Platinum International Brands Fund

James Halse
Portfolio Manager

Performance

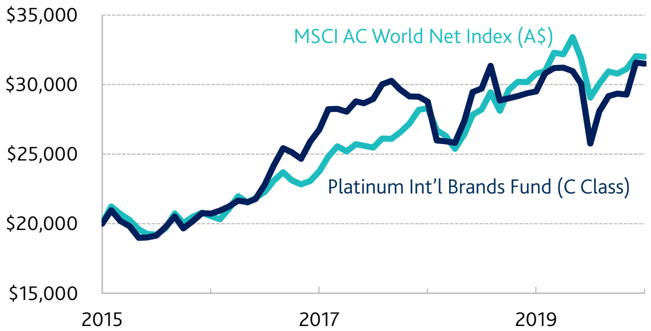
(compound p.a.+, to 30 September 2020)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	7%	7%	6%	10%	12%
MSCI AC World Index^	4%	4%	10%	10%	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 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 September 2015 to 30 September 2020



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.

Global equity markets returned 4% for the quarter,[1] with a strong rally from August to early September helping to offset the 4% appreciation in the Australian dollar (AUD) vs. the US dollar (USD). Markets responded positively to improving data related to the coronavirus outbreak in the US, and this same dynamic assisted the Fund's holdings in consumer discretionary stocks. Concurrently, our positions in e-commerce and internet media businesses continued to benefit from an acceleration of the shift to digitalisation of consumption. These tailwinds, together with our low exposure to the USD, helped the Fund (C Class) to deliver solid performance, returning 7.3% for the quarter.

It is easy to see now in hindsight, that digital players would be a great beneficiary of the need to social distance from others. Indeed, in the depths of the market sell-off, it was our tentative thinking that stocks such as online fashion retailer ASOS would be medium-term beneficiaries of the pandemic-forced closures and potential bankruptcies of many brick and mortar retailers. Along with a detailed analysis of the company's cash position and ability to withstand a complete shutdown of operations for an extended period, this gave us some comfort in adding significantly to our holdings amidst the dramatic sell-off (73% decline from its mid-February 2020 peak of around £37 to £10 a month later). However, there was also the clear potential for the pandemic to trigger a deep global recession that would see an evaporation of consumer spending, mass unemployment and widespread bankruptcies, as the excesses of leverage in the global system unwound. This tempered our enthusiasm.

While the feared recession and unemployment eventuated, for businesses like ASOS, and even many physical retailers, this has been outweighed by unprecedented government stimulus, as well as a repurposing of consumer spend away from travel and entertainment toward purchases of physical objects. It is in this context that our digital leaders boosted the Fund's returns for the quarter.

1 MSCI All Country World Net Index. References to returns and performance contributions (excluding individual stock returns) in this Platinum International Brands Fund report are in AUD terms. Individual stock returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

Online used car retailer **Carvana** led the way in terms of total appreciation, gaining 86% over the quarter. Carvana is a good example of Platinum's approach to investing in stocks with 'growth' characteristics. We view Carvana as a brand likely to become top of mind for US consumers when thinking about purchasing a used car. It has the potential to generate solid profitability on a much larger sales base. However, that potential is yet to be realised as the company is rapidly scaling its business; a costly exercise. On any near-term traditional valuation metric, Carvana has always looked to be an expensive stock, but through our research we gained an appreciation of its growth potential and competitively advantaged position. This allowed us to take the view that the company's valuation would seem much more acceptable a few years out, as the company's growth flowed into its financial statements.

The stock has been volatile, and this has now twice worked to our advantage. We first established a position at around US$37, near the lows occasioned by the sell-off in late December 2018 when Carvana collapsed almost 60% in around two months. As the stock appreciated, we trimmed our position between prices of US$53 and US$108 as the risk/reward trade-off became relatively less favourable. As discussed in the March 2020 quarterly report,[2] the pandemic then provided us with our second opportunity to significantly add to our position, and we have now seen a nine-fold increase from our best entry price. Through this appreciation, we have trimmed amounts totalling almost 5% of the Fund, leaving us with a position size of just over 1% of the Fund. Clearly Carvana is a less attractive stock opportunity now than six months ago following its strong share price appreciation, but the business continues to improve and warrants our continued holding. The company just announced it expects to reach EBITDA[3] breakeven this quarter – a significant milestone for a business still experiencing rapid growth.

