Platinum International Technology Fund

Alex Barbi Portfolio Manager

Disposition of Assets

REGION	DEC 2015	SEP 2015
Asia and Other	29%	29%
North America	28%	30%
Europe	14%	15%
Japan	7%	8%
Russia	2%	1%
Cash	20%	17%

Source: Platinum. Refer to Note 3, page 4.

Performance

(compound pa, to 31 December 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund	2%	10%	21%	12%	9%
MSCI AC World IT Index	5%	16%	29%	18%	-2%

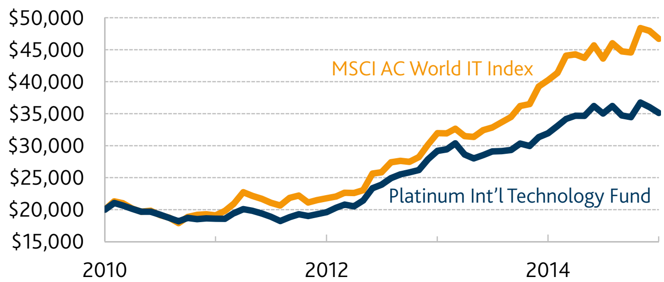
Source: Platinum and MSCI. Refer to Note 1, page 4.

The Fund returned 2% for the quarter and 10% for the year while the MSCI AC World Information Technology Index (A$) was up 5% and 16%, respectively.

The US tech-heavy Nasdaq 100 Index reversed the previous quarter's decline and was up 10%, helped by a few growth stocks' strong performance. In fact, while the US stock market appears to have lost some momentum in the final weeks of the year, it is interesting to note how much stronger the performance of a select group of technology stocks has been. In the December quarter, four stocks in particular, the so-called "FANG" (Facebook, Amazon, Netflix and Google, now renamed Alphabet), went up respectively by 16%, 32%, 11% and 25%. As these popular companies rapidly expand their strong and dominating businesses, they are also highly liquid, investable large capitalisation stocks with somewhat "predictable" secular growth trajectories (albeit with different levels of profitability). It is no wonder that they have become market darlings and must-have stocks at a time when growth is increasingly rare to find. Some have compared the current stock market dynamics to the "Nifty-Fifty" period when a group of 50 popular large-cap stocks lifted the US stock

Value of $20,000 Invested Over Five Years

31 December 2010 to 31 December 2015



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

market to peak levels in the early 1970s, only to underperform massively in the subsequent period of a protracted bear market which lasted until 1982.

Among the Fund's best performers this quarter were **SanDisk**, up 40% as a result of a takeover offer (see more detail below), **Yandex**, up 47% as it recovers from an extremely oversold Russian stock market, and several US-listed Chinese companies such as **Baidu** (+38%), **Trina Solar** (+23%) and **SouFun** (+12%).

On the negative side of the ledger we recorded a poor performance in memory stocks (**SK Hynix** -8%, **Micron Technology** -5%), which are still struggling due to slow PC sales and weaker global smartphone shipments, as well as **China Mobile** (-5%) due to a temporary slowdown in reported revenues caused by a change in tariffs.

Changes to the Portfolio

Among the US-listed Chinese companies, we sold our entire position in **Youku Tudou** after the company decided to accept a takeover offer by Alibaba. We also exited our position in **Sina Corporation** and re-invested part of the proceeds in **JD.com**, the second largest e-commerce retailer/platform in China.

In regards to currency exposure, the Fund's composition has not changed substantially from the previous quarter: with 66% in US dollars, 12% in Hong Kong dollars and 8% in the Euro. Our exposure to Japanese stocks is 50% hedged into US dollars, and exposure to Chinese stocks is partly hedged with a 9% short position on the Chinese yuan. We maintained a minimal exposure to the Australian dollar.

Commentary

In our June 2015 quarterly report we described the increase of mergers and acquisitions (M&A) activity recorded in the technology sector during the first part of the year, and in particular the transactions involving semiconductor companies. In the September 2015 quarterly report we explained the fundamental reasons for our investment in SanDisk, a leader in NAND flash memory. Within a month of our investment, SanDisk received a takeover offer from Western Digital, a rival company in the data storage business and a leader in the hard disk drive sector. While we had correctly identified the strategic value of SanDisk's assets for a potential acquirer, our timing was indeed fortunate and the investment will likely result in a 50% return if and when the takeover is completed in mid-2016.

We would have preferred to be a long-term investor in SanDisk because of the sector's attractive growth prospects, but we may be presented with new opportunities soon as a result of the flurry of M&A deals and the ongoing consolidation process in the semiconductor industry.

An interesting aspect of the Western Digital-SanDisk transaction was the addition of a new Chinese shareholder on Western Digital's register. China-based **Unisplendour Corporation** announced its intention in late September to acquire a 15% stake in Western Digital through a US$3.8 billion private placement, making it the largest ever Chinese investment in a tech company in the US. Incidentally, this deal was announced only a week after President Xi Jinping's visit to the US where he met with the country's top tech company leaders, and just two weeks before Western Digital's takeover offer for SanDisk. There is little doubt that the Chinese investment was an essential component in Western Digital's structuring and financing for the SanDisk acquisition and that it was to some extent discussed at the highest political levels.

So who is behind Unisplendour Corporation? The Shenzhen Stock Exchange-listed company is controlled by **Tsinghua Holdings**, a 100% state-owned corporation funded by Tsinghua University, a leading Beijing based university whose alumni include both the current Chinese President, Xi Jinping, and former President Hu Jintao.

