Platinum International Technology Fund

Alex Barbi Portfolio Manager

Disposition of Assets

REGION	MAR 2012	DEC 2011
Asia	36%	35%
North America	21%	19%
Europe	19%	17%
Japan	4%	5%
Cash	20%	24%
Shorts	7%	3%

Source: Platinum

Performance and Changes to the Portfolio

The Fund's value increased by 8% during the quarter, while the MSCI World Information technology (A$) Index was up by 18.9% for the same period. Over 12 months, the Fund has recorded a negative 0.2%, while the Index was up by 12.6%.

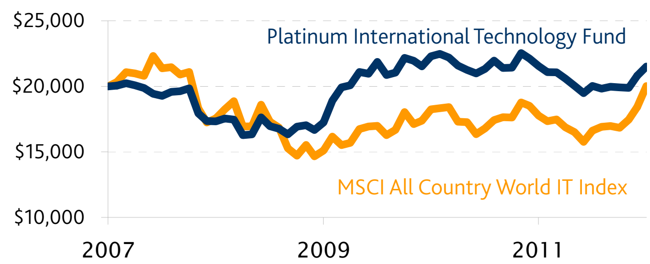
During the quarter major contributors to performance were:

- Advance Micro Devices - AMD (Semiconductors) +48%
- Apple Inc (Hardware and phones) +48%
- Adva Optical (Optical networking) +39%, and
- Samsung Electronics (Korean Electronics giant) +18%.

Among major detractors to performance were:

- ZTE -14%, and
- Comba Telecom Systems -31%.

Value of $20,000 Invested Over Five Years
31 March 2007 to 31 March 2012



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

Both ZTE and Comba suffered from delays announced by Chinese telecom operators in their capital expenditure plans. We bought these stocks too early as we believed that the market had already anticipated the cyclical slowdown. We believe this is only a temporary setback and we remain committed to them. In fact, both AAC Technologies +27% and China Mobile +13% (two holdings in the Fund related to the broader theme of mobility in China) reported very good results, and indirectly confirm our case that China upgrading its telecom network is only a matter of when, not if.

Commentary

Apple was the star of the US stock market during the quarter with its stock price jumping to an all time high and its market capitalisation growing to a huge US$575 billion, making it the largest listing on the planet. While plenty has been written about the success of its iPhones and iPads, and the enormous cash pile accumulated by the company (US$97 billion at last count), less has been said about its impact on the stock market itself.

A research piece recently produced by Barclay's Capital shows how index weightings can be quite deceiving, in particular, the valuation of Apple as compared to the rest of the market. Most people would be aware that Apple is a behemoth but the extent of its impact on the entire market is less clear.

First of all, it is revealing that during an average day, $13 billion worth of Apple shares are traded on the Nasdaq, where the total value of daily traded shares is $55 billion. In other words, Apple makes almost a quarter of all shares traded in that market by value!

Our decision last December (refer to the Fund's December 2011 quarterly report) to raise the Fund's exposure to Apple was the correct one, and it added to performance. However, the Fund's relatively low 3.6% weight in this stock ultimately was nowhere near the heavyweights (between 15% and 19%) represented by Apple in typical technology indices like the Nasdaq 100, S&P Global Technology or MSCI IT Index. That partly explains the Fund's underperformance, together with the relatively large 18% average cash position and a 1% negative contribution from the short positions.

Analysts at Barclays also calculated that the year-to-date gains in Apple stock were responsible for 15% of the S&P 500 first-quarter gains, and virtually all of the bellwether Index's earnings growth versus a year ago. We have to go back all the way to 1999 to find other such observations, when another tech giant, Microsoft, was responsible for these large contributions. That is not to say that we are back in the bubble days of 1999. S&P 500 trailing P/E ratio is now at around 14 times compared with 27 times in 1999, and Apple's trailing P/E is around 14 times compared to Microsoft at 70 times in 1999.

