FundCalibre

investing ON THE go

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[INTRODUCTION]
Darius McDermott (DM): Hello, I'm Darius McDermott from FundCalibre and this is the Investing on the go podcast. Today's guest is Neil Goddin, co-manager of the Elite Radar rated Artemis Positive Future fund. Neil hi.

Neil Goddin (NG): Hi Darius, thanks for having me. Good to be here.

DM: No thank you for coming on and talking about your new fund. Well it is new, but I know you ran a very similar strategy at a previous investment company, so let's just dive straight in.

[INTERVIEW]
[0:30]

DM: The fund looks at social and environmental impact. That's quite interesting… that actually, the social element's slightly bigger at the moment. Assets are defined very clearly on the factsheet by the UN Sustainable Development Goals. Good health ,wellbeing is some 37% of the fund. A very long question, but could you tell us a little bit more about that part of the fund please?

NG: Yeah, I mean, put really simply, it's one of the areas we see a lots of opportunity. That opportunity is both in terms of making some money, hopefully, for our clients in terms of returns, but also in terms of positive impact that can be had.

I mean, up until extremely recently, and unfortunately COVID-related, I would suggest that in general, maybe healthcare and education are two areas that have somewhat lagged the rest of the world in terms of technology and innovation. You know, in healthcare, I can kind of understand why, you know, there's famous sort of mantras that you talk about in terms of innovation, one of which is 'fail fast', you know, and 'learn by your mistakes'. That's pretty difficult to do in the world of healthcare. But that doesn't mean things couldn't be done better and healthcare costs, especially in some areas, you know, in some countries like the US have been, you know, on a huge inflation tear, when many parts of the market quite simply haven't been. And I'm not convinced that that's right, I'm not convinced that that is giving good value. And certainly, in some areas I'm more than definitely convinced that it's not. So we see lots of different areas that you can play that theme in, whether it's, you know, simple things like in America, up until 2020, unfortunately COVID took the third place of most likely reason to die in the US in 2020. But up until then it was adverse drug offense was the third most frequent illness to die from. And that is put simply just taking the wrong drugs or taking drugs together that you don't fully understand the impact of how they work together and quite frankly, in year 2020, that sounds nuts to me. So, we own a company called Tabula Rasa that help people who take multiple drugs to take them at the right time, make sure they take the right one, that has the impact of greatly reducing people's, you know, time in hospital for these adverse drug effects. So it brings down costs. It increases – rather it reduces the risk for the patient. And also really importantly it enables those patients to be more independent. A lot of patients that take five or more drugs are, you know, of the older generation, and they might not want to go into a home. And as we saw over, COVID it wasn't a place you wanted to be either.

That's not the only way we look at it though. We've got other companies, we've got another company we own called Sensyne that is a UK based company that's using AI to help reduce the time it takes to get drugs to market, help reduce the costs involved in getting drugs to market. Also again, helps with looking after patients in the setting of a hospital, you know, up until very recently, all patient, sort of, notes were done by hand, which is quite frankly again, crazy, where we are in the rest of the world. So putting that data onto a database, using it, being able to monitor patients that aren't at the hospital, you know, maybe you can monitor diabetics. You can monitor people with health problems, with lung disease, with asthma, and you know, keep them out of the hospital as much as you have to. And they only come in when they have to, you know, these are all really powerful ways to make patient's lives better and to make healthcare and to reduce healthcare costs so we can do both. So that is a key area for us.

[4:37]

DM: An interesting company that I see in your portfolio is Beyond Meat. Tell us a little bit more about that and why you find that so attractive?

NG: Well I'm going to talk about this personally because it is very personal to me. But through a healthcare problem of having had gout, I turned vegan a couple of years ago, and it was one of the ways I decided to manage that personally both in terms of weight and health sort of impacts that could have. I found that's worked very well for me personally, and that got me interested in the whole subject. So, I started to read deeper and deeper into the health benefits of eating less meat. I'm not going to say no meat or no dairy, but a lot less dairy than many of us eat today. The sort of obvious ones being weight, but there's others as well, but also perhaps more important, the environmental impacts the, you know, our desire to eat so much animal- based products has - I'm going to leave the ethical ones to one side - because that might make some people happy and some people unhappy, but you know, the sort of the environment ones are extremely powerful.

