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 DECEMBER
2017

Contents

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

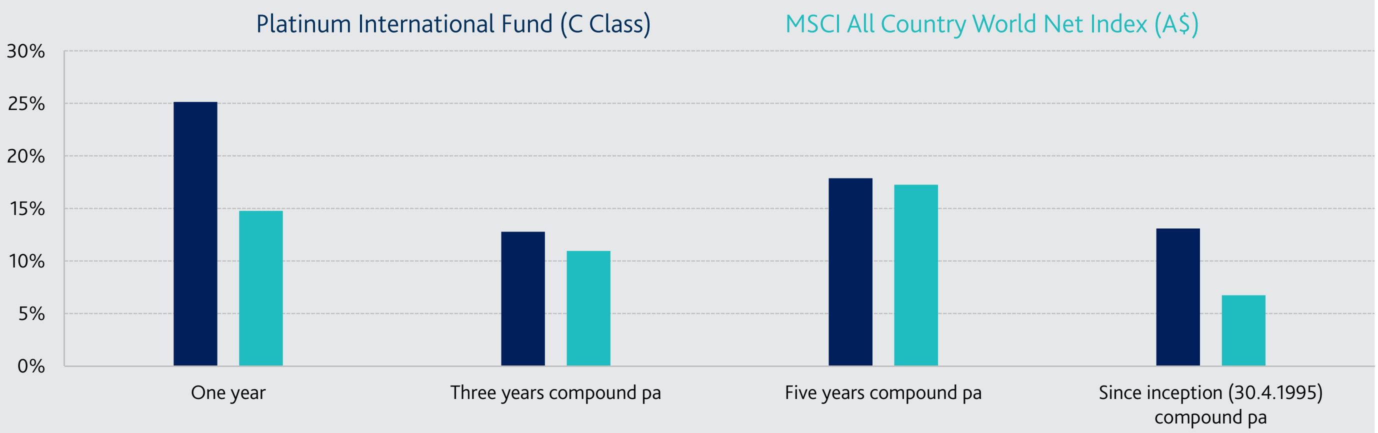
Performance Returns to 31 December 2017

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)	**$11,371m**	**7.0%**	**25.1%**	**14.4%**	**12.8%**	**17.9%**	**13.1%**	**30 Apr 1995**
Platinum International Fund (P Class)	$4m	6.6%	–	–	–	–	12.2%*	3 Jul 2017
MSCI All Country World Net Index (A$)		6.1%	14.8%	11.5%	11.0%	17.3%	6.7%	30 Apr 1995
Platinum Unhedged Fund (C Class)	**$305m**	**9.3%**	**31.5%**	**18.2%**	**15.8%**	**19.8%**	**12.2%**	**28 Jan 2005**
Platinum Unhedged Fund (P Class)	$1m	8.5%	–	–	–	–	14.2%*	3 Jul 2017
MSCI All Country World Net Index (A$)		6.1%	14.8%	11.5%	11.0%	17.3%	7.0%	28 Jan 2005
Platinum Asia Fund (C Class)	**$4,989m**	**9.5%**	**35.3%**	**16.5%**	**11.4%**	**16.3%**	**15.8%**	**4 Mar 2003**
Platinum Asia Fund (P Class)	$3m	9.2%	–	–	–	–	16.5%*	3 Jul 2017
MSCI All Country Asia ex Japan Net Index (A$)		8.6%	31.2%	17.9%	12.4%	14.2%	10.9%	4 Mar 2003
Platinum European Fund (C Class)	**$867m**	**5.8%**	**26.0%**	**15.5%**	**15.1%**	**16.6%**	**12.3%**	**30 Jun 1998**
Platinum European Fund (P Class)	$3m	5.2%	–	–	–	–	10.2%*	3 Jul 2017
MSCI All Country Europe Net Index (A$)		2.6%	16.0%	8.2%	8.4%	13.1%	3.0%	30 Jun 1998
Platinum Japan Fund (C Class)	**$819m**	**8.7%**	**22.1%**	**16.7%**	**19.4%**	**26.5%**	**15.4%**	**30 Jun 1998**
Platinum Japan Fund (P Class)	$3m	8.6%	–	–	–	–	15.1%*	3 Jul 2017
MSCI Japan Net Index (A$)		8.8%	14.8%	8.7%	13.3%	17.6%	2.8%	30 Jun 1998
Platinum International Brands Fund (C Class)	**$895m**	**4.8%**	**29.5%**	**19.0%**	**15.2%**	**15.0%**	**13.2%**	**18 May 2000**
Platinum International Brands Fund (P Class)	$0.5m	4.9%	–	–	–	–	11.0%*	3 Jul 2017
MSCI All Country World Net Index (A$)		6.1%	14.8%	11.5%	11.0%	17.3%	2.8%	18 May 2000
Platinum International Health Care Fund (C Class)	**$190m**	**0.2%**	**13.6%**	**6.4%**	**11.7%**	**18.7%**	**9.4%**	**10 Nov 2003**
Platinum International Health Care Fund (P Class)	$1m	0.4%	–	–	–	–	2.5%*	3 Jul 2017
MSCI All Country World Health Care Net Index (A$)		1.6%	11.2%	2.0%	7.6%	20.4%	8.6%	10 Nov 2003
Platinum International Technology Fund (C Class)	**$101m**	**4.8%**	**18.8%**	**12.7%**	**11.7%**	**17.9%**	**9.5%**	**18 May 2000**
Platinum International Technology Fund (P Class)	$1m	4.9%	–	–	–	–	8.3%*	3 Jul 2017
MSCI All Country World IT Net Index (A$)		8.4%	31.2%	21.6%	19.8%	26.0%	0.2%	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.
Source: Platinum Investment Management Limited for fund returns and RIMES Technologies for MSCI index returns.
Refer to note 1, page 44. Historical performance is not a reliable indicator of future performance.

Platinum International Fund vs. MSCI AC World Net Index

To 31 December 2017



Source: Platinum Investment Management Limited for fund returns and RIMES Technologies for MSCI index returns.
Refer to note 1, page 44. Historical performance is not a reliable indicator of future performance.

Macro Overview

by Andrew Clifford, CIO

As we enter 2018, the global economy appears to be in as good a shape as it has been any time in the last decade. The US, Europe, China and Japan have each shown improving economic momentum over the course of 2017. Higher commodity prices should bring about stronger growth in many of the emerging economies in the year ahead. Interestingly, the trends in place today (excepting the run up in commodities) were obvious enough a year ago, though at the time investors and commentators were preoccupied with a range of concerns.

The US, which has led the global recovery since the Global Financial Crisis (GFC), continued to grow strongly in the final months of 2017. Consumers appear to be in good shape as employment markets remain strong which, together with the promise of tax cuts coming in 2018, saw consumer confidence reach levels not seen in almost 15 years, well before the GFC. New home sales, which have been relatively slow to recover in the current cycle, are now experiencing sturdy growth. To date, there has been little evidence of rising inflation and, as such, while interest rates are rising, they do not look to be a threat to economic momentum for the moment. While the delivery of the tax cuts is a new impetus for growth (though we suspect not a significant one), the picture is not very different to that of a year ago. A year ago, the great concern was the proposed policies of the newly elected President Trump: the roll-back of the Affordable Care Act (Obamacare) which threatened to leave potentially 20 million Americans without health insurance, a possible trade war with China, and a major revamp of the tax system that contained more sound and fury than legislative detail. Of course, little has come to pass other than a much reduced tax plan; meanwhile the economy has continued to motor along.

In Europe, employment growth is strong and consumer and business confidence is high and rising. Today, economic growth rates across Europe are back at pre-GFC levels. A year ago, the improvement in Europe's economic performance was already well established. The strength of the job market today is simply a continuation of the upward trajectory that had already started then. However, a year ago all were concerned with political instability in Europe post the Brexit vote and the defeat of the Italian constitutional reform referendum. There was much discussion about the possibility of Marine Le Pen winning the French presidential election and the implications that would have for the sustainability of the European Union (EU). Concerns also remained with regards to unresolved bad debts in the European banking systems, particularly within Italy. What came to pass was a surprisingly positive outcome in the French presidential race with pro-reform candidate Emmanuel Macron claiming victory. Bad debt issues have either been resolved or have faded to the background.

Throughout 2016 China staged an impressive economic recovery from its investment downturn, kick-started by government spending on infrastructure as part of its "One Belt One Road" program. The residential property market recovered and excess inventories were well on the way to being cleared. Despite this clear improvement in the economic environment, there remained much scepticism at the beginning of 2017 as to whether the recovery was sustainable, with most concerns focused on the level of indebtedness in the economy and the potential for a bad debt crisis in the banking system. While these were not unreasonable concerns, as we first discussed in our March 2017 quarterly report and then in more detail in the September 2017 report, China's supply side reforms were dealing with issues of excess capacity in industries such as coal and steel. The result was immediate improvement in profitability and, with that, the ability to service debt. Over the course of 2017 these supply side reforms have been extended, particularly with respect to enforcement of environmental standards, leading to further improved profitability across a wide range of industries both within and outside of China.

While the fears regarding China's indebtedness have receded somewhat in the second half of 2017, investors and commentators generally remain sceptical. Along with the supply side reforms, there have also been reforms of the financial sector, in part to address the reckless use of credit in the system. It is somewhat ironical that these changes, both of which act to limit the state's role in the economy, are viewed as evidence that President Xi is steering the economy back towards central planning and away from markets. Our observation is that all the signs point in the other direction. Indeed, if one looks at the electric vehicle (EV) market in China, the mechanism being used to encourage auto producers to sell EVs is essentially a simplified version of the mechanism employed by the EU, only that it will be implemented in China a year or two sooner. Besides, the auto industry, like most of the other fast growing industries in China, is dominated by private companies operating in a predominantly free market.

Finally, there is the world's third largest economy, one that is almost forgotten by investors after 25 years of deflation, slow growth, and falling asset prices. The list of woes that usually attract attention when Japan is mentioned includes massive government debt, the extraordinary printing of money by the Bank of Japan (BOJ), and a rapidly aging population, to name just a few. Yet, the country is currently enjoying record levels of employment, driven by rising participation in the work force by women, and rising wages. Corporate profit margins are at record highs. And, for the record, the economy has not seen such robust levels of growth for more than two decades!

The world has not seen this degree of synchronised growth across the major economies since 2008. Together with the supply side reforms in China, this growth has helped to drive a range of commodity prices higher during 2017. Over the next five years, an additional factor driving demand for various metals will be electric vehicles. Combined with a lack of investment in new supply in recent years, this should see commodity prices remain buoyant. While it may act as a tax on most of the developed world, this transfer of income to large emerging economies such as Indonesia, Brazil and Russia should be beneficial for overall global growth.

What are the key risks to this buoyant global outlook? The obvious risk, and one that the markets are focused on, is a return of inflation. In particular, labour markets are tight in the major economies, with the exception of Western Europe, so higher wage inflation is certainly possible if growth remains strong. Couple this with higher commodity prices (and the anecdotal evidence of shortages in a range of industrial and electronic components), a scenario of rising inflationary pressures cannot be dismissed. If central banks were to raise rates in a sustained and steady fashion in response to inflation, given the level of debt carried in all the major economies, it would certainly pose a threat to current rates of growth.

The other great unknown is the longer term ramifications of the money printing exercises by the US Federal Reserve, the European Central Bank and the BOJ. While the US, on face value, has extricated itself successfully from its quantitative easing (QE) program (i.e. it has stopped "printing money" via bond and other asset purchases), it is yet to attempt to unwind this policy in any meaningful way. For the moment, QE continues in both Europe and Japan.

Market Outlook

Global stock markets have recognised these improving prospects and rewarded investors with good returns over the last 12 months. The following table shows the 1-year and annualised 5-year returns in local currency terms for key global markets.[1]

MSCI Regional Indices
Local Currency Returns as at 31 December 2017

REGION	1 YEAR	5 YEAR COMPOUND P.A.
World	19.8%	12.7%
United States	21.2%	15.0%
Europe	13.0%	9.9%
Japan	19.8%	17.2%
Asia ex Japan	35.6%	9.1%
China	55.0%	10.1%
India	30.5%	12.3%

Source: RIMES Technologies

The 1-year returns presented here would usually suggest that one should be cautious about the prospects of future returns. However, the 5-year returns, while solid, are not spectacular except in the case of Japan and the US. Japan, it must be remembered, started the period at the bottom of a 23 year bear market!

It is our assessment that, despite these good outcomes, most investors remain cautious when it comes to the prospects for future returns from owning shares. We see this in the frequent headlines carrying warnings from investment experts for overvalued stocks, stock market bubbles, and even the looming possibility of another GFC. We also see this caution in the actions of investors around the world where we still observe a strong preference for other asset classes, notably debt securities. This assessment, together with the fact that we continue to find new companies to buy at attractive valuations, makes us cautiously optimistic that we can continue to generate good returns for investors, if not in the next 12 months, certainly over the next three to five years.

Interestingly though, despite caution around share markets, the rise of Bitcoin and other cryptocurrencies shows that enthusiasm for speculation is far from dead! I would encourage anyone with an interest in this topic to read Sava Mihic's excellent article on the following pages. Certainly, some cryptocurrencies look on face value to be another old-fashioned bubble, though they may still have some way to go despite the daily predictions of their demise. Could an eventual burst of the bubble have the potential to cause disruptions to broader financial markets? Perhaps, particularly if significant amounts of debt are involved, though for the moment this appears unlikely. For every loser in this speculative game, there is an offsetting winner. Perhaps a more likely scene for a significant financial accident may be the debt markets, where the risk aversion of investors, together with the QE policies of central banks, has driven yields to extraordinarily low levels.

1 For Australian investors, the returns in most cases would have been significantly better over 5 years due to a weak Australian dollar, but weaker over the 1 year period as the Australian dollar has appreciated against most currencies over the last 12 months.

Bitcoin – A Primer

by Sava Mihic, Quant Analyst

Bitcoin has recently captured popular attention by exceeding the US$10,000 per coin mental barrier. Discussion has been extremely polarised, with some claiming it is the biggest bubble since the Tulip while others claim we are seeing the start of a new paradigm.

This article will discuss what it is, some perspectives, and what the future may look like.

What is Bitcoin?

Bitcoin is the first of a new breed of digital tokens labelled "cryptocurrencies" (or simply "cryptos"). The core idea is that it has a public record of all transactions, called a "blockchain". New transactions are recorded by adding transaction record blocks to the existing chain, with specific rules around who can add blocks, how new blocks are recognised, the types of blocks and the rate at which they are *meant*[1] to be added.

Bitcoin follows a "proof-of-work" requirement in order to add a block to the blockchain. This means that the right to record the next block is attained by doing work – also known as "mining". The work required, in the case of Bitcoin, is testing a large number of random numbers until you happen upon one that produces a specific outcome. By making the numbers random, the playing field is levelled, with anybody able to jump in and mine. The more miners there are testing random numbers, and the more computing power they use, the faster somebody finds the correct random number. Miners that control more computing power are more likely to be the first to find the solution, with their rate of success being proportional to their share of computing power. Making mining simple means it isn't dominated by any one party, preventing a malicious party from consistently adding fraudulent transaction blocks.

Once a new block is mined, the miner will broadcast it to the network. The network will confirm that the random number the miner chose does indeed generate the required outcome, and will append it to all the other blocks in the Bitcoin blockchain. One Bitcoin block is meant to be added every 10 minutes – the idea being that prescribing 10 minute intervals makes it less likely for two miners to independently find and broadcast competing solutions to the network at the same time. If mining activity increases and blocks start to be added faster, the difficulty of mining will increase in order to keep the rate at one block per 10 minutes.[2] Conversely, the difficulty will decrease if there is less mining. Each block can at present accommodate around 2,000 transactions.

Of course, people need to be incentivised to do the work required to record transactions, so Bitcoin has an incentive system to encourage mining. There are two parts to the incentive system, and both go to the miner that solves the block first:

1. The first part is the block reward. Currently set at 12.5 Bitcoin and halving every four years, it will increase Bitcoin supply up to a maximum of 21 million Bitcoin and will therefore end in 2140 if all goes to plan. This amount isn't paid by anybody in particular, but rather is inflationary. Essentially, it is partially funded by everybody that owns Bitcoin.

2. The second part is the transaction fee, which is a variable amount and depends on how much Bitcoin users are willing to pay in order to have their transaction included in the next block. Users bid a transaction fee, and miners then decide which transactions to include in the block they are mining. As Bitcoin has risen in popularity, transaction fees have moved from being around 0.1 Bitcoin to 2 Bitcoin per block, with this cost borne by the parties initiating transactions.

