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INVESTOR

Polar Capital Technology

Investment companies | Annual overview | 16 January 2025

AI captain

Polar Capital Technology's (PCT's) manager contends that it has never been a better time to be an active manager in the artificial intelligence (AI) driven technology sector, with potential winners diversifying from the magnificent seven (Mag7) technology stocks (a group of seven major technology companies that have demonstrated significant influence and performance in financial markets, particularly in recent years – Apple, Microsoft, Aplhabet, Amazon, NVIDIA, Tesla and Meta Platforms) to a range of sectors and companies. Reflecting this, the fund's active share is as large at 50% as it has ever been, on the expectation that the spread in performance between large-cap and small- and mid-cap technology stocks will narrow considerably.

AI innovation, capex and adoption rates have all continued their rapid growth since our last note six months ago, which should act to quell fears of an AI-induced technology valuation bubble. The pace of corporate adoption has been particularly impressive, with several use-cases pointing to vast efficiency and productivity gains, suggesting a snowball in adoption. The skills of an active manager such as PCT's in picking AI winners (and identifying incumbent casualties) makes its 12.3% discount to net asset value (NAV) look good value.

Global growth from tech portfolio

PCT aims to maximise long-term capital growth through investing in a diversified portfolio of technology companies around the world, diversified across both regions and sectors within the overall investment objective to reduce investment risk.

Sector	Technology and technology innovation
Ticker	PCT LN
Base currency	GBP
Price	347.5p
NAV	396.3p
Premium/(discount)	(12.3%)
Yield	Nil

PCT's manager, Ben Rogoff, remains extremely bullish on AI and its all-encompassing impact on the world

With a technology as transformative as AI, traditional market valuations are not relevant

The technology sector's relative P/E today is well below the dot.com bubble levels

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Domicile	England & Wales
Inception date	16 December 1996
Manager	Ben Rogoff
Market cap	£4,100.6m
Shares outstanding (exc. treasury shares)	1180.0m
Daily vol. (1-yr. avg.)	821,056 shares
Net cash	5.1%

Click here for our most recent update note

Click for updated PCT factsheet

Click for PCT's peer group analysis

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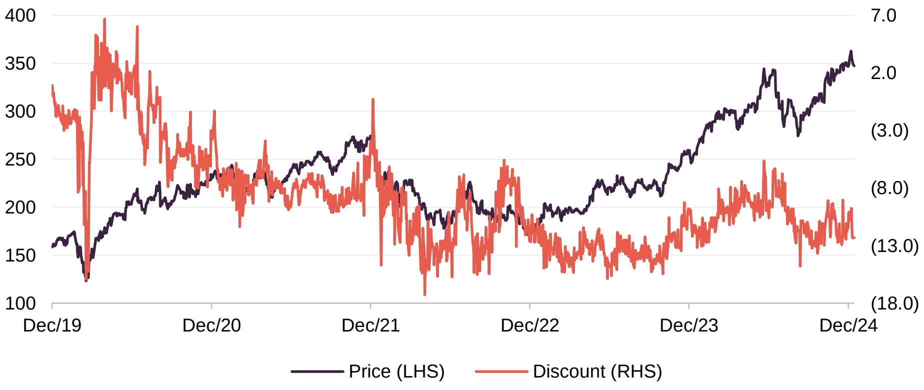
At a glance

Share price and discount

Over the 12 months to 31 December 2024 PCT traded between a discount of 5.6% and 14.8%. The average discount over this period was 10.5%. At 13 January 2025, PCT's shares were trading at a discount of 12.3%. Given the substantial upside potential in the portfolio's exposure to AI beneficiaries, especially if a broadening of AI winners and the manager's active investment approach, this feels like good value.

Time period 31 December 2019 to 13 January 2025



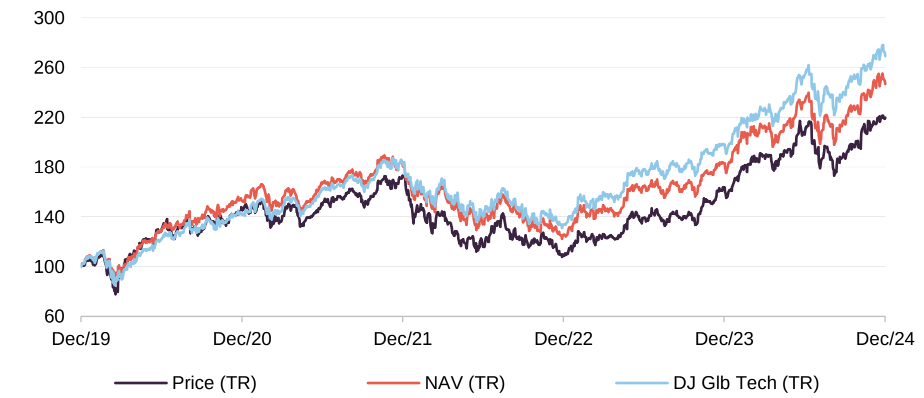
Source: Morningstar, Marten & Co

SPerformance over five years

PCT's underperformance of its Dow Jones Global Technology benchmark since early 2021 has largely been due to the effect of its two largest underweight exposures – Apple and Microsoft – performing strongly. Over three years to the end of December 2024, PCT's NAV returns were 11.6 percentage points lower, as shown in Figure 17.

However, over shorter time periods, the trust has performed in line with the benchmark and over the last three months outperformed it.

Time period 31 December 2019 to 31 December 2024



Source: Morningstar, Marten & Co

Year ended	Share price total return (%)	NAV total return (%)	DJ Global Technology total return (%)	MSCI ACWI total return (%)	MSCI UK total return (%)
31/12/2020	45.3	52.4	41.7	12.7	(13.2)
31/12/2021	18.4	18.5	28.2	19.6	19.6
31/12/2022	(36.8)	(30.5)	(26.4)	(8.1)	7.1
31/12/2023	50.5	45.9	48.2	15.3	7.7
31/12/2024	34.3	34.8	35.8	19.6	9.5

Source: Morningstar, Marten & Co

Fund profile

More information can be found at the trust's website: www.polarcapitaltechnologytrust.co.uk

PCT aims to maximise long-term capital growth through investing in a diversified portfolio of technology companies around the world, diversified across both regions and sectors. PCT launched in December 1996 as Henderson Technology Trust and, following a change of manager, became Polar Capital Technology Trust in April 2001.