By comparison, **ASOS** delivered a relatively pedestrian 50% return for the quarter, but contributed more to performance (1.5%) owing to our larger position size. ASOS is now up almost five-fold from our best entry price near the March lows. Despite its rapid appreciation and trimming amounts equivalent to 5% of the Fund, ASOS continues to be a large position at a more than 3% weighting. The company has worked through its issues in establishing new warehouses in Europe and the US, and has strengthened its executive management team with several recent strong hires.

Other digital performers included online classifieds player **Schibsted** (+65%) and Chinese super-app **Meituan-Dianping** (+52% to exit point during the quarter), along with two of our largest holdings, e-commerce powerhouse **Alibaba** (+36%) and **Facebook** (+15%). Schibsted appreciated after delivering resilient earnings and agreeing with its subsidiary, Adevinta to acquire eBay's large classifieds business, a transformational transaction that we believe should generate significant benefits for the Group. Meituan continued to extend its lead over key competitor Ele.me. Alibaba benefited from a recovery in growth on its core e-commerce platforms, and Facebook saw considerable enthusiasm around its foray into social commerce, while also benefiting from the US government's aggressive action toward its rapidly growing Chinese-owned competitor TikTok.

Other strong contributors to performance included the USA's largest jewellery retailer **Signet** (+82%) as it reported considerable progress in its digital initiatives, premium outerwear brand **Canada Goose** (+39%) as investors warmed to the potential of its Chinese business, and apparel retailer **American Eagle Outfitters** (+36%) as excitement grew around the growth of its inclusive underwear brand Aerie.

2 https://www.platinum.com.au/PlatinumSite/media/Reports/pibfqtr_0320.pdf

3 EBITDA is a measure of a company's operating profitability i.e. the earnings it generates in the normal course of doing business, ignoring capital expenditures and financing costs. It is usually calculated as revenue minus expenses (excluding tax, interest, depreciation and amortisation)..

Disposition of Assets

REGION	30 SEP 2020	30 JUN 2020	30 SEP 2019
North America	42%	40%	27%
Europe	24%	26%	17%
Asia	21%	21%	42%
Japan	5%	4%	8%
Cash	8%	8%	7%
Shorts	-7%	-9%	-20%

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

Net Sector Exposures

SECTOR	30 SEP 2020	30 JUN 2020	30 SEP 2019
Consumer Discretionary	48%	48%	37%
Communication Services	18%	18%	23%
Financials	12%	11%	9%
Industrials	3%	2%	4%
Real Estate	1%	1%	1%
Consumer Staples	0%	2%	0%
Information Technology	0%	0%	0%
Other	2%	2%	0%
TOTAL NET EXPOSURE	85%	84%	73%

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

Likewise, charm-bracelet brand **Pandora** (+27%) continued its outperformance on the back of strength in digital sales and other signs that management's turnaround initiatives are bearing fruit (Pandora is discussed on the following page).

The largest detractor from performance was again our short book, costing the Fund 3.2% in performance in the quarter. Additionally, our positions in European banks, **Bank of Ireland** and **Raiffeisen Bank International** were weak during the quarter, declining 13% and 18% respectively as lower interest rates and fears of pandemic-related credit losses weighed on sentiment. We also saw losses from our holdings in off-mall department store **Kohl's** (-11%) and apparel retailer **Aritizia** (-8%), in line with general weakness in the US apparel sector as many students did not return to school or university, a key driver of sales.

