

Platinum International Technology Fund



Alex Barbi Portfolio Manager

Disposition of Assets

REGION	JUN 2013	MAR 2013
North America	26%	22%
Asia and Other	22%	32%
Europe	20%	20%
Japan	11%	6%
Africa	1%	1%
Cash	20%	19%
Shorts	2%	1%

Source: Platinum

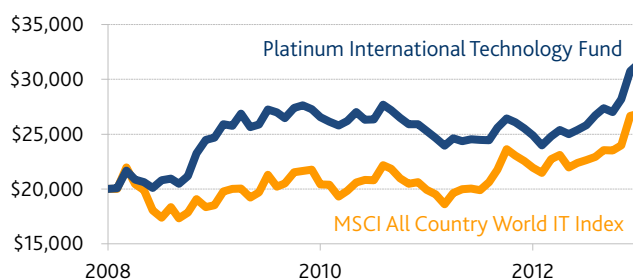
Performance and Changes to the Portfolio (compound pa, to 30 June 2013)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Int'l Tech Fund	17%	26%	6%	9%	8%
MSCI AC World IT Index	14%	23%	10%	6%	-7%

Source: Platinum and MSCI. Refer to Note 1, page 5.

Technology stocks in the US ended the quarter up as illustrated by the Nasdaq Composite Index increasing by 4.2% when measured in US dollars. After an early rally driven by improving US economic data, animal spirits were cooled down by the US Federal Reserve's hints of a possible gradual withdrawing of monetary stimulus. As if that was not enough to scare the market, the Chinese authorities joined in with a drastic approach to curb excessive lending practices of their domestic banks and that contributed to further weakness.

Value of \$20,000 Invested Over Five Years 30 June 2008 to 30 June 2013



Source: Platinum and MSCI. Refer to Note 2, page 5.

The Fund benefited, however, from currency movements as the Australian dollar lost ground against all major counterparts. The largest exposures in the portfolio were into US dollar (45%), followed by the Euro (20%) and the Hong Kong dollar (10%), while the Australian dollar and Japanese yen remain minimal at 3% and 1% respectively.

When measured in Australian dollars the Fund was up by 16.6% for the quarter compared to 14.4% for the MSCI World Information Technology Index (A\$).

In this context, the Fund's best performers were BYD Electronic (handsets components), Micron Technology (DRAM and NAND memories), Microsoft (software), Ciena (optical communications) and Cisco (data networking). Detracting from performance were Samsung Electronics (handsets, digital appliances and semiconductors), Prysmian (telecom and energy cables), Anritsu (mobile infrastructure testing) and O-Net (optical networking components).

During the quarter, we exited our investment in the Philippine Long Distance Telephone Company after achieving target valuations and introduced new names in the semiconductor industry. We identified and invested in a few names with very interesting valuations and long-term growth characteristics which should outperform even in a cyclical slowdown: **NXP Semiconductors, Micron Technology and Intel**.

Commentary

NXP Semiconductors is a semiconductor designer and manufacturer specialising in High Performance Mixed Signal¹ (HPMS) products. These products provide solutions to a wide range of industries including automotive, mobile communication, consumer and computing. Originally a division of Dutch conglomerate Philips, in 2006 it was acquired by a consortium of private equity investors and subsequently listed on the US stock market in 2010.

The new shareholders installed a new leadership team (largely from outside the bloated ex-Philips organisation) and they embarked on re-focusing the products portfolio along the

most profitable and attractive market segments. They divested several loss-making operations such as the cordless terminals, digital TVs and set-top boxes, sounds solutions etc and they concentrated their efforts largely on HPMS in markets where they already had leadership positions.

HPMS is an attractive market given high barriers to entry, longer product cycles, lower capital expenditure requirements and better margins compared to other segments of the semiconductor industry. With a portfolio of more than 11,000 patents, second only to Texas Instruments in this field, NXP is among the leaders in many areas such as automotive (key-less entry, immobiliser, speed sensors, in-car networking), identification (electronic government ID, authentication systems), wireless infrastructure (base stations, satellite) and lighting (thanks to its Philips heritage with LED drivers, compact fluorescent lamps etc).

The company trades at an attractive 11x P/E for 2013 with strong cash flow generation fast reducing its somewhat excessive debt. We believe it will deliver double digit and above earnings growth for the semiconductor sector over the next two years.

The Fund has also invested in **Micron Technology**, a manufacturer of memory chips (Dynamic Random Access Memory or DRAM and flash memory). Historically, memory semiconductor has proven to be a very tough industry with commodity-like characteristics and huge investments required to remain technologically competitive. Over the last decade, more often than not, Micron was loss making and two other major memory makers filed for bankruptcy. To compound the problems for Micron and the industry, the PC market also started to slow down in the past two years.

2012 was a very difficult year for Micron but it also proved to be the turning point for the industry when Elpida of Japan, the fourth largest DRAM producer, filed for bankruptcy. We became interested when Micron decided to opportunistically acquire the assets of the bankrupt company for approximately 30 cents in the dollar. With this acquisition Micron is increasing its manufacturing capacity by 45% and the "new" Micron will overtake Korean SK Hynix in terms of global

¹ A mixed signal integrated circuit is one that has both digital and analog circuits on a single semiconductor die. The analog component processes real electrical signals through differences in voltage, current or frequency. The digital one detects the presence or absence of electrical charge and processes them as a series of "1s" and "0s".

manufacturing capacity, becoming second only to industry leader Samsung. Scale is a significant factor in the capital intensive memory semiconductor industry and the improvement in the competitive landscape with the exit of three players in the last few years will dramatically improve return on capital invested for the remaining companies. In recent months, DRAM prices have recovered strongly thanks to a situation of undersupply, favoured by the consolidation process and by manufacturers' reluctance to invest in new capacity a few years before big technological changes take place.

