Platinum International Technology Fund

Alex Barbi Portfolio Manager

Disposition of Assets

REGION	SEP 2014	JUN 2014
Asia and Other	27%	29%
North America	22%	24%
Europe	16%	18%
Japan	10%	13%
Russia	2%	3%
Africa	2%	2%
Cash	21%	11%
Shorts	3%	3%

Source: Platinum. Refer to Note 3, page 4.

Performance and Changes to the Portfolio

(compound pa, to 30 September 2014)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund	4%	17%	18%	8%	9%
MSCI AC World IT Index	10%	32%	24%	13%	-4%

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

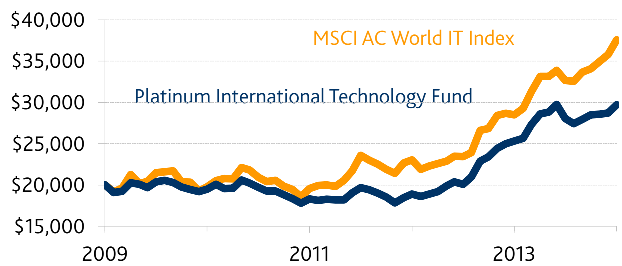
During the quarter the Fund was up by 4.3% and the MSCI World Information Technology Index (A$) was up by 10.3%. For the year to September, the Fund's return was 17.4% compared to 31.8% for the Index, with the net invested position at 76%.

Among the Fund's best performers and major contributors: semiconductor stocks (Skyworks +21%, Intel +13%) and semiconductor equipment (ASML Holding +14%) and Indian mobile operator Bharti (+21%).

On the negative side and contributing to underperformance were some of our largest positions (Samsung Electronics -11%, Google virtually flat) and declines in Chinese Internet stocks (Youku -24%, Sohu -13%) and Russian search engine Yandex (-20%).

Value of $20,000 Invested Over Five Years

30 September 2009 to 30 September 2014



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

Currencies contributed to performance with the Australian dollar down 7% against the US dollar and 4% against the Korean won.

During the quarter we exited our position in Intel and we kept reducing our strong performing semiconductors (Skyworks, Avago, NXP Semiconductors) and NTT in Japan.

We added to Ciena (optical networking) and Vodafone (telecoms) as recent price declines presented us with attractive entry levels.

Commentary

The major event during the quarter was Apple's launch of multiple products and services.

As the iPhone 6 and iPhone 6 Plus (larger screen format) were welcomed with eager anticipation by the usual queues of overnight campers outside Apple stores, the masses also cheered the arrival of the long awaited "Apple Watch" (an elegant combination of smart technology and fashion accessory). Despite some initial embarrassment (phones bending at the edges, buggy software updates etc), we are reasonably confident that these new devices will follow in the footsteps of their predecessors and sell well.

The most interesting announcement, however, was the launch of "**Apple Pay**", which will place Apple right in the middle of the booming digital/mobile payments ecosystem. Our readers may remember that when we reviewed Apple's iBeacons (refer to the Platinum International Technology Fund September 2013 quarterly report), we also anticipated that:

"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(5s) 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".

The only missing link at that time was the absence on the iPhone 5s of the contactless technology (Near Field Communication or NFC chip) required to exchange data between the phone and the Point of Sale (POS) terminal at the merchant location. With the inclusion of the NFC chip (manufactured by NXP semiconductors, another holding of the Fund) the new iPhone 6 becomes effectively a very user-friendly alternative to using a credit card at NFC-enabled POS terminals.

How does it work? First you type (or take a photo of) your credit card numbers and store it in your phone. Then you don't even need to open an app on the phone or activate the display. To pay you just need to hold the iPhone near the contactless reader with your finger on the Touch ID. A subtle vibration and beep will notify you of the completed transaction.

When a purchase is made, the iPhone wirelessly transmits a one-time code (a secure digital "token") along with encrypted customer data, but importantly **not your credit card details**. Apple claims it is more secure than swiping a traditional credit card.

Apple is not breaking the Visa/Mastercard grip on payment processing but simply loading up your credit/debit card details into the phone which can then be used in place of the card at NFC-enabled POS terminals. A lot of the security improvements address the uniquely American reticence to abandoning magnetic strips for chips/NFC cards. For an Australian already using Paywave/Paypass, the additional security is provided by Touch ID. An added benefit, in the event that you lose your phone, is that payments can be suspended through "Find my iPhone" (in a browser) and the cards won't have to be replaced. Combined with the Apple Watch, this could be the inflection point for mobile payments to finally take-off.

