Platinum Unhedged Fund

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Portfolio Manager

Performance

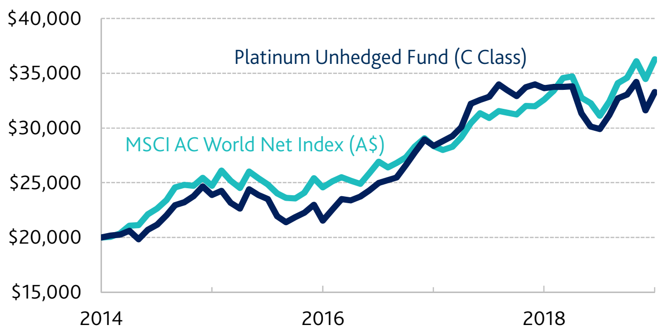
(compound p.a.+, to 30 June 2019)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund*	1%	-1%	16%	11%	11%
MSCI AC World Index^	5%	11%	14%	13%	7%

+ Excludes quarterly returns
* C Class – standard fee option. Inception date: 28 January 2005.
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. Numbers have been subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

30 June 2014 to 30 June 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.

Over the past three years, the return of the Platinum Unhedged Fund (C Class) has been sound, delivering an annualised return of 15.6%. In dollar terms, $10,000 invested on 30 June 2016 with distributions reinvested is now worth $15,452, for a total cumulative return over the period of 55%[1].

However, over the past year, the Fund's return has been weaker, returning -1%. In our December 2018 quarterly report[2], we outlined the factors behind the Fund's performance in detail, with the brief summary being:

- **Oil and Energy** – Our oil and energy holdings were the largest detractor from performance over the past year, costing the Fund -4% in total performance. The oil price fell 36% in October 2018, triggering sharp falls in many of our oil-exposed holdings, which have yet to recover.
- **Financials** – Two of the Fund's major bank holdings, Raiffeisen Bank International and KB Financial Group, have seen their share prices fall around -20% on the back of macro and political fears.
- **Chinese internet advertising** – Uncertainty around the US and China trade war has seen Chinese small- and medium-sized businesses pull back on their advertising spend, which has triggered price falls in online advertising platforms such as Weibo and Baidu.

The factors above explain the absolute performance of the Fund over the past year, **but the obvious next question is why is the market performing so much better?**

The most notable driver in the market today is the growing valuation divergence between stocks that investors perceive to offer high growth or safety versus everything else. This divergence has dramatically accelerated since 2017.

The anecdotal evidence of this difference is evident in[3]:

1. The valuation of the 'sure thing'/safety stocks. Those companies investors believe can consistently grow are being awarded very high valuations. A good example is PayPal, which now trades on 53x earnings. High valuations are also being given to relatively slow-growing

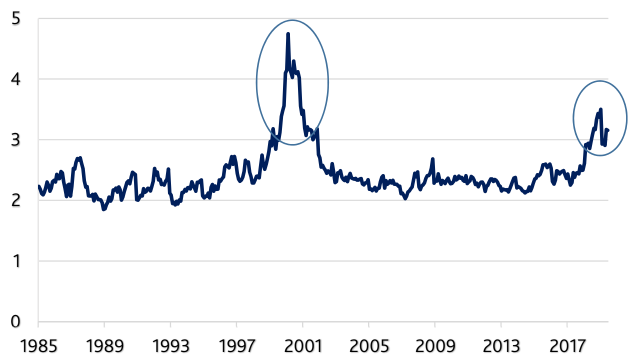
1 Historical performance is not a reliable indicator of future performance.
2 https://www.platinum.com.au/PlatinumSite/media/Reports/ptqtr_1218.pdf
3 Source: FactSet as at 30 June 2019

consumer staples stocks, such as Kikkoman (food manufacturer) trading on 34x, Lindt Chocolate on 36x and Diageo (alcoholic beverages) on 27x.

2. The excitement around the high growth software-as-a-service (SaaS) companies, many of which trade on 20-25x sales and have no profits.
3. Recent initial public offering (IPO or float) activity. A good example is Beyond Meat. The company produces heavily processed meat substitutes (commonly known as "veggie-burgers"). From its IPO price of US$25, its share price rose seven fold in a month and it now has a market capitalisation of around US$10 billion, despite only having sales of US$220 milion.

Importantly, we can also measure this valuation divergence quantitatively. As shown in the chart in Fig. 1, over the past 34 years, the **only time the valuation difference has been greater than it is today was during the tech bubble.**

Fig.1: P/E Spread – United States



Source: FactSet . This spread is calculated by taking all stocks with a market cap above US$1 bn, and placing them into five groups, ranging from least expensive (group 1) to most expensive (group 5). The spread shows how many times more expensive group 5 is vs. group 1.

Now, the other side to this trend is the amazing value on offer in the stocks left behind. Indeed, it's been a long time since so many large companies with solid industry positions trading on single digit P/E ratios could be bought at such low prices. However, the balancing factor is many of these companies are not perfect. In the short term, their businesses may be economically sensitive or operate in geographies that investors are worried about, like China.

In summary, on one hand we are faced with extreme valuations and crowding in the high growth and safety stocks, and on the other hand, we have solid companies in industries where there are imperfections - but have valuations so low you simply can't ignore them.

