Platinum®
WORLD PORTFOLIOS PLC

Quarterly Investment Manager's Report

Platinum World Portfolios - International Fund

Platinum World Portfolios - Asia Fund

Platinum World Portfolios - Japan Fund

30 June 2016

Platinum World Portfolios - International Fund

Kerr Neilson Portfolio Manager

Performance

(compound pa, to 30 June 2016)

	QUARTER	SINCE INCEPTION
PWP - International Fund (Class D USD)	-0.4%	-5.1%
PWP - International Fund (Class A USD)	-	-1.9%
PWP - International Fund (Class G GBP)	-	7.2%
MSCI AC World Net Index	1.0%	0.9%

Source: Platinum and MSCI. Refer to note 1.

The quarter was characterised by a further recovery in confidence following the growth scares that climaxed in February. The MSCI World Index progressively rose for most of the three months with a change of tone as cyclicals (energy and materials) played catch-up with defensives (consumer staples, health care and utilities). At least that was the case until the Brexit vote was announced on the morning of June 24th. By the measures of earlier shocks, it proved a short affair, though powerful, with the MSCI World Index cracking by 7% in three days. By month end, the discussions seem to have settled back to the practical remedies available and a belief that there was only a modest threat of a contagion as Euro leaders considered measures that addressed issues like the funding of the Italian banks.

News out of China has been more reassuring, though the Renminbi has weakened through the quarter. At the same time investors also became more comfortable with the idea that the US Federal Reserve will proceed with greater caution in raising rates even as wages creep higher and consumer spending looks to be growing by over 4%. The market's view has changed from expecting two hikes earlier in the year to one hike after a weak May payroll number, to no hike just after the Brexit vote.

Prospects of easier money in the face of concerns of Brexit spurred interest in gold. When tracing the international movement of gold bullion it is perhaps surprising that despite negative interest rates in Europe, movements are principally from the West to Asia. However, record positions in the futures market and a further rise in the ownership of gold exchange-traded funds (ETFs), where physical holdings of gold have risen from 47 million ounces last December to 63 million ounces at the end of June, tell of concerns regarding central bank intervention.

Oil prices bottomed in mid-February and rose steadily throughout the quarter which emboldened investors to return to energy related assets. Energy stocks were not the only winners. The price of high-yield bonds also rebounded strongly as concerns of an increase in defaults by highly indebted oil companies subsided. Energy-reliant regions or countries such as the Middle East, Russia and Indonesia saw their equity markets bounce strongly throughout the quarter. There has also been encouraging price action in non-ferrous metals even though stockpiles are at record highs, reminding us perhaps that markets anticipate!

Despite questions about the effectiveness of Quantitative Easing (QE) and passing references to the effects of tightening in 1936, which is blamed for the subsequent stagnation pre-war, the European Central Bank (ECB) and the Bank of Japan (BOJ) are pumping huge sums into the banks by buying a wide array of mostly fixed income instruments. In the case of the BOJ, this also includes equities and equity ETFs.

The obvious consequence of slow growth and massive price-insensitive buying has been the growing (and unprecedented) list of sovereign bonds that are trading at negative yields. The total amount trading in negative territory now exceeds US$11.7 trillion. The Swiss lead the field with 100% of their government issued bonds now offering negative yields, followed by Japan at 85% of outstanding issuance. The northern Europeans range from 77% to the low 60s while even Italy and Spain have one-fifth of their government bonds giving a small running yield that will be offset by capital loss if held to redemption. Among the large Western economies only the US and the UK have a range of maturities giving positive yields.

In Japan, 'Abenomics' has run out of steam and the 2% inflation target looks increasingly distant. In response, the Yen moved from 112 to 106 before Brexit and is now sitting just above 100 while the Nikkei touched the lows of February before recovering marginally.

The overall returns from geographic markets are shown in the accompanying tables, as are the returns from the industry subsets. As you can see, it has been a dull year for global equities with widespread losses recorded in US dollars.

MSCI World Index Regional Performance (USD)

REGION	QUARTER	1 YEAR
Developed Markets	**1%**	**-3%**
Emerging Markets	**1%**	**-12%**
United States	**2%**	**3%**
Europe	**-3%**	**-11%**
Germany	-6%	-12%
France	-4%	-9%
United Kingdom	-1%	-12%
Japan	**1%**	**-9%**
Asia ex Japan	**0%**	**-12%**
China	0%	-23%
Hong Kong	1%	-11%
India	4%	-7%
Korea	-1%	-3%
Australia	0%	-5%

Source: MSCI

MSCI World Index Sector Performance (USD)

SECTOR	QUARTER	1 YEAR
Energy	10%	-6%
Health Care	5%	-5%
Utilities	4%	12%
Consumer Staples	4%	12%
Materials	3%	-9%
Telecommunication Services	2%	3%
Industrials	0%	-1%
Information Technology	-2%	1%
Financials	-2%	-14%
Consumer Discretionary	-4%	-6%

Source: MSCI

The Fund has performed poorly, suffering from its underweighting of the US and commensurate overweighting in China, Japan and Europe. As you can see, in USD terms there was only one plus over the year and that was the US market, up close to 3%, with many countries experiencing losses of several times that amount.

For an in-depth review of how the recent market turmoil impacted on some of our holdings (particularly our European banks such as Lloyds, Intesa and Mediobanca, as well as Japanese company Lixil) and where we believe they stand, we would encourage you to read the Platinum Unhedged Fund 30 June 2016 Quarterly Report available at www.platinum.com.au/documents/funds/puf/quarterly_reports/pufqtr_0616.pdf.

Currency

The principal changes were to be fully hedged out of the Chinese currency and to reduce exposure to the Yen as it rose sharply.

