Platinum International Brands Fund

James Halse
Portfolio Manager

Performance

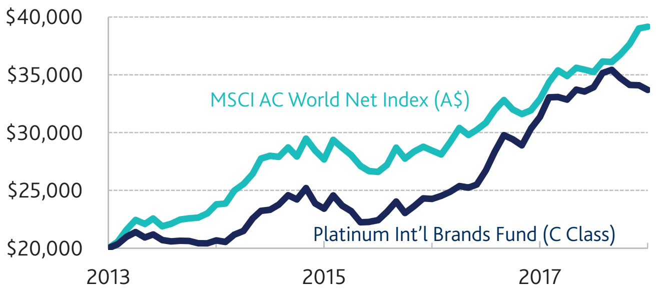
(compound pa, to 30 September 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	-3%	7%	13%	11%	13%
MSCI AC World Index^	6%	19%	12%	14%	3%

* C Class – standard fee option. Inception date: 18 May 2000.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are in AUD and are inclusive of net official dividends in AUD.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 1, page 5. Numbers are subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

30 September 2013 to 30 September 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 2, page 5.

The September quarter was challenging for the Fund. Strong performance in US markets was amplified by a rising US Dollar while a number of developing countries' stock markets and currencies came under severe selling pressure. The Chinese market sold off sharply as investors become increasingly concerned with the escalating trade tension with the US as well as the signs of slowing domestic economic activity. Dragged in large part by our Chinese holdings, the Fund (C Class) produced a disappointing return of -2.9%.

I encourage you to read the **CIO's September Macro Overview**[1], in which he discusses in detail the main causes of China's market downturn. For our purposes, the most pertinent factor at work is the government crackdown on the shadow banking sector, particularly on unsecured lending by self-proclaimed "peer-to-peer" (P2P) lenders, which has led to a palpable tightening in the availability of consumer credit. Poor lending decisions and outright fraud have been commonplace in this area of the market, as is often the case when regulation does not keep up with innovation in financial services. The spread of these issues and the subsequent regulatory tightening has led to investors being unable to access their deposits with many of these institutions, new consumer loans drying up, and the balance of loans outstanding (estimated to be around US$190 billion) likely beginning to decline.

Despite this short-term pain, we feel that the government's tightening measures are not likely to adversely impact on the Chinese consumer in the long-term and should in fact improve the health of China's financial system. Chinese household debt is still relatively low at around 50% of GDP, and the US$190 billion in P2P loans is equivalent to approximately 1% of the banking system's total assets. The risks of a subprime mortgage-like financial contagion are low.

The tightening of credit has hit sales of large ticket consumer items such as cars and home appliances, but for the moment this appears to be predominantly confined to lower-tier cities and lower-end goods. Healthy sales growth is still seen across the European car brands, high-end cosmetics and luxury brands like Louis Vuitton and Hermes. Therefore, in spite of the indiscriminate sell-off in Chinese stocks over recent

1 https://www.platinum.com.au/Insights-Tools/The-Journal/Macro-Overview-September-2018

months, we are comfortable with the major Chinese holdings in our portfolio, having regard to the quality of the companies' brands and operations. These include well-positioned athleisure brand Anta Sports (-10% in the quarter), high-end liquor maker Jiangsu Yanghe (-3%), gaming operator Melco International (-35%), as well as the fast growing digital platforms Alibaba (-11%) and Sina (-18%).

Those who have read the Fund's recent quarterly reports will be familiar with our sizeable portfolio weighting to Chinese companies, our low net weighting in the US, and also our rationale for this positioning. In our view, the Chinese stocks in the Fund, along with our other holdings, generally offer much stronger growth prospects over the medium-term at significantly lower valuations than are available elsewhere, particularly relative to the majority of US branded goods companies. In contrast, many US consumer packaged goods and retail stocks have been trading at elevated valuations even though they are becoming less profitable. These companies are expending a lot of incremental resources to navigate the challenges of digital media and e-commerce as they seek to maintain their market positions.

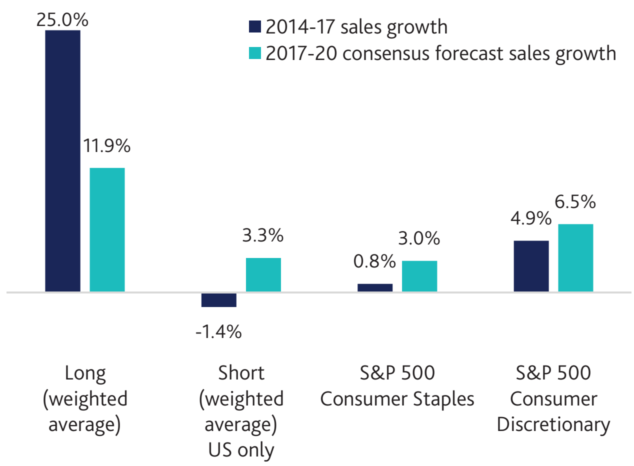
As can be observed in **Chart 1**, the companies we own have seen much stronger sales growth than the US consumer sector benchmarks, and this is generally expected to continue. The chart also shows that the US companies we are shorting have reported falling sales and, while their future sales are expected to improve, the expected growth is more moderate than that of their peers.

