



Quarterly Investment Manager's Report

Platinum World Portfolios - International Fund
Platinum World Portfolios - Asia Fund
Platinum World Portfolios - Japan Fund

31 March 2016

Platinum World Portfolios - International Fund



Kerr Neilson Portfolio Manager

Performance

(compound pa, to 31 March 2016)

	QUARTER	SINCE INCEPTION
PWP - International Fund (Class D)	-4%	-5%
MSCI AC World Net Index	0%	0%

Source: Platinum and MSCI. Refer to note 1.

Fear stalked the markets as this new year began with the major stock indices trending lower through January and February. The fear stemmed from doubts about growth, not helped by questionable signals from China. Even the prospect of further action by central banks was treated with a measure of scepticism as doubt spread as to the efficacy of quantitative easing (QE) in dealing with weak demand and deflation.

The announcement by the Organisation of the Petroleum Exporting Countries (OPEC) of a meeting to discuss production restraint on the 11th of February set a change in tone and commodity prices, led by oil, rebounded with force. Helping the mood also was evidence that China's economy was stabilising and the government was beginning to stem the loss of foreign exchange reserves and hence diminishing the fear of a weak Renminbi. With such negativism well expressed and strongly backed by short positions, commodities, shares and bond yields all fired upwards.

Financials have been among the least responsive to the mood change because higher prudential capital requirements imply lower returns on shareholders' funds and this is exacerbated by negative interest rates that squeeze interest spreads. With investment banks no longer willing to make markets in fixed income instruments, investment funds holding illiquid bonds hedged their positions by shorting broader instruments such as high yield exchange traded funds (ETFs) or credit default swap indices. However, as the quarter closed, financials regained their poise.

By March, Draghi announced yet further QE measures which include the European Central Bank's (ECB) intent to purchase corporate bonds. He also introduced a long-term refinancing operation (LTRO) with an interesting twist to encourage European banks to increase their lending. In the event of their loan books growing by more than 1% a year, these banks will be able to borrow from the ECB at *minus* four-tenths of one percentage point (-0.4%). This is essentially a fiscal transfer to encourage bank lending.

Within equities, Emerging Markets (EM) had the biggest bounce. The most remarkable was Brazil, up more than 50% in USD, despite being stuck in a recession and enduring inflation, high interest rates, corruption and political scandals of the worst kind. Russia is also up 35% in USD, despite low oil prices, sanctions, recession and being involved in geopolitical conflicts. As we have noted in various Platinum Asset Managements publications in December 2015, outflows from EM funds and bearish investor sentiment were at historical extremes which suggested total capitulation.

Interestingly, China has lagged the EM bounce substantially. As a quick reminder, the National People's Congress held its annual meeting in early March when China's new 6.5% GDP growth target was set, though few foreigners take this seriously. What is the real number? How will the transition to a consumer economy evolve? How will the non-performing loans be absorbed and will they be greater than 10% of loan books, with regional banks experiencing highest losses? What about shutting down capacity in money-losing industries? These are just a few of the many questions that keep investors away from China.

With the cost of money likely to remain low for some while, mergers and acquisitions (M&A) and share buybacks are two of the obvious uses of excess money. Bank of America Merrill

Lynch estimates that this year between 5% and 8% of the US float will disappear as a result of buybacks, M&A and the absence of meaningful IPO supply. Most notable is the activity of the Chinese in bidding for significant Western companies such as Starwood, Terex and Syngenta. They have not been shy to use Western banks to fund these acquisitions which provide an ironic twist to the intent of central banks – their **low interest plan is predicated on new investment, rather than the recycling of existing assets!**

MSCI World Index Regional Performance (USD)

REGION	QUARTER	1 YEAR
Developed Markets	0%	-3%
Emerging Markets	6%	-12%
United States	1%	0%
Europe	-2%	-8%
Germany	-3%	-12%
France	0%	-4%
United Kingdom	-2%	-9%
Japan	-7%	-7%
Asia ex Japan	2%	-12%
China	-5%	-19%
Hong Kong	-1%	-7%
India	-2%	-13%
Korea	5%	-6%
Australia	2%	-11%

Source: MSCI

MSCI World Index Sector Performance (USD)

SECTOR	QUARTER	1 YEAR
Utilities	9%	5%
Telecommunication Services	7%	3%
Energy	6%	-15%
Materials	6%	-12%
Consumer Staples	5%	7%
Industrials	3%	-2%
Information Technology	1%	2%
Consumer Discretionary	0%	-2%
Financials	-5%	-11%
Health Care	-7%	-8%

Source: MSCI

Currency

Our US dollar position was reduced to 38% and we added 10% to the Euro. In the short-term, the prospect of delayed interest rate rises by the US Federal Reserve and a rebound in commodity prices has shifted market perceptions.

CURRENCY	MAR 2016	DEC 2015
US dollar (USD)	38%	72%
Hong Kong dollar (HKD)	17%	13%
Euro (EUR)	16%	6%
Japanese yen (JPY)	11%	10%
Indian rupee (INR)	6%	<1%
Chinese yuan offshore (CNH)	-11%	-15%

Source: Platinum

Shorting

As the markets sold off in January and February, we reduced our short positions. With the crescendo of negative sentiment we began to use cash, and by early March had increased our exposure to companies we already own or to new positions. We established a short position on the Russell 2000 index in March and increased our short position on the S&P 500 index to get to a total short position of 10%.

