Platinum Unhedged Fund

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Portfolio Manager

Performance

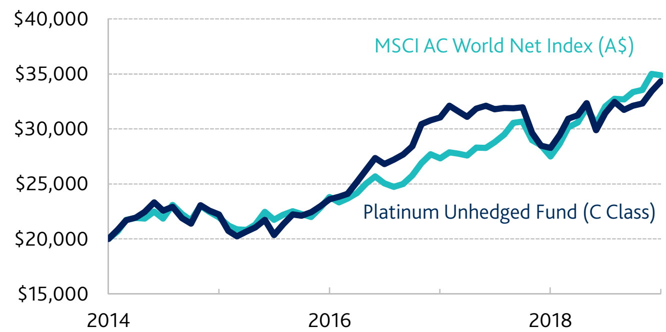
(compound p.a.+, to 31 December 2019)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund*	7%	21%	13%	11%	11%
MSCI AC World Index^	5%	27%	14%	12%	8%

+ Excludes quarterly returns
* 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 4. Numerical figures have been subject to rounding..

Value of $20,000 Invested Over Five Years

31 December 2014 to 31 December 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 4.

The Fund (C Class) returned 6.9% for the quarter and 21.5% for the year. Breaking down the year's performance, the Fund's long positions returned 27% (in AUD terms), but our decision to hold some cash as protection, with an average invested (i.e. long) position of 86% over the year produced a 4% drag on overall returns.

To give context to the Fund's holdings and performance, it is worth restating Platinum's approach and philosophy to investing in markets. Investors will often state that their ultimate goal is to purchase companies at prices that are below what they are worth. While true, this is an unhelpful statement. The interesting question is what situations lead companies to become undervalued, and can they be systematically repeated?

The 'value' of a listed company is very much in the eye of the beholder, and one of the largest determinants of its valuation at any point in time will depend on the nature of the investor narrative surrounding it.[1] In short, a company's valuation is heavily influenced by investor psychology.

Our investment approach is based around identifying and targeting situations where investor psychology is likely to cause companies to become mispriced. Major examples include:

1. **Companies that are facing temporary uncertainty**. When times are good, investors naturally extrapolate that success into the future and are comfortable paying high prices. However, if there is a problem, this process goes into reverse. Investors focus intensely on the current issue, which creates low expectations and, with that, low stock prices.

1 A past example is Microsoft. In the year 2000, Microsoft traded at US$55 per share, which was a valuation of 50x its earnings. Ten years later, Microsoft traded at US$25 per share, with investors choosing to place it on a multiple of a mere 10x earnings. What had changed? While the fundamentals of Microsoft's core business of selling the Windows operating system and enterprise tools like Office were the same, what had changed was the narrative. In the year 2000, Microsoft was seen as a fortress software provider who was going to power the internet age. In 2010 however, the narrative focused on Microsoft missing out on the smartphone revolution by not owning the operating system that would power these devices. Today, the narrative around Microsoft has again turned positive, with its price rising six-fold from those depressed levels of 2010, and investors excited about its Azure cloud computing division.

2. **Industries going through great change**. Companies in these areas are prone to mispricing simply because it is difficult for investors to accurately price a future that looks very different to today. Focusing on change is also key as the history of the stock market shows, truly large gains have been made in companies that benefited from long-term structural change.

With this context, we can turn to the source of the Fund's returns. The major contributors to performance over the year (and quarter) were our semiconductor holdings (**Skyworks,** +80%, **Micron,** +69%, **Samsung Electronics,** +44%, **Microchip**, +46%, and **Intel,** +28% in local currency terms over the year), with these stocks representing a 13% weighting in the Fund as at 31 December 2019.

These investments are a great illustration of the benefit of taking advantage of temporary uncertainty. In 2018, as the global economy slowed, the semiconductor industry suffered a mini industry recession. Smart phone sales in China fell 20%, large data centre providers, such as Amazon Web Services, reduced their IT purchases and distributors ran down their inventory levels – all of which reduced the demand for semiconductors in the short term. The semiconductor stocks fell sharply in response (with Skyworks, Micron and Microchip falling between 40-50%) and investors at the time were completely focused on how much worse the current downturn would get.

The appeal to us of investing in these companies was that while there was uncertainty in the short term, it was clear their businesses would grow in the long term. There is little question that cloud computing and artificial intelligence will fuel demand for DRAM and NAND memory, and consumers will buy 5G phones. As investors have begun to worry less about the cycle and focus more on the future opportunity, semiconductor stocks have risen dramatically.

Other major contributors to the Fund's performance over the quarter and year included our holdings in companies such as **Weichai Power** (+106% over the year), **IHS Markit** (+57%), **Facebook** (+57%), and **ZTO Express** (+47%). All of these companies are benefiting from structural change in their respective industries.

Chinese parcel delivery company, ZTO Express is a good example of this. In terms of parcels delivered, ZTO is now the world's largest parcel express company, on track to deliver roughly 12 billion parcels in 2019. The business benefits from several favourable trends. The first of which is the rise of e-commerce, which is continuing to fuel both the growth of parcel volumes, and complexity, as merchants and consumers demand faster deliveries, and services such as returns handling etc. In addition, the sheer scale of the delivery network ZTO has built in consumer parcels, should allow it to service the large business-to-business parcel market in China over time. Overall, parcel express networks are becoming more important to the economy, and should allow ZTO to grow its business profitably for years to come.

