Platinum International Brands Fund

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Portfolio Manager

Performance

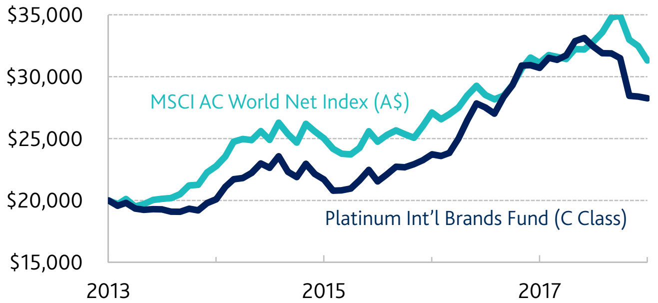
(compound pa, to 31 December 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	-10%	-8%	9%	7%	12%
MSCI AC World Index^	-10%	1%	8%	9%	3%

* 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 5. Numbers have been subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

31 December 2013 to 31 December 2018



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 5.

The final quarter of the calendar year was one of turbulence in global markets. Chinese stocks sold off aggressively from late September through mid-October, with US and other developed-market stocks joining from early October, albeit in a less aggressive fashion. Declines in the US were concentrated in the technology sector, as the downturn in the semiconductor cycle became more apparent and the pressure for greater regulation over the internet giants increased. Markets rebounded somewhat from the end of October to early December, at which point the US led global stocks lower as fears around rising interest rates amidst a slowing global economy began to take root. Against this backdrop, the Fund (C Class) returned -10.3% for the quarter, which was disappointing given our short positions and low net exposure to the US.

They say that "misery loves company". While it may be of little comfort to investors, a widely-cited research report from Deutsche Bank as of mid-November showed 2018 to be the worst year since 1901 for investment performance in terms of the breadth of negative returns across asset classes. Indeed, 90% of the 70 asset classes tracked demonstrated negative returns.[1] Typically, an equities market rout is accompanied by stronger performance in fixed interest assets as investors seek the relative "safety" of debt investments. The peculiarity of 2018 was that central banks have generally tightened monetary conditions through the year even though stocks have been declining and credit spreads have widened due to heightened risk perceptions.[2]

Towards the end of the year, this situation moderated somewhat, with US Treasuries staging a rally as rates fell on a weaker growth outlook; however, the corollary to this was hefty volatility in the US, with the largest positive and negative movements in the stock market recorded since the financial crisis of 2008/9.

Over the course of 2018, China's central bank has put in place several measures to loosen credit and stabilise the slowing

1 The previous worst year was 1920, when 84% of asset classes experienced negative performance.

2 Credit spread is the margin of higher interest that riskier bond issuers are required to pay relative to the interest paid by "safe" issuers (such as US government bonds). Widening credit spreads are an indication that investors are becoming increasingly concerned with the ability of the riskier corporate borrowers to service their debt.

economy. While it is early days to measure the impact of the loosening policy, Chinese stocks did experience less steep falls than both the US and Japanese markets this quarter.

Stocks with positive performance were few and far between in the quarter, but the Fund did benefit from some of our smaller positions, including Hong Kong-listed high-end Japanese golf club manufacturer Honma Golf (+22%), Sri Lankan conglomerate John Keells Holdings (+21%), and Russian payment technology company Qiwi (+7%).**Honma** rose after reporting solid earnings in its core Asian markets as well as from new initiatives such as a re-designed ball product and a push into European and US markets. **John Keells** rallied as its earnings benefited from the weaker Sri Lankan Rupee as well as local political events, while **Qiwi** also reported strong revenue and earnings growth as its core business prospered and losses in new businesses moderated somewhat.

Other positive contributions came from Indian financials Axis Bank (+1%) and casino-owner Melco International Development (+2%). **Axis Bank** is coming to the end of a non-performing loan cycle, and is benefiting from an environment characterised by the weak capital positions of state-owned competitors and a lack of credit availability for non-bank lenders. The appointment of a new head of the Reserve Bank of India, who is viewed as more lenient on the banks than his predecessor, also assisted sentiment toward the stock.

