

PRIVATE MARKETS PERSPECTIVES

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Navigating Market Volatility in Technology: A Perspective on AI-Driven Change

In recent months, technology and software markets have experienced heightened turbulence, with valuations swinging sharply despite solid underlying fundamentals. Concerns over artificial intelligence (AI) and its disruptive potential have triggered a broad reassessment of traditional software business models, leading to substantial market repricing. As investors seek clarity amid uncertainty, Tiera Capital offers its perspective on the structural strengths of the sector and the long-term opportunities that lie ahead.

AI anxiety drives market reassessment

Since late last year, even the most established enterprise software leaders, including Microsoft, SAP, Salesforce and Workday, have seen significant share price declines. This broad-based selling has reached nearly every major software sub-sector. Notably, this correction has unfolded without an accompanying deterioration in operating performance. Instead, markets are adjusting to a new paradigm: the possibility that AI could shift value creation away from traditional software and towards new generative technologies.

Durable competitive moats: a source of stability

Across the software landscape, companies with deep and defensible competitive advantages continue to demonstrate remarkable resilience. These businesses function as essential infrastructure within their sectors and possess characteristics that remain highly relevant during periods of disruption:

- Strong vertical expertise and complexity: industry-specific capabilities, regulatory requirements and localised workflows create meaningful barriers to entry.
- Deeply embedded systems: core business processes rely on proprietary and historical data, where reliability is critical and errors cannot be tolerated.
- Long-standing customer relationships: high switching costs and low churn reflect years of trust, integration and operational familiarity.

These strengths are especially pronounced within vertical software-as-a-service (SaaS), where domain expertise and close customer alignment reduce exposure to broad, generic AI-driven disruption.

AI as a growth engine, not a threat

While AI has raised questions about future business models, it also represents one of the most significant innovation catalysts in decades. Across the Tiera Capital portfolio, many software companies serving SMEs and mid-market clients are accelerating their adoption of AI. With smaller firms often constrained by limited IT budgets, they rely heavily on incumbent vendors to deliver AI-enabled productivity gains.

This evolution opens the door to:

- Enhanced product functionality
- New upselling and cross-sell opportunities
- Evolving pricing models, including usage-based and outcome-based frameworks
- Expansion of addressable problem sets that software can solve

Structural strengths support long-term opportunity

Despite short-term valuation compression, the software sector retains deep structural strengths: robust support models, embedded security and compliance frameworks, and the essential accountability that businesses expect from trusted technology providers. Migrating away from established platforms remains complex, risky and resource-intensive, strengthening the position of companies with entrenched customer bases.

Historically, markets have tended to overestimate the short-term impact of transformative technologies and underestimate their long-term benefits. Most technological shifts unfold not through abrupt displacement but through gradual augmentation, precisely the dynamic now unfolding with AI.

Periods of compression that occur without any deterioration in fundamentals have, time and again, provided attractive entry points for long-term investors. Durable franchises with strong cash generation, deep customer intimacy and strategic relevance are well placed to benefit from recovery, consolidation and renewed innovation cycles.

Looking ahead: Tiera Capital's commitment

As technological change accelerates, Tiera Capital's investment team continues to monitor developments with vigilance and discipline. The Investment Committee maintains oversight of both opportunities and risks across the sector, ensuring that investment decisions remain prudent and aligned with clients' long-term interests.

Our experts are confident that software companies with established barriers to entry, deeply embedded systems and a proactive embrace of AI will emerge stronger from today's period of volatility. These businesses are poised to weather short-term uncertainty and capture the substantial opportunities unlocked by the next wave of innovation.



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About Tiera Capital, the Indosuez Wealth Management offering on private markets



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Its distinctive and innovative offering stands out due to:

- Access to a diverse range of investment funds: including multi-strategy vintage funds (primary, secondary, co-investment), feeder funds (including Tiera Capital Innovation), and semi-liquid Private Equity and Private Credit funds.
- A comprehensive offering in terms of assets, strategies, and geographies: covering Private Equity, private debt, infrastructure, and real estate; strategies such as primary, secondary, and co-investment; and regions including Europe, North America, and Asia-Pacific.
- Tailored support services: to build and manage unlisted asset portfolios, including discretionary management and investment advisory services.

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