
The Case for Global Innovation

Investing in innovation
is investing in change

Perpetual 

Innovation is not new. The first industrial revolution in the 1800s resulted from innovation: the steam engine, mechanised spinning and the telegraph all changed the face of industry, transport, communications and living. Subsequent 'revolutions' have delivered waves of life-changing innovation across health, travel, manufacturing, communications and technology.

Innovation also presents a range of investment opportunities. The question for investors and their advisers is: **how do you identify those companies that will benefit from technological change and innovation over the longer term?**

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1. Why invest in innovation?

Companies are disrupting established business models across a range of sectors. It has been suggested that the world is embarking on its fourth industrial revolution¹, as technology upends a broad range of traditional business models and creates possibilities not considered possible just a few years ago.

- Public flights into space
- Autonomous vehicles
- Gene modification therapies

Innovation is universal and we believe very few – if any – segments of the economy will be untouched. This ‘revolution’ has, and will continue to, fundamentally change the way we live, work and communicate.

“Previous industrial revolutions liberated humankind from animal power, made mass production possible and brought digital capabilities to billions of people. This Fourth Industrial Revolution is characterised by a range of new technologies that are fusing the physical, digital and biological worlds, impacting all disciplines, economies and industries.”

Those companies that succeed in this new environment have the opportunity to profit from disruption; to grow earnings, expand markets and deliver positive returns to shareholders.

For those clients who remember the ‘tech wreck’ of the 1990s and may be fearful of investing in technology and innovation, this is a timely reminder that technological innovation is a trend that’s increasingly pervasive throughout everyday life.



Innovation and disruption

While not new, disruption is different today. Going back twenty, thirty or fifty years, a disruptor was a business that found a better way of producing and delivering a product or service, or presented an attractive alternative, at a price point lower than the competitors.

Today, disruption is enabled by technology – hence the term ‘digital disruption’.

We consider that the 2020s is shaping up to be a decade of accelerating technological innovation, hastened by the COVID-19 pandemic and the rapid adoption of a range of technologies to allow people to work or study remotely, shop online for products and in some areas, have them delivered by drone.

Innovation and our daily lives

Innovation does not just relate to wild ideas such as holidays in space or domesticated robots.

At home we wake to an alarm from our iPhone, ask Amazon’s Alexa to stream our favourite music and do our grocery shopping online. The “Internet of Things” allows connectivity between our appliances and devices, allowing us to remotely set heating or cooling, turn on lights or activate security systems.

At work we join Zoom meetings, access documents from the cloud and use ‘software as a service’ apps

such as Canva or Dropbox to create, access and transfer data. Manufacturing businesses widely use robotics and in finance, the ASX is working towards moving its CHES system across to blockchain technology.

Smart devices enable us to transfer money overseas in seconds, consume videos and podcasts, chat to friends, stream our favourite TV shows or book a holiday. Everyday work and leisure activities are enabled by technology and innovation.

Examples of innovation and change

E-commerce	Technology	Finance	Intelligent Machines	Medical
Online retailers	5G	Fintech	Autonomous cars	Gene technology
Online services	Cloud computing	Digital payments	Robotics	Genomic sequencing
Sales platforms	Internet of Things	Cryptocurrencies	Artificial intelligence	Immunotherapy
Transport & logistics	3D printing	Blockchain	Machine learning	Diagnostics
Sharing economy	Data analysis	Online banking & broking		Devices & implants
	Virtual reality			
	Smart devices			
	Connectivity			

2. Case Studies

Biontech **Medical innovation**

With its vision to 'harness the power of the immune system to develop novel therapies against cancer and infectious diseases', this German company is the developer of the Pfizer COVID-19 vaccine.

Biopharmaceutical New Technologies (BioNTech) is a next generation immunotherapy company pioneering novel therapies for cancer and other serious diseases. It has expertise in mRNA vaccine development and in-house manufacturing capabilities. The firm collaborates with several global pharmaceutical powerhouses, including Sanofi, Bayer Animal Health, Roche Group, Regeneron and Pfizer.

Axon **Industrial innovation**

With an overarching goal to protect life and a focus to transform public safety with technology, US-based Axon Enterprise, Inc. (Axon) has carved a niche in the development, manufacture and sale of products and services designed for law enforcement.

This includes conducted energy weapons, otherwise known as tasers, body cameras, in-car video systems and digital evidence management software. Axon also provides hardware and cloud-based software solutions to enable law enforcement to capture, securely store, manage, share and analyse digital evidence. It sells its products through direct sales channels as well as distribution partners, an online store and third-party resellers.

