

# Investment Recipes

by  AtonRā Partners

**SPECIAL ISSUE**

**Towards a new paradigm**

18 MARCH 2020



18 MARCH 2020



AtonRā Partners SA  
www.atonra.ch

research@atonra.ch  
+41 22 906 16 16

7, rue de la Croix d'Or  
1204 Geneva | Switzerland

# On the Menu

**Editorial**  
page • 3

**MACRO**  
page • 5

**AI & ROBOTICS**  
page • 7

**BIONICS**  
page • 8

**BIOTECHNOLOGY**  
page • 9

**FINTECH**  
page • 10

**MOBILE PAYMENTS**  
page • 11

**SECURITY & SPACE**  
page • 12

**SUSTAINABLE FUTURE**  
page • 13

**CASUAL FRIDAY**  
page • 15

# Editorial

Here we are, with almost half of the world confined at home due to COVID-19.

Financial markets are in a freefall, and everything that has enough liquidity is being sold indiscriminately, as investors are running for cash as if there's no tomorrow. Many corporations are doing the same and are tapping any credit line.

As markets shifted from fear to panic, let us quote a famous Spanish poet named Alonso de Ercilla y Zúñiga: "Fear is natural for the wise and knowing how to defeat it is brave."

This health crisis and its economic consequences, will once again show to investors that equities remain the only market that (sort of) functions whatever happens. The impact on the risk perception about this asset class is likely to be significant.

Main European states (Italy, France, Germany, Switzerland) are ensuring to their citizens that no one would be left alone in this crisis and guaranteeing bills, rents, jobs, etc. In the U.S., we see things that would have been impossible only a few weeks ago. Cities and states are putting in place protections for the people, in a way or another. We are convinced that central banks are going to buy whatever amount of paper is available in the market as the current situation is exceptional, and exceptional measures will be taken.

We believe that the world won't be the same once this health crisis is over. Yes, the crisis will be over and we think that the signal is likely to come from Italy, as once people start to realize that confinement measures work (like it was the case for China), they will recognize that this crisis is short-lived.

Still, its consequences for the long-term are broad, and once again, we provide in the following pages our thoughts on what might come next.



# Editorial

The outcome of all this? Less globalization, more sustainability but for sure more inflation.

And during a rise in inflation, you want to own real stuff such as real estate and equities.

What is sold today is going to represent tomorrow's gold! Again, you need just to be patient and let the time work in your favour.

Finally, we also wanted to help our investors have a better understanding of the financial leverage of our portfolio's constituents, at a moment when a credit crunch is one of the possibilities on the table.

We conducted a credit analysis on all the companies in which we are invested, and overall, our portfolios exhibit a better ability to service debt and lower financial leverage than the broad market. The quality of companies making up our portfolios is exceptionally high.

The AtonRâ Team

	Altman Z-score	Total Debt to Total Assets	Total Debt to Total Equity	Net Debt / EBITDA
HEALTHCARE M&A	13,0	21%	125%	0,7x
SUSTAINABLE FUTURE	5,3	22%	198%	2,2x
BIOTECHNOLOGY	17,1	19%	147%	0,03x
INNOVATION	8,9	22%	110%	-0,2x
AI & ROBOTICS	10,9	18%	41%	-2,2x
FINTECH	6,5	27%	87%	-1,2x
SECURITY & SPACE	6,0	22%	71%	-1,3x
MOBILE PAYMENTS	4,8	23%	81%	-0,3x
BIONICS	11,9	26%	146%	1,3x
S&P 500	6,5	26%	115%	1,8x

# TOWARDS A NEW PARADIGM

## Macro

### Looking beyond the tip of the nose

Crises always bring along a reset phase – the deeper the crisis, the more important the changes. At AtonRâ we think that the COVID-19 crisis will usher a new geopolitical and economic era.

- The crisis is global, no major economic player is being spared.
- The duration is long enough to spur a fundamental change in habits – quarantines are likely to last between 30 and 45 days.

### A dual shock

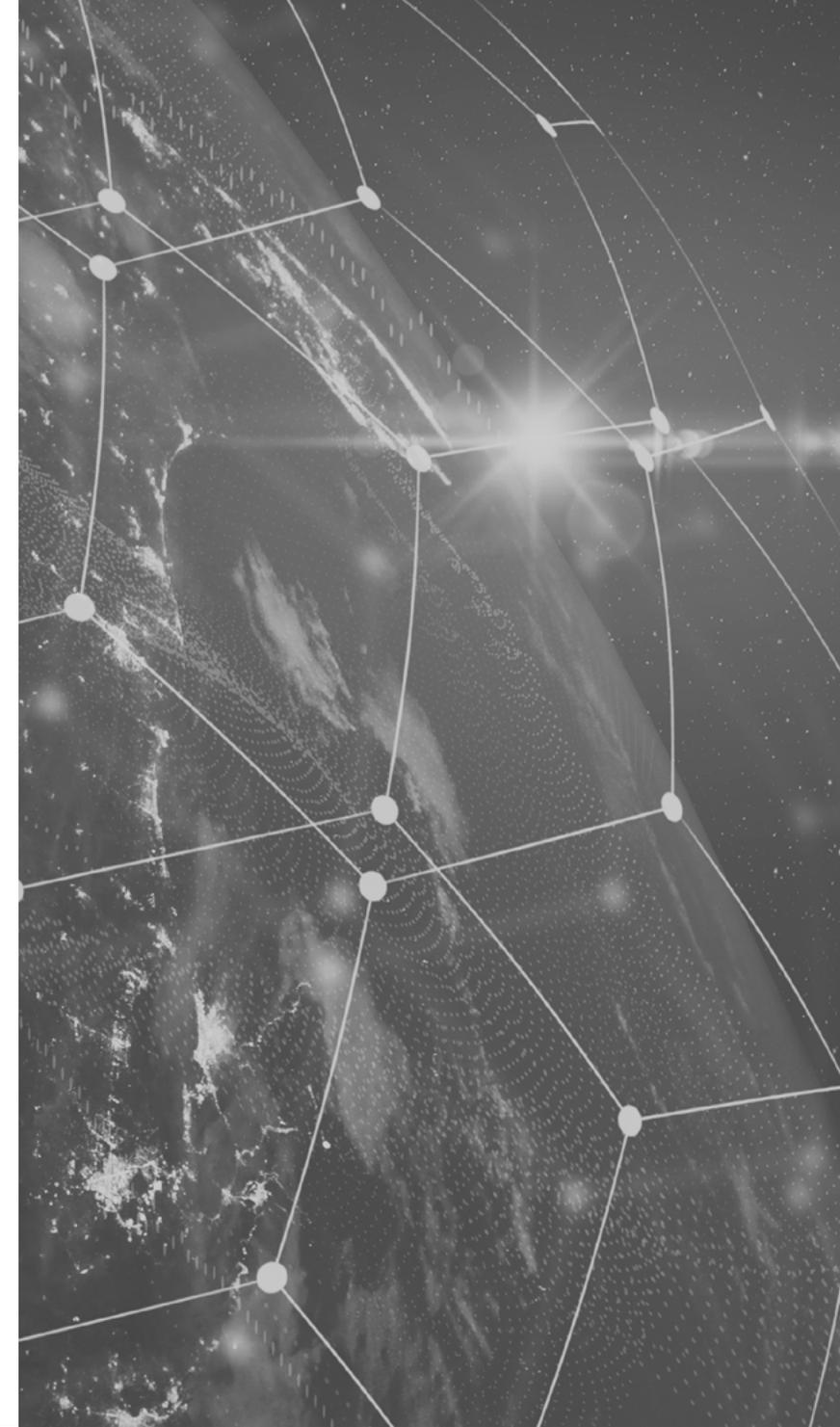
The global economy is undergoing a dual demand and supply shock. Demand is being impacted by travel restrictions, quarantines and fear of the unknown. Supply chains are disrupted as a result of workers being asked to stay home. China may provide a roadmap for investors.

- The inflection point in new cases in China occurred at the beginning of February. If a similar cycle applies elsewhere, a decrease in the number of new infections could start by mid-April.

### A dual impact

The crisis will boost underlying socio-economic shifts that were already ongoing while policymakers are engineering a high inflationary period.

- Reduced mobility, dematerialization of the economy, a radical reform of the international financial system, all converge towards a paradigm shift.
- A portfolio of high-quality equities with low debt levels should provide investors with attractive risk-adjusted returns over the medium term.



# Macro

## QE to infinity

Policymakers are raising the antes, but they have no other choice. Emergency measures to stabilize both economy and markets, have been made across the board. On the fiscal front, reactions have been slower, as politics plays a role – but this week showed a marked step up in Europe.

- All major central banks have announced measures to ease monetary conditions via various mechanisms to the magnitude of trillions of dollars.
- Monday meeting of European heads produced what seems to be a coordinated response, with France announcing a €300bn plan and extended guarantees.

