

# PLATINUM INTERNATIONAL TECHNOLOGY FUND



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## PERFORMANCE

During the quarter the Fund rose 11.1% compared to an increase of 6% in the MSCI World Information Technology Index (in A\$ terms) and a 4.7% increase in the MSCI Telecommunications Index (A\$). Since its inception in 2000, the Fund rose by 10.2% compound pa, against a decline of 19.1% pa for the IT index.

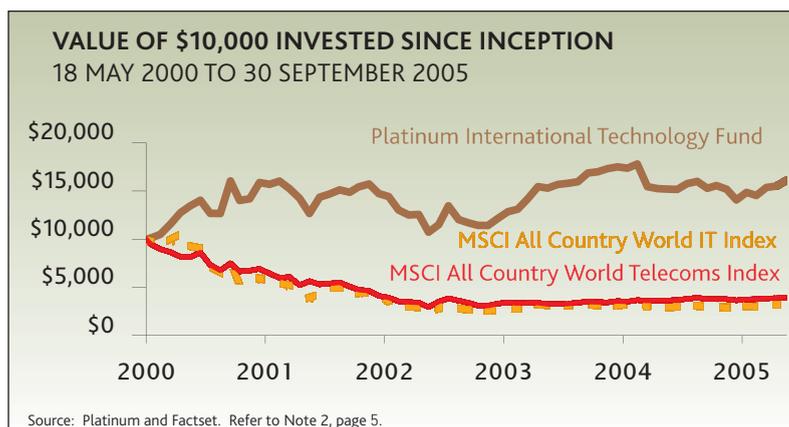
Within the main sectors, the worst performing one was Telecommunication Services (+3%), the best was Technology Hardware and Equipment (+7.8%). Semiconductor and Semiconductor Equipment was up 4.7%, while Media stocks were lagging at +1.5%.

A significant number of the Fund's largest positions increased substantially during the quarter, contributing to the Fund's outperformance. Foundry Networks (data networking) rose 53%, Alcatel (telecom equipment) was up 25%, Ushio (lighting technology) and Samsung Electronics (semiconductors and electronic components) were up 21%.

The impact of currencies on performance was marginally negative, with the A\$ virtually flat against the US\$ and euro, while the Japanese yen was weaker.

DISPOSITION OF ASSETS		
REGION	SEP 2005	JUN 2005
OTHER ASIA (INCL KOREA)	30%	21%
NORTH AMERICA	23%	17%
JAPAN	18%	19%
EUROPE	17%	14%
CASH	12%	29%
SHORTS	0%	5%

Source: Platinum



## CHANGES TO THE PORTFOLIO

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We repositioned our portfolio by increasing our exposure to Asian markets (Japan and Asia now represent around 50% of the Fund's assets). Our preference is for component manufacturers; in Asia, those serving mobile handsets and LCD TVs, and in Japan those supplying electronics and optical industries.

In Japan we exited our investments in NTT and NTT DoCoMo as we believe the competitive threats to incumbent telecom operators are escalating dangerously (more below). We invested in Toshiba and TDK as we believe that they will profit from their strong positions respectively in flash memories and hard disk drives' heads.

While not completely immune from a possible slowdown of consumers' spending in the US, we believe Asian companies will benefit more directly from stronger domestic economies in their local markets. With India and China on the verge of mass adoption of Internet access and mobile telephony, we think these markets will be important drivers for technology companies globally.

## COMMENTARY

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### Beginning of the End

*“The demise of the fixed communications monopoly is near. A new breed of operators, bundling more or less free voice with a package of more advanced services ('tripleplay'), are attacking the main revenue source of incumbents. This is likely to exert pressure on wireless carriers to cut prices and dimension their networks for a seachange in traffic. It should speed the mobile revolution and benefit its suppliers ... Long live the Internet. Without it, PC users would not have such easy access to information on a global scale, nor the speed and breadth of interactivity via emails. Now, one of its champions, Google is*

*boosting its power through the launch of a telephony service. Such initiatives, likely to be replicated by Internet rivals, notably Yahoo, E-bay and Microsoft, herald the start of an entirely new pricing model that may constitute the death knell to many former telecom monopolies, already under severe pricing (and cost rationalisation) pressure due to the onslaught from leaner and more commercially minded CATV service providers and cellular carriers; the latter camp being capable of differentiating themselves through wide-area mobility.”*

(Per Lindberg - Dresdner Kleinwort Wassertein - 14 September 2005)

While analyst Per Lindberg is well known for the use of powerful language to express his views, we concur with him when he foresees revolutionary forces at work across the global telecommunications' landscape.

As we wrote in December 2003: *“Within five or ten years, the majority of telephone calls will no longer be carried on the traditional circuit-based telecommunications infrastructure. Instead, a traditional voice call will be digitised and converted into numerous little data packets. Unlike the traditional infrastructure, where each voice call requires its own dedicated closed circuit, data packets are transported over the public Internet network. These data packets are reassembled at their destination before being converted back into voice signals ...”.*

Almost two years later, the adoption of Voice over Internet Protocol (VoIP) is accelerating and the competitive threats posed by new players to large incumbent telecom operators are dangerously real; on this basis we largely avoided investments in wire-line telecom operators and decided instead to invest in telecom equipment vendors, ultimate beneficiaries of a new capital expenditure cycle.

