

Platinum International Technology Fund



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Performance

(compound p.a.⁺, to 31 March 2020)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	-3%	11%	10%	9%	9%
MSCI AC World IT Index [^]	-1%	24%	23%	19%	2%

⁺ Excludes quarterly returns.

* C Class – standard fee option. Inception date: 18 May 2000.

After fees and costs, before tax, and assuming reinvestment of distributions.

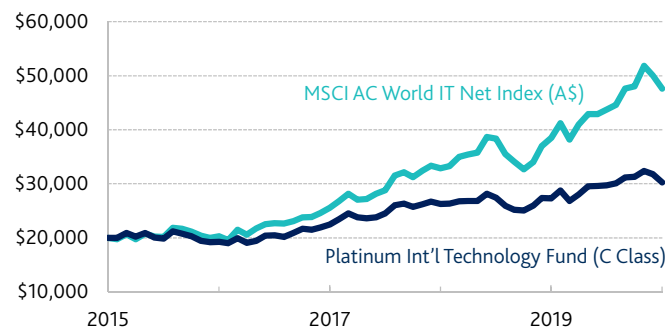
[^] Index returns are those of the MSCI All Country World IT Net Index in AUD. Source: Platinum Investment Management Limited, FactSet.

Historical performance is not a reliable indicator of future performance.

See note 1, page 4. Numerical figures have been subject to rounding.

Value of \$20,000 Invested Over Five Years

31 March 2015 to 31 March 2020



After fees and costs, before tax, and assuming reinvestment of distributions.

Historical performance is not a reliable indicator of future performance.

Source: Platinum Investment Management Limited, FactSet.

See notes 1 & 2, page 4.

The Fund (C Class) returned -3.1% for the quarter and 10.8% for the year.¹

While the first month of the quarter started with improving prospects for technology stocks, sentiment quickly deteriorated once the damage inflicted by the coronavirus (COVID-19) epidemic on global economic growth became more apparent.

During the quarter, global stock markets experienced extreme volatility and technology stocks were not immune. Such a sharp correction in a relatively short period of time is almost unprecedented. In the period from 19 February to 18 March, the tech-heavy Nasdaq Composite index declined by 29% and then rallied 10% for the remaining period to 31 March in local currency terms.

The most affected holdings in the Fund were companies exposed to international tourism (**Booking Holdings** -34%), online car sales and advertising (**Carvana** -40% and **Bitauto** -30%), as well as semiconductor companies, which are more dependent on automotive and industrial demand (**Infineon** -34% and **Microchip Technology** -35%).

Software names, such as **Microsoft** (flat return) and **Constellation Software** (+1%), were more resilient, with their businesses considered to be more 'essential'. Also on the positive side of the ledger was **JD.com** (+15%), benefiting from a recovery in e-commerce transactions in China.

The Fund had minimal exposure to the Australian dollar during the quarter and its decline against all major counterparts provided a positive contribution to performance.

Changes to the Portfolio

As it became gradually clear that COVID-19 was not a 'simple flu' or an issue confined to supply chain disruptions in China, but rather a serious global pandemic, we reduced some of the Fund's positions and exited others. The extent and speed of the market correction soon presented us with some very attractive prices relative to our long-term valuation models.

¹ References to returns and performance contributions (excluding individual stock returns) in this Platinum International Technology Fund report are in AUD terms. Individual stock returns are in local currency terms and sourced from FactSet unless otherwise specified.

The drastic price corrections in some of our favourite holdings gave us the opportunity to selectively increase some of our existing positions (including the names mentioned above). While these companies will likely suffer in the short term and it is very difficult to make any predictions on the duration of the incoming global recession, we believed the entry prices offered us a decent margin of safety.

We also introduced a few new positions in the emerging cloud software space and wireless infrastructure companies, which were unduly penalised by the market sell-off, but we believe offer very exciting long-term potential when the economy recovers. The Fund had a net invested position of 84% at the end of the quarter.

Commentary

It is interesting to review how the current medical emergency has impacted everybody's lives and also changed people's working habits, prompting many people to quickly adopt emerging technologies.

