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TRANSCRIPT: EPISODE 166
23 December 2021 (pre-recorded 10 December 2021)

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[INTRODUCTION]

James Yardley (JY): Hello and welcome to the Investing on go podcast. Today I'm joined by Jeremy Gleeson, the Elite Rated manager of the AXA Framlington Global Technology fund. Thanks for joining us today Jeremy.

Jeremy Gleeson (JG): You're welcome.

[INTERVIEW]
[0:17]

JY: Jeremy it's been a bit of an up and down year for technology as we sit here in early December. But once again tech has outperformed. Do you think the reopening inflation fears have been overdone or is technology simply so entrenched in our lives today, that it's maybe a sector for all economic environments now?

JG: Yeah, that's a good question. It has been a good year for returns for the technology sector, but it doesn't feel like it's been a good year for returns for the technology sector.

JY: yes.

JG: It's been pretty challenging this year. The persisting uncertainties around the pandemic and lockdowns and reopenings - couple that with market rotations taking place - growth and value - interest rate rise discussions, the regulatory environment - especially in China - have all contributed to making it a very volatile year. We've had very good returns, but it certainly felt like we've worked hard for them this year, more than maybe some other years.

We think that technology is very much entrenched in our lives both at home and at work. And increasingly those two places are the same for many people. And I often hear the comment actually that you know, that I can't imagine what lockdown would've been like without all this technology to help us along. So certainly very much entrenched. And the sector is far more resilient than it was say 20 years ago.

[1:50]

JY: Why is the sector so more resilient now? Is that just because the companies are maturer, that there's more cash flows and things?

JG: It's a combination of all that. Proven technology which has been broadly adapted by not just hundreds or thousands of peoples, but millions of people. And these companies are profitable, generating cash, have very strong balance sheets. So you know, we think that the sector is good, in very good shape, but there are gonna be cycles when technology might not be in favour. And ultimately that makes us feel more certain that our long-term approach to investing in the sector is a good one to have - identifying long term trends and themes and the best quality companies that benefit from those themes. And then investing in those companies over the longer term.

[2:43]

JY: Yeah. And I know you have a long-term approach, but do you have any view on how tech will do next year or is that not something you even think about?

JG: Yeah, so it's always difficult to know exactly what sort of mood the market's going to wake up in, on the 1st of January. But you know, we think that we're in the process of another wave of adoption of technology, which is being driven by the need for companies to embrace the digital economy and how they engage with customers and partners and their employees, which is supported by advances in cloud computing. And the proliferation of semiconductors into all manner of end markets. And you've actually got quite a good backdrop for the technology sector going into 2022. But we are mindful that whilst the fundamentals of the businesses we invest in remain strong, that valuations aren't as cheap as they were five years ago, and so we could well see continued volatility, a little bit like this year, as we go into and play through 2022.

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JY: And your portfolio is heavily skewed towards the US as to be expected, but you've got nothing in Japan, for example, which is perhaps a little surprising given Japan's history of innovation or automation. Why is there nothing there? Is there anything on your radar?

JG: Yeah, it's an interesting observation. Because as you say, you know, Japan's got a lot of history in technology and even today they remain the leader in automation. And these, these are more industrial companies who make those big robots that you see in car manufacturing plants. However, a lot of the technology investment opportunities in Japan lie within conglomerates. So as an investor, if you want to get exposure to one specific area of technology, if you buy those conglomerates, you end up getting exposure to a whole variety of other businesses as well. So you end up diluting your exposure. So, for example, Toshiba, which has historically been a solid Japanese technology company, have exposure to power generation. So you're not getting that pure approach. So we find it easier to find or identify pure technology companies outside of Japan. And we have actually found some richer pickings by looking elsewhere in Asia, such as Taiwan and South Korea. But ultimately your observation about the US exposure is correct. It has been US technology companies that have been the most successful at commercialising the opportunities on a global scale when it comes to the technology sector.

[5:29]

JY: And you're a big fan of the semiconductor space at the moment, has the supply of these parts picked up yet or does that actually help the space, the fact that there's this constraint and such high demand, that's partly why they're able to make such strong returns at the moment some of these companies.