You know, this is a huge - between the two of meat and dairy, you're talking upwards of $3 trillion a year industry and you know, eating no, eating pure vegan, if everyone turned pure vegan tomorrow, we'd use 99% less water than we do today. We'd use 93% less land and we'd have 90% less greenhouse gas emissions than we do from farming animals today. And put really simply, you know, we are feeding a cow lots of stuff that we could eat, and it's not very efficient to do that. And we can, if, if we all had, you know, two days a week where we were vegan or whatever it is, you know, reduced our animal intake, we could have a material impact on greenhouse gases. So whilst we focus on flying and we focus on cars and we focus on other impacts, this could be a material you had to, you know, and the 93% less land is a huge one.

DM: Yep.

NG: You know, you could just, that could be used for, you know, sort of regrowing trees, rain forest, natural environments, wherever you want, really. So there's lots of reasons to believe the plant-based market will grow. You know, it will take some of that $3 trillion and it is, you know, it's growing much faster than the meat industry. And I believe that will continue. I don't believe for a second we're anywhere close to getting that to a hundred, but we, you know, it's at 3% today, the plant-based milk markets at 13%, there's very little reason to believe that, you know, it can't get to 13% and beyond, you know, over the next three to five years. And Beyond Meat is a company built purely on its success, lives or dies on its plant-based products.

So, you know, it's most well-known for its burgers, but it's recently launched chicken. It's got sausages, it's got, you know, other beef products as well. And the company has been around since 2009. Its very fibre is built on the success of plant-based, the success of them as a brand, maybe versus a lot of these other plant-based brands are out there that area small part of a much bigger food company. So the founder of Beyond Meat is very passionate, understands the subject very well and has built an amazing brand. And I fully expect that brand to continue to be number one for many years to come in the plant-based meat arena. And there is an opportunity as an investor as well as doing some good and having a positive impact. I believe we'll make money over the next five years.

[8:25]

DM: So we've done health and we've done meat alternatives. What about education? I see you have a couple of stocks in the education sector. Has there been any read through to the wobbles caused by the market with the China clamp down or making profits in education sector? Or is that a blip and tell us a bit about the social impact some of these stocks could have going forward.

NG: Yeah. I mean, we're very lucky that we don't have any direct exposure to the issues that happened in China. When you dig into the issues, I guess this is my view because I'm not close to Chinese education stocks particularly, but it does seem like there is some sense behind what is going on. You know, there seems to have been very much a big focus on getting your child into the very best university and paying lots of money. And lots of that child's time, you know, outside of school hours, having this sort of extra-curricular education focused on them that they didn't necessarily want. They often failed. You know, people would spend a large amount of their sort of monthly wage on education over and above the normal. And it was probably a bit unfair on the child and probably didn't actually work very well. So I can kind of understand what they're getting at.

More positively, I think as with healthcare, education is one of the areas that has seen material increasing costs for no gain in terms of experience, really, you know, we still educate people standing in front of a classroom and talking to them largely, we still educate mainly to the top level. Only the people that can afford it and probably need it the least. So we, you know, we need to get better. We need more diversity. We need more chance for people in countries, not as lucky as ourselves, to have a good education and the companies we own like Coursera, like Chegg are helping disrupt an industry that was ripe fo r disruption frankly. They made better use of a university in terms of the access to professors is better - the professors can reach more people by doing classes online. And again, this is a sector, which has probably seen the boulder pushed down the hill now by COVID because they could protect their IP before, but it probably is becoming ever harder to do that. And ever harder to justify that, and rightly so.

You know, if we will, if we're serious about diversity, it's not just about any one part of diversity. We need to attack all parts and, you know, class and education is a key to that. And we need to be able to educate people cheaply and quickly. Some of the people, some of our kids are going to live until they're 150 - is educating them for four years before they start a career the ideal way to do it? Maybe they need two or three trips to an education establishment in the future. So I do think things are going to change slowly, but they are going to change and they are starting to already, which is really exciting. And we want to be part of that journey.

