



Quarterly Investment Manager's Report

Platinum World Portfolios - International Fund

Platinum World Portfolios - Asia Fund

Platinum World Portfolios - Japan Fund

30 June 2017

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by Kerr Neilson, CEO

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Facts, Feelings and the Importance of Composition

by Kerr Neilson, CEO

Among the gifts of the Internet is the ability to gain access to almost **inexhaustible flows of information**. It can be a blessing to analysts who are trying to become familiar with a new industry or process. For example, when we were examining aspects of a new chip design affecting Intel, we were able to attend remotely a course run by a well-respected university on some of the technical issues that impinge on the semiconductor manufacturing process. This was available on YouTube. The drawback to this access to world-wide information and knowledge is that it can also give one a **false sense** of knowledge, a false sense of control.

The Internet also results in one being bombarded with news and viewpoints, and some may be inclined to respond to this deluge by using heuristics and relying on gut feel to cope with the overload. The alternative may be to read only those sources of information or news that accord with one's own comfort zone.

Let's take a concrete example of how **news can be nuanced**. Consider what constitutes news, who chooses the headlines, what or who prioritises what we see or read. For example, weather patterns are presumably far more interesting to a drought-stricken farmer than an urban millennial. And even when it has been determined what should be transmitted, there is still the need to understand the **perspective of the reporter** or the editor.

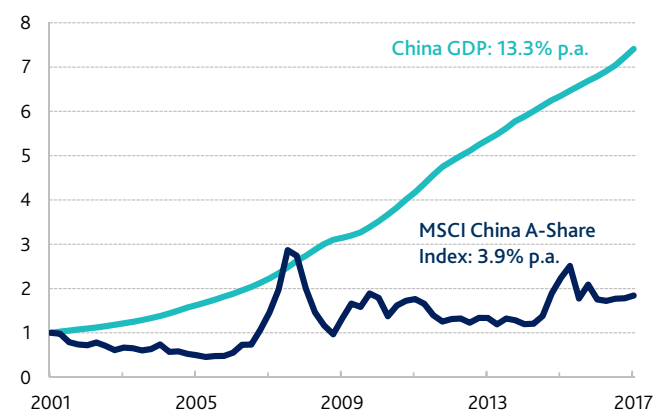
Think of yourself as a reporter for CCTV, China's national broadcaster. In view of the national admission that China can no longer guarantee food self-sufficiency for its 1.3 billion inhabitants, how would you report on China's behaviour in one of its critical supply routes, the South China Sea? Protection or aggression? By contrast, a Washington-based reporter may see matters from a completely different position and report the same events as a demonstration of the territorial ambitions of a new hegemon.

Let's now turn to the purpose of this note. **Some may believe that the stock market directly reflects the health of the economy**, that there is a tight correlation between an economy, profit growth and the stock market. **Academic studies show that there is virtually none** – though this may still leave many sceptical! Take for example the Chinese domestic market, despite the economy growing feverishly at an average annual rate of 13% over the last 16 years,

magnifying economic activity by more than sevenfold over that time, the stock market has risen by only 1.8 times.

China GDP vs. MSCI China A-Share Index

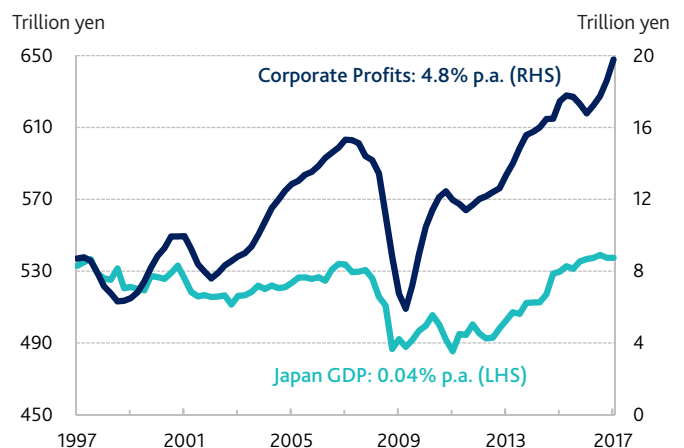
Index, March 2001 = 1



Source: FactSet, Platinum Investment Management Limited.

Consider also the experience of the Japanese market. The Japanese economy has grown very little over the last 20 years, yet corporate profits grew by nearly 5% per annum since June 1997. Stranger still, Japan's stock market for the most part was in chronic decline over the same period. Incidentally, with a falling population, real GDP growth per head in Japan has not been so different from that of the USA over this period, at 1% per annum.

Japan GDP vs. Corporate Profits



Source: FactSet, Platinum Investment Management Limited.

Q1 2002 TO 30 JUNE 2017 (4Q AVERAGE)	STOCK MARKET PERFORMANCE (USD)	GROWTH		VALUATION		PROFITABILITY	
	15 yr p.a.	Earnings per share (EPS) 15 yr p.a.	Book value per share (BPS) 15 yr p.a.	Current forward price-to- earnings (P/E)	15 yr average forward P/E	Current return on equity (ROE)	15 yr average ROE
World	7%	6.4%	5.0%	18	15	10%	12%
North America	8%	6.1%	6.0%	22	18	13%	14%
Western Europe	7%	4.6%	4.5%	20	15	10%	12%
Asia ex Japan	11%	9.9%	7.3%	17	15	11%	13%
Japan	5%	16.4%	4.7%	17	18	8%	8%
India	15%	8.7%	8.9%	24	17	12%	17%
Greater China (China, Hong Kong, Taiwan)	12%	10.8%	7.7%	16	16	11%	13%

Source: FactSet, MSCI Inc, Bloomberg.

The above table tends to cement the argument that our **impressions are often very different from the underlying facts**. In aggregate, earnings across the globe have grown by around 6.4% a year over the last 15 years (somewhat higher than the 100-year nominal average). Earnings growth among Japanese companies (16%) has far outshone that of investors' favourite, India (9%), and yet the Japanese stock market has been a sad laggard.

Clearly, time frames matter for this type of exercise. For example, though the Japanese market has lagged, if one focuses only on the last five years, it looks far better, having doubled in a strong burst off the bottom in mid-2012.

For all the talk of a dysfunctional Europe, European shares have nevertheless risen faster than earnings. This is explained partly by the relatively low valuations back in 2002, and the subsequent lift in prices. Either way, the link between stock market moves and earnings is far from precise.

Earnings forecasts can be just as rickety. Back in 2008, optimistic analysts were forecasting the S&P 500 Index to earn over US\$100. We nearly got there several years later, and only now, with the aid of possible tax cuts and furious share buy-backs, is the S&P 500 Index likely to earn US\$130. Yet, the stock market is up 58% from the 2008 peak.

