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

Platinum
ASSET MANAGEMENT

Quarterly Report

30 SEPTEMBER
2017

Contents

The Platinum Trust quarterly report is available on our website, www.platinum.com.au, from approximately the 15th of the month following quarter end.

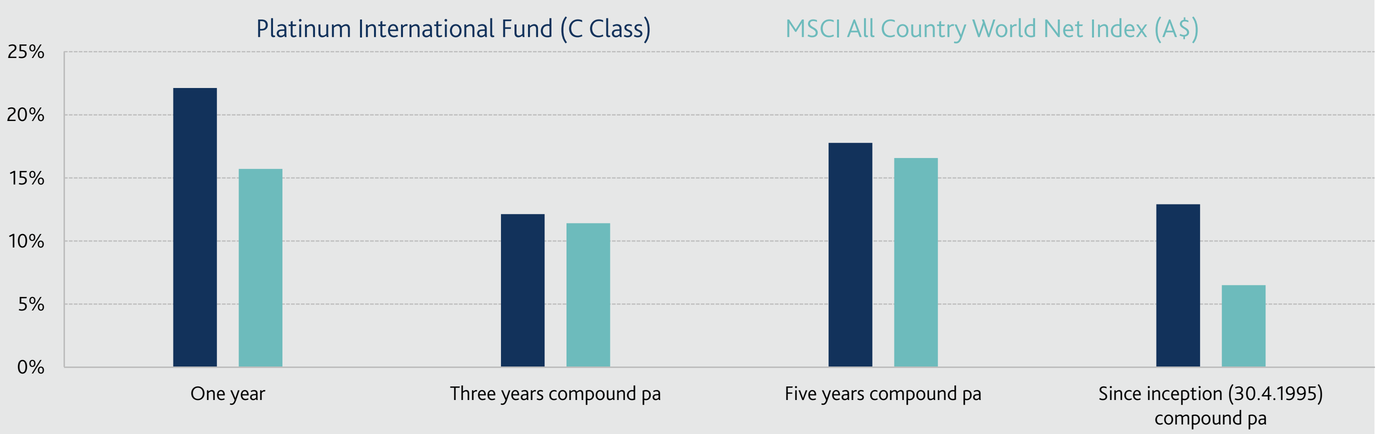
Performance Returns to 30 September 2017

FUND (C CLASS – STANDARD FEE OPTION)	PORTFOLIO VALUE	QUARTER	1 YEAR	2 YEARS COMPOUND PA	3 YEARS COMPOUND PA	5 YEARS COMPOUND PA	SINCE INCEPTION COMPOUND PA	INCEPTION DATE
Platinum International Fund	**$10,549m**	**6.8%**	**22.1%**	**11.6%**	**12.1%**	**17.8%**	**12.9%**	30 Apr 1995
MSCI All Country World Net Index		2.8%	15.7%	9.0%	11.4%	16.6%	6.5%	
Platinum Unhedged Fund	**$263m**	**6.0%**	**28.4%**	**15.3%**	**13.4%**	**18.7%**	**11.7%**	28 Jan 2005
MSCI All Country World Net Index		2.8%	15.7%	9.0%	11.4%	16.6%	6.7%	
Platinum Asia Fund	**$4,450m**	**8.0%**	**21.5%**	**12.3%**	**11.7%**	**16.1%**	**15.4%**	4 Mar 2003
MSCI All Country Asia ex Japan Net Index		4.2%	19.6%	13.3%	11.9%	13.7%	10.5%	
Platinum European Fund	**$701m**	**6.2%**	**30.2%**	**10.8%**	**14.5%**	**17.1%**	**12.2%**	30 Jun 1998
MSCI All Country Europe Net Index		4.2%	19.4%	6.1%	8.0%	14.1%	2.9%	
Platinum Japan Fund	**$710m**	**6.4%**	**20.6%**	**12.5%**	**19.0%**	**26.9%**	**15.2%**	30 Jun 1998
MSCI Japan Net Index		1.6%	11.3%	7.0%	11.7%	17.0%	2.4%	
Platinum International Brands Fund	**$865m**	**6.6%**	**29.2%**	**15.7%**	**14.9%**	**16.0%**	**13.1%**	18 May 2000
MSCI All Country World Net Index		2.8%	15.7%	9.0%	11.4%	16.6%	2.5%	
Platinum International Health Care Fund	**$188m**	**2.9%**	**13.6%**	**7.4%**	**15.1%**	**19.0%**	**9.5%**	10 Nov 2003
MSCI All Country World Health Care Net Index		0.1%	9.4%	2.8%	10.5%	20.3%	8.6%	
Platinum International Technology Fund	**$94m**	**3.1%**	**20.1%**	**11.1%**	**11.9%**	**17.2%**	**9.4%**	18 May 2000
MSCI All Country World IT Net Index		6.4%	26.8%	19.6%	20.7%	23.5%	-0.3%	

Source: Platinum Investment Management Limited for fund returns and RIMES Technologies for MSCI index returns.
Refer to note 1, page 44. Historical performance is not a reliable indicator of future performance.

Platinum International Fund vs. MSCI AC World Net Index

To 30 September 2017



Source: Platinum Investment Management Limited for fund returns and RIMES Technologies for MSCI index returns.
Refer to note 1, page 44. Historical performance is not a reliable indicator of future performance.

Macro Overview

by Andrew Clifford, CIO

An important development that is not receiving the attention it deserves from global investors is the "supply side reform" that is under way in the Chinese economy. These reforms are important, because:

1. They are bringing about a step change in profitability for the industries that are seeing capacity closures, not only within China, but also across the globe.
2. The improving profitability in previously over-supplied industries in China will lead to a reduction in non-performing loans[1] in the banking system and, with it, a significant reduction in the risk of a financial crisis in China.

The supply side reforms address a key weakness in the structure of China's economic system, namely, the coalition of local governments with local banks to develop and bankroll local state-owned enterprises (SOEs). This pattern of local development contributed to significant over-capacity in a wide range of fast growing "commodity-like" industries (such as steel, cement, glass and chemicals) and, with it, a growing burden of non-performing loans for the banking system. When the downturn came, the importance of employment for the sponsoring government meant a great reluctance on all three parties to close loss-making capacity.

As discussed in our March quarterly report, supply side reforms were initially focused on the steel and coal sectors. Redundancy funds were provided by the central government to compensate laid-off workers, easing local governments' reluctance to follow through. The State Council directed the closure of sub-scale plants as well as operations not adhering to environmental and safety standards. It should be noted that these directives related to SOEs, not private enterprises. Having said that, "unapproved" plants built by private firms, notably in the steel sector, were also targeted for closure. It is estimated that steel capacity has shrunk by 13% and coal by 10% since the start of 2016, resulting in significant improvements in the profitability of these industries. Prices for Australian coal exports are up nearly 100% since early 2016.

1 In this sense we are referring to "real" non-performing loans, not the declared numbers which most likely understate the problem and which we assume will continue to grow for the moment as they catch up with reality.

Initially, there was much scepticism when the supply side measures were announced. Over the last 15 years Beijing had announced plans to close sub-scale and polluting plants on a number of occasions, with little effect. Even if some capacity was closed, it would reopen within weeks or months. Most observers therefore expected a similar outcome with this recent round of directives from the centre. However, this occasion does appear to be different. For plants to qualify for redundancy funds, they first had to be decommissioned.

Supply side measures have since been extended from steel and coal to other industries such as PVC and aluminium. What is probably more significant though is that anecdotal evidence shows that environmental regulations are being policed strictly, which is resulting in capacity closures across a broad range of industries. Another variable is that banks are simply not prepared to extend financing to industries where there is excess capacity, whether that be as a result of following central directives or for purely commercial reasons. The upshot is that small private operators that have closed for commercial reasons and were hamstrung in restarting capacity may now be viable with higher prices.

Another observable development is the consolidation that has started to occur, with significant transactions resulting in the merger of cement groups, or the merger between the country's largest coal producer with one of the large power generation companies. There is also clear evidence in government statistics (for what they are worth) and company accounts that investment in oversupplied industries has collapsed.

While Beijing has been successful to date with these supply side measures, we should consider why this "central" control over a large and disparate group of enterprises should hold. In the first place, there is an industrial logic that would be recognised by any Western businessperson. SOEs are "owned" by the government and consolidation makes more sense than fierce competition amongst what are essentially sister companies, and better profits mean higher taxes. In reality, the ability for Beijing to have created this outcome is most likely a resultant of the consolidation of power by China's current leadership. It is clear that local politicians, managers of the SOEs, government employees (particularly those with the responsibility of enforcing these reform measures) and bank executives understand that if they do not comply with Beijing's policies, there is a real risk of loss of job and, for the more serious infringements, potentially time behind bars.

The reason that these changes deserve serious attention from global investors is that they have dealt with one of the key weaknesses in China's economic system. Together with the reforms in the financial system that have brought under control the rapid growth of the shadow banking sector, the supply side reform measures have substantially reduced one of the key risks for the Chinese economy and, indeed, the global economy. It also means that resources in the economy will progressively be applied to the more dynamic private sector where opportunities abound. The focus of investments in China today is clearly on those areas dominated by the private sector, such as electric vehicles, robotics, biotechnology, and e-commerce. The only SOE-dominated area where we can observe significant investment is infrastructure, which is a result of the One Belt One Road initiatives and which we think will have significant benefits to the broader economy.

The main note of caution we have in regard to China is the shorter-term outlook for the next six to 12 months. The government has once again been broadening restrictions on residential property purchase and financing in cities where demand and prices have been strong. The result has been a slowdown in new property sales and, with that, the potential deferral of construction activity. Residential construction is a significant contributor to economic activity. Our view is that the Chinese residential market is fundamentally under-supplied (please refer to Kerr's article, *The Rise of Asia*, in this issue as well as our past quarterly reports for an outline of the key factors underlying China's demand for urban housing), and therefore this area of activity will remain robust for some time to come. Nevertheless, there may be some loss of momentum in economic growth in the months ahead.

Market Outlook

The world's other major economies appear to be in good health. European and Japanese economies are continuing on a path of steady improvement, and the US continues to grow strongly. This co-ordinated global growth is providing a strong backdrop for global markets. Indeed, returns for Australian investors from global shares have compounded at over 16% p.a. for the last five years.[2] Returns of this magnitude should lead one to be cautious about the outlook for future returns. This view is, however, somewhat at odds with the opportunities that are presenting themselves at an individual stock level, where we continue to find companies to buy at attractive valuations. Usually we would not associate the ready availability of interesting opportunities with markets that are at dangerous levels.

When we look around for risks in markets, our key concern is US interest rates. This is particularly worrisome because of the extraordinary crowding by investors in bond markets around the world, making this, in our view, the mostly likely scene of any accident in financial markets. We could see higher rates potentially disrupt the US economy and global markets in a number of ways.

The first is the traditional rate cycle of the US Federal Reserve. History tells us that as rates are increased, eventually the US economy will respond and slow down, and before that is even readily apparent, the US stock market will start to fall, taking with it most other global equity markets. Making assessments about the exact timing of such events is highly problematic. Currently, rising labour costs are the key concern for inflationary pressures and further rate rises. However, it is questionable whether companies are in a position to pass on any increased costs to consumers. For example, Target recently raised their minimum hourly wage to US$11, with a commitment to raise it further to US$15 by the end of 2020. But given the brutally competitive environment in retail as a result of e-commerce, price rises seem an unlikely prospect. However, one assumes that rates will at some point rise to a level where there is economic and market impact.

The other potential issue is a blow-out of the US budget deficit as a result of President Trump's proposed tax plans. If the proposed tax cuts come to fruition, the financing requirement could cause significant upward pressure on US bond yields. Given the lack of success of the Trump administration in its efforts to pass reform agenda to date, markets appear to be putting little weight on the prospects of these tax cuts being passed, at least as initially proposed. We can add little to this debate, but tend to favour the view that Trump's tax plans will need to be significantly watered down to have any chance of success. Clearly though, political events of the last two years suggest that one shouldn't be complacent, particularly given investors' current enthusiasm for debt securities of all types across most geographies.

2 Based on the MSCI All Country World Net Index (A$).

The Rise of Asia

by Kerr Neilson, CEO

This is an edited rendition of a presentation delivered by Kerr Neilson at the NAB Asia Development Congress in September 2017 in Shanghai.

Over these past 20 years, some Asian economies such as China and India have been growing physically by 6-7% a year. At that rate of growth, the nominal size of **an economy doubles every 10 years**, which makes these economies four times the size that they were in the days of the 1998 Asia financial crisis.

Asia has changed immeasurably over the last two decades. It is now less susceptible to shocks, far more self-sustaining, and has managed to side-step some developmental hurdles by leapfrogging with technology. The purpose of this paper is to try to convince you to see Asia from a new perspective. Without doing so, you may well miss one of the great paths of wealth creation over the coming 10 to 20 years.

To start with some context, China and India together have a population of 2.7 billion and a land mass of nearly 13 million square kilometres. This means that **these two countries alone** have a land mass slightly smaller than the European Union (EU) and the US combined, but a population three times larger. Importantly, when measuring economic output on purchasing power parity, their **combined GDP of US$33 trillion is 50% larger than either the US or the EU**!

When official data claims that China is the world's second largest economy and that its GDP is about 60% that of the US, some tend to struggle with these statistics because of the physical presence of these economies. For example, how can these figures be meaningful when one considers that China produces eight times more steel than the US and 50% more automobiles, consumes nearly half the world's copper supply and similarly in stainless steel, aluminium and cement, and originates nearly 120 million high-spending overseas travellers each year?

	CHINA & INDIA	EUROPEAN UNION	USA
Population (million)	2,748	508	324
Land area (million km^2)	12.9	4.4	9.5
GDP PPP 2017 (US$ trillion)	32.7	20.9	19.4

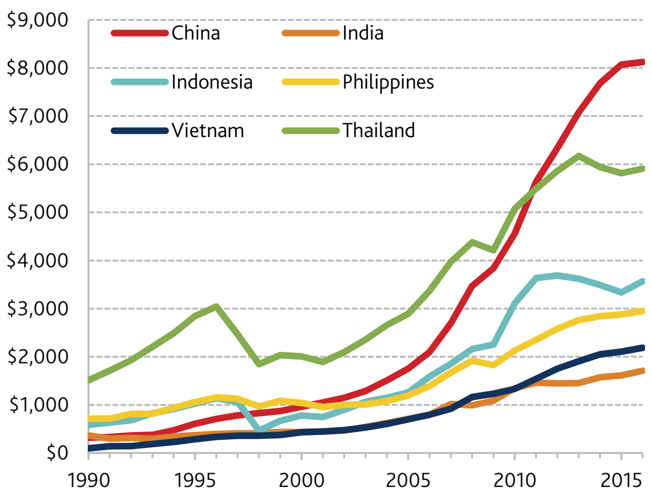
Source: UN, IMF

Income disparity is indeed a major issue for Asia. While household income in mega cities like Shanghai and Beijing can be US$50,000–100,000 a year, rural income is only a fraction of that. The relevance of this lies in **social harmony**, but as with other economies that have gone through the traumas of industrialisation, this has proven less of a challenge during that period of helter skelter growth than in its aftermath. Either way, Asia's economies have been growing at a remarkable pace, as shown in the per capita GDP chart below. From an investment point of view, thinking about the rate of growth of these countries alongside that of the West adds important perspective.

COUNTRY	POPULATION (MILLION)	LAND AREA (000 KM^2)	GDP 2016 (US$ BILLION)
China	1,379	9,388	$11,199
India	1,324	2,973	$2,264
Indonesia	261	1,812	$932
Thailand	69	511	$407
Philippines	103	298	$305
Vietnam	93	310	$203
Total	**3,229**	**15,292**	**$15,309**
World	7,442	129,733	$75,642
% of world	**43%**	**12%**	**20%**

Source: World Bank (World Development Indicators 2017)

GDP Per Capita 2016 (Current US$)



Source: World Bank (World Development Indicators 2017)

One common complaint we hear about Asia is the **difficulty of dealing with local regulatory and bureaucratic systems** when it comes to matters such as the registration of a new business or the enforcement of contracts. There is no denying that most parts of Asia still lag the developed countries in the "ease of doing business", but there are clear signs of improvement. One measure of this is the Global Competitive Index (2017-18) compiled by the World Economic Forum. This index measures and compares the competitiveness of 137 economies based on 12 factors ranging from social institutions to physical infrastructure, labour market efficiency and technological readiness. Switzerland and the US take out the top two spots, followed by Singapore, while Hong Kong ranked 6th, Taiwan 15th, China 27th, Thailand 32nd, Indonesia 36th, and India 40th, ahead of Portugal (42nd) and Italy (43rd). Australia ranked 21st. Is it not interesting that there are apparently 101 countries more difficult to do business in than say, Indonesia?

The importance attached to education among Asian families and the improving quality of these countries' education systems are also promising signs of tomorrow's prosperity. The following table lists the average maths, science, and reading comprehension scores from the OECD's Program for International Student Assessment (PISA). **Seven of the top 10 positions were filled by Asian contenders**, while Australia has sunk from no. 9 in 2006 to no. 21 in 2015. While one may not identify any strong correlation between a country's economic or industrial might and its students' academic achievements, the changes in ranking nevertheless indicate an encouraging trend for the Asian region. It is worth observing that while public education spending in Asia (around 2-4% of GDP) lags that of Western countries (about 5%), around 80-90% of Asian families are willing to complement the school system with private tuition, compared to just 20-30% of households in the West.

