

TRANSCRIPT: EPISODE 371

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[INTRODUCTION]

Staci West (SW): Welcome back to the Investing on the go podcast brought to you by FundCalibre. Technology continues to reshape our world at lightning speed, creating both opportunities and challenges for investors. In this episode, we explore how one expert navigates the shifting tech landscape, from artificial intelligence and cybersecurity to global trends and valuations, revealing how thoughtful investing can uncover long-term growth in innovation.

Darius McDermott (DM): I'm Darius McDermott from FundCalibre. Today I'm delighted to be joined by Mike Seidenberg, who runs the Allianz Technology Trust. Afternoon, Mike.

Mike Seidenberg (MS): Nice to be here.

[INTERVIEW]

DM: You're obviously on a bit of a trip to the UK. Seeing some investors, and it's nice to finally meet you in person having met over the screen a number of times. **[MS: Likewise.]** So, technology, it's about, I mean, it's a fairly broad church these days, <laugh>, but it's so interesting and no doubt we will talk about AI, but let's just have a quick recap of the trust and where your area of specialty is. You are normally structurally underweight the mega-caps. How have you managed to play the whole Nvidia, you know, since Liberation Day doubling and how's that worked?

MS: So, you know, knock on wood we didn't do a whole lot during the Liberation Day fiasco slash what are tariffs, what aren't tariffs. And basically we operated, the team operated on the premise that we would get to yes. How we got to yes may not be the prettiest thing. And yeah, I think it's the only time barring 08/09 in my career where I was truly, you know, you know, pulling my hair out, so to speak.

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Having said that, you know, if the one thing you learn and you do this job for a number of years/decades in my case, is you learn that, you know, panic usually isn't the best thing to be. And, and being methodical and thinking about things is probably, you know, in a difficult time has probably served you well.

You know, ironically for us, you know, we were able, you know, it just so happens I had a meeting down at Avago Broadcom with Htan and with a group of investors, you know, while the stock was selling off aggressively, he was sitting there telling us he felt really good about his business. So we were able to, you know, add to positions that we thought had better risk reward than prior to you know, prior to the worry around tariffs. That doesn't mean it's easy, but I do think by not making a lot of changes, it allowed us to recoup some of the drawdown and really allowed fundamentals to maybe come back into view in the market.

To your questions on mega-caps, we tend to focus on large cap, mid cap. I will tell you the last few years, and since I took over the trust in July of 2022, we've definitely had a lot of exposure to mega caps. Primarily, if I think about it from a risk perspective, and as much as investors like to tell me they have a five-year time horizon, you know, we would've woefully underperformed. Had we not, we've been deriving our performance though, which is great outside of the mega caps. So, you know, if I think about, you know, year to date and where we've kind of the highest attribution, it's not around, you know, over, above benchmark weights and the mega cap, it's in other names. And when I look at that list, which I've looked at a lot this week, marketing in the UK, it's from a very diverse set of names.

Ultimately, I like to remind the team, because we are bottoms up investors with a macro overview, we should be able to find opportunities in any type of tape. It doesn't mean we're always gonna outperform. And hopefully, you know, we do that more than we underperform over time, but I do feel like whatever the macro throws us, we should be able to find opportunities because, you know, if you think about it, the playing field that I get to play in and I feel so fortunate is technology. And technology's been this amazing sector, you know, I've been on the buy side since 2001, so going on, you know, call it, you know, go during my 25th year. And technology is only become increasingly important for companies. And that's something I just feel fortunate. I happen to just choose the right neighbourhood from a career perspective. Granted, I worked in technology after business school, so, you know, there was method to my madness.

DM: And it hasn't been like a burden being that structural underweight? I mean, clearly you have owned some Nvidia and some of the others?

MS: We've owned a lot of them. Yeah. I mean, it's just meant that we need to find, we need to find our performance elsewhere. But I also tell you that, you know, I think of the shareholder of the trust as my mother. My mother's 82 years old, she needs some exposure to tech. But, you know, look at Nvidia for example, it's 15.7% in the benchmark. So for me to outperform for our shareholders to generate real alpha, it would need to be a 20% position for us. I'm not comfortable for myself as a portfolio manager, from a risk perspective, from our client perspective, I wouldn't wanna have a single stock with that type of weighting. So, you know, it's just the world we live in and we just need to find, we need to find the performance elsewhere. And at some point we will take money out of the mega caps and we'll move it more into mid cap, large cap. But, you know, they've been great stocks. It's just that I've had to run really fast to keep up with them.

