# Platinum International Technology Fund

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## Disposition of Assets

| REGION | MAR 2014 | DEC 2013 |
|---|---|---|
| Asia and Other | 24% | 32% |
| North America | 20% | 21% |
| Europe | 19% | 18% |
| Japan | 12% | 12% |
| Africa | 3% | 3% |
| Russia | 1% | 0% |
| Cash | 21% | 14% |
| Shorts | 4% | 4% |

Source: Platinum

## Performance and Changes to the Portfolio

**(compound pa, to 31 March 2014)**

| | QUARTER | 1 YR | 3 YRS | 5 YRS | SINCE INCEPTION |
|---|---|---|---|---|---|
| Platinum Int'l Tech Fund | -2% | 40% | 12% | 12% | 9% |
| MSCI AC World IT Index | -1% | 39% | 16% | 13% | -5% |

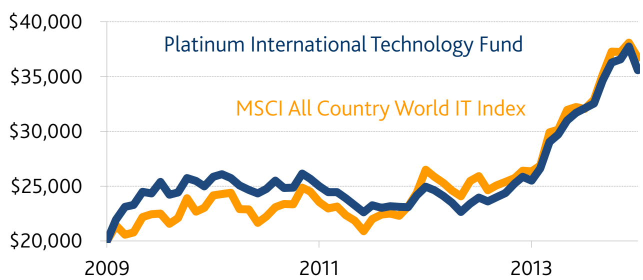
Source: Platinum and MSCI. Refer to Note 1, page 4.

During the quarter, the MSCI World Information Technology Index (A$) was down by 1.5% reversing some of the strong gains cumulated over the previous year. The Fund's performance was in line, declining by 2%. For the year to March, the Fund's return was a strong 39.5% compared to 39.3% for the Index, as we slightly reduced the net invested position to 75%.

Among the Fund's best performers and major contributors were analogue semiconductor stocks (Skyworks +31%, NXP Semiconductors +28%, Avago Technologies +22%), solar equipment (Meyer Burger +35%) and LED equipment (Veeco +27%).

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

*31 March 2009 to 31 March 2014*




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

Detracting from performance were Chinese Internet stocks (Sohu, Youku, Sina and Baidu -10% on average) reversing some of last year's strong performance (and Adva Optical Networking telecom equipment manufacturing and testing -12%).

Currencies detracted from performance with the Australian dollar up on average 4% against major Western counterparts and 2% against the Japanese yen.

During the quarter we introduced two new positions in the portfolio:

**ASML Holding**: the leading lithography equipment manufacturer for the semiconductor industry. While existing lithography technology is facing more challenges with transistor patterns increasingly narrower on the silicon wafers, ASML, with its latest product, Extreme Ultraviolet (EUV), has the technological lead over its competitors. Once ASML transitions EUV from test phase to full-scale manufacturing, we believe that will translate in higher market share and accelerating revenue growth for the company over the next few years.

**Autohome**: a recently listed company, is the leading Internet portal for the automotive market in China and is gradually becoming a comprehensive auto marketing/e-commerce platform. With exposure to both new and used car markets, through their www.autohome.com.cn and www.che168.com websites, it offers powerful tools to both car-dealers and the emerging Chinese middle class of car buyers. Telstra was a founding shareholder of the company and it retains a controlling stake after the recent IPO.

## Commentary

We spent two weeks in Europe visiting telecom, media and technology companies and we also attended the Mobile World Congress (MWC) in Barcelona to check on emerging trends and recent developments. We came back with a sense of moderate optimism from our meetings: some timid signs of recovery in consumer spending are finally working their way through various layers of the European economy and many companies are well-positioned to benefit from it.

In Spain, we learned that the TV advertising market grew in value by 6% in the fourth quarter of 2013 after ten consecutive quarters of negative numbers! An indication perhaps that corporate advertising spending is ready to re-accelerate if consumer's demand awakens a bit. Similarly in Germany, local free to air and pay-TV broadcasters reported double digit revenue growth for 2013 driven by the emergence of new digital and on-demand services.

In telecommunications, the excitement was more about possible consolidation of telephone/cable service providers in specific national markets (i.e. France, Germany, Ireland). The hope is this could improve the profitability of a sector plagued by declining numbers of traditional (and highly profitable) fixed-line subscribers, fierce competition in mobile offerings and the prevalence of the handsets subsidy model (which mostly benefits Apple and Samsung).

