

For professional investors

ROBECO
The Investment Engineers

5 REASONS TO INVEST IN FINTECH

Sustainable Investing Expertise by
ROBECOSAM

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Five reasons to invest in fintech

The growing trend for cashless payments is causing huge demand for the financial technology that powers it – fintech. The financial sector is digitalizing and getting larger, particularly as developed markets update their banking systems, and as emerging markets come online. The investment universe of fintech providers that straddle digital systems and electronic payments is therefore growing bigger every day. It offers double-digit growth opportunities for investors in what is a major long-term trend.

Fintech has become a broad church, moving on from just payment systems. It now ranges from cybersecurity to core system replacement and even distributed ledger technology (better known as blockchain). In the smartphone era, it encompasses companies such as providers of software that make secure payments-by-phone possible.

And as the rise in digital payments unfortunately also provides more opportunities for fraud, investing in cybersecurity companies offering payment protection is now a firm part of the fintech universe. Other investible areas include artificial intelligence, robo-advice and the management of ‘big data’ that is collected as more people go online for their financial service needs.

And as a major form of digitalization, fintech has proven its worth during the Covid-19 crisis, during which demand for cashless payments without the need to touch hands has soared. A trend, by definition, should be immune to short-term shocks; fintech has gone a step further by actually offering growth during a pandemic.

In all, it's one of the largest investable trends in the world, straddling both emerging and developed markets, and backed by positive trends in both demographics and new technology.

Robeco has extensive experience in investing in fintech as one of the first asset managers in the world to launch a fund dedicated to finding its best opportunities. Since its inception in December 2017, the fund has enjoyed a strong track record of consistently outperforming its benchmark. Its team of dedicated portfolio managers and analysts forms part of the wider Robeco trends and thematic investing team of more than 30 investment professionals, each with long experience. This makes it one of the largest trends team around the globe.

In this brochure we outline five reasons to invest in fintech with Robeco; we hope you enjoy reading it as much as we enjoy investing in it.

Patrick Lemmens
Portfolio Manager

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Online payments are becoming the norm and cash the exception



The move away from cash is still a very valid theme, and we now see this appearing on the political agenda in countries like Italy, where the government is actively stimulating people to make digital payments. They're even considering a law that lowers taxes for people who pay digitally, which would be very positive.

What we also see is the emergence of big conglomerates, and this is where we play the move-away-from-cash theme in the portfolio by investing in the big payment processing companies and payment networks like Visa and Mastercard. But the name of the game is scale, which is why we have seen a lot of M&A in the past 18 months. There have been three big mergers in the US: Fidelity National Information Services merged with WorldPay, and as a reaction to that, Fiserv merged with First Data, and then Global Payments merged with TSYS. So now there are three very big power blocks in the US that, from a competitive position, are already in a league of their own, and they will simply acquire all the new stuff that's coming from below.

That theme is now coming to Europe, where the market is very fragmented because cash use is moving to digital at different paces. The Scandinavian countries, the Netherlands and the UK are pretty advanced in digital payments, but Spain, Italy and Greece are still very cash heavy, using cash about 80-90% of the time. In these southern European countries, the payment processing companies are acquiring digital payment businesses from banks, who are spinning them off because it's a cost for them, whereas the payment processing companies know how to make them more efficient and bring scale.

That was the first round, and now those consolidators in those countries are themselves consolidating.

So we're starting to see the first signs of pan-European payment processing companies, mirroring what's happening in the US, and that's a very interesting trend.

It implies that in the years to come, not only will the secular growth theme continue (because there is so much cash that needs to be converted into digital payments), but this will also very likely come at better margins, because of the scale advantages that these big conglomerates now have.

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The traditional financial sector
and fintech companies
can no longer live without
each other



The main issue here is that the services provided by fintech companies are still very specialized, and banks, insurers and asset managers don't have those specialized skills in-house. These skills are very rare, so it's not as if you could just open up a job vacancy and get 20 people to choose from – these people wouldn't ever consider working for a bank. You have to find people from the outside, so this is where these fintech companies can leverage and cooperate with the banks. This also works the other way around, because the start-up costs and customer acquisition costs are still very high for many start-ups, which means they rely on the banks for their business.

Meanwhile, the banking system in the western world needs to modernize, and it needs fintech companies to be able to do that.

Core system replacement is crucial for the survival of many high street banks – many financial institutions still have software from the 1970s and 1980s. Over the years, these systems have expanded in isolation, and connecting them has proven to be very hard. Middleware providers have benefited greatly from selling their temporary solutions. However, most core systems are not up to the task of connecting new services and tools. Also, when thinking along the lines of platforms, most core systems cannot cope with external applications that need to communicate with internal systems and databases: they need to bring in the fintech companies to do this for them.

