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Business Markets

POLAR CAPITAL

Market cap	Discount/net asset value 13%
£3.1 billion	

The world's largest technology companies regained their stellar stride this year. The re-rating is the product of a flight to the safety of stocks with billions of dollars on their balance sheets post-Silicon Valley implosion and the expectation that interest rates have reached their peak.

Polar Capital Technology Trust has benefited from the re-rating, with its shares 42 per cent higher and within less than 10 per cent distance of the record reached at the end of 2021. The fund counts several of the so-called magnificent seven stocks among its largest holdings, including Nvidia, which this year became the first chipmaker to surmount a $1 trillion valuation, and Microsoft, which has been turbocharged by its bet on machine learning with OpenAI.

However, Polar is underweight in large cap technology stocks, compared with the Dow Jones Global Technology Index, the yardstick it attempts to beat. The fund's investment manager, Ben Rogoff, has favoured small and mid-sized companies, which he believes have better growth prospects. Holding cash on deposit, equivalent to 5.5 per cent of assets, was another drag on performance. That has since fallen to 4 per cent as the trust has invested more fully.

In the six months to the end of October, the trust failed to beat the index. The value of the FTSE 250 constituent's assets rose 12.1 per cent during the period, just shy of the 12.8 per cent turned out by the index, although it did come out in the top quartile of its peer group.

The attraction of the Polar Capital trust? Its shares trade at a discount north of 13 per cent to the trust's net asset value. Next year, there is the risk that the sustained interest rate increases by the Federal Reserve will be amplified and weigh on US economic growth. Valuations are not cheap, either, particularly for those companies that have laid claim to capitalising on the artificial intelligence boom. Yet for investors willing to take a long-term view and with an appetite for higher risk, the valuation gap is compelling.

ADVICE Buy
WHY The discount attached to the shares is attractive