Platinum International Technology Fund

Alex Barbi Portfolio Manager

Disposition of Assets

REGION	SEP 2012	JUN 2012
Asia	36%	37%
North America	19%	21%
Europe	17%	20%
Japan	3%	4%
Cash	25%	18%
Shorts	2%	2%

Source: Platinum

Performance and Changes to the Portfolio

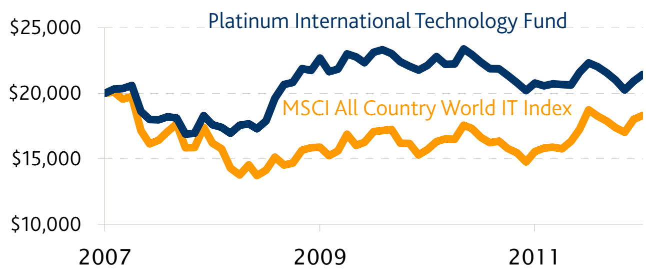
The Fund's value increased by 2% during the quarter, while the MSCI World Information Technology (A$) Index was up 5.3% for the same period. Over 12 months, the Fund has recorded a positive 3.1% return, while the Index was up 17.7%.

During the quarter, the best performers in the Fund were some Internet stocks (Google +30%, Sina +27%) and AAC Technologies (+25%), the leader in miniature acoustic components for smartphones and tablets.

Semiconductor stocks underperformed the broader technology market and this was also reflected in the decline of some of our holdings such as Marvell (-17%) and AMD (-42%). In contrast, Samsung Electronics remained a strong performer (+17% for the quarter and +59% for the last 12 months) thanks to its solid medium-term prospects and despite the noise caused by the litigation with Apple Inc.

Value of $20,000 Invested Over Five Years

30 September 2007 to 30 September 2012



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

Commentary

Autopsy of an IPO

In a quarter when technology stocks performed reasonably well and Internet stocks were generally in favour, a major disappointment for many investors was probably the collapse of the Facebook stock price. From its Initial Public Offer (IPO) of $38 in May, it reached a low of $17.55 in September (it closed at $21.66 at the end of the quarter). Platinum did not participate in the placement, taking a view that the offer was way overvalued and better opportunities were available in existing alternative Internet names.

At listing, the company was valued at more than $80 billion of market capitalisation, with forecast sales of $4.9 billion and net profit of $500 million for 2012, resulting in an estimated P/E of 160x forecast net earnings. Definitely not cheap! Even adjusting earnings 'pro-forma' as Wall Street analysts prefer to do with tech stocks (which chooses to ignore the cost of issuing stock options), you would have paid around 76x expected earnings.

The familiarity of the name with the masses and the success of its dominant social network application among almost one billion active users globally, made it the perfect growth story for a successful IPO. The theme of booming digital advertising is an obvious label you can attach to a story like Facebook. Advertisers always looking for 'eyeballs' to capture and serve with digital adverts would surely flock to the dominant player. If anything, revenues were growing at more than 45% year-on-year at the time of the IPO (albeit less than the 100% growth rate recorded in 2011).

However, when such an over-hyped IPO comes to the market there is always the risk to disappoint excessive expectations, and in this case if you looked carefully you could find many red flags. Prior to the IPO, one could have turned a blind eye to the fact that Wall Street underwriters had pushed the final listing price $4 above the original estimated range right at the last minute due to the strong demand from the public. Or you could have ignored the fact that 57% of the shares being offered in the float were coming from existing shareholders (including $1 billion from founder Mark Zuckerberg). Or that a further 1.7 billion shares (or 63% of total shares outstanding!) from existing shareholders (venture capitalists, founders and employees) would be available for sale at various stages for 12 months after the IPO date, creating a potential enormous overhang on the stock price in the near-term.

All signs were potentially there that really you would be buying a very 'hot' stock which ultimately could burn you… If a stock trades at a very high valuation multiple by traditional standards, it is obviously discounting a highly successful outcome. In other words, there is upside only if the company is more successful than existing high expectations from investors; and a lot of downside if it disappoints.

