Polar Capital Technology Trust PLC

Fund Manager Comment

Market review

After the strongest first quarter performance since 1998, equity markets witnessed modest profit taking during April, with the FTSE World index falling 3.0% in Sterling terms. Whilst first quarter earnings season got off to a solid start, US macro data took a turn for the worse. US GDP for the first quarter came in at 2.2% although, once adjusted for inventory restocking, underlying growth was closer to 1.6%. Similarly durable goods orders, PMI, ISM, consumer confidence and employment/payroll data were all somewhat disappointing. This combination of lacklustre data saw US 10 year Treasury yields fall back to 1.9% and likely contributed to a more dovish FOMC statement and a reminder from Chairman Bernanke that “the FOMC is prepared to take additional actions, if necessary".

The backdrop in Europe was equally unsupportive for equities as economic data was clearly weak with concerns focused on Spain. Net borrowing by Spanish banks from the ECB surged from Euro 152bn in February to Euro 228bn in March, sending Spanish CDS spreads close to record highs and pushing 10 year bond yields back above 6%. Nowhere was the anti-austerity rhetoric more apparent than in France, where elections saw Socialists sweep back into power and Greece which saw Syriza gain significant support driven by a public desire to renegotiate their recent bailout package. With French policy now more closely aligned with their southern European counterparts, Germany’s hard line approach to deficit reduction (via austerity rather than growth) may be put to the test before long.

Technology review

After an exceptionally strong start to the year, technology stocks lagged broader markets during the month with the Dow Jones World Technology Index falling 4.0% in Sterling terms. Whilst Asian technology stocks lagged and the US networking and semiconductors sub-sectors were particularly weak, on the whole technology earnings season was robust. Internet stocks performed well with Amazon and Google reporting strong results. The PC supply chain benefitted as hard disk drive (HDD) supply constraints eased resulting in solid earnings from the likes of Intel and Microsoft. Smartphone related names were much more of a mixed bag with a huge quarter from Apple (driven by iPhone upside) in stark contrast to hopelessly weak results from share losers Nokia and Research in Motion.

Outlook

With Facebook likely to debut this month in what will be the largest technology IPO ever ($83bn market capitalisation at the midpoint of the $28-35 filing range, and circa four times larger than Google at the time of its 2004 IPO) we decided to break from our usual 'outlook' format in order to share some of our thoughts on this landmark issue. Rather predictably, given the size, profile and trailing PE, the Facebook IPO has already attracted a large body of negative copy by those keen to emphasise parallels with the late 1990s ‘dot-com’ bubble. Having queued for nearly an hour in order to attend the IPO lunch in New York with five hundred other institutional investors to listen to a 27 year old CEO resplendent in a hoodie and trainers, I must confess to having had a slight sinking feeling.

And yet, and in stark contrast with the 1990’s, Facebook is clearly a 'real' company. It has revenues ($3.8bn in 2011), it is remarkably profitable (47% EBITDA margin in 2011) and is growing like a weed (revenue growth of 45% in Q1 2012). It also has scale that most other companies can only dream of - 901m monthly active users, and penetration (of internet users) as high as 85% in some countries (Chile and Turkey) and greater than 60% in both the US and UK. Moreover, users are engaged – 58% access the site daily while more than 300m photos are uploaded each day. This combination of massive scale / user generated content is not easily replicable and affords Facebook significant barriers to entry.

Facebook has, in essence, created the largest, most accurate and up-to-date consumer database in the world which today is barely being monetised. The scale of the advertising opportunity at Facebook is apparent when you compare its $3.8bn of revenues to Google’s $29bn. Another interesting way to look at the growth potential is that Facebook currently only captures $4.34 of advertising revenue, per user per year – despite the average user spending more than 75 hours online per annum, based on our calculations. Over time, as Facebook continues to learn more about its users, they should be able to deliver higher value adverts by allowing advertisers to more precisely target their desired audience. As a result, we are relatively relaxed about recent slowing growth (45% revenue growth in Q1 2012 vs. 88% in 2011) and believe that the current revenue growth trajectory is likely to prove more sustainable than most analysts are currently forecasting.

