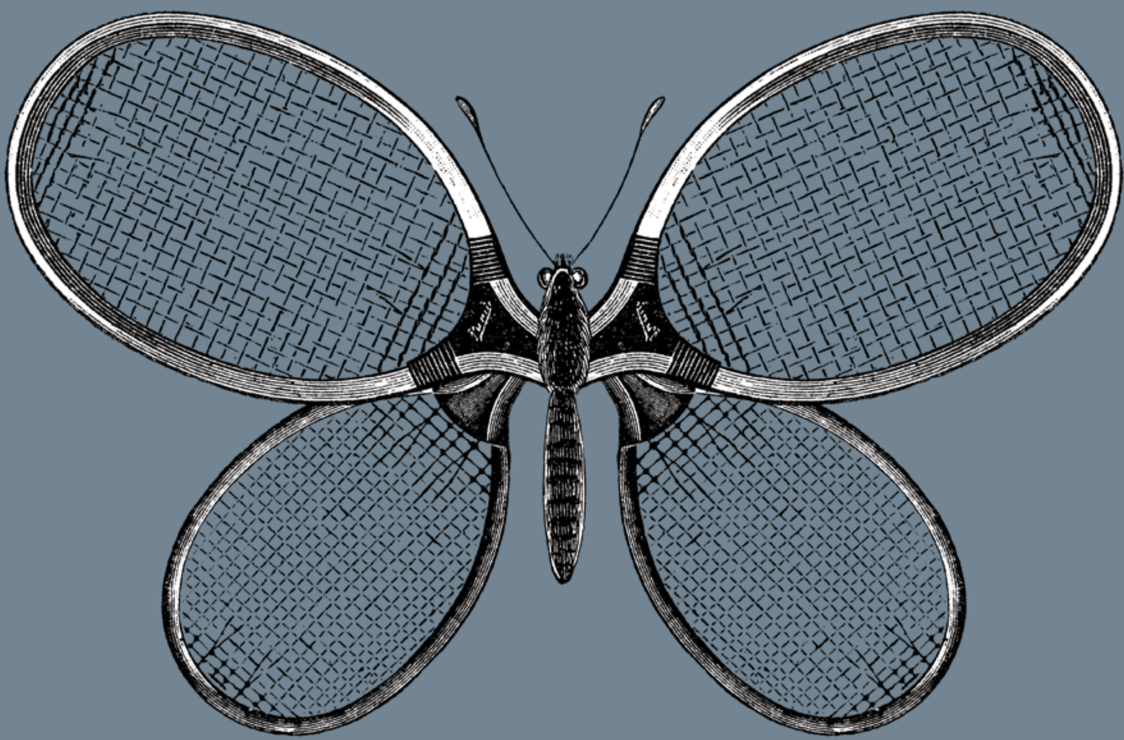
Platinum International Fund
Platinum Unhedged Fund
Platinum Asia Fund
Platinum European Fund
Platinum Japan Fund
Platinum International Brands Fund
Platinum International Health Care Fund
Platinum International Technology Fund

Platinum® ASSET MANAGEMENT

Quarterly Report

31 DECEMBER
2018



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

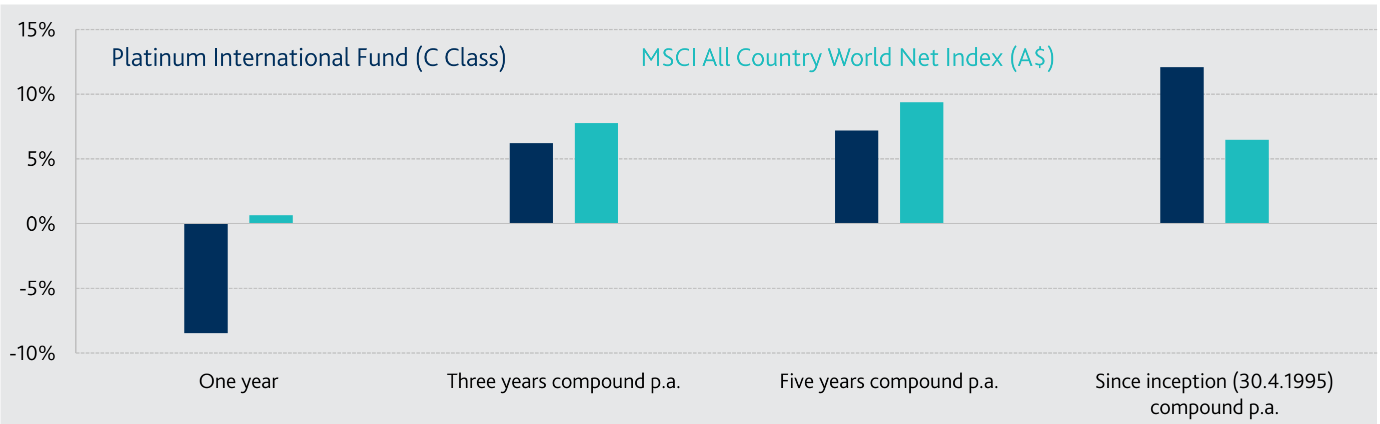
Performance Returns to 31 December 2018

FUND (C CLASS – STANDARD FEE OPTION) (P CLASS – PERFORMANCE FEE OPTION)	PORTFOLIO VALUE (A$ MIL)	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)	**$9,910.8**	**-8.0%**	**-8.5%**	**7.0%**	**6.2%**	**7.2%**	**12.1%**	**30 Apr 1995**
Platinum International Fund (P Class)	$14.8	-7.9%	-8.2%	—	—	—	2.0%	3 Jul 2017
MSCI All Country World Net Index (A$)		-10.3%	0.6%	7.5%	7.8%	9.4%	6.5%	30 Apr 1995
Platinum Unhedged Fund (C Class)	**$288.0**	**-11.6%**	**-8.9%**	**9.4%**	**8.4%**	**8.9%**	**10.6%**	**28 Jan 2005**
Platinum Unhedged Fund (P Class)	$1.7	-11.5%	-8.7%	—	—	—	2.8%	3 Jul 2017
MSCI All Country World Net Index (A$)		-10.3%	0.6%	7.5%	7.8%	9.4%	6.5%	28 Jan 2005
Platinum Asia Fund (C Class)	**$4,150.0**	**-6.3%**	**-10.2%**	**10.2%**	**6.8%**	**8.7%**	**14.0%**	**4 Mar 2003**
Platinum Asia Fund (P Class)	$6.8	-6.2%	-10.0%	—	—	—	3.2%	3 Jul 2017
MSCI All Country Asia ex Japan Net Index (A$)		-6.1%	-4.9%	11.7%	9.8%	9.1%	9.8%	4 Mar 2003
Platinum European Fund (C Class)	**$908.0**	**-11.4%**	**-5.2%**	**9.3%**	**8.1%**	**7.7%**	**11.4%**	**30 Jun 1998**
Platinum European Fund (P Class)	$5.7	-11.3%	-5.2%	—	—	—	3.0%	3 Jul 2017
MSCI All Country Europe Net Index (A$)		-10.1%	-5.3%	4.8%	3.5%	4.1%	2.5%	30 Jun 1998
Platinum Japan Fund (C Class)	**$736.0**	**-7.7%**	**-10.0%**	**4.8%**	**7.0%**	**11.2%**	**14.0%**	**30 Jun 1998**
Platinum Japan Fund (P Class)	$4.7	-7.6%	-9.8%	—	—	—	2.5%	3 Jul 2017
MSCI Japan Net Index (A$)		-11.9%	-3.2%	5.4%	4.6%	8.1%	2.5%	30 Jun 1998
Platinum International Brands Fund (C Class)	**$682.1**	**-10.3%**	**-8.0%**	**9.1%**	**9.2%**	**7.2%**	**12.0%**	**18 May 2000**
Platinum International Brands Fund (P Class)	$1.4	-10.2%	-7.8%	—	—	—	1.6%	3 Jul 2017
MSCI All Country World Net Index (A$)		-10.3%	0.6%	7.5%	7.8%	9.4%	2.7%	18 May 2000
Platinum International Health Care Fund (C Class)	**$225.4**	**-13.0%**	**8.7%**	**11.1%**	**7.1%**	**11.9%**	**9.3%**	**10 Nov 2003**
Platinum International Health Care Fund (P Class)	$2.9	-12.9%	7.9%	—	—	—	7.0%	3 Jul 2017
MSCI All Country World Health Care Net Index (A$)		-7.1%	13.0%	12.1%	5.6%	12.7%	8.8%	10 Nov 2003
Platinum International Technology Fund (C Class)	**$106.3**	**-8.5%**	**-2.5%**	**7.6%**	**7.4%**	**8.3%**	**8.9%**	**18 May 2000**
Platinum International Technology Fund (P Class)	$1.5	-8.4%	-2.3%	—	—	—	3.9%	3 Jul 2017
MSCI All Country World IT Net Index (A$)		-14.8%	4.6%	17.2%	15.7%	17.7%	0.4%	18 May 2000

Fund returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. Historical performance is not a reliable indicator of future performance. Source: Platinum Investment Management Limited for Fund returns and FactSet for MSCI index returns. See note 1, page 44.

Platinum International Fund vs. MSCI AC World Net Index (A$)

To 31 December 2018



Fund returns are net of fees and costs, are pre-tax, and assume the reinvestment of distributions. Historical performance is not a reliable indicator of future performance. Source: Platinum Investment Management Limited for fund returns and FactSet for MSCI index returns. See note 1, page 44.

In Brief

Platinum International Fund

- While the sell-off during the first nine months of 2018 was concentrated amongst companies that were directly exposed to the concerns over China's slowdown, the US/China trade stand-off and US interest rate rises, the final quarter of the year saw price weakness spread. The sectors previously holding up the market (high-growth software, e-commerce and biotech companies) had significant falls, which led the US market lower.
- The Fund's short positions contributed significantly to performance as the US market, particularly tech and biotech stocks, were sold off. Major detractors from performance included our oil-related holdings which suffered as oil prices fell heavily.
- We have been buying companies whose valuations have become particularly attractive as a result of the recent sell-off (including GE, Sumco and Scout24), while selling or reducing positions that have been "relative" good performers and therefore have become less attractive relative to other opportunities, including Murata, AstraZeneca and Ping An Insurance.
- The Fund's net invested position remains conservative at 69%, and reflects the significant disparity in valuation between the popular stocks and markets, where we are short, and the out-of-favour stocks in which we are invested. Given the attractive valuations of our holdings, both in absolute terms and relative to market averages, we are optimistic about the Fund's long-term returns. However, we maintain a more cautious outlook over the short-term. Given the complexity and uncertainty surrounding the issues facing global markets today, the timing of the unfolding of events is far from clear.

Platinum Unhedged Fund

- The sharp decline in oil prices significantly impacted our energy holdings, which were responsible for 30% of the Fund's 9% fall over the last year. However, we remain optimistic on the medium- to long-term prospects of our oil service companies as the decline rate of mature oil wells and the supply-demand equation foreshadow an eventual recovery in industry capex.
- Financials were another major detractor from performance, particularly our holdings in Raiffeisen Bank, KB Financial and Suruga Bank. We exited Suruga following revelations of misrepresentation by management and previously undisclosed risks. However, we remain positive on Raiffeisen and KB and increased our holdings as their prices dropped due to macro concerns.
- Despite China being the worst-performing market in 2018 and making up 28% of the Fund's portfolio, our China holdings in aggregate fell only 3% over the year, attesting to the strengths of the individual companies we own.
- Falling prices, low valuations and a more cautious sentiment are all indications that risk has reduced and the prospect of better returns have increased. However, while we have taken the opportunity to initiate new positions (GE, Bharti Airtel) and increase some of our existing holdings (Seven Generations, Skyworks, Weibo), we do not expect markets to take a V-shaped recovery and have maintained a reasonable cash position which we will be looking to use as further opportunities arise.

Platinum Asia Fund

- While Asian (ex-Japan) markets continued to fall this quarter, the declines were less steep than those seen in the developed markets (US, Japan, Europe), perhaps signalling that the Asian market may be close to bottoming.
- Contributors to performance this quarter largely consisted of sectors and companies with specific contrarian stories, including Chinese real estate developers (China Overseas Land & Investment, +10%, Longfor Properties +16%) and Indian infrastructure (Adani Ports +18%, IRB Infrastructure Developers +20%). Key detractors were cyclical and large cap stocks which fell on concerns over a slowing global economy and ongoing trade tension between China and the US.
- Weak prices gave us the opportunity to add a number of new positions, including Hong Kong Exchanges & Clearing and Sany Heavy Industry. We also re-introduced Kweichow Moutai into the portfolio and increased our position in Anta Sports.
- Some of the key concerns troubling the Asian markets may be starting to ease. Chinese authorities have responded to the over-tightening of credit conditions with a number of easing measures, including reducing banks' reserve requirements to free up liquidity, encouraging lending to private enterprises, increasing infrastructure spending, and cutting taxes. A lower oil price should also be generally positive for the region. We remain optimistic about the region's pace of growth over the long-term, and have a sizeable cash position to deploy if and when market weakness presents further opportunities.

Platinum European Fund

- The European economy continues to grow, but has lost some momentum due to the slowdown in China's growth, rising US interest rates, trade concerns, as well as Brexit roadblocks and Italy's budget stand-off. European markets fell in recent months, and our holdings in cyclical companies suffered disproportionately, which our sizeable cash position and small short positions were only able to partially offset. Our worst-performing stocks were those impacted by weaker auto demand, lower oil prices and interest rates.
- We sold out of several positions where the original thesis has largely played out (Sartorius, Carnival, Provident Financial), and have used – and will continue to use – the capital to buy companies that have become more attractively valued. While we remain cognisant of the political and economic risks that Europe continues to face, lower stock prices have reduced risks.

Platinum Japan Fund

- Cyclical sectors reliant on global economic growth have been weak, particularly those companies with direct exposure to China's slowing growth. Our cash and short positions only partly protected the portfolio against the market's 17% (in local currency) fall over the quarter. The strong Yen offset the equity market falls to some extent.
- While the Japanese market remains very attractive over the medium-term, both Japanese and Korean markets face significant short-term headwinds as their trade-driven economies are heavily influenced by the external environment. The Fund's current positioning reflects these concerns as well as the high level of valuation dispersion in the Japanese market.
- Price weakness has given us an opportunity to add Takeda and Sosei, among others, as well as profit from our short position in M3. Cash holdings of 26% will be used to add further to the portfolio when attractive opportunities become available.

Platinum International Brands Fund

- In a quarter of heavy market sell-offs, contributors to performance included a number of our small holdings that reported strong earnings (Honma Golf, John Keells Holdings, Qiwi) as well as several short positions. Major detractors included Lixil, Callaway Golf and Hanesbrands. While our short position in Tesla detracted from performance this quarter, we believe the company still faces significant challenges and the short case remains compelling.
- We closed out a number of positions, taking profits in Nomad Foods, Telepizza and Guangzhou Baiyunshan. We also reduced our holdings in several relative good performers while adding to Stars Group, ZhengTong, Yongda, and Alibaba.
- With trade conflicts escalating and economic activity slowing in most major economies, we expect further headwinds in the near-term. However, attractive valuations across the portfolio give us reason for cautious optimism over the long-term.

Platinum International Health Care Fund

- The sell-off across biotechs this quarter was particularly intense. After years of a very generous funding environment, the dynamics changed and raising money became more difficult. While we had been cautious about biotech valuations for some time and had raised our cash position, it only partially offset the losses.
- We remain focused on the long-term prospects of companies. Our investment in PARP inhibitor company, Tesaro, now being acquired by GSK, illustrates the importance of patience when investing in biotech and how going against the crowd can pay off. We selectively added to a number of positions during the quarter, taking advantage of the big falls in share prices.
- Consolidation in biotech is inevitable as the number of listed companies has exploded in recent years, particularly in the oncology space, though only a handful will be commercially successful. We are therefore highly selective in our investments.

Platinum International Technology Fund

- While tech stocks were largely spared in the first nine months of 2018, the trend reversed this quarter and the sector saw significant declines, triggered by factors ranging from rising US interest rates to US-China trade war concerns. Our large cash balance and short positions helped to mitigate some – but not all – of the losses.
- Poor sales data saw smartphone related companies (Apple, AMD, Nissha) fall, as did our holdings in memory chip makers (Samsung Electronics, SK Hynix, Micron) for reasons of a cyclical decline in prices and margins. However, we remain focused on the longer-term opportunities, including the impending proliferation of connected devices, set to be catalysed by 5G.
- Weak auto demand led to a fairly indiscriminate sell-off of companies exposed to the auto industry, which gave us an opportunity to initiate a position in a high-quality electrical component company and increase our position in a fast-growing e-commerce company in the auto space. We also added a new holding in the computer gaming sector, after a big price fall.

Macro Overview

by Andrew Clifford, Chief Investment Officer

2018 – Year in Review

As we entered 2018, the prospects for the global economy were as bright as they had been since the onset of the Global Financial Crisis (GFC) over a decade ago. The US economy was growing from strength to strength, with tax cuts on the way that promised an additional boost. China had recovered well from its investment slump of 2014-15. Economic momentum was building in Europe and Japan.

There were a number of risks on the horizon. Many stemmed from rising US interest rates, especially as there were fears of inflation being fuelled by the tax cuts which added stimulus to what was already a buoyant economy. Another concern was how funding the increased fiscal deficit would impact on the US bond market. Further on the horizon remained the question of how the world's central banks would extricate themselves from their money printing exercises or "quantitative easing" (QE). There was also President Trump's threat of a trade war, along with other politically inspired skirmishes such as Brexit.

Under the radar of most Western media and commentators were the developments of China's financial reform. The reform essentially aimed to bring securitised assets – the so-called shadow banking activities – back onto the balance sheets of banks. The goal of the authorities was to tighten up on the speculative use of credit outside of the regulated banking environment. While to our minds this was good policy, we did highlight in our March 2018 Macro Overview that the reform process gave rise to a risk of tightened credit availability which could potentially impact the economy. Our base case at the time was that, as China's economy was undergoing robust growth, the system should absorb and cope with the impact reasonably well.