DM: And I guess technology as a sector has changed since you began on the buy side. [**MS:** Sure.] You know, not just Hewlett Packard and Intel and those sorts of names, but you know, throughout the chain. There's technology companies everywhere. And I know we're gonna hopefully talk a little bit about AI because it would be amiss for me not to talk to you. But we touched briefly on tariffs and liberation day. Do you feel the new tariff regime has started to hit earnings, obviously, technology companies?

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MS: Sure. I mean, first of all, it's early days. No one expected to see the impact in Q1. We didn't, I mean, you saw some companies, you know, have challenging Q1s because business businesses pause trying to figure out what it meant to their business. Yeah. Look, Q2 results, solid results across technology. Here, again, I would, I don't think we really knew what the new playing field is around terrorists. I think a lot of businesses are gonna try not to pass on some of those costs to their customers.

Having said that, I think time will tell, because the honest answer is I don't think we've really seen the impact yet. I will say that, you know, all things being equal inside an enterprise. So think about a business enterprises will spend on business will spend on technology, not because they think technology is great.

No one buys technology for the sake of technology. People buy technology because it creates value when they purchase it for their employees. Right? So whether that's increasing sales, whether that's decreasing costs, or increasing customer satisfaction, those are the three real reasons why most people buy technology. Yeah. And it just so happens that we live in a very digital world. So, you know, I can see your iPhone, you see mine. And that's, you know, what businesses want to do is meet their customer. And whether that's business to business or business to consumer, meeting your customer where she or he lives is the best place to be. And a lot of times that requires an investment in technology today.

DM: Yeah, absolutely. Have the tariff, imposition was the word I was gonna use, but probably not the right. But the tariffs that are being now living, have you changed the portfolio at all? Have you?

MS: We really haven't changed it much around, we've thought it, we've obviously considered them. You know, we've thought about the potential impact. But for the most part, you know, we really haven't made major adjustments. And some of that's a function of we just haven't seen the impact. Look, you know, if you just think about corporate profits and operating margins across all public companies, you know, businesses have done a great job of expanding their operating margins over time. So if in fact they had to give up a little to basically absorb some of those tariffs, I get it.

Look, you know, if I invested in luxury goods, right? You know, think about the luxury good manufacturers, those people pass on price increases every year. Yeah. By the way, they have more demand than supply. So, you know, I mean, or, and they will, I guess the current way to say is they create a lot of scarcity is the right way to say that. And you know, it's natural. Like I saw that, you know, for example, Porsche had the largest price increase in the history of the brand in the US between 2025 and 2024. They obviously passed on a lot of the tariffs. You know, they continue to whatever, do lots of things with their cars. I don't think most businesses can pass along. I think in the case of Porsche and the 911, the average price increase was about 31%, which is a tremendous amount of dollars. I don't think most businesses can pass that on. [**DM:** Yeah.] I think there'll be some sharing. I think there'll be some wiggle with respect to what the real tariffs end up being. And time will tell.

What I am confident is that I don't think the current US government wants to tank our economy. And a lot of the best parts of our economy are in the tech sector. So you ask yourself, are you really gonna do something that basically puts the economy in your a recession? And I wanna tell the viewers, I'm by no means an economist, but what I am very aware of is I really follow the consumer because how goes the consumer goes tech. Yeah. So I watch that very clearly because if you and I feel good about our situations, when we get to our respective jobs, we are more likely to engage in what can we do to bring the business forward versus what can I do to not spend money, so I'm not on the chopping block.

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DM: Absolutely. And when you think tech, I don't know rightly or wrongly, one thinks America, yeah. One thinks the United States, but you have a global...

MS: By the way, Britain has a amazing history of tinkerers. Right. If you go back and look, you know, look at, like, go back and look at automobiles, look at airplane, you know, and by the way, there are tons of British people in the Silicon Valley that happened to have gone to America. Because I don't want anyone to live this podcast thinking it's America's only game. I just think that there's the right combination in the Silicon Valley. To kind of fund these companies and to live with the losses and understand that it's not about the next two years, it's about year five. But go ahead, finish your question.