So, given the current market environment how should one invest today? One option is to follow the market and pile into growth and safety stocks at ever-higher prices. We don't think this is a sensible strategy from a future returns perspective. Nor do we think it's particularly safe. We believe investors who adopt this approach are merely replacing the perceived risk of cyclicality with valuation risk.[4]

Instead, the Fund is buying into the value on offer, but prioritising the companies and industries that have very clear long-term growth drivers. Examples of this include:

1. **Semiconductors** - It's impossible to know what smartphone sales or the DRAM (type of semiconductor memory) price will be in six months' time. But it is highly likely that consumers in the future will want to buy 5G-enabled phones, software will continue to move to the cloud and there will be heavy investment in artificial intelligence (AI). These drivers should mean these semiconductor companies are going to be bigger businesses in the future.
2. **China** – Our holdings in China are exclusively domestic-focused businesses, with no direct export risk. The rise of the middle class is highly likely to see Chinese consumers purchase more insurance from PICC Property & Casualty or have more e-commerce parcels delivered by ZTO Express in the future.
3. **Steady growth but at a reasonable price** – A good example is our recent purchase of Booking Holdings, the world's largest online travel agent, which was acquired on an EV/net income multiple of 16x. It benefits from both Western consumers spending more on travel and the wave of Chinese outbound tourism.

We are also careful to maintain a balance of cyclical versus more stable businesses within the portfolio. For context, roughly 40% of the portfolio is invested in companies with cyclical exposure, with the other 60% in businesses that exhibit lower cyclicality, or in cash.

The activity in the portfolio over the last quarter was consistent with this approach, as we have mainly looked for value across a number of different business types and situations. For example, we added to:

- **Skyworks** and **Micron** in semiconductors, with both bought on less than 10x earnings.
- **Momo**, which is a Chinese social media and dating platform. The business is growing at 30% p.a., has solid profits and trades on 12x earnings.
- **Bank of Ireland** – Post the GFC the Irish banking sector

4 Coca Cola, Walmart, Microsoft or Pfizer provide a good example of this. In January 2000, these companies were growing, earning high returns on capital and had fortress businesses i.e. they were regarded as the bastions of American success and traded on 35-40x earnings. The music sounds very similar today. Subsequently these stocks either lost money or went sideways for 10-15 years as their P/Es derated from 35x to 15x.

is now effectively a duopoly, the economy is growing nicely and the population is rising again via net immigration and Irish citizens returning home. Given little property development has occurred over the last decade, housing shortages are starting to occur. This is quite an interesting starting point, especially given we are buying the Bank of Ireland at 7x P/E.

Outlook

A common question posed to us is, **when will the market start to reward a value-based approach again?** The discussion usually moves to how the current situation of macro and political uncertainty, low interest rates and the influence of passive ETFs may produce different outcomes to the past. Rather than explain the specific factors present in the market today (refer to the Macro Overview for further details) we can instead look to history to establish the **base rate**[5], which shows that a value-based approach to investing has been the most successful over the long term.

A value approach eventually won out in the tech bubble, the GFC and the European sovereign crisis. Notably, these were all periods that had unique situations and challenges that at the time felt very different to the past.

The portfolio has a vast number of holdings on extremely attractive starting valuations, and while this doesn't on its own predict when or if these businesses will be rewarded by the market, history has shown us that as long as we are right about the earnings potential of these businesses, good returns should be earnt over the long run.

5 The base rate of probability is established by examining the outcome of similar situations over a long period of time. Humans have a natural tendency to focus on the specific situation/evidence of today when forecasting an outcome, often ignoring more general information, like the past probability of outcomes.

Disposition of Assets

REGION	30 JUN 2019	31 MAR 2019	30 JUN 2018
Asia	34%	37%	37%
North America	30%	29%	25%
Europe	17%	16%	17%
Japan	4%	3%	6%
Russia	1%	1%	1%
South America	0%	<1%	<1
Cash	16%	15%	14%

See note 3, page 4. Numbers have been subject to rounding adjustments.
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/puf.

Net Currency Exposures

CURRENCY	30 JUN 2019	31 MAR 2019	30 JUN 2018
US dollar (USD)	38%	36%	33%
Euro (EUR)	14%	14%	12%
Hong Kong dollar (HKD)	13%	14%	15%
Japanese yen (JPY)	9%	12%	8%
Chinese yuan (CNY)	6%	8%	7%
Indian rupee (INR)	6%	6%	4%
Korean won (KRW)	4%	4%	4%
Australian dollar (AUD)	4%	0%	6%
British pound (GBP)	3%	3%	3%
Canadian dollar (CAD)	2%	2%	2%
Norwegian krone (NOK)	1%	1%	3%

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Applus Services	Spain	Industrials	3.5%
Kweichow Moutai Co	China	Consumer Staples	3.3%
Facebook Inc	US	Comm Services	3.2%
IHS Markit Ltd	US	Industrials	3.1%
Jiangsu Yanghe Brewery	China	Consumer Staples	3.1%
Alphabet Inc	US	Comm Services	2.8%
PICC Prop & Cas	China	Financials	2.8%
Skyworks Solutions	US	Info Technology	2.7%
Sanofi SA	France	Health Care	2.6%
KB Financial Group	Korea	Financials	2.5%

As at 30 June 2019. See note 6, page 4.
Source: Platinum Investment Management Limited.

Net Sector Exposures ^

SECTOR	30 JUN 2019	31 MAR 2019	30 JUN 2018
Financials	16%	15%	17%
Industrials	18%	16%	14%
Communication Services	13%	13%	11%
Information Technology	10%	9%	10%
Energy	8%	9%	10%
Consumer Staples	6%	8%	7%
Real Estate	4%	4%	3%
Health Care	3%	3%	3%
Consumer Discretionary	3%	2%	3%
Materials	2%	4%	3%
Utilities	0%	1%	5%
TOTAL NET EXPOSURE	84%	85%	86%

^ 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. Numbers have been subject to rounding adjustments.
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

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