



Quarterly Investment Manager's Report

Platinum World Portfolios - International Fund

Platinum World Portfolios - Asia Fund

Platinum World Portfolios - Japan Fund

31 March 2019

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by Andrew Clifford, Chief Investment Officer

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Performance

to 31 March 2019

SUB-FUND	PORTFOLIO VALUE (US\$ MIL)	QUARTER	6 MONTHS	1 YEAR	2 YEARS COMPOUND PA	3 YEARS COMPOUND PA	SINCE INCEPTION COMPOUND PA	INCEPTION DATE
Platinum World Portfolios - International Fund								
Class A (USD)	\$36.8m	10.1%	-1.1%	-7.1%	5.9%	-	8.4%	27 Apr 2016
Class B (USD)	\$21.9m	9.9%	-1.4%	-8.2%	5.5%	-	8.6%	2 Dec 2016
Class D (USD)	\$12.6m	9.9%	-1.4%	-8.2%	5.5%	8.3%	5.8%	16 Nov 2015
Class F (EUR)	\$6.4m	12.3%	2.0%	0.7%	-	-	2.9%	4 Apr 2017
Class G (GBP)	\$10.5m	7.7%	-1.0%	0.1%	4.1%	-	12.6%	27 Apr 2016
Class H (GBP)	\$0.4m	7.6%	-1.3%	-1.1%	3.6%	-	8.7%	4 Aug 2016
MSCI All Country World Net Index (USD) ⁽¹⁾		12.2%	-2.1%	2.6%	8.6%	10.7%	9.4%	16 Nov 2015
MSCI All Country World Net Index (USD) (EUR) ^(2,3)		14.2%	1.2%	12.4%	-	-	5.9%	4 Apr 2017
MSCI All Country World Net Index (USD) (GBP) ^(2,4)		9.6%	-2.1%	10.5%	6.3%	-	14.3%	27 Apr 2016
Platinum World Portfolios - Asia Fund								
Class A (USD)	\$13.1m	11.1%	1.2%	-7.7%	8.8%	-	10.4%	10 Mar 2017
Class B (USD)	\$8.8m	10.9%	0.9%	-8.0%	-	-	8.0%	20 Apr 2017
Class D (USD)	\$17.1m	10.9%	0.9%	-8.0%	8.5%	11.1%	9.4%	16 Nov 2015
Class G (GBP)	\$0.7m	-	-	-	-	-	5.7%	19 Feb 2019
Class I (USD)	\$133.1m	11.1%	1.3%	-7.3%	9.2%	-	12.1%	19 Jan 2017
MSCI AC Asia ex Japan Net Index (USD) ⁽¹⁾		11.4%	1.8%	-5.2%	9.2%	11.9%	11.1%	16 Nov 2015
MSCI AC Asia ex Japan Net Index (USD) (GBP) ^(2,4)		-	-	-	-	-	3.6%	19 Feb 2019
Platinum World Portfolios - Japan Fund								
Class A (USD)	\$11.5m	5.3%	-6.1%	-11.9%	2.9%	8.1%	7.5%	11 Jan 2016
Class B (USD)	\$1.9m	5.1%	-6.4%	-12.4%	2.9%	-	4.8%	23 Dec 2016
Class D (USD)	\$18.4m	5.1%	-6.4%	-12.4%	2.9%	8.4%	7.1%	16 Nov 2015
Class F (EUR)	\$0.3m	7.4%	-3.1%	-4.0%	-	-	-3.9%	18 Oct 2017
MSCI Japan Net Index (USD) ⁽¹⁾		6.7%	-8.5%	-7.8%	5.0%	8.1%	5.2%	16 Nov 2015
MSCI Japan Net Index (USD) (EUR) ^(2,3)		8.6%	-5.4%	0.9%	-	-	1.9%	18 Oct 2017

(1) For the purpose of calculating the "since inception" returns of the Index in USD, the inception date of Class D of the Fund is used, since Class D was the first USD-denominated share class activated.

(2) The MSCI Index returns in USD have been converted into the specified currency (EUR or GBP, as the case may be) using the prevailing spot rate.

(3) For the purpose of calculating the "since inception" returns of the Index in EUR, the inception date of Class F of the Fund is used, since Class F was the first EUR-denominated share class activated.

(4) For the purpose of calculating the "since inception" returns of the Index in GBP, the inception date of Class G of the Fund is used, since Class G was the first GBP-denominated share class activated.

Fund returns are net of accrued fees and expenses, are pre-tax, and assume the accumulation of net income and capital gains. 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.

Historical performance is not a reliable indicator of future performance. See note 1, page 21.

Source: Platinum Investment Management Limited for Fund returns; FactSet for MSCI Index returns.

Macro Overview

by Andrew Clifford, CIO, Platinum Investment Management Limited

A tale of two yield curves – what interest rates tell us about the world's two largest economies

Investors have been preoccupied with US interest rates in recent months as the Federal Reserve changed its stance on the likelihood of future rate increases. The resulting inversion of the US yield curve has garnered significant attention as this is widely seen as a harbinger of a recession and weaker stock markets. And of course, where the US goes the world follows! There is no question that not only are interest rates an important variable for economic growth, they are also a key factor in driving stock market performance. As such, it is neither surprising nor inappropriate that the discussion around interest rates receives so much attention.

However, while the US economy is important for the global economy and financial markets, the lesson of 2018 was that China is now equally important. As we sought to explain in previous reports, China's financial sector reforms which commenced in 2017, reduced the availability of credit and precipitated a significant economic slowdown in the following year. The situation was exacerbated by the trade war with the US. While China's economy is only around two-thirds of the size of the US economy,¹ its impact on the markets for many physical goods is often the world's largest due to the scale of its demand. While this is well appreciated when it comes to iron ore and copper, of which China consumes about half of the world's output,² some may find it hard to believe that China is also the world's largest market³ for autos (more than 23 million passenger vehicles sold in 2018 versus 17 million for the US),⁴ smartphones (454 million handsets shipped in 2017 versus 201 million for North America),⁵ and just about any other physical good one might nominate. As such, the result of China's credit tightening, compounded by its trade disputes with the US, was a slowdown not only in China's economic activity, but also in Europe, Japan, and many

emerging economies which had otherwise been growing well until the latter half of last year.

The idea that China plays a large and important role in the global economy is hardly a controversial one, yet few participants in financial markets direct a proportionate amount of attention to what is going on in China and most remain focused firmly on the US. By way of illustration, many readers are likely to be well aware of the recent inversion of the US yield curve, and while some may not know exactly what the yield is on the US 10-year Treasuries, most probably have an approximate idea. (For the record, as of the end of March, the US 10-year rate was 2.39%, marginally lower than the 1-year rate at 2.40%⁶). Keener followers of markets may also know that the German 10-year bunds and the Japanese 10-year government bonds currently have a yield close to or even below zero! However, how many market participants know where the Chinese 10-year government bonds are trading at, let alone the shape of the Chinese yield curve?

One may well gain some insights from China's yield curve, and investors might not have been caught completely off guard by last year's downturn had they paid nearly as much attention to China's interest rates in the year before as they typically do to every statement made by members of the US Fed.

At the end of 2017, as can be seen from the chart on the following page, Chinese interest rates had risen significantly from the lows of 2016, with the 1-year Chinese government bond yield just 0.1% below the 10-year rate. Not quite an inverted yield curve, but close. While the People's Bank of China (PBoC) does not manage interest rates in the same manner as the central banks of developed economies, these market-set rates should provide a reasonable indicator of the credit conditions in China. In the second half of 2018, the PBoC, together with China's banking regulator, implemented a number of policy measures to ease liquidity conditions and loosen credit availability, and as a result, interest rates fell significantly.