Hear about the fund

Management arrangements

PCT's AIFM is Polar Capital LLP and the lead manager assigned to the trust is Ben Rogoff, a partner in Polar Capital LLP. He is supported by a team of 11 technology specialists, including another partner, Nick Evans, and deputy fund manager Alastair Unwin. Polar believes that this is one of the best-resourced teams dedicated to this sector within Europe. In addition to PCT, the team also manages two open-ended funds, Polar Capital Global Technology Fund and the Artificial Intelligence Fund. Collectively, these funds had assets under management (AUM) of $13.5bn at 30 November 2024.

Ben joined the team from Aberdeen in 2003, having started his career in the years running up to the technology boom. The events surrounding the collapse of the tech bubble have influenced the way in which he manages money. One important lesson is that there is limited permanence in the technology sector; it is forever engaged in a process of creative disruption. Change in the sector is a non-linear process. Once-great companies can disappear and minnows can become giants.

Nick joined the team from Framlington in 2007. He complements Ben in that Nick has a more bottom-up approach (focusing on individual companies' fundamentals) to selecting stocks, whereas Ben has a bias to a top-down stance (focusing on macroeconomic factors and industry trends).

Hear about the manager

Market overview

We have highlighted the exponential growth potential of AI and the opportunity set that exists for active technology funds such as PCT in our last three notes. PCT's manager, Ben Rogoff, remains extremely bullish on AI and its all-encompassing impact on the world. A continued uplift in capex, rapid innovation, and impressive adoption rates make the investment case even more compelling.

Inflation retrenchment frustratingly slow

The explosion of AI comes at a time when the investment landscape remains challenging, with markets confronting a worrying combination of lacklustre economic growth and stubborn inflation, with geopolitical tensions continuing to bubble away. US inflation has been on a frustratingly slow march back down towards the Federal Reserve (Fed)'s 2% target, with the personal consumption expenditures (PCE) index (the Fed's preferred measure of inflation) at 2.4% in November. Added to this are concerns over the potentially inflationary policies of President Trump.

Equities bounced following the US election in November

Despite this, equities bounced sharply at the end of 2024, led by US markets buoyed by President Trump's decisive victory in the presidential election. The incoming administration is broadly expected to favour deregulation, lower taxes raise tariffs, and be aggressively pro-business. US equities saw around $141bn worth of inflows during November following the election result, the largest monthly inflows on record, while ex-US saw outflows of around $8bn, according to Goldman Sachs.

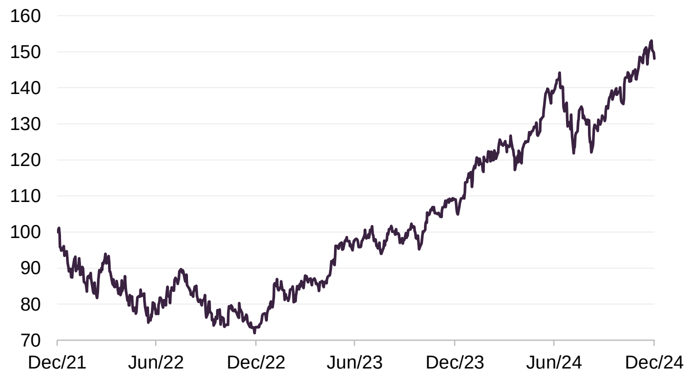
Small- and mid-cap stocks materially outperformed large-cap following US election

Small- and mid-cap stocks materially outperformed large-caps in the aftermath of the election, due to the likelihood they will be more directly impacted by potential pro-business policies. PCT's manager states that the Russell 2000 Technology Index (small-cap) returns were 15.8% in November, compared to just 5.6% from the Russell 1000 Technology Index (large-cap).

However, global equity markets continue to be dominated by the performance of a handful of mega-cap technology stocks. As reflected in Figures 1 and 2, over the course of 2024 the Dow Jones Global Technology Index was up 35.8%, while the

MSCI All Country World Net Total Return Index was up 19.6% (both dominated by the same mega-cap stocks).

Figure 1: Dow Jones Global Technology Index[1]



Source: Morningstar, Marten & Co. Note 1) Rebased to 100 from 31 December 2021.

Figure 2: Dow Jones Global Technology index relative to MSCI ACWI[1]

Source: Morningstar, Marten & Co. Note 1) Rebased to 100 from 31 December 2021.

Valuations in bubble territory?

Seismic capex on cloud and data centre investment, led by the hyperscalers (large companies that provide scalable cloud and storage solutions), and the lofty valuations that the technology sector trades on, have led many commentators to assert that it has entered bubble territory, akin to the dot.com bubble experienced in the early 2000s.

Valuations below dot.com bubble levels

PCT's manager is unequivocal in its stance on whether the hype surrounding AI has pushed the tech sector into a bubble. With a technology as transformative as AI, traditional market valuations are not relevant, it insists. In any event, the technology sector's relative P/E today is well below the dot.com bubble levels, at around 1.3x today compared to more than 2x. Furthermore, the global technology sector's P/E to growth (PEG) ratio is also in line with the market, according to Goldman Sachs.

Figure 3: Global IT spending forecast

	2024 spend ($bn)	2024 growth (%)	2025 spend ($bn)	2025 growth (%)
Data centre systems	318.0	34.7	367.2	15.5
Devices	735.8	6.2	805.7	9.5
Software	1,087.8	11.7	1,239.8	14.0
IT services	1,587.9	5.6	1,737.8	9.4
Communications services	1,530.3	2.0	1,596.9	4.4
Total	5,259.8	7.2	5,747.3	9.3

Source: Gartner, October 2024

Gartner raised its IT budget forecast for 2025 to $5.75trn, a 9.5% year-on-year increase, the highest annual growth rate since 2011. This is anticipated to follow 7.2% growth in 2024, marking the strongest back-to-back increase in annual IT spending expected so far this century.

Although some may argue that this surge is another indication of a bubble, PCT's manager contends that the elevated spending supports its view that AI represents the next general-purpose technology (a transformative technology that impacts multiple industries), which requires substantial new infrastructure.

Tech leaders agree. Hyperscalers are investing aggressively in infrastructure with Mark Zuckerberg warning he would "rather risk building capacity before it is needed, rather than too late" and Sundar Pichai, chief executive of Alphabet, has also expressed how "the risk of under-investing is dramatically greater than the risk of over-investing for us".

Investors should expect increased volatility in tech stocks

PCT's manager points out, however, that investors should expect increased volatility in the technology sector during the early stages of the AI cycle – as was witnessed last year with a couple of minor market corrections due to concerns around the durability of AI infrastructure spending and delays in NVIDIA's Blackwell chip. Elevated volatility was observed in the late 1990s too. Despite the NASDAQ Index rising by around 350% between 1995 and 1998, there were nine drawdowns of more than 10%.

