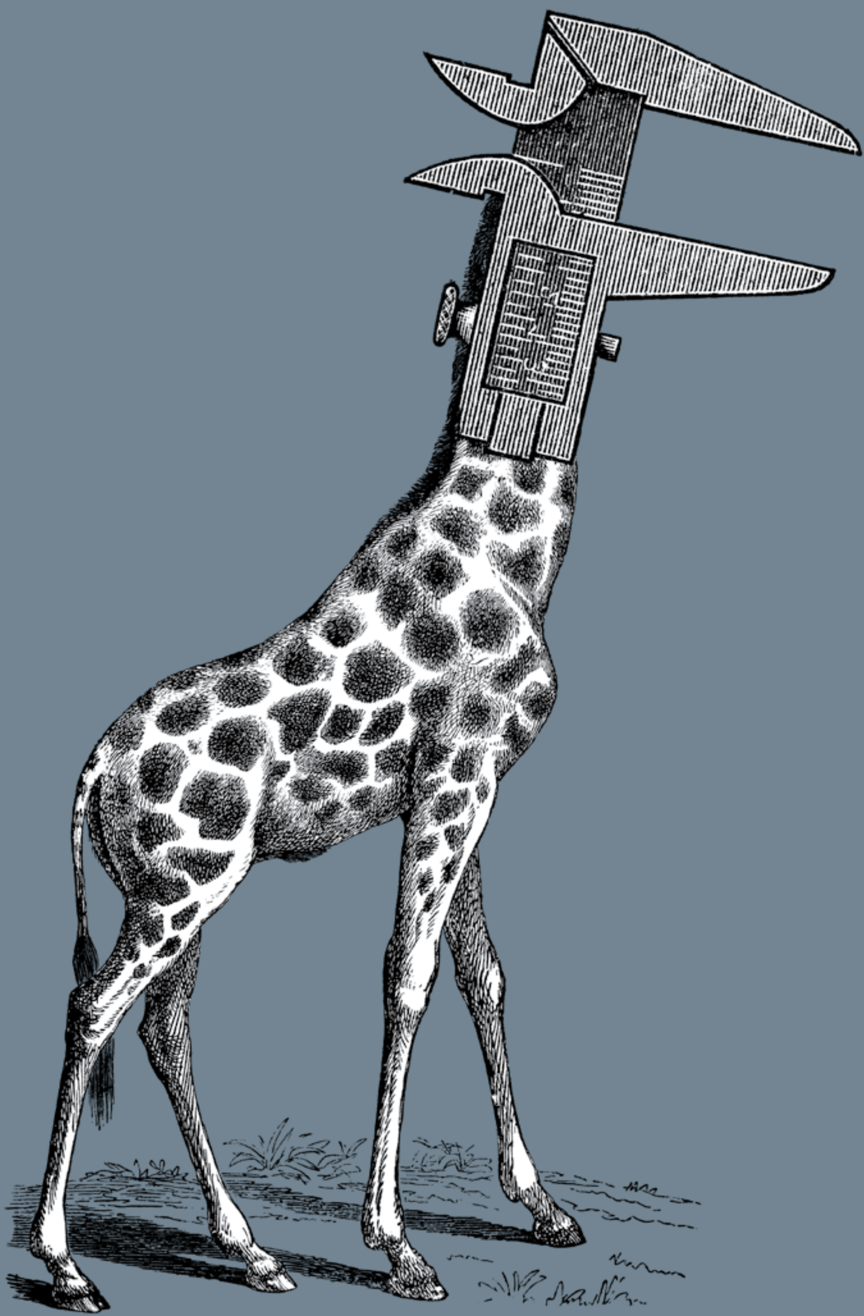
Platinum International Fund
Platinum Unhedged Fund
Platinum Asia Fund
Platinum European Fund
Platinum Japan Fund
Platinum International Brands Fund
Platinum International Health Care Fund
Platinum International Technology Fund

Platinum ASSET MANAGEMENT

Quarterly Report

30 SEPTEMBER 2018



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

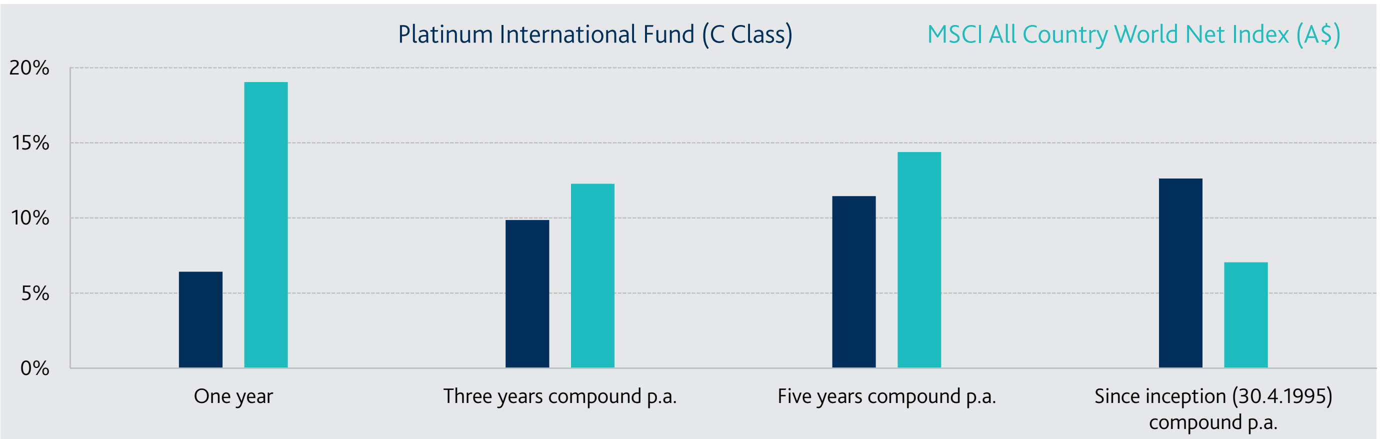
Performance Returns to 30 September 2018

FUND (C CLASS – STANDARD FEE OPTION) (P CLASS – PERFORMANCE 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 (C Class)	**$10,756m**	**-0.5%**	**6.4%**	**14.0%**	**9.9%**	**11.5%**	**12.6%**	**30 Apr 1995**
Platinum International Fund (P Class)	$15m	-0.4%	6.3%	–	–	–	9.4%	3 Jul 2017
MSCI All Country World Net Index (A$)		6.5%	19.0%	17.4%	12.3%	14.4%	7.0%	30 Apr 1995
Platinum Unhedged Fund (C Class)	**$327m**	**0.5%**	**12.5%**	**20.2%**	**14.3%**	**13.8%**	**11.8%**	**28 Jan 2005**
Platinum Unhedged Fund (P Class)	$2m	0.6%	12.0%	–	–	–	14.1%	3 Jul 2017
MSCI All Country World Net Index (A$)		6.5%	19.0%	17.4%	12.3%	14.4%	7.5%	28 Jan 2005
Platinum Asia Fund (C Class)	**$4,402m**	**-2.8%**	**4.9%**	**12.9%**	**9.8%**	**12.2%**	**14.7%**	**4 Mar 2003**
Platinum Asia Fund (P Class)	$6m	-2.8%	4.9%	–	–	–	9.4%	3 Jul 2017
MSCI All Country Asia ex Japan Net Index (A$)		0.5%	10.0%	14.7%	12.2%	12.2%	10.4%	4 Mar 2003
Platinum European Fund (C Class)	**$1,019m**	**3.4%**	**13.2%**	**21.4%**	**11.6%**	**12.5%**	**12.2%**	**30 Jun 1998**
Platinum European Fund (P Class)	$6m	3.4%	12.5%	–	–	–	14.1%	3 Jul 2017
MSCI All Country Europe Net Index (A$)		3.0%	8.1%	13.6%	6.7%	8.8%	3.1%	30 Jun 1998
Platinum Japan Fund (C Class)	**$810m**	**1.2%**	**5.9%**	**13.0%**	**10.3%**	**15.6%**	**14.7%**	**30 Jun 1998**
Platinum Japan Fund (P Class)	$3m	1.2%	6.0%	–	–	–	9.8%	3 Jul 2017
MSCI Japan Net Index (A$)		5.9%	19.5%	15.3%	11.0%	12.4%	3.2%	30 Jun 1998
Platinum International Brands Fund (C Class)	**$779m**	**-2.9%**	**7.5%**	**17.8%**	**12.9%**	**11.0%**	**12.8%**	**18 May 2000**
Platinum International Brands Fund (P Class)	$1m	-2.9%	7.7%	–	–	–	11.1%	3 Jul 2017
MSCI All Country World Net Index (A$)		6.5%	19.0%	17.4%	12.3%	14.4%	3.3%	18 May 2000
Platinum International Health Care Fund (C Class)	**$252m**	**9.0%**	**25.2%**	**19.3%**	**13.0%**	**17.3%**	**10.5%**	**10 Nov 2003**
Platinum International Health Care Fund (P Class)	$3m	9.0%	24.4%	–	–	–	21.2%	3 Jul 2017
MSCI All Country World Health Care Net Index (A$)		13.2%	23.6%	16.3%	9.3%	17.4%	9.5%	10 Nov 2003
Platinum International Technology Fund (C Class)	**$117m**	**2.3%**	**11.7%**	**15.8%**	**11.3%**	**13.0%**	**9.5%**	**18 May 2000**
Platinum International Technology Fund (P Class)	$2m	2.3%	11.9%	–	–	–	12.4%	3 Jul 2017
MSCI All Country World IT Net Index (A$)		8.3%	33.2%	30.0%	24.0%	25.3%	1.3%	18 May 2000

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

Platinum International Fund vs. MSCI AC World Net Index

To 30 September 2018



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

In Brief

Platinum International Fund

- Concerns around a potential slowdown in China, exacerbated by the ongoing 'trade war' with the US and rising US interest rates, led investors to avoid companies facing any degree of uncertainty and to focus instead on those considered immune from external factors like trade tariffs. The result has been strong stock price performance from high growth companies (e.g. software, internet services, biotechs) while businesses perceived to be cyclical (e.g. financials), with the exception of energy stocks, have been sold down. Geographically, this has translated into significant outperformance by the US market. In addition, emerging markets have suffered as a result of the strong US Dollar increasing the cost of funding for external debts.
- The Fund's underperformance is largely the result of a far greater weighting in those areas that have performed poorly over the last year. We are clearly out of step with the market in terms of where we believe the attractive investments are in the current environment. Markets are currently positioned in a very defensive manner and cyclical stocks are factoring in a major slowdown in global growth. For reasons detailed in the Macro Overview, we believe that the picture may not be so grim.
- In our view, the scope and impact of the trade measures announced to date by the US and China are limited relative to their respective economies, and Chinese authorities have moved to put in stimulatory policies. Any lessening of the recent fears should lead to improved share price performance for our holdings. Alternatively, if rising US interest rates start to impact on the market, our increased cash and short positions should leave us well placed to take advantage of any further weakness in stock prices. Refer to the full Fund Report for a detailed discussion on several of the Fund's key holdings (Samsung, Glencore, Ping An Insurance, Facebook) and why we believe each will provide good long-term returns for the Fund.

Platinum Unhedged Fund

- As investors shunned the cyclical sectors of the market, a number of our financials and real estate related holdings detracted from performance, including Raiffeisen Bank and KB Financial. We believe, however, that these companies remain attractive investments as they offer good earnings yield and that the temporary concerns over external factors will likely subside.
- Despite the large falls in the broader Chinese markets, our China holdings have in aggregate provided a positive, though modest, 3% total return to the Fund year to date. Our holdings in oil and related services companies (around 12% of the portfolio) are well positioned to benefit from a recovering oil price and the industry's need for ongoing investments. Overall, despite the market currently not working in our favour, we remain enthused about the prospect of the Fund's future returns.

Platinum Asia Fund

- The Asia ex-Japan markets have faced a perfect storm over the last six months. A strong US Dollar and rising US interest rates have put pressure on emerging markets. Signs of a consumption slowdown in China and the growing trade tension with the US have led to a sharp sell-off in Chinese stocks. The upshot is that some companies with strong earnings potential are now on extremely attractive valuations. The Fund has been booking profits and raising cash over the year while repositioning the portfolio towards domestically-focused champions. We added to Reliance Industries, Geely Auto, AIA Group and 3SBio.
- We may see market volatility persist in the near term, as no imminent resolution to the trade war is in sight while oil prices and US interest rates are likely to keep rising. However, we are encouraged by the number of attractive investments that we are finding and will continue to deploy the Fund's capital with a view to capture those potential long-term winners.

Platinum European Fund

- Recent Fund performance has been impacted by the issues detailed in the Macro Overview, particularly our holdings with businesses that operate in Eastern Europe and Russia, as well as those in the mining and automotive sectors. However, we remain enthusiastic owners of Raiffeisen Bank, Sberbank, Glencore and Daimler, as we believe their earnings prospects offer fantastic value at current prices. We continued to trim holdings that have reached full valuations (e.g. Sartorius, Hypoport).
- The European economy appears to be in good health despite some signs of slower growth compared to 2017. European equity markets remain near their highs, but certain pockets are cheap, including emerging markets, mining, auto, oil services, and materials. The Fund's near-term performance may suffer if these segments remain out of favour, but in our assessment, our investments in these areas have all the right ingredients to generate very satisfactory returns in coming years.

Platinum Japan Fund

- Against the market's tendency towards momentum and quality, often from starting valuations that are hard to rationalise, the Fund's positioning has been driven by conservatism and risk management rather than greed and the fear of missing out. Its recent weak performance, though disappointing, is therefore not unexpected.
- Refer to the full Fund Report for a discussion on several key holdings in the portfolio, including Inpex, Rakuten, Itochu, Nissan, as well as the short position in Pigeon, which are reflective of the great valuation dispersion in the current market.
- While global growth momentum remains positive, there are some signs of weakness, such as declines in Japanese machine tool sales and semiconductor production equipment orders. It's always difficult to separate the structural from the cyclical. But a conservative positioning seems prudent against a backdrop of rising oil prices, trade dislocations, and fundamental US Dollar funding imbalances.

Platinum International Brands Fund

- It was a challenging quarter for the Fund, as our Chinese holdings and short positions detracted from performance. Concerns over escalating trade tension and the tightening in consumer credit caused the Chinese market to sell off sharply, while the strength of the US consumer, aided by the large scale fiscal stimulus from the tax cuts, put our short book under pressure.
- For the moment, the effect of China's credit tightening seems to be largely confined to lower-tier cities and lower-end goods while healthy sales growth is still seen across luxury brands. Despite this temporary tightening, we feel that the Chinese government's clean-up of the P2P lending sector and other shadow banking activities are not likely to adversely impact on the Chinese consumer over the long-term and that the risk of a subprime mortgage-like financial contagion is low.
- The Fund's long positions generally offer much stronger growth prospects over the medium-term at significantly lower valuations than are available elsewhere, particularly relative to the majority of US branded goods companies. While our short positions against several US retailers have cost us this year, we believe that their stock prices are now baking in an extended period of consumer strength while overlooking the structural issues that these businesses face.
- Over the past year we have progressively trimmed our exposure to the more mass-market and cyclical Chinese brands as well as higher-rated emerging market stocks, generally exiting for solid gains. Key additions to the Fund this quarter include The Stars Group (a leading online gaming company) and Molson Coors (a North American brewer). We also took advantage of the China sell-off to add to some existing holdings at very attractive valuations (Melco, Sina, ZhengTong, and Yongda).

Platinum International Health Care Fund

- Innovation in healthcare continues to keep investors engaged in the space with plenty of activity by venture capital and numerous biotech IPOs. Interestingly, the last few months saw fewer acquisitions as corporates feel deterred by the stretched valuations. We agree with them to an extent, and have gradually increased the Fund's cash position by trimming holdings that have performed strongly and where valuations have become stretched.
- Swedish Orphan Biovitrum (SOBI), Almirall and Galapagos were the star performers over the quarter while our positions in tool companies and pharma holdings also contributed positively. This was mostly due to pipeline progress, good earnings data as well as investors looking for more defensive exposure.
- Diagnostic testing is an area that we believe will play an increasingly significant role in the changing landscape of healthcare. As epitomised by the newly launched Apple Watch Series 4, which comes with an FDA approved ECG function, the 'sensor era' is upon us. The convergence between consumer goods, technology and healthcare will be crucial in the coming decade.

