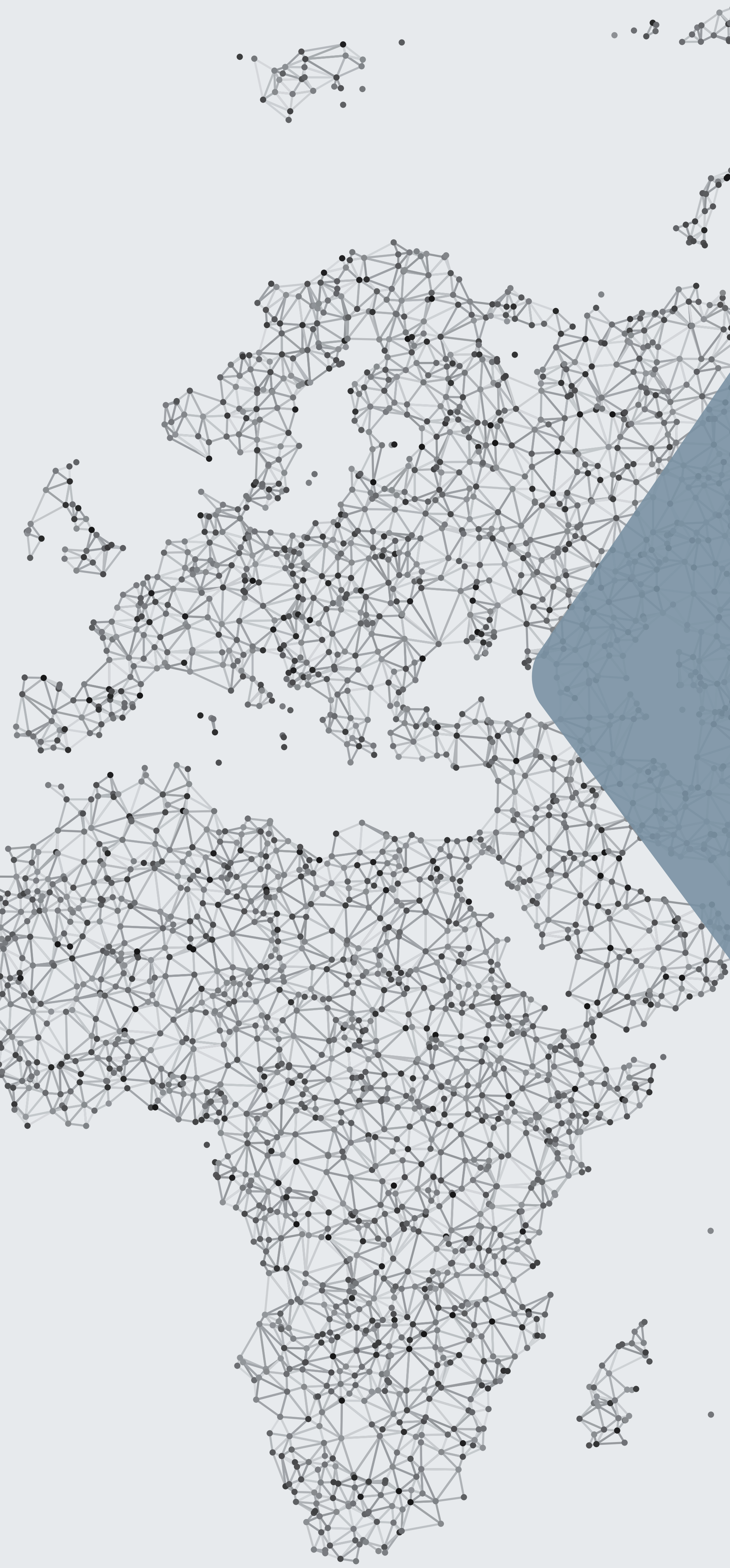


QUARTERLY REPORT
31 DECEMBER 2016

Platinum®
ASSET MANAGEMENT

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

Contents

Performance Returns to 31 December 2016

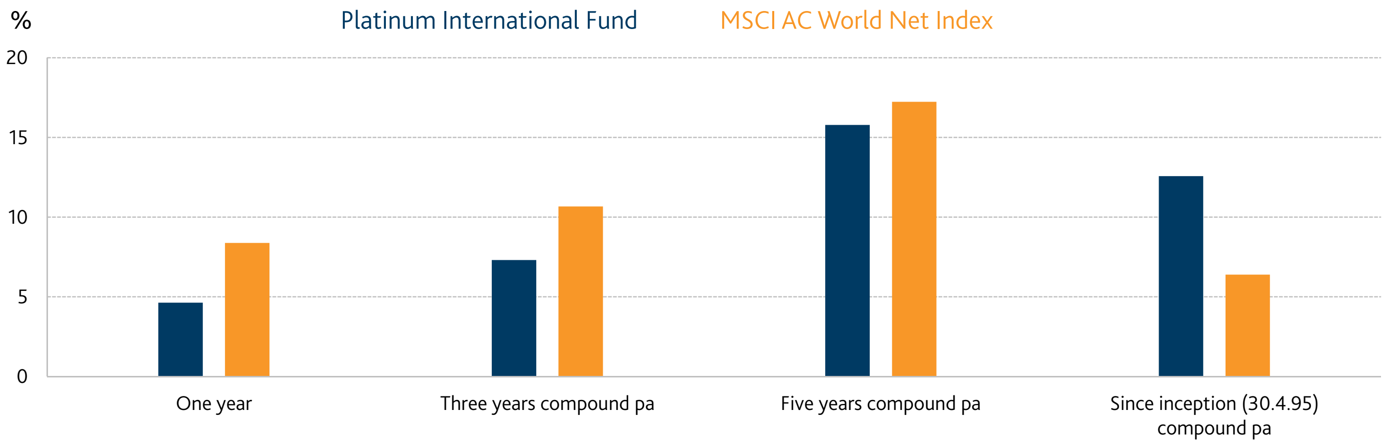
FUND	PORTFOLIO VALUE	QUARTER	1 YEAR	2 YEARS *COMPOUND PA*	3 YEARS *COMPOUND PA*	5 YEARS *COMPOUND PA*	SINCE INCEPTION *COMPOUND PA*
International Fund	$10,285m	4.4%	4.6%	7.1%	7.3%	15.8%	12.6%
MSCI AC* World Net Index		6.9%	8.4%	9.1%	10.7%	17.2%	6.4%
Unhedged Fund	$226m	6.7%	6.2%	8.6%	8.5%	16.4%	10.8%
MSCI AC World Net Index		6.9%	8.4%	9.1%	10.7%	17.2%	6.4%
Asia Fund	$4,080m	-1.7%	0.3%	1.1%	7.7%	14.5%	14.5%
MSCI AC Asia ex Japan Net Index		-1.0%	5.9%	4.0%	7.4%	12.4%	9.6%
European Fund	$433m	9.3%	5.8%	10.0%	6.6%	17.9%	11.6%
MSCI AC Europe Net Index		5.6%	0.8%	4.8%	3.6%	13.5%	2.3%
Japan Fund	$592m	7.4%	11.5%	18.0%	15.7%	25.4%	15.1%
MSCI Japan Net Index		5.5%	2.9%	12.6%	10.0%	16.0%	2.2%
International Brands Fund	$957m	4.6%	9.4%	8.7%	5.8%	14.4%	12.3%
MSCI AC World Net Index		6.9%	8.4%	9.1%	10.7%	17.2%	2.1%
International Health Care Fund	$169m	0.3%	-0.4%	10.8%	12.4%	19.9%	9.1%
MSCI AC Wld Health Care Net Index		-0.1%	-6.4%	5.8%	13.1%	21.5%	8.3%
International Technology Fund	$87m	5.9%	6.8%	8.4%	8.7%	15.1%	9.0%
MSCI AC World IT Net Index		4.8%	12.7%	14.4%	18.1%	22.5%	-1.4%

*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

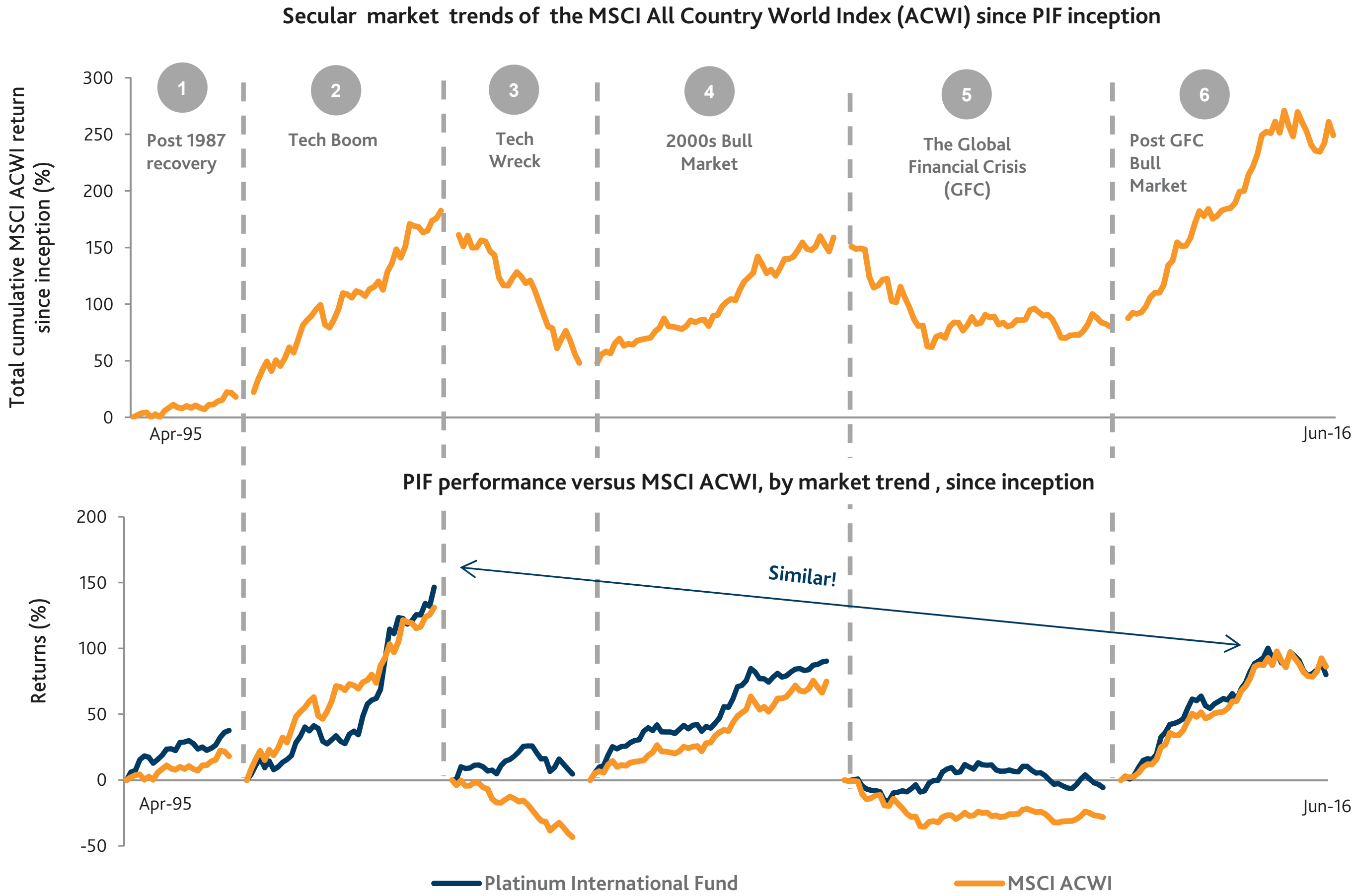
To 31 December 2016



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

Market Panorama

Platinum International Fund (PIF)
Investment Performance: Bull and Bear Market View



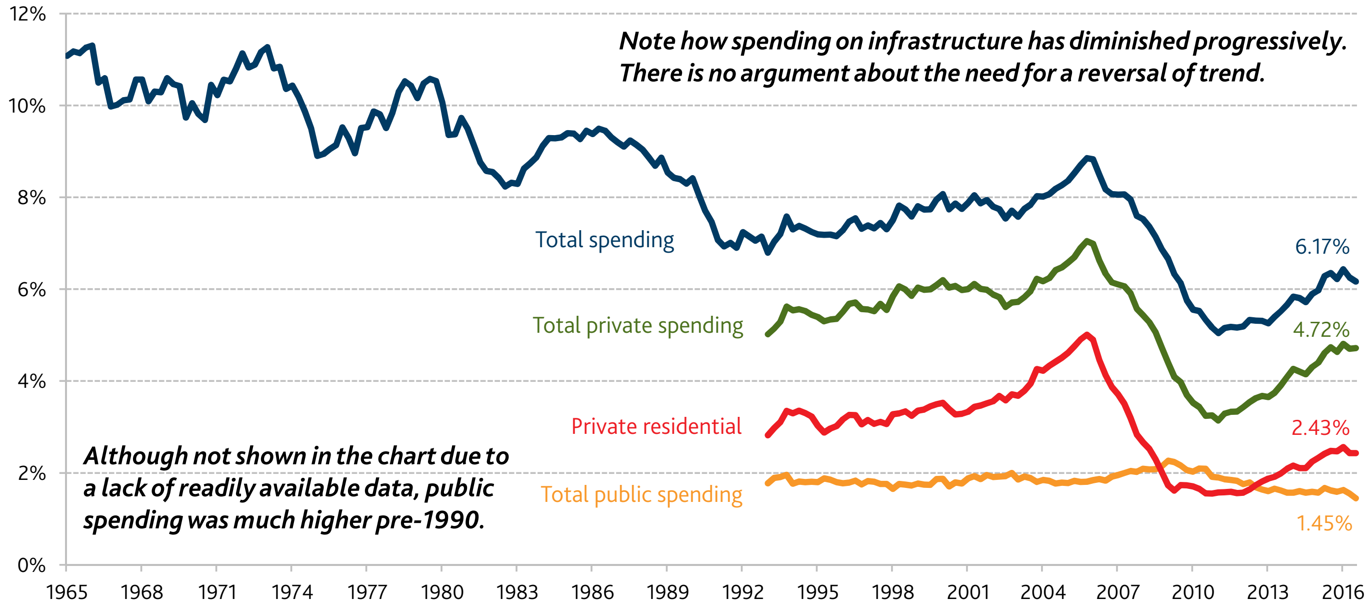
Source: Platinum and MSCI. Refer to note 1, page 44.

We show here the performance of PIF across time, highlighting bull and bear market episodes.

Note that in up-markets we typically hold our own. In down-markets, we have historically protected investors well.