Although technology and AI "winners" are not cheap in absolute terms, once adjusted for both scarcity value and superior growth, the risk/reward remains attractive, the manager states.

It adds that there has never been a better time to be an active manager in the sector and expects there to be many AI winners among the small- and mid-cap companies, as well as incumbent casualties.

Broadening of market as AI innovation takes off

Our last note, published in June 2024, detailed the remarkable pace of innovation in the AI sector. Given that Microsoft's chief executive, Satya Nadella, recently reiterated his view that AI performance is doubling "every six months or so", it seems a little trite to say that AI progress remains rapid. Artificial General Intelligence (AGI) – when AI is as capable as all humans across almost all areas of intelligence – was considered to be decades away, but advances in AI are so rapid that AGI could be achieved by the end of 2025, according to Sam Altman (chief executive of OpenAI).

This rapid progress, the manager contends, should result in a broadening of AI "winners" and rapid growth in non-technology AI infrastructure sectors, which is being witnessed in data centre spend. As shown in Figure 3, data centre spending took off in 2024 and is expected to grow another 15.5% this year. A recent Morgan Stanley report suggests spending on data centre construction and power generation is expected to be $1.5trn globally by 2027, half of which will be in the US. PCT's manager increased its exposure to the sector through holdings in energy equipment manufacturer GE Vernova and power management business Eaton.

Networking due for a revival

Networking is another potential beneficiary of the extraordinary growth in AI. Having avoided networking stocks for almost two decades, PCT's manager states that it is now actively growing its exposure to the sector as data centre spending, power shortages and inference workload needs has the potential to lead to a revival of fortunes. It has become a strategic part of AI infrastructure, with the vast number of new data centres requiring substantial networks to transport traffic, while demand has risen for faster networking and increased optical speeds, the manager says. PCT's manager has scaled up its exposure to Arista Networks (a top 10 holding) given its exposure to hyperscale customers and their data centre/AI-related spending. It has also taken positions in smaller network stocks such as Ciena and Corning and has existing positions in Fabrinet, Coherent and Celestica.

Rapid corporate adoption

The adoption of AI technologies – the third element in the success of AI (alongside innovation and capex) – is just as impressive. Adoption rates at a corporate level are very encouraging. A Wharton study on 800 US enterprises found weekly AI usage among business leaders rose from 37% in 2023 to 72% in 2024. Meanwhile, an Alphabet survey found that 93% of Gen Z (aged 22-27) knowledge workers use two or more AI tools every week, and 79% of millennials (28-39) reported the same. Microsoft also recently reported that around 70% of the Fortune 500 companies are using M365 Copilot products.

Results from early use-cases impressive

Use-cases have extended beyond software copilots. Klarna is possibly one of the most high-profile early AI adopters, and results have been remarkable. In its first month of use in early 2024, Klarna's AI assistant handled two-thirds of customer queries, cutting case times from 11 minutes to two minutes and reducing repeat inquiries by 25%. The success of its AI assistant has enabled the company to reduce headcount from 5,000 to 3,800, with annual savings of $40m.

Walmart also recently revealed its successful use of AI, which helped to create or improve over 850 million pieces of data in its product catalogue; work that it says would have required nearly 100 times the current headcount to complete in the same amount of time. Amazon is another use-case, where it says that AI helped with Java software upgrades that saved the company the equivalent of 4,500 developer-years of work and delivered $260m in annualised efficiency gains.

With these productivity benefits becoming more obvious to all, corporate investment in AI is expected to surge further. McKinsey predicts that spending could reach $175bn to $250bn by 2027 (from $15bn in 2023), while the AI share of IT budgets (currently around 3%) is forecast to triple over the next three years.

On the consumer front, AI adoption is seemingly on the coattails of corporate adoption, with OpenAI recently revealing it expects sales to increase from $3.7bn in 2024 to $11.6bn in 2025.

Investment process

PCT's management team (profiled on page 18) carries out many hundreds of meetings a year, not just with portfolio companies, but also their competitors and suppliers. The team uses surveys and speaks to domain experts to cross-reference what customers think of products, where appropriate.

Identify companies that can earn super-normal profits

The manager selects from a universe of more than 4,000 stocks and looks to construct a diversified portfolio with about 100 stocks in aggregate. These should represent the best opportunities within the investment themes that the manager has identified, and should come at the right price. The team looks at the value chain (the series of activities a business performs to create, deliver, and support a product or service, aiming to maximize value for customers and gain a competitive advantage) and identifies areas where it is possible to generate super-normal profits (where companies have an unfair advantage) and recurring revenue.

On average, the stocks that are selected for the portfolio should be capable of generating 30% to 50% higher growth than the average stock in the benchmark index and the manager is prepared to pay up for this growth – roughly 20% to 30% more than the benchmark, on average.

Valuation is a secondary consideration

There is little merit in first screening for value, in the manager's opinion. It is better to think about which companies PCT should have exposure to, and only then about what is the price he is prepared to pay. The team is much more likely to screen for improving business fundamentals or stocks that it may have missed at the periphery of PCT's investment universe that may not be perceived as tech stocks today, but might be in the future. An important part of this process is to think about the potential downside in a stock. For many of these stocks, missing an earnings forecast can be devastating to their rating.

PCT may miss out on the odd stock as a result, but the manager believes that this is an acceptable price to pay for avoiding the worst of the downside.

Sell discipline

The manager thinks that it is important to run your winners, but also to sell when an investment thesis did not play out as anticipated. Fair value is a moveable target and the potential upside and downside from any position needs to be reassessed regularly. The team has a bull, bear and base case for each stock, with a weighted probability to each of these scenarios.

Holdings will be trimmed as they approach the team's target price. Sometimes Ben will hold onto a small position in a stock that he feels it is important to stay in touch with. The ability to have exposure to this type of opportunity is a benefit of PCT's closed-end structure.

Portfolio construction

PCT aims to manage its risk relative to the benchmark

PCT is managed very much with an eye to risk. It is designed to deliver 3%+ annual outperformance versus its benchmark after fees on a consistent basis, with typical active share of 40–50%. It rarely makes outsized stock-level bets, preferring to add value by avoiding losers (often mature or blue-sky companies) and correctly identifying the most important secular themes (and allocating between them where value is perceived to be most compelling). This means that PCT ends up holding around 100 stocks. Whilst this means that other, less risk-aware funds may perform better over shorter periods, this risk-adjusted/diversified approach should allow PCT to outperform over the medium/longer timeframe.

