# Platinum International Technology Fund

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## Disposition of Assets

| REGION | 31 MAR 2018 | 31 DEC 2017 | 31 MAR 2017 |
|---|---|---|---|
| North America | 38% | 33% | 34% |
| Asia and other | 25% | 28% | 25% |
| Europe | 12% | 14% | 13% |
| Japan | 6% | 5% | 5% |
| Cash | 19% | 20% | 23% |

Source: Platinum Investment Management Limited. See note 3, page 4.

## Top 10 Holdings

| STOCK | COUNTRY | INDUSTRY | WEIGHT |
|---|---|---|---|
| Alphabet Inc | USA | IT | 5.5% |
| Tencent Holdings | China | IT | 4.7% |
| Samsung Electronics | Korea | IT | 4.4% |
| Taiwan Semiconductor | Taiwan | IT | 2.9% |
| PayPal Holdings | USA | IT | 2.8% |
| Oracle Corporation | USA | IT | 2.7% |
| Microchip Technology | USA | IT | 2.6% |
| ams AG | Austria | IT | 2.5% |
| Constellation Software | Canada | IT | 2.5% |
| Apple Inc | USA | IT | 2.5% |

As at 31 March 2018.

Source: Platinum Investment Management Limited. See note 4, page 4.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposure, updated monthly, please visit https://www.platinum.com.au/Investing-with-Us/Investment-Updates.

## Performance and Changes to the Portfolio

**(compound pa, to 31 March 2018)**

| | QUARTER | 1YR | 3YRS | 5YRS | SINCE INCEPTION |
|---|---|---|---|---|---|
| Platinum Int'l Tech Fund* | 2% | 17% | 10% | 17% | 10% |
| MSCI AC World IT Index | 5% | 29% | 18% | 26% | 0% |

*C Class – standard fee option. Inception date: 18 May 2000.
Net of accrued fees and costs. Refer to note 1, page 4.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

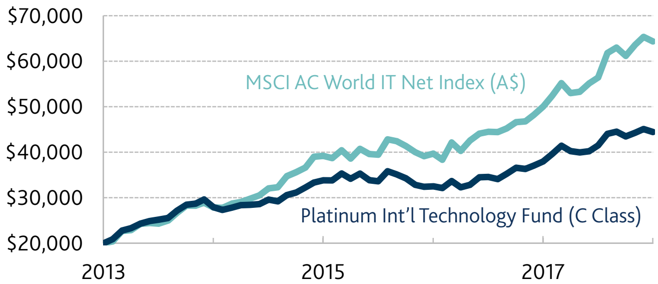
During the quarter the tech-heavy NASDAQ 100 Index was up 2.9% while the MSCI AC World IT Index (US$) rose 3.2% or 5.2% in AUD terms. The Fund (C Class) was up by 2.2%, reflecting a more defensive composition which includes cash (around 20%) and holdings in telecommunications and traditional media companies. Weakness in the Australian dollar against other major currencies benefited performance.

The period was characterised by much higher volatility than the past year, with the CBOE NASDAQ 100 Volatility Index (VXN) spiking close to 34 in early February after spending most of 2017 in a range between 10 and 19.

In the second half of March, technology stocks suffered a reversal with the NASDAQ 100 Index declining 7.7% in the last two weeks of the quarter. Investors had many reasons to be worried: a potential US-China trade war, President Trump's Twitter attacks on bellwether Amazon, accusing it of tax

**Value of $20,000 Invested Over Five Years**

31 March 2013 to 31 March 2018




Net of accrued fees and costs. Refer to note 2, page 4.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

avoidance and other evils, as well as Facebook's latest data privacy troubles and the prospect of tighter regulation for social network companies. The so-called FAANG stocks (Facebook, Apple, Amazon, Netflix and Google) became a source of funds for investors. The Fund's US and Chinese Internet holdings were not immune, some finishing the quarter in negative territory.

