Platinum International Fund

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Performance

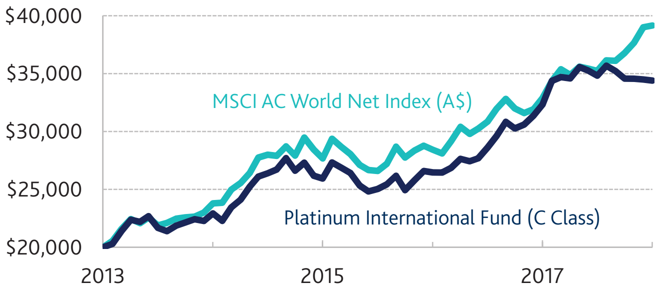
(compound pa, to 30 September 2018)

	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 5. 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 5.

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[2]** 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 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[3] 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 https://www.platinum.com.au/Insights-Tools/The-Journal/Macro-Overview-September-2018

3 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[4] 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.

4 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 5. 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 5. 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 5. 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.

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[5] 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.

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 5.
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.

5 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.

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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