

TRANSCRIPT: EPISODE 397

21 May 2026 (pre-recorded 14 May 2026)

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[INTRODUCTION]

**Staci West (SW):** Welcome back to the Investing on the go podcast brought to you by FundCalibre. Today's interview explores how innovation is reshaping global markets through sectors often overlooked in the traditional mega-cap tech names.

I'm Staci West and today I am joined by Graeme Bencke and Mikhail Zverev, co-managers of the Amati Global Innovation fund. So thank you both for joining me.

**Graeme Bencke (GB):** Pleasure.

**Mikhail Zverev (MZ):** Pleasure.

**SW:** First, let me just start with a congratulations on recently being awarded an Elite Radar rating from FundCalibre. So well done to both of you and the team and the fund. Congrats.

**MZ:** Thanks very much.

**GB:** Thank you.

[INTERVIEW]

**SW:** Now this is your first podcast with us, so I wanted to take the opportunity to just properly introduce the Global Innovation fund, to kind of talk through your approach and process before we then move on to where you're currently seeing the opportunities and more specifically, you know, innovation today.

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So let's start with some broad strokes. How would you describe the Amati Global Innovation fund? Because to me, innovation can sometimes just be synonymous with tech investing, but your approach feels a little bit more pragmatic, I think. So maybe just what are you trying to achieve with this strategy? And we'll go from there.

**MZ:** Of course, we are high conviction, highly active global equity fund. Our purpose is we invest in companies, we find companies that benefit from innovation and technological change, but whether this benefit is not fully priced in by the market. So the market is not efficient in understanding and pricing the implications of innovation, and we're capturing some inefficiency of this opportunity for our clients.

And you're right, we look for innovation across sectors. We typically have 4 to 6 sectors in the portfolio, but we do naturally gravitate to more innovative sectors like healthcare, like technology, like industrial, aerospace and defense.

We have very active approach. Our active share, which is a measure of our overlap with the index is 99%, which means we're almost completely different virtually no overlap with the index. And we find opportunities of the beaten track. We go to exciting and technically complex area of innovation because that's where the opportunities are often. But we combine that with valuation, discipline and focus on profitability, cash generation strong balance sheets.

We often say we invest in good businesses, not science projects, not least because most of our families financial assets are in this fund alongside our clients. So there's discipline. This risk awareness really matters to us.

**SW:** And one of the more distinctive parts of this process for me when I was looking at it, was the way that you divide companies into kind of three buckets. You've got pioneers, enablers and adopters. So can you just briefly explain that framework a little bit more for listeners? I know, we'll get into it, but just briefly, what does that mean and look like?

**GB:** Yeah, yeah, you're right. This is a bit different to other innovation funds. So we look at how innovation impacts the whole value chain, for whatever the innovation frontier is. And we're looking for ideally the best businesses at the most attractive valuation for their growth. So effectively the optimal risk reward, if you like. And in doing that, we do consider what we call pioneers. So these are the creators or the inventors of the innovation, but also enablers, which are supporting companies, think of picks and shovel suppliers, if you like. And then also adopters. These are the companies that benefit from whatever the innovation is, they're implementing it into an existing business.

**SW:** And then why this approach? You know, why not just back those companies with new tech coming out and focus on those?

**GB:** Yeah. Well, we've been doing this a long time and you know, we've kind of discovered that sometimes there's a lot of risk in the early stage companies. So the pioneers, they're sort of the poster children of innovation, if you like. So they capture investors' attention first. Sometimes they offer the best opportunities, but often we find that they can be overvalued and overhyped by the market. And if you think about it, they're frequently quite financially immature businesses, early stage fast growth. So they can be loss making, they're probably burning cash. And they might be dependent on a single product or, you know, have a kind of binary outcome risk associated with them.

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And the point of our approach is to try and broaden the opportunity set so we get access to the innovation, but not taking those risks. So it gives us more shots on goal, if you like, and helps us to find that optimal risk reward that I mentioned. It also helps us to diversify the portfolio risks. So by, if we have a combination of these pioneers, enablers and adopters, we can flex the portfolio construction through the investment cycle and go where the value is at the time.

