

# Platinum International Technology Fund



Alex Barbi Portfolio Manager

## Disposition of Assets

REGION	MAR 2015	DEC 2014
North America	30%	28%
Asia and Other	28%	29%
Europe	12%	15%
Japan	9%	9%
Africa	2%	1%
Russia	1%	1%
Cash	18%	17%
Shorts	3%	0%

Source: Platinum. Refer to Note 3, page .

## Performance

(compound pa, to 31 March 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund	9%	21%	20%	11%	10%
MSCI AC World IT Index	10%	41%	25%	16%	-3%

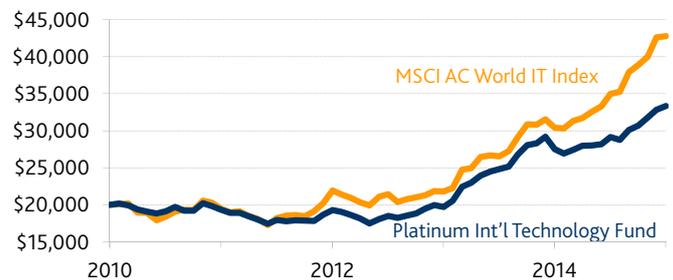
Source: Platinum and MSCI. Refer to Note 1, page .

During the quarter the Fund was up by 9% and the MSCI All Country World Information Technology Index (A\$) was up by 10%. For the 12 months to March, the Fund's return was +21%, compared to +41% for the Index, with a net invested position at 79% as of 31 March.

As we predicted last quarter, the impact of the persistent strength of the US dollar against all major currencies has started surfacing through US corporate results, penalising those companies with a large exposure to international (i.e. non-US) export markets. The US dollar appreciated by 11% against the Euro in the March quarter alone. Technology investors have taken notice and the tech-heavy Nasdaq index was up only 1.8% for the quarter (in local currency).

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

31 March 2010 to 31 March 2015



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

The Fund's investment approach is based on portfolio construction independent of the benchmark, and we believe this is one way to protect our investors from loss, particularly at times of excessive market euphoria. We remain convinced that our holdings in Asia and Europe are very attractively valued and the Fund is properly positioned for long-term outperformance.

Contribution from currencies was positive again this quarter, with the benefits from the Fund's net total exposure to the US dollar (62%) and the Hong Kong dollar (9%) only partly offset by the weak Euro (10%). Exposure to Japanese stocks remains fully hedged into US dollars.

## Changes to the Portfolio

During the quarter we exited our position in **Skyworks**, the last of our radio-frequency semiconductors stocks that have benefited from the explosion of 4G smartphones over the last few years. The stock is now up fivefold since we first bought it, but the valuation has reached our target and global smartphones growth is now expected to slow down in 2015 (still a solid +15%, but down from +28% in 2014).

We also exited **Nippon Electric Glass** after a meeting with the company's management revealed a few flaws in our original thesis of a reversal in the structural decline of LCD glass prices. If the company insists on pursuing higher market shares through the addition of manufacturing capacity for what is a seemingly less competitive product, it will prove very challenging for them to improve profitability.

We invested in **Fujitsu**, the largest IT services provider in Japan and the fourth largest globally after IBM, Hewlett-Packard and Accenture. Despite its leading position, it trades at a discount to its IT peers and remains off the radar screens of most global investors, partly due to its perceived old-world mainframe technology and low margins. Being a large solutions provider in Japan, however, is a steady, predictable and defensible business. Japanese IT investment has been largely unchanged over the last few years despite a recovering economy, and the macro environment is now conducive to higher IT spending across all industries. We expect the focus on IT investment to shift from a defensive one (lowering enterprise costs) to an offensive one (product and market development) as corporates flush with cash and earnings will now be able to increase their IT budgets and use IT more effectively. Despite being well-placed to benefit from this trend, Fujitsu is valued at 11x P/E and it is generating a 9% free cash flow yield for the next financial year.

We added to **Micron Technology** as we believe that current pricing weakness in dynamic random access memory (DRAM) is only a temporary issue and largely due to seasonally weak PC sales. We believe that DRAM pricing will start to flatten as demand starts picking up again, driven by the launch of new smartphones (e.g. the newly launched Samsung Galaxy S6 has 3GB, versus 2GB of the previous model), ramp-ups in China's smartphone production, continued strength in data centres/servers and stabilisation of PC demand. Moreover, the supply chain remains disciplined and this underpins our long-term thesis. Micron's major competitor, Samsung, is postponing further capacity additions as it has likely reached its internal yields and capacity targets, while fellow South Korean competitor, SK Hynix, is behaving with similar restraint. Trading at 7.5x P/E for this financial year, we believe the stock is very attractive, again, with limited downside risk.