The table also shows that Asian shares have risen faster than their earnings with the consequent re-rating showing in the rise in the price-to-earnings (P/E) ratio.

How often do you check whether your "feelings" are backed by facts?

For all their experience, fund managers are also prone to being influenced by impressions and the prejudice of stale information or an out-of-date understanding of a company's status. One way of reducing and coping with the complexity

is for fund managers to concentrate on the principal companies within a large index. This is rather less challenging than trying to pick the eyes out of, say, the 6000+ listed entities that have a market capitalisation of more than US\$1 billion, which is the Sisyphean endeavour we have tasked ourselves with here at Platinum.

The approach favoured by the majority tends to lead to portfolios that mimic the underlying index as these managers over-weight here or under-weight there, so-called "index awareness" or "**index-hugging**". Alternatively, if a manager's style is driven by news events, they may have a tendency towards **momentum investing** and bet on the latest hot topic: lithium, autonomous driving, artificial intelligence, you name it.

We at Platinum try to eschew both these approaches with **our contrarian style** which is **augmented by solid quantitative analysis**. One needs to inculcate independent thinking and use tools to assess when there is a wide divergence between "feelings" and the underlying data.

This leads to the essence of this note – **how does the weight of evidence compare with the strength of conviction**.

Essentially we are verifying the strength of our emotional conviction against the strength of the evidence underpinning it. When does one feel over-confident and when is more conviction warranted? The importance of this matrix in markets is quite unlike that of a personal exchange of opinions. In stock markets, indeed in markets in general, there is the extra dimension. **That dimension is price**, and it changes with information flow, fashion and other very human frailties. It is almost certain that the day-to-day volatility of a company's share price bears little correlation to the real changes in the intrinsic value of the business!

Having a hunch about the weather or some other matter may not be threatening, but in markets "feelings" matter because they pertain to the **price** at which one transacts.

Do the feelings match the realities, or are market participants acting with **availability bias, anchoring, framing or other heuristics that individuals subconsciously use to simplify their choices**? Should short-term considerations, which in the moment can seem so blindingly certain, form an important part of the decision?

To apply this **matrix** to the real world, let's cast our mind back to early/mid 2016. The over-riding fear about negative interest rates, weak growth, the over-supply of commodities, banking fears in China, the solvency of the European banks and so on was all-consuming, so much so that to most people it seemed at the time that these issues could not possibly be transitory.

At that time the market was **fixated on avoiding uncertainty** and investors favoured companies that they "knew" would grow (conviction) and, indeed, had every likelihood of continuing to grow as they had done since their inception (evidence). The so-called "FANG" companies (Facebook, Amazon, Netflix, Google) were much in demand and this showed in their high valuations (**high conviction/strong evidence**).

In sharp contrast, **commodity producers** were the companies that investors loathed with a visceral fear, accentuated by the prevailing uncertainty. This was so despite the baseline logic that low commodity prices would clear away high cost supply and in due course allow lower cost producers to earn at least a modest return on assets – demand was not in contention. At that time commodity producing companies were selling at valuations previously seen in the depths of despair of the post-Lehman carnage. The logical case to own them was strong, but the conviction was pitiful (**low conviction/strong evidence**).

The other area that was attracting investors in early/mid 2016 included **high conviction/weak evidence** companies

such as consumer packaged goods producers, like Kellogg's, Colgate-Palmolive, The Campbell Soup Company, and General Mills. Here was a group of companies that had barely seen any sales growth for several years, but through various devices were sustaining their profits or lifted their EPS, and this met the prevailing need for certainty, almost regardless of price. We contend that these companies should be classified as "weak evidence" because they were being priced well above the average (with P/E ratios above 20 times) while achieving EPS growth that barely matched the average company.

The last group – the **low conviction/weak evidence** companies – were left to their own devices and satisfied neither optimists nor pessimists. Our quantitative model will generally steer us away from these candidates. Priority is given to the first two groups where there is **dissent** caused by fear or greed.

Another common error made by investors as they participate in the daily battle to find

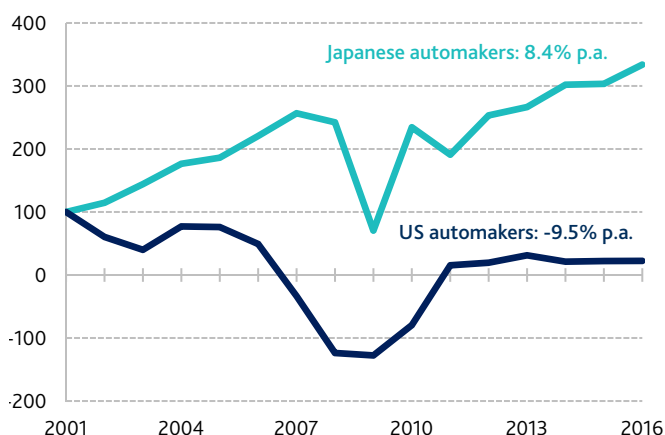
opportunities is that of **composition**. The general should not be mistaken for the specific. We have for a long time argued that the Japanese stock market is refulgent with opportunity. Invariably, we are reminded by the interlocutor of the aging population and, when we skilfully evade that ambush, are parried with the many other imperfections that investors would rather not expose themselves to. The fact that the market has more than doubled off a 35-year low carries no weight among the doubters, as their conviction, shaped largely by news headlines, carries them blithely along with the crowd. The point that we are able to buy international corporations that simply have their headquarters in Japan and most of their business and assets abroad is conveniently ignored.

So let's look at the particular. The accompanying charts on the next page illustrate the aggregate performance of two pairs of leading car companies, Toyota and Honda on the one hand versus Ford and GM on the other. For simplicity, we have created a composite number to represent each pair's **growth in sales, profit and book value per share** over the

A Matrix of Facts vs. Feelings		
	WEAK EVIDENCE	STRONG EVIDENCE
LOW CONVICTION	<ul style="list-style-type: none"> Mid-range companies Neither great price-makers nor price-takers Moderate growth Average valuations 	<ul style="list-style-type: none"> Commodity producers in early 2016 Perceived as weak businesses Little regard shown to producers low in the cost curve Prices relative to replacement cost at decade lows
HIGH CONVICTION	<ul style="list-style-type: none"> Consumer packaged goods companies in mid-2016 Virtually no inherent profit growth Well above average valuations Trend followers accentuate over-valuation 	<ul style="list-style-type: none"> "FANG" stocks (Facebook, Amazon, Netflix, Google) Strong and persistent growth Qualities recognised with high valuations Highly crowded institutional ownership

Japanese vs. US Automakers' Earnings Growth

Index, 2001 = 100



Source: FactSet, Platinum Investment Management Limited.

