Platinum International Technology Fund

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Portfolio Manager

Overview

- Quarterly returns were supported by the strong performance of **Amazon**, **Netflix** and **Alphabet**. A falling AUD was also a source of returns as was an exceptional return from infrastructure technology business **Broadcom**, which is benefiting from AI investment.
- Software as a service (SaaS) has transformed the software industry, benefiting customers and vendors alike. There are some software verticals where the majority of customers are yet to transition to SaaS and these present potentially interesting investment opportunities. This includes back office enterprises (ERP, database, supply chain), contact centre software and industrial software.

Performance

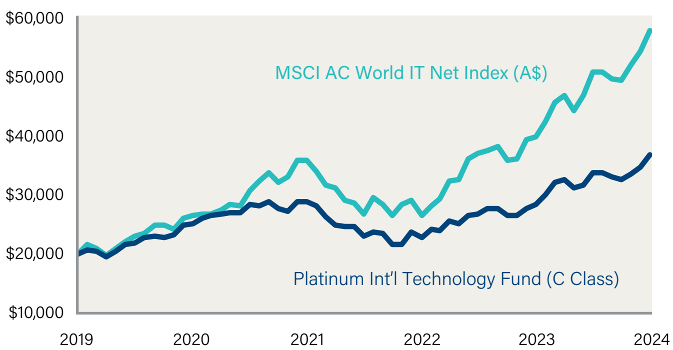
compound p.a.+, to 31 December 2024

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	13%	30%	8%	13%	10%
MSCI AC World IT Index^	17%	45%	17%	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

31 December 2019 to 31 December 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.

During the December quarter the portfolio's long book added 14%. That performance was boosted by the weaker AUD which added over 5% to returns. Top contributors included **Amazon** (up around 20%), **Netflix** (+25%), and **Alphabet** (up over 10%) and **TSMC** (+12%) while **Broadcom** was up 35% as management outlined a strong AI outlook. Our positions in semi capex were the main detractors. This included **ASML** (down around 10%), **Tokyo Electron** (-8%) and **Applied Materials** which fell around 18%. Our expectations that semi capex would rebound in 2H24 to support non-AI semi market growth in 1H25 was premature.

The short book detracted around one percent from performance. It was a tough quarter as the market returned to a more speculative mood akin to 2021 and our target shorts of low-quality companies and concept stocks were all bid up. We remain convinced that these shorts are worth significantly less than where they are trading today, but we are managing risks carefully through sizing small. Over the past year, the contribution from our short book was broadly flat despite a very strong equity market.

We made the following changes to the portfolio:

1. We exited our position in **Oracle** towards quarter end. We like Oracle's software business but are increasingly concerned about management's AI infrastructure ambitions. We question the sustainability of this AI capex spending given exposure to VC-funded AI start-ups and the ROI on the spend. We are even more concerned given Oracle's high level of debt.

2. We exited **Adobe**. We thought revenue would reaccelerate due to the monetisation of Firefly (their gen AI tool). Whilst usage grew, management were reluctant to monetise Firefly, likely due to the level of competition. We also see more narrative risk going forward as a new generation of text-to-video tools hit the market.

3. We bought a ~3% position in **Mastercard**. Like Visa, Mastercard fits into our demand side aggregation business model. It has a long run-way to grow at high margins through converting cash payments to card, moving into new flows such as cross border, business-to-consumer (e.g. gambling pay-outs) and business-to-business as well as cross-selling value-added services.

4. We bought a ~2% position in **PTC Inc.** PTC develops and sells mission critical design and product management software for industrials, high tech and med devices customers and fits into our entrenched software business model. We like the 'self-help' aspect of the case as management is modernising sales and marketing. If they're successful and we get a broad-based industrial recovery, revenues will likely accelerate faster than consensus expectations.

5. We recently bought a 1.5% position in **Uber**. Uber also fits into our demand side aggregation business model. The stock is down ~30% from its peak giving us a good entry point. The market is growing increasingly concerned about competition from autonomous vehicles (AV) amidst Waymo and Tesla's much touted robotaxi ambitions. To run a profitable AV fleet, you need i) an AV software and hardware stack; ii) the capex to build and roll out a fleet; iii) customer acquisition; iv) to balance supply and demand and maximise fleet utilisation; v) customer service and support. Whilst Waymo possesses i) and Tesla i) and ii), Uber's existing business has expertise in the rest. The more rewarding and rational path for the industry is one of cooperation where Waymo and Tesla plug into Uber's existing network.

Our portfolio positions based on our Quality / Growth matrix is presented below.

