Platinum International Technology Fund

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Performance

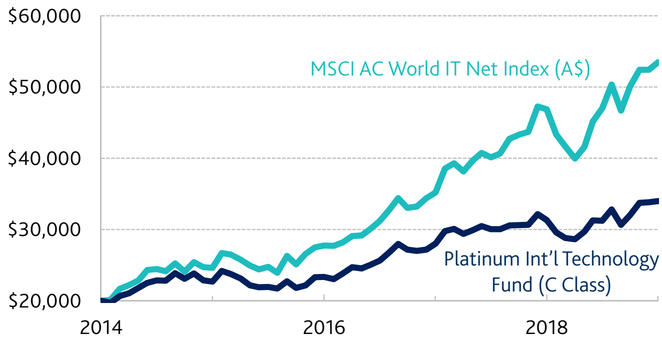
(compound p.a.⁺, to 30 September 2019)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	6%	9%	13%	11%	9%
MSCI AC World IT Index^	7%	14%	24%	22%	2%

⁺ 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.
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

30 September 2014 to 30 September 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 4.

The Fund (C Class) returned 6.1% for the quarter and 8.6% for the 12 months ending 30 September. By comparison, the MSCI World IT Index returned 6.8% for the quarter and 14.1% for the year.

In keeping with Platinum's investment approach, the Fund is managed independently of the benchmark index. We would like to remind investors of the risks and potential losses that may result from adopting an investment approach that follows highly concentrated benchmarks or narrowly constructed funds. At points of major market corrections, these instruments have significantly underperformed.

Currently the performance of the MSCI World IT Index is strongly correlated with the fortunes of two large stocks - Apple and Microsoft (which have a combined weighting of around 25% in the Index vs. 4.4% in the Fund). While the Fund owns these stocks, we do not think it's prudent to hold the same level of concentration as the Index. At the other end of the spectrum, the Index does not include e-commerce, media, content and communication businesses. Some examples held in the Fund include Google's parent company Alphabet, global e-commerce platform, eBay and social network companies, Facebook and Tencent. The Fund's composition therefore reflects our selection of best ideas drawn from a wider and more diversified investment universe.

Changes to the Portfolio

During the quarter, there were very few changes to the portfolio. We continued to avoid the hottest areas of the market and reduced exposure to some strong performing names, such as **Roku** (smart TV platform), **Adevinta** (on-line classified ads spin-off from Schibsted), **Lam Research** (semiconductor equipment) and **AMS** (analogue semiconductors). We added to **Intel** (semiconductors), **Vodafone** (telecoms) and **Ericsson** (telecom equipment), as recent stock price weakness increased their attractiveness. We also initiated a new position in a leading company in the interesting space of low-code software development.

Implosion of a Unicorn

The performance of some recent initial public offerings (IPOs) is perhaps a sign that reason and sensibility are starting to prevail in some of the most hyped sectors of the market. Even the most optimistic investors are growing sceptical of buying so-called unicorns[1] that have unproven business models but attract stratospheric valuations. **Uber Technologies** and **Lyft** in the ride-sharing arena are two examples of companies that are now trading at 30-40% below their initial listing prices earlier this year. While these two companies command a combined market capitalisation of more than US$60 billion, neither has indicated when they expect to reach profitability. The popularity of innovative services and disruptor business models, facilitated by a booming mobile internet (i.e. smartphone apps), are no guarantee of future profitability, unless favourable industry and competitive conditions exist.

In September, investor protests against dubious business models and hyper-valued companies grew even louder. Some unicorns had to postpone or cancel their planned IPOs, including **WeWork**, the shared workspace and office solutions provider. A series of negative press articles and analyst reviews of its IPO prospectus revealed serious weaknesses in its business model, including appalling corporate governance, a highly leveraged balance sheet, precarious financial sustainability and over-optimistic profitability assumptions.

WeWork has been growing rapidly, appealing to a new generation of start-ups and companies looking for premises to rent in creative and well-serviced offices in major cities. It reported US$1.8 billion of revenues in 2018, up from US$900 million in 2017, as the company worked hard to grow its leasing portfolio in more cities across the US and internationally. Losses however, escalated from US$900 million in 2017 to US$1.9 billion in 2018, as the company prioritised footprint expansion and capital works (i.e. renovations) rather than obtaining full occupancy in its existing buildings. When expansion is financed by debt this can be a very risky strategy. An economic slowdown could suddenly reduce demand for commercial property space, leaving WeWork with a considerable number of empty offices. WeWork, as a large tenant of commercial space in the major US and international cities, essentially subdivides space and creates value for individual tenants (often start-ups) by offering them short-term leases in shared offices at attractive locations. This is not a particularly new idea and it has been tried and tested before. A listed company in Europe called **IWG**[2] provides very similar flexible workspace services.

Privately-held unicorns are usually valued by transactions between the issuing company and venture capital investors, and are often characterised by complex legal agreements, involving classes of securities with different voting rights and claims. This is a very different structure and process to listing on a stock exchange. WeWork's stratospheric ascent started in February 2014 when it was first pitched to investors with a valuation of US$1.5 billion. Barely 18 months later, another capital raising set the valuation at US$10 billion. In 2018, the valuation doubled to US$20 billion. In early 2019, it finally reached its highest 'official' valuation of US$47 billion, after raising US$6.5 billion of fresh capital from the Softbank-sponsored Vision Fund. Once the pre-IPO process started in August, three major US investment banks who were pitching for the deal, indicated a valuation 'range' of between US$43 and US$104 billion. It was at this point the scrutiny started: prospective investors did not like what they saw in the first public filing, and we didn't either.

