Platinum International Brands Fund

Simon Trevett Portfolio Manager

Disposition of Assets

REGION	DEC 2014	SEP 2014
Asia and Other	33%	29%
Europe	31%	30%
North America	11%	10%
Latin America	7%	8%
Japan	5%	6%
Russia	2%	2%
Africa	1%	2%
Cash	10%	13%
Shorts	5%	6%

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

Performance and Changes to the Portfolio

(compound pa, to 31 December 2014)

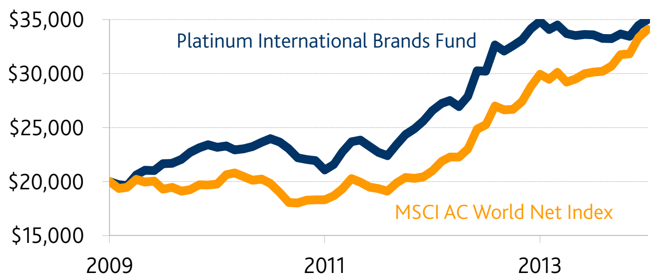
	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund	4%	0%	18%	12%	13%
MSCI AC World Index	7%	14%	23%	11%	1%

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

The Fund's European holdings showed improvement this quarter, notably those companies with higher export or international businesses. **Pernod Ricard** and **LVMH** were up 8% for the quarter whereas those with more European or domestic focus continued to face difficult conditions. The Fund's Latin American holdings detracted from performance, as did the Fund's position in the French retailer, **Casino**, given the significant weighting of its Brazilian subsidiary. In the past year, the Fund remained concerned about the market imbalances with a relatively narrow enthusiasm for large US companies and Chinese Internet stocks. Neither of these has been potential areas of investment for the Fund, resulting in a disappointing relative performance.

Value of $20,000 Invested Over Five Years

31 December 2009 to 31 December 2014



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

The Fund added to existing positions in Asia, mostly to our Chinese holdings. The Fund has been working to increase its exposure to the Indian consumer, although the low liquidity and high valuations make direct investment more challenging to achieve. Indirectly, European holdings in **Pernod** and **Piaggio** have significant Indian businesses, and the Fund added to the investment in Piaggio during the quarter.

The Australian dollar exposure of the Fund has remained at a minimum.

Commentary

Piaggio, the Italian maker of the iconic Vespa scooter, has clearly been encountering difficult conditions in its major markets of Italy, France and, to some extent, India, where the company generates more than 25% of its revenues. In Asia, Piaggio has a manufacturing facility in Vietnam supplying that market and with potential to further their entry into the significant Indonesian market. It is relatively easy to be optimistic about their opportunity in a reinvigorated India or even the scale of the South-Eastern Asian markets. However, with 45% of revenues from Europe, it is the Italian and other major European markets that will determine the company's near-term returns.

Interestingly, within Italy (and likely equally applicable to France and other European markets), the size of the **registered fleet** of two-wheel vehicles has not declined anywhere nearly as fast as the decline in **new registrations**. Other analyses of usage and the second hand market also suggest that the two-wheeler has not suffered the decline in popularity or usage that Piaggio's revenue might suggest. The explanation for the apparent inconsistency may be found in the **ageing of the fleet and the deferral of the replacement decision**. Over the ten year period from 2003 to 2013, the proportion of two-wheelers in use that are less than five years old has halved from 75% to 35%. Encouragingly, Italy's number of insured two-wheel vehicles is approximately 7 million, presumably in use and not "mothballed" at the back of the garage, whereas **new registrations in 2014 amounted to a mere 180,000**. If this paltry rate of renewal continues, it would require nearly 40 years to renew the fleet. The iconic Vespa is renowned for its durability, but that is beyond even the most optimistic owner's expectations!

If there had been a decline in the measures of usage or a significant decrease in the overall number of registrations through scrapping, i.e. without replacement, then we might be concerned that the "scooter" had lost its place in the Southern European lifestyle. However, things may be more optimistic in the short-term – the age of the fleet and the progressive introduction of periodic bans in major cities (like Rome) on the older two-wheelers that fail to meet the newer emission standards suggest that **a pent-up replacement cycle is developing**.

Piaggio has some new models to launch over the next two years along with an "E-bike" that may encourage some renewed interest in the replacement market. This, together with the signs of growth in India, uplifts in the company's margins, management changes and a more favourable exchange rate, suggests that there is scope for the stock to perform well over the next few years without requiring the difficult European markets to return to growth – they merely need to show some activity in the replacement market.