Platinum International Technology Fund

- Our relatively large exposure to China and a 26% cash allocation resulted in the Fund underperforming the MSCI AC World IT Index (A$) over the quarter. Top contributors to performance include Apple and Taiwan Semiconductor Manufacturing Company (TSMC), while Chinese internet giants Tencent and JD.com were among the detractors. Refer to the full Fund Report for a detailed discussion on the respective merits and challenges of these companies, particularly the case on Apple.
- Digital advertising, cloud-based software and internet services are likely to remain the hot spots as long as investors continue to chase 'growth', while the US-China trade war is creating obstacles across global supply chains and impacting negatively on technology component manufacturers' margins. We expect to see a cyclical slowdown in semiconductor demand as inventory adjustments are now occurring. However, if the downturn turns out to be a temporary and shallow one, as we expect it to be, it will likely provide us with good opportunities for some interesting purchases at attractive valuations.

Macro Overview

by Andrew Clifford, Chief Investment Officer

US-China Trade Tension

The trade war is the issue that has been preoccupying investors over the last quarter. At the end of June, the US applied a 25% tariff on US$50 billion of Chinese imports, and followed up in late September with a 10% tariff on a further US$200 billion of imported goods from China. And of course, President Trump has tweeted that he will put tariffs on all remaining Chinese imports if they don't toe the line. China has followed suit and has now applied tariffs on almost the entirety of their US$130 billion worth of imports from the US. The questions that arise are "for how long will this go on" and "what is the impact on the economy and markets".

The consensus view is that President Trump will not back down and that on the trade issue he generally has bipartisan support. It is also expected that China will not passively accept the US actions and will continue to respond with countervailing measures. The conclusion of this consensus view is that we are entering a new era of rising protectionism and trade friction. The problem for investors is that, when faced with a political issue such as this, no amount of reference to any logical reasoning will provide one with a definitive answer as to what will happen. One can only try and assess the significance of what has happened so far and attempt to make observations about possible outcomes.

The obvious place to start is to consider the importance of trade to both sides in this dispute. For China, exports to the US, totalling US$505 billion, represent around 4% of GDP, and so far approximately half of these exports are subject to tariffs of 10% to 25%.[1] While this will lead to some loss of economic activity in China, there are a number of reasons why the impact will be well short of losing the entirety of these exports.

Firstly, one would expect the exchange rates to move, offsetting in part the price rise for US buyers, and indeed the Chinese Yuan has depreciated 8% against the US Dollar since April this year. Of course, the US administration may accuse the Chinese of currency manipulation, but as China's foreign exchange reserves have remained stable, the accusation will be difficult to substantiate.

1 The latest round of tariffs on US$200 billion of Chinese goods are applied at 10%, with the possibility of increasing to 25% in January 2019 if the Chinese don't accept US demands for various changes.

Many goods will be difficult to source from other locations. An interesting article in *The Wall Street Journal* cites a study on the value added in smartphones which found that the Chinese labour cost in the assembly of iPhones accounted for as little as 1% of the finished product's value.[2] The study concluded that assembly of such phones in the US would raise the price to the end consumer by approximately US$30, a fairly small increase relative to the total retail price ranging from US$449 to US$1,099. However, to transfer the assembly of US-bound iPhones to the US would require finding approximately 60,000 workers. The article cites the example of Motorola who, in 2013, wanted to assemble a line of its smartphones in the US, but ultimately couldn't source the labour. And this won't be the only challenge. Chinese assemblers are able to rapidly find large numbers of labourers as production ramps up for a new product launch, and then lay them off when volumes recede. The benefit of Chinese assembly is not just the slight improvement in cost, but also the extraordinary flexibility in production that it brings to the smartphone producer, something that labour laws in most parts of the world, including countries such as Indonesia and India, simply do not allow.

Of course, some Chinese production will move to other low cost locations such as Vietnam and Mexico. However, many lower value-add activities, such as textile and shoe manufacturing, have to a large extent already migrated to alternative locations. While this may reduce the US's trade deficit with China, it is unlikely to substantially change the country's overall trade imbalance. Indeed, returning to the smartphone example, the same study showed that key components for the iPhone are sourced from Japan, Korea, the UK, Taiwan, the Netherlands and the US! Moving where final assembly occurs will hardly shrink the size of the US deficit by very much.

To the extent that the US and China are unable to find substitute sources for their imports, then, the tariffs will either be passed on in higher prices or reduce the profit margin of the supply chain, or a combination of both. There does remain the potential for many unintended

2 "Bringing iPhone Assembly to U.S. Would Be a Hollow Victory for Trump" by Greg Ip, *The Wall Street Journal*, 19 September 2018, citing a study on the value added in smartphones by Jason Dedrick of Syracuse University and Kenneth Kraemer of the University of California at Irvine.

consequences. As we highlighted in our June Macro Overview, the application of tariffs on imported steel and aluminium had left US companies at a disadvantage when competing with offshore producers not just in their home market, but also in export markets. However, if we simply treat the tariffs as a tax on the US economy and assume that the announced tariffs are collected on the full US$250 billion of imports, they will amount to approximately 0.16% of US GDP, a paltry amount particularly when compared with the individual income and corporate tax cuts passed earlier this year, which will amount to 0.9% of GDP per year in the first four years.

The initial conclusion, based on the actions taken by both the US and China to date, is that the impacts are likely to be relatively small across the broad economies of both countries. The concern, of course, is that it may not stop here. Indeed, the last round of US tariffs on US$200 billion of Chinese imports will rise from 10% to 25% in the new year if China doesn't accede to US demands, and President Trump has tweeted that he will apply tariffs on all Chinese imports, if necessary. Indeed, why stop at 25%? Why not 50% or 100%? Perhaps it is all part of the theatre of the US mid-term elections that will be held this November, but who would know!

Meanwhile, the discussion from the US side has shifted from the size of relative trade deficits and surpluses to the alleged intellectual property theft and forced technology transfer by China. This change of focus is hardly surprising. As we enter 2019, the proponents of the trade war will need to start explaining why their trade deficit hasn't at least fallen to some extent with the imposition of tariffs.

The question of technology transfer is an interesting one. It has no doubt been a central part of China's industrial policy to require foreign companies wanting to access its domestic economy to set up local production, usually with a local partner. In this way, general know-how is gained by local employees who may ultimately end up enabling new local competitors. Of course, there are also examples of more blatant theft of proprietary intellectual property, which can be difficult to prove, particularly when the local legal system in unlikely to be especially helpful to the foreign partner. So the issue of intellectual property does appear as one that may be fought over and may well cause some friction in the foreseeable future.

But even this debate of "IP theft" seems to be a futile exercise. Arguably no foreign company is "forced" to transfer its technology to China or a Chinese joint venture partner, that the choice was always there to not enter China, though many chose the path. The rationale is simply down to the traditional market forces of competition. You either did it or stood by while watching your competitor move its operations to China and gain an immense advantage through higher profits and greater scale.

The automotive market is the perfect example. China's passenger vehicle market is now the largest in the world, 40% larger than that of the US,[3] and for the foreign OEMs with strong positions in the market, such as GM, Volkswagen and BMW, it represents as much as a quarter to a half of their profits.[4] In recent years, local producers have been gaining back market share as the quality of their products has improved significantly, as demonstrated in quality surveys by the likes of JD Power. The ability of the local players to improve their products is a function of the broadening "know-how" within China, which undoubtedly is a result of a strong local industry led by the foreign players. Indeed, a significant local components industry has developed, which now exports nearly US$17 billion of auto parts to the US.[5]

Has there been any misappropriation by local Chinese companies of foreign OEMs' or their suppliers' proprietary intellectual property? Almost certainly yes. But even in the "wild wild east", suppliers stealing IP would be excluded by foreign OEMs and from the export markets of developed countries. It is also worth observing that leading local auto producer, Geely Automobile, most certainly uses foreign "intellectual property" and know-how in its production. Its method of accessing this know-how was to acquire a struggling western auto producer, Volvo. Today, M&A is the way through which the best Chinese companies are acquiring technology and know-how, as seen in a plethora of transactions from Midea Group (Chinese household appliance maker) buying Kuka AG (German robotics and automation supplier) to Weichai Power (Chinese heavy duty Diesel engine maker) buying a controlling stake in Kion (German supplier of forklifts and warehouse systems).

Finally, it is worth noting the following investment projects by foreign companies in China, all of which have been announced since the beginning of July this year: BASF of Germany announced a US$10 billion chemical plant in Guangdong province, ExxonMobil of the US a US$10 billion petrochemical plant also in Guangdong, and Tesla a US$5 billion plant in Shanghai. Each of these investments is to be fully owned by the foreign company, which typically is

3 Based on new car registration data between January and December 2017: www.statista.com/statistics/269872/largest-automobile-markets-worldwide-based-on-new-car-registrations/

4 24% for GM, 28% for BMW, 30% for Mercedes, 37% for Ford, 49% for Volkswagen Group, and 56% for Audi (based on 2016 China profits before tax as a percentage of global total). Source: Evercore ISI and Financial Times.

5 Source: US Department of Commerce, Bureau of the Census, Foreign Trade Division; Bureau of the Census USA Trade (https://automotiveaftermarket.org/automotive-aftermarket-imports-exports/).

not permitted in the industries concerned. These announcements suggest that the Chinese have already begun to modify their approach and that major foreign companies remain confident to invest in the country.

So while the differences between the US and China on the issue of trade seem intractable, the question is "what really can be done". The opening-up of China to foreign investment and trade has allowed the likes of Apple, BMW and Nike to earn enormous profits, and has given consumers access to new technologies and affordable running shoes. The system has delivered massive benefits to businesses and consumers across the globe. This is the hard economic reality that policy makers face. While they may be enjoying the political theatre of it all, the current pathway of ever rising tariffs, if continued, will simply result in lower consumer spending power, lower profits, and a loss of jobs, in both countries. This should provide both sides to the dispute with a compelling reason to start looking for solutions once the noise and excitement of the fight dies down. The drama may take some time to play out and no agreement is yet forthcoming, but ultimately a negotiated resolution seems to be a more likely outcome than returning to a trading system akin to that of the late 1970s and early 1980s with commensurate falls in global living standards.

Other Developments

While the verbal battles of the trade war raged on, there have been some significant ongoing developments elsewhere that need consideration.

As we have discussed in our March and June Macro Overviews, China has been implementing a significant reform of their financial system, bringing the shadow banking activities back onto the balance sheets of the banks. This has resulted in a tightness in credit availability during the first half of the year, which has led to distress in some parts of the economy. Notably, peer-to-peer lending networks[6] have come under pressure, and as a result individual lenders have suffered losses from investments in these loans.

The concern is the potential impact the credit tightening will have on consumption expenditures. Indeed, July and August monthly passenger vehicle sales in China are down 5.3% and 4.5% respectively from a year ago. Into this potentially weaker economic environment, then there is the issue of the impact of the trade war on business confidence where, unsurprisingly, there is evidence of a cutback in investments by the manufacturing sector. Softness in infrastructure spending was also evident in the first half of the year as local governments faced a lack of funding following tightening measures directed by the central government.

Investors are concerned that a more generalised slowdown may have begun in China. Whether that is in fact the case remains debatable. Construction activity remains strong, as are sales of residential property. Steel production remains at near record levels. Nevertheless, Chinese policy makers have acted pre-emptively, presumably concerned by the potential impacts of both the trade war and their own financial reforms. Initiatives include extending the time frames for banks to bring back shadow banking assets onto their balance sheets, and granting approval to roll over existing loans. Funding for approved infrastructure projects is being made available. Tax cuts for individuals and businesses worth 1% of GDP[7] have been announced. While these and other measures may seem far more modest than the stimulatory policies put in place during previous periods of economic weakness, it is also the case that, for the moment, the softness in the economy is not as apparent as it had been in past cycles.

The US economy continues to grow strongly, helped along by the tax cuts put in place this year. Employment remains robust, consumer and business confidence is high, and while inflation is on the rise, it remains at relatively subdued levels. During the last week of the quarter, the Federal Reserve increased interest rates by 0.25% for the seventh time this cycle (since late 2015), bringing the federal funds rate to 2.25%. As we have stressed in past reports, while rising rates will eventually bring an end to the current economic cycle, it is difficult to assess when the impact of higher rates will be felt. Conventional rules of thumb, such as the steepness of the yield curve, do not suggest any imminent downturn.

In Europe, growth has slowed through the first half of the year as the region deals with the UK's messy exit from the European Union (EU) and concerns around the economic policies of the new Italian government. However, as outlined by Nik Dvornak in the Platinum European Fund Report, the region continues to grow employment with 2 million jobs added over the last year, and with countries across the EU close to achieving fiscal balance, there remains capacity for their governments to increase spending. Further, a current account surplus of 3.5% of the Euro Area's GDP places the region on a strong footing for future growth.

The Japanese economy also remains in good health. Employment is strong with 1.1 million jobs added in the last year, and the ratio of open positions to applicants is running at 1.6, the highest level in 43 years. Wages are growing at just

6 Peer-to-peer (P2P) lenders are intermediaries, typically online platforms, that match people who have money to invest with people who are looking for a loan. Well-known P2P lending companies include Lending Club in the US, RateSetter in the UK, and Society One in Australia. Chinese P2P lending platforms are largely similar to these.

7 www.fitchsolutions.com/country-risk-sovereigns/economics/chinese-policymakers-speed-tax-cuts-and-infrastructure-projects-28-08-2018

over 2% per annum. There is potential in the country, and many businesses still have excess labour. If higher wages can attract labour into more productive endeavours, the benefits to the broader economy could be quite significant. As Scott Gilchrist points out in the Platinum Japan Fund Report, Japan's labour costs are now globally competitive which should underwrite ongoing investment. Finally, it is worth noting that nationwide land prices registered the first increase in 27 years.

Market Outlook

The potential of a China slowdown, exacerbated by the trade war, and the impact of ongoing rate rises in the US, have seen investors once again become risk averse. Specifically, this has meant avoiding companies that face any degree of uncertainty and focusing instead on companies that are perceived to be immune from external factors like trade tariffs. Often this is expressed by commentators as a preference for "growth companies" over "cyclical businesses", but many more companies have been caught up in the sell-off than the traditional cyclicals, extending to sectors such as financials and lower-growth technology stocks. The exception has been energy stocks which have been helped by higher oil prices over this period.

Geographically, this has translated into significant outperformance by the US market as it has a much higher representation from those strongly performing sectors than the rest of the world (the technology, healthcare and energy sectors together account for more than 47% of the MSCI US Index, compared to approximately 28% for the MSCI AC World ex US Index). Generally, the weaker geographic markets have been those with a greater weighting in cyclical and financial stocks throughout this period. Additionally, the emerging markets have suffered as a result of the stronger US Dollar increasing the cost of funding for external debts, most notably in the case of Turkey.

From an investment point of view, it is worth observing that the strong performances in areas such as technology and healthcare have been driven by stocks that, based on our research, were already expensive by historical standards. Software stocks and internet companies that have been central to the strong performance of the technology sector in recent months are now valued against their revenue base at levels only exceeded in the technology bubble of 2000, as illustrated in the two **charts** on the following page.

While the valuation of biotech stocks is not so readily demonstrated by reference to comparable historical data, as Bianca Ogden explains in the Platinum International Health Care Fund Report, valuations are stretched, and the record number of new biotech IPOs[8] is also strong confirmatory evidence. By stark contrast, six months ago, the deepest value was to be found in the North Asian markets of Korea, China and Japan, and yet these markets have performed poorly over the period.

8 There were 47 biotech IPOs in the first nine months of 2018, already more than both the full years of 2016 and 2017. (Source: Renaissance Capital)

MSCI All Country World Sector Index Net Returns (USD)

SECTOR	6 MONTHS TO 30 SEP 2018
Health Care	13.7%
Energy	12.9%
Information Technology	10.1%
Consumer Discretionary	6.0%
Industrials	3.0%
Utilities	1.9%
Consumer Staples	0.8%
Materials	0.7%
Telecommunication Services	0.4%
Financials	-3.3%

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

MSCI Regional Index Net Returns (USD)

REGION	6 MONTHS TO 30 SEP 2018
All Country World	**4.8%**
Developed Markets	**6.8%**
Emerging Markets	**-9.0%**
United States	11.0%
Australia	4.2%
Germany	-4.5%
France	2.4%
United Kingdom	1.2%
Italy	-11.5%
Spain	-6.6%
Russia	-0.3%
Japan	0.7%
China	-10.7%
Hong Kong	-2.1%
India	-2.8%
Korea	-8.5%
Brazil	-21.9%

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

US Software Companies – Enterprise Value / Sales

Source: FactSet

US IT Service Companies – Enterprise Value / Sales

Source: FactSet

This has led us to conclude that, outside of the favoured growth stocks, markets are pricing in a future that is substantially different from the world that can be observed today. Essentially, cyclical stocks are factoring in a significant slowdown in global growth. While this could be the case, there are a number of reasons suggesting that the picture may not be quite so grim:

- As outlined above, the scope and impact of the trade measures put in place to date are limited relative to the broader economic backdrop. As such, the trade war would need to ratchet up significantly to further impact on markets.
- There is an underlying futility to the trade war that needs to be resolved with a face-saving political solution for its proponents. It is instructive that the US has now come to an agreement with Canada and Mexico on trade that achieves little substantive improvement on the existing North American Free Trade Agreement (NAFTA), but represents a political win for the Trump administration. While a resolution will take time and there may be further damage before one is reached, it is not entirely unrealistic to expect a deal with China at some point.
- Meanwhile, China has moved to stimulatory policies to underwrite growth. As they have done in past, such policies will likely achieve some of their intended effect.
- While higher interest rates should ultimately slow the US economy, given the existing strength in labour markets and the availability of ongoing fiscal stimulus, a slowdown may well be further out on the horizon.

