Platinum®
ASSET MANAGEMENT

Quarterly Report
30 June 2016

Platinum International Fund
Platinum Unhedged Fund
Platinum Asia Fund
Platinum European Fund
Platinum Japan Fund
Platinum International Brands Fund
Platinum International Health Care Fund
Platinum International Technology Fund

The Platinum Trust quarterly report is available on our website, *www.platinum.com.au*, from approximately the 15th of the month following quarter end

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Performance Returns to 30 June 2016

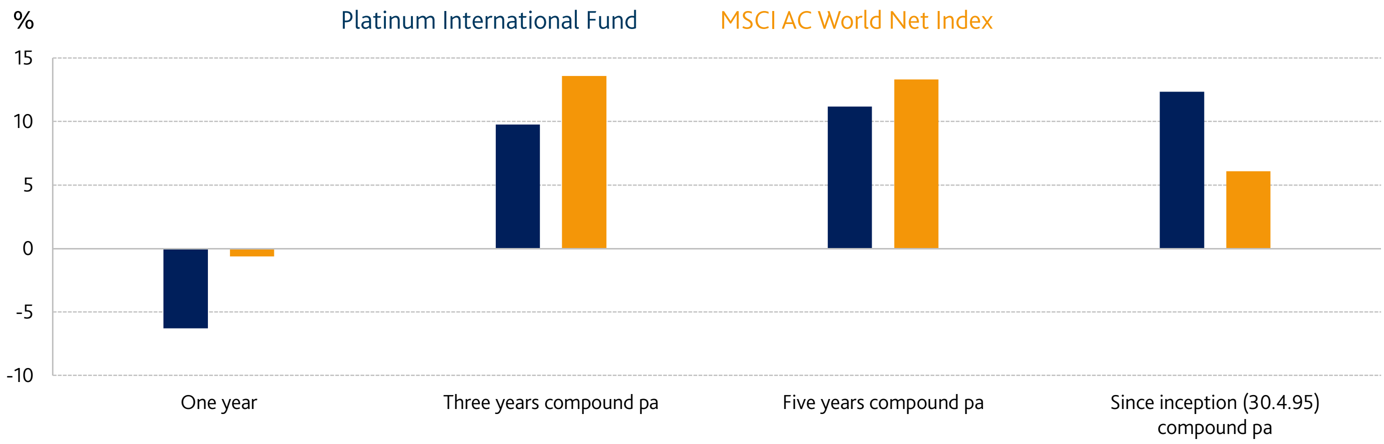
FUND	PORTFOLIO VALUE (POST 30 JUNE CASH DISTRIBUTION)	QUARTER	1 YEAR	2 YEARS *COMPOUND PA*	3 YEARS *COMPOUND PA*	5 YEARS *COMPOUND PA*	SINCE INCEPTION *COMPOUND PA*
International Fund	$9,969m	-0.4%	-6.3%	6.1%	9.7%	11.2%	12.3%
MSCI AC* World Net Index		4.3%	-0.6%	10.9%	13.6%	13.3%	6.1%
Unhedged Fund	$338m	-1.5%	-9.9%	3.8%	9.6%	11.0%	9.8%
MSCI AC World Net Index		4.3%	-0.6%	10.9%	13.6%	13.3%	5.8%
Asia Fund	$4,267m	3.5%	-10.3%	7.9%	11.0%	10.4%	14.7%
MSCI AC Asia ex Japan Net Index		3.7%	-9.2%	7.6%	9.3%	7.6%	9.4%
European Fund	$434m	-1.8%	-6.5%	3.9%	8.6%	10.4%	11.1%
MSCI AC Europe Net Index		0.5%	-8.4%	1.5%	8.6%	8.0%	1.9%
Japan Fund	$573m	2.7%	-4.0%	16.4%	15.8%	19.1%	14.5%
MSCI Japan Net Index		4.4%	-6.0%	11.8%	10.0%	12.1%	1.7%
International Brands Fund	$945m	2.8%	-4.9%	5.7%	7.5%	9.4%	12.0%
MSCI AC World Net Index		4.3%	-0.6%	10.9%	13.6%	13.3%	1.6%
International Health Care Fund	$173m	4.2%	-1.5%	14.9%	16.6%	17.5%	8.8%
MSCI AC Wld Health Care Net Index		9.0%	-1.6%	18.9%	20.8%	22.4%	8.9%
International Technology Fund	$78m	-0.6%	-5.5%	6.7%	11.5%	11.5%	8.5%
MSCI AC World IT Net Index		1.5%	4.3%	17.7%	20.8%	18.9%	-2.4%

*Morgan Stanley Capital International All Country

Source: Platinum and MSCI. Refer to note 1, page 44.

Platinum International Fund versus MSCI AC World Net Index

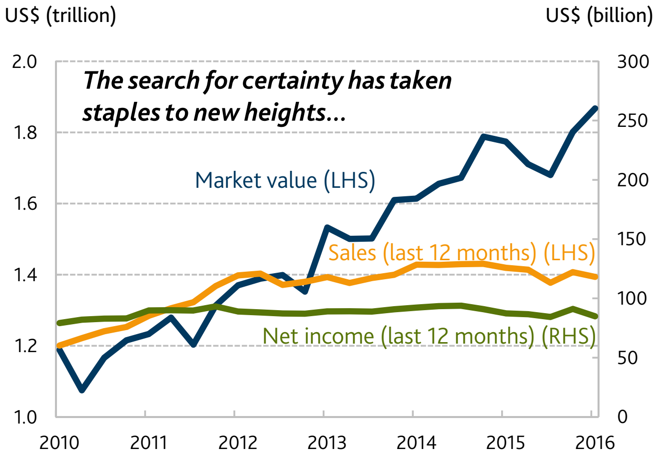
To 30 June 2016



Source: Platinum and MSCI. Refer to note 1, page 44.

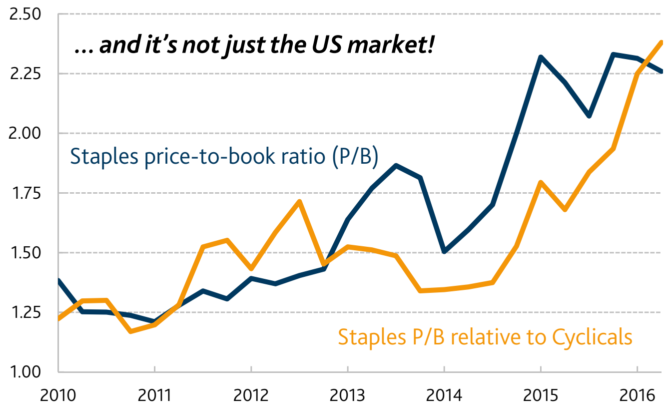
Market Panorama

S&P500 Consumer Staples



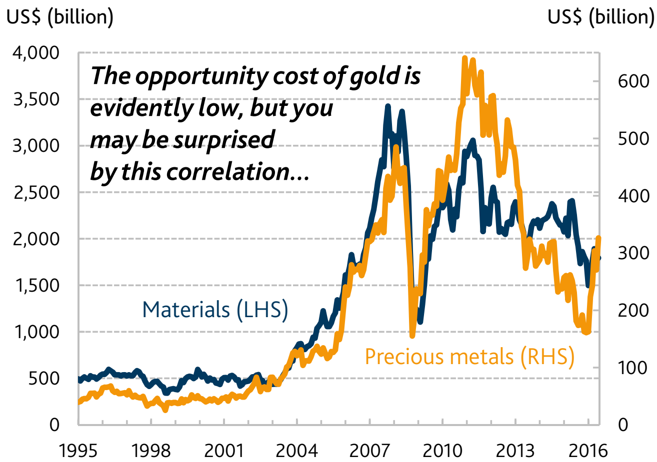
Source: Factset

Japanese Consumer Staples



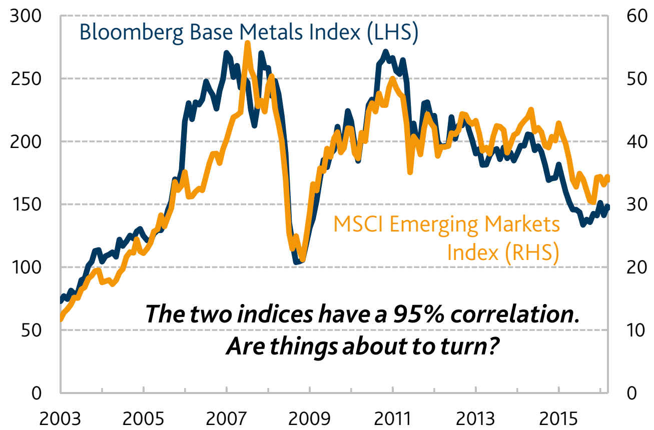
Source: Factset

Precious Metals vs. Materials – Global Market Cap



Source: Factset

Base Metals vs. Emerging Markets



Source: Bloomberg

A Snapshot

Platinum International Fund

- Similar to the strange phenomenon of life insurers and pension funds allocating money away from equities into *long-dated, negative-yielding* government bonds, many fund managers seek to lower their risk by 'index hugging', but at the sacrifice of participating in crowded trades which can result in greater exposure to market shocks. By contrast, Platinum is index agnostic.
- The parallel to long duration and the search for certainty in equity markets is exemplified by consumer staple companies, particularly in the US, whose prices outperformed the broader market while their sales and earnings trailed. We think the odds do not favour renewing bets on the same colour when there has been a significant de-rating of all markets versus the US.
- The Fund's weak performance is due to a very different allocation to the average global fund, and we see little virtue in joining the crowds. Examining the Fund's portfolio, one finds no shortage of growth companies with attractive valuations.
- It is our view that the case for more intervention by central banks is weakening and that governments will progressively turn to fiscal stimulus as they discard the mantra of fiscal rectitude that is a hangover from times when demand exceeded supply.

Platinum Unhedged Fund

- The sectors that saw the worst performance following the UK vote to leave the EU were the cyclicals. The Fund's main exposure to these sectors is the banks, which accounted for 3.5% of the 8% fall in the Fund's value in the past six months.
- The rationale for our European bank investments (Lloyds, Intesa, Erste) was based on a steadily recovering European economy and the fact that these banks are well capitalised, have worked through the worst of their bad debts and are now paying large dividends. Although the stocks were adversely impacted by negative rates and the panic from Brexit, we believe the operating fundamentals have not changed and increased our holdings opportunistically when their prices fell 30-40% after the UK vote.
- Large portions of the Fund's portfolio are trading on very attractive earnings multiples (8x to 13x) and those companies have the ability to grow. On a two-year outlook, purchases at these levels should reward investors handsomely.

Platinum Asia Fund

- The Brexit outcome is not expected to have a major impact on Asia's economic growth, nor is it expected to have a significant direct impact on the Fund's portfolio as most of our holdings are domestically or regionally focused.
- In a world where growth is scarce, India looks like a shining star with encouraging signs of economic recovery. We added IDFC Bank, which was awarded a private banking licence in 2014, and Coal India, a national coal mining company.
- In China's property market, top-tier cities continue to see rising demand as population and wages grow, mid-tier cities also saw moderate price increases from a year ago, but in the less prosperous cities unsold inventory is still running at 20+ months.
- The fact that interest rates in most parts of Asia are still well above zero (as opposed to those in much of the developed world) suggests opportunity for superior growth and investment returns.

Platinum European Fund

- The Fund's primary exposure to the repercussions of Brexit arises from our holdings in UK companies and European banks. We had limited our holdings of domestically focused UK companies. Two-thirds of our UK holdings are companies that operate globally which are somewhat protected from their limited exposure to the UK economy and by the falling Pound.
- Extricating Britain from the EU will prove ferociously complex and will take many years. In the nearer term, the increased uncertainty will erode consumer and business confidence, causing a deferral of spending and investment decisions.
- Central banks will likely respond with monetary stimulus and yields on government bonds will be suppressed further. Governments will also likely respond with fiscal stimulus as their scope to act is enhanced by low interest rates and their need to act is evident as the limits of central bank easing are becoming increasingly apparent.
- Markets will now be highly averse to political risk. Safety, or the illusion thereof, will be highly sought after and highly priced.

Platinum Japan Fund

- The strong Yen offset weakness in the equity market. Weak performance of economically sensitive holdings and exporters was counter-balanced by strong performance from a range of defensives and stock specific developments.
- Valuation dispersion in Japan continues to widen and the valuation gap between defensives versus cyclicals is now wider than the two previous peaks in 1998 and 2008. The negative interest rates in the bond market are being mirrored in select parts of the equity market. History shows that mean reversion eventually works to reverse these phenomena.
- There are more than enough high quality, cheap stocks with attractive medium-term prospects available for sale in Japan to fill a diversified portfolio and give adequate consideration to a range of risk metrics. The offset is the uncertain global macro environment which is both affecting animal spirits and returning the Yen to its role as a safe haven currency. While it is late in the business cycle, recent indicators suggest reasonable equity returns in contrast to prevailing negative sentiments.

Platinum International Brands Fund

- Stada, the OTC pharmaceutical product company discussed (though not disclosed) in last quarter's report, has rather quickly performed ahead of expectations. We also added to our position in Lixil, the Japanese building materials and housing equipment manufacturer, knowing that it will undoubtedly take some time for the investment case to unfold.
- Pressures continue to mount for global brand companies such as Estee Lauder and Nestle, not only through the lack of pricing power in a low inflation, low growth environment, but also through the rapid changes e-commerce has brought to their distribution channels and geographic sources of growth.
- We will likely see an increase in acquisitions and divestments as companies increasingly react to the political, economic and operational uncertainty that has undermined their long-term growth targets. The recent market declines and increased volatility, including in the currency markets, should provide companies with some interesting opportunities to acquire assets at lower prices. Similarly, the Fund is also seeing more options appearing.

Platinum International Health Care Fund

- The quarter saw mixed performance from biotechs, with US medtech and proven winners continuing to be favoured. The majority of our European holdings (Lundbeck, Recordati, Sartorius, Stada) performed well and we took profit from Genmab.
- Johnson and Johnson is a company that has successfully reinvented its business again and again over its 130 year history and has developed strong disease franchises. The Fund has owned JNJ for a while and we recently increased our position as we feel JNJ has a proven recipe for continuous growth which is based on being agnostic to externally sourced products or technologies, while also being decisive in divesting products and divisions.
- Rather than following the crowd to stick with proven winners despite rising valuations, we prefer to look for neglect. The status quo of raising drug prices may come to an end sooner rather than later. Innovation is key for us and we are also exploring companies that offer services to the industry, be that testing, clinical trial management or manufacturing.

Platinum International Technology Fund

- South Korea was the bright spot of the quarter with all our positions reporting improved performance.
- Samsung Electronics, the Fund's largest holding, is showing improving revenue and profitability across all its business divisions. Its OLED business is particularly promising with increasing adoption in smartphones and other screen displays, given Samsung's undisputed lead in both the technology and manufacturing capacity.
- During the quarter we increased our positions in Alphabet (formerly Google), Cirrus Logic and JD.com while selling Qlik Technologies at a modest profit and exiting Meyer Burger at a loss.
- Despite recent market volatility and a slowing global growth outlook, we continue to find interesting opportunities driven by secular growth themes (cloud software, e-commerce, Internet advertising and the ongoing smartphone upgrade cycle).

Platinum International Fund

Kerr Neilson Portfolio Manager

Andrew Clifford Portfolio Manager

Performance

(compound pa, to 30 June 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund	0%	-6%	10%	11%	12%
MSCI AC World Index	4%	-1%	14%	13%	6%

Source: Platinum and MSCI. Refer to note 1, page 44.

The quarter was characterised by a further recovery in confidence following the growth scares that climaxed in February. The MSCI World Index progressively rose for most of the three months with a change of tone as cyclicals (energy and materials) played catch-up with defensives (consumer staples, health care and utilities). At least that was the case until the Brexit vote was announced on the morning of the 24th of June. By the measures of earlier shocks, it proved a short affair, though powerful, with the MSCI World Index cracking by 7% in three days. By month end, the discussions seem to have settled back to the practical remedies available and a belief that there was only a modest threat of a contagion as Euro leaders considered measures that addressed issues like the funding of the Italian banks.