Portfolio exposure

BUSINESS QUALITY	GROWTH POTENTIAL: LOW POTENTIAL	AVERAGE POTENTIAL	HIGH POTENTIAL
BEST IN CLASS	5%	36%	3%
ABOVE AVERAGE	5%	26%	16%
AVERAGE	–	–	–
BELOW AVERAGE	–	–	–

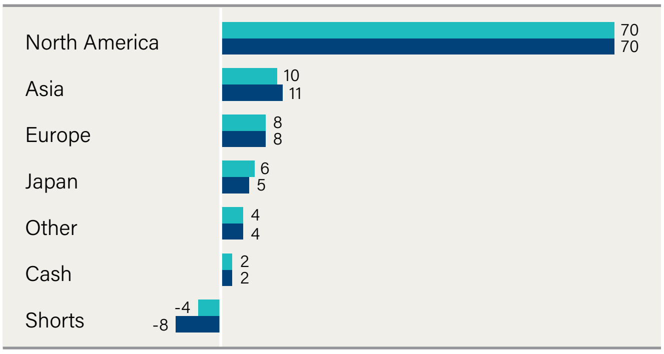
Source: Platinum

Portfolio holdings

BUSINESS QUALITY	GROWTH POTENTIAL: LOW POTENTIAL	AVERAGE POTENTIAL	HIGH POTENTIAL
BEST IN CLASS	Visa, ICE	Google, Meta, Microsoft, SAP, ASML, Cadence, Synopsys, Computer Modelling Group, Mastercard	Intuitive Surgical, Autodesk, Trade Desk
ABOVE AVERAGE	Texas Instruments, Keyence	Netflix, TSMC, AMAT, Broadcom, Lam Research, Keyence, Constellation, Nice Ltd, Tokyo Electron, Amphenol	Amazon, Veeva, Adyen, Uber, PTC, Coupang
AVERAGE	–	–	–
BELOW AVERAGE	–	–	–

Source: Platinum

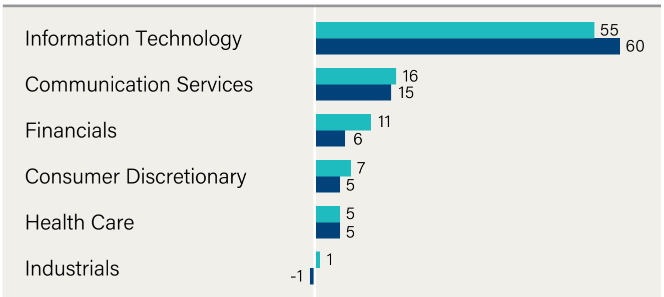
Disposition of Assets %



31 DEC 2024 30 SEP 2024

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

Net Sector Exposures %



31 DEC 2024 30 SEP 2024

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

Top 10 Holdings

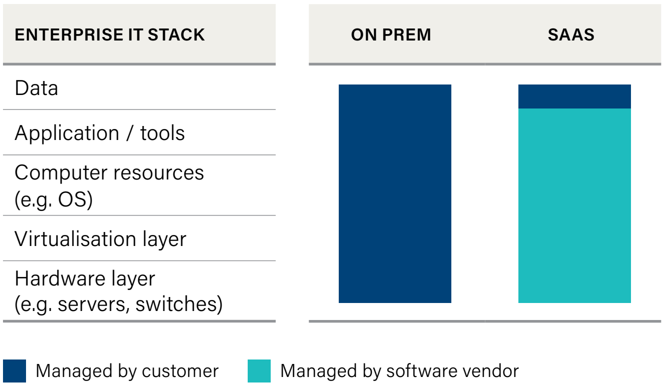
COMPANY	COUNTRY	INDUSTRY	WEIGHT
Broadcom Inc	US	Info Technology	7.1%
Amazon.com Inc	US	Cons Discretionary	6.1%
Alphabet Inc	US	Comm Services	5.8%
Microsoft Corp	US	Info Technology	5.2%
Taiwan Semiconductor	Taiwan	Info Technology	5.1%
SAP AG	Germany	Info Technology	5.0%
Meta Platforms Inc	US	Comm Services	4.7%
Veeva Systems Inc	US	Health Care	4.5%
Constellation Software Inc	Canada	Info Technology	4.2%
Visa Inc	US	Financials	4.2%

As at 31 December 2024. See note 5, page 5.
Source: Platinum Investment Management Limited.

Commentary – investment opportunities as companies transition to SaaS

The transformative change in the software industry over the past two decades has been software as a service (SaaS). SaaS is a software delivery model where the vendor develops a web-based application hosted and operated for customers. This is distinctly different from on premise deployment (on prem), where the application is managed by the customer and run on a local server or users' device.

Figure 1: Enterprise IT stack – on prem vs SaaS



Source: Platinum

SaaS deployment provides many benefits to customers. The total lifecycle cost of owning the software is significantly cheaper. Upfront costs are lower as customers don't need to buy infrastructure hardware (e.g. expensive servers) or pay a high upfront license cost for the software. Adobe Creative Cloud is available for US$59 a month today, whereas customers paid US$2,599 for Creative Suite in 2014. Ongoing maintenance costs are also lower as the majority of system admin tasks are outsourced. SaaS also gives customers better security, network resilience and the flexibility to scale capacity up or down.