This assumption turned out to be overly optimistic. The Chinese economy did progressively slow throughout 2018 in response to tighter credit conditions, with notable credit losses occurring in unregulated peer-to-peer lending networks, impacting consumer spending. The slowdown was further exacerbated by the commencement of President Trump's "trade war" in July. As we have highlighted in past reports, while the impact of the tariffs imposed to date has been relatively minor, they have certainly damaged business confidence and resulted in cut-backs in investment spending in China's manufacturing sector. The slowdown in China has continued throughout the latter months of the year, with passenger vehicle sales down 13% and 16% from a year ago in October and November 2018 respectively, and the first 11 months of the year registering a 2.8% decline from the same period in 2017.[1] Similarly, mobile phone sales volume in China in Jan-Nov 2018 decreased by 8% year-on-year.[2] Other indicators, such as the Purchasing Managers' Index (PMI), also registered declines over the last quarter.

The impacts of China's slowdown have been felt far beyond its borders. While China today is the world's second largest economy (US$12 trillion versus the US at US$19 trillion), it is for many goods the world's largest market. Not only is this the case for commodities and raw materials, such as iron ore and copper, it is also the case for many manufactured goods, from cars to smartphones to running shoes. Indeed, it would be difficult to think of a physical good for which China is not the biggest consumer in volume terms. As a result, China's slowdown has been felt globally and has been a significant factor in the loss of economic momentum in Europe, Japan and many of the emerging economies. The one country that has so far appeared immune to China's slowdown is the US, which was growing faster in the first instance, but also had the benefit of a fortuitously timed fiscal stimulus in the form of tax cuts.

Prospects for 2019

What does the year ahead hold in store?

Reasons for Caution

The loss of momentum in China, together with the trade war, will continue to cause a significant deal of uncertainty. Many companies entered 2018 with strong order books. As is typical in times of boom, customers were likely double-ordering components or items which they thought might be in short supply. When business slowed, these customers would have found themselves cutting back on new orders aggressively. In addition, the trade war also led some companies to bring forward orders to avoid the added cost of tariffs. All of this has created a significant amount of noise in

1 www.marklines.com/en/statistics/flash_sales/salesfig_china_2018, based on data compiled by the China Association of Automobile Manufacturers.

2 www.counterpointresearch.com/china-smartphone-share/

sales outcomes for many businesses and it may well be some time into the new year before one has a clear sense of where demand has settled for many goods. And, of course, we are yet to see whether the US and China can negotiate a compromise on trade prior to the 1 March deadline – when, absent an agreement, US tariffs on a further US$200 billion of Chinese imports will take effect.

More importantly, the greatest risk facing the global economy is that the last driver of growth, the US, is now poised to slow. Housing and auto sales have fallen in response to higher interest rates. The benefits of the tax cuts have for the main part been expressed. The impact of tariffs on business is now being felt. While their direct impact on the US economy is perhaps not significant, the tariffs and the broader trade tension likely have begun to affect both consumer and business confidence, particularly as we await the outcome of the US-China negotiations.

Furthermore, the political environment in the US post the mid-term elections is also likely to be a drain on confidence, and the partial shutdown of the US government over funding debates may well be a prelude for what is to come. While similar shutdowns have occurred in the past with relatively minor disruptions, they certainly add to the distractions faced by both businesses and consumers. President Trump's infrastructure program could potentially be the next boost to growth, though it is unlikely to have much impact within the next 12 months even if it were to eventuate. As for interest rates, while the Federal Reserve has signalled that it will slow the pace of rate hikes, rate cuts appear a distant prospect. Many commentators have been focusing on the likelihood of a US recession, but it is beside the point. The conditions are in place for a progressively slower environment in the US throughout the course of 2019.

An important lesson from the last four years is that a maturing Chinese economy has become more responsive to domestic interest rate movements and credit condition. As the financial reform started to take hold in 2017, interest rates did rise and the Chinese Yuan appreciated, which subsequently saw economic activity slow in 2018. This is not dissimilar to what happened in 2015 when a recovery in activity from the prior investment slowdown was building momentum, only to be extinguished as capital outflows under the country's managed exchange rate mechanism led to tightened monetary conditions. Absent a more flexible exchange rate mechanism, China will likely remain susceptible to these mini booms and busts.

Another lesson from 2018 was how important China had become to the global economy. For the last 30 years or more, the US economy and financial markets have been at the centre of every analysis of global markets. It has long become a cliché to say that "when the US sneezes, the rest of the world catches a cold". In 2018, the US economy was in great shape, and yet the rest of the world slowed, because of China.

Reasons for Optimism

Applying these lessons to the year ahead, we would make the following observations. In order to alleviate the stress the financial reform has placed on the system, China has pushed out the deadlines for banks to comply with the requirement to bring their shadow banking assets back onto the balance sheet. Banks' capital reserve ratios have been cut to free up lending capacity, and funding has been assured for approved infrastructure projects. By October 2018, the 1-month Shanghai Interbank Offered Rate (SHIBOR) had fallen to 2.7% from 4.7% at the start of the year, and anecdotally the availability of credit for companies with strong balance sheets has improved dramatically. Tax cuts are on the way for households and businesses, which are estimated to be in the order of 1% of GDP.

These are important developments that are worth paying attention to. **If China's economy slowed in response to a tightening of credit conditions, one should also expect to see activity gradually pick up as policy loosening takes effect.** As it happens in any economic downturn, there will be debates around whether enough has been done and how long before the economy responds. Nevertheless, policy is clearly moving in a direction to, at least, gently encourage growth. Certainly, the broader economic data is yet to show any obvious signs that a bottom has been found, though some "green shoots" can be observed in improving construction equipment sales and a pick-up in infrastructure investment.

Besides the potential for a recovery in China, the other positive that may unfold is a resolution, at least in part, to the trade conflict between the US and China. In our last quarterly report we discussed in some detail the reasons that we believed there were significant incentives for both sides to find a compromise. Subsequently, the 1 January increase in US tariffs from 10% to 25% on US$200 billion of Chinese imports has been deferred while the two sides look to negotiate a deal. In our view, the need for both countries to find a middle ground is compelling, and it also appears that post the mid-term elections in the US, there is now an imperative for President Trump to win a domestic political victory. However, given the innumerable unknowns around the incentives on both sides of the negotiating table, it is difficult to have a strong level of conviction in this view. Presumably, we will be entertained by a "made for TV" style drama as the 1 March deadline approaches.

Market Outlook

As we observed in last quarter's Macro Overview, the slowdown in China, the uncertainty around trade, and rising interest rates in the US, had resulted in falling stock prices across the sectors that are sensitive to economic growth or exposed to trade issues. On the other hand, companies that were perceived to be immune to these concerns had performed strongly. These good performers were found primarily amongst high-growth companies in sectors such as software, e-commerce and biotech. Again, as we noted, these high-growth stocks were either at or approaching valuations that were exceedingly high by historical standards. Through the first nine months of 2018, the performance of these sectors accounted for much of the performance differential between the US market, which had continued to reach new highs, and the world's other major markets, which had been in steady declines since February. In the last quarter, in response to higher interest rates and tightening liquidity, this pattern changed with the US selling off in line with or even more fiercely than other major markets, led by the highly valued tech and biotech names.

Recently Bloomberg recorded an interview with Stan Druckenmiller, one of the most successful hedge fund managers of all time. The hour-long interview covered a wide range of topics, but of particular interest is Druckenmiller's observation that the signals he has relied on over the last 40 odd years to make calls on markets are no longer working. Druckenmiller noted that interest rate moves during a period of quantitative easing and very low rates, as well as stocks' price movements in response to news, could no longer be reliably reverse-engineered to give readings on what is happening in the economy. The result has been a higher degree of difficulty in extracting returns from markets. His comments echo those we have read from other experienced fund managers, and indeed in recent years many managers with strong long-term records have performed poorly with quite a number of them choosing to close shop and cease managing money. It is part of the phenomenon of active managers struggling to outperform the market and what some have referred to as the "death of value investing".

Various reasons have been offered for this idea that markets aren't behaving quite as one expects. At the top of this list of

MSCI Regional Index Net Returns to 31.12.2018 (USD)

REGION	QUARTER	1 YEAR
All Country World	**-12.8%**	**-9.4%**
Developed Markets	**-13.4%**	**-8.7%**
Emerging Markets	**-7.5%**	**-14.6%**
United States	**-13.8%**	**-5.0%**
Australia	-10.0%	-12.0%
Europe	**-12.5%**	**-14.8%**
Germany	-15.5%	-22.2%
France	-15.0%	-12.8%
United Kingdom	-11.8%	-14.2%
Italy	-11.8%	-17.8%
Spain	-8.7%	-16.2%
Russia	-9.0%	-0.7%
Japan	**-14.2%**	**-12.9%**
Asia ex-Japan	**-8.7%**	**-14.4%**
China	-10.7%	-18.9%
Hong Kong	-4.5%	-7.8%
Korea	-13.1%	-20.9%
India	2.5%	-7.3%
Brazil	13.4%	-0.5%

Source: FactSet.
Total returns over time period, with net official dividends in USD.
Historical performance is not a reliable indicator of future performance.

MSCI All Country World Sector Index Net Returns to 31.12.2018 (USD)

SECTOR	QUARTER	1 YEAR
Utilities	0.8%	1.4%
Communication Services	-6.2%	-10.9%
Consumer Staples	-6.6%	-10.5%
Health Care	-9.6%	1.7%
Financials	-11.9%	-15.7%
Materials	-13.4%	-16.0%
Consumer Discretionary	-14.4%	-8.3%
Industrials	-15.6%	-14.4%
Information Technology	-17.1%	-5.8%
Energy	-20.2%	-13.3%

Source: FactSet.
Total returns over time period, with net official dividends in USD.
Historical performance is not a reliable indicator of future performance.

reasons is the impact of QE and low interest rates. Especially topical at the moment is the question of how the reversal of QE, with the Federal Reserve reducing its holding of US Treasuries, particularly at a time of rising fiscal deficits, is impacting on markets. Another oft-cited reason for recent market "anomalies" is the "rise of the machines" – be they high-frequency algorithmic trading or quant-based investment strategies. Furthermore, with the rise of populist governments across the world, political risk, at face value, is much greater than it has been. Accumulation of high levels of debt in certain sectors of the global economy may also be playing a role, though this is hardly a new phenomenon. It may simply be that China is having a much greater influence on the global economy and on markets than ever before.

We would broadly agree with the claim that markets are not behaving quite as one expects. However, the reality of markets is that they often don't behave in line with investors' expectations, and the patterns that investors think they see are only temporary. So, as investors, how should we navigate our way through this environment? There are two core principles which underpin Platinum's investment approach. First is the belief that **the best opportunities are often found by looking in the out-of-favour areas** and avoiding the popular ones. Secondly, **the price we pay for a company is the single most crucial determinant of the return** that we will earn on the investment.

Guided by these core principles, we would make the following observations about the current state of the markets. Investor sentiment has deteriorated significantly over the last quarter. Sentiment is difficult to gauge with precision, but a number of the quantitative indicators that we use to objectively measure sentiment are certainly pointing to a bearish stance by equity investors. Our more qualitative assessment is that across the markets the level of bearishness varies dramatically by region and by sector. For example, North Asian domestic investors are generally very negatively disposed towards their own markets, and investors are quite fearful of certain sectors, such as autos, semiconductors and commodities, as they are perceived to be more prone to the cyclicality of economic activity. Such observations lack precision and certainty. Of course, if the US economy deteriorates significantly or if the trade talks fall over, it is readily conceivable that markets will fall further. Nevertheless, it is in these periods of great uncertainty that one should be looking for opportunities to buy markets. Our sense is that markets may not have quite bottomed just yet.

At turbulent times like this, we will fall back to an assessment of the potential returns implied by the valuations of our holdings. Simply put, we will consider the earnings or cash flow yields that our companies will provide investors with over the next five years and beyond. While there is no certainty regarding these future earnings, and the prospects of some of our holdings over the next one to two years may have diminished from what might have otherwise been expected, the valuations across these out-of-favour sectors are highly attractive today.

Attractive valuations (i.e. low prices relative to prospective earnings) are not a guarantee that stock prices will not fall further, especially over the short-term. However, the expected returns from an investment are not some ethereal concept – returns will flow to investors' pockets where companies pass their earnings onto shareholders in the form of dividends and/or stock buy-backs. Alternatively, at the right price, knowledgeable buyers may appear and buy out the company from shareholders. In short, based on our assessment of the current valuations across the companies we own, we believe that our portfolio offers good prospects of favourable returns. What we feel less certain about, however, is the time frame over which these returns will be realised, which is difficult to assess given the numerous challenges facing the market today.

Eastern Europe – New Markets in the Old Continent

by Nik Dvornak, Portfolio Manager

Europe comprises around 50 countries, 750 million people and an economy similar in size to those of North America and East Asia. When discussing the region, most investors focus on a handful of large developed economies and multinational companies listed on the stock exchanges of London, Paris or Frankfurt. Since the region is so fragmented and multifaceted, this desire to focus on the familiar is understandable. But doing so risks overlooking some of the best opportunities Europe has to offer.

While it is tempting to think of Europe as an economically developed region, much of the east and south-east comprises emerging markets. Members of Platinum's investment team have a long history of investing in emerging markets. During the 1980s, the firm's founding members were very active in Latin America and Asia. Since the 1990s we have focused particularly intensely on Asia, devoting significant effort, resources and time to this region. Yet, we had not invested in Eastern Europe until 2014. This begs the questions: why not and what has changed?

1990 – 2008

Following the end of the Cold War, the so-called Eastern Bloc countries worked to adopt Western systems of government and economic management. This was no simple matter. Industrialisation and economic organisation under Communism did not evolve organically. Industrial development was an artificial construct directed by bureaucrats, which was piecemeal in nature and poorly integrated with the local economy, never mind with global markets. Much of the labour and capital engaged in these uncompetitive endeavours needed to be redeployed.

Such transitions entailed considerable confusion, economic turmoil and social upheaval. There was a high risk that the process would derail in any given country. For investors, this is no bad thing. High uncertainty, combined with the potential for rapid growth, often leads to an abundance of attractive investment opportunities. However, in Eastern Europe, two factors made such opportunities scarce.

Western European investors and companies saw these newly opened-up economies as their backyard. They were familiar with the region, closely tracked the transition processes and scoured them for opportunities. Instances of true neglect, the likes of which we found in South-East Asia following the 1997-98 Asian Financial Crisis or periodically in India, Korea and China, were rare and short-lived. There was tremendous political will to achieve a successful transition on the part of both Western European governments and the ordinary citizens of Eastern Europe. Investors never really lost sight of this and the mood of long-term optimism was rarely shaken.

The other complication was that as a successful transition began looking increasingly likely, domestic economic actors became ever more optimistic. Consumers began to extrapolate their income growth, expecting their incomes to soon converge with those of Western Europeans. Household spending began to increasingly reflect this aspirational level of income, rather than actual earnings. Households were borrowing to live beyond their means with Western European banks only too happy to provide the funds. These imbalances would ultimately result in significant indebtedness and an erosion of competitiveness, similar to what we observed in Asia in the lead-up to the 1997-98 crisis.

What changed post-2008?

In Eastern Europe, these vulnerabilities were laid bare by the 2008-09 Global Financial Crisis and the 2012-13 European Sovereign Debt Crisis. These episodes severely restricted credit availability, forcing households to adjust spending to match their income. Businesses had to adjust to lower levels of activity by cutting staff, cutting hours and cutting wages. The public sector also had to resort to pay and pension cuts. Competitiveness was restored and imbalances righted the old-fashioned way, via the market mechanism. The imbalances were large and hence the recessions were typically severe.

Hungary is one of the more extreme cases. Hungarian domestic demand contracted by 9% in 2009 while Gross Domestic Product (GDP) contracted by 7.5%. Unemployment reached 11%. Property prices fell 25%. The current account deficit fell from 7% to 1% of GDP in 2009 alone.

Allowing markets to adjust is painful but undeniably effective. Admittedly, Hungary is an extreme example, but it is illustrative of what happened in the region more broadly. Today, Hungary is a fiercely competitive economy, as evidenced by the following (recall that 2008 was the previous peak year for economic performance):

1. Hungary's current account swung from a 7% of GDP deficit in 2008 to a surplus of 6% of GDP in 2017, driven by strength in exports.

2. Direct foreign investment rose from EUR 4 billion in 2008 to EUR 8 billion in 2017, indicative of the appetite among Western European businesses to relocate productive capacity to Hungary.
3. The proportion of working age people participating in the labour force improved from 54% in 2008 to 62% in 2017. Despite this 11% increase in labour supply, unemployment fell from 8% in 2008 to 4% in 2017. Amazingly, participation among 60-74 year-olds has tripled over this period and they now account for nearly 10% of the workforce. This illustrates just how strong demand for Hungarian workers is in the global economy.

The other big change during 2008-13 was a dramatic reduction in indebtedness across the region. Again, using Hungary as an example, bank loans owed by Hungarian households and businesses were 20% lower in 2017 compared to 2008, yet nominal GDP had grown by 40% over this period. As a share of GDP, private sector indebtedness had just about halved between 2008 and 2017.

Being highly competitive with minimal indebtedness makes Eastern European economies very resilient to economic shocks. Yet, perversely, investor interest in the region has greatly reduced. Before 2008, investors tended to see the region as emerging markets in terms of growth, but as developed markets when it came to risk. The 2008-13 experience unveiled the flaw in this thinking and cured many of their exuberance. At the same time, rising support for populist politicians, push-back against perceived European Union (EU) encroachment, and some steps to undermine the rule of law, freedom of the press and civil institutions have caused scepticism to replace long-term optimism.

