



# **MFM Techinvest Technology Fund**

## **Short Report**

**For the period from 1st May 2010 to 31st October 2010**

## **Fund Details**

### **MFM Techinvest Technology Fund**

#### **Registered Office**

Marlborough House  
59 Chorley New Road  
Bolton BL1 4QP

#### **Authorised Corporate Director and Registrar**

Marlborough Fund Managers Ltd  
Marlborough House  
59 Chorley New Road  
Bolton BL1 4QP

Authorised and regulated by the Financial Services Authority

#### **Depositary**

HSBC Bank plc  
8 Canada Square  
London E14 5HQ

Authorised and regulated by the Financial Services Authority

#### **Investment Adviser**

Techinvest Ltd  
Merchants House  
27/30 Merchants Quay  
Dublin 8  
Republic of Ireland

Authorised by the Irish Financial Regulator

#### **Auditors**

Barlow Andrews LLP  
Carlyle House  
78 Chorley New Road  
Bolton  
BL1 4BY

GENERAL INFORMATION

- Investment Objectives** The investment objective is to provide capital growth from capital appreciation and the accumulation of income through a globally invested portfolio of equities and bonds. Emphasis will be placed on technology-based businesses worldwide. It is envisaged that up to 75% of the total fund value will normally be in securities quoted on the London Stock Exchange, with the balance invested elsewhere, primarily North America.  
The technology sector includes, but is not necessarily limited to, companies providing products and services in electronic and electrical equipment, healthcare, information technology hardware, electronic games, media services, support services and telecommunication services.  
The FTSE techMARK All-Share Index is the benchmark comparison against which the performance of the Fund is measured.
- Risk Profile** The Fund has little exposure to credit or cash flow risk. There are no borrowings or unlisted securities of a material nature and so there is little exposure to liquidity risk. The main risks it faces from its financial instruments are market price, foreign currency and interest rate risk. The ACD reviews the policies for managing these risks in order to follow and achieve the Investment Objective as summarised above.
- Reports and Accounts** The purpose of sending this Short Report is to present you with a summary of how the Fund has performed during the accounting period in accordance with the FSA rules. If you wish to request further information, the more detailed long form report is available. For a copy please write to Marlborough Fund Managers Ltd, Marlborough House, 59 Chorley New Road, Bolton BL1 4QP or telephone customer services on 0808 145 2500.
- Risk Warning:** The past is not necessarily a guide to future performance. Investments and the income derived from them can fall as well as rise and the investor may not get back the amount originally invested. The Fund is subject to an initial charge and subsequently charges are not made uniformly throughout the period of the investment. Changes in exchange rates between currencies may cause the value of investments to diminish or increase.
- Change in Prospectus:** No changes have been made since the last report.

AUTHORISED INVESTMENT ADVISER'S REPORT

For the six month period ended 31 October 2010

Percentage change and sector position to 31 October 2010

	<u>Six months</u>	<u>1 year</u>	<u>3 years</u>	<u>5 years</u>	<u>Since launch**</u>
MFM Techinvest Technology Fund	9.85%	37.57%	22.59%	36.77%	94.41%
Quartile Ranking*	1	1	1	4	3

\*Based on ranking within IMA Technology & Telecommunications Sector. External Source of Economic Data: Morningstar

\*\* Launched 29.04.2003 (performance calculated from first pricing point 19.05.03)

The Fund turned in a very satisfactory performance for the half year to 31 October 2010. The price of the shares at the end of the period was 194.41p, an increase of 9.85% since April 30.

This compares with an advance of 2.19% by the FTSE 100 and one of 7.04% by the techMARK All-Share. The Nasdaq Composite index, used by many commentators as a proxy for US tech stocks, gained 1.88% during the half year. The Fund's holdings in US and Canadian tech stocks amounted to just under 54% of the Fund's value at October 31.

Bearing in mind that most London holdings in the Fund are both small-cap and on AIM, it is worth observing that over the six months the FTSE Small-Cap index was up 3.92% while the AIM All-Share did even better, gaining 11.70%.

Since its inception on 19 May 2003 the unit price of shares in the Fund has increased by 94.41%. This is well ahead of the 43.99% advance turned in by the FTSE 100, the 56.30% gain by the FTSE Small-Cap and the AIM All-Shares' 34.32%. Over the same period the Nasdaq Composite is up 67.97%, while the techMARK AllShare gained 118.78%. It should be noted that the techMARK index is made up of the largest London quoted companies in the sector, of which only a very few have ever been held by the Fund. We remain firmly focussed on small-cap stocks as we believe, taking the long-term view, that this is where the best value is to be found.

This applies equally to our North American stock selections, many of which are little covered by analysts. However, to be fair to our Canadian friends, it is only right to note that coverage of small caps there is much better and is the reason why Canada at 12.2% is a disproportionate amount of our North American holdings.

The Fund ended the year with a cash content of 2.5%, a level with which we are comfortable. We continue to unearth attractive valuations, particularly in North American small caps, many of which suffered unrealistic declines during 2008 and have yet to fully recover to pre-bearmarket levels.

