

# Monthly Enterprise Software Market Report

October 2021

## HANetf & Purpose Investments

Purpose Enterprise Software ESG-S UCITS ETF | SOFT

SOFT

59bps

IE00BMQ8YQ50

Product Inception Date: 28.07.2021

For Professional Clients Only. Capital at risk.

All data as of 30.09.2021

This report was written by, and is the opinion of, the SOFT index providers Purpose Investments.

## Key Takeaways

- September has once again lived up to its reputation for volatility. In many ways this had to be expected as equity markets have experienced one of the longest runs of stable returns and minimal drawdowns in history. However, the timing of this recent volatility should not surprise many, as most of the positive tailwinds that have carried the market to these levels are starting to fade away, setting up what could be a difficult period for capital markets.
- Global central banks are the most important factor that have helped elevate recent returns. To their credit, they learned from the mistakes of the global financial crisis where indecision and delay exacerbated things—this time, right from the beginning, the banks did everything they could to help the markets and the economy. But all good things must come to an end, and 18 months after the start of the pandemic, it is time for central banks to begin to remove some emergency measures.<sup>1</sup>
- The overall impact of this that everyone is paying attention to is the recent upward move in interest rates. When you look at interest rates, the rationale behind an increase in interest rates leading to a decline in growth assets are because software assets are typically viewed as longer duration assets. By longer duration I mean that cash flows are pushed out to future dates as the companies invest heavily in both R&D and Sales & Marketing to focus on revenue growth.
- However, we believe this market assumption is incorrect. If you look at one of the top holdings in the fund, Adobe, for every \$1 of revenue, they drop about 47 cents of that dollar directly down free cash flow. That's not EBITDA, that's free cash flow to the company that they can then either reinvest in the business.
- We continue to believe that equities need to outgrow inflation, and there is still a very strong picture for capital flows towards growth assets. There are no "growthier" assets in the entire stock market than software companies.

## Macro Outlook

Covid-19 was a catalyst absent in most projections regarding the outlook for digital transformation. The pandemic forced two years' worth of digital transformation into two months. Not only did these changes drive unprecedented short-term industry growth, but they also changed perceptions around remote work, which will have a long-lasting impact on the way that organizations operate and use technology.

Software companies with a high degree of recurring revenue, strong profit margins and critical assets around communication, collaboration, content delivery, and security experienced increased demand and usage because of Covid.<sup>2</sup> As a result, valuation multiples across these offerings are likely to see meaningful expansion, which investors can capitalize on.

<sup>1</sup> <https://www.fundlibrary.com/Articles/Detail/the-gales-of-november/1008>

<sup>2</sup> <https://gcaglobal.com/market-insights/market-update-impact-of-covid-19-on-valuation-levels-in-the-software-sector/>

It is also interesting to note that this change has benefitted the software sector more than broad-based technology. This can be explained by the differences in business models, such as higher scalability and lower marginal costs, which enable these companies to be more pliable in the face of acute stresses like Covid-19.

During the month of October, all focus will be shifting towards earnings season as well as valuation being held under a microscope. Throughout COVID, we saw that big tech's earnings are incredibly resilient and they even continued to grow at a rapid pace. Last year, that valuations seemed to be stretched but when we're in an environment where tech and software is drastically outgrowing the S&P yet the performance is nearly the same on a YTD basis, what you have are relative valuations right now at extremely attractive levels.

## Purpose Enterprise Software ESG-S UCITS ETF Performance Table

As of 30.09.2021

	1M	3M	6M	YTD	12M	SI
<b>Purpose Enterprise Software ESG-S UCITS ETF (Acc)</b>	<b>-5.99%</b>	<b>NA</b>	<b>NA</b>	<b>0.20%</b>	<b>NA</b>	<b>0.20%</b>
<i>Solactive Purpose Enterprise Software ESG Screened Index NTR</i>	<i>-5.94%</i>	<i>4.23%</i>	<i>20.13%</i>	<i>0.33%</i>	<i>36.47%</i>	<i>0.33%</i>

Performance before inception is based on back tested data. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. Past performance for the index is in USD. Past performance is not an indicator for future results and should not be the sole factor of consideration when selecting a product. Investors should read the prospectus of the Issuer ("Prospectus") before investing and should refer to the section of the Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in this product. Source: Bloomberg / HANetf. Data as of 30/09/2021. Please note that all performance figures are showing net data.

## Product Details

The Purpose Enterprise Software ESG-S UCITS ETF 'SOFT' seeks to provide diversified exposure to global software companies.

'SOFT' tracks the SolactivePurpose Software ESG screened Index which looks to include companies that have created substantial moats in their respective verticals through deep product market fit and R&D investments and have high recurring revenue, high gross margins, strong free cash flow, and cashed up balance sheets.

The SOFT software ETF contains an ESG screen to exclude companies with exposure to controversial weapons and fossil fuels.

Visit the [SOFT Fund Page](#) for more information.

Exchange	BBG Code	RIC	ISIN	Valoren	SEDOL
London Stock Exchange	SOFT LN	HASOFT.L	IE00BMQ8YQ50	-	BMBTJ68
London Stock Exchange	SOFP LN	SOFP.L	IE00BMQ8YQ50	-	BN4MYZ5
Borsa Italiana	SOFT IM	ESOFT.MI	IE00BMQ8YQ50	-	BMXR6G9
Deutsche Boerse Xetra	SOFT GY	SOFTG.DE	IE00BMQ8YQ50	-	BMXR5M8



## Nicholas Mersch, CFA

Portfolio Manager, Purpose Investments

Mr. Mersch has worked in the asset management industry in several capacities over the past 10 years. Areas include private equity, infrastructure finance, venture capital and technology focused equity research. In his current capacity, he is an Associate Portfolio Manager at Purpose Investments focused on long/short equities. Mr. Mersch graduated with a Bachelor of Management and organizational studies from Western University and is a certified financial analyst (CFA) charterholder.

### Important Information

**Please note that all performance figures are showing net data.**

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