Platinum International Technology Fund

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Performance

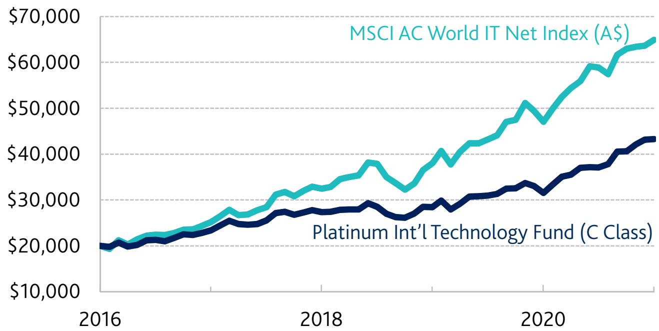
(compound p.a.+, to 31 March 2021)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	6%	37%	17%	17%	11%
MSCI AC World IT Index^	3%	38%	26%	27%	4%

+ 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 4. Numerical figures have been subject to rounding.

Value of $20,000 Invested Over Five Years

31 March 2016 to 31 March 2021



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 4.

The Fund (C Class) returned 6.5% for the quarter and 37.3% for the year.[1]

Technology stocks took a breather after their impressive run in calendar 2020, as investors started reacting to a different market narrative. While the Nasdaq 100 rose 1.6% for the quarter, there was divergence in the different sectors within the technology industry. Highly valued software stocks were, in general, weaker when compared to more cyclical names exposed to the economic recovery.

Primary examples were market darlings cloud/software as a service (SaaS) companies, such as Snowflake (-19% over the quarter), Okta (-13%) and Coupa Software (-25%). They have all retreated from their all-time highs, as investors started questioning the high valuation multiples these companies were trading on (between 34 and 101 times price-to-sales). Similar dynamics applied to internet retail stocks, such as Amazon (-5%) and Shopify (-2%).

On the other side of the ledger, more cyclical sectors such as computer hardware, semiconductors and electronic components performed strongly, as investors considered these areas more attractive and beneficiaries of the economic recovery ensuing from the depressed levels of 2020. The standout performer was the PHLX Semiconductor Sector Index up 12% for the quarter and 107% for the year.

The Fund's performance benefited from its relatively large exposure to companies operating in the semiconductor manufacturing and semiconductor capital equipment sectors (representing seven of the top ten contributors in the quarter). Performance was strong across all the sub-industries. Key contributors included **Taiwan Semiconductor Manufacturing** (+11%) as its leading foundries benefit from its dominant leading-edge technology, as well as **Intel** (+28%), with investors cheering the strategic plan announced by the newly appointed CEO. Memory stocks **Micron** (+17%)

1 References to returns and performance contributions (excluding individual stock returns) in this Platinum International Technology Fund report are in AUD terms. Individual stock and market returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

* Effective from 1 April 2021 the Fund will be solely managed by Alex Barbi following Cameron Robertson's appointment as co-manager for the Platinum Asia Fund.

and **SK Hynix** (+12%) strengthened on increases in DRAM (dynamic random-access memory) prices, suggesting higher revenues and profits ahead. Microcontroller manufacturer **Microchip** (+12%) reported strong book-to-bill metrics, suggesting strong demand recovery from industrial and automotive clients. **Skyworks** (+20%) saw strong demand for its 5G radio-frequency chips accelerating with smartphone upgrades. **Lam Research** (+26%) received strong orders for NAND (flash memory) semiconductor manufacturing equipment.

Other major contributors included **Alphabet** (+18%) and **Carvana** (+10%). Alphabet recovered strongly, driven by accelerating YouTube revenues (+46% year-on-year) and separately disclosing its Google Cloud divisional metrics for the first time, which showed strong 47% top-line growth year-on-year. The online car sales platform Carvana recorded strong revenue growth (+65% year-on-year) with operating leverage showing through to the margin levels.

On the negative side, we had some smaller losses from our short positions and suffered a (hopefully temporary) setback with **Medallia** (-16%), the US-based customer and employee experience management company. Investors were disappointed by the weak forward revenue guidance, despite the growing number of customer sign-ups. We are going to monitor the next few quarters to assess if our original investment thesis still holds and the recent setback is recoverable.

Changes to the Portfolio

During the quarter, we introduced three small positions to the Fund. We invested in **MYT Netherlands** (MyTheresa), a newly listed European-based luxury fashion platform formerly owned by Neiman Marcus, which was forced to spin-off the business ahead of its Chapter 11 bankruptcy. We established a position in a small, but fast-growing Japanese online real estate portal that offers retail and professional customers end-to-end services. We also invested in a video game platform powered by user-generated content, where people (mostly teenagers) connect with friends to play, communicate, learn and explore in 3D virtual spaces.

We reduced or exited some of the recent strong performers, where we considered valuations to be excessive in light of further potential upside. These included **Roku**, **Carvana**, **Twilio**, **Ambarella** and **Appian**. The Fund had a net cash position of 24% at quarter end, reflecting our more cautious attitude to the industry given extended valuations. It also provides the Fund with the firepower to invest opportunistically and rapidly should any opportunities arise from temporary dislocations.

Commentary

In the USA, with new COVID-19 cases reaching a peak in early January and the national vaccination campaign finally accelerating, investors started pricing in a gradual return to normal life and a strong economic recovery. The election of US President Biden also increased pressure on the US Congress and Senate to approve additional stimulatory fiscal measures. Since election day in November 2020, two separate economic relief bills worth US$900 billion and US$1.9 trillion respectively, were passed and a further US$2.1 trillion infrastructure plan was announced.

