

# INVESTMENT CASE FOR FIDUCIAN TECHNOLOGY FUND

## Why Technology Investment

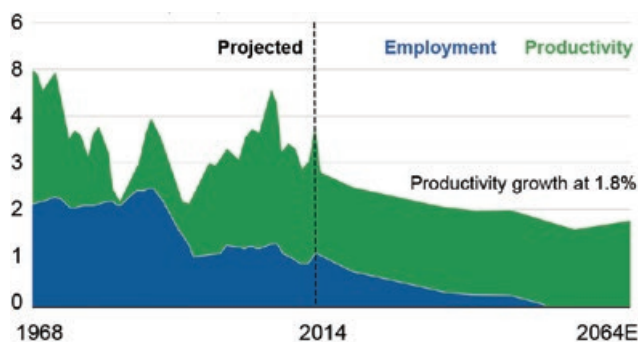
Technology developments creep up without warning – the first flight was in 1903, the first commercial jet in 1949, the first man on the moon in 1969. The mobile phone in 1973 was the size and weight of a house brick and was carried in a small suitcase. Today it is hardly a phone, but used for messaging, emails, movies, music, photos and sometimes as a phone. In 2001, the human gene was analysed and decoded at a cost of over US\$95 million. Today there are companies that can do it for less than US\$2,000 which may have huge ramifications for preventing ageing, increasing food production and treating genetic ailments. There are huge and unknown strides continuously being made in technology, which could change the way we live, think and function over the next 10 years and beyond. These developments are in progress 24x7 all over the world and many will catch us by surprise.

The Technology Fund aims to provide an opportunity to invest in companies that are involved at various stages of these developments and as well in commercial production, in whichever country they originate and so ensure that investors can share in the profits which these companies have the potential to generate in the near-future and longer-term. The fund's focus amongst other leading edge technologies is to find companies that are involved in BRAIN technologies (Biotechnology, Robotics, Artificial Intelligence [IT systems] and Nanotechnology). When such companies gain commercial ascendancy, they could become drivers of significant economic activity and prosperity in the future for the world.

## The need for technology solutions

The world has progressed through thousands of years because of the rising intelligence of humankind and contribution of labour. This situation is projected to change with reducing contribution being made by labour in the years ahead and expectations that human intelligence as measured by IQ is unlikely to rise any further. The consensus view is that it must be productivity gains driven by superior technology that will drive global growth over the next 50 years.

Chart 1: Real global GDP growth, rolling 5-year periods, CAGR (5)



Source: Wellington

## How the Fiducian Technology Fund is constructed

Fiducian's Manage the Manager process of investing combines a team of investment managers and puts them into a single fund for investors. This process is said to reduce the risk and volatility of performance that may occur if there was a single fund manager star that may excel in one period and fail to deliver in the next. To achieve this structure, Fiducian's investment team reviews the market place and then



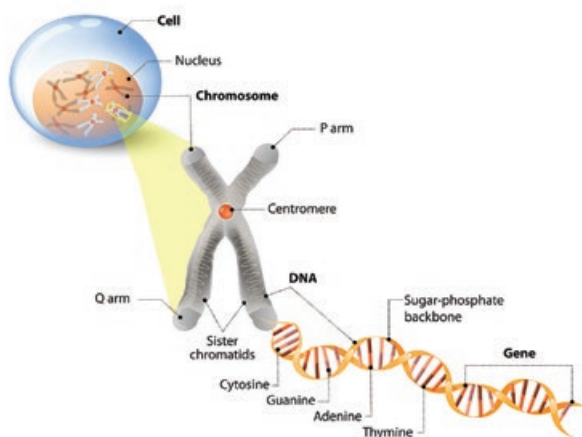
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researches a list of fund managers that specialise in selecting securities for the kind of portfolio we believe will best suit our investors. These fund managers are then short-listed and tested to check that they would complement each other's performance over time, provide diversification across various technology sectors and, importantly, have the resources to do the work required of them.

There are two investment teams, each with supporting analysts in the US, Europe and Asia, who scour the market and search for those technology companies that can add value for our investors, now and into the future. One team focuses purely on the biotechnology sector and the other on global technology themes such as IT hardware and software, robotics and where relevant nano-technology applications. Other teams may be added if we need to focus on a special sector of technology. The neutral exposure is 63% of funds under management to the technology team and 35% to the biotechnology team and some cash. However, the Fiducian investment team can tilt the portfolio if it believes a particular component is overvalued or if a particular theme deserves additional funding.

## Biotechnology

The bodies of all living beings have millions of cells, which regenerate through their lives. Each cell has a set of instructions on how to regenerate. These instructions are coded into what is called our genome, of which one unit is called a gene. Since decoding of a gene is relatively cheap, different genes can be studied and modified. When biotechnology is applied to manipulate a gene, the resultant product is known to be genetically modified (GM).



GM products have been widely accepted in agriculture and these generally have better resistance to adverse weather and soil conditions and in instances reject insect and pest attacks. Higher production levels are also achieved. GM corn and cotton have been adopted worldwide. Vitamin-enriched foods, expanding fishing seasons by

modifying certain fish and fruits and vegetables that supplement body nutrients are under production.