Chart 1 on the following page shows the price of Bitcoin on a log scale, and puts into perspective just how extreme the initial boom in 2013 was. While it got a lot of attention then, it didn't get the same level of attention as the latest boom, primarily because the total value of all outstanding Bitcoin peaked at US$10 billion at the time, whereas we are now looking at US$250 billion. See our commentary in *The Journal* on the 13th of January 2014 for further thoughts at the time.[3]

A lot has changed since the early days of Bitcoin. Nobody thought Bitcoin prices would reach the stratosphere when it first started, and there were so few miners at the time that mining could be done by a home PC. Today, mining has become so intense that it requires specially designed hardware, huge amounts of electricity and heavy cooling. Bitcoin has been able to rise through a combination of

1 Bitcoin blocks require testing random numbers to process, so a block can take more or less than the 10 minute target depending on miner luck. That is why processing time is *meant* to be 10 minutes, rather than *is* 10 minutes.

2 Difficulty is increased by requiring more random numbers to be tested by miners before a solution can be found.

3 https://www.platinum.com.au/Insights-Tools/The-Journal/The-Fantastic-Rise-of-Bitcoin

Chart 1 – Bitcoin Price History

BitStamp (USD) – Closing Price – Daily (Log Scale)

Source: https://bitcoincharts.com

fulfilment of needs, strong promotion, and a healthy dose of speculative exuberance. Some of these are discussed in the following sections. The price of US$15,000, which is current at the time of writing, will be used in numbers quoted below.

Bitcoin as a Medium of Exchange?

One of the early hopes was the idea that Bitcoin could be used as a cheap means of transaction that circumvents the banking system. As things stand today, however, this is not a realistic proposition unless some significant changes are made to the Bitcoin protocol. The reason is that transaction costs on the Bitcoin network are simply too high – today the block reward, i.e. the socialised cost of a transaction, is about US$100 at the 2,000 transactions per block rate (see Chart 2). Additionally, the specific transaction cost borne by the transacting parties is about US$15. Add to this the fact that each block takes 10 minutes to process,[4] and you will be waiting quite a while to confirm your $25 coffee order. The Bitcoin blockchain simply cannot be used to process small transactions as it is currently configured.

Bitcoin as a Store of Value?

With the reality that it cannot be used as a medium of exchange recognised, the narrative has shifted to Bitcoin being a store of value, with gold being used as an analogue. Proponents argue that the limited total supply of Bitcoin creates scarcity value, and that the mining of Bitcoin, similar to the mining of gold, takes work. In the case of gold, the price is often underpinned to some extent by the cost of mining it, and mining costs generally increase over time as the geology becomes more difficult. In contrast, no such analogue can be drawn in Bitcoin, because the difficulty of mining is proportional to the amount of processing power being expended. High Bitcoin prices incentivise more processing power and therefore higher costs, but the reverse is also true, which implies that there is little pricing support when Bitcoin prices fall.

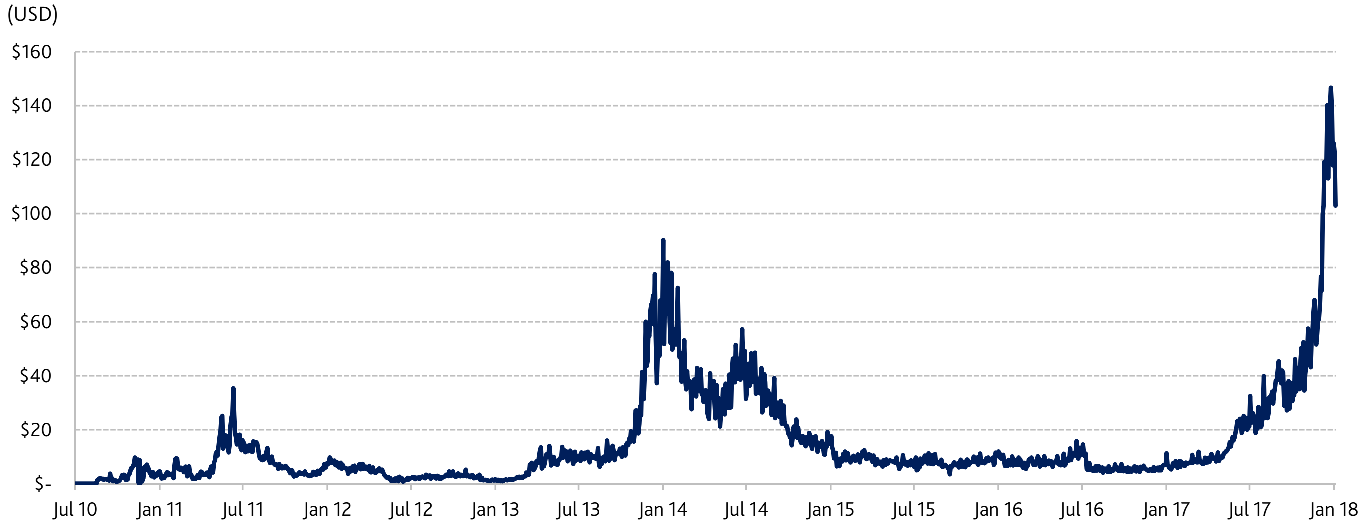
ICOs and "Forks"

But what about scarcity value? While Bitcoin supply is limited (unless the code is changed), there has been an enormous proliferation of copycats[5] – the count of recognised cryptocurrencies stands at 1324 as of today. Coinschedule.com indicates that in 2016 a total of US$96 million was raised in 46 “Initial Coin Offerings” (ICOs), and in 2017 the number has jumped to 235 ICOs, raising a total of US$3.7 billion – a 39 fold increase in money raised.

4 There is a backlog, which varies in size, but currently has over 100,000 unconfirmed transactions, which would take over 8 hours to process assuming no further transactions are recorded. Even with no backlog, one would generally require several blocks to be added after the block processing one’s transaction, to ensure that the transaction is embedded in the blockchain.

5 An example of a copycat is Ether, which is similar to Bitcoin, but has the added use of being able to pay for “smart contracts” on the Ethereum network, which are payment contracts that are executed automatically. For example, a smart contract may have an address, and when something is paid into that address, it may be split among two different addresses automatically in a certain share, like a royalty. The Ethereum network can also be used to issue ICOs. Another example is Ripple, which, instead of using proof of work like Bitcoin and Ether, relies on consensus among trusted parties to approve transactions, thereby removing the costs of proof of work, but also to some extent the decentralisation. If Ripple, which has some institutional backing, were to advance from concept to a fully functioning network, it may represent an efficient payment system. Among the many less popular tokens is UET, the “Useless Ethereum Token”. The "ICO disclosure" of UET, “the world’s first 100% honest Ethereum ICO”, says that it has “no value, no security and no product. Just me, spending your money.”

Chart 2 – Cost per Transaction



Source: https://blockchain.info

In an ICO, the promoter profits by selling tokens to the public. Generally the promoter will start by publishing a "whitepaper" to explain the token and getting backing from a few high net worth investors that are willing to fund the advertising of the token. Then the promoter will selectively groom some initial investors, for example, by setting up a Slack channel in which he chats with them directly, convincing this group that they are "in the know". This "special" group will take a pre-ICO placement of tokens to distribute ownership and some will then proceed to spread the word on the ICO and how great it is. Finally, after a strong burst of advertising, and once interest is judged to be at peak, the promoter will issue as many tokens as there is demand for while cashing out, usually significantly.

The other angle is "forking", which involves creating a new cryptocurrency and issuing the tokens to the owners of an existing cryptocurrency. Fork promoters tend to be involved in cryptocurrency mining and/or the running of cryptocurrency exchanges. They bet that the more widely distributed a token is the more valuable it is likely to be. So, instead of staging an ICO, which is likely to attract only a limited number of investors, they freely give the new tokens to everyone who is listed as an owner of Bitcoin (or some other well-known token) at a certain point in time, hoping to profit by being the trading hub where their token is traded, earning transaction fees. There have been two significant forks using the Bitcoin blockchain – Bitcoin Cash and Bitcoin Gold. While the names may give the impression that these tokens are somehow the offshoots of Bitcoin, in reality they are not – these are entirely unrelated cryptocurrencies created by those seeking to take advantage of Bitcoin's popularity and wide ownership base.

Some argue that these ICOs and forks will fade over time, and that people will refocus on Bitcoin, thereby retaining its scarcity value. For now, the proliferation is massive.

Black Market Demand

One of the initial use cases of Bitcoin was black market activity, because Bitcoin addresses[6] have no identifying information, allowing criminals to stay anonymous. While there is no doubt that underground activity remains a significant part of the actual transactions using Bitcoin, which is considered the currency of the dark web, it is probably not playing as large a part in Bitcoin's recent run as it may have done previously.

The Miners

Around 300,000 Bitcoin transact each day using the blockchain, representing US$3.5 billion at the moment. Of that, miners are earning around 2,200 Bitcoin per day, for revenues of about US$33 million per day or US$12 billion per year. There are estimates that mining electricity costs are around 16% of mining revenues today, with total power consumption up 25% in December alone and approaching one-seventh of Australia's national energy consumption.[7] Currently miners are very profitable, but in the past they have suffered large losses when the price fell, as they were unable to recoup the significant capital outlay for the custom mining chips they operate. The chips used for mining are called ASICs (application-specific integrated circuits), and they have no use

6 Bitcoin addresses are digital keys that represent the location at which Bitcoin are held by an individual, similar to a bank account number, and are usually in the format of a string of random letters and numbers.

7 https://powercompare.co.uk/Bitcoin/ has great data.

outside of mining Bitcoin, resulting in Bitcoin miners being unable to sell them during the last crash. The most popular Bitcoin mining ASICs, Antminers, are developed by the biggest Chinese crypto mining company, a privately held firm called Bitmain.

The Exchanges

A cryptocurrency exchange is an entity through which a customer can exchange Dollars for Bitcoin or another cryptocurrency, or exchange one cryptocurrency for another.[8] This is how most Bitcoin are bought. When a customer buys Bitcoin on an exchange, it does not go to their private wallet immediately; rather, it is held in custody by the exchange, where the customer can sell it. Moving Bitcoin between an exchange and one's private wallet, in either direction, will incur the blockchain fee. This means that customers holding Bitcoin in a private wallet run the risk of not being able to return their Bitcoin to the exchange in a timely manner if they wish to sell it, as there tends to be a large backlog to process transactions through the blockchain during times of heavy trading. Regulation on Bitcoin exchanges is currently minimal – the market has grown too fast for legislation to catch up.[9]

Impressively, the exchanges bear no mining costs but are, in aggregate, trading around US$10 billion[10] in Bitcoin per day, more than double the daily transaction volume on the blockchain itself. Taking a 1% clip (0.5% on each side) of that US$10 billion means that the Bitcoin exchanges are pulling in US$100 million per day at the current pace – annualising fees of US$36.5 billion,[11] with relatively low overheads. If one adds the exchange trading of other cryptocurrencies to the mix, total annualised fees exceed US$60 billion. To put this in perspective against conventional exchanges, Intercontinental Exchange, a group that operates the New York Stock Exchange among other regulated exchanges and clearing houses and has a market capitalisation of US$46 billion, is expected to produce revenue of US$4.6 billion in 2017.

If you ever wondered who funded all of the Bitcoin and cryptocurrency ads that you saw, now you know – the crypto exchanges are the true winners in the Bitcoin phenomenon, bearing none of the risk and earning outsize profits. It is somewhat ironic that these exchanges, which have none of the proof of work or decentralisation features that give Bitcoin its appeal, actually transact twice as much Bitcoin as the blockchain!

Bitcoin as Gambling Arbitrage

So how did the exchanges get so big? Part of the answer is gambling arbitrage. In Japan and South Korea gambling is heavily regulated. Japan has no casinos and pachinko parlours, the traditional gambling outlets, have been curtailed by regulation over time. The extreme volatility that has occurred in Bitcoin, coupled with its unregulated nature and high turnover, makes it an ideal avenue for gambling. A large Japanese cryptocurrency exchange plays the sound of pachinko machines as the prices of cryptocurrencies move up and down, as well as when trades are done, triggering all the necessary endorphins.

Bitcoin as a Tool to Circumvent Capital Controls

China has strict capital controls. It also dominates the crypto mining industry, having the largest share of mining as well as of the market for designing custom mining chips. The initial driver of the recent boom in Bitcoin occurred in China – Bitcoin, with its anonymity, allowed some capital to circumvent the traditional currency controls and flee the country. Seeing this, the Chinese government banned ICOs from being sold to Chinese nationals and shut down domestic crypto exchanges by preventing the exchange of Renminbi for cryptocurrencies.[12] Volumes observably related to China are now a tiny fraction of what they used to be.

Bitcoin and Decentralisation

Another of the initial hopes for Bitcoin was its potential to be a decentralised system, with a frequent argument being that it can disintermediate transactions by removing the need for "trusted" centralised institutions such as banks. To date, Bitcoin has not realised this decentralisation, and is becoming more rather than less centralised. For example, a small group of programmers, known as Bitcoin Core, still write the software that the network runs. Bitcoin mining, which was supposed to be democratised by the brute force "proof-of-work" that anybody can do, is instead being dominated by a few Chinese mining pools as institutionalised ASIC-based mining makes individual PC-based mining unprofitable. Mining ASIC design itself is also dominated by Chinese mining pool operator Bitmain, and Bitcoin trading is dominated by cryptocurrency exchanges, which are centralised institutions. Even Bitcoin ownership is highly

8 The main exchange for Australians is BTC Markets. There one can purchase Bitcoin using Australian Dollars. If one then wants to buy one of the more exotic cryptocurrencies, one could convert their Bitcoin to Ether and send the Ether to an offshore exchange that offers trading in other cryptocurrencies. Using Ether to fund the alternate exchange account is sensible as the transaction cost is lower and transaction confirmation is faster.

9 The government of South Korea has indicated concern around unsophisticated investors being too involved in cryptocurrency trading and is therefore considering regulating their exchanges. China has banned the exchange of Renminbi for cryptocurrency on exchanges.

10 https://coinmarketcap.com/ has aggregation data regarding trading on all of the popular crypto exchanges.

11 This annualises current turnover with the current elevated Bitcoin price. If the price falls, their annual take would fall proportionally.

12 Not all regulation has been negative – Japan has taken the most positive stance, approving Bitcoin as a means of payment.

centralised, with 1500 addresses (of a 28 million total) owning 38% of all Bitcoin. The number of parties that must be trusted therefore makes the argument that Bitcoin can be used for "trustless" disintermediation difficult.

Bitcoin as a Ponzi Scheme

Some argue that the structure of Bitcoin is an exact replica of a Ponzi Scheme. Nobody can see Bitcoin or make anything out of it and there is no utility value to holding Bitcoin (unlike, say, gold, which is used to make jewellery and has some limited industrial uses). Bitcoin generates no income, and an owner of Bitcoin can only make money by selling the Bitcoin at a higher price to another investor. Bitcoin buyers are attracted by the very high appreciation apparently on offer, and the continuation of the scheme is dependent upon current holders[13] continuing to hold! Encouraging holding, there are some barriers to moving Bitcoin held off an exchange onto an exchange, such as slow transaction time and high transaction costs, making selling more difficult. To cap things off, the whole process is facilitated by the exchanges, which act as the cashed-up manager of the scheme, pumping out unregulated advertising promoting the wonderful returns on offer.

The Future of Bitcoin

The future of Bitcoin is unclear, but it is unlikely to become a medium of exchange in its current form, and further regulation is likely on the horizon. Whether that regulation removes demand for some of the uses of Bitcoin, and whether it stifles unregulated advertising, is yet to be seen, and its ultimate future will depend on that.

Telling also is the fact that long discussions among enthusiasts on the future uses of Bitcoin have given way to hopes and dreams around how soon one can become rich – one is told to resist the "fud" (fear, uncertainty, doubt), be one with the "fomo" (fear of missing out) and just "hodl" (hold). Amongst many buyers understanding of how Bitcoin works and whether it can be used for anything is minimal. People questioning the long-term value of Bitcoin are promptly banned from online crypto forums, although predictions around short-term declines are allowed. With Bitcoin having made the front cover of Barron's, there is no doubt that things are very frothy today, and while the madness of crowds has taught us that bubbles can persist for some time, ultimately, like every euphoria before it, Bitcoin will come crashing down.

13 Or, as they like to refer to themselves, "HODLers" – a famous misspelling of "hold" by a drunk Bitcoin user trying to calm people down during a crash.

