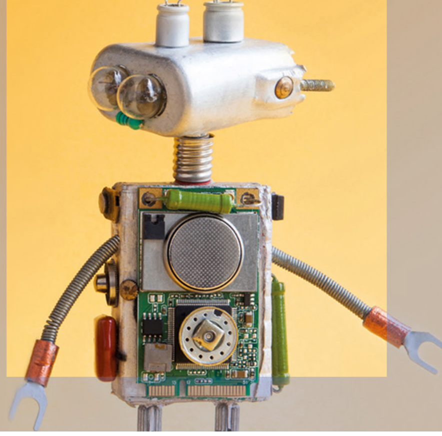

Active is: Investment Insights

www.allianztechnologytrust.com

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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

Trouble at the top

It has been a difficult few weeks for some of the leading lights in the technology sector. A number of chief executive officers have seen their authority questioned, senior executives resign and even intervention by the regulator, as their vision for the business has come into conflict with the strictures of running a public company.

Technology companies are perhaps more vulnerable to the weakness of a founder than other types of company. Many technology companies grow up on the energy and vision of a charismatic individual. Sometimes that person is also the best one to drive the business forward, sometimes not.

As shareholders, there are times when this becomes a real problem. Notably, difficulties with the CEO become an issue when a company has outside investors with no voting rights. Founders hold the controlling votes, which removes some important checks and balances on the power of the management team. We have seen situations where founders have pursued product lines that haven't worked or have been immediately copied. Shareholders with voting power may have exerted an influence and prevented mistakes.

As such, it is always important to look at how corporate governance functions at a company. When everything is going well and the stock is going up, these problems may be overlooked. They tend to rear their head in more difficult times.

There is always some tension between the creative impulse and the necessity of making money for shareholders. It is not always possible to have aesthetic freedom and to deliver a rising share price. Founders must balance the needs of all stakeholders. No-one said it was an easy job.

Crying out for regulation?

It is rare that technology companies demand greater regulation, but that is what has happened recently, as executives from Google, Amazon, Apple and Twitter lobbied US lawmakers on data privacy rules. This represents an about-turn for an industry that has strenuously resisted regulation to date, preferring politicians to leave them alone. When these 'Big Tech' players appeared before US senators, instead it argued for a comprehensive national privacy law to supersede state legislation.

There is an agenda to this. The direction of travel for legislation has been clear for some time. The European Union has led the way, putting in place controls on the way data can be used with the new GDPR legislation. In Europe, companies must now ask for permission and in general, consumers have been happy to give it, as long as they like a product.

Understandably, other policymakers have looked at the European initiative and seen its value. State governments have considered this good regulation and have begun to debate how they can use it. The companies realise they can't fight greater regulation and have sought instead to shape it. They don't want to have to employ staff to deal with 50 different regulations across 50 different states. If they shape the rules, they may be able to make the lines less complex. They certainly don't want to have to pay users for their data, or give up a share of earnings in exchange for data. This would be their worst case scenario.

It's not a large leap to do this in the US, having done it in Europe. While Europe is leading the way on citizens' rights China, however, stands in notable contrast - at the moment everyone assumes that every piece of data belongs to the Chinese government and individuals have no rights. That seems unlikely to change.

Stuck in the middle

A lot of time and effort is spent dissecting 'Big Tech' companies, their leadership, their latest activity, their soaring revenue numbers. However, there is still plenty of opportunity amid small and medium-sized technology companies. In particular, we believe there are some interesting companies amid the Software-as-a-Service (SaaS) sector. Salesforce has led the way and we are now seeing the growth of a number of horizontal applications such as human capital management and marketing management. The tools needed to build the infrastructure are largely generic and can be used for a wide range of different purposes. Now these companies have built the infrastructure, they can customise it to create a second level of SaaS.

We are seeing SaaS infrastructure packaged up with industry knowledge to solve major problems. Veeva Systems has built cloud-based systems specifically for the life sciences industry. They take on the administration process for drug approvals for healthcare companies. This means companies can focus on finding and making drugs, while Veeva takes control of areas such as regulatory filing or drugs safety. The life sciences industry is happy, because it saves them money, but it also helps collective knowledge because it builds a co-ordinated database. We believe this is good news product development.

The role of technology in energy supply

Technology is undoubtedly part of the solution to the energy crisis, but whether that also presents investment opportunities is a different matter. For example, we invested in some of the solar panel companies early on and they were successful for us initially. Then, Chinese companies entered and chased the profits out of the business by focusing on revenue growth rather than profits. While they have occasional periods of strength, they don't have significant barriers to entry. As such, it is a growth industry without a moat.

That said, there are niche companies using technology to create something new. For example, semiconductor technology is now being used to turn natural gas into electricity, like a fuel cell. This is much more efficient and the technology is not easily replicated. This gives companies a moat and investors some protection. It isn't carbon-free because it still uses natural gas, but the CO_2 emissions are far lower and for companies and consumers it is a straightforward option to move to a low carbon environment.

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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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