To sum up, markets are currently positioned in a very defensive manner, and any lessening of the fears that have driven stock prices in recent months could well see them move higher. Of course, there is always the possibility of some new issue arising, especially in a world where balance sheets are weak and interest rates unsustainably low. But for the moment, investors appear to be leaning very heavily in one direction. More often than not, it pays to head in the other direction.

Platinum International Fund

Andrew Clifford
Portfolio Manager

Clay Smolinski
Portfolio Manager

Performance

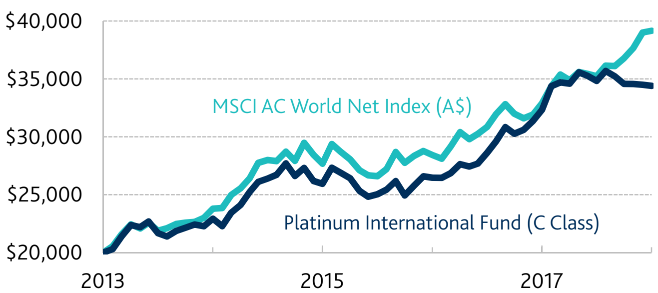
(compound pa, to 30 September 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund*	0%	6%	10%	11%	13%
MSCI AC World Index^	6%	19%	12%	14%	7%

* C Class – standard fee option. Inception date: 30 April 1995.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are in AUD and are inclusive of net official dividends in AUD.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 1, page 44. Numbers are subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

30 September 2013 to 30 September 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 2, page 44.

The Fund (C Class) returned 6.4% for the past year and a loss of 0.5% over the last quarter. These returns lagged significantly behind broad market returns, with global markets[1] up 19.0% and 6.5% over these respective periods.

In our Macro Overview this quarter, we highlight how concerns around a potential slowdown in China, exacerbated by a trade war with the US and rising US interest rates, have led to greater risk aversion among investors. Specifically this has meant avoiding companies that face any degree of uncertainty, particularly those that are seen as being potentially impacted by these issues. Instead, high growth companies that are considered relatively immune from these external factors are preferred. The result has been very strong stock price performance over the last six months from high growth sectors such as software, internet and biotech, while companies perceived to be more cyclical have lagged or been sold down. The exception to this was the energy sector where rising oil prices have driven strong stock price performance. Please refer to the Macro Overview on page 5 for a more in-depth discussion of trade and other macro issues.

Over the last quarter, the trends observed above have been clearly demonstrated by the stocks that contributed to, and those that detracted from, the Fund's performance. Among the strongest contributors were Alphabet (+7%) and Schibsted (+23%), a Norwegian company with strong positions in online classifieds in a number of markets. Pharmaceutical companies Roche (+8%) and Sanofi (+12%) were also solid contributors to performance, along with our Indian banks ICICI (+11%) and Axis Bank (+20%). Major detractors from performance included our metal stocks, including Glencore (-6%) and Sumitomo Metal Mining (-6%). Other poor performers included Chinese internet company Sina (-18%) and Chinese liquor producer Jiangsu Yanghe Brewery (-3%).

The Fund's lagging performance is largely the result of a far greater weighting[2] in those areas that have performed poorly over the last six to 12 months. **Clearly, for the present, we are well and truly out of step with the market in terms of where we believe the attractive investments are in the current environment.**

1 MSCI All Country World Net Index (A$)
2 Relative to the MSCI All Country World Index

Portfolio Review and Commentary

When a stock in our portfolio performs poorly, it is imperative that we review the case for holding the investment. There are, of course, times when we have made mistakes in our analysis. On other occasions, the unfolding of our investment case may simply be taking longer than expected. When we invest in any given company, we have expectations on what its business will produce over the coming five years and beyond with respect to sales and profits, and we track its progress against these metrics. One cannot be as precise in predicting future performance as one is when reporting on historical results, but we look for outcomes that are broadly in line with the estimates underlying our investment case.

Over the last six months, the businesses of our portfolio companies have by and large performed as expected, even though some of their share prices have not. The result is that today many of our portfolio holdings represent, in our view, extraordinary value. The remainder of this report will discuss a number of the Fund's top 10 holdings that have had particularly weak share price performance over the last six to 12 months.

Samsung Electronics is a long-term investment of the Fund, and has produced good returns over the life of our investment. However, over the last 12 months, the stock price has declined 18% while earnings are expected to rise around 18% in 2018. The stock trades on a price-to-earnings (P/E) ratio of 6.5 times expected earnings[3] and a dividend yield of 3%. The valuation appears even more attractive when one considers that the company's cash holdings are equal to almost 20% of its market capitalisation. While Samsung is known by many for its mobile phones, TVs and appliances, its most profitable division is its semiconductor business, which today accounts for around two-thirds of its profits. Key to this division are its memory chips, DRAM and NAND (or flash memory) which are integral components in our phones, PCs and servers. The memory chip business through time has produced highly volatile profits, but in recent years the rising technical challenge of squeezing more and more transistors onto each silicon wafer has resulted in the industry consolidating to three or four key players, with Samsung the technology and cost leader in both DRAM and NAND chips.

3 We usually prefer to look at the earnings yield of a company, which is the inverse of the price-to-earnings ratio. In this case, a P/E ratio of 6.5 times becomes an earnings yield of 15% p.a. In simple terms, we can consider this the starting yield on our investment even though over time a company's earnings can vary greatly. For a more in-depth discussion on this topic, please refer to our article "**Why Indices Lead Investors Astray**", published in the September 2017 Platinum Trust Quarterly Report and available on our website at www.platinum.com.au/Why-Indices-Lead-Investors-Astray.

Disposition of Assets

REGION	30 SEP 2018	30 JUN 2018	30 SEP 2017
Asia	34%	35%	38%
Europe	20%	21%	22%
North America	18%	18%	17%
Japan	11%	12%	13%
Australia	<1%	<1%	<1%
South America	<1%	<1%	<1%
Russia	<1%	<1%	1%
Cash	16%	13%	9%
Shorts	-15%	-15%	-11%

See note 3, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 SEP 2018	30 JUN 2018	30 SEP 2017
Information Technology	18%	21%	23%
Financials	15%	14%	15%
Industrials	10%	10%	7%
Materials	10%	9%	8%
Energy	7%	9%	9%
Consumer Discretionary	6%	6%	12%
Health Care	5%	6%	8%
Consumer Staples	2%	2%	<1%
Real Estate	2%	2%	2%
Telecom Services	1%	1%	<1%
Utilities	<1%	1%	3%
Other*	-9%	-9%	-7%
TOTAL NET EXPOSURE	69%	72%	80%

* Includes index short positions.
See note 4, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Currency Exposures

CURRENCY	30 SEP 2018	30 JUN 2018	30 SEP 2017
US dollar (USD)	30%	26%	28%
Hong Kong dollar (HKD)	12%	13%	12%
Euro (EUR)	12%	12%	16%
Japanese yen (JPY)	10%	11%	9%
Chinese yuan (CNY)	8%	7%	7%
Korean won (KRW)	6%	6%	8%
Indian rupee (INR)	5%	5%	6%
British pound (GBP)	5%	6%	5%
Norwegian krone (NOK)	3%	2%	4%
Canadian dollar (CAD)	3%	2%	1%
Australian dollar (AUD)	2%	5%	2%
Swiss franc (CHF)	2%	1%	1%
Thai baht (THB)	1%	2%	<1%
Danish krone (DKK)	1%	1%	1%

See note 5, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

The industry will no doubt remain cyclical, and indeed in recent months the prices of DRAM and NAND have been falling. However, even though earnings may fall in the years ahead, we do not expect these down cycles to be as dramatic as they have been in the past. As such, today's stock price, in our view, represents a very attractive entry level.

The Fund has a number of investments in mining companies, notably with exposure to **copper and nickel**. For these metals, the glory days were during the Chinese investment boom, with prices hitting their peaks in 2010-11. These extraordinary prices encouraged new mines to be opened and a period of oversupply subsequently resulted in high inventory levels and prices falling below cash costs. Recently, a tighter supply-demand situation has seen these inventories draw down and prices broadly recover. Our expectation is that this improved situation will continue to hold and may indeed improve further as the ongoing roll-out of electric vehicles in Europe and China accelerates from 2020 onwards. However, over the last six months the prices of copper and nickel both fell over 20% from their recent highs as a result of concerns that China's economy was slowing down. But despite this sell-off in the commodity prices, inventories have continued to fall, indicating that demand remains firm in spite of fears in financial markets.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Ping An Insurance Group	China	Financials	3.2%
Samsung Electronics	Korea	IT	3.1%
Alphabet Inc	USA	IT	2.7%
Glencore PLC	Switzerland	Materials	2.6%
TechnipFMC	UK	Energy	2.5%
Siemens AG	Germany	Industrials	2.4%
Sanofi SA	France	Health Care	2.1%
Facebook Inc	USA	IT	2.1%
China Overseas Land & Invt	China	Real Estate	2.1%
Lixil Group Corporation	Japan	Industrials	2.0%

As at 30 September 2018. See note 6, page 44.
Source: Platinum Investment Management Limited.

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

Unsurprisingly, the stock prices of our mining holdings were impacted. **Glencore** has seen its stock fall by more than 20% from its recent peaks in response to lower copper and zinc prices. However, the prices of coal, which is also a major contributor to Glencore's earnings, have been strong, and around 30% of the company's earnings come from its trading business which has relatively stable earnings. Today, the stock trades at 8.8 times estimate 2018 earnings, and the company has a production profile that is expected to see significant increases in copper and cobalt production volumes over the next three years. Admittedly, there are additional complications with this company, which operates in challenging political environments and faces an ongoing US Department of Justice investigation. Nevertheless, we think Glencore's current stock price, as well as that of a number of the other mining companies in the portfolio, imply highly attractive prospective returns based simply on the future cash flows that will be produced with commodities trading at sensible clearing levels. We did not purchase these stocks on the assumption of a bull market in commodity prices.

Ping An Insurance is China's leading insurance business, with strong positions in life and general insurance. The group has grown profits at around 20% per annum for the last 10 years. The company has also been a leader in the application of technology (for example, using artificial intelligence in claims assessment for smash repairs) and is considered one of China's leading players in fintech. The company also owns a majority stake in Ping An Bank, which is focused predominantly on small-to-medium-sized enterprise (SME) and consumer lending. The Fund has held an investment in Ping An for a number of years and has enjoyed good returns. Over the last 12 months, the company's A-share[4] is up 26%, though it is down 12% from the highs reached in January this year. Today, Ping An's shares are trading on a P/E multiple of 12 times estimate 2018 earnings.

Facebook is a relatively new entrant to the portfolio, bought when the stock sold off following reports that Cambridge Analytica had used Facebook user data to influence elections. Expectations for the company's profit growth have been significantly reduced as the company has increased spending to improve the quality of the content on its platform and deal with issues around "fake news". The stock today trades at levels close to our average entry price and is on a P/E ratio of 22 times estimate 2018 earnings, with short-term expectations of 15% earnings growth. Interestingly, revenues have been growing at a much faster pace, suggesting that there is the potential for a re-acceleration of earnings growth at some point in the future.

4 Ping An Insurance is dual-listed on both the Shanghai Stock Exchange (A-share) and the Hong Kong Stock Exchange (H-share).

It is worth taking a moment to examine the relative merits of each of these investments, as they each have quite different characteristics. Samsung and Glencore are both cyclical and price takers. Ping An Insurance, as a financial entity, operates in a highly regulated and changing environment. And Facebook faces the ever present threat of others trying to steal away the attention of its users. None are perfect, but based on our assessment of their future prospects and today's valuations, we expect each to provide good long-term returns for the Fund.

Each of these companies has performed poorly over the last six months compared with the market. It is instructive to contrast them with two stocks that are much loved by the market, Amazon and Netflix. Both these companies have achieved extraordinary success, growing revenues by 24% p.a. and 26% p.a. respectively over the last five years. Their stock prices have appreciated by 108% and 107% respectively over the last 12 months. Today, Amazon trades on a P/E ratio of 71 times estimate 2018 earnings while Netflix is on 112 times! While using earnings as a metric to assess the value of these companies poses the risk of under-appreciating their potential to become more profitable as their businesses mature, it nevertheless highlights the extraordinarily high levels of expectations investors have for them. In our experience, the lofty valuations of these companies and the enthusiasm shared by many for Amazon and Netflix, contrasted with the pessimism that has been circulating around Samsung, Glencore, Ping An Insurance and Facebook, suggest that the prospective returns from our stocks are far greater, even if their share price performance in recent months has been less than encouraging.

Thus over the last quarter we have continued to re-position the portfolio towards stocks that have sold down in recent months, while trimming our better performing names that have reached their full valuation in our estimation.

New stocks added to the portfolio include **Reliance Industries** (Indian conglomerate with oil refinery, petrochemicals and telecommunication networks), **Valeo** (French auto components supplier), and **MinebeaMitsumi** (Japanese maker of bearings and industrial components).

Positions that were exited or substantially reduced include **Alibaba Group** (Chinese e-commerce), **Royal Dutch Shell** (oil and gas), and **PayPal** (online payments), as each of these stocks has performed well and reached what we estimate to be its full valuation.

The Fund's cash position was raised from 13% at the end of the June quarter to 16% as of the end of September. Short positions were also increased slightly over the quarter. As a result, the net invested position of the portfolio was reduced from 72% to 69%.

Outlook

The Fund's net invested position is now at its lowest level since 2009, and the portfolio is, on face value, very conservatively positioned. One might naturally interpret this as an expectation of weaker markets ahead, but in reality this positioning, more than anything else, reflects the disparity of valuations between the popular and the less favoured stocks in the market, the reasons for which have been discussed in both this report and the Macro Overview.

Indeed, the valuations of our current holdings give us cause for optimism about their future returns, though predicting when our investment cases might unfold is always problematic. Any abatement of concerns around global economic growth and the trade war is likely to lead to improved share price performance from our holdings. Alternatively, if rising US interest rates start to impact on the market, our cash and short positions should leave us well placed to take advantage of any further weakness in stock prices.

Platinum Unhedged Fund

Clay Smolinski
Portfolio Manager

Performance

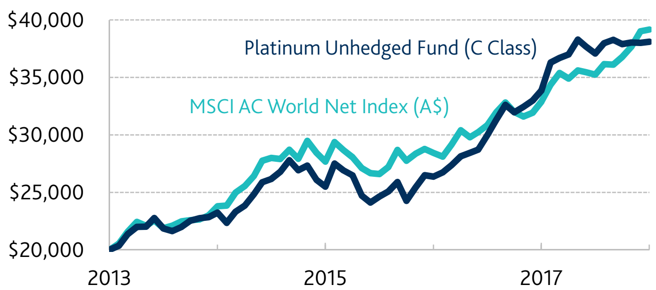
(compound pa, to 30 September 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund*	1%	12%	14%	14%	12%
MSCI AC World Index^	6%	19%	12%	14%	8%

* C Class – standard fee option. Inception date: 28 January 2005.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are in AUD and are inclusive of net official dividends in AUD.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 1, page 44. Numbers are subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

30 September 2013 to 30 September 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 2, page 44.

So far 2018 has not been a strong year for performance. Year to date the Fund (C Class) has returned 3.0%, while on a shorter time horizon the Fund's value (C Class) rose by 0.5% over the past quarter.

It is worth examining some key positions in the portfolio that have led to this outcome. The two major drivers were our holdings in China and Financials.

China

At the time of writing the Chinese stock market is down 18% year to date, and down 27% from its January high. Despite these large falls in the overall market, it is encouraging that our individual Chinese stocks have performed much better in a relative sense, with our China holdings in aggregate providing a positive (albeit modest) 2.9% total return to the Fund year to date.

