TECHNOLOGY · SOFTWARE

Not All Technology Is the Same: Why We Are Finding Opportunity in Software

Markets have treated all software as a loser from artificial intelligence. We think that is too blunt, and it is why software remains a meaningful part of both PPM portfolios.



"A falling share price and a deteriorating business are not necessarily the same thing."

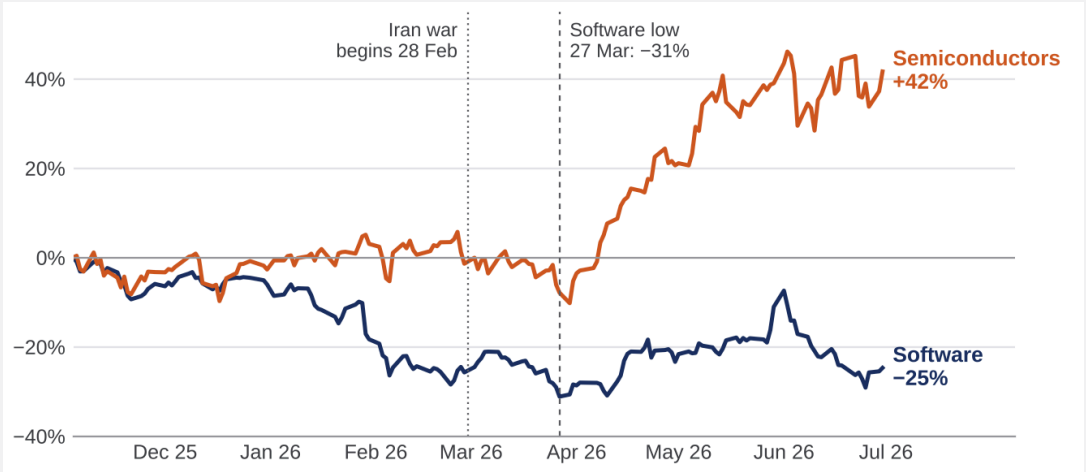
Max Herron-Vellacott
Portfolio Manager

Over the past year artificial intelligence has encouraged investors to divide the technology sector into winners and losers.

The winners have been easy to identify with the benefit of hindsight. Semiconductor manufacturers, data centre equipment suppliers and the large cloud companies have benefited from enormous spending on computing infrastructure. Software companies have had a harder time. Nowhere is this more evident than in the US where the 'SaaSpocalypse' hammered Software stocks early in the year:

The 'SaaSpocalypse': software and semiconductors part ways

S&P 500 Software and Semiconductor indices, % change, 4 November 2025 to 30 June 2026



Source: Bloomberg, 4 Nov 2025 – 30 Jun 2026.

Late last year, US Software and Semiconductor stocks were moving together. From early November to late March, however, the S&P 500 Software Index fell 31% while the Semiconductor Index slipped only about 8%, with the sell-off deepening after the war with Iran began at the end of February. Software stocks were sold off indiscriminately over fears that AI could completely overhaul the software industry as we know it.

The rebound that followed was lopsided. From the March low to the end of June, the Semiconductor Index rose more than 50%, while the Software Index recovered only around 9%.

ASSIST OR CONTROL

Software is not one industry

The problem is that "software" is not one industry.

The argument is simple enough: if AI can write code, automate workflows and perform tasks previously completed by people, then some of the software used by those people must become less valuable.

An application that performs a narrow task and can be replaced in an afternoon is very different from software that runs the financial accounts, supply chain, tax records or logistics operations of a multinational company. We think the market has been too quick to treat them the same.

One distinction we find useful is whether the software merely assists a workflow or actually controls it.

SAP, for example, provides the enterprise resource planning systems that sit at the centre of finance, procurement, inventory, manufacturing and human resources for many of the world's largest organisations. Replacing an ERP system is not much like changing a word-processing program. It can involve years of work, very large implementation costs, retraining thousands of employees and rebuilding connections to other systems.

WiseTech's CargoWise platform occupies a similar position within global logistics. Freight forwarders use it to manage bookings, customs documentation, warehousing, transport, compliance and invoicing across numerous jurisdictions. For the large logistics companies that use it, CargoWise increasingly looks more like an operating system than a piece of optional software.

Accounting platforms such as Intuit and Xero, both of which we own, also benefit, to varying degrees, from sitting inside financial records, tax, payroll, payments and the relationship between a business and its accountant.

