Digital Economy strategy

Despite volatile markets, we saw strong results from enterprise focused technology companies

- The 'Discovery' theme contributed most to performance.
- Good performance from customer experience management platform and logistics real estate
- Valuations have become increasingly attractive given the theme's long-term growth potential

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What's happening?

Global equity markets fell sharply in April, with the MSCI ACWI declining 8.0%[1], the biggest monthly fall since March 2020. Markets had another volatile month driven by concerns over Central Banks rate rises, inflation impacting consumer sentiment, Chinese lockdowns weighing on economic growth and the Ukraine war showing no signs of resolution. In the US, expectations are for the Fed to accelerate rate hikes in each of its upcoming meetings in order to curb inflation, hoping for a soft landing of the economy, but markets remain concerned about the recession risks of such approach.

From a market perspective, earnings season for the first quarter has now commenced and so far, the reports have been encouraging with regards to business trends that our investments are seeing. Strong results from enterprise focused technology companies like Microsoft and ServiceNow have set the scene for a favourable outlook for the Digital Economy more broadly.

Portfolio positioning and performance

During April, our exposure to the 'Discovery' theme contributed the most to performance, driven by customer experience management platform Sprinklr who reported good results and guidance above expectations. We saw better performance from Chinese internet and gaming company Tencent after the regulator approved the first series of video games in 9 months. Social network Meta Platforms presented results that reassured the market however broad social media and online advertising remain challenging amid privacy related headwinds and macro concerns. There is clear evidence that the invasion of Ukraine results in a pause in aspect of online spending during the quarter.

[1] Bloomberg as of 30/04/22, in USD

Within the ‘Decision’ theme, leading independent rail and coach travel platform Trainline performed well after announcing it had reached an agreement with the Rail Delivery Group over its third party license, providing more clarity over the company's operations. This was offset by weak performance from over-the-top provider of video content Netflix and global ecommerce and cloud services provider Amazon. Netflix reported in line revenue, beat on earnings but provided guidance below expectations. Netflix share of TV viewing in the US remained steady, highlighting subscriber satisfaction and retention (despite recent price increases they still grew their US and Canadian subscriber numbers year on year). We still believe that the company has a unique value proposition and should continue to benefit from the secular trend of displacing traditional broadcast TV. Amazon reported results below expectations. Since the pandemic started Amazon invested in ramping up capacity, doubling the size of its fulfilment network in 2 years, the company is now focusing on improving cost efficiencies to mitigate inflation and supply chain pressures.

Within the ‘Delivery’ theme we saw good performance from logistics real estate providers Prologis and Duke Realty, reporting results exceeding expectations. Logistics real estate continues to benefit from positive market dynamics of ecommerce and supply chain reshoring.

There was relatively little activity during the month, however, we have taken advantage of some stock specific news to reallocate our investments where appropriate. We sold Tencent's dividend distribution in JD.com shares and reduced our exposure to social media and online advertising.

Outlook

We believe that markets are likely to remain volatile whilst the geo-political uncertainty and macroeconomic concerns remain. However the valuations within the Digital Economy universe have become increasingly attractive given the long-term growth potential of many of the companies in the group. 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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