OPTO opportunities

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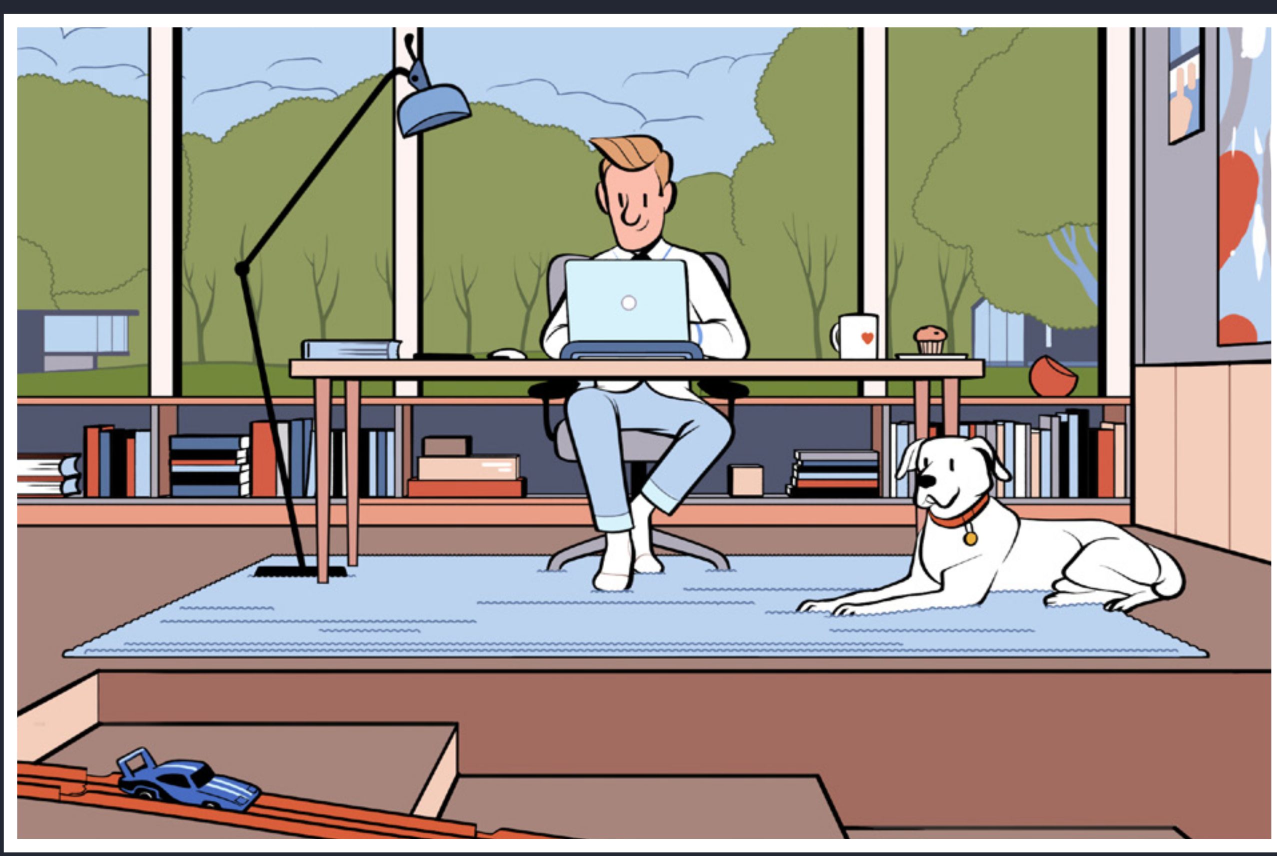
Software Stocks:

A New Working World



OPTO opportunities

_The global pandemic has brought about remote working en masse and provided added impetus to make changes to century-old working practices. Which companies are leading the change?

