Platinum®
ASSET MANAGEMENT

Quarterly Report
31 March 2015

Platinum International Fund
Platinum Unhedged Fund
Platinum Asia Fund
Platinum European Fund
Platinum Japan Fund
Platinum International Brands Fund
Platinum International Health Care Fund
Platinum International Technology Fund

The Platinum Trust quarterly report is available on our website, *www.platinum.com.au*, from approximately the 15th of the month following quarter end

Contents

Performance Returns to 31 March 2015

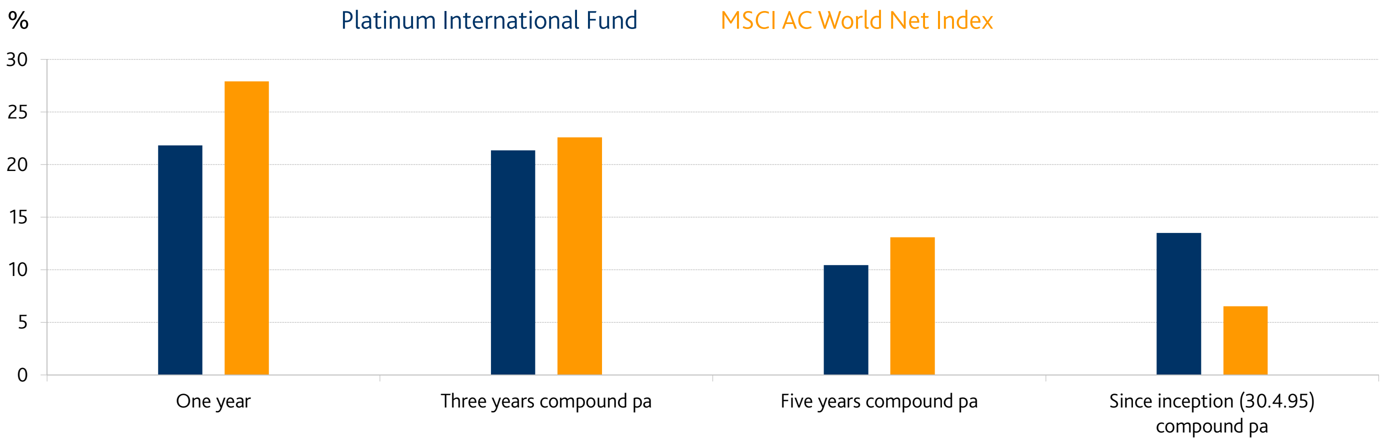
FUND	PORTFOLIO VALUE	QUARTER	1 YEAR	2 YEARS COMPOUND PA	3 YEARS COMPOUND PA	5 YEARS COMPOUND PA	SINCE INCEPTION COMPOUND PA
International Fund	$11,667m	9.4%	21.8%	28.4%	21.4%	10.4%	13.5%
MSCI AC* World Net Index		9.6%	27.9%	29.5%	22.6%	13.1%	6.5%
Unhedged Fund	$371m	9.7%	19.7%	28.4%	21.3%	12.6%	11.9%
MSCI AC World Net Index		9.6%	27.9%	29.5%	22.6%	13.1%	6.7%
Asia Fund	$6,120m	10.5%	39.8%	28.9%	23.2%	12.3%	17.5%
MSCI AC Asia ex Japan Net Index		12.3%	34.3%	24.6%	18.2%	10.2%	11.4%
European Fund	$359m	9.9%	12.8%	22.9%	19.0%	13.8%	12.3%
MSCI AC Europe Net Index		10.8%	14.4%	25.7%	20.0%	9.7%	2.6%
Japan Fund	$572m	19.5%	43.2%	40.3%	33.1%	17.2%	15.7%
MSCI Japan Net Index		18.1%	36.0%	28.2%	21.0%	9.8%	2.0%
International Brands Fund	$1,308m	8.5%	12.7%	18.8%	17.0%	13.0%	13.2%
MSCI AC World Net Index		9.6%	27.9%	29.5%	22.6%	13.1%	1.8%
International Health Care Fund	$147m	15.1%	33.7%	32.7%	29.5%	19.5%	9.9%
MSCI AC Wld Health Care Net Index		16.0%	46.8%	44.2%	37.1%	22.0%	10.0%
International Technology Fund	$79m	8.6%	21.2%	30.0%	20.0%	10.8%	9.5%
MSCI AC World IT Net Index		10.1%	40.7%	40.0%	24.9%	16.4%	-2.7%

*Morgan Stanley Capital International All Country

Source: Platinum and MSCI. Refer to Note 1, page 40.

