Platinum International Technology Fund

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Performance

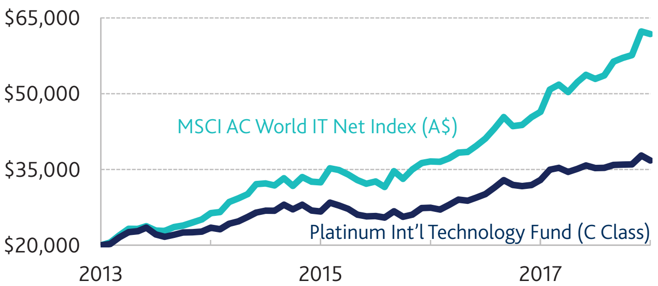
(compound pa, to 30 September 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	2%	12%	11%	13%	10%
MSCI AC World IT Index^	8%	33%	24%	25%	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 in AUD and are inclusive of net official dividends in AUD.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 1, page 4. Numbers are subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

30 September 2013 to 30 September 2018



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.
Refer to note 2, page 4.

Over the quarter the Fund (C Class) was up 2.3% while the MSCI AC World Information Technology Index (A$) was up 8.3%. The Fund's relatively large exposure to China, which has been particularly out of favour with investors of late (as CIO Andrew Clifford detailed in his **Macro Overview**[1]), together with our 26% cash allocation, were largely responsible for the underperformance. AUD weakness against major currencies contributed positively to performance.

Among the Fund's top contributors this quarter were Apple (+22%) and Taiwan Semiconductor Manufacturing (+21%).

More than eleven years after **Apple** launched the first iPhone, the company founded by Steve Jobs has confounded sceptics and delivered yet another quarter of very strong results. For the quarter revenue was up 18% year on year while operating profit grew by 23%. The company's market capitalisation reached the symbolic milestone of US$1 trillion, the first ever US listed company to do so.

Milestones aside, what is truly remarkable is the fact that Apple continues to maintain such a strong profit growth trajectory despite the trend of gradually declining shipments for its flagship phones over the last four years.

Apple has long achieved premium brand status, and its loyal customer base is ready to upgrade their iPhones with regular cadence and at much increased prices, if necessary. In 2007 the very first iPhone was launched in the US with a price tag of US$499. Compare that to the latest iPhone XS Max, priced at US$1,449! The average selling price of all iPhones sold in the July-September quarter is estimated at US$742, an 11% increase year on year.

Apple has also widened the range of iPhones available with each annual launch, keeping "older" models in the catalogue but at reduced prices (for example, the iPhone 7 is still available today at US$449). This brilliant market segmentation has worked well to date, but we fear Apple's strategy to keep pushing the price limit may come at the cost of stagnant sales volumes. We estimate that Apple will likely ship around 200 to 220 million handsets a year in the near future as its products become increasingly less affordable. But that is still a respectable share of the overall smartphone market, which is estimated to ship around 1.5 billion units a year, and large enough to generate very good returns on the significant investments the company makes to develop its highly sophisticated technology. Apple spends huge amounts

1 https://www.platinum.com.au/Insights-Tools/The-Journal/Macro-Overview-September-2018

of money on R&D to design its own powerful application processors, among other things, ensuring that they are tightly integrated with its iOS mobile operating system and other components.

While iPhones remain the main driver of Apple's impressive financial performance, the company's efforts to build new product categories and, even more interestingly, a service-based line of business, have begun to show results. Apple Services (music, videos, iCloud, Apple Care etc.) now represent around 18% of total revenue and grew at 31% in the April-June quarter. The Apple Watch has been introducing new functionalities and searching for a unique use case since the release of the first generation in 2015. The latest Series 4 Apple Watch has an FDA-approved electrical heart sensor system which can perform an electrocardiogram (ECG) at the touch of a button. One can see how this smart wearable device may eventually evolve to appeal to a wider audience and contribute much more revenue than its current estimated US$10 billion per year.

There is no doubt that the next 10 years will be more challenging for Apple than the last. However, the company's enormous cash generating capacity and appropriate strategies should help it to maintain a solid growth trajectory. At 16 times prospective earnings, Apple is not expensively priced if it can maintain its earnings growth. First purchased in 2010, we plan to maintain and closely monitor our position.

