

# A SMART WAY TO ADD TECHNOLOGY INVESTMENT TO YOUR PORTFOLIO

A SMART WAY TO ADD TECHNOLOGY INVESTMENT TO YOUR PORTFOLIO *continued...*

PAUL WILSON

WHAT do Uber, AirBnB, Twitter, Workday, and DropBox have in common?

All these companies are valued at more than \$10 billion, but were all formed in the last decade.

Technology companies can get very big, very quickly, reflecting the size of the global markets they are addressing and their ability to scale rapidly.

Australian technology companies too have had rapid rises in fortunes with names such as *Atlassian*, *WiseTech*, and *Appen* providing stellar historical returns. Emerging Australian names such as *SiteMinder* are already world leaders. These companies are all addressing very large opportunities by utilising technology to provide a more efficient service.

*"Australian Technology companies are not restricted to addressing the Australian market. They can address a global market by the very nature of their products and services, and grow to be very large enterprises."*

Mark Burns, TMT Partners

Naturally, Australian investors want the opportunity of participating in such businesses that have the potential to achieve such phenomenal growth and global reach. Some investors want to diversify their investment portfolios to include technology as an asset class. But with a number of boom and bust stories emerging, what is a smart way to add some technology exposure to a portfolio?

## Solid Foundations

The underlying foundations for the growth in the technology sector have been progressively laid over some time. Key elements include:

- digitisation of information
- increased computing power
- broadband proliferation
- widespread use of smart devices
- the development of cloud computing services

These elements are driving structural shifts in the way business is being conducted in almost every industry. Some companies are failing to adapt quickly enough, and are at risk of value erosion. This however provides an opportunity for tremendous value creation for those companies nimble enough to embrace the change and allow it to drive their own growth.

These industry structural shifts are sizeable enough to override underlying economic conditions for companies taking advantage of them. Investments can perform well even if the overall economy does not. For this reason, the technology sector is an interesting counter balance to the historical portfolio weighting of most Australian investors.

## The Technology Sector is well established as a portfolio allocation

In larger markets such as the US, technology is very well established. Did you know that the Information Technology sector now comprises 25% of the S&P500 index, and is a larger sector than financials or healthcare?

Sector	Schwab Sector View	Share of the S&P 500 Index
Information technology	Outperform	25%
Financials	Outperform	15%
Health care	Outperform	14%
Consumer discretionary	Marketperform	13%
Industrials	Marketperform	10%
Consumer staples	Marketperform	7%
Energy	Marketperform	5%
Materials	Marketperform	3%
Utilities	Underperform	3%
Real Estate	Underperform	3%
Telecom	Underperform	2%

Source: Schwab Centre for Financial Research and Standard and Poor's as of 31/5/2018

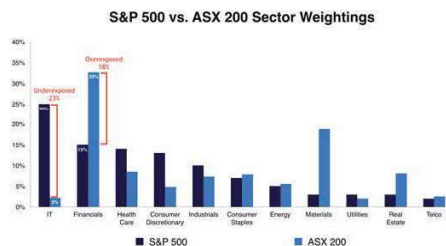
The NASDAQ Internet Index has returned 22% pa over the last 4 years, and Information Technology is one of only three sectors rated as 'Outperform' by Schwab.

The overseas experience is that technology is well and truly established as a credible asset allocation, but also that the sector can be an important hedge against disruption to legacy businesses in an investment portfolio.

## Technology investment opportunities in Australia

The market capitalization of companies in the information technology sector listed on the ASX/NZX has risen strongly over the last five years, but still represents only 2.2% of the ASX2001. This compares to Financials comprising 32.7% of the ASX2001.

<sup>1</sup>Source S&P Indices as at 31 May 2018



Many investors in Australia are looking to gain some exposure to the technology sector, recognizing that the industry balance in Australia is likely to trend towards other developed markets over time. Some portfolio allocation to Information Technology is a way to obtain exposure to potentially high return investments while providing some industry balance to their portfolio.

Recently there have been several technology companies listing on the ASX. Some of these companies have had stellar performance, and others less so. A number simply do not yet have the level of predictability to be properly ready for the public markets. There is no question that investment in the technology sector can produce exceptional returns, but can also come with a level of risk.

## How to reduce risk?

A number of measures can be taken to reduce risk in technology investing, including:

### 1. Specialist technology sector expertise

A manager who focuses only on the technology sector will have the experience of reviewing hundreds of potential opportunities of a similar nature. This means experience and a deep understanding of relevant technologies, business models, management teams and appropriate valuations.

### 2. The appropriate stage of company development

Companies that are past the start up or early stage will have a dramatically greater chance of success. This means several million dollars of annual revenue, repeating customers, proven globally competitive technology, proven business model, and a seasoned management team. This is referred to as the expansion stage, where businesses are looking to accelerate growth of a proven model.

### 3. An actively involved manager and board

A manager who is prepared to get involved in the management and governance of an expansion stage technology business can add much needed discipline as these companies grow. A seasoned board who have personal involvement can ensure a steadier growth path, without taking undue risks.

### 4. Diversification through a portfolio of investments

Having exposure to a number of investments in this space is a sensible diversification of risk, a well-established principle.

“Technology companies can get very big, very quickly”

## How to get access?

Traditionally, expansion capital investing in the technology sector has been the domain of ultra high net worth individuals and Silicon Valley firms. Now retail and institutional investors can access a portfolio of technology sector companies at the expansion stage through Ballador Technology Investments (ASX:BTI) which is listed on the ASX (BTI:ASX).

Acquiring BTI shares gives investors exposure to a portfolio of investments in ten high growth private companies in the technology sector, which have been made according to the principles outlined in this article.

**Paul Wilson, Co-founder & Partner, Ballador Technology Investments**

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