## New habits bring new opportunities

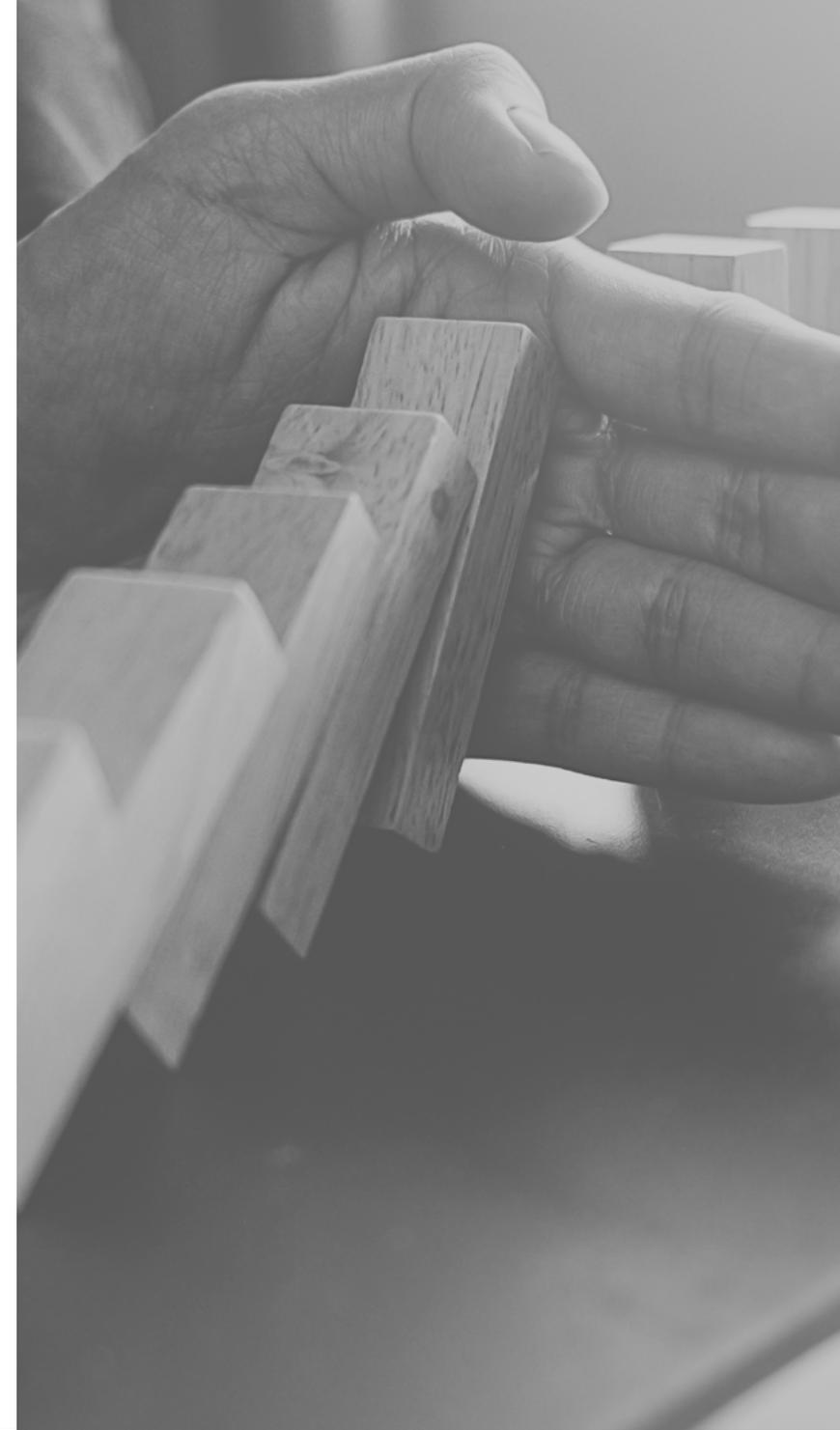
The crisis is imposing new habits through long-lasting measures being imposed on the global population. As the economy adapts, new habits are likely to stay.

- A smarter globalization will take hold, diversifying means of productions, even at higher costs, to various places and shortening the distance to the points of sale while reducing its carbon footprint.

## Play to Win

Given the low expected returns in fixed income, and the devaluation of money through both fiscal and monetary policies, real assets, notably equities, will be sought after as the only shelter option.

- Leverage will remain an issue at individual company level for some time, so healthy balance sheets will likely command a significant premium.
- Companies which already produce close to their point of sale (such as Tesla) will be better positioned for the new economy.



## AI & Robotics

### Understanding that AI can help big way

The WHO confirmed that AI and big data played a significant role in the containment of COVID-19 across China. AI might represent the only way to scan large populations in a time-efficient manner.

- Doctors in China have been given inferVISION, an AI-based tool to help them scan and quickly highlight potential problem cases in record time.
- Robots are used to disinfect patient rooms with zero human interference. Pandemics make human assistance, both critical and dangerous.

### Accepting the trade off?

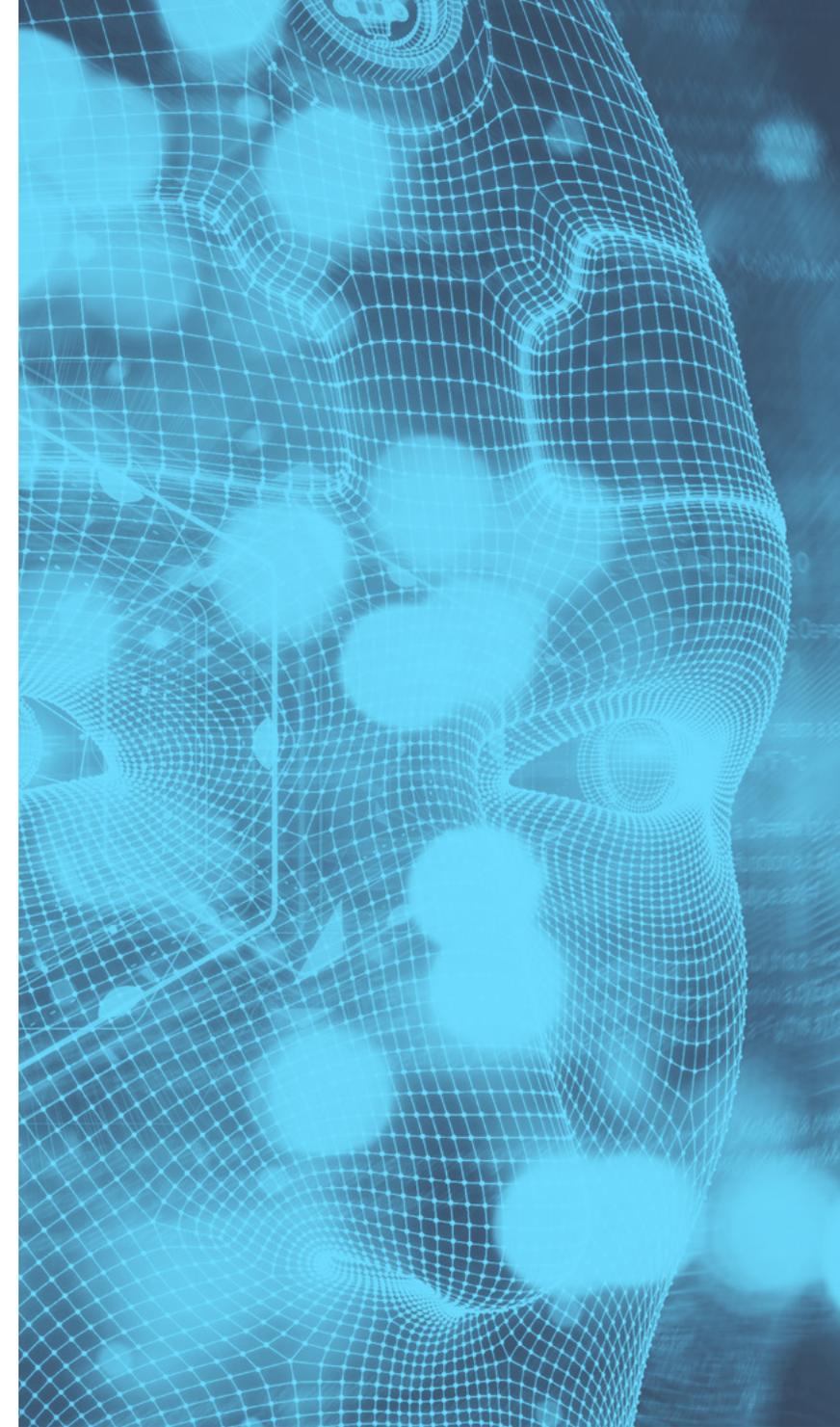
Until the COVID-19 crisis, mass surveillance was frowned upon everywhere but in China. Exceptional circumstances such as this one, make people realize the trade-off between giving up some freedom in exchange for more safety.

