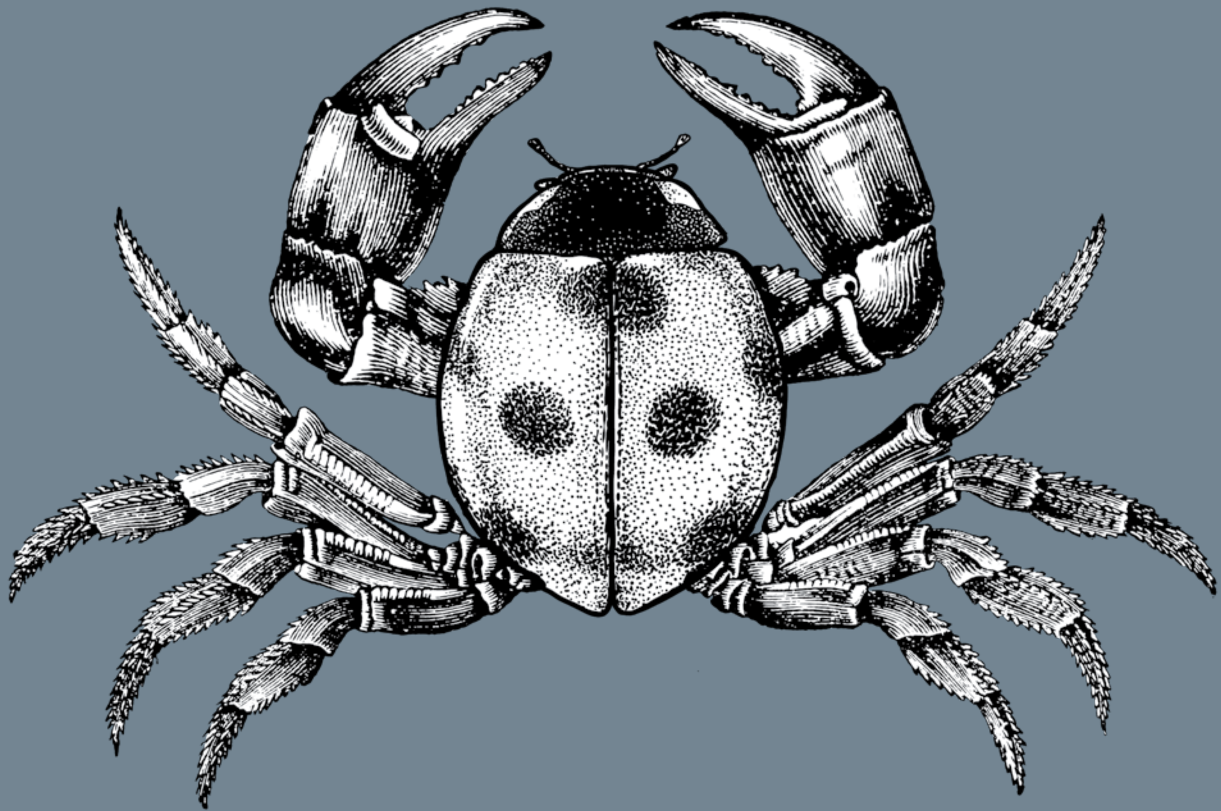
Platinum International Fund
Platinum Unhedged Fund
Platinum Asia Fund
Platinum European Fund
Platinum Japan Fund
Platinum International Brands Fund
Platinum International Health Care Fund
Platinum International Technology Fund

Quarterly Report

30 JUNE 2018



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The Platinum Trust quarterly report is available on our website from approximately the 15th of the month following quarter end.
Visit www.platinum.com.au/Investing-with-Us/Investment-Updates

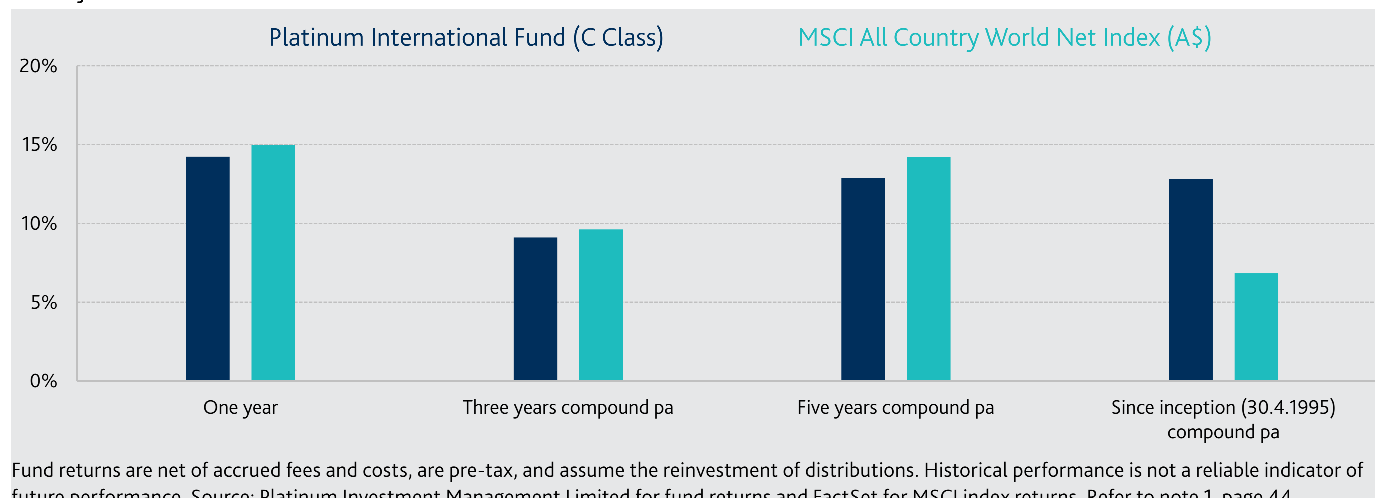
Performance Returns to 30 June 2018

FUND (C CLASS – STANDARD FEE OPTION) (P CLASS – PERFORMANCE FEE OPTION)	PORTFOLIO VALUE (POST 30 JUNE CASH DISTRIBUTION)	QUARTER	1 YEAR	2 YEARS COMPOUND PA	3 YEARS COMPOUND PA	5 YEARS COMPOUND PA	SINCE INCEPTION COMPOUND PA	INCEPTION DATE
Platinum International Fund (C Class)	**$10,525m**	**-0.7%**	**14.2%**	**17.7%**	**9.1%**	**12.9%**	**12.8%**	**30 Apr 1995**
Platinum International Fund (P Class)	$9m	-0.7%	–	–	–	–	12.3%*	3 Jul 2017
MSCI All Country World Net Index (A$)		4.4%	15.0%	15.1%	9.6%	14.2%	6.8%	30 Apr 1995
Platinum Unhedged Fund (C Class)	**$322m**	**2.2%**	**18.6%**	**25.0%**	**12.1%**	**15.5%**	**12.0%**	**28 Jan 2005**
Platinum Unhedged Fund (P Class)	$2m	2.3%	–	–	–	–	17.1%*	3 Jul 2017
MSCI All Country World Net Index (A$)		4.4%	15.0%	15.1%	9.6%	14.2%	7.2%	28 Jan 2005
Platinum Asia Fund (C Class)	**$4,354m**	**-1.0%**	**16.5%**	**18.1%**	**7.7%**	**13.8%**	**15.1%**	**4 Mar 2003**
Platinum Asia Fund (P Class)	$2m	-0.9%	–	–	–	–	15.0%*	3 Jul 2017
MSCI All Country Asia ex Japan Net Index (A$)		-1.8%	14.1%	18.5%	8.4%	12.9%	10.6%	4 Mar 2003
Platinum European Fund (C Class)	**$974m**	**-1.8%**	**16.2%**	**22.2%**	**11.7%**	**13.8%**	**12.2%**	**30 Jun 1998**
Platinum European Fund (P Class)	$6m	-1.2%	–	–	–	–	13.9%*	3 Jul 2017
MSCI All Country Europe Net Index (A$)		2.1%	9.3%	13.3%	5.6%	10.5%	3.0%	30 Jun 1998
Platinum Japan Fund (C Class)	**$806m**	**-2.7%**	**11.3%**	**17.5%**	**9.9%**	**16.5%**	**14.8%**	**30 Jun 1998**
Platinum Japan Fund (P Class)	$4m	-2.6%	–	–	–	–	10.9%*	3 Jul 2017
MSCI Japan Net Index (A$)		0.9%	14.7%	15.2%	7.7%	12.1%	2.9%	30 Jun 1998
Platinum International Brands Fund (C Class)	**$782m**	**2.3%**	**18.0%**	**22.8%**	**12.8%**	**13.3%**	**13.2%**	**18 May 2000**
Platinum International Brands Fund (P Class)	$1m	2.6%	–	–	–	–	17.4%*	3 Jul 2017
MSCI All Country World Net Index (A$)		4.4%	15.0%	15.1%	9.6%	14.2%	3.0%	18 May 2000
Platinum International Health Care Fund (C Class)	**$207m**	**8.4%**	**18.2%**	**18.2%**	**11.2%**	**17.2%**	**10.1%**	**10 Nov 2003**
Platinum International Health Care Fund (P Class)	$2m	8.1%	–	–	–	–	16.5%*	3 Jul 2017
MSCI All Country World Health Care Net Index (A$)		6.4%	9.3%	7.9%	4.6%	15.4%	8.8%	10 Nov 2003
Platinum International Technology Fund (C Class)	**$113m**	**2.0%**	**12.6%**	**18.5%**	**9.9%**	**14.2%**	**9.5%**	**18 May 2000**
Platinum International Technology Fund (P Class)	$1m	2.0%	–	–	–	–	13.0%*	3 Jul 2017
MSCI All Country World IT Net Index (A$)		7.8%	30.9%	31.2%	21.6%	24.9%	0.9%	18 May 2000

* As P Class of the fund commenced less than a year ago, its since inception returns are not annualised. They are cumulative from 3 July 2017.
Fund returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. Historical performance is not a reliable indicator of future performance. Source: Platinum Investment Management Limited for fund returns and FactSet for MSCI index returns. Refer to note 1, page 44.

Platinum International Fund vs. MSCI AC World Net Index

To 30 June 2018



Fund returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. Historical performance is not a reliable indicator of future performance. Source: Platinum Investment Management Limited for fund returns and FactSet for MSCI index returns. Refer to note 1, page 44.

In Brief

Macro Overview and Market Outlook

- Fears around escalating US-China trade tension, rising US interest rates, and the impact of China's financial system reforms led to increased risk aversion by investors and have resulted in significant dispersion in stock prices over the last six months. Asian markets have been particularly weak, as were emerging markets. Within the stronger US market, sector divergence was pronounced with investors favouring a narrow group of tech and biotech stocks while financials and industrials performed poorly. This narrowing of markets is often a signal that higher interest rates may be starting to impact markets.
- The flattening of the yield curve in the US suggests that we may be entering the final stage of the current US expansion, though for the moment economic indicators continue to point to robust growth in the US, buoyed in part by the tax cuts.
- China's efforts to reform its shadow banking sector, while undoubtedly a long-term positive for its financial system, have weighed on its stock market as a result of tightening credit. However, despite all the fear, there has been relatively little tangible evidence of a broader slowdown in the economy, and policy makers have the ability to respond (such as by further cutting banks' reserve requirements) if and when the impact of slowing credit growth does become apparent.
- The US-China trade war will have many unintended consequences as tariffs will impact product prices, demand, and ultimately profits. Its impact on China's macroeconomic outlook is likely to be limited, while the direct and indirect costs of the impending tariffs on individual industries and companies will only become more apparent in the months ahead.
- While it is difficult to know when the current concerns will subside, the record level of divergence between the most and the least expensive stocks is allowing us to find many companies at attractive valuations, which we believe bodes well for future returns. However, it is possible that before these returns can materialise, we may first see a correction in the prices of the high flying stocks, potentially precipitated by rising US interest rates.

Platinum International Fund

- The emerging markets, typically perceived as being the dependent recipients of capital flows from developed markets, were heavily sold off on account of US dollar strengths, tightening credit and political turbulence. Although we have little exposure to Latin America, Turkey, Russia and South Africa, the Fund's performance was hurt by its positions in the large trading nations like China, Japan and Korea which were also adversely affected by the rising US dollar and trade tension. Contributing to our performance were energy producers which continued to benefit from tight supplies and solid demand.
- Our research indicates that the areas of greatest value lie in the large trading economies of Japan, Korea and Taiwan which, along with China, have been punished of late. Even if we are at the early stages of the demise of mercantilism, we feel comfortable that we can still identify very interesting individual companies in these regions. We are also finding interesting industries with growth prospects that are to a high degree independent of their host economies, driven either by the regulatory changes or the inevitable evolution of technology (e.g. clean energy, electric vehicles, flexible printed circuits).
- After such a painful re-calibration of prices, we are inclined to believe that the Asian markets have adjusted to this new scenario. All indicators for the underlying economies of Asia are very solid, with scant evidence of slowing. While there is unlikely to be any near term let-up in the liquidity squeeze, we believe that valuations are extremely attractive. We are maintaining shorts on the most aggressively priced segments of markets in the belief that if there is no relief to tighter money, these well-owned and extraordinarily highly priced sectors will also succumb to a reappraisal by investors.

Platinum Unhedged Fund

- Over the past 18 months we have been finding many opportunities in some of the more cyclical areas of the market, particularly in energy (oil, gas & coal) and metals. We continued to be active in this area during the quarter, selling down our holdings in Japanese oil producer Inpex and US oil refiner HollyFrontier after strong price moves, and deploying the proceeds to buy two new ideas in the energy space as well as increasing our holding in Chinese oilfield service provider COSL.
- With the trade war raging and immigration tensions threatening the stability of Europe, investors are understandably running back to what is perceived as safe and comfortable – buying fast growing US tech stocks and holding the US dollar. We, however, have a large exposure to other regions where we are finding companies with better growth prospects and considerably lower valuations. With the recent sell-off, our outlook for future returns, particularly in China, has improved.

Platinum Asia Fund

- Rising US interest rates and the US-China trade tension continued to weigh on the Asian markets, leading to a sell-off towards the end of the quarter. Contributing to performance were positions that have benefited from the secular consumer trends of China's growing middle class (Guangzhou Baiyunshan +43%, ZTO Express +33, Jiangsu Yanghe Brewery +22%).
- We took the opportunity of market weakness to adjust the portfolio towards more domestically-focused champions, cushioning the Fund against the impact of ongoing trade friction while maximising our exposure to the benefits of economic reforms. We added to our Chinese holdings (China Merchants Bank, AIA (insurance) and ZTO Express) while maintaining very limited exposure to the regions most susceptible to a strong US dollar and rising oil prices (Indonesia, Malaysia, Philippines).
- We witnessed very encouraging developments during our trip to India and China this quarter. India's construction-related sectors are running high on rising utilisation rates while the rate of credit growth is only beginning to recover from some of the lowest levels in decades. Corporates are starting to add capacity and business confidence is high. India appears to be on the cusp of the long-awaited revival of a private sector capital expenditure cycle. Signs of ongoing reform were also impossible to miss in China – its electric vehicle makers are ambitious, the demand for life insurance products is enormous and growing, and the property market is holding up despite regulatory measures to curb demand and restrain purchase.

Platinum European Fund

- While the European economy continues to grow at robust levels and monetary policy remains accommodative, political instability and rising US interest rates have dimmed investor enthusiasm and put pressure on the Euro. Our positions in Eastern Europe and Russia detracted from performance as investors fled the emerging markets. We have reassessed our Russian holdings (selling Lukoil and Yandex) in light of the latest US sanctions against Russian companies and private individuals, but remain optimistic that the investment case for our Eastern European holdings remains very much intact.

Platinum Japan Fund

- Notwithstanding a healthy domestic economy and improving corporate profitability, Japan's stock market remains shackled in a 30 year bear market and its absolute valuation is now exceedingly attractive. Global interdependence means that Japan is far from immune to external disruptions, and investors have reacted to recent uncertainties in world events by chasing certainty, driving the "expensive" or "defensive" stocks to new highs while the "cheap stocks" got cheaper. While recent performance is not ideal, the alternative of a potential loss of capital by overpaying for "certainty" would be unpalatable. We continue to seek to exploit this extreme valuation dispersion, but have also identified areas experiencing positive change.
- We delve into the intricate world of multilayer ceramic capacitors (MLCCs), tiny electrical components used in electronic devices ranging from mobile phones to electric vehicles, and explore the opportunity presented by the industry bottlenecks.

Platinum International Brands Fund

- Performance was held back by our positions that were exposed to the negative impacts of impending trade tariffs, Russian sanctions, as well as weakness in China and emerging markets. However, the Fund benefited from a number of other positions (Kering +36%, Hanesbrands +19%, Nomad Foods +17%, Schibstead +17%, Callaway +16%, LVMH +16%), and even our Greater China stocks contributed positively to performance overall. We remain optimistic about the companies in our portfolio and continue to take advantage of the large disconnects in valuations, employing both long and short strategies.

Platinum International Health Care Fund

- Significant money has flown into the smaller biotechs and medtech continues to attract investors despite high valuations. We are excited by the unprecedented innovation in healthcare (not only those much-covered areas such as immuno-oncology, but also others such as early detection and preventative medicine, and precision medicine), but are also very cognisant of the areas exhibiting stretched valuations. Foundation Medicine, acquired by Roche this quarter, is an excellent example of the rewards of finding investment opportunities among the unloved companies and taking a long-term view.

Platinum International Technology Fund

- Investors seeking safety crowded towards big US tech companies, driving the MSCI AC World IT Index higher this quarter. The Fund's more modest gain is primarily due to its large cash allocation, a smaller allocation to the major US tech giants, and a relatively large exposure to plateauing semiconductor stocks and Chinese internet companies. We do believe that, given their attractive valuations and promising secular trends, the Fund's holdings are able to withstand short-term political or cyclical volatility to follow through on their long-term growth trajectory.

Macro Overview

by Andrew Clifford, CEO & CIO

We opened our March quarter Macro Overview with the following summary of issues that had led investors to return to a more cautious stance:

- rising interest rates in the US;
- the impact of China's financial system reform on that country's economy and on asset markets both inside and outside of China; and
- the potential for a trade war between the US and China.