The revenue slowdown is also partly explained by the rise of mobile usage which remains a huge opportunity, especially in emerging economies where smartphones are the primary method of accessing the Internet. While mobile usage continues to help drive overall users and other engagement metrics (mobile active monthly users grew to 488m in Q1, + 69% yoy) its monetisation also represents one of the greatest challenges to Facebook (and other Internet/social media companies). So far the jury is out as ‘sponsored stories’ were only added to the ‘news feed’ late during Q1 2012, prior to which mobile usage was not being monetised at all. Based on comments at their IPO roadshow, management appeared relaxed about their ability to monetise mobile usage in due course and spoke enthusiastically about their recent $1bn acquisition of Instagram, a photo sharing application which should significantly augment Facebook’s existing mobile offering.

Having nearly completed our fundamental analysis, we are currently in the process of attempting to value this rather unique business. Given the current hype around social media and the popularity of the site itself, it seems likely that the IPO will be significantly oversubscribed resulting in an eventual offer price that is higher than where it is currently indicated. That said, we remain positively inclined towards the stock, attracted to the unusual combination of high growth and high margins and the entry barriers created by unprecedented reach. However, would-be investors should be prepared for a volatile ride given headline valuations and the pseudo-private nature of the business (Mark Zuckerberg will continue to own a majority of voting stock post IPO). Margins are also likely to wax and wane as Facebook (like many other high growth companies) continues to invest aggressively in future growth, operating margin recently slipping to 36% in Q1’12 as compared with 47% last year.

Thus far we have adopted a relatively conservative stance regarding so-called ‘social media’ companies that account for less than 1% of the portfolio today as we believe recent deals in this space have either come too early (pre-profitability) or at too rich a price. However, not all social media companies are created equal, evidenced by strong recent results from one of our holdings – LinkedIn – that served to highlight the explosive growth potential of those assets that are truly disruptive. While Facebook is likely to debut at a very different valuation to that achieved by Google, the new technology cycle is far more evident today than it was at that time, with Facebook significantly more profitable today (on lower levels of revenue) than Google was in 2004.

Ben Rogoff, 15 May 2012

30 April 2012

Fact sheet

Trust Facts

Ordinary Shares

Share Price (p)	387.00
NAV (undiluted) per Share (p)	392.74
Discount / Premium (%)	-1.46
Capital Structure	128,208,023 of 25p

Subscription Shares†

Share Price (p)	12.75
Exercise Price (p)	
- From 1 April 2012 to 31 March 2014	478.00
Capital Structure	24,798,179 shares of 1p

Total Net Assets (£m)	504
AIC Gross Gearing Ratio (%)*	106.00
AIC Net Gearing Ratio (%)*	97.00

*Gearing calculations are exclusive of current year Revenue/Loss

Trust Characteristics

Launch Date	16 December 1996
Lead Manager	Ben Rogoff
Year End	30 April
Results Announced	Mid June
Next AGM	September 2012
Continuation Vote	2015 AGM; every 5 years
Listed	London Stock Exchange

Benchmark

Dow Jones World Technology Index (Total Return) (from 1 May 2006)

Fees*

Management Fee	1.00%
Performance Fee**	15% over Benchmark
Total Expense Ratio (historic)	1.16%

* Further details can be found in the Report & Accounts

** Subject to high watermark and cap

Trust Overview

Objective

The investment objective is to maximise capital growth for our shareholders through investing in a diversified portfolio of technology companies around the world.

†For full details of the subscription shares and their exercise terms please refer to the prospectus of 18 January 2011 and the notes on the company’s website.

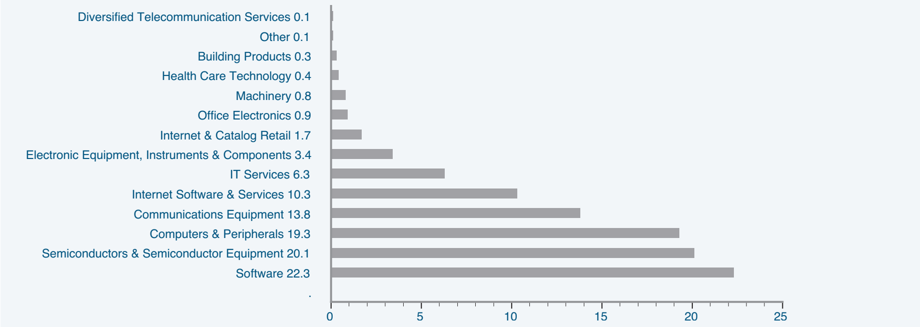
It should not be assumed that recommendations made in future will be profitable or will equal performance of the securities in this list. A list of all recommendations made within the immediately preceding 12 months is available upon request.