JG: Yeah, we've had a thesis for the semiconductor sector, which has kind of been playing out for the last 10 years plus, and you know the shortages that the industry is seeing moment is really as a result of a long 10-year cycle where more capacity has been added to meet the type of demand that's coming through now. But part of that has been a result off the ordering patterns for some of the industries that buy semiconductors today. So particularly the automotive market, the auto industry, car manufacturers slammed on the brakes on ordering components in early 2020 and then tried to move up ordering later on in the year. And the semiconductor industry just doesn't work like that.

You know, in terms of manufacturing these are long term projects to build new manufacturing facilities. So whilst the semiconductor industry is adding more capacity, it takes a while for that capacity to come on board. So, you know, we think the demand and supply will get into better balance, but it's not gonna happen overnight. And I think we're gonna sort of continue to enjoy some very good returns from our semiconductor companies for the foreseeable future. This year in particular companies like Qualcomm, Marvell and AMD (Advanced Micro Devises) have been particularly good returns.

[7:19]

JY: And what opportunities are you finding in technology that plays into the climate change theme?

JG: Yeah so what you're not gonna find in the Global Technology fund is direct exposure to say solar panels. We largely think that some of these areas are quite commodity-like: low margins, low pricing power, and it's not really of interest to us. But actually flipping back to your previous question, which is regards to semiconductors, we do find that a lot of semiconductor manufacturers are providing components and solutions to make a wide variety of device more efficient. One of which obviously is cars. With the shift taking place towards electric vehicles, cars now contain a significantly higher number of chips compared to those cars that have combustion engines. So companies like ON Semiconductor, which have an investment in, is a play there. And also there's making devices smarter. So for example, power meters - enabling them to connect via communication solutions like from the likes of Silicon Labs, to enable them to sort of feedback power usage on a realtime basis, to allow sort of more more efficient metering, more efficient billing. That's another way of getting exposure to some of those climate change themes as well.

[8:54]

JY: So thinking about some of the newer technologies out there now, are you finding any opportunities in things like blockchain or AI or virtual reality? Or is it too early for you? I know you prefer to invest in more established technologies.

JG: Yeah, so, I mean, we continue to keep an eye on all of those innovations amongst others, but I would say that our overall exposure is somewhat limited at the moment, as we prefer to invest in more proven companies, who are enabling some of these potentially great innovations to have it rather than in some of the pure play companies, which are more, you know blue sky, greenfield, whichever sort of way you wanna describe them.

So, I mean, for example, if you look at those innovations that you mentioned, we have an investment in a company called Cadence Design Systems who provide electronic design automation software for the semiconductor industry, and it's their digital signal processing IP, or their DSP IP, their intellectual property, which has been used in many of the virtual reality headsets out there on the market. So, you know, they are to some extent being able to monetise the opportunity through that. And we've got exposure to companies like Salesforce.com and Five9, who are software companies who are incorporating artificial intelligence into their software to help their customers make decisions on a more efficient basis.

So we do have exposure to those innovations, but maybe not sort of in the sort of screamingly obvious way.

JY: Yeah.

JG: It's all about sort of getting exposure to through companies who already have a strong established business model, and this is just gonna, prove or add extra value and extra growth to these business over time.

[10:51]

JY: And finally, what do you think is the best tech gadget for Christmas this year?

JG: You'll be surprised at how many times I get asked that question at this time of year and I always struggle to answer it as well. I think the AirPods and the Apple Watch are fantastic gadgets. I also think that their AirTags are a great idea for a present for anybody who keeps losing their keys. So, you know, if you know somebody or somebody in your family has a habit of having to ask you all the time, have you seen my keys? I think an AirTag is a great present for them. I think there's so many great gadgets out there with regards to the health industry now. So if you've got, if you wanna buy a present for somebody who is active there's some great health monitoring and tracking devices. And also, you know, the other thing I would always say is golf gadgets are always a big win to me. Although I find that the more golf gadgets I get, the fewer excuses I have for playing bad golf.

JY: Very good. Well, thank you very much for joining us, Jeremy. That's been very interesting.

JG: You're welcome once again. Always enjoy doing these podcasts with you. Thank you very much.

JY: Thanks, and if you'd like to learn more about the AXA Framlington Global Technology fund, please visit fundcalibre.com and please also remember to subscribe to the Investing on the go podcast.