SaaS also offers software vendors many apparent benefits. Over a customer's lifetime, SaaS vendors typically generate more revenue as they capture more value in the IT tech stack (see Figure 2 below) from hardware vendors (e.g. Dell) and system software providers (e.g. Windows server OS). Most software companies cite a 2-3x revenue uplift. Operating costs are also lower as running multiple customers on a single software instance on multiple servers reduces operational complexity and the cost of managing the software. Finally, lower upfront costs greatly expand the addressable market.

Figure 2: SaaS vendor captures more value in the customer's tech stack

<table>
<tr><th></th><th>ON PREM</th><th>SAAS</th></tr>
<tr><td>Server hardware</td><td>Vendor A</td><td rowspan="4">Vendor A</td></tr>
<tr><td>Virtualisation layer</td><td>Vendor B</td></tr>
<tr><td>System software</td><td>Vendor C</td></tr>
<tr><td>Application software</td><td>Vendor D</td></tr>
<tr><td>Professional services</td><td>Vendor E</td><td>Vendor E</td></tr>
</table>

Source: Platinum

The transition from on prem to SaaS continues to generate investment opportunities. Companies with large existing on prem customers that are in the process of transitioning into SaaS should have a long revenue growth run-way due to the 2-3x revenue per customer uplift mentioned above. This includes back office enterprise applications which involve complex migrations (e.g. ERP, database software, supply chain), customer contact centre software and industrial software.

As investors we need to be thoughtful as transitioning customers to SaaS doesn't *automatically* improve profitability for vendors. Absent strong competitive advantages or moats, the aforementioned 2-3x revenue uplift can be competed away. As outlined in *Information Rules*,[1] in software markets where there is low marginal cost and strong lock-in, competition erodes excessive profits out of the market (on a life-cycle basis) as vendors lose money upfront to lock customers in.

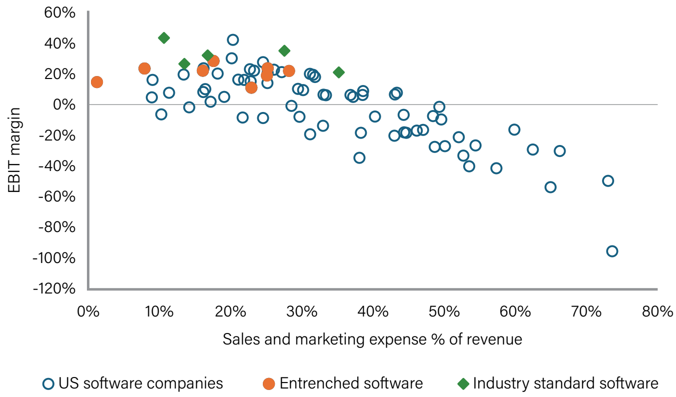
This theory is evident in the 2023 data. On our analysis, only about 50% of listed US software companies makes money on a GAAP EBIT basis and only ~30% make margins in excess of 15%. The key determinant of profitability is the upfront sales and marketing spend to acquire customers.

Our preferred software businesses

As we wrote previously, we like investing in software vendors with strong moats that keep sales and marketing costs in check and allow them to extract excess profits from customers. One set are "entrenched software" businesses. These are not only mission critical for customers. They also have the strongest 'lock in' among peers and customers loathe switching due to the cost, complexity and headache involved. Our other preference is for "industry standard software" businesses. Not only are their applications mission critical and entrenched, they also enjoy strong network effects due to broad industry adoption and need for interoperability (e.g. sharing files on Microsoft Office).

Per Figure 3, profitability among these two cohorts are either best-in-class, or could be in the future.

Figure 3: Entrenched software and industry standard software vs US listed software



Source: Factset

Today over 10% of the Platinum International Technology Fund is invested in software companies where on prem penetration remains high, where there is a long run-way for revenue growth as customers transition to SaaS and where the business fit into the "entrenched software" or "Industry standard software" business models. These include **SAP**, the leader in mission critical ERP software, NICE, a share winner in contact centre software and **Computer Modelling Group**, a provider of reservoir simulation software for unconventional oil extraction.

Market outlook

Tech stocks performed well over the past quarter with the Nasdaq up ~10% in USD terms. Nasdaq's PE multiple is reaching 2020/21 extremes and we are seeing bubble-like behaviour in the low quality/high speculation segment of the market.

We will resist the temptation to move down the quality and risk spectrum in search of higher returns as history shows us this will end up unrewarded. We continue to focus on owning "best in class" and "above average" quality businesses with good long-term growth prospects at reasonable valuations.

There are still segments of opportunity. These include semi capex names (e.g. Lam, ASML), EDA[2] names Cadence and Synopsys and analog semi businesses like Texas Instruments as the downturn in the semi cycle is lasting longer than investors (and we) had expected. As discussed, Uber and NICE are out of favour and their valuation reflect the perceived disruption risks from new technologies. However, we expect these companies will prosper as these technologies are sustaining innovations.

1 One of our favourite books on software and tech by Carl Shapiro and Hal Varian.

2 Electronic Design Automation businesses use computer-aided design to develop complex electronic systems.

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.

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