From time to time, a handful of stocks can dominate the benchmark index. The board allows the manager to take a neutral position in any stock that accounts for more than 10% of the index (up to a maximum of 20% of the portfolio) but PCT cannot have an overweight exposure to these companies.

PCT is emphatically not a closet-tracking fund. If the manager does not like a company, PCT will have no exposure to it, regardless of its weight within the benchmark. This is currently true of Salesforce, Samsung and Adobe, for example (see Figure 9).

Typically, the maximum exposure to a stock will be a 3.0%-3.5% active weighting. The portfolio's active share has ranged from about 30% to just over 50% max.

Investment in emerging markets is permitted, but this is capped at 25% of gross assets. The board has also given the following indicative ranges for PCT's asset allocation:

- North America up to 85%;
- Europe up to 40%;
- Japan and Asia up to 55%; and
- rest of the world up to 10%.

It has set specific upper exposure limits for certain countries where it believes there may be an elevated risk.

The remit allows investment in unquoted companies (subject to prior board approval and capped at 10% of gross assets) but in practice, this has not been used.

Asset allocation

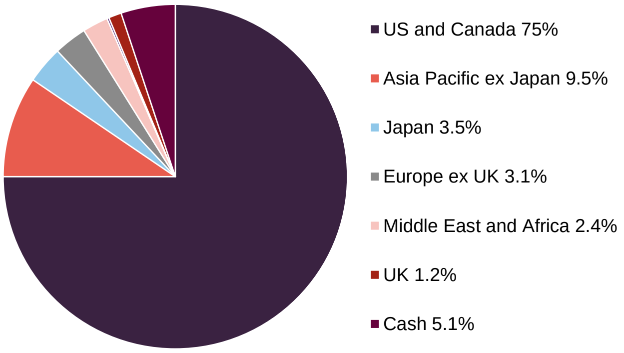
At the end of December 2024, there were 104 stocks in PCT's portfolio (up from 97 six months ago as the manager increases exposure to mid- and small-cap stocks that are AI beneficiaries or enablers).

The portfolio remains benchmark-aware to express the best that the index has to offer, and to help manage risk. The portfolio's active share is as high at 50% as it has ever been, due to the manager's larger individual stock bets.

The portfolio may be managed in a benchmark-aware style, but the manager is happy to have zero weightings in index names when he feels that their growth prospects do not merit their inclusion within the portfolio.

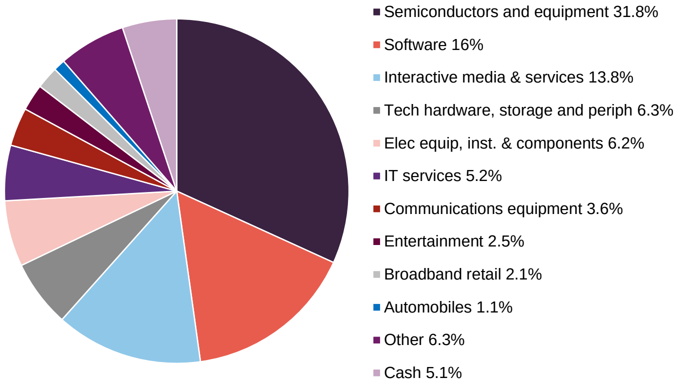
Cash and equivalents, which includes put options on the Nasdaq, was 5.1% of the portfolio at the end of December.

Figure 4: Geographic exposure as at 31 December 2024



Source: Polar Capital Technology Trust, Marten & Co

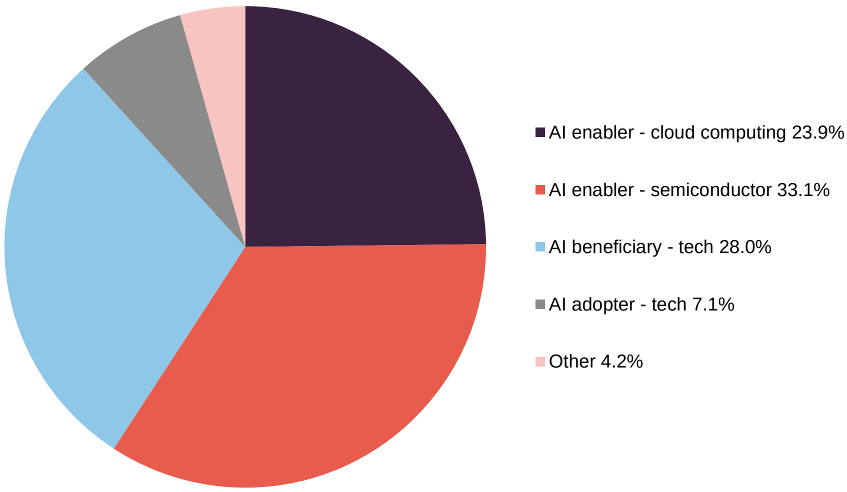
Figure 5: Sector exposure as at 31 December 2024



Source: Polar Capital Technology Trust, Marten & Co

Ben does not try to add value through geographic asset allocation. However, PCT's exposure to the US has grown 300bps (basis points, or 3%) over the last six months at the expense of Asia, due to the "Trump trade". PCT's geographic exposure is not too different to the benchmark now. In Figure 5, the most significant change has been a dispersion of exposures reflecting the manager's expectation of a broadening of AI winners across sectors, with weightings to the software and semiconductor sectors substantially reduced, and hardware increased.

Figure 6: PCT portfolio exposure to AI beneficiaries and AI enablers at 30 November 2024



Source: Polar Capital Technology Trust

PCT's portfolio is overwhelmingly positioned towards stocks that are AI beneficiaries or enablers. As Figure 6 illustrates, 85% of stocks in the portfolio are categorised in this way, which increases to 96.3% when stocks that are classified as "AI adopters" or other non-tech AI adopters are included.

10 largest holdings

There have been a number of changes to the constituents of PCT's top 10 holdings over the past six months, as the manager continues to make tweaks to the portfolio to reflect its conviction on AI and its views on the likely winners and losers. In have come Cloudflare, Arista Networks and Shopify, and out have gone Micron Technology, Advanced Micro Devices and Crowdstrike Holdings.