Changes to the Portfolio

We took advantage of strength to trim and even exit some positions. Stocks in the former category included Carvana, ASOS, Facebook and Signet, while stocks in the latter category included Meituan-Dianping, golf equipment leader Callaway, and online gaming operator Flutter Entertainment.

Additionally, we closed several positions where we see the business prospects deteriorating. These include Macau casino operator Melco International and Chinese auto dealer China Zhengtong. Melco faces the prospect of an extended period of weak traffic to Macau as visa restrictions remain in place and authorities crack down on money leaving the mainland, while Zhengtong appears to have used aggressive accounting measures to report profits larger than its cash flows, and has not benefited from the rebound in luxury vehicle demand as we would have expected. We also closed our position in jeweller Tiffany for a small profit as we became uncomfortable with the delays in receiving European competition approvals for the LVMH merger. With the parties entering litigation, we are happy with our decision to exit.

Outlook

Having bottomed in September, daily coronavirus cases are again on the rise in the US. Likewise, in Europe, where we can observe a steady increase from the lows of the European summer. While market sentiment has weakened in Europe, particularly the UK, which is experiencing one of the worst outbreaks, global markets appear to be largely brushing off the latest increase in cases. This may be due to the near-term potential for commercialisation of an effective vaccine, or investors may simply have grown used to the 'new normal'.

Markets have certainly moved strongly ahead of any sustained economic recovery, and many businesses and their employees continue to face a dire situation. Should fiscal stimulus continue to be reduced, we could see a flow-on effect on company earnings. That said, a large portion of our holdings are not yet pricing in a recovery, so we expect some cushioning should a further economic downturn eventuate, and continue to see significant potential across the Fund's positions.

Net Currency Exposures

CURRENCY	30 SEP 2020	30 JUN 2020	30 SEP 2019
Euro (EUR)	22%	23%	23%
Chinese yuan (CNY)	19%	19%	36%
US dollar (USD)	14%	25%	25%
Australian dollar (AUD)	13%	4%	2%
Norwegian krone (NOK)	11%	12%	4%
British pound (GBP)	7%	5%	4%
Japanese yen (JPY)	5%	4%	5%
Russian rouble (RUR)	5%	6%	5%
Canadian dollar (CAD)	4%	4%	4%
Taiwan dollar (TWD)	2%	0%	0%
Danish krone (DKK)	2%	2%	1%
Turkish lira (TRL)	2%	2%	2%
Hong Kong dollar (HKD)	-6%	-6%	-5%
Chinese yuan offshore (CNH)	0%	0%	-6%
Indian rupee (INR)	0%	0%	2%

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alibaba Group Holding	China	Cons Discretionary	4.9%
Facebook Inc	US	Comm Services	4.7%
Tencent Holdings	China	Comm Services	4.6%
Alphabet Inc	US	Comm Services	4.6%
Lixil Group	Japan	Industrials	3.4%
ASOS PLC	UK	Cons Discretionary	3.3%
Planet Fitness Inc	US	Cons Discretionary	3.2%
Ulta Beauty Inc	US	Cons Discretionary	3.1%
Sberbank	Russia	Financials	2.8%
Canada Goose	Canada	Cons Discretionary	2.7%

As at 30 September 2020. See note 6, page 5.
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.

Pandora's Charm Offensive

By James Foreman, Investment Analyst

Charm bracelet and jewellery brand, Pandora is one of the world's largest with revenues of US$3.3 billion in 2019. Its success is notable given it has a different business model from other large jewellery brands, such as Tiffany and Cartier. Instead of high-priced luxury, Pandora sells accessibly priced but high-quality jewellery, mostly made of silver. Pandora's customers typically begin with a bracelet and one or two charms, and later go on to purchase further charms (up to 15-20) to complete their bracelet. As a result, Pandora experiences strong loyalty effects. Pandora has found broad appeal and succeeded with customers of different ages across the world, from Europe to the US and Asia.