Over the last nine months we have made money in large positions such as gas pipeline owner ENN (+22%) and liquor producer Jiangsu Yanghe (+11%). However, given the broad falls in the market, we also have seen a number of our major positions experience 5-15% retracements in price, such as auto insurer PICC (-8%) and green utilities company Beijing Enterprises (-5%), which have offset our gains to a degree.

So, despite the great volatility in the broader market, our Chinese positions overall have not been a source of loss for the Fund. The disappointment was more from having 29% of the portfolio in an area that delivered only a modest 3% return.

Financials

We have seen a pullback in a number of our banking and real estate related holdings, which in aggregate have cost the Fund -2.4% in total return year to date. Three positions – Raiffeisen Bank, KB Financial Group and Foxtons – together accounted for -1.4% of that loss.

We detailed the situation around Foxtons in our June 2018 Quarterly Report. This report will focus on Austrian bank Raiffeisen and Korea's KB Financial Group. Operationally, both banks are doing very well, but despite this, their share prices have fallen 30% and 22% respectively from the highs. The concerns around each bank relate to issues outside of their control, namely, government interference and regional economic slowdown.

In Raiffeisen's case the issue is Russia. Over the last 25 years **Raiffeisen Bank** has built a profitable banking business in Russia that is focused on serving mid-sized corporates and the relatively wealthy middle class retail customers. Russia now accounts for 30% of the group's earnings. The concern stems from the new US sanctions implemented in April which, instead of targeting the Russian government, directly targeted specific private Russian individuals and companies (typically those believed to be in Putin's inner circle). Following the announcement of these sanctions, the market has been quick to sell off any stock with 'Russia risk'. Having examined the facts, we are less concerned. Raiffeisen isn't the bank of choice for these high profile individuals and corporates, hence the sanctions have had no direct impact on Raiffeisen's business and, unless dramatically widened, are unlikely to do so in the foreseeable future.

For **KB Financial Group**, the recent fall was driven by a mix of fears over the economic outlook (given Korea's export orientated economy and its proximity to China) and new measures by the Korean regulator to restrict mortgage lending (to cool rising house prices) and reduce bank charges on credit card transactions.

If we look past these fears, which have arisen from transient events, and focus instead on the fundamentals, we believe that these banks still represent attractive investments. Both banks are very well capitalised, solidly profitable and are growing their loan books at 5-10% per year. The fact that Raiffeisen and KB are trading on a price-to-earnings (P/E) multiple of 7x and 6x respectively makes them outstanding value in our view, and we have been adding to both positions.

Outside of these pockets, the performance of the rest of the portfolio was largely neutral, with gains in one area offsetting losses in another. For example, our major payments and business services holdings saw strong returns year to date (PayPal +19%, IHS Markit +20%, Equifax +11%), but were offset by falls in our industrials and commodities positions (Lixil -28%, Glencore -11%, Seven Generations Energy -13%).

Commentary

The obvious question after a period of dull performance is "does it make sense to continue to hold this portfolio".

When building a portfolio, we want diversity in the geography, industries and the types of investments that we are making. We also want to own a collection of businesses whose implied return is high.

When assessing the implied return of an investment, we like to think in terms of earnings yield, which is the P/E inverted (i.e. the earnings to price ratio). For example, Raiffeisen on a P/E of 7 times gives us an earnings yield of 14%. This means

Disposition of Assets

REGION	30 SEP 2018	30 JUN 2018	30 SEP 2017
Asia	36%	37%	40%
North America	27%	25%	21%
Europe	18%	17%	21%
Japan	5%	6%	9%
Russia	1%	1%	1%
South America	<1%	<1%	1%
Cash	13%	14%	7%

See note 3, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 SEP 2018	30 JUN 2018	30 SEP 2017
Information Technology	20%	21%	18%
Industrials	17%	16%	17%
Financials	17%	18%	23%
Energy	12%	10%	9%
Consumer Staples	7%	7%	6%
Consumer Discretionary	3%	3%	7%
Materials	3%	3%	3%
Health Care	3%	3%	3%
Real Estate	2%	2%	3%
Utilities	1%	3%	4%
TOTAL NET EXPOSURE	87%	86%	93%

See note 4, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Currency Exposures

CURRENCY	30 SEP 2018	30 JUN 2018	30 SEP 2017
US dollar (USD)	34%	33%	28%
Hong Kong dollar (HKD)	17%	15%	15%
Euro (EUR)	14%	12%	17%
Chinese yuan (CNY)	7%	7%	7%
Japanese yen (JPY)	7%	8%	9%
Indian rupee (INR)	5%	4%	7%
Korean won (KRW)	4%	4%	5%
British pound (GBP)	3%	3%	4%
Norwegian krone (NOK)	3%	3%	4%
Canadian dollar (CAD)	3%	2%	0%
Australian dollar (AUD)	2%	6%	2%
Danish krone (DKK)	1%	1%	1%

See note 5, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

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

that, had you been the owner of the whole of Raiffeisen's business, you would be making a 14% annual return, which you could choose to pay out as a dividend or partially re-invest back into the company for growth. A 14% return is not a bad starting point given the average long-term real return from global equities is 5.2%![1]

To examine the value and variety in the portfolio, we can start with our positions in the oil sector. We have 12% of the portfolio invested in oil companies, with a skew to oil services providers. The oil services industry is emerging from one of the deepest recessions in 30 years and has seen industry capex cut by roughly 50%. In the long run, this depressed level of activity is simply not sustainable. The one constant of the oil industry is the 'decline rate', which is the pace at which output from existing fields tends to decline every year. The industry therefore requires constant investment just to maintain the same level of output, let alone grow.

With the oil market going from being oversupplied to now being in deficit, and with the oil price steadily trending upwards, there is clear evidence that industry spending is rebounding. We own a collection of services companies such as Transocean and China Oil Services, which are trading on earnings yields of 13-16% in a realistic recovery scenario.

A higher growth investment is our holding in liquor maker Jiangsu Yanghe. Yanghe is the most entrepreneurial among Chinese spirit producers, investing heavily in marketing and successfully positioning its brands as the choice for younger 'new China' drinkers. This positioning has allowed Yanghe to grow sales over the last few years at 20% per annum, and the company still has plenty of room to expand outside of its home market in Jiangsu Province. What's interesting to us is that, despite growing four times faster than its western peers Diageo and Pernod, Yanghe's shares are 30% cheaper.[2]

Finally, an example of a high quality business that we feel is under-appreciated by the market is Microchip Technology. Microchip makes microcontrollers (MCUs) which are essentially a complete computer (albeit a simple one) on a single chip. The constant shift to electronic solutions (e.g. aeroplanes moving from mechanical controls to electronic 'fly by wire' computerised control) and the desire to have connected devices is driving increased demand for MCUs. In short, if we are going to have autonomous cars and the 'Internet of Things', we are likely to be using more MCUs. We feel owning Microchip at a starting earnings yield of 8% should prove a good investment.

1 Average real annualised return on global equities 1900-2017. Source: Elroy Dimson, Paul Marsh and Mike Staunton, *Triumph of the Optimists*, Princeton University Press, 2002, and *Credit Suisse Global Investment Returns Yearbook 2018*.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Jiangsu Yanghe Brewery	China	Consumer Staples	3.8%
Applus Services	Spain	Industrials	3.3%
Kweichow Moutai	China	Consumer Staples	3.3%
Raiffeisen Bank	Austria	Financials	3.3%
IHS Markit Ltd	USA	Industrials	2.8%
Alphabet Inc	USA	IT	2.8%
Seven Generations Energy	Canada	Energy	2.7%
KB Financial Group	Korea	Financials	2.7%
PICC Property & Casualty	China	Financials	2.5%
TechnipFMC	UK	Energy	2.5%

As at 30 September 2018. See note 6, page 44.
Source: Platinum Investment Management Limited.

Outlook

Platinum's approach to finding attractive investments is underpinned by several guiding principles. They include:

1. Avoid the hot areas of the market.
2. Seek out investments that face temporary uncertainty – uncertainty creates low expectations and, with that, low stock prices.
3. Pay attention to industries facing great change – investors naturally find it difficult to accurately price a future that is very different from today.

So far in 2018 applying the first two principles has not paid. In fact, the market has rewarded the complete opposite. The two top performing markets have been the Nasdaq which, composed largely of US technology and biotech stocks, has been the definition of 'heat' recently, and the US market, which is perceived to offer certainty and safety.

Despite the market currently not working in our favour, we have no intention of deviating from our approach. Over the past 25 years, the consistent application of our principles has been shown to deliver good returns over time. Starting valuation is the single most important factor in determining future returns and the stock examples above illustrate why we remain enthused about the future returns of the Fund.

While we can never know precisely when the market will recognise the value of our holdings, history has shown that as long as we are right about the earnings potential of the businesses, buying at these levels generally provided a good outcome.

2 Based on the measure of enterprise value (market cap + net debt) / net income. Yanghe trades on 18x versus Diageo and Pernod on 26x.

Platinum Asia Fund

Joseph Lai
Portfolio Manager

Performance

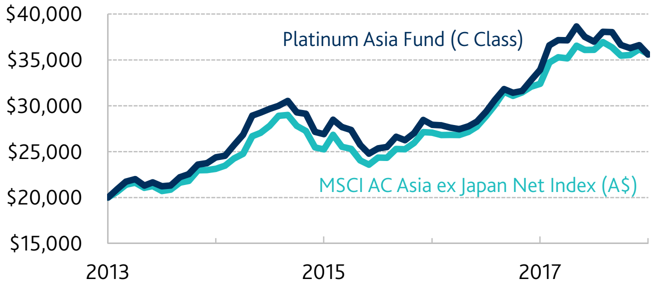
(compound pa, to 30 September 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	-3%	5%	10%	12%	15%
MSCI AC Asia ex Jp Index^	1%	10%	12%	12%	10%

* C Class – standard fee option. Inception date: 4 March 2003.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are in AUD and are inclusive of net official dividends in AUD.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 1, page 44. Numbers are subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

30 September 2013 to 30 September 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 2, page 44.

The Asian market (ex Japan) was down 1% over the quarter in local currency terms. This was mainly the result of concerns over rising US interest rates and the escalating trade dispute between China and the US.

Stocks that contributed positively to the Fund's performance this quarter largely consisted of companies with strong market positions to service Asia's burgeoning middle class, such as India's Axis Bank (+20%), China Merchants Bank (+16%, A-share), and Ping An Insurance (+17%, A-share). Oil refinery companies also did well as crude oil prices continued to rise. Reliance Industries and S-Oil were up +29% and +25% respectively. In spite of the weakness across emerging markets, our Philippines and Thai holdings generally added to performance, including Ayala Land (Philippines property developer, +6%) and Kasikornbank (+11%).

Cyclical stocks generally detracted from performance, with MMG (copper miner) and Yanzhou Coal down significantly. On the whole, it was a challenging quarter for investors, with industry champions such as Tencent and Alibaba (marque internet darlings in China) both down in excess of 10%.

Changes to the Portfolio

Weakness in the share market over the quarter gave us further opportunities to reposition our portfolio, adding to domestically-focused champions and cushioning the Fund against the direct impact of the ongoing trade friction.

The Fund's net invested position is around 80% as at the end of September, with a minimal exposure to the Australian Dollar. We have very limited exposure to the regions that are most susceptible to the rising US Dollar and oil price (Indonesia, Malaysia, Philippines), with positions in a few select domestically-focused companies.

As valuations in the region are becoming more and more attractive, particularly in China, we have cut positions that we believe to have reached their fair value and used the cash to add to the following key positions:

- **Reliance Industries** – an Indian conglomerate that owns the world's largest oil refinery and India's newest and largest 4G mobile network that is set to dominate the country's mobile internet and associated services.

- **Geely Auto** – one of China's fastest-growing home-grown car makers and the owner of Volvo, Geely's affordable, high-quality cars are geared for China's mass market and the company's sales volume is growing at 30-40% a year.
- **AIA Group** – the leading life insurer in Asia, with a dominant position in the huge Chinese market.
- **3SBio** – a leading biologics manufacturer in China, 3SBio is growing 30% a year in earnings and, in our view, has considerable growth potential for years to come as it expands to meet the needs of a still under-penetrated Chinese healthcare market.

While the Chinese stock market has overall been rather out of favour with investors, there are some extravagantly valued companies. The Fund initiated a short position in a well-liked Chinese consumer goods stock during the quarter. Trading on an unjustifiably lofty valuation, the company's narrative of rapidly expanding margins, in our view, is going to be very difficult to fulfil in China's highly competitive market with numerous foreign and domestic brands fighting fiercely for market share.

Disposition of Assets

REGION	30 SEP 2018	30 JUN 2018	30 SEP 2017
China^	41%	45%	54%
Hong Kong	4%	6%	3%
Taiwan	2%	1%	2%
Korea	13%	11%	10%
India	11%	12%	11%
Thailand	5%	4%	5%
Philippines	2%	2%	4%
Vietnam	1%	1%	3%
Singapore	1%	1%	1%
Malaysia	1%	<1%	1%
Indonesia	<1%	1%	<1%
Cash	19%	16%	6%
Shorts	-1%	-3%	0%

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

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

Net Sector Exposures

SECTOR	30 SEP 2018	30 JUN 2018	30 SEP 2017
Financials	25%	22%	20%
Information Technology	20%	18%	20%
Energy	9%	9%	4%
Industrials	6%	8%	7%
Real Estate	6%	6%	6%
Health Care	4%	3%	2%
Consumer Discretionary	4%	7%	15%
Materials	2%	4%	6%
Telecom Services	2%	2%	2%
Other	1%	-3%	1%
Utilities	1%	2%	4%
Consumer Staples	<0%	3%	7%
TOTAL NET EXPOSURE	80%	81%	94%

See note 4, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Currency Exposures

CURRENCY	30 SEP 2018	30 JUN 2018	30 SEP 2017
Hong Kong dollar (HKD)	27%	33%	34%
US dollar (USD)	17%	15%	16%
Indian rupee (INR)	15%	13%	12%
Chinese yuan (CNY)	15%	14%	13%
Korean won (KRW)	13%	11%	10%
Thai baht (THB)	5%	4%	5%
Philippine piso (PHP)	2%	2%	4%
Australian dollar (AUD)	2%	5%	<1%
Taiwan new dollar (TWD)	2%	1%	2%
Vietnamese dong (VND)	1%	1%	3%
Malaysian ringgit (MYR)	<1%	<1%	1%

See note 5, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	IT	4.1%
AIA Group	Hong Kong	Financials	3.7%
Ping An Insurance Group	China	Financials	3.6%
China Merchants Bank	China	Financials	3.5%
Kasikornbank PCL	Thailand	Financials	3.4%
Alibaba Group	China	IT	3.0%
China Oilfield Services	China	Energy	2.8%
Naver Corporation	Korea	IT	2.4%
Tencent Holdings	China	IT	2.4%
China Overseas Land & Investment	China	Real Estate	2.3%

As at 30 September 2018. See note 6, page 44.
Source: Platinum Investment Management Limited.

Commentary

It has been a challenging quarter, and the selling pressure was particularly acute for the Chinese stock market. Three factors coincided to create a perfect storm.

1. A strong US Dollar and rising US interest rates have been negative for emerging market stocks.

The US Dollar went from strength to strength in the year to date. However, given that most Asian currencies have already depreciated against the very strong US Dollar, the extent to which the US Dollar will appreciate further is not at all a certainty. The US government's fiscal stimulus plans, which will increase the country's fiscal deficit and necessitate the raising of more debt, may indeed tamper, if not reverse, the US Dollar strength.

2. Signs of a consumption slowdown started to emerge.

Consumption weakness has so far been most evident in the sales of cars and household appliances, while consumption numbers in most other areas have remained generally healthy. Car sales in China this year are down about 10% as some government subsidies began to phase out. The drop also came from a rather high starting point as the year 2017 saw particularly high sales volumes, thanks to the generous subsidies given to consumers.

Another reason for the mild consumption slowdown is the de-leveraging or de-risking effort undertaken by the Chinese central bank (the People's Bank of China or "PBoC") over the last two years. Loan growth in China has slowed from round 15% in 2017 to 8% so far this year – quite a dramatic slowdown considering that the economy is growing at about 9% or so.

Growth in infrastructure spending has also slowed from some 20% in 2017 to around 5% in 2018, another unsurprising sign that the PBoC's credit tightening efforts are having an effect on the broader economy.

Despite the drastic slowdown in loan growth and infrastructure spending, macroeconomic numbers in China have generally held up well. Concerned by the incipient slowdown in consumption, infrastructure and other segments of the economy, the PBoC began to put in place a series of loosening measures since July. It cut banks' capital reserve requirements and lowered the 1 month Shanghai interbank rate from about 4.5% a few months ago to around 2.5% of late! By late September, the PBoC has lent an equivalent of A$150 billion to banks, on track to be the largest net liquidity injection in two years. September also saw China's government bond issuance reach an equivalent of A$120 billion, the largest monthly issuance since July 2017. All of these monetary easing policies, we expect, will translate into greater economic activity and will likely portend at least a short-term improvement for China's stock markets.