Turning to **Pernod** and the drinks market: investors have rightly remained sceptical on the prospect of any return to growth in the Cognac market in China, with similarities being drawn to the rise and the subsequent collapse of the Scotch market in Japan. The premium *Baijiu* market continues to show price declines, further adding to the pressure on Cognac. Absolut Vodka has proven to be a more difficult challenge to reposition, exacerbated by a trend in the major US market away from Vodka and towards brown spirits as well as ongoing price cuts by competitor Diageo with their Smirnoff brand. Pernod is showing margin gains on Absolut at the expense of volume as they lift prices. Diageo has preferred to increase volume over profits.

So why maintain a significant investment in Pernod? The China Cognac market is showing signs of having stabilised as the clearance of excess inventory in both the Cognac and the *Baijiu* markets nears an end, though we do not anticipate anything more than a flat performance. Jameson's whiskey has been growing in the high teens and looks set to double to €1 billion in sales by 2020; comparison with Jack Daniel's or Jim Beam's case sales suggests that this is eminently achievable. Currency moves, falling rates on the debt and some stricter cost controls further support the argument to hold this stock.

Perhaps the most interesting and under-appreciated possibility is Pernod's Indian whiskey business. It accounts for some 25% of group volume and is growing fast – 15-20% per annum – achieving a threefold increase in the past five years. This is despite government and State interference at every turn. On the other hand, the close scrutiny and regulation, while restrictive and excruciating, also acts as a barrier to new entrants who are faced with severe advertising constraints and a maze of State-by-State regulations and negotiations. As is often the case, the income generated for the government coffers outweighs the State antipathy towards alcohol, thereby providing a degree of stability for the incumbents.

Pernod holds 17% of the Indian whiskey market, up from 7% a decade ago and, though exciting, it pales into insignificance when compared to the rise in the legal drinking age population. Over the next decade, the aspiring middle class is set to grow from 120 million to 600 million with whiskey the favoured tipple! No doubt Pernod will offer them every opportunity to trade up the premium ladder as they have done so successfully in other markets.

Interbrand's 2014 Top 20 Global Brands

RANKING	BRAND	COUNTRY
1	Apple	USA
2	Google	USA
3	Coca-Cola	USA
4	IBM	USA
5	Microsoft	USA
6	GE	USA
7	Samsung	Korea
8	Toyota	Japan
9	McDonald's	USA
10	Mercedes-Benz	Germany
11	BMW	Germany
12	Intel	USA
13	Disney	USA
14	Cisco	USA
15	Amazon	USA
16	Oracle	USA
17	Hewlett-Packard	USA
18	Gillette	USA
19	Louis Vuitton	France
20	Honda	Japan

Source: Interbrand

Outlook

The medium-term opportunities are compelling with the extraordinary scale of hundreds of millions of consumers starting to engage with brands and aspiring to develop their lifestyle. It will be a fascinating journey to follow as the balance of demand shifts to the new markets. Only one Chinese brand and no Indian brand featured on Interbrand's 2014 Top 100. Is that likely to remain the case over the next decade? Within China, Interbrand's ranking is dominated by banks, insurance and Internet companies. Over time, with the development of a more consumer-oriented society, one would expect the consumer brand companies to feature more prominently. The short-term is more problematic with many regions faced with difficult decisions. The Fund is taking advantage and accumulating neglected companies at compelling valuations in both the emerging markets and Europe. An example is a European company with a market capitalisation above €15 billion, positive net cash on the balance sheet, a prospective P/E of 6x, dividend yield of 4% and expected earnings growth over the next two-three years of more than 20% per annum.

Notes

1. The investment returns are calculated using the relevant Fund's unit price and represent the combined income and capital return for the specific 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 of underlying assets of the Funds and other risk factors associated with investing, investment returns can be negative (particularly in the short-term).

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

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

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 31 December 2009 to 31 December 2014 relative to its benchmark Index (in A$) as per below:

   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 benchmark Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.

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

Disclaimer

This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 trading as Platinum Asset Management (Platinum®). It contains general information only and is not intended to provide any person with financial advice or take into account any person's (or class of persons') investment objectives, financial situation or needs. Before making any investment decision you need to consider (with your financial adviser) whether the information is suitable in the circumstances.

Platinum is the responsible entity and issuer of units in the Platinum Trust Funds® (the Funds). You should consider the PDS and Supplementary PDS in deciding whether to acquire, or continue to hold, units in the Funds. You can obtain a copy from Platinum's website, www.platinum.com.au or by phoning 1300 726 700 (within Australia), 02 9255 7500 or 0800 700 726 (within New Zealand), or by emailing to invest@platinum.com.au.

No company in the Platinum Group® guarantees the performance of any of the Funds, the repayment of capital, or the payment of income. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum).

MSCI Inc Disclaimer

Neither MSCI Inc nor any other party involved in or related to compiling, computing or creating the Index data (contained in this Quarterly Report) makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI Inc, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the Index data is permitted without express written consent of MSCI Inc.