Platinum® WORLD PORTFOLIOS PLC

Quarterly Investment Manager's Report

Platinum World Portfolios - International Fund

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31 March 2018

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Letter to Investors

Platinum Asset Management Limited (ASX code: PTM), the ultimate holding company of Platinum Investment Management Limited (Platinum), the investment manager for Platinum World Portfolios PLC and its sub-funds, announced to the Australian Securities Exchange (ASX) on 22 February 2018 the impending change of CEO for the Platinum Group[1] as well as the change of portfolio management responsibilities for Platinum's global equity mandates.

From 1 July 2018. Andrew Clifford (70%) and Clay Smolinski (30%) will take over from Kerr Neilson as the portfolio managers of the Platinum World Portfolios - International Fund. Andrew Clifford is a co-founder of Platinum and has been its Chief Investment Officer since 2013. Clay Smolinski joined Platinum in January 2006 as an investment analyst and began managing the Platinum European Fund in 2009 before taking over the Platinum Unhedged Fund (a global portfolio) in 2014 and a portion of the flagship Platinum International Fund in 2017.

Below is Kerr Neilson's letter to investors which accompanied the ASX release by PTM.

22 February 2018

Dear clients and shareholders

The Platinum Asset Management Limited (ASX: PTM) Board has endorsed my decision to hand over the role of Chief Executive Officer (CEO) of the Platinum Group[1] to Andrew Clifford from 1 July 2018. I will continue as a full time executive director of the Platinum Group and a member of Platinum's investment team, continuing to work on the generation of investment ideas and company research. I will also provide additional support to Platinum's client diversification initiatives in Europe and the US.

As you will be aware, Andrew co-founded the company in 1994 and has over 30 years of investment experience. He took over the role of Chief Investment Officer (CIO) in 2013 and led the implementation of the highly successful sector-based investment team structure. Andrew will continue to lead the investment team as CIO.

I formerly held the positions of CIO and CEO concurrently, and found that with the strong support of the other executive directors my time was essentially focused on investing. More important still is that in an investment performance-driven organisation like Platinum, it is essential that the direction of the firm is controlled from the perspective of investing rather than from that of money gathering.

Andrew Clifford, along with Clay Smolinski, will take full portfolio management responsibility for the flagship fund, the Platinum International Fund,[2] and my portfolio management responsibilities for Platinum's other global equity funds and mandates will be allocated between Andrew Clifford and Clay Smolinski. Both Andrew's and Clay's long-term individual performance records are exceptionally strong.

The investment team has grown significantly over the years and now comprises 31 individuals including nine portfolio managers who have an average tenure at Platinum of 13 years. These portfolio managers run a range of highly successful global, regional and sector funds, each with strong long-term performance records.

It is with delight that the years of training and gradual elevation in responsibility has allowed our flat organisational structure to bring through and reward a growing number of the team to enjoy the recognition they have earned.

I look forward to continue to tussle around with investment ideas and to spread more broadly the word about our global investment capability.

These changes will take effect from 1 July 2018.

Yours sincerely

Kerr Neilson

Kerr Neilson
CEO & Managing Director
Platinum Asset Management Limited

1 Platinum Group means Platinum Asset Management Limited and its subsidiaries. Platinum means Platinum Investment Management Limited.

2 The flagship fund, the Platinum International Fund, is currently co-managed by Kerr Neilson 50%, Andrew Clifford 40% and Clay Smolinski 10%. From 1 July 2018, the Fund will be co-managed by Andrew Clifford 70% and Clay Smolinski 30%.

Performance

to 31 March 2018

SUB-FUND	PORTFOLIO VALUE (US$ MIL)	QUARTER	6 MONTHS	1 YEAR	2 YEARS COMPOUND PA	SINCE INCEPTION COMPOUND PA	INCEPTION DATE
Platinum World Portfolios - International Fund							
Class A (USD)	$45.3m	-0.5%	4.9%	20.8%	–	17.4%	27 Apr 2016
Class B (USD)	$43.1m	-0.6%	4.6%	21.2%	–	23.3%	2 Dec 2016
Class D (USD)*	$15.1m	-0.6%	4.6%	21.2%	17.6%	12.3%	16 Nov 2015
Class F (EUR)	$8.8m	-3.0%	0.5%	–	–	5.1%	4 Apr 2017
Class G (GBP)	$10.2m	-4.2%	0.2%	8.2%	–	19.7%	27 Apr 2016
Class H (GBP)	$0.4m	-4.3%	-0.1%	8.4%	–	15.0%	4 Aug 2016
MSCI All Country World Net Index (USD)		-1.0%	4.7%	14.8%	14.9%	12.4%	16 Nov 2015
Platinum World Portfolios - Asia Fund							
Class A (USD)	$10.3m	-1.6%	7.1%	28.2%	–	30.7%	10 Mar 2017
Class B (USD)	$10.2m	-2.0%	6.7%	–	–	26.2%	20 Apr 2017
Class D (USD)*	$18.1m	-2.0%	6.7%	28.0%	22.0%	17.7%	16 Nov 2015
Class I (USD)	$143.7m	-1.5%	7.4%	28.7%	–	31.4%	19 Jan 2017
MSCI All Country Asia ex Japan Net Index (USD)		0.7%	8.9%	25.8%	21.6%	18.8%	16 Nov 2015
Platinum World Portfolios - Japan Fund							
Class A (USD)	$12.5m	-3.8%	4.1%	20.1%	19.8%	17.6%	11 Jan 2016
Class B (USD)	$2.3m	-4.5%	3.3%	21.0%	–	20.7%	23 Dec 2016
Class D (USD)*	$21.0m	-4.5%	3.3%	21.0%	20.6%	16.6%	16 Nov 2015
Class F (EUR)	$0.3m	-6.8%	–	–	–	-1.7%	18 Oct 2017
MSCI Japan Net Index (USD)		0.8%	9.4%	19.6%	17.0%	11.2%	16 Nov 2015

* Being the first share class activated, Class D is used as the reference class of the fund and its inception date is used for the purpose of calculating the "since inception" returns of the index.

Returns are net of accrued fees and expenses, are pre-tax, and assume the accumulation of net income and capital gains.
Historical performance is not a reliable indicator of future performance. Refer to note 1, page 19.
Source: Platinum Investment Management Limited for fund returns and RIMES Technologies for MSCI index returns.

Macro Overview

by Andrew Clifford, CIO, Platinum Investment Management Limited

Over the course of the first quarter of 2018, a number of issues have arisen that gave investors reason to return to a more cautious stance despite the global economy continuing to grow robustly. Among these concerns are:

- rising interest rates in the US,
- the impact of China's financial system reform on that country's economy and on asset markets both inside and outside of China, and
- the potential for a trade war between the US and China.

Over the last year, we have highlighted that rising US interest rates are the most likely source of a setback for the economic outlook and for markets. In developed economies, historically the pattern has been that initial increases in rates have little impact on growth, but as rates continue to rise, they will eventually act as a handbrake on the economy. As for whether the next rate hike will be the straw that breaks the camel's back, it is difficult to foretell even at the best of times. After a period of quantitative easing and near zero interest rates, the task is perhaps even more challenging. That debt levels remain elevated across most of the major economies adds further complexity to the problem!

For the moment though, it is clear that the US economy continues to travel well. Employment is strong, with initial unemployment claims (an indicator of new job losses) at the lowest level in 45 years. Wage growth remains healthy (average hourly earnings growing at 2.5% annually), and workers continue to be attracted back into the workforce with the participation rate[1] gradually rising. While the concern is that higher wages will ultimately be passed along through higher prices, for now, inflation in the US remains subdued at 1.9%.[2] The current scenario of steady gains in employment with wages rising and little evidence of inflationary pressures to date appears to be a very positive one.

