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Digital Economy strategy

The outlook for the Digital Economy landscape remains positive for the second half of the year

- The 'Data & Enabler' theme contributed most to performance
- Strong performance from cloud-based IT service management and customer services platforms
- Businesses highlighted at conferences a strong, sustainable level of activity

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What's happening?

Global equity markets continued to rise slightly in June, with the MSCI All Country World index gaining 1.4%¹. Whilst the overall market had a modest move, growth style outperformed value over the month which was beneficial to the strategy's relative performance. Widespread vaccination campaigns have bolstered the recovery with exceptional monetary and fiscal policy efforts, whilst economic activity and employment indicators have continued to improve.

In the US, Federal Reserve Chair Jerome Powell maintained the Central Bank's stance to wait and see a broader job market rebound and not raise interest rates too rapidly out of fear of inflation. Several states are ending extended unemployment benefits and investors will watch job reports and wage data over the coming weeks to evaluate the pace of the recovery and possible signs of inflation.

In Europe, investors retreated out of more cyclical sectors of the market as they assessed the Fed's timeline for rate hikes, causing European markets to fall after four consecutive months of positive returns. Cognisant of the virus mutations spreading at a rapid pace, both the ECB² and BoE³ remain widely supportive and not willing to phase out emergency stimulus measures prematurely.

Asia had a muted performance over the period as regulatory uncertainties remained for several sectors within Chinese equities whilst economic data has been weaker than expected. In Japan, localized outbreaks of COVID-19 have hampered the recovery.

¹ Bloomberg as of 30/06/21, in USD

² ECB: European Central Bank

³ BoE: Bank of England

From a market perspective, we attended a number of meetings with companies we invest in. The overall tone was encouraging, most businesses highlighting a strong level of activity and confidence in the sustainability of demand trends. These positive trends are also apparent in a record high number of companies in the S&P 500 communicating positive revenue and earnings guidance for the second quarter, particularly in the Information Technology sector, as reported by Factset. Global ecommerce leader Amazon had a successful Prime Day event, with total online retail sales in the US over \$11bn, which is 6% higher than 2020, according to Adobe Analytics.

Portfolio positioning and performance

During June, our exposure to the 'Data & Enablers' theme contributed the most to performance. We've seen positive contributions from cloud-based Information Technology Operations Management (ITOM) software player ServiceNow and cloud-based customer service platforms Zendesk and Twilio who delivered confident messages to investors at various conferences.

Within the Decision theme, online marketplace Etsy also performed well after announcing two acquisitions which should extend its market opportunity and geographic reach: second-hand clothing app focussed on Gen-Z users Depop and Brazilian crafts marketplace Elo7.

During June, we started a position in vulnerability management provider Tenable and social media management platform provider Sprout Social. We also participated in the IPO⁴ of Sprinklr, a provider of an enterprise focused customer experience and social media management platform.

We sold our position in cybersecurity company Proofpoint who is being acquired by private equity firm Thoma Bravo. We also sold our positions in IT Services company EPAM and digital media incubator IAC/InteractiveCorp after a period of strong returns.

Outlook

We believe that one of the lingering effects of the pandemic will be that companies around the world will look to update their use of technology so that they are better equipped to cope with a recurrence of this pandemic or anything similar in future years.

This will entail businesses needing to deploy technology that will enable their employees to work better remotely should the need arise, or even as a matter of course as many companies will be re-evaluating how their workforce operate in the future. It also includes the need for more businesses to have a digital approach to their customers so they can continue to engage and service them in the event of a repeat of the global disaster we have lived through over the past 18 months.

Therefore, we believe that many of the companies that we are invested will benefit from a longtail of demand that could support healthy levels of growth for many years to come.

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⁴ IPO: Initial Public Offering

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