



Polar Capital Technology

Cheviot Investment Symposium

February 2012

POLAR CAPITAL

This presentation is for non US investors only



Introduction to the team

- Technology is at the core of the Polar Capital business - strong multi-cycle track record
- One of the largest technology franchises in Europe with c. \$1.2bn under management
- Five dedicated technology specialists with more than 56 years of combined technology experience

Funds	Global Technology Fund US\$ 525.7m	Technology Trust US\$ 685.0m	Strategy
Senior Fund Managers	Nick Evans	Ben Rogoff	Nick Evans Ben Rogoff
Geographic coverage Thematic coverage	US Mid/Small-Cap Broadband Infrastructure	US Large/Mid-Cap Broadband Applications	
Analysts / Fund Managers	Craig Mercer	Fatima Iu	Colin Moar
Geographic coverage Thematic coverage	Asia/Japan Alternative Energy	Europe Medical Technology	US Technology

Investment Framework

3000+ universe



80 / 130 stocks

Thematic overview

Dynamic definition of technology
Real-world changes in user behaviour

What we look for

S-Curve inflections
Secular themes / pure-plays

What we avoid

Last-generation winners
Public venture capital

Valuation

Growth bias – rev/earnings/cash flow
Price targets (bull/base/bear) / Risk reward

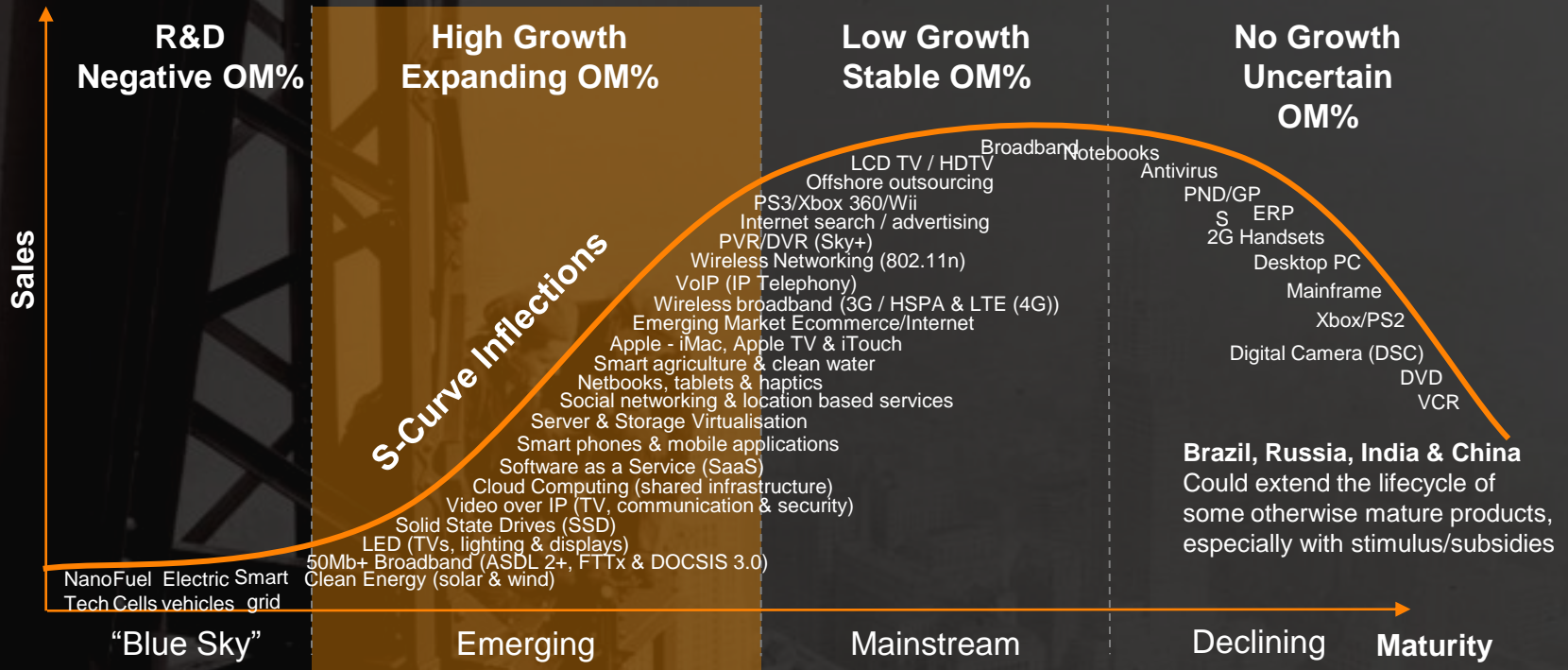
Portfolio Construction

Bottom-up stock picking
Benchmark aware in PCT

Sell Disciplines

Mis-execution / model change
Price level attainment

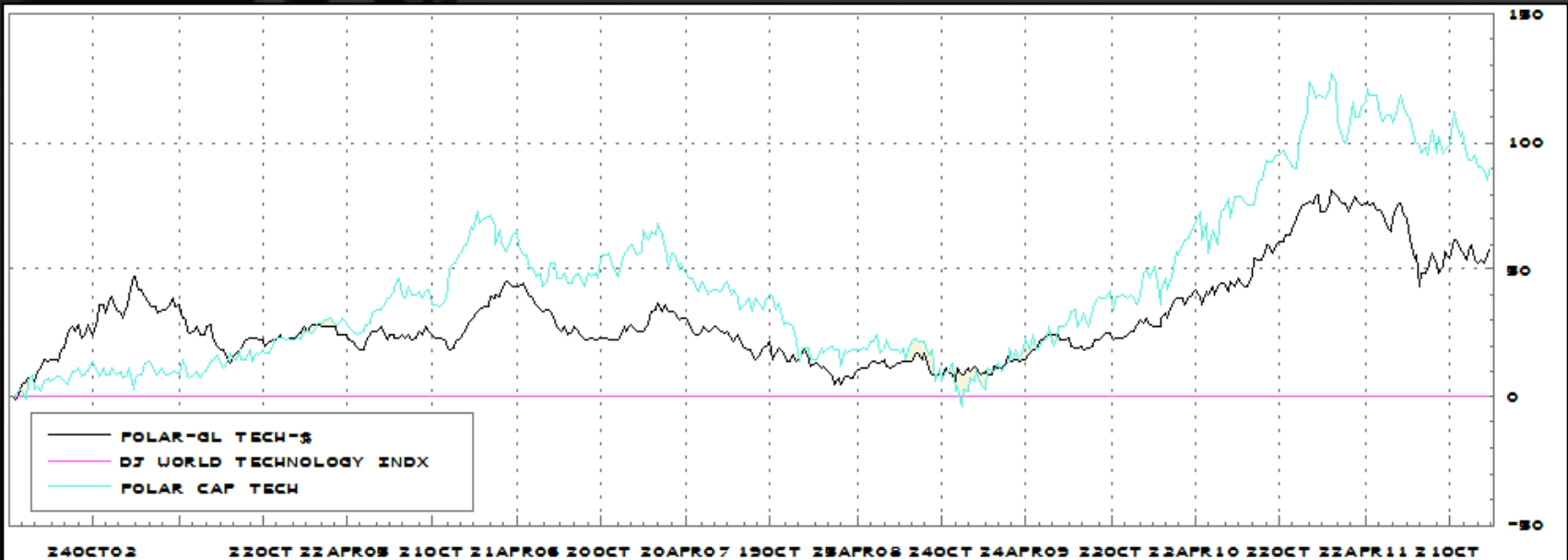
Thematic investing - the S-curve



It should not be assumed that recommendations made in future will be profitable or will equal performance of the securities in this document. A list of all recommendations made within the immediately preceding 12 month is available upon request.