3. Increased trade tension with the United States.

The imposition of tariffs by President Trump on Chinese exports has dominated media headlines over the past months. While the headlines look shocking, in our view, the bark is likely louder than the bite.

Firstly, while China remains a big export country, its economy has been gradually shifting away from export-dependence towards greater domestic consumption. Exports as a proportion of economic output have shrunk dramatically to around 20%. Secondly, exports to the US only account for 18% of China's total exports (which translate to approximately 4% of GDP or US$505 billion). Of the US$505 billion, the percentage of value-added exports is likely to be quite low. For instance, while all Apple iPhones are made in China, the Chinese contract manufacturers only capture low single digit margins, with the vast majority of value captured by Apple as well as key component manufacturers like Samsung and chip makers in South Korea, Taiwan and the US. Therefore, the US$505 billion headline number gives a somewhat inflated picture of reality by counting the full contract manufacturing price.

Overall, while the escalating US-China trade tension is no doubt a source of concern, it is worth remembering that 80% of China's exports are destined for countries other than the US, and its vast export sector will not disappear overnight following President Trump's latest tariff-threatening Tweets.

However, it cannot be denied that prolonged trade stand-offs will likely lead to an increase in unemployment, and the likely response, which we are already seeing, will be greater policy relaxation domestically in order to ameliorate the slowdown in economic activity.

The upshot

The Chinese markets have come off significantly since their peak in January. Price-to-book (P/B) ratio is down to around 1.5 times, and price-to-earnings (P/E) ratio is down to about 11 times estimate 2018 earnings. Strong internet companies, the darlings of investors, have taken sizeable falls in the year to date, with Tencent down 32% and Alibaba down 20% from their respective peaks in January. Many stocks are now on "recessionary" valuations, in other words, their prices imply that investors are expecting the onset of a recession in China.

The good news is that the Fund has been booking profits and raising cash over the course of the year, and is ready to deploy capital into some of the very interesting opportunities that have unveiled themselves during the recent sell-off, upgrading the portfolio in the process. While still holding a fair proportion of the portfolio in cash, it would be remiss to focus too much on the short-term market weakness and forego the opportunity to invest in some very attractive companies.

We are focused on finding companies with extremely attractive valuations and promising long-term growth potential and, moreover, companies that are unlikely to suffer significant direct impact from the trade problems. Apart from China, where the Fund has an approximately 41% exposure, we are also finding plenty of opportunities in other Asian countries such as India, Vietnam and Korea, each with their own interesting and sustainable growth dynamics.

The following table sets out the key valuation metrics of several of the Fund's top holdings:

COMPANY	P/E	EARNINGS GROWTH	P/B	ROE
China Merchants Bank (H-share)	7.9x	14.6%	1.5x	15.8%
Ping An Insurance (H-share)	10.4x	22.0%	2.6x	20.6%
Weibo Corp (ADR)	22.3x	38.1%	19.3x	36.4%
AIA Group	17.2x	23.0%	2.3x	15.9%
China Overseas Land & Invt	6.3x	18.9%	1.0x	16.7%
Geely Automobile Holdings	7.9x	25.7%	5.9x	35.7%
Samsung Electronics	6.6x	1.0%	1.7x	21.0%
Kasikornbank PCL	12.5x	13.3%	1.6x	10.2%

Source: FactSet

Outlook

It is possible that US interest rates and oil prices will continue to rise in the coming months, and no imminent resolution is yet in sight for the US-China trade dispute. We should therefore expect to see market volatility persist in the near term. However, we are encouraged by the number of attractive long-term opportunities that we are finding, and we will continue to deploy the Fund's capital with a view to carefully capture those potential long-term winners.

Platinum European Fund

Nik Dvornak
Portfolio Manager

Performance

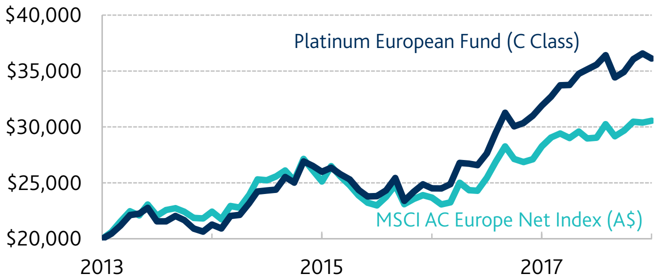
(compound pa, to 30 September 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	3%	13%	12%	13%	12%
MSCI AC Europe Index^	3%	8%	7%	9%	3%

* C Class – standard fee option. Inception date: 30 June 1998.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are in AUD and are inclusive of net official dividends in AUD.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 1, page 44. Numbers are subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

30 September 2013 to 30 September 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 2, page 44.

Over the past 12 months, the Fund (C Class) generated a 13.2% return for our investors. While this outcome is pleasing, returns in the latter half of the year were far more modest. This more recent period was characterised by growing investor discomfort with:

- Rising US Dollar indebtedness in emerging markets
- Signs that the Chinese economy is slowing
- Attempts to unwind global economic integration

Holdings exposed to one or more of these themes weighed heavily on our performance over the last six months, particularly those businesses that operate in Eastern Europe and Russia as well as those in the mining and automotive sectors. Examples include **Raiffeisen Bank** (-21%), **Sberbank** (-33%), **Glencore** (-6%) and **Daimler** (-22%).

Given the above concerns, readers may wonder why we own these companies.

For starters, they are very cheap; the four mentioned above have an average price-to-earnings (P/E) ratio of under 7 times. They have strong balance sheets and, in most cases, both margins and earnings are growing.

Daimler is the exception. Its earnings are suppressed by a conscious decision to invest heavily in a new range of electric and hybrid cars. These investments could pay off handsomely if customers can be convinced to buy cars that go faster, handle better and cost less to run, which we think they will.

The salient feature here is that these businesses are not broken, their assets are not impaired, and their competitive position is not eroded. Investors are simply shunning them because owning these businesses today feels uncomfortable. They operate in out of favour regions or industries and their share prices are falling.

Our approach is different. We do not concern ourselves with what share prices may or may not do. We appraise businesses as a private owner would, focusing on their earnings prospects and what we pay for them. If we get this right, we believe the rest will take care of itself. In our assessment, the earnings prospects of the above businesses offer fantastic value at current prices and we are enthusiastic owners.

Our single worst performing stock over the last six months is Danish jeweller, **Pandora** (-38%). Unlike the companies discussed above, Pandora's performance reflects company-specific problems. We refer readers to our June 2018 Quarterly Report in which we explained the challenges the company faces and our rationale for wanting to remain invested.

We always try to be up-front with investors and acknowledge our shortcomings. But, lest we leave readers with the wrong impression, we should note that our successes far outnumber these. Indeed, a large majority of the stocks in the portfolio made money, even during the more recent six month period.

Among the better performers over this period are Norwegian media company, **Schibsted** (+40%), where the heavy investment of prior years is finally starting to shine through, and **MTU Aero Engines** (+41%), where teething problems with the geared turbo fan engine program are receding.

Changes to the Portfolio

The portfolio has changed little in recent months. We've added to existing investments exposed to emerging markets, mining and automotive manufacturing, as discussed above. New additions to the portfolio include a number of industrial businesses and a retailer, all of which, we believe, are well-placed to grow earnings, even under more subdued economic conditions.

We continue to trim holdings where the investment case is more than adequately reflected in current valuations. These are often some of our best performing investments and include companies such as **Sartorius**, **Hypoport** and **TGS-NOPEC**.

We also sold our entire holding of **Vodafone**, a rare loss-making investment for the Fund. The extent to which the competitive environment in Spain deteriorated, and the company's response, took us by surprise. Lower prospective earnings in Spain will offset the improvements we correctly envisaged in Germany. While the stock is now very cheap, we can buy similarly priced businesses with superior earnings prospects and we've done just that.

Outlook

Political developments continue to trouble the market. Brewing trade tensions are now translating into actual tariffs. Italy's populist governing coalition looks set to butt heads with the European Union. Turkey is undergoing a slow-motion current account crisis. Britain is no closer to winning special treatment when it leaves the European Union and time is running short. Meanwhile, populists continue to gain support across Europe at the expense of moderate mainstream parties.

Disposition of Assets

REGION	30 SEP 2018	30 JUN 2018	30 SEP 2017
Germany	21%	21%	24%
UK	12%	14%	12%
Switzerland	11%	10%	9%
Norway	10%	8%	2%
Austria	8%	7%	10%
Spain	7%	6%	3%
France	3%	2%	5%
Italy	3%	3%	4%
Russia	3%	3%	3%
US*	3%	2%	3%
Denmark	2%	2%	3%
Hungary	2%	2%	2%
Romania	2%	2%	0%
Ireland	2%	2%	0%
Netherlands	0%	0%	2%
Cash	13%	16%	18%
Shorts	-1%	-1%	-6%

* Stocks that are listed on US exchanges, but whose businesses are predominantly conducted in Europe.
See note 3, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 SEP 2018	30 JUN 2018	30 SEP 2017
Industrials	22%	20%	11%
Financials	20%	20%	25%
Consumer Discretionary	13%	11%	12%
Health Care	10%	10%	10%
Energy	8%	8%	4%
Materials	7%	6%	4%
Information Technology	7%	7%	8%
Telecom Services	0%	2%	2%
Consumer Staples	-1%	-1%	<1%
TOTAL NET EXPOSURE	86%	83%	76%

See note 4, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

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

In recent months there has been rising concern that the Euro Area's economic recovery cannot be sustained. This anxiety stems from the fact that economic growth has slowed from the pace set in 2017 and both leading indicators and sentiment surveys have retraced somewhat.

Upon closer inspection, however, the economy appears to be in great shape. European consumers are highly confident. Over 2 million jobs were added over the last year, unemployment has fallen from 9.1% to 8.2% and real wages are rising. European business confidence is near 30 year highs, balance sheets have been de-geared and capacity utilisation sits at near-record levels. European governments are approaching fiscal balance, leaving plenty of ammunition for fiscal stimulus. Meanwhile, European workers and businesses are highly competitive in global markets with the Euro Area's current account surplus now amounting to 3.5% of GDP. Simply put, the economic outlook appears quite favourable.

Most importantly, we continue to find plenty of good investment ideas. European equity markets remain near their highs, but certain pockets of the market are very much out of favour and cheap. These include emerging markets, mining and the automotive sector, as discussed at the outset of this report, but the list also spans offshore oil services, energy infrastructure, semiconductor manufacturing, agriculture and building materials. So while stocks in general may be expensive and political developments may be troubling, we are very pleased with the businesses we own. Our near-term performance may suffer if these segments remain out of favour, but in our assessment, our investments in these areas have all the right ingredients to generate very satisfactory returns in coming years.

Net Currency Exposures

CURRENCY	30 SEP 2018	30 JUN 2018	30 SEP 2017
Euro (EUR)	37%	34%	34%
Norwegian krone (NOK)	14%	13%	8%
British pound (GBP)	13%	14%	11%
Czech koruna (CZK)	11%	11%	13%
Swiss franc (CHF)	11%	6%	5%
US dollar (USD)	7%	6%	14%
Danish krone (DKK)	2%	2%	3%
Romanian leu (RON)	2%	7%	5%
Hungarian forint (HUF)	2%	3%	4%
Australian dollar (AUD)	<1%	2%	3%

See note 5, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
TechnipFMC	UK	Energy	4.3%
Raiffeisen Bank	Austria	Financials	4.1%
Schibsted ASA	Norway	Consumer Discretionary	4.1%
Siemens AG	Germany	Industrials	3.5%
Roche Holding AG	Switzerland	Health Care	3.3%
Glencore PLC	Switzerland	Materials	2.9%
Saras SpA	Italy	Energy	2.9%
Applus Services	Spain	Industrials	2.9%
RELX PLC	UK	Industrials	2.8%
Golden Ocean Group	Norway	Industrials	2.6%

As at 30 September 2018. See note 6, page 44.
Source: Platinum Investment Management Limited.

Platinum Japan Fund

Scott Gilchrist
Portfolio Manager

Performance

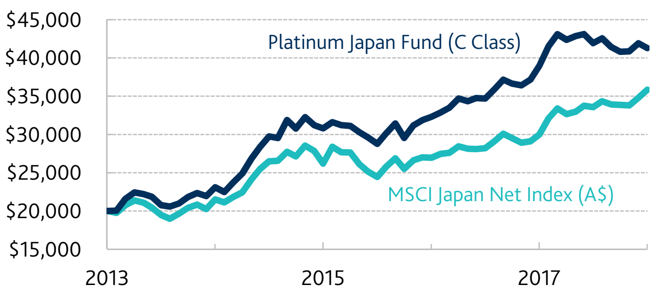
(compound pa, to 30 September 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	1%	6%	10%	16%	15%
MSCI Japan Index^	6%	20%	11%	12%	3%

* C Class – standard fee option. Inception date: 30 June 1998.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are in AUD and are inclusive of net official dividends in AUD.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 1, page 44. Numbers are subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

30 September 2013 to 30 September 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 2, page 44.

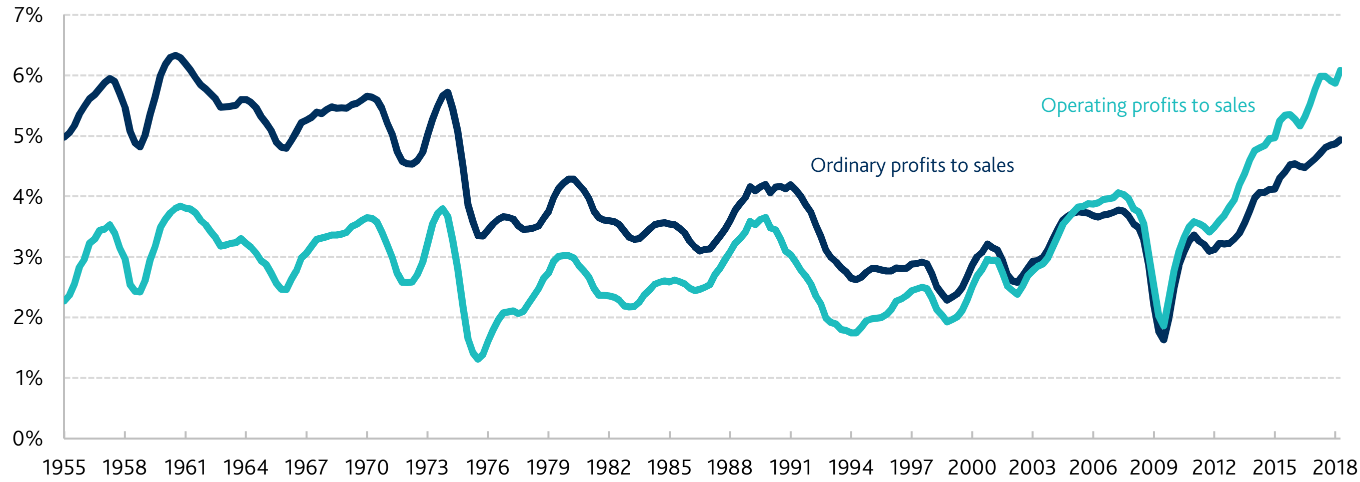
The Fund (C Class) rose 1.2% for the quarter and 5.9% for the year. The Fund has languished while some Japanese indices moved to 27 year highs. Although disappointing, this is not unexpected given the market's tendency towards momentum and quality, often from starting valuations that are difficult to rationalise. Some of these sectors, such as pharmaceuticals, stood out as expensive in terms of their absolute valuations. They were also expensive relative to global peers, even prior to their recent rapid gains. At the same time, the cheaper parts of the market have been shunned, including many companies selling at multi-decade low valuations. This has largely been under the guise of cyclicality, particularly for those sectors with exposure to the broader Chinese industrialisation theme, such as robotics, semiconductor production equipment, natural resources and machine tools. Driven by conservatism and risk management rather than greed and the fear of missing out, the portfolio's positioning has clearly been less than ideal for the current environment.

Commentary

Reality and perception are often diametrically opposed when trying to reconcile today's Japan against its recent decades and the dominant template of western performance and behaviours. It is often hard to isolate the reality even within Japan. **Chart 1** shows the movement of Japanese corporate margins over the last six decades. From a more recent perspective, it highlights the dramatic improvement in the last 20 years. Similar charts and statistics of female workplace participation, overall workplace participation rates, earnings-per-share (EPS) growth, real per capita GDP and immigration levels also highlight the slow but persistent change. After traversing the post-Bubble decades since 1989, there is a burgeoning domestic understanding and agreement on the path forward. This is not expressed as external confidence or strong statements, but can be seen in the Japanese people's actions, behaviours and outcomes.

