



# Market Commentary

March 31, 2020

# Herald Worldwide Technology Fund Class B Shares Covid-19 Commentary at 31<sup>st</sup> March 2020

## Introduction

*Katie Potts: "I have been managing Herald Investment Trust plc from inception in 1994 and the Herald Worldwide Technology Fund since 1998. The current crisis always seems to be the worst. People looked over the edge fearing the collapse of the banks in 2008, but it did not happen – they were rescued, and in hindsight little damage was done to most people's lives. The lesson is "don't panic."*

By most measures we are in uncharted territories in terms of the economy and the short and medium-term outlook. In recent weeks, we have seen extreme moves in the financial markets as they try to absorb the implications of the current situation.

As a long-term investor in the technology sector, we have witnessed a number of near cataclysmic disconnects over the last three decades including, LTCM (Long term capital management), Y2K, the bursting of the dotcom bubble, the financial crisis, and Fukushima. As the news about Covid-19 was emerging at the end of January, we felt this situation was more serious and unlike any other we had experienced before. We quickly made some adjustments to the portfolio, selling positions with more obvious risk and increasing our cash.

We have been risk-averse and quite prudent over the last 3 - 4 years, concerned about valuations and a growing acceptance of the "growth at any cost" business models epitomised by the likes of WeWork.

Despite our adjustments in late January and February, our portfolio is still down 6.7 percent year-to-date as of 31<sup>st</sup> March. However, looking through our investments, we are reassured about the long-term prospects for the companies in our portfolio.

Short term, the most important factor is liquidity, i.e. do companies have the balance sheet to weather shortfalls in demand and/or supply, inhibiting their ability to generate revenues and cash flows? On this front we believe our investments are very well positioned.

Figures 1 and 2 below show net and gross cash to market capitalization for our top 15\* holdings. Figure 3 shows gross cash as a percentage of total expenses. The top 15 holdings account for 60% of the portfolio. As may be seen, these companies have strong balance sheets and are well positioned to weather a period of supply and demand challenges. Other metrics we are looking at to gauge liquidity include debt maturity schedules, revolver arrangements, depreciation and amortization expenses, working capital, capital expenditure commitments, and dividends.

\*Although Herald Investment Trust plc is among the top 15 holdings, it has not been included in the calculation as the metrics are not applicable to closed end funds.