Performance track record

Polar Capital Technology performance vs. W1TEC (01/5/03 – Present)



Source: Bloomberg, as at 24/1/12. *W1TEC shown is price, rather than total return.

Past performance is not indicative or a guarantee of future results.

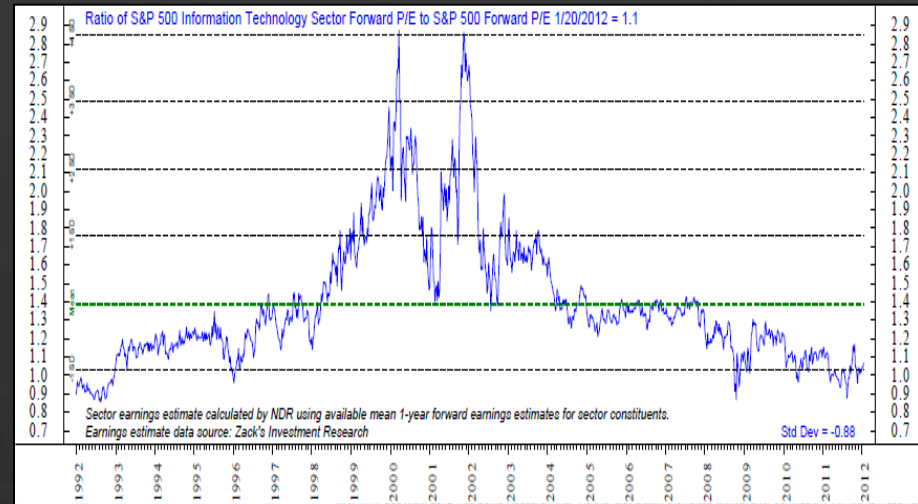
Undemanding valuations

Forward absolute PE: 1992 - Present



Source: Ned Davis, as at 20/1/12

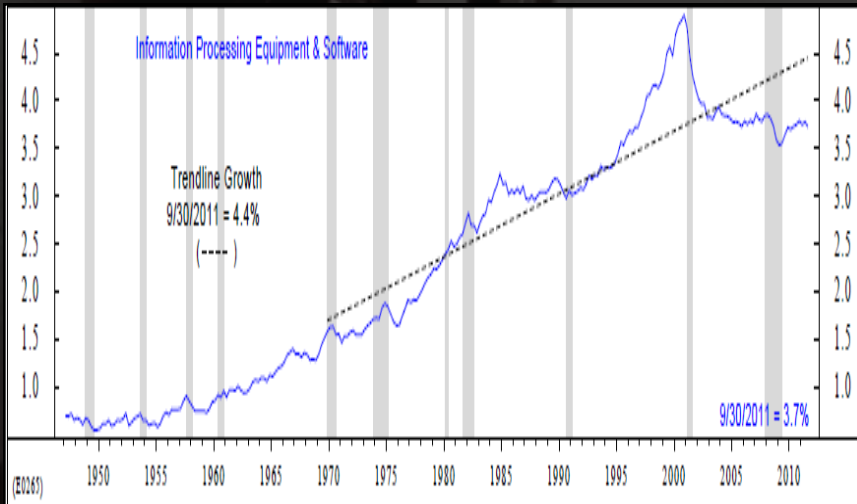
Forward relative PE: 1992 - Present



Source: Ned Davis, as at 20/1/12

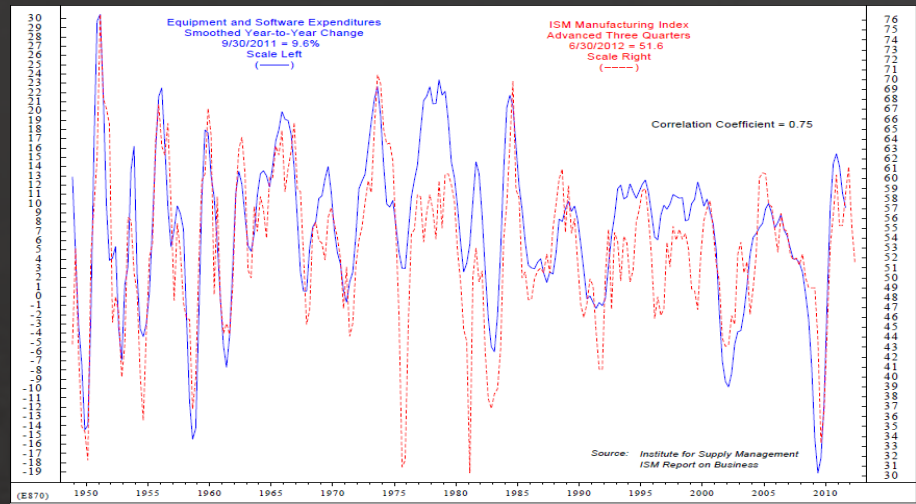
Capital spending trends benign

IT capital spending as % GDP: 1947 - Present



Source: Ned Davis, as at 30/09/11

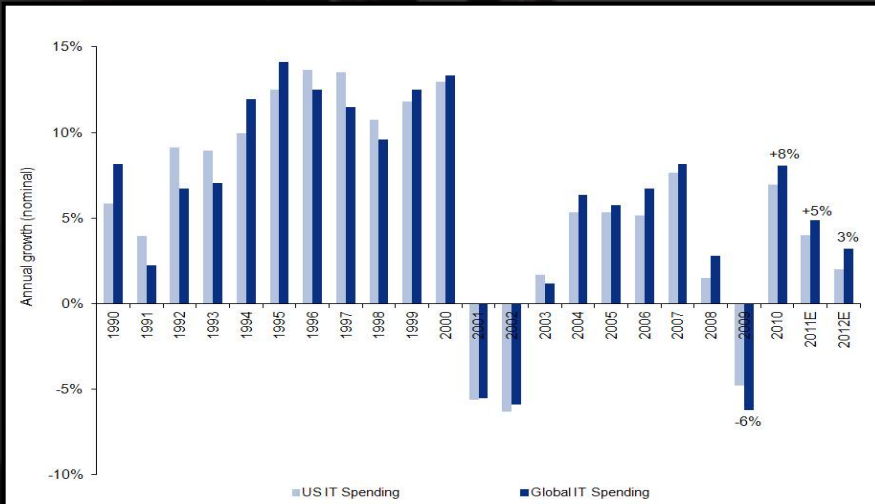
ISM vs. IT expenditure: 1948 - Present



Source: Ned Davis, as at 30/9/11

A new technology cycle is under way

IT spending: unlikely to resemble the 1990s



Source: Goldman Sachs, January 2012

IT spending: profound shift in priorities

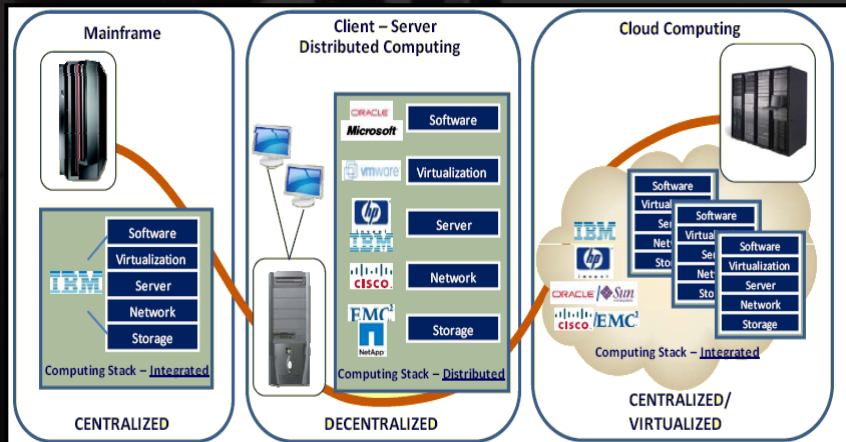
Ranking	Preliminary 2011	2010	2009	2008
Cloud computing	1	2	14	*
Virtualization	2	1	3	3
Mobility	3	9	12	12
Business Intelligence	4	3	1	1
Infrastructure	5	*	*	*
IT Management	6	*	*	*
Network	7	4	6	7
Applications (not ERP)	8	*	*	*
Web 2.0/Social Media	9	5	8	15
Enterprise Applications (ERP)	10	6	2	2

Source: Gartner, December 2011

Cloud computing: mass production of IT

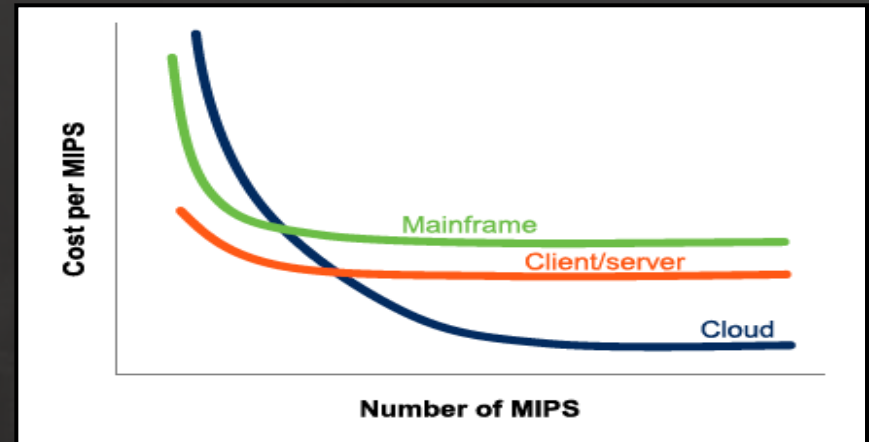