On September 20th, Shinzo Abe was re-elected as leader of the governing Liberal Democratic Party and will serve a third consecutive term as the Prime Minister of Japan, thereby becoming the longest serving prime minister in Japan's history. This is in parallel with the appointment of Kuroda-san for a second term as the Governor of the Bank of Japan, a position he has held since 2013. Continuity and stability, rather than dislocation and uncertainty, are almost certain to be expressed as continued "soft money" nominal GDP

Chart 1 – Profit Margins of Japanese Companies



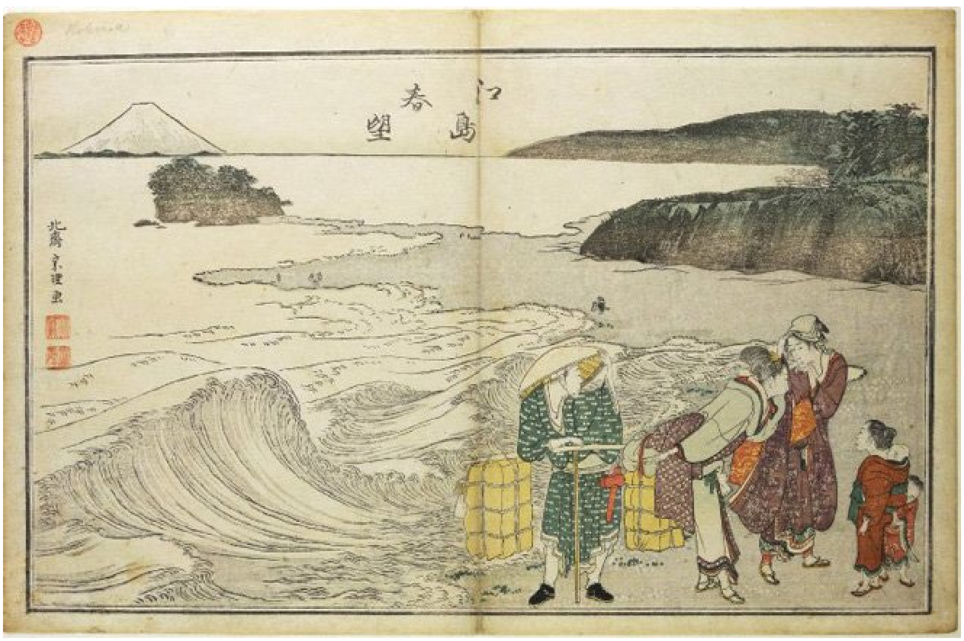
Source: Japan Ministry of Finance

targeting led by Kuroda-san's two newly appointed deputy governors. Similarly, the political path is likely to be more of the same with perhaps a renewed and reinvigorated "Three Arrows" program. There is some concern that the focus on the economy and reform might be waylaid by Abe-san's insistence on changing the 1947 Constitution to recognise Japan's right to self-defence by legitimising the existing Self-Defence Forces. His relentless quest to effect this change stems from Japan's reliance on imported food and fuel, which are dependent on clear trade routes currently presided over by a dominant foreign blue water navy. This reality explains many aspects of the Japanese psyche and the nation's interactions with the Asian sphere and the wider world.

During the quarter we spent two weeks visiting roughly 60 companies in Tokyo and Kyoto as the country was beset by winds, waves, storms and quakes. This served as a reminder of the origin of the conservative underlying nature of the Japanese people. A severe earthquake struck Hokkaido in the north of the archipelago and cut off power supplies to most of the island. A typhoon made a landing around Osaka and inundated the airport, closing it completely. At the same time, a large ship crashed into the airport bridge, dislodging some of the road girders.

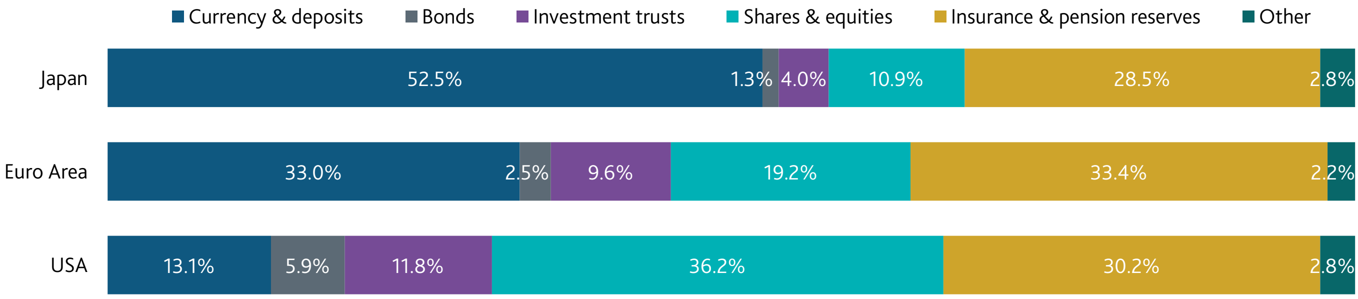
It might be a tenuous connection, but the financial management of the country somewhat reflects this acceptance of inevitable variability. Japan has a large foreign asset position, which is now earning a significant return. While the country has large ongoing expenses for food, fuel and low-end manufactured goods, their exports of high quality steel, sophisticated manufactures and high-end equipment roughly lead to a balanced trade position. The balance obviously fluctuates with key commodity prices and global trade cycles. However, the large foreign investment position continues to grow as earnings are reinvested in plant and equipment, and are augmented by acquisitions.

It was remarkable how quickly the disaster recovery occurred across the damaged areas of the country, as a cohesive effort repaired the airport and power supply grids and returned the system to full operation.



Great Wave, Hokusai, 1792. Source: https://mag.japaaan.com/archives/62662

Chart 2 – Breakdown of Household Assets



Source: CLSA, Bank of Japan, European Central Bank, US Federal Reserve Board

Japan's large foreign investment position is mirrored by large domestic household cash holdings and strong corporate balance sheets. Its household asset mix differs from other developed markets as shown in **Chart 2**. This large cash position has been highlighted in the past by traders and brokers with the hope that assets would shift towards the stock market and other higher yielding assets. In the last year, however, the opposite has happened as cash holdings have continued to grow.

Our company visits witnessed Japan's strengths in many areas, notably against tough, even brutal, Korean and Chinese competition. Companies like Yushin Precision, Komatsu, Toyota, Nitto Denko, Minebea, Murata, and Toyota Industries have been able to prosper in this environment. Softbank, Rakuten, Lixil, Takeda, Monotaro and Daikin are accelerating their overseas efforts. Domestic restructuring efforts continue in many parts of the market.

Japan is hosting the Rugby World Cup in 2019 and the Olympic Games in 2020. Thus there is a buzz of construction and restoration around the country in preparation for a wave of tourists atop the ongoing seemingly inexorable rise of inbound tourists from around Asia. The Tokyo real estate wealth and the first nationwide increase in land prices in 27 years has increased high-end discretionary spending in conjunction with IT sector wealth and profits accrued by business owners. However, the recent experience by the majority of the population is that costs are rising faster than wage increases, thus their finances have been squeezed, particularly families with children. Japanese wages are now low relative to most competitors. Thus over time there should be a positive flow across to the broader economy and a change of mindset. In the meantime, high asset prices relative to stagnant disposable incomes have led to instances of mortgage fraud. While Japanese asset prices seem cheap relative to global equivalents, they are often expensive relative to local wages, hence there is a domestic reluctance to bid up asset prices, a somewhat Pavlovian response to historical cycles.

Portfolio Review

The Fund owns three Japanese financials, which together comprise 9.3% of the portfolio. This group of companies, including Sumitomo Mitsui Financial, Mitsubishi UFJ and Orix, has an average price-to-earnings (P/E) multiple of 8.6x, a price-to-book (P/B) ratio of 0.7x and a dividend yield (DY) of 3.5%. The Fund owns three automobile industry stocks centred around Toyota. Together they comprise 3.5% of the portfolio and have an average P/E of 11x, a P/B of 0.9x, a DY of 2.7% and a price-to-sales (P/S) ratio of 0.8x. The Fund owns four businesses with utility style characteristics with an average P/E of 11.5x, a P/B of 1.5x and a DY of 3.5%. These valuations do not reflect the significant cash holdings and strong balance sheets of these companies, nor do they reflect the often significant treasury shareholdings resulting from ongoing buy-backs.

By way of contrast, the Fund has a 4% short position in two retailers which are among the largest employers in their respective sectors, particularly for part-time labour. The average valuation of these two companies is 30x P/E, 2.6x P/B and 1.8% in DY. Wage pressure, rising input costs, market saturation and consumer sensitivity to price increases are contributing to a difficult retail operating environment.

The Fund owns positions in three computer gaming companies, including Nintendo, totalling 9% of the Fund. On average, and adjusted for their significant cash holdings and treasury stock ownership, this group is on 10.7x P/E, 2.4x P/B and 2.6x P/S. The Fund also owns a portfolio of growing internet stocks, including Rakuten, with an average P/E of 19x and a DY of 1.5%. The Fund's healthcare holdings have an average P/E of 22.5x and a DY of 2.3%. These three groups of companies, comprising gaming, internet and healthcare, are expected to grow earnings faster than the overall market.

Again, by way of contrast, the Fund has a 5.5% short position in a portfolio of several companies across a variety of industries, including cosmetics, distribution, tourism and manufacturing. This group of stocks has an average P/E of 57x, a P/B of 13.8x, a DY of 0.4% and a P/S of 11x.

The Fund also owns groups of stocks in the energy sector, smartphone display industry, commodities, semiconductors and components. The valuations of these companies range from attractive to very attractive, but obviously have cyclical exposure. In some cases these companies have almost as much cash and investments as their current market capitalisation.

Investments are always made on a stock specific basis and the brief company discussions below attempt to illustrate the complexity of each case, the subtleties of market psychology and the broad dispersion in valuations across the market.

Inpex recently announced the first shipment of condensate from their Ichthys LNG mega-project located in the Browse Basin, 220 kilometres off the northwest coast of Western Australia. This is the start of the 40 year operational phase following the discovery of hydrocarbons in 2000 and commencement of project construction in 2012. The project is expected to produce 8.9 million tonnes of LNG, 1.6 million tonnes of LPG and 100,000 barrels per day of condensate at peak production. The total cost of the project is approximately US$40 billion, including the key components of the central processing facility, the floating, production, storage and offtake (FPSO) facility, and the underwater pipeline to Darwin, each of which was among the largest ever built by an industry renowned for engineering feats.

Condensate from Ichthys is a very attractive product with an API of 50, indicative of a relatively light hydrocarbon mixture which could yield 50-60% naphtha as feedstock for chemical industry steam crackers and 35% middle distillates for diesel and jet fuel. Exports of LNG and LPG from the project should commence towards the end of calendar year 2018.

The Fund has owned Inpex at various times, but built a large investment in 2016 as the oil price fell below US$40 per barrel and concerns of cost overruns at Ichthys returned. At the time, Inpex was selling at a valuation equivalent to roughly half of what they had spent to build their assets, with Ichthys being the key asset, giving very little credit for Inpex's long duration resource base.

Today, the oil price has risen above US$85 per barrel and the market is taking a more positive view of LNG markets, as highlighted by Royal Dutch Shell's recent approval of the next major greenfield LNG export facility on the west coast of Canada. The valuation of Inpex has risen and now appears reasonable. The return from three years of ownership has been attractive, but is rather disappointing given the risk profile and the rise in the oil price. Oil prices in local currencies in many parts of the developing world are now at record levels, which is likely to act as a significant headwind to overall global oil demand. This is important as demand growth is higher in less developed economies.

Disposition of Assets

REGION	30 SEP 2018	30 JUN 2018	30 SEP 2017
Japan	74%	91%	93%
Korea	3%	0%	2%
Cash	23%	9%	5%
Shorts	-10%	-2%	-2%

See note 3, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 SEP 2018	30 JUN 2018	30 SEP 2017
Information Technology	15%	26%	27%
Industrials	13%	17%	17%
Consumer Discretionary	11%	13%	15%
Financials	9%	9%	9%
Materials	8%	11%	10%
Energy	5%	8%	7%
Health Care	5%	5%	4%
Telecom Services	3%	1%	5%
Real Estate	1%	0%	0%
Consumer Staples	-2%	-1%	-1%
TOTAL NET EXPOSURE	67%	89%	93%

See note 4, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Currency Exposures

CURRENCY	30 SEP 2018	30 JUN 2018	30 SEP 2017
Japanese yen (JPY)	94%	94%	69%
US dollar (USD)	12%	4%	28%
Korean won (KRW)	3%	0%	2%
Australian dollar (AUD)	-10%	2%	1%

See note 5, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Nintendo	Japan	IT	4.0%
Sumitomo Mitsui Financial	Japan	Financials	3.5%
Itochu Corporation	Japan	Industrials	3.5%
Mitsubishi UFJ Financial	Japan	Financials	3.2%
Kangwon Land Inc	Korea	Consumer Discretionary	3.1%
Takeda Pharmaceutical	Japan	Health Care	3.0%
Nexon	Japan	IT	2.9%
Rakuten Inc	Japan	Consumer Discretionary	2.7%
Ebara Corp	Japan	Industrials	2.7%
Orix Corp	Japan	Financials	2.6%

As at 30 September 2018. See note 6, page 44.
Source: Platinum Investment Management Limited.

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

Rakuten has been a frustrating investment for the Fund. While the business has developed mostly as expected with the exception of weakening margins in the core e-commerce business, CEO and founder Mikitani's decision to build a mobile phone network in competition with the three strong incumbents recently caused a significant drop in the share price. This presented an opportunity and a significant position was purchased. Since it was founded in 1997, Rakuten has grown into a business with annual revenue of around US$10 billion across e-commerce, communication, financial services, advertising and investments. Over the last 10 years, revenues have grown 16% per annum and the future opportunity looks similarly attractive. At the recent Rakuten Optimism conference in California, Mikitani reiterated his plans for future growth in combination with his renewed global ambitions.

Online apartment management service platform **Tateru** proved to be a bad investment despite high founder ownership and a reasonable starting valuation, especially relative to its historical growth rates. During the quarter it was discovered that some employees had been falsifying loan documents, similar to the behaviour discovered at Suruga Bank. While this doesn't seem to have been as systemic as at some other institutions, this fundamentally changes the perception of the organisation.

Itochu's valuation stands out as quantitatively cheap in a global context. CEO Okafuji took over in 2010 and focused on the daily activities of the business and the turnaround of its weaker subsidiaries. The strategy has been a success, though offset by some weak results from the company's major investments, such as Dole and CITIC. Itochu is a complex business to understand as there are some 300 subsidiaries, so the market at times focuses on commodity prices which are obviously variable. However, the core of the company is non-resource activities which were the foundation of the company and are performing better than expected. Itochu's share price is at record high levels. The valuation is 8 times earnings and a 3.7% dividend yield.

Pigeon is the dominant Japanese manufacturer of baby bottles and other child-rearing essentials. While the Japanese business is stagnant, their Chinese business has grown quickly and is almost half of corporate sales. Sales have grown 7% per annum over the last decade while profits have grown at 25% as margins expanded. The current valuation is the highest in the company's 60 year history – at 7 times sales and 45 times earnings. The company estimates its free cash flow yield at 1.6% from which they pay a 1% dividend yield. The Fund opened a short position in Pigeon after quarter end.

Nissan is currently valued at a level similar to other low points in the company's long history. Toyota Motors and the wider automobile sector, including the global comparatives, are similarly depressed. This is a broadly discussed phenomenon as the fear of disruption from Silicon Valley under the slogan of "Mobility as a Service" permeates the view into the future. There is no sign of this impact today. In fact, more readily available and convenient transport services such as Uber and Lyft have increased vehicle demand. Through this period of surging demand for SUVs and light trucks, the Japanese have retained their exposure to fuel efficient sedans and developed alternative drivetrains such as hybrids and electric cars which position them relatively well for a higher oil price environment. For context, the following table shows Nissan's current and historical valuations:

	DIVIDEND YIELD	PRICE-TO-BOOK RATIO
1987	2.5%	0.96x
1992	1.3%	0.95x
1998	2.0%	0.86x
2008	12.6%	0.49x
Today	5.5%	0.76x

Source: FactSet; estimates by Platinum Investment Management Limited.

