Platinum International Technology Fund

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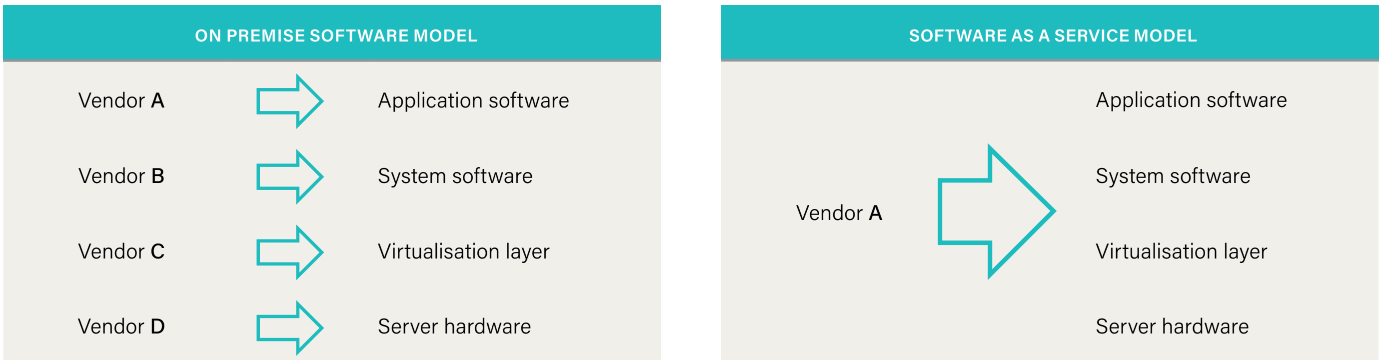
Portfolio Manager

Overview

- A range of our Fund holdings enjoyed strong returns off the back of good quarterly results – including **Meta** (+37%), **Netflix** (+24%) and **Amazon** (+18%). The strength of the AI capex cycle had follow-on effects for some other holdings - **ASML** (up around 30%), **TSMC** (+29%), **Applied Materials** (+27), **Advanced Micro Devices** (+22%) and **Lam Research** (+24%).
- We bought a position in **SAP**, the global leader in Enterprise Resource Planning systems. SAP is a company that's working to migrate customers to the cloud. This should enable them to capture more revenue from their customers whilst cutting consumer costs (See Figure 1).
- The team is working to find underappreciated, high-quality technology companies working in attractive segments and whose future growth trajectories are uncorrelated to the AI capex cycle. SAP and **Autodesk** are two examples.

Figure 1: Transition to Software-as-a-Service (SaaS) allows vendors to capture more of their customers' IT budget



Performance

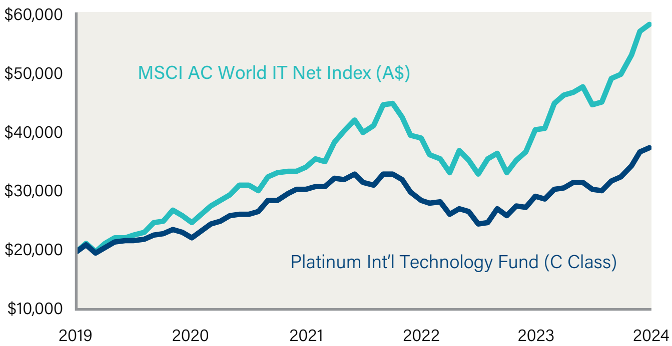
compound p.a.+, to 31 March 2024

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	15%	27%	7%	13%	10%
MSCI AC World IT Index^	17%	44%	19%	24%	6%

+ Excludes quarterly returns.
* C Class – standard fee option. Inception date: 18 May 2000.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country World IT Net Index in AUD.
Source: Platinum Investment Management Limited, FactSet Research Systems.
Historical performance is not a reliable indicator of future performance.
See note 1, page 5. Numerical figures have been subject to rounding.

Value of $20,000 invested over five years

31 March 2019 to 31 March 2024



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet Research Systems.
See notes 1 & 2, page 5.

The Fund returned 15% during the quarter.