Disposition of Fund Assets

REGION	MAR 2016	DEC 2015
Asia	36%	31%
Europe	26%	22%
North America	24%	18%
Japan	11%	10%
Australia	1%	0%
Cash	2%	19%
Shorts	-10%	-3%

Source: Platinum. Refer to note 2.

Changes to the Portfolio

Lower prices persuaded us to add to **Qiagen** (drug company), **Rakuten** and **Tencent** (e-commerce), **Intesa Sanpaolo** and **Lloyds** (financials), and **ENI** (oil). New positions were established in **Inpex**, **Gilead Sciences**, **China Resources Gas**, **Mediobanca**, and a **gold miner ETF**.

An out-of-favour market and an over-supplied commodity give us an interesting opportunity to take a position on the eventual recovery in the oil price. **Inpex** is a quasi-state owned Japanese company and its share price has been weak in the face of delays of its 62% owned Ichthys liquids-rich natural gas project. This is exacerbated by the view that hydrocarbon prices will stay low for a long time. Traditionally, this type of unambiguous negativism has led to great returns.

You might feel this is being too contrary, but not when one realises that Inpex is about to raise its **core** annual production from some 400,000 barrels of oil equivalent (BoE) per day to over 600,000 BoE, which brings a large gain of free cash flow, conservatively put at over US\$2.5 billion per year with an oil price of US\$50 a barrel. At US\$70, which is not beyond reality over the life of a 20+ year operation, the **attributable** cash flow should exceed US\$4 billion per annum.

So what are the negatives? Firstly, the cost over-runs and delays at Ichthys. From an initial estimate of US\$34 billion, we are now looking at approximately US\$37.5 billion and a nine to 12 month delay, but offset partially by an 8% rise in annual throughput. The company will also be losing a lucrative profit sharing arrangement in Indonesia (the Mahakam Block) where the concession faces renegotiation in 2017. For our calculations, we have assumed a virtual loss of this concession and removed it from core output. Lastly, the company has an important gas field north of Darwin in Indonesian waters, the Abadi field, where the government is requiring the gas to be taken ashore in Indonesia. This raises the cost of the project and, together with sales likely being directed to the domestic market, reduces the longer-term viability of the concession.

Even when we load the dice for these handicaps, the magnitude of Ichthys' production, 11 million tonnes of hydrocarbons per year, makes the current capitalisation of US\$2.50 per BoE or enterprise value of US\$5.75 per BoE look remarkably cheap, particularly when one takes into account the optionality Ichthys can derive from its 889 km, 42 inch pipeline from the north of Broome to Darwin to possibly convey additional gas from neighbouring fields (owned separately by Inpex) or from other gas/liquid finds in the Browse Basin.

The company's gas-to-oil ratio is close to the industry average and will rise to about 55% when Ichthys reaches attributable peak capacity of 225,000 BoE in 2020. Its reserves are more than double the industry average, at around 26 years, and its reserve decline rate, about 3% per year, is much lower than the industry average. The company's cost of production is around the industry average and, despite having funded its share of a US\$37.5 billion project and added further capacity by buying 17.5% of Shell's **Prelude Project** which will add 40,000 barrels to its daily output from 2017 onwards, net debt will be US\$13 billion versus equity of US\$28 billion. (The equity base was enlarged by an expensive, if ill-timed, rights issue in August 2010.) Clearly there are many other variables we have discovered and assessed, but our judgment is that this is a perfect storm of uncertainties which make a really interesting risk-adjusted investment.

Pricing in the drug sector is under a cloud and **Gilead**, with its expensive cure for **Hepatitis C**, is among those affected. It has a very powerful position in the treatment of **HIV**, though faces doubts about patents and their follow-on combinations. Notwithstanding, the pipeline is promising in both HIV and other areas. Trading on a single digit P/E, it is conspicuously cheap and, even when adjusted for likely margin erosion, the cash flow generation in the next few years is spectacular – at around US\$18 billion per annum. Having followed the company and owned it at much lower levels before its qualities were recognised, we are not pessimistic about its HIV or Hep C franchises and are prepared to back the management's ability to deploy these surpluses to our benefit.

China Resources Gas faces concerns about Chinese growth. These natural gas distributors offer convenience and pollution control. With a build-out of their network they are almost guaranteed incremental profits, levered off connections that are growing at 10% per annum as urban adoption intensifies.

The **gold miners ETF** allows us to lay off the risk of central bank error in managing the weak demand environment that prevails. It ironically allows us much greater liquidity and an interesting spread of 37 producers, which is more attractive than building our own gold miners portfolio. All-in production costs for this basket of producers is around US\$910 per ounce, with gross debt at 23% of EV. This is a defensive investment predicated on the futility of QE and complements our other precious metal producers.

Commentary

In markets where there is great uncertainty and a sense that the central banks are changing the rules with negative interest rates and subsidies to borrowers, how does one know that one is on the right path? For those funds that closely track the underlying index, being so-called "index aware", deviation of performance from that of the index would give a hint of a need for modification to their approach. The same question is more challenging for a **fund manager who pays no heed at all to index weighting, as is the case with Platinum Asset Management**. The performance difference can be further amplified in rising markets when, as a matter of policy, the fund manager attempts to **reduce volatility by holding cash, augmented by short selling**. This has indeed been our position.