As we discussed extensively in our March and June 2019 quarterly reports, the main detractor from performance for the year, remains our energy and materials exposure, which as a group cost the Fund 1%. Of this group, the most notable falls were in our holdings of **Seven Generations** and **Peabody Energy.** The latter stock and **TechnipFMC** were also major detractors for the past quarter. While these investments have been ill timed in hindsight, for our oil names in particular, the growing evidence of more rational behaviour by the US shale drillers and a pick-up in offshore oil and gas capital expenditure, gives us confidence in the future returns for these investments.

Changes to the Portfolio

Over the quarter, we added two new holdings to the Fund, Japanese pharmaceutical company Takeda, and the US-based ultra-low cost airline, Spirit Airlines.

The story of **Takeda** is one of significant internal change. After a decade of weak results from its internal drug development efforts, the company took the very unusual approach for a Japanese company of replacing its senior management and head of research and development (R&D) with Western candidates from other global pharmaceutical companies in 2015. This has seen the company completely change its approach to drug development, and five years post these changes, the benefits are now becoming apparent.

Spirit Airlines is a low-cost airline with a fleet of 135 planes serving the US and Caribbean. It has a significant cost advantage versus its peers, with its cost per kilometre flown half that of the legacy carriers, and 50% below other lower-cost operators, such as Southwest and JetBlue. While investing in airlines rightly carries a stigma, we think this applies less to the ultra-low cost carriers. Once they have built enough network size to give them resilience to shocks, ultra-cost airlines tend to have financial metrics more akin to a quality industrial business, than a typical airline. People have a constant desire for air travel, and if an airline company can provide those seats at a cost well below their competitors, they tend to perform well.

A weather-related disruption gave us the opportunity to purchase Spirit, which saw its price fall 40% in 2019 after a series of hurricanes affected its main hub in Fort Lauderdale Florida, leading to flight cancellations and additional costs during the peak Easter travel period.

We expect that Spirit's low-cost position should allow it to profitability grow its fleet over the long term. The short term also looks favourable, with the unavailability of the Boeing 737 MAX making air capacity in the US very tight, which should produce a strong ticket price environment for 2020.

Outlook

Since late 2018, the dominant narrative in stock markets was investors' fear that a broad-based economic recession was imminent. This fear saw investors shift their money into companies perceived to be either defensive or very high growth, which pushed the valuations of these businesses to very high levels. The other side of this move was that investors discarded their holdings in companies that had cyclical exposure, forcing their prices down to valuations so low that they implied a deep recession was already in full swing. Based on the value on offer we bought a number of stocks in these more cyclical areas.

There are now signs that the narrative on the economic picture is turning. It is interesting to observe:

- The manufacturing sector of the global economy (which represents 15-20% of output in most developed countries) has been in recession for over a year. The fear that this would spill into the consumer/service side of the economy has not yet materialised.
- Throughout this period, permanent employment and wages in Europe and the US have continued to grow.
- We are potentially past the peak of the tariffs/trade war between China and the US.
- Activity in some of the hardest hit sectors of the economy, such as semiconductors and Chinese auto sales, is starting to improve.

While our investments are not based on macro forecasts, we believe the portfolio is well placed to benefit from any improvement in investor confidence in the economic environment. With the starting valuation levels across the portfolio still relatively low, and investor sentiment still far from jubilant, we are optimistic about future returns for the portfolio.

Disposition of Assets

REGION	31 DEC 2019	30 SEP 2019	31 DEC 2018
North America	35%	32%	27%
Asia	26%	27%	35%
Europe	21%	21%	18%
Japan	7%	4%	3%
Cash	11%	16%	17%

See note 3, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Sector Exposures

SECTOR	31 DEC 2019	30 SEP 2019	31 DEC 2018
Industrials	21%	20%	16%
Financials	15%	14%	16%
Information Technology	13%	12%	8%
Communication Services	13%	14%	12%
Energy	7%	8%	9%
Health Care	6%	4%	4%
Real Estate	5%	4%	4%
Consumer Discretionary	4%	3%	3%
Materials	3%	3%	3%
Consumer Staples	2%	3%	6%
Utilities	0%	0%	2%
TOTAL NET EXPOSURE	89%	84%	83%

See note 4, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Net Currency Exposures

CURRENCY	31 DEC 2019	30 SEP 2019	31 DEC 2018
US dollar (USD)	41%	39%	34%
Euro (EUR)	16%	16%	14%
Hong Kong dollar (HKD)	11%	14%	13%
Japanese yen (JPY)	10%	10%	12%
Indian rupee (INR)	7%	7%	5%
Korean won (KRW)	5%	4%	4%
British pound (GBP)	5%	3%	3%
Canadian dollar (CAD)	2%	2%	2%
Chinese yuan (CNY)	2%	3%	6%
Australian dollar (AUD)	1%	0%	2%
Danish krone (DKK)	0%	0%	1%
Norwegian krone (NOK)	0%	1%	3%

See note 5, page 4. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Skyworks Solutions	US	Info Technology	4.4%
Alphabet Inc	US	Comm Services	3.6%
Facebook Inc	US	Comm Services	3.5%
Applus Services	Spain	Industrials	3.5%
Raiffeisen Bank	Austria	Financials	3.2%
IHS Markit Ltd	US	Industrials	3.2%
Sanofi SA	France	Health Care	3.1%
Weichai Power	China	Industrials	2.8%
China Overseas Land & Inv	China	Real Estate	2.7%
KB Financial Group	Korea	Financials	2.7%

As at 31 December 2019. See note 6, page 4.
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.

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 market value of the Fund's positions, the Fund's effective exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices. "Shorts" relates to the effective exposures to short securities and short securities/index derivative positions.
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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