CURRENCY	JUN 2016	MAR 2016
US dollar (USD)	62%	38%
Euro (EUR)	14%	16%
Hong Kong dollar (HKD)	8%	17%
Indian rupee (INR)	5%	6%
British pound (GBP)	4%	5%
Japanese yen (JPY)	2%	11%
Chinese yuan (CNY)	-1%	4%
Chinese yuan offshore (CNH)	-5%	-11%

Source: Platinum

Shorting

We traded around the short positions but with no meaningful return as markets whipsawed between positives and negatives in the days around Brexit. Positions against the S&P500 and the Russell 2000 indices were closed as the higher cash holdings reduced the need for these hedges.

Disposition of Fund Assets

REGION	JUN 2016	MAR 2016
Asia	24%	36%
Europe	21%	26%
North America	18%	24%
Japan	9%	11%
Australia	<1%	1%
Cash	28%	2%
Shorts	-2%	-10%

Source: Platinum. Refer to note 2.

Changes to the Portfolio

We pursued our barbell strategy of looking for established growth companies that are temporarily out-of-favour as well as others which had been unduly punished for having businesses that are dependent on general market conditions, like the energy sector. The latter, **oil and gas**, remains highly prospective in our view on account of **record low levels of spare capacity** in the face of possible disruptions and a commonly held view that increases in the production of shale oil and gas will prevent these commodity prices from rising much above current levels. There have already been some fierce moves and drilling activity is starting to revive.

As you will have read in our earlier quarterly reports, we have found well-known names that are going through business make-overs and these have proved resilient and profitable investments. We have recently added to this list with the acquisition of **Johnson and Johnson** (JNJ). Like several in this category, the company's pre-eminent position allowed standards to slip and several years ago JNJ found itself in an unusual position of fighting forest fires in both its orthopaedic/devices division and consumer businesses. These account for some 60% of the company's sales and the problems caused reputational damage. Legal disputes and a loss of market share in over-the-counter medicine ensued from orders by the authorities to withdraw stock from retailers' shelves.

Throughout this time JNJ's pharmaceutical business has sailed through a 'patent cliff' and grown well for 14 consecutive quarters. More interesting still is that we see its areas of specialisation deepening as it has cleverly nurtured relationships with research boutiques and is well positioned to reap further benefits in the future. Unlike many of its peers, JNJ never reports on its early stage pipeline (phases 1 & 2) and hence it has tended to be covered by analysts who concentrate on the orthopaedic/devices sector, with relatively light coverage among drug specialists.

The company's investor day in October last year spelled out its change in priorities and that head office had realised that the historic emphasis on devolution of power had denied the group the potency of developing truly global brands in consumer products. Now that their products are back on retail shelves and there is a realisation of the latent power in its brand, we can see good reason to believe their claims that their consumer division can earn similar margins as its peers: 20% versus 14% at present. At the same time, the orthopaedic/devices division is being refocused with an emphasis on sales channels, which have changed with the growing influence of the buying groups, and on taking advantage of e-commerce in areas like eye care and contact lenses where JNJ is clearly the world leader.

This is a truly remarkable company with 54 years of consecutive dividend increases, well above-average profitability, and although it is an average grower, the cash generation through very disciplined use of funds has allowed it to periodically reshape itself and to remain **one of the only two US-listed companies with an 'AAA' credit rating**. We bought it on a P/E of 17 times which is slightly cheaper than the average of the S&P500 index for what we consider to be a well above-average quality company. Some may point to possible pressure on drug company pricing as a threat, and this cannot be ignored except that the cost of drugs is only part of the problem and accounts for 12% of US medical expenditure. Moreover, within the industry there has been a tendency of scaling where increasingly the big global players develop strong disease franchises and use these as platforms for other drug originators to gain access to increasingly complex markets. JNJ has been exemplary in such manoeuvers (for a more detailed account of the evolution of JNJ, please refer to the Platinum International Health Care Fund 30 June 2016 Quarterly Report available at www.platinum.com.au/documents/funds/pihf/quarterly_reports/pihfqtr_0616.pdf).

Commentary

Please bear with us as we take you on a circuitous journey through the behaviour in the world's bond markets as a way of trying to illustrate the disruptions that are affecting the world of equities. Strange things are happening. To the casual observer they seem absurd. At the end of June, the

30-year Swiss government bond traded at a price of CHF235 against a face value of CHF100. If held to maturity, this asset, admittedly denominated in a historically strong currency,[1] will generate a guaranteed (and deferred) capital loss of some 57% for the privilege of receiving a biannual payment of CHF2. In the parlance of the bond traders, this bond, with 30 years to repayment is **giving a *negative yield* of 0.07% (i.e. -0.07% per annum)**.

Strangely, what seems crazy to individual investors makes sense to life insurers, pension funds, and central bankers. It comes down principally to the regulatory environment imposed on these institutions. In particular, the intention is to **protect policy holders and consumers from these institutions mismatching their assets and liabilities**.[2] Remember, when these institutions write new life insurance policies or pension funds commit to long-term retirement funding obligations, these promises can be for 10 to 30 years, while many of the investment options open to these institutions tend to have shorter durations. Under circumstances where interest rates have progressively fallen to well below historically-formed expectations, as has been the case in Japan, some institutions failed and promises had to be 'renegotiated'! In an environment of negative rates, however, it becomes all the more probable that these promises shan't be kept as these institutions keep to the rule book required of them. Importantly, falling yields have seen *retail investors* in the Euro zone reduce their holdings of debt instruments by some €200 billion on average each quarter for the last five quarters and progressively increase their allocation to equity, which is seeing an incremental rising trend to approximately match the former.

The fund management industry has different regulations to those of life insurers and pension funds, but firms have in fact been acting in a similar herd-like way when offering products that are, explicitly or covertly, classified as 'index aware'. This causes so-called 'index hugging' where, to a large extent, the portfolio will mimic the constituents of the index against which the fund is measured. Individual portfolio managers may in addition be given a 'risk allowance' or 'tracking error budget' to achieve performance that varies by a small degree from the index. By having these tight parameters, it certainly reduces the anguish of managing money and tempers the business risk of relative underperformance, but it is **at the sacrifice of participating in very crowded trades which can result in greater exposure to market shocks**; that is to say, **as a component of the index becomes ever more popular and higher priced, the fund is obliged to own more of it**.