[11:45]

DM: I see you can have a whole 20% of the portfolio in bonds. Whilst I know you want, you aspire to be the top performing global growth fund, that seems a bit different. Do you have much in bonds and are they sort of green or social bonds or anything specific?

NG: Mate, Darius, you're far more eagle-eyed than I am. I mean, in my head that 20%, it was purely for cash and that's the way it shall stick. You know, and again, we don't even expect to use it for cash, to be honest, I think if someone employs me to be an equity investment manager, they want to be invested in equities. So I don't believe to see it often to see our cash above 10%, but we have that flexibility, you know, cash flows, et cetera, to use up to 20%. But I can't imagine a scenario where we're ever using that to invest in bonds, no disrespect to bonds…

[12:42]

DM: Well, we won't waste any more of your time on that then. Well, let's talk about, so engagement - another big part of your process. It's a big part of the ESG responsible investing movement asking companies to set targets on diversity and all those sorts of things. Can you tell us in sort of basic language, what does engagement mean for you? And if you could maybe talk us through an example where you're trying to help a company improve on certain aspects?

NG: Yeah. I mean, as you know yourself, you know, engagement, I mean, it's such a big subject and it can happen in so many different ways. Some of it's, some of those ways are positive - you're helping companies and some are negative - you're engaging with them for issues. So it's a really big subject matter and people do it in different ways, you know, and I'm not saying there's any right or wrong way. We choose to invest in companies where the product is pretty clearly, obviously already having a positive impact. So we're not likely to engage with the company about improving their products, per se. You know, we're not investing in an oil company, in the hope to get them to reduce their fossil fuel sort of levels. And that is not to say that that's not really important. I do believe it is, but there's others more skilled at doing that than me and our team - we're focused on disruptive technologies that can help force that change from a different angle if you like.

So our focus tends to be more on the engaging on the sort of side of practice, more than products. So things that you've already bought up, one that's very important to us - really simple, at that is every single company we have we ask, has the company got a net zero plan? And if they haven't, when will they have? You know, that is the key number one question that we ask every company we meet. And you get some varied answers. Most of them are, at the very least, getting there in terms of understanding what they need to do and what I need to say, many of our companies are very focused on it. You know the last question is on Shopify, but Shopify has got already got a net zero sort of target today. You know, actually it's got a target, it'd be negative emissions in the future. So we are very focused on the 'E' and the easiest way to do that in our view is the company's focus on net zero.

But as you mentioned, as well there's many social issues, we want to engage on. I'd say, number one, top of those is definitely diversity, both because I can see the huge impact it can have on a company in terms of opening up new markets, opening up new members of staff, all the good stuff they can do if they engage in it. But we want to know that they are doing that. You know, group think is still far too common in far too many industries, including my own, by the way. You know, thinking away from the box, thinking away from the herd is still frowned upon far too much. And we've still got a lot of work to do on diversity. So right after we finished the question on net zero, we move on to diversity policies.

I guess one, I'll give you an example. One thing I'm really happy, proud of, as a fund manager of a positive impact fund is because we focus on many small and mid-cap companies, we get C suite, exposure. You know, we get to speak to CEOs regularly, even as a small fund, we get to feel like we can have a material impact. I can think of a company we spoke to fairly recently and they had a poison pill. When we said to them, we don't think it's appropriate. We get poison pills. We don't think it's appropriate that you have one, you're a company that's more than 10 years old. You move into profit bids. The isn't it about time you take it off. You're just saying, you've gotten this poison pill in place, which basically prevents people from taking over the company without management permission. You've basically got this in place just for yourself. If you keep it in much longer, and three months later, they decided to remove it. You can feel like you can have real impact when at engagement level, when you're invested in smaller companies. I'm not always sure you can feel that when you're investing in some of the bigger companies.

[17:08]

DM: So let's talk about one of your bigger companies, and you've already mentioned it in your last answer, Shopify. Tell us a bit about the positive impact that Shopify have and what, why you like the company today?

