Platinum International Technology Fund

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Performance

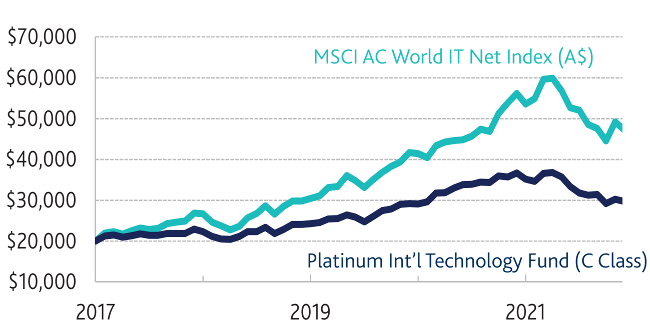
(compound p.a.⁺, to 30 September 2022)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	-6%	-22%	4%	7%	9%
MSCI AC World IT Index^	-1%	-18%	13%	17%	3%

⁺ 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

30 September 2017 to 30 September 2022



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 -5.9% for the quarter.[1]

The Fund's performance was disappointing, and largely reflected negative contributions from our Asian holdings (Chinese internet names and semiconductor companies in South Korea and Taiwan). A weaker Korean won, which depreciated by 5% against the Australian dollar (AUD), also detracted from performance. Conversely, the 7% decline of the AUD against the US dollar contributed positively to performance, with the Fund holding a 42% exposure to US names.[2]

The September quarter was a tale of two stories for technology stocks. From the end of June until mid-August, investors were eagerly bidding the market higher (Nasdaq 100 Index +18%) as expectations grew that a modest economic slowdown and lower inflationary pressures in the US would convince the Federal Reserve (Fed) to moderate or even reverse its tightening monetary policy stance.

Unfortunately, investors' expectations turned out to be too optimistic as inflation remained stubbornly elevated throughout the quarter, and Fed Chairman Jerome Powell made it clear during a speech at the Jackson Hole Economic Symposium on 26 August that he was serious about his tasks.

He stated that, "While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain." He also stressed that, "Restoring price stability will likely require maintaining a restrictive policy stance for some time. The historical record cautions strongly against prematurely loosening policy." Chairman Powell finished his speech strongly with, "We will keep at it until we are confident the job is done." Investors did not like the more hawkish tone and the Nasdaq 100 consequently reversed its earlier climb.[3]

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

2 Source: FactSet Research Systems.

3 https://www.federalreserve.gov/newsevents/speech/powell20220826a.htm

During the quarter, the Fed raised the Fed Funds rate twice for a cumulative lift of 150 basis points to 3.25%, negatively impacting asset valuations.

In this context, technology stocks were not exempt from market gyrations as investors reassessed valuations and prospects in light of the more aggressive monetary policies on the horizon.

The Nasdaq-100 Technology Sector Index returned -8% for the quarter and the more cyclical PHLX Semiconductor Sector Index fell 10%, as more evidence surfaced that a slowdown in demand for smartphones, PCs, servers, and consumer electronics is going to impact demand for electronics components.

Software and cloud stocks were not immune to the negative tone of the market as investors remained sceptical about highly valued names, with several high-profile companies signalling decelerating revenue growth. The S&P North America Technology/Software Index returned -7% for the quarter.

High-growth but unprofitable technology companies weakened again in the quarter, but the rate of decline moderated. The ARK Innovation ETF fell 5% for a cumulative -60% return for the calendar year to date.

The sell-down in the Fund's holdings was broad-based with the exception of our Japanese stocks, which all ended in positive territory, and pockets of resilience in some of our European names.

Detractors included our Chinese internet names (**Alibaba** -30%, **Tencent** -25%, **JD.com** -22%), semiconductors (**Taiwan Semiconductor Manufacturing** -11%, **Samsung Electronics** -10%, **Western Digital** -27%), and telecom equipment (**Ericsson** -22%, **Ciena** -12%).

As mentioned, our Japanese holdings all finished in positive territory. The standouts were property-tech platform **GA Technologies** (+20%) and IT integration specialist **DTS Corp** (+14%). In the US, **Microchip Technology** (+5%) and PayPal (+23%) provided a positive contribution to performance, with both reporting better-than-expected earnings and guiding for an improved outlook. In Europe, **Prysmian** (+13%) and **Allfunds** (+3%) contributed positively to performance.

At the end of the quarter, the Fund was 81% net invested, with 8% in cash and 11% in shorts.