An interesting development is the creation of core utility platforms, where services such as current accounts can be bought as a fintech service and immediately plugged into another platform. Digital ledger technology (blockchain) is another exciting arena: people tend to think of it as relating only to cryptocurrencies such as bitcoin, and being extensively overhyped, but it has far wider uses. Trade finance, insurance claim handling and asset ownership registration are areas where the new blockchain-based infrastructure has already been implemented. We think that over the coming years, more products and services will follow. Robo-advice using website software, for example, shows that the technology is able to reach a group of people that was previously economically unattractive to service. We think that over time, the robo-advice solutions will lead to broader penetration and slowly make its way into mainstream financial services.

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Investing in cybersecurity
is creating massive
new opportunities



As the world digitalizes, the issue of cybersecurity is becoming more and more important, because huge technological progress is also ushering in more advanced types of crime. Cybercrime ranges from old-fashioned credit card fraud to more sophisticated hacking that has led to massive data breaches, and, increasingly, identity theft. Most of the billions lost to cybercrime cannot be recovered as the money often cannot be traced once it has been taken from the lawful owners.

Cybersecurity is often referred to as the Achilles' heel of digitalization, but it also provides investment opportunities in those companies set up to tackle it.

These range from providers of security software, from simple virus protection to firewalls that stop hacking, to more advanced encryption and data protection technology. The advancement of cashless payments has also developed identity software to make sure that only the legitimate user can access it.

Keeping track of cybersecurity has become a full-time job for many people – including at Robeco. We recently hired a cybersecurity analyst who ranks the fintech universe based on the most secure to the least secure. We look at those scores, and if a company gets a score that really deviates from that of its peers, we ask the management to explain how those low scores came about. If we're not satisfied with the answers, then this could have consequences for the portfolio, in the sense that we give less weight to those names.

Cybersecurity is a continuous game of cat and mouse, where the criminals are one step ahead, and then it's the job of the software vendors to close the gaps as soon as possible before too much damage occurs. But some cyber breaches are more severe than others. By having a cybersecurity analyst, we now know how to better understand these incidents. And this could also create opportunities. Say, for example, a stock falls 40% on the basis of a headline that the company lost data in a hack. But we know that this is a one-off event because the company's governance systems are basically OK, and they're actually pretty resilient when it comes to cyber threats. Then an event like this can also become a buying opportunity, because the damage is going to be less than the market is predicting in the first knee-jerk reaction.

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An additional 2 billion people
will gain access to
digital finance worldwide



Two billion people in emerging markets currently do not have access to a bank account, so this is part of the financial inclusion theme. Countries such as Indonesia, the Philippines, Thailand, Brazil, Mexico and Kenya are seeing a lot of financial inclusion activity enabled by fintech. Mobile payment adoption in emerging markets has progressed rapidly over the last three years, whereas in developed countries, we have seen slower progress due to the abundance of alternative payment methods.

And financial inclusion is not only about helping unbanked people – a key UN goal, for example, is to bring micro-credits to emerging markets. This has always been high on the agenda from a financial inclusion perspective and is being pushed by regulators. But it was hard to go into rural areas with a big sack of money and spread it around. Now, with the help of technology, you can do that and it's much easier to create risk profiles, recollect the money, and reinvest it.

One company found out through data sourcing that lending to women is the best idea, because men often won't pay back debt, but women always do. So, the company offers loans to women who are in groups, such as sisters or wider family members. This means you have a combination of female lenders and borrowers with peer pressure, and their repayments are close to 100%. Technology has allowed this business model to be rolled out to reach those women who need micro-credits, and that's one way to play the financial inclusion theme in emerging markets.

Another plus for emerging markets is that they don't have the legacy issues that we have in the West – they are going directly from no banking to internet banking.

They did not build the bank branch infrastructure seen on the high street in between. It has made it much cheaper to reach the millions of unbanked people without installing the expensive shops first. Emerging markets can also leverage from a much bigger availability of software and hardware at a lower cost than banks in the West were able to do when automation started coming in here over 40 years ago. In some ways, emerging markets are ahead of us in the West.

