

# PLATINUM UNHEDGED FUND



Jacob Mitchell  
Portfolio Manager

## PORTFOLIO POSITION

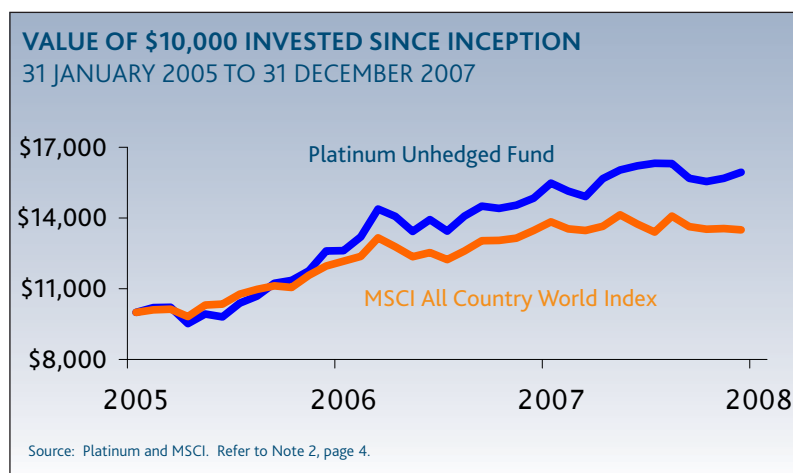
Some of the themes/large positions contained in the current portfolio include:

- 13% Asia ex-Japan/Hong Kong, largest exposure Thailand, a key neglected Asian market, followed by Malaysia, Taiwan and Korea.
- 12% pulp and paper, key neglected part of the commodities complex.
- 12% energy, agriculture and “green” technology – a long duration theme.
- 12% technology, health care and other once proud “growth” stocks.
- 10% Japanese domestic (eg. construction companies, transport); after a 14 year bear market, the Japanese property market is showing some signs of life.
- 8% global infrastructure/energy capex related – combination of the BRICs\* emerging requirements and the need to “renew” key parts of Western public infrastructure.
- 8% Hong Kong listings, likely to be re-rated as Chinese domestic liquidity overflows.
- 7% gold, a laggard metal, inflation and US dollar hedge.
- 6% European advertising spend recovery and other domestic exposures.

\* Brazilian, Russian, Indian and Chinese markets

DISPOSITION OF ASSETS		
REGION	DEC 2007	SEP 2007
NORTH AMERICA	29%	28%
ASIA	28%	26%
JAPAN	21%	19%
EUROPE	12%	13%
AUSTRALIA	2%	4%
CASH	8%	10%

Source: Platinum and MSCI



## PERFORMANCE AND CHANGES TO THE PORTFOLIO

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Over the past 12 months the Fund returned 4.4%, outperforming the MSCI All Countries World Index (A\$) benchmark by 4.1%. Over the past quarter the Fund returned 1.7%, outperforming the benchmark by 2.7%. The key contributors this quarter were narrowly confined to the continued performance of our Hong Kong and gold stocks and select technology stocks – basically, a little bit of the Fund did most of the work. This has really been the story of the last three quarters, as some of the Fund's major bets failed to fire, despite our remaining convinced of their timeliness (as in Japan, pulp and paper, etc).

A major cost to the Fund was our holding in Ericsson – please read the International Technology Fund quarterly report for an explanation of what seems to have gone wrong here – but at this stage, we remain committed to the position. In terms of balancing the portfolio bets between the various themes/stocks, we haven't made any MAJOR changes during the quarter. As markets sold-off, we invested some of the surplus cash (reducing the weight from 10% to 8%), by adding to Japan (total exposure increased from 19% to 21%) and adding, Kangwon Land, South Korea's only (open to locals) casino, and a Hong Kong retailer. (The total Asia ex-Japan exposure increased from 26% to 28%).

## COMMENTARY

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Since the inaugural Unhedged Fund quarterly, which explained how the Fund's mandate differed from the Platinum International Fund, the succeeding quarterly reports have detailed the basic rationale behind major holdings of the Fund. The June 2007 report dealt with the “green” tech theme and the September 2007 report the rationale for the pulp and paper holdings. Continuing in this format, this report details our interest in Japanese property stocks – a small, but growing position of the Fund.

Throughout the developed world this quarter, there has been a broad sell-off in property related companies as the credit markets continued to tighten. In Australia, this has been punctuated by the Centro debacle - in a global context, this was far from an isolated incident. Though we own property developers in Asia (eg. Hong Kong), we have refused to buy into the aging US, UK and Australian property bull markets thinking that the foundations were too reliant on easy credit, rather than rising incomes. In fact, in the Platinum International Fund we shorted the US REITS (Real Estate Investment Trusts). However, we have been a little surprised that Japan has not been spared in this recent rout.

Whilst there has been some speculative element (largely confined to CBD offices and high end condominiums where foreign investors have been active), our studies of the Japanese property market indicate that there are some clear points of differentiation from the US, UK and Australia, including: rental yields that more than cover funding costs, high levels of affordability, extremely low levels of secondary market activity and a low level of household indebtedness/dependence on foreign capital.

