



Quarterly Investment Manager's Report

Platinum World Portfolios - International Fund

Platinum World Portfolios - Asia Fund

Platinum World Portfolios - Japan Fund

30 June 2020

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Performance

to 30 June 2020

| 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) | 32.7 | 13.9% | -11.7% | -5.9% | -5.0% | -0.1% | 4.3% | 27 Apr 2016 |
| Class B (USD) | 5.4 | 13.8% | -12.0% | -6.5% | -5.6% | -0.8% | 3.6% | 2 Dec 2016 |
| Class D (USD) | 11.9 | 13.8% | -12.0% | -6.5% | -5.6% | -0.8% | 2.7% | 16 Nov 2015 |
| Class F (EUR) | 0.6 | 11.7% | -12.1% | -5.4% | -3.7% | -0.2% | -0.4% | 4 Apr 2017 |
| Class G (GBP) | 10.9 | 14.2% | -5.6% | -3.5% | -1.9% | 1.6% | 8.4% | 27 Apr 2016 |
| MSCI All Country World Net Index (USD) ⁽¹⁾ | | 19.2% | -6.3% | 2.1% | 3.9% | 6.1% | 8.1% | 16 Nov 2015 |
| MSCI All Country World Net Index (USD) (EUR) ^(2,3) | | 16.5% | -6.3% | 3.5% | 5.9% | 6.7% | 5.4% | 4 Apr 2017 |
| MSCI All Country World Net Index (USD) (GBP) ^(2,4) | | 19.6% | 0.5% | 5.2% | 7.4% | 7.9% | 12.7% | 27 Apr 2016 |
| Platinum World Portfolios - Asia Fund | | | | | | | | |
| Class A (USD) | 18.6 | 20.1% | 5.2% | 12.9% | 3.9% | 7.0% | 10.1% | 10 Mar 2017 |
| Class B (USD) | 12.2 | - | - | - | - | - | - | 5 June 2020 |
| Class D (USD) | 19.1 | 20.8% | 6.0% | 13.4% | 3.8% | 7.0% | 9.5% | 16 Nov 2015 |
| Class F (EUR) | 0.1 | 18.6% | - | - | - | - | - | 3 Feb 2020 |
| Class G (GBP) | 1.5 | 20.5% | 11.7% | 14.8% | - | - | 16.7% | 19 Feb 2019 |
| Class I (USD) | 162.8 | 20.2% | 5.0% | 12.8% | 4.0% | 7.3% | 11.2% | 19 Jan 2017 |
| MSCI AC Asia ex Japan Net Index (USD) ⁽¹⁾ | | 16.7% | -4.7% | 1.7% | 0.6% | 3.6% | 8.2% | 16 Nov 2015 |
| MSCI AC Asia ex Japan Net Index (USD) (EUR) ⁽²⁾ | | 14.0% | - | - | - | - | - | 3 Feb 2020 |
| MSCI AC Asia ex Japan Net Index (USD) (GBP) ^(2,4) | | 17.1% | 2.1% | 4.7% | - | - | 7.6% | 19 Feb 2019 |
| Platinum World Portfolios - Japan Fund | | | | | | | | |
| Class A (USD) | 15.9 | 6.9% | -12.6% | -5.6% | -4.9% | -0.7% | 4.9% | 11 Jan 2016 |
| Class D (USD) | 17.9 | 6.7% | -12.9% | -6.2% | -5.6% | -1.1% | 4.5% | 16 Nov 2015 |
| Class F (EUR) | 0.1 | 4.7% | -13.0% | -5.1% | -3.7% | - | -3.1% | 18 Oct 2017 |
| MSCI Japan Net Index (USD) ⁽¹⁾ | | 11.6% | -7.1% | 3.1% | -0.6% | 3.0% | 4.7% | 16 Nov 2015 |
| MSCI Japan Net Index (USD) (EUR) ^(2,3) | | 9.0% | -7.2% | 4.5% | 1.3% | - | 2.5% | 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 22.

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

Macro Overview

by Andrew Clifford, CIO, Platinum Investment Management Limited

Stimulus Fuels Breakdown Between Markets and Economic Reality

The global economy has only just commenced its recovery from the depths of the largest economic setback in modern history, yet stock markets have bounced strongly from their mid-March lows to be just 5%-15% below their pre-COVID-19 levels. This extraordinary recovery in stock markets stands in stark contrast to other periods of economic weakness, such as the global financial crisis (GFC), where even five years later, markets had not recovered to their previous highs.

The market's response can most likely be attributed to the enormous monetary and fiscal measures taken by governments and central banks around the world. This leads to the obvious question, what happens next?

While we can identify attractive opportunities in individual stocks as a result of the market collapse, **for the moment, significant uncertainty around future economic activity, together with high stock market valuations, are good arguments for investors to retain a cautious stance.**

As lockdowns are lifted, economies will experience a strong 're-opening bounce', but a full recovery is likely to be at least three to five years away. As we noted in our March 2020 quarterly report,¹ the economy is "real" and labour is a key "factor of production". If people are restricted from going to work, then activity will fall. As such, we concluded, "economic activity will stop falling and start to recover when people can return to work".

It is not surprising that we are seeing signs of a strong initial recovery. The question is, how close does this initial recovery get us to where we were before? Again, as we noted last quarter, after the GFC, which was a mild downturn by comparison, the US took three years to return to prior peaks in activity, Japan took five years and Europe took seven years.

We expect the recovery to take some time to play out again for the following reasons:

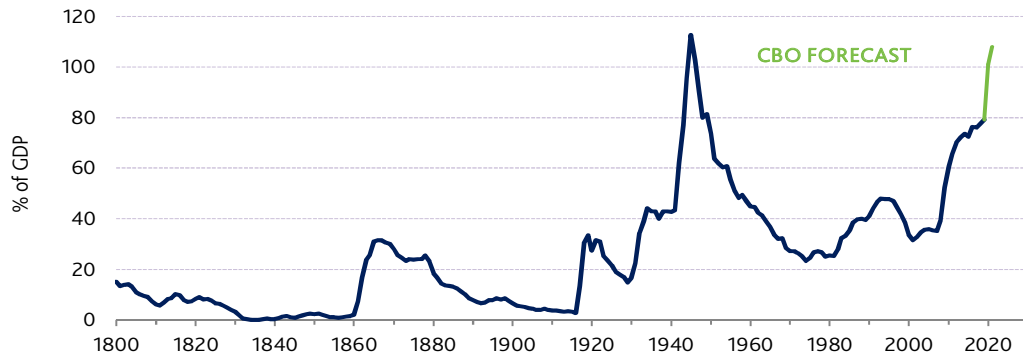
- Firstly, small- and medium-sized enterprises, by and large, tend to live on the edge of viability at the best of times. Many that have had to close their doors will struggle to return, especially if they have significant fixed costs, such as rent, that still need to be covered. To date, government programs in many countries have aimed to keep these businesses afloat and their employees paid. It is likely that, as the reopening proceeds, many of these businesses will fail, and while their employees are ready and able to return to work, they will not have jobs to return to.
- There are also some industries where the recovery will be slower, as government restrictions on the movement of people persist, or potentially changes in behaviour triggered by the lockdown, result in reduced demand for some services.
- Finally, the recent acceleration in COVID-19 cases in parts of the US and elsewhere, raises concerns about the impact of a second wave of infections. Whether this results in a return to lockdowns or not, it is likely to suppress consumer and business confidence. Further, the spread of the virus remains uncontained in much of the developing world, with significant expansion of cases in the important economies of India and Brazil.

Once the initial re-opening bounce has occurred, it is likely that unemployment levels will remain significantly elevated relative to the pre-COVID period. Market forces will see excess labour eventually absorbed by an ongoing recovery and new jobs will be created, but it will simply take time. While the development of a vaccine will accelerate the recovery, allowing certain industries to return more quickly, it is still likely that a return to prior peaks in economic activity will be measured in years.

It is almost certain that governments will continue to implement additional monetary and fiscal measures to support an economic recovery, but there are limits on what can be achieved.

¹ https://www.platinumworldportfolios.ie/PlatinumSite/media/Fund-Updates-and-Reports/pwpqtr_0320.pdf

Fig. 1: US Public Sector Debt/% GDP



Source: Minack Advisers and US Central Budget Office (CBO)

Ultimately, the potential of any economy is limited by the “real” resources of labour, capital (being the plant and equipment in our factories, data centres and offices) and land (not just shopping malls and office blocks but also agriculture and mining). The government cannot create new productive capacity, it can only redirect existing resources, but during periods when the resources of the economy are not fully employed, it may make sense for them to do so. In recent months, government benefits have allowed the newly unemployed to buy groceries and pay their bills, reducing the impact of their loss of income on the economy. However, government spending represents a transfer of wealth from another sector of the economy – as governments need to fund their spending.

Traditionally, governments have funded their expenditure by taxing the private sector (households and businesses) or by borrowing money from the private sector and then taxing that very same private sector in the future, to repay the loans. However, in recent years, either directly or indirectly, as a result of quantitative easing policies by central banks, governments have been effectively borrowing from the central bank. Without delving into a treatise on money and credit, in simple terms, the central bank is creating new money that ends up in the hands of governments, who use it to pay their bills.²

² This is a gross simplification of the underlying mechanics of money creation and quantitative easing, and the relationship with government spending over the last decade, but should suffice for the purpose of this discussion.