Today, these issues continue to be at the forefront of investors' minds, and continue to drive a growing risk aversion by investors globally. As such, it is worth returning to these issues, even at the risk of repeating oneself.

Any analysis of the impact of a "trade war" is far from straightforward. Modelling by various economists suggests that China may lose up to 0.5% in economic growth in the more extreme outcomes. This may sound dramatic, but for an economy growing at around 6% to 7%, the potential impact is limited. In assessing the prospects of any given company, this macroeconomic effect is largely irrelevant. However, the tariffs that are being applied to imports by the US and by their trading partners in response most certainly will impact product prices, demand, and ultimately profits, which will be felt not only by the companies facing tariffs, but potentially also by their customers. A Chinese manufacturer may be hurt, but so will be a US retailer who potentially has to increase prices on the products it's selling. A US company now paying more for aluminium and steel faces a cost disadvantage against its competitors elsewhere in the world. US soybean farmers, whose production now attracts a tariff when sold to China, will most likely respond by selling their produce elsewhere, potentially suppressing prices for soybean growers in other countries. There will be many unintended consequences from the trade war. From the US perspective, one example is Harley-Davidson who have announced that they would move some production to Europe.

Exactly where the costs of these measures fall will become more apparent in the months ahead. Consumers will be paying higher prices for products, some companies will see an impact on their profitability and competitiveness, and jobs will be lost. Secondary effects such as the loss of business and lower consumer confidence impacting spending may also become apparent in the US and elsewhere. What is not clear though is how severe and widespread these impacts will be. Nevertheless, it will be an interesting test of the US administration's resolve to maintain their trade policies once the costs are known. Changes to any system (for the better or worse) are usually very difficult to implement because entrenched interests are very effective at opposing them!

Last quarter we discussed the reforms in the Chinese financial system. To briefly recap, the regulator has required the banks to bring the assets and liabilities of the shadow banking system back onto their balance sheets. One of the goals in doing so is to ensure compliance with the lending restrictions that have been put in place. For example, following the GFC, regulators banned banks from lending to developers for land acquisition, but the shadow banking system provided a way around these rules. As the amount of loans a bank can issue is limited by its level of shareholders' funds, bringing these "shadow" loans back onto the balance sheet reduces the banks' capacity to issue additional loans, and some may even look to recover outstanding loans. As such, the availability of bank credit has been much reduced, and credit growth has fallen to just over 8%, a level much in line with the nominal growth of the economy.

While these reforms are undoubtedly a long-term positive for the Chinese financial system, the immediate question is whether this tightness in credit availability impacts the growth of the economy. Clearly, it has impacted the Chinese stock market, with the A share market down 22% from the highs reached in January, but indicators such as construction equipment, auto, and property sales still suggest robust levels of activity through to the end of May. Of course, the impact on the broader economy may yet become apparent, but policy makers in China certainly have the ability to respond if and when this happens. The People's Bank of China (PBOC) cut reserve requirements for banks in June, which freed up their ability to lend, and further cuts can certainly be made, if necessary.

In the US, the Federal Reserve raised interest rates again this quarter. As we have noted numerous times in our reports, rising interest rates will eventually bring about a slowing in the economy and a fall in stock prices. The difficulty is assessing exactly at what point interest rates will have risen far enough for their impact to be felt. One indicator often

used is the steepness of the yield curve. This refers to the difference in short-term and long-term interest rates. When short-term rates rise up towards the level of long-term rates, referred to as a flattening of the yield curve, it is usually indicative that the economy will soon start to slow. During the last quarter, the yield difference between the 10-year and 2-year US government bonds continued to narrow, reaching levels last experienced between 2005 and 2007.

The flattening of the yield curve certainly supports the view that we are starting to enter the final stages of the current US expansion. Nevertheless, for the moment, economic indicators in the US point to ongoing robust growth, undoubtedly buoyed by this year's tax cuts. One should also expect that at some point President Trump will announce his infrastructure initiatives which would add further fuel to the economy and reinforce upward pressure on interest rates.

Market Outlook

Fears around trade wars, tightening credit in China and rising rates have resulted in increased risk aversion and significant divergence in stock price performance over the last six months. Asian markets have been particularly weak with the China A share market down 22% from its high point earlier in the year, Japan down 10% and Korea down 11%.[1] Emerging markets also performed poorly during this period. While the US market was flat over the last six months, within this market, performance varied dramatically across sectors with investors favouring a narrow group of growth stocks in the technology and biotech sectors while financial and industrial stocks generally performed poorly. While in aggregate the MSCI All Country World Net Index indicates that global stock markets are up slightly year to date in local currency (+0.8%), though down -0.4% in USD terms, this narrowing of markets where a smaller number of stocks are responsible for holding up returns is often a signal that higher interest rates may be starting to impact the markets.

The Chinese A share market, as noted above, has been particularly hard hit by the issues outlined in our commentary. Of particular concern for local investors in this market has been the tightness in credit availability as a result of the financial reforms. The topic has been part of daily news and commentary in China for the last six months and the fear has been well and truly expressed for some time, though it has only recently been reported in the foreign financial press. Similarly, given that China is the prime target of President Trump's trade war and it has become clear that there wouldn't be a negotiated outcome, the trade tension weighed heavily on the Chinese market towards the end of the quarter.

Currently the Shanghai A share index is back to the lows reached in January 2016. As you may recall, at that point the country had just been through a period of capital flight, heavy industry was plagued by excess capacity and many companies were loss making, and there loomed the possibility of non-performing loans triggering a banking crisis. Today, while the economy may be experiencing some slowdown as a result of changes in the financial system, supply side reforms have resolved the issue of excess capacity, profitability of heavy industry is much improved, and while the banking system is likely to have to work through some problem loans, the likelihood of a fully blown banking crisis is much lower. Risks have been reduced substantially, profits are higher, yet stock prices in aggregate are at the same level as they were two years ago. At an individual stock level, we see extraordinary value in a wide range of companies.

Of course, it is hard to know when these various fears will subside, allowing the market to move higher. One would expect the credit tightness created by the financial reforms to recede in time and it is likely that PBOC will take measures such as further cutting reserve requirements to ease the problem. The impact of tariffs at a company level should start to become obvious in the weeks ahead, although one can't predict future moves by the US administration. Overall, a combination of negative sentiment and attractive valuations are indicative of strong future returns from this market in coming years.

In other markets such as Japan, the divergence between the most highly valued and the least valued stocks in the market is at a record level. Elsewhere, outside of the much loved high growth technology and biotech stocks we are finding companies at interesting valuations. All this, we believe, bodes well for future returns. However, it is possible that before these returns can materialise, we may first see a correction in the prices of the high flying stocks, potentially precipitated by rising US interest rates.

1 Referencing respectively the CSI 300, TOPIX and KOSPI indices, from their respective peaks in January 2018 to 28 June 2018.

Platinum International Fund

Kerr Neilson
Portfolio Manager

Andrew Clifford
Portfolio Manager

Clay Smolinski
Portfolio Manager

Performance

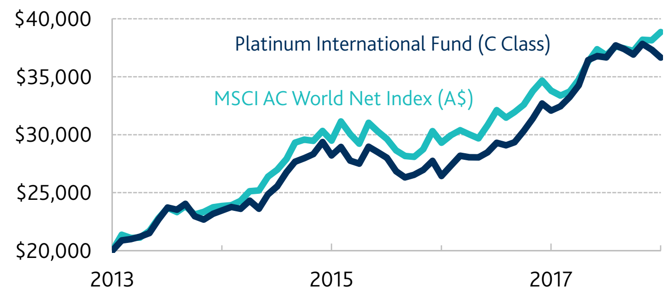
(compound pa, to 30 June 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund*	-1%	14%	9%	13%	13%
MSCI AC World Index	4%	15%	10%	14%	7%

Net of accrued fees and costs. Refer to note 1, page 44.
*C Class – standard fee option. Inception date: 30 April 1995.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

Value of $20,000 Invested Over Five Years

30 June 2013 to 30 June 2018



Fund returns are net of accrued fees and costs. Refer to note 2, page 44.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

Disposition of Assets

REGION	30 JUN 2018	31 MAR 2018	30 JUN 2017
Asia	35%	37%	37%
Europe	21%	22%	19%
North America	18%	14%	18%
Japan	12%	14%	13%
Australia	<1%	<1%	0%
South America	<1%	1%	<1%
Russia	<1%	1%	1%
Cash	13%	11%	12%
Shorts	-15%	-14%	-9%

Source: Platinum Investment Management Limited. See note 3, page 44.

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/pif.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	IT	2.8%
Alphabet Inc	USA	IT	2.8%
Ping An Insurance Group	China	Financials	2.6%
TechnipFMC	UK	Energy	2.4%
Glencore PLC	Switzerland	Materials	2.4%
Facebook Inc	USA	IT	2.3%
Siemens AG	Germany	Industrials	2.3%
Royal Dutch Shell PLC	UK	Energy	2.0%
Jiangsu Yanghe Brewery	China	Consumer Staples	2.0%
Intel Corporation	USA	IT	1.9%

As at 30 June 2018.
Source: Platinum Investment Management Limited. See note 4, page 44.

The features of the markets that we highlighted in the first quarter continued to be expressed in the second, namely, greater volatility in markets, tightening credit and a flattening of economic indicators like the PMIs. This caused a pronounced divergence in the performance of the emerging markets, perceived typically as being dependent on and the recipients of capital flows from the so-called developed markets.

The big change was the shift in perception about the US dollar. The blend of loose fiscal policy emanating from the tax cuts and tight monetary policy, together with the second federal funds rate rise this year, led to a rapid strengthening of the US currency. Further guidance from the Fed of two more rises likely later in the year reinforced this tendency. There were of course a diverse range of other factors. The US domestic economy showed no signs of slowing, the European Central Bank indicated that it was in no hurry to return to positive rates before mid 2019, and political intrigue reached fever pitch.

The home of Machiavelli put on a splendid performance of political theatre following the March election while not too far to the north, Frau Merkel was tussling with her alliances to deal with the European-wide consternation about illegal immigration. Hard-line anti-immigration legislation was passed in Hungary, threatening imprisonment for anyone found to have helped or legally represented asylum seekers. While Macron was trying to inveigle the Germans into closer European fiscal bonds, Brexit droned on with recalcitrant 'remainders' seeking stronger assurances from Theresa May about the terms of severance.

MSCI Regional Index Net Returns to 30.6.2018 (AUD)

REGION	QUARTER	1 YEAR
Developed Markets	**6%**	**15%**
Emerging Markets	**-4%**	**12%**
United States	**7%**	**18%**
Europe	**2%**	**9%**
Germany	0%	6%
France	3%	14%
United Kingdom	7%	14%
Japan	**1%**	**15%**
Asia ex Japan	**-2%**	**14%**
China	0%	26%
Hong Kong	3%	13%
India	3%	11%
Korea	-6%	7%
Australia	9%	13%

Source: FactSet.
Total returns over time period, with net official dividends in AUD.
Historical performance is not a reliable indicator of future performance.

Almost drowning out these developments were the much publicised negotiations between Donald Trump and the leader of North Korea, Kim Jong Un. These talks apparently ended the threat of a nuclear fallout with much acclaim being attributed to the American president. Inexplicably, no sign of gratitude was extended to China who, by closing almost all supply corridors to North Korea, essentially forced a positive outcome. Instead, there was a hardening of the position of the White House on trade with China in an attempt to enforce more favourable trade concessions and greater protection of intellectual property rights. These issues were far from resolved as we entered July and fears of tit-for-tat that targets individual companies is a relatively new development for the market to consider. The White House also chose to pick fights with its trading partners in NAFTA (the North American Free Trade Agreement). None of this gives any reassurance to markets in terms of supporting business confidence.

However, massive takeovers of the likes of 21st Century Fox and Time Warner, though fewer than in the first quarter, are still running at a frenetic pace and serve as a reminder of the inevitable restructuring of older industries in the face of fundamental change. This was underlined by huge raising of private equity, a record-breaking US$453 billion in 2017 and a further US$80 billion in the first quarter of 2018,[1] and impressive raisings by initial coin offerings (or ICOs) amounting to US$12 billion year to date,[2] despite recent falls in the value of Bitcoin and other cryptocurrencies (as our December 2017 feature article suggested they might).

1 Source: Preqin

2 Source: www.coinschedule.com/stats/html

MSCI All Country World Sector Index Net Returns to 30.6.2018 (AUD)

SECTOR	QUARTER	1 YEAR
Energy	14%	29%
Information Technology	8%	31%
Consumer Discretionary	7%	20%
Health Care	6%	9%
Utilities	5%	7%
Materials	4%	18%
Consumer Staples	2%	3%
Industrials	1%	10%
Telecommunication Services	-1%	-1%
Financials	-2%	9%

Source: FactSet.
Total returns over time period, with net official dividends in AUD.
Historical performance is not a reliable indicator of future performance.

None of these perturbations were helpful to our position. Though we have virtually no exposure to the emerging markets of Latin America or others like Turkey, Russia or South Africa which were violently sold off on account of US dollar indebtedness, large trading nations like China, Japan and Korea were adversely affected by the turbulence. As the MSCI Regional Index Net Returns table on the preceding page shows, emerging markets fell by 4.4% over the quarter while Japan was also weak relative to the stand-out performer which was the US, which rose by 7.4% in AUD terms. The resource plays that worked in our favour were energy producers which continue to benefit from tight supplies and solid demand. In addition to our heavy exposure to Asia, there were other casualties among our stocks, notably Pandora, the Danish purveyor of inexpensive jewellery, Bharti Airtel, the Indian mobile service provider, and Rakuten, Japanese e-commerce company, which we had been selling.

Lastly, we lost about -0.5% on our short positions over the quarter, while contribution from currencies was flat. The result was a very disappointing quarter where we lost ground and surrendered part of the strong performance we had enjoyed over the last 12 months. For the quarter the Fund (C Class) recorded a loss of -0.7%, and for the year we achieved +14.2%. This was slightly shy of the performance of the MSCI AC World Net Index (A$) for the year.

Changes to the Portfolio

As the quarter progressed we began to raise more cash, both to capture some strong price rises and also to make way for the large impending year-end distribution. The positions in **Hyundai Motor**, **Inpex** and **Norilsk Nickel** were sold as was most of the holding in potash producer, **K+S**. Both Norilsk and K+S gave reasonable returns while Hyundai has been disappointing because of boycotts in China and its slow response to meet the market trend towards SUVs. The return from Inpex was enhanced by our additions during periodic setbacks, but as a long-term holding, it fell short of our anticipated return. Delays and capex overruns on the giant US$40 billion Ichthys LNG project were to be expected, but the disappointment lay in the management's guidance regarding the degree to which shareholders will participate in future cash flows from this massive Browse Basin LNG project.

The important buys for the quarter were further additions of **Facebook** and initial purchases of **Kasikornbank** in Thailand, the shale gas producer **Seven Generations** in Canada and the regional bank **Suruga** in Japan. We described the case for Facebook last quarter, and while there are ongoing issues with data privacy, the case stands.

Kasikornbank remains a family owned and managed bank and is among the 'big 4' in Thailand with around 15% of the system's deposits and loans. **The arbitrage is principally boredom.** There seems to be nothing remarkable happening. The Thai economy is growing with a hint of acceleration. There is very little inflation and the current account surplus is running at close to 10% of GDP. Foreign exchange reserves are US$200 billion and the memories of the 1997-98 melt-down have barely faded.

What separates Kasikornbank from the others is its preference for small company lending (63%) and **a strong and cheap deposit base** comprising current and savings accounts that represent 79% of funding. Over the cycle it has earned spreads of about 1% higher than competitors because of its preference for small business lending, but offsetting this have been credit costs that are above industry average by about 0.5% a year. The net effect is that the *ex post* 'realised' return on equity over the last 10 years has been about 15% per annum, of which 2% p.a. has been distributed to shareholders as dividends. The capital position is extraordinarily strong with Tier 1 capital of 15.4%, and this is after a rather protracted and difficult credit cycle starting with the floods in 2011, the slowing of growth in the region led by China in 2013, and the coup in 2014. Non-performing loans tripled between 2013 and 2016 and are now declining. This **sets up the system and Kasikornbank nicely for the next credit growth cycle** and **even if it is muted, a slight improvement in loan growth and falling provisions should accelerate earnings growth** to high single or even low double digits. Starting with a price-to-book ratio of 1.3x and a prospective price-to-earnings ratio of under 11x, this seems like a great bargain for a well-funded bank in a relatively stable home market.

As a producer of natural gas, natural gas liquids and condensate (a light oil used as a diluting agent to blend with oil sands bitumen to improve flow in pipelines), **Seven Generations Energy** is an interesting opportunity to participate in the unfashionable Canadian exploration and production sector. Pipeline capacity constraints are the concern for Canadian producers, as evacuation difficulties tend to suppress regional hydrocarbon prices. 7G didn't help its case by tending to over promise, and after ramping up from a very small base to become Canada's largest condensate producer at nearly 200,000 BOE/d (barrels of oil equivalent per day), it is **now going through a production reset**. The leadership has changed, technical issues addressed and projections lowered, but which still suggest volume growth of some 7% to 14% p.a. over the next five years. Free cash flow begins in the second half of this year as above-ground investment stabilises and the company's gas processing plant comes on line.

Central to the case is a highly contiguous 500,000 acre position in the over-pressured, liquids-rich sweet spot of the Montney Kakwa River area of Alberta. We believe the economics are as good as those in the Permian Basin,

supported by the very **high condensate yields**. This product is an ideal diluent and faces growing demand from Alberta's fast expanding oil sands production. While over 60% of well economics are driven by liquids revenues, 7G has underpinned its future production growth **by locking in long haul pipeline capacity to the US**. (It was this take-or-pay agreement that partly explained the helter-skelter growth drive initiated by the former management which led subsequently to above-average well decline rates and other operational problems.) As the company drills more wells – it has only sunk 200 to date, with the potential of over 1000 – the pre-investment in above ground handling will provide considerable leverage to free cash flow which we estimate will exceed US$1 billion by 2022 at current hydrocarbon prices. The company is capitalised at just under US$4 billion.

Shorting

This has not been our finest quarter. One or two of the individual stock positions made positive returns but the volatility of the more daring shorts cost us, as did the index positions. As noted above, shorts subtracted -0.5% from our returns this quarter and -1.3% over the last 12 months.

