AVOIDING THE HYPE HAS STOOD RAHUL NARANG IN GOOD STEAD AS A TECHNOLOGY INVESTOR. THE MANAGER TELLS DANIEL GROTE THE PURSUIT OF GROWTH DOESN’T MEAN IGNORING VALUATIONS
As the dotcom bubble burst at the turn of the millennium, Rahul Narang wasn’t gripped by despair like many of his technology investor peers: he was too busy shorting stocks.

Working for hedge fund group Asop Capital Partners, Narang learned a lot about bad businesses and mad valuations in the tech sector, as companies came to market priced at 30 times sales.

Honing in on accounting gimmickry and the excesses of the dotcom mania, Narang credits the period with helping to shape him as an investor. ‘It was great training. When you’re a short seller you’re trying to find bad businesses,’ he says, arguing that has stood him in good stead as manager of the long-only $596 million Columbia Global Technology fund. ‘Sometimes half the battle is avoiding blow-ups.’

Since he began running the fund in 2012, he has contributed to a five-year return of 136%, beaten only by the 137.4% delivered by the more focused Fidelity Select Semiconductors Portfolio in the Science and Technology sector and delivering him a Citywire AA rating.

Just as important as the calls he got right have been the bad investments he didn’t make. ‘We don’t get caught up in the hype’ he says.

**KEEPING FOCUS**

Narang sets great stall in running a balanced fund, where being alive to the transformative power of new technologies does not preclude the arguably more prosaic business of hunting for value opportunities.

Around a quarter of his fund is held in these value stocks, such as Apple, trading on a trailing price earnings ratio of just under 17 times, semiconductor maker Broadcom, on a similar rating, or IT and networking group Cisco, on 14 times.

This focus helped the fund remain in the upper reaches of the sector over the past 12 months, as value stocks bounced back, wrenching the market lead back from growth stocks following a difficult 2015.

Although these stocks, often more mature or predictable, may lack the excitement of a company on the verge of a technological breakthrough, Narang argues they shouldn’t be ignored by investors.

‘There are actually good businesses in technology that have strong free cashflows,’ he says, pointing to Apple’s 33% rally over the past year as evidence of the returns for technology investors prepared to venture beyond a narrow focus on growth at all costs.

But this approach has its limits. ‘Just because it’s value, doesn’t mean we’re going to buy it,’ says Narang, pointing to Xerox, trading on just eight times trailing earnings, with its stock having lost half its value in just over two years as it faces up to challenges to its business.

Nor can a dogmatic approach to valuation be employed when assessing the big technology winners of the future. ‘I’ve had to learn over time that you don’t just look at certain valuation metrics,’ he says. ‘Is the stock entering new markets that aren’t being understood?’

He cites the example of Amazon, a longstanding holding of the fund that currently makes up 3.5% of his portfolio. Trading on an astronomical PE of 173 times, the stock hasn’t looked back since its rating breached the 100 mark in 2007, returning more than 2,000% over the past decade.

Had you viewed the business as simply a web retailer, as many did 10 years ago, you would have been deterred by its lofty valuation, overlooking the opportunity in cloud computing that has powered the business higher.

‘Jeff Bezos saw the cloud opportunity before anyone did,’ Narang says. ‘They had an eight-year lead in the cloud business – usually you get a two- or four-year lead. Now it’s the 800-pound gorilla.’

‘If you’d just valued Amazon on the traditional metrics, you would have missed the rerating.’

**SEARCHING FOR MOATS**

Finding these investment opportunities relies on a grasp of where technology can move, and the role companies can play in leading the way. An obsession with the numbers can get in the way of this.

Take Intel’s $15 billion deal last month to buy Israeli driverless car tech firm Mobileye, a price that represents one of the highest takeover premiums this century for a business that will become a ‘rounding error’ in its accounts. Yet the buy could accelerate Intel’s push into the potentially huge self-driving cars market.

For Narang, one of the crucial aspects of a business is its dominance. Stocks he sees as ‘moats’, operating in areas with high barriers to entry, boasting scale, pricing power and strong intellectual property, form half of the portfolio. That includes businesses such as Facebook, at 2.6% of the portfolio, whose global user base represents the highest of barriers to entry.

