

Facts

Portfolio value	\$10.05 bn
Fund commenced	30 April 1995
Minimum investment	A\$10,000 or NZ\$10,000
Regular Investment Plan (min.)	A/NZ\$5000 plus A/NZ\$200 mth/qtr
Income distribution date	Annual, 30 June
Unit valuation	Sydney Business Day
Unit prices C Class	App - 1.9410 Red - 1.9332
Unit prices P Class	App - 0.9275 Red - 0.9237

Fees

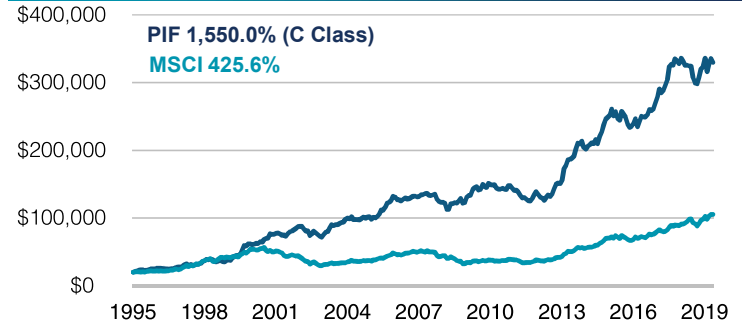
Entry fee	Nil
Buy/sell spread	0.20%/0.20%
Fee:	C Class
	P Class
	Investment Management 1.35% p.a.
	Investment Performance N/A
	Investment Management 1.10% p.a.
	Investment Performance 15.00% p.a.*

*of the amount by which the Fund's return exceeds its index return

Performance ¹

	C Class %	P Class %	MSCI %
1 month	(1.70)	(1.69)	(0.13)
3 months	4.42	4.48	7.28
6 months	3.01	3.14	8.47
Calendar year to date	10.68	10.86	18.91
1 year	1.58	1.83	7.04
2 years (compound pa)	5.69	5.52	14.36
3 years (compound pa)	9.63		13.22
5 years (compound pa)	9.49		12.67
7 years (compound pa)	14.19		15.86
10 years (compound pa)	8.58		11.07
Since inception (compound pa)*	12.21	6.31	7.06

Performance graph ²



Invested positions ³

	Long %	Short %	Net %	Currency %
Asia-Pacific	44.3	(3.6)	40.7	32.0
Australia	0.1	(0.6)	(0.4)	0.1
China	6.6		6.6	7.7
China Ex PRC	15.5		15.5	
Hong Kong	0.8		0.8	13.1
India	4.4		4.4	4.6
Japan	10.2	(2.3)	7.8	16.5
Korea	6.2	(0.7)	5.5	5.5
Thailand	0.5		0.5	0.5
China Renminbi Off Shore				(16.0)
Europe	16.1	(1.7)	14.4	16.5
Austria	1.4		1.4	
Denmark	0.6		0.6	0.6
France	2.9		2.9	
Germany	1.7	(0.9)	0.8	
Ireland	0.9		0.9	
Italy	1.2		1.2	
Norway	1.1		1.1	2.0
Switzerland	3.8		3.8	1.6
United Kingdom	2.6	(0.8)	1.8	3.3
Euro				9.1
North America	26.0	(17.2)	8.8	50.8
Canada	3.2		3.2	2.6
United States	22.8	(17.2)	5.6	48.2
Other	0.7		0.7	0.6
Brazil	0.7		0.7	0.6
Sub-Total	87.0	(22.4)	64.6	100.0
Cash	13.0		35.4	
Total	100.0		100.0	100.0

Long - 97 stocks, 3 swaps Short - 18 swaps, 4 indices

Top ten positions ⁴

Stock	Country	Industry	%
Ping An Insurance	China	Financials	4.0
Samsung Electronics Co Ltd	Korea	Info Technology	3.5
Facebook Inc	United States	Comm Services	3.2
Alphabet Inc	United States	Comm Services	3.2
Technip FMC Ltd	UK	Energy	2.5
Intel Corp	United States	Info Technology	2.4
ZTO Express Inc	China	Industrials	2.3
Glencore PLC	Switzerland	Materials	2.2
Bharti Airtel Ltd	India	Comm Services	2.1
PICC Prop & Casualty	China	Financials	2.1
Total			27.5