- Budget pressure proves the welcome catalyst for an architectural rethink from the 80/20 'rule'
- Datacentre consolidation driven by power-related savings, enabled by virtualisation / Internet
- Private clouds de-risk the concept but 'public clouds' significantly expand the applicability of IT
- Previous transitions to mass production have proven exceptionally disruptive to incumbents

The recentralisation of IT



Source: William Blair

Cloud computing: cheaper and more flexible



Source: Microsoft, November 2010

SAMPLE HOLDINGS

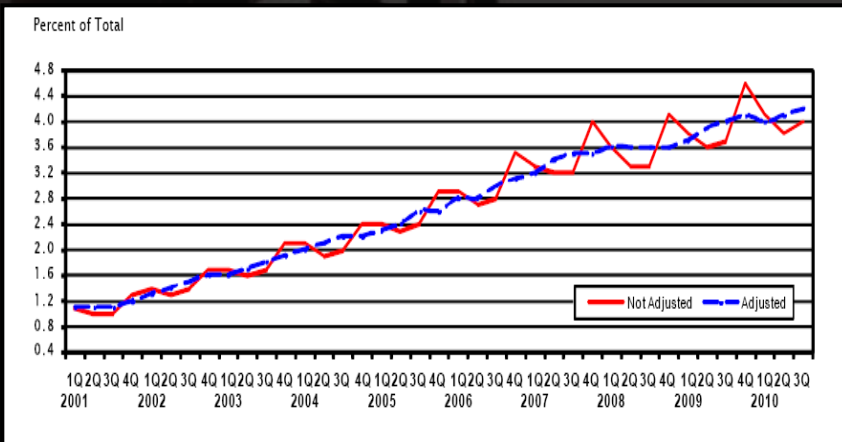


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Broadband applications: expanding the market

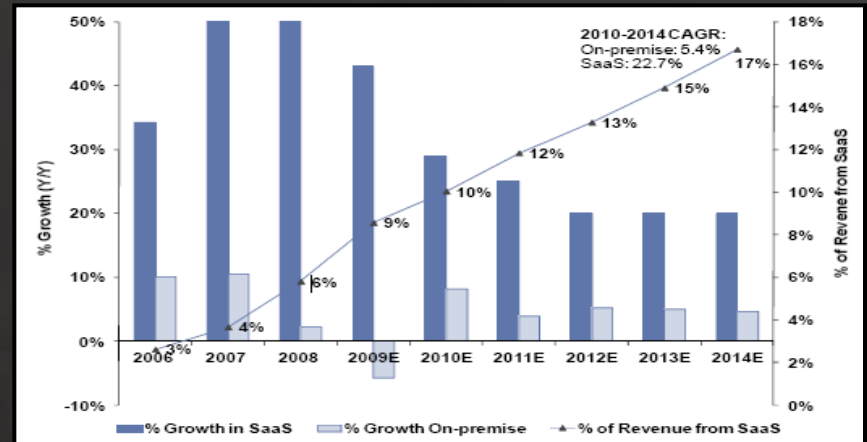
- The Internet has led to new applications incl. **online advertising**, **e-commerce** and **SAAS**.
- Software as a service (SAAS) targets an \$150bn opportunity, c.10% penetrated today*
- Legacy software vendors' maintenance streams at risk as SAAS gains further traction
- Accelerating adoption of **desktop virtualisation** reflects changing IT priorities / DC computing

E-Commerce: relative modest penetration to date



Source: www.census.gov. * Morgan Stanley

Shift towards SAAS: SaaS vs on-premise software



Source: Goldman Sachs, January 2011

SAMPLE HOLDINGS

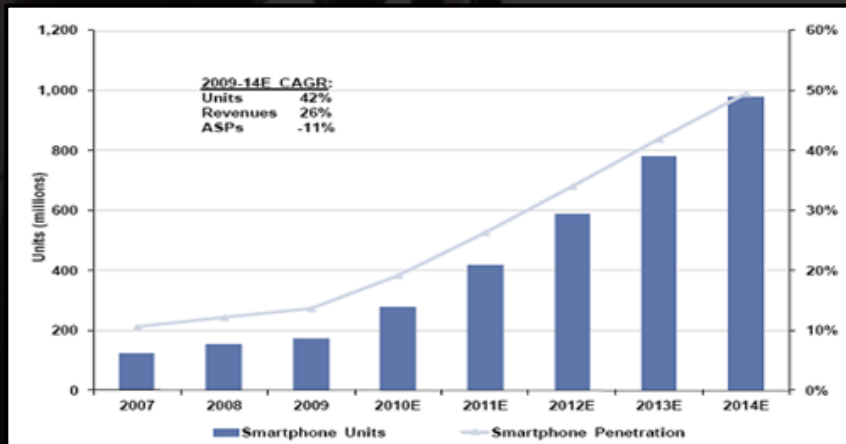


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Ubiquitous computing: driving mobile data

