

Platinum International Brands Fund



James Halse
Portfolio Manager

Performance

(compound p.a.⁺, to 30 September 2019)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	2%	3%	13%	11%	12%
MSCI AC World Index [^]	4%	9%	14%	12%	4%

⁺ 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 Net Index in AUD.

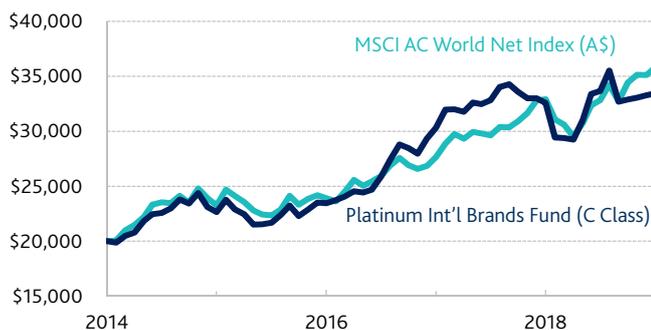
Source: Platinum Investment Management Limited, FactSet.

Historical performance is not a reliable indicator of future performance.

See note 1, page 4. Numerical figures have been subject to rounding.

Value of \$20,000 Invested Over Five Years

30 September 2014 to 30 September 2019



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.

See notes 1 & 2, page 4.

Performance

Global equity markets had another positive quarter, returning 4%. The market aggregates mask significant variance in performance. The so-called 'defensive' consumer staples and utility stocks were the clear winners as investors fretted about the global growth outlook. Interestingly, these stocks decoupled from the highly valued high-flying growth names typified by the software-as-a-service (SaaS) stocks, with the latter continuing their August sell-off through to the end of the quarter, even as the defensives rebounded. Retail stocks were highly volatile. With this market backdrop, the Fund (C Class) delivered a reasonably respectable 1.7% return for the quarter, given our average 72% net long exposure and lack of consumer staples holdings.

During the quarter, we benefited from the strong performance of our position in **WW International** (the former Weight Watchers, +98% in the quarter). Home and décor superstore-owner **At Home Group** rebounded +44% from severely depressed levels, **Kontoor Brands** (owner of the Lee and Wrangler jeans brands) appreciated 25% reflecting a depressed valuation, and **Anta Sports Products** (Chinese sports shoes and apparel) and **Meituan Dianping** (Chinese food delivery and lifestyle services app) appreciated 21% and 17% respectively.

Our short positions were a key detractor from performance in the quarter, costing us -1.8%. On the long side, weaker performers included **Axis Bank** (-15%) as fears for the Indian economy increased, underwear-maker **Hanesbrands** (-11%) as worries about its department store distribution channel resurfaced, and the Chinese auto dealers **Zhengtong** (-30%) and **Yongda** (-10%) as Chinese vehicle sales disappointed and Zhengtong's results failed to keep pace with its peers.

Commentary

In previous quarterly reports, we have discussed the changes in consumer behaviour that pose major challenges to brand owners. E-commerce and digital media are simultaneously stimulating the fragmentation of consumer wants, while providing the mechanisms by which niche brands succeed. In this environment, legacy retailers must invest heavily in e-commerce, in an attempt to stay relevant that will be costly and in many cases unsuccessful.

Large fast-moving-consumer-goods companies could previously rely on their scale to dominate mass media and the supermarket shelves, but these barriers to entry for upstart brands are eroding as they can now utilise inexpensive targeted digital marketing to acquire customers, while supplying product via shelf-space that is practically infinite. Smaller local players and niche brands also have the advantage of being able to operate with much greater speed in developing products and new marketing approaches when compared to the process-driven and bureaucratic multi-national behemoths, while appearing more 'authentic' to consumers. All this while supermarkets increasingly push their own private label products, as well as fresh produce and prepared meals.

In light of the above observations, we can effectively categorise our stock universe into the following groupings:

- 1. Disruptors** – the drivers of digital disruption and surfers of the e-commerce wave, including digital platforms (e.g. Amazon, Uber, Zalando); as well as upstart, on-trend, and/or digitally-native brands (e.g. Beyond Meat, Fevertree, Tesla).
- 2. Thrivers** – existing brands that are unaffected by the digital migration, or can manage the transition from offline to online relatively easily, or even benefit from the transition (e.g. Sberbank Russia, Nike, Costco).
- 3. Survivors** – existing brands that face challenges from digital disruption and changing consumer preferences, but still have a reason to exist and should survive the onslaught without huge falls in profit (e.g. Coca-Cola, Hanesbrands, BMW).
- 4. Untouchables** – the legacy brands with questionable relevance longer term. These companies face a future of constant struggle and declining profitability, resulting in

bankruptcy for many (e.g. department stores, many specialty retailers, several auto manufacturers).