DM: Maybe just gonna say, technology is everywhere. You have a global opportunity. I mean, your benchmark is global. [**MS:** It is.] Even though I no doubt. It's heavily weighted [**MS:** Incredibly]

<Laugh>. Let's talk a little bit about China. And maybe just a Asia broadly, if you'd like, how much do you have sort of ex-US and has that grown or decreased and maybe talk about one or two of your Chinese.

MS: Sure. So it has grown. Some of that growth was a result of thinking about the tariff situation. When that was occurring, we did buy some more foreign stocks. My thinking was all things being equal. And I'll just use an example of a holding that we have. If you're a business, a US business competing against the likes of SAP, am I more likely in an international setting to win that business versus a customer on continental Europe going with a come SAP and for the users that, for the listeners that are, that don't know, it's a German based software company, which does a tremendous amount of business in the US but has a great, great presence internationally.

So we have added some foreign companies to the portfolio specifically around China. You know, China's a market where the trust had had a very large investment in China prior to the current governmental regime. We sold that investment. It was a great, great decision by the previous fund manager, whom obviously I worked very closely with, and the team. And we, we look like heroes because upon selling, you know, our large business in China, then, then, you know, lo and behold the pandemic came.

Look, we left China not because of the pandemic. We left China because of the regime. It just so happened that the pandemic only just helped, helped that exit. So the bar to get back in was really high. I worked very closely with one of my teammates, the onus of getting back in. And we own both Alibaba and Tencent. The onus and genesis of that was really driven around deep seek and what we were seeing outta some of the Chinese kind of AI related solutions. And we thought the business was interesting.

I was very adamant in that I had lived through China Inc destroying a sector. We used to own stocks in the educational space that were literally wiped out. Like that was, and by the way, it's not a fun conversation with investors explaining to them how they lost 150 bips of per of our portfolio on just a governmental oversight decision. So I didn't wanna be that poster child again. So I said, I wanna own the biggest and strongest brands in China that were relevant to the solution. Well, you know, we don't own BYD, which if you've ever been to one of their cars, amazing product. But we wanted something was specifically around AI and specifically had a market cap that if China Inc. Decided to wipe them off the face of the earth, that it was gonna be painful to ever enter the capital markets again. And that's how we got to our China position. So the bar was really high. We bought it, you know, decent sized positions. We should have bought more. They've been good stocks.

DM: Hindsight's a wonderful investment technique.

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MS: Well, exactly. I try not to spend a whole lot of time thinking about hindsight.

DM: So let's talk a little about AI. I mean, I'm in my early fifties. I'm not sure if I'm frightened by it or intrigued by it. What I expect is it will definitely help with productivity. Certainly this first wave. And you are much nearer to the coalface, as you say, Silicon Valley, San Francisco. What's your general thinking about AI and what maybe the impact will be on consumers over the next say 12, 24 months?

MS: Sure. It's a great question. It's something we spend a lot of time on [**DM:** I bet.] Thinking about and working on, you know, in general in my career, you know, what we are looking for is secular opportunities. And in technology you see a lot of fads. I can tell you with a fair degree of certainty, artificial intelligence is not a fad. It is a secular opportunity. If you talk to people outside of tech, for example, go talk to a health company, go talk to a legal firm, their use cases and how they're envisioning the potential for AI really is extraordinary. Especially in healthcare. I mean, I have a friend who is the, he's a surgeon by trade, but he's a chief innovation officer for an extremely large HMO in the United States. And like, you don't have enough, you know, we don't have enough time if you were here to talk about what it means to their business.

But ultimately the reason why they're interested in the artificial intelligence is pretty simple, right? They wanna increase patient outcomes, they wanna decrease costs of delivery of healthcare and they wanna increase customer satisfaction, right? We've all been to, we are lucky. We live around first class world class healthcare. It isn't always a great experience as a patient, but you are generally speaking, you feel very fortunate. I think that AI from a potential perspective, you know, there isn't an industry similar to when I think about the cloud and what it has meant. You know, people didn't adopt the cloud because they thought it was a cool technology. It was very simple, right? They were tired of stranded legacy IT costs, and they had a board of directors, you know, you know, pushing down to the CEO saying, you know what, move from a fixed cost model to a variable cost model so we can be competitive, flexible, and not get stuck with all this legacy technology.

