Platinum International Technology Fund

Alex Barbi Portfolio Manager

Disposition of Assets

REGION	DEC 2010	SEP 2010
Asia	27%	28%
North America	25%	27%
Europe	17%	18%
Japan	8%	8%
Cash	23%	19%
Shorts	0%	0%

Source: Platinum

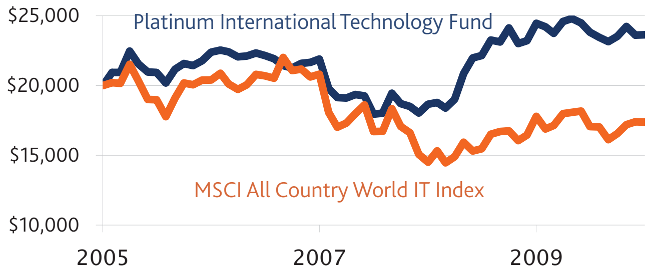
Performance and Changes to the Portfolio

The Fund's value increased by 0.5% during the quarter, less than the increase of 5% for the MSCI World Information Technology (A$) Index for the same period. Over 12 months, the Fund is down 3.4%, while the Index declined 2.3%.

During the quarter, the Fund has lagged largely due to underperformance of some North American (Cisco Systems, Amdocs and Brocade Communication Systems) and Chinese holdings (China Mobile). On the positive side, we had very good performance from some Asian holdings (AAC Acoustic, Samsung Electronics and Taiwan Semiconductors); US technology leaders (eBay, Google, Apple and Microsoft); and the German semiconductor turnaround story (Infineon Technologies). Our relatively large cash position, 20% on average during the quarter, has also detracted from performance.

Value of $20,000 Invested Over Five Years

31 December 2005 to 31 December 2010



Source: Platinum and MSCI. Refer to Note 2, page 5.

Among the major changes in the portfolio, we have reduced our exposure to Infineon (+48% appreciation in the quarter), AAC Acoustic (+28%), eBay (+20%), Samsung Electronic (+19%) and Google (+17%). Our decision to partly sell was largely driven by valuation considerations and medium-term headwinds in some specific areas. The long-term thesis for these names remains valid but we prefer to keep extra cash on hand to be able to buy more should a correction occur.

We have added to our telecom holdings in Asia (KT Corp and Chunghwa Telecom) and introduced Vodafone in Europe and China Mobile in China (more below). We believe these names give us very good exposure to the exciting theme of mobile data while trading at sensible valuations and offering very attractive dividend yields.

Commentary and Outlook

The market continues to favour growth and momentum versus value. This is illustrated by the outperformance over the last six months of the MSCI Global Growth Index (+26%) versus the MSCI Global Value Index in US dollar (+21%).

Investors love for momentum stocks in technology has reappeared across many regions. In the US, the market is in love with the likes of Saleforce.com, a pioneer in the field of customer relationship management software offered from the "cloud" (i.e. available from the internet as opposed to installed onto your PC). This "pure play" on the cloud sells a relatively small US$1.5 billion of software by subscriptions a year, has been growing its revenues at 26% year-on-year and yet it has a market capitalisation of US$18 billion and trades at an astonishing 186 times current year earnings! Similarly Netflix, a US based movies streaming platform which has to negotiate internet distribution rights from original content owners (i.e. it is not in control of its costs), is trading at 63 times current year earnings.

Another example of momentum fever was evident in the large number of Chinese Initial Primary Offers (IPOs) listing on Nasdaq. More than 40 Chinese stocks became listed in the US in 2010 (around 25% of total IPOs). Of these, a good portion were technology stocks selling like hot cakes with investors piling in to grab a slice of the action. Youku.com, whose name means "excellent and cool" in Chinese, was up 160% on its first day of listing. The company is often labelled as the YouTube/Netflix of China, has a US$3 billion market capitalisation and is valued at 45 times projected annual sales although it has not made any profit yet. To remember such exuberant market listings debuts we have to go back to 2005 when Baidu, the leading Chinese internet search engine, more than quadrupled on its first day of trading on Nasdaq.

