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Digital Economy strategy

Volatility increased over the month but results and guidance for the year continued to be robust

- The 'Decision' theme contributed most to performance.
- Good performance from cybersecurity specialists as companies face increasing threats to access their data and systems.
- We would be inclined to use share price weaknesses as an opportunity to invest.

Jeremy Gleeson
Portfolio Manager, Digital Economy Strategy

What's happening?

Global equity markets fell in February, with the MSCI ACWI declining 2.6%¹. Volatility increased over the month as the warning of an imminent Ukraine invasion by Russia ended up materialising. The international community imposed severe sanctions on Russia and at the time of writing the situation remains very uncertain. The growth to value rotation continued during the month with sectors such as Energy performing particularly strongly given the geopolitical context.

From a market perspective, corporate earnings results and guidance for the year continued to be robust. We saw particularly strong results from social media platform Snap who reported results and outlook ahead of expectations. The new Apple operating system changed how advertisers are able to target users and track ad performance but the company seems to have adapted to this new environment faster than expected. We also saw good results from cloud-based customer service platforms Zendesk (within the Data & Enablers theme) driven by continued up-market momentum. The company also received an unsolicited bid from a Private Equity consortium which the board rejected, stating that the offer significantly undervalued the company.

Portfolio positioning and performance

During February, our exposure to the 'Decision' theme contributed most to performance. We saw good performance from global ecommerce and cloud services provider Amazon who reported better than expected profitability and announced the first price increase in US Prime membership since 2018, which should drive operating leverage and offset rising costs.

Within the 'Discovery' theme, cloud-based provider of sales and marketing software Hubspot reported solid results and the management team highlighted a strong demand for digital marketing solutions which should continue into 2022. This was offset by social media company 'Meta' who reported results and guidance below expectations driven by the impact from ad

¹ Bloomberg as of 28/02/22, in USD

tracking and measurement changes driven by the new Apple operating system and stronger engagement in short-form videos which are currently less monetised than more traditional formats such as Feeds and Stories. The company went through similar transitions in the past and has historically been able to successfully adapt to those changes.

Within the 'Delivery' theme, we saw good performance from cybersecurity companies, in particular vulnerability management provider Tenable and Privilege Access Management solutions provider Cyberark who both reported good results. We expect to continue to see robust spending around cybersecurity as companies face increasing threats to access their data and systems. Firewalls, email protection, cloud-based security and vulnerability management are all important aspects to cybersecurity, we have investments across these areas. We saw weaker performance from payment companies Paypal and Fidelity Information Services both providing guidance below expectations.

During February, we sold our investment in analytics software provider Alteryx and provider of Critical Events Management platform Everbridge. We sold logistics real estate company Tritax Big Box and reallocated some of the proceeds to start a position in logistics real estate company Segro.

Outlook

With the current uncertainty raised by the geopolitical situation, it is not surprising to see an increase in volatility and some profit taking. From an investment perspective, we have no direct exposure to Russia and Ukraine. We are monitoring these events and if fundamentals for the sector continue to be robust, we will use any weakness in share prices as an opportunity to invest.

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 current geopolitical situation and the recovery of the global economy. We continue to believe that the opportunities driven by the long-term themes within the portfolio remain intact and our focus on identifying well managed businesses, with proven operating models and large opportunities ahead of them 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 and continued throughout 2021, we are cognisant that questions will be raised about potential interest rate increases and inflationary pressures. However, we believe that many of our investments are in quality companies that should continue to flourish over the coming years regardless of the macroeconomic outlook and we would 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 in 2020 in order to ensure that businesses could remain operational during an unexpected event there are still many opportunities developing as companies seek to put in place the systems and technology to become more digital and enable business continuity if a similar event ever happens again. There is no doubt that the last two years have had a significant impact in the way that many industries operate and a lot of the transitions will likely have some element of permanence even when the pandemic comes to an end.

Our investments within the strategy have continued to report robust growth, generate healthy amounts of cash and present strong balance sheets. The portfolio remains well positioned to benefit from the trends associated with the digital economy theme, such as digital transformation as companies around the world engage with their customers, partners and employees via digital platforms.

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