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Digital Economy strategy

We see significant opportunities for companies to create value and drive innovation

- Global equity capped a positive first half of 2024
- The 'Decision' theme was the biggest contributor to performance
- We initiated a new position in Zebra Technologies

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What's happening?

Global equity markets continued to grind higher in June, with the MSCI All Country World returning 2.2%¹, capping a positive first half of 2024 (+11.6%). The S&P 500 and Nasdaq indices reached new all-time highs over the month. Growing optimism that the Federal Reserve will begin cutting interest rates later this year supported the equity market. While inflation showed further signs of cooling, labour market and consumer spending data were more mixed, suggesting the economic outlook remains uncertain. Geopolitical tensions stayed elevated, with rising political risk in Europe following the decision by French President Emmanuel Macron to call a snap election. This led to a sharp selloff in French bonds and underperformance of European markets relative to the US. Meanwhile, the Japanese Yen fell to its lowest level against the US dollar since 1986, prompting speculation around potential intervention by the Bank of Japan.

Portfolio positioning and performance

The Digital Economy strategy outperformed the MSCI All Country World Index during the month. The Technology sector outperformed the broader market, once again dominated by the semiconductor subsector (in which the strategy has no exposure to) and a continued leadership among a narrow group of mega cap stocks.

The 'Decision' theme was the biggest contributor to performance, with strong returns from e-commerce and cloud computing platform Amazon. The company, via its Amazon Web Services (AWS) cloud computing platform, is benefitting from the growth in Artificial Intelligence workloads combined with a winding down of the cloud optimisation cycle. Amazon is also seeing improving trends in its retail business, driven by improving logistics efficiency and ad revenue scaling up. This strong performance was offset by British online retailer and technology company Ocado, which is experiencing a slower than anticipated pace of solutions rolling out at partners. We exited our position over the month.

¹ Source: Bloomberg in USD as of 28/06/2024

Within 'Data & Enablers', cloud-based enterprise software company ServiceNow was a notable outperformer. We met with management in June who expressed confidence in execution and pipeline. The company has kept a rapid innovation pace of product releases and its Artificial Intelligence strategy has so far been well received by customers. This strong performance was offset by Contact Centre as a Service Software provider Five9. Despite management's confidence in its outlook and the belief that Artificial Intelligence would be accretive to revenue over the long term, Five9's shares were impacted by Microsoft's announcement of its own AI-powered contact centre solution.

In the 'Delivery' theme, cybersecurity company CrowdStrike performed strongly, following strong quarterly results and the announcement of its inclusion in the S&P 500. CrowdStrike's AI-powered platform, Falcon, continued to drive customers' consolidation of cybersecurity spend. This strong performance was offset by payment company Global Payments despite no significant news over the month.

The 'Discovery' theme was the biggest detractor from performance. Alphabet, the parent company of Google, performed well during the month. Investors' concerns about the resilience of its search business were alleviated following Apple's Developers Conference (WWDC) event in June. While Apple unveiled its Artificial Intelligence strategy at the event, the use cases that were presented did not seem to directly challenge Google's dominance in broad-based search. This robust performance was offset by customer experience management software provider Sprinklr, who reported disappointed results, significantly reducing its fiscal year guidance and announcing a leadership change, prompting us to exit the position.

During June, we made some adjustments to the portfolio. We initiated a new position in Zebra Technologies, a US-based provider of scanners and warehouse efficiency tools. This investment aligns with our 'Delivery/Logistics' theme and subtheme. After several years of digesting the warehouse build-up from e-commerce companies during the Covid-19 pandemic, we believe the industry may be at the start of a new capex cycle. Trends appear to be improving following a period of muted demand due to overcapacity in warehouses. Zebra is well positioned to benefit from this trend as businesses seek to modernise and improve their warehouse efficiency.

We exited our position in British retailer and technology company Ocado. As mentioned earlier, Ocado has been facing challenges due to the slower than anticipated rollout of its solutions to partners. Additionally, we sold the remainder of our position in dating App company Match Group amid concerns about user trends and the changing landscape in the online dating market.

We trimmed our holding in Five9, cloud-based contact centre software provider. While we remain confident in Five9's long term prospects, we thought it was prudent to reduce our exposure given the near-term headwinds. Furthermore, we reduced our position in Veeva Systems, provider of cloud-based software solutions for the life sciences industry. Veeva's management highlighted a challenging macroeconomic environment citing slower decision making and delayed projects among some of their larger customers. While we maintain a positive long-term view on Veeva's market opportunity and competitive position, we adjusted our position size to reflect the near-term uncertainties.

June was a busy month for conferences, providing up with valuable opportunities to meet with company management teams. Following productive meetings with Mercado Libre and CrowdStrike, we increased our positions in both companies. Mercado Libre continues to demonstrate strong execution in its e-commerce and fintech businesses, while CrowdStrike's AI-powered cybersecurity platform is experiencing robust demand as companies prioritise security and spend consolidation in an increasingly complex threat landscape.

Outlook

The Digital Economy continues to evolve and expand, driven by a combination of technological advancements, changing consumer behaviours and the ongoing digital transformation of businesses across industries. Although digital technologies

have seen rapid growth and adoption in recent years, we believe that there are still significant opportunities for companies to create value and drive innovation.

We see significant opportunities in companies that are leveraging digital technologies and business models to create compelling value propositions for customers, disrupt traditional industries and capture market share. This includes businesses that are innovating in e-commerce, cloud computing, digital payment, cybersecurity and other key areas of the Digital Economy.

We believe the strategy is well-positioned to capitalise on the Artificial Intelligence secular trend. As businesses recognise the transformative potential of AI and the importance of data across the Digital Economy value chain, the strategy is poised to benefit from the growth of AI-powered applications in the years to come. At the heart of digital transformation is the critical role of data and businesses that effectively leverage their data are poised to gain a significant competitive advantage. The need to embrace change or risk being left behind is more pressing than ever, and we believe that the emergence of Generative AI should intensify this urgency.

While recent market gains have been driven primarily by mega-cap companies, the anticipated shift towards a new interest rate cycle should create a favourable environment for equities across all market capitalisations. Our focus on key trends and disciplined investment approach targeting well positioned companies and theme aims to capitalise on the Digital Economy's ongoing evolution across a broad range of market segments in various market conditions.

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