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## PODCAST

# Decoding Software: Growth, Moats, and the AI Reckoning

## Key takeaways

- **Widening dispersion calls for selectivity:** Dispersion within the software sector is likely to grow, making thoughtful choices essential for navigating the space effectively.
- **Moats and growth matter:** Businesses with strong moats and a sharp focus on both the rate and duration of growth will stand out.
- **AI is a strategic disruptor:** AI will reshape industries, but success lies in leveraging unique datasets and integrating AI effectively, not just relying on incumbency advantages.
- **Big opportunities amid risks:** While incumbents face significant challenges, the growth potential from tapping into labor budgets presents a transformative opportunity.

The software sector is undergoing a profound transformation. In the latest episode of the All Angles podcast, Technology Sector Team Leader and Software Analyst Matthew Doherty breaks down the forces reshaping the industry and what investors should prioritize in this fast-evolving landscape.

## FEATURING



**Sean Kenney**  
Co-Head of Global  
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**Matthew Doherty**  
Equity Analyst

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**Decoding Software: Growth, Moats, and the AI Reckoning****Stock dispersion brings the need for selectivity**

The emergence of generative and agentic AI has introduced new paradigms in the future of work, with implications for software development and deployment. As a result, barriers to entry in the software industry have dropped dramatically. This has led to a surge in competition and increased performance dispersion across the sector. Three main concerns about software companies right now are the growing use of autonomous agents, the need to shift pricing models, and whether simply collecting data will continue to support incumbent operating systems.

**Practical Application:**

The industry is at a turning point that will likely lead to higher stock price dispersion, so passive exposure to software indices may no longer suffice. We believe active strategies that emphasize selectivity and deep fundamental analysis are essential to identifying opportunities.

**Competitive moats and growth duration matter**

Agentic AI is raising a big question about what a company's competitive moat really is. This means traditional advantages — access to capital, ease of use, first-mover advantage — are losing relevance. There are still some durable moats that are now critical, such as switching costs, brand strength and distribution channels. Equally important is the duration of growth, not just its rate.

**Practical Application:**

Focus on companies with durable competitive advantages and long-term growth trajectories. Avoid overvaluing short-term growth spikes.

**Several attributes to look for in software investments**

Great software businesses exhibit pricing power, large and growing markets, robust management, a strong history of organic product development, and profitable growth. Finding inflection points in growth also determines the success of software businesses, such as through a new product cycle or positive management changes.

**Practical Application:**

Screen for companies with strong unit economics, clear competitive advantages and an underappreciated long-term earnings profile. Volatile earnings multiples make valuation by itself a poor indicator of an attractive software stock.

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**Decoding Software: Growth, Moats, and the AI Reckoning****Insolvency is a key risk for incumbent companies**

Major technological shifts have historically created a risk of disruption or insolvency for companies unable to adapt. The current wave of AI and technical architecture change poses similar risks. Incumbents that lack the cultural agility, strategic vision or technical flexibility to pivot may be left behind.

**Practical Application:**

Investors must critically assess whether a company can bridge the gap between legacy models and future demands. Look for signs of proactive transformation, modern tech stacks and leadership that embraces change.

**AI is a disruptor and an accelerant for the sector**

AI is expanding the total addressable market for software companies by targeting labor budgets. While incumbents have data and distribution advantages, they also face the innovator's dilemma due to existing business models that arguably differ from the future work model. Without this burden, startups may move faster and disrupt established players.

**Practical Application:**

Assess whether incumbents have the architectural flexibility and strategic foresight to integrate AI effectively. Monitor emerging AI-native companies and their impact on market share.

**Conclusion**

Opportunities in the software sector are evolving, but so are the risks. For existing software companies, regardless of size, incumbency will not be enough. The opportunity for investors lies in identifying those companies that can adapt, innovate and lead in a landscape increasingly shaped by AI and shifting business models. This is the moment to be selective, as the dispersion between winners and losers is only likely to grow.

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## Investing in Pharma and the Game Changing Impact of AI



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