News out of China has been more reassuring, though the Renminbi has weakened through the quarter. At the same time investors also became more comfortable with the idea

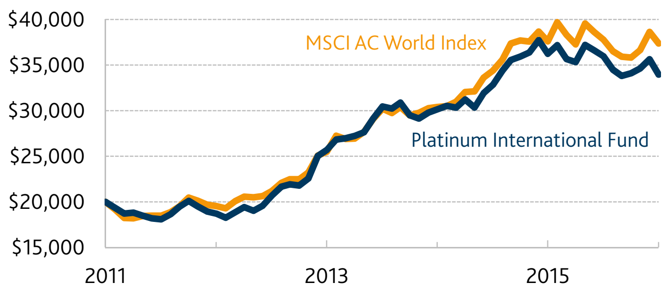
Disposition of Assets

REGION	JUN 2016	MAR 2016
Asia	31%	32%
North America	23%	23%
Europe	21%	21%
Japan	11%	10%
Russia	1%	1%
Australia	1%	1%
Cash	12%	12%
Shorts	-13%	-10%

Source: Platinum. Refer to note 3, page 44.

Value of $20,000 Invested Over Five Years

30 June 2011 to 30 June 2016



Source: Platinum and MSCI. Refer to note 2, page 44.

that the US Federal Reserve will proceed with greater caution in raising rates even as wages creep higher and consumer spending looks to be growing by over 4%. The market's view has changed from expecting two hikes earlier in the year to one hike after a weak May payroll number, to no hike just after the Brexit vote.

Prospects of easier money in the face of concerns of Brexit spurred interest in gold. When tracing the international movement of gold bullion it is perhaps surprising that despite negative interest rates in Europe, movements are principally from the West to Asia. However, record positions in the futures market and a further rise in the ownership of gold exchange-traded funds (ETFs), where physical holdings of gold have risen from 47 million ounces last December to 63 million ounces at the end of June, tell of concerns regarding central bank intervention.

Oil prices bottomed in mid-February and rose steadily throughout the quarter which emboldened investors to return to energy related assets. Energy stocks were not the only winners. The price of high-yield bonds also rebounded strongly as concerns of an increase in defaults by highly indebted oil companies subsided. Energy-reliant regions or countries such as the Middle East, Russia and Indonesia saw their equity markets bounce strongly throughout the quarter. There has also been encouraging price action in non-ferrous metals even though stockpiles are at record highs, reminding us perhaps that markets anticipate!

Despite questions about the effectiveness of Quantitative Easing (QE) and passing references to the effects of tightening in 1936, which is blamed for the subsequent stagnation pre-war, the European Central Bank (ECB) and the Bank of Japan (BOJ) are pumping huge sums into the banks by buying a wide array of mostly fixed income instruments. In the case of the BOJ, this also includes equities and equity ETFs.

The obvious consequence of slow growth and massive price-insensitive buying has been the growing (and unprecedented) list of sovereign bonds that are trading at negative yields. The total amount trading in negative territory now exceeds US$11.7 trillion. The Swiss lead the field with 100% of their government issued bonds now offering negative yields, followed by Japan at 85% of outstanding issuance. The northern Europeans range from 77% to the low 60s while even Italy and Spain have one-fifth of their government bonds giving a small running yield that will be offset by capital loss if held to redemption. Among the large Western economies only the US and the UK have a range of maturities giving positive yields.

In Japan, 'Abenomics' has run out of steam and the 2% inflation target looks increasingly distant. In response, the Yen moved from 112 to 106 before Brexit and is now sitting just above 100 while the Nikkei touched the lows of February before recovering marginally.

The overall returns from geographic markets are shown in the accompanying tables, as are the returns from the industry

MSCI World Index Regional Performance (AUD)

REGION	QUARTER	1 YEAR
Developed Markets	**4%**	**0%**
Emerging Markets	**4%**	**-9%**
United States	**6%**	**6%**
Europe	**0%**	**-8%**
Germany	-2%	-9%
France	-1%	-6%
United Kingdom	3%	-9%
Japan	**4%**	**-6%**
Asia ex Japan	**4%**	**-9%**
China	3%	-21%
Hong Kong	4%	-8%
India	7%	-4%
Korea	2%	0%
Australia	4%	-1%

Source: MSCI

MSCI World Index Sector Performance (AUD)

SECTOR	QUARTER	1 YEAR
Energy	13%	-3%
Health Care	9%	-2%
Utilities	8%	16%
Consumer Staples	7%	16%
Materials	7%	-6%
Telecommunication Services	6%	6%
Industrials	4%	3%
Financials	2%	-11%
Information Technology	2%	4%
Consumer Discretionary	-1%	-3%

Source: MSCI

subsets. As you can see, it has been a dull year for global equities with small losses recorded in Australian dollars.

The Fund has performed poorly, suffering from its underweighting of the US and commensurate overweighting in China, Japan and Europe. As you can see, in AUD terms there was only one significant plus over the year and that was the US market, up close to 6%, with many countries experiencing losses of double that.

For an in-depth review of how the recent market turmoil impacted on some of our holdings (particularly our European banks) and where we believe they stand, we would encourage you to read the Platinum Unhedged Fund report in this issue.

Shorting

We traded around the short positions but with no meaningful return as markets whipsawed between positives and negatives in the days around Brexit. Overall, the position was raised with a blend of indices and stock specific positions.

Currency

The principal changes were to be fully hedged out of the Chinese currency, to reduce exposure to the Yen as it rose sharply, and to add slightly to the Australian dollar.

CURRENCY	JUN 2016	MAR 2016
US dollar (USD)	44%	35%
Australian dollar (AUD)	16%	15%
Euro (EUR)	13%	13%
Hong Kong dollar (HKD)	11%	11%
Indian rupee (INR)	6%	5%
Japanese yen (JPY)	4%	10%
British pound sterling (GBP)	4%	4%
Chinese yuan (CNY)	-3%	-1%
Chinese yuan Offshore (CNH)	-6%	-5%

Source: Platinum

Changes to the Portfolio

We pursued our barbell strategy of looking for established growth companies that are temporarily out-of-favour as well as others which had been unduly punished for having businesses that are dependent on general market conditions, like the energy sector. The latter, **oil and gas**, remains highly prospective in our view on account of **record low levels of spare capacity** in the face of possible disruptions and a commonly held view that increases in the production of shale oil and gas will prevent these commodity prices from rising much above current levels. There have already been some fierce moves and drilling activity is starting to revive.

As you will have read in our earlier quarterly reports, we have found well-known names that are going through business make-overs and these have proved resilient and profitable investments. We have recently added to this list with the acquisition of **Johnson and Johnson** (JNJ). Like several in this category, the company's pre-eminent position allowed standards to slip and several years ago JNJ found itself in an unusual position of fighting forest fires in both its orthopaedic/devices division and consumer businesses. These account for some 60% of the company's sales and the problems caused reputational damage. Legal disputes and a loss of market share in over-the-counter medicine ensued from orders by the authorities to withdraw stock from retailers' shelves.

Throughout this time JNJ's pharmaceutical business has sailed through a 'patent cliff' and grown well for 14 consecutive quarters. More interesting still is that we see its areas of specialisation deepening as it has cleverly nurtured relationships with research boutiques and is well positioned to reap further benefits in the future. Unlike many of its peers, JNJ never reports on its early stage pipeline (phases 1 & 2) and hence it has tended to be covered by analysts who concentrate on the orthopaedic/devices sector, with relatively light coverage among drug specialists.

The company's investor day in October last year spelled out its change in priorities and that head office had realised that the historic emphasis on devolution of power had denied the group the potency of developing truly global brands in consumer products. Now that their products are back on retail shelves and there is a realisation of the latent power in its brand, we can see good reason to believe their claims that their consumer division can earn similar margins as its peers: 20% versus 14% at present. At the same time, the orthopaedic/devices division is being refocused with an emphasis on sales channels, which have changed with the growing influence of the buying groups, and on taking advantage of e-commerce in areas like eye care and contact lenses where JNJ is clearly the world leader.

This is a truly remarkable company with 54 years of consecutive dividend increases, well above-average profitability, and although it is an average grower, the cash generation through very disciplined use of funds has allowed it to periodically reshape itself and to remain **one of the only**

two US-listed companies with an 'AAA' credit rating. We bought it on a P/E of 17 times which is slightly cheaper than the average of the S&P500 index for what we consider to be a well above-average quality company. Some may point to possible pressure on drug company pricing as a threat, and this cannot be ignored except that the cost of drugs is only part of the problem and accounts for 12% of US medical expenditure. Moreover, within the industry there has been a tendency of scaling where increasingly the big global players develop strong disease franchises and use these as platforms for other drug originators to gain access to increasingly complex markets. JNJ has been exemplary in such manoeuvres (for a more detailed account, please refer to the Platinum International Health Care Fund report in this issue).

Commentary

Please bear with us as we take you on a circuitous journey through the behaviour in the world's bond markets as a way of trying to illustrate the disruptions that are affecting the world of equities. Strange things are happening. To the casual observer they seem absurd. At the end of June, the 30-year Swiss government bond traded at a price of CHF235 against a face value of CHF100. If held to maturity, this asset, admittedly denominated in a historically strong currency,[1] will generate a guaranteed (and deferred) capital loss of some 57% for the privilege of receiving a biannual payment of CHF2. In the parlance of the bond traders, this bond, with 30 years to repayment is **giving a *negative yield* of 0.07% (i.e. -0.07% per annum)**.

Strangely, what seems crazy to individual investors makes sense to life insurers, pension funds, and central bankers. It comes down principally to the regulatory environment imposed on these institutions. In particular, the intention is to **protect policy holders and consumers from these institutions mismatching their assets and liabilities**.[2]

Remember, when these institutions write new life insurance policies or pension funds commit to long-term retirement funding obligations, these promises can be for 10 to 30 years, while many of the investment options open to these institutions tend to have shorter durations. Under circumstances where interest rates have progressively fallen to well below historically-formed expectations, as has been the case in Japan, some institutions failed and promises had to be 'renegotiated'! In an environment of negative rates, however, it becomes all the more probable that these promises shan't be kept as these institutions keep to the rule book required of them. Importantly, falling yields have seen *retail investors* in the Euro zone reduce their holdings of debt instruments by some €200 billion on average each quarter for the last five quarters and progressively increase their allocation to equity, which is seeing an incremental rising trend to approximately match the former.

The fund management industry has different regulations to those of life insurers and pension funds, but firms have in fact been acting in a similar herd-like way when offering products that are, explicitly or covertly, classified as 'index aware'. This causes so-called 'index hugging' where, to a large extent, the portfolio will mimic the constituents of the index against which the fund is measured. Individual portfolio managers may in addition be given a 'risk allowance' or 'tracking error budget' to achieve performance that varies by a small degree from the index. By having these tight parameters, it certainly reduces the anguish of managing money and tempers the business risk of relative underperformance, but it is **at the sacrifice of participating in very crowded trades** which can result in greater exposure to market shocks; that is to say, **as a component of the index becomes ever more popular and higher priced, the fund is obliged to own more of it**.

By contrast, Platinum Asset Management is index agnostic. This will cause our performance to vary markedly from the index from time to time as we seek out neglected companies.

At its core, superior long-term returns are derived from allocating savings to companies that can demonstrate an ability to generate surpluses over and above their long-term cost of capital. To simply follow the crowd often leads to mispricing of shares. We have all experienced these great extremes like the tech bubble or, more recently, the mining boom, where shares became too highly favoured on the basis of misplaced extrapolation and momentum investing. At the same time, other areas become remarkably neglected and offer fertile hunting grounds for the hardy.

1 The Swiss franc has appreciated by about 1% p.a. over the last 30 years.

2 Holdings of government bonds are classified as *risk free*. This for financial institutions means that new business and promises (i.e. liabilities) matched by the purchase of very long term bonds need little or no matching equity capital. As rates of interest have fallen, the duration of their portfolios has risen (these institutions have become more sensitive to interest rate changes), and this forces them to rematch their books by often selling more of their share portfolios and adding to their long term bond holdings. The regulator sets the rate at which liabilities are valued, usually by the long term bond rate or the swap rate, and this then determines the process of rematching assets as rates move about. There are also other arcane technicalities at work which go beyond the scope of this note.

The parallel to long duration and the search for certainty in equity markets is exemplified by **consumer staple companies** around the world. For example, the 'consumer staples' subset of the S&P500 index has outperformed the broader market by 35% since 2010. This is so, even though over the same period their combined sales have grown by 3% p.a., net income by 1.4% p.a. and earnings per share (EPS), with the help of buybacks, by 5% p.a. The main thrust of their outperformance has come from a re-rating of earnings. The sting lies in the fact that, against the market as a whole, the EPS of this subset have trailed the average by 18% (that is, 3% p.a.).

Readers may correctly observe that such a crowding strategy has worked in the past six years and may ask why it shouldn't continue to work for a little longer. The counter call is that **the odds do not favour renewing bets on the same colour when there has been a significant de-rating of all markets vis-à-vis Wall Street** over these six years and that, indeed, a good part of the superior earnings growth in the US has been attributed to a single company, Apple, which accounted for some one-third of the profit rise of the index! The gap in valuation is all the more intriguing given that around half of the S&P500 companies' earnings come from international markets.

The difficulty lies in selecting companies that will verily grow in the next few years and where the fear suppressing the share prices of out-of-favour companies fully reflects these concerns. This assessment is being made more difficult by negative interest rates. However, it is our view that the case for more intervention by central banks is weakening and that **governments will progressively turn to fiscal stimulus as they discard the mantra of fiscal rectitude that is a hangover from times when demand exceeded supply**.

To assess the prospects of the Fund, let's examine its current portfolio, using the observed record of holdings, characterised as strong earnings growers, slower but probable growers, high payout/buyback companies, and lastly, cheap companies (see accompanying table). These categorisations are by their nature somewhat elastic with few being mutually exclusive. For example, within the high payout group there are several drug companies that should grow quite quickly over the next three years.

You can observe that the portfolio is predominantly composed of growing companies and those that are paying back decent amounts of income to shareholders and, by our calculations, likely to also grow, though in the main, slowly. **We strongly favour this portfolio over the alternatives of long-dated negative-yielding bonds or very highly priced consumer staples**.

With equanimity, let us survey the general economic climate further. Now that the direction has been decided and Britain is looking at its options regarding its long-term relationship with the European Union (EU), it strikes us that the heaviest burden will be carried by the British pound and a deferral of both investment and consumption decisions in the UK. Europe is growing and pointers like property prices, consumer spending, etc. are trending upwards. The alarm in Britain regarding the negative repercussions of leaving the EU leads

CATEGORY & % OF PORTFOLIO *	DESCRIPTION	STOCK EXAMPLES (RANKED BY SIZE OF HOLDING *)
High growth 24%	18x average P/E; 21% average growth over the last 5 years; 23.5% average return on equity	Tencent 3.3% Alphabet (formerly Google) 2.8% Rakuten 2.1% Sina 2.0% PayPal 2.0% Kweichow Moutai 1.7% China Pacific Insurance 1.7% PICC Property & Casualty 1.4% Baidu 1.3%
Slower growers 29%	15x average P/E; growing at 3%; paying 2% dividend	Samsung Electronics 4.3% Qiagen 2.2% Level 3 Communications 1.7% Kering 1.4% China Mobile 1.4% Intel 1.3% NTPC 1.3% ICICI Bank 1.3%
High payout/ buyback 22%	5.4% average payout yield	Sanofi 2.7% AstraZeneca 2.4% Ericsson 2.2% Cisco 2.1% Carnival 1.9% Intesa Sanpaolo 1.8%
Low valuation companies 7%	0.62 average P/B ratio	KB Financial Group 1.5% Toyota Industries 1.4% Ushio 0.8% Allegheny Technologies 0.7%
'Safety net' 10%	Precious metals; oil and gas producers	Eni 2.7% Inpex 2.2% A large gold miners ETF 1.5% Stillwater 1.4%
Cash 8%	-	-

* As at the time of writing in early July 2016, post year-end cash distribution.

