Platinum International Technology Fund

Alex Barbi Portfolio Manager

Disposition of Assets

REGION	SEP 2011	JUN 2011
Asia	29%	30%
Europe	21%	19%
North America	20%	20%
Japan	6%	7%
Cash	24%	24%
Shorts	5%	3%

Source: Platinum

Performance

The Fund's value declined by 2.7% during the quarter, while the MSCI World Information Technology Index (A$) declined by 1.5% for the same period. Over 12 months, the Fund has recorded a negative 6.1% while the MSCI World Information Technology Index (A$) was down 1%.

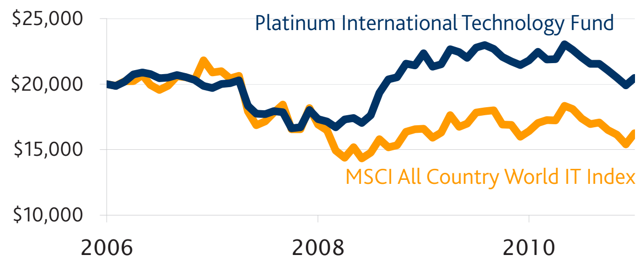
On a three year performance basis the Technology Fund at 5.7% compound pa remains ahead of the above Index, which declined by 1.3% over that period.

Among major detractors to performance were:

- German stocks (Infineon, GfK, Kontron, Adva Optical) all affected by fears of slowdown in their respective sectors;
- in the US, Brocade Communication Systems, punished by the markets after delivering a profit warning and revised outlook; and
- in Korea, Melfas, suffering from delayed orders from their largest customer, Samsung Electronics.

Value of $20,000 Invested Over Five Years

30 September 2006 to 30 September 2011



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

On the positive side of the ledger this quarter, were large technology stocks and more defensive telecom names (Apple, China Mobile, Chunghwa Telecom and Cisco Systems).

During the quarter our short positions started to work in our favour, contributing positively to performance.

Changes to the Portfolio

We reduced our exposure to Korean telecoms after our original thesis of improved margins through reduced competition and higher smartphones penetration did not play out as expected. Major telecom operators in Korea remain engaged in a fierce competitive price war to the detriment of everybody's profitability. Moreover, some management still seems keen to "diworsify" in completely unrelated and unprofitable businesses; witness SK telecom attempts to buy a 20% stake in troubled Korean semiconductor maker Hynix.

In Taiwan, we sold part of our holding in Chunghwa Telecom (which returned 20% for the year) and we swapped it into a larger share of Far Eastone Telecom, a pure play on mobility. We believe that mobile data growth in wireless telecommunication will be enough to offset the decline in voice revenues to drive revenues and profit growth. Moreover, the emergence of cheaper smartphones (available from local and Chinese manufacturers starting from US$150-200) will alleviate the subsidies burden for telephone operators and stimulate higher adoption, and hopefully usage.

Ericsson is a new addition to the Fund. Readers may remember that the Fund owned this company before and we believe now is the time to buy back into it. Ericsson has demonstrated an amazing ability to maintain a profitable market leadership globally in 3G wireless equipment despite a fiercely competitive environment. Valued at 8.3 times next year earnings excluding cash, we believe it is too cheap for a company which is optimally placed to guide telecom operators through yet another technology transition (this time 4G-LTE or Long-term Evolution) to cope with the ever-increasing amount of data traffic flowing through our iPhones and iPads.

Commentary

Mergers and Acquisitions, and patent wars

Last quarter, we mentioned that large liquidity reserves in corporate coffers would have been a potential stimulant of mergers and acquisitions in the technology sector. We didn't have to wait for long to see some interesting action.

A few acquisitions were announced whereby bidders offered hefty premiums in cash (around 60% above undisturbed market prices in all cases) to gain control of other companies in similar or adjacent businesses. These transactions all happened at very hefty valuations and suggest that many companies are prepared to pay top prices to acquire what they believe to be strategic assets.

Broadcom (semiconductors) acquired rival NetLogic for US$3.3 billion to strengthen their presence in data networking and wireless infrastructure chips.

