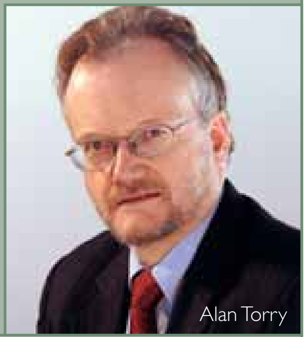
Phoenix INVESTOR RELATIONS

Our guest: SG Asset Management

Société Générale Asset Management has $363 billion under management worldwide and has offices in London, Paris, Los Angeles, New York, Singapore and Tokyo. The London office has assets under management of $18.7 billion.

One of London's most experienced technology investors, Alan Torry has been a fund manager since 1972. Now head of technology and US investments at SG Asset Management UK, he launched his first technology fund, the Prolific Technology Fund (now the New Star Technology Fund) in 1982. The Prolific Technology Fund won numerous awards and consistently outperformed its peers over that period. In 1998, he joined the newly formed SG Asset Management and launched its first dedicated technology fund. The SG Technology fund has out-performed its peers since its launch (returning 18.14% versus a return of -10.21% for Technology & Telecoms Average - source: Lipper). Today Alan is responsible for managing equities worth $430 million which includes SGAM's three global technology funds worth approximately $200 million and its US funds, worth approximately $230 million.



Alan Torry

Before we focus on technology, let's discuss your views on US equities in a global context.

I think the US market was overvalued but after the lag this year that's been corrected. It's still the best growth market in the developed world. We would normally buy smaller cap tech companies but we are leaning a little towards large cap technology companies at the moment. Unusually we've even increased our holding in Microsoft and it's now one of our largest holdings because we see a good product cycle ahead. Outside technology I think it's even more dramatic. The big names are cheap.

They've gone to extreme low valuations compared to the rest of the market. What the trigger is to make them turn I don't know. It would usually be a downturn. So by backing large cap stocks I fear I am too early but I'd rather be too early than too late. I think the market continues up and expect a good '06. I worry that expectations for mid and small cap are excessive and therefore think people are going to be disappointed. Because tech is so washed out, the differences in valuations aren't as great as they are in the general market.

How did you become involved in technology investment?

I started running a US fund in 1975, right at the bottom of the bear market. By 1976, the new issue market was picking up. One was able to buy tech stocks at something like ten times earnings and growing at 20%. It was an absolute no-brainer. They were very high risk though. I put a package of tech stocks together and the results were extraordinary. One went up fivefold in a couple of years, one went bust – the returns were all over the place - but the overall return was extremely good. I invested in more and more tech names. In 1982 we decided to launch a tech fund – it was the UK's third tech fund.

In your 23 years of investing in technology, what's changed?

The valuations aren't as attractive as they were at the very beginning and they definitely aren't as attractive as the ten times multiples of 1976! The growth rate at the leading edge is just as fast though. All the opportunities have changed. In that first portfolio in 1982, I had something like 5% of the portfolio geared to the mobile phone industry. The mobile phone industry didn't really exist then. They weren't any subscribers and we worked on the principal that it was a very attractive investment if 2.5% of the population had a mobile phone. Obviously we slightly underestimated the size of that market!

There is always something new coming along. If you can get on the early stage of those waves you don't need to worry too much about valuation and you don't need to worry about short term earnings or lack of them.

How would you describe your investment style?

A lot of theme driven research. We try to identify the key cycles in technology - the waves of adoption of new technology. Satellite navigation is one of our themes at the moment and it stretches from software to hardware to semiconductor companies. Those themes are far more important than weightings in sectors.

Do you have any investment constraints?

No, not in terms of sector or geographical weighting. At the moment our weighting in the US is about 65%. So the US is our biggest exposure, then it's tied between the Pacific basin and Europe followed by Israel, Japan and India.

Do you have market cap restrictions?

We typically will not buy anything below $100 million but that gives us enormous choice.

What's the average length of your holdings?

It varies enormously. Some stocks will have been in the portfolio from the beginning – not many. I would expect us to turn over 60% of the portfolio a year.

What's the average number of stocks in your portfolio?

Around 70 or 80 would be typical. We don't look at bench-marks and we will not have more than 5% in any one stock. If any holding goes above 5% we will scale it back. We're looking to make money on the fund and to do better than our peer group more than looking to beat indices.

You are pretty optimistic about the outlook for technology. Why?

The consumer has saved technology in the last few years. Consumer demand never really existed a few years ago. It was corporate demand. Then the key was playing the cycles - mainframe to mini computers to PCs etc. Now the consumer is probably 50% of demand for technology.

That rate of growth will slow as we think the American consu-mer is a bit stretched so we are looking for corporations to pick up some of that slack. Corporate capacity utilisation needs to go up for that to happen. We are getting close to the trigger point but we are not quite there where companies say "we need more equipment to grow our businesses" and I think that is the next leg.

That's why we've concentrated on swinging the portfolio from the consumer area into the corporate area for this next leg of growth.

More particularly, I know you currently favour flat panel TVs, can you explain why?

