

## Fund Fact Sheet

29 January 2021

US\$ Class I Acc  
 ISIN: IE00BF0GL329

### NAV per Share

US\$ Class I Acc US\$18.15

### Fund Particulars

Fund Size US\$764.3 million  
 Base Currency US\$  
 Denominations US\$ / GBP / EUR  
 Fund Structure Open-ended UCITS  
 Domicile Dublin, Ireland  
 Listing Irish Stock Exchange  
 Launch Date 06 October 2017  
 Management Polar Capital LLP

### Fund Managers



#### Xuesong Zhao

##### Fund Manager

Xuesong has managed the Fund since launch, he joined Polar Capital in 2012 and has 14 years of industry experience.



#### Ben Rogoff

##### Partner

Ben has managed the Fund since launch, he joined Polar Capital in 2003 and has 25 years of industry experience.



#### Nick Evans

##### Partner

Nick has managed the Fund since launch, he joined Polar Capital in 2007 and has 23 years of industry experience.

## Fund Profile

### Investment Objective

The Fund's investment objective is to achieve long term capital appreciation by primarily investing in a diversified portfolio of global equity securities which may be listed or traded on a Regulated Market.

### Key Facts

- Team of 9 sector specialists
- The team has 145+ years of combined industry experience
- Typically 50-80 positions
- No benchmark or tracking error constraints
- Fundamentally-driven analysis and stock selection

## Share Class Performance

### Performance Since Launch (%)



	1 month	3 month	YTD	1 year	3 years	5 years	Since Launch Ann.	Cum.
US\$ Class I Acc	1.74	18.63	1.74	43.71	63.22	-	19.68	81.50
Index	-0.45	17.01	-0.45	17.02	25.63	-	10.47	39.13

### Discrete Annual Performance (%)

12 months to	29.01.21	31.01.20	31.01.19	31.01.18	31.01.17
US\$ Class I Acc	43.71	26.30	-10.07	-	-
Index	17.02	16.04	-7.48	-	-

Source: Northern Trust International Fund Administration Services (Ireland) Ltd, monthly percentage growth, USD and has been calculated to account for the deduction of fees. Fund performance does not take account of any commissions or costs incurred by investors when subscribing for or redeeming shares. The US\$ Class I Acc was launched on 06 October 2017. The index performance figures are sourced from Bloomberg and are in USD terms. These figures refer to the past. Investments in funds are subject to risk. **Past performance is not a reliable indicator of future returns.** The money invested in a fund can increase and decrease in value and past performance is not a reliable indicator that you will get back the full amount invested. The performance calculation is based on USD. If the currency in which the past performance is displayed differs from the currency of the country in which you reside, then you should be aware that due to exchange rate fluctuations the performance shown may increase or decrease if converted into your local currency. Please see the Important Information on the last page of this document for further information on the risks to your investment.

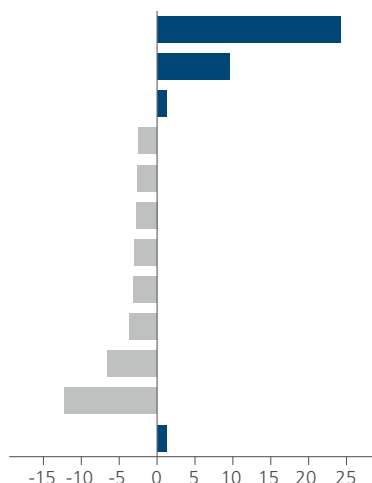
# Polar Capital Funds plc - Automation & Artificial Intelligence Fund

## Portfolio Exposure

As at 29 January 2021

### Sector Exposure - Top Overweights & Underweights Relative to Index (%)

	Fund (%)	Relative (%)
Information Technology	46.2	24.2
Industrials	19.0	9.5
Materials	6.1	1.2
Communication Services	6.8	-2.4
Real Estate	0.0	-2.6
Consumer Discretionary	10.5	-2.8
Utilities	0.0	-3.0
Energy	0.0	-3.1
Healthcare	8.4	-3.6
Consumer Staples	0.6	-6.5
Financials	1.1	-12.2
Cash	1.3	1.3



The column headed "Fund (%)" refers to the percentage of the Fund's assets invested in each sector. The column headed "Relative (%)" refers to the extent to which the Fund is overweight or underweight in each sector compared (relative) to the index.

