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Digital Economy strategy

A challenging month for equities as geopolitical tensions and trade policies' uncertainty dominate sentiment

- A month marked by volatility and uncertainty despite encouraging earnings season
- Spotify and Uber contributed positively to performance, offset by Salesforce
- We exited airline IT provider and added four AI related names

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What's happening?

Global equity markets declined during February, with the MSCI ACWI returning -0.6% [1]. The month was marked by a volatile environment for global markets amid escalating geopolitical tensions and uncertainty surrounding trade policies. The potential introduction of tariffs by the US government on key trading partners, along with rising inflation concerns, weighed on investors' sentiment. This backdrop contributed to weakness in various sectors, particularly Technology and Communications Services.

Portfolio positioning and performance

The Digital Economy strategy underperformed the MSCI All Country World Index during the month. However it is worth noting that fundamentals remain strong, as evidenced by an encouraging earnings season. As of 4th March 2025, the majority of the portfolio have reported their Q4 earnings and it has been a strong period for the strategy with 83%[2] of the holdings beating earnings expectations compared to 60% for the broader market as measured by the MSCI ACWI Index.

Drilling down to the various themes of the portfolio, the Decision subtheme contributed positively to performance, driven by strong results from Spotify and Uber, which reported solid user engagement and operational efficiencies. This strong performance was partially offset by weakness from Amazon, leading e-commerce and cloud computing provider, after reporting higher than expected capital expenditure outlook which raised concerns about near term free cash flow compression and margin dilution.

Within the Delivery subtheme, Adyen, a global payment technology company reported strong performance during the period due to robust volume growth and successful expansion into North America and other markets. However, Goodman Group, logistics real estate and datacentre company was weak during the period due to its announcement of an equity raise despite the funds being earmarked to support its ambitious datacentre growth pipeline.

[1] Bloomberg as of 28/02/2025, in USD

[2] Bloomberg as of 04/03/2025

Within the Discovery subtheme, Alphabet, the parent company of Google and cloud services provider was weak over the period due to concerns surrounding its higher-than-expected capital expenditure guidance 2025, in a similar fashion to Amazon (see above).

Finally, the Data & Enablers subtheme detracted most to performance. Intuit, financial software company best known for its TurboTax and QuickBooks products, performed well over the period due to second-quarter results that exceeded expectations. However, this was more than offset by weakness from Salesforce, a leading cloud-based customer relationship management (CRM) platform, who reported guidance which fell short of analyst expectations, despite signs of stability in demand. The company disclosed encouraging details regarding its new AI Agent "Agentforce" initiative, which has already signed 3,000 customers within three months of its launch.

In the month we exited the position in leader in airline IT market Amadeus, as we are seeing limited near term catalysts and better opportunities elsewhere.

We initiated positions in Applovin, Cloudflare, Jfrog and Palantir. Applovin operates a sophisticated mobile advertising platform that reaches over 1 billion daily active users through mobile games and is expanding beyond gaming into e-commerce. The company is leveraging AI to develop personalised advertising at scale. Cloudflare provides a global platform that enables running AI applications in a fast and cost efficient way, with users only paying for actual AI processing time. Jfrog provides an enterprise platform for managing and securing software packages throughout the development lifecycle. Palantir is an enterprise software company that has developed a specialised system allowing organisations to effectively deploy AI within their existing enterprise infrastructure.

Outlook

The Digital Economy continues to evolve and expand, powered by fast technological advancements, shifts in consumer behaviour and the persistent digital transformation efforts undertaken by businesses across sectors. Despite the rapid growth and adoption of digital technologies in recent years, we firmly believe that there remain substantial opportunities for companies to innovate, create value and drive further progress.

We see significant potential in companies that leverage digital technologies and innovative business models to deliver compelling value propositions to their customers, disrupt traditional industries and capture market share. This encompasses businesses that are at the forefront of innovation in areas such as e-commerce, cloud computing, cybersecurity and other crucial aspects of the Digital Economy.

We maintain our conviction that the fund is well positioned to benefit from the secular trend of Artificial Intelligence (AI), and this has only been reaffirmed following the release of DeepSeek late in January. Whilst we view the announcements from DeepSeek more as confirmation of the long term trends in AI rather than anything fundamentally new – i.e. to lower the cost of training models even whilst we move forwards in investing significantly in further improving the performance of the most advanced modelling capabilities – it nonetheless brought the implications into focus. Ultimately lowering the cost of training and inference and making it possible to optimise the AI models to run on more commonly available hardware, will speed up the adoption of AI in the digital economy as the economics of the investments look increasingly attractive.

As businesses increasingly recognise the transformative potential of AI and the critical importance of data across the Digital Economy value chain, we anticipate the fund to capitalise on the development of AI-powered applications in the coming years. Data lies at the core of digital transformation and businesses that effectively leverage their data are poised to gain a significant competitive edge. The emergence of Generative AI has only heightened the urgency for companies to embrace change or risk being left behind and we see a large number of investment opportunities across all four themes within the Digital Economy Fund that stand to benefit from this.

[1] Bloomberg as of 28/02/2025, in USD

[2] Bloomberg as of 04/03/2025

As we navigate the ever-changing landscape, we will continue to identify and invest in companies that we believe are best positioned to thrive in this dynamic environment. Our commitment to our investment philosophy and process, combined with our understanding of the Digital Economy, positions us well to navigate the challenges and opportunities that lie ahead.

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