

Platinum International Technology Fund



Alex Barbi Portfolio Manager

Disposition of Assets

REGION	SEP 2016	JUN 2016	SEP 2015
North America	37%	32%	30%
Asia and Other	25%	28%	29%
Europe	13%	13%	15%
Japan	10%	7%	8%
Russia	1%	3%	1%
Cash	14%	17%	17%
Shorts	-2%	-3%	0%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	IT	5.2%
Apple Inc	USA	IT	4.0%
JD.com Inc	China Ex PRC	Consumer Disc	3.6%
Alphabet Inc	USA	IT	3.6%
Tencent Holdings	China Ex PRC	IT	3.1%
PayPal Holdings	USA	IT	3.0%
Oracle Corporation	USA	IT	3.0%
China Mobile Ltd	China Ex PRC	Telecom	2.8%
Nielsen Holdings Plc	USA	Industrials	2.8%
Skyworks Solutions	USA	IT	2.6%

Source: Platinum. Refer to note 4, page 4.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposures, updated monthly, please visit <https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds>.

Performance

(compound pa, to 30 September 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund	7%	3%	11%	14%	9%
MSCI AC World IT Index	10%	13%	22%	22%	-2%

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

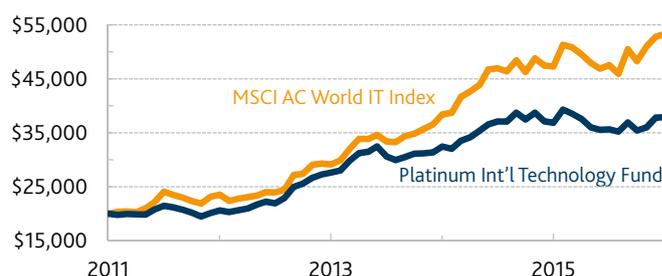
The Fund was up 7% this quarter while the MSCI AC World Information Technology Index (A\$) was up 10.4%. For the 12 months to 30 September, the Fund returned 2.8%, compared to 12.8% for the Index.

The quarter saw a strong recovery in major market indices from the weaker levels at June-end (partly depressed by the Brexit referendum shock result). Technology was the best performing sector (up 13% in local currencies), driven by mega-cap stocks, with Apple, Alphabet, Amazon and Facebook all surging between 12% and 18%. The S&P 500 Semiconductors and Semiconductor Equipment Index was also up 18%.

Among the Fund's holdings, however, stocks with a smaller capitalisation were in general outperforming the larger names. Our best performers (in local currencies) during the quarter were Japanese semiconductor makers MegaChips (+83%) and Rohm (+32%), Chinese optical fibre manufacturer Yangtze Optical Fibre and Cable (+50%), audio semiconductor specialist Cirrus Logic (+37%) as well as memory semiconductor makers Micron Technology (+29%) and SK Hynix (+24%).

Value of \$20,000 Invested Over Five Years

30 September 2011 to 30 September 2016



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

Among performance detractors was Samsung SDI (-11%) which was identified as the battery maker responsible for the explosions reported in the newly released Samsung Galaxy Note 7 devices. International media group Schibsted declined by -6% as revenue growth unexpectedly decelerated in their online classifieds business in Spain. Level 3 Communications was down -10%, similarly due to expectations of decelerating revenue growth.

While we are disappointed by the detractors' performance, we are confident that the causes for which are of a temporary nature. We therefore have not changed our investment thesis on these companies which retain their competitive advantages in their respective fields and, we believe, are well placed to benefit from long-term growth opportunities.

As at 30 September, the Fund's major exposure by geography includes North America (37%), China and Taiwan (together 18%), Europe (13%), Japan (10%), and South Korea (8%). The Fund's total net invested position is at 86%.

Changes to the Portfolio

During the quarter we exited our position in Russian search engine provider **Yandex** following its recent strong performance. The stock more than doubled from its depressed levels in 2015 and we became less comfortable with its valuation.

We also completely divested of our holdings in **Anritsu** as the original investment thesis did not play out as expected. The Japanese telecom equipment testing company has seen revenues stagnating and profits shrinking due to a combination of factors: slower volume growth in smartphone sales, higher R&D costs not immediately recoverable through new product launches, and lower competitiveness due to the strong Yen. Unfortunately, due the nature of its product portfolio, Anritsu is also unlikely to benefit from investments in early stage 5G testing and measurement, and so we decided to exit.

We re-introduced a position in Japanese semiconductor maker **Rohm** after its valuation became too attractive to be ignored (price-to-book value is 0.7 times and the company's cash position equals 70% of its market capitalisation)! The company had suffered a sharp de-rating as profits in the current financial year are likely to reflect the negative impact of the strong Yen as well as elevated depreciation expenses. However, we are confident about Rohm's decision to invest more in power management, sensors and analogue solutions for the automotive industry at a time when this industry is

experiencing accelerated adoption of new technologies such as electric powertrain and Advanced Driver Assistance Systems (ADAS).

We built a position in **Infinera**, a manufacturer of high capacity optical transmission equipment based on large scale photonic integration which is used mostly for long-haul data communication networks. After issuing disappointing guidance for the second half of 2016, the stock was heavily sold down and valuation came close to historical low levels (EV/Sales = 1x). We believe this slowdown is only temporary and we think the company has new long-term growth opportunities in the metropolitan optical network and data centre interconnect markets, thanks to its unique integrated technology.

In Canada we invested in **Constellation Software Inc (CSI)**. Still led by its original founder, over the last 20 years the company has grown from zero to generating almost C\$3 billion in annual revenue by consolidating a large number of small software companies. Following a rigorous acquisition philosophy driven by high hurdle rates and a de-centralised business model, CSI has become a leading player in the software market for many industry verticals. Some analysts have appropriately called CSI the "Berkshire Hathaway" of software companies for its similarities with Warren Buffet's decentralised management style and outstanding returns.