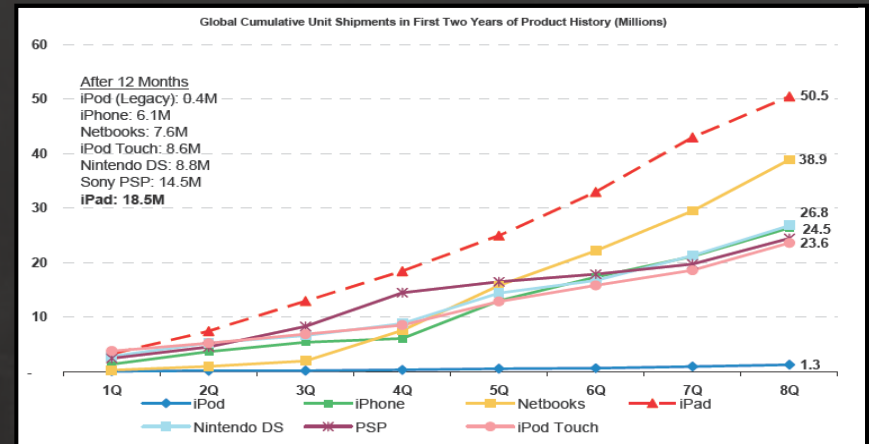
- Smartphone penetration in the 'sweet spot', driven by new devices, flat pricing and new apps
- New entrants and their own eco-systems have captured a disproportionate share of profits
- Gartner forecast tablet market reaching 54m units in 2011; complement or substitute?
- Mobile data is forecast to rise 39x between 2009 and 2014* driven by video usage.

Smartphone penetration: in the 'sweet spot'



Source: Goldman Sachs

iPad forecasts: cumulative unit estimates suggest record ramp



Source: Morgan Stanley, December 2010

SAMPLE
HOLDINGS



QUALCOMM

ARM



VeriFone

ingenico

ALTERA

Lattice
Semiconductor
Corporation

IDT

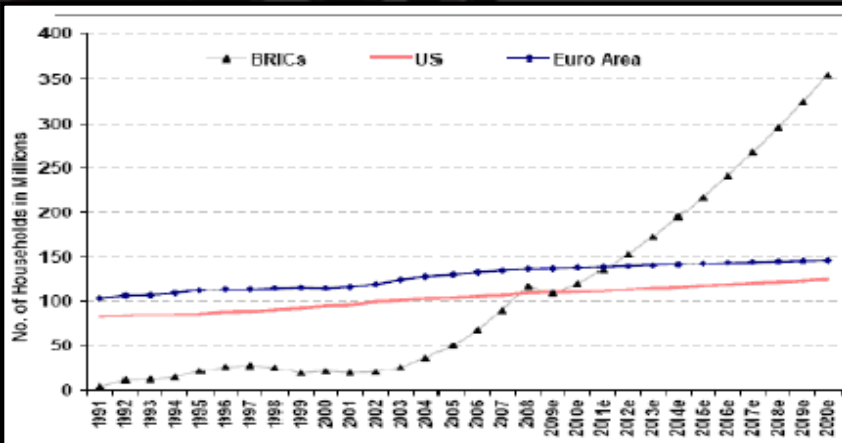
ARUBA
networks

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Emerging market exposure. Finally.

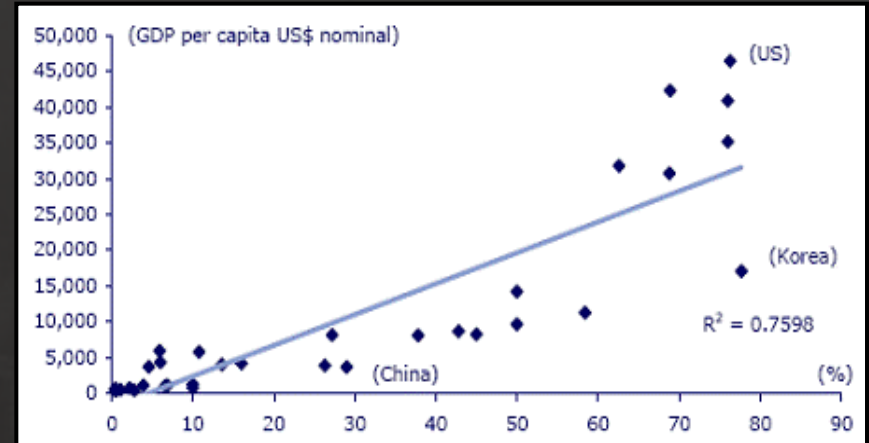
- Consumption a key driver in China growth story which should ensure tech sector participation
- Household disposable income growth commensurate with 'big ticket' items = huge opportunity
- Macroeconomic risk relating to wage inflation should result in a greater focus on productivity
- Favoured themes: China consumption, factory automation, IT services / software

EM household income: approaching \$10k 'cross-over'



Source: Gavekal

Tech penetration: strong correlation with GDP growth



Source: CLSA. Chart relates to 2009 data

SAMPLE HOLDINGS

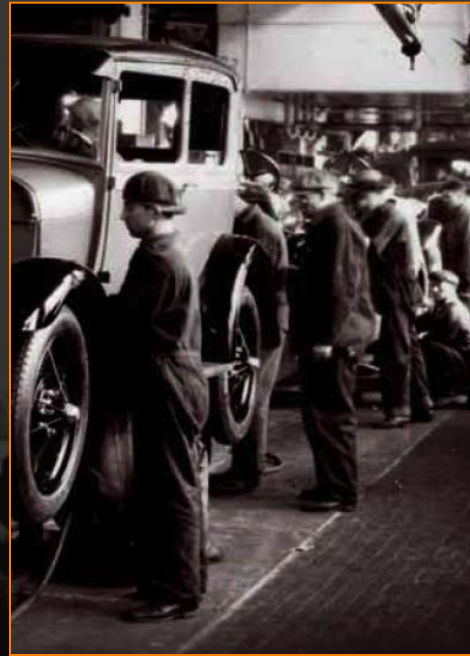


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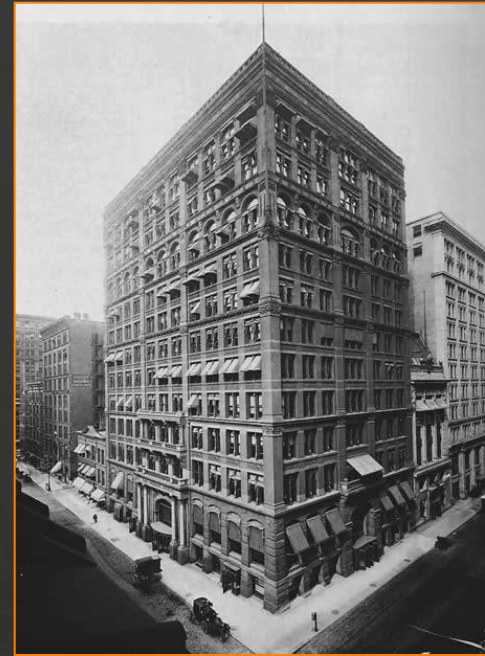
Cloud = mass production of IT