We would think investors faced with this scenario would remain relatively optimistic about their prospects, and through January they appeared to be so. Of course, the environment can change quickly, and the big change was President Trump's tax cuts which were passed by Congress in December. The stock market's first reaction was clearly welcoming of the change as US companies would see a significant lift in their after tax profits. However, there are other impacts to be considered. Firstly, as tax cuts flow through to US corporates and households in the months ahead, one would expect them to boost the economy to some degree as a result of either increased consumption or more investment. The risk is that these cuts will add fuel to an economy that is already growing strongly, thus causing greater inflationary pressure and possibly an acceleration of interest rate hikes.

The secondary issue is that the consequential increase in the country's fiscal deficit – which is expected to rise from 3.7% of GDP currently to around 6% of GDP in 2020 as a result of the tax cuts – will see a significant increase in the amount of government bonds that need to be issued, with the potential to move long-term interest rates higher. In some respects, this increase in the supply of government bonds looks even more dramatic when one considers that there was a *net negative supply* not very long ago – the bond purchases made by the Federal Reserve in 2012-13 under their quantitative easing policy were greater than the new bonds issued. Viewed in this light, the net supply of new bonds will effectively have moved from less than zero to over 6% of GDP in the space of six years. And all this is without taking into account how President Trump's other policy initiatives (such as infrastructure spending) might further stretch the deficit and add to the bond-issuing task!

It is easy to start envisaging both long- and short-term interest rates moving much higher than previously expected, in the process upsetting economic growth prospects and indeed equity and debt markets. We will address the issues for markets later in this report, but first it is worth noting that in the period prior to the tax cuts being passed, the 10 Year US Treasury Note was trading at a yield of around 2.35%, and subsequently ran up through the first months of the year to just below 3%, before settling back at 2.8%. It is easy to see why some commentators are excited about bond yields going much higher even though the US government's bond-issuing task hasn't even started.

The problem with this analysis is that while we have an approximate idea of the future government deficit, there are many variables that no one can fully predict. As an example, to what extent will consumers spend their tax cut or save it,

1 Of 25 – 54 year olds.

2 CPI ex Food and Energy.

and will companies invest more or simply pass it through to shareholders in the form of dividends and buybacks? The degree to which this happens will not only have an impact on the strength of the economy and on inflation, but also on the amount of savings in the economy available to purchase the bonds. In addition, the move in the US 10 Year Treasury yield to 2.8% may already be sufficiently attractive for investors to fund the deficit, especially for the European and the Japanese whose equivalent rates in their home markets vary between zero and around 1.5%. Ultimately, the economic and financial systems we are dealing with are dynamic and the simplistic predictions are often wrong.

The other important development is the ongoing reform of the Chinese financial system, a topic that has received relatively little coverage in the Western media. The key change that has been causing concern is a directive that requires the assets and liabilities of the shadow banking system be brought back onto the balance sheet of the sponsoring financial entity. The issue is that banks and other financial institutions are required to have a minimum level of shareholders' funds (or equity capital) for a given level of lending, and bringing these shadow banking assets back onto the balance sheet will lead to many banks breaching these capital adequacy requirements. The solution is relatively straightforward: limit new lending and seek repayments of loans where possible.

There is, however, the additional complication that the loans funnelled to the shadow banking system and kept off balance sheet were loans that the banks would have otherwise been restricted from making. Also, the regulator has tightened up on the use of Chinese banks' balance sheets to fund the purchase of offshore assets. The result is a forced deleveraging by companies, particularly those that have taken on significant debt to acquire assets both at home and overseas. An example well publicised here in Australia is the divestment by Wanda, a Chinese shopping mall developer, of a major residential project at Sydney's iconic Circular Quay. Other names impacted include HNA Group (airline operator turned real estate and hospitality conglomerate) which now has a stake in Virgin Australia, and Anbang Insurance, whose vast portfolio of assets includes the Waldorf Astoria in New York.

In conjunction with these changes, China is looking to further develop its domestic bond market in order that companies and local governments can borrow money in a more transparent fashion. The issue is that this mechanism will take time to replace the shadow banking system as it is today, and as a result the availability of loans will be much reduced. Indeed if we look at the broadest measure of credit growth in China, it has now slowed to 12.9% year-on-year, a relatively subdued level by Chinese standards. The question then is what impact this tightness in credit availability will have on the Chinese economy and asset prices both inside and outside of China.

On the economic front, our expectation is that there will be relatively little impact. The dynamic, growing part of China's economy is predominantly the private sector which has traditionally had relatively poor access to credit. Another area of growth has been government sponsored infrastructure spending, an area to which we expect credit will remain readily available. While we may well see ongoing forced divestitures of assets by some groups, they remain as much an opportunity for those that are in a position to buy as they are a problem for the sellers. Simply, we don't see this as a problem for the economy, and as investors, you want to be an owner of the companies buying, not those selling. Finally, we would note that as a result of these concerns the Shanghai A-share market has retreated over 10% from recent highs and remains at levels reached in late 2016 when the economy was still in relatively early stages of recovery.

President Trump's decision to apply tariffs on US$50 billion of Chinese imports and China's response to do likewise for a comparable amount of US imports have sparked concerns of trade wars and potentially a broader decline in free trade. It should be noted that these announcements are of *intentions*, and there will be months of deliberation domestically in the US and opportunities for negotiation between the two countries. Most commentators assume that negotiations will yield some compromise on starting positions as well as some concessions granted by China to US demands for removing existing trade and investment barriers. We consider such a compromise the most likely outcome. But even if these tariffs end up coming into force, their broad economic impact on both sides will probably not be particularly significant.

The greater risk here is the political environment, present in much of the Western world, which makes the idea of such policies politically appealing. At the core of the issue, we believe, is that low income households have shared relatively little of the prosperity of the last 30 years and, as such, see no great downside from the end of ideals such as free trade. As governments continue to fail to address the issue of income disparities, it is likely that populist policies will remain part of the landscape across the developed world. The other issue that is unlikely to fade away is the instability of the Trump administration. A particularly concerning move by President Trump was to allow reciprocal visits between senior US and Taiwanese officials. While China's initial response to the announcement of import tariffs was measured and constructive, the response from President Xi on the Taiwan announcement was much stronger.

Market Outlook

While interest rates rarely make for a particularly enthralling discussion, at times they are critical for outcomes in markets. The reason is that the rate of return from owning cash or government bonds is the anchor off which all other assets are priced. The higher the yield on a government bond, the greater the return investors will demand from any given stock (all else being equal[3]), which in turn means a lower share price. A significant increase in interest rates therefore can be a catalyst for equity markets to move lower.

We think this is particularly true today, as many of the popular or fashionable investments of the moment will likely be very sensitive to interest rate moves. As we have stated over the last year, if there is an accident in financial markets waiting to happen, we suspect it is most likely to happen in the debt markets. Many investors in an attempt to avoid risk in recent years have crowded into bond funds, and the room for disappointment there is significant.[4] Other popular investment strategies such as risk parity funds,[5] we suspect, will also be susceptible to higher interest rates. Some observers attributed the initial sell-off in February to activity by risk parity funds.

Undoubtedly, low interest rates have played a significant role in bringing about the very high valuations currently attributed to fast growing companies. While the share prices of Facebook, Amazon, Netflix and Google (now Alphabet) – the so called ‘FANG’ stocks – are mentioned in almost every financial news report, the reality is that these companies represent just one part of the extreme market valuations reached in recent months.[6] We have seen similarly high valuations across a range of companies in biotech, medical devices, artificial intelligence, autonomous vehicles, and even some in the consumer sector. Companies on such inflated valuations are very susceptible to a setback, should rates move higher.