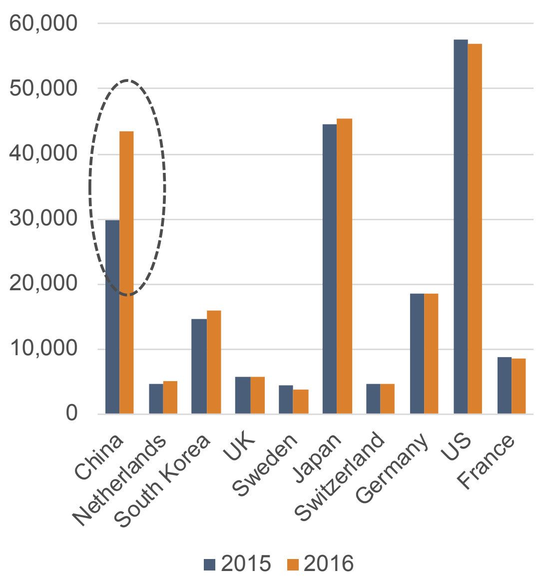
While the percentage of the population achieving a university degree remains low in Asia by comparison to Western standards, the number of graduates from the so-called STEM disciplines (Science, Technology, Engineering and Mathematics) as a proportion of the total number of graduates is much higher. Today, **China produces some 4.7 million STEM graduates each year and India about 2.6 million, versus around 560,000 STEM graduates from each of Russia and the US**. The amount of talent coming through suggests that China and India are far from being ill-placed in this technologically-driven age. As an aside, it is also encouraging that they can't all rush off to join high-paying jobs in Wall Street and, indeed, look how the Asian nations have scored in terms of **patent registrations**. Note that **China is now levelling with Japan**, and that Korea, with its relatively small population of 51 million, ranks well ahead of several European countries which led the first industrial revolution.

PISA – Average Maths, Science & Reading Scores

2015 RANK	COUNTRY	2015 AVERAGE SCORE	2006 AVERAGE SCORE	CHANGE IN RANK (2006-2015)
1	Singapore	552	543	+1
2	Hong Kong (China)	533	542	+1
3	Japan	529	517	+7
4	Macao (China)	527	509	+10
5	Estonia	524	516	+6
6	Chinese Taipei	524	526	0
7	Canada	523	529	-2
8	Finland	523	553	-7
9	Korea	519	542	-5
10	B-S-J-G (China)	514	–	–
11	Slovenia	509	506	+5
12	Ireland	509	509	+3
13	Germany	508	505	+4
14	Netherlands	508	521	-6
15	Switzerland	506	513	-3
16	New Zealand	506	524	-9
17	Norway	504	487	+11
18	Denmark	504	501	+4
19	Poland	504	500	+4
20	Belgium	503	511	-7
21	Australia	502	520	-12

Source: OECD (PISA)

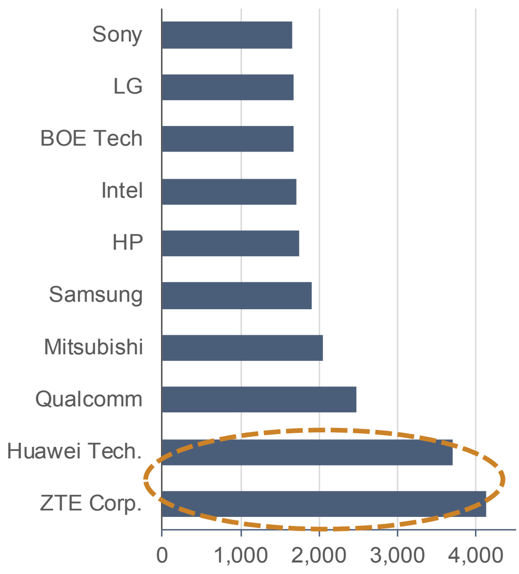
Number of Patents



Source: HSBC

There is little denying that there has been a great deal of purloining of Western technology by Asian companies, but that too is changing. A good indicator of the growing amount of original research being carried out in institutions in Asia is **the number of cited publications in scientific journals**. China and India have respectively moved up from the 9th and 13th positions in 1996 to the 2nd and 5th in 2016, a strong testament of the quality and quantity of their research efforts. These countries are now in the same league as the industrial powers of the US (1st), Britain (3rd), Germany (4th) and Japan (6th). All this data accords with what we have witnessed on the ground. Take the Pearl River Delta region in southern China for example. This used to be the manufacturing capital of the world for apparel, toys and plastic flowers, built on the back of cheap labour and imitation of others. Today, the region is motivated by technological innovation and higher value-added products – how to become more competitive with less labour. The number of patent applications by companies such as Huawei and ZTE is double those by Sony and Intel, which is just one of the many manifestations of this powerful trend.

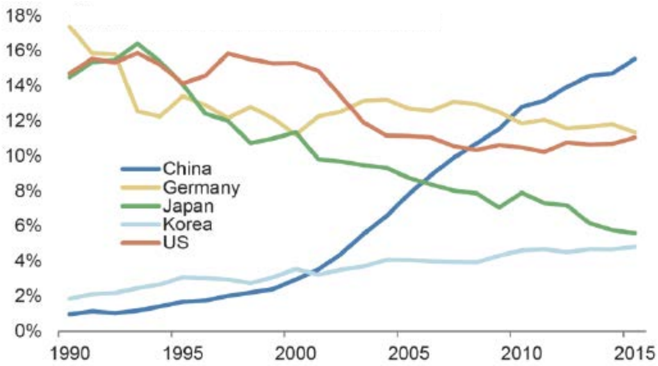
Number of Patent Applications



Source: HSBC

China's share of the world's **high value-added exports** has risen dramatically during the past two decades. As its state-owned enterprises (SOEs) shrunk relative to the economy in the late 1990s and early 2000s, a wave of foreign companies relocated parts of their production from Japan, Taiwan and many Western countries to set up base in China, bringing with them capital as well as technological know-how. This was later reflected in a rising trend of elaborate manufactured goods such as laptops and smartphones. Incidentally, as the following chart shows, Korea has also been a winner of high value-added exports, while the share of

Share of World's High Value Added Exports

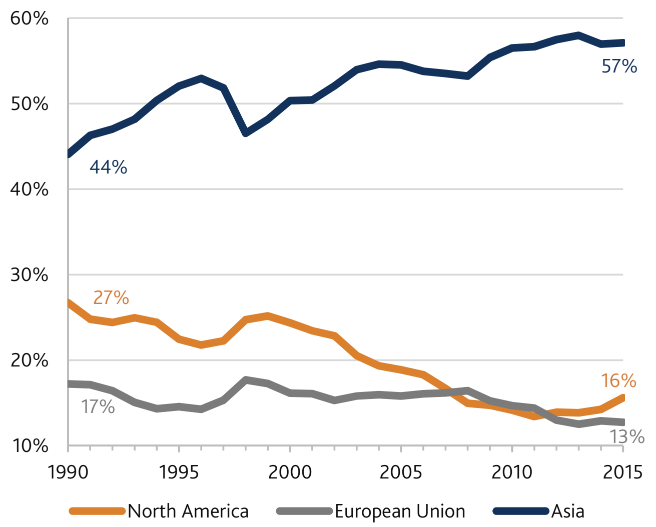


Source: WTO, Morgan Stanley Research

these products from the US, Japan and Germany has been in slow decline. In the coming decade it would not be surprising to see yet another shift with exports from China being led by companies winning orders on the basis of home-grown intellectual property.

Not only is Asia becoming less dependent on Western technology, it is also **becoming less dependent on trade with the West**. In the early 1990s, exports to North America and the EU together accounted for around 44% of Asia's total exports. This has now dropped to 29%, while the share of intra-regional trade amongst Asian countries has increased from 44% to 57%.

Share of Exports from Asia



Source: Asian Development Bank (Asian Economic Integration Report – December 2016)

Alongside this change as well as a **high propensity to save by Asian households** (typically 20-30% of income, versus 5-10% in the West), we find a region with enormous current account surpluses, China and Korea in particular, but also Thailand, Vietnam and the Philippines, with only India and Indonesia still reliant on foreign savings. However, one implication of this tendency is that should a larger portion of the savings of these countries become absorbed at home, the cost of borrowing for deficit countries such as Australia, the UK and the US is doomed to rise. Please do not ignore this probability as greater social support in some Asian countries (pensions, healthcare and education) will reduce financial insecurity and the attendant precautionary savings bias.

The economies of the major Asian countries are not only expanding, they are also changing structurally. **China's service sector**, which used to be pitifully small in the pre-Reform era, now accounts for about **50% of the national GDP**. In India, the service sector has always been bigger, contributing some 60% of the economy. Combined, China and India now account for 8% of the global service trade. Last year, 117 million people boarded flights from China's airports to travel abroad, the largest tourist exodus anywhere in the world.

It was 20 years ago when we had the so-called Asian financial crisis where the world threw up its hands and the IMF instructed the use of harsh contractionary medicine to right their affairs in exchange for support packages.[1] Roaring growth, massive inward investment flows to complement current account deficits and fixed exchange rates led to misadventures of extrapolation. As the tide turned with rising interest rates and as flows began to reverse from deteriorating export earnings momentum, countries such as Thailand, Indonesia and Korea were caught in the vice of huge foreign denominated debt obligations and the shearing of their exchange rates. The crisis scarred these Asian nations' policy makers for a generation regarding currency mismatching and credit growth, and the mercantilism that followed allowed the accumulation of massive foreign reserves. Today, China has some US$3 trillion in reserves while India has US$350 billion and Thailand US$175 billion. While the interventionist policies of these governments have been a source of friction with the West, they are a reflection of the lessons learned from the earlier mishap. Today, most Asian countries have an external debt-to-GDP ratio of less than 50%, compared to some Western nations at 300%. It is of course ironic that when the West experienced its financial crisis in 2008, the IMF's advice was to "spend your way out of this".

All of these facts point to an Asia that has changed beyond recognition. This is a group of countries that are surging ahead, growing quickly, and doing so mostly with internal funding. They have the wherewithal to continue to grow and prosper. Yet, they barely feature in many international portfolios. The **MSCI AC World Index has a weighting of just 8.4% for Asia ex-Japan**, an unjustifiable under-representation given that the region accounts for close to **40% of global economic activity**. In our view, Asia is the world's growth driver, and investors cannot afford to miss it.

Apart from a path-dependent bias about Asia in general, investors may also have exaggerated concerns, in particular, regarding the problems facing China. We do not seek to argue that there are no problems, but rather, that these problems are not quite as simplistic as they are portrayed in the press, and it would be a costly mistake to **overlook the opportunities out of a misguided refuge in fear**.

First and foremost amongst these concerns is **China's extravagant use of debt**. However, unlike many doomsayers, we do not foresee any imminent collapse. One of the ways in which the Chinese government has sought to address the issue of bad debt in the banking system, and with evident success, has been a determined, if slow-coming, blitz to remove surplus and inefficient production capacity of commodities such as steel, coal, cement and chemical products like PVC. What had led to this over-building was the unbridled competition that originated from an **unholy alliance among growth-targeting regional governments, regional banks and entrepreneurs**. The central government has now reined them in, having despatched some 5000 inspectors to scour the country for polluting offenders. This simultaneously addresses environmental pollution and bad debts. The real significance of this reform is that commodity prices have risen sharply and, with them, so has the profitability of the remaining higher-quality producers. For example, with 120 million tons of capacity shut down, steel prices have more than doubled since November 2015. With improved profits and cash flows, commodity producers (coal and ferrous metals alone account for nearly a quarter of all SOE debt) are now either repaying their loans or building up a cash reserve after paying the banks their obligations on credit lines. The rationalisation of industrial capacity, the so-called "supply side reform", has been absolutely fundamental to the turnaround of China's financial system, and the results are already being felt. (For further details on China's supply side reform, I urge you to read Andrew's *Macro Overview* in this issue.)

Many investors we meet still think of **China as being dominated by inefficient SOEs**. The inefficiencies may remain, though there is change afoot regarding shared ownership and management profit participation. However, the **proportion of urban residents employed by SOEs is now about 20%**, having dropped progressively from 80% at the turn of the century. In 2000, the state was responsible for about 80% of China's industrial output, and the private sector 20%. That too has reversed, with the state now producing 20-25% of the physical output while the dominant share of output is coming from an increasingly robust private sector. While SOE debt (about 115% of GDP) remains a problem, the measures cited above and the preparedness to raise prices of important utility services like power, water and

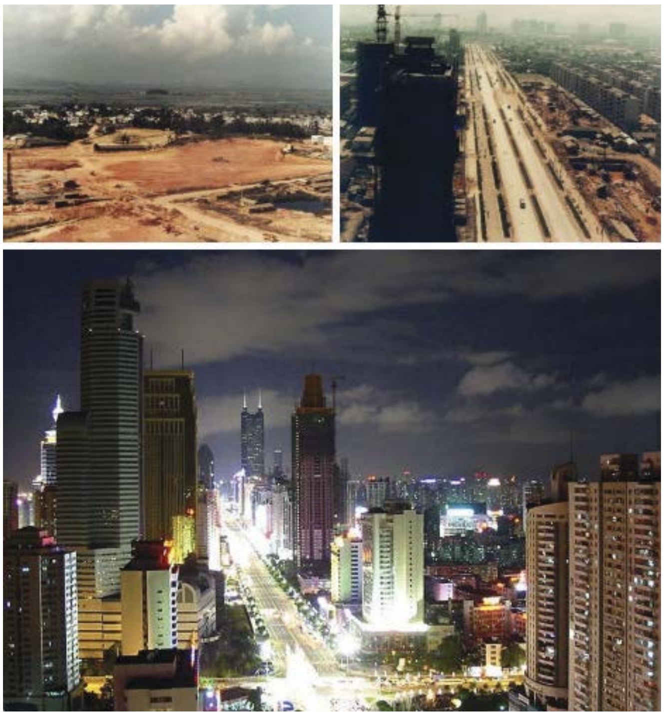
1 These structural adjustment packages (SAPs) required the recipients to reduce government spending, to allow insolvent financial institutions to fail and to raise interest rates sharply.

waste gives clear sight of remedies. In the meantime private enterprise that had been deleveraging since 2013 has started a capital spending cycle and is clearly the backbone of the economy.

Like its state-owned coal and steel plants, **China's spending on infrastructure** is often viewed as wasteful and excessive, and a problematic product of a credit binge and loose lending. Of course, the challenge lies in assessing need versus desire and the appropriate planning time horizon. Our own experience is that facilities like roads, rail and airports that seemed under-utilised several years ago now feel as though they are bursting at the seams. Without this prescience, which is being extended internationally with One Belt One Road (OBOR), bottlenecks would be common. For example, China now has the world's largest high speed rail network – more than 22,000 km in total. Some might construe this as chest-beating. But consider the movement of people between Shanghai and Beijing: There are some 50 daily movements of aircraft each way between these cities, which are some 1300 km apart, and there are nearly the same number of express train movements. The aircraft are moving some 10 million people a year while the express trains are moving as many as 160 million a year and have recently raised their maximum speed to 350 km/hr to complete the 1318 km journey in under 4.5 hours. Booking in advance is advisable! A country of such a vast area and such a large population requires infrastructure of this scale to grow and develop. If it still feels like "over-building", one only needs to think back to the grand projects of New York or London more than 100 years ago.

China's property market is yet another area that raises concern. Western media love to mention the "ghost cities" and empty apartments. But if there really is oversupply, why do prices keep rising, and why do governments see a need for policy intervention to curb price increase? In each of the last seven years, authorities have increased the percentage of up-front payment required on purchase (typically a minimum deposit of 30% for first time home buyers, higher for subsequent purchases and also higher in top tier cities), and restrictions on mortgage lending have become ever more stringent (loan to value ratio is estimated to be about 50%).

An answer may be found if one looks more closely at the forces of demand. About 55% of China's population are now living in urban areas. Each year there is an **influx of 20-25 million migrants** leaving their rural villages to move to the cities. The government has been reforming the household registration (or *hukou*) system, which was put in place in the pre-Reform era to control the movement of residents. Under the *hukou* system, all forms of social welfare are tied to one's place of birth and residency. A rural resident moving to a city was not entitled to such benefits as health care, education and pensions as his or her rural *hukou* was not transferable. The rules have been incrementally relaxed and modified to facilitate urbanisation, and we are seeing more and more rural residents relocating to live in towns and mid-tier cities, and not merely as temporary migrant workers in mega cities like Beijing and Shanghai. **This is the underlying driver for the sizeable housing demand in China.** Some 140 million modern apartments have been built in China since the turn of the century, and around 8 to 9 million are currently being



Left: Shanghai, China – 1990 and 2010 Right: Shenzhen, China – 1980s and 2000s
Source: http://weburbanist.com/2011/02/21/then-now-the-stunning-speed-of-urban-development/

added each year. But an estimated 150 million households are still living in communist era dwellings, ready to upgrade, or are leaving their traditional rural villages to settle in the cities. Our observation is that while there are some speculative developments, there is enormous inherent demand. This is partly evidenced in the fact that second-hand property prices are growing faster than new property prices and inventory levels are at a healthy level (less than 10% in tier 1 and tier 2 cities, and about 20% in tier 3 cities).

Last but not least is the **technological leapfrogging**. We have written extensively about the rise of e-commerce and digital payment systems in China. Far from being emulators of Western companies like Facebook and eBay, Chinese tech companies such as Tencent and Alibaba have been innovating relentlessly. Utilising the vast amounts of data from China's 1 billion netizens, they have been pushing the boundaries of technology and creating new business models with platforms like WeChat, Taobao and their associated e-payment services. It is not hard to find examples of remote rural villages being transformed by e-commerce. Farm produce that was previously land-locked has miraculously found markets long distances away and been rewarded with higher prices because of improved communications. E-commerce giant JD.com, for example, is expanding its logistics network with delivery drones on the one hand and despatching advisors on the other hand to provide online shopping assistance to villagers.

Far from slowing down, the pace of technological advancement will likely accelerate in the coming decades as the Chinese government turns its policy focus to boost investment and R&D in areas such as renewable energy, electrical vehicles, artificial intelligence and biotechnology. Unlike the sporadic ad hoc initiatives that one finds in some Western countries, China appears to have a more coherent policy framework with a longer-term outlook, from the push for more fundamental scientific research to providing both direct and indirect support for start-ups. By one recent estimate, China now has 89 unicorns (unlisted start-ups with a valuation of more than US$1 billion) – about one-third of the world's total number, and they are said to be worth a combined US$350 billion.

The enthusiasm for reform and development is not confined to China. In India, the Modi government has brought in a series of important policies with far-reaching impact. The goods and services tax **(GST) is expected to expand the country's tax base**, improve administration efficiency and ease compliance burdens for businesses over the long-term. The enactment of the **new Insolvency and Bankruptcy Code** is a long over-due legislative overhaul to reshape the country's dysfunctional banking system. It finally provides creditors with a **legal recourse to recover debt** and will prevent debtors from circumventing liability by obfuscating through the courts.