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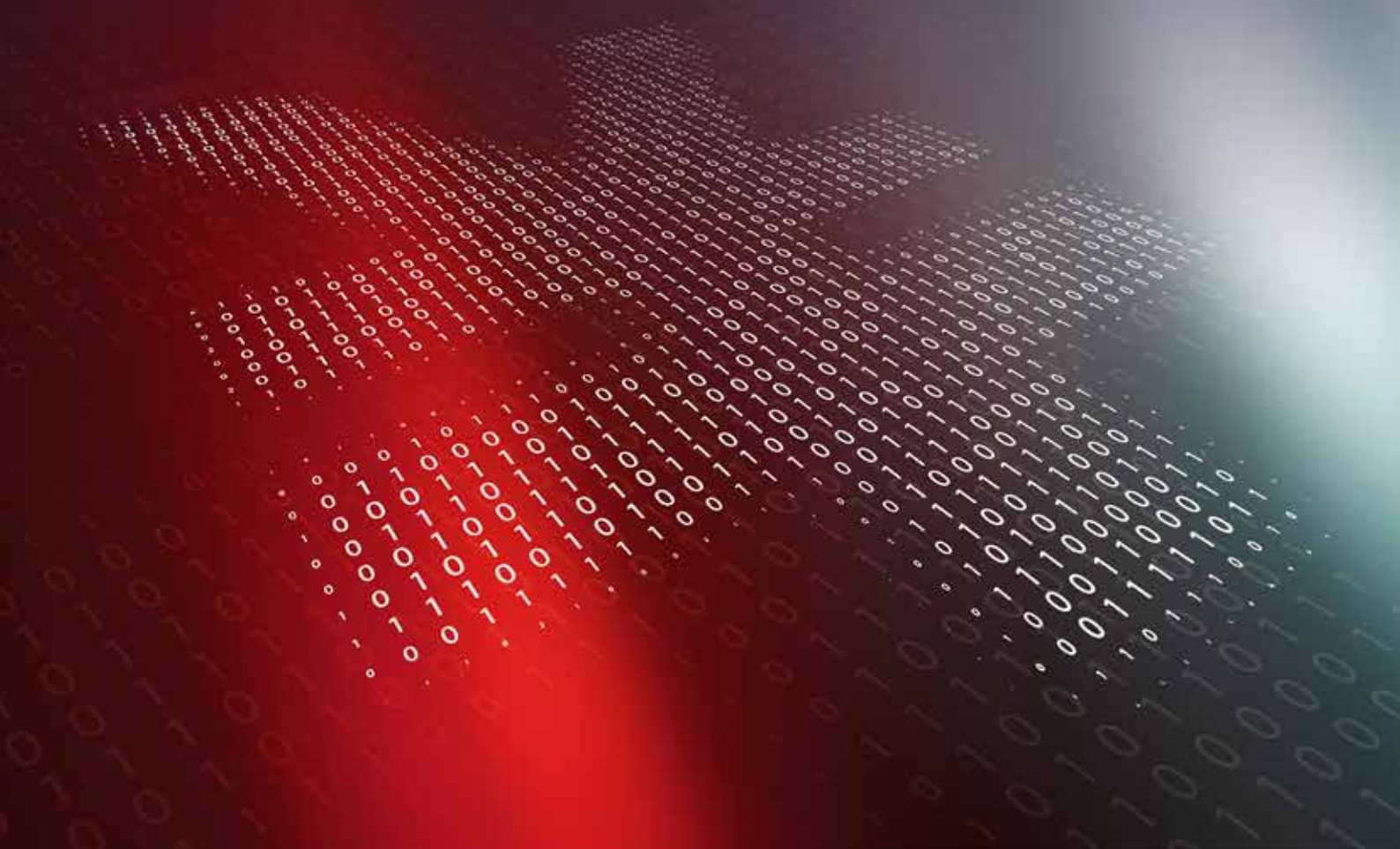
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China and India
are major new markets for
investing in the sector



The real fintech battle is starting in India, where everyone wants a piece of the action. It is not economically viable to open up bank branches in rural areas in India – the population density is too low, and people earn or possess too little to make traditional financial services models attractive. The introduction of fintech has changed the picture completely. In one development, the Indian government has introduced a system which scans fingerprints, eyes and facial data. This data allows small merchants in rural areas to onboard people by using cheap fingerprint readers that connect to the database. The result is an impressive 335 million household bank account openings over the course of four years.

Another example of the progress being made in India is a company that specializes in facilitating payments with its connectivity software. It can be quite complex to connect financial accounts that use different software (including from abroad), with a wide variety of different codes in use, so the company is able to charge a small fee for connections, and is therefore making money out of it. We had thought that investing in India would be difficult, because the government was offering a lot of fintech for free in order to reach the millions of unbanked, but there are still these kinds of investment opportunities.

In China, the battle for fintech market share has already largely played out, as strong powerhouses like WeChat and Ant Financial now dominate the payments market. China has close to 900 million payment users making about 80 billion transactions per year. While mobile payments represented only 3.5% of payments in China in 2011, these are set to represent 85% in 2019.

People trying to pay with cash or credit cards have already become the exception.

There are three large upcoming Chinese IPOs that will be very interesting for the development of the investment universe. One of these plays the connectivity theme seen in India; another is a large B2B lender with institutional funding within China that will have a USD 40-50 billion market cap when it floats. The biggest unicorn of them all is Ant Financial, which will be worth USD 150 billion when it floats. So, it's an exciting time for both these countries.

