



## Our guest: Axa Framlington

AXA Framlington manages around \$10 billion for investment trusts, pension funds, charities, institutions, unit trusts and PEP and ISA investors. The firm is AXA's specialist qualitative manager in contrast to the quantitative expertise of AXA Rosenberg. AXA Framlington is primarily a bottom-up active manager which focuses on growth at a reasonable price. Jeremy Gleeson manages two global technology funds with a combined value of just over \$110m. The firm has approximately \$670m in US equities and \$450m in healthcare (including biotech).



Jeremy joined AXA Framlington in July 2007 and is the lead fund manager of the AXA Framlington Global Technology and AXA World Funds Framlington Global Technology funds. Previously, he was a senior portfolio manager at Close Investments (formerly Reabourne Technology), a subsidiary of Close Brothers Group PLC, from 2003 to 2007, having been a portfolio manager for the previous three years and an assistant portfolio manager from 1997 to 2000 with Reabourne Technology. During his time at Close Investments / Reabourne, Jeremy was the lead fund manager on several technology funds and won the FTSE techMARK Technology Fund Manager of the Year award in 2003 and 2005. Jeremy holds a BSc (Hons) in Mathematics (1st class) and an MSc. in Systems Engineering from the University of Wales (1992-1996). He is also a CFA charterholder®.

### **AXA is a huge group with several asset management firms. How should IROs think about communicating with the group?**

"The separate asset management units within AXA conduct their businesses quite individually, so IRO's should seek out different points of contact in the various divisions. So speaking for AXA Framlington, IROs of technology companies should definitely be having a conversation with me, and similarly IRO's of healthcare companies should be in contact with Deane Donnigan, who heads up our healthcare team or Gemma Game and Andy Smith who work alongside her."

### **How do you interact with other teams at AXA Framlington – i.e. Stephen Kelly – US specialist?**

"Steve's focus is on growth companies, so there is a significant overlap with my universe. We share meetings when management visit our offices and I sit right beside him, so we have a constant ongoing dialogue with regards to our investments."

And this really exemplifies how I interact with the other investment desks at AXA Framlington too. I've got investment experts on Europe, Asia, Emerging Markets and Healthcare, all sitting within a stone's throw from me."

### **Tell us about the funds you manage?**

"The AXA Framlington Global Technology Fund, a unit trust, is the largest at £66m (\$105 million). I also manage the AXA World Funds Global Technology fund, which is a SICAV and has assets of just under \$8m. I run the two in parallel but they have different geographies in which they can be sold."

### **Can you short stocks? Or allocate to cash or do you always have to be fully invested in technology?**

"I tend to stay pretty much fully invested and shorting isn't an option."

### **What is your investment universe? (market cap constraints, geographical allocation)**

"Notionally it's the universe of publicly listed global technology companies, which numbers over 2,500. A preference for liquidity plays a role, so it is rare for me to invest in companies much below \$500m. Currently, the US makes up the largest portion (approx 80%) however I'm not stuck on this weighting; it's just a development of my bottom up approach as I see a lot of strong investment opportunities there at present."

### **What is your investment approach and how do you construct your portfolio?**

"Very much bottom up, driven by stock picking of companies which have strong management teams, premium products, large addressable market opportunities, who are gaining market share and driving profitability. On top of this I have a thematic overlay, which makes sure my investments are indeed likely to benefit from macro trends."

I'm benchmark aware, rather than benchmark following. Just because a stock is in the index it doesn't warrant a position in the fund even if it's a large component.

It is my opinion that the benchmark depicts what have been the successful technology investments of the past, whereas I'm trying to build a portfolio comprising of the successful technology investments of the future."

### **How much attention do you pay to a company's valuation?**

"Valuation would never put me off meeting management. In terms of making an investment it might do but that comes in at a later stage. If a company ticks the right boxes on my qualitative criteria but on a valuation criteria it's too expensive to invest in at the current time it will go on my watch list and I'll wait for a better entry point. I wouldn't not do the research because it's too expensive as often with tech companies - and it has been particularly prevalent in the last 12 months - Wall Street has been behind the curve in terms of forecasted earnings, so actual earnings have been higher. You have a scenario where a stock might look expensive on current earnings forecasts but that's the whole point of sitting down with management - to see what the growth prospects are and what the operating model is. Bottom line is valuation doesn't put me off doing the research and in addition sometimes you have to pay up for growth."

### **Performance stats?**

As of 30<sup>th</sup> October 2009

#### **Year to Date**

AXA Framlington Global Technology Fund: +45.4%  
MSCI World Information Technology Index: +21.6%

#### **Over 12 months**

AXA Framlington Global Technology Fund: +45.8%  
MSCI World Information Technology Index: +27.1%

#### **Since taking over the fund 30<sup>th</sup> June 2007**

AXA Framlington Global Technology Fund: +11.0%  
MSCI World Information Technology Index: +0.5%

### **What is your Active Share Ratio?**

"Over 60% of my investments are not presently in the index."

### **What is your typical investment time horizon/portfolio turnover?**

"I look for companies that have multi-year opportunities in that they are demonstrating successful commercialisation of their end markets but it will take several years to reach saturation levels. The portfolio turnover is approximately 70% which implies the average holding period is about 18 months."