Disposition of Assets

REGION	30 SEP 2022	30 JUN 2022	30 SEP 2021
North America	44%	38%	47%
Asia	30%	30%	24%
Europe	11%	10%	10%
Japan	7%	5%	4%
Cash	8%	17%	15%
Shorts	-11%	-5%	-3%

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

Net Sector Exposures

SECTOR	30 SEP 2022	30 JUN 2022	30 SEP 2021
Information Technology	58%	54%	50%
Consumer Discretionary	12%	12%	9%
Communication Services	12%	11%	19%
Industrials	4%	4%	5%
Financials	2%	1%	0%
Health Care	0%	0%	0%
Other	-7%	-3%	-1%
TOTAL NET EXPOSURE	81%	78%	82%

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Microchip Technology Inc	US	Info Technology	5.7%
Ciena Corp	US	Info Technology	4.7%
SK Hynix Inc	South Korea	Info Technology	4.3%
Samsung Electronics Co	South Korea	Info Technology	4.2%
Taiwan Semiconductor	Taiwan	Info Technology	4.0%
JD.com Inc	China	Cons Discretionary	3.7%
Micron Technology Inc	US	Info Technology	3.7%
Meta Platforms Inc	US	Comm Services	3.6%
Analog Devices Inc	US	Info Technology	3.2%
Ericsson LM-B	Sweden	Info Technology	3.2%

As at 30 September 2022. 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.

Commentary

In the nine-month period to 30 September 2022, global initial public offering (IPO) volumes fell 44%, with proceeds down by 57% compared to the corresponding period in 2021,[4] and the US market is set to record its lowest calendar year proceeds since 2003. Similarly, global merger and acquisition (M&A) volume was US$642 billion between July and September, which was a 42% drop from the prior quarter and the lowest third-quarter figure in a decade, based on preliminary figures from Refinitiv.[5] It's also the slowest overall quarter since the pandemic-ravaged 2020 second quarter.

Corporate and private equity buyers have slowed the pace of their acquisitions. Even Japanese conglomerate SoftBank, one of the most aggressive investors of the last decade, has been beaten into a retreat. The Japanese company has, in fact, recorded a US$24 billion loss for the three months to June, following a US$18 billion loss in the previous quarter, largely the result of write-downs on investments acquired at much higher valuations during the last few years. SoftBank has reportedly started laying off 150 of the 500 staff at its Vision Funds to contain costs. The founder, Masayoshi Son, recently said that, "If we had been a little more selective and invested properly, it would not have hurt as much", and that he was "ashamed" of himself "for being so elated by big profits in the past".[6]

Indeed, Masayoshi Son was amongst the main backers of Adam Neumann of WeWork fame.[7] SoftBank retains a 57% majority stake in WeWork after investing at significantly inflated valuations, the most recent was in 2019 at US$47 billion. The company eventually listed on the US stock market in 2020 but it is now worth only US$1.9 billion, a 96% decline from the over-hyped levels promoted by its founders only three years ago. The WeWork debacle is illustrative of how one cannot build a business on a greater fool's theory.

Ultimately, valuations do matter, and particularly so when the cost of money is rising. Having said that, though, it seems that valuations in the so-called private markets remain elevated and they have not fully adjusted to the new reality. A case in point is software house Adobe offering US$20 billion in cash and stock to buy privately held tech company Figma, an emerging player in browser-based user interface design software. This was one of the highest prices ever offered for a private equity-owned tech company: a valuation of 50 times sales, which Adobe felt compelled to pay in order to acquire a fast-growing company, potentially disrupting the competitive landscape.

At the other end of the spectrum, it's interesting that a few private equity institutions have recently intensified their incursions in the US stock market and offered to take private some software companies that have had poor stock price performance. Vista Equity Partners, Thoma Bravo and Hellman & Friedman acquired Avalara, Ping Identity, and Zendesk, respectively, at valuations of between 4.8 and 7.9 times their 2023 expected sales, a much-reduced level compared to levels prevalent only a year ago. Perhaps this is a sign that valuations in the public markets are now more attractive than those in private ones.

Outlook

As investors continue to navigate through stormy waters, with strong headwinds coming from the tightening of monetary policies by Western central banks, we can expect similar weather for the next quarter, at least until a few signs emerge that inflation is under control. Corporate profits are inevitably going to be negatively impacted by an economic slowdown, and consensus estimates for this year and next year, across many technology stocks, are being revised down.

The good news is that the stock market works as an anticipatory mechanism, and stock prices tend to anticipate the bottom by a few months or quarters. That seems already evident in some of our holdings in the semiconductor space, where recent reports of production cuts and capex reductions have not impacted their stock prices, and investors are now attracted to the heavily marked-down valuations.

Similarly, in China, the possible loosening of tight COVID-19 restrictions in the next few months should help the economy to recover and positively impact our holdings operating in the e-commerce, advertising, and travel industries.

4 https://www.ey.com/en_gl/ipo/trends

5 https://www.axios.com/2022/09/30/global-mergers-acquisition-market-q3

6 https://on.ft.com/3SGXG09, 8 August 2022.

7 Refer to our September 2019 quarterly report for our discussion on WeWork https://www.platinum.com.au/PlatinumSite/media/Reports/pitfqtr_0919.pdf

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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