In addition to lower interest rates, the Chinese government also introduced a range of corporate and personal tax cuts, as well as increased its spending on infrastructure. In developed

1 Based on 2018 (estimate) nominal GDP, US Dollars. Source: IMF World Economic Outlook Database.

2 <https://www.businessinsider.com.au/china-global-commodity-demand-rank-gdp-2018-10>

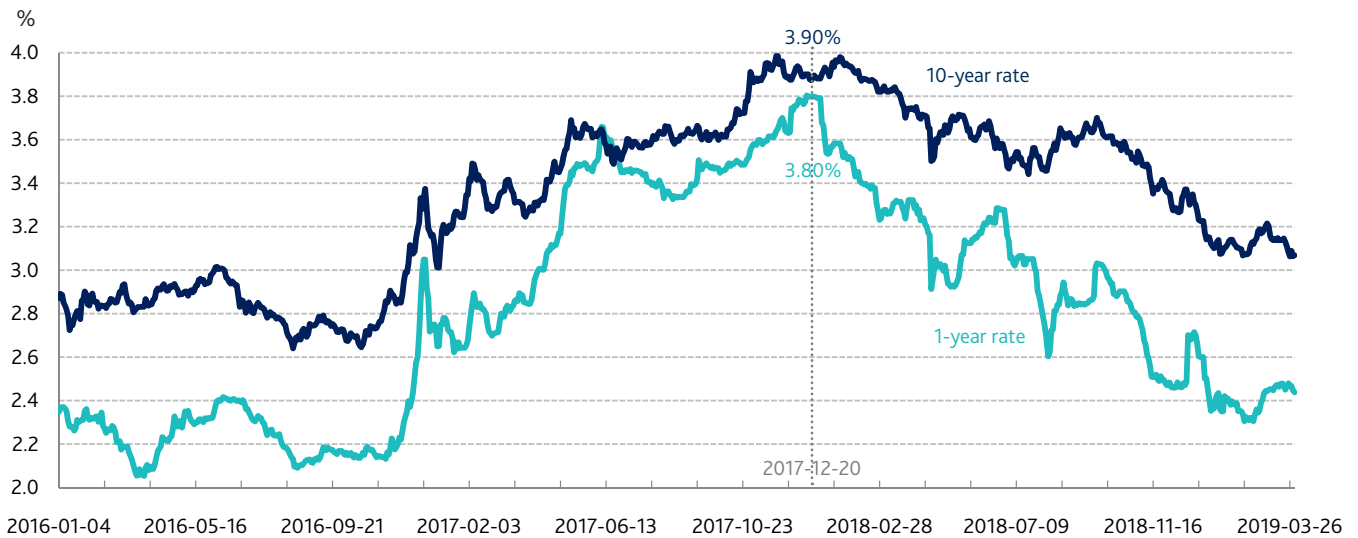
3 Typically in volume terms, though this may be very different in value terms.

4 Source: VDA and <https://www.best-selling-cars.com/international/2018-full-year-international-worldwide-car-sales/>

5 <https://www.gfk.com/nl/insights/press-release/smartphone-unit-sales-rose-6-in-north-america-in-4q17-highest-growth-in-two-years/>

6 Source: US Treasury. 29 March 2019 rates.

1-Year versus 10-Year Chinese Government Bond Yields



Source: China Central Depository & Clearing (CCDC), Platinum Investment Management Limited.

economies, budget estimates published by the government would typically disclose the nature and scale of the various fiscal policy initiatives. While no such official numbers exist in China, estimates of this year's fiscal stimulus are as high as 3% or more of GDP, not dissimilar in size to the stimulatory measures put in place during the 2015/16 slowdown.

So, while the recent inversion of the US yield curve may be indicative of a potential slowdown or even a recession in that country, it is important to note also that fiscal and monetary policies in China are firmly set on an expansionary path.

The other positive development during the quarter is the deferral of the imposition of additional tariffs on Chinese imports into the US, as the two sides work towards a new trade agreement.

Global macroeconomic outlook

Indeed, there are signs of stabilisation in China's economy, though these remain inconclusive for the moment. There has been a pick-up in credit demand, car retail sales volume for the first two months of 2019 were only down slightly (2.9%⁷) from the peak a year ago (see chart on page 15), the Purchasing Managers' Index (PMI) has improved, and at least anecdotally, the numbers of bidders at government land auctions have substantially increased. On the other hand, import and export numbers have been very weak. This is most likely the result of US and Chinese importers having brought forward their orders at different points last year, ahead of the imposition of tariffs, and may take some time to recover even if a successful trade deal transpires in the near future.

In the US, interestingly, despite (or perhaps because of) the Fed halting interest rate hikes, citing weaker economic growth, the data actually suggests that the economy remains relatively robust, with employment and wage growth remaining buoyant. Housing, the area that had been impacted most heavily by last year's rate increases, saw a strong rebound in new and existing home sales this quarter as lower bond yields fed through to lower mortgage rates.

As for Japan and Europe, as both regions have been impacted by the trade issues, there may well be a delay in the return of stronger momentum in economic growth. Having said that, domestic indicators such as employment and household expenditures remain strong in Japan and in key economies within Europe.

Looking ahead, our expectation is that China's economy will respond positively to the monetary and fiscal stimulus measures that the government has instituted. A resolution to the trade dispute with the US would also help considerably. Even if the recent inversion of the US yield curve is of significance, there can often be a lag before the economy and stock markets peak. The housing market's response to lower mortgage rates is quite supportive of the possibility that the cycle may yet have a little way to run in the US.

However, some caution is due. Given the size of the Chinese economy, it is to be expected that growth rates will steadily decline over time and, as such, the recovery may not be as spectacular or as impactful for the rest of the world as similar episodes have been in the past. Another risk to the relatively benign outlook is that a rebound in both the US and China could see the Fed change tack once again to raise rates. In addition, clearly, any stumble in the US-China trade negotiations would also be very detrimental.

⁷ Source: CAM and Bernstein.

Market Outlook

Markets have run strongly in the first three months of 2019 in response to the Fed's signalling that interest rate rises are on hold for the moment. Amongst developed markets, the US once again led the way (up 13.7%), then Europe (up 11.4%), followed by Japan (up 7.6%) (each in local currency terms).⁸ These divergences are not particularly notable on a three-month basis, though they continue a pattern of the US outperforming the rest of the world.

As we have repeatedly observed over the past year, there has been a significant divergence within markets, with a strong preference for stocks with certainty and growth, as investors sought to avoid or reduce risk. This has most notably been manifested in the extraordinary performance of high-growth technology stocks, best represented by the new software-as-a-service (SaaS) businesses. Examples include Salesforce, Workday and ServiceNow. Each of these companies provides

cloud-based software applications that help companies run their business. During the quarter, many of these SaaS companies (easily in excess of 50 in the US alone, plus more listed elsewhere) not only rebounded, some even proceeded to reach significant new highs. While many of these companies hold great promise and some have the capability to execute, it is not uncommon for their stock prices to be trading at **15 to 25 times sales**. These are extraordinarily high valuations, and while the future success of some of these companies may ultimately justify their current stock prices, it is unlikely that all of them will. It should be noted that the performance of high-growth areas such as information technology and healthcare explains much of the US market's outperformance over the rest of the world, reflecting its higher weighting in these sectors.

But perhaps these high-growth sectors will continue to rise, you might say. Why should one expect the strong price ascent of these well-loved companies to stall, or even reverse, at some point? Firstly, when interest rates ultimately move higher, the stock prices of highly-valued companies tend to

⁸ Local currency quarterly returns of the MSCI USA Net Index, the MSCI All Country Europe Net Index, and the MSCI Japan Net Index respectively.

MSCI Regional Index Net Returns to 31.3.2019 (USD)

REGION	QUARTER	1 YEAR
All Country World	12.2%	2.6%
Developed Markets	12.5%	4.0%
Emerging Markets	9.9%	-7.4%
United States	13.7%	8.8%
Europe	10.7%	-3.9%
Germany	6.9%	-13.7%
France	10.7%	-3.7%
United Kingdom	11.9%	-0.1%
Italy	14.6%	-10.6%
Spain	7.0%	-8.8%
Russia	12.2%	2.2%
Japan	6.7%	-7.8%
Asia ex-Japan	11.4%	-5.2%
China	17.7%	-6.2%
Hong Kong	15.6%	8.0%
Korea	4.9%	-16.7%
India	7.2%	6.8%
Australia	11.4%	4.5%
Brazil	8.1%	-4.2%

Source: FactSet.

Total returns over time period, with net official dividends in USD.

Historical performance is not a reliable indicator of future performance.

MSCI All Country World Sector Index Net Returns to 31.3.2019 (USD)

SECTOR	QUARTER	1 YEAR
Information Technology	18.8%	8.5%
Energy	14.1%	2.9%
Industrials	13.8%	-1.0%
Consumer Discretionary	13.2%	2.7%
Consumer Staples	11.4%	4.8%
Communication Services	11.1%	4.7%
Materials	11.1%	-3.1%
Utilities	9.5%	12.4%
Financials	8.2%	-7.8%
Health Care	8.0%	10.9%

Source: FactSet.

Total returns over time period, with net official dividends in USD.

Historical performance is not a reliable indicator of future performance.

be more sensitive. We saw a preview of this in the fourth quarter last year when, faced with the prospect of further interest rate hikes, the high-growth tech and healthcare stocks finally had a setback. However, with the Fed's now more dovish stance on rates, a similar sell-off appears to be off the agenda for the moment. Another possible trigger for a correction is the supply of new "growth stock investment opportunities". On this front, there is reason to be cautious as there is a substantial pipeline of new IPOs coming to market. These include Lyft (Uber's competitor in ride-sharing, listed in the last week of March), Pinterest (web application for sharing images), and Uber. Ultimately, the very high valuations of growth stocks will likely attract a steady supply of new listings which, once reaching enough volume, will at some point potentially suppress the share price performance of companies already listed.