Reasons to invest in our Fintech fund:

In this brochure we have offered five overarching reasons to invest in the fintech trend, from the growth in online payments, to favorable demographics in the long term. But as more asset managers start strategies targeting this space, why pick Robeco's Fintech fund above all the others? Here we offer another five reasons to choose our fund.

- **Strong performance:** Since the fund was launched in December 2017, it has consistently outperformed its benchmark, the MSCI AC World Index, with outperformance of 8.4% since its inception, despite the large number of market wobbles since then.
- **Size matters:** With assets under management approaching EUR 1 billion at the end of April 2020, the fund can put large sums of investor capital to work in all the right places, generating the outperformance.
- **Good track record:** Trends investing can be unpredictable in the wrong hands, particularly as this is a high growth sector which is prone to sudden swings. The Fintech fund's track record speaks for itself.
- **Experienced team:** The fund is managed by a team of over 30 investment professionals, making it one of the largest trends teams around the globe. The portfolio managers are backed by dedicated analysts and researchers who scan the market for the best picks.
- **Integrated sustainability:** As with all Robeco fundamental equity products, the integration of environmental, social and governance (ESG) factors into the investment decision-making process comes as standard.

We hope that you will agree that thematic expertise such as this is as valuable as the winners of tomorrow that we follow, and we have the track record to prove it.

Robeco Global FinTech Equities

Robeco Global FinTech Equities invests in three types of fintech companies: winners that stand out from their peers, enablers that help the financial industry develop and implement technology, and young challengers with the potential to become tomorrow's winners.



Invests in technology companies that enable the digital transformation of the financial sector



EUR 873 million in total assets under management



Fund managers combine long-term financial experience with tech savviness

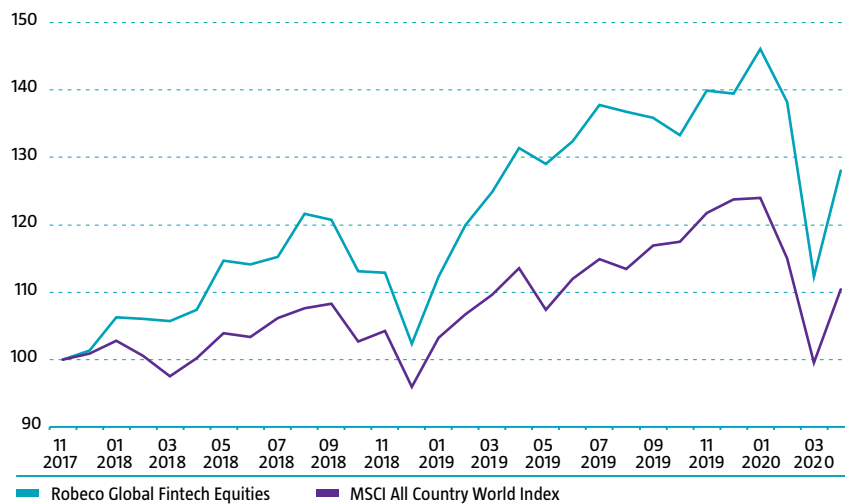
STRATEGY

- **High conviction** Concentrated, benchmark-agnostic portfolio of 40-70 high-growth companies.
- **Trends investing** Top-down selection of long-term secular growth trends is combined with bottom-up stock picking.
- **Risk management** Proprietary universe that adheres to strict inclusion criteria and diversification across winners, challengers and enablers.

Fund facts Robeco Global FinTech Equities

Name of fund	Robeco Global FinTech Equities
Fund managers	Patrick Lemmens, Michiel van Voorst and Koos Burema
Index	MSCI All Country World
First quotation date	01-12-2017
ISIN-code	LU1700710939
Ongoing charges	1.71%
Tradable	Daily
Management fee	1.50%
Service fee	0.16%

Performance Robeco Global FinTech Equities



Source: Robeco. All figures in EUR D net of fees, based on net asset value. Periods shorter than one year are not annualized. The value of your investment may fluctuate. Results obtained in the past are no guarantee of future performance. In reality costs such as management fees, transaction and other costs are also charged. These have a negative effect on the returns shown.

Performance Robeco Global FinTech Equities to 30-04-2020

	Three months	Six months	One year	Since 12-2017*
Robeco Global Fintech Equities Fund (net return)	-12.33%	-3.94%	-2.55%	10.78%
MSCI AC World Index (Net Return)	-10.93%	-5.96%	-2.75%	4.19%

* Annualized

Source: Robeco. All figures in EUR D net of fees, based on net asset value. Periods shorter than one year are not annualized. The value of your investment may fluctuate. Results obtained in the past are no guarantee of future performance. In reality costs such as management fees, transaction and other costs are also charged. These have a negative effect on the returns shown.

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