standardisation



automation



scale

Cloud = mass production of IT



standardisation



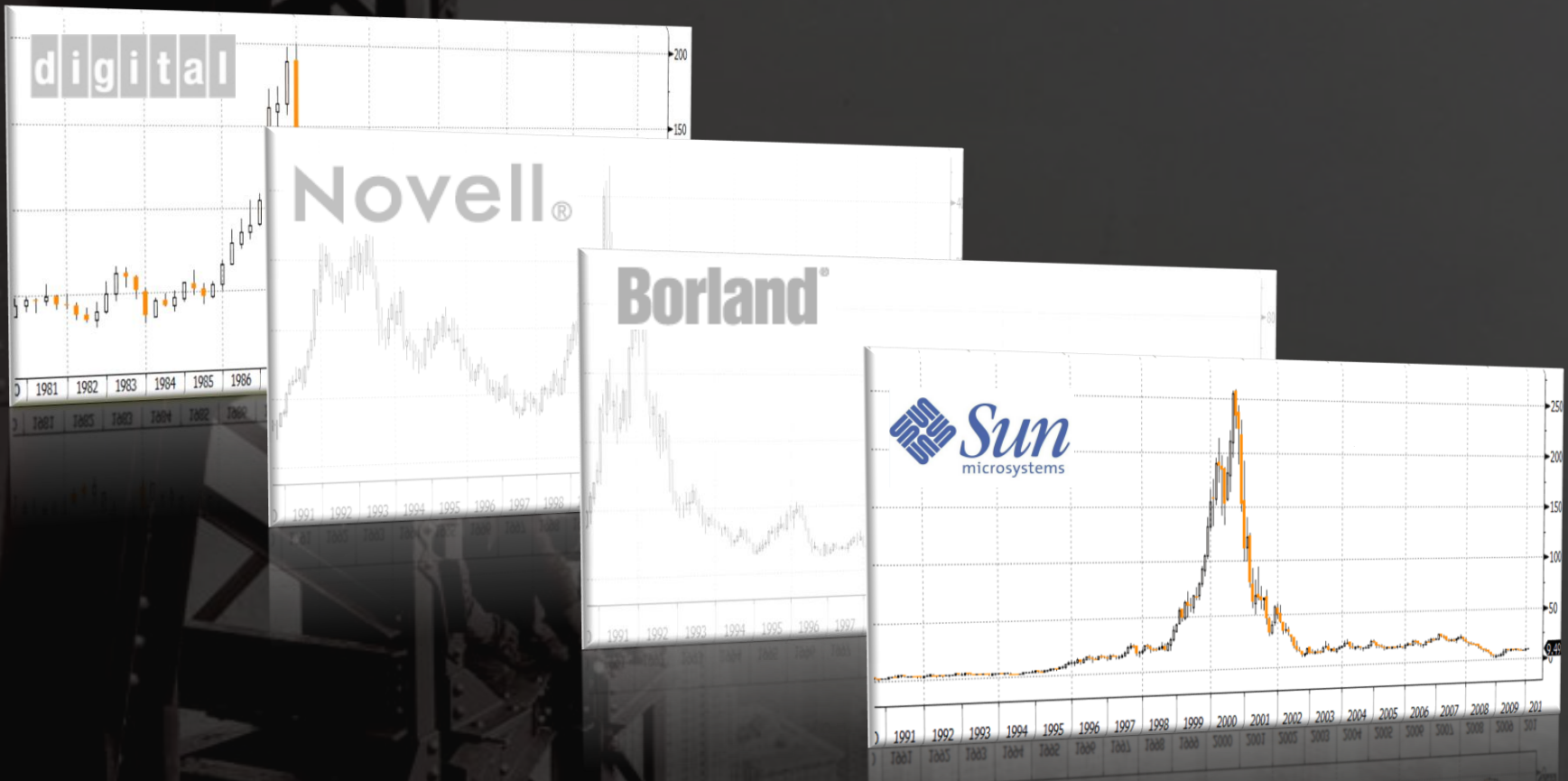
automation



scale

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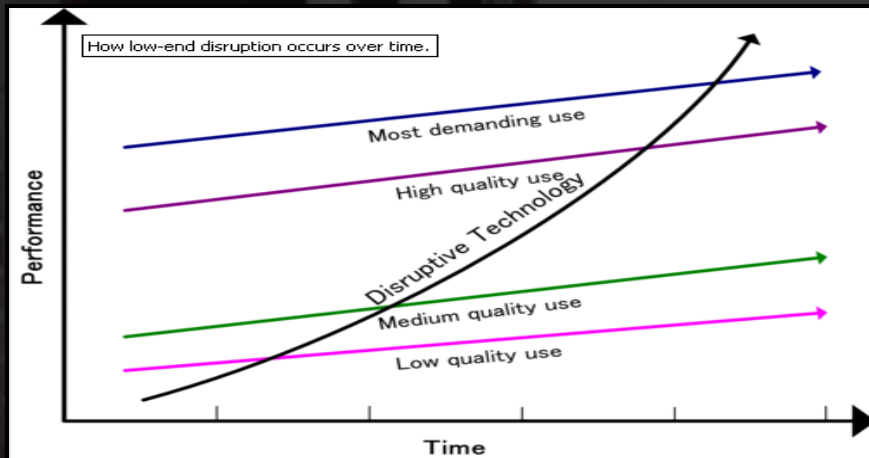
New cycles challenge the value of incumbency



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New cycles challenge the value of incumbency

“The Innovator’s Dilemma”



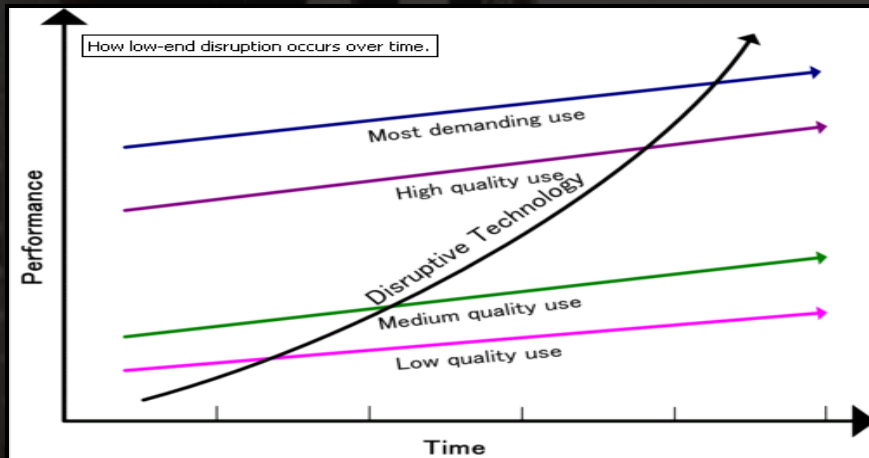
Source: Christensen, Clayton M.