Melco had sold down almost 60% from its peak on tighter credit conditions in China, trade war fears, and slowing growth in Macau gaming revenue. The Fund has taken the opportunity to add to our position at the lower prices. Recently, gaming revenue growth has surprised on the upside, and the stock rallied from its depressed valuation levels.

Also contributing to performance in the quarter were our short positions against several US retailers, a food-delivery company facing increased competition, and two Japanese consumer product companies.

Detractors from performance were many, but three of the weakest stocks in the quarter were Lixil (-38%), Callaway Golf (-37%), and Hanesbrands (-32%). Lixil sold off after significantly downgrading its earnings outlook amid a multi-stage turnaround plan. This was exacerbated when the well-respected CEO, who had been responsible for the turnaround plan, then resigned only to be replaced by the Chairman (who is the son of the founder of one of the companies that was merged into Lixil). We are watching this position closely. While the stock is now very cheap and many of the issues the company has been facing seem temporary, we will need to pay close attention to the new CEO's plans for the business.

Callaway initially sold off after announcing a debt-funded acquisition of a mostly-unknown German outdoor apparel brand at what seems to be an unattractive price. This has led investors to question why management would pursue such a deal, and thus the growth outlook for the core business. The scepticism was heightened by a growing aversion to companies carrying significant debt loads as well as fears of a US consumer slowdown. We had experienced strong gains from our position in Callaway and reduced our position size significantly at higher prices, but in hindsight we should have taken more profit.

Hanesbrands missed earnings expectations again early in the quarter, but sold off heavily during December as the market indiscriminately sold US apparel related names, particularly those with debt. While the business has its problems, the stock has gone from cheap to very cheap, and looks more attractive at current levels.

Net Sector Exposures ^

SECTOR	31 DEC 2018	30 SEP 2018	31 DEC 2017
Consumer Discretionary	29%	25%	36%
Communication Services	20%	17%	8%
Financials	11%	10%	8%
Consumer Staples	9%	10%	14%
Industrials	4%	5%	4%
Information Technology	1%	1%	0%
Health Care	0%	3%	2%
TOTAL NET EXPOSURE	76%	71%	72%

^ A major GICS reclassification was implemented during the 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 5. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Disposition of Assets

REGION	31 DEC 2018	30 SEP 2018	31 DEC 2017
Asia	41%	35%	41%
North America	23%	23%	17%
Europe	12%	13%	18%
Japan	8%	12%	10%
Russia	4%	4%	3%
Latin America	2%	2%	2%
Middle East & Africa	1%	<1%	1%
Cash	9%	10%	8%
Shorts	-16%	-19%	-20%

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

The Fund's short position in **Tesla** detracted from performance this quarter as the stock rallied after its third-quarter results showed strong improvement in profitability and cash flow, the result of increased Model 3 production, some cost discipline, and a reasonable weighting in the sales of top trim models, which have high prices and healthy margins. Although the euphoria generated by the Q3 earnings led the stock to test its historical highs in early December, much of the price gain was reversed towards year-end, in sympathy with US technology sector declines, as well as the broad-based falls for companies with high debt obligations.

Looking ahead, the recent Q4 production report offers insights into some of the challenges Tesla still faces, and why the short case remains compelling at the current US$63 billion enterprise value and a price multiple of 150 times 2019 consensus GAAP earnings. Model 3 production is yet to sustainably exceed 5,000 units per week (fewer than half of the original Dec-18 stretch target), demand for high trim models in the US appears to be fading, and prices on every model have now been cut by US$2,000 in response to the halving of the US federal subsidy (from US$7,500 to US$3,750). Things may become more challenging yet with impending 2019 electric vehicle launches from some serious competition (Jaguar, Porsche, Audi, Mercedes) as well as further reductions in the federal subsidy (which will halve again for Tesla buyers in six months, and fully phase out by year-end). Tesla's 2025 bonds are now yielding 8.2%, with the spread versus US Treasuries now at 577 basis points (having widened by 230 basis points over the last 12 months), and the debt under-performing the equity by 6%. This is important as Tesla needs to refinance debt in the near future, and is reliant on capital markets to fund the expansion needed to justify its valuation. The stock fell 10% on resuming trading after the New Year and returned to where it was at the start of October before the rally on the back of its Q3 results.