Chart 2 demonstrates the value in the Fund's portfolio. The average price-to-earnings (P/E) ratio across the Fund's long positions is currently significantly lower than that of the US consumer sector benchmarks. This much lower average P/E ratio is achieved despite our sizeable holdings in a number of fast-growing tech companies, such as Alphabet (Google), Facebook, Alibaba, and Sina/Weibo. One can also observe from the chart that the average valuation of our long positions became even more attractive during the quarter.

The second major drag on performance in the quarter came from our short book. Our positions against various US retailers suffered from the surprising ongoing strength of the US consumer, assisted by the large scale fiscal stimulus from President Trump's tax cuts. While betting against US retailers this year has been a misstep, stock prices are now baking in an extended period of consumer strength while overlooking the structural issues that these businesses face as consumers continue the shift to e-commerce. Overall, our short positions cost us -0.2% in the quarter (in AUD terms).

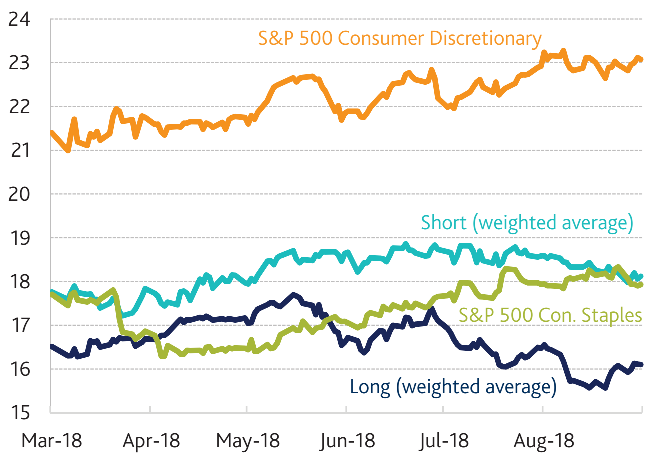
Facebook faced another large sell-off after a stellar initial run following our purchase of the stock near its lows in March.

Chart 1 – Sales Growth of PIBF Portfolio Companies versus Sector Benchmarks



Source: FactSet, Platinum Investment Management Limited.

Chart 2 – Average P/E multiples of PIBF Portfolio Companies versus Sector Benchmarks



Source: FactSet, Platinum Investment Management Limited.

This was triggered after the company downgraded its earnings guidance as a result of slowing revenue growth following the introduction of new regulations around the use of customer data as well as greater investments into both human and technological resources to police content on the site. The decline cost us -0.7% in performance (in AUD terms) in the last quarter.

Solid performers in the quarter included equipment brand Callaway Golf (+28%), Indian financial Axis Bank (+20%), internet classifieds site owner Schibsted (+23%), and Canadian fashion retailer Aritzia (+10%).

Changes to the Portfolio

Over the past year we have progressively trimmed our exposure to the more mass-market and cyclical Chinese brands as well as higher-rated emerging market stocks, generally exiting for solid gains. During the quarter we continued this process, exiting our positions in hotel owner Mandarin Oriental and Gree Electric for local currency gains of 68% and 62% respectively over the last two years, while further trimming other strong performing holdings like Alibaba, Callaway, Kering, LVMH, and Alphabet.

Two additions to the Fund in the quarter were **The Stars Group** and Molson Coors Brewing Company. Stars is a leading player in online gaming that has grown by acquisition to own properties including PokerStars, the UK's SkyBet, and BetEasy in Australia (formally CrownBet and William Hill). The company is a leader in a growing and consolidating industry, albeit one with the ever-present threat of regulatory action. Online gaming is highly profitable for companies with established brands. Stars is especially advantaged due to its dominance in poker, which is a business where the site with the most players offers a dramatically better proposition than smaller competitors, with more "tables" and varieties of games beginning more frequently. With a captive audience at its poker tables, Stars is able to boost its casino and sports betting revenues while incurring significantly lower per customer marketing costs than competitors. In the UK, the fast-growing SkyBet business benefits from a close relationship with broadcaster Sky, with sports presenters on the network making frequent references to betting options during their coverage. Souring market sentiment owing to recent regulatory actions in some markets, combined with a sizeable debt load, has given us the opportunity to buy this stock for less than 10 times its expected "cash" earnings.[2]

2 Cash earnings = reported earnings + acquisition-related intangible amortisation + nonrecurring costs

Net Sector Exposures

SECTOR	30 SEP 2018	30 JUN 2018	30 SEP 2017
Consumer Discretionary	26%	20%	36%
Information Technology	17%	18%	9%
Consumer Staples	10%	11%	19%
Financials	10%	9%	7%
Industrials	5%	4%	5%
Health Care	3%	3%	0%
Telecom Services	0%	0%	1%
TOTAL NET EXPOSURE	71%	65%	77%

See note 4, page 5. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Disposition of Assets