Source: Platinum; Factset.

one to doubt that this will result in an immediate contagion among other EU member countries.

Looking further afield and contrary to general commentary in the press, there is evidence that the Chinese government is indeed changing its investment priorities towards social and infrastructural work. In addition, among the state-owned enterprises (SOEs), investment has slowed and indeed the government is pressing for and achieving the closure of redundant capacity. The consumer is responding with greater willingness to use credit and, with the country's high savings rates, this can be readily accommodated, unlike in many developed countries.

India continues to grow, and the problems of the banking system are on the wane.

The US economy trundles upwards with a tightening labour market and solid consumer spending. Investment and weak productivity growth remain a drag, but Brexit has likely deferred further tightening by the Federal Reserve by several months.

Outlook

There are mixed signals about the general state of world growth. When assessing our portfolio, we assume relatively slow growth and, for the present, little threat of an inflation uplift notwithstanding the improving price trend of various commodities. Profits will remain hard to grow, but when companies with strong market positions are on offer at P/E multiples of 12 to 14 times this year's earnings, a degree of risk has already been accounted for. Our weak performance to date is due to a very different allocation to the average global fund, and we see little virtue in joining the crowds. As the table on the previous page shows, there is no shortage of growth companies in the Fund's portfolio.

Platinum Unhedged Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	JUN 2016	MAR 2016
North America	29%	30%
Asia	28%	28%
Europe	24%	25%
Japan	8%	7%
Russia	3%	2%
Cash	8%	8%

Source: Platinum. Refer to note 3, page 44.

Performance

(compound pa, to 30 June 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund	-2%	-10%	10%	11%	10%
MSCI AC World Index	4%	-1%	14%	13%	6%

Source: Platinum and MSCI. Refer to note 1, page 44.

International stock markets have been weak over the past six months, and this was exacerbated by the panic that ensued from the UK vote to exit the European Union (EU).

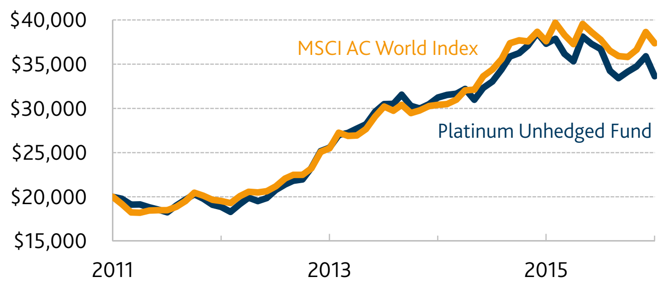
Expressed in Australian dollar terms, of the major markets in the calendar year to date Europe (-7%), the UK (-5%), Japan (-8%) and China (-7%) are all in negative territory. The exception is the North American market, which continues to defy the others and is up 1%.

The calendar year-to-date return of the Fund is -8%, versus -1% for the MSCI AC World Net Index.

This performance is disappointing and we devote this report to walking through the major contributors to this outcome.

Value of $20,000 Invested Over Five Years

30 June 2011 to 30 June 2016



Source: Platinum and MSCI. Refer to note 2, page 44.

Commentary and Changes to the Portfolio

European Banks

The UK vote to exit was not an outcome that we thought was likely. In holding this view, we put weight on the negative economic consequences from leaving, the fact that people tend to be risk averse and the skew of the betting market for remain (which typically tends to be less biased than polls). In hindsight, the emotional nature of the immigration issue and the startling rise of Trump in the US hinted that the anti-establishment vote could surprise.

The worst performing sectors following the referendum were the cyclicals, namely, banks, construction, retail and travel. The Fund's main exposure to these sectors is the banks.

Over the past six months the Fund has had 15% of its assets invested in banking stocks. This aggregate 15% was split between three markets, with 5% in each of Western Europe (Lloyds and Intesa), Eastern Europe (Erste and Raiffeisen) and Asia (ICICI of India and KB Financial in Korea).

Of the 8% fall in the value of the Fund in the calendar year to date, 3.5% is attributable to our bank holdings. The vast majority of this relates to the Europeans, which following the UK exit vote saw their share prices fall by 30-40%.

The simplified rationale for owning our European banks was centred on the following considerations:

1) After surviving five years of recession the banks were now considerably safer. In many cases the banks had written off 10% of their loan books in defaults and doubled the amount of capital they held as a risk buffer.
2) The European economy is steadily recovering. This can be seen in the charts below of EU economic output and unemployment, which started to improve since 2013. Overall, the EU recovery was happening on a three year time lag to the US.
3) As employment increased and the economy grew, the costs of customer defaulting on loans would fall away, and modest demand for credit would return. This would increase profits and leave the banks trading on single digit P/E multiples.

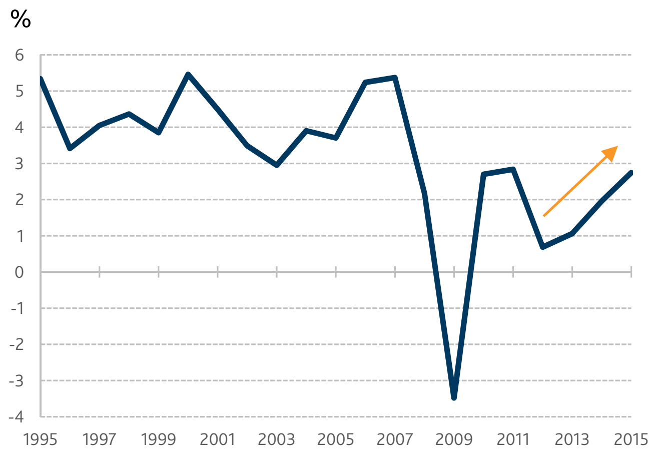
While all of these considerations still hold true, in the last six months the banks have been negatively affected by two extrinsic factors:

1) The European Central Bank (ECB) pushed its experimentation with negative rates further and cut the deposit rate to -0.4%. This instantly reduces the net interest income of the banks.
2) The panic after the UK voted to leave the EU – in the subsequent two trading days the EU bank index fell 30%.

During the heavy falls ensuing from the exit vote we have been adding to our EU bank holdings. After such a large shock, you may be wondering **if it makes sense to own these banks now**.

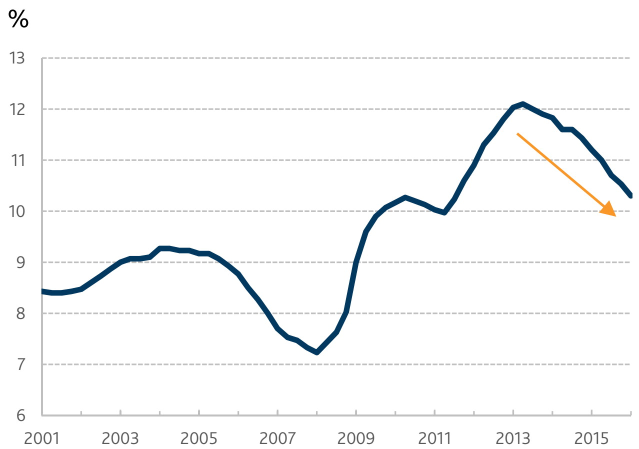
To answer that question, we would first point to valuation. In the week after the referendum several of our banks were trading at 0.6-0.7x book value, 6-8x earnings, with dividend yields of 8-10%. Valuation levels this low imply that the banks are going to suffer large permanent falls in their earnings power. We do not think this is likely.

EU Nominal GDP Year-on-Year Growth



Source: European Central Bank

EU Unemployment Rate



Source: European Central Bank

Walking through the sources of fear, the first is the economic impact of Brexit. The post-Brexit slowdown will be driven by a hit to confidence, as businesses and consumers defer purchase decisions. A recession of this type is more benign (and can snap back faster) than one with a specific catalyst such as the sovereign crisis seen in Europe several years ago where multiple governments were slashing spending and laying off workers. Hence, the impending slowdown represents a short-term hit to bank earnings, not a threat to their capital bases.

A second concern is whether the ECB will cut interest rates even further into negative territory. While this can't be completely ruled out, we can take some comfort that the ECB has been fairly clear that there are limits to negative rates, and since the second cut the emphasis has been on using other tools at their disposal (such as buying corporate bonds) to boost growth. As for how long negative rates will persist, we still believe negative rates should be viewed as an experiment, and not the new status quo going forward.

Finally, the banks' share prices are factoring in fear of further political risk, namely, a full break-up of the European Union. The impact of **recency bias** plays a big role here. As we have just seen a large country making a shock exit, suddenly the probability of further exits feels significantly heightened. But we need to take into account that the European governments will react and concessions will be made. Readers will remember the constant rhetoric during the sovereign crisis around how Germany would never let the ECB buy government bonds. However, when bond purchases became necessary to save the Union, permission was given and the debate moved on.

One concession may be the approach to fiscal spending. Since 2012, EU governments have been practising fiscal 'austerity', and have successfully reduced their deficits. However, with unemployment still relatively high, this stance is becoming increasingly unpopular with voters and is fuelling the popularity of the more radical Euro-sceptic/anti-austerity parties (who are the parties most likely to call another exit referendum). As governments can now borrow at rates close to 0%, their interest costs are set to collapse as they refinance existing debt at almost no cost. This leaves them considerable leeway to increase spending, which will simultaneously address concerns on growth and employment while taking a key campaign thrust away from the 'new radicals'.

In summary, the 30-40% share price falls in the banks have not been matched by a similar deterioration in their operating fundamentals. Their share prices already imply that many of the risks will come to fruition, and any good news would likely be enthusiastically received by the market. The European banks in the Fund's portfolio are well capitalised,[1] have worked through the worst of their bad debts and are now paying large dividends. On starting earnings yields of 12-14%, we feel these banks are very attractive investments.

Japanese Holdings

The second area of detraction was our Japanese positions, which cost the Fund roughly 2% in the calendar year to date. The largest detractors were **Lixil**, **Panasonic** and **Rohm**.

Lixil is a manufacturer of branded residential home fixtures (such as tapware, toilets and kitchens) and controls brands like Inax, Grohe and American Standard. The company is an unusual example of a Japanese corporate consolidating its domestic competitors where it has shut overlapping manufacturing sites, cut costs and improved profitability. We initiated our original position when the stock fell 20%, paying a low teens earnings multiple, after problems arose in two of its international acquisitions. Subsequently, the then CEO (Fujimori) was fired due to the acquisition missteps and has been replaced by a very interesting candidate, Kinya Seto. Seto built Monotaro (a distributor of maintenance, repair and operating supplies) from scratch into a US$4 billion business in the space of 10 years.

Seto's initial strategy tweaks have been promising, and he has aligned himself with shareholders by taking his first year's pay in Lixil stock (again, very rare in Japan). However, like many new CEOs, he has been very conservative and 'kitchen-sinked' his guidance for the company's performance this year, causing the market to sell down the stock by a further 25%. Once the restructuring expenses are factored in, we estimate Lixil to be trading on a sub 10x P/E whilst peers like Toto, Masco, Geberit and Fortune Brands trade on 18-20x. We have been adding to our position.

Panasonic and **Rohm** are similar in that they both had a large exposure to Japanese audio/visual consumer electronics, a market that was shrinking. Both have successfully restructured their businesses and have built interesting positions supplying electronic automotive components and semiconductors (the highest profile one being Panasonic's battery supply deal with Tesla), hence are set to benefit from

1 Readers may have noticed the headlines around an Italian state capital injection into the banking system. These funds are largely earmarked for Banca Monte dei Paschi di Siena and a tail of listed and unlisted credit unions. Our holdings, Intesa and Mediobanca, do not need these funds.

the shift towards electric vehicles. The stocks have been hit by the strengthening Yen, which is hurting the translation of their export revenue, and the start-up costs for expanding their auto businesses. Similar to Lixil, the valuations are very attractive, with Panasonic trading on 12x earnings and Rohm's market capitalisation being roughly equivalent to the cash it has on its balance sheet.

Outlook

There are two major risks in stock market investing:

- paying too high a price for a business, and
- the future earnings power of a business comes in lower than you expect.

The fundamental guide to our investment method is to seek investments where the company faces some uncertainty, but the reasons for that uncertainty are *transient*. The presence of uncertainty generally results in the business trading on a low price and investors having low expectations of its future earnings power. This combination lowers risk. As the problems causing that uncertainty are solved in time, earnings typically will rise and investors will become more confident with paying a higher multiple for those earnings, thus resulting in a higher stock price.

In recent times our approach of taking on uncertainty has not paid. Over the last 12 months, the average return of the markets that carry some uncertainty (Japan, EU, China and Emerging Markets) was -11%. Over the same period, the 'safe' market, North America, was up 5%.

So why persist with our method? Why not move into 'safety' now? The answer again lies in valuation and expectations.

First, we can look at it on a high level. The valuation of the US market today is 17x earnings, and expectations around earnings growth are high. In contrast, the Euro zone and Japan are on 12-13x P/E and there is a lot of pessimism around future earnings. Whilst the US might presently feel good, on the basis of price and expectations it in fact carries higher risk than one might realise.

Second, we can turn to the specific stocks in our portfolio. The selection of attractively priced stocks on offer has not been this good for some time. Large portions of the portfolio are trading on earnings multiples between 8x and 13x, and those companies have the ability to grow. In a zero interest rate world, that is fairly attractive. While we can't guarantee prices will be higher in the next six months, on a two-year outlook, purchases at these levels should reward investors handsomely.

Platinum Asia Fund

Joseph Lai Portfolio Manager

Disposition of Assets

REGION	JUN 2016	MAR 2016
China (Listed Ex PRC)	25%	31%
China (Listed PRC)	7%	7%
Hong Kong	3%	5%
Taiwan	4%	4%
India	20%	17%
Korea	10%	9%
Thailand	6%	7%
Philippines	5%	4%
Vietnam	3%	3%
Singapore	3%	3%
Cash	14%	10%

Source: Platinum. Refer to note 3, page 44.

Performance

(compound pa, to 30 June 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund	4%	-10%	11%	10%	15%
MSCI AC Asia ex Jp Index	4%	-9%	9%	8%	9%

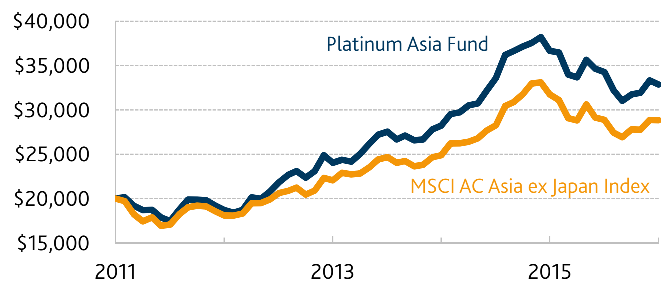
Source: Platinum and MSCI. Refer to note 1, page 44.

The MSCI AC Asia Ex Japan Index rose 1% (in local currency) for the quarter. Depreciation of the Australian dollar amplified the gains for Australian investors, and the Index was up 4% in AUD terms.

Most Asian markets were more or less flat for most of the quarter. The United Kingdom's decision to exit the European Union following a referendum was widely unexpected, and it rocked global markets. Its impact on Asia was less severe, though not unfelt. The Chinese A-share market was down 2% while the Hong Kong H-share market was flat. The Malaysian market was down 4% and the Korean market was down 1% while the Thai and Indonesian markets were up 3% and 4% respectively. The Indian and Philippine markets saw better performance, both up more than 7%. The Fund maintained a minimal exposure to Indonesia and Malaysia and a relatively big exposure to India. The Fund performed in line with the market over the quarter.

Value of $20,000 Invested Over Five Years

30 June 2011 to 30 June 2016



Source: Platinum and MSCI. Refer to note 2, page 44.