- Alibaba claimed that its new AI system detects coronavirus in CT scans of patients' chests with 96% accuracy in only 20 seconds. It also allows the scan of faces of people with masks with over 90% accuracy.
- Baidu's LinearFold reduces 19-nCoV prediction time from 55min to 27 seconds.

### The need for infrastructure

The huge home office work experiment is exposing how the internet is getting congested already. 5G adoption was slowed down by perceived lack of usefulness, but its role in increasing network capacity is undeniable.

- Home office involves consequent amount of data being pushed through pipes.
- The current situation might lead to entertaining services blocked by ISP to help the network cope with traffic (e.g.: Netflix or YouTube).



# Bionics

## Digital health

The COVID-19 places medical resources under strain and doctors are turning to telemedicine as well as health data collected from wearable devices and processed by big-data analytics to contain the spread of the infection and provide guidance to patients.

- The outbreak is exposing more people to this technology, accelerating acceptance and adoption.
- The U.S. federal government and health insurers are also helping demand.

## Real-world evidence data

The situation highlights how the efficiency of development and approval of medical devices and drugs needs improvement. Collection of real-world evidence data on safety and efficacy is still a new concept in the MedTech and biotech/pharma industries that has been met with skepticism. After the outbreak, the healthcare industry could more easily embrace the idea.

- Collecting clinical data for approval is expensive and takes time.
- The use of real-world data can make development faster and cheaper, which is particularly important in emergency cases.

## Reimbursement and coverage

Many of the patients in need of acute care may be uninsured. Failure to treat these patients during a pandemic would produce large, negative health and economic consequences.

- Policymakers are considering providing relief to hospitals and health care providers, expanding reimbursement for innovative technologies, or offering new payment models.



# Biotechnology

## Public behavior

COVID-19 hitting the weakest, pushes people to be concerned with their health at an earlier stage. The worldwide collaboration in research will increase the confidence in the healthcare industry, and the support it can offer to people.

- As we explained in our previous note, viruses are especially dangerous to weak health systems (weaker immune responses, higher tobacco consumption, Type 2 diabetes, respiratory problems, high blood pressure).
- More studies published openly and free should also increase the number of people concerned by their own health.