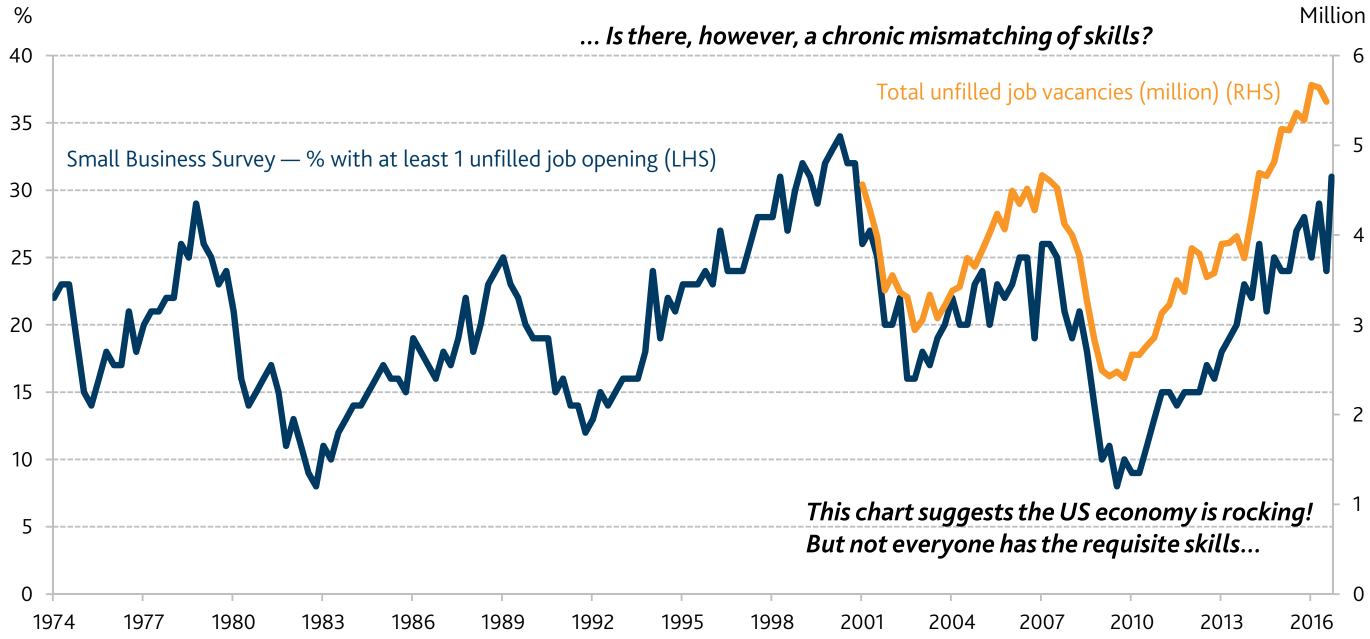
Market Panorama (continued)

US Construction Spending as a Percentage of GDP



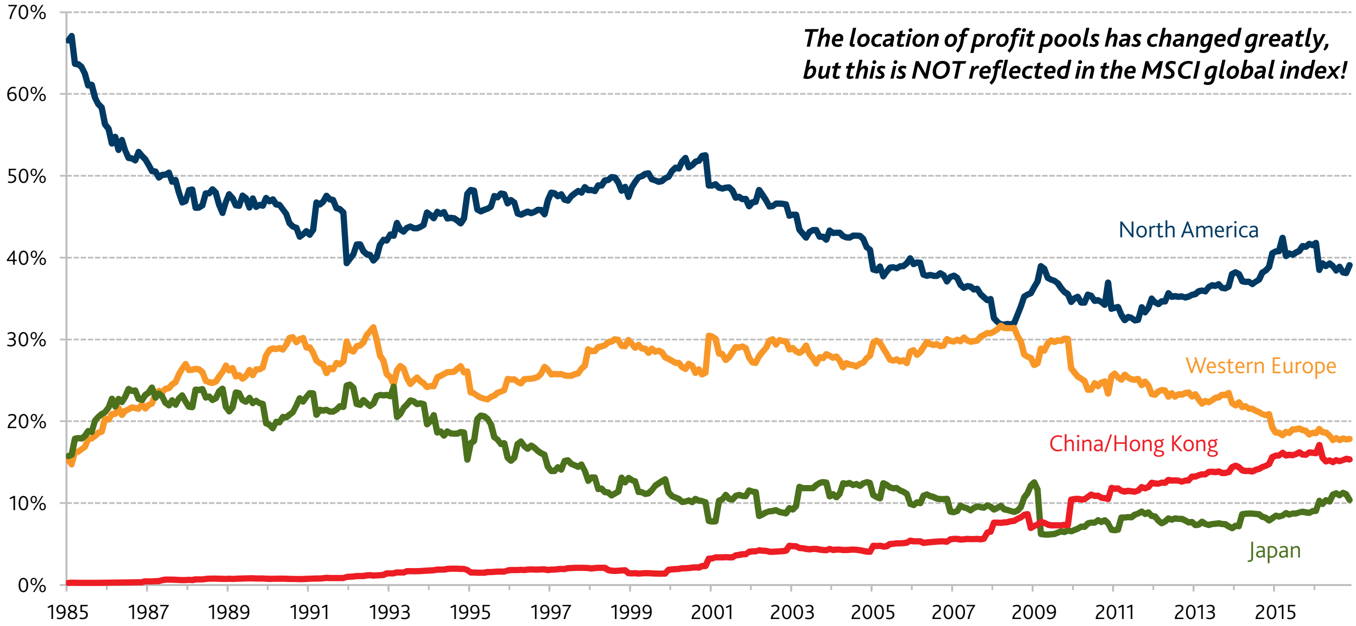
Source: US Census Bureau, Factset, Platinum.

US Unfilled Job Vacancies



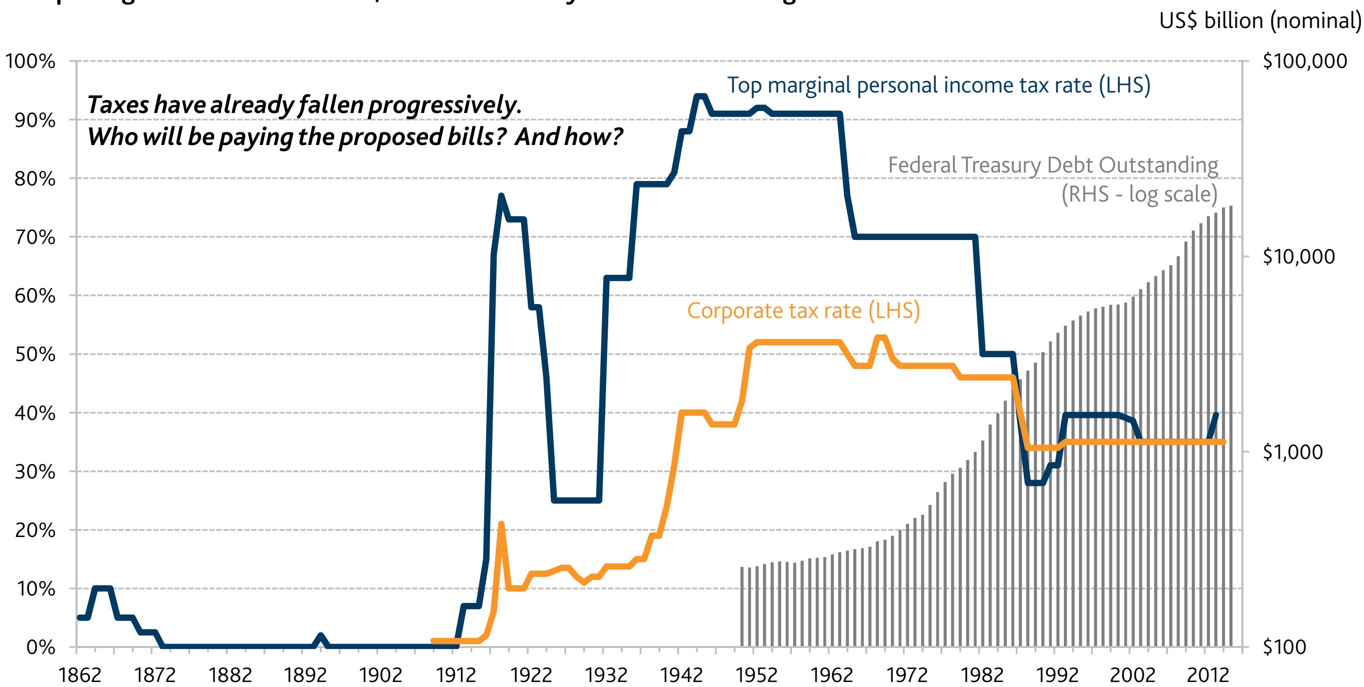
Source: OECD, NFIB Research Foundation, Platinum.

Regional Operating Profit Share of Global Profits (ex Financial)



Source: Factset, Platinum.

US Top Marginal Income Tax Rate, Federal Treasury Debt Outstanding



Source: US Treasury, Tax Foundation, Tax Policy Center, Platinum.

A Snapshot

Platinum International Fund

- This eventful quarter was marked by the unorthodox election campaign of Donald Trump and his subsequent win, the tragic loss of civilian lives in Syria, and an agreement among OPEC members (and some non-OPEC countries) to cut oil production, the first since 2008. Behind these headlines there is clear evidence of improving economic activity across much of the globe.
- Even though central banks in Europe and Japan have continued to suppress interest rates by buying debt and even equity, the underlying indicators for demand and, importantly, producer prices, have been rising for about half a year. Most important of all, in our view, is the bottoming of interest rates globally from mid-year to end a 36-year bull market in bonds.
- Much is made of the turn of the US economic tide with the election of Donald Trump as the next US President, but we believe the more telling change will come from improved sentiment and tax reform. The proposals so far are vague and contestable, however, if and when implemented, there would be a complete overhaul of the current system with wide-ranging implications.
- We are finding considerable differences in valuations across markets which are at odds with the growth prospects of companies. We believe this should allow us to make solid returns in the year ahead.

Platinum Unhedged Fund

- Underneath the doom and gloom of media headlines and political events (Brexit, Trump, Italian referendum), there has been a meaningful shift in price leadership among asset classes, in particular, favouring more cyclical businesses at the expense of the 'safe' defensives and bond proxies. Notably, there have been big price moves in both commodities and interest rates.
- In this report we will take an in-depth review of two key investment cases discussed in our previous Quarterly Reports, how each case has played out and whether our original thesis still holds.
- In keeping with the goal of looking for the best risk-adjusted return, the desired combination of low valuations and low expectations would point to better prospects in Asia and the Emerging Markets and, to a lesser extent, Europe and Japan. The US market, in stark contrast, is trading at a 30% premium to both its long-term average and the other markets.

Platinum Asia Fund

- Most markets in Asia delivered lacklustre performance, due to the unexpected US election outcome and the prospect of faster US interest rate hikes. Markets that are sensitive to US rates were hit particularly hard (e.g. Philippines -11%, Indonesia -5%).
- India's demonetisation (cancellation of Rs500 and Rs1000 notes) disrupted short-term activities, but there are potentially major long-term gains, such as the inclusion of a greater part of the population into the banking and taxation systems.
- We have witnessed a broad-based economic pickup in China in the second half of 2016. The surprise for 2017 may be an improvement in profitability and investment by the private sector as a positive PPI reading during the quarter – the first since 2012 – indicates improved demand and some success in excess capacity closure, which lent producers some pricing power.
- We are seeing renewed concerns over RMB depreciation, though the measures taken by the Chinese government should help slow the pace of capital outflow. Ongoing reform efforts will be front and centre for Chinese policymakers in 2017.

Platinum European Fund

- European economies are undergoing a broad-based recovery and incoming data suggests ongoing improvement. Investor sentiment has markedly improved in recent months. It is therefore quite possible that this rally has further to run.
- The new year will bring elections in the Netherlands, France and Germany as well as much rumination on the breadth of popular disenchantment with Liberalism, Internationalism and other principles fundamental to the European Project. Investors should be prepared for some turbulence ahead, but also keep in mind that opportunities arise when hysteria reigns.
- Eastern European countries enjoy many of the advantages of emerging economies while also benefit from their ties to the EU. This combination provides very fertile ground for economic development. Currently, approximately 13% of the Fund's capital is invested in banks that operate primarily in Eastern Europe, including OTP Bank, Erste Bank and Raiffeisen Bank.

Platinum Japan Fund

- During the quarter the Japanese stock market moved up to levels last seen in 2015, though this broad market strength was offset by a rapid depreciation of the Yen from around 100 to the USD to above 115.
- The Fund's recent purchases and longer-term holdings of energy producers, exporters, financials, low valuation stocks and electronics component manufacturers were strong contributors while a core portfolio of cheap defensive stocks in the telecommunication, gaming and healthcare sectors lagged the market.
- Nintendo, an industry leader in the computer game market, has been undergoing a range of organisational changes to address falling revenues and a changing market landscape. It has had a string of successes recently (Pokémon GO, Super Mario Run), but there remains a level of uncertainty in its profit outlook and investor perception.
- It seems as though a minor cyclical upswing is underway as the long expansion matures and Chinese economic growth responds to stimulus. Japan is likely to be a major beneficiary of this change in sentiment and global growth trajectory.

Platinum International Brands Fund

- The Fund's 12-month return (+9.4%) compares favourably to its benchmark MSCI AC World Index (+8.4%) as well as the MSCI World Indices for Consumer Discretionary (+3.4%) and Consumer Staples (+2.0%), though its three-year relative performance continues to reflect the lack of exposure to the so-called 'defensives' which we have been cautioning for some time.
- India's sudden demonetisation event impacted the Fund's Indian holdings, particularly the jewellery retailer Titan. However, with its large store footprint and strong brands across multiple product lines, we believe Titan is well-positioned to see a longer-term benefit from the demonetisation, the pending GST as well as tightening regulations on gold purity and hallmarks.
- Our outlook a year ago suggested that the Fund was weighted towards the emerging markets consumer sector by virtue of its stock picking and the opportunity for more robust growth rates with those companies. We see signs of good underlying growth in many of our companies and remain optimistic in our outlook.

Platinum International Health Care Fund

- 2016 has not been an easy year for healthcare investors. Consolidation was limited, pipeline disappointments dominated, and big biotech failed to inspire. Medtech was the subsector to hide in while specialty pharma was the one to avoid.
- What is encouraging, however, is that we are in the early innings of a new innovation cycle (e.g. precision medicine, robotics in operating theatres, immune therapy in oncology, gene therapy, biosimilars).
- The Fund is focused on these themes and this year has gone through some transition as we added new biotechs and sold some long-standing holdings. Our focused approach provided the portfolio with a cushion during this year's market corrections.
- The healthcare industry is heading into 2017 with a great deal of uncertainty, owing in part to the uncertainties around the Trump administration's policy direction. In such an unpredictable political and macro environment it is all the more important to focus on the science and research that underpin individual companies, which will ultimately lead to long-term growth.

Platinum International Technology Fund

- Semiconductor companies were strong performers this quarter while the Chinese Internet stocks suffered losses as investors worried about a potentially deteriorating relationship between China and the US. Despite this recent setback, we remain convinced that companies such as Tencent and Baidu continue to be well-placed to benefit from China's long-term growth.
- It was a busy quarter for mergers and acquisitions, with several of the Fund's holdings (Level 3 Communications, Time Warner, NXP Semiconductors) being the subject of takeover offers amidst a shifting landscape for media and telecom companies.
- The big challenge for 2017 will be to understand whether Trump's promised policies will be implemented and whether they will work in favour of or against technology companies given their global footprints. We will keep a close watch.

Platinum International Fund

Kerr Neilson Portfolio Manager

Andrew Clifford Portfolio Manager

Performance

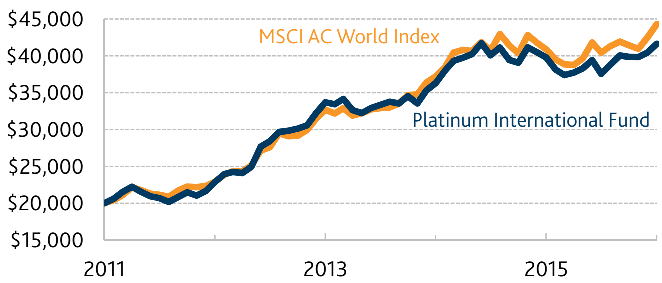
(compound pa, to 31 December 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund	4%	5%	7%	16%	13%
MSCI AC World Index	7%	8%	11%	17%	6%

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

Value of $20,000 Invested Over Five Years

31 December 2011 to 31 December 2016



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

Disposition of Assets

REGION	DEC 2016	SEP 2016	DEC 2015
Asia	32%	34%	32%
Europe	22%	20%	20%
North America	21%	24%	21%
Japan	13%	13%	10%
Australia	1%	1%	1%
Russia	1%	1%	1%
Cash	10%	7%	15%
Shorts	-16%	-15%	-11%

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

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposures, updated monthly, please visit https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	IT	3.5%
Alphabet Inc	USA	IT	3.2%
Tencent Holdings	China Ex PRC	IT	2.4%
Sanofi SA	France	Health Care	2.4%
PICC Property & Casualty Co	China Ex PRC	Financials	2.2%
AstraZeneca Plc	UK	Health Care	2.1%
Lixil Group Corporation	Japan	Industrials	2.0%
Intesa Sanpaolo SpA	Italy	Financials	2.0%
KB Financial Group	Korea	Financials	1.9%
Baidu.com	China Ex PRC	IT	1.9%

Source: Platinum. Refer to note 4, page 44.