By contrast, Platinum Asset Management is index agnostic. This will cause our performance to vary markedly from the index from time to time as we seek out neglected companies.

At its core, superior long-term returns are derived from allocating savings to companies that can demonstrate an ability to generate surpluses over and above their long-term cost of capital. To simply follow the crowd often leads to mispricing of shares. We have all experienced these great extremes like the tech bubble or, more recently, the mining boom, where shares became too highly favoured on the basis of misplaced extrapolation and momentum investing. At the same time, other areas become remarkably neglected and offer fertile hunting grounds for the hardy.

The parallel to long duration and the search for certainty in equity markets is exemplified by **consumer staple companies** around the world. For example, the 'consumer staples' subset of the S&P500 index has outperformed the broader market by 35% since 2010. This is so, even though over the same period their combined sales have grown by 3% p.a., net income by 1.4% p.a. and earnings per share (EPS), with the help of buybacks, by 5% p.a. The main thrust of their outperformance has come from a re-rating of earnings. The sting lies in the fact that, against the market as a whole, the EPS of this subset have trailed the average by 18% (that is, 3% p.a.).

Readers may correctly observe that such a crowding strategy has worked in the past six years and may ask why it shouldn't continue to work for a little longer. The counter call is that **the odds do not favour renewing bets on the same colour when there has been a significant de-rating of all markets vis-à-vis Wall Street** over these six years and that, indeed, a good part of the superior earnings growth in the US has been attributed to a single company, Apple, which accounted for some one-third of the profit rise of the index! The gap in

1 The Swiss franc has appreciated by about 1% p.a. over the last 30 years.

2 Holdings of government bonds are classified as risk free. This for financial institutions means that new business and promises (i.e. liabilities) matched by the purchase of very long term bonds need little or no matching equity capital. As rates of interest have fallen, the duration of their portfolios has risen (these institutions have become more sensitive to interest rate changes), and this forces them to rematch their books by often selling more of their share portfolios and adding to their long term bond holdings. The regulator sets the rate at which liabilities are valued, usually by the long term bond rate or the swap rate, and this then determines the process of rematching assets as rates move about. There are also other arcane technicalities at work which go beyond the scope of this note.

valuation is all the more intriguing given that around half of the S&P500 companies' earnings come from international markets.

The difficulty lies in selecting companies that will verily grow in the next few years and where the fear suppressing the share prices of out-of-favour companies fully reflects these concerns. This assessment is being made more difficult by negative interest rates. However, it is our view that the case for more intervention by central banks is weakening and that **governments will progressively turn to fiscal stimulus as they discard the mantra of fiscal rectitude that is a hangover from times when demand exceeded supply**.

CATEGORY & % OF PORTFOLIO *	DESCRIPTION	STOCK EXAMPLES (RANKED BY SIZE OF HOLDING *)
High growth 21%	18x average P/E; 21% average growth over the last 5 years; 23.5% average return on equity	Tencent 2.7% Alphabet (formerly Google) 2.6% Rakuten 2.0% PayPal 2.0% Sina 1.8% China Pacific Insurance 1.6% Gilead Sciences 1.3% Toyota Motor 1.0% PICC Property & Casualty 0.9%
Slower growers 24%	15x average P/E; growing at 3%; paying 2% dividend	Samsung Electronics 3.5% Kering 1.7% Qiagen 1.6% ICICI Bank 1.6% NTPC 1.4% Level 3 Communications 1.3% Intel 1.3% Reliance Industries 1.3%
High payout/ buyback 16%	5.4% average payout yield	Sanofi 2.7% AstraZeneca 2.4% Cisco 2.1% Ericsson 2.0% Intesa Sanpaolo 1.7%
Low valuation companies 3%	0.62 average P/B ratio	Ushio 0.8% KB Financial Group 0.4% Toyota Industries 0.4% Sumitomo Metal Mining 0.3%
'Safety net' 8%	Precious metals; oil and gas producers	Eni 2.8% Inpex 2.2% Newcrest Mining 1.0% A large gold miners ETF 1.5% Stillwater 0.3%
Cash 28%	-	-

* As at the time of writing in early July 2016.

Source: Platinum; Factset.

To assess the prospects of the Fund, let's examine its current portfolio, using the observed record of holdings, characterised as strong earnings growers, slower but probable growers, high payout/buyback companies, and lastly, cheap companies (see accompanying table). These categorisations are by their nature somewhat elastic with few being mutually exclusive. For example, within the high payout group there are several drug companies that should grow quite quickly over the next three years.

You can observe that the portfolio is predominantly composed of growing companies and those that are paying back decent amounts of income to shareholders and, by our calculations, likely to also grow, though in the main, slowly. **We strongly favour this portfolio over the alternatives of long-dated negative-yielding bonds or very highly priced consumer staples.**

With equanimity, let us survey the general economic climate further. Now that the direction has been decided and Britain is looking at its options regarding its long-term relationship with the European Union (EU), it strikes us that the heaviest burden will be carried by the British pound and a deferral of both investment and consumption decisions in the UK. Europe is growing and pointers like property prices, consumer spending, etc. are trending upward. The alarm in Britain regarding the negative repercussions of leaving the EU leads one to doubt that this will result in an immediate contagion among other EU member countries.

Looking further afield and contrary to general commentary in the press, there is evidence that the Chinese government is indeed changing its investment priorities towards social and infrastructural work. In addition, among the state-owned enterprises (SOEs), investment has slowed and indeed the government is pressing for and achieving the closure of redundant capacity. The consumer is responding with greater willingness to use credit and, with the country's high savings rates, this can be readily accommodated, unlike in many developed countries.

India continues to grow, and the problems of the banking system are on the wane.

