Platinum International Technology Fund

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Performance

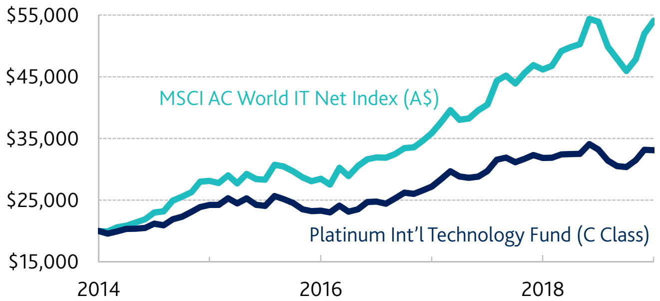
(compound pa, to 31 March 2019)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	9%	4%	12%	11%	9%
MSCI AC World IT Index^	18%	17%	24%	22%	1%

* 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.
Historical performance is not a reliable indicator of future performance. See note 1, page 5. Numbers have been subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

31 March 2014 to 31 March 2019



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.
See notes 1 & 2, page 5.

Volatility remains a key characteristic of the current investment climate, and technology stocks are not immune. After declining by 18% in the December quarter, the tech-heavy Nasdaq Composite Index promptly rebounded by 16% in the March quarter. Against this market backdrop, the Fund (C Class) returned 9% for the quarter, in part weighed down by holding an average cash position of around 25%.

The market recovery began in early January with investors realising that most stocks had been heavily oversold, while hopes mounted for an imminent resolution to the long-standing trade war between the US and China. Sentiment further improved at the end of January when comments made by the Chairman of the US Federal Reserve, Jerome Powell, effectively signalled a U-turn in the Fed's current monetary policy stance. Not only did Mr Powell drop all references to further increases in interest rates, but he even hinted at possible rate cuts, if necessary. Perhaps more importantly, he stated that the process of reversing Quantitative Easing (QE) was now being paused, indefinitely. He even left the door open for a possible re-acceleration of QE "if future economic conditions were to warrant a more accommodative policy that can be achieved solely by reducing the federal fund rates".

All of these factors contributed to the rebound of the stock markets, even though the underlying global macroeconomic conditions and corporate earnings outlook have not changed significantly compared to six months earlier.

Commentary

During the quarter we attended the Mobile World Congress (MWC) in Barcelona and met with several companies in the mobile communications industry. The focus of this year's MWC was 5G, the fifth-generation of the technology standard for cellular mobile communication, soon to be rolled out by telecom operators around the world. As often is the case with new technology, the excitement is high and marketing slogans are promising unlimited possibilities and vast numbers of new use cases waiting to be unleashed by the introduction of 5G. The reality is, however, much more nuanced.

5G itself is not a revolutionarily new technology. It is an evolution of an existing technology, with important new features that enable faster data transmission rates and lower latency.[1] Superior spectral efficiency is another major technical improvement which will benefit the telecom operators adopting 5G. As the demand for mobile telecommunication services grows and the population consumes increasing volumes of calls, messages, data, video applications and so forth, radio spectrum licences are becoming more and more valuable. Therefore, the more efficiently the spectrum is utilised, the higher the return on the telecom operator's investments.

As for consumers, however, most users in developed markets (and many developing markets) already enjoy reasonably fast mobile connectivity, and so it is not immediately obvious that 5G will bring about any noticeable improvements for current applications. Where 5G will have a great impact is new applications. Consider autonomous cars[2] navigating through congested city streets without drivers at the wheel. Or if we entered into a "smart stadium",[3] checking our AR (Augmented Reality) enabled phones for real-time updates about players and immersing ourselves in the action on the pitch. Or imagine hailing a driverless 5G-powered air-taxi.[4]

All of these use cases will indeed require a large number of powerful and fast sensors and processors, and high-performing computing devices that react with very low latency. Any delay in data transmission would not only be disappointing, but could even be fatal. That's where the superior speed and power of 5G-based technology are needed to ensure safety and performance. These are complex tasks to achieve and will require more investments in R&D and numerous trials before the technology will reach the commercial stage.

Network operators have already started to selectively deploy 5G infrastructure, with the first significant footprints likely to be built out gradually in the US, China, Korea and Japan. The initial uses are likely to include simply increasing network capacity in areas with the most congested digital traffic (CBDs, shopping malls and the like), as well as delivering home and enterprise broadband via Fixed Wireless Access (FWA)[5] where fibre-to-the-home is not available.

Our base case is that 5G will be rolled out gradually (similar to that of 2G, 3G and 4G). We are therefore conscious that it may take a number of years to see meaningful deployments. However, that does not mean there will be no interesting developments in the meantime. As with previous technological transitions, the entire ecosystem will likely go through further transformations.