Normally, economists would argue that this is inflationary, and that it represents a tax on anyone who holds cash. It hasn’t quite unfolded that way though, with the consumer price index (CPI) in most economic systems remaining subdued over the past decade. You might observe, however, the loss of purchasing power in your savings by noting the inflation in assets, such as residential property, or the lack of a decent return on your term deposits.

On face value, the financial alchemy of quantitative easing has been an apparent success. Over the last decade, central banks, hand-in-hand with their governments, have been able to resolve problems in their financial system, see their economies recover and maintain low interest rate regimes, without even the slightest appearance of this money creation being inflationary (unless you have an eye on asset prices). This same financial alchemy has been front and centre in the funding of government spending in response to the current crisis. So far so good, with respect to placing spending power into the hands of many of those in need and the maintenance of low interest rates, again with no obvious signs of inflation (other than in asset prices).

Undoubtedly, governments will continue to push on with central banks funding their spending if economies do not recover quickly. Presumably though, there are limits on this approach. When considering the rapid increase in government debt around the world in recent months, it certainly gives rise to a question of sustainability. Fig. 1 illustrates the extraordinary increase in US federal government debt as a percentage of GDP. The US Central Budget Office (CBO) is forecasting the level of indebtedness to rise to near World War 2 levels by 2021.

Assuming that limits do exist on this financial engineering, we need to understand at what point these limits will be reached and what will be the implications of exceeding them? These questions are not easily answered, but certainly, possibilities include a rise in goods and services inflation or conversely, the global economy enters a period of Japanese-style deflation, as governments crowd out the private sector.

The creation of new money that has arisen from recent monetary and fiscal policies is highly likely to have been a major contributor to the unprecedented rebound in stock prices from the March lows.

Well known economist, Milton Friedman observed that, "Inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output". Today, in the US, M2 (one measure of the amount of money in the financial system) is rising by a record annual rate of 25%³ (see Fig. 2), while economic output has collapsed. Of course, we haven't been able to observe inflation in the traditional CPI that focuses on goods and services, as most are in excess supply in this downturn. Where we have been able to clearly observe inflation though, is in asset prices, particularly in bond markets (higher bond prices are the other side of falling interest rates) and parts of the stock market.

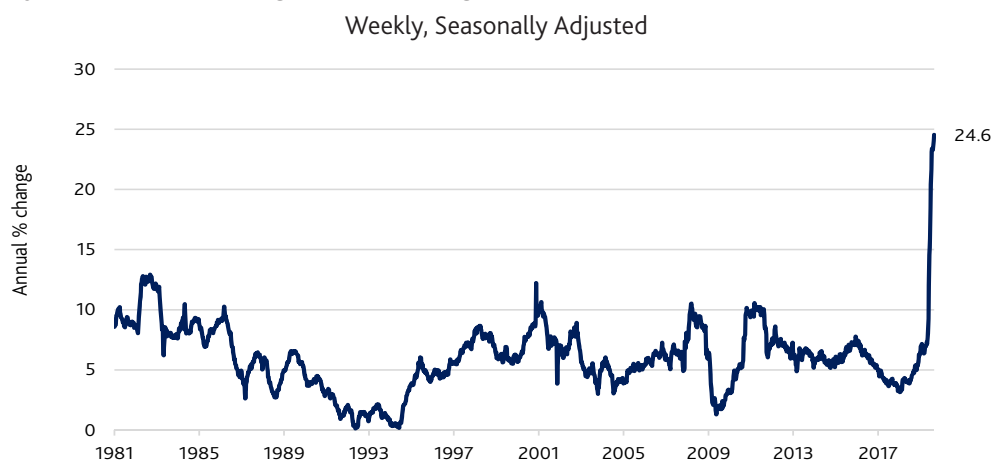
As this new money has washed around the system, it has found its way to the shares of companies that are perceived to be immune, or that have even benefited from the economic collapse. Many of these companies have stock prices near, even well above, their pre-COVID stock prices.

3 M2 includes M1 (currency and coins held by the non-bank public, checkable deposits, and travellers' cheques) plus savings deposits (including money market deposit accounts), small time deposits under \$100,000, and shares in retail money market mutual funds. Year-on-year, as at 22 June 2020. Source: <https://fred.stlouisfed.org/series/M2#0>.

In some cases, companies have benefited from the lockdowns, notably, e-commerce players that have seen an increase in the use of online shopping and other services (as discussed by our portfolio manager, James Halse, in the feature article *Will the Pandemic Change our Spending Habits Long Term?*). Undoubtedly, the enthusiasm of investors for many of these companies is justified, in the sense that they have strong positions in their markets and look set to grow for many years to come. However, when this assessment of their prospects is then amplified by excessive money creation by central banks, **the outcome is that stock prices have moved well beyond what can be justified, given even the brightest assessment of their futures.**

If our analysis of the situation is correct, the risk for investors who own these popular names are two-fold. For any given company, a significant risk is they fail to deliver on their shareholders' high hopes, a very real possibility given the long timeframes over which they need to deliver high levels of growth. The other risk though, is that the money creation process that has driven these rising stock prices slows, or even possibly stops, or that the money migrates elsewhere. On the first point, as stated earlier, it seems likely that governments will want to continue spending to encourage a recovery and this should ensure the ongoing creation of new money, however, the current rate of growth may be hard to match. This assumes that potential limits on the levels of government debt discussed earlier do not occur at some point. As for the money migrating elsewhere, this is difficult to predict, but one possibility is that it flows into the real economy, as output steadily recovers over the coming years. None of this really helps with identifying the timing of any of these events, but to stay invested in these types of stocks is like being involved in the investment equivalent of a game of musical chairs.

Fig. 2: US M2 Money Stock, Percent Change from a Year Ago



Source: Federal Reserve Bank of St. Louis.

The rest of the stock market, outside of these popular sectors, is behaving much more like one might expect in a major economic collapse. That is, their stock prices have fallen significantly and although they have bounced from their March lows, they remain well below pre-COVID levels.

Many companies in these out-of-favour sectors, when assessed against a likely three-year recovery period, represent attractive investments. It is amongst these companies that we see the real opportunities arising from the current crisis.

Typically, these companies either have greater sensitivity to economic growth, or in some cases have been directly impacted (e.g. travel-related businesses) by the lockdowns.

It is worth noting, that as the world recovered from the GFC, it was precisely these types of companies that made the best investments over the following two to three years. What is unknown of course, is precisely when we will see these investments perform. Most likely, this will occur with some swings and roundabouts, in line with the broad recovery in economic activity that we expect to come through over the next three years or so. Potentially, as government spending moves toward longer-term projects, such as infrastructure or decarbonisation of the economy, this could well accelerate the recovery for many of these economically sensitive sectors. These opportunities are further discussed in the PWP - International Fund report.

MSCI Regional Index Net Returns to 30.6.2020 (USD)

| REGION | QUARTER | 1 YEAR |
|-------------------|---------|--------|
| All Country World | 19.2% | 2.1% |
| Developed Markets | 19.4% | 2.8% |
| Emerging Markets | 18.1% | -3.4% |
| United States | 21.6% | 7.8% |
| Europe | 15.4% | -7.2% |
| Germany | 26.5% | -2.6% |
| France | 16.1% | -10.3% |
| United Kingdom | 7.8% | -17.7% |
| Italy | 16.1% | -11.4% |
| Spain | 10.3% | -21.0% |
| Russia | 18.7% | -13.0% |
| Japan | 11.6% | 3.1% |
| Asia ex-Japan | 16.7% | 1.7% |
| China | 15.3% | 13.1% |
| Hong Kong | 9.2% | -14.7% |
| Korea | 19.5% | 0.4% |
| India | 20.6% | -17.0% |
| Australia | 28.9% | -11.5% |
| Brazil | 9.2% | -32.1% |

Source: FactSet Research Systems.

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 30.6.2020 (USD)

| SECTOR | QUARTER | 1 YEAR |
|------------------------|---------|--------|
| Information Technology | 30.0% | 31.8% |
| Consumer Discretionary | 28.6% | 9.3% |
| Materials | 25.6% | -4.6% |
| Communication Services | 19.8% | 8.9% |
| Energy | 17.8% | -34.0% |
| Industrials | 17.4% | -7.9% |
| Health Care | 15.3% | 14.6% |
| Financials | 12.0% | -17.7% |
| Consumer Staples | 9.1% | -0.2% |
| Utilities | 6.6% | -2.3% |

Source: FactSet Research Systems.

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

Historical performance is not a reliable indicator of future performance.

Will the Pandemic Change our Spending Habits Long Term?

by James Halse, CFA, Portfolio Manager*

Overview

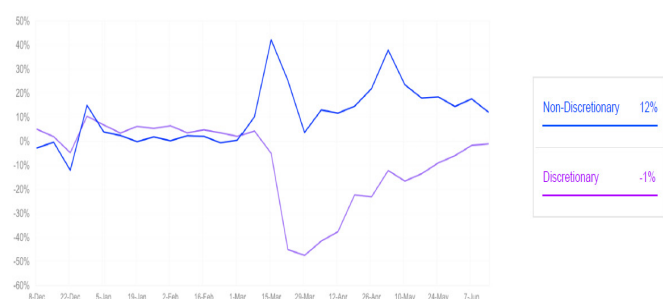
In response to the global pandemic, we have altered our behaviour in innumerable ways. Enforced social distancing and isolation measures caused changes to our patterns of movement, our consumption habits, and our daily exercise and culinary routines. These adjustments have had a major detrimental impact on many businesses, while strongly benefiting others.

