

# Platinum International Brands Fund



**Simon Trevett** Portfolio Manager

## Disposition of Assets

REGION	SEP 2016	JUN 2016	SEP 2015
Asia	31%	28%	31%
Europe	27%	23%	28%
North America	12%	9%	11%
Japan	11%	10%	7%
Latin America	11%	10%	7%
Russia	2%	2%	1%
Africa	1%	1%	2%
Cash	5%	17%	13%
Shorts	-4%	-3%	-2%

Source: Platinum. Refer to note 3, page 5.

## Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
LVMH	France	Consumer Disc	3.1%
Callaway Golf Co	USA	Consumer Disc	3.1%
Pernod Richard SA	France	Consumer Stap	3.0%
Vietnam Dairy	Vietnam	Consumer Stap	3.0%
Anta Sports Products	China Ex PRC	Consumer Disc	3.0%
Tiffany & Co	USA	Consumer Disc	2.9%
Godrej Consumer Products	India	Consumer Stap	2.7%
Jiangsu Yanghe Brewery	China	Consumer Stap	2.7%
Lixil Group	Japan	Industrial	2.6%
FEMSA	Mexico	Consumer Stap	2.5%

Source: Platinum. Refer to note 4, page 5.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposures, updated monthly, please visit <https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds>.

## Performance and Changes to the Portfolio (compound pa, to 30 September 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund	5%	4%	7%	12%	12%
MSCI AC World Index	2%	3%	12%	16%	2%

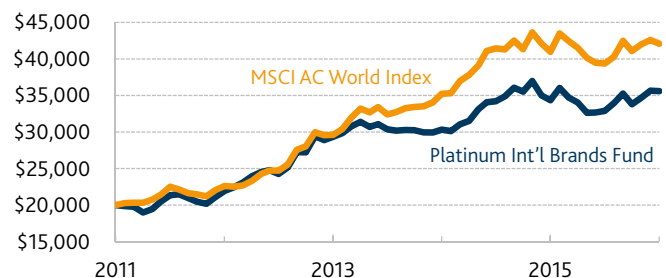
Source: Platinum and MSCI. Refer to note 1, page 5.

The Fund produced a return of 5.3% for the quarter which, together with the prior quarter, delivered an 8.2% return for the past six months, ahead of the MSCI AC World Index at 6.9%. Six months is not a particularly useful time period to observe or comment upon, but for the fact that it encompasses the market turmoil induced by the UK vote to leave the European Union at the end of the last quarter.

For the calendar year to date the Fund is up 4.6% compared to the 1.3% reported by the Fund's benchmark MSCI AC World Index. The MSCI Emerging Markets Index fell to a three-year low in January of this year as market participants voiced concerns over the fragility of global growth, the lack of strength in commodity prices (emerging markets generally being exporters and dependent on taking the prices on offer) and whether or not the US would raise rates and the impact that may have on the emerging markets. Since then the emerging markets have continued to recover with the MSCI EM Index up some 20% from the low in January.

## Value of \$20,000 Invested Over Five Years

30 September 2011 to 30 September 2016



Source: Platinum and MSCI. Refer to note 2, page 5.

New investments to the Fund this quarter include the UK listed hardware retailer **Kingfisher**, the leading Chinese producer of air conditioners and household appliances, **Gree Electric Appliances** and the casino resort operator **Wynn Resorts**.

A notable contribution to the Fund's performance in this past quarter came from **Nintendo** as the Pokemon Go craze rolled out across the world. Nintendo has been a long time holding of the Fund and held in the belief that there was inherent and under-utilised value in their library of characters and the strong, albeit lapsed in many cases, connection with past generations. Admittedly we held no great insight into how this value may be realised and, from an investor perspective, were often frustrated with their hardware offerings and a seemingly insular or obstinate approach in light of the progression of smartphones and mobile devices. We revisited the investment case recently and once again remain frustrated with the lack of information available on both the economics and the user characteristics. What we can observe though is that the 'in-app' purchases in the location-based mobile game Pokemon Go were both significant enough to gain the attention of the 'app store' owners, particularly Apple, and that a sizeable amount of the spending was being made by businesses to attract players to visit their physical premises in the hunt for virtual Pokemons. Thus the source of revenue is very different from past patterns with the involvement of small businesses paying to attract visitors. Nintendo has other significant character families (Mario, Donkey Kong, Zelda) that may yet find a way of connecting with both lapsed and new generations as Nintendo learns how to exploit the technological advancements in mobile devices and augmented reality games, and as early signs suggest, possibly even bring users back to their consoles.

## Commentary

The structure of the Fund has been consistent over many years with an underlying focus on the behaviours of consumers and how best to achieve an investment outcome given any particular theme. At times we sought to achieve this by gaining access to the faster growing emerging or developing consumer markets through western multinationals, while at other times by directly investing in regional companies listed in the emerging markets. Occasionally the Fund has pursued both approaches on the same theme, owning both the multinational and the regional competitor. Pernod, with a significant whisky business in India whilst also investing in the leading local producer United Spirits (subsequently bought by Diageo), is one such example.