Another holding of the Fund benefiting from the iPhone success is **Taiwan Semiconductor Manufacturing Company (TSMC)**, the world's largest independent semiconductor foundry. Apple's brand new line-up of iPhones is powered by the A12 Bionic chip. Designed by Apple and manufactured by TSMC, the A12 Bionic is the first ever 7-nanometer smartphone chip. Over the last few years TSMC has emerged as the leading manufacturer that produces the majority of the microprocessors designed by the so-called "fabless" semiconductor companies. As miniaturisation in semiconductor manufacturing has enabled ever more powerful and flexible chips (as Moore's Law predicted),

Net Sector Exposures

SECTOR	30 SEP 2018	30 JUN 2018	30 SEP 2017
Information Technology	58%	64%	58%
Telecom Services	6%	6%	8%
Industrials	5%	4%	5%
Consumer Discretionary	4%	4%	6%
Utilities	<1%	1%	1%
Financials	0%	<1%	0%
TOTAL NET EXPOSURE	73%	79%	77%

See note 4, page 4. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Disposition of Assets

REGION	30 SEP 2018	30 JUN 2018	30 SEP 2017
North America	42%	42%	34%
Asia	20%	23%	27%
Europe	10%	10%	13%
Japan	3%	5%	3%
Cash	26%	20%	23%
Shorts	-1%	-1%	0%

See note 3, page 4. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Currency Exposures

CURRENCY	30 SEP 2018	30 JUN 2018	30 SEP 2017
US dollar (USD)	53%	52%	51%
Hong Kong dollar (HKD)	9%	10%	15%
Korean won (KRW)	7%	6%	8%
Australian dollar (AUD)	6%	8%	3%
Japanese yen (JPY)	6%	6%	6%
British pound (GBP)	4%	3%	4%
Taiwan new dollar (TWD)	3%	2%	3%
Euro (EUR)	3%	3%	3%
Canadian dollar (CAD)	3%	3%	2%
Norwegian krone (NOK)	3%	2%	1%
Swedish krona (SEK)	2%	2%	2%
Swiss franc (CHF)	1%	2%	2%

See note 5, page 4. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	USA	IT	6.1%
Samsung Electronics	Korea	IT	3.8%
Tencent Holdings	China	IT	3.7%
Facebook Inc	USA	IT	3.5%
Apple Inc	USA	IT	3.3%
Taiwan Semiconductor	Taiwan	IT	2.9%
PayPal Holdings	USA	IT	2.7%
Constellation Software	Canada	IT	2.7%
Schibsted ASA	Norway	Consumer Discretionary	2.6%
Oracle Corporation	USA	IT	2.5%

As at 30 September 2018. See note 6, 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.

numerous new applications have emerged, dramatically expanding the market originally driven only by personal computers. Portable music players, smartphones, game consoles, smart TVs, routers and other smart devices in the Internet of Things (IoT) have driven demand for semiconductors designed by a new generation of smaller, innovative companies who lack the financial resources to build the very expensive manufacturing capabilities in-house. Qualcomm, Nvidia, MediaTek, Marvell, Broadcom, Xilinx and AMD, to name just a few, all rely on TSMC for their manufacturing services. Semiconductor fabrication or manufacturing plants ("fab") require huge capital expenditure to build and periodic upgrades are needed to remain competitive. Many companies, such as those named above, therefore choose to focus on chip design and outsource the manufacturing to specialists like TSMC.

TSMC has now established a position of leadership in chip fabrication at 7 nanometres, and it has already started the process of building a new 5 nanometre fab which has an estimated capital requirement of US$15 billion! Only Intel and Samsung Electronics have the scale and financial resources necessary to keep pace with TSMC in the short-term. In the long-term we will have to keep an eye on China. The Chinese authorities are well aware that the semiconductor industry is of too much strategic importance to be left in the hands of US, Koreans and Taiwanese companies, and they are directing local companies to accelerate R&D and increase their investment budgets.

At 16.6 time 2019 earnings, TSMC's valuation is slightly above its recent history, but it reflects the company's current leadership position among its peers and competitors.

As mentioned in the introduction of this report, Chinese companies (including those listed on US stock exchanges) have seen some setbacks and underperformed global markets during the quarter. Among the Fund's top detractors were Chinese internet giants Tencent (-18%) and JD.Com (-33%).

