Platinum International Technology Fund

Jimmy Su
Portfolio Manager

Overview

- Performance was boosted by holdings like **Qualcomm** and **Apple**. New AI capabilities could drive a refresh cycle in both PCs and smartphones and this would aid the growth of these businesses.
- While technology indices are trading near or at all-time highs we are not chasing return by adding lower quality businesses to the portfolio. Instead we are seeking out quality companies in sectors that have been left behind by recent market trends – for example in software businesses, which have lagged chipmakers.

Figure 1: Quality / growth matrix – PITF top 30 constituents

BUSINESS QUALITY	GROWTH POTENTIAL		
	LOW POTENTIAL	AVERAGE POTENTIAL	HIGH POTENTIAL
BEST IN CLASS	Visa, Apple, ICE, Universal Music Group	Google, Meta, Microsoft, Adobe, SAP, ASML, Cadence	–
ABOVE AVERAGE	Nintendo, Analog Devices, Qualcomm, Texas Instruments, NXPI	Netflix, TSMC, AMAT, Broadcom, Lam Research, Keyence, Constellation	Amazon, AMD, VEEV, Adyen
AVERAGE	Samsung, Micron	–	–
BELOW AVERAGE	–	–	–

Figure 2: Quality / growth matrix – PITF top 30 portfolio weights

BUSINESS QUALITY	GROWTH POTENTIAL		
	LOW POTENTIAL	AVERAGE POTENTIAL	HIGH POTENTIAL
BEST IN CLASS	12%	33%	–
ABOVE AVERAGE	10%	26%	11%
AVERAGE	2%	–	–
BELOW AVERAGE	–	–	–

Performance

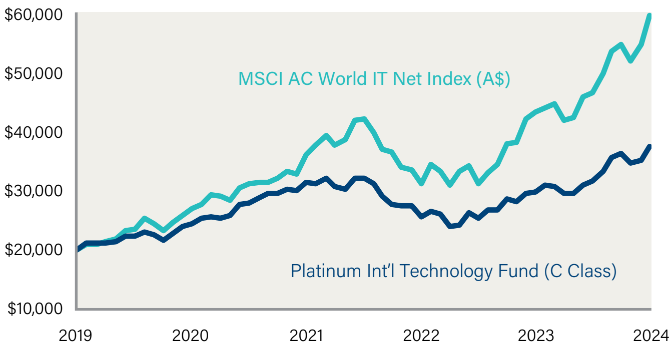
compound p.a.+, to 30 June 2024

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	3%	26%	6%	13%	10%
MSCI AC World IT Index^	9%	37%	18%	24%	6%

+ 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 5. Numerical figures have been subject to rounding.

Value of $20,000 invested over five years

30 June 2019 to 30 June 2024



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 5.

AI value chain businesses - **TSMC** (+25%), **Broadcom** (+19%), **AMAT** (+13%) and **Oracle** (+12%) - all delivered double digit returns. The AI narrative also boosted Qualcomm (+15%) and new holding **Apple** (+23%) amidst hope that AI could drive a new refresh cycle in PCs and smartphones. **Google** was up over 15% after strong results.

AMD (down more than 10%) fell on management commentary around new products. Veeva (-20%) also slid as tightening IT budgets at pharma companies slowed top line growth and the CFO unexpectedly resigned.

Key changes to the portfolio are outlined below. Any reference to company quality and growth are made in line with our Quality / Growth matrix in Figure 1.

- We trimmed our position in **Nintendo** to fund our 3% position in Apple. At the time, both companies traded on similar valuations (low 20s FY2 PEs), but we think Apple is a better quality business, can better monetise users over their lifetimes by selling add-on hardware and services. It also has better long-term installed base growth prospects.
- We bought a 2% position in **Texas Instruments (TI)**, the world's largest analog semiconductor company. Historically, the sector was always considered a good business by investors (see the "entrenched hardware" section below). The market is concerned that TI is losing share to Chinese competitors whilst spending ~$20bn to add capacity. We think these competitive concerns are overdone as most of the share loss is in consumer electronics – a less attractive business TI is walking away from. In autos and industrials, which make up ~70% of TI's business, it is either holding or gaining share. We also think TI will make a ~25 – 30% ROIC on the $20bn in capex, boosting earnings and Free Cash Flow over the long term.
- We exited **Infineon** on concerns about Chinese competition in power semis and the rising risk of overcapacity in electric vehicle OEMs and the supply chain after years of investment.
- We trimmed our exposure to **Samsung** and **SK hynix** after a strong run.