_The companies reimagining your work life

- Zoom Video Communications [ZM]
- Slack [WORK]
- Inseego [INSG]
- CrowdStrike [CRWD]
- Twilio [TWLO]
- Salesforce [CRM]
- Avaya [AVYA]
- Okta [OKTA]
- Microsoft [MSFT]

Autumn 2020

The world of work will never be the same again. The coronavirus pandemic and the resulting lockdown measures have caused a profound paradigm shift

For many around the globe, work and home lives have merged. This has proven that good work can take place anywhere. While restrictions on social distancing began easing in July, it's looking like many employees will continue opting to work from home — perhaps not permanently, but at least a bit more often.

The accelerated shift to a flexible working model has challenged the perceived wisdom that work should take place between the hours of 9am and 5pm, with staff congregating inside a single office. Faced with this existential question, employees, companies and investors are beginning to look for new opportunities.

From boardroom to spare room

Naturally, the tech companies providing the digital infrastructure on which working from home practices rely — such as Zoom Video Communications [ZM], Microsoft [MSFT] and Slack [WORK], to name a few — have seen their share prices boom. But the shift to

BEFORE: Early starts, long commutes and extended hours in large-scale offices, working alongside thousands of employees living similar lifestyles

_Direxion Work From Home ETF holdings

Xunlei	[XNET]	15%
Inseego	[INSG]	10%
Vonage Holdings	[VG]	7%
Avaya	[AVYA]	6%
Infosys	[INFY]	6%
Hewlett Packard Enterprise	[HPE]	5%
Plantronics	[PLT]	5%
Box	[BOX]	4%
FireEye	[FEYE]	4%
8x8	[EGHT]	4%
BNY Mellon Institutional Cash Reserve Fund	[ICRF]	3%
Cincinnati Bell	[CBB]	3%
Dropbox	[DBX]	3%
Nutanix	[NTNX]	3%
Ping Indentity	[PING]	3%
Progress Software	[PRGS]	2%
Upland Software	[UPLD]	2%
Slack Technologies	[WORK]	2%
CrowdStrike	[CRWD]	1%
Cisco Systems	[CSC]	1%
Elastic NV	[ESTC]	1%
Fortinet	[FTNT]	1%
LogMeIn	[LOGM]	1%
Oracle	[ORCL]	1%
Perficient	[PRFT]	1%
Twilio	[TWLO]	1%

Source: Direxion 20.07.20

remote working won't just benefit the share prices of companies that are providing the right tools.

No matter the industry, the pandemic has forced companies to rethink what "business as usual" looks like. Fashion retailers have had to reconsider how they let customers try on clothes, while restaurant operators have had to redesign their spaces to accommodate socially distanced dining. With a greater emphasis on ecommerce, warehouse space is now prime real estate, and logistics companies are finding themselves busier than ever.

"COVID-19 has had such an extraordinary impact on us all mentally, physically, emotionally. It was something the western world had never experienced before," Dave Mazza, managing director and head of product at New York-based fund manager Direxion, tells *Opto*. "Businesses switched to working from home to keep operating, but it has been so successful that they've realised this is the new normal. It's the future."