We have also seen a boost to infrastructure spending. When Modi was elected Prime Minister several years ago, India was building a few kilometres of highway each year. They have since been on a building spree, now laying **25 kilometres of highway a day** and the National Highways Authority is planning to construct 50,000 km by 2022. As we have seen with China, infrastructure can transform a nation and lay the foundation for India's development in the years to come.

Technology is another powerful factor in India's roadmap to economic prosperity. Its world-leading **biometric identification system (Aadhaar)** has now registered more than 1 billion Indian citizens with their fingerprints and iris scans. Together with the spread of mobile phones, the Aadhaar ID system has enabled hundreds of thousands of India's poor to open bank accounts and to directly receive government subsidies. Technology has allowed the government to bypass corrupt middlemen and reach the economically disadvantaged directly. In India's cities, we are seeing a similar wave of innovation in e-commerce and fintech as we are seeing in China, with companies like Amazon setting up operations to compete with indigenous start-ups like Flipkart.

To conclude, it is simply **meaningless** to discuss the world economy today **without properly understanding the tectonic transformation** that we are witnessing in Asia. It feels as though China and India are occupying the same space that America once occupied in the 1950s-70s, when its sense of purpose, scale and innovation left the staid structures of Europe gasping. There seems a high probability in Asia's future growth and prosperity, conscious as one is of such sweeping proclamations, given the scale, ingenuity, diligence and thrift that is characteristic of the region.

We are very optimistic about the opportunities on offer in Asia and have around 38% of the Platinum International Fund invested in the companies of the region (not including Japan).[2] Many of these companies are on a par with the best of the West in their respective fields, and are delivering excellent returns on capital.

2 As at 30 September 2017.

Why Indices Lead Investors Astray

by Andrew Clifford, CIO

This is an edited rendition of a presentation delivered by Andrew Clifford at the Portfolio Construction Forum in August 2017 in Sydney.

Index obsession is unhealthy and leads investors astray.

While you would expect me – an active manager – to make such a claim, the purpose of this paper is not to impart the usual objections that one hears in relation to passive investing and index-hugging.

The purpose of this paper is to take the reader back to the absolute basics of investing and highlight the importance of understanding the underlying reality of what one is investing in, rather than focusing on the abstractions, which often lead to poor decisions. Indices, whose purpose is to measure the performance of a market (or what some may term an “opportunity set”), are one of those abstractions.

What is Investing?

Let us first set up a framework for this discussion. Investing is on its face value a simple process. We save, that is, we defer consumption so that we will have future income to fund our retirement, a deposit on a house or some other purpose. We invest, with the objective of generating a return on our savings, to compensate for not consuming now and to accumulate funds to provide the desired future income.

There are fundamentally only two types of investments: debt (where we lend money to another for a fixed return) and equity (where we acquire ownership over assets and accept the variable return). Everything else is a repackaging, combination or derivative of either or both debt and equity.

The source of the return is the underlying business and/or assets. Every asset in the economy, whether it is an iron ore mine or the computer hardware and software that I’m using to write this article, is explicitly or implicitly funded by either debt or equity or a combination of both. Therefore, when we invest, we are funding the assets used in economic activity.

As an investor, we want to know the return that we can expect to receive and the risk we face. We want to know whether the return can be higher or lower, and whether we could lose our initial capital.

This is in essence **what investing means: we save money and use it to fund assets that provide a return**.

What are Returns on Investment?

Now we need a framework for making an assessment of the potential returns from an equity investment. I will illustrate my framework using a real life example, a company that we own in several of Platinum’s portfolios. (Note that the sales and profits figures in the following tables have been indexed in order to disguise the identity of the company for the sake of this exercise. They do, however, reflect the company's actual results, and the share prices have been adjusted accordingly to reflect the actual ratios.)

TABLE 1	2010
Sales*	$979
Profits*	$100
Share price*	$899
Price-to-earnings (P/E)	9x
Earnings yield (vs. cost)	11%
Dividend yield (vs. cost)	1.4%

* Indexed to 2010, profits = $100. Source: FactSet, Bloomberg, Platinum.

Table 1 shows the company’s 2010 results. It had a profit of $100 and we were able to buy its shares at just under $900. It had a price-to-earnings multiple of 9x. Or, inversely, as I would prefer to consider, the company had an earnings yield (earnings-to-price ratio) of 11%, which means that my share earned 11 cents in that year for every $1 invested. If this company were to continue to earn the same profits year in year out, 11% would be my rate of return. I note that the company provided a dividend yield of 1.4%, which implies that most of its earnings were reinvested in the business, rather than handed to shareholders.

Looking back several years, we can see that the company had been growing. Sales have grown steadily at 14% a year and profits grew somewhat faster. This is good news, as the balance of earnings reinvested in the business was generating growth. An average return on equity of 16% is certainly far better than what the banks are offering on my cash deposits.

TABLE 2	2005	2006	2007	2008	2009	2010
Sales*	$510	$541	$624	$768	$880	$979
Profits*	$48	$50	$47	$35	$61	$100
Return on Equity (RoE)			Average 16%			

* Indexed to 2010, profits = $100. Source: FactSet, Platinum.

Let's look a little deeper into this company and consider whether it is a good investment. We can see that sales have grown steadily, including through the Global Financial Crisis (GFC), but profits have been volatile – this is a cyclical business, which means that the 11% yield may not be reliably maintained from year to year. Nevertheless, based on the company's track record over five prior years, earnings are growing. We know from information beyond this table of numbers that this is a large company, a global leader in its key business segments and has strong technological leads over its competition. Our analysis at the time led us to believe that the company has very good prospects of maintaining – and increasing – these earnings over time.

At the time, the US 10-Year Treasury Note yielded 3% p.a. Comparing a guaranteed 3% return against an uncertain, though, probably growing return starting at 11% p.a., we thought this company a very good investment.

Now let's fast-forward five years to 2015 and see how the investment turned out. Sales continued to grow for the next three years before falling back and then flattening out. Profits took a dip in the first year after our purchase, but otherwise followed a similar pattern as did sales.

TABLE 3	2010	2011	2012	2013	2014	2015
Sales*	$979	$1044	$1273	$1448	$1305	$1270
Profits*	$100	$85	$147	$189	$146	$118
Share price*	$899	$1002	$1442	$1300	$1257	$1194
P/E	9x	12x	10x	7x	9x	10x
P/E vs. cost	9x	11x	6x	5x	6x	8x
Earnings yield (vs. cost)	11%	9%	16%	21%	16%	13%
Dividend yield (vs. cost)	1.4%	0.6%	0.9%	0.9%	1.6%	2.2%
RoE			Average 16%			
S&P 500 Index	1258	1258	1426	1848	2059	2044

* Indexed to 2010, profits = $100. Source: FactSet, Bloomberg, Platinum.

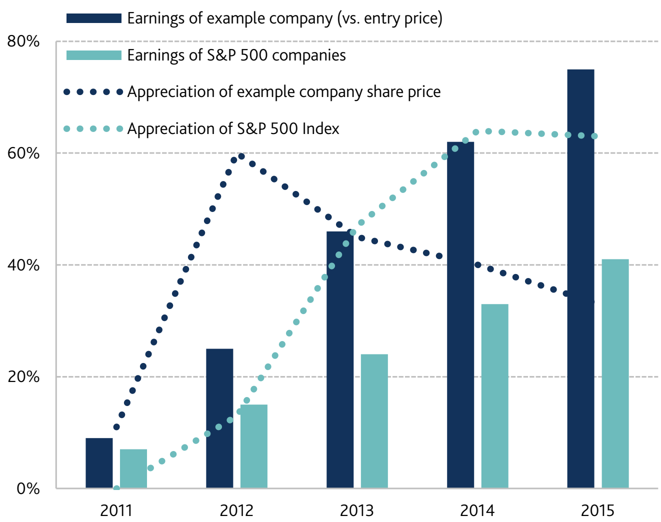
Based on the cost of our investment, the company generated a return of 9% in the first year, followed by 16%, 21%, 16% and 13%, giving us an average return of 16% per year over the five year period. Compared to the 3% p.a. yield from the risk-free US government bonds or the 7.5% p.a. earnings yield provided by the average S&P 500 company over the same period, this company has been a far superior investment.

Reality vs. Abstraction

If this had been a private company and you were the sole owner or a majority owner, this is exactly how you would have evaluated its returns. Ironically, few stock market participants look at their investments this way. Instead, most investors focus on the share price.

Judging by share price, how did our investment perform? Two years in, things looked great as the stock price was up 60%. But then it fell back, and after five years it only achieved an appreciation of less than 33% cumulatively. It does not seem particularly impressive considering that the US Treasury bond would have given a return of almost 21%. Meanwhile the S&P 500 Index had risen more than 62%, outperforming our company by a substantial margin. Given the choice, most investors would opt for the S&P 500 Index, or even the bond, over our company. Even though as the owner of a private business one would have much preferred to own this company, given its earnings, over the aggregate of the S&P 500 companies, one thinks differently when the focus is all about the share price.

Example Company vs. S&P 500
Cumulative earnings & cumulative price appreciation



Source: FactSet, Bloomberg, Platinum.

This is a mirage.

The share price is merely an abstraction of the underlying business that we own, not the business itself. So why should investors be more concerned with the fluctuations in the share price than the underlying returns that the business is really producing for us?

The share prices of the S&P 500 companies, as represented by the S&P 500 Index, have far outperformed the underlying earnings of these companies. This is fortunate for their shareholders – you have benefited from a simple re-rating. As a shareholder in our company, I would have hoped for the same, but it did not happen, even though the underlying value of my company has increased significantly.

This brings us to one of the hardest parts of investing. At this point in 2015, how would you feel if you were a shareholder in this company? Probably rather despondent. It must have felt quite tempting to just sell and swap horses.

Let's now finish the story.

In 2016, the company's profits started to pick up again and, in 2017, it entered a boom period – profitability hit record levels.

And the stock price is finally taking off. The share is now up nearly 150%, compared to about 100% for the S&P 500 Index and about 27% for US Treasury bonds. Our company has handily outperformed the market.

TABLE 4	2010	2011 – 2014	2015	2016	2017
Sales*	$979	...	$1270	$1278	$1513
Profits*	$100	...	$118	$142	$255
Share price*	$899	...	$1194	$1707	$2179^
P/E	9x	...	10x	12x	9x
P/E vs. cost	9x	...	8x	6x	4x
Earnings yield (vs. cost)	11%	...	13%	16%	28%
Dividend yield (vs. cost)	1.4%	...	2.2%	2.2%	3.1%
RoE			Average 16%		
S&P 500 Index	1258	...	2044	2239	2470^

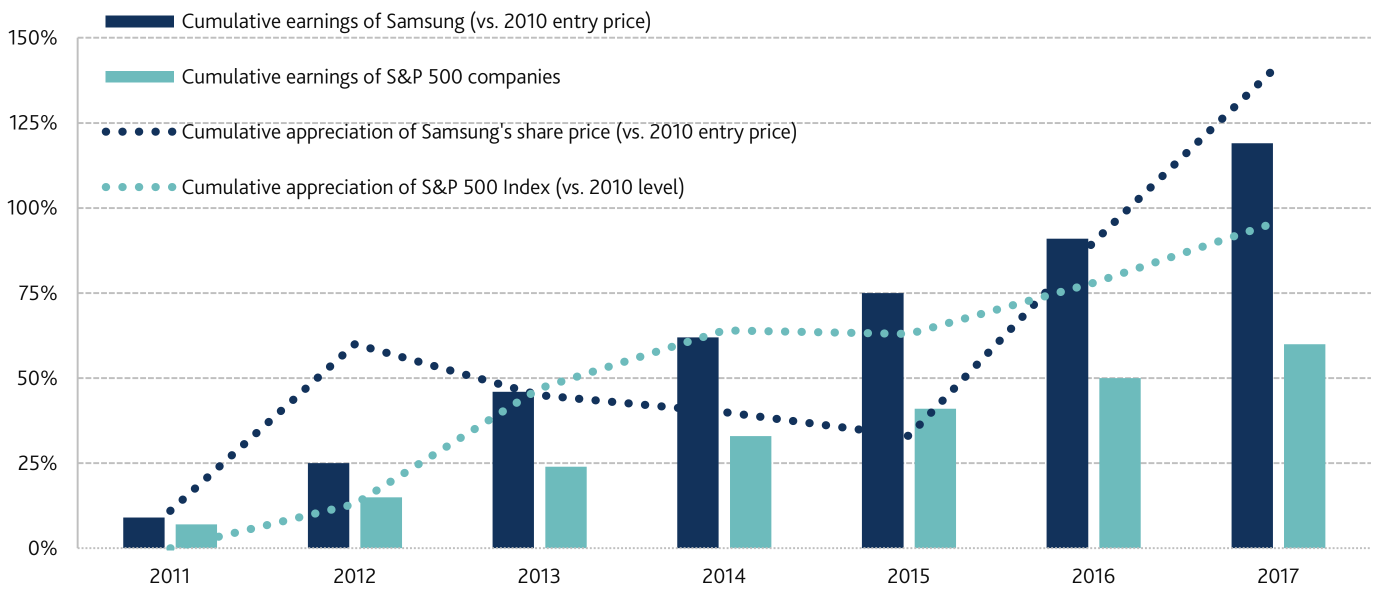
* Indexed to 2010, profits = $100. ^ As at 31 July 2017

Source: FactSet, Bloomberg, Platinum.

Moreover, for the record, on today's earnings our company still has a starting earnings yield of 12% while that of the S&P 500 Index is down at around 5% and the 10-Year US Treasury Note is yielding 2.3% (as at the end of July 2017).

For those who haven't guessed it, the company is **Samsung Electronics**.[1]

Samsung Electronics vs. S&P 500



Source: FactSet, Bloomberg, Platinum.

1 In reality, Platinum has owned this company for the most part of the last 20 years, not only since 2010.

True Value Investing

Looking at the implied returns of the securities we buy is at the core of true value investing, and this is what I have set out to illustrate with the example of Samsung.

As an investor, one seeks to first build a portfolio of assets by identifying equity and debt securities that provide good implied returns, and secondly, achieve appropriate diversification across industry and geography. The challenge lies in the assessment of a company's earnings potential. It requires a true understanding of what the future holds for a company, not just observing a set of numbers. But if we have the requisite level of skill to assemble a portfolio of assets with good implied returns, we will through time achieve a good result.

Observe that in assessing our company's implied returns and assembling a portfolio, at no time did we use a market index as a reference point. For adequacy of returns, we can look at the risk-free rates of return on government bonds or bank deposits, and, of course, the implied rates of return from all the individual companies that we examine. In the case of Samsung, for example, we know how good an investment its implied returns represent, compared to other opportunities, because our team has studied hundreds of companies.

Observe, also, that at no time did we attempt to predict the company's future share price. We know that the efficiency of markets will eventually bring the company's share price to reflect its intrinsic value.

Why Do Indices Lead Us Astray?

It should be patent by now why indices can lead us astray.

As at the end of 2015, our investments in Samsung did not make us feel very good even though its share price had appreciated 33% and its underlying business had done demonstrably better, because the S&P 500 Index had risen 62% over the same period. The chance of a Samsung shareholder throwing up his hands and selling out at that point was exceedingly high. But if the investor ignored the noise from the abstraction of the index and simply focused on Samsung's business as if he were a private owner, he would be far more likely to have held onto the investment and end up flush with cash and extremely happy in 2017.

It has become the widely accepted norm in corporate governance to link executive compensation with total shareholder return (TSR). This has created all kinds of wrong incentives and led to management behaviour that focuses on boosting the company's share price from quarter to quarter rather than growing the value of the company's underlying business.

An obsession with indices also exacerbates the "fear of missing out". Rather than feeling satisfied with the solid returns from one's investment, one feels disgruntled by the fact that something else is doing even better. At the heart of the problem is that we are distracted by an abstraction, the share price, rather than focusing on the reality of the assets and businesses that we own.

Indeed, today we are faced with the same dilemma with regards to Samsung. The stock has given us great returns and it still looks cheap. But profits have reached record levels and, since this is a cyclical business, they are likely to fall at some point in the next two to three years. But even so, based on our expectation of a worst case scenario, Samsung's earnings yield is probably going to be no worse than 8-9%, compared with its current level of 12%. Should we sell because of the worry that Samsung's share price will fall when earnings fall? Should we allow ourselves be distracted by the prospect of the share price falling even though we expect the company's implied returns to remain strong?

Being fixated on the index leads to much irrational investor behaviour, some of which is obvious in passive strategies, such as having the maximum invested in a stock at the peak of its share price cycle. Index-hugging can also lead investors to have a disproportionate size of the portfolio concentrated in a single region or sector or even particular stocks. For example, Financials has a weighting of 39% in the S&P/ASX 200 Index while Information Technology has just 1%.[2] Tracking the ASX 200 would lead investors to be exposed to all of Australia's "big 4" banks as well as Macquarie, totalling nearly 30% of the portfolio.

Ultimately, the reason that an index obsession leads investors astray is that it leads one to ignore the underlying fundamentals of investing, of the importance of assessing the implied returns of the security that one is holding.

Researchers have produced much evidence that active managers on average underperform the market benchmarks. No doubt that is true. But there is also strong academic research showing that value investing can lead to superior returns. At its core, value investing is about making an assessment of the underlying performance of the securities in a portfolio, in the fashion that I have applied to Samsung in this paper. The concept is also what underpins our quantitative analysis system, which we use to pinpoint new opportunities and cross-check analysts' assessments based on fundamental research.

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2 As at 30 April 2017.

Other Distractions

In this paper I have chosen to focus on the role of indices as an abstraction that distracts investors from the truly important aspect of investing. There are also others. The desire for income in a portfolio is another example. While having an income stream is a real need for certain classes of investors, a focus on dividend yield can lead the investor to either overlook or misinterpret the underlying realities of the business.