Tencent reported slowing revenue and profit growth for the June quarter amidst concerns around slowing growth in its mobile gaming unit. Growth in online gaming revenue decelerated to 6% year on year and declined by 19% quarter on quarter, as the company faced difficulties in obtaining regulatory approvals to monetise the hugely popular PlayerUnknown's Battlegrounds (PUBG). This delay seems to have been caused mainly by the Chinese authorities' wish to impose stricter control over (and adapt or "localise") content distributed on China's social networks.

Investors' reaction to this temporary bottleneck appears somewhat excessive, in our view. The company has a long pipeline of proprietary games already approved for monetisation, and it's confident that it is only a matter of time before approval will be received for the new names.

Despite the recent setback in its gaming business, Tencent is a social network behemoth, with more than 800 million users on its desktop-based QQ platform and more than 1 billion users on its mobile app WeChat. These are not exactly side projects! Online advertising revenue in the June quarter grew 39% year on year, and potential new revenue streams are constantly under development, including partnerships with other technology companies in areas such as e-commerce, digital payment, video subscription, etc. Tencent remains a high conviction position in our portfolio.

Leading e-commerce company **JD.com** was heavily marked down as a result of the general negative sentiment on consumer related stocks. Recent data showed decelerating retail growth and even declines in sales in certain consumer goods categories (e.g. July sales in household appliances fell 9.3% year on year and apparel fell 4.3%).[2]

JD.com's June quarterly results showed a solid but slowing revenue growth rate (31% year on year, compared to 44% a year earlier) and management revised down its forecasts of revenue growth and margins for the rest of the year. Additional investments in logistics and new initiatives were cited as the main reasons for the company's lacklustre near-term outlook. With razor-thin operating margins (around break-even on a pro-forma basis), JD's ability to permanently lift its profitability is looking increasingly doubtful to investors, despite its strong revenue growth and sizeable footprint.

We have reduced the Fund's exposure to JD and continue to review the remaining position as we assess it against other potentially more attractive ideas.

Outlook

Companies exposed to digital advertising, cloud-based software and internet services are likely to remain the hot spots, as long as investors continue to chase "growth" and inflate valuations to ever higher levels. The obvious risk is a possible slowdown in US/global economic growth, which will pull the most expensive technology stocks down to earth.

We expect to see a cyclical slowdown in semiconductor demand as inventory adjustments are occurring following the excess ordering in the first half of the year.

The escalating trade war between the US and China is creating obstacles across global supply chains and impacting negatively on technology component manufacturers' margins. Semiconductor stocks are out of favour. However, if the downturn indeed turns out to be a temporary and shallow one, as we expect it to be, it will likely provide us with good opportunities to buy some very interesting companies at attractive valuations.

2 Source: China National Commercial Information Center: www.cncic.org/?p=1524

Notes

1. Fund returns are calculated using the net asset value per unit (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 accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. 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.

   Index returns are in Australian Dollars and assume the reinvestment of dividends from constituent companies, but do not reflect fees and expenses. For the purpose of calculating the “since inception” returns of the MSCI index, the inception date of C Class of the Fund has been used. Where applicable, the gross MSCI indices were used prior to 31 December 1998 as the net MSCI indices did not exist then. Fund returns have been provided by Platinum Investment Management Limited; MSCI index returns have been sourced from FactSet.

   Platinum does not invest by reference to the weightings of any index or benchmark, and index returns are provided as a reference only. 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.

   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.

   Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of C Class of the Fund and represent the combined income and capital returns of C Class over the specified period. Fund returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. 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.

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3. The geographic disposition of assets (i.e. the positions listed other than “cash” and “shorts”) represents the Fund's effective long exposures to the relevant countries/regions as a percentage of the Fund's net asset value, taking into account direct stock holdings and long derivative positions (stocks and indices).

4. The table shows the Fund's effective net exposures to the relevant sectors as a percentage of the Fund's net asset value, taking into account direct stock holdings and both long and short derivative positions (stocks and indices).

5. The table shows the Fund's effective net exposures to the relevant currencies as a percentage of the Fund's net asset value, taking into account stock holdings, cash and the use of derivatives.

6. The table shows the Fund’s top 10 long stock positions as a percentage of the Fund's net asset value, taking into account direct stock holdings and long derivative positions. 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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