As investors, we need to not only assess the immediate consequences of changed consumer behaviour, but also ask the more important question – to what extent, if any, are we likely to see permanent alterations to the way people engage with the world, and how may that influence the business performance, and ultimately the stock prices, of our universe of potential investments?

Immediate Impact

There are now reams of data available that illustrate how consumers and businesses have responded to an environment of social distancing and lockdowns. As may be expected, discretionary spending on items such as clothing and motor vehicles collapsed, partially offset by large increases in spending on non-discretionary categories – i.e. canned food and toilet paper.

Fig. 1: Retail Discretionary vs. Non-Discretionary Spend % Year over Year by Week



Source: Facteus/Bernstein, US card transaction data.

With offices closed and employees working from home, commuter traffic collapsed, impacting sales of everything from petrol and chocolate bars at petrol-station counters,¹ to McDonald's breakfasts² and Starbucks' coffees.³ Sales of business suits and other office attire have collapsed, along with purchases of party outfits and swimwear, partially offset by a spike in sales of loungewear as people seek to offset the discomfort of working at the kitchen table with more comfortable clothing.⁴ Meanwhile, purchasing related to the olfactory sense experienced a shift away from perfumes and toward scented candles,⁵ and Procter & Gamble's shaving-related revenues fell as men (and women) focused less on personal grooming.⁶

In purchases of apparel and other goods, we can observe an accelerated shift to e-commerce as stores were either closed or avoided.⁷ This e-commerce shift can also be seen in food consumption, as the number of restaurants and consumers using food delivery platforms spiked with the closure of restaurants for dining in.⁸ Grocery e-commerce also exploded from a low base, even as physical supermarket stores themselves saw a jump in sales as people were forced to cook more at home.⁹

Airlines, hotels, entertainment venues and tourist attractions experienced an evaporation of demand as international travel all but stopped and venues were required to close.

1 Hershey Q1 2020 Earnings Call.

2 <https://www.eater.com/2020/5/7/21250554/fast-food-chain-breakfast-sales-down-coronavirus-mcdonalds-tim-hortons-taco-bell>

3 <https://www.marketplace.org/2020/06/11/starbucks-fast-food-breakfast-takeout-delivery/>

4 ASOS Q2 2020 Earnings Call.

5 <https://www.allure.com/story/fragrance-industry-covid19-pandemic>

6 Procter & Gamble Q3 2020 Earnings Call.

7 <https://www.essenceglobal.com/article/covid-19-restrictions-accelerate-australias-e-commerce-growth>

8 <https://www.wired.com/story/delivery-apps-offer-restaurants-lifeline-cost/>

9 Walmart Q1 2021 Earnings Call.

*James Halse, CFA, BA/LLB Hons, LLM Hons (Auckland), joined Platinum in 2011 having previously worked at CP2 (formerly Capital Partners) as an equities analyst and for Deloitte in New Zealand as a tax consultant. James worked within the consumer sector team at Platinum before becoming a portfolio manager in February 2017. James is the sector leader of the consumer team.

Meanwhile, video game console and software sales erupted and video streaming and social media services saw a spike in usage as people spent more time on their couches,¹⁰ and liquor stores saw an influx of customers who would otherwise have been drinking at a bar or pub in the absence of the pandemic.¹¹ With physical betting shops and casinos closed, online betting providers gained, as increased spending on online poker and casino games more than offset the loss of sports betting revenues from the cancellation of live sport.¹²

Where are the Opportunities to be Found?

While these immediate behavioural changes are interesting, our focus as investors should be skewed much more to the long term, rather than fixating on current trends as many commentators tend to do. Where stock prices have been hit due to pandemic-related business disruption, interesting investment opportunities can arise. An opportunity is interesting if we can be satisfied sales will recover and the company has the financial strength to survive the temporary demand interruption. Similarly, a temporary increase in sales generally does not significantly increase the long-term value of a company, so opportunities arise where the market is too focused on short-term sales outperformance and re-rates stock prices upward in situations where companies were only temporarily in the right place at the right time.

It is simply a matter of time until humans largely revert to previous patterns of behaviour. Hopefully, that is because an effective vaccine becomes widely distributed (a high probability in our view), but it could also be because we learn to live with the risks that come with COVID-19. The latter idea has precedents in societal attitudes toward the risks of influenza (12,000-61,000 deaths per year in the US),¹³ driving a car (~40,000 deaths),¹⁴ playing contact sport, skiing, skateboarding,¹⁵ or even drinking alcohol (88,000 deaths)¹⁶ and smoking (480,000 deaths).¹⁷

10 <https://www.forbes.com/sites/markbeech/2020/03/25/covid-19-pushes-up-internet-use-70-streaming-more-than-12-first-figures-reveal/#25db0ae23104>

11 AC Nielsen / Bernstein.

12 The Stars Group First Quarter and General Business Update, April 17, 2020.

13 <https://www.cdc.gov/flu/about/burden/index.html#:~:text=While%20the%20impact%20of%20flu,61%2C000%20deaths%20annually%20since%202010.>

14 <https://ohsonline.com/articles/2019/02/18/nsc-motor-vehicle-deaths.aspx>

15 Participation in sports results in around 3.5 million injuries per year to children under 14 in the US that are bad enough to cause them to reduce their participation in the sport for a period.

16 <https://www.niaaa.nih.gov/publications/brochures-and-fact-sheets/alcohol-facts-and-statistics#:~:text=Alcohol%2DRelated%20Deaths%3A,poor%20diet%20and%20physical%20inactivity.>

17 https://www.cdc.gov/tobacco/data_statistics/fact_sheets/fast_facts/index.htm#:~:text=Cigarette%20smoking%20is%20responsible%20for,or%201%2C300%20deaths%20every%20day.&text=On%20average%2C%20smokers%20die%2010%20years%20earlier%20than%20nonsmokers.

Step-Change in Behaviour

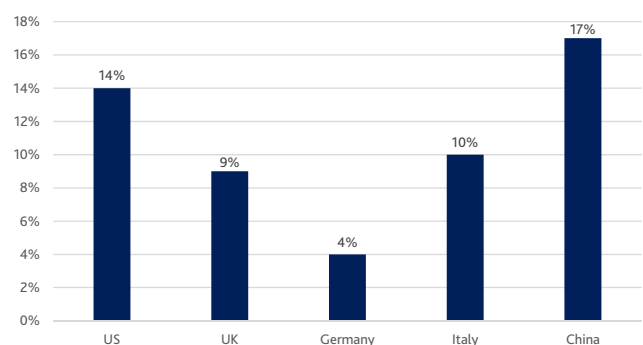
While we will generally revert to previous patterns of behaviour, there are two areas where the pandemic has caused a step-change in previously observable trends, to the benefit or detriment of various businesses. These areas, the implications of which are discussed in detail below, can be categorised as:

1. An acceleration of the shift to digital
2. The increased casualisation of work

The consumer shift from the offline to the online world is a widely discussed and well-established trend. Consumers have increasingly turned to their smartphones, tablets, personal computers and internet-enabled smart TVs to facilitate their consumption of physical goods, services and media. This trend would have continued to its ultimate endpoint with or without a global pandemic, but because of COVID-19 the journey is likely to be swifter.

COVID-19 has driven consumer adoption of digital tools by those who previously may have seen too many hurdles to using such tools. Whether that is the retiree who downloaded a betting app to his smartphone for the first time because his local TAB was closed, or the parent who signed up for online delivery of the weekly grocery shop in order to avoid visiting a crowded supermarket with a mouching infant, much of this new behaviour is likely to persist in a post-COVID world. The pandemic was the impetus for overcoming the frictions to adopting these new channels, the time required to learn how to use an app and a likely fear of technology in the former case, and the effort of entering personal details and populating an online shopping list coupled with a likely fear of receiving lower-quality fresh products in the second case.

Fig. 2: Consumer Shopping Online for the First Time in COVID-19

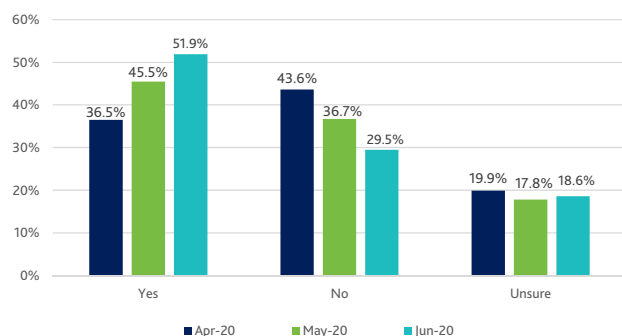


Source: BCG Consumer Sentiment Survey (April 2020; N=5729), Bernstein analysis.

These frictions are real, but once overcome, the new way of doing things demonstrates its inherent superiority – at least with respect to many use cases. Yes, for a day of casual betting with friends, the TAB or sports-bar will still be the go-to option in a post-COVID world, but there is no longer the need to pop into a TAB to place a one-off bet on a sports team, or to act on a hot tip in race three. Likewise, once set up, the weekly shopping list requires only minor additions or deletions, and worries about over-ripe bananas may be assuaged with a quick dash to the local fruit and vegetable store. The saving in time and anguish is all too apparent to a parent familiar with the unfortunate appeal of the supermarket as a venue for infant tantrums.