Opendoor **Platform innovation**

With a mission to empower everyone with the freedom to move, US-based Opendoor is a digital platform for residential real estate that makes it possible to buy and sell real estate on a mobile device. Opendoor has cut out the middleman, the real estate agent, to redefine how people buy and sell a home and transform the world's largest asset class.

Opendoor is focused on building the best-in-class consumer experience, the most accurate pricing engine and the lowest cost platform to become the digital one-stop-shop for all home buyers and sellers in the US. The company is investing in its Buy with Opendoor and Opendoor Home Loans services, which give customers the ability to buy, finance, sell, and close in a single, seamless transaction.

Case Studies (continued)

Siemens **Technology and innovation**

Siemens demonstrates that innovation isn't solely the domain of start-up businesses – it's possible for an established business – even one that dates from the mid-1800s – to continually invest in technology to remain competitive and deliver innovative products and services to its markets.

A technology company focused on industry, infrastructure, mobility and healthcare, Siemens creates technologies to transform the industries that form the backbone of economies and transform the everyday for billions of people around the world.

Siemens has technical expertise, a comprehensive portfolio and long-standing experience which is helping to globally pioneer a sustainable future across infrastructure, energy, manufacturing, digitalisation, defence – and even the final frontier, space.



3. Conclusion

Technology and innovation are changing the way we live, work and play on a daily basis. We believe the COVID-19 Pandemic has inspired a rapid adoption of technologies, a trend likely to accelerate as unprecedented innovation continues across all sectors.

We see technological innovation as not confining to a single sector or region. It will leave its mark on all businesses worldwide; whether those businesses embrace change and prosper will determine their long-term success and prosperity.

As well as changing the way we live, we consider that innovation should change the way we invest. The market is often inefficient at pricing companies where rapid change is occurring; by focusing our efforts on understanding new innovations early, we believe it provides our investment team with an opportunity to exploit this inefficiency to find undervalued and underappreciated companies.



Access our best ideas in Global Innovation

Thomas Rice, the Portfolio Manager of the Perpetual Global Innovation Share Fund, is backed by our team of experienced investment analysts.

The Perpetual Global Innovation Share Fund is a hand-picked portfolio of shares in global of companies benefitting from technological change and innovation, provides you with an opportunity to harness our team's experience, insights and skill to uncover those companies with the greatest potential.

We do not try to predict where markets and prices are heading, but instead, seek to buy companies at prices below what we perceive to be fair value given each company's fundamentals and the prevailing market conditions. We expect that the share price of these companies will rise once the mispricing is recognised by the market.

¹ Professor Klaus Schwab, Founder and Executive Chairman of the World Economic Forum, *The Fourth Industrial Revolution*, 2017

Like to know more?

The Perpetual Global Innovation Share Fund has two unit classes available to retail investors:

1.

Perpetual Global Innovation Share Fund – Class A

Investors can apply and redeem in this unit class by applying under the relevant product disclosure statement and completing the application form or accessing via a platform.

▶ **Learn more by visiting**

<https://www.perpetual.com.au/funds/perpetual-global-innovation-share-fund>

2.

Perpetual Global Innovation Share Fund (Managed Fund) (ASX:IDEA)

Investors can buy and sell units in this unit class on the ASX via their stockbroker, share trading account or other securities trading platform.

ETMFs trade, clear and settle in the same way as ASX-listed shares. Investors do not need to complete an application form or withdrawal form. Perpetual does not require an investor to apply for a minimum number of units or dollar amount in IDEA.

▶ **Learn more about IDEA by visiting**

www.perpetual.com.au/idea

Performance and returns of the unit classes may differ due to different fees and costs. For more information, investors can access the Fund Profile for each unit class on the Perpetual website and read the relevant product disclosure statements.

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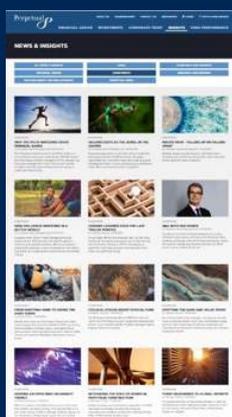
Contact your financial adviser or call us on:

Adviser Service:
1800 062 725

Investor Service:
1800 022 033

Email
investments@perpetual.com.au

Web
www.perpetual.com.au/investments



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