



April 2016

Investment Insights from Silicon Valley

www.allianztechnologytrust.com

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\$4.5billion* in assets.

*Source: Allianz Global Investors GmbH as at September 2015.

Artificial Intelligence – run by bots?

Artificial intelligence plays to some of the greatest fears about technology: A world where we interact with machines, rather than each other; where 'chatbots' solve our problems rather than people. Setting aside the question of whether chatbots are any worse than call centres, we believe the real value of artificial intelligence may be in improving the productivity of US companies.

Productivity improvement is ultimately why companies buy technology. If one company uses it to become more productive, any competitors who want to keep up will have to do so too. Companies such as Google and Microsoft are starting to put analytics capability in the cloud, and, to our mind, this is likely to be the most common use of artificial intelligence.

Users can ask the analytical engine various questions, and the analytics engine can tell them the best way to solve that problem. For example, we own Workday, which can take line data and analyse it. It may flag that a company is seeing significant sales growth in Ireland, where there is also a significant economic recovery and adding sales people would be beneficial to revenue growth.

The expense of those new sales people (based on the traditional learning curve of a salesman and how long it takes them to become productive) can automatically flow into the costs and allow new projections. The same metrics can be used to manage supply chains more efficiently.

Management teams will increasingly be able to use these new metrics to transform how companies are run, rather than people sitting round a table. Increasingly, decisions will be made in real time based on best practice. This is, quite simply, revolutionary.

Of course, it may move the dial for many of the companies providing these analytics as well. It gives businesses a clear reason to use a company's cloud services; not simply 'move to our platform' but 'put your data into our cloud and we will answer your problems for you'.

The debate on China

Much of the volatility since the start of the year has been focused on China: is it slowing? If so, is that because of its transition to consumer-led economy? Or is something more sinister, such as a sign that its over-supply problems are exercising a real drain on growth?

Recent growth numbers suggest the economy grew at a pace of 6.7% in the first quarter of the year, though many question the validity of the figures. On our recent trip to China, we concluded that the government stimulus is having an impact and we saw signs of recovery in the Eastern cities, though the interior is still going through a rationalisation process.

This is not to diminish the problems still facing policymakers: They need to address how they shut down over-supply and rationalise their industries, but overall, we believe the economy is over the

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 and is not constant over time.



Allianz 
Global Investors

worst. We remain comfortable with the prospects for our Chinese holdings such as Baidu and CTrip.

Other findings from our China trip

Our Chinese trip also threw up some other interesting areas: The first was on semiconductors. This is a vital sector for the growth of the knowledge-based economy, to which the Chinese government aspires. Chinese companies have tried and failed to buy large semiconductor companies in the US and elsewhere. As such, China looks likely to go it alone and spend money trying to build up a competitive semiconductor business.

This will be good for US manufacturing groups making equipment for this type of company. It may challenge the Asian semiconductor industry, but this is likely to take some time to come through. If China is serious as it appears, we believe it will probably succeed.

The other area of interest is in smartphone penetration. Our Grassroots research engine had already alerted us that Apple was still gaining market share in China. This was against Wall Street consensus, and seemed surprising, given the cost of 4G phones. Nevertheless, Chinese consumers appear to like the product, not just for status reasons, but also for its superior functionality.

With this in mind, we believe the new, cheaper, iPhone looks like a good product for the Indian and Chinese markets as well. It costs the same as a 3-year old iPhone, but has the same processor as the 6S. The market has been crying out for a cheaper model and the iPhone SE seems to do the job.

Back at home

The US economy ticks on at around 2-2.5% annual growth. Although there has been some concern that a recession is imminent, this would seem to over-estimate the impact of weakness in the energy sector on the economy overall.

Nevertheless, valuations are high and this earnings season will be very important. In particular, expectations for some of last year's top performers – Facebook, Amazon, Netflix and Google ("FANG") – remain very high. It is difficult to forget that Amazon's fourth quarter earnings per share growth under-shot market expectations by 34%.

The market is expecting Amazon's gross margins to expand by over 30% year on year. At the same time, the company must face down a strong US dollar. The dollar may have weakened more recently, but will still impact this set of results. Amazon was a 10% holding for us and we have taken it much lower. Our long-term outlook for the company is positive and ultimately it should be worth \$1000 per share, but the road to that valuation will be bumpy.

We have also taken down our holdings in the other three of last year's 'FANG' companies. While we have faith in their growth prospects, they too look likely to be impacted by the stronger dollar. In a more volatile climate, the market tends to be less inclined to assign a high rating to companies, even where their long-term growth may merit it.

All sources Allianz Global Investors GmbH unless otherwise noted. 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 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. 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 data used is derived from various sources, and assumed to be correct and reliable, but it has not been independently verified; its accuracy or completeness is not guaranteed and no liability is assumed for any direct or consequential losses arising from its use, unless caused by gross negligence or wilful misconduct. 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. This is a marketing communication issued by Allianz Global Investors GmbH, an investment company with limited liability incorporated in Germany, with its registered office at Bockenheimer Landstrasse 42/44, D-60323 Frankfurt/M. Allianz Global Investors GmbH is registered with the local court of Frankfurt/M under HRB 9340 and is authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). Allianz Global Investors GmbH has established a branch in the United Kingdom, Allianz Global Investors GmbH, UK Branch, which is subject to limited regulation by the Financial Conduct Authority (www.fca.org.uk). Details about the extent of our regulation by the Financial Conduct Authority are available from us on request. Allianz Technology Trust PLC is incorporated in England and Wales. (Company registration no. 3117355). Registered Office: 199 Bishopsgate, London, EC2M 3TY.

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.