With many having experienced the advantages of working from home and removed much of the friction through setting up a home workstation, an increasing number of employees are likely to choose to work from home into the future, at least for some of the workweek, as evidenced by Fig 3.

Fig. 3: Would You Prefer to Continue Working from Home After the Pandemic is Over?



Source: UBS Evidence Lab.

Employers are likely to allow this, as they have most probably seen an improvement in productivity, and increased flexibility drives employee loyalty, which reduces costly attrition.¹⁸ Concerns around implications for organisational culture and cohesion are legitimate, but one day per week or maybe fortnight out of the office should be eminently workable.

Additionally, people have grown used to the sight of colleagues in casual clothing via video screen, so enforcing traditional business attire in the office becomes even less defensible, further accelerating the trend to casualisation of apparel that has been underway for decades. Indeed, Platinum, one of the last bastions of the compulsory neck-tie, has now freed the Adam's Apple, leading to much rejoicing amongst male team members!

Within the framework outlined above, we can examine the observed changes in consumer spending patterns and infer where we are looking at a permanent behavioural shift that will have permanent implications for the sales and profits of affected businesses. However, for the purposes of uncovering attractive investment opportunities, this is only part of the picture. Second-order thinking requires us to look past the apparent impact and examine the ultimate implications. For example, reduced store foot traffic and the shift to e-commerce is bad for department and mall specialty store sales and margins, but with many large chains permanently closing large numbers of stores, there is plenty of market share available for better-positioned brick and mortar survivors to take a cut alongside the e-commerce pure plays.

Starbucks and McDonald's are likely to experience permanent hits to revenues as a result of reduced commuter traffic, as well as a hit to margins as they pay UberEats for delivery orders. However, in the near term they could gain market share from the large number of less well-capitalised small cafés and restaurants that have gone out of business during the pandemic. In this case though, we will likely see a resurgence of competition in the medium term as new aspiring café and restaurant owners take over vacant space, most likely at reduced rental rates that should put the new independents in stronger competitive positions. This contrasts with the department store situation, where closures are likely permanent (they already had very low or no rents due to their status as anchor tenants).

Permanent vs. Temporary Beneficiaries?

So, which sectors and companies likely see a permanent increase or acceleration of demand as a result of the pandemic, and which are experiencing a temporary blip? While this is not the forum for a comprehensive analysis, we provide a few standout examples below to add to the cases discussed above.

The most obvious temporary impact has been in sales of household essentials such as toilet paper and canned soup. One can only use so much toilet paper (though we will likely use more at home than at work in the future), and the reasons for buying extra canned soup disappear in the absence of a pandemic. Sales of hand sanitiser, bleach and cleaning wipes may stay stronger for longer, but are likely to revert to normal levels soon after the end of the pandemic.

¹⁸ <https://www.inc.com/scott-mautz/a-2-year-stanford-study-shows-astonishing-productivity-boost-of-working-from-home.html>

E-commerce pure-plays such as Amazon in general merchandise, or Zalando in European apparel, are currently the big winners as the rate of online adoption has permanently increased, and many stores will not reopen. Current elevated growth rates are unlikely to persist for long, but the spike in penetration will not reverse and indeed, we are yet to really see a slowdown in e-commerce, even as stores and restaurants reopen.¹⁹ US digital grocery sales, for example, continued to see an acceleration even as lockdown restrictions were eased through May as shown in Fig. 4.

¹⁹ OpenTable restaurant reservations are now back to 70% of normal, while food delivery orders have grown consistently in the high 80% range from mid-May through June (Source: YipitData).

Fig. 4: Online Grocery Delivery & Pickup

| Performance Metrics | Aug 2019 | March 2020 | April 2020 | May 2020 |
|--|----------|------------|------------|----------|
|  Sales (Past 30 days) | \$1.2 B | \$4.0 B | \$5.3 B | \$6.6 B |
|  Spend (Average per order) | \$72 | \$82 | \$85 | \$90 |
|  Orders (# Past 30 days) | 16.1 M | 46.9 M | 62.5 M | 73.5 M |
|  Customers (# Active during past 30 days) | 13.1 M | 39.5 M | 40.0 M | 43.0 M |
|  Frequency (Monthly average/customer) | 1.0 | 1.2 | 1.6 | 1.7 |

Source: Brick Meets Click/Mercatus Grocery Survey, May 2020; Brick Meets Click/Symphony Retail/AI Grocery Survey, April 2020; Brick Meets Click/ShopperKit Grocery Survey, March 2020; Brick Meets Click Grocery Survey, August 2019.

Large grocery retailers that have implemented compelling e-commerce options such as curbside pickup and home delivery have likely captured market share from smaller chains and independent grocery businesses during the pandemic. These customers are unlikely to revert entirely to their old ways in a post-pandemic world, having discovered the convenience of the new offer. While the economics of grocery home delivery are difficult, the 'pickup from store' option outsources the last-mile to the customer, so carries only the incremental cost of picking and packing the order and can be positive for overall profits, if enough orders are incremental to existing revenues rather than cannibalistic. Order profitability is assisted by the larger average basket size of online grocery orders when compared to instore purchases.

Retail landlords will see reduced incomes into the future due both to the acceleration toward digital purchases away from store purchases, as well as reduced traffic in central business district (CBD) locations, with more employees working from home making the economics of CBD stores (at current rents) less desirable for cafés, restaurants and clothing shops.

Where then, are the best buying opportunities for investors to be found at this time? We suspect that it will not be among the most obvious beneficiaries of the pandemic, which have already seen their favourable positioning expressed in strong share price action, but more likely among those businesses facing sizeable disruption to their operations, that are nevertheless likely to benefit longer term as weaker competitors exit the industry. The combination of weak short-term trends and uncertainty as to the duration of such trends, tends to lead to extreme negative market sentiment, creating attractive entry prices and implied returns for investors willing to look out over the horizon.

Platinum World Portfolios - International Fund



Andrew Clifford
Portfolio Manager



Clay Smolinski
Portfolio Manager

Performance

(compound p.a.⁺, to 30 June 2020)

| SHARE CLASS | QUARTER | 1 YR | 2 YRS P.A. | 3 YRS P.A. | SINCE INCEPTION P.A. |
|--|---------|------|---------------|---------------|----------------------------|
| PWP Int'l Fund Class A USD | 14% | -6% | -5% | 0% | 4% |
| PWP Int'l Fund Class B USD | 14% | -6% | -6% | -1% | 4% |
| PWP Int'l Fund Class D USD | 14% | -6% | -6% | -1% | 3% |
| PWP Int'l Fund Class F EUR | 12% | -5% | -4% | 0% | 0% |
| PWP Int'l Fund Class G GBP | 14% | -4% | -2% | 2% | 8% |
| MSCI AC World Index (USD) [^] | 19% | 2% | 4% | 6% | 8% |

⁺ Excluding quarterly returns

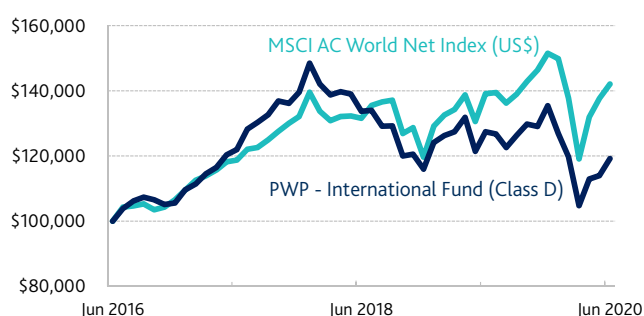
Fund returns are net of accrued fees and costs. Class D inception date (16 Nov 2015) is used for Index "since inception" returns.

[^] Index returns are those of the MSCI All Country World Net Index in USD. Source: Platinum Investment Management Limited, FactSet Research Systems. **Historical performance is not a reliable indicator of future performance.**

See notes 1 & 2, page 22.

Value of US\$100,000 Invested Since Inception

16 November 2015 to 30 June 2020



After fees and costs. See notes 1 & 3, page 22.

Historical performance is not a reliable indicator of future performance.

Source: Platinum Investment Management Limited, FactSet Research Systems.

Global equity markets have staged an extraordinary rally, up 19% over the quarter, to be just 9% below their February peak,¹ despite the global economy only just starting to recover from the depths of the largest economic setback in modern economic history. The remarkable nature of this feat is further highlighted when considering that at the start of the year, equity markets had been in a 10-year bull market and the global economy was in reasonable shape, albeit recovering from a manufacturing recession.

As we have discussed at length in our Macro Overview, while economic activity around the world is picking up from April's trough, the performance of the stock market can best be attributed to initiatives by governments and central banks around the world to backstop the collapse in economic activity as a result of the COVID-related lockdowns. In short, central banks, in conjunction with their governments, have created a significant increase in the amount of money outstanding in the economy. In the US alone, M2 money supply was up 25% on a year-on-year basis in June,² at a time when economic output was collapsing. Inevitably, this is inflationary, and it hasn't appeared in the price of goods and services, but in the price of bonds (reflecting further falls in interest rates) and certain sectors of the equity market.

Within equities, investors at a time of significant uncertainty have further increased their preference for ownership of businesses that are fast growing or defensive in nature, which is a reasonable response, except for the already very high valuations of these companies. The result has been a further widening of the differential in valuations and stock price performance between 'growth' stocks and 'value' stocks. This is illustrated in Fig. 1 (following page), which shows that growth stocks have returned 26% over the last two years vs. -7% for value stocks. Interestingly, of this differential, around 20% occurred in the first six months of 2020.

