Platinum International Brands Fund

Jamie Halse
Portfolio Manager

Performance

(compound pa, to 31 March 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund	5%	19%	9%	13%	12%
MSCI AC World Index	1%	16%	12%	15%	2%

Source: Platinum and MSCI Inc. Refer to note 1, page 4.

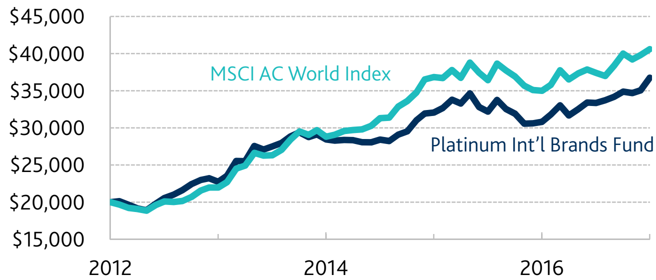
Disposition of Assets

REGION	31 MAR 2017	31 DEC 2016	31 MAR 2016
Asia	38%	29%	29%
Europe	19%	29%	23%
North America	16%	9%	12%
Japan	10%	11%	9%
Latin America	5%	11%	11%
Russia	3%	2%	2%
Africa	<1%	1%	1%
Cash	9%	8%	13%
Shorts	-9%	-5%	-3%

Source: Platinum. Refer to note 3, page 4.

Value of $20,000 Invested Over Five Years

31 March 2012 to 31 March 2017



Source: Platinum and MSCI Inc. Refer to note 2, page 4.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Asahi Group Holdings Ltd	Japan	Consumer Stap	4.3%
LVMH	France	Consumer Disc	3.9%
Callaway Golf Co	USA	Consumer Disc	3.7%
Gree Electric	China	Consumer Disc	3.7%
Jiangsu Yanghe Brewery	China	Consumer Stap	3.5%
Lixil Group Corporation	Japan	Industrials	3.2%
Chow Tai Fook Ltd	China Ex PRC	Consumer Disc	3.2%
Pernod Ricard SA	France	Consumer Stap	3.1%
Hanesbrands Inc	USA	Consumer Disc	3.1%
Godrej Consumer Products	India	Consumer Stap	3.1%

As at 31 March 2017. Source: Platinum. Refer to note 4, page 4.

Beginning from February 2017, Jamie Halse has been appointed the Portfolio Manager of the Platinum International Brands Fund. Prior to that, Jamie had been the consumer sector team leader and had responsibilities for managing up to $100 million of the Platinum International Brands Fund.

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

The Fund's performance in the quarter was strong across most major holdings. A rebound in the data on Chinese consumption, particularly in relation to higher-end products such as luxury handbags, jewellery and liquor, drove strong returns for beneficiaries such as LVMH Moët Hennessy Louis Vuitton, Gucci-owner Kering, jeweller Chow Tai Fook and *baijiu*-maker Jiangsu Yanghe Brewery. Likewise, the continued rebound in Chinese demand for whitegoods led to strong performance from the world's largest air-conditioner and washing machine manufacturers, respectively Gree Electric and Qingdao Haier. Investor recognition of the potential for profitability improvement via internal and market initiatives saw Lixil and Asahi re-rate higher in Japan; and the completion of India's demonetisation experiment led to rebounds in the stock prices of Godrej Consumer Products and Titan Company. A recovery from a Trump-inspired sell-off boosted Mexican convenience store and Coke bottler FEMSA; while Tiffany's share performance improved on the involvement of an activist investor, appointment of a new Chief Artistic Officer, and the resignation of its CEO. The Fund's short positions in several challenged US retailers were also net contributors to performance.

I succeeded Simon Trevett as the Portfolio Manager of the Fund in February – an enormous responsibility as well as a great privilege. While I personally have spent most of my investing career, including six years at Platinum, studying and focusing on consumer-related stocks, more importantly, the breadth and depth of knowledge and experience across all of our sector teams ensures that there will continue to be a large pool of well-researched investment ideas from which the Fund, being a global portfolio, will draw on and benefit.

The majority of positions in the Fund have been maintained, or increased via the use of cash raised from sales of less attractive holdings. Gross sales amount to approximately a quarter of the Fund by value.

Increased positions include the stake in golf equipment maker **Callaway**. The CEO's turnaround strategy is visibly bearing fruit, and its stake in the highly successful driving-range entertainment concept, Topgolf, continues to increase in value. Moreover, competitors such as Nike and Adidas are exiting the industry, which should reduce competition and boost profits for the remaining players. We also added to **Gree Electric** and **Qingdao Haier** as the turnaround in Chinese whitegoods became more apparent while market reaction and valuations had lagged the data. The increases in these positions as well as that in Japanese brewer **Asahi** were fortuitously timed and benefited performance in the quarter.

We added to **Coca-Cola** following a meeting in Boston with the company's investor relations representatives and a member of the executive. While, at 22x P/E, valuation is not optically attractive, there is significant scope to improve the "E" in the equation through internal initiatives. The recent news of an approach by Kraft Heinz for the much larger Unilever shows that no one is off limits for the Brazilian trio and their partner, Mr Buffett's Berkshire Hathaway. With Berkshire already owning 9% of the outstanding stock in Coca-Cola and AB InBev having a history of allowing existing large investors in its acquisition targets to tax-efficiently roll their holdings over into a newly merged entity, the looming threat of a takeover by AB InBev appears to be providing Coke's management with the impetus necessary to make the much needed organisational changes.

