This is not substantive investment research or a research recommendation, as it does not constitute substantive research or analysis. This material should be considered as general market commentary.

SaaSpocalypse Now

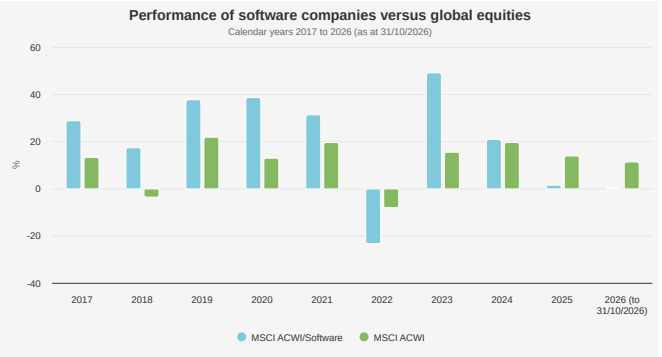
We discuss why many investment trust managers have been building positions in software companies.

Jean-Baptiste Andrieux Jean-Baptiste@keplerpartners.com

Once favoured by investors for their ability to generate recurring revenues, their low capital intensity, and their often-monopolistic positions, software companies have been shaken by the rise of artificial intelligence (AI). Investors have become increasingly concerned about how the emerging technology could affect these businesses and whether their historical strengths will endure in a rapidly changing landscape. For example, coding tools have made it possible for people with no coding knowledge to develop their own software, significantly eroding barriers to entry. In addition, AI could perform tasks previously carried out by software programmes in the future, allowing users to bypass them altogether. Furthermore, the development of AI agents may enable companies to replace human teams with AI agents, thereby reducing the number of software licences required.

The shift in sentiment began in the second half of 2025, when software stocks started to sell off, and culminated in February 2026, when Anthropic released a range of new tools capable of automating tasks across various fields, including legal, financial, and HR functions. It is also worth noting that many software companies were trading at elevated valuations prior to the sell-off, reflecting their reputation as relatively reliable investments offering predictable growth and their strong historical performance, as the chart below shows, which may have amplified the correction.

CALENDAR-YEAR RETURNS



Source: Morningstar

Past performance is not a reliable indicator of future results

Interestingly, we have observed that several investment trust managers have built new positions in software companies or increased their existing exposure to these businesses following the sell-off. For example, based on conversations with managers, as well as statements in annual and half-year reports, we estimate that at least four of the nine management teams in the AIC Global sector have purchased software-related stocks since the SaaSpocalypse (a sell-off in software companies driven by market concerns that advances in AI could disrupt their business model). Below, we discuss their rationale for backing these companies, the outlook for software businesses, and why some investors are favouring alternative areas of the market.

Underestimated strengths

A commonly held view among managers is that uncertainty surrounding software businesses has led the market to overreact, triggering an indiscriminate sell-off. As a result, even software businesses benefiting from characteristics that should protect them from AI disruption have been caught up in the sell-off. Many managers have, therefore, viewed the

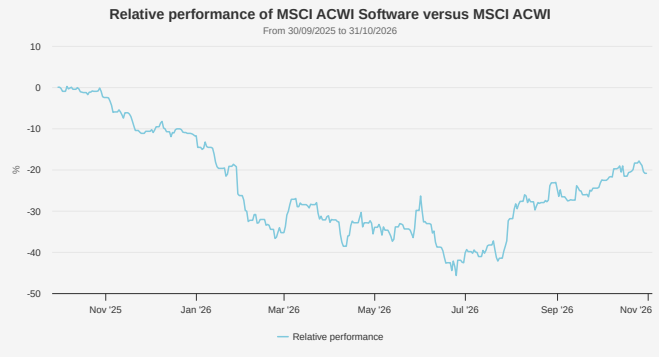
SaaSpocalypse as an opportunity to acquire quality businesses at unusually attractive valuations.

For example, Stephen Anness and Joe Dowling, managers of **Invesco Global Equity Income (IGET)** in the AIC Global Equity Income sector, have built a position in UK-listed information and analytics business RELX following the sell-off. They highlight that RELX owns an extensive collection of proprietary data that AI cannot legally replicate. Moreover, the company serves customers for whom data accuracy is crucial and whose need for reliability largely outweighs the benefits of switching to cheaper alternatives. Similarly, in the AIC Global sector, the management teams of **Mid Wynd International (MWY)** and **Lindsell Train Investment Trust (LTI)** have also taken advantage of the sell-off to build new positions. One of the stocks added to MWY's portfolio is Intuit, a financial technology company whose software products cover tax preparation, accounting, and credit scores. Given the sensitive nature of financial data, MWY's managers believe that Intuit should be protected from AI disruption. Meanwhile, Nick Train, the manager of LTI, has trimmed his exposure to consumer brands to add to his holdings in software companies and build a new position in FICO, a data analytics company focused on credit scoring services. Nick believes concerns about AI disruption are exaggerated and that software businesses owning proprietary data are more likely to benefit from AI developments than to be disrupted by them.

