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

31 MARCH 2018

Contents

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

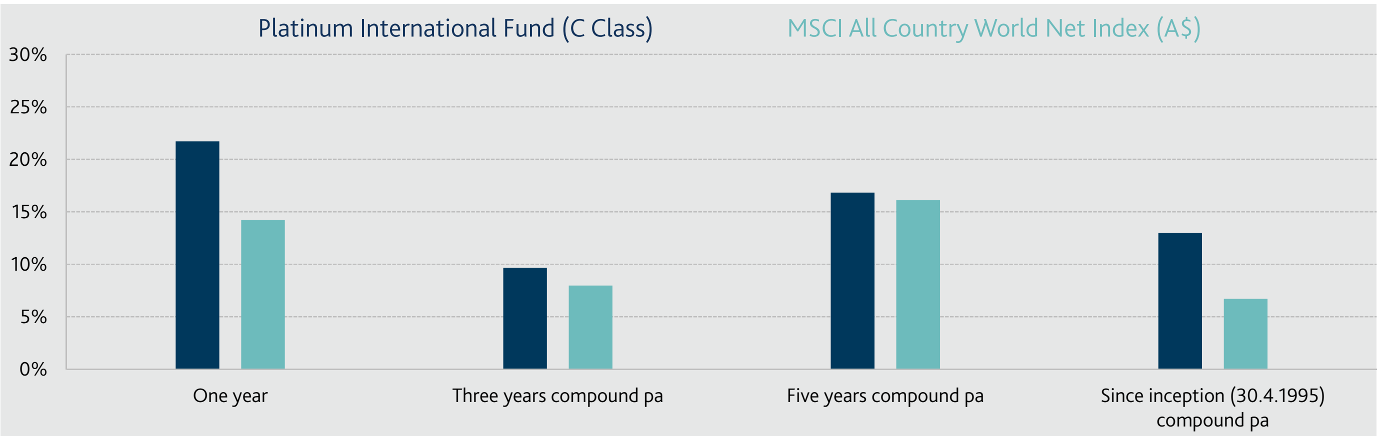
Performance Returns to 31 March 2018

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)	**$11,396m**	**0.7%**	**21.7%**	**17.9%**	**9.7%**	**16.8%**	**13.0%**	**30 Apr 1995**
Platinum International Fund (P Class)	$4m	0.7%	–	–	–	–	13.0%*	3 Jul 2017
MSCI All Country World Net Index (A$)		1.0%	14.2%	15.1%	8.0%	16.1%	6.7%	30 Apr 1995
Platinum Unhedged Fund (C Class)	**$317m**	**0.2%**	**23.6%**	**22.7%**	**12.3%**	**18.5%**	**12.0%**	**28 Jan 2005**
Platinum Unhedged Fund (P Class)	$1m	0.3%	–	–	–	–	14.5%*	3 Jul 2017
MSCI All Country World Net Index (A$)		1.0%	14.2%	15.1%	8.0%	16.1%	7.0%	28 Jan 2005
Platinum Asia Fund (C Class)	**$4,787m**	**-0.4%**	**26.0%**	**20.8%**	**7.6%**	**15.7%**	**15.5%**	**4 Mar 2003**
Platinum Asia Fund (P Class)	$3m	-0.3%	–	–	–	–	16.1%*	3 Jul 2017
MSCI All Country Asia ex Japan Net Index (A$)		2.6%	25.1%	21.7%	9.1%	15.0%	10.9%	4 Mar 2003
Platinum European Fund (C Class)	**$989m**	**5.4%**	**28.7%**	**22.2%**	**13.5%**	**17.2%**	**12.4%**	**30 Jun 1998**
Platinum European Fund (P Class)	$4m	4.6%	–	–	–	–	15.3%*	3 Jul 2017
MSCI All Country Europe Net Index (A$)		0.1%	14.1%	12.4%	4.8%	12.7%	2.9%	30 Jun 1998
Platinum Japan Fund (C Class)	**$843m**	**-1.0%**	**20.8%**	**20.7%**	**12.1%**	**22.7%**	**15.2%**	**30 Jun 1998**
Platinum Japan Fund (P Class)	$4m	-1.0%	–	–	–	–	13.9%*	3 Jul 2017
MSCI Japan Net Index (A$)		2.8%	19.0%	17.2%	8.2%	15.8%	2.9%	30 Jun 1998
Platinum International Brands Fund (C Class)	**$908m**	**3.3%**	**26.9%**	**23.0%**	**13.3%**	**15.5%**	**13.2%**	**18 May 2000**
Platinum International Brands Fund (P Class)	$1m	3.0%	–	–	–	–	14.3%*	3 Jul 2017
MSCI All Country World Net Index (A$)		1.0%	14.2%	15.1%	8.0%	16.1%	2.8%	18 May 2000
Platinum International Health Care Fund (C Class)	**$197m**	**5.8%**	**11.3%**	**15.9%**	**8.6%**	**17.7%**	**9.6%**	**10 Nov 2003**
Platinum International Health Care Fund (P Class)	$1m	5.1%	–	–	–	–	7.8%*	3 Jul 2017
MSCI All Country World Health Care Net Index (A$)		1.0%	9.2%	9.1%	2.7%	17.6%	8.5%	10 Nov 2003
Platinum International Technology Fund (C Class)	**$110m**	**2.2%**	**17.1%**	**16.9%**	**9.5%**	**17.3%**	**9.5%**	**18 May 2000**
Platinum International Technology Fund (P Class)	$1m	2.3%	–	–	–	–	10.7%*	3 Jul 2017
MSCI All Country World IT Net Index (A$)		5.2%	28.7%	27.3%	18.0%	26.3%	0.5%	18 May 2000

* As P Class of the fund commenced less than a year ago, its since inception returns are not annualised. They are cumulative from 3 July 2017.
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 RIMES Technologies for MSCI index returns. Refer to note 1, page 44.

Platinum International Fund vs. MSCI AC World Net Index

To 31 March 2018



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 RIMES Technologies for MSCI index returns. Refer to note 1, page 44.

Letter to Investors

22 February 2018

Dear clients and shareholders

The Platinum Asset Management Limited (ASX: PTM) Board has endorsed my decision to hand over the role of Chief Executive Officer (CEO) of the Platinum Group[1] to Andrew Clifford from 1 July 2018. I will continue as a full time executive director of the Platinum Group and a member of Platinum's investment team, continuing to work on the generation of investment ideas and company research. I will also provide additional support to Platinum's client diversification initiatives in Europe and the US.

As you will be aware, Andrew co-founded the company in 1994 and has over 30 years of investment experience. He took over the role of Chief Investment Officer (CIO) in 2013 and led the implementation of the highly successful sector-based investment team structure. Andrew will continue to lead the investment team as CIO.

I formerly held the positions of CIO and CEO concurrently, and found that with the strong support of the other executive directors my time was essentially focused on investing. More important still is that in an investment performance-driven organisation like Platinum, it is essential that the direction of the firm is controlled from the perspective of investing rather than from that of money gathering.

Andrew Clifford, along with Clay Smolinski, will take full portfolio management responsibility for the flagship fund, the Platinum International Fund,[2] and my portfolio management responsibilities for Platinum's other global equity funds and mandates will be allocated between Andrew Clifford and Clay Smolinski. Both Andrew's and Clay's long-term individual performance records are exceptionally strong.

The investment team has grown significantly over the years and now comprises 31 individuals including nine portfolio managers who have an average tenure at Platinum of 13 years. These portfolio managers run a range of highly successful global, regional and sector funds, each with strong long-term performance records.

It is with delight that the years of training and gradual elevation in responsibility has allowed our flat organisational structure to bring through and reward a growing number of the team to enjoy the recognition they have earned.

I look forward to continue to tussle around with investment ideas and to spread more broadly the word about our global investment capability.

These changes will take effect from 1 July 2018.

Yours sincerely

Kerr Neilson

CEO

1 Platinum Group means Platinum Asset Management Limited and its subsidiaries. Platinum means Platinum Investment Management Limited.

2 The flagship fund, the Platinum International Fund, is currently co-managed by Kerr Neilson 50%, Andrew Clifford 40% and Clay Smolinski 10%. From 1 July 2018, the Fund will be co-managed by Andrew Clifford 70% and Clay Smolinski 30%.

A Consistent Approach for Investing in an Ever Changing World

by Andrew Clifford, CIO

This is an edited rendition of Andrew Clifford's presentation at the 2018 Platinum Investor Roadshow in Sydney. To view a video of this and other presentations from the Roadshow, please visit www.platinum.com.au/Insights-Tools/The-Journal/2018-Roadshow-Presentation.

How the world has changed since 30 years ago

Back in October 1987, a little over 30 years ago, I was sitting at home, working on my final assignment for university. It was a thesis on the pricing of currency options. As I typed away at my PC while listening to the radio, on came the news of some extraordinary events starting to take place in the stock market. I switched from Triple M to the ABC and spent the next few days glued to the radio as the historic '87 market crash unfolded.

At this stage, Kerr had already offered me a job at Bankers Trust in a team of four that managed the equity funds. But there were some interesting things as I reflect back on this time. In the weeks following the crash, I started receiving letters from the other financial institutions that I had been interviewing at, informing me that there was no need to come in for further interviews. It wasn't that they didn't want me, the letters explained, it was just that they were cancelling their graduate intake for 1988.

It's extraordinary how short-termed people's mindsets are in business, particularly in finance.

I did eventually stop to wonder whether I still had a job at Bankers Trust. Fortunately, I did. When I arrived there in January 1988, I was immediately struck by something very different about this place. October '87 was not seen as a threat, or as a crisis. It was seen as an opportunity.

30 years ago doesn't feel like it's been a very long time for me. But it's worth reflecting on how much has changed over this period. I was listening to an FM music station. It was the disruptive technology of the '80s. Commercial FM had been around for seven years and had wiped out the AM stations that hadn't made the move. The radio, the TV and the newspapers – they were where we got our news from. Nowhere else.

I was unusual among university students in those days to have a personal computer at home. I borrowed $4,000 from my grandmother to buy it and a printer. It was an IBM XT clone – a copycat of the real thing. If you had bought the actual IBM XT back then, it would have set you back $20,000 – about $40,000 in today's terms – and all it could do for you was some word processing, some spreadsheets and a little bit of primitive coding.

And that thesis that I was working on – currency option pricing – it was the leading edge financial engineering of the day, though pretty tame compared to the weird and wonderful things that the derivatives desks come up with today.

Besides these obvious changes in technology – the Internet, e-commerce, mobile phones, the revolution in healthcare and biotech – over those 30 years we have seen the rise of China and India. It has been an extraordinary 30 years, and this period of incredible change is important to the way we see opportunities (I will return to this later).

How our investment approach has stayed the same

The other thing that struck me about Kerr's team at Bankers Trust back then was that there was a very clear view about how we needed to invest to achieve good outcomes – to find undervalued companies. Furthermore, there was also a clear view about where such undervalued companies were to be found. First, we looked in those parts of the market that were out of favour, that no one else was interested in, the unloved companies, industries and countries. Second, we looked in areas where there was a great deal of change going on. The other side of the coin of the search for undervalued companies was the avoidance of the fashionable or popular investment ideas of the day.

In 1989 I took on the management of the BT Select Markets Pacific Basin Fund. In 1989, the Indonesian stock market had just opened up to foreign investors, and there were a total of eight stocks that we could invest in. My first visit to China was in 1990. There was no stock market in China in 1990. The first stock listing in China did not happen until 1992. Where was the fashionable place to be in 1989? Where did one have to be invested in? It was Japan, which was 40% of the world market back then. And what did we at Bankers Trust do with Japan in 1989? Absolutely nothing. We did not spend a single minute on a Japanese company or on that country for at least another three years, by which point the Japanese market had fallen 60%. This was an approach that was rewarded with very good investment outcomes back then.

In early 1994, Kerr left Bankers Trust. He invited myself, Liz Norman, Jim Simpson, Toby Harrop, Malcolm Halstead and Michele Martinez to help start up the business of Platinum. The premise of starting this business was simple. We had an investment approach that we knew would generate good returns for our clients. This was what we would do. We would not be all things to all people. We would simply deliver good investment outcomes using an approach that we understood.

This investment approach – the idea of avoiding the crowd, looking for what's out of favour, and focusing on what's changing – is easily enough said. But at the core of this approach are the cognitive biases that each and every one of us has. They are a fundamental part of human behaviour. We've had in print for over 15 years this little book, *Curious Investor Behaviour*, which outlines some of these behavioural challenges that we all face as investors.[1]

We can talk about these cognitive biases one by one – attribution bias, confirmation bias, loss aversion, and so on. There are many of them, but the lesson is the same. Our intuitive response to many questions – particularly investment questions – will often lead us to making the wrong choices. If I put to you any kind of investment idea, you would have an immediate intuitive response – it's a good idea, or it's a terrible idea. If I asked "is it a good idea to invest in Sydney residential property", many of you would say yes while others would say no and many would find themselves somewhere in between.

The question we should be asking is "what's the underlying evidence", or "how do the facts stack up with our feelings". The key to remember is that ***great opportunities occur when our conviction is low but the evidence – the facts – is strong***.

With this in mind, I'd like to now return to the two opportunities presented earlier tonight by Dr Joe Lai and Clay Smolinski: China and electric vehicles.

China – an extreme case of the "out-of-favour"

China hasn't just been a deeply out-of-favour market in recent years. It has been seen as a major risk to the global economy as well as to global markets. China is the world's second largest economy. But in terms of physical output, be it cars, mobile phones or commodities, in many respects it is the world's largest economy. The problem with China which we all know too well is that the country was experiencing excessive growth in the use of debt, it had a massive oversupply in a range of industries, and property speculation was wild… All of this led to fears that there would be a massive blow-out in bad debts for the banking system and a possible financial crisis. You could not have been reading the financial papers in the last three years (at least until last October) and not be hit on the front page at least once a week by an article by some expert explaining why China was an accident waiting to happen, why it was a disaster in the making.

What was your intuitive response – after being hit with that narrative of impending doom day after day, week after week – to the idea of investing in China? For most of us, the intuitive response would have been – and was – one of extreme caution. And that was exactly how we felt as well.

But the one thing that we have learned from experience and practice is to look for that type of intuitive response, to recognise it for what it is and, instead of going with it, to examine the underlying evidence.

So what was the underlying evidence in China? Indeed, there was a massive problem with the rapid expansion of debt, over-capacity and a looming bad debt crisis. There was no doubt that these problems were all real. But by mid-2014 the Shanghai stock market had experienced one of the worst bear markets of all time. So at least we knew that the Chinese had worked it out as well, that it was no mystery.

If you kept watching in 2015, you would have noticed that the government was starting to spend money on infrastructure. Just as governments around the world do – when their economy is slowing, they spend money. The Chinese economy was responding to the infrastructure spending which became part of the now well-known One Belt One Road program.

If you kept watching in 2016, you would have observed the supply-side reforms that the government brought in to close down the uneconomic and polluting capacities in steel and coal industries. Continued into 2017 and with a particular environmental focus, the capacity closures and other reform measures saw profitability improve across a whole range of industries: steel, coal, chemicals, cement, glass, fertilisers… As profitability improved, so did the enterprises' ability to pay back their debts.