Our problem, as stated earlier, is that the art of predicting where interest rates will go and when the moves will happen is a highly imprecise one. The broad statement we can make is that we are in an environment where interest rates are rising and that this will act as a dampener on markets. Ultimately our outlook for the next three to five years is guided by the returns implied in the valuations of the stocks we hold in our portfolios and the ease with which we find new ideas to buy. On this front, we are optimistic on future investment returns over the medium-term.

In the next 12 months or so, besides the question of interest rates, the trade policies of President Trump are likely to be a major focus for markets. We think trying to predict outcomes on this front is even more problematic than forecasting interest rates. Our approach to managing the associated risk is to simply ensure that we have cash reserves in our portfolios to take advantage of any trade war-inspired sell-off.

3 Which, of course, it never is! On a day to day basis, higher bond yields might mean better economic growth and thus better profits for a company.

4 As bond yields rise, the prices of bonds fall. So the investor expecting bonds to be a safe haven may be disappointed.

5 A risk parity strategy is one that is focused on the allocation of risk (usually defined as volatility) across different asset classes, rather than allocation of capital.

6 We would argue that Google and Facebook have been quite reasonably valued.

Platinum World Portfolios - International Fund

Kerr Neilson
Portfolio Manager

Performance

(compound pa, to 31 March 2018)

	QUARTER	1 YEAR	2 YEAR P.A.	SINCE INCEPTION P.A.
PWP Int'l Fund Class A USD	-0.5%	20.8%	–	17.4%
PWP Int'l Fund Class B USD	-0.6%	21.2%	–	23.3%
PWP Int'l Fund Class D USD	-0.6%	21.2%	17.6%	12.3%
PWP Int'l Fund Class F EUR	-3.0%	–	–	5.1%
PWP Int'l Fund Class G GBP	-4.2%	8.2%	–	19.7%
PWP Int'l Fund Class H GBP	-4.3%	8.4%	–	15.0%
MSCI AC World Index (USD)	-1.0%	14.8%	14.9%	12.4%

Net of accrued fees and costs. Refer to note 1, page 19.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

Markets

Alas, as the austral summer drew to a close, we witnessed the **return of market volatility**. This derivative, used to measure the likely turbulence of share prices and most widely monitored through the VIX index,[1] had been progressively falling since 2012. The longevity of its falling trend drew the inevitable response from the financial repackaging industry with the offer of an ETF to play this seemingly perfect trend bet. The irony is that volatility cannot incessantly drop (for obvious reasons). When the VIX index spiked in early February, the loss was almost total at an estimated cost of US$3 billion, though with only passing consternation from the media. How slow we seem to learn in this business! Eight years of rest and our memories fade.

Another question around extrapolation relates to the seeming absence of an acceleration of inflation. In the US, unemployment is plumbing the depths, yet the average hourly wage is still increasing very slowly at the current rate of 2.9% p.a. Yield on US 10 Year Treasuries has crept up, but towards the quarter end reversed somewhat to 2.74%, even though the Federal Reserve has declared its hand and raised short-term rates again in March, taking the federal funds rate to 1.75%, compared with 1% a year ago. Unlike earlier cycles, the LIBOR rate, at 2.3%, has moved ahead of the onshore rate. This move has caused some confusion which is partly explained by the 2016 rule changes for money market funds and the unintended consequences of the recent US tax changes. **Money is clearly tightening.**

While the **rate of improvement** in the synchronised global recovery, as represented by the Purchasing Managers' Indices (PMIs), **has lost some momentum** and the economic surprise indices are fading, evidence of a deteriorating growth outlook eludes us. At present there are the **rising fears about tariffs on trade and concern about tighter control over lending in China** and their adverse consequence for growth. The Chinese data is partly obscured by the timing of the Lunar New Year and the forced seasonal shutdowns of capacity on grounds of air pollution during the winter months. Our own interpretation is that China is quite as worried about the level of debt abroad as it is about that within its own system and is acting accordingly. Granting President Xi Jinping what will surely be a life tenure should be beneficial in the short term, particularly in view of the ministerial reshuffle around his inner circle and important administrative reforms. Some will be dismayed about the longer term implications about which history has a lot to say.

The Trump **tax reform package was well received by analysts who had a field day projecting that most of the value will accrue to shareholders** even though there is the need, and the will, to top up pension reserves and to meet rising minimum wage standards. The corresponding rise in the US fiscal deficit scarcely received a mention, and even the bond market appeared conspicuously unmoved at the

1 The CBOE Volatility Index (VIX) quotes the expected annualised change in the S&P 500 Index over the following 30 days, priced off option data.

prospect of a tidal wave of new bond supply (as Andrew Clifford elaborated on in the Macro Overview). The S&P 500 responded well to the tax legislation initially, but as the quarter came to a close, the misfortunes of Facebook, the presidential threats to Amazon and the malfunctioning of Uber's and Tesla's autonomous vehicles took the gloss off the important tech stocks in the US.

Unlike earlier periods, the elections in Europe caused barely a stir, mergers and acquisitions and share buybacks, some still funded by debt, continued apace and, surprisingly, even private equity found reason to buy into asset-heavy, low-variable cost businesses. At the same time, other indices were testing their 200-day moving averages as the tightening of money and tariffs were seen as a threat to the Panglossian outlook. The flip side is that companies are increasingly optimistic about the capital expansion programmes. Historically, **capex is sparked by improving corporate profitability**. Contrary to popular belief, capex in the **service sectors accounts for two-thirds of corporate capital spending** in the US. The manufacturing industry only accounts for about 22% of US capex while sectors like finance and insurance account for 9% and mining and oil 7%.

With these strong underpinnings, one might conclude the **high level of share ownership and crowding in hot areas of tech and biotech may have accounted for the weakness** at this quarter's end as investors, full of tech stocks and other 'invincibles', began to apply more caution. Europe and Japan have had the added burden of strong exchange rates to crimp profit growth which had lagged the US.

From the Fund's perspective, this change of tone was only partly helpful. We have been moving to a more cyclical posture, believing that the current strong growth will support more vigorous capital spending and tighter commodity markets. We still believe this to be true and that the softer readings in China are partly seasonal. While the rate of change in the world's largest manufacturing economy may be tapering, there is no evidence that it will be more than a slowdown. In addition, when one compares the valuation of these cyclicals to their invested capital, they are still at remarkably low levels, in particular the hydrocarbon complex (oil companies and the extraction-related support industries), even though the prices of these commodities are well off the bottom.

Notwithstanding this uncertainty, the Fund kept pace with the MSCI benchmark for the quarter and maintained its lead over the last 12 months. The Fund (Class D) returned -0.6% for the quarter and 21.2% for the year. The MSCI AC World Index (US$) returns over these respective periods were -1.0% and 14.8%.

Changes to the Portfolio

We have been very active rotating out of the notably strong performing areas of the last three to six months into more neglected areas. In particular, we discarded **Wynn Resorts**, **Kering**, **Reliance Industries**, **The Coca-Cola Company**, **Oracle** and **Intesa Sanpaolo**, and continued to reduce the Chinese internet names, like **Tencent** and **Sina**. Purchases were made in existing **non-ferrous metal miner holdings**, **Intel** and **Siemens**. We also introduced **Facebook** to the portfolio.