The Fund's consumer related companies with strong market positions were the better performers this quarter. Samsung Electronics was up 9%, Tencent (China's Facebook) up 11%, Uni-President (Taiwanese food and beverage conglomerate) up 12%, and Kweichow Moutai and Jiangsu Yanghe (Chinese liquor makers) were up around 18% and 8% respectively. Elsewhere, Ayala Land (largest property developer in the Philippines) was up 10% and Yes Bank (a leading Indian private bank) was up 28%.

The detractors of performance were mostly US-listed Chinese companies. JD.com fell due to a slowdown in sales while Baidu fell as a result of the recent government crackdown on healthcare advertising on its online search platform.

Changes to the Portfolio

The Fund's net invested position reached 86% (before annual distribution), leaving some room to further upgrade holdings should opportunities emerge. During the quarter, we took advantage of stock price weakness and added to companies with strong market positions and growth. Companies that are able to grow earnings look particularly compelling.

Signs of buoyancy in the Chinese markets early in the quarter lessened the relative attractiveness of some of our holdings there. We took the opportunity to reduce some of our China positions – the financials and Weichai Power.

The Fund initiated a position in **Hang Lung Properties**, a major shopping mall developer in China with prime retail land ownership in central city locations across a number of populous Chinese cities. Valuation has more than factored in the temporary impact of both the crackdown on graft-related luxury consumption and weakness in some cities' local economies. With the bulk of Hang Lung's rental income coming from the economically vibrant cities of Hong Kong and Shanghai, this stock is attractively priced with a cash flow yield of 9% and a dividend yield of 6%. Exceptionally disciplined with its cash flow and almost debt free, the company is well positioned to take advantage of opportunities to acquire more prime retail real estate in China.

In India the Fund added **IDFC Limited** and its recently spun-off subsidiary **IDFC Bank**, which was awarded a private banking licence in India in 2014. The Indian banking sector is still hindered by the stale public sector banks, which present an opportunity for the more agile private banks to take market share and grow profitably. If history is any guide, IDFC has the prospect of becoming a great long-term growth story. Trading at below net asset value, though already generating a profit, valuation is attractive given the favourable growth trajectory ahead.

We also initiated a position in **Coal India**, a national coal mining company that is highly profitable but out-of-favour with the market. For the first time in many years, this company has managed to grow production under the stewardship of the new Minister for Power, Coal, New and Renewable Energy. Realised coal prices, which have historically traded at a discount to global prices, are catching up. Improvements in rail infrastructure, better financial health for the country's power distribution companies, and continued efforts to improve productivity per employee should be beneficial to the company's growth. Coal India has 20% of its market capitalisation in cash, a return on equity of 35-40%, and a dividend yield of greater than 7%, which seems to be good value for a utility company with a dominant position and likely to benefit from the economic growth of the country for years to come.

We have added a 4% hedge against the Korean won and maintained a 19% hedge against the Chinese yuan as further depreciation of these currencies against the US dollar is likely to result from accommodative interest rate policies.

Commentary

The recent quarter was a relatively uneventful one until the British referendum took place. Markets around the world were inevitably shaken as investors shied away from risk-taking in the face of widespread uncertainty. However, the panic appeared to have subsided rather quickly as the prospect of further monetary loosening lends support to stock valuations. The Brexit outcome is not expected to have a major impact on Asia's economic growth, nor is it expected to have a significant direct impact on the Fund's portfolio as most of our holdings are domestically or regionally focused. While political storms appear to be gathering elsewhere in the globe, countries in the Asia-Pacific region, such as India, China, Indonesia and the Philippines, continue to make progress in lifting the living standards of the people through sensible government reforms and policies.

India

Indeed, in a world where growth is scarce, India looks like a shining star. Signs of recovery are evident with encouraging economic indicators. Electricity generation, oil consumption, and commercial vehicle sales continue to point decidedly in the positive direction. Better agricultural prices have led farmers to invest in tractors and motor vehicles again after a few years of dull sales. It appears that sensible interest rate policies, responsible central government budgeting and economic reforms will indeed lend sustainability to India's growth in the years ahead. Our holdings in India, including private banks, India's largest power utility, a leading road construction and toll-way operation company as well as other smaller holdings, are expected to benefit from these encouraging trends.

However, sooner than expected, the Governor of the Reserve Bank of India (RBI) announced his return to academia at the end of his current three-year mandate which ends in September. Over the last three years, India has managed to lower its inflation, stabilise its currency, increase economic growth, reform the RBI and implement a robust clean-up of the banking system. Without a doubt, the outgoing RBI Governor has done an exceptional job. But with the bitter medicine already swallowed, the government appears to want to lean on a further interest rate cut, if conditions permit, and potentially a weaker Indian currency.

China

Property Market

Moving onto China, where the property market is confounding both in its vast scale (US$1.3 trillion each year in new property sales) and in the differing fortunes across the country's many cities. China has built around 85 million residential apartments since liberalisation of the property sector began about 17 years ago, but this is just over 30% of the nation's urban population. **Two–thirds of urban residents are still living in accommodation built in the pre-reform era.** Those flats were built by the government and allocated to individuals; they tend to be of poor quality and sometimes lack basic modern amenities, giving residents little incentive for home improvement.

Not only is the demand to upgrade undoubtedly high, as wages continue to move upwards (average annual income per person has reached around US$5,000), ongoing migrant inflow from rural areas and the less prosperous cities adds further to housing demands in the major cities.

The proportion of people living in cities is only around 56% (comparable to Japan in the early 1970s and Korea in late 1970s). Authorities aim to increase this to 60% by the end of 2020 through various policy incentives, which would mean a rise of over 15 million in urban population, representing an incremental demand for more than 20 million apartments!

Immediately after the global financial crisis (GFC), property development did become something of a frenzy. However, measures were taken to bring it back to balance and, more recently, inducements have re-invigorated demand. These relate to easier down-payment terms of 30% on first homes and 40-50% for the second.

After a 1.25% interest rate cut since the beginning of 2015 and a slight relaxation in policy, reports are once again pointing to recovery in the residential property market. The number of months taken to clear inventory has more than halved, construction activity is picking up and land sales, in select cities, are seeing new record prices.

The story is more complex and nuanced, however, and one senses growing divergence. Cities that continue to enjoy the economic boom appear to be doing very well. Jobs are plentiful with the expansion of the service sectors; people are flooding in in search of better opportunities; wages are rising steadily. Demand for property is healthy and, in some cases, too healthy. The converse is true for cities clouded by shrinking old-economy industries where job opportunities are becoming scarce and wage and population growth is stagnant. The property market in these cities, while generally stable, is by no means thriving. These are the regions in China that are experiencing a significant oversupply.

In the 11 top performing cities,[1] **the number of months taken to clear unsold apartments has on average come down markedly from the peak of 23 months to 7 months**, property prices have risen strongly (25-30%) from a year ago, and policy tightening is starting to be brought back to cool speculative demand.

The next tier comprises some 42 cities with reasonably strong local economies. People continue to move to these cities for jobs and better amenities. The number of months for unsold apartments **to clear improved from 29 months to 14 months on average**, and prices rose a moderate 7-8% from a year ago. In many ways, **this group of cities, which make up one-third of China's vast property market by volume and value, represent the real China**. To give a sense of the size and whereabouts of some of these mid-tier cities:

- **Shijiazhuang** (population: 11 million, area: 16,000 km^2) is a city situated 276 km southwest of Beijing (or 1 hour by high speed rail). It is a transportation hub at the intersection point of three major railway lines. This is the food bowl of northern China, producing much of the

1 Beijing, Shanghai, Shenzhen, Guangzhou, Hangzhou, Nanjing, Suzhou, Hefei, Xiamen, Wuhan, and Tianjin.

agricultural produce such as wheat, walnuts and pears. In recent years, the economy has been transitioning with a focus on the development and production of pharmaceutical drugs.

- **Chongqing** (population: 30 million, area: 82,000 km^2) is a megacity with countless skyscrapers and winding overpasses criss-crossing its mountainous terrain. Situated 1,700 km west of Shanghai, it was one of China's earliest industrial clusters, with a focus on heavy industries such as car-making. In recent years, it has branched into electronics manufacturing and has become the world's largest laptop manufacturing base. In 2015, it produced 61 million (or one in every three) laptops for companies such as Toshiba, Acer and HP.
- **Wenzhou** (population: 9 million, area: 12,000 km^2) is a coastal city situated 500 km south of Shanghai. It is one of the most economically vibrant and affluent cities in China. Despite its small geographical footprint, Wenzhou is a world leading manufacturer of many small commodities ranging from cigarette lighters, zippers, buttons and shoes to electric equipment, valves and locks. The neighbouring city of Yiwu is home to the world's largest wholesale market for small goods. Yiwu is also "the city where Christmas is made", producing more than 60% of all of the world's festive decorations each year!
- **Kunming** (population: 7 million, area: 21,000 km^2) is situated in southern Yunnan province, which borders Myanmar, Vietnam and Laos. The high annual rainfall and other geographic characteristics of the region mean that it is a natural exporter of hydroelectricity to the rest of the nation. Its mild climate is also ideal for agriculture, especially flower growing. Today, Kunming is the largest flower exporter in China and accounts for more than half of the country's flower production. It is also the tourist gateway to national parks and historical townships like Dali and Lijiang.

Outside these two groups are the less prosperous cities which are seeing stable property prices, though unsold inventory is still running at 20-25 months or so. In the coming six months, it is likely that we will see a pick-up in construction activity in the healthier half of China's vast property sector.

Excess Capacity Closure

In early May, the official mouthpiece of the Chinese Communist Party, People's Daily, published an article by an anonymous 'Authoritative Insider', who was widely believed to be from China's senior leadership. The article stated that China is facing slowed growth and stressed the importance of cutting capacity and reducing debt in many old-world industries. The impediment to closing excess capacity has always been the fear for rising unemployment, but this article marks a confident change in attitude from the authorities and their determination to implement capacity closure policies across a number of industries (e.g. cement, coal and steel) while setting aside RMB100 billion to assist laid-off workers. This is likely to lead to a bottoming of prices for those oversupplied commodities.

E-Commerce

In China, our focus has been on consumer-facing sectors with long-term growth prospects. E-commerce in the country is leading the world in both scale (sales are in excess of US$600 billion) and innovation with platforms that provide a great selection of products at cheaper prices with same-day delivery services and trusted internet payment systems.

Distinct from shoppers in the developed world who have for decades enjoyed physical shopping malls catering to all classes of society, the lack of quality shopping venues and experience in the smaller cities means that many Chinese consumers are initiated into the world of shopping through e-commerce. **For many, e-commerce *is* shopping!** As customers discover new products on these online platforms, it becomes imperative for merchants and producers to advertise online to build brands and influence purchasing decisions. As shoppers' eyeball time continues to move from offline to online, advertising dollars will shift too.

There is no let-up on expansion of categories and geographies. Grocery, which requires more specialised logistics, is growing in popularity. Leading players continue to invest in logistic centres and warehouses in rural areas, bringing products to rural residents who still account for half of the nation.

The Fund is well placed to participate in the rise of e-commerce through our investments in **Alibaba Group** and **JD.com**. Alibaba operates the two dominant marketplace platforms (Tmall and Taobao) which together account for 76% of all e-commerce gross merchandise volume (GMV) in China. The company's current valuation is attractive, with its shares trading at 20x forward P/E.

Alibaba's dominance in e-commerce in China has enabled it to build a powerful online payments and financial services company, Ant Financial Services Group. Its major business is Alipay, the payment system that processes around US$2 trillion in transaction value per annum and is more popular than credit cards in China both online and offline. As it collects vast amounts of financial, commercial and personal data off its enormous user base, the fintech giant is also gaining an advantage over traditional financial institutions in the evaluation and pricing of risk, and that will have a profound impact on the insurance and banking industry.

Alibaba also has a strong cloud business. With Internet connection getting faster and the cost of storage getting lower, many companies are moving their systems to the cloud to save cost. Alibaba has a dominant position in this burgeoning industry that has more than doubled in size since 2013.

JD.com is the largest online retailer in China with a strong position in consumer electronics. As the company continues to increase its volume in first-party business, JD.com is expected to be able to extract better pricing terms from suppliers, allowing it to become more competitive against its offline peers. JD.com's control over its self-operated logistic network provides a unique advantage in its ability to lower delivery cost and standardise service quality. At the same time, the company is expanding its category of products outside of consumer electronics through a third party marketplace model. Recent investor fears over China's macro slowdown gave rise to an opportunity to invest in this durable franchise at a compelling valuation.

Samsung Electronics

Samsung Electronics is one of the Fund's nice long-term holdings. It is a technological leader and continues to strengthen its lead by investing in new technology and capacity, ensuring its long-term profitability. The company is at an interesting juncture as its two emerging but world-leading technologies (organic light emitting diode (OLED) and 3D NAND) are now set to be adopted by mainstream consumer electronics companies. Despite the obvious strengths in its core businesses and its focus on the long-term, Samsung Electronics is attractively valued at 10x 2016 earnings and offers a dividend yield of nearly 2%.

OLED is a superior display technology that will be the 'next big thing' for smartphones. It offers higher resolution, bendability as well as lighter and thinner design. Apple is rumoured to be incorporating flexible OLED display in its new generation of iPhones, allowing for interesting form-factors. Come 2017, the new iPhone may have quite a different look. If the rumour turns out to be true, Apple, Samsung's most formidable smartphone competitor, will likely be sourcing almost 100% of its OLED supplies from Samsung!

3D NAND is a data storage technology that is more reliable and cost effective than conventional flash memory (e.g. USB drives). Samsung is on its way to becoming an industry leader in this space as superior attributes (light weight, low power consumption) and lower costs propel its products to rapidly displace traditional hard drives.

Outlook

Markets have been volatile, as economic restructuring, especially in a low growth world, has proven to be a rocky path.

A stabilising property market and, indeed, improving activity in the construction sector should provide some stability to China's economy in the months ahead. Capacity closure is a much needed step that the authorities appear resolute to undertake. The Indian story is panning out largely as envisaged and the likelihood of further interest rate cuts has increased, though current levels of enthusiasm may temper in the near term.

The fact that **interest rates in most parts of Asia are still well above zero** (as opposed to those in much of the developed world) **portends superior growth and investment returns**. Companies in the region with sustainable competitive positions will likely prove to be worthwhile investments over the long run. Our view is that the direction taken by policymakers in the region is generally positive. As many companies in the Asian market are trading on attractive valuations, and a cheap starting valuation is a good indicator of future returns, the Fund will continue to deploy capital when suitable opportunities arise.

Platinum European Fund

Clay Smolinski Portfolio Manager

Nik Dvornak Portfolio Manager

Performance

(compound pa, to 30 June 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund	-2%	-7%	9%	10%	11%
MSCI AC Europe Index	0%	-8%	9%	8%	2%

Source: Platinum and MSCI. Refer to note 1, page 44.

European shares rose a mere 1% (in local currency) in the three months to 30 June 2016. Mounting evidence of economic recovery was rendered irrelevant when, on 23 June, Britain voted to withdraw from the European Union (EU). Within two trading days of this event:

- the British pound depreciated by 12% against the US dollar and 8% against the Euro;
- the MSCI index of European shares fell 11%; and
- yield on 10-Year UK Government Bonds fell to 0.93% from 1.37% while 10-Year German Government Bonds were yielding -0.11%.

Disposition of Assets

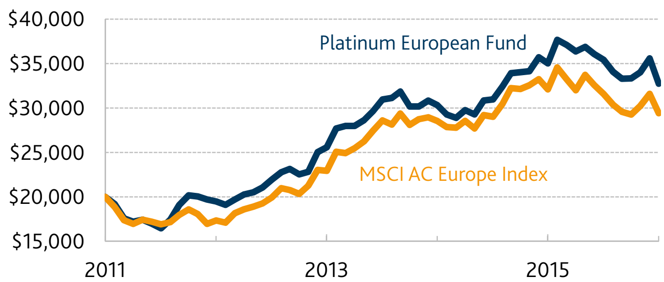
REGION	JUN 2016	MAR 2016
Germany	21%	21%
UK	15%	18%
Italy	7%	6%
Spain	6%	5%
Austria	6%	6%
France	6%	5%
Russia	4%	4%
US *	4%	4%
Hungary	2%	3%
Switzerland	2%	2%
Norway	2%	2%
Netherlands	2%	2%
Sweden	1%	1%
Cash	22%	21%
Shorts	-1%	0%

* Stocks listed in the US, but predominant business is conducted in Europe.