Coal companies were telling us in late 2016 that some 40% of the industry's debt was non-performing at the start of the year, but by the middle of the year that number was negligible. The non-performing debt issue was already on the mend. Should this have been difficult for any of us to see? As Australians, it was in fact hard to miss. The coal price was up

1 You can order a free copy of *Curious Investor Behaviour* and read our other publications on the topic of behavioural finance at www.platinum.com.au/Insights-Tools/Investment-Fundamentals/Curious-Investor-Behaviour. For more in-depth studies on cognitive biases, you may consider reading *Thinking Fast and Slow* by Daniel Kahneman who, together with Amos Tversky, pioneered the field of behavioural economics.

150% in 2016. The iron ore price doubled. There was very clear evidence that change was afoot.

What came next was a very significant recovery in China's residential property market. Then, since last year, that very scary-sounding "shadow banking system" which China had become well-known for (we have one, too, here and in the US – it's called securitisation) has been the subject of very significant reform and regulation.

Much has been changing. But the most important thing to observe about China over this period is that there was a thriving private sector which, outside of the property industry, had little reliance on credit.

All of these facts were evidence that there were many good reasons to be positive about China. Yes, non-performing loans could be an issue, the shadow banking system needed reform, and capital flight needed to be reined in... But these problems did not support wholesale negativity about the country.

Why is this important? Firstly, the disconnect between investors' feelings about China and the underlying facts provided us with great opportunities to buy Chinese companies at extraordinarily low valuations. Secondly, the changes taking place in China also had significant impacts on companies outside of the country. As mentioned above, coal and iron ore were the most obvious examples for Australia, but there were many more such themes across the world. More importantly, even if you didn't want to invest in China, keeping your eyes on the evidence would have made it clear that, while the debt problem posed risks to the rest of the Chinese economy and to markets, those risks were not nearly as great as many commentators made them out to be.

Since the end of 2017 investors have been more relaxed about China. It's not clear to us why that is the case. But what we do know is that investors are still a long way from embracing China for the opportunity that it is today, and we think there is much more money to be made there.

Electric vehicles – the challenge of imagining change

Electric vehicles are another interesting illustration of our investment approach. It is very different to the China story.

Like the looming downfall of China, the imminent rise of electric vehicles is a story which you will find in the papers nearly every week. What's different is that there is in fact a great deal of evidence in favour of the developments that one often hears. We all know about Tesla. It has been a great investment for those who bought it at the right time. We also know from the Australian market that the price of lithium (a key component in batteries) has risen significantly and many local investors have made good money from some of the locally-listed lithium producers. But elsewhere – BMW, Daimler, Nickel, Copper, Cobalt – these businesses are not attracting much interest from investors.

As an aside, think back to 10 years ago, when Amazon and e-commerce were already a well-established phenomenon and the iPhone was already in its second year and many of us already had a smartphone. The damage e-commerce was going to cause to traditional retailers should already have been clear to everyone then. Of course, it is easy to say with the benefit of hindsight. But how many of us invested in Amazon or other e-commerce companies a decade ago, or at least got rid of those brick-and-mortar retailers from our portfolios? It was obvious. But how many of us saw it coming? We didn't do it particularly well, and well done to those who did, but most of us didn't. And why didn't we? Because, with our cognitive biases constantly coming into play, it is just so hard to imagine a world that is so different. And it is also incredibly hard to think in timeframes of 10 years or more.

So that is where we are at with electric vehicles. If I told you that in 10 years' time every new vehicle you buy will either be an EV or a hybrid EV of some form, would you believe me? How readily would you accept this estimation? Probably not with ease.

But here's the evidence. In two of the world's largest auto markets – China and Europe – regulations are going to drive EV adoption. Global automakers are investing – or have invested – billions of dollars in EV research and development. All of them are bringing electric and hybrid models onto the market over the next two to three years. Take BMW as an example. The company has already launched its 3 Series and 5 Series in some markets around the world in plug-in hybrid versions. In many of those countries the plug-in hybrids cost the same as the diesel engine version of the same model, and many consumers have swiftly made the switch. By last December, some 30% of the 3 Series sold in the UK were plug-in hybrids.

And then there is the significant activity by the battery makers and the auto companies who are literally running around the world desperately trying to secure supplies of Cobalt and Nickel in order to ensure that they have enough raw materials for their batteries and cars.

The China story is one where the intuitive response was one of exaggerated fear and concern. With electric vehicles, the opportunity comes from the under-estimation of the scale and the pace of change. It's just hard to envision a world that's going to be so different in a decade's time. But again, the evidence is what we need to focus on.

This is what we do at Platinum

So, this is what we do. We look for those areas that others aren't interested in or even fear. We look for areas where there is a great deal of change going on. We do our homework to examine the evidence and this is where we spend most of our time. We need to understand the outlook for the companies we are considering buying, to have an idea of their earnings potential over the next five years and beyond. This then allows us to assess whether their share prices are cheap or expensive in terms of the future returns they imply for the owner of those shares. We do this for a large universe of companies around the world, and we build up our portfolios company by company.

At times we can be very confident about the result we expect to achieve, simply because of those implied future returns. The following chart illustrates one of the ways in which we assess the attractiveness of our portfolios using a combination of four factors. The first is the valuation of the companies in the portfolio. The second is the profitability of the companies, followed by growth and the level of debt that these companies have. To us, this composite "quant score" is an indicator of the future potential of the portfolio. Back in 2016,[2] this chart showed that the Platinum International Fund's portfolio was as prospective – that is, it implied as good a return going forward – as we had seen at any time in the Fund's history. We stressed this a number of times in our quarterly reports throughout 2016. Indeed, since then returns have been very good.

Of course, returns will vary from year to year. At times markets can be slow to recognise the underlying potential of the companies we own, as they have been with China in recent times. But we do expect that, by adhering to our approach, we will produce good investment outcomes for our clients over the coming years, just as we have done over the last 24 years.

2 The 31 March 2016 quarterly report (https://www.platinum.com.au/PlatinumSite/media/Default/ptqtr_0316.pdf) for the Platinum International Fund included the same chart (up to 31 March 2016), though with the four components displayed separately, as well as detailed explanation of what these metrics represented.

Platinum International Fund – Portfolio Quantitative Score (as at 28 February 2018)
Composite measure of value, leverage, growth and profitability

Source: Bloomberg; Factset; company reports; Platinum.

Macro Overview

by Andrew Clifford, CIO

Over the course of the first quarter of 2018, a number of issues have arisen that gave investors reason to return to a more cautious stance despite the global economy continuing to grow robustly. Among these concerns are:

- rising interest rates in the US,
- the impact of China's financial system reform on that country's economy and on asset markets both inside and outside of China, and
- the potential for a trade war between the US and China.

Over the last year, we have highlighted that rising US interest rates are the most likely source of a setback for the economic outlook and for markets. In developed economies, historically the pattern has been that initial increases in rates have little impact on growth, but as rates continue to rise, they will eventually act as a handbrake on the economy. As for whether the next rate hike will be the straw that breaks the camel's back, it is difficult to foretell even at the best of times. After a period of quantitative easing and near zero interest rates, the task is perhaps even more challenging. That debt levels remain elevated across most of the major economies adds further complexity to the problem!

For the moment though, it is clear that the US economy continues to travel well. Employment is strong, with initial unemployment claims (an indicator of new job losses) at the lowest level in 45 years. Wage growth remains healthy (average hourly earnings growing at 2.5% annually), and workers continue to be attracted back into the workforce with the participation rate[1] gradually rising. While the concern is that higher wages will ultimately be passed along through higher prices, for now, inflation in the US remains subdued at 1.9%.[2] The current scenario of steady gains in employment with wages rising and little evidence of inflationary pressures to date appears to be a very positive one.

We would think investors faced with this scenario would remain relatively optimistic about their prospects, and through January they appeared to be so. Of course, the environment can change quickly, and the big change was President Trump's tax cuts which were passed by Congress in December. The stock market's first reaction was clearly welcoming of the change as US companies would see a significant lift in their after tax profits. However, there are other impacts to be considered. Firstly, as tax cuts flow through to US corporates and households in the months ahead, one would expect them to boost the economy to some degree as a result of either increased consumption or more investment. The risk is that these cuts will add fuel to an economy that is already growing strongly, thus causing greater inflationary pressure and possibly an acceleration of interest rate hikes.

The secondary issue is that the consequential increase in the country's fiscal deficit – which is expected to rise from 3.7% of GDP currently to around 6% of GDP in 2020 as a result of the tax cuts – will see a significant increase in the amount of government bonds that need to be issued, with the potential to move long-term interest rates higher. In some respects, this increase in the supply of government bonds looks even more dramatic when one considers that there was a *net negative supply* not very long ago – the bond purchases made by the Federal Reserve in 2012-13 under their quantitative easing policy were greater than the new bonds issued. Viewed in this light, the net supply of new bonds will effectively have moved from less than zero to over 6% of GDP in the space of six years. And all this is without taking into account how President Trump's other policy initiatives (such as infrastructure spending) might further stretch the deficit and add to the bond-issuing task!

It is easy to start envisaging both long- and short-term interest rates moving much higher than previously expected, in the process upsetting economic growth prospects and indeed equity and debt markets. We will address the issues for markets later in this report, but first it is worth noting that in the period prior to the tax cuts being passed, the 10 Year US Treasury Note was trading at a yield of around 2.35%, and subsequently ran up through the first months of the year to just below 3%, before settling back at 2.8%. It is easy to see why some commentators are excited about bond yields going much higher even though the US government's bond-issuing task hasn't even started.

The problem with this analysis is that while we have an approximate idea of the future government deficit, there are many variables that no one can fully predict. As an example, to what extent will consumers spend their tax cut or save it,

1 Of 25 – 54 year olds.

2 CPI ex Food and Energy.

and will companies invest more or simply pass it through to shareholders in the form of dividends and buybacks? The degree to which this happens will not only have an impact on the strength of the economy and on inflation, but also on the amount of savings in the economy available to purchase the bonds. In addition, the move in the US 10 Year Treasury yield to 2.8% may already be sufficiently attractive for investors to fund the deficit, especially for the European and the Japanese whose equivalent rates in their home markets vary between zero and around 1.5%. Ultimately, the economic and financial systems we are dealing with are dynamic and the simplistic predictions are often wrong.

The other important development is the ongoing reform of the Chinese financial system, a topic that has received relatively little coverage in the Western media. The key change that has been causing concern is a directive that requires the assets and liabilities of the shadow banking system be brought back onto the balance sheet of the sponsoring financial entity. The issue is that banks and other financial institutions are required to have a minimum level of shareholders' funds (or equity capital) for a given level of lending, and bringing these shadow banking assets back onto the balance sheet will lead to many banks breaching these capital adequacy requirements. The solution is relatively straightforward: limit new lending and seek repayments of loans where possible.

There is, however, the additional complication that the loans funnelled to the shadow banking system and kept off balance sheet were loans that the banks would have otherwise been restricted from making. Also, the regulator has tightened up on the use of Chinese banks' balance sheets to fund the purchase of offshore assets. The result is a forced deleveraging by companies, particularly those that have taken on significant debt to acquire assets both at home and overseas. An example well publicised here in Australia is the divestment by Wanda, a Chinese shopping mall developer, of a major residential project at Sydney's iconic Circular Quay. Other names impacted include HNA Group (airline operator turned real estate and hospitality conglomerate) which now has a stake in Virgin Australia, and Anbang Insurance, whose vast portfolio of assets includes the Waldorf Astoria in New York.

In conjunction with these changes, China is looking to further develop its domestic bond market in order that companies and local governments can borrow money in a more transparent fashion. The issue is that this mechanism will take time to replace the shadow banking system as it is today, and as a result the availability of loans will be much reduced. Indeed if we look at the broadest measure of credit growth in China, it has now slowed to 12.9% year-on-year, a relatively subdued level by Chinese standards. The question then is what impact this tightness in credit availability will have on the Chinese economy and asset prices both inside and outside of China.

On the economic front, our expectation is that there will be relatively little impact. The dynamic, growing part of China's economy is predominantly the private sector which has traditionally had relatively poor access to credit. Another area of growth has been government sponsored infrastructure spending, an area to which we expect credit will remain readily available. While we may well see ongoing forced divestitures of assets by some groups, they remain as much an opportunity for those that are in a position to buy as they are a problem for the sellers. Simply, we don't see this as a problem for the economy, and as investors, you want to be an owner of the companies buying, not those selling. Finally, we would note that as a result of these concerns the Shanghai A-share market has retreated over 10% from recent highs and remains at levels reached in late 2016 when the economy was still in relatively early stages of recovery.

President Trump's decision to apply tariffs on US$50 billion of Chinese imports and China's response to do likewise for a comparable amount of US imports have sparked concerns of trade wars and potentially a broader decline in free trade. It should be noted that these announcements are of *intentions*, and there will be months of deliberation domestically in the US and opportunities for negotiation between the two countries. Most commentators assume that negotiations will yield some compromise on starting positions as well as some concessions granted by China to US demands for removing existing trade and investment barriers. We consider such a compromise the most likely outcome. But even if these tariffs end up coming into force, their broad economic impact on both sides will probably not be particularly significant.

The greater risk here is the political environment, present in much of the Western world, which makes the idea of such policies politically appealing. At the core of the issue, we believe, is that low income households have shared relatively little of the prosperity of the last 30 years and, as such, see no great downside from the end of ideals such as free trade. As governments continue to fail to address the issue of income disparities, it is likely that populist policies will remain part of the landscape across the developed world. The other issue that is unlikely to fade away is the instability of the Trump administration. A particularly concerning move by President Trump was to allow reciprocal visits between senior US and Taiwanese officials. While China's initial response to the announcement of import tariffs was measured and constructive, the response from President Xi on the Taiwan announcement was much stronger.

Market Outlook

While interest rates rarely make for a particularly enthralling discussion, at times they are critical for outcomes in markets. The reason is that the rate of return from owning cash or government bonds is the anchor off which all other assets are priced. The higher the yield on a government bond, the greater the return investors will demand from any given stock (all else being equal[3]), which in turn means a lower share price. A significant increase in interest rates therefore can be a catalyst for equity markets to move lower.

We think this is particularly true today, as many of the popular or fashionable investments of the moment will likely be very sensitive to interest rate moves. As we have stated over the last year, if there is an accident in financial markets waiting to happen, we suspect it is most likely to happen in the debt markets. Many investors in an attempt to avoid risk in recent years have crowded into bond funds, and the room for disappointment there is significant.[4] Other popular investment strategies such as risk parity funds,[5] we suspect, will also be susceptible to higher interest rates. Some observers attributed the initial sell-off in February to activity by risk parity funds.

Undoubtedly, low interest rates have played a significant role in bringing about the very high valuations currently attributed to fast growing companies. While the share prices of Facebook, Amazon, Netflix and Google (now Alphabet) – the so called 'FANG' stocks – are mentioned in almost every financial news report, the reality is that these companies represent just one part of the extreme market valuations reached in recent months.[6] We have seen similarly high valuations across a range of companies in biotech, medical devices, artificial intelligence, autonomous vehicles, and even some in the consumer sector. Companies on such inflated valuations are very susceptible to a setback, should rates move higher.

