MICHAEL SMITH
Head of Research and
Senior Investment advisor

Are we witnessing a technology revolution?

The Coronavirus pandemic has prompted a shift in all things digital, but are these changes here to stay?

One of the defining investment trends in 2020 has been the surge in technology stocks. While industries from energy to financials have been savaged – and in many instances, a large swathe of companies have failed to post any meaningful rally – tech firms have been a success story in every way.

The resilience of these companies hasn't been without foundation. As COVID-19 wreaks havoc on economies around the world, the one area becoming increasingly prominent is the technology sector. This spans the applications and services we connect to. The e-commerce platforms we shop through. New means of digital payments. Improved ways of doing business and staying in touch.

It's no surprise then, that just about every sub-category in the technology space is seeing a boom. And it's on that basis, we're rightfully entitled to start asking the question – are we witnessing a technology revolution?

Earlier this year, amid the early impact of COVID-19, cloud computing stocks were the first to note a change in the functioning order of the economy.

Microsoft (MSFT) CEO Satya Nadella was among those to note the evolution in play, arguing that the company had seen "two years' worth of digital transformation in two months" as remote teamwork and learning, plus the importance of cloud computing took hold. A short while later, Accenture CEO/CTO Paul Daugherty echoed those comments, noting there had been "three years of digital and culture transformation in three months".

Similarly, there has been a lift for the likes of Adobe (ADBE) as the cloud becomes ever more important for businesses.

Naturally, it followed that companies like Zoom (ZM), Atlassian (TEAM) and Docusign (DOCU) would also see a boost in turn. And this trend shows little sign of abating, with remote working set to become one of the more permanent facets of workplace design as employers seek to optimise costs in the future and the likely behavioural shift among employees favouring this.

Elsewhere, digital payments have become an area that have prospered as e-commerce soars – Amazon (AMZN) no doubt being the biggest beneficiary – while brick-and-mortar retailers and their consumers take a cautious approach in managing the transmission risks of COVID.

Nonetheless, the efficiency prompted by these factors are likely to drive structural long-term changes, and that has been pivotal to companies like Square (SQ), Visa (V) and Mastercard (MA). The same applies to buy-now pay-later companies, which have effectively turned the once-old laybuy process on its head. Such is the trend, even PayPal (PYPL) is looking to get in on the action, taking it up with the likes of Afterpay (APT), Zip (Z1P) and Klarna.

Making our way to the mega-tech stocks, we of course have the truly innovative tech players at hand. The likes of Apple (APPL) and Tesla (TSLA), which have defined themselves with a history of cutting edge products, as well as Facebook (FB) and Alphabet (GOOGL), which have a role in keeping us connected with the world in ever-increasing proportions.

As we grow to depend on technology devices, that also means boom times for processor manufacturers such as Advanced Micro Devices (AMD), NVidia (NVDA) and Taiwan Semiconductor Manufacturing (TSM).

Technology firms have demonstrated just how much consumers and businesses are beginning to depend on them. These are the sort of companies whose products and services are not only already firmly entrenched in our lives, but will continue to be required as society shifts towards them in mass scale eyeing a better way of working, living or 'doing'. A technology revolution isn't just a possibility, it's in full flight as we speak.

MICHAEL SMITH
Head of Research and Senior Investment advisor

Performance:

Index	August Performance	YTD Performance
Dow Jones	7.6%	-0.4%
NASDAQ	9.6%	31.2%
S&P 500	7.0%	8.4%
Global Growth Portfolio	5.9%	24.0%

Top 10 Holdings:

Code	Company Name	Weighting %
MSFT	Microsoft	6.52%
BABA	Alibaba	5.45%
PYPL	PayPal	5.43%
AMZN	Amazon	5.31%
TSM	Taiwan Semi	4.30%
COST	Costco	4.16%
MA	MasterCard	4.08%
TEAM	Atlasian	3.89%
ADBE	Adobe	3.86%
BRKB	Berkshire	3.81%

International

International Growth Portfolio

Portfolio NAV increased by 5.9% last month, after taking into account advisor fees.

In terms of our core holdings in the portfolio, our equity positions rose by 8.5% across the month. While slightly behind the Nasdaq's return of 9.1%, the result was ahead of the S&P 500, which put on gains of 7%, and the Dow Jones, which lifted by 7.6%.

Gains were spread fairly evenly right throughout the portfolio, with only one position recording a (negligible) negative return for the month.

As we alluded to in our newsletter for this month, technology stocks have been at the heart of everything in recent times. That extends to the Growth Portfolio, where we continue to have significant exposure to this sector.

E-commerce stocks such as Alibaba (BABA) and Amazon (AMZN) continued their stellar run, spurred on by the shift to online shopping. Meanwhile, our digital payments holdings in Square (SQ), Mastercard (MA) and Visa (V) were particularly strong. On top of that, digital business solutions also delivered sold gains for the portfolio. This included the likes of Microsoft (MSFT), Zoom (ZM) and Adobe (ADBE).