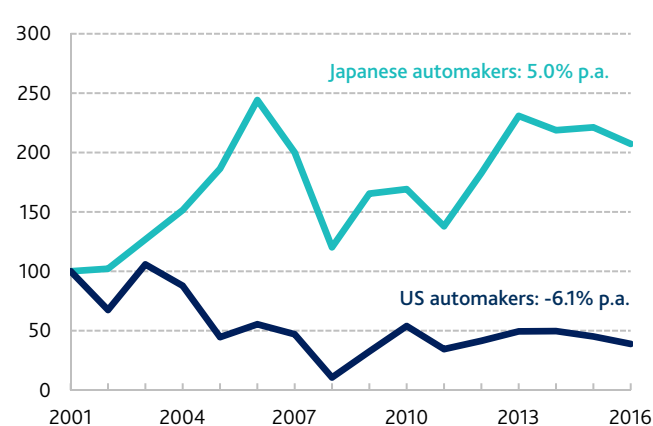
last 15 years. These are numbers generated after taking into account all of those headline-grabbing issues, varying from product recalls and consequential excruciating fines to Japan's supposedly sleepy management.

Evidently, the difference in share price performance has been night and day. The lesson again is to rely on a baseline numeric assessment rather than the far less reliable yardstick of one's intuition. Here we have a classic extension of the same problem described earlier where general impressions can corrupt clear judgment. Even though the host markets were very different, the opportunities given by these Japanese auto companies were just shy of those available from world markets over the last 15 years, viz 5% p.a. for Japan versus 7% p.a. for the MSCI All Country World Index in USD terms!

Mind you, **this is not a one-off**. Take China today, overall the market may not be so interesting, particularly if one pays heed to the press about all the careless lending and state-sponsored capex. All are reasonably accurate, but the question that needs to be asked is where the opportunities lie, and whether the bad lending does anything to diminish the prospects of those attractive companies. Chinese banks will in all likelihood have large bad loan write-offs, which will likely impair their equity. However, they won't be taken in one hit. Rather, the bad loans may be tantamount to writing off a good part of the next five years' earnings. The question that interests us is **where else in the world one can buy insurance companies that are growing at 10 to 15% p.a., yielding 3 to 4%, are priced at 1.5 times book value and less than 15 times earnings**. Recall that the global P/E average is now 18x while historic EPS growth rate is under 7% per annum. The market's general aversion to China has

Japanese vs. US Automakers' Share Prices

Index, 2001 = 100



Source: FactSet, Platinum Investment Management Limited.

allowed us to own some marvellous consumer companies like liquor-maker Moutai, which we have recently sold after a huge run, regardless of the fears about the economy.

The experience in India has been very different. Local investors are very active and companies that will benefit from rising living standards tend to be very enthusiastically priced. They have grown strongly, but with P/E ratios above 30, there is little margin for error. By contrast, one can own relatively slow growers among the utilities that have a promised return on assets, where earnings will grow with high probability and which sell on low teen P/E multiples. Our choice is to favour this **opportunity of composition** by owning the utilities rather than the more obvious high growth consumer companies.

In Europe, we had the same experience by owning the Italian banks which we believed were being tarred by availability bias, i.e. investors' attitude towards them were unduly influenced by feelings heightened by recent events.

There will be many times when there is high emotional conviction but weak factual evidence, and yet investors want to support these causes. The chances are that they are backing an index, because it *feels* safe, while in all likelihood they are falling into **the wrong quadrant in the matrix**.

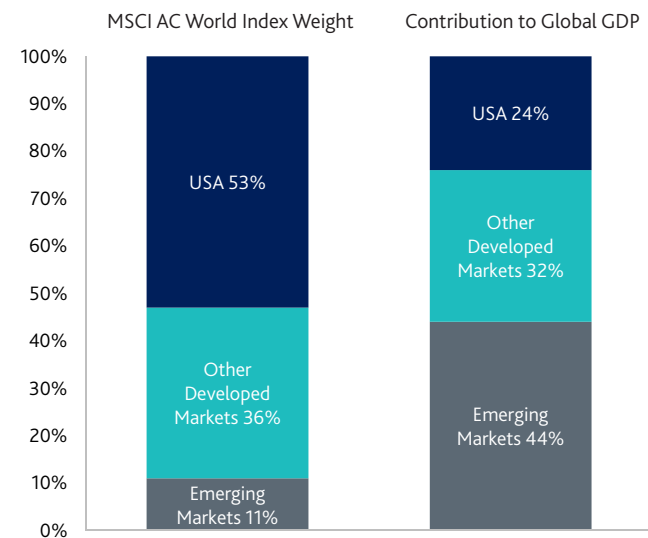
For those that find it challenging to deal with this paradox or with the ambiguity of markets, owning a global ETF may seem to be the solution, but it may run the risk of backing yesterday's winners. From our perspective, we believe there is a place for investors to apportion part of their assets to fund managers who are obsessed with the opportunities created by the imperfections in this matrix.

To conclude, today one might have the feeling that the US represents the best and brightest opportunity, but there are two snags with this.

Firstly, it is "over-indexed" in the MSCI (a term consumer product marketing companies use to denote a disproportionate market share versus market relevance). Secondly, the historical outperformance is approaching a significant extreme and we all live in the same round world!

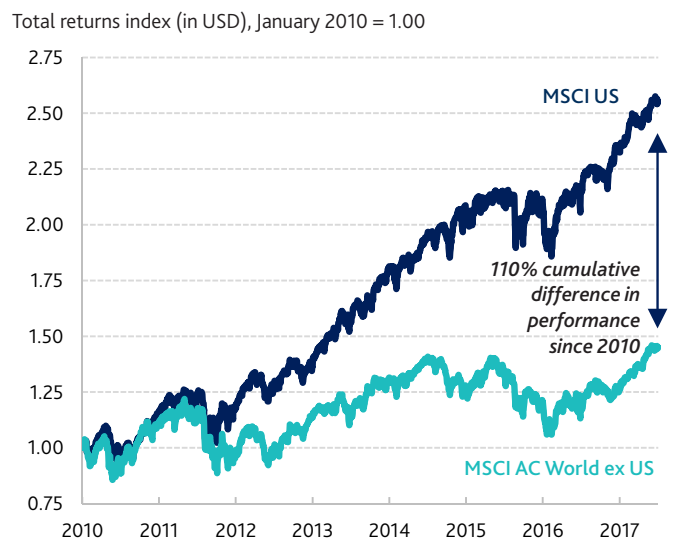
Do note that US GDP represents less than 25% of the global total, and even when adjusting for the reach of its highly successful multinationals, this variance in weighting is questionable. Our quantitative work suggests that there is no need for investors to have over 50% of their international share exposure in the US today, as would be prescribed by the "index- hugging" funds. Being a notable exception, the Platinum World Portfolios - International Fund has close to 50% of its assets invested in Asia (including Japan).

