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Digital Economy strategy

Our focus on companies with recurring revenue models, pricing power and AI capabilities was valuable over the month

- Global equity markets ended the month on a positive note
- Strength from Cloud security and Cloud data
- Several trades in the strategy redeploying capital toward higher growth opportunities

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What's happening?

Global equity markets were volatile throughout May but ended the month on a positive note, with the MSCI All Country World Total Return Index rising by 5.8%¹ in USD terms. The month began with optimism due to agreements between the US and China aimed at reducing trade tensions, which resulted in significant tariff cuts. However, this positive momentum was disrupted later in May when President Trump announced a proposed tariff on European goods set to take effect on June 1st, which was later postponed to July 9th following negotiations with the European Commission.

Portfolio positioning and performance

The Digital Economy strategy outperformed the MSCI All Country World Index during the month. The strategy's focus on companies with recurring revenue models, pricing power and Artificial Intelligence integration capabilities proved particularly valuable as markets continue to grapple with trade policy and volatility. Earnings season provided a generally positive backdrop for our holdings, with many companies demonstrating their ability to navigate the macroeconomic environment while capitalising on Digital Transformation trends.

Among our top contributors over the month, cloud security company Zscaler delivered strong quarterly results. The company's platform now secures over 50 million users, creating powerful network effects that strengthen its competitive moat. Veeva Systems, a leading provider of cloud software for life sciences companies was a strong performer following robust quarterly results. The company helps pharmaceutical and biotech companies manage drug development to sales and marketing. Veeva's data and analytics business showed particular strength, benefitting from increased demand as drug companies seek better insights into their marketing effectiveness. Finally, we saw strong performance from cloud data platform provider Snowflake, who delivered strong results with robust revenue growth and notably reported seeing no

¹ Source: Bloomberg as of 30/05/2024 in USD

negative macro impact on their business so far. The company continues to benefit from enterprises' need to manage and analyse vast amounts of data, particularly as AI applications require sophisticated data infrastructure.

Among the top detractors over the month, Trainline, the UK's leading digital rail booking platform, was weak over the period as the company is facing regulatory challenges as well as new contactless payment systems being rolled out across UK rail networks. This prompted our decision to exit the position. Wix, the website building platform company, was weak despite solid quarterly results, as management maintained conservative full-year guidance citing macro uncertainty affecting small business customers. However, the underlying business fundamentals remain strong with continued growth in new customer sign-ups and expansion of the company's professional services offering. Finally Cadence, provider of software tools used to design computer chips, was weak following new export restrictions on sales to China. While these restrictions create near-term uncertainty, we view the company's exposure to increasingly complex chip designs as a long-term structural growth driver as semiconductors become more sophisticated.

In the month we exited Trainline over the month as highlighted above, the company continues to face regulatory challenges. We also sold positions in Assa Abloy, Deutsche Post and Equinix, redeploying capital toward higher growth opportunities.

We initiated a position in Monday.com, a workplace collaboration software company. The company's expansion beyond its core project management software into customer relationship management and development tools is gaining traction, while its push into larger enterprise customers continues to show progress. We also initiated a position in Nutanix, which is a cloud infrastructure software company that should benefit from market disruption following competitor VMware's acquisition by Broadcom. The company continues to add new customers at a healthy pace while demonstrating strong operating leverage as the business scales.

Outlook

Investors are paying close attention to developments here as we seek to understand where things are likely to ultimately settle. During earnings season, companies have understandably had a challenge to be able to articulate with confidence what the impact of tariffs may be over the coming quarters – however, as evidenced by the market strengthening in the second half of the month, companies' results have sounded better than feared and investors have taken some reassurance from the postponement of some of the tariffs.

The tariffs are seen by the US administration as a key tool to address what they deem to be unfair trade practices for many nations around the world and making foreign imports more expensive will be a key driver to support US manufacturing and reshore activity and jobs domestically. The Digital Economy, whilst limited exposure directly to either the tariffs or the more positive aspects of greater domestic investment in manufacturing, will still likely benefit from greater investment activity in the medium term. Similarly, if the impact of a sustained trade war were to limit growth and for inflation to remain elevated, the digital economy, particularly a number of enterprise software companies held in the strategy, are likely to see demand from customers looking to increase operating efficiency.

With all this said, however, at present there continues to be a lot of uncertainty about the impact of these tariffs and some business decisions will inevitably be put on hold until there is greater clarity meaning shorter term earnings and stock volatility may remain elevated.

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