LWM Consultants Ltd

Meeting the Fund Manager

AXA Framlington Global Technology Fund

Technology Funds were once the darling of the investment industry, the tech bubble put an end to that with many people losing money. The problem in 2000 was that you just needed an idea and people would take it and run with it irrespective of whether it had a proven track record. In many cases these businesses had isolated products rather than an eco-system of products. The problem was that these businesses were not generating cash but they could raise cash very easily.

To some extent we have seen that today with the likes of Facebook, although clearly the leading social network site and with the ability to gather data on people its long term revenue stream is unproven. We use Facebook to communicate with friends we don’t use it to purchase something. We go to Google because we are looking for something which potentially could end up with a sale.

This brings us up to 2012; many of the winners in the technology sector have several factors playing in their favour. They are survivors, after the bubble burst the sector was starved of cash, and those companies that adapted to this realised they had to be self-sufficient and started to preserve cash. So what we are starting to see are better businesses, a high degree of confidence in these companies with commercialised products and services. Most importantly these companies are making money and returns for shareholders.

During the bull market which the banks participated in the tech sector did not and therefore they went into 2008 as very lean businesses and cash generative.

The eight largest companies in this sector generated £200 billion of cash in the last five years after dividends, buy backs and acquisitions and potentially you are likely to see the likes of these companies in Global and US Funds. The companies are IBM, Cisco, Microsoft, Intel, Google, Apple, QUALCOMM and Oracle.

Jeremy Gleeson is the fund manager for the AXA Framlington Global Technology Fund, we hold the AXA Framlington American Growth Fund which has as its top five holdings Apple, Google, QUALCOMM, Oracle and Amazon and therefore it was good to get a chance to discuss the sector with a leading technology fund manager.

Overview

Jeremy has been managing money for over 15 years. During this time he feels that the sector has grown-up. It is about proving you can make money and that what you offer is not just a fashion or fad but is sticky and has longevity.

The fund currently holds around 60 stocks but can hold between 55 and 75 stocks. He works on a 3 to 5 year view i.e. he is looking for businesses with a good medium to long term story. There is no specific sell trigger effectively all stocks are up for sale at any time. Some of the key warning signs are when key executives are leaving, the company is changing direction or even where acquisitions are made which don't make sense.

He doesn't try to play the index and the fund is skewed towards large caps which reflect the drive for quality. Normally the maximum holding is 4% at cost and he would look to reduce exposure at 5%. He will go over the 4% rate if the story is still compelling; Apple is an example of this where he feels there is still more to play out. With Apple we touched on $1000 price and he said he had a great deal of respect for the analyst who predicted this but we need to be aware that timescales are over the next 2 to 3 years and not immediate.

If we take Apple and Google as examples of holdings; Apple's price is about in line with the market and still growing at 20% p.a., Google is at a premium to market but again still growing at 20% p.a. So actually both are good well run businesses.

If we focus on the Apple story they have potential to expand both in existing markets and adjacent markets. If we consider if there is room to grow then we should consider the value transfer of other companies over the last five years, the likes of Research in Motion, Sony, Nintendo have all seen their market share shrink as Apple have taken it from them (i.e. music, games as well as the phone itself). We have also seen Dell and HP lose £110 billion of market cap over the same period. Where you wouldn't consider a Mac five years ago; it is now seen as a must have and natural progression from the phone and iPad.

You also have to consider that Apple has not penetrated every market and there is room to grow, so domestically Macs are coming into not only the home but also work and internationally there is still a large market to play in.

We then looked at Amazon, Paul and I tend to have differing views on this. Amazon has a great deal of opportunities. It only operates in eight markets (Germany, France, UK, US, China, Japan, Italy and Spain) so there are opportunities to expand into other markets. It has also moved into different areas like consumables – so for examples, nappies etc which people buy regularly and therefore they can manage the buying pattern. It has also invested in a shoe company where you can pick several pairs of shoes and then return the ones you don't want. Over time it believes the return rate will be less and Amazon will start to understand more about buying habits.

They are also investing heavily into the business so web services, the Kindle and distribution centres. The Kindle is unproven and likely to be selling at cost or less. But what is clear is they have a goal and a long term picture. Jeremy doesn't currently own Amazon in the Tech Fund this is not because he doesn't like it but because he sees it as a cult stock and he prefers to purchase it when it is a controversial stock. He does believe it is a long term play and offers a lot of opportunities.

Another interesting holding is eBay the auction site – in the main most of the purchases actually come through the fixed price site but the real value to the business comes from PayPal. When you consider this the price looks cheap. It is becoming a more respected form of payment as well as trustworthy. It is also starting a pilot where it is being used in shops and this could be the next form of expansion. EBay is a sizable holding for the fund.

Regionally the fund holds around 80% in the US, this is mainly because the businesses are stronger as can be seen by the recent successful lawsuits which Apple won against HTC and Samsung.

Two Asian stocks are Taiwan Semi-Conductors which build chips for other people. They are well respected and have a high barrier to entry. It would cost around $3 to $4 billion to build the same operation with state of the art facilities.

The other play is Samsung – despite the outcome of the case it is growing and has a strong presence. The biggest risk to the stock is if it has to move out of the US market for a period of time but it has a strong Asian presence.

So this is an interesting area but it comes with risk. Equities are volatile and technology stocks within this can be extremely volatile so you get that double impact.

Since launch in May 1999, the fund is down 16.23%, over the last ten years the fund has returned 277.14%, over five years 60.17% and three years 49.85%. The performance year by year since 2007 is shown below (performance for 2012 is from 1 January 2012 to 30 September 2012:

	2007	2008	2009	2010	2011	2012
AXA Framlington Global Technology Fund	15.23%	-27.28%	63.54%	30.81%	-4.75%	10.22%

Conclusion

It is really helpful to meet a fund manager who directly feeds into one of the funds we hold, it also provides a greater understanding to some of the technology stories that are currently playing out.

Special note to performance data: You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

The source of information in this note has been provided by AXA Framlington and is correct to the end of August 2012. These are notes from meeting the fund manager and should not be seen as a recommendation to purchase this fund. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision.