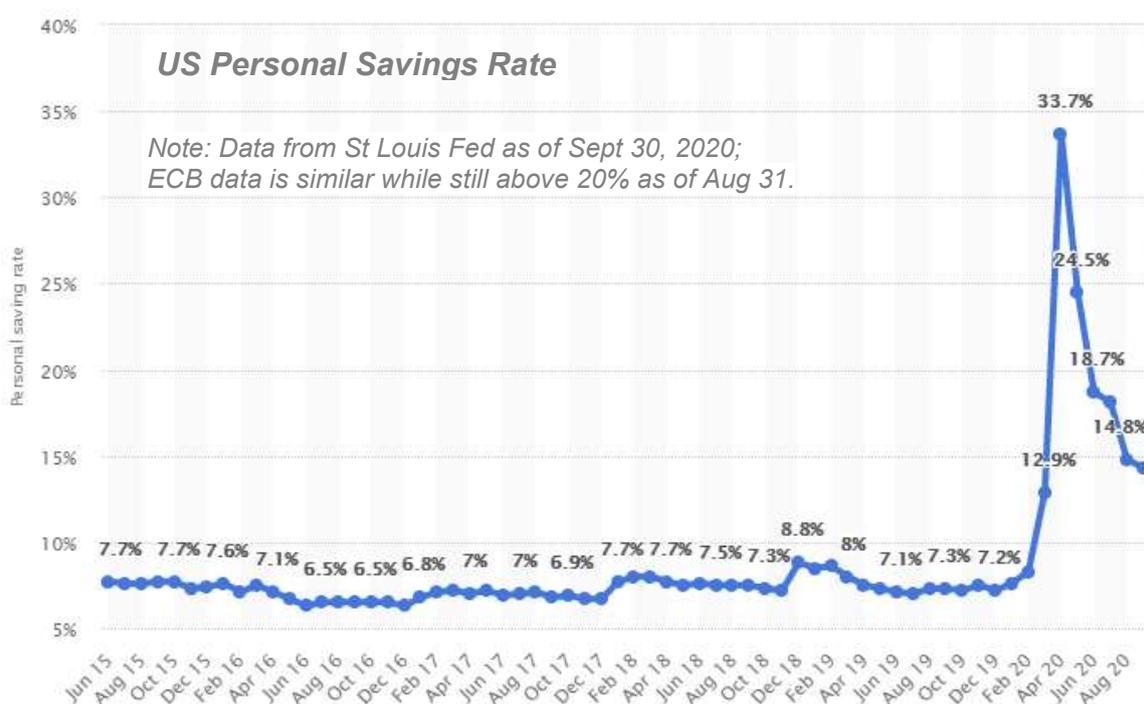


Data as of 6 Nov 2020

Cooperation, Stimulus, Vaccine, Confidence

As the Trump recount risk fades and the combination of a Biden White House and a split Congress takes shape, one thing stands out: **policy risk might be the lowest in a generation**. Biden has been a senator since 1975, McConnell since 1985; they've known each other for 40+ years. Biden's priorities are climate change and energy policy; McConnell cares most about the judiciary. **We expect a surprisingly cooperative government, passing mostly centrist policies**, with a near term **consumer stimulus and mass Covid testing package**, and a longer-term tilt favouring **Clean Tech and Infrastructure**. One known unknown remains the race for two Georgia senate seats due for a January runoff, but a double blue win there is very unlikely, without which we see **no chance of significant tax reform**.

On Nov 9, Pfizer and BioNtech jointly released interim data from their Phase III Covid-19 vaccine trial. **Vaccine efficacy was stated at "more than 90%"**; for comparison, the flu vaccine is considered 52% effective (CDC website). This particular mRNA vaccine technology (similar to Moderna's) requires an investment in cold chain logistics investment (storage at -75°C) that will surely slow its deliverability. But **there are 3,849 ongoing Covid-19 vaccine clinical trials worldwide** (Statista, Nov 9, 2020); it's a near certainty that several vaccines will be approved soon and investors are correct to assume a significant confidence boost leading to some form of normalization to the Physical economy. **With a savings rate at 50 year highs, we think cooperation + stimulus + vaccine confidence will lead to a near term burst in cyclical strength**.



