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.

February 2018

Investment Insights from Silicon Valley

www.allianztechnologytrust.com

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.

The high street bites back

For some time, high street retailers have failed to pose a credible defence of their position in the face of the march of e-commerce. Groups such as Amazon have been allowed a competitive free rein and have grown largely untroubled by bricks and mortar businesses. While we would not suggest that the tide has turned, we do see some retailers making a more robust job of fighting back, and emerging as a greater competitive threat to the main e-commerce names than they have been to date.

One example would be Walmart. Since buying Jet.com in 2016, the grocery giant has seen its US e-commerce sales soar, gaining 20-30% per year. It is undertaking real innovation in the grocery market with initiatives such as in-store collection. The group is trying a range of different strategies, seeing what gains traction with the consumer. While the model they are using may impact on margins, at least it is putting up a defence.

We see this elsewhere as well. Best Buy, for example, is seeing stabilisation in its same-store sales. It is experimenting with in-store entertainment experiences and looking at how it can remain relevant in a post-Amazon world. At the same time, Amazon appears to be acknowledging the limits of e-commerce with the development of its 'Amazon Go' grocery store offering - its first retail outlet opened in Seattle last month.

The real innovation, however, is emerging from China. Alibaba has been moving into offline retail, recently buying an appliance company. Founder Jack Ma is experimenting with new food concepts – instore food preparation, for example, where people can take away their food or have it delivered. As Ma points out, e-commerce is still only around 25% of overall retailing in China, and the group needs to go after the other 75%. To do this, they need to make their 'tenants' stronger – the marketplace is only as good as what it has to sell.

Software as a service

Software as a service should be a notable beneficiary of the US Government's new tax bill, which was recently passed. To date, companies have had a significant tax incentive to keep money offshore. This has meant that many have borrowed in the US rather than repatriate capital and take a taxation hit.

The new measures levy a steeper-than-expected charge on the trillions of dollars of earnings held by US companies overseas as a means to pay for tax cuts elsewhere. The package imposes a 15.5% one-off tax on offshore cash, coupled with an 8% levy on less liquid assets. In one fell swoop, companies have little incentive to hold capital offshore, and are likely to repatriate capital. Rising interest rates are also likely to act as a deterrent to some of the schemes that have been put in place to date. As a result, there is a lot of capital coming back to the US.

In our view, this is likely to give software as a service (SaaS) companies a natural boost. It will pull

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.

Investors Chronicle Top 100 Funds 2013 Allianz Technology Trust
Investors Chronicle Top 100 Funds 2015 Allianz Technology Trust
Online Personal Wealth Awards 2017 Best Investment Trust
Investment Week Investment Company of the Year Awards 2017 Winner Specialist
Investors Chronicle Top 100 Funds 2014 Allianz Technology Trust
Investors Chronicle Top 100 Funds 2016 Allianz Technology Trust (ATT)
Investors Chronicle Top 100 Funds 2017 Allianz Technology Trust

Allianz Global Investors

forward capital spending and technology spend can be set off against taxation. Spending on software and hardware is likely to be quite robust this year but major tech companies are saying that while they have all this capital, they need another headquarters outside Silicon Valley to support their development efforts. All this is likely to support a good environment for enterprise spending in the year ahead.

Big problems need big solutions

The biggest problems often throw up the most fertile investment opportunities. Identifying these problems and the companies that present a credible solution is an important part of our investment process.

Arguably the biggest problem we face today is global warming. This is not merely pollution, but all sorts of related societal problems – health issues, extreme weather events, even a decline in the value of real estate. Elon Musk, CEO of Tesla has set a challenge by saying 'let's electrify'. Certainly, 30-40% of CO_2 emissions come from transportation, so if that can be addressed, we are considerably closer to solving the problem. And, if successful, people can rightfully claim to be part of the solution. In this way, industries are stepping up and solving the problem.

Technology is also a solution elsewhere. For example, there is a lack of manual labour available around the world, and it is difficult to find people willing to do repetitive tasks. Automation and artificial intelligence are part of the solution to this problem. Robots are increasingly being used to support these repetitive tasks. People end up with more interesting jobs as a result.

Samsung versus Apple

Samsung has come a long way in a few short years, and its mobile phones now represent a genuine challenge to their Apple equivalents, particularly as Apple has moved up the price scale. Samsung, many conclude, has better hardware and at lower cost. In theory, this could spell bad news for Apple and pose a threat to its so-called 'supercycle' of upgrade activity.

The problem for Samsung is that it is not just competing with Apple phones, but with the Apple ecosystem. Although Samsung's products are typically cheaper, Apple manages to integrate its apps into its users' lives.

The Samsung environment is in flux. Samsung has made it clear it would rather build its own ecosystem than be beholden to Google Play. At the moment, Google is making most of the money from the system, and may ultimately end up building hardware to challenge Samsung. It currently has its Pixel phone, for example. As such, it is an uncomfortable relationship.

This matters most in China, where Google is not available. This means that the Samsung experience is very poor compared to Apple in the biggest android market in the world. For Samsung, the whole relationship is insecure. Moreover, Samsung's sales have been deteriorating in China over recent years and it no longer appears in the top five smartphone manufacturers in the Chinese market.

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. Competition among technology companies may result in aggressive pricing of their products and services, which may affect the profitability of the companies in which the Trust invests. In addition, because of the rapid pace of technological development, products or services developed by these companies may become rapidly obsolete or have relatively short product cycles. This may have the effect of making the Trust's returns more volatile than the returns of a fund that does not invest in similarly related companies. Past performance is not a reliable indicator of future results. 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. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer and/or its affiliated companies at the time of publication. The data used is derived from various sources, and assumed to be correct and reliable, but it has not been independently verified; its accuracy or completeness is not guaranteed and no liability is assumed for any direct or consequential losses arising from its use, unless caused by gross negligence or wilful misconduct. A security mentioned as example above will not necessarily be comprised in the portfolio by the time this document is disclosed or at any other subsequent date. This is a marketing communication issued by Allianz Global Investors GmbH, an investment company with limited liability incorporated in Germany, with its registered office at Bockenheimer Landstrasse 42/44, D-60323 Frankfurt/M. Allianz Global Investors GmbH is registered with the local court of Frankfurt/M under HRB 9340 and is authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). Allianz Global Investors GmbH has established a branch in the United Kingdom, Allianz Global Investors GmbH, UK Branch, which is subject to limited regulation by the Financial Conduct Authority (www.fca.org.uk). This communication has not been prepared in accordance with legal requirements designed to ensure the impartiality of investment (strategy) recommendations and is not subject to any prohibition on dealing before publication of such recommendations. Allianz Technology Trust PLC is incorporated in England and Wales. (Company registration no. 3117355). Registered Office: 199 Bishopsgate, London, EC2M 3TY.

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.

Contact Details **Telephone:** 0800 389 4696 **E-mail:** investment-trusts@allianzgi.com

18-1103