Our investment approach has in the past proven to produce strong returns over the long-term. However, recent performance of our global funds, including the Platinum World Portfolios - International Fund, has been disappointing. We have seen an unusual **market trending** in the last few years and a prolonged period of relatively **small dispersions of market returns** (i.e. the gap between the strongest performing shares and the weakest). We ask ourselves the question "**how can you know** whether the approach that has been so successful over many cycles still works" and have written extensively about underlying changes in markets and there being "too much of everything, in particular debt". Among other things, this observation leads us to question the efficacy of QE in an inherently deflationary environment and certainly **steers us away from buying so-called "cigar butt" value stocks** (fundamentally poor or structurally challenged businesses where the only virtue is that they are cheap) in the hope that these companies will revert to a higher valuation in due course. However, what has clearly not changed is the tendency for investors to over-react to short-term factors and to crowd around what seem to be the most exciting ideas of the day, and as a consequence over-pay for the privilege. These characteristics are evident to all, as highlighted in the opening section of this report and from measures of volatility over time (if anything, high volatility suggests undue skittishness in recent times).

Starting from first principles, most would agree that **if one can assemble a portfolio comprising superior companies** that are not priced to perfection, one should be able to outperform over time.

So how do we define "superior" companies? To subjectively rely on general impressions about the management, brand awareness or public profile and the like runs many risks. We would prefer to measure a set of variables that give evidence of a history of above average performance and the characteristics we favour are **superior growth, superior profitability and below average use of financial leverage**. Using these criteria we conducted a review of the portfolio of the long-running Australian-domiciled Platinum International Fund (PIF) and ranked each of our holdings in PIF's portfolio against our investment universe. (Platinum World Portfolios - International Fund (the "Fund") has a similar strategy to that of PIF, also managed by Platinum Asset Management using the same stock-picking approach. The Fund's portfolio closely resembles PIF's portfolio. For those wishing to know exactly how we build this ranking, please refer to the Appendix at the end of this report.)

A good outcome for us would be for PIF's actual weighted portfolio **to rank better than the average opportunity of the global universe** (i.e. to fall within 0-50th percentile of the universe). As it happens, PIF's portfolio is a lot more attractive than the average and represents the **best value over the last 17 years!**

As you will notice from the accompanying chart overleaf, there have been two occasions when the value of PIF's portfolio has become poor, 1999/2000 and 2006/7. This was when the portfolio **was massively outperforming** on account of the holdings being recognised for their qualities and rising faster than the market and faster than we were selling. Right now, it is possible that the exposure to Emerging Markets is partially responsible for such strong readings of superior growth, profitability and value. However, even when we **strip out our exposure to China**, representing some 20% of PIF's portfolio (and about 22% of the Fund's portfolio), it reduces the growth to average and profitability falls marginally, but the quality and value of the portfolio as a whole is still well above average.

Remember, the 100 or so companies comprising our portfolio are the result of specific work undertaken by our analyst team. The graph represents how these companies score versus the global equities universe. For this measure to mislead, it would require two things, neither of which we find probable. Firstly, it would mean that the superior historical returns of the constituent companies in the portfolio do not accurately characterise the companies nor help in assessing their prospects, and should therefore be ignored or

downplayed. The second possibility is that our stock specific research is completely off-track and the *portfolio* is about to face a future that is far worse than its past and, moreover, worse than the prospects of the general investment universe. We can find no basis to believe either is the case.