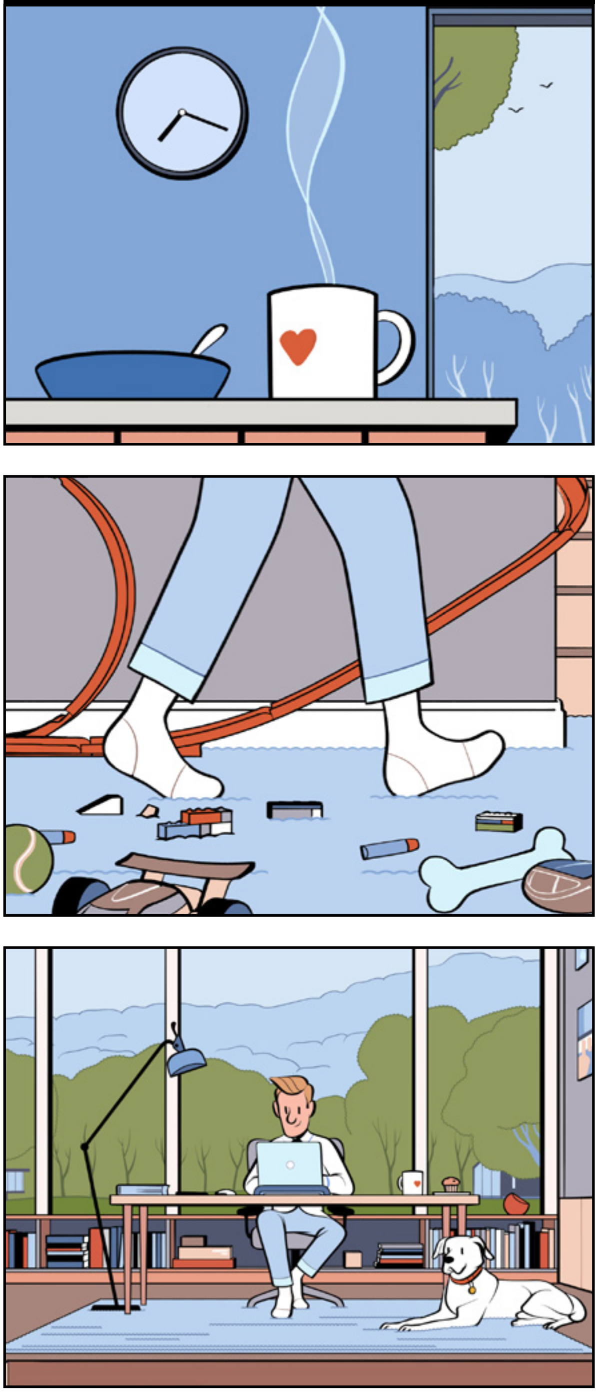
Businesses that are implementing generous, long-term remote working are also proving more attractive to investors, who interpret the embrace of flexible working as evidence of resilience — not just in terms of a capital buffer.

A happy corporate culture — an intangible metric increasingly considered for responsible investing (see boxout: *A new metric for corporate responsibility*) — has seen significant correlation with higher profits. It's the businesses that have been able to swiftly send staff home, while still maintaining their usual operational rhythm that are proving most popular.

Tracking the rise of home working

In June, Direxion launched the world's first remote working ETF. The fund, using the ticker WFH,

NOW: Making it work in a pandemic – unrushed breakfasts, juggling childcare and, for many people, a more relaxed and happier working environment



"Businesses switched to working from home to keep operating, but it has been so successful that they've realised this is the new normal. It's the future"

_Dave Mazza, Direxion

**Leveraged ETFs are complex financial instruments that carry significant risks. Certain leveraged ETFs are only considered appropriate for experienced traders.*