We also added to **Samsung SDI (SDI)**, a subsidiary of Samsung Electronics with exposure to very attractive businesses. We have followed this company for a few years, and we now think its position as a leading manufacturer of Lithium-ion batteries for electric vehicles (EV) provides a very interesting way to invest in a nascent segment of the transportation industry.

## Commentary

### The Incoming EV/Hybrid Vehicles (R)evolution

The recent success of US EV manufacturer, Tesla Motors, in designing, marketing and achieving relative popularity for its high-performance cars, despite widespread scepticism, has surprised many industry observers. The company's founder, Elon Musk, whom many like to compare to Steve Jobs for his visionary skills (he co-founded PayPal and is also behind other high-tech ventures like Solar City and Space-X), has definitely captured the attention of many car industry participants. Perhaps for the first time since the introduction of the highly innovative hybrid EV Toyota Prius, traditional automotive players are seriously considering alternative propulsion systems for their cars, either as full EVs, hybrids (traditional combustion engine combined with a battery-powered electric one) or fuel cell (hydrogen powered) EVs.

Notwithstanding the prevalence of doubts concerning the limited driving range and the inconvenience of long charging times, the technology is rapidly improving and costs are gradually coming down. Hence we believe it is only a matter of time before these "alternative fuel vehicles" gradually come to account for a larger portion of the global car fleet.

The innovative design adopted by Tesla for its battery pack (based on traditional Panasonic small cylindrical cells) is probably only the beginning of a long series of improvements that will help promote higher EV adoption in the mass market.

We are, however, still in the early stages of this secular trend. In 2014, out of a total of 17.5 million cars sold in the USA, probably the most advanced market, only 100,000 were EVs and plug-in hybrid EVs (PHEVs) – a relatively small amount, but still an increase of 30% from the previous year. Individual resistance to adoption is understandable due to higher initial costs, range anxiety and questions about battery longevity. Moreover, the recent oil price collapse has made the economic benefit of driving an EV less compelling.

But things may change. Other factors like high levels of air pollution in urban areas and regulation on carbon emissions may provide additional momentum in the short and medium term. In the USA, for example, eight States representing in aggregate around a quarter of all car sales in the country are aiming for a fleet of 33 million zero emission vehicles by 2025. In major European cities, diesel cars are targeted by local authorities due to their health damaging particulate emissions: both London and Paris are planning to limit or ban diesel cars from the streets from as early as 2020.

Moreover, European Union (EU) legislation has set mandatory emission reduction targets for new cars:<sup>1</sup>

<sup>1</sup> The European Commission: [http://ec.europa.eu/clima/policies/transport/vehicles/cars/index\\_en.htm](http://ec.europa.eu/clima/policies/transport/vehicles/cars/index_en.htm).

*The fleet average to be achieved by all new cars is 130 grams of CO<sub>2</sub> per kilometre (g/km) by 2015 – with the target phased in from 2012 – and 95g/km by 2021, phased in from 2020.*

*The 2015 and 2021 targets represent reductions of 18% and 40% respectively compared with the 2007 fleet average of 158.7g/km.*

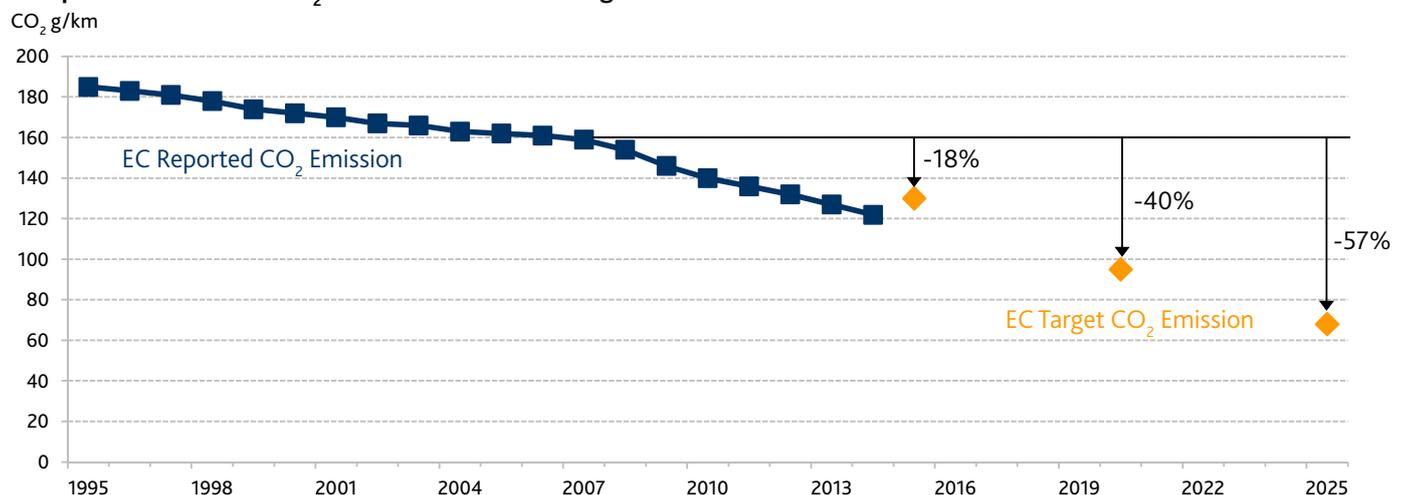
*In terms of fuel consumption, the 2015 target is approximately equivalent to 5.6 litres per 100 km (l/100 km) of petrol or 4.9 l/100 km of diesel. The 2021 target equates to approximately 4.1 l/100 km of petrol or 3.6 l/100 km of diesel.*