While it would be tempting to short sell some of these stocks based solely on their valuation irrationality, you could have done so at any time in the last six months and lost a lot of money as these new momentum champs have climbed up to new highs. We suspect, that while the Federal Reserve and other Central Banks continue to inject liquidity into the system to revive the economy, and openly target the stock market (as mentioned by Ben Bernanke in a Washington Post op-ed piece: "higher stock prices will boost consumer wealth and help increase confidence, which can also spur spending"), we will have to live with a "liquidity-driven market". We think the market has witnessed this before: in 1999-2000 and in 2006-07. In both these periods, the Fed kept interest rates at very low levels for longer than appropriate and it probably contributed to igniting the internet and housing bubbles.

In this context, we try to concentrate our efforts on valuation fundamentals and look for investment opportunities among those stocks unfairly penalised or neglected by investors chasing momentum. Two companies falling into this category are the recently added China Mobile and Perfect World.

China Mobile is the leading mobile phone operator in China with the world's largest mobile network and mobile subscriber base (almost 600 million users). It commands a 67% market share in a country where mobile services are still relatively under-utilised in a global context.

More recently, investors have worried that China Mobile is losing ground to competition (namely China Unicom and China Telecom) but if our reading of the national competition policies is correct, these worries should be short-lived. In what is probably a unique arrangement in the global telecom landscape, the Chinese Regulator a few years ago decided to concentrate the market around three national mobile networks and they proceeded to shape the industry, dictating which technology each operator should adopt. Unluckily for China Mobile it was designated as the adopter of the home-grown TD-SCDMA (Time Division Synchronous Code Division Multiple Access - should you ask…) developed in China as an attempt to be independent of Western technologies. The results for China Mobile have been less than stellar with the inferior quality technology and lack of adequate handsets a cause for frustration among users trying to adopt mobile internet.

Fast forward to 2011 and the telecommunication industry is already preparing for the move to the next technology upgrade (4G) in its quest to deliver faster speed to data hungry mobile subscribers (think how the proliferation of iPhones, iPads etc will soon take its toll on networks' capacity). This time, luckily for China Mobile, the Chinese are likely to adopt a world-class competitive technology (TD-LTE, or Time Division Long Term Evolution) which is simply a variation of the soon to be adopted LTE global standard.

We believe that once the market realises the benefits of China Mobile transitioning to LTE (much higher data throughput, lower cost of operation, better handset based on a global standard) it will re-rate the stock, which is currently trading at a very modest 11 times PE for 2011.

Perfect World is a leading Chinese developer and publisher of on-line games in which a very large number of players interact with one another within a virtual world. This genre of games is also known as MMORPG (Massively Multi-player Online Role-Playing Game): they are hosted by the company's servers, players can reach hundreds of thousands and the game evolves even when players are away from it. Perfect World uses an item-based micro-transaction revenue model under which players can play the games for free, but they are charged for character customisation or purchases of in-game items such as convenience items, clothing, accessories and pets. The company distributes physical and virtual prepaid game cards to players in China through a variety of channels, consisting primarily of a network of 35 third-party distributors but also through its own website.

While China's on-line gaming industry is fairly commoditised, we believe it is still a long-term play on the increase of internet adoption and consumer spending. With low internet and on-line game penetration, China is still at the early stages of development and potential growth also exists for export markets.

Source: Zxmania

While there are many game publishers in China, Perfect World has a few advantages compared to its competitors:

- A very productive research and development (R&D), and design team capable of producing three to four titles a year; a rate unheard of in China.
- A strong track record in turning its self-developed games into successes.
- A well-balanced and diversified portfolio across six-seven major existing titles which reduces its dependence from single hits. Its leading and most popular 3D game in China, Zhu-Xian, accounts for only 30% of its sales.

More recently the market has penalised the company following delays in its game releases and deterioration in operating margins due to higher R&D and acquisition costs. We believe that with one of the best release pipelines for 2011, they will be re-rated soon. We have decided to buy this company considering the very attractive valuation of 8 times PE and 20% buy-out for 2011 thanks to its solid free cash flow generation and cash position.

While we are aware of the potential risks of a sharp deceleration in economic growth in China, as explained in the Asia Fund quarterly report, we believe that mobile communication and internet adoption in that country are still far from having reached full potential. Companies like China Mobile and Perfect World sit at the convergence point between consumers' aspirations and technology developments, and they will be major beneficiaries of this secular growth trend.

Source: Zxmania

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$20,000 invested in the relevant Fund over five years from 31 December 2005 to 31 December 2010 relative to their Index (in A$) 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.

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