The move from 2G to 3G saw many semiconductor companies exit the baseband[6] processor business (Texas Instruments being the most famous example). With 5G chips and LTE modems, currently the leader appears to be the US chip-maker Qualcomm, but China-based Huawei recently released a product with seemingly even better performance, according to several sources at the MWC.

What about handset makers? The first iPhone was launched in 2007 when Nokia was still the leading mobile phone manufacturer. Today, Samsung is the largest smartphone maker (with an 18% market share), ahead of Apple (17%), with the four biggest Chinese brands combined comprising 37% of the global smartphone market.

The largest telecom equipment maker by revenue is now Huawei, while former industry leaders such as Alcatel-Lucent and Nortel have all been acquired by Nokia after years of financial struggles. Ericsson and Nokia are the only remaining large Western companies in a field that is increasingly populated by stronger Asian competitors. **Samsung Electronics**, a major holding in the Fund, is also increasing its market share, albeit from a very low base.

There is evidence of many companies already benefiting as telecom operators increase their investments in existing 3G and 4G networks in anticipation of future 5G upgrades. In this respect, the Fund has been rewarded by the recent strong performance of **Ericsson, Analog Devices** and **Xilinx**, which are all highly exposed to the roll-out and upgrades of wireless base stations by telecom operators.

Other positions in the portfolio, including **Skyworks Solutions**, with its leading position in handset radio-frequency components, **Intel**, with its subsidiary Mobileye's pioneering products in ADAS (Advanced Driver Assistance Systems), and **Taiwan Semiconductor Manufacturing Co (TSMC)**, with its leading semiconductor fabrication capabilities, are also poised to benefit in different ways from the opportunities created by the introduction of 5G.

1 Latency is the time delay between the initiation of an event or input into a system and the outcome. In networking or telecommunications, latency typically describes the time lag between a sender initiating a change in a system and its reception by a receiver.

2 https://www.technologyreview.com/s/611883/how-5g-connectivity-and-new-technology-could-pave-the-way-for-self-driving-cars/

3 https://www.intel.com/content/www/us/en/communications/smart-stadium-powered-5g-video.html

4 https://www.gulf-times.com/story/623156/Ooredoo-s-5G-enabled-aerial-taxi-lands-at-Mobile-W

5 https://5g.co.uk/guides/what-is-5g-fixed-wireless-access-fwa/

6 A baseband processor is a device in a network interface that manages all the radio functions.

Disposition of Assets

REGION	31 MAR 2019	31 DEC 2018	31 MAR 2018
North America	48%	40%	38%
Asia	19%	18%	25%
Europe	11%	11%	12%
Japan	1%	2%	6%
Cash	21%	29%	19%
Shorts	-3%	-2%	0%

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

Net Sector Exposures ^

SECTOR	31 MAR 2019	31 DEC 2018	31 MAR 2018
Information Technology	42%	37%	45%
Communication Services	26%	25%	26%
Industrials	4%	4%	5%
Consumer Discretionary	4%	2%	4%
Utilities	0%	0%	1%
Financials	0%	0%	<1%
TOTAL NET EXPOSURE	76%	69%	81%

^ A major GICS reclassification was implemented during the December 2018 quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.
See note 4, page 5. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Currency Exposures

CURRENCY	31 MAR 2019	31 DEC 2018	31 MAR 2018
US dollar (USD)	61%	58%	47%
Hong Kong dollar (HKD)	9%	10%	11%
Korean won (KRW)	7%	7%	8%
Japanese yen (JPY)	6%	6%	6%
Canadian dollar (CAD)	3%	3%	3%
Norwegian krone (NOK)	3%	3%	2%
Euro (EUR)	3%	3%	3%
Taiwan new dollar (TWD)	3%	2%	3%
British pound (GBP)	2%	5%	4%
Swedish krona (SEK)	1%	2%	2%
Swiss franc (CHF)	1%	1%	3%
Australian dollar (AUD)	<1%	1%	10%

See note 5, page 5. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Changes to the Portfolio

The dramatic sell-off late last year gave us an opportunity this quarter to add to some of our existing holdings at attractive prices, and to initiate smaller positions in some interesting new names.

With the media landscape transitioning from traditional broadcasting to new digital distribution models (video streaming to PCs, TV sets and mobile devices), many industry incumbents have to adapt or risk becoming irrelevant as companies like Netflix become the dominant platforms and capture more and more audiences. Disruption, however, will create opportunities for more innovative and nimble players.