Fund holdings, **Meta** (+37%), **Netflix** (+24%), and **Amazon** (+18%) did well on strong quarterly results. **ASML** (up around 30%), **TSMC** (+29%), **Applied Materials** (+27), **Advanced Micro Devices** (+22%) and **Lam Research** (+24%) also performed well as enthusiasm for the AI capex cycle spread to other parts of the supply chain.

Mobileye – a driver technologies company – fell ~25% as the company guided down revenue due to excess customer inventory. **Adobe** fell ~15% as 1Q results were not as strong as expectations, and the launch of OpenAI's text-to-video model, Sora reignited concerns about competition.

We bought a position in **SAP**, the global leader in Enterprise Resource Planning systems. SAP is migrating its customers to the cloud where it can capture more of the IT value chain (see Figure 1) whilst cutting consumer costs. We also invested in **Autodesk**, the global leader in software for building design and pre-construction workflows. Autodesk is expanding into construction workflows where digital tool adoption is low – but growing quickly.

Commentary – the value in tech?

We are often asked how one implements value investing in tech. This usually assumes that it is near impossible because most attractive companies (and a lot of unattractive ones) trade at high-looking multiples. Yet simply comparing multiples is not an effective valuation framework because it assumes away differences in business models, earnings quality, growth prospects and the crucial ability to generate future cash flows. Good businesses making sustainably high returns above the cost of capital can be fairly valued – or undervalued – even if their multiples look high.

Figure 2 shows how fair value PEs generally increase as the future return on invested capital and earnings growth increases over time. For context, a supernormal growth period might be where a company's new technology is rapidly taking market share. And ROIC is Return on Invested Capital – a key measure of how effectively a business puts its money to work.

Figure 2: Price to earnings assuming 10 years of supernormal growth

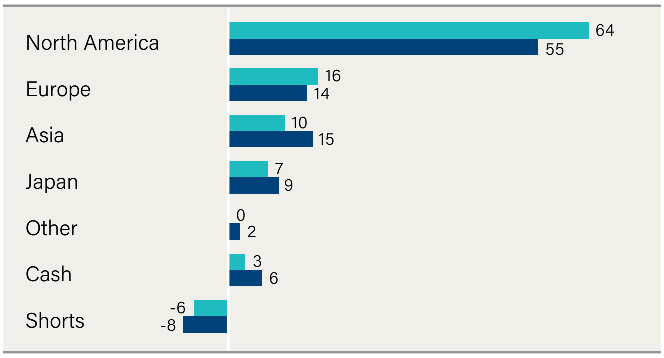
		EARNINGS GROWTH				
		5%	10%	15%	20%	25%
ROIC	30%	21x	31x	46x	68x	101x
	25%	21x	30x	44x	64x	95x
	20%	20x	28x	40x	59x	86x
	15%	18x	25x	34x	49x	70x
	10%	15x	19x	23x	30x	39x
	5%	6x	-1x	-11x	-29x	-54x

Assumes equity only funding, 8% cost of capital, 10-year supernormal growth period.

We can simplify this by comparing two hypothetical businesses each with $10 of earnings. CommodityCo sells a commodity widget with many competitors. Over the next five years, it could generate a 10% ROIC and grow earnings 10% p.a. before the business matures. By contrast, MonopolyCo has pricing power, enjoys high barriers to entry and is expected to generate a 25% ROIC and grow earnings ~15% p.a. before maturing. Figure 2 shows that MonopolyCo should be worth ~$440 (44x PE) vs CommodityCo at ~$170 (17x PE). Given an opportunity to buy MonopolyCo at 30x PE and CommodityCo at 20x PE, the counterintuitive conclusion is that MonopolyCo is undervalued, despite the higher multiple. CommodityCo is overvalued.

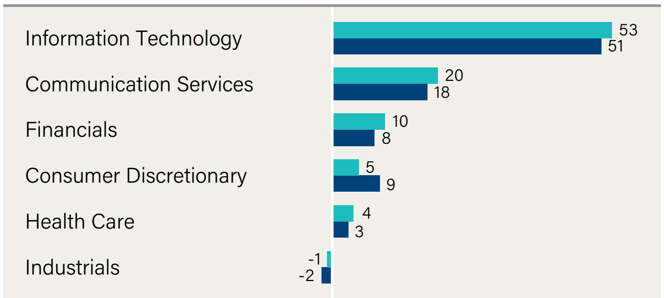
Instead of trying to buy companies at low PEs, value investing is about buying stocks at PEs *lower than what they are worth*. We execute this through a three-step process.