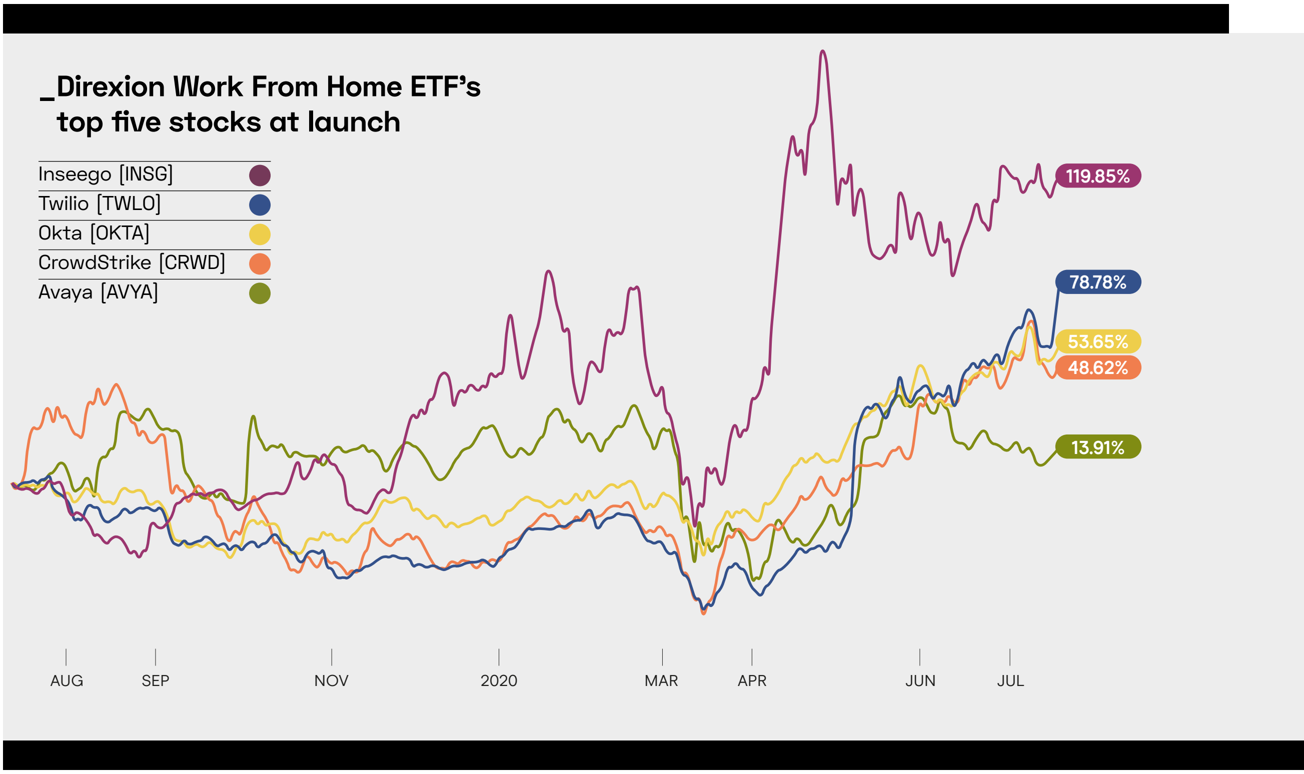
comprises 40 tech businesses considered to be integral to the delivery of seamless remote working.

In its first two weeks, the fund attracted $60m of inflows, according to Mazza — an impressive feat in a market where thematic portfolios across the board have struggled to maintain momentum amid the broader market downturn. The timing may appear a stroke of luck, but the firm had seen the shift coming.

"Regulatory restrictions mean you can't just dream up and launch a new fund overnight," explains Mazza, whose company specialises in leveraged ETFs that allow traders to make outsized bets on the daily moves of market indices. "The trend towards remote working has been coming for a few years and we'd been putting this together for a while. But the COVID-19 pandemic accelerated that trend — and we were well placed to launch."

The Direxion Work From Home ETF tracks the Flexible Office Index, which was created in March by the German-based index provider Solactive.

"During the COVID-19 crisis I, like many other people, have tried to set up an office space at home that holds a candle to our regular office environment," Timo Pfeiffer, Solactive's chief markets officer, says. "Translating this issue to a global perspective, it's obvious companies actively engaging with the set-up of the work-from-home evolution will be the beneficiaries."



Source: TradingView 27.07.20

The index provides exposure to companies "accelerating the greater adoption of remote work" by offering critical technological infrastructure and services that help enable working remotely through four "pillars": cloud technologies, cybersecurity, online project and document management, and remote communications.

"Some of these technologies — or ones similar to them — may not necessarily be new or ground breaking," adds Dr Axel Haus, head of qualitative research at Solactive. "However, a greater degree of acceptance towards them from employers and employees alike may further increase their relevance. Even more, better and faster connectivity from — for instance — 5G technologies could exacerbate the shift towards flexible offices all around the world."

Tech behemoths featured in both Solactive's and Direxion's trackers, and with good reason. Prior to a broader market sell off in September, Microsoft's shares climbed 48% YTD to a record high of $231.65 on 2 September. In the same period, Amazon's [AMZN] stock rose by 91% to $3,531.45.

Virtually everywhere

Zoom Video Communications is one platform that has become so popular over the past six months that it has entered the general lexicon as a noun, a verb and the poster child of the stock market's COVID-19 resistance. At the end of 2019, the company's stock was languishing below $70. By 10 July, it had hit an all-time high of $275.87, following a steep 70% rise since the pandemic began to bite in mid-March.