The latter may surprise some for it is hardly an unloved company, though the recent publicity around Cambridge Analytica has seen the stock price fall from US$190 to US$155. There is no doubt that the **political environment**

MSCI Regional Index Performance to 31 Mar 2018 (USD)

REGION	QUARTER	1 YEAR
Developed Markets	**-1%**	**14%**
Emerging Markets	**1%**	**25%**
United States	**-1%**	**13%**
Europe	**-2%**	**15%**
Germany	-4%	14%
France	0%	20%
United Kingdom	-4%	12%
Japan	**1%**	**20%**
Asia ex Japan	**1%**	**26%**
China	2%	39%
Hong Kong	-1%	18%
India	-7%	10%
Korea	-1%	25%
Australia	-6%	1%

Source: RIMES Technologies.

MSCI All Country World Sector Index Performance to 31 Mar 2018 (USD)

SECTOR	QUARTER	1 YEAR
Information Technology	3%	29%
Consumer Discretionary	1%	17%
Health Care	-1%	10%
Financials	-1%	16%
Utilities	-1%	5%
Industrials	-2%	15%
Materials	-4%	16%
Energy	-4%	7%
Consumer Staples	-5%	5%
Telecommunication Services	-5%	0%

Source: RIMES Technologies.

facing the three big US internet names (Facebook, Amazon and Google) **has darkened**. There are many questions about their information controls and the full nature of their earnings sources, as well as disquiet about their business models which depend on offering users free services in exchange for giving potential advertisers access to their personal data. In addition, there are other platforms trying to increase their share of the advertising pool, and even Amazon has succumbed to shifting its business model towards more advertising to exploit the power of its marketplace.

The central question remains '**what is the alternative**?' *Wired* magazine led with an article that proffered alternative apps to displace one's need for Facebook. The problem is that it requires most users to download 10 standalone apps to do the job. Worse still, it requires one's friends to do the same. To date, the consumer response to the 'leak' of one's Facebook friends' data has been remarkably tame. The #DeleteFacebook movement does not seem to be getting traction and the reported change of personal privacy settings has been insignificant. Only 14% of users seem to have made changes since the incident erupted with the majority placidly accepting the notion of an exchange of value. The company has for some time been experiencing defections in North America and the UK with the 12 to 24 age group tending to abandon the platform in favour of alternatives such as Snapchat. Importantly, these are the high value customers in North America and Europe who respectively provide annual revenue-per-user of US$84 and US$27.

The **core social network effect of Facebook remains intact** even if its users are becoming less willing to fully engage and there may be a tendency for new users to be somewhat less valuable, being older users and consumers from lower income countries. The overall network has kept expanding and Facebook claims over 2 billion average monthly users and 1.4 billion daily active users worldwide. In the developed world, it is estimated that users are spending over one hour per day on the platform and it **remains a gateway to other internet applications**. A hint of the longer-term earnings potential may be given by the fact the annual revenue per monthly user in North America is US$84 while that from Europe is US$27 and the Asia Pacific US$8.7 per user!

By the nature of such a phenomenon, the glory days are presumably past. But, like Google, anticipatory acquisitions have been made to broaden the longer-term revenue sources of the company. Facebook's acquisitions of Instagram and WhatsApp are only now starting to contribute revenues. There are also e-commerce initiatives that can still potentially be harvested. The company itself had been warning of the need for greater investment and a tightening of procedures. In some cases there will be some pressure on revenues and regulation is bound to reduce the efficacy of their offer to advertisers as the melding of bought-in data becomes restricted.

There is likely to be further bloodletting in the days ahead, but the initial reaction had seen the company de-rate to a level that makes it look attractive in relation to the quality of its earnings. It is still growing at probably over 20% p.a., has a clean balance sheet and continues to provide a useful social function. While we recognise that fashion, with all its foibles, is an important adjunct to any social medium, we believe that Facebook's 2018 GAAP P/E of 21 times offers an attractive initiation level.

Disposition of Assets

REGION	31 MAR 2018	31 DEC 2017
Asia	36%	37%
Europe	22%	21%
Japan	17%	17%
North America	12%	12%
Australia	1%	2%
Russia	1%	1%
Cash	11%	10%
Shorts	-15%	-9%

Refer to note 2, page 19.
Source: Platinum Investment Management Limited.

For monthly updates of the Fund's invested positions, including country and industry breakdowns as well as currency exposure, please visit www.platinumworldportfolios.ie/Funds/InternationalMonthlyUpdates.

Sector Breakdown

SECTOR	31 MAR 2018	31 DEC 2017
Information Technology	20%	20%
Financials	12%	14%
Industrials	12%	10%
Materials	11%	10%
Energy	9%	9%
Consumer Discretionary	9%	12%
Health Care	6%	7%
Real Estate	2%	2%
Telecommunication Services	1%	1%
Utilities	1%	1%
Consumer Staples	1%	0%
Other*	-10%	-5%
TOTAL NET EXPOSURE	74%	81%

* Includes short positions of indices.
Refer to note 5, page 19.
Source: Platinum Investment Management Limited.

Shorting

Apart from raising cash by reducing exposure to some of the strong performers noted above, we also added to our short positions. These comprised the NASDAQ index, the Biotech index and a company-specific short position. As at this quarter's end, the Fund's overall short exposure was 15%, up from 9% in December 2017. These positions gave us positive returns that partly offset the weakness in high beta cyclicals that we have been tending to accumulate. Our view remains that, while the growth rate may have peaked and interest rates will gradually tighten credit, **there is a more attractive *geographic balance* to world growth than has been for some time**.

Currency

The US dollar was conspicuous for its weakness. Close to the end of the quarter, we closed our long position on the Norwegian krone to go longer US dollars. The Australian dollar has also been weak and may be bottoming-out on the bilateral rate versus the US dollar given the prospect for improving export receipts, led by natural gas.

CURRENCY	31 MAR 2018	31 DEC 2017
US dollar (USD)	19%	19%
Euro (EUR)	18%	17%
Japanese yen (JPY)	16%	13%
Hong Kong dollar (HKD)	15%	15%
Korean won (KRW)	8%	8%
Indian rupee (INR)	5%	4%
British pound (GBP)	4%	5%
Australian dollar (AUD)	4%	3%
Chinese yuan (CNY)	3%	3%
Norwegian krone (NOK)	2%	7%

Refer to note 4, page 19.
Source: Platinum Investment Management Limited.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	IT	3.1%
Siemens AG	Germany	Industrials	3.0%
Intel Corporation	USA	IT	2.9%
Inpex Corporation Ltd	Japan	Energy	2.8%
Alphabet Inc	USA	IT	2.7%
Royal Dutch Shell PLC	UK	Energy	2.5%
Glencore PLC	Switzerland	Materials	2.4%
Nexon	Japan	IT	2.3%
Sina Corp	China	IT	2.2%
TechnipFMC	UK	Energy	2.2%

As at 31 March 2018. Refer to note 3, page 19.
Source: Platinum Investment Management Limited.

Commentary

While very cognisant of the problems of excessive debt in the West and China, and hence **the system's greater sensitivity to interest rates**, we cannot become unduly negative. Earlier this year the *Wall Street Journal* described an alarming surge of credit card charge-offs by the smaller US banks, having now reached the same level as in 2006/07. Historically the small banks have been the first to experience this reversal of credit worthiness, being possibly more exposed to those lower down the economic pecking order of credit customers. While the larger banks have started to see an upturn of delinquencies, their experience to date has been subdued. Yes, there is a lot of US consumer debt outstanding: US$1 trillion on credit cards, US$1.3 trillion in auto loans and a further US$1.5 trillion in student loans. But in our experience, the last cause of a crisis, while receiving lots of coverage, is seldom the catalyst for the subsequent economic 'event'.

Earlier we commented on the change in the weight of economic activity globally. It is easy to lose sight of the reweighting of activity over the last 20 years. For example, the traditional economic powers of the West and Japan have seen their share of world activity shrink from 58% in 1996 to 42% in 2016.

