Henderson Horizon

Global Technology Fund Update

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STANDARD & POOR'S AA

A combination of an improving economic backdrop, pent-up demand for IT, beatable consensus estimates and attractive valuations all point towards a positive risk/reward profile for the technology sector for 2010. In this update, Stuart O'Gorman, manager of the Henderson Horizon Global Technology Fund, offers 10 reasons why investors should be considering the merits of the technology sector at present.

1. Strong balance sheets offer greater downside protection

On average, many companies in the technology sector have healthy balance sheets, typically with high cash balances and little debt. Many of the companies that we invest in are holding more than 15% of their market capitalisation in net cash. How do these companies manage to keep so much cash on their books? Many of them are extremely cash generative. As the table below explains, the technology companies have a free cashflow yield on a trailing 12 month basis far in excess of all other sectors. Whilst 2009 was a painful year for the economy, technology companies clearly managed to weather the storm without too much balance sheet disruption.

Sector	Net cash as % of market cap	FCF / EV %
Information Technology	9%	8.1%
Healthcare	-9%	7.0%
Consumer discretionary	-21%	7.4%
Materials	-22%	8.6%
Industrials	-25%	5.1%
Energy	-26%	1.4%
Consumer staples	-30%	5.4%
Utilities	-90%	-2.8%
Telecommunication Services	-100%	3.6%
Financials	-181%	0.1%

Source: FactSet, Company data, Credit Suisse, at 30 March 2010

Note: Data is for companies in the US S&P Index (breakout is in Global Industry Classification Standard GICS sectors), in USD. Net cash shows the total cash on the balance sheet minus debt, cash shows purely the cash on the balance sheet. Net cash as a percentage of market cap is a measure of the net cash on a company's balance sheet as a percentage of its total market capitalisation.

2. Valuations within the sector remain compelling

Technology continues to look attractively valued compared to the rest of the market. The relative forward price/earnings (P/E) of the technology sector is near all time lows (see chart on next page), despite the very strong demand trends, stable cash flows and robust balance sheets. We are also of the opinion that, barring a major reversal in the macroeconomic environment, technology earnings estimates are too low.

Relative Forward P/E of Technology vs World Index

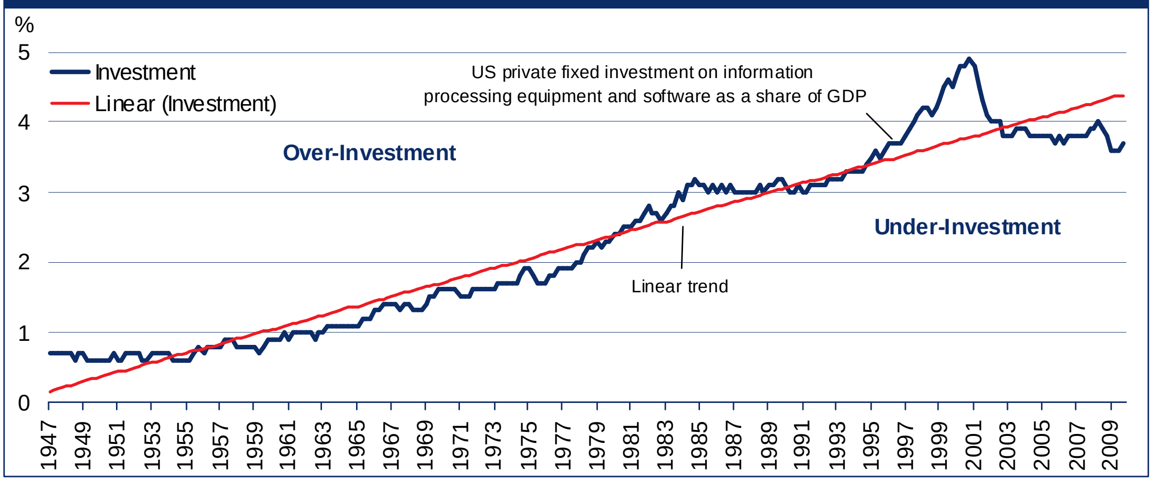
Source: Bernstein 22 March 2010

3. Demand for IT still pent-up

During the credit bubble, investment in technology was virtually absent from the global economy. In fact, investment in IT and other areas has remained chronically underfunded for much of the last decade. Whilst corporate expenditure in other areas, such as advertising, travel, staffing and office space soared, technology was the only corporate division still subject to severe cost containment.

These constraints have been ascribed to the foolish overspending of companies during the technology bubble, leading to understandably over-zealous thrift in the years after. Anecdotal evidence, however, suggests that technology spending has been gathering pace in recent years.