Our problem, as stated earlier, is that the art of predicting where interest rates will go and when the moves will happen is a highly imprecise one. The broad statement we can make is that we are in an environment where interest rates are rising and that this will act as a dampener on markets. Ultimately our outlook for the next three to five years is guided by the returns implied in the valuations of the stocks we hold in our portfolios and the ease with which we find new ideas to buy. On this front, we are optimistic on future investment returns over the medium-term.

In the next 12 months or so, besides the question of interest rates, the trade policies of President Trump are likely to be a major focus for markets. We think trying to predict outcomes on this front is even more problematic than forecasting interest rates. Our approach to managing the associated risk is to simply ensure that we have cash reserves in our portfolios to take advantage of any trade war-inspired sell-off.

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3 Which, of course, it never is! On a day to day basis, higher bond yields might mean better economic growth and thus better profits for a company.

4 As bond yields rise, the prices of bonds fall. So the investor expecting bonds to be a safe haven may be disappointed.

5 A risk parity strategy is one that is focused on the allocation of risk (usually defined as volatility) across different asset classes, rather than allocation of capital.

6 We would argue that Google and Facebook have been quite reasonably valued.

Platinum International Fund

Kerr Neilson
Portfolio Manager

Andrew Clifford
Portfolio Manager

Clay Smolinski
Portfolio Manager

Performance

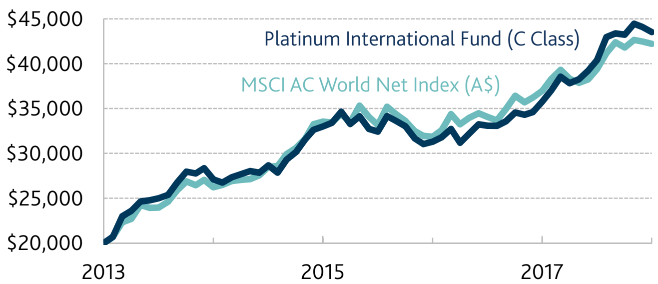
(compound pa, to 31 March 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund*	1%	22%	10%	17%	13%
MSCI AC World Index	1%	14%	8%	16%	7%

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

Value of $20,000 Invested Over Five Years

31 March 2013 to 31 March 2018



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

Disposition of Assets

REGION	31 MAR 2018	31 DEC 2017	31 MAR 2017
Asia	37%	39%	37%
Europe	22%	22%	22%
North America	14%	16%	20%
Japan	14%	14%	14%
Russia	1%	1%	<1%
South America	1%	<1%	0%
Australia	<1%	<1%	1%
Cash	11%	7%	6%
Shorts	-14%	-12%	-8%

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

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposure, updated monthly, please visit https://www.platinum.com.au/Investing-with-Us/Investment-Updates.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	IT	3.0%
Ping An Insurance Group	China	Financials	2.8%
Alphabet Inc	USA	IT	2.6%
Inpex Corporation	Japan	Energy	2.6%
Glencore PLC	Switzerland	Materials	2.4%
TechnipFMC	UK	Energy	2.2%
Siemens AG	Germany	Industrials	2.2%
Royal Dutch Shell PLC	UK	Energy	1.9%
Lixil Group Corporation	Japan	Industrials	1.9%
China Overseas Land & Invt	China	Real Estate	1.8%

As at 31 March 2018.

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

Alas, as the austral summer drew to a close, we witnessed the **return of market volatility**. This derivative, used to measure the likely turbulence of share prices and most widely monitored through the VIX index,[1] had been progressively falling since 2012. The longevity of its falling trend drew the inevitable response from the financial repackaging industry with the offer of an ETF to play this seemingly perfect trend bet. The irony is that volatility cannot incessantly drop (for obvious reasons). When the VIX index spiked in early February, the loss was almost total at an estimated cost of US$3 billion, though with only passing consternation from the media. How slow we seem to learn in this business! Eight years of rest and our memories fade.

Another question around extrapolation relates to the seeming absence of an acceleration of inflation. In the US, unemployment is plumbing the depths, yet the average hourly wage is still increasing very slowly at the current rate of 2.9% p.a. Yield on US 10 Year Treasuries has crept up, but towards the quarter end reversed somewhat to 2.74%, even though the Federal Reserve has declared its hand and raised short-term rates again in March, taking the federal funds rate to 1.75%, compared with 1% a year ago. Unlike earlier cycles, the LIBOR rate, at 2.3%, has moved ahead of the onshore rate. This move has caused some confusion which is partly explained by the 2016 rule changes for money market funds and the unintended consequences of the recent US tax changes. **Money is clearly tightening.**

1 The CBOE Volatility Index (VIX) quotes the expected annualised change in the S&P 500 Index over the following 30 days, priced off option data.

While the **rate of improvement** in the synchronised global recovery, as represented by the PMIs,[2] **has lost some momentum** and the economic surprise indices are fading, evidence of a deteriorating growth outlook eludes us. At present there are the **rising fears about tariffs on trade and concern about tighter control over lending in China** and their adverse consequence for growth. The Chinese data is partly obscured by the timing of the Lunar New Year and the forced seasonal shutdowns of capacity on grounds of air pollution during the winter months. Our own interpretation is that China is quite as worried about the level of debt abroad as it is about that within its own system and is acting accordingly. Granting President Xi Jinping what will surely be a life tenure should be beneficial in the short term, particularly in view of the ministerial reshuffle around his inner circle and important administrative reforms. Some will be dismayed about the longer term implications about which history has a lot to say.

The Trump **tax reform package was well received by analysts who had a field day projecting that most of the value will accrue to shareholders** even though there is the need, and the will, to top up pension reserves and to meet rising minimum wage standards. The corresponding rise in the US fiscal deficit scarcely received a mention, and even the bond market appeared conspicuously unmoved at the prospect of a tidal wave of new bond supply (as Andrew Clifford elaborated on in the Macro Overview). The S&P 500 responded well to the tax legislation initially, but as the quarter came to a close, the misfortunes of Facebook, the presidential threats to Amazon and the malfunctioning of Uber's and Tesla's autonomous vehicles took the gloss off the important tech stocks in the US.

2 The Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector. It is derived from monthly surveys of purchasing executives at private sector companies (see page 38 Glossary).

MSCI Regional Index Performance to 31.3.2018 (AUD)

REGION	QUARTER	1 YEAR
Developed Markets	**1%**	**13%**
Emerging Markets	**3%**	**24%**
United States	**1%**	**13%**
Europe	**0%**	**14%**
Germany	-2%	13%
France	2%	20%
United Kingdom	-2%	11%
Japan	**3%**	**19%**
Asia ex Japan	**3%**	**25%**
China	4%	38%
Hong Kong	1%	18%
India	-5%	10%
Korea	1%	25%
Australia	-4%	1%

Source: RIMES Technologies

MSCI All Country World Sector Index Performance to 31.3.2018 (AUD)

SECTOR	QUARTER	1 YEAR
Information Technology	5%	29%
Consumer Discretionary	3%	17%
Health Care	1%	9%
Financials	1%	16%
Utilities	1%	5%
Industrials	0%	14%
Materials	-2%	15%
Energy	-2%	6%
Consumer Staples	-3%	4%
Telecommunication Services	-4%	-1%

Source: RIMES Technologies

Unlike earlier periods, the elections in Europe caused barely a stir, mergers and acquisitions and share buybacks, some still funded by debt, continued apace and, surprisingly, even private equity found reason to buy into asset-heavy, low-variable cost businesses. At the same time, other indices were testing their 200-day moving averages as the tightening of money and tariffs were seen as a threat to the Panglossian outlook. The flip side is that companies are increasingly optimistic about the capital expansion programmes. Historically, **capex is sparked by improving corporate profitability**. Contrary to popular belief, capex in the **service sectors accounts for two-thirds of corporate capital spending** in the US. The manufacturing industry only accounts for about 22% of US capex while sectors like finance and insurance account for 9% and mining and oil 7%.

With these strong underpinnings, one might conclude the **high level of share ownership and crowding in hot areas of tech and biotech may have accounted for the weakness** at this quarter's end as investors, full of tech stocks and other 'invincibles', began to apply more caution. Europe and Japan have had the added burden of strong exchange rates to crimp profit growth which had lagged the US.

From the Fund's perspective, this change of tone was only partly helpful. We have been moving to a more cyclical posture, believing that the current strong growth will support more vigorous capital spending and tighter commodity markets. We still believe this to be true and that the softer readings in China are partly seasonal. While the rate of change in the world's largest manufacturing economy may be tapering, there is no evidence that it will be more than a slowdown. In addition, when one compares the valuation of these cyclicals to their invested capital, they are still at remarkably low levels, in particular the hydrocarbon complex (oil companies and the extraction-related support industries), even though the prices of these commodities are well off the bottom.

Our relative performance is showing this uncertainty with a slight underperformance for the quarter, yet we are still far ahead over the last 12 months. The Fund (C Class) achieved 0.7% for the quarter and 21.7% for the year. The MSCI AC World Index (A$) returns over these respective periods were 1.0% and 14.2%.

Changes to the Portfolio

We have been very active rotating out of the notably strong performing areas of the last three to six months into more neglected areas. In particular, we discarded **Wynn Resorts**, **Kering**, **Reliance Industries**, **The Coca-Cola Company**, **Oracle, Qingdao Haier** and most of **Intesa Sanpaolo**, and continued to reduce the Chinese internet names, like **Tencent**, **58.com** and **Sina**. Purchases were made in existing **non-ferrous metal miner holdings**, **Intel** and **Siemens**. We also introduced **Facebook** to the portfolio.

The latter may surprise some for it is hardly an unloved company, though the recent publicity around Cambridge Analytica has seen the stock price fall from US$190 to US$155. There is no doubt that the **political environment facing the three big US internet names** (Facebook, Amazon and Google) **has darkened**. There are many questions about their information controls and the full nature of their earnings sources, as well as disquiet about their business models which depend on offering users free services in exchange for giving potential advertisers access to their personal data. In addition, there are other platforms trying to increase their share of the advertising pool, and even Amazon has succumbed to shifting its business model towards more advertising to exploit the power of its marketplace.

The central question remains '**what is the alternative**?' *Wired* magazine led with an article that proffered alternative apps to displace one's need for Facebook. The problem is that it requires most users to download 10 standalone apps to do the job. Worse still, it requires one's friends to do the same. To date, the consumer response to the 'leak' of one's Facebook friends' data has been remarkably tame. The #DeleteFacebook movement does not seem to be getting traction and the reported change of personal privacy settings has been insignificant. Only 14% of users seem to have made changes since the incident erupted with the majority placidly accepting the notion of an exchange of value. The company has for some time been experiencing defections in North America and the UK with the 12 to 24 age group tending to abandon the platform in favour of alternatives such as Snapchat. Importantly, these are the high value customers in North America and Europe who respectively provide annual revenue-per-user of US$84 and US$27.

The **core social network effect of Facebook remains intact** even if its users are becoming less willing to fully engage and there may be a tendency for new users to be somewhat less valuable, being older users and consumers from lower income countries. The overall network has kept expanding and Facebook claims over 2 billion average monthly users and 1.4 billion daily active users worldwide. In the developed world, it is estimated that users are spending over one hour per day on the platform and it **remains a gateway to other internet applications**. A hint of the longer-term earnings potential may be given by the fact the annual revenue per monthly user in North America is US$84 while that from Europe is US$27 and the Asia Pacific US$8.7 per user!

By the nature of such a phenomenon, the glory days are presumably past. But, like Google, anticipatory acquisitions have been made to broaden the longer-term revenue sources of the company. Facebook's acquisitions of Instagram and WhatsApp are only now starting to contribute revenues.

There are also e-commerce initiatives that can still potentially be harvested. The company itself had been warning of the need for greater investment and a tightening of procedures. In some cases there will be some pressure on revenues and regulation is bound to reduce the efficacy of their offer to advertisers as the melding of bought-in data becomes restricted.

There is likely to be further bloodletting in the days ahead, but the initial reaction had seen the company de-rate to a level that makes it look attractive in relation to the quality of its earnings. It is still growing at probably over 20% p.a., has a clean balance sheet and continues to provide a useful social function. While we recognise that fashion, with all its foibles, is an important adjunct to any social medium, we believe that Facebook's 2018 GAAP P/E of 21 times offers an attractive initiation level.

Shorting

Apart from raising cash by reducing exposure to some of the strong performers noted above, we also added to our short positions. These comprised the NASDAQ index, the Biotech index and a company-specific short position. As at this quarter's end, the Fund's overall short exposure was 14%, up from 12% in December 2017. These positions gave us positive returns that partly offset the weakness in high beta cyclicals that we have been tending to accumulate. Our view remains that, while the growth rate may have peaked and interest rates will gradually tighten credit, **there is a more attractive *geographic balance* to world growth than has been for some time**.

Currency

The US dollar was conspicuous for its weakness. Close to the end of the quarter, we closed our long position on the Norwegian krone to go longer US dollars. The Australian dollar has also been weak and may be bottoming-out on the bilateral rate versus the US dollar given the prospect for improving export receipts, led by natural gas.

CURRENCY	31 MAR 2018	31 DEC 2017	31 MAR 2017
US dollar (USD)	22%	22%	32%
Euro (EUR)	14%	14%	12%
Hong Kong dollar (HKD)	14%	14%	10%
Japanese yen (JPY)	12%	10%	5%
Korean won (KRW)	8%	8%	9%
Chinese yuan (CNY)	7%	7%	-2%
Indian rupee (INR)	5%	6%	7%
British pound (GBP)	5%	5%	4%
Norwegian krone (NOK)	3%	5%	6%
Australian dollar (AUD)	3%	3%	18%
Chinese yuan offshore (CNH)	0%	0%	-6%

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

Commentary

While very cognisant of the problems of excessive debt in the West and China, and hence **the system's greater sensitivity to interest rates**, we cannot become unduly negative. Earlier this year the *Wall Street Journal* described an alarming surge of credit card charge-offs by the smaller US banks, having now reached the same level as in 2006/07. Historically the small banks have been the first to experience this reversal of credit worthiness, being possibly more exposed to those lower down the economic pecking order of credit customers. While the larger banks have started to see an upturn of delinquencies, their experience to date has been subdued. Yes, there is a lot of US consumer debt outstanding: US$1 trillion on credit cards, US$1.3 trillion in auto loans and a further US$1.5 trillion in student loans. But in our experience, the last cause of a crisis, while receiving lots of coverage, is seldom the catalyst for the subsequent economic 'event'.

Earlier we commented on the change in the weight of economic activity globally. It is easy to lose sight of the reweighting of activity over the last 20 years. For example, the traditional economic powers of the West and Japan have seen their share of world activity shrink from 58% in 1996 to 42% in 2016.

A visit to the World Bank website will reveal that while the developed countries have been dawdling along, the so-called developing countries have been galloping. High-income countries have typically experienced a 2.5 fold increase in national income (whether measured in current or purchasing power parity (PPP) terms) from 1990 to 2016, while some large-population countries like India and China have excelled with national income per head rising respectively by 5.8 fold and 15.6 fold. Even populous countries like Pakistan (population of 193 million) and Iran (80 million), with all their conflicts, unhelpful directives from on high and so on, have outshone the West in these terms, admittedly off a low base, to achieve a 2.7 fold improvement. These are not dry numbers. They refer to **the progressive reduction of global poverty** and in particular, are **a forewarning of a further change in the allocation of global physical resources**.