Outlook

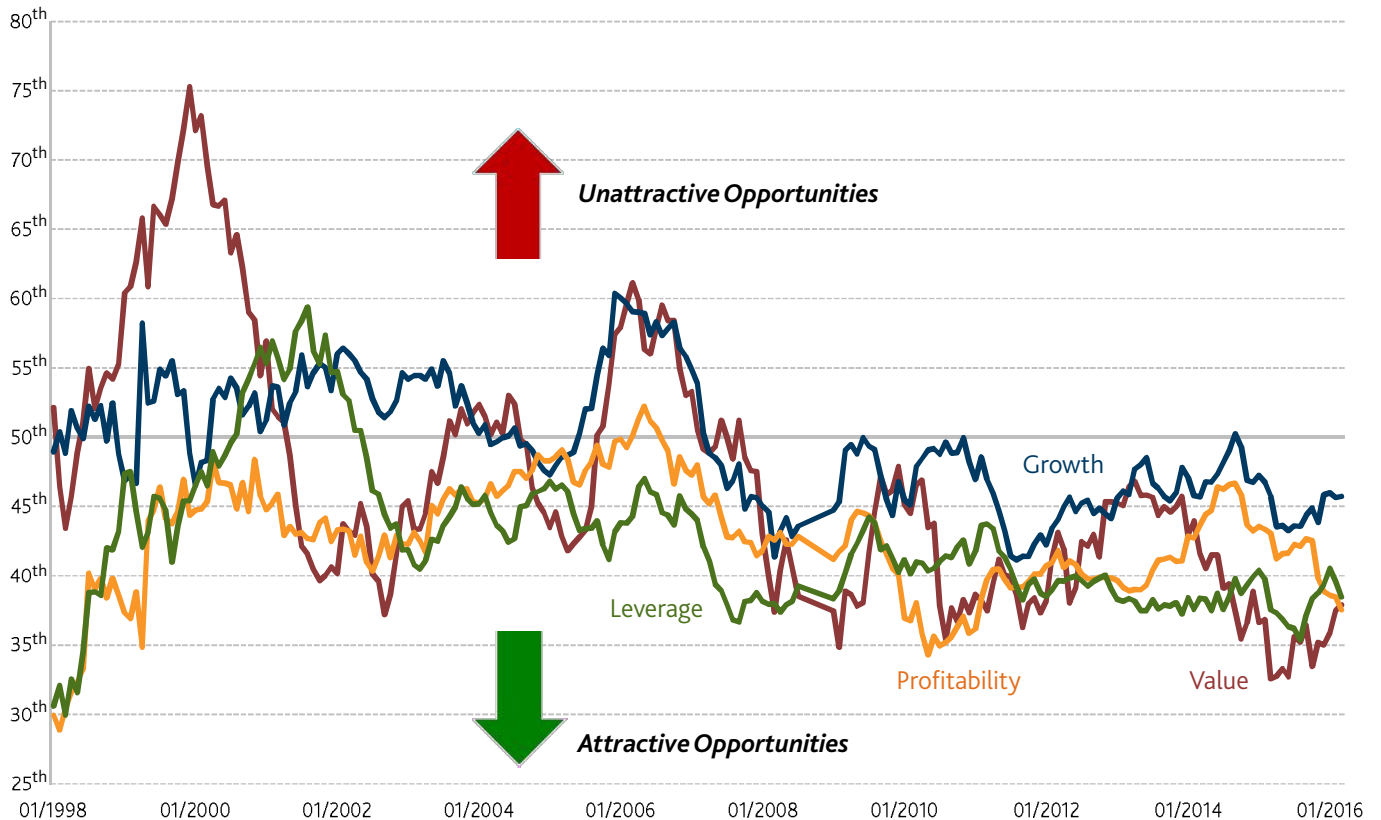
For now, the belief is that the US Federal Reserve will be very slow to raise interest rates as it is seemingly taking account of global growth rather than focusing on domestic growth and inflation alone. Activity levels, while low in parts of the world, are still generally positive, but profits remain in doubt.

Downgrades are becoming more common and the difference between reported profits and inherent profits are at record levels of exaggeration. According to Bernstein, "the S&P 500 P/E ratio is currently 32% higher on a GAAP earnings basis than the pro-forma multiple (21.3x versus 16.1x), a spread that has expanded in recent years".

When we examine the Fund's portfolio, we like the prospects of what we own and, to the extent that profits could disappoint, they nonetheless seem priced with great circumspection. Apart from the US, most market indices are well off their highs and we are finding companies we want to buy.

Platinum International Fund – Portfolio Characteristics*

Percentile (Relative to Global Opportunity Set)



* Long positions, ex-financials, market capitalisation >US\$500 million

Source: Bloomberg; Factset; company reports; Platinum.

Appendix

The universe against which we **rank** our holdings comprises stocks with a market capitalisation of above US\$500 million. This gives a base universe of some 11,000 companies world-wide. By comparing each of the holdings in PIF's portfolio, we can rank the quality of the portfolio against that of the host of 11,000 companies. In each case, PIF's portfolio is weighted by the actual size of our holding while the denominator, the global opportunity set, is likewise weighted by the collective market capitalisation of the constituent companies.

Looking at each of the three key factor rankings:

- **Growth** is equally weighted in terms of sales per share, earnings per share and book value per share both over the long-term and in more recent years, with an emphasis on recent performance. By having three measures of growth and adjusting them for the number of shares outstanding, we eliminate the more obvious distortions.
- For **profitability**, we look at the return on capital employed, including goodwill, going back 15 years, 7 years and 3 years respectively. Each is given an equal weighting which serves to doubly weight the most recent periods. The incorporation of goodwill in the asset base serves to account for "bought" growth achieved through M&A activity.
- For **leverage**, we are ranking the net debt-to-book value ratio. This is an important variable as enhancing growth through raising financial leverage adds risk and has an end point. Moreover, if share buybacks are funded through debt, it will be captured by this measure.

The last piece of the puzzle is to compare the **value or price** that we are paying for our pool of companies and to rank this versus that of the universe. Here we use a weighted composite ranking based on five components, namely, enterprise value versus capital employed (**EV/CE**), how this value compares with the **trend of the previous 10 years**, the **forward price-to-earnings ratio (P/E)**, the cash generated before tax, interest and amortisation in relation to the market cost of the company (**EBITDA/EV**), and, lastly, the **yield to shareholders** from dividends and buybacks, less employee stock option issued (a cause of great dilution in some companies).

Platinum World Portfolios - Asia Fund



Joseph Lai Portfolio Manager

Disposition of Fund Assets

REGION	MAR 2016	DEC 2015
China (Listed Ex PRC)	30%	25%
China (Listed PRC)	7%	7%
Hong Kong	4%	3%
Taiwan	4%	3%
Greater China Total	45%	38%
India	18%	18%
Korea	9%	6%
Thailand	7%	3%
Philippines	4%	4%
Singapore	3%	2%
Vietnam	2%	0%
Cash	12%	29%

Source: Platinum. Refer to note 2.