¹ MSCI AC World Net Index. All index and market returns in this PWP - International Fund report are in USD terms and sourced from FactSet Research Systems, unless otherwise specified.

² As at 22 June 2020. Source: <https://fred.stlouisfed.org/series/M2#0>

Fig. 1: MSCI Total Return Index - Value vs. Growth (USD)



Source: MSCI, Platinum Investment Management Limited.

In the US market, where the data sets on value versus growth returns stretches back to the 1930s, the long record shows value has significantly outperformed growth. The last 13 years represents the longest winning streak for growth by a large margin. When one also considers that growth stocks are trading at around their highest valuations on record, 10-year government bond yields are below 1% across the developed world, at a time when government debt is rising rapidly (funded by central banks in many cases), in the midst of a global pandemic and a global economic collapse, it is clear that with respect to financial markets, we are sailing into uncharted waters.

In this context, the cautious positioning of the Fund (Class D) has resulted in significantly reduced investment returns over the 12-month and three-month period to 30 June, entirely attributable to losses on our short positions.³ This again, raises the question of the merits of holding short positions at all. Certainly, in periods where markets are rising, it will always appear to be a futile exercise. However, as we stated earlier, we are in an unprecedented environment in financial markets and we continue to be of the view that maintaining short positions and cash holdings is appropriate to provide a level of downside protection.

The long portfolio in the Fund has performed slightly better than the market over the last quarter. Among the best contributors to performance were **ZTO Express** (China, express parcel delivery, up 39%), **Microchip Technology** and **Skyworks Solutions** (semiconductors, up 55% and 43% respectively), and **LG Chem** (batteries for electric vehicles and petrochemicals, up 61%).

³ References to returns and performance contributions (excluding individual stock returns) in this PWP - International Fund report are in USD terms. Individual stock returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

Changes to the Portfolio

The net invested position of the portfolio has increased from 60% to 81% over the quarter. However, this positioning does not fully reflect the cautiousness of our current views on markets. We have closed some short positions as markets moved enthusiastically higher, and opened other short positions later in the quarter. We are continuing to look for new opportunities to provide downside protection for the Fund.

We continued to add to positions across a range of stocks that have suffered from the disruption to domestic and international travel. The travel industry is not only one of the most heavily impacted industries by the COVID-related lockdowns, but also has the longest recovery timeframe. Nevertheless, our view is that travel will return to favour in time and that the advent of an effective vaccine will facilitate a recovery. Either way, we expect it is likely to take at least

Disposition of Assets[^]

| REGION | 30 JUN 2020 | 31 MAR 2020 | 30 JUN 2019 |
|---------------|-------------|-------------|-------------|
| Asia | 28% | 29% | 37% |
| North America | 28% | 27% | 24% |
| Europe | 20% | 15% | 16% |
| Japan | 13% | 12% | 10% |
| Africa | 1% | 1% | 1% |
| Australia | 0% | 0% | 1% |
| Cash | 10% | 16% | 12% |
| Shorts | -9% | -24% | -24% |

[^] With effect from 31 May 2020, our country classifications for securities were updated to reflect Bloomberg's "country of risk" designations. These changes have been backdated to prior periods.

See note 4, page 22. Numerical figures have been subject to rounding. Source: Platinum Investment Management Limited.

Net Sector Exposures

| SECTOR | 30 JUN 2020 | 31 MAR 2020 | 30 JUN 2019 |
|------------------------|-------------|-------------|-------------|
| Information Technology | 17% | 13% | 8% |
| Industrials | 16% | 12% | 11% |
| Financials | 12% | 12% | 17% |
| Materials | 11% | 6% | 11% |
| Consumer Discretionary | 10% | 8% | 5% |
| Health Care | 10% | 9% | 3% |
| Communication Services | 8% | 8% | 12% |
| Real Estate | 2% | 2% | 3% |
| Energy | 2% | 2% | 5% |
| Consumer Staples | -3% | -3% | 1% |
| Other | -3% | -10% | -13% |
| TOTAL NET EXPOSURE | 81% | 60% | 64% |

See note 5, page 22. Numerical figures have been subject to rounding. Source: Platinum Investment Management Limited.

three years to recover to prior levels and business travel will potentially take longer, given the improved effectiveness of video conferencing solutions, such as Zoom. It should be remembered though, that prior to the pandemic, the travel industry had showed steady growth for many years. Obviously, companies that rely on travel have seen their businesses severely disrupted and not surprisingly their share prices sharply collapse. This has provided an interesting opportunity to buy high-quality travel-related businesses.

As such, travel has become a key theme within the portfolio and was a major focus of our purchases during the quarter. Companies include **Booking Holdings**, the owner of the world's largest online travel agent, and aerospace businesses, such as **General Electric**. We also added to our position in **Medallia**, a provider of customer experience management software, **Ally Financial**, a leading online bank and auto lender in the US, and **FedEx**, the US parcel delivery company.

Funding for these acquisitions was provided by the trimming of a number of our strong performers, such as **ZTO Express** and **Microchip**, as well as exiting **Bharti Airtel** (Indian mobile phone network) and **Moderna** (a biotech company, which amongst other research and development projects was one of the first to trial a coronavirus vaccine).

With respect to our currency exposure, notable changes included the removal of our remaining Chinese yuan hedge and increasing our euro exposure (from 18% to 23%). This

Net Currency Exposures⁺

| CURRENCY | 30 JUN 2020 | 31 MAR 2020 | 30 JUN 2019 |
|-----------------------------|-------------|-------------|-------------|
| Euro (EUR) | 23% | 18% | 10% |
| Japanese yen (JPY) | 21% | 23% | 16% |
| Chinese yuan (CNY) | 18% | 16% | 22% |
| Australian dollar (AUD) | 11% | 10% | 0% |
| US dollar (USD) | 7% | 15% | 37% |
| Korean won (KRW) | 7% | 6% | 5% |
| Swiss franc (CHF) | 4% | 4% | 4% |
| Hong Kong dollar (HKD) | 3% | 2% | 2% |
| British pound (GBP) | 2% | 11% | 10% |
| Canadian dollar (CAD) | 2% | 1% | 2% |
| Indian rupee (INR) | 1% | 2% | 6% |
| Zambian kwacha (ZMK) | 1% | 1% | 1% |
| Thai baht (THB) | 1% | 1% | 1% |
| Chinese yuan offshore (CNH) | 0% | -10% | -20% |
| Norwegian krone (NOK) | 0% | 0% | 2% |

⁺ With effect from 31 May 2020, our currency risk exposure classifications for securities were updated to match the relevant local currencies of the relevant Bloomberg "country of risk" classifications. These changes have been backdated to prior periods.

See note 6, page 22. Numerical figures have been subject to rounding.
Source: Platinum Investment Management Limited.

further reduced the Fund's exposure to US dollars (from 15% to 7%). Our view is that the US dollar is likely to come under pressure at some point, as a result of the aggressive creation of new money by the US Federal Reserve, relative to its global counterparts.

Outlook

Our key concern relates to where we started this report. When taking into consideration the collapse in the global economy, very low interest rates, aggressive money creation by central banks, rapidly rising government debt, together with stock markets close to all-time highs and at near peak valuations, we are in uncharted waters for financial markets and there are likely to be shocks and surprises. There is the potential for a wide range of outcomes for stock markets and we most certainly expect markets to remain highly volatile for some time to come.

To reiterate, the rest of the stock market, outside a few popular sectors, is behaving much more like one would expect in a major economic collapse. That is, their stock prices have fallen significantly and although they have bounced from their March lows, they remain well below pre-COVID levels.

We expect that the major economies will slowly recover to previous levels of output over a period of three years or more, providing the basis for a strong recovery in earnings for many of the Fund's holdings. When we assess our holdings, we see the potential to earn good returns at the individual stock level over the next three to five years and thus for the portfolio as a whole. We strongly recommend reading the Macro Overview for a greater understanding of what a return to economic activity entails and to emphasise the correlation with the Fund's portfolio positioning.

Top 10 Holdings

| COMPANY | COUNTRY | INDUSTRY | WEIGHT |
|------------------------|-------------|--------------------|--------|
| Samsung Electronics Co | Korea | Info Technology | 4.0% |
| ZTO Express Inc ADR | China | Industrials | 3.3% |
| Amadeus IT Holdings | Spain | Info Technology | 2.8% |
| Ping An Insurance | China | Financials | 2.7% |
| Glencore plc | Switzerland | Materials | 2.6% |
| Booking Holdings Inc | US | Cons Discretionary | 2.6% |
| Alphabet Inc | US | Comm Services | 2.6% |
| LG Chem Ltd | Korea | Materials | 2.6% |
| Microchip Technology | US | Info Technology | 2.6% |
| Facebook Inc | US | Comm Services | 2.5% |

As at 30 June 2020. See note 7, page 22.

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.