Outside of these expensive pockets of "growth", the end of 2018 saw many other stocks sold down to very attractive valuations. Broadly speaking, these out-of-favour companies all had elements of uncertainty or cyclicity in their

businesses. Afflicted by apprehensions of a global recession, investors were unwilling to look through the cycle to a potential recovery. These included many semiconductor, energy, metals, banking, auto, and industrial stocks, as well as much of the Chinese market. In many cases, the stocks were already trading at or close to the valuations reached at the bottom of prior economic and market downturns. In such cases, the likelihood of a recession had become a moot point as the stock valuation had already priced in a substantial discount as if a major recession was already occurring. Some of these companies had a strong recovery this quarter, most notably Chinese stocks (up 17.9%).⁹ Easier monetary conditions in China, fiscal expansion, and relief on the trade front were all contributors to the rebound in the Chinese market. Despite this move, however, sentiments of both Chinese and foreign investors remain cautious and valuations are still highly attractive. Similarly in the other depressed areas (such as semiconductor, energy and industrials), while there has been a broad lift, valuations remain attractive and prospective returns promising.

9 MSCI China Net Index (local currency).

Platinum World Portfolios - International Fund



Andrew Clifford
Portfolio Manager



Clay Smolinski
Portfolio Manager

Performance

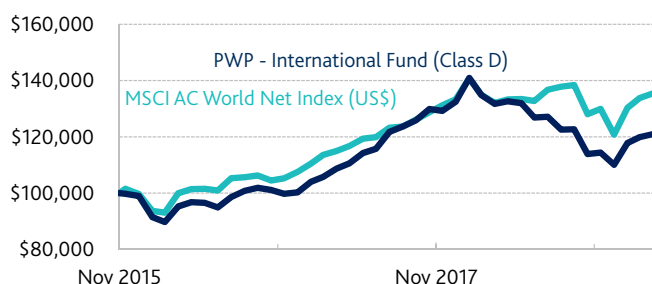
(compound pa, to 31 March 2019)

SHARE CLASS	QUARTER	1 YR	2 YRS P.A.	3 YRS P.A.	SINCE INCEPTION P.A.
PWP Int'l Fund Class A USD	10%	-7%	6%	—	8%
PWP Int'l Fund Class B USD	10%	-8%	5%	—	9%
PWP Int'l Fund Class D USD	10%	-8%	5%	8%	6%
PWP Int'l Fund Class F EUR	12%	1%	—	—	3%
PWP Int'l Fund Class G GBP	8%	0%	4%	—	13%
PWP Int'l Fund Class H GBP	8%	-1%	4%	—	9%
MSCI AC World Index (USD)^	12%	3%	9%	11%	9%

^ Index returns are those of the MSCI All Country World Net Index in USD. Fund returns are net of accrued fees and costs. Class D inception date (16 Nov 2015) is used for Index "since inception" returns. Source: Platinum Investment Management Limited, FactSet. **Historical performance is not a reliable indicator of future performance.** See notes 1 & 2, page 21.

Value of US\$100,000 Invested Since Inception

16 November 2015 to 31 March 2019



After fees and costs. See notes 1 & 3, page 21.

Historical performance is not a reliable indicator of future performance.

Source: Platinum Investment Management Limited, FactSet.

The Fund (Class D) returned 9.9% for the quarter and a loss of 8.2% over the last 12 months. These returns lagged the performance of global equity markets, which were up 12.2% for the quarter and 2.6% for the 12 months.¹

It is worth noting the underlying components of the Fund's performance. The Fund's long positions gained 13.8% over the quarter, which compares favourably with the broader market. However, given that the Fund held an average cash position of around 10% through the quarter, these gains only translated into a contribution of about 12% towards the Fund's performance.

Looking at the underlying companies, the Fund's Chinese holdings returned 23% and contributed 4.8% to the Fund's performance. The strongest contributors amongst our Chinese holdings included Ping An Insurance (insurance and banking, up 39%), Weichai Power (diesel engine manufacturer, up 50%), and Jiangsu Yanghe Brewery (white spirits producer, up 41%). The other significant contributor to performance came from our US holdings, which rose 18%, well ahead of the US market, and contributed 2.9% to the Fund's returns. Detracting from performance were losses on short positions which reduced the Fund's returns by 1.5%.

It is worth noting the gains made by our oil-exposed holdings in the year to date, in particular, **TechnipFMC** (up 19%) and **Transocean** (up 26%). In our December 2018 quarterly report, we outlined the investment case for our offshore oil service companies, a sector of the market that had been deeply discounted and out-of-favour.

Over the course of the December quarter, the Brent oil price had collapsed from US\$80 to US\$50 due to a sharp ramp-up in US shale oil production out of the Permian Basin, which drove a rebuild in US oil inventories (signalling oversupply), and Saudi Arabia's move to boost its production to 11 million barrels per day in expectation of additional US sanctions on Iran (which were subsequently delayed).

Since then, the picture has improved. In response to lower oil prices, US shale producers reduced their spending, with shale production capex now expected to fall by 10% in 2019, while the Saudis throttled back their production to 9.8 million

¹ References to returns and performance contributions in this PWP – International Fund report are in USD terms, unless otherwise specified.

barrels per day. This led the oil price to a quick rebound from US\$50 back to US\$69.

More importantly, we are seeing increasing evidence of a pick-up in offshore activity. Over the past three months, TechnipFMC won a number of new offshore contracts (including the Petrobras Mero project in Brazil and Eni's Merakes field in Indonesia), and Transocean has continued to raise the tender rates for its deep-water drill ships. In response to the positive trends in activity and the higher oil price, the stock prices of Transocean and TechnipFMC have risen 40% and 25% (in local currency) from their respective lows.

Over the 12-month period, the Fund's long equity exposure detracted from performance by 5%, the majority of which (about 4.3%) came from losses on our Japanese holdings. The strength of the US dollar also negatively impacted on portfolio returns. Our Chinese holdings, on the other hand, made a small positive contribution of 0.7% to returns in spite of the strong US dollar, with our positions in Chinese A-share companies being particularly good performers, gaining 26.8%. Across the portfolio, strong contributors over the 12 months included Schibsted (online classifieds, up 42%), Ping An Insurance (up 15%), Weichai Power (up 52%), and Alphabet (owner of Google, up 14%). Our Indian bank holdings were also positive contributors to performance, adding 1% to returns.

As we have outlined in this quarter's Macro Overview, the uncertainty in markets created by China's slowdown and its trade dispute with the US resulted in many stocks being sold down to very attractive valuations. These stocks represent a significant opportunity for investors. On the other hand, the extraordinarily high valuations that have resulted from investors crowding into high-growth companies represent a very real risk.

Since Platinum Investment Management Limited was founded 25 years ago, we have seen numerous examples of financial excesses across a broad range of geographies and assets. Many have unwound with the damage relatively contained to the particular asset involved. The crash in cryptocurrencies is one such example, the current account crisis in Turkey during 2018 being another. However, as was experienced in the tech wreck of 2000/01 and the global financial crisis (GFC) in 2008, in some cases the unwinding of the financial excesses in one area can have broader ramifications for all markets. Today, we can see numerous areas that give cause for concern. Besides the mania for high-growth stocks, other examples include the enthusiasm for debt securities despite very low yields, the popularity of risk parity strategies, and a frenzied FoMo (fear-of-missing-out) over unlisted investments such as private equity and infrastructure.

Disposition of Assets

REGION	31 MAR 2019	31 DEC 2018	31 MAR 2018
Asia	38%	37%	36%
North America	24%	18%	13%
Europe	20%	22%	21%
Japan	8%	9%	17%
Australia	1%	1%	1%
Russia	0%	0%	1%
Cash	9%	14%	11%
Shorts	-11%	-13%	-15%

See note 4, page 21. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Sector Exposures [^]

SECTOR	31 MAR 2019	31 DEC 2018	31 MAR 2018
Financials	17%	16%	12%
Communication Services	14%	14%	13%
Materials	13%	12%	11%
Industrials	12%	12%	12%
Information Technology	8%	7%	8%
Energy	7%	7%	9%
Consumer Discretionary	4%	3%	9%
Health Care	3%	4%	6%
Real Estate	2%	2%	2%
Consumer Staples	1%	-1%	1%
Utilities	0%	<1%	1%
Other*	-2%	-4%	-11%
TOTAL NET EXPOSURE	80%	73%	74%

[^] A major GICS reclassification was implemented during last quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.

* Includes index short positions.