In case you are in doubt about the seriousness of the European Commission, they have also provided for penalties:

*If the average CO<sub>2</sub> emissions of a manufacturer's fleet exceed its limit value in any year from 2012, the manufacturer has to pay an excess emissions premium for each car registered. This premium amounts to €5 for the first g/km of exceedance, €15 for the second g/km, €25 for the third g/km, and €95 for each subsequent g/km. From 2019, the cost will be €95 from the first gram of exceedance onwards.*

In China, the government has become increasingly worried about the broad effects of unsustainable levels of air pollution and introduced new subsidies for “green” vehicles. All “new energy” vehicles would be exempt from the 10% national sales tax, which goes hand-in-hand with local and national

## European Commission CO<sub>2</sub> Emission Reduction Targets



Source: The European Commission

incentives. For example, Beijing now provides a subsidy of up to CNY60,000 (A\$12,700) for the purchase of an all-electric battery car and up to CNY35,000 (A\$7,500) for a "near all-electric" plug-in vehicle. Buyers of these vehicles are also exempt from the costly licence plate lottery, which was instituted to stem the tide of new cars flooding China's roads. China also ordered government officials to use more EVs and PHEVs as part of its drive to cut pollution by putting five million such vehicles on the road by 2020.

It is therefore not surprising that even traditional car manufacturers are announcing new electric cars and particularly PHEVs<sup>2</sup>, which can help achieve more easily the mandated carbon emissions reduction. So, in Germany, BMW has promised that its entire range will eventually be electrified and that a PHEV version of the popular 3 Series should hit the market probably in early 2016. Similarly, Volkswagen, Audi, Daimler, Volvo, Mitsubishi, Renault, Nissan and others have all launched or are in the process of launching new PHEVs.

SDI is well-placed to benefit from growth in this emerging industry, thanks to its existing expertise with Lithium-ion batteries for consumer electronics and smartphones in particular – they are the leading supplier of small-size batteries to Samsung Electronics and its competitors.

More recently, they have also developed new medium and large size batteries targeting EVs and energy storage systems (ESS). SDI is supplying large Li-ion batteries to BMW for their current EVs (i3 and i8) and future PHEVs (SUV X5 and possibly the 3 Series). It is also a leading supplier of ESS

<sup>2</sup> A PHEV requires a smaller battery pack compared to a full EV, typically a 9-15 kWh capacity versus 80-90 kWh. The advantage is that it takes less space and is easier to adapt to existing conventional combustion engine-based power-trains.

batteries to manage power storage/distribution for customers as large as electricity networks/grids as well as smaller commercial and residential users.

While SDI's medium and large size battery businesses have not achieved optimal scale and they are still losing money, we are confident that, once the end markets mature, they will become profitable. In the meantime, corporate profitability will be supported by expected solid growth in small batteries (e.g. new polymer batteries for the Galaxy S6), electronic materials (largely polarising film for flat panel displays and organic light-emitting diode (OLED) materials) and other semiconductor materials.

In this context, we think that SDI, trading at only 0.9x its book value, represents an attractive play on the future development of this emerging industry over the next five years.

## Outlook

With the US economy sending contrasting signals about its underlying strength and the persistent appreciation of the US dollar, it is likely, as we have previously mentioned, that the US Federal Reserve may defer any aggressive tightening of monetary policy. While we have no crystal ball on when Mrs Yellen will eventually start raising interest rates, we are well aware that this bull market has partly been supported by easy money and, when that stops, it will not be good for the over-extended names. Therefore, we try to stay away from over-valued and momentum-driven stocks.

In the Fund, we continue to add to our holdings with predictable earnings growth and reasonable valuations, while reducing the positions that have now reached their full revaluation potential.

## Notes

1. The investment returns are calculated using the relevant 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: 28 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

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

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 2010 to 31 March 2015 relative to its benchmark 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

The investment returns are calculated using the relevant 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 benchmark 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. Invested position represents the exposure of physical holdings and long stock derivatives.

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