Platinum International Fund versus MSCI AC World Net Index

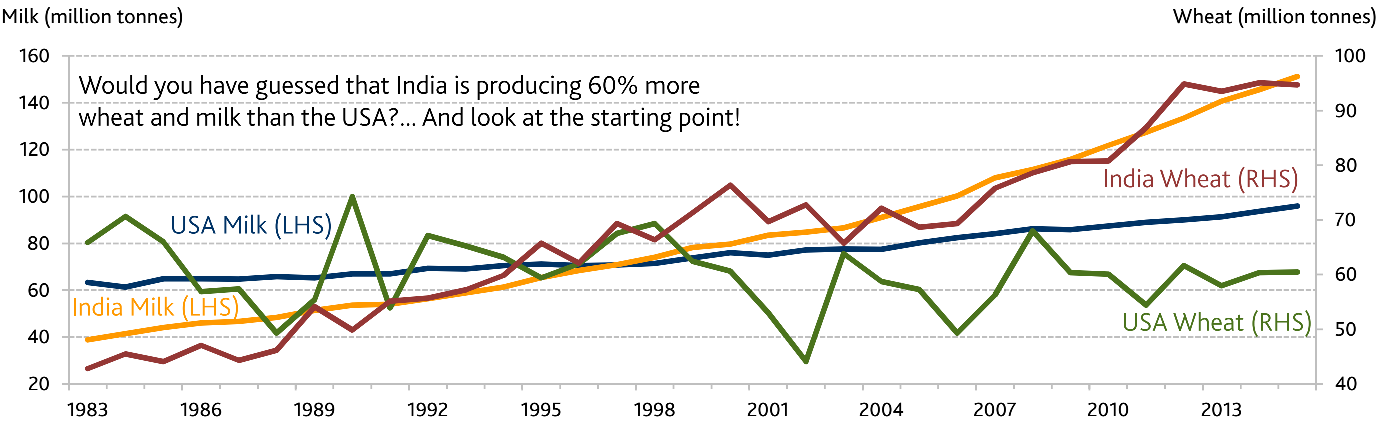
To 31 March 2015



Source: Platinum and MSCI. Refer to Note 1, page 40.