**SW:** And let's try and just bring that a little bit to life if we can. So I wanna break down each of those three areas. So let's start with the pioneers. What kind of businesses would fall into that kind of bucket? And maybe if you've got an example?

**MZ:** Of course. Yeah, I mean, they're the inventors, the creators of technology you know, think Tesla and electric vehicles that this kind of flagship poster child of disruptive innovation, they have the unique IP, they have the visionary founders. They sometimes disrupt the markets they participate in. And Tesla, you know, in Tesla's case, is a very large global market, EVs, autos in general, but they could be niche and still very lucrative markets.

For example, one of our portfolio holdings tackles the market of RFID tag chips for logistics and retail automation, but it's a pretty exotic space. This company, Impinj is the pioneer, basically pretty much invented the technology in this modern form and is a dominant leader in making these chips. And to give you a sense these chips now go to every UPS parcel in the US. Every Uniqlo garment that you buy in the shop has a has one of those on their price tag. And they're even going into food packages, individual food packaging, grocery store. So exciting market, albeit niche and Impinj's the pioneer behind that technology.

**SW:** And so pioneers might be those kind of headline grabbing, you know, a Tesla like you said. But then you've got your enablers. So could you give an example of a enabler business and then maybe, you know, explain how it benefits from this innovation trend without maybe being an end product?

**MZ:** Of course. Yeah. The best way to describe it, they're the picks and shovel suppliers. They supply components, ingredients services to the pioneers to making pioneers innovation work. And often they're already growing profitable businesses, supplying a number of end markets. And this innovation development, this technological change expands the market for whatever they do for their widgets and further accelerates their growth.

So for example, to pick Tesla, we don't own Tesla, but a key enabler to the electric vehicle value chain is power semiconductor industry. So this chips, they very unique design. They're sometimes different materials. They're not even made from silicon anymore in traditional shape. And the leading supply of this power semiconductors that manage this kind of hundreds of volts of power in electric drive train is Infineon a German company. The whole industry is a very consolidated, very profitable industry and Infineon benefits regardless of which electric vehicle brand wins, whether it's Tesla, Volkswagen, or BYD in China.

**SW:** And then our final kind of bucket that we've got is this adopters, which I think to me is particularly interesting because this is maybe not what would be a traditional innovation company. So maybe explain that a little bit more.

**GB:** Yes. Yeah. This is the one that gets the most questions often. So adopters, these are companies, think about kind of more mature companies that can take the innovation and implement it into an existing

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business. So we think of them as sort of fast following companies if you like. So they might be companies that have an existing customer base or product range or data set, even something that's aligned with the innovation where they can take this technology or change and grow their business. So either faster growth, higher margins, something that makes the business more valuable.

And an example of it in our portfolio would be something like LabCorp. So LabCorp's the leading US clinical diagnostics business they have a huge customer base. When you get a blood test done, it probably goes to somewhere like LabCorp. So they have this big infrastructure of labs and logistics across the US and elsewhere. And so as the life sciences technology industry grows, the number of different diagnostics tools and tests, LabCorp adopts these into their network, and then that adds to the test menu they can offer, grows the business, makes them more valuable to their customers.

**SW:** And then is there a certain market environment where one of these categories will outperform the other, or maybe underperform?

**GB:** Yeah. Well, I think if you think about when there are periods where a particular area of innovation would be very popular, and in that, you know, catches the attention of the market pioneers tend to outperform in those situations, but that often leads to those stocks becoming overvalued, especially if the market's kind of in a exuberant mood and capital is freely available, as we've seen for periods over the last decade or so.

During those periods, investors tend not to care so much about profitability and cash generation, but ultimately reality reasserts itself. And then you can get quite brutal corrections. So when we launched the fund, for example, which was back in 2022, just after the peak of the kind of post COVID zero interest rate boom a lot of pioneers didn't look like good value to us, so they weren't a good risk reward combination. So at the time, they represented a very small portion of the fund. But that has changed as we've gone over time.

**SW:** On your website, you talk about, you know, innovation frontiers and identifying these frontiers. What exactly makes something an innovation frontier? What does that mean?

