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## Opportunistic, best ideas investing enables Collins Stewart multi-managers to take advantage of tech theme

**London, Guernsey, Isle of Man, Jersey and Geneva – 1<sup>st</sup> February 2010:** Collins Stewart Fund Management believes that a **theme that stands out as having started the year as a play on the re-emergence of global growth is the Technology sector, one that has changed dramatically since the bubble days of the late '90's.**

- the sector is no longer expensive and in many cases, valuations are at multi-year lows
- raising capital efficiency is a much more sustainable corporate strategy
- the last cycle saw a marked under-investment in technology. Consequently there is a good deal of latent demand and obsolescent machines are expensive to maintain
- a new iteration of computer systems may catalyse the trend
- technology inventories are especially low and the relationship with new orders is a good indicator of earning momentum
- we favour the more economically sensitive hardware sector
- The Henderson Technology Fund is currently the largest holding of the Collins Stewart Select Opportunity Fund, with over 10% of the portfolio.
- The Collins Stewart Select Opportunity Fund has seen outperformance of 69.11% over the UK peer group since inception in April 2001\*

**Commenting on the outlook for the technology sector, Mark Piper, Manager of the Collins Stewart Select Opportunity Fund, said:**

“This is one of our most favoured themes at present as the sector is no longer expensive and in many cases, valuations are at multi-year lows. This is despite the vastly reduced number of dedicated technology funds in recent years, which is a result of investors remaining wary of the sector since those heady days in the '90s. Indeed, investors have recently taken note that Technology stocks have outperformed major global indices since the beginning of last year and the potential for further relative outperformance remains high in our opinion, as cyclical profit indicators remain supportive for the sector.

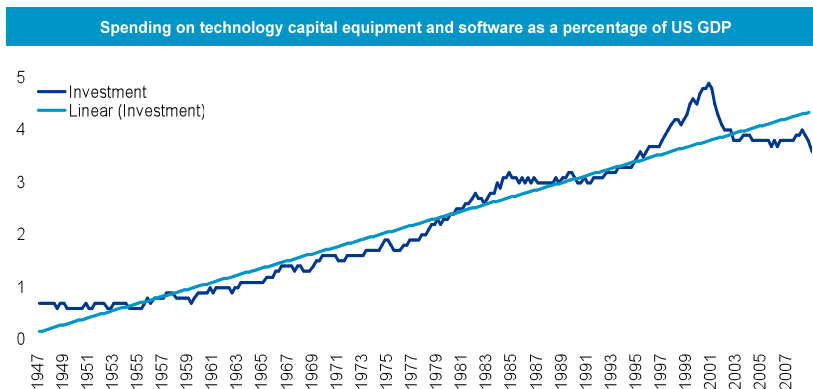
Importantly, few players in the technology sector are saddled with debt, thus tech profits were able to ride out the credit crunch. These companies continue to have the lowest debt/equity ratio of the ten S&P sectors with substantial cash on their balance sheets, as shown in the table below.

Sector	Net cash as % of market cap
Information Technology	8.9%
Healthcare	-5.3%
Energy	-14.2%
Consumer staples	-22.8%
Materials	-37.3%
Consumer discretionary	-48.4%
Telecommunication services	-66.5%
Industrials	-88.1%
Utilities	-97.8%
Financials	-493.4%

Source: FactSet, Company data and Credit Suisse, as at 30 June 2009

Investment in technology has never properly recovered since the IT bubble burst in 2001, as shown in the graph below. Although growth in IT outlays is outpacing other business investment for the first time in several years, the relative surge in business outlays on technology in the past few quarters has done little to reverse the chronic underinvestment.

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Source: Nomura, Bureau of Economic Analysis, as at 30 September 2009

Throughout the 2000s, corporations significantly underinvested in fixed capital and their IT departments felt the under-spend with particular acuteness. In the US, the private sector investment in equipment and software as a percentage of GDP is at an all time low, in fact investment throughout the boom years of the last cycle was considerably lower than the expenditure during the preceding one. Indeed, many companies overspent on IT in the late 1990s and much of the resultant hardware and software is still incumbent and nearing obsolescence.

In late 2008, companies ran down working capital and stock-piled cash in an effort to support margins given sluggish top lines. However, management will need to re-engage capex plans and normalise working capital in order to fully capitalise on the returning growth. Cost-cutting is not a sustainable profit driver; boosting capital efficiency and productivity through technology however is a laudable strategy.

