

TRANSCRIPT: EPISODE 95
30 September 2020 (pre-recorded 24 September 2020)

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[INTRODUCTION]

Sam Slator (SS): I'm Sam Slator from FundCalibre and today is International Podcast Day. So for a change, we've asked an investor to host today's interview and we have Dr. Beth Vamvakas, whose kindly volunteered. Beth, just before we start would you like to share with our listeners how long you've been an investor and what you're saving for please?

Dr. Beth Vamvakas (BV): I've been investing monthly for about five years now and I guess now I'm currently saving for my retirement. I mean I had been saving prior to this for house renovations, which are now ongoing, so now I guess I'm saving for retirement and other things.

SS: Great, thank you. Now I'll hand over to you to chat with James Thompson, manager of Rathbone Global Opportunities fund.

BV: Hi James, thanks for joining me.

James Thomson (JT): Hi thanks very much for having me.

[INTERVIEW]

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BV: Okay, so as I'm sure you're expecting, I'm going to ask you quite a few questions that are related to the novel coronavirus pandemic.

JT: Of course.

BV: Particularly as I am lecturer at Imperial college, so I'm a biologist, so I have quite a lot of interest in the pandemic as well.

JT: Well, thank you for your work too then!

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BV: So, I'll start off with these ones, you've got Amazon, PayPal, Ocado in your 10 largest holdings and probably other companies relating to online shopping. I was wondering if you're investing more in companies that are related to online shopping, following the Covid pandemic and the lockdown?

JT: Yeah, I mean, not surprisingly the ecommerce growth has accelerated and probably more than anyone imagined. You know, it's really been a lifeline for consumers. In fact, a lot of people, you know, were introduced to online shopping who thought they didn't really need it. Now, many small businesses that I've come into contact with didn't even have an ecommerce offering or a digital presence. And they're now really scrambling. The transition is being complicated by logistics. So, you could source the item online, but you know, is it being posted to you? Click and collect? Or as they call it an America curbside pickup, which is booming, as consumers don't really want to dwell inside stores. Amazon, PayPal and Ocado have been in the portfolio for years and were already hugely successful investments. For instance, we've owned Amazon for almost 10 years and made 20 times our initial investment. So, I think we'll continue to make money from those companies, but you know, probably not at that same rate.

So now I'm investing in companies that help other companies get online and sell so they can compete with Amazon. I'm investing in a company that helps consumers communicate with businesses and vital government services. How many times during this pandemic have we had tried to get in touch with our bank or our paid-TV provider or insurance company or local council, you know, only being met with that message that due to coronavirus you may have to wait longer, we have fewer staff? What if many of those questions could be answered without speaking to a live person - an automated conversation that is actually smart and works? No more waiting on hold, no more having to call between nine and five.

And just, you know, just a tiny fraction of groceries are delivered to our door - why? The UK is leading the charge for online grocery, but the rest of the world is about to follow. Ocado just announced a 50% increase in sales. And I think really this is being used as a template for the rest of the world and the UK is really at the forefront.

And then, you know, what about takeaway food? You know, many of us don't feel comfortable eating inside a restaurant, but you know, don't want to ruin another meal at home with our terrible cooking. So the food and the restaurant industry is having to digitalise and 'retool' for online ordering and home delivery. You know, the companies that make french fries and chips are having to change the coatings they put on their chips so they don't get soggy during the delivery. I'm getting hungry... You know, this really is a tidal wave shift to online everything taking place right now. And it's a big feature of my fund.

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BV: Yeah that all rings true to me. I mean, I found getting through to a call centre has been a nightmare, but I'm using live chat a lot more now or emails, and yet certainly lots more takeaways and hardly any restaurant meals. I think I've been to one restaurant, and that was such a novelty.

JT: Yeah and that matches with all the consumer surveys that our analysts have been doing. It's that, you know, despite the perceived improvement in the pandemic, there is this lingering fear out there. And the CEO of Ocado said: people want to spend their risk carefully. You know, if they don't need to take any risks by doing their grocery shopping online, then that makes a lot of sense, but they probably do want to spend some risk seeing their friends and family and going for dinners. So it's all about, you know, making these choices and online often makes it a lot easier.

[5:12]

BV: Yeah. So, sort of following on from that slightly, obviously in the UK we've had the furlough scheme, which has been a very supportive for many businesses, preventing them having to lay off their staff and other countries as well have had similar schemes in place. Do you think, does this make a difference to your confidence in continuing to hold investments in the UK or other countries? And do you think this will change as the schemes get, as the schemes start to winddown?

JT: You know furlough schemes, and really a broad package of government stimulus across the world, has been a key cashflow bridge for companies and individuals. If we rewind the clock back to 2008, you know, the last crisis, it took over 600 days from the start of the crisis until the full stimulus package was enacted. This time it's been 100 days from discovery of the virus in January in China to approval by US Congress and governments around the world. That really is lightning speed, showing rare unanimity and clarity of purpose.

That's actually, I think why we saw the rally in the stock market from mid-March lows that surprised so many people. There was very little clarity then, but that's what financial markets do, they anticipate. They start to rise when policy and liquidity is at its greatest, not necessarily when there's clarity. But you're right. I am worried about the next phase and I think it will cause stock market volatility and real-world hardship in the months ahead. You know the difficulty with this crisis is that, you know, the recession in some sectors you know, they're unaffected and might even be benefiting, like technology, but there are others like hospitality and leisure that are facing imminent collapse, and it doesn't help that the politicians are refusing to compromise in order to score political points. And that's particularly true in the run up to the US election.