The important statistic seems to be a national income of $5,000 per head at purchasing power parity (PPP). At that point, the broad population is no longer scrambling to survive and discretionary spending begins to show. In particular, the use of fossil fuel and metals takes off. Consider the number of people involved here. If we focus only on the lower-income, high-population countries of Asia, comprising Indonesia, India, Pakistan, the Philippines, Vietnam and Myanmar, we find some 2 billion people on this threshold. Now observe the charts showing this S-curve at work in the rise of the use of crude oil and steel (the same pattern goes for copper and aluminium) for places like Japan, Korea and Taiwan once PPP income per head exceeded $5,000. There will obviously be specific differences relating to each country's consumption, export intensity and other characteristics, but your imagination will likely draw you to the conclusion of a massive impending rise in the demand for these commodities. By way of example, India consumes an average of 1.2 barrels of oil per capita per year. This is similar to China in 2000 when its annual income per head was $940 (current US$). Today China is consuming 12 million barrels per day or 3.2 barrels per capita per year. The charts below also reveal the drop-off in usage in developed countries which obviously offsets some of this competition for resources.

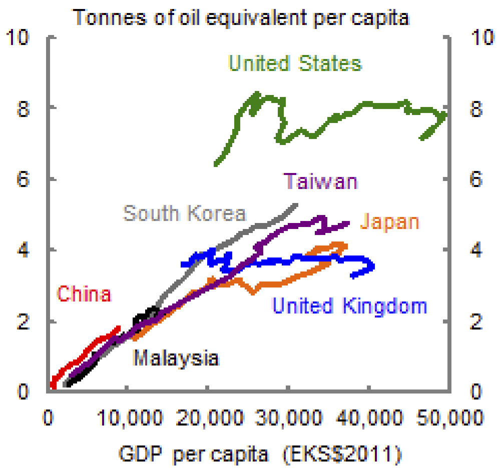
We have written before of the impending tightening of the markets for metals like copper, nickel and cobalt and the market is alive to these prospects, though probably under-estimating the magnitude of this tightness three years hence. The commodity that is conspicuously set up for a surprise is crude oil. Here investors can conjure up stories of substitution, thanks to the electric car or the frugality of new automobiles and the boundless capacity of shale oil. This misses the base case of usage growth caused by the S-curve in developing countries and endorses the observed chronic under-estimation of consumption growth forecasts by the International Energy Agency. While fracking has changed the dynamics of oil supply, the ability of US production to grow exponentially is limited. Already some of the important unconventional basins like the Bakken and the Eagle Ford are showing characteristics of reserve exhaustion while the Permian remains highly productive with significant remaining resources. However, the limits of increasing fracking intensity and endless down-spacing (the idea of decreasing the space between wells) appears to have peaked. Even though US unconventional production will continue to grow, the need to replace conventional production is challenging against the backdrop of a natural field decline rate of close to 5% and a halving of capex from peak levels in 2014. While Brent oil prices have recovered to US$70 per barrel, this is only slightly above the average real level seen over the last 35 years. This theme gives us some interesting investment candidates!

Outlook

The trade conflict and tightening money point to lower valuations. On the trade issue, research reveals that the imbalance is much lower than it first appears if account is taken of the level of activity by American firms in the Chinese domestic economy. When this large American footprint is taken into account, one can see that the negotiating position of the Americans is less secure than the headline trade deficit numbers suggest. Moreover, the newly crowned emperor may prove to be equally sensitive to his constituents' delight in China's re-emerging global status, and this could account for the surprisingly swift rebuttal on the part of the Chinese. Unsettling volatility on Wall Street and possible consumer boycotts will test the resolve of the negotiators!

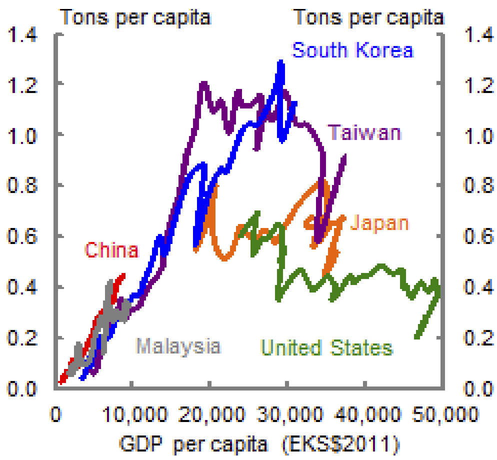
While we have raised our cash and short positions, we are unable to be particularly negative. Some companies' prices have retracted meaningfully and, in addition, many of our holdings look like they will have strong multi-year growth ahead. Valuations are compelling and enhanced earnings growth from buybacks is generally not part of our equation. An interesting calculation by Evercore ISI shows that had US companies not engaged in buybacks since 2000, S&P earnings would be more like US$81 than the current level of US$124. The point is that, prospectively, this aspect of the investment scene may prove to be a weaker driving force than hitherto as capital is repriced. On the other hand, our high exposure to Asia may expose us to greater market volatility as foreign flows are an important constituent of stock market activity there. Some protection is however offered by much lower starting valuations and growth prospects that are arguably superior to those of other markets.

Per Capita Energy Consumption vs. Income (1965-2010)



Source: BP Statistical Review of World Energy 2011; The Conference Board Total Economy Database, January 2012; and CIEC Asia Database. Chart by Brendan Coates and Nghi Luu, the Australian Treasury.

Per Capita Steel consumption vs. Income (1971-2010)



Source: ABARES *Australian Commodities*; World Steel Association *Steel Statistical Yearbooks*; World Metal Statistics; United Nations *World Population Prospects: The 2010 Revision*; The Conference Board Total Economy Database, January 2012. Chart by Brendan Coates and Nghi Luu, the Australian Treasury.

Platinum Unhedged Fund

Clay Smolinski
Portfolio Manager

Performance

(compound pa, to 31 March 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund*	0%	24%	12%	19%	12%
MSCI AC World Index	1%	14%	8%	16%	7%

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

Disposition of Assets

REGION	31 MAR 2018	31 DEC 2017	31 MAR 2017
Asia	41%	42%	35%
North America	21%	20%	24%
Europe	19%	19%	24%
Japan	7%	9%	9%
South America	1%	1%	0%
Russia	1%	<1%	2%
Cash	10%	9%	6%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Raiffeisen Bank International	Austria	Financials	4.2%
Jiangsu Yanghe Brewery	China	Consumer Staples	3.4%
Kweichow Moutai	China	Consumer Staples	3.3%
KB Financial Group	Korea	Financials	3.1%
Applus Services	Spain	Industrials	3.0%
ENN Energy Holdings	China	Utilities	2.9%
PayPal Holdings Inc	USA	IT	2.9%
Alphabet Inc	USA	IT	2.8%
58.com Inc	China	IT	2.5%
IHS Markit Ltd	USA	Industrials	2.5%

As at 31 March 2018.
Source: Platinum Investment Management Limited. See note 4, page 44.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposure, updated monthly, please visit https://www.platinum.com.au/Investing-with-Us/Investment-Updates.

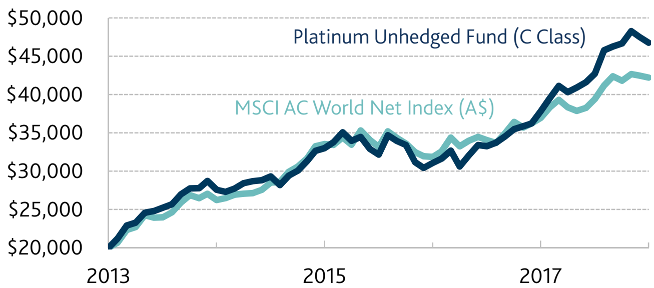
2018 brought with it a return of volatility, with the US market falling -10% in the first week of February. The selling in the US triggered a follow-on response around the world with the European (-8%), Japanese (-12%) and Chinese (-12%) markets all falling in unison.

Why did this happen? The accepted narrative is that the prospect of higher inflation in the US (a result of stronger wage growth) sparked the initial selling, which was later fuelled by the Trump administration's announcement of trade tariffs against China.

Subsequently we saw most markets rebound in March and recover some of the losses. Despite being the source of the concerns, the US market fell the least, down -0.8% for the quarter. Elsewhere, both Japan (-5%) and Europe (-4%) posted moderate declines while China (+2%) finished the quarter in positive territory (in local currency terms).

Value of $20,000 Invested Over Five Years

31 March 2013 to 31 March 2018



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

Overall the Fund (C Class) returned (+0.2%) over the quarter, compared to its benchmark MSCI index which returned (+1.0%) (in Australian dollars).

Changes to the Portfolio

In previous reports, we have discussed our investment approach of seeking out situations of temporary uncertainty, where expectations around the future of a company's business and its stock price are dampened due to some problem. Another source of ideas is when an industry or business is undergoing significant change. Our cognitive biases make it difficult for us as investors to fully envision a world that is immensely different to the one we are used to, and hence companies undergoing change often become mispriced.

An example of this change is the advancement in artificial intelligence (AI), where increasingly we are seeing software algorithms make ***better decisions*** than humans. One of the most high-profile applications of AI is autonomous vehicles, but there are many more subtle examples in the background. Take banking and insurance, important decisions around who to lend to and how to price policies were once handled by human agents and used to take days, but are now increasingly performed by algorithms in seconds.

Artificial intelligence and automation are only as good as the data that powers it, and hence quality data becomes more valuable in this new world. A recent addition to the Fund that benefits from this trend is **Equifax**.

Equifax collects data on consumers and sells it to businesses. Its two largest data categories are consumer credit history (e.g. did you repay your previous debts and do it on time) and employment and income verification.

The business has benefited from two major tailwinds, which have allowed Equifax to consistently grow its profits at 10-15% per annum over the last few years.

1. As commercial activity has moved online, the frequency of access to its data has increased. For example, a customer might visit three lenders and fill out applications when looking for a loan in the old days. Now, they fill out one form online and receive quotes from 10 lenders, each of whom will query Equifax's database.
2. As more industries have embraced AI and looked to automate decisions, Equifax's user base has broadened. Credit data, once only used by banks, is now being utilised by insurers to predict which customers are more likely to make a claim. Elsewhere, governments are using Equifax's employment and income data to spot social security fraud.

Our position in Equifax was built in September 2017, after the stock fell 35% in response to the news of the data breach Equifax had suffered. In the immediate aftermath, Equifax faced immense media pressure, fines and increased cyber security costs. However, what is important is that the company's core position as a data bureau has not been compromised and that its customers still rely heavily on its data.

While the stock has quickly risen above our entry price, given the tailwinds noted above, we expect there is more to come. Equifax is a good illustration of how both pillars of our investment approach – mispricing due to temporary uncertainty and opportunities created by structural change – are applied in practice.

Another new holding that is benefiting from significant, though under-appreciated, secular change is **Microchip Technology**. Microchip makes microcontrollers (MCUs), which are essentially a complete computer (albeit a simple one) on a single chip that is dedicated to one function. For example, your microwave will contain a MCU to detect button presses, turn on the magnetron tube and sense if the door is open. In addition, MCUs can also be a part of larger systems, such as controlling a particular function in the navigation system of a Boeing jet.

Rarely seen as a play on the sexy tech themes of the day, Microchip nonetheless is a beneficiary of many secular growth stories. The growing electronic content of automobiles, alongside the greater desire for connected devices (the so called Internet of Things or 'IoT'), is driving consistent growth in MCU demand.

Another positive is that Microchip operates in one of the more attractive niches in semiconductors. More than 60% of sales are to the industrial and automotive sector, where a 2-3 year 'design in' time is followed by 10-15 year product lifecycles.[1] As the MCU is designed specifically for a single end product, the quality of its associated developer tools (along with having a large base of developers who are already comfortable using them) is more important to its customers (the makers of the end products) than having cutting edge processing power. The high switching costs and customer loyalty allow the business to have operating margins of around 40%.

The stock's recent -20% fall on fears of a cyclical slowdown in the semiconductor market gave us the opportunity to buy this high quality grower on 15x earnings.

1 This is in stark contrast to the competitive smartphone market where chip makers are required to 're-win' their place in the device every 1-2 years.

Outlook

Given the historical dominance of the US market in size as well as media coverage, it is common to view the outlook for international equities from a US-centric perspective. What one finds in the US is a combination of a long bull market, high starting valuations, rising interest rates and increasingly unpredictable politics. Sounds pretty worrying!

But what if we instead focus on the conditions and outlook in the rest of the world? We find China emerging from a three-year slowdown after reducing excess capacity in real estate and many heavy industries. We find India set to accelerate its growth momentum as its banks start to lend again after a five-year clean-up of the bad debts in the banking system which had suppressed growth. We also find both Europe and Japan in the middle – rather than the later stage – of an economic recovery where interest rates are still supportive and valuations are not stretched. Suddenly the picture looks a lot more sanguine.

Notwithstanding all the headlines around US-China trade tensions, our primary concern for markets remains higher interest rates in the US and the pressure this will place on consumer spending and equity valuations. Currently, close to 70% of the portfolio (without taking into account the 10% cash holding) is invested outside the US where valuations are more attractive and where we still see good prospects for earnings growth.

Platinum Asia Fund

Joseph Lai
Portfolio Manager

Performance

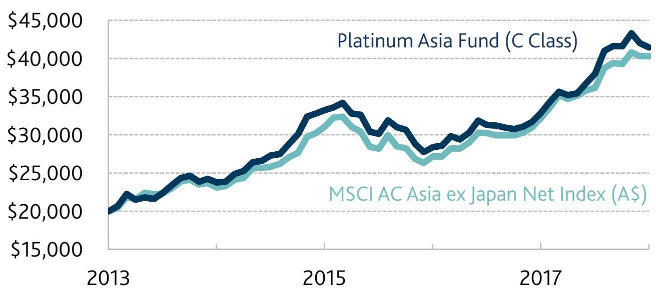
(compound pa, to 31 March 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	0%	26%	8%	16%	15%
MSCI AC Asia ex Jp Index	3%	25%	9%	15%	11%

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

Value of $20,000 Invested Over Five Years

31 March 2013 to 31 March 2018



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

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposure, updated monthly, please visit https://www.platinum.com.au/Investing-with-Us/Investment-Updates.

Markets across Asia were lacklustre over the quarter as a result of concerns over rising interest rates in the US, with the Philippines (-8%), India (-5%), Korea (-1%) and Hong Kong (-1%) all posting weak returns (in local currency terms). The Fund (C Class) had a flat performance over the quarter and returned 26% over the last 12 months.

Among the stocks that fared well were companies that are strategically positioned to service the burgeoning Chinese middle class consumer, particularly the Chinese healthcare stocks (United Labs +28%, 3SBio 15%) and gas utilities (ENN Energy +26%). Mining group MMG rose +23%, encouraged by recovering copper prices.

Our Indian, Philippines and Korean holdings detracted from performance, including the Indian banks (Axis Bank -9% and Yes Bank -3%), Philippines developer Ayala Land (-8%) and Korean internet search portal Naver (-9%). Their weak performance this quarter has not changed our investment thesis for these companies, which we continue to regard as quality businesses in the region and which we expect will rebound when market volatility recedes.