Platinum International Fund

Kerr Neilson
Portfolio Manager

Andrew Clifford
Portfolio Manager

Clay Smolinski
Portfolio Manager

Performance

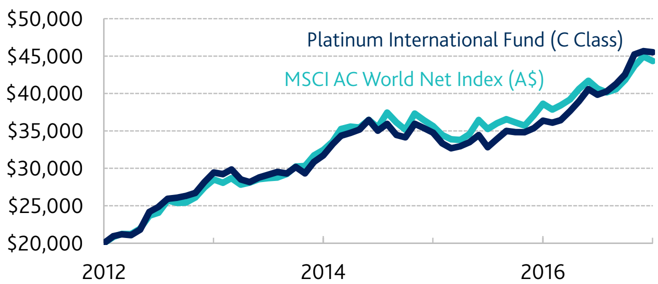
(compound pa, to 31 December 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund*	7%	25%	13%	18%	13%
MSCI AC World Index	6%	15%	11%	17%	7%

*C Class – standard fee option. Inception date: 30 April 1995.
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 December 2012 to 31 December 2017



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 DEC 2017	30 SEP 2017	31 DEC 2016
Asia	39%	38%	32%
Europe	22%	22%	22%
North America	16%	17%	21%
Japan	14%	13%	13%
Russia	1%	1%	1%
South America	<1%	<1%	0%
Australia	<1%	<1%	1%
Cash	7%	9%	10%
Shorts	-12%	-11%	-16%

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	3.1%
Ping An Insurance Group	China	Financials	3.1%
Inpex Corporation	Japan	Energy	2.8%
Alphabet Inc	USA	IT	2.7%
Glencore PLC	Switzerland	Materials	2.4%
TechnipFMC	UK	Energy	2.2%
Lixil Group Corporation	Japan	Industrials	2.2%
Royal Dutch Shell PLC	UK	Energy	2.1%
PICC Property & Casualty Co	China	Financials	1.9%
Tencent Holdings Ltd	China	IT	1.9%

As at 31 December 2017.
Source: Platinum Investment Management Limited. See note 4, page 44.

For all the political news chatter around the Trump administration, Brexit negotiations, the 19th National Congress of the Communist Party of China, the supremacy of the Liberal Democratic Party under Shinzo Abe in the recent Japanese elections and, of course, the hysteria around missile launches by North Korea, the year **2017 has been one of near perfection for most markets**: stocks, bonds and property. Underpinning the whole shebang has been the frantic purchasing of bonds, both government and corporate, by the US Federal Reserve, the European Central Bank (ECB), the Bank of Japan (BoJ) and the Bank of England (BoE) that has seen these four major central banks' balance sheets, in aggregate, blow out to **a new record of US$20 trillion** of assets and correspondingly to **oppress interest rates along the entire yield curve**. The effect should not be underestimated, because corporate issuers of subprime debt in Europe are raising term funding at a lower cost than the US Federal Government! One consequence of floating exchange rates is that the behaviour of an individual central bank impinges on the entire global system via currency swaps and the free movement of capital – it effectively cheapens money across the board.

This does matter, because quantitative easing (QE) has allowed the rebuilding of bank equity for those most affected following the Lehman crisis, it has allowed various industries to find cheap financing through the likes of private equity, to fund adventurous ideas, and indeed has encouraged the swapping of equity for debt, notably in the US, via share buy-backs. The overarching effect of forcing investors to reach for yield, be they life companies, pension funds or hapless retirees, is to **raise the risk threshold**, justified by **the view that it has obviated an otherwise likely contraction** of economic activity.

Evidently it is working and, as was suggested by the work of Kenneth Rogoff and Carmen Reinhart following the Lehman meltdown, cheap money would ultimately allow the system to **rebalance after about 10 years of sub-optimal growth**. Other factors have played their part, most notably the contribution of unremitting expansion of the Chinese economy, huge strides in alternative energy production and the power unleashed from the internet to serve a much broader purpose. No longer confined to e-mails and the like, there has been an explosion of on-line shopping and expedited fulfilment, fintech services, on-line games and entertainment, and now the industrial element with the internet of things (IoT). These developments were still in their infancy in 2007.

Some of **these changes have sidelined previously comfortable industries** with the subsequent costs of restructuring and mergers. These continued through the quarter with some mega deals revealing the changed circumstances of the players, notably the proposed acquisition of 21st Century Fox assets by Disney, the obstructed merger between AT&T with Time Warner, the combining of CVS and Aetna in health care, Unibail-Rodamco's takeover of Westfield in property, and in aerospace, Boeing's bid to acquire Embraer and Safran's bid for Zodiac.

MSCI Regional Index Performance to 31.12.2017 (AUD)

REGION	QUARTER	1 YEAR
Developed Markets	**6%**	**13%**
Emerging Markets	**8%**	**27%**
United States	**7%**	**12%**
Europe	**3%**	**16%**
Germany	3%	18%
France	2%	19%
United Kingdom	6%	13%
Japan	**9%**	**15%**
Asia ex Japan	**9%**	**31%**
China	8%	43%
Hong Kong	7%	26%
India	12%	28%
Korea	12%	36%
Australia	7%	11%

Source: RIMES Technologies

MSCI All Country World Sector Index Performance to 31.12.2017 (AUD)

SECTOR	QUARTER	1 YEAR
Information Technology	8%	31%
Materials	8%	20%
Consumer Discretionary	8%	16%
Energy	7%	-1%
Financials	6%	15%
Consumer Staples	6%	9%
Industrials	6%	16%
Telecommunication Services	2%	0%
Health Care	2%	11%
Utilities	0%	5%

Source: RIMES Technologies

The main show though was **synchronised global growth**, early signs of returning pricing power in some industries, and yet the bonds refusing to hint at the return of inflation even though such chronic deflators such as Japan are seeing general price rises of over one percent. Topping off the year was the passing of the tax bill in the US which reduces corporate taxes, including to the benefit of foreign companies, and encourages capex via accelerated depreciation deductions. Despite generous commentary, the tax break for the median earner (US$59,000 p.a.) is pitiful, some US$1,000 p.a. versus US$3,000 for the so-called "middle class" with incomes of US$100,000 p.a. Despite a rise of the government deficit by an estimated US$1.5 trillion a year, the bond market barely took notice.

An acknowledgement of broad dependable growth, combined with the capacity reductions in several basic industries in China (supply side reforms), saw markets **reprice value stocks and cyclicals relative to growth stocks**. This was in stark contrast to the bidding-up for "certainty" that gripped the markets from 2011 through to early 2016. All this coalesced to produce a new record. 2017 was the first calendar year on record in which the MSCI All Country World Index had had no down month (in local currency terms)!

Note the variances of performance by sector and country in the accompanying tables on the previous page.

Even though the Fund runs cash and has been burdened with ineffectual short selling in strongly rising markets through the year, the broadening of market action has significantly rewarded our index-agnostic stock picking. For the quarter and the year, the Fund (C Class) achieved respectively 7.0% and 25.1% while its benchmark MSCI AC World Net Index rose by 6.1% and 14.8% (in AUD). Over the last five years, a $100 investment in the Fund would have grown to $228 today.[1]

This strong performance, in both absolute and relative terms, is pleasing, but by no means surprising. Some of you may recall the detailed expositions in our March and June 2016 quarterly reports in which we took you through the characteristics of the portfolio, including numerous individual positions within it. On measures of growth, profitability, leverage and value, **the portfolio was as attractive as it had ever been in the prior 17 years; yet, at the time it looked forlorn** next to the index-hugging funds chasing expensive consumer staples companies and other bond-proxy stocks. As it transpired over the last 18 to 24 months, those characteristics served us well and the investments unfolded largely as envisaged to generate handsome returns, once again attesting to the underlying method at work.

1 Net of fees, pre-tax, and assuming the reinvestment of distributions.

Changes to the Portfolio

As a regular reader of this quarterly publication, you will be aware that we have been gradually raising the cyclical component of the portfolio. This has been motivated by the significant impact that the production rationalisation in China has had on prices across a wide range of industries. Broader global growth has also played a part in tightening supply and lacklustre capex has found many companies chasing to add capacity. Other emerging themes like battery-driven automobiles, the pollution clean-up in China, and factory automation are also influencing our preferences. To fund these investments, we have been reducing or eliminating the highly successful Chinese internet plays like **Baidu**, **Tencent** and **58.com**. We have also reduced some of the Fund's financials exposure in China and Europe, trimming companies like **China Pacific Insurance** and **Raiffeisen Bank**.

An important addition was **Siemens**. This remarkable 170 year old company, which started out with a telegraph invention, has pioneered many innovations involving the use of electricity to find itself today as a leader in power generation and distribution, industrial and building automation, rail transport and healthcare equipment. Apart from heavy spending on research and development (R&D), Siemens has arrived at this point through a myriad of forward-looking acquisitions and disposals.

At present, the market is a little unsure about its near-term earnings power because of the need to downsize its large combined cycle gas turbine business (note GE is afflicted by the same). There is also pressure on the profits of its wind power subsidiary Siemens Gamesa, and the local press are agitated about the CEO's decision to own partial stakes in former core businesses that have been recently merged with competitors to consolidate their industrial significance. Some of these mergers were not so well-timed. Early in 2018, the plan is to list a (minority) stake in its healthcare business. The press is flustering about this German national icon losing relevance as it sets on this new path.

Having followed the twists and turns that Siemens has taken over the decades, we feel these **uncertainties give an excellent buying opportunity** to own one of the great industrial enterprises of our times. The evolution of Industry 4.0, which is essentially a digital transformation of manufacturing and other activities to enable data to be manipulated, shared and used to control processes to ultimately have self-ordering systems, has come a long way since the vision was unveiled by the German government at the Hannover Fair in 2011. Siemens is indubitably the leader in the field. Of course, the majority of factories are burdened with massive legacy investments and the task ahead is to persuade, facilitate and profit from this inevitable shift in the way things are made or controlled.

We run the risk of being too early in entering this investment because of downward pressure on 2018 earnings from the divisions that are restructuring and from a further rise in R&D in the Digital Factory division, but finding a company of this quality selling on 15 times earnings is rare in these markets.

Shorting

Our stock specific shorts, which relate mainly to consumer brand names that are fighting valiantly to hold sales and/or margins against a changing retail environment, recovered slightly this quarter. These consumer companies remain expensive and growth challenged. The index shorts were expensive in a record year on 12 solid months of unremitting advances.

Currency

The main change was a further reduction of the holding of US dollars in favour of the Japanese yen, the Korean won and the Norwegian krone. Regarding the Australian dollar, we were inclined to remove this long position early in 2017 as we built further positions in cyclical stocks and did not wish to double the 'bet'. See table below:

CURRENCY	31 DEC 2017	30 SEP 2017	31 DEC 2016
US dollar (USD)	22%	28%	33%
Euro (EUR)	14%	16%	13%
Hong Kong dollar (HKD)	14%	12%	11%
Japanese yen (JPY)	10%	9%	4%
Korean won (KRW)	8%	8%	6%
Chinese yuan (CNY)	7%	7%	-3%
Indian rupee (INR)	6%	6%	6%
British pound (GBP)	5%	5%	5%
Norwegian krone (NOK)	5%	4%	9%
Australian dollar (AUD)	3%	2%	19%
Chinese yuan offshore (CNH)	0%	0%	-6%

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

Commentary

On account of the surplus capacity that came with the Global Financial Crisis, inflation has been absent, except, one could argue, in the price of tangible assets, nominal and real. More recently one can spot this effervescence boiling over into new 'asset' concepts like #Bitcoin and the host of emulators that have caught the popular imagination. The important point to grasp is that **the concept of a public register, called a 'blockchain'**, and the way entries are verified and recorded by users across the network, rather than depending on a central authority, **are sound and clever**. Building on this kernel, the idea that it is tamper-proof from government intervention has created a mystique. The distributed nature of a public blockchain and the **traceability of every entry** gives the technology particular appeal from a **security standpoint**. This is increasingly important in a world where everything from bank accounts to smart cars is at the mercy of hackers. Further, the trade in already-mined Bitcoin has exploded as exchanges have sprung up to meet and promote this burgeoning activity. Right now there is massive turnover in the existing stocks of the token, earning spreads that are creating huge wealth for the operators of these exchanges. As you will see from this issue's feature article, *Bitcoin – A Primer*, by Sava Mihic, ***gross annual fees* generated are likely greater now than those on the New York Stock Exchange**!

This massive cash flow provides motivation and funding for highly promotional *web-directed* activities to perpetuate this apparent gravity-defying money-making machine. **Why one might not fight the trend at present is that it's got many of the qualities of a good story** for new-age millennials and disparaged voters in a world that is readily embracing new digital payment systems and, in addition, money is very cheap. Long gone is any discussion about its inherent worth (a store of value) or as a medium of exchange, a value attributed to traditional money, which might even earn interest to those who are so old-fashioned as to care. The gamblers are having the time of their lives and it is all about buying-the-dips and getting involved. Of course, this desperate participation **forewarns of the likely bust**, but for now, punters (as a group!) are reckoning on their greater agility than the crowd. The leader, Bitcoin, may eventually falter and lose favour, and its recent exponential rise from US$1,000 at the beginning of 2017 to a peak of US$19,000 in mid-December suggests **its parabolic rise is close to climax, dwarfing even the Tulip fever** that gripped Amsterdam in the 17th century. However, if and when that happens, others like Ripple (XRP), which facilitates the exchange of cryptos into hard cash and offers cheap and speedy processing, might be expected to take up the running.

With the cost of money being so low, the danger lies in **the use of debt to play** and as of December both the Chicago Board Options Exchange (CBOE) and the Chicago Mercantile Exchange (CME) offered futures contracts on Bitcoin. **If debt is used to fuel the flames**, the consequence of a bust could be felt across all asset classes as **the liquidity squeeze** forces the sale of other assets to meet the collapsing crypto phenomenon.

"But what is likely to change the cost of money?" you ask. It was mentioned earlier that some industries are regaining their pricing power, some of which is due to the muted capex cycle and unexpected strength in demand. Traditional measures of productivity show weakness, yet still labour in markets as far apart as the US and Japan seems bereft of pricing power in aggregate. However, pressure from rising unit labour costs – and note the confidence of middle income workers has fallen since the US tax bill was announced – could turn the tide. It is not as if prices on average haven't been rising. The change in the CPI in the US did after all get down to zero in 2015 and is now rising by between 1.5% and 2.0% p.a. while in Japan it may be running at an annual rate of 1.5%.

Based on our experience from field trips and company visits, and with the prospect of India and China growing yet again by above 6% in 2018 (remember, such growth in China is tantamount to adding an economy the size of the Philippines on a purchasing power parity basis with its population of 105 million), **we are inclined to back growth forcing changes in the cost of money**. This is against a backdrop of tightening by the US Federal Reserve and other central banks likely being shamed into desisting from their market manipulation. In the meantime the **cryptos** may serve as the proverbial **canaries of financial market health**. As an interesting gauge, we see that Google search trends for Bitcoin have dropped below those for gold!

Outlook

High valuations and long bull runs do not by themselves cause the onset of a bear market. The key is earnings growth and on that score the markets still look satisfactory. We like the companies we are finding in Asia in particular, as they typically offer above average growth prospects and yet are valued on lower multiples of earnings than those in the western hemisphere. While acknowledging that historically these markets have been prone to the influence of foreign flows, the weakening pattern of the US dollar suggests that this factor may be less significant in future. As we have highlighted over the last 18 months, Asia is creating its own ecosystem with ever diminishing dependence on the large Western economies. The likely repricing of borrowing caused by US Fed tightening is an evident obstruction, but, like earlier tightening cycles, the relative pace of earnings growth could be the deciding factor for individual investment opportunities. Some of the growth themes with which we tag individual stock ideas are almost immune from broader economic influences and this gives one confidence that they can deliver strong earnings almost independent of their host economies.

Platinum Unhedged Fund

Clay Smolinski
Portfolio Manager

Disposition of Assets

REGION	31 DEC 2017	30 SEP 2017	31 DEC 2016
Asia	42%	40%	30%
North America	20%	21%	25%
Europe	19%	21%	24%
Japan	9%	9%	8%
South America	1%	1%	0%
Russia	<1%	1%	3%
Cash	9%	7%	10%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Raiffeisen Bank International	Austria	Financials	4.0%
Jiangsu Yanghe Brewery	China	Consumer Staples	3.6%
Kweichow Moutai	China	Consumer Staples	3.4%
KB Financial Group	Korea	Financials	3.3%
Inpex Corporation	Japan	Energy	3.3%
Applus Services	Spain	Industrials	3.2%
Alphabet Inc	USA	IT	2.9%
PayPal Holdings Inc	USA	IT	2.9%
PICC Property & Casualty Co	China	Financials	2.7%
Lixil Group Corporation	Japan	Industrials	2.7%

As at 31 December 2017.

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

(compound pa, to 31 December 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund*	9%	32%	16%	20%	12%
MSCI AC World Index	6%	15%	11%	17%	7%

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

Global stock markets continued to push higher in the fourth quarter, with Japan being the standout, rising 9%. The strength in Japan is the result of a combination of a healthy economy and structural reforms at corporates driving record earnings. The US market also saw an impressive 6% rise, supported by expectations that the impending corporate tax reform would provide a one-off boost to profits.

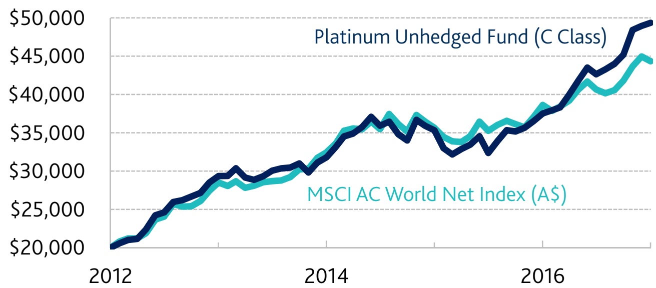
2017 was a positive year for the Fund, which returned 31.5% (C Class) over the calendar year versus 14.8% for the MSCI All Country World Net Index (in AUD).