The stock's 272% gain in the first half of the year came down to the 354% year-over-year uptick in customers it registered in the three months to 30 April. The company's 265,400 users, and 769 customers contributing more than $100,000 in revenue in the past 12 months, helped total revenue for the quarter jump 169% to $328m.

"Zoom is the big one everyone talks about — and rightly so," Mazza says. "But after these immediate standout successes, it's obvious that the general work-from-home trend has longer legs than that. We're looking at the longer term, the emerging companies and those that aren't household names but underpin all the technology that enables successful remote working."

On the 25 June, its first day of trading, the WFH ETF rose 1.4%, outpacing the tech-heavy Nasdaq's 1.2% gain. Over the next two weeks, the WFH fund climbed a further 7%. Twilio [TWLO] — which had seen its share price nearly treble to $222.38 since a mid-March low — was its top holding. This was followed by 5G and device-to-cloud company Inseego [INSG], cybersecurity firm CrowdStrike [CRWD], business communications specialists Avaya [AVYA] and cloud software company Okta [OKTA].

Twilio is, according to Mazza, one of the most exciting movers at the moment. “Most people in the street have never heard of [Twilio] — a cloud communications platform service company that allows software developers to make and receive automatic phone calls and text messages,” he explains. However, the company ″just won the contract to provide the text messaging for New York’s track-and-trace programme,″ Mazza explains.

Jeff Lawson, CEO and co-founder of Twilio, has a focus on “digital engagement, software agility and cloud scale” and this has made the platform a permanent fixture in the work-from-home environment. The increased demand for its services — it noted a 23% uptick in accounts in the first quarter — boosted its revenue 57% year-over-year to $364m. The stock climbed 114.7% in the first half of the year.

Direxion — which had around $15bn in assets under management at the end of last year — may have launched the first specific remote-working ETF, but other trackers are

“The pandemic has already shaped long-term behaviour and, with it, investment trends”

_Michael Nicol, Kames Global Capital

tapping into the home-working space. The Horizons Industry 4.0 Index ETF [FOUR] holds 50 stocks in cloud computing, cybersecurity, virtual and augmented reality, robotics and the Internet of Things spaces, and returned 9% in the first six months of this year.

“The whole idea of digital transformation has been turbocharged by COVID-19,” Hans Albrecht, vice president of Horizons, says. “The need to get on board the digital train is no longer a nice-to-have,” he told *The Globe and Mail*. “It may be a must-do to survive.”

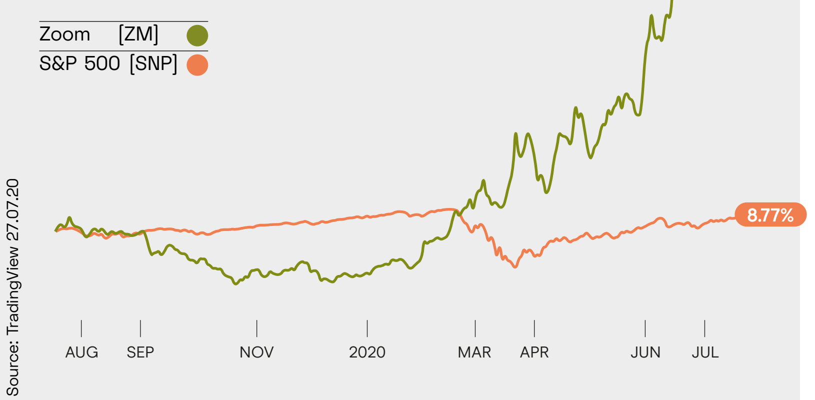
Homeworkers are happy workers

The work-from-home phenomenon is about far more than software, however. Flexible working policies have been credited with leading to a more motivated workforce, higher staff retention rates and increased levels of diversity. Such policies can also be considered as an indicator that a business is more likely to be able to pivot and adapt to rapidly changing circumstances — as was required with the pandemic. A study from Stanford University on remote working in 2018 came to the conclusion that happy home workers make for a more productive business, as it decreases the amount of lost work by 50%. Since then, an increasing number of surveys have emerged backing up its findings, the most recent being a study by Lenovo in July that found 63% of the global workforce to be more productive at home than in the office. In another survey by research group Hoxby, 52% of UK managers agreed that workers have been more productive than in the office.