### Top 10 Positions (%)

Amazon	3.4
Microsoft	3.3
TSMC	3.2
Tokyo Electron	2.2
Shin-Etsu Chemical	2.1
Alphabet	2.1
NVIDIA	2.0
Schneider Electric SE	2.0
STMicroelectronics NV	2.0
Byd Co	2.0

**Total** **24.3**

**Total Number of Positions** **82**

**Active Share** **85.26%**

### Market Capitalisation Exposure (%)

Mega Cap (>US\$50 billion)	49.0
Large Cap (US\$10 billion - US\$50 billion)	34.4
Mid Cap (US\$1 billion - US\$10 billion)	13.0
Small Cap (<US\$1 billion)	2.2
Cash	1.3

### Geographic Exposure (%)

US & Canada	45.4
Europe	20.7
Japan	20.4
Asia Pac (ex-Japan)	11.6
Latin America	0.7
Cash	1.3

## Share Class Information

### Codes & Fees

Share Class	Bloomberg	ISIN	SEDOL	OCF	Annual Fee
EUR Class I Acc	PLAIEA ID	IE00BF0GL436	BF0GL43	0.93%	0.80%
GBP Class I Acc	PLAIIGA ID	IE00BF0GL543	BF0GL54	0.93%	0.80%
US\$ Class I Acc	PLAIUA ID	IE00BF0GL329	BF0GL32	0.93%	0.80%
EUR Class R Acc	PLAIREA ID	IE00BF0GL212	BF0GL21	1.43%	1.30%
US\$ Class R Acc	PLAIRUA ID	IE00BF0GL105	BF0GL10	1.43%	1.30%

**Minimum Investment: Class I Shares;** US\$1 million (or its foreign currency equivalent).

**Class R Shares;** No minimum subscription.

**Performance Fee** 10.00% of outperformance of MSCI ACWI Net TR Index.

**Ongoing Charges Figure (OCF)** is the latest available, as per the date of this factsheet.

### Administrator Details

Northern Trust International Fund  
Administration Services (Ireland) Ltd

**Telephone** +353 1 434 5007

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**Dealing** Daily

**Cut-off** 15:00 Dublin time

Note: Totals may not sum due to rounding. It should not be assumed that recommendations made in future will be profitable or will equal performance of the securities in this document. A list of all recommendations made within the immediately preceding 12 months is available upon request.

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# Polar Capital Funds plc - Automation & Artificial Intelligence Fund

## Fund Managers Comments

As at 29 January 2021

### Market review

After a strong finish to 2020, Global equity markets moderated in January, the MSCI All Country World declining 0.5%, while the S&P 500 and DJ Euro Stoxx 600 declined 1% and 1.5% respectively (all returns in dollar terms).

Investors had much to digest during the month. Macroeconomic data remained mixed and COVID-19 data uneven with cases, hospitalisations and fatalities varying by country and region as did responses (lockdowns, curfews, vaccine rollouts and fiscal and monetary support). Market sentiment was further impacted by the eventual Democrat clean sweep in the US elections (and expectations of more fiscal stimulus), civil unrest in Washington during the transition of power, as well as a frenzy of short-squeeze activity by a growing army of retail investors united on social media. Somewhat unbelievably, the 50 most shorted stocks in the Russell 2000 were up more than 50% during the month. This phenomenon contributed to further small-cap performance, the Russell 2000 Index returning 5%, while the large-cap Russell 1000 Index declined 0.8%.

The Federal Reserve acknowledged that the pace of the recovery in economic activity and employment has moderated in recent months, with weakness unsurprisingly concentrated in the sectors most adversely affected by the pandemic. This near-term pessimism was balanced with greater optimism that vaccines had reduced the medium-term risks to the economic outlook. The FOMC left the Fed funds rate unchanged at 0-0.25% and stated that the Fed will continue to increase its holdings of Treasury securities by at least \$80bn per month, and of agency mortgage-backed securities by at least \$40bn per month, until substantial further progress has been made toward the Committee's maximum employment and price stability goals. Fed Chair Jerome Powell observed that it would likely be "some time" before these conditions are met, alleviating investor concerns that tapering could begin as soon as this year. The trade-weighted dollar index gained 0.7% during the month, while the US 10-year bond yield increased from 0.92% to 1.09%.

In Europe, the IHS Markit Eurozone Manufacturing PMI declined from 55.2 to 54.8, indicating that factory activity expanded for a seventh successive month albeit at a modestly lower rate, while ongoing COVID-19 restrictions continue to pressure the service sector, with the preliminary Services PMI falling from 46.4 to 45. The Chinese economic expansion continued in both services and manufacturing, though the pace slowed slightly as the economy contains fresh COVID-19 cases ahead of the Lunar New Year festival. The Caixin China General Manufacturing PMI slipped from 53 to 51.5 in January, while the NBS Non-Manufacturing PMI dropped to 52.4.