Meanwhile, the long-term structural appeal of these emerging economies has not diminished. Like most emerging markets, Eastern Europe offers relatively cheap labour and an abundance of unexploited opportunities to deploy capital. Moreover, they are endowed with other favourable structural characteristics that most emerging markets lack:

- The population is highly educated, allowing them to compete in high valued-added sectors.
- The European Union Structural and Investment Funds provide an unwavering stream of capital to pay for infrastructure and other development projects.
- As EU members or as participants in the accession process, these countries must respect EU principles, treaties and laws. They must also submit to external oversight by EU institutions, including the EU judicial system. Essentially they are 'importing' strong, independent institutions which uphold the rule of law, rather than having to develop their own.

The last point is particularly important. The primary reason that most emerging markets fail to 'emerge' is that their political, judicial and civic institutions are too weak to prevent elites in business and government from subverting the rule of law in pursuit of personal interests.

So what has changed about Eastern Europe since 2008? Firstly, our concerns around the erosion in competitiveness and rising indebtedness have been comprehensively addressed. Secondly, investor optimism has been replaced with scepticism even though the favourable structural characteristics of these markets remain very much intact. This has piqued our interest in the region.

With this backdrop in mind, we travelled to the region last month, visiting a broad range of companies and government institutions in Vienna, Bucharest, Warsaw and Budapest. Being relatively new to these markets, we adopted a cautious approach and focused on learning and discovery. In what follows, our aim is to give the reader a taste of the kinds of investment themes we were exploring on our trip and what the region has to offer.

Eastern European Consumers

We found abundant evidence that Eastern European households are in excellent financial shape.

Job security is very high and employment prospects are excellent. Unemployment is at record lows throughout the region. More importantly, demand for labour is underpinned by competitiveness in the global labour market, not a temporary overheating of the domestic economy.

Wages are rising 5-10% per year, depending on the country. Hungary is resorting to enticing 60-74 year-olds back into employment. Poland is keeping wage growth relatively low at 4-5%, but had to import 1.3 million Ukrainians on short-term visas to achieve this. Local firms are locked in a struggle to stop workers from migrating west. For example, the entire region is grappling with a drain of doctors and nurses as aging populations in Western Europe compete for their skills.

With minimal inflation and low taxes, this wage growth flows through to hip pockets. Most households also own their homes outright, having received title when Communism ended. This means most people's monthly expenses do not include any mortgage repayments, interest payments or rent. Without mortgages, most households have very little debt. Finally, many households have significant savings set aside. For example, 45% of property transactions in Hungary do not involve borrowing.

These consumers are confident, have significant under-utilised spending power, and are resilient to economic shocks. Higher interest rates are of little concern to households with little debt. As for a slowing economy, firms typically fire their least cost effective workers first, meaning that the highly competitive workers of Eastern Europe should be more insulated than most. Contrast these consumers to their counterparts in the United States, the United Kingdom and Australia who are tapped out and heavily indebted. Their circumstances could not be more different.

As households in this part of the world enjoy rising incomes and wealth, their demand for financial services, travel and consumer goods will grow. Markets for these goods and services in Eastern Europe remain small and fragmented, and carrying on business there entails significant operational risk. Many large global firms have bigger fish to fry, leaving these markets for local or regional providers.

Lufthansa is not rushing to connect Debrecen, in Eastern Hungary, to the world. ASOS is not going to build distribution centres that enable same-day delivery in the Balkans when it has Western Europe and the United States to fight over. This allows regional firms like low-cost airline, Wizz Air, and fashion-retailer, LPP, to tap these increasingly wealthy yet neglected consumers, largely unchallenged.

Oil Refineries

Eastern Europe's energy infrastructure was built during the Communist era and designed to process oil imported from Russia. The region has complex oil refineries designed to process the heavy, sour crudes from the Ural and Volga regions. These refineries have considerable flexibility over the feedstock they can process and the mix of outputs they produce.

Such flexibility would be irrelevant if all feedstock types are readily available and demand growth is similar for all outputs. But this is not the case. Demand for mid-distillates (diesel, kerosene) is growing more rapidly than demand for light fractions (gasoline) and heavy products. Complex refineries have greater capacity to increase their mid-distillate yield than simple refineries. Eastern European refiners also have pipeline access to Russian heavy crude which is well suited to producing mid-distillate yields, but can process a range of different crudes if price disparities develop. This will prove advantageous if supply growth continues to be dominated by light crude (US shale), condensate and natural gas liquids.

The other interesting attribute of Eastern European refiners is that they have extensive distribution networks in the region. This is something of a barrier to competition from seaborne imports, with the hinterland being landlocked.

As incomes grow, people will drive more, fly more and buy more goods that need to be trucked around. They will also consume more plastics. These local refiners have a decent lock on these markets, tremendous flexibility in terms of inputs and outputs as well as the capacity to direct less valuable light products to petrochemical manufacturing.

Hydroelectric Power Generators

The Danube River flows through many countries in the region and is an important source of hydroelectric power. Hydroelectric power plants are capital intensive, requiring extensive civil works. However, once built, they produce power from a free input – water. The design life of the turbines is typically 40 years, but with proper maintenance they can last 90 years (and counting). These are fantastic fixed cost assets that are tremendously profitable when power prices rise.

Eastern European electricity markets are connected to the Synchronous Grid of Continental Europe. Pricing is deregulated and domestic power is often priced off German wholesale prices. Power prices in Europe have appreciated markedly in recent years, driven by rising coal and gas prices, a big rebound in carbon prices, and slightly higher demand. Many countries in Europe are moving to phase out coal power plants, which will put pressure on gas prices and increase power price volatility as a source of inflexible production is removed.

Eastern Europe and Austria have some great hydroelectric power assets. There is also some potential for pumped storage to help manage the intermittency problem that will only grow as the share of renewables in the generation mix increases.

Summary

Eastern Europe has changed markedly since 2008. Investor sentiment has waned while the problems of high indebtedness and eroding competitiveness have been comprehensively addressed. At the same time, the favourable structural characteristics that differentiate these countries from most emerging markets remain in place. The region's prospects look quite promising though it is by no means without its challenges.

We spent a week travelling in Eastern Europe in November. This was our first trip to a region we had not followed closely in the past. We met a range of companies and found some interesting potential investments, particularly among businesses serving local consumers, such as banks, airlines and retailers as well as oil refiners and hydroelectric power producers. As we are relative newcomers, our approach is cautious and our positions will initially be small as we take time to build our understanding of this part of the world.

Platinum International Fund

Andrew Clifford
Portfolio Manager

Clay Smolinski
Portfolio Manager

Performance

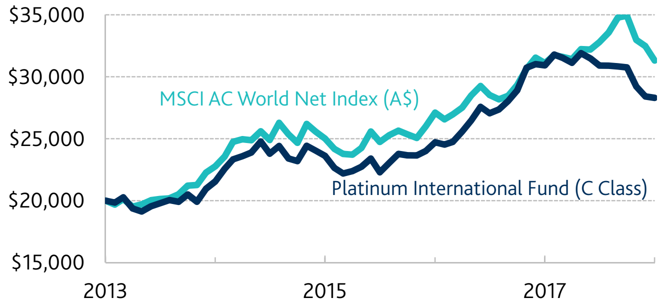
(compound pa, to 31 December 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund*	-8%	-8%	6%	7%	12%
MSCI AC World Index^	-10%	1%	8%	9%	6%

* C Class – standard fee option. Inception date: 30 April 1995.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country World Net Index in AUD.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.
See note 1, page 44. Numbers have been subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

31 December 2013 to 31 December 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
See notes 1 & 2, page 44.

The Fund (C Class) returned -8.5% over the last year, of which a loss of -8% was incurred during the final quarter. While our full year return was well below the global index, which returned +0.6%, the Fund was slightly ahead in the last quarter as the index fell -10.3%.[1]

Performance across markets was notably different in the final quarter of the year. During the first nine months of 2018, price weakness was concentrated primarily amongst companies that were directly exposed to the concerns surrounding China's economic slowdown, the US-China trade war, and rising US interest rates. In the last quarter, this stock price weakness spread to the high-growth software, e-commerce and biotech companies which had hitherto been holding up the broader market. These highly valued sectors led the US market lower, with the US finishing the quarter in line with or weaker than other major markets. Please refer to the Macro Overview for a more in-depth discussion of the factors driving markets.

As a result of the sell-off in tech stocks and the US market more broadly, our short positions made a significant positive contribution to performance this quarter. Of particular note was the 55% plunge in the share price of Nvidia (a US maker of graphic processing units or GPUs), one of the Fund's key short positions, which was closed out for a significant profit. Also making strong contributions were our short positions against the US NASDAQ and Russell 2000 indices as well as a Biotech ETF.

In the broad sell-off, few of our long stock positions made ground. Notable exceptions included China Overseas Land & Investment (Chinese real estate developer, +10%) and ICICI Bank (Indian bank, +18%).

The oil price fell 40% during the quarter as the US decided to effectively defer sanctions on purchases of Iranian oil. As OPEC producers had been increasing production to make up for the potential shortfall, and US onshore producers had also expanded their output in response to higher prices, the result was an unexpected deterioration in the supply-demand balance in the oil market. Not surprisingly, oil-related stocks were impacted and our holdings in TechnipFMC (oil project service provider, -37%), Transocean (drilling service contractor, -50%), and Seven Generations (Canadian oil and

1 Global market index referring to MSCI All Country World Next Index (A$).

gas producer, -8%) were key detractors from performance over the quarter.

In last quarter's report, we noted that "clearly, for the present, we are well and truly out of step with the market in terms of where we believe the attractive investments are in the current environment." While most of the portfolio's positions experienced further price declines this quarter, the significant change is that the expensive stocks and markets that we have been avoiding – or indeed shorting – are now starting to decline at least at similar rates. While the net result is far from satisfactory, the shift does suggest that investors are starting to recognise the differentials in value between the companies in our portfolio and the broader market averages.

Portfolio Review and Commentary

Over the quarter, our cash levels increased from 15.8% to 19.5%, while short positions decreased from 15.4% to 11.2%. The resulting net invested position of the portfolio remained relatively unchanged – at a very conservative 69.3%, compared with 68.8% as at 30 September.

While one might expect cash to have been put to work with such widespread falls, the increase in cash at quarter-end is merely the net result of ongoing sales and purchases. Underlying this net increase in cash have been ongoing efforts to reposition the portfolio towards more attractively-valued stocks that have emerged as a result of the broad-based sell-off.

Amongst the positions that have been sold or significantly reduced are companies which, while still representing reasonable value, have become less attractive relative to the other opportunities as a result of their "comparatively" good recent performance. Stocks sold from the portfolio include **Murata Manufacturing** (Japan, electronic components), **AstraZeneca** (UK, pharmaceuticals) and **TSMC** (Taiwan, semiconductor foundry). Reduced holdings include **Asahi Group** (Japan, brewery), **Kasikornbank** (Thailand, bank) and **Ping An Insurance** (China, insurance and banking).

General Electric (GE) was added to the portfolio during the quarter. The company has had an extraordinary fall from grace over the last two decades, as a result of poor management and some disastrous acquisitions. Today, it finds itself in a financially compromised position with an over-leveraged balance sheet. However, GE has two core business units that are of very high quality and are growing: aerospace and healthcare. It also has good operations in power generation, oil services, and a range of other businesses, though which currently tend to be cyclically depressed with some also dealing with other issues. The company has experienced significant changes at the board level and has a new CEO in Lawrence Culp, who previously ran the highly

Disposition of Assets

REGION	31 DEC 2018	30 SEP 2018	31 DEC 2017
Asia	34%	34%	39%
Europe	19%	20%	22%
North America	18%	18%	16%
Japan	9%	11%	14%
Australia	<1%	<1%	<1%
South America	<1%	<1%	<1%
Russia	<1%	<1%	1%
Cash	20%	16%	7%
Shorts	-11%	-15%	-12%

See note 3, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Sector Exposures ^

SECTOR	31 DEC 2018	30 SEP 2018	31 DEC 2017
Financials	15%	15%	16%
Communication Services	14%	14%	11%
Industrials	11%	10%	10%
Materials	10%	10%	9%
Information Technology	7%	7%	9%
Energy	6%	7%	11%
Consumer Discretionary	4%	5%	12%
Health Care	4%	5%	7%
Real Estate	2%	2%	2%
Consumer Staples	<1%	2%	<1%
Utilities	<1%	<1%	2%
Other*	-3%	-9%	-7%
TOTAL NET EXPOSURE	69%	69%	82%

^ A major GICS reclassification was implemented during the quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.
* Includes index short positions.
See note 4, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	IT	2.8%
Ping An Insurance Group	China	Financials	2.7%
Alphabet Inc	USA	Comm Services	2.6%
Glencore PLC	Switzerland	Materials	2.6%
China Overseas Land & Invt	China	Real Estate	2.4%
Sanofi SA	France	Health Care	2.3%
Roche Holding AG	Switzerland	Health Care	2.1%
Siemens AG	Germany	Industrials	2.0%
Facebook Inc	USA	Comm Services	2.0%
PICC Property & Casualty	China	Financials	1.8%

As at 31 December 2018. See note 6, page 44.
Source: Platinum Investment Management Limited.

successful Danaher Corporation as its CEO and President from 2001 to 2014. GE's stock price has collapsed, now down nearly 80% from its highs in 2016, in the face of concerns that the company may need to raise significant equity to bolster its balance sheet. Even if this is the case, we think GE's current price represents a good entry point and have taken an initial position. One should note that, however, given the magnitude of the issues GE faces in some of its business divisions, we expect the resolution of the company's problems to take some time.

Other new holdings for the portfolio include **Sumco**, a Japanese producer of silicon wafers used in the production of semiconductors. The industry has survived a long period of oversupply of wafers and, in recent years, seen improved pricing and profitability. However, the slowdown in global mobile phone sales has created valid concerns around near-term profitability, which have resulted in a sharp stock price fall. Longer term, we are of the view that prospects for this industry remain bright as semiconductor volumes will continue to grow, improving the demand for wafers, which should in turn lead to better pricing power for wafer producers. Also added to the portfolio was **Scout24**, a German online real estate and auto marketplace, which has been a long-term holding of the Platinum European Fund. In addition to these new positions, the Fund has also added to existing positions where stock prices have fallen to very attractive levels. These included **Intesa Sanpaolo** (Italy, banking) and **Raiffeisen Bank** (Eastern Europe, banking), **Tencent** (China, internet), and **Nitto Denko** (Japan, electronic components).

Net Currency Exposures

CURRENCY	31 DEC 2018	30 SEP 2018	31 DEC 2017
US dollar (USD)	41%	30%	22%
Japanese yen (JPY)	17%	10%	10%
Hong Kong dollar (HKD)	13%	12%	14%
Euro (EUR)	12%	12%	14%
Chinese yuan (CNY)	6%	8%	7%
Indian rupee (INR)	6%	5%	6%
Korean won (KRW)	5%	6%	8%
British pound (GBP)	4%	5%	5%
Norwegian krone (NOK)	3%	3%	5%
Canadian dollar (CAD)	3%	3%	1%
Swiss franc (CHF)	2%	2%	1%
Australian dollar (AUD)	2%	2%	3%
Chinese yuan offshore (CNH)	-16%	0%	0%

See note 5, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pif.

Currency

Changes were made to the Fund's currency positioning on two fronts. 16% of the Fund's exposure to the Chinese Yuan was hedged into US Dollars.[2] While we expect the People's Bank of China may take some steps to prevent the Yuan from falling against the US Dollar due to the trade negotiations, China's likely need for further monetary and fiscal policy easing to encourage economic activity will potentially place downward pressure on the exchange rate. The other key move was to add 7% to the Fund's exposure to the Japanese Yen, which has historically performed strongly in times of market uncertainty. The Fund continues to maintain a minimal exposure to the Australian Dollar.

Outlook

The Fund's net invested position remains conservative at 69.3%. As we stated last quarter, this low invested position is not quite an expression of any particularly bearish outlook on markets, but rather reflects the significant disparity in valuation between the popular stocks and markets, which we are short, and the out-of-favour stocks in which we are invested.

Indeed, the attractive valuations of our holdings entail a cautiously optimistic outlook regarding the Fund's prospective returns. At year-end, the long positions in our portfolio were trading on an average forward price-to-earnings (P/E) ratio of 10x, and a price-to-book (P/B) ratio of 1.4x. These compare favourably with market averages, particularly in light of both quantitative and qualitative indicators suggesting that our companies are both more profitable and growing faster than the average.

However, the shorter-term outlook is more problematic. How will global macroeconomic conditions develop in light of China's policy easing and interest rate moves in the US? Will China and the US come to an agreement on trade and, if so, when? As we have discussed in the Macro Overview, given the complexity and the uncertainty surrounding these issues, the timing of the unfolding of events is far from clear.

2 When we consider currency exposure to the companies we hold, we do not look to the currency in which the stock is priced or purchased, but rather the underlying economic exposure of the company's businesses. This is relevant where a company is listed on an exchange outside of its home market. For example, for a company doing business predominantly in China but is listed on an exchange in the US, we will consider the holding as a Chinese Yuan exposure, even if we buy and sell the stock in US Dollars. This is because, if the Chinese Yuan were to devalue by 5%, all else being equal, we would expect the US Dollar price of the stock to reflect this by falling 5%.

Platinum Unhedged Fund

Clay Smolinski
Portfolio Manager

Performance

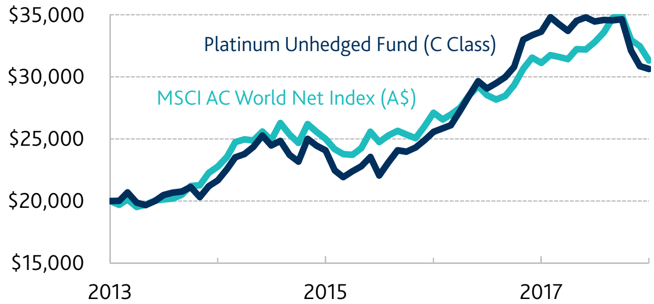
(compound pa, to 31 December 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund*	-12%	-9%	8%	9%	11%
MSCI AC World Index^	-10%	1%	8%	9%	7%

* C Class – standard fee option. Inception date: 28 January 2005.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country World Net Index in AUD.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.
See note 1, page 44. Numbers have been subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

31 December 2013 to 31 December 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
See notes 1 & 2, page 44.

2018 saw another year of wide divergence in performance between the US market and its international counterparts. The US index finished the year down 6%, while other major markets like China (-25%), Korea (-19%), Japan (-18%) and Europe (-13%) experienced much steeper declines.[1] If one also takes into account the fact that the US dollar has appreciated between 5-10% against the other major currencies, the performance gap is larger still.