See note 5, page 21. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Ping An Insurance	China	Financials	3.9%
Samsung Electronics	Korea	Info Technology	3.5%
Alphabet Inc	USA	Communication Serv.	3.2%
Glencore PLC	Switzerland	Materials	3.2%
Facebook Inc	USA	Communication Serv.	2.9%
TechnipFMC	UK	Energy	2.5%
Jiangsu Yanghe Brewery	China	Consumer Staples	2.4%
China Overseas Land	China	Real Estate	2.4%
Siemens AG	Germany	Industrials	2.2%
Intel Corporation	USA	Info Technology	2.1%

As at 31 March 2019. See note 7, page 21.

Source: Platinum Investment Management Limited.

So while we are optimistic about the prospects for our portfolio, we remain cautious about the environment that we are investing in. As such, we believe it makes good sense to retain a conservative net invested position in the Fund through the use of cash and short positions.

Changes to the Portfolio

The net invested position of the portfolio rose from 73% to 80% over the quarter, with cash holdings falling from 14.2% to 9.4% and short positions reduced slightly from 12.7% to 10.7%. As we reported last quarter, the change in the portfolio positioning was more significant than these aggregate numbers reveal, as there were substantial sales across the portfolio of companies that were either at or approaching full valuations as well as purchases in both new and existing holdings.

Of particular note was the addition to our semiconductor holdings in **Samsung Electronics**, **Intel** and **Skyworks Solutions**, as well as a new position in **Micron Technology**. These companies had been impacted by weaker smartphone sales and a slowdown in the investment in data centres in the second half of 2018. Micron is a US competitor to Samsung Electronics in memory chips, both DRAM and flash memory (NAND). Historically, the memory chip business has displayed erratic profitability as manufacturers raced to the next generation of chips to drive down costs, often moving supply well ahead of demand. In recent years the competitive

landscape has changed as the industry consolidated down to three players in DRAM and five in flash memory, and profitability has significantly improved. While 2019 will likely see profits fall for these memory companies, their long-term prospects remain bright in our view. A return to data centre investment, and with it a pick-up in demand for memory chips, will be required to support the ongoing roll-out of e-commerce, software-as-a-service (SaaS), and artificial intelligence (AI) applications. At recent lows, both Micron and Samsung Electronics were trading slightly above book value, a very attractive valuation for businesses operating in an industry where the accumulated intellectual property and industrial know-how represent enormous barriers to entry.

Another new addition to the portfolio this quarter was **Booking Holdings**. Booking is the world's largest hotel-focused² online travel search and booking platform, controlling brands and websites such as Booking.com, Agoda, Kayak and OpenTable.

Hotels are a product that is well suited to be sold via online search portals and marketplaces. There are many reasons for this. For example, the hotels market is very fragmented and each hotel is easily substitutable for another, but the offerings are also differentiated enough that users want to compare them. However, what truly makes an online aggregator of hotels an attractive business is that **hotel pricing is dynamic**. Hoteliers are constantly adjusting pricing to fill unsold rooms. While booking directly with a chain might get you the best price for that particular hotel, users know that they will often find a better deal on an aggregator site like Booking.com, as some hoteliers will discount their prices to fill vacancies.

On the 'supply' side, independent hotels represent 80% of the rooms sold on Booking's websites. These operators face a challenging mix of high fixed costs, huge marginal profitability for each extra guest, and inventory that expires on a daily basis. They also don't usually have the internal capability to build booking apps and conduct extensive direct response advertising to fill their excess inventory themselves. It is easy to see how a marketplace that can fill rooms on a success-based fee is an attractive channel. The value provided to both the customer and the hotelier results in attractive economics for the platform, with Booking enjoying a long history of making 30% or more in operating margins.

So, if Booking's business is so attractive, why was the stock recently sold down by investors? It was for two main reasons:

1. Slower growth – Booking's revenue growth has slowed from a trend rate of 20% p.a. to 14% in 2018. Booking's business is heavily weighted to Europe (65% of the

Net Currency Exposures

CURRENCY	31 MAR 2019	31 DEC 2018	31 MAR 2018
US dollar (USD)	40%	34%	19%
Japanese yen (JPY)	14%	22%	16%
Hong Kong dollar (HKD)	13%	14%	15%
British pound (GBP)	12%	10%	4%
Euro (EUR)	11%	12%	18%
Chinese yuan (CNY)	8%	6%	3%
Indian rupee (INR)	7%	7%	5%
Korean won (KRW)	6%	5%	8%
Canadian dollar (CAD)	3%	3%	1%
Norwegian krone (NOK)	3%	3%	2%
Swiss franc (CHF)	2%	2%	1%
Thai baht (THB)	1%	1%	3%
Chinese yuan offshore (CNH)	-19%	-18%	0%

See note 6, page 21. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit www.platinumworldportfolios.ie/The-Funds/PWP-International-Fund.

² In 2018, Booking sold 760 million room nights for a total value of US\$92 billion through its websites.

transactions conducted on its platforms are from European customers) and management estimates that the economic slowdown in the region will taper growth further to 6-8%.

2. Higher investments – Booking's management team has said that it is seeing good opportunities to increase investments in countries like the US and China to drive long-term growth, but this will be at the expense of slower profit growth in 2019.

The uncertain near-term outlook for revenue and profit growth has prompted investors with short-time horizons to flee the stock. However, those with a longer-term perspective should find the future prospects for Booking more appealing. One can see multiple factors driving the global travel industry to continue to grow: the rise of outbound tourism in China, the trend of consumers shifting more spending to experiences from physical goods, as well as the increasing affordability of international travel driven by the rise of budget airlines focusing on international long-haul routes (such as Air Asia and Norwegian Air).

Booking, valued at a starting P/E of 16x, is overall a good example of a high-quality company trading at a reasonable price, and we believe it will be a sound long-term investment for the Fund.

Re-introduced into the portfolio early in the quarter was **Kweichow Moutai**, a stock the Fund had held in the past and had sold after strong appreciation. Moutai-branded 'baijiu' (white liquor made from sorghum) is one of China's few home-grown luxury brands, with its brand heritage reinforced by being the drink of choice at state banquets.

Moutai's brand positioning gives the company immense pricing power, with a bottle carrying a retail price of RMB1,700 (US\$250). We have long argued that Moutai has historically given its distributors an overly generous share of the margin relative to the value that they bring. Of the RMB1,700 retail price, Moutai earns RMB970 (US\$140), while the distributor captures RMB730 (US\$110) in mark-up, which is considerably higher than the RMB200 (US\$30) distributors typically earn from selling other luxury brand baijiu.

This situation is now changing following Moutai's appointment of a new chairman, Baofang Li, last year. Moutai has announced it will limit the volume of liquor sold via distributors and sell more via its direct channels through which the company will be able to capture more than the RMB970 that it currently earns through indirect sales, which should provide a significant boost to its future profits. This news, along with the rebound in general sentiment towards China, saw Moutai's stock price rise 48% over the quarter.

Stocks sold out from the portfolio included **PayPal** (US, payments system), **Scout24** (German, online real estate and auto marketplace) and **Nexon** (Japan, computer games). Positions were trimmed in **Weichai Power** (China, diesel engines), **Roche** (Swiss, pharmaceuticals) and **Axis Bank** (Indian bank).

Outlook

While the Fund's net invested position has increased from last quarter, it remains moderately conservative. As we stated in the past two quarters' reports, this relatively low net exposure is not an expression of a particularly bearish outlook on markets, but is the result of the significant divergence in valuation between the crowded stocks and markets in which we are short, and the unloved and under-appreciated companies in which we are invested.

While a number of our holdings have performed strongly over the first three months of 2019, the valuations of our holdings give us reason to be optimistic regarding the Fund's prospective returns. At quarter end, the average price-to-earnings and price-to-book multiples of the long positions in our portfolio compare favourably with market averages, and our quantitative and qualitative indicators continue to show that our portfolio companies are both more profitable and growing faster than the average.

While significant uncertainties and risks remain in the macroeconomic and market environment, an improving outlook for China and a halt to the interest rate rises in the US have assuaged some of the pessimism. Further signs of stabilisation in China and a resolution to the US-China trade dispute would augur well for markets over the rest of 2019.

Platinum Asia Fund



Joseph Lai
Portfolio Manager

Performance

(compound pa, to 31 March 2019)

SHARE CLASS	QUARTER	1 YR	2 YRS P.A.	3 YRS P.A.	SINCE INCEPTION P.A.
PWP Asia Fund Class A USD	11%	-8%	9%	—	10%
PWP Asia Fund Class B USD	11%	-8%	—	—	8%
PWP Asia Fund Class D USD	11%	-8%	9%	11%	9%
PWP Asia Fund Class G GBP	—	—	—	—	6%
PWP Asia Fund Class I USD	11%	-7%	9%	—	12%
MSCI AC Asia ex Jp Index [^]	11%	-5%	9%	12%	11%

Fund returns are net of accrued fees and costs. Class D inception date (16 Nov 2015) is used for Index "since inception" returns.