The increase in government spending in the US and across most developed economies has, however, raised fears that budget deficits are becoming excessive: higher deficits are funded by more government borrowing, adding to already high debt levels in many Western countries. Moreover, the first signs of resurgent inflation are emerging in some industries: partly as a result of temporary COVID-19 disruptions, but also driven more broadly by rising commodity prices (e.g. oil, base metals and agricultural products).

The result of these macroeconomic dynamics is clearly having an impact on investor behaviour. Investors in bond markets are now requiring higher interest rates to invest in long-term government bonds. For the calendar year-to-date, the yield on the 10-year US Treasury note has almost doubled from 0.92% to 1.74%. Similar trends are visible across all major government bond markets.

Higher long-term interest rates may well signal better economic prospects ahead and positively impact the stock markets. However, equity investors are now factoring in higher interest rates in their valuation models and this disproportionately affects highly valued growth stocks, as they tend to rely on earnings in the more distant future. As a result, growth stocks are more vulnerable to a rise in bond yields used to discount those earnings.

In this context, the strong performance of semiconductor stocks makes sense. More sensibly valued compared to high-flying ‘cloud’ stocks and considered to be more cyclical in nature, they became the obvious candidates for investors looking to bet on a global recovery post COVID-19. However, there are other factors at play.

When COVID-19 appeared on the global stage in late 2019/ early 2020, the semiconductor industry had just experienced a tough year, with global revenues declining by 12% for the year 2019,[2] mostly due to memory prices falling as a result of excess supply. With many countries entering lockdowns, major automakers cautiously reduced chip purchases in

2 Source: Semiconductor Industry Association: https:www.semiconductors.org

Disposition of Assets

REGION	31 MAR 2021	31 DEC 2020	31 MAR 2020
North America	47%	48%	54%
Asia	19%	20%	23%
Europe	8%	8%	8%
Japan	2%	2%	1%
Australia	0%	0%	0%
Cash	24%	22%	14%
Shorts	-3%	-3%	-2%

See note 3, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	31 MAR 2021	31 DEC 2020	31 MAR 2020
Information Technology	46%	49%	48%
Communication Services	20%	20%	26%
Consumer Discretionary	4%	3%	5%
Industrials	3%	3%	5%
Health Care	0%	0%	0%
TOTAL NET EXPOSURE	73%	75%	84%

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	US	Comm Services	5.9%
Samsung Electronics Co	South Korea	Info Technology	4.1%
Taiwan Semiconductor	Taiwan	Info Technology	4.0%
Tencent Holdings Ltd	China	Comm Services	3.6%
Facebook Inc	US	Comm Services	3.6%
Microchip Technology Inc	US	Info Technology	3.0%
Constellation Software	Canada	Info Technology	2.7%
Samsung SDI Co Ltd	South Korea	Info Technology	2.6%
Lam Research Corp	US	Info Technology	2.5%
Skyworks Solutions Inc	US	Info Technology	2.5%

As at 31 March 2021. See note 5, page 4.
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.

expectation of a slowdown in car sales. At the same time, demand for semiconductors enabling work from home devices, gaming and remote healthcare surged. From the end of the second quarter of 2020, car sales started recovering faster than expected, especially in the large Chinese market. This caused a subsequent supply shortage across the entire supply chain, especially from Chinese factories, which by then, had already sent their labourers home and shut down production lines.

In 2020, global semiconductor revenues grew by 6.8% year-on-year, as demand recovered, but scarcity in automotive components has extended into 2021. Major buyers of semiconductors found themselves with very low level of inventories in the supply chain and were unprepared for the quick and sharp recovery in demand. Several car factories across the world were forced to temporarily shut down production due to insufficient supply of semiconductors and other components.

The CEOs of Cisco and Intel, respectively major buyers and producers of semiconductors, recently predicted that this scarcity could last another couple of years, simply because "demand continues to increase" and "we can't build fabs overnight".[3]

Outlook

Recent strong stock market performance raises questions about its sustainability. As at 31 March 2021, the forward 12-month price-to-earnings ratio (P/E) for the S&P 500 Index was 21.9, above its 5-year and 10-year average of 17.8 and 15.9 respectively. For the Information Technology sector, the forward 12-month P/E was 25.9, above the 5-year and 10-year average of 18.3 and 16.3 respectively. Valuations are not crazy, but obviously stretched.

The most recent analysts' earnings estimates for the S&P 500 indicate an aggregate increase of 25.9% for the 2021 calendar year (compared to a decline in earnings of -11.2% for 2020). This is an extremely high and unusual growth rate due to a combination of rising economic estimates and an easier comparison to weaker earnings in the first quarter of 2020 due to COVID-19. For the Information Technology sector, analysts are forecasting earnings to increase by 22.4% in the first quarter of 2021 and 18.2 % for the 2021 calendar year. These are very strong numbers, which clearly rely on a sustainable recovery in the US economy. Most importantly, however, we continue to find new and exciting ideas to invest in, and we have been adding new names to our portfolio, despite the challenges posed by the rising valuations.

3 https://au.finance.yahoo.com/news/semiconductor-shortage-could-go-on-for-years-cisco-ceo-134921312.html

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. With effect from 31 May 2020, country classifications for securities were updated to reflect Bloomberg's "country of risk" designations and the changes were backdated to prior periods. "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.

Disclaimers

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