Platinum International Fund

Kerr Neilson
Portfolio Manager

Andrew Clifford
Portfolio Manager

Clay Smolinski
Portfolio Manager

Performance

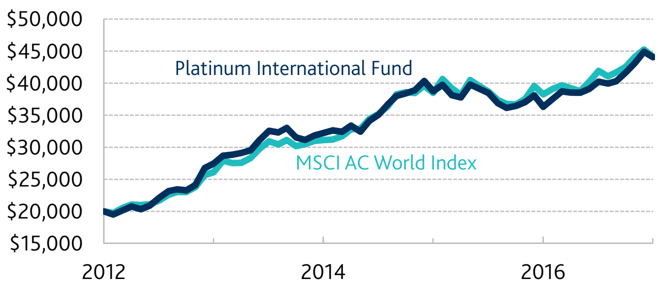
(compound pa, to 30 June 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund	6%	21%	11%	17%	13%
MSCI AC World Index	4%	15%	12%	17%	6%

Source: Platinum and MSCI Inc. Refer to note 1, page 5.

Value of $20,000 Invested Over Five Years

30 June 2012 to 30 June 2017



Source: Platinum and MSCI Inc. Refer to note 2, page 5.

Disposition of Assets

REGION	30 JUN 2017	31 MAR 2017	30 JUN 2016
Asia	37%	37%	31%
Europe	19%	22%	21%
North America	18%	20%	23%
Japan	13%	14%	11%
Russia	1%	<1%	1%
South America	<1%	0%	0%
Australia	0%	1%	1%
Cash	12%	6%	12%
Shorts	-9%	-8%	-13%

Source: Platinum. Refer to note 3, page 5.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	IT	3.2%
Alphabet Inc	USA	IT	2.9%
Lixil Group Corporation	Japan	Industrials	2.5%
Ping An Insurance Group	China	Financials	2.5%
Oracle Corporation	USA	IT	2.3%
PICC Property & Casualty Co	China Ex PRC	Financials	2.3%
Tencent Holdings	China Ex PRC	IT	2.2%
Sanofi SA	France	Health Care	2.1%
KB Financial Group	Korea	Financials	2.1%
Baidu.com	China Ex PRC	IT	2.0%

As at 30 June 2017. Source: Platinum. Refer to note 4, page 5.

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

Performance

The core themes that were established during the first quarter persisted through the second, namely, the notion of improved and widespread growth in economic activity across the world with accompanying improved sentiment and a willingness to take more perceived risk by raising exposure to Emerging Markets. The departure from the view of the first quarter was **a surprisingly weak US dollar**, which reflects the difficulties that the Trump Administration is having in the legislative process and investors' perceptions about relative growth rates. This showed in the **recovery in the Euro** which was accompanied by a notable increase in European bond yields. Clearly, the election of Emmanuel Macron as the new President of France and the improving political climate for Angela Merkel in Germany have also played a part as has the whispering around changing monetary policy by the European Central Bank. The prospect of a tighter working relationship between Germany and France, together with the economic reform promised by the new President, led to strong investment flows into European equities. The poor showing of Theresa May in the British general election may promote a less bellicose initiation of the Brexit negotiations than previously intimated, though it seems probable that the process will be to the detriment of confidence in the UK economy which is running an abnormally low savings rate.

Having initially been concerned about the **new measures to tighten lending in China**, investors came around to the view that this was a positive development, particularly as it was evidenced in practice by the closure of redundant capacity in industries like cement and steel. The remaining operations have subsequently seen significant improvements to their profits, much to the delight of their creditors and the Chinese banking system in general!

India continues to grow strongly at over 6% p.a. despite credit growth being at the lowest since the country's 1947 independence – about 4.5% p.a. (This is noteworthy for those who believe credit growth is a precondition for economic growth. It is not, but it does serve as a lubricant.) At last, GST is being implemented largely to the benefit of the states and carries a messy range of rates depending on the priority needs for particular goods and services. While improving the country's tax base is crucial, the reform of the insolvency law is quite as far-reaching. Under the Insolvency and Bankruptcy Code of 2016, a large portion of the state-owned banks' non-performing loans – estimated to constitute 10 to 15% of their 'assets' – will no longer be sheltered from recovery by archaic legal processes. The removal of this blockage will help the banks to clear the backlog of non-performing borrowers and the benefits will be felt in a more vibrant corporate bond market as larger firms seek alternative funding sources.

