Platinum International Technology Fund

Alex Barbi Portfolio Manager

Disposition of Assets

REGION	DEC 2016	SEP 2016	DEC 2015
North America	34%	37%	28%
Asia and Other	24%	25%	29%
Europe	11%	13%	14%
Japan	8%	10%	7%
Russia	0%	1%	2%
Cash	23%	14%	20%
Shorts	0%	-2%	0%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	USA	IT	5.6%
Samsung Electronics	Korea	IT	5.5%
Apple Inc	USA	IT	3.2%
Oracle Corporation	USA	IT	3.0%
Tencent Holdings	China Ex PRC	IT	2.7%
Level 3 Communications	USA	Telecom	2.6%
China Mobile Ltd	China Ex PRC	Telecom	2.5%
Rohm Co Ltd	Japan	IT	2.5%
Nielsen Holdings Plc	USA	Industrials	2.2%
PayPal Holdings	USA	IT	2.0%

Source: Platinum. Refer to note 4, page 4.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposures, updated monthly, please visit https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds.

Performance

(compound pa, to 31 December 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund	6%	7%	9%	15%	9%
MSCI AC World IT Index	5%	13%	18%	22%	-1%

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

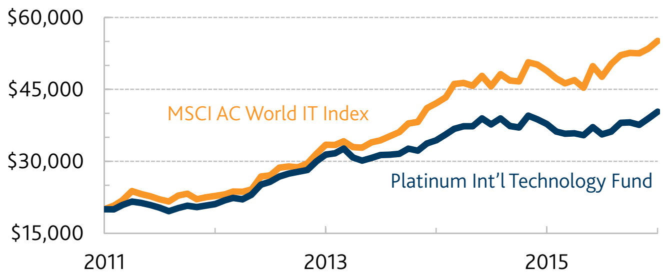
During the quarter the Fund was up 5.9% while the MSCI AC World Information Technology Index (A$) was up 4.8%. A 6.5% decline in the value of the Australian dollar against the US dollar contributed to the strong performance this quarter. For the 12 month period to 31 December, the Fund's return was 6.8%, compared to 12.7% for the Index.

Semiconductor stocks were strong performers this quarter, as evidenced by the PHLX Semiconductor Index (SOX) rising +9%. In fact, three of the Fund's top four performers this quarter have been semiconductors stocks: Micron Technology (+23%), Rohm (+27%) and MegaChips (+25%).

Internet stocks were under-performing and, more specifically, the Chinese Internet names suffered losses as investors worried about a potentially deteriorating relationship between China and the US where most of these companies are listed through American Depositary Receipts (ADRs). The pressure on the Chinese yuan (down 4% relative to the US dollar for the quarter) also added to the decline. The Morgan Stanley China Internet Index was down 15% this quarter, and some of the Fund's holdings were similarly impacted,

Value of $20,000 Invested Over Five Years

31 December 2011 to 31 December 2016



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

including Tencent Holdings (-11%), Baidu (-10%) and China Mobile (-13%). Despite this recent setback, we remain convinced that these companies continue to enjoy competitive advantages in their respective fields and are well placed to benefit from superior long-term growth opportunities in China.

Market sentiment has been dominated by uncertainty over political events (US and Austrian presidential elections and the Italian Constitutional Referendum), compounded by the wait for the US Federal Reserve's expected decision to raise interest rates.

It is interesting to note that none of the above events turned out to be the catastrophic catalysts that many had feared, as markets had probably already over-discounted the presumed unfavourable outcomes. In the US specifically, the positive stock market's reaction to Mr Trump's election win represented a complete sentiment U-turn when compared to the sceptical and cautious attitude preceding it. The gloomy forecasts have been replaced with optimism and hope amidst a revival of the so-called "animal spirits" as investors warmed up to the potentially stimulatory proposals of the new Trump administration.

As at 31 December 2016, the Fund's major exposures by geography include North America (34%), China (15%, including Chinese companies listed on overseas exchanges), Europe (11%), Japan (8%), and South Korea (7%). As at quarter end, the Fund had a net invested position of 77%, reflecting our view of an over-extended Technology cycle, particularly in consumer electronics.

Commentary and Changes to the Portfolio

The quarter was a busy one for mergers and acquisitions, with a number of the Fund's holdings being the subject of takeover offers.

Level 3 Communications received a merger proposal in cash and shares by CenturyLink with an implied value of US$61.40 per share, an almost 30% premium to our average investment cost. We consider the offer price fair, although we probably would have liked to see Level 3 continue with its standalone growth strategy as we believe it has a better business than the acquiring company's. CenturyLink's management probably saw the same value in Level 3's quality assets (fibre networks) that we had identified ourselves and decided to launch a bid as a consequence. The combined entity will be the second largest provider of wireline telecom services to enterprises in the US (larger than Verizon, second only to AT&T), diversifying CenturyLink's exposure away from the less profitable residential business. Level 3 also brings to the merger US$10 billion worth of carried-forward tax losses, which are going to significantly reduce the amount of tax payable by the combined entity for a number of years.

If the merger of Level 3 with CenturyLink can be described as a combination of "pipes" (i.e. communication networks), AT&T's proposed takeover of **Time Warner** (owner of HBO, Warner Bros., CNN and other media assets) for US$85 billion in cash and shares is driven by vertical integration.
If completed, the merger will eventually create the world's largest integrated content and distribution company, combining Time Warner's content production and channel assets with AT&T's distribution infrastructure.