Platinum Asia Fund



Joseph Lai
Portfolio Manager

Performance

(compound p.a.⁺, to 30 June 2020)

| SHARE CLASS | QUARTER | 1 YR | 2 YRS P.A. | 3 YRS P.A. | SINCE INCEPTION P.A. |
|---------------------------------------|---------|------|---------------|---------------|----------------------------|
| PWP Asia Fund Class A USD | 20% | 13% | 4% | 7% | 10% |
| PWP Asia Fund Class B USD | - | - | - | - | - |
| PWP Asia Fund Class D USD | 21% | 13% | 4% | 7% | 10% |
| PWP Asia Fund Class F EUR | 19% | - | - | - | - |
| PWP Asia Fund Class G GBP | 20% | 15% | - | - | 17% |
| PWP Asia Fund Class I USD | 20% | 13% | 4% | 7% | 11% |
| MSCI AC Asia ex Jp Index [^] | 17% | 2% | 1% | 4% | 8% |

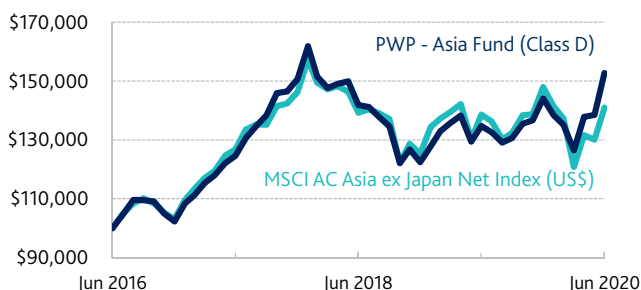
⁺ Excluding quarterly returns

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 Research Systems.

Value of US\$100,000 Invested Since Inception

16 November 2015 to 30 June 2020



After fees and costs. See notes 1 & 3, page 22.

Historical performance is not a reliable indicator of future performance.

Source: Platinum Investment Management Limited, FactSet Research Systems.

The Fund (Class D) returned 20.8% for the quarter and 13.4% for the year.¹

After a volatile start to the year, it was an exciting quarter for the Fund, which was well positioned for a market recovery after weathering the steep sell-off earlier in the year.

At the beginning of the quarter, the narrative around "flattening the curve" was well understood. Post the lockdown, returning to work has rejuvenated economic activists. This, coupled with aggressive monetary and fiscal loosening, ignited a truculent rebound in equities.

Stocks in the Fund are predominantly strong Asian companies that we believe will likely be resilient in an obviously difficult environment. **Reliance Industries** (4G operator in India transforming itself into an internet platform) was up 55% over the quarter in local currency terms. **LG Chem** (premier electric vehicle battery manufacturer in South Korea) was up 61% and **Sea Ltd** (internet games and e-commerce player in South East Asia) was up 96% from our entry point to exit point during the quarter. Stocks that are benefiting from a recovery in Chinese domestic tourism also performed well, with **China International Travel Services** (duty free operator) up 129% and **Huazhu** (leading hotel operator in China) up 22%.

Changes to the Portfolio

At the beginning of the quarter, we significantly added to our long exposures, increasing the Fund's net invested position from 65% in early April to above 90% by mid-April. Given the myriad of prospective ideas on offer, the Fund will seek to deploy cash when the risk/reward is right.

After the share price declines in the March quarter, Asian markets were trading on a significant discount versus their average long-term valuations for very well understood reasons. It would have been remiss not to take advantage.

¹ References to returns and performance contributions (excluding individual stock returns) in this PWP - Asia Fund report are in USD terms. Individual stock returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

Accordingly, we added to new and existing positions that were on offer at mouth-watering valuations. These are strong businesses backed by good management and healthy balance sheets that we believe will do well upon reopening and over the longer term, irrespective of geopolitical tensions. We discuss some of these opportunities in the Commentary section below.

Towards the end of the quarter, index shorts were tactically added to protect a portion of the portfolio, given the increasing prospect of a second wave of COVID-19 in certain countries, reducing the Fund's net invested position to 79% by 30 June. We are of the view that while longer-term fundamentals are still attractive, there is a possibility of shorter-term adjustments, given how far the markets have rallied thus far. This position will be reviewed regularly as fundamentals and market conditions change.

Commentary

With COVID-19, lockdowns, rising geopolitical tensions and protests in different parts of the world, prospects look rather grim. However, it is in these times that attractive investment opportunities emerge. Having lightened our exposure to sidestep the bulk of the stock market turbulence a quarter ago, the Fund shifted its focus to identifying prospective investment opportunities that had seen their valuations slashed given the overwhelming fear that gripped the market.

The investment methodologies that we have always employed are proving to be effective during this time of turbulence. When the market was seeking to sell, we took the opportunity to reverse our shorts. When the valuations of some amazing companies were depressed, we spent our time picking through them meticulously to add to our portfolio.

Our view is that our time-tested investment methods are particularly well suited to these turbulent times and strong companies in Asia are attractively valued given the favourable economic prospects they are facing.

The key pillars of our approach are:

- **We take a long-term view and ignore short-term noise.** We consider how businesses or industries will evolve in three to five years. When one looks far ahead, the picture becomes considerably clearer.
- **We adopt a contrarian approach.** Being open to out-of-favour opportunities, when there is a great deal of fear in the market, can often be the best opportunities.
- **We generate insights.** With great insights, we can overlook the market's current dislike of a stock and make a more accurate assessment of the future potential of a business. Insight also reduces the chance of falling into a value trap and buying companies just because they are cheap. We strive to balance the potential upside with potential risks.

Disposition of Assets[^]

| REGION | 30 JUN 2020 | 31 MAR 2020 | 30 JUN 2019 |
|-------------|-------------|-------------|-------------|
| China | 53% | 52% | 34% |
| Korea | 12% | 8% | 9% |
| Hong Kong | 9% | 6% | 13% |
| India | 8% | 3% | 12% |
| Taiwan | 8% | 7% | 4% |
| Thailand | 2% | 0% | 4% |
| Vietnam | 2% | 2% | 3% |
| Macao | 1% | 0% | 0% |
| Philippines | 0% | 0% | 3% |
| Cash | 4% | 21% | 18% |
| Shorts | -17% | -10% | -4% |

[^] With effect from 31 May 2020, our country classifications for securities were updated to reflect Bloomberg's "country of risk" designations. These changes have been backdated to prior periods.

See note 4, page 22. Numerical figures have been subject to rounding.

Source: Platinum Investment Management Limited.

Net Sector Exposures

| SECTOR | 30 JUN 2020 | 31 MAR 2020 | 30 JUN 2019 |
|------------------------|-------------|-------------|-------------|
| Consumer Discretionary | 31% | 27% | 16% |
| Information Technology | 22% | 17% | 12% |
| Communication Services | 11% | 9% | 14% |
| Financials | 8% | 8% | 21% |
| Consumer Staples | 6% | 4% | 0% |
| Energy | 4% | 3% | 0% |
| Real Estate | 4% | 2% | 10% |
| Materials | 4% | 1% | 1% |
| Industrials | 3% | 3% | 3% |
| Health Care | 2% | 3% | 2% |
| Utilities | 0% | 0% | 1% |
| Other | -15% | -8% | -2% |
| TOTAL NET EXPOSURE | 79% | 69% | 77% |

See note 5, page 22. Numerical figures have been subject to rounding.

Source: Platinum Investment Management Limited.

Good bottom-up work requires us to think about companies as if we were business owners, so that we can interpret the nuances correctly, given the vast amount of information available. Each stock idea needs to be interrogated by an experienced team of investors who have been doing this for a long time.

Our bottom-up approach helped us to manage the portfolio effectively during the March quarter COVID-related market volatility. Our insight was that only a few countries would be spared from going into lockdown, resulting in a collapse in economic activity, which the market was being too complacent about. We took an aggressive approach to shorting by moving the Fund's net invested position from around 90% at the beginning of the year to mid-50% by the end of February.

This approach also helped us to identify various key themes and stock ideas when it was the right time to buy.

Key themes and examples:

1. **Digitalisation of Indian consumers:** Reliance Industries was traditionally an oil refiner and petrochemical producer. Over the last 10 years, it has built the biggest 4G network in India, growing its user base from zero to around 400 million in just four years.² The company recently embarked on an ambitious journey to link online and offline shops to Indian consumers via the smartphone. Facebook, for instance, is working in partnership with **Reliance** to link WhatsApp users to grocery stores. In fact, Facebook was so excited about the opportunity that it invested ~US\$6 billion in Reliance's telco business, Jio Platforms. We added significantly to Reliance during the recent market sell-off, before Facebook invested in this highly prospective asset.
2. **Camera lenses for mobile handsets:** Cameras on mobile handsets are a key selling point these days. Smartphone component makers have been out-of-favour with the market because of flat smartphone sales growth. A huge camera upgrade cycle is, however, giving us cause for excitement. Video conferencing has highlighted the importance of having a good camera. We are seeing more camera modules installed in these phones and the resolution of these modules is also getting upgraded. As the number of megapixels and camera modules per device increases, the lens companies are expected to start growing again. **Sunny Optical Technology** (China) and **Largan Precision** (Taiwan) are the dominant lens and camera suppliers to mid- and high-end smartphones. We have taken the opportunity to add to these positions during market weakness.

² Source: Reliance Industries.