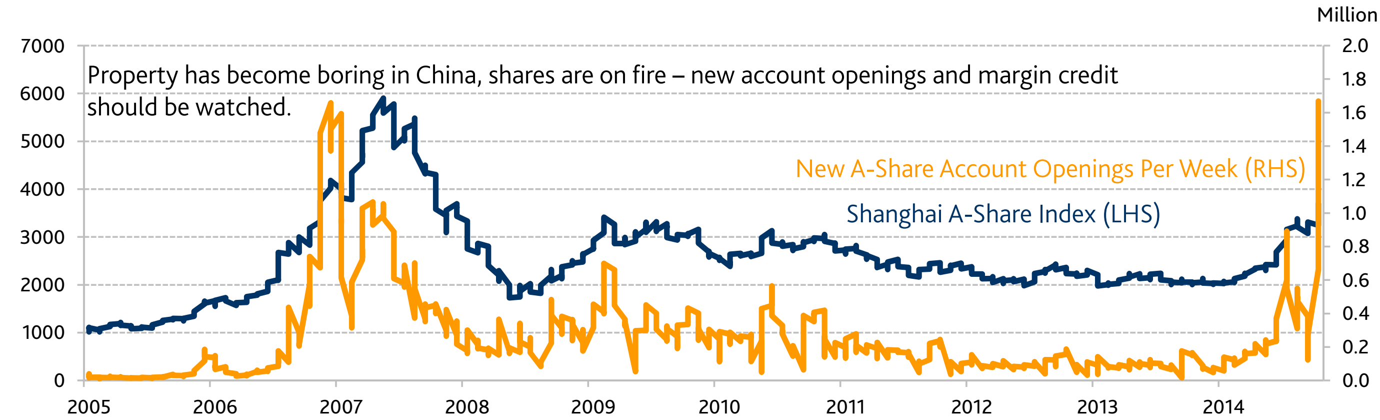
Market Panorama

Milk and Wheat Production – USA versus India



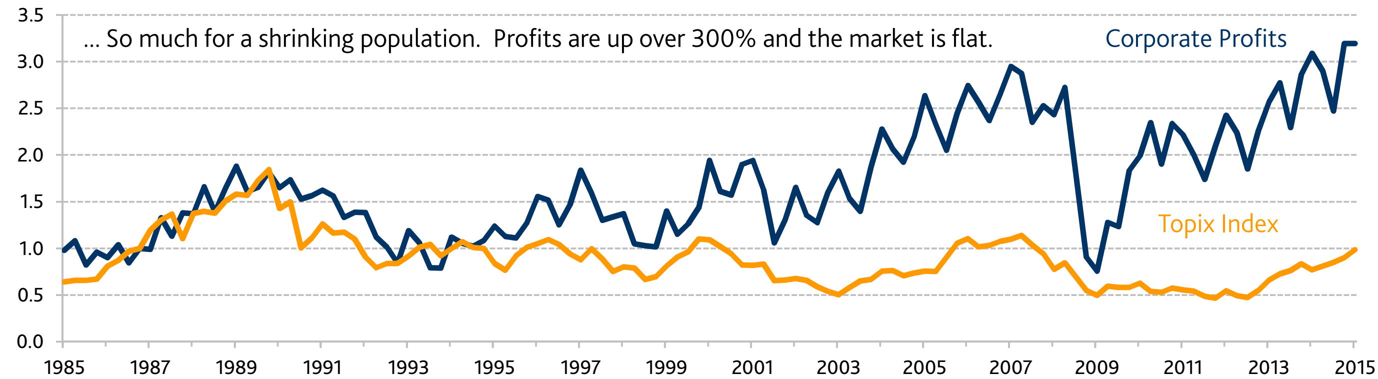
Source: OECD-FAO Agricultural Outlook 2014-2023

Shanghai A-Share Index versus China's Weekly New Share Trading Account Openings



Source: Bloomberg

Index of Japan Corporate Profits versus Stock Market (31/12/1986=1, in local currency terms)



Source: Bloomberg and Japan Ministry of Finance

A Snapshot

Platinum International Fund

- Equipped with the necessary political will to reform and a competitive advantage in labour costs, Asia will continue to grow and experience a deepening of free markets.
- We are zealously finding promising Asian companies with extremely attractive valuations compared to Europe and the US.
- As a contrarian, value manager, we have 49% of the Fund's invested position in Asia (including Japan) while the MSCI AC World Index has a weighting of 17% for all of Asia (including Japan) and a mere 9% for Asia ex Japan.
- The significant purchases over the quarter were Qlik Technology, Cheung Kong Holdings, Qingdao Haier and Gree Electric Appliances, while we took profit from the cyclical metal plays such as Alcoa, Hindalco, Norilsk Nickel and Outokumpu.

Platinum Unhedged Fund

- We looked for opportunities presented by the 50% drop in oil price as we see a number of factors pointing to a higher oil price in the medium to long term. However, as the shorter-term price change is harder to predict, we took a diversified approach.
- We added to Applus, a business that performs third party equipment testing for the oil, auto and construction industries.
- We took a position in KBR, a longer-cycle engineering and construction business with a fortress balance sheet and a fresh management team.
- We also invested in Yandex and QIWI, the equivalent of Google and PayPal in Russia. Both are high quality and fast growing businesses driven by the secular trends in online advertising and payments, and will likely be star performers under a scenario of rising oil prices leading to a strengthening Rouble and Russian economy.

