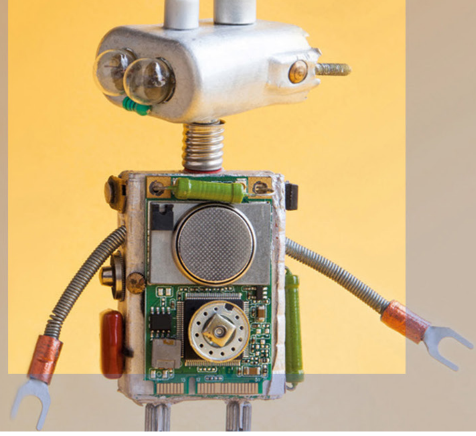

Active is: Investment Insights

www.allianztechnologytrust.com

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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

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.

The other Covid weapon: supercomputers

Amid all the excitement over vaccines, or new drug therapy, there is one under-the-radar champion in the war on Covid-19 – supercomputers. Supercomputers are also playing a role in tackling other major global challenges such as the climate crisis.

Supercomputers are much faster than regular computers and allow the processing and analysis of vast amounts of data. This is necessary to build artificial intelligence (AI) capability and their application crosses sectors as diverse as pharmaceuticals, autos and industrials.

In medicine, for example, they can use sophisticated modelling for drug discovery, looking at correlations between different reactions and different compounds, trying to find the right drug profile to test. While this won't single-handedly solve the Covid crisis, it can do a lot of the heavy lifting to ensure tests are more targeted and effective.

Supercomputers aren't just useful for tackling the world's biggest problems. Google uses them to improve its speech recognition, for example, and they are a major reason why voice search has become so much more efficient in recent years. AI computers are increasingly being used to run businesses – it is possible to look across a company's operations to see the most effective product lines, or the most productive salespeople. In this way, they help run better businesses.

To do this, everything needs to be in the cloud. Few companies could afford 'on-premise' computers that could power these analytics, but with widespread cloud adoption, the possibilities open up. Once again, this widens the gap between the cloud-enabled and those yet to digitalise.

The digitalisation journey

Access to supercomputers is just one of the many reasons digitalisation is becoming a competitive necessity rather than simply a nice-to-have. Many of the major US technology companies are already well-progressed on digitalisation and show the potential for those companies that have been slower adopters.

Continues overleaf

Companies such as Palo Alto Networks, for example, have been using analytics to manage their sales teams for some time. Its sales model will hand teams a 'to do' list based on the most productive leads or the highest probability of a sale. It bases its information on a broad range of inputs, from sales calls, press releases, the media, help desk comments and competitor intelligence. This ensures they are targeting customers to maximum effect.

It is easy to see the uses for consumer-facing companies, particularly as we emerge from the pandemic. Companies need to know their customers and make the most of the relationship. This is vitally important at a time where the cost of acquiring an online customer is rising quickly. Travellers could show up at a hotel; staff would know their preferences, previous feedback, their likes and dislikes and provide a better experience.

This requires proper use of data. Once the data is well-organised in the cloud, the AI overlay is easier to apply. The problem is often that companies struggle to get data in a useful format. This explains the excitement around the Snowflake IPO. Snowflake does the data organisation for companies and this is already proving an extremely popular tool.

Large market capitalisation versus mid-capitalisation

Andrew Grove, former Intel Corp. chairman and CEO once said: "Bad companies are destroyed by crisis, good companies survive them, great companies are improved by them." 2020 was a year in which the strong got stronger. Those companies with financial resilience, the ability to adapt and capable management teams were able to thrive at a time when their competitors were struggling. Often, this trend was most evident among the largest companies: Microsoft, for example, or Amazon.

In the trust, we have had a long-held preference for medium-sized companies (mid-caps). This is partly practical – companies such as Apple and Microsoft are significant parts of the benchmark index. As such, taking a 'benchmark position' would leave our investors too concentrated in just a handful of companies.

But there are other reasons to focus on mid-caps. While Microsoft and Apple do what they do very well, it is difficult for them to grow as fast as smaller companies because their remaining addressable market is smaller. Mid-cap companies are often building new markets and could grow at 50-100% per year as an idea builds. This rapid growth phase can last as long as five to ten years.

There are also important sectors that are only available in mid-caps, such as security. Security companies have seen their growth accelerate as companies have needed better protection in the cloud and hackers have become more sophisticated.

Hot stocks

Retail investor interest in share trading is going through a renaissance. Trading volumes in the US market are higher. While much of the attention has focused on Bitcoin and smaller companies such as GameStop, inevitably the high profile technology sector has seen some of the action.

While it is clear that some of these investors still need to go through the painful process of understanding risk, it is encouraging that people are getting involved in the market once again. The technology bust of 2000 scared a generation, and that has been a disaster in terms of building their long-term wealth. Finding great growth companies that can raise earnings over a long time is the key to a wealthier retirement.

However, it can create some momentum pricing in the market and we have to be wary of it. We own some stocks that are high profile and therefore vulnerable to this volatility. For us, the solution is to be rock-solid on the fundamentals of each company. That way, if there is short-term volatility in the price, we can still have confidence on the long-term growth profile.

This is no recommendation or solicitation to buy or sell any particular security. A ranking, a rating or an award provides no indicator of future performance an is not constant over time.

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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