Platinum Unhedged Fund

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Portfolio Manager

Performance

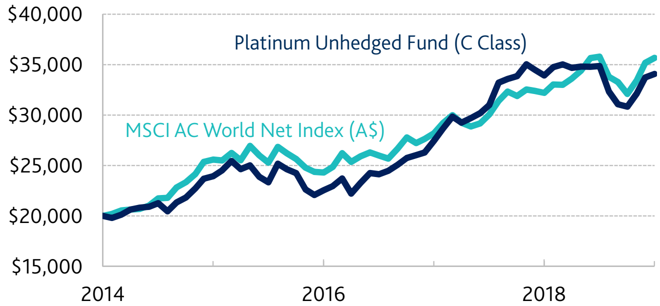
(compound pa, to 31 March 2019)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund*	11%	0%	15%	11%	11%
MSCI AC World Index^	11%	11%	14%	12%	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 5. Numbers have been subject to rounding adjustments.

Value of $20,000 Invested Over Five Years

31 March 2014 to 31 March 2019



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 5.

In the Fund's December 2018 quarterly report, we mentioned that price weakness, low valuations and a more cautious investor sentiment meant that risk had reduced and outlook had improved, and we felt that it was a good time to add stocks to the portfolio. We took the view that given such price falls, the prospect of better returns had increased, albeit it was likely to be a volatile ride.

The markets did indeed rebound in the first three months of this year – at a much faster pace than we envisioned.

The Chinese A-share market was the standout performer, rising 29%,[1] while Chinese stocks listed in Hong Kong (H-shares) were a little more muted, rising 12%.[2] Elsewhere, the US market rose 13%, while Europe and Japan climbed 12% and 6% respectively.[3]

Overall, the Fund (C Class) returned 10.5% for the quarter, whilst the MSCI index returned 11.2%.

Gains across the Fund over the quarter were fairly broad-based, but the major clusters of appreciation tended to come from our China and oil-exposed holdings. Several key contributors to performance are discussed below.

Kweichow Moutai – A long-time holding in the Fund, Moutai-branded 'baijiu' (white liquor made from sorghum) is one of China's few home-grown luxury brands, with its brand heritage reinforced by being the drink of choice at state banquets.

Moutai's brand positioning gives the company immense pricing power, with a bottle carrying a retail price of RMB1,700 (A$350). We have long argued that Moutai has historically given its distributors an overly generous share of the margin relative to the value that they bring. Of the RMB1,700 retail price, Moutai receives RMB970 (A$200), while the distributor captures RMB730 (A$150) in mark-up, which is considerably higher than the RMB200 (A$40) distributors typically earn from selling other luxury brand baijiu.

1 CSI 300 Index (local currency).

2 Hang Seng China Enterprises Index (local currency).

3 Respectively referring to the S&P 500 Index, the STOXX Europe 600 Index, and the Japan Nikkei 225 Index, each in local currency terms.

This situation is now changing following Moutai's appointment of a new chairman, Baofang Li, last year. Moutai has announced it will limit the volume of liquor sold via distributors and sell more via its direct channels through which the company will be able to capture more than the RMB970 that it currently earns through indirect sales, which should provide a significant boost to its future profits. This news, along with the rebound in general sentiment towards China, saw Moutai's stock price rise 48% over the quarter.

TechnipFMC and **Transocean** – In our December 2018 quarterly report, we outlined the investment case for our offshore oil service companies, a sector of the market that had been deeply discounted and out-of-favour.

Over the course of the December quarter, the Brent oil price had collapsed from US$80 to US$50 due to a sharp ramp-up in US shale oil production out of the Permian Basin, which drove a rebuild in US oil inventories (signalling oversupply), and Saudi Arabia's move to boost its production to 11 million barrels per day in expectation of additional US sanctions on Iran (which were subsequently delayed).

Since then, the picture has improved. In response to lower oil prices, US shale producers reduced their spending, with shale production capex now expected to fall by 10% in 2019, while the Saudis throttled back their production to 9 million barrels per day. This led the oil price to a quick rebound from US$50 back to US$69.

