30 YEARS AT THE HELM OF COLUMBIA SELIGMAN COMMUNICATIONS AND INFORMATION FUND

When Paul Wick took over managing Columbia Seligman Communications and Information Fund in 1990, Motorola had just introduced its flip phone and Apple had recently rolled out its beige box Mac Classic personal computer. Wick has managed Columbia Seligman Communications and Information Fund for 30 years, longer than any other current portfolio manager of a U.S. technology fund. Over that time, he has witnessed revolutionary change in the tech industry and used his encyclopedic knowledge of the sector to capitalize on long-term trends and sidestep gimmicks.

Wick has always been a highly methodical and disciplined investor, casting a critical eye on the hyperbole that attaches itself to new technologies. “There are a lot of companies that are a flash in the pan in tech, and it is important to identify businesses that have staying power and won’t fizzle out,” he says. For Wick and his team, growth at a reasonable price has always been a top priority. “We look at a lot of aspects of a company, including its products, management strength, competition, supply chain and manufacturing, but we also have an emphasis on not overpaying. Intellectual property is a really important thing — it enables long-term, sustainable, high profit margins.”

We asked Paul to take a moment to reflect on his achievements as the leader of Columbia Seligman Communications and Information Fund and discuss his thoughts on the direction of the tech industry in the coming years.

What were some of the game changers that you have seen over your tenure running the fund?

The introduction of the personal computer in the late 1980s/early 1990s was akin to what we have seen in smart phones more recently. This was followed by the trend of networking PCs together. Data networking became a new category, and that gave rise to client server computing — software loaded into a central server and accessed via networks. Netscape’s IPO in 1995 helped broaden the public’s access to web browsers, which gave rise to widespread access to the internet. Of course, more recently there is the smart phone/mobility revolution, along with cloud-based computing. All of these advances required faster, more powerful, less power-hungry and smaller integrated circuits.

What are some of the most important lessons you have learned over your tenure as an investor in the technology sector?

Being successful in tech is not just about being first to the next big thing. It's more important to find long-term trends with legs. The PC trend, the networking trend, the smart phone trend — these are all long-term drivers that unfold over many years. Everyone remembers an IPO like Google's and the stories of stocks that go straight up, but the much more common pattern is for companies to flame out after their IPO. It can take a year or more to understand if a trend is going to accelerate and dominate and to understand the players in that space.

It's important to recognize when accepted wisdom is no longer relevant. As industries mature, the dynamics change. There used to be a rule that any time the semiconductor industry saw year-over-year revenue growth above 40%, or saw unit growth in excess of 25%, the industry would go into recession within six months. These numbers made sense in the days when the PC market was driving 65% of semiconductor demand, and every chip company had its own fabrication plant and added capacity or hit the brakes at the same time. Now, with dedicated foundries dominating production, capacity adds are more granular and cyclicality has diminished. It's unlikely that we will see the types of unit growth or revenue numbers that we had in the early days. Understanding these new dynamics is much more important than trying to apply the old rule. There are similar absolutes in other industries that have become less reliable as the world changed.

Business models matter. We have always been suspicious of high-risk business models, such as one-product companies. We focus on finding companies with strong intellectual property, a sticky customer base and pricing power. We want to see recurring revenue and free cash flow generation.

Assemble a team that balances investing skill with technical know-how. The members of the fund's management team have all been investing in the sector for 15 years or more, but many of them also have their roots in the tech industry, working in computer software or as semiconductor engineers. They know electronics and understand the architecture of smart phones and the process development aspects of fabricating semis. This background allows them to understand which companies will benefit from a new development in semi manufacturing, for example. We believe it's a significant advantage.

What are some of the trends that you currently like in the technology sector?

The key trend is the intersection of the cloud with software applications, mobile devices and the Internet of Things. There's a virtuous circle at work here — faster data networks and cellular speeds enable the cloud to deliver faster search queries and streaming video speeds. Software integration advances enable new cloud services like ride-hailing services and food delivery. Cloud-based software improves security and ensures that applications are always up-to-date. And more powerful sensors and processors increase the intelligence of the cloud and edge devices like industrial machinery, home security cameras and automobiles.

Of course, there are other trends that are also exciting, such as advances in autonomous driving and the trend toward electric cars. We are also keeping a close eye on fuel cell technology and its potential to reduce pollution and carbon emissions.

Wick is forthright on his tenure managing Columbia Seligman Communications and Information Fund. "I come at this as an investor rather than a technologist," said the 30-year tech sector veteran. "I took one computer science class as a college freshman and didn't enjoy it very much. In contrast, managing the fund all these years has been both an exciting challenge and great fun. It's hard to believe all of the change that has happened in the past 30 years."

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* In U.S. dollars as of September 30, 2019. Source: Ameriprise Q3 Earnings Release. Contact us for more current data.

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