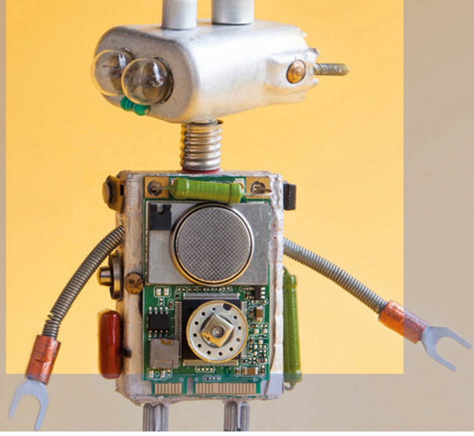

Active is: Investment Insights

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MAY 2021

Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors may not get back the full amount invested.

Walter Price
Lead Manager
Allianz Technology Trust

With over 40 years of experience of investing in technology companies, Walter Price has witnessed the evolution of the technology sector from the birth of the personal computer to the arrival of the internet and now the shift to cloud computing. Based in San Francisco, giving him close proximity to many of the world's most innovative companies, he heads up the Global Technology Team which manages US$11 billion* in assets.

*Source: Allianz Global Investors GmbH.

Does recovery change the outlook for technology?

Technology has perhaps been the most high profile casualty of the shifting market mood, with economically sensitive sectors taking the lead as the global recovery has gained momentum. The high growth sectors that did well last year have pulled back, with investors worried about the potential effect of higher inflation. However, technology is a diverse sector with plenty of opportunity regardless of this changed climate.

We've been adjusting the portfolio to reflect the change in market mood. Notably, we've added more to our holdings in semiconductor and semiconductor equipment companies. There are also opportunities in 'recovery' areas such as travel, but companies need to have worked hard to get their business in shape while they've been out of action. Recovery won't be automatic.

While we've pared back some of the higher growth companies where valuations looked too high, we still have plenty of secular growth companies in the trust. To our mind, the recovery looks to have momentum. US jobs growth is gradually improving and discretionary spending is picking up. It is easy to forget that recovery will benefit high growth technology companies as well, as has been seen in the most recent earnings season. These companies still have a tailwind from the move to ecommerce, digital transformation and adoption of cloud computing. Technology is a big enabler of the 'new way' post-pandemic.

There will be some high growth trends that will ebb as the world goes back to normal. We have all spent a lot of time at home and it is difficult to see areas such as video gaming or day trading fully sustaining their momentum once people have the option to go to restaurants or travel more widely.

IPO market hits new high

The Initial Public Offering (IPO) market has running hot since the start of the year. According to data from Dealogic, the start of 2021 has seen deal numbers and values hit new highs. For the year to date, there have been 875 IPOs across the world, each raising $1m or more. This level of deals was last seen in the Dotcom boom of the late 1990s. While the numbers are partially distorted by flotations of shell companies known as special purpose acquisition companies, or Spacs, it suggests a buoyant market.

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However, not all have been a roaring success. In the UK, for example, Deliveroo's float was disappointing, reminding investors that IPOs still need to be approached with caution.

There are plenty of IPOs slated for the second half of this year and many of them are in the technology sector. We take a look at many of the IPOs that cross our desks, but are particularly cautious in the current market. Too often, the appreciation usually afforded to IPO investors just hasn't been there as new issuance is coming to market at higher valuations. We do the work, meet the teams, test the risks and then try and find a price that makes sense. This is a tricky balance, but patience has served us well.

Semiconductor shortages

From laptops to cars, many sectors are feeling the pinch from the semiconductor shortage. At the extremes, companies have been forced to halt production. The Society of Manufacturers and Traders (SMMT) recently said that the global semiconductor shortage is the most pressing problem facing the car industry today.

This shows the increasing importance and penetration of semiconductors. The economy is becoming more semiconductor intensive. An electric car, for example, has 6x the number of semiconductors seen in a conventional car. As manufacturing companies incorporate artificial intelligence into their processes, they have to store and analyse more data from the cloud. That means a lot more information flowing through semiconductors.

Meanwhile the semiconductor industry itself is changing. As semiconductors become more sophisticated, they are more complex to manufacture. Smaller players don't have $5-10bn for a new plant, meaning the industry has struggled to increase capacity. Add in the disruption of the pandemic and, as we see it, the chip shortage could last some time. This should give semiconductor companies considerable pricing power. We've been pushing up the semiconductor weighting in the trust in recent months.

The Technology Stability Board

For some years, the idea of a global technology board has been mooted. This would be similar to the Financial Stability Board set up in the wake of the financial crisis and would exist to advise governments on technology policy according to a set of internationally-agreed guidelines in areas such as privacy, data and cyber security. The proposal now has backing from a number of high profile names, including Mastercard, Visa, IBM, Qualcomm and SoftBank and was a topic of discussion at this year's G7 summit.

The world is in unchartered territory on technology. There is no precedent on how many different technologies should interact. As such, it makes sense to have a framework, which companies can use to guide their business. The devil, of course, will be in the detail. These should be guidelines rather than a prescriptive set of rules.

It is particularly important in the field of data and artificial intelligence (AI). People's data has been accumulated by social media companies to enable targeting and it is not clear that they understood what was being collected or how it would be used. This is an area where a framework is helpful and necessary. Trading off privacy and efficiency is probably something that governments are better at doing than companies.

Please note that we can only offer information and are unable to provide investment advice. You should contact your financial adviser before making any investment decision.

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