Performance

(compound pa, to 31 March 2016)

	QUARTER	SINCE INCEPTION
PWP - Asia Fund (Class D)	-1%	-1%
MSCI AC Asia ex Japan Net Index	2%	2%

Source: Platinum and MSCI. Refer to note 1.

The Indian Nifty 50 Index was down -3% and the China's Shanghai A-Share Index returned -15% for the quarter (both in local currency). The Reserve Bank of India's (RBI) push to clean up bank balance sheets led to a significant increase in non-performing loans for many Indian banks, worsening market sentiments as a whole. The Chinese market was rocked by a volatile Yuan and the ill-conceived implementation of a "circuit-breaker" in the retail-driven mainland A-share market. However, a cleaner loan book and monetary loosening for India and evident economic stabilisation in China should lift the market outlook for these countries.

Markets in the ASEAN region were better performers. Thailand, Indonesia and Malaysia were respectively up +9%, +5% and +1% (each in local currency) for the quarter. These markets saw slower economic growth and had had their domestic monetary policy hamstrung by the US tightening last year. With the prospect of a brisk US interest rate hike receding, local currencies and stock markets came back to life.

As expected, the Fund's ASEAN holdings were contributors to performance. Jardine Matheson (ASEAN consumption conglomerate, +17%) and Bangkok Bank (+18%) (each in local currency) were strong performers. Elsewhere, Kweichow Moutai (Chinese liquor producer, +14%) and Yes Bank (Indian bank, +19%) (each in local currency) also contributed. Chinese and Indian financials (PICC, China Pacific Insurance and ICICI Bank) detracted from performance.

Changes to the Portfolio

The Fund's Chinese currency short position was kept open as continued policy stimulation out of China is likely to lead to renewed weakness, despite recent strengths. The Fund increased its invested position to 88%, taking advantage of weakness in the markets during the quarter.

We exited our position in US-listed **YY.com** after the company received a privatisation offer. Funds raised were deployed into more prospective ideas.

We started positions in **CNOOC** and **ENN Energy**, both of which are set to benefit from a recovery in oil prices. CNOOC is a major Chinese oil player which controls the bulk of oil reserves off the coast of China and has an enviable production profile. ENN is a Chinese downstream gas distributor with monopolies across numerous Chinese cities. The structural rise of incomes among China's middle class will drive energy consumption. The recent weakness in the market enabled us to add to these structurally strong companies at attractive valuations.

Commentary

India

We conducted a research trip to India in February, focusing on banking, infrastructure and real estate. We did not uncover any adverse surprises. India has an exceptionally young and aspirational population seeking jobs and a better life, and the authorities are responding.

On our trip we visited Yes Bank, currently the top Indian position in the Fund's portfolio. From a standing start just 10 years ago, Yes Bank has grown into the country's fifth largest private sector bank. The company boasts an excellent management team who understands the importance of risk management. During the quarter, the RBI examined the loan books of Indian banks to ensure that bad loans are recognised and dealt with promptly. The RBI's review showed that Yes Bank's asset quality was superior to even the most revered private sector banks in India, with a non-performing loan ratio of just 0.66% and no history of restructuring for five quarters. With just 1% market share in an industry still dominated by the inefficient state banks, the runway ahead for Yes Bank is tremendous.

Reforms are ongoing and progress is palpable throughout the country. Subsidies previously trapped by the middle-man are now increasingly disbursed directly into consumers' bank accounts, thanks to the implementation of the national ID system (Aadhaar), covering approximately one billion people. Government services are moving online, and with them a greater degree of transparency.

A key challenge for India is the lack of basic infrastructure. The shortage of reliable power supply puts major constraints on growth, but critical progress is taking place. Inadequate domestic coal supply had been a perennial problem. Against most pundits' expectations, however, coal production has lifted significantly in recent months, so much so that imports fell 15% year-on-year over April-December 2015!

India's power sector has also been plagued by a lack of accountability of state governments in managing the finances of state-owned electricity distribution companies. Artificially low tariffs for certain groups and outright theft in other cases have led to distribution companies racking up huge losses, impairing their ability to purchase power. To fix the problem, the central government put forward a reform proposal which aims to reduce the interest cost of distribution companies and make them more accountable to losses. Since our last update in the December 2015 Quarterly Report, another six states have in principle endorsed the scheme, taking the total number of participating states to 17. Nine of these 17 states have already signed a memorandum of understanding with the central government. These nine states had a combined debt of approximately US\$29 billion, representing 45% of the power distribution sector's total outstanding debt! We expect to see an improvement in power demand and NTPC, India's largest power utility and one of the Fund's top three positions in India, would be a key beneficiary.

While there remains a long way to go for infrastructure improvement, road building continues to pick up with the National Highways Authority of India and the Ministry of Road Transport and Highways together completing 3,980 km of highways during April to December 2015, averaging 14.5km per day, a significant increase from a year prior. We hope to take advantage of this trend through the Fund's holdings in IRB Infrastructure Developers, a leading road construction company and tollway operator.

Similarly, rail capital expenditure is also improving and investments in the Dedicated Freight Corridor will drive demand for container logistics. The recent central government budget showed that planned spending for railway will increase by 24% year-on-year. One of the Fund's key holdings, Adani Ports, has a third of the market share of private ports in India, is seeing a rapid rise in container traffic as a result of ongoing economic growth and increasing containerisation in freight transport.

