THOMAS RICE ON THE STOCKS DRIVING INNOVATION

PERPETUAL ASSET MANAGEMENT
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In this short video interview, Thomas Rice, Portfolio Manager of the Perpetual Global Innovation Share Fund shares how he generates and filters investment ideas and his current favourite stock, gives insights into how he adapted to COVID over the last year and where he is seeing investment opportunities at the moment.

The Perpetual Global Innovation Share Fund returned 54.0% after fees in the 12 months to 31 January 2021, 51.9% ahead of the MSCI AC World Index of 2.1%. This stellar performance is best understood through the stock picks and various positions taken over the past year.

ABOUT THE FUND

The Perpetual Global Innovation Share Fund is first and foremost a global stock picking fund. We're really trying to find undervalued businesses around the world. What makes it different from other funds is where we spend our time and effort, and that's really on understanding new technology, new innovations, science, and how that's impacting different companies. This can be anything from how the retail landscape is changing, and whether you buy leading eCommerce companies like Amazon or delivery companies like Deutsche Post that are benefiting from this trend.

It's about understanding AI. What does that mean? How does that impact companies? Who's benefiting from that? It's things like looking at the latest developments in drug development. Are there different healthcare stocks you can buy that benefit from that theme? But underpinning it all is stock analysis and the valuation that's core to the fund.

IDEA GENERATION

Ideas come from a lot of different sources. We do a lot of extensive reading. We talk to a lot of industry experts, but we're also talking to a lot of people in the startup and venture communities to really make sure that we're on top of things that are changing. As a result, we diversify across sectors, geographies, and value versus growth. So, we'll have some value names in the portfolio, as well as growth. It's really about getting a diverse mix and making sure that they're all cheap from a fundamental, bottom-up basis.

PORTFOLIO

The portfolio can hold 20 to 60 stocks. Typically, it's at the upper range of that, usually it's 50 or more. What I'm looking to do is have a very diverse range of stocks in the portfolio, to ensure I'm managing the different risks in the portfolio. So, if one area of the market does poorly, hopefully other parts of the portfolio do well.

CURRENT OPPORTUNITIES

At the moment, we're finding a lot more opportunities outside of the U.S. - rather than inside the U.S.- which is different from a year ago. If you look at the top six positions in the fund right now, they're all outside of the U.S. We're increasingly seeing new ideas in Europe. The biggest position right now is a company called Boohoo Group in the UK, which is a leading eCommerce retailer I think is very interesting. We also own Siemens, which is a leading industrial company, at the heart of which is this great industrial software business. Also in the top six is RWE, which is a utilities company, but they're going to become one of the largest renewables utilities in Europe.

ADAPTABILITY TO COVID

How you responded to COVID in the last year was a big driver of returns. We did pretty well because we were worried about it back in February when it left China, was spreading through Europe, but hadn't quite spread to the U.S. yet. We responded by selling Expedia and Disney, companies that were the most exposed, and buying companies that we thought would do okay, like Amazon and Microsoft. We also made Zoom, which we already owned, our biggest position. And the thinking there was that if COVID got a lot worse, Zoom would do better and would act as a natural hedge in the portfolio. So that worked out quite well.

After it was obvious COVID was getting worse in late March, we took advantage of lower prices and bought some companies that were oversold. For example, we bought Tyro Payments in Australia and it doubled within the next two months. If I look at the landscape today, the process is the same as it was a year ago. It's all about fundamental, bottom-up research and trying to work out what are the best stocks to invest in. The only difference is the opportunities that change. In that sense, it's very different today than it was a year ago.

FAVOURITE STOCK

In terms of a favourite stock, I really like Axon Enterprise. This is the company that invented tasers, and then they moved into police body cameras, where they're now the leader. What I like about their management team is, number one, they're on a real mission to provide more transparency to policing and end the use of bullets. So, I love the mission that they have, but they're also a team that understands the technology landscape.

They were the first team to build a cloud computing platform to store police body camera video, so they can now provide a lot of analytics around that much better than competitors. So, I think they're on a great journey where, over time, they're going to expand services to police and other customers. It really centres around this mission of providing transparency. Axon body cameras are used by most police forces in Australia, apart from New South Wales. They've also added corrections. New South Wales corrections are using them in their maximum security prisons.

PERFORMANCE

Performance has been pretty strong. In the year to January, the fund was up 54%. We put a lot of effort into making sure we have a valuation and a price target on every stock in the fund. Every day we're calculating what the upside of every stock is, what the upside of the portfolio is. And all the effort around the analysis and finding new ideas is geared towards making sure that we're improving the implied upside of the portfolio. We're constantly looking for new ideas to improve that mix. When I look at the portfolio today, I'm very happy with the companies we own. We think there's decent upside from here and now's a great time to invest.

Find out more about Global Innovation Share Fund and read the latest investor report.