Source : Statista

We strongly believe that the Digital economy's gains on the Physical are for keeps, and we are weary of rotation rhetoric, but we did make some adjustments, discussed below.

Cloud Apps & Services

The backbone of the digital economy remains the Cloud, its data center infrastructure, and the software apps built on top. In a cyclical upswing we expect capex cycles to ramp and semiconductors to see a direct benefit. We had already reduced Work From Home exposure due to high relative valuations, and have now **added several capacity driven Semiconductor companies**; leading edge and highly disruptive but with high operating leverage.

DF owns Cloud Infrastructure, Cloud App companies and Semis, grouped here across all verticals, office, education, healthcare

- Cloud : *Taiwan Semi, Nvidia, AMD, ASML, SOITEC* ; we sold *ams AG*
- SaaS : *Twilio, CrowdStrike, Zscaler, Nvidia, Teladoc, Veeva, Kahoot!* we sold : *Adobe, Zoom Video, Chegg*
- Watch list: *Agora, Bill.com, BigCommerce, Salesforce, Splunk, Elastic, Asana, Anaplan, Paycom, MongoDB, nCino, Lemonade, Sprout Social, Amwell,*
- Private company watch: *Expansive, Bitglass, Tuya, Hinge Health*

eCommerce & payment platforms

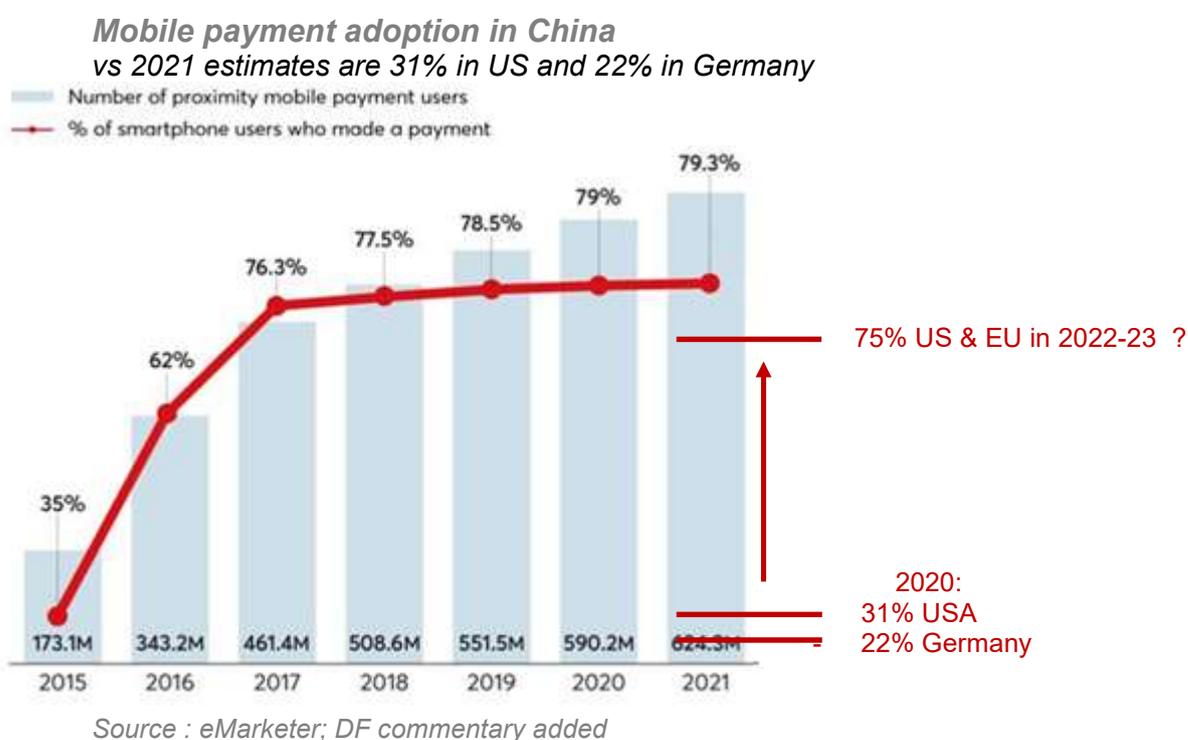
eCommerce saw a tremendous ramp up in sales during 2020. We think the market share gains from physical Retail will stay, but we also think the acceleration will temper and normalisation will settle back to long term growth rates. **We have reduced exposure to pure play food delivery companies**, preferring for now the TaaS/eLogistics mix of Uber to the pure play eLogistics of Delivery Hero and Just Eat Takeaway. We are also very constructive on the disruption brought about by Zillow and Opendoor in the residential real estate market. **TaaS, eLogistics and eProperty are among the rare trillion dollar TAMs that have yet to settle on a take-it-all winner** but we do think they belong either in the fund or on the watch list.

