Platinum Unhedged Fund

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Portfolio Manager

Performance

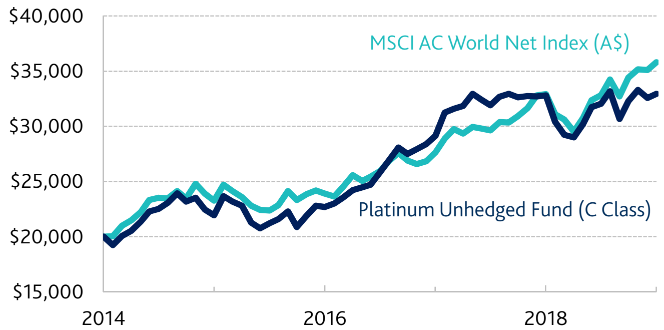
(compound p.a.+, to 30 September 2019)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund*	2%	0%	13%	10%	11%
MSCI AC World Index^	4%	9%	14%	12%	8%

+ 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. 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.

The September quarter contained a lot of 'excitement' for asset markets, with a large fall in US interest rates, further escalation of the US-China trade war by the Trump administration, and some large moves in stock prices, particularly for cyclical stocks.

In terms of performance, the Fund (C Class) returned 2.1% in the quarter and 0.5% over the year.

Key performance highlights included:

Micron – Micron is a major manufacturer of DRAM (type of semiconductor memory widely used in modern computers and smartphones), with the DRAM industry currently going through a down cycle. We believe the attractiveness and through-the-cycle profitability of the industry has improved dramatically over the last decade. Competition has consolidated down to three major suppliers, Moore's Law[1] has slowed and the increased cost and difficulty of bringing on new DRAM production has resulted in much more disciplined behaviour from the producers.

So far, the behaviour from the three major producers (Micron, Samsung and SK Hynix) in the current down cycle supports this thesis, with all three taking moves to reduce future supply, by cutting capital expenditure (capex) and diverting production lines to produce other products. Micron's share price has risen 27% in local currency terms since mid-June, as evidence mounted that the fall in DRAM demand is bottoming.

Seven Generations – Seven Generations is a Canadian oil & gas producer with a portfolio of wells that have production efficiencies on par with Tier 1 Assets in the US Permian Basin. The management team, which has focused on growing production for the last five years, is now focusing on generating cash from the existing production base and returning it back to shareholders. In recent months, the stock was trading on a valuation of roughly 5x earnings at a WTI oil price of US$60, which was exceptional value. We added to our position at those valuations, and with the oil price strengthening from its mid-June lows, the stock rose 31% over the quarter.

1 Moore's Law is named after Gordon Moore, co-founder of Intel, who in 1965 predicted that the number of transistors per square inch on a silicon chip would double every year.

As a group, the main detractor from performance was our Chinese stocks, with the prices of a number of our holdings falling 15-20% over the quarter. The main driver of the weakness was not the underlying results of the businesses (which remain solid), but the intensification of the trade war, with the US administration announcing it will apply a 15% tariff to a further US$300 billion of goods from China.

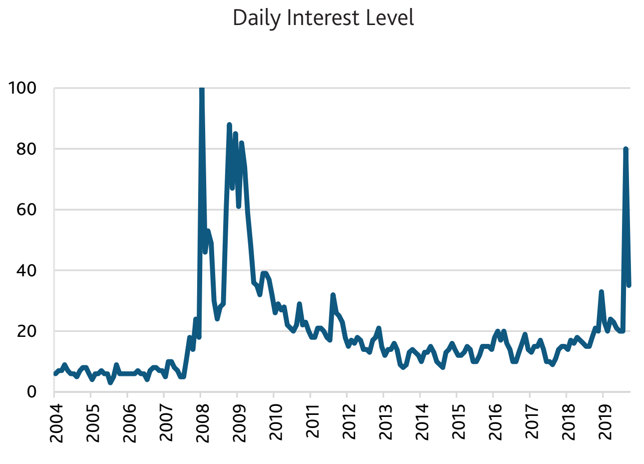
Our holdings in China are almost exclusively domestic-focused businesses, so the relevancy of the tariffs is more about how they may slow the overall Chinese economy and affect confidence, rather than having any direct impact on the individual companies themselves. Given most of our Chinese companies are benefiting from structural growth drivers (i.e. e-commerce, take-up of insurance by the middle class), we believe it's unlikely the tariffs will have a significant influence on their progress.

Commentary

To provide context for the performance of the stocks in the portfolio over the quarter, it's worth explaining the current sentiment and opportunity landscape in stock markets.

The most prominent feature of the macroeconomic environment today is that the global manufacturing/industrial sector is clearly in recession. Here, the trade war has played a role, as companies have delayed capex decisions and chosen to draw down on inventories, both of which result in lower near-term manufacturing orders and activity.

Fig. 1: Fears of a Recession Reached Fever Pitch in August



Source: Google Trends. The chart shows the number of times the term 'recession' is searched on Google worldwide. The daily interest level of 100 represents the peak level of interest over the whole period. In August 2019, the interest level soared to 80 from 20 in July, which was the highest level since 2009. The peak level of interest was recorded in 2008, at the onset of the GFC.