Australian banks again provide a case in point. If we apply the above framework to Commonwealth Bank (ASX: CBA), we find that it has a P/E multiple of 14.4x and an earnings yield of 7%.[3] It pays out a dividend of 5.5%, which makes investors really happy as they receive three-quarters of the return as cash in hand. But this means that CBA is not able to reinvest as much of its earnings back into its business, leaving it with a long-term growth rate of only 4%. Simple mathematics tells me that CBA cannot provide me with an underlying return of more than 7.5% over the next five years. With the dividends and franking credits, CBA might be providing a decent return, but what matters is that its returns cannot get better from here, though they can certainly deteriorate. Compared with other available opportunities, CBA does not appear an attractive investment to us.

Key Lessons

To sum up the key messages of this paper:

- Investing at its core is to fund assets that provide a return. That underlying return is what matters.
- Focusing on abstractions, such as indices, can distract and misguide investors away from the underlying reality of the business and its implied returns.
- Earnings yield allows an equity investment to be compared with any debt or other equity investments.
- The most challenging part of investing is to accurately assess a company's earnings prospects.
- Investing is simple, but not easy. It requires skill and expertise.
- Thinking like an owner and focusing on the earnings of the business against the cost of the investment is more helpful than thinking like a trader and speculating on future share price.
- Assess investments against a risk-free alternative.
- Diversify sufficiently to spread risk – errors are inevitable.
- A portfolio is the sum of many continuous decisions.

3 As at the end of July 2017 when CBA was trading at close to $85. The stock has since fallen to $75 by the time this article went to press (4 Oct 2017).

Platinum International Fund

Kerr Neilson
Portfolio Manager

Andrew Clifford
Portfolio Manager

Clay Smolinski
Portfolio Manager

Performance

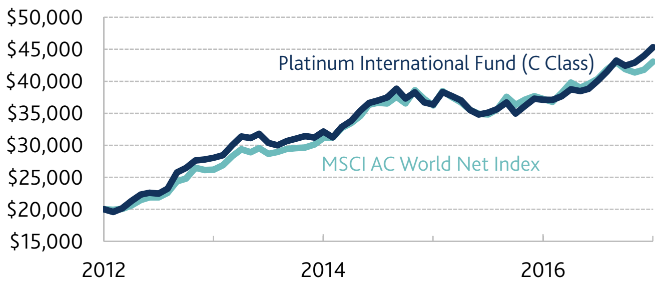
(compound pa, to 30 September 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund*	7%	22%	12%	18%	13%
MSCI AC World Index	3%	16%	11%	17%	7%

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

Value of $20,000 Invested Over Five Years

30 September 2012 to 30 September 2017



Refer to note 2, page 44.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

Disposition of Assets

REGION	30 SEP 2017	30 JUN 2017	30 SEP 2016
Asia	38%	37%	34%
Europe	22%	19%	20%
North America	17%	18%	24%
Japan	13%	13%	13%
Russia	1%	1%	1%
South America	<1%	<1%	0%
Australia	<1%	0%	1%
Cash	9%	12%	7%
Shorts	-11%	-9%	-15%

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

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposure, updated monthly, please visit https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	IT	3.2%
Alphabet Inc	USA	IT	2.9%
Ping An Insurance Group	China	Financials	2.6%
Lixil Group Corporation	Japan	Industrials	2.4%
Inpex Corporation	Japan	Energy	2.4%
PICC Property & Casualty Co	China Ex PRC	Financials	2.1%
Glencore PLC	Switzerland	Materials	2.1%
Sanofi SA	France	Health Care	2.1%
TechnipFMC	UK	Energy	2.0%
China Pacific Insurance	China	Financials	1.9%

As at 30 September 2017.
Source: Platinum Investment Management Limited. See note 4, page 44.

Glancing over our quarterly commentary, it feels as though there has been very little change in themes thus far in 2017. To recap, evidence of persistent and **widespread economic expansion** is undiminished. **Raw material prices** have continued to rise and, in the case of rare metals like cobalt, spectacularly.

While both mired in **important, yet protracted, legislative processes**, there is perhaps a brightening prospect in the US regarding the **tax bill** while the **Brexit** negotiations are revealing the horrors of an ill-prepared plaintiff.

In France, Macron's popularity is declining, while in Germany voters are voicing their fear of unrestricted migration through a strong showing of the right, which makes Chancellor Merkel's position more awkward as she engages with a coalition of disparate interests.

Following on from tighter lending measures, Chinese regulators have added **restrictions on the sale of second-hand property** in several cities as a further attempt to hold back rising property prices. Other measures have produced apparent stabilisation in the upward march in property prices, but strong income growth, continuing migration to the cities and high household savings suggest that these are merely palliatives.

By contrast, **China's 'supply side reform' initiatives** to close obsolete polluting capacity in industries ranging from coal to steel, aluminium, basic chemicals and now power generation, are proving highly effective. As we emphasised in last quarter's report, the implication of these changes are far-reaching. Not only is pollution being mitigated, but the subsequent rise in the prices of these commodities is also placing these industries on a far stronger footing as revealed in significant profit surges. Some are choosing to pay back debt to the banks; others are building their cash reserves while maintaining the full use of these long-established credit lines from their banks. The key point here is that this is **forcing investors to reconsider their bear case** on China.

Among new developments from earlier in the year were the improbable exchanges between North Korea and the White House. Though obviously highly significant, investors have seemingly taken the view that a negotiated outcome is the most probable, as evidenced by the strength of the Korean won, which is close to its peak against the US dollar, and the Korean stock market, being only 3% short of its all-time high.

Another significant change has been a **strong recovery of the oil price** as pronouncements from shale producers suggested that increases in output at US$50 a barrel will be more constrained than earlier believed. Strong global demand has also tightened the market.

Flows have matched these changing perceptions, with the US market being a source of funds as investors continued to move more into Europe and the Emerging Markets. Once again, Emerging Markets led the rise with an increase of 7.6% in local currency, or 5.5% in AUD terms. Japan and the US each achieved a little over 4% (in local currency) while Europe followed closely with a 3.6% gain.

We are delighted to witness a more normal distribution of performance across markets, as represented by the MSCI indices, with the action no longer being dominated by the US component. The Fund has clearly benefited from this as well as from the diminution of the 'duration-seeking' or cyclical aversion that characterised the period from 2011 to 2016.

MSCI Regional Index Performance to 30.9.2017 (AUD)

REGION	QUARTER	1 YEAR
Developed Markets	**2%**	**15%**
Emerging Markets	**5%**	**19%**
United States	**2%**	**15%**
Europe	**4%**	**19%**
Germany	5%	23%
France	6%	27%
United Kingdom	3%	12%
Japan	**2%**	**11%**
Asia ex Japan	**4%**	**20%**
China	12%	30%
Hong Kong	3%	13%
India	1%	11%
Korea	0%	22%
Australia	1%	10%

Source: RIMES Technologies

MSCI All Country World Sector Index Performance to 30.9.2017 (AUD)

SECTOR	QUARTER	1 YEAR
Energy	7%	5%
Materials	7%	21%
Information Technology	6%	27%
Financials	3%	28%
Industrials	3%	18%
Telecommunication Services	1%	1%
Consumer Discretionary	1%	14%
Utilities	1%	7%
Health Care	0%	9%
Consumer Staples	-2%	2%

Source: RIMES Technologies

Most pleasing of all was that in each geographic area, the funds invested have achieved higher returns than the host market. Consequently, we have been able to add considerable value as a fund manager – ironically, just as the **discussion around passive management** seems to have reached a climax! For the quarter, the Fund (C Class) achieved 6.8% and for the last 12 months 22.1%. This contrasts with the MSCI AC World Index (A$) achieving 2.8% and 15.7% over the same respective periods.

Shorting

Specific stock shorts are running at 4% and equity indices at 7%. There has not been much change this quarter.

Currency

As shown in the table below, changes in currency holdings have been minor.

CURRENCY	30 SEP 2017	30 JUN 2017	30 SEP 2016
US dollar (USD)	28%	30%	32%
Euro (EUR)	16%	14%	15%
Hong Kong dollar (HKD)	12%	11%	12%
Japanese yen (JPY)	9%	10%	3%
Korean won (KRW)	8%	7%	6%
Chinese yuan (CNY)	7%	4%	-3%
Indian rupee (INR)	6%	7%	6%
British pound (GBP)	5%	3%	4%
Norwegian krone (NOK)	4%	6%	9%
Australian dollar (AUD)	2%	4%	16%
Chinese yuan offshore (CNH)	0%	0%	-6%

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

Changes to the Portfolio

As we hinted in our last quarterly report, we have become quite excited about the prospects for what we term the 'electric metals'. We have been accumulating our exposure to these companies for some time, which continued this quarter. This decision comes from the work we have done on the changes taking place in the automobile industry regarding **electric drives and autonomous vehicles**. This is obviously a convoluted quest that is weighing heavily on the valuations of traditional auto companies which, as a group, are confoundingly cheap, even with the apparent hurdles they face been taken into account. By contrast, manufacturers of automobile electronic components, battery suppliers and their source suppliers have experienced some spectacular gains and in which we have to some extent participated. However, our field trips suggest that **massive battery capacity is currently being built** in anticipation of a Chinese-led blitz on traditional internal combustion engines (ICEs).

At present, it is a guessing game as to the number of electric and hybrid vehicles that will be sold in, say, 2020. There are many imponderables, including range anxiety, the higher initial cost of electric vehicles (EVs), the scarcity of charging facilities and the probable loss of generous state subsidies.[1] What we do know is that all the large manufacturers will have EVs on offer by 2019 and need to sell a certain proportion, even if at low margins, in order to meet their ***fleet* emission quotas** in sophisticated markets.[2] (Daimler-Benz recently alluded to the cost of this in their investor day presentations, suggesting that they anticipate a reasonable, if smaller, contribution margin.)

From an investing standpoint, this raises a host of opportunities. From earlier work, we followed the battery component path and acquired positions. But from here, ironically, the most certain opportunity may lie in the simpler companies that provide the basic metals. Nickel, copper and cobalt are prospective. The problem with cobalt is its scarcity, with current mine production barely achieving 100,000 tons a year and 65% of which coming from the perilous Democratic Republic of the Congo!

We find **nickel the most interesting** from an investment perspective. There are still huge stocks, a consequence of the mining boom and subsequent oversupply. At the current price of under US$5 per pound, perhaps 25% of world output is cash flow negative, and there is the added uncertainty around supplies of nickel-rich iron ore from Indonesia and the Philippines. However, we think such concerns are missing the more pertinent point that, of the annual supply of new material, which runs at 2.2 million tons, **only about 950,000 tons are suitable for battery making**. Considering that each 60 kWh Chevy Bolt NMC battery may contain as much

1 These subsidies presently average around US$5,000–7,000 per battery-powered electric vehicle (BEV), with the outliers being China, at around US$10,000 per BEV, and Norway, at about US$20,000 per BEV. The high initial cost of EVs may be the greatest impediment with current calculations suggesting a through-life payback of, say, seven to nine years. For example, the cost of the electric drive train is similar to that of an ICE, but the battery adds anything from US$8,000 to US$15,000 per vehicle. However, battery technology is bounding ahead with lithium nickel cobalt aluminium oxide (NCA) cathodes storing as much as 250 Wh per kg, twice that by the cheaper and more stable lithium phosphate (LFP) cathodes. Interestingly, the **cost of the metal content** of, say, a lithium nickel manganese cobalt oxide (NMC) 811 battery is around 20% to 25% of the cost of the entire battery pack, leaving lots of scope to reduce the packaging and related costs. At present, the Nissan Leaf is estimated to be acquiring battery packs from LG Chemical at close to US$140 per kW. The general view is that once battery packs are available at US$100 per kW or lower, EV manufacturers will be able to match the cost of an ICE driven car.

2 In the US, for example, the Corporate Average Fuel Economy (CAFE) hurdle is currently 35.5 miles per gallon (MPG), which will rise to 54.5 MPG by 2025. On 28th September 2017, China's Ministry of Industry announced that by 2019 at least **1 in 10 cars sold in China** must be so-called new-energy vehicles (NEV).

as 23 kg of nickel, it does not take too many vehicles to start to tighten the refined nickel market.

Substitution is always a risk. As we are seeing with cobalt, which has seen the price triple in two years to US$30 per pound, efforts at thrifting are already producing results. The new cathode blends are reducing the cobalt load in NMC batteries from one-third nickel, one-third manganese and one-third cobalt (1:1:1) to a ratio of 8:1:1. These are due to for release in 2020.

The tightening of the nickel market may take time to play out, because stocks of the metal are still large, though off their peak levels. We have invested around 5% of the Fund in potential mining beneficiaries.

There is a further 8% of the Fund in **hydrocarbon plays**, representing an increase from earlier in the year. To fund these positions we have tended to **reduce our bank exposure** as well as trimming some of our **high-flying internet and e-commerce holdings**.

Outlook

The great puzzle is the preference investors are showing globally towards bonds (nominal assets) over equities (real assets). This tea party is all the more bewildering when one considers that earnings growth from the middle of last year has been accelerating while bond yields have been strengthening (i.e. bond prices have been falling), and in the face of that, equity withdrawals have sped up, as have bond purchases. We know that the central banks are insensitive buyers – together, the European Central Bank (ECB), the Bank of Japan (BoJ) and the Bank of England (BoE) are **buying US$175 billion of bonds per month**, and that baby-boomers change their risk preferences as they age. But what is so interesting about bonds? The hole caused by central bank purchases[3] is being assiduously filled by the issue of corporate debt. Such is their excitement that bond investors have driven the yield of subprime European paper to below that of sovereign US paper. To put some numbers to the foregoing, corporate debt in the US has risen uninterruptedly from US$1 trillion in 2011 to US$1.54 trillion in 2016. At the same time equity ownership in the US has fallen by some US$500 billion.

We have not discovered the secret to this phenomenon. If the world's finances are so perfect, as suggested by the current pricing of equities, why is there still such need for central banks to continue with quantitative easing? What we can observe is that as investment banks now play a minor role as market makers, the reach-for-yield is narrowing the rate differential between quality and trash dramatically, and bond managers appear to have reduced their portfolio hedging, such that when one wishes to reposition a portfolio, it is neither easy nor swift. All this points to **fewer stabilisers** in bond markets should there be that pause caused by the proverbial embarrassing question across the dinner table. In response to the popular question "where will the **next eruption** come from", we might proffer **liquidity, and bond liquidity in particular**, well ahead of the standard favourite, China.

3 Governments have commandeered their own bond markets: Of the US treasury market of US$20 trillion, the US Fed owns 12% and a further 20% is owned by foreign governments. In the world's second largest bond market, Japan, the BoJ owns 45% of the US$8 trillion on issue while the ECB and the BoE respectively own 20% and 30% of their government bonds in issue!

Platinum Unhedged Fund

Clay Smolinski
Portfolio Manager

Performance

(compound pa, to 30 September 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund*	6%	28%	13%	19%	12%
MSCI AC World Index	3%	16%	11%	17%	7%

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

Disposition of Assets

REGION	30 SEP 2017	30 JUN 2017	30 SEP 2016
Asia	40%	38%	27%
Europe	21%	20%	22%
North America	21%	21%	29%
Japan	9%	8%	9%
South America	1%	1%	0%
Russia	1%	1%	3%
Cash	7%	11%	10%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Raiffeisen Bank International	Austria	Financials	5.0%
Jiangsu Yanghe Brewery	China	Consumer Stap	3.5%
Applus Services SA	Spain	Industrials	3.4%
Inpex Corporation	Japan	Energy	3.2%
KB Financial Group	Korea	Financials	3.1%
Lixil Group Corporation	Japan	Industrials	3.0%
Alphabet Inc C Class	USA	IT	3.0%
PICC Property & Casualty Co	China Ex PRC	Financials	2.9%
PayPal Holdings Inc	USA	IT	2.9%
Kweichow Moutai	China	Consumer Stap	2.8%

As at 30 September 2017.
Source: Platinum Investment Management Limited. See note 4, page 44.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposure, updated monthly, please visit https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds.

Global stock markets continued with their positive trend over the last three months, with almost all countries experiencing rising prices. The emerging markets were the standout, buoyed by higher commodity prices, with Brazil up 17% and Russia up 15% (in local currency). More broadly, Asia remained strong, appreciating 6.6%, whilst the US and Europe were up 4.3% and 3.6% respectively (in local currency).

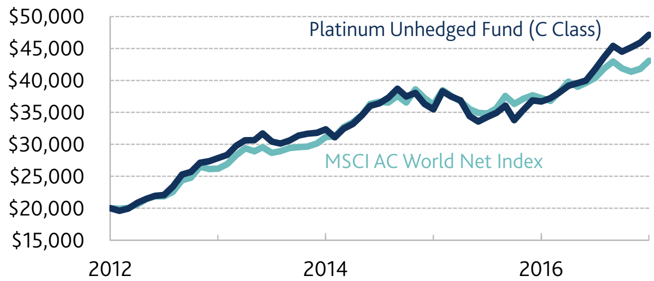
The Fund (C Class) returned 6.0% for the quarter and 20.4% for the nine months year to date. This compares to 2.8% and 8.2%, respectively, for the MSCI AC World Index (A$).

Performance over the quarter was concentrated in a number of our large holdings. It was a situation where we had several large gains (detailed below) with few detractors. The best performing positions were ideas highlighted in our recent reports.

Raiffeisen Bank: Raiffeisen is an Eastern European bank with operations spanning as far as Russia and Ukraine. The bank has endured a long winter, suffering losses first from the 2012-13 European sovereign crisis and, more recently, the Russia/Ukraine conflict.

Value of $20,000 Invested Over Five Years

30 September 2012 to 30 September 2017



Refer to note 2, page 44.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

However, with Europe's economy on a steady recovery, Raiffeisen's future is looking much brighter. Credit costs (losses on defaulted loans) are now much lower than expected, and demand for new lending has increased. With many Eastern European countries now experiencing strong growth, rapidly rising wages and soaring house prices, the next leg in the story is the prospect of rate hikes across Eastern Europe, which will help the bank's net interest margin. The Czech central bank has been the first to increase interest rate (by 0.2% in August) and we suspect there is plenty more to come. Raiffeisen is the largest position in the Fund and, with the stock climbing 28% over the quarter, was the largest contributor to performance.