Commentary – Five attractive models

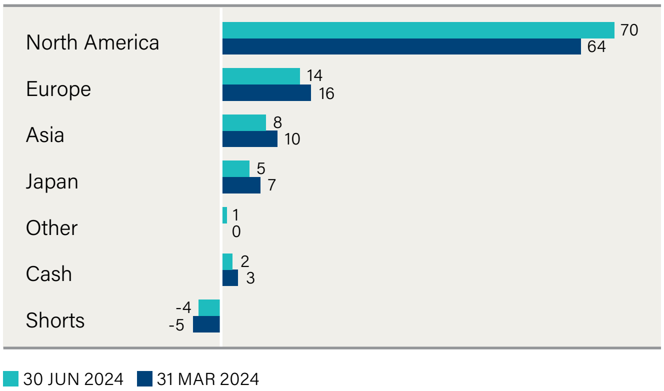
In the March quarterly, we outlined our investment process – buying a company at a discount to its potential to maintain a high return on capital and to its growth potential. To understand the former, we seek to know:

1. What value does the company bring to customers?
2. Why is this company preferred by customers over competitors?
3. Why does this company have pricing power?
4. Is management trustworthy and credible?

Companies which rank well on these questions typically make high margins and high returns on invested capital and sustain these high returns over a long time. We consider these companies "above average" or "best in class" in our quality/growth matrix. These companies make up ~90% of our long portfolio.

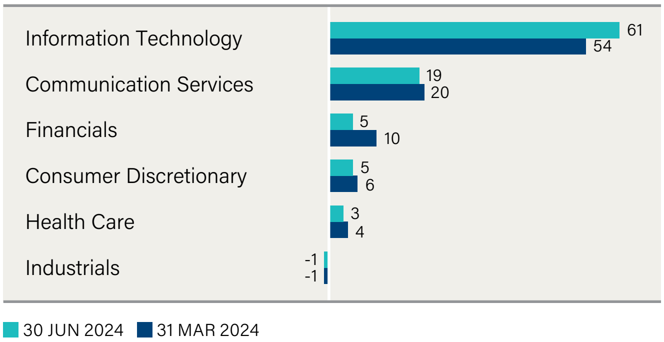
The technology sector has been a great place to look for companies who are, or could become , "above average" and "best in class". As Figure 3 (on the following page) shows, the sector is characterised by companies that delivered superior Returns on Invested Capital relative to the market.

Disposition of Assets %



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

Net Sector Exposures %



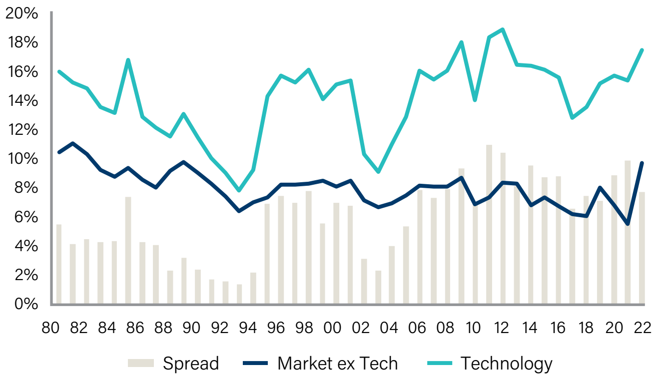
See note 4, page 5. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	US	Comm Services	6.1%
Taiwan Semiconductor	Taiwan	Info Technology	5.5%
Amazon.com Inc	US	Cons Discretionary	5.4%
Broadcom Inc	US	Info Technology	5.3%
Netflix Inc	US	Comm Services	4.9%
ASML Holding NV	Netherlands	Info Technology	4.9%
Meta Platforms Inc	US	Comm Services	4.4%
Adobe Systems Inc	US	Info Technology	4.4%
Microsoft Corp	US	Info Technology	4.2%
SAP AG	Germany	Info Technology	4.0%

As at 30 June 2024. See note 5, page 5.
Source: Platinum Investment Management Limited.