The US economy remains on the recovery path despite another wave of coronavirus cases and softer jobs data. Fourth quarter GDP increased at an annualized rate of 4%, in line with estimates. The ISM Manufacturing PMI fell from 60.5 in November to 58.7 in December, but still pointed to an eighth consecutive month of factory activity growth (and at a robust pace). The Non-Manufacturing PMI increased from 55.9 to 57.2 (above forecasts at 54.6), the strongest growth in the services sector in three months. However, non-farm payrolls declined by 140,000 in December – well below market expectations of a 71,000 increase. This was the first drop in employment since the US jobs market began to recover in May, largely driven by a 498,000 decline in leisure and hospitality jobs, which will hopefully prove short-lived.

### Fund update

As we reflected on both 2020 and the three-year anniversary of the Fund, we undertook a review of our rapidly evolving investment landscape and have introduced some minor changes to the presentation of the themes within the Fund. We would stress that despite these alterations, there is no change to our process, methodology, investment approach or the nature of companies held or considered for the Fund. These changes are only intended to more closely align the presentation of our core themes with how we view and approach the huge investment opportunities that these themes offer.

On a core level, we have consolidated our existing four top-level themes into three new categories. Artificial intelligence remains untouched, automation and robotics have been consolidated into a broader automation theme, while material science remains but is now one of three subthemes within a new emerging themes category.

These changes reflect the evolving landscape of the dynamic markets in which we invest, with the increasing penetration and relevance of these technologies beyond their historical end markets being the key opportunity in which the team has always believed. What were once more distinct robotics and automation sectors are now increasingly integrated, with companies distinguishing their capabilities more by solution or end market. To this end, we have introduced two new subthemes of factory automation and digital transformation. Factory automation is a well understood industry term and while it may sound less tangible outside this setting, it encompasses all the opportunities afforded by the use of automation and robotics technologies within supply chains, often in an integrated and cohesive way. Digital transformation is intended to capture all the possibilities on offer in a world that is accelerating the pace of digitalisation, particularly in a post-COVID-19 environment, powered by the technologies in which we invest. Examples of such opportunities include factory and warehouse automation, e-commerce, digital payments, and the digitalisation and automation of healthcare. We intend the simplification to focus attention on the opportunity provided by these powerful themes, rather than the increasingly indistinct differentiation of the two. To reinforce the point, the nature of companies held is not changing.

The creation of our emerging themes category serves a number of purposes. First, it better allows us to characterise opportunities that lie within our core competencies and thematic opportunity set in a rapidly expanding investment universe. A great example would be the rise of autonomous driving technology and the growth in connectivity-enabled technologies powered by 5G. Second, it allows us to better define the end markets we are targeting through this theme, particularly new markets that have emerged over the past few years. One of the key beliefs that has powered this Fund is that new markets will adopt these emerging technologies over time. The advances in materials science that have powered previous technological revolutions are now addressing some of the existential challenges of our times: climate change and clean energy. Whether this is in semiconductor improvements that underpin electric vehicles and charging stations, or wholesale advancements in battery technology and alternative power sources, there are myriad new opportunities that all share a commonality with how we have approached investing in materials science advancements – a successful investment avenue for both this Fund and the team's other Technology strategies for many years.

To this end, we have created three subthemes within the emerging themes category. Materials and environmental science is a continuation of the legacy materials science theme, with an expansion to accommodate the opportunity provided by clean energy as referenced above. Mobility and connectivity encompass stocks that are poised to benefit from the changing nature of transport and logistics, the rollout of 5G and advancements in autonomous technology. Demographic and lifestyle will capture companies that sit at the cutting edge of AI and automation to solve social, consumer and healthcare problems.

Finally, AI remains a core segment and one in which we are more excited than ever about the opportunity on offer. This segment continues to constitute subthemes of AI enablers and AI applications, reflecting the two most attractive approaches of investing in the emergence of AI and the economic benefits it can bring across all industries.

### Fund performance

The Fund NAV (USD I Share Class) increased 1.7% during the month, compared to its global equity benchmark, the MSCI ACWI (TR Net), which was down 0.5% (in dollar terms).

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# Polar Capital Funds plc - Automation & Artificial Intelligence Fund

## Fund Managers Comments

As at 29 January 2021

Our new mobility and connectivity subtheme was our best performer during the month, mainly driven by Byd. Its industry leading cell-to-package technology significantly improves the efficiency of the lithium-ion phosphate (LFP) battery which helps new products gain market share in a very competitive environment. MediaTek also performed well thanks to market share gains for its 5G chipset solution, supported by the potential for a capex investment cycle by hyperscalers, from which MediaTek's ASIC business would likely benefit.

Our factory automation subtheme also performed strongly as demand from China continued to improve and normal seasonality did not appear to weigh on orders. Airtac International and Atlas Copco saw particularly strong orders, though much of the group benefitted.