NG: I mean, it's been really interesting to watch Shopify work over COVID and it's really showing the power of the business model. Very simply my thing on Shopify is it arms the rebels. So what do we mean by arms the rebels? It gives anyone a chance to run a business online. And, as we all know, we've seen the Amazon effect hit the high street you've seen the Amazon effect hit small businesses and Shopify essentially, in our view helps fight back against that Amazon effect. I'm not saying I even think the Amazon effect is bad, but it has sort of stymied some entrepreneurial-ism in the consumer area, especially, and Shopify is completely independent. It lets you build a brand because it works in the background behind your sort of process and your website, if you like. It's not all going on to Amazon. It's not all focused on Amazon, Amazon, Amazon, -you get to build your own brand. You get to do it quickly, easily, cheaply.

One thing I really like is they do lots of, sort of stuff around helping you manage your stock and all this kind of stuff, but they only charge it for you once you make 2 million or more a year, they give it free to companies that make less than 2 million a year in terms of sales. So they give you a chance to set up your business really cheaply. And anytime you drop back below 2 million, you don't have to pay again. So you only pay each year for certain services once you make 2 million or more. And that gives entrepreneurs and small businesses, the chance to get online and look professional and have the access that many other bigger companies have got, but to do it in the right price. And I think that's really powerful, really admirable. And these, sort of right in that ship of the many good things Amazon has done for the world. I don't want to criticize Amazon too much. It's pulled down the cost of a lot of other things, but it has sort of killed off many in the high street.

[19:26]

DM: So just then very last closing remarks, because I want to talk about growth because you don't hide this. You are a global growth fund with a bias to mid and small size companies that can make a positive impact. Nice and easy. But you've said about Shopify’s business but what sort of growth is it having at the moment? What sort of growth? With COVID it’s gone through the roof?

NG: I was going to say, it’s probably quite an unfair question for me to answer in many ways. I mean, it was triple figures comfortably over 20, and that's come down a bit, but it's still very high double figures. And you know, that is largely driven by unfortunately, the sad, you know, thing that was the COVID pandemic, but whilst I fully accept and fully believe that, of course we are not going to just all go to permanently e-commerce and all that kind of stuff, e-commerce was on a nice trend. We've essentially, I mean, yeah, Tobias, who runs Shopify says it much better than me, but he said something around “we’ve brought e-commerce forward 10 years and we're not going back”, you know, and that's, and that out simply, most of those companies…

And what's been interesting for Shopify is, Shopify really was purely about arming the rebels as it got smaller but through COVID, you know, you've seen people like Lindt chocolates and some quite big names starting to use the Shopify engine to sell their products. And you know, they're not going to go back, they've seen the power of the engine as well. So yeah, I mean, this is a company, you know, super growing, super-fast, super exponentially, which means, you know, repeating the growth again and again and again, and that growth getting bigger, you know, it's a £100 and that is £200, £400, now £800. This is a behemoth that's going to grow 20% plus for the next five, 10 years again, in an industry that's growing really quickly and can have a positive impact.

And let's not forget, people do forget when you talk about the SDGs, part of the SDG is spreading wealth better. You know, entrepreneurial-ism all that stuff people can be dismissive of a Shopify as it’s just another large cap, you know, Amazon-type stock, just out for the own company, but spend any time listening to Tobias, any time looking at the way they're trying to manage their carbon footprint with negative carbon in the future. You know, this is a company that's trying really hard to do things in the right way, has the right sort of spirit behind it and has grown like that and is helping other companies grow like that. So I really admire them for that. The growth is exciting, what they're doing is exciting, and it's exactly the type of company that we like to look for: high growth, high impact.

DM: Perfect Neil, thank you very much for running us through your strategy and some of the themes and opportunities that you see within the global growth sectors. If you'd like more information on the Artemis Positive Future fund, please visit fundcalibre.com and don't forget to subscribe to the Investing on the go podcast, wherever you choose to listen to your podcasts from, thank you very much.