



EXECUTIVE SUMMARY

Investing in the Future of Technology and Innovation

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Why “dual innovators” have thrived in recent months

- We have long found many of our best opportunities in companies that marry technological innovation with innovation in their business models.
- These firms have been some of the best performers in the sudden acceleration of the transition to the online economy.
- Crucial to the boom in online sales has been a less visible intensification in capacity and logistics.
- Customers have been accustomed to rapid and low-cost delivery, and companies that have invested heavily to meet swelling online demand are likely to remain in a dominant position in the coming years.
- Safety concerns during the coronavirus pandemic accelerated the shift away from hotels and toward private online rentals, which have also benefited from their elastic supply as travelers have stayed closer to home.

Companies supplying the infrastructure for the online economy also offer opportunity

- The boom in video conferencing and other collaboration activities has accelerated the growth in computing and memory demand in 2020.
- Meanwhile, the challenges in packing more transistors on ever-smaller computer chips have grown as we near the limits of “Moore’s law.”
- We are particularly interested in the small number of “linchpin” semiconductor capital equipment firms that are crucial to the development of next-generation chips.

The pandemic has partially cloaked other secular trends that are likely to reemerge in 2021

- E-commerce as a percentage of total U.S. retail sales jumped from 16% before the pandemic to 22% by the middle of 2020, but growth in online advertising has been muted. Source:BoAML.
- Companies slashed marketing budgets in the spring, and travel and hospitality advertising budgets nearly evaporated. We expect acceleration in 2021 with the announcement of the vaccine.
- Having now rethought their strategies and budgets, advertisers are more likely to turn to social media and other online platforms that allow customers to make purchases immediately, without leaving the app or website.

Technology is permeating all sectors

- Companies outside of tech and across a range of industries are trying to build digital relationships with their customers.
- In building out these capabilities, companies are turning to cloud-based computing to avoid heavy investment in on-premise hardware and staffing resources.
- Many of these firms will also turn toward building their own tailored software instead of relying on prepackaged, third-party solutions.
- Application programming interfaces essentially allow a firm's own employees to become in-house software developers.
- We are considering making early and private investments in companies that are pioneering in simple "drag and drop" interfaces for nonexperts.

Opportunities we're seeing in 2022, 2023, and beyond

- Semiconductors are proliferating beyond the limited markets of computers and smartphones into a range of "smart" devices.
- Advances in artificial intelligence (AI) will allow some software to be written by machines.
- The growth of AI is especially likely in settings where it is monitored by humans, such as call centers, radiology labs, or by passengers in self-driving cars.
- The low latency and strong connection enabled by 5G wireless networks will further the "Internet of Things," permitting everyday devices and machines to go online to transmit data and receive updates.

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