Source: Platinum. Refer to note 3, page 44.

Value of $20,000 Invested Over Five Years

30 June 2011 to 30 June 2016



Source: Platinum and MSCI. Refer to note 2, page 44.

In subsequent days, currencies stabilised and stock markets recovered some of these losses. Commodity prices were surprisingly strong with oil up 26% and growth-sensitive copper managing to stay flat for the quarter.

The Fund returned -1.8% for the quarter and -6.5% for the year (in Australian dollar terms). This compares to 0.5% and -8.4%, respectively, for our benchmark.

Commentary

Britain's decision to leave the EU dominated the performance of both the Fund and European equities more broadly. The best performing sectors were traditional defensives: Staples, Healthcare and Precious Metals. Energy and Resources performed uncharacteristically well, helped by the aforementioned strength in commodity prices.

The worst performing sectors were the economically-sensitive (i.e. cyclical) ones: Banks, Homebuilders, Building Materials, Automotive, Media and Retailers. British stocks typically fell more than their European counterparts.

Our primary exposure to the repercussions of Britain's decision to withdraw from the EU arises from our holdings in (1) UK companies and (2) European banks. Aside from our bank holdings, we had minimal exposure to the cyclical sectors listed above.

While we did not expect Britain to vote to leave the EU, we did recognise it as a risk. Hence, we limited our holdings of domestically focused UK companies. Two-thirds of our UK holdings are companies that operate globally and are insulated to the extent that they have limited exposure to the UK economy and will benefit from the falling Pound. Overall, our UK stocks performed reasonably well under the circumstances.

The same cannot be said for our European Banks, particularly the Italian banks which performed even worse than British banks. Our rationale for investing in these banks is explained in some detail in the Platinum Unhedged Fund report. The important point is that we believe this underperformance has little grounding in economic or commercial reality, but rather reflects changing attitudes to risk.

Having been burnt by Brexit, investors have gone from largely ignoring political risk to having an extreme intolerance for it. With Italy holding a referendum on wide-ranging political reforms in October, on which the reform-minded Prime Minister has staked his career, investors can't get away fast enough. We see this sell-off as an opportunity. These are the same businesses they were just two weeks ago. Back then, the Italian referendum, and the reform it promised to usher in, was seen as a highly compelling reason to own Italian banks. Reality has not changed; perceptions have. In the long run, it's reality that matters. We believe these shares will recover.

Extricating Britain from the EU will prove ferociously complex and will take many years. There are different trade relations models that a post-exit Britain could adopt (see Appendix). Broadly speaking, the desire to retain (or gain) access to the EU's single market will need to be matched by a preparedness to sacrifice a corresponding amount of autonomy. The exit negotiations themselves are expected to take two years while the negotiation of subsequent trade agreements, if precedents such as Switzerland are anything to go by, may take a decade or more.

While the long-term consequences are largely unknowable, the near-term impact is clearer:

- The increased uncertainty will erode consumer and business confidence, causing a deferral of spending and investment decisions. Slower economic growth is in store for both Britain and Europe. Britain may experience a recession.
- Central banks will respond. The Bank of England will likely cut interest rates from 0.5% to zero within months and may reinstate Quantitative Easing. The European Central Bank will also provide stimulus, if needed.
- Yields on government bonds will be suppressed further. Negative interest rates will be the norm.
- Governments will turn their backs on fiscal responsibility and assume the mantle of stimulating demand. Their scope to act is enhanced by low interest rates. Their need to act is evident as the limits of central bank easing are becoming increasingly apparent.
- Currencies will depreciate to absorb the worst of the economic shock. The Pound is likely to depreciate more than the Euro due to Britain's weak trade position and financial vulnerability.
- Markets will now be extremely averse to political risk. Safety, or the illusion thereof, will be highly sought after and highly priced.

Changes to the Portfolio

Our portfolio comprises investments in 45 companies, a single short position and a cash holding amounting to 22% of our capital (before year-end distribution). This is largely unchanged from the previous quarter.

During the quarter we introduced two new companies into our portfolio.

The first is a sleepy European company that is waking up and restructuring. The business has some attractive assets mixed in with some fairly ordinary ones. Our research elsewhere in the sector hints at favourable changes in some of their important end-markets. We've also noted increased interest in these sorts of assets from large multinationals, who are paying significant premiums to the multiples this company trades on. The story is further sweetened by an activist applying pressure for shareholder-friendly change.

The second is a German services business in a duopoly industry, with a wide moat and wonderful economics. The business needs very little capital and can grow earnings while paying most of its profits out to investors. Despite being highly profitable, this business operates in a very depressed market and can experience substantial growth should circumstances change, which we think they will.

To fund these new investments, we exited three existing ones, namely:

- **Meyer Burger** – a Swiss manufacturer of machinery used to make solar cells. We invested in the company at a time when customers had excess manufacturing capacity and orders had dried up. With end-user demand for solar cells continuing to grow rapidly, we expected manufacturing capacity would eventually expand again. However, manufacturers have been slow to add new capacity and there is a growing risk that Meyer Burger will run out of money before this happens. We lost money on this investment. In hindsight, an investment in such a cut-throat business with little recurring revenue required a much larger margin of safety.
- **Telecom Plus** – a reseller of electricity, gas and phone services to consumers in the UK. The company continues to struggle as utilities offer honeymoon rates to new consumers to entice them to switch provider without offering the same rate to existing customers or resellers like Telecom Plus. Telecom Plus cannot compete with these honeymoon rates which limit its ability to grow. Anticipated regulatory intervention did not materialise while an improvement in wholesale prices has become less likely. We sold this position to finance other investments, having made a profit once the hearty dividends are factored in.
- **Subsea 7** – a Norwegian oil services company that installs subsea plumbing in offshore oil wells. We bought this company on distressed valuations on the expectation that the oil price would ultimately recover and activity in the offshore oil industry would recover with it. Oil prices have rallied strongly in recent months and so has Subsea 7's stock price. We sold the position as we feel that there is still a substantial risk of contract cancellations in Brazil which outweighs the prospect of further oil price upside. This was a profitable investment for the Fund.

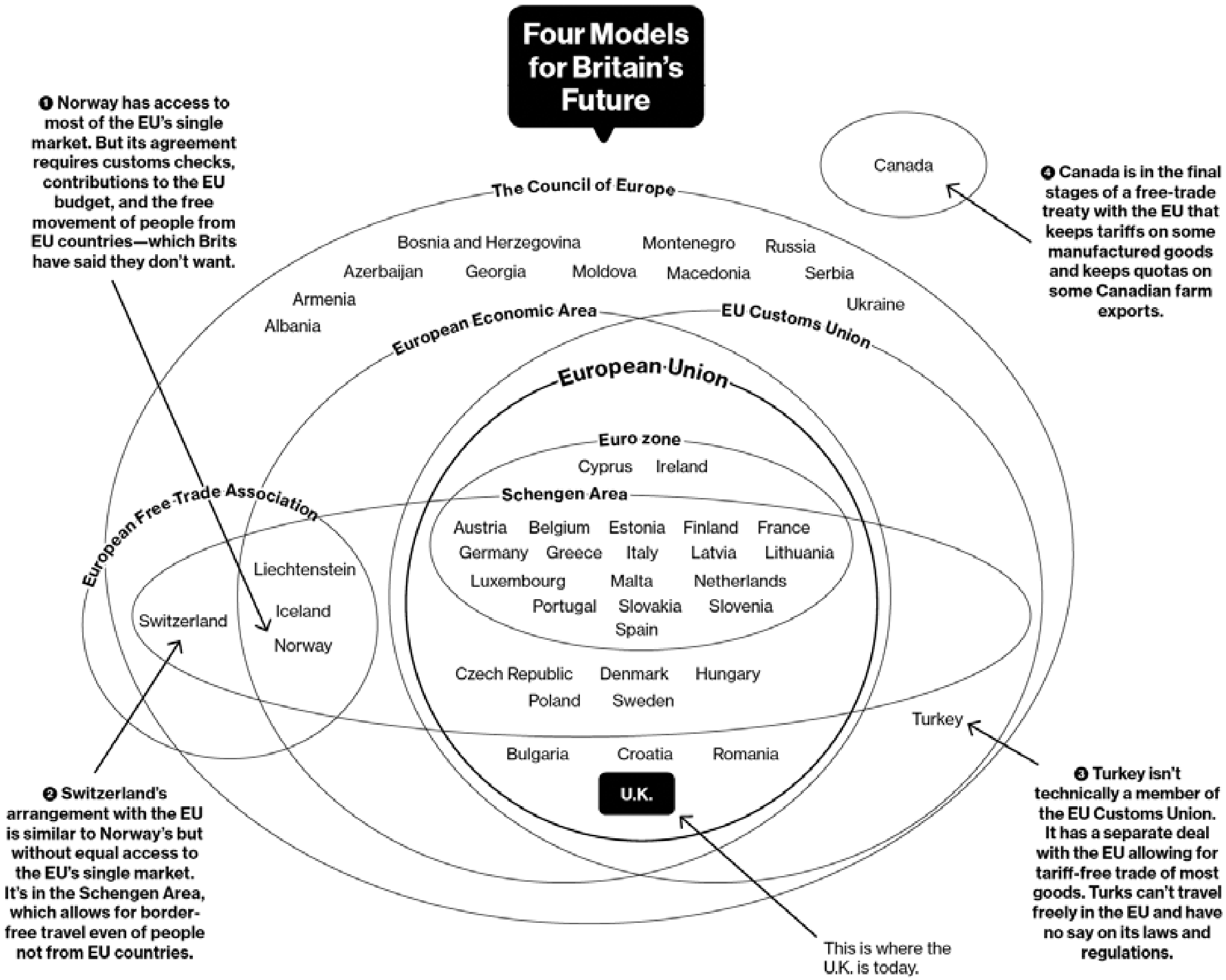
During the quarter we also trimmed a number of positions where we felt valuations were approaching levels that we considered quite rich. As a consequence, our cash holdings had been increasing for most of the quarter. Following the Brexit vote, we used this cash to add to a number of existing positions including our **Italian banks**.

Outlook

'Brexit' caught markets by surprise. While asset prices have stabilised following the initial shock, we expect significant volatility ahead as investors come to terms with a weaker economic outlook and grapple with a heightened aversion to uncertainty. The modest fall in broad share market indices obscures extreme moves in certain sub-segments where it is not uncommon for stocks to have lost a quarter of their value. While such large share price falls can be confronting, this kind of blanket selling opens up highly attractive investment opportunities. We have added to a number of existing positions and have a substantial cash holding to pursue new investment ideas.

Appendix

Four Models for Britain's Future



Source: Bloomberg Businessweek

Platinum Japan Fund

Scott Gilchrist Portfolio Manager

Disposition of Assets

REGION	JUN 2016	MAR 2016
Japan	88%	80%
Cash	12%	20%
Shorts	-1%	-2%

Source: Platinum. Refer to note 3, page 44.

Portfolio Position

Sector Breakdown

SECTOR	JUN 2016
JAPANESE INTERNATIONAL FOCUS	43%
Electronics (Canon, Nitto Denko, Ushio)	24%
Industrials (JSR)	8%
Autos (Toyota, Nissan, Sumitomo Electric)	7%
Energy (Inpex, JAPEX)	4%
JAPANESE DOMESTIC FOCUS	45%
Internet (NTT DoCoMo, Recruit, Rakuten, Nexon)	22%
Financials (Mitsubishi UFJ)	11%
Health Care (Ain, Hogy Medical)	5%
Property	4%
Consumer (Xebio)	3%
GROSS LONG	88%

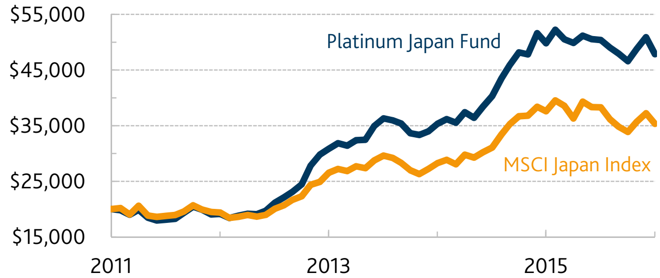
Currency Position

Japanese yen	78%
US dollar	12%
Australian dollar	10%

Source: Platinum

Value of $20,000 Invested Over Five Years

30 June 2011 to 30 June 2016



Source: Platinum and MSCI. Refer to note 2, page 44.

Performance

(compound pa, to 30 June 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund	3%	-4%	16%	19%	15%
MSCI Japan Index	4%	-6%	10%	12%	2%

Source: Platinum and MSCI. Refer to note 1, page 44.

Portfolio performance for the quarter was positive as the strong Yen offset weakness in the equity market. Weak performance of economically sensitive holdings and exporters was counter-balanced by strong performance from a range of defensives and stock specific developments.

Changes to the Portfolio

The portfolio remains predominantly invested in Yen-based equities. Towards the end of the quarter, additional equity purchases reduced cash holding to around 12% (before year-end distribution). As the Yen strengthened, some currency exposure was hedged into USD and AUD. All but one of the short positions were closed.

Commentary

Many will remember the peak of the Japanese stock market in late 1989 at a level brushing 40,000. Weary veteran participants in today's market may also remember when small sections of Tokyo property were worth more than the real estate of the entire State of California. The subsequent 27 years saw a 60% nominal (and real) fall in the stock market which provides important context for the current Japanese financial environment.

Moving on from the past, towards the future.

While many aspects of Japan important to investors are likely to change significantly, the future of the country is likely to look similar to the last few decades in many other ways. It is hard to see a major change in the political environment. For the moment, Prime Minister Abe is held in decent regard by the general populace who feel rising employment and experience a moderate Gini coefficient. External risks lead to a focus on continuity. Further, while there have been significant improvements in corporate governance over the last two decades, it is difficult to see a fundamental adjustment significant enough to change the path of the country. The demographic challenge is well understood and counter-measures will be undertaken.

Negative bond yields around the globe hint at deflation and a need for surety in a complex world. However, in Japan, there is only one way to think of this phenomenon – it's a fixed market as one large buyer has a mandate to acquire 100% of gross government bond issuance regardless of price. There is virtually no price discovery mechanism in the Japanese Government Bond (JGB) market, reminiscent of prior periods when governments around the world have subjugated market forces to their own needs. The second and third order effects of this activity are not yet visible, and definitely not predictable. For the moment, it seems benign, but complex systems often produce unusual Darwinian outcomes. It is certain that this monetary experiment will eventually have a significant influence on the currency, the equity market and price levels. The **Cantillon Effect** is where expansionary monetary policy effects a transfer of purchasing power away from those who hold old money to whoever gets new money. Richard Cantillon was at the heart of the Mississippi Company with John Law. This seems pertinent today where the Japanese, Europeans and others are expanding the money supply at a rapid pace. There is some discussion that China's current efforts dwarf even Japan's rate of 16% of GDP per annum. The alternative of a Debt Jubilee as inscribed on the Liberty Bell in Philadelphia seems attractive but antiquated. The original Liberty Bell cracked due to poor alloying and material selection. Hark Helicopter Money. While the Bank of Japan (BOJ) and other government entities own almost half of the outstanding stock of JGBs, ownership of the various stock market indices is well below 5%. A move towards extending the "fixed price menu" to a wider range of financial assets seems a foregone conclusion.

As expected after a long bear market like the one experienced over recent decades in Japan, the general public and also the wider investing community are wary of the stock market. This is reflected in their asset allocation which is dominated by cash and bonds. Further, cash continues to accumulate in the financial system and thus the loan to deposit ratio keeps falling. The psychology of investors and the madness of crowds is always difficult to predict and timing is awkward, but even a small shift in asset allocation could be very significant for the equity market. Recent discussion of tax rates, especially in the important context of inheritance taxes, indicates that there is a government push towards equities.