Changes to the Portfolio

Market volatility provides opportunities to add to stocks that have been the subject of unwarranted selling, and to reduce positions in those that have held up better and thus decreased in relative attractiveness. We took advantage of a number of opportunities in the quarter, exiting our positions in leading European frozen foods manufacturer **Nomad Foods** after solid performance (+22% in AUD from acquisition), Spanish takeaway pizza chain **Telepizza** following a takeover bid (+26% in AUD since acquisition), and Chinese traditional medicine company **Guangzhou Baiyunshan** (+31% in AUD from acquisition).

We also trimmed positions in a number of other relatively strong performers, such as LVMH, Kering, Asahi, and Schibsted, while adding to our positions in, among others, online gaming operator **Stars Group**, Chinese auto dealers **ZhengTong** and **Yongda**, as well as e-commerce giant **Alibaba**.

Net Currency Exposures

CURRENCY	31 DEC 2018	30 SEP 2018	31 DEC 2017
US dollar (USD)	40%	47%	37%
Euro (EUR)	25%	25%	29%
Hong Kong dollar (HKD)	13%	13%	12%
Chinese yuan (CNY)	6%	3%	9%
Indian rupee (INR)	6%	4%	1%
Japanese yen (JPY)	6%	-1%	<1%
Norwegian krone (NOK)	3%	4%	3%
Korean won (KRW)	1%	1%	2%
British pound (GBP)	1%	1%	1%
Sri Lankan rupee (LKR)	1%	1%	1%
Turkish lira (TRY)	1%	0%	0%
Canadian dollar (CAD)	1%	1%	0%
Brazilian real (BRL)	<1%	1%	2%
Australian dollar (AUD)	<1%	<1%	-5%
Chinese yuan offshore (CNH)	-6%	0%	0%

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	USA	Communication Serv.	4.7%
Facebook	USA	Communication Serv.	4.6%
China ZhengTong Auto	China	Consumer Discretionary	4.1%
Jiangsu Yanghe Brewery	China	Consumer Staples	3.8%
Stars Group Inc	Canada	Consumer Discretionary	3.6%
Hanesbrands Inc	USA	Consumer Discretionary	3.3%
Sberbank of Russia	Russia	Financials	3.1%
Schibsted ASA	Norway	Communication Serv.	3.1%
Lixil Group	Japan	Industrials	3.0%
Melco International	Hong Kong	Consumer Discretionary	2.9%

As at 31 December 2018. 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.

The sell-off in the US and Europe provided an opportunity for us to close some of our short positions where the outlook has been reflected in the new valuation. In some cases, the opportunity set on the long side of the equation is now that the best levels we have seen for some time. As a result, in recent weeks we initiated positions in several US and European retailers which, although they face some temporary and structural headwinds, possess attractive long-term growth prospects and are trading at record low valuations.

Outlook

The US and other developed markets have played catch-up with the downturn experienced earlier in the year in China and other emerging markets. The European economy is clearly slowing, as is Japan's, even though their central banks have only just begun to move away from ultra-loose monetary policy.

The US is different for the moment. There, the consumer continues to be in rude health, with strong retail sales data being reported through the holiday period. Consumers should continue to benefit from lower taxes and higher tax refunds through the first quarter of 2019, which should boost spending. The big question is "what happens after that?", with the yield curve, credit spreads and other indicators implying a somewhat pessimistic investor sentiment.

With trade conflicts escalating and economic activity slowing in most major economies, we expect further headwinds in the near-term. However, we remain optimistic about the prospects of the Fund's returns over the longer-term as the current valuations across our portfolio holdings are highly attractive. We will endeavour to take advantage of the current mood of uncertainty, with our cash position and short book providing the flexibility to move opportunistically when we spot value emerging as stock prices fall.

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

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