A visit to the World Bank website will reveal that while the developed countries have been dawdling along, the so-called developing countries have been galloping. High-income countries have typically experienced a 2.5 fold increase in national income (whether measured in current or purchasing power parity (PPP) terms) from 1990 to 2016, while some large-population countries like India and China have excelled with national income per head rising respectively by 5.8 fold and 15.6 fold. Even populous countries like Pakistan (population of 193 million) and Iran (80 million), with all their conflicts, unhelpful directives from on high and so on, have outshone the West in these terms, admittedly off a low base, to achieve a 2.7 fold improvement. These are not dry numbers. They refer to **the progressive reduction of global poverty** and in particular, are **a forewarning of a further change in the allocation of global physical resources**.

The important statistic seems to be a national income of $5,000 per head at purchasing power parity (PPP). At that point, the broad population is no longer scrambling to survive and discretionary spending begins to show. In particular, the use of fossil fuel and metals takes off. Consider the number of people involved here. If we focus only on the lower-income, high-population countries of Asia, comprising Indonesia, India, Pakistan, the Philippines, Vietnam and Myanmar, we find some 2 billion people on this threshold. Now observe the charts overleaf showing this S-curve at work in the rise of the use of crude oil and steel (the same pattern goes for copper and aluminium) for places like Japan, Korea and Taiwan once PPP income per head exceeded $5,000. There will obviously be specific differences relating to each country's consumption, export intensity and other characteristics, but your imagination will likely draw you to the conclusion of a massive impending rise in the demand for these commodities. By way of example, India consumes an average of 1.2 barrels of oil per capita per year. This is similar to China in 2000 when its annual income per head was $940 (current US$). Today China is consuming 12 million barrels per day or 3.2 barrels per capita per year. The charts below also reveal the drop-off in usage in developed countries which obviously offsets some of this competition for resources.

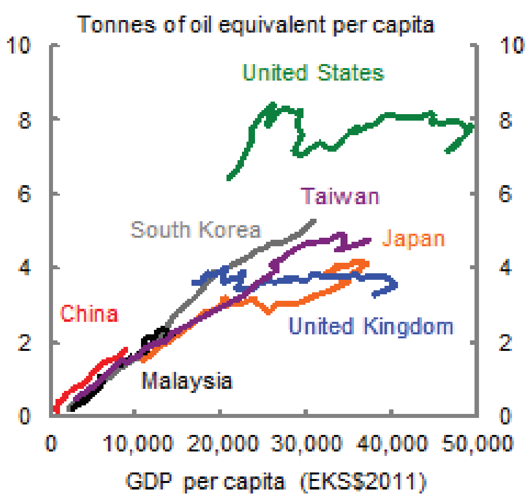
We have written before of the impending tightening of the markets for metals like copper, nickel and cobalt and the market is alive to these prospects, though probably under-estimating the magnitude of this tightness three years hence. The commodity that is conspicuously set up for a surprise is crude oil. Here investors can conjure up stories of substitution, thanks to the electric car or the frugality of new automobiles and the boundless capacity of shale oil. This misses the base case of usage growth caused by the S-curve in developing countries and endorses the observed chronic under-estimation of consumption growth forecasts by the International Energy Agency. While fracking has changed the dynamics of oil supply, the ability of US production to grow exponentially is limited. Already some of the important unconventional basins like the Bakken and the Eagle Ford are showing characteristics of reserve exhaustion while the Permian remains highly productive with significant remaining resources. However, the limits of increasing fracking intensity and endless down-spacing (the idea of decreasing the space between wells) appears to have peaked. Even though US unconventional production will continue to grow, the need to replace conventional production is challenging against the backdrop of a natural field decline rate of close to 5% and a halving of capex from peak levels in 2014. While Brent oil prices have recovered to US$70 per barrel, this is only slightly above the average real level seen over the last 35 years. This theme gives us some interesting investment candidates!

Outlook

The trade conflict and tightening money point to lower valuations. On the trade issue, research reveals that the imbalance is much lower than it first appears if account is taken of the level of activity by American firms in the Chinese domestic economy. When this large American footprint is taken into account, one can see that the negotiating position of the Americans is less secure than the headline trade deficit numbers suggest. Moreover, the newly crowned emperor may prove to be equally sensitive to his constituents' delight in China's re-emerging global status, and this could account for the surprisingly swift rebuttal on the part of the Chinese. Unsettling volatility on Wall Street and possible consumer boycotts will test the resolve of the negotiators!

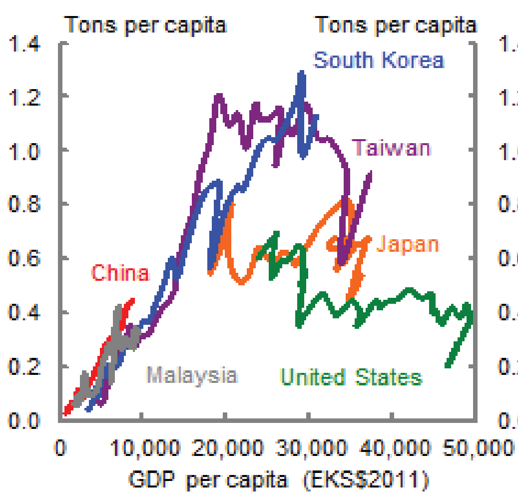
While we have raised our cash and short positions, we are unable to be particularly negative. Some companies' prices have retracted meaningfully and, in addition, many of our holdings look like they will have strong multi-year growth ahead. Valuations are compelling and enhanced earnings growth from buybacks is generally not part of our equation. An interesting calculation by Evercore ISI shows that had US companies not engaged in buybacks since 2000, S&P earnings would be more like US$81 than the current level of US$124. The point is that, prospectively, this aspect of the investment scene may prove to be a weaker driving force than hitherto as capital is repriced. On the other hand, our high exposure to Asia may expose us to greater market volatility as foreign flows are an important constituent of stock market activity there. Some protection is however offered by much lower starting valuations and growth prospects that are arguably superior to those of other markets.

Per Capita Energy Consumption vs. Income (1965-2010)



Source: BP Statistical Review of World Energy 2011; The Conference Board Total Economy Database, January 2012; and CIEC Asia Database. Chart by Brendan Coates and Nghi Luu, the Australian Treasury.

Per Capita Steel consumption vs. Income (1971-2010)



Source: ABARES *Australian Commodities*; World Steel Association *Steel Statistical Yearbooks*; World Metal Statistics; United Nations *World Population Prospects: The 2010 Revision*; The Conference Board Total Economy Database, January 2012. Chart by Brendan Coates and Nghi Luu, the Australian Treasury.

Platinum Asia Fund

Joseph Lai
Portfolio Manager

Performance

(compound pa, to 31 March 2018)

	QUARTER	1 YEAR	2 YEAR P.A.	SINCE INCEPTION P.A.
PWP Asia Fund Class A USD	-1.6%	28.2%	–	30.7%
PWP Asia Fund Class B USD	-2.0%	–	–	26.2%
PWP Asia Fund Class D USD	-2.0%	28.0%	22.0%	17.7%
PWP Asia Fund Class I USD	-1.5%	28.7%	–	31.4%
MSCI AC Asia ex Jp Index (USD)	0.7%	25.8%	21.6%	18.8%

Net of accrued fees and costs. Refer to note 1, page 19.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

Markets across Asia were lacklustre over the quarter as a result of concerns over rising interest rates in the US, with the Philippines (-8%), India (-5%), Korea (-1%) and Hong Kong (-1%) all posting weak returns (in local currency terms). The Fund (Class D) returned -2% over the quarter and +28% over the last 12 months.

