

# Platinum International Technology Fund



Alex Barbi Portfolio Manager

## Disposition of Assets

REGION	SEP 2013	JUN 2013
Asia and Other	30%	22%
North America	26%	26%
Europe	22%	20%
Japan	11%	11%
Africa	2%	1%
Cash	9%	20%
Shorts	2%	2%

Source: Platinum

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

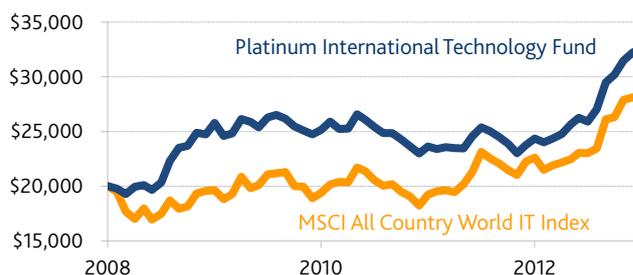
	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Int'l Tech Fund	8%	34%	9%	10%	8%
MSCI AC World IT Index	6%	24%	13%	7%	-6%

Source: Platinum and MSCI. Refer to Note 1, page 4.

It was another good quarter for technology stocks with the MSCI World Information Technology Index (A\$) up 6.3%. In this context, the Fund performance for the quarter (+8.1%) and the last 12 months (+34%) was satisfactory in both absolute and relative terms.

Among the Fund's best performers and major contributors were: Baidu +64%, Sina +45%, Youku Tudou +43% (Chinese Internet stocks), Safaricom +30% (African mobility), Micron Technology +22% (DRAM and NAND memories) and NXP Semiconductors +20%.

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



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

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Detracting from performance were BYD Electronic -16% (handsets components), China Communication Services -7.5% (telecom networks services) and Intel -5.5% (semiconductors).

During the quarter we reduced our position in **Vodafone** after the announced deal to dispose of their 45% stake in the Verizon Wireless joint venture for \$130 billion. We were happy to see the key assumption underpinning our investment confirmed by this deal, but we now believe that most of the upside in the stock is now priced in.

We introduced a position in South Korea based **SK Hynix**, adding to our investment theme of memory chips price recovery (refer to Platinum International Technology Fund June 2013 quarterly report).

We also re-introduced two names already familiar to the Fund in recent years: **eBay** and **Apple**. Both had been underperforming over the last year or so and we believe they are now worth another look.

eBay is solidly growing its core Marketplaces and PayPal businesses with a strategy to grow both internationally and in physical retailing; and we like its double digit profit growth trajectory. We are confident that the current management team is steering this e-commerce pioneer in the right direction thanks to innovative solutions aiming to make eBay the leading on-line/off-line retail enabler.

Apple is now clearly neglected: investors are worried about its ability to sustain its recent spectacular growth and high margins. Nokia's voyage from stardom to its current diminished status is still fresh in everybody's mind.

We are obviously aware of consumer electronics rapid pace of innovation and fleeting consumer tastes, but if we judge from Apple's current valuation at 11 times perspective price earnings, its huge free cash flow generation and potential capital management levers, we see very limited downside. At the same time we believe the company has not lost its ability to innovate (see more below) and retain many new areas of growth.

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## Commentary

During the quarter the appetite for Internet stocks was very high across major markets and we can probably identify the positive Facebook earnings announcement in July as the tipping point for renewed investor interest in everything related to e-commerce, social networks, mobile advertising etc. This optimism quickly expanded from the US to other geographies and we believe it reflects the increasing adoption of these services by the masses: generations of consumer are now joining this "second revolution" (the first was in 1999/2000... but really this new wave is just the late blooming of what was seeded back then). Thanks to smaller/portable devices in the form of smart phones and tablets, literally hundreds of millions of consumers have already changed the way they communicate, shop, interact etc. (Please also read the Platinum International Fund's quarterly report and Kerr's observations on this ongoing transformation).

Our recent review of the new iPhone 5S revealed an interesting wireless innovation which is briefly described below.

### iBeacons

We regularly hear about how on-line shopping is killing retail, but until Amazon can deliver you a fresh sandwich in five minutes, local commerce will still remain a large part of the economy. Emerging ideas such as iBeacons hold the promise of enabling localised marketing for retailers, more appropriate information and simpler payment methods for customers.

#### *What are iBeacons?*

Apple recently released updated software for their mobile devices, called iOS 7, when they announced the new iPhones 5S and 5C. iBeacons are a software feature included in this update. It is not a feature that users can access directly, rather it is a group of APIs (Application Programming Interfaces) targeted at third-party app developers. It enables a new generation of apps that can continuously listen for short-range wireless triggers, activation of which enable things such as indoor navigation, location-based marketing and mobile payments.

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### *Why now?*

iBeacons leverages Bluetooth LE, which is an open standard and compatible hardware that has been shipping in phones now for a few years. For example, anyone with an iPhone 4S or newer running iOS 7 can benefit. Since the release of iOS 7, in the space of just a few weeks, the addressable market is now estimated at more than 200 million people worldwide. Apple isn't providing a proprietary solution, rather just a set of tools that make it much easier for developers to add very granular, always-on and low power consumption location features to their applications. It is the combination of simplicity of implementation, the leverage of mature open standards and a potentially large addressable market that might give this the momentum needed to take-off.

### *How might it work?*

In time, we might be surprised at the ways developers leverage the framework, but as an example, imagine Woolworths (or Coles) publishing a shopping list app, where you could jot down what you needed for your weekly trip to the supermarket. By implementing iBeacons, Woolworths would know the exact moment you walked into a store and could show a map of that store and the location of all the items in your shopping list. Small battery-powered Bluetooth beacons could be placed around the store to monitor foot traffic to enable better placement of products and bring up specials as you approached. Your phone might hold your credit card details enabling you to pay without even swiping and reward points would be added to your account and similarly automatically recognised at a service station when buying fuel at a discount.

Poorly thought-out examples aside, there are some early real-world examples too. In the US, Major League Baseball is testing iBeacons in stadiums to help attendees find their seating as well as offering coupons for meals, drinks and merchandise. PayPal will also soon offer small beacons to retailers so customers can automatically check-in when they arrive and pay for products just by confirming their name. There are also start-ups such as Estimote making low-cost beacons that can last years on a small battery and broadcast product information or special offers to customers appropriate to the context. You may finally be able to empty your wallet of all those café loyalty cards!

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### *What it isn't/Concerns*

Given that you have to install and approve the application, it is unlikely we'll be bombarded with ads on our phones as we walk down the street ... hopefully. It does, however, raise some privacy concerns about businesses ability to track customers' movements with unprecedented accuracy.

### *Who benefits?*

There are obvious convenience benefits for customers and opportunities for retailers to better understand and target marketing to those customers. There is also undoubtedly a mad rush to create the best software implementation among the developer community. With the credit card details of hundreds of millions of iTunes/App Store customers on file and a newly integrated fingerprint reader in the iPhone there is evidence Apple is working on a strategy to enable people to make off-line payments with just a touch of their finger on their own device. PayPal, with its strong pool of 140 million users and its strategic investment in mobile applications, will also be able to benefit and accelerate its entry in the vast market of off-line payments.

## **Outlook**

While the quarter was characterised by very strong performance of everything Internet and/or e-commerce related, more "traditional" large-cap technology stocks have been lagging reflecting tougher conditions in the enterprise markets.

The Fund will maintain a balance between those two areas with an eye to re-balancing towards lower valuation stocks, should they present an attractive entry point and in light of specific growth opportunities.

## 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 2008 to 30 September 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.

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