The US economy trundles upwards with a tightening labour market and solid consumer spending. Investment and weak productivity growth remain a drag, but Brexit has likely deferred further tightening by the Federal Reserve by several months.

Outlook

There are mixed signals about the general state of world growth. When assessing our portfolio, we assume relatively slow growth and, for the present, little threat of an inflation uplift notwithstanding the improving price trend of various commodities. Profits will remain hard to grow, but when companies with strong market positions are on offer at P/E multiples of 12 to 14 times this year's earnings, a degree of risk has already been accounted for. Our weak performance to date is due to a very different allocation to the average global fund, and we see little virtue in joining the crowds. As the foregoing table shows, there is no shortage of growth companies in the Fund's portfolio.

Platinum World Portfolios - Asia Fund

Joseph Lai Portfolio Manager

Disposition of Fund Assets

REGION	JUN 2016	MAR 2016
China (Listed Ex PRC)	24%	30%
China (Listed PRC)	7%	7%
Hong Kong	3%	4%
Taiwan	4%	4%
India	23%	18%
Korea	9%	9%
Thailand	7%	7%
Philippines	5%	4%
Singapore	3%	3%
Vietnam	2%	2%
Cash	13%	12%

Source: Platinum. Refer to note 2.

Performance

(compound pa, to 30 June 2016)

	QUARTER	SINCE INCEPTION
PWP - Asia Fund (Class D USD)	0.9%	-0.2%
MSCI AC Asia ex Japan Net Index	0.4%	2.3%

Source: Platinum and MSCI. Refer to note 1.

The MSCI AC Asia Ex Japan Index rose 1% (in local currency) for the quarter.

Most Asian markets were more or less flat for most of the quarter. The United Kingdom's decision to exit the European Union following a referendum was widely unexpected, and it rocked global markets. Its impact on Asia was less severe, though not unfelt. The Chinese A-share market was down 2% while the Hong Kong H-share market was flat. The Malaysian market was down 4% and the Korean market was down 1% while the Thai and Indonesian markets were up 3% and 4% respectively. The Indian and Philippine markets saw better performance, both up more than 7%. The Fund maintained a minimal exposure to Indonesia and Malaysia and a relatively big exposure to India. The Fund performed in line with the market over the quarter.

The Fund's consumer related companies with strong market positions were the better performers this quarter. Samsung Electronics was up 9%, Tencent (China's Facebook) up 11%, Uni-President (Taiwanese food and beverage conglomerate) up 12%, and Kweichow Moutai and Jiangsu Yanghe (Chinese liquor makers) were up around 18% and 8% respectively. Elsewhere, Ayala Land (largest property developer in the Philippines) was up 10% and Yes Bank (a leading Indian private bank) was up 28%.

The detractors of performance were mostly US-listed Chinese companies. JD.com fell due to a slowdown in sales while Baidu fell as a result of the recent government crackdown on healthcare advertising on its online search platform.

Changes to the Portfolio

The Fund's net invested position reached 87%, leaving some room to further upgrade holdings should opportunities emerge. During the quarter, we took advantage of stock price weakness and added to companies with strong market positions and growth. Companies that are able to grow earnings look particularly compelling.

Signs of buoyancy in the Chinese markets early in the quarter lessened the relative attractiveness of some of our holdings there. We took the opportunity to reduce some of our China positions – the financials and Weichai Power.

The Fund initiated a position in **Hang Lung Properties**, a major shopping mall developer in China with prime retail land ownership in central city locations across a number of populous Chinese cities. Valuation has more than factored in the temporary impact of both the crackdown on graft-related luxury consumption and weakness in some cities' local economies. With the bulk of Hang Lung's rental income coming from the economically vibrant cities of Hong Kong and Shanghai, this stock is attractively priced with a cash flow yield of 9% and a dividend yield of 6%. Exceptionally disciplined with its cash flow and almost debt free, the company is well positioned to take advantage of opportunities to acquire more prime retail real estate in China.

In India the Fund added **IDFC Bank**, which was awarded a private banking licence in India in 2014. The Indian banking sector is still hindered by the stale public sector banks, which present an opportunity for the more agile private banks to take market share and grow profitably. If history is any guide, IDFC has the prospect of becoming a great long-term growth story. Trading at below net asset value, though already generating a profit, valuation is attractive given the favourable growth trajectory ahead.

We also initiated a position in **Coal India**, a national coal mining company that is highly profitable but out-of-favour with the market. For the first time in many years, this company has managed to grow production under the stewardship of the new Minister for Power, Coal, New and Renewable Energy. Realised coal prices, which have historically traded at a discount to global prices, are catching up. Improvements in rail infrastructure, better financial health for the country's power distribution companies, and continued efforts to improve productivity per employee should be beneficial to the company's growth. Coal India has 20% of its market capitalisation in cash, a return on equity of 35-40%, and a dividend yield of greater than 7%, which seems to be good value for a utility company with a dominant position and likely to benefit from the economic growth of the country for years to come.

We have added a 4% hedge against the Korean won and maintained a 19% hedge against the Chinese yuan as further depreciation of these currencies against the US dollar is likely to result from accommodative interest rate policies.

Commentary

The recent quarter was a relatively uneventful one until the British referendum took place. Markets around the world were inevitably shaken as investors shied away from risk-taking in the face of widespread uncertainty. However, the panic appeared to have subsided rather quickly as the prospect of further monetary loosening lends support to stock valuations. The Brexit outcome is not expected to have a major impact on Asia's economic growth, nor is it expected to have a significant direct impact on the Fund's portfolio as most of our holdings are domestically or regionally focused. While political storms appear to be gathering elsewhere in the globe, countries in the Asia-Pacific region, such as India, China, Indonesia and the Philippines, continue to make progress in lifting the living standards of the people through sensible government reforms and policies.