Figure 1\*\*

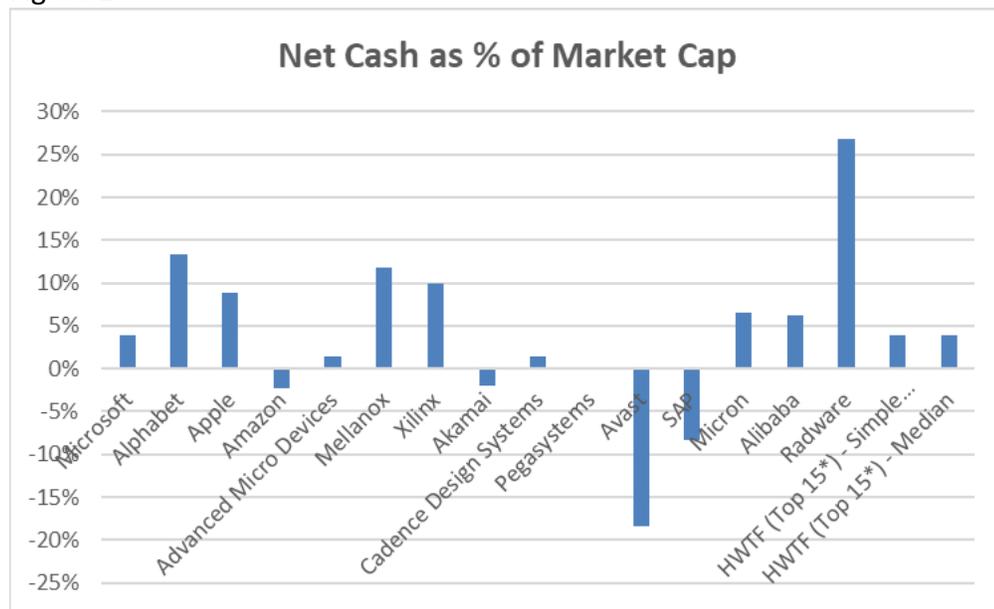


Figure 2\*\*

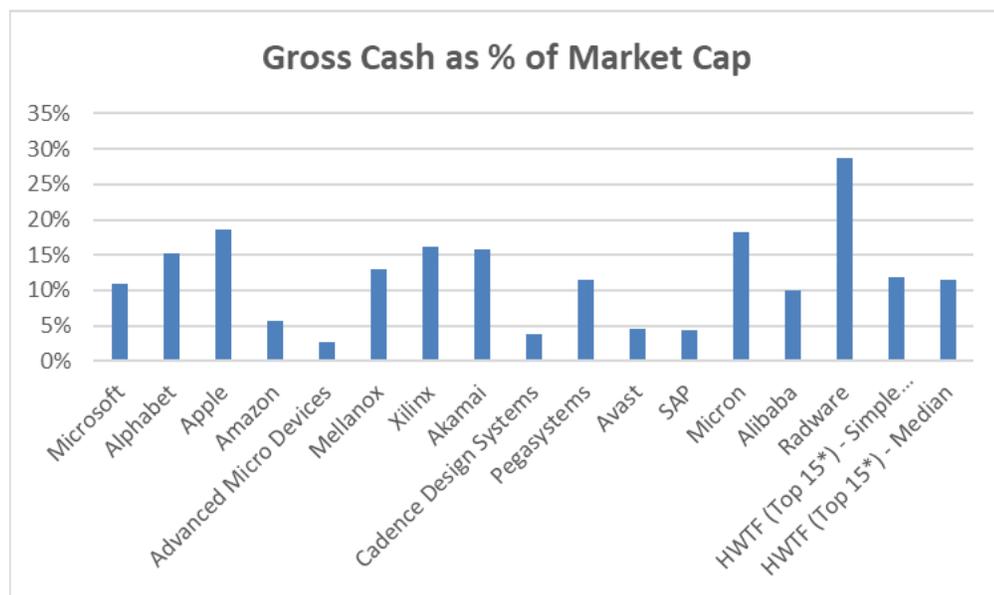
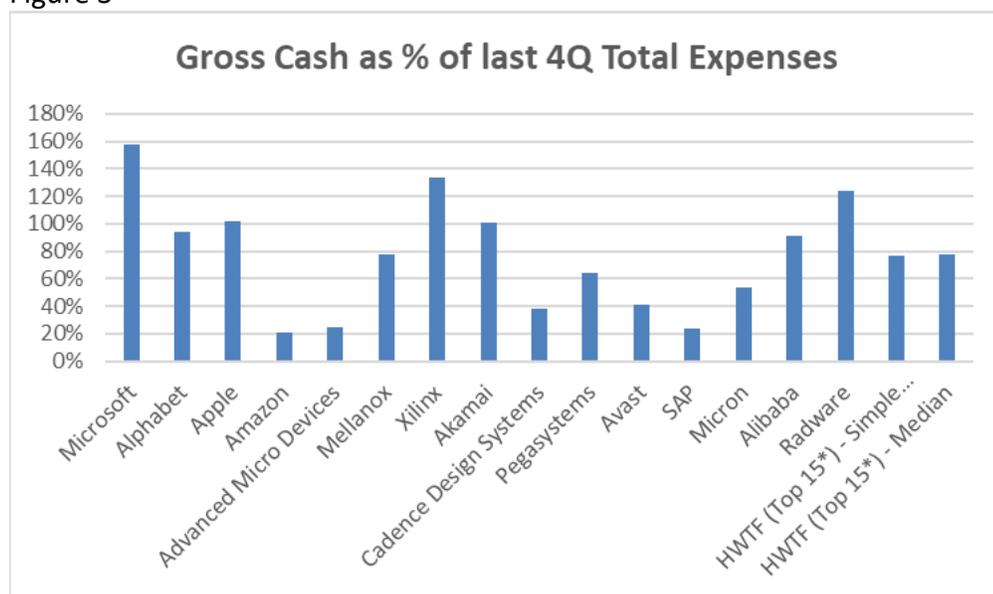


Figure 3\*\*



\*\* as at 30th March 2020

Source: Bloomberg and company filings

Beyond liquidity, other factors which are important are:

- 1) Percentage of recurring revenues
- 2) Exposure to small businesses versus large enterprises
- 3) Business exposure to key challenged end-markets such as travel, energy, and brick and mortar retail.

Our sale of Trip.com in January was because of our concerns about the travel vertical. More recently we refrained from adding to companies in our “wish list” exposed to the growth in electric vehicles, even though valuations looked compelling based on near-term metrics.

On the positive side, the lockdown and “stay at home” directives have led to an acceleration of demand for cloud-based services. This is a trend in which we have been investing for the last 10 years. Obvious beneficiaries in our portfolio are Microsoft, Amazon and Alibaba; but the benefits are accruing all along the supply chain including companies such as ZScaler, Akamai, Nvidia, Intel, and AMD.

We continue to have regular meetings with the management of a diverse range of companies in the technology supply chain. The news from the ground is at times more positive than the headlines. We think the challenge for the world economy over the next few quarters cannot be underestimated but at the same time the value of technology in addressing long-term issues has again been elevated. We remain optimistic long-term and are currently looking for opportunities to gradually deploy our cash.

## Important Information

The objective of the Fund is to achieve capital growth by investing in the securities of issuers in the technology, communications and multi-media sectors which the Investment Manager believes offer

potential capital growth. This report has been issued on behalf of Herald Worldwide Technology Fund, and has been approved by Herald Investment Management Limited, its investment manager. Herald Investment Management Limited is authorised and regulated by the Financial Conduct Authority. Market and currency movements may cause the value of shares, and the income from them, to fall as well as rise, and you may get back less than you invested when you decide to sell your shares. Certain statements in this report constitute 'forward-looking' statements. Such statements, including the intended actions and performance objectives of the Fund, involve unknown risks, uncertainties and other factors which may cause actual results, performance or achievements of the Fund to differ materially from those implied by such forward-looking statements.

Herald Investment Management Limited

10-11 Charterhouse Square

London, EC1M 6EE

Tel: 020 7553 6300

Fax: 020 7490 8026

bc@heralduk.com

For more information on Herald Worldwide Technology Fund and Herald Investment Management Limited: visit our website at [www.heralduk.com](http://www.heralduk.com)