The "Over-Indexing" of US Companies



Source: MSCI Inc, RIMES Technologies, World Bank.

US vs. The Rest of the World – Can the Trend Continue?



Source: FactSet, MSCI Inc, RIMES Technologies.

In our March 2017 Quarterly Report, Andrew Clifford, CIO, recounted in some detail the causes and effects of the current imbalances in major global economies. He also discussed some of the investment implications the trade imbalance and an impending rebalancing hold for China in particular.

Building on Andrew's framework, Nik Dvornak, portfolio manager of the Australian-registered Platinum European Fund, recently wrote about what these phenomena mean in terms of opportunities in Europe.

Read Nik's article at <https://www.platinum.com.au/journal/>.

Platinum World Portfolios - International Fund



Kerr Neilson
Portfolio Manager

Performance

(to 30 June 2017)

	QUARTER	6 MTHS	1 YEAR	SINCE INCEPTION P.A.
PWP Int'l Fund Class A USD	6.2%	15.3%	22.1%	16.6%
PWP Int'l Fund Class B USD	6.5%	15.5%	–	15.9%
PWP Int'l Fund Class D USD	6.5%	15.5%	21.9%	9.4%
PWP Int'l Fund Class F EUR	–	–	–	-0.6%
PWP Int'l Fund Class G GBP	2.4%	9.3%	24.9%	28.2%
PWP Int'l Fund Class H GBP	2.6%	9.4%	–	19.3%
MSCI AC World Index (USD)	4.3%	11.5%	18.8%	11.8%

Source: Platinum Investment Management Limited, RIMES Technologies.
Refer to note 1, page 17.

Historical performance is not a reliable indicator of future performance.

The core themes that were established during the first quarter persisted through the second, namely, the notion of improved and widespread growth in economic activity across the world with accompanying improved sentiment and a willingness to take more perceived risk by raising exposure to Emerging Markets. The departure from the view of the first quarter was **a surprisingly weak US dollar**, which reflects the difficulties that the Trump Administration is having in the legislative process and investors' perceptions about relative growth rates. This showed in the **recovery in the Euro** which was accompanied by a notable increase in European bond yields. Clearly, the election of Emmanuel Macron as the new President of France and the improving political climate for Angela Merkel in Germany have also played a part as has the whispering around changing monetary policy by the European Central Bank. The prospect of a tighter working

relationship between Germany and France, together with the economic reform promised by the new President, led to strong investment flows into European equities. The poor showing of Theresa May in the British general election may promote a less bellicose initiation of the Brexit negotiations than previously intimated, though it seems probable that the process will be to the detriment of confidence in the UK economy which is running an abnormally low savings rate.

Having initially been concerned about the **new measures to tighten lending in China**, investors came around to the view that this was a positive development, particularly as it was evidenced in practice by the closure of redundant capacity in industries like cement and steel. The remaining operations have subsequently seen significant improvements to their profits, much to the delight of their creditors and the Chinese banking system in general!

India continues to grow strongly at over 6% p.a. despite credit growth being at the lowest since the country's 1947 independence – about 4.5% p.a. (This is noteworthy for those who believe credit growth is a precondition for economic growth. It is not, but it does serve as a lubricant.)

MSCI Regional Index Performance to 30.6.2017 (USD)

REGION	QUARTER	1 YEAR
Developed Markets	4%	18%
Emerging Markets	6%	24%
United States	3%	17%
Europe	7%	21%
Germany	6%	29%
France	9%	28%
United Kingdom	5%	13%
Japan	5%	19%
Asia ex Japan	8%	27%
China	11%	32%
Hong Kong	7%	24%
India	3%	17%
Korea	10%	35%
Australia	-2%	18%

Source: RIMES Technologies.

At last, GST is being implemented largely to the benefit of the states and carries a messy range of rates depending on the priority needs for particular goods and services. While improving the country's tax base is crucial, the reform of the insolvency law is quite as far-reaching. Under the Insolvency and Bankruptcy Code of 2016, a large portion of the state-owned banks' non-performing loans – estimated to constitute 10 to 15% of their 'assets' – will no longer be sheltered from recovery by archaic legal processes. The removal of this blockage will help the banks to clear the backlog of non-performing borrowers and the benefits will be felt in a more vibrant corporate bond market as larger firms seek alternative funding sources.

Overall, the Emerging Markets, in particular Asia, led again with a rise of 8.3% (in USD terms), but the powerful fund flows into Europe ensured it wasn't too far behind, up 7.2% (in USD). While the leading tech names sold off towards the quarter's end, they had a spectacular lift-off in late April, achieving the best returns in the MSCI sector indices for the quarter as a whole, along with healthcare. The laggard sectors were energy and telecoms. This suited our positioning greatly, with the Fund outperforming over the quarter and the last 12 months. The Fund (Class D) achieved 6.5% for the quarter and 21.9% for the year, compared to 4.3% and 18.8% respectively for the Index.

Holdings that strongly influenced the Fund's performance over the quarter include tech holdings such as Tencent, Samsung Electronics and Alphabet (Google), luxury goods group Kering, Italian bank Intesa Sanpaolo, and Chinese insurer Ping An.

Detractors were again the energy stocks, such as TechnipFMC and Inpex.

MSCI All Country World Sector Index Performance to 30.6.2017 (USD)

SECTOR	QUARTER	1 YEAR
Information Technology	7%	36%
Health Care	7%	10%
Industrials	6%	22%
Financials	5%	33%
Consumer Discretionary	4%	20%
Consumer Staples	4%	4%
Utilities	4%	3%
Materials	2%	24%
Telecommunication Services	0%	-2%
Energy	-5%	0%

Source: RIMES Technologies.

Shorting

We added to index shorts as the quarter came to an end with an eye to heat coming out of the very extended tech sector rally. Work on Amazon has encouraged us to broaden our stock specific shorts against consumer packaged goods companies that face both category weakness and the loss of protection from scale and channel access in an e-commerce enabled world.

Currency

The surprise to us has been the recovery of the Australian dollar. Having been long the AUD, we eliminated most of our position, figuring that the US dollar would have responded more to the tightening (a narrower interest rate differential). We also sold down the Korean won into strength against the US dollar and added to the Yen and the Euro while halving the hedge on the Chinese yuan after it weakened. It wasn't our best quarter for reading currencies.