In taking our positions, we consider these high level trends as well as the micro factors, such as the quality of a business, its management and growth potential, and then place a good deal of weight on how its stock is valued relative to our view of these fundamental qualities.

It is a mathematical fact that our expected return decreases as a company's valuation increases relative to the sum of its future cash flows. Further, the greater the starting valuation, the more our potential losses are magnified if our rosy expectations for the future turn out to be overstated, or if the market's expectations suddenly turn less rosy. With these points in mind, the positioning outlined below should make intuitive sense.

We have a large exposure to **Disruptors** (around **45%** of the Fund), primarily where the valuation does not properly reflect the growth potential or there are worries that a temporary setback is permanent (e.g. ASOS, Carvana, Alibaba). We own **Thrivers** (around **25%** of the Fund) where the market has concerns around geopolitical or macro-economic risks that we consider overstated (e.g. Sberbank Russia, Axis Bank, Melco International). We own **Survivors** (around **20%** of the Fund) that the market has valued as Untouchables (e.g. Foot Locker, Pandora, BMW). We do not own stocks we consider to be Untouchables, and indeed have short positions against some stocks we would put in this category that the market has valued more in line with how it values Survivors or even Thrivers. We also have **short positions** in overvalued Disruptors with deteriorating competitive positions, and Survivors that are valued as if they are Thrivers or even Disruptors.

Disposition of Assets

REGION	30 SEP 2019	30 JUN 2019	30 SEP 2018
Asia	42%	34%	35%
North America	27%	23%	23%
Europe	17%	17%	17%
Japan	8%	8%	12%
South America	0%	0%	2%
Cash	8%	20%	12%
Shorts	-20%	-22%	-19%

See note 3, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit <https://www.platinum.com.au/our-products/pibf>.

Net Sector Exposures [^]

SECTOR	30 SEP 2019	30 JUN 2019	30 SEP 2018
Consumer Discretionary	37%	24%	25%
Communication Services	23%	19%	17%
Financials	9%	10%	9%
Industrials	4%	4%	5%
Real Estate	1%	1%	1%
Consumer Staples	0%	2%	10%
Health Care	0%	0%	3%
Information Technology	0%	0%	1%
TOTAL NET EXPOSURE	73%	60%	71%

[^] A major GICS reclassification was implemented during the December 2018 quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.

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

So, how does this explain our longer-term performance?

The key drivers of stock prices in the Fund's universe have been investor fears around digital disruption and macroeconomic exposure (e.g. trade war impacts, slowing US consumer), as well as the environment of low and falling interest rates. In many cases, investors currently seem quite willing to ignore valuation risk in order to hold defensive or fast-growing companies that are perceived as safe in uncertain times.

We have generally not owned the expensive defensive brands, and have found compelling reasons to hold short positions in this area given secular challenges and deteriorating competitive positions. While some of these positions have worked out favourably, the upward march of valuations in this space has more than offset these wins. We have also been less likely to own US stocks in favour of Chinese holdings that are much more attractively valued. These holdings have underperformed as investors have sought the perceived safety of US stocks. Additionally, we have avoided the much-hyped consumer growth stories such as Beyond Meat (valued at 37x this year's sales) and Ferrari (trading on 36x P/E).

Changes to the Portfolio

We continued to trim a number of strong performers, including Facebook, Zalando, Alphabet, Ally Financial and Melco International. We also topped up positions that had sold off to levels we felt were attractive during periods of volatility, such as Hanesbrands, At Home, Autohome, Stars Group and Alibaba. Additionally, we exited the remainder of

our positions in delivery operator Takeaway.com (+54% appreciation from first purchase), online classifieds player Adevinta (23% return post spin-off from Schibsted to exit), as well as Gucci-owner Kering (+14% 12-month return to exit) and its rival LVMH (+28% 12-month return to exit) as the stocks appreciated to levels that were no longer attractive.

New positions established included WW International (a Thriver) after the market over-reacted to cyclical subscriber losses, Chinese live-streaming platform and dating app owner Momo (a Disruptor), as well as Survivors valued as Untouchables (Kontoor Brands, and Foot Locker).

Outlook

We continue to uncover attractive opportunities to deploy capital thanks to the extremes in market positioning between the highly valued on-trend brands and defensive stocks on the one hand, and on the other, stocks that are attractively valued due to the market over-weighting concerns as to their future – whether macroeconomic, regulatory, or structural. Portfolio positioning is conservative at 73% net long because of the opportunities on the short side provided by the extreme dispersions in valuation. The value in the Fund's holdings is quite apparent to us, even in the cases of those stocks demonstrating the weakest recent performance. This places us well going forward.

