

Platinum International Technology Fund



Jimmy Su
Portfolio Manager

Overview

- The Fund was down less than 1% in the past quarter whereas the technology benchmark fell over 3%. Key contributors to performance include Universal Music Group, Black Knight, Soitec and Bookings.
- In the generative AI (genAI) space we look for companies where these new technologies will drive new avenues for profitable revenue growth and strengthens the company's competitive position. We're also focussed on companies that can capture value by charging for these products. One example is Adobe, the digital experiences business with a dominant position in creative software. Its Firefly genAI product is embedded within its apps and Adobe is working to monetise this genAI product. As with most software products, Firefly's incremental margins should be relatively high.
- Current market conditions feel a lot like 2021, in that one needs to move down the quality and risk spectrum to find half-decent returns. However, instead of chasing those short-term returns, the team has been patient. On the long side, we are spending time identifying a list of quality businesses we would like to own at the right price. We recently returned from a research trip to the US with a list of prospects worthy of further investigation.

Performance

compound p.a.+, to 30 September 2023

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	-1%	23%	5%	9%	9%
MSCI AC World IT Index^	-3%	35%	13%	18%	5%

+ 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.

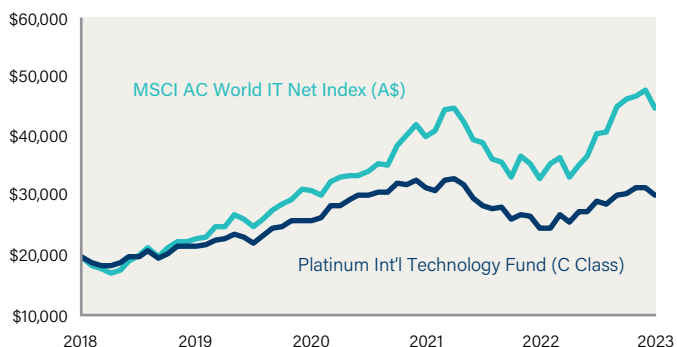
Source: Platinum Investment Management Limited, FactSet Research Systems.

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 2018 to 30 September 2023



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.

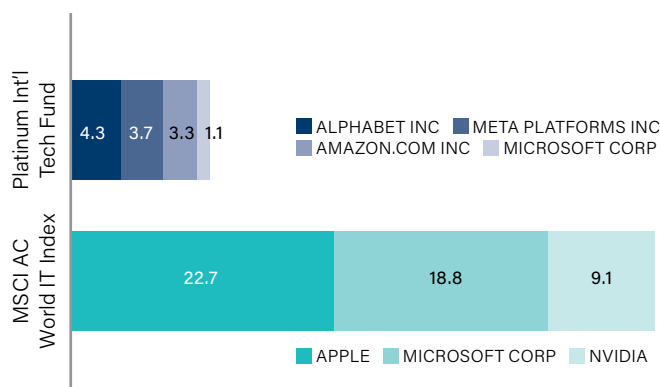
The Fund was down less than 1% in the past quarter whereas the technology benchmark declined over 3%. Key contributors to performance include **Universal Music Group** (+22%), **Black Knight** (+19%), **Soitec** (+13%), **Bookings** (+14%) and the Fund's short portfolio (+18%). Key detractors from performance include **DeNA** (-20%), **Samsung SDI** (-23%), **Infineon** (-17%), **ASML** (-15%) and **Microchip** (-12%).

There are three key drivers that explain the difference between the Fund's performance and the benchmark.

- Microsoft, Apple and Nvidia make up ~50% of the benchmark weighting whereas the Fund's exposure to mega cap tech is generally below 20% (currently at ~15%).
- The Fund generally seeks to be 80 – 90% net invested. This means that in strong and narrow markets (for example 1H23), the Fund's performance lags – though the inverse can apply when markets are weak – for example in 1H22.

- USD holdings make up ~40% of the Fund and this is significantly lower than the benchmark at ~89%. As such, the Fund will typically underperform when the USD appreciates vs other key currencies (EUR and JPY) at a faster rate vs the AUD. The converse is true when the USD depreciates.

Fund exposure to Mega Cap Tech vs MSCI AC World IT Index (% Weight)



As at 30 September 2023. See note 5, page 5.