Currency

The principal change was to increase the exposure to the US dollar by 4% out of the Korean won and the Euro.

CURRENCY	30 JUN 2018	31 MAR 2018	30 JUN 2017
US dollar (USD)	26%	22%	30%
Hong Kong dollar (HKD)	13%	14%	11%
Euro (EUR)	12%	14%	14%
Japanese yen (JPY)	11%	12%	10%
Chinese yuan (CNY)	7%	7%	4%
Korean won (KRW)	6%	8%	7%
British pound (GBP)	6%	5%	3%
Indian rupee (INR)	5%	5%	7%
Australian dollar (AUD)	5%	3%	4%
Norwegian krone (NOK)	2%	3%	6%

Source: Platinum Investment Management Limited. See note 6, page 44.

Commentary

With the tightening that we noted last quarter and the more recent political disharmony in Europe as well as between the US and its principal trading partners, one can certainly see the need for caution. In general, **our research reveals that the areas of greatest value lie in Japan, Korea and Taiwan**, but indeed they are each open trading economies. In Japan the contrasts are stark. The entire listed corporate sector has a market capitalisation of US$6 trillion, yet in aggregate its cash and deposits sit at US$2.3 trillion. This is remarkable given that it was the excessive use of debt that led to their downfall and now the boot is on the other foot, yet stock prices barely endorse this! The following table highlights some of these ratios versus the world average for listed companies.

	JAPAN	KOREA	TAIWAN	WORLD AVERAGE
Net debt-to-equity ratio(1)	34%	24%	7%	50%
Return on capital employed	13.4%	13.5%	17.8%	12.0%
Trailing P/E	15.6x	11.0x	15.8x	21.0x
Trailing weighted EPS growth in USD - 5 years	11.8%	8.7%	12.4%	5.0%
Trailing weighted EPS growth in USD - 10 years(2)	3.8%	5.8%	2.9%	2.1%
Foreign exchange reserves - months imports	19	9	20	11
Current account surplus to GDP	4%	5%	13%	0%

(1) Excludes cross-shareholdings and investments.

(2) This measures earnings from the pre-GFC peak levels.

Source: FactSet, MSCI, IMF and CEIC.

These measures hardly suggest that these Asian countries are economic cripples or that their companies in aggregate have performed particularly badly against the global average. The fact is that they have surpassed the world average on each measure, yet their stocks are more modestly priced. The common thread is that these are relatively open economies with massive exchange reserves and evidently competitive economies. **Along with China, these markets have been punished of late. Is this because of the changing perceptions about global trade which is no longer expanding faster than the world economy in aggregate?** Even if we are at the early stages of the demise of mercantilism, we feel comfortable that we can still identify very interesting individual companies!

Now, we know that the US economy is booming and that there has just been a huge fiscal transfer, thanks to the tax cuts. But why should we be particularly optimistic about the US economy relative to others? The government's funding requirement is huge, with the need to find buyers in the next three years for some US$3 trillion of federal debt to meet refinancing and new issuance. This at a time when the traditional buyers of US government debt from the Middle East, Japan and China are, if anything, looking to reduce their exposure. In addition, corporate debt in the US is now over 57% higher than in 2007, and remember, with all the cash sitting on the balance sheets of the 'FANG'-like companies, implying considerable concentration of debt elsewhere.[3] **We are intrigued that high corporate debt levels as well**

3 Aggregate market cap of the Russell 2000 Index is US$2.6 trillion. Net debt is around US$1.1 trillion. Debt-to-equity ratio is approximately 41%.

as underfunded pension schemes do not receive more sanction in the light of rising interest rates.

Moving from the general to the particular, we can find industries with **growth prospects that are to a high degree independent of their host economies**. These originate from either the **regulatory environment or the inevitable evolution of technology**. Sometimes these are niche opportunities, others are tangentially related. For example, a lot of threads can be drawn from the impending International Maritime Organisation regulation that requires ships worldwide to **cut sulphur emissions** from 3.5% m/m (mass on mass) currently to 0.5% by 2020. Designated emission control areas (ECAS) such as the Baltic Sea area, the North Sea area and the coastal areas off North America are subject to an even stricter limit of 0.1% m/m. To achieve these much reduced levels of pollution, shipowners will need to consider replacing old style bunker fuel with low sulphur fuel oil blends, replacing or converting propulsion units to dual fuels incorporating LNG, installing 'scrubbers' (exhaust gas cleaning systems), or even scrapping uneconomic vessels. Among other things, this has huge ramifications for the increased demand for refined diesel fuel – perhaps as much as 4 million barrels *per day* (4% of primary oil production). This is great news for certain refineries, storage facilities, and perhaps also some shipyards.

In addition, the rise in shale liquids has further changed the **slate available to refineries**, which has implications for relatively obscure areas such as the production of needle coke. The shortages of this product, which goes into the fabrication of graphite electrodes (that require a very low coefficient of thermal expansion) for electric arc furnaces used in the steel industry, have been reflected in soaring prices, exacerbated by the Chinese beginning to ramp up scrap-fed electric-arc steel production.

Other regulations restricting **automobile emissions** have implications for the speed of adoption of electric vehicles (EVs) and hybrid drives, pointing to additional demand for metals such as copper, nickel and cobalt. This is not just a dream, because traditional auto companies are launching pure electric models, starting with Jaguar in the third quarter of 2018 and various German manufacturers next year. Chinese auto manufacturers are also launching EV products spurred on by government incentives. Adding to this demand for raw materials is the burgeoning demand from **stationary batteries** which are partly the product of the solar power boom that has continued to grow on account of rising efficiency and which has seen panel costs nose dive.[4]

The supply of more **wind power** has similarly been the product of falling costs borne on the wings of technical advances and cheap financing. The industry has seen its economics improve exponentially with electrical energy now being delivered to the grid in the US at US$40-50 per megawatt hour (MWh), which is on par with highly efficient coal-burning plants in low cost locations.[5] The emergence of financial intermediaries as the owners of these wind farms has incidentally enhanced the quality of the turbine manufacture businesses by virtue of granting **long duration service agreements**. We benefit from these various opportunities directly through our exposure to several companies in the portfolio.

We are also finding **interesting companies that are applying their product know-how to new applications**. For example, Murata, who have been progressively moving up the difficulty curve in making multilayered ceramic capacitors, can barely keep up with demand from the auto industry. Another Japanese company is finding new applications for its flexible printed circuits, such as LED lights in automobiles. Both companies have imminent growth generators derived from technical innovation and importantly, little exposure to demand destruction in their traditional activities. On the other side of the spectrum, the normally tame demand from gaming applications for graphic processing units (GPUs) has been disrupted by a surge of usage to mine cryptocurrency tokens such as Bitcoin. We believe the recent setback in this activity will lead to a likely de-stocking cycle to reward us on the short side of a very optimistically priced producer.

Outlook

There has been some fierce repricing of companies in Asia and the emerging markets in general. Trade disputes are damaging sentiment, but above all, the tightening of credit causes the most damage to valuations. After such a painful re-calibration of prices, we are inclined to believe that the Asian markets have adjusted to this new scenario. All indicators for the underlying economies of Asia are very solid, with scant evidence of slowing. While there is unlikely to be any near term let-up in the liquidity squeeze, we believe that valuations are extremely attractive, with, for example, the Chinese market on a prospective P/E of around 11 times. The portfolio is very attractively set at these levels. We would expect to see some upward price spikes as the fear around the trade disputes dissipate. We are maintaining shorts on the most aggressively priced segments of markets in the belief that if there is no relief to tighter money, these well-owned and extraordinarily highly priced sectors will also succumb to a reappraisal by investors.

4 Solar Choice suggests that solar prices in Australia have fallen from about $2.40 per Watt in 2012 to about $1.40 now.

5 A 4 July 2018 article in the Australian Financial Review suggests that solar and wind augmentation is starting to drive down prices in Australia from last year's panic levels. Yet, wholesale prices are still high by world standards at between $72 and $101 per megawatt hour.

Platinum Unhedged Fund

Clay Smolinski
Portfolio Manager

Performance

(compound pa, to 30 Jun 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund*	2%	19%	12%	15%	12%
MSCI AC World Index	4%	15%	10%	14%	7%

Net of accrued fees and costs. Refer to note 1, page 44.
*C Class – standard fee option. Inception date: 28 January 2005.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

Disposition of Assets

REGION	30 JUN 2018	31 MAR 2018	30 JUN 2017
Asia	37%	41%	38%
North America	25%	21%	21%
Europe	17%	19%	20%
Japan	6%	7%	8%
Russia	1%	1%	1%
South America	<1%	1%	1%
Cash	14%	10%	11%

Source: Platinum Investment Management Limited. See note 3, page 44.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Jiangsu Yanghe Brewery	China	Consumer Staples	3.8%
Kweichow Moutai	China	Consumer Staples	3.3%
Raiffeisen Bank International	Austria	Financials	3.2%
PayPal Holdings Inc	USA	IT	3.1%
Applus Services	Spain	Industrials	3.0%
Alphabet Inc	USA	IT	2.9%
ENN Energy Holdings	China	Utilities	2.6%
IHS Markit Ltd	USA	Industrials	2.6%
Peabody Energy Corp	USA	Energy	2.5%
KB Financial Group	Korea	Financials	2.5%

As at 30 June 2018.
Source: Platinum Investment Management Limited. See note 4, page 44.

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/puf.

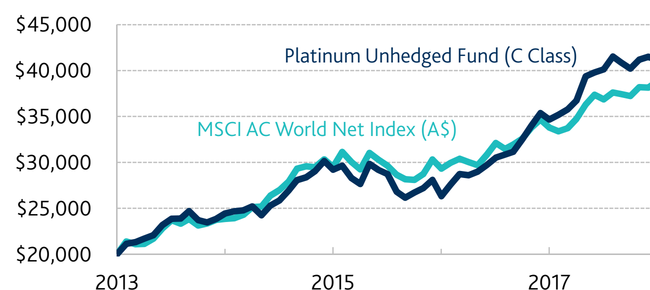
The most notable contrast in markets over the last six months is how well the US market has held up compared to its international counterparts.

Year to date the US market (MSCI USA Index) is up +2.6%, with the tech-dominated NASDAQ Index up +8.8%. This is in stark contrast to China, where the CSI 300 (A share) and MSCI China indices fell -8.5% and -1.4% respectively. Declines were also seen in Europe (-0.4%), Japan (-3.7%), and Emerging Markets (-2.8%). (All market/index returns are in local currency terms and refer to the MSCI net index for the relevant market except for the CSI 300 Index.)

Given the Fund's large exposure to China, it is worth examining the situation around the recent falls. There are two main issues affecting investor sentiment in China: trade wars and financial sector reform.

Value of $20,000 Invested Over Five Years

30 June 2013 to 30 June 2018



Fund returns are net of accrued fees and costs. Refer to note 2, page 44.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

When it comes to trade wars, we have little edge in predicting the outcome, given that the goals of the Trump administration seem to be as much about political appearance as they are about actually changing China's trade practices. Economic history, however, suggests that tariffs tend to have fairly minor impacts on overall growth, and, given the decent fall in Chinese stock prices, we believe that much of the impact has already been priced in.

A bigger concern for investors is how the current reforms in the financial sector will affect the economy. These reforms are aimed at bringing much of the lending that had been done via securitisation (otherwise known as the shadow banking system) back onto the balance sheet of the banks, where it can be properly supervised. This process in the short-term tightens credit availability, and investors are worried that the slowdown in credit growth (which has slowed to 8-9%, just below nominal GDP) will lead to weakness in the economy.

While we understand the concerns, in the long-term these reforms are a clear positive that will de-risk China's financial system. It is also interesting that despite all the fear, there has been relatively little tangible evidence of a broad slowdown. Overall, given the valuations, we are happy to hold through this period of volatility.

In terms of the portfolio, the Fund has returned +2.2% over the last quarter and +18.6% over the past year.

2017 was a period of very strong performance for the Fund, so discussions naturally centred on what had been doing well. So far in 2018 we have had some set-back in stock prices, so it would be a useful exercise to explore some of the recent detractors to performance.

Foxtons – With the stock down 38% versus our entry price, our timing of entry into Foxtons has clearly proven to be a mistake. Foxtons is a *high service* specialist London real estate broker that is suffering from the collapse in transaction activity in the London property market. Tougher regulatory conditions around lending and interest cost deductibility for investment properties, along with Brexit uncertainty has led to falling house prices in London and a complete freeze in property transactions. London housing transactions are now running at 75,000-80,000 per year, back to their GFC lows and 45% below the pre-GFC average of 150,000 transactions per year.

These issues were apparent when we purchased Foxtons (the stock was down 60% and transactions had already fallen heavily), but the price has kept sliding further as the property market continued to deteriorate. Thankfully, Foxtons has no debt, and with more than 50% of its revenue coming from stable property management fees, they have a profit base to get them through these lean times.

We remain sanguine about Foxtons' long-term prospects. There will always be demand to live in an iconic city like London, and with the stock trading on roughly 5x earnings (assuming property transaction volumes return to 110,000 per annum, still 25% below past average), we have added to our position and are happy to wait.

Cielo – Cielo controls roughly 50% of the Brazilian 'merchant acquirer/payment processing' market. Payment processors are essentially financial/technology businesses that help merchants accept electronic payments in stores and online. The revenue model of these businesses is to take a small percentage of the value of each electronic payment processed. Hence, they naturally benefit from the inexorable trend of electronic payments replacing cash.

The story of Cielo has long been about two offsetting forces – natural market growth versus increasing competition. The use of electronic payments in Brazil is still under-penetrated (accounting for 29% of payments versus 50-60% in western markets) and growing fast, giving Cielo a consistent tailwind. The negative is that the Brazilian central bank has long had a policy of fostering competition in the country's payment processing market, which has seen pricing come down and Cielo lose some market share. In this regard Cielo has done considerably better than its main competitor, and to date the natural growth in the market has offset the negative effects on pricing and share.

The initial appeal of Cielo was threefold – it was a high quality business, credit/debit spending in Brazil had been suppressed by a deep three-year recession and could rebound strongly, and on 14x P/E it was a massive discount to international peers. In spite of this, the stock has recently drifted down 30% as investors became more concerned about the intensity of competition and far more cautious around emerging markets in general.

While these concerns are valid, we would point out that the company has successfully navigated through bouts of heightened competition before. Given a valuation of 11x earnings, a 7% prospective dividend yield and a balance sheet with little debt, we are being paid well to shoulder these risks.

Changes to the Portfolio

Over the past 18 months we have been finding a lot of opportunities in some of the more cyclical areas of the market, particularly in energy (oil, gas & coal) and metals. We continued to be active in this area during the quarter, selling down our holdings in Japanese oil producer **Inpex** and US oil

refiner **HollyFrontier** after strong price moves. We used the proceeds to buy two new ideas in the energy space and increased our holding in Chinese oilfield service provider **COSL**.

Outside of the energy sector, we added to our holdings in businesses exposed to internet advertising, namely **Facebook** and **Bitauto**, with both stocks being hit by some temporary issues. While most readers would be aware of the drama around the data leak scandals at Facebook, Bitauto may be a less familiar name.

Bitauto is China's second largest car advertising vertical website, and is partly owned by internet titans JD.com, Tencent and Baidu. Tapping into China's relatively undeveloped auto financing market (30% of new cars are bought with finance, compared to 70-80% in the US), management in 2015 started experimenting with offering car loans to the large traffic of potential buyers visiting its sites.

The initial idea behind the lending business (named Yixin) was to lend out the company's own cash to build an operational track record, after which Yixin would shift to originating and servicing auto loans for banking partners who would provide the financing. Yixin quickly became a success, with Bitauto's share price responding in kind, rising from US$20 to US$50 during 2017.

2018 has seen the initial excitement wear off, with Bitauto's share price falling back to US$20. This is a result of rising charge-offs (cost of bad loans) in the auto loan book and new competition entering the market. We feel this recent sell-off is an over-reaction. Rising charge-offs are to be expected for a growing auto lender that is still experimenting with different borrower mixes. Yixin also has plenty of buffer to handle higher delinquencies given that they demand a 30% down payment and charge 12-15% interest on their auto loans.

Overall, valuing Yixin at book value implies that we are buying Bitauto's website advertising assets for a little over 1x sales. Considering that other listed advertising verticals tend to trade on 4-10x sales, this leaves Bitauto with a decent margin of safety.

Outlook

For the moment the market is running back to what is perceived as 'safe'. President Trump's trade war rhetoric, which initially focused on China, has now expanded to include global autos, and immigration tensions across Europe are showing no sign of resolution. Investors are understandably going back to what has worked and feels comfortable – buying fast growing US technology stocks and holding the US dollar.

Our portfolio is positioned differently, with 77% of our holdings sitting outside of the US and in regions where we are finding companies that typically have better growth prospects and are trading at considerably lower valuations than the US. With the recent sell-off, our outlook for future returns, particularly in China, has improved.

Platinum Asia Fund

Joseph Lai
Portfolio Manager

Performance

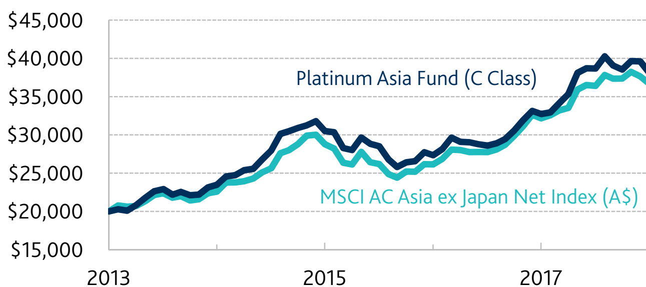
(compound pa, to 30 June 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	-1%	17%	8%	14%	15%
MSCI AC Asia ex Jp Index	-2%	14%	8%	13%	11%

Net of accrued fees and costs. Refer to note 1, page 44.
*C Class – standard fee option. Inception date: 4 March 2003.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

Value of $20,000 Invested Over Five Years

30 June 2013 to 30 June 2018



Fund returns are net of accrued fees and costs. Refer to note 2, page 44.
Source: Platinum Investment Management Limited, FactSet.
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 exposures, updated monthly, please visit https://www.platinum.com.au/our-products/paf.

Rising interest rates in the US and the uncertainties created by trade friction continued to weigh on the Asian markets over the quarter, with the Philippines (-10%), Malaysia (-9%), Indonesia (-6%) and Korea (-5%) all posting weak returns. The Fund (C Class) was down -1.0% over the quarter and returned +16.5% over the last 12 months.