This backdrop did not help the Fund's performance, given that around 75% of the portfolio's investments are outside of the US. Over the calendar year, the Fund (C Class) has fallen 9%, with the majority of the fall being felt in the last six months.

As with our last two quarterly reports, in this report we will again reflect on the key factors that have led to this outcome and examine the portfolio's positioning against the current market environment.

Energy

Of the 9% fall in the Fund's value, around 30% is attributable to our energy holdings.

The swift 36% fall in the oil price since October has adversely impacted all of our oil exposed businesses, but the worst affected were our offshore oil service companies like TechnipFMC, which saw sharp declines in their stock prices.

One of the portfolio's investment themes since 2015 has centred around the recovering oil price, and our strategy included owning a mix of oil producers and oil service companies. In the early stage of the recovery, our holdings were skewed to oil producers who would be the first to benefit from higher oil prices, while more recently our positioning has shifted more towards oil service providers. The oil service industry has been very depressed, with industry capex having been cut 50% from the previous peak, but we expect these companies to benefit from higher levels of investment going forward as oil producers need to replace their depleted oil reserves.

1 Referencing the S&P 500 Index for the US market, the CSI 300 Index for the Chinese market, the KOSPI 200 Index for the Korean market, the TOPIX 1000 Index for the Japanese market, and the Stoxx Europe 600 Index for the European market, each in local currency terms.

With the oil price having now fallen back to US$47 and the industry again in oversupply, a rebound in oil industry capex may feel like a very distant prospect. Why, then, do we remain confident that the rebound will come? The key is the decline rate.

Globally, the world produces and consumes around 100 million barrels of oil per day. This output of 100 million barrels has a natural decline rate of 4-5% per year, driven by the fact that mature fields deplete over time. Global oil demand over the past six years has grown by approximately 1 million barrels per day. The demand growth and the natural decline rate, together, mean that the oil industry, at a minimum, needs to develop new production capacity of 5 million barrels per day to not fall into deficit.

Over the past four years, the vast majority of the 5 million replacement barrels have come from legacy projects coming online (Canadian oil sands, Brazil subsalt, US Gulf of Mexico) that had been commissioned prior to the oil downturn. Over this period, US shale oil output has also grown, but it is worth remembering that annual shale output has never grown by more than 1.1 million barrels per day. Moreover, given the economics of the shale operators as well as the geological constraints, it's difficult to see shale output grow by more than 1.5 million barrels per day without the inducement of oil being priced well above US$60.

With the pipeline of legacy projects soon coming to an end, and shale only able to incrementally add 1 – 1.5 million barrels of oil per day, the question is where the other 4 million replacement barrels will come from.

We think a large amount needs to come from offshore oil developments, and indeed 60% of non-OPEC reserves sits in offshore basins. Like the shale industry, offshore oil service providers like TechnipFMC have re-engineered their technology to lower the cost of offshore developments, to the point where a large number of offshore projects are now able to generate a 10% return on investment at an oil price level of US$50-60 per barrel – economics that are equal or superior to shale.

So while our holdings in offshore oil service companies have recently hurt returns, we remain optimistic about their medium- to long-term prospects. The current level of industry capex is unsustainable and should rise. With our holdings being on price-to-earnings (P/E) multiples as low as 4-7x in a modest recovery scenario (not going back to past peaks), we expect these investments to provide us with good returns in the long run.

Financials

Our financials holdings were the source of another 30% of the fall in the Fund's value over the year, costing the Fund -3% in total performance. The major contributors to this fall were Raiffeisen Bank, KB Financial and Suruga Bank.

The issues and challenges faced by these banks are very different, and so are our re-assessments of their prospects. We added to our holdings in Raiffeisen and KB, whilst Suruga has been a mistake and we have exited the position.

First, on Suruga. When investing in banks, our approach tends to favour buying in the middle of a credit downturn when share prices and earnings are suppressed and bad debt problems are well known. As long as the bank generates enough pre-provision profits (and has enough capital) to handle the losses, this can be a fantastic time to invest, and our successful investments in a number of Italian, Indian and Eastern European banks all fit this mould.

Suruga Bank is a non-standard consumer lender in Japan, lending to niche customer groups such as foreign residents and employees of small and medium enterprises (SMEs) that the major banks tend to ignore. We became interested in the bank after its share price had fallen 60% due to losses from loans it had made to build 'shared houses'.[2]

While we were correct in our assessment that the bank was able to handle the losses without needing to raise capital, a subsequent investigation of its lending practices revealed that Suruga had aggressively moved into far riskier lending company-wide and management had been misrepresenting the true nature of its loan book. This completely changed our view on what the bank could earn in the future and we exited at a loss.

The situation is completely different with Raiffeisen Bank and KB Financial, which we discussed in our September 2018 quarterly report. These are two of our largest holdings in the banking sector. Both are doing well operationally, but have seen their share prices fall roughly 30% from their respective highs. The concerns around each bank relate to issues outside of their control, namely, government interference and regional economic slowdown (refer to the September 2018 issue for more detail).

If we look past these fears and focus instead on the fundamentals of their businesses, we believe that Raiffeisen and KB still represent attractive investments. Both banks are very well capitalised, solidly profitable and can grow in the long-term. The fact that Raiffeisen and KB are both trading below 6x P/E makes them outstanding value in our view, and we have added to both positions.

2 A shared-home is similar to a dormitory where occupants each rent a single room but have shared kitchen, bathroom and living facilities. Shared houses are popular in Japan with students and migrant workers.

China

Finally, any examination of the Fund's performance must include China, given that it was the Fund's largest geographical exposure (representing 28% of the portfolio) and the worst performing major market in 2018. Despite the Chinese market falling 25%,[3] the Fund's China holdings in aggregate fell only by 3% over the last 12 months, an encouraging sign of the strengths of the individual companies we own.

3 CSI 300 Index (local currency).

Over the last year, we have made money in our holdings that are exposed to the environmental remediation and clean energy theme, namely, natural gas pipelines ENN Energy (+25%) and China Resources Gas (+25%). Also our deep value holdings, such as China Overseas Land & Investment (+7%), which were purchased on a P/E of 6-7x, have protected capital well. Offsetting these gains were falls in our more growth-oriented internet advertising holdings, such as Baidu and 58.com which were down 32% and 24% respectively.

So, despite the great volatility in the broader market, our Chinese positions overall have not been a major source of loss for the Fund.

Disposition of Assets

REGION	31 DEC 2018	30 SEP 2018	31 DEC 2017
Asia	35%	36%	42%
North America	27%	27%	20%
Europe	17%	18%	19%
Japan	3%	5%	9%
Russia	1%	1%	<1%
South America	<1%	<1%	1%
Cash	17%	13%	9%

See note 3, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Sector Exposures ^

SECTOR	31 DEC 2018	30 SEP 2018	31 DEC 2017
Financials	18%	17%	22%
Industrials	17%	17%	18%
Communication Services	12%	12%	7%
Energy	9%	12%	10%
Information Technology	8%	8%	9%
Consumer Staples	6%	7%	7%
Health Care	4%	3%	2%
Materials	3%	3%	4%
Consumer Discretionary	3%	3%	6%
Real Estate	2%	2%	2%
Utilities	<1%	1%	4%
TOTAL NET EXPOSURE	83%	87%	91%

^ A major GICS reclassification was implemented during the quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.
See note 4, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/puf.

Net Currency Exposures

CURRENCY	31 DEC 2018	30 SEP 2018	31 DEC 2017
US dollar (USD)	34%	34%	25%
Euro (EUR)	14%	14%	15%
Hong Kong dollar (HKD)	13%	17%	16%
Japanese yen (JPY)	12%	7%	9%
Chinese yuan (CNY)	6%	7%	8%
Indian rupee (INR)	5%	5%	8%
Korean won (KRW)	4%	4%	5%
Norwegian krone (NOK)	3%	3%	3%
British pound (GBP)	3%	3%	4%
Canadian dollar (CAD)	2%	3%	0%
Australian dollar (AUD)	2%	2%	5%
Danish krone (DKK)	1%	1%	1%

See note 5, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Raiffeisen Bank	Austria	Financials	3.6%
Applus Services	Spain	Industrials	3.0%
Jiangsu Yanghe Brewery	China	Consumer Staples	3.0%
IHS Markit Ltd	USA	Industrials	2.9%
Kweichow Moutai	China	Consumer Staples	2.9%
Alphabet Inc	USA	Comm Services	2.8%
PICC Property & Casualty	China	Financials	2.8%
KB Financial Group	Korea	Financials	2.8%
Sanofi SA	France	Health Care	2.7%
Seven Generations Energy	Canada	Energy	2.4%

As at 31 December 2018. See note 6, page 44.
Source: Platinum Investment Management Limited.

Changes to the Portfolio and Outlook

With multiple global markets in decline, investors are understandably asking 'are we slipping into a global recession?' and 'how much further can markets fall?'.

While we devote considerable time attempting to understand where we are in the economic and market cycle, the problem with these questions is that they can never be answered with certainty.

However, there are some meaningful observations we can make, with certainty, today:

- Many major markets have fallen by 20% or more from their highs in early 2018. China is down 30%. Korea and Japan are down 20%.
- Investor sentiment is negative.
- Most importantly, a whole range of stocks have now fallen by 30-50% and are trading on single digit P/E multiples. These stocks have already priced in a recession happening now.

Falling prices, low valuations and a more cautious sentiment are all indications that **risk has reduced and the prospect for better returns has increased.** These factors indicate one should be adding to stocks, and that's what we have been doing. Over the quarter, we have initiated new positions in **General Electric** and **Bharti Airtel**, and added to our existing holdings in **Seven Generations**, **Skyworks**, **Microchip**, **Weibo**, **Intesa Sanpaolo** and several more.

While the outlook has improved and we have been adding to stocks, this does not mean we believe markets are about to take a V-shaped recovery. From a pure timing perspective, history shows that after markets experience circa 20% declines, they tend to remain volatile for some time. Basically, investor confidence has been shaken and it will take time to rebuild. The Fund has a reasonable cash balance, and we will be looking to use that cash to increase our investments over the coming months.

Platinum Asia Fund

Joseph Lai
Portfolio Manager

Performance

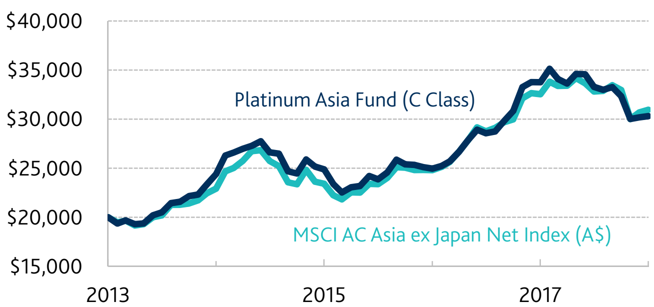
(compound pa, to 31 December 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund*	-6%	-10%	7%	9%	14%
MSCI AC Asia ex Jp Index^	-6%	-5%	10%	9%	10%

* C Class – standard fee option. Inception date: 4 March 2003.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country Asia ex Japan Net Index in AUD. Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.
See note 1, page 44. Numbers have been subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

31 December 2013 to 31 December 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
See notes 1 & 2, page 44.

With a growing number of indicators pointing to a global economic slowdown and further US interest rate rises potentially on the horizon, this quarter was a difficult one for global markets with most major indices down significantly. Although generating a negative return in absolute terms, the Asia ex-Japan market outperformed the global index by 4% over the quarter,[1] suggesting that the Asian market may be close to bottoming, given the steep declines already experienced in the last 12 months.

In this difficult market environment, stocks that contributed positively to the Fund's performance this quarter largely consisted of sectors and companies with specific contrarian stories. One such example is Chinese real estate, a sector that had been out of favour with investors for some time but which performed particularly well this quarter, with China Overseas Land & Investment up 10% and Longfor Properties up 16%. Another area with positive return was Indian infrastructure, which benefited from the improved liquidity conditions in India's corporate bond market following additional cash injections by the Reserve Bank of India and a decline in oil prices. Adani Ports rose 18%, and IRB Infrastructure Developers was up 20%.

Cyclical companies and large cap stocks suffered as concerns of a global slowdown mounted. Samsung Electronics, Kasikornbank, Naver and Taiwan Semiconductor (TSMC) were key detractors.

Changes to the Portfolio

The Fund has a net invested position of around 70% as at the end of December, with a minimal exposure to the Australian Dollar. The prolonged market weakness has given us an opportunity to acquire some strong, growing businesses in the Asian region, some of which had previously been too expensive. As stock prices change, so does our opportunity set. We have and will continue to respond to market movements to optimise the portfolio.

We remain cognisant of the conditions in the world's major developed economies, particularly the US, which appear to have peaked in terms of growth and companies have started

1 The MSCI All Country Asia ex-Japan Net Index returned -8.9%, versus -12.5% by the MSCI All Country World Net Index (in local currency terms).

to downgrade their earnings estimates. However, while some developed market stocks have fallen, many continue to trade at elevated valuations, suggesting that further adjustments in stock prices may be yet to come. In contrast, the Asian ex-Japan markets have already seen extensive earnings downgrade and stock prices have adjusted significantly in response. The risk for us is that market volatility in developed economies may, in the near-term, continue to negatively impact the Asian markets and hence the Fund. We are therefore maintaining a conservative net exposure.

What we aim to do is to deploy cash into quality prospective businesses as the opportunity arises. This quarter, we made a number of new additions to the portfolio, including:

- **Hong Kong Exchanges & Clearing Ltd** – The operator of the Hong Kong Stock Exchange and the Hong Kong Futures Exchange has seen its share price suffer over the last year in a bear market. However, in our view, the company continues to have a distinct structural growth trajectory as an important conduit for China's capital markets. As China gradually opens up its financial markets (equities, bonds, commodities, currency) to foreign investors, the stock and futures exchanges of Hong Kong should see their securities and derivatives trading volumes expand enormously over the long-term. The recent market turbulence gave us an opportunity to buy this monopoly business on its trough valuation.
- **Sany Heavy Industry** – This company is China's champion in construction equipment manufacturing and a leading example of Chinese companies successfully climbing the technology ladder. It specialises in making high-quality excavators, cranes and concrete machinery, and its value-for-money proposition has enabled it to gain significant domestic market share. As Chinese authorities once again turn to infrastructure projects as one of the stimulatory measures to counter slowing economic growth, we think Sany will benefit.

On the short side, the Fund initiated several positions in the biotech and related areas during the quarter. While the Asian stock markets overall have been characterised by widespread sell-offs and deteriorating sentiment over the last year, investors crowding towards certain seemingly 'safe' sectors amidst a downturn has driven some overvalued companies to ever more excessive valuations. Some of the companies added to our short book are yet to turn a profit and, in our view, lack any compelling competitive advantages to justify their extravagant prices.

Commentary

This time last year, most major economies were tightening their monetary policy and markets felt bullish. What followed, however, were declines in one stock market after another. Today, sentiment is at the opposite end to where it

Disposition of Assets

REGION	31 DEC 2018	30 SEP 2018	31 DEC 2017
China^	33%	41%	51%
Hong Kong	4%	4%	3%
Taiwan	0%	2%	2%
India	16%	11%	10%
Korea	11%	13%	12%
Thailand	4%	5%	4%
Philippines	3%	2%	3%
Vietnam	2%	1%	2%
Malaysia	<1%	1%	<1%
Singapore	0%	1%	1%
Indonesia	0%	<1%	<1%
Cash	26%	19%	11%
Shorts	-4%	-1%	0%

^ Inclusive of all mainland China-based companies, both those listed on exchanges within mainland China and those listed on exchanges outside of mainland China.

See note 3, page 44. Numbers have been subject to rounding adjustments.

Source: Platinum Investment Management Limited.

Net Sector Exposures ^

SECTOR	31 DEC 2018	30 SEP 2018	31 DEC 2017
Financials	21%	25%	21%
Communication Services	11%	13%	11%
Consumer Discretionary	9%	6%	14%
Industrials	8%	6%	8%
Energy	6%	10%	5%
Consumer Staples	5%	<0%	6%
Real Estate	4%	6%	6%
Information Technology	3%	6%	5%
Materials	2%	2%	6%
Other	2%	1%	1%
Utilities	1%	1%	2%
Health Care	-1%	4%	3%
TOTAL NET EXPOSURE	70%	80%	89%

^ A major GICS reclassification was implemented during the quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.

See note 4, page 44. Numbers have been subject to rounding adjustments.

Source: Platinum Investment Management Limited.

was a year ago – this quarter saw developed markets falling in the footsteps of emerging markets, and investors are generally bearish across global equity markets. There are, however, some signs suggesting that the Fed may slow its pace of interest rate hikes, and some countries, such as China, have started implementing stimulatory policy (albeit with moderate intensity). Against this backdrop, how should one position one's portfolio?

Let's first recap on how 2018 unfolded. At the beginning of the year China was booming, which gave the authorities an opportunity to tackle a difficult reform agenda – to clean up the shadow banking system. This led to a tightening in credit availability, some loan defaults, and a moderate slowdown in economic activity. Then, the US Federal Reserve lifted interest rates, which is generally seen as a negative for equity markets. Finally, we had the US-China trade war which escalated throughout the year.

Markets tumbled and investors lost confidence. The Chinese A-market fell 25% in 12 months or 45% from its peak in late January 2018. Things felt pretty bad.

Looking ahead, what is important to note is that Chinese authorities have realised that they had inadvertently over-tightened credit conditions and are now actively putting in loosening measures.

