Platinum International Technology Fund

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Portfolio Manager

Overview

- Fund performance was positive early this quarter until the Iran conflict derailed global sharemarkets.
- As prefigured in last Quarter's report, we have substantially reduced our software holdings. We believe competition from AI platforms will have a material effect on the prospects of many software businesses and this will be reflected in their share price.
- During the quarter we made substantial portfolio shifts in line with our views on the changing tech marketplace. We bought into defence stocks (**Dassault Aviation**) and into Japanese factory automation stocks **Keyence** and **FANUC** that should benefit from growing demand for factory automation equipment in US, European and Japanese markets.

Key portfolio holdings >2%

BUSINESS QUALITY	GROWTH POTENTIAL: LOW POTENTIAL	AVERAGE POTENTIAL	HIGH POTENTIAL
BEST IN CLASS	Keyence	Mastercard, ASML, KLAC	Nvidia, Broadcom, Intuitive Surgical
ABOVE AVERAGE	Motorola Solutions, FANUC	TSMC, Lam Research, Aixtron, ASMI, Boston Scientific, Exosense, Microsoft	Siemens Energy, GE Vernova, MHI, AMD, Vertiv, Veeva, Rheinmetall
AVERAGE	Echostar	–	–
BELOW AVERAGE	–	–	–

Source: Platinum

Performance

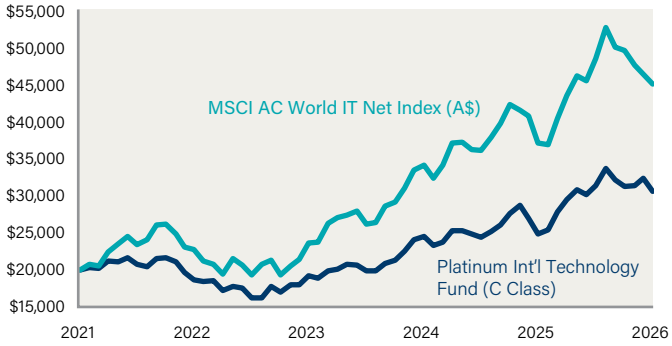
compound p.a.+, to 31 March 2026

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	-2%	23%	17%	9%	10%
MSCI AC World IT Index^	-9%	21%	24%	18%	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 March 2021 to 31 March 2026



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.

PITF was down ~2% in a volatile quarter. Whilst performance was good to the end of February (+3%), the Fund was down ~5% in March as the escalation of the Iran conflict triggered a broad market selloff.

Our exposure to semi supply chain companies **Aixtron**, **Lam Research**, **ASML**, **KLA** and **TSMC** contributed ~4% to returns after TSMC guided their expectation of 50%+ per annum AI related revenue growth through to 2029. **GE Vernova** and **Siemens Energy** contributed ~1.2% after reporting better than expected order intakes and increased long-term guidance.

Our exposure to software stocks **Microsoft**, **SAP**, **Veeva** and **Shopify** cost us ~3% in returns. **Broadcom** and **Nvidia** also cost ~2% due to concerns that capacity constraints at TSMC could limit earning revision upside in the coming quarters.

The appreciation of the AUD against major currencies (+2% vs. USD and +4% vs. JPY and EUR) was a drag on performance over and detracted ~3% from total returns.

Portfolio changes

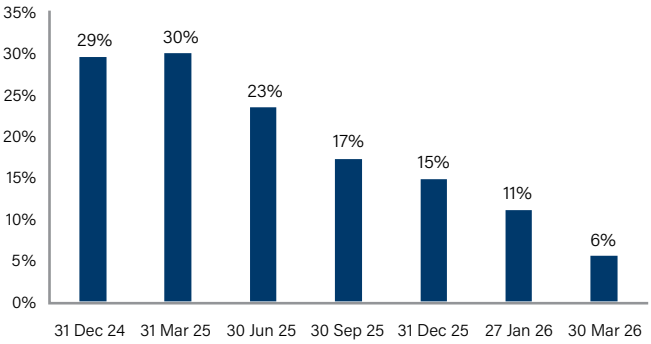
Turnover was high this quarter as we made major changes to reposition the portfolio:

- In line with our commentary from the December Quarterly, we exited **Amazon** (-4% in exposure), **Coupang** (-2%) and **Uber** (-2%).
- We reduced our exposure to Microsoft (-2%) and SAP (-2%) and exited our small position in Shopify. See our commentary below.
- We invested ~5% of the fund into **Keyence** and **FANUC**. We expect demand for factory automation equipment will grow strongly over the next five years driven by capacity expansion in the US, Europe and Japan.
- We invested ~4% of the Fund into fibre optic names **Fujikura**, **Anritsu** and **FOCI**. Optical interconnects are used in inter-rack data transfers within AI datacentres. We think demand will increase meaningfully over the next three years driven by the ongoing buildout, share gains vs. copper in GPU-to-GPU interconnects and the adoption of co-packaged optics.
- We bought a ~2.5% position in **Dassault Aviation**, the manufacturer of Rafale fighter jets, and a 3% position in **Echostar** to get exposure to the upcoming SpaceX IPO.