Disposition of Assets

REGION	31 MAR 2018	31 DEC 2017	31 MAR 2017
China^	45%	51%	44%
Hong Kong	5%	3%	1%
Taiwan	2%	2%	4%
India	13%	10%	14%
Korea	10%	12%	11%
Thailand	5%	4%	6%
Philippines	2%	3%	4%
Vietnam	1%	2%	3%
Singapore	1%	1%	2%
Malaysia	<1%	<1%	1%
Indonesia	<1%	<1%	0%
Cash	16%	11%	10%
Shorts	-2%	0%	0%

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

Commentary

During the quarter, the issue of increasing trade confrontation between the United States and China came to the fore. These certainly aren't easy negotiations to have and there has been much tough rhetoric over tariffs from both sides. Nevertheless, a full-blown trade war is probably unlikely to eventuate, mainly because both parties recognise the negative impacts it would have on their respective economies, an outcome that neither wants. So far, the US has proposed tariffs on about US$50 billion worth of Chinese imports. The Chinese side reciprocated with proposals for an equivalent amount over US imports, plus some vague promises of further opening-up of its domestic markets to foreign competition. US$50 billion is no negligible amount, but put in context, it represents less than 3% of China's total annual exports. It is worth remembering that while the US still makes up a significant 19% of China's exports, **nearly half of China's total exports are going to other Asian trade partners!**

We are further comforted by the belief that the impact of the current trade friction on the medium- to long-term earnings power of our portfolio companies will be limited. Our key Chinese holdings are businesses that are strong beneficiaries of China's growing middle class, domestic consumption upgrades and ongoing urbanisation. The portfolio is positioned to benefit from the continuation of China's economic reform measures, such as those focused on reducing environmental pollution and providing more sustainable growth, improving the health of the banking system, and delivering better healthcare for the people. Indeed, the recent constitutional amendment to remove the presidential term limit may be a positive for China's economic development as it cements President Xi's position and allows him to pursue his reform agenda with greater certainty.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Alibaba Group	China	IT	3.5%
Axis Bank Ltd	India	Financials	3.2%
Samsung Electronics	Korea	IT	3.1%
Ping An Insurance Group	China	Financials	3.0%
Kasikornbank PCL	Thailand	Financials	2.8%
China Overseas Land & Invt	China	Real Estate	2.8%
China Oilfield Services	China	Energy	2.6%
Yes Bank Ltd	India	Financials	2.5%
Tencent Holdings Ltd	China	IT	2.4%
Jiangsu Yanghe Brewery	China	Consumer Staples	2.1%

As at 31 March 2018.

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

Worth highlighting are some of the interesting changes we see taking place on the ground in China, and how the reality may be different to the picture painted by Western media.

You may remember watching a *60 Minutes* report on China's "ghost cities" back in 2013 – empty apartments with no one living in them. That was not exactly fake news, but it is certainly old news. If one can picture nearly 20 million people, almost the population of Australia, moving from rural villages to the cities every year, one can appreciate the scale of this migration. Empty apartments, to the extent that they exist, get filled up pretty quickly.

The truth is that instead of empty streets we see traffic jams, instead of unsold apartments we see a severe shortage of supply – so much so that buyers are going into lottery draws to get theirs hands on them. To meet this demand, developers are buying land and starting construction again!

You may have also read about the glut in China's supply of steel, aluminium, cement and so on. But that, too, is yesterday's news as the government has closed down numerous loss-making or polluting plants and factories over the last few years. As supply shrank, commodity prices recovered. Australian coal and iron ore producers have reported how their profitability improved out of sight! The CEOs of the remaining Chinese companies in these industries are telling us the same thing. With improving profitability, not only are they now able to keep up with the interest payments on their debt, they are also paying down the debt. The positive repercussions on the banking system cannot be under-estimated.

Moving onto the environment – China is more focused than ever on this issue. The drive comes from both the people and the top. "To bring back the blue sky!" hasn't been an empty political slogan; there has been real government action in enforcing the environment standards and regulations. Academic studies done by groups outside of China are reporting improvements in air quality in some Chinese cities by as much as 40% between 2013 to 2017.

We are living in exciting times in which the world is generating remarkable businesses through technological change. This is especially so in China because it is pursuing new technologies at a scale and pace that is unrivalled by most other countries. China has put in place first-class infrastructure and invested heavily in education (this includes both government funding and private spending), producing four million STEM (science, technology, engineer and maths) graduates a year. If you are an entrepreneur wanting to open a smartphone or electric vehicle factory, China is unique in its offering of an abundance of cheap and experienced engineers, an unparalleled supply chain and a huge domestic market to sell into. This is exactly what the assembler of the iPhone (Hon Hai Precision Industry) has managed to do, adding a hundred thousand people to its smartphone factory within a year.

Since China is brimming with entrepreneurs, competition is intense. But competition forces innovation and accelerates the iteration of products. Alibaba and Tencent have been locked in a race to win market share in mobile payments, each offering low fees and continuously improving their services. The result of this race is the growing number of Chinese cities that are fast becoming cashless. Mobile payment volume in China grew from zero to US$9 trillion in just three years – 10 times the volume in the US!

Building on its popular digital payment app Alipay, Alibaba now offers the largest cash management product in the world, with more than US$300 billion under management. The Fund has owned Tencent and Alibaba for several years and they have generated good returns for our investors. The point is that China's vibrant private sector is capable of creating vast new businesses and tremendous value.

The growing power of the Chinese consumer is a well-told investment story. What may be less obvious is that while more and more Chinese are car owners and almost every adult has a smartphone, they are yet to take up the more intangible products that will improve the quality of life. Healthcare and insurance are prime examples.

The Chinese healthcare market is a quarter of the size of the US or European market by value, while its population is four times bigger. One of the Fund's holdings, 3SBio, makes a drug called Enbrel, which is a biologic drug for the treatment of rheumatoid arthritis. Enbrel is the seventh top selling drug in Australia and a top 10 drug in most developed countries. But Enbrel doesn't even rank in the top 100 in China, because domestically 3SBio only has 30,000 patients at present. Among a population of 1.3 billion people, many sufferers of rheumatoid arthritis are not diagnosed and treated. But this is now changing as healthcare coverage expands.

Insurance has been another area of interest for the Fund. We own Ping An Insurance, an industry leader in China. Ping An has a superb sales force and has invested billions of dollars in technology with great foresight. Its system allows auto insurance customers to lodge claims on their smartphones by simply submitting a photo of the accident, and Ping An's artificial intelligence algorithms will assess the damage and provide an estimate of the cost of repair in a matter of minutes.

The companies mentioned above are industry leaders with strong earnings power. Yet, we were able to purchase their shares at very attractive valuations. We are optimistic about their growth potential as China's consumers upgrade their spending.

Changes to the Portfolio

Given the enthusiasm of the market at the beginning of the year, the Fund has taken the opportunity to book profits in the stocks that have reached our estimate of fair value. Net invested position has been reduced to around 82%.

With a focus on industries and companies that are well positioned to benefit from the economic reforms taking place in China and India, as well as the cyclical recovery across the Asian region, we are deploying cash to buy companies that have strong long-term fundamentals but whose valuation is depressed amidst short-term market volatility.

Outlook

With the recent correction in the markets, the outlook may in fact be looking more sanguine. Notwithstanding the present concerns with rising interest rates in the US and deteriorating US-China trade relations, the Asian region continues to provide a fertile ground for interesting ideas.

Platinum European Fund

Nik Dvornak
Portfolio Manager

Performance

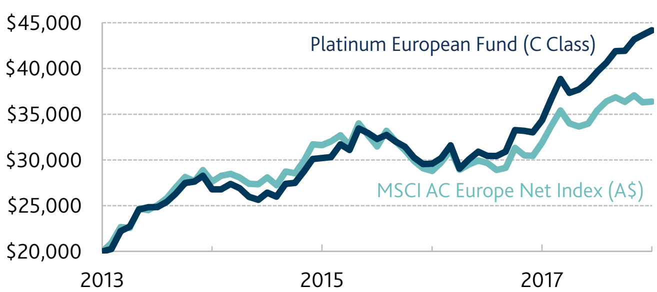
(compound pa, to 31 March 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	5%	29%	14%	17%	12%
MSCI AC Europe Index	0%	14%	5%	13%	3%

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

Value of $20,000 Invested Over Five Years

31 March 2013 to 31 March 2018



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

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposure, updated monthly, please visit https://www.platinum.com.au/Investing-with-Us/Investment-Updates.

Commentary

As 2017 drew to a close, the prevailing mood was one of extreme complacency. Volatility had been low for a long time. Share prices had been steadily grinding higher. The global economy was experiencing its first synchronised expansion in a decade. China was making progress defusing concerns around excessive corporate debt. Europe seemed to be recovering its mojo. And the United States Congress passed large tax cuts benefiting corporations and their shareholders.

Markets soared in January, but by early February a number of concerns surrounding the US have clouded what remains a fairly rosy economic outlook:

- Interest rates are rising in the United States. So long as capital is free to cross borders, there will be spill-over effects on the price of money and assets in Europe, domestic monetary policy notwithstanding.
- Tax cuts will increase credit demand as the US government seeks to fund them. They will compete for funding with other incremental sources of credit demand

Disposition of Assets

REGION	31 MAR 2018	31 DEC 2017	31 MAR 2017
Germany	23%	24%	23%
UK	15%	12%	15%
Switzerland	9%	9%	5%
Austria	8%	9%	9%
Russia	6%	5%	3%
Spain	5%	5%	4%
Norway	4%	2%	3%
Denmark	3%	3%	3%
Italy	3%	3%	5%
US *	2%	2%	5%
France	2%	4%	6%
Hungary	2%	2%	3%
Netherlands	1%	1%	2%
Romania	1%	0%	0%
Ireland	1%	0%	0%
Cash	15%	19%	14%
Shorts	-2%	-3%	-1%

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

as well as existing assets. This will drain liquidity from other asset classes, put upward pressure on interest rates and may lead to a host of unintended consequences.

- Political risk is rising. The Trump Administration is becoming increasingly confrontational and abrasive in its dealings with both domestic civil institutions and foreign governments, allies and adversaries alike. Not much imagination is needed to see how this may have an adverse impact on markets globally.

In Europe, the backdrop is little changed.

Economic activity in the Eurozone grew 2.7% over the past year. Unemployment has fallen to 8.7%. Business confidence is high. Households are starting to borrow once again with household debt growing 3% over the last year. Government deficits narrowed further and now sit at just 1.5% of GDP. While government spending is restraining economic expansion for now, it's noteworthy that European governments generally have fuel in the tank should stimulus be required down the track.

Interest rate hikes remain a distant prospect for the Eurozone, although quantitative easing is expected to be phased out this year.

Unlike in the US, the political environment in most parts of Europe has calmed dramatically. While populist parties won a resounding victory in the Italian general election, their message and tone had moderated to such a degree that the market barely acknowledged it. Meanwhile Germany managed to form another Grand Coalition, albeit evidently less grand than the preceding one, ensuring a few more years of stability.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Raiffeisen Bank	Austria	Financials	4.6%
Siemens AG	Germany	Industrials	3.3%
TechnipFMC	UK	Energy	3.0%
RELX PLC	UK	Industrials	3.0%
Glencore PLC	Switzerland	Materials	2.9%
Pandora A/S	Denmark	Consumer Discretionary	2.8%
Daimler AG	Germany	Consumer Discretionary	2.8%
Scout24 Holding	Germany	IT	2.4%
Erste Group Bank	Austria	Financials	2.3%
Lukoil PJSC	Russia	Energy	2.3%

As at 31 March 2018.
Source: Platinum Investment Management Limited. See note 4, page 44.

Performance

The Platinum European Fund (C Class) returned 5.4% for the quarter and 28.7% for the 12 months to 31 March 2018. This compares to 0.1% and 14.1% respectively for the MSCI All Country Europe Net Index (A$).

Our best performing stocks include Sartorius and Provident Financial.

Sartorius is a German company that makes disposable equipment used in the manufacture of biologic drugs. Over time biologics have accounted for an increasing share of new drug approvals. These large complex molecules need to be manufactured in a living system and contamination is a major concern. The industry is increasingly substituting steel vats and pipes that need to be cleaned after each batch for disposable plastic bioreactors, tubes and containers. This speeds up turnaround time between batches and reduces contamination risk. Sartorius manufactures this disposable equipment, earning revenue on each batch of a drug produced rather than on one-off equipment sales.

With biologic drugs, the manufacturing process and equipment are integral to the final product as approved by regulators, meaning there is little risk of displacement. Patent expiries lower drug prices but do not stop production, so they have little impact on Sartorius. There is almost no risk from the economic cycle. Competition is limited to a small circle of proven suppliers since no pharmaceutical company is going to risk undermining a $10 billion drug to save a few dollars on a piece of tube.

Sartorius is the quintessential market darling complete with a compelling growth story, extreme economic resilience and a valuation in excess of 40x earnings. It always hurts to sell such a marvellous business. However, our goal as fund managers is to uncover good investments, not good businesses. When we bought Sartorius many years ago it was both. Today it remains only the latter.

Provident Financial is a recent addition to the Fund. The UK-based company has two main businesses, doorstep lending and subprime credit card issuing. A bungled change to its agent model in the doorstep lending operation undermined the company's relationship with agents and thus, indirectly, with the end customer. Customers departed in droves, abandoning their outstanding debts as they did so. This placed the doorstep lending business under financial strain just as regulators began investigating whether a key product in Provident's credit card business was inappropriately sold.

Provident is dependent on wholesale funding and investors feared the building pressure would see creditors pull the rug out from under them. When we bought the shares we felt there was enough margin for error. They were down 80% from their high two years prior, while the underlying businesses remained viable and could earn an acceptable return on an expanded capital base. Within a month of us adding Provident to the portfolio, the company announced a rights issue to fund a full and final resolution to the regulatory investigation. The shares appreciated significantly in response.

Vodafone and **Siemens** were among our worst performing positions over the quarter. Investors worry Vodafone will overpay for assets it is looking to buy from Liberty Global. With Siemens they were disappointed by the valuation the healthcare unit achieved when 15% of its share capital was finally floated in March 2018. The investment thesis for these stocks has not deteriorated. Indeed, we added quite significantly to our holding of Siemens shares over the quarter.

Changes to the Portfolio

Recent market turbulence gave us opportunities to add new stocks to the portfolio, such as Provident Financial. We also added to existing positions, such as RELX, an Anglo-Dutch publisher of scientific journals.

We closed our successful short position in Hennes & Mauritz, the parent company of fast-fashion label H&M, whose global chain of stores has not been immune to the challenges of e-commerce and other competitive pressures facing apparel retailers at large.

Finally, we trimmed a number of holdings where valuations seem to reflect what is possible rather than what is probable; Sartorius is a prime example.

Outlook

The European economy continues to recover and has room to improve further. Internal political risk is dissipating. Interest rates are unlikely to rise for some time. While stock valuations appear on the high side at face value, averages muddy the water somewhat. The reality is that there are pockets of extreme exuberance mixed with pockets of exceptionally good value. We continue to uncover good investment ideas.