- The People's Bank of China (PBoC), China's central bank, cut banks' reserve requirement ratios four times in 2018 (and again in January 2019), to free up liquidity in the banking system. By October, the 1-month Shanghai Interbank Offered Rate (SHIBOR) had dropped to 2.7% from 4.7 % at the start of the year.
- The PBoC has also taken steps to encourage lending to private enterprises, including setting numerical targets as well as accepting additional debt to small and medium businesses as collateral when funding commercial banks.
- With greater funding being secured for approved projects, infrastructure spending has once again returned to positive growth after falling to negative territory in August.
- The Chinese government is also seeking to boost growth by lowering the tax burden for businesses and households. Income tax cuts and reduction in value-added tax (VAT, similar to GST) have been announced, which are estimated to exceed 1% of GDP.
- Government policy on the property market is also beginning to ease. Some regional government measures were so tight that families were only allowed to purchase one apartment, which must be owner-occupied and were prohibited from re-sale within three years. We are now beginning to see some municipal governments gradually loosening these restrictions.

Net Currency Exposures

CURRENCY	31 DEC 2018	30 SEP 2018	31 DEC 2017
US dollar (USD)	41%	17%	12%
Hong Kong dollar (HKD)	27%	27%	38%
Indian rupee (INR)	17%	15%	11%
Chinese yuan (CNY)	15%	15%	14%
Korean won (KRW)	10%	13%	12%
Thai baht (THB)	4%	5%	5%
Philippine piso (PHP)	3%	2%	3%
Vietnamese dong (VND)	2%	1%	2%
Australian dollar (AUD)	1%	2%	1%
Malaysian ringgit (MYR)	<1%	<1%	<1%
Taiwan new dollar (TWD)	0%	2%	2%
Chinese yuan offshore (CNH)	-20%	0%	0%

See note 5, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	IT	3.7%
Tencent Holdings	China	Communication Services	3.1%
Kasikornbank PCL	Thailand	Financials	3.0%
Axis Bank Ltd	India	Financials	2.7%
Ayala Land Inc	Philippines	Real Estate	2.4%
Alibaba Group	China	Consumer Discretionary	2.4%
Naver Corporation	Korea	Communication Services	2.1%
Reliance Industries	India	Energy	2.0%
AIA Group	Hong Kong	Financials	2.0%
Anta Sports Products	China	Consumer Discretionary	2.0%

As at 31 December 2018. See note 6, page 44.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/paf.

Chinese authorities have been very clear that their intention is to reverse the over-tightening caused by the credit reform efforts, not to massively stimulate growth, and that it would avoid piling on huge amounts of debt in the process.

The policy easing will likely have a stabilising effect on China's domestic economy. While it is early days to assess the impact, we have seen some anecdotal evidence of improving activity, such as a pick-up in construction machinery sales and utilisation rate towards the end of the year. What's more, the Chinese economy is still growing in excess of 6% in real terms despite the recent slowdown. Its banking system has cleaned up much of the off-balance sheet speculative lending and should be more resilient as a result. China's debt-to-GDP ratio has stopped growing for almost two years!

The long-term fundamental drivers propelling the region's growth remain present – investment in education and technology, and entrepreneurs exploiting new business opportunities.

With respect to trade, China has been proactive in its efforts to resolve the stand-off with the US, including by making concessions to meet US demands. It is actively encouraging foreign companies to invest in China without forming joint ventures with local partners, a former requirement that has been criticised as a means for Chinese companies to access Western companies' valuable know-how. The bastions of Western industries old and new have embraced the change and announced multi-billion dollar projects in China, all to be wholly owned by the foreign parent. German chemical giant BASF plans to build a US$10 billion plant in Guangdong province, ExxonMobil a US$10 billion petrochemical plant, and Tesla has commenced construction of its US$5 billion Gigafactory 3 in Shanghai. In insurance, Allianz and AXA are each forming wholly owned subsidiaries in China, for the first time. BMW is in the process of buying out its Chinese joint venture partner. Given China's little-publicised but significant opening-up efforts so far, it should not come as a surprise that President Trump agreed to a 3-month truce in the tariff war.

Since early 2018, stock valuations in the region have fallen a long way. Industry champions and quality companies are now trading on highly attractive valuations. Our team is devoting considerable time studying and gaining a deeper understanding of these companies.

Kweichow Moutai is the undisputed champion amongst Chinese white spirit (*baijiu*) companies. Demand for its premium products is so high that they frequently sell out and consumers have a hard time getting their hands on them. No other domestic liquor brand comes close to Moutai in terms of prestige or exclusivity. The brand only has a low single digit market share, thus has a lot of room for growth. We have owned Kweichow Moutai in the past and made handsome gains for the Fund in 2017, selling after its share price had had an impressive run. The stock is now trading on 16 times price-to-earnings (P/E) while seeing 20% growth in sales volume. We took this opportunity to re-introduce a position in the portfolio.

Anta Sports is one of China's most recognised domestic brands in sports apparel. Catching on the growing trend in fitness and leisure, the locals are taking up sports from soccer to running to skiing. Anta produces high quality products which are sold at more affordable prices than Western brands like Nike and Adidas. The company has well-executed marketing strategies, such as sponsoring various domestic sporting teams, including the Chinese National Olympic team. Anta is looking ahead. It is in the process of acquiring Finnish company Amer Sports, which owns brands such as Salomon, Peak Performance, Atomic Skis, Arc'teryx and Wilson. Amer's authentic brands and high performance products will appeal to China's increasingly sophisticated middle-class consumers, and it will also equip Anta with deeper operating know-how to compete in the sports apparel and equipment space. The company is seeing healthy growth and the stock is trading on 17x P/E. We added to our position during the recent sell-off.

Outlook

Some of the key concerns troubling the Asian markets are starting to ease. As most Asian countries rely on energy imports, a lower oil price is generally a positive for the region. Since there are now concerns of an economic slowdown facing both the US and China, the incentives to reach a trade deal have arguably increased for both sides. Finally, with growth slowing, we may see a pause in US interest rate hikes.

In spite of a turbulent 2018, we remain optimistic about Asia's long-term prospects. When the dust settles, China, or for that matter, Asia, is expected to continue to grow at a faster pace than most other economies. India offers many opportunities as its banking system has cleaned up and is ready to reboot. Korea still has strong industry champions like Samsung Electronics, which remains a key holding in the Fund and is on 6x P/E. Vietnam is attracting significant foreign investment, growing its exports at around 20% a year, and seeing its GDP grow at 6.8% a year. The Vietnamese stock market has sold off in the last nine months along with other emerging markets, throwing up a multitude of opportunities. There are companies with earnings growth of 20% and trading on single digit P/Es.

We have raised cash for the Fund, and will continue to deploy capital into quality companies with resilient characteristics.

Platinum European Fund

Nik Dvornak
Portfolio Manager

Performance

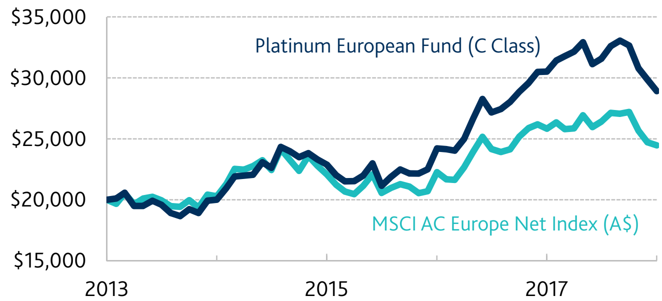
(compound pa, to 31 December 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund*	-11%	-5%	8%	8%	11%
MSCI AC Europe Index^	-10%	-5%	3%	4%	3%

* C Class – standard fee option. Inception date: 30 June 1998.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country Europe Net Index in AUD.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.
See note 1, page 44. Numbers have been subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

31 December 2013 to 31 December 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
See notes 1 & 2, page 44.

The Fund (C Class) lost 11.4% of its value over the past three months. Our holdings include a considerable number of companies that are sensitive to the economic cycle. As evidence of a global economic slowdown mounted, the stocks of such companies have suffered disproportionately in recent months.

To balance the cyclical exposure in our portfolio, we held a sizeable cash position. This helped to offset the underperformance of our cyclical stocks, but was insufficient to allow us to outperform a falling market. While we added to our short positions in early October, our moves were not bold enough, in hindsight.

The European economy continues to grow, but has slowed over the course of 2018. The causes of this slowdown have been visible for some time: rising interest rates in the US; a slowing Chinese economy; increasingly belligerent rhetoric on trade tariffs.

We think slower growth in China is the principal cause of the loss of momentum in Europe. However, tougher automotive emission standards, lack of progress on Brexit, Italy's budget stand-off, and concerns over the United States' trade policy also played a role.

The price of crude oil fell over 30% during the quarter. Demand growth is expected to be weaker as the global economy slows. At the same time, supply growth, driven by the prolific Permian Basin in the US, exceeded expectations.

Towards year-end, concerns grew that the US economy, too, was beginning to slow. This is to be expected. Growth was particularly strong in 2018 and the stimulus from recent tax cuts will inevitably wear off in 2019. These concerns amplified the selling pressure on cyclical stocks globally.

Our worst performing stocks were those exposed to weaker auto demand (Valeo -32%), lower oil prices (TechnipFMC -35%, TGS NOPEC -37%), and interest rates (Bank of Ireland -26%). Investors also lost appetite for struggling businesses (Pandora -34%).

Our best performing stocks were those with predictable businesses (Roche +2%) and those where the underlying business is performing particularly well (OTP Bank +9%).

Changes to the Portfolio

Equity markets have fallen considerably over the last three months with many stocks in our portfolio down more than 20% over this period. These businesses are sensitive to the economic cycle and we cannot rule out the possibility that the economy will slow further. What we can do, though, is reassess our investment thesis and the circumstances of each business, examining whether the company has the wherewithal to see it through a recession. Where this is the case, we may choose to add to our position, and have done so in many cases. Markets are skittish and investors are reluctant to buy these cyclical companies today, leaving them to trade on extremely low valuations.

Rather than being aggressive, we have added to those existing positions in a measured way. We continue to retain a significant amount of cash so that we can take advantage of further falls in stock prices, should these occur. Purchases were often funded by the sale of successful investments where the original thesis has largely played out. These include **Sartorius**, **Carnival** and **Provident Financial**. We have also sold all or part of our holdings in **OTP Bank**, **Erste Bank** and **Sberbank**, which have been especially resilient.

Disposition of Assets

REGION	31 DEC 2018	30 SEP 2018	31 DEC 2017
Germany	19%	21%	24%
Switzerland	11%	11%	9%
UK	9%	12%	12%
Norway	9%	10%	2%
Austria	8%	8%	9%
Spain	7%	7%	5%
France	4%	3%	4%
Romania	4%	2%	0%
Poland	3%	0%	0%
US*	3%	3%	2%
Italy	2%	3%	3%
Russia	2%	3%	5%
Ireland	2%	2%	0%
Denmark	2%	2%	3%
Hungary	1%	2%	2%
Netherlands	0%	0%	1%
Cash	13%	13%	19%
Shorts	-8%	-1%	-3%

* Stocks that are listed on US exchanges, but whose businesses are predominantly conducted in Europe.

See note 3, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pef.

Commentary & Outlook

For now, the European economy remains robust. Growth has slowed in the second half of 2018, but most leading indicators continue to point to expansion, albeit less convincingly so than a few months ago. The sharp retracement in both business and consumer confidence remains the most worrying sign, although both measures remain at elevated levels.

Europe has done much to address the erosion in competitiveness and rising indebtedness that it experienced in the lead-up to the Global Financial Crisis of 2008. Those countries with the highest imbalances and vulnerabilities have done the most to address them. This leaves the European economy better prepared to cope in an environment of higher interest rates and slower growth than many other parts of the world where indebtedness has continued to grow unabated.

In our view, the greatest risks remain political rather than economic.

Europe is vulnerable to rising trade tensions. To the extent that these tensions undermine global economic growth, Europe will suffer. European multinationals have benefited from the globalisation of supply chains which allowed them to harness the benefits of scale and low-cost labour. They stand to lose these benefits as trade barriers rise. Moreover, if the US and China reach an accommodation, this may only serve to focus US attention on Europe, which runs a larger trade surplus than China these days.

'Brexit' is back in the spotlight. We continue to expect the near-term economic impact to be the deferral of

Net Sector Exposures ^

SECTOR	31 DEC 2018	30 SEP 2018	31 DEC 2017
Industrials	21%	22%	17%
Financials	18%	20%	21%
Health Care	10%	10%	8%
Energy	8%	8%	6%
Communication Services	7%	7%	6%
Consumer Discretionary	7%	9%	11%
Materials	4%	7%	5%
Information Technology	4%	4%	4%
Other	2%	0%	0%
Consumer Staples	-1%	-1%	<1%
TOTAL NET EXPOSURE	79%	86%	79%

^ A major GICS reclassification was implemented during the quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.

See note 4, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

consumption and investment decisions in response to increased uncertainty. This has been a fact of life for over two years now and should be largely reflected in Britain's economic performance already. When withdrawal is formalised, disruptions are possible in the absence of an organised transition process. However, these should, in our view, be very short-lived as both Britain and the EU stand to lose. For all the talk, the European Union is ultimately a peace project and ostracising Britain is counter to its interest and core principles.

The more interesting debate revolves around Britain's long-term prospects outside the European Union. Britain will have more flexibility and autonomy in government outside the confines of treaty obligations. Its future prosperity will depend on how good a job its political leaders do at making the tough decisions and putting long-term interests above short-term popularity. While the current leadership class may not inspire much confidence, Britain has a centuries-long track record of success without guidance from Europe. It will pay to judge Britain's prospects on the merits of its policy choices, not its membership or otherwise of any economic or political bloc.

The Italian budget dispute temporarily revived fears of a breakdown of the Euro Area and the European Union. At issue was the desire of the governing populist coalition to increase spending, widening the budget deficit to 2.4% of GDP in the process. The economic logic of doing so was tenuous at best. Politically, the payoff would be asymmetric and highly favourable, so it was unsurprising that the Italians were pushing for it.

Brussels pushed back. The initial proposed deficit was not large and a number of Euro Area countries run larger ones. The problem was that Italy has much more debt than other Euro Area states (except Greece), so the starting point is worse. More importantly, Brussels was wary of setting a precedent that might cost them their credibility and encourage others (or indeed the Italians themselves) to keep pushing the envelope. However, compromise was always likely with Brussels acutely aware of the need to tread lightly amidst complaints from segments of the population who feel marginalised by globalisation and resentful towards unelected bureaucrats. This indeed appears to be the case with Italy's parliament passing in the eleventh hour a revised budget with a lower deficit of 2.0% of GDP.

While the economy is slowing and political risk is rising, stock prices have fallen significantly in recent months. As investors, we do not control future outcomes or even the decisions a company makes. The only thing we control is our decision to buy a stock at a given price, or not. The primary risk we take is that we overpay for the prospects of the company we buy.

Our intuition tells us that buying stocks when prices are falling all around us is very risky. But precisely the opposite is true. **As prices fall, it is risk that is evaporating all around us.** Buying shares today is far less risky than it was a few months ago, on average. Not many people can reconcile this logic with their intuition and that creates opportunities. What some of the Fund's most successful investments – Sartorius, Eurofins Scientific, MTU Aero Engines – have in common is that we bought them when markets were collapsing. The current sell-off has been mild by comparison, but the principle at work is very much the same.

We see plenty of opportunities in the market today and we have a significant cash balance to take advantage of them. This is precisely what we have been doing and will continue to do. The sound earnings prospects of the companies we are buying today, and the prices we are paying for them, give us confidence in their ability to generate good returns for the Fund over the long-term.

Net Currency Exposures

CURRENCY	31 DEC 2018	30 SEP 2018	31 DEC 2017
Euro (EUR)	36%	37%	35%
Czech koruna (CZK)	13%	11%	13%
Norwegian krone (NOK)	13%	14%	7%
British pound (GBP)	13%	13%	12%
Swiss franc (CHF)	11%	11%	5%
US dollar (USD)	5%	7%	12%
Polish złoty (PLN)	3%	0%	0%
Hungarian forint (HUF)	3%	2%	4%
Romanian leu (RON)	2%	2%	6%
Danish krone (DKK)	2%	2%	3%
Australian dollar (AUD)	<1%	<1%	3%

See note 5, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Raiffeisen Bank	Austria	Financials	4.5%
Schibsted ASA	Norway	Comm Services	4.2%
Roche Holding AG	Switzerland	Health Care	3.9%
Glencore PLC	Switzerland	Materials	3.8%
Siemens AG	Germany	Industrials	3.5%
Scout24 Holding	Germany	Comm Services	3.2%
RELX PLC	UK	Industrials	3.2%
TechnipFMC	UK	Energy	3.1%
Siemens Gamesa Renewable	Spain	Industrials	2.7%
IHS Markit	USA	Industrials	2.6%

As at 31 December 2018. See note 6, page 44.
Source: Platinum Investment Management Limited.

Platinum Japan Fund

Scott Gilchrist
Portfolio Manager

Performance

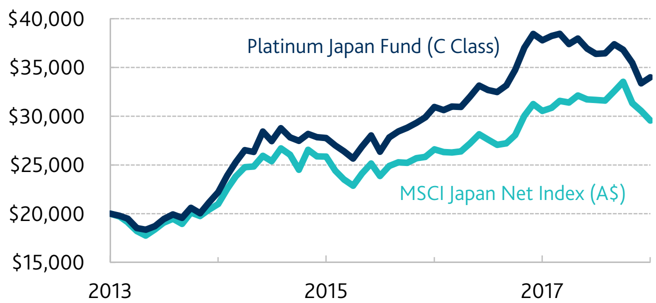
(compound pa, to 31 December 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund*	-8%	-10%	7%	11%	14%
MSCI Japan Index^	-12%	-3%	5%	8%	3%

* C Class – standard fee option. Inception date: 30 June 1998.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI Japan Net Index in AUD.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.
See note 1, page 44. Numbers have been subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

31 December 2013 to 31 December 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
See notes 1 & 2, page 44.

Portfolio performance for the last 12 months was negative as cyclical sectors and companies reliant on global economic growth were weak. The Yen was strong relative to most currencies, which offset the equity market falls to some extent. The weakest parts of the portfolio were companies with indirect exposure to Chinese growth and some stocks which had performed well over the last few years, often a combination of both. Valuation has not been good protection from market declines as many stocks of seemingly good value got cheaper. Towards the end of the year, cash holdings and short positions partly protected the portfolio against a quarterly index decline of more than 17% (in local currency).