Figure 3: ROIC – tech vs market ex tech



Source: Bernstein, US largest 1,500 stocks, market cap weighted

We have identified five business models we believe persistently delivered high and sustainable long-term ROIC. Figure 4 shows the constituents of each group, portfolio weightings and average 5 year ROIC and how that compares to the market.

Figure 4: Business models, constituents, ROIC

BUSINESS MODELS	PORTFOLIO HOLDINGS	PORTFOLIO WEIGHTS	5 YR AVG ROIC
Supply side oligopolies	TSMC, ASML, Universal Music, AMAT, Lam, AMD, Qualcomm, Visa, ICE	28%	27%
Demand side aggregators	Google, Meta, Amazon, Netflix, Apple, Nintendo	25%	21%
Entrenched hardware	Broadcom, Keyence, Analog Devicesm NXP, Texas Instruments, Microchip	16%	14%
Entrenched software	SAP, Constellation, Oracle, Veeva, Cadence, Nice, Adyen	16%	16%
Industry standards	Microsoft, Adobe	9%	28%
PITF long portfolio (portfolio weighted average)		96%	21%
Tech sector (market cap weighted average)			15%
Market ex tech (market cap weighted average)			7%

Source: Bernstein analysis, Platinum estimates, US largest 1,500 stocks, market cap weighted.

1. Around 28% of the Fund is invested in *supply side oligopolies*. These companies often control unique technologies or have capabilities crucial to their customers. When combined with limited competition this grants them tremendous market power. In semi capital equipment suppliers, we own **ASML**, a monopoly on EUV machines that are critical for making high performance chips and **AMAT** and **Lam Research**, which operate in oligopolies in other parts of semi manufacturing. We also own **TSMC**, the only foundry in the world who can make leading-edge chips efficiently.

2. Some 25% of the Fund is invested in *demand side aggregators*. In the online world where there is infinite number of suppliers fighting for consumer attention and wallets, these companies facilitate discovery and/or distribution. These companies aggregate consumer demand by providing tremendous consumer surplus[1] and use this power to extract significant value from the supply side. Platform network effects and distribution lock ins typically result in winner-takes-most industry structures where effective competitors are rare. The services **Google**, **Meta** and **YouTube** provide to consumers are free but these companies command significant power over advertisers. Consumers shop on **Amazon.com** due to selection, price and the speed of Prime delivery. Amazon uses this to charge merchants increasingly higher fees. App developers and financial institutions pay **Apple** a fee to access its 1bn+ loyal users.

3. Around 16% of the Fund is invested in *entrenched hardware* companies. Their products are typically mission critical for customers' products but make up a small component of total costs. The companies have pricing power as price is a secondary consideration to performance, quality and reliability, switching costs are high and customers stick with them for a long time. Examples include analog semi companies **Analog Devices** and **Texas Instruments**. Analog components are chips used for processing real world continuous signals, for example converting temperature into digital signals. Given their complexity, designing analog chips requires a lot of engineering experience. The chips are often used in mission critical situations, for example in air bag sensors where the cost of the component is low but the cost of failure is high (e.g. the cost of a model recall). As such, pricing is a tertiary consideration. Once designed in, customers stick with the component for the life of the platform (up to 10 years) given the high cost of re-qualification. Similar dynamics also apply for **Broadcom** in networking.

4. Another 16% of the Fund is invested in *entrenched software* companies. Like their hardware counterparts, these software businesses are mission critical to customers' workflows and greatly enhance productivity. Their pricing power comes from this entrenched status. In our research, the analogy: "performing open heart surgery whilst the patient is running a marathon" was often used to describe the process of migrating to another vendor. Examples include **Veeva's** products for marketing, sales and R&D departments at pharma companies, **SAP**'s ERP and supply chain suite and **Oracle**'s database business.

1 The extra, free value consumers get from their services – for example free Gmail accounts.

5. Finally, around 9% of the Fund is invested in *industry standard software businesses*. Not only are these firms mission critical to customers' workflows, they also possess strong network effects due to broad industry adoption and need for interoperability. They typically capture the majority of the revenue in their respective vertical. Examples in our portfolio are **Microsoft** Office and **Adobe** Creative Cloud.