Huge strides have been made in pharmaceuticals to treat genetic diseases. The fund invests in companies that have developed inhibitors which allow the body to recognise cancer and thereby use the body's immune system to kill cancer cells. We also hold companies that are developing cures for heart and lung diseases, hepatitis, Parkinson's and Alzheimer's, all of which result from genetic mutations. As Chart 2 shows, the number of new drug approvals has soared.

**Chart 2: Number of innovative drug approvals – Rolling 10-years totals**



Source: FDA, Goodman & Gilman's Pharmacological Basis of Therapeutics, Multiple Therapeutic and Professional Clinical Society websites, ADIS R&D Insight | As of February 2014

## Global technology

New productivity enhancing products are continuously being brought to market. It is therefore important for our investment team to identify those that can continue on and add value for investors against those that are likely to fail.

For example, Asia is fast becoming the world's tech hub and we have identified 1,400 companies from which only a few will be selected for our portfolio. Our focus on the IT sector covers mature and new-growth internet and social media companies, software companies moving to artificial intelligence, semi-conductors, cloud computing and upcoming disruptors. In robotics, we have invested in companies from Japan, the US and Taiwan that specialise in industrial robotics, sensors and motors. Our team has also invested in new technologies for green energy and components for driverless cars which are expected to become a large part of future transportation. While nano-technology is not as yet an industry by itself, we have focussed on investing in companies that use nano-science and molecular-level technology to enhance their products or have used it to develop products approaching commercialisation.



## Is the technology sector overpriced?

The MSCI Technology Index, for example, was trading at a forward Price to Earnings ratio of around 16 on 1 August 2016.

While this valuation indicates a strong demand for stocks in this sector, there will always be companies that are overvalued and undervalued in a stock selector's eyes within an index. However, the Fiducian Technology Fund is not managed passively as an index. It is managed actively by investment teams that research the market and physically visit and interview companies. The only companies then selected for investment are those that present superior medium- to long-term value and growth opportunities. Stocks may be added or removed subject to prevailing economic and market conditions

## How the Fiducian Technology Fund has performed

The technology fund and its underlying securities have obviously been recognised by investors. As Table 1 shows, the results over the last 5 years have been most encouraging.

## So what is the next step?

The Fiducian Technology Fund offers investors an opportunity to invest in technology companies from around the world. Many of them are investing huge sums on research to develop products that could change for the better, the way we live today. With this success they could also generate significant revenue for investors. A good first-step is to contact your financial planner.

Table 1: Fiducian Technology Fund Performance\*

	6 Month	1 Year	2 Years	3 Years	5 Years	10 Years
Fund Returns	10.6%	3.8%	21.7%	21.7%	25.6%	10.2%
Index Return <sup>1</sup>	8.5%	6.4%	18.5%	18.5%	21.1%	8.1%
Excess Return	2.2%	-2.7%	3.2%	3.2%	4.5%	2.1%
	2010	2011	2012	2013	2014	2015
Fund Returns	-1.8%	-0.1%	17.3%	61.7%	29.5%	21.8%
Index Return <sup>1</sup>	-1.1%	-2.6%	14.8%	49.3%	20.3%	13.6%
Excess Return	-0.7%	+2.6%	+2.5%	+12.4%	+9.1%	+8.2%

Chart 3: Growth of \$100 Invested

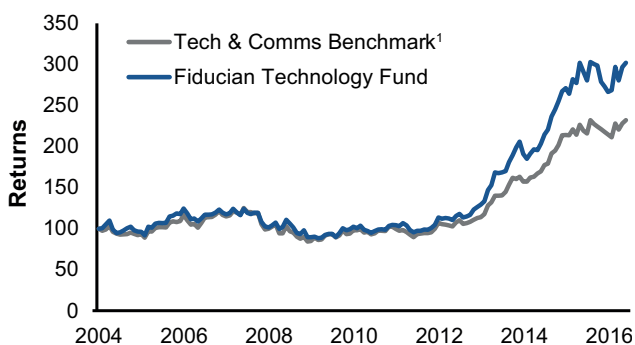
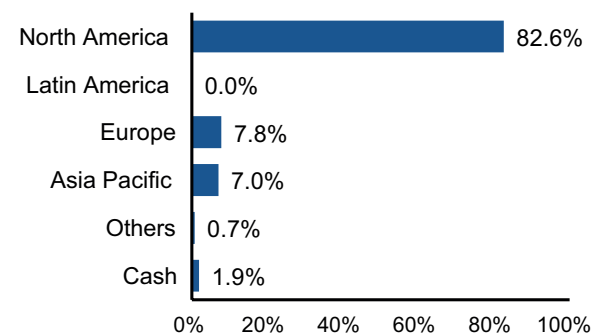


Chart 4: Company Locations



\* Note: Performance figures are calculated using month-end exit prices, after fees and reflect the reinvestment of distributions. The fund's future performance may bear no relationship to its past performance

<sup>1</sup> MSCI Tech & Comms Index (\$A)



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