Although performance was weakened by a sell-off towards the end of the quarter, some stocks contributed positively to the Fund's returns. Unsurprisingly, the key contributors were once again the companies that are benefiting from the secular consumer trends of China's rising middle class. Healthcare stocks, such as Guangzhou Baiyunshan (pharmaceuticals and herbal tea manufacturer) rose +43% (H-share) and MicroPort Scientific Corporation (maker of heart stents, pacemakers and orthopaedic prostheses) was up +11%. A strong beneficiary of China's booming e-commerce market, ZTO Express (logistics) was up +33%, while Baidu (search engine) gained +9%. Consumer stocks Jiangsu Yanghe Brewery and Anta Sports (dominant Chinese sportswear) were up +22% and +5% respectively.

Mining stocks also performed well as China's economic recovery and expansion continued to support commodity prices. MMG (copper) was up +15%, CNOOC (oil) gained +17% and PT Vale Indonesia (nickel) rose +45%. Our Indian

Disposition of Assets

REGION	30 JUN 2018	31 MAR 2018	30 JUN 2017
China^	45%	45%	43%
Hong Kong	6%	5%	1%
Taiwan	1%	2%	4%
India	12%	13%	14%
Korea	11%	10%	10%
Thailand	4%	5%	6%
Philippines	2%	2%	4%
Vietnam	1%	1%	3%
Singapore	1%	1%	2%
Indonesia	1%	<1%	0%
Malaysia	<1%	<1%	1%
Cash	16%	16%	12%
Shorts	-3%	-2%	0%

^ Inclusive of all mainland China-based companies, both those listed on exchanges within mainland China and those listed on exchanges outside of mainland China.
Source: Platinum Investment Management Limited. See note 3, page 44.

banking stocks displayed better form than last quarter, with Yes Bank up +11%.

Our Philippines and Korean holdings generally detracted from performance, with Ayala Land (Philippines developer) down -8% and Naver (Korean internet search portal) down -4%. Despite this recent price weakness, the fundamentals have not changed and we continue to believe that these are quality businesses that will do well in the long run.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	IT	3.4%
Ping An Insurance Group	China	Financials	3.4%
Axis Bank Ltd	India	Financials	3.1%
Alibaba Group	China	IT	3.0%
Kasikornbank PCL	Thailand	Financials	2.8%
China Overseas Land & Invt	China	Real Estate	2.7%
Yes Bank Ltd	India	Financials	2.7%
China Oilfield Services	China	Energy	2.6%
CNOOC Ltd	China	Energy	2.4%
Naver Corporation	Korea	IT	2.3%

As at 30 June 2018.

Source: Platinum Investment Management Limited. See note 4, page 44.

Changes to the Portfolio

Weakness in the share market over the quarter gave us an opportunity to further reposition our portfolio towards more domestically-focused champions, cushioning the Fund against the impact of the ongoing trade friction. The repositioning also aims to maximise the Fund's exposure to the benefits flowing from the economic recovery and reform in the Asian region.

The Fund has upped its cash holdings (with a net invested position at around 81% as at the end of June) and kept its Australian dollar exposure to a minimal level, both of which helped to lessen the impact of the overall market weakness experienced during the quarter. We also have very limited exposure to the regions that are most susceptible to a strong US dollar and rising oil prices (Indonesia, Malaysia, Philippines). To the extent that the Fund is exposed to these headwinds, particularly in India, we have put in a 3% short position on the market for protection. India appears to be on a gradual economic ramp-up and it would be remiss not to invest in some of the well-managed and growing businesses that are trading on extremely attractive valuations.

More specifically, we have cut positions that we believed to have reached their fair value and took advantage of the market volatility over the quarter to deploy the cash into the following key positions:

- **China Merchants Bank** – in our view, the best bank in China, with a strong wealth management arm that has a dominant industry position and is well placed to take advantage of the burgeoning wealth management needs of the country's growing middle class.
- **AIA Group** – the leading and, in our view, most well-run life insurer in Asia, with a dominant position in the huge Chinese market.
- **ZTO Express** – one of the most competitive low-cost parcel delivery operators in China, ZTO emerged a winner as it rode the waves of the country's e-commerce boom and is now consolidating the market.

Commentary

India

During the quarter, several members of our team visited India and China, and we came away from both countries with positive but different observations.

In India, we were pleasantly treated to superfast mobile internet service. The upload and download speed is similar, if not superior, to what we are used to in Australia. Reliance Jio entered the mobile network business only several years ago. Its efforts to ramp up a gold-plated 4G network in a vast country like India from scratch were dismissed by many as a daft idea. We disagreed with this assessment because we believed the country, hitherto under-served by poor fixed line services and slow mobile networks, would see significant demand unleash with an efficient and affordable internet offer. We first invested in Reliance Industries, the parent company of Reliance Jio, in the second quarter of 2015, when the Jio mobile network was yet to launch. 18 months after launch, Reliance Jio has accumulated a gargantuan 180 million 4G subscribers, enticing users with offers of virtually unlimited data usage for US$2 a month! This is a boon to consumers who are getting ready access to the full gamut of online activities and services literally at their fingertips 24 hours a day. As mobile internet becomes increasingly affordable, Indians are buying about 120 million smartphones a year.

Faced with an aggressive competitor with a deep pocket, some smaller operators are exiting the market. With the number of mobile network providers in India having reduced from half a dozen to effectively just three players, the level of competition will eventually ease, restoring profitability for the remaining big operators like Bharti Airtel (in which we have a position).

Another encouraging sign observed in India is that for the first time in half a decade, some construction-related sectors are running high on rising utilisation rates. Some steel makers are operating at 85% utilisation rates and cement producers

are starting to ramp up too. Commercial truck and passenger car sales are also running hot. All this while the rate of credit growth is only beginning to recover from some of the lowest levels since the times of Indira Gandhi. As the utilisation rates continue to increase, corporates are starting to add capacity. India appears to be on the cusp of the long-awaited revival of a private sector capital expenditure cycle. Business confidence is high.

What has been driving demand so far are government-led infrastructure programs which are bearing fruit. India needs infrastructure improvements to reduce the cost of transporting goods around the country. The authorities have approved 13,000 km of road construction for two consecutive years, a doubling of length compared to just a few years ago. Other infrastructure projects, such as airports, railway and social housing, also continue apace.

Various reform measures are starting to have a meaningful impact. The implementation of a national goods and services tax has reduced the complexity of state-based taxes. India's new bankruptcy law is getting tested and it is evidently working. For the first time, assets are being transferred from insolvent founders to new owners through bankruptcy proceedings. The significance of this new law is that it prevents founders of companies from getting out of their debt repayment obligations by dragging out the court process and wearing out the creditors, which had traditionally been the norm. Instead, the new law forces defaulting founders to either fix the problem or face the loss of their assets to the banks or new owners. This is beginning to have a profound impact on the behaviour of founders, some of whom might have chosen in the past to wilfully default on their debt given how powerless the banks were at recovering it. This is no longer the case! The new bankruptcy law represents an important structural change to Indian banks (including several of the Fund's holdings), and we cannot overstate the significance of its benefits. Our holdings in the Indian banking sectors are what we believe to be the best-in-class operators, and we expect them to reap additional rewards if the Indian capital expenditure cycle finally launches into full swing.

China

Our visit to Beijing, Shanghai and Hong Kong was literally a "breath of fresh air"! China's infamous air pollution truly has improved. Although we concede that air quality can and does fluctuate daily, it was nevertheless impressive to be able to enjoy five consecutive days of blue sky, a first in many years since our Asia team started visiting China.

China's relentless ascendance along the technology ladder has primarily been driven by an energetic private sector. Meeting with various industry heads shone a light on how ambitious the Chinese electric car makers are. In the near future, we will see many local competitors to Tesla, retailing at affordable prices of US$30,000 to US$60,000. These cars are designed from the ground up for electrification. With the battery pack situated at the bottom of the chassis, the centre of gravity is extremely low, allowing the electric motor to bring the vehicle into exhilarating acceleration from a standing start.

Observations from the trip also reinforced our view that there is enormous demand for life insurance products. Despite the authorities' ongoing efforts to improve the quality of healthcare, access to publicly funded medical care remains limited for patients suffering from serious illnesses such as cancer and coronary heart disease. As the cost of healthcare rises and the average life expectancy increases, the issue is becoming more acute. This has made insurance policies for "critical illnesses" extremely attractive. These policies cover a range of major illnesses and will pay out a lump sum (say US$30,000) in the event of the insured contracting one. The overall penetration of life insurance remains very low in China vis-à-vis the developed world. Products are immature and highly profitable. We can see this industry continue to grow for years to come. Ping An and AIA, two of the Fund's holdings, are the leaders in this market. They have what we believe to be the most experienced sales force and the most advanced IT system in the industry, which will play a crucial role in getting their products into the hands of the eager consumers.

Indeed, the Chinese economy continues to recover and expand despite the difficult job of cleaning up the shadow banking sector. The authorities are not afraid of pulling the many levers that they have to ensure that a decent level of economic activity is maintained. China is not blindly following the US Fed's move to raise interest rates. Its government continues to push ahead with its infrastructure programs, from the inter-state high-speed rail network to metropolitan underground metro systems, water treatment plants, and new healthcare facilities. In the property market, despite the authorities' draconian measures to curb demand and limit purchase, the market is holding up. We continue to witness a shortfall in supply and new construction starts are supporting economic activity.

Outlook

Given the market volatility, we have increased the Fund's net exposure to China as it tends to be more resilient against the impact of rising US interest rates and oil prices than ASEAN economies. India holds promise, particularly if and when the long-awaited capital expenditure cycle truly kicks off.

We are encouraged by the number of attractive long-term opportunities that we are finding, and many of these businesses are not expected to be directly impacted by the trade friction. The Fund will continue to invest in reasonably valued companies with strong growth prospects.

Platinum European Fund

Nik Dvornak
Portfolio Manager

Performance

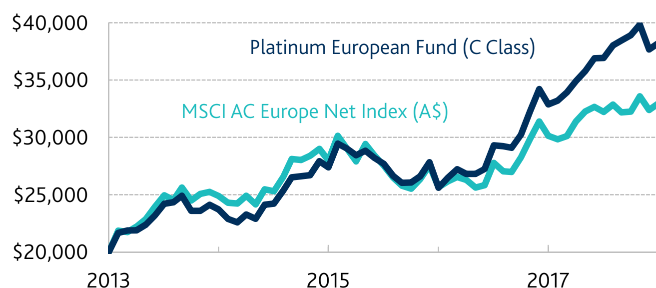
(compound pa, to 30 June 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	-2%	16%	12%	14%	12%
MSCI AC Europe Index	2%	9%	6%	10%	3%

Net of accrued fees and costs. Refer to note 1, page 44.
*C Class – standard fee option. Inception date: 30 June 1998.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

Value of $20,000 Invested Over Five Years

30 June 2013 to 30 June 2018



Fund returns are net of accrued fees and costs. Refer to note 2, page 44.
Source: Platinum Investment Management Limited, FactSet.
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 exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pef.

Commentary

The European economy appears in rude health. Economic growth slowed somewhat in early 2018, following strong expansion in 2017, but there is no obvious cause for concern. Leading economic indicators have subsequently stabilised at robust levels. Employment continues to grow, with 2 million jobs added over the last year. Unemployment sits at 8.5%, down from 9.2% a year ago. Wages, retail sales and credit are all growing comfortably while inflation remains contained.

Fiscal policy is tightening though monetary policy remains extremely accommodative. Quantitative easing will end this year, but interest rates are unlikely to rise before mid-2019. The ever wider gap between interest rates in Europe and the United States is putting pressure on the Euro. So, too, is renewed concern about political instability. Thus, the Euro depreciated 5% relative to the US dollar this quarter.

Political developments are troubling investors. Many of these ructions originated from the US, including a new round of sanctions targeting Russia, withdrawal from the Iran nuclear deal and escalation of trade tensions. Others are home

Disposition of Assets

REGION	30 JUN 2018	31 MAR 2018	30 JUN 2017
Germany	21%	23%	23%
UK	14%	15%	14%
Switzerland	10%	9%	5%
Norway	8%	4%	2%
Austria	7%	8%	9%
Spain	6%	5%	3%
Russia	3%	6%	3%
Italy	3%	3%	5%
US *	2%	2%	4%
Denmark	2%	3%	2%
Hungary	2%	2%	3%
Romania	2%	1%	0%
France	2%	2%	6%
Ireland	2%	1%	0%
Netherlands	0%	1%	2%
Cash	16%	15%	19%
Shorts	-1%	-2%	-1%

* Stocks listed in the US, but predominant business is conducted in Europe.
Source: Platinum Investment Management Limited. See note 3, page 44.

grown, such as broad divisions amongst Europeans over how to deal with migrants and the antagonism between Italy's new populist government and the European Union.

Overall, the economic backdrop remains supportive. But the rally in European equities has ground to a halt in 2018 as political concerns dim investor enthusiasm.

Performance

The Platinum European Fund (C Class) returned -1.8% for the quarter and +16.2% for the 12 months to 30 June 2018. This compares to +2.1% and +9.3% respectively for the MSCI AC Europe Net Index (A$).

Our holdings in Eastern Europe and Russia were responsible for much of our underperformance this quarter. These positions amounted to approximately 15% of the Fund's invested capital during the period.

Rising financial stress in Argentina, Brazil and Turkey has unsettled investors and increased their aversion to emerging markets. The vulnerabilities driving the sell-off in Argentina, Brazil and Turkey simply do not exist in Eastern Europe or Russia. Yet, these markets have sold off too, albeit to a more modest extent. Russian stocks were also hit by the introduction of new US sanctions in early April.

Our rationale for allocating significant capital to Eastern European companies is outlined in previous reports (e.g. December 2016 Quarterly Report). We would emphasise that our investment thesis remains very much intact and we remain enthusiastic owners of these businesses. We are adding selectively to these positions, but not aggressively, as we already have a sizeable exposure and the stocks have appreciated significantly since we first bought them.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Raiffeisen Bank	Austria	Financials	3.8%
TechnipFMC	UK	Energy	3.8%
Siemens AG	Germany	Industrials	3.5%
Schibsted ASA	Norway	Consumer Discretionary	3.2%
Roche Holding AG	Switzerland	Health Care	2.9%
Saras SpA	Italy	Energy	2.9%
Glencore PLC	Switzerland	Materials	2.8%
RELX PLC	UK	Industrials	2.8%
Scout24 Holding	Germany	IT	2.8%
Applus Services	Spain	Industrials	2.6%

As at 30 June 2018.
Source: Platinum Investment Management Limited. See note 4, page 44.

Our sentiment towards **Russia** is far more circumspect. But one needs to be pragmatic. The shares we own represent an ownership stake in a business, not an investment in a country or an economy. These businesses have significant competitive advantages, strong market positions, excellent management and good growth prospects. They are also extremely cheap. Ultimately, we own them despite the fact that they are in Russia, rather than because of it.

After the latest round of US sanctions we have reappraised our Russian positions. These latest sanctions differ from previous rounds in that they target private individuals and businesses, with no direct link to the government. Our working assumption had been that such an escalation was unlikely; clearly a miscalculation on our part. Our reassessment of the risks led us to sell our positions in **Lukoil** and **Yandex**.

Another drag on the Fund's performance was our investment in Danish jeweller, **Pandora**.

In many ways, Pandora is a victim of its own success. It emerged from obscurity to become a global business so quickly that the company's operational structure is constantly playing catch-up. Their metamorphosis, in terms of sheer operational scope, from local brand owner to a global manufacturer, distributor and retailer, has been truly remarkable and proves just how responsive this organisation is to change.

Pandora faces two main problems. Customers are simply getting bored of the product offering which has come to resemble more of the same in recent years. They are also increasingly shopping online and the franchise model that Pandora operates in some large markets is not easily adaptable to this. These challenges have sapped Pandora's sales momentum, causing investors to abandon this former stock market darling.

We have observed the growing operational depth of this organisation with great interest and felt that they are finally in a position to address these shortcomings. A global overhaul of the product offering was kicked off in March 2018 and the early feedback was encouraging. Success in this endeavour will prove critical to reviving sales in their mature markets.

Encouragingly, Pandora has form in resurrecting demand in markets where it had been written off, having successfully done so in the UK, Australia and Germany at various points in its history. But success is by no means guaranteed. Retail is about putting the right product in front of customers. This is hard to do consistently. Retailers that fail to do this, simply fail. Pandora has evolved to be far more flexible in what it can

offer customers and this will improve its chances of success. But good execution and some measure of good luck will still prove essential.

The investment case was greatly sweetened by the fact that the company still had many immature markets that were growing quickly. Foremost amongst these was China. China is still a relatively small market for Pandora, but sales there were growing very quickly and consumer demand appeared insatiable. China has the potential to be Pandora's largest market and many investors were willing to overlook difficulties in other markets in the belief that China would trump everything.

In May 2018 the company reported that sales in China had slowed sharply. The market's reaction was savage with the share price down around 30% since then.

While success in China is not the central thrust of our investment thesis, we expected China would become a large, prosperous market for Pandora. This recent news certainly challenges our case. The company blames the slowdown on difficulties that have been encountered by many other Western brands in China. These can be overcome, albeit not quickly. Our main concern is that the difficulties Pandora is facing in this notoriously tricky market may reflect a broader range of issues than the company realises.

For now we have resolved to hold onto this position. While it is early days, Pandora's efforts to revive sales in their mature markets seem to be having some positive impact. Moreover, while investor attention is captivated by the US and, more recently, China, Europe remains by far the company's largest market and growth there remains robust. Also, the stock price is now significantly lower, making this investment a much less risky proposition. But, needless to say, we will follow developments in China closely.

Elsewhere in the portfolio a number of long-held positions performed well. German online classifieds, **Scout24**, has completed a wholesale restructuring of its sales force and its real estate segment seems set to benefit from buoyant market conditions. Investors are also taking a more favourable view of Norwegian media company, **Schibsted**, which has pared its global ambitions in favour of focusing on generating greater returns from its existing positions. Our best performing position, however, has been Norwegian seismic company, **TGS Nopec**, which appreciated markedly on signs that the hiatus in offshore oil exploration might finally be ending.