The 'work from home', 'stay at home' and 'social distancing' policies are forcing us to modify our daily behaviours and adapt to a new way of life. Many of us have changed our daily routines and no longer commute to the workplace; we have now set-up offices at home and sign-in remotely to our employer's Virtual Private Network (VPN) or access other services through cloud-based computing.

A rush to set-up workstations and screen monitors with reliable internet connections has driven extra demand for hardware, broadband connectivity and capacity, and cloud services. Anecdotally, computer resellers have experienced strong demand for laptops, while IT hardware distributors have noticed accelerated drawdown of their inventories as workers and students now work and study from home. **Intel** and **Microsoft**, two holdings in the Fund, are playing a significant role in supplying key components for PC, software and cloud applications.

To bridge the gap created by social distancing, people have also rushed to install and use new communication/collaboration tools, allowing better interaction with co-workers, fellow students, teachers, family and friends. Microsoft revealed that its Teams collaboration and communication platform that provides services including workplace chat and video meetings, had experienced a 775% increase in monthly users in Italy, where social-distancing measures and 'shelter in place' orders have been enforced. Microsoft Teams reported that over 900 million meeting and calling minutes a day were generated by 44 million daily users over a space of a single week. Microsoft's Skype video and audio call service also recorded a strong acceleration in usage, with subscribers

reaching 40 million, representing a 70% month-on-month increase and calling minutes up 220%.

Such an acceleration in the usage of bandwidth intensive services is placing strains on existing telecom and internet infrastructure. **Vodafone**, the world's second-largest mobile operator, with a presence in the UK, Italy, Spain and Germany, said the COVID-19 crisis was causing data traffic on its networks to surge, with demand already rising by 50% in some markets. In China, earlier this year slowdowns in internet speed were reported in the Hubei area during the lockdown period. **China Mobile** the world's largest mobile wireless operator has recently been more vocal with its plans to accelerate its new 5G high speed/low latency wireless network roll-out. All major telecom operators around the world where social distancing measures are in place have experienced stress in their networks and are sending engineers in the field to add further capacity (equipment, software, submarine cables and spectrum). **Ericsson**, a leading provider of wireless telecom equipment, recently confirmed that it had to increase support to its customers and see the trend continuing in the medium term.

In Europe, as people stay at home and watch more videos online, telecom regulators have asked Netflix, **Google's** YouTube and other video streaming services to reduce the size of the files transmitted over the increasingly congested networks. As a result, the services are now temporarily delivered at standard rather than high definition or at reduced bitstreams. For the same reasons, Disney decided to delay the launch of its new video streaming service in France.

While people stay at home, they are also spending more time playing online games. According to the independently-run *SteamDB*, the online digital games marketplace, Steam reached an all-time peak number of online users almost every day for the last few weeks of March. As at 31 March, Steam recorded 23.6 million simultaneous users, up from the previous high of around 19 million only achieved a month before.

Game enthusiasts are not only increasing the amount of time spent in front of their screens, but are also rushing to buy new consoles. According to industry publisher *gamesindustry.biz* for week 12 of 2020 (Monday, 16 March - 22 March), game console sales rose by 155% to 259,169. This was across the board, with significant gains for Nintendo Switch, PlayStation 4 and Xbox One.

While some of the patterns and behaviours described above will probably only be temporary spikes, others may well accelerate trends that otherwise would have taken much longer to establish. Many of the Fund's holdings are strategically selected to potentially benefit from these trends.

Disposition of Assets

REGION	31 MAR 2020	31 DEC 2019	31 MAR 2019
North America	54%	51%	48%
Asia	23%	22%	19%
Europe	8%	9%	11%
Japan	1%	2%	1%
Cash	14%	16%	21%
Shorts	-2%	-2%	-3%

See note 3, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	31 MAR 2020	31 DEC 2019	31 MAR 2019
Information Technology	48%	47%	42%
Communication Services	26%	24%	26%
Consumer Discretionary	6%	6%	4%
Industrials	4%	5%	4%
TOTAL NET EXPOSURE	84%	82%	76%

See note 4, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Currency Exposures