Technology specialists have also been buying back into software companies. For instance, Mike Seidenberg, lead portfolio manager at **Allianz Technology Trust (ATT)**, avoided them throughout 2025 as the market increasingly priced in the threat posed by AI, but has selectively built new positions during 2026. This is because he has observed signs of a recovery in software developer hiring, while valuations had also become more attractive. One of the stocks Mike has added to the portfolio is Atlassian, a software company that develops collaboration, project management, and developer tools.

The chart below shows the relative performance of the MSCI ACWI Software Index against the MSCI ACWI since the start of Q4 2025, during which the sell-off began. We note an improvement in relative performance since late June 2026, as many companies highlighted in their earnings reports over the summer that AI was acting more as an enabler of growth than a source of disruption. This may have helped alleviate some investor concerns.

RELATIVE PERFORMANCE



Source: Morningstar

Past performance is not a reliable indicator of future results

Regaining lost ground

Following their recent recovery, software companies are trading at a premium to the broader global equity market, as has historically often been the case. However, their valuations remain at a discount to their own historical average, despite expectations that they will deliver strong earnings growth over the next two years. To us, this combination suggests that the recovery in software companies could have further to run.

	MSCI ACWI SOFTWARE	MSCI ACWI
Historical average (2015 to 2025)	31.2	18.5
P/E (forward to the end of 2027) (x)	23.4	15.1
P/E (forward to the end of 2028) (x)	19.1	13.3
Earnings growth (1-yr forward) (%)	12.5	17.3
Earnings growth (2-yrs forward) (%)	31.2	11.1

Source: Bloomberg, as at 04/11/2026

Past performance is not a reliable indicator of future results

One supportive trend, in our view, could be a slowdown in AI infrastructure spending. In the first half of the year, investors favoured hardware companies providing essential components for the build-out of AI infrastructure, as they benefited from substantial investments made by hyperscalers. However, the earnings growth of these hardware businesses is highly dependent on spending remaining elevated. Meanwhile, many companies funding the AI infrastructure build-out are increasingly facing pressure from their investors, who are questioning whether these investments will generate adequate returns and could severely penalise those that fail to deliver. Alphabet may have provided an early example of this, with its shares having fallen 12% on 29/10/2026 alone after the company reported negative free cash flow, largely attributable to its spending on AI and data centres. Therefore, we believe that a slowdown in spending on AI infrastructure cannot be ruled out, potentially encouraging investors to look towards other parts of the market, including software companies.

However, a slowdown in AI infrastructure spending does not mean that progress in AI will come to a halt. As such, this does not remove the risk of AI disruption that some software businesses may be facing. This is something the management team of **Brunner (BUT)** has been preparing for, having trimmed their positions in semiconductor companies (hardware) and exited software companies whose business models appear more vulnerable to AI disruption since 2025. One software company the team entirely sold is Paycom, a payroll and human capital management software business, as they believe that AI coding tools have lowered barriers to entry for potential competitors, thereby eroding the company's competitive moat.

The manager of ATT also stresses that selectivity is key, as he does not expect the entire software industry to recover. Mike is particularly wary of big-ticket software products might struggle to sell in an environment in which implementing AI takes precedence over other tech spending. Instead, he favours software businesses that use AI in ways that enhance the value of their products to customers, as well as those directly involved in AI deployment.

Meanwhile, the managers of **Scottish Mortgage (SMT)**, Tom Slater and Lawrence Burns, are cautious about software businesses built on a per-seat pricing model. They expect software to be increasingly used by AI agents rather than human teams, potentially reducing the number of licensed users and, in turn, affecting software companies' revenues. In contrast, they see software that provides the infrastructure enabling other digital activities to operate as better positioned to benefit from AI. As such, their allocation to software companies is focused on businesses with these characteristics. One example is Cloudflare, which provides internet services such as content delivery networks, cloud security, DDoS mitigation and domain registration, and charges customers on a per-domain basis. Cloudflare provides both a platform on which AI agents can run and a secure way for them to interact with websites, while also giving website owners the means to identify, limit, and potentially charge agents for access.

Looking further afield

For other managers, the sell-off in software companies was justified, highlighting that these companies were trading at high multiples, leaving no margin for error. Moreover, they believe that their current valuations still do not fully incorporate the risks posed by AI. However, the February sell-off also affected other areas of the market, and some of these managers believe these businesses offer more attractive opportunities than software companies, both in terms of valuations and recovery potential.

One example is staffing companies, which have suffered not only from fears of AI disruption but also from weak recruitment activity. Alex Wright and Jonathan Winton, managers of **Fidelity Special Values (FSV)**, have increased their exposure to companies operating in this industry over the past 12 months, viewing their challenges as cyclical rather than structural. They were also encouraged over the summer, when many staffing companies delivered profits ahead of consensus expectations and, crucially, they observed signs of stabilisation in recruitment markets in the US and Asia Pacific, the two regions where AI adoption is most advanced.