India

Indeed, in a world where growth is scarce, India looks like a shining star. Signs of recovery are evident with encouraging economic indicators. Electricity generation, oil consumption, and commercial vehicle sales continue to point decidedly in the positive direction. Better agricultural prices have led farmers to invest in tractors and motor vehicles again after a few years of dull sales. It appears that sensible interest rate policies, responsible central government budgeting and economic reforms will indeed lend sustainability to India's growth in the years ahead. Our holdings in India, including private banks, India's largest power utility, a leading road construction and toll-way operation company as well as other smaller holdings, are expected to benefit from these encouraging trends.

However, sooner than expected, the Governor of the Reserve Bank of India (RBI) announced his return to academia at the end of his current three-year mandate which ends in September. Over the last three years, India has managed to lower its inflation, stabilise its currency, increase economic growth, reform the RBI and implement a robust clean-up of the banking system. Without a doubt, the outgoing RBI Governor has done an exceptional job. But with the bitter medicine already swallowed, the government appears to want to lean on a further interest rate cut, if conditions permit, and potentially a weaker Indian currency.

China

Property Market

Moving onto China, where the property market is confounding both in its vast scale (US$1.3 trillion each year in new property sales) and in the differing fortunes across the country's many cities. China has built around 85 million residential apartments since liberalisation of the property sector began about 17 years ago, but this is just over 30% of the nation's urban population. **Two–thirds of urban residents are still living in accommodation built in the pre-reform era.** Those flats were built by the government and allocated to individuals; they tend to be of poor quality and sometimes lack basic modern amenities, giving residents little incentive for home improvement.

Not only is the demand to upgrade undoubtedly high, as wages continue to move upwards (average annual income per person has reached around US$5,000), ongoing migrant inflow from rural areas and the less prosperous cities adds further to housing demands in the major cities.

The proportion of people living in cities is only around 56% (comparable to Japan in the early 1970s and Korea in late 1970s). Authorities aim to increase this to 60% by the end of 2020 through various policy incentives, which would mean a rise of over 15 million in urban population, representing an incremental demand for more than 20 million apartments!

Immediately after the global financial crisis (GFC), property development did become something of a frenzy. However, measures were taken to bring it back to balance and, more recently, inducements have re-invigorated demand. These relate to easier down-payment terms of 30% on first homes and 40-50% for the second.

After a 1.25% interest rate cut since the beginning of 2015 and a slight relaxation in policy, reports are once again pointing to recovery in the residential property market. The number of months taken to clear inventory has more than halved, construction activity is picking up and land sales, in select cities, are seeing new record prices.

The story is more complex and nuanced, however, and one senses growing divergence. Cities that continue to enjoy the economic boom appear to be doing very well. Jobs are plentiful with the expansion of the service sectors; people are flooding in in search of better opportunities; wages are rising steadily. Demand for property is healthy and, in some cases, too healthy. The converse is true for cities clouded by shrinking old-economy industries where job opportunities are becoming scarce and wage and population growth is stagnant. The property market in these cities, while generally stable, is by no means thriving. These are the regions in China that are experiencing a significant oversupply.

In the 11 top performing cities,[1] **the number of months taken to clear unsold apartments has on average come down markedly from the peak of 23 months to 7 months**, property prices have risen strongly (25-30%) from a year ago, and policy tightening is starting to be brought back to cool speculative demand.

The next tier comprises some 42 cities with reasonably strong local economies. People continue to move to these cities for jobs and better amenities. The number of months for unsold apartments **to clear improved from 29 months to 14 months on average**, and prices rose a moderate 7-8% from a year ago. In many ways, **this group of cities, which make up one-third of China's vast property market by volume and value, represent the real China**. To give a sense of the size and whereabouts of some of these mid-tier cities:

- **Shijiazhuang** (population: 11 million, area: 16,000 km^2) is a city situated 276 km southwest of Beijing (or 1 hour by high speed rail). It is a transportation hub at the intersection point of three major railway lines. This is the food bowl of northern China, producing much of the agricultural produce such as wheat, walnuts and pears. In recent years, the economy has been transitioning with a focus on the development and production of pharmaceutical drugs.
- **Chongqing** (population: 30 million, area: 82,000 km^2) is a megacity with countless skyscrapers and winding overpasses criss-crossing its mountainous terrain. Situated 1,700 km west of Shanghai, it was one of China's earliest industrial clusters, with a focus on heavy industries such as car-making. In recent years, it has branched into electronics manufacturing and has become the world's largest laptop manufacturing base. In 2015, it produced 61 million (or one in every three) laptops for companies such as Toshiba, Acer and HP.
- **Wenzhou** (population: 9 million, area: 12,000 km^2) is a coastal city situated 500 km south of Shanghai. It is one

1 Beijing, Shanghai, Shenzhen, Guangzhou, Hangzhou, Nanjing, Suzhou, Hefei, Xiamen, Wuhan, and Tianjin.

of the most economically vibrant and affluent cities in China. Despite its small geographical footprint, Wenzhou is a world leading manufacturer of many small commodities ranging from cigarette lighters, zippers, buttons and shoes to electric equipment, valves and locks. The neighbouring city of Yiwu is home to the world's largest wholesale market for small goods. Yiwu is also "the city where Christmas is made", producing more than 60% of all of the world's festive decorations each year!

- **Kunming** (population: 7 million, area: 21,000 km^2) is situated in southern Yunnan province, which borders Myanmar, Vietnam and Laos. The high annual rainfall and other geographic characteristics of the region mean that it is a natural exporter of hydroelectricity to the rest of the nation. Its mild climate is also ideal for agriculture, especially flower growing. Today, Kunming is the largest flower exporter in China and accounts for more than half of the country's flower production. It is also the tourist gateway to national parks and historical townships like Dali and Lijiang.

Outside these two groups are the less prosperous cities which are seeing stable property prices, though unsold inventory is still running at 20-25 months or so. In the coming six months, it is likely that we will see a pick-up in construction activity in the healthier half of China's vast property sector.