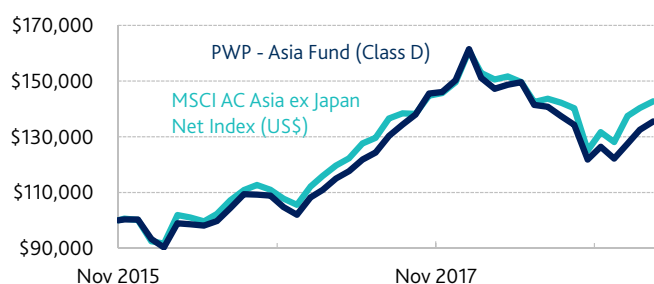
[^] Index returns are those of the MSCI All Country Asia ex Japan Net Index in USD. Source: Platinum Investment Management Limited, FactSet.

Historical performance is not a reliable indicator of future performance.

See notes 1 & 2, page 21.

Value of US\$100,000 Invested Since Inception

16 November 2015 to 31 March 2019



After fees and costs. See notes 1 & 3, page 21.

Historical performance is not a reliable indicator of future performance.

Source: Platinum Investment Management Limited, FactSet.

It has been a positive quarter for global markets, particularly for Chinese equities with the Chinese A-share market¹ rising 29% over the period.

Considering the general negative sentiment which lingered after the heavy sell-off late last year, many may be surprised by how well the market has fared in the year to date. For those who took a contrarian view, though, it was perhaps to be expected, as extreme bearish sentiment met with a synchronised loosening of interest rates across all major economies.

In particular, China's efforts to clean up its shadow banking sector have largely drawn to a close and economic activity has once again begun to pick up, which was a major factor spurring this quarter's strong recovery in stock markets globally.

It should therefore come as no surprise that this quarter's top contributors to the Fund's performance were mostly Chinese companies, including Alibaba (e-commerce platform, +31%),² Sany Heavy Industry (industrial equipment manufacturer, +51%), Anta Sports (sports apparel brand, +42%), and Ping An Insurance (+31%). Elsewhere, our private Indian bank holdings also performed well – Axis Bank was up 26%, IDFC First Bank up 29% – as corporate loan growth began to pick up after years of stagnation, perhaps a sign of better times to come for the Indian economy. The Fund's short positions generally detracted from performance in this rising market.

Changes to the Portfolio

After trimming our net exposure late last year, we seized the market trough and began adding significantly to our China positions since early January. Many Chinese companies with strong market positions and a long runway of growth ahead were trading on attractive valuations. Quality was on sale!

The Fund's net invested position has increased to 85%, including a 3% aggregate short exposure.

We have sold positions that have reached their fair value based on our assessment (Reliance Industries, Jiangsu Yanghe Brewery, ZTO Express) or whose fundamentals have deteriorated (Adani Ports, Edelweiss Financial).

1 CSI 300 Index (local currency).

2 This and other stock references in this paragraph are to USD returns as experienced by the Fund over the quarter.

The cash raised was deployed into new positions in Asian companies that we believe to be of very high quality, including:

- **Autohome** – China's leading online car portal. Consumers are accustomed to comparing the features of various models on Autohome's platform before making a purchase. In turn, the platform uses the data it collects from users to analyse consumer preference. This information is highly valuable to car manufacturers and distributors. Autohome's large-and-still-rapidly-growing user base makes the company a very attractive investment opportunity in our view.
- **ASM Pacific Technology** – the world's largest supplier of back-end semiconductor equipment. Increasing miniaturisation in the microchips built into our smart devices is driving demand for ASM's advanced microchip processing equipment, which gives the company a lot of pricing power. Concerns over a cyclical slowdown in semiconductor manufacturing led the stock price to decline over the last 12 months, which gave us an opportunity to initiate a position at a very reasonable valuation.
- **Taiwan Semiconductor Manufacturing Co (TSMC)** – a global leader in outsourced manufacturing of computer chips. TSMC manufactures a large proportion of the world's high-end microchips, particularly those found in smartphones. With the advent of 5G telecommunication

technology, the proliferation of the "Internet of Things" and machine-to-machine communication, chip demand is set to increase and TSMC, in our view, will be a likely beneficiary of this secular trend.

- **Meituan Dianping** – a popular Chinese internet platform for lifestyle services. The company is one of the two dominant players in the duopolistic online food delivery market and a leader in online and in-store booking services for hotels, restaurants, entertainment, and more. Meituan Dianping has garnered some 400 million users and merchants onto its platform, and continues to expand its service categories as well as geographic coverage.

Commentary

China

Our team's recent research trips to China confirmed our view that there are many innovative private companies working to improve the way we live, work and consume through clever applications of technology such as artificial intelligence (AI), mobile internet connectivity, cloud computing and biotech. By way of illustration:

- Apps on smartphones are now able to link patients to the entire clinical experience in hospitals, from the initial appointment to consultation, to drug prescription and delivery, lowering costs while improving efficiency.

Disposition of Assets

REGION	31 MAR 2019	31 DEC 2018	31 MAR 2018
China [^]	43%	33%	45%
Hong Kong	10%	4%	5%
Taiwan	4%	0%	2%
India	12%	16%	12%
Korea	8%	11%	10%
Thailand	4%	4%	4%
Philippines	3%	2%	2%
Vietnam	3%	2%	0%
Malaysia	<1%	<1%	<1%
USA	<1%	0%	0%
Singapore	0%	0%	1%
Indonesia	0%	0%	<1%
Cash	12%	26%	19%
Shorts	-3%	-3%	-2%

[^] Inclusive of all mainland China-based companies, both those listed on exchanges within mainland China and those listed on exchanges outside of mainland China.

See note 4, page 21. Numbers have been subject to rounding adjustments. Source: Platinum Investment Management Limited.

Net Sector Exposures [^]

SECTOR	31 MAR 2019	31 DEC 2018	31 MAR 2018
Financials	26%	22%	22%
Consumer Discretionary	17%	8%	10%
Communication Services	15%	10%	10%
Information Technology	10%	5%	6%
Real Estate	5%	4%	6%
Consumer Staples	4%	6%	3%
Industrials	3%	7%	8%
Health Care	3%	-1%	4%
Utilities	1%	1%	2%
Materials	1%	2%	6%
Energy	1%	6%	5%
Other *	-1%	2%	-2%
TOTAL NET EXPOSURE	85%	71%	79%

[^] A major GICS reclassification was implemented during last quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity.

* Includes index shorts and other positions.

See note 5, page 21. Numbers have been subject to rounding adjustments. Source: Platinum Investment Management Limited.

- Processing huge amounts of data (typically hosted on the cloud) at unprecedented speed, AI is helping clinicians with disease diagnosis and prevention, as well as with drug discovery.
- Supported by policy reforms and unprecedented access to capital, more and more Chinese pharmaceutical and biotech companies are leapfrogging generic drugs to research and develop innovative drugs in cutting-edge areas ranging from immuno-oncology to cell and gene therapies.
- AI is also helping insurance companies with claim processing and assessments, both lowering processing costs and reducing fraudulent claims.
- Commercial banks are widely utilising AI to assist with (but not dictate) credit assessments and lending decisions.
- Subscription-based online services (think Netflix and Spotify) that have hitherto been dismissed as unviable in China due to the prevalence of piracy and the cultural expectation of digital content being free, are now steadily shaping up as a new business model across categories ranging from books to music to movies.

Having witnessed and studied these exciting developments, driven by entrepreneurial companies undertaking interesting innovations, we find it perplexing that all that one can find about China in Western media is doom and gloom. Indeed, there appears to be a rather large disconnect between reality and the popular narrative.

Perhaps this is where the opportunity lies for those willing to take a different perspective and seek out a more logical explanation of reality.

From the perspective of China's policymakers, the focus for the past four decades has been on fostering economic development and lifting the standard of living for the people. This focus remains today. The Chinese leaders' modus operandi has been "crossing the river by feeling the stones", as propounded in the late 1970s by Deng Xiao Ping – the architect of China's economic reform and opening-up policy.

"Crossing the river by feeling the stones" roughly entails a gradual transition towards adopting the market mechanisms of capitalism, letting market forces dictate prices and direct resource allocation. Capitalism works, but from time to time it leads to excesses or the creation of "bubbles", especially when the regulatory framework is immature. This has been the case with China. When regulators detect excesses in an area, they have historically sought to contain them by "popping the bubble", taking the view that short-term pain will deliver long-term gain.