Spending on technology capital equipment and software as a percentage of US GDP



Source: Nomura, Bureau of Economic Analysis, at 10 February 2010

4. Technology is one sector not suffering from over-capacity

Another conspicuous feature of the credit bubble has been the large amount of capacity that was added in the old economy, leading to expansion in areas such as office space, housing, factories and other industrialised buildings. There are now huge surpluses of stock which mean that even if demand returns we may still have pricing pressure downwards in these areas.

This is in stark contract with the technology sector. According to Micron there are currently no new memory semiconductor fabrications (fabs) under construction (it takes two years to build one) and the memory industry is, simply put, sold out. In addition, the tech sector has been starved of venture capital funding over the past decade. Somewhat perversely, this is actually very good for existing companies as it reduces future competition and makes their barriers to entry stronger.

5. Consolidation has reduced competition in many areas

The technology sector has undergone some notable rationalisation in recent times, as the major players have sought to acquire smaller and less cash rich contenders. For example, Oracle has been an aggressive acquirer of competitors over the last few years. Companies with strong barriers to entry can retain some of the cost savings of Moore's Law by maintaining or increasing margins. (Moore's Law states that semiconductors halve in price and size and operate twice as fast, every two years.)

Acquisitions by major software vendors

Oracle	Peoplesoft, JD Edwards, Siebel, Agile Software, Portal Software, Hyperion, Sun Microsystems
IBM	Telelogic, Filenet, ISSX, Cognos
Microsoft	Aquantive, Fast
Sap	Business Objects

Source: Bloomberg

6. PC replacement and enterprise infrastructure cycle reaching critical point

The PC sector is also on the verge of a major upgrade cycle. The average age of an occupational desktop computer is over 6 years. We estimate that when a PC is more than five years old, it makes more sense to buy a new one than to continue to pay costs towards repair and upgrades. This aged installation base is an issue not only for PCs but for the whole commercial infrastructure cycle.

The IT infrastructure of many companies is ageing at a dramatic rate and it will be increasingly difficult for companies to put off replacement, given increased maintenance costs. In addition, because of the long delay in upgrading their IT infrastructure, the functionality improvements now offered are dramatic, in many instances managing to effectively pay for themselves in less than a year.

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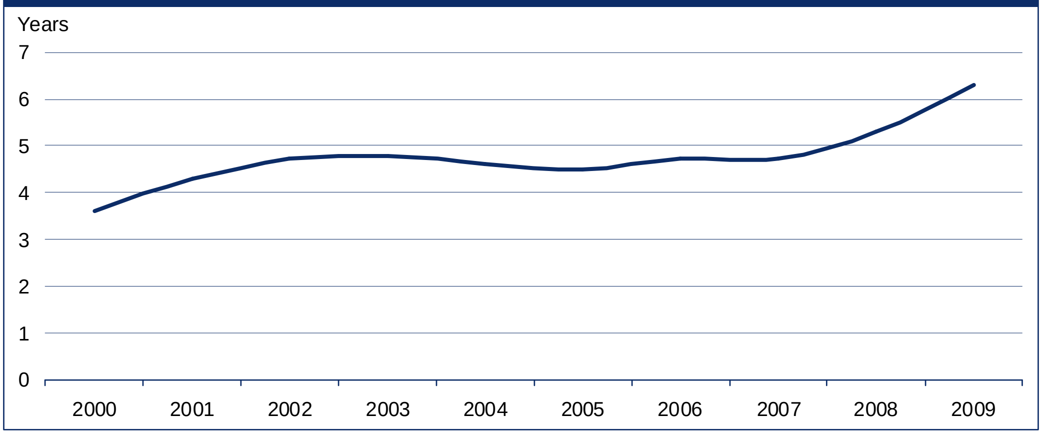
Sales of PCs worldwide grew 24.2% during the first quarter of this year, compared with the same period in 2009, according to preliminary figures released today by IDC. The CEO of Intel recently stated that they are starting to see growing business PC replacement demand, confirming this view.



Average age of desktop PC

Source: Deutsche Bank, 6 October 2009

7. Strong secular and demographic trends

Changes in the population profile mean that each year a growing percentage of the population is made up of ‘digital natives’: those consumers for whom digital technology already existed when they were born.

Increasing numbers of these digital natives, coupled with ‘digital immigrants’ (those who grew up with minimal technology but were willing to adopt it later in life) are willing to spend larger portions of their income on IT, having a positive influence on the growth opportunities for this sector. It is also worth pointing out that Moore's Law is helping to bring an increasing number of technology products down to price points that emerging market consumers can afford.

8. The Internet continues its secular growth trend

The dilemma facing marketing departments is a simple and long-standing one, how do they make their advertising spending quantifiable and therefore justifiable? Whereas TV advertising, print media and billboard spending offers up only anecdotal evidence as to its effectiveness, new online advertising avenues offer visible payback at a fraction of the cost of traditional media.

