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‘Budget flush’ signals opportunities in technology, says RCM’s Walter Price

- ‘Budget flush’ indicates return of confidence for technology companies

Walter Price, portfolio manager for the Global Technology strategy at RCM, the global equity company of Allianz Global Investors, believes that the closing months of 2009 could provide a boost for many technology companies:

“While many parts of the economy are still struggling, the technology sector looks to be recovering well. Global sales of semiconductor chips surged 5.4% in September and some are calling this a ‘budget flush’, which could spell an opportunity for technology companies.

“A ‘budget flush’ means spending your budget before the end of the year, flushing it to the vendors you want to spend money with. It happens most years – although clearly last year was an exception. Whether a company has a budget flush or not tends to depend on how positively they are thinking about the coming year. This means that it’s not only interesting for this year, but also provides an interesting perspective for the year ahead.

“The rise in the market has helped many companies feel a little bit better about their future and to hope that their business is stabilising and starting to recover. If companies are planning to grow their annual budgets, then they often get a head start by releasing and spending their budgets at the end of the year. This is what we think is going on now.

“Looking at the categories of spending, there are really three main areas. Firstly, where companies have had to spend money, such as regulation and security. Here, companies have no choice and they have reluctantly continued spending money throughout the downturn. However, we are now seeing spending in another category where it had previously been deferred: storage. You can defer investing in this for a while, but eventually you run out of the ability to crowd data into your existing storage. In this quarter we are seeing companies spending again on storage, and as we move into the next quarter we will see companies spend on projects with good returns.

“In many respects we are in a unique time. Technologies are emerging, such as virtualisation, which offer very high returns to companies that are thinking about growth in the future. Examples of companies in the storage space are Network Appliance and EMC, who have had a good quarter and should have a good 2010. On the server side Hewlett Packard has become the leader with their Blade Server; and on the software side VM Ware. These products are the most compelling or most needed in the market so we would expect to see spending on them accelerate first.

“The third category of spending is the ‘nice to haves’, such as upgrading PCs to Windows 7. Windows 7 saves power and whilst it does help improve the productivity of your workers, it is not a necessity to run your business nor does it deliver a really high return.

“If you look at how companies spend money on technology, it used to be on computers, but now it is on people and power. These days spending on people makes up 60% of the budget so companies look to make these people more efficient and productive, which is what a lot of VM (virtual machine) software does, by making more processes automated. This wasn’t possible three years ago, but it is today.

"In contrast to the consumer, many companies have begun rebuilding their balance sheets and now have the ability to spend money on increased capacity and increased productivity. For many corporates, the mantra now is 'let's spend money to save money' and this means investing in technology."

- Ends -

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http://www.rcm.co.uk/press/04_fundmanagers.html

Awards

- RCM named winner of Active North American Equity at Pensions & Investment Provider awards 2009. RCM US Large Cap Select Growth is managed by Scott Migliori, Co-CIO for US Equities, RCM.
- RCM named No.1 leading fund management firm for SRI Research by Thomson Reuters Extel 2009.
- Global CIO of RCM, Andreas Utermann, named CIO of the Year by Funds Europe magazine 2008.
- Winner of European Investment Trust of the Year by Investment Week magazine, 2008, for the RCM-managed Charter European Trust.
- Allianz RCM Global EcoTrends Fund named winner Best Climate Change Investment fund 2008, by Holden & Partners/ Incisive Media.

About RCM (all data source: RCM as at 30/06/09)

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