58.com: Introduced in our March 2017 quarterly report, 58.com owns the leading internet advertising sites for residential property and blue-collar job search in China. The stock had been hit at the start of the year due to government measures aimed at cooling the property market, along with investor disappointment that the company's advertising spend had not fallen post consolidating its competitors and achieving market dominance. Subsequently, these concerns have receded as property site subscriptions have held up, revenue at the job site continues to grow at 50% p.a. and management have begun to demonstrate their ability to control ad spend, resulting in much higher profits.
In response, the stock rose 43% during the quarter.

Baidu: Despite its enviable position as the dominant search engine in China, investor perception around Baidu turned negative about 18 months ago due to a series of events. Investor patience was beginning to wear thin regarding the higher losses stemming from the company's new 'O2O' (online-to-offline) ventures (e.g. restaurant delivery, group-buying platforms). Short-term revenue had taken a hit due to the government crackdown on medical advertising and the need for advertisers to be re-certified. Finally, Baidu had come to be seen as a weaker internet business when compared with the likes of Tencent and Alibaba.

Recent evidence points to the company addressing these issues. Investments in the unsuccessful O2O platforms have been scaled back, resulting in a decent lift to profits. The revenue disruption from the recertification process has been subdued, with advertisers returning and search revenues growing again. Finally, management's intention to partially list their iQiyi video platform (similar to Netflix) will further highlight the earnings power of the core search business. The stock reacted strongly to these events, rising 38%.

Changes to the Portfolio

Over the quarter we increased our holdings in the metals and energy sectors.

Much of the hard commodity complex has been on a negative price trend since 2012, climaxing with the huge sell-off in early 2016. So far in 2017 we have seen a decent rebound in commodities such as copper, zinc and coal, along with some incredible moves in niche commodities like cobalt and needle coke.

While the specifics for each commodity differ, these price moves are broadly being driven by several key factors:

1. Almost all major economies are now in an expansionary phase, and most importantly, the recovery in China has been strong.
2. The forced closure of excess capacity by the Chinese government for both environmental and economic reasons has produced visible results. Several mines and heavy industries like steel, coal and chemicals have seen capacity cuts.
3. Electric vehicles and the associated infrastructure needs can provide a sizeable new demand driver for many of these commodities, which extend beyond the obvious candidates like lithium and cobalt.

As is common after a brutal price collapse, investors are reluctant to believe that higher prices will hold, and this is creating opportunities. We were able to buy a selection of miners/producers that are trading at roughly 8x (and some as low as 4x) prospective earnings, assuming prices merely stay flat at current levels.

The recent large sell-off in energy stocks also gave us an opportunity to increase our oil & gas related holdings. Counter to the stock price action, the underlying data around oil has actually improved. OECD oil inventories are now starting to fall, indicating the market is now in deficit, and there is incremental evidence that US shale costs are starting to rise for some operators due to the growing technical complexity needed to drill in more marginal acreage. Encouragingly, the oil price is following these developments, pushing past US$56 a barrel.

Outlook

Despite rising stock prices and increasingly positive news flow, investors are still highly sceptical of putting their money in China. If we are correct in our assessment, this is a positive sign for future performance as sentiment can improve.

More generally, investors are confident and markets are reasonably buoyant. Markets 'feel good' and this is a signal for ***increased caution***.

Over the last nine months, we have pointed to rising interest rates as a potential risk to keep in mind. Interest rates are a dominant factor in investing. Higher rates change the opportunity cost of investment decisions (e.g. is the expected return from this stock attractive compared to what I will receive by owning risk-free bonds or cash deposits?), and increases the cost of doing business and the cost of living for large parts of the economy, which have a knock-on effect on growth. Low rates over the last decade have undoubtedly boosted stock prices in the US and, to a lesser extent, Europe.

We cannot predict how high rates will rise, but we can invest in areas less affected. The Fund has 40% of its assets in Asia (ex-Japan), where stock market valuations have been less distorted, given that interest rates in those countries are still well above zero. We also have 19% of the Fund invested in banks that will be natural beneficiaries of higher rates.

Platinum Asia Fund

Joseph Lai
Portfolio Manager

Performance

(compound pa, to 30 September 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	8%	21%	12%	16%	15%
MSCI AC Asia ex Jp Index	4%	20%	12%	14%	10%

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

Disposition of Assets

REGION	30 SEP 2017	30 JUN 2017	30 SEP 2016
China (Ex PRC Listed)	44%	35%	30%
China (PRC Listed)	10%	8%	9%
Hong Kong	3%	1%	3%
Taiwan	2%	4%	2%
India	11%	14%	18%
Korea	10%	10%	9%
Thailand	5%	6%	6%
Philippines	4%	4%	5%
Vietnam	3%	3%	3%
Singapore	1%	2%	<1%
Malaysia	1%	1%	1%
Indonesia	<1%	0%	<1%
Cash	6%	12%	14%

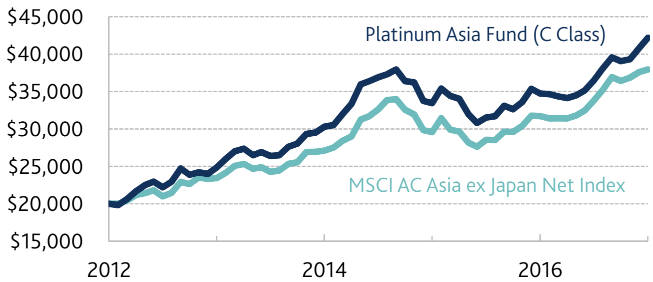
Source: Platinum Investment Management Limited. See note 3, page 44.

The Fund (C Class) rose 8.0% over the quarter, with the mild appreciation of the Australian dollar detracting somewhat from performance. The MSCI Asia ex-Japan Index (A$) returned 4.2% over the same period.

Markets across Asia continued their positive performance from the last quarter. The Thai market was up 8% (in local currency), as the country's export sector strengthened with the global economic recovery. The Indian and the Philippines markets rose 4% and 3% respectively for the quarter (in local currency), as economic activity continued to pick up.

Value of $20,000 Invested Over Five Years

30 September 2012 to 30 September 2017



Refer to note 2, page 44.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Alibaba Group	China Ex PRC	IT	3.8%
Ping An Insurance Group	China	Financials	3.2%
Ayala Corp	Philippines	Financials	3.1%
CNOOC Ltd	China Ex PRC	Energy	3.1%
Jiangsu Yanghe Brewery	China	Consumer Stap	3.0%
Midea Group	China	Consumer Disc	3.0%
Kasikornbank PCL	Thailand	Financials	2.9%
Axis Bank Ltd	India	Financials	2.8%
Samsung Electronics	Korea	IT	2.7%
China Merchants Bank	China Ex PRC	Financials	2.6%

As at 30 September 2017.
Source: Platinum Investment Management Limited. See note 4, page 44.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposure, updated monthly, please visit https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds.

China, in particular, continued to surprise with the rigour of its reform. The evident recovery in corporate profitability and the resilience in consumer spending indicate that a rebalancing of the country's economy is well and truly under way. China's H-Share and domestic A-Share markets were up 6% and 5% respectively (in local currency). Chinese internet stocks were again the key contributors to the Fund's performance this quarter, with 58.com (online property and classifieds) up 43%, Alibaba (e-commerce platform) up 22%, and Sina and Weibo (social media) up 35% and 48% respectively. ZTE (telco equipment supplier) and Midea (white goods and robotics manufacturer) also contributed to performance, up 38% and 2% respectively.

Commentary

Several members of the investment team took a field trip to China this quarter, visiting dozens of companies in different cities and speaking with numerous industry participants. Apart from the general zeal and buzz felt in all parts of the economy, we witnessed many concrete examples of leaps in productivity improvement driven by infrastructure investment, automation, education and innovation.
If productivity (in terms of output per time unit) is a key indicator and determinant of economic growth, China's massive productivity growth is what has strengthened our conviction about the country's long-term prospects. The last five years have been a bumpy period of transition for China, which gave investors cold feet. What most haven't realised is how much the country has adjusted through tough policy moves, serious investments in R&D and infrastructure, and real productivity gains, and as a result, how well it is positioning itself for the next wave of development.

First class infrastructure: We went on a journey on the high speed rail along the east coast of China, and found the service punctual, comfortable and efficient, notwithstanding the high passenger volume. China has the world's largest high speed rail network by distance – more than 22,000 km in total, and it is proving very effective in transporting large numbers of people around this populous country.

To put things in context, the Sydney-Melbourne air route is one of the busiest in the world. With a plane departing every 10-15 minutes, flights only manage 6 million passengers a year. The Beijing-Shanghai line has a high speed train departing in each direction every 20 minutes, moving nearly 160 million passengers a year! At 350 km/hr, the 1318 km journey takes as few as 4.5 hours and a second class ticket costs just CNY 553 (about A$105). Commentators in the West like to remark on China's over-spending on infrastructure and the associated credit concerns, while overlooking the very tangible long-term benefits that these infrastructure investments bring. Transporting so many people around such a vast country would simply have been impossible without the high speed rail system.

In addition to upgrading its inter-state rail system, China is also busy putting in much-needed urban infrastructure to meet the needs of the ever-expanding urban population and improve the ease of doing business. Metropolitan subway systems are being built for the first time in many cities, and China has more than 20 cities with a population of 5 million or more! Water and waste treatment plants are being added and upgraded to deal with the pollution problems.
4G telecommunication systems are being optimised continually, with the implementation of a 5G network scheduled to start in 2019.

When it comes to the debate about China's residential property market, we are of the view that it is simply not true that there is an over-supply. While there are inevitably some pockets of speculative developments, many cities are in fact seeing a shortage, so much so that local authorities have had to put in ever more stringent measures to suppress demand (such as forbidding owners to sell within two to five years post purchase). Indeed, what we are not seeing in many big cities in China are the mass of construction cranes that have been dominating the skylines of Australian cities!

Automation: Private Chinese companies are investing in automation and robotics in earnest, as we have witnessed on our recent visits to several logistics and electrical appliances companies. E-commerce is propelling the growth of the logistics industry, accelerating the process towards increasing automation throughout warehouses and logistic centres. When we arrived at a logistic centre of a major e-commerce operator last month, we were astounded by how much things have changed since our last visit four years ago.
The implementation of sorting machines has reduced the number of human workers in a line by some 80%! Instead of finding thousands of workers dashing around to pick up boxes and parcels, as we did last time, we now found the task almost entirely carried out by industrial robots. Rising labour costs, demand for superior and consistent quality in products and services, and the sheer scale of China's consumer demand, indeed, call for automation, and this process of upgradation is only just beginning. Despite all the talk in the press about the demographic cliff that China is facing, the country is adjusting well, and it will require fewer, not more, manual labourers.

Education and innovation: More than 7 million university graduates are minted each year in China (twice as many as in the US), and more than half of those graduates are from science and engineering disciplines. The number of tertiary students has grown explosively over the last 10 years as the government increased university intake. While manual workers are being incrementally replaced by machines, the country is both demanding and producing more skilled workers, and this highly skilled workforce is fuelling China's rapid technological advancement.

With the pace of technological innovation accelerating, more than one "innovation hub" has sprung up in China. Among them, Shenzhen, a city of 12 million people and situated just north of Hong Kong, is probably the most worthy of the title "the Silicon Valley of China". It is a city which combines inexpensive engineering talents, a comprehensive supply chain and a dynamic ecosystem. A number of leading Chinese technology companies are headquartered in Shenzhen, some of which are already serious competitors, if not leaders, globally. These include, for example, Huawei and ZTE, two of the world's top four telecommunication equipment makers and well-positioned to lead in the next generation 5G wireless technologies, and drone maker DJI, which has a 75% market share in consumer drone market globally.

In addition to the government's direct and indirect support for research and development (e.g. increased R&D spending and generous tax incentives) and a vibrant venture capital scene, China's enormous consumer base and well-established supply chains in hubs like Shenzhen give its companies the advantage of being able to innovate more quickly through faster consumer feedback loop and product iteration. The scale of its market allows products to be produced in huge quantities and cheaply.

Supply side reform: This is a phrase now familiar to most China observers. The crux of this policy is the closure of unprofitable, excess production capacity of steel, coal, cement and other such commodities. These industries have been propped up by local banks, but oversupply has depressed prices and erased profitability for the entire industry, in turn threatening the stability of the banking system with non-performing loans. In some cases, the production plant is illegal and fails to meet safety and environmental standards. Governments used to turn a blind eye to these operations for the sake of saving jobs, but things have changed. The central government is enforcing environmental standards with rigour, demanding the closure of unlicensed plants and offending polluters, and holding local government officials to account. As a result of the extensive supply cuts, we are seeing commodity prices (steel, coal, aluminium) recover strongly, leading to significantly improved profits for the remaining producers, and this is gradually restoring health to banks' balance sheets. Most importantly, many Chinese cities are beginning to see blue sky again!

All of the above are very real drivers of improved productivity and they are taking place in China today. These productivity gains are in turn lifting income and boosting consumption. Consumption patterns of the Chinese population are also shifting. Innovative companies are starting to provide consumer loans to many who have hitherto not had access to credit. Car loans as a percentage of new car sales are only around 30%, and lenders typically demand a minimum up-front payment of 30%. Considering that in countries like Australia and the US buyers are used to "drive-away with $0 up-front payment", consumer lending in China is clearly in its nascency and has much potential to grow.

Changes to the Portfolio

We have been studying these secular trends intensely, and the Fund has exposure to all of the major themes, from automation to robotics, from fintech to consumer credit.

The Fund took advantage of some sectoral share price weakness this quarter and deployed some cash into the longer-term ideas, mostly in the Chinese financials sector.

The Fund has reduced its exposure to the Australian dollar to a negligible level.

Outlook

It is difficult to convey in a few brief paragraphs the sense of energy and vibrancy that we experienced during our recent field trips to China, and the range and pace of activity that we observed taking place there. (Please refer to Kerr's feature piece *The Rise of Asia* in this issue for a more extensive discussion on the country's transformation and ongoing reform. Andrew's *Macro Overview* provides a more detailed examination of the impact of the supply side adjustments.) We are confident that China's investments in education, infrastructure and innovation are driving real productivity growth which will translate into higher income and stronger consumption, sparking a virtuous cycle of growth for years to come.

The level of concern over China's debt problems has subsided, and investors have shown more enthusiasm. In the short-term, the market may consolidate around these current levels to digest the recent advances. Looking further afield, we are positioning the Fund's portfolio to be exposed to a wide range of private Chinese companies across industries that are swiftly climbing up the technological ladder.

Platinum European Fund

Nik Dvornak
Portfolio Manager

Disposition of Assets

REGION	30 SEP 2017	30 JUN 2017	30 SEP 2016
Germany	24%	23%	24%
UK	12%	14%	18%
Austria	10%	9%	9%
Switzerland	9%	5%	2%
France	5%	6%	6%
Italy	4%	5%	7%
Spain	3%	3%	5%
Denmark	3%	2%	0%
Russia	3%	3%	4%
US *	3%	4%	4%
Hungary	2%	3%	3%
Netherlands	2%	2%	3%
Norway	2%	2%	2%
Sweden	0%	0%	1%
Cash	18%	19%	12%
Shorts	-6%	-1%	-2%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Raiffeisen Bank International	Austria	Financials	5.5%
Daimler AG	Germany	Consumer Disc	3.6%
Glencore PLC	Switzerland	Materials	3.3%
Hypoport AG	Germany	Financials	3.0%
TechnipFMC	UK	Energy	3.0%
Scout24 Holding	Germany	IT	3.0%
Pandora A/S	Denmark	Consumer Disc	2.9%
IHS Markit Ltd	USA	Industrials	2.8%
Erste Group Bank	Austria	Financials	2.7%
Mediobanca SpA	Italy	Financials	2.5%

As at 30 September 2017.
Source: Platinum Investment Management Limited. See note 4, page 44.

Performance

(compound pa, to 30 September 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	6%	30%	14%	17%	12%
MSCI AC Europe Index	4%	19%	8%	14%	3%

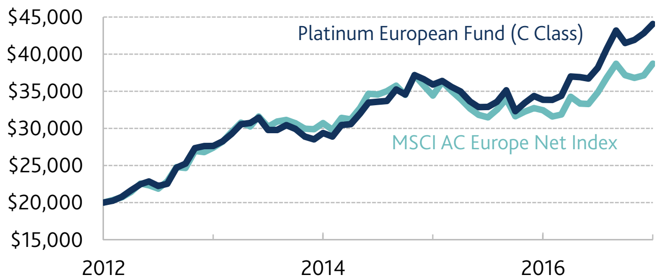
*C Class – standard fee option. Inception date: 30 June 1998.
Refer to note 1, page 44.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

European economies continue to recover. Eurozone Gross Domestic Product is growing 2.3% year on year. The unemployment rate has fallen by a full percentage point, to just over 9%. Consumer and business confidence is high. Credit is growing modestly. Inflation remains subdued.

Investors became less anxious about European politics following the outcome of the French presidential election. Also, now that the world has had nine months to experience the Trump presidency, Europe suddenly seems a lot less dysfunctional, at least in a relative sense.

Value of $20,000 Invested Over Five Years

30 September 2012 to 30 September 2017



Refer to note 2, page 44.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposure, updated monthly, please visit https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds.

The European Central Bank (ECB) is refusing to entertain the prospect of reducing stimulus until it is convinced that inflationary pressures are entrenched. However, central banks in faster growing European economies are starting to stir. The Czech National Bank raised rates in August, becoming the first European central bank to do so in this cycle while, across the Channel, the Bank of England is hinting at a rate rise by November.

Despite the ECB digging in its heels, financial conditions are tightening. The Euro has appreciated 11% against the US dollar since April. Long-term interest rates are also moving higher. Depending on the country, the yield on 10-year government bonds has increased by 0.5 to 0.7 percentage points from a year ago.

The Platinum European Fund (C Class) returned 6.2% for the quarter and 30.2% for the year. This compares to 4.2% and 19.4% respectively for the MSCI AC Europe Net Index (A$).

Our performance was adversely affected by two positions in particular.

The shares of Russian payment platform, **Qiwi**, fell by a third after a takeover offer failed to gain enough support from shareholders. The stock had almost doubled in the months leading up to this event, so the subsequent stock price fall was not surprising. What was surprising was that the offer was rejected in the first place, as the terms were quite generous.