Excess Capacity Closure

In early May, the official mouthpiece of the Chinese Communist Party, People's Daily, published an article by an anonymous 'Authoritative Insider', who was widely believed to be from China's senior leadership. The article stated that China is facing slowed growth and stressed the importance of cutting capacity and reducing debt in many old-world industries. The impediment to closing excess capacity has always been the fear for rising unemployment, but this article marks a confident change in attitude from the authorities and their determination to implement capacity closure policies across a number of industries (e.g. cement, coal and steel) while setting aside RMB100 billion to assist laid-off workers. This is likely to lead to a bottoming of prices for those oversupplied commodities.

E-Commerce

In China, our focus has been on consumer-facing sectors with long-term growth prospects. E-commerce in the country is leading the world in both scale (sales are in excess of US$600 billion) and innovation with platforms that provide a great selection of products at cheaper prices with same-day delivery services and trusted internet payment systems.

Distinct from shoppers in the developed world who have for decades enjoyed physical shopping malls catering to all classes of society, the lack of quality shopping venues and experience in the smaller cities means that many Chinese consumers are initiated into the world of shopping through e-commerce. **For many, e-commerce *is* shopping!** As customers discover new products on these online platforms, it becomes imperative for merchants and producers to advertise online to build brands and influence purchasing decisions. As shoppers' eyeball time continues to move from offline to online, advertising dollars will shift too.

There is no let-up on expansion of categories and geographies. Grocery, which requires more specialised logistics, is growing in popularity. Leading players continue to invest in logistic centres and warehouses in rural areas, bringing products to rural residents who still account for half of the nation.

The Fund is well placed to participate in the rise of e-commerce through our investments in **Alibaba Group** and **JD.com**. Alibaba operates the two dominant marketplace platforms (Tmall and Taobao) which together account for 76% of all e-commerce gross merchandise volume (GMV) in China. The company's current valuation is attractive, with its shares trading at 20x forward P/E.

Alibaba's dominance in e-commerce in China has enabled it to build a powerful online payments and financial services company, Ant Financial Services Group. Its major business is Alipay, the payment system that processes around US$2 trillion in transaction value per annum and is more popular than credit cards in China both online and offline. As it collects vast amounts of financial, commercial and personal data off its enormous user base, the fintech giant is also gaining an advantage over traditional financial institutions in the evaluation and pricing of risk, and that will have a profound impact on the insurance and banking industry.

Alibaba also has a strong cloud business. With Internet connection getting faster and the cost of storage getting lower, many companies are moving their systems to the cloud to save cost. Alibaba has a dominant position in this burgeoning industry that has more than doubled in size since 2013.

JD.com is the largest online retailer in China with a strong position in consumer electronics. As the company continues to increase its volume in first-party business, JD.com is expected to be able to extract better pricing terms from suppliers, allowing it to become more competitive against its offline peers. JD.com's control over its self-operated logistic network provides a unique advantage in its ability to lower delivery cost and standardise service quality. At the same time, the company is expanding its category of products outside of consumer electronics through a third party marketplace model. Recent investor fears over China's macro slowdown gave rise to an opportunity to invest in this durable franchise at a compelling valuation.

Samsung Electronics

Samsung Electronics is one of the Fund's nice long-term holdings. It is a technological leader and continues to strengthen its lead by investing in new technology and capacity, ensuring its long-term profitability. The company is at an interesting juncture as its two emerging but world-leading technologies (organic light emitting diode (OLED) and 3D NAND) are now set to be adopted by mainstream consumer electronics companies. Despite the obvious strengths in its core businesses and its focus on the long-term, Samsung Electronics is attractively valued at 10x 2016 earnings and offers a dividend yield of nearly 2%.

OLED is a superior display technology that will be the 'next big thing' for smartphones. It offers higher resolution, bendability as well as lighter and thinner design. Apple is rumoured to be incorporating flexible OLED display in its new generation of iPhones, allowing for interesting form-factors. Come 2017, the new iPhone may have quite a different look. If the rumour turns out to be true, Apple, Samsung's most formidable smartphone competitor, will likely be sourcing almost 100% of its OLED supplies from Samsung!

3D NAND is a data storage technology that is more reliable and cost effective than conventional flash memory (e.g. USB drives). Samsung is on its way to becoming an industry leader in this space as superior attributes (light weight, low power consumption) and lower costs propel its products to rapidly displace traditional hard drives.

Outlook

Markets have been volatile, as economic restructuring, especially in a low growth world, has proven to be a rocky path.

A stabilising property market and, indeed, improving activity in the construction sector should provide some stability to China's economy in the months ahead. Capacity closure is a much needed step that the authorities appear resolute to undertake. The Indian story is panning out largely as envisaged and the likelihood of further interest rate cuts has increased, though current levels of enthusiasm may temper in the near term.

The fact that **interest rates in most parts of Asia are still well above zero** (as opposed to those in much of the developed world) **portends superior growth and investment returns**. Companies in the region with sustainable competitive positions will likely prove to be worthwhile investments over the long run. Our view is that the direction taken by policymakers in the region is generally positive. As many companies in the Asian market are trading on attractive valuations, and a cheap starting valuation is a good indicator of future returns, the Fund will continue to deploy capital when suitable opportunities arise.

Platinum World Portfolios - Japan Fund

Scott Gilchrist Portfolio Manager

Disposition of Fund Assets

REGION	JUN 2016	MAR 2016
Japan	88%	77%
Cash	12%	23%
Shorts	-1%	-2%

Source: Platinum. Refer to note 2.

