

# Platinum Unhedged Fund



**Clay Smolinski**  
Portfolio Manager

## Disposition of Assets

| REGION        | 31 MAR 2017 | 31 DEC 2016 | 31 MAR 2016 |
|---------------|-------------|-------------|-------------|
| Asia          | 35%         | 30%         | 28%         |
| Europe        | 24%         | 24%         | 25%         |
| North America | 24%         | 25%         | 30%         |
| Japan         | 9%          | 8%          | 7%          |
| Russia        | 2%          | 3%          | 2%          |
| Cash          | 6%          | 10%         | 8%          |

Source: Platinum. Refer to note 3, page 3.

## Top 10 Holdings

| STOCK                         | COUNTRY      | INDUSTRY      | WEIGHT |
|-------------------------------|--------------|---------------|--------|
| Raiffeisen Bank International | Austria      | Financials    | 4.3%   |
| Applus Services SA            | Spain        | Industrials   | 3.8%   |
| IHS Markit Ltd                | USA          | Industrials   | 3.5%   |
| Jiangsu Yanghe Brewery        | China        | Consumer Stap | 3.5%   |
| Lixil Group Corporation       | Japan        | Industrials   | 3.4%   |
| KB Financial Group            | Korea        | Financials    | 3.3%   |
| Alphabet Inc C Class          | USA          | IT            | 3.1%   |
| Erste Group Bank Ltd          | Austria      | Financials    | 3.0%   |
| PICC Property & Casualty Co   | China Ex PRC | Financials    | 3.0%   |
| Skyworks Solutions Inc        | USA          | IT            | 2.7%   |

As at 31 March 2017. Source: Platinum. Refer to note 4, page 3.

For further details of the Fund's invested positions, including country and industry breakdowns as well as currency exposures, updated monthly, please visit <https://www.platinum.com.au/fund-updates/#MonthlyUpdatesForThePlatinumTrustFunds>.

## Performance

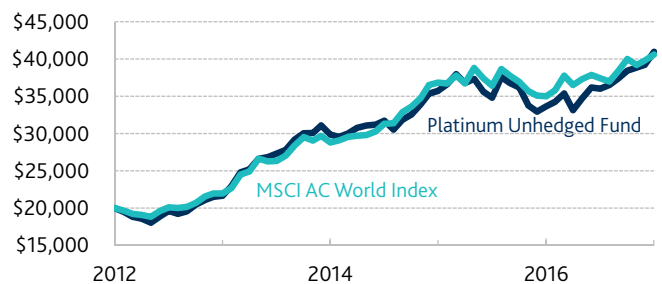
(compound pa, to 31 March 2017)

|                        | QUARTER | 1YR | 3YRS | 5YRS | SINCE INCEPTION |
|------------------------|---------|-----|------|------|-----------------|
| Platinum Unhedged Fund | 7%      | 22% | 11%  | 15%  | 11%             |
| MSCI AC World Index    | 1%      | 16% | 12%  | 15%  | 6%              |

Source: Platinum and MSCI Inc. Refer to note 1, page 3.

## Value of \$20,000 Invested Over Five Years

31 March 2012 to 31 March 2017



Source: Platinum and MSCI Inc. Refer to note 2, page 3.

Download a copy of the full Platinum Trust March 2017 Quarterly Report to read the macro overview and general market commentary written by Andrew Clifford, CIO. Members of our investment team recently undertook a series of company visits on separate trips to China and Japan. You may also find in the full Platinum Trust report Andrew Clifford's detailed account of his observations on the ground in China and Scott Gilchrist's colourful note reflecting on his trip with Kerr Neilson to Japan, meeting with 34 companies over seven days.

## Performance

The last three months were notable in the sense that it is the first time the returns of the US market have lagged the rest of world for some time. Asia was the standout, rising 7.6% (in AUD), clearly outpacing Europe (+1.8%) and the US (+0.5%).

The Fund returned 6.6% for the quarter and 21.7% for the year. This compares to 1.5% and 16.0%, respectively, for the Index (in AUD terms).

The drivers of performance within the Fund were quite diverse, with substantial gains from a number of stocks in different regions and industries. Some of the larger contributors to the quarter include ENN Energy (+37%), Skyworks Solutions (+32%) and Raiffeisen Bank (+22%).

**ENN Energy** – We outlined the case for the Chinese gas distribution industry in our September 2016 Quarterly Report. The stocks had become very cheap on the fear that there might be regulatory cuts to the dollar profits these companies can earn on gas sales. We were comforted by the fact that such rate reviews had historically been handled in a fair manner and that, by focusing solely on the regulatory risk, the market was ignoring the fantastic outlook for growth in gas consumption and related investment. ENN posted very strong end-of-year results, with gas sales volume increasing 27% and recurring profit up 17%. This confirmation of the growth story and the fading of fears around regulatory cuts has been the catalyst for change, with the stock quickly rising 50% in response.

**Skyworks Solutions** – Skyworks is a high quality semiconductor manufacturer that operates in a near oligopoly producing analogue radio-frequency chips. These chips allow smartphones to communicate with the radio spectrum through conversion between analogue and digital data. We acquired the stock after it had fallen 40% due to disappointing sales of the iPhone 6s, which had created widespread fears over excess inventory in the smartphone market. The stock has since rebounded sharply as the picture has become more favourable, particularly on the back of strong iPhone 7 sales. The excess inventory has cleared, Skyworks has increased its content share in new models like the iPhone 7 and the business is growing again.