The ten largest London holdings in the Fund, in alphabetical order, at October 31 were: Alterian, Avanti Communications (fingers crossed for the successful imminent launch of the HYLAS satellite), Bango, blinkx, Focus Solutions (boosted by a takeover approach), IDOX, Microgen, Sagentia, smartFOCUS and SQS Software Quality Systems.

Video search specialist blinkx was the best performer during the half year and, despite the sale of 10% of the holding before the end of the period, it remains the largest position held by the Fund. Autonomy remains the biggest shareholder in the Company and, now that profitability has been achieved, even better times look ahead.

**AUTHORISED INVESTMENT ADVISER'S REPORT (CONTINUED)**

The ten largest North American holdings, also in alphabetical order, were: Acme Packet (the leader in Session Border Controllers has risen more than fourfold since we first bought them; we have since reduced our holding further), Apple, AudioCodes (Israel-based manufacturer of telecommunications equipment), Bridgewater Systems, Exfo (the Quebec-based telecoms test equipment manufacturer remains seriously undervalued relative to US peer Ixia), March Networks (Welsh ex-BT engineer Terry Matthews remains chairman, as he is of Bridgewater), Radware (price recently boosted by takeover gossip), Sandvine (second largest holding in Fund; remains very undervalued relative to peer Allot Communications, also held by the Fund), Towerstream and Zhong Technologies (looks to be finally benefiting from the Obama rural broadband stimulus program).

One significant sale during the period worthy of comment is that of Local.com, the largest holding in the Fund as of April 30 with then very appealing prospects, as stated in our commentary with the last annual report to shareholders. However, the statement for the June quarter, released July 26, seriously disturbed our positive view. On the surface, the results themselves were reasonable. However, we spotted that the Company had started to capitalise R and D, to the tune of \$0.7m in the quarter, thereby boosting reported eps by 25%. We don't like to see companies capitalising R and D and are particularly unhappy with a company suddenly changing policy to do this.

In addition, the Company announced an acquisition which, although small, would initially negatively impact earnings per share. We also observed that short-interest in the stock had rocketed in just three months from 3.4% in April to 11.2% (and, at latest count, to a current 21.2%). We have learned the hard way that large increases in short-interest are nearly always followed by bad news, albeit it may be many months before this comes out. We therefore immediately sold most of the holding at \$6.60 and the remainder a week later at \$4.89. A good profit, but nowhere near as much as we had been previously expecting. The shares have since traded as low as \$3.22.

Looking forward, we expect tech stocks on both sides of the Atlantic to continue to outperform. Valuations relative to growth prospects remain attractive – and that is before taking account of the amazing balance-sheet strength of so many tech companies. Indeed it is chastening to observe that the combined net cash on the balance-sheets of Apple and, Microsoft could alone take care of Ireland's financial woes and save the country from the IMF strait-jacket. Although even the formidable Steves (Ballmer/Jobs) would have their work cut out in tackling the long overdue reform of the public sector!

The prime factors fuelling the next tech boom remain the Mobile Internet and the incredible amounts of data and video traffic already threatening the health of communications networks. Especially with its North American holdings, the Funds has a very high exposure to these themes.

We believe the Fund is the only UK authorised one of its type available to the general public that offers significant dual exposure to both the London and North American small cap tech sectors. At October 31, over 90% was invested in these, with 54% in North America.

The fund is valued once a week at 12.00 p.m. each Wednesday. The latest price is normally posted by 5.30 p.m. that day on the Techinvest home-page at [www.techinvest.ie](http://www.techinvest.ie). It can also be found in the Financial Times each day and at [www.marlbroughfunds.com](http://www.marlbroughfunds.com).

A fact-sheet updated each month with the latest data on the Fund can also be found on the Techinvest website, as can a sample copy of a recent issue of the monthly Techinvest newsletter.

Techinvest Ltd.  
Investment Manager  
22 November 2010

## MFM TECHINVEST TECHNOLOGY FUND

### FUND FACTS

**Launched Accumulation Shares** 29 April 2003 at 100p

**Accounting Dates** (Final) 30 April  
(Interim) 31 October

**Distribution Dates** (Final) 30 June  
(Interim) 31 December

**Minimum Investment** £1,000

**IMA Sector** Technology & Telecommunications

**Total Expense Ratio as at 31 October 2010** 1.74%

**Total Expense Ratio as at 30 April 2010** 1.80%

The Total Expense Ratio (TER) is the total expenses paid by the fund in the period as a percentage of the fund's average net asset value.

Past TER data can be found on our website [www.marlboroughfunds.com](http://www.marlboroughfunds.com)

**Portfolio Turnover Rate as at 31 October 2010** 116.03%

**Portfolio Turnover Rate as at 30 April 2010** 65.13%

The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading over a 12 month period. The PTR is calculated by taking the sum of all transactions in securities less the sum of all transactions in the fund's shares and is expressed as a percentage of the fund's average net asset value.