Industry breakdown ³

Sector	Long %	Short %	Net %
Financials	14.7		14.7
Communication Services	13.2	(0.1)	13.1
Industrials	11.7	(0.5)	11.2
Info Technology	13.6	(4.0)	9.7
Materials	9.4		9.4
Consumer Discretionary	9.0	(3.7)	5.4
Energy	5.2		5.2
Health Care	4.9	(2.0)	3.0
Real Estate	2.2		2.2
Consumer Staples	3.0	(2.5)	0.5
Utilities	0.2		0.2
Other		(9.8)	(9.8)

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1. & 2. Source: Platinum for Fund returns and Factset Research Systems for MSCI returns. Investment returns are calculated using the Fund's NAV unit price (i.e. exclude a buy/sell spread) for C Class and P Class (as indicated), and represent the combined income and capital returns for each of these unit classes in the specified period. All returns are pre-tax, net of fees and costs and assume the reinvestment of distributions. Returns for P Class are net of any accrued investment performance fee. The returns are calculated relative to the MSCI All Country World Net Index in A\$ (the gross MSCI Index was used prior to 31/12/98). Since inception date for C Class is 30/04/95 and for P Class is 03/07/17. Since inception date of C Class has been used for the purposes of calculating since inception returns of the index. The investment returns depicted in the graph are cumulative on A\$20,000 invested in C Class units in the Fund since the C Class inception date. Past performance is not a reliable indicator of future returns. Platinum does not invest by reference to the weightings of the index. The index is provided as a reference only.

3. The "Long %" is the exposure to long securities and long securities/index derivative positions, the "Short %" is the exposure to short securities and short securities/index derivative positions and the "Net %" is the exposure to long and short securities and long and short securities/index derivative positions, each as a percentage of the market value of the Fund's portfolio. The "Currency %" is the effective currency exposure as a percentage of the market value of the Fund's portfolio taking into account long and short securities, cash, forwards and long and short securities/index derivative positions. For the "Industry breakdown", 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".

3. and 4. China generally refers to securities or derivatives over securities, which securities are listed on the Shanghai or Shenzhen stock exchange. China Ex PRC generally refers to securities or derivatives over securities, which securities are listed outside of the PRC but provide exposure to PRC companies.

4. The "Top ten positions" show the Fund's top ten long securities positions as a percentage of the market value of the Fund's portfolio (including long securities and long securities derivative positions).

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- The Fund had a softer August but calendar year-to-date (YTD) returns remain strong at 11%.
- Extreme divergence between “expensive” and “cheap” implies parallels with 1999 and early 1970s.
- Net exposure (long less short positions) in the Fund close to lowest levels since GFC; gross exposure (long plus short positions) in line with Fund’s historic average.
- Longer term relative underperformance a result of challenging period since April 2018.

Update

Early August saw trade tensions between the US and China reignite. As we did in May, we reduced exposure in the Fund, but by less than in that previous period. This reflects the extent to which many of the risks seem to be somewhat “priced in”. While we can already observe that global manufacturing is in recession as a result of trade tensions, increasing attention is being paid to whether the US consumer stumbles and brings this long cycle to an end. We are somewhat ambivalent about this – while the crowd may be heavily exposed to the beneficiaries of a strong US consumer, we are not. It is becoming increasingly likely that we see increased government spending in major economies to try and kick-start things, and kick the can further down the road. A realisation that China is growing again, or a relaxation of the tariffs squeezing global trade, could be helpful to many of our portfolio holdings. Meanwhile, further consumer weakness may assist our short positions. Our index shorts enable us to be nimble, and with signs of more encouraging data, we lightened shorts early in the month, bringing net exposure back to 70% by 5 September.