Global trade has been tepid post the 2009 financial upset and shows no signs of accelerating. Consequently, competition for market share through competitive currency devaluation dominates the current environment. This is just one aspect of a rapidly evolving global environment buffeting Japan and rippling through its domestic economy. China's transition beyond an industrial phase, India's nascent industrialisation, ASEAN's youthful population, Europe's internal tensions and global emerging markets are just some of the significant influences on Japan's future path.

Sumitomo Metal Mining (SMM) is an integrated producer of copper, nickel and gold in addition to owning a diverse materials business. To SMM's great credit, they have been the first in the world to commercialise high pressure acid leach (HPAL) technology at their Coral Bay and Taganito facilities in the Philippines, in contrast to the failed attempts by many esteemed competitors over the last two decades. After Indonesia banned the export of raw nickel ore to China's nickel pig iron producers, it now appears that the newly elected Filipino government might follow a similar path. The current high level of nickel inventories could reduce quickly. Current nickel prices are unsustainable with almost half of the production base losing money on a cash basis. The dynamics of the copper market over the medium-term are attractive. SMM has been working with Panasonic for many years and their NCA (nickel, cobalt, aluminium) material for lithium ion cathodes has been selected as virtually the sole source supplier by Tesla, one of the two leading global electric vehicle companies. SMM also supplies Toyota. SMM owns two of the lowest cost gold mines in the world with combined production of roughly 500,000 ounces per annum. Global gold mine production is falling and demand is surging for a product where there appears to be limited incremental addition to the existing stock. Perhaps gold should be valued as a zero-coupon perpetual bond with a single repayment of undetermined value at a flexible maturity, implying considerable option value. The valuation of SMM is at the lowest level seen for perhaps fifty years.

Valuation dispersion in Japan has been a feature of the market for the last year. It has continued to widen. The valuation gap between defensives versus cyclicals is now wider than the two previous peaks in 1998 and 2008. The valuation gap between a group of the most expensive stocks in the market and the cheapest stocks in the market is approaching previous extremes seen in 1989 and 2000 and the differential is accelerating. The negative interest rates in the bond market are being mirrored in select parts of the equity market. History shows that mean reversion eventually works to reverse these phenomena. Behavioural finance theory is an inexact discipline.

Quite a number of stocks in the Fund's portfolio have a negative enterprise value after considering their cash and other assets. In a few cases, the companies have more net cash than their current market capitalisation in addition to reasonably-positioned operating businesses. Where we can find more of these companies, they will be added to the portfolio in addition to further purchases of current holdings.

While Quantitative Easing and Negative Interest Rate Policies (acronymised as "QE" and "NIRP" respectively) – including J-NIRP – are the current trend within global investment banking circles, the first negative effects could perhaps be surfacing. Money is in oversupply and there is relatively less demand for new loans as seen in falling net interest margins globally. Some interest rate markers are at 5,000 year low interest rates. While this may be seen as a positive for consumers and the like, it perversely has the potential to reduce propensity to lend. Banks are unlikely to proffer loans which don't cover credit risk, let alone operating costs. If the current spiral continues, then the end of the current global business cycle could be approaching from over the horizon.

Outlook

The conundrum we face is that there are more than enough high quality, cheap stocks with attractive medium term prospects available for sale in Japan to fill a diversified portfolio and give adequate consideration to a range of risk metrics. These are the species one expects to encounter on the savannah at the aftermath of a long bear market. The offset is the uncertain global macro environment which is both affecting animal spirits and returning the Yen to its role as a safe haven currency. This combination is awkward for an outward facing trading nation such as Japan despite the best efforts of Abe and Kuroda to change the domestic paradigm. The recent move in the Yen is already somewhat extreme relative to other past shifts and sentiment has reversed. The shift in the Yen has been in concert with an extended period of foreign selling of the equity market. While much of Japan's future path is based on the inherent nature of its people and its history, it looks likely that Abe and Kuroda have enough leeway to navigate. They certainly have the will, even if they are somewhat constrained for the moment. While it is late in the business cycle and many key indicators are trending down, recent readings are positive and suggest reasonable equity returns in contrast to prevailing negative sentiments.

Platinum International Brands Fund

Simon Trevett Portfolio Manager

Disposition of Assets

REGION	JUN 2016	MAR 2016
Asia	28%	29%
Europe	23%	23%
Japan	10%	9%
Latin America	10%	11%
North America	9%	12%
Russia	2%	2%
Africa	1%	1%
Cash	17%	13%
Shorts	-3%	-3%

Source: Platinum. Refer to note 3, page 44.

Performance and Changes to the Portfolio

(compound pa, to 30 June 2016)

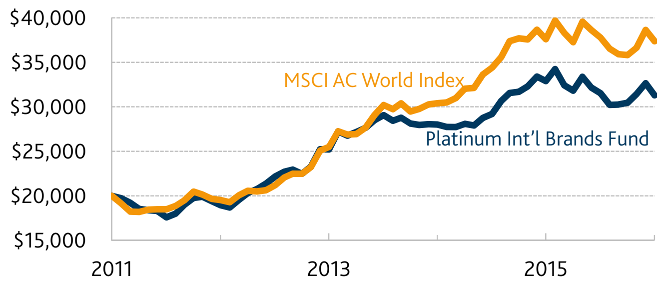
	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund	3%	-5%	7%	9%	12%
MSCI AC World Index	4%	-1%	14%	13%	2%

Source: Platinum and MSCI. Refer to note 1, page 44.

The Fund's performance for the quarter, whilst positive at 2.8%, was impacted by the market turmoil late in June. For further commentary on the UK referendum and its implications, readers are encouraged to refer to the 'Brexit Commentary' in the Platinum Journal on our website. In respect of the European holdings of the Brands Fund, many will ultimately benefit from the currency falls through the impact on both inbound tourism and their international earnings. Other than the speed of the reaction, it's not surprising that in the days following the UK vote there have been numerous reports of a surge in enquiries and bookings to the UK from both American and Chinese tourists.

Value of $20,000 Invested Over Five Years

30 June 2011 to 30 June 2016



Source: Platinum and MSCI. Refer to note 2, page 44.

Additions to the Fund in the quarter include **Stada Arzneimittel AG** and **Lixil Group**. Our last quarterly report referred to the Fund initiating an investment in the area of consumer healthcare and over-the-counter (OTC) pharmaceutical products. The investment discussed, but not disclosed, was in the German-listed **Stada**. The company has rather quickly performed ahead of expectations as changes to its management and board as well as the involvement of activist shareholders highlighted the potential for improvement. Stada's core business has been in the generic drug industry. However, given price pressures and global consolidation, the company chose to increase its focus on the less regulated and higher margin branded consumer and OTC business. The branded product range favours strong local brands such as the cough and cold products Covonia (UK) and sunscreen Ladival (Germany), amongst others.

Over the quarter we continued to add to our position in **Lixil**, a Japanese building materials and housing equipment manufacturer. Some readers may be familiar with a few of Lixil's products such as the Grohe faucets. Lixil acquired many home improvement companies under the tenure of its previous CEO. A change of CEO and subsequent changes across the management team, including reductions in compensation, signal a strong intent to rationalise operations and gain control over a group that expanded quickly and without the requisite integration. Recent declines in Lixil's share price provided the opportunity to build a position in the knowledge that it will undoubtedly take some time for the investment case to unfold.

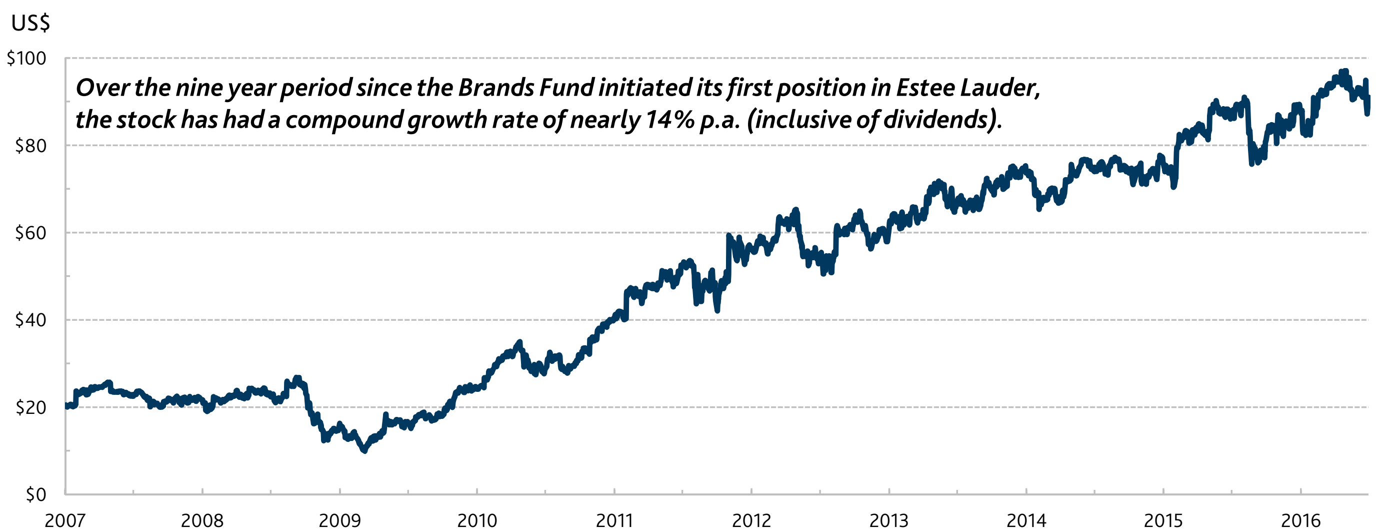
The Fund has continued to sell or trim several holdings as the prospect of politically induced volatility increases alongside concerns around the persistence of low growth rates. For many of the iconic consumer companies this is also set against a backdrop of near peak valuations.

Commentary

The concerns of low growth, major swings in currency and limited opportunity to raise prices in a world with little inflation is a growing refrain by senior management. It is perhaps also behind the changes that we are noting in the ranks of some companies that have failed to live up to their longer term plans. The Swiss giant **Nestle** recently announced its appointment of a new CEO who is not only an outsider to the Nestle group, but also to the industry, as is Nestle's new CFO who joined last year from a pharmaceutical company. One suspects that some difficult decisions are waiting to be made which might be better achieved with external appointments devoid of the accumulated influences and pressures. In recent years, Nestle has consistently failed to meet its revenue growth targets and continues to lose market share in several businesses, although that may not be readily discernible from a cursory inspection of the share price. That Nestle has not made an external CEO appointment since 1922 perhaps underscores the challenges even the best of companies are now facing.

Estee Lauder has been a long time holding of the Fund and we've enjoyed following the evolution of the company from

Estee Lauder Share Price



Source: Bloomberg

what was essentially a family run company – with margins below the cosmetics industry's average – to one of the leading global cosmetic companies with some of the world's best known brands today. Estee's brand M.A.C has been especially noteworthy with a compound growth in excess of 20% p.a. over more than 20 years since Estee first acquired control of the brand in 1994. As a case study in brand management, it has been exemplary.

Although we continue to believe that Estee has many opportunities ahead, and we will continue to follow new initiatives such as the launch of Estee Edit with Kendall Jenner in Sephora, there are a number of challenges that cause us to reconsider whether we can reasonably expect the same multi-fold increase in our investment that we enjoyed over the past decade. A declining interest by consumers in the US and the UK in visiting shopping malls and department stores is further exacerbated by the widening product range of online retailers such as Amazon and its very effective Prime membership. The company has also been facing increased competition in the lucrative travel retail and duty free market, particularly by Korean companies for the Chinese travellers, as well as the challenge that's been evident for some time in bringing younger users to the Estee and Clinique brands in the face of rising interest in local and natural brands and products. We don't doubt Estee's ability to meet the challenges, however, at the current valuation we would prefer to seek other opportunities.

The companies mentioned in this report – Estee, Stada, Lixil and Nestle – amongst many others, have used acquisitions as a key contributor to their long-term growth. As pressures continue to mount, not only through the lack of pricing power in a low inflation, low growth environment, but also through rapid changes in their distribution channels and geographic sources of growth, brand companies that have designed their operations around lengthy supply chains that involve distributors, wholesalers and retailers are finding the impact of e-commerce websites, which eliminate such layers, a growing challenge to their profitability.

Not only do e-commerce companies often operate with low inventory, but they are also continually looking for ways to reduce delivery time to consumers and hence requiring suppliers to improve the responsiveness of their supply systems. Even the 'in-house' e-commerce offerings of the incumbent companies must react to similar dynamics to be effective. The opening-up of a predominantly lower margin distribution channel is, without a doubt, going to continue to be disruptive to the current majority, be they department stores or the manufacturers; price discovery, fragmenting of market share as new products more easily find online 'shelf space' and, for many of the existing participants, a slow and costly prospect of adapting their operations. It is also worth noting that despite a benign backdrop for input costs and extensive cost reduction programs, many were struggling to show more than mediocre profit growth before recognising the need to adapt to the changing landscape.

One might conclude that there's a despondency brewing around these disruptive forces. Far from it! We are encouraged by the growing realisation by management teams that a more positive and innovative approach is required, whether that is in product or packaging design or a new approach to manufacturing, such as that being tested by Adidas with their robotic SpeedFactory.

Outlook

It is likely that we will see an increase in acquisitions and divestments as companies increasingly react to the political, economic and operational uncertainty that has undermined their long-term growth targets. In some cases, such as Nestle and P&G, it may continue to be decisions around which categories to compete in and hence will involve both divestments as well as acquisitions. Others, such as the recent bid by Henkel for Sun Products to become the number two in the North American laundry market, or the launch of a bid by Mondelez for the US confectionery company Hershey, are more clearly aligned with gaining market share and reducing costs in their core businesses. The recent market declines and increased volatility, including in the currency markets, should provide corporate management teams with some interesting opportunities to acquire assets at lower prices. Similarly, the Fund is also seeing an improving outlook with more options appearing than has recently been the case.

Platinum has a long-standing policy of awarding fund management responsibility to talented and capable members of the Investment Team in order to develop talent within the team. As a continuation of this policy, consumer sector analysts, Ian Carmichael and James Halse, have each been given responsibility to manage up to $100 million of the Platinum International Brands Fund.

Platinum International Health Care Fund

Bianca Ogden Portfolio Manager

Disposition of Assets

REGION	JUN 2016	MAR 2016
Europe	42%	39%
North America	32%	29%
Japan	3%	4%
Australia	1%	1%
Asia	0%	1%
South America	0%	1%
Cash	22%	25%
Shorts	<1%	-1%

Source: Platinum. Refer to note 3, page 44.

Performance

(compound pa, to 30 June 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund	4%	-1%	17%	17%	9%
MSCI AC World HC Index	9%	-2%	21%	22%	9%

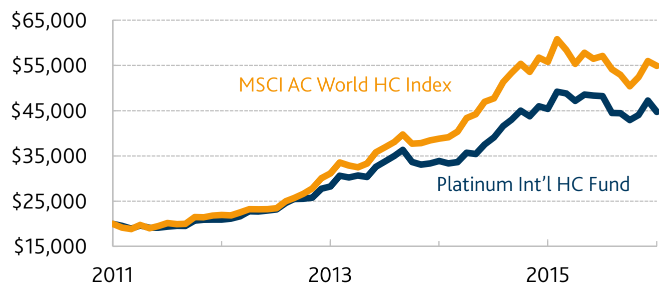
Source: Platinum and MSCI. Refer to note 1, page 44.

This quarter saw mixed performance from biotechs, with medtech and proven winners continuing to be the preferred choice in the US. Besides US biotech being disappointing for the quarter and the year, currency has also been an issue across the Fund's portfolio. In particular, the British pound's sharp fall following the Brexit referendum reduced gains in our UK holdings such as AstraZeneca and BTG.