We made an initial purchase in an innovative **video streaming platform** currently pre-installed in more than 25% of TVs sold in the US, reaching around 30 million US households. The company effectively provides TV makers with an operating system that allows viewers to stream thousands of channels of free content, supported by targeted advertising. The company's ambition is to become the gatekeeper to the TV advertising market as businesses shift more of their advertising budgets from traditional linear TV to video streaming.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	USA	Communication Services	6.5%
Tencent Holdings	China	Communication Services	4.2%
Samsung Electronics	Korea	Information Technology	4.1%
Facebook Inc	USA	Communication Services	3.9%
Constellation Software	Canada	Information Technology	3.4%
Microchip Technology	USA	Information Technology	2.9%
Schibsted ASA	Norway	Communication Services	2.9%
Apple Inc	USA	Information Technology	2.7%
Taiwan Semiconductor	Taiwan	Information Technology	2.6%
Skyworks Solutions	USA	Information Technology	2.5%

As at 31 March 2019. See note 6, page 5.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pitf.

We also introduced a new position in **Booking Holdings**, the owner of several leading global online travel reservation platforms, including Agoda, Kayak and Booking.com. The stock price had declined due to concerns over increasing competition and the need for future investments to expand the offerings on Booking's platforms in other categories, such as alternative accommodation, in-travel experiences, restaurants, loyalty schemes and so forth. The negative share price reaction appeared to be excessive and we took the opportunity to invest in what we believe to be a high-quality operator in what is effectively a duopoly market with ample room for growth.

We added to our position in **Carvana**, an innovative e-commerce portal in the automotive space, as the company showed progress in the roll-out of its distribution network. We also increased our holding in **Microsoft** as we were encouraged by the strong performance of its Azure cloud business which has become a serious, credible and independent alternative to the dominant cloud platform Amazon Web Service (AWS). Additions were also made to our holding in **TSMC** as we believe the company's position as the leader in advanced chip fabrication will allow it to weather the current cyclical weakness in semiconductor demand and see promising growth in the longer-term.

Outlook

As we have noted in our previous reports, tighter financial conditions are typically viewed negatively by equity investors as cash and fixed income securities become more attractive relative to stocks. The recent pause in the monetary tightening by both the US and China should therefore not only stimulate economic growth through improved liquidity conditions, but should also be broadly supportive of equity markets. A resolution of the trade disputes between the US and China would help remove some of the uncertainties currently disrupting corporate investment plans and set the stage for a re-acceleration in global growth.

Macroeconomic considerations aside, ultimately a stock's price performance should correlate with its underlying profit growth. In this context, our main task remains to identify investment opportunities where the market has failed to appropriately value their long-term earnings potential. As valuations in the technology sector – particularly in the US market – remain elevated, we maintain a significant cash position which we will deploy as more attractively-valued ideas are converted into new positions for the Fund.

Notes

1. Fund returns are calculated using the net asset value (NAV) unit price (which does not include the buy/sell spread) of the stated unit class of the Fund and represent the combined income and capital returns of the stated unit class over the specified period. Fund returns are net of fees and costs, are pre-tax, and assume the reinvestment of distributions. Returns for P Class are net of any accrued investment performance fee.

   The MSCI Index returns are in Australian Dollars and are inclusive of net official dividends, but do not reflect fees or expenses. For the purpose of calculating the "since inception" returns of the MSCI Index, the inception date of C Class of the Fund is used. Where applicable, the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist then. Fund returns are provided by Platinum Investment Management Limited; MSCI index returns are sourced from FactSet.

   Platinum does not invest by reference to the weightings of the Index. A Fund's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, the Fund's holdings may vary considerably to the make-up of the Index that is used as its reference benchmark. Index returns are provided as a reference only.

   The investment returns shown are historical and no warranty can be 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.

   The stated portfolio values of C Class and P Class of the Platinum International Fund (PIF) do not include funds invested in PIF by the Platinum International Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PIF. The stated portfolio values of C Class and P Class of the Platinum Asia Fund (PAF) do not include funds invested in PAF by the Platinum Asia Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PAF.
2. The investment returns depicted in this graph are cumulative on A$20,000 invested in C Class (standard fee option) of the specified Fund over the specified period relative to the specified net MSCI Index in Australian Dollars.
3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices.
4. The table shows, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant sectors through direct securities holdings as well as both long and short derivatives of stocks and indices. In the case of the Platinum Unhedged Fund, the Fund does not undertake any short-selling. Its net exposures are therefore the same as its long exposures.
5. The table shows the effective net currency exposures of the Fund's portfolio as a percentage of the Fund's net asset value, taking into account the Fund's currency exposures through securities holdings, cash, forwards, and derivatives. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.
6. The table shows the Fund's top 10 long equity positions as a percentage of the Fund's net asset value, taking into account direct securities holdings and long stock derivatives. The designation "China" in the "Country" column means that the company's business is predominantly based in mainland China, regardless of whether the company's securities are listed on exchanges within mainland China or on exchanges outside of mainland China.

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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.

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