Consequently, there is a good deal of latent demand for technology goods ready to be unleashed as the recovery takes hold. Fortunately, a) businesses are in good shape to normalise capital expenditure; b) free cash flow yields are abnormally high – the largest 100 stocks in the US are boasting an aggregate around 15% – and gross private saving (excluding households and not-for-profit organisations) is again at a peak when expressed as a percentage of gross national income; and c) business confidence among US chief executives (the ones with the cheque books) has also returned sharply to growth. These three factors cement our bullish view on the sector, as there is a clear relationship between corporate spending on fixed assets and the start of a recovery cycle.

Even in a low growth environment, an investment thesis predicated on the IT refresh cycle remains intact – obsolescent systems result in high maintenance costs. Taking this a stage further, the new cycle may herald a paradigm shift to 'cloud computing' whereby companies rent web-based servers and data storage, a model economically more efficient than maintaining hardware and software in-house. The new service providers will need to make huge investments in hardware to fully capitalise on this compelling opportunity.

There is still plenty of upside for tech spending as the global economy recovers and we believe the upward re-rating of this sector is likely to continue, given the longer term supports that are in place.

As a multi-manager investor we would look to invest in the sector via a pooled vehicle, such as the Henderson Global Technology Fund, which we have been watching for some time. Its historic risk/return statistics compare extremely well versus its peers and the investment process is incredibly strong. In addition, the team that manages the fund is equally strong; an important fact for one of the largest technology funds in Europe, particularly in light of the increasing number of tech funds being closed down or converted into more generalised global equity vehicles.

The fund is our preferred choice when seeking a consistent, benchmark aware core holding with strong risk/return characteristics. Whilst it might not be the highest beta fund in the sector, we believe it will consistently outperform the benchmark/peer group on a risk adjusted basis, as well as be less prone to the volatility and periodic underperformance of other funds in the sector.

Another fund that we have considered adding alongside the core Henderson holding is the Polar Capital Global Technology Fund, managed by Nick Evans. Nick Evans built up a strong track record managing the

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Axa Framlington Global Technology Fund and has continued to perform well since taking the helm at Polar Capital in January 2008. The fund has more of a mid and small cap bias and the key theme is broadband infrastructure, with exposure to companies involved in cloud computing, internet enabled applications and mobile broadband. There are no benchmark constraints and the fund typically consists of 65-80 stocks, with a focus on emerging technology themes rather than last generation's winners. The two funds in combination may prove to be a complementary mix.

The Henderson Technology Fund is currently the largest holding of the Collins Stewart Select Opportunity Fund, with over 10% of the portfolio. This particular position goes some way to explaining why this fund has been given the moniker, "Opportunity".

With the strategy initially launched April 2001, it was renamed from the Aggressive fund to the Select Opportunity fund in September 2008 when it was re-domiciled in Dublin. Opportunity seemed to be a far more accurate description of how the fund is actually managed. While we do make aggressive asset allocation decisions within the Fund - there have been occasions when those investment decisions have, resulted in the Fund holding upwards of 40% in cash (hardly the most aggressive of asset classes, the banking crisis aside!) Consequently, we were often asked why, over certain time periods, the Fund has exhibited lower risk attributes than other supposedly less risky investments. Instead the Fund should be viewed as opportunistic, with our best investment ideas represented in a concentrated number of holdings and a select number of strategies. As new opportunities present themselves the Fund can move quickly between strategies allowing us to take advantage of strategic themes such as technology.

The Select Opportunity Fund is currently split between 5 investment baskets; emerging market equities (30% - Latin America & Asia), UK equities (15%), Gold (8% - bullion & equities), a 'Thematic' basket (40% - comprising Technology, Energy, Infrastructure and Healthcare funds), and Cash (7%). We firmly believe that this unconstrained style of multi-manager investing creates a true representation of our best ideas and allows us to capture the upside of both short and longer term investment themes and that this has contributed to the long term success of the fund, which has seen outperformance of 69.11% over the UK peer group since inception in April 2001 (\*Source: Morningstar as at 31/12/09).

– Ends –

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## Notes to Editors

**Collins Stewart Fund Management ("CSFM")** is a multi-investment boutique focused on delivering investors high quality investment returns in selected asset classes. The group manages over £300m<sup>1</sup> across

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the equity, fixed interest, multi-asset and fund of hedge fund asset classes. More information on CSFM is available at [www.collinsstewartfunds.com](http://www.collinsstewartfunds.com)

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<sup>1</sup> as at 30/09/09

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