REGION	30 SEP 2018	30 JUN 2018	30 SEP 2017
Asia	35%	33%	42%
North America	23%	18%	16%
Europe	13%	13%	17%
Japan	12%	10%	10%
Russia	4%	4%	3%
Latin America	2%	2%	3%
Africa	<1%	<1%	1%
Cash	10%	20%	8%
Shorts	-19%	-15%	-16%

See note 3, page 5. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Currency Exposures

CURRENCY	30 SEP 2018	30 JUN 2018	30 SEP 2017
US dollar (USD)	47%	42%	35%
Euro (EUR)	25%	24%	30%
Hong Kong dollar (HKD)	13%	9%	14%
Norwegian krone (NOK)	4%	3%	2%
Indian rupee (INR)	4%	3%	3%
Chinese yuan (CNY)	3%	5%	8%
Brazilian real (BRL)	1%	2%	3%
Sri Lankan rupee (LKR)	1%	1%	1%
Korean won (KRW)	1%	<1%	2%
British pound (GBP)	1%	1%	1%
Canadian dollar (CAD)	1%	1%	0%
Australian dollar (AUD)	<1%	7%	-6%
Vietnamese dong (VND)	0%	0%	4%
Japanese yen (JPY)	-1%	<1%	-1%

See note 5, page 5. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Facebook	USA	IT	4.7%
Alphabet Inc	USA	IT	4.6%
Asahi Group Holdings	Japan	Consumer Staples	4.4%
Schibsted ASA	Norway	Consumer Discretionary	4.0%
China ZhengTong Auto	China	Consumer Discretionary	3.9%
Lixil Group	Japan	Industrials	3.6%
Hanesbrands Inc	USA	Consumer Discretionary	3.5%
Jiangsu Yanghe Brewery	China	Consumer Staples	3.4%
Ain Holdings Inc	Japan	Consumer Staples	3.2%
Sberbank of Russia	Russia	Financials	3.1%

As at 30 September 2018. See note 6, page 5.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pibf.

We expect Stars to be able to pay down its debt fairly quickly as its business is highly cash generative, with incremental growth requiring little capital.

Molson Coors Brewing Company is the challenged number two brewer in the US and Canada, owning brands such as Coors and Miller. The company has lost significant market share due to the spectacular growth of craft beer and imports from Mexico, and sales have been falling. The market has seriously penalised the company for this, with the stock down around 45% from its 2016 peak, and now trading at a highly discounted valuation of around 10 times its cash earnings. With signs of the independent craft beer fad beginning to peak in terms of market share, we believe that Molson Coors has a reasonable chance of stemming the decline in its core business in the medium-term. In the nearer term, the completion of a number of mergers over the previous decade has provided the company with the opportunity to support earnings through ongoing cost reductions.

During the quarter we also added to some existing holdings where share prices weakened during the China sell-off, despite solid medium-term fundamentals. These include Melco International, Sina, ZhengTong, and Yongda.

Chinese luxury auto dealers, **ZhengTong** and **Yongda**, offer exciting exposure to the future growth in China of brands such as BMW and Mercedes. Their superior scale and operations give them an advantage relative to peers, allowing them to take market share in the luxury segment over time and sell highly profitable ancillary services. We initially acquired these stocks at P/E multiples of 7-8 times, but were able to add to our positions at even more attractive valuations as they sold off during the quarter. The stocks rallied into the end of the quarter, and at the time of writing are up more than 20% from their lows.

Outlook

While there are signs of a slowdown in Chinese consumption, market sentiment is such that stocks have been sold off to very attractive valuation levels. This has cost us in performance terms over the prior two quarters, but should position us well to benefit in the event of a rebound in market sentiment as investors look past the present concerns.

Outside of China, we hold a number of interesting companies at attractive valuations with above-average growth potential, and are short a number of companies which we believe to be rather overvalued as well as facing fundamental challenges to their market positions and likely peaking consumer sentiment.

We will continue to follow our investment approach which seeks out the out of favour while avoiding the hype. This means that we will face trying periods when popular companies become more popular and increasingly expensive, while unfashionable ones become more neglected. However, history has taught us that it is in tough markets like these that it is important to adhere to our method and avoid being distracted by the near-term market noise.

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. Fund 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 has been 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 FactSet.

   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 specified Fund over the specified period relative to the specified 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. Fund 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 effective long exposures to the relevant countries/regions as a percentage of the Fund's net asset value, taking into account direct stock holdings and long derivative positions (stocks and indices).

4. The table shows the Fund's effective net exposures to the relevant sectors as a percentage of the Fund's net asset value, taking into account direct stock holdings and both long and short derivative positions (stocks and indices).

5. The table shows the Fund's effective net exposures to the relevant currencies as a percentage of the Fund's net asset value, taking into account stock holdings, cash and the use of derivatives.

6. The table shows the Fund's top 10 long stock positions as a percentage of the Fund's net asset value, taking into account direct stock holdings and long derivative positions. The designation "China" in the "Country" column means that the company's business is predominantly based in mainland China, regardless of whether the company's securities are listed on exchanges within mainland China or on exchanges outside of mainland China.

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

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