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# Investment Insights

from **Silicon Valley**

[www.rcmtechnologytrust.co.uk](http://www.rcmtechnologytrust.co.uk)

## Walter Price Lead Manager, RCM Technology Trust

With over 40 years of experience of investing in technology companies, Walter Price has witnessed the technology sector improve user productivity through the revolution in semiconductor design, the birth of the personal computer and the arrival of the internet. Based in San Francisco, giving him close proximity to many of the world's most innovative companies, he heads up the Global Technology Team which manages US\$4 billion\* in assets.

## New brooms

Angela Ahrendts made her first public comments this month since taking over at the helm of Apple's retail operations. She chose LinkedIn as the medium and in doing so, marked a clear change in personal style from that of previous management. The substance of her comments also set her apart as she demonstrated a more nuanced appreciation of the importance of the consumer relationship, quoting Maya Angelou, saying: "People will forget what you said, people will forget what you did, but people will never forget how you made them feel."

In this she has already differentiated herself from her short-lived predecessor John Browett. Browett's style was to coax efficiency out of Apple's retail outlets, but it was quickly exposed as a dud strategy and he lost his job. Ahrendts, former chief executive at Burberry, has downplayed her technical knowledge by admitting 'Silicon Valley can feel like a country unto itself' in her comments, but has a better feel for the high-end consumer experience from her days at Burberry. While we usually prefer technical managers to lead technology companies, Ahrendts understands consumers, and that is likely to be vital for Apple's future growth.

There are already signs that the next product cycle may be a profitable one for Apple, as it has once again found a product that engages consumers. We did a 'Grassroots' survey to scope out likely demand for a larger iPhone. The results showed far greater enthusiasm than we had expected and suggested to us that better times are ahead for the group. The share price is almost back to its peak, but we believe it may make new highs.

\*Source: Allianz Global Investors Europe GmbH as at December 2013. This is no recommendation or solicitation to buy or sell any particular security.

## Twitter

Twitter also brought in new management this month, in its third round of senior management changes. Chief operating officer Ali Rowghani resigned, citing a 'fundamental disagreement' with CEO Dick Costolo. The share price was initially buoyed by the news, having been in the doldrums since the sell-off in technology stocks in April. It was one of a number of high growth companies where the future path wasn't clear and valuation had become very elevated.

Can new management make the difference and ensure Twitter capitalises on its potential? Certainly, the management of Twitter keeps making the right noises, but it hasn't yet been seen in the products. There are some encouraging signs: the group has always had good advertising traction with a broad range of advertisers. There are innovations such as Twitter cards, where users can attach photos, videos and other media to Tweets. There are still some important problems to resolve - people that tweet want to see that Tweet in the stream, but those that are looking for information don't necessarily want to see that Tweet in the stream. The group is doing some good things, but it needs to be reflected more fully in user engagement.

## The current market - notes from our road trip

The question for many technology investors has been whether the setback in April portended worse things to come for the technology sector. We regularly take to the road around Silicon Valley, seeing companies and talking to them about their businesses. It provides a valuable insight into the areas of

structural growth, the mood among management of technology companies, and those companies that seem to be gaining traction with their solutions.

Our recent trip was illustrative about the relative value in certain parts of the technology market. For example, we have never seen so many happy CFOs in the semiconductor industry. Business is apparently booming: Demand was held back by the bad weather in the first quarter, but now the new iPhone and an improvement in the auto sector are creating a new wave of demand.

Equally, there were encouraging signs from the PC industry. This has long been declining because of the growth of tablets, but there are signs the trend is starting to reverse. Light laptops are now preferred to tablets in some cases because of the ease of word processing. This is part and parcel of the recent disappointment in the growth of tablets.

The beneficiaries of these trends are some of the biggest IT names, such as Intel and Microsoft, alongside a number of the disc drive companies such as Western Digital or Seagate. Microsoft was already transitioning to the Cloud, but it has had a headwind from the PC business. With this obstacle slightly lower, the future looks brighter for the company.

### ...and something new - Solar City

In May, we initiated a small position in SolarCity, a solar panel leasing firm backed by Elon Musk, the founder of Tesla Motors.

The group fits solar systems to the roof for no upfront cost and guarantees customers power prices lower than a traditional utility company. Consumers have concluded, in general, that this represents a good deal.

After the leasing agreement expires, the homeowner can continue to lease the equipment, upgrade their system, or have the solar panels removed for free. The costs of the modules and their installation are falling at the same time as the cost of electricity is going up. The market could be as many as 60 million homes and is supported by the increasing price of power and pollution controls. Nuclear energy is being retired. Gas-fired is an option, but solar is easier to deploy.

The challenge is what to do when it rains and it is dark. As part of addressing this issue, Solar City recently announced it would buy Silevo, a maker of high-quality solar cell modules. Silevo is currently building a US-based solar-module fabrication plant to expand its current production capacity. Also, Tesla is building battery plants for electric cars and is talking about building a second plant to make batteries that could store solar power generated during the day, which Solar City could leverage. If batteries get cheaper and storage better, users of solar panels could generate more power than they need during the day, store it and use it at night. We believe Solar City has the potential to be very big indeed.

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