Our position in Gilead was disappointing (down almost 10% for the quarter) as big biotechs were generally a source of funds this quarter. The company remains focused on getting its next generation HIV portfolio approved as well as introducing new Hepatitis C virus combination drugs. Gilead is interested in acquisitions, just not as rapid as the market wants it to be.

Value of $20,000 Invested Over Five Years

30 June 2011 to 30 June 2016



Source: Platinum and MSCI. Refer to note 2, page 44.

Elsewhere, some corporate activity occurred, showing the firepower that resides in the big companies. Abbott wants to acquire cardio medtech company St Jude for US$25 billion, while AbbVie spent US$5.8 billion (with another US$4 billion potentially payable in future) on a private biotech. Sanofi remains disciplined in its pursuit for US biotech Medivation, while Pfizer offered US$5.2 billion for dermatology company Anacor. However, the fact that Sanofi remains the only official bidder for Medivation has been a disappointment to the market as it was hoped that there would be a bit more action. Patience is a virtue.

The annual gathering of oncologists in the US was unable to get biotechs excited, given that the data presented was more about pharma, which further confirmed that industry experts have been right in saying that immuno-oncology will progress over time, not overnight, as some analysts wanted to believe. Similarly, the annual diabetes conference showcased some new drugs, but the conference also made clear that there are now plenty of diabetes drugs and competition will remain fierce.

The majority of our European holdings have been major contributors for the year and continue to perform well. At Danish biotech **Lundbeck**, new products are starting to make a difference to the bottom line (for the year Lundbeck's share price advanced 94%). Italian pharma company **Recordati** continues to selectively acquire regional peers at reasonable prices (shares advanced 44% for the year) while the demand for biological manufacturing supplies keeps German company **Sartorius** busy (its share price rose 65% for the year).

Disappointing for the year have been our Chinese holdings which we fully exited during the quarter. Also lagging performance for the year are **Sanofi** and **Qiagen** (down 15% and 11% respectively). Sanofi owned up to price pressure and competition in the diabetes market, while Qiagen has selected R&D investment over earnings at a time of lower sales growth.

We took this opportunity of weak prices to add to Sanofi. During the quarter the company made good progress in addressing its diabetes and oncology pipeline as well as finalising its structural change announced last year. The asset exchange with Boehringer Ingelheim is now a done deal, whereby Sanofi will swap its animal health business for Boehringer's consumer health business, diversifying Sanofi's profile away from being an insulin company.

In the quarter **Stada Arzneimittel** performed well (advancing 35%), as pressure is mounting to implement management and operational change at the company. Stada, a German generics company dating back a hundred years has until now been stubborn to change. This company has a lot to offer in terms of branded products, geographical coverage as well as over-the-counter (OTC) products.

Changes to the Portfolio

The Fund has been adding to a myriad of holdings, but also remained disciplined in trimming good performers, particularly among the EU-based holdings. We also added new companies to the portfolio that to us represent the next crop of biotechs.

We exited **Genmab** this quarter. This Danish biotech has been a significant contributor to the Fund for several years. In 2012, when we first bought Genmab, the company was worth US$550 million. Today, Genmab is valued at almost US$11 billion, thanks to the swift approval of its anti-D38 antibody which is licensed to Johnson and Johnson (JNJ). This investment has been a classic example of what we do. At the time of our entry, Genmab had been through setbacks and had to divest its manufacturing assets. By talking to Genmab management we quickly figured out that the company had a plan and had made the smart decision to focus on its lead asset while recruiting JNJ as a partner. Furthermore, Genmab made sure it kept investing in its antibody platform along the way, attracting partners other than JNJ. Being located in Denmark, it had limited exposure to US analysts who only recently started coverage now that the drug has gained approval and looks to change the way multiple myeloma is being treated. While there may be some more upside to come, we feel that we are better off investing in the next generation of biotechs, particularly as the recent multi-year financing cycle provides opportunity in a new class of companies.

Commentary

Reinventing the pharma business again and again takes strength, patience and long-term thinking. **Johnson and Johnson** is a company with such attributes. JNJ traces its roots back to 1886 when it was founded by three brothers. The focus then was on sterile surgical dressings, first aid, wound care as well as baby products. Since then JNJ has kept true to those products, but also reinvented itself frequently, despite having only had seven different CEOs in its 130 year history.

Enduring leadership as well as the ability to reinvent itself are what make this company tick. Over the past 10 years it was the pharma division that had to dig deep and refresh itself, while in the coming years it will be for the medtech and consumer business to follow suit. The Fund has owned JNJ for a while and we recently increased our position as we feel JNJ has a proven recipe for continuous growth which is based on being agnostic to externally sourced products or technologies, while also being decisive in divesting products and divisions.

To make such a culture work requires an entrepreneurial mindset, having a network in place that is out in the field spotting new opportunities and in the end negotiating good deals as well as managing the relationships with respective partners. JNJ has demonstrated all of the above, particularly in its pharma division.

Ten years ago JNJ pharma was facing a steep patent cliff, with almost 50% of the business due to face generics, while its Epogen franchise (another 12% of sales) was also in decline due to higher safety scrutiny. At the time we saw several pipeline opportunities emerge and built a position over time. Today these troubles are history, new products have more than made up for the losses and JNJ's focus on therapy franchises has become stronger, providing leverage for the business. There have been setbacks along the way, but overall JNJ managed its expenses well and generates a very decent cashflow.

This success in pharma has come from acquisitions that date back to 1999 (Centercor was a key acquisition for JNJ) as well as a myriad of licensing deals that occur every year. JNJ's specialty is to license phases 1 and 2 assets and allow its internal engine to manage late stage development. This means JNJ can bring its commercial expertise into the development, including manufacturing as well as regulatory knowledge, which is ever more important in today's healthcare world. JNJ also makes sure that a new asset fits into its franchises[1] or that the purchase provides an instant new franchise (like the purchase of Tibotec which was a quick entry into the HIV market).

It is this external thinking that has been part of JNJ for decades. Today the company has a network of so-called 'embassies' globally. These are scouting offices based in London, Boston, Shanghai and Menlo Park, California. Then there are the 'JLABS' that provide space and technology for start–ups, and for many years JNJ has managed its own JNJ Innovation Fund. The company keeps its finger on the pulse.

Medtech is no different to pharma. While a patent cliff does not exist in medtech, JNJ had to endure competition and safety issues in its very profitable drug-eluting stent business. There were product recalls as well as a lawsuit at JNJ medtech which in the end had an effect on R&D budgets and hence on innovation. Acquisitions are also part of JNJ medtech and some have been more difficult than others. Ultimately JNJ is not afraid of looking outside for opportunities. The company today is working with Google's Verily to develop surgical robotics that fit nicely with its surgical consumables. Again, the thinking is about franchises and how they can be made stronger. Restructuring the commercial setup of medtech has been a focus in the last two years, allowing the company to adapt to today's healthcare challenges. No longer is the surgeon the target customer. It is now the hospital, as more surgeons are employed by hospitals and individual surgeons are no longer the key decision maker.

JNJ consumer also follows a similar playbook today with the focus returning to key JNJ brands and franchises. The product recall and the subsequent multi-year manufacturing clean-up had a big effect on JNJ and the company is slowly emerging from it. This has meant JNJ was happy to divest some brands, but is also happy to add others to the JNJ fold.

Overall there is a lot going on at JNJ which indicate to us that we could be seeing all three divisions once again working in unison.

Outlook

We are in an election year and with that comes volatility and uncertainty, particularly for US biotechs and pharma. Thus far the choice has been to stick with proven winners despite rising valuations. We prefer to look for neglect and make sure that a changing pricing environment is being considered by the respective management teams. The status quo of raising prices may come to an end sooner rather than later. Innovation is key for us and we are also exploring companies that offer services to the industry, be that testing, clinical trial management or manufacturing.

1 For example, Darzalex licensed from JNJ fits with JNJ's haematology franchise which already includes Velcade (multiple myeloma) and Imbruvica (lymphoma).

Platinum International Technology Fund

Alex Barbi Portfolio Manager

Disposition of Assets

REGION	JUN 2016	MAR 2016
North America	32%	30%
Asia and Other	28%	29%
Europe	13%	13%
Japan	7%	7%
Russia	3%	2%
Cash	17%	19%
Shorts	-3%	-3%

Source: Platinum. Refer to note 3, page 44.

Performance

(compound pa, to 30 June 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund	-1%	-5%	11%	11%	8%
MSCI AC World IT Index	2%	4%	21%	19%	-2%

Source: Platinum and MSCI. Refer to note 1, page 44.

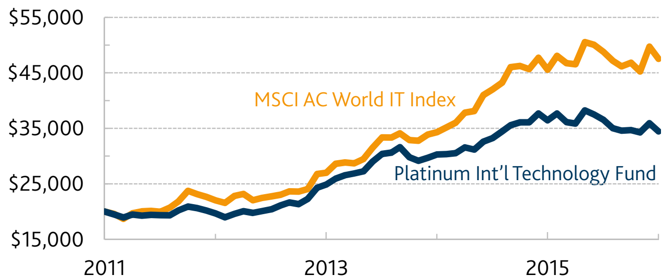
Over the quarter the Fund returned -0.6% while the MSCI AC World Information Technology Index (A$) was up +1.5%. For the 12 month period to 30 June, the Fund's return was -5.5%, compared to +4.3% for the Index. The Fund had a net invested position of 80% as of 30 June (before year-end distribution).

The divergence in performance between the Fund and the Index over the last 12 months can be largely attributed to the Fund's lower exposure to the outperforming large US technology stocks, and overweighting in underperforming Chinese and Japanese holdings. On the positive side, South Korea was a bright spot with all our positions reporting improved performance particularly in the last quarter, with our long-standing holding Samsung Electronics being a strong contributor.

Investors in the tech sector continue to pay a premium for "certainty" and "predictability", especially in light of recent market volatility and uncertainty in global macroeconomic and geopolitical outlook (Brexit being the most recent

Value of $20,000 Invested Over Five Years

30 June 2011 to 30 June 2016



Source: Platinum and MSCI. Refer to note 2, page 44.

example). Hence, the preference of the majority has been to invest more in the supposedly "safer" US tech names, even though they have already had eight years of almost uninterrupted bull market and signs of weakness in global demand for technology products have started to appear.

Our best performers (in local currencies) during the quarter were: Russian Internet company Yandex (+43%), semiconductor manufacturers Micron Technology (+31%) and SK Hynix (+15%), and South Korean electronics giant Samsung Electronics (+9%).

Among the performance detractors were China-based telecommunication equipment group ZTE (-31%), still suffering from the legal dispute with the US Department of Commerce, and US-listed Chinese Internet companies (SouFun, JD.com and Baidu), each down between -13% and -20%. In Europe, Ericsson (-21%) disappointed investors with unexpected poor results in their services division, suggesting that a more radical restructuring may be required. We are reviewing our position in this company.

We remain committed to our decision to allocate a sizeable portion of the Fund's capital to Asia where we believe the long-term growth potential remains superior to the more mature Western economies.

As at 30 June 2016, the Fund's major exposures by geography were: USA (32%), China and Taiwan (together 19%), Europe (13%), South Korea (9%), and Japan (7%).

Changes to the Portfolio

During the quarter we made a few changes to the portfolio.

We increased our position in **Alphabet** (formerly Google) as the stock underperformed due to concerns about decelerating growth. While the digital advertising market has seen the emergence of powerful competitors such as Facebook, we believe there is still plenty of potential for Alphabet to grow. Valuation has again returned to a level we consider attractive, and we believe Google's main assets (Search, YouTube, Maps, etc.) have room for further monetisation and are capable of superior long-term growth.

We added to **JD.com**, China's second largest e-commerce operator, as the stock declined following slower than expected revenue growth in the first quarter. We believe this slowdown is only temporary. With 169 million active users reported at March end (growing at 73% year-on-year), an annual revenue estimated at US$38 billion for 2016 (growing at 44% year-on-year), and an unparalleled logistics footprint, JD.com is growing faster than its much larger competitor Alibaba. As profitability of the core JD Mall business starts to improve (currently at break-even), investors should regain confidence in the long-term potential of this e-commerce platform.

We also increased our holding in **Cirrus Logic**, the semiconductor supplier specialising in audio-codec[1] hardware, amplifiers and MEMS[2] microphone products. A supplier of key components to major smartphone makers (including Apple, Samsung and other Android-based manufacturers), Cirrus is poised to benefit from increased audio content in their future models. With its industry-leading product portfolio, Cirrus is also well positioned to benefit from increased adoption of audio/voice user interface in adjacent markets (connected home, smart TV/remotes, automotive, etc.).

We exited **Meyer Burger** at a loss as the Swiss solar equipment maker continued to struggle financially in an industry where its immediate customers (solar cell makers) are plagued by intense competition and tight margins despite robust end user demand.

We sold our remaining position in **Qlik Technologies** at a modest profit. After Qlik's stock price had declined by almost 50% in the early part of the year, a private equity entity made an offer for the totality of its shares and we decided to exit. Qlik was struggling with strategy execution in an increasingly competitive marketplace for software visualisation tools. The bidders acted opportunistically which unfortunately limited our upside.

Commentary

Samsung Electronics, the Fund's largest holding, performed well during the quarter with evidence pointing to recovering revenue growth after last year's decline and improving profitability across all divisions.

Historically investors have been critical of Samsung's corporate governance (and South Korean groups in general) amid (valid) accusations of poor consideration for minority shareholders and favouritism towards the powerful families with controlling stakes. This scepticism has been the main reason behind the relatively depressed valuation of Samsung

1 A piece of audio-codec hardware is a single device that encodes analogue audio as digital signals and decodes digital back into analogue.

2 "MEMS" stands for micro-electro-mechanical systems. It is the technology of very small devices.

Electronics compared to its international peers, despite its strong profitability track record.

More recently, however, the company's management seems to have adopted a more investor-friendly attitude: they approved reasonable-sized stock buy-backs and gradually increased dividend distributions long promised to yield-starved shareholders (mind you, the company still sits on a cash pile of US$62 billion!) While progress at Samsung, like many other South Korean *chaebols*, is only happening gradually, we are encouraged by what we have seen so far. As the younger Vice-Chairman Lee Jae-yong (the grandson of Samsung's founder and son of the powerful but ailing Chairman Lee Kun-hee) increases his authority within the organisation, he has gradually started to instil a new culture: faster decision-making, flat and open organisation, and greater focus on innovation.

After a difficult 2015, which saw declining profitability in Samsung's smartphone division, all four major divisions of the group (Semiconductors, Display Panels, Mobile Communications and Consumer Electronics) are expected to report improving or stabilising results in both 2016 and 2017.

Last year, Semiconductors, driven by the company's leading Memories divisions (DRAM and NAND) contributed 21% of group revenue and 48% of group operating profit. This year, Samsung is expected to further increase its market share in both DRAM (47%) and NAND (39%). Thanks largely to its superior scale and technology, achieved after years of heavy R&D investments, Samsung remains ahead of all its peers in this space (SK Hynix, Micron, Toshiba/SanDisk) and it should maintain its lead for the foreseeable future.

Mobile Communications is also improving after the company reduced costs by streamlining its mid-to-low-end smartphone supply chain to efficiently leverage component sourcing across different models. With sales of more than 310 million smartphones each year and US$12 billion in operating profits, Samsung remains the number one smartphone vendor globally, well ahead of Apple (another holding of the Fund).

But the area of Samsung's prospects that we are most excited about is the Organic Light Emitting Diode (OLED) business. We have been following the development of OLED technology for more than a decade and some of you may remember that the Fund used to own Cambridge Display Technology, the owner of key patent OLED technology developed at Cambridge University in the 1980s (refer to the Fund's June 2005 quarterly report[3]).

As is often the case, early excitement did not translate immediately into economic success as the technology took longer than expected to achieve commercialisation. In 2007, Cambridge Display Technology was acquired by Japan-based Sumitomo Chemical and the majority of other display makers scrapped their OLED R&D programs, concentrating their efforts instead on the cheaper Liquid Crystal Display (LCD) alternatives.

The exception was Samsung which persisted with its R&D on OLED. This led to US$13 billion being invested in its OLED project with a further US$7.4 billion planned for the next two years. South Korean rival LG Electronics also invested heavily in OLED technology, but adopted a slightly different version which relies on a separate light source.

The adoption of OLED technology for small and, eventually, large display screens is going to be driven by: 1) better picture quality, 2) faster response time, 3) lower power consumption, 4) thinner form factor, and 5) wider viewing angle. The downside is that OLED still has a shorter lifespan than LCD and the manufacturing process is more complex and more capital-intensive.

Samsung used its own OLED screen in its original Galaxy S1 smartphone, which was launched in 2010, while Apple until now has not used OLED in its iPhones, relying instead on its LCD-based Retina display technology. In 2013 both Samsung and LG Electronics started commercial production of "flexible" OLED displays on plastic substrate, now being used in their flagship smartphone models. While the device maker bends or curves the screen to create new shapes to adapt to the phone's contour, they are not yet quite bendable from the user's perspective. Apart from allowing novel designs, OLED displays are also lighter, thinner and more durable compared to glass-based screens. Second generation flexible OLED displays may indeed be flexible for the final user, but there is

3 See www.platinum.com.au/documents/funds/pitf/quarterly_reports/pitfqtr_0605.pdf.

"OLEDs are molecules that glow when stimulated by electric current. You may recall that any liquid crystal display comprises, in very simple terms, millions of liquid crystals sandwiched between two sheets of ultra thin glass. Each panel needs to be lit by a number of fluorescent tubes mounted at the back. OLED displays do not require such a crude lighting mechanism. Instead of liquid crystals, millions of OLED molecules are embedded between the two sheets of glass. While in LCD panels, each crystal acts like a shutter to allow light to pass, in OLED displays it is the electric current that passes through the organic molecules that produces the glow."

still some distance to go before the technology is mature and economically viable.

Nevertheless, we are likely to see more brands launching smartphones with OLED screens in the near future, and even Apple is expected to release one in 2017. That would make Samsung a major beneficiary as it is currently the only supplier with the know-how and sufficient manufacturing capacity to supply Tim Cook's highly demanding engineers. We believe increasing OLED adoption will contribute to Samsung's profit growth trajectory for the next few years.

In light of these developments, at a P/E multiple of 10 times and 1.2 times book value for December 2016, the current valuation of Samsung Electronics looks remarkably attractive.

Outlook

Market volatility increased dramatically at the end of the quarter with the Brexit episode, and we expect global markets to continue to react to policy announcements by central banks and governments. Despite this uncertainty and a slowing global growth outlook, we are still able to selectively invest in interesting opportunities driven by secular growth themes (namely Cloud Software, E-commerce and Internet advertising), particularly in Asia. We also remain very excited by the opportunities available to invest in companies benefiting from the ongoing smartphone upgrade cycle (Radio Frequency components, OLED screens, Memories, Sensors, etc.).

Glossary

Dividend Yield

A ratio that indicates how much a company pays out in dividends each year relative to its share price (adjusted for any share splits).

Earnings Per Share (EPS)

An indicator of a company's profitability, EPS equals to profit, net of tax and dividends to preferred shareholders, divided by the total number of ordinary shares outstanding.

Enterprise Value (EV)

A measure of a company's total market value, EV equals to a company's market capitalisation plus net debt, minority interest and preferred equity, minus cash and cash equivalents.

Free Cash Flow (FCF)

A measure of a company's financial performance calculated as operating cash flow minus capital expenditures. FCF represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base.

Gross Domestic Product (GDP)

The primary indicator used to gauge the health of a country's economy. GDP represents the total dollar value of all goods and services produced over a specific time period.

MSCI Indices

Various indices compiled by Morgan Stanley Capital International (e.g. World, Asia, Health Care, etc.) that are designed to measure equity market performance across different regions and industries.

Platinum does not structure its investment portfolios relative to any benchmark index, however, the MSCI indices are used as a reference to determine how each Fund is performing in relation to the total market opportunity in which it invests.

Price to Book Ratio (P/B)

The ratio of a company's current share price to its book value (total assets minus total liabilities and intangible assets). The P/B is an indicator of the value of a company by comparing its share price to the amount of the company's assets that each share is entitled to.

Price to Earnings Ratio (P/E)

The ratio of a company's current share price to its per-share earnings. The P/E ratio is used as an indicator of the value of a company by comparing its share price to the amount of per-share earnings the company generates.

Return on Equity (RoE)

A measure of the rate of return on ownership interest (shareholders' equity). RoE measures a firm's efficiency at generating profits from every unit of shareholders' equity. It indicates how well a company uses shareholders' funds to generate earnings growth.

Quantitative Easing (QE)

A monetary policy used by central banks to increase the supply of money by increasing the excess reserves of the banking system.

Short Selling or Shorting

A transaction by which an investor is able to generate profit from a fall in the price of a particular stock or market index. To generate such a profit, an investor borrows securities and sells them, then when the price has fallen, the investor repurchases the securities at a lower price and returns them to the lender.

Platinum utilises short selling of stocks and indices for risk management (that is, to protect a Fund's portfolio from either being invested or uninvested) and to take opportunities to increase returns.

Short selling is not undertaken for the Platinum Unhedged Fund.

Please visit our website at:
www.platinum.com.au

We have a section titled 'The Journal', providing in-depth commentaries on stocks, views and insights, and the fundamentals of investing.

Dubai – *'Build it and they will come!'*

What sort of traveller are you? Someone who sets out on a mission with haste and purpose, or one who is happy to meander to their final destination? For those with the latter inclination, there is an interesting stop-over point I would recommend.

As we were told by the current ruler of Dubai, Sheik Hamdan bin Mohammed bin Rashid Al Maktoum, his vision was born out of the observation of migrating birds stopping off at a *wadi* in the desert. This raised the question, why would long distance travellers in the jet age not wish to do the same. Reinforcing this insight was the observation of European visitors who delighted in doing nothing more than to lie sunbathing in the pearl white sands with their feet being lapped by the aquamarine waters of the Gulf.

The insight was position; the driving force, necessity. Looking back over time we see desert nomads who discovered the oyster pearls of the Gulf. This gave them their first offer of riches in this parched land to barter with the great caravan traders of the day who in turn served the extravagant courts of Mogul India. In exchange, they won spices, fine textiles and rice. The locals would seasonally descend to the sea, but gradually established more permanent settlements along the coast to annually harvest the rich pearling grounds. Using coral and ingenuity, for there are virtually no local sources of wood, permanent coral-built homes took the place of collapsible tents. The porous nature of the coral allowed the cooling sea breezes to evaporate the accumulated humidity of the late summer days to make this sauna-like environment comfortable at night.

As is common, innovation creates losers, and with the perfection of cultured pearls by the Japanese in the 1930s, hard times returned to the coast. Not that the pearling season had always bestowed certainty in this parched land.

Palm Jumeirah

The discovery of oil in the 1960s gave them another chance to free themselves from a rudimentary existence. A simple life and limited diet had not dulled the minds of these keepers of the flame of Western civilisation during the European Dark Ages and the current Sheik's father embarked on using the windfall, which was to last only for a few years, to begin the transformation of Dubai into a global logistics hub.

Today, the port is one of the busiest in the world, handling 15 million containers (twenty-foot equivalent units or 'TEUs') a year. The airport, now ahead of London Heathrow in terms of passenger traffic, handled some 78 million passengers in 2015 versus Heathrow at 75 million. On this account, tourism is now the largest contributor to the economy with the residual earnings from oil now representing less than 5% of GDP.

If there is one characteristic of Dubai that stands out, it is surely audacity. Having started with a leased plane of Pakistani Air, Emirates is now one of the world's great airlines with destinations in all continents! An openness to all cultures and a willingness to learn from others exudes this place with spectacular signature buildings like the Burj Khalifa. This is presently the world's tallest building with 163 floors and 829.8 metres in final height. It was named as such out of respect for the help given to fund its completion during the

Burj Al Arab in the distance

GFC by the ruler of Abu Dhabi. The sail-shaped Burj Al Arab is surely a building that by location and structure rivals the Sydney Opera House and Palm Jumeirah, the man-made archipelago, is truly as spectacular as the promotion literature depicts.

This is an almost fairy tale-like place where vision and drive has been rewarded with fortune. Building continues although my financial training causes me to pause to consider the longer term issues around a small indigenous population vis-à-vis a largely itinerant one. However, a can-do mentality that imbues the place with its solid civil service and belief in modernity, with no direct taxes and a fabulous location in a world that we often remind clients is tipping on its axis, suggests that it can continue to surprise.

For the **meanderers**, do stop over, spend a night in the desert, ride camels or tear down sand dunes in four wheel drives; for the **millennials**, lose yourself in the Dubai Mall, the world's largest by area and where every self-respecting brand is represented. There too you can experience the remarkable 10 million litre aquarium that is open to the view of shoppers and available for more intimate inspection by those who pay to see it in full. Spectacular is an understatement! Alternatively, you could spend time on the artificial slopes of Ski Dubai, the 22,500 square metre indoor ski centre attached to the Mall of the Emirates.

There are lots of activities for young families, budgets permitting, such as the Atlantis Aquaventure Waterpark which I was assured is pure fun. To my surprise, I was able to bodysurf off the beach in front of our hotel, not Hawaii-style waves, but perfectly comfortable drives onto the beach with water temperatures of 25 degrees Celsius. Be warned of one thing, my visit was in March, well ahead of the sweltering summer when temperatures reach over 45 degrees and where building workers are sent home because of the danger to their health. As the summer climaxes, the humidity builds, leading to a seasonal lull in tourist visitations.

A sprawling metropolis in the desert

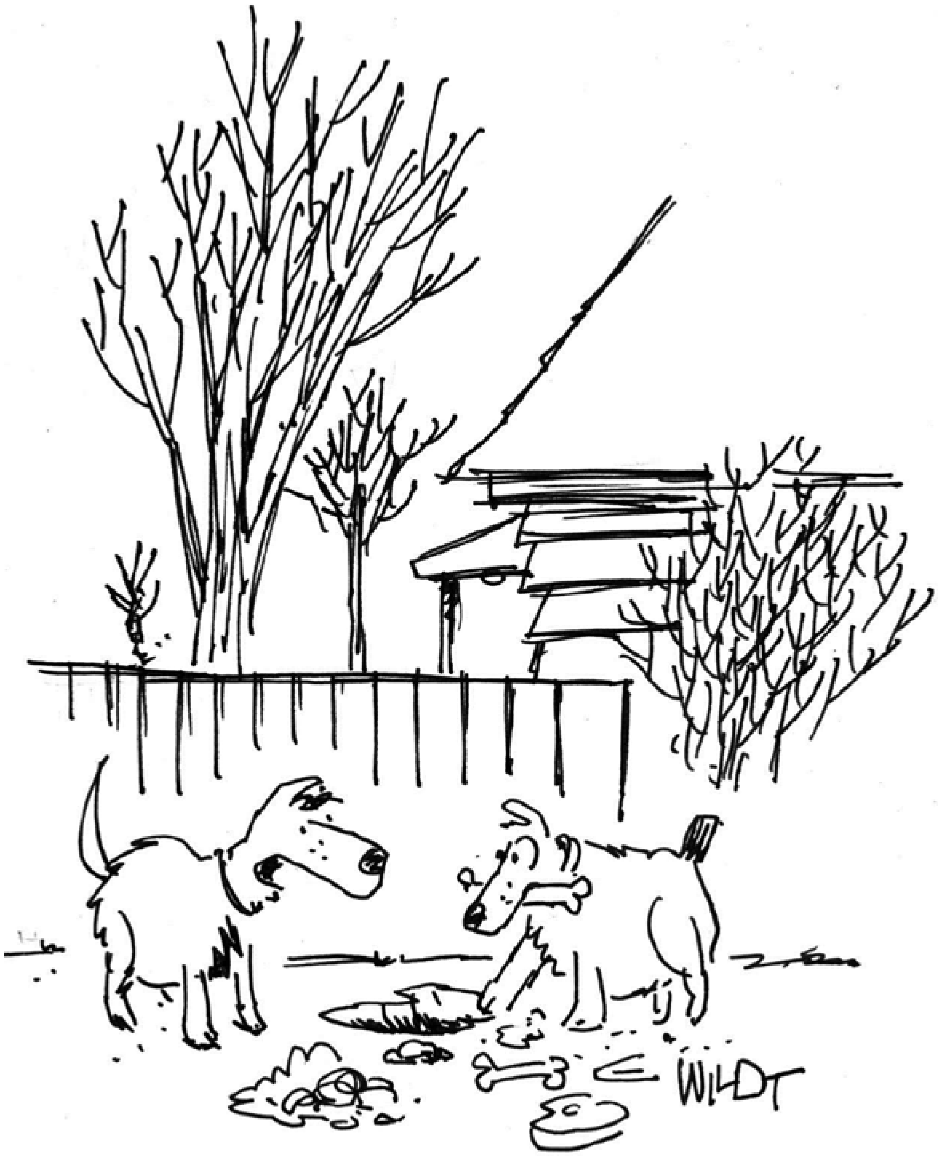
Do go and see for yourself how the desert has blossomed and enjoy the inspiration of man's ingenuity, and remind yourself of that ultimate gamble that few of us have the courage to take, 'build it and they will come'!

Kerr Neilson
March 2016

The perfect retreat for the meanderers

The remarkable 10 million litre aquarium at the Dubai Mall

"The fish – will it be the market price at the time of ordering, the time of eating or the time of paying?"



"Careful burying all your bones. We get a cold snap and your assets are frozen!"

Notes

1. The investment returns are calculated using the relevant Fund's unit price and represent the combined income and capital return for the specified period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. You should be aware that historical performance is not a reliable indicator of future performance. Due to the volatility in the underlying assets of the Funds and other risk factors associated with investing, investment returns can be negative (particularly in the short-term).

   The inception dates for each Fund are as follows:
   Platinum International Fund: 30 April 1995
   Platinum Unhedged Fund: 28 January 2005
   Platinum Asia Fund: 4 March 2003
   Platinum European Fund: 30 June 1998
   Platinum Japan Fund: 30 June 1998
   Platinum International Brands Fund: 18 May 2000
   Platinum International Health Care Fund: 10 November 2003
   Platinum International Technology Fund: 18 May 2000

   (NB: The gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist.)

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 30 June 2011 to 30 June 2016 relative to the relevant benchmark index (in A$) as per below (the "Index"):
   Platinum International Fund - MSCI All Country World Net Index
   Platinum Unhedged Fund - MSCI All Country World Net Index
   Platinum Asia Fund - MSCI All Country Asia ex Japan Net Index
   Platinum European Fund - MSCI All Country Europe Net Index
   Platinum Japan Fund - MSCI Japan Net Index
   Platinum International Brands Fund - MSCI All Country World Net Index
   Platinum International Health Care Fund - MSCI All Country World Health Care Net Index
   Platinum International Technology Fund - MSCI All Country World Information Technology Net Index

   The investment returns are calculated using the relevant Fund's unit price. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), pre-tax and assume the reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.

3. Invested position represents the exposure of physical holdings and long stock derivatives.

Disclaimer

MSCI Inc Disclaimer

Platinum ASSET MANAGEMENT

Platinum Asset Management is a Sydney-based manager specialising in international equities. The investment team uses a thematic stock-picking approach that concentrates on identifying out-of-favour stocks with the objective of achieving superior returns for our clients. We pay no heed to recognised indices. We aim to protect against loss and will hedge stocks, indices and currencies in our endeavours to do so.

The firm was founded in February 1994 by a group of professionals who had built an enviable reputation. The investment team has grown steadily and PAM now manages around $23 billion, with approximately 7% of this coming from overseas investors. The Company was listed on the ASX in May 2007 and staff remain the majority shareholders.

Since inception, the Platinum International Fund has achieved returns more than twice those of the MSCI All Country World Index* and considerably more than interest rates on cash.

Investor services numbers

Monday to Friday, 8.30am – 6.00pm AEST

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Or visit us at our office

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