Commentary

The most important event of the quarter from our perspective was the long-awaited iPhone 7 launch by **Apple**. As you may remember, we rebuilt a 3.5% position in the stock earlier this year (refer to our March 2016 Quarterly Report) in anticipation of a reasonably good level of consumer demand for the new model after the lukewarm market reception to the iPhone 6S. Our expectations were not particularly high, but we had assumed that the natural "ageing" of the previous models' installed base (iPhones 6, 5, etc.) would eventually re-start the upgrade cycle, and we were also attracted by Apple's valuation at the time.

As mentioned above, Apple's stock has performed well this quarter, partly on the basis of positive early feedback from the iPhone 7 launch. The handset itself is not revolutionary, with its design being almost identical to the previous iPhone 6 model, but Apple has introduced some improvements and interesting new features. More importantly, many of these new or improved features in the iPhone 7 have a positive impact on some of the Fund's other holdings that are strategically positioned in the iPhone supply chain.

First of all, the device is now water resistant. The iPhone 7 Plus model also has dual 12-megapixel cameras, enabling users to capture better depth-of-field effects and much better optical zoom without quality reduction. The new iPhone 7 also includes minimum 32 GB NAND memory storage (all the way up to 128 GB and 256 GB for the most expensive models), compared to the previous 16/64/128 GB configuration. Bigger memory is not only welcomed by users who are increasingly addicted to more downloads and are storing more photos, chats, music and data on their smartphones than ever, but it is also good news for the supply/demand dynamics of the memory industry in general. The Fund's holdings in **Samsung Electronics**, **Micron Technology** and **SK Hynix** are all expected to benefit.

The LTE baseband radio processor in the iPhone 7 was also upgraded from earlier models and should improve 4G speed by up to 50% (at least theoretically, from 300 Mbit per second to 450 Mbit/s). The good news is that the chip design and manufacturing was assigned to **Intel** (one of the Fund's holdings) in what became their first high-profile win for a flagship smartphone. Hopefully more contracts will follow.

A tear-down analysis of the iPhone 7/7 Plus has confirmed that **Skyworks** (another holding in the Fund) remains the supplier for a good number of the Radio Frequency components in the new handsets and has probably increased its dollar content by around 10% from the previous model.

Another area where the iPhone 7 has created some buzz is the audio/voice technology adopted. Apple decided to eliminate the 3.5 mm audio port (the headphone jack) and replaced it with the lightning port already used for battery charging. It also introduced stereo-speakers and (optional) wireless headphones ("AirPods"). However, if you do not want to

trade up for these fancy new AirPods, you can still use your old headphones, thanks to a free adapter that comes with the new handset.

Two of our holdings in particular benefited nicely from these newly introduced audio-voice features.

Cirrus Logic (refer to our June 2016 Quarterly Report) is supplying a number of audio components (amplifiers, adapters, smart audio-codec, etc.) and has an estimated 70% content increase compared to iPhone 6/6S.

Japanese chip maker **MegaChips** is benefiting instead from becoming the exclusive supplier of a Micro Electro Mechanical System (MEMS) timing device in the iPhone 7/7 Plus which replaces the traditional quartz-based one (this device is essentially a clock that keeps the phone's components synchronised).

Outlook

After the strong performance recorded by the technology sector and, in particular, semiconductor stocks this quarter, we are inclined to expect a slower pace of appreciation for the rest of the year.

Global demand for consumer electronics and IT spending remains at reasonable levels, but is by no means exceptional. Monetary policy may become slightly more restrictive in the US (at least temporarily). Valuations are creeping up to less comfortable levels. And finally, political uncertainties in Europe and the US may create the perfect excuse for some level of market correction. All of the above leads us to believe that a more defensive disposition of the Fund's assets is warranted in the short term.

Notes

1. The investment returns are calculated using the relevant Fund's unit price and represent the combined income and capital return for the specified 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 in the 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: 28 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

(NB: The gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist.)

2. The investment returns depicted in this graph are cumulative on A\$20,000 invested in the relevant Fund over the specified five year period relative to the relevant benchmark index (in A\$) as per below (the "Index"):

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

The investment returns are calculated using the relevant 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. Regional exposures (i.e. the positions listed other than "cash" and "shorts") represent any and all physical holdings, long derivatives (stock and index), and fixed income securities.
4. The table shows the relevant Fund's top ten long stock positions. Long derivative exposures are included. However, short derivative exposures are not.

Disclaimer

This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 trading as Platinum Asset Management (Platinum®). Platinum is the responsible entity and issuer of units in the Platinum Trust® Funds (the "Funds"). This publication contains general information only and is not intended to provide any person with financial advice. It does not take into account any person's (or class of persons') investment objectives, financial situation or particular needs, and should not be used as the basis for making investment, financial or other decisions.

You should read the entire Product Disclosure Statement for the Platinum Trust® Funds ("PDS") and consider your particular investment objectives, financial situation and needs prior to making any investment decision to invest (or divest) in a Fund. You should also obtain professional advice prior to making an investment decision. You can obtain a copy of the current PDS 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 or director in the Platinum Group® guarantees the performance of any of the Funds, the repayment of capital, or the payment of income. To the extent permitted by law, no liability is accepted by any company in the Platinum Group or their directors for any loss or damage as a result of any reliance on this information. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum).

Some numerical figures in this publication have been subject to rounding adjustments.

© Platinum Asset Management 2016. All Rights Reserved.

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.