Platinum International Brands Fund

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Disposition of Assets

REGION	31 DEC 2017	30 SEP 2017	31 DEC 2016
Asia	41%	42%	29%
Europe	18%	17%	29%
North America	17%	16%	9%
Japan	10%	10%	11%
Russia	3%	3%	2%
Latin America	2%	3%	11%
Africa	1%	1%	1%
Cash	8%	8%	8%
Shorts	-20%	-16%	-5%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Alibaba Group	China	IT	4.5%
Jiangsu Yanghe Brewery	China	Consumer Staples	4.3%
Asahi Group Holdings	Japan	Consumer Staples	4.0%
Hanesbrands Inc	USA	Consumer Discretionary	3.7%
Vietnam Dairy Products	Vietnam	Consumer Staples	3.6%
Sberbank of Russia	Russia	Financials	3.5%
LVMH	France	Consumer Discretionary	3.3%
Kering	France	Consumer Discretionary	3.2%
Callaway Golf Co	USA	Consumer Discretionary	3.1%
Lixil Group Corporation	Japan	Industrials	3.0%

As at 31 December 2017.
Source: Platinum Investment Management Limited. See note 4, page 4.

Performance

(compound pa, to 31 December 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	5%	29%	15%	15%	13%
MSCI AC World Index	6%	15%	11%	17%	3%

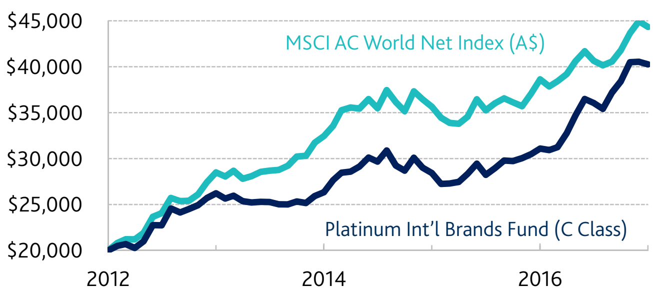
*C Class – standard fee option. Inception date: 18 May 2000.
Refer to note 1, page 4.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

2017 was an excellent year for the Fund's performance despite what proved to be a topsy-turvy final quarter. While the Fund produced a satisfactory quarterly result in absolute terms (+4.8%), it was weak relative to the benchmark MSCI All Country World Net Index (+6.1%). Over the calendar year, the Fund has delivered a strong return of +29.5% relative to the benchmark performance of +14.8%.

A solid performance through the first half of the quarter began to reverse by late November as Chinese stocks sold off on concerns around tightening financial conditions following a very strong year, and domestically focused US companies rallied on the back of greater certainty around corporate tax cuts. Positive consumer data in the US and market

Value of $20,000 Invested Over Five Years

31 December 2012 to 31 December 2017



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

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.

excitement around better-than-expected sales and profit results from several retailers combined with the promise of tax cuts to drive an upward re-rating of this sector in November and December. The Fund's underperformance resulted from a heavy exposure to Chinese internet platforms and short positions in several US-focused retailers and fast moving consumer goods (FMCG) companies.

Fortunately, many of the Fund's individual stock positions picked up the slack left by the detrimental market exposures. Vietnam Dairy Products returned +41% for the quarter[1] as a government sell-down precipitated a battle for the accumulation of strategic stakes between Fraser & Neave (ThaiBev) and Jardine Matheson. Also in Vietnam, conglomerate Masan Group continued its strong run of performance, returning +38% following a buyback of 10% of its outstanding shares. The company's consumer-facing business recovered following a restructure to reduce inventory levels, its mining arm benefited from improving Tungsten prices, and its investment in Techcombank delivered strong results.

Dominant Russian lender Sberbank (+19%) rallied further on the back of the strengthening oil price, excellent profit results, and a very undemanding valuation; while leading Japanese brewer Asahi Group (+24%) continued to benefit from price increases in its domestic market and strong results from its recently acquired European businesses, particularly the Peroni brand. Despite the sell-off midway through the quarter, many Chinese names still contributed positively to the Fund's returns while being supported by Chinese consumer confidence at levels close to the highest since the early 1990s. These included whitegoods maker Qingdao Haier (+26%), air-conditioner manufacturer Gree Electric Appliances (+18%), and liquor producer Jiangsu Yanghe (+15%).

Auto-lender and leading online bank Ally Financial, which was added to the Fund during the September quarter, produced a strong performance (+21%) as concerns over the US second-hand vehicle market subsided somewhat. Leading online classifieds player Schibsted (+17%) rebounded following improved earnings results. Kering (+17%) continued its strong run, supported by the incredible success of key brand Gucci. Interestingly, Gucci's momentum shows no signs of tapering off, with Google Trends data on the number of searches for the brand not only continuing to hit new highs, but actually still exhibiting an increasing pace of growth through the end of the quarter, reaching an implied 150%+ year-on-year increase in searches in the week before Christmas! This is an indication of the buzz around the brand, which is likely to translate into strong sales.

1 All references to individual stock performance are in local currency terms.

The primary detractor from performance was the Fund's short exposure (-1.9% contribution) to domestically focused US retailers and FMCG companies. The short exposure is not only a useful hedge to a potential market downturn, but is expected to generate positive returns for the Fund over time as these companies battle the growing pressure from the digitally-enabled trends of increased price transparency, lowered barriers to market entry, and increased variable cost of sales (e.g. delivery, marketing). However, the short-term impacts of a one-off jump in earnings due to the adoption of a lower corporate tax rate, plus some mean reversion following a period of heavy underperformance, have hindered our results. Additionally, the market has recently shown a surprising willingness to give management teams the benefit of the doubt regarding future earnings growth, as long as they eke out small gains in sales, never mind lacklustre profits. While recent data points to a strong holiday season for retail sales overall, what it cost retailers to generate these sales is perhaps the more pertinent question. We await the next round of quarterly results with some expectation of an improvement in our short book's performance.

