



Active is: Investment Insights

SEPTEMBER 2021

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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.

Investment Insights from Silicon Valley



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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.

The problem of streaming

Cracks are appearing in the business of streaming. For some time, streaming looked as if it would be the dominant choice among viewing options, pushing back cable TV. However, that thesis is in jeopardy. Streaming appears to be under attack from a number of different sources and those that have led the way, such as Netflix, are seeing growth of user numbers slow.

Streaming's original advantage was that it allowed users to watch what they wanted to watch and when. Cable has now enabled that for its subscribers. At the same time, companies such as YouTube, or other ad-supported options, are building traction with users. They are getting a greater share of people's screen time. It is a better option for those with limited budgets, for whom \$15-20 per month may be a real 'no'.

This user generated content has other advantages. Streaming services are spending millions on new content, not knowing whether it will be a hit with subscribers. User-generated carries no such risks. Users create the content - everything from 'how to' pieces to food shows and ad revenue is shared with the content creator. If it's not a hit, there's no cost. They also don't have to wrestle with the news organisations, as Facebook does.

This is emerging as a new and successful model. This user generation model has the potential to curb the growth of Netflix, Facebook or Snapchat and may already have taken over in places such as China. Groups such as TikTok and its nearest rival in China are spending millions to make the platform ubiquitous. This pulls time away from other platforms and is making for an aggressive competitive environment. The landscape is changing and we are watching it closely.

Potential solutions

What potential solutions might streaming groups consider? They may find they're not making as much money because they are spending millions on content production. Equally, they may have reached the upper limit on subscription costs. Disney has hit 7m subscribers, for example, but has hit a wall. It is focusing on international markets, but will these pay the same amount?

The companies are looking at how they can make their services more valuable, justifying the \$15-20 a month. Gaming might be an answer. Netflix announced in June that it had hired a game development specialist to lead its expansion into this new part of the market (1.) The new service is expected to be up and running within the next 12 months.

Amazon Prime is more expensive than Netflix, however people see they are getting plenty of value because it comes with free shipping, music and other services, as well as video. Amazon has also added additional services periodically to ensure it remains good value. In June, it announced it would be buying MGM Movies for \$8.45bn (2.) to bolster its position in the streaming market. Apple is also making huge investments in this area.

Space travel

Technology leaders have been thinking about out-of-this-world holidays in 2021 with Jeff Bezos (Amazon) taking time out from the day job to explore space and Elon Musk (Tesla) apparently booking a ticket on Richard Branson's Virgin Galactic as his own SpaceX developments continue apace. While this could be seen as the self-indulgent whimsy of wealthy people, both have a serious agenda behind their space exploits.

That agenda is subtly different for each of them. Musk believes that there may be a cataclysmic event and if we want to have a chance to preserve the species, we may need to relocate to another planet. He has spoken openly about wanting to die on Mars. "Space travel is the best thing we can do to extend the life of humanity," he says. (3.)

Bezos, in contrast, is saying that he wants to strip all the polluting industries to other planets. He wants to explore the possibility of moving, say, mining to the moon on the basis that humans have already ruined the planet. This would preserve the world as it is. It is the nature of technology leaders to be visionaries, and this is no different.

There may be useful by-products, however. It is certainly likely to reduce the cost of 'extreme' travel. While there are only a handful of people willing to pay \$250,000 to go into space, there might be many more who want to get from London to San Francisco in an hour. The second benefit is putting up 50,000 satellites to give broadband to remote regions. In Wyoming it is now possible to use satellite antennae and get a gigabyte of data, increasing connectivity by 1000x. This could change how we work and where we live. It feeds into the trend for remote working and could help an acute worker shortage in the future.

Is Tesla an ESG stock?

Rating agencies have notably differing views on whether Tesla is an ESG (Environmental, Social and Governance) -friendly stock. Optically, as the world's leading electric car manufacturer, the answer seems obvious, but while MSCI ranks Tesla as the top ESG-performer among carmakers globally, FTSE puts it as the worst. The difference? MSCI giving it a high score for its low carbon production and clean technology, while FTSE marks it down for its factories' emissions. (4.)

The answer is important, giving the increasing importance placed on ESG considerations by investors and policymakers. Tesla appears to take these issues extremely seriously. It has moved manufacturing away from countries with poor labour records, it cares about its sourcing in minute detail. It aims for a circular process, using its solar cells to make electricity, storing it overnight in its batteries and then using it in their cars. Environmental and social issues seem to be at the forefront of its decision-making. Equally, the factories should become vastly more efficient over time.

For technology companies in general, the greater ESG issue is governance. We believe it's vitally important to have proprietary ESG analysis and Allianz Global Investors now stands as a leader in this area. It means we have a dedicated team managing our proxy votes, pushing companies to make their teams more diverse, to ensure remuneration is proportionate and they look after shareholder interests properly. We frequently vote against management and have strong views – we are creditors, not cronies.

1. <https://www.bloomberg.com/news/articles/2021-07-14/netflix-plans-to-offer-video-games-in-expansion-beyond-films-tv>
2. <https://www.thetimes.co.uk/article/amazon-makes-mgm-prime-viewing-xj8x7fd53>
3. <https://www.vanityfair.com/news/tech/2013/03/elon-musk-die-mars>
4. <https://scmdirect.com/wp-content/uploads/2019/11/SCM-Direct-Greenwashing-Report.pdf> - p11



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