More importantly, we are seeing increasing evidence of a pick-up in offshore activity. Over the past three months, TechnipFMC won a number of new offshore contracts (including the Petrobras Mero project in Brazil and Eni's Merakes field in Indonesia), and Transocean has continued to raise the tender rates for its deep-water drill ships. In response to the positive trends in activity and the higher oil price, the stock prices of Transocean and TechnipFMC have risen 40% and 25% from their respective lows.

Changes to the Portfolio

The market is currently valuing investment opportunities in the tech sector in a very bipolar manner. On the one hand, sectors such as the mid-cap 'software-as-a-service' (SaaS)[4] companies are in bubble territory, trading on price-to-sales (P/S) multiples as high as 30x, while on the other hand, semiconductor manufacturers, who are the logical beneficiaries of *the* growth in cloud computing and artificial intelligence, are trading on single digit P/E multiples.

Our research indicates that a number of semiconductor stocks are currently trading at fantastic value, and accordingly we continued to add to our holdings in **Samsung Electronics**, **Micron Technology** and **Skyworks Solutions** over the quarter.

A new addition to the portfolio this quarter was **Booking Holdings**. Booking is the world's largest hotel-focused[5] online travel search and booking platform, controlling brands and websites such as Booking.com, Agoda, Kayak and OpenTable.

Hotels are a product that is well suited to be sold via online search portals and marketplaces. There are many reasons for this. For example, the hotels market is very fragmented and each hotel is easily substitutable for another, but the offerings are also differentiated enough that users want to compare them. However, what truly makes an online aggregator of hotels an attractive business is that ***hotel pricing is dynamic***. Hoteliers are constantly adjusting pricing to fill unsold rooms. While booking directly with a chain might get you the best price for that particular hotel, users know that they will often find a better deal on an aggregator site like Booking.com, as some hoteliers will discount their prices to fill vacancies.

On the 'supply' side, independent hotels represent 80% of the rooms sold on Booking's websites. These operators face a challenging mix of high fixed costs, huge marginal profitability for each extra guest, and inventory that expires on a daily basis. They also don't usually have the internal capability to build booking apps and conduct extensive direct response advertising to fill their excess inventory themselves. It is easy to see how a marketplace that can fill rooms on a success-based fee is an attractive channel. The value provided to both the customer and the hotelier results in attractive economics for the platform, with Booking enjoying a long history of making 30% or more in operating margins.

So, if Booking's business is so attractive, why was the stock recently sold down by investors? It was for two main reasons:

1. Slower growth – Booking's revenue growth has slowed from a trend rate of 20% p.a. to 14% in 2018. Booking's business is heavily weighted to Europe (65% of the transactions conducted on its platforms are from European customers) and management estimates that the economic slowdown in the region will taper growth further to 6-8%.
2. Higher investments – Booking's management team has said that it is seeing good opportunities to increase investments in countries like the US and China to drive

4 Software-as-a-service (SaaS) is essentially software that is hosted off a company's premises from a third-party data centre (typically called 'the cloud'), and is charged on an ongoing subscription-based model, rather than the traditional one-off licence fee + maintenance fee.

5 In 2018, Booking sold 760 million room nights for a total value of US$92 billion through its websites.

long-term growth, but this will be at the expense of slower profit growth in 2019.

The uncertain near-term outlook for revenue and profit growth has prompted investors with short-time horizons to flee the stock. However, those with a longer-term perspective should find the future prospects for Booking more appealing. One can see multiple factors driving the global travel industry to continue to grow: the rise of outbound tourism in China, the trend of consumers shifting more spending to experiences from physical goods, as well as the increasing affordability of international travel driven by the rise of budget airlines focusing on international long-haul routes (such as Air Asia and Norwegian Air).

Booking, valued at a starting P/E of 16x, is overall a good example of a high-quality company trading at a reasonable price, and we believe it will be a sound long-term investment for the Fund.