Meanwhile, a report by *CNBC* and Survey Monkey released in May, found that 44% of 9,000 US-based workers surveyed were happier in their jobs, mainly because they didn’t have to commute to the office. A separate study by Salesforce [CRM] broke down employee’s productivity. It found that 32% started work earlier, 35% worked later and nearly 40% made more business phone calls, according to *ZDNet*.

Unsurprisingly, the tech sector has been quickest to pounce on these benefits and make their staff’s remote working arrangements permanent. On 6 July, Fujitsu [6702] announced

Zoom outperforms the US market



_A new metric for corporate responsibility

Keeping staff at home not only makes for happier workers, some argue it makes for greener companies too, with no offices to power and no commutes to take. But beyond these obvious environmental benefits, there is a case to be made that — by examining a company's response to the pandemic — deductions can be made as to how resilient it is. For ESG investors, this could provide a new metric by which to assess a business.

In June, New York financial services firm Moody's Investor Services published a report suggesting that how businesses operated in the face of COVID-19 would change the way investors see them.

"The coronavirus outbreak will intensify the focus of companies, investors and other stakeholders on environmental, social and governance factors, and increase the credit-relevance of ESG risks," Matthew Kuchtyak, the firm's AVP-analyst, said. The report outlines how a company's preparedness for such global risks could impact its creditworthiness, creating a greater need for a triple bottom line approach to decision making where businesses are not just responsible to shareholders but to people and the planet.

A business that can demonstrate that it cares for its people and community — through work-from-home policies or otherwise — can, therefore, sell itself to investors, showing it has the right foundations for resilient growth.

We are already seeing this mindset shift take place. Dai-ichi Life, Japan's third largest life insurer, is now asking the 250 companies in which it holds equity investments if they are offering their employees permanent home-working arrangements. Meanwhile, equity and credit investors AllianceBernstein, which keenly advocates home working among its own staff, is expecting the same standards of the companies in which it is invested — even going as far as checking up on how quickly companies are installing up-to-date tech at staffs' homes.

"Sustainability is the most important aspect of the investment case for a company," Michael Nicol, investment manager at Kames Global Capital, affirms. "A close look at the company's environmental and social impact, as well as its governance polices is vital and intrinsically linked to its strategic competitive positioning."

it would offer "unprecedented" flexibility to its 80,000 workers in Japan in a bid to make working from home "standard" wherever possible.

The company (which is up 40.7% YTD at JPY14,300 on 24 September) said the move would give "a more empowering, productive and creative experience for employees that will boost innovation and deliver new value to its customers and society". It will also be able to cut office space costs.

Growing adoption of home working

Fujitsu's move to flexibility follows an announcement in May by Jack Dorsey, CEO of Square [SQ] and Twitter [TWTR]. Dorsey promised employees in specific roles could work at home "forever". Tobias Lütke, CEO of ecommerce platform Shopify [SHOP], has also touted the end of "office centricity" and has outlined plans to make the business a "digital-by-default" operation. Furthermore, Stewart Butterfield, CEO of Slack, has also given employees the option to work from home indefinitely. Facebook [FB] and Google [GOOGL] have extended their remote working initiatives until the end of the year, with the expectation these will likely be made permanent. Seeing these successes, other industries have started to dip their toe in the work-from-home waters. Jes Staley, chief executive at Barclays [BARC], said crowded corporate offices with thousands of employees "may be a thing of the past", while banking peer Goldman Sachs [GS] has mooted a return of no more than 50% of staff to its offices. Morgan Stanley [MS], JPMorgan [JPM] and Capital One [COF] have also extended their flexible working options, according to human resources organisation SHRM.