The portfolio shifted towards higher cash levels, more conservative sectors and lower overall equity exposure during the quarter. A small short position on the Australian Dollar against the US Dollar was used to hedge some core holdings. This shift to more liquidity provides flexibility as and when opportunities present themselves.

Outlook

While global growth momentum remains positive, there are some signs of weakness, such as the declining Japanese machine tool sales for the first time in two years, declining semiconductor production equipment orders, and highly price elastic consumer behaviour. Against a backdrop of rising oil prices, rising interest rates, emerging market dislocations, loose financial conditions and high asset prices, it seems prudent to take a somewhat conservative stance. Some parts of the financial system are exhibiting behaviours consistent with highly optimistic outlooks. In fact, many indicators are so good that they likely cannot get better and are consistent with previous peaks in the cycle. This optimism is not irrational, given the widespread availability of cheap commodities and, in particular, cheap energy. The disruptive and educational impact of an amazing storage and compute device in the hand of every human should not be underestimated either. It's always hard to separate the structural from the cyclical, especially today as the solution to the financial problems faced late last decade has been more of the same, rather than slogging through a fundamental reassessment. The lesson from Japan's post Bubble decades was to heed the cyclical nature of the aftermath rather than emphasise the structural. This feels like the conservative and rational path especially against a background of trade dislocations and fundamental US Dollar funding imbalances.

Platinum International Brands Fund

James Halse
Portfolio Manager

Performance

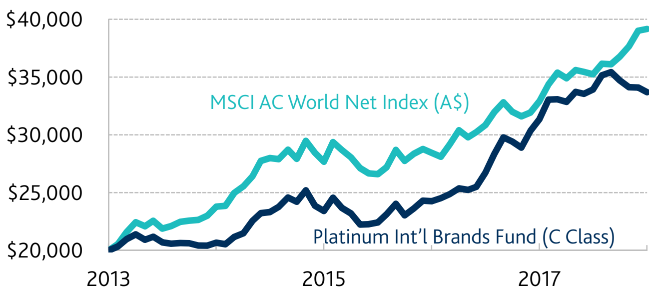
(compound pa, to 30 September 2018)

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

* C Class – standard fee option. Inception date: 18 May 2000.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are in AUD and are inclusive of net official dividends in AUD.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 1, page 44. Numbers are subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

30 September 2013 to 30 September 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 2, page 44.

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

I encourage you to read the CIO's Macro Overview on page 5 of this report, in which he discusses in detail the main causes of China's market downturn. For our purposes, the most pertinent factor at work is the government crackdown on the shadow banking sector, particularly on unsecured lending by self-proclaimed "peer-to-peer" (P2P) lenders, which has led to a palpable tightening in the availability of consumer credit. Poor lending decisions and outright fraud have been commonplace in this area of the market, as is often the case when regulation does not keep up with innovation in financial services. The spread of these issues and the subsequent regulatory tightening has led to investors being unable to access their deposits with many of these institutions, new consumer loans drying up, and the balance of loans outstanding (estimated to be around US$190 billion) likely beginning to decline.

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

The tightening of credit has hit sales of large ticket consumer items such as cars and home appliances, but for the moment this appears to be predominantly confined to lower-tier cities and lower-end goods. Healthy sales growth is still seen across the European car brands, high-end cosmetics and luxury brands like Louis Vuitton and Hermes. Therefore, in spite of the indiscriminate sell-off in Chinese stocks over recent months, we are comfortable with the major Chinese holdings in our portfolio, having regard to the quality of the companies' brands and operations. These include well-positioned athleisure brand Anta Sports (-10% in the quarter), high-end liquor maker Jiangsu Yanghe (-3%), gaming operator Melco International (-35%), as well as the fast growing digital platforms Alibaba (-11%) and Sina (-18%).

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

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

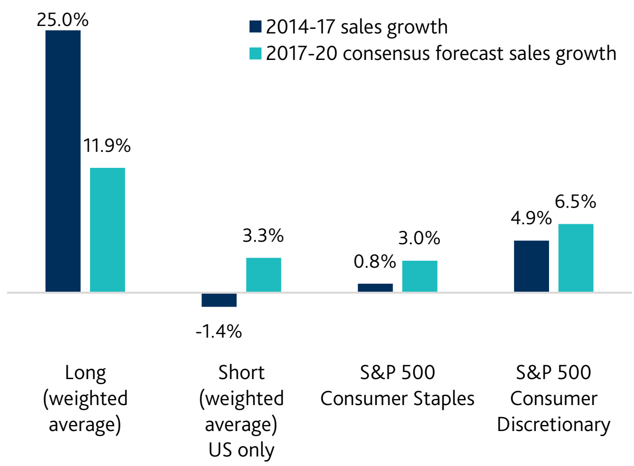
Chart 2 demonstrates the value in the Fund's portfolio. The average price-to-earnings (P/E) ratio across the Fund's long positions is currently significantly lower than that of the US consumer sector benchmarks. This much lower average P/E ratio is achieved despite our sizeable holdings in a number of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

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

Facebook faced another large sell-off after a stellar initial run following our purchase of the stock near its lows in March. This was triggered after the company downgraded its earnings guidance as a result of slowing revenue growth following the introduction of new regulations around the use of customer data as well as greater investments into both human and technological resources to police content on the site. The decline cost us -0.7% in performance (in AUD terms) in the last quarter.

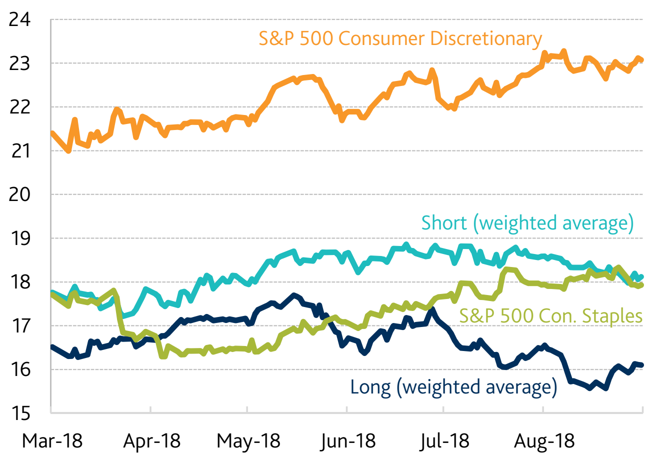
Solid performers in the quarter included equipment brand Callaway Golf (+28%), Indian financial Axis Bank (+20%), internet classifieds site owner Schibsted (+23%), and Canadian fashion retailer Aritzia (+10%).

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



Source: FactSet, Platinum Investment Management Limited.

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



Source: FactSet, Platinum Investment Management Limited.

Changes to the Portfolio

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

Two additions to the Fund in the quarter were **The Stars Group** and Molson Coors Brewing Company. Stars is a leading player in online gaming that has grown by acquisition to own properties including PokerStars, the UK's SkyBet, and BetEasy in Australia (formally CrownBet and William Hill). The company is a leader in a growing and consolidating industry, albeit one with the ever-present threat of regulatory action. Online gaming is highly profitable for companies with established brands. Stars is especially advantaged due to its dominance in poker, which is a business where the site with the most players offers a dramatically better proposition than smaller competitors, with more "tables" and varieties of games beginning more frequently. With a captive audience at its poker tables, Stars is able to boost its casino and sports betting revenues while incurring significantly lower per customer marketing costs than competitors. In the UK, the fast-growing SkyBet business benefits from a close relationship with broadcaster Sky, with sports presenters on the network making frequent references to betting options during their coverage. Souring market sentiment owing to recent regulatory actions in some markets, combined with a sizeable debt load, has given us the opportunity to buy this stock for less than 10 times its expected "cash" earnings.[1]

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

Net Sector Exposures

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

See note 4, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Disposition of Assets

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

See note 3, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Currency Exposures

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

See note 5, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

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

As at 30 September 2018. See note 6, page 44.
Source: Platinum Investment Management Limited.

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

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

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

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

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

Outlook

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

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

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

Platinum International Health Care Fund

Bianca Ogden
Portfolio Manager

Performance

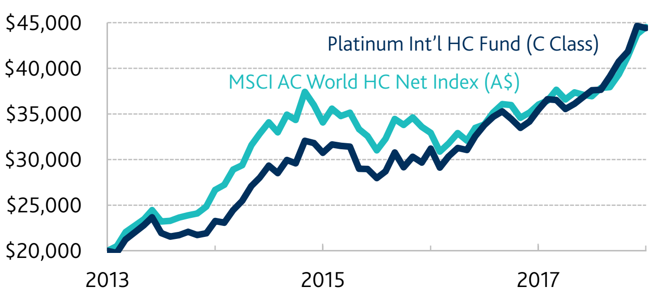
(compound pa, to 30 September 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund*	9%	25%	13%	17%	11%
MSCI AC World HC Index^	13%	24%	9%	17%	10%

* C Class – standard fee option. Inception date: 10 November 2003.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are in AUD and are inclusive of net official dividends in AUD.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 1, page 44. Numbers are subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

30 September 2013 to 30 September 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 2, page 44.

The healthcare sector continues to abound with innovation and progress, keeping investors engaged in the space. Similarly, venture capital activity remains healthy and new biotech listings in the US continue unabated. Interestingly, the last few months saw fewer acquisitions as corporates feel deterred by stretched valuations and hence prefer to remain disciplined when it comes to deploying their cash hordes.

We agree with these corporates to an extent and have gradually increased the Fund's cash position by trimming holdings that have performed strongly and where valuations have become stretched.

For the quarter, **Swedish Orphan Biovitrum (SOBI)**, **Almirall** and **Galapagos** were the star performers while our positions in tool companies as well as our pharma holdings also contributed nicely. This was mostly due to pipeline progress, good earnings data as well as investors looking for more defensive exposure.

Our European holdings in general have been important investments for us this year. SOBI has been a strong contributor to the Fund's performance over the last 12 months (+108%). Its haemophilia franchise is growing nicely, and investor interest in the company has been further spurred by Sanofi's purchase of SOBI's partner, Bioverativ, earlier this year. Galapagos is making progress with its JAK inhibitor for inflammatory diseases. This company has various assets in its pipeline, a strong cash position, and counts Gilead, MorphoSys and Novartis among its partners.

Spanish company **Almirall** has also been a good performer this quarter (+51%), boosted by its acquisition of Allergan's US dermatology franchise. Many changes have happened at Almirall in recent years. In 2014 the company divested its respiratory franchise to AstraZeneca and has since gradually shifted its focus to dermatology. However, the transition was not all smooth sailing and the company's business development efforts had been patchy at first. We saw a turning point in the company about a year ago when Almirall was able to recruit a seasoned operational manager from Sanofi to act as its new CEO. We knew of Mr Guenter's skills from our work on Sanofi and added to our position on the news. Since then, Almirall's transformation has stepped up a notch. Mr Guenter restructured the company's commercial infrastructure, terminated some programs, and now added new products that put Almirall on the right track.

Daiichi Sankyo (+16%), a Japanese pharma company, was another strong contributor. The company has been working hard on its antibody platform and oncology assets which have become increasingly visible to investors.

Gilead (+9%) has been a relatively weak performer this quarter. The company is in a transition on many levels across the organisation. The management team that has been with Gilead from its early days is stepping down, signalling a new phase for the company – never an easy undertaking, and the company has not yet announced a new CEO. However, we do not feel overly concerned by this blip. Gilead has a solid balance sheet, its recent product launches are doing well, and the pipeline is coming into view now – the company has all the right ingredients for good performance over the long-term.

Commentary

Over the coming years healthcare will see dramatic changes and one area that will play an increasingly crucial role is diagnostic testing and pathology, hence our holdings in the tool space.

Imagine the human body being monitored like a jet engine. Digital sensors continuously monitor many variables in a jet engine, providing the engineer with a snapshot of the aero-engine's health in real time. It is this real time data that, in the hands of data experts, can yield valuable insights which allow intervention early.

Translating the jet-engine monitoring approach to humans should assist in detecting disease early, which should make disease management easier and cheaper. Such a scenario will have significant ramifications for the healthcare system, shifting a big part of the focus towards prevention rather than acting when the disease has already advanced. This will require a rethink of the healthcare infrastructure we have in place today. Overall, this is a broad topic which we expect will offer plenty of investment opportunities.

Today we are at the very start of this shift, figuring out how best to detect and measure all sorts of "vitals", biomarkers and genetic information. Once measurements are gathered, algorithms have to be developed to make sense of the data and predictive markers need to be established to add diagnostic value, run trials and gain approval.

Last month the FDA approved the electrocardiogram (ECG) feature on the new Apple Watch Series 4, allowing consumers to measure the electric signals of their heart without going to a cardiologist. This is a significant development and the

Disposition of Assets

REGION	30 SEP 2018	30 JUN 2018	30 SEP 2017
North America	35%	39%	37%
Europe	29%	34%	40%
Australia	12%	10%	6%
Japan	3%	4%	4%
Asia	2%	2%	0%
Cash	19%	11%	13%
Shorts	-1%	-1%	0%

See note 3, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	30 SEP 2018	30 JUN 2018	30 SEP 2017
Health Care	79%	87%	86%
Financials	1%	1%	1%
TOTAL NET EXPOSURE	80%	88%	87%

See note 4, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Currency Exposures

CURRENCY	30 SEP 2018	30 JUN 2018	30 SEP 2017
US dollar (USD)	41%	44%	39%
Australian dollar (AUD)	19%	12%	9%
Euro (EUR)	18%	21%	26%
British pound (GBP)	9%	10%	11%
Swiss franc (HKD)	5%	5%	5%
Japanese yen (JPY)	4%	4%	5%
Swedish krona (SEK)	3%	2%	2%
Danish krone (DKK)	1%	1%	3%
Canadian dollar (CAD)	1%	1%	1%

See note 5, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Roche Holding AG	Switzerland	Pharmaceuticals	3.1%
Sanofi SA	France	Pharmaceuticals	2.9%
AstraZeneca PLC	UK	Health Equip & Serv	2.7%
Gilead Sciences Inc	USA	Biotechnology	2.5%
Johnson & Johnson	USA	Pharmaceuticals	2.5%
Nanostring Technologies	USA	Health Equip & Serv	2.2%
SpeeDx	Australia	Healthcare Providers	2.1%
Quanterix Corp	USA	Pharmaceuticals	2.0%
Daiichi Sankyo	Japan	Pharmaceuticals	2.0%
Almirall SA	Spain	Pharmaceuticals	2.0%

As at 30 September 2018. See note 6, page 44.
Source: Platinum Investment Management Limited.

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

"sensor era" is now upon us as is the convergence between consumer goods, technology and healthcare. No longer will innovative healthcare solutions be the exclusive domain of traditional healthcare companies. Tech companies such as Apple and Google, along with consumer companies such as Nestle, are venturing into the healthcare space. Many tech companies are solely focusing on this tech-health convergence, while the approval process for wearable devices is only in its infancy. Overall, as highlighted above, this transformation will offer plenty of new investment ideas.

However, at the core of this next generation healthcare is the field of diagnostics along with a more personalised, precise approach to disease management. The challenges are how best to detect and gather the maximum data in the least invasive way and how to combine different data points from different sources. Additionally, often the information is available at such minute amounts that today's standard technologies are not yet powerful enough to make precise detections of it. To be truly effective, diagnostic tests need to give rapid responses and provide multiple data points from just one small patient sample.

None of the above is yet possible today, but we are seeing, particularly in oncology, much more in-depth, multi-technology analyses of patient samples which are really trying to pinpoint what the disease is, what stage of the disease the patient is at, and what appropriate disease management plan is required, be that surgery or a drug cocktail. No longer is it enough to know a tumour's location and whether it has spread. These days the key insight lies in the genetic make-up of the tumour, whether its environment has been infiltrated by immune cells and, more importantly, exactly what types of immune cells are present, what state of activation they are in and how many are present. This requires a significant amount of work up-front, but is absolutely crucial to guide treatment.

Roche Diagnostics, a division of Roche that contributes 23% of group sales, is placed to play a key role in precision medicine. Already the company has a leading position in in-vitro diagnostics, and in recent years the company has invested heavily with a focus on oncology. Investments in technology and software, often starting out as joint initiatives with the Roche Pharma division, ultimately benefit both pharma and diagnostics. Earlier this year, an alliance with GE Healthcare was formed aiming at combining the imaging know-how (data) with Roche's in-vitro capabilities. The ultimate goal is to have as many data points as possible, and to have immediate access to databases (clinical trials included) that allow the doctor to pair patients with the most effective regimens. Roche's efforts should also lead to better and faster decision making for its drug development division. It is all about real-world biomarkers, combining different analytical technologies, using software to make sense of it all and, most importantly, providing an easy to use system for physicians. Again, it is this healthcare-tech-consumer convergence that will be crucial in the next decade.