The drivers behind this performance were quite broad, with close to 80% of our holdings having risen over the year. Amongst them were two main clusters of outperformance:

China: 12% of the Fund's total return came from China. While most of our Chinese holdings performed well, the best performance was concentrated in the consumer-facing names. Each of these companies had *specific* reasons why they were cheap at the time of our purchase. Moutai, Yanghe (both premium liquor producers) and Wynn Resorts (Macau casinos) saw their business hurt by the corruption crackdown

Value of $20,000 Invested Over Five Years

31 December 2012 to 31 December 2017



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

a few years ago, while property and job search website 58.com fell in 2016 on fears around China's residential property market. On top of the specifics there is no doubt their valuations were also suppressed by the general concern about the health of China's economy.

In 2017 we saw the specific problems around these businesses improve while the general fear around China also receded. This combination has led to some impressive price moves, with **58.com** up 155%, **Moutai** up 109%, **Wynn Resorts** up 95% and **Yanghe** rising 63% for the year.

Banks: 8% of the Fund's total return came from our banking positions. Banks are a cyclical business,[1] and our investment approach is to buy in the middle of a credit downturn when share prices are low and bad debt problems are well known. The strong returns from our European and Indian banking positions were product of this process.

During the year, our European bank holdings (**Raiffeisen**, **Erste**, **Mediobanca** and **Intesa**) benefited as fears around Brexit faded and investors re-focused on the banks' strong profits and fundamentals. In India, each of our major positions (**ICICI**, **Axis** and **Shriram**) was bought at a time when it was mired in its own bad debt cycle and its share price cheap. In each case, we have evidence that the majority of the bad debt has been worked through, with the stock rising in anticipation of the loan losses falling away.

Changes to the Portfolio

When investing we look for situations where stocks are affected by *temporary* uncertainty. Investors fretting about a problem tends to result in both low expectations for the future and low prices as they rush to sell out. If you can identify reasons why the future may look better, low expectations and prices plant the seed for the next upswing.

Most of the time the temporary uncertainty centres on individual stocks. However, sometimes certain events engulf an entire market in uncertainty, which can create a whole raft of opportunities. China is a good example of such an opportunity,[2] as investors worried about debt issues largely ignore the region. We think the debt concerns are overblown, and the attractive valuations on offer have led us to hold between 25-30% of the portfolio in China.

With the strong price moves detailed above, we have started to rotate out of our Chinese consumer-exposed names into the more attractively priced areas of the market. Themes where we are finding opportunities include **environmental spending** and **agricultural development**.

China's pollution problems are now a clear social issue and the government is making a determined push to address it. Environmental improvement is a top priority in the government's current five-year plan, and environmental regulations are now being enforced with rigour. Interestingly, we have been able to find a range of companies exposed to this trend which we expect will be the beneficiaries of a multiyear wave of environmental-related capex, but which are trading on attractive earnings multiples of between 8x and 13x.

Much of China's agricultural sector is defined by small plot sizes (the average is 2 hectares), often inefficient choice of crops[3] and management by an increasingly elderly rural population. In the past, the introduction of industrial scale farming has been held back by a lack of clear land rights. However, a land right verification project which the government started in 2005 is nearing completion and many farmers are now in a position to lease out the operating rights to their plots, resulting in rapid growth of large-scale farming. We have recently invested in a leading fertiliser producer, who will not only benefit from demand for more complex/ higher efficiency fertilisers, but is also developing a fast growing property management operation to manage these industrial-scale farms on behalf of the owner collectives.

To fund these new acquisitions, we fully exited our positions in **Mediobanca**, **eBay**, **Panasonic** and **Jones Lang LaSalle**. All four stocks have been excellent investments for the Fund, and the decision to sell was due to each hitting our price targets after strong upward moves.

Outlook

Over the past year global markets have risen around 20%, share markets are very 'calm',[4] the global economic picture looks rosy and investors are confident. Our raw intuition is to be **cautious**.

However, our own history tells us that a good guide to future returns is the pace at which we are finding good ideas. Importantly, **we are still finding plenty**. Indeed, over the last six months we have made several investments in Europe, the US and China where the companies' starting P/E was 10x or less. In our experience, buying companies that can grow on a 10% earnings yield tends to make you good money over time.

There are risks. We are in the early stages of a rate hike cycle, and eventually higher rates will bring down growth and valuations. It is certain that this serene period of gradually rising markets will snap at some stage and historic volatility in markets will return.

Overall, our investment process at Platinum has provided good returns as well as protection for investors. This has not been achieved by the portfolio managers having a crystal ball to predict the next recession, but, rather, by avoiding the crowd, looking for areas where expectations are low, and investing in businesses at modest valuations. We continue to find many opportunities in this vein.

1 Although this fact is easy to forget in Australia given the absence of a recession and our booming property market over the past 25 years!

2 Other recent examples would be the European Sovereign Debt Crisis in 2011-2013 and Brexit in 2016.

3 There is a preference to plant staple food crops like corn, which is more stable and has a price subsidy, instead of more volatile but significantly more profitable cash crops like fruit and vegetables.

4 The S&P 500 has not cumulatively fallen by greater than 3% at any point in the year!

Platinum Asia Fund

Joseph Lai
Portfolio Manager

Disposition of Assets

REGION	31 DEC 2017	30 SEP 2017	31 DEC 2016
China^	51%	54%	35%
Hong Kong	3%	3%	1%
Taiwan	2%	2%	3%
Korea	12%	10%	9%
India	10%	11%	17%
Thailand	4%	5%	7%
Philippines	3%	4%	4%
Vietnam	2%	3%	3%
Singapore	1%	1%	2%
Malaysia	<1%	1%	1%
Indonesia	<1%	<1%	<1%
Cash	11%	6%	18%

^ 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.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Alibaba Group	China	IT	3.3%
Axis Bank Ltd	India	Financials	3.1%
Ping An Insurance Group	China	Financials	3.1%
Kasikornbank PCL	Thailand	Financials	2.9%
China Merchants Bank	China	Financials	2.9%
Tencent Holdings Ltd	China	IT	2.8%
Samsung Electronics	Korea	IT	2.7%
Ayala Land Inc	Philippines	Real Estate	2.5%
China Overseas Land & Invt	China	Real Estate	2.5%
Jiangsu Yanghe Brewery	China	Consumer Staples	2.4%

As at 31 December 2017.
Source: Platinum Investment Management Limited. See note 4, page 44.

Performance

(compound pa, to 31 December 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	9%	35%	11%	16%	16%
MSCI AC Asia ex Jp Index	9%	31%	12%	14%	11%

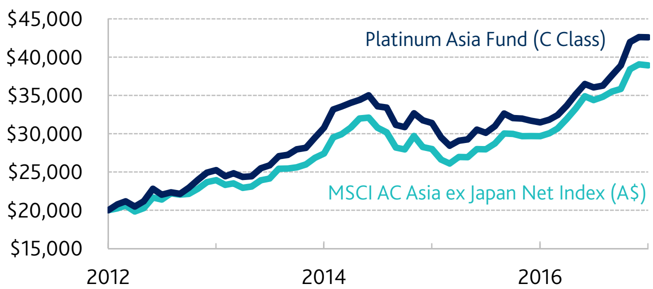
*C Class – standard fee option. Inception date: 4 March 2003.
Refer to note 1, page 44.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

The Fund (C Class) rose 9.5% over the quarter and 35.3% over the year. The MSCI Asia ex-Japan Index (in AUD) returned 8.6% and 31.2% over the same respective periods.

Markets across Asia took a slight breather to digest the gains from the last few quarters, nonetheless, still delivering positive performance. The Hong Kong market was up 6% (in local currency) and the domestic Chinese A share market was up 5%, as the market gradually starts to appreciate China's reform efforts. The Indian market rose 9% for the quarter (in local currency), as economic activity continues to pick up.

Value of $20,000 Invested Over Five Years

31 December 2012 to 31 December 2017



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

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Our Chinese holdings made a significant contribution to performance. Strong companies positioned to service the burgeoning Chinese middle class consumers fared well, with China Merchants Bank (a premier retail bank) up 13% (H-share), Tencent up 21%, Jiangsu Yanghe (Chinese liquor producer) up 13%, and Midea (home appliance maker) up 25%. Healthcare stocks also performed well, with 3SBio (biologics company) up 22% and Shanghai Fosun Pharmaceutical Group (healthcare conglomerate) up 55% (H-share). Other strong performers include Tingyi (instant noodle maker) up 29%, BAIC (large auto maker with joint ventures with Mercedes and Hyundai, among others) up 37%, and Ping An Insurance up 29% (A-share). Elsewhere, banks across the Asian region are starting to pick up steam as economic recovery takes hold in India, Thailand and Korea.

Commentary

China

All eyes were on the Chinese National Congress during the quarter, which takes place once every five years. As per usual, Western press coverage focused on the consolidation of power and leadership succession plans (or, in this particular instance, the apparent lack thereof). While political intrigue may be of interest to some, what we are more interested in, as investors, is China's economic goal and the path it decides to adopt in order to reach it.

China's per capita GDP has grown from US$200 almost 40 years ago to US$8,500 today.[1] The "Reform and Opening-up" of its economy, coupled with the entrepreneurialism of its people, has already lifted hundreds of millions of people out of poverty. Deng Xiaoping's initial goal for the country in the 1980s was to grow the economy and ensure enough food and clothing for all. That goal was achieved within 10 years! His longer term goal was to achieve the level of prosperity of moderately developed countries by 2050.

In contrast, China's current leader, President Xi Jinping, appears more ambitious. He aims for China to become a "moderately prosperous society" by 2020 and a "modern socialist country" by 2035. The path which he laid out for China's development focuses on managing key risks, fighting poverty and pollution, and investing in technological innovation. We are pleased to find the Fund's China exposure broadly in sync with the direction the country is taking, with the major themes being consumption upgrade, robotics, fintech, healthcare and the emergence of industry champions.

You may find our upbeat pitch at odds with much of what you have read and heard in the media about the 19th National Congress. Some suggested that President Xi wants to steer the country back to the old (and failed) planned economy. We find this unduly pessimistic. Given Xi's aspirations for the country and the fact that the country's prosperity today is indisputably the result of market-oriented reforms, why would he want to backtrack?

Speculations that economic activity would drastically slow down post the Congress also proved to be ill-founded. Rather, we are seeing construction activity rebounding, with new construction starts measured by floor area growing by nearly 19% in November from a year ago, after falling 4.3% in October.[2] (Remember, as we have written in previous reports, China's property demand in fact outweighs supply.) Building machinery and equipment sales were very robust, with November's excavator and truck crane sales jumping more than 100% year-on-year.[3] This is not to suggest that we expect a dramatic pick-up in activity, but rather, that investors should not let their judgment be clouded by exaggerated fear and bias so as to lose sight of the real opportunities on offer.

Vietnam & Thailand

Several members of our investment team took a field trip to Thailand and Vietnam in November, visiting a number of companies.

Vietnam's economic growth has been picking up pace, with its GDP running at more than 6% p.a. and income growing at more than 5% p.a.[4] The reality is perhaps more nuanced than these headline numbers reveal. Vietnam can be thought of as a dual-economy. There is an uncompetitive domestic economy which still employs many people and runs a trade deficit. The more interesting part is a very competitive, fast-growing export economy that has no debt and is generating a sizeable trade surplus with very high profitability. This is the result of improving infrastructure, cheap labour, and foreign investment from countries like South Korea and China where labour costs are higher and continue to rise. Samsung Electronics, for instances, accounts for some 25% of Vietnam's exports which grew close to 20% in the first nine months of 2017 from a year earlier while foreign direct investment rose more than 13%.[5]

We were able to identify several fast-growing, well-managed companies in Vietnam which have healthy balance sheets

1 Gross domestic product per capita, current prices (US$). Source: IMF, World Bank, The Guardian.

2 Source: Reuters.

3 Source: CICC Research; Citigroup.

4 Source: World Bank.

5 Source: Bloomberg.

and are trading at attractive valuations. Vietnam's ongoing privatisation is not dissimilar to what some other Asian countries have undergone in the past where outsize returns were available to stock pickers who were willing to perform diligent investigation.

Coming to the second leg of our trip, the valuations of most Thai stocks are reasonable, but their growth prospects are understandably less exciting than those in less-developed Vietnam. This is also why Thai companies have been looking for foreign opportunities to grow and expand, mostly in the Indochina region (Vietnam, Laos and Cambodia). For example, ThaiBev recently paid US$5 billion to acquire a majority stake in Vietnam's largest brewer, outbidding Anheuser-Bush InBev and Kirin.

There has been little investment in infrastructure in Thailand since former Prime Minister Thaksin Shinawatra was ousted in 2006, owing in no small part to the fact that subsequent governments struggled to stay in power for more than two years and that they favoured populist shotgun policies that focused on boosting consumption. However, the current military government does seem to have a genuine interest in reform.

Investors are sceptical of whether the government's promised investments will materialise, but from our meetings with Thai companies we did see signs of change:

- We learned from contractors that the tendering process for some government mega-infrastructure projects is well underway. Businesses like Siam Cement (a major construction material producer) are making preparations to meet growing demand ahead.
- Big companies and foreign corporations are starting to invest more.
- Factory utilisation rates are picking up.
- Retail sales are starting to rise after prolonged stagnation.

The most puzzling observation from our trip was a paradoxical expectation by most managements that we met with in both countries that inflation and interest rates would remain low while hiring and retaining staff are becoming increasingly difficult. The former assumption is unlikely to hold if the latter continues.

Thailand's banking sector is in good shape. Thai banks have in recent years suffered from tepid loan growth, low interest rates which depressed margins, and ongoing provisioning charges for bad loans made half a decade ago. There are signs that all three metrics are beginning to improve as the economy steadies and gradually rebounds, which bodes well for our exposure to the Thai banking sector.

Changes to the Portfolio

The economic reforms that are taking place in China and India, together with the cyclical recovery across the Asian region, are producing rich pickings of investment ideas that are currently out of favour, hence cheap, but highly attractive over the longer term.

Given our Chinese stocks' strong performance over the past year, the Fund has trimmed some positions while deploying some of the cash to take advantage of the sectoral price weakness emanating from the excessive concerns over the slow-down of China's economy, mostly in the financials and other cyclical sectors.

The Fund has reduced its exposure to the Australian dollar to a negligible level.

Outlook

With the market having consolidated around the current levels, the outlook is perhaps becoming more sanguine. With an abundance of prospective ideas generated by the team, we are busy making risk-reward evaluations to prioritise the most attractive opportunities for the Fund.

Platinum European Fund

Nik Dvornak
Portfolio Manager

Performance

(compound pa, to 31 December 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	6%	26%	15%	17%	12%
MSCI AC Europe Index	3%	16%	8%	13%	3%

*C Class – standard fee option. Inception date: 30 June 1998.
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 DEC 2017	30 SEP 2017	31 DEC 2016
Germany	24%	24%	24%
UK	12%	12%	16%
Switzerland	9%	9%	2%
Austria	9%	10%	9%
Spain	5%	3%	3%
Russia	5%	3%	4%
France	4%	5%	7%
Italy	3%	4%	6%
Denmark	3%	3%	0%
US *	2%	3%	4%
Hungary	2%	2%	3%
Norway	2%	2%	3%
Netherlands	1%	2%	3%
Sweden	0%	0%	1%
Cash	19%	18%	15%
Shorts	-3%	-6%	-1%

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

The European economy remains strong. GDP is growing 2.6% per annum, reminiscent of the pre-2008 era. The Eurozone unemployment rate has fallen to 8.8% with, on average, over 7,000 jobs added *daily* in 2017. Inflation remains low. Consumer and business confidence is high. And leading indicators suggest economic momentum continues to build.

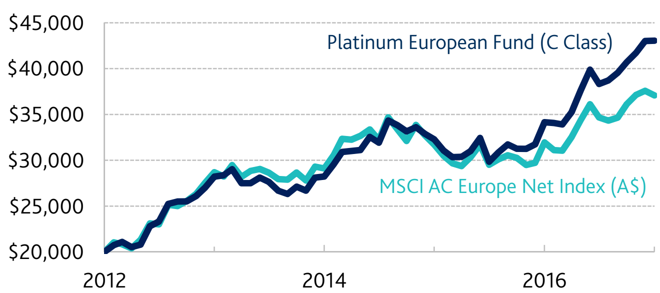
Political concerns have been cast aside. Britain and the European Union have agreed to a 'divorce settlement'. This one-off payment will settle Britain's outstanding obligations, unlocking the next round of negotiations focusing on trade. Evidence of progress is reducing fears of a disruptive schism between Britain and Europe.

Yet, the news is not all good. Political fragmentation remains a reality in most developed countries. Recent federal elections in Germany have demonstrated that even a strong economy isn't enough to shield a nation from this trend. Indeed, Europe's largest economy now faces the prospect of an unwieldy minority government or new elections, both unprecedented in the post-War era.