Sector Breakdown

SECTOR	JUN 2016
JAPANESE INTERNATIONAL FOCUS	43%
Electronics (Canon, Nitto Denko, Ushio)	24%
Industrials (JSR)	8%
Autos (Toyota, Nissan, Sumitomo Electric)	7%
Energy (Inpex, JAPEX)	4%
JAPANESE DOMESTIC FOCUS	45%
Internet (NTT DoCoMo, Recruit, Rakuten, Nexon)	22%
Financials (Mitsubishi UFJ)	11%
Health Care (Ain, Hogy Medical)	5%
Property	4%
Consumer	3%
GROSS LONG	88%

Currency Position

Japanese yen	88%
US dollar	12%

Source: Platinum

Performance

(compound pa, to 30 June 2016)

	QUARTER	SINCE INCEPTION
PWP - Japan Fund (Class D USD)	0.1%	-0.9%
PWP - Japan Fund (Class A USD)	0.3%	0.2%
MSCI Japan Net Index	1.0%	-5.1%

Source: Platinum and MSCI. Refer to note 1.

Portfolio performance for the quarter was positive as the strong Yen offset weakness in the equity market. Weak performance of economically sensitive holdings and exporters was counter-balanced by strong performance from a range of defensives and stock specific developments.

Changes to the Portfolio

The portfolio remains predominantly invested in Yen-based equities. Toward the end of the quarter, additional equity purchases reduced cash holding to around 12%. As the Yen strengthened, some currency exposure was hedged into USD. All but one of the short positions were closed.

Commentary

Many will remember the peak of the Japanese stock market in late 1989 at a level brushing 40,000. Weary veteran participants in today's market may also remember when small sections of Tokyo property were worth more than the real estate of the entire State of California. The subsequent 27 years saw a 60% nominal (and real) fall in the stock market which provides important context for the current Japanese financial environment.

Moving on from the past, toward the future.

While many aspects of Japan important to investors are likely to change significantly, the future of the country is likely to look similar to the last few decades in many other ways. It is hard to see a major change in the political environment. For the moment, Prime Minister Abe is held in decent regard by the general populace who feel rising employment and experience a moderate Gini coefficient. External risks lead to a focus on continuity. Further, while there have been significant improvements in corporate governance over the last two decades, it is difficult to see a fundamental adjustment significant enough to change the path of the country. The demographic challenge is well understood and counter-measures will be undertaken.

Negative bond yields around the globe hint at deflation and a need for surety in a complex world. However, in Japan, there is only one way to think of this phenomenon – it's a fixed market as one large buyer has a mandate to acquire 100% of gross government bond issuance regardless of price. There is virtually no price discovery mechanism in the Japanese Government Bond (JGB) market, reminiscent of prior periods when governments around the world have subjugated market forces to their own needs. The second and third order effects of this activity are not yet visible, and definitely not predictable. For the moment, it seems benign, but complex systems often produce unusual Darwinian outcomes. It is certain that this monetary experiment will eventually have a significant influence on the currency, the equity market and price levels. The **Cantillon Effect** is where expansionary monetary policy effects a transfer of purchasing power away from those who hold old money to whoever gets new money. Richard Cantillon was at the heart of the Mississippi Company with John Law. This seems pertinent today where the Japanese, Europeans and others are expanding the money supply at a rapid pace. There is some discussion that China's current efforts dwarf even Japan's rate of 16% of GDP per annum. The alternative of a Debt Jubilee as inscribed on the Liberty Bell in Philadelphia seems attractive but antiquated. The original Liberty Bell cracked due to poor alloying and material selection. Hark Helicopter Money. While the Bank of Japan (BOJ) and other government entities own almost half of the outstanding stock of JGBs, ownership of the various stock market indices is well below 5%. A move toward extending the "fixed price menu" to a wider range of financial assets seems a foregone conclusion.

As expected after a long bear market like the one experienced over recent decades in Japan, the general public and also the wider investing community are wary of the stock market. This is reflected in their asset allocation which is dominated by cash and bonds. Further, cash continues to accumulate in the financial system and thus the loan to deposit ratio keeps falling. The psychology of investors and the madness of crowds is always difficult to predict and timing is awkward, but even a small shift in asset allocation could be very significant for the equity market. Recent discussion of tax rates, especially in the important context of inheritance taxes, indicates that there is a government push toward equities.

Global trade has been tepid post the 2009 financial upset and shows no signs of accelerating. Consequently, competition for market share through competitive currency devaluation dominates the current environment. This is just one aspect of a rapidly evolving global environment buffeting Japan and rippling through its domestic economy. China's transition beyond an industrial phase, India's nascent industrialization, ASEAN's youthful population, Europe's internal tensions and global emerging markets are just some of the significant influences on Japan's future path.

Sumitomo Metal Mining (SMM) is an integrated producer of copper, nickel and gold in addition to owning a diverse materials business. To SMM's great credit, they have been the first in the world to commercialize high pressure acid leach (HPAL) technology at their Coral Bay and Taganito facilities in the Philippines, in contrast to the failed attempts by many esteemed competitors over the last two decades. After Indonesia banned the export of raw nickel ore to China's nickel pig iron producers, it now appears that the newly elected Filipino government might follow a similar path. The current high level of nickel inventories could reduce quickly. Current nickel prices are unsustainable with almost half of the production base losing money on a cash basis. The dynamics of the copper market over the medium-term are attractive. SMM has been working with Panasonic for many years and their NCA (nickel, cobalt, aluminium) material for lithium ion cathodes has been selected as virtually the sole source supplier by Tesla, one of the two leading global electric vehicle companies. SMM also supplies Toyota. SMM owns two of the lowest cost gold mines in the world with combined production of roughly 500,000 ounces per annum. Global gold mine production is falling and demand is surging for a product where there appears to be limited incremental addition to the existing stock. Perhaps gold should be valued as a zero-coupon perpetual bond with a single repayment of undetermined value at a flexible maturity, implying considerable option value. The valuation of SMM is at the lowest level seen for perhaps fifty years.

Valuation dispersion in Japan has been a feature of the market for the last year. It has continued to widen. The valuation gap between defensives versus cyclicals is now wider than the two previous peaks in 1998 and 2008. The valuation gap between a group of the most expensive stocks in the market and the cheapest stocks in the market is approaching previous extremes seen in 1989 and 2000 and the differential is accelerating. The negative interest rates in the bond market are being mirrored in select parts of the equity market.