Even automakers, one of the least expected industries to embrace the remote working boom, are considering how they can extend policies. Nicholas Speeks, CEO of Mercedes-Benz, recently told *Automotive News* that "for the foreseeable future, [work from home] will become the norm". At the same time, French car manufacturer PSA [UG] — which owns the Peugeot, Citroën and Vauxhall brands — said that for non-production staff "teleworking" will become "the benchmark". Among the consumer staples space, Alan Jope, CEO of Unilever [ULVR], is reportedly reviewing permanent mobile work arrangements.

Bucking the trend

There is, of course, a possibility that remote working could lose its shine as time goes on. While there is no precedent for the coronavirus, during other catastrophic historical events many sectors have come close to extinction — the travel sector after 9/11, the banking sector after 2008, cryptocurrencies after 2017 — to then suddenly recover.

Many industries were able to go back to business as usual. If this pattern were to be repeated in the near future, would the work-from-home trend be reversed, leaving these hot stocks out in the cold?

"I don't see it," Mazza says. "Maybe some firms have had significant run-ups, and you're seeing an elevated price to earnings, but collectively they are at lower valuations than the Nasdaq but with higher growth potential."

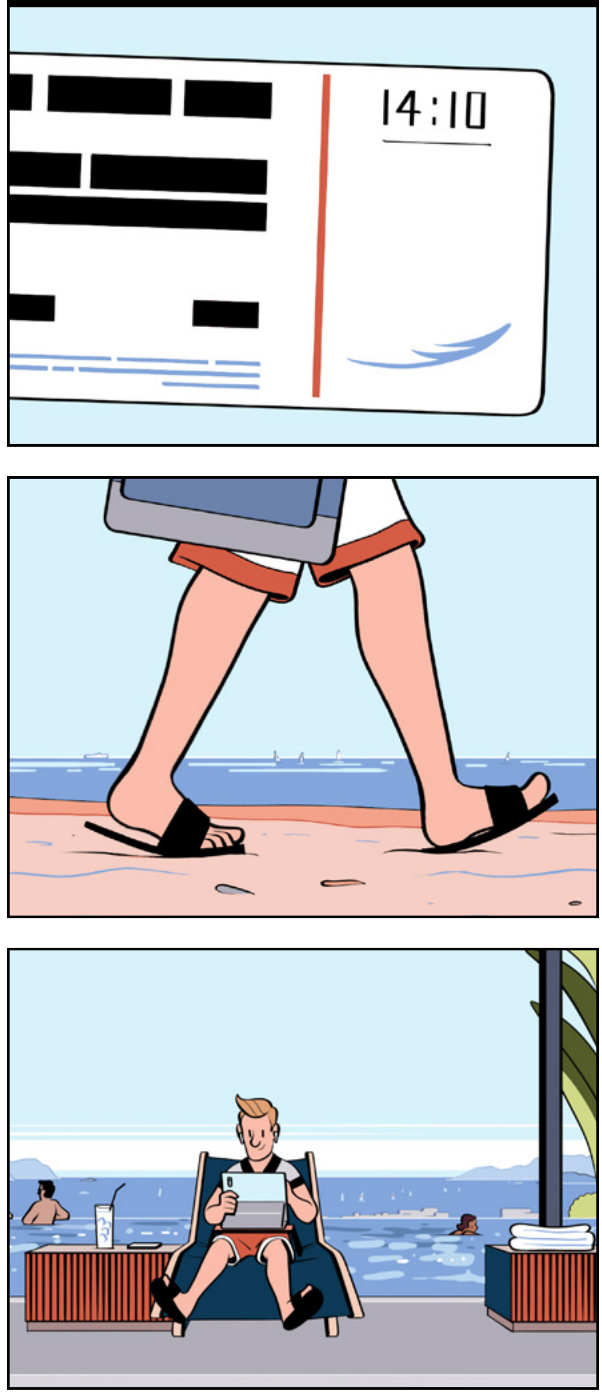
In fact, indicators suggest the tide of home working will not be turned. Of the 1,500 UK businesses interviewed by video conferencing platform Whereby, 82% said they are open to the idea of making their COVID-19 flexible working arrangements permanent, while 65% said they intend to downsize their office space as a result of the pandemic.