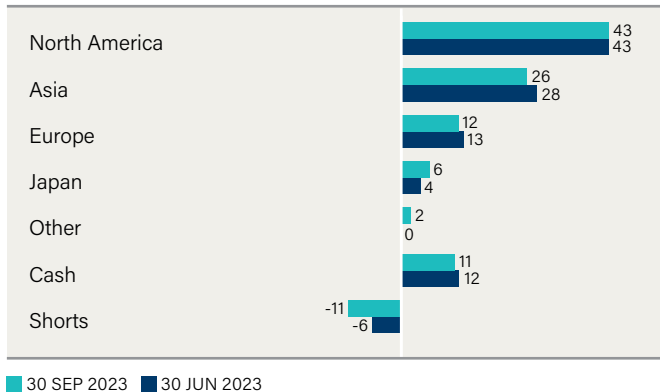
Source: Platinum Investment Management Limited and Factset Research Systems.

The Fund initiated a position in Japan's **Keyence**. We expect strong demand for their automated inspection equipment and machine vision solutions. This will be driven by a number of factors: increased investment in the global Electronic Vehicle (EV) value chain, semiconductor manufacturing, the reshoring of manufacturing (often with governments' fiscal support), structural adoption of robotics and investment in manufacturing automation.

In our view, Keyence will maintain its position as the global leader given its innovation in image processing software (which yields faster line speeds and throughputs and lower per-unit costs). It also has a strong direct distribution and sales network.

We also added to positions in **Adobe**, **Amazon**, **STMicro**, **Mobileye** and Universal Music Group. The Fund exited **Soitec** at a decent profit as we were concerned that customer wins in Soitec's SmartCut SIC were falling well behind our expected time line. We also question whether the industry needs this technology given the increase in high quality capacity coming out of China. Over recent months we also trimmed our exposure to **Meta**, **PayPal**, **SK Hynix** and **Bookings Holdings**.

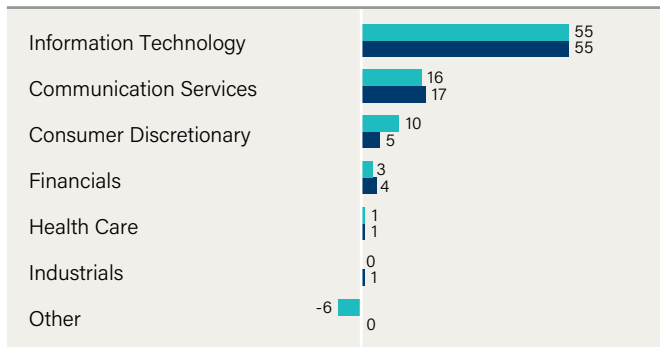
Disposition of Assets %



■ 30 SEP 2023 ■ 30 JUN 2023

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

Net Sector Exposures %



■ 30 SEP 2023 ■ 30 JUN 2023

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
SK Hynix Inc	South Korea	Info Technology	4.5%
Samsung Electronics Co	South Korea	Info Technology	4.3%
Alphabet Inc	US	Comm Services	4.3%
Taiwan Semiconductor	Taiwan	Info Technology	4.3%
Micron Technology Inc	US	Info Technology	4.2%
Infineon Technologies AG	Germany	Info Technology	4.1%
Microchip Technology Inc	US	Info Technology	4.0%
Meta Platforms Inc	US	Comm Services	3.7%
Amazon.com Inc	US	Cons Discretionary	3.3%
Constellation Software Inc	Canada	Info Technology	3.0%

As at 30 September 2023. See note 5, page 5. Source: Platinum Investment Management Limited.

Commentary

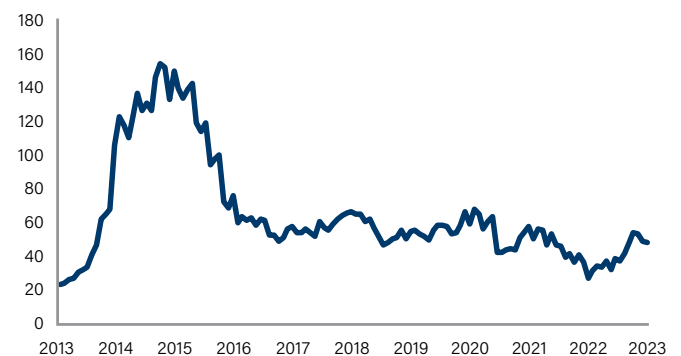
In our framework for investing in generative AI (genAI), we look for two things.

