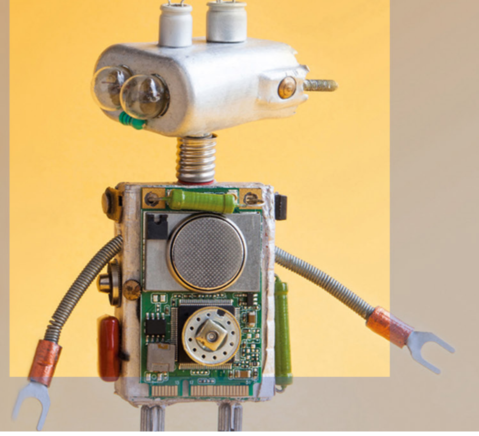

Active is: Investment Insights

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Investment Insights from Silicon Valley

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.

Huawei and the trade war

Mobile giant Huawei has been at the epicentre of the recent China/US trade tensions. At the start of March, the US Congress passed legislation that banned purchases of Huawei equipment. Huawei, for its part, filed a lawsuit against the ban, accusing Congress of acting as "judge, jury and executioner". The US has also leant on its global allies to stop them buying Huawei products.

This is the start of things to come. China wants to move from basic to higher end manufacturing as part of its 'Made in 2025' state-led industrial policy goals. The moves against Huawei are part of a strategy by US policymakers to ring-fence China and keep it from gaining more global influence.

However, in spite of these recent moves, it is going to be difficult to contain Huawei, notably around 5th Generation (5G) cellular mobile telecommunications. It is the undoubted leader in this area and is issuing a significant challenge to its US competitors. Huawei has a comprehensive range of equipment that makes it a compelling choice for 5G. It has already edged out European competitors, delivering a broader system at a competitive price. They have rolled it out in many developing countries, bringing in Chinese engineers to support it. The group has big plans and a product range with a large installed base.

That doesn't mean some of the concerns aren't valid. The US administration argues that allowing a foreign vendor access to a country's communications system gives them significant visibility into the country and its businesses, and this is certainly a risk.

Huawei is currently private but is one of the world's largest information technology companies by revenue and has an influence on many of the other companies in which we invest. It is a major competitor, chipping away at established technology companies with lower prices and increasingly powerful technology.

The enterprise software ecosystem

Enterprise software is a major theme in the portfolio today. To our mind, this is even more important than the client server revolution in the 1990s. Companies are enacting a major and enduring change to their technology infrastructure. Just as we moved from mainframes to client servers, and computing became PC and server, today companies are moving to cloud computing.

There are a lot of advantages to this change, with significant potential cost savings for businesses. We see a lot more companies moving that way. As it stands, there are four main competitors for the cloud infrastructure – Amazon, Google, Alibaba and Microsoft. There are some wannabes but they are fading in relevance. Companies need around $20bn in the cloud to be competitive with the big names, and plenty have already left the market. The big names have data centres located all over the world and they are incredibly efficient. They are focused in areas with low-cost power and cheap land, while fibre networks bring fast access.

On top of that, there are the Software-as-a-Service (SaaS) companies. These put function on top of the basic processing. A couple of the SaaS names have their own data centres, but they are increasingly migrating to the major cloud providers. In the SaaS category, there are three emerging companies – Salesforce.com, Workday and ServiceNow. These cover human resource management, financial management, customer relationship/service management and infrastructure management. There are also smaller companies trying to provide cloud software not covered by the big companies, such as development tools.

Our view is that around $1 trillion of wealth will pass to enterprise, cloud-based software companies and maybe more. Right now, all these companies together have a valuation of no more than $100bn. This is why we believe the enterprise sector is where the real opportunities lie. It's not in social media: we are not going to spend more time online, and everyone's got a mobile phone – that consumer side is well-exploited. For us, it is probably the time of maximum enterprise computing companies in the portfolio and over time, that list will get winnowed down.

Clean, green and over here

Orders are now open in Europe for Tesla's Model 3 saloon car. At $35,000, it is the cheapest car in the company's range. This is a significant moment for the future of electric cars in Europe. Relative costs are falling. As it stands, the battery is around one-third of the cost of the car, but this is falling by 15% every year. At the same time, the cost of meeting environmental regulations for normal cars is increasing by 15% per year. As such, buyers are increasingly asking 'why not?' rather than 'why?' Ownership costs are falling, residual values are high (which makes them good for leasing) and charging times are improving.

Will it be Tesla rather than another European car maker? Tesla has an advantage in that it has done the hard work already. It has got over 1,400 charging stations worldwide, plus sales infrastructure, and it is building up its service infrastructure. It is building a pick-up truck and Sport-utility vehicle (SUV). It was the leading car sold in the US over the last few months, displacing luxury car maker incumbents. Of the 100 different car companies, some will transition to electric cars, but it is hard to know which ones will be successful.

Holdings in China

Our Chinese holdings bottomed out in the fourth quarter of 2018. Our main reasons for taking it lower were the weakness in the Chinese economy and the government claw-back of power and business into the state-owned companies. This has been a problem for Ant Financial, for example, the payment system for Alibaba. It's the leader in mobile payments and mobile wallets. There is a constant battle between the innovative companies such as Tencent and Alibaba and the state-owned companies that want to protect their turf and customer base. The government will periodically intervene to support the banks. As the tariff situation has started to look like it might be resolved, we've moved our positions higher again, primarily in Alibaba and Samsung. The other side of the recovery is getting closer.

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.

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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