These quarterly reports, by their very nature of being produced at short intervals, have naturally tended to focus on the recent performance and changes in the Fund. In considering the content for this report it became clear that the usual pattern of near term reporting might at times fail to provide the reader with an adequate perspective and fall short in highlighting the characteristics of the Fund and how it is placed in the context of markets distorted by the unprecedented influence of central bankers.

The underpinning of the Fund, as we have discussed and illustrated over the years, is built around consumer emotions influencing purchase decisions and the role branding plays to extract a higher return on that emotion. Factors such as trust, reliability, recognition, aspiration, reward and so forth that influence the emotive content of the decision can be applied to different degrees to products ranging from necessities through to luxuries. We have also often commented that the opportunity cost to a low income family of spending their scarce resource on the 'wrong' product is high. Even the most utilitarian necessities can be priced for a better margin if the consumer perceives value and a lower risk of the consequences of a poor decision.

With that underpinning and a search for growth, it should be no surprise that the Fund is invested across multiple geographies as opportunities and themes are evaluated on their merits on a company by company basis. That has led to the Fund being invested across many largely overlooked countries including, for example, Vietnam, Colombia, Mexico, alongside those more commonly associated with emerging markets, such as China, India, Russia and Brazil where the Fund also holds investments. The Fund has consistently held around 40-45% of investments directly in emerging markets along with the indirect exposure through investing in developed market-listed multinationals that may also have significant interests outside of their home market.

The ten-year chart (see page 4) provides some perspective on how the Fund has fared over a longer time frame compared to the US S&P index and the EM index given this approach of seeking out the opportunities without regard to benchmark pressures. Some astute readers might be keen to observe that this approach 'failed' to match the markets through 2014 and particularly in the latter half of that year as 'the place to be' was clearly the US and within that the so-called 'Consumer Staples'. The Fund's relative underperformance on a three-year basis is attributable to that period and to the Fund's lack of investment in these defensive 'bond proxies' as they have been termed. Readers may note on the chart the uplift in the EM index during 2016 and also

question whether the gains of the last three to five years in the US can continue over the next five years.

The above discussion may suggest that the Fund is best described by its allocation to regions. That is not the intent and is done merely to illustrate the outcome of the stock selection process and to highlight how the Fund has been positioned quite differently through time compared to its benchmark which is weighted 90% to developed markets.

The key and most important characteristics of this Fund are, first and foremost, the stock by stock selection which has consistently resulted in an unusual portfolio of companies quite unrelated to any index, and secondly the time frames over which the Fund's better investments are held. In the June 2016 Quarterly Report we showed the performance of Estee Lauder over the many years it was held by the Fund. This quarter we include three charts of current investments all with slightly different characteristics to once again illustrate that the performance of the Fund is built on holding investments over years, not quarters, and that there may well be periods, some quite lengthy, where it can be quite dull.

Investors in the Fund will be familiar with **Vietnam Dairy** as a key contributor to the Fund's performance. Indeed, over 10 years the total return on the investment has been 27% per annum, an outstanding record and yet also subject to quite lengthy periods where the return wasn't attractive.

**Godrej Consumer Products** has been a more recent addition to the Fund (2014) and whilst we were clearly a bit late to that investment, it nonetheless has doubled since we added it. Godrej sells a range of consumer products across the personal care and household product categories: hair care and colouring, deodorants, soaps and insecticides, amongst others. When faced with the prospect of malaria or dengue fever from mosquitoes (especially post the monsoon season) and without a robust public health system, anti-bacterial handwash quickly becomes a purchase that ranks above many others to protect the family, even in low income areas. Godrej is the market leader in India and the second largest in Indonesia.

**Fomento Economico Mexicano, SAB de CV** (more commonly known as **FEMSA**) was purchased in 2010 with the initial years showing strong gains. More recently performance has been flat and the Fund has been adding to the position on the basis that this company is arguably the world's best convenience store operator, is continuing to roll out a new store every eight hours and is now starting to consolidate the pharmacy industry through acquisitions in Mexico and Chile.