Platinum Asia Fund

- As China continues with its reform efforts (liberalising interest rates, improving efficiency of State-owned enterprises, implementing stricter environmental laws, combating corruption), its share market also continues from strength to strength.
- India's Modi-led BJP government continues with its reform agenda, improving the ease of doing business and removing hurdles to "de-bottleneck" infrastructure projects, hopefully kick starting a virtuous capex cycle.
- We started a position in Qingdao Haier, a dominant white goods manufacturer in China, and added to NTPC and GAIL, leaders in the power and gas sectors in India, while taking profit on Yonyou Network Technology and Hyundai Development.
- Countries such as Indonesia, Thailand, Malaysia and Vietnam are embarking on much needed infrastructure expenditure programs to propel their economies into better trajectories.

Platinum European Fund

- Share prices in European markets rose 11% on average over the quarter while the Euro had its worst quarterly depreciation against the US dollar, also by 11%.
- As investors gravitate towards Europe, attractive investments are becoming increasingly hard to find. The Fund's large cash holding is weighing on our performance in a rising market, but by going against market momentum this way, we are sacrificing short-term performance for the flexibility to capitalise on what we hope will be better opportunities down the track.
- We added to our holding of Turkcell, the dominant mobile phone company in Turkey with a 50% market share and generating plenty of surplus cash.
- We invested in Spanish airport network owner and operator, Aena, seeing profit growth opportunities as Spain deregulates the pricing of non-aeronautical services at its airports.

Platinum Japan Fund

- The portfolio had a major makeover this quarter: short positions were closed, seven equities were removed, nine new equities (e.g. Recruit and Denso) were purchased, and the position size of eight core holdings was adjusted.
- We reduced our short position in Japanese Government Bonds (from 11% to 5%) while the Bank of Japan continues to expand its balance sheet.
- The Government Pension Investment Fund and many smaller Japanese pension funds are rapidly shifting their portfolio allocations from bonds to equities, driving Japanese equity indices to multi-year highs. But we can still find attractive assets on very reasonable valuations, and the distortion in relative valuations also presents significant opportunities.
- Despite attractive valuations, we are hesitant about Korean companies as the "chaebols" transition through a "tricky" period of changes in corporate governance and dynastic feuds.

Platinum International Brands Fund

- The themes within the Fund – tourism, the growth in the disposal income of young populations, the slow renewal in parts of Europe and a catch-up by some investments that have lagged the broader market – are encouraging.
- The Fund holds a number of positions in cosmetics companies set to benefit from the surge in China's travelling middle class intent on shopping.
- Colombia's attractive demographics and growing middle class make Grupo Exito, a leading retailer in the country, a company with promising prospects.
- We are confident to maintain our position in Renault (even after a 40% increase this quarter) while taking profit from BMW.

Platinum International Health Care Fund

- Growing concerns over a "biotech bubble" were outweighed by steady buying by investors (and panic buying by big pharma).
- Novartis' Sandoz unit finally obtained full FDA approval to sell the "biosimilar" drug *Neupogen* in the US while Amgen, unsurprisingly, is appealing the ruling. This is potentially a watershed moment for sector profitability, as big pharma has pursued a biologicals drug strategy for over a decade hoping for monopoly profits well beyond the patent period.
- Johnson & Johnson's *Remicade* has seen the launch of biosimilars in some European markets this year and the prospect of a steady erosion of this huge revenue earner is constraining the company's share price.
- We reduced our holding in German dialysis company Fresenius following a 50% appreciation in its share price over six months.