According to a reconstruction of the events around the IPO, a few days before the listing the underwriters had started privately warning some potential clients of possible downward revisions to Facebook's revenue growth for the incoming quarter. Many investors started feeling duped and scaled back their allocation demands for the new stock. What happened really? The company had warned through a regulatory filing, that a large portion of users were increasingly using Facebook on smartphones, but this mobile application was nowhere near as profitable in terms of advertising revenues as the traditional PC based one. (The majority of Facebook revenues derive from the space the company sells to advertisers on its website, and its mobile phone version offers much less screen space for those adverts, hence a much lower interaction and profitability per user. We estimate that mobile adverts earn $0.70 per user per year on average versus $5 to $6 of the desktop version).

When Facebook eventually reported its second quarter results in July, it emerged in fact that annual sales growth was decelerating to 32% and monthly active users in the US and Europe were almost plateauing, suggesting a near saturation of the platform in developed markets. On the contrary, Facebook mobile users were growing much faster, and mostly in emerging markets, where people are more likely to have their first experience with the Internet through a mobile phone rather than a PC. Facebook revenues from mobile adverts are estimated to be only around 5% of total revenues for 2012 and this is where the big challenge for the company lies.

In the past we have seen Internet stories stumbling initially but then progress to huge success (Amazon) and others (Myspace) take-off rapidly only to end up in the dustbin. While it is still early days for advertising on social networks, and Facebook has already established a huge global footprint, its business model is clearly still immature and management are now trying to address its weaknesses by exploring new ways of 'monetising' advertisers/users.

At around the same time of the Facebook IPO, we at Platinum discussed its implications for the industry at large and its impact on competitors in particular. When a new business manages to build-up a follower base of one billion people in such a relatively short period of time, absorbing more of the 'users' Internet time' to the detriment of existing platforms, it can potentially become a clear threat to incumbents' profitability. Companies like Google, Apple, Yahoo and Microsoft all have to deal with the new entrant and its disruptive role.

However, we reached the conclusion that while everybody's attention was focused on the new kid in town, the market was giving us an opportunity to add to our position in Google at a very attractive price. As the Google price lay neglected on a valuation of 13-14x forecast P/E, we considered the market was emphasising the negative perception that Facebook would ultimately cannibalise large parts of its competitor's business.

With a clear focus on digital advertising through an established dominant position in on-line search and video (YouTube), and a fast growing on-line display business, Google seemed to us a much better investment opportunity and its solid growth credentials (revenues + 35% year-on-year accelerating in the second quarter) didn't look like the company was suffering that much from the new competitor, at least not yet.

From the date of the Facebook IPO to the end of the September quarter, Google stock price appreciated by 25%, while Facebook declined by 43%.

Outlook

Central Bankers are again dictating the short-term directions of the global stock markets. First was Mario Draghi, European Central Bank (ECB) President stating in July that the ECB would do "... whatever it takes to preserve the Euro. And believe me, it will be enough". Then in the first week of September Mr Draghi announced his new plan named Outright Monetary Transactions, which will involve the ECB potentially buying unlimited amounts of Spanish and Italian government bonds in order to lower those countries interest costs. More recently in the US, the Federal Reserve chief, Ben Bernanke, announced another important step towards increasing the liquidity in the system, by starting another Quantitative Easing process (QE3): an open-ended monthly purchase of $40 billion of mortgage-backed securities until the unemployment level is reduced to the desired level.

Once again, with everybody waiting for a solution to the Eurozone banking/sovereign crisis, this time stock markets have followed the news flow coming from the Central Bankers, given that this is a 'holiday' quarter for the Northern Hemisphere and politicians were not really present.

It appears to us that without this external 'support', the major developed economies would be struggling even more to function properly, therefore we should expect more of the same in the medium-term.

However, valuations of our major holdings remain quite attractive and while we live with an uncertain economic picture in the background, we continue to adopt a strategy of finding the best investment themes and selecting the best companies within them.

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$20,000 invested in the relevant Fund over five years from 30 September 2007 to 30 September 2012 relative to their Index (in A$) 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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