

# Platinum International Technology Fund



Alex Barbi Portfolio Manager

## Disposition of Assets

REGION	MAR 2013	DEC 2012
Asia and Other	32%	34%
North America	22%	19%
Europe	20%	18%
Japan	6%	6%
Africa	1%	1%
Cash	19%	22%
Shorts	1%	1%

Source: Platinum

## Performance and Changes to the Portfolio

(compound pa, to 31 March 2013)

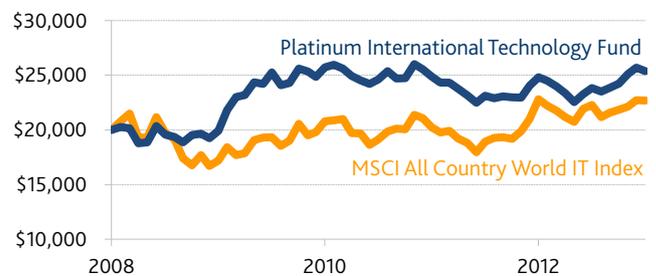
	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Int'l Tech Fund	5%	2%	0%	5%	7%
MSCI AC World IT Index	4%	-1%	3%	3%	-8%

Source: Platinum and MSCI. Refer to Note 1, page 4.

During the quarter technology stocks in aggregate underperformed the global market rally; the MSCI World Information Technology Index (A\$) was up by 3.8% compared to the 6.1% increase for the MSCI World Index for the same period.

## Value of \$20,000 Invested Over Five Years

31 March 2008 to 31 March 2013



Source: Platinum and MSCI. Refer to Note 2, page 4.

In this context, the Fund's best performers were Marvell Technology (semi-conductors for storage, mobile and networking applications), Anritsu Corp (mobile infrastructure testing – see more below), AAC Technologies (acoustic components for mobile devices) and Freenet AG (telecommunication services).

Detracting from performance were Melfas (touch screen semiconductors), Baidu (leading Chinese search engine) and O-Net (optical networking components).

Currency fluctuations had only a marginal impact in the quarter. The Fund remains hedged out of the Japanese yen while the Australian dollar was virtually unchanged against the US dollar and Hong Kong dollar. The Euro and Korean won weakness marginally detracted from performance.

## Commentary and Outlook

In the Fund's December 2012 quarterly report, we described the 4G/LTE smartphones proliferation as one of the most interesting investment themes for 2013.

During this quarter several announcements from telephone operators in Europe and Asia confirmed our thesis that a capital expenditure upgrade cycle to LTE is only a matter of WHEN not IF, for those operators willing to remain competitive in their respective marketplaces.

In fact, in Europe we noticed that KPN (Netherlands), Telecom Italia and Deutsche Telecom all reinforced their intentions to spend more money developing and building next generation mobile networks.

Moreover, in Asia we had another confirmation of this trend from China Mobile, the giant wireless operator with the largest wireless capital spending budget in the world. China Mobile announced its 2013 capital expenditures will increase by 49% compared to 2012, well-above analyst expectations.

More recently, we added to the portfolio two holdings in companies that we believe are going to specifically benefit from this LTE technology transition and expanding market opportunity: Anritsu Corporation in Japan and Skyworks Solutions Inc in the US.

**Anritsu** is not a name most Australians would be familiar with, but many may remember the metallic green, built-like-a-tank payphones that were once an almost ubiquitous sight on our streets. Anritsu manufactured and supplied these to Telecom starting in the 1970s. As one might suspect, payphones are no longer a growth market, but in the interim Anritsu has transformed into one of the world's leading mobile infrastructure testing companies.

Anritsu is a rare example of a mid-cap Japanese company that has managed to break free of its reliance on its parent company (in this case NEC) and become globally competitive. For many years though it didn't look like it would. For about twenty years to 2008, there were few signs of life at Anritsu – growth was slow, returns dismal and management insular. But there were two events, one fortuitous, the other deliberate, that changed the direction of the company.

The first was Japan's early rollout of 3G mobile services. Turning on a new network requires extensive testing, both of the network itself and the handsets that run on it, and being the leading domestic manufacturer of this testing equipment, Anritsu, got a head start on its global peers by a couple of years when Japan started the first commercial 3G network in 2001. While they ran on different frequencies, 3G was the first wireless standard that was more or less identical globally and Anritsu was able to leverage that lead into sales at global carriers and handset manufacturers. The second, while significant, took time to take effect. After the IT bubble burst, Anritsu embarked on a comprehensive restructuring program that focused on improving returns and setting key objectives; one area that got cut was wasteful research and development projects that had no clear path to sales. The result was a fundamental shift in the underlying profitability of the business that has only emerged in the last two to three years. So today, not only do we have a transformed business that has the potential to be more profitable through investment cycles, but handset makers and carriers are in the early stages of rolling out 4G/LTE networks which should drive another wave of investment in Anritsu's testing equipment.

