

Manager thinking

Brought to you by Curate Investments

curate
THE ART OF INVESTING

Stay informed with the latest updates directly from our handpicked managers.

Evenlode Investment Management
Manager of the Curate Global Quality Equity Fund

Why we believe Alphabet is still a good investment

In the first three months of this year, Alphabet – the company that owns Google – meaningfully underperformed the market. This was due to concerns that it was being ‘left behind’ by new generative AI technology.

The concern was that its generative AI suite, called Gemini, was not competitive with new entrants like ChatGPT and Perplexity. Consumer search traffic would therefore be likely to switch rapidly to these new entrants, away from Google Search. As Alphabet is highly dependent on Search’s extraordinary profitability, this would be disastrous for the company’s earnings.

We have held Alphabet since launching our Global Quality Equity strategy in 2020. We were attracted by the powerful network effect created by how much internet search activity goes through Google. We believed that the ‘click-and-query’ data that Alphabet has access to from how consumers use its search engine is exceptionally hard to beat.

At its most basic level, Google learns which search responses are most highly valued from tracking user activity. It then promotes these results for the appropriate queries. This allows it to firstly monetise consumer traffic to advertisers, and secondly to reinvest surplus cash into powerful propositions like Maps, YouTube, Workspace, Gmail, and Cloud Platform, which it can monetise further over time.

In early March, Alphabet was down 5% for the year and lagged the MSCI World Index by 12 percentage points. High-profile embarrassments such as misfiring image generation by Gemini and a drumbeat of adversarial publicity from OpenAI and Microsoft had created a narrative that Google was the next Word Perfect or Blackberry – a technology that’s had its day.

We decided to re-examine the investment thesis we had for Alphabet to try to establish if its core competitive advantage was compromised or destroyed by this new innovation. To do this, we looked at data from a variety of providers to see high-frequency indicators that would show whether user behaviour was changing radically.

What we noted was that:

- User visits to prominent gen-AI search alternatives like ChatGPT appeared to be flatlining (and to be closely correlated to the school year);
- Click-through rates on search ads remained superior to those on display ads;
- Query types favoured Google’s larger click-and-query data set; and
- Google Search ad revenue was growing faster than Microsoft Search, despite Bing having more generative AI firepower available to consumers.

To us, these were all meaningful indicators that consumer usage of Google Search had not meaningfully changed. In other words, consumers continued to place a high value on its enormous superiority in serving them the right responses to their queries – a superiority ultimately underwritten not by any technological edge, but by the critical mass of user behaviour.

We cross-checked these quantitative data with calls to domain experts and reviewed transcripts of other expert calls available from our networks. These confirm important information about the size of the risk.

Our conclusion from the expert conversations was that generative AI was unlikely to be as transformational for search activity as Alphabet's share price was now discounting. We therefore decided to add to our position in late February and early March.

So far, this has worked out well, and results since the early March dip suggest that Alphabet's competitive position is unimpaired. We will, however, continue to monitor the company and update our risk scoring as new information becomes available.



curate
THE ART OF INVESTING

Disclaimer: Curate Investments is the trading name of Momentum Global Investment Management (MGIM).

This document is only intended for use by the original recipient, either a Curate Investments client or prospective client, and does not constitute investment advice or an offer or solicitation to buy or sell. This document is not intended for use or distribution by any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient. The original recipient is solely responsible for any actions in further distributing this document, and in doing so should be satisfied that there is no breach of local legislation or regulation. This document should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited. Any opinions expressed herein are those at the date this email is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Curate Investments does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

The portfolios are sub-funds of the Momentum Global Funds SICAV, which is domiciled in Luxembourg and regulated by the Commission de Surveillance du Secteur Financier. The Fund conforms to the requirements of the European UCITS Directive. This document does not provide all the facts needed to make an informed investment decision. Prior to investing, investors should read the Key Information Document ('KID') and seek professional investment advice where appropriate. KIDs and the Prospectus are available in English at curateinvestments.com. MGIM is the investment adviser, Curate Investments is the promoter and distributor for the funds.

MGIM or FundRock Management Company S.A., the Management Company, may terminate arrangements for marketing under the denotification process in the new Crossborder Distribution Directive (Directive EU) 2019/1160. This document does not provide all the facts needed to make an informed investment decision.

Under our multi-management arrangements, we selectively appoint sub-investment managers and funds to actively manage underlying asset holdings in order to achieve mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

MGIM is authorised and regulated by the Financial Conduct Authority in the United Kingdom, and is exempt from the requirements of section 7(1) of the Financial Advisory and Intermediary Services Act 37 of 2002 (FAIS) in South Africa, in terms of the FSCA FAIS Notice 141 of 2021 (published 15 December 2021). For complaints relating to MGIM's financial services, please contact distributionservices@momentum.co.uk © MGIM 2024.