**MZ:** Yeah, I mean, we have a very specific innovation test which answers this exact question. So every company and every innovation frontier that gets into the portfolio has to pass this test. And what we're looking for is innovation that addresses a clear industry need and in a differentiated way. So it's relevant, it's differentiated that serves a large and growing market. So if it is successful, if the company behind is successful, there's the kind of large dollar value to go after. But crucially we look for innovation that's already being adopted, and we get to participate in that proliferation, this ride, this adoption curve.

So we don't imagine potential future applications of technologies like quantum computing or data centres in space, or flying taxis, which are exciting areas of innovation, but they haven't yet yielded very practical results. So we sometimes joke, we look for the future that's already here, just not even distributed. It's very kinda practical, pragmatic approach, rooted in reality on the ground, bottom up industry research.

**SW:** And you did mention there that, you know, this isn't a portfolio that is a third, a third, a third in these buckets. You will add to more, less than some when markets and opportunities arise. But are you also, you know, naturally long-term holders of your companies, or does the, you know, innovation elements of investing just require you to have a more active portfolio as these technologies evolve and to pull and dip into these different levers and buckets as we've kind of gone through?

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**MZ:** Well, it's kind of yes and yes. We're pragmatic long term investors. So we take a three to five year time horizon. That's the time horizon in which we can build forecast of the the adoption and the impact of this innovation with some confidence based on research and get data points that we can gather. We, you know, longer than that becomes visionary thinking and sometimes borderline speculation.

Of course we review our positions continuously. So if the facts on the ground change, if new risks emerge, our convictions may change as well. And the other thing to mention here is that the market has become more volatile and more short term, there are pretty interesting structural reasons behind why market participants had become such shorter term investors.

But it means that we often get a chance to add to our positions when the market is attracted by some short term transitory cyclical headwind, which really affects the share price. But the underlying investment case in our time horizon is intact. So we get to pick a bit more of our shares at a better price when this kinda disruptions happen.

**SW:** That's first an amazing introduction to this fund and feel like we've already covered so much of what you do, but I do want to kind of spend the second half, if you like, looking at what is actually going on in innovation and markets and opportunities because it's so interesting and it would be remiss if I didn't probably start with AI as it, you know, dominates so many headlines.

So I am gonna start there a little cliché but where are you seeing the most attractive opportunities within this kind of AI ecosystem? And then, you know, maybe are there areas that are overlooked because you have so many of these mega-cap names making headlines that we're actually just missing a really interesting story?

**MZ:** Yeah, I mean, no conversation is complete without AI and for right reason. It's a very impactful area of innovation. We are, I'm going to use this word again, pragmatic optimists on AI. And that means we see a lot of practical, valuable applications of technology today on the very foreseeable future, but we're not betting our client's capital on a complete paradigm shift to sort of societal transformation, artificial superior intelligence.

So, you know, this is an area being talked about over the course of our existence, which is almost four years now, we'll turn four as a fund in June and Magnificent 7 mega-cap tech names were the consensus AI bet. And at the start of our fund, about three years ago up to about three years ago, we did hold Nvidia, but we're still in the non-consensus idea. But we have taken profits at the point where we could no longer sit front of you and our clients and say, hey, we've discovered this undiscovered theme and this undiscovered stock Nvidia, you know, people would laugh us out of the room.

We felt that by design, we haven't held any Mag 7 stocks in the past three years because the purpose of our fund and our processes to identify opportunities which are not yet on everybody's mind in the front page of the news. And so after we sold on Nvidia, our exposure to AI has what we saw is that the training and the deployment, the practical application of AI models will require capturing, storing, and crunching enormous amounts of data. And that has to happen in memory, in memory semiconductors.

We also saw that volume and speed of data transfer required for the AI systems to train and function as becoming such that it's no longer feasible to use electronics. So we can't move electrons in wires fast enough or efficiently enough to make it work. We have to move photonics and optical communications moving light in optical fibre. And the interesting thing for us was the suppliers of memory semiconductors and the suppliers of photonic components are consolidated, disciplined industries, profitable industries, and the

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stocks that we've picked, SK Hynix and Samsung Electronics for memory and momentum and <inaudible> for photonics reaped huge benefits from this change and were strong contributors to the fund over this period.