We did make some new additions to the portfolio in August. This includes Autodesk (ADSK), another software play we believe is highly leveraged to the burgeoning work-from-home thematic, plus Alphabet (GOOGL).

Elsewhere, we also took a position in Goldman Sachs (GS) and Home Depot (HD) on the back of what we thought were particularly strong earnings results. This affords us exposure to the economic recovery and any switch into value stocks. We also bought ARKK, an innovation-oriented ETF that has performed remarkably well in 2020 and provides exposure to disruptive investment themes.

While pleased with the strong underlying performance of the portfolio, the renewed strength of the Australian dollar continued to weigh on our overall results, despite an effective hedging strategy that mitigated forex losses. Nonetheless, with the USD/AUD rate falling from 1.3999 to 1.3559, portfolio NAV took a 3% hit.

At the end of August, unrealised income accounted for approximately 18.2% of closing portfolio NAV. With the Fed indicating a dovish stance to support the economy, even at the risk of inflation running 'hot', we believe that in the absence of any 'shock' developments, there is good reason to continue deploying cash where we identify compelling opportunities. This is particularly the case following recent selling in tech stocks.

Australian

MICHAEL SMITH
Head of Research and
Senior Investment advisor

AFIQ MALEK
Research Analyst and
Senior Client advisor

Australian Yield Portfolio

The Australian Yield Portfolio significantly outperformed the ASX 200 last month, increasing 4.8% versus just 2.2% for the local benchmark index. The portfolio has now grown in each of the last five months, with its post-March recovery outpacing the broader market.

Dividend accruals were a prominent feature in the portfolio, with as many as 10 stocks trading ex-dividend. This included the likes of ANZ (ANZ), Commonwealth Bank (CBA), JB Hi-Fi (JBH), Transurban (TCL), Telstra (TLS) and Wesfarmers (WES).

For the second month in a row, our gains were driven by two key stocks that have continued to rally into all-time highs. Baby Bunting (BBN) surged 28.2% last month, while Hub24 (HUB) advanced by 21.3% across the same period.

Both companies delivered their formal results for FY20 in August, which proved to be a catalyst for each stock. In our view, the growth trajectory of each company remains firmly on track.

While neither stock would necessarily be thought of as an income play, their significant capital growth demonstrates that these companies have potential to continue growing their earnings at a pace that would then lend towards a higher payout in the future. These stocks also demonstrate that the Yield Portfolio, even with a focus on generating income, does differentiate itself from traditional yield portfolios by way of the ancillary growth focus.

In terms of trading activity, we took the opportunity to sell out of oOh!media (OML). The stock has increased somewhat since we sold it, however, our view is that the headwinds facing the company may constrict growth and jeopardise near-term dividends, which remain suspended since the half-year result earlier this year.

We also took up our entitlement in the Sydney Airport (SYD) rights offer. This provided us with an immediate gain in the portfolio, with the head stock trading at a significant premium to the rights issue price.

By the end of August, the level of unrealised losses in the portfolio had reduced to just 3.6% of closing NAV. With reporting season out of the way, and stimulus support extended for months yet, we expect the ASX to continue following offshore markets, even in light of protracted lockdowns in Melbourne.

Performance:

Index	*August Performance*	*YTD Performance*
ASX 200	**2.2%**	**-9.3%**
ALLORDS	**3.1%**	**-8.2%**
Aus Yield Portfolio	**4.8%**	**-7.1%**

Top 10 Holdings:

Code	*Company Name*	*Weighting %*
HUB	**Hub24**	**12.05%**
BBN	**Baby Bunting**	**7.62%**
ANZ	**ANZ Bank**	**7.26%**
WES	**Wesfarmers**	**7.26%**
CBA	**Comm Bank**	**6.32%**
KKC	**KKR Credit**	**5.32%**
BHP	**BHP Group**	**5.11%**
TLS	**Telsrta**	**5.08%**
CBAPD	**Comm Bank Note**	**4.60%**
MQGPD	**Maq Note**	**3.72%**

DANIEL WONG
Research Analyst

ALEX NEGROH
Research Analyst

Performance:

Index	*August Performance*	*YTD Performance*
ASX 200	**2.2%**	**-9.3%**
ALLORDS	**3.1%**	**-8.2%**
Balanced Portfolio	**2.8%**	**-0.2%**

Top 10 Holdings:

Code	*Company Name*	*Weighting %*
APT	**Afterpay**	**6.7%**
MGG	**Magellan Trust**	**5.9%**
Cash	**Cash**	**4.8%**
HM1	**Hearts & Minds**	**4.2%**
NABPD	**NAB note**	**3.8%**
CBAPE	**CBA note**	**3.3%**
BHP	**BHP Group**	**3.0%**
MQGPC	**Maq note**	**2.9%**
CBAPH	**CBA Note**	**2.9%**
NABPE	**NAB note**	**2.9e%**

Hub 24 - Super

Balanced Portfolio

The portfolio grew by 2.8% in August, outperforming the ASX 200, which rose 2.2%.