Figure 7: Profile of top 10 holdings at 31 December 2024

Company	Country	Mkt cap ($bn)[3]	% of NAV 31/12/24	% of NAV 30/06/24	Change (%)
NVIDIA	US	3,244	10.5	11.1	(0.6)
Microsoft[1]	US	3,102	7.2	9.5	(2.3)
Meta Platforms	US	1,536	6.4	5.0	1.4
Apple[2]	US	3,525	6.4	6.3	0.1
Broadcom	US	1,056	5.4	3.2	2.2
Alphabet	US	2,354	5.3	7.1	(1.8)
Taiwan Semiconductor	Taiwan	1,044	4.4	4.3	0.1
Cloudflare	US	38	2.0	1.7	0.3
Arista Networks	US	142	1.9	1.9	0.0
Shopify	US	132	1.9	0.3	1.6
Total			51.4		

Source: Polar Capital Technology Trust, Marten & Co. Note 1) The Microsoft position reflects an equity holding of 6.89%, with the remainder explained by a call option. Note 2) The Apple position reflects an equity holding of 4.89% with the remainder explained by a call option. Note 3) as at 13 January 2024

Figures 8 and 9 show PCT's largest overweight and underweight exposures relative to the Dow Jones Global Technology Index at 31 October 2024.

Figure 8: 10 largest overweight exposures at 31 October 2024

Company	Fund (%)	Index (%)	Active (%)
Cloudflare	2.26	0.13	2.13
CyberArk Software	1.67	0.06	1.61
Amazon	1.57	-	1.57
Arista Networks	1.95	0.44	1.51
Shopify	1.98	0.59	1.39
Spotify Technology	1.54	0.30	1.25
Micron Technology	1.60	0.46	1.14
Meta Platforms	6.36	5.31	1.05
Taiwan Semiconductor	4.06	3.13	0.93
ServiceNow	1.67	0.92	0.76

Source: Polar Capital Technology Trust

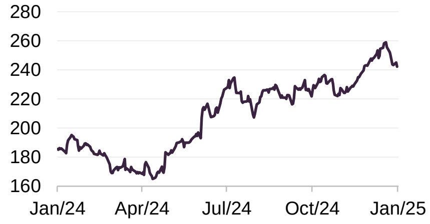
Figure 9: 10 largest underweight exposures at 31 October 2024

Company	Fund (%)	Index (%)	Active (%)
Apple	4.67	15.07	(10.40)
Microsoft	7.11	13.25	(6.14)
Alphabet	4.62	8.04	(3.41)
NVIDIA	11.88	14.32	(2.44)
Salesforce.com	-	1.24	(1.24)
Samsung Electronics	-	1.04	(1.04)
Adobe Systems	-	0.93	(0.93)
Cisco Systems	0.24	0.97	(0.72)
SAP	0.36	1.04	(0.68)
ASML Holding	0.56	1.18	(0.62)

Source: Polar Capital Technology Trust

We have discussed Ben's views on many of PCT's largest holdings and over- and underweight exposures relative to the benchmark in previous notes (links to which can be found on page 22). Some noteworthy portfolio developments since our last note six months ago include:

Figure 10: Apple

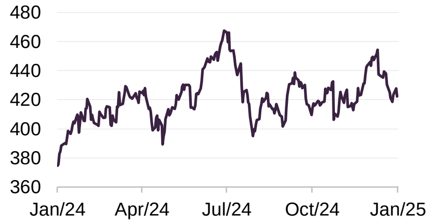


Source: Bloomberg

Apple

PCT's most significant underweight position is Apple, which is as great as it has ever been at 1040bps (10.4 percentage points). The company's share price performance (up 30.5% in the past 12 months) has been a drag on PCT's relative performance, but the manager's conviction that Apple is a laggard in AI is as strong as ever. In our last note, we wrote that Apple's far-smaller AI models meant it would be adopting a partnership strategy (when investors, firms, or stakeholders align resources and expertise) when it comes to AI, with OpenAI announced and a tie-up with Google's Gemini rumoured. The manager adds that recent results were also uninspiring, especially relating to iPhone 16 demand. However, excitement about a potential AI-driven iPhone upgrade cycle following the release of Apple Intelligence (its suite of AI features integrated into iOS 18 announced in June) saw its share price soar.

Figure 11: Microsoft

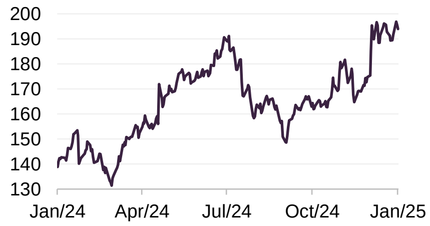


Source: Bloomberg

Microsoft

Microsoft is another high-profile underweight position in PCT's portfolio. High capex requirements to meet AI demand have hindered meaningful positive earnings revisions and have been reflected in the share price. Losses associated with its OpenAI investment are a further contributory factor. The company's recent share price weakness (as shown in Figure 11) has benefitted PCT in relative terms. AI has contributed strongly to Azure growth and the company expects its AI business to exceed a $10bn annual revenue run rate this year.

Figure 12: Alphabet

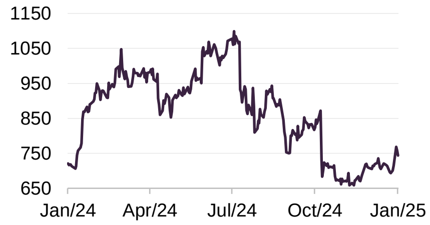


Source: Bloomberg

Alphabet

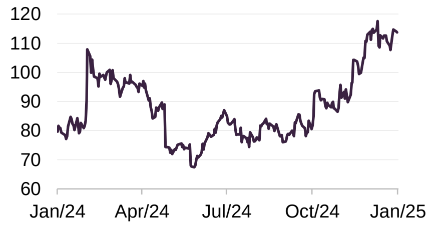
Another significant underweight position in a Mag7 company, Alphabet, has paid off in recent relative performance. A legal ruling in August 2024 that found its agreement with Apple to be the default search engine on iPhones to be in violation of antitrust laws has weighed on its performance. A second case, which relates to AdTech, is still ongoing. PCT's manager believes that, despite core search resilience and strong Google Cloud performance, the company may be at risk of being a net loser in the AI war. As well as regulation, Google's dominant position in search and search industry economics is under serious threat from AI-based alternatives such as OpenAI and Perplexity, among others – leaving Alphabet facing a classic "incumbents dilemma" (when dominant companies struggle to adapt to disruptive innovation) with new entrants' market share growing. However, Google's large language model, Gemini, the strongly performing cloud business, and several other potentially exciting projects, (including driverless taxis business Waymo and quantum computing chip Willow) give it a strong armoury to extend its dominance.