**Raiffeisen Bank International** – Raiffeisen was one of the cheapest banks globally and has been one of our largest banking positions in the Fund. The company is essentially a collection of profitable Eastern European banks that had been besieged by a series of problems (loan losses in Ukraine and Asia, Swiss franc mortgage conversions in Poland, and a merger with its parent RZB). In our view, these problems were neither fatal nor permanent and, once solved, we would be left with a less complex (and potentially more profitable) bank operating in a growth region. This case is playing out with the stock having doubled from its 2016 lows and up 22% in the quarter.

## Changes to the Portfolio

In our last Quarterly Report, we mentioned that, based on investor sentiment and both current and cyclically adjusted valuations, Asia and the Emerging Markets looked to offer the most attractive risk adjusted returns for investors.

Accordingly, we have continued to find opportunities in the region. One such name is **58.com**, which is a Chinese Internet advertising business holding the number one sites in both residential property and blue collar job search. The stock was hit hard on the government announcing new measures to cool the property market, which would result in agents reducing their advertising spend. These periodic attempts to cool the housing market are nothing new, and are largely irrelevant to the company's long-term growth outlook given that the secondary property market is still nascent in China (at 30% of new build).

We also established a position in India's **Axis Bank**. Similar to the Raiffeisen example above, Axis has a nice banking franchise in a market with huge long-term growth potential, but is currently suffering from a credit cycle. The source of the problem was a bout of poor lending to the infrastructure sector, particularly steel and power. Buying a bank in a credit cycle can be very lucrative as long as the bank has some big profit engines to cover the loan losses without needing to raise additional capital. Axis fits this bill. Such is the underlying profitability of the bank that Axis can write off a full 5% of its loan book annually and still make a profit! At the time of purchase, Axis traded on 9x normalised earnings. As the loan losses are worked through, we expect the stock's valuations to rise significantly higher over time.

In terms of sales, we fully exited our position in fibre network operator **Level 3 Communications** after it received a takeover bid from a competitor. We also heavily reduced our position in **Carnival** after the stock reached our target price. Both stocks were former top ten positions and solid performers for the Fund.

## Outlook

Our view on markets outlined in our last Quarterly Report has not changed. The US is characterised by high valuations, high expectations and rising interest rates (which eventually pull both growth and valuations down). Not an appealing starting point. The picture looks considerably better in Asia and, to a lesser extent, Europe and Japan. Here, we have modest valuations, relatively low expectations and economies that are clearly improving.

What is particularly encouraging is that there has been a subtle change to investor views on the Asian region. The 'China-is-going-to-implode' rhetoric has faded, the investment banks are becoming more positive and buyers are returning, pushing stock prices higher. The Fund is well positioned, should this trend continue.

## Notes

- The investment returns are calculated using the relevant Fund's unit price and represent the combined income and capital return for the specified period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), are pre-tax, and assume the reinvestment of distributions. 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 Funds' underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

The inception dates for each Fund are as follows:

- Platinum International Fund: 30 April 1995
- Platinum Unhedged Fund: 31 January 2005
- Platinum Asia Fund: 4 March 2003
- Platinum European Fund: 30 June 1998
- Platinum Japan Fund: 30 June 1998
- Platinum International Brands Fund: 18 May 2000
- Platinum International Health Care Fund: 10 November 2003
- Platinum International Technology Fund: 18 May 2000

(NB: The gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist then.)

- The investment returns depicted in this graph are cumulative on A\$20,000 invested in the relevant Fund over the specified five year period relative to the relevant benchmark index as follows (the "Index"):
  - Platinum International Fund – MSCI All Country World Net Index (\$A)
  - Platinum Unhedged Fund – MSCI All Country World Net Index (\$A)
  - Platinum Asia Fund – MSCI All Country Asia ex Japan Net Index (\$A)
  - Platinum European Fund – MSCI All Country Europe Net Index (\$A)
  - Platinum Japan Fund – MSCI Japan Net Index (\$A)
  - Platinum International Brands Fund – MSCI All Country World Net Index (\$A)
  - Platinum International Health Care Fund – MSCI All Country World Health Care Net Index (\$A)
  - Platinum International Technology Fund – MSCI All Country World Information Technology Net Index (\$A)

(NB: The gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist then.)

The investment returns are calculated using the relevant Fund's unit price and represent the combined income and capital return for the specified period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), are pre-tax, and assume the reinvestment of distributions. Platinum does not invest by reference to the weighting of the Index. 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. The Index is provided as a reference only.

- Geographic exposures (i.e. the positions listed other than "cash" and "shorts") represent any and all of the Fund's physical holdings, long derivatives (stock and index), and fixed income securities as a percentage of the Fund's net asset value.
- The table shows the Fund's top ten long stock positions as a percentage of the Fund's net asset value. Long derivative exposures are included. However, short derivative exposures, if any, are not.

- Sector breakdown represents the Fund's net exposure of any and all physical holdings and long and short derivatives (stock and index) as a percentage of the Fund's net asset value.
- The table shows the Fund's net currency exposures as a percentage of the Fund's net asset value, taking into account any currency hedging.

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