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# Investment Insights

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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\$4 billion\* in assets.

\*Source: Allianz Global Investors GmbH.

## Investment Insights from Silicon Valley

### Corporate confidence, as seen by the technology sector

The global economy appears to be at an inflection point. Within twelve months, central banks have moved from tightening monetary policy, to easing, to tightening again. Economic indicators have been mixed and financial markets are pulling in both directions. When we talk to company management, they are reflecting this uncertainty.

Corporate confidence varies by sector and by company. There's clearly a cyclical part of the technology sector that is having a more difficult time. The managers of hardware companies report nervousness from their customers, while demand for new products is weak.

Having thought demand may recover in the first quarter, and then the second quarter, managers are paring back expectations for the third quarter. The fourth quarter is usually their weakest, so recovery may not be until 2020. As such, businesses are laying people off, reducing production and lowering their inventories.

The memory and semiconductor manufacturers are also struggling. These companies have also been affected by the US government ban on companies dealing with Huawei. We

are also seeing a slower market in advertising.

Across our universe of companies, at least three-quarters are slowing down. The notable exception is the software companies, where spending is holding up well. The sector has multi-year structural drivers as companies move to the cloud and embrace digital technology.

Of course, if the current slowdown goes on long enough, it will hurt the software sector too. However, we don't predict a recession in the wider US economy just yet. For the time being, it appears to be a short-term slowdown and a Federal Reserve interest rate cut should help.

### Technology and sustainability

Sustainable investing has become a priority for many investors, both as part of their fiduciary duty and because they believe it is a better way to invest for the long-term. It is a priority for Allianz Global Investors, which has recently seen a significant expansion in its sustainable investment research team.

This doesn't necessarily hit the technology sector in the same way as other sectors. It is naturally 'carbon-lite' and many technology companies hold the solutions to some of the climate's most pressing problems.

However, that doesn't mean we can ignore the issues. Sustainable investing goes beyond environmental considerations and into how businesses treat their employees and suppliers, the way a company is governed and whether its business model can endure over the long-term. We have seen this most recently with the social media groups, which are currently under scrutiny from the US congress and policymakers around the world. That means staying alert to the issues and engaging with management to promote best practice or disinvesting where we see long-term problems emerge.

## Facebook Libra

Facebook has been in the headlines over the last few weeks, launching its new Libra currency. Huge predictions have been made for the new cryptocurrency, even that it could end state control of money.

For now, these predictions seem overblown, but Facebook Libra is important. The new currency is primarily aimed at emerging countries, where Facebook has a huge platform. Facebook's management team is looking at Alibaba and TenCent - and the vast, valuable businesses they have built up around payment systems and sees the opportunity to do the same.

In the US and other developed markets, where transferring capital is relatively easy and currencies have a stable value, the opportunity isn't as significant. However, outside these markets, it can be very difficult to move money across borders.

Facebook is currently the largest holding in our portfolio. This is not just the opportunity presented by Libra, but also because people like Facebook's products. While people are talking about privacy and controls, there is no fall-off in user numbers.

Advertisers tell us that Facebook is more effective and targeted, so the return on their investment is better. Instagram is growing significantly and is adding new customers. Overall, the company's valuation appears moderate relative to its potential.

## New generation security

As the world moves online, and companies and consumers embrace digital technology and the cloud, security is an important piece of the pie. Yet the share prices of security companies have not necessarily reflected this pressing need. That is until this year when, after a period of realignment, security companies started performing much better.

We are prioritising exposure to the next generation of security companies; those companies that have been born in the cloud and keep the cloud secure. They are gaining traction with companies who use them to support their branch network and remote working; they allow corporate networks to be divided into relevant portions. This is vitally important for the overall security of the network.

These systems not only work with audit teams to authenticate individuals, but then look at what those individuals are doing in terms of sending data, making

sure it hasn't been compromised. It can work to get malware out of an individual's device and out of what is being sent.

Companies that offer this are growing quickly because they save so much money. The best applications can pay for themselves in less than a year. This is a more compelling argument than something that costs a lot and promises to simply avoid problems. This area of security is a particular focus for the Trust.



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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