What now for software stocks?

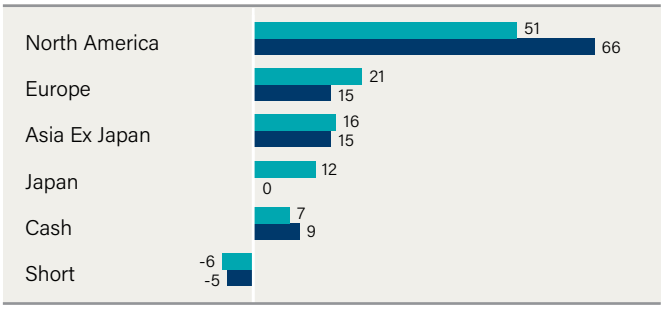
The Platinum International Technology Fund reduced exposure to software stocks over the last 12 months as we became increasingly concerned about the potential disruption from AI. Figure 1 shows our exposure halving from ~30% to ~15% throughout 2025 and further reduced to ~11% by late January 2026, right before the latest selloff. In this quarterly essay, we discuss how legacy vendors historically generated super-normal profits, our hypothesis on how AI technologies could erode their profits, and our belief that valuations is likely structurally impaired.

Figure 1: PITF exposure to software



Source: Platinum

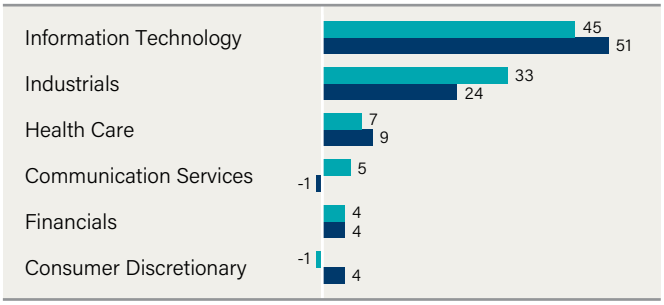
Disposition of Assets %



31 MAR 2026 31 DEC 2025

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

Net Sector Exposures %



31 MAR 2026 31 DEC 2025

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Taiwan Semiconductor	Taiwan	Info Technology	6.9%
NVIDIA Corp	US	Info Technology	6.7%
Siemens Energy AG	Germany	Industrials	5.0%
GE Vernova Inc	US	Industrials	4.6%
Broadcom Inc	US	Info Technology	4.2%
Mastercard Inc	US	Financials	3.7%
Motorola Solutions Inc	US	Info Technology	3.5%
KLA Corporation	US	Info Technology	3.3%
Vertiv Holdings Co. Class A	US	Industrials	3.3%
ASML Holding NV	Taiwan	Info Technology	3.2%

As at 31 March 2026. See note 5, page 5.
Source: Platinum Investment Management Limited.

Software applications provide utility to customers through four core functions. First, software enforces workflow logic by ensuring processes are executed correctly and in a compliant manner, either by users or through automation. Second, software acts as a system of record where input and output data is stored and access. Third, the graphical user interface (GUI) is an abstracted front end that allows users to call on workflow logic without programming knowledge. Finally, vendors with broad product suites acts as an integration layer, enabling interoperable modules to be deployed efficiently and easily.

These functions form the foundation for strong customer lock-in and high switching costs. Some workflow logic and systems of record are deeply embedded in mission critical applications (for example ERP or core banking) so customers are extremely reluctant to switch. In specialised domains (for example pharma sales or semiconductor design), deep domain expertise in workflow logic limits credible competition. Migrating complex systems of record is costly and risky, requiring data cleansing, remapping and preservation of relational integrity. Retraining a large workforce on a new GUI incurs high retraining costs and lost productivity as users adapt to a new interface. Integrated product suites further entrenched vendors, as replacing one application risks breaking upstream or downstream workflows in other applications.

Strong customer lock-ins is key to legacy vendors generating super-normal profitability. As a reminder, vendors incur large upfront customer acquisition costs and subsequently make back the money by charging recurring revenues over the customer's life cycle. Customers who are locked-in for a long period are very profitable as the vendor spreads the upfront acquisition cost over a larger revenue base. Strong lock-ins also given vendors room to push pricing, improving the revenue and cashflow profile on the back end. Figure 2 provides a simple mathematical example to illustrate the point.

Figure 2: Retention and pricing power are key drivers of return on capital on per customer basis

		CUSTOMER RETENTION (YEARS)				
		4	5	6	7	8
PRICE INCREASE	0% p.a.	0%	8%	13%	16%	19%
	3% p.a.	2%	10%	15%	19%	21%
	6% p.a.	4%	12%	18%	21%	24%
	9% p.a.	5%	14%	20%	24%	26%

Source: Platinum estimates, assumes $100 customer acquisition cost and $25 gross profit in year 1.