Platinum International Technology Fund

- We are trying to stay away from over-valued and momentum-driven stocks at a time of excessive market euphoria. Positioning ourselves for long-term outperformance means we may trail the benchmark index in the short-term.
- We added to Samsung SDI, a leading manufacturer of Li-ion batteries for electric vehicles, which we believe provides an interesting way to invest in a nascent stage of the electric vehicle/hybrid revolution.
- We also added to Micron Technology, confident that the current pricing weakness in dynamic random access memory is only a temporary issue and prices will start to flatten as demand starts picking up again.
- We invested in Fujitsu, the largest IT services provider in Japan and a steady, predictable and defendable business, while exiting Skyworks and Nippon Electric Glass.

Platinum International Fund

Kerr Neilson Portfolio Manager

Andrew Clifford Portfolio Manager

Disposition of Assets

REGION	MAR 2015	DEC 2014
Asia	35%	33%
North America	23%	25%
Europe	22%	24%
Japan	11%	9%
Russia	1%	1%
Australia	1%	1%
Cash	7%	7%
Shorts	7%	6%

Source: Platinum. Refer to Note 3, page 40.

Performance

(compound pa, to 31 March 2015)

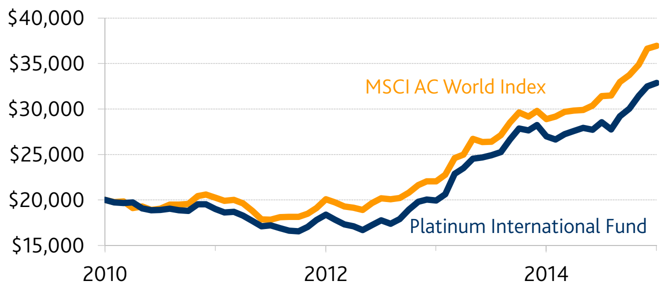
	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund	9%	22%	21%	10%	13%
MSCI AC World Index	10%	28%	23%	13%	7%

Source: Platinum and MSCI. Refer to Note 1, page 40.

Economies of the Western hemisphere, led by America, continued to expand with the weaker participants enjoying the benefits of a sagging Euro which infused greater competitiveness and vigour back into commercial life. The Euro and the price of crude oil fell by about 11% over the first quarter of 2015. As the quarter progressed, there was evidence that most market players had reached that exalted point of "knowing" the US dollar was a one-way-bet, with concomitant positions to reflect this apparent certainty. Markets, as ever, rejected this proposition when the US Federal Reserve chose to use language in its March statement that was interpreted as yet further deferment of a rate rise. However, as the Euro had fallen by 21% versus the US dollar over 12 months, it in no way disturbed the belief that Euro-based companies would experience wider margins and the spreading glow of greater activity.

Value of $20,000 Invested Over Five Years

31 March 2010 to 31 March 2015



Source: Platinum and MSCI. Refer to Note 2, page 40.

Asia was treated to further evidence of the commitment to reform in the populous economies of China, India and Indonesia. Most encouraging was the redirection of speculative zeal from the now smouldering Chinese property market to the red hot equity market. This was amplified by the government's stimulatory efforts to increase the availability of credit and to lower its cost. As reforms are being rolled out sequentially across Asia, it is very clear that the new political brooms of recently contested elections are sweeping away some of the imperfections that have impeded competition and disrupted the price-setting function of markets.

The regions that are facing more stringent conditions are the former winners – the commodity rich economies – which are now finding that a long and forcefully protracted boom has dire consequences when the opportunity of windfall gains failed to be directed towards longer-term benefits for society. Russia, Brazil, South Africa and Australia find their terms of trade have reversed and are facing a less prosperous future. Their stock markets responded negatively with the exception of Australia which witnessed a long-awaited cut in official interest rates and a concurrently weak Australian dollar.

Overall, the MSCI All Country World Index (A$) achieved a return of +9.6% for the quarter and +27.9% for the last 12 months. The Fund is trailing for the last 12 months on account of its net 86% invested level, but the commitment to Asia carried the benefits noted above. Thus with a disposition that is completely different to that of most managers, the Platinum International Fund is being rewarded for following its investment approach of seeking neglect.