Disposition of Assets %



See note 3, page 5. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures %



See note 4, page 5. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	US	Comm Services	5.2%
Amazon.com Inc	US	Cons Discretionary	5.1%
ASML Holding NV	Netherlands	Info Technology	4.7%
Netflix Inc	US	Comm Services	4.5%
Taiwan Semiconductor	Taiwan	Info Technology	4.5%
Meta Platforms Inc	US	Comm Services	4.4%
Broadcom Inc	US	Info Technology	4.2%
Adobe Systems Inc	US	Info Technology	4.1%
Microsoft Corp	US	Info Technology	4.1%
Universal Music Group NV	Netherlands	Comm Services	4.1%

As at 31 March 2024. See note 5, page 5.
Source: Platinum Investment Management Limited.

First, we attempt to understand a business' future free cashflow generation potential. We ask what value they bring to customers, why they are preferred over competitors, their pricing power and whether management is trustworthy and executing the right strategy. Companies that rank favourably on these measure are *higher quality* and we expect they can sustain a high ROIC over a longer period of time relative to the average company. We then seek to understand the industry growth rate, where the business is in its lifecycle, their potential to take market share and whether they can expand into adjacent fields. Companies that rank favourably on these measures have *higher growth potential*.

Second, we classify the business for quality and growth and compare its valuations to peers with similar characteristics in our portfolio (see Figure 3 and 4). At this point valuation discrepancies may appear and further investigation will reveal whether we have made a mistake in our assessment or that this discrepancy is due to a – potentially attractive – mispricing.

Figure 3: Quality vs growth – PITF top 30

BUSINESS QUALITY	GROWTH POTENTIAL		
	LOW POTENTIAL	AVERAGE POTENTIAL	HIGH POTENTIAL
BEST IN CLASS	UMG, Visa, ICE	Google, Meta, Microsoft, Adobe, SAP, Oracle, ASML, Autodesk	–
ABOVE AVERAGE	Nintendo, Analog Devices, Qualcomm	Netflix, TSMC, AMAT, Broadcom, Lam Research, Keyence	Amazon, GMO, AMD, VEEV, Adyen
AVERAGE	Samsung, Micron, JD.com	NXP	Allfunds
BELOW AVERAGE	–	–	–

Figure 4: Average FY2 PEs – PITF top 30

BUSINESS QUALITY	GROWTH POTENTIAL		
	LOW POTENTIAL	AVERAGE POTENTIAL	HIGH POTENTIAL
BEST IN CLASS	27x	30x	–
ABOVE AVERAGE	25x	27x	44x
AVERAGE	13x	19x	31x
BELOW AVERAGE	–	–	–

Source: Factset

Finally, if a mispricing has occurred we need to understand *why*. We believe this usually results from:

1. The company faces a *temporary setback* and the market loses faith in its durability or long-term growth potential.
2. The company is undergoing *structural change*.

Alphabet is a good example of mispricing due to a temporary setback. Investors currently price Alphabet as an "Average" business at ~20x FY2 PE as they are concerned genAI will disintermediate the search business. We believe Alphabet is a "Best in Class" business and should trade at ~30x in line with peers (see Figure 5). There is little market share data suggesting monestisable search (e.g. booking a holiday) is impacted by large language models. Over the medium term, it's hard to see how ChatGPT or Bing can attract a larger audience and offer advertisers a better ad product given Alphabet's distribution strengths via Android, Chrome and YouTube and superior targeting based on data from services like Gmail and Google Maps.

Figure 5: Alphabet – our expectations vs market expectations

BUSINESS QUALITY	GROWTH POTENTIAL: LOW POTENTIAL	AVERAGE POTENTIAL	HIGH POTENTIAL
BEST IN CLASS	–	Our expectations	–
ABOVE AVERAGE	–	⇧	–
AVERAGE	–	Market expectations	–
BELOW AVERAGE	–	–	–

Amazon is an example of mispricing due to *structural* change. Investors currently price Amazon as an "Average Growth Potential" business and borderline "Above Average"/"Best in class" on quality at ~33x FY2 PE. We believe Amazon will rank as a "High Growth Potential" business if it can monetise advertisements in the streaming business (see our October webinar). We believe Amazon is uniquely positioned to capture a meaningful portion of the $60bn of linear TV ad spend shifting to digital given the size of its content library, its unique access to user purchasing data and the ability to directly track performance on platform. Doing so will meaningfully change the earnings growth and ROIC trajectory of the retail business.

