

Nick Evans, Partner and Fund Manager Polar Capital Global Technology Fund

Vik Heerah (VH) Chief Marketing Officer, Polar Capital

Nick, 2025 was another strong year for the Global Technology Fund, which outperformed the benchmark by nearly 25%*. What drove that performance?

Nick Evans (NE) Partner & Fund Manager, Polar Capital Global Technology Team

The biggest reason is that we have been very focused on AI for quite some time, and we have doubled down on that since the release of ChatGPT nearly three years ago. People forget that we have been running a dedicated AI global equity product for eight years now. We have been very focused on AI since the launch of ChatGPT and have tweaked our investment process to include what we call an 'AI lens'. This is essentially just making sure that every time we look at a stock, we are looking at whether it is an enabler or beneficiary of AI, and if it is neither, then we question why we would want to own it.

Drilling into the detail, we have moved materially away from the Mag7 stocks and we are in the right stocks within that group. We have also moved materially underweight software, where we have a very differentiated view. While most people still believe software stocks are winners from AI, we believe that there is an existential threat to software stocks from AI. We have less than 10% of the portfolio in software, whereas typically we would have had 25% or more. We have used the opportunity of being underweight to both those groups to be overweight AI enablers. The areas that have done best have been memory and storage related, including hard disk drives, DRAM, NAND, optical and networking related stocks. We have basically been tracking the roadmap for AI and where we think NVIDIA and others are taking their products and trying to be a step ahead of that. The other element of being underweight software is that we decided to reallocate that capital more towards data centre infrastructure. Whether that be power or cooling or energy related, that whole group of stocks has been strong.

There has been a good breadth of performance within the portfolio. Around 50 of our 63 holdings outperformed the benchmark last year and over 45 of our 63 holdings outperformed NVIDIA last year, so there has been plenty of opportunity to add alpha through stock picking in that environment.

Find out more



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VH

Going back to the start of 2025, taking an underweight position in the Magnificent Seven must have been quite a contrarian call at the time.

NE

It probably was contrarian, given Mag7 stocks had dominated previously. If you step back, three years into this cycle, the first two years the Mag7 stocks dominated, which was a headwind for active management. This was particularly acute in 2024 when the Mag7 as a group was up 67%, significantly outperforming both the tech sector and global equities. Anyone who had exposure to that group could be lazily long it because almost any one of those stocks outperformed materially. That made ETFs an attractive proposition. You are right, going into a year where that has been a big headwind, then moving even further away from the group was not easy.

For us, there were a couple of factors playing into that. One was a growing debate around the Mag7 group of stocks. Previously, they had been perceived to be winners from AI. Then, in most cases, there was a two-way debate – part of their business might win, part might lose. As AI CapEx grew, there were concerns creeping in about the impact of depreciation on their earnings and cash flow and how much the cash flow was going to CapEx rather than coming back to investors. That sort of broader overhang started to weigh on the group and as they started to perform less well, it was easier to move more materially underweight.

We did the same with software, to the degree where we sold a lot of stocks that were still perceived by many to be winners, including some very good software stocks such as ServiceNow, SAP and HubSpot that we had held for a long time. We decided they were not the right stocks for this backdrop. In fact we think the software sector is going to be completely reshaped by AI. The Mag7 stocks delivered a solid year in 2025, returning 25%, but it was dominated by two stocks rather than six or seven of them, so you had to be in the right names to even get that 25% return. And that was only slightly ahead of the Nasdaq, which was up around 21%, slightly ahead of global equities. That strong tailwind of "I can just lazily own that group of stocks to get AI exposure" was gone. We had breadth in the portfolio that drove strong returns and we were seeing accelerating demand and estimates that were far too low, so it was a combination of those factors.

*Source: Polar Capital, 31 December 2025. The Fund's benchmark, the Dow Jones Global Technology Net Total Return Index, returned 28.7% between 01/01/2025 and 31/12/2025. Past performance is no guarantee of future results.

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VH

Looking specifically at AI, 2025 was another important year for the technology. Has the pace of innovation and adoption met your expectations?

NE

A lot of people who are sceptical about AI are not using AI. If you were using it as last year progressed, you saw the technology get a lot better. We have fully embraced it within the team. Over the past two years, the first year was more about experimentation, then we came up with some good use cases, but the results were not perfect. But once you get into the second half of last year, the model performance had improved and hallucinations had reduced to the point where we were getting good results. I think that is the experience that most people who have been using the technology would have had last year.

As you got towards the end of the year, with models like Gemini 3 coming out, which were another step forward in functionality, the capabilities of AI improved. We have seen very strong growth in users – OpenAI by the middle of last year was up to 800 million users – and there is an expectation that number will be updated sometime soon.

We have also seen explosive growth in tokens, which is effectively usage. There are lots of estimates but people are suggesting that token usage is doubling every two months or so, which is part of the reason the DeepSeek concerns about prices collapsing do not matter because volume is exploding on the other side. Users are growing, usage is growing and the technology has become materially better, which is the point at which you would expect enterprise adoption to accelerate. That is what we expect for 2026: accelerating enterprise adoption on the back of improving model performance. We have not even seen a model launched yet that was trained on a Blackwell cluster. There is an indication that Gemini 3 may have used some NVIDIA hardware, but no one actually knows that for sure.

What we are waiting for is OpenAI's and xAI's next models to see the performance benefit you get with that. So this year should see models improve further, which will drive even greater enterprise adoption. I think it will be the year when it becomes impossible for people to ignore AI and when the return on the investment becomes more obvious. That is where there is a lot of scepticism: people do not believe there is a return on the investment that these companies are making. I think that will become hard to ignore as we move through 2026.

VH

Now, speaking of scepticism, valuations for technology always come under the spotlight, but towards the end of last year people started to talk about whether we are in a bubble. What would you say to those commentators?

NE

Every newspaper article talks about an AI bubble or frenzy. It's oversimplifying it. No, we don't think we're in a bubble – a strong price move does not mean a bubble. The trailing 36-month return to the Nasdaq is around 110%. If you compare that to 2012, they were around 130% for a similar time period. Go back to the COVID period, when there was a big pull forward to spending, Nasdaq returns were around 150% over some of the time period.

If you go back to the actual bubble that everyone is referring to – 1999-2000 – you had 450% returns over a similar time period. In fact, the Nasdaq nearly tripled over 18 months. And in each of those other cases, it was almost entirely driven by price, with some earnings growth, but mostly price. The last three years, the majority of the move has been driven by earnings.

More recently, with strong growth in earnings and the stocks not performing as well, they have gotten cheaper. So, we now find ourselves with the tech sector trading around 1.2 or 1.25x the S&P, having expanded from just above 1x over a period of a couple of years. If you look back at the early 90s, you had a similar tailwind where there was gradual multiple expansion. The dislocation in price came much later. The Alan Greenspan "irrational exuberance" quote was December 1996. If you listened to that and did not invest, you missed the vast majority of the upside. So timing, even if you think a bubble is forming, is critical. We would argue valuations are attractive here, particularly once you consider growth. We see strong growth ahead and I don't think valuation is something that is a concern.

VH

What's your outlook for the year ahead? You've talked about where you're underweight, where are you finding opportunities?

NE

We expect Mag7 stocks to continue to struggle. I am not saying they are going to decline but they are not going to materially outperform global equities and will possibly lag the tech sector.

Software stocks will continue to struggle. Both of those groups, people considered to be good conduits for AI. We think that is no longer the case, so you want to be materially underweight those groups. I think investors are still in aggregate long those groups, which may explain why they are performing badly this year because people are looking at a stronger US economy with a fiscal impulse, financial conditions easing and tariff headwinds fading and are rotating towards cyclical stocks.

Alongside that, the true AI beneficiaries are still performing very strongly. They are not suffering and people are not taking profits in those names. So, we think that broader trend continues where you need to be ahead of the curve, looking out at what's coming next and moving quickly.

There is no point in just being an active manager. You need to be a dynamically active manager looking where NVIDIA's roadmap is going. That should play to our strengths because we have a team of 11 – or actually 12 as of today because we have just hired a new analyst. Having a team of 12 does not help you when Mag7 dominates; having a team of 12 helps you when AI demand is broadening, and that is exactly what we are seeing now. We see AI CapEx estimates as too low for this year, much as they were in prior years – that should provide a strong tailwind for this group of stocks.

Nick Evans, Partner & Fund Manager

Polar Capital Global Technology Team

January 2026

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