**SW:** And the first quarter of this year, 2026, has already seen a lot of geopolitical and macro uncertainty. How has this kind of environment affected the opportunity set for innovation? I know that in a recent update you highlighted defense technology as kind of an area. So maybe if you can tell us a little bit more about that defense isn't maybe a natural place that you link with innovation.

**GB:** Yeah, it definitely is. In fact, we've been investors in defense since we launched the fund. So just almost four years ago before it was kind of fashionable if you like <laugh>. And we saw at the time that defense spending was rising and needed to rise. And also we could see from the way warfare was changing that there was a more innovative response to warfare that was needed. And some companies were adopting that and focusing on it. And also just those huge tailwind there of kind of the need for the West to re-industrialise its defense network, its defense industry because lack of investment for the last 30 years, the previous 30 years. So we had these strong compounding drivers of growth in defense. Now there are a particular number of areas that we focus on.

We're quite, as you kind of guessed so far, we're quite targeted. We're quite bottom up and granular in our approach. So we look, we focus on drone and anti-drone area of defense cybersecurity, which is another really big area, particularly for the intelligence community and space. So there are a lot of sensors being put in space for things like missile defense, if you think about US Golden Dome program. So we own a number of stocks that cover these particular sort of granular areas.

As far as this sort of broader geopolitical macro uncertainty we are looking for, we're trying to look beyond shorter term fluctuations in the market. So we're looking for structural and technologically inevitable innovations. So the whole point of having a three to five year time horizon is to look beyond the shorter term sort of volatility periods, if you like, in the markets. And we are confident about being able to do that because our companies, as discussed, are profitable, their cash generative businesses, they have strong balance sheets. So they're gonna be there through those periods of more difficult markets.

**SW:** I was gonna say, is that sometimes easier said than done overlooking these periods of noise.

**GB:** You have to hold your nerve. But I mean, if you know that the company is generating cash and is not at risk of any terminal problems, then you can afford to do that.

**SW:** And you had made a point in a recent update on the fund that periods of pressure can actually accelerate the need for productivity enhancing innovation. So maybe just expand a little bit on that — what that means and how maybe you've seen opportunities come out of it.

**GB:** Yeah. And I mean, no doubt if you think about it companies respond to pressure. So changing market conditions, changing geopolitical conditions. Good few examples at the moment, you know, de-globalisation, which is happening because we've seen problems with the supply chain from countries that we thought were reliable proved not to be reliable without naming any names, but that's driving more reshoring, nearshoring, friend-shoring as they call it of manufacturing. And as a result of that, we're seeing more demand for automation, more demand for things like industrial machine vision.

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Energy costs are going up for reasons that we all know about that drives more modernisation of the grid to try and improve efficiency. More electrification of areas that have historically relied on fossil fuels. A lot of innovation there. And more broadly, just even demographic trends. So aging populations that's driving more demand for, again, efficiency in healthcare. So more diagnostics to find and treat diseases early before they become acute and more costly. And we have stocks in the portfolio that are benefiting from all these trends.

**SW:** Do you think that there's an area of innovation that markets are just a little bit too excited about? They're getting a little ahead of themselves?

**MZ:** Oh, I mean, the inefficiency of the market works both ways. So some things are underpriced, some things can become overhyped. We see huge investor attention kind of complete sort of spotlight if you like. And with some elements of unquestioning optimism and high retail retail participation, individual retail investor participation in stocks which is sometimes a signal of excess popularity in some areas of AI ecosystem. And we don't know if it's wrong <laugh> but we're not calling the top of the market there. But we no longer have a non-consensus positive view either. So we don't want to expose our client's capital to this part of the market, which is why our AI exposures were alluded to just before continues to evolve.

Conversely we also see some very interesting emerging innovation areas where market is already ascribing significant value to the opportunity, but the practical implication is still unclear. We're still figuring out how to use these things, will they work and who will be the winner? It's not clear to us. And the participants of this emerging areas of innovation are not yet profitable cash business models. They're not just yet businesses as we think about them. So I would highlight quantum computing and EV tolls, which is the vertical takeoff and landing aircraft. So flying cars, you can call them are such areas, they're listed companies, they're valuable. They're worth billions, but our more pragmatic approach keeps us on the sidelines.

