

THE DAILY CHECK-IN WITH GOLDMAN SACHS

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Liz Bowyer: Hi Brook.

Brook Dane: Hi Liz. How are you?

Liz Bowyer: Good, thanks. You're a Portfolio Manager in our Asset Management division focusing on the technology sector. There's been a sharp pullback in that sector recently. And it seems like the conventional wisdom around investing in the mega cap tech companies is changing. Describe the shift that you're seeing.

Brook Dane: Yeah, so, it's a really fascinating time right now. And you know, one of the things that we've been talking to clients with over the past, kind of, year to six months is that there's a massive opportunity set below that level of the mega cap tech companies that we find investors are underexposed to. That, you know, there's huge amounts of innovation happening, both in mid cap names in the US, but then more importantly in emerging geographies and in international markets of really compelling tech companies that investors just don't have exposure to right now.

So, if that's the backdrop, and then you think about what's been going on recently, which is, you know, we've seen a rise in interest rates, and that's given people some concern about, you know, the valuations in some of these names, we think it's actually set up for a really nice opportunity for people to start to build positions in a lot of these names and companies.

Liz Bowyer: And broadly, what's driving this opportunity that you're seeing?

Brook Dane: You know, I think there are two really big fundamental drivers that have enabled this growth of these new companies and, you know, have widened and democratized the, you know, the access to tech innovation. The first one really is the rise of the public Cloud. And think about these mega scale vendors, the Amazons and the Microsofts, the Googles of the world that have created this infrastructure layer that lets,

basically, anybody access sophisticated compute powers on demand and in a scalable and radical way. And that's really important for how it drives, you know, growth of software companies and growth of the digital economy.

The second big change has been, you know, the rise of cell phones. And you know, one of the stats I love to share is that globally right now more people have a cell phone in their pocket than own a toothbrush. And when you think about the intelligence that that creates at the edge of the network and the compute power that that enables, it's really transformational and it sets the stage for, you know, widescale innovation across a variety of ways.

So, those two big underpinnings, we think, have driven, you know, incredible innovation in areas like software, in areas like digital payments. And then in e-commerce and in the internet platforms out there, and that's really-- that's the area of the market that we think that investors just are underexposed to and need to think about, you know, do they have the right companies in their portfolios to take advantage of these big changes?

Liz Bowyer: So, let's break this down one by one starting with software. What are the opportunities that you see there?

Brook Dane: You know, there are two areas of software that we think are incredibly compelling right now that, frankly, have been really enabled coming through the crisis. And their value has been highlighted. So, the first area we think about is around the core enterprise research planning market where there's a whole new generation of SAS companies that are evolving to serve different needs around an enterprise. Why is this important today and right now is the fact that businesses need to be on modern architectures that are adaptable and flexible. You know?

If there's one thing we've learned as we've come through crisis is, is that the plans you draw up today are not really worth much tomorrow when the facts change and your business changes. So, companies are learning and leaning into these new platforms that enable them to iterate really fast and stay ahead of their competition.

The second area of software that we think is really interesting right now is around software products that are enabling companies to reach new customers out there. So, think about if

you're a medium-sized business that needs to adapt to an omnichannel world or to a full digital world. You know? How do you reach that customer base that you would have historically had a one-to-one relationship with? And how do you make sure that you can provide the goods and services to those clients as efficiently and effectively as possible? There's, you know, numerous companies that are in this space. We think that there are some really compelling opportunities there.

Liz Bowyer: You also mentioned the acceleration of the adoption of digital payments. How do you expect that space to evolve?

Brook Dane: Yeah. So, clearly moving through the crisis, digital payments saw a massive acceleration in adoption. And you could see that in any of the statistics out there where customers, companies, and people moved away from paying for things with cash and check and have moved to digital infrastructures to do that. We think that change is structural and is likely to persist for a very long period of time.

What we find fascinating, though, is that the pandemic has actually suppressed a lot of transaction volumes as, you know, we've all been through lockdowns and have been, you know, just transacting less. We think as we emerge with these vaccines and the economy comes out the other side of this, that the adoption we've done under the hood is going to lead to a real material acceleration in the underlying business of these companies.

Within the whole, you know, payments ecosystem, it's vast and deep and there is lots of opportunity, we're finding specific areas though where we think that the market hasn't yet figured out this compounding effect as we come out. So, you know, if you think about companies that are in the merchant acquisition space, which is basically payments companies that are helping small businesses transact with their customers, again, these are the businesses that have been the most hurt in the pandemic. But are also likely to be the first to come out on the other side and the first to accelerate. So, businesses that benefit from that trend, we think will do really well.

The second is some of the big platforms in payments are going to benefit as we start to reopen cross border traffic and movement of goods and as people travel again. You know, that's one of the highest market parts of the business of the transaction processing guys. And so, that's effectively been shut down over the past year as travel and cross border activity has materially

slowed. As we open back up again and as the vaccine takes effect and people feel freer to move and travel and do all the things that we're all desperate to do again, we think those companies are really going to benefit and you should see a real acceleration in those businesses.