During the first quarter of 2014, the level of merger and acquisition activity in the technology, media and telecommunication sectors reached US$174 billion, the highest level since 2006. The largest deal was Comcast's US$68.5 billion acquisition of rival cable operator Time Warner Cable in the US, which will create the dominant US broadband provider with 33 million subscribers. Facebook also made the headlines with the $16 billion acquisition of 'WhatsApp', a mobile messaging business based on a community of 450 million users, generating so far only around $20 million of revenues.

In Europe, we had Vodafone acquiring Spanish cable operator Ono for €7.2 billion, Liberty Global purchasing Dutch cable company Ziggo and Vivendi in France putting up for sale its telecom subsidiary SFR, now the target of a bidding war between conglomerate Bouygues and cable operator, Numericable.

This renewed level of activity is the result of several forces, but it can be largely ascribed to one major driver: the proliferation of media/communication across screens (TV, PC/laptop, tablet, phone), through multiple ways of delivery (fixed broadband, mobile Internet, WiFi etc) and in a continuously evolving fashion (voice, texts, social messaging, video calls, tweets, apps etc). This is forcing most players to reconsider their traditional strategies and to be open to embrace radical moves and expansion into new territories.

Add to this a regulatory regime which in Europe has enforced strict tariff deflation for certain mobile services and allowed entry of new competitors in almost every national market. You therefore understand why incumbent operators have seen their historically high margins deteriorate and stock price performances generally lag the broad market recovery.

That is why mobile operators are now buying cable operators, social networks are bidding for messaging networks or fixed line telecom operators are launching TV channels. The most striking example is probably the UK market where the traditionally dominant position of pay-TV operator BSkyB has been recently challenged by BT Group plc (the old British Telecom) very keen to bid top dollar for Football TV rights of both English Premiere League and Champions League.

When the traditional business model of charging a fee for a phone call/text message can be easily by-passed by simply logging into Skype or using messaging apps like Line or WhatsApp, then the incumbent has a problem.

If people start watching videos/TV series untethered from the large TV in the family lounge, on a tablet “where you want/when you want”, then advertisers have a problem because their traditional audience becomes mobile and less predictable. Prime-TV viewership tends to be less relevant, while new ways of measuring audiences across multiple media becomes more important and it potentially requires more accurate readings of their targets’ socio-demographic traits.

What is the ultimate prize for this rush to expand/acquire/consolidate? It’s a better way to extract value from you and me, to better understand the habits of the consumer/audience/subscriber, who can be part of multiple communities (i.e. the Facebook community, the Vodafone’s subscribers, the Twitter followers, the Master Chef audience etc).

The media/communication evolution is happening faster now courtesy of increasingly powerful technologies (fibre to the home, 4G wireless connectivity, WiFi etc) and converging trends. Those groups that are able to evolve from traditional businesses (fixed line voice, mobile voice, free to air TV, print media) to the new emerging digital channels will be the winners.

## Outlook

A surge in the number of IPOs between the end of 2013 and the early months of 2014 was a clear sign of investors’ exuberance in the tech space. The first quarter of 2014 ended with some profit taking in the most excited technology stocks, specifically Internet, social networks, Cloud, big data names, many of which had only just been listed.

As investors are now rotating into more “traditional” and “value” technology names (i.e. Apple, Samsung, Microsoft etc), they are rushing to divest their most recent winners and so run the risk of throwing away the proverbial baby with the bath water. We are now spending more time investigating opportunities arising from these corrections/rotations and we maintain a slightly higher portion of cash to be put to work opportunistically. In markets like China and Russia for example, we can now find some interesting opportunities in recently de-rated Internet stocks following a sharp sell-off triggered by macro-economic and geopolitical concerns.

We remain positive about technology stocks in the medium term as we consider valuations (particularly for large capitalisation stocks) still attractive.

With signs of economic recovery emerging in some European countries, both enterprise and consumer spending in those countries should accelerate and positively impact on hardware, software and consumer electronics revenues.

Most of the Fund’s holdings, with their strong cash flow generation, strong balance sheets and attractive valuations, remain well-positioned to benefit from the recovery.

## 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$20,000 invested in the relevant Fund over five years from 31 March 2009 to 31 March 2014 relative to their Index (in A$) 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.

3. Long invested position represents the exposure of physical holdings and long stock derivatives. The net invested position represents the exposure of physical holdings and both long and short derivatives.

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