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.

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

November 2015

Investment Insights from Silicon Valley

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The common unicorn

Originally named for their rarity, technology 'unicorns' are now as common as pigeons on Wall Street. From Airbnb, Dropbox to Pinterest and Uber, there are an increasing number of companies hitting the $1bn valuation mark in the private market (the qualifying point for a 'unicorn'). A number of high profile investors are now warning that the valuations of these companies are unsustainable and may ultimately prevent a successful listing when the time comes.

It started in March of this year, when veteran venture capital investor Bill Gurley predicted that there would be some 'dead unicorns' before the year was out. This month, Salesforce.com CEO Marc Benioff issued a stark warning to these technology groups of the dangers of remaining private for too long at very high valuations. He said entrepreneurs were being lured into setting high valuations by the huge amounts of money on offer. The companies then struggle to go public because the same valuations can't be achieved in the public markets.

We believe there is some truth in this. Effectively, these companies leave no room in the valuation for investors. Almost universally, these are exciting, high growth companies, but they are in danger of locking investors out. This is part of the reason the IPO market is relatively weak. Benioff also pointed out that the public markets have their advantages: "You have to answer to the public market. You have to listen. You have to pay attention."

If too many list at too high a valuation they will alienate their investors and create widespread disenchantment with the IPO market. This would be a shame for new companies coming to the market and the diversity of the technology sector generally.

Driverless cars: the next step

Tesla Motors brought driverless cars one step closer this month. It introduced an autonomous driving feature as an over-the-air update. Their cars will now, in theory at least, drive themselves to their destination.

It is not yet quite possible to sleep in the back while the car drives to work, or be chauffeured home from an after-work dinner. At this point, the 'driver' needs to stay in contact with the steering wheel at all times. If they grab the wheel at any point, the autonomous feature turns off and control passes back to the driver. However, the update still represents significant progress towards a fully driverless car.

The group has amassed lots of data since it issued the update and its records suggest that around 1m miles have been driven with the autonomous feature running. The feature has also captured the public imagination. Youtube has a series of videos with people using the new feature. Perhaps the most impressive is a video of a car avoiding an accident thanks to its side sensors, which triggered the auto-braking system.

To date, the new feature has helped avoid a number of accidents and hasn't caused any.

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This is encouraging. There are still some hurdles for Tesla to resolve, but in the meantime, we are one step closer to the self-driving car.

Payment process and fraud

Financial fraud is now extremely sophisticated. For those who know where to look, it is now possible to find websites where lists of credit card numbers are readily available for the right price. The information is sorted by geography, with birthday and national insurance number details obtainable for an additional fee.

The payment processing business has been forced to respond. In particular, there is a move towards digital wallets, plus increased use of securitisation and tokenisation. Two-factor authentication is becoming more common. In the future, shoppers looking to make an online purchase might have to enter an ID onto Amazon, for example, who would then send out a token, which in turn would have to be input before a transaction could be made. If the token were stolen, it would only be useful for that transaction.

Visa has been pioneering in these security initiatives. It has a repository for tokens as part of its network, designed to make transacting secure. This is self-interested to some extent – Visa wants people to make as many transactions as possible and use cards rather than cash. To do that, it needs to secure the environment. Fraud is a constant battle for payments companies and is likely to become an important differentiating factor for consumers deciding which card to use. It is also important for the avoidance of risk. TalkTalk's recent experience shows the financial and reputational damage that can be wrought by fraud.

A surprisingly buoyant earnings season

Despite some pessimistic predictions, the third quarter results from the technology sector have generally been encouraging. The higher growth companies in our portfolio have generally proved very resilient in what is still a relatively low growth economic environment. Bellwether groups such as Google and Amazon have continued to show strong revenue generation.

In the lower growth areas, there is increasing consolidation. In the semiconductor industry, for example, where there has been a big inventory correction, companies are buying other companies and consolidating. There is also a lot of corporate action in the hardware sector as well – EMC and Dell, for example. These companies are experiencing slower growth and need to find a way to adapt.

However, corporate activity has not been exclusively confined to low growth technology. The headline deal of the month was Activision's $5.9bn bid for gaming group King, maker of the addictive Candy Crush. King came to the market 18 months ago, but hadn't found a sequel to replicate its phenomenal early success with the original game and the shares kept being de-rated by the market. Activision is moving into mobile gaming and believes it can make Candy Crush and the group's other games into an evergreen franchise. We believe it is probably better off as part of another company.

Overall, the results and mergers and acquisitions suggest a sector in rude health in spite of any recent fears over global growth.

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