

Five technology themes providing attractive opportunities for 2020

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Guy Feld, Co-Manager of the **Marlborough UK Micro-Cap Growth fund**, highlights five technology themes offering interesting opportunities for the year ahead.

While the UK may not yet have produced a global titan like Google or Facebook, the nation punches above its weight in the technology sector. Last year when KPMG ranked the nations with the greatest promise for disruptive technology breakthroughs, the UK earned third place - behind only the US and China.

The tech sector is hugely diverse, but we have identified several specific themes, where innovative UK smaller companies are at the forefront in growth areas and this is creating interesting investment opportunities.

Digital transformation

Digital transformation is a relatively under-recognised trend, but it is happening now and is a substantial global opportunity. 'DX', as it is known, describes the modernisation and digitisation of organisations' legacy IT systems to deliver faster experiences for users across multiple channels including smartphones, PCs and

call centres. It is a global move from an analogue, manual or paper-based approach to a flexible, scalable and data-aware digital one, based on delivery from the 'cloud' internet.

We like Kainos, which primarily delivers DX solutions for the UK government, a market it cites as worth in the region of £1.7 billion and growing at around 30% per year. It delivered the move of the MOT vehicle testing system online for 23,000 UK garages, resulting in cost and service benefits. Other clients include HM Passport Office and the NHS. Kainos is also arguably the leading European services partner of the fast-growing US human resources and financials software company Workday.

Cleantech

Cleantech is a powerful emerging theme where technologies make energy generation and other industrial and manufacturing activities more environmentally friendly. This can involve addressing issues such as greenhouse gas emissions, resource scarcity and minimising various forms of pollution. Cleantech sits at the heart of

ESG (environmental, social and governance) investing, in which interest is surging.

Ceres Power Holdings has unique fuel cell technology that appears proven, reliable and relatively efficient. Fuel cells generate electricity from an electrochemical reaction and Ceres' cells can be powered by materials including hydrogen and biofuels. Practical applications include power generation for buildings and datacentres as well as range extenders for electric vehicles. Chinese engine giant Weichai Power and German industrial technology behemoth Bosch Group have signed partnership deals with Ceres and made direct equity investments.

Digital gaming

Stock markets are taking digital gaming very seriously, it is no longer seen as the refuge of the geek. Gaming is now described as the biggest entertainment industry in the world, eclipsing film and music. Gaming analytics firm Newzoo estimates the total global market generated around £116 billion in revenues in 2019 and is growing at nearly 10% a year.

Digital delivery, as opposed to selling a physical disc, enables a 'games as a service' model, which increases revenues as games makers charge regular subscriptions and sell downloadable content to increase engagement. In short, the fundamentals for games developers and publishers have improved markedly in terms of visibility and profitability.

We see strong growth potential in Codemasters Group Holdings, the leading independent developer and publisher of car racing games, including Formula 1. The shares stalled shortly after IPO because of disappointment with a new title, but are now pulling ahead on the back of factors including a licence renewal for F1, the launch of new consoles, a recent acquisition and a deal with Chinese online giant NetEase.

Railtech

While it may not always seem so to passengers, the humble railway system is a growth sector in the UK - and overseas. Population growth, increasing road congestion and pollution, fewer parking spaces and the need to get people into work more efficiently have driven steadily increasing demand for better rail

transport infrastructure in several countries.

Technology has a pivotal role to play in making rail travel more efficient, cheaper, safer and cleaner. Tracsis provides software and hardware-based solutions, mainly to the train operating companies and Network Rail in the UK, but it is also growing overseas. Its products help with improving operating performance, safety and risk management and measuring passenger demand.

Digital customer engagement

Digital customer engagement encompasses the use of digital tools by organisations to contact, listen to or interact with customers. It is a two-way street: both inbound and outbound, so can be used for customer service and support, for example telling you when a boiler will be repaired or a pizza delivered, as well as for sales and marketing purposes.

IMImobile has a cloud-based platform offering organisations including British Gas, Barclays and O2 the tools to engage with customers across channels including web, social media, text message and email. The company also provides chatbots

and has a team dedicated to other artificial intelligence applications. IMI is the UK's market leader and a recent deal made it a top-five player in the US.

What these five companies demonstrate is that while Silicon Valley may dominate the headlines when it comes to technology, the UK is home to an increasingly vibrant tech ecosystem and the companies that inhabit it can present attractive opportunities for investors.

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Shares may not be redeemed other than on any Dealing Day.

There will not be any secondary market in the shares of the Company.

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