It's because the price has reached a level which means they now have mass market appeal. In technology there are constant price falls and we have to get used to that. We need to identify price falls that are bad for a company and price falls that are good. If I have to pay £2,000 for a 32 inch flat panel TV I don't buy. If it's £1000 I'll consider it. It opens up the market. I think demand absolutely mushrooms. We are playing it in several ways – via some of the flat screen manufacturers, via the component companies like Corning Glass that do the vast bulk of the glass for both flat panel monitors and TVs and via some of the semi-conductor companies. You have to look at all stages of production. I think it's going to be enormous.

What other themes are you currently focused on?

A more niche one is GPS location devices. By 2007, the Japanese market is going to insist there's a GPS chip in every mobile phone. I think it's only a matter of time before the whole market gets opened up. People will want to know where they are. There's an enormous untapped advertising market that can be directed at mobile devices – special offers when you are passing a shop etc.

I think that plus the whole car navigation market will grow very rapidly. SiRF is our biggest position in that area. We were in a mapping company but took profits. TomTom – a Dutch company we're in. Harman – an integrator of such devices which sells to OEMs is also a holding. I just think that navigation is a nice little area.

Another theme is the absolute necessity to upgrade patient records and we've had one taken out in that area – GE has bought IDX Systems but we also own a couple of others in the space. Another is Internet telephony. It's a mixture of corporate and consumer. I think VoIP will be big for people like Cisco. Cisco was unfairly treated when it announced its Q1 FY06 results recently (November 9). There is a product refresh cycle ahead and, when corporate demand picks up, they should benefit.

Which areas don't you like?

Tech is 16% of the US market but our area of focus is probably on just 20% of that because there's a lot of old tech in that. Old tech is an area where growth is slowing. Most large companies I would regard as old tech. Even Microsoft as it's getting fairly long in the tooth but I think it's got a fabulous product cycle ahead of it with its new operating system so I want to own it. Dell is a classic older tech. Dell is an excellent executor. It has some problems with being able to sell flat panel TVs and notebooks through the internet as I think these products require consumers to touch and feel before they buy. Therefore, at this stage, it's not the right channel. PCs in general are a low growth business. I think the PC is going the way of the old mainframe and becoming old tech. Some companies just don't make the transition from one generation to the next.

The companies that led in mainframes didn't lead in mini computers. The companies that led in mini computers didn't lead in PC or server. There were half a dozen companies that were dominant in the mainframe area. IBM is really the only survivor that has continued with a computer pedigree. IBM funnily enough was not the first or the best. It was very much a late developer but came in with fabulous marketing and dominated the industry. If you look at Microsoft, until the internet age, it had managed to rotate from one generation to another reasonably well but as Bill Gates' memo to staff conceded that they had not grasped the internet nettle and they must.

Name a company that has successfully moved from one technology to another?

IBM does keep on reappearing. It's now much more software services yet it still does mainframe and still makes a lot of money from mainframe. Most don't manage generation changes as they don't like to cannibalise their own business.

You also invest in biotechnology, how is this possible when you are "not a scientist"?

Early on I learned when investing in biotechnology you've got to look at results. I learned to ignore the science in a way and concentrate on whether it was working. What are the statistics coming out of trials indicating? Are people buying it? What are the early adopters doing? Has it moved into the mass market? What is the market opportunity?

At what stage would you buy a biotech company?

On Phase II data. We do relatively little in early stage biotech. We do a bit in medical devices. I own one anti-cellulite company Syneron - and, Kyphon – a spinal disk repair company. I also own Genentech and Affymetrix, which somewhat straddles the world of semis and biotechnology.

How many companies do you meet a year?

In tech – typically 60 a quarter but if Hugh (Grieves, co-manager of SGAM's technology funds) and myself are out at conferences or on the road, the figure will be higher. I would say between 250 and 300 a year. I prefer companies coming in to see us. I might want to see them when they don't have a story to tell whereas they might only want to see me when they think they've got a story to tell. Hugh and I go between two and three times each to the States. We will go out to the Far East every year or every other year. We also visit UK, European and Israeli companies.

How does meeting management help you?

When you meet a company you spend time understanding that company's business as that is the key reason you are seeing the company but you also get an enormous amount of value asking them about suppliers, about who they respect in the industry. Even with Reg FD, management can say an awful lot about the industry so the value in those snippets of information if you ask the right question is extremely valuable.

Who do you want to see?

In most companies you want to see the CEO. The smaller the company the more important the CEO is. As you get larger, divisional heads become important. For small and medium sized companies, you need to understand what motivates the CEO. I'm happy to see the CFO. I'm more sceptical about seeing IR. Some of the big companies have IR that is designed to give PR rather than IR and I think they damage themselves. They should tell it how it is. If the company explains its problems you have more confidence that he/she knows the way out of those problems but if they glibly go along and say everything's wonderful you do not know what risks you are taking and understanding the level of risk you are taking is crucial in this business.

Do you invest in companies if you've not met management?

Yes but not often. We write notes for every company we hold and every company we meet and if we haven't met a company in the last year we'll have to do a holding note. That's rare. We therefore get fairly close (90%) to seeing every company we own once a year minimum.