



Investing with Innovation in Mind

Webinar: Opportunities Arising from the Digital Transformation

In this webinar, **Franklin Equity Group's Jonathan Curtis and George Russell** joined **Michael Feldman of ClearBridge Investments** to discuss how innovation is reshaping the global economy and the opportunities this presents for investors. Here are the key takeaways.

Innovation and the human experience

Lead portfolio manager with U.S.-based **Franklin Technology Fund**, Jonathan Curtis was emphatic when discussing the importance of innovation to the world we live in: "Innovation is at the core of the human experience and how our species will move forward." In particular, he is excited about the digital transformation that is well underway across every sector. Developments in AI, fintech and cyber security will bring a host of new opportunities for investors, he said, but it's in the area of cloud computing that he sees the most growth potential. In his view, this segment could grow to US\$3-5 trillion in the coming years and will be a crucial element of how businesses of all stripes operate. George Russell, institutional portfolio manager for [Franklin Innovation Fund](#) and [Franklin Innovation Active ETF](#), highlighted the growing belief that we are entering a fourth industrial revolution, led by this digital transformation. As such, he identified five platforms for growth: global e-commerce; genomic breakthroughs; intelligent machines; new finance; and exponential data.

Identifying emerging growth companies

Portfolio analyst with ClearBridge Investments, Michael Feldman outlined the process that underpins strategies such as the [Franklin ClearBridge Sustainable International Growth Fund](#) and [Franklin ClearBridge Sustainable International Growth Active ETF](#) where the investment team selects companies across the growth spectrum of structural, secular, and emerging. The emerging segment can account for up to 20% of the fund, and these holdings are characterized by rapid growth, gaining market share from incumbents, and a high retention of customers. Emerging firms, such as Elasticsearch and StoneCo, also have great potential for maintaining their impressive growth rates as they become more established in their respective industries. Jonathan Curtis added that although many people think of the FAANG stocks when it comes to technology, there are many exciting companies emerging in this sector, particularly in the private space. After all, the emerging companies today are the industry leaders of tomorrow, which is why early adoption of these firms is a key element of the Franklin Technology Fund.

Valuations and growth

Stock prices in the technology sector have risen substantially in recent years as investors have favoured growth names in the space. Jonathan Curtis believes current valuations in technology are somewhat elevated, but not excessive, especially when you consider the digital transformation opportunities that have been accelerated by COVID-19. In his view, the sector is now dominated by companies with strong profitability and good balance sheets, making comparisons with the tech bubble at the beginning of 2000s misguided. George Russell noted that innovative companies are often misunderstood by markets, leading to mispricing of growth companies—Amazon in its emerging stage being a perfect example. He attributes this to markets underestimating the duration and pace of growth with many innovative businesses. That goes for both emerging and established names—although Amazon is now one of the largest companies in the world, it still has plenty of room to grow, particularly in its burgeoning cloud computing segment.

Economic recovery from the pandemic

For certain businesses, the pandemic has been a boom time, particularly in areas like e-commerce. Consumers that may have been reluctant to purchase goods online previously have embraced online shopping in a big way. Innovation has also been pronounced during the pandemic, particularly in Health Care, and most notably in the rapid development of vaccines for the virus. George Russell believes that many of the changes during this period will be permanent, with greater investment in technology and health care in the years ahead. The collaboration tools that allowed so many of us to work from home, such as Zoom and Microsoft Teams, are also likely here to stay. As Jonathan Curtis put it, “transformation begets transformation”, so this period of innovation is likely a precursor of much more to come.

Innovation and ethics

Mega-cap tech names that have been synonymous with innovation in both the U.S. and China are facing greater scrutiny by their respective governments. In China, President Xi Jinping is moving to take greater control of data in the country, putting him at odds with e-commerce giant Alibaba and technology conglomerate Tencent. In conjunction with the growing geopolitical risk in the region, growth estimates for both firms are down, explained Michael Feldman. In the U.S., behemoths such as Google, Apple and Facebook have drawn the attention of the Biden administration, and greater regulatory oversight is expected in the future. Facebook, in particular, has come under the microscope for the ‘immunity of its users’ and the problems that is causing for the social fabric of the United States. Social, along with environmental and governance issues are important factors for investors nowadays, and this is reflected in the construction of the Franklin Technology Fund, Franklin Innovation Fund and Franklin ClearBridge Sustainable International Growth Fund. The innovation that is changing the economy with developments like AI, machine learning and robotics will also be able to improve society as a whole, noted George Russell, and in this respect, innovation and ethical investing can be wholly compatible.

Franklin Equity Group

Franklin Equity Group is based in California's Silicon Valley and has a proven track record of identifying strong, innovative companies in rapidly evolving areas such as cloud computing, e-commerce and digital payments, and health care. Franklin Equity Group brings together more than six decades of investment experience offering in-depth expertise in managing growth, value and hybrid/balanced equity strategies that cover global, regional and sector specialties.

ClearBridge Investments

ClearBridge Investments is a leading global equity manager with US\$196 billion in assets under management as of September 30, 2021. With headquarters in New York, the firm is a wholly-owned subsidiary of Franklin Resources, but operates with investment independence. A leader in ESG investing for decades, the investment team is committed to delivering long-term results through active management and investment solutions that emphasize differentiated stock selection.

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