Platinum International Brands Fund

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Portfolio Manager

Performance

(compound pa, to 31 March 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	3%	27%	13%	15%	13%
MSCI AC World Index	1%	14%	8%	16%	3%

*C Class – standard fee option. Inception date: 18 May 2000.
Net of accrued fees and costs. Refer to note 1, page 4.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

The Fund began 2018 well, posting a return of 3.3% (C Class) for the quarter to March, topping the MSCI's 1.0% and reversing last quarter's underperformance. On a trailing 12 month basis, the Fund (C Class) has returned 26.9%, compared with 14.2% for the MSCI AC World Index (A$).

The quarter had its ups and downs. The Fund kept pace with the market as it rallied through January despite the drag on performance from our short positions. Our short positions, primarily against US retailers and consumer packaged goods companies, began to prove their value as they cushioned the Fund from the market ructions at the beginning of February,

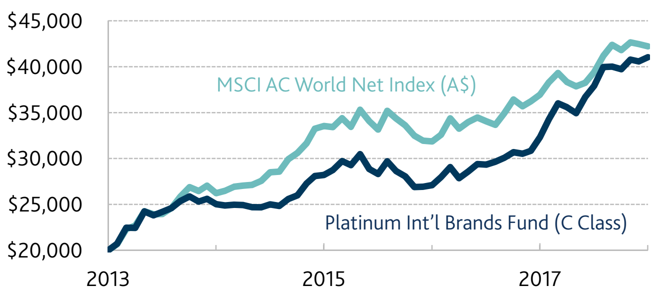
Disposition of Assets

REGION	31 MAR 2018	31 DEC 2017	31 MAR 2017
Asia	38%	41%	38%
North America	18%	17%	16%
Europe	17%	18%	19%
Japan	12%	10%	10%
Russia	5%	3%	3%
Latin America	3%	2%	5%
Africa	1%	1%	<1%
Cash	6%	8%	9%
Shorts	-18%	-20%	-9%

Source: Platinum Investment Management Limited. See note 3, page 4.

Value of $20,000 Invested Over Five Years

31 March 2013 to 31 March 2018



Net of accrued fees and costs. Refer to note 2, page 4.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Alibaba Group	China	IT	4.8%
Asahi Group Holdings	Japan	Consumer Staples	4.6%
Ain Holdings	Japan	Consumer Staples	3.8%
Sberbank of Russia	Russia	Financials	3.7%
LVMH	France	Consumer Discretionary	3.4%
Hanesbrands Inc	USA	Consumer Discretionary	3.3%
Kering	France	Consumer Discretionary	3.2%
BMW	Germany	Consumer Discretionary	3.1%
Sina Corp	China	IT	3.0%
Facebook	USA	IT	3.0%

As at 31 March 2018.
Source: Platinum Investment Management Limited. See note 4, page 4.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposure, updated monthly, please visit https://www.platinum.com.au/Investing-with-Us/Investment-Updates.

and then contributed to performance through March. Despite a rebounding market, investors were disappointed by weak quarterly results and management pronouncements on the necessity of "reinvesting" much of the anticipated earnings uplift from a lower corporate tax rate. When the market began to sell off on trade war fears in late March, the short positions again sheltered the Fund from the worst of the downside, finishing with a 0.6% total contribution to the Fund's quarterly performance. 12 of the 15 short positions contributed positively to the Fund's performance, a nice reversal from the December quarter.

Outperformance this quarter was also driven by continued strong performance from the dominant Russian bank Sberbank (+12%), which is a well-run business benefiting from the bankruptcies of many competitors and a strengthening Russian economy aided by more buoyant oil prices. Valuation remains undemanding, and there is scope for further upside. Leading US golf club manufacturer Callaway (+19%) continued its upward climb, following strong results from its EPIC line of drivers and contributions from acquisitions. Callaway was an existing position in the Fund at the time of the change in portfolio manager, and as a result of a favourable review of the investment case we bought more of the stock at the beginning of March 2017. Our decision to increase the Fund's exposure has been rewarded with a 58% price appreciation in a little over 12 months (as at the time of writing).