It has been a highly eventful quarter. Matters that received the most attention in the world press were the **unorthodox election campaign of Donald Trump** and his subsequent win, the tragic **loss of civilian lives in Syria**, and the protracted negotiations among **OPEC members** and their subsequent agreement, which was reinforced later by promises of **production cuts** by some non-OPEC countries. This is the first time the Organization of the Petroleum Exporting Countries (OPEC) agreed to cut production since December 2008.

The other surprise was the decision of Prime Minister Modi of **India to suspend the convertibility of higher value Rupee notes**. The abruptness of the decision, driven by concerns about the black economy, counterfeiting and vote-buying in upcoming elections, has caused its fair share of disruption, but could carry the longer-term benefits of greater tax compliance, albeit perhaps at the cost of yet more delays in the implementation of the newly passed goods and services tax (GST) legislation. Lastly, concerns around **the Italian referendum and bank solvency turned out to be a damp squib** with Prime Minister Renzi resigning when the motion was defeated, and the stock market recovered!

Behind these headlines there is **clear evidence of improving economic activity almost across the globe**. This has somewhat diminished concerns around deflation, as has been reflected in bond yields finally starting to rise, with the US 10-Year Treasury yield moving from 1.6% at the beginning of the quarter to 2.5%. Similarly, German 10-Year Bunds moved from -0.10% to 0.3%, somewhat retarded by aggressive buying by the European Central Bank (ECB) as part of its ongoing quantitative easing (QE) program. Even in Japan, where the Bank of Japan's intervention has been very determined, bonds have weakened in price and yields have risen, indicating perhaps a return of price stability or even mild inflation.

On the back of higher yields and the expectations of potential tax reform that would benefit US domestic production over imports, the **US dollar is seen as a big beneficiary**. The US Dollar Index (DXY) has strengthened by 7% from the beginning of the quarter, or 6% since the presidential election took place in early November. Commodities have also been running strongly on the back of speculative price action, but this is now slowly subsiding.

In **China**, the work by the government to rebalance the economy continues. **Economic activity has been accelerating resolutely**, but there has been no let-up in the loss of foreign exchange reserves as the Chinese government intervenes to guide the glide of the Renminbi downwards against a basket of currencies that themselves have been weak against the US dollar. Expatriating funds has become

MSCI World Index Regional Performance (AUD)

REGION	QUARTER	1 YEAR
Developed Markets	**8%**	**8%**
Emerging Markets	**1%**	**12%**
United States	**9%**	**11%**
Europe	**6%**	**1%**
Germany	7%	3%
France	9%	5%
United Kingdom	5%	0%
Japan	**6%**	**3%**
Asia ex Japan	**-1%**	**6%**
China	-2%	1%
Hong Kong	-4%	3%
India	-3%	-1%
Korea	0%	9%
Australia	6%	12%

Source: MSCI

MSCI World Index Sector Performance (AUD)

SECTOR	QUARTER	1 YEAR
Financials	19%	13%
Energy	14%	28%
Materials	9%	24%
Industrials	7%	12%
Consumer Discretionary	7%	3%
Information Technology	5%	13%
Telecommunication Services	3%	6%
Utilities	2%	6%
Health Care	0%	-6%
Consumer Staples	-1%	2%

Source: MSCI

increasingly difficult and restrictions even apply to foreign-owned companies wishing to remit their profits. (These restrictions have interesting implications for the Australian residential market as a large number of properties bought off-the-plan are now approaching settlement. High-cost bridging and deposit forfeiture are the order of the day.)

From the stock market point of view, there has been a dramatic shift in flows. After a protracted leakage of funds out of equities, the past quarter saw a significant reversal with some evidence of a growing preference for equities over bond funds. Along with Financials, Cyclicals, for which investors had had little appetite until recently, bounced strongly ahead of earnings which investors hope will recover next year.

Strong contributors to the Fund's performance this quarter included the European banks (Mediobanca +34%, Raiffeisen Bank +28%, Intesa Sanpaolo +23%), our energy holdings (Inpex +29%, Eni +21%) as well as luxury goods group Kering (+19%) and Samsung Electronics (+13%). Weak performers included our Chinese stocks (Tencent -11%, Sina -18%, PICC -6%) and pharmaceutical group AstraZeneca (-11%).

Our stock selection is paying off, however, given our focus on absolute performance, 'insurance' has been a cost to relative performance, which we feel is justified by the uncertainties and high valuations. Even so, the Fund has returned nearly 16% per year over the past five turbulent years, versus 17% by the MSCI AC World Index ($A). **The Index, as we have frequently alluded to, is heavily weighted to the US market (54%) which also tilts it to being expensive by traditional measures.** There are, however, signs that the pattern has begun turning in favour of less index-obsessed funds in the second half of the year.

Shorting

We shifted around the index shorts to the Russell 2000, once it had outrun the S&P 500 by a 10% margin, and closed our puts on the S&P for a small benefit amidst the confusion of the Trump election win. In the late days of 2016 we have been buying puts on the S&P on the basis of their low cost in the face of the huge bullish repositioning in the US market that has taken place since the election. There is broad consensus that fewer regulations, lower taxes and more infrastructure spending will be beneficial. However, as you will read later in this report, there will be a time lag before implementation and some of the proposals may be difficult to drive into legislation. Very little concern about international repercussions from these changes seems to be priced into the market and, to the extent there are dangers, they are being seen principally as a cost to China.

Currency

We increased our position in the Australian dollar on the view that the improvement of Australia's terms of trade is significant and likely to be more enduring. This implies a bottoming of our interest rate cycle. However, the nature of the Republican US tax proposals caused us to partially reverse our position late in the quarter as those moves may result in the Australian dollar remaining out of favour and discourage natural foreign inflows. We remain hedged out of the Japanese yen and the Chinese yuan, and are long the Norwegian kroner which we bought at mid-year in anticipation of a stronger oil price.

CURRENCY	DEC 2016	SEP 2016	DEC 2015
US dollar (USD)	33%	32%	50%
Australian dollar (AUD)	19%	16%	10%
Euro (EUR)	13%	15%	8%
Hong Kong dollar (HKD)	11%	12%	9%
Norwegian krone (NOK)	9%	9%	3%
Indian rupee (INR)	6%	6%	6%
Korean won (KRW)	6%	6%	3%
British pound (GBP)	5%	4%	4%
Japanese yen (JPY)	4%	3%	11%
Chinese yuan (CNY)	-3%	-3%	-2%
Chinese yuan Offshore (CNH)	-6%	-6%	-6%

Source: Platinum

Changes to the Portfolio

We used some strong price moves to raise our cash holdings as the quarter progressed. Notably, we sold the Palladium-miner **Stillwater** after its price spiked 30% on a take-over offer. We also trimmed our largest holding, **Samsung Electronics**, whose share price incidentally barely budged on the Galaxy 7 battery fiasco and has subsequently reached new highs on the basis of strong demand for OLED and memory devices, which was part of our well-documented investment thesis. In the US we exited **McDonald's** for a good return, sold out of mortgage insurer **MGIC** after a long but profitable wait. We reduced our positions in the online payment intermediary **PayPal**, the Internet infrastructure facilitator **Level 3 Communications**, and **Carnival** cruise lines. All are good companies, but their share prices are now pricing in relatively optimistic earnings growth. In Asia, we took further profits on Internet play, **Sina**, and the Chinese white spirits purveyor **Kweichow Moutai**. Both have appreciated ahead of strong earnings expectations. We also reduced Japanese hydrocarbon producer **Inpex**, which has rallied strongly with the oil price.

Significant new entries were **FMC Technologies**, **K+S AG** and **Daimler AG**.

As part of our expectation of a higher oil price, we acquired two energy producers early in 2016, Inpex and Eni, and then broadened our search for those companies that would benefit from the eventual recovery in exploration and development expenditure. Prospects are hardly encouraging when the price of a commodity is weak, but with due reflection on other factors, one might identify the silver lining.

In the case of **FMC Technologies** there have been several important changes in the deep-sea hydrocarbons business that give rise to optimism. Technological advancements and plant integration procedures are changing which favour hydrocarbons to be processed on the sea floor instead of on rigs, and this is encouraging the tying-back of new wells to existing infrastructure, thereby obviating the need for production platforms. This will save capital outlays, which is significant for the private oil companies whose subsea reserves exceed those onshore. At the same time the number of equipment suppliers is diminishing following numerous mergers, and this helps restore some negotiating balance in a market where there are relatively few oil company buyers.

In the case of **FMC, it is merging with Technip** and will, together with the merged entity of Schlumberger/Cameron, dominate the subsea production systems (SPS) and subsea umbilicals, risers and flowlines (SURF) market with a market share exceeding 65%. Profits are still heading downwards, but are likely to bottom out in 2017 before recovering. The amplitude of the downturn will, however, be attenuated by the anticipated cost savings from the merged entity.

K+S AG is another cyclical company that has seen its share price collapse in the face of declining commodity prices and several one-off problems. K+S is the world's largest listed salt producer and Europe's largest potash supplier, with a granular-grade potash capacity of 7 million tonnes per annum (mtpa) across six German mines and 32 mtpa of salt capacity across regional subsidiaries. An eight-year decline in global potash prices, together with a six-month delay in commissioning its new potash mine in Saskatchewan, Canada – the first in 40 years – and curtailment of German potash production due to water disposal restrictions, has left the business challenged. A milder northern hemisphere winter has further weakened demand for de-icing salt with the concerns weighing on the company's share price.

However, a credit rating downgrade left the shares unaffected, supporting our assessment that the worst has passed. K+G's competitors' share prices have run up in anticipation of improving potash prices even though the mineral is still in surplus. However, it is not entirely a fungible market on account of transport costs and other considerations. Under our base forecast, which assumes a potash spot price of US$240/tonne, earnings can recover strongly, implying a P/E multiple of under 8 times, and this is before the benefits accrue from its new Canadian mine which is rated at 2 million tonnes a year. The North American producers, Potash Corp and Mosaic, are priced considerably higher on like mineral price forecasts.

Commentary

It is a tantalising idea that thunderous news coverage about *the economy* actually has *predictive value* or that the growth of an economy directly determines the prospect for a country's stock market. We are of the view that these apparent linkages are mostly random and a distraction, but in a world of loose anchorages, most assume they are better than nothing.

In case you feel this is being rather esoteric, consider the fact that operating profits of companies in China have doubled since 2007/08 and yet the stock market has declined by 40%. Its rating has deteriorated from 40 times to 20 times, yet the economy has grown at more than twice the rate of the best performing economy in the Western hemisphere. By contrast, annual operating profits in North America, excluding Financials, have risen by some US$300 billion since the last peak in 2007 to US$1.6 trillion (+23%), and yet the S&P index now stands at over 2200 versus 1500 in November 2007, a rise of 46%. This outperformance of the market relative to profits has been caused by a re-rating of earnings, from about the long-term average (16 times GAAP[1] earnings) to a solid premium of 20 times GAAP earnings.

Consider further the negative press coverage of the Japanese economy and the endless coverage of its shrinking population. Yet, profits are at an all-time high – nearly 10% of Japan's GDP, and in stark contrast to the US, its market rating is close to the lows of the last 30 years! In a similar vein, operating profits in Europe are currently at the same level as those reached in 2007 (US$ 1300 billion), yet the Stoxx index is 30% below the peak of 4500 reached in March 2007. Yes, agreed, too many numbers to ingest. But the message is

1 Generally Accepted Accounting Principles.

clear: **the relationship between economies, profits and stock markets can diverge immensely, *and yet many regard them as synonymous***.

So what? We are pretty clear that evidence of an improvement in the world economy started to appear at the end of the first quarter of 2016, with a rise in sentiment indicators, a recovery in Asian exports and, by mid-year, broad geographical improvements in Purchasing Managers' Indices (PMIs). Even though central banks in Europe and Japan have continued to suppress interest rates by buying debt and even equity instruments, the **underlying indicators for demand** and, importantly, producer prices, **have been rising for about half a year**. Most important of all, in our view, is the **bottoming of interest rates globally from mid-year to end a 36-year bull market in bonds**, the starting point of which traces back to the measures taken by the then US Federal Reserve Chair, Paul Volcker, in 1980 to break the back of persistent inflation!

Much is made of the turn of the US economic tide with the election of Donald Trump as the next President of the United States of America. There has been some excitement about the prospect of refined regulation and greater investment in infrastructure, but we believe **the more telling change will come from improved sentiment and tax reform**. There is a growing realisation of its magnitude as we write pre-New Year, but in all likelihood, it will be **the central focus of markets in the months ahead**. The proposals, which are based on a manifesto by Paul Ryan, the Republican Speaker of the House of Representatives, are vague and contestable. However, if the newly elected legislature does manage to turn the tentative proposals into concrete, implementable policies, there would be a complete overhaul of the current system:

- **Companies are to be taxed on their destination-based cash flow** where the 'border adjust' concept disallows the imported content, both goods and services, as a cost while excluding cash flows from exports, of both goods and services, as taxable revenue.
- **It leans heavily on the theoretical construct that the US dollar should appreciate** strongly, which will cut the cost of imports, as expressed in US dollars, while implying that exporters will adjust their selling prices downwards to reflect their tax free revenue treatment.
- **There will be a standard tax rate applied at perhaps 20%, from the current effective rate of around 27%**, with very few special deductions, and instead of depreciation, capex will be deductible against cash flow as incurred.
- **Interest costs** will not be deductible from taxable income.
- **The anomaly of taxation on global income will be solved by the consequential changes in company recognition of income** – foreign sourced being tax exempt. (This addresses the multi-nationals' past behaviour of shifting profits and is seen as one of the benefits of these reforms rather than supposedly promoting fairer trade! A transition proposal is to have an 8.75% tax on one-off remittances on income currently stored abroad.)

One's thoughts immediately turn to the prospect of such a gigantic step ever being implemented. And what will be the response from trading partners and business interests?

The case being made in the manifesto is that the US has effectively imposed a penalty on itself whereby its foreign trading partners levy value-added taxes (VAT) on exports received from the US and equally, the US effectively grants a subsidy on imports received from such VAT-driven countries.

In the face of **likely obstruction from the World Trade Organisation (WTO)**, which allows the imposition of indirect taxes at borders like VAT, but not direct taxes like company tax, which is levied after deduction of domestic labour costs, the US may attempt to argue that the cash flow concept creates a base equivalent to that of VAT. This would be highly contentious.

There is also likely to be noise from the business lobbies that are highly import-dependent regarding the passing-on of non-deductible import costs.

From a US legislative view point, the hurdle lies in the assumptions adopted by the Joint Committee on Taxation (JCT) which is now required to incorporate GDP impact when assessing the effects of the proposed changes in a tax bill. So long as the verdict is that the proposals are **tax neutral**, the legislation cannot be obstructed by filibusters in the Senate.

However, this system has other imperfections, such as the effect on imports by individuals, and non-tax-paying entities may require rebates for their exports. There is also the all-important and well-represented case for financial entities where destination-based cash flows are questionable.

Taxes on individuals are slated to drop, but closely interwoven in this is the removal of almost all special deductions.

As one can see, there are plenty of obstacles to these reforms, but the important point is that **they bring uncertainty to**

markets and, in the months ahead, one can expect a strong-willed business-orientated Cabinet team to play hard-ball. Of course, the notion of interest costs being non-deductible carries the other trap of **raising the theoretical cost of capital to US enterprises**, with the likely effect of reducing the attraction of share buy-backs.