**Skyworks Solutions** is a supplier of high performance radio frequency (RF) components<sup>1</sup> and compound semiconductors to the global mobile industry. The company also provides analogue and mixed signal semiconductors to markets like automotive, broadband, energy management, industrial and military applications. Skyworks was formed through the merger of the wireless communications business of Conexant Systems Inc and Alpha Industries Inc in 2002.

The company is a leader in design and manufacturing of Gallium Arsenide (GaAs) semiconductors which tend to have superior electronic properties compared to those made of silicon. In particular GaAs transistors can generally perform better than their silicon-based peers at frequencies in excess of 250 GHz and they are relatively insensitive to heat. These properties make GaAs circuitry ideal in mobile phones, satellite communications, microwave point-to-point links and higher frequency radar systems. Skyworks' key RF products include a number of essential components for mobile devices, smartphones and tablets: power amplifiers, front-end module and switches. Skyworks is one of the few companies in this industry able to provide a full set of components (from antenna to transceiver) for the needs of mobile device manufacturers. Attesting to the company's unique position in the mobile supply chain are its 35% market share and its marquee customer list, especially industry leaders Apple and Samsung.

We believe that Skyworks is well-positioned to benefit from some important trends developing in the mobile devices industry. More specifically:

1. The global smartphone market is expected to more than double in volume from 700 million units shipped in 2012 to 1.5 billion in 2017.
2. Later generation cellular technologies (4G/LTE) require exponentially higher RF content because these phones have to support more frequency bands. While a feature phone may need to support between 2 to 4 bands of spectrum frequency, an entry level 3G smartphone may support between 6 and 8 bands. High-end smartphones (e.g. iPhone, Galaxy etc) that are both 3G and 4G can

support up to 15 bands. One reason for this exponential growth is backward compatibility – a 4G phone must be able to pick up 3G frequencies when it cannot find a 4G network.

3. The added complexity and functionality of the RF components provides an opportunity for higher value added products that benefit RF semiconductor manufacturers like Skyworks.

For the above reasons we consider Skyworks, trading at less than 10x P/E for September 2013, a very attractive investment.

In addition to the abovementioned mid-cap stocks, the Fund is also exposed to the LTE theme through large-cap names such as Ericsson, Samsung Electronics, Vodafone and Cisco Systems.

Large-cap technology stocks valuations remain extremely attractive compared to their historic level, as well as smaller-cap stocks and the Fund remains accordingly positioned in order to benefit from their eventual re-rating. Samsung Electronics trades at 7.7x P/E for 2013 with an expected earnings growth of 27%. Similarly, Microsoft trades at 10.1x P/E for June 2013 and Cisco trades at 10.7x July 2013.

<sup>1</sup> In a radio receiver circuit, the RF front-end is a generic term for all the circuitry between the antenna and the first intermediate frequency (IF) stage. It consists of all the components in the receiver that process the signal at the original incoming radio frequency (RF), before it is converted to a lower intermediate frequency (IF). (Wikipedia).

## Notes

1. The investment returns are calculated using the Fund's unit price and represent the combined income and capital return for the specific period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. You should be aware that historical performance is not a reliable indicator of future performance. Due to the volatility of underlying assets of the Funds and other risk factors associated with investing, investment returns can be negative (particularly in the short-term).

The inception dates for each Fund are as follows:

Platinum International Fund: 30 April 1995

Platinum Unhedged Fund: 31 January 2005

Platinum Asia Fund: 4 March 2003

Platinum European Fund: 30 June 1998

Platinum Japan Fund: 30 June 1998

Platinum International Brands Fund: 18 May 2000

Platinum International Health Care Fund: 10 November 2003

Platinum International Technology Fund: 18 May 2000

2. The investment returns depicted in this graph are cumulative on A\$20,000 invested in the relevant Fund over five years from 31 March 2008 to 31 March 2013 relative to their Index (in A\$) as per below:

Platinum International Fund - MSCI All Country World Net Index

Platinum Unhedged Fund - MSCI All Country World Net Index

Platinum Asia Fund - MSCI All Country Asia ex Japan Net Index

Platinum European Fund - MSCI All Country Europe Net Index

Platinum Japan Fund - MSCI Japan Net Index

Platinum International Brands Fund - MSCI All Country World Net Index

Platinum International Health Care Fund - MSCI All Country World Health Care Net Index

Platinum International Technology Fund - MSCI All Country World Information Technology Net Index

(nb. the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist).

The investment returns are calculated using the Fund's unit price. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), pre-tax and assume the reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.

3. Long invested position represents the exposure of physical holdings and long stock derivatives. The net invested position represents the exposure of physical holdings and both long and short derivatives.

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