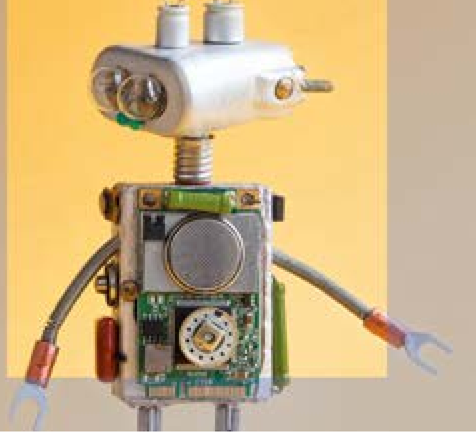

Active is: Investment Insights

www.allianztechnologytrust.com

APRIL 2020

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

Investment management in lockdown

Fortunately, investment management is relatively easy to manage remotely. The team are all working from home, communicating regularly and in frequent contact with our investee companies. The brokerage firms have worked hard to facilitate contact between companies and investors, setting up many group virtual meetings and conference calls, which now occupy a large share of our working day. These interactions are useful: we can ask questions, gather information and – perhaps as importantly – read the body language of the CEO or CFO as we would be able to in a physical meeting.

If anything, we find that between these calls, our own research and companies' willingness to be open with investors at this difficult time, we have more inputs and information than we might otherwise. Updates are being disseminated more quickly and efficiently.

The early winners and losers

We would caution against seeing anyone as a particular 'winner' in this environment. Amazon, for example, seems to be a winner because many companies are using its distribution network, and Zoom because everyone is using its platform. The gaming companies and Netflix are also benefiting as people stay at home and use their products.

However, Amazon still relies on buoyant consumer spending and Zoom needs to ensure its advantage can be sustained when everyone returns to work. Both companies need to ensure that additional expenses don't rob them of their advantage: Amazon has been hiring significant extra distribution staff, for example. Netflix may be adding subscribers, but it also needs to start producing original content once again. In reality, most companies are losers to some extent because of the disruption to their normal business.

That said, we do see some certain common characteristics among those companies likely to bounce back more quickly. For example, how they treat their staff may prove important: some companies have given employees a bonus to help them manage through these difficult times, while other companies have been more cavalier, laying staff off and telling them they would be better off claiming social security. This will be important in the longer-term. These companies are engaged in a war for talent and those treating staff well may be able to retain intellectual firepower.

Value. Shared.

Allianz Global Investors

Equally, cash is king. Those companies with cash reserves are in a vastly better position. We've seen companies hoarding cash. A lot of companies that had a credit line with a bank have drawn down that credit line and put cash in the bank to shield them in case of business disruption or non-payment by customers.

In general, we believe larger companies may be at an advantage: many are willing to accept some pain today, continue to pay employees and use their cash pile to build longer term strength. Amazon, Microsoft, Google and Facebook are continuing to recruit engineers in a way that start-ups can't do at the moment. These big companies may be in a comparatively better position when we emerge from the crisis.

Opportunities in China

Just as China was the first to enter this crisis, it has been the first to emerge. This might suggest that there would be some opportunities in Chinese markets as the country gets back to work. We've been looking at this pretty closely in recent weeks and have spotted two problems: first, the share prices of many Chinese companies – particularly technology companies – haven't fallen very far. In fact, we are finding more opportunities outside China where share prices have been harder hit.

Also, there is a problem in defining 'back to normal'. Certainly, in China, a lot of people are back at work and businesses have restarted. However, many have found that demand hasn't restarted. China is a large exporter and is dependent on the health of the global economy. Supply chains are still substantially disrupted, so there are problems in production. It is clear that 'normal life' hasn't resumed even though many people are back at work and the government has worked hard to mitigate future outbreaks.

Longer-term, there may be further disruption. Specifically, we can see companies rethinking their manufacturing processes and moving them out of China. Previously, companies opted for China because it was the cheapest option. However, first tariffs and now the business disruption created by the Covid-19 epidemic has meant that the cost advantage has been lost and companies have started to recognise the advantages in building factories closer to their point of use.

We are seeing early signs of this from Zoom, for example, which had to move from around 20m users to 200m users in short order. Its Chinese suppliers needed 4 months to be able to provide server capacity, so Zoom had to call on its relationship with Oracle and Amazon, using their cloud services to provide short-term capacity. We see more and more companies turning to US suppliers. This may be a problem for China's recovery in the longer-term.

What comes next?

We've been spending a lot of time talking about what comes next. What will life be like after the dust has settled on the crisis? How will people go about their lives? We have drawn no firm conclusions, but to our mind it is clear that while there is no vaccine, there will be adaptations to our way of living. This will be different for different sectors. In investment management, we could probably work from home for a long time. We can do virtual conferences and conduct interviews over online services, but it's not the same for a lot of industries that rely on the movement of people.

While we understand the price for many stocks, the earnings are still unclear. Ultimately, it is too soon to speculate on the nature of the recovery.

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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