DF owns a combination of TaaS, last mile eLogistics and eProperty plays as well as several integrated marketplace/fintech enablers, to capture some of the largest TAMs. Subscription and advertising based New Media also features here.

- *Mercadolibre, Sea Ltd, Shopify, PayPal, Square, Amazon, Adyen, Zillow, LightspeedPOS, CD Projekt* ; added : *Snap, Uber*
- Watch list : *Zalando, Ocado, Alibaba/Ant, StoneCo, Opendoor Labs, Redfin, Delivery Hero, Just Eat Takeaway, Zur Rose Group, Jumia, Pinterest, Netflix, Alphabet, Trade Desk, Ubisoft, Paradox, Roku, Stillfront*
- Sold recently : *Delivery Hero, Just Eat Takeaway, Zur Rose Group, Jumia*
- Private company watch: *Freshly, Prose, NA-KD, Ollie, Job and Talent, Rex Homes*

Digital wallets

Last week, Square reported yet another jump in **CashApp users from 30m in June to 39m in Sept**, on track to double y/y in Dec. **Monetisation is booming with revenues +100% y/y boosted by Bitcoin trading up 11x**. This opportunity is proving so attractive that PayPal/Venmo added Bitcoin transactions to their own ecosystem in October, allowing for 361m active accounts (3Q20 report) to trade and transact eCommerce in Bitcoins. Meanwhile in the background, 5.4% of the US population is unbanked and another 22% is underbanked (making use of payroll loans, check cashing, money orders or pawn shops) ; in Germany, 48% of people still rank cash as their preferred payment method. These opportunities are close to home and easy pickings for Digital Wallets and Decentralized Finance (DeFi). If China is the playbook to watch, the penetration of mobile payments in the US and Continental Europe (using Germany as a proxy) is set to ramp from 30%+ and 22% of total commerce, respectively, to 75%+ in just two years. We think Covid was the trigger and that this is the future. As discussed previously, **we think digital wallets in 2020-23 have the same network effects and viral adoption curves as social networks in 2009-12**. Square/Cash App and PayPal/Venmo are on course to become super apps comparable to Alipay and WeChat Pay.



DF owns Digital Wallet companies:

- *PayPal, Square*
- Watch list : *Alibaba/Ant Financial, Facebook/WhatsApp India, PagSeguro Digital*
- Note that our top picks in eCommerce mentioned above have a successful digital payments and wallet offering : *MercadoLibre, Sea Ltd, Shopify*

Clean Tech & Mobility

The China EV market is firing on all cathodes lately. Led by the “fab four” **Tesla, Nio, Li and Xpeng**, **deliveries more than doubled y/y every month since July**, with Tesla aiming for 500k+ in 2021, Nio 150k+ in 2022 and the entire domestic China market to 5m in 2025 (20-25% of new vehicles; source Reuters).