Changes to the Portfolio

During the quarter we identified a number of prospective investment opportunities. We deployed additional capital in various energy, healthcare and media companies. These sectors are unloved in the European context. We have also added to our Eastern European banks.

On the other hand we sold our holdings of **Lukoil** and **Yandex**, as discussed above. We also sold out of a number of other positions, including potash-miner, **K+S**, and fashion conglomerate, **Kering**, where we felt the stock price more than adequately reflected fair value.

Outlook

Political instability and rising interest rates do cloud the outlook somewhat and, broadly speaking, valuations tend to be high. Equity markets may struggle to appreciate in this environment. However, economic prospects remain favourable, making it hard to be too bearish. We would remind readers that we invest in individual businesses, not stock markets, and the simple fact is that we continue to uncover what we think are good investment ideas. The quarter that just ended was particularly fruitful in this regard and this gives us cause for optimism.

Platinum Japan Fund

Scott Gilchrist
Portfolio Manager

Disposition of Assets

REGION	30 JUN 2018	31 MAR 2018	30 JUN 2017
Japan	91%	86%	95%
Korea	0%	0%	1%
Cash	9%	14%	4%
Shorts	-2%	-2%	-2%

Source: Platinum Investment Management Limited. See note 3, page 44.

Sector Breakdown

SECTOR	30 JUN 2018	31 MAR 2018
Information Technology	26%	23%
Industrials	17%	16%
Consumer Discretionary	13%	13%
Materials	11%	11%
Financials	9%	10%
Energy	8%	7%
Health Care	5%	4%
Telecommunication Services	1%	1%
Consumer Staples	-1%	-1%
TOTAL NET EXPOSURE	89%	84%

Source: Platinum Investment Management Limited. See note 5, page 44.

Currency Position

	30 JUN 2018	31 MAR 2018
Japanese yen	94%	95%
US dollar	4%	4%
Australian dollar	2%	1%

Source: Platinum Investment Management Limited. See note 6, page 44.

Performance

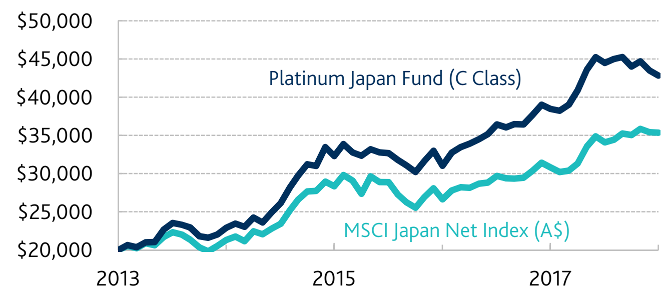
(compound pa, to 30 June 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	-3%	11%	10%	16%	15%
MSCI Japan Index	1%	15%	8%	12%	3%

Net of accrued fees and costs. Refer to note 1, page 44.
*C Class – standard fee option. Inception date: 30 June 1998.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

Value of $20,000 Invested Over Five Years

30 June 2013 to 30 June 2018



Fund returns are net of accrued fees and costs. Refer to note 2, page 44.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

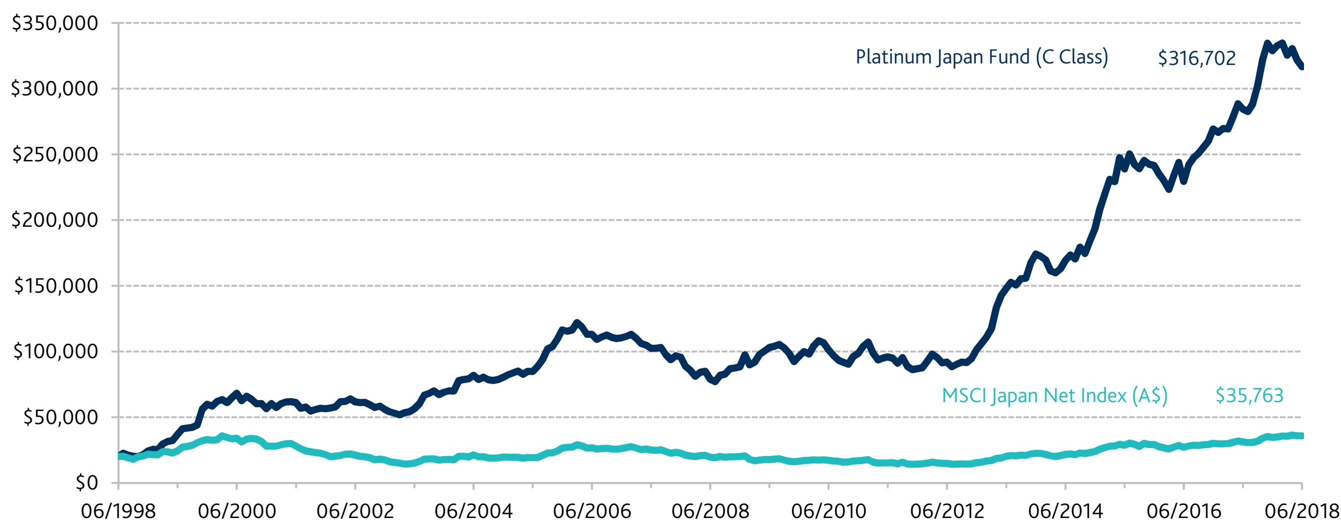
Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Nexon	Japan	IT	4.0%
Murata Manufacturing Co	Japan	IT	3.4%
Nintendo	Japan	IT	3.4%
Itochu Corporation	Japan	Industrials	3.4%
Sumitomo Mitsui Financial	Japan	Financials	3.3%
Inpex Corporation	Japan	Energy	3.0%
Mitsubishi UFJ Financial	Japan	Financials	2.8%
Kyocera Corp	Japan	IT	2.6%
Sumitomo Metal Mining Co	Japan	Materials	2.6%
JAPEX	Japan	Energy	2.5%

As at 30 June 2018.
Source: Platinum Investment Management Limited. See note 4, page 44.

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/pjf.

Value of $20,000 invested in Platinum Japan Fund (C Class) from inception on 30 June 1998 to 30 June 2018



Fund returns are net of accrued fees and costs. Refer to note 2, page 44. Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

The Platinum Japan Fund opened in June 1998. The chart above illustrates the performance of the Fund (C Class) over the subsequent two decade period.

An investment of $20,000 in 1998 has grown at 15% per annum over twenty years and is now worth close to $320,000.

One estimate of the long-term nominal returns from 1900 to 2017, or more than a hundred years of global growth and dynamism, is tabulated below.

Developed world equities	8.4% per annum
Bonds	4.9% per annum
Real estate	4.2% per annum
Gold	3.6% per annum

Source: Blended estimates compiled by Dimson, Marsh and Staunton, published in the Credit Suisse Investment Returns Yearbook 2018.

Outlook

Unemployment rates in Japan are at multi-decade lows, corporate profitability has broken above the previous range, corporate behaviour is trending in the right direction and the political environment is stable. It is difficult to envision a more positive domestic environment, especially relative to the post-bubble decades following 1989. By contrast, the Japanese stock market is trading at roughly half its level in 1989. This has been one of the longest bear markets in modern financial market history. The current market valuation implies that today's unlevered Japanese corporate cashflows are far less valuable than the indebted position thirty years ago.

Yet, despite all the changes of the last decades, Japan still hasn't broken the domestic shackles, nor its interdependence with the rest of the world. This is reinforced by a recent anecdote. In almost all banking markets, deposits are precious. In Japan, it's the opposite. A senior executive at a mega bank recently hinted that one of the reasons for branch rationalisation is to reduce their deposit base. Across the broader system, deposits are still growing faster than loans and thus the system is becoming ever more liquid. Japanese inter-bank borrowing rates, which reflect the interest rates charged between banks, recently turned negative at the short end. This reflects both the excess liquidity in the system and participants' assessment of the robustness of the collateral in the financial system. After almost thirty years, Japan remains stuck in a liquidity trap.

Recent assessments of the actions taken by the Bank of Japan (BOJ) since 2012 have been generally positive. However, most large scale monetary interventions are made with both imperfect knowledge due to the complexity of the systems and acknowledgement of potential unintended consequences. Kuroda-san almost certainly targeted foreign exchange rates with his various actions. This focus on the exchange rate channel incentivised both hedged and unhedged overseas investment which was very profitable as the Yen weakened and global asset prices rose. However, there are many barriers to further overseas transfers, but none more so than the elevated price of high quality asset classes and the relative weakness of the Japanese yen. Future purchases might drop down the foreign asset quality spectrum, thereby increasing the opportunity set, but this entails taking long-tailed risks. If the post 2012 changes were

to reverse, leading to a stronger currency, it would clearly show Japan's interdependence with the global economy and financial markets.

With the above context in mind, it is worrying that some recent market signals have started to show mounting global concerns. Such discussions are notoriously ephemeral. It is possible to reach very different conclusions from the same set of data. At the core of the current debate is the influence of debt and its contribution to stability and growth. The evidence from Japan's recent decades is that high asset prices fuelled by debt leads to instability. There is also a broad body of academic work leading to a similar conclusion. Asia's relative rise, in particular China's ambitions in the region and globally, together with the degradation of the mercantilist principle which has underpinned the post Bretton Woods economic system, adds further instability. Some see the recent rise in the oil price and US dollar strength as likely temporary, but the resultant ructions do highlight the fragility of some parts of the global economy.

While the Japanese stock market remains well placed for the medium- to longer-term, it is almost inconceivable that it would be immune to external disruptions, especially if the currency were to strengthen as capital returns home despite no need for it there.

It appears that the Australian dollar is poised to weaken, given escalating concerns about the external funding situation and questionable banking system collateral. It's worth highlighting that this is the opposite of the Japanese situation. It feels discordant that the total value of Australian residential real estate at A$7 trillion is roughly equivalent to the value of all gold ever mined, at US$7 trillion.

The Three Body Problem has been well explored recently in both the alternative financial press and literature. Simply, when three bodies orbit each other, there is no discrete formula to predict their paths. An iterative process is required to solve the problem. Given the complexity of global financial markets and the concept of reflexivity, it's clear that absolute answers are both unproductive and incorrect.

While the above discussion highlights uncertainty, the markets have acted with certainty. Investors have pushed the valuation dispersion to levels seen at previous peaks in 1987 and 2000. They have reacted to uncertainty by being certain about particular groups of companies, in particular those with earnings clarity, earnings growth and long-term opportunities. While this is indeed sensible, when any idea is taken to an extreme, it becomes dangerous. This behaviour has been evident for some time, but has likely now been taken to an extreme.

The Japanese equity market has been in a long bear market and is now valued attractively in an absolute sense. Combined with extreme valuation dispersion, it is easy to identify low valuations and attractive medium-term investments across broad parts of the market. Conversely, many stocks are valued with unbridled optimism. While this combination presents many opportunities, the complexity of the system and basic human psychological characteristics[1] make it both difficult and unhelpful to have delusional clarity of the timing of reversion.

Performance

The Fund fell -2.7% for the quarter and rose +11.3% for the year. This is somewhat surprising given the extension of the valuation dispersion which widened through the quarter and over the year. In brief, the "cheap stocks" got cheaper and the "expensive" or "defensive" stocks became more expensive. While recent portfolio performance is certainly not ideal, the alternative of a potential loss of capital by overpaying for "certainty" would be unpalatable.

Changes to the Portfolio

The shift highlighted in prior quarters towards the cheaper parts of the market continued. Cash positions also increased. The Fund remains invested in Japanese equities with zero weighting to Korea and a consequently high exposure to the Yen. The only notable change in portfolio constituents was the increased allocation to the discrete electronic components sector focused on MLCCs (see below commentary on the MLCC industry). Small short positions in a portfolio of expensive stocks have been added.

Commentary

The three defining aspects of the Japanese stock market at the moment are:

1. A 30 year bear market following the bursting of the bubble in 1989.
2. The low absolute valuation of the market when accounting for cross-shareholdings and cash and investment balances.
3. The valuation dispersion which is now approaching historical peaks.

The trading range of the last 25 years has led to a Pavlovian conditioning of the market, selling at the top of the range, buying towards the bottom. This behaviour won't change

1 See, for example, *Extraordinary Popular Delusions and the Madness of Crowds*, an early study of crowd psychology by Scottish journalist Charles Mackay, first published in 1884.

easily. Japan's households have 11% of their US$16.4 trillion financial assets invested in the stock market while their US counterparts have 36% invested in equities. The aggregate market capitalisation of all listed companies in Japan is roughly US$6 trillion with 15% or more cross-shareholdings, 4% BOJ ownership and US$2 trillion of surplus corporate cash. A small shift in asset allocation could have a large impact on the stock market! Sales of the latest edition of the *Japanese Company Handbook* are up 50% compared with last year, so perhaps interest is increasing at the end of a string of six years of gains.

These characteristics are evident in the individual stocks. A recent IPO of an artificial intelligence company listed at a valuation of 500 times sales. It was the biggest opening day for an IPO in the history of the Japanese market. In the same week, Itochu announced record earnings and gave projections for record earnings and dividends. Itochu's share price responded by falling. Itochu is now on an estimated current year P/E ratio of 6.6x, a dividend yield of 3.6% while generating a return on equity of 16.5%. This valuation is near historical lows. By contrast, GMO Payment is on an earnings multiple of 113 times this year's earnings. While this reflects their high growth rate, there are many capable competitors. Keyence, a true global champion is trading at 15.5 times sales, approaching its historical extremes. Many market participants are willing to pay a high price for growth.

This valuation dispersion has been evident for a few years. It may continue. However, our track record has been built on a foundation of patience and rigour. The current market is sorely testing these strengths.

By way of further example, the Fund currently owns a small position in NOK Corporation. The valuation is a P/E of 10x, P/S of 0.5x and P/B of 0.8x which is at the bottom of the five decade range. Half the balance sheet is cash and investments in addition to a large receivables balance. NOK is connected to Freudenberg, the large German industrial company with family direction and ownership, and together they produce 50% of the world's oil seals. NOK's other market position is the largest share of the global flexible printed circuit business. Apple has been a difficult customer, but there are some signs that this is abating.

The overall market is acting as though the currency is going to strengthen imminently. This is a major contributing factor to the valuation dispersion. Given the widening interest rate differentials, central bank attitudes and relative financial system structure, it would indicate that the Yen should weaken. The impediment to this is the current news vacuum. After twenty years of tight money led by the Ministry of Finance, the subsequent five years of Abenomics have been assessed as a success. Governor Kuroda and two like-minded deputies have been appointed to the BOJ, thus likely extending to Abenomics 2.0 and a new quiver of arrows. The final piece of the puzzle is the re-election of Prime Minister Abe who has recently seen a surge in popularity and is thus likely to go on to become Japan's longest serving prime minister. Interestingly, there has recently been a surge in overseas M&A activity outbound from Japan, perhaps indicating their belief that the success of the past five years will be extended to 2023.

While Korean valuations look very attractive, the main concern about the country is that its companies have a developed world cost structure but have not upgraded their product quality and composition to avoid low cost competition from China and other emerging areas. Their institutions and societal structures are reminiscent of a less developed market. These transitions are always difficult and the country has attempted to facilitate the shift with higher debt levels rather than undertake fundamental reforms. Many stocks in Korea are now approaching their historical low valuations.

While the focus of our portfolio construction has been on the valuation dispersion in Japan, an attempt has been made to identify where positive changes are occurring. Topics of interest include Chinese environmental tightening (LNG, chemicals, electric vehicles), automobile electrification and safety (components, OEMs), energy supply constraints, gaming (digital transactions, eSports, mobile), Apple supply chain (displays, wireless, FPC), SPE, silicon wafers, e-commerce, cloud computing.

The latest change to the Japanese tax code allows tax-free scrip acquisitions which has led to a flurry of deals. While it is glacial relative to Anglo expectations, corporate governance reform continues and will benefit many of the Fund's investments.

Discrete Components

Acronyms are an irritation. They exclude outsiders: ADAS, EV, HEV, LTE, SAW, IoT, HD, OLED, 5G, MIMO, OTT, 4k/8k, VR, ML, AI, LPWA, IaaS, PaaS. Other common words with novel meanings also create barriers: cloud, hyperscale servers, quantum computing, mobility as a service, sharing economy. At the end of this long economic expansion, acronyms are multiplying as many move from worrying about the past to scoping the future. Masayoshi Son, the CEO of SoftBank, exemplifies this shift. He is selling his stolid cash generating mobile phone businesses in Japan and the US. He is buying global unicorns and future growth businesses. The acquisitions have been backstopped by SoftBank's US$100 billion Vision Fund, itself based on a commitment of US$45 billion from Saudi Arabian Crown Prince Mohammed bin

Salman al-Saud. The Vision Fund has invested in Uber, ARM, Nvidia, WeWork, Flipkart, GM Cruise, Roivant and tens of other "visionary" companies.

It's a time of dreams and new realities.

Nevertheless, behind this miasma is a solid base of reality facilitated in part by another acronym, MLCC or multilayer ceramic capacitors. 300 billion of these tiny components are made each month, 3.6 trillion units per year! Capacitors are passive electrical components. They store potential energy in an electric field. Ceramic capacitors use nano-sized particles of titanium and barium oxide as a dielectric storage. These powders are applied to very thin nickel electrode foils and stacked hundreds of layers high. The final product is smaller than the head of a pencil. This industry exemplifies Japanese characteristics of persistence, long-term thinking and relentless pursuit of a project, often to the detriment of efficiency, but often with outstanding results. The capability of an individual MLCC chip has improved 50-fold over the last two decades!