Figure 6: Amazon – our expectations vs market expectations

BUSINESS QUALITY	GROWTH POTENTIAL: LOW POTENTIAL	AVERAGE POTENTIAL	HIGH POTENTIAL
BEST IN CLASS	–	–	–
ABOVE AVERAGE	–	Market expectations ⇨	Our expectations
AVERAGE	–	–	–
BELOW AVERAGE	–	–	–

In conclusion, the real investment skill is to know when a stock on 30x is cheap and when a stock on 10x is expensive.

Outlook

We remain cautious on the sustainability of the AI capex cycle (see our October webinar for our thesis). We are still yet to see meaningful signs of demand for genAI products by consumers or enterprises. In fact, most software companies and two of the three hyperscalers are now talking down adoption and monetisation timelines. Meanwhile, investors are pricing in ever greater expectations about the amount of AI capacity the world will need, driving stocks like **Nvidia** (+90%), **SuperMicro** (+250%) and some semi and semi capex names ever higher.

We're avoiding bets on how big the genAI market could be in five years. Instead, we seek high quality companies where genAI could be a sustaining innovation (see Figure 7). If our scepticism is unfounded, genAI should still drive a new leg of profitable medium-term growth. If we are right, we are unlikely to suffer significantly as the base businesses underpin our valuations.

The team is working to find "Best in class" and "Above average" companies whose future growth trajectories are uncorrelated to the AI capex cycle and are underappreciated by the market. SAP and Autodesk are two examples.

Figure 7: Potential GenAI beneficiaries and PITF portfolio weights

BUSINESS MODELS	STOCKS	PORTFOLIO WEIGHTS
Semi capex	ASML, Lam Research, AMAT	12%
Semis	AMD, Broadcom, TSMC	10%
Hyperscalers	Google, Amazon, Microsoft, Oracle	17%
SaaS	Adobe, Salesforce, Cadence	6%

Notes

Unless otherwise specified, all references to "Platinum" in this report are references to Platinum Investment Management Limited (ABN 25 063 565 006, AFSL 221935).

Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock or index performance are in local currency terms, unless otherwise specified.

1. Fund returns are calculated by Platinum using the net asset value unit price (i.e. excluding the buy/sell spread) of the stated unit class and represent the combined income and capital returns over the specified period. Fund returns are net of fees and costs, pre-tax, and assume the reinvestment of distributions. The MSCI index returns are in AUD, are inclusive of net official dividends, but do not reflect fees or expenses. MSCI index returns are sourced from FactSet Research Systems. Platinum does not invest by reference to the weightings of the specified MSCI index. As a result, the Fund's holdings may vary considerably to the make-up of the specified MSCI index. MSCI index returns are provided as a reference only. The investment returns shown are historical and no warranty is given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short term.
2. The investment returns depicted in the graph are cumulative on A$20,000 invested in C Class (standard fee option) of the Fund over the specified period relative to the specified MSCI index in AUD.
3. The geographic disposition of assets (i.e. other than "cash" and "shorts") shows the Fund's exposures to the relevant countries/regions through its long securities positions and long securities/index derivative positions, as a percentage of its portfolio market value. Country classifications for securities reflect Bloomberg's "country of risk" designations. "Shorts" show the Fund's exposure to its short securities positions and short securities/index derivative positions, as a percentage of its portfolio market value. "Cash" in this table includes cash at bank, cash payables and receivables and cash exposures through derivative transactions.
4. The table shows the Fund's net exposures to the relevant sectors through its long and short securities positions and long and short securities/index derivative positions, as a percentage of its portfolio market value. Index positions (whether through ETFs or derivatives) are only included under the relevant sector if they are sector specific, otherwise they are included under "Other".
5. The table shows the Fund's top ten positions as a percentage of its portfolio market value taking into account its long securities positions and long securities derivative positions.

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