A review of the major industries[1] for the quarter (in US dollar terms) shows once again strong performance for Internet Retail (+ 24%), driven largely by the impressive +21% gain recorded by e-commerce giant Amazon. Computer Communications (+11%) and Computer Peripherals (+7%) were both strong performers, led by security software specialists Palo Alto Networks and Fortinet, and storage and memory leaders Seagate Technologies and Western Digital. Semiconductors (+6.3%) continued to outperform, although some commentators have started questioning the sustainability of this unusually extended bull run for an industry traditionally seen as very cyclical. Media Conglomerates (-6.3%) and Major Telecommunications (-6.1%) were once again the industries most out of favour, faced with both increasing competition and a difficult regulatory environment.

## Commentary

The Cambridge Analytica / Facebook data scandal has made a big splash in the news over recent weeks. This debacle has shone a spotlight on some of the murky ways in which personal data is collected and used, and the legal challenges the issue raises. It is worth clarifying that Facebook did not sell anyone's data, and the data was not "stolen" or "hacked". The data came into Cambridge Analytica's hands when a third party researcher violated Facebook's policies explicitly prohibiting the sharing of the data which he had obtained from Facebook's platform with permission. It's also worth pointing out that Facebook had recognised, long before the latest Cambridge Analytica-sparked wave of scrutiny, that relying on policies was a naïve and insufficient means of protecting user data and had in 2014 closed down the tools that allowed that third party researcher to access the data in the first place.

If someone were to look at this incident in isolation, they could be forgiven for wondering why this is creating such a headache for Facebook and is even spilling out to affect market sentiment towards other ad-based businesses. We think there are three key issues to consider: the unexpected power of data; and in light of that, the arguably inadequate (but evolving) regulations around how data should be managed; and finally what all this means for businesses and investors.

It has become clear that data, which many people deemed unimportant and harmless, can be incredibly powerful when collected, aggregated and processed in the quantities being done today. To give a simple example, it has been shown that just by analysing what content a user has "liked" on Facebook, an algorithm can build a fairly accurate profile of that person's gender, ethnicity, sexuality and political views, among other things. This isn't the type of information that people thought they were handing over when they initially engaged with these services and clicked on an innocent-looking thumb-up icon. Nevertheless, huge quantities of data like this have now been generated and stored. That data ranges from locations tracked, purchases made, search and viewing history, connections, communications, photos, videos, and so forth. Given the detailed information that can be assembled from this data, it can present a real risk to users, whether from the perspective of privacy, manipulation, or identity theft. The Cambridge Analytica scandal has once again thrust these facts into the public's view, with the company claiming they created "psychographic profiles" used to "change (people's) mindsets and associated voting patterns". (To be clear, the effectiveness of this is debated!)

Understandably, people can become a bit nervous in light of all this, and that's where legal rights start to become an issue. In many countries individual users have limited or no control over where data is stored, how long it is kept, or who can get their hands on it. The companies that provide the services have often treated the data they collected as "theirs", despite the clear risks it can pose to the users. It appears that societies and governments increasingly see this as an untenable situation, and regulatory frameworks are adjusting. In Europe, new laws will take effect in May, requiring service providers to make significantly more disclosure around how they collect, share, store and use the data they collect as well as giving users much greater control over what happens to their data (including the right to have it deleted). The European regulations are forcing companies to consider privacy and data protection in the design of their products. European regulators will also gain significantly more bite should companies fail to comply with the laws, as maximum fines will be up to 4% of global revenues (billions of dollars, in the case of a large US tech company). In other countries we also see increasing discussion around how to tackle these issues and give individuals more control over sensitive information. We imagine many will look to the EU model for guidance.