Chinese political leaders have made clear their long-term ambitions for the development of a strong domestic technology sector. The Chinese government declared the semiconductor industry a strategic priority in 2013 and Tsinghua Holdings has since accelerated its pace of targeted investments through various subsidiaries and in partnership with other private companies and publicly funded organisations.

In the same year, Tsinghua Unigroup, an operating subsidiary of Tsinghua Holdings, paid US$1.8 billion for Spreadtrum Communications, a Shanghai-based semiconductor design company specialising in application processors and modems for smartphones. Spreadtrum subsequently merged with RDA Microelectronics, another Shanghai-based company specialised in radio-frequency components. The newly merged Spreadtrum RDA received an investment of US$1.5 billion from Intel for an approximately 20% stake. Moreover, Tsinghua Unigroup has indicated an interest in buying Taiwan based MediaTek, the second largest smartphone chip manufacturer after US giant Qualcomm.

In 2014, China established a CNY125 billion (around US$20 billion) National Integrated Circuit Industry Investment Fund (National IC Fund) with capital contributions from 16 investors, including local governments, private enterprises and financial institutions. Ding Wenwu, the president of the National IC Fund, described the government's policy for the industry as essentially calling for expansion and vertical integration of the domestic semiconductor value chain. The National IC Fund was established with the aim of supporting equity investments in the semiconductor industry largely through manufacturing projects and it is already the second largest shareholder in Semiconductor Manufacturing International Corporation (SMIC), China's largest integrated circuit manufacturer.

A company named Tongfang Guoxin Electronics, also part of the Tsinghua Holdings constellation, recently announced a share placement (mostly to Tsinghua Unigroup) to raise CNY80 billion (approximately US$12.8 billion). Three-quarters of the proceeds will be used to fund a new digital memory chip factory (NAND or NOR). This is definitely an ambitious project and such a large fab could in theory add 10% to global NAND capacity, if completed. The remainder of the planned raising is intended to fund the acquisition of a 25% stake in Taiwan based Powertech, a company engaged in outsourced semiconductor assembly and testing (OSAT).

Lack of specific IP in the memory sector, however, remains a big hurdle for potential new Chinese entrants and that explains why they have been looking overseas for investment targets. Earlier this year, Tsinghua Unigroup approached US-based Micron Technology, a leading manufacturer of dynamic random access memory (DRAM) chips used in personal computers, servers and smartphones. They reportedly made an "informal" offer of US$23 billion to acquire Micron in what would have been the largest takeover of a US company ever made by a Chinese one.

Why such an increasing level of interest from China for the semiconductor industry? The reasons are both economic and strategic. One of the most important principles in China's industrial policies has always been an emphasis on preventing strategic commodities and materials from falling under the control of a dominant foreign nation. If we consider China's 2014 imports by value and category, semiconductors were worth US$218 billion, immediately after the top-ranked crude oil[1]. It is also obvious how important it is for China to create a strong domestic industry if they aspire to a leadership position in many technology-rich fields (e.g. communications, transport, defence, space, security, etc.).

We have seen from recent history how the entry of well capitalised and often government "sponsored" Chinese companies in specific industries has contributed to higher levels of competition and lower levels of profitability for existing players. Think about the telecom equipment manufacturing sector where Huawei has become an international leader on 4G wireless telecommunication, or personal computing where Lenovo is now the largest global player by units shipped, just ahead of HP Inc (formerly Hewlett-Packard).

Even in thin-film-transistor liquid-crystal display (TFT-LCD, more commonly known as flat panel display) screens used in TVs, tablets and smartphones, China is now the world's third largest producer behind South Korea and Taiwan, but ahead of Japan which it overtook in 2012. As a testament to how tough it has become to compete in this industry, only a few weeks ago news emerged that Sharp, the iconic Japanese consumer electronics giant, now financially troubled, was thinking of selling JPY7 billion worth of LCD manufacturing equipment and IP to China-based BOE Technology Group. BOE had itself just announced a plan to build the world's first Gen-10.5 LCD panel plant in Hefei, China. For more than six years, Sharp has led in LCD technology with its Gen-10 fab, which is located in the Japanese city of Sakai and has been in operation since July 2009, but with the construction of the Hefei fab underway, the Japanese panel maker has realised that its days as the manufacturer of the largest LCD panels are numbered.

Outlook

With the US Federal Reserve's long-awaited decision to raise interest rates for the first time since the 2008 financial crisis behind us, investors' focus will likely return to the fundamental questions about economic growth in the US and China, recovery in Europe and corporate earnings growth. We are not particularly enthusiastic on those fronts, as neither macro nor micro indicators signal an impending acceleration, but rather a slowdown.

We therefore continue to search for investment opportunities according to our thematic selection of ideas, with a strong focus on Internet, e-commerce and wireless operators as well as related equipment suppliers. Chinese companies in particular remain attractively valued in light of their long-term growth potential, which very often has not been fully reflected in current prices.

1 Source: http://wits.worldbank.org/CountrySnapshot/en/CHN/textview.

Notes

1. The investment returns are calculated using the relevant 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: 28 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

   (NB: The gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist.)

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 31 December 2010 to 31 December 2015 relative to its benchmark index (in A$) 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

   The investment returns are calculated using the relevant 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 benchmark 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. Invested position represents the exposure of physical holdings and long stock derivatives.

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