AN INVESTMENT STORY FOR THE 21ST CENTURY

Technology is arguably the 21st century investment story; the sector is never far from the headlines and tech winners are big news, with their headline-grabbing growth drawing mass attention. However, for every big winner, there are examples of tech stocks that haven't delivered on their promised growth. And even winners can hit turbulence – just look at Facebook's troubles earlier this year, over the collection, storage and usage of individuals' personal data.

This fast-moving world is exciting because technology can create new markets, provide lower cost ways of doing things and generate growth when other sectors are less buoyant. Technology is the common thread behind the remarkable pace of change affecting almost every aspect of our modern lives. It is an unparalleled source of innovation, driven by creative, human brilliance. Transport, energy, communications, healthcare, manufacturing, entertainment, business, education – you name it – all have been transformed by technology.

The technology sector encompasses so many themes that it's becoming increasingly difficult to define it. There are the 'pure technology' companies, such as those operating in the traditional Telecommunications, Media and Technology space. And there are those businesses across diverse industries that have embraced technology in an innovative way to gain a strategic, competitive edge.

Volatility has affected all global markets so far in 2018, add to which the technology sector has faced its own specific headwinds. And although tech stocks have, for the most part, continued to edge higher, these 'lofty' valuations create their own uncertainty; no one wants to invest at the wrong time and it's hard to forget the catastrophic dot-com crash of the early 'noughties'. So are we on the cusp of a market correction, or even something more substantial?

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It's true that concerns about rising inflation, higher US bond yields, and global trade tensions are all creating uncertainty. And in the tech sector specifically, the high-profile 'FAANG' companies – Facebook, Apple, Amazon, Netflix and Google (now Alphabet) – all bore the brunt of selling pressures early in the year. Shares of Facebook and Google sold off amid unfavourable headlines related to user data mismanagement on the part of Facebook as well as uncertainty regarding the impact of data privacy laws in Europe. Increased regulatory scrutiny is becoming a fact of life for these businesses. Apple's share price performance was impacted by iPhone X sales failing to live up to expectations. Netflix suffered on the back of slower subscriber growth numbers, even though its original programming is highly regarded by its large base of loyal customers. And Amazon shares came under pressure early on, only to bounce back later on the back of strong margins and cash flows.

Despite these various issues, robust demand for innovative solutions that increase productivity and enhance business efficiency continues to drive the sector's performance. But is this sustainable?

In general terms we believe that tech stocks can continue to offer a valuable long-term complement to a portfolio of traditional equities. The combination of solid global economic growth, strong corporate earnings, domestic tax cuts in the US, and the ongoing digital transformation among corporations should continue to drive growth in IT spending, with companies across the economy turning to technology solutions to increase revenue, improve productivity, and enhance operating efficiency. While the largest technology companies today will inevitably struggle to grow as rapidly in the future as they have in the past, the broad technology sector should continue to see attractive growth.

What's driving this growth in technology? Is it coming from the creation of new markets or simply economic growth? Industries such as automobiles, advertising, security, retail, and manufacturing are all being shaped and transformed by advances in technology. We are seeing an ongoing wave of innovation in the sector that we believe has the potential to produce attractive returns for companies with best-in-class solutions. We also see a number of companies with present valuations that, in our view, do not fully reflect positive company and/or industry-specific tailwinds.

For private investors considering investing in technology companies for the first time, it's worth remembering that this is a niche investment area. However, It's also true that Allianz Technology Trust (ATT) provides access to a diversified, but focused portfolio of around 60-70 companies that use technology in an innovative way. So by buying ATT shares, you are able to spread risk as you are not reliant on the fortunes of just one or two tech companies.

Much is spoken of disruptive technologies – those which will force change within an industry and which may often displace the dominance of incumbent market leaders. The challenge is to understand not only current technologies, but also future trends and the likely effects. My team's location in San Francisco is pivotal in this respect: our proximity to Silicon Valley – 'the heart of the action' – delivers a considerable advantage as we have close and regular contact with many of the leading tech players, as well as with up-and-coming companies that we have identified for the future. Location matters because there is no substitute for first-hand knowledge. ■

To find out more about the Team's investment philosophy visit www.allianztechnologytrust.com where you can also subscribe to receive 'Investment Insights from Silicon Valley'.

Important information: This is no recommendation or solicitation to buy or sell any particular security. 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. Competition among technology companies may result in aggressive pricing of their products and services, which may affect the profitability of the companies in which the Trust invests. In addition, because of the rapid pace of technological development, products or services developed by these companies may become rapidly obsolete or have relatively short product cycles. This may have the effect of making the Trust's returns more volatile than the returns of a fund that does not invest in similarly related companies. Past performance is not a reliable indicator of future results. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer and/or its affiliated companies at the time of publication. The conditions of any underlying offer or contract that may have been, or will be, made or concluded, shall prevail. A security mentioned as example above will not necessarily be comprised in the portfolio by the time this document is disclosed or at any other subsequent date.

Allianz Global Investors

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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 Allianz GI Global Technology Team.