Digital transformation lagged the overall market. While there are some stock specific reasons which might partially explain the weakness, we think the market-wide rotation towards value from some names of recent strength might have played a bigger role here. Some of the payment and automation software names, such as Stone and Autodesk, saw double-digit pullbacks on no news. We are mindful of the movement in bond yields driven by the development of vaccines, but we continue to believe these structural growth stories can deliver earnings growth on a mid to long-term basis.

During the month, our top three relative performance contributors were Byd, MediaTek and TSMC. Our bottom three relative performance detractors were Harmonic Drive Systems, Tencent (not held) and Daifuku.

### Fund activities

We reduced Advanced Micro Devices, NVIDIA and Xilinx within AI enablers and also reduced Microsoft and Facebook in AI applications. We used these proceeds to initiate new names in digital transformation such as Autodesk, Bentley Systems and Zur Rose. We increased our weighting towards factory automation by adding to Cognex and Hamamatsu Photonics. As a result, the cash level reduced to 1.3%.

### Market outlook

Despite much change since the first announcement of successful vaccine trials, the outlook for the global economy depends on the speed and success of vaccine rollouts and here the picture is mixed, but the outlook as the year progresses is encouraging. Efforts to bring vaccines to market have been remarkable in their speed and efficacy, but frustration around the speed of production and distribution is likely to remain an unwelcome feature of life (and politics) for the next few months, at least. More pressing still is the concern that rapid virus mutations as seen in South Africa, Brazil and the UK could limit the effectiveness of current vaccination programmes and raise the possibility we are only in the first phase of a long (and tragic) battle to bring COVID-19 under control. We are monitoring developments closely – encouraged by the speed with which vaccines are expected to be modified to cope with these new strains – but also alive to the fact that a 'new normal' of international travel and social activity restrictions may unfortunately persist for longer than many expect. We remain cautious on names that have most exposure to an economic reopening, particularly those reliant on or baking in a full reopening and it is our belief that the world will not snap back to its pre-COVID-19 state, instead building on many of the societal changes that have taken place over the past year. Our meetings with companies have so far affirmed this belief, with many talking to deepening and broadening their adoption of the key technologies around which we invest that have enabled so many of the social and economic adaptations made over the past year. What exposure we do have towards such reopening names is driven by this factor being a key reason for why they can outperform peers going forwards, being irrevocably better positioned after the pandemic rather than more generally benefitting from a reopening economy.

Fourth quarter earnings season has so far seen largely positive results, with many companies exceeding cautious consensus expectations. That the market has scantily rewarded many big beats suggests investors were already ahead of the Street, or are simply looking through an unpredictable and conservative quarter with more emphasis on the coming year, correlating with the fact that companies proffering positive guidance in uncertain times have seen more handsome returns.

Where we were more nervous in the month was during the period of what can best be described as 'heavy retail market participation'. The violent moves in heavily shorted small-cap names at one point looked as if it would bleed into the wider market, with some of the largest de-grossing days on record for hedge funds during the peak, and concerns that the misfortune of Melvin Capital (requiring a \$2.8bn bailout) may spill over into systematic risk. At one point, GameStop, the poster child of the movement saw its market capitalisation eclipse that of Delta Airlines in a scene reminiscent of the 2008 short squeeze in Volkswagen that saw it briefly become the largest company in the world. Thankfully, this phenomenon seems to have passed for now, though the fear of such collective action and the perils of shorting less liquid stocks is likely to linger.

A range of factors seem to have converged to produce the extraordinary moves in heavily shorted names including the rise of zero-commission trading in mobile apps like Robinhood, the wider availability of short-dated OTM call options, high savings rates, stimulus checks and a lack of alternative activities to divert investors' attention and energy. Our tendency towards a growth investment style largely precludes us from investing in the names most caught up in the retail frenzy, although many heavily shorted names would fall squarely on the wrong side of our investment framework and criteria regardless.

Hopefully you have had the chance to evaluate the changes to the presentation of the Fund's themes, as detailed in the Fund update above. We would again stress that there is no change to the underlying fundamentals of the Fund, the holdings, approach, framework or investment universe, and that such a move is intended to paint a clearer picture of the Fund's actions and opportunities in such an exciting and fast-moving environment. We continue to strongly believe that COVID-19 has opened up new markets and accelerated the adoption of the key technologies around which we invest. This thesis is being supported by our many conversations with companies throughout earnings season; we remain highly active and connected with our positions as we navigate choppy markets and an uncertain macro environment. With the core themes in which we invest now hopefully presented with more clarity than ever, the aim of the Fund, as always, remains to position ourselves alongside companies that can use these themes to empower their own business, customers and supply chains, capturing an outsized portion of the economic recovery, and delivering earnings upside in the process.

### Xuesong Zhao and the Technology Team

11 February 2021



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# Polar Capital Funds plc - Automation & Artificial Intelligence Fund

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