The rapid development of AI coding tools such as Claude Code and OpenAI Codex will likely increase competition among software vendors. These tools enable users to generate functional code from natural language prompts and there is some evidence to suggest that these tools will lower the cost and time required to develop new software and reduce the technical barrier to entry. As incremental costs come down, we expect legacy vendors to use these tools to expand into adjacent workflows, increasingly competing within each other's domains. At the same time, new entrants with structurally lower cost structures will also likely emerge, putting downward pressure on industry pricing.

At the same time, the emergence of AI agents such as Claude Cowork and OpenClaw could reduce legacy software's utility and weaken customer lock-ins. Per the left column in Figure 3, users today interact with applications via GUIs. The ability for AI agents to integrate and use applications via Model Context Protocols allows users to interact with multiple applications through the AI agent using natural language (middle column Figure 3), removing the need to learn application specific workflows and reduce onboarding time. The new stack sees the AI agent replace application GUIs as the new front end and becomes the new integration layer. This lower switching costs as replacing an application no longer requires training on a new GUI, whilst workflow interoperability is now managed by the AI agent layer rather than by the software vendor.

As AI technology continue to improve, it's likely that new products could further erode legacy software's position. Early evidence suggest that AI agents could gather context and execute predefined workflows autonomously across multiple applications using "skills", potentially competing against software applications for workflow logic in the future (see right column in Figure 3). Others are looking at applying LLMs to reduce the cost and time of database migrations, reducing system of record switching costs.

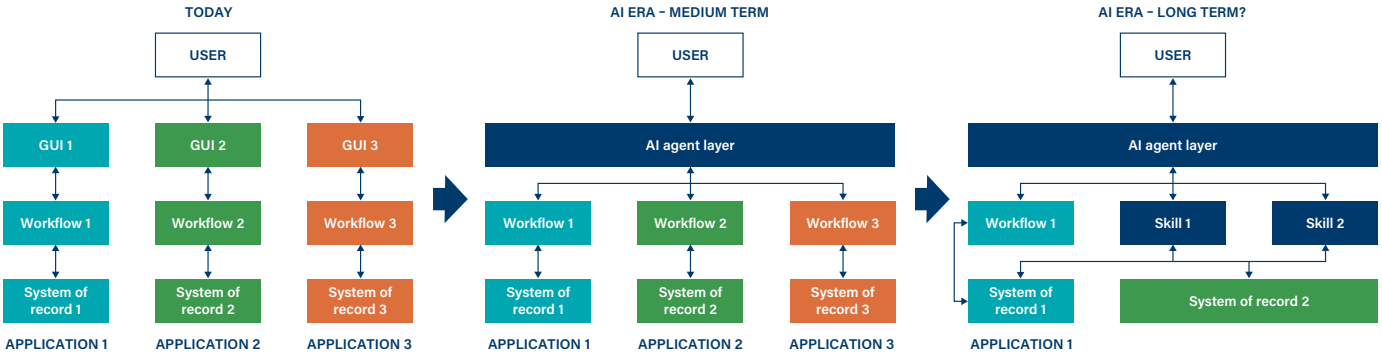
We think the confluence of the factors will likely put downward pressure on industry profitability. At minimum, weaker lock-ins and heighted competitive intensity will shorten customer retention rates and limit pricing power. We also think that customers may be less willing to pay for legacy applications as use cases is cannibalised by AI agents. Our (low conviction) view is that applications used in mission critical workflows where the cost of switching still greatly outweigh potential savings (for example ERPs) can still make decent profit, albeit lower vs. today. Applications used in simple workflows such as marketing automation, robotic process automation or project management will likely feel the disruption on their profits most acutely.

Given the risks above, we think the recent selloff is justified and software stocks will be priced at a lower valuation multiple going forwards. Historically, software stocks traded on high PE multiples as investors (including us) believed that they were high quality businesses and investors underwrote high profitability, long duration and low uncertainty in their valuations. It's increasingly difficult to argue that these assumptions will continue to hold and investors will likely assign a lower multiple to reflect downside risk in profitability, shorter duration and greater uncertainty in outcome. One can think of newspapers and cable companies as potential precedents.

Outlook

Regular readers know that we've been cautious and patient over the last 24 months amid market exuberance and high valuations. After the selloff, the setup is more favourable. ~80% of the fund is invested in high quality companies that are enablers of long-term structural growth including AI capex, defence and industrial automation and are insensitive to short-term economic gyrations as demand vastly exceeds supply. These companies now trade at more reasonable valuations, significant improving the portfolio's expected returns.

Figure 3: Potential evolution of software value chain



Source: Platinum estimates

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 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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