Commentary

We view the following as the defining aspects of the Japanese stock market over the next five years:

1. The 30th anniversary of the 1989 stock market bubble is coming up. The multi-decade bear market that ensued the burst of the bubble has been one of the longest in modern financial market history.
2. Valuation dispersion across the Japanese stock market is at historical highs. Market participants have shunned any company exposed to cyclical growth or any type of uncertainty.
3. Absolute valuations for a wide range of high quality businesses are at or approaching the low end of their multi-decade trading range.
4. The external economic environment is still an important factor due to Japan's wide-ranging interactions with global trading partners, particularly Asia.

The latter attributes, particularly the absolute valuations and dependence on the external environment, also apply to Korea. This highlights the low valuations evident across North Asian stock markets.

The current portfolio positioning reflects the relative short-term importance of the last of the above four points. While the Japanese market remains very attractive from a medium-term perspective, the current backdrop is not encouraging, as discussed below. Cash holdings of 26% will be used to add to existing holdings or initiate new positions when very attractive opportunities become available. In the interim, a

16% short exposure is concentrated in three areas: 1) spuriously cheap cyclicals where growth is slowing and margins are under pressure, 2) expensive momentum stocks, and 3) expensive domestic companies experiencing margin pressure.

Implications of a Strong Yen

The Japanese Yen has strengthened in bursts over the last three years. It is currently at 108 Yen to the US Dollar, having bottomed around 125 in 2015. At today's exchange rate, it remains competitive globally.

As Japan is a large importer of energy and other basic materials, the domestic focus is to ensure that it remains a net exporter of complex manufactures and high-end materials for the long-term future of the nation. A co-ordinated approach to this end across all parts of the country has been successful despite significant headwinds, particularly the rise of China's manufacturing base. The current weakness in raw material prices, particularly oil, is an overall positive for Japanese and Korean consumers, but also contributes to strength in the Yen. The market's assessment appears to be that global shale oil production is a latent reservoir of significant size which, if correct, will be very positive for Japan's energy trade balance.

Last cycle, the Yen peaked at around 80 Yen to the Dollar in 2011 and 2012 before the advent of Abenomics changed the psychology. The ensuing period of windfall in Yen-denominated profits for owners of foreign assets induced a system-wide complacency and further capital outflows. The level of complacency is such that many foreign assets held by pension funds, insurance companies and the banking system are now unhedged and thus exposed to currency fluctuation. As the Yen strengthens and foreign asset values fall, the compounding effect on domestic balance sheets has led to a reversal of the outflows seen over the last five years, and this return of capital is further strengthening the currency.

Over the medium-term, there are two offsetting influences to Yen strength: potential further selling of Japanese equities by foreigners, and a fundamental desire by Japanese firms to augment their global footprints of investment portfolios and corporates. On the first topic, 40% of the Japanese share market is owned by foreigners and their trading makes up 60% of activity. Over the last few years, the market has worried about the trajectory of the Chinese economy. Rather than making any strong statements, the attitude seems to have been to avoid uncertainty and opaqueness. If this wariness continues, one of its possible expressions would be to sell shareholdings in companies listed in Japan, particularly those that are susceptible to China's slowdown.

As discussed above, there has been a desire by Japanese firms to shift assets overseas in search of higher returns. Through discussions with market participants over the last year, it is becoming clearer to us that the Japanese economy remains stuck in a classic liquidity trap, as exemplified by deposits rising faster than loans across the banking system. The system is becoming ever more liquid. The probability of large scale overseas investments and purchases by Japanese corporates and households is rising, especially as the currency strengthens.

Balancing the above four factors on the Japanese currency is difficult; at times it moves to extremes and presents attractive opportunities.

***Great Wave*, Hokusai, 1803.** Source: https://mag.japaaan.com/archives/62662

Disposition of Assets

REGION	31 DEC 2018	30 SEP 2018	31 DEC 2017
Japan	67%	74%	94%
Korea	7%	3%	2%
Cash	26%	23%	4%
Shorts	-16%	-10%	-2%

See note 3, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Sector Exposures ^

SECTOR	31 DEC 2018	30 SEP 2018	31 DEC 2017
Communication Services	17%	13%	16%
Information Technology	12%	6%	15%
Consumer Discretionary	10%	10%	14%
Industrials	7%	13%	17%
Energy	5%	5%	8%
Materials	5%	8%	12%
Health Care	3%	5%	4%
Financials	3%	9%	9%
Real Estate	<1%	1%	0%
Consumer Staples	-4%	-2%	-1%
TOTAL NET EXPOSURE	58%	67%	94%

^ A major GICS reclassification was implemented during the quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.
See note 4, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Currency Exposures

CURRENCY	31 DEC 2018	30 SEP 2018	31 DEC 2017
Japanese yen (JPY)	85%	94%	71%
US dollar (USD)	41%	12%	24%
Korean won (KRW)	-6%	3%	2%
Australian dollar (AUD)	-20%	-10%	3%

See note 5, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pjf.

Political and Macroeconomic Uncertainty

Recent global economic numbers have been weak. Considering Japan's strong currency in conjunction with the weak signals from across the Asian region, in particular China, it is not unreasonable to take a conservative view on Japanese asset prices. However, there are a wide range of further complications which make the outlook for asset prices uncertain. It's a long list of concerns that have been building over the last decade, but some are more important than others.

The global political environment is turning, as reflected in the protests in France, the protracted Brexit process, and ongoing hints of a presidential impeachment in the US. These are perhaps in part expressions of the underlying dislocations and tension resulting from the influence of China on the global manufacturing economy and its growing political influence across the world. The changing relationship between China and the US introduces a level of uncertainty, which is bad for asset prices generally.

While it has been unproductive and distracting over the last few decades to think about the historical context of events such as the Bretton Woods Agreement in 1944 and Nixon's closing of the gold window in 1971, the time for another significant adjustment to the global system seems to be coming closer as the stress in the system builds. It is unclear what and how changes would be made, and there is limited clarity on the likely outcome. But, needless to say, the myriad of implications on asset pricing would be significant.

The last decade of central bank intervention has resulted in an extended period of low market volatility and led some to conclude that the underlying problems had been addressed.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Kangwon Land Inc	Korea	Consumer Discretionary	3.9%
Takeda Pharmaceutical	Japan	Health Care	3.9%
Itochu Corporation	Japan	Industrials	3.7%
Nexon	Japan	Communication Services	3.5%
KDDI Corporation	Japan	Communication Services	3.5%
Samsung Electronics	Korea	IT	3.5%
Nintendo	Japan	Communication Services	3.3%
NT&T	Japan	Communication Services	3.0%
Kyocera	Japan	IT	2.9%
JXTG Holdings	Japan	Energy	2.9%

As at 31 December 2018. See note 6, page 44.
Source: Platinum Investment Management Limited.

However, global debt levels and many asset prices are close to record levels, and many of the fundamental weaknesses that caused the disruptions in 2000 and 2008 have not been addressed. It's a complex system, in which equity prices are merely one expression of the overall situation. Behind the scenes, there is a large, perhaps even massive, derivatives position which has been of some concern for many years. This is not a new revelation. However, when volatility is low, the margin required to be held against those notional obligations – perhaps in the tens of trillions of dollars – is also low. The increasing volatility is itself an implicit margin call in a global environment of central bank tightening, Eurodollar system tightness, low global trade growth, low monetary base growth, and high asset valuations.

Changes to the Portfolio

Against what appears to be a difficult backdrop, there are still interesting opportunities presenting themselves. The challenge is to find enough unique opportunities.

Takeda recently completed its acquisition of Shire, which gives Asia's largest pharmaceutical company a global footprint and additional therapeutic areas for their aggressive collaborative R&D efforts. Takeda's share price fell as some shareholders, who received Takeda shares as part of the Shire deal, were forced to sell their holdings for reasons of jurisdictional restrictions under mandates, which provided an attractive purchase price for the Fund.

Rakuten's share price rose as the market came to accept that its entry into mobile network operations had advanced further than previously thought. This presented an opportunity to reduce our holding while maintaining a core position for the medium-term.

M3 is a fast growing medical services provider with low capital intensity. It sometimes describes itself as 'Facebook for doctors'. In mid-2018, M3's valuation was on an exorbitant trailing price-to-earnings (P/E) multiple of 78x and a price-to-sales (P/S) ratio of 14x. The company's share price has subsequently collapsed and our short position provided a good gain.

A visit to Bachem in Switzerland and Sosei outside Cambridge, England in late 2016 was a reminder of the long-term opportunities in the healthcare sector. A few years ago, **Sosei** was the most highly traded stock in Japan, trading more than even Toyota on a daily basis. We wrote about Sosei and its very interesting structure-based approach to drug design in the Fund's September 2016 quarterly report,[1] but at the time the share price more than reflected the company's prospects, appealing as they were. Subsequently, Sosei's share price has fallen by more than 80%. While it's still early, a small position has been purchased for the Fund.

Outlook

The portfolio remains conservatively positioned with 26% in cash and 16% in shorts for a net exposure of 58%. Similarly, the currency positioning is conservative. While there are undoubtedly many very attractively valued companies, the political, economic and cyclical backdrop is a major concern.

Natural ecosystems exhibit variations and regular systemic dislocations. The actions of global central banks over the last decade, as they attempted to normalise the system, have had the unintended consequence of reducing variability and perceived risk. This unnatural state is unsustainable and the return to a more natural state will have many second and third order effects, some of which have clearly not been anticipated.

Nevertheless, experience has shown that owning a portfolio of serious companies that are already priced for a high degree of uncertainty, tends to provide above average long-term returns.

1 www.platinum.com.au/PlatinumSite/media/Default/pjfqtr_0916.pdf

Platinum International Brands Fund

James Halse
Portfolio Manager

Performance

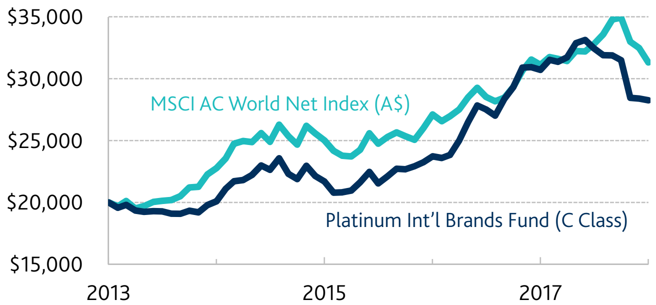
(compound pa, to 31 December 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund*	-10%	-8%	9%	7%	12%
MSCI AC World Index^	-10%	1%	8%	9%	3%

* C Class – standard fee option. Inception date: 18 May 2000.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country World Net Index in AUD.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.
See note 1, page 44. Numbers have been subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

31 December 2013 to 31 December 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
See notes 1 & 2, page 44.

The final quarter of the calendar year was one of turbulence in global markets. Chinese stocks sold off aggressively from late September through mid-October, with US and other developed-market stocks joining from early October, albeit in a less aggressive fashion. Declines in the US were concentrated in the technology sector, as the downturn in the semiconductor cycle became more apparent and the pressure for greater regulation over the internet giants increased. Markets rebounded somewhat from the end of October to early December, at which point the US led global stocks lower as fears around rising interest rates amidst a slowing global economy began to take root. Against this backdrop, the Fund (C Class) returned -10.3% for the quarter, which was disappointing given our short positions and low net exposure to the US.

They say that "misery loves company". While it may be of little comfort to investors, a widely-cited research report from Deutsche Bank as of mid-November showed 2018 to be the worst year since 1901 for investment performance in terms of the breadth of negative returns across asset classes. Indeed, 90% of the 70 asset classes tracked demonstrated negative returns.[1] Typically, an equities market rout is accompanied by stronger performance in fixed interest assets as investors seek the relative "safety" of debt investments. The peculiarity of 2018 was that central banks have generally tightened monetary conditions through the year even though stocks have been declining and credit spreads have widened due to heightened risk perceptions.[2]

Towards the end of the year, this situation moderated somewhat, with US Treasuries staging a rally as rates fell on a weaker growth outlook; however, the corollary to this was hefty volatility in the US, with the largest positive and negative movements in the stock market recorded since the financial crisis of 2008/9.

Over the course of 2018, China's central bank has put in place several measures to loosen credit and stabilise the slowing

1 The previous worst year was 1920, when 84% of asset classes experienced negative performance.

2 Credit spread is the margin of higher interest that riskier bond issuers are required to pay relative to the interest paid by "safe" issuers (such as US government bonds). Widening credit spreads are an indication that investors are becoming increasingly concerned with the ability of the riskier corporate borrowers to service their debt.

economy. While it is early days to measure the impact of the loosening policy, Chinese stocks did experience less steep falls than both the US and Japanese markets this quarter.

Stocks with positive performance were few and far between in the quarter, but the Fund did benefit from some of our smaller positions, including Hong Kong-listed high-end Japanese golf club manufacturer Honma Golf (+22%), Sri Lankan conglomerate John Keells Holdings (+21%), and Russian payment technology company Qiwi (+7%).**Honma** rose after reporting solid earnings in its core Asian markets as well as from new initiatives such as a re-designed ball product and a push into European and US markets. **John Keells** rallied as its earnings benefited from the weaker Sri Lankan Rupee as well as local political events, while **Qiwi** also reported strong revenue and earnings growth as its core business prospered and losses in new businesses moderated somewhat.

Other positive contributions came from Indian financials Axis Bank (+1%) and casino-owner Melco International Development (+2%). **Axis Bank** is coming to the end of a non-performing loan cycle, and is benefiting from an environment characterised by the weak capital positions of state-owned competitors and a lack of credit availability for non-bank lenders. The appointment of a new head of the Reserve Bank of India, who is viewed as more lenient on the banks than his predecessor, also assisted sentiment toward the stock.

Melco had sold down almost 60% from its peak on tighter credit conditions in China, trade war fears, and slowing growth in Macau gaming revenue. The Fund has taken the opportunity to add to our position at the lower prices. Recently, gaming revenue growth has surprised on the upside, and the stock rallied from its depressed valuation levels.

Also contributing to performance in the quarter were our short positions against several US retailers, a food-delivery company facing increased competition, and two Japanese consumer product companies.

Detractors from performance were many, but three of the weakest stocks in the quarter were Lixil (-38%), Callaway Golf (-37%), and Hanesbrands (-32%). Lixil sold off after significantly downgrading its earnings outlook amid a multi-stage turnaround plan. This was exacerbated when the well-respected CEO, who had been responsible for the turnaround plan, then resigned only to be replaced by the Chairman (who is the son of the founder of one of the companies that was merged into Lixil). We are watching this position closely. While the stock is now very cheap and many of the issues the company has been facing seem temporary, we will need to pay close attention to the new CEO's plans for the business.

Callaway initially sold off after announcing a debt-funded acquisition of a mostly-unknown German outdoor apparel brand at what seems to be an unattractive price. This has led investors to question why management would pursue such a deal, and thus the growth outlook for the core business. The scepticism was heightened by a growing aversion to companies carrying significant debt loads as well as fears of a US consumer slowdown. We had experienced strong gains from our position in Callaway and reduced our position size significantly at higher prices, but in hindsight we should have taken more profit.

Hanesbrands missed earnings expectations again early in the quarter, but sold off heavily during December as the market indiscriminately sold US apparel related names, particularly those with debt. While the business has its problems, the stock has gone from cheap to very cheap, and looks more attractive at current levels.

Net Sector Exposures ^

SECTOR	31 DEC 2018	30 SEP 2018	31 DEC 2017
Consumer Discretionary	29%	25%	36%
Communication Services	20%	17%	8%
Financials	11%	10%	8%
Consumer Staples	9%	10%	14%
Industrials	4%	5%	4%
Information Technology	1%	1%	0%
Health Care	0%	3%	2%
TOTAL NET EXPOSURE	76%	71%	72%

^ A major GICS reclassification was implemented during the quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.

See note 4, page 44. Numbers have been subject to rounding adjustments. Source: Platinum Investment Management Limited.

Disposition of Assets

REGION	31 DEC 2018	30 SEP 2018	31 DEC 2017
Asia	41%	35%	41%
North America	23%	23%	17%
Europe	12%	13%	18%
Japan	8%	12%	10%
Russia	4%	4%	3%
Latin America	2%	2%	2%
Middle East & Africa	1%	<1%	1%
Cash	9%	10%	8%
Shorts	-16%	-19%	-20%

See note 3, page 44. Numbers have been subject to rounding adjustments. Source: Platinum Investment Management Limited.

The Fund's short position in **Tesla** detracted from performance this quarter as the stock rallied after its third-quarter results showed strong improvement in profitability and cash flow, the result of increased Model 3 production, some cost discipline, and a reasonable weighting in the sales of top trim models, which have high prices and healthy margins. Although the euphoria generated by the Q3 earnings led the stock to test its historical highs in early December, much of the price gain was reversed towards year-end, in sympathy with US technology sector declines, as well as the broad-based falls for companies with high debt obligations.

Looking ahead, the recent Q4 production report offers insights into some of the challenges Tesla still faces, and why the short case remains compelling at the current US$63 billion enterprise value and a price multiple of 150 times 2019 consensus GAAP earnings. Model 3 production is yet to sustainably exceed 5,000 units per week (fewer than half of the original Dec-18 stretch target), demand for high trim models in the US appears to be fading, and prices on every model have now been cut by US$2,000 in response to the halving of the US federal subsidy (from US$7,500 to US$3,750). Things may become more challenging yet with impending 2019 electric vehicle launches from some serious competition (Jaguar, Porsche, Audi, Mercedes) as well as further reductions in the federal subsidy (which will halve again for Tesla buyers in six months, and fully phase out by year-end). Tesla's 2025 bonds are now yielding 8.2%, with the spread versus US Treasuries now at 577 basis points (having widened by 230 basis points over the last 12 months), and the debt under-performing the equity by 6%. This is important as Tesla needs to refinance debt in the near future, and is reliant on capital markets to fund the expansion needed to justify its valuation. The stock fell 10% on resuming trading after the New Year and returned to where it was at the start of October before the rally on the back of its Q3 results.