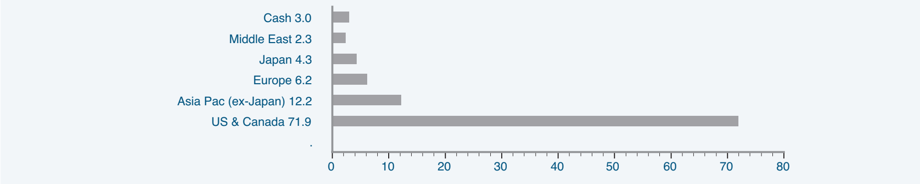
POLAR CAPITAL

30 April 2012

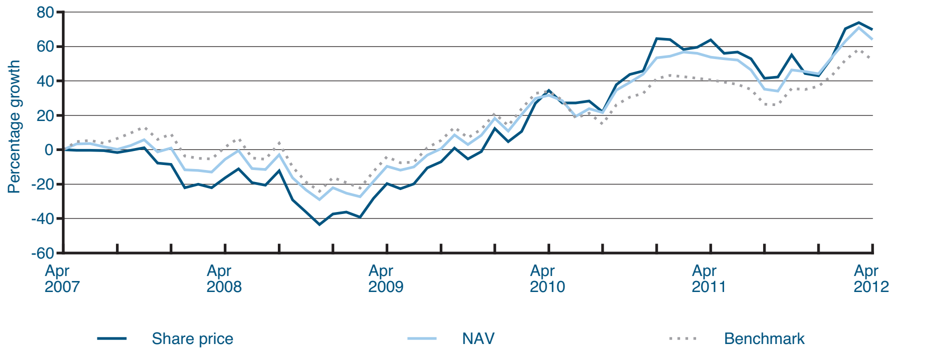
Fact sheet

Sector & Geographic Exposure (%)

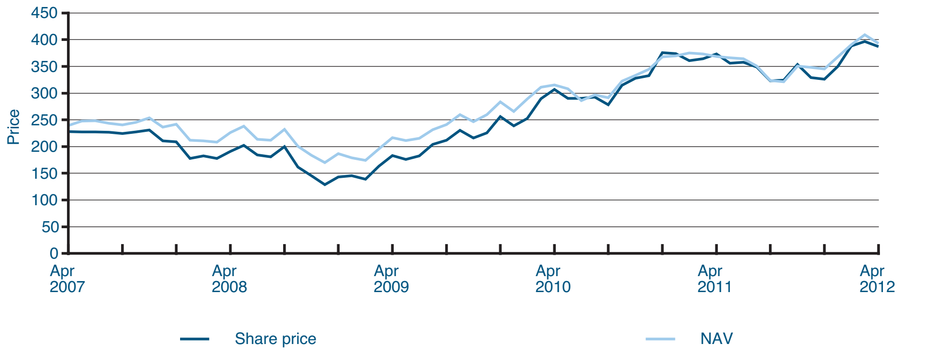




Performance Over 5 Years



Share Price & NAV per Share Over 5 Years



Cumulative Performance (%) to 30/04/2012

	1 Month	3 Months	6 Months	1 Year	5 Years
Share Price	-2.40	10.54	9.48	3.61	69.74
NAV per Share	-4.04	6.68	12.06	6.64	64.02
Benchmark	-4.10	6.07	12.01	8.12	51.95

Discrete Annual Performance (%)

	31/03/11 30/03/12	31/03/10 31/03/11	31/03/09 31/03/10	31/03/08 31/03/09	30/03/07 31/03/08
Share Price	8.93	25.60	77.25	-7.89	-23.16
NAV per Share	9.57	20.08	58.94	-6.05	-12.77
Benchmark	11.97	6.51	52.05	-7.69	-3.00

Source: Lipper & HSBC Securities Services (UK) Limited, percentage growth, total return