Nio Inc. monthly deliveries 2020



Source : greencarcongress.com

While **battery electric vehicle technology** has seen a significant growth spurt triggered by the Covid pandemic in 2020, it is worth noting that it **remains a transitional technology**, with the **longer term sustainably “clean” energy is hydrogen and the hydrogen fuel cell**. Clean hydrogen is possible today thanks to the excess capacity in renewables, notably solar and wind. Still we tread cautiously as the economic models remain “physical”, not “digital”. The economies of scale and the cost curves of electrolyzer manufacturing will never reach those of social networks, digital payments or even eCommerce. We have small positions only in this segment, recognizing however that economic viability is within reach, with Toyota planning on mass producing hydrogen EVs by 2025. The greatest bottlenecks for now are 1/ producing green hydrogen by connecting renewable energy producers to electrolyzers, and 2/ building refueling stations. Industrial gas companies Air Liquide and Air Products have already begun significant capex cycles; Chart Industries, leader in natural gas cryogenics, has invested in French upstart McPhy Energy, which we own.

DF owns EV and Clean Tech companies:

- *NIO Inc., Tesla, Ehang, McPhy Energy, Carbios,*
- Watch list: *Ceres Power, ITM Power, Plug Power, XL Fleet, Solar Edge, Lordstown Motors, Fisker, Nikola, Workhorse, Fuel Cell Energy, Bloom Energy, Kalray, Electrovaya, Contemporary Amperex Tech, Doosan Fuel Cell, QuantumScape, Blink Charging, XPeng, Li Auto, Cree, STMicro, Valeo.*
- Recently sold *Ballard Power*; bought back *Enphase*

Gene Editing & Medicine

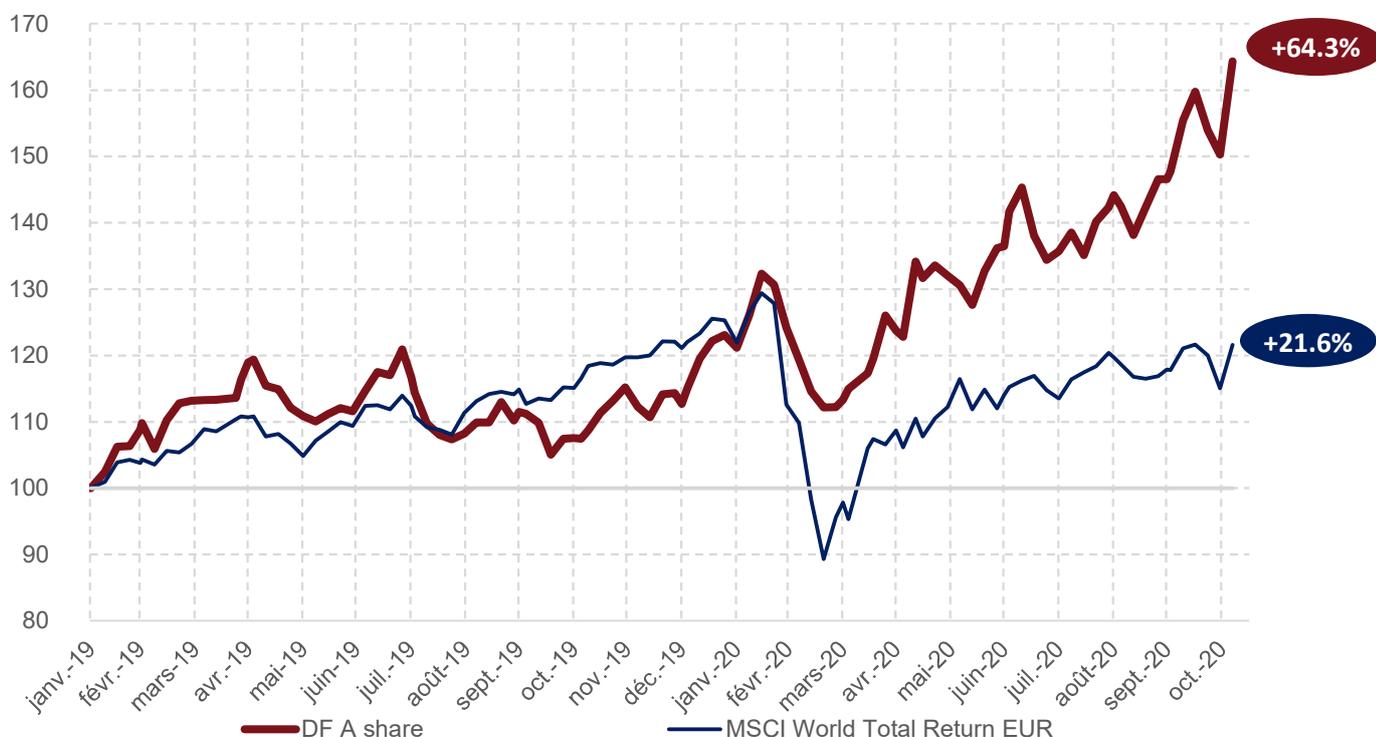
The major news for the sector was of course the 90% efficacy announced by Pfizer and BioNtech for their Covid-19 vaccine. While this news is a general positive for society it is also the validation of the extraordinary power of gene medicine. It took hours to map the Covid-19 genome, weeks to produce an mRNA drug candidate, months to deliver clinical trials, less than a year to complete multiple Phase IIIs; all in, a year to produce 50m to 200m doses—possibly 1+ billion—by March 2021. As mentioned earlier the significant cold-chain challenge remains but mRNA is only one of several gene therapies beginning to change medicine. Disruption Fund is not invested in Covid-19 vaccines, but we do think that the BioNtech/Pfizer, and probably Moderna, will before month-end, deliver on at least 2 serious solutions to the pandemic.

DF owns CRISPR and AI driven molecular research companies:

- *CRISPR Therapeutics, Intellia, Bioexcel Therapeutics* added *Schrodinger* ; sold *Editas Medicine*
- Watch list: *Fate Therapeutics, Invitae, Illumina, 10X Genomics, ToolGen, Collectis, Thermo Fisher, Personalis, Exact Sciences, Cerus, Adaptive Bio, Natera, Accelerate Diagnostics, T2 Bio, Exagen.*
- Private company watch: *Caribou Bioscience, Casebia Therapeutics*

Disruption Fund Performance

	YTD 06/11/20	Since 31/01/19
Disruption Fund (A share)	+45.9%	+64.3%
MSCI World Total Return EUR	+0.41%	+21.6%



Note: Data range = 31/01/2019 → 06/11/2020. Jan 31, 2019 marks the start of the new fund management team, including name change and new prospectus. Past performance is not indicative of future returns. Please consult your investment advisor for suitability. NAV performance shown here is for A-shares, net of fees.

As of Nov 13, 2020, the top positions of the Disruption Fund were as follows:

- *Uber Technologies Inc*
- *Snap Inc*
- *Square Inc*
- *Nvidia Corp*
- *Tesla Inc*
- *Twilio Inc*
- *Schrodinger Inc*
- *Taiwan Semiconductors*
- *Sea Ltd*
- *Amazon.com Inc*
- *Lightspeed POS Inc*
- *CRISPR Therapeutics AG*
- *MercadoLibre Inc*
- *Microsoft Corp*
- *ServiceNow Inc*
- *Shopify Inc*
- *Kahoot! SA*
- *Apple Inc*
- *ASML Holdings NV*
- *PayPal Holdings Inc*
- *SOITEC SA*
- *Zillow Group Inc*
- *Advanced Micro Devices*
- *Enphase Energy Inc*
- *McPhy Energy SA*
- *Bioxcel Therapeutics Inc*
- *Grayscale Bitcoin Trust*
- *Adyen NV*
- *Teladoc Health Inc*
- *Veeva Systems Inc*

We hope you find our letter useful and look forward to continuing this discussion next month.

Jean-Edwin Rhea

13 Nov 2020

Legal Information:

Disruption Fund is a French UCITS, (A share: FR0012770154 / B share: FR0012770162) invested primarily in global equities, with a recommended holding period of 5 years. Broadly speaking, the Fund seeks to invest in innovative technology businesses. More specifically, the fund seeks out sectors and companies undergoing structural or technological disruption. The fund manager seeks leading disruptive companies, growing fast, with visionary management teams. All historical data provided is for A-shares, currently closed to new investors.

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