Moreover, Micron now finds itself supplying two significant growing markets as Elpida provides access to critical low power technology (very useful for smartphones and tablets). When combined with its own flash memory chips, Micron is now one of three fully integrated mobile memory chip suppliers to the fast growing smartphone industry and capable of gaining market share in the coming years. The increased popularity of the new applications is also more than offsetting the weakness created by a soft PC environment. Micron is also well-positioned in the fast growing Solid State Drive (SSD)² market. As notebook PCs become increasingly lighter and thinner, and consumers are demanding better portability, we anticipate demand for SSDs to grow strongly in the medium-term.

We believe the memory semiconductor industry is finally on the verge of transforming from a commodity business to an oligopoly where suppliers will be more considerate with their expansion plans. While we are aware that transition to new technologies (such as 3D-NAND and larger 450mm wafers) may potentially disrupt the equilibrium, we think that they will not become material until 2015 at the earliest, and believe that the next two-three years will prove to be very profitable for Micron and the industry.

Intel has a quasi-monopoly position for microprocessors used in PCs and servers, and it controls about 90% of these markets in dollars terms. With the explosion of demand for

smartphones and tablets, the processor market is, however, going through radical changes. With increasingly more consumers buying tablets rather than new desktops or laptops, sales of PCs fell for the first time in 2012 since anyone can remember, and it is now feared that PCs could be in secular decline.

Your Apple iPhone, Apple Tablet and Samsung Galaxy use different processors than your computers. While PCs and laptops are built using semiconductors designed on Intel's x86 proprietary instruction set, almost all mobile devices use the ARM instruction set owned by UK listed ARM Holdings. ARM licences its design to a large number of semiconductor manufacturers including Apple, Samsung and Qualcomm.

So far Intel has failed to gain traction in the new mobile markets because its processors were originally designed for speed rather than efficient power usage. Some investors believe that Intel won't ever be competitive in mobile either because its x86 instruction is inefficient; ARM has too much lead in developing its mobile software ecosystem; or device makers will resist a shift to Intel processors.

We disagree. We believe Intel has the most advanced semiconductor manufacturing technology and deep engineering talent. Intel's mobile chips have already been competitive with ARM alternatives for battery life and processing power since late 2012, disproving the theory that the x86 instruction set is inefficient. Moreover, Intel's chips are going to improve rapidly over the next two years, at a faster rate than ARM, thanks to a complete redesign of its five year old architecture and a transition to smaller 22 nanometre transistor size and a "tri-gate" design³.

ARM's mobile software ecosystem isn't the same fortress protecting it from competition that Windows/Intel have enjoyed in PCs. Mobile software is far simpler and often built using common building blocks, making switching far easier. Intel has worked hard at porting the Android operating system and Apps to x86 and there are devices in the market proving

² Solid State Drive (SSD) (also known as a solid-state disk or electronic disk, though it contains no actual "disk" of any kind, nor motors to "drive" the disks) is a data storage device using integrated circuit assemblies as memory to store data persistently (Source: Wikipedia).

³ Intel "tri-gate" or "3D" transistors waste less power from leakage when idle and can operate at a lower voltage meaning they will have improved performance, significant power savings at a lower voltage, or a balance of both. Intel estimates that its new chips will have 1.6x the performance of competing smartphone products and 2x tablet products.

they have been successful. Some commentators suggest that Apple have also prepared their iOS operating system to switch to Intel if necessary, and over the last six months there have been hints that Apple and Intel have been negotiating a deal.

If Intel has a better chip and there is no barrier from ARM's software ecosystem, will device makers shift to Intel? The tablet and smartphone market is hyper-competitive, and as long as Intel's chips are priced competitively we believe a power and/or performance advantage should be compelling. Will Samsung and Apple, the two giants, shift? Samsung manufactures some of its own processors but just announced that its next 10" Samsung Galaxy 3 Android tablet will use Intel's current chip. It's a good start and it gives us more confidence that Intel has the right products.

Earlier in the year, Intel's stock price fell 30% from its peak in mid-2012 and we initiated a position when it was trading at around 10-11x current year earnings.

Outlook

With contrasting signals coming from the American consumer (seemingly recovering), China (potentially in the midst of a government-engineered slowdown) and Europe (continually struggling to exit a period of persistent slow growth/recession), we remain selective in our stock selection across sectors and geographies.

Despite recent volatility in the markets, we still find valuations in technology attractive, with company balance sheets exceptionally strong and well-positioned for a recovery in world growth. The Fund remains committed to its main large cap holdings given their attractive valuation and growth characteristics.

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 30 June 2008 to 30 June 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.

Disclaimer

This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 trading as Platinum Asset Management (Platinum®). It contains general information only and is not intended to provide any person with financial advice or take into account any person's (or class of persons') investment objectives, financial situation or needs. Before making any investment decision you need to consider (with your financial adviser) whether the information is suitable in the circumstances.

Platinum is the responsible entity and issuer of units in the Platinum Trust Funds® (the Funds). You should consider the PDS and Supplementary PDS in deciding whether to acquire, or continue to hold, units in the Funds. You can obtain a copy from Platinum's website, www.platinum.com.au, or by phoning 1300 726 700 (within Australia), 02 9255 7500, or 0800 700 726 (within New Zealand), or by emailing to invest@platinum.com.au.

No company in the Platinum Group® guarantees the performance of any of the Funds, the repayment of capital, or the payment of income. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum).

© Platinum Asset Management 2013. All Rights Reserved.

MSCI Inc Disclaimer

Neither MSCI Inc nor any other party involved in or related to compiling, computing or creating the Index data (contained in this Quarterly Report) makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI Inc, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the Index data is permitted without express written consent of MSCI Inc.