We were astonished that the investment banks were quoting such outlandish valuations (the lowest was 23x revenue) for what is essentially a real estate service company. Not to mention that as one of the largest tenants in the US, WeWork also carries US$47 billion of long-term leasing liabilities, requiring it to pay millions of dollars of rent for years to come - regardless of the economic conditions. By comparison, competitor IWG reported revenue of $US3.3 billion in 2018, is profitable and valued at US$4.5 billion (or 1.5x revenue) on the London Stock Exchange where its shares are traded.

At Platinum, we undertook some preliminary work on WeWork before its IPO and we seriously considered short selling the stock on the first day of listing. Unfortunately, we never had the chance, as the company was forced to cancel its IPO in September and its CEO resigned. Its major financial supporter, Softbank, is now pondering how to rescue its seriously damaged investment.

It is interesting to note that over the last few years, many emerging unicorns have described themselves as technology companies, despite the technology only supporting mundane businesses. By categorising their businesses as 'software', 'on-line', 'subscription-based' or 'as a service', they can command valuations similar to the more established and highly successful software companies. For instance, instead of 'tenants', WeWork has 'members', it doesn't sub-lease offices, but offers a 'space-as-a-service' business. WeWork mentioned the word 'technology' more than 100 times in its prospectus. Its management stated that they see the company "moving towards a Google analytics for space"!

Another recent example is **Peloton Interactive,** a company that offers connected exercise machines and fitness classes streamed online on a subscription basis. Fitness as a Service (FaaS) one could say. Its CEO described the business as a "fitness, technology and media company". The concept is interesting and disruptive, and the business model may ultimately even become profitable (they have incurred heavy losses so far despite its fast revenue growth). Public investors however, don't appear to appreciate the qualities of the

Disposition of Assets

REGION	30 SEP 2019	30 JUN 2019	30 SEP 2018
North America	51%	48%	42%
Asia	20%	19%	20%
Europe	11%	10%	10%
Japan	2%	1%	3%
Cash	18%	22%	26%
Shorts	-2%	-2%	-1%

See note 3, 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	6.7%
Samsung Electronics	Korea	Info Technology	4.4%
Facebook Inc	US	Comm Services	4.2%
Constellation Soft	Canada	Info Technology	4.2%
Tencent Holdings	China	Comm Services	4.0%
Microchip Technology	US	Info Technology	3.4%
Taiwan Semiconductor	Taiwan	Info Technology	2.9%
IHS Markit Ltd	US	Industrials	2.7%
Skyworks Solutions	US	Info Technology	2.5%
Samsung SDI Co	Korea	Info Technology	2.4%

As at 30 September 2019. 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.

company yet: it listed with a 10x revenue valuation but the stock quickly fell by 22% within a week.

Outlook

The cancellation of WeWork's IPO is reminiscent of past events in the stock market that have marked key turning points and so-called 'tops' of secular trends. It reminds us of the listing of retailer Pets.com in February 2000, which was liquidated in November of the same year, and the US$165 billion merger of web portal AOL and Time Warner in January 2000 (the largest ever company merger in the US). We may have reached a point where the days of generous capital for unprofitable businesses are over. Then again, maybe not if the US Federal Reserve decides to pursue another aggressive quantitative easing program and once again support the markets and the economy with even lower interest rates.

We maintain a balanced portfolio with the majority of our positions in reasonably valued names growing at a sustainable rate. We are however, keeping an open mind on opportunities that may arise due to a potentially more volatile market in the next few months. We will not shy away from investing in fallen angels or unicorns, provided their business models are sound and valuations are attractive. The good news is, that often in downturns investors may end up throwing out the proverbial baby with the bath water, presenting us with attractive opportunities.

Net Currency Exposures

CURRENCY	30 SEP 2019	30 JUN 2019	30 SEP 2018
US dollar (USD)	62%	61%	53%
Korean won (KRW)	8%	8%	7%
Japanese yen (JPY)	6%	6%	6%
Hong Kong dollar (HKD)	6%	7%	9%
Canadian dollar (CAD)	4%	4%	3%
Norwegian krone (NOK)	3%	3%	3%
Taiwan dollar (TWD)	3%	3%	3%
Euro (EUR)	3%	3%	3%
British pound (GBP)	2%	2%	4%
Swedish krona (SEK)	1%	1%	2%
Swiss franc (CHF)	1%	1%	1%
Australian dollar (AUD)	0%	2%	6%

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

Net Sector Exposures ^

SECTOR	30 SEP 2019	30 JUN 2019	30 SEP 2018
Information Technology	45%	42%	39%
Communication Services	25%	24%	26%
Industrials	5%	5%	5%
Consumer Discretionary	5%	5%	3%
Utilities	0%	0%	0%
TOTAL NET EXPOSURE	81%	76%	73%

^ 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 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

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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