## A sick supply chain

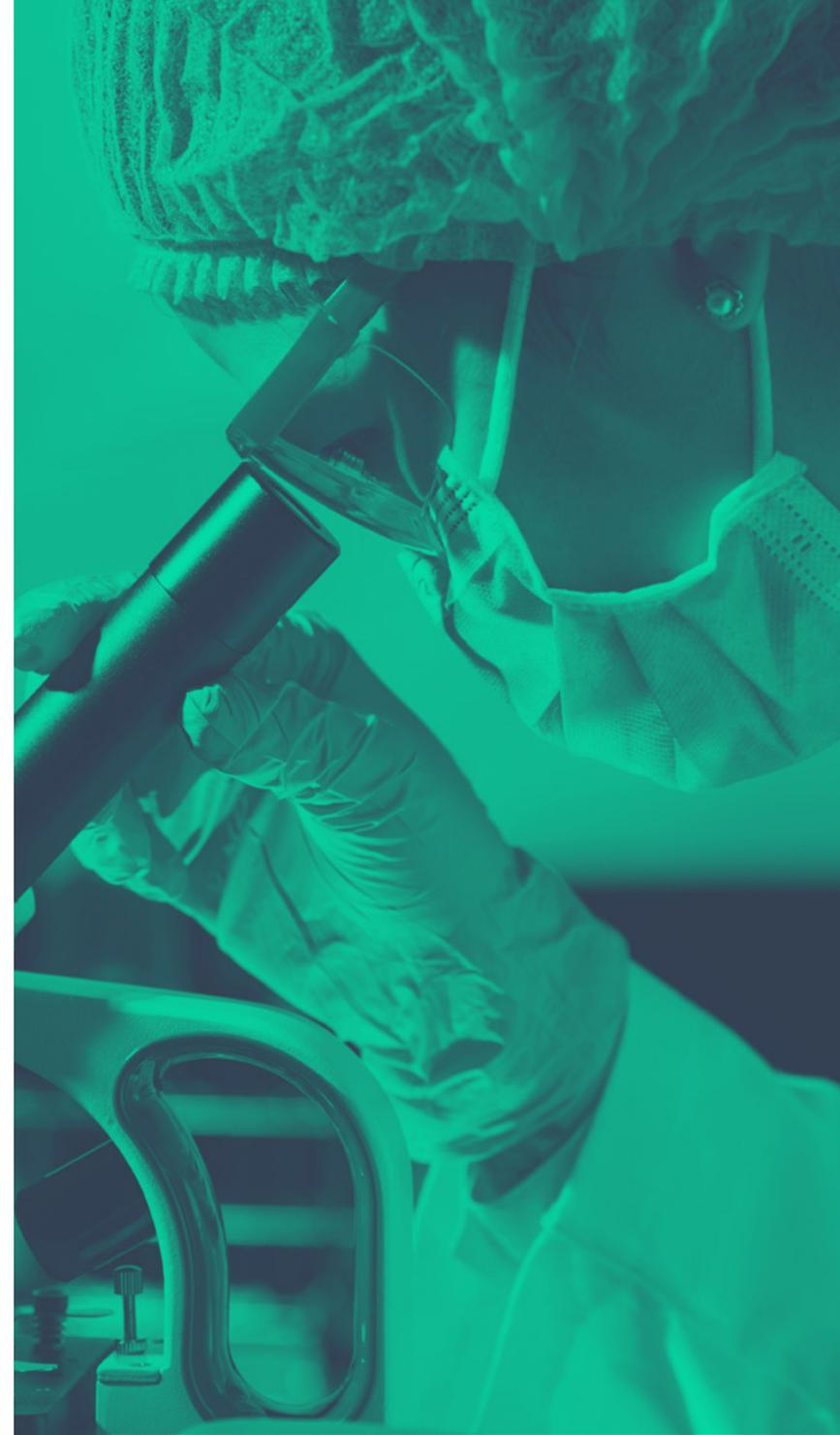
In our previous note, we mentioned the fact that the supply chain showed its limits and the industry will have to evolve to reduce dependency on China. Drug shortages were already an issue in the U.S., but the COVID-19 crisis exposes the weakness and could be the trigger for much needed changes.

- Most Active Pharmaceutical Ingredients (APIs) come from China.
- Improving transparency about drug ingredients' origins may lead to the appearance of pure players in terms of APIs, manufacturing relocation in the country of distribution, the rise of India or other ASEAN countries.

## Vaccines

The COVID-19 crisis will accelerate the shift from traditional vaccines to more innovative products, developed by biotech companies - more effective, with fewer side effects or easier to produce. Large pharmaceutical companies will look to buy the technology platforms developed by biotech companies.

- There is a risk of yearly resurgence of coronavirus like seasonal influenza.
- We expect this crisis to boost adoption of transformative technologies such as DNA/ RNA sequencing, or new type of antigens also in the vaccine field.



# Fintech

## An improved legal framework

After pumping trillions of dollars into the economy, governments will want to track any funds that go out of the mainstream financial system. The additional data collected by the fintech providers will become the new holy grail for fiscal authorities around the world.

- Regulations will be loosened to accelerate the technological innovation in financial services.

## Banking digitalization to accelerate

Confinement measures remind people and organizations about the necessity to have access from anywhere to their finances and bank accounts. The COVID-19 crisis will force the traditional banking industry to improve services while reducing costs at the same time.

- Read-only e-banking solutions do not meet the current customers' needs, at a time where neobanks offer a full range of services in a few clicks.
- The renewal of legacy banking systems towards packaged banking solutions and state-of-the art back-office platforms will accelerate.

## Insure my risk!

Although pandemics are often not covered by insurance policies, the current outbreak will remind people and corporations that they need financial protection. Many insurance policies can be standardized and subscribed online. Expect insurance companies to increase their digitalization.

- Event cancellation coverage, health and life insurances, travel insurances are likely to see increased volume.
- Technology facilitates the life of policies – from application to coverage, billing, claim processing and changes in contracts.



# Mobile Payments

## Contactless payment safer

Cards can be as infected as money. We see the COVID-19 as a catalyst in paving the way to cashless payments mass adoption.

- “Your money is dirtier than you think”: a study realized by New York University researchers in 2014, reported that a \$1 bill carries as many as 3'000 bacteria.
- Point-Of-Sale keypad usage and the fact that cards are still handed from the customer to someone across the counter make cards far from being germ-free.
- Authorities worldwide are disinfecting and quarantining notes and the WHO organization is encouraging contactless payments.