Figure 13: ASML



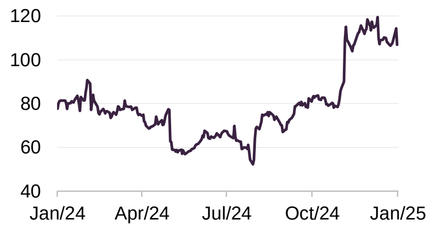
Source: Bloomberg

Figure 14: Cloudflare



Source: Bloomberg

Figure 15: Shopify



Source: Bloomberg

Visit QuotedData.com for up-to-date information on PCT and its peer group

ASML Holding

ASML Holding had been a top 10 holding six months ago, but PCT sold all but a small position due to the manager's fears for the growth outlook in the semiconductor production equipment sector amid tighter US/China export restrictions. This was borne out in the third quarter earnings update, where the manager concluded weak order numbers pointed to a potentially permanent change in market dynamics. ASML's share price has fallen 27.3% over the final six months of 2024, as shown in Figure 13.

Cloudflare

Share price strength over the past six months has seen connectivity cloud and security service provider Cloudflare become a top 10 holding for PCT and it is now its largest overweight position relative to the benchmark. The company reported strong revenue growth of 28% in a Q3 earnings update, and highlighted a deal with a "fast-growing AI company" that will use Cloudflare's Workers AI product as their inferencing platform (a framework designed to process data and apply machine learning models to generate predictions and insights). PCT's manager says that this is a sign that conversations are shifting away from training to inference and it expects the company to make more of these deals in 2025.

Shopify

Shopify is another recent entrant to PCT's top 10 holdings and one of its largest overweight positions. Its e-commerce platform for online stores and retail point-of-sale systems, which offers retailers a suite of services including payments, marketing, shipping and customer engagement tools, has grown substantially and now hosts 5.6 million active stores across more than 175 countries. In Q3 earnings, the company reported impressive revenue growth (especially in Europe) and profitability. It also issued better-than-expected next-quarter guidance, with revenue forecast to grow mid-high 20%, raising investor expectations for 2025.

Performance

PCT's underperformance of its Dow Jones Global Technology benchmark since early 2021 has largely been due to the effect of its two largest underweight exposures – Apple and Microsoft – performing strongly. Over three years to the end of December 2024, PCT's NAV returns were 11.6 percentage points lower, as shown in Figure 17.

However, over shorter time periods, the trust has performed in line with the benchmark and over the last three months outperformed it. As mentioned earlier, small- and mid-cap stocks materially outperformed large-caps following the US election result. This could also be due to the spread in performance between the large-cap and small- and mid-cap technology companies narrowing as a broadening of performance plays out, which PCT's manager expects to continue.

Figure 16: PCT NAV total return relative to benchmark over five years ending 31 December 2024

Source: Morningstar, Marten & Co

Figure 17: Cumulative total return performance to 31 December 2024

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
PCT share price	3.7	16.2	5.6	34.3	27.7	119.7
PCT NAV	3.7	14.5	6.6	34.8	36.6	146.8
Benchmark	3.5	12.4	7.0	35.8	48.2	169.2
MSCI ACWI	(0.9)	6.0	6.5	19.6	26.8	70.8
MSCI UK	(1.3)	(0.2)	1.5	9.5	26.3	31.0

Source: Morningstar, Marten & Co

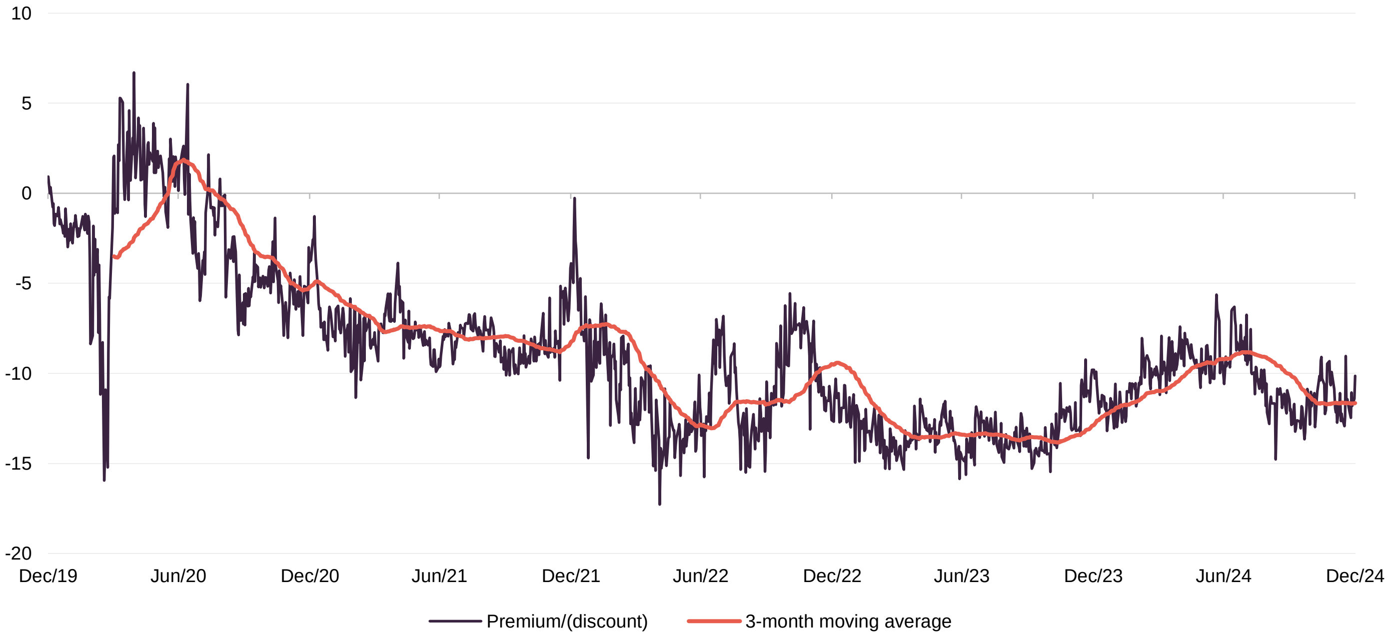
Dividend

PCT historically has not paid dividends, given the nature of its focus on longer-term capital growth. The board reviews this stance on a periodic basis and would declare a dividend if this was needed to maintain the company's status as an investment trust. Over the years, PCT's running expenses (the ongoing costs incurred in the daily operation and maintenance of a business) have exceeded its revenue income and therefore the revenue reserve remains negative. To pay a dividend, PCT would need to eliminate its revenue reserve deficit (£146.9m at 31 October 2024).

