

Henderson Horizon Global Technology Fund

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Performance and activity

The software and internet sectors contributed positively to performance while communications equipment and hardware companies detracted. At the stock level some of our gaming related holdings outperformed, including Netease, Electronic Arts and Activision Blizzard. Many of these businesses have strong competitive advantages driven by a number of hit franchises. Netease own the IP to Fantasy Westward Journey, the number one mobile gaming franchise in China, and the company has seen strong growth as they monetise historically strong PC IP gaming in mobile. Activision Blizzard, whose portfolio includes Call of Duty, World of Warcraft and Candy Crush, also outperformed, while Electronic Arts performed strongly as Stars Wars and Fifa did well. Overall, we are positive on the gaming space as digital delivery aids margins and we see a strong console refresh cycle.

Palo Alto Networks, the security software company, underperformed despite strong results as the company talked about the macro environment elongating some sales cycles. We believe that security spending remains a priority at corporate firms and Palo Alto remains attractively valued on cash flow-based metrics. Vipshop underperformed as the Chinese ecommerce company reported quarterly numbers that somewhat disappointed the market. We remain reasonably positive about the company given the structural growth in the Chinese internet space and its valuation relative to its growth profile. Priceline underperformed as a mix shift to lower average room rate geographies and a management transition weighed on the firm. On balance we believe the underpenetrated online travel market coupled with Priceline’s dominant position remains attractive.

In terms of activity we sold Web.com as we are concerned by balance sheet leverage and feared it becoming a value trap. We also sold Orange as we felt the competitive environment in France was no longer favourable. We bought Alibaba, the dominant Chinese ecommerce and payment platform company, as we believe its valuation had become more compelling, and we also bought Arista Networks, as they are positioned well in networking solutions for cloud infrastructure.

Outlook

The long term drivers of technology remain intact as it continues to take share from the old economy, driven by both demographics and innovation. The relative valuation of the sector is also attractive, especially given balance sheet strength. The headwinds from a strengthening dollar in 2015 are now abating, which should benefit the sector. Additionally, as the level of quantitative easing (QE) supported funding is fading, funding of irrational competition is now moderating. However, the sector faces significant secular changes in enterprise demand coupled with the maturation of the PC and smartphone markets. This may result in moderating the sector’s outperformance. We continue to focus bottom-up on powerful secular themes and growth at a reasonable price.

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