- We look for companies where genAI will likely be a sustaining innovation in the short to medium term – one that creates a new avenue for profitable revenue growth and strengthens the company’s competitive position. We use a bottom-up process to understand how genAI products could potentially add value to the company or its customers, compare the company’s product roadmap vs competitors, and, crucially, assess whether the company can capture some of the value by charging for these products.
- We also seek companies that trade at a valuation which provides us with an *asymmetric* payoff. One where we realise decent returns for investors if we are correct in our assessment, but limit the downside in the event we are wrong.

One example is Adobe, where the Fund took a 2.5% position in the last quarter. The Creative Cloud business is ~65% of Adobe revenue. The software is used by creative professionals for graphic design, video editing, animation and photography. Whilst the creative software market is flooded with cheap point solutions, Adobe remains dominant. Competitors struggle to replicate Adobe’s broad suite of apps and tools developed over more than 30 years. They also have to contend with the interoperability of the Adobe ecosystem which means users can access projects on multiple apps with minimal friction (for example not worry about file compatibility or importing/exporting).

Adobe also benefits from the ‘network effect’ of being a de-facto industry standard. The strength of the business is reflected in the fact that industry participants we have spoken to believe Creative Cloud likely makes ~45% EBIT margins and contributes to >90% of Adobe’s EBIT. Adobe has historically traded on ~40 - 60x GAAP PE over the last decade, a reflection of the business’ high quality.

Trailing Adobe P/E (x) since 2013



Source: Platinum Investment Management Limited and Factset Research Systems.

In 1H23, Adobe launched Firefly in beta testing. Firefly is a genAI product directly embedded within its apps which gives users the ability to quickly generate and edit images using text prompts. From our conversation with creative professionals, Firefly could significantly increase productivity, replace boring and tedious parts of the workflow and save costs as a stock library replacement.

If the technology proves to be successful, Firefly is likely to be widely adopted by the creative industry, as not doing so will put one at a productivity disadvantage vs their competitors. Adobe is also investing to build new genAI products that address other parts of a creatives' workflow including in vector graphics, music and video. We think the growth potential here could be even more meaningful as the productivity and cost savings could be multiples of that in image manipulation.

Firefly could potentially help Adobe take market share from lower priced or free point solutions who typically don't have the resources to meaningfully invest in their own generative AI offerings. Given its ease-of-use, Firefly could also eat into simple use cases typically addressed by these point solutions.

We're also not too concerned about competition from AI-native businesses like MidJourney or Dall-E. As we write, Firefly is unique in indemnifying users from copyright claims, a key consideration for core professional users. Firefly also has a significant distribution advantage given it is directly integrated into Adobe's apps, allowing users to use the tool with minimal friction and adjustment to their workflows.

Adobe is one of the few SaaS vendors who have successfully monetised their genAI product. In October, Adobe rolled out Firefly to all Creative Cloud users, raised prices across the board by up to 10%, and is charging users for additional consumption via credit packs. Assuming ~50% of users buy one credit pack per year yields a potential total revenue uplift of ~\$1.8bn over the next three years – equivalent to 3% acceleration to revenue growth. The uplift will be higher if we assume that Adobe is successful in developing their music and video genAI products. Like most software products, the incremental margins on Firefly should be relatively high.

If Firefly adoption in image editing does take off we can see a scenario where earnings per share grows significantly. The upside could be even higher if Adobe's genAI for music and video proves to be successful. If we are wrong, we see limited downside as we paid ~45x for a quality business that historically traded between 40 – 60x.

Outlook

Current market conditions feel a lot like 2021, in that one needs to move down the quality and risk spectrum to find half-decent returns. However, instead of chasing those short-term returns, the team has been patient. On the long side, we are spending time identifying a list of quality businesses we would like to own at the right price. We recently returned from a research trip to the US with a list of prospects worthy of further investigation.

We also run a short portfolio and we've been more active here given current market conditions. In areas of strong enthusiasm such as AI and clean tech, we are finding R&D projects masquerading as real businesses or stock promotion schemes trading on unbelievable valuations. We are of the belief that it's unlikely most of these businesses will ever make money. We will manage the asymmetric risk return profiles here by putting on a number of small positions.

Note:

From 3/10/2023, Jimmy Su became sole Portfolio Manager of the Platinum International Technology Fund having previously been Co-Portfolio Manager with Alex Barbi.

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

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