From January 2018, the European Central Bank (ECB) will halve its bond-buying program to €30 billion per month. However, interest rate rises remain a distant prospect. Indeed, government bond yields fell by 0.1-0.3 percentage points across the major European economies during the quarter.

Value of $20,000 Invested Over Five Years

31 December 2012 to 31 December 2017



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

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On currency markets, the British Pound continues to recover from its Brexit-induced sell-off, supported by resilient economic data and progress in negotiations with the European Union. The Euro largely traded sideways against the US Dollar with changing expectations over interest rate differentials and the prospect of US tax cuts dictating the swings. The Czech Koruna continues to appreciate while the Norwegian Krone has weakened despite support from higher oil prices.

The Platinum European Fund (C Class) returned 5.8% for the quarter and 26.0% for the year. This compares to 2.6% and 16.0% respectively for the MSCI AC Europe Net Index (AUD).

Our performance boils down to many stock-specific success stories, rather than any overarching theme. Our best performing positions were a diverse mix of industrials, financials and consumer businesses. Encouragingly, our short positions featured among the small number of stocks in the portfolio that fell, adding to the Fund's performance.

Performance was dragged down by a handful of relatively new investments where business conditions are deteriorating. We are buying these companies because we believe their circumstances will improve in due course and expect patient investors will be richly rewarded. As long as our investment thesis remains intact, we welcome these share price falls as an opportunity to add to our holdings.

Solid stock-picking ensured that the Fund outperformed its benchmark index by a substantial margin over the last 12 months, notwithstanding an average 15-20% cash holding throughout the year.

Changes to the Portfolio

We continue to uncover interesting investment ideas like Munich-based **Siemens AG**, the largest industrial manufacturer in Europe. This 170 year old business has pursued a wide range of activities over the decades with 'electrification' being the common theme. Siemens facilitated the transition of manufacturing from the steam age to the electric age, enabled the electrification of our homes, businesses and streets, and developed machinery widely used in our factories, buildings, cities and hospitals. The company is a world leader in many of its end markets and, unlike many peers, has invested heavily in research and development, ensuring it has a rich pipeline of products for the future. Investors are reluctant to buy it because a sharp downturn in demand for gas turbines is hurting earnings and because it has a significant collection of mature businesses. Consequently, we are able to buy this remarkably successful enterprise for 14 times earnings, a significant discount to both the sector and the broader market.

We are also adding to some existing positions, including **Pandora** and **TechnipFMC**. These are relatively new positions which have cost us money to date, but which we believe can make a lot of money in coming years. Pandora is particularly interesting. Interesting for the amount of money people spend on their frivolous silver trinkets. But even more interesting for its ability to induce professional investors to confuse personal tastes with objective facts. They insist that people shouldn't spend so much on Pandora's products because they wouldn't. They expect demand will evaporate imminently, as they have been expecting for almost a decade! The confirmation bias at play, when it comes to this particular stock, is truly staggering. Rarely does one encounter a stock where investors have such a high proclivity to approach the analytical process armed with the answer, rather than with questions.

We continue to trim positions that have performed very well, namely **Kering** and **Hypoport**.

Outlook

The economic climate in Europe is favourable and higher interest rates remain some way off. While political risks continue to fester, the market seems willing to ignore them for now. This is a fairly constructive backdrop for equities.

However, we do note signs of exuberance, or perhaps desperation:

- The phenomenal ascent of Bitcoin.
- European *junk* bond yields falling to 2%, below the yield on 10-year US government bonds.
- Investors buying 100-year bonds yielding 7.9%, from Argentina, a notorious defaulter.
- A painting, *possibly* by Leonardo da Vinci, fetching US$450 million at auction.

While all this is somewhat disturbing, we are comforted by the fact that, on the whole, this exuberance is not being expressed widely in stock markets. True, there are some very expensive stocks in Europe. But there are also large pockets of neglect and we continue to find attractive investment ideas.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Raiffeisen Bank	Austria	Financials	4.8%
TechnipFMC	UK	Energy	3.7%
Glencore PLC	Switzerland	Materials	3.5%
Pandora A/S	Denmark	Consumer Discretionary	3.2%
Daimler AG	Germany	Consumer Discretionary	3.1%
Siemens AG	Germany	Industrials	3.1%
Scout24 Holding	Germany	IT	2.4%
Landis+Gyr Group	Switzerland	IT	2.3%
Vodafone Group PLC	UK	Telecom Services	2.3%
IHS Markit Ltd	USA	Industrials	2.3%

As at 31 December 2017.
Source: Platinum Investment Management Limited. See note 4, page 44.

Platinum Japan Fund

Scott Gilchrist
Portfolio Manager

Disposition of Assets

REGION	31 DEC 2017	30 SEP 2017	31 DEC 2016
Japan	94%	93%	95%
Korea	2%	2%	0%
Cash	4%	5%	5%
Shorts	-2%	-2%	0%

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

Sector Breakdown

SECTOR	31 DEC 2017	30 SEP 2017
Information Technology	25%	27%
Industrials	17%	17%
Consumer Discretionary	14%	15%
Materials	12%	10%
Financials	9%	9%
Energy	8%	7%
Telecommunication Services	5%	5%
Health Care	4%	4%
Consumer Staples	-1%	-1%
TOTAL NET EXPOSURE	94%	93%

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

Currency Position

	31 DEC 2017	30 SEP 2017
Japanese yen	71%	69%
US dollar	24%	28%
Korean won	2%	2%
Australian dollar	3%	1%

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

Performance

(compound pa, to 31 December 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	9%	22%	19%	27%	15%
MSCI Japan Index	9%	15%	13%	18%	3%

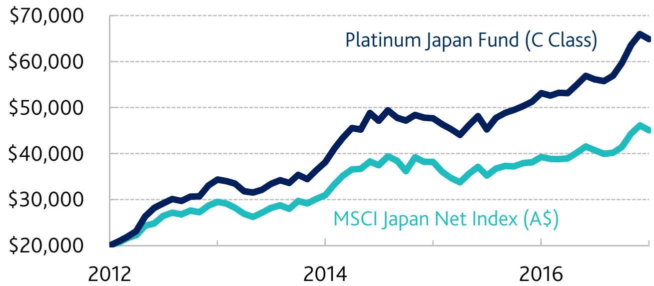
*C Class – standard fee option. Inception date: 30 June 1998.
Refer to note 1, page 44.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

The Fund rose 8.7% for the quarter and 22.1% for the twelve months. Portfolio performance contribution was broad based for both periods.

The long term performance of the Platinum Japan Fund has been good with an annual compound return since inception of 15.4% in a roughly flat market. Recent returns have also been strong with five year returns of 26.5% per annum and three year returns of 19.4%. It is possible to argue that recent returns have been amongst the best in the history of the Fund. Against this backdrop it is appropriate to consider future returns. As outlined below, there are many reasons why current opportunities are just as attractive as those seen in recent years and our assessment is that the investments currently in the portfolio will generate good medium to long term returns.

Value of $20,000 Invested Over Five Years

31 December 2012 to 31 December 2017



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Source: Platinum Investment Management Limited, RIMES Technologies.
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Changes to the Portfolio

New opportunities continue to be identified which are more attractive than current holdings. There are many businesses in Japan which have been fallow for almost a decade and are now showing signs of renewal.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Nexon	Japan	IT	4.8%
Nintendo	Japan	IT	3.6%
Itochu Corporation	Japan	Industrials	3.6%
Inpex Corporation	Japan	Energy	3.5%
Mitsubishi UFJ Financial	Japan	Financials	3.4%
Sumitomo Mitsui Financial	Japan	Financials	3.2%
Lixil Group Corporation	Japan	Industrials	3.1%
Sumitomo Metal Mining Co	Japan	Materials	3.0%
Kyocera Corp	Japan	IT	2.7%
Ebara Corp	Japan	Industrials	2.7%

As at 31 December 2017.
Source: Platinum Investment Management Limited. See note 4, page 44.

Commentary

There are widespread concerns about Japan, both subliminal and widely discussed. At a group dinner in Tokyo late last year, a loud and opinionated American confidently told the whole group repeatedly about the failings of the country. It reminded me of a site visit to Mount Isa Mines fifteen years ago where I witnessed a raucous local fund manager laying accusations at management in an embarrassing manner. MIM was subsequently purchased for a song at the start of the commodity super-cycle.[1]

Some major concerns about Japan and a brief comment follow, most of which are backward-looking:

- Corporate governance – there has been a multi-decade process of improvement which is now finally accelerating.
- Demographics – this is a well understood issue at many levels in Japan and steps are being taken to address it.
- Nominal GDP – after decades of deflation, signs of inflation are emerging. The price of goods and services in Japan often seems cheap relative to leading developed countries, especially when adjusted for quality.
- Geopolitics – There are many concerns about China, especially military activities in their adjoining oceans. North Korean missile launches are a headline topic of debate. Russia and the irritation of the Magnitsky Act[2] are surely lurking beneath the surface. These are complicated relationships with millennia of history.
- Government debt levels – the Bank of Japan now owns the majority of the outstanding Japanese Government Bonds. There is no clear plan for the resolution of what looks like an extreme experiment in monetary policy. The outcome will be very path dependent.
- Fiscal deficit – the government deficit has been decreasing through a combination of increased sales tax and broad based economic improvement. There has been a long-term focus on fixing this situation, and more changes are expected in a stable political environment.

Other concerns about Japan's future include:

- Low R&D productivity
- Lack of innovation and fast growth companies
- Limited global brands
- Labour immobility and inflexibility
- Depopulation of regional centres
- Low labour productivity
- Energy and commodity import dependence
- Aging corporate leadership

Some of these concerns are real; many are mere distractions.

What is new is old. The Romans poisoned themselves with lead pipes and polluted their air with smelters across the Empire. The Chinese seem to have read *Silent Spring* (Carson, 1962) and are focused on remedying the environmental degradation resulting from decades of helter-skelter development. There were 9,000 windmills in the Netherlands in the 1800s, a precursor to the spread of wind and solar installations across the world today. The British Pound has devalued consistently since the Sun set on the British Empire, and the current hegemony is following their footsteps. With actual or potential regime changes in Zimbabwe, Russia, Saudi Arabia, Iran and Venezuela, the treadmill of tyranny seems to be accelerating despite the delightful misunderstanding that it's too early to assess the impact of the 1789 French Revolution.[3]

1 Platinum was a shareholder in MIM at the time. We vociferously opposed the Xstrata takeover in 2003, arguing that the bid grossly undervalued the company's long-term potential. But there was no stopping the short-sighted institutional holders.

2 A law passed by the US Congress in 2012 intended to punish Russian officials who were thought to have been responsible for the death of Russian tax accountant Sergei Magnitsky by prohibiting their entrance to the US and their use of US banks. Magnitsky died in a Moscow prison after investigating fraud involving Russian tax officials.

3 During Richard Nixon's historic visit to Beijing in 1972, the then Chinese premier, Zhou Enlai, was asked about the impact of the "French Revolution", to which he answered "too early to say". What was once thought a diplomatic quip was in fact a misunderstanding by Zhou – he had in mind the events of 1968 while the question referred to the Revolution of 1789.

On a recent visit to GS Yuasa, a lead acid and lithium ion battery maker in Kyoto, the display in their office lobby was an electric car from 1917 with the following description: "The history of the electric vehicle dates back to 1873 when the first electric vehicle was assembled in England. In 1915, 2,000 vehicles were in use in New York and around 1926 29,000 electric vehicles were being used in various fields all over the USA. The electric vehicle 'DETROIT' was imported from the USA in 1917 by GS Yuasa. Powered by the company's lead acid battery, it was used for nearly 30 years until 1946." Detroit had a range of 33 km propelled by an 11 kWh battery at 24 volts with a kerb weight of 1,440 kg.

A 1917 electric vehicle named 'DETROIT' on display in GS Yuasa's Kyoto office lobby. Source: author

Yet, the modern world is full of wonder and amazement. Would the intrepid intercontinental traders of prior millennia puzzle over the instant connectivity possible between the globe's five billion adults? Would ancient Chinese retailers recognise a GPU accelerated data centre as a modern abacus? Is the nascent blockchain just a shiny shell or a piece of gold? Global development enabled by technology and communication is seemingly inexorable despite the many diversions and depredations. World poverty has been in clear decline for decades and again reached a new low last year. 2017 was the first year in the history of modern aviation with no commercial air deaths.

Our assessment is that Japan is reasonably well positioned for both the new and the old of the coming decades.

- E-commerce – Japan has been slower than leading countries to migrate to online shopping. However, the current environment feels like 2005 in North America and there are a wide range of Japanese companies with B2C (business-to-consumer) and C2C (consumer-to-consumer) platforms in place, which are growing exponentially.
- Quantum computing – NF Corp and Fixstars are Japanese companies which supply software and components to a Canadian company selling quantum computers today. Japanese companies are using quantum computers to optimise advertising networks and develop new polymers. In both cases, better real world solutions are being found.
- Artificial Intelligence/Machine Learning – Japanese companies are neither the software nor hardware leaders, but are fast followers across multiple industries.
- Self driving cars – The Japanese auto OEMs have been building safety and self driving features for many years. The industry is moving so fast that it's not yet clear which components, solutions, processors or software will prevail, but it seems likely that the Japanese will be in the leading group.
- Cloud computing – Software-as-a-service (SaaS) and other cloud computing services are widespread across the Japanese economy.
- 5G networks – NTT is one of the global leaders; capex starts in March 2019 with a full rollout across the 23 wards of central Tokyo in preparation for the 2020 Olympics.
- EVs – Toyota is the largest electric car company in the world. There are supply chains for cathode, anode, separator and electrolyte materials across the country, including for Tesla and the Gigafactory.
- Robots – Japan is the undisputed global leader in the area of joints, controls, motors, integration and software. The full list of Japanese robotics companies is extensive.
- Blockchain – the largest blockchain investor is a Japanese company and significant amounts of cryptocurrency trading occur in Japan. Japan is at the forefront of nations embracing the dawn of the Internet of Value. Real world uses of the blockchain are only just beginning as Patrick Byrne of Overstock turns from e-commerce to new ventures that include a blockchain-based global property registry.

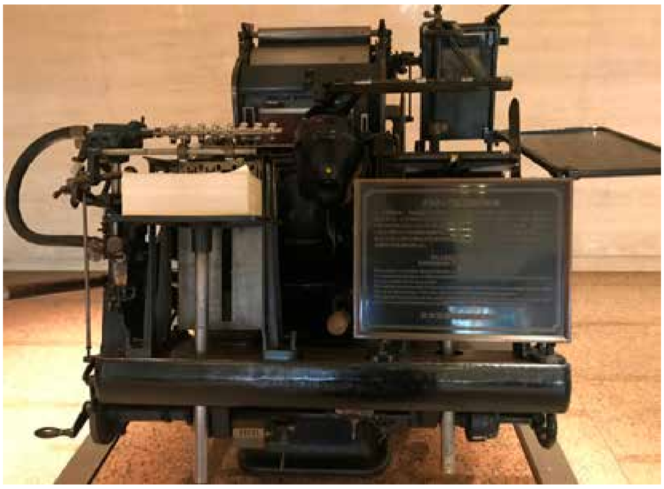
- Internet of Things (IoT) – SoftBank bought ARM and is building a global platform which will be integrated with their mobile networks to provide hardware and services with increased bandwidth, lower latency and orders of magnitudes more allowable connections. Japan excels at passive components essential for the trillion connected devices enabled by 5G.
- 3D printing – Japanese machine tool companies have many active development paths.
- Virtual reality (VR)/augmented reality (AR) – Nintendo developed commercial VR products in 1995 and launched the mobile AR game Pokémon GO in 2016.
- Environmental protection – Japanese companies excel across the full range of water and air pollution prevention machinery and chemicals.
- Distributed services – Japan has embraced car sharing, micro delivery networks and home sharing, where appropriate.

