

# PLATINUM INTERNATIONAL TECHNOLOGY FUND



Alex Barbi  
Portfolio Manager

## PERFORMANCE AND CHANGES TO THE PORTFOLIO

### PERFORMANCE (compound pa, to 30 September 2009)

	QUARTER	1 YR	3 YRS	5 YRS SINCE INCEPTION
PLATINUM INT'L TECH FUND	9%	29%	4%	8%
MSCI WORLD IT INDEX	8%	-2%	-6%	0%

Source: Platinum and MSCI. Refer to Note 1, page 36.

The Fund's value increased by 8.9% during the quarter, compared to an increase of 8.3% for the MSCI World Information Technology (A\$) Index for the same period.

Over twelve months the Fund has recorded a very strong positive 29% return and substantially outperformed both the MSCI World Information Technology (A\$) Index -1.9% and Nasdaq measured in Australian dollar -2.9%.

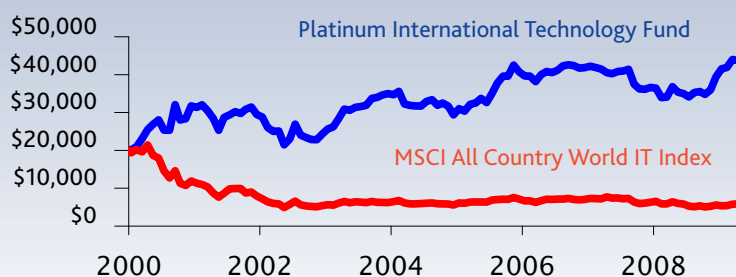
This quarter the largest contributions to the Fund's performance came from Asian holdings. Our decision to add substantially to the position in Samsung Electronics (please refer also to our June 2009 quarterly report) proved to be the correct one, with the stock increasing by 38% over the quarter. Hong Kong listed small caps were also strong performers: Ju-teng International (notebook computers components) +57%, Comba Telecom Systems (China based telecom equipment provider) +82%, and AAC Acoustic (audio components for telecom handsets) +44%.

### DISPOSITION OF ASSETS

REGION	SEP 2009	JUN 2009
NORTH AMERICA	27%	22%
ASIA	24%	27%
EUROPE	19%	15%
JAPAN	14%	9%
CASH	16%	27%
SHORTS	2%	5%

Source: Platinum

### VALUE OF \$20,000 INVESTED SINCE INCEPTION 18 MAY 2000 TO 30 SEPTEMBER 2009



Source: Platinum and MSCI. Refer to Note 2, page 36.

In the US, Veeco Instruments was up 101% as the market became more aware and enthusiastic about opportunities in the LED market, where the company is a strong player. As a reminder, Veeco is the leader together with German based Aixtron in the metal organic chemical vapour deposition tools for the manufacturing of light emitting diodes (LEDs - tiny semiconductor chips that emit light when subjected to a small current). (Please refer also to our original stock story in the March 2008 quarterly report.)

In Europe, performance of our German stocks was strong across the board and we introduced a few new names available at interesting valuations. In France we bought SES, the provider of satellite broadcasting to pay-tv operators across Europe, America, Asia and Africa and in the UK we bought Reed Elsevier, the leader in legal and medical publishing whose business is becoming an internet delivery service.

Japan was only a minor contributor to the Fund's performance thanks largely to the solid progression reported by Jupiter Telecommunication (pay-tv + phone + broadband operator). On the contrary, the recently added positions in Japanese telecoms NTT Docomo and KDDI are not performing as expected and we are reviewing the case for them.

On the negative side we exited earlier than expected (at a small loss) our position in HTC (refer to the Smartphone story in our March 2009 quarterly report). We realised that the company's introduction of several new models based on Google's Android operating systems is more challenging than expected for its business model, with management of disparate software platforms threatening to squeeze long-term profitability.

Short positions in selected US and Japanese companies cost us only a fraction of a percentage point in performance terms.