**SW:** And so do you think there's an area of the market that people are failing to appreciate that you are already seeing? But maybe your peers or the wider headlines and things are aren't really seeing the same value you are?

**GB:** Yeah, there's a few, but I mean, probably the most obvious one for us is just life science tools. So this is an area where there's a huge amount of change and development. You know, discovery is improving through just new techniques. If you think about the move away from sort of genetics towards proteomics, this kind of development in biology, deeper, deeper information in biology, also augmented by AI, just faster, more drug sort of compounds to be explored. And so we're seeing a huge demand for the technologies that are serving that industry in including areas like lab automation.

But at the moment that's being somewhat ignored by the market because we've seen some transitory headwinds. You know, there was a bit of a de-stocking post COVID led to a bit of a boom in investment. And then there was a de-stocking period. And more recently the Trump administration has been quite aggressive in its treatment of US research organisations and universities and kind of defunding them in the short term. We do think that's a short term process and that that will come back strongly over the next few years. So this is an area we really like, but we think the market's ignoring at the moment.

**SW:** And we've had an excellent introduction to the fund, what's going on and different kind of opportunity sets what's maybe being missed or overlooked or overhyped. But if you really just wanted listeners to take away one thing about your approach to innovation, what would you want it to be?

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**MZ:** I think we'd emphasise that innovation creates really exciting opportunities for stock pickers. But the way to capture them is through good businesses, not science projects. So focus on valuation, profitability and cash generation would be this — it's a long sentence. It's not quite funny, but, we strongly feel that this combination of, you know, be excited about the exciting opportunities innovation brings, but don't fall in love with science, focus on real good businesses, not science projects.

**SW:** And then I guess on that note, finally looking ahead maybe let's say five to 10 years, which innovation trends do you think could have the biggest real world impact? Maybe we talked about it or maybe we haven't already.

**MZ:** That's a really interesting question to ask, but we're really equally interested in the next medium sized things, if that makes sense <laugh>. So we're looking for areas of transformational change and rapid growth that happened in a niche. It's a compelling niche, but they do not dominate global headlines. That's not something that the acronyms that people know yet widely. And if it's as a result of, let say a 3 billion market cap company becomes a 30 billion market cap company, or in 15 billion market cap company, there are still really compelling returns for our clients. So if I'm going to focus on this selection of medium sized things, because that's where we tend to find really exciting areas one which Graeme alluded to is radiopharma.

It's transforming our understanding of human biology on the protein level, and that gives rise to new drugs and new diagnostics tests. Another is RFID, the ultimate Internet of Things technologies, permeating all areas of commerce from supply chain logistics to retail. And you know, we have visibility of things like getting life inventory of your fridge by just waving a mobile phone on it. This technology is not far away from us.

Radiopharmaceuticals, you know, pretty obscure subject, but it's transforming the way we diagnose and treat many potentially very problematic types of cancer. And the other one, which we've been adding to the portfolio recently is ubiquitous machine vision. So robots and industrial equipment are getting eyes, sometimes many, many eyes per robot, like spiders eight eyes for a machine or robot <laugh>. And it's in multiple stages of manufacturing process. And it brings better quality, it brings increased safety and efficiency and it's happening today.

**SW:** Incredible. That was so interesting. Not just for an introduction into the fund, but so much of what you look at isn't maybe what is naturally associated with innovation. So thank you both for spending so much time with me today to go through quite a lot of information. It is very much appreciated. And congratulations once again on the elite radar rating.

**MZ:** Thank you.

**GB:** Thanks very much.

**SW:** New to our Elite Radar, the WS Amati Global Innovation fund is an unconstrained global equity strategy that invests in companies benefiting from impactful, real-world innovation. The managers' willingness to scour for lesser-known companies and take high-conviction, off-benchmark positions gives investors a genuinely differentiated product. To learn more about the WS Amati Global Innovation fund please visit [fundcalibre.com](http://fundcalibre.com) and don't forget to subscribe to the Investing on the go podcast, available wherever you get your podcasts.