



Investing in Technology

The technology sector: Reshaping how the world operates



The technology sector is home to many dominant and well-known companies such as Apple, Google (Alphabet), Microsoft, ASML, Nvidia, Tesla, Meta, and SAP. Renowned for its innovation, this sector continually develops new products and services, driving digitalisation and enhancing productivity for consumers, companies and industries. Today, technology is indispensable not only to our daily lives but also to the operation of nearly every other industry, such as healthcare, transportation and finance. As the global population grows, digitalisation increases and artificial intelligence use cases proliferate, the demand for technology products and services is anticipated to continue rising.

Why invest in technology?

Investing in technology companies can offer significant growth potential due to the sector's constant innovation and development. Tech companies are at the forefront of creating new products and services that transform industries and improve everyday life. This continuous innovation can drive substantial revenue growth but comes with higher risk given the outsized opportunity. Finding quality technology companies requires thorough research to understand the financial fundamentals, competitive landscape and overall business strength.

Technology – continuous innovation

The technology sector covers a wide range of companies and industries, including software, hardware, semiconductors and platforms. Identifying and understanding the unique attributes of each company, such as their innovation capabilities and market position are critical when determining whether the company can generate sustainable and attractive returns over the long term. This is key to making informed decisions and capitalising on the dynamic growth opportunities within the higher-risk technology industry.

Not all companies and industries in this sector meet the requirements to be included in Magellan's quality investment universe. Extensive research is undertaken to identify the unique attributes of a company that we believe enable it to generate sustainable attractive returns over the longer-term. Some of these industries in the Magellan universe include:

Consumer platforms

Consumer platform companies develop applications and platforms ranging from entertainment to social media and e-commerce solutions directly catering to users. These companies often experience high user engagement and employ recurring revenue models, such as subscriptions and in-app purchases. The rapid pace of technological advancement has led to increased demand and reliance on digital solutions in our everyday lives. This ongoing demand is a key driver of innovation, prompting companies to continually enhance the capabilities and appeal of consumer platforms.



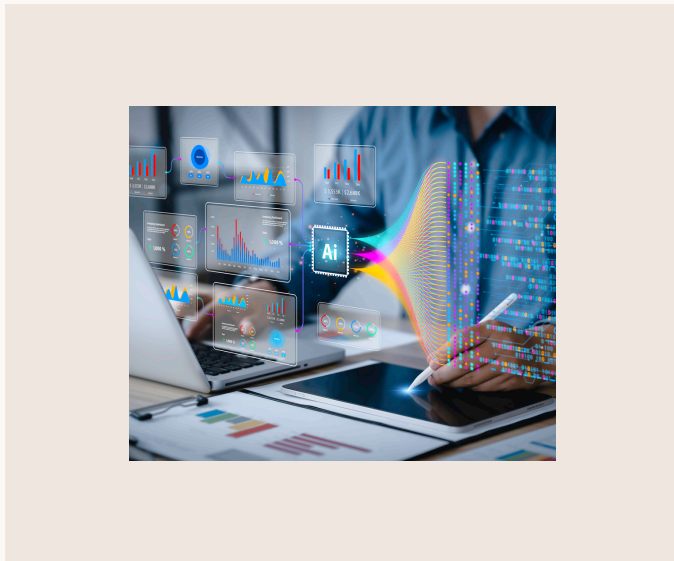
With the emergence of artificial intelligence, machine learning, and cloud computing, consumer platform companies are leveraging new technology to enhance their offerings and user experiences. These innovations can create new market opportunities and revenue streams. Importantly, innovative incumbent platforms have a data advantage, whereby they can improve functionality and personalisation, increasing switching costs and barriers for new entrants.

Netflix, the leader in subscription-based streaming, exemplifies a high-quality consumer platform company. The platform offers a wide variety of content, including TV series, movies, documentaries and live sports. As the largest global streaming service, Netflix has a scale advantage, providing content to millions of paid subscribers in over 190 countries.

Software

Software companies develop applications and platforms for consumers and companies, ranging from enterprise resource planning systems to customer relationship management tools, productivity software and project management software.

These companies often benefit from high client retention and recurring revenue models, such as software subscriptions and enterprise licensing agreements. The swift pace of innovation, increased data analytics and the growing use of digital solutions in business operations drive continuous demand for new and improved software products. This ongoing demand is a key driver of innovation, pushing companies to develop cutting-edge solutions that enhance business efficiency and productivity.