The other company that weighed on our performance operates in an industry that is experiencing a time of tribulation. The company itself is a strong and well-managed enterprise. When industry conditions improve, we think this business will emerge bigger and more profitable than ever. We are adding to this position as we expect the stock price will be materially higher in a few years' time.

Our large cash holding and exposure to the US dollar also detracted from the Fund's performance.

Changes to the Portfolio

In recent years, our portfolio has been heavily skewed to banks. During this time, European banks faced numerous perils, including weak economic conditions, negative interest rates, more onerous regulation and political instability. Many investors outright refused to consider them. It was therefore completely intuitive, albeit perhaps to some perversely so, that we should scour this segment of the market for investment opportunities and that our thorough, bottom-up research kept uncovering them.

Today, the above threats have receded, profitability has improved and prospects of growth seem less farfetched. Stock prices have appreciated markedly, and we have reduced some of these positions as a consequence.

We also sold out of **Adidas** and **Jimmy Choo**, at a pleasing profit in both cases.

The sale proceeds, along with new inflows, have been invested in new ideas. Unsurprisingly, these tend to lie in segments of the market that today appear imperiled, in much the same way that banks appeared imperiled a few years ago.

Automakers are one such segment. Investors fret that these dull metal-bashers will become roadkill on the path to an autonomous, all-electric future. Are we really to believe that they can compete against the likes of Google, Tesla and Apple?

Another neglected sector is oil & gas related services. In Europe these engineering firms tend to specialise in extracting oil in deep water environments. The abundant supply of (onshore) shale oil at current prices has called into question the need for this unique set of skills in the near term, while electric vehicles threaten to undermine their existence in the long-term.

Coal miners are similarly shunned by the market. Whether due to regulatory threats or competition from increasingly cheap renewables, new coal plants are unlikely to be built and old ones are likely to be closed down. This does not bode well for future coal demand and investors are understandably unnerved by this prospect.

In addition to the opportunities we have found among these pockets of neglect, we have also uncovered some interesting ideas in the Industrial, Healthcare and Telecom sectors.

Outlook

We expect economic activity in Europe will continue to expand. Political risks have receded somewhat, although a strong showing by the right-wing Alternative fur Deutschland in the recent German election and turbulence in Catalonia will continue to keep markets on their toes. Rate rises remain some way off while bond markets and the appreciating Euro have tightened financial conditions somewhat. Given the strong economy, the market should take this in its stride.

Many of our long-held positions have delivered exceptionally good returns over the years. While valuations are generally high, there are significant pockets of neglect within the market and we have been able to find some genuinely exciting new investment opportunities.

Platinum Japan Fund

Scott Gilchrist
Portfolio Manager

Disposition of Assets

REGION	30 SEP 2017	30 JUN 2017	30 SEP 2016
Japan	93%	95%	92%
Korea	2%	1%	0%
Cash	5%	4%	8%
Shorts	-2%	-2%	0%

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

Portfolio Position

Sector Breakdown

SECTOR	30 SEP 2017	30 JUN 2017
Information Technology	27%	29%
Industrials	17%	18%
Consumer Discretionary	15%	14%
Materials	10%	9%
Financials	9%	10%
Energy	7%	6%
Telecommunication Services	5%	6%
Health Care	4%	4%
Consumer Staples	-1%	-2%
TOTAL NET EXPOSURE	93%	94%

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

Currency Position

	30 SEP 2017	30 JUN 2017
Japanese yen	69%	80%
US dollar	28%	19%
Korean won	2%	1%
Australian dollar	1%	<1%

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

Performance

(compound pa, to 30 September 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	6%	21%	19%	27%	15%
MSCI Japan Index	2%	11%	12%	17%	2%

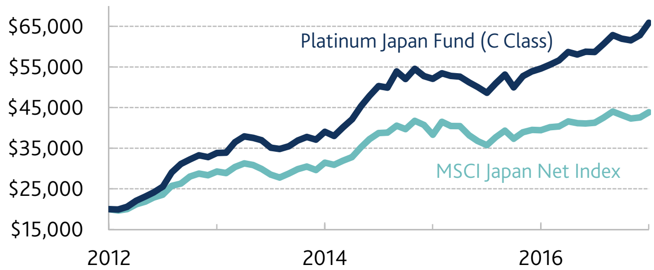
*C Class – standard fee option. Inception date: 30 June 1998.
Refer to note 1, page 44.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

The Fund (C Class) rose 20.6% over the last twelve months and 6.4% for the quarter. Consistent across both periods was the excitement of the lithium ion automotive battery supply chain, the transitions underway in the computer gaming arena and strong demand across the industrial and materials sectors due to surprisingly widespread global economic growth.

The Fund (C Class) is up almost 230% cumulatively over the last five years. This is equivalent to 27% per annum. On some measures, it is the best period of performance since the inception of the Fund around 19 years ago. These numbers naturally raise concerns for both pragmatic noses and long term students of markets. This wariness permeates our daily actions, yet it is possible to argue that the medium to long term opportunity in the Japanese equity market is currently as attractive as any time in the last two decades. There are many signs that the beast is waking from decades of slumber. The Nikkei index remains half of the lofty heights it reached in 1989.

Value of $20,000 Invested Over Five Years

30 September 2012 to 30 September 2017



Refer to note 2, page 44.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposure, updated monthly, please visit https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds.

Changes to the Portfolio

The refinement of portfolio positioning continues as mentioned in prior reports. Opportunities continue to be identified in misunderstood growth areas and deep value cyclicals.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Nexon	Japan	IT	4.9%
Nintendo	Japan	IT	4.2%
Mitsubishi UFJ Financial	Japan	Financials	3.4%
Inpex Corporation	Japan	Energy	3.4%
Sumitomo Mitsui Financial	Japan	Financials	3.3%
Lixil Group Corporation	Japan	Industrials	3.0%
Kyocera Corp	Japan	IT	3.0%
NTT	Japan	Telecom	2.9%
Itochu Corporation	Japan	Industrials	2.9%
Hogy Medical	Japan	Health Care	2.9%

As at 30 September 2017.

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

Outlook

The Atlas of Economic Complexity attempts to identify the uniqueness and value added nature of a country's exports. It ranks Japan as number 1 in the world, ahead of Switzerland and Germany. Japan ranks highest in the world in patent families and ahead of all except Korea in R&D spending as a percentage of GDP. When visiting Japan, the high quality of many aspects of the country is in stark contrast to the decay seen in much of the world. It is too uncomfortable for most to accept that Japan's total factor productivity in recent years has been ahead of almost every other country. Both quantitative and qualitative analyses of the country are in stark contrast to much external perception and banter. In a world of increasing homogeneity, this is truly a country as unique as the image of the Samurai visiting Egypt en route to Europe in 1864. The majority of global investors should reflect on their biases and heuristics and reconsider their mental image of Japan and its economy, especially its financial markets, demographics, debt levels, fiscal deficit and capacity for change.

The dominant market rhetoric seems to be shifting from the "fear of missing the next crisis" to the "fear of missing out". Japan's valuation, profit growth and market sentiment are an interesting combination in this context.

Hybrids

The Prius was launched by Toyota in 1997 following an intense five year research and engineering effort. It featured a four cylinder Atkinson cycle engine, a separate generator and a nickel metal hydride battery. This remains the fundamental configuration for their hybrid vehicles today, a testament to the rigour and foresight of the development team's ground-breaking achievement. Sales were only 123,000 units globally for this early model.

The global trend toward tighter emission standards and fuel efficiency is inexorable. One leading auto catalyst manufacturer estimates that demand for their mainstay product will increase over the next decade in most scenarios, even with the headwind of battery electric vehicles. Similarly, the auto industry is working on a wide range of material, engine efficiency, drivetrain and tyre improvements to meet the dramatic legislative requirement for improved fleet fuel efficiency. Some logos are pushing down the path of low margin electric vehicles in response. European marques had previously been focused on higher compression ratio and efficient diesel engines, but are adjusting course until consumers become more comfortable with *real world* tailpipe emissions.

An 1864 photograph of a group of Japanese Samurai in front of the Sphinx in Egypt. Source: Wikipedia

Goldman Sachs estimates that, in 2010, slightly more than a decade after the birth of the first Prius, the payback period of its third generation model was three years. In effect, the fuel sipping drivetrain configuration paid for the slightly higher sticker cost within a very reasonable time frame, especially in an urban setting comprising many small trips. This real world financial metric has been the exponential demand tipping point for many new technologies and in this case led to a boom in hybrid vehicle sales. The Prius became profitable in 2007 and now has operating margins above the corporate average. It is possible to argue that Toyota is the world's leading electric vehicle company on the basis of the new Prius Prime, their cumulative sales of over 10 million hybrid vehicles and their leading hybrid technology and cost position. Their hybrid output also improves their fleet emissions level and fuel efficiency, which means that they will be able to easily meet global standards well into the future.

Japanese hybrid sales have reached 30% of new vehicles and an increasing percentage of the fleet. This has contributed to a reduction in oil consumption of 25% over the last two decades across the archipelago and particularly in the urban conurbations of Tokyo, Nagoya, Osaka and Yokohama. While the future of personal mobility is undoubtedly electric, the hybrid, of which Toyota produces 70% of the global output, is a more than adequate interim solution to many of the world's current environmental and geopolitical dilemmas.

Toyota Prius Plug-in Hybrid, 2010.
Source: Wikipedia

Platinum International Brands Fund

James Halse
Portfolio Manager

Performance

(compound pa, to 30 September 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	7%	29%	15%	16%	13%
MSCI AC World Index	3%	16%	11%	17%	2%

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

Disposition of Assets

REGION	30 SEP 2017	30 JUN 2017	30 SEP 2016
Asia	42%	35%	31%
Europe	17%	17%	27%
North America	16%	15%	12%
Japan	10%	9%	11%
Russia	3%	2%	2%
Latin America	3%	5%	11%
Africa	1%	<1%	1%
Cash	8%	16%	5%
Shorts	-16%	-10%	-4%

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

The Fund continued its run of good performance during the quarter, returning 6.6% (C Class), versus 2.8% for the Fund's benchmark (MSCI All Country World Net Index), and 1.2% for the Consumer Discretionary and -2.5% for the Consumer Staples portions of the MSCI (in AUD terms). Over the past 12 months, the Fund (C Class) has delivered a return of 29.2%, versus the benchmark return of 15.7%.

The key drivers of investment returns continue to be the strength of the Chinese consumer, together with the growing understanding on the part of investors that social media and e-commerce platforms are increasingly fundamental to individuals' day-to-day lives, and that the likely result is

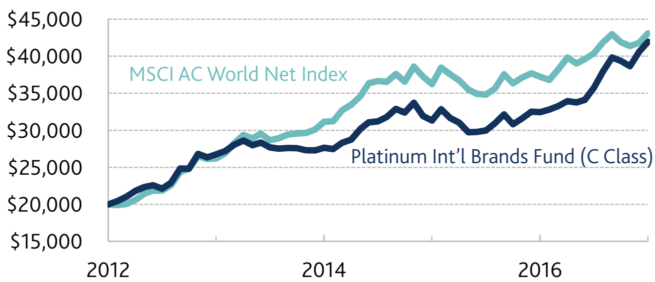
Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Alibaba Group	China Ex PRC	IT	4.7%
Asahi Group Holdings	Japan	Consumer Stap	4.2%
Jiangsu Yanghe Brewery	China	Consumer Stap	3.8%
Hanesbrands Inc	USA	Consumer Disc	3.4%
Callaway Golf Co	USA	Consumer Disc	3.3%
LVMH	France	Consumer Disc	3.2%
Anta Sports Products	China Ex PRC	Consumer Disc	3.1%
Sberbank of Russia	Russia	Financials	3.1%
Chow Tai Fook	China Ex PRC	Consumer Disc	3.0%
Sina Corp	China Ex PRC	IT	3.0%

As at 30 September 2017.
Source: Platinum Investment Management Limited. See note 4, page 44.

Value of $20,000 Invested Over Five Years

30 September 2012 to 30 September 2017



Refer to note 2, page 44.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

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exponential growth in revenues and profits for the winners in this space. The performance of Weibo (+47%), Sina (+35%) and Alibaba (+22%) reflected both these themes. Continued growth in consumer demand for their products drove performance at sports apparel maker Anta (+29%), dairy producer Mengniu (+43%), liquor maker Jiangsu Yanghe (+22%), and jewellery retailers Chow Tai Fook (+18%) and Luk Fook (+21%). Other major contributors to performance in the quarter included leading Russian bank Sberbank, which rose +38% as the Russian economy stabilised; golf equipment maker Callaway, which rose +13% as its latest "Epic" addition to the "Big Bertha" range of woods hit the mark with consumers; and Gucci-owner Kering (+13%), as the market continued to appreciate its strong sales growth and high returns on incremental sales.

The addition of several short positions in the packaged food space toward the end of the June quarter and into the September quarter proved timely and benefited performance. Consumers are increasingly moving away from traditional brands in processed foods toward niche brands perceived as "better for you", as well as substituting canned soup and dried mac & cheese with fresh, chilled alternatives. Social media has reduced barriers to entry for small brands that can now market to consumers without the giant TV advertising budgets of yesteryear. Meanwhile Amazon provides instant national distribution in many Western markets, which allows small brands to reach consumers and gain sales volume without paying large "slotting" fees for positions on supermarket shelves.

Supermarkets are responding to these trends and are taking shelf space away from traditional manufacturers, dampening their sales and profits. Increased competition from Aldi and others is also driving supermarkets toward improved own-brand offerings and lower prices, which in turn add further pressure on the traditional manufacturers. Amazon's recent acquisition of Whole Foods and its move to make Whole Foods' much loved own-brands available online intensifies this dynamic further.

Some "value" investors may be tempted to dip their toes in the water here as stock prices have fallen and P/E ratios now look more reasonable when one uses broker estimates as the "E" in the ratio. We are of the opinion, however, that the shift away from traditional processed food is likely a long-term consumer trend, and that these stocks may prove to be "value traps" when actual future earnings fail to meet the forecasts. Of course, in any given quarter short-term swings in market sentiment toward these stocks may be negative for the Fund's performance.

There were several long positions that fell in value during the quarter, but no single position in the top 30 holdings of the Fund fell by more than 10% in local currency – a satisfactory result. Performance was, however, somewhat hindered by a sizeable rebound in the stock prices of two of our retail shorts following market excitement over their "less-bad-than-expected" results and management plans to cut costs and return to growth. We expect this price action to reverse over the medium term as the rapid progress of e-commerce continues to eat away at the profits of traditional retailers.

The rationale for this is simple: General merchandise and apparel retailers still earn juicy pre-tax profit margins of 6%–10%. Their store-based cost is mostly fixed regardless of sales volume, while each sale they make online comes with attached delivery costs and costs in relation to managing returns of unwanted merchandise. These costs are becoming increasingly expensive as Amazon leads a race to faster (and free) delivery and more convenient return options. However, the price a retailer sells for online is generally the same as in store, if not lower. As consumers buy less in store and more online, the retailer's profit margins mechanically move downward, even in circumstances where the retailer retains the sale through its own online channel and avoids losing it to Amazon, which is definitely not always the case! Many retailers make a loss or are barely break-even in their online businesses (often this includes market-leader Amazon!). Further, price comparisons are now a click away on our phones for any product across a multitude of retailers, meaning that prices both online and in-store are under constant pressure, which adds to the retailer's margin woes. Cost reductions to offset these factors can only go so far before customer service suffers and the loss of sales worsens.

Overall, our short positions were a 0.4% headwind to the Fund's performance in the quarter, but continued to provide a useful hedge against any potential market downturn.

Changes to the Portfolio

The pace of change in the composition of the portfolio slackened this quarter as the review of all positions in the Fund has largely concluded. Positions closed included several small stakes in Emerging Market stocks with deteriorating competitive positions – Indonesian retailer, Ramayana, and soft-drink bottler Pepsi-Cola Products Philippines. Leading Kenyan blue-chip East African Breweries was another sale in the quarter as its valuation broadly matched its outlook. Larger positions closed included jeweller Tiffany, which brand has lost some of its lustre in the eyes of millennial consumers who prefer to spend on selfie-worthy "experiences" and the latest iPhone to capture them, as well as leading Mexican convenience retailer FEMSA which, while being a fantastic business, trades on an elevated valuation in reflection of that fact.

New positions added during the quarter were out-of-favour stocks that represent solid-to-excellent value propositions. The automotive sector is trading on depressed valuations in response to a number of concerns – a peaking sales cycle in the US and Europe, potential losses in automakers' lease finance books, and fears over the rise of electric and automated vehicles. This has created many prospective opportunities for contrarians, and the Fund has built positions in a much-unloved auto manufacturer and a very cheap auto financier. The latter has the added attraction of being a fast growing online bank, which allows it to decrease its funding cost as deposits grow. The third major position added in the quarter is a leading brewer with exposure to a cyclical rebound in Latin American economies. It should deliver strong earnings growth over the medium term.

Outlook

The Fund is directly positioned to take advantage of the disruption caused by the growth of e-commerce and social media via stakes in leading internet platforms as well as short positions against traditional retailers and packaged food companies. The remainder of the portfolio is also built with these long-term shifts in consumption habits kept in mind. Long positions held in the Fund can be assigned to three broad categories:

1. Digital platforms – e.g. Alibaba, Sina and Weibo, Schibsted.
2. Consumer service providers, unlikely to be disrupted – e.g. Wynn Resorts, Mandarin Oriental, Sberbank.
3. Consumer brands with unique heritage or performance characteristics that are likely to continue to be in demand online and offline – e.g. Callaway, Louis Vuitton Moët-Hennessy (LVMH), Jiangsu Yanghe, Pernod Ricard, Samsonite, Hanesbrands.

The outlook for the consumer sector is one of continued rapid change that will dramatically affect many companies. We believe the Fund's portfolio will be resilient to, and in many cases benefit from, these changes.