Among the stocks that fared well were companies that are strategically positioned to service the burgeoning Chinese middle class consumer, particularly the Chinese healthcare stocks (United Labs +28%, 3SBio 15%) and gas utilities (ENN Energy +26%). Mining group MMG rose +23%, encouraged by recovering copper prices.

Our Indian, Philippines and Korean holdings detracted from performance, including the Indian banks (Axis Bank -9% and Yes Bank -3%), Philippines developer Ayala Land (-8%) and Korean internet search portal Naver (-9%). Their weak performance this quarter has not changed our investment thesis for these companies, which we continue to regard as quality businesses in the region and which we expect will rebound when market volatility recedes.

Commentary

During the quarter, the issue of increasing trade confrontation between the United States and China came to the fore. These certainly aren't easy negotiations to have and there has been much tough rhetoric over tariffs from both sides. Nevertheless, a full-blown trade war is probably unlikely to eventuate, mainly because both parties recognise the negative impacts it would have on their respective economies, an outcome that neither wants. So far, the US has proposed tariffs on about US$50 billion worth of Chinese imports. The Chinese side reciprocated with proposals for an equivalent amount over US imports, plus some vague promises of further opening-up of its domestic markets to foreign competition. US$50 billion is no negligible amount, but put in context, it represents less than 3% of China's total annual exports. It is worth remembering that while the US still makes up a significant 19% of China's exports, **nearly half of China's total exports are going to other Asian trade partners!**

We are further comforted by the belief that the impact of the current trade friction on the medium- to long-term earnings power of our portfolio companies will be limited. Our key Chinese holdings are businesses that are strong beneficiaries of China's growing middle class, domestic consumption upgrades and ongoing urbanisation. The portfolio is positioned to benefit from the continuation of China's economic reform measures, such as those focused on reducing environmental pollution and providing more sustainable growth, improving the health of the banking system, and delivering better healthcare for the people. Indeed, the recent constitutional amendment to remove the presidential term limit may be a positive for China's economic development as it cements President Xi's position and allows him to pursue his reform agenda with greater certainty.

Worth highlighting are some of the interesting changes we see taking place on the ground in China, and how the reality may be different to the picture painted by Western media.

You may remember watching a *60 Minutes* report on China's "ghost cities" back in 2013 – empty apartments with no one living in them. That was not exactly fake news, but it is certainly old news. If one can picture nearly 20 million people, almost the population of Australia, moving from rural villages to the cities every year, one can appreciate the scale of this migration. Empty apartments, to the extent that they exist, get filled up pretty quickly.

The truth is that instead of empty streets we see traffic jams, instead of unsold apartments we see a severe shortage of supply – so much so that buyers are going into lottery draws to get theirs hands on them. To meet this demand, developers are buying land and starting construction again!

You may have also read about the glut in China's supply of steel, aluminium, cement and so on. But that, too, is yesterday's news as the government has closed down numerous loss-making or polluting plants and factories over the last few years. As supply shrank, commodity prices recovered. Australian coal and iron ore producers have reported how their profitability improved out of sight! The CEOs of the remaining Chinese companies in these industries are telling us the same thing. With improving profitability, not only are they now able to keep up with the interest payments on their debt, they are also paying down the debt. The positive repercussions on the banking system cannot be under-estimated.

Moving onto the environment – China is more focused than ever on this issue. The drive comes from both the people and the top. "To bring back the blue sky!" hasn't been an empty political slogan; there has been real government action in enforcing the environment standards and regulations. Academic studies done by groups outside of China are reporting improvements in air quality in some Chinese cities by as much as 40% between 2013 to 2017.

We are living in exciting times in which the world is generating remarkable businesses through technological change. This is especially so in China because it is pursuing new technologies at a scale and pace that is unrivalled by most other countries. China has put in place first-class infrastructure and invested heavily in education (this includes both government funding and private spending), producing four million STEM (science, technology, engineer and maths) graduates a year. If you are an entrepreneur wanting to open a smartphone or electric vehicle factory, China is unique in its offering of an abundance of cheap and experienced engineers, an unparalleled supply chain and a huge domestic market to sell into. This is exactly what the assembler of the iPhone (Hon Hai Precision Industry) has managed to do, adding a hundred thousand people to its smartphone factory within a year.

Since China is brimming with entrepreneurs, competition is intense. But competition forces innovation and accelerates the iteration of products. Alibaba and Tencent have been locked in a race to win market share in mobile payments, each offering low fees and continuously improving their services. The result of this race is the growing number of Chinese cities that are fast becoming cashless. Mobile payment volume in China grew from zero to US$9 trillion in just three years – 10 times the volume in the US!

Building on its popular digital payment app Alipay, Alibaba now offers the largest cash management product in the world, with more than US$300 billion under management. The Fund has owned Tencent and Alibaba for some time and they have generated good returns for our investors. The point is that China's vibrant private sector is capable of creating vast new businesses and tremendous value.

The growing power of the Chinese consumer is a well-told investment story. What may be less obvious is that while more and more Chinese are car owners and almost every adult has a smartphone, they are yet to take up the more intangible products that will improve the quality of life. Healthcare and insurance are prime examples.

The Chinese healthcare market is a quarter of the size of the US or European market by value, while its population is four times bigger. One of the Fund's holdings, 3SBio, makes a drug called Enbrel, which is a biologic drug for the treatment of rheumatoid arthritis. Enbrel is the seventh top selling drug in Australia and a top 10 drug in most developed countries. But Enbrel doesn't even rank in the top 100 in China, because domestically 3SBio only has 30,000 patients at present. Among a population of 1.3 billion people, many sufferers of rheumatoid arthritis are not diagnosed and treated. But this is now changing as healthcare coverage expands.

Insurance has been another area of interest for the Fund. We own Ping An Insurance, an industry leader in China. Ping An has a superb sales force and has invested billions of dollars in technology with great foresight. Its system allows auto insurance customers to lodge claims on their smartphones by simply submitting a photo of the accident, and Ping An's artificial intelligence algorithms will assess the damage and provide an estimate of the cost of repair in a matter of minutes.

The companies mentioned above are industry leaders with strong earnings power. Yet, we were able to purchase their shares at very attractive valuations. We are optimistic about their growth potential as China's consumers upgrade their spending.

Changes to the Portfolio

Given the enthusiasm of the market at the beginning of the year, the Fund has taken the opportunity to book profits in the stocks that have reached our estimate of fair value. Net invested position has been reduced to around 79%.

With a focus on industries and companies that are well positioned to benefit from the economic reforms taking place in China and India, as well as the cyclical recovery across the Asian region, we are deploying cash to buy companies that have strong long-term fundamentals but whose valuation is depressed amidst short-term market volatility.

Outlook

With the recent correction in the markets, the outlook may in fact be looking more sanguine. Notwithstanding the present concerns with rising interest rates in the US and deteriorating US-China trade relations, the Asian region continues to provide a fertile ground for interesting ideas.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Alibaba Group	China	IT	3.5%
Samsung Electronics	Korea	IT	3.1%
Ping An Insurance Group	China	Financials	3.0%
Axis Bank Ltd	India	Financials	3.0%
China Overseas Land & Invt	China	Real Estate	3.0%
Kasikornbank PCL	Thailand	Financials	2.7%
Yes Bank Ltd	India	Financials	2.5%
Tencent Holdings	China	IT	2.4%
China Oilfield Services	China	Energy	2.2%
LG Corp	Korea	Industrials	2.2%

As at 31 March 2018. Refer to note 3, page 19.
Source: Platinum Investment Management Limited.