The accompanying tables give some idea of investors' **desire for certainty** on one end of the scale (consumer staples and discretionary) and the **effect of abundant cheap funding** on the other which is finding expression in yield companies and white-hot biotechs as displayed in the performance of health care. Some of these biotechs are little more than small product-less research establishments.

Currency

The portfolio remains heavily hedged back into the US dollar (71%, including 9% in Hong Kong dollars) and we shifted some of the residual 9% of Euros (8% as at 31 March) into Norwegian krones (3%), with an eye to an improvement in the oil price later this year. There is virtually no exposure to the Australian dollar and very little to the Japanese yen.

Shorting

As noted last quarter, the lower oil price prompted us to reduce the shorts and these are now principally against the S&P index. This is now preferred to the Russell 2000 because of the former's greater exposure to foreign earnings, some 46%.

MSCI World Index Regional Performance (AUD)

REGION	QUARTER	1 YEAR
Developed Markets	**10%**	**29%**
Emerging Markets	**10%**	**22%**
United States	**8%**	**36%**
Europe	**11%**	**14%**
Germany	16%	18%
France	12%	11%
United Kingdom	6%	15%
Japan	**18%**	**36%**
Asia ex Japan	**12%**	**34%**
Korea	12%	15%
China	16%	50%
Hong Kong	14%	40%
India	13%	46%
Australia	10%	14%

Source: MSCI

MSCI World Index Sector Performance (AUD)

SECTOR	QUARTER	1 YEAR
Health Care	16%	47%
Consumer Discretionary	13%	35%
Consumer Staples	10%	31%
Information Technology	10%	41%
Industrials	9%	24%
Telecommunication Services	9%	24%
Materials	9%	13%
Financials	8%	26%
Energy	4%	1%
Utilities	2%	22%

Source: MSCI

Changes to the Portfolio

For all the effervescence in the indices there is a lack of depth in the ability to shift sizeable volumes in smaller companies. Several of our older holdings of small companies have risen well since the middle of last year and, in view of our concerns about liquidity, we have been using this time to sell into the strength and concentrate the portfolio in larger and more liquid companies. We have also adopted an about-face on some of the cyclical metal plays that we had bought just a few quarters ago, selling down **Alcoa**, **Hindalco**, **Norilsk Nickel** and **Outokumpu**. You may recall that these were predicated on an improved balance in the metal markets caused by export bans and capital rationing. As it transpired, there was only a short-lived rally in metal prices and metal shares, but it allowed us to realise a substantial gain. We also sold the balance of **Baker Hughes**, whose price has been supported by the takeover offer from Halliburton. The lesson one learns at the end of any great resources boom is the ability of miners to cut costs to meet the now much lower price of their commodity, but, of course, at the cost of margins for themselves and their suppliers.

The significant purchases over the last three months were **Qlik Technologies**, **Cheung Kong Holdings**, **Qingdao Haier** and **Gree Electric Appliances**. We also continued to buy the utilities in India which we envisage will benefit from reforms but which, for the time being, are ignored by investors for their apparent lack of immediate growth or "sex appeal".

Qlik was for a time a much favoured company which lost support after a fantastic start when its sales growth faltered. It has subsequently launched a second product that is simpler to implement but which has advantages over the competition for its multi-device availability, scalability and common data sharing. The company's speciality is to provide software that enables users to visualise sets of data, the so-called business intelligence tools that can allow line operatives to understand inter-linked relationships within vast amounts of data and to manipulate them at will.

Its principal competitors are the old tech heavyweights like SAP, Oracle and Microsoft as well as start-ups like Tableau. As elsewhere, it is the smaller companies that are the most virile and at present Tableau, though smaller, is growing faster than Qlik. However, business intelligence application is still a frontier market and there is space for more than one supplier. Some may argue that Tableau could become the product of choice and hence, through user familiarity, become the entrenched dominant player. It is however priced at 10x sales, while Qlik seems to have more robust features and trades on half this valuation.

