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# Digital Economy strategy

## Strength in software, ecommerce and services to accelerate digital transformations

- Global equity markets continued to rise in May
- Several of the themes we invest into continued to perform strongly
- Positive contributions from digital communications platform and digital payment provider

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### What's happening?

Global equity markets continued to rise in May, with the MSCI All Country World index gaining 4.4%<sup>1</sup>.

Investors optimism was based upon the gradual reopening of the economies, a flattening of the infection curve in several countries in Europe and in some of the most affected states of the US, and hopes of a potential vaccine. Unprecedented monetary and fiscal measures across the globe have been put in place to help businesses and households cope during the crisis, with the International Monetary Fund estimating that so far countries have deployed a total of \$9 trillion of emergency support<sup>2</sup>.

From a market perspective, corporate earnings results continued to be robust. The current situation has triggered a pull forward of several secular trends we invest in the portfolio and companies have given positive updates on how their business is evolving. We are seeing particular strength in software associated with the working from home environment, ecommerce and services to accelerate digital transformations.

### Portfolio positioning and performance

The Digital Economy strategy performed well in May, as several of the themes we invest into continued to perform strongly. As such, we have seen notable contributions from digital communications platform Twilio after the company reported first quarter results, delivering 57% year on year growth, and exceeding forecasts by 10%<sup>3</sup>. The company provides a platform that enables business to easily send important messages in a timely fashion via SMS, in-app messaging

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<sup>1</sup> Bloomberg as of 31/05/20

<sup>2</sup> IMF.org

<sup>3</sup> Twilio press release - 06/05/20

or email and has clearly demonstrated their importance as their customers used these services with more frequency during the current crisis. We also saw strong performance from digital payment provider Paypal. Covid 19 has accelerated the shift to digital payments further with an increasing number of consumers transacting online and some stores not accepting cash for health related reasons. During their quarterly call, Paypal stated that the 1<sup>st</sup> of May was their largest single day of transactions in the company's history, even larger than the transactions on last year's major shopping holidays Black Friday or Cyber Monday.

Our investment in cloud-based security company Zscaler was among the portfolio's top performers as it reported revenue growth well ahead of expectations and raised guidance for the full year. Performance and security on the cloud are key concerns for work-from-home setups, and Zscaler has seen an acceleration in cloud security deployments to address those needs.

During the month we started a position in Meituan, the leading food delivery, travel and lifestyle platform based in China. Meituan has a dominant market share in food delivery, with a strong infrastructure and national merchant coverage. The company had been affected by the lockdown measures, but communicated during its earnings update that food delivery volumes have recovered to 90% of the pre-pandemic level in May, whilst restaurant dining and hotel volumes have returned to 80% and 70% pre Covid-19 level respectively<sup>4</sup>.

## Outlook

We are encouraged by the signs of a slowdown of the pandemic and progress on the gradual reopening of the economies, but we are mindful that the impact to the global economy will not be fully known for some time, and the timelines for the issue to come under control are still uncertain. Central banks and governments have stepped up with unprecedented stimulus measures in order to provide support to the economies and support to the equity markets.

We are also mindful that the relations between the US and China might worsen after the Trump administration announced measures to prevent Huawei from acquiring chips that use American software and technology.

During this period of uncertainty we remain focused on our investment philosophy, which is the preference to invest in companies who address a strong long-term opportunity. We firmly believe that the opportunity driven by the long-term theme, the Digital Economy, remains intact, and could even play out stronger, once the current turmoil is over.

Digital Transformation is expected to be an important business focus for the coming years, and the portfolio remains well positioned to benefit from the trends associated with the digital economy theme, such as online commerce, digital media consumption, electronic payments and digital transformation.

**No assurance can be given that the Digital Economy strategy will be successful. Investors can lose some or all of their capital invested. The Digital Economy is subject to risks including Equity; Emerging Markets; Global Investments; Investments in small and/or micro capitalisation universe; Investments in specific sectors or asset classes; ESG.**

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<sup>4</sup> Meituan - earning update 25/05/20

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