Changes to the Portfolio

Market volatility provides opportunities to add to stocks that have been the subject of unwarranted selling, and to reduce positions in those that have held up better and thus decreased in relative attractiveness. We took advantage of a number of opportunities in the quarter, exiting our positions in leading European frozen foods manufacturer **Nomad Foods** after solid performance (+22% in AUD from acquisition), Spanish takeaway pizza chain **Telepizza** following a takeover bid (+26% in AUD since acquisition), and Chinese traditional medicine company **Guangzhou Baiyunshan** (+31% in AUD from acquisition).

We also trimmed positions in a number of other relatively strong performers, such as LVMH, Kering, Asahi, and Schibsted, while adding to our positions in, among others, online gaming operator **Stars Group**, Chinese auto dealers **ZhengTong** and **Yongda**, as well as e-commerce giant **Alibaba**.

Net Currency Exposures

CURRENCY	31 DEC 2018	30 SEP 2018	31 DEC 2017
US dollar (USD)	40%	47%	37%
Euro (EUR)	25%	25%	29%
Hong Kong dollar (HKD)	13%	13%	12%
Chinese yuan (CNY)	6%	3%	9%
Indian rupee (INR)	6%	4%	1%
Japanese yen (JPY)	6%	-1%	<1%
Norwegian krone (NOK)	3%	4%	3%
Korean won (KRW)	1%	1%	2%
British pound (GBP)	1%	1%	1%
Sri Lankan rupee (LKR)	1%	1%	1%
Turkish lira (TRY)	1%	0%	0%
Canadian dollar (CAD)	1%	1%	0%
Brazilian real (BRL)	<1%	1%	2%
Australian dollar (AUD)	<1%	<1%	-5%
Chinese yuan offshore (CNH)	-6%	0%	0%

See note 5, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	USA	Communication Serv.	4.7%
Facebook	USA	Communication Serv.	4.6%
China ZhengTong Auto	China	Consumer Discretionary	4.1%
Jiangsu Yanghe Brewery	China	Consumer Staples	3.8%
Stars Group Inc	Canada	Consumer Discretionary	3.6%
Hanesbrands Inc	USA	Consumer Discretionary	3.3%
Sberbank of Russia	Russia	Financials	3.1%
Schibsted ASA	Norway	Communication Serv.	3.1%
Lixil Group	Japan	Industrials	3.0%
Melco International	Hong Kong	Consumer Discretionary	2.9%

As at 31 December 2018. See note 6, page 44.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pibf.

The sell-off in the US and Europe provided an opportunity for us to close some of our short positions where the outlook has been reflected in the new valuation. In some cases, the opportunity set on the long side of the equation is now that the best levels we have seen for some time. As a result, in recent weeks we initiated positions in several US and European retailers which, although they face some temporary and structural headwinds, possess attractive long-term growth prospects and are trading at record low valuations.

Outlook

The US and other developed markets have played catch-up with the downturn experienced earlier in the year in China and other emerging markets. The European economy is clearly slowing, as is Japan's, even though their central banks have only just begun to move away from ultra-loose monetary policy.

The US is different for the moment. There, the consumer continues to be in rude health, with strong retail sales data being reported through the holiday period. Consumers should continue to benefit from lower taxes and higher tax refunds through the first quarter of 2019, which should boost spending. The big question is "what happens after that?", with the yield curve, credit spreads and other indicators implying a somewhat pessimistic investor sentiment.

With trade conflicts escalating and economic activity slowing in most major economies, we expect further headwinds in the near-term. However, we remain optimistic about the prospects of the Fund's returns over the longer-term as the current valuations across our portfolio holdings are highly attractive. We will endeavour to take advantage of the current mood of uncertainty, with our cash position and short book providing the flexibility to move opportunistically when we spot value emerging as stock prices fall.

Platinum International Health Care Fund

Bianca Ogden
Portfolio Manager

Performance

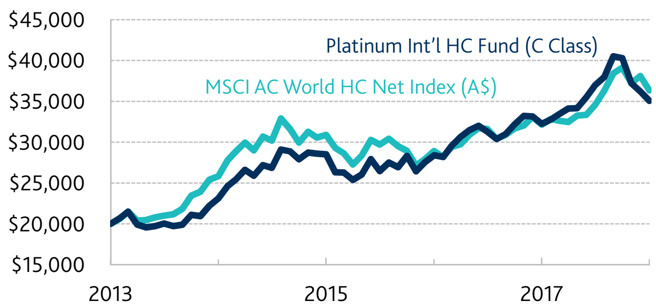
(compound pa, to 31 December 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund*	-13%	9%	7%	12%	9%
MSCI AC World HC Index^	-7%	13%	6%	13%	9%

* C Class – standard fee option. Inception date: 10 November 2003.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country World Health Care Net Index in AUD. Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.
See note 1, page 44. Numbers have been subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

31 December 2013 to 31 December 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
See notes 1 & 2, page 44.

It has been a tough quarter for the health care sector, with the broad sell-off across biotech stocks being particularly intense. We had been cautious about valuations in biotech for some time, and hence had been raising our cash position. We also increased our short positions early in the quarter, but, in hindsight, we had not been aggressive enough.

Our pharma holdings have performed well, while our exposure to the smaller biotechs detracted significantly from performance. Investing in biotech requires patience and long-term thinking. Innovative themes come and go with the majority having to go through cycles of hype and doubts, euphoria and disillusionment, before maturation. Keeping these facts in mind, we remain firmly focused on the long-term performance of the companies in our portfolio, while these recent sell-offs have in fact provided us with some great opportunities to buy.

We selectively added to a number of positions during the quarter, particularly those biotechs that have seen a drastic decline in valuation due to changing market dynamics. It is now not unusual to find small biotechs trading at prices that are close to or even below their cash balance while the fundamentals of their core businesses remain solid.

This quarter we also trimmed several of our steady positions, such as Johnson & Johnson and AstraZeneca, as their valuations have become less appealing, particularly when compared to the other opportunities on offer.

For the year, our European biotech investments have done well (Swedish Orphan Biovitrum +73%, Oxford BioMedica +60%, MorphoSys +16%), along with a number of our tool companies, including NanoString Technologies (+97%).

Commentary

Setting aside the performance, 2018 has been a remarkable year for the industry. There were almost as many drug approvals in the US as there were in 1996, the record year for drug approvals. The first drug based on RNA interference is now approved, while gene therapy and gene editing are no longer conceptual proposals. Given the very generous funding environment in recent years, innovation has been well supported, as have been new biotech listings, with the number of US-listed biotech companies having doubled over this funding cycle.

However, this generosity was always going to subside at some stage, and in the last quarter of 2018 market dynamics changed. Raising money has become more difficult and the focus has shifted to real data, as opposed to mere pipeline dreams.

The macroeconomic environment has definitely played a part, with the impact of US monetary tightening beginning to be felt by markets. As for the biotech sector specifically, nothing in science follows a straight line, and a quarter is a very short time horizon in an industry where a simple dose escalation study in humans takes six months – not days – to complete.

The other important aspect to remember is that themes come and go, with early excitement followed by fading interest, boredom and, in the end, continued success at a much more mature level. Two recent examples, immuno-oncology (IO) and the so-called PARP inhibitors, illustrate how these cycles can unfold in the market and what it takes to ride out the ups-and-downs which at times can feel schizophrenic and uncomfortable.

Immuno-oncology is undoubtedly a major step forward in oncology, and in 2013 the financial market started to get very excited. More than five years on, investors have soured on the theme, which is ironic as the 2018 Noble Prize for Medicine was awarded to scientists who had made major contributions to immuno-oncology. It is safe to say we have reached "peak IO" for the moment. A recent medical meeting in Munich showcasing the latest data on new IO treatments illustrated clearly that immuno-oncology is a lot more complex than what simple schematics suggest. One analyst summed it up well with an old adage: "it's like throwing spaghetti at a wall to see what will stick". For a scientist, this is not at all surprising. Science is all about testing and re-testing a hypothesis, learning from failures and assembling the puzzle pieces along the way. That is what is happening in IO.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
SpeeDx	Australia	Healthcare Providers	4.1%
Roche Holding AG	Switzerland	Pharmaceuticals	3.9%
Sanofi SA	France	Pharmaceuticals	3.4%
Gilead Sciences Inc	USA	Biotechnology	2.3%
Quanterix Corp	USA	Pharmaceuticals	2.3%
UCB SA	Belgium	Pharmaceuticals	2.3%
Swedish Orphan Biovitrum	Sweden	Pharmaceuticals	2.1%
NanoString Technologies	USA	Health Equip & Serv	2.0%
Takeda Pharmaceutical	Japan	Pharmaceuticals	2.0%
Moderna Inc	USA	Pharmaceuticals	2.0%

As at 31 December 2018. See note 6, page 44.
Source: Platinum Investment Management Limited.

One of the angles through which we seek to profit from this theme is to invest in tool companies (e.g. NanoString). These companies provide the technologies and instruments that allow the interrogation of the tumour microenvironment and support the mutation profiling of the tumour itself. For now, immuno-oncology is going through a maturation phase, with drug developers busy testing hypotheses while investors have stepped to the sidelines. For a long-term investor, there are very interesting opportunities now emerging.

Disposition of Assets

REGION	31 DEC 2018	30 SEP 2018	31 DEC 2017
North America	33%	35%	36%
Europe	26%	29%	38%
Australia	14%	12%	7%
Japan	3%	3%	5%
Asia	3%	2%	<1%
Cash	21%	19%	14%
Shorts	-7%	-1%	0%

See note 3, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	31 DEC 2018	30 SEP 2018	31 DEC 2017
Health Care	71%	79%	85%
Consumer Staples	1%	0%	0%
Financials	0%	1%	1%
TOTAL NET EXPOSURE	72%	80%	86%

See note 4, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Currency Exposures

CURRENCY	31 DEC 2018	30 SEP 2018	31 DEC 2017
US dollar (USD)	48%	41%	41%
Euro (EUR)	19%	18%	26%
Japanese yen (JPY)	15%	4%	4%
British pound (GBP)	10%	9%	11%
Swiss franc (CHF)	6%	5%	5%
Swedish krona (SEK)	2%	3%	2%
Danish krone (DKK)	1%	1%	1%
Australian dollar (AUD)	<1%	19%	9%
Canadian dollar (CAD)	<1%	1%	1%
Korean won (KRW)	-2%	0%	0%

See note 5, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pihcf.

Another theme that has gone from hot to cold to lukewarm is the development of PARP inhibitors. These are drugs that inhibit an enzyme called **p**oly **A**DP **r**ibose **p**olymerase (PARP). PARP plays an important role in repairing DNA damage. A number of cancers arise from gene mutations that render the DNA repair mechanism of a cell unreliable. As a consequence of the mutation, when DNA damage occurs in a cell, the damage is not repaired properly, and the cell can turn cancerous. One way to deal with this is to leave the DNA damage unrepaired and let the damaged cell die (before or after it turns cancerous). To do that, we need to prevent the faulty DNA repair mechanism from trying to do its job, and, according to the PARP inhibitor theory, this can be done by stopping PARP from doing its job of initiating the DNA repair process. So the hypothesis of an inhibitor of PARP makes a lot of sense. Several biotech firms set out to find these inhibitors. Two of these companies were acquired early on with AstraZeneca buying Kudos in 2005 and Sanofi acquiring BiPar in 2009. The BiPar drug looked promising initially, but failed late stage trials, which we now know was due to the drug not being PARP specific enough.

Meanwhile at AstraZeneca the Kudos PARP inhibitor saw itself on the shelf until Pascal Soriot (who joined AstraZeneca as CEO in October 2012) had a closer look. He saw the potential of targeting DNA damage, and he saw a fast path for AstraZeneca's PARP inhibitor drug. Analysts were sceptical of targeting DNA damage as a means to treat cancer, and at the time immuno-oncology was all the rage. We liked AstraZeneca's approach and also saw value in not focusing solely on the immuno-oncology theme. Two years later, AstraZeneca's PARP inhibitor was approved for advanced ovarian cancer and interest in PARP inhibitors was re-ignited.

Besides AstraZeneca, two other biotech firms were also developing PARP inhibitors, Tesaro and Clovis. Excitement for the two companies reached a peak last year with Tesaro's valuation almost reaching US$8 billion while Clovis' valuation exceeded US$5 billion. Both companies received approval for their PARP inhibitors and, for a while, both were seen as clear acquisition targets. However, no acquisition materialised while AstraZeneca, together with Merck (the two companies entered a PARP alliance in 2017), made commercial life difficult for Tesaro and Clovis. Early this quarter, both biotechs reached "trough PARP" with Tesaro valued at less than US$1.3 billion and Clovis's valuation falling to US$550 million.

The Fund first added **Tesaro** to its portfolio earlier this year as its valuation became very attractive, PARP inhibitors were still full of potential, and the company had promising collaborations with oncology companies, one being Johnson & Johnson and the other Roche. Tesaro's PARP inhibitor did struggle commercially (causing some further sell-off in its shares), but we felt that the drug had a role to play and a larger company would in due course recognise its potential. We continued to add to our position, and this quarter GlaxoSmithKline announced its intention to acquire Tesaro for over US$5 billion.

These examples illustrate many attributes of the biotech sector, experiences common to many biotech companies and themes. But, most of all, they demonstrate how patience and going against the crowd can pay off.

Outlook

Consolidation in the sector is inevitable. The number of listed biotechs has expanded significantly in recent years, as has the number of oncology biotechs working on the same gene targets. It is not unusual to have five or even ten companies (for some targets there can be more than 30 companies) pursuing the same oncology target. However, commercially only a handful or fewer will be successful and profitable. This dynamic makes us highly selective when investing in oncology companies.

Venture funding continues to be stellar, particularly as Chinese investors have increased their interest in early stage biotechs. On the flip side, we are seeing a closer interaction between US and Chinese biotechs, which should put Western pharma companies on alert as obtaining Chinese rights for licensing opportunities may become more difficult in future if these rights have already been given to Chinese biotechs.

Medtech companies have been a hiding place amid recent market falls. However, beating high growth expectations will not be as easy as it has been in recent years. We remain selective on medtech.

Platinum International Technology Fund

Alex Barbi
Portfolio Manager

Cameron Robertson
Portfolio Manager

Performance

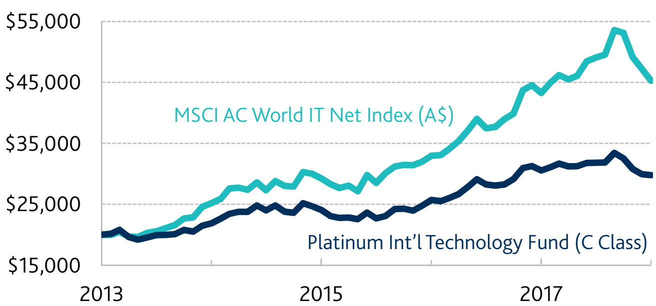
(compound pa, to 31 December 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund*	-9%	-3%	7%	8%	9%
MSCI AC World IT Index^	-15%	5%	16%	18%	0%

* C Class – standard fee option. Inception date: 18 May 2000.
After fees and costs, before tax, and assuming reinvestment of distributions.
^ Index returns are those of the MSCI All Country World IT Net Index in AUD. Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.
See note 1, page 44. Numbers have been subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

31 December 2013 to 31 December 2018



After fees and costs, before tax, and assuming reinvestment of distributions.
Historical performance is not a reliable indicator of future performance.
Source: Platinum Investment Management Limited, FactSet.
See notes 1 & 2, page 44.

Market volatility increased significantly during the quarter, and tech stocks were no longer spared (as many of them had been for the first nine months of 2018). We had increased the Fund's cash position fairly substantially through to early October, as well as introduced a handful of small short positions, which collectively helped to mitigate some of the impact of the market turmoil. The Fund (C Class) was down 8.5% for the quarter, while the tech sector benchmark fell 14.8%.[1] The Fund (C Class) is now down 2.5% for the year.

A range of factors impacted the tech sector. US interest rates have risen to a level where cash and fixed income securities now represent a relatively attractive asset class, making some investors reassess whether they are being appropriately rewarded for the risks associated with holding equities. Adding to this were trade war concerns, which can have broad ramifications for tech companies across what is now a globally integrated supply chain, and have led to a more cautious global consumer base. Some of the impact has been reflected in areas such as poor smartphone sales figures and weakening demand for automobiles.

As a result, some of our holdings saw their share prices marked down, particularly smartphone related companies such as Apple, AMS (3D sensors for smartphones), and Nissha (sensors for the touch screen interface). We had been reducing our positions in these three companies, but were nevertheless affected by the recent declines.

But it hasn't been all doom and gloom. As telcos around the world prepare to implement 5G, companies in our portfolio exposed to the infrastructure side of the communications industry have benefited, such as Ericsson and Xilinx (which make semiconductor chips for mobile base stations, data centres, and AI, among other things). Nevertheless, the market has been punishing towards companies with exposure to end devices, rather than network infrastructure, as it myopically focuses on month-to-month sales trends while ignoring the approaching opportunity in the proliferation of connected devices – be they smart cars, homes, or factories, which is set to be catalysed by the upcoming availability of 5G connectivity. As a result, we believe the sell-off has started to throw up some attractive opportunities, which we have selectively added to. These include, for example, a

1 MSCI All Country World Information Technology Net Index (A$).

well-run company with a duopoly position in specific areas of wireless connectivity, which is now trading on a single digit price-to-earnings (P/E) multiple. The company has net cash, is growing, and is earning high returns on capital.

