‘Eclectic mix’ of stocks drives innovation fund

By Thomas Rice
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BioNTech, the German developer of the Pfizer COVID-19 vaccine, was the biggest contributor to performance during the quarter but it was supported by a range of high returning but uncorrelated themes.

The Global Innovation Fund bought a position in BioNTech in February and added to it in April on the thesis that MRNA technology would be the biggest beneficiary of COVID variants and that revenue from the vaccine would be funnelled into an exciting pipeline of oncology treatments, making them one of the world's best-funded biotech start-ups. The stock rallied almost 100% from our buy price by June, leading us to reduce the position. We loved BioNTech at $118 but reduced the position above $230 in favour of other positions. However, we continue to be excited about its potential to address variants and its pipeline for the treatment of other diseases.

Twist Bioscience was the second biggest contributor during the quarter and the biggest contributor over the financial year. This was a position we actually exited in the March quarter at $192.50, a price we felt didn't offer compelling value. We were lucky that Twist got caught up in the broader sell-off of high growth stocks earlier this year, giving us the opportunity to re-enter the position in May and June at an average price of $97.61. Often volatility works in your favour if you're an active investor with the capability to act on the new opportunities being created by the market every day.

While Twist was the biggest contributor to fund performance over the year, it contributed just 12% of the fund's return, with 88% of the fund's return coming from other stocks. This is by design as what we're aiming to do is build a portfolio containing a large number of high returning but hopefully uncorrelated ideas. We think this is the best way to build a portfolio that's both high-returning and resilient. This is why you'll find an eclectic mix of stocks in the portfolio where, for example, a century-old German industrial company like Siemens can sit alongside a young Australian tech company like Nitro Software. The team's ability to quickly look across sectors and geographies to find and assess compelling new ideas has been a key driver of the fund's performance to date.

The fund remains fully invested and consists of a diverse collection of global stocks that we believe will drive strong returns for the fund over the next 3-5 years. The sell-off in high growth stocks we saw earlier this year was an opportunity to buy into new positions at attractive prices, and we think doing so will prove to be the right decision down the track. We're also finding there's no shortage of new ideas that we look forward to sharing in future updates.

Find out more about Perpetual's Global Innovation Share Fund.

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