Platinum Unhedged Fund

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Portfolio Manager

Performance

(compound pa, to 30 Jun 2018)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund*	2%	19%	12%	15%	12%
MSCI AC World Index	4%	15%	10%	14%	7%

Net of accrued fees and costs. Refer to note 1, page 4.
*C Class – standard fee option. Inception date: 28 January 2005.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

Disposition of Assets

REGION	30 JUN 2018	31 MAR 2018	30 JUN 2017
Asia	37%	41%	38%
North America	25%	21%	21%
Europe	17%	19%	20%
Japan	6%	7%	8%
Russia	1%	1%	1%
South America	<1%	1%	1%
Cash	14%	10%	11%

Source: Platinum Investment Management Limited. See note 3, page 4.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Jiangsu Yanghe Brewery	China	Consumer Staples	3.8%
Kweichow Moutai	China	Consumer Staples	3.3%
Raiffeisen Bank International	Austria	Financials	3.2%
PayPal Holdings Inc	USA	IT	3.1%
Applus Services	Spain	Industrials	3.0%
Alphabet Inc	USA	IT	2.9%
ENN Energy Holdings	China	Utilities	2.6%
IHS Markit Ltd	USA	Industrials	2.6%
Peabody Energy Corp	USA	Energy	2.5%
KB Financial Group	Korea	Financials	2.5%

As at 30 June 2018.
Source: Platinum Investment Management Limited. See note 4, page 4.

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.

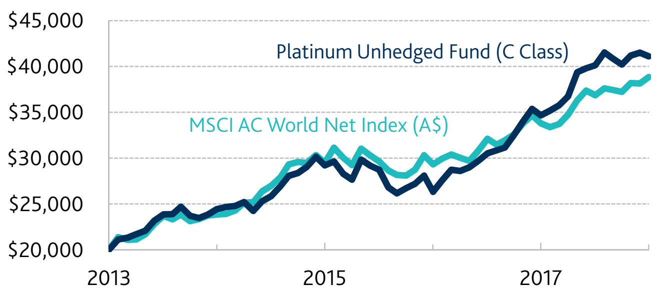
The most notable contrast in markets over the last six months is how well the US market has held up compared to its international counterparts.

Year to date the US market (MSCI USA Index) is up +2.6%, with the tech-dominated NASDAQ Index up +8.8%. This is in stark contrast to China, where the CSI 300 (A share) and MSCI China indices fell -8.5% and -1.4% respectively. Declines were also seen in Europe (-0.4%), Japan (-3.7%), and Emerging Markets (-2.8%). (All market/index returns are in local currency terms and refer to the MSCI net index for the relevant market except for the CSI 300 Index.)

Given the Fund's large exposure to China, it is worth examining the situation around the recent falls. There are two main issues affecting investor sentiment in China: trade wars and financial sector reform.

Value of $20,000 Invested Over Five Years

30 June 2013 to 30 June 2018



Fund returns are net of accrued fees and costs. Refer to note 2, page 4.
Source: Platinum Investment Management Limited, FactSet.
Historical performance is not a reliable indicator of future performance.

When it comes to trade wars, we have little edge in predicting the outcome, given that the goals of the Trump administration seem to be as much about political appearance as they are about actually changing China's trade practices. Economic history, however, suggests that tariffs tend to have fairly minor impacts on overall growth, and, given the decent fall in Chinese stock prices, we believe that much of the impact has already been priced in.

A bigger concern for investors is how the current reforms in the financial sector will affect the economy. These reforms are aimed at bringing much of the lending that had been done via securitisation (otherwise known as the shadow banking system) back onto the balance sheet of the banks, where it can be properly supervised. This process in the short-term tightens credit availability, and investors are worried that the slowdown in credit growth (which has slowed to 8-9%, just below nominal GDP) will lead to weakness in the economy.

While we understand the concerns, in the long-term these reforms are a clear positive that will de-risk China's financial system. It is also interesting that despite all the fear, there has been relatively little tangible evidence of a broad slowdown. Overall, given the valuations, we are happy to hold through this period of volatility.

In terms of the portfolio, the Fund has returned +2.2% over the last quarter and +18.6% over the past year.

2017 was a period of very strong performance for the Fund, so discussions naturally centred on what had been doing well. So far in 2018 we have had some set-back in stock prices, so it would be a useful exercise to explore some of the recent detractors to performance.

Foxtons – With the stock down 38% versus our entry price, our timing of entry into Foxtons has clearly proven to be a mistake. Foxtons is a *high service* specialist London real estate broker that is suffering from the collapse in transaction activity in the London property market. Tougher regulatory conditions around lending and interest cost deductibility for investment properties, along with Brexit uncertainty has led to falling house prices in London and a complete freeze in property transactions. London housing transactions are now running at 75,000-80,000 per year, back to their GFC lows and 45% below the pre-GFC average of 150,000 transactions per year.

These issues were apparent when we purchased Foxtons (the stock was down 60% and transactions had already fallen heavily), but the price has kept sliding further as the property market continued to deteriorate. Thankfully, Foxtons has no debt, and with more than 50% of its revenue coming from stable property management fees, they have a profit base to get them through these lean times.

We remain sanguine about Foxtons' long-term prospects. There will always be demand to live in an iconic city like London, and with the stock trading on roughly 5x earnings (assuming property transaction volumes return to 110,000 per annum, still 25% below past average), we have added to our position and are happy to wait.

Cielo – Cielo controls roughly 50% of the Brazilian 'merchant acquirer/payment processing' market. Payment processors are essentially financial/technology businesses that help merchants accept electronic payments in stores and online. The revenue model of these businesses is to take a small percentage of the value of each electronic payment processed. Hence, they naturally benefit from the inexorable trend of electronic payments replacing cash.

