



MACKENZIE
Investments



The future reinvented: data & digitization

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It's no secret that organizations both large and small are seeking to make better use of the data they have — on their customers, their products and services, and their operations. Alongside that effort is an increasing focus on the digitization of all parts of organizations to bring improvement in areas like customer service and operational efficiencies. While some of these changes are based on systems that remain in-house, workloads are increasingly being moved to public clouds.

A recent (Q1 2022) Morgan Stanley CIO survey noted that cloud computing, security software and digital transformation make up the top three spending priorities this year, in line with what we saw in 2021. We see these demand trends as having long-term durability, and so they are very appropriate areas for growth investors to focus on.

Even in the event of a downturn or a recession, the same survey noted that projects least likely to be cut in the event of an economic downturn in 2022 are security software, digital transformation, and AI/ML/ process automation.

Delivering exposure to edge computing

We believe we have many portfolio holdings that offer exposure to these areas of growth, with some being more immediately visible than others. For example,

Akamai offers an increasing exposure to cybersecurity, but they're also looking to participate more in edge computing (especially after the company acquired Linode). In this nascent market, customers are looking to process some data at the edge of the network to respond quickly and be more cost efficient regarding how much data is sent to the cloud data centre. With its thousands of points of presence around the world, we believe Akamai should be able to play a part.

Opportunities in data analysis and collection, and proprietary data

We are significant shareholders in Alteryx, a company that has been well known for the preparation of data for analysis. Under a new CEO since late 2020, the company is building a product offering that will be a more complete platform for the analysis itself, wherever the data resides.



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We have often invested in companies that possess valuable and proprietary data. These information services businesses can be very profitable, as the data is collected once but can be sold many times. A high-quality example of this dynamic at work is CoStar Group, a company that dominates in data of and insights into its initial market focus of the commercial real estate market. CoStar entered the multi-family residential market a few years ago and is now investing in its entry into the single-family home space.

Equifax is another great example in the information services market. The company is well known as one of the major credit bureaus, but its fastest growing segment is its Workforce Solutions business, which has a proprietary database of employment and income data that is the largest of its kind. The many valuable uses for this data include verification for many types of loans, credit cards, government services and hiring decisions. Given the added value of this data, the segment is also Equifax's highest margin business.

We are seeing an increasing trend in collecting medical data from devices and using it to improve patient health outcomes. We saw the benefits when we owned Dexcom in the glucose monitoring space. More recently, we became major shareholders in iRhythm Technologies, which has a large installed base of cardiac rhythm monitoring devices. Using data science, iRhythm can offer a superior level of diagnosis for atrial fibrillation, a dangerous condition that often goes unnoticed.

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Digitization and superior analysis

Another way to participate in these markets is through IT services companies. Through our holdings in EXL Services and Genpact, we have exposure to an increasing demand from customers who want help with digitization. These companies used to be better known for job outsourcing and call centres. Their growth is now coming from the digitization of entire workflows, where the revenue is driven by outcomes rather than the number of people assigned. In many cases, given the high demand for talent, customers often don't have the internal capacity to take on all the projects they want to complete. These service companies are seeing increased demand and rising profit margins.

Perhaps even less obvious is the competitive advantage that can come from superiority in the analysis of data. One of the longest-standing examples of this capability in our funds is Progressive. We believe that a large part of Progressive's success (apart from those great ads with their Flo character) stems from its superior ability to build analytical models. They do not rest on their laurels — they were among the first to start collecting data for usage-based insurance — and they are always innovating, with the next generations of their risk and pricing models. We see several of our other companies building the ability to use analytics in their businesses to create advantages.

All in all, we see these trends as durable and affecting all sectors of the global economy. From industrials to health care to retail, no sector can ignore the need to collect and understand valuable data in their businesses. They also see the need to digitize their operations and make the best use of the insights they gather.