

Aperture European Innovation

Rethinking innovation in Europe



The latest view from Anis Lahlou, Chief Investment Officer based in Aperture's London office and fund manager of Aperture European Innovation Fund.



Investors naturally associate innovation with multi-billion dollar market cap digital technology companies on the West Coast and in China. But away from what I believe to be overvalued and crowded FAANGs¹, lies Europe – where clusters of innovation seem to be thriving under the radar. From Industry 4.0 in Germany to renewables in southern and northern Europe, to life sciences and pharmaceuticals in Switzerland, I see the 'old continent' as an extraordinarily rich soil in which we can discover mispriced innovative companies.

In the Aperture European Innovation Fund², we attempt to broaden the scope of what innovation means. In my view, the rapid advancement and ubiquity of technology means that the line distinguishing tech stocks from other sectors is becoming blurry and it no longer makes sense to look at individual sectors or themes when gaining exposure to innovation, such as robotics and fintech, for example. That's why I try to focus on fundamental, bottom-up stock-picking to select the European companies that I believe are leading global innovation and are set for long-term growth, whatever the sector may be.

Picks and shovels

Broadly speaking, Europe may typically be characterised as a manufacturing continent and it is home to many of the world's oldest companies. This may matter when it comes to assessing innovation, because while start-ups and disruptors grab the headlines, it is the so-called 'dinosaur' companies that have the scale to acquire and adopt these disruptive technologies on a mass scale. In addition, there are many companies in Europe that manufacture the components behind the big-name Silicon Valley companies. They are less visible than the Teslas of the world, but they are essential to the powering the adoption of new technologies.

An example is in the semiconductors space. Given the global penetration of electric vehicles is still only one percent, this is one exciting area that is still right at the beginning of a massive innovation curve. Typically, when an innovative technology emerges, adoption is low before increasing exponentially when it becomes mass market. These 'picks and shovels' are the critical infrastructure that will enable the technological revolution.

Another interesting area of manufacturing that gained critical importance over the pandemic has been life science bioreactors, which are essentially large tanks with the right biological conditions to proliferate cells for use in vaccines and a variety of drugs. Bioreactor systems are essentials for the drugs of the future. There are companies in France and Germany that I would consider to be leading the way in the sector.

As a fundamental stock-picker, I will attempt to allocate to both older established companies and the start-up. For example, Stellantis³, which formed from the merger of Peugeot and Fiat Chrysler earlier this year, from what we see is one of the most profitable mass car market OEMs in the world and also one of the cheapest in terms of valuations; it's also leading the way in terms of sustainable mobility solutions as they embrace electrification, connectivity, autonomous driving and shared ownership.

The very nature of technological growth tends to be exponential, rather than linear. Because of this, investment opportunities lie across a vast range of sectors. Looking ahead, I'm excited about innovation in healthcare, mobile transportation, renewable energy, education, and the many ways in which AI, machine learning and 5G are transforming all industries they touch.

Innovation remains a deflationary force

After almost a decade and a half of low interest rates, the cheap access to financing has benefited innovation and inventiveness. As we enter the reversal phase of tapering and higher rates, innovation adoption should continue at pace: 5G Open RAN for enterprises is in its early days and we are only just getting acquainted with the 'metaverse' world, to name just a few examples. Meanwhile, on a longer term basis, looking beyond current disruption, new technologies such as blockchain have the potential to 'debottleneck' supply chains by enabling instant connectivity and greater logistics transparency.

As the consensus narrative starts to build a wall of worry about rampant inflation, the adoption of multiple innovations inevitably accelerating should continue to act as a deflationary force, this time helpfully counterbalancing rising costs. In the first nine months of 2021 for example, American factories and industrial users ordered a record 29,000 robots valued at \$1.48 billion. This is more than the previous pre-pandemic peak set in 2017, according to data compiled by the Association for Advancing Automation⁴.

Valuations: P/E vs. EV/Sales

Inflation and rising rates generally hit growth stocks the hardest. However, stocks where revenue growth is financed with negative earnings and/or cash flows are likely to face an even higher hurdle rate, especially if they require further funding to establish sustainable margins. In what can be considered the growth segment, this is an area where Europe seems particularly cheap with less than 15% of the MSCI Europe IMI Growth index having loss-making stocks vs. over 60% of US Russell 3000 Growth stocks⁵.

¹FAANG": Acronym for Meta (formerly known as Facebook), Amazon, Apple, Netflix and Alphaformerly known as Google)

²A compartment of Aperture Investors SICAV Bet

³As of Nov 26, 2021, the European Innovation Fund has a position of less than 1% O/S in STLA.

⁴Source: BusinessWire, November 2021

⁵Source: GMO, Aperture Investors as of November 2021.

FUND MANAGER



Anis Lahlou is a Chief Investment Officer based in Aperture's London office and the fund manager of Aperture European Innovation Fund. Prior to joining Aperture, Anis spent 20 years with J.P. Morgan where he was a managing director and a senior investor.

For 14 years he managed unconstrained European equities funds with a primary focus on broad technology strategy, long-only and long/short. Anis has developed a passion for all technology-oriented trends and spends his time researching disruption with broad, global implications. He is a CFA Charterholder and received his Masters in Business and Economics from ESSEC in Paris.

KEY FEATURES

ISIN	LU2077747074 (IX EUR Acc.) LU2077746936 (IY USD Distr.)
Inception date	17/12/2019
Benchmark	MSCI Europe Net Total Return EUR Index
Fund Currency	EUR
Domicile	Luxembourg
Management fees	0.30%
Performance fees	30% > benchmark
Ongoing charge	0.43%
Entry fee	Up to 5%
Exit fee	Up to 3%
Management Company	Generali Investments Luxembourg S.A.
Investment Manager	Aperture Investors UK, Ltd

Risk and reward profile



This indicator represents the annual historical volatility of the Fund over a 5-year period. Its aim is to help investors understand the uncertainties attached to gains and losses that may have an impact on their investment. The Fund's diversified exposure to short term debt instruments explains its classification in this category. Historical data such as that used to calculate the synthetic indicator cannot be considered as a reliable indication of the Fund's future risk profile. The risk category associated with the Fund is not guaranteed and may change over time. The lowest risk category does not mean "risk free". Your initial investment is not guaranteed.

Significant risk(s) for the Fund not taken into account in this indicator include the following:

Counterparty Risk: The Fund primarily concludes derivatives trades with various contracting parties. There is a risk that counterparties may no longer be able to honour their payment or settlement obligations. **Operational Risk and Depositary Risk:** The Fund may fall victim to fraud or other criminal acts. It may also incur losses due to misunderstandings or errors by employees of the management company, the depositary or external third parties. Finally, its management or the custody of its' assets can be adversely affected by external events such as fires, natural disasters etc.

For more information about the risks of the Fund, please refer to the risk section of the prospectus.

IMPORTANT INFORMATION

Sources of the data (unless specified otherwise): Aperture

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