Apple has also announced that it will let application developers integrate Apple Pay with a myriad of existing apps. Rather than enter your card details into every shopping app on your phone (with attendant risks should say Uber or Starbucks ever get hacked), payment becomes a simple tap on the Touch ID sensor. That should increase the percentage of completed purchases on mobile devices (which are today a fraction of that on PCs).

How much is Apple going to profit from this? On average around 15 cents for every 100 dollar purchase. Banks and card issuers are happy to share some of the revenues as they welcome the extra security (reducing the cost of fraud) and they do not see Apple threatening their current central role of payments networks… yet. But with innovation in this space rapidly evolving, we would expect financial institutions to accelerate their investments in this area to avoid being held hostage to a single dominant partner.

Apple Pay's success is by no means certain given that users until now have been happy to use their plastic credit cards. Clearly, previous attempts like Google Wallet have failed. Apple Pay has, however, a few advantages: firstly the convenience and security is significantly better; secondly they have lined up the support of some large retailers, which give them credibility and encourage fence-sitters to test it out;

and thirdly, many people already have a credit card on file through iTunes making it easy to use the service.

At this stage Apple Pay is being introduced only for iPhones, while the vast majority of smartphones and PCs run on Windows and Android. So it is unlikely that Apple will totally dominate this market. Moreover, even the most optimistic scenarios suggest that this new business will only be marginal to Apple's revenues, now approaching the US$200 billion mark. Apple entered this industry specifically to promote user loyalty and ensure consumers will keep upgrading their iPhones, Apple Watches etc over time. To some extent Apple Pay could be seen as analogous to what Apple did with iTunes and digital music. But the final outcome is not going to be a monopoly because other strong players have the incentive to promote alternatives.

Samsung, Google, PayPal and even Facebook will not sit there and watch this market fall into Apple's hands. They will definitely have to offer alternative solutions soon.

PayPal (owned by eBay) has also ventured into physical (off-line) payments but despite its leadership in on-line payments, it has not had much success so far. This is partly due to its solutions still lacking the immediate interaction of the NFC-enabled POS terminal. However, for the reasons listed above, Apple Pay will probably be the catalyst that accelerates mobile payments industry growth and there is nothing that technically prevents PayPal, Samsung or Google from launching similar solutions.

Changing the way you pay

Source: http://www.macworld.com/article/2690757/apple-pay-on-its-way-with-rumored-oct-20-drop-date.html

Perhaps not coincidentally, only a few weeks after the Apple Pay launch, eBay announced the spin-off of the PayPal business into a separately listed entity. eBay's management eventually realised that Apple Pay was a turning point for the industry and setting PayPal free would improve its chances to compete and develop into a much bigger business. Without the eBay hat, PayPal will have less conflict of interests to prevent it from entering into alliances and partnerships with multiple e-commerce and technology giants (think Alibaba, Google etc). However, the market is still sceptical about PayPal's chances of success and eBay's valuation remains very attractive.

The Fund holds position in both Apple and eBay.

Outlook

Overall global economic growth is not showing particularly encouraging signs of improvement, with emerging markets growing below their potential, China facing a transition from an investment-based to a more consumer-based economy and Europe still mired in the difficulties as the Southern countries struggle with structural reforms and the Euro straightjacket. The only area showing decent growth has been the US, partly helped by low cost of energy and signs of consumer resilience.

With the Federal Reserve less than a month away from concluding its Quantitative Easing experiment and the market bracing for the possibility of higher interest rates, the stock markets are increasingly more nervous.

On the other hand, inflation expectations in the US are turning lower again (partly due to strong US dollar and weaker oil prices) and that would upset the consensus script, with the risk of monetary authorities tightening too early. Some caution is required.

Stocks valuations have re-rated over the last 12 months and in particular, the US corporates are generating tonnes of cash. According to Markit, S&P 500 dividends this year are expected to grow to $373 billion (+10.7%) with technology stocks accounting for the largest share of it at $51 billion (+9% yoy). That should provide support to many reasonably valued large capitalisation names.

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$20,000 invested in the relevant Fund over five years from 30 September 2009 to 30 September 2014 relative to their Index (in A$) 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. Invested position represents the exposure of physical holdings and long stock derivatives.

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