Casting our minds back over the years, one realises that we have witnessed many such "crackdowns": the shut-down of excess capacity in coal, steel and other heavy industries; the revamp of environmental standards to tackle pollution; the clean-up of shadow bank lending; the credit tightening following the initial stimulus prompted by the global financial crisis; and the stringent macro-prudential measures to cool the property market... ***It felt bad each time.***

Net Currency Exposures

CURRENCY	31 MAR 2019	31 DEC 2018	31 MAR 2018
US dollar (USD)	49%	44%	21%
Hong Kong dollar (HKD)	29%	30%	39%
Indian rupee (INR)	10%	16%	12%
Korean won (KRW)	8%	10%	11%
Chinese yuan (CNY)	8%	9%	5%
Taiwan new dollar (TWD)	5%	2%	2%
Thai baht (THB)	4%	4%	4%
Philippine piso (PHP)	3%	3%	2%
Vietnamese dong (VND)	3%	2%	0%
Malaysian ringgit (MYR)	<1%	1%	<1%
Australian dollar (AUD)	0%	0%	4%
Chinese yuan offshore (CNH)	-19%	-20%	0%

See note 6, page 21. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Alibaba Group	China	Consumer Discretion.	4.8%
Ping An Insurance	China	Financials	3.8%
Tencent Holdings	China	Communication Serv.	3.8%
Taiwan Semiconductor	Taiwan	Info Technology	3.8%
Samsung Electronics	Korea	Info Technology	3.6%
AIA Group	Hong Kong	Financials	3.5%
Axis Bank	India	Financials	2.7%
Kasikornbank PCL	Thailand	Financials	2.7%
58.com Inc	China	Communication Serv.	2.6%
HK Exchanges & Clearing	Hong Kong	Financials	2.6%

As at 31 March 2019. See note 7, page 21.

Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit www.platinumworldportfolios.ie/The-Funds/PWP-Asia-Fund.

China's policymakers have endeavoured to engender long-term growth, typically by introducing more effective regulations and improving the economic infrastructure. However, reform rarely succeeds at the first attempt, over-correction can occur, and it may take years of trial and error (or "feeling the stones") before getting things more or less right.

More importantly for investors, when the regulator is in "clean-up" mode, economic activity tends to slow. When policies are relaxed, the economy tends to pick up again. This has been a recurrent pattern over the last 40 years, although the duration of each cycle varied.

What should be of interest to investors is the phenomenon that, once the rules of engagement are clarified, private enterprises will become active again, sometimes even getting into a frenzy. Because the prize is big, there is no shortage of smart and driven entrepreneurs battling to win.

It is this continual, interactive process of the government improving on the rules of engagement catalysed by the unleashing of the animal spirits that has created the economic miracle that is modern China.

With this context in mind, we can re-examine some of the commonly held conceptions (or misconceptions) about China. The dominant narrative in the press at the end of last year was that China's economy was in trouble and it was heading into a major recession. In fact, most of the gauges of economic activity were still quite robust.

While car sales fell 7% in 2018, and the second half of last year being particularly weak, it was by no means a major slowdown. However, given that China is now the world's largest auto market by a wide margin, selling 23 million cars a year, a mild slowdown was enough to lead to a significant de-stocking of unsold cars and components all along the supply chain, so much so that the impact was quite palpable in economies outside of China, such as Japan and Europe.

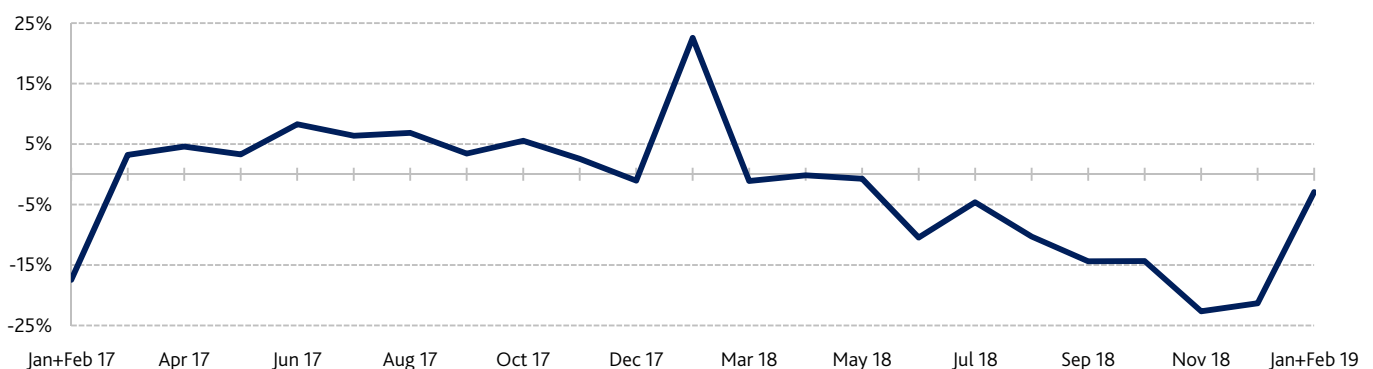
It was in fact an engineered slowdown which came as a result of regulators putting a brake on the risky shadow bank lending activities which, among other things, funded some of the car purchases during the boom. Regulators wanted to clean house and auto makers (and the entire supply chain) got caught up in the process. Recent data on car retail sales volume shows that we are already seeing clear signs of stabilisation, with January and February numbers only 2.9% lower than the peak of a year ago (see Fig 1 below). The ending of last year's major credit tightening has allowed car sales to grow again.

Another commonly touted opinion is that China is a debt-fuelled bubble economy that is about to implode. We simply cannot find any convincing evidence to support the claim. What we have observed from historical experience is that China's regulators regularly pop the bubbles in their own economy. Compared to policymakers in major developed economies, Chinese authorities are often more likely to intervene and rein things in when they see an area of the economy getting out of control.

For an economy that has been growing on average at 10-15% per annum nominally for 15 years, China's property price appreciation has in fact been rather lacklustre – particularly when compared to that experienced in, say, major Australian cities in the last 10 years, despite Australia's average income growth being far slower. The reason for China's more modest property price increase is that Chinese regulators have been tightly controlling mortgage credit over the years, requiring significant down-payments and during particularly heated periods or locations even resorting to draconian policies such as limiting purchases to "one household one property".

Debt growth over the last 10 years has in fact been at a reasonably measured pace, more or less in line with nominal GDP growth. As a result, China's debt-to-GDP ratio is comparable to that of the US and Europe, and much lower than Japan's debt levels.

Fig 1: Car Retail Sales Volume in China, Year-on-Year Change



Source: CAM, Bernstein, Platinum Investment Management Limited

Note: January and February sales were aggregated for seasonal adjustment to account for Lunar New Year.

Looking ahead, having now concluded the clean-up of the shadow banking sector, Chinese regulators have evidently re-focused their attention on economic growth, and policies are once again supportive of growth and expansion for private enterprises.

China has a strong private sector, which has for some time been the growth engine of the economy, employing some 80% of the urban workforce. The private sector is getting lots of help from the government this year. The cost of doing business is being reduced by cuts to fees and charges. Tax cuts for businesses and households to the tune of 3% of GDP are being rolled out. Banks are once again being encouraged to lend to private enterprises.

These are all significant measures, and China's A-share market has responded enthusiastically, up 29% year to date while trading volumes have exceeded the RMB 1 trillion (US\$150 billion) mark.

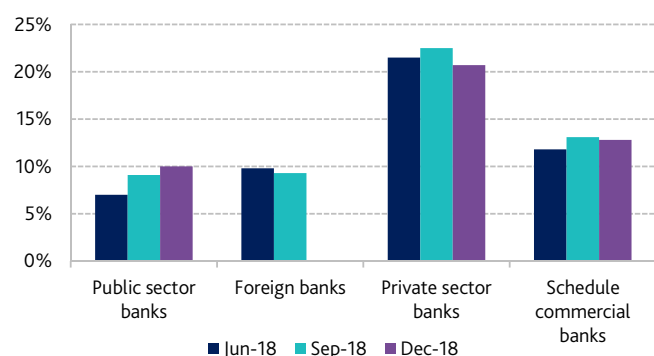
We are comfortable with the Fund's China exposure which includes many quality companies that are leaders in their respective industries and have promising growth prospects (such as the above-mentioned Alibaba, Meituan Dianping, Anta Sports, and Ping An Insurance).

India

After years of waiting, investors may finally be seeing a nascent capital expenditure cycle brewing in India. Notably, the industrial sector, which had been paying down debt, started to borrow again in the last six months.

The story is not a straightforward one, however, as the exciting germination of the capital expenditure cycle happens to coincide with a necessary adjustment in the non-bank financial sector. The last few years saw a rapid rise of a group of non-bank lending companies which filled some of the void left by the banks by providing loans for, among other things, home and auto purchases. As is often the case, loan growth in under-regulated sectors entailed some bad lending.

Fig 2: Year-on-Year Credit Growth of Indian Banks



Source: RBI FSR 2018, IDFC FIRST Bank Economics Research, Platinum.