Readers may be familiar with the underwear brand Bonds, but perhaps less so with its recent acquiror, **Hanesbrands**, which is a recent addition to the Fund. Hanes in the US is a similarly dominant brand to Bonds in Australia, and the company is using the cash generated from strong profits in the US to consolidate the basic apparel market globally. The company is able to realise significant cost savings as it integrates acquired businesses into its large-scale manufacturing platform, yet trades at a multiple that implies significant deterioration in its business following recent e-commerce driven disruption amongst its retail partners. Whether online or offline, consumers still need to buy underwear, and in the medium-term there is a high probability that, as a known and trusted brand, Hanes has the scale to sell at a price that represents great value.

One of the core drivers of e-commerce disruption is the ability for small brands to gain awareness among consumers via targeted advertising using social media. Instagram "influencers" and their Chinese counterparts that utilise Weibo and Weixin (WeChat) can earn millions of dollars per year promoting products to their followers. Increasingly, in China, influencers drive traffic to their own "shops" on one of the e-commerce platforms, such as Alibaba's Taobao.

As yet, the platforms that connect the influencers with their target market are taking only a small slice of this growing pie for themselves. As this new channel matures, one would expect this imbalance to correct, leading to ongoing strong growth in sales and profits for the platforms. With this in mind, the Fund has initiated a position in **Sina**, which owns a majority stake in publicly-listed Weibo, as well as several other valuable investments, including stakes in e-commerce leader Alibaba and China's version of Uber, Didi Chuxing. Due to a somewhat complicated holding company structure, Sina shares are available for purchase for the value of the company's holding in Weibo alone, with the market effectively ignoring Sina's other investments and the US$1.2 billion of net cash on its balance sheet. Considering the strong prospects for future growth at Weibo, Alibaba and Didi Chuxing, Sina represents a compelling opportunity.

Brazilian consumer pharmaceutical stock Hypermarcas has been a strong performer following sales of many of its non-pharma assets and the use of the cash proceeds to pay down expensive debt. The Fund sold the position as valuation is now extended relative to the company's opportunities and a takeover of the business is less likely following Reckitt Benckiser's decision to buy infant formula player Mead Johnson. Elsewhere, the Fund profited from merger and acquisition activity in the consumer pharma space, exiting its year-old position in German-listed Stada Arzneimittel for an almost 60% return (in local currency terms) after the company received a number of bids.

Brazilian retailer GPA has had strong stock performance recently on hopes of an economic recovery in Brazil following a very tough period for the business and its investors. However, the stock's valuation has now moved well ahead of fundamentals and we closed the position accordingly.

Additional changes to exposure included closing the short position against the German DAX Index and adding several stock-specific shorts, with a focus on mature retailers challenged by secular disruption from e-commerce in general and Amazon in particular. Many of these retailers also face tough competition from up-and-coming retail formats that are stealing customers from the incumbents as they open new brick-and-mortar stores.

Major changes in currency exposure included reducing the Fund's Yen position to zero while increasing the net USD weighting to 36%. The US economy is strong and improving with interest rates rising, while Japan's central bank continues with its asset purchases (essentially printing money) with no end in sight. This is likely to place a ceiling on the Yen.

Outlook

The consumer appears to be in improving health in most markets globally, which should provide ongoing potential for improvements in sales and profits across the Fund's portfolio. Changes in consumer purchasing behaviour, such as the shift to e-commerce, are likely to continue to pressure traditional retailers and, increasingly, the large packaged goods companies as consumer choice proliferates via the "infinite shelf space" that e-commerce provides. This should provide opportunities for the Fund to profit via targeted short-selling as valuations of many large multinational consumer companies remain stretched and expectations for traditional retailers' profitability levels have not been sufficiently reset.

Despite the disruption expected across the consumer landscape from the changes in the way people consume media and buy products, the Fund continues to invest in opportunities with strong expected returns.

Download a copy of the full Platinum Trust March 2017 Quarterly Report to read the macro overview and general market commentary written by Andrew Clifford, CIO. Members of our investment team recently undertook a series of company visits on separate trips to China and Japan. You may also find in the full Platinum Trust report Andrew Clifford's detailed account of his observations on the ground in China and Scott Gilchrist's colourful note reflecting on his trip with Kerr Neilson to Japan, meeting with 34 companies over seven days.

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. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Funds' underlying assets 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: 31 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 then.)

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 as follows (the "Index"):

   - Platinum International Fund – MSCI All Country World Net Index ($A)
   - Platinum Unhedged Fund – MSCI All Country World Net Index ($A)
   - Platinum Asia Fund – MSCI All Country Asia ex Japan Net Index ($A)
   - Platinum European Fund – MSCI All Country Europe Net Index ($A)
   - Platinum Japan Fund – MSCI Japan Net Index ($A)
   - Platinum International Brands Fund – MSCI All Country World Net Index ($A)
   - Platinum International Health Care Fund – MSCI All Country World Health Care Net Index ($A)
   - Platinum International Technology Fund – MSCI All Country World Information Technology Net Index ($A)

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

   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. Platinum does not invest by reference to the weighting of the Index. Underlying assets are chosen through Platinum's individual stock selection process and, as a result, the Fund's holdings may vary considerably to the make-up of the Index. The Index is provided as a reference only.

3. Geographic exposures (i.e. the positions listed other than "cash" and "shorts") represent any and all of the Fund's physical holdings, long derivatives (stock and index), and fixed income securities as a percentage of the Fund's net asset value.

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

5. Sector breakdown represents the Fund's net exposure of any and all physical holdings and long and short derivatives (stock and index) as a percentage of the Fund's net asset value.

6. The table shows the Fund's net currency exposures as a percentage of the Fund's net asset value, taking into account any currency hedging.

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Some numerical figures in this publication have been subject to rounding adjustments.

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