But why did AT&T decide to launch such a mega-deal right now? And why did Time Warner agree to a sale?

The telecom/media landscape has changed dramatically over the last ten to fifteen years. In the US, the two leading telecom operators, AT&T and Verizon, have struggled to grow against a backdrop of tough regulations favouring a four-player market landscape (with Sprint and T-Mobile being the challengers) and increased competition from cable TV operators. Smartphone ownership has reached a level of saturation such that it is becoming increasingly challenging to profit from selling the latest iPhone or Samsung models to loyal subscribers.

In fact, the real beneficiaries of the proliferation of Internet-connected devices have been the content gatekeepers, like Facebook, Google, Amazon and Netflix as well as the premium hardware makers like Apple. Unable to merge with another US wireless operator due to antitrust regulations, AT&T has decided to try diversifying its business model, or at least to improve customer retention by adding content to its offering, thus the need to vertically integrate with a media group. This is a strategy that others have pursued, such as in 2009 when Comcast (a major cable TV rival) acquired NBCUniversal (broadcast TV and cable network) for similar reasons, after trying unsuccessfully to bid for Disney Corp (owner of the valuable ESPN TV sports channels).

These acquisitions, however, have the characteristics of being a defensive/alternative move compelled by the bidder's inability to consolidate the communication market while consumer spending is increasing turning to video-streaming services offered by the likes of Netflix and Amazon Prime. These services effectively bypass the traditional multi-channel video programming distributors as they are delivered through a simple broadband connection. This therefore creates a risk for AT&T in that its role is becoming increasingly commoditised with little differentiation from competitors' offerings other than to compete on price.

On Time Warner's side, its management was likely to have concluded that, after spending almost a decade on slimming down and re-focusing the once glorious group (remember the AOL-Time Warner merger in 2000?), there were not many strategic options left. The diminishing attraction of the pay-TV bundle and the fragmentation of TV audiences due to the proliferation of non-linear (on-demand) viewing surely featured prominently in management discussions at Time Warner at the time of the takeover offer.

AT&T's offer valued Time Warner at US$107.50 per share which, if completed, would represent a 122% return on our average investment cost in Time Warner.

Interestingly, the media landscape has also witnessed similar convergence deals in Europe. In the UK, Mr Murdoch's media group 21 Century Fox launched an offer to acquire the 60% stake in Sky Plc that it did not already own, seeking to integrate one the world's largest media powerhouses with access to more than 22 million pay-TV retail subscribers across the UK, Ireland, Germany, Austria and Italy where Sky operates. In France, Mr Bolloré's Vivendi group is pursuing a similar strategy through the recently acquired strategic stakes in Telecom Italia and Mediaset in Italy.

The semiconductor industry also continued on a consolidation trajectory that began in early 2015 (refer to our June 2015 Quarterly Report). Here luck has not been on our side. We had just started to buy shares in **NXP Semiconductors** (first featured in our June 2013 Quarterly Report) when Qualcomm decided that NXP would be a good fit for their maturing smartphone chip business. They launched a bid for NXP at US$110 per share (our initial entry point was US$88). However, unfortunately, the bid came before we had the opportunity to build a significant position.

As we have noted in our previous commentary, growth in the semiconductor industry as a whole is decelerating due to market saturation in consumer electronic devices such as smartphones and PCs and networking gear, hence the almost desperate search by established players to diversify into adjacent segments of the industry or to maintain growth by acquiring competing companies.

Given the relative maturity of many of the applications served by the mainstream semiconductor industry, we are directing our research efforts to emerging areas such as the Internet of Things, image sensors, automated driving and Artificial Intelligence where we believe there will be stronger demand in the medium term.

Outlook

After a year of very strong performance for semiconductor stocks, despite relatively modest revenue and profit growth for the sector, it is reasonable to expect a slowdown at least in the first few months of 2017, not least because the latest sales data on smartphones and PCs are showing deceleration across the board. We are adjusting the Fund's positioning accordingly.

The big challenge for 2017 will be to understand if Trump's promised policies will work in favour of or against technology companies. Tax cuts and, indeed, an overhaul of the US tax system, repatriation of cash parked overseas, curtailing visas for foreign workers, and imposing tariffs on imports from China were among the measures mentioned by the President-elect. They all have the potential to dramatically impact the bottom line of technology companies given their natural global supply chains and market footprints. No one at this point has much clarity on Trump's ability or willingness to deliver or implement what he has promised in his campaign. We will, however, closely monitor the progress and evolution of these policies and act accordingly.

Notes

1. The investment returns are calculated using the relevant Fund's unit price and represent the combined income and capital return for the specified 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 in the 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$20,000 invested in the relevant Fund over the specified five year period relative to the relevant benchmark index (in A$) as per below (the "Index"):

   - 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 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. Regional exposures (i.e. the positions listed other than "cash" and "shorts") represent any and all physical holdings, long derivatives (stock and index), and fixed income securities as a percentage of net asset value.

4. The table shows the relevant Fund's top ten long stock positions as a percentage of net asset value as at 31 December 2016. Long derivative exposures are included. However, short derivative exposures are not.

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Some numerical figures in this publication have been subject to rounding adjustments.

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