But it also leads him to stocks that wouldn’t be considered pure technology plays, such as Visa, at 2.5% of the portfolio. ‘It’s a core holding that fits all the characteristics of a moat,’ Narang says, pointing to the payments network operator’s ‘global pricing
power’. Or Comcast, which Narang concedes ‘one normally doesn’t think of as a pure technology play.’

But he argues the cable operator has ‘kept innovating,’ such as with its tie-up with Netflix announced last year. His investment, at 1.3% of the fund, has also given Narang a silver of exposure to the technology stock generating more column inches than any other: Snap, parent of the Snapchat messaging app, after Comcast bought a $500 million stake last month.

But Narang won’t be drawn on his views on Snap’s initial public offering, in which stocks soared, then plunged, before settling at a level still well above its $17 offer price at the time of going to press. We’ll have to wait until March’s portfolio details are out to learn if he was an investor.

**VENTURING OUT**

The search for ‘moats’ has also taken him outside the US. The former Columbia Technology fund was rebranded in 2014 to reflect its global approach, and Narang has been building on that overseas exposure.

China in particular has attracted his attention, with Narang having doubled the fund’s exposure to the country over the past three years. ‘I’ve spent lots of time trying to understand the Chinese space,’ he says. He now counts ecommerce company Alibaba as a ‘core position’ in his top 20, with social media and online entertainment company Tencent accounting for a 1% position.

Narang is bullish about the near-term prospects for technology stocks, mirroring the wider market, which quickly cast aside its fears over the impact of a Trump presidency to send the sector sharply higher in the post-election rally.

He admits the picture for tech from a Trump presidency is ‘complicated.’ With the sector one of the lowest tax payers, effectively paying a rate of 18-21%, up to 700 basis points less than the wider market, it doesn’t stand to benefit as much from the US president’s much-vaunted tax cuts.

Technology companies could be a big beneficiary of Trump’s plans to offer a repatriation of corporate cash held overseas at a low tax rate, but his protectionist stance could equally hurt these global businesses.

With regards to the impact of monetary policy, the picture is potentially clearer. ‘Tech is the number one sector in a rising rate environment,’ Narang says, pointing to the cyclical nature of many tech companies and the pickup in economic growth that typically accompanies steadily rising rates. With tech valuations at 30-year lows versus the wider market, Narang believes it’s a far cry from his early days in investment management, when the only way for tech stocks was down.
Focus on global innovation
The fund invests broadly in technology companies as well as companies in other sectors whose business models may benefit from technological innovations and implementations.

Balanced approach to growth
Management seeks to generally construct a portfolio of 75–125 companies that have the ability to grow earnings and revenues, maintain a solid balance sheet and are trading at reasonable valuations.

Experience and expertise
Investment process focuses on identifying product cycles or industry changes and analyzing the corresponding value chain to determine where management believes the best growth opportunities exist.

Overall Morningstar Rating
★★★★ ★★★★

Class A: CTCAX | Class C: CTHCX | Class R4: CTYRX | Class R5: CTHRX | Class Y: CGTUX | Class Z: CMTFX

Average Annual Total Returns (%)

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<th>Without sales charges</th>
<th>Inception Date</th>
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<th>5-year</th>
<th>10-year</th>
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Calendar-Year Total Returns (%)

Performance data shown represents past performance and is not a guarantee of future results. The investment return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data shown. With sales charge performance is calculated with maximum sales charge of 5.75% for the A share and 1.00% CDSC for the C share. Please visit columbiathreadneedle.com/us for performance data current to the most recent month end. Class R4, R5, Y and Z shares are sold at net asset value and have limited eligibility. Contact us for details. The returns shown for periods prior to the share class inception date (including returns since inception, which are since fund inception) include the returns of the fund’s oldest share class. These returns are adjusted to reflect any higher class-related operating expenses of the newer share classes, as applicable. For more information please visit: www.columbiathreadneedle.com/us/investment-products/mutual-funds/appended-performance.

Calendar-Year Total Returns (%)

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Investors should consider the investment objectives, risks, charges and expenses of a mutual fund carefully before investing. For a free prospectus or a summary prospectus, which contains this and other important information about the funds, visit www.columbiathreadneedle.com/us. Read the prospectus carefully before investing.
**Morningstar Style Box**

The Morningstar Style Box is based on the fund’s portfolio holdings as of period end. For equity funds, the vertical axis shows the market capitalization of the stocks owned, and the horizontal axis shows investment style (value, blend, or growth). Information shown is based on the most recent data provided by Morningstar.