Cheung Kong is a classic fallen favourite. It is currently going through a significant asset reshuffle that will leave it with a strong position in several mobile infrastructure markets, a wonderfully successful retail chain, interests in infrastructure, principally in Britain, and a network of ports world-wide. Owned by Li Ka-shing, one of the most successful and wealthiest entrepreneurs of the age, the market seems to have lost belief on account of a long string of losses from his foray into telecoms. We can identify why this will now change which, together with his other manoeuvres, cannot lead us to the negative viewpoint apparently held by the market. We are buying this pool of valuable assets at less than book value!

Haier and **Gree** are respectively the leading suppliers of white goods and air conditioners to the Chinese market. As we see in India, local investors tend to be more taken by the excitement of super high growth stocks than hugely profitable, steady strong growers that operate in already concentrated industries. From their overwhelming domestic origins, both companies are beginning to make inroads into foreign markets and seemingly at no cost to their profitability. Along with the **white spirit purveyors**, we see these shares giving us very handsome returns with starting valuations of less than 14x earnings and, what's more, no debt.

Commentary

As one re-reads earlier quarterly reports, it is conspicuous how the concerns that internally preoccupied us at the time were not fully developed on paper. Seldom was the urgency and magnitude of the issues fully transmitted. For example, in the run-up to the global financial crisis (GFC), we were constantly discussing, even obsessing about, the segregation of origination (of mortgages) from ownership and where this would lead. Yet when we look back at the comments we wrote, there is far less coverage than we remember.

Why do we mention this? We would like to emphasise two important points.

Firstly, the **world order is changing** and yet most investors are shackled to the familiar. In Australia, it is about franking credits attached to Australian-sourced dividends; for other investors, it is about growth in Europe and the USA. We have no problem with the recovery in Europe or the sixth consecutive year of expansion in the USA, but their growth is still pitiful compared to that which we may expect in Asia.

How is it that Developing Asia, with more than half of the world's population and 30% of the world's output[1], is given such scant representation in global portfolios? The MSCI All Country World Index has a weighting of 17% for all of Asia (and a mere 9% for Asia ex Japan) and it is rare for global portfolio managers to have a weighting above 15%. As an owner of the Platinum International Fund, please **recognise that HALF of the Fund's *invested* position is in Asia (including Japan)**. We do not believe that over the next 10 to 15 years Asia will be the origin of only a tiny minority of the world's interesting investment opportunities. It is possible, but **completely contrary to the experience of the last 10, 20 or 30 years**!

Many investors have concerns about Asian companies' corporate governance and book-keeping practices. We cannot refute these concerns. However, **detailed analysis**, which pays particular attention to the nature of the business of each company, its cash flows, the ownership structure and a comparison of management's words with their deeds, can reduce some of these risks. In addition, the effect of a portfolio of holdings spreads the specific risk of individual holdings.

Secondly, the most important question to ask is **what price we are paying** for these companies. The market is a weighing machine and commonly held doubts, legitimate or not, tend to be reflected in prices. The big investment opportunities, in our experience, are born of low expectations.

At the time we began to enthusiastically accumulate Chinese stocks in the second half of 2014, the Shanghai composite index had already fallen 65% from its peak of 6100 reached in October 2007 to a low of 2100. Expectations were very low because of concerns emanating from the country's slowing and changing economy and the effect the corruption blitz was having on deferring business decisions.

A more penetrating question is whether the economies of Asia, which we favour, will **continue to grow and experience a deepening of free markets**. We feel this is inevitable and attributable to the power of ubiquitous wireless connectivity and the Internet. Apart from the pro-development win by the Modi-led government in India and a **first budget that reinforced the move to cooperative federalism and outcome-based spending**, we can point to daily evidence of the removal of obstacles to business and the desire to attract capital. In China, the **reform train is slipstreaming following the anti-corruption vanguard**[2]. We see no evidence of the leaders of these countries being any less concerned about their power base than leaders in the West. The difference lies in their understanding of the need for reform and their greater ability to push through the changes necessary for a deepening of their market economies. Yes, the issues they face are colossal, but so is their competitive advantage in terms of being able to leap-frog with technology and by having a massive cost advantage in labour. By way of example, over 700 million Indians are now electronically registered on the biometrics-based national identity system.