On the back of a strong trading update, Afterpay (APT) proved to be one of the strongest contributors to the portfolio last month. The company updated the market on higher net transaction margins arising from higher collections of instalment payments that reduced net transaction losses. In addition, the company also outlined its international expansion plans for the European market, which offer further scalability of the platform.

Our diversified LIC holdings also underpinned our strong performance last month, with Hearts and Minds Investments (HM1) a standout, gaining as much as 9.4% throughout August.

Not only does this LIC provide us with concentrated exposure to the highest conviction ideas from leading fund managers – an aggressive underlying driver of gains in the stock – it is also part of a great social cause. In total, 10% of profits generated by the LIC go towards healthcare and research, which we think is a great initiative to support.

Elsewhere, there was some weakness among stocks that have served us very well over recent months. This included the likes of Saracen Mineral Holdings (SAR), Uniti Group (UWL) and ResMed (RMD).

It is our view that the issues that have constricted growth in these stocks are transient in nature. For example, on the back of the Fed Reserve's dovish inflationary policy, we still hold a bullish outlook towards gold, even though prices of the precious metal have eased from their most-recent peak.

Meanwhile, the growth trajectory of Uniti's business still remains compelling in our opinion. In terms of ResMed's long-term outlook, we argue that it remains well-positioned, even if there is a pull-back in demand for its respirators as governments come to improve their management of COVID cases throughout the world.

These three stocks are among the opportunities that we may look to consider adding to around current levels. Each of them may be considered somewhat defensive businesses. If the shift in market sentiment away from tech stocks continues to play out as it has in early September, these sort of holdings may outperform.

ALEX NEGROH
Research Analyst

DANIEL WONG
Research Analyst

Hub 24 - Super

Growth Portfolio

The portfolio gained 3.7% last month. This compares with a 2.2% increase in the ASX 200, and a 2.8% gain for the Hub24 Balanced Portfolio.

Underpinning the performance of the Growth Portfolio was our larger exposure to the buy-now pay-later segment. In addition to Afterpay (APT), which performed remarkably well, we also saw the value of our holdings in Zip Co (Z1P) leap by more than 50%, while Sezzle (SZL) also surged over 30% throughout the month.

The strength of this sector was partly driven by positive sentiment, however, at the heart of that was a series of upbeat developments for each of the various players. In the case of Zip, the company handed down strong transaction growth, while international expansion plans offer a lucrative opportunity to help the company embark on its next stage of growth.

In essence, buy-now pay-later companies have proven to be a successful momentum trade backed by encouraging performance metrics, despite the weak economic backdrop. Nonetheless, we have witnessed some shift in sentiment from these companies on news that PayPal is looking to compete in this segment.

While it is too early to tell what sort of impact PayPal might have, we do note that the likes of Afterpay, Zip and Sezzle have managed to withstand efforts from not just other peers, but credit card providers also. We also think there is space in the segment for several of these operators to co-exist, albeit first-mover advantage is beneficial. Nonetheless, we remain mindful as to how momentum may swing on negative perceptions around industry barriers to entry.

Elsewhere, the iron ore space is still looking particularly strong, with the commodity climbing above US$120/tonne. It has since risen to a six-year high amid some of the highest levels of activity in the Chinese construction and manufacturing sectors across the last decade. As such, Fortescue Metals Group (FMG) held up well while providing us with a large dividend. Our stake in NRW Holdings (NWH) has also served us well, with the company leveraged to the iron ore boom on account of the diversified services it provides to resource companies.

The early stages of September have seen a return to volatility, so we will be looking to the US for a lead as to what we might expect over the remainder of the month. If volatility persists we may look to exit some positions with a view to acquire them at lower prices.

Performance:

Index	*August Performance*	*YTD Performance*
ASX 200	2.2%	-9.3%
ALLORDS	3.1%	-8.2%
Growth Portfolio	3.7%	-5.5%

Top 10 Holdings:

Code	*Company Name*	*Weighting %*
MGG	**Mag Trust**	5.1%
HM1	**Hearts & Minds**	4.2%
CBAPE	**CBA Note**	4.0%
SZL	**Seccle**	3.7%
FMG	**Fortescue**	3.5%
Cash	**Cash**	3.4%
APT	**Afterpay**	3.2%
COL	**Coles**	3.2%
MHH	**Mag Trust**	3.1%
CCP	**Credit Corp**	3.0%

KAURI ASSET MANAGEMENT

Level 8
25 Bligh Street

GPO Box 2348
Sydney NSW 2001
Australia

PH 02 8379 1868
E info@kauriam.com.au

www.Kauriam.com.au