Premium/discount

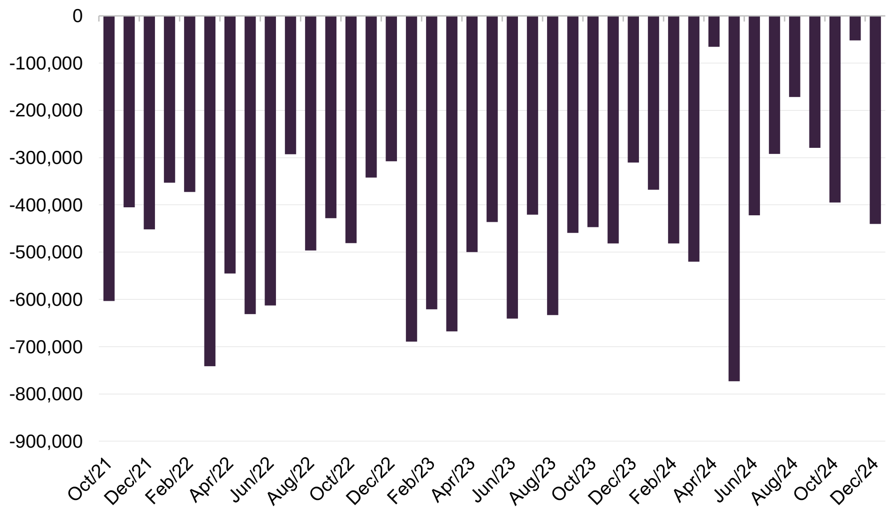
Over the 12 months to 31 December 2024 PCT traded between a discount to NAV of 5.6% and 14.8%. The average discount over this period was 10.5%. At 13 January 2025, PCT's shares were trading at a discount to NAV of 12.3%. Given the substantial upside potential in the portfolio's exposure to AI beneficiaries, especially if a broadening of AI winners and the manager's active investment approach, this feels like good value.

Figure 18: Premium/(discount) over five years to end December 2024



Source: Morningstar, Marten & Co

Figure 19: PCT share repurchases since 30 September 2021



Source: Polar Capital Technology Trust

PCT issues and repurchases shares with the aim of ensuring that its shares do not trade at excessive premiums or discounts to NAV. Shareholders are asked at each AGM to approve the issuance of up to 10% of PCT's issued share capital and the repurchase of up to 14.99% of its issued share capital. Shares are only issued at a premium to NAV. Shares repurchased may be held in treasury and reissued.

Fees and costs

New management fee arrangements will come into effect on 1 May 2025. The tiered fee payable will be 0.75% on the first £2bn of NAV and 0.6% on amounts above £2bn. Additionally, there will be no performance fee.

The current fee structure is 0.8% on the first £2bn of net assets, 0.7% on net assets between £2bn and £3.5bn, and 0.6% on amounts above £3.5bn. Also, currently a performance fee of 10% of the fund's outperformance of the benchmark is payable.

The ongoing charges ratio is 0.8%.

Capital structure

In September 2024, the company completed a 10-to-one share split (when each existing share is divided into 10 new shares, reducing the share price proportionally while maintaining the same total market capitalization). Following this PCT now has 1,180,015,475 ordinary shares in issue and admitted to trading plus a further 193,134,525 shares held in treasury, as at 10 January 2025. There are no other classes of share capital.

PCT's financial year end is 30 April and its annual general meeting (AGMs) are usually held in September. PCT has an unlimited life, but at the 2020 AGM, shareholders were asked whether they want the fund to continue. Shareholders backed the proposal overwhelmingly (99.8% of those voting). The same question will be put to shareholders in 2025 and every five years thereafter.

The use of gearing and derivative instruments is permitted and overseen by the board.

Derivative instruments such as financial futures, options, contracts-for-difference and currency hedges would be used for the purpose of efficient portfolio management. Any leverage resulting from the use of such derivatives will be subject to the restrictions on borrowings. PCT has no long-term borrowings and, at present, no short-term borrowings either.

Management team

Ben Rogoff

Ben is the lead manager of Polar Capital Technology Trust and is a fund manager of the Polar Capital Global Technology Fund and Polar Capital Automation and Artificial Intelligence Fund.

Ben has been a technology specialist for 25 years. Prior to joining Polar Capital, he began 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. Ben graduated from St Catherine's College, Oxford in 1995.

Alastair Unwin

Alastair is the deputy manager, having joined Polar Capital in 2019 as a fund manager and senior analyst. Before joining Polar Capital, he co-managed the Arbrook American Equities Fund. Between 2014 and 2018, Alastair launched and then managed the Neptune Global Technology Fund, and managed the Neptune US Opportunities Fund. Prior to Neptune, he was a technology analyst at Herald Investment Management. Alastair has a BA (1st Class Hons) in history from Trinity College, Cambridge and is a CFA Charterholder.

Nick Evans

Nick Evans joined Polar Capital in 2007. He has 23 years' experience as a technology specialist and has been lead manager of the Polar Capital Global Technology Fund since January 2008. He is also a fund manager on the Polar Capital Technology Trust and Polar Capital Automation and Artificial Intelligence Fund.

Prior to joining Polar, Nick 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 2001 to 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 has a degree in Economics and Business Economics from Hull University, has completed all levels of the ASIP, and is a member of the CFA Institute.

Xuesong Zhao

Xuesong joined Polar Capital in 2012. He has 14 years' investment experience and is a lead manager of the Polar Capital Artificial Intelligence Fund. He is a partner fund manager on the Polar Capital Technology Trust and Polar Capital Global Technology Fund.

Prior to joining Polar Capital, Xuesong spent four years working as an investment analyst within the emerging markets & Asia team at Aviva Investors, where he was responsible for the technology, media and telecom sectors. Previously, he worked as a quantitative analyst and risk manager for the emerging market debt team at Pictet Asset Management and started his career as a financial engineer at Algorithmics, now owned by IBM, in 2005. Xuesong holds an MSc in Finance from Imperial College of Science & Technology, a BA in Economics from Peking University, and is a CFA Charterholder.

