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Charlie Lanchester
head of fundamental
active equities Australia
BlackRock

Embracing technology in Australian equities

If every business has a pulse, its beat will be dictated by technology, according to BlackRock Australia senior portfolio manager Charlie Lanchester⁰¹. Lanchester, along with his team are delivering strong returns in Australian equities by running a concentrated yet well-diversified fund, that has added value across the market cap spectrum.

As the Australian head of fundamental active equities, Lanchester believes investors should not underestimate the power of technology to determine the fortunes of any company.

"We spend a lot of time investigating how companies are affected by technology trends," he says. But even more importantly, his team wants to invest in companies who themselves spend a lot of time thinking about technology.

Lanchester says fund managers will do well by not only spotting the emerging tech companies that will make up a larger part of the market in the next decade, but also by focusing on existing companies that are looking at – and benefiting from – disrupting their own businesses.

"A particular area of interest for us at the moment is companies that are investing in technology," he says.

"Existing businesses that are not technology companies themselves, but companies that are using technology to reinvent their own businesses and futureproof them going forward."

Talking tech

A growing number of Australian companies are turning to emerging technologies to build their businesses, and Lanchester believes that by identifying these companies, advisers and investors can build more profitable and sustainable investment portfolios.

BlackRock has identified four key themes that are transforming the way businesses operate in Australia: mobile technology, cloud computing, artificial intelligence and data analytics.

"An increasing number of companies are showing that by reinvesting wisely into the processes of their own business, they are greatly improving the end-customer experience," he explains.

Lanchester believes these companies are attractive from an investment standpoint. Mobile technology, as an example, has changed the way we work, communicate, learn, shop and live: "Although we have over 80% of smart phone penetration, one of the highest in the world, our online retail penetration is only 7%."

The ex-factor

Lanchester says a focus on quality first adds the potential for significant outperformance, particularly in times of market dislocation, "where successful investing is as much about avoiding the losses as picking the winners."

He adds that if a small or mid-cap stock crosses over a particular benchmark, "we don't want to have to sell it because it goes into the top 100 – we're able to keep holding if we still like the fundamentals of the company."

At any given time the fund holds a concentrated investment portfolio of 20 to 40 stocks, permitting the portfolio managers to implement Australian equities strategies with deep knowledge and high conviction. His team believes the sweet spot in terms of delivering alpha is on companies that have anywhere between \$300 million to \$20 billion in market cap.

With 25 years' industry experience, Lanchester said part of the excitement of working in investment markets is that all developed markets have changed and continue to change. And

Technology has had a powerful effect on many industries in the Australian market, and identifying how companies can be improved – or disrupted – has the potential to significantly boost investment returns.

In this article, BlackRock Australia's head of fundamental active equities, Charlie Lanchester, explores how four key themes – mobile technology, cloud computing, artificial intelligence and data analytics – are transforming investment opportunities in Australian equities.

He believes that even in developed markets, change is inevitable, both because of technology and other factors. Which is why when he set up the Australian team, he was able to start constructing portfolios effectively from scratch.

Michelle Baltazar

Michelle Baltazar
Director of Media & Publishing



The quote

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when he set up the Australian team a few years ago, he was able to use that insight to effectively construct portfolios starting from scratch.

"We set up an Australian equity fund (the BlackRock Concentrated Industrial Share Fund) with a blank sheet of paper and designed it based on how we want to invest our money," he says.

With that in mind, the team has excluded the top five stocks by market cap, which are the big four banks and CSL.

The reason for creating an "ex-top five" investment strategy is to address concentration risk that many investors hold. The team is mindful that many Australian equity portfolios, particularly those held by retail investors, are heavily concentrated with the "top five" stocks. These can leave them over-exposed to financial services.

"So, when we take out those stocks, we think we have a much better spread of industries, geographies and types of companies," Lanchester says.

The BlackRock Platform

Lanchester believes the advantage of BlackRock's technology platform gives his team a great edge: "With \$6 trillion of assets under management globally, BlackRock invests heavily into our proprietary investment platform, Aladdin, and we benefit from that."

The investment team also has access to a huge range of companies.

"Even though we are a small nimble fund, by virtue of our index business we're able to access every company in the Australian market very easily," he says.

Having the right people in the team is vital to the fund's success. Lanchester says at a time when the market is highly competitive and highly regulated he wanted to recruit the best people possible to work in his team.

"I think it's a very important part of a successful funds management practice – it's not an individual sport – you need good people around you," he says.

In other words, BlackRock's success is mainly driven by three factors: their ability to spread the risk outside of the top five stocks in the Australian index; their ability to work well as a team; and their ability to build portfolios based on how companies leverage technology.

By sticking to those measures, the fund manager is able to differentiate itself from many of its peers. **FS**

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Figure 1. Ex-top 5 approach adds sector diversification



Source: ASX/BlackRock as of 31 May 2017, for illustrative purposes only



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