Which by the way, allows us, you know, great story on Wells Fargo. There's a great story that I heard one time about Wells Fargo and how they were competing against another bank and they had this legacy infrastructure that basically meant that their competitor could change the pricing on products, which in this case, the mortgage, they could change them like literally within one or two days. And the CEO of Wells Fargo went down to the chief information officer and said, how come it takes us three weeks to respond? You know, they were responding to changes when their competitor, because of their infrastructure had already moved three times. Right? So, and that's not a good feeling, right? You don't wanna be in that seat. So I think that, you know, when you see something secular and you figure out what the drivers are, and here again, it is a, the filter.

There are lots of things that you might think are, but very few are secular opportunities. I mean, going back, you and I could probably talk about cybersecurity, the cloud software as a service, you know, and we're going back lots of decades here. Client server you know, I think AI has that combination. I think early days we will see it augment existing solutions. Like, you know, when I see what open AI is talking about, they're basically throwing so much stuff up against the wall. And you, and I know you can't be everything to everybody, right? You just can't. No. That's just, you know, so like, you know, I'm a big fan of software. Software has been terribly out of favour. You know, everybody's talking about the death of software. And because of artificial intelligence, I think over time we will see the results and time will tell.

Because obviously in my career, you know, we don't get everything right by any means. But, you know, I think we will see that artificial intelligence augments a lot of existing solutions. And to your point, I do think a lot of it'll be around productivity. And over time we'll kind of see where that goes. I also, you know,

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basically remind every investor that nothing goes up in a straight line. Right? Stocks go up, they pull back, they go up, you know, it is a journey, right? And I think, you know, like most of these secular themes, what really matters isn't kind of the next three months. What really matters is the next five years. And if we're right, you know, it'll be one of those situations, you know, that don't occur very often in my career, but when they occur, they can be really beneficial if in fact, you can get it.

DM: So you mentioned another area, which I think is a secular area of secular growth, which is cyber security. Is that in your universe? And if it is, what's your feeling about cyber and I think there's been a bit of consolidation in that market recently.

MS: Yeah. One of our biggest holdings got taken out.

DM: At a good premium?

MS: It was great. I mean, it was great stock for us. I mean, I'm a little bit bummed in that I need to go, you know, find how to go re deploy that capital, so, you know, and the reason why I wanna redeploy it, which is a great segue into your question, is cyber, in my opinion, is one of the best neighbourhoods in technology. And it's not because, you know, it's because with cyber you have this unique scenario where you have increasingly sophisticated adversaries, right? Through the like of nation states attacking us. We as, as users of technology and the world we live in, you know, where, you know, my alarm this morning happened to be my phone. Yours probably was as well, you know, we're fairly hooked on digital technologies.

I mean, I spend a lot of time in London and I am on the tube. There are a lot of people doom scrolling <laugh> on the, on the, you know, if the line happens to have, have whatever connectivity. So we're living in this digital world. We have increasingly sophisticated adversaries. Everybody in their brother, no one in their brother wants to be on the front page of the FT or the Wall Street Journal. With respect to a breach, despite the fact it happens almost weekly. Cyber cybers cybersecurity is one of the best areas of spend and has been for a long period of time. I think that that'll persist. I don't see it mitigating, it may ebb and flow as a percentage of growth on a given year, but it's just a necessary spend. It'll be a necessary spend for AI related workloads. We've already heard that.

And the biggest challenge for us as investors, and it's worth noting, we run a large cybersecurity product primarily out of Japan where we launched it in 2017 and it's been a really strong product for a long time. That's grown. But I think the biggest challenge for me as an investor is finding the companies I like enough to put enough capital behind them because it is a sector that really speaks to active management, because there's real obsolescence risk, right? Because the vector that the adversary may be taking, if they change that vector, that solution may be totally obsolete. And we've seen that time and time again in cybersecurity.