Artificial intelligence and cloud computing have empowered software companies to enhance their offerings, providing more sophisticated and scalable solutions. This enables companies to deliver advanced analytics, automation and personalised user experiences.

SAP is a leading global provider of enterprise application software designed to streamline business processes. With over 400,000 customers in more than 180 countries, SAP has established a robust network of partners, developers and clients. The deep integration of SAP systems into company operations makes switching both time-consuming and costly, giving SAP a significant competitive advantage.

Semiconductors

Semiconductors are essential components used in data centres, smartphones, computers, medical equipment, and cars. Companies in the semiconductor industry are involved in the design, manufacturing and distribution of semiconductor chips and related technologies. This industry is crucial for the development and functioning of modern electronics, enabling advancements in computing power and energy efficiency.



Semiconductors drive innovation across multiple industries by enabling the creation of faster, smaller and more efficient electronic devices. Semiconductors are fundamental to the development of emerging technologies such as artificial intelligence. Investing in semiconductors offers significant growth potential, as the demand for advanced electronic components continues to rise with the increasing digitalisation of our world.

ASML is a Dutch multinational corporation founded in 1984. It specialises in the development and manufacturing of photolithography machines used to produce semiconductors. ASML has a global customer base and is the sole supplier of extreme ultraviolet lithography machines, which are crucial for producing the most advanced microchips. This unique position provides ASML with a significant competitive advantage.

What are the risks?

When investing in the technology sector, understanding a company's competitive environment, innovation pipeline and management's strategic vision is important and can in turn help navigate any risks identified.

Forecastability: There is often a wider range of outcomes for these businesses given the higher-growth and higher-risk operating environments. As a result, they are more prone to price fluctuations.

Regulatory challenges: Data privacy, cybersecurity and antitrust issues are some of the evolving regulations to which this sector is exposed. These companies need to ensure compliance; failure to do so can result in financial and reputational impacts.

Technology: With the rapid evolution in technology, there are risks to incumbents that do not continue to innovate and strengthen their products and services.

M&A risks: Technology companies are typically highly acquisitive, buying technology or capabilities to retain leading edge. Large M&As present risks to shareholders from capital allocation and integration perspectives.

Market volatility: These companies are not immune to market volatility and can experience price fluctuations due to changes in market sentiment, technology advancements and market competition.

How do technology companies fit into a portfolio?

The technology sector can play a pivotal role in a diversified investment portfolio due to its potential for high growth. Given the rapid advancement in technology and industry investment, it is critical to actively monitor companies for risks and opportunities.

Examples of global listed technology companies

Alphabet

Alphabet, Inc., formerly known as Google Inc, was founded in 1998. Alphabet is the leading global search engine, serving billions of users across multiple platforms. In addition, Alphabet is one of the three hyper-scaler cloud computing platforms, operates YouTube which has approximately 2.5 billion monthly active users and is a leader in autonomous driving via Waymo. Alphabet benefits from scale advantages and high barriers to entry given its sticky user base and data and technology advantages.

Meta

Meta Platforms, Inc. was founded in 2004. Meta, formerly named Facebook, Inc. owns and operates Facebook, Instagram, Threads and WhatsApp among other products and services with a combined user base of over 3.7 billion consumers. Meta Platforms is the largest social media platform globally, benefiting from scale advantages and network effects.

INTUIT

Intuit, Inc. specialises in financial software tailored for small businesses and consumers. Its QuickBooks platform supports around 7 million small businesses in managing their business, while TurboTax assists approximately 40 million Americans with tax filing. As the dominant provider in both areas Intuit benefits from scale advantages that it reinvests in improving product and brand awareness.

Microsoft

Microsoft Corporation is best known for its Windows software products, Microsoft 365 suite applications, Azure cloud computing and Edge web browser. Microsoft has an effective monopoly on productivity software and is one of the three leading hyper-scaler cloud computing platforms. Microsoft's continued innovation has created high switching costs and scale advantages, generating attractive and sustainable returns for investors.

As at February 2025

What sets our approach apart?

There are thousands of companies listed on world exchanges. However, at Magellan we regard our eligible universe of potential investments to be only about 200 companies. These are the companies we believe to be of sufficient quality to consider for investment, companies in which we have a high degree of certainty in their ability to protect and grow earnings into the future. This requires rigorous fundamental research into the economics of the company and a deep understanding of the company's strategic direction and the industry in which it operates.

At Magellan, this focus on quality companies represents the core of our investment philosophy and goes directly to achieving our investment objectives for our investors.

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