Total Number of Holdings	131

Top Ten Holdings	(%)
Apple	12.1
Microsoft	4.6
Google	4.6
Samsung Electronics	3.9
International Business Machines	3.0
Intel Com	2.7
Qualcomm	2.7
Oracle Com	2.3
Taiwan Semicon Manufacturing	2.2
Cisco Systems	2.2
Total	**40.3**

Market Capitalisation Exposure	(%)
Large (greater than US$ 10bn)	70.4
Medium (US$ 1bn to 10bn)	20.1
Small (less than US$ 1bn)	9.5

Trust Overview

Investment Rationale

Over the last two decades the technology industry has been one of the most vibrant, dynamic and rapidly growing segments of the global economy. Technology companies offer the potential for substantially faster earnings growth than the broad market, reflecting the accelerating rate of adoption of new technology. Technology is transforming the competitive position of companies and entire economies, thereby fuelling a major secular increase in technology spending.

Full details of the Investment Objective, Rational and Strategy are available on the company's website.

Approach

Polar Capital selects companies for their potential for generating capital growth, not on the basis of technology for its own sake. We believe in rigorous fundamental analysis and focus on: management quality, the identification of new growth markets, the globalisation of major technology trends, and exploiting international valuation anomalies and sector volatility.

POLAR CAPITAL

30 April 2012

Fact sheet

Polar Capital Technology Investment Management Team

Polar Capital Technology Trust is managed by the Polar Capital technology team. Polar Capital was established by the senior technology fund managers previously responsible for Henderson's specialist technology funds. Today's Polar Capital technology team comprises of five investment professionals.

Ben Rogoff - Director, Technology

Ben has been a technology specialist for fourteen years having begun his career in fund management at CMI, as a global technology analyst. He moved to Aberdeen Fund Managers in 1998 where he spent four years as a senior technology manager prior to joining Polar Capital in May 2003. He is lead manager of Polar Capital Technology Trust plc and is also joint manager of Polar Capital Global Technology Fund. Ben graduated from St Catherine's College, Oxford in 1995.

Technology Investment Management Team:

Nick Evans - Senior Fund Manager

Nick joined Polar Capital in September 2007 and has thirteen years experience as a technology specialist. He has been lead manager of the Polar Capital Global Technology Fund since January 2008. Prior to joining Polar he was Head of Technology at AXA Framlington and lead manager of the AXA Framlington Global Technology Fund and the AXA World Fund (AWF) - Global Technology from Aug 2001 to July 2007 (both rated five stars by S&P). He also spent three years as a Pan European Investment Manager and Technology Analyst at Hill Samuel Asset Management. Nick graduated from Hull University with a degree in economics.

Colin Moar - Fund Manager

Colin joined Polar Capital in January 2011, having spent 13 years covering pan-European and then Global Equity markets with the Technology sector as his main focus. He started his career at Morley Fund Management in 1997 initially covering UK/European equities before moving to their global equity team in 2002. From 2006 he took responsibility for €450m of the team's focused Global Equity funds. In January 2010 Colin joined HSBC Asset Management's Global Equity team as a Senior Fund Manager. Colin Graduated from the University of Edinburgh with a degree in Business Studies.

Fatima Iu - Fund Manager

Fatima joined Polar Capital in April 2006 after working as an analyst with Citigroup Asset Management for 18 months. She focuses on European technology stocks and has responsibility for coverage of the global medical technology sub-sector. Fatima graduated from Imperial College London in 2002 with a degree in Medicinal Chemistry.

Xuesong Zhao - Fund Manager

Xuesong joined Polar Capital in May 2012, having spent most of the previous four years working as an investment analyst within the Emerging Market & Asia team in Aviva Investors, where he was responsible for the Technology, Media and Telecom sectors. Prior to that, he worked as a quantitative analyst and risk manager for the Emerging Market Debt team at Pictet Asset Management. He started his career as a Financial Engineer at Algorithmics, an IBM company, in 2005. He holds an MSc in Finance from Imperial College Science & Technology and a BA (Hons) in Economics from Peking University and is a CFA charter holder.

How to Invest

Market Purchases

The shares of Polar Capital Technology Trust PLC are listed and traded on the London Stock Exchange. Investors may purchase shares through their stockbroker, bank or other financial intermediary.