Outlook

Some key points of likely issues in the year ahead:

- We might expect significant coverage and speculation around the **proposed changes to US company and personal tax regimes**. This will be complicated by both legislative procedures and matters of international trade.
- The **implications for the US dollar** are far-reaching with the Eurozone, China and Japan already receiving measurable benefits (growing trade surpluses) since the bottoming of the trade-weighted Dollar at 80 in mid-2014 (currently 103).
- The challenge for the US to lift growth in the face of relatively high employment and a strong Dollar suggests the need for **an investment surge** to augment productivity, rather than the less probable contributors of migration or an extended working age.
- The likely unfolding of **tensions between the US and some of its principal trading partners**, notably China, and the consequential **tit-for-tat** requires a close watch. This will reveal winners and losers in stock markets, though risk premiums seem lopsided.
- **China's credit boom**, which has **accelerated production and retail sales**, will continue to be closely watched and this will have important implications for real and perceived **demand for metals and minerals**.
- The global picture of continuing improvement in sentiment and rising producer prices will likely **remove references to deflation** with the consequence of bond yields being more attractive than they have been in 2016.
- The tensions between **political issues** (such as Brexit negotiations and elections on the European Continent), **company earnings and valuations** suggest selective opportunities rather than a uni-directional market.
- **Emerging technologies continue apace**, led by Artificial Intelligence, autonomous driving, improved battery storage capacity, robotic surgery, biotechnology, comprehensive IT security, the speed promise of 5G, and the list goes on as the full potential of computing power, sometimes hosted remotely and linked to sensors, unlocks the extraordinary potential of the Internet. The point here being that for all the wringing of hands about the dearth of conventional investment and weak productivity statistics, the **technological revolution is as potent as ever and probably under-measured**.

We are finding **considerable differences in valuations across markets** which are **at odds with the growth prospects of companies**. We believe this should allow us to make solid returns in the year ahead.

Platinum Unhedged Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	DEC 2016	SEP 2016	DEC 2015
Asia	30%	27%	29%
North America	25%	29%	28%
Europe	24%	22%	25%
Japan	8%	9%	9%
Russia	3%	3%	2%
Cash	10%	10%	7%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Raiffeisen Bank International	Austria	Financials	3.8%
Applus Services SA	Spain	Industrials	3.5%
Level 3 Communications	USA	Telecom	3.4%
Lixil Group Corporation	Japan	Industrials	3.3%
PICC Property & Casualty Co	China Ex PRC	Financials	3.2%
IHS Markit Ltd	USA	Industrials	3.2%
Alphabet Inc C Class	USA	IT	3.1%
Cisco Systems Inc	USA	IT	3.0%
Jiangsu Yanghe Brewery	China	Consumer Stap	3.0%
Erste Group Bank Ltd	Austria	Financials	2.9%

Source: Platinum. Refer to note 4, page 44.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposures, updated monthly, please visit https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds.

Performance

(compound pa, to 31 December 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund	7%	6%	9%	16%	11%
MSCI AC World Index	7%	8%	11%	17%	6%

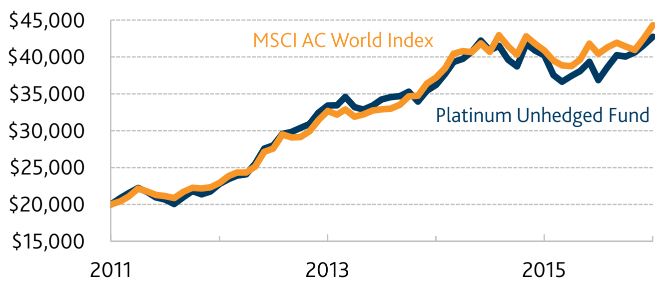
Source: Platinum and MSCI. Refer to note 1, page 44.

2016 has been a year where investor sentiment around macro and political issues has driven huge swings in global markets, with media headlines filled with concerns over a collapse in China, Brexit, a Trump presidency and the Italian referendum.

It is worth pointing out that the common thread to these events is that when the perceived 'bad outcome' did occur (as was the case with Brexit, Trump and Italy), the subsequent stock market reaction was considerably more positive. European banks quickly recovered from the Brexit sell-off, and, contrary to expectations, US and Italian stocks rose immediately after the two countries' respective election and referendum results! This is yet another reminder that market obsession with 'the macro' creates opportunities.

Value of $20,000 Invested Over Five Years

31 December 2011 to 31 December 2016



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

Underneath the headlines there has been a meaningful shift in price leadership among asset classes, in particular, favouring more cyclical businesses at the expense of the 'safe' defensives and bond proxies. This has been sparked by a realisation that global growth has been better than people had expected, governments are increasingly turning towards more fiscal stimulus, and that the combination should produce some inflation.

In response, there have been big price moves in both commodities and interest rates. Spot prices of thermal coal are up +69%, iron ore +60% and copper +20%, while government bond yields have risen considerably across developed markets.[1]

This has driven a huge rally in Materials (Antofagasta +28%, Rio Tinto 23%), Energy and Industrials (Inpex +28%, Suncor +22%, Baker Hughes +28%) and Banks (JP Morgan +30%, Mediobanca +38%, Intesa +23%). In contrast, the previously favoured 'safety' stocks like Consumer Staples (Colgate -11%, Nestle -10%) and Real Estate (Simon Property Group -14%, Macerich -14%) were weak.

The other major move over the quarter was the continued strength of the US dollar, rising 15% relative to the Yen, and 6.5% relative to the Euro and the Australian dollar.

Over the past year the return of the Fund has been 6.2%, compared to 8.4% for the MSCI AC World Net Index ($A).

Changes to the Portfolio

The major new addition to the Fund's portfolio over the quarter was **ENN Energy**, a last mile 'city gas' pipeline operator in China. ENN's business is very similar to that of China Resources Gas, which we detailed at length in the September 2016 Quarterly Report. As the main risk to these businesses are price changes set by local regulators, it made sense to diversify that risk across two companies, each operating in different regions.

In terms of selling, we fully exited from two of our oil exposed holdings **Suncor** and **Baker Hughes**. Baker had risen 45% from its August level after announcing that they would merge their business with General Electric's oil and gas product division. A generous assessment of the value of the combined business indicated a US$65 stock price which is where we sold out. Similarly, after a 30% move up to US$44, Suncor's price was factoring in an oil price of US$75-80 per barrel, which no longer allowed for much further upside.

Outside of this we trimmed our positions in **Level 3 Communications, PayPal, Carnival, Kweichow Moutai** and **AstraZeneca** after strong moves in their respective stock prices.

Commentary

When the Fund takes a substantial new holding in a company, we always try to include a detailed write-up in the Quarterly Report outlining the thinking behind the investment. It is a worthy exercise to go back from time to time and look at how those cases actually played out.

To ensure that we are focusing on investments that have had enough time to progress, we will look at some major holdings presented in the September 2014 and March 2015 Quarterly Reports, namely Applus Services and Kweichow Moutai.

Applus Services – In share price terms, the thesis has not played out as expected.

Applus is involved in testing and inspection, and is effectively an industry auditor for the oil, infrastructure and automotive industries. 60% of their business relates to the oil industry where they provide testing, certification and quality control services for oil pipelines, storage and petrochemical facilities.

We started buying Applus in December 2014 after its share price had fallen from €16 to €8, based on the collapse in the oil price down to US$45 a barrel. At the time we were looking for oil related companies that were cheap and would survive even if the recovery in the oil price took much longer than expected.

The initial case was built around the following considerations:

- Half of Applus' oil exposed revenue was mandated testing of infrastructure already in place, which would be stable in spite of the oil price fluctuations.
- The 40% of their business relating to autos and infrastructure (power lines, utilities) was growing nicely at mid-single digits and would continue to produce healthy profits throughout the oil downturn.
- At 10-11x earnings, the company was considerably cheaper than oil service peers (that had 100% exposure to the downturn) and other testing peers like Intertek and Bureau Veritas which traded on 17x.

1 The US 10-Year Treasury yield from 1.6% to 2.5%, the UK 10-Year Gilt yield from 0.6% to 1.25%, and the Italian 10-Year Government Bond yield from 1.1% to 1.8%.

How the case has progressed

Applus's non-energy related businesses have performed according to expectations, with revenue and profits in these divisions up 14% and 10% respectively since the end of 2014. The stand-out has been their automotive testing division IDIADA, which has benefited from the ongoing research and development of automated safety and autonomous driving features in the latest generation of cars.

Where our assessment and predictions faltered was how hard Applus' oil related revenue would be hit, in particular, the more recurring mandated audit work. While demand for the recurring audits held up, the problem was ***pricing***. Our view was that audit fees (a small expense in the scheme of things) would not be the first place that oil companies would look to for cost savings. However, given the intensity of the downturn, it seems all suppliers needed to make concessions and Applus was forced to offer 10-15% style discounts to maintain the work.

Overall, to management's credit, they have done an excellent job in managing costs through the protracted downturn, to the point where net profit this year is only 10% below the peak.

As I write, Applus is trading at €9.30 versus our average purchase price of €8.40. The 10% return has been very dull, especially when compared to the large moves we have seen elsewhere in the energy related stocks. However, we are still enthusiastic about the returns we can make from here. Activity in the energy industry is arguably at a trough and, with oil and gas capex set to pick up in 2017 and a number of pipelines nearing approval in the US, in our view, Applus should enjoy a steady recovery over the next three years.

Kweichow Moutai – This case has played out well.

Moutai is China's national premium brand of *baijiu* (white liquor), with a fabled history that included being Mao's choice of liquor to serve visiting heads of state. We acquired the bulk of our Moutai position between July and December 2014.

The main concern around the business at the time was the fall in demand and price driven by China's corruption crack-down. During the boom years, demand from the government sector accounted for a full 60% of Moutai's sales, and given it takes five years to produce new stock, supply shortages drove the retail price up to RMB1,800 a bottle (A$360). The advent of the corruption crack-down put an end to this, with demand from the government sector falling by 70% and the retail price halving to RMB900 (A$180) a bottle.

Our case around Moutai focused on the following key factors:

- The company was much better positioned to deal with the political climate than its peers as it had not pushed up wholesale price to distributors during the boom. Effectively it was the distributors who had made out like bandits when retail prices sky-rocketed, and they took the hit when prices collapsed.
- The fall in prices made Moutai more accessible to the middle class. There was evidence that public sector consumption was being replaced by the retail buyer.
- Moutai's valuation was already factoring in a pretty dire outcome. The stock traded on 11x earnings while it had US$5 billion of excess cash on its balance sheet – a huge discount to Western liquor makers who traded on 20x P/E and carried a lot of debt on their balance sheets.

How the story has progressed

The key development was Moutai's success in diversifying its business away from government officials, with this channel now representing less than 10% of sales. This was aided by two factors:

- There were many distributors who could not get access to supply in boom years. Once stock became available, they were eager to carry it, helping Moutai expand their retail reach.
- The supply shortage allowed many of Moutai's weaker competitors to gain market share with their own high end *baijiu* brands. Moutai's superior brand position allowed the company to reclaim that share once supply was no longer an issue.

With retail purchases picking up the slack, demand has now risen to a level where prices are rising again, from a low of RMB900 per bottle to recently trending at RMB1,200 for Chinese New Year. This is a very healthy sign for Moutai and gives them room to start modestly bumping up their wholesale price.

The market, seeing the business begin to grow again, has re-rated Moutai significantly, with the stock having more than doubled from our RMB150 (A$30) average entry price. While Moutai still has good potential for future growth, with the stock trading closer to a 20x P/E multiple (and no longer at a major discount to Western peers), we have been trimming our position.

Outlook

At this time of the year it is common to be asked about our view on where we should be invested in 2017 and beyond. When building the portfolio our main focus is around the specifics of each individual business, however, there are some broader factors that provide a signpost to what areas should be promising going forward.

So what factors can we observe today?

1. Past performance – This can be useful when identifying extremes, and arguably the US market is now falling into this category, having massively outperformed the alternatives in every time period over the past 10 years. Consistent with the adage 'trees don't grow to the sky', the simple observation here is that markets that have outperformed for a decade tend not to repeat the feat, with the last 50 years showing a pattern of mean reversion after long periods of outperformance/underperformance.
2. Valuation – On a P/E basis, Europe, Japan and Asia are trading in-line with their historical averages, while the US is trading at a 30% premium to both its long-term average and the other markets.
3. Sentiment and positioning – Across the spectrum of extremes, investor sentiment is still clearly negative around the Emerging Markets, cautious-to-neutral in Europe and Japan, and quite positive around the US post the Trump election win.

MSCI Index Market Performance to 31 December 2016 (in AUD — Non-Annualised)

	1 YR	3 YRS	5 YRS	10 YRS	P/E2017E	CAPE10YR*
North America	12%	53%	160%	96%	18x	27x
Japan	3%	33%	110%	15%	15x	24x
AC Europe	1%	11%	88%	10%	14x	15x
AC Asia ex Japan	6%	24%	79%	57%	12x	14x
Emerging Markets	12%	14%	51%	31%	12x	11x

* CAPE is the cyclically adjusted P/E. Current price divided by average earnings over the last 10 years adjusted for inflation.

Source: MSCI, StarCapital, Factset, JP Morgan.

It is important to point out that factors like starting valuations are not useful for predicting short-term returns. For example, the US market has been at lofty valuations for two years now and it continued to outperform. But starting valuations are fairly reliable in predicting long-term returns and, importantly, as an indicator of the amount of risk in markets.

In keeping with the goal of looking for the best risk-adjusted return, the desired combination of low valuations and low expectations would point to better prospects in Asia and the Emerging Markets and, to a lesser extent, Europe and Japan. This is broadly consistent with where we are finding interesting investments on a stock by stock basis today.

Platinum Asia Fund

Joseph Lai Portfolio Manager

Disposition of Assets

REGION	DEC 2016	SEP 2016	DEC 2015
China (Listed Ex PRC)	26%	30%	31%
China (Listed PRC)	9%	9%	9%
Hong Kong	*1%	3%	4%
Taiwan	3%	2%	3%
India	17%	18%	18%
Korea	9%	9%	8%
Thailand	7%	6%	6%
Philippines	4%	5%	4%
Vietnam	3%	3%	3%
Singapore	*2%	<1%	2%
Malaysia	1%	1%	<1%
Cash	18%	14%	12%

* The changes in the stated Hong Kong and Singapore exposures are largely attributable to the geographic reclassification of Jardine Matheson Holdings (2.4% of the Fund) from a Hong Kong company to a Singapore company.

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Ayala Corp	Philippines	Financials	3.3%
Kasikornbank PCL	Thailand	Financials	3.1%
Ping An Insurance Group	China	Financials	3.0%
Samsung Electronics	Korea	IT	2.7%
Baidu.com	China Ex PRC	IT	2.6%
Jiangsu Yanghe Brewery	China	Consumer Stap	2.5%
Anta Sports Products Ltd	China Ex PRC	Consumer Disc	2.5%
Jardine Matheson Holdings	Singapore	Industrials	2.4%
Tencent Holdings Ltd	China Ex PRC	IT	2.3%
ENN Energy Holdings	China Ex PRC	Utilities	2.1%

Source: Platinum. Refer to note 4, page 44.

Performance

(compound pa, to 31 December 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund	-2%	0%	8%	14%	15%
MSCI AC Asia ex Jp Index	-1%	6%	7%	12%	10%

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

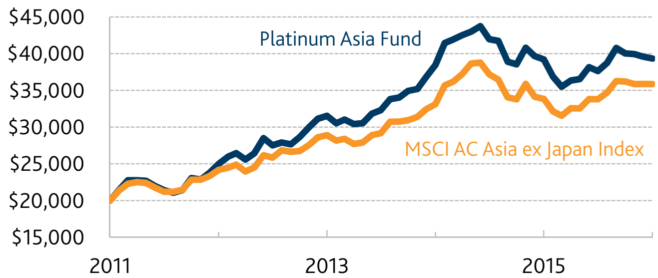
Asian markets were down -4% for the quarter in local currency. With some easing by the depreciation of the Australian dollar, the MSCI AC Asia Ex Japan Index returned -1% in AUD terms.

Most markets in Asia delivered lacklustre performance. The unexpected US election outcome and the prospect of faster US interest rate hikes rattled the Asian markets. In India, the government's bold efforts to curb corruption and counterfeit currency culminated in a dramatic exercise known locally as "demonetisation" which disrupted economic activities in the short-term and led to a sell-off in the stock market.

Markets that are particularly sensitive to US rates were the under-performers, with the Philippines down -11% and Indonesia down -5%. Elsewhere, the Indian market was down -6% and the Hong Kong market returned -9%. The Chinese

Value of $20,000 Invested Over Five Years

31 December 2011 to 31 December 2016



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

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposures, updated monthly, please visit https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds.

domestic A-share (+1%), Thailand (+1%) and Korean (+2%) markets were relatively flat.

The Fund's Korean and Chinese A-share companies were the better performers. In Korea, Samsung Electronics and Shinhan Financial were both up +13% while SK Hynix (memory chip maker) rose +11%. In China, Kweichow Moutai (liquor producer) was up +12% while Weichai Power (manufacturer of heavy duty trucks and engines) was up +8%.

Changes to the Portfolio

The Fund's invested position was 82% as of quarter end, leaving room to further upgrade holdings when opportunities arise. On the currency side, the Fund is maintaining its hedge against the depreciating Chinese Renminbi.

During the quarter, we reduced our exposure to stocks that have reached our assessment of fair value while taking advantage of price weaknesses to add to companies with strong market positions and a healthy growth outlook.

The Fund initiated a position in **Shriram Transport Finance Company**, the leading finance provider for second hand truck purchases in India. This company has specialised expertise in this niche area and has decades of experience operating in a market where many capable financial institutions have found almost impossible to penetrate. Current valuation has more than factored in the temporary impact of the demonetisation-induced reduction in truck demand, while the company's long-term prospect looks very promising.

The Fund also added **Axis Bank**, a strong private bank in India. As noted in our previous reports, the Indian banking sector is still hindered by the stale public sector banks, and the more agile private banks are very well placed to take market share and grow profitably. By our assessment, the non-performing loan cycle is close to peaking. Trading at trough valuations, this company is attractively priced given its favourable growth trajectory ahead.

Commentary

India

On 9th November, the Indian government, in a bold attempt to fight counterfeit currency and, to a lesser extent, ill-gotten gains, announced without any forewarning the cancellation of the Rs500 and Rs1000 notes as legal tender (equivalent to A$10 and A$20). This so-called demonetisation exercise was an audacious move, as the notes being withdrawn represented 86% of the value of the currency in circulation. It was troublesome for those hoarders of cash, as swapping the notes would reveal their identity. For the real economy, the short-term impact on the still largely cash-dominated industries was also being felt, as ordinary people scrambled to swap their old notes for new ones and the system struggled to cope with the large volume of demand.

Anecdotal evidence coming out of the consumer sector is showing a rather dramatic slowdown, as seen in auto sales (down 7% month-on-month in November) and motorbike sales (typically a bellwether of the rural economy, down 15% month-on-month). Other indicators such as the Purchasing Managers' Index (PMI) and credit growth are also painting the picture of a sharp contraction.

Having said that, the peak in distress should have now passed, with over 80% of the Rs500 and Rs1000 notes banked and about a third of their total value dispensed in new denominations (via cash withdrawals from banks and ATMs) to provide liquidity to the economy. Despite the inconvenience, various surveys indicate that 80-90% of Indians support this move!

This is a short-term liquidity event, and once liquidity returns to the system, the extreme short-term loss of activity should quickly reverse, though the timing is difficult to determine. Given the declining trend in inflation, which has been exacerbated by the demonetisation, it is likely that the Reserve Bank of India will cut interest rates to mitigate the slowdown.

On the other hand, the move may potentially bring some major positives over the longer term. Through this exercise, the banking system has experienced a significant inflow of cash deposits. Assuming some of that remains within the banking system (i.e. not immediately swapped for cash in notes of other denominations), this should ultimately allow for the creation of more credit. Moreover, demonetisation is bringing a greater percentage of the population into the banking and taxation systems. As farmers, street peddlers and every other Indian deposit their about-to-be-obsolete cash with the banks, a significant portion of the fund inflow has been recycled by the banks into the government bond market.

The demonetisation has come at a significant time for India. The economy has passed through a prolonged downward cycle in capital spending and an accompanying credit cycle. A determined government is undertaking difficult reforms, such as legislating for a Goods and Services Tax (GST), introducing regulations to facilitate foreclosure on non-performing loans (for example, the banks were able to recover some funds from forced asset sales by defaulting borrowers such as the notorious Vijay Mallya's Kingfisher Airlines, Essar, and Jaypee Group), and the ongoing rollout of programs using the national ID scheme to prevent fraud in various government subsidy programs.

Our Indian bank stocks have been relatively resilient since the announcement of the demonetisation. Clearly the banks are benefiting from the inflow of funds, and there is downward pressure on interest rates. The consumer stocks, to which we do not have a significant exposure, have suffered bigger falls (they are generally the market favourites and much more highly rated), though indeed seem to be heading for a fairly sharp recovery.

China

We have witnessed a broad-based economic pickup in China in the second half of 2016. Further to the rise in power generation noted in our September 2016 Quarterly Report, power consumption and output continued to surge, rising 7% year-on-year in November, albeit, admittedly, from a low base. Recovery in construction machinery sales also kept its momentum from the July-September quarter. November excavator sales grew 75% year-on-year, 14% month-on-month. Heavy duty truck and engine sales grew 97% year-on-year for the month of November and 30% for the first 11 months of 2016. Diesel engine sales also saw an impressive 48% jump year-on-year in November. Stock prices of industrial companies like Weichai Power benefited significantly.

The all-important property market has recovered and stabilised over the last 18 months, with good clearance rates of vacant apartments in the larger cities, and that has led to an improvement in construction activity. Indeed, the property market in some parts of the country has been so buoyant that at the beginning of October policies were re-introduced to rein it in across 22 first- and second-tier cities. In cities like Nanjing and Hefei, inventory levels have dropped to as low as a supply of three months. These new policies attempt to curb speculative demand by restricting the number of properties that residents and non-residents are allowed to own respectively and by increasing the down payment home buyers are required to pay in order to obtain a mortgage. A subsequent slowdown has been noticeable and further tightening measures appear unlikely.

Some of the government's fiscal stimulus spending has been flowing into infrastructure. The number of public-private-partnership projects, which are predominantly infrastructure projects, rose from 30 in 2014 to 516 in 2016, worth more than a trillion yuan (approximately A$200 billion). Looking ahead, fiscal stimulation is expected to continue as 2017 will be an important transition year for China's senior leadership, and the country has capacity to do more given that its central government debt levels are relatively low and its fiscal deficit remains manageable.

The surprise for 2017 may be an improvement in profitability and investment by the private sector. A Producer Price Index (PPI) is an index that measures changes in prices received by domestic producers for their output. China's PPI has turned positive during the quarter, the first time since February 2012. This has come about due to improved demand, as noted above, and the success (though limited) achieved in excess capacity closure, which lent producers some ***pricing power***! PPI matters because it has significant linkages to China's economic growth, industrial profits, and stock market performance. For instance, with construction equipment sales down 50-60% from two years ago, the recent pick-up in building activity has led to a need to restock at the very least, with some producers even reporting tightening capacity.

We are seeing renewed concerns over RMB depreciation. As the country's economy adjusts to a slower growth pace, the Chinese currency is naturally experiencing depreciative pressure. The Australian dollar, for instance, also depreciated significantly against the USD because its economic growth has stalled as a result of China's slowdown. In an effort to control the pace of the RMB decline, the Chinese government has called on its foreign reserves and incrementally stepped up capital outflow restrictions. These measures entail increased scrutiny on companies making outbound investments and foreign property purchases as well as a crackdown on mainland Chinese tourists using their credit cards to buy insurance policies with a savings plan in Hong Kong. Whilst we acknowledge that capital flight is a real risk, which we are watching closely, we believe the policy response to date should help slow the pace of outflow.

Moreover, the direct impact of currency depreciation on China is limited. Given that most of China's debt is domestic, a fall in the Chinese currency will not significantly impact Chinese firms' ability to service their debt. The negative impact of tighter capital outflow will be felt more acutely outside of China in sectors that have benefited from the capital outflow in the past.

The new US President-elect and the team he has assembled appear to have a more protectionist policy outlook than the previous administration. Increased trade friction is a real possibility, but a major trade war will also negatively impact US exporters and consumers, and that will get in the way of their desire to "make America great again". Protectionist measures by the US will increase the Chinese government's determination to rebalance the country steadfastly into a more consumption-led economy.

The longer term outlook for China rests on the effectiveness of its reform efforts, which will be front and centre for Chinese policymakers in 2017. There is more progress on financial liberalisation, with the long-awaited Shenzhen-Hong Kong Stock Connect having commenced operation in December, following the 2014 launch of the Shanghai-Hong Kong Stock Connect. This new program opens up access to the domestic Shenzhen Stock Exchange by foreign investors while at the same time offers reciprocal rights to qualified domestic investors to invest in certain stocks that are listed on Hong Kong Stock Exchange. As the Chinese A-share market currently only has less than 2% foreign participation, compared to Asia's regional average of 30%, we see this as a positive step towards introducing more institutional investors with longer investment horizons into the A-share market which is currently dominated by local retail investors.

Recent announcements coming out of China's Central Economic Work Conference highlighted an increased emphasis on state-owned enterprise (SOE) reform, with six central government-owned SOEs been selected to participate in a mixed ownership reform pilot program through the introduction of strategic shareholders from the private sector. Historically, these SOEs have tended to deliver sub-optimal returns as they have often had to contend with conflicting objectives from different regulators. With more decision-making power now in the hands of their board of directors, together with the introduction of more market-oriented objectives for management teams, we may see these SOEs begin to behave in a more economically rational manner.

Korea

A political crisis is brewing in Korea. President Park was impeached in December following a series of scandals. One of her aides was reported to have been extorting money from the *chaebols* (Korea's powerful family-controlled conglomerates), claiming influence over the President. As a result, it is likely that the election will be brought forward from late 2017. An interesting investment implication is that the *chaebols*, anticipating reform pressure from a new government, may take it upon themselves to simplify their cumbersome corporate structures ahead of the election. Once reformed, it is expected that the interests of the controlling families will be more aligned with those of minority shareholders, leading to more shareholder-friendly policies, such as a higher dividend payout ratio and more frequent share buyback programs.

Outlook

The markets have been volatile, as the paths of reform are often not straightforward despite the rewards that lie ahead.

Government and private sector activities together should provide stability to the Chinese economy. Coupled with further efforts to close excess capacity, some improvements in corporate profitability and investment spending can be expected in the coming year. The Indian story is panning out largely as anticipated, and the likelihood of further interest rate cuts has increased, although the demonetisation exercise has led to temporary weakness.

There is a huge amount of activity happening in Asia, and our view is that the reform measures being pursued by policymakers are generally encouraging. Notwithstanding short-term turbulences, companies in the region with sustainable, competitive positions will likely prove to be worthwhile investments over the long run. Given that the markets have adjusted, the starting valuation for some companies is looking quite attractive. The Fund will continue to deploy its capital when suitable opportunities arise.

Platinum European Fund

Clay Smolinski Portfolio Manager

Nik Dvornak Portfolio Manager

Performance

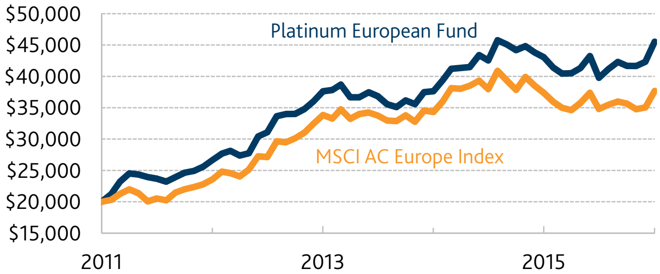
(compound pa, to 31 December 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund	9%	6%	7%	18%	12%
MSCI AC Europe Index	6%	1%	4%	13%	2%

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

Value of $20,000 Invested Over Five Years

31 December 2011 to 31 December 2016



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

Disposition of Assets

REGION	DEC 2016	SEP 2016	DEC 2015
Germany	24%	24%	16%
UK	16%	18%	21%
Austria	9%	9%	5%
Italy	6%	7%	4%
France	7%	6%	4%
US *	4%	4%	4%
Russia	4%	4%	4%
Spain	3%	5%	5%
Hungary	3%	3%	2%
Netherlands	3%	3%	1%
Norway	3%	2%	1%
Switzerland	2%	2%	3%
Sweden	1%	1%	1%
Cash	15%	12%	29%
Shorts	-1%	-2%	0%

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

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Raiffeisen Bank International	Austria	Financials	5.8%
IHS Markit Ltd	USA	Industrials	4.2%
Erste Group Bank	Austria	Financials	3.6%
Mediobanca SpA	Italy	Financials	3.4%
Applus Services SA	Spain	Industrials	3.4%
Hornbach Baumarkt AG	Germany	Consumer Disc	3.3%
Carnival Plc	UK	Consumer Disc	3.3%
OTP Bank Plc	Hungary	Financials	3.3%
Kering	France	Consumer Disc	2.9%
Sanofi SA	France	Health Care	2.8%

Source: Platinum. Refer to note 4, page 44.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposures, updated monthly, please visit https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds.

Instead of triggering the expected flight to safety, the election of Donald Trump as the 45th President of the United States catalysed a rotation from defensive to cyclical assets. As investors reassess the prospects for growth and inflation, bond yields are moving sharply higher. The extreme crowding in bonds and equity market 'bond proxies' seems to be unwinding. These developments underscore the peril of following the crowd and overpaying for safety.

In the past three months, stock prices in Europe continued their post-Brexit recovery. Cyclical sectors led markets higher, with Materials, Energy and Financials being the best performers. Former safe havens, including Utilities, Property and Staples, fared poorly. So too did Healthcare stocks as investors agonise over what a Trump presidency means for US drug prices. Highly-valued growth stocks also fell out of favour as a cyclical recovery diminishes their scarcity value.

The Fund returned 9.3% for the quarter and 5.8% for the year (in Australian dollar terms). This compares to 5.6% and 0.8%, respectively, for our benchmark. Bank stocks contributed strongly to our quarterly performance with **Mediobanca** (+34%) and **Raiffeisen** (+28%) being outstanding performers. Market research company, **GfK**, another large holding, appreciated 40% following a buyout offer. Detracting from our performance were structural growth stocks, healthcare stocks and Swedish telecom equipment provider, **Ericsson** (-14%).

Commentary

In November 1992, Kerry Packer bought 10% of Westpac for just over $2.50 per share. A decade later, Westpac shares were worth six times as much and had paid a handy dividend along the way. A great investment in hindsight (had he held on).

But a little foresight may have served one just as well. At the time, Australia was emerging from a recession. Westpac traded at six times earnings. Risk was low at this point with the recession and sky-high interest rates having already shaken out the riskier borrowers. Meanwhile, the growth prospects were appealing. Australian households had little debt while their incomes would grow and interest rates would fall over coming years, allowing them to greatly increase their borrowing. Moreover, foreign banks were pulling out, reducing competition in the industry. All in all, it was a good environment to be buying banks in.

For Australian investors, such opportunities are rare. For international investors they are more common. We can't take our readers back in time to buy Westpac in 1992, but we can take them to present-day Eastern Europe where the economic and banking environment has many parallels to Australia's in the early 1990s.

Eastern Europe comprises a collection of emerging economies at various stages of development. Like most emerging markets, these economies have the potential to grow rapidly due to a combination of competitive labour costs and an abundance of unexploited opportunities to deploy capital.

But Eastern European economies also have some attributes that other emerging markets lack. They have a highly educated labour force. They receive steadfast, long-term, investment from the European Structural and Investment Funds. And, as members of the European Union (EU) or as part of the EU accession process, they subordinate themselves to EU law and oversight, meaning that they essentially 'import' strong, independent civic institutions from Western Europe to uphold the rule of law and citizens' rights.

The above setting provides very fertile ground for economic development and Eastern Europe enjoyed rapid economic expansion from the mid-1990s to 2008. The problem was that large current account deficits were allowed to persist during this period, resulting in the accumulation of foreign debt. This left the region vulnerable when the Global Financial Crisis (GFC) struck. In the absence of generous labour protections and welfare states, markets were allowed to clear. Jobs, wages and hours were cut aggressively. Unemployment spiked and consumer spending fell sharply. Most countries in the region suffered two harsh recessions in 2009 and 2012-13.

Through this painful episode, competitiveness was restored. Exports have grown strongly and current accounts are now balanced or in surplus. Since 2014 both growth and unemployment have returned to their pre-GFC levels. Debt has been aggressively repaid (or defaulted on), leaving household and corporate balance sheets in excellent shape. Wage growth is now picking up with little effect on inflation.

Hungary is a case in point. The economy contracted by a devastating 7% in 2009 and another 2% in 2012-13 with weak growth in the interim. However, since 2014 the economy has been growing at 3-4% annually and output has comfortably surpassed its 2008 level. Unemployment spiked to 11% and stayed there for a couple of years, but is now under 6%, lower than before the GFC. The current account has swung from a 7% deficit to a 4% surplus. Bank loans have been shrinking for seven years, leaving households and businesses with very low levels of debt, while interest rates have fallen from 8% in

2008 to under 1% today. The private sector's capacity to assume debt and repay it is excellent and, with growth returning, they are likely to do so.

OTP Bank is the leading bank in Hungary with a 25% market share. The foreign-owned banks that it competes with have cut their staff and branch numbers by 33-50% since 2009, reducing competition in the industry. There is very little risk left on its balance sheet simply because around 20% of loans have been written off. The 80% that are left have survived six years of recession and are, therefore, owed by exceedingly creditworthy borrowers. OTP is very conservatively funded and has very low leverage for a bank. Its growth prospects are excellent with the economy recovering, interest rates at rock bottom and customers having hardly any debt. OTP Bank in 2016 has many parallels with Westpac in 1992.

We bought OTP 18 months ago, paying under 8x earnings and 1.1x book value. This is significantly cheaper than most banks globally even though it has far-better-than-average growth prospects and much-lower-than-average risk. By way of comparison, Westpac today trades on 14x earnings and 1.8x book value.

Currently, approximately 13% of the Fund's capital is invested in banks that operate primarily in Eastern Europe. These comprise **OTP Bank, Erste Bank** and **Raiffeisen Bank International**.

Changes to the Portfolio

In response to recent share price appreciation and our large exposure to the banking sector, we trimmed a number of our bank holdings during the quarter. While we believe significant upside remains, it is not as asymmetric as it once was. We also reduced our position in cruise-operator, **Carnival**, and sold our stake in Spanish airport manager, **Aena**. Both positions have delivered excellent returns for the portfolio, but valuations now adequately reflect their prospects.

Our holding in market research company, **GfK**, was also sold in full. Here things have not gone as we had hoped. The business had struggled to turn around a challenged division and lost its CEO in the process. However, our entry price allowed considerable room for error and we ultimately sold out at a hefty profit, following a tender offer by private equity firm KKR.

Outlook

European economies are undergoing a broad-based recovery and incoming data suggests ongoing improvement. Investor sentiment has markedly improved in recent months, evidenced by a rotation into cyclical sectors and the ease with which markets absorbed the rejection of Matteo Renzi's reform agenda for Italy. It is therefore quite possible that this rally has further to run.

Yet, the political and economic risks have become no less menacing.

In the year ahead, the market will need to navigate higher bond yields and rising short-term rates in US dollar-linked economies. Considering the level of stimulus being applied, the European recovery remains tenuous. Rebalancing and reform in China also remains elusive (dare we say: illusive) while credit growth continues unabated and the stakes mount.

The new year will bring elections in the Netherlands, France and Germany as well as much rumination on the breadth of popular disenchantment with Liberalism, Internationalism and other principles fundamental to the European Project. Investors should, therefore, be prepared for some turbulence ahead but also understand that the best opportunities arise when hysteria reigns.

Platinum Japan Fund

Scott Gilchrist Portfolio Manager

Disposition of Assets

REGION	DEC 2016	SEP 2016	DEC 2015
Japan	95%	92%	71%
Korea	0%	0%	3%
Cash	5%	8%	26%
Shorts	0%	0%	-5%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Mitsubishi UFJ Financial	Japan	Financials	4.2%
Ushio	Japan	Industrials	4.0%
Sumitomo Mitsui Financial	Japan	Financials	3.9%
NTT	Japan	Telecom	3.5%
Inpex Corporation	Japan	Energy	3.5%
Nintendo	Japan	IT	3.5%
JSR Corporation	Japan	Materials	3.5%
Ibiden	Japan	IT	3.1%
JAPEX	Japan	Energy	3.1%
Kyocera Corp	Japan	IT	3.1%

Source: Platinum. Refer to note 4, page 44.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposures, updated monthly, please visit https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds.

Portfolio Position

Sector Breakdown

SECTOR	DEC 2016
JAPANESE INTERNATIONAL FOCUS	50%
Electronics	26%
Industrials	10%
Autos	7%
Energy	7%
JAPANESE DOMESTIC FOCUS	45%
Internet	21%
Financials	13%
Health Care	4%
Property	4%
Consumer	3%
GROSS LONG	95%

Source: Platinum

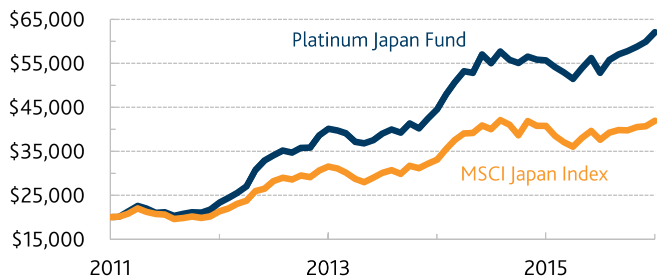
Currency Position

Japanese yen	71%
US dollar	20%
Australian dollar	9%

Source: Platinum

Value of $20,000 Invested Over Five Years

31 December 2011 to 31 December 2016



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

Performance

(compound pa, to 31 December 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund	7%	11%	16%	25%	15%
MSCI Japan Index	6%	3%	10%	16%	2%

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

Portfolio performance for the quarter was positive as the Japanese stock market moved up to levels last seen in 2015. This broad market strength was offset by a rapid depreciation of the Yen from around 100 to the US dollar to above 115. The Fund's currency hedges against the Yen into both the Australian dollar and US dollar were positive contributors to performance. The shift in the trajectory of the currency led to outperformance of cyclicals and low valuation stocks. The portfolio's recent purchases and longer-term holdings of energy producers, exporters, financials, low valuation stocks and electronics component manufacturers were strong contributors while a core portfolio of cheap defensive stocks in the telecommunication, gaming and healthcare sectors lagged the market. Nintendo and DeNA were both weak during the quarter.

Over the last two years since December 2014, the Fund has risen 39%. This is nearly 13% ahead of the MSCI Japan Index (in AUD terms).

Changes to the Portfolio

There were limited changes to the portfolio during the quarter except for a small increase in cash towards the end of the calendar year due to the trimming of one defensive stock and the sale of some cyclicals. A number of small new positions were initiated.

Commentary

Nintendo

Nintendo has been through many stages of development since it was founded in 1889. At various times it has sold playing cards, robotic toys and vacuum cleaners. It has also operated taxi fleets and hotels. There have been periods of great success, times of failure and periods when they struggled under a heavy debt load. Until recent decades, the Yamauchi family managed the company. For today's context, the key event was the release of their first video game in 1975. This was followed in 1981 by Donkey Kong, a new character developed by Shigeru Miyamoto, who is also known as the father of Mario. Since 1983, Nintendo has sold over 700 million hardware units and 4.5 billion software units across a wide range of Entertainment Properties including their prime positions of Pokémon, Legend of Zelda and Mario. Their overall – and arguably industry leading – success in the computer game market is despite a long list of mistakes both in hardware and software across their many console generations.

Nintendo's revenues have fallen for eight straight years from their peak in 2009. In early 2015, Nintendo announced a partnership and cross-shareholding with DeNA, a Japanese gaming and platform company. This was the first and most visible in a list of changes that they had been planning for a while. Changes accelerated following the death of widely admired CEO Iwata-san from bile duct cancer at age 55. Iwata had been the first external President of Nintendo. Incoming President Kimishima previously worked at The Pokémon Company and Nintendo of America, but is an outsider relative to the Board members who are lifetime employees. The ongoing organisational changes range from wholesale merging of internal divisions under new, younger leaders to more prosaic shifts such as Nintendo of Europe's office move from rural Germany to Frankfurt, near the airport. The sale of their long-held shareholding in the Seattle Mariners baseball franchise seems to indicate an ongoing focus on the core business.

Left: Pikachu from Pokémon GO. Source: Reddit
Right: Pokémon GO Plus worn on a wrist. Source: Cnet.com

Nintendo's recent string of successes has been impressive. Pokémon GO has been the most visible, but Super Mario Run has also been a success. A small piece of gaming hardware associated with Pokémon GO, called the Pokémon GO Plus, remains sold out. Nintendo also released a retro miniaturised version of their 1990 NES (Nintendo Entertainment System) which also remains sold out. A groundswell is building which has flowed through to their licensed products including coffee mugs, t-shirts and books. Packaged game sales of the latest Pokémon release have sold faster than any previous version. Christmas shopping trips showed empty shelves at toy stores for a wide range of Nintendo products including Pokémon playing cards. One Internet research firm found that the growth in Nintendo's search traffic increased by a factor of 60 over calendar year 2016. The overarching strategy of tapping into prior experiences with Nintendo products in addition to accessing a wider audience has been a resounding operational and branding success.

Pokémon GO is by some metrics the most successful mobile phone app ever developed. Since July 2016 it has been downloaded 900 million times and grandparents have reportedly been the demographic group responsible for the most in-app purchases as they spoil their grandchildren with virtual gifts. It is not yet possible to clearly delineate the limits of the game, but recent sponsorship deals with businesses like McDonald's in Japan, Sprint and Starbucks gives some hint at the opportunity. Super Mario Run was an eagerly awaited game with tens of millions of pre-notifications for its exclusive launch with Apple following an extensive advertising effort. The final product quality and gameplay is excellent, in keeping with the history of the franchise, and reviews from the industry have been glowing. Reviews from the broader community, however, have been lukewarm at best. The app became the fastest download in the history of the App Store and reached 90 million downloads within three weeks of its launch in mid-December. However, only three million of those users have actually paid $10 to purchase the full game after playing the initial three free levels. Nintendo has always prided itself on doing things differently, and in parallel has fought a long-running battle against piracy. The App Store has an unknown amount of pirates, perhaps approaching ten percent, but the real problem is the culture that has developed around "free apps". This system has existed for many decades, but has risen to prominence with the proliferation of smartphones. In a modern version mix of capitalism and socialism, a small number of players are paying for the majority to enjoy free entertainment. This system elicits both delight and revulsion from various parts of the gaming community which is generally not known for calmness and balance. Nintendo and Apple seem to want to change the culture of payment and piracy in the Apple ecosystem. Their initial attempt has failed, but there will undoubtedly be repeated attempts. The well-suited partnership between Nintendo and Apple could develop further in quite unexpected ways.

Lingering concerns remain that Nintendo has neither accepted the realities of the current marketplace nor agreed to fully engage with it. In this context, Nintendo's work with Hon Hai (also known as Foxconn), Apple, Google, Bethesda, Epic Games (Tencent) and Nvidia/TSMC shows a willingness to engage with industry leaders. The relationship with Nvidia is intriguing as Nintendo has switched from AMD to Nvidia as integrated chip supplier for the upcoming Nintendo Switch console. This is not a decision taken lightly after working with AMD for decades. Nvidia is the leading global high performance graphics chip designer and has a manufacturing

The evolution of Super Mario and the seriation typology of Nintendo Gaming Systems. Source: Nintendo arrangement with TSMC, reflecting their common Taiwanese heritage. This choice by Nintendo puts them squarely in the middle of the current maelstrom of Intel's x86 architecture against ARM which is supported by an extensive ecosystem that includes Softbank, Apple and TSMC. The choice of Hon Hai as assembler reflects the scale of the Chinese manufacturer and the significance of their acquisition of Sharp and their transition towards automation and robotics as Chinese labour costs rise.

The outlook for Nintendo remains uncertain as they attempt to return from chasing the ghost of their wildly successful 2006 Wii console. Some more of the fog will lift on January 12 when their latest console, the Nintendo Switch, is formally unveiled. Consumers will have the opportunity to interact with the game line-up for seven hours a day in one of Tokyo's largest convention centres and on a subsequent global roll-out. Pre-orders will be available shortly thereafter in North America. Fans are eagerly awaiting a refresh of favourite games such as The Legend of Zelda, Mario Kart, Smash Brothers, Metroid and Mother 3. Of greater import, they are hopeful that a full suite of third party games, such as Skyrim and Dragon Quest, will be ported to the console. This event will not totally eliminate the path dependency for the investment case, but it will remove a significant uncertainty for both the profit outlook and investor perception.

Nintendo Switch. Source: Nintendo

Japan

There have been a few recent visitors to Japan who travel there expecting to see a somewhat dowdy and backward nation. Upon return they talk of a clean, modern, safe nation with many intriguing cultural aspects. The Japanese stock market reached current levels a few times during the 1990s, roughly two decades ago, and first reached these levels in 1987. Almost thirty years later, Japan is still emerging from the aftermath of a bubble of such immense magnitude that the financial system write-offs were estimated at three times the GDP by some accounts. Given the recent struggles at Toshiba following ongoing scandals at Asahi Kasei, Takata, etc., it is clear that there is still a lot of corporate restructuring to be done. There has been a broad, consistent push towards improved corporate governance and capital allocation in recent years, and an extended period of low interest rates will accelerate this as shareholders push for improved corporate performance and higher payouts.

There has been worryingly extensive analysis of central banker behaviour and writings in recent times. The story emanating from the Bank of Japan remains comprehensive and responsive, but for the moment the message can be distilled down into a simple statement: interest rates will be pinned near zero for the whole yield curve for the duration of almost all investment time horizons. This is in stark contrast to elevated and rising interest rates in many other parts of the world. This is occurring while Japanese unemployment rate pushes down below the lowest point in decades. As discussed previously, there is significant under-utilisation of labour combined with low productivity in many domestic sectors, but unless elements of labour force flexibility develop further, there is likely to be upward pressure on wages in many parts of the Japanese economy.

Outlook

As the world struggles to analyse Trump's intentions and understand the reasons why he was elected, financial markets have decided that the upcoming shift in US policy will be positive. On a more basic level, the focus of the market has returned to company and industry specifics as central banker discussions and election concerns faded somewhat.

It is widely acknowledged that the global financial system is burdened by large amounts of debt across many geographies and sectors of the economy. Further, the imbalances that have developed over the last decades have not been resolved and have perhaps worsened as improved communications and low cost transport enable hundreds of millions to enter the modern global marketplace. This is offset by the astounding rise out of poverty by hundreds of millions of people over the last decade and the paradigm shift of a supercomputer in the hands of every human. On a daily operating basis, it is difficult to identify regions or industries where conditions are currently deteriorating beyond expectations, allowing for ongoing business disruption and dislocation. On the contrary, it seems as though a minor cyclical upswing is underway as the long expansion matures and Chinese economic growth responds to incentives. Japan is likely to be a major beneficiary of this change in sentiment and global growth trajectory, both directly through a weak Yen and the consequent demand for their manufactures and indirectly through the broad effect on consumer behaviour.

Platinum International Brands Fund

Simon Trevett Portfolio Manager

Disposition of Assets

REGION	DEC 2016	SEP 2016	DEC 2015
Asia	29%	31%	31%
Europe	29%	27%	28%
Latin America	11%	11%	8%
Japan	11%	11%	7%
North America	9%	12%	12%
Russia	2%	2%	2%
Africa	1%	1%	1%
Cash	8%	5%	11%
Shorts	-5%	-4%	-3%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
LVMH	France	Consumer Disc	3.4%
Tiffany & Co	USA	Consumer Disc	3.3%
Anta Sports Products	China Ex PRC	Consumer Disc	3.2%
Pernod Ricard SA	France	Consumer Stap	2.9%
Lixil Group Corporation	Japan	Industrial	2.9%
Jiangsu Yanghe Brewery	China	Consumer Stap	2.9%
Godrej Consumer Products	India	Consumer Stap	2.7%
Callaway Golf Co	USA	Consumer Disc	2.6%
Casino Guichard Perrachon	France	Consumer Stap	2.5%
Vietnam Dairy	Vietnam	Consumer Stap	2.5%

Source: Platinum. Refer to note 4, page 44.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposures, updated monthly, please visit https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds.

Performance and Changes to the Portfolio

(compound pa, to 31 December 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund	5%	9%	6%	14%	12%
MSCI AC World Index	7%	8%	11%	17%	2%

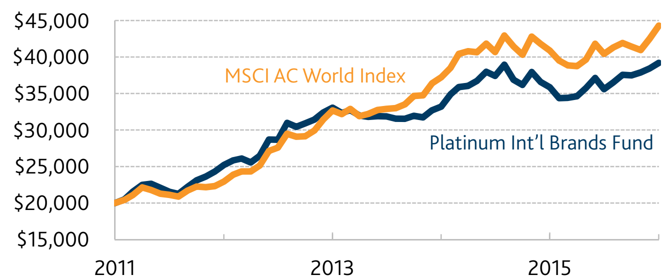
Source: Platinum and MSCI. Refer to note 1, page 44.

For the calendar year, the Fund provided a return of 9.4% compared to the 8.4% recorded by the benchmark MSCI AC World Index ($A). That return also compares favourably to two other indices of relevance, the MSCI World Indices for Consumer Discretionary and Consumer Staples, which showed returns of 3.4% and 2.0% respectively.

We have highlighted in our reports and commentary throughout the year the need to be cautious with the so-called 'defensives' or 'bond proxies'. The Fund's three-year relative performance continues to reflect the lack of exposure to those stocks and particularly the US market in 2014.

Value of $20,000 Invested Over Five Years

31 December 2011 to 31 December 2016



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

In the quarter the Fund achieved a return of 4.6% which, on an absolute basis or compared with cash rates, might be considered an acceptable return. On a relative basis compared to the benchmark return of 6.9%, the Fund fell short as the benchmark benefited from the strength in sectors where the Fund can have little to no representation, including Financials, Energy and Materials. There were two notable events in the quarter that had an impact on the Fund: the US election and the Indian government's withdrawal of Rs500 and Rs1000 denominated notes from circulation (approximately equivalent to A$10 and A$20). Two of the Fund's stocks detracted from performance due to these events: FEMSA in Mexico and Titan in India.

Notable changes to the Fund include the sale of **Time Warner** as the stock rose following the bid from AT&T and an exit from our positions in **Brilliance**, the Chinese associate of BMW and Canon. The Fund held a small position in the Zimbabwean beer company **Delta Corp** which rose some 50% in the quarter following the purchase of its largest shareholder, SABMiller, by Anheuser-Busch InBev. We took the opportunity to sell into this strength.

Strong performances in the quarter came from the luxury goods companies LVMH (+20%) and Kering (+19%) as the market had become overly pessimistic on their prospects. LVMH commented that they were encouraged by the underlying trends with their American and Chinese customers. Similarly, Kering has posted some outstanding numbers on the repositioning of its Gucci brand whilst Puma, which is majority owned by Kering, has started to show the benefits of its restructuring and repositioning strategies. The Fund also owns a position directly in Puma.

Commentary

There has been much written in the press about the difficulties and objectives of the demonetisation in India. The Fund has three investments in India which together amount to 5% of the portfolio. Most impacted was the jeweller, **Titan**, with their Tanishq brand. The company started the quarter with a strong uplift in sales – nearly 40% – through the October month of festive and wedding season. On the day the government announced the demonetisation, the company saw a surge in the number of customers attempting to exchange their old or 'unaccounted for' cash notes for gold and jewellery.

The term 'unaccounted for' relates to the cash economy and is a target for the government with announcements and actions regarding tax amnesties, audits and physical searches by the tax office. Predictably, sales then slowed from the following day as Titan enforced the requirement for identification or electronic payment. The company commented that sales recovered to the usual rate within a few weeks albeit the growth rate is not as strong as it was prior to the demonetisation announcement.

Titan is India's largest specialty retailer with over 1300 stores and significant opportunities to expand that number in 'Middle India'. Middle India is a reference to the 400 towns and cities with populations in the range of 100 thousand to one million which, combined, are home to over 100 million Indians. Commentary from the Indian consumer companies and retailers often make the distinction between 'Urban' and 'Rural' with the former typically denoting the mega cities. There is often little commentary or distinct recognition of 'Middle India', unlike, say, China where there is extensive coverage on the second, third or fourth tier cities.

Titan is also India's leading watchmaker and the fifth largest watch producer in the world. Their 'Sonata' brand is India's market leading watch brand with developments currently underway to infuse some 'smart' elements into traditional designs rather than developing a smart watch. A nascent division is 'Titan eyeplus', with over 400 stores and already India's market leader in optical retail, including prescription eye tests. This division, though only a small part of the company at present, is showing growth rates reflective of the scale of the unmet need for corrective eyewear. There are some interesting developments, such as an online eye test which, whilst not a replacement for an optometrist, could be sufficient to encourage customers to find a store.

Titan is arguably in a very good position to see a longer-term benefit from both the demonetisation event and the pending goods and services tax (GST) changes along with tightening regulations on gold purity and hallmarks. Some 60% of Titan's customers already purchase with a debit or credit card, and of the 40% making cash purchases the company estimates that 60% of them were already being made with the Permanent Account Number (PAN) ID card issued by the Indian Income Tax Department.

Many independent jewellery stores rely on suppliers, small workshops that make the jewellery or supply cut and polished gems who operate almost entirely on a cash basis and most likely without paying tax. A combination of tightening regulations and enforcement of identification for cash purchases, purity marking requirements (Titan already enforces the purity standards with hallmarking), tax office enquiries, and the current shortage of 'usable cash' in the cash

Tanishq wedding collection. Source: Titan

economy will likely see many of these competitor stores close. Some of the better or more established operators may seek to join Titan as a franchisee. Titan management expect between 10% and 30% of the smaller independent stores to close following the demonetisation and increased tax office scrutiny, and for the decline in the independents to continue with the roll-out of a national GST.

There is no doubt that this has been a difficult period as the government targets a range of issues around the cash economy, counterfeit notes and a very low tax intake. Although the quarter was difficult for Titan, we expect to see continued market share gains as the government attempts to bring the cash economy into the tax net. Undoubtedly, some sales will be lost to the industry as they may never return with the restrictions on 'unaccounted for' cash. Offsetting these near-term pressures is the opportunity for the largest and best-represented jeweller nationally to gain market share from the 50% or so independent outlets, more colloquially referred to as the 'unorganised sector'.

The introduction of a GST may have the effect of bringing forward purchases while underlying demand in the long-term should remain robust. It's difficult to imagine an Indian wedding where the bride is not adorned with jewels.

Outlook

Twelve months ago, predictions that the Bovespa exchange of Brazil or the Micex (Moscow Exchange) would likely be the best performing market of 2016 might not have received much attention, or might even have been resisted with a host of rational arguments against such a wayward possibility. Nonetheless, they topped the performance tables for 2016. The outlook provided in our Quarterly Report a year ago (see December 2015 issue) suggested that the Fund was weighted towards the emerging markets consumer sector by virtue of its stock picking and the opportunity for more robust growth rates with those companies. We would remind investors that the Fund's portfolio is constructed from individual stock selections, rather than based on a top-down allocation to regions or markets. We see signs of good underlying growth in many of our companies and remain optimistic in our outlook.

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 analyst, James Halse, has 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	DEC 2016	SEP 2016	DEC 2015
Europe	41%	41%	36%
North America	34%	39%	27%
Australia	5%	3%	1%
Japan	3%	3%	3%
Asia and Other	2%	0%	3%
South America	0%	0%	1%
Cash	15%	14%	29%
Shorts	0%	<1%	-1%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Sanofi SA	France	Pharmaceuticals	3.9%
AstraZeneca Plc	UK	Health Equip & Services	3.9%
Roche Holding AG	Switzerland	Pharmaceuticals	3.3%
Qiagen NV	Germany	Health Equip & Services	3.1%
Johnson & Johnson	USA	Pharmaceuticals	2.9%
Ipsen SA	France	Pharmaceuticals	2.7%
Gilead Sciences Inc	USA	Biotechnology	2.7%
MorphoSys AG	Germany	Biotechnology	2.6%
H Lundbeck A/S	Denmark	Pharmaceuticals	2.5%
Imugene Limited	Australia	Biotechnology	2.3%

Source: Platinum. Refer to note 4, page 44.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposures, updated monthly, please visit https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds.

Performance and Changes to the Portfolio

(compound pa, to 31 December 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund	0%	0%	12%	20%	9%
MSCI AC World HC Index	0%	-6%	13%	22%	8%

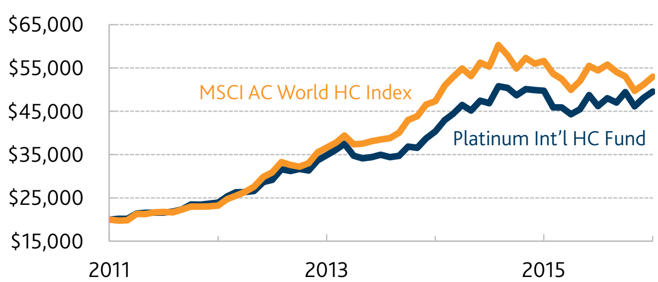
Source: Platinum and MSCI. Refer to note 1, page 44.

2016 has not been an easy year for healthcare investors. We saw some biotech recoveries, but in the end generalist investors turned to other sectors and the excitement fizzled out quickly. Consolidation was limited, high-profile pipeline disappointments dominated (e.g. Eli Lilly's recent failed Alzheimer's drug trial), and big biotech failed to be inspiring. Medtech was the subsector to hide in while specialty pharma was the subsector to avoid.

However, what did one expect? We had had five years of great performance with valuations reaching very high levels in 2015 at a time when the status quo of continuously raising drug prices was finally being challenged. It really is not such a

Value of $20,000 Invested Over Five Years

31 December 2011 to 31 December 2016



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

surprise that the healthcare industry now has to go through a reflective phase. What is encouraging, however, is the fact that we are in the early innings of a new innovation cycle. Robotics are coming to operating theatres, precision medicine is making big strides, immune therapy in oncology is challenging the methods we have so far used to develop drugs, gene therapy has become real, gene editing companies are becoming listed on stock exchanges and in November biosimilars in the US have become a reality.

The Fund's portfolio is focused on these themes and this year has gone through some transition as we added new biotechs, started to trim or exit long-standing holdings and added exposure to new technologies. We took advantage of the sell-offs and will continue to do so as we focus on long-term performance, as opposed to being distracted by the latest news headlines.

Our focused approach provided the portfolio with a cushion during this year's market corrections, returning +0.3% for the quarter and -0.4% for the year, compared to -0.1% and -6.4% respectively by the MSCI AC World Health Care Net Index ($A).

Seattle Genetics, a company we added last year, is an example of this strategy. This is a US biotech with a technology platform (antibody drug conjugates), an approved product with expansion potential, established commercial infrastructure (with direct distribution channels in the US and Canada while Takeda distributes it elsewhere), a progressing pipeline as well as partnered assets that are under development. Given that Seattle was not a typical immuno-oncology company, it went a little under the radar screen 12 months ago. Today, the expansion opportunity for *Brentuximab Vedotin* is more visible, as are the pipeline efforts, making the company a stellar performer in the stock market over the past 12 months (+18%).

Our European biotech holdings, **Ipsen** (+13%) and **Lundbeck** (+22%), have also done well for the year, each focusing on key assets while making sure their pipeline is being progressed as well.

Actelion (+60% in the past year), another European biotech we have held for some time, is being sought after by several interested parties. The rumoured price looks high to us and confirms that companies with approved products, good commercial infrastructure and depth of research will either thrive by themselves or find a suitor.

Commentary

We are always on the lookout for companies that have a scientific edge that sets them apart from others. New technologies or drugs have to be different to have a commercial future and simply working on the same target as a competitor is no longer enough. At the same time, we are also exploring disease themes. Here we look for advancements in the science which over time will translate into new therapeutic options.

In recent months we initiated a position in a Belgian biotech called **Galapagos**. This company has both an edgy drug discovery engine and a focus on diseases that are gaining scientific traction.

Galapagos was founded in 1999 as a joint venture between Tibotec (an HIV drug company, now part of Johnson & Johnson) and Crucell (a vaccine specialist, now also part of Johnson & Johnson). The joint venture functioned as a drug discovery engine which also included services to third parties. While the service component is still relevant, the more important part now is the progress of Galapagos' own product pipeline.

Galapagos' expertise is to find new targets by replicating the disease biology as closely as is possible in a Petri dish using either stem cells or primary cells from patients to make "organoids". Over the years Galapagos has improved its drug discovery engine and today the company has a decent sized pipeline.

Partnerships have always been part of Galapagos' culture, and the company makes sure that it retains part of the downstream economic benefits and promotion rights in Europe.

Galapagos' lead drug is *filgotinib*, a selective, oral JAK1 inhibitor that is in late-stage testing for several inflammatory diseases, including inflammatory bowel disease (IBD) and rheumatoid arthritis.

IBD is ideal for biotech. It is a slow-motion epidemic with incidence rates rising particularly fast in parts of Asia and South America. Current treatment is suboptimal and the disease is not well characterised on the molecular or microbial level.

The gastrointestinal (GI) tract is gaining quite a bit of attention by scientists. Good bacteria (over 100 trillion microbes) live in a happy symbiotic relationship with their host's immune system, protecting the GI tract from damage. However, once this relationship gets out of balance, such as when "symbiontic" bacteria turn "pathobiontic", the immune system starts to overreact and chronic inflammation occurs which over time damages – and in the end – destroys the intestinal wall.

The majority of IBD cases can be classified as either Crohn's Disease or Ulcerative Colitis. Both diseases exhibit GI tract inflammation, albeit each shows a different inflammation pattern of the intestinal wall and inflammation occurs at different locations of the GI tract.

Scientists are deciphering more and more of the nature of the immune overreaction while at the same time our understanding of the complex microbial GI environment is improving, offering pathways to new drug targets in the years to come.

Today, treatment of IBD depends on the severity of the disease and ranges from symptomatic over-the-counter drugs to injectable antibody drugs that suppress the immune system. The aim is to relieve symptoms, allow the GI tract to heal and achieve long-lasting remission. However, over a third of patients fail to respond and many relapse over time, thus we are only at the start of successfully treating this complex disease.

Oral alternatives to antibody drugs will be the next phase and here Galapagos' *filgotinib* is showing promising efficacy. Given the complex nature of IBD, combination therapies will start to emerge and this is where Galapagos' alliance with Gilead (Gilead owns over 14% of Galapagos) will be advantageous. Last year Gilead licensed *filgotinib* and is putting significant resources behind the asset.

IBD and rheumatoid arthritis are one part of the Galapagos story; the company also has a focus on fibrosis, a complex disease area where science is advancing and combination therapies will be most important.

Thanks to Gilead, Galapagos is well financed with nearly €1 billion of cash on its balance sheet (it has a market capitalisation of €2.8 billion), has a decent pipeline and boasts of a strong scientific foundation.

Outlook

The healthcare industry is heading into the new year with a great deal of uncertainty owing, first and foremost, to the uncertainties around the Trump administration's policy direction. In such an unpredictable political and macro environment it is all the more important to focus on the science and research that underpin individual companies, which in the long-term will lead to fruition and positive stock performance.

Biotechs are the life blood of drug development and we believe that excitement will return to the sector.

Platinum International Technology Fund

Alex Barbi Portfolio Manager

Disposition of Assets

REGION	DEC 2016	SEP 2016	DEC 2015
North America	34%	37%	28%
Asia and Other	24%	25%	29%
Europe	11%	13%	14%
Japan	8%	10%	7%
Russia	0%	1%	2%
Cash	23%	14%	20%
Shorts	0%	-2%	0%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	USA	IT	5.6%
Samsung Electronics	Korea	IT	5.5%
Apple Inc	USA	IT	3.2%
Oracle Corporation	USA	IT	3.0%
Tencent Holdings	China Ex PRC	IT	2.7%
Level 3 Communications	USA	Telecom	2.6%
China Mobile Ltd	China Ex PRC	Telecom	2.5%
Rohm Co Ltd	Japan	IT	2.5%
Nielsen Holdings Plc	USA	Industrials	2.2%
PayPal Holdings	USA	IT	2.0%

Source: Platinum. Refer to note 4, page 44.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposures, updated monthly, please visit https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds.

Performance

(compound pa, to 31 December 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund	6%	7%	9%	15%	9%
MSCI AC World IT Index	5%	13%	18%	22%	-1%

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

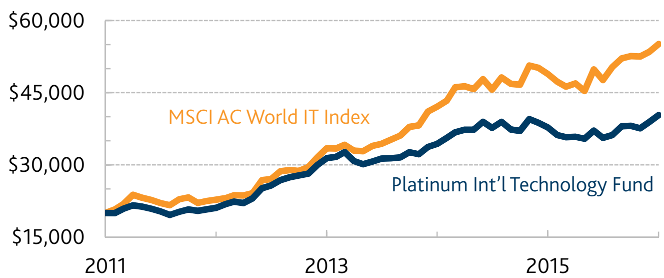
During the quarter the Fund was up 5.9% while the MSCI AC World Information Technology Index (A$) was up 4.8%. A 6.5% decline in the value of the Australian dollar against the US dollar contributed to the strong performance this quarter. For the 12 month period to 31 December, the Fund's return was 6.8%, compared to 12.7% for the Index.

Semiconductor stocks were strong performers this quarter, as evidenced by the PHLX Semiconductor Index (SOX) rising +9%. In fact, three of the Fund's top four performers this quarter have been semiconductors stocks: Micron Technology (+23%), Rohm (+27%) and MegaChips (+25%).

Internet stocks were under-performing and, more specifically, the Chinese Internet names suffered losses as investors worried about a potentially deteriorating relationship between China and the US where most of these companies are listed through American Depositary Receipts (ADRs). The pressure on the Chinese yuan (down 4% relative to the US dollar for the quarter) also added to the decline. The Morgan Stanley China Internet Index was down 15% this quarter, and some of the Fund's holdings were similarly impacted,

Value of $20,000 Invested Over Five Years

31 December 2011 to 31 December 2016



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

including Tencent Holdings (-11%), Baidu (-10%) and China Mobile (-13%). Despite this recent setback, we remain convinced that these companies continue to enjoy competitive advantages in their respective fields and are well placed to benefit from superior long-term growth opportunities in China.

Market sentiment has been dominated by uncertainty over political events (US and Austrian presidential elections and the Italian Constitutional Referendum), compounded by the wait for the US Federal Reserve's expected decision to raise interest rates.

It is interesting to note that none of the above events turned out to be the catastrophic catalysts that many had feared, as markets had probably already over-discounted the presumed unfavourable outcomes. In the US specifically, the positive stock market's reaction to Mr Trump's election win represented a complete sentiment U-turn when compared to the sceptical and cautious attitude preceding it. The gloomy forecasts have been replaced with optimism and hope amidst a revival of the so-called "animal spirits" as investors warmed up to the potentially stimulatory proposals of the new Trump administration.

As at 31 December 2016, the Fund's major exposures by geography include North America (34%), China (15%, including Chinese companies listed on overseas exchanges), Europe (11%), Japan (8%), and South Korea (7%). As at quarter end, the Fund had a net invested position of 77%, reflecting our view of an over-extended Technology cycle, particularly in consumer electronics.

Commentary and Changes to the Portfolio

The quarter was a busy one for mergers and acquisitions, with a number of the Fund's holdings being the subject of takeover offers.

Level 3 Communications received a merger proposal in cash and shares by CenturyLink with an implied value of US$61.40 per share, an almost 30% premium to our average investment cost. We consider the offer price fair, although we probably would have liked to see Level 3 continue with its standalone growth strategy as we believe it has a better business than the acquiring company's. CenturyLink's management probably saw the same value in Level 3's quality assets (fibre networks) that we had identified ourselves and decided to launch a bid as a consequence. The combined entity will be the second largest provider of wireline telecom services to enterprises in the US (larger than Verizon, second only to AT&T), diversifying CenturyLink's exposure away from the less profitable residential business. Level 3 also brings to the merger US$10 billion worth of carried-forward tax losses, which are going to significantly reduce the amount of tax payable by the combined entity for a number of years.

If the merger of Level 3 with CenturyLink can be described as a combination of "pipes" (i.e. communication networks), AT&T's proposed takeover of **Time Warner** (owner of HBO, Warner Bros., CNN and other media assets) for US$85 billion in cash and shares is driven by vertical integration.
If completed, the merger will eventually create the world's largest integrated content and distribution company, combining Time Warner's content production and channel assets with AT&T's distribution infrastructure.

But why did AT&T decide to launch such a mega-deal right now? And why did Time Warner agree to a sale?

The telecom/media landscape has changed dramatically over the last ten to fifteen years. In the US, the two leading telecom operators, AT&T and Verizon, have struggled to grow against a backdrop of tough regulations favouring a four-player market landscape (with Sprint and T-Mobile being the challengers) and increased competition from cable TV operators. Smartphone ownership has reached a level of saturation such that it is becoming increasingly challenging to profit from selling the latest iPhone or Samsung models to loyal subscribers.

In fact, the real beneficiaries of the proliferation of Internet-connected devices have been the content gatekeepers, like Facebook, Google, Amazon and Netflix as well as the premium hardware makers like Apple. Unable to merge with another US wireless operator due to antitrust regulations, AT&T has decided to try diversifying its business model, or at least to improve customer retention by adding content to its offering, thus the need to vertically integrate with a media group. This is a strategy that others have pursued, such as in 2009 when Comcast (a major cable TV rival) acquired NBCUniversal (broadcast TV and cable network) for similar reasons, after trying unsuccessfully to bid for Disney Corp (owner of the valuable ESPN TV sports channels).

These acquisitions, however, have the characteristics of being a defensive/alternative move compelled by the bidder's inability to consolidate the communication market while consumer spending is increasing turning to video-streaming services offered by the likes of Netflix and Amazon Prime. These services effectively bypass the traditional multi-channel video programming distributors as they are delivered through a simple broadband connection. This therefore creates a risk for AT&T in that its role is becoming increasingly commoditised with little differentiation from competitors' offerings other than to compete on price.

On Time Warner's side, its management was likely to have concluded that, after spending almost a decade on slimming down and re-focusing the once glorious group (remember the AOL-Time Warner merger in 2000?), there were not many strategic options left. The diminishing attraction of the pay-TV bundle and the fragmentation of TV audiences due to the proliferation of non-linear (on-demand) viewing surely featured prominently in management discussions at Time Warner at the time of the takeover offer.

AT&T's offer valued Time Warner at US$107.50 per share which, if completed, would represent a 122% return on our average investment cost in Time Warner.

Interestingly, the media landscape has also witnessed similar convergence deals in Europe. In the UK, Mr Murdoch's media group 21 Century Fox launched an offer to acquire the 60% stake in Sky Plc that it did not already own, seeking to integrate one the world's largest media powerhouses with access to more than 22 million pay-TV retail subscribers across the UK, Ireland, Germany, Austria and Italy where Sky operates. In France, Mr Bolloré's Vivendi group is pursuing a similar strategy through the recently acquired strategic stakes in Telecom Italia and Mediaset in Italy.

The semiconductor industry also continued on a consolidation trajectory that began in early 2015 (refer to our June 2015 Quarterly Report). Here luck has not been on our side. We had just started to buy shares in **NXP Semiconductors** (first featured in our June 2013 Quarterly Report) when Qualcomm decided that NXP would be a good fit for their maturing smartphone chip business. They launched a bid for NXP at US$110 per share (our initial entry point was US$88). However, unfortunately, the bid came before we had the opportunity to build a significant position.

As we have noted in our previous commentary, growth in the semiconductor industry as a whole is decelerating due to market saturation in consumer electronic devices such as smartphones and PCs and networking gear, hence the almost desperate search by established players to diversify into adjacent segments of the industry or to maintain growth by acquiring competing companies.

Given the relative maturity of many of the applications served by the mainstream semiconductor industry, we are directing our research efforts to emerging areas such as the Internet of Things, image sensors, automated driving and Artificial Intelligence where we believe there will be stronger demand in the medium term.

Outlook

After a year of very strong performance for semiconductor stocks, despite relatively modest revenue and profit growth for the sector, it is reasonable to expect a slowdown at least in the first few months of 2017, not least because the latest sales data on smartphones and PCs are showing deceleration across the board. We are adjusting the Fund's positioning accordingly.

The big challenge for 2017 will be to understand if Trump's promised policies will work in favour of or against technology companies. Tax cuts and, indeed, an overhaul of the US tax system, repatriation of cash parked overseas, curtailing visas for foreign workers, and imposing tariffs on imports from China were among the measures mentioned by the President-elect. They all have the potential to dramatically impact the bottom line of technology companies given their natural global supply chains and market footprints. No one at this point has much clarity on Trump's ability or willingness to deliver or implement what he has promised in his campaign. We will, however, closely monitor the progress and evolution of these policies and act accordingly.

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.

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.

Producer Price Index (PPI)

The PPI is a family of indices that measure the average change in selling prices received by domestic producers of goods and services over time. PPIs measure price change from the perspective of the seller or producer, and differs from the Consumer Price Index (CPI) which measures price change from the purchaser's perspective. The PPI looks at three areas of production: industry-based, commodity-based, and commodity-based final demand-intermediate demand.

Purchasing Managers' Index (PMI)

The PMI is an indicator of the economic health of the manufacturing sector. It is derived from monthly surveys of purchasing executives at private sector companies and is based on five major indicators: new orders, inventory levels, production, supplier deliveries and employment environment. A PMI reading of greater than 50 indicates expansion of the manufacturing sector when compared to the previous month, while a reading of under 50 represents a contraction and a reading at 50 indicates no change.

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.

Recent highlights include:

- *Infusing Machines with Intelligence – a three-part discussion on the recent developments in Artificial Intelligence*
- *December 2016 Market Update by Andrew Clifford, CIO*
- *America Doesn't Need Trump to be Great Again*

Where should we be without machines?

The following is an excerpt from a deceased relative's old scrapbook.

In the summer of 1929, when the Ford Model A was all the rage, when Alexander Fleming had discovered Penicillin only the year before, when the theory of quantum mechanics was just becoming unified, Arthur attended an Officers' Training Camp (OTC) at Tidworth Park, Hampshire (today, part of Wiltshire) in southern England. On a tranquil evening walk up the hills, Arthur and his companion chanced upon a scrap of newspaper with an article applauding the merits of science and technology. It prompted a tirade from Arthur's friend against machines, Colonialism and, indeed, modernity itself.

Machines have certainly caused more than a fair amount of destruction to the world at the same time as they have lifted productivity and improved modern living and industry in many ways. Today, nearly 90 years since Arthur attended the OTC camp, we may be on the cusp of a Second Machine Age,[1] one that is driven by machines with increasingly human-like intelligence and power of thought. Does humankind now have a chance to mend some of the errors and harms committed in the First Machine Age while pressing forward with the positives that science and technology offer us? Or, will we see yet more destruction committed by the use and abuse of ever-more sophisticated machines?

A bugle is blaring.

Kerr Neilson
January 2017

Machines

Last summer I went to camp with the O.T.C. at Tidworth Park, Hampshire, and every evening the padre used to organise an entertainment sing-song tent, but I was so disappointed with the performance that I came away after half-an-hour and never went there again, preferring instead to go for walks in the evening with a friend. Now I have never regretted this for I have never derived more pleasure from a walk than I did from there. One evening we set off about 6 o'clock up the long low hill which rose up behind the camp. The red sun was sinking slowly down behind the hills in the west. The sultry air was full of bugging gnats and we rained curse after curse on them as we whirled our swagger-canes about, trying in vain to keep them off. When we were almost at the top of the hill we suddenly came upon a dirty, torn newspaper, buried in a blackberry bush. We both forgot about the gnats and dived for it. I do not know why an old newspaper should have interested us, but we just acted on the impulse. We both got hold of it, then there was a tearing sound and tilting down on the ground we proceeded to examine our spoils.

*"What have you go?" I asked, "My piece is an advertisement for Bovril." "Oh, mine is absolutely not. Look!" he said, holding it up for me to see. In striking headlines there was **"Where should we be without machines?"** and underneath was a short paragraph which hardly made sense, which talked about the inevitable onward march of progress and science.*

Tidworth camp, 1929. Source: eBay

Tidworth camp, today. Source: Wikipedia

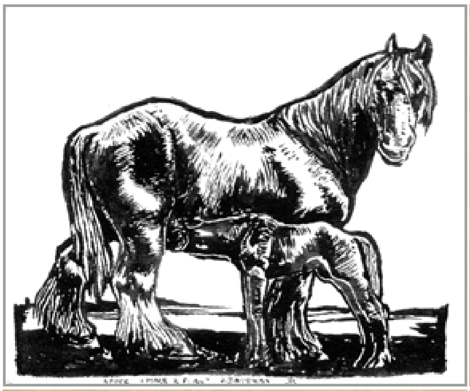
1 A term coined by Erik Brynjolfsson and Andrew McAfee in their 2014 book about the revolution brought about by digital technologies and artificial intelligence, *The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies*.

"Isn't it absurd," he said, "Here is a man actually saying that inventions and machines are absolutely essential to life and that we should be lost without them." "Pshaw! How can all the machinery and artificiality of modern life be compared with the beauty and innocence of Nature. Oh, to return to the Garden of Eden."

The discordant note of a high-powered sports car mounted up to us from the road below and interrupted my friend. "Then there would be none of that," he continued, pointing down at the red and black car which was just disappearing round a bend in the road, "No motorcars disturbing the peace of Nature with their soul-destroying noise and smell, and no gay dissipated young men and women to drive about in them." "It is terrible to think of the way in which machines of all descriptions are destroying Nature."

"These horrible inventions called motorcars turned out by the thousand by money-grabbing manufacturers devoid of all sense of the divine, carry their noisy and vulgar loads of picnickers from the smoky towns to the country, where they deposit their toffee-paper, sardine tins and beer-bottles."

"I do not know why I came to this camp. There are infernal machines everywhere and all for the destruction of men, women and children at the earliest opportunity – the British army indeed, to hell with it! The army conquered India for us, and today we are corrupting the innocent natives with our so-called civilisation. We introduce all the vices of the Western world. We build cotton mills and in addition to ruining our own trade in Lancashire, ruin the physique and spirit of the Indians. We set magnificent examples of physical beauty and strength to work on the spinning and carding machines in the cotton mills, crush their spirit with the terrible monotony of their work, and pay them twopence a day for it."



A selection of drawings and sketches from the scrapbook

"Are you sure they are only paid twopence a day?" I queried stupidly, hoping to stem the full flood of his passion.

"No, you fool!" he cried, "I mean that they get a very small sum."

Then continuing, "And what have we to thank for this state of affairs? – Inventors, science, engineers, machines."

Suddenly a bugle blared out. "Good heavens," I cried, catching his arm, "That is the call for supper. Hurry up or we shall be late."

Arthur
April 1930

"OUR NEW SAVINGS ACCOUNT ISN'T DOING VERY WELL. THERE'S BEEN NO INTEREST IN IT."

Credit: www.CartoonStock.com

"Do I recommend a hedge fund strategy? Let me put it to you this way: I'm a strict Catholic who goes to Temple every Saturday, so 'Yes', I would recommend a hedge fund strategy."

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$20,000 invested in the relevant Fund over the specified five year period relative to the relevant benchmark index (in A$) 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. Regional exposures (i.e. the positions listed other than "cash" and "shorts") represent any and all physical holdings, long derivatives (stock and index), and fixed income securities as a percentage of net asset value.

4. The table shows the relevant Fund's top ten long stock positions as a percentage of net asset value as at 31 December 2016. Long derivative exposures are included. However, short derivative exposures are not.

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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 Platinum now manages around $23 billion. Platinum's ultimate holding company, Platinum Asset Management Limited (ASX code: PTM), was listed on the ASX in May 2007, and Platinum staff continue to have a relevant interest in the majority of PTM shares.

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

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