Online sales currently constitute only 3% and 1% of total retail sales in the US and China respectively. Broadband penetration rates of the BRIC economies are also well below those of the US. From this low level there is huge unrealised and future growth potential.

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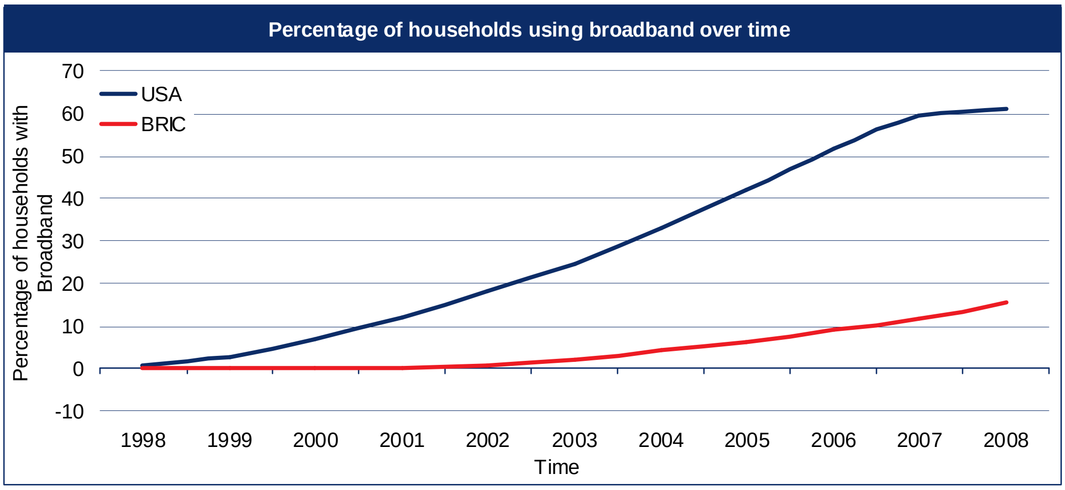


Source: Citigroup, International Telecommunications Union, at 31 December 2009

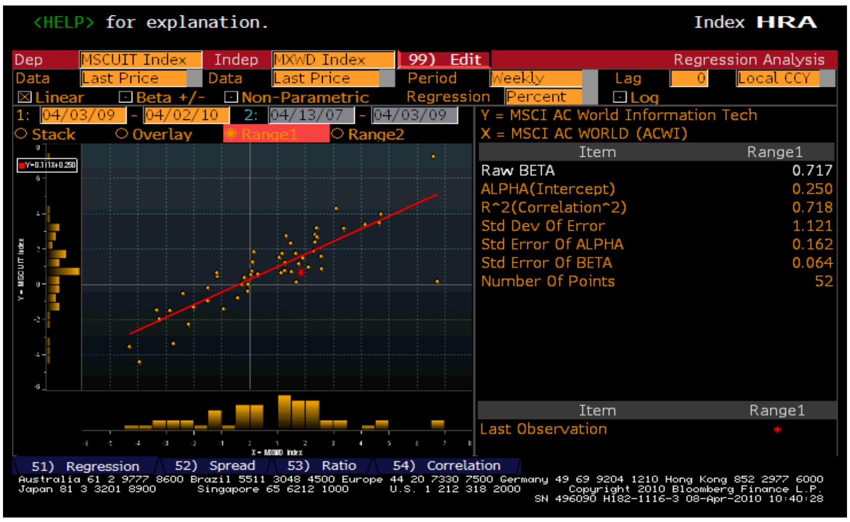
9. Innovative new products coming to market

In its previous incarnation, the technology sector suffered reputationally for promising much in the way of exciting new products, but conspicuously failing to deliver. At long last, products promised at the peak of the tech bubble are beginning to materialise. Indeed those that are emerging now are rather better than anybody expected them to be even at the peak of the hype, for example, the iPhone, Kindle (and now iPad), and LED TVs to name but a few.

10. Investor reluctance will prevent the formation of another bubble

Retail investors are still not buying into the tech sector in meaningful numbers. Technology funds continue to close. Usually an indication of a sector reaching its peak is found when a lot of new funds are launched into the retail market place. There appears to be no signs of this happening within tech in the near future. Investors still seem to view technology as a high beta sector but in fact tech is actually less macro dependant than many other areas of the economy. Over the last year, the tech sector has had a beta of less than 1, indicating that the sector has recently become less volatile than the overall market. Tech is now behaving more as a defensive sector would be expected to.

Beta of MSCI AC World IT Index is currently at 0.72 on a 1 year time period



Source: Bloomberg as of 2nd April 2010

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