Liz Bowyer: And what about the third big opportunity that you cited around e-commerce and the growth in internet and advertising models?

Brook Dane: Yeah. If there was one area of the market that I would say highlights the need for investors to take this wider aperture and to look at emerging companies in emerging markets and more of the mid cap companies in developed markets, it's on the e-commerce end and the online activity. So, a couple reasons for that. First, a lot of the innovation in e-commerce and in buying and in online activity is happening outside of the US. China has been at the forefront of some really interesting trends like [UNINTEL] buying and some other, you know, mega app platforms. And seeing those models emerge over there, first of all, huge investment opportunity around that. And second of all, you're seeing other companies replicate those models in other geographies. In Latin America, in Southeast Asia where they can scale quickly, again, benefiting from the public Cloud and the cell phone access that everyone has to replace those models and to gain quick, rapid scale.

Secondly, when you think about just the classic advertising markets around e-commerce, a couple points that I would make there. First off, you know, big parts of the online advertising market have been really hurt as we've moved through this pandemic. But like I was talking about with merchant acquiring and some other things, those businesses will emerge and start spending again on advertising as we move through this pandemic. If you're a travel company, you know, you need to drive demand as we come out of this. And one way you're going to do that is through advertising online.

The second piece of online advertising that I think is underappreciated by the market is we're seeing tremendous amounts of innovation in the actual advertising mediums themselves. Whether you start thinking about virtual reality or augmented reality and some other metrics, fundamentally how companies approach consumers and convince them to spend money and to use their products is changing. And we think there are really interesting opportunities around that to invest and to create wealth for our clients.

Liz Bowyer: So, sounds like interesting opportunities broadly in the tech sector. But one area of concern consistently for tech investors is around valuations. How are you thinking about valuation right now?

Brook Dane: So, valuation is a critically important thing for any investor, and any tech investor specifically, to take into account and to be focused on. You know, we have a long history and a deep appreciation for understanding the risk/reward in any investment we make. You know, our valuation discipline is one of the things that we're the most proud of in terms of how we approach investing in tech and in other sectors as well. And as we look at the market today, there are pockets of the tech space that we find to be overvalued and that we don't think that the risk/reward opportunity is compelling.

That said, as we sit here, we also are finding incredible opportunities to buy some of these transformational companies that we've been speaking of at really attractive valuations. And when you get a reset like we've had these past couple weeks based on, you know, rising interest rates, it really does create opportunity. And this is an area where, you know, an active manager can hook in and say, "Here's a name that we've identified that we like the fundamentals of. We think that there's a huge opportunity for them to continue to grow and to beat estimates and, you know, drive really transformational change," we'll take advantage of that valuation opportunity and step in front of it and, you know, accumulate shares of that company.

Liz Bowyer: And what are some of the other issues or risks that you're focused on in this sector right now?

Brook Dane: With tech investing there's always lots of risks. You know, the first thing to remember is that one of the things that makes this a great part of the economy to be invested in is the disruption and the change that happens and trying to get in front of these new emerging companies. That disruption and change though is often coming at the expense of the established vendors. So, trying to understand just where change is happening in the tech ecosystem and who is winning and losing and who's on the right side of that disruption is really important and, you know, something that keeps us, you know, focused and working hard every day.

So, first, the biggest issue is making sure you're on the right

side of disruptive change. The second thing, thing, just in terms of more immediate risk to think about, you know, a big one is the global tensions. You know? If you think about the US and China and the trade tensions that we've seen over the past couple of years, that's an issue that bears a lot of watching. We spend a lot of time looking at and trying to analyze what the range of outcomes is there.

The second big risk as we sit here today is around regulation, and specifically regulation of those mega scale platform vendors, both in the US, in Europe, and then certainly in China recently where you're seeing, you know, authority is much more focused on the market power and the market dominance of these vendors. And so, you know, as investors you really need to have an appreciation of what those risks are, understand the trade-offs, and where the opportunities lie.

Liz Bowyer: So finally, Brook, looking into the months and years ahead, what's your outlook for tech investing over the long term?

Brook Dane: You know, we're incredibly bullish about tech and the opportunities here. I think the coming decade you'll see more acceleration and more disruptive change than we've seen over the past, you know, 30 years. We think about the advances we're seeing in areas like artificial intelligence, machine learning, some of the new semiconductor products that are coming to market, digital payments, software that we've spoken about. The opportunity set is vast. And we think that, you know, investors really do need to have exposure to this sector that's so dynamic and so compelling.

Liz Bowyer: Thanks Brook.

Brook Dane: Thanks Liz. It's been great to talk with you today.

Liz Bowyer: You too.

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