Net Currency Exposures

| CURRENCY | 30 JUN 2020 | 31 MAR 2020 | 30 JUN 2019 |
|-------------------------------|-------------|-------------|-------------|
| China renminbi (yuan) (CNY) | 53% | 52% | 34% |
| United States dollar (USD) | 14% | 11% | 38% |
| South Korean won (KRW) | 12% | 8% | 9% |
| Hong Kong dollar (HKD) | 9% | 10% | 14% |
| Taiwan dollar (TWD) | 4% | 6% | 6% |
| Thailand baht (THB) | 2% | 0% | -1% |
| Vietnamese dong (VND) | 2% | 2% | 3% |
| Indian rupee (INR) | 1% | -1% | 12% |
| Macanese pataca (MOP) | 1% | 0% | 0% |
| Singapore dollar (SGD) | 0% | 1% | 0% |
| Australian dollar (AUD) | 0% | 10% | 0% |
| China renminbi offshore (CNH) | 0% | 0% | -10% |
| Phillipine peso (PHP) | 0% | 0% | -5% |

* With effect from 31 May 2020, our currency risk exposure classifications for securities were updated to match the relevant local currencies of the relevant Bloomberg "country of risk" classifications. These changes have been backdated to prior periods.

See note 6, page 22. Numerical figures have been subject to rounding.

Source: Platinum Investment Management Limited.

Top 10 Holdings

| COMPANY | COUNTRY | INDUSTRY | WEIGHT |
|-------------------------|-----------|--------------------|--------|
| Tencent Holdings | China | Comm Services | 7.1% |
| Samsung Electronics Co | Korea | Info Technology | 6.1% |
| Taiwan Semiconductor | Taiwan | Info Technology | 5.7% |
| Alibaba Group Holding | China | Cons Discretionary | 5.3% |
| AIA Group Ltd | Hong Kong | Financials | 4.8% |
| China International | China | Cons Discretionary | 4.4% |
| Reliance Industries Ltd | India | Energy | 4.0% |
| LG Chem Ltd | Korea | Materials | 3.6% |
| Midea Group | China | Cons Discretionary | 3.0% |
| Huazhu Group ADR | China | Cons Discretionary | 2.9% |

As at 30 June 2020. See note 7, page 22.

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.

3. Food delivery: Food delivery has been growing but many investors have shunned this sector due to profitability concerns. Our insight on this sector is that food delivery is the extreme version of “economics of the last mile”. Food must be delivered to the customer within 30 minutes in China. A dense network of customers means that more meals can be delivered each run. More deliveries per run, means higher profitability. China has two food delivery operators, **Meituan Dianping** and Ele.me. Meituan has a dominant market share, giving it a significant cost advantage that is insurmountable by the smaller players. With Meituan's food delivery business growing by more than 30%,³ we expect this advantage to skyrocket. This dynamic is under-appreciated by the market. We are happy owners of Meituan.

These companies are leaders in their fields because they have invested billions of dollars in research and infrastructure over many years. They have invested in their long-term future and kept investing while others cut their research budgets and focused on buying back shares or paying out dividends.

Apart from the companies highlighted above, we also own companies like **AIA Insurance, LG Chem** for EV batteries, **Samsung Electronics, Taiwan Semiconductor Manufacturing, Trip.com, JD.com** and **ZTO Express**. All these companies have invested diligently and wisely to secure their leading positions in their respective fields.

Outlook

Starting valuations are a key determinant of future returns. Asian stocks are currently trading on low valuations versus their long-term averages and news headlines can be worrisome.

Economic prospects for the region are, however, favourable. The lack of stimulatory policies implemented thus far has given many countries in the region room to enact policy stimulus if needed. The reversal of lockdowns is kickstarting economic activities from depressed levels across the region as people return to shops and back to work. Development of a vaccine appears to be progressing. Given lacklustre growth globally, monetary and fiscal policies are likely to remain loose, which is supportive of stock markets.

Our bottom-up process is hard at work, generating numerous prospective ideas. The difficulty now, is ranking which ones are the greatest prospects, rather than searching the list for potential gems. It is an exciting time for investors like us, as attractive valuations coincide with significant capacity for further stimulation in Asia.

The Fund will continue to deploy capital in attractive and strong businesses that continue to be under-appreciated by the markets.

³ Source: Meituan Dianping 2019 Annual Report.

Platinum Japan Fund



Scott Gilchrist
Portfolio Manager

Performance

(compound p.a.⁺, to 30 June 2020)

| SHARE CLASS | QUARTER | 1 YR | 2 YRS P.A. | 3 YRS P.A. | SINCE INCEPTION P.A. |
|----------------------------|---------|------|---------------|---------------|----------------------------|
| PWP Japan Fund Class A USD | 7% | -6% | -5% | -1% | 5% |
| PWP Japan Fund Class D USD | 7% | -6% | -6% | -1% | 5% |
| PWP Japan Fund Class F EUR | 5% | -5% | -4% | - | -3% |
| MSCI Japan Net Index (USD) | 12% | 3% | -1% | 3% | 5% |

⁺Excluding quarterly returns

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

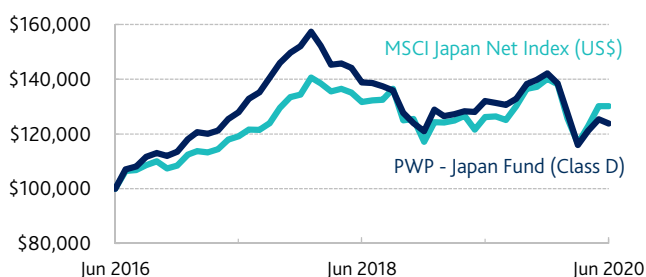
[^] Index returns are those of the MSCI Japan Net Index in USD.

Source: Platinum Investment Management Limited, FactSet Research Systems.

Historical performance is not a reliable indicator of future performance. See notes 1 & 2, page 22.

Value of US\$100,000 Invested Since Inception

16 November 2015 to 30 June 2020



After fees and costs. See notes 1 & 3, page 22.

Historical performance is not a reliable indicator of future performance.

Source: Platinum Investment Management Limited, FactSet Research Systems.

The Fund (Class D) returned 6.7% for the quarter and -6.2% for the year.¹

The Japanese stock market has been falling for two and half years. The Japanese yen has been strengthening for the last five years. The Japanese stock market is now below mid-2015 levels. This bland numerical commentary masks massive underlying shifts in the market composition. Many company valuations are now below previous low levels, while many high-quality companies with decent long-term prospects are selling close to historically low valuations. In contrast, many parts of the market are valued at record levels. This valuation dispersion has not been this prevalent for two decades and is now amongst the widest on record.

The Fund has been positioned both conservatively and with a view that the valuation dispersion would tighten. In the background is the influence of disruption and deflation. Unfortunately, positive contributions from fast-growing, innovative companies like **Nexon** (+38%), **Nintendo** (+15%), **GMO Internet** (+64%) and **CyberAgent** (+26%) have been offset by defensive positioning of a significant part of the portfolio and losses on short positions in companies, which were valued near record levels and rose to record levels.

Commentary

The dramatic structural change in the Japanese stock market was highlighted recently when Toyota confirmed their transition to electric cars and hydrogen fuelled fleets. Their first dedicated electric vehicle (EV) platform will launch in 2022 and they see a line to 2025 when EVs will be easily competitive with conventional drive trains.

Toyota commenced series production of an electric car, the RAV4EV in 1994. The problems were myriad and obvious, similar to the challenges facing the EV industry today. Concurrent with their development of the RAV4EV, Toyota ran a project with the aim of producing a fundamentally more fuel-efficient passenger vehicle. From this engineering process came the optimised but awkward-looking Prius, which entered production in 1997. This genesis was

¹ References to returns and performance contributions (excluding individual stock returns) in this PWP - Japan Fund report are in USD terms. Individual stock returns are quoted in local currency terms and sourced from FactSet Research Systems, unless otherwise specified.

documented in detail in Hideshi Itazaki's 1999 book *The Prius that Shook the World: How Toyota Developed the World's First Mass-Production Hybrid Vehicle*. At various stages of the excitement, journalists were camped out on the footpaths of the homes of the chief engineers. Detroit was shell-shocked at the outcome. Not everyone finds the 400 pages of text quite as riveting; there are zero book reviews on Amazon.

Toyota is now selling the fourth-generation evolution of the Prius. The fifth-generation is scheduled for 2022 when the cost of the hybrid components will be one-eighth of the original equipment set, a dramatic improvement over two decades.

Toyota's internal production plan for 2025, provisions half of their output volume with electrified drivetrains, mostly full hybrids augmented by some plug-in hybrids, fuel cell cars and full electric vehicles. The first-generation Prius was sold at a large loss, the third-generation made a profit and the fifth-generation is budgeted to have a higher profit margin than the corporate average.

The sense garnered from discussions with Toyota is that they are very comfortable with their electrification roadmap even when faced with uncertain customer demand and variable regulations around the globe. Toyota is planning to reduce their capex from current levels, maintain their current research and development spending and slowly grow production. This is in stark contrast to most of the industry, which is facing pressure across the board. Toyota's spending commitments include further development of their solid-state battery program and their world-leading first-generation fuel cell cars production in addition to their ongoing cost-reduction program. In Europe, where some companies are facing multi-billion-dollar fines as a result of their inability to meet new environment targets, Toyota is fully prepared with a wide range of advanced models.

Akio Toyoda, Toyota's President, CEO & Representative Director, does not consider his job finished despite the progress of the last decade. He is very clear that the global car industry is at a rare juncture and he is determined to lead Toyota to a premier position in the wider mobility industry. The focus has shifted from the restructuring of the last decade, to the future.