Pandora has been a volatile stock since its 2010 listing. This reflects inconsistent results and large changes in investor opinion on whether its products will remain in demand, or whether charm bracelets are a fad that consumers will tire of. Pandora listed at 210 Danish Krone (kr). Good early results and optimism saw the stock rise to 350kr, before plummeting 90% in 2011 as the silver price spiked and Pandora's strategy to shift pricing upmarket alienated its core customer base, for whom affordability is important. Reversing this mistake as silver prices fell, Pandora went on to grow sales from US$1.2 billion to over US$3 billion in 2016, expanding from ~670 concept stores to ~2,100 over the period. At this time, the stock price traded as high as 1000kr. (Source: FactSet Research Systems)

From 2016 onwards, Pandora's sales momentum in its largest market, the US, slowed and the UK followed shortly after. The company blamed a lack of new charm designs and promised that innovation and expansion into necklaces, earrings and rings, would support sales growth. In reality, Pandora's management team had enjoyed a golden run, but had failed to invest in areas such as advertising and product planning to manage the brand's growth in a sustainable way. A largely Danish management team had difficulty steering the company from a historically wholesale model towards its future as a vertically integrated global brand and retailer. As sales trends weakened, Pandora encountered conflict between its distribution channels – multi-brand jewellery shops, franchised Pandora concept stores, and company-owned stores, and became overly reliant on promotional events to drive sales. The company was slow to invest in e-commerce and relied on third parties, in part because of its history of doing so, a complicated global distribution structure, and issues that arise with franchisees and wholesale partners over lost sales in their stores when a brand pushes its own centralised e-commerce offering.

To offset slowing growth, the company continued to open new stores and acquired franchise stores, thereby increasing its sales and margins. (Pandora sells at a wholesale price to franchisees. Acquiring a franchised store allowed Pandora to capture the full retail selling price and retail margin.) However, investors grew circumspect as same-store sales trends deteriorated, signalling a future decline was likely. Frustrated by the declining share price, Pandora announced large share buy-back plans, clinging to historical sales and margin levels instead of taking the difficult decision to accept lower profits and invest to build capabilities and brand image for longer-term success.

In late 2018/early 2019 with the stock having fallen ~65-75% from 2016 highs, the Pandora Board appointed a new CEO and the company initiated a turnaround plan. The plan encompassed:

- A brand relaunch, with increasing media spend across traditional and online media
- Reducing wholesale inventory through a product buy-back and controlling sell-in
- Reducing the number of products offered and having more product at lower prices
- Reducing the number of sales events
- Improvements to in-store merchandising, including themes, colour and product displays
- Improvements to the functionality and appeal of the online store
- Cost reductions in manufacturing, head office, and technology.

The company hired new talent with global brand experience into its merchandising team and marketing function and is in the process of centralising its e-commerce team. More recent leadership hires have strengthened operations and the Chinese business. The impact of the plan through 2019 was significant sales declines as promotions were cut and shipments to wholesalers reduced. However, in the final quarter of 2019, the company reported a smaller-than-expected sales decline as increased media spend helped drive both in-store and e-commerce sales, signalling to us that the plan was working.

In 2020, the coronavirus pandemic has impacted sales as stores were closed. However, Pandora's e-store grew sales by 176% in the second quarter – an exceptional result. We would expect a shift to online sales to be positive for Pandora as the e-store is very profitable with low shipping costs and return rates. The debate amongst investors today is how Pandora will emerge in 2021, whether the turnaround plan will return the company to growth and what level of profitability is sustainable. If Pandora succeeds in recruiting a new generation of charm collectors, we expect it to enjoy another multi-year period of growth and prove a successful investment.

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. With effect from 31 May 2020, country classifications for securities were updated to reflect Bloomberg's "country of risk" designations and the changes were backdated to prior periods. "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 net exposures to the relevant currencies through its long and short securities positions, cash at bank, cash payables and receivables, currency forwards and long and short securities/index derivative positions, as a percentage of its portfolio market value. Currency classifications for securities reflect the relevant local currencies of the relevant Bloomberg country classifications. 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 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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