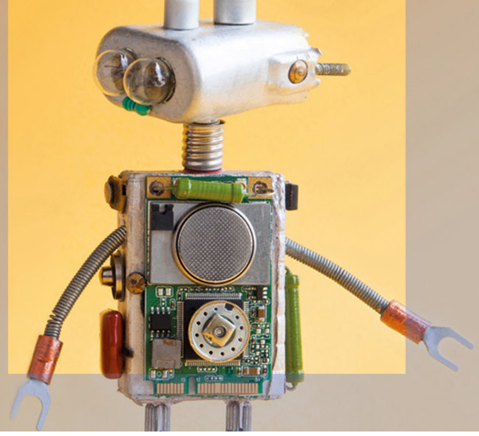

Active is: Investment Insights

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.

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$4 billion* in assets.

*Source: Allianz Global Investors GmbH.

Investment Insights from Silicon Valley

Breaking up – is it hard to do?

For some time, the largest technology companies have looked vulnerable to being broken up. Policymakers and regulators have become increasingly wary that their dominance is denting competition from emerging companies and stifling innovation. Facebook's Mark Zuckerberg, Amazon's Jeff Bezos, Apple's Tim Cook and Google's Sundar Pichai have all been virtually summoned to Capitol Hill, indicating that both Democrats and Republicans recognise that this situation needs to be addressed.

European regulators have also kept a watchful eye on the practices of big tech. Two new laws - the Digital Services Act and the Digital Markets Act – look to govern the regulation of digital markets with large fines and potential break-ups for those that don't comply. The question for investors is whether these companies need their monopolistic positions to sustain current levels of growth, or whether the independent companies created by break-ups could thrive separately.

We don't believe break-ups are inevitable: in the US in particular, it may be difficult to argue that having watched these companies evolve, lawmakers should force them to reverse. Equally, the current constitution of the Supreme Court would appear to argue against curbs on big business. The EU's argument – that technology is an essential service – is more difficult to navigate, but it is still new law that needs to be ratified.

Nevertheless, as shareholders, it's worth contemplating what might happen. There is precedent for the forced break-up of companies that have grown too large, but the last high-profile example was the US phone network in the 1980s. This divided into AT&T, which covered long-distance calls, and the seven regional Bell Operating Companies, which took control of local calls. Initially, the break-up went well for shareholders; they got a handful of relatively stable, profitable companies. However, they didn't make the transition to an internet business particularly successfully. It might come back for 5G, but it isn't an encouraging example for the tech giants today.

Continues overleaf

Any break-up of Facebook would probably include a separation of Instagram and WhatsApp. They are all interesting companies in their own right, but the ability to collect data from across all three platforms has allowed them to build a much broader database. Instagram would need to go head to head with TikTok. WhatsApp could try and follow the Tencent model, but messaging hasn't been a very profitable business. In reality, even if they can establish themselves as separate companies, they wouldn't be as successful without Facebook. Equally, without them, would Facebook be in the same place on mobile?

For Amazon, it may be that it can't have first party products on its platform. Amazon would have to divest that business, and make it clear that it's not a subsidiary. However, the impact for shareholders would be limited. Web services, for example, are a more valuable part of the business than its first party business.

Google's argument is more problematic. Google looks at how people are using its search engine as a guide to the areas to target. It looked at Yelp, for example, and recognised it could offer a similar service by combining it with Google maps. The consumer may be better off – they're booking direct rather than through an aggregator - but it is destructive for emerging businesses. As such, it may be the most vulnerable to a forced break-up.

The most important legacy of the pandemic

With a vaccine now being distributed, life might well return to normal. However, we believe there will be important legacies from the pandemic. Agile working, for example, is certainly going to last. In many cases, companies have experienced improved productivity: they can get more sales calls done and employees are generally happier. We can see a situation where people go to the office for meetings but otherwise work remotely. The days when only a face to face meeting would suffice are over.

The other enduring trend, we believe, is the delivery revolution. The pandemic has seen the four main US food delivery companies make approximately $5.5 billion in combined revenue from April to September, double their combined revenue for the same period last year. This boom promises to help support the ailing restaurant sector. The logistics surrounding delivery services are improving all the time and this shift in consumer behaviour is likely to be permanent.

Revolution in hardware

There is meaningful change occurring in the background for many technology companies. Hardware has been crowded out by exciting developments happening in software in recent years, but this is changing; and, as with so much of the technology industry, the pace of change has accelerated in 2020.

Historically, technology devices from mobiles to electric cars have run on one giant chip. However, increasingly companies have recognised the value of specialisation, creating specific chips for graphics or for processing and putting them all in one package. To the customer, it looks like one chip, but it allows for a more customised experience. Increasingly, companies are seeing the competitive advantage in this 'chiplet' methodology, and all the technology giants have specialist chip designs in place.

This is a major shift in architecture for the computer industry. It has shifted the balance of power amongst chip makers, proving a real advantage for companies making specialist chips. It's a major development in the semiconductor industry and one to watch this coming year.

One final note

A pretty dismal 2020 prompted many investors to reappraise their view of a 'defensive' sector. Technology has shown that it's the new infrastructure of the world, every bit as integral to our lives as other utilities. Companies and individuals without the right technology in place in 2020 couldn't function. To our mind, this invalidates the view of technology as a cyclical investment. It is an investment for all seasons.

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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