Outlook

While markets have rallied over the past three months, there is still a large amount of investor scepticism around the health of the global economy. This scepticism is most clearly expressed by the relative valuations on offer today. Quality businesses operating in industries that have some cyclicality are often trading on single digit P/E multiples, while businesses with evident growth (even if that growth is only 5-10% p.a.) are often trading on P/E multiples of 25-40x.

Disposition of Assets

REGION	31 MAR 2019	31 DEC 2018	31 MAR 2018
Asia	37%	35%	41%
North America	29%	27%	21%
Europe	16%	17%	19%
Japan	3%	3%	7%
Russia	1%	1%	1%
South America	<1%	<1%	1%
Cash	15%	17%	10%

See note 3, page 5. 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 Sector Exposures ^

SECTOR	31 MAR 2019	31 DEC 2018	31 MAR 2018
Financials	17%	18%	22%
Industrials	17%	17%	17%
Communication Services	13%	12%	9%
Energy	9%	9%	8%
Information Technology	9%	8%	11%
Consumer Staples	8%	6%	7%
Materials	4%	3%	3%
Health Care	4%	4%	3%
Real Estate	2%	2%	2%
Consumer Discretionary	2%	3%	4%
Utilities	0%	<1%	4%
TOTAL NET EXPOSURE	85%	83%	90%

^ A major GICS reclassification was implemented during the December 2018 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 5. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

There are plenty of economic indicators today that support this scepticism. The US yield curve inverted at the end of March,[6] and the trends in European PMI[7] and temporary employment data are evident of some of the knock-on effect of the slowdown in China. However, in investing, the question is not what the indicators look like today, but what they will (most likely) look like in the future.

6 This means that the interest rate on debt instruments with longer-term maturities is lower than the interest rate on those with short-term maturities, indicating that fixed income investors are placing a high probability that interest rates will be cut in the near future to support a weakening economy. As of 29 March 2019, the US 10-year rate was 2.39% versus the 1-year rate at 2.40% (Source: US Treasury).

7 The Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector.

It's clear that the largest driver of the current economic weakness was the sharp tightening of credit conditions in China, a by-product of the government's financial sector reform. However, the situation has now reversed, interest rates have come down, and the Chinese government has instituted large tax cuts for both households and corporates to stimulate the economy. As Andrew Clifford stated in his December 2018 Macro Overview, if China's economy slowed in response to a tightening of credit, then one should also expect it to improve when credit conditions are loosened.

While we suspect that economic conditions will most likely improve in the near-term, our enthusiasm for the portfolio is not driven by macro factors, but rather by the individual companies and the low valuations on offer. A large portion of the portfolio is trading on an earnings yield of 10% or higher, suggesting good prospects of solid returns going forward.

Net Currency Exposures

CURRENCY	31 MAR 2019	31 DEC 2018	31 MAR 2018
US dollar (USD)	36%	34%	30%
Hong Kong dollar (HKD)	14%	13%	15%
Euro (EUR)	14%	14%	15%
Japanese yen (JPY)	12%	12%	9%
Chinese yuan (CNY)	8%	6%	8%
Indian rupee (INR)	6%	5%	7%
Korean won (KRW)	4%	4%	5%
British pound (GBP)	3%	3%	5%
Canadian dollar (CAD)	2%	2%	0%
Norwegian krone (NOK)	1%	3%	3%
Danish krone (DKK)	<1%	1%	1%
Australian dollar (AUD)	0%	2%	2%

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

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Jiangsu Yanghe Brewery	China	Consumer Staples	4.0%
Kweichow Moutai	China	Consumer Staples	4.0%
IHS Markit Ltd	USA	Industrials	3.1%
Applus Services SA	Spain	Industrials	3.1%
Alphabet Inc	USA	Communication Serv.	3.0%
PICC Property & Casualty	China	Financials	2.9%
Facebook Inc	USA	Communication Serv.	2.7%
Sanofi SA	France	Health Care	2.6%
Skyworks Solutions	USA	Info Technology	2.6%
China Overseas Land	China	Real Estate	2.5%

As at 31 March 2019. See note 6, page 5.
Source: Platinum Investment Management Limited.

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.

Disclaimers

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