Residential property sales across the top seven cities are now 20% lower from the 2013 peak after two consecutive years of decline. In March, the upper house of the Indian Parliament passed a real estate bill which proposes to regulate both commercial and residential sectors. The reforms are focused on increasing consumer protection through mandatory project registration requirements, introducing the use of escrow accounts (to ensure that funds are not used for other corporate purposes) and imposing penalties on developers for construction delays. All these measures, if implemented, will bring about positive changes to the sector and accelerate its transition from scattered players into an organised industry.

China

The beginning of the quarter was eventful in China. The implementation of a stock market circuit breaker on the first trading day of 2016 precipitated in a panic sell-off, with domestic punters concerned that a suspension would prevent them from selling their holdings. The policy intent was to reduce volatility, but it produced the opposite outcome. To the credit of the Chinese authorities, the measure was abolished within a week.

The Yuan depreciated 1% in the first week of the year. China runs a sizable trade surplus, which means money should naturally flow into the country via trade. However, the expectation of Yuan depreciation led to corporates paying down their US dollar debt and locals becoming eager to diversify their asset base offshore, which resulted in much downward pressure on the currency.

However, the immediate pressure to depreciate has reduced as repayment of foreign debt has begun to stabilise (it is estimated that some US\$300 billion, or 30% of Chinese companies' foreign debt, was repaid last year), and the Chinese authorities have stepped up their efforts to crack down on underground channels that facilitate capital outflow (including greater scrutiny on the practice of over-invoicing of imports). Moreover, expectations of further interest rate rises in the US have subsided. We would note, however, while the short-term pressure has lessened, longer-term pressure to gradually devalue the currency remains as China will need further monetary stimulation.

China's National People's Congress held its annual meeting in March. The conference held special significance this year, as it marked the beginning of China's 13th Five-Year Plan. The message, once again, emphasised the continuation of reform to restructure the economy towards greater consumer and service orientation. Key policies include:

- Encouraging consumption through increasing public spending on social welfare and healthcare.
- Trimming down excess capacity in old industries (e.g. steel and coal) to reduce "zombie companies" and reform state-owned enterprises (SOEs) to make them operate more like private businesses.
- Further urbanisation (currently around 56%) will be facilitated through modifying the *hukou* (household registration) system which has hitherto restricted the migration of labour (particularly from rural to urban areas).
- Strong emphasis on environmental protection, lifting emission standards and raising adoption rate of renewable energy.

China is a complex US\$10 trillion economy in which individual companies' prospects can differ enormously, depending on which part of the economy they operate in. China's previous growth story was predicated on encouraging its people to produce goods in the cities and save a large proportion of their money so that the banking system could deploy the savings into investments in infrastructure which in turn would lift productivity. Relying largely on domestically sourced savings to fund growth makes China unique among most developing countries and gives the authorities much flexibility when it comes to fiscal stimulus.

Policy stimulation over the last six months is leading to early signs of a cyclical recovery in the construction sector. Stabilisation was the key reason that sentiments towards commodities-related sectors have suddenly turned in recent months. New infrastructure project approval rate was up 40% this quarter. Property sales volume was up around 30% in the first two months of 2016. Pent-up demand for property proved so high that top tier cities (e.g. Shanghai and Shenzhen) had to tighten property purchase policies to keep prospective (investment) buyers in check! Even the smaller cities are seeing rapid recovery in investor interest, but it will take some time for sales strength to clear property inventory in these problematic smaller cities with a large number of unsold apartments.

One key driver for China's economic transition is to encourage consumption rather than savings. During the last 30 years of the *Chinese economic miracle*, household consumption as a percentage to GDP in fact declined from 50% to less than 40% today. An upshift of the portion of income consumed versus that saved will result in the biggest group of growing consumers the world has ever seen! Old economy-based

industries will see a long-term decline while new industries will grow. The transition will mean concomitant job losses and gains as well as slower economic growth, punctuated by bouts of policy stimulation.

Our investment in China is focused on longer-term growth of businesses that will do well as the country transitions into a consumer-oriented economy. Chinese consumer preferences are rapidly evolving. They are moving online quicker than ever, are becoming more discerning when it comes to product quality, and are increasingly attuned to leisure and health related consumption. To capture the opportunities created by these evolving consumption trends, the Fund has exposures to Internet companies (Tencent, JD.com, Baidu, Sina), insurance providers (China Pacific, PICC, China Taiping), premium branded liquor makers (Kweichow Moutai, Jiangsu Yanghe Brewery), gas utilities (China Resources Gas, ENN Energy), dominant domestic sporting brand (Anta Sports) and telecommunications (China Mobile). We are confident that these companies will grow to be much bigger businesses in China's new economic landscape.

ASEAN

Outside of India and China, the Fund also has exposure to a range of high quality companies in the ASEAN region. In the Philippines, our key exposure is Ayala Land, the premier property developer with a vast land bank in this demographically young and populous country which is currently enjoying blistering economic growth and rising incomes. Jardine Matheson is a conglomerate with decades of experience operating in Asia and has enviably strong businesses in car assembly (one out of every two cars sold in Indonesia is made by its associate company Astra), retailing (Dairy Farm), office leasing (being the landlord of a significant part of Hong Kong's CBD), and hotel operation (Mandarin Oriental). In Thailand, we have positions in the major banks, Kasikornbank and Bangkok Bank, both of which will benefit from the country's long-term development. In Vietnam, the Fund holds a sizable position in the country's dominant dairy company. Vietnam is a populous country and its economic growth has recently been a bright spot in a lacklustre world. Post its joining the World Trade Organisation in 2007, Vietnam's export sector has been growing at double digit rates and household income has been rapidly rising.

