



Active is:

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
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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

The IPO market

In spite of the volatility in public markets for the year to date, the Initial Public Offering (IPO) market has experienced one of its most buoyant periods. Statistics from Renaissance Capital show that there have been 105 IPOs priced this year, up 36% from last year. There has been a similar uplift in pricing. Technology has been a significant participant in this boom, making up 28% of the new IPO market.

After a period when valuations in the private markets looked increasingly ambitious, the IPO market looks surprisingly healthy today. At the start of the year there was some mixed performance among new IPOs, which came to market and saw their share prices slide. Subsequently there were some high profile IPOs, including a number of strong Software-as-a-Service (SaaS) companies. Valuations in SaaS IPOs have been supported by merger and acquisition activity in the sector. Major companies have bid for smaller companies in this area at attractive valuations. This sets the stage for the some of the big unicorns that are likely to come to market later this year.

We look carefully at IPOs and apply the same metrics as we would to our analysis of any technology company.

If a company has a good outlook for the longer-term, orders that are accelerating, is number one or two in its sector and is coming to market at a reasonable valuation, we think it's worth considering.

The issue with many IPOs today is that there is usually a pretty small float and a small allocation for most buyers. Also, it is important to ensure that the company still looks attractive after the initial valuation price. It often takes time for a company's valuation to bed down and for the market to decide how it will be valued. We usually buy the stock after its IPO and build a position.

Addicted to tech?

There are clearly advantages to having addicted customers, as big tobacco found out, but it does not win any prizes for morality. 'Tech addiction' is a problem for technology companies, particularly social media companies. There are increasingly compelling statistics showing people who make excessive use of social media tend to be less happy.

As part of a wider drive to improve corporate governance, technology companies have started to look at ways to combat the problem.

Value. Shared.

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Apple debuted a series of tools to combat technology addiction at the recent Worldwide Developer Conference in San Jose, California. The company said it had 'thought deeply' about the problem. The tools include options to address issues such as the 'fear of missing out' that keeps many technology users glued to their phones.

Facebook has also recognised the problem and sought to improve the user experience. Rather than just looking at time spent within its ecosystem, it has looked at the engagement of its audience. The fake news scandals, enticing news articles that then lead to sites where users are bombarded with advertising; all are destructive to the user experience. Facebook has taken steps to address this, just as Twitter has sought to get rid of the bullies. A better experience rather than simply encouraging more time spent online is likely to be the watchword from here.

The potential in Blockchain

Cryptocurrencies may be strictly reserved for speculators, but does the technology that supports them – Blockchain – have any impact for technology companies? The premise of Blockchain is to provide an accessible and safe way to access cryptocurrencies, reducing the costs of transactions for users and making them more visible and reliable and less subject to fraud. As such, plenty of companies are looking at how to apply Blockchain. This includes, but is not limited to, smart contracts, decentralised markets, proof of ownership and exchange trading.

There are potential uses across a broad range of industries. Companies can use it to improve their processes, making them lower cost and faster, and thereby improve their competitive positioning.

Lots of efforts going into Blockchain technology bear fruit, but on the other hand, companies can't use an expensive cryptocurrency and then believe that Blockchain will reduce their costs. It's got to be low cost to trade and transact. The promise of Blockchain is therefore somewhat at odds with the idea that cryptocurrencies are going to be very valuable. They need to be lower cost for users to realise the potential of Blockchain.

The most exciting 'moon shot'

All the major technology companies have an innovation hub. These have produced some genuinely exciting new technology (and also some notable failures). We keep an eye on the technology emerging from these hubs. There are two that stand out to us as particularly successful among the companies we hold in the portfolio.

In Amazon, early on it wanted to create a service that was attractive for start-up companies, Amazon Launchpad. This was where economies of scale could make a huge difference to the cost of creating or running a company. It has been right and it has become the destination of choice for entrepreneurs. There is a whole generation of SaaS companies that sits on top of Amazon and provides products and services. This is now the fastest growing part of Amazon.

There is a battle for Artificial Intelligence (AI) and machine learning, and all the big tech companies are vying for position. Google embedded a language called TensorFlow to help people analyse their data. The company has made it free for people to do initial analysis, to experiment with different data sets and develop machine learning algorithms. TensorFlow has made it very inexpensive to look for something of value in the data, do a proof of concept and turn it into an app. Amazon is doing the same with Alexa. It will not have escaped their attention that Google has become the leader in AI learning applications.



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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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