Although the economic outlook remains rosy, risks are nevertheless rising. In anticipation of a more difficult road ahead, we have rebuilt our cash position to around 15% of the Fund's capital. We consider this to be a neutral level.

Platinum Japan Fund

Scott Gilchrist
Portfolio Manager

Performance

(compound pa, to 31 March 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	-1%	21%	12%	23%	15%
MSCI Japan Index	3%	19%	8%	16%	3%

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

Disposition of Assets

REGION	31 MAR 2018	31 DEC 2017	31 MAR 2017
Japan	86%	94%	94%
Korea	0%	2%	0%
Cash	14%	4%	6%
Shorts	-2%	-2%	-2%

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

Sector Breakdown

SECTOR	31 MAR 2018	31 DEC 2017
Information Technology	23%	25%
Industrials	16%	17%
Consumer Discretionary	13%	14%
Materials	11%	12%
Financials	10%	9%
Energy	7%	8%
Health Care	4%	4%
Telecommunication Services	1%	5%
Consumer Staples	-1%	-1%
TOTAL NET EXPOSURE	84%	94%

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

Currency Position

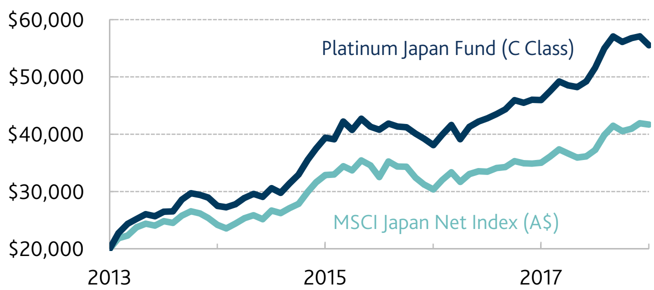
	31 MAR 2018	31 DEC 2017
Japanese yen	95%	71%
US dollar	4%	24%
Korean won	0%	2%
Australian dollar	1%	3%

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

The Fund (C Class) fell 1.0% for the quarter and rose 20.8% for the twelve months. A defining aspect of the Japanese stock market is the wide valuation dispersion between the most expensive stocks and the cheapest stocks, which reflects the price outperformance of growth versus value. This is a phenomenon seen in many global markets but it is particularly evident in Japan. From both a historical and a fundamental perspective, these trends eventually reverse, but the timing is difficult, if not impossible, to predict. Recent portfolio performance has been weighed down by this phenomenon and it would not be unexpected if this continues for an indeterminate period of time. The risk is that the valuation dispersion is reflecting, however unlikely, a fundamental change in both human behaviour and the underlying structure of the economy.

Value of $20,000 Invested Over Five Years

31 March 2013 to 31 March 2018



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

Changes to the Portfolio

While it has been evident for more than a year that many high quality Japanese companies and those with obvious growth prospects were fully valued from a longer-term perspective, the recent domestic buying in the stock market has given rise to some valuations that are toward the absurd end of the spectrum. The longer-term prospects are undoubtedly bright for voice recognition, automated driving, artificial intelligence, quantum computing and the sharing economy, among others, but even on the most optimistic scenarios it is impossible to justify price-to-earnings (P/E) multiples above 300 and price-to-sales (P/S) multiples above 100. Academic studies have shown that future returns are negative for all time horizons when valuations rise above P/S multiples of 8, of which many examples can be found.

The portfolio has been gradually transitioning toward the cheaper parts of the market and this process has recently accelerated. The overall market remains attractively priced on both an absolute and relative analysis with roughly half of the 3,000 listed stocks selling below book value. The large cash holdings across the market (Nintendo and Keyence each have more than US$10 billion of cash) and the extensive cross-shareholdings mask the overall valuation and return metrics, thus it is not surprising that many cheap investments are visible upon closer inspection. Many companies are trading on their lowest valuations in five decades.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Nintendo	Japan	IT	4.3%
Nexon	Japan	IT	4.3%
Itochu Corporation	Japan	Industrials	3.6%
Inpex Corporation	Japan	Energy	3.4%
Sumitomo Mitsui Financial	Japan	Financials	3.3%
Mitsubishi UFJ Financial	Japan	Financials	3.0%
Hogy Medical	Japan	Health Care	2.8%
Sumitomo Metal Mining Co	Japan	Materials	2.7%
Lixil Group Corporation	Japan	Industrials	2.5%
Ebara Corp	Japan	Industrials	2.5%

As at 31 March 2018.

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

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposure, updated monthly, please visit https://www.platinum.com.au/Investing-with-Us/Investment-Updates.

Commentary

The news and trends in Japan continue along surprising trajectories, especially relative to the external consensus. In summary, many indicators show an economy that is stronger than any time post bubble. Strong employment gains have reduced unemployment to the lowest level in decades. This is due to rising participation rates, especially among female and older workers. Retirement is perhaps a curse for civil societies, rather than the promised nirvana. The Japanese female worker participation rate is now higher than the OECD average and higher than the USA. The absolute number of workers across Japan is now at record levels, delaying the much discussed demographic demise of the country. Recent legislative and cultural efforts further address the birth rate which is now rising perhaps for timing reasons, but is certainly helped by rising wages and underlying economic optimism. Dating apps are surging in popularity. The impact of these employment trends is seen in both wage growth and higher consumer spending, but the most important point to watch will be productivity gains should decades of socialising unemployment become unwound. Improved productivity is part of the explanation for the rise in corporate operating margins, which have shifted higher from a multi-decade range around 3% and are now approaching 6%.

Gambling in Japan is often associated with the unique sound of ball bearings cascading through neon-lit Pachinko parlours immune to change through the decades. Astoundingly, the political process seems to have agreed to proceed with three integrated resort casinos in Japan after an exhaustive and exhausting negotiation. This is against the backdrop of rising inbound tourism which is causing strain on some city infrastructure, but also highlights the spare capacity across rural Japan. New electronic pocket translators with wireless connections to a cloud-based application allow fifty languages to be translated in real time with particular focus on the needs of Chinese, Korean, English/American and ASEAN visitors.

The Japanese Corporate Governance Code was published in early 2015. It provided guidance, but was not enforceable. Adherence has been patchy, but it certainly provided cover for those who wished to adjust, or merely signal. Recently announced draft revisions to the Code contain stronger and more specific language in many areas, reflecting the government's frustration with the rate of progress over the last three years. Of particular note are the details related to cross-shareholdings. By some estimates, surplus corporate cash holdings are more than a quarter of the current market valuation which, when combined with cross-shareholdings of similar magnitude, give some idea of the enormity of the opportunity being addressed and why it is of particular relevance to equity owners. In an environment of low cash deposit rates, high bond prices and elevated asset prices generally, it seems inevitable that external pressure on corporate management teams will increase across a wide range of areas, including underlying business improvement and financial management.

It has been five years since Abenomics commenced. Amidst the bustle of daily life, it is easy to forget that this dramatic change in direction followed two decades of post-bubble economic recovery during which the Ministry of Finance enforced its preference for tight monetary conditions. The details of Prime Minister Abe's "Three Arrows" (monetary easing, fiscal stimulus and structural reforms) and their associated actions are well documented and there is much debate about the success or failure of this primary tenet of Abe's second period as leader. However, what is of primary importance is the narrative now being disseminated, comparing the outcomes of the two preceding decades with those of the five years of Abenomics. This is important as Abe now has a political mandate and Kuroda has been reappointed to the Bank of Japan with two deputies who strongly advocate a continuation of the current approach. This team was seemingly appointed against the wishes of the Ministry of Finance. The propaganda clearly stresses the structural changes in the economy resulting from Abenomics. With a renewed mandate, it is almost impossible to believe that more of the same and perhaps stronger medicine won't be applied. This is contrary to the prevailing market consensus which, while hoping for more of the same, has settled into a narrative which implies the end of the experiment and a return to the prior conditioning.

Sporadically, a public commentator would talk about the relevance of Japan's post-bubble economic experience to the current global environment. This is often part of a wider search for historical analogies to the present day situation. They question whether the post-depression template of the 1940s or the inflation foothills of the 1960s are more appropriate than the post 1989 Japanese experience. Certainly, the entry into the global economy of billions of smartphone users climbing the economic ladder should exert pressure on Mother Nature to provide raw materials which are naturally limited. However, this is offset by the extent of global debt and the financialisation of many economies. The debate continues. As China increasingly asserts primacy in global events amid those unfolding on the Korean Peninsula and the trade, tax and treasury turmoil emanating from Washington DC, it is perhaps appropriate to quote Lenin: "There are decades where nothing happens; and there are weeks where decades happen." Along this line of thinking, reminders have been resurfacing of Roosevelt's Executive Order 6102 of 1933, which forbade the hoarding of gold, and Nixon's closure of the gold window in 1971, which led to the collapse of the Bretton Woods system and indirectly to the Plaza Accord of 1985. Some talk about the fall of the Berlin Wall in 1989 as context for the current North Korean negotiations. As the Federal Reserve continues its concurrent path of higher interest rates and balance sheet "normalisation" while China also attempts to rein in credit growth, there are many in Japan who would caution against a repeat of their own decades of mistakes. Perhaps they should follow Ben Bernanke's recommendation to use the *Lords of Finance* as a primary reference and heed the book's key lesson of "devalue hard and devalue early".

Tesla's ongoing travails are perhaps distracting the debate away from the overall energy discussion, especially in the context of robust global demand. With this in mind, it is worth noting three recent developments. Firstly, after a few years of oversupply, many are now coming to the conclusion that eventual LNG deficits are unavoidable due to the long-duration nature of new projects. Chinese and other Asian demand has been robust, leading to winter shortages of seaborne LNG despite large new capacity additions. This supply surge ends next year and the hiatus of new projects is now becoming alarming for end consumers. Second, the projected surge of unconventional Permian oil supply has recently bumped up against two soft barriers. Shale oil is lighter than the global average, so it struggles to easily find a place in the global refining system and, once refined, it produces lower quality products than conventional crude oil. This complex problem is exacerbated by OPEC's production restraints and Venezuela's travails as their economy descends further into disarray. After many years of reduced upstream oil and gas spending, low exploration success and consistently growing demand, there is a strong argument to be made that oil prices will be firm in the absence of a major global economic disruption or distortion. As an aside, global lithium ion battery production capacity is projected to increase from 33 GWh to over 400 GWh by early next decade, which remind us of the solar industry experience both as a warning for the battery industry and in terms of the multi-decade timeframe required for energy system transitions.

Platinum International Brands Fund

James Halse
Portfolio Manager

Disposition of Assets

REGION	31 MAR 2018	31 DEC 2017	31 MAR 2017
Asia	38%	41%	38%
North America	18%	17%	16%
Europe	17%	18%	19%
Japan	12%	10%	10%
Russia	5%	3%	3%
Latin America	3%	2%	5%
Africa	1%	1%	<1%
Cash	6%	8%	9%
Shorts	-18%	-20%	-9%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Alibaba Group	China	IT	4.8%
Asahi Group Holdings	Japan	Consumer Staples	4.6%
Ain Holdings	Japan	Consumer Staples	3.8%
Sberbank of Russia	Russia	Financials	3.7%
LVMH	France	Consumer Discretionary	3.4%
Hanesbrands Inc	USA	Consumer Discretionary	3.3%
Kering	France	Consumer Discretionary	3.2%
BMW	Germany	Consumer Discretionary	3.1%
Sina Corp	China	IT	3.0%
Facebook	USA	IT	3.0%

As at 31 March 2018.
Source: Platinum Investment Management Limited. See note 4, page 44.

Performance

(compound pa, to 31 March 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	3%	27%	13%	15%	13%
MSCI AC World Index	1%	14%	8%	16%	3%

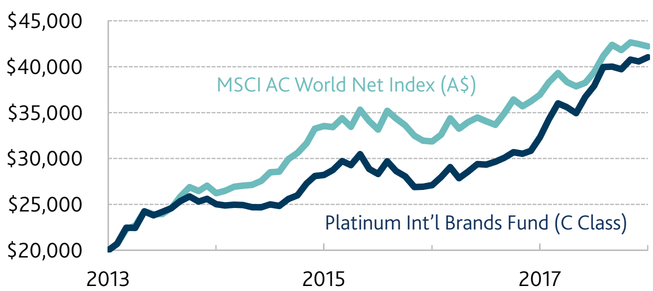
*C Class – standard fee option. Inception date: 18 May 2000.
Net of accrued fees and costs. Refer to note 1, page 44.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

The Fund began 2018 well, posting a return of 3.3% (C Class) for the quarter to March, topping the MSCI's 1.0% and reversing last quarter's underperformance. On a trailing 12 month basis, the Fund (C Class) has returned 26.9%, compared with 14.2% for the MSCI AC World Index (A$).

The quarter had its ups and downs. The Fund kept pace with the market as it rallied through January despite the drag on performance from our short positions. Our short positions, primarily against US retailers and consumer packaged goods companies, began to prove their value as they cushioned the Fund from the market ructions at the beginning of February,

Value of $20,000 Invested Over Five Years

31 March 2013 to 31 March 2018



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

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposure, updated monthly, please visit https://www.platinum.com.au/Investing-with-Us/Investment-Updates.

and then contributed to performance through March. Despite a rebounding market, investors were disappointed by weak quarterly results and management pronouncements on the necessity of "reinvesting" much of the anticipated earnings uplift from a lower corporate tax rate. When the market began to sell off on trade war fears in late March, the short positions again sheltered the Fund from the worst of the downside, finishing with a 0.6% total contribution to the Fund's quarterly performance. 12 of the 15 short positions contributed positively to the Fund's performance, a nice reversal from the December quarter.

Outperformance this quarter was also driven by continued strong performance from the dominant Russian bank Sberbank (+12%), which is a well-run business benefiting from the bankruptcies of many competitors and a strengthening Russian economy aided by more buoyant oil prices. Valuation remains undemanding, and there is scope for further upside. Leading US golf club manufacturer Callaway (+19%) continued its upward climb, following strong results from its EPIC line of drivers and contributions from acquisitions. Callaway was an existing position in the Fund at the time of the change in portfolio manager, and as a result of a favourable review of the investment case we bought more of the stock at the beginning of March 2017. Our decision to increase the Fund's exposure has been rewarded with a 58% price appreciation in a little over 12 months (as at the time of writing).

Vietnamese conglomerate Masan Group (+19%) saw strong price appreciation driven by the excitement around the IPO of its sizeable investment in TechComBank. Leading Japanese pharmacy chain Ain Holdings (+26%) saw its stock rebound as management successfully adjusted its operations to lessen the impact of the most recent round of dispensing fee revisions. With the cloud of uncertainty around fee revisions now cleared, the market is anticipating Ain's leadership of further consolidation with greater excitement. On the other side of the world, dominant Latin American brewer Ambev (+16%), a subsidiary of the global behemoth AB Inbev, benefited from a nascent recovery in its home market of Brazil, together with ongoing strength in Argentina and M&A-driven gains in Central America and the Caribbean. This is a very well-run business with incredibly strong market positions, and further upside is likely as Brazil's economy continues to recover.

The Fund's Chinese holdings were more subdued this quarter, having had a huge run during 2017, but we saw meaningful contributions to returns from social platform Weibo (+17%) and its parent Sina (+6%), leading air conditioner manufacturer Gree Electric (+12%), and traditional Chinese medicine and herbal tea manufacturer Baiyunshan (+6%).

