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Digital Economy strategy

Volatility picked up again in August

- Inflation and central banks interest rate policy were the drivers of equity market returns
- The 'Cybersecurity' sub-theme contributed most to performance
- Second quarter earnings season has continued with no significant negative surprises

Jeremy Gleeson

Portfolio Manager, Digital Economy Strategy

What's happening?

Global equity markets declined in August, with the MSCI ACWI falling 3.9%¹. Inflation concerns and the debate over the path the US Federal Reserve and other central banks are taking with their interest rate policy and whether that will result in a hard or soft landing for the global economy have continued to be the primary driver of equity market returns.

The ongoing rising cost of living and the associated impact on the consumer continues to be a headwind for businesses whilst the backdrop of the war in the Ukraine adds to current market uncertainty and supports the current risk off sentiment.

However, second quarter earnings season has continued with no significant negative surprises. Whilst companies in which we are invested in have seen some of the headwinds that the current economic circumstances are presenting such as a strong US dollar, weaker consumer spending and cost inflation these are not materially impacting their ongoing business trajectory.

Of those companies that we invest in within the Digital Economy strategy that have reported second quarter results, 64%¹ have delivered better than expected revenues and 78%¹ provided better than expected earnings, suggesting that these businesses continue to grow faster than what was expected of them.

Portfolio positioning and performance

During August, our exposure to the Cybersecurity sub-theme (within the Delivery theme) contributed the most to positive returns. Within this sub-theme significant contributors included Darktrace, Palo Alto Networks, CyberArk and Tenable.

¹ Source : Bloomberg in USD as of 31/08/2022

The Data sub-theme (with the Data & Enablers theme) detracted most from performance during August. A recurring topic from enterprise software companies that have reports over the last few months has been that there are delays in signing new business as customers scrutinise their expenditure more given the current economic environment.

Portfolio activity was light during the month. Within cybersecurity, we continued to add to our investments in Palo Alto Networks and Splunk.

We continued to reduce our investment in Zendesk, following the bid proposed by a consortium of private equity firms to acquire the company.

Outlook

We expect that markets may remain volatile whilst the geo-political uncertainty and macroeconomic concerns continue. The long-term growth potential of many of the companies within the Digital Economy theme remain robust and hence valuations have become increasingly attractive.

We believe that many of the long-term opportunities within the theme remain intact, although the noise created by the Covid19 pandemic has meant that growth rates have been abnormally high and are now converging back to longer term trend lines, meaning that the pace of expansion could look relatively disappointing in the near term.

We would argue that pandemic induced transitions such as the shift from cash to card-based transactions; the adoption of video communications; the awareness of the convenience of e-commerce; and the move away from linear broadcasting to on-demand streaming of television are somewhat irreversible trends that should continue to gain further share over time.

We believe the long-term growth trends which the fund is exposed to are still intact however the strength of the economy will influence the pace of this growth. Therefore, we continue to focus on quality within our investment universe, backing management teams who we believe can steer their companies through these more challenging times.

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