“This...is about the failure of companies to stay atop their industries when they confront certain types of market and technological change. **It's not about the failure of simply any company, but of good companies - the kinds that many managers have admired and tried to emulate.** It is about well managed companies that have their competitive antennae up, listen astutely to their customers, invest aggressively in new technologies, and yet still lose market dominance”

Extract taken from 'The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail' by Clayton M. Christensen (1997)

New cycles challenge the value of incumbency

“The Innovator’s Dilemma”



Source: Christensen, Clayton M.

Select M&A activity: recent acceleration

Date	Target	Acquirer	Value (\$m)	Premium	EV / Sales
04/04/2011	National Semiconductor	Texas Insts	6,071	76%	4.0x
04/05/2011	Varian Semiconductor	Applied Mats	4,751	55%	4.0x
10/05/2011	Skype	Microsoft	8,554	N/A	10.6x
11/07/2011	Radiant Systems	NCR	1,126	28%	6.2x
15/08/2011	Motorola Mobility	Google	11,878	63%	0.7x
18/08/2011	Autonomy	HP	10,222	64%	13.7x
12/09/2011	Netlogic Microsystems	Broadcom	3,450	57%	8.3x
24/10/2011	RightNow	Oracle	1,430	20%	6.3x
03/12/2011	SuccessFactors	SAP	3,368	52%	11.2x
08/12/2011	Demandtec	IBM	411	72%	3.7x*
09/12/2011	Blue Coat Systems	Private equity	837	52%	1.7x*

Source: UBS, * Polar using Bloomberg estimates

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New cycles challenge the value of incumbency

Global Technology M&A deal value: 1995 - 2011



Source: UBS, as at September 2011

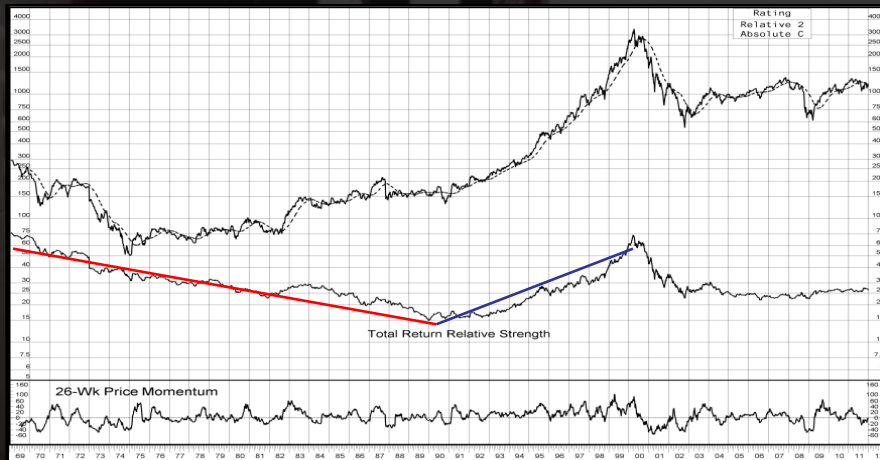
Global Technology M&A Avg. Premiums: 1995 - 2011



Source: UBS, as at September 2011

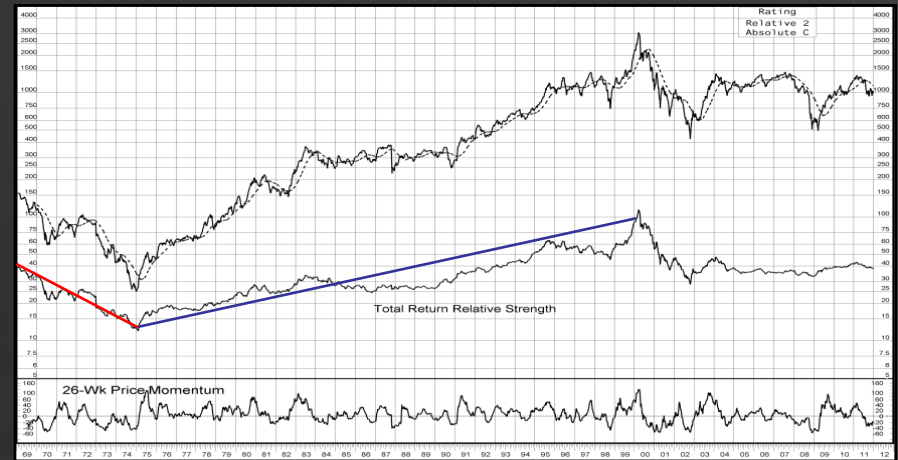
New cycles challenge the value of incumbency

US technology sector (weighted): 1969 - Present



Source: Piper Jaffray, January 2012

US technology sector (un-weighted): 1969 - Present



Source: Piper Jaffray, January 2012

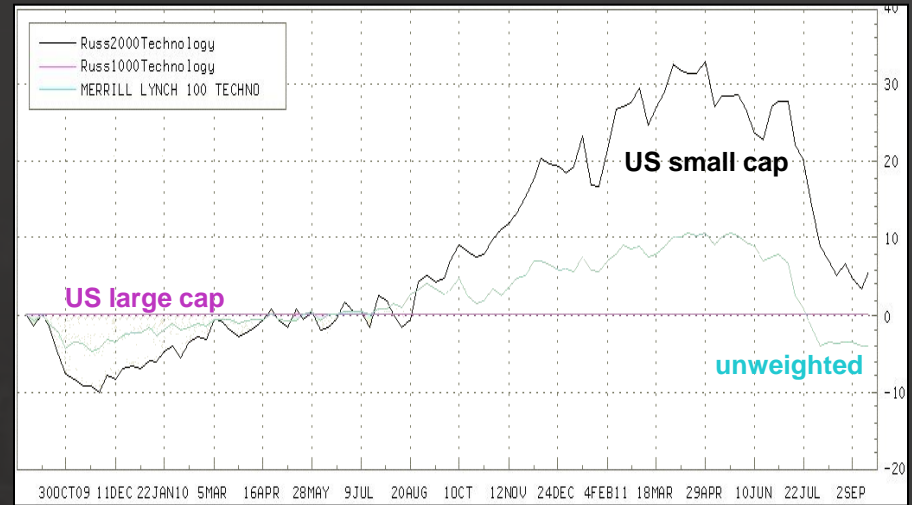
2011: a time out?