Anta Sports Products also continued to benefit from strong Chinese consumer demand, up 12% in the quarter, while e-commerce platform Alibaba (our largest individual holding) gained 8%.

Several of the Fund's smaller positions also contributed positively in the quarter. Leading Spanish pizza delivery chain Telepizza (+12%) was added to the Fund in January and performed well, as did Ukranian poultry exporter MHP (+21%) and hotel owner/operator Mandarin Oriental (+21%).

Detractors from performance included Japanese bathroom fixture maker Lixil Group (-15%), which sold off in February on a disappointing third quarter result before declining further through March on weak Japanese housing starts, trade war fears, and a stronger Yen. Chinese jeweller Luk Fook (-14%) fell, following weaker than expected sales. In the US, underwear manufacturer Hanesbrands (-10%) again disappointed with continued loss of customer traffic in its core mass retail and department store sales channels; competitor Gildan Activewear (-9%) faced similar challenges in its higher-end "Gold Toe" sock business; while auto lender Ally Financial (-5%) declined on concerns that rising deposit rates would pressure its net interest margins.

Changes to the Portfolio

This quarter was again a busy one in terms of trading activity.

Our sell-down of a number of Chinese stocks that had delivered strong performance during 2017 proved timely as they sold off on concerns over monetary tightening, a slowing property market, and later in the quarter, fears of confrontation with the US on trade. We exited Qingdao Haier during the quarter, with this leading manufacturer of washing machines and refrigerators having appreciated more than 150% since the Fund's present manager added the stock to the portfolio in February 2016. Positions trimmed included Gree Electric, liquor producer Jiangsu Yanghe, Anta Sports Products, jeweller Luk Fook, Macau casino operator Wynn Resorts (US listed, but largely China-exposed), and leading dairy company China Mengniu. This group of stocks has delivered average local-currency appreciation of more than 45% over the last 12 months.

In Vietnam we exited Masan Group (up two-fold over the prior 12 months) and Vietnam Dairy (+46% over 12 months) following very strong performance by those stocks and the Vietnamese market as a whole. Likewise, we sold our Pernod Ricard position as its emerging markets businesses recovered and valuation became less attractive. We also trimmed our large position in Callaway and took some profit following its recent strong performance.

Proceeds from the above sales were recycled into more prospective opportunities both in Asia and elsewhere. Several businesses with promising structural growth prospects had sold off on what we believe to be temporary concerns, thus providing an attractive entry point. Investments were made across telecommunications, travel, technology platforms, and retail/service businesses.

Commentary

We travelled to the US during March to meet with company managements and to attend the Shoptalk Retail & E-commerce industry conference in Las Vegas. Our meetings helped us uncover a number of potentially attractive opportunities. Shoptalk reinforced our views on e-commerce disruption and deepened our understanding of the complexity of the challenges retailers face, the plethora of areas requiring investment, and the multitude of start-up and established tech companies that will be the beneficiaries of catch-up spending.

Traditional retailers are increasingly making high-profile announcements regarding their digital and e-commerce capabilities to demonstrate their leadership in the industry and excite investors and consumers alike. For example, Wal-Mart announced it intends to expand grocery delivery to 40% of the US population; Target spent US$550 million acquiring same-day delivery service Shipt; and Macy's will offer furniture shoppers the ability to visualise their couch purchase in a Virtual Reality replica of their living room. While exciting, what these announcements really represent is much greater expense being incurred by retailers now relative to history, in order to convert increasingly fickle and demanding shoppers into buyers.

Of all the retail categories, the economics of grocery e-commerce are the most dire. This explains why it is only now that we are seeing a major step-up in investments in this space from major players in the US, one to two decades behind other categories like electronics and apparel, and significantly lagging markets like the UK and China. Retailers must pick and pack groceries from shelves in stores that were purposely designed to make the grocery trip take as long as possible. Situating milk, bread and eggs at opposite ends of the store is great for encouraging impulse purchases during the average consumer's weekly shop, but is far from optimal when trying to minimise the labour cost involved in preparing a customer's online order.

Leading UK online-only grocer Ocado estimates that the labour time involved for a retailer preparing an average grocery order in this manner is around *one hour and 15 minutes*, and this estimate is broadly confirmed by a number of other industry sources and our own calculations. What was previously provided for free by you, the consumer, is now additional labour that the retailer needs to pay for. Once the labour cost of $15/hr ($18.75 per order) is factored in, an average order with a value of $75 and a gross margin of around $20 does not leave the retailer with much profit in the case of a customer picking up the order, and puts the retailer deeply in the red if free delivery is included! When we consider that most online purchases would previously have occurred in the retailer's physical store, we can see that profitability falls in a mechanical fashion as an order moves online and goes from being a circa $20 contribution to the bottom line to a breakeven or negative contribution.

Note that the above example assumes a store employee, familiar with the store, picking multiple orders at the same time. When grocers employ the services of personal shopping platforms like Instacart or Target's Shipt, the economics are significantly worse.

Despite the atrocious economics, traditional retailers are being forced to invest or risk losing customers and sales. Initially the fear was entirely Amazon-centric, but we are now in the middle of an industry-wide arms race for control of a food market that is at best stable to growing slightly. This means the competition is largely zero-sum; as one retailer takes a bigger slice of the pie, its competitors are losing parts of their slices. The outcome is likely to be weaker profitability, as with most cases of intense competition triggered by changing industry dynamics where participants are well-resourced and highly motivated to maintain their market positions.

Outlook

We continue to uncover prospective ideas that we believe will provide the Fund with solid long-term investment performance. While we would caution investors not to expect 2018 to repeat the performance of the prior 12 months, we are nevertheless cautiously confident in our ability to deliver respectable returns going forward.

Media headlines are likely to continue to drive market gyrations, but these provide opportunities for the discerning investor to add positions at beaten-down prices. The Fund will likely maintain a sizeable short exposure to challenged retail and consumer packaged goods companies which should protect investors somewhat on the downside, though it would hold the portfolio back in relative terms should we see the market return to bullish behaviour.

Platinum International Health Care Fund

Bianca Ogden
Portfolio Manager

Disposition of Assets

REGION	31 MAR 2018	31 DEC 2017	31 MAR 2017
Europe	39%	38%	39%
North America	37%	36%	35%
Australia	11%	7%	5%
Japan	4%	5%	5%
Asia and Other	<1%	<1%	1%
Cash	9%	14%	15%
Shorts	<1%	0%	0%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
AstraZeneca PLC	UK	Health Equip & Services	3.9%
Roche Holding AG	Switzerland	Pharmaceuticals	3.3%
Sanofi SA	France	Pharmaceuticals	3.1%
Gilead Sciences Inc	USA	Biotechnology	3.0%
Johnson & Johnson	USA	Pharmaceuticals	2.8%
MorphoSys AG	Germany	Biotechnology	2.6%
Imugene Limited	Australia	Biotechnology	2.4%
Daiichi Sankyo	Japan	Pharmaceuticals	2.2%
Qiagen NV	Germany	Health Equip & Services	2.2%
BTG PLC	UK	Pharmaceuticals	2.1%

As at 31 March 2018.

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

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposure, updated monthly, please visit https://www.platinum.com.au/Investing-with-Us/Investment-Updates.

Performance and Changes to the Portfolio

(compound pa, to 31 March 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund*	6%	11%	12%	18%	10%
MSCI AC World HC Index	1%	9%	3%	18%	8%

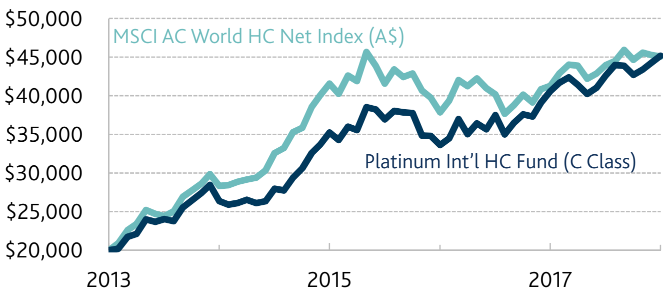
*C Class – standard fee option. Inception date: 10 November 2003.
Net of accrued fees and costs. Refer to note 1, page 44.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

We are in an era of unprecedented innovation within a changing healthcare landscape. In times like this uncertainty tends to prevail, causing a dichotomy in the market, which right now is particularly pronounced in the US. On one hand, venture capital and healthcare specialists are very happy to support a myriad of new companies, while on the other, generalist investors remain on the sidelines, preferring the tool and medtech sectors over drug developers or simply remaining committed to "the stocks that have worked".

Indeed, our pharma holdings have been disappointing and are approaching valuation levels close to those seen at the height of the patent expirations. Some of our portfolio companies have started to use their cash piles while others are busy launching new drugs. There is no sign of complacency, scientists are very busy, and we continue to see value, particularly as the medtech safe haven will at some stage cease to be a safe bet.

Value of $20,000 Invested Over Five Years

31 March 2013 to 31 March 2018



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

These innovation phases offer many new opportunities and we are seeing solid licensing activity as well as more frequent equity investments rather than straight out buyouts, resembling the post-human genome sequencing era. This is the best time to start refreshing the portfolio and gain access to the next wave of innovators.

Over the past 12 months we have been gradually redistributing money towards new opportunities ranging from diagnostics, gene editing and rare neurological diseases to women's health as well as oncology and implants. This, together with the progress made at our Australian biotech holdings, has contributed to the positive performance. Over the past year we have added a number of Australian biotechs as the valuation disconnect with their European and US peers was unjustified.

We are agnostic to where companies are based, but rather follow the science as well as keep a close eye on staff changes within companies.

For the year and the quarter Daiichi Sankyo has been a solid performer for us. This Japanese company recruited a number of scientists from AstraZeneca who have quickly solidified Daiichi Sankyo's differentiated antibody expertise. The market was preoccupied with the company's patent expirations and failed to see the internal changes which, for us, turned out to be a great opportunity.

The current market obsession of "staying with the winners" also offers short-selling opportunities. This quarter we successfully shorted AbbVie, a company that was seen as "the stock to own". It reminded us of where Celgene was at not long ago (a company we stayed away from). Both companies were market darlings despite stretched valuations and serious patent expirations within the next five years. The pipeline that each had accumulated via acquisitions and licensing was regarded as the best in the industry. But as often is the case, drug development is not linear. In the current environment we continue to look out for such opportunities stemmed from mispricing.

Commentary

Genetic engineering lies at the heart of what a molecular biologist does. It is all about manipulating genes and studying the effects thereof. Since 2012, molecular biologists' toolbox has received a new exciting gene editing tool. There were other existing gene editing systems available, but none has been as cheap and easy to use, as well as reliable, as the CRISPR-Cas system, hence the significant amount of excitement it has generated and the many papers published about it each week.

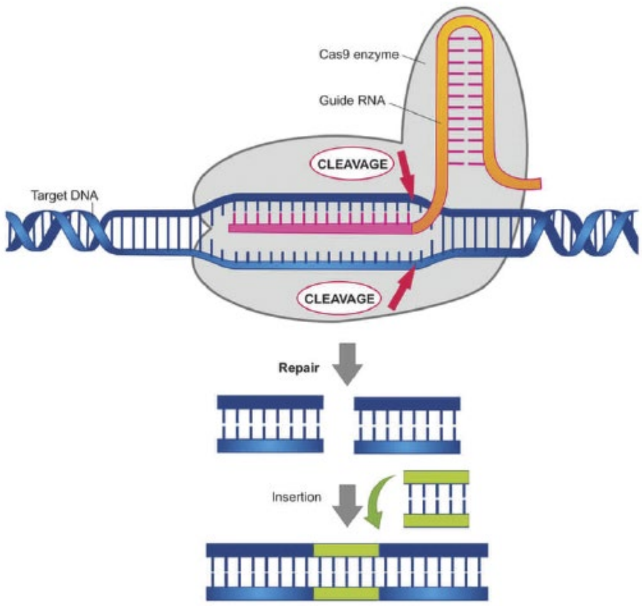
All that the CRISPR-Cas system requires are a so-called guide RNA that binds to the area of interest in the genome and a particular enzyme that "cuts" a DNA sequence like a biological pair of scissors. Using the cell's own repair system, a new gene can then be inserted, if desired.

The CRISPR-Cas system has its origin in the adaptive immune system of bacteria. It is a very elegant system, highlighting just how sophisticated these prokaryotes are. Bacteria are prone to infection and hence they had to develop a system that memorises and battles infections. Essentially what the bacteria have done is to build an "invader database" that forms the backbone of their adaptive immunity.

Upon infection by, say, a virus, bacteria integrate short fragments of the invader's nucleic acid (so-called "Spacers") into a repetitive locus (called "Repeats") within its own genome. This "Spacer-Repeat" sequence forms the "Clustered Regularly Interspaced Short Palindromic Repeat" (or "CRISPR") locus. These loci tend to be flanked by sequences encoding a CRISPR-associated enzyme (short-named "Cas") which functions as biological scissors. Upon re-infection, the bacteria can now activate their "memory", and a so-called "guide RNA" is made of the CRISPR sequence which is complementary to parts of the invading virus' genome. This guide RNA then "guides" the Cas enzyme to its target where it will then cut accordingly.

This bacteria-inspired system has been adapted as a gene editing tool. Designing the right guide RNA is a key step, along with designing the perfect biological scissors.

How the CRISPR-Cas Gene Editing System Works



Source: https://labiotech.eu/crispr-cas9-review-gene-editing-tool/

Compared to CRISPR-Cas, which is a natural system adapted for molecular biological use, other gene editing systems (ZFNs[1] and TALENs[2]) are more synthetic and more cumbersome to design and execute. However, the non-CRISPR systems are by no means less interesting and are ahead of CRISPR-Cas in clinical development. Ultimately, patients will rarely care how a disease is treated as long as the treatment works with minimal side effects.

Delivery of these gene editing systems is a challenge that will gradually be resolved. Delivery can occur ex-vivo, which means cells (e.g. T-cells or hematopoietic stem cells) are obtained from the patient, edited in the lab, and then reinfused back into the patient's body. Alternatively, the editing machinery can be packaged up in a viral vector and delivered systemically (i.e. a manipulated virus that carries the edited gene is injected or delivered intravenously into the patient's body tissue where it is taken up by individual cells). This year will see both approaches in the clinic, which is a remarkable achievement.

Outlook

The toolbox of drug developers continues to evolve beyond the humble small molecule and towards complex antibodies, antibody fragments, oligonucleotides, modified T-cells, and now gene editing systems. The Fund has investments in the area of gene editing as well as viral vector manufacturing and T-cell manipulation, all areas that are evolving rapidly.

Given the complexity of these technological developments, no company can "do it all" these days and hence deal-making will continue to be a hallmark of the industry. While the large companies are interesting, greater excitement lies with the well-funded smaller innovators.