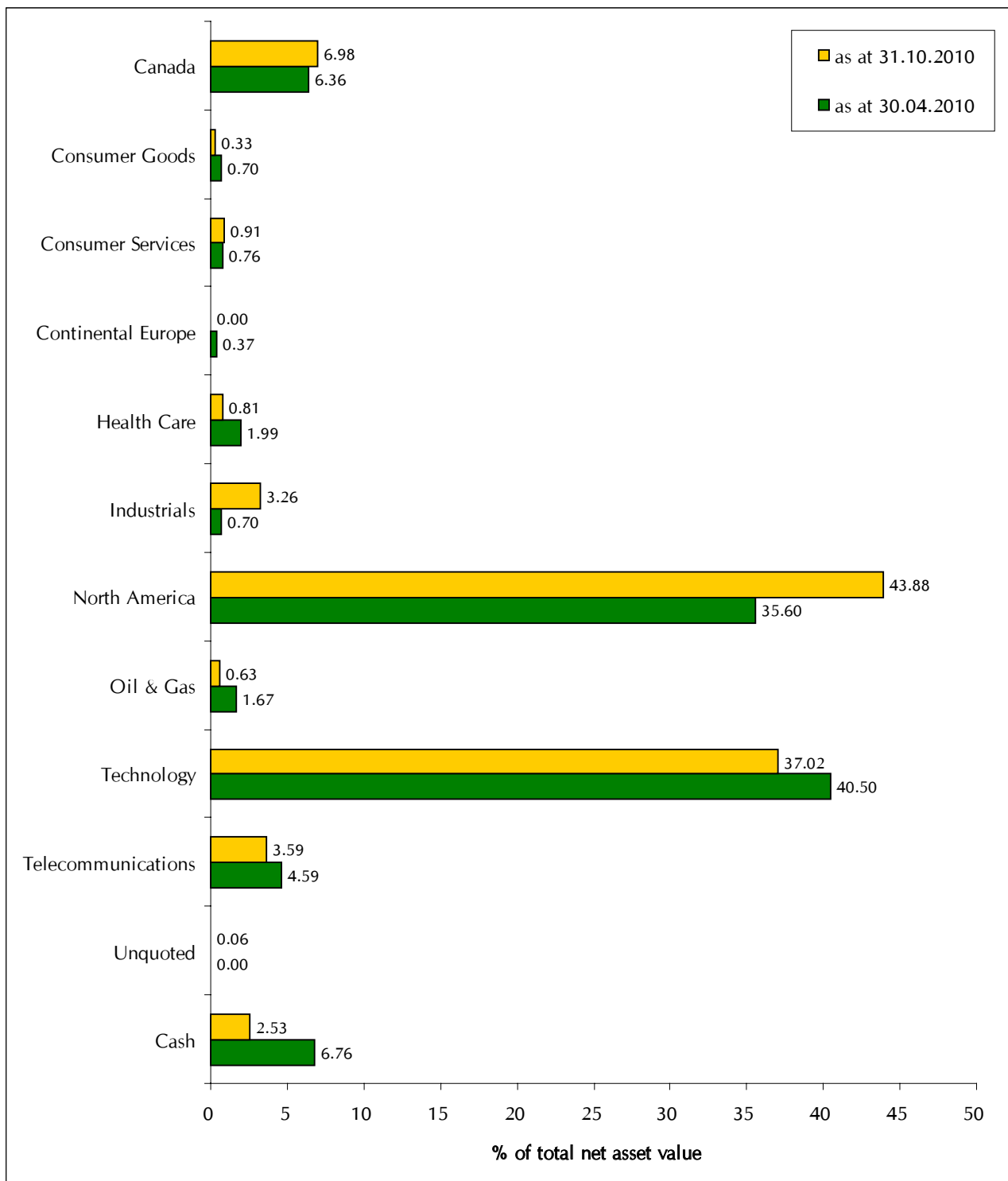
### SUMMARY OF FUND PERFORMANCE

Year	Highest Price	Lowest Price	Distribution Per Share
2005	152.63p	128.33p	-
2006	168.11p	139.97p	-
2007	179.95p	139.05p	-
2008	143.12p	87.91p	-
2009	154.48p	87.65p	-
2010*	195.94p	153.63p	-

\*up to 31 October 2010

	Net asset value of scheme property	Net asset value per accumulation share
30 April 2008	£10,738,712	126.39p
30 April 2009	£8,642,995	106.83p
30 April 2010	£13,457,816	173.93p
31 October 2010	£17,488,021	192.16p

PORTFOLIO BREAKDOWN



## MFM TECHINVEST TECHNOLOGY FUND

### TOP TEN HOLDINGS AS AT 31 OCTOBER 2010

	%
Blinkx	4.50
Alterian	2.99
Sandvine	2.63
Avanti Communications Group	2.31
Bango	2.28
Acme Packet	2.14
Zhone Technologies	2.08
Bridgewater Systems	1.68
Radware	1.65
Microgen	1.63

### TOP TEN HOLDINGS AS AT 30 APRIL 2010

	%
Local.com	3.13
LTX-Credence	3.05
Bridgewater Systems	3.01
Alterian	2.90
Avanti Communications Group	2.65
Portrait Software	2.53
Sandvine	2.21
Acme Packet	2.15
IDOX	2.09
SQS Software Quality Systems	1.83

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