Vietnamese conglomerate Masan Group (+19%) saw strong price appreciation driven by the excitement around the IPO of its sizeable investment in TechComBank. Leading Japanese pharmacy chain Ain Holdings (+26%) saw its stock rebound as management successfully adjusted its operations to lessen the impact of the most recent round of dispensing fee revisions. With the cloud of uncertainty around fee revisions now cleared, the market is anticipating Ain's leadership of further consolidation with greater excitement. On the other side of the world, dominant Latin American brewer Ambev (+16%), a subsidiary of the global behemoth AB Inbev, benefited from a nascent recovery in its home market of Brazil, together with ongoing strength in Argentina and M&A-driven gains in Central America and the Caribbean. This is a very well-run business with incredibly strong market positions, and further upside is likely as Brazil's economy continues to recover.

The Fund's Chinese holdings were more subdued this quarter, having had a huge run during 2017, but we saw meaningful contributions to returns from social platform Weibo (+17%) and its parent Sina (+6%), leading air conditioner manufacturer Gree Electric (+12%), and traditional Chinese medicine and herbal tea manufacturer Baiyunshan (+6%). Anta Sports Products also continued to benefit from strong Chinese consumer demand, up 12% in the quarter, while e-commerce platform Alibaba (our largest individual holding) gained 8%.

Several of the Fund's smaller positions also contributed positively in the quarter. Leading Spanish pizza delivery chain Telepizza (+12%) was added to the Fund in January and performed well, as did Ukranian poultry exporter MHP (+21%) and hotel owner/operator Mandarin Oriental (+21%).

Detractors from performance included Japanese bathroom fixture maker Lixil Group (-15%), which sold off in February on a disappointing third quarter result before declining further through March on weak Japanese housing starts, trade war fears, and a stronger Yen. Chinese jeweller Luk Fook (-14%) fell, following weaker than expected sales. In the US, underwear manufacturer Hanesbrands (-10%) again disappointed with continued loss of customer traffic in its core mass retail and department store sales channels; competitor Gildan Activewear (-9%) faced similar challenges in its higher-end "Gold Toe" sock business; while auto lender Ally Financial (-5%) declined on concerns that rising deposit rates would pressure its net interest margins.

Changes to the Portfolio

This quarter was again a busy one in terms of trading activity.

Our sell-down of a number of Chinese stocks that had delivered strong performance during 2017 proved timely as they sold off on concerns over monetary tightening, a slowing property market, and later in the quarter, fears of confrontation with the US on trade. We exited Qingdao Haier during the quarter, with this leading manufacturer of washing machines and refrigerators having appreciated more than 150% since the Fund's present manager added the stock to the portfolio in February 2016. Positions trimmed included Gree Electric, liquor producer Jiangsu Yanghe, Anta Sports Products, jeweller Luk Fook, Macau casino operator Wynn Resorts (US listed, but largely China-exposed), and leading dairy company China Mengniu. This group of stocks has delivered average local-currency appreciation of more than 45% over the last 12 months.

In Vietnam we exited Masan Group (up two-fold over the prior 12 months) and Vietnam Dairy (+46% over 12 months) following very strong performance by those stocks and the Vietnamese market as a whole. Likewise, we sold our Pernod Ricard position as its emerging markets businesses recovered and valuation became less attractive. We also trimmed our large position in Callaway and took some profit following its recent strong performance.

Proceeds from the above sales were recycled into more prospective opportunities both in Asia and elsewhere. Several businesses with promising structural growth prospects had sold off on what we believe to be temporary concerns, thus providing an attractive entry point. Investments were made across telecommunications, travel, technology platforms, and retail/service businesses.

Commentary

We travelled to the US during March to meet with company managements and to attend the Shoptalk Retail & E-commerce industry conference in Las Vegas. Our meetings helped us uncover a number of potentially attractive opportunities. Shoptalk reinforced our views on e-commerce disruption and deepened our understanding of the complexity of the challenges retailers face, the plethora of areas requiring investment, and the multitude of start-up and established tech companies that will be the beneficiaries of catch-up spending.

Traditional retailers are increasingly making high-profile announcements regarding their digital and e-commerce capabilities to demonstrate their leadership in the industry and excite investors and consumers alike. For example, Wal-Mart announced it intends to expand grocery delivery to 40% of the US population; Target spent US$550 million acquiring same-day delivery service Shipt; and Macy's will offer furniture shoppers the ability to visualise their couch purchase in a Virtual Reality replica of their living room. While exciting, what these announcements really represent is much greater expense being incurred by retailers now relative to history, in order to convert increasingly fickle and demanding shoppers into buyers.