1 Zinc finger nucleases

2 Transcription activator-like effector nucleases

Platinum International Technology Fund

Alex Barbi
Portfolio Manager

Cameron Robertson
Portfolio Manager

Disposition of Assets

REGION	31 MAR 2018	31 DEC 2017	31 MAR 2017
North America	38%	33%	34%
Asia and other	25%	28%	25%
Europe	12%	14%	13%
Japan	6%	5%	5%
Cash	19%	20%	23%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	USA	IT	5.5%
Tencent Holdings	China	IT	4.7%
Samsung Electronics	Korea	IT	4.4%
Taiwan Semiconductor	Taiwan	IT	2.9%
PayPal Holdings	USA	IT	2.8%
Oracle Corporation	USA	IT	2.7%
Microchip Technology	USA	IT	2.6%
ams AG	Austria	IT	2.5%
Constellation Software	Canada	IT	2.5%
Apple Inc	USA	IT	2.5%

As at 31 March 2018.

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

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposure, updated monthly, please visit https://www.platinum.com.au/Investing-with-Us/Investment-Updates.

Performance and Changes to the Portfolio

(compound pa, to 31 March 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	2%	17%	10%	17%	10%
MSCI AC World IT Index	5%	29%	18%	26%	0%

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

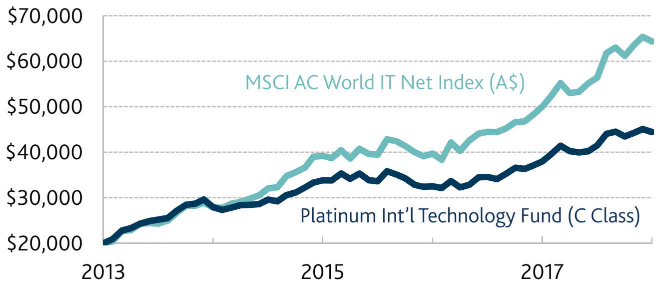
During the quarter the tech-heavy NASDAQ 100 Index was up 2.9% while the MSCI AC World IT Index (US$) rose 3.2% or 5.2% in AUD terms. The Fund (C Class) was up by 2.2%, reflecting a more defensive composition which includes cash (around 20%) and holdings in telecommunications and traditional media companies. Weakness in the Australian dollar against other major currencies benefited performance.

The period was characterised by much higher volatility than the past year, with the CBOE NASDAQ 100 Volatility Index (VXN) spiking close to 34 in early February after spending most of 2017 in a range between 10 and 19.

In the second half of March, technology stocks suffered a reversal with the NASDAQ 100 Index declining 7.7% in the last two weeks of the quarter. Investors had many reasons to be worried: a potential US-China trade war, President Trump's Twitter attacks on bellwether Amazon, accusing it of tax

Value of $20,000 Invested Over Five Years

31 March 2013 to 31 March 2018



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

avoidance and other evils, as well as Facebook's latest data privacy troubles and the prospect of tighter regulation for social network companies. The so-called FAANG stocks (Facebook, Apple, Amazon, Netflix and Google) became a source of funds for investors. The Fund's US and Chinese Internet holdings were not immune, some finishing the quarter in negative territory.

A review of the major industries[1] for the quarter (in US dollar terms) shows once again strong performance for Internet Retail (+ 24%), driven largely by the impressive +21% gain recorded by e-commerce giant Amazon. Computer Communications (+11%) and Computer Peripherals (+7%) were both strong performers, led by security software specialists Palo Alto Networks and Fortinet, and storage and memory leaders Seagate Technologies and Western Digital. Semiconductors (+6.3%) continued to outperform, although some commentators have started questioning the sustainability of this unusually extended bull run for an industry traditionally seen as very cyclical. Media Conglomerates (-6.3%) and Major Telecommunications (-6.1%) were once again the industries most out of favour, faced with both increasing competition and a difficult regulatory environment.

Commentary

The Cambridge Analytica / Facebook data scandal has made a big splash in the news over recent weeks. This debacle has shone a spotlight on some of the murky ways in which personal data is collected and used, and the legal challenges the issue raises. It is worth clarifying that Facebook did not sell anyone's data, and the data was not "stolen" or "hacked". The data came into Cambridge Analytica's hands when a third party researcher violated Facebook's policies explicitly prohibiting the sharing of the data which he had obtained from Facebook's platform with permission. It's also worth pointing out that Facebook had recognised, long before the latest Cambridge Analytica-sparked wave of scrutiny, that relying on policies was a naïve and insufficient means of protecting user data and had in 2014 closed down the tools that allowed that third party researcher to access the data in the first place.

If someone were to look at this incident in isolation, they could be forgiven for wondering why this is creating such a headache for Facebook and is even spilling out to affect market sentiment towards other ad-based businesses. We think there are three key issues to consider: the unexpected power of data; and in light of that, the arguably inadequate (but evolving) regulations around how data should be managed; and finally what all this means for businesses and investors.

It has become clear that data, which many people deemed unimportant and harmless, can be incredibly powerful when collected, aggregated and processed in the quantities being done today. To give a simple example, it has been shown that just by analysing what content a user has "liked" on Facebook, an algorithm can build a fairly accurate profile of that person's gender, ethnicity, sexuality and political views, among other things. This isn't the type of information that people thought they were handing over when they initially engaged with these services and clicked on an innocent-looking thumb-up icon. Nevertheless, huge quantities of data like this have now been generated and stored. That data ranges from locations tracked, purchases made, search and viewing history, connections, communications, photos, videos, and so forth. Given the detailed information that can be assembled from this data, it can present a real risk to users, whether from the perspective of privacy, manipulation, or identity theft. The Cambridge Analytica scandal has once again thrust these facts into the public's view, with the company claiming they created "psychographic profiles" used to "change (people's) mindsets and associated voting patterns". (To be clear, the effectiveness of this is debated!)

Understandably, people can become a bit nervous in light of all this, and that's where legal rights start to become an issue. In many countries individual users have limited or no control over where data is stored, how long it is kept, or who can get their hands on it. The companies that provide the services have often treated the data they collected as "theirs", despite the clear risks it can pose to the users. It appears that societies and governments increasingly see this as an untenable situation, and regulatory frameworks are adjusting. In Europe, new laws will take effect in May, requiring service providers to make significantly more disclosure around how they collect, share, store and use the data they collect as well as giving users much greater control over what happens to their data (including the right to have it deleted). The European regulations are forcing companies to consider privacy and data protection in the design of their products. European regulators will also gain significantly more bite should companies fail to comply with the laws, as maximum fines will be up to 4% of global revenues (billions of dollars, in the case of a large US tech company). In other countries we also see increasing discussion around how to tackle these issues and give individuals more control over sensitive information. We imagine many will look to the EU model for guidance.

Underlying all of this though is the fundamental fact that we are talking about free services, and those services are free

1 Source: FactSet. Industry classification by FactSet.

because advertisers pay for the operating costs. The implicit trade-off from advertising has underpinned many well-accepted businesses for many decades, including things like broadcast radio and free-to-air TV. If users want these free services, they have to put up with ads. The alternative, of course, is that users pay. In order to generate advertising revenues, companies need to show the value of their audience to an advertiser. This is achieved by collecting data about the audience. That isn't new, but what is new relative to traditional broadcast models is the potential for personalisation, to exploit individual user data for targeted advertising. As mentioned earlier, where things got off track was the sheer volume of data and the complexity of data processing, which has ended up introducing a level of unexpected risks for users – something which many companies did not adequately address.

This latest scandal seems to have awoken a desire within a meaningful portion of society to strike a new deal. A more informed and conscious engagement, where users are empowered to control the risks they expose themselves to. If that is what's taking place, it doesn't strike us as particularly radical or damaging. In fact, it sounds like a sensible evolution. For businesses this could mean some extra costs and revenue impacts. There may also be a lengthy period of back-and-forth between politicians, regulators and companies as they struggle to find the right balance on these issues. When the dust settles, after users have been given tools such that they don't feel so vulnerable and the trust has been (re-)built, we suspect the business models for the major players will not look dramatically different to what they are today. It is an evolving situation however, so we will keep an open mind, watch with interest, and look to take advantage of opportunities in the market as they present themselves.

Outlook

The recent increase in stock market volatility, the partial de-rating of some bellwether technology stocks, as well as the general anxiety about a potential US-China trade war suggest that investors may become more cautious about investing in tech stocks in the short-term.

Despite the solid global economic conditions, strong domestic demand and full employment in the US, and the tax cuts introduced by the Trump administration only last December, investors seem to have finally realised that the removal of quantitative easing (QE) and rising interest rates will eventually take their toll and have a flow-on impact on stock market valuations.

Some of the most hyped technology companies may finally be due for a serious correction and we are broadening our list of potential targets for short-selling.

However, the Fund's strategy remains focused on identifying areas of under-appreciated growth with attractive valuation. Should periods of high volatility create a temporary market dislocation, we intend to selectively add to our high conviction positions.

The Journal

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

Recent highlights include:

- 2018 Platinum Roadshow Presentation (Video & Slides)[1] –
  We held our 2018 investor and adviser roadshows in major Australian capital cities during the quarter. For those who were unable to attend, a full video recording of the Sydney session held on 21 March is now available on our website. In it:
  - Dr Joseph Lai discusses why China is, in our view, an investment opportunity that no one should miss,
  - Clay Smolinski shares his insights on the opportunities presented by the advent of electric vehicles, some well-known, others not so much,
  - Andrew Clifford reflects on why Platinum's investment approach has delivered good results over the years, and why we believe that it will continue to do so in the years to come.

- Investing in the Fast-Changing World of Digitisation[2] –
  Autonomous driving, additive or 3D manufacturing, generative design, and the smart factories of Industry 4.0… Creative destruction is in full force. We all know that change is coming, but the challenge is to grasp the immediacy of the new and the scale of change.

From early May, estimations (updated weekly) for the forthcoming 30 June distributions by the Platinum Trust Funds will be made available online at www.platinum.com.au/About-Platinum/Company-News

1 https://www.platinum.com.au/Insights-Tools/The-Journal/2018-Roadshow-Presentation
2 https://www.platinum.com.au/Insights-Tools/The-Journal/Investing-in-the-Fast-Changing-World-of-Digitisati

Glossary

Consumer Price Index (CPI)

An economic indicator used to estimate inflation, the CPI is a measure of changes in the price level of a market basket of consumer goods and services purchased by households.

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 yield

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

Generally Accepted Accounting Principles (GAAP)

A common set of accounting principles, rules and standards that companies follow to compile their financial statements. "GAAP" usually refers to US GAAP, which is followed by US companies and is issued by the Financial Accounting Standards Board (FASB).

Inflation

Inflation is the rate at which the general price level of goods and services increases. Inflation reduces the real value of money and diminishes purchasing power (unless matched by wage increases), leading to less consumer spending (hence less economic output), a decline in living standards and currency devaluation. Too much inflation therefore can be damaging for an economy. Economists generally believe an annual inflation of 2% to be a healthy level and central banks try to maintain a moderate level of inflation through monetary policy.

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.

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.

Purchasing Managers' Index (PMI)

The PMI is an indicator of the economic health of the manufacturing sector. It is derived from monthly surveys of purchasing executives at private sector companies and is based on five major indicators: new orders, inventory levels, production, supplier deliveries and employment environment. A PMI reading of greater than 50 indicates expansion of the manufacturing sector when compared to the previous month, while a reading of under 50 represents a contraction and a reading at 50 indicates no change.

Quantitative easing (QE)

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

Short selling or shorting

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

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

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).

Bobbin Head Cycle Classic

Bobbin Head Cycle Classic is an annual fundraising event organised by The Rotary Clubs on Sydney's North Shore to help local charities.

Now in its fourth year, the event has garnered a loyal following of cycling aficionados and supporters.

Once again, Platinum's staff took part with enthusiasm, who were also joined by their families and friends, young and old.

The funds raised in 2018 will be used to help Lifeline, a charitable organisation dedicated to providing crisis support and suicide prevention services.

Work experience at Platinum for Financial Planning students

To play a small part in raising professionalism in the financial advisory industry, each year Platinum Asset Management and The Neilson Foundation jointly fund 24 scholarships awarded to students majoring in Financial Planning across three Australian universities, each to the value of $12,500.

In addition, Platinum also offers a four-week work experience program to two of each year's scholarship recipients. Michael Tape of Griffith University and Wesley Steer of La Trobe University partook in the program this summer.

The Platinum Asset Management work experience was an invaluable opportunity that will assist me in the development of my financial planning career.

I spent the majority of my four week program with the Financials and Services sector team (part of the broader Investment Team), researching multiple companies within different industries and geographies under the guidance of my mentor, Jim Fawcett. This experience has dramatically changed and improved the way in which I gather and analyse information to determine whether a company would make a good investment. This skill will assist me as a financial planner in the management of clients' direct equity portfolios.

I had the opportunity to pick the brains of Platinum's Portfolio Managers and step in on different investment team meetings. All of these experiences gave me a rare peek into Platinum's investment process.

My time with the Investor Services team proved just as valuable. It improved my understanding of the structures and features of different investment products, which will help me in analysing and selecting products from different fund managers to best suit client needs. The experience has also given me invaluable insights into how investors react to different market events and how a good financial planner can help clients avoid the mistake of chasing past performance and achieve better outcomes.

Wesley Steer
Bachelor of Accounting & Bachelor of Finance (Financial Planning)
La Trobe University

During the second year of my Bachelor of Commerce degree, I was awarded a generous scholarship from Platinum Asset Management and The Neilson Foundation. This fortuitous achievement led to a four-week work experience at Platinum's office in Sydney,which provided me with numerous benefits.

My time with Platinum's investment team gave me a rare insight into the processes and the culture at Platinum which helped me to understand why they have been so successful over such a long period and through all manner of market conditions. As a financial planner, I look forward to applying the knowledge I've gained at Platinum to properly explain the virtues and vicissitudes of equity investment to clients. The experience also allowed me to better appreciate how appropriate equity exposure and a good manager can contribute to a client's wealth creation strategy.

As a student of finance, I found it interesting and enlightening to see how an industry leader operates in the real world. I saw how some of the principles I learned at university are applied in practice while certain others have their limitations and pitfalls. I have no doubt that my experiences with Platinum's investment team will continue to inform my perspectives on investing for years to come.

I was also given an opportunity to see how much work goes into providing Platinum's products and services from outside of the investment team. The Investor Services team is a group of talented individuals who support and facilitate ongoing external relationships, and I learned a great deal about Platinum's history and evolution from them. I was inspired by their passion for what they do and their commitment to Platinum's stakeholders. I also enjoyed my time with the Unit Registry team and their wealth of industry knowledge. Much of what I learned from them will inform discussions and considerations regarding future financial planning clients.

Michael Tape
Bachelor of Commerce (Finance and Financial Planning)
Griffith University

Some Light Relief

"Tech's working on it to also predict, future market regulations."


MY BROKER USES IT
TO TRADE HOT STOCKS.
Kincaid
CartoonStock.com

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. 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 is 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 RIMES Technologies.

   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 fund over the specified five year period relative to the relevant 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. 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 exposure to physical holdings 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 positions (through physical holdings and long derivatives) 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 currency hedging.

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Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock performance are in local currency terms, unless otherwise specified.

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About us

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

The firm was founded in February 1994 by a group of professionals who had built an enviable reputation. The investment team has grown steadily and Platinum now manages around A$27 billion. Platinum's ultimate holding company, Platinum Asset Management Limited (ASX code: PTM), was listed on the ASX in May 2007, and Platinum's staff continue to have relevant interests in the majority of PTM's issued shares.

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

* Please refer to page 2.

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