Travel technology companies were also impacted by the sell-off, as investors feared that AI-native search could allow consumers to bypass intermediaries. However, as with software companies, some managers believe these fears

could be overblown. For example, the management team of BUT built a position in Booking Holdings. In their view, travellers will likely use AI chatbots to generate travel ideas and plans going forward, but will continue to rely on platforms such as Booking.com to search for hotel information, check real-time availability, and complete transactions. Similarly, the managers of **Fidelity European (FEV)** established a new position in Amadeus IT, a company providing specialist software to the travel industry and connecting airlines, hotels, travel agents, airport operators and a range of ancillary services. They believe the market underestimates how difficult it would be for AI to disrupt a company as deeply embedded in its industry as Amadeus IT, as well as the potential for the company to harness AI to improve its business over time.

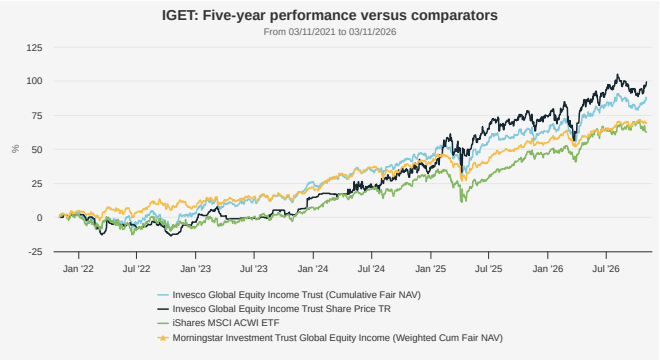
Finally, it is also worth noting that many managers have not expressed any particular views on software companies or other perceived 'AI losers' more generally. However, some of them have rather gravitated towards asset-heavy businesses, arguably the polar opposite of the asset-light business model typically associated with software companies. This suggests that these managers do not view software companies as a particularly attractive opportunity set in the market.

Conclusion

In our view, software companies could offer further recovery potential, as they are still expected to deliver strong earnings growth over the next two years, while trading at a meaningful discount to their historical valuations. However, we would be more cautious about viewing them as long-term buy-and-hold investments as AI continues to develop. While concerns may prove to have been overstated, it is also conceivable that the future capabilities of AI are being underestimated, meaning that its impact on software businesses could ultimately be even more severe than the market currently anticipates.

As such, we believe that a strategy like that of IGET could be an attractive way to gain exposure to a potential continuation of the recovery in software businesses. While Stephen and Joe have introduced software businesses into their portfolio, they have done so selectively, focusing on those that should be more insulated from AI disruption. Moreover, they typically exit their positions once they assess that the companies have reached fair value or their conviction has weakened. This means that they are likely to sell these names if they believe that they have become overvalued or the risks of AI disruption have become more tangible. We note that their approach has delivered strong returns over the past five years (to 03/11/2026), comfortably outperforming the MSCI ACWI, as the chart below shows.

FIVE-YEAR PERFORMANCE



Source: Morningstar

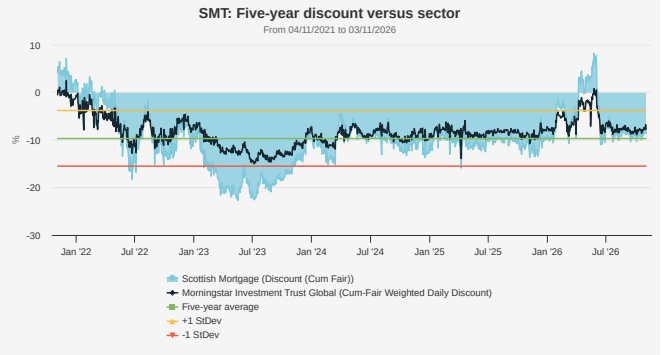
Past performance is not a reliable indicator of future results

Alternatively, we think FSV could be a compelling option for investors wishing to gain exposure to the 'AI losers' but find that software companies are still too expensive, with AI risks not fully reflected in valuations. Alex and Jonathan place great emphasis on margin of safety, which can help limit downside risk if their investment theses prove wrong. As such, they have favoured staffing companies, which they believe offer a better risk-reward profile than software companies.

Finally, we believe SMT could be of interest to investors wishing to focus on software companies that appear well positioned to leverage the potential of AI. Tom and Lawrence believe that the sell-off in February was likely justified and, rather than positioning the portfolio to benefit from a recovery, are instead focusing on software businesses that could benefit from the rise of AI agents, as well as other companies supported by structural growth themes. Moreover, the trust's discount has a history of narrowing and widening rapidly. For instance, SMT traded at a discount at the start of the year before moving to a premium during Q2. As such, the current discount of 8.7% offers investors who missed the opportunity in early 2026 another chance to revisit the trust.

This is not substantive investment research or a research recommendation, as it does not constitute substantive research or analysis. This material should be considered as general market commentary.

DISCOUNT



Source: Morningstar

Past performance is not a reliable indicator of future results.

Disclaimer

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street, London W1S 2GF with registered number OC334771.