Outlook

With most tech indices at all-time highs, we remain disciplined and are resisting the temptation to go down the quality or risk spectrum in search of higher returns. Instead, we look for "best in class" and "above average" companies underappreciated by the market and uncorrelated to the AI capex cycle - such as SAP last quarter and Texas Instruments this quarter.

We are spending more time in software, which has underperformed semis this year (see Figure 5) and now trades cheap relative to history on PE basis (see Figure 6). The sector is currently out of favour as top line growth is slowing due to labour cuts at customers and slower IT spend amidst tightening budgets and cannibalisation from generative AI projects. We think this slowdown is cyclical and temporary and could provide us with attractive entry into some high quality companies.

Figure 5: Semis vs software performance

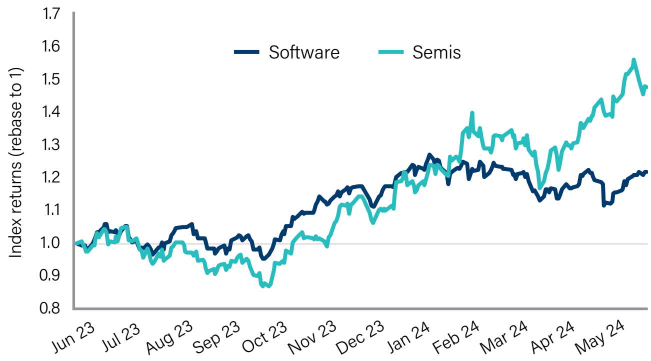
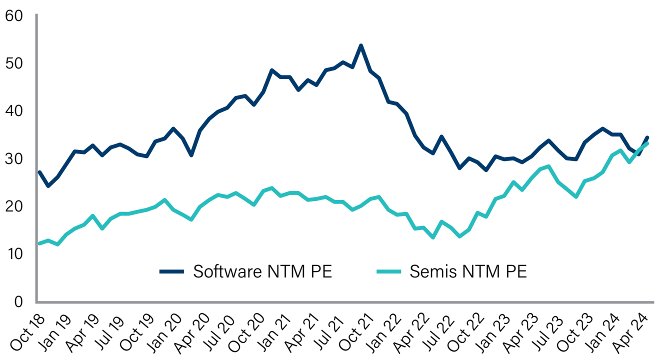


Figure 6: Semis vs software PEs



Figures 5 & 6 source: Bloomberg

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. Country classifications for securities reflect Bloomberg's "country of risk" designations. "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

This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935, trading as Platinum Asset Management (Platinum®). Platinum is the responsible entity and issuer of units in the Platinum International Technology Fund (the "Fund"). This publication contains general information only and is not intended to provide any person with financial advice. It does not take into account any person's (or class of persons') investment objectives, financial situation or needs, and should not be used as the basis for making investment, financial or other decisions. You should read the entire Platinum Trust® Product Disclosure Statement (including any Supplement(s) thereto) ("PDS") and consider your particular investment objectives, financial situation and needs before making any investment decision to invest in (or divest from) the Fund. The Fund's target market determination is available at www.platinum.com.au/invest-now. You can obtain a copy of the current PDS from Platinum's website, www.platinum.com.au or by phoning 1300 726 700 (within Australia), 0800 700 726 (within New Zealand) or +61 2 9255 7500, or by emailing to invest@platinum.com.au. You should also obtain professional advice before making an investment decision.

Neither Platinum nor any company in the Platinum Group®, including any of their directors, officers or employees (collectively, "Platinum Persons"), guarantee the performance of the Fund, the repayment of capital, or the payment of income. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum). To the extent permitted by law, no liability is accepted by any Platinum Person for any loss or damage as a result of any reliance on this information. This publication reflects Platinum's views and beliefs at the time of preparation, which are subject to change without notice. No representations or warranties are made by any Platinum Person as to their accuracy or reliability. This publication may contain forward-looking statements regarding Platinum's intent, beliefs or current expectations with respect to market conditions. Readers are cautioned not to place undue reliance on these forward-looking statements. No Platinum Person undertakes any obligation to revise any such forward-looking statements to reflect events and circumstances after the date hereof.

MSCI Disclaimer

The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com).