For monthly updates of the Fund's invested positions, including country and industry breakdowns as well as currency exposure, please visit www.platinumworldportfolios.ie/Funds/AsiaMonthlyUpdates.

Disposition of Assets

REGION	31 MAR 2018	31 DEC 2017
China^	45%	52%
Hong Kong	5%	3%
Taiwan	2%	2%
India	12%	10%
Korea	10%	12%
Thailand	4%	4%
Philippines	2%	2%
Singapore	1%	1%
Malaysia	<1%	<1%
Indonesia	<1%	1%
Vietnam	0%	1%
Cash	19%	12%
Shorts	-2%	0%

^ Inclusive of all China-based companies, both those listed on exchanges within China and those listed on exchanges outside of China.
Refer to note 2, page 19.
Source: Platinum Investment Management Limited.

Sector Breakdown

SECTOR	31 MAR 2018	31 DEC 2017
Financials	22%	21%
Information Technology	17%	17%
Industrials	8%	8%
Consumer Discretionary	7%	11%
Materials	6%	6%
Real Estate	6%	6%
Energy	5%	5%
Health Care	4%	4%
Consumer Staples	3%	6%
Utilities	2%	2%
Telecommunication Services	1%	2%
Other*	-2%	0%
TOTAL NET EXPOSURE	79%	88%

* Includes short positions of indices.
Refer to note 5, page 19.
Source: Platinum Investment Management Limited.

Currency

CURRENCY	31 MAR 2018	31 DEC 2017
Hong Kong dollar (HKD)	39%	42%
US dollar (USD)	21%	19%
Indian rupee (INR)	12%	10%
Korean won (KRW)	11%	12%
Chinese yuan (CNY)	5%	6%
Thai baht (THB)	4%	4%
Australian dollar (AUD)	4%	0%
Philippine peso (PHP)	2%	3%

Refer to note 4, page 19.
Source: Platinum Investment Management Limited.

Platinum Japan Fund

Scott Gilchrist
Portfolio Manager

Performance

(compound pa, to 31 March 2018)

	QUARTER	1 YEAR	2 YEAR P.A.	SINCE INCEPTION P.A.
PWP Japan Fund Class A USD	-3.8%	20.1%	19.8%	17.6%
PWP Japan Fund Class B USD	-4.5%	21.0%	–	20.7%
PWP Japan Fund Class D USD	-4.5%	21.0%	20.6%	16.6%
PWP Japan Fund Class F EUR	-6.8%	–	–	-1.7%
MSCI Japan Index (USD)	0.8%	19.6%	17.0%	11.2%

Net of accrued fees and costs. Refer to note 1, page 19.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

The Fund (Class D) fell 4.5% for the quarter and rose 21.0% for the twelve months. A defining aspect of the Japanese stock market is the wide valuation dispersion between the most expensive stocks and the cheapest stocks, which reflects the price outperformance of growth versus value. This is a phenomenon seen in many global markets but it is particularly evident in Japan. From both a historical and a fundamental perspective, these trends eventually reverse, but the timing is difficult, if not impossible, to predict. Recent portfolio performance has been weighed down by this phenomenon and it would not be unexpected if this continues for an indeterminate period of time. The risk is that the valuation dispersion is reflecting, however unlikely, a fundamental change in both human behaviour and the underlying structure of the economy.

Disposition of Assets

REGION	31 MAR 2018	31 DEC 2017
Japan	87%	91%
Korea	<1%	2%
Cash	13%	7%
Shorts	-1%	-1%

Refer to note 2, page 19.
Source: Platinum Investment Management Limited.

Sector Breakdown

SECTOR	31 MAR 2018	31 DEC 2017
Information Technology	22%	22%
Industrials	20%	20%
Consumer Discretionary	13%	15%
Materials	11%	13%
Financials	9%	7%
Energy	5%	9%
Health Care	4%	3%
Telecommunication Services	1%	2%
Consumer Staples	1%	1%
TOTAL NET EXPOSURE	86%	92%

Refer to note 5, page 19.
Source: Platinum Investment Management Limited.

Currency

CURRENCY	31 MAR 2018	31 DEC 2017
Japanese yen	96%	74%
US dollar	4%	24%
Korean won	<1%	2%

Refer to note 4, page 19.
Source: Platinum Investment Management Limited.

For monthly updates of the Fund's invested positions, including country and industry breakdowns as well as currency exposure, please visit www.platinumworldportfolios.ie/Funds/JapanMonthlyUpdates.

Changes to the Portfolio

While it has been evident for more than a year that many high quality Japanese companies and those with obvious growth prospects were fully valued from a longer-term perspective, the recent domestic buying in the stock market has given rise to some valuations that are toward the absurd end of the spectrum. The longer-term prospects are undoubtedly bright for voice recognition, automated driving, artificial intelligence, quantum computing and the sharing economy, among others, but even on the most optimistic scenarios it is impossible to justify price-to-earnings (P/E) multiples above 300 and price-to-sales (P/S) multiples above 100. Academic studies have shown that future returns are negative for all time horizons when valuations rise above P/S multiples of 8, of which many examples can be found.

The portfolio has been gradually transitioning toward the cheaper parts of the market and this process has recently accelerated. The overall market remains attractively priced on both an absolute and relative analysis with roughly half of the 3,000 listed stocks selling below book value. The large cash holdings across the market (Nintendo and Keyence each have more than US$10 billion of cash) and the extensive cross-shareholdings mask the overall valuation and return metrics, thus it is not surprising that many cheap investments are visible upon closer inspection. Many companies are trading on their lowest valuations in five decades.

Commentary

The news and trends in Japan continue along surprising trajectories, especially relative to the external consensus. In summary, many indicators show an economy that is stronger than any time post bubble. Strong employment gains have reduced unemployment to the lowest level in decades. This is due to rising participation rates, especially among female and older workers. Retirement is perhaps a curse for civil societies, rather than the promised nirvana. The Japanese female worker participation rate is now higher than the OECD average and higher than the USA. The absolute number of workers across Japan is now at record levels, delaying the much discussed demographic demise of the country. Recent legislative and cultural efforts further address the birth rate which is now rising perhaps for timing reasons, but is certainly helped by rising wages and underlying economic optimism. Dating apps are surging in popularity. The impact of these employment trends is seen in both wage growth and higher consumer spending, but the most important point to watch will be productivity gains should decades of socialising unemployment become unwound. Improved productivity is part of the explanation for the rise in corporate operating margins, which have shifted higher from a multi-decade range around 3% and are now approaching 6%.

Gambling in Japan is often associated with the unique sound of ball bearings cascading through neon-lit Pachinko parlours immune to change through the decades. Astoundingly, the political process seems to have agreed to proceed with three integrated resort casinos in Japan after an exhaustive and exhausting negotiation. This is against the backdrop of rising inbound tourism which is causing strain on some city infrastructure, but also highlights the spare capacity across rural Japan. New electronic pocket translators with wireless connections to a cloud-based application allow fifty languages to be translated in real time with particular focus on the needs of Chinese, Korean, English/American and ASEAN visitors.