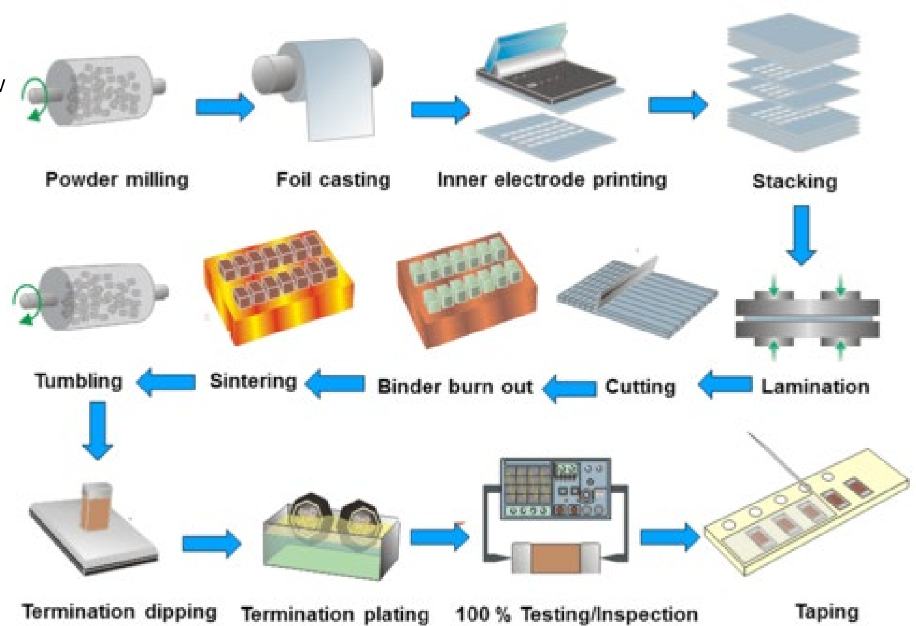
The first shortages of MLCCs were noted in early 2017. The Taiwanese were the first to raise prices through their distributors and were followed by the Koreans. A letter to customers from Berkshire Hathaway subsidiary TTI Inc, an MLCC distributor, describes the current market environment: "Now that we are in 2018, conditions are even worse than we anticipated", and "It is not unusual right now to see true demand increases (not artificial as a result of hedging) from customers of 30% or more year on year". Murata has a 40% market share of the global MLCC industry while Taiyo Yuden, TDK and Kyocera also produce high-end products. The Japanese have now started talking to their direct customer base about price rises. Industry operating rates are 100% and waiting times have extended out to many months.

The industry bottlenecks extend to the equipment suppliers and materials manufacturers, most of which are Japanese. The backlog at Hirano Tecseed has more than doubled in the last twelve months and extends well into the future.

While it's hard to see exactly where the broad increase in MLCC demand is occurring, Nissan's pioneering electric car, the Leaf, uses more than five times as many passive components as an internal combustion engine powered car. High-end mobile phones act as Veblen goods[2] and signallers of success but also use more and more components in the wireless modules and circuit boards.

Data consumption/generation is growing exponentially and there is no plateau in sight. But it seems that the acronyms are in the implementation phase and capacitor demand is being pulled through in a myriad of goods. Peering into the future, it's possible to envisage ubiquitous data, electric vehicles with dense electronification, connected devices with embedded artificial intelligence and immersive displays.

TTI describes the last decade thus: "production of MLCCs doubled but the value of the market remained flat". This implies 7% annual price declines. It also implies 7% annual production growth. This grinding road to a breaking point caused the current supply demand imbalance in the MLCC market which is now extending further and further into the electronics markets to include resistors, aluminium capacitors, resistors, inductors and power semiconductors. The Fund has a roughly 11% position in MLCCs (Murata, Taiyo Yuden, Kyocera), components (Rohm, Nichicon, Renesas) and equipment (Hirano Tecseed). This is also a wider phenomenon and bottlenecks can increasingly be seen across many real world product groups following a decade of under-investment.



MLCC manufacturing process. Source: Wikimedia Commons

2 Named after the American economist and sociologist Thorstein Veblen, "Veblen goods" are luxury goods for which demand rises as price rises, contrary to the usual laws of supply and demand, because of their exclusive nature and perceived value and appeal as a status symbol.

Platinum International Brands Fund

James Halse
Portfolio Manager

Performance

(compound pa, to 30 June 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	2%	18%	13%	13%	13%
MSCI AC World Index	4%	15%	10%	14%	3%

Net of accrued fees and costs. Refer to note 1, page 44.
*C Class – standard fee option. Inception date: 18 May 2000.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

The past quarter was a tumultuous one for the market, and the Fund was not immune to the many events that led to a whipsawing effect in various market regions, sectors, and sub-sectors. For the quarter, the Fund (C Class) produced a return of +2.3%, compared with +4.4% by the MSCI AC World Net Index (A$). This reflects a relative deterioration in performance of more than 4% in the month of June following a reasonably productive first two months of the quarter. Over the last year, the Fund has returned +18%, which compares favourably to the index's +15% performance over the same period.

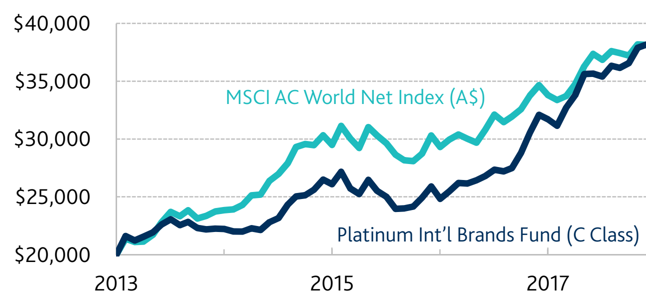
Disposition of Assets

REGION	30 JUN 2018	31 MAR 2018	30 JUN 2017
Asia	33%	38%	35%
North America	18%	18%	15%
Europe	13%	17%	17%
Japan	10%	12%	9%
Russia	4%	5%	2%
Latin America	2%	3%	5%
Africa	<1%	1%	<1%
Cash	20%	6%	16%
Shorts	-15%	-18%	-10%

Source: Platinum Investment Management Limited. See note 3, page 44.

Value of $20,000 Invested Over Five Years

30 June 2013 to 30 June 2018



Fund returns are net of accrued fees and costs. Refer to note 2, page 44.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Facebook	USA	IT	5.0%
Alibaba Group	China	IT	4.6%
Asahi Group Holdings	Japan	Consumer Staples	4.0%
Alphabet Inc	USA	IT	3.8%
Jiangsu Yanghe Brewery	China	Consumer Staples	3.4%
Callaway Golf	USA	Consumer Discretionary	3.1%
Ain Holdings Inc	Japan	Consumer Staples	3.0%
Sberbank of Russia	Russia	Financials	2.9%
Guangzhou Baiyunshan	China	Health Care	2.9%
Lixil Group	Japan	Industrials	2.8%

As at 30 June 2018.
Source: Platinum Investment Management Limited. See note 4, page 44.

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.

The Fund's performance first took a hit in April owing to deteriorating sentiment in relation to Russian equities as a result of Trump's latest round of sanctions (discussed in more detail in the Platinum European Fund quarterly report). Our positions in Sberbank and Qiwi, each falling -18% in local currency for the quarter,[1] suffered investor displeasure as a result, despite the sanctions having limited to no direct impact on these strong businesses.

Trump struck again later in the quarter with actions that could be the first salvo in a global trade war, and that run the risk of destabilising an otherwise strong global economy. Tariffs on steel and aluminium came first at the beginning of June, followed by the imposition of tariffs on US$50 billion of Chinese imports in mid-June, and then further rhetoric later in the month around retaliation to China's response to this action, floating further tariffs on as much as another US$200 billion of Chinese imports. Later in the month he also began to speak out on imports of European automobiles and automobile parts, floating the potential for a 20%-25% tariff on these goods. This was obviously negative for our positions in BMW (-8% in the quarter) and Hyundai preferred shares (-3%). At the time of writing, the European Commission has submitted a document to the US Department of Commerce, warning of retaliation against as much as US$300 billion of US goods should Trump proceed with his plan. This would be a significant escalation from the EU's very targeted response to Trump's initial round of steel and aluminium tariffs, where they imposed measures against goods such as Brown-Forman's Jack Daniel's Tennessee Whiskey along with Harley-Davidson's namesake large motorcycles.

With headlines like these, and in light of the increase in US interest rates and monetary tightening in China, it is perhaps understandable that emerging markets suffered a particularly brutal sell-off in June, as reflected in the record US$3 billion of outflows from the iShares MSCI Emerging Markets exchange-traded fund in the week ended June 22.[2] Thankfully, our exposure to the worst-hit markets (Argentina, Brazil, Turkey, Philippines, Vietnam, Thailand, China) was negligible outside of our Chinese exposure, having exited our positions in Vietnam's Masan Group and Vietnam Dairy last quarter at close to the peak in their share prices, for very healthy profits. However, our position in Brazilian-listed Latin American brewer Ambev (-25% for the quarter in local currency, and -33% in AUD terms) cost us. The limited exposure to emerging markets outside of China is a function of our bottom-up approach to portfolio construction, where we look for the best opportunities. Markets such as Vietnam and the Philippines have been notably expensive for some time, with consumer-focused companies particularly so. We have also been unable to find attractive opportunities in the consumer space in Turkey and Thailand, while Brazil's opportunity set has been limited.

The performance of our Chinese companies was mixed during the quarter, with strong returns from herbal tea and traditional Chinese medicine manufacturer Guangzhou Baiyunshan (+43%) which, together with white-spirit maker Jiangsu Yanghe (+14%), offset the weak performances from social network Sina/Weibo (-19% and -26% respectively) and the luxury auto dealers Zhengtong (-6%) and Yongda (-4%). The overall Chinese market was very weak in the quarter, with various market measures showing declines of anywhere from -4% to -16%. The Fund avoided the worst of the rout, with our Greater China stocks contributing +1.1% (in AUD) to overall performance.

The underperformance in emerging markets is the corollary of a resilient US economy featuring low unemployment, a strong US dollar and an equity market that only began to roll over from mid to late June as the trade rhetoric heated up, well after performance turned south elsewhere in the world. Unfortunately, the US is where our short positions against structurally challenged businesses have been concentrated, and being largely domestically focused, these companies are seen as being safe from tariffs and exposed to the positive US economic outlook. As a result, our short positions failed to protect the Fund from the market sell-off and cost us money in the quarter (-0.4% AUD contribution to overall performance). This was a better result than we could have had, as we undertook a timely reduction in short exposure across a range of positions in April following a period where the positions had been moving in our favour. We also had a couple of outright wins on the short side, exiting our positions in Kellogg and General Mills for a tidy profit, generating local currency (USD) returns of 16% and 21% respectively since the positions were initiated. Several other short positions also delivered positive contributions for the quarter.

Trump has so far sought to avoid decreeing tariffs on finished consumer products that would directly hit the wallets of his voter base. Maintaining this approach will become more difficult should he seek to expand his Chinese tariffs to encompass a broader range of goods. This could result in increased costs for the retailers in the Fund's short book, given that nearly all of their merchandise is imported, and much of it from China.

1 For the remainder of this report, all references to stock and index returns are in local currency terms, unless otherwise specified.

2 Source: Bloomberg.

Despite the global trade fracas and emerging market maelstrom, many of our key investments, in addition to the Chinese names mentioned above, provided solid returns as companies continued to deliver strong results or rebounded from overly depressed valuations. Gucci owner, Kering (+36%), was in the former camp as its key brands continued their resurgence, while underwear manufacturer Hanesbrands (+19% in the quarter, and more than +30% from its lows) was in the latter. Hanesbrands rebounded from an overdone sell-off as the performance of its retail partners improved and the market became excited about the potential benefit to its Champion athleisure brand from the current "retro" sportswear trend. We opportunistically added to the stock near its recent lows. Hanesbrands' performance was particularly pleasing, as one of the ancillary reasons for including it in the portfolio was to act as a partial hedge to our short positions against US retailers, given its optically similar exposure to the US consumer and the shift to e-commerce; a role it played well this quarter.

Other key contributors to performance in the quarter included Facebook (+18%), which was added to the Fund near its lows following the sell-off due to the Cambridge Analytica data scandal and contributed almost half of the Fund's total return for the quarter. This immensely powerful business was available at a very modest valuation in relation to its earnings given its future growth prospects, and there seems to be no impact to user behaviour as a result of the negative press surrounding the data leaks. Do you use Facebook, Instagram or WhatsApp less as a result of the breach?

Europe's leading frozen food company Nomad Foods (+17%) was another winner in the quarter, having been added to the Fund in May on the basis of its attractive valuation and potential to grow via value-enhancing acquisitions throughout Europe in this highly fragmented category. At the beginning of June, Nomad announced the acquisition of Aunt Bessie's, which is the leading brand in frozen Yorkshire Puddings in the UK and is highly complementary to Nomad's existing portfolio. This demonstration of its roll-up strategy in action, joined with its progress on cost-savings and solid underlying sales growth, to drive the stock higher.

Several other stocks delivered outsize gains, including LVMH (+16%) driven by ongoing strong demand for its luxury goods, online classifieds player Schibsted (+17%) as it rebounded from its recent lows on better results, and golf equipment maker Callaway (+16%) which continued its run of strong performance.

Changes to the Portfolio

We largely completed the exit of legacy portfolio positions during the quarter, closing out holdings in Chinese jeweller Luk Fook (+19% 12 month return), emerging markets telco Millicom (+13% 12 month return), luggage maker Samsonite (-9% 12 month return), and Greek jeweller Folli Follie (-65% 12 month return). Both Samsonite and Folli Follie were the target of short-seller reports in the quarter. In the case of Samsonite, the report raised a number of easily refuted issues, but effectively questioned the credibility of the CEO, leading to his resignation. The one other pertinent point raised in the report was around inventory accounting, leading the company to make a restatement. The company appointed the existing CFO to take the CEO's place. Given his responsibility for the accounts and unanswered questions around the inventories, we took a dim view of this move and exited the position.

Folli Follie, though fortunately a relatively small position, cost us money due to inertia on our part. An optically very cheap valuation, along with management promises to improve cash generation, led us to willingly overlook red flags in the financials and delay exiting the stock, hoping for a rally on an improved working capital situation. A detailed short-seller report was released in May, highlighting potentially massive fraud at the company, triggering a large decline in the stock price and eventually suspension from trading. Finding the report to be reasonably credible, having already had questions about the accounts, we fortunately exited the position for a loss before the suspension became effective (we did not allow our inertia to continue). The loss is particularly distressing, given that much of the work to rejuvenate the portfolio since the change of portfolio manager in early 2017 has been focused on removing companies with apparently cheap valuations that exhibited deteriorating market positions and limited cash generation. We will endeavour to avoid such 'folly' in future.

Other positions exited included small stakes in German travel and tourism group Tui AG (+23% AUD return since position initiation), casino and resort owner Wynn Resorts (+71% total AUD return since position initiation), and Indian telco Bharti Airtel (-13% AUD return since position initiation). Further work on Tui highlighted deterioration in its bread and butter package tour business masked by a shift to higher-end offerings. Wynn Resorts had reached a full valuation and faced new risks in relation to its casino licences as a result of harassment accusations against its founder. Bharti Airtel is experiencing a tough competitive environment that is likely some time from improvement. We may look to re-enter the stock should it fall further.

Gildan Activewear (+13% AUD return since initiation) and The Coca-Cola Company (+3% AUD 12 month return) were the final positions exited in the quarter. Gildan faces a slowing core business, and its push into branded underwear appears to be losing steam as it has now merged its very different branded and commodity businesses into one division to cut costs. Coke's valuation has become less attractive on a relative basis as the remainder of the consumer packaged goods sector has de-rated, while the case for a potential buy-out by AB InBev has weakened as the potential acquirer faces its own industry headwinds.

New positions were established in Facebook and Nomad Foods as mentioned above, and we increased our internet platform exposure by adding Google's parent Alphabet to the Fund's holdings. The reader will likely need no introduction to this immensely powerful platform, but one may be surprised that, with all the talk about high-flying FANG (Facebook, Amazon, Netflix, Google) stocks, a company of Alphabet's calibre, having demonstrated 17% p.a. growth in operating earnings over the last five years, is available for a multiple of only 25x this year's expected earnings. Remember also that these earnings are depressed by losses in Alphabet's many "moonshot" investments, including the clear leader in autonomous driving, Waymo. Should Waymo become commercially successful, it could conceivably in some scenarios have a future value worth a multiple of Alphabet's current market capitalisation. We are not paying anything for this optionality currently. In fact, Alphabet is likely being penalised for the losses Waymo is currently incurring.

Outlook

Despite the ructions in global markets, we remain optimistic regarding the investments within our portfolio in the context of a global economy that continues to exhibit strength, as demonstrated via record low unemployment in major developed markets such as the US and the UK.

We continue to take advantage of the large disconnects in valuation between companies in our opportunity set that face very different futures. Take the case of two companies we are short, one a retailer of grocery and general merchandise, and the other a manufacturer of household and personal care products. Both companies exhibit declining underlying earnings due to secular pressures, both are spending up to grow via acquisitions, and they are valued relatively highly on current-year estimated P/E multiples of 18x and 23x respectively. In contrast, perceived "high-flyer" Facebook, which has delivered 107% p.a. compound operating income growth over the last five years and is expected to continue to grow well under any scenario barring draconian regulation, was available for purchase during the quarter at 21x this year's estimated earnings (now 26x). If the reader has followed our quarterly reports for some time, it should not be surprising that Facebook is now our single largest stock position.

We will continue to be opportunistic going forward as such opportunities present themselves, and will continue to rebalance our portfolio as existing ideas play out and new ones are presented by the investment team.

Platinum International Health Care Fund

Bianca Ogden
Portfolio Manager

Performance and Changes to the Portfolio

(compound pa, to 30 June 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund*	8%	18%	11%	17%	10%
MSCI AC World HC Index	6%	9%	5%	15%	9%

Net of accrued fees and costs. Refer to note 1, page 44.
*C Class – standard fee option. Inception date: 10 November 2003.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

Disposition of Assets

REGION	30 JUNE 2018	31 MAR 2018	30 JUN 2017
North America	39%	37%	33%
Europe	34%	39%	36%
Australia	10%	11%	6%
Japan	4%	4%	4%
Asia	2%	<1%	0%
Cash	11%	9%	21%
Shorts	-1%	<1%	-1%

Source: Platinum Investment Management Limited. See note 3, page 44.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
AstraZeneca PLC	UK	Health Equip & Serv	3.5%
Roche Holding AG	Switzerland	Pharmaceuticals	3.3%
Sanofi SA	France	Pharmaceuticals	3.0%
Gilead Sciences Inc	USA	Biotechnology	2.7%
Johnson & Johnson	USA	Pharmaceuticals	2.5%
Daiichi Sankyo	Japan	Pharmaceuticals	2.5%
MorphoSys AG	Germany	Biotechnology	2.4%
Swedish Orphan Biovitrum	Sweden	Pharmaceuticals	2.3%
Unum Therapeutics	USA	Biotechnology	2.0%
Galapagos NV	Netherlands	Biotechnology	2.0%

As at 30 June 2018.
Source: Platinum Investment Management Limited. See note 4, page 44.