Select technology performance: CY 2011



Source: Bloomberg, as at 23/9/11

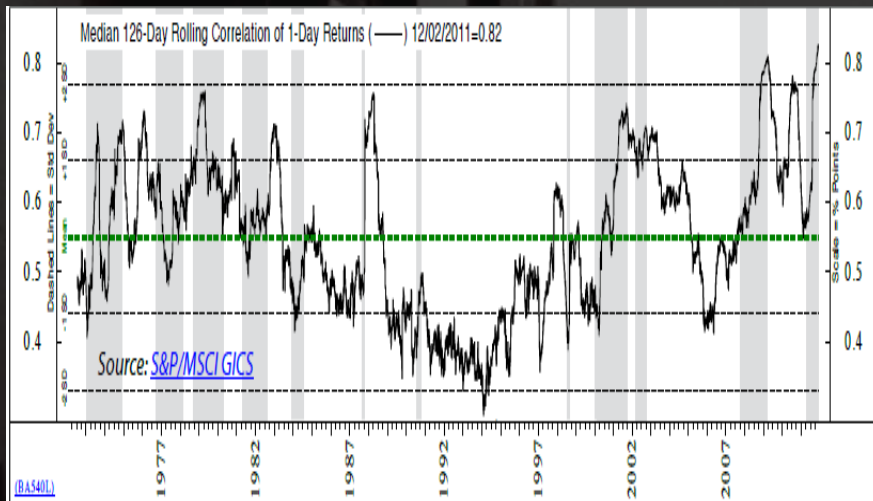
Select technology performance: post 2008 lows



Source: Bloomberg, as at 23/9/11

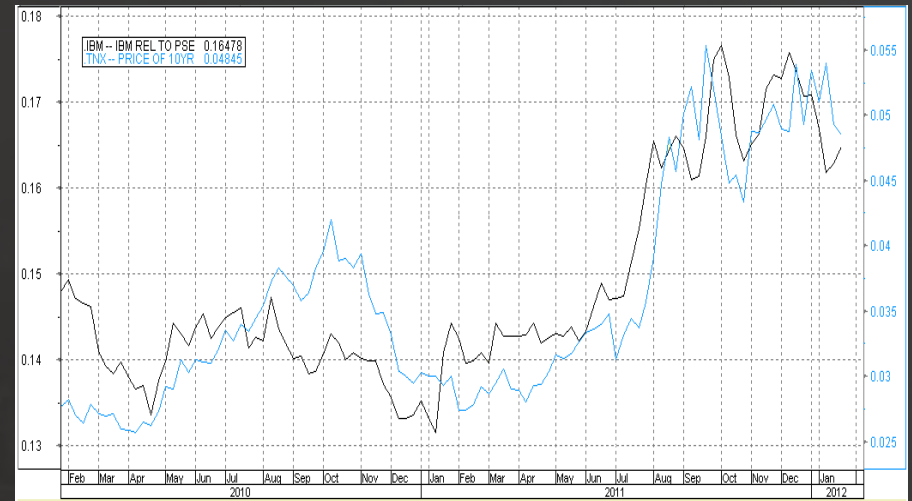
2011: a time out?

Correlation of S&P tech stocks vs. sector: 1972 - Present



Source: Bloomberg, as at 23/9/11

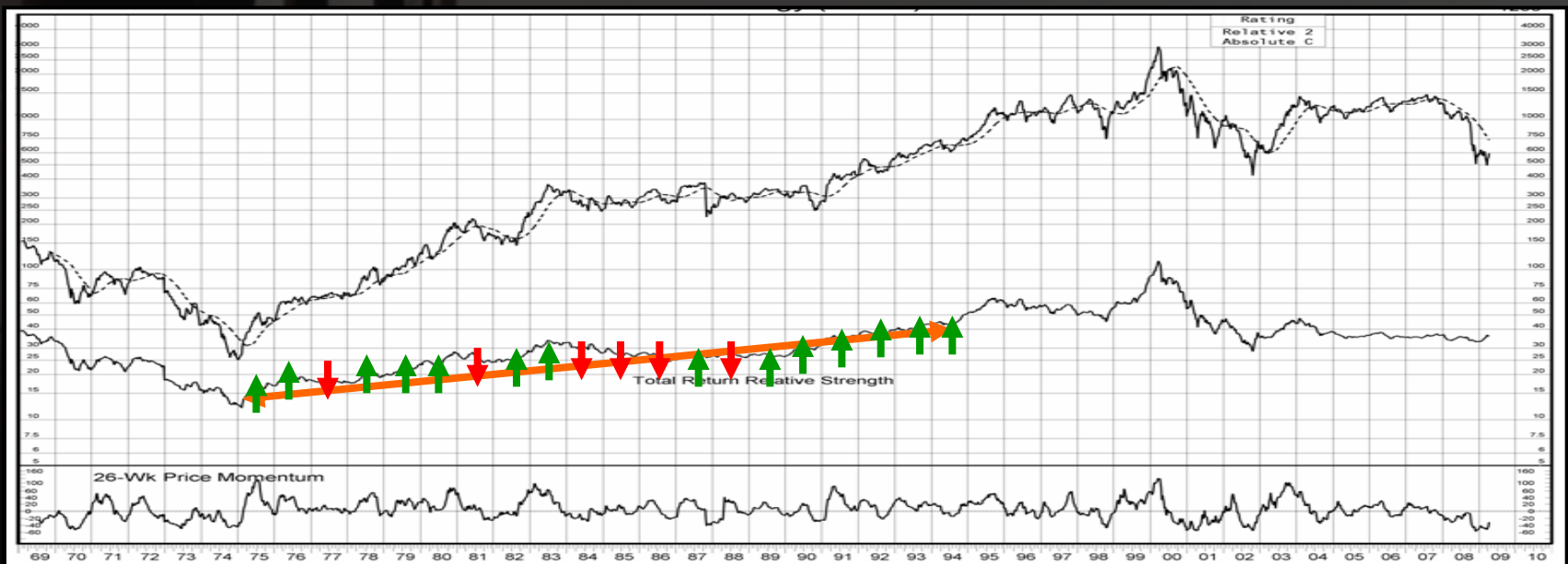
IBM relative vs. US 10yr Treasuries (price): 12/09 – Present