Outlook

Recent events remind us that while one should not expect a linear growth trajectory, both China and India are gradually reforming to better their longer-term outcomes. This is beneficial to strong businesses in the more prospective industries.

Power sector reforms and a clean-up of non-performing loans are transformational steps for India. Sensible central government policies have reined in inflationary pressures, opening the way for interest rate cuts. In China, not only are reform efforts progressing, activities in the property market and infrastructure spending have both found a more stable footing. The ASEAN countries continue to develop as their predominantly young population join the workforce, start a business and become consumers in their own right.

Market weakness is presenting us with new opportunities. A low starting valuation reduces the risk of overpaying and increases the likelihood of positive returns. We remain optimistic as we find prospective companies to deploy the Fund's capital.

Platinum World Portfolios - Japan Fund



Scott Gilchrist Portfolio Manager

Disposition of Fund Assets

REGION	MAR 2016	DEC 2015
Japan	77%	58%
Korea	0%	2%
Cash	23%	40%
Shorts	-2%	0%

Source: Platinum. Refer to note 2.

Sector Breakdown

SECTOR	MAR 2016
JAPANESE INTERNATIONAL FOCUS	35%
Electronics (Canon, Nitto Denko, Ushio)	21%
Industrials (JSR)	6%
Autos (Toyota, Nissan, Sumitomo Electric)	5%
Energy (Inpex, JAPEX)	3%
JAPANESE DOMESTIC FOCUS	42%
Internet (NTT DoCoMo, Recruit, Rakuten, Nexon)	20%
Financials (Mitsubishi UFJ)	10%
Health Care (Mitsubishi Tanabe, Ain)	6%
Consumer	3%
Property	3%
GROSS LONG	77%

Currency Position

Japanese yen	78%
US dollar	22%

Source: Platinum

Performance

(compound pa, to 31 March 2016)

	QUARTER	SINCE INCEPTION
PWP - Japan Fund (Class D)	-2%	-1%
PWP - Japan Fund (Class A)	N/A	0%
MSCI Japan Net Index	-7%	-6%

Source: Platinum and MSCI. Refer to note 1.

Portfolio performance for the quarter was helped by cash holdings and a small short position which partially offset market weakness. Strength in domestic and consumer holdings was offset by broad weakness across financials and industrials. Yen strength against the US dollar led to weak performance of exporters.

Changes to the Portfolio

The portfolio is predominantly invested in Yen based Japanese equities with a sizeable cash holding and a small short position. As individual stocks have become cheaper over recent months, the Fund has opportunistically become more fully invested with a view to a medium to long term investment horizon.

Commentary

Over the last few weeks we visited 50 companies based in Tokyo, Osaka, Kyoto, Kobe and regional Japan across a broad range of industries. Most importantly, a number of new, high quality investment opportunities were identified, often with valuations near 20 year lows. This series of visits also reinforced the opportunity set within many existing holdings. While overall Japanese stock market indices are approaching historical low points in their valuation spectrum, there are many parts of the market where valuations are at the levels generally seen towards the end of long bear markets. It has been almost 30 years since the Nikkei peaked at around 40,000, more than double today's price.

Valuation

Valuation dispersion has been a characteristic of the Japanese stock market for a few years now. It has continued to widen. Investors have been willing to pay high prices for the seeming certainty of earnings available from consumer goods, medical

devices, pharmaceutical and cosmetic companies. The structural growth of Internet businesses and other disruptive business models has also warranted a valuation premium. On the other side of the divide, companies with exposure to Chinese and Emerging Market industrial growth, such as raw materials producers and capital goods suppliers, have been de-rated to historically low valuations. Similarly, automobile assemblers, mega banks and electronics components seem somewhat neglected.

The Nikkei stock index is currently trading slightly above book value. This is not far above the lows of the last 50 years. There are many logical and sensible reasons for this. The weak Yen of the last few years led to foreign exchange gains on overseas assets and also increased earnings, but nevertheless the majority of book value is now solid and based on realistic operational and cashflow expectations. The mal-investment of previous decades is now a much smaller component of corporate behavior. With the Yen strengthening rapidly, both earnings and book value will be reduced. Nevertheless, even in a low growth world, the current environment presents many interesting investment opportunities at low valuations.

Corporate Governance

Our visits reinforced the assessment that large parts of Japanese corporate behavior had become out of touch with reality. A former attendee at board meetings of a large Japanese company recalled that until five years ago the majority of the meeting was a discussion of their golf games. A senior employee at a trading house described the capital allocation discussions from the 1980s and 1990s where zero consideration was given to the balance sheet or cashflow. He was delighted that current management is now focused on metrics such as free cashflow after many years of prompting from many departments.