In the context of a long bear market and wide value dispersion, some aspects relevant to the Japanese stock market are worth mentioning:

- The domestic economy is strong. Surprisingly to many, employment in Japan is at all time record highs. Corporate confidence and snug labour markets are resulting in higher wages.
- Profit margins are rising. After six decades oscillating between 2% and 4%, Japanese profit margins have risen above 6%, a combination of low interest expense, higher domestic margins and record foreign profits. Japanese corporate profits are at record levels, twice the previous peak, while the Nikkei is half of its previous peak.
- Domestic competition is easing. Game Theory, in particular Nash's Equilibrium, makes predictions of market behaviour. The practical world experience tends toward the theoretical construct, but with a delay. Decades of rough competition in Japan are now transitioning to a more benign environment. The beer industry is in the early stages of this: "the chain of communication between the four players is open and working well".
- Both retail and institutional domestic investors continue to sell the stock market, extending a 25-year trend. The only significant buyer of the market in recent decades has been foreigners. The balance sheet of the Japanese consumer is strong, with US$8 trillion of cash and US$1 trillion of equities relative to an overall market valuation of US$5 trillion. In combination with a large set of domestic pension funds and insurers who have low equity holdings, it would not be hard for a small shift in asset allocation to change the tone of the stock market.
- Valuation dispersion is currently a defining feature of the Japanese stock market with many indicators of dispersion near the widest seen in the last few decades. Many stocks have P/E ratios above 50x, some approaching 100x, but there are also whole swathes of the market with single digit P/E ratios.
- The overall market valuation is not extended. While nominally on a P/E multiple around 15 times, this ignores the extensive Treasury shareholdings, the widespread cross-holdings and large amounts of cash. These are perhaps almost 30% of the total market capitalisation.
- Post the 1989 bubble, Japan has experienced a 30 year bear market. This is perhaps the longest stock market bear run in modern financial market history. A lot of the indicators that one would expect are clearly evident: very cheap companies, low stock market participation, widespread corporate problems and early signs of rejuvenation.
- Interest rates in Japan for most deposits are effectively zero. There is clear demand for products with yield, including financial products linked to the share market. The need for higher dividends is pushing real improvements in corporate behaviour – it's a true economic incentive.
- Asian and global integration – inbound tourist numbers to Japan are growing rapidly, leading to intermittent hotel shortages and pressure in some areas of the economy. This is just one aspect where Japan's integration into Asia becomes apparent – the future of Japan is tied to and intertwined with Asia broadly. Imagine the scenario where China bridges the middle income gap and India shows even part of its true potential. ASEAN growth is currently robust and Japanese companies have strong businesses across Vietnam, Burma, Thailand and Indonesia.
- Many areas of the global production system are reaching limits. THK's lead time for linear guides and other complex machine parts has recently increased from three to more than eight months. Many greenfield expansion plans are being considered; but thwarted by lack of available machinery. In many ways, the current global macro situation seems strong, perhaps as strong as any stage of the last decade.

Late in 2017 we visited 35 companies in Tokyo and Kyoto and checked in with some of our many contacts in the country. In some ways, Japan is a "solution looking for a problem" and, while for the moment there is no resolution to this conundrum, much of the country seems to have found enough activity to keep itself busy. There was a sense of calm and focus that has not been as evident over the last three years. The capacity expansion and the resulting capex has driven machine tool backlogs to record highs. The world is leaning towards Japan's strengths of precision and quality across semiconductor production equipment, miniature electronic components and mass automation of production capacity.

Nissha Printing is a Kyoto based business which is currently in the third generation of family management. They have been in the printing business for one hundred years and have been making touch panels for electronic devices for thirty years. They started working with Apple in 2010 and since 2013 have been the sole source supplier of the touch panel for the iPad, a monopoly position. With Apple's transition to OLED screens, Nissha is the sole supplier of the touch sensor and pressure sensor for the new iPhone X. We have been identifying many such opportunities in addition to the usual deep-value cyclicals and global leaders that are ever present in Japan.



A rare letterpress printing machine imported by Nissha from Germany in 1933. Source: author

Platinum International Brands Fund

James Halse
Portfolio Manager

Disposition of Assets

REGION	31 DEC 2017	30 SEP 2017	31 DEC 2016
Asia	41%	42%	29%
Europe	18%	17%	29%
North America	17%	16%	9%
Japan	10%	10%	11%
Russia	3%	3%	2%
Latin America	2%	3%	11%
Africa	1%	1%	1%
Cash	8%	8%	8%
Shorts	-20%	-16%	-5%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Alibaba Group	China	IT	4.5%
Jiangsu Yanghe Brewery	China	Consumer Staples	4.3%
Asahi Group Holdings	Japan	Consumer Staples	4.0%
Hanesbrands Inc	USA	Consumer Discretionary	3.7%
Vietnam Dairy Products	Vietnam	Consumer Staples	3.6%
Sberbank of Russia	Russia	Financials	3.5%
LVMH	France	Consumer Discretionary	3.3%
Kering	France	Consumer Discretionary	3.2%
Callaway Golf Co	USA	Consumer Discretionary	3.1%
Lixil Group Corporation	Japan	Industrials	3.0%

As at 31 December 2017.
Source: Platinum Investment Management Limited. See note 4, page 44.

Performance

(compound pa, to 31 December 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	5%	29%	15%	15%	13%
MSCI AC World Index	6%	15%	11%	17%	3%

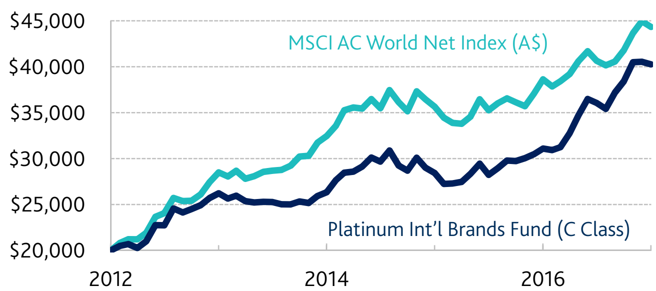
*C Class – standard fee option. Inception date: 18 May 2000.
Refer to note 1, page 44.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

2017 was an excellent year for the Fund's performance despite what proved to be a topsy-turvy final quarter. While the Fund produced a satisfactory quarterly result in absolute terms (+4.8%), it was weak relative to the benchmark MSCI All Country World Net Index (+6.1%). Over the calendar year, the Fund has delivered a strong return of +29.5% relative to the benchmark performance of +14.8%.

A solid performance through the first half of the quarter began to reverse by late November as Chinese stocks sold off on concerns around tightening financial conditions following a very strong year, and domestically focused US companies rallied on the back of greater certainty around corporate tax cuts. Positive consumer data in the US and market

Value of $20,000 Invested Over Five Years

31 December 2012 to 31 December 2017



Refer to note 2, page 44.
Source: Platinum Investment Management Limited, RIMES Technologies.
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excitement around better-than-expected sales and profit results from several retailers combined with the promise of tax cuts to drive an upward re-rating of this sector in November and December. The Fund's underperformance resulted from a heavy exposure to Chinese internet platforms and short positions in several US-focused retailers and fast moving consumer goods (FMCG) companies.

Fortunately, many of the Fund's individual stock positions picked up the slack left by the detrimental market exposures. Vietnam Dairy Products returned +41% for the quarter[1] as a government sell-down precipitated a battle for the accumulation of strategic stakes between Fraser & Neave (ThaiBev) and Jardine Matheson. Also in Vietnam, conglomerate Masan Group continued its strong run of performance, returning +38% following a buyback of 10% of its outstanding shares. The company's consumer-facing business recovered following a restructure to reduce inventory levels, its mining arm benefited from improving Tungsten prices, and its investment in Techcombank delivered strong results.

Dominant Russian lender Sberbank (+19%) rallied further on the back of the strengthening oil price, excellent profit results, and a very undemanding valuation; while leading Japanese brewer Asahi Group (+24%) continued to benefit from price increases in its domestic market and strong results from its recently acquired European businesses, particularly the Peroni brand. Despite the sell-off midway through the quarter, many Chinese names still contributed positively to the Fund's returns while being supported by Chinese consumer confidence at levels close to the highest since the early 1990s. These included whitegoods maker Qingdao Haier (+26%), air-conditioner manufacturer Gree Electric Appliances (+18%), and liquor producer Jiangsu Yanghe (+15%).

Auto-lender and leading online bank Ally Financial, which was added to the Fund during the September quarter, produced a strong performance (+21%) as concerns over the US second-hand vehicle market subsided somewhat. Leading online classifieds player Schibsted (+17%) rebounded following improved earnings results. Kering (+17%) continued its strong run, supported by the incredible success of key brand Gucci. Interestingly, Gucci's momentum shows no signs of tapering off, with Google Trends data on the number of searches for the brand not only continuing to hit new highs, but actually still exhibiting an increasing pace of growth through the end of the quarter, reaching an implied 150%+ year-on-year increase in searches in the week before Christmas! This is an indication of the buzz around the brand, which is likely to translate into strong sales.

1 All references to individual stock performance are in local currency terms.

The primary detractor from performance was the Fund's short exposure (-1.9% contribution) to domestically focused US retailers and FMCG companies. The short exposure is not only a useful hedge to a potential market downturn, but is expected to generate positive returns for the Fund over time as these companies battle the growing pressure from the digitally-enabled trends of increased price transparency, lowered barriers to market entry, and increased variable cost of sales (e.g. delivery, marketing). However, the short-term impacts of a one-off jump in earnings due to the adoption of a lower corporate tax rate, plus some mean reversion following a period of heavy underperformance, have hindered our results. Additionally, the market has recently shown a surprising willingness to give management teams the benefit of the doubt regarding future earnings growth, as long as they eke out small gains in sales, never mind lacklustre profits. While recent data points to a strong holiday season for retail sales overall, what it cost retailers to generate these sales is perhaps the more pertinent question. We await the next round of quarterly results with some expectation of an improvement in our short book's performance.

Other negative contributions to the Fund's performance came from underwear manufacturer Hanesbrands (-15%), following a disappointing earnings result; Japanese pharmacy chain Ain Holdings (-14%), due to fears over changes to government reimbursement and disappointment over the slow pace of M&A activity; and Sina Corp (-12%), as the stock pulled back with the general sell-off of previously strong-performing Chinese internet companies.

Changes to the Portfolio

The Fund exited several long-standing positions in the quarter, as their recent strong performance took them to valuation levels that significantly reduced the risk/reward balance of the investments. Chinese jeweller Chow Tai Fook's valuation recovered as the business rebounded from the downturn inspired by the corruption crackdown and curbs on cross-border purchases in Hong Kong. The last block of the stock was sold at a price that implied a 43% appreciation for the position during calendar year 2017.

Sportswear label Puma has been riding on the "athleisure" fashion trend, while creating groundswell for the brand via collaboration with pop star Rihanna for its "Fenty" line of products. The stock price responded, rising 42% during the year to trade at a somewhat aggressive 38x its expected earnings for 2017. While the business continues to exhibit strong performance, the valuation ascribed to it by the market has leapt ahead of the fundamentals. Likewise, Indian FMCG company Godrej Consumer Products' valuation at 48x its expected earnings for the March 2018 financial year appears too rich, reflective of the general excitement around the potential of the Indian consumer and the resulting high valuations across Indian consumer stocks. Brazilian footwear manufacturer Grendene's valuation was also a primary consideration in the closure of that position. The exit of a legacy position in champagne producer Vranken Pommery concluded during the quarter, following a lengthy sell-down due to a lack of liquidity.

Strong returns also necessitated the trimming of several positions as their relative attractiveness decreased inversely to their valuations. We trimmed Mandarin Oriental after the stock more than doubled following its announcement of plans for a large commercial site it owns in Hong Kong, the value of which the market had not imputed to the listed company. Elsewhere, we took some profits on positions in spirits maker Pernod Ricard, Qingdao Haier, Gree Electric Appliances, Chinese sportswear brand Anta, and brewer Asahi.

There were several new additions to the Fund in the quarter. Expanding on the opportunities in the automotive sector referred to in our last quarterly report, we added a position in leading luxury car brand BMW. **BMW** is trading at historical lows relative to European stocks despite reasonable expected growth, a 4% dividend yield, and a very strong balance sheet. The market is concerned with the transition to electric vehicles, seemingly peaking auto sales data in the US and Europe, as well as the potential for write-downs on the company's lease-book in relation to out-of-favour diesel vehicles. Our view is that the company's strong brand heritage should allow it to continue to earn strong returns even as we enter a time of more commoditised engine componentry, while growth in Chinese sales should offset stagnating sales in the US. A comprehensive refresh of the model line-up that is now underway should also help boost sales.

Melco is an owner-operator of casinos in Macau. Gaming growth is rebounding as the tides of the corruption crackdown recede. Another boost is expected from improved transport connections to mainland China, including the 55 km Hong Kong-Macau-Zhuhai bridge which will make Macau only a half hour drive from Hong Kong's airport. Melco should experience above-market growth as it expands hotel room capacity at its City of Dreams property by 50% and as its recently opened Studio City in Cotai ramps up its entertainment offerings. The company has been trading at a discount to Macau-focused peers while generating an attractive and growing 9% free-cash-flow yield.

The final sizeable addition to the Fund was **Guangzhou Baiyunshan Pharmaceutical Holdings**. This is a player in the traditional Chinese medicine space, but its best-selling product is a ready-to-drink herbal tea which is consumed for its supposed health benefits and a taste profile that blends well with the country's popular spicy "Hot Pot" cuisine. Aggressive competition between Baiyunshan and another herbal tea producer with a similar recipe had seen profits decline. The competitive tension now looks to have eased, which should lead to profit expansion going forward. The company's Hong Kong listing trades on a 16x P/E, which is a roughly 40% discount to its listing on the Chinese A-share market! We believe this discount will narrow.

Outlook

Consumer confidence remains robust in major markets globally, with the Eurozone at 17 year highs, the US close to its post financial crisis highs, and China at the highest level since the early 1990s. Even in Russia, consumer confidence has rebounded to the levels it was at in 2014 prior to the collapse in the oil price. The major exceptions to this rosy scenario are countries with self-inflicted issues such as the UK where consumer confidence is back to 2013 levels owing to the uncertainty around Brexit. Brazil is also in this camp, where, after rebounding in early 2016, consumer confidence has slid back as more revelations of corruption foster concerns around political stability despite the economy's exit from recession.

Of course, the corollary to such strong showings on consumer confidence metrics is that valuations are broadly elevated, with a number of years of growth priced in to most stocks, and the hint of an improvement in business trends causing challenged stocks to rebound. Our ongoing task is to ensure we have assembled a portfolio of attractive opportunities where the market has mispriced the potential of the business. Assisting us in this is our identification of major multiyear consumer trends that can help or hinder brand-owners, depending on their product or service offering. The outcome is that, while the current market environment makes it more difficult to unearth particularly exciting investment opportunities, our broad prospecting ground, coupled with detailed knowledge of the terrain, helps ensure that we continue to unearth veins worthy of exploration.

The Fund currently has a net exposure of 72%, including 20% in short positions. This level of net exposure is low by comparison to the Fund's historical average, and is reflective of not only the current elevated level of valuations, but also the dramatic changes underway in the consumer landscape that have given rise to many prospective short-selling opportunities. While the short positions have been a drag on performance more recently, we would be surprised if this did not reverse going forward.

Platinum International Health Care Fund

Bianca Ogden
Portfolio Manager

Disposition of Assets

REGION	31 DEC 2017	30 SEP 2017	31 DEC 2016
Europe	38%	40%	41%
North America	36%	37%	34%
Australia	7%	6%	5%
Japan	5%	4%	3%
Asia and Other	<1%	0%	2%
Cash	14%	13%	15%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
AstraZeneca PLC	UK	Health Equip & Services	3.8%
Roche Holding AG	Switzerland	Pharmaceuticals	3.6%
MorphoSys AG	Germany	Biotechnology	3.4%
Sanofi SA	France	Pharmaceuticals	3.1%
Johnson & Johnson	USA	Pharmaceuticals	3.1%
Gilead Sciences Inc	USA	Biotechnology	2.9%
Quanterix Corp	USA	Pharmaceuticals	2.5%
Foundation Medicine	USA	Health Care Providers	2.4%
BTG PLC	UK	Pharmaceuticals	2.4%
Galapagos NV	Netherlands	Biotechnology	2.3%

As at 31 December 2017.

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

Performance

(compound pa, to 31 December 2017)

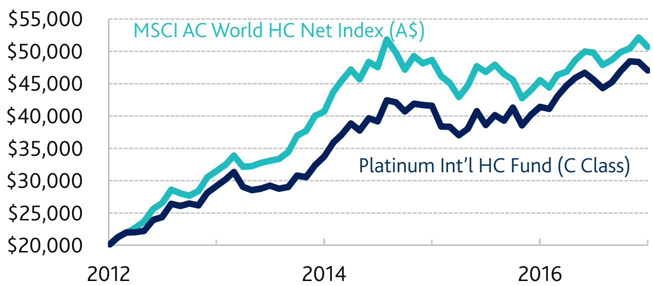
	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund*	0%	14%	12%	19%	9%
MSCI AC World HC Index	2%	11%	8%	20%	9%

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

The past 12 months have been a year of two disparate halves for healthcare. During the first six months, optimism reigned with some biotech acquisitions setting a positive tone early on, along with a solid outlook for new product approvals. However, exuberance faded in the second half of the year which was marked by limited M&A, continued pressure for the generic industry, the threat of Amazon entering the pharmacy market and a number of high profile trials showing mixed data. Medical meetings, particularly in oncology, added further to a rather anxious mood, with some investors wishing 2017 would end quickly.

Value of $20,000 Invested Over Five Years

31 December 2012 to 31 December 2017



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

Immuno-oncology remains a significant focus, but while it is very promising, it is "work in progress" and clinical development is complex. We lost count of how many PD-1 molecules are now in development. With so many "same target" assets in development, it is no longer enough to follow the standard oncology clinical development playbook. Today, companies have to think outside of the status quo and use as many biomarkers as possible to identify the right patient population. Generalists will find that rather tedious and unsurprisingly have become more wary of biotechs for now, particularly as other areas of the stock market have been more enticing.

