Platinum International Fund

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Performance

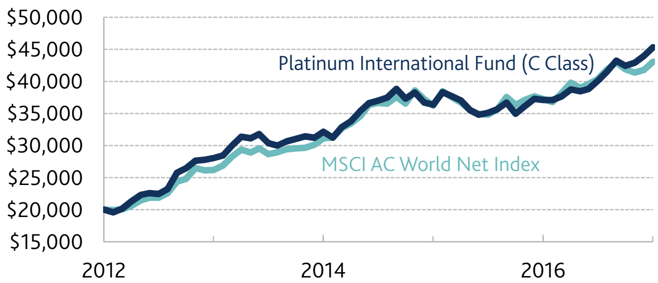
(compound pa, to 30 September 2017)

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

*C Class – standard fee option. Inception date: 30 April 1995.
Refer to note 1, page 5.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

Value of $20,000 Invested Over Five Years

30 September 2012 to 30 September 2017



Refer to note 2, page 5.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

Disposition of Assets

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

Source: Platinum Investment Management Limited. See note 3, page 5.

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

Top 10 Holdings

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

As at 30 September 2017.
Source: Platinum Investment Management Limited. See note 4, page 5.

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

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

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

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

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

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

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

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

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

MSCI Regional Index Performance to 30.9.2017 (AUD)

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

Source: RIMES Technologies

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

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

Source: RIMES Technologies

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

Shorting

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

Currency

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

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

Source: Platinum Investment Management Limited. See note 6, page 5.

Changes to the Portfolio

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

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

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

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

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

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

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

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

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

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

Outlook

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

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

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

Notes

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

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

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

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

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

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

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

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

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

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

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