## Rise of online shopping

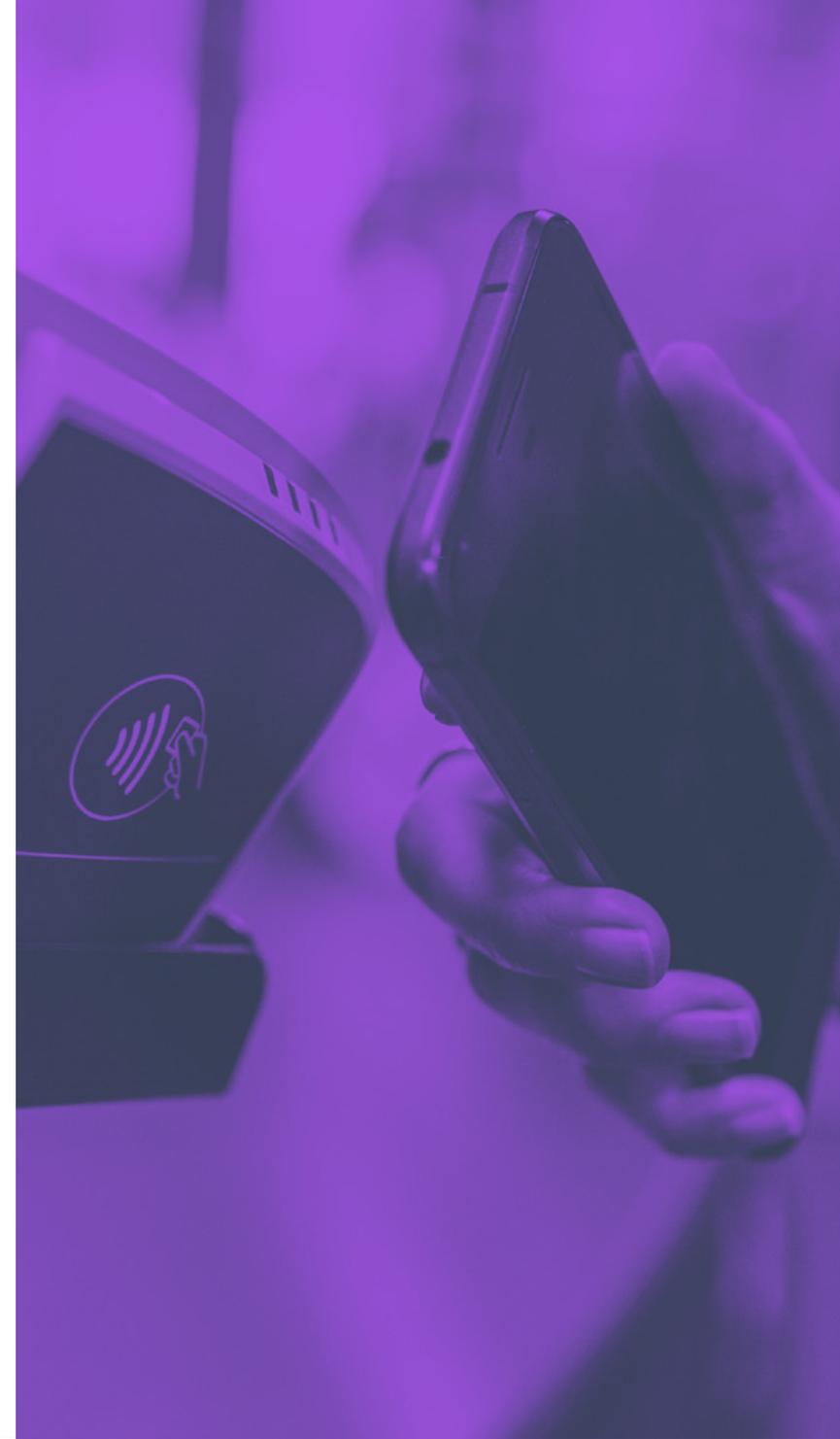
We are now experiencing an inflection point characterized by e-markets struggling to keep up with the sudden surge in clients' orders. Though this is a short-term spike, we believe that it will have long-term consequences on users' habits.

- Expectations before the COVID-19 outbreak were already pointing to a steady growth in online shopping as percentage of global retail sales: from 14% in 2019 to 22% in 2023.
- Shifting to e-commerce, notably through smartphones, boosts mobile payments.

## Central Bank Digital Currencies (CBDCs)

Central banks and governments coordinating their actions is a key development in international cooperation and in accelerating the transition to CBDCs.

- Such currencies would facilitate and speed up settlement of cross-border financial transactions and make easier the transmission of monetary policies to individuals: cash is not subject to negative rates, whereas CBDCs would.
- Money is changing, and the public authorities are aware.



## Security & Space

### Protecting Data

Overall, cybersecurity companies stand to greatly benefit from the COVID-19 outbreak, as it has considerably increased the amount of sensitive data. The data has to be used for the common benefit, but sensitive information has to be anonymized and well protected. As a result, we expect increased attention from investors towards companies that offer safe data storage and access.

- Governments collected data by scanning everyone at the borders, before boarding planes, in trains, in shops, etc., in addition to tracking sick persons' movements, contacts, and meetings in the days before falling ill.

### Video Surveillance

Virus spread could have been better contained or even reduced if cameras were allowed to track infected people and people likely to be infected. This outbreak shows that without efficient video surveillance, countries can't efficiently track all the tourists and visitors.

- Countries will make sure it doesn't happen again in the future.
- We believe computer vision companies, such as Ambarella, producing chips or software, will enjoy higher demand following the COVID-19 crisis.

### Digitizing infrastructure and urban security

COVID-19 has allowed China to live test its security infrastructure, which proved successful, and will likely result in further investments in this field. Novel methods on how to improve urban security and infrastructure will benefit the most.