CURRENCY	31 MAR 2020	31 DEC 2019	31 MAR 2019
US dollar (USD)	53%	59%	61%
Korean won (KRW)	8%	9%	7%
Hong Kong dollar (HKD)	8%	6%	9%
Australian dollar (AUD)	7%	4%	0%
Euro (EUR)	7%	5%	3%
Canadian dollar (CAD)	4%	4%	3%
Taiwan dollar (TWD)	4%	3%	3%
Norwegian krone (NOK)	3%	3%	3%
Japanese yen (JPY)	2%	4%	6%
British pound (GBP)	2%	2%	2%
Swedish krona (SEK)	2%	1%	1%
Swiss franc (CHF)	0%	0%	1%

See note 5, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit <https://www.platinum.com.au/our-products/pitf>.

Outlook

It is not easy to predict when the current volatility and risk aversion in markets will reverse, or how quickly the global economy will recover from the inevitable recession. We can, however, take advice from scientific experts (including our colleague Dr Bianca Ogden, portfolio manager for the Platinum International Health Care Fund and virologist) and monitor how things are evolving in China, where the virus was first diagnosed in late December 2019.

After three months of government-imposed draconian measures to stop the contagion, Chinese citizens are slowly returning to a 'new normal' life. While people venturing outside still wear face masks and have their body temperatures measured at various checkpoints, workers are returning to their factories and several indicators suggest that the economy is slowly heading back towards full capacity. There are likely to be re-lapses in infections and possibly more selective lockdowns until the epidemic exhausts itself or a cure (vaccine) is found. In the Western world, we are likely to see countries follow different paths according to the severity of contagion and the policies they have adopted.

While there is still little visibility on the timeline of when a vaccine will be ready or how long it will be before a large enough portion of the population is immunised, it is reasonable to expect that it will be a very slow, painful and costly exercise, but ultimately a solvable one.

As we navigate through this economic storm with a broad range of estimates on the potential damage inflicted to the businesses we own, we rely as always on our specific knowledge of the companies we invest in and the robustness of their business models in the face of adverse conditions. We have constructed the portfolio accordingly and remain confident that we can weather the storm.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	US	Comm Services	7.0%
Tencent Holdings	China	Comm Services	4.9%
Facebook Inc	US	Comm Services	4.5%
Samsung Electronics Co	Korea	Info Technology	4.4%
Constellation Soft	Canada	Info Technology	3.6%
Taiwan Semiconductor	Taiwan	Info Technology	3.6%
Skyworks Solutions	US	Info Technology	3.2%
Microsoft Corp	US	Info Technology	2.7%
Microchip Technology	US	Info Technology	2.7%
Intel Corp	US	Info Technology	2.7%

As at 31 March 2020. See note 6, page 4.

Source: Platinum Investment Management Limited.

Notes

1. Fund returns are calculated using the net asset value (NAV) unit price (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. Fund returns are net of fees and costs, are pre-tax, and assume the reinvestment of distributions. The MSCI Index returns are in Australian Dollars and are inclusive of net official dividends, but do not reflect fees or expenses. MSCI index returns are sourced from FactSet. Platinum does not invest by reference to the weightings of the Index. The 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. Index returns are provided as a reference only. 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.
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 period relative to the specified net MSCI Index in Australian Dollars.
3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents, as a percentage of the market value of the Fund's positions, the Fund's effective exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices. "Shorts" relates to the effective exposures to short securities and short securities/index derivative positions.
4. The table shows, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant sectors through direct securities holdings as well as both long and short derivatives of stocks and indices.
5. The table shows the effective net currency exposures of the Fund's portfolio as a percentage of the Fund's net asset value, taking into account the Fund's currency exposures through securities holdings, cash, forwards, and derivatives. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.
6. The table shows the Fund's top 10 long equity positions as a percentage of the Fund's net asset value, taking into account direct securities holdings and long stock derivatives. The designation "China" in the "Country" column means that the company's business is predominantly based in mainland China, regardless of whether the company's securities are listed on exchanges within mainland China or on exchanges outside of mainland China.

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