CURRENCY	30 JUNE 2017	31 MAR 2017
US dollar (USD)	37%	38%
Euro (EUR)	16%	12%
Hong Kong dollar (HKD)	10%	10%
Japanese yen (JPY)	9%	7%
Norwegian krone (NOK)	6%	7%
Korean won (KRW)	6%	8%
Indian rupee (INR)	5%	5%
British pound (GBP)	4%	5%
Australian dollar (AUD)	3%	6%
Chinese yuan (CNY)	2%	1%
Chinese yuan offshore (CNH)	-1%	-3%

Source: Platinum Investment Management Limited.
Refer to note 4, page 17.

Changes to the Portfolio

It was a quarter characterised by opportunistic repositioning rather than adding many important new holdings. The strong run in tech stocks saw us trim positions in **Tencent**, **Samsung Electronics**, **Cisco** and **Ericsson**. We also reduced our exposure to European banks (**Lloyds**, **Intesa Sanpaolo** and **Raiffeisen**) as they rose on improving prospects. The **gold ETF** and **Newcrest Mining** were removed. We haven't lost interest in this asset group, but for the moment are giving preference to producers of copper and nickel, like **Sumitomo Metal Mining** and **Norilsk**.

Additions were made to **Nielsen** after a period of share price weakness stemming from doubts around its video monitoring service and expenditure cuts by the consumer packaged goods companies. We also added **Alibaba**, because of its tightening grip on e-commerce and broader payment footprint in China. We bought more **Oracle** on the view that

the market is about to treat them more seriously as a cloud provider. Its subsequent quarterly earnings call supported this view.

The significant new name in the portfolio is **Royal Dutch Shell**. Like others in the oil industry, the company has been shaken by self-inflicted problems that partly had their origins in booming oil prices which rose from the lows of below US\$11 in 1999 to the highs of over US\$120 per barrel in 2012. Following the fiasco of overstated reserves in 2004, Shell went through a rudderless period when it wasted huge amounts of capex in every direction. This changed abruptly in 2013 with the appointment of a new CEO and the company embarked on a complete re-appraisal of its future. There followed the opportunistic acquisition of BG in early 2016 which, together with earlier exploration outlays, secures the company's reserves for over 25 years. The resolution of issues around efficiency, costs and capital spending is well underway. This involves a wholesale change in management, greater centralisation, and the establishment of 150 discrete profit centres with very explicit performance targets. Possibly the most important change is the grafting of top BG personnel into key positions and other heads being appointed from the less profligate downstream divisions.

The second string to Shell's reformation lies in a US\$30 billion divestiture program which, apart from raising cash, is intended to bring debt to very low levels and will simplify the overall group. The company forecasts US\$20 billion a year in free cash flow by 2020 on the basis of an oil price of US\$60 per barrel, capex of US\$25-30 billion p.a. and a free cash flow yield of 13% p.a. – more than enough to meet the current 7% dividend yield. On current forecasts, which we believe to be highly conservative, the cash dividend is covered at an oil

price of US\$52 per barrel. As the market re-appraises the sector, it is highly likely that the strength that Shell has in traded LNG, conventional and deep-water production as well as the downstream initiatives will result in a significant re-rating. A higher oil price is not a precondition for this to be a fine investment.

Outlook

We do not have very strong views about markets at present. We can see plenty of areas that are already pricing in a lot of promise, but equally, we are finding enough areas of neglect to keep us very busy. We are working on each area for longs and shorts.

Interest rates are evidently rising in the US with the paradox that so long as there is uncertainty around the US legislative process, the desire to tighten faces hesitancy. However, the bond markets have been signalling the rising trend since last year and improving trade numbers around the world reinforce the conviction about global growth.

The other area that has been plaguing confidence is concern around the tightening of credit in China. As we alluded to earlier, **a reallocation of credit within the system can ameliorate this reduction** in the growth rate of credit. What heartens us greatly is the rise in the prices of formerly oversupplied commodities within China, implying that the forced removal of surplus capacity is proving successful. Prices of steel, cement and float glass have respectively risen by 75%, 30% and 16% from this time last year. With strong profit growth reflecting this improved pricing power, think how this improves **the loan books of the Chinese banks**.

The prospect of more balanced global growth and capital flows should continue to favour our portfolio.

Disposition of Assets

REGION	30 JUN 2017	31 MAR 2017
Asia	33%	32%
Europe	19%	19%
Japan	16%	15%
North America	15%	16%
Russia	1%	1%
South America	<1%	0%
Australia	0%	1%
Cash	16%	16%
Shorts	-11%	-3%

Source: Platinum Investment Management Limited.
Refer to note 2, page 17.

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

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Samsung Electronics	Korea	IT	3.4%
Alphabet Inc	USA	IT	3.0%
Lixil Group Corporation	Japan	Industrials	2.4%
Tencent Holdings	China Ex PRC	IT	2.4%
Oracle Corporation	USA	IT	2.3%
TechnipFMC	UK	Energy	2.2%
Inpex Corporation Ltd	Japan	Energy	2.1%
Kering	France	Consumer Disc	2.0%
Baidu.com	China Ex PRC	IT	1.9%
Intesa Sanpaolo SpA	Italy	Financials	1.9%

As at 30 June 2017. Source: Platinum Investment Management Limited.
Refer to note 3, page 17.

Platinum World Portfolios - Asia Fund



Joseph Lai
Portfolio Manager

Performance (to 30 June 2017)

	QUARTER	6 MTHS	1 YEAR	SINCE INCEPTION P.A.
PWP Asia Fund Class A USD	8.3%	–	–	12.2%
PWP Asia Fund Class B USD	–	–	–	6.5%
PWP Asia Fund Class D USD	8.1%	21.9%	24.6%	14.4%
PWP Asia Fund Class I USD	8.4%	–	–	16.7%
MSCI AC Asia ex Jp Index (USD)	8.3%	22.8%	26.7%	17.4%

Source: Platinum Investment Management Limited, RIMES Technologies.
Refer to note 1, page 17.
Historical performance is not a reliable indicator of future performance.

Disposition of Assets

REGION	30 JUN 2017	31 MAR 2017
China (Ex PRC Listed)	39%	37%
China (PRC Listed)	8%	10%
Hong Kong	1%	<1%
Taiwan	3%	3%
India	13%	14%
Korea	11%	14%
Thailand	6%	5%
Philippines	5%	3%
Vietnam	2%	2%
Singapore	1%	1%
Malaysia	1%	1%
Indonesia	<1%	<1%
Cash	9%	10%

Source: Platinum Investment Management Limited.
Refer to note 2, page 17.