Platinum International Health Care Fund

Bianca Ogden
Portfolio Manager

Performance

(compound pa, to 30 September 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund*	3%	14%	15%	19%	10%
MSCI AC World HC Index	0%	9%	11%	20%	9%

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

Disposition of Assets

REGION	30 SEP 2017	30 JUN 2017	30 SEP 2016
Europe	40%	36%	41%
North America	37%	33%	39%
Australia	6%	6%	3%
Japan	4%	4%	3%
Cash	13%	21%	14%
Shorts	0%	-1%	<1%

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

This quarter started out quietly but gained speed later on with several significant data events as well as corporate activity.

Biotechs added to the Fund's positive performance with a number of our holdings receiving new drug approvals or showing pipeline progress. Our life science holdings also did well, and we continue to see strong demand for biologics. Our pharma holdings were less inspiring this quarter, except for Takeda, which continues to transform itself.

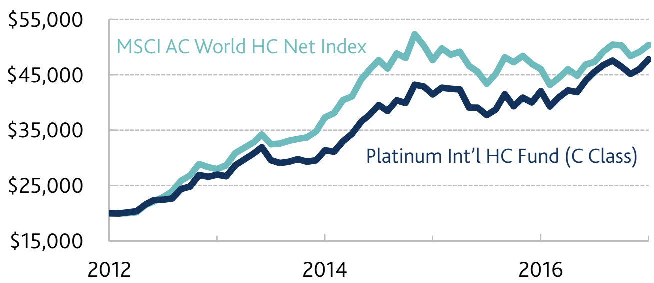
Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
AstraZeneca Plc	UK	Health Equip & Services	3.7%
Sanofi SA	France	Pharmaceuticals	3.6%
MorphoSys AG	Germany	Biotechnology	3.5%
Roche Holding AG	Switzerland	Pharmaceuticals	3.2%
Gilead Sciences Inc	USA	Biotechnology	3.0%
Johnson & Johnson	USA	Pharmaceuticals	2.9%
Prothena Corp	USA	Biotechnology	2.7%
Galapagos NV	Netherlands	Biotechnology	2.5%
Foundation Medicine	USA	Health Care Providers	2.5%
Takeda Pharmaceutical	Japan	Pharmaceuticals	2.2%

As at 30 September 2017.
Source: Platinum Investment Management Limited. See note 4, page 44.

Value of $20,000 Invested Over Five Years

30 September 2012 to 30 September 2017



Refer to note 2, page 44.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposure, updated monthly, please visit https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds.

Commentary

No quarter can pass without some new developments in immunotherapy and this quarter was no different.

AstraZeneca's Mystic lung cancer trial results finally came out, with disappointing progression-free survival data (overall survival data yet to come), hence finally shaking out the Mystic obsessors. To us, AstraZeneca has always been about the totality of its portfolio, not just one trial. During the quarter, our thesis was confirmed that AstraZeneca indeed has a solid portfolio for lung diseases. For lung cancer, its PD-L1 inhibitor Imfinzi works just fine in early stage disease, while its next generation EGFR inhibitor works best for EGFR mutated lung cancer patients and is evidently superior to the current standard of care. As Astra showcased the depth of its overall respiratory portfolio, financial analysts had to reassess their expectations.

During the quarter Johnson and Johnson (JNJ) received US Food and Drug Administration (FDA) approval for guselkumab, an IL-23 inhibitor. Guselkumab was discovered by German biotech MorphoSys, and is their first antibody gaining commercial approval. Launch is going well and JNJ is looking to expand guselkumab's indications beyond psoriasis.

On a recent visit to California, excitement in biotech was palpable, which also coincides with record levels of venture capital funding in the sector. Companies are able to raise money quickly and progress their pipelines. The regulatory environment is also very accommodating with the FDA focusing on speeding up innovative new drugs. This year the FDA has been very busy, having already approved 33 drugs (22 in 2016, 45 in 2015). Scott Gottlieb, the new FDA Commissioner appointed in May this year, has so far not disappointed in his efforts to change the review culture and enable innovative products to reach the market faster (as long as safety is not an issue). Overall, this makes for a productive environment.

Personalised medicine is gaining momentum and companies feel much more comfortable in navigating the reimbursement maze. While many companies can offer sequencing, success will depend on the details of the product offering and how actionable the data is. Hence caution should prevail when looking at new investment opportunities in this emerging space.

Gilead Sciences started to use its cash this quarter, announcing the acquisition of Kite Pharma, whose work on developing chimeric antigen receptor T-cell (CAR-T) therapy to treat non-Hodgkin lymphoma is well-progressed. The deal re-ignited interest in Gilead as well as in biotechs more generally, particularly any company that has an interest in T-cell therapy.

Coincidently, in the same week that Gilead announced its acquisition of Kite Pharma, Novartis and Oxford Biomedica received FDA approval for their T-cell therapy, tisagenlecleucel (marketed under the brand name Kymriah), for leukaemia treatment, adding to the biotech momentum. Oxford BioMedica is a holding in the Platinum International Health Care Fund. We first introduced the company in our December 2015 quarterly report. The stock rose 26% for the quarter and 184% for the year.

We wrote about gene therapy and in particular T-cell therapy, which is a type of gene therapy, in our December 2015 quarterly report. It is a very exciting new therapy approach that has matured immensely over the past 20 years. Like most major scientific advances, the development of T-cell therapy has not been a smooth and easy path. The personalised nature of gene therapy presented unique trial challenges and made it all the more difficult for researchers to obtain funding. It took dogged perseverance as well as chance and luck to overcome the enormous scepticism and setbacks that the researchers faced, particularly in the early days of the emergence of gene therapy as a new field, to demonstrate the efficacy of the new approach to treatment. The FDA approval for Kymirah this quarter is therefore a significant event, highlighting not only scientific advances, but more importantly, the willingness of the regulator as well as physicians and companies to embrace and fund new technologies.

T-cell therapy is not a traditional drug that you pick up at a pharmacy. It is a process that requires a tight logistic network working seamlessly. First, a patient's white blood cells (T cells) are harvested in a hospital setting. Those T cells are then shipped to a manufacturing site where they are infected with a viral vector carrying genetic information that will tell the T cells to attack the cancer. The vector itself has to be manufactured separately (viral vectors are Oxford Biomedica's expertise). Once the T cells are infected, they are expanded, put through quality control and repackaged to be shipped back to the hospital where they will be infused back into the patient's body. (These modified patient-specific T cells make up Kymirah). The process involves neither a standard pharmacy nor a classical drug distributor. The therapy is performed in specifically accredited clinics, while the manufacturer takes care of the rest.

As we have written in the past, the physician's tool box for treating a disease is expanding, while the ways in which some of the new medicines are manufactured and administered are also becoming increasingly complex. The nature of personalised medicine requires the entire supply chain, from manufacturing to distribution and payment systems, to adjust accordingly.

Distribution networks will become more specialised. Manufacturers are already working directly with infusion centres, as opposed to using a drug distributor as the middleman. The manufacturing of gene therapy products is also more intricate than traditional drug manufacturing, and efficacy varies from patient to patient, making it challenging for the regulators who themselves are on a steep learning curve.

Pricing models also have to change as these new therapies are designed to be administered once only, rather than repeated over one or more courses of treatment. As US pharmacy benefit manager Express Scripts poignantly put it, "pharmaceutical companies have a single opportunity per patient to get paid". Hence, the prices charged will be significant (potentially several millions of dollars; tisagenlecleucel has a present price tag of US$475,000), and it is currently unclear how the bills will be paid. Will it be a large one-off payment? Will it be paid over time in instalments, like paying off a mortgage? In the end, however, outcome-based contracting will have to be part of the equation, meaning that if the therapy fails to live up to its promise neither the patient nor the payor (the insurer) will have to foot the bill. Novartis is working on such contracts for its Kymriah, as is Amgen for its cholesterol antibody.

Outlook

The healthcare industry is currently in a state of flux. We are seeing strong pricing for new innovative products on the one hand and deflation in generic drugs on the other. The generic drug industry, in general, while serving a good purpose, has multiple challenges and is in search of new opportunities. Consolidation is happening but will only provide short-term relief, while more will depend on significant strategic investments. Some generic drug companies have tilted towards more R&D, while others expanded their consumer health offering or embraced biosimilars. Similarly, drug distributors who have benefited from higher drug prices as well as drug retailers are contemplating their future as Amazon studies the supply chain with a keen interest. The healthcare industry globally is undergoing significant change, and while popular press would like everyone to believe it is just pharma that needs to adjust, we think that bigger shifts are occurring elsewhere.

Platinum International Technology Fund

Alex Barbi
Portfolio Manager

Cameron Robertson
Portfolio Manager

Disposition of Assets

REGION	30 SEP 2017	30 JUN 2017	30 SEP 2016
North America	34%	35%	37%
Asia	27%	26%	25%
Europe	13%	14%	13%
Japan	3%	4%	10%
Russia	0%	0%	1%
Cash	23%	21%	14%
Shorts	0%	<0%	-2%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	USA	IT	5.9%
Samsung Electronics	Korea	IT	4.8%
Tencent Holdings	China Ex PRC	IT	4.3%
Oracle Corporation	USA	IT	3.5%
PayPal Holdings	USA	IT	2.8%
Taiwan Semiconductor	Taiwan	IT	2.7%
Apple Inc	USA	IT	2.6%
JD.com Inc	China Ex PRC	Consumer Disc	2.5%
Samsung SDI	Korea	IT	2.4%
Constellation Software	Canada	IT	2.3%

As at 30 September 2017.

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

Performance and Changes to the Portfolio

(compound pa, to 30 September 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	3%	20%	12%	17%	9%
MSCI AC World IT Index	6%	27%	21%	23%	0%

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

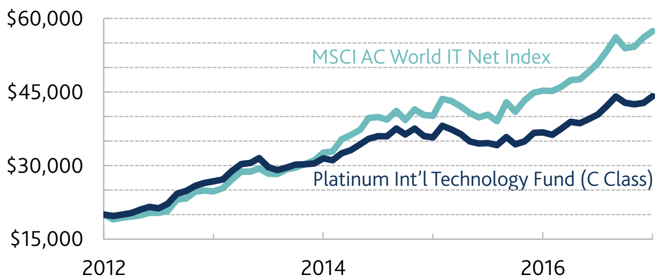
During the quarter the Fund (C Class) was up 3.1% while the MSCI AC World Information Technology Index (A$) was up 6.4%. The Fund's relatively large cash allocation (23% as at 30 September), its exposure to some British telecommunication stocks as well as the strength of the Australian dollar (against the US dollar, the Hong Kong dollar, the Korean won and the Japanese yen) were largely responsible for the under-performance.

Over the 12 months to 30 September, the Fund (C Class) returned 20%, a solid result in absolute terms, though trailing the benchmark which rose 26.8%.

Among this quarter's best performing industries (in US dollar terms) were Electronic Production Equipment (+20%), driven by semiconductor equipment stocks, and Semiconductors (+13%).[1]

Value of $20,000 Invested Over Five Years

30 September 2012 to 30 September 2017



Refer to note 2, page 44.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposure, updated monthly, please visit https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds.

Persistently strong demand continues to drive revenues and profits for the producers of digital memory chips (such as NAND and DRAM). While in the past the bulk of the orders came from PC and digital camera manufacturers, smartphones and servers for cloud data centres have now become the core market for memory chips. Demand for graphic processing units (GPUs) has also been strong as this type of processor is increasingly used in Artificial Intelligence applications (e.g. for autonomous driving).

Data Processing Services[1] was another strong-performing area (+9.9%) as growth in global e-commerce volume goes from strength to strength and, with it, the demand for online payment solutions.

The Fund has selective exposure to the above themes, including companies operating in digital memory, semiconductor foundry, e-commerce (particularly the leading Chinese names) and digital payment.

The main laggards over the quarter were Media Conglomerates (-7.3%) and Broadcasting (-3.2%),[1] industries undergoing major disruption as new competitors offering 'all you can eat' online streaming services continue to threaten the business model of traditional free-to-air and cable TV providers.

Commentary

You may have recently seen some high profile product launches incorporating technologies such as facial recognition, or devices based primarily on voice interface. In the coming weeks or months software updates will also start enabling 'augmented reality' functions across a range of high-end smartphones. To some users these features may appear little more than gimmicks, but this is really the first phase of widespread adoption of 'eyes and ears' for machines.

Winding back the clock, we see that this is just the latest in a long line of innovations around computational inputs. Punch cards were prevalent until the mid-1970s, then keyboards, the mouse, touch screens, and now increasingly we see the proliferation of audio and visual inputs. Interactions with digital devices are becoming more natural and intuitive. The implications of this latest evolution are likely to be broad and far-reaching, although making the most of new functionality will undoubtedly take some time. Do you need a voice interface to start your washing machine? Probably not (and, yes, that is a thing). Is mapping your face to an animated poop character such an achievement? We can see why people may initially be sceptical of the value of this technology. Applications are still evolving. But what this functionality enables will surely have a greater impact, ranging from simple conveniences, through to productivity advances, new medical tools, and more.

Would it be handy to see exactly how a new sofa would fit in your living room without getting out the tape measure? Or quickly scanning your dimensions, creating a 'virtual mannequin', to see how clothes will fit before you order them online? How about pointing your phone at a sports field while watching a professional game, and seeing player profiles hover over the participants? Or walking into a store, picking up whatever you want, and simply flashing a smile at a camera to settle the bill as you leave? These are just a few examples of the consumer applications that are already being rolled out.

In the industrial field, speech and image recognition capabilities are increasingly being incorporated into manufacturing lines, helping employees reduce error rates and improve productivity. Facial recognition technologies are being used to do quick and cheap diagnoses of genetic diseases such as Down Syndrome and DiGeorge Syndrome. Autonomous driving is an area that is rapidly advancing and relies heavily on the vehicle being able to 'see' objects around it, detect distance, and build 3D maps of the world.

As well as the trivial, the entertaining, and the helpful, these technologies will throw up a range of issues, from privacy to data ownership, for society to grapple with.

A confluence of technologies underpins all of this, providing investors multiple bites at the apple – so to speak. There are companies that make accelerometers, gyroscopes, components for cameras, lasers and infrared sources. There are device assemblers and product designers. All this new sensory data needs to be stored, transported, and processed, which is driving demand for memory, connectivity, and cloud services. Opportunities are arising for companies to develop new services utilising these new audio and visual capabilities.

The Fund has been positioned with these developments in mind, investing in companies that have benefited – and will continue to benefit – from the ongoing proliferation of these new interfaces. Some elements of the supply chain are starting to reflect the hype in their share prices, however, we believe there continue to be attractive opportunities available for the diligent investor.

Outlook

With the Nasdaq 100 Index up more than fivefold since bottoming in early 2009, the current bull market has now entered its 9th year. While current valuations are nowhere near the crazy levels reached during the dot com bubble in 2000, they have no doubt been inflated by the artificially low interest rates that have prevailed since the GFC. As the US Federal Reserve starts to reverse its long-standing loose monetary policy, one may expect to see some headwinds for those companies with leveraged balance sheets and/or stretched valuations. Our efforts are concentrated in avoiding them while searching for the always present overlooked opportunities.

1 Source: FactSet. Industry classification by FactSet.

Fabulous India! (Part 2 of 2)

by Kerr Neilson

Karauli

Having cancelled our train journey from Lucknow to Agra, we flew instead to Delhi and then drove down to Agra, thereby saving half a day. We may in fact have saved a full day for the passenger trains were running over five hours late and there are chronic delays along the line. This decision allowed us to visit the Taj Mahal and to see glimpses of the Persian Gardens – only four remain intact and another is being restored.

Driving west on an excellent four lane road, we made great time passing verdant fields of young wheat, yellow fields of mustard interspersed with the khaki green of pulses, and periodic villages. The passing smokestacks of brickworks betray the clay bed that underlies these green fields. We stopped to inspect one, and it was fun to see rudimentary brick-making where each piece is made by filling a steel mould by hand and then stacking them in long rows to dry before they are transferred to a walled kiln where as many as 100,000 bricks are fired. Once initiated, the kiln's heat is sustained by continually feeding the furnace through apertures in the "roof" with thrashed grain stalks.

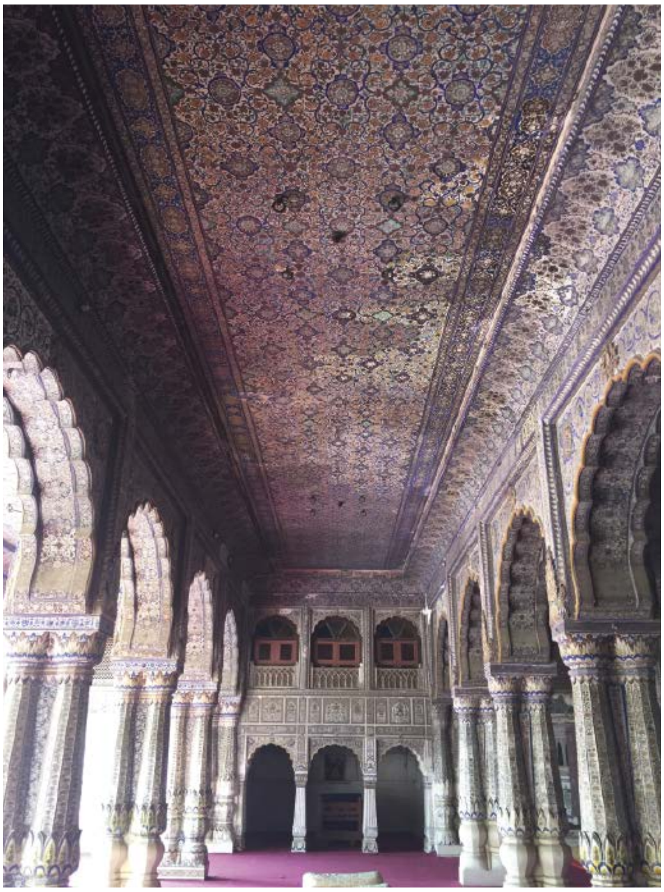
While the land still seems well watered and very flat, evidence of a dryer climate is gathered from the thorn bushes, multiple herds of goats and the first appearance of camels drawing carts. Even under what seem to be excruciating loads, these camels sway methodically forward, mouths masticating and heads high with a haughty indifference. Heaps of cow dung patties dry in the sun alongside the road, stored as fuel for cooking; three patties are adequate for preparing the evening meal. Fuel is also derived from carefully trimmed trees which are left with the appearance of vertical, splayed hands reaching out with severed fingers. Not pretty, but ecologically sound. The cuttings are left to dry for later collection.