We have been selective in our exposure in immuno-oncology and in many ways see the importance of balancing it with non-IO assets. AstraZeneca is a good example. The company has a seat at the immuno-oncology table, thanks to a more thoughtful development program in early lung cancer. In addition, we also like the work the company is doing on DNA damage along with its successful EGFR inhibitor franchise. If that is not enough, AstraZeneca also has a solid respiratory franchise as well as diabetes/cardiovascular franchise. To us, short-term setbacks provide opportunities, and we try to focus our minds on facts and prospects over longer time frames.

The US Food and Drug Administration (FDA) has never been more focused on "problem solving" as it is today. Drugs are getting through the approval process faster and 2017's approvals are at a 20-year record high. These are exciting times in healthcare and it is more than ever about innovation. This year, gene therapy has become commercial (a recent example being Gilead/Kite's Yescarta for treating a certain type of leukemia), while gene editing is progressing into the clinic. Antibody drugs are also becoming more and more sophisticated these days. In November Roche/Chugai's Hemlibra was approved for Hemophilia A with inhibitors. Hemlibra is a bispecific antibody, which essentially is an antibody with two heads that act on two different targets by bringing them into close proximity and then initiating the coagulation cascade. These are all very significant developments that will have, to some extent, disrupting features and improve upon the standard of care.

More on the topic of antibodies – Daiichi Sankyo has been a good performer for the portfolio over the year (up 25%) as its oncology division is making good progress with its new HER2-targeting antibody drug conjugate (now in pivotal phase 2 trial). The company has developed a new linker that will allow more drug to be delivered by the antibody. Like bispecific antibodies, linker technology is another area of ongoing innovation and Daiichi is at the forefront of that.

The tools that are now becoming available to scientists and physicians will change the way care is delivered. We have highlighted precision medicine in previous reports and we are firm believers that the treatment of diseases in the future will be all about their molecular profile. This may include the mutational burden of a cancer or the inflammatory profile of the cancer site or respiratory disease or allergy. Our investment in Foundation Medicine Inc (FMI) has been a standout this year (up 240%). Apart from being central to the Roche oncology division, FMI also develops and sells cancer profiling tests that match the patient's cancer with the right drug. While reimbursement agencies have been slow to adopt these type of tests, we are now seeing a greater willingness to do so.

Outlook

The commercial environment in healthcare is changing: price pressure is one issue, while the rapid approval of new drugs poses another challenge. These newly approved drugs are often not first-in-class as nowadays many companies work on the same drug targets. In 2017, only about 25% of new approvals were novel first-in-class drugs, while in 2012 as many as half of all approvals were in that category. As a result, intense competition awaits newly approved drugs and companies have to make sure their clinical development programs are well thought through and that the commercial network runs deep.

It is clear from these dynamic changes that companies will have to launch more products more quickly and hence sourcing new products externally becomes ever more important.

There is a lot to choose from these days and money has been flowing into new ventures, public and private, which highlight the ongoing excitement in the healthcare space.

Platinum International Technology Fund

Alex Barbi
Portfolio Manager

Cameron Robertson
Portfolio Manager

Disposition of Assets

REGION	31 DEC 2017	30 SEP 2017	31 DEC 2016
North America	33%	34%	34%
Asia	28%	27%	24%
Europe	14%	13%	11%
Japan	5%	3%	8%
Cash	20%	23%	23%

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	USA	IT	5.9%
Tencent Holdings	China	IT	5.1%
Samsung Electronics	Korea	IT	4.9%
PayPal Holdings	USA	IT	3.0%
Taiwan Semiconductor	Taiwan	IT	2.8%
Oracle Corporation	USA	IT	2.8%
Apple Inc	USA	IT	2.7%
JD.com Inc	China	Consumer Discretionary	2.5%
Samsung SDI	Korea	IT	2.4%
Constellation Software	Canada	IT	2.4%

As at 31 December 2017.

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 December 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	5%	19%	12%	18%	10%
MSCI AC World IT Index	8%	31%	20%	26%	0%

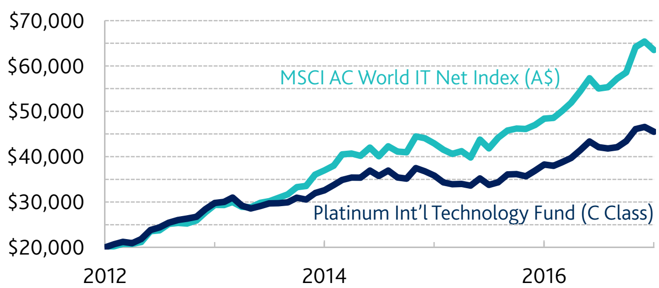
*C Class – standard fee option. Inception date: 18 May 2000.
Refer to note 1, page 44.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

Technology stocks continued their strong performance during the last quarter of calendar year 2017, with the MSCI AC World IT Index (A$) rising 8.4%. The Fund (Class C) was up by 4.8%, lagging its benchmark as a result of its relatively large cash allocation (20%) and disappointing performance by our Korean stocks as well as the telecom and media holdings. The Fund's Chinese Internet holdings also faced some headwinds after an extended period of strong outperformance earlier in the year.

As the year entered its final month, investor attention in the US gradually turned to the government's tax reform legislation which is promising to substantially reduce corporate tax and create incentives for domestic producers to accelerate their capital spending. The new tax rules have been welcomed by the market. Interestingly, the major beneficiaries appear to be mainly "old economy" corporates as opposed to technology companies whose income in many

Value of $20,000 Invested Over Five Years

31 December 2012 to 31 December 2017



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

cases is already subject to fairly low effective tax rates. This may partly explain some of the strong price action in December by US industrials (e.g. Emerson Electric +9.1%) and financials (e.g. Wells Fargo +7%), eclipsing large tech companies such as Apple (-0.2%) and Facebook (+0.8%).

A review of the major industries[1] for the quarter (in US dollar terms) shows strong performance for Internet Retail (+20.2%), with e-commerce juggernaut Amazon (+21.9%) continuing to gain market share at the expense of traditional brick–and-mortar retail chains. Computer Communications (+11.6%) was another top performing area with leading player Cisco Systems (+13.5%) a strong contributor.

Specialty Telecommunications (-3.4%) was a laggard as difficult competitive and regulatory conditions in Europe and the US continue to impact negatively on several telecom operators' profitability. Both Movies/Entertainment (+3.5%) and Broadcasting (+0.3%) were lacklustre with the notable exceptions being the companies involved in merger talks: Disney (+7.7%) and 21st Century Fox (+29.8%).

Recent high profile business combinations such as the one announced between Disney and 21st Century Fox clearly signal that leading media groups can no longer dismiss or ignore the fast growing video streaming services of Netflix and Amazon. We suspect this is not the end of the consolidation process in media. In fact, it would not be surprising to us if tech giants like Alphabet, Apple and Facebook are also looking to acquire content businesses: Netflix itself could become a target and so are other movie production studios.

Commentary

Over the past year there has been rapid advancement in autonomous driving, which, despite the hype in the tech community, may have gone largely unnoticed by the wider public. For many, the idea of a self-driving car remains a futuristic fantasy, but recent events show that this technology is very much here, now, and the time for its widespread adoption may be fast approaching. Small pilot programs operating in defined areas and under the supervision of human drivers have been running in various locations around the world for the past couple of years. We have been watching these with great interest, and believe that autonomous driving could evolve into a trillion dollar opportunity for the commercial ecosystem that brings it to market. Some of these pilot programs have now reached the point where human driver supervision is no longer required and the services are expanding to cater to a larger user base. Take a look at this YouTube video, posted by Waymo (Google's self-driving car subsidiary) in November 2017: https://www.youtube.com/watch?v=aaOB-ErYq6Y.

1 Source: FactSet. Industry classification by FactSet.

The race is on to bring this technology to market, and a number of commercial players agree we should start seeing broader roll-outs some time around 2019-2021. Looking forward to the day when you can read, take a nap, or catch up on your favourite TV show, instead of navigating a traffic jam as you commute to work? It could be just around the corner!

Having made huge progress in relatively simple environments, the focus is now on bringing the technology to the wider world. The challenges are multiple, and stretch well beyond the technical. Governments will need to design and implement new licensing regimes for autonomous vehicles to operate on our roads. Legislators and courts need to establish how liability will be dealt with in the case of an accident where a machine is directing itself. The insurance industry will need to devise new pricing models for their policies. Ethical dilemmas that were once hypothetical thought experiments may now be real world engineering problems. (For example, if a small child runs onto the road in front of a car and a crash is unavoidable given the car's speed, should the car hit the child or swerve and hit a concrete pole next to the road, likely killing the passengers in the process?)

Of course, plenty of technical challenges also remain. These can be fairly common across the industry, or in some cases are unique to a specific approach a company is pursuing. Varying weather conditions can be tricky to deal with. Learning to operate in new areas can be a time-consuming process, with one of the first hurdles being the need for extremely detailed maps. Unlike the maps for human use, self-driving cars require maps that are down to the level of the precise location of curbs, lane markings and street signs, among other things, ***within 20 millimetre accuracy***. Local road rules and driving behaviour also need to be accounted for. One simple example familiar to many readers would be Melbourne's "hook turn" rule whereby a car wishing to turn right (in left-handed traffic) must first move into the left-most lane. A huge range of unexpected local quirks may be encountered as companies move outside their initial testing and training areas. When one manufacturer started testing in Australia, they found their system confused by the hopping kangaroos that occasionally grace our roads. Their algorithms had been using the ground as a reference point for measuring distance, and the hopping action makes the kangaroos appear to be moving rapidly towards and away from the car.

Refining the systems will also be an ongoing process. Autonomous systems are fantastic at many things, and they don't drink or get distracted in the same way that humans do, which holds great promise from a road safety perspective, but there's much room for improvement, particularly in dealing with unexpected or ambiguous situations. Machines aren't yet quite so good at improvising as we are! To give a simple

Source: Waymo, Business Insider

example, if you see a car stopped in the road in front of you, you may have a sense of whether you should go around it or whether it will likely start moving soon by listening to the sound of a running engine or watching the movements of the driver and trying to gauge his intention. Watch an autonomous vehicle in a similar situation and you quickly realise this can be a confusing scenario, as the vehicle jerks and waits, unsure of how best to respond. Similarly, in situations with high pedestrian activity, human drivers may be inclined to drive very slowly while effectively "bully" pedestrians into letting us through – an unspoken negotiation process conducted via a combination of signals of speed, body movement and often subtle eye contact. For a machine, however, this can be an understandably tricky scenario where it waits (all too) patiently for the incessant stream of pedestrians who cannot gauge driver intention by exchanging eye contact or a simple hand gesture.

The essential ingredients of the technology required for autonomous driving are already in place. While there is still plenty of fine-tuning to be done to get self-driving cars ready for our roads more broadly, this is no longer science fiction. Some companies are confident that they are on track to start operating commercial driverless taxi services in busy cities like New York and San Francisco in the next couple of years! We live in exciting times, as individuals and as investors. The Fund has exposure to a number of companies across the ecosystem, such as Waymo (through our holding in Alphabet, our largest position), which we feel are well positioned to play a big part and reap big rewards in the coming autonomous driving revolution.

Outlook

The Fund's composition remains concentrated on key dominant Internet platforms (Alphabet, Apple, Microsoft, Tencent) and attractively valued global semiconductor leaders (Samsung Electronics and Taiwan Semiconductor Manufacturing Co). We also continue to search for and invest in mispriced opportunities in software, telecoms, media, gaming and other emerging technologies in the US, Europe and Asia.

The state of synchronised growth of the global economy and strong profit margins should extend further the current bull market in tech stocks. Newly introduced tax incentives for US based companies to repatriate their huge offshore cash reserves (Apple's foreign cash pile alone is estimated to be more than US$250 billion) are likely to provide additional support to US multinationals. While similar measures have historically[2] provided only limited economic stimulus, the possibility of more share buy-backs fuelled by tax reform will likely lift US media and technology stock prices to new highs in 2018. The risk for technology stocks in general remains the possibility of an accelerated path to monetary policy tightening in the US, which ultimately will draw liquidity from stock markets and subdue the rate of growth in valuations.

2 It is estimated that when President George W. Bush last approved a "repatriation tax holiday" in 2004, more than US$312 billion of overseas earnings were repatriated to the US, off which as much as 91% went to share repurchases. Source: Congress Research Services – Tax Cuts on Repatriation Earnings as Economic Stimulus: An Economic Analysis February 11, 2009 – December 21, 2012).

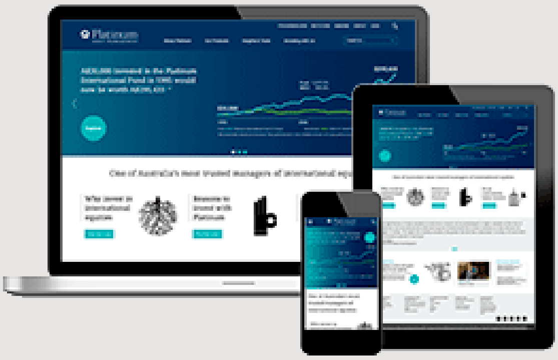
New Website

We were excited to unveil our new website during the quarter. It features a fresh look, easy navigation, and new investment insights and tools.

You can find a range of thought-provoking topics under **Investment Fundamentals**, from value investing to behavioural finance. And, of course, we will continue to share with you our views and insights on the latest market trends and themes in **The Journal**.

Through the **Portfolio Snapshots** investors can, at one glance, get a sense of how our portfolios are positioned in the current market environment and what some of our top holdings are.

Visit **www.platinum.com.au/Insights-Tools** to find out more.



Recent highlights include:

- Why We Need to Think Internationally When Investing (Video)[1] – For millennial Australians, owning one's home may not be the safest path to wealth growth as it once was. Andrew Clifford gives a quick introduction to some key lessons of investing: the importance of the implied rates of return, mastering the psychological pitfalls, and the benefits of scouting globally.
- Misconceptions about the Japanese Economy (Video)[2] – Kerr Neilson and Scott Gilchrist discuss some of the common misconceptions about investing in Japan.
- Profiting from Creative Destruction in Brands and Retailing[3] – James Halse explains the thinking behind the key investment themes in the Platinum International Brands Fund.

1 https://www.platinum.com.au/Insights-Tools/Investment-Fundamentals/Investing-What-Matters/Article-Item/Why-We-Need-to-Think-Internationally-When-Investin

2 https://www.platinum.com.au/Insights-Tools/The-Journal/Misconceptions-of-the-Japanese-Economy-(Video)

3 https://www.platinum.com.au/Insights-Tools/The-Journal/Profiting-from-Creative-Destruction-in-Brands-and

A Brief Tour of Iran

by Julian McCormack, Investment Specialist

The author spent 15 days in Iran in March 2016 on a do-it-yourself holiday. Following are some impressions of this large, ancient and exceptionally welcoming country. I am not able to comment on current demonstrations in Iran with any authority, but some background on the country and its people may be helpful in understanding the context in which they are occurring.

Iran is a spectacular place to visit. It boasts 500 BCE ruins of Pasargadae and Persepolis, the capitals of Persia under Kings Cyrus, Darius and Xerxes; the elegant Masjed-e Sheikh Lotfollah in Isfahan (one of the world's most beautiful buildings, in your correspondent's humble opinion); and the towering Mount Damavand at 5,600 metres. Iran boasts sights of cultural and historical richness to rival anything seen in Europe.

For all of its sights, the highlight of time spent in Iran is its people. Iran is the geographical bridge between Asia, Africa and Europe. Its history of both conquest and invasion brought Kurds, Turkmens, Azeris, Armenians, Afghans, nomadic Qashqai and Arab communities into the ethnically dominant Persian society. Notwithstanding Iran being a theocratic state, I also met members of the Zoroastrian and Jewish communities.

The sophistication of Iranian culture is reflected in its architecture, food, language, customs and social interactions. Persian manners (*tah'rouf*) can require exhausting levels of social accommodation, generosity and modesty. People are polite and welcoming. Tourists are few and the author was greeted countless times with a smile and "hello" by children, businessmen, tradesmen, students as well as by an elderly woman in full *chador*.[1]

There's no question that Iran is more conservative than the West. Female travellers really must observe *hejab*[2] by covering the hair with a scarf and avoiding revealing or form-fitting clothing, while men cannot wear shorts. However, beauty, fun and sensuality are integral to the Iranian character. And make no mistake: Iranian people are elegant. There is an acute awareness of appearance that extends to a prevalence of rhinoplasty procedures for both genders. Remarkably, Iran is one of the world's centres for rhinoplasty surgery.[3] There is also obvious and widespread use of cosmetics.[4]

Iranians are rebellious. The author was flirted with, joked with and repeatedly offered alcohol and drugs (both of which are strictly illegal). Several people felt comfortable to speak critically, even derisively, of Iran's government, in both English and Farsi, in public and in private. In particular, the tenure of former President Mahmoud Ahmadinejad was a repeated topic of conversation – among those with whom I spoke there was no positive commentary on the conservative rule of Ahmadinejad.