DM: So we've talked a little bit around all the interesting subjects. Let's maybe just a last, well, I think they're interesting <laugh> as we sort of near the finishing line. Two things. One, valuations. So it's a bit like when I talk to for managers in India, India's always expensive versus most markets technology's always expensive. It is. So question one, is it now really expensive? Sure. Or other earnings still there to support? We touch briefly on earnings and then maybe just lastly a a little bit about your thinking in the portfolio, maybe looking forward as opposed to looking backward over, you know, the next six months or so.

MS: Yeah, great. So I mean, so the one thing I am constantly reminded of is, technology's been a great growth sector, not for the past few years, but for the past decades. So it is gonna be expensive. Growth is difficult to come by. It doesn't mean that things don't get too expensive or too cheap. That happens the way

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we try to run the trust and that what we really are disciplined to is we wanna be diverse from a stylistic perspective.

So I think of it almost as for the listeners, think of a three-tiered cake, right? You have your high growth companies that are over investing in sales and marketing. They tend to be less profitable because they're gaining market share. You have your garpy companies, right? Further along in the maturation process, Garp is, is really growth. The definition is growth at a reasonable price. ie you know, we're talking about companies that are probably not growing 25%, but maybe growing at, you know, call it, you know, 10-20%. We can use metrics like, you know, price to earnings, maybe some early days cashflow generation. And then you have your kind of attractively valued optionality companies, little probably X growth, very profitable models are at scale, very easy to use a variety of valuation metrics.

What we try to do, depending on the macro is we have certain tilts, right? So I wanna be diverse from a stylistic perspective. But I also wanna be diverse from a sub-sector perspective, meaning that I'm not gonna own a hundred percent of the trust in software. Right? And I could, and I give you a great example. The back half of 2020, you know, as we were working our way through the pandemic, right?

And there was a tremendous amount of software bought, right? Just tremendous. You know, could we have been all in on high growth companies and run the trust with a hundred percent high growth? And could we have outperformed even more? A hundred percent we could, right? But that's not really responsible portfolio management. No responsible portfolio management is having a variety of investments and tilts within that sub-sector, right? With, sorry, within that style to make sure that we can basically, I think of it as ballast, right? It's no different than a ship on the ocean. I wanna weather a variety of market environments and there are gonna be times where we're remote more overweight garpy companies and value. And there are gonna be times where we're more, more overweight growth. So that's how we think about it.

With respect to current valuation, look, I don't think stocks are definitely expensive. Are they super crazy expensive? I've lived through a couple of like crazy cycles, right? Nobody, like we, our, our team is not underwriting software investments, thinking they go back to 20 times EV to sales, right? I think that was a moment in time. I don't hope, I never hope I have to wear a mask ever again. And I hope I can travel freely, you know, so I'm not looking for that day to come back. But I can tell you that on average, depending on the sector, I think valuations on average are relatively expensive. And we're in a okay economy, right? So, you know, here again, I'm not, you know, we take a fairly rifled approach to use a hunting analogy by the way. I don't hunt, but, you know, versus shotgun approach.

And so I really challenge the team find me opportunities and I work with them obviously because ultimately I make every buy and sell decision because I'm ultimately responsible to you, our shareholder. But I try to say like, we should be able to find opportunities. I don't care about what type of economy it is. We should be able to find good opportunities in technology. And look, some years we're better than others at it. And sometimes the market kind of, you know, in a super growthy market, you know, we should be able to do well, right? Because the lens that we look at is one of thinking about how do we find businesses that are emerging and are gonna grow and take market share.

DM: And if I can sneak one last question. **[MS: Sure.]** What way are you tilting at the moment right now?

MS: I would say that, you know, we have a preponderance of semiconductors, which normally you would think in terms of value, those semiconductors tend to be, you know, we've really avoided some of the, some

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of the sectors that are out of favour, which would've brought down our PE we're modestly tilted towards growth. I think the PE is a two to one.

DM: Mike, thank you very much for your time. It's nice to say, meet you face to face, [**MS:** Likewise] not on a screen for a change. And if you'd like more information on the Allianz Technology Trust, please visit fundcalibre.com. and if you enjoyed our chat today, please like and subscribe to the Investing on the go podcast. Mike, thank you very much. [**MS:** Thanks.]