Other negative contributions to the Fund's performance came from underwear manufacturer Hanesbrands (-15%), following a disappointing earnings result; Japanese pharmacy chain Ain Holdings (-14%), due to fears over changes to government reimbursement and disappointment over the slow pace of M&A activity; and Sina Corp (-12%), as the stock pulled back with the general sell-off of previously strong-performing Chinese internet companies.

Changes to the Portfolio

The Fund exited several long-standing positions in the quarter, as their recent strong performance took them to valuation levels that significantly reduced the risk/reward balance of the investments. Chinese jeweller Chow Tai Fook's valuation recovered as the business rebounded from the downturn inspired by the corruption crackdown and curbs on cross-border purchases in Hong Kong. The last block of the stock was sold at a price that implied a 43% appreciation for the position during calendar year 2017.

Sportswear label Puma has been riding on the "athleisure" fashion trend, while creating groundswell for the brand via collaboration with pop star Rihanna for its "Fenty" line of products. The stock price responded, rising 42% during the year to trade at a somewhat aggressive 38x its expected earnings for 2017. While the business continues to exhibit strong performance, the valuation ascribed to it by the market has leapt ahead of the fundamentals. Likewise, Indian FMCG company Godrej Consumer Products' valuation at 48x its expected earnings for the March 2018 financial year appears too rich, reflective of the general excitement around the potential of the Indian consumer and the resulting high valuations across Indian consumer stocks. Brazilian footwear manufacturer Grendene's valuation was also a primary consideration in the closure of that position. The exit of a legacy position in champagne producer Vranken Pommery concluded during the quarter, following a lengthy sell-down due to a lack of liquidity.

Strong returns also necessitated the trimming of several positions as their relative attractiveness decreased inversely to their valuations. We trimmed Mandarin Oriental after the stock more than doubled following its announcement of plans for a large commercial site it owns in Hong Kong, the value of which the market had not imputed to the listed company. Elsewhere, we took some profits on positions in spirits maker Pernod Ricard, Qingdao Haier, Gree Electric Appliances, Chinese sportswear brand Anta, and brewer Asahi.

There were several new additions to the Fund in the quarter. Expanding on the opportunities in the automotive sector referred to in our last quarterly report, we added a position in leading luxury car brand BMW. **BMW** is trading at historical lows relative to European stocks despite reasonable expected growth, a 4% dividend yield, and a very strong balance sheet. The market is concerned with the transition to electric vehicles, seemingly peaking auto sales data in the US and Europe, as well as the potential for write-downs on the company's lease-book in relation to out-of-favour diesel vehicles. Our view is that the company's strong brand heritage should allow it to continue to earn strong returns even as we enter a time of more commoditised engine componentry, while growth in Chinese sales should offset stagnating sales in the US. A comprehensive refresh of the model line-up that is now underway should also help boost sales.

Melco is an owner-operator of casinos in Macau. Gaming growth is rebounding as the tides of the corruption crackdown recede. Another boost is expected from improved transport connections to mainland China, including the 55 km Hong Kong-Macau-Zhuhai bridge which will make Macau only a half hour drive from Hong Kong's airport. Melco should experience above-market growth as it expands hotel room capacity at its City of Dreams property by 50% and as its recently opened Studio City in Cotai ramps up its entertainment offerings. The company has been trading at a discount to Macau-focused peers while generating an attractive and growing 9% free-cash-flow yield.

The final sizeable addition to the Fund was **Guangzhou Baiyunshan Pharmaceutical Holdings**. This is a player in the traditional Chinese medicine space, but its best-selling product is a ready-to-drink herbal tea which is consumed for its supposed health benefits and a taste profile that blends well with the country's popular spicy "Hot Pot" cuisine. Aggressive competition between Baiyunshan and another herbal tea producer with a similar recipe had seen profits decline. The competitive tension now looks to have eased, which should lead to profit expansion going forward. The company's Hong Kong listing trades on a 16x P/E, which is a roughly 40% discount to its listing on the Chinese A-share market! We believe this discount will narrow.

Outlook

Consumer confidence remains robust in major markets globally, with the Eurozone at 17 year highs, the US close to its post financial crisis highs, and China at the highest level since the early 1990s. Even in Russia, consumer confidence has rebounded to the levels it was at in 2014 prior to the collapse in the oil price. The major exceptions to this rosy scenario are countries with self-inflicted issues such as the UK where consumer confidence is back to 2013 levels owing to the uncertainty around Brexit. Brazil is also in this camp, where, after rebounding in early 2016, consumer confidence has slid back as more revelations of corruption foster concerns around political stability despite the economy's exit from recession.

Of course, the corollary to such strong showings on consumer confidence metrics is that valuations are broadly elevated, with a number of years of growth priced in to most stocks, and the hint of an improvement in business trends causing challenged stocks to rebound. Our ongoing task is to ensure we have assembled a portfolio of attractive opportunities where the market has mispriced the potential of the business. Assisting us in this is our identification of major multiyear consumer trends that can help or hinder brand-owners, depending on their product or service offering. The outcome is that, while the current market environment makes it more difficult to unearth particularly exciting investment opportunities, our broad prospecting ground, coupled with detailed knowledge of the terrain, helps ensure that we continue to unearth veins worthy of exploration.

The Fund currently has a net exposure of 72%, including 20% in short positions. This level of net exposure is low by comparison to the Fund's historical average, and is reflective of not only the current elevated level of valuations, but also the dramatic changes underway in the consumer landscape that have given rise to many prospective short-selling opportunities. While the short positions have been a drag on performance more recently, we would be surprised if this did not reverse going forward.

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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