We therefore pose the question in a different way by asking, "**what are the prospects, adjusted for probability, and how do they compare with the price we are required to pay elsewhere?**"

China has no alternative than to urbanise. This, together with a huge expansion of infrastructure, including a vibrant e-commerce sector, is of itself a strong driver for growth. **The service sector** has become more potent and in the last decade accounted for **nearly half the GDP *growth*** in the region and at the margin created 2.3 times more jobs than manufacturing, according to Citi Research. They elaborate further by suggesting that **labour productivity in "market services"**[3] in China is similar to that of manufacturing and hence the transformation to more of **a service economy needs not result in lower incomes**. The growth in the service sector is showing up in labour pricing power in China where wages continue to grow across-the-board several times faster than inflation. There are evident shortages in skilled middle management and factory workers are gladly moving into service jobs for better condition. Of course, the economy will grow at a slower pace than it has over the last 15 to 20 years. Careless lending against real assets, rather than cash flows, will damage bank balance sheets at the cost of lending to the private sector, but small businesses have long faced such discrimination, relying instead on family and friends. See the tabulation on the next page that highlights the flexibility that is afforded to both China and India as a consequence of their high savings rates.

1 Developing Asia (Emerging and Developing Asia) GDP Share of World Total (PPP) Statistics for the Year 2014 (http://www.economywatch.com/economic-statistics/Developing-Asia/GDP_Share_of_World_Total_PPP/), data source: International Monetary Fund (IMF), retrieved on 7 April 2015.

2 These reforms relate principally to State-owned enterprises (SOEs) in areas such as freeing up commodity prices (water, oil and gas, electricity and cement), consolidation of excess capacity sectors (steel, cement, coal and shipbuilding), asset sales and injections for SOEs, management incentivisation through share ownership, and liberalising foreign ownership rules.

3 Market services are those with a specific price, as against social services which are provided by the government for no specific charge.

A Comparison of Debt Levels and Growth Expectations

		CHINA	INDIA	USA	EURO AREA	WORLD
GDP Growth %^	2015	6.8	6.3	3.6	1.2	3.5
	2016	6.3	6.5	3.7	1.4	3.7
Debt-Government*	% GDP	39	61	80	95	
Debt-Corporate#	% GDP	167	56	78	122	
Debt-Household†	% GDP	30	8	77	48	
Mkt Capitalisation‡	% GDP	46	60	143	86	
Corporate Profits	% GDP	2.7	3.1	8.0	4.3	
Equity Markets						
RoCE incl. Goodwill	%	10	13	14	10	
Return on Equity	%	14	12	12	7	
Price to Book Value		2.5	2.7	2.8	2.0	
Price to Earnings Expected 2015		15	21	19	17	

Source: International Monetary Fund (IMF), Bank for International Settlements (BIS) and Factset

^ Note these growth expectations from the International Monetary Fund (IMF) look rather high for China and may be too high for the US given the adverse effect of a strong US dollar.

* Observe the low level of debt owed by the Chinese government and, to a lesser extent, India.

However, the Chinese SOEs are clearly over-borrowed and indeed face a period of restructuring and probable asset shedding.

† Household debt in both India and China is conspicuously low in sharp contrast to the maxed-out experience of the West, reflecting nations with savings rates of 30% or more.

‡ Market Capitalisation does not reveal much, but registrations for personal broking accounts in China are running hot at over 1 million per day, six times higher than last year! (Refer to chart on page 4.)

But this forecast strays from our area of core competence. When we look at the consumer companies we have been buying in China:

- they tend to be debt-free,
- have all grown in the high-teens or more,
- are extremely profitable, and
- surprisingly, are already operating in relatively consolidated industries.

Compared to similar companies in India which trade on 30x to 40x earnings, or Western defensives in the mid-20s, these plays are veritable gifts on less than 15x 2015 earnings.

We cannot bring ourselves to buy these types of predