FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR FURTHER DISTRIBUTION.

T.RowePrice®
INVEST WITH CONFIDENCE

PRICE POINT
December 2015

Timely intelligence and analysis for our clients.

Global Technology. AN OASIS OF INVESTMENT OPPORTUNITY IN A LOW-GROWTH WORLD.



Josh Spencer
Portfolio Manager, Global Technology Equity Strategy

EXECUTIVE SUMMARY

In a global economy where GDP expansion may be modest for many years to come, technology companies—and those firms enabled by technology—provide exposure to strong secular growth trends in areas such as platform companies on the Internet and cloud computing, as well as to large addressable global markets such as autos. Josh Spencer, portfolio manager for the Global Technology Equity Strategy, discusses key themes and global opportunities across the technology sector.

MANY INVESTORS EXPECT GLOBAL ECONOMIC EXPANSION TO BE SUBDUED FOR SOME TIME. IS TECHNOLOGY INVESTING ONE WAY OF CAPTURING GROWTH IN THIS ENVIRONMENT?

Yes, I believe technology is one area able to drive its own growth through innovation, new products, and product cycles as well as market share gains. In a low-growth world, this is where the growth can be found. Overall, most industries and individual companies are going to find it difficult to achieve much expansion over the next decade if you accept, as I do, that macroeconomic growth is likely to be modest. We are seeing this in Europe and the U.S.—even China has slowed down. There are limited prospects for this situation to change dramatically—technology is an oasis of growth in a global economy that lacks it.

Bearing this world view in mind, we have a preference for the faster-growing companies. We favor platform companies on the Internet like Google and Chinese group Tencent. We also invest in companies operating in new areas of technology such as cloud computing, which is delivering computing technology over the Internet and has an element of both infrastructure and software. We also have exposure to companies that are transforming industries, such as Tesla Motors in autos. We have avoided enterprise hardware and other related technology equipment names given their slowing growth due to the disruption caused by emerging technology companies.

"There is an internal energy at Tesla unlike anywhere else…It is relatively unique, even among technology companies."

HOW IMPORTANT IS CLOUD COMPUTING FOR THE FUTURE DEVELOPMENT OF THE INDUSTRY?

The new group of software companies operating their businesses through the cloud delivery model are competing strongly with some of the major incumbent software firms, which have huge revenue streams. For the established software firms, generally speaking, it is a time of enormous disruption. The financials for incumbent software firms over the last two years have resulted in very little growth in new business. While established software companies benefit from the considerable streams of business from servicing the maintenance needs of existing clients, they struggle to add any new customers. This is because implementing a new cloud-based delivery model requires thousands of people working on giant projects, which is damaging to a company's workflow.

The challenger software companies using the cloud to deliver their services are successful because implementation in terms of installation and updates can be performed quickly and with higher customization, which results in lower churn of the customer base. They are likely to grow for years to come, and—over time—the market cap differential between these firms and the more established players could be flipped on its head. Sometimes it is important to pay attention to the obvious signs right in front of you. To me, the possibilities for cloud computing come into this category. Years ago, at the time when the potential of the PC was obvious to many, there were tiny firms operating in this industry that, over a period of 10 to 15 years, grew to become the huge, household name technology firms of today. I see the same opportunity in cloud computing.

TESLA MOTORS IS ONE OF THE LARGEST HOLDINGS IN THE TECHNOLOGY STRATEGY YOU MANAGE. WHAT DO YOU LIKE ABOUT THE COMPANY?

I believe Tesla Motors—a U.S. firm that manufactures luxury electric cars—is one of the most innovative companies in the world. In my opinion, the company's CEO Elon Musk is a successor to Steve Jobs in terms of innovation and transforming an industry. Not only is he an expert in technology but, similarly to Steve Jobs, he is also an innovative thinker in terms of marketing, consumer focus, and inspiring loyalty among employees. These are all aspects that make a technology company special, and Elon Musk has infused these attributes into Tesla.

The total addressable market of the auto industry at over US$1.5 trillion globally also provides an enormous runway for growth for an innovative company like Tesla. There is an internal energy at Tesla unlike anywhere else—certainly not in the auto industry. It is relatively unique, even among technology companies. Tesla did the hardest thing first: It made one of the best cars in the world on a shoestring budget. It just so happens to be electric. In 20 years, I would be very surprised if the vast majority of cars are not electric. Tesla's cars will be cheaper and better than the existing options.

Tesla has similar characteristics to other innovative technology firms. It offers an improved product and is not encumbered by a big dealer network. As for the incumbent automakers, history would suggest these companies will struggle. Past events have taught us that whenever we see structural changes in an industry, the leaders usually come from the outside. It is just too hard for incumbents to change and adapt—these companies have too much to protect, are usually beset by infighting, and are timid in terms of embracing change. These companies do not want to cannibalize their existing businesses.

THE CHINESE MARKET HAS SEEN A LOT OF VOLATILITY IN RECENT MONTHS. HAS THIS AFFECTED YOUR VIEW OF CHINESE TECHNOLOGY STOCKS?

No, it did not affect our view of the companies that we like in this market. In fact, we took advantage of this volatility to top up our holdings in select Chinese technology companies. Investors must understand that technology is a volatile industry, but it is also a high-return industry—one where taking advantage of the volatility can result in positive returns. I would much rather buy the companies we like on pullbacks periodically than just see them go up in a straight line. In the past, we have seen periods of strong performance coming out of volatile spells such as the one we saw over the summer, and I would expect to see a similar trend this time around.

THE SLOWDOWN IN THE CHINESE ECONOMY IS ANOTHER WORRY FOR INVESTORS. DO YOU SHARE THESE CONCERNS?

Yes, the Chinese economy has slowed, but despite fears over its economic health, China remains one of the fastest-growing global markets. So I am optimistic about the outlook. The shift away from investment spending and toward domestic consumption is the right path to take. I truly believe many investors underestimate the potential arising from China's growing middle class. The Chinese technology stocks we hold are well placed to benefit from these trends.

WE HAVE TALKED ABOUT THE INVESTMENT POTENTIAL IN THE U.S. AND CHINA. WHAT TECHNOLOGY OPPORTUNITIES ARE YOU FINDING IN EUROPE?

There are a few companies we own in Europe, operating in businesses including chip design, semiconductor capital equipment, and the provision of IT for the travel and tourism industries. These are really good companies in each respective field. Looking at software and the Internet, however, Europe has not developed a culture similar to California's. Therefore, the technology leaders in Europe are largely the same as in the U.S. Part of the reason we have seen juggernauts emerging in China is because the Chinese government blocked Western companies' access to this market, so it forced internal innovation. This did not happen in Europe.

TECHNOLOGY FIRMS CAN SOMETIMES TAKE MANY YEARS BEFORE THEY START RETURNING CASH TO SHAREHOLDERS. HOW DO YOU VIEW THIS AS AN INVESTOR?

Each technology company has its own stage of life and should aim to make decisions in light of this. The more mature and well-established companies return more in dividends as opposed to stretching for growth that is going to be difficult for them to achieve. On the other hand, many of the younger companies need to be investing this cash to continue fostering innovation. The problem comes when companies still believe they can grow, even though their time in the sun has passed. By and large, most companies do not get this right. Many fail to accept that they are a mature business. However, with skillful management, the transition from growth company to a mature incumbent that is managing costs and returning cash to shareholders can be made successfully.

INVEST WITH CONFIDENCE®

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

To learn more, please visit troweprice.com.

Important Information

This material, including any statements, information, data and content contained within it and any materials, information, images, links, graphics or recording provided in conjunction with this material are being furnished by T. Rowe Price for general informational purposes only. The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request. It is not intended for distribution to retail investors in any jurisdiction. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price. The material does not constitute a distribution, an offer, an invitation, recommendation or solicitation to sell or buy any securities in any jurisdiction. The material has not been reviewed by any regulatory authority in any jurisdiction. The material does not constitute advice of any nature and prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. Past performance is not a reliable indicator of future performance. The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The views contained herein are as of December 2015 and may have changed since that time. Unless indicated otherwise the source of all market data is T. Rowe Price.

Australia - Issued in Australia by T. Rowe Price International Ltd (ABN 84 104 852 191), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. T. Rowe Price International Ltd is exempt from the requirement to hold an Australian financial services licence in respect of the financial services it provides in Australia. T. Rowe Price International Ltd is authorised and regulated by the UK Financial Conduct Authority under UK laws, which differ from Australian laws. For Wholesale Clients only.

Canada - Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services. T. Rowe Price (Canada), Inc. is not registered to provide investment management business in all Canadian provinces. The investment management services provided by T. Rowe Price (Canada), Inc. are only available for use by Accredited Investors as defined under National Instrument 45-106 in those provinces where it is able to provide such services.

DIFC - Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

EEA - Issued in the European Economic Area by T. Rowe Price International Limited, 60 Queen Victoria Street, London EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

Hong Kong - Issued in Hong Kong by T. Rowe Price Hong Kong Limited, 21/F, Jardine House, 1 Connaught Place, Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

Japan - Issued in Japan by T. Rowe Price International Ltd, Tokyo Branch (KLFB Registration No. 445 (Financial Instruments Service Provider), JIAA Membership No. 011-01162), located at GranTokyo South Tower 7F, 9-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6607. This material is intended for use by Professional Investors only and may not be disseminated without the prior approval of T. Rowe Price International Ltd, Tokyo Branch.

Singapore - Issued in Singapore by T. Rowe Price Singapore Private Limited, No. 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Limited is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

Switzerland - Issued in Switzerland by T. Rowe Price (Switzerland) GmbH ("TRPSWISS"), Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

USA - Issued in the USA by T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, MD, 21202, which is regulated by the U.S. Securities and Exchange Commission. For Institutional Investors only.

T. ROWE PRICE, INVEST WITH CONFIDENCE and the Bighorn Sheep design are, collectively and/or apart, trademarks or registered trademarks of T. Rowe Price Group, Inc. in the United States, European Union, and other countries. This material is intended for use only in select countries.