There have been transition periods in the last two centuries where changes like containerisation, railways, canals, automobiles and heavy-duty trucking stranded or destroyed large amounts of capital. One detailed estimate of the number of vehicles required to optimally service a dense urban environment reduces from 60,000 to 2,000 in a fully automated vehicle implementation. Even adjusting for operational realities and consumer preferences, this portends

a seismic shift in both the structure of the economy and the auto industry. There are a lot of intermediate stumbling blocks before the arrival of this utopia. Full autonomy is an extraordinarily complex problem given the proliferation of edge cases in an informationally rich road scape. Current technology is not close to solving this problem, let alone at a reasonable cost. The human brain is an amazingly efficient and reliable organ. It has evolved over billions of years to help us navigate a diverse range of changing environments. It will be difficult to replicate our brains in silicon.

Safely operating an autonomous fleet with a high level of reliability would seem unachievable in ordinary circumstances. Three concurrent threads are coming together, which potentially allow a solution to be found. First, profound advances in silicon design and artificial intelligence. Second, a small group of car makers are committed to the task. Third, a multi-decade development program by key suppliers of sensors, cameras, software and algorithms. It's a very large potential market and truly a goal worth aiming for.

Toyota's approach is multi-pronged, similar in some regards to the aerospace industry. Boeing and Airbus have been implementing safety and automation features in a highly regulated environment for many decades.

1. **Guardian** – As the name implies, increased car safety is achieved from an integrated suite of cameras and radars, which constantly monitor the surrounds and keep the vehicle in a safe operating envelope.
2. **Chauffeur** – This is a long-term project to develop a fully automated vehicle for consumers. Due to the high cost it will initially be a high-priced option for luxury cars.
3. **Robotaxi** – Commercial operators are likely to be early adopters, as the driver can represent up to 80% of the operating costs of a commercial transport network.

Mobileye is an Intel subsidiary with a leading position in future mobility technologies. The capability of their core EyeQ chip has improved more than 500-fold over the last eight years. This matches improvements seen across the industry, particularly at Nvidia. In the last few years, over 10,000 artificial intelligence start-ups have raised more than US\$20 billion in venture capital. Mobileye estimates that a comprehensive suite of sensors and a multi-chip computer can achieve safety levels equivalent to a sober human within the next decade. Unfortunately, it's an expensive solution, perhaps costing more than the vehicle itself.

The early markets for robotaxis will be geographically limited, high density urban areas. This prospect is still many years, if not decades away, if the regulatory and insurance hurdles can be overcome. Existing car companies are likely to be a key part of these discussions. In the meantime, the early steps

Disposition of Assets[^]

| REGION | 30 JUN 2020 | 31 MAR 2020 | 30 JUN 2019 |
|--------|-------------|-------------|-------------|
| Japan | 88% | 76% | 76% |
| Korea | 4% | 3% | 5% |
| Cash | 8% | 21% | 19% |
| Shorts | -30% | -25% | -25% |

[^] With effect from 31 May 2020, our country classifications for securities were updated to reflect Bloomberg's "country of risk" designations. These changes have been backdated to prior periods. See note 4, page 22. Numerical figures have been subject to rounding. Source: Platinum Investment Management Limited.

Net Sector Exposures

| SECTOR | 30 JUN 2020 | 31 MAR 2020 | 30 JUN 2019 |
|------------------------|-------------|-------------|-------------|
| Communication Services | 25% | 13% | 16% |
| Health Care | 13% | 12% | 2% |
| Consumer Discretionary | 10% | 14% | 19% |
| Information Technology | 7% | 7% | 12% |
| Industrials | 7% | 10% | 10% |
| Materials | 2% | 2% | 4% |
| Financials | 1% | 0% | 2% |
| Consumer Staples | -4% | -3% | -2% |
| Energy | 0% | 0% | 3% |
| Real Estate | 0% | 0% | 0% |
| Other | 0% | 0% | -10% |
| TOTAL NET EXPOSURE | 62% | 54% | 57% |

See note 5, page 22. Numerical figures have been subject to rounding. Source: Platinum Investment Management Limited.

Net Currency Exposures⁺

| CURRENCY | 30 JUN 2020 | 31 MAR 2020 | 30 JUN 2019 |
|-------------------------|-------------|-------------|-------------|
| Japanese yen (JPY) | 105% | 101% | 86% |
| US dollar (USD) | -2% | 1% | 26% |
| Korean won (KRW) | -3% | -3% | 3% |
| Australian dollar (AUD) | 0% | 0% | -16% |

⁺ With effect from 31 May 2020, our currency risk exposure classifications for securities were updated to match the relevant local currencies of the relevant Bloomberg "country of risk" classifications. These changes have been backdated to prior periods. See note 6, page 22. Numerical figures have been subject to rounding. 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.

toward autonomous driving are happening in the form of ADAS (automated driving assistance system). Toyota has already sold 15 million cars with advanced safety systems installed. These features will likely accelerate the vehicle replacement cycle. Mobility services have increased demand for some transport work cycles. The preferred vehicle is often a hybrid and, in many regions, Toyota's hybrid range of products is sold out. Production volumes have been limited by battery production capacity, which is being expanded rapidly.

The market is correctly reconsidering the long-term future of the auto industry and all companies associated with it. Toyota appears to be selling at its lowest valuation in more than 50 years, despite its strong strategic position and opportunity to benefit, rather than be hurt by the waves of change.

Outlook

Disruption to business operations and markets is growing. COVID-19 has exposed this, and accelerated the changes in many cases. Half of the composition of the Japanese stock market has been listed in the last decade. This is not an outlier and will continue, as the old get sloughed off and the new rise. It's tempting to think that the world will return to 'normal', but it never has. These widespread and fundamental changes are broadly recognised and accepted as reflected in the valuations many are willing to pay for future growth and profits.

Toyota is a strong and thoughtful company with world-leading engineering capability. If even the sweeping change has overtaken them, then it doesn't bode well for the weaker entities across most industries. Corporate activism in Japan has been accelerating in recent years; there are abundant opportunities.

Top 10 Holdings

| COMPANY | COUNTRY | INDUSTRY | WEIGHT |
|------------------|---------|--------------------|--------|
| Takeda Pharma Co | Japan | Health Care | 7.1% |
| Oracle Japan | Japan | Info Technology | 5.0% |
| CyberAgent Inc | Japan | Comm Services | 5.0% |
| Rakuten Inc | Japan | Cons Discretionary | 4.9% |
| Minebea Co Ltd | Japan | Industrials | 4.5% |
| Nintendo Co Ltd | Japan | Comm Services | 4.5% |
| Astellas Pharma | Japan | Health Care | 4.3% |
| Kyocera Corp | Japan | Info Technology | 4.2% |
| KDDI Corporation | Japan | Comm Services | 4.1% |
| NTT | Japan | Comm Services | 4.1% |

As at 30 June 2020. See note 7, page 22.

Source: Platinum Investment Management Limited.

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- Fund returns are calculated by Platinum using the Fund's net asset value per share (i.e. excluding 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 are net of fees and expenses, pre-tax, and assume the accumulation of the net income and capital gains, each as attributable to the specified share class. The MSCI index returns are in USD, are inclusive of net official dividends, but do not reflect fees or expenses. MSCI index returns are sourced from FactSet Research Systems. Platinum does not invest by reference to the weightings of the specified MSCI index. As a result, the Fund's holdings may vary considerably to the make-up of the specified MSCI index. MSCI index returns are provided as a reference only. The investment returns shown are historical and no warranty is 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 risk factors associated with investing, investment returns can be negative, particularly in the short term.
- 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 | |
 - Platinum World Portfolios - Asia Fund:

| | |
|---|--|
| Class A USD (Accumulating) (ISIN: IE00BYRGR522): 10 March 2017 | Class B USD (Accumulating) (ISIN: IE00BYRGR639): 5 June 2020 |
| Class D USD (Accumulating) (ISIN: IE00BYRGRD06): 16 November 2015 | Class F EUR (Accumulating) (ISIN: IE00BYRGR969): 3 February 2020 |
| 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 D USD (Accumulating) (ISIN: IE00BYRGRJ67): 16 November 2015 |
| Class F EUR (Accumulating) (ISIN: IE00BYRGR189): 18 October 2017 | |

For the purpose of calculating the "since inception" returns of the MSCI 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).
- 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.
- The geographic disposition of assets (i.e. other than "cash" and "shorts") shows the Fund's exposures to the relevant countries/regions through its long securities positions and long securities/index derivative positions, as a percentage of its portfolio market value. With effect from 31 May 2020, country classifications for securities were updated to reflect Bloomberg's "country of risk" designations and the changes were backdated to prior periods. "Shorts" show the Fund's exposure to its short securities positions and short securities/index derivative positions, as a percentage of its portfolio market value. "Cash" in this table includes cash at bank, cash payables and receivables and cash exposures through derivative transactions.
- The table shows the Fund's net exposures to the relevant sectors through its long and short securities positions and long and short securities/index derivative positions, as a percentage of its portfolio market value. Index positions (whether through ETFs or derivatives) are only included under the relevant sector if they are sector specific, otherwise they are included under "Other".
- The table shows the Fund's net exposures to the relevant currencies through its long and short securities positions, cash at bank, cash payables and receivables, currency forwards and long and short securities/index derivative positions, as a percentage of its portfolio market value. Currency classifications for securities reflect the relevant local currencies of the relevant Bloomberg country classifications. The table may not exhaustively list all of the Fund's currency exposures and may omit some minor exposures.
- The table shows the Fund's top ten positions as a percentage of its portfolio market value taking into account its long securities positions and long securities derivative positions.

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