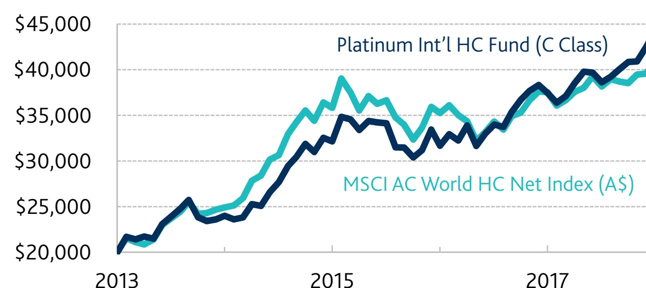
For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pihcf.

The pricing debate in healthcare is an ongoing issue that is widely written about. However, what is not receiving enough attention is the unprecedented level of innovation in the industry.

The Fund continues to invest in those innovative companies which have contributed significantly to performance. We are very cognisant about valuation and the crowding in certain areas of healthcare. Patience is a very important attribute in biotech. While we may strongly believe that gene therapy will be part of tomorrow's therapeutic arsenal, the valuations of many typical gene therapy companies have become stretched, hence we wait our turn. Nevertheless, the Fund has an investment in gene therapy manufacturing that has done very well (up 150% for the year).

Value of $20,000 Invested Over Five Years

30 June 2013 to 30 June 2018



Fund returns are net of accrued fees and costs. Refer to note 2, page 44.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

Often the herd mentality of chasing the next shiny new thing, along with the short-term focus, offers a myriad of opportunities elsewhere. **Foundation Medicine (FMI)** has been one of those investments. This quarter Roche acquired FMI for a total value of US$5.3 billion, paying US$137 for each of the shares it did not already own. Roche first took a majority stake in FMI in January 2015 at US$50 a share. Shortly after that, the market began to worry about the reimbursement rates for FMI's oncology tests as well as competition, and many analysts reiterated that the Roche alliance was "in the price". To us, these were short-term worries and missed the point that FMI was becoming an integral part to Roche's oncology R&D organisation. Furthermore, FMI's pan-cancer test was becoming more and more valuable and we were unable to see any competitors keeping up. It delighted us that FMI's share price more than halved from the US$50 that Roche had paid within a few months. Such a low valuation, in our assessment, did not nearly reflect FMI's prospects if indeed this company provides Roche with precision data plus a pan-cancer diagnostic test. Hence, FMI became one of our core holdings from late 2015.

Tool companies are, in our view, a crucial part of healthcare, as are certain service offerings. Drug therapeutics are becoming more complex to manufacture, hence better methods and services are required. Oncology is all about profiling the cancer and the environment it lives in, respiratory is all about profiling the inflammatory situation in the lungs, and neurological disorders are all about creating precise molecular profiles of the disease state that the patient finds himself or herself in. The more detailed real-time data one has, the better tailored the therapies will be (though targeted medicine isn't quite here yet, and many companies are working towards it). Hence the portfolio has a number of companies in the tool space.

Two other holdings have also either been acquired or are in the process of being acquired during the quarter. **ARMO Biosciences**, a US immuno-oncology biotech, has been acquired by Eli Lilly while Japanese pharma company Takeda is looking to acquire UK/US biotech **Shire**. The ARMO acquisition is all about the pipeline, while Shire is about Takeda making a bold move to become a global biotech.

Besides these targets for acquisitions, several of our European holdings also did nicely this quarter and for the year. We have mentioned German antibody company **MorphoSys** before. The company listed in the US this quarter and is now preparing for a commercial launch of its blood cancer antibody.

We continue to add new companies to the portfolio and have exited a number of positions this quarter. Among the companies sold, some have run into challenges that will take time to resolve while others simply got too expensive.

Commentary

A prominent biotech venture capitalist said in a recent interview that a pharma CEO and board who think buying another pharma company is the right way forward should all be "marched out of the door immediately" as they obviously are missing the unprecedented innovation and changes that are occurring elsewhere. Indeed, innovation is plentiful in healthcare today. For example, there is a growing focus on early detection. Prevention of diseases, rather than late stage disease therapies, will hence become an increasingly important aspect of healthcare.

We have always argued that biotechs are the engine room of healthcare, and hence for a healthcare company to be successful it must establish an integrated business development department, rather than just write one cheque after another.

Some companies are better than others at external sourcing. The less enlightened ones are no different to investors who license or buy something out of fear of missing out. However, biotechs (small medtech companies included, but the big innovation leaps are done at biotechs) are the future, not share buybacks or large scale mergers. We indeed are seeing big drug developers changing.

We are seeing deconsolidation in the sector. AstraZeneca over time has divested a number of assets and refocused the organisation. Novartis has been restructuring itself for some time, divesting vaccine and consumer healthcare divisions to GlaxoSmithKline (GSK), while buying GSK's oncology division and now divesting Alcon, the ophthalmology division it fully acquired in 2010. In essence, Novartis is shrinking itself albeit their capital allocation efforts have been unconvincing so far. At other peers, management changes have occurred and teams are in the process of retooling.

Changes are happening not only at these big drug developers. The tool and diagnostic sector is also stepping up to the challenge.

Siemens has spun off its healthcare division (Healthineers) and GE has announced plans to do the same in due course. Here, healthcare does not mean drug development. In Siemens' case it means diagnostics, while for GE Healthcare it means diagnostics, manufacturing and life science tool assets, which will become a standalone company.

These changes happen as the dynamics of global healthcare are changing and the status quo is being challenged, be that clinical development approaches, pricing models,

manufacturing or distribution. Products/therapies that were dismissed as "uneconomical" not long ago are now commercially available and viable.

Biotechs in particular are not afraid to challenge inertia. Often they have optionality in their portfolios and with that comes a positive attitude to failure. Failure is part of the nature of this industry, and as the same aforementioned venture capitalist says, "failure should be celebrated in the same way drug progress is celebrated". Money has been plentiful in the sector and, more importantly, tools have become easier to use and more precise, drilling deeper and deeper into the pathology of diseases.

While a decade ago it used to be an advantage if a company had an antibody platform, these days any biotech can "order" a PD-1 antibody by simply paying an antibody supplier to make one. The skill now lies in figuring out how to progress the antibody through the clinic and what drug to combine it with.

Gene and cell therapy, along with gene editing, complex multi-specific antibodies (or derivatives thereof) and personalised vaccines, are the exciting areas. They require significant molecular engineering and manufacturing know-how, and are the focuses propelling the next wave of biotechs.

Similarly, while immuno-oncology is now a well-known topic with the popular press, there has been far less coverage on the progress made in neurological diseases which is just as interesting, if not more.

Early detection and preventative medicine, together with precision medicine, are where the opportunities are. This means diagnostic tools will be paramount. These modern tools will reshape healthcare and we are in for exciting times in this sector.

Outlook

Significant money has flown into the smaller biotechs and medtech continues to attract investors despite high valuations. Amazon drew attention again this quarter, acquiring online pharmacy PillPack and leaving no doubt of its interest in healthcare. While we are very excited about the various fronts of innovation taking place in the industry, valuation has to be taken into account and there are pockets of the market exhibiting stretched valuations. Fortunately, the crowding in certain areas also means that other areas are being overlooked, creating opportunities for investors with a longer view. We continue to find new ideas, but will be selective about our investment choices.

Platinum International Technology Fund

Alex Barbi
Portfolio Manager

Cameron Robertson
Portfolio Manager

Disposition of Assets

REGION	30 JUN 2018	31 MAR 2018	30 JUN 2017
North America	42%	38%	35%
Asia and other	23%	25%	26%
Europe	10%	12%	14%
Japan	5%	6%	4%
Cash	20%	19%	21%
Shorts	-1%	0%	<0%

Source: Platinum Investment Management Limited. See note 3, page 44.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	USA	IT	5.9%
Tencent Holdings	China	IT	4.5%
Facebook Inc	USA	IT	3.9%
Samsung Electronics	Korea	IT	3.5%
PayPal Holdings	USA	IT	3.1%
Constellation Software	Canada	IT	2.8%
Apple Inc	USA	IT	2.7%
Microchip Technology	USA	IT	2.7%
Oracle Corporation	USA	IT	2.6%
Taiwan Semiconductor	Taiwan	IT	2.4%

As at 30 June 2018.
Source: Platinum Investment Management Limited. See note 4, page 44.

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/pitf.

Performance and Changes to the Portfolio

(compound pa, to 30 June 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	2%	13%	10%	14%	10%
MSCI AC World IT Index	8%	31%	22%	25%	1%

Net of accrued fees and costs. Refer to note 1, page 44.
*C Class – standard fee option. Inception date: 18 May 2000.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

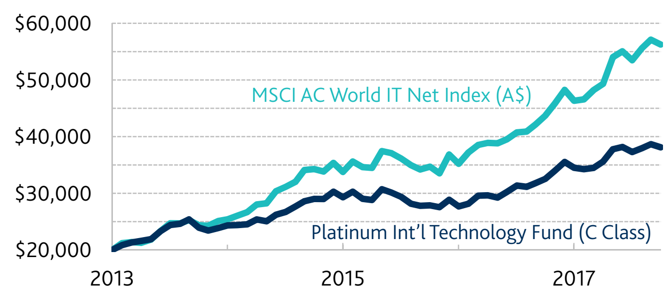
The MSCI AC World IT Net Index (A$) rose 7.8% over the quarter, mostly driven by tech titans such as Apple (+10%), Microsoft (+8%), Alphabet (+9%) and Facebook (+22%) (which are all positions held by the Fund). As at the end of June 2018, these four stocks combined represented nearly 32% of the above index.

The Fund (Class C) was up a more modest 2% over the same period, partly due to its large cash allocation (20%), a much smaller allocation to the above mentioned names (close to 14% combined), and a relatively high exposure to underperforming Chinese internet stocks and plateauing semiconductor stocks.

The Trump administration's rhetoric against "unfair trade" escalated during the quarter, imposing tariffs on imported goods from a number of countries and issuing bans on export of strategically sensitive technology specifically targeting

Value of $20,000 Invested Over Five Years

30 June 2013 to 30 June 2018



Fund returns are net of accrued fees and costs. Refer to note 2, page 44.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

China. Against the backdrop of the possibility of widespread trade wars between the US and the rest of the world, investors have penalised those stocks that are potentially more exposed to the negative consequences of prolonged tensions and retaliations.

Instead, they sought refuge in those areas that are considered more "domestically-focused" or are less exposed to the vagaries of politically motivated economic policies. Hence, money continued to flow to the "safety" of the proven tech titans as well as other high-growth sectors like cloud software, cybersecurity and digital payments.

The divergence in performance by industry[1] is illustrative of these dynamics. The strongest performance (in USD terms) this quarter was once again Internet Retail (+23%), driven by the seemingly unstoppable Amazon (+17%). Data Processing Services (+9%) was also strong, driven by PayPal (+10%), one of the Fund's top 10 positions. Internet Software (+6%) also performed well, thanks to Facebook and Alphabet (both among the top 10 positions in the Fund).

Other industries that are seen as being relatively insulated from trade war risks include Movies/Entertainment (+6%) and Cable/Satellites (+6%), helped by the strong performance of Netflix as well as Disney's and Comcast's competing bids for 21st Century Fox assets. Also worth mentioning is the good performance by gaming companies Electronic Arts and Activision, which are focused on new forms of interactive gaming products (see Commentary below) that are becoming increasingly attractive to younger audiences who are less interested in traditional media.

Semiconductors (-4%) and Electronic Production Equipment (-8%) showed signs of weakness after a long period of strong performance. Investors became increasingly worried about the sustainability of an over-extended cycle for consumer electronics and the potentially bigger risks emerging from a full-blown tariff and IP war between the US and China.

Commentary

For those who are not close to the computer gaming market, you may have not noticed how much the space has evolved over the past few years. Of course, given the prevalence of gaming, we would not be surprised if many of you are gamers yourselves! Gamers are not a small minority amongst us, with about 30% of the global population believed to engage in some form of gaming across computers, consoles and mobile devices. Looking at more developed countries where access to electronics and internet connectivity is more prevalent, the portion of the population playing games is even higher. And while historically gaming was often associated with children – in particular, boys – the average gamer is now estimated to be 34 years old, and females actually account for nearly half of the gaming population.

The gaming industry is now generating more than US$100 billion in annual revenues and growing at a respectable clip. Not only this, but there are interesting transitions afoot. The rise of the mobile phone as a gaming platform is perhaps the most obvious, now even bigger than PC or console games from a revenue perspective, but this is far from the only major change the industry is witnessing.

Years ago games were largely sold through retail stores and played by a single player on a computer or console, whereas many of today's most popular games are free to download and play online against others. Yes, you read that correctly, some of the industry's biggest money-spinners, generating tens or even hundreds of millions of dollars a month, are free to play. The way companies make money from such free games varies, in some cases in-game advertising contributes, for others the bulk of money comes from 'in-game purchases'. Often free to play games include options whereby players can pay to get past a tricky level, speed up the game-play, give them an edge over competing players, or simply personalise their in-game character by changing its appearance.

If you don't play games yourself, the idea of electing to pay within a free game may seem strange. For some, this behaviour is driven by a competitive streak or a desire to make progress. For others, it's about being able to express themselves more fully in their leisure time, perhaps by standing out from the virtual crowd, or showing support for their favourite team – not unlike sports fans who buy team jerseys. Even among those who do choose to pay, for the vast majority the cost-per-hour of entertainment is sensationally low.

Some games develop devoted fan bases, surviving and thriving for ten years or more as the developers continue to iterate the game and users remain engaged. This depth of engagement creates opportunities for the companies involved, such as licensing of intellectual property for movies, TV series or toys. Even more importantly, however, is the emergence of competitions around these games, a phenomenon known as "eSports". These eSports events can be huge, with audiences packing out stadiums, tickets to the finals for the largest of these competitions starting at $250 and prize pools running in excess of $20 million. Media rights to these events are bringing in hundreds of millions in new revenues to the industry, and sponsorships can be highly sought after. (Take a look at this YouTube video to get a feel

1 Source for industry performance cited in this report: FactSet. Industry classification by FactSet.

for it https://www.youtube.com/watch?v=F_GxPXXLc-w. You will be surprised!)

So if you've ever found yourself playing Clash of Clans on the train to work, Candy Crush while waiting for your coffee, or cheering for your home team at a League of Legends tournament, you are part of a growing portion of society that is embracing games.

While we've only touched on a few of the shifts in the industry, hopefully it gives you a sense of the dynamism. For investors, change presents opportunity, and the gaming industry has an entire ecosystem of companies through which investors can participate in the change. The Fund has exposure to this theme through a number of companies, including our long-held position in Tencent – a company with operations stretching from game development, through to distribution, eSports and everything in between.

Outlook

As mentioned in our March 2018 quarterly report, the US equity market (where the majority of technology stocks are listed) has until now benefited from President Trump's tax cuts, large share buy-backs and a resilient domestic economy. Technology stocks have broadly participated in the rally, but they are beginning to show signs of weakness, particularly in the more cyclical industries.

In China, domestic and foreign investors are now discounting tariff retaliations against the US which would affect local manufacturers and exporters, including many companies at the core of key global technology supply chains. Think about the iPhone. This quintessential piece of "designed in California" American technology is in fact assembled in factories across China where workers (and robots) put together semiconductors and other components flown in from Taiwan, South Korea, Europe and the US before the finished products eventually land at your local Apple store. What would be the consequences should President Trump proceed with more radical tariffs on products imported from China? Dire, we believe, for all actors in the supply chain.

President Trump's trade policies seem to be driven more by politics than economics (pleasing his electoral base seems more important than economic outcomes), and he may be trying to proceed with his "art of the deal" strategy, hoping to eventually force his counterparties to a compromise, or at least the semblance of one. It may ultimately work, but it will create disruption in the short- to medium-term.

Because it's impossible to completely turn back the globalisation clock, nor is it in any government's interest to disrupt domestic economies, we believe that some form of compromise will most likely be achieved, at some point.

Global stock markets are likely to be more reactive as a result of this uncertainty. Should higher volatility bring about a market correction, we plan to selectively add to the stocks that we feel will benefit most from key secular themes. We believe that these companies tend to be able to better withstand short-term political or cyclical volatility to follow through on their long-term growth trajectory.

Glossary

Debt to equity ratio

Also known as the net debt to book value ratio or the gearing ratio, the debt-to-equity ratio is calculated by dividing a company's total liabilities by its shareholders' equity. It is a measure of how much debt or leverage a company is using to increase returns and shows the relationship between funds provided by creditors and funds provided by shareholders.

Dividend yield

A ratio that indicates how much a company pays out in dividends each year relative to its share price (adjusted for any share splits).

Earnings per share (EPS)

An indicator of a company's profitability, EPS equals to profit, net of tax and dividends to preferred shareholders, divided by the total number of ordinary shares outstanding.

Price to book ratio (P/B)

The ratio of a company's current share price to its book value (total assets minus intangible assets and liabilities). It is an indicator of the value of a company by comparing its share price to the amount of the company's assets that each share is entitled to.

Price to earnings ratio (P/E)

The ratio of a company's current share price to its per-share earnings, P/E is used as an indicator of the value of a company by comparing its share price to the amount of per-share earnings the company generates. A high P/E ratio suggests that the company's share price is expensive relative to the company's profits, which usually implies that investors are expecting the company's future profits to grow quickly.

Price to sales ratio (P/S)

The ratio that compares a company's current share price to its revenue, P/S is an indicator of the value placed on each dollar of a company's sales and is typically calculated by dividing the company's market capitalisation by its total sales over a 12 month period.

Purchasing Managers' Index (PMI)

The PMI is an indicator of the economic health of the manufacturing sector. It is derived from monthly surveys of purchasing executives at private sector companies and is based on five major indicators: new orders, inventory levels, production, supplier deliveries and employment environment. A PMI reading of greater than 50 indicates expansion of the manufacturing sector when compared to the previous month, while a reading of under 50 represents a contraction and a reading at 50 indicates no change.

Return on Capital Employed (RoCE)

RoCE is a measure of a company's profitability and the efficiency with which its capital (which includes both equity and long-term debt) is employed. It is calculated as earnings before interest and tax (EBIT) divided by capital employed, where "capital employed" represents the sum of shareholders' equity and the long-term liabilities. The higher a company's RoCE ratio, the more efficient its use of capital.