- Tech giants like Tencent and Alibaba developed applications storing users' travel history, allowing governments and police to safely access it to speed up authorization processes at physical roadblocks.



# Sustainable Future

## **The only short-term beneficiary: the environment**

The COVID-19 crisis is making victims among people and businesses, but the resulting economic slowdown is undoubtedly mitigating our environmental impact over the short-term.

- China's CO2 emissions are 25% lower compared to the same period last year.
- Northern Italy's atmosphere registered significantly lower levels of pollution.

## **Attitude change**

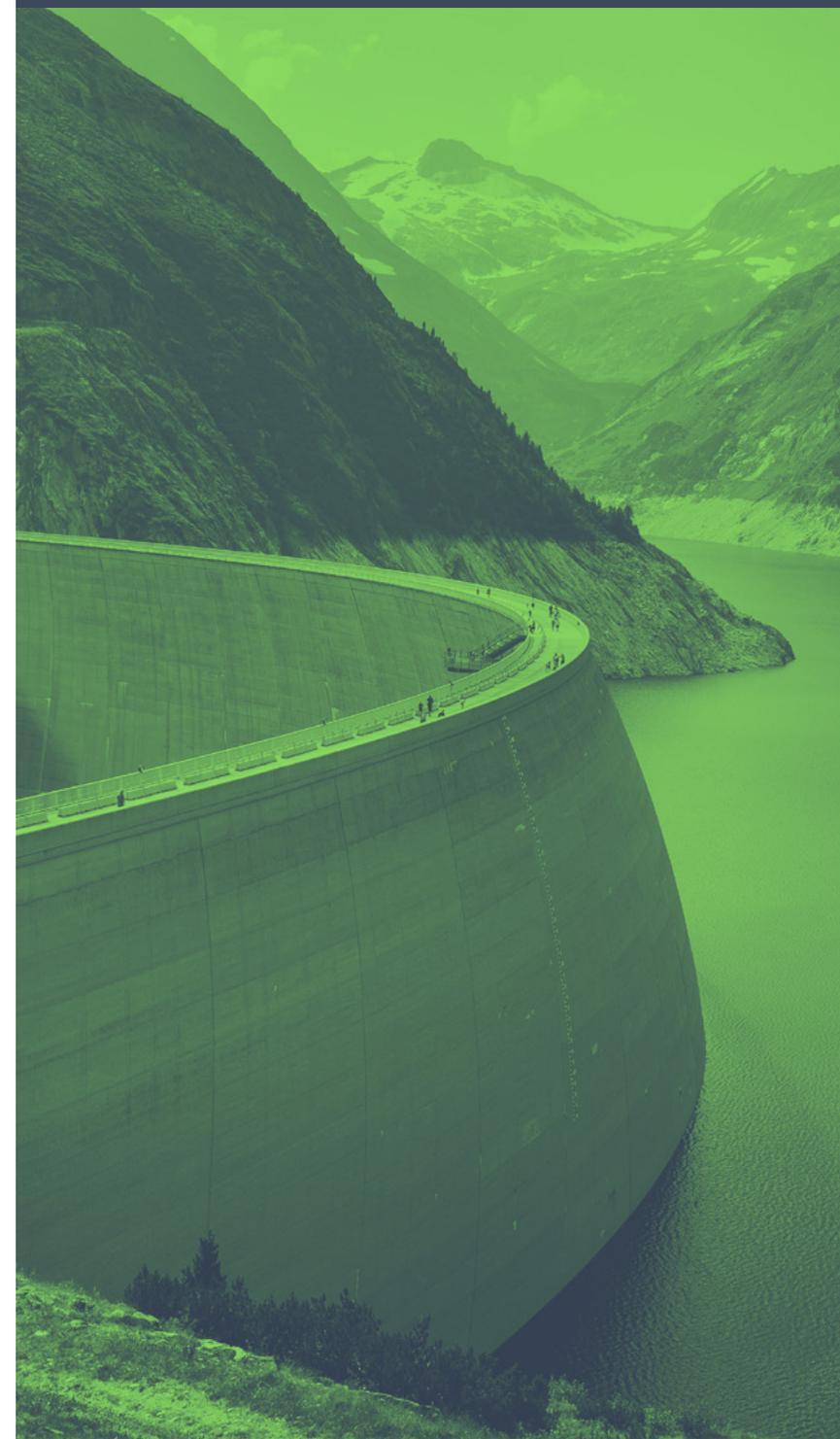
The current crisis results in governments around the world rallying around a "health before business" approach. Coupled with the improvement in pollution coming from the halt in economic activity, there may be a shift in public opinion leading to give climate parameters more weight.

- This order, once set up for individual and collective health, could more easily be applied to global, environmental health, leading to more voluntarist, stringent move towards renewables.

## **Low oil prices**

The global transition of oil majors towards clean energy, e-mobility and other energy services is already underway (see recent announcements of BP, Shell, Repsol, Total, etc.), and we believe that current situation (coronavirus + cheap oil) will accelerate this trend.

- The low risk & long-term price stability provided by renewable projects is likely to attract many Oil majors willing to diversify their activity.



## Catalysts

- **Targeted and timely responses** by monetary and fiscal policymakers to address the demand and supply shock will allow markets to continue to function properly, setting the stage for a recovery.
- **Fast containment of the virus** to slow down the spread and provide time for scientists to find a vaccine can limit the downside and accelerate the return to normality and confidence.
- **Smarter globalization:** companies will understand the advantages of diversifying their supply chains, onshoring production, leading to more robust operations, lower transportation needs, and less pollution.