The story of Cielo has long been about two offsetting forces – natural market growth versus increasing competition. The use of electronic payments in Brazil is still under-penetrated (accounting for 29% of payments versus 50-60% in western markets) and growing fast, giving Cielo a consistent tailwind. The negative is that the Brazilian central bank has long had a policy of fostering competition in the country's payment processing market, which has seen pricing come down and Cielo lose some market share. In this regard Cielo has done considerably better than its main competitor, and to date the natural growth in the market has offset the negative effects on pricing and share.

The initial appeal of Cielo was threefold – it was a high quality business, credit/debit spending in Brazil had been suppressed by a deep three-year recession and could rebound strongly, and on 14x P/E it was a massive discount to international peers. In spite of this, the stock has recently drifted down 30% as investors became more concerned about the intensity of competition and far more cautious around emerging markets in general.

While these concerns are valid, we would point out that the company has successfully navigated through bouts of heightened competition before. Given a valuation of 11x earnings, a 7% prospective dividend yield and a balance sheet with little debt, we are being paid well to shoulder these risks.

Changes to the Portfolio

Over the past 18 months we have been finding a lot of opportunities in some of the more cyclical areas of the market, particularly in energy (oil, gas & coal) and metals. We continued to be active in this area during the quarter, selling down our holdings in Japanese oil producer **Inpex** and US oil refiner **HollyFrontier** after strong price moves. We used the proceeds to buy two new ideas in the energy space and increased our holding in Chinese oilfield service provider **COSL**.

Outside of the energy sector, we added to our holdings in businesses exposed to internet advertising, namely **Facebook** and **Bitauto**, with both stocks being hit by some temporary issues. While most readers would be aware of the drama around the data leak scandals at Facebook, Bitauto may be a less familiar name.

Bitauto is China's second largest car advertising vertical website, and is partly owned by internet titans JD.com, Tencent and Baidu. Tapping into China's relatively undeveloped auto financing market (30% of new cars are bought with finance, compared to 70-80% in the US), management in 2015 started experimenting with offering car loans to the large traffic of potential buyers visiting its sites.

The initial idea behind the lending business (named Yixin) was to lend out the company's own cash to build an operational track record, after which Yixin would shift to originating and servicing auto loans for banking partners who would provide the financing. Yixin quickly became a success, with Bitauto's share price responding in kind, rising from US$20 to US$50 during 2017.

2018 has seen the initial excitement wear off, with Bitauto's share price falling back to US$20. This is a result of rising charge-offs (cost of bad loans) in the auto loan book and new competition entering the market. We feel this recent sell-off is an over-reaction. Rising charge-offs are to be expected for a growing auto lender that is still experimenting with different borrower mixes. Yixin also has plenty of buffer to handle higher delinquencies given that they demand a 30% down payment and charge 12-15% interest on their auto loans.

Overall, valuing Yixin at book value implies that we are buying Bitauto's website advertising assets for a little over 1x sales. Considering that other listed advertising verticals tend to trade on 4-10x sales, this leaves Bitauto with a decent margin of safety.

Outlook

For the moment the market is running back to what is perceived as 'safe'. President Trump's trade war rhetoric, which initially focused on China, has now expanded to include global autos, and immigration tensions across Europe are showing no sign of resolution. Investors are understandably going back to what has worked and feels comfortable – buying fast growing US technology stocks and holding the US dollar.

Our portfolio is positioned differently, with 77% of our holdings sitting outside of the US and in regions where we are finding companies that typically have better growth prospects and are trading at considerably lower valuations than the US. With the recent sell-off, our outlook for future returns, particularly in China, has improved.

Notes

1. Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of the stated unit class of the Fund and represent the combined income and capital returns of the stated unit class over the specified period. Fund returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

   Index returns are in Australian dollars and assume the reinvestment of dividends from constituent companies, but do not reflect fees and expenses. For the purpose of calculating the "since inception" returns of the MSCI index, the inception date of C Class of the Fund has been used. Where applicable, the gross MSCI indices were used prior to 31 December 1998 as the net MSCI indices did not exist then. Fund returns have been provided by Platinum Investment Management Limited; MSCI index returns have been sourced from FactSet.

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

   The stated portfolio values of C Class and P Class of the Platinum International Fund (PIF) do not include funds invested in PIF by the Platinum International Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PIF. The stated portfolio values of C Class and P Class of the Platinum Asia Fund (PAF) do not include funds invested in PAF by the Platinum Asia Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PAF.

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in C Class (standard fee option) of the specified Fund over the specified period relative to the specified net MSCI index in Australian dollars.

   Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of C Class of the Fund and represent the combined income and capital returns of C Class over the specified period. Fund returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

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3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents the Fund's effective exposures to the relevant countries/regions as a percentage of the Fund's net asset value, taking into account direct stock holdings and long derivative positions (stocks and indices).

4. The table shows the Fund's top 10 long stock positions as a percentage of the Fund's net asset value, taking into account direct stock holdings and long derivative positions. The designation "China" in the "Country" column means that the company's business is predominantly based in mainland China, regardless of whether the company's securities are listed on exchanges within mainland China or on exchanges outside of mainland China.

5. The table shows the Fund's effective net exposure to the relevant sectors as a percentage of the Fund's net asset value, taking into account direct stock holdings and both long and short derivative positions (stocks and indices).

6. The table shows the Fund's effective exposures to the relevant currencies as a percentage of the Fund's net asset value, taking into account stocks holdings, cash and the use of derivatives.

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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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