As we keep highlighting, the market is increasingly bifurcated. Investors are paying up for “perceived safety” or “secular growth” while shunning any economic sensitivity. This crowding resembles the 1999/2000 “Tech bubble” or the 1970s “Nifty Fifty”. Platinum’s approach of “avoiding the crowd” is being tested as stocks which are expensive become more so, and those which are cheap, get cheaper. This is great when looking forward, but feels very uncomfortable whilst it unfolds.

The widely held idea that ultra-low interest rates can be used to justify the valuations of growth stocks and defensive stocks, misses an important point. This would also justify investing in cyclicals, or stocks with uncertainty. The maths behind it is simple – a lower discount rate increases all asset values. However, the fact that many cyclical stocks are on crisis-type valuations suggest that psychology is a bigger driver of intra-market outcomes than financial alchemy.

When we look at the portfolio, valuation metrics are enticing in both an absolute and relative sense, and this gives us plenty of encouragement.

Metric	Platinum International Fund	MSCI AC World Net Index (A\$)
NTM (Next 12 Months) Earnings Yield	9% (Price to Earnings ratio of 11x)	7% (Price to Earnings ratio of 15x)
NTM Dividend Yield	3.2%	3.1%
Price-to-Book-Ratio	1.4	2.1
Enterprise Value-to-Sales	1.2	1.5

Valuation refers to the long portion of the Fund’s portfolio, excluding negative net earnings, and using FactSet consensus earnings. **Past performance is not a reliable indicator of future returns.**

Performance

So far in calendar year 2019, the Fund has returned a strong 11%. Looking at the returns, the average long position was up 15% (in line with the markets’ 19% (Source: FactSet)). The contribution from the 84% average long invested position was 13%. The long contributions are broken down geographically and sectorally in the below table.

Region/Country	Average weight %	Contribution %	Sector	Average weight %	Contribution %
China	22	5	Tech/Communications	24	4
US	20	4	Financial/Real Estate	18	3
Europe	18	2	Industrials	11	3
Japan	8	2	Consumer/Health	15	3
Rest of Asia	13	1	Energy/Materials	15	(0)

Source: Platinum Investment Management Limited.

Shorts cost 2% with average exposure of 15% YTD; technology shorts struggled in Q1 particularly. The top stocks included Ping An, Facebook, Anta Sports and Technip FMC. Lixil had a major positive impact after we agitated for management change in light of poor corporate governance.

In looking at index returns for the MSCI AC World Net Index (A\$), there has been a meaningful advantage in 2019 to being listed in the US, with all sectors except Healthcare seeing an advantage, which averages about 8%, and is most pronounced in Technology/Communications and Financials/Real Estate.

Long-term outcomes

In the last couple of months, this commentary has highlighted the impact of the extended US-led bull market on our relative returns, and noted that it has been the last 16 months that has been the main cause of apparent longer-term underperformance.

Over the last two years, the Fund has delivered 6% p.a., however, we are a cumulative 19% behind the index. This is the biggest negative gap in relative performance since 1999. At that time there was a divergence (between technology and everything else) that resembles markets today. In the two years to February 1999, we were 43% behind the index. In the following 5 years, as we navigated the technology bubble peak, then rotated into cyclicals near the 2003 low, we outperformed by a cumulative 182%.

It is worthwhile to look at our absolute and relative performance since inception on a rolling 12-month basis (281 observations), to put returns into context and frame expectations. It is noteworthy that almost half of the time, our rolling one-year returns are below market, yet the long term outcomes are strong. This is a reminder that going against the crowd is not the most comfortable way to invest, but that it can make sense over longer time periods. The current twelve month outcomes are in bold.

Absolute Return			Relative Performance		
Return Range (rolling 12mth basis since inception 30/04/1995)	# of times	% of times	Return Range (rolling 12mth basis since inception 30/04/1995)	# of times	% of times
Over 20%	83	30	Over 20%	48	17
10-20%	71	25	10-20%	30	11
0-10%	65	23	0-10%	64	23
(negative) 0-10%	51	18	(negative) 0-10%	114	41
(negative) 0-20%	11	4	(negative) 0-20%	23	8
Below negative 20%	0	0	Below negative 20%	2	1

Source: Platinum Investment Management Limited and FactSet.

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