Overall, the Emerging Markets, in particular Asia, led again with a rise of close to 8% (in AUD terms), but the powerful fund flows into Europe ensured it wasn't too far behind, up 6.6% (in AUD). While the leading tech names sold off towards the quarter's end, they had a spectacular lift-off in late April, achieving the best returns in the MSCI sector indices for the quarter as a whole, along with healthcare. The laggard sectors include energy, telecoms and utilities. This suited our positioning greatly, with the Fund outperforming over the quarter and the last 12 months. The Fund achieved 5.8% for the quarter and 21.3% for the year, compared to 3.7% and 15.3% respectively for the Index. Over the last five

MSCI Regional Index Performance to 30.6.2017 (AUD)

REGION	QUARTER	1 YEAR
Developed Markets	**3%**	**15%**
Emerging Markets	**6%**	**20%**
United States	**2%**	**14%**
Europe	**7%**	**17%**
Germany	6%	25%
France	9%	24%
United Kingdom	4%	10%
Japan	**5%**	**16%**
Asia ex Japan	**8%**	**23%**
China	10%	28%
Hong Kong	7%	20%
India	2%	14%
Korea	10%	31%
Australia	-2%	15%

Source: MSCI Inc

MSCI All Country World Sector Index Performance to 30.6.2017 (AUD)

SECTOR	QUARTER	1 YEAR
Information Technology	6%	32%
Health Care	6%	6%
Industrials	5%	19%
Financials	4%	30%
Consumer Discretionary	3%	17%
Consumer Staples	3%	1%
Utilities	3%	0%
Materials	2%	21%
Telecommunication Services	-1%	-5%
Energy	-5%	-3%

Source: MSCI Inc

years, the Fund has given investors over 17% p.a. which is in line with the MSCI, even though our average net invested position has been around 80% or less.

Holdings that strongly influenced the Fund's performance over the quarter include tech holdings such as Tencent, Samsung Electronics and Alphabet (Google), luxury goods group Kering, Italian bank Intesa Sanpaolo, and Chinese insurer Ping An.

Detractors were again the energy stocks, such as TechnipFMC and Inpex.

Shorting

We added to index shorts as the quarter came to an end with an eye to heat coming out of the very extended tech sector rally. Work on Amazon has encouraged us to broaden our stock specific shorts against consumer packaged goods companies that face both category weakness and the loss of protection from scale and channel access in an e-commerce enabled world.

Currency

The surprise to us has been the recovery of the Australian dollar. Having been long the AUD, we eliminated most of our position, figuring that the US dollar would have responded more to the tightening (a narrower interest rate differential). We also sold down the Korean won into strength against the US dollar and added to the Yen and the Euro while halving the hedge on the Chinese yuan after it weakened. It wasn't our best quarter for reading currencies.

CURRENCY	30 JUN 2017	31 MAR 2017	30 JUN 2016
US dollar (USD)	30%	32%	44%
Euro (EUR)	14%	12%	13%
Hong Kong dollar (HKD)	11%	10%	11%
Japanese yen (JPY)	10%	5%	4%
Korean won (KRW)	7%	9%	3%
Indian rupee (INR)	7%	7%	6%
Norwegian krone (NOK)	6%	6%	4%
Chinese yuan (CNY)	4%	-2%	-3%
Australian dollar (AUD)	4%	18%	16%
British pound (GBP)	3%	4%	4%
Chinese yuan offshore (CNH)	0%	-6%	-6%

Source: Platinum. Refer to note 6, page 5.

Changes to the Portfolio

It was a quarter characterised by opportunistic repositioning rather than adding many important new holdings. The strong run in tech stocks saw us trim positions in **Alphabet (Google)**, **Tencent**, **Samsung Electronics**, **Cisco** and **Ericsson**. We also reduced our exposure to European banks (**Lloyds**, **Intesa Sanpaolo** and **Mediobanca**) as they rose on improving prospects. The **gold ETF** and **Newcrest Mining** were removed. We haven't lost interest in this asset group, but for the moment are giving preference to producers of copper and nickel, like **Sumitomo Metal Mining** and **Norilsk**.

Additions were made to **Nielsen** after a period of share price weakness stemming from doubts around its video monitoring service and expenditure cuts by the consumer packaged goods companies. We also added to **Alibaba**, because of its tightening grip on e-commerce and broader payment footprint. We bought more **Oracle** on the view that the market is about to treat them more seriously as a cloud provider. Its subsequent quarterly earnings call supported this view.

The significant new name in the portfolio is **Royal Dutch Shell**. Like others in the oil industry, the company has been shaken by self-inflicted problems that partly had their origins in booming oil prices which rose from the lows of below US$11 in 1999 to the highs of over US$120 per barrel in 2012. Following the fiasco of overstated reserves in 2004, Shell went through a rudderless period when it wasted huge amounts of capex in every direction. This changed abruptly in 2013 with the appointment of a new CEO and the company embarked on a complete re-appraisal of its future. There followed the opportunistic acquisition of BG in early 2016 which, together with earlier exploration outlays, secures the company's reserves for over 25 years. The resolution of issues around efficiency, costs and capital spending is well underway. This involves a wholesale change in management, greater centralisation, and the establishment of 150 discrete profit centres with very explicit performance targets. Possibly the most important change is the grafting of top BG personnel into key positions and other heads being appointed from the less profligate downstream divisions.