Return on Equity (ROE)

ROE is a measure of a company's profitability and the efficiency with which it generates earnings from every unit of the funds that shareholders have invested in it. It is calculated as profit (or net income after taxes) divided by shareholders' equity. The higher a company's ROE ratio, the more efficient its use of shareholders' money.

Volatility

Volatility is a statistical measure of the variation in returns for a given investment over a given time period. It is the same as standard deviation. High volatility implies bigger and more rapid swings in price or valuation over a relatively short period of time, while low volatility implies smaller and less frequent fluctuations.

Volatility is an indicator of the degree of uncertainty or risk involved in achieving a target return from an investment. The higher the volatility, the riskier the investment is generally considered to be.

Yield

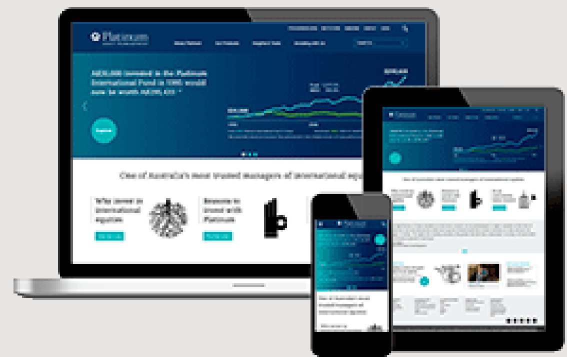
Yield refers to the income generated from an investment (such as the interest from cash deposits, the dividends from a shareholding, or the rent from a property investment), usually expressed as an annual percentage rate based on the cost of the investment (known as cost yield) or its market price (known as current yield).

For bonds, the yield is the same as the coupon rate (assuming the bond is purchased at par or is trading at par). Any increase or decrease of the yield relative to the coupon rate is approximately inversely proportional to any change in the bond price (yields fall as prices rise, and vice-versa).

The Journal

You can find a range of thought-provoking articles and videos on our new website. For ad hoc commentary on the latest market trends and investment themes, look up **The Journal** under **Insights & Tools**.

If you find yourself short on time to read our in-depth reports and articles, have a listen to our Quarterly Reports in **audio podcasts** and brief market updates in **video** format.



Recent highlights include:

- Video - Platinum Health Care Update[1] – Investing in health care isn't just about targeting the ageing population. Dr Bianca Ogden explains the key trends and how data is driving innovation.
- Video - Investment Update[2] – Clay Smolinski discusses where we are at in the economic cycle for the world's major markets.
- Podcast - 31 March 2018 Quarterly Report[3] – Douglas Isles, Investment Specialist, summarises the key messages from our March 2018 Quarterly Report in an audio podcast.

1 https://www.platinum.com.au/Insights-Tools/The-Journal/Video-Platinum-Health-Care-Update
2 https://www.platinum.com.au/Insights-Tools/The-Journal/Video-Investment-Update
3 https://www.platinum.com.au/Insights-Tools/The-Journal/31-March-2018-Quarterly-Report-Audio

Patagonia and the Altiplano

by Kerr Neilson

Inconvenience remains the protector of some of the most stunning places to visit. The reward, however, far outweighs the transient discomfort.

In 2000, El Calafate, a town in south-western Argentina near the Southern Patagonian Ice Field, had a population of 5,000. Today, it's 25,000. Thanks to the relatively new airport, tourists are streaming in to this quite remote corner of Patagonia. Here you find a wilderness with its taunting, open, windswept expanses of sparse shrubs, short grasses and exposed rocks and shale. Even the kiss of rain seems to fail to inveigle a change of palette from the khaki-green backdrop speckled with tufts of straw yellows, grey blues and splotches of black. All the time the swirls of ever-changing clouds provide vivid contrast, bellowing, streaking and occasionally blending into one another. This endless movement above contrasts with the serene plains bordered by distant mountains and aquamarine ice lakes. As a whole they make a lasting, if lonesome impression.

By accident we came across an excellent boating experience to view the great glaciers for which south-west Argentina is renowned. To appreciate the full scale of these towering masses of ice – 40 to 80 metres above the water – is difficult because of their great width, and it is only recognised when another tourist craft, of which fortunately there are few, passes between your vessel and the ice spectacle. If one is lucky, one hears a rifle shot that presages a thunderous crack as part of an ice pack breaking off in a great whoosh of water. The water itself is a strange vibrant green-blue colour that is apparently caused by the charged ions which attach to the shale powder that is ground out by the advancing ice flow.

Los Glaciares National Park, El Calafate, Santa Cruz, Argentina.
Source: author

As one sails between the sites of these three great glaciers, one is at times over-shadowed by fiercely steep rock faces that have been etched by the work of ice and water, and at the point of entry into these huge lakes shale forms 45 degree beachheads.

One sees little change in the scenery as one crosses into Chile. Here stands the Torres del Paine National Park, a favourite mountainous location among hikers. There are several trails that attract the hardy pros but are very manageable for those who are less devoted. Weather is highly changeable and, like the rest of this area, the wind is seldom at rest, which accounts for the relatively sparse landscape. Huddled in the lee of the hills, haggard stunted trees lean precariously, fighting for their place. Ice-polished rocks shine in the misty distance.

There wasn't enough variety to keep us there for more than a day, so we changed plans and secured a driver. This was a one-sided transaction as they discovered our tight flight schedule and delaying tactics were engaged to throttle more money out of us. Once settled, the driver addressed the task of covering the 400 kms with jubilant enthusiasm. Excluding the 7 minute petrol stop, we covered the distance in about 3 hours 45 minutes. It was not a peaceful cruise. The Chery car, while having some of the outer appearances of quality, had none of that sure-footed integrity of my tired old BMW, particularly when we exceeded 160 km per hour. In those moments, my mind would conjure up YouTube footage of the brand's notorious crash tests. I hadn't the heart or courage to share this information with my travel companion, though she later revealed she had throughout the long drive been preoccupied with concerns about who would care for her beloved German shepherds in the event of her demise.

To fill the gap in our schedule, we chose to fly early to Lima, the Peruvian capital, and then southward to Arequipa which we had been told was not to be missed. Fortunately an old friend rescued us from our ignorance and arranged to take us up to Colca Canyon. This is a long 4 hour drive from Arequipa, the agricultural and mining hub of southern Peru. The road is excellent except the traffic is heavy, characterised by ultra-long 22-wheeled semi-trailers slowly lumbering up the steep inclines. Overtaking is perilous on account of the turns and the busy two-way traffic. This is the sole passage to Colca Canyon and Cusco, and then on to the jungle origins of the Amazon River. The vegetation is even sparser than in Patagonia as one climbs up, with the highest part we encountered being 5,800 metres above sea level. One moves

slowly in this thin, dry air for fear of developing a cracking headache.

The reward of a night at the Belmond Las Casitas in Colca Canyon is so worthwhile. This luxury retreat, where we experienced unparalleled comfort and unacknowledged cuisine, matched the very best I have ever encountered. Colca Canyon is the world's second largest, deeper than the Grand Canyon, being 3,800 metres from top to toe. The thermals delight the condors, with winter apparently offering the best sightings of these three metre wingspan birds. We were told that although they eat only carrion, the guide had seen a condor buzz a cow to its death in a ravine, for later consumption. Some tourists like to get down into the bed of the canyon while others prefer the arduous climb to the 6,000 metre highlands. Even the guide's donkeys tend to rebel at about 5,000 metres and are then set free to find their comfortable stables back in the valley.

This guide was full of interesting information, telling us of the terracing that preceded the Incas but that they, who arrived around 1500 AD, introduced the channeling of water. This central direction of labour, an early version of a communist command economy, also oversaw the allocation of land, the storage and distribution of food and so on. Even today, these terraces are maintained by contingents of villagers who sally forth in winter with the whole community pitching in.

We were told about the marriage months around March when a family might put on a four day celebration, hosting 2,000 guests and consume as much as 10,000 litres of the mountain beer. Guests arrive with gifts ranging from potatoes, quinoa, fruit and money from quite distant parts. Our guide seemed to think that finding accommodation for such a crowd was the least of their problems for guests would stay for only part of the celebration and were apparently too busy drinking and dancing to care too much about sleep.

Land division continues apace with dry stone walls marking out boundaries, and he acknowledged that of his four brothers and four sisters, several had drifted to the bigger cities. His father ran his 25 cattle free range in the surrounding mountain sides, which were harvested for their milk alone. It seems that alpaca is their favourite meat and a live animal can be secured for about 300 soles ($125). Guinea pigs were seen as more of a delicacy at such celebrations. Not much has changed over the centuries. Mechanisation is reducing a tough manual existence, but many of the traditional methods persist with potatoes being grown in the valleys, maize on slightly higher grounds and barley sown in the uplands.

Cusco and the Sacred Valley

To avoid the rigours of the thin air, one can fly into Cusco, situated at an elevation of 3,700 metres, and go directly to the Sacred Valley by car or train. We did this and on the way passed two interesting sites, those of Moray and Maras. The

The Moray ruins, Cusco, Peru. Source: author

first comprise a series of large circular stone-braced terraces that climb up the hilly terrain to yield a 15 degree Celsius temperature differential between top and bottom. Soil was apparently shipped in from other parts of the country and a clever drainage system devised to avoid flooding of the descending circular fields. It is speculated that this was an Inca agricultural research station for improving crop cultivation.

The second stop at Maras allowed us to see the harvesting of a highly saline spring which cascades over descending evaporation ponds down to the river below. Sourced from the tectonic upturn of an ancient seabed which formed the Andes, this one inland source of salt serviced the Inca Empire at its height before Pizarro, and subsequently, the Spanish Crown imposed their will. The salt pans make a spectacular site of colour and contrast.

Some respond with wonder in this Sacred Valley which is relatively narrow and perfect for maize cultivation. The valley continues, accompanied by the Urubamba River, to the foothills of Machu Picchu. This is the real prize. Perched high, the site is quite as fantastic as the photos portray. I had been

The Maras salt ponds, Cusco, Peru. Source: author

there several times nearly 30 years before when I ran a Latin American fund. Access has been improved and there has been a lot of work undertaken by the Peruvian archaeological department – all for the better. Way back then, when the country's stability was under threat from an internal anarchist group, Sendero Luminoso (aka "the Shining Path"), visitors numbered some 300,000 p.a. This has now climbed to 2.2 million a year. Like so much of pre-Columbian history, much is left unknown about the Incas, but this sanctuary is quite wonderful. Mystery and intrigue add to the majestic setting with its sheer cliffs and terraces, one's mind can construct any number of fantasies about this extraordinary place. Archaeologist Hiram Bingham, who found the site under nonchalant direction from local villagers in 1911, developed theories that now look questionable.

You may stay at the Belmond Sanctuary Lodge, a staging point adjacent to the ruins. There are buses that zig-zag up to the staging station from the little town at the base, Aguas Calientes. Alternatively you can simply enjoy a 2 to 3 hour visit and leave the same day. Some talk in terms of the spirituality of Machu Picchu and like to arrive in time to see the sun rise.

A section of the Machu Picchu from the vantage of a special friend. Source: author

The city of Cusco, as the heart of the Inca civilisation, is my pick for exploration. Two or three nights there will allow you to really imbibe this medieval city and in my view it ranks strongly against Prague. You will see residual aspects of the extraordinary skill that the Inca stone masons brought to bear with copper tools and the abrasion of magnetite. The precision with which they dressed the stone and the use of interlocking protuberances allowed these structures to survive the many earthquakes that have beset the region over centuries. While the Spanish conquistadors tore down many great structures to build the massive churches in Cusco, there are still many remaining edifices which will reward your visit. Narrow lanes, just sufficient to allow cars to drive along, are sided by some of these highly finished walls or stone masonry of the preceding cultures. There are other sites on the periphery of the city that are also worth visiting.

In the city of Cusco, Peru. Source: author

Returning to Lima reveals a huge contrast. The city has really benefited from the resource boom of this century and the posh suburbs once again host wonderful eateries and pleasant esplanades. Apparently three of the top restaurants in the world are now located in Lima. This former viceregal city which oversaw the Spanish interests in Latin America has a population of 10 million. There are some splendid museums and ornate colonial architecture dating back to the arrival of Francisco Pizarro in 1535. There are even olive trees dating from those times. This is a good thing for it never rains in Lima on account of the cold Humboldt Current that brings freezing water from the tip of Chile (though it does produce a soft mist at night), which is also responsible for the vast shoals of pelagic fish for which Peru and Chile are famous.

There is so much to see in Latin America and at this stage, one is not overrun by the vast hordes of tourists such as those found in Europe. Flights to Santiago from Australia are frequent and this gives one a great staging point to see the rest of this fascinating continent.

The unique stone masonry from preceding cultures. Source: author

Scotia Wildlife Sanctuary

by Julian McCormack

"Scotia wildlife sanctuary ... a vitally important project for Australia and for the planet."

– Sir David Attenborough

150 km south of Broken Hill, in endless red dirt strewn with mallee and sheoak, is an 8,000 hectare haven for endangered native animal species. The **Scotia Wildlife Sanctuary**, run by the **Australian Wildlife Conservancy (AWC)**, is the largest fox and cat-free area on mainland Australia and it is the site of some of the most important biodiversity protection and research being done globally.

Over an April weekend, six Platinum employees and their families headed to Scotia for a glimpse of the work that is undertaken there and across Australia by AWC.

To appreciate Scotia, one must re-imagine the Australian continent: try to imagine a place with among the highest biodiversity of any country, teeming with hundreds of millions of ground-dwelling marsupials, pitting the landscape with burrows and diggings. At dusk the bush begins to stir, with diurnal numbats, kangaroos and wallabies giving way to nocturnal boodies, bettongs, bilbies, quolls and malas. This is how Australia was until just a few generations ago. This is how Scotia is now.[1]

The lucky Platinum employees and families. Source: Julian McCormack

Feeding a mala. Source: Amanda Beltran

One could reflect on time spent at Scotia with great sadness. It was a reminder of the enormous loss of both human and broader ecological communities across the Australian continent. Australia has the worst rate of species loss of any nation – one third of all mammal extinctions in the last 400 years has occurred here.[2] We are only now beginning to grasp the sophistication and scale of practices such as fire stick farming once conducted across the continent. The loss of accumulated knowledge and practice, of human life and ecological diversity, is numbing in its scale. And it continues. Species loss in Australia's remote top-end is staggering – Kakadu may have lost as much as 90% of many species in the last 30 years due to introduced predators and out-of-control fires.[3]

Nonetheless, Scotia is an intensely hopeful place. A small group of people and damn good fences stand between multiple species and their extermination. Inside the fences are animals found almost nowhere else in the wild on the Australian mainland. At the fences' perimeter roam feral cats, foxes and certain death for animals evolved in the absence of these predators.

Aside from being almost unbearably cute, many of the species protected at Scotia are important ecological engineers. Their diggings turn tonnes of soil – one bilby can turn 20 tonnes in a year – aerating the soil, allowing nutrients

1 Apart from the carnivorous quolls – the fragile populations of ground-dwelling marsupials are not ready for the introduction of even a native predator just yet, apparently.

2 http://www.australianwildlife.org/wildlife.aspx

3 https://www.theguardian.com/australia-news/2014/nov/03/kakadus-world-heritage-listing-under-threat-from-species-loss; for more on fire management see: http://www.australianwildlife.org/field-programs/fire-management.aspx

A bilby poking out of a sack. Source: Julian McCormack

to penetrate and sheltering the saplings of trees. These burrowing, hopping, nibbling little creatures sat in the middle of a trophic balance that allowed even dry areas to support rich, complex ecosystems. With their extermination, initially by hunting and latterly through predation by foxes and feral cats, soil fertility and biodiversity in areas such as the Mallee[4] collapsed and massive dust storms and enormous late season wildfires became all-too-regular features.

Our time at Scotia was a reminder that the enterprises we invest in are composed of people. AWC's staff at Scotia were personable, approachable and utterly expert in their fields. Imagine a space station for PhD ecologists, facilities managers and field staff: remote, host to important work, home to small groups for whom "fit" is essential and where each person has a crucial role. Everyone from Platinum was struck by the calibre and congeniality of AWC's people, their humour and calm competence.

As investment professionals, we are particularly impressed by the cost efficiency of AWC's activities. 84% of all funding goes to field ecology and conservation, the organisation generates an operating surplus sufficient to invest in meaningful expansion, it maintains significant cash in reserve and has no debt. AWC's total cash receipts were $18 million in 2017 – these guys run a lean operation![5] In a world where governments and corporates announce billion-dollar initiatives every day, AWC reminds us that much can be achieved with very little.

AWC is the largest private, non-profit owner of land for conservation in the world. It manages 4.65 million hectares, or 0.6% of the land mass of Australia. Scotia and other fenced conservation areas run by AWC will in time be joined by the 70,000 hectare Newhaven property, where the world's longest cat-proof fence has recently been completed. Newhaven is an example of AWC's work alongside traditional landholders: Warlpiri rangers are central to Newhaven's management, research programs, fire management, feral animal control and biological surveys.

With time we hope AWC's fenced conservation areas proliferate. More importantly, beyond the fences, AWC is conducting research which may one day allow for a bush renaissance for unique ecosystems across our island continent.

Stretches of fences to keep out feral cats and foxes.
Source: Julian McCormack

For more information about Scotia, Newhaven and the Australian Wildlife Conservancy, please visit http://www.australianwildlife.org/

4 The Mallee is an imprecisely defined, arid, remote region of northwestern Victoria and northeastern South Australia.

5 http://www.australianwildlife.org/media/275437/awc-annual-report-2017-final.pdf

Some Light Relief

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 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 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.

5. The table shows the Fund's effective net exposure 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).

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

Disclaimers

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The firm was founded in February 1994 by a group of professionals who had built an enviable reputation. The investment team has grown steadily and Platinum now manages around A$25.7 billion. Platinum's ultimate holding company, Platinum Asset Management Limited (ASX code: PTM), was listed on the ASX in May 2007, and Platinum's staff continue to have relevant interests in the majority of PTM's issued shares.

Since inception, the Platinum International Fund has achieved superior returns to those of the MSCI All Country World Net Index (A$)* and considerably more than interest rates on cash.

* Please refer to page 2.

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