The Japanese Corporate Governance Code was published in early 2015. It provided guidance, but was not enforceable. Adherence has been patchy, but it certainly provided cover for those who wished to adjust, or merely signal. Recently announced draft revisions to the Code contain stronger and more specific language in many areas, reflecting the government's frustration with the rate of progress over the last three years. Of particular note are the details related to cross-shareholdings. By some estimates, surplus corporate cash holdings are more than a quarter of the current market valuation which, when combined with cross-shareholdings of similar magnitude, give some idea of the enormity of the opportunity being addressed and why it is of particular relevance to equity owners. In an environment of low cash deposit rates, high bond prices and elevated asset prices generally, it seems inevitable that external pressure on corporate management teams will increase across a wide range of areas, including underlying business improvement and financial management.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Itochu Corporation	Japan	Industrials	3.9%
Nexon	Japan	IT	3.2%
Sumitomo Mitsui Financial	Japan	Financials	3.1%
Mitsubishi UFJ Financial	Japan	Financials	2.9%
Nintendo	Japan	IT	2.8%
Hogy Medical	Japan	Health Care	2.6%
Lixil Group	Japan	Industrials	2.6%
Orix Corp	Japan	Financials	2.6%
Ebara Corp	Japan	Industrials	2.5%
Murata Manufacturing Co	Japan	IT	2.4%

As at 31 March 2018. Refer to note 3, page 19.
Source: Platinum Investment Management Limited.

It has been five years since Abenomics commenced. Amidst the bustle of daily life, it is easy to forget that this dramatic change in direction followed two decades of post-bubble economic recovery during which the Ministry of Finance enforced its preference for tight monetary conditions. The details of Prime Minister Abe's "Three Arrows" (monetary easing, fiscal stimulus and structural reforms) and their associated actions are well documented and there is much debate about the success or failure of this primary tenet of Abe's second period as leader. However, what is of primary importance is the narrative now being disseminated, comparing the outcomes of the two preceding decades with those of the five years of Abenomics. This is important as Abe now has a political mandate and Kuroda has been reappointed to the Bank of Japan with two deputies who strongly advocate a continuation of the current approach. This team was seemingly appointed against the wishes of the Ministry of Finance. The propaganda clearly stresses the structural changes in the economy resulting from Abenomics. With a renewed mandate, it is almost impossible to believe that more of the same and perhaps stronger medicine won't be applied. This is contrary to the prevailing market consensus which, while hoping for more of the same, has settled into a narrative which implies the end of the experiment and a return to the prior conditioning.

Sporadically, a public commentator would talk about the relevance of Japan's post-bubble economic experience to the current global environment. This is often part of a wider search for historical analogies to the present day situation. They question whether the post-depression template of the 1940s or the inflation foothills of the 1960s are more appropriate than the post 1989 Japanese experience. Certainly, the entry into the global economy of billions of smartphone users climbing the economic ladder should exert pressure on Mother Nature to provide raw materials which are naturally limited. However, this is offset by the extent of global debt and the financialisation of many economies. The debate continues. As China increasingly asserts primacy in global events amid those unfolding on the Korean Peninsula and the trade, tax and treasury turmoil emanating from Washington DC, it is perhaps appropriate to quote Lenin: "There are decades where nothing happens; and there are weeks where decades happen." Along this line of thinking, reminders have been resurfacing of Roosevelt's Executive Order 6102 of 1933, which forbade the hoarding of gold, and Nixon's closure of the gold window in 1971, which led to the collapse of the Bretton Woods system and indirectly to the Plaza Accord of 1985. Some talk about the fall of the Berlin Wall in 1989 as context for the current North Korean negotiations. As the Federal Reserve continues its concurrent path of higher interest rates and balance sheet "normalisation" while China also attempts to rein in credit growth, there are many in Japan who would caution against a repeat of their own decades of mistakes. Perhaps they should follow Ben Bernanke's recommendation to use the *Lords of Finance* as a primary reference and heed the book's key lesson of "devalue hard and devalue early".

Tesla's ongoing travails are perhaps distracting the debate away from the overall energy discussion, especially in the context of robust global demand. With this in mind, it is worth noting three recent developments. Firstly, after a few years of oversupply, many are now coming to the conclusion that eventual LNG deficits are unavoidable due to the long-duration nature of new projects. Chinese and other Asian demand has been robust, leading to winter shortages of seaborne LNG despite large new capacity additions. This supply surge ends next year and the hiatus of new projects is now becoming alarming for end consumers. Second, the projected surge of unconventional Permian oil supply has recently bumped up against two soft barriers. Shale oil is lighter than the global average, so it struggles to easily find a place in the global refining system and, once refined, it produces lower quality products than conventional crude oil. This complex problem is exacerbated by OPEC's production restraints and Venezuela's travails as their economy descends further into disarray. After many years of reduced upstream oil and gas spending, low exploration success and consistently growing demand, there is a strong argument to be made that oil prices will be firm in the absence of a major global economic disruption or distortion. As an aside, global lithium ion battery production capacity is projected to increase from 33 GWh to over 400 GWh by early next decade, which remind us of the solar industry experience both as a warning for the battery industry and in terms of the multi-decade timeframe required for energy system transitions.

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Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock performance are in local currency terms, unless otherwise specified.

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NOTES

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1. Fund returns are calculated using the Fund's net asset value per share (which does not include the anti-dilution levy) attributable to the relevant share class (where a particular share class is not denominated in USD, the net asset value per share in USD, being the Fund's base currency, is converted into the denomination currency of that share class using the prevailing spot rate), and represent the combined income and capital returns attributable to the relevant share class over the specified period. Fund returns are net of accrued fees and expenses attributable to the relevant share class, are pre-tax, and assume the accumulation of net income and capital gains attributable to the relevant share class. The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility of the Fund's underlying assets and other risks associated with investing, investment returns can be negative, particularly in the short-term.

   The benchmark index for the relevant Fund is 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$)

   Fund returns have been provided by Platinum Investment Management Limited; MSCI index returns have been sourced from RIMES Technologies. Index returns are in US dollars and assume the reinvestment of dividends from constituent companies, but do not reflect fees and expenses. Platinum does not invest by reference to the weighting of the Index. The Fund's underlying assets are chosen through Platinum's individual stock selection process and, as a result, the Fund's holdings may 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 B USD (Accumulating) (ISIN: IE00BYRGR076): 2 December 2016
     Class D USD (Accumulating) (ISIN: IE00BYRGQZ50): 16 November 2015
     Class F EUR (Accumulating) (ISIN: IE00BYRGR183): 4 April 2017
     Class G GBP (Accumulating) (ISIN: IE00BYRGR290): 27 April 2016
     Class H GBP (Accumulating) (ISIN: IE00BYRGR308): 4 August 2016
   - Platinum World Portfolios - Asia Fund:
     Class A USD (Accumulating) (ISIN: IE00BYRGR522): 10 March 2017
     Class B USD (Accumulating) (ISIN: IE00BYRGR639): 20 April 2017
     Class D USD (Accumulating) (ISIN: IE00BYRGRD06): 16 November 2015
     Class I USD (Accumulating) (ISIN: IE00BYMJ5524): 19 January 2017
   - Platinum World Portfolios - Japan Fund:
     Class A USD (Accumulating) (ISIN: IE00BYRGRF20): 11 January 2016
     Class B USD (Accumulating) (ISIN: IE00BYRGRH44): 23 December 2016
     Class D USD (Accumulating) (ISIN: IE00BYRGRJ67): 16 November 2015
     Class F EUR (Accumulating) (ISIN: IE00BYRGRL89): 18 October 2017

   For the purpose of calculating the "since inception" returns of the Index, the inception date of Class D of the Fund, being 16 November 2015, is used (as Class D was the first share class activated.

2. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents the Fund's exposure to physical holdings and long derivatives (of stocks and indices) as a percentage of the Fund's net asset value.
3. The table shows the Fund's top 10 long stock positions (through physical holdings and long derivatives) as a percentage of the Fund's net asset value.
4. The table shows the Fund's major net currency exposure as a percentage of the Fund's net asset value, taking into account currency hedging.
5. Sector breakdown represents the Fund's net exposure to physical holdings and both long and short derivatives (of stocks and indices) as a percentage of the Fund's net asset value.

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