Fatima Iu

Fatima joined Polar Capital in 2006. She has 15 years' investment experience and is a fund manager on the Polar Capital Technology Fund, Polar Capital Technology Trust and Polar Capital Automation and Artificial Intelligence Fund. Fatima is responsible for the coverage of European Technology, Global Security, Networking, Clean Energy and Medical Technology.

Prior to joining Polar, Fatima spent 18 months working at Citigroup Asset Management with a focus on consumer products and pharmaceuticals. She holds an MSc in Chemistry with Medicinal Chemistry from Imperial College of Science & Technology in London. Fatima is also a CFA Charterholder.

Paul Johnson

Paul joined Polar Capital in 2012. Prior to this, he helped manage a private investment fund between 2010 and 2012. Paul holds a BA in History and Politics and a Masters in History from Keele University. He has successfully passed all three levels of the CFA programme.

Nick Dumas-Williams

Nick joined Polar Capital in 2019 as an analyst on the Polar Capital Technology team. Prior to joining Polar Capital, he worked at Neptune Investment Management as the assistant fund manager on its US Opportunities growth fund. Previously, he worked in academia at the University of Oxford. Nick holds an MChem in Chemistry from the University of Oxford.

Patrick Stuff

After graduating in 2016 from the University of Warwick with a BSc in Economics, Patrick joined Polar Capital as an operations executive, where he provided operational support to all fund management teams at Polar, including the technology team. During this period, he successfully passed all three levels of the CFA program first time and subsequently, after a successful eight months seconded to the technology team, he joined on a full-time basis in May 2021 as an investment analyst with a focus on small- and mid-cap companies.

Lina Ghayor

Lina joined Polar Capital in 2023 as an investment analyst in the technology team. Prior to joining Polar Capital, she worked at Exane BNP Paribas as an equity research analyst.

Fred Holt

Fred joined Polar Capital in 2023 as an investment analyst in the technology team. Prior to joining Polar Capital, he worked at Janus Henderson Investors as a portfolio analyst on the global technology leaders and sustainable future technologies strategies.

Paddy Drewett

Paddy joined Polar Capital as an operations executive in 2019 from the global markets division of Société Générale. He transferred to the technology team as a data analyst in June 2024 and provides expertise on AI implementation while bolstering the wider data analysis capabilities of the team. Paddy is a CFA Charterholder.

Board

PCT's board comprises six non-executive directors, all of whom are independent of the manager and who do not sit together on other boards. Each of the directors stands for re-election at each AGM. Since our last annual overview note, Charlotta Ginman stepped down at the AGM in September 2024, having reached nine years of continuous service. Jane Pearce succeeded her as chair of the audit committee, while Adiba Ighodaro was appointed to the board in December 2024.

Figure 20: Board member – length of service and shareholdings

Director	Position	Date of appointment	Length of service (years)	Annual director's fee (GBP)	Shareholding
Catherine Cripps	Chair	September 2021	3.3	65,500	481
Tim Cruttenden	Senior independent director	March 2017	7.8	40,200	1,269
Jane Pearce	Chair of the audit committee	September 2021	3.3	44,500	1,097
Charles Park	Director	January 2018	7.0	36,000	1,840
Stephen White	Director	January 2018	7.0	36,000	10,000
Adiba Ighodaro	Director	December 2024	0.1	36,000	167

Source: Polar Capital Technology Trust

Catherine Cripps

Catherine was appointed to the board in September 2021 and took over as chairman in September 2022. She is a qualified Chartered Accountant with more than 30 years' senior investment industry experience in a number of trading, risk management and investing roles including investment director and head of research at GAM. Catherine is also a non-executive director of Goldman Sachs International and Goldman Sachs International Bank, where she is chair of the risk committees and a member of the audit committees. Previously, she was non-executive director of CQS Management Limited, where she chaired the remuneration and performance management committees and was a member of the audit committee.

Tim Cruttenden

Tim is currently chief executive officer of VenCap International Plc, having been with that company in various positions since 1994. VenCap invests in venture capital funds in the US, Asia and Europe, with a primary focus on early-stage technology companies. Tim is a non-executive director of Chrysalis Investments Limited.

Jane Pearce

Jane is an experienced non-executive director and Chartered Accountant with over 20 years' financial markets experience. She has a number of years' experience as a technology equity analyst and as an equity strategist at leading investment banks including Lehman Brothers and Nomura International.

Jane is a non-executive director and member of the audit committee of Shires Income Plc and a co-opted external member of the audit and risk committee of the University of St. Andrews.

Charles Park

Charles has over 25 years of specialist investment experience and was a co-founder of Findlay Park Partners, an investment firm specialising in quoted American equity investments. Prior to this, he was a US fund manager at Hill Samuel Asset Management.

Charles is a non-executive director of North American Income Trust Plc and Evenlode Investments.

Stephen White

Stephen qualified as a Chartered Accountant at PwC before starting a career in investment management. He has more than 35 years' investment experience, most notably as head of European Equities at F&C Asset Management, where he was manager of F&C Eurotrust Plc and deputy manager of The F&C Investment Trust Plc. He also held the role of head of European and US Equities at British Steel Pension Fund.

Stephen is a non-executive director and chairman of Brown Advisory US Smaller Companies Trust Plc. He is also non-executive director and chairman of the audit committees of Blackrock Frontiers Investment Trust Plc and Aberdeen New India Investment Trust Plc. Stephen was appointed non-executive director of Henderson EuroTrust plc with effect from 1 December 2022.

Adiba Ighodaro

Adiba is an experienced non-executive director with a background in corporate and commercial law. She has extensive experience in global private markets from over 30 years of working in legal structuring, development finance, private equity investment, and fundraising.

Adiba is currently an independent non-executive director and member of the audit and management engagement committees of ICG Enterprise Trust Plc, and an independent non-executive director, chair of the credit committee and member of the risk committee and the nomination, governance & remuneration committee of Standard Chartered Bank Nigeria Ltd. She is also a non-executive director of M-Kopa Holdings Ltd.

Previous publications

Readers interested in further information about PCT may wish to read our earlier notes. You can read them by clicking on the links below or by visiting our website.

Figure 21: QuotedData's previously published notes on PCT

Title	Note type	Publication date
Confidence building	Initiation	12 May 2020
More to go for	Update	15 December 2020
Exciting times	Annual overview	7 July 2021
Eyes on the prize	Update	10 May 2022
Jockeying for position	Annual overview	8 December 2022
Me, myself and AI	Update	14 June 2023
The AI's have it	Annual overview	9 January 2024
AI caramba!	Update	25 June 2024

Source: Marten & Co

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