Hewlett Packard acquired UK based software company Autonomy in a US$5.7 billion bid as part of a new diversification strategy into the higher growth area of business software analytics and in an effort to offset HP's exposure to traditional and slow growing/maturing PC business.

Google acquired Motorola Mobility in what is perhaps the most controversial move made by the search giant until now. They paid US$11.2 billion for a mobile phones business which is a shadow of itself with an estimated 4% global market share and a solid, but not growing, pay-tv set top boxes division. The real value for Google though was the trove of Intellectual Property (IP) rights (more than 17,000 patents) accumulated by Motorola over decades of research and development work in radio communications/mobile devices. This alone could be estimated to be worth around US$12.7 billion if valued with the same parameters adopted by rivals Microsoft and Apple when they recently acquired for US$4.5 billion a collection of 6,000 Nortel patents out of its bankruptcy procedures.

So why did Motorola accept Google's offer?

The reality is that the business of selling mobile phones has never been easy and it appears even less so with multiple technology transitions and the need to differentiate against new and old players.

As Motorola Mobility's CEO Sanjay Jha recently stated in a Fortune magazine interview:

"it's very much like a Hollywood movie business or drug selection business. What we need is a business machine that works at a modest profitability level at all times, and then on top of that you can have hits. The question isn't whether there's volatility. There is definitely volatility in this business. You're only as good as your last product".

A few weeks after this interview, Motorola accepted Google's take-over offer. His words will sound familiar with managers at Alcatel, Ericsson, Siemens, Research in Motion (the Blackberry maker) and more recently Nokia, who all have seen their mobile phones achieve success only to eventually suffer to new and more innovative competitors.

At the same time, people's internet usage on mobile devices is growing rapidly and Google identified very early that this area would be clearly strategic to extend its leadership in search. The launch of the Android Operating System (O/S) as an open platform available to all phone manufacturers free of charge has been an enormous success and is posing a serious challenge to Apple's iPhone leadership.

An unexpected consequence of this proliferation of Android phones has been a flurry of lawsuits among major players for patent infringement. Apple has sued HTC, Motorola and Samsung claiming their Android phones and tablets were infringing patents for its iPhone and iPad. Similarly Microsoft sued Google and Motorola on claims of infringing proprietary software patents.

These kind of patent wars are very common in the technology world and they often end up in large settlements being negotiated among litigants. However, the intensity of this particular fight is extreme and the number and calibre of the players involved unusual: in fact, it involves ALL major groups.

So why did Google decide to buy Motorola?

The official line will say that they will re-launch the hardware businesses (mobile phone and set-top boxes) but we believe the real reason behind this purchase was ultimately to acquire a solid chest of patents in order to better defend its own and its licensees' products. At stake is the control of the smartphones market (expected to grow by 60% this year to 480 million devices) where Google is determined to be a major player through its search and advertising platforms.

Ultimately it is logical to expect settlements to be negotiated and cross-licenses and royalty payments to be agreed upon among various litigants.

We are pleased to notice that Microsoft (a major Fund's holding), has successfully negotiated a deal whereby they will receive royalties from Samsung and HTC on their Android-based phones and tablets sales. This confirms to us that both the largest and second largest maker of Android phones are acknowledging that Microsoft claims have merit. The consequence is that suddenly Android O/S is no longer "free": Microsoft is estimated to seek around US$12-13 per Android handset licensed. With more than 400 million Android phones expected to be sold in 2015, the potential revenues would not be trivial, even for the giant Microsoft.

Outlook

The troubles of the euro zone, uncertainties on the status of the US economy and fears about a possible slowdown in fast growing China, are all contributing to extreme volatility in global stock markets. Technology stocks have not been exempt.

While we are aware of the macroeconomic headwinds, our large capitalisation stocks are modestly valued and we believe they remain attractive. We maintain the core of the Fund's investments in this category.

We maintain also some short positions in stocks active in the Internet/Cloud space where the market seems to discount perpetual growth for businesses, which in our opinion are not really bullet proof, and could be seriously re-rated at the first signs of momentum deceleration.

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$20,000 invested in the relevant Fund over five years from 30 September 2006 to 30 September 2011 relative to their Index (in A$) 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.

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 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).

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.