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<th>Equity Style</th>
<th>Weight</th>
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<td>Value</td>
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<tr>
<td>Blend</td>
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<tr>
<td>Growth</td>
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**Fund Information**

- **Fund inception**: 11/09/00
- **Fiscal year end**: 08/31/17
- **Market cap (weighted median, $b)**: 36
- **Wtd Avg P/E Ratio, trailing**: 24.2
- **Price/Book Ratio (weighted average)**: 4.37
- **Turnover Rate (1-year, %)**: 55
- **Beta**
- **R-squared**
- **Sharpe ratio**: 1.34

**Risk: 3 Years**

- **Standard deviation**: 13.73
- **Standard deviation, BofA ML Technology 100 Index**: 13.85

**Investment Objective**

Columbia Global Technology Growth Fund (the Fund) seeks capital appreciation by investing, under normal market conditions, at least 80% of its total net assets (plus any borrowings for investment purposes) in stocks of technology companies that may benefit from technological improvements, advancements or developments.

**Portfolio Management**

- **Rahul Narang**: 23 years of experience

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**Top Sectors (% net investments)**

- **Semiconductors & Semiconductor Equipment**: 27.9
- **Software**: 18.9
- **IT Services**: 13.7
- **Internet Software & Services**: 13.4
- **Technology Hardware Storage & Peripherals**: 8.0
- **Internet & Direct Marketing Retail**: 6.2
- **Communications Equipment**: 5.0
- **Electronic Equipment Instruments & Components**: 4.2
- **Media**: 1.1
- **Equity Real Estate Investment Trusts (REITs)**: 0.9

**Top Holdings (% net assets)**

- **Portfolio Weight**: BofA ML Technology 100 Index

**Geographic Breakdown (% net assets)**

- **U.S. & Canada**: 87.1
- **Asia**: 6.9
- **Europe**: 4.1
- **Africa/Middle East**: 2.0

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**Investment risks** – Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. The products of technology companies may be subject to severe competition and rapid obsolescence, and technology stocks may be subject to greater price fluctuations. Growth stocks, at times, may not perform as well as value securities or the stock market in general and may be out of favor with investors. Foreign investments subject the fund to risks, including political, economic, market, social and others within a particular country, as well as to currency instabilities and less stringent financial and accounting standards generally applicable to U.S. issuers. Risk is enhanced for emerging market issuers. As a non-diversified fund, fewer investors could have a greater effect on performance.

**Beta** measures a fund’s risk relative to its benchmark. A beta of 1.00 indicates that the fund is as volatile as its benchmark. R-squared ranges from 0.00 to 1.00 and tells what percentage of an investment’s movements is explained by movements in its benchmark index. Sharpe ratio divides an investment’s return in excess of the 90-day Treasury bill by the investment’s standard deviation to measure risk-adjusted performance. Standard deviation is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. Price-to-book ratio is a stock's price divided by its book value, and may help determine if it is valued fairly. Price-to-earnings ratio is a stock's price divided by after-tax earnings over a trailing 12-month period, which serves as an indicator of value based on earnings.

Fund holdings are as of the date given, are subject to change at any time, and are not recommendations to buy or sell any security. Top holdings include cash but exclude short-term holdings, if applicable.

**Morningstar Percentile Rankings** are based on the average annual total returns of the funds in the category for the periods stated. They do not include sales charges or redemption fees but do include operating expenses and the reinvestment of dividends and capital gains distributions. The highest (most favorable) percentile rank is 1 and the lowest (least favorable) percentile rank is 100. Share class rankings vary due to different expenses. If sales charges or redemption fees were included, total returns would be lower. For the one-, three-, five- and ten-year periods there are 208, 194, 184 and 144 Technology funds, respectively. Each fund with at least a three-year history generates Morningstar’s ratings, which range from 1 to 5 stars, with 5 being the highest rating. A rating of 1 indicates that the fund underperformed its benchmark, while a rating of 5 indicates that the fund outperformed its benchmark. The Morningstar Risk-Adjusted Return measure refers to the performance of a fund after adjusting for its volatility, which is calculated by dividing the fund’s return by its standard deviation. The Morningstar Style Box is based on the fund’s portfolio holdings as of period end. For equity funds, the vertical axis shows the market capitalization of the stocks owned, and the horizontal axis shows investment style (value, blend, or growth). Information shown is based on the most recent data provided by Morningstar.