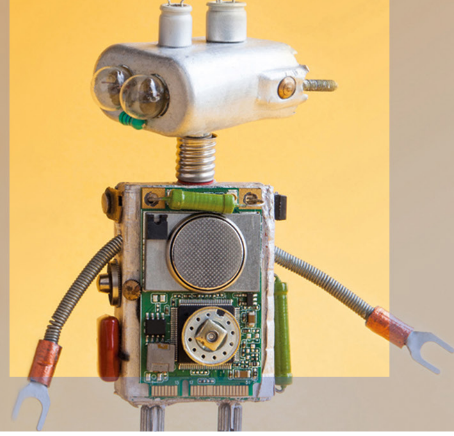

Active is: Investment Insights

www.allianztechnologytrust.com

DECEMBER 2018

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.

Investment Insights from Silicon Valley

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 dust settles...

The technology sell-off finally stabilised at the end of November and prices began, tentatively, to recover. With similar sell-offs in the past the reasons for the rout often become clearer after the event. For the time being, it appears to have been precipitated by concerns over growth, a response to shifting long-term bond yields and greater apparent risk in the companies themselves that prompted investors to lose faith, but this view may change over time.

For us, we must now survey the post-sell-off landscape and decide whether there are any rich pickings to be found. Everything is better value, but we see the best value in those companies where the prospect of higher earnings is not factored into estimates. The semiconductor sector is a good example. So many of today's most compelling technology trends, from increased use of robotics to autonomous driving, are semiconductor-intensive. The companies we talk to suggest that current analyst forecasts do not reflect their potential order books. The sector remains lowly valued, and even more so after the recent problems. Many companies are trading on less than 10x forecast earnings. We believe investors are looking at near-term problems, rather than the sector's long-term potential and cash generation. However, we haven't yet increased our weightings in the sector. We are waiting for a clearer picture on what is happening in China. In the near term, there will be a slowdown and this is likely to weigh on the industry over the next few months, potentially causing some wobbles in earnings. As such, we suspect a better time to buy may present itself.

The other area of interest after the shake-down is the high growth companies. These have been hit hardest, having been some of the strongest performers up to this point. Our view is that the landscape hasn't changed; these should still be the most important companies of the future. As such, we will continue to support this type of company in the portfolio.

E-commerce in China

Increasingly, the next wave of innovation in e-commerce is coming from East to West rather than West to East. Take Alibaba's Hema 'bricks and mortar' supermarket concept: these stores serve as walk-in restaurants, food and grocery purchase points, and warehouses to service speedy local online delivery. This is 'omnichannel' retailing and is the next stage on from the prevailing warehouse/delivery e-commerce concept. There are now over 60 Hema stores in operation.

Value. Shared.

Allianz Global Investors

This is just one of a number of concepts that Chinese companies are trying in retail. Group buying clubs are another: this is where a buying consortium agrees that they will buy a product if they can secure 30% off the price. They'll go to Procter & Gamble or one of the other major suppliers and ask for a bulk order discount. If P&G says yes, the transaction is done. Also, rather than simply planting cookies to judge consumer preferences, Chinese retailers are now harnessing recommendation feeds to tailor their advertising. They are also making greater use of short-form videos and live streams, which is improving conversion rates.

....and elsewhere

Because labour is relatively cheap in China, these models do not necessarily translate to Western markets. Nevertheless, Amazon Go stores are a similar hybrid of a convenience store and a place to get takeaway food. In these stores, there are no queues. Shoppers pick up their food, cameras keep track of what they are spending, their accounts are debited. In this way, Amazon is innovating as well.

In China and the US, innovative ideas will bring a new model of retail, transforming the way we shop. Amazon and Alibaba are watching and learning from each other. Whether it is Amazon's Whole Foods subsidiary or lockers in stores, each group is trying things that might work, looking for new systems for delivery. Both companies are focused on creating faster turnover of items and better options for customers.

Unlisted companies

It is certainly true that many exciting technology companies today are unlisted. Private equity has attracted significant capital in recent years, which has meant money sloshing around to support larger and larger businesses privately. At the same time, initiatives such as the $100 billion Vison Fund, set up by SoftBank founder Masayoshi Son and designed to support fast-growing technology businesses, are directing multiple billions to unlisted companies, leaving them little incentive to test their worth on public markets.

Investing in unlisted companies is something that we have done in the past, but it is not an approach that necessarily has a lot of appeal today. Investing when companies are still private can be a good way to make money if you can invest before a company's merits are widely discovered by other investors. However, there are so many private equity buyers today, this isn't happening. Companies in the private market are generally expensive and there is a real gap between what private equity will pay and what the public markets will pay. It will be interesting to see what happens with some of the major IPOs this year.

Data security

Data remains a problem for many technology groups. Today, we believe customers are fine sharing data on sites such as Facebook and receiving adverts on products they may be interested in. However, they are not necessarily OK with companies sharing their data more widely and it is not always easy to keep data sharing in check. There are those with the money to create chaos and that is a significant challenge for Google and other sites. Equally, that challenge is a moving target. As Facebook's Mark Zuckerberg has pointed out, the 'bad guys' are not robots. While Facebook and other companies are moving fast, the hackers are often moving faster. It's like Whack a Mole – you kill one and two more pop up. Hackers are innovative and will keep finding holes.

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.

Contact Details

Telephone:
0800 389 4696

E-mail:
investment-trusts@allianzgi.com