The key question is whether this recession in manufacturing could spread to the much larger services and consumption part of the economy, and create a broader recession. While activity has slowed, for now, the weight of evidence shows the service sector is still expanding. The Institute for Supply Management (ISM) non-manufacturing survey in the US and the Euro area services purchasing managers' index (PMI) have held up, and independent indicators such as parcel volumes, residential property prices and retail sales point to a similar situation in China. In this regard, the current situation has similar characteristics to late 2015, where we had an industrial recession in both China and the US, but the consumer and service economy held firm.

In response to the contraction in the industrial economy, central banks globally have moved to reduce interest rates further. The combination of falling interest rates and weak industrial data drove investor sentiment to extremes, and by August, we had a situation where:

- Investor expectations of an imminent recession had reached fever pitch (see Fig. 1).
- There was universal acceptance that interest rates in the major developed economies would go to zero or negative and remain there 'forever'.
- As investors ran for the exits at any price, many cyclical stocks were pushed down to extremely low prices.

At that time, we chose to buy many of the stocks that were harshly treated.

- In banking, we doubled our position in **Bank of Ireland** and increased our position in **Raiffeisen Bank** by 50%.
- In industrials, we added a new position in Japanese precision components maker **MinebeaMitsumi** and Italian oil refiner **Saras**, and we also added to our holdings in **General Electric**.
- In commodities, we added to our holdings in **Glencore,** copper producer **MMG,** and **Peabody Energy**.

It is worth highlighting that our decision to buy these stocks was not driven by any macroeconomic forecast.[2] Instead, it was based on the underlying value on offer in many stocks (with many on single digit starting P/Es), the quality of the individual businesses, and the extreme level of negative investor sentiment.

2 Most of these companies serve industrial end markets. What we can say about the macroeconomic climate is that given we are already in the middle of a recession for the industrial economy, it is in our view, fair to say that activity levels are suppressed and can improve with time.

To fund these purchases we exited our holdings in **Kweichow Moutai, Erste Group Bank, ICICI Bank, Owens Corning, China Oilfield Services** and **Inpex**. All of these stocks have been solid earners for the Fund, particularly Moutai, which has been one of the best-performing holdings since the Fund's inception.

Outlook

History provides a good reminder that the best-returning areas of the stock market tend to move in cycles, with no industry, geography or investing style dominating returns all of the time. The 1990s was the technology decade, where huge gains were made in the software, internet and telecom sectors. However, the decade from 2000 to 2010 was very different. Over that period, the returns in technology ranged from being a disaster to merely dull; while large gains were made in commodities and real estate - two industries that couldn't have been further from investors' minds during the tech bubble.

Today, with the market's complete embrace of businesses that offer 'perceived safety' or 'high growth', and investors seriously discussing whether 'value investing is dead' one has to wonder if we are at another cycle turning point.

As we detailed in our June report, the valuation divergence within markets has not been this high since the tech bubble. Stocks that have any cyclicality have already been priced at recessionary levels, and taking advantage of this, the Fund continues to be rotated into companies that offer a better risk/reward trade-off.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Applus Services	Spain	Industrials	3.7%
IHS Markit Ltd	US	Industrials	3.6%
Alphabet Inc	US	Comm Services	3.4%
Facebook Inc	US	Comm Services	3.2%
Raiffeisen Bank	Austria	Financials	3.1%
Skyworks Solutions	US	Info Technology	3.0%
Sanofi SA	France	Health Care	3.0%
Jiangsu Yanghe Brewery	China	Consumer Staples	2.8%
ZTO Express Inc	China	Industrials	2.6%
KB Financial Group	Korea	Financials	2.4%

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

Net Currency Exposures

CURRENCY	30 SEP 2019	30 JUN 2019	30 SEP 2018
US dollar (USD)	39%	38%	34%
Euro (EUR)	16%	14%	14%
Hong Kong dollar (HKD)	14%	13%	17%
Japanese yen (JPY)	10%	9%	7%
Indian rupee (INR)	7%	6%	5%
Korean won (KRW)	4%	4%	4%
British pound (GBP)	3%	3%	3%
Chinese yuan (CNY)	3%	6%	7%
Canadian dollar (CAD)	2%	2%	3%
Norwegian krone (NOK)	1%	1%	3%
Australian dollar (AUD)	0%	4%	2%

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

Disposition of Assets

REGION	30 SEP 2019	30 JUN 2019	30 SEP 2018
North America	32%	30%	27%
Asia	27%	34%	36%
Europe	21%	17%	18%
Japan	4%	4%	5%
Cash	17%	16%	15%

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/puf.

Net Sector Exposures ^

SECTOR	30 SEP 2019	30 JUN 2019	30 SEP 2018
Industrials	20%	18%	15%
Financials	14%	16%	16%
Communication Services	14%	13%	12%
Information Technology	12%	10%	8%
Energy	8%	8%	12%
Health Care	4%	3%	3%
Real Estate	4%	4%	3%
Consumer Discretionary	3%	3%	3%
Materials	3%	2%	3%
Consumer Staples	3%	6%	7%
Utilities	0%	0%	3%
TOTAL NET EXPOSURE	84%	84%	87%

^ 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.

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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