However, *"is it rational to expect a single stock to provide outsized contributions to the index price return?"* the analysts asked rhetorically. The note reveals that Apple's contribution to the S&P 500 gain was four times its weighting in the Index. *"In addition, Apple has offset 40% of the year-to-date decline in estimated 2012 index EPS"* they said. First-quarter earnings growth is estimated at just 1.4% year-over-year for the S&P 500, and about zero excluding Apple, the report concluded. *"On balance, the outlook for first-quarter earnings reports is mixed at best; any slip-ups from Apple could be costly to equity investors"* the analysts wrote.

The issue raised here is of major importance because if stock market indices grow mostly thanks to an outsized contribution from an individual company's earning explosion, investors may confuse the unique strength of a particular phenomenon with a general market earnings recovery. At that stage the risk of a sudden market reversion due to Apple's growth rate slowing down becomes quite high. Almost two years ago (refer to the Fund's June 2010 quarterly report) we described the huge profitability gap between the iPhone and the average Nokia phone, and some less evident drivers of Apple's success (i.e. telephone carriers being happy to subsidise the cost of the iPhone, and incur an upfront loss in exchange for subscribers 24 month long-term contracts). We cannot predict when Apple rocket-fuelled growth will start facing serious headwinds, but to some extent it is inevitable for companies relying on continuous technology innovation to face obsolescence, competition and yes… even maturity. It is typical of technology companies to go through periodic disruptive cycles. We are not saying Apple has reached that point yet, but the odds are becoming increasingly more difficult to calculate, in light of what we experienced in two decades of technology investing.

Therefore, having first invested in Apple at US$235 exactly two years ago, we now think that (above US$600) it is prudent to trim our position and take some profit.

China Mobile

Moving to China, concerns have increased among investors that a slowdown is now overdue in those parts of its economy more dependent on public and private investments (particularly residential construction and infrastructure building). The Chinese leaders themselves have recently pointed to a more moderate pace of growth in their update of their five-year-plan targets. The nation's economic growth target is now 7.5%, down from an 8% goal in place since 2005, a signal that leaders are determined to cut reliance on exports and capital spending in favour of consumption.

In this context, we remain confident in our holding in China Mobile. They will likely benefit from new government policies to promote higher domestic consumption and to raise average earnings for the low and middle income groups. This should encourage the population to increase their discretionary spending just when the global trend of higher mobile data usage through smartphones, tablets and other mobile devices will become irresistible to those keen to adopt Western-style consumption models.

As a reminder, China Mobile is the largest mobile network in the world with an army of subscribers (660 million) which is more than twice the entire population of the US! Six million net new subscribers are being added to its network on average each month and Chinese users are increasingly adopting smartphones like their Western counterparts.

Importantly, smartphone penetration in China is still extremely low, reaching an estimated 6.9% as at the end of 2011. That compares to levels of 10% in Indonesia, 13% in Thailand, 20% in Taiwan, 45% in Hong Kong and 50% in Singapore and Australia. Smartphones like the iPhone, the Samsung Galaxy and the many other cheaper brands developed by local and foreign companies will bring true affordable mobile internet to the Chinese masses. It is not unreasonable to expect smartphone penetration in China to approach 35-40% within three or four years and with them, revenues for China Mobile will accelerate from the current (and fairly decent) +8.8% year-on-year increase. Despite the promising long-term outlook, the market is, however, cautious about regulatory uncertainties and government interferences in China. While we acknowledge this, we think that on balance the potential upside more than offset the downside risks. Trading at 10.5 times P/E for 2012, and offering a 4% dividend yield, China Mobile remains quite attractive considering its strong leadership position and growth prospects.

Outlook

The bold European Central Bank intervention in February put a 'safety net' around the European financial systems with the €1 trillion 'Long Term Refinancing Operation' (LTRO) and it avoided a major funding crunch among troubled European banks. In the US, the slow but continuous progress of its economic indicators is encouraging, but current estimates on future corporate earnings growth may suggest that the stock market has largely discounted the recent recovery.

The divergence in medium-term economic prospects among Europe, Asia and the US may become a driver of divergent performance in the next few months. With such an uncertain economic picture in the background, we remain convinced that our philosophy of finding the best investment themes and selecting the best companies within them is the best way to proceed.

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$20,000 invested in the relevant Fund over five years from 31 March 2007 to 31 March 2012 relative to their Index (in A$) 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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