Underlying all of this though is the fundamental fact that we are talking about free services, and those services are free

1 Source: FactSet. Industry classification by FactSet.

because advertisers pay for the operating costs. The implicit trade-off from advertising has underpinned many well-accepted businesses for many decades, including things like broadcast radio and free-to-air TV. If users want these free services, they have to put up with ads. The alternative, of course, is that users pay. In order to generate advertising revenues, companies need to show the value of their audience to an advertiser. This is achieved by collecting data about the audience. That isn't new, but what is new relative to traditional broadcast models is the potential for personalisation, to exploit individual user data for targeted advertising. As mentioned earlier, where things got off track was the sheer volume of data and the complexity of data processing, which has ended up introducing a level of unexpected risks for users – something which many companies did not adequately address.

This latest scandal seems to have awoken a desire within a meaningful portion of society to strike a new deal. A more informed and conscious engagement, where users are empowered to control the risks they expose themselves to. If that is what's taking place, it doesn't strike us as particularly radical or damaging. In fact, it sounds like a sensible evolution. For businesses this could mean some extra costs and revenue impacts. There may also be a lengthy period of back-and-forth between politicians, regulators and companies as they struggle to find the right balance on these issues. When the dust settles, after users have been given tools such that they don't feel so vulnerable and the trust has been (re-)built, we suspect the business models for the major players will not look dramatically different to what they are today. It is an evolving situation however, so we will keep an open mind, watch with interest, and look to take advantage of opportunities in the market as they present themselves.

## Outlook

The recent increase in stock market volatility, the partial de-rating of some bellwether technology stocks, as well as the general anxiety about a potential US-China trade war suggest that investors may become more cautious about investing in tech stocks in the short-term.

Despite the solid global economic conditions, strong domestic demand and full employment in the US, and the tax cuts introduced by the Trump administration only last December, investors seem to have finally realised that the removal of quantitative easing (QE) and rising interest rates will eventually take their toll and have a flow-on impact on stock market valuations.

Some of the most hyped technology companies may finally be due for a serious correction and we are broadening our list of potential targets for short-selling.

However, the Fund's strategy remains focused on identifying areas of under-appreciated growth with attractive valuation. Should periods of high volatility create a temporary market dislocation, we intend to selectively add to our high conviction positions.

## Notes

1. Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of the stated unit class of the fund and represent the combined income and capital returns of the stated unit class over the specified period. Returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

   Index returns are in Australian dollars and assume the reinvestment of dividends from constituent companies, but do not reflect fees and expenses. For the purpose of calculating the "since inception" returns of the MSCI index, the inception date of C Class of the fund is used. Where applicable, the gross MSCI indices were used prior to 31 December 1998 as the net MSCI indices did not exist then. Fund returns have been provided by Platinum Investment Management Limited; MSCI index returns have been sourced from RIMES Technologies.

   Platinum does not invest by reference to the weightings of any index or benchmark, and index returns are provided as a reference only. A fund's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, the fund's holdings may vary considerably to the make-up of the index that is used as its reference benchmark.

   The stated portfolio values of C Class and P Class of the Platinum International Fund (PIF) do not include funds invested in PIF by the Platinum International Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PIF. The stated portfolio values of C Class and P Class of the Platinum Asia Fund (PAF) do not include funds invested in PAF by the Platinum Asia Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PAF.
2. The investment returns depicted in this graph are cumulative on A$20,000 invested in C Class (standard fee option) of the fund over the specified five year period relative to the relevant net MSCI index in Australian dollars.

   Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of C Class of the fund and represent the combined income and capital returns of C Class over the specified period. Returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

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3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents the fund's exposure to physical holdings and long derivatives (of stocks and indices) as a percentage of the fund's net asset value.
4. The table shows the fund's top 10 long stock positions (through physical holdings and long derivatives) as a percentage of the fund's net asset value.
5. Sector breakdown represents the fund's net exposure to physical holdings and both long and short derivatives (of stocks and indices) as a percentage of the fund's net asset value.
6. The table shows the fund's major currency exposure as a percentage of the fund's net asset value, taking into account currency hedging.

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Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock performance are in local currency terms, unless otherwise specified.

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