The saris are becoming ever more colourful, featuring embroidered sequins against vivid hues of saffron, purple, green and red.

After having spent the night in a residence that the Maharaja built for himself in 1938, a visit to the Karauli City Palace could not have been more surprising. The former is a very pleasant low-lying bungalow with several interconnecting courtyards and gardens while the City Palace is a monumental set of consecutive fortress palaces with the first built in the 14th century. Additions and extensions were completed in the 17th and 19th centuries to create a whole that is extremely large. The exquisitely decorated ceilings

Top: Karauli City Palace. Bottom: Karauli City Palace in close-up.
Source: author

and walls are very much in the Mughal style, even though the more austere first fort dates back to the Rajput era. One can trace the growing flamboyancy of the court as one moves through the centuries with painted Hindu references and floral patterns.



The exquisite Mughal style decorations inside the Karauli City Palace.
Source: author

An old teacher guided us around, explaining various curiosities, demonstrating the cooling system of fans, the way that the Maharaja communicated with his wife when receiving petitioners, the techniques used to apply gold leaf before encasing it in Belgian glass, the sophisticated use of water sprays onto a canopy woven from the roots of an aromatic plant, called Khas, to impart its cool scented delight in the blistering summers.

Whether it was to cover his bets or because of religious ambivalence, the Maharaja in the 17th century not only provided a Hindu temple, but also other places of worship suitable for Muslims, Sikhs and even Christians. Things were pretty brutal in those times, which led this regional ruler to create a tunnel 12 feet wide, 15 feet high, travelling 3 km to well beyond the city walls as a last "ditch" escape route, should the fort fall. These are impressive affairs able to take two horsemen abreast. The same concept can be seen at the Amber Fort in Jaipur while the tunnel we went through in Lucknow was broad enough to take two elephants abreast!

As one travels through India, one gradually understands the origin of many patterns that puzzle foreigners. The significance of religion and rank and how tribute facilitated the feudal system before any formal tax system was instituted meant that paying for favours and influence has different connotations here than many Westerners understand.

The history of this 17-gun salute principality reveals that the Prince had to flee on several occasions before finally settling at the present site. That such relative grandeur could be achieved on the backs of so few is hard to reconcile in this modern day. When Mrs Gandhi removed the privy purses from the princes in 1971, the estates were lost – our cunning Maharaja transferred the ownership of this fort complex into a religious trust and hence remained the controller and de facto owner of the property.

The capping finale was to walk through the medieval narrow lanes that rise up to the entrance of the palace. Tiny 6 foot to 8 foot wide stalls contain a host of activities: micro flour mills, shoemakers, religious and educational bookstores, lock makers, kitchen implement makers, woodturners, furniture makers and, lastly, bangle makers. Before one's eyes, one sees them rolling tubes of vegetable gum, applying alternative layers of different colours, using heat from an open hearth and ultimately sizing, cutting and then decorating the bands in a multitude of garish designs. It is a speciality of the small city, we were told.

As a general rule, I very seldom change plans when on holiday, reasoning that things happen as they do. On this occasion, the thought of hanging around Lucknow's railway station in the hope that the Indian railways would miraculously get back on schedule seemed unduly optimistic. To have missed seeing this tourist-free city and former principality would have been a great shame.

North India – General Impressions

Apart from a wonderful holiday environment for those who like to experience the unfamiliar, India is a shopper's paradise. Whether it is handcraft or good jewellery – though beware of artful settings that exaggerate the stone's qualities.

It was the embroidery that really caught our interest. In the context of an expensive fashion garment, exquisitely embroidered shawls are incredible value, though require the outlay of A$500 to A$700. This may give the impression that the writer has more money than sense. But please consider that these shawls are the consequence of months of work, in some more expensive cases, up to a year, and, like so many hand skills, will almost certainly become ever scarcer. Treated with care, they can become heirlooms. Ask yourself why the children of a family of weavers or embroiders should follow their parents now that they gradually have more choices. Indeed, the implied return per hour of A$1 to A$2 is hardly an inducement for energetic internet-savvy youngsters. Machines are increasingly being used to copy this work, but for one with a discerning eye, the difference is night and day. Of course, there is no limit to hyperbole when bargaining with the merchants, but within days, one gets the hang of things.

Accommodation and food is extremely cheap in India. I would strongly suggest staying at a traditional haveli, rather than in the grand chains. This is not motivated by parsimony, but rather by the variety and historical interest these smaller establishments offer. Beware that the standards vary greatly, but several that we used were quite as good as any fancy hotel. In particular, the Samode Palace and Samode Bagh (garden) as well as the Rass Haveli in Jodhpur were spectacular, with magnificent bathrooms, vast beds and immaculate, clean, large rooms. The space and light of Hotel Ganges View in Varanasi was also a win and, being on the bank of river Ganga at Assi Ghat, it is very well located. In general, bathing can be an issue; hot water is not guaranteed and showers are erratic. Herr Grohe is, however, making appearances in the recently renovated havelis.

Over the course of our 17 day journey, we confined ourselves to northern India and found two nights per destination sufficient to see, feel and transact. One needs to allow five to eight hours for road travel of 300 to 400 km which some may find tiresome, but we enjoyed the passing scene. The standard Toyota people carrier used by agency-employed drivers are extremely comfortable and a vast improvement on the old Ambassador that transported us on a visit years ago, which memorably had a seatbelt, installed to meet the then new safety standard, secured to the vertical upright by a single, small self-tapping screw. Talk about form over function! The road system is clearly improving, with inter-city highways being ramped up and new roads being built at the rate of 25 km per day! Air travel is straightforward these days with the entry of new independent carriers like IndiGo, Jet Airways and SpiceJet, and the opening of more regional airports.

For those who have travelled through India before, all one needs from an agent to provide is a driver, rather than the whole rigmarole of a greeter-and-meeter and a guide. Guides have a tendency to inundate one with a plethora of dates and names but very little understanding of their social context. One can just as well use Lonely Planet, not very good, or Google. In terms of recommendations, TripAdvisor is questionable while Conde Nast Traveller may be better. If you are an anxious traveller, by all means use a well-established agent for there is a travel network that operates in peculiar ways, though very effectively.

Must sees:

- **Kolkata:** Victorian Memorial – a dilapidated museum, but with a wonderful display of 17th century miniature paintings, great booksellers and remnants of its Victorian glory. Not a must. **5 out of 10**
- **Varanasi:** Early morning on the Ganga reveals a wonderful serenity in the winter with the soft light and languid pace. The ghats and narrow side streets, too, are interesting. **7/10**, more if you enjoy the Hindu vibe.
- **Lucknow:** The Residency, Claude Martin's school and the associated story, and the Bara Imambara with its extraordinary architectural features, including its mezzanine maze. Some beautiful cotton embroidery. **8/10**

Bara Imambara, Lucknow, in all its grandeur.
Source: author

- **Agra:** The Red Fort with its true splendour and distant views of the Taj Mahal, the Tomb of I'timad-ud-Daulah with its remarkably fine stone inlay work, as well as the Persian Gardens. The two buildings are breathtaking and cannot be captured on camera, incredible as that may seem. A must, **10/10**.
- **Fatehpur Sikri**: The abandoned capital prior to the establishment of Agra as capital, interesting, and if travelling by car, worth seeing. **5/10**
- **Karauli:** Out of the way and less visited, certainly worth seeing the 14-19th century City Palace fort if travelling by car. **7/10**
- **Jaipur:** The Amber Fort is a must, almost on par with the Taj, with its spectacular glass ceilings and beautiful shell/coconut oil treated walls and galleries. The 17th century observatory is remarkable for its display of Indian ingenuity. The City Palace is also splendid with grand reception rooms and fabric and weapon displays. Great for jewellery, pashmina and embroidered shawls. **9/10**
- **Samode** village, palace and gardens: A quiet interlude after the crowded cacophony of India's streets. **7/10**

A close-up of the Tomb of I'timad-ud-Daulah with its fine stone inlay.
Source: author

- **Jodhpur:** The Mehrangarh Fort with its wonderful and beautifully curated display of palanquins, elephant howdahs (seats), Rajput miniatures and weapons. Surprisingly different from Jaipur and great if you are about to embark on a red stone or marble architectural extravaganza. **9/10**
- **New Delhi:** Big imperial capital with some spectacular ancient ruins. The Red Fort in Agra is more impressive, so no need to duplicate if you are short of time. You will be stunned by the Qutb complex, hosting the soaring Afghan victory tower, the Qutb Minar (1193), the mysterious cast iron pillar dating back 1600 years as well as the preserved ruins of early Hindu civilisation from around 200 BC. Humayun's tomb and the Lodi gardens are also wonderful. The National Museum is interesting, particularly for its extraordinarily well-preserved stone carvings, and train buffs will enjoy the Railway Museum which, unlike most museums in India, gets some financial support. There is plenty more, but these were the things we enjoyed. **9/10**

Buland Darwaza, or the 'Gate of Magnificence', in Fatehpur Sikri.
Source: author

In terms of crowding of tourists, both Kolkata and Lucknow are very much off the standard route.

Funny experiences: many. The best was in Delhi when we asked a well-dressed "dude" where to find a cool place for a drink and a bite. The Flying Saucer in Connaught Place was perfect. I wondered up to some Englishmen. Introductions were made and I was informed by one that his mother was an Anglo-Indian and it was his first visit to India. Later, when saying goodbye, I introduced them to my deceptively young-looking friend. Without a hint of mirth or change in his comfortable demeanour, the Anglo-Indian casually rolled off, "good to see someone is doing charity work". I cursed him and we all rollicked with uproarious delight.

View from the Mehrangarh Fort over Jodhpur's urban sprawl.
Source: author

Most frightening experience: On the rare highway, the one driver so rejoiced in having three lanes to share with others that he would weave in and out using all three lanes. This would normally be fine except he would challenge his protecting god by addressing the gap between two massive Tata trucks travelling in neighbouring lanes at a 60 degree angle. Unlike a sane person, he would not change down, but instead seemed to have formed his own theory about slipstreaming and would actually ease back on the accelerator as we slid across the lanes to become the lead vehicle. The problem was that we had been slipstreaming the truck in front, and once we swerved into the next lane, and not necessarily the right lane, this effect was lost. Even under protest, he seemed indifferent to sharing his theory with us!

Fabulous India!

February 2017

Glossary

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.

Earnings Yield

A company's earnings per share over a 12 month period divided by its share price and expressed as a percentage, the earnings yield is the reciprocal of the P/E ratio and is a measure of the rate of return on an equity investment.

Gross Domestic Product (GDP)

The primary indicator used to gauge the health of a country's economy, GDP represents the total dollar value of all goods and services produced over a specific time period.

MSCI Indices

Various indices compiled by MSCI Inc. (e.g. World, Asia, Health Care, etc.) that are designed to measure equity market performance across different regions and industries.

Platinum does not structure its investment portfolios relative to any benchmark index, however, the MSCI indices are used as a reference to determine how each Fund is performing in relation to the total market opportunity in which it invests.

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.

Quantitative Easing (QE)

A monetary policy used by central banks to increase the supply of money by buying government bonds (and, to a lesser extent, other assets such as corporate bonds and shares) from the market. The intended outcome is to lower the yield on those assets, increase the total money supply in the financial system, and encourage more lending by banks and thus greater economic activity. Central banks use QE to stimulate the economy when interest rates are already at or close to zero.

Return on Equity (ROE)

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.

Short Selling or Shorting

A transaction aimed at generating a profit from a fall in the price of a particular security, index, commodity or other asset. To enter into a short sale, an investor sells securities that are borrowed from another. To close the position, the investor needs to buy back the same number of the same securities and returns them to the lender. If the price of the securities has fallen at the time of the repurchase, the investor has made a profit. Conversely, if the price of the securities has risen at the time of the repurchase, the investor has incurred a loss.

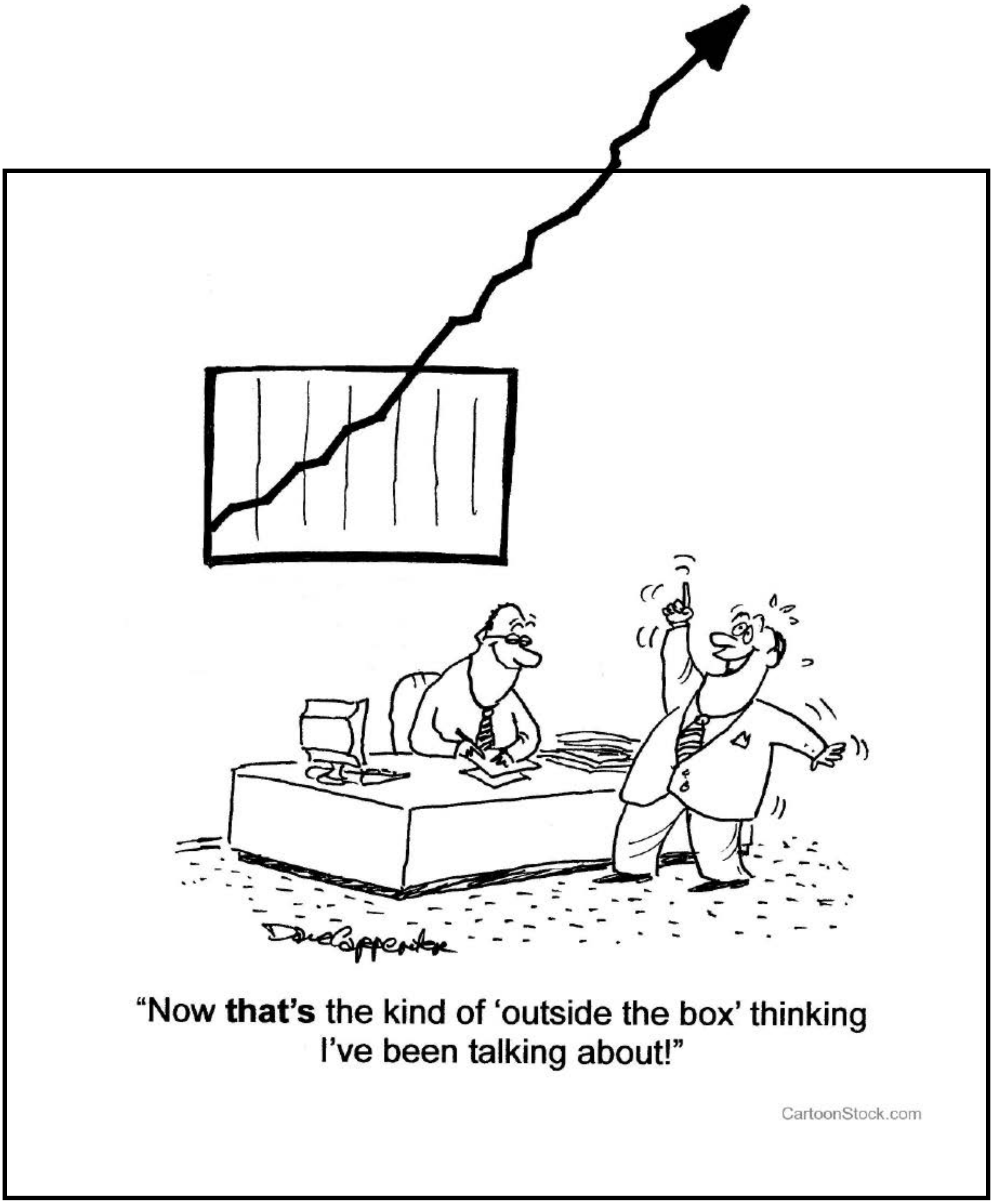
Platinum utilises short selling of stocks and/or indices for risk management (that is, to protect a portfolio from being either invested or uninvested in a particular security, sector or market) and to take opportunities to increase returns. Short selling is not undertaken for Platinum Unhedged Fund.

The Journal

We have a section on our website titled *The Journal*, providing in-depth market commentaries, industry insights, and the fundamentals of investing.

Visit www.platinum.com.au for more.

Some light relief



"Now **that's** the kind of 'outside the box' thinking I've been talking about!"

Notes

1. The investment returns are calculated using the net asset value unit price of C Class (standard fee option) of the relevant Fund and represent the combined income and capital return of C Class for the specified period. Returns are net of fees and costs (excluding the buy/sell spread), 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.

   The MSCI index returns have been sourced from RIMES Technologies. Index returns are in Australian dollars and include dividends, but, unlike the Fund's returns, do not reflect fees or expenses. The net MSCI index is used, except, where applicable, the gross MSCI index was used prior to 31 December 1998 as the net MSCI index did not exist then.

   For the purposes of calculating the "since inception" returns of the MSCI index, the inception date of C Class of the Fund is used.

   Platinum does not invest by reference to the weighting of the index. Underlying assets are chosen through Platinum's individual stock selection process and, as a result, the Fund's holdings may vary considerably to the make-up of the index. Index returns are provided as a reference only.

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

   The investment returns are calculated using the net asset value unit price of C Class (standard fee option) of the Fund and represent the combined income and capital return of C Class for the specified period. Returns are net of fees and costs (excluding the buy/sell spread), are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

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3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents the Fund's exposure to physical holdings (equity and corporate fixed income securities) and long derivatives (of stocks and indices) as a percentage of the Fund's net asset value.

4. The table shows the Fund's top 10 long stock exposure (through physical holdings and long derivative positions) as a percentage of the Fund's net asset value.

5. Sector breakdown represents the Fund's net exposure to physical holdings and both long and short derivatives (of stocks and indices) as a percentage of the Fund's net asset value.

6. The table shows the Fund's major currency exposure as a percentage of the Fund's net asset value, taking into account any currency hedging.

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Some numerical figures in this publication have been subject to rounding adjustments.

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Platinum Asset Management is a Sydney-based manager specialising in international equities. The investment team uses a thematic stock-picking approach that concentrates on identifying out-of-favour stocks with the objective of achieving superior returns for our clients. We pay no heed to recognised indices. We aim to protect against loss and will hedge stocks, indices and currencies in our endeavours to do so.

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 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 returns nearly twice 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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