We think that all these factors point to an almost complete lack of speculation, especially in the Japanese residential market. In a typical year in Japan, the world's third largest economy comprising 50 million households, less than 200,000 existing homes change hands (by definition this excludes the approximately 1.2 million new homes built and sold

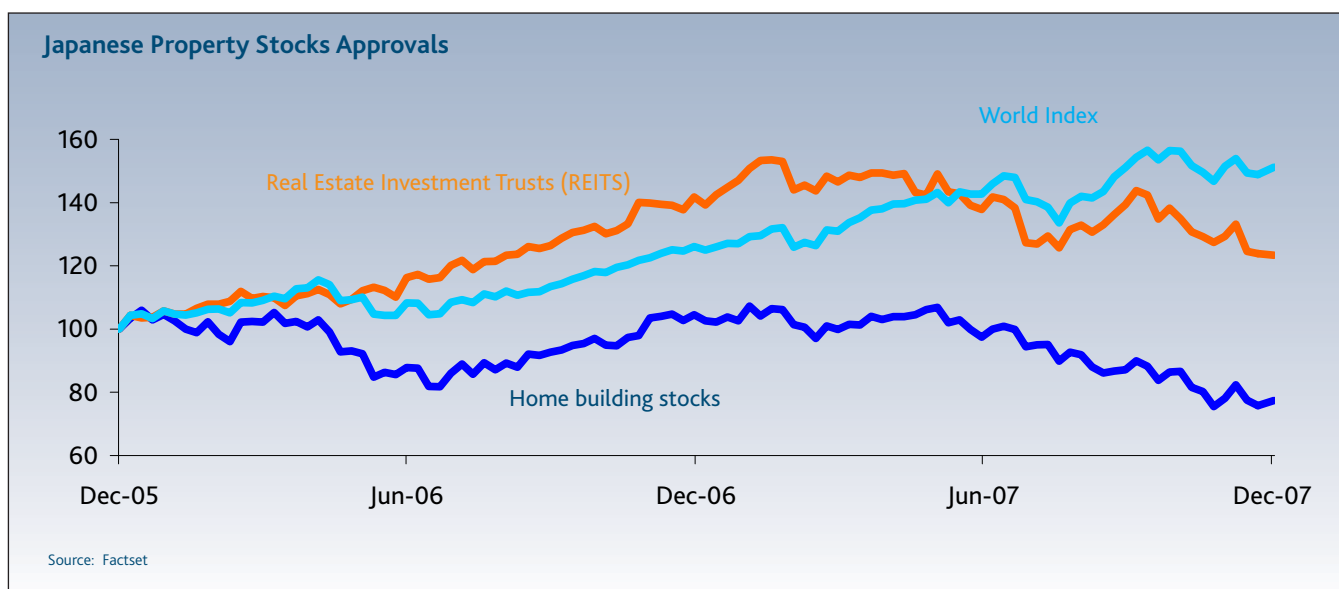
each year). To put this in context, the size of the secondary market in the US is approximately 5.5 million units (114 million households), in the UK 1.8 million (24 million households) and in Australia 200,000<sup>1</sup> (8 million households). In addition to the almost complete lack of existing home sales, new mortgage demand in Japan actually increases on the expectation of future interest rate rises – very odd, when one considers what persistent interest rate cuts have done for most housing markets. It seems that the typical Japanese household's property experience has been so poor, that the fear of having to pay a higher interest rate is one of the few reasons to buy into the market. The Japanese explanation for why residential property offers high yield is that it is necessary as compensation for expected capital loss. Whilst this may be right, it also indicates a degree of misery that often signifies opportunity.

Japanese domestic demand conditions seem to be suffering at the hands of bureaucratic interference rather than more fundamental issues. The latest bungle involves the implementation of a tighter building code without adequately resourcing the department responsible for approvals. This seems to have had a disproportionate impact on the housing industry. In August, the month after

implementation, Japanese housing starts fell 43% followed by a drop of 44% and 35% in September and October. What has been less widely reported is that permits (letters of permission) have held up reasonably well, down an estimated 21%, 25% and 11%, respectively, over the same period, implying that the fall in starts reflects uncertainties regarding the approval process that may prove transient, rather than a complete collapse in end demand.

Whilst clearly, Japanese domestic confidence remains fragile, one gets the impression that if the government stopped kicking the home goals, that domestic demand would be in far better shape, with the country well insulated from the turmoil in global credit markets. Further, unlike the US, UK and Australia, Japanese property prices today have very good yield support and shouldn't fall. In a world that may be set to experience a prolonged period of tighter credit conditions, flat real estate prices may prove to be a very good outcome. With relatively low direct exposure to this area, and with some of these stocks having sold-off to well below intrinsic value, we are now selective buyers.

<sup>1</sup> Understated as the official statistics exclude apartments.



## NOTES

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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 past 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).

2. The investment returns depicted in the graphs are cumulative on A\$10,000 invested in the relevant Fund since inception relative to their Index (in A\$) as per below:

Platinum International Fund:  
Inception 1 May 1995, MSCI All Country World Net Index

Platinum Unhedged Fund:  
Inception 31 January 2005, MSCI All Country World Net Index

Platinum Asia Fund:  
Inception 3 March 2003, MSCI All Country Asia ex Japan Net Index

Platinum European Fund:  
Inception 1 July 1998, MSCI All Country Europe Net Index

Platinum Japan Fund:  
Inception 1 July 1998, MSCI Japan Net Index

Platinum International Brands Fund:  
Inception 18 May 2000, MSCI All Country World Net Index

Platinum International Health Care Fund:  
Inception 10 November 2003, MSCI All Country World Health Care Net Index

Platinum International Technology Fund:  
Inception 18 May 2000, MSCI All Country World Information Technology 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.

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The Platinum Trust Product Disclosure Statement No. 7 (PDS), is the current offer document for the Funds. You can obtain a copy of the PDS from Platinum's website, [www.platinum.com.au](http://www.platinum.com.au), or by contacting Investor Services on 1300 726 700 (Australian investors only), 02 9255 7500 or 0800 700 726 (New Zealand investors only) or via [invest@platinum.com.au](mailto:invest@platinum.com.au).

Before making any investment decision you need to consider (with your financial adviser) your particular investment needs, objectives and financial circumstances. You should consider the PDS in deciding whether to acquire, or continue to hold, units in the Funds.

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