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BV: Yes. So, I can go two directions, I'll go for the healthcare. Do you think about companies, areas that are expanding? So you do have a decent proportion of investments in the healthcare sector. So

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do you think that the pandemic has created opportunities for private companies to expand in this area?

JT: Yeah, this is another part of the market that is undergoing a significant change that started prior to the pandemic but has been accelerated. You know, the COVID-19 vaccine is a good example. You know, most likely this vaccine will not be produced and manufactured by the company that discovered it. And increasingly the most innovative early-stage companies who come up with these breakthroughs, you know, they just don't have the capital, the time or the skillset to build \$500 million, multi-use manufacturing facilities that take three years to construct ahead of a drug or a vaccine that may not even get approved.

And we are moving away from a world of mass-produced little pills. You know, as you probably know, more than most, you know, we're entering a world of tailored medicine, biological drugs that are suited to small batch production that could be later modified or expanded. You know, areas like monoclonal antibody, cell and gene therapy. You know, I think this is where the big breakthroughs are going to happen in cancer and Alzheimer's. And you can get, you know, very overexcited about these companies, I mean, who wouldn't want to be the first person to invest in a company that might discover the first ever sort of efficacious therapy for Alzheimer's, but, you know, don't forget that these private companies are, you know, they tend to have just a few products in clinical trials and they're probably the highest risk investments you can make. And so I wouldn't do it in this fund. From an investment perspective, I had chosen to invest in the companies that provide the healthcare equipment, that outsourced manufacturing, which is playing into really what I think is an unstoppable trend.

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BV: What about diagnostics? Do you have an interest in, there's quite a lot of new technologies coming out in the diagnostic area? Do you have any interest in investing in that field?

JT: Yes. I mean, I have some tangential investments in sort of med tech and companies who are in more on the equipment side of things. I've had a look at a few US diagnostic companies as well, but we haven't pulled the trigger there yet. But I'm invested in a company that makes, you know, the filters, the fermenters, the bio-reactors that go into drug manufacturing. I don't, I don't want to say who they are because I don't want to be, seem to be sort of feathering my own nest or tipping stocks, but, you know, they're working for instance with about 80% of the COVID-19 vaccines that are currently in trials. You know, I don't know which one will be successful, but, you know, the chances are pretty good for the company that supplies the vital equipment to almost all of them.

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BV: So, you mentioned the US, so you hold quite a lot of investments in the US, so how do you think a Joe Biden victory would affect the American and the international markets?

JT: You know stock markets have done well under Trump, but that doesn't mean they can't do well in a Biden presidency. You know, he's a centrist. And what really investors have been most worried about is a sort of sharp 180, and that's really been taken off the table now. So, the polls are showing by a statistically significant margin that a Biden victory is the most likely you know, but remember that presidential elections are won by swing voters in swing States, and they change their minds and they make their decisions late. And it's often heavily skewed to the outcome of near-term events.

There's also a streak of antiestablishment and shyness going around, meaning that what the, you know, the voter tells the pollster might not be the way they actually vote in the anonymity of the polling booth. So overall, you know, investors are expecting the unexpected: disputed results, lawsuits and civil unrest. And, you know, it can't be taken off the table. Actually, I think the outlier event, the one that people are expecting the least, is a smooth vote, a clear result and calm transfer of power. You know, this would be good for all global stock markets, but it probably wouldn't be the same stocks that outperform in that environment. And we could see pretty significant change in stock market leadership as a result.

[12:30]

BV: So, talking about uncertainty, the next big topic in the UK is of course Brexit. So, have you divested or delayed investing in any UK or other countries that trade with the UK due to the uncertainty surrounding Brexit?

JT: Yes, but that goes back to 2016. You know, after the referendum, I reduced my UK exposure in this fund from 25% down to 5%. You know, I just didn't know how the process would run or turn out and, you know, with a whole world of opportunities, why take the risk?

So I started to warm again to the UK after the general election. And while I don't necessarily agree with the path being taken, you know, at least there was clarity of purpose and a clear mandate, and the negotiations have gotten noisier and uglier recently, but, you know, don't shortchange the adaptability, the innovation and the grit of British business. You know some of the best companies in the world are here, run by smart, reliable, and honorable people. And we've got loyal friends all over the world who will back us. And once the sort of cliff edge options are taken off the table, and there's some clarity on the new normal. You know I think there will be a flood of foreign investors who will come back in.

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BV: Okay. So my final question, I was thinking about sort of increasing awareness of climate change, particularly in the background of all these wildfires in the US and about how there's increased in importance being placed on how companies treat employees. So how much importance do you place on investing in new or established green technologies or incorporating how staff are taken care of by different companies into your decision making?

JT: Well, this is not specifically an ESG fund. So, if you're looking for a fund that seeks out or excludes investments based purely on environmental technologies then this isn't right for you, but I do want companies that I invest in to take their environmental, social and governance responsibility, seriously. You know I expect them to act and encourage the right behavior. You know, even if it means sacrificing short term profits.

So even though this fund is not core ESG, my investment process and philosophy has a natural aversion to the biggest culprits. So we don't own any fossil fuel companies, no oil and gas, no utilities, no mining companies, tobacco companies, arms dealers, or defense companies. Now to be balanced, I don't own any wind farms or solar technology either, but here I have concerns about the pace of adoption, the profitability and the viability of some of those businesses. So I guess I'm not at either extreme. I sit – it's rather boringly in the sweet spot middle.

BV: Ok, thank you very much, I found that really interesting. I think that's all the questions I have for you.

JT: Yeah. That's great. Thanks Beth, that was excellent.

SS: Thank you both very much for that. That was really interesting. And if you'd like to find out more about the Rathbone Global Opportunities fund please go to fundcalibre.com and don't forget to subscribe to the Investing on the go podcast.