The second string to Shell's reformation lies in a US$30 billion divestiture program which, apart from raising cash, is intended to bring debt to very low levels and will simplify the overall group. The company forecasts US$20 billion a year in free cash flow by 2020 on the basis of an oil price of US$60 per barrel, capex of US$25-30 billion p.a. and a free cash flow yield of 13% p.a. – more than enough to meet the current 7% dividend yield. On current forecasts, which we believe to be highly conservative, the cash dividend is covered at an oil price of US$52 per barrel. As the market re-appraises the sector, it is highly likely that the strength that Shell has in traded LNG, conventional and deep-water production as well as the downstream initiatives will result in a significant re-rating. A higher oil price is not a precondition for this to be a fine investment.

Outlook

We do not have very strong views about markets at present. We can see plenty of areas that are already pricing in a lot of promise, but equally, we are finding enough areas of neglect to keep us very busy. We are working on each area for longs and shorts.

Interest rates are evidently rising in the US with the paradox that so long as there is uncertainty around the US legislative process, the desire to tighten faces hesitancy. However, the bond markets have been signalling the rising trend since last year and improving trade numbers around the world reinforce the conviction about global growth.

The other area that has been plaguing confidence is concern around the tightening of credit in China. As we alluded to earlier, **a reallocation of credit within the system can ameliorate this reduction** in the growth rate of credit. What heartens us greatly is the rise in the prices of formerly oversupplied commodities within China, implying that the forced removal of surplus capacity is proving successful. Prices of steel, cement and float glass have respectively risen by 75%, 30% and 16% from this time last year. With strong profit growth reflecting this improved pricing power, think how this improves **the loan books of the Chinese banks**.

The prospect of more balanced global growth and capital flows should continue to favour our portfolio.

Notes

1. The investment returns are calculated using the relevant Fund's unit price and represent the combined income and capital return for the specified period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), 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 Funds' underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

   The Funds' inception dates are as follows:
   - Platinum International Fund: 30 April 1995
   - Platinum Unhedged Fund: 31 January 2005
   - Platinum Asia Fund: 4 March 2003
   - Platinum European Fund: 30 June 1998
   - Platinum Japan Fund: 30 June 1998
   - Platinum International Brands Fund: 18 May 2000
   - Platinum International Health Care Fund: 10 November 2003
   - Platinum International Technology Fund: 18 May 2000

   (NB: The gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist then.)

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over the specified five year period relative to the relevant benchmark index as follows (the "Index"):
   - Platinum International Fund – MSCI All Country World Net Index ($A)
   - Platinum Unhedged Fund – MSCI All Country World Net Index ($A)
   - Platinum Asia Fund – MSCI All Country Asia ex Japan Net Index ($A)
   - Platinum European Fund – MSCI All Country Europe Net Index ($A)
   - Platinum Japan Fund – MSCI Japan Net Index ($A)
   - Platinum International Brands Fund – MSCI All Country World Net Index ($A)
   - Platinum International Health Care Fund – MSCI All Country World Health Care Net Index ($A)
   - Platinum International Technology Fund – MSCI All Country World Information Technology Net Index ($A)

   (NB: The gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist then.)

   The investment returns are calculated using the relevant Fund's unit price and represent the combined income and capital return for the specified period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), are pre-tax, and assume the reinvestment of distributions. Platinum does not invest by reference to the weighting of the Index. Underlying assets are chosen through Platinum's individual stock selection process and, as a result, the Fund's holdings may vary considerably to the make-up of the Index. The Index is provided as a reference only.

3. Geographic exposures (i.e. the positions listed other than "cash" and "shorts") represent any and all of the Fund's exposure to company securities and long derivatives (stock and index) as a percentage of the Fund's net asset value (before annual cash distribution).

4. The table shows the Fund's top ten long stock positions (including any company securities and long derivatives) as a percentage of the Fund's net asset value (before annual cash distribution).

5. Sector breakdown represents the Fund's net exposure to any and all company securities and both long and short derivatives (stock and index) as a percentage of the Fund's net asset value (before annual cash distribution).

6. The table shows the Fund's net currency exposures as a percentage of the Fund's net asset value (before annual cash distribution), taking into account any currency hedging.

Disclaimer

MSCI Inc Disclaimer