### **What's currently in your portfolio and why?**

"Currently there are just below 70 holdings and the median market cap is \$3.5 billion. The top 10 holdings make up 27% of the fund. *Top ten holdings as at 31st October 2009: Microsoft is our largest holding, then Apple, Cisco, Google, Intel, CheckPoint, Vistaprint, American Tower, Oracle and Imagination Technologies.*

In my portfolio, 60% of the stocks aren't in the index and this tells you that I'm very much growth oriented with a multi-cap approach. Those large companies which have gone through periods of lower growth, the more mature companies, I put into one of two camps. They can either have resurgent success or they go into terminal decline. You have to be selective with the large names. Microsoft, with the new products they've got currently goes into the resurgent success camp. Apple certainly does because the company has reinvented itself. Intel similarly with new products and less competition and a big push with products designed for the NetBook and Smartphone markets – they've got the potential for resurgent success. Companies like HP and Nokia I don't own as I think they are in terminal decline. They might bump along sideways but I struggle to see how they can reinvent themselves. So I don't rule out large cap as investment candidates. Microsoft is 8.5% of the index and I was completely out of it in the second half of 2008 and the first quarter of 2009. I opted not to hold it. I'm not going to own a name I've not got conviction on."

### **What changed your mind about Microsoft?**

"Firstly, it got very cheap. If you stripped out the cash it was trading at less than 10 times forward earnings and secondly, they were about to enter a new product cycle. Windows 7 needed to be more successful than Vista and they seemed to be making the right noises. They listened to their customers and realised they'd missed out on a whole enterprise upgrade cycle with Vista and they had to address that to convince the customer to move on to a new operating system."

### **What are the key investment themes that interest you and why?**

"Enterprise Productivity and Cost Saving, Broadband and Web 2.0, Ubiquitous Computing and Mobile Internet, Digitalisation and Globalisation.

I think the first one is probably the key one for the current economic environment as businesses strive to do more with less. I think IT plays an important role here as data centres and computing environments are re-architected."

### **What segments of the market don't you like at the moment and why?**

"I'm very wary of companies that have historically had large market share dominance, but where their end markets are exhibiting lower levels of growth than previously witnessed but at the same time there are increasing numbers of competitors with different value propositions. There are several obvious examples such as in PC's with HP and Dell fighting off the likes of Apple who are coming from the high end down, and Asian competitors such as Acer, Asus and Lenovo, who are competing on price. The mobile phone industry is seeing something similar with Smartphone players such as Apple and Research in Motion capturing more than their fair share of profits even though their unit share is still somewhat small. In the wireless communications equipment space Ericsson and NokiaSiemens are the ones who appear to be in trouble as they face lower cost, but not necessarily lower quality competition from Huawei, whilst Cisco continues to expand its footprint in the customer base."

### **NASDAQ and technology have performed very well in the last six months – what about the next six?**

"In my opinion there is still a lot of value in the technology sector and we are only just entering several spending cycles (PCs, Smartphones, and Wireless Networks). The near term question is "Will consumers spend their hard earned cash this holiday season?" which I'm hoping that my meetings at the NASDAQ OMX Conference will help me answer!"

### **Do you vote your proxy? If so how – outsource to ISS?**

"We don't outsource, and whether we vote varies on a case by case basis."

### **Are you at all activist minded?**

"No, but I wouldn't be afraid to put forward my thoughts to management, if I felt they needed to hear them."

### **How many companies do you meet each year? (Typically, who, how and where?)**

"Over the past 12 months, I've had over 175 company meetings, many of which have been one on ones. This number incorporates over 130 individual companies. I typically like to meet with senior management i.e. CEO or CFO, but as I get to know a company then meetings with IR, Head of Sales, Head of Product Development can also be useful.

Being based in London, I'm fortunate to get good access to management as they travel to Europe. I typically do several weeks of meetings in the US, particularly to Silicon Valley and Boston where the proximity of companies makes it very practical to see a number of companies during a short period of time. I try to get out to Asia every 18 months or so too where most of my trips have been to Taiwan, as Hsinchu Science Park also has a good concentration of technology companies."

### **What are the three most important things that influence your decision to buy a stock?**

"A strong and experienced management team, who are able to communicate their investment proposition with clarity. Size of the market opportunity and do they have leading products that will win significant market share in a profitable manner? Valuation – can I envisage how I will make a return from my investments, and if so how much and over what time period? Has the market potentially got either the growth rate or operating leverage wrong?"

### **Which companies are best at IR?**

"IR has definitely improved at most companies over the 12 years that I've been an investor. From a European specific point of view, Cisco certainly has shown their commitment by having a European based IR team (although it would be nice to see someone senior from the US over here at least once a year too!) and they make good use of their Telepresence Video Conferencing systems. I think Parametric has an interesting angle in the sense that they appreciate that their main competitor is based in Europe and so they see European investors as being informed buyers, if they can convince them why they are the better investment option."

### **What tips do you have for companies for visiting Europe?**

"Make it a regular occurrence, at least once if not twice a year and don't just visit us when times are good."

### **Where's the NASDAQ composite going to end the year?**

"2300, (about 5% higher than today's 2176)".