At the end of the quarter, the Fund had marginally added to its positions in Asian currencies (Korean won, Taiwan dollars and Indian rupee) while reducing the position in US\$ to a negligible level, as we maintain our long-term negative view on that currency.

The Fund has increased its position in telecom operators and media companies (20.7%) with the addition of SK Telecom (Korea) and SES (France). Telecom equipment and data networking stocks (wireless, broadband, storage and networking) have been reduced to 15.5%, and software and IT services are down to 11.5%. Semiconductors stocks remained stable at 7.6%.

The Fund's largest individual positions are:

Microsoft (the global software giant), Amdocs (market leader in billing software and operating support systems for tier-1 telecom and pay-tv operators), Samsung Electronics (the global leader in electronic goods, memories and components), Cisco Systems (the global leader in data networking and advanced video technologies) and Jupiter Telecommunications (a provider of pay-tv, internet and telephone services in Japan).

At quarter end the Fund was 84% invested with a 2% short position on selected US stocks for a total net exposure of 82%.

Since inception the Platinum International Technology Fund has returned 9.2% pa versus -12.3% pa in the MSCI World Information Technology Index (A\$).

## COMMENTARY

---

### **SK Telecom (Korea)**

We recently had the opportunity to meet with SK Telecom's management. We decided to introduce a position in the company after concluding that the stock price already discounts the negative impacts of new tariffs recently introduced by the regulator but it does not factor in the benefits derived from lower handset subsidies and the introduction of smartphones in the country.

The Korean Communication Commission (KCC) announced tariff cuts for the major telecom operators and while the headline impact is expected to be initially negative on revenues and margins, it will be eventually offset by a less aggressive behaviour from telecom operators in terms of handsets subsidies. More importantly if subscribers want the tariff cuts they will have to agree to longer-term contracts and this will reduce customers' retention costs for telecom operators.

Changes are also occurring in SK Telecom's ambitious strategy to diversify in foreign territories. SK Telecom has announced the sale of their residual 3.8% stake in China Unicom for \$1.3bn (after making a 29% return from the investment over two years). This is refreshingly pragmatic and atypical so far for SK Telecom. When we questioned the investor relations manager, he also made it clear that US adventures were over (SK Telecom recently sold their struggling US business to Virgin Mobile which was later acquired by US-based Sprint). There are no more plans to conquer the world! Also they do not intend to spend more money in Vietnam where they found it quite hard to manage the relationship with the local state-owned telecom partner.

This is refreshing from a company which traditionally has had wild ambitions to expand overseas. The recently appointed CEO has signalled new investments will only be in the "convergence" space (fixed and mobile, broadband, ecommerce).

Surprisingly, despite the mature and advanced nature of the Korean wireless market, locals are not yet heavy users of smartphones (only a 1-2 % penetration). Things are changing here as well. Blackberries were introduced in Korea only early this year but Korea Telecom is introducing the 3G iPhone in October 2009 and SK Telecom should follow soon after. The Android-based HTC Hero will also be launched soon. We believe that this will foster higher data usage and it will help increase revenues per subscribers. The superior quality of SK Telecom network compared to its competitors (SK Telecom was the first operator in the world to deploy HSPDA-3.5G) and its dominant 51% market share, will be competitive advantages.

We find SK Telecom's valuation compelling at 1.3x book value, 10.4 PE and 5% dividend yield.

## OUTLOOK

---

Technology companies remain solidly positioned for a recovery in corporate IT capex and consumer spending. They maintain large cash positions on their balance sheets and more recently signs of renewed corporate activity have emerged in the industry, suggesting a relaxation in their cautious attitude of six months ago. Dell announced the takeover of IT services provider Perot Systems, Xerox will buy business process outsourcer ACS and Cisco will take over video-conferencing vendor Tandberg.

In Western economies, we believe that the tech sector is less vulnerable to extended consumer deleveraging compared to other sectors such as consumer durables. Moreover demand for tech products is now becoming much more geographically diversified with the emerging middle class in Asia increasingly representing a higher percentage of global technology consumption. For the above reasons we remain optimistic for the technology sector in the medium-term.