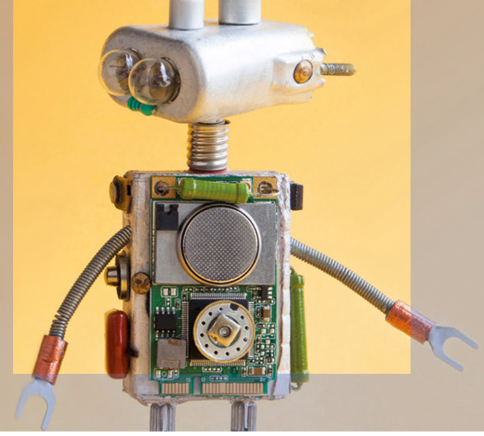

Active is: Investment Insights

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$11 billion* in assets.

*Source: Allianz Global Investors GmbH.

Investment Insights from Silicon Valley

Tax coordination

The G7 group of advanced economies has thrashed out a tax deal designed to end a 'race to the bottom' for corporate tax rates. The nations agreed in principle to a minimum tax rate of 15%. The move should see more companies paying taxes in the country where they do business and tackle tax avoidance.

This has been seen as a swipe against the technology sector and certainly, some technology companies have their headquarters in countries with the lowest corporate tax regimes. In our meetings with Chief Financial Officers (CFOs), they appear to acknowledge that taxes are likely to rise in 2021 and it may dent earnings.

That said, the impact shouldn't be over-estimated. Most technology companies pay tax rates of 15% already. Some may have a marginally lower rate because they have significant depreciation costs, such as Amazon and it is possible they will pay a little more, but it isn't likely to be a game-changer. The view among CFOs appears to be that the market may give them a pass this year and next year will see a stable tax rate once again.

This may be why there hasn't been a significant reaction from the market to the tax changes. It is plausible this may emerge as tax rises impact earnings revisions, particularly when combined with more challenging comparison figures. For the time being, however, markets are more focused on interest rates and inflation. The high inflation prints for April and May continue to impact share prices for the higher growth technology companies.

Technology companies and the labour shortage

As we emerge from the pandemic and companies build up their workforces to lean into economic recovery, many are finding that potential recruits simply aren't as enthusiastic about the nine to five. Not only do they have stimulus cheques to support them at home, the gig economy has created a different mindset: people want to work when they want to work, not as dictated by a corporation.

That creates a problem for businesses trying to fill full-time roles. Some companies report a 3:1 ratio for vacancies to new recruits. Skilled workers are at a particular premium and, in many cases, recognise that they can demand more flexible terms.

In the longer-term, we believe this may help create a golden age for technology. Technology can be used to pick up tedious and repetitive tasks for which it is increasingly difficult to recruit. This might include anything from manual processing of insurance claims to autonomous driving for trucks or cars. (Uber drivers are among the areas seeing a significantly shortage).

This is a great environment for those selling digital solutions. Companies recognise the imperative to digitise and make it work, thereby enabling the workforce to work on higher value, more interesting options.

In the short-term, however, this could create problems. Digital solutions take time to come on stream and in the interim, more demand for skilled workers means wage increases. We see this picking up already with many retailers offering signing bonuses for the first time to attract new staff. However, share options are the real lure for most technology recruits. Companies need to keep their share prices motoring to bring in and retain skilled engineers.

The Work From Home (WFH) revolution

Apple CEO Tim Cook recently laid out the company's plans for bringing people back to the office. For us, it is a blueprint for the approach likely to be adopted by many companies post-pandemic. Cook says he expects employees to be in the office for at least three days a week from September - most employees will be asked to come into the office on Mondays, Tuesdays, and Thursdays, working remotely on Wednesdays and Fridays.

Employees will also be allowed to work remotely for up to two weeks per year, "to be closer to family and loved ones, find a change of scenery, manage unexpected travel, or a different reason all your own."

Companies are trying to give employees some flexibility, while also ensuring that there is good collaboration, people can come together to work on ideas and share concepts. As Cook put it, "the hum of activity, the energy, creativity and collaboration of our in-person meetings and the sense of community we've all built." However, it also recognises that some people have been more productive working from home, spending less time travelling and more time on focused work.

In this new world of hybrid work, managers need to find a new way to monitor their employees now they can't peer over their shoulders. We believe this is likely to benefit workflow tools, such as Asana or Basecamp. When employees are spread more widely, technology tools to monitor deadlines and work are a necessity to make sure tasks are done and organised. Collaboration tools become vitally important. Salesforce recognised this when it bought Slack in December 2020.

We see more tools like these being developed and used. The trade off for a lot of email reminders is that employees get to work flexibly. We believe it's a trade-off that will work for many.

Controlling their destiny

The pandemic ruthlessly exposed the problems of long supply chains – companies had to halt production because of problems sourcing components and countries were left without key supplies because supply from abroad dried up. It is clear that governments and the corporate sector will now want their supply chains to be shorter and more flexible. Rather than just one source of supply, they will seek multiple sources of supply across multiple geographies.

The semiconductor sector has been one of the most affected. After carmakers were forced to shut production, they were forced to rethink their reliance on Asian components. Had there been sufficient semiconductor manufacturing capacity domestically, it might have been possible to adjust production according to demand – fewer gaming chips and more car chips, for example. Companies and countries want control over their destiny.

The same applies to data sovereignty. European governments want sensitive data left in their own country, rather than, say, a plant in Oregon processing all information on German citizens. The major cloud providers have all had to build a domestic presence to ensure critical data is kept within national boundaries. We believe this reshoring will start to reshape parts of the technology industry in the coming years.

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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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