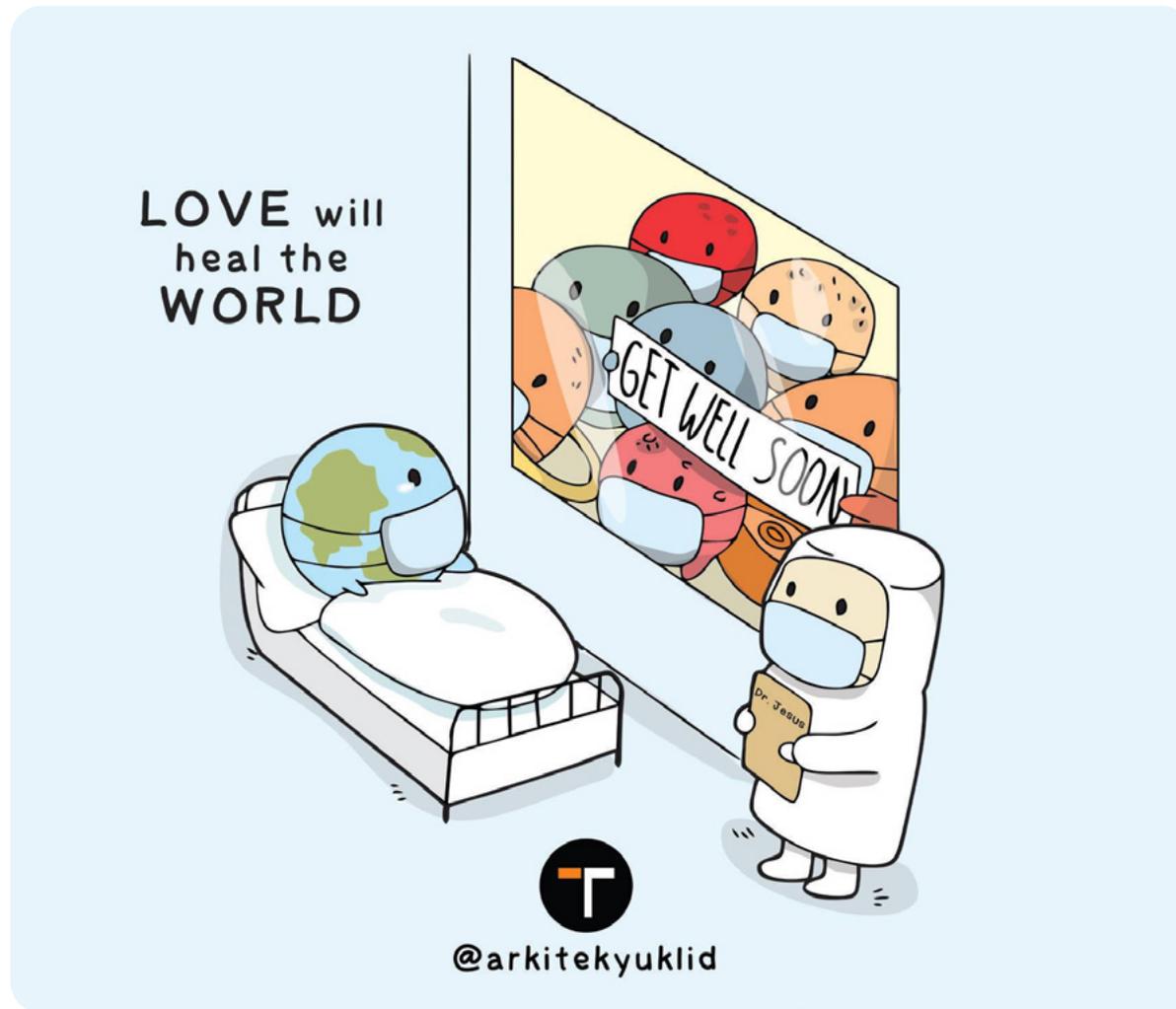
## Risks

- **Ineffective and delayed responses:** will lead to increased stress in financial markets, especially on the credit side, which can create a negative feedback loop magnifying the impact on the real economy.
- **Uncontained spread:** western democracies are unable to act as decisively as certain Asian countries, leading to an explosion in the number of infections, prolonging the period of economic disruption, and delaying the return to normal.
- **De-globalization:** stress on local and global institutions will push populations to retrench, leading to rising tensions between countries and regional blocs.

## Bottom Line

- A giant wave of monetary and fiscal stimulus is about to be unleashed on the markets, and its impact will be further multiplied by the effect of lower oil prices. Inflation is poised to make a comeback with a bang.
- A fundamental reshuffling of how the economy works is underway – companies that have already embraced the upcoming change and adapted their model will have a significant head start.

# CASUAL FRIDAY



SOURCE:  
<https://www.facebook.com/Arkitekyuklid/photos/a.509815082887613/713890965813356/?type=3&theater>

# Invest Beyond The Ordinary

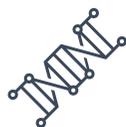
Explore our investment themes:  
[www.atonra.ch/investment-themes/](http://www.atonra.ch/investment-themes/)



HEALTHCARE  
M&A



SUSTAINABLE  
FUTURE



BIOTECHNOLOGY



AI AND  
ROBOTICS



FINTECH



SECURITY  
AND SPACE



MOBILE  
PAYMENTS



BIONICS

# 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.

---

## Disclaimer

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.