### Vietnam Dairy Stock Price (in VND)



Source: Bloomberg

### Godrej Consumer Products Limited Stock Price (in INR)



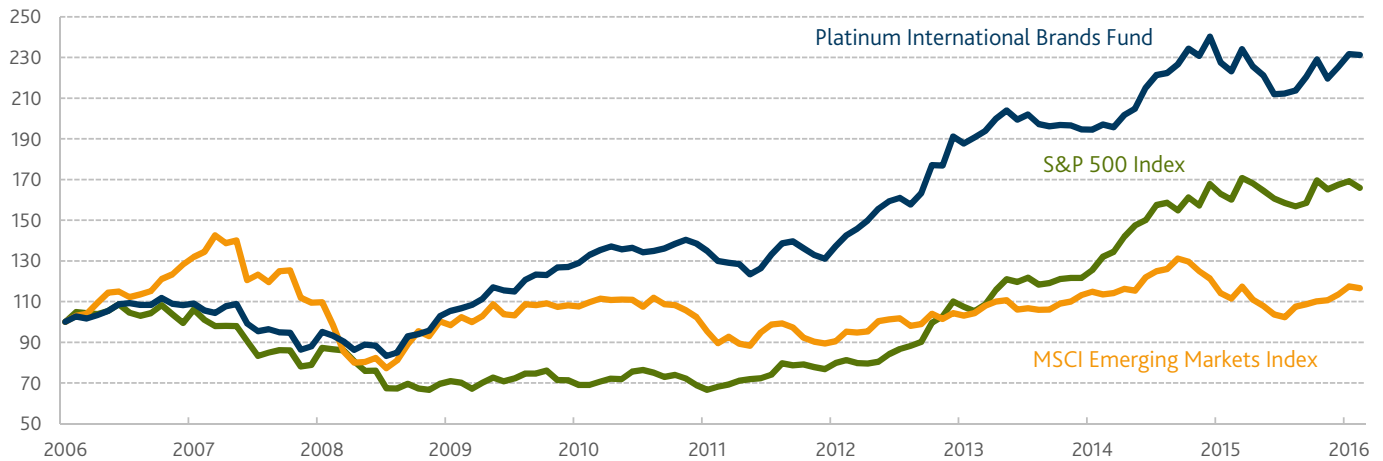
Source: FactSet

### FEMSA American Depositary Receipt Price (in USD)



Source: FactSet

### Platinum International Brands Fund vs. S&P 500 Index vs. MSCI Emerging Markets Index



All are total returns in AU\$. Source: Platinum; MSCI; S&P; FactSet.

## Outlook

We are increasingly questioning the longevity of the extraordinary performance of the US market relative to the rest of the world, particularly those stocks that are perceived as safe or dependable (such as the consumer staples) and the disparity between their operational performance and their valuations (as shown in the first Market Panorama chart on page 3 of the June 2016 Quarterly Report). That is not to say that this situation cannot continue for some time, given the ongoing debate on the robustness of the US economy. However, in respect of the Brands Fund we would highlight

that the sentiment towards the emerging markets has improved and the performance of the Fund has benefited accordingly. We suspect that the higher growth rates being achieved by some of our companies in these emerging markets will ultimately support the longer term returns of the Fund. In the short term, the influence and decisions of central bankers, as evidenced in the cost of money (low cash rates) may well continue to dominate the markets. Even so, we are encouraged to see some divergence in the markets and a broadening of interest.

Platinum has a long-standing policy of awarding fund management responsibility to talented and capable members of the Investment Team in order to develop talent within the team. As a continuation of this policy, consumer sector analysts, Ian Carmichael and James Halse, have each been given responsibility to manage up to \$100 million of the Platinum International Brands Fund.

## Notes

1. The investment returns are calculated using the relevant Fund's unit price and represent the combined income and capital return for the specified period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. You should be aware that historical performance is not a reliable indicator of future performance. Due to the volatility in the underlying assets of the Funds and other risk factors associated with investing, investment returns can be negative (particularly in the short-term).

The inception dates for each Fund are as follows:

Platinum International Fund: 30 April 1995

Platinum Unhedged Fund: 28 January 2005

Platinum Asia Fund: 4 March 2003

Platinum European Fund: 30 June 1998

Platinum Japan Fund: 30 June 1998

Platinum International Brands Fund: 18 May 2000

Platinum International Health Care Fund: 10 November 2003

Platinum International Technology Fund: 18 May 2000

(NB: The gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist.)

2. The investment returns depicted in this graph are cumulative on A\$20,000 invested in the relevant Fund over the specified five year period relative to the relevant benchmark index (in A\$) as per below (the "Index"):

Platinum International Fund - MSCI All Country World Net Index

Platinum Unhedged Fund - MSCI All Country World Net Index

Platinum Asia Fund - MSCI All Country Asia ex Japan Net Index

Platinum European Fund - MSCI All Country Europe Net Index

Platinum Japan Fund - MSCI Japan Net Index

Platinum International Brands Fund - MSCI All Country World Net Index

Platinum International Health Care Fund - MSCI All Country World Health Care Net Index

Platinum International Technology Fund - MSCI All Country World Information Technology Net Index

The investment returns are calculated using the relevant Fund's unit price. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), pre-tax and assume the reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.

3. Regional exposures (i.e. the positions listed other than "cash" and "shorts") represent any and all physical holdings, long derivatives (stock and index), and fixed income securities.
4. The table shows the relevant Fund's top ten long stock positions. Long derivative exposures are included. However, short derivative exposures are not.

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