None of this means these companies cannot be disrupted. It does mean that disruption is likely to be more difficult than is sometimes suggested.

WHAT MAKES SOFTWARE HARD TO REPLACE

01
System-of-record status
Replacing the product can disrupt core operations

02
Proprietary or contextual data
AI becomes more useful when it has accurate, structured information

03
High switching costs
Helps protect customer relationships

04
Regulatory complexity
Makes new competition harder

THE OTHER SIDE OF DISRUPTION

The incumbent already has the data

There is another side to the disruption argument.

AI needs data and context. A generic model may be able to produce an invoice or suggest how inventory should be allocated, but it still needs to know which customer, product, accounting rule, jurisdiction and approval process applies.

The incumbent software company often already has that information.

SAP's recent results are a useful example. Despite widespread concern that AI could undermine traditional application software, cloud revenue continued to grow strongly and free cash flow increased sharply. That does not look like a business being rapidly displaced.

Microsoft, one of the largest holdings in our Global portfolio, is following the same path, building AI directly into tools its customers already use every day.

+36%
SAP free cash flow growth, September quarter 2026

+42%
Intuit operating cash flow growth, financial year 2026

The same applies more broadly. SAP's free cash flow rose 36% in the September quarter, and Intuit's operating cash flow rose 42% in its 2026 financial year. That is important because AI-related investment is only attractive if the underlying business continues to produce cash.

Of course, some software will be disrupted. Smaller point solutions with limited proprietary data and low switching costs are probably the most exposed. AI may also reduce the number of users required for some applications, which is a problem for businesses that rely heavily on per-seat pricing.

The point is not that software is safe from AI. It is that the effect will not be uniform.

VALUATION

This brings us back to valuation

The best investment opportunities rarely appear when everybody is comfortable with the outlook. SAP had been a company we admired for some time, but historically its valuation made it difficult to earn an adequate return. The fall in software valuations changed that equation and we added to our holding in the Global portfolio through July and August.

CLOSER TO HOME

The same issue has appeared in Australia

Xero and WiseTech were significant detractors from the Australian portfolio in September. WiseTech has had genuine governance and execution issues, while both companies have been affected by the broader fall in software valuations as the Reserve Bank has raised interest rates.

Those risks should not be ignored simply because the share prices have fallen.

But a falling share price and a deteriorating business are not necessarily the same thing.

CargoWise remains deeply embedded in the operations of many of the world's largest freight forwarders. SAP's ERP systems remain extremely difficult to replace. Xero remains well established in accounting workflows. Intuit continues to generate large amounts of cash.

Where this sits in PPM portfolios

Software makes up about an eighth of both our Global and Australian portfolios, and we think every company we hold there passes the test above: it controls the workflow rather than merely assisting it.

GLOBAL PORTFOLIO

Microsoft · SAP · Intuit

Software ≈ one-eighth of the portfolio

AUSTRALIAN PORTFOLIO

WiseTech · Xero

Software ≈ one-eighth of the portfolio

What we do not own matters just as much. Neither portfolio holds the smaller, single-purpose software businesses, or those most reliant on per-seat pricing, that we think are most exposed to AI.

Holdings as at 31 October 2026.

The challenge for investors is therefore not to decide whether "software" wins or loses from artificial intelligence.

It is to work out which companies own important workflows, which have durable data and customer relationships, which can use AI to make their products better, and which are still earning good returns on the capital being invested.

Then there is the final question, which is usually the most important one.

> *What price are you paying?*
>
> Technology changes quickly. Investment arithmetic does not.
>
> — Max Herron-Vellacott, Portfolio Manager

PPM
PRIVATE PORTFOLIO MANAGERS

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1995
Established

$900m
Funds under management (30/06/2026)

5
Investment strategies

RECOGNITION

IMAP MANAGED ACCOUNT AWARD FINALIST 2019 INTERNATIONAL EQUITIES

IMAP MANAGED ACCOUNT AWARD FINALIST 2022 INTERNATIONAL EQUITIES

IMAP MANAGED ACCOUNT AWARD FINALIST 2024 INTERNATIONAL EQUITIES

IMAP MANAGED ACCOUNT AWARD FINALIST 2023 INTERNATIONAL EQUITIES

IMAP MANAGED ACCOUNT AWARD FINALIST 2025 INTERNATIONAL EQUITIES

IMAP MANAGED ACCOUNT AWARD FINALIST 2026 INTERNATIONAL EQUITIES

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