Net Currency Exposures

CURRENCY	30 SEP 2019	30 JUN 2019	30 SEP 2018
US dollar (USD)	48%	44%	47%
Euro (EUR)	23%	23%	25%
Hong Kong dollar (HKD)	12%	12%	13%
Chinese yuan (CNY)	6%	6%	3%
Japanese yen (JPY)	4%	4%	-1%
British pound (GBP)	4%	3%	1%
Norwegian krone (NOK)	4%	3%	4%
Indian rupee (INR)	2%	3%	4%
Turkish lira (TRL)	2%	1%	0%
Canadian dollar (CAD)	1%	1%	1%
Danish krone (DKK)	1%	0%	0%
Australian dollar (AUD)	0%	6%	0%
Chinese yuan offshore (CNH)	-6%	-6%	0%
Brazilian real (BRL)	0%	-1%	1%

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Meituan Dianping	China	Cons Discretionary	5.1%
Alphabet Inc	US	Comm Services	4.2%
Autohome Inc	China	Comm Services	3.9%
Alibaba Group	China	Cons Discretionary	3.8%
Lixil Group	Japan	Industrials	3.7%
Facebook Inc	US	Comm Services	3.6%
Kweichow Moutai	China	Consumer Staples	3.3%
Tencent Holdings	China	Comm Services	3.0%
Stars Group Inc	Canada	Cons Discretionary	3.0%
Sina Corp	China	Comm Services	3.0%

As at 30 September 2019. See note 6, page 4.

Source: Platinum Investment Management Limited.

Notes

1. Fund returns are calculated using the net asset value (NAV) unit price (which does not include the buy/sell spread) of the stated unit class of the Fund and represent the combined income and capital returns of the stated unit class over the specified period. Fund returns are net of fees and costs, are pre-tax, and assume the reinvestment of distributions. Returns for P Class are net of any accrued investment performance fee.
The MSCI Index returns are in Australian Dollars and are inclusive of net official dividends, but do not reflect fees or expenses. For the purpose of calculating the "since inception" returns of the MSCI Index, the inception date of C Class of the Fund is used. Where applicable, the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist then. Fund returns are provided by Platinum Investment Management Limited; MSCI index returns are sourced from FactSet.
Platinum does not invest by reference to the weightings of the Index. A Fund's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, the Fund's holdings may vary considerably to the make-up of the Index that is used as its reference benchmark. Index returns are provided as a reference only.
The investment returns shown are historical and no warranty can be 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.
The stated portfolio values of C Class and P Class of the Platinum International Fund (PIF) do not include funds invested in PIF by the Platinum International Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PIF. The stated portfolio values of C Class and P Class of the Platinum Asia Fund (PAF) do not include funds invested in PAF by the Platinum Asia Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PAF.
2. The investment returns depicted in this graph are cumulative on A\$20,000 invested in C Class (standard fee option) of the specified Fund over the specified period relative to the specified net MSCI Index in Australian Dollars.
3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices.
4. The table shows, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant sectors through direct securities holdings as well as both long and short derivatives of stocks and indices. In the case of the Platinum Unhedged Fund, the Fund does not undertake any short-selling. Its net exposures are therefore the same as its long exposures.
5. The table shows the effective net currency exposures of the Fund's portfolio as a percentage of the Fund's net asset value, taking into account the Fund's currency exposures through securities holdings, cash, forwards, and derivatives. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.

6. The table shows the Fund's top 10 long equity positions as a percentage of the Fund's net asset value, taking into account direct securities holdings and long stock derivatives. The designation "China" in the "Country" column means that the company's business is predominantly based in mainland China, regardless of whether the company's securities are listed on exchanges within mainland China or on exchanges outside of mainland China.

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 Trust® Funds (the "Funds"). 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 Product Disclosure Statement (including any Supplement(s) thereto) for the Platinum Trust® Funds ("PDS") and consider your particular investment objectives, financial situation and needs before making any investment decision to invest in (or divest from) a Fund. 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 any of the Funds, 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.

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.

© Platinum Investment Management Limited 2019. All rights reserved.

MSCI Inc Disclaimer

All data where MSCI is referenced is the property of MSCI Inc. No use or distribution of this data is permitted without the written consent of MSCI Inc. This data is provided "as is" without any warranties by MSCI Inc. MSCI Inc assumes no liability for or in connection with this data. Please see full MSCI Inc disclaimer at www.platinum.com.au/Terms-Conditions.