Over the next few quarters, we expect to see more bad debt being recognised while sales of housing, auto and other consumption categories which benefited from financing will likely weaken as this recognition comes to pass.

The Fund's Indian holdings have been positioned with these concerns and opportunities in mind. We have avoided exposure to the expensive consumer-related stocks which have been very popular with many of them trading on price-to-earnings multiples in excess of 40x. Instead, we have significant exposure to India's private sector banks which we believe will benefit from market share gains.

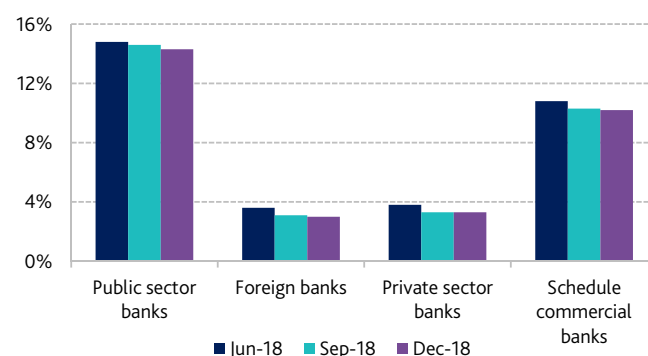
Indian private banks are taking an overwhelming share of the new lending (as can be seen in their faster growth rate in Fig 2 below), while the stale public sector/state-owned banks and the non-bank lenders are both struggling to keep up due respectively to poor service and capital constraints. As well as gaining market share, the private sector banks are also seeing their cost of bad debt fall (see Fig 3 below for their gross non-performing asset ratio), creating the right conditions to generate earnings growth. We are optimistic that these private banks will become the key pillars of India's gradually maturing banking system.

Outlook

As discussed in our previous report, key concerns over the Asian markets are easing. Apprehensions of an economic slowdown facing both the US and China led to a synchronised (intentionally or coincidentally) policy loosening globally, particularly from the two largest economies. Trade talks between the two countries are also close to reaching a resolution at the time of writing.

As the recovery of this past quarter shows, the Asian stock markets still hold much promise and investor interest has returned as soon as the macroeconomic and geopolitical concerns abated. We continue to find interesting companies in the region and will add to positions when valuations are attractive.

Fig 3: Gross Non-Performing Asset Ratio of Indian Banks



Source: RBI FSR 2018, IDFC FIRST Bank Economics Research, Platinum.

Platinum Japan Fund



Scott Gilchrist
Portfolio Manager

Performance

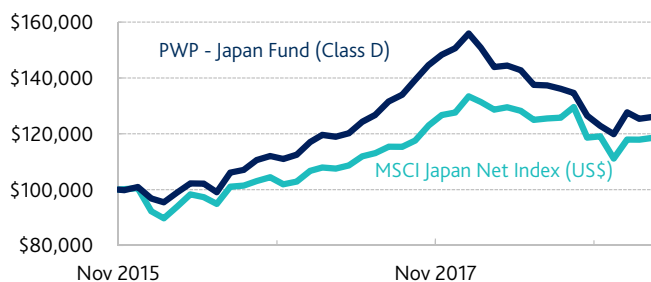
(compound pa, to 31 March 2019)

SHARE CLASS	QUARTER	1 YR	2 YRS P.A.	3 YRS P.A.	SINCE INCEPTION P.A.
PWP Japan Fund Class A USD	5%	-12%	3%	8%	8%
PWP Japan Fund Class B USD	5%	-12%	3%	—	5%
PWP Japan Fund Class D USD	5%	-12%	3%	8%	7%
PWP Japan Fund Class F EUR	7%	-4%	—	—	-4%
MSCI Japan Net Index (USD)	7%	-8%	5%	8%	5%

Fund returns are net of accrued fees and costs. Class D inception date (16 Nov 2015) is used for Index "since inception" returns. Source: Platinum Investment Management Limited, FactSet. **Historical performance is not a reliable indicator of future performance.** See notes 1 & 2, page 21.

Value of US\$100,000 Invested Since Inception

16 November 2015 to 31 March 2019



After fees and costs. See notes 1 & 3, page 21.

Historical performance is not a reliable indicator of future performance.

Source: Platinum Investment Management Limited, FactSet.

The Fund (Class D) returned -12.4% over the past 12 months, a disappointing result in a weak market. Recent performance has been more encouraging with the Fund's health care and technology holdings being the strongest contributors to the 5.1% gain over the quarter. Cyclical sectors, while having rebounded from the steep declines of late last year, continued to underperform the so-called growth stocks.

The Japanese stock market shifted mode during the year. In summary, many high-quality companies with longer duration cashflow streams were further de-rated to valuations which in some cases are the lowest in many decades. At the same time, prices rose for high-growth and high-valuation stocks. This is not a style which has historically worked in Japan, nor one that is sustainable for the medium to longer term, in our view. It's certainly not a behaviour that we practise and is a key factor weighing down the Fund's performance. A broad range of studies show that large parts of the Japanese market now trade at valuations which have low future return profiles.

The portfolio has been positioned cautiously in the last six months, with a low net invested position. This benefited the Fund during the market weakness towards the end of 2018, and has not been a significant detractor from performance during the market's rebound in the first three months of 2019. In hindsight, however, the missed opportunity of not buying some assets which reached low valuations in December is clear.

Commentary

While the topic of corporate governance is often couched in dry and procedural rhetoric, the reality is very different. In Japan, the issue has been visited many times over the last three decades of slow but steady progress. At a recent meeting with the CFO of a large pillar of the Japanese corporate establishment, I received laughter in response to raising the topic. He gleefully reminded me that corporate governance is often skin-deep and ineffective. However, the changes, both in the mood towards, and through the implementation of, improved corporate governance, are deepening and becoming ever more pervasive.

On the surface, the indications are positive. Stock buybacks by listed companies are at 15-year highs and dividend payouts are at record levels. Some recent high-profile decisions by Nintendo, Shin-Etsu and the Bank of Kyoto show

widespread behavioural changes, even in the core of the corporate system. However, it's important to note that the highest absolute amount of stock buybacks was in 2003, near the bottom of the market cycle. This was arguably far too early, but shows the system's willingness to act in the pursuit of profit when the time and conditions are correct.

It's easy to argue that recent share buybacks, dividends, Treasury stock cancellations and other behaviours by managements are typical for this stage of the cycle. Cash balances have built up significantly across the corporate system. In many cases, the level of cash is now at unjustifiable levels, even using the often contorted logic that corporate offices employ as resistance, and thus massive amounts of pressure have been applied to many companies.

At a deeper level, there is clear government support for ongoing improvements. This is reinforced by widely available databases listing multifactor corporate governance rankings. These have increasingly been used proactively in discussions with management teams, leading to positive outcomes. There have also been important linkages shown between corporate governance and corporate performance, closing the loop and removing one of the pillars upon which the recalcitrants resist change.

After three decades of slow and undulating progress, there is undoubtedly still a journey ahead for corporate governance improvement in Japan. What's clear is that the worst is far behind us and the ongoing substantial changes will be an incremental positive tailwind for the whole economy and the stock market.

Lixil

It's hard to discuss corporate reform without highlighting Toshiba and Lixil. In brief, it's important to note Toshiba's shareholder structure, portfolio changes and implicit societal and government approval as it reforms itself. It's a very important signal for large parts of the Japanese economy and for Japanese listed companies. However, of more importance to the Fund are the dramas at Lixil, which has been a significant underperformer in the portfolio.

Lixil in its current form is the roll-up of a large number of businesses which have been slowly integrated by former owner management and external hires. This process has not been easy, and there have been significant missteps including failed international acquisitions. The former CEO, Seto-san, had been very successful at his previous start-up business MonotaRO and accepted the top job at Lixil with a view to reforming an existing company with a global footprint and strong brands in sanitary ware and housing materials.

His style and action-oriented approach, however, was at odds with the needs of the vested interests of some of the founding families and he was unceremoniously ejected and replaced by the son of one of them. A subsequent investigation by an external legal firm found irregularities in the dismissal process, but no action was taken. In a startling development, an Extraordinary General Meeting has been called by a group of shareholders, including the members of another founding family. The aim of the meeting is to remove the newly-appointed CEO and his key offside. While the outcome is uncertain, the structure of Lixil's shareholder register means that there is a reasonable chance of success which should lead to a positive outcome for the company.¹ It's worth highlighting that this process is occurring at a major Japanese company with political and societal significance.

Seto-san's involvement in this story is important for a myriad of reasons, as MonotaRO under his leadership stood out as a disruptive technology success. MonotaRO is an internet-based distributor of industrial goods and consumables founded jointly by Sumitomo and US company W. W. Grainger. It disrupted the incumbent multi-tiered Japanese distribution systems with a more efficient network. MonotaRO's financial performance and growth rates have far outpaced the Japanese market and rank in the top league globally. This success was built on disruption, energy and speed.

A similar culture is evident at Rakuten, where recent developments have the potential to change investor sentiment. At the 2019 Mobile World Congress in Barcelona, Mikitani-san, CEO of Rakuten, announced details of its new mobile phone network. It's a next generation platform, along the lines of cloud internet services with large data centres, edge computing and virtualised, packet-based network communication. It promises to deliver lower capex, reduced operating costs and freedom from legacy network costs. A similar model worked very well for Reliance in India, and a key member of Rakuten's team worked on that network. Japan presents very different challenges, but the global industry has been waiting for this type of mobile network innovation and at this stage it seems likely to be a technical breakthrough. The core team is strong, including Cisco, Intel, Red Hat, Qualcomm, Altium, Ciena, Tech Mahindra and Nokia. Whether it is a commercial success will depend on global applicability and the rapid identification of 5G use cases requiring large volumes of data, video or the base case of wireless home internet pipes.

¹ Platinum issued a press release on 4 April 2019 in support of the action to remove Mr Ushioda (CEO) and Mr Yamanashi (COO) from Lixil's Board of Directors. The press release, together with a letter from Platinum to Lixil's Board dated 22 February 2019, is available at www.platinum.com.au/Platinum_Supports_Action_to_Remove_Lixil_CEO_and_COO.

Disposition of Assets

REGION	31 MAR 2019	31 DEC 2018	31 MAR 2018
Japan	76%	67%	87%
Korea	6%	7%	<1%
Cash	18%	26%	13%
Shorts	-20%	-16%	-1%

See note 4, page 21. Numbers have been subject to rounding adjustments.
Source: Platinum Investment Management Limited.

Net Sector Exposures [^]

SECTOR	31 MAR 2019	31 DEC 2018	31 MAR 2018
Communication Services	17%	16%	8%
Consumer Discretionary	13%	9%	12%
Information Technology	12%	13%	15%
Industrials	11%	9%	20%
Materials	5%	4%	11%
Energy	4%	5%	5%
Health Care	3%	3%	4%
Financials	3%	3%	9%
Real Estate	<1%	<1%	<1%
Consumer Staples	-5%	-4%	1%
TOTAL NET EXPOSURE	63%	58%	86%

[^] A major GICS reclassification was implemented during last quarter. The changes affected the Information Technology, Communication Services (previously Telecommunication Services) and Consumer Discretionary sectors. Historical exposures have been updated for continuity. See note 5, page 21. Numbers have been subject to rounding adjustments. Source: Platinum Investment Management Limited.

Net Currency Exposures

CURRENCY	31 MAR 2019	31 DEC 2018	31 MAR 2018
Japanese yen (JPY)	92%	77%	96%
US dollar (USD)	34%	48%	4%
Korean won (KRW)	-7%	-5%	<1%
Australian dollar (AUD)	-19%	-20%	0%

See note 6, page 21. Numbers have been subject to rounding adjustments. Source: Platinum Investment Management Limited.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposures, updated monthly, please visit www.platinumworldportfolios.ie/The-Funds/PWP-Japan-Fund.

Corporate Visits

A series of recent corporate visits highlighted the ongoing development of a start-up and innovation culture in Japan. The core of this extends from Japan's gaming industry and has been augmented by Softbank's multi-decade success and models such as MonotaRO. These new companies, of which there are many hundreds, have a range of business models and target industries. Software, network effects and AI feature prominently, facilitated by cheap high-speed internet and low-cost handsets. The productivity gains from products such as Robot Process Automation (complex business process macros) are nothing short of amazing and, in combination with a myriad of other factors, illustrate the difficulty that central banks globally are having with their inflation targeting.

Corporate and economic news for the last six months has been weak with negative indicators from a broad range of industries globally. It appears as though many companies have built quite significant inventories as their expectations for demand growth led them to expand capacity, only to find themselves in a weaker-than-expected environment. This is not an isolated situation, but a widespread phenomenon.

At the same time, there are interesting developments on the supply side of many industries. Having lived in Indonesia with a deep connection to the country, it is amazing to me that Tsingshan has been able to build a US\$4 billion integrated stainless steel plant in Central Sulawesi. The commissioned capacity is 1.5 million tonnes p.a. of nickel pig iron with a contained nickel content of 150,000 tonne p.a., the largest in the world. They are now building a similar but much larger project on the site of one of the world's largest nickel ore deposit in Halmahera, Maluku. While natural resources are

Top 10 Holdings

COMPANY	COUNTRY	INDUSTRY	WEIGHT
Kangwon Land Inc	Korea	Consumer Discretionary	4.8%
Takeda Pharmaceutical	Japan	Health Care	4.5%
Nippon Telegraph	Japan	Communication Services	3.9%
Rakuten Inc	Japan	Consumer Discretionary	3.7%
KDDI Corporation	Japan	Communication Services	3.4%
Itochu Corporation	Japan	Industrials	3.4%
Kyocera Corp	Japan	Information Technology	3.3%
Nexon Co	Japan	Communication Services	3.2%
Canon Inc	Japan	Information Technology	3.1%
Nintendo Co	Japan	Communication Services	3.1%

As at 31 March 2019. See note 7, page 21.

Source: Platinum Investment Management Limited.

depleting assets, human ingenuity continually discovers substitutes and alternative process routes which, combined with consumption efficiency, will cap many prices through elastic production growth.

Outlook

The rebound from the lows of last December has been rapid, despite ongoing weak economic, corporate and political news. The narrative is dominated by a range of hopes such as the possibility of a strong second-half economic recovery, an enduring Chinese monetary reflation and a delayed signal from the US yield curve inversion. The overriding assumption is that central banks have a complete understanding of the varied influences on the global economy and are in firm control. Similar narratives in the past have been proven to be based on hope rather than reality. In an era of significant disruption and change, it's hard for leaders to balance the many signals.

Against this difficult backdrop, the Fund will continue to invest in assets that we believe offer good long-term prospects but are selling at historically low valuations. This opportunity set continues to grow. At the same time, the very high valuations of a significant part of the market are vulnerable to disappointment from investors' very high expectations. The present issue for some of the portfolio's core holdings is that short-term earnings growth is scarce, temporarily masking the true long-term value of the assets.

Overall market sentiment remains weak. This is reflected by the renewed focus on corporate governance as a cover-all. This phenomenon is real, but is unlikely to be a true panacea if recent weak economic indicators and earnings don't reverse rapidly. Nevertheless, the Fund's cash position provides the flexibility to invest in what is undoubtedly one of the major global markets with multiple structural tailwinds and longer-term opportunities.



Great Wave, Hokusai, 1805. <https://mag.japaaan.com/archives/62662>

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NOTES

Unless otherwise specified, all references to "Platinum" in this report are references to Platinum Investment Management Limited (ABN 25 063 565 006, AFSL 221935). Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock or index performance are in local currency terms, unless otherwise specified.

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 specified share class. Where a 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. Fund returns represent the combined income and capital returns attributable to the specified share class over the specified period. They are net of accrued fees and expenses attributable to the specified share class, are pre-tax, and assume the accumulation of the net income and capital gains attributable to the specified share class.

The MSCI Index returns are inclusive of net official dividends, but, unlike Fund returns, do not reflect fees or expenses. Platinum does not invest by reference to the weighting of any 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.

Fund returns have been provided by Platinum Investment Management Limited; MSCI Index returns have been sourced from FactSet.

The investment returns shown are historical and no warranty can be given for future performance. Past 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.

2. 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 G GBP (Accumulating) (ISIN: IE00BYRGRB81): 19 February 2019
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: IE00BYRGLR89): 18 October 2017

The MSCI Index returns are in US Dollars and are inclusive of net official dividends. 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).

3. The investment returns depicted in this graph are cumulative on US\$100,000 invested in Class D of the specified Fund over the specified period relative to the specified net MSCI Index in US Dollars.
4. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant countries/regions through direct securities holdings and long derivatives of stocks and indices.
5. The table shows, as a percentage of the Fund's net asset value, the Fund's exposures to the relevant sectors through direct securities holdings as well as both long and short derivatives of stocks and indices.
6. The table shows the effective net currency exposures of the Fund's portfolio as a percentage of the Fund's net asset value, taking into account the Fund's currency exposures through securities holdings, cash, forwards and derivatives. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.
7. The table shows the Fund's top 10 long equity positions as a percentage of the Fund's net asset value, taking into account direct securities holdings and long stock derivatives. The designation "China" in the "Country" column means that the company's business is predominantly based in mainland China, regardless of whether the company's securities are listed on exchanges within mainland China or on exchanges outside of mainland China.

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