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Digital Economy strategy

Digital transformation spending continues to accelerate across regions

- Q2 2020 earnings season: companies within the portfolio are reporting encouraging results
- The 'Delivery' theme contributed most to performance
- Strong performance from logistics real estate and cybersecurity companies

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What's happening?

Global equity markets rose slightly in July, with the MSCI All Country World index gaining 0.7%¹. Investors remained optimistic with economies gradually reopening and vaccination campaigns accelerating in most regions. Economic data stayed broadly encouraging and Central Banks continue to provide ample liquidity, while fiscal support plans have been extended by many governments.

From a market perspective, earnings season for the second quarter has started and while it may still be too early to draw broad conclusions, results so far have been encouraging. In particular, we saw good results from companies exposed to digital advertising such as Alphabet, Facebook and Snap, driven by broad based strength in advertising spend. Cloud-based Information Technology Operations Management (ITOM) software player ServiceNow and Microsoft, global provider of software, services and hardware devices, both reported a solid set of results and continued to highlight an acceleration of digital transformation spending across regions. Amazon's results and guidance came a bit below expectations, but we believe that its competitive positioning and fundamentals remain unchanged. During 2020, the company experienced a growth trajectory who was far greater than initially expected and is lapping some difficult year-over-year comparisons as we emerge from the pandemic.

Portfolio positioning and performance

The Digital Economy strategy performed well in July, driven by the 'Delivery' theme. Logistics real estate providers Prologis and Goodman Group performed strongly. Prologis reported better than expected results, the company highlighting that

¹ Source: Bloomberg as of 31/07/2021

market conditions are the healthiest in its 38 year history². We also saw strong performance from cybersecurity companies Darktrace and Rapid7.

Within the 'Data & Enablers' theme, cloud-based customer service platform Five9 performed well as video communications platform Zoom announced that it would be acquiring the company at a 13% premium to the prevailing market price³.

We saw weaker performance from Chinese internet companies as regulatory risk is weighing on sentiment. We are monitoring further developments of the situation.

During July, we started a position in cloud based payroll management and HR solutions provider Paylocity. We exited video communications platform Zoom after the announcement that it would acquire Five9.

Outlook

As we emerge from the Covid19 pandemic, we are aware that equity markets may continue to be volatile and this could be the case for a while until we get better insight with regards to the recovery of the global economy. We believe our focus on identifying well managed businesses, with proven operating models and large opportunities still to address is the right approach to investing in the long-term growth opportunities present within the Digital Economy.

Whilst many aspects of the Digital Economy delivered expansion during the Covid19 outbreak, we are cognisant that questions will be raised about the future likelihood of growth as the world returns to some level of normality. We are aware that annualised growth rates might be challenging in the near term, and we have taken this into account within the portfolio. However, we believe that many of these investments are in companies that will continue to flourish over the coming years despite near term headwinds and so we look to use any weakness in share prices as an opportunity to add to our holdings.

The digital evolution is not an overnight coup, whilst some decisions had to be made in a hurried fashion last year in order to ensure that businesses could remain operational during an unexpected event there are also many opportunities that will develop over time as companies seek to put in place the systems and technology to enable business continuity if a similar event ever happens again.

The portfolio remains well positioned to benefit from the trends associated with the digital economy theme, such as digital payments, cyber-security and e-commerce.

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² Prologis Q2 2021 Earnings Call, 19/07/2021

³ Zoom Press Release, 18/07/2021

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