History shows that mean reversion eventually works to reverse these phenomena. Behavioural finance theory is an inexact discipline.

Quite a number of stocks in the Fund's portfolio have a negative enterprise value after considering their cash and other assets. In a few cases, the companies have more net cash than their current market capitalization in addition to reasonably-positioned operating businesses. Where we can find more of these companies, they will be added to the portfolio in addition to further purchases of current holdings.

While Quantitative Easing and Negative Interest Rate Policies (acronymised as "QE" and "NIRP" respectively) – including J-NIRP – are the current trend within global investment banking circles, the first negative effects could perhaps be surfacing. Money is in oversupply and there is relatively less demand for new loans as seen in falling net interest margins globally. Some interest rate markers are at 5,000 year low interest rates. While this may be seen as a positive for consumers and the like, it perversely has the potential to reduce propensity to lend. Banks are unlikely to proffer loans which don't cover credit risk, let alone operating costs. If the current spiral continues, then the end of the current global business cycle could be approaching from over the horizon.

Outlook

The conundrum we face is that there are more than enough high quality, cheap stocks with attractive medium term prospects available for sale in Japan to fill a diversified portfolio and give adequate consideration to a range of risk metrics. These are the species one expects to encounter on the savannah at the aftermath of a long bear market. The offset is the uncertain global macro environment which is both affecting animal spirits and returning the Yen to its role as a safe haven currency. This combination is awkward for an outward facing trading nation such as Japan despite the best efforts of Abe and Kuroda to change the domestic paradigm. The recent move in the Yen is already somewhat extreme relative to other past shifts and sentiment has reversed. The shift in the Yen has been in concert with an extended period of foreign selling of the equity market. While much of Japan's future path is based on the inherent nature of its people and its history, it looks likely that Abe and Kuroda have enough leeway to navigate. They certainly have the will, even if they are somewhat constrained for the moment. While it is late in the business cycle and many key indicators are trending down, recent readings are positive and suggest reasonable equity returns in contrast to prevailing negative sentiments.

DISCLAIMERS

This publication was prepared by Platinum Investment Management Limited (ABN 25 063 565 006) (AFSL 221935) trading as Platinum Asset Management (Platinum®) as the Investment Manager for, and on behalf of, Platinum World Portfolios PLC (the "Company"), an open-ended investment company with variable capital incorporated with limited liability in Ireland with registered number 546481 and established as an umbrella fund with segregated liability between sub-funds pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011, as amended. Platinum World Portfolios - International Fund, Platinum World Portfolios - Asia Fund, and Platinum World Portfolios - Japan Fund (each the "Fund", as the context requires, and together the "Funds") are sub-funds of the Company. The Prospectus and the Key Investor Information Documents ("KIIDs") for the Funds as well as other information about the Company and the Investment Manager are available at www.platinumworldportfolios.ie.

This publication contains general information only and is not intended to provide any person with financial product advice. It does not take into account any person's (or class of persons') investment objectives, financial situation or particular needs, and should not be used as the basis for making investment, financial or other decisions. You should read the Prospectus and the KIIDs for the Funds and consider your particular investment objectives, financial situation and needs prior to making any investment decision to invest (or divest) in a Fund. You should also obtain professional advice prior to making an investment decision.

This publication may contain forward-looking statements regarding our intent, belief or current expectations with respect to market conditions. Readers are cautioned not to place undue reliance on these forward-looking statements. Neither Platinum nor the Company undertakes any obligation to revise any such forward-looking statements to reflect events and circumstances after the date hereof.

Neither the Company, its directors, nor any company or director in the Platinum Group® guarantee the Funds' performance, the repayment of capital, or the payment of income. To the extent permitted by law, no liability is accepted by the Company, its directors, or any company in the Platinum Group or their directors for any loss or damage as a result of any reliance on this information. The Platinum Group means Platinum Asset Management Limited (ABN 13 050 064 287) and all of its subsidiaries and associated entities (including Platinum).

This publication does not, and is not intended to, constitute an offer or a solicitation to subscribe for, redeem or convert shares in any Fund in any jurisdiction in which such an offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.

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

© Platinum World Portfolios PLC 2016. All Rights Reserved.

NOTES

References to "Platinum" are references to Platinum Investment Management Limited.

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 A USD (Accumulating) (ISIN: IE00BYRGQX37): 27 April 2016
     Class D USD (Accumulating) (ISIN: IE00BYRGQZ50): 16 November 2015
     Class G GBP (Accumulating) (ISIN: IE00BYRGR290): 27 April 2016
   - 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 March 2016 and 30 June 2016.

MSCI INC. DISCLAIMER

All data where MSCI is referenced is the property of MSCI Inc. No use or distribution of this data is permitted without the written consent of MSCI Inc. This data is provided "as is" without any warranties by MSCI Inc. MSCI Inc. assumes no liability for or in connection with this data. Please see full MSCI disclaimer at http://www.platinumworldportfolios.ie/Funds/FundPerformance.

PLATINUM WORLD PORTFOLIOS PUBLIC LIMITED COMPANY

An umbrella fund with segregated liability between sub-funds
Company Registration Number: 546481

BOARD OF DIRECTORS

Stephen Menzies (Australian)
Tony Mc Poland
Kevin Molony

REGISTERED OFFICE

Arthur Cox Building
Earlsfort Terrace
Dublin 2
Ireland

WEBSITE

www.platinumworldportfolios.ie

Platinum®
WORLD PORTFOLIOS PLC

INVESTMENT MANAGER

PLATINUM INVESTMENT MANAGEMENT LIMITED

Level 8, 7 Macquarie Place
Sydney NSW 2000
Australia

GPO Box 2724
Sydney NSW 2001
Australia

TELEPHONE

+61 1300 726 700
+61 2 9255 7500

EMAIL

invest@platinum.com.au

Platinum®
ASSET MANAGEMENT