More recently, a series of acquisitions and new product announcements from large media and Internet companies, suggests that telecom operators relying solely on traditional telephone services will face powerful headwinds.

In the period between July and September we witnessed the following announcements in the Internet/Media/Telecom arena:

1. Google launched Google Talk, a free instant messaging program subscribers can use to send text messages and to make voice calls with their computers.

2. Ebay paid US\$3 billion to acquire Skype, a peer-to-peer VoIP operator, with a loyal 54 million subscriber-base, who use their PCs, headsets and microphones to communicate to each other. A peer-to-peer (or P2P) network relies solely on the computing power and bandwidth of individual participants rather than on central servers. The network itself is made up of subscribers' PCs.

Skype's service is free if the other party is also a subscriber. If the call is to a normal phone line the calls are charged at 2-3 cents a minute (worldwide!). Ebay's acquisition was predicated on the belief that users of its auction website will benefit from this new real-time service and number of transactions will increase.

3. AOL launched Internet phone services, including free PC to PC voice calls.

4. Microsoft acquired small software company Teleo to provide VoIP services. The software will be integrated with web browser Internet Explorer and email program Outlook.

5. Microsoft partnered with telecom operator Qwest to provide Internet phone services to small business in the US.

6. In August Newscorp's Chairman announced: *"There is no greater priority for (Newscorp) today than to meaningfully and profitably expand its Internet presence and to properly position ourselves from the explosion in broadband usage that we're now starting to see."* Soon after Newscorp acquired US based InterMix for \$580 million. It controls popular website MySpace.com, a social networking destination very popular among younger users.

7. US telecom operator Verizon will offer TV services to three million households by the end of 2005. They will include 140 channels at US\$37 per month (cheaper than equivalent cable-TV services) and they will be based on Verizon's new fibre-optic network, which is able to carry voice, data and video with a speed of up to 30 Megabits per second!



All of a sudden companies with tens of millions of subscribers/users are launching Internet phone and TV services, or new on-line businesses. What is going on?

The revolution started in the mid-nineties when huge amounts of money were spent by old and new telecom operators to build telecom and data networks based on Internet Protocol (IP). They built new switching centres and laid thousands of miles of fibre-optic cables to carry data around the globe based on this technology. The rush to build high-speed capacity networks was so fast that the world ended-up with too much (at least temporarily). Ten years later, with new services like broadband Internet connection and 3G mobile phones being offered, traffic at the users' end of networks is increasing exponentially. Compare Verizon's 30 Mbps (30 million bits per second) to the original dial-up Internet connection at 64 Kbps (64,000 bits per second) we all started with. It's nearly a 500 times increase in speed over the last ten years!

Use of the Internet is evolving from the simple search/directory functions of its beginnings, to complex portals where voice communication, video streaming, music downloading, eCommerce and access to news converge. Traditional players in their respective fields are scrambling to protect their existing business or to enter new ones. Indeed a broadband-powered Internet has the potential to migrate millions of customers from incumbent phone operators or traditional broadcasters.

Perhaps these developments may help Australian investors understand why Telstra is now suddenly in the eye of the storm. With competition coming from the Internet, and telecom operators like Optus, I.Primus and Iinet soon able to install their own switches into Telstra's buildings, the incumbent is facing a tougher future. The tug-of-war between government, regulator and management, is only a fig-leaf hiding the fact that Telstra is still relying on its traditional copper based network from which they extract a high profit margin (estimated to be 60%). Should competition suddenly be able to attack (as it has already been the case in more competitive markets such as the US), Telstra would be forced to accelerate its investment plans to upgrade its network. Moreover, considering that Telstra is also a major shareholder of Foxtel, it is in the awkward position of not being able to develop a "TV-over-fibre" strategy similar to those adopted by major telecom operators around the world. A solution to these contradictions is no longer deferrable.



## OUTLOOK

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We are likely to continue to see volatility in the Fund over the next few months, as we enter the critical pre-Christmas season in the US and Europe. Shipments of electronic consumer goods such as PCs, mobile phones and flat panel TVs have so far been generally in line or better than expectations. It is too early to know to what extent a higher energy bill (gasoline and heating oil) will restrain consumers' appetites, but we suspect it will have an impact.

The Fund remains heavily invested in telecom equipment and data networking stocks as we believe that the next wave of competition is going to trigger a strong capital expenditure upgrade cycle.

## NOTES

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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 past 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).

2. The investment returns depicted in the graphs are cumulative on A\$10,000 invested in the relevant Fund since inception relative to their Index (in A\$) as per below:

Platinum International Fund:  
Inception 1 May 1995, MSCI All Country World Net Index

Platinum Asia Fund:  
Inception 3 March 2003, MSCI All Country Asia ex Japan Net Index

Platinum European Fund:  
Inception 1 July 1998, MSCI All Country Europe Net Index

Platinum Japan Fund:  
Inception 1 July 1998, MSCI Japan Net Index

Platinum International Brands Fund:  
Inception 18 May 2000, MSCI All Country World Net Index

Platinum International Health Care Fund:  
Inception 10 November 2003, MSCI All Country World Health Care Net Index

Platinum International Technology Fund:  
Inception 18 May 2000, MSCI All Country World Information Technology 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.

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Before making any investment decision you need to consider (with your financial adviser) your particular investment needs, objectives and financial circumstances. You should consider the PDS in deciding whether to acquire, or continue to hold, units in the Funds.

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