Outlook

There is no denying that innovation is plentiful, but so is competition and pricing pressure. Caution is therefore particularly important when investing in a fast-changing field. Healthcare is in a transitioning period with the US pricing dynamics changing, while, in China, the government is looking to increase access to new therapeutics and encourage its own biotech industry to embrace high standard clinical trial practices. This changing world offers exciting new opportunities, and despite short-term setbacks, we do see exciting times ahead in healthcare.

Platinum International Technology Fund

Alex Barbi
Portfolio Manager

Cameron Robertson
Portfolio Manager

Performance

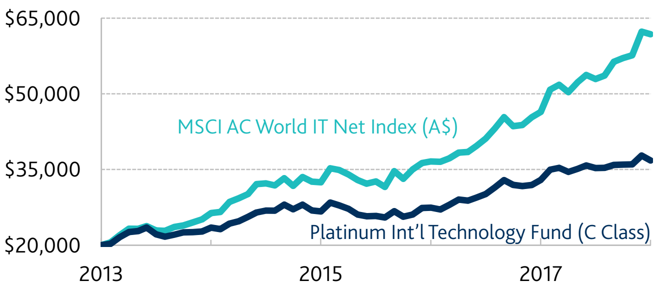
(compound pa, to 30 September 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	2%	12%	11%	13%	10%
MSCI AC World IT Index^	8%	33%	24%	25%	1%

* C Class – standard fee option. Inception date: 18 May 2000.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are in AUD and are inclusive of net official dividends in AUD.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 1, page 44. Numbers are subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

30 September 2013 to 30 September 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
Refer to note 2, page 44.

Over the quarter the Fund (C Class) was up 2.3% while the MSCI AC World Information Technology Index (A$) was up 8.3%. The Fund's relatively large exposure to China, which has been particularly out of favour with investors of late (as Andrew Clifford detailed in his Macro Overview), together with our 26% cash allocation, were largely responsible for the underperformance. The Australian Dollar weakness against major currencies contributed positively to performance.

Among the Fund's top contributors this quarter were Apple (+22%) and Taiwan Semiconductor Manufacturing (+21%).

More than eleven years after **Apple** launched the first iPhone, the company founded by Steve Jobs has confounded sceptics and delivered yet another quarter of very strong results. For the quarter revenue was up 18% year on year while operating profit grew by 23%. The company's market capitalisation reached the symbolic milestone of US$1 trillion, the first ever US listed company to do so.

Milestones aside, what is truly remarkable is the fact that Apple continues to maintain such a strong profit growth trajectory despite the trend of gradually declining shipments for its flagship phones over the last four years.

Apple has long achieved premium brand status, and its loyal customer base is ready to upgrade their iPhones with regular cadence and at much increased prices, if necessary. In 2007 the very first iPhone was launched in the US with a price tag of US$499. Compare that to the latest iPhone XS Max, priced at US$1,449! The average selling price of all iPhones sold in the July-September quarter is estimated at US$742, an 11% increase year on year.

Apple has also widened the range of iPhones available with each annual launch, keeping "older" models in the catalogue but at reduced prices (for example, the iPhone 7 is still available today at US$449). This brilliant market segmentation has worked well to date, but we fear Apple's strategy to keep pushing the price limit may come at the cost of stagnant sales volumes. We estimate that Apple will likely ship around 200 to 220 million handsets a year in the near future as its products become increasingly less affordable. But that is still a respectable share of the overall smartphone market, which is estimated to ship around 1.5 billion units a year, and large enough to generate very good returns on the significant investments the company makes to develop its highly sophisticated technology. Apple spends huge amounts of money on R&D to design its own powerful application processors, among other things, ensuring that they are tightly integrated with its iOS mobile operating system and other components.

While iPhones remain the main driver of Apple's impressive financial performance, the company's efforts to build new product categories and, even more interestingly, a service-based line of business, have begun to show results. Apple Services (music, videos, iCloud, Apple Care etc.) now represent around 18% of total revenue and grew at 31% in the April-June quarter. The Apple Watch has been introducing new functionalities and searching for a unique use case since the release of the first generation in 2015. The latest Series 4 Apple Watch has an FDA-approved electrical heart sensor system which can perform an electrocardiogram (ECG) at the touch of a button. One can see how this smart wearable device may eventually evolve to appeal to a wider audience and contribute much more revenue than its current estimated US$10 billion per year.

There is no doubt that the next 10 years will be more challenging for Apple than the last. However, the company's enormous cash generating capacity and appropriate strategies should help it to maintain a solid growth trajectory. At 16 times prospective earnings, Apple is not expensively priced if it can maintain its earnings growth. First purchased in 2010, we plan to maintain and closely monitor our position.

Another holding of the Fund benefiting from the iPhone success is **Taiwan Semiconductor Manufacturing Company (TSMC)**, the world's largest independent semiconductor foundry. Apple's brand new line-up of iPhones is powered by the A12 Bionic chip. Designed by Apple and manufactured by TSMC, the A12 Bionic is the first ever 7-nanometer smartphone chip. Over the last few years TSMC has emerged as the leading manufacturer that produces the majority of the microprocessors designed by the so-called "fabless" semiconductor companies. As miniaturisation in semiconductor manufacturing has enabled ever more powerful and flexible chips (as Moore's Law predicted),

Net Sector Exposures

SECTOR	30 SEP 2018	30 JUN 2018	30 SEP 2017
Information Technology	58%	64%	58%
Telecom Services	6%	6%	8%
Industrials	5%	4%	5%
Consumer Discretionary	4%	4%	6%
Utilities	<1%	1%	1%
Financials	0%	<1%	0%
TOTAL NET EXPOSURE	73%	79%	77%

See note 4, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Disposition of Assets

REGION	30 SEP 2018	30 JUN 2018	30 SEP 2017
North America	42%	42%	34%
Asia	20%	23%	27%
Europe	10%	10%	13%
Japan	3%	5%	3%
Cash	26%	20%	23%
Shorts	-1%	-1%	0%

See note 3, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Currency Exposures

CURRENCY	30 SEP 2018	30 JUN 2018	30 SEP 2017
US dollar (USD)	53%	52%	51%
Hong Kong dollar (HKD)	9%	10%	15%
Korean won (KRW)	7%	6%	8%
Australian dollar (AUD)	6%	8%	3%
Japanese yen (JPY)	6%	6%	6%
British pound (GBP)	4%	3%	4%
Taiwan new dollar (TWD)	3%	2%	3%
Euro (EUR)	3%	3%	3%
Canadian dollar (CAD)	3%	3%	2%
Norwegian krone (NOK)	3%	2%	1%
Swedish krona (SEK)	2%	2%	2%
Swiss franc (CHF)	1%	2%	2%

See note 5, page 44. Numbers are subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	USA	IT	6.1%
Samsung Electronics	Korea	IT	3.8%
Tencent Holdings	China	IT	3.7%
Facebook Inc	USA	IT	3.5%
Apple Inc	USA	IT	3.3%
Taiwan Semiconductor	Taiwan	IT	2.9%
PayPal Holdings	USA	IT	2.7%
Constellation Software	Canada	IT	2.7%
Schibsted ASA	Norway	Consumer Discretionary	2.6%
Oracle Corporation	USA	IT	2.5%

As at 30 September 2018. See note 6, page 44.
Source: Platinum Investment Management Limited.

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

numerous new applications have emerged, dramatically expanding the market originally driven only by personal computers. Portable music players, smartphones, game consoles, smart TVs, routers and other smart devices in the Internet of Things (IoT) have driven demand for semiconductors designed by a new generation of smaller, innovative companies who lack the financial resources to build the very expensive manufacturing capabilities in-house. Qualcomm, Nvidia, MediaTek, Marvell, Broadcom, Xilinx and AMD, to name just a few, all rely on TSMC for their manufacturing services. Semiconductor fabrication or manufacturing plants ("fab") require huge capital expenditure to build and periodic upgrades are needed to remain competitive. Many companies, such as those named above, therefore choose to focus on chip design and outsource the manufacturing to specialists like TSMC.

TSMC has now established a position of leadership in chip fabrication at 7 nanometres, and it has already started the process of building a new 5 nanometre fab which has an estimated capital requirement of US$15 billion! Only Intel and Samsung Electronics have the scale and financial resources necessary to keep pace with TSMC in the short-term. In the long-term we will have to keep an eye on China. The Chinese authorities are well aware that the semiconductor industry is of too much strategic importance to be left in the hands of US, Koreans and Taiwanese companies, and they are directing local companies to accelerate R&D and increase their investment budgets.

At 16.6 time 2019 earnings, TSMC's valuation is slightly above its recent history, but it reflects the company's current leadership position among its peers and competitors.

As mentioned in the introduction of this report, Chinese companies (including those listed on US stock exchanges) have seen some setbacks and underperformed global markets during the quarter. Among the Fund's top detractors were Chinese internet giants Tencent (-18%) and JD.Com (-33%).

Tencent reported slowing revenue and profit growth for the June quarter amidst concerns around slowing growth in its mobile gaming unit. Growth in online gaming revenue decelerated to 6% year on year and declined by 19% quarter on quarter, as the company faced difficulties in obtaining regulatory approvals to monetise the hugely popular PlayerUnknown's Battlegrounds (PUBG). This delay seems to have been caused mainly by the Chinese authorities' wish to impose stricter control over (and adapt or "localise") content distributed on China's social networks.

Investors' reaction to this temporary bottleneck appears somewhat excessive, in our view. The company has a long pipeline of proprietary games already approved for monetisation, and it's confident that it is only a matter of time before approval will be received for the new names.

Despite the recent setback in its gaming business, Tencent is a social network behemoth, with more than 800 million users on its desktop-based QQ platform and more than 1 billion users on its mobile app WeChat. These are not exactly side projects! Online advertising revenue in the June quarter grew 39% year on year, and potential new revenue streams are constantly under development, including partnerships with other technology companies in areas such as e-commerce, digital payment, video subscription, etc. Tencent remains a high conviction position in our portfolio.

Leading e-commerce company **JD.com** was heavily marked down as a result of the general negative sentiment on consumer related stocks. Recent data showed decelerating retail growth and even declines in sales in certain consumer goods categories (e.g. July sales in household appliances fell 9.3% year on year and apparel fell 4.3%).[1]

JD.com's June quarterly results showed a solid but slowing revenue growth rate (31% year on year, compared to 44% a year earlier) and management revised down its forecasts of revenue growth and margins for the rest of the year. Additional investments in logistics and new initiatives were cited as the main reasons for the company's lacklustre near-term outlook. With razor-thin operating margins (around break-even on a pro-forma basis), JD's ability to permanently lift its profitability is looking increasingly doubtful to investors, despite its strong revenue growth and sizeable footprint.

We have reduced the Fund's exposure to JD and continue to review the remaining position as we assess it against other potentially more attractive ideas.

Outlook

Companies exposed to digital advertising, cloud-based software and internet services are likely to remain the hot spots, as long as investors continue to chase "growth" and inflate valuations to ever higher levels. The obvious risk is a possible slowdown in US/global economic growth, which will pull the most expensive technology stocks down to earth.

We expect to see a cyclical slowdown in semiconductor demand as inventory adjustments are occurring following the excess ordering in the first half of the year.

The escalating trade war between the US and China is creating obstacles across global supply chains and impacting negatively on technology component manufacturers' margins. Semiconductor stocks are out of favour. However, if the downturn indeed turns out to be a temporary and shallow one, as we expect it to be, it will likely provide us with good opportunities to buy some very interesting companies at attractive valuations.

1 Source: China National Commercial Information Center: www.cncic.org/?p=1524

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 price-to-earnings (P/E) ratio and is a measure of the rate of return on an equity investment.

Enterprise value (EV)

A measure of a company's total market value, EV equals to a company's market capitalisation plus net debt, minority interest and preferred equity, minus cash and cash equivalents.

Free cash flow (FCF)

Free cash flow is a measure of a company's financial performance calculated as operating cash flow minus capital expenditures. Free cash flow represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base.

Price-to-book ratio (P/B)

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

Price-to-earnings ratio (P/E)

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

Price-to-sales ratio (P/S)

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

Profit margin

A measure of a company's profitability, profit margin (also called net margin) is the ratio of net profits to net sales. It is typically expressed as a percentage that shows how much of each dollar of revenue earned by the company is translated into profits.

Return on equity (RoE)

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

Total return

Total return refers to the overall return on an investment over a given period, including both income (e.g. from dividends and interest) and capital gains or losses (i.e. changes in the market value of the asset).

Total return can also refer to a category of investment strategies that seek to maximise the overall gains from both capital appreciation and income and that are generally flexible with regards to market exposure.

Yield

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

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

The Journal

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

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

Recent highlights include:

- **An Interview with Kerr Neilson**[1] –
  In this in-depth interview with Mark Draper from GEM Capital, Kerr Neilson recalls some of the most memorable episodes from his long career as an investment manager and offers some hard-learned lessons in stock-picking.
- **Governing Nations in the Age of Digitisation**[2] –
  Technology is changing how governments interact with citizens. Platinum's 2018 annual report features two insightful papers that look at two nation states harnessing the power of digital technology with very different objectives and methods.
- **The Rise and Rise of Technology**[3] –
  In this podcast interview with Gemma Dale, Director of SMSF and Investor Behaviour at NAB Trade, Alex Barbi, portfolio co-manager of the Platinum International Technology Fund, discusses some of the key trends in the technology sector, including the saturation and regulatory risks facing the 'FANG' stocks.
- **A Crash Course in Investment Management**[4] –
  In a recent presentation to a group of students at the Department of Accounting, Finance and Economics at Griffith University, Douglas Isles draws on his 20 years of industry experience and discusses why investment management should appeal to a more diverse group of students as a career choice.
- **Beware of the Trifecta of Desire**[5] –
  The impacts of behavioural heuristics on investment decisions are well understood, but human conditioning also impacts on investment communication. Douglas Isles discusses why the demand for performance, simplicity and connection can misguide advisers and investors.

1 www.platinum.com.au/Insights-Tools/Investment-Fundamentals/Investing-What-Matters/Article-Item/Interview-with-Kerr-Neilson
2 www.platinum.com.au/Insights-Tools/The-Journal/Governing-Nations-in-the-Age-of-Digitisation
3 www.platinum.com.au/Insights-Tools/The-Journal/The-Rise-Rise-of-Technology
4 www.platinum.com.au/Insights-Tools/Investment-Fundamentals/Investing-What-Matters/Article-Item/A-Crash-Course-in-Investment-Management
5 www.platinum.com.au/Insights-Tools/Investment-Fundamentals/Curious-Investor-Behaviour/Article/Beware-the-Trifecta-of-Desire

Investing – What Matters!

"Bull markets go to people's heads. If you're a duck on a pond, and it's rising due to a downpour, you start going up in the world. But you think it's you, not the pond."

— Charlie Munger

"At the core of an analytical edge is an ability to systematically distinguish between fundamentals and expectations. Fundamentals are a well thought out distribution of outcomes, and expectations are what's priced into an asset.

A power metaphor is the [pari-mutuel] racetrack. The fundamentals are how fast a given horse will run and the expectations are the odds on the tote board. As any serious handicapper knows, you make money only by finding a mispricing between the performance of the horse and the odds. There are no 'good' or 'bad' horses, just correctly or incorrectly priced ones."

— Michael Mauboussin

Some Light Relief

"Your portfolio looks fine. It's your dreams we need to talk about."

Notes

1. Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of the stated unit class of the Fund and represent the combined income and capital returns of the stated unit class over the specified period. Fund returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

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

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

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

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

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

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3. The geographic disposition of assets (i.e. the positions listed other than “cash” and “shorts”) represents the Fund's effective long exposures to the relevant countries/regions as a percentage of the Fund's net asset value, taking into account direct stock holdings and long derivative positions (stocks and indices).

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

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

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

Disclaimers

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Investor services numbers

Monday to Friday, 8.30am – 6.00pm AEDT

1300 726 700

0800 700 726
New Zealand only

Or visit us at our office

Level 8, 7 Macquarie Place, Sydney

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$26 billion. Platinum's ultimate holding company, Platinum Asset Management Limited (ASX code: PTM), was listed on the ASX in May 2007, and Platinum's staff continue to have relevant interests in the majority of PTM's issued shares.

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

* Please refer to page 2.

Platinum®
ASSET MANAGEMENT

Level 8, 7 Macquarie Place
Sydney NSW 2000

GPO Box 2724
Sydney NSW 2001

Telephone
1300 726 700 or +61 2 9255 7500
0800 700 726 (New Zealand only)

Facsimile
+61 2 9254 5590

Email
invest@platinum.com.au

Website
www.platinum.com.au