

# Platinum Unhedged Fund



Clay Smolinski Portfolio Manager

## Disposition of Assets

REGION	JUN 2014	MAR 2014
North America	28%	28%
Japan	22%	23%
Europe	20%	18%
Asia	18%	19%
Australia	3%	2%
South America	1%	2%
Africa	1%	1%
Russia	2%	1%
Cash	5%	6%

Source: Platinum. Refer to Note 3, page 4.

## Performance and Changes to the Portfolio (compound pa, to 30 June 2014)

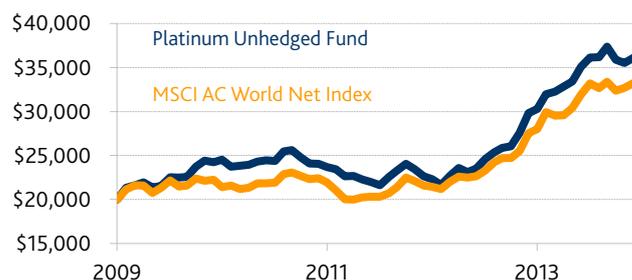
	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund	3%	22%	16%	13%	11%
MSCI AC World Index	3%	19%	15%	11%	5%

Source: Platinum and MSCI. Refer to Note 1, page 4.

The standout performers over the quarter were the Fund's Indian holdings, as the market rejoiced in the majority victory of the Bharatiya Janata Party (BJP) and its pro-business leader Narendra Modi. Our Indian stocks are concentrated in property and infrastructure, a sector that had gotten extremely cheap as projects went into gridlock post several corruption scandals. The likes of Housing Development & Infrastructure (+81%) and Jaiprakash Associates (+46%) have rallied in the hope that activity will restart again under the new government.

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

30 June 2009 to 30 June 2014



Source: Platinum and MSCI. Refer to Note 2, page 4.

## Commentary

The recent sell-off in the global Internet names gave us an opportunity to take a closer look at some of the truly unique business models in the sector. Facebook is a good example. There are few consumer companies who control a product that is used by 1.2 billion people on a weekly basis.

In the space we are particularly interested in the companies that have built a global user base, have a defensible business model and are just getting started monetising their service. When you have this combination, a high starting valuation doesn't necessarily preclude them from being interesting investments. A company that meets these criteria is **LinkedIn**.

Readers who have changed jobs over the last five years will likely be familiar with LinkedIn. The LinkedIn profile has become the default on-line CV and the site is a good place to both search for a job and attract the attention of employers. From its roots in recruitment, the site is evolving towards becoming a platform to showcase your professional brand and a place to curate, consume and share professional content – an acceptable social platform to be logged on during work hours!

A key asset of the company is the *quality* of data it has on its users. Via filling out your profile you will typically provide your real name, current title, work history and educational background. This is extremely valuable information in determining aspects like your salary, age, and professional interests. Importantly, unlike a brand I may have 'liked' on Facebook a year ago, these are data points that are likely to hold their *relevancy over time*. Combined with our attractive user demographic (usually the wealthier slice of the population), you can see why this database is attractive to advertisers and companies alike.

The quality of the database is evident when you consider where LinkedIn is making its revenue today. Unlike the other social networks, LinkedIn is not purely an advertising driven model. In fact 75% of revenue comes from database software products sold to corporates. The value of a global database of professional identities is obvious to those looking to hire or those involved in sales trying to find the right contacts to speak to.

A historical weakness of LinkedIn has been user engagement. Indeed early adopters will likely remember the site being fairly bare - after filling out your profile you might answer the odd connection request, check out who's been viewing your profile and not much more. Like many Internet companies the management is working hard to make a visit to LinkedIn part of a user's daily routine.

Users can now follow their favourite news sources (i.e. *The Economist*), or track what their favourite business luminaries are saying via the LinkedIn Influencers program. A further extension has been the decision to give individual users the ability to write their own blog posts, which will appear on their profile. In a similar vein to twitter, users who are posting articles can be 'followed' allowing you to keep track of what interesting folks are writing without needing to formally connect. These features combine to allow one to design an interesting daily news feed and give one another reason to sign in.

The company has now achieved global scale. LinkedIn has over 300 million accounts in total and new users are joining at a rate of 8 million per month. Similar to Facebook, LinkedIn has tended to displace local competitors over time and it is now clearly the dominant professional network globally, holding leadership positions in every major market outside of Germany and China.

LinkedIn currently has a market cap of \$20 billion, and the Fund did some good buying at the crescendo of the recent sell-off to build a starting position. However, with the company expecting to earn \$2.2 billion in revenue this year, it is important for it to continue to improve engagement to fully monetise its three revenue streams.

There are a few factors supporting future revenue growth. Firstly, two of their major product categories, the database software subscription targeting sales reps and the 'sponsored update' advertising product, are still in their infancy in terms of roll out. Secondly, as the customer base is global, the end markets are huge. Finally, LinkedIn has what we would describe as a contributory or 'user generated' database business. These businesses, where companies effectively collect data from users for free and resell it, tend to be highly profitable once revenue scales.

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## Outlook

The Western stock markets have re-rated, with valuations in Europe at their long-term average and the US a touch higher. However, these valuations need to be viewed through the prism of very low interest rates. European investors with the choice of earning 1% on a 12 month term deposit or buying a stock on a 7% earning yield (which is paying a 3% dividend) are increasingly choosing the stock!

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As Kerr mentions in his International Fund quarterly report, given the progress of reforms and the cheap valuations on offer, the Fund is currently devoting time assessing a number of ideas in China.

Clay Smolinski was appointed portfolio manager of the Platinum Unhedged Fund during the quarter. Clay has worked at Platinum for eight years and is the manager of the Platinum European Fund.

## Notes

1. The investment returns are calculated using the Fund's unit price and represent the combined income and capital return for the specific 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. You should be aware that historical performance is not a reliable indicator of future performance. Due to the volatility of underlying assets of the Funds 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

2. The investment returns depicted in this graph are cumulative on A\$20,000 invested in the relevant Fund over five years from 30 June 2009 to 30 June 2014 relative to their Index (in A\$) as per below:

Platinum International Fund - MSCI All Country World Net Index

Platinum Unhedged Fund - MSCI All Country World Net Index

Platinum Asia Fund - MSCI All Country Asia ex Japan Net Index

Platinum European Fund - MSCI All Country Europe Net Index

Platinum Japan Fund - MSCI Japan Net Index

Platinum International Brands Fund - MSCI All Country World Net Index

Platinum International Health Care Fund - MSCI All Country World Health Care Net Index

Platinum International Technology Fund - MSCI All Country World Information Technology Net Index

(nb. the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist).

The investment returns are calculated using the Fund's unit price. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), pre-tax and assume the reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.

3. Invested position represents the exposure of physical holdings and long stock derivatives.

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