Japanese corporate governance has been improving for many years. The recent well publicized problems at Toshiba and Asahi Kasei highlight the lingering problems at many levels in corporate Japan. However, this behavior is now in the minority. The recent upheaval at Seven & I is perhaps a marker of a broad turning point. There are sure to be ongoing problems as competition from Korea, China, India, Silicon Valley and ASEAN illustrates natural advantages, but all regions face the waves of globalization and the rise of Asia. Management mistakes are evident across all geographies. Some Japanese management teams remain unwilling to adapt, and want to emphasize long-term investment horizons without accepting the rapidly evolving external environment.

There is significant investment potential when retrograde holdouts adjust to reality.

Growth

Jonathan Wilmot of Credit Suisse has recently compared the current global economic environment to the aftermath of the Great Recession of the 1890s and the Great Depression of the 1930s. All three periods are characterized by low levels of global growth. One sobering outcome of our recent meetings was the lack of significant new products across the IT hardware industry with PCs, smartphones, tablets, and TVs reaching saturation in the developed world and traversing a lull in the developing world. Similarly, it's hard to see high growth rates from the auto industry, power generation, housing, commodities or developed markets in general. Against this seemingly somber backdrop there are many opportunities where new products and lower costs are leading to change. Some examples are organic light-emitting diode (OLED) screens and new camera modules for mobile phones, automated driving for cars and trucks, new chemicals for the IT industry, biologic pharmaceuticals, robotics and automation, e-commerce and ASEAN/India. Canon's Tokki division which sells the US\$100+ million encapsulation and evaporation lines to Samsung for their OLED panels is fully booked for the next three years. Robotic and automation investments across Asia and the developed world are seeing two to tenfold productivity improvements while overall installation costs decrease 10%+ per annum. Recruit's Indeed website and Rakuten's Ebates website are growing rapidly with attractive economics. Interestingly, Mr Wilmot's overall conclusion from his analysis of prior post-crisis periods is that a further major economic upheaval is unlikely, although it is very path dependent, with pre-emptive central bank tightening being the major risk. Cyclical risk remains.

Japanese Economy

The Japanese yen has recently strengthened against the US dollar from 124 to 108. At its low point, the Yen was at historically low levels according to a wide range of measures. Current strength is a headwind for exports and the related consumer spending. It will also slow the rapid growth of inbound tourism seen in recent years which was the result of relaxed visa requirements.

Recent meetings highlighted the strength in Japanese employment, albeit from low levels. We noted a lovely grass slope behind a corporate headquarters being trimmed by four men with scissors and it has been a while since a petrol station attendant hurried out to fill our tank as we

experienced in Hokkaido. Japan remains a country with under-utilized capacity, both physical and intellectual. Japanese housing stock is estimated at roughly 60 million units, of which 10 million do not meet current earthquake regulations. As in most parts of the developed world, there is an infrastructure renewal backlog across the archipelago. Many industrial plants built decades ago now need upgrading with modern safety and control systems.

Outlook

The recent strength of the Yen presents a headwind to both earnings and sentiment. Nevertheless, the range and valuation of high quality investment opportunities at multi-decade low valuations presented by the recent sell-off allows the construction of a portfolio with attractive characteristics for medium to long term investors.

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Some numerical figures in this publication have been subject to rounding adjustments.

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NOTES

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1. The Fund's total returns are calculated using its net asset value attributable to the relevant share class (where applicable) and represent its combined income and capital returns for the specified period. The Fund's total returns are pre-tax and are net of fees and expenses (excluding investment performance fees, if any). The investment returns shown are historical and no warranty can be given for future performance. You should be aware that historical performance is not a reliable indicator of future performance. Due to the volatility in the underlying assets of the Fund and other risks associated with investing, investment returns can be negative (particularly in the short-term).

The index represented is, as the corresponding benchmark for the relevant Fund, as follows (each the "Index", as the context requires):

- Platinum World Portfolios - International Fund — MSCI All Country World Net Index (US\$)
- Platinum World Portfolios - Asia Fund — MSCI All Country Asia ex Japan Net Index (US\$)
- Platinum World Portfolios - Japan Fund — MSCI Japan Net Index (US\$)

Index data has been sourced from MSCI Inc. Index returns include dividends but, unlike the Fund's returns, do not reflect fees or expenses. It should be noted that the Investment Manager does not invest by reference to the weightings of the Index. Underlying assets of the Fund are chosen through the Investment Manager's individual stock selection process and, as a result, holdings vary considerably to the make-up of the Index. Index returns are provided as a reference only.

The portfolio inception dates for each active share class of the relevant Fund are as follows:

- Platinum World Portfolios - International Fund:
 - Class D USD (Accumulating) (ISIN: IE00BYRGQZ50): 16 November 2015
- Platinum World Portfolios - Asia Fund:
 - Class D USD (Accumulating) (ISIN: IE00BYRGRD06): 16 November 2015
- Platinum World Portfolios - Japan Fund:
 - Class A USD (Accumulating) (ISIN: IE00BYRGRF20): 11 January 2016
 - Class D USD (Accumulating) (ISIN: IE00BYRGRJ67): 16 November 2015

The inception date for the purpose of calculating the returns of the Index, as contained in this publication, is taken to be the inception date of Class D of the Fund, being 16 November 2015.

2. The regional exposures represent all physical holdings and long derivative positions (stock and index) as a percentage of net asset value as at 31 December 2015 and 31 March 2016.

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