Ali, a land owner and café proprietor, highlighted that the current political order is the product of a popular revolution, and another revolution is far from impossible. At present the government is willing to tolerate some limited dissent.[5]

Tehran is a vast city of perhaps 14 million people and, notably in the city's affluent north, many people toe the line somewhat grudgingly. Tehranis commonly refer to streets and squares by their pre-Revolution names, even (perhaps especially) where these refer to the Shah or other elements of the *ancien regime*. Alcohol and drug delivery services are available for those in the know. And by all accounts young people do things like fall in love and have sex before marriage, as they are wont to do everywhere.

As the public shaming of a famous and glamorous actress demonstrates, gender relations are far from simple in Iran.[6] One woman I met, Masters-educated, intelligent and worldly, related having been arrested for wearing too much make-up in public. This required the intercession of her parents, with assertions that she had learnt her lesson and would not repeat such behaviour. Women are clearly lauded for beauty within Iranian society, but they must comport themselves in

1 *Chador* is a version of "the veil" worn most commonly by Iranian women, especially outside of large cities. It is generally black and covers the hair and most of the body. It literally translates as "tent".

2 *Hejab*, it was explained to me, means both the veil or scarf that covers the head, as well as the concept of modesty in dress.

3 See for example: http://jetsettimes.com/2014/02/10/9-countries-travelers-go-for-plastic-surgeries/, http://www.bostonrhinoplastycenter.com/blog/rhinoplasty-around-the-world, and https://www.theguardian.com/world/iran-blog/2013/mar/01/beauty-obsession-iran-cosmetic-surgery.

4 For a discussion of this by a returning expat Iranian woman, see: http://www.wsj.com/articles/SB100014240527023044482045791842310279144454.

5 For more on the idea of "Persian walls" and the permission of limited dissent, see Hooman Majd, *The Ayatollah Begs to Differ: The Paradox of Modern Iran*, Anchor, New York, 2009; see also a review in the New Yorker: http://www.newyorker.com/news/steve-coll/the-ayatollah-begs-to-differ.

6 http://www.theage.com.au/world/morality-police-force-iranian-model-into-public-selfshaming-20160517-gowy2d.html?deviceType=text

a suitably modest way – while also managing to flaunt their beauty. Quite a tightrope to walk. (This could be a difference of degree rather than distinction with Western societies, it may be argued). Several women I met in Isfahan, Shiraz and Tehran expressed annoyance and resentment at the imposition of *hejab* by the religious, conservative ruling clique. That is reflected in this striking piece of graffiti in Tehran (note the anger of the gaze, the lack of *hejab* and the exposed, flowing hair).

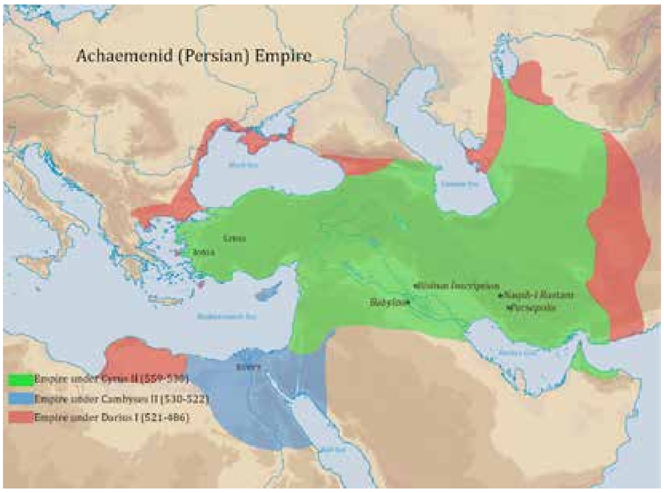
Graffiti, Tehran. Source: Author's photo.

Iranian people *talk*. Everything from driving a bus out of a terminal to ordering fast food seems to require extensive discourse for Iranians. Conversing in English seemed to be an opportunity too good to pass up for many bilingual (and indeed multi-lingual) Iranians. As well as chatter, there was a desire to express something of what it means to be Iranian, to show off Iran's beauty and history, and to convey to the visitor a sense of welcome.

Perhaps part of the welcome given by people in Iran was driven by a desire to show that, after decades of relative isolation, of being branded a member of the Axis of Evil and being impeded by sanctions, Iran is a recognisable, modern, decent place, albeit with flaws, crooks and abuses. (One wonders about the survival of such charm should circumstances change, for example, if Persepolis receives tens of millions of tourists someday, as it deserves to.)

*****

Iranians are proud of their long history. At its zenith around 450 BCE, the Achaemenid Empire stretched from Ethiopia to the Indus River and the Danube.[7] Anyone familiar with the movie *300* would have a sense of the Western views of this massive, cultured empire, which gave the world the first human rights charter in history, the Cyrus Cylinder.[8] Later, the Sassanid Empire threatened Roman imperial power. Armies of the Sassanid ruler, Shapur I, killed Emperor Gordian III, received tribute from Emperor Philip and captured Emperor Valerian who thereafter was used as a footstool by Shapur when mounting his horse.[9]



Extent of the Achaemenid Empire
Source: http://www.reed.edu/humanities/hum110/assets/images/maps/fall/AchaemenidEmpirePersepolisetc.jpg

Over time Iran has been invaded and manipulated by the likes of Alexander the Great, the Mongols, the European powers and the US. A joint British/US *coup d'état* in 1953 ended Iran's post war democracy, arguably planting the seeds of the 1979 Islamic Revolution and the rise of Ayatollah Khomeini. This was followed by a devastating eight-year war against Western-backed Iraq commencing in 1980. More recently, tensions have been high in relations with the West and Israel, particularly in regards to Iran's goal of controlling the nuclear

7 A Shapur Shahbazi, *The Authoritative Guide to Persepolis*, Safiran, Tehran, 2014, pp2-4.

8 For a good discussion, see http://www.ghandchi.com/iranscope/Anthology/KavehFarrokh/300/index.htm.

9 See Harry Sidebottom's wonderful "Warrior of Rome" series (http://www.harrysidebottom.co.uk/book-categories/warrior-of-rome/); see also http://www.bbc.co.uk/history/ancient/romans/enemiesrome_gallery_06.shtml (the description of the image at Naqsh-e Rustam is erroneous – Philip is kneeling and offering tribute, while Valerian stands and is held captive by the wrist by the mounted Shapur).

fuel cycle, as well as ludicrous behaviour such as Holocaust denial by former President Ahmadinejad.[10]

Iranians' generous hospitality may well be linked to this history of different masters, of conquest and subjugation. There is clearly pride in this ancient place and its sophisticated culture. But pride was alloyed with humility, even pessimism. This was evident in locals' criticisms of Iranian business practices, corruption, military involvement in commerce and the immense wealth amassed by the ruling clique of clergy.

Perhaps a place that has seen so many masters knows not to trust any of them too much, regardless of whether they wear a turban or a crown.

*****

Iran is the second largest economy in the Middle East/North African region after Saudi Arabia. With just under 80 million people, it has the region's second largest population after Egypt. However, sanctions, corruption and mismanagement have seen the country languish economically. Inflation has seen prices escalate fivefold since 2007, the Iranian Rial collapsed from around 9,000 to the US dollar in 2007 to over 30,000 to the dollar at the time of your correspondent's visit, to 36,000 to the dollar in January 2018.[11] Foreign direct investment peaked in 2002 at 2.5% of GDP, but since 2007 has wallowed at around 0.5% of GDP. Economic growth has improved somewhat to sit at around 4% from 2014 to 2016, after the economy shrank by 6% in 2012 and 2% in 2013.[12]

All of this has left the place supremely cheap. The most sumptuous meals were at most US$25 per head and one could eat well for US$5 per head. Domestic flights were US$30, inter-city bus trips were US$7 (inter-city buses were truly excellent). One could stay quite comfortably for US$50 per night in local hotels, while the Hotel Espinas in Tehran, reputedly the best hotel in the country where doormen spoke fondly of Australian Foreign Minister Julie Bishop, was approximately US$300 per night.

Iran felt like a place that could change quickly. Sanctions have been lifted, though US and European banks remain wary of engagement with Iranian firms and financial institutions.[13] Obviously oil production will play an important role – Iran produces approximately 3.8 million barrels per day (mbpd), up from approximately 3 mbpd in 2015.[14] The government is aiming to quadruple tourist numbers from 5 million in 2015 to 20 million by 2025.[15] Iran's sites and cultural richness merit such numbers, but the country does not have sufficient tourist infrastructure to accommodate them at present.

*****

The Revolution of 1979 saw Iranians in their millions yelling "*Allah-hu-Akbar*" from their rooftops in a huge display of civil disobedience.[16] It was a meaningful cry for change, yelled by Iranians of all faiths and ethnic groups, in the hope of better governance after 2,500 years of rule by kings and emperors.[17]

The hope of that revolution has been sold or stolen. The *Sepah*, or Revolutionary Guard, control a great deal of commerce, both legal and contraband, as well as owning tracts of property and a sizeable percentage of the Tehran Stock Exchange's listed equities. Senior cleric and former President Ali Akbar Hashemi Rafsanjani was among Iran's richest men until his somewhat suspicious death in January 2017, but strenuously denied any suggestion that his wealth had been accrued from political connections.[18] This was pointed out by numerous Iranians in conversation, at times hilariously. In Isfahan, father and son owners of a 150 year old *ghalyoun*[19] (water pipe) establishment were merciless in describing the greed, corruption and licentiousness of the *Alkhoun* (senior clerics) who rule Iran.

For us in the West it is easy to misunderstand the importance of the Islamic Revolution of 1979. It is one of the few times in history that a people has thrown off an oppressive regime largely peacefully and sought to replace that regime with an entirely new form of government, in this case an "Islamic Democracy". The Islamic Revolution is to some degree comparable to the French or the American Revolutions.

The Islamic Republic of Iran has had only two *Rahbar* or Supreme Leaders (what we refer to in the West as the Ayatollah). Imam Khomeini and his successor Imam Khamenei, who rules today, were appointed by the clergy, from among the clergy. The central tenet of the Islamic

10 For discussion of Iranian history and politics see Christophe de Bellaigue, *In the Rose Garden of the Martyrs*, Harper Perennial, New York, 2006 and Majd's book *The Ayatollah Begs to Differ*.

11 Bloomberg.

12 "Persian Prize or Desert Mirage", *The Intelligence, Lloyd's List*, March 2016, pp18-21; "Iran's Economy", https://www.bloomberg.com/quicktake/irans-economy.

13 *Ibid*.

14 "35% of Oil Exports Go to European Markets", *The Financial Tribune*, 9 April 2013, pp 1 and 5; "Iran's Oil", https://www.bloomberg.com/quicktake/iran-s-oil.

15 "2025 Target Ambitious", *The Financial Tribune*, 9 April 2016, p13.

16 Majd, p222.

17 *Id*, pp4-5.

18 http://www.bbc.com/news/world-middle-east-22494982; http://www.forbes.com/forbes/2003/0721/056.html; http://www.thetower.org/2073-study-iran-sanctions-relief-will-benefit-supreme-leader-revolutionary-guards-not-moderates/; and http://www.bbc.com/news/world-middle-east-38562490; https://www.middleeastmonitor.com/20170228-rafsanjani-died-in-mysterious-circumstances-says-his-daughter/.

19 *Ghalyoun* is Farsi for water pipe, perhaps more familiar as a *sheesha*, increasingly of Arab sweet tobaccos rather than straight Persian tobacco in Iran.

Republic is the "rule of the jurisprudent" (with jurisprudence referring here to command of the legal codes of Shia Islam). Members of the Ruling Council are all clergymen, but they are also popularly elected. Within the Council there are factions of conservatives, moderates and liberals, with a high degree of tolerance for dissenting views expressed by senior clerics.[20]

What's more, the "divine authority" of the jurisprudent sits alongside the temporal authority of the presidency and the legislative body – which is popularly elected. Iran's politics, as with its society in general, is nuanced and complex. The Ahmadinejad regime, was headed by a secular public official, but it was conservative and repressive. The current Rouhani regime, headed by a cleric, is more liberal, tolerant and outward looking. Former President Rafsanjani, while one of the richest and most powerful men in Iran, was at once a senior cleric and a leading voice for reform and liberalism in his latter years. Rafsanjani, for all his power, could never be Supreme Leader, as he was not a *Sayyed* or descendant of the Prophet Muhammed, whose ranks are marked by their use of a black turban in place of the normal white turban for Shia clerics.[21]

The Islamic Republic's system of governance seems to sow uncertainty. When discussing the potential for investment in hospitality industries in Iran, locals commented that this may be a good idea, but what if the next President or Supreme Leader is a repressive conservative? This level of uncertainty and fatalism was widespread and your correspondent could not escape the thought that such uncertainty must be an enervating factor for commerce and investment.

*****

Conservatism and repression remain in today's Islamic Republic. Crime is dealt with summarily. Iran has the dubious distinction of being second only to China in executing people.[22] Accounts of public hangings in Iran are disturbing.[23] There is a significant security presence, and security officials on guard are heavily armed. My dealings with all officials were courteous, even when my friend and travelling companion was warned off taking a photo of an official building – this was met with hilarity rather than outrage.

In foreign affairs, the Iranian state behaves contemptibly at times. Its neighbours in the region are alarmed at the potential for a renascent Iran and the actions of the Al-Quds Brigades and Shia militias in the various conflicts in the region give them abundant cause. Hideous violence against civilian Sunni populations in the region seems to be acceptable to the Iranian military and its proxies.[24]

Given the power struggle between Iran and Saudi Arabia as well as the Iranian state's behaviour in regional conflicts, it is striking that Iran remained relatively undisturbed by terrorist incidents. This record was shattered in June 2017, when 12 people were killed in the first major terror attack in Iran in recent times.[25]

*****

Iran's history is intimately tied with Islam and the schism between the Shia (followers of Imam Ali) and the Sunni (observers of the Sunna). The day of Imam Hussein's death at Karbala in modern Iraq (known as the *Ashura*) is marked with weeping, wailing and self-flagellation by some in Iran.[26] The *Ashura* commemorates the massacre of one of the most revered men in Shia Islam (Imam Hussein) and his few followers after the betrayal of an ally before battle. To be Shia is to be a minority, surrounded by Sunnis, vulnerable at times, but powerful, rich and inviolate at others.

But religion seems simply not to be a significant factor in the lives of many Iranians. Your correspondent grew up Catholic but is now an atheist and I felt I recognised in many people a sense of tribal belonging to Shiism. But while many people identified as Shia, they rejected any claim to divinity or infallibility, a rejection perhaps born of disappointment and disgust in the actions of a powerful clergy that acts with impunity. For a lapsed Catholic, this felt familiar.

*****

Iran is fascinating, beautiful, relatively safe, cheap, and welcoming. And it will change. It is almost unimaginable that a place with the cultural and historical richness of Iran will remain virtually devoid of foreign tourists. Political isolation allows the traveller an insight into this place that mass tourism will erase. We live in an era where hate, ignorance and fear are so widespread, so pervasive, so seductive. Yet here is the Islamic Republic, where people are welcoming of, even delighted by, foreigners. Visitors to this place change both the place and themselves. This is of course always true, but Iran offers an acute case of this greatest blessing of travel.

Original notes written in April 2016, updated in January 2018

20 Again, refer to Hooman Majd's excellent book *The Ayatollah Begs to Differ*.

21 Majd, p55.

22 http://www.independent.co.uk/news/world/politics/which-countries-execute-the-most-people-chilling-new-map-reveals-china-and-iran-put-more-people-to-a6796351.html

23 Christophe de Bellaigue, *In the Rose Garden of the Martyrs*, Harper Perennial, New York, 2006, pp178-180.

24 See for example http://www.newyorker.com/magazine/2013/09/30/the-shadow-commander.

25 http://www.independent.co.uk/News/world/middle-east/tehran-attacks-isis-suicide-bomb-iran-first-ever-terrorism-claim-responsibility-parliament-shrine-a7776631.html

26 Majd, p133; see also de Bellaigue, pp227-229.

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.

Free cash flow

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

Gross Domestic Product (GDP)

The GDP is the primary indicator used to gauge the health of a country's economy. It represents the total monetary value of all goods and services produced within a country over a specific time period (usually calculated on an annual basis, but also on a quarterly basis).

GDP includes all consumer spending, government spending, investments, and net exports. The three main methods to calculate GDP are the output (or production) approach, the expenditure approach, and the income approach, all of which should theoretically yield the same result.

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, even catastrophic, 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.

MSCI indices

Various indices compiled by MSCI Inc. (e.g. World, Asia, Health Care, etc.) that are designed to measure equity market performance across different regions and industries.

Platinum does not structure its investment portfolios relative to any benchmark index, however, the MSCI indices are used as a reference to determine how each fund is performing in relation to the total market opportunity in which it invests.

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.

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).

Some Light Relief

"He's mining for bitcoins again."

CartoonStock.com

"That's it! That's the chart we've been looking for."

"Be careful, it looks like a scam, to me."

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.

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   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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* Please refer to page 2.

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