Michael Nicol, an investment manager at Kames Global Capital, agrees the pandemic marks a permanent sea change in the way we work. "The pandemic has already shaped long-term behaviour and, with it, investment trends," he says. "COVID-19 has fast-forwarded particular themes that are important for a portfolio that will perform well over the next few years.

Nicol adds that "tech is the single most obvious driver". He believes that the increased adoption of software and services that enable remote working will stay a permanent fixture in business.

The future of work

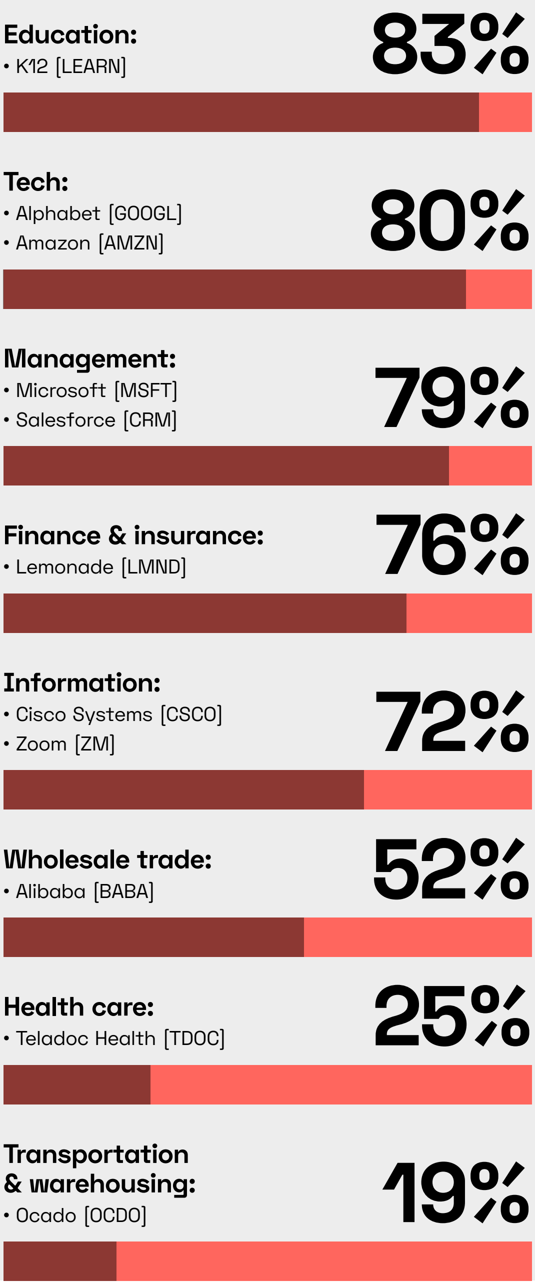
As with every other trend, success for investors is about foreseeing the micro-changes along with the macro.



BEYOND: Your office is wherever you are – and this could be anywhere in the world. Remote working is here to stay, so adapt to new ways of doing things

The companies making it possible for other companies to work from home

Below are the share of jobs that can be done at home in different industries and some of the companies that are enabling these jobs to be done.



Sources: Bloomberg/National Bureau of Economic Research

"One thing's for sure. We've discovered the joys of remote working and we're not going to give them up. This is here to stay"
_Dave Mazza, Direxion

For instance, travel may have returned after 9/11, but the industry has permanently changed its security measures. The same could be said for remote working. Certain stocks may be spiking right now, but investors will need to look at the longer term.

"Everyone is already looking at where this goes next," Mazza says. "Zoom is looking at partners to build devices, and Google wants to enter the video-conferencing space. Everyone can now see remote working is the future — but we need to keep looking for exactly how that future will pan out, what new technologies and trends will come out of this."

Mazza is also working on another fund to exploit a post-lockdown new standard — a consumer ETF that tracks companies providing virtual services, such as home entertainment, online education and telemedicine. Another indicator, he says, that the COVID-19 crisis has changed business, working and investing forever.

"One thing's for sure. We've turned a corner," Mazza concludes. "We've discovered the joys of remote working and we're not going to give them up. This is here to stay." ●

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