Our holdings in memory chipmakers, such as Samsung Electronics, SK Hynix and Micron, experienced another weak quarter. This is another area where we had trimmed our holdings when prices were higher, but nevertheless suffered from the recent sell-off on our remaining positions. The memory chip market is a cyclical industry, which has consolidated down to a handful of companies over the past decade. As memory chip prices and profit margins are on a gradual decline from the current highly lucrative levels, investors have been shunning the sector, to the point where some of these companies are now trading on a low P/E multiple of 2 to 5 times and are priced below the cost it would take to replace their asset base. Such depressed valuations, we believe, are fully discounting any coming cyclical weakness. These companies have net cash, and are on lower valuations than we have seen for many years – in some cases **even cheaper, relative to the value of their assets, than at the troughs of 2008-09**. Again, taking advantage of the current price weakness, we have started to cautiously increase our positions in some of the firms in, or indirectly exposed to, the memory chip market.

Some of the Fund's smaller holdings had a tough quarter for company specific reasons. One telco we own saw its share price decline as a new management team (whom we have followed for years and have a lot of respect for) made the sensible decision to cut some unprofitable contracts. However, instead of looking forward to the improved profitability resulting from these actions, the market ignored the longer-term benefits and focused solely on the immediate lost revenue resulting from exiting the contracts. We expect the market will move beyond its knee-jerk initial reaction and recognise that this was a sensible trade-off. In the meantime, we are being paid a 14% dividend yield while we wait for the market to come around to our view.

Changes to the Portfolio

The market turmoil has also thrown up a range of other opportunities, which we have started to selectively take advantage of.

With the weaker than expected car sales numbers in some parts of the world during the last quarter, companies exposed to the automotive industry have been fairly indiscriminately discarded by investors. This has allowed us to start building a position in a high quality company with a key role in providing electrical components needed for the coming wave of electric vehicles – a firm we have admired for years but had previously

Disposition of Assets

REGION	31 DEC 2018	30 SEP 2018	31 DEC 2017
North America	40%	42%	33%
Asia	18%	20%	28%
Europe	11%	10%	14%
Japan	2%	3%	5%
Cash	29%	26%	20%
Shorts	-2%	-1%	0%

See note 3, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit https://www.platinum.com.au/our-products/pitf.

Net Currency Exposures

CURRENCY	31 DEC 2018	30 SEP 2018	31 DEC 2017
US dollar (USD)	58%	53%	48%
Hong Kong dollar (HKD)	10%	9%	15%
Korean won (KRW)	7%	7%	8%
Japanese yen (JPY)	6%	6%	5%
British pound (GBP)	5%	4%	4%
Euro (EUR)	3%	3%	4%
Canadian dollar (CAD)	3%	3%	2%
Norwegian krone (NOK)	3%	3%	2%
Swedish krona (SEK)	2%	2%	2%
Taiwan new dollar (TWD)	2%	3%	3%
Australian dollar (AUD)	1%	6%	4%
Swiss franc (CHF)	1%	1%	2%

See note 5, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

balked at the valuation. Our patience and price discipline has paid off, and the opportunity came for us to buy at a reasonable valuation. We have also taken the opportunity to increase our holding in an exciting e-commerce company in the automotive space, which is in the process of disrupting the way people buy and sell used vehicles in the US. Consumers love the convenience that this company's offering affords them, and are rewarding it with rapid sales growth. The recent market downturn has brought this market darling back to earth, giving us the opportunity to buy its shares at half the price it was trading at not long ago.

Regular readers may remember our discussions of the rapidly evolving and booming computer gaming sector in our June 2018 quarterly report. The recent market volatility has given us the opportunity to build a small initial stake in one of the premier gaming studios which has strong operations across PC, console and mobile platforms, as well as a key position in the vibrant e-sports market. This business is widely recognised as one of the best in the field, and as such has historically traded at a demanding valuation. After a sizeable sell-off over the past few months, the shares are finally approaching levels that we feel are attractive for long-term investors.

During the quarter, we also initiated a range of other small positions, some long, some short, across ad tech, online classifieds, food delivery marketplaces, software, payment processing, and databases.

Outlook

The volatility in the market seems set to continue for at least a little while longer. Trade worries linger on, regulatory pressures remain for the major tech companies, and liquidity – at least for the moment – continues to tighten in the US. Valuations across the sector have started to come down, the frothiness is being squeezed out of those pockets where it had started to emerge, and in some cases we are starting to see more attractive opportunities present themselves.

We still have a significant cash position in the Fund and are on the lookout for sufficiently enticing investment opportunities to put that money to work. Lower asset prices set the stage for more attractive future returns, so, to the extent that market prices continue to move down, we feel increasingly positive about the long-term prospects available to us.

Net Sector Exposures ^

SECTOR	31 DEC 2018	30 SEP 2018	31 DEC 2017
Information Technology	37%	39%	43%
Communication Services	25%	26%	27%
Industrials	4%	5%	4%
Consumer Discretionary	2%	3%	4%
Utilities	0%	<1%	1%
Financials	0%	0%	1%
TOTAL NET EXPOSURE	69%	73%	80%

^ A major GICS reclassification was implemented during the quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.
See note 4, page 44. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alphabet Inc	USA	Communication Services	5.9%
Tencent Holdings	China	Communication Services	3.8%
Samsung Electronics	Korea	IT	3.6%
Facebook Inc	USA	Communication Services	3.2%
Constellation Software	Canada	IT	2.6%
Microchip Technology	USA	IT	2.6%
Oracle Corporation	USA	IT	2.5%
Apple Inc	USA	IT	2.4%
Samsung SDI	Korea	IT	2.2%
Taiwan Semiconductor	Taiwan	IT	2.1%

As at 31 December 2018. See note 6, page 44.
Source: Platinum Investment Management Limited.

Glossary

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 price-to-earnings (P/E) ratio and is a measure of the rate of return on an equity investment.

Enterprise value (EV)

A measure of a company's total market value, EV equals to a company's market capitalisation plus net debt, minority interest and preferred equity, minus cash and cash equivalents.

Free cash flow (FCF)

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.

Price-to-book ratio (P/B)

The ratio of a company's current share price to its book value (total assets minus intangible assets and liabilities). It is an indicator of the value of a company by comparing its share price to the amount of the company's assets that each share is entitled to.

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.

Price-to-sales ratio (P/S)

The ratio that compares a company's current share price to its revenue, P/S is an indicator of the value placed on each dollar of a company's sales and is typically calculated by dividing the company's market capitalisation by its total sales over a 12 month period.

Profit margin

A measure of a company's profitability, profit margin (also called net margin) is the ratio of net profits to net sales. It is typically expressed as a percentage that shows how much of each dollar of revenue earned by the company is translated into profits.

Purchasing Managers' Index (PMI)

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

Quantitative easing (QE)

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

Yield

Yield refers to the income generated from an investment (such as the interest from cash deposits, the dividends from a shareholding, or the rent from a property investment), usually expressed as an annual percentage rate based on the cost of the investment (known as cost yield) or its market price (known as current yield).

For bonds, the yield is the same as the coupon rate (assuming the bond is purchased at par or is trading at par). Any increase or decrease of the yield relative to the coupon rate is approximately inversely proportional to any change in the bond price (yields fall as prices rise, and vice-versa).

The Journal

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

If you find yourself short on time to read our in-depth reports and articles, have a listen to our Quarterly Reports in **audio podcasts** or watch brief market updates in **video** format.

Recent highlights include:

- **Andrew Clifford's interview with Livewire**[1] –
  In this video interview Andrew Clifford, Platinum's CEO and CIO, has a frank and in-depth discussion with James Marlay, Co-Founder and Executive Director of Livewire Markets, about Platinum's investment philosophy and process, how it has stood the test of time and what challenges it faces in the current market environment. Andrew takes us back to the 'great dramas' of the late 1980s and the lessons learned, the founding of Platinum and the firm's unwavering mission of looking after our clients' money ably and responsibly.

- **A video interview with Kerr Neilson**[2] –
  While he has taken a step back from running the company, Platinum's founder and former CEO, Kerr Neilson, continues to analyse businesses and markets with rigour and focus. In this video interview, Kerr offers his insights on the fundamentals of investing in the stock market as well as where he sees opportunities today.

- **Why fintechs find gobbling-up banks' customers harder than nibbling at them**[3] –
  Philip Ingram, Investment Analyst at Platinum, explains why banks have shown such resilience in the face of the onslaught from fintechs, and why the thrill of the new doesn't always translate into the best investments.

- **Book review – Ray Dalio's *A Template for Understanding Big Debt Crises***[4] –
  Julian McCormack, Investment Specialist at Platinum, gives his take on an important new work by legendary investor, Ray Dalio.

1 www.platinum.com.au/Insights-Tools/The-Journal/Video-Andrew-Clifford-interview-with-Livewire
2 www.platinum.com.au/Insights-Tools/The-Journal/Video-Interview-with-Kerr-Neilson
3 www.platinum.com.au/Insights-Tools/The-Journal/Why-Fintechs-Find-Gobbling-up-Banks-Customers-Har
4 www.platinum.com.au/Insights-Tools/The-Journal/A-Template-for-Understanding-Big-Debt-Crises

The ABST Award – Recognising Great Teams

Australasia's Best Sporting Team (ABST) is an annual award that Platinum Asset Management has jointly established with GAIN LINE Analytics to recognise the best team in Australia and New Zealand across a range of team sports.

ABST brings an analytical approach to measuring long-term excellence in sports and aims to reward high-performing teams for their dedication, endurance and, importantly, team cohesion over time.

Every game in every sport that conducts an ongoing home/away or equivalent competition in Australasia with Australian and New Zealand teams included is analysed statistically by GAIN LINE. The winning team is awarded with a grant to donate to a charitable cause of its choice.

The New Zealand rugby union team, the Crusaders, is the winner of the inaugural prize, which was awarded on the basis of 25 years of data. Going forward, annual awards will reflect performance over rolling five-year periods.

The following is the story of how the idea for ABST came about and why Platinum is pleased to be the sponsor, as told by Douglas Isles, an Investment Specialist at Platinum and the co-architect of the ABST initiative.

Source: The Crusaders

In late November, we travelled to Christchurch to present the Crusaders with the inaugural Australasia's Best Sporting Team award, which they have used to seed a players' welfare charitable trust. The analysis was carried out by GAIN LINE Analytics, a data-driven consultancy co-founded by former Wallaby player, Ben Darwin.

I first came across Ben's work around the time of the 2015 Rugby World Cup, when he noted that England's lack of cohesion, drawing players from too many clubs, would stop them winning a home World Cup, as their soccer team had done in 1966. As a Scottish rugby fan, I was pleased to hear this, but as I dug deeper, I realised that Ben's insights – that cohesion, particularly in terms of shared experiences, is a key determinant of team success – had much broader application than competitive sports, that there were lessons for investment managers too.

Led by Andrew Clifford, the Chief Investment Officer, Platinum had gone on a journey of optimising the structure of the investment team in 2011-2013. The exercise markedly improved the flow of ideas within the team and the cut-through of investment analysis, but it was not an easy message to convey objectively to external stakeholders.

So we invited GAIN LINE in to look at our team in the way they had analysed sporting franchises across a range of competitive, so-called invasive, sports using decades of data. The parallels between team sports and our industry rang true, as an investment firm is an organised collection of individuals engaged in daily battles against the market.

The conclusions from GAIN LINE's analysis were flattering. We had intuitively known – or thought – that we had a deep, experienced team, populated by analysts who typically joined without extensive prior professional investing experience and learned Platinum's method and philosophy from the ground up. GAIN LINE's results gave us a more objective confirmation that Platinum's investment team had strong cohesion, in fact, that it was as well-built as some of the top sporting teams of recent decades.

GAIN LINE's findings were presented to Platinum internally, including through a range of exercises with staff. We also shared Ben's insights on the importance of team cohesion with a number of advisers, many of whom thought that it was among the most interesting content they had seen from our industry.

Australasia's Best Sporting Team was a natural extension of this work, and gave us the opportunity to recognise sustained success, which comes about due in large part to teams being well-built. It also was a chance to settle that age-old debate of measuring and comparing teams across time periods and different sporting codes.

In conjunction with GAIN LINE, an objective methodology was developed to look at sporting teams' outcomes over the last 25 years, coincident with Platinum's time in operation. The results of more than 74,000 matches between 222 teams in 14 sports were analysed, and consideration was given to win/loss ratios, annual positions within competitions, competition size, competition stability, team longevity and any sanctions against teams.

Having crunched the numbers, the winning team was the Crusaders, the Super Rugby team from Christchurch, New Zealand, which in its own 23-year history has been a steady production line for All Blacks players, New Zealand's national rugby team whose dominant position in the sport is as firm as any team's in any world sport.

It was fascinating to see some of the lesser-known teams on the Top 25 list that we published, and this was part of the project's appeal. Local media picked up on their dominant teams, such as the Newcastle North Stars ice hockey club, whose owner was emotional for the recognition to a team they thought "no-one had heard of". Teams from water polo, such as the Fremantle Mariners and Sydney University Lions, and basketball's Perth Wildcats, made the Top 10 alongside giants like Brisbane Broncos and Geelong Cats. The Top 25 list included six female teams, a number set to grow in time as participation at a national level continues to broaden.

Top 10 Teams

RANKING	TEAM	COMPETITION	COUNTRY / STATE	ABST SCORE
1	Crusaders	Super Rugby	NZ	3.41
2	Brisbane Broncos	NRL	QLD	3.08
3	Geelong Cats	AFL	VIC	2.96
4	Fremantle Mariners	NWPL	WA	2.88
5	NSW Breakers	WNCL	NSW	2.82
6	QLD	Sheffield S.	QLD	2.71
7	Sydney University Lions	NWPL	NSW	2.61
8	Melbourne Storm	NRL	VIC	2.45
9	Perth Wildcats	NBL	WA	2.36
10	Sydney Roosters	NRL	NSW	2.31

Source: GAIN LINE Analytics

Meeting the Crusaders to present the award at their headquarters was a privilege. Most of the players were on tour with the All Blacks, so it was great to meet the broader organisation that supports the on-field efforts, and to share their pride in the on-field success. It was clear this was a tight-knit group of engaged people. Again, this parallels the 70 odd staff Platinum employs to support the investment team, whether in back office administration or client services.

We toured the modern facilities, from hi-tech gym to the video room, to the break-out areas where players take turns as baristas. There is a constant nod to heritage and success in the images on the walls.

The Newcastle North Stars ice hockey club, featuring in the local press.
Source: The Newcastle Herald

Ben and I were lucky enough to have lunch with coach Scott Robertson, a spiritual man for a former All Black back rower, a former player at the club, and coach for the province, Canterbury, that shares the facility and feeds the Crusaders – part of an aligned system that flows up to the national team. We talked philosophy, and got a real sense of the collaborative nature of his approach, and the importance of bringing in and developing young talent. The discussion on precognitive communication – understanding yourself and your team-mates' personality types – was not what I expected in a rugby conversation, but less surprising having been introduced to Robertson's thirst for learning and his own self-awareness. It was no surprise that the media we met on the day were also touting him the following morning as a candidate for the next All Blacks coaching role, which will be vacant in late 2019.

The work on cohesion teaches us that in sport – and in business – when confronted with the choice to churn or develop talent, many take the short-cut of buying or borrowing talent (lifting out parts of teams), but fail in the long run. In applying the theories, we acknowledge the under-recognised benefits of internally-generated collective experiences and the structures that enable them to develop.

Going forward, we will be presenting the ABST award on an annual basis to the current top teams, using a rolling five year approach. We expect to see female teams and minority sports gaining some headlines in the future, but know that the Crusaders will also be in the mix as long as they continue on their journey built on solid and cohesive foundations.

For more information about ABST, including the full results and the methodology used in the analysis, visit www.platinum.com.au/abst.

Notes

1. Fund returns are calculated using the net asset value (NAV) unit price (which does not include the buy/sell spread) of the stated unit class of the Fund and represent the combined income and capital returns of the stated unit class over the specified period. Fund returns are net of fees and costs, are pre-tax, and assume the reinvestment of distributions. Returns for P Class are net of any accrued investment performance fee.

   The MSCI Index returns are in Australian Dollars and are inclusive of net official dividends, but do not reflect fees or expenses. For the purpose of calculating the "since inception" returns of the MSCI Index, the inception date of C Class of the Fund is used. Where applicable, the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist then. Fund returns are provided by Platinum Investment Management Limited; MSCI index returns are sourced from FactSet.

   Platinum does not invest by reference to the weightings of the Index. A Fund's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, the Fund's holdings may vary considerably to the make-up of the Index that is used as its reference benchmark. Index returns are provided as a reference only.

   The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

   The stated portfolio values of C Class and P Class of the Platinum International Fund (PIF) do not include funds invested in PIF by the Platinum International Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PIF. The stated portfolio values of C Class and P Class of the Platinum Asia Fund (PAF) do not include funds invested in PAF by the Platinum Asia Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PAF.
2. The investment returns depicted in this graph are cumulative on A$20,000 invested in C Class (standard fee option) of the specified Fund over the specified period relative to the specified net MSCI Index in Australian Dollars.
3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices.
4. The table shows, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant sectors through direct securities holdings as well as both long and short derivatives of stocks and indices. In the case of the Platinum Unhedged Fund, the Fund does not undertake any short-selling. Its net exposures are therefore the same as its long exposures.
5. The table shows the effective net currency exposures of the Fund's portfolio as a percentage of the Fund's net asset value, taking into account the Fund's currency exposures through securities holdings, cash, forwards, and derivatives. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.
6. The table shows the Fund's top 10 long equity positions as a percentage of the Fund's net asset value, taking into account direct securities holdings and long stock derivatives. The designation "China" in the "Country" column means that the company's business is predominantly based in mainland China, regardless of whether the company's securities are listed on exchanges within mainland China or on exchanges outside of mainland China.

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

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The firm was founded in February 1994 by a group of professionals who had built an enviable reputation. The investment team has grown steadily and Platinum now manages around A$24 billion. Platinum's ultimate holding company, Platinum Asset Management Limited (ASX code: PTM), listed on the ASX in May 2007, and Platinum's staff continue to have relevant interests in the majority of PTM's issued shares.

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

* Please refer to page 2.

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