Share Dealing Services

The company has arranged for Shareview Dealing, a telephone and internet share sale service offered by Equiniti to be made available.

Tel: 0870 850 0852
Online: www.shareview.co.uk/dealing

Savings Scheme & ISA

Shares in the company may be purchased through a share saving scheme and an ISA administered by BNP Paribas Fund Services, by contacting:

BNP Paribas Fund Services UK Ltd (Polar Capital)
Block C, Western House
Lynchwood Business Park
Peterborough, PE2 6BP

Tel: 0845 358 1109
Fax: 01733 285 822

Registered Office

4 Matthew Parker Street, London SW1H 9NP

Custodian

JP Morgan Chase NA acts as global custodian for all the Company's investments.

Registrar

Equiniti
The Causeway, Worthing, West Sussex BN99 6DA
www.shareview.co.uk

Codes

London Stock Exchange	PCT
Reuters	PCT.L
Bloomberg	PCT.LN

Website

www.polarcapitaltechnologytrust.co.uk

House View
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Holdings
The top 10 positions were selected based on percentage of AUM. This portfolio data is "as at" the date indicated and should not be relied upon as a complete or current listing of the holdings (or top holdings) of the fund. The holdings may represent only a small percentage of the aggregate portfolio holdings, are subject to change without notice, and may not represent current or future portfolio composition. Information on particular holdings may be withheld if it is in the fund's best interest to do so. A complete list of the portfolio holdings may be made available upon request. It should not be assumed that any of the securities transactions or holdings discussed was or will prove to be profitable or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. The information provided in this document should not be considered a recommendation to purchase or sell any particular security.

Benchmarks
The following benchmark index is used: Dow Jones World Technology Index (Total Return). This benchmark is generally considered to be representative of the Technology equity universe. This benchmark is a broad-based index which is used for comparative/illustrative purposes only and has been selected as it is well known and is easily recognizableby investors. Please refer to www.djindexes.com for further information on this index. Comparisons to benchmarks have limitations because benchmarks have volatility and other material characteristics that may differ from the fund. For example, investments made for the fund may differ significantly in terms of security holdings, industry weightings and asset allocation from those of the benchmark. Accordingly, investment results and volatility of the fund may differ from those of the benchmark. Also, the index noted in this presentation is unmanaged, are not available for direct investment, and is not subject to management fees, transaction costs or other types of expenses that the fund may incur. In addition, the performance of the index reflects reinvestment of dividends and, where applicable, capital gain distributions. Therefore, investors should carefully consider these limitations and differences when evaluating the comparative benchmark data performance. The information regarding the index is included merely to show the general trends in the periods indicated and is not intended to imply that the fund was similar to the index in composition or risk.

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Performance
Performance is shown net of fees and expenses and includes the reinvestment of dividends and capital gain distributions. Many factors affect fund performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment return and principal value of your investment will fluctuate, so that when your investment is sold, the amount you receive could be less than what you originally invested. Past performance is not a guide to or indicative of future results. Future returns are not guaranteed and a loss of principal may occur. Stock markets and currency movements may cause the value of investments and the income from them to fall as well as rise and investors may not get back the amount originally invested. Where investments are made in emerging markets, unquoted sercurities or smaller companies, their potential volatility may increase the risk to the value of, an the income from, the investment. Investments are not insured by the FDIC (or any other state or federal agency), are not guaranteed by any bank, and may lose value.

Investment Process - Risk
No investment process or strategy is free of risk and there is no guarantee that the investment process or strategy described herein will be profitable. Investors may lose all of their investments.

Allocations
The strategy allocation percentages set forth in this document are estimates and actual percentages may vary from time-to-time. The types of investments presented herein will not always have the same comparable risks and returns. Please see the private placement memorandum for a description of the investment allocations as well as the risks associated therewith. Please note that the fund may elect to invest assets in different investment sectors from those depicted herein, which may entail additional and/or different risks. The actual performance of the fund will depend on the Investment Manager's ability to identify and access appropriate investments, and balance assets to maximize return to the fund while minimizing its risk. The actual investments in the fund may or may not be the same or in the same proportion as those shown herein.