Of all the retail categories, the economics of grocery e-commerce are the most dire. This explains why it is only now that we are seeing a major step-up in investments in this space from major players in the US, one to two decades behind other categories like electronics and apparel, and significantly lagging markets like the UK and China. Retailers must pick and pack groceries from shelves in stores that were purposely designed to make the grocery trip take as long as possible. Situating milk, bread and eggs at opposite ends of the store is great for encouraging impulse purchases during the average consumer's weekly shop, but is far from optimal when trying to minimise the labour cost involved in preparing a customer's online order.

Leading UK online-only grocer Ocado estimates that the labour time involved for a retailer preparing an average grocery order in this manner is around *one hour and 15 minutes*, and this estimate is broadly confirmed by a number of other industry sources and our own calculations. What was previously provided for free by you, the consumer, is now additional labour that the retailer needs to pay for. Once the labour cost of $15/hr ($18.75 per order) is factored in, an average order with a value of $75 and a gross margin of around $20 does not leave the retailer with much profit in the case of a customer picking up the order, and puts the retailer deeply in the red if free delivery is included! When we consider that most online purchases would previously have occurred in the retailer's physical store, we can see that profitability falls in a mechanical fashion as an order moves online and goes from being a circa $20 contribution to the bottom line to a breakeven or negative contribution.

Note that the above example assumes a store employee, familiar with the store, picking multiple orders at the same time. When grocers employ the services of personal shopping platforms like Instacart or Target's Shipt, the economics are significantly worse.

Despite the atrocious economics, traditional retailers are being forced to invest or risk losing customers and sales. Initially the fear was entirely Amazon-centric, but we are now in the middle of an industry-wide arms race for control of a food market that is at best stable to growing slightly. This means the competition is largely zero-sum; as one retailer takes a bigger slice of the pie, its competitors are losing parts of their slices. The outcome is likely to be weaker profitability, as with most cases of intense competition triggered by changing industry dynamics where participants are well-resourced and highly motivated to maintain their market positions.

Outlook

We continue to uncover prospective ideas that we believe will provide the Fund with solid long-term investment performance. While we would caution investors not to expect 2018 to repeat the performance of the prior 12 months, we are nevertheless cautiously confident in our ability to deliver respectable returns going forward.

Media headlines are likely to continue to drive market gyrations, but these provide opportunities for the discerning investor to add positions at beaten-down prices. The Fund will likely maintain a sizeable short exposure to challenged retail and consumer packaged goods companies which should protect investors somewhat on the downside, though it would hold the portfolio back in relative terms should we see the market return to bullish behaviour.

Notes

1. Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of the stated unit class of the fund and represent the combined income and capital returns of the stated unit class over the specified period. Returns are net of accrued fees and costs, 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 fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

   Index returns are in Australian dollars and assume the reinvestment of dividends from constituent companies, but do not reflect fees and expenses. For the purpose of calculating the "since inception" returns of the MSCI index, the inception date of C Class of the fund is used. Where applicable, the gross MSCI indices were used prior to 31 December 1998 as the net MSCI indices did not exist then. Fund returns have been provided by Platinum Investment Management Limited; MSCI index returns have been sourced from RIMES Technologies.

   Platinum does not invest by reference to the weightings of any index or benchmark, and index returns are provided as a reference only. A fund's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, the fund's holdings may vary considerably to the make-up of the index that is used as its reference benchmark.

   The stated portfolio values of C Class and P Class of the Platinum International Fund (PIF) do not include funds invested in PIF by the Platinum International Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PIF. The stated portfolio values of C Class and P Class of the Platinum Asia Fund (PAF) do not include funds invested in PAF by the Platinum Asia Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PAF.

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in C Class (standard fee option) of the fund over the specified five year period relative to the relevant net MSCI index in Australian dollars.

   Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of C Class of the fund and represent the combined income and capital returns of C Class over the specified period. Returns are net of accrued fees and costs, 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 fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

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3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents the fund's exposure to physical holdings and long derivatives (of stocks and indices) as a percentage of the fund's net asset value.
4. The table shows the fund's top 10 long stock positions (through physical holdings and long derivatives) as a percentage of the fund's net asset value.
5. Sector breakdown represents the fund's net exposure to physical holdings and both long and short derivatives (of stocks and indices) as a percentage of the fund's net asset value.
6. The table shows the fund's major currency exposure as a percentage of the fund's net asset value, taking into account currency hedging.

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Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock performance are in local currency terms, unless otherwise specified.

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