Source: Bloomberg, as at 24/1/12

New cycles challenge the value of incumbency

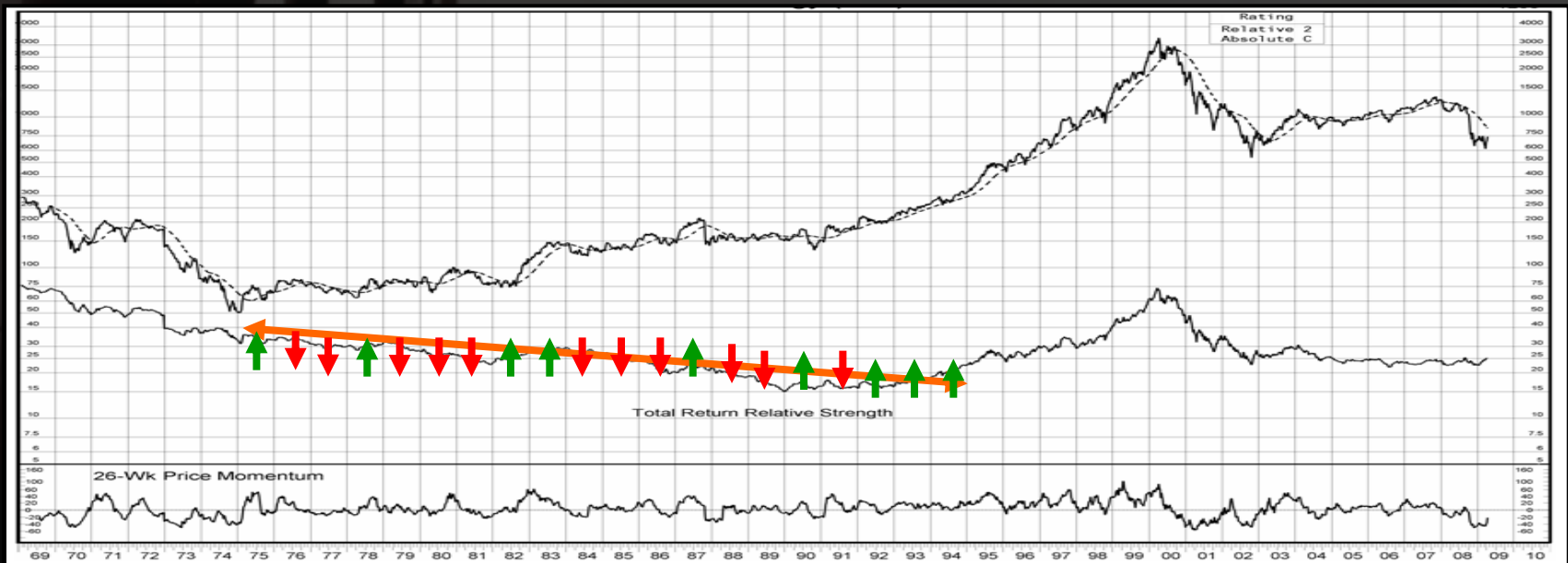
US Technology: equally weighted



Source: Piper Jaffray

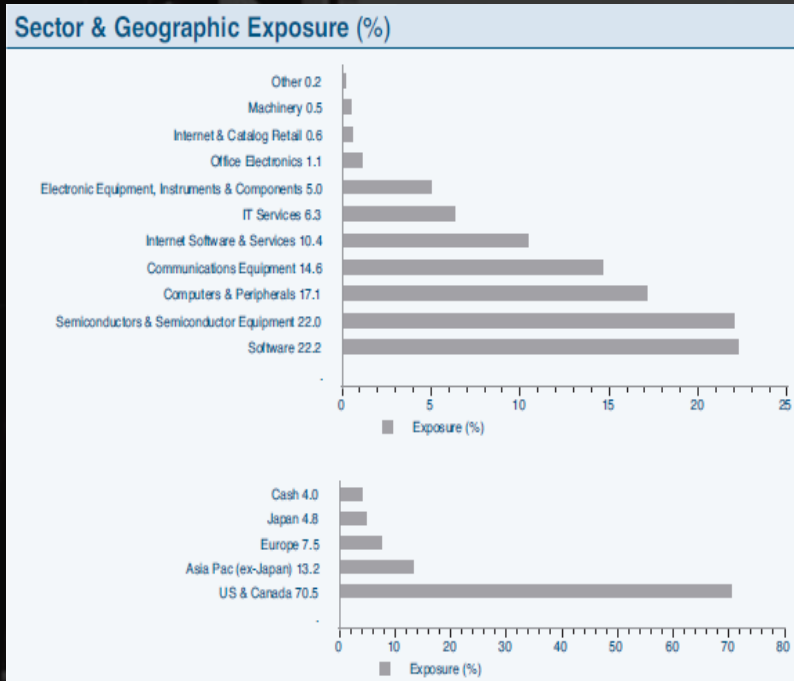
New cycles challenge the value of incumbency

US Technology: market-cap weighted



Source: Piper Jaffray

PCT positioning (as at 31/12/11)



Source: Polar Capital, as at 31/12/11

Total Number of Holdings	131
Top Ten Holdings (%)	
Apple	9.9
Google	5.4
Microsoft	4.2
Samsung Electronics	3.9
Oracle	3.0
International Business Machines	2.8
Qualcomm	2.7
Cisco Systems	2.7
Taiwan Semicon Manufacturing	2.2
Intel	2.0
Total	38.8
Market Capitalisation Exposure (%)	
Large (greater than US\$ 10bn)	68.0
Medium (US\$ 1bn to 10bn)	20.8
Small (less than US\$ 1bn)	11.3

Source: Polar Capital, as at 31/12/11

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PCT positioning (as at 25/11/11)

Largest overweights

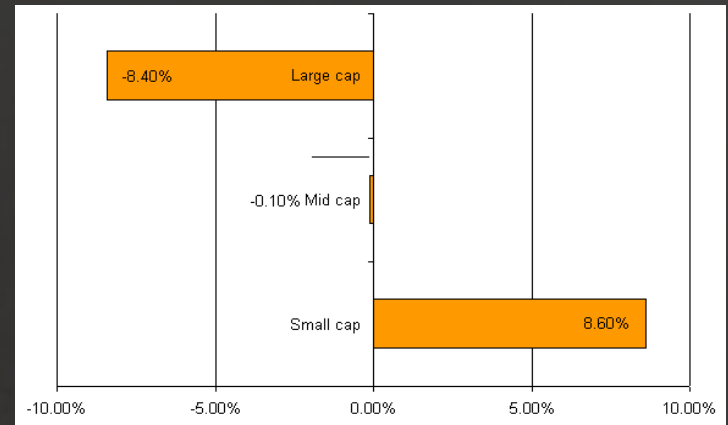
Amazon.com
ARM Holdings
ASM Pacific Tech
Citrix Systems
CommVault Systems
Concur Technologies
Constant Contact
eBay
F5 Networks
Hon Hai Precision
Hoya
Integrated Device Tech.
Juniper Networks
Lattice Semiconductor
Radware
Riverbed Technologies
Salesforce.com
SDL
Sourcefire
Vishay

Largest underweights

Analog Devices
Apple
Applied Materials
Canon
Cisco Systems
Hewlett-Packard
HTC
Infosys
Intel
Intl. Business Machines
Microsoft
Motorola Mobility
Motorola Solutions
NHN
Nokia
Qualcomm
SAP
Symantec
Xerox
Yahoo!

Source: Polar Capital, as at 25/11/11

Market Cap exposure versus benchmark



Source: Polar Capital, as at 25/11/11

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Conclusions

- Our conviction in a “new technology cycle” has increased
 - “IT sprawl” / pent-up demand / CIO surveys / strategic M&A / company results
 - Recessionary budget pressure acting as a catalyst for adoption
- It is not about IT budget growth BUT reallocation of existing budgets
 - Against the backdrop of below trend global growth – IT budget growth likely limited
 - Significant reallocation of budgets (away from power, labour, real estate and hardware)
- Addressable market is expanding and buyers of technology changing
 - “Utility” model driving down costs and increasing flexibility is stimulating new demand
 - Business users (profit centres) starting to drive IT spending outside traditional budgets
- Pace of innovation is accelerating at expense of incumbents
 - Value of incumbency diminished as buying habits change and new technologies mature
 - “Free cash flow” proving to be anything but, as strategic M&A ensues
- Compelling secular growth opportunities for bottom-up investors
 - Generalist funds and ETF’s often provide exposure to legacy technologies
 - “New cycles” are highly disruptive and require a non benchmark orientated approach

House View

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