The MSCI AC Asia ex Japan Index was up 8.7% over the quarter in local currency terms, or 8.3% in US dollars. The Fund (Class D) returned 8.1% over this period. Over the past 12 months, the Fund (Class D) appreciated 24.6%.

Performance was generally positive across the region, with Korea being particularly buoyant as its market recovered from recent uncertainties surrounding both domestic politics and regional geopolitics. The MSCI Korea Index was up 12.8% for the quarter in local currency, led by strong-performing stocks such as Samsung Electronics.

The Philippines market rose 7.7% (in local currency). Last year, President Duterte issued some controversial policies that deterred multinational businesses from continuing to outsource their call centres and various middle-office functions to the country. After a brief lull, outsourcing by multinationals is returning, as witnessed on our recent field trip, with many taking up entire buildings to support their global operations.

Business process outsourcing (BPO) is the official name given to this sector. The cost advantage of an educated and English-literate workforce earning an average monthly salary of US\$600 proves attractive. The impact of BPO on the

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Alibaba Group	China Ex PRC	IT	4.1%
Ayala Corp	Philippines	Financials	3.8%
Kasikornbank PCL	Thailand	Financials	3.2%
Jiangsu Yanghe Brewery	China	Consumer Stap	3.1%
Midea Group	China	Consumer Disc	3.0%
Samsung Electronics	Korea	IT	2.9%
Axis Bank Ltd	India	Financials	2.8%
Sina Corp	China Ex PRC	IT	2.5%
Tencent Holdings Ltd	China Ex PRC	IT	2.4%
CNOOC Ltd	China Ex PRC	Energy	2.4%

As at 30 June 2017. Source: Platinum Investment Management Limited.
Refer to note 3, page 17.

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

bottom lines of foreign businesses is great, but its impact on the Philippines is even greater.

With some 200,000 Filipinos joining the BPO sector every year, the country is seeing a rapid expansion of a young working class that earns superior wages to its traditional white collar workers, significantly lifting demand for consumer goods and residential property. Snack food companies are seeing a need to upgrade their product offering, while real estate developers are experiencing robust demand across residential, commercial and retail properties. The Filipino property companies in the Fund's portfolio stand to benefit from this trend of rising income and growing consumption.

The MSCI China H-Share Index (up 2.8% in local currency) held its gains from the last quarter as economic activity remained strong, and the Chinese government is using this window to tackle longer-term problems. After months of buyer enthusiasm, the property market in major Chinese cities is now under-supplied and conditions are supportive of construction and other economic activity. On the supply side, closure of idle factory plants and heavy polluters is reducing excess capacity, helping commodity prices (steel, coal, cement, etc.) to firm up. This will improve producers' profitability and reduce the risk of loan default, in turn improving the health of the banking system.

The Chinese authorities are also taking steps to clean up the shadow banking sector (the so-called wealth management products), often cited as a source of financial risk for the country. While this is certainly a positive move for the long-term, stricter regulations, together with a mild tightening of financing conditions, can lead to a marginal slow-down in the economy and have indeed led to some volatility in the Chinese domestic A-share market.

The good news is that the A-share market seems to have already adjusted and, moreover, at the end of the quarter news came that A-shares were officially accepted into the MSCI Emerging Markets Index. Inclusion of companies on other exchanges by the MSCI has tended to lead to out-sized returns, and initial market reaction in the A-share market is hinting at a similar outcome. Interestingly, we are seeing a shift in the kinds of companies favoured by the market. Those with strong fundamentals and attractive valuations, some of which feature in the Fund's portfolio, received a boost, while the expensive, high-growth stocks previously favoured by domestic Chinese investors were left behind.

With rising income and an ever-improving social safety net, Chinese consumers are upgrading their consumption pattern, benefiting the e-commerce stocks and premium domestic brands held in the Fund's portfolio. Product quality has

become a vital attribute in consumer products. The apparent insatiable demand for health supplements, baby formula milk powder, luxury goods, high-end cars and overseas travel is reflective.

Rising labour costs and stronger demand for quality also mean that China's growth is increasingly driven by technological innovation that can deliver quality at an affordable price. The fact is that China has already achieved global standards of excellence in a number of technology industries – telecommunication equipment, high-speed rail, auto manufacturing, etc. Robotics and automation are one of the key secular themes within the Fund, and the sector showed particular strength during the quarter.

The Fund's Chinese Internet holdings continued to be key contributors to performance. Sina Corp (social media platform) was up 28% (here we have to add 7% more for its distribution of Weibo shares), Alibaba and JD.com (e-commerce) were up 31% and 26% respectively, and Tencent was up 25%. Midea (whitegoods and robotics) and ZTE (telco equipment) were up more than 30% each, while Hon Hai Precision (assembler of the iPhone and both a maker and a user of robotics) was up 28%.

Elsewhere, the Indian market was up 2.4% for the quarter (in local currency) as the economy continued to recover from the demonetisation shock and the government carried on with its reform programs. A big part of the Fund's Indian exposure is to the private sector banks that have strong positions in Indian cities, banks that have found their way out of bad debt problems over the last four years and have come out stronger. Attractively priced, we believe they are primed to make strong returns when loan demand recovers. What makes this sector particularly appealing is that sensible interest rate policy has dampened inflation rate to close to 2%, which is extremely low by Indian standards, paving the way for eventual interest rate cuts.

Changes to the Portfolio

We took advantage of share price weakness and deployed some cash into the longer term prospective ideas.

We built a position in **ZTE**, one of China's leading manufacturers of telecommunication equipment. The Chinese telecom giants are well-endowed with the know-how to build the next generation 5G technologies, and they have the money to build a gold-plated network in the next few years, likely before most other global players. This will likely help ZTE achieve cost and technological leadership globally in the years ahead. With the stock trading on 14 times 2017 earnings, its prospects appear to be under-appreciated by the market.

We also initiated positions in **BAIC Motor** and **Geely Auto**. BAIC Motor is a Chinese auto joint venture partner for global brands like Mercedes and Hyundai. Mercedes' China sales is skyrocketing by 40% a year, thanks to locals' desire for quality and prestige. Recent political tension between China and South Korea led to an opportunity to buy this stock at a tantalisingly attractive price. Geely Auto is a Chinese domestic carmaker that is evidently reaching global standards, having acquired Volvo in 2010. Chinese consumers are voting with their feet, leading to sales growing by 50% from a year ago. Geely is set to launch a mid-end brand globally at the end of this year, which promises high quality at a reasonable price. Trading on a P/E of 16 times 2017 earnings, this Chinese auto champion looks promising.

The Fund has increased its exposure to the US dollar while its exposure to the Australian dollar has been removed.

Currency

CURRENCY	30 JUN 2017	31 MAR 2017
US dollar (USD)	35%	18%
Hong Kong dollar (HKD)	28%	26%
Indian rupee (INR)	13%	14%
Korean won (KRW)	11%	14%
Chinese yuan (CNY)	8%	9%
Thai baht (THB)	5%	5%
Australian dollar (AUD)	0%	7%
Chinese yuan offshore (CNH)	-12%	-2%

Source: Platinum Investment Management Limited.
Refer to note 4, page 17.

Outlook

Strong economic activity in China and the de-risking of the financial system are both positives for the Chinese market. Over the longer term, one may expect to see the entrepreneurial private companies in a broad range of industries swiftly climb up the technological ladder. The level of concern over China has subsided, but the market is still far from enthusiastic, hence offering up buying opportunities.

Given the enthusiasm that has been surrounding the Indian market, improvement in economic activity is yet to catch up to the optimistic expectations of the market. The possibility of an interest rate cut is interesting, as it can potentially ignite a long-awaited capex cycle. The Fund's exposure largely relates to areas that are sensitive to interest rate cuts and are less "hyped" than other parts of the market.

Despite the recent run, markets in the Asian region continue to present us with new opportunities.

Platinum World Portfolios - Japan Fund



Scott Gilchrist
Portfolio Manager

Performance

(to 30 June 2017)

	QUARTER	6 MTHS	1 YEAR	SINCE INCEPTION P.A.
PWP Japan Fund Class A USD	5.9%	11.5%	26.2%	17.4%
PWP Japan Fund Class B USD	6.6%	12.8%	–	11.8%
PWP Japan Fund Class D USD	6.6%	12.7%	28.0%	15.8%
MSCI Japan Index (USD)	5.2%	9.9%	19.2%	7.9%

Source: Platinum Investment Management Limited, RIMES Technologies.
Refer to note 1, page 17.
Historical performance is not a reliable indicator of future performance.

Disposition of Assets

REGION	30 JUN 2017	31 MAR 2017
Japan	96%	95%
Korea	1%	0%
Cash	3%	5%
Shorts	-2%	-2%

Source: Platinum Investment Management Limited.
Refer to note 2, page 17.

Currency Positions

CURRENCY	30 JUN 2017	31 MAR 2017
Japanese yen	84%	72%
US dollar	15%	28%
Korean won	1%	0%

Source: Platinum Investment Management Limited.
Refer to note 4, page 17.

The Fund (Class D) rose 28% for the financial year and 6.6% for the quarter. Since its inception in November 2015, the Fund (Class D) has appreciated nearly 16% per annum, twice that of MSCI Japan Net Index.

Changes to the Portfolio

The refinement of portfolio positioning towards companies with both attractive valuations and medium-term growth prospects continues. A multitude of opportunities are evident across Japan and Korea in a wide range of industries. The Fund remains effectively fully invested in Japanese equities.

Commentary and Outlook

Electrons versus Molecules

Steam is an Englishman, yet Winston Churchill converted the Navy to imported oil. Energy transitions take time. They are both risky and expensive. They require difficult choices. The main transition from wood/biofuels to fossil energy occurred from 1850 to 1900, yet the world runs predominantly on a shifting mix of fossil coal, oil, natural gas and nuclear power just as it has done for over a century.

The trend towards electrification has been inexorable since it was introduced commercially in the 1880s. Electricity has become pervasive in our homes, offices, cities and industries. In 1900, 38% of American vehicles were electric, but the discovery of cheap oil quickly reduced them to a rounding error in the overall mix as the internal combustion engine rose to dominate with the launch of Ford's Model T in 1908.

Solar panel installations in rural India are growing like weeds. Global photovoltaic capacity is now over 300 GW, having grown at 30% per annum for the last five years. Global wind power is now over 460 GW, having grown at 22% per annum for the last decade. In total, renewable energy – including solar, wind, geothermal and biomass – now produces 8% of global electricity generation, but has contributed 40% of the growth in recent years.

Energy transitions take decades partly because the incumbent innovates and shifts. The phenomenon of fracking tight oil and gas reservoirs is now common knowledge. Nevertheless it is astounding that one current oil well design nicknamed "Prop-a-geddon" involves pumping

1,000 truckloads or 25,000 tons of sand down a 200 mm diameter production casing which is a few kilometres deep and three kilometres long laterally. North America is now awash in cheap natural gas, cheap chemical feedstocks, heavy oil from Canada and tight oil focused on the Permian Basin.

The five decades following the oil crises of the 1970s have seen development of a wide range of energy technologies which are now maturing and having real world impacts on incumbent industries. The current mania for electric vehicles and battery storage appears to be more substantial and pervasive than most prior attempts to transition away from oil as the primary transportation fuel. China's widespread efforts should not be underestimated, but Korean and Japanese firms will also play leading roles in solving the complex problems of battery assembly, anodes, cathodes, separators, electrolytes and pack design.

The ever-present risk for the oil industry is severe disruption in the Middle East or the broader OPEC & Russia complex where tensions have been fraught for centuries but seem particularly fragile right now. Their travails are reminiscent of upheavals experienced centuries ago in the West as civil wars changed the directions of nations. Higher oil prices and patchwork subsidies will only accelerate the inevitable waves of adoption of cleaner energy sources and the eventual electrification of the global transport system.

While the ancient enjoyment of the flickering flames of an open fire can wash away the problems of a chilly winter day, the chores of fuel gathering and ash disposal result in many unused chimneys.

Portfolio Positioning

Sector Breakdown

SECTOR	30 JUN 2017	31 MAR 2017
Information Technology	25%	27%
Industrials	21%	19%
Consumer Discretionary	17%	15%
Financials	10%	9%
Materials	10%	8%
Energy	5%	6%
Health Care	4%	5%
Telecommunication Services	4%	5%
Consumer Staples	-1%	-1%
TOTAL NET EXPOSURE	95%	93%

Source: Platinum Investment Management Limited.
Refer to note 5, page 17.

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

Nintendo

Rigorous scientific analysis hardly seems to fit with the fun and excitement of computer games, yet both Nintendo and Nexon bring a range of mental models, psychology and algorithms to their software and customer interaction. In both cases, their approach has been underestimated by outsiders. Nintendo's new console, the Switch, remains sold out even after expanding production capacity in China. This outcome stands in stark contrast to the expectation of most commentators, many of whom wanted Nintendo to discontinue hardware development. Perhaps it was just luck, perhaps it was part genius part hard work, perhaps it was a change in the company's view of their place in the world, but Nintendo now stands at a juncture where mobile networks, CPU and GPU capability, manufacturing costs, and screen quality are melding to delight human desires and needs. Nintendo seems focused on bringing their industry leading Entertainment Properties to all the world's billions through mobile, console and handheld. The Switch launched as a home console with 80 software titles from over 50 developers/publishers. The level of support has doubled in the subsequent six months as hardware sales momentum has accelerated. It now seems likely that the Switch is a hybrid handheld/home console which might see purchases of multiple units per household.

Nexon

Nexon's key Entertainment Property now has a higher lifetime gross revenue than Star Wars, Hollywood's leading

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Mitsubishi UFJ Financial	Japan	Financials	3.6%
Sumitomo Mitsui Financial	Japan	Financials	3.4%
Oracle Japan	Japan	IT	3.2%
Nexon Co	Japan	IT	3.2%
Lixil Group	Japan	Industrials	3.2%
Inpex Corporation	Japan	Energy	3.1%
Itochu Corporation	Japan	Industrials	3.1%
Orix Corp	Japan	Financials	2.9%
Nintendo	Japan	IT	2.9%
Ebara Corp	Japan	Industrials	2.9%

As at 30 June 2017. Source: Platinum Investment Management Limited.
Refer to note 3, page 17.

franchise which has grossed US\$7.6 billion across eight movies since 1977. Nexon's Dungeon Fighter has grossed over US\$8 billion since it was first released in Korea in 2005. It is one of the top games in China where Tencent is the publisher. For many years, Nexon's CEO Owen Mahoney has talked extensively about games as art. Recently he elaborated on the background to this incongruous statement. He presented four mental models:

1. Games that maintain engagement as an interactive product rather than a static presentation;
2. Creation of joy and happiness through games which fulfil basic human needs;
3. Advertising and marketing methods which emphasise lifecycle cash flow; and
4. Innovative and fun games which push the boundaries of what is possible within the constraints of current hardware.

He describes an analytical pathway to customer engagement and enjoyment. Nexon's key games have lifecycles measured in years or decades, rather than a hit based cycle. Over the last two decades, Nexon's profits have risen spectacularly with margins that would cause most to salivate. They have done this by ignoring much industry convention and by innovating. The current valuation of Nexon is low in a global context, but the real attraction lies in the 35 innovative games in development, any one of which could be a hit large enough to change the trajectory of the company.



Left: The Legend of Zelda by Nintendo. Source: www.zelda.com



Right: Dungeon Fighter Online by Nexon. Source: www.wikipedia.com

Tokyo Election

One of the pillars of Japan's recent progress has been the stability of its political system, in stark contrast to other parts of the world. The Liberal Democratic Party's (LDP) historic loss in the recent Tokyo Metropolitan Assembly election seems on surface to be a repudiation of the overwhelming support for Prime Minister Abe, under whose leadership the LDP has dominated the nation's legislative agenda since late 2012. Indeed, the leader of the winning political party in the recent Tokyo election is Yuriko Koike, the first female Governor of Tokyo and a former member of PM Abe's Cabinet where she served as the Minister of Defense. She presents a fresh face and a sense of openness and accountability which seems to have resonated with the residents of Tokyo. She has served a long apprenticeship, having worked for Prime Minister Koizumi for many years.

Japanese unemployment is at multi-decade lows. The jobs-to-applicant ratio is at levels not seen since the Bubble years of the late 1980s. Overall, corporate profitability and margins appear to have moved structurally higher. Inbound tourism is at record levels and high quality Japanese products are in high demand across Asia. To the amazement of most, Japanese real per capita GDP has grown faster than almost all Western developed nations over the last two decades, a testament to their innate strengths and longer-term investment horizon. It hardly seems like an environment conducive to revolution or revision of political structures that have stood the test of decades. Yet, there is slow but steady change across the nation and it would not be surprising to see another experiment with a more progressive political agenda, most likely a negotiated subtle shift of direction.

Currency

The Japanese government estimates that the total value of all assets in the Japanese financial system is US\$90 trillion. This number dwarfs most widely used financial statistics in Japan where GDP is roughly US\$5 trillion, stock market capitalisation is US\$5 trillion, government debt is US\$10 trillion and customer deposits are US\$12 trillion. The banking system loan-to-deposit ratio is one of the lowest in the developed world at 66%. The value of the Yen and the direction of the stock market can be trampled if a small set of asset owners change their outlook or risk preferences. At the moment, the Yen is slightly cheap on the standard metrics. The outlook is for continued loose monetary policy, somewhat in contrast to the tightening biases being uttered in many other parts of the world.

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NOTES

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1. The Fund's returns are calculated using the Fund's net asset value per share attributable to the relevant share class and represent the Fund's combined income and capital returns for the specified period. The Fund's returns are pre-tax and are net of accrued fees and expenses (NB: the anti-dilution levy is not an expense of the Fund), and assume the accumulation of net income and capital gains attributable to the relevant share class of the Fund. The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the Fund's underlying assets and other 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\$)

Index data has been sourced from RIMES Technologies. Index returns include dividends, but, unlike the Fund's returns, do not reflect fees or 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: IE00BYGRD06): 16 November 2015
Class I USD (Accumulating) (ISIN: IE00BYMJ5524): 19 January 2017
- Platinum World Portfolios - Japan Fund:
Class A USD (Accumulating) (ISIN: IE00BYGRGF20): 11 January 2016
Class B USD (Accumulating) (ISIN: IE00BYGRH44): 23 December 2016
Class D USD (Accumulating) (ISIN: IE00BYGRJ67): 16 November 2015

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

2. Regional exposures represent the Fund's exposure to any and all company securities 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 ten long stock positions (including company securities and long derivatives) as a percentage of the Fund's net asset value.
4. The table shows the Fund's major net currency exposures as a percentage of the Fund's net asset value, taking into account any currency hedging.
5. Sector breakdown represents the Fund's net exposure to any and all company securities and both long and short derivatives (of stocks and indices) as a percentage of the Fund's net asset value.

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PLATINUM WORLD PORTFOLIOS PUBLIC LIMITED COMPANY

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

BOARD OF DIRECTORS

Stephen Menzies (Australian)
Tony Mc Poland
Kevin Molony

REGISTERED OFFICE

Arthur Cox Building
Earlsfort Terrace
Dublin 2
Ireland

WEBSITE

www.platinumworldportfolios.ie



INVESTMENT MANAGER

PLATINUM INVESTMENT MANAGEMENT LIMITED

Level 8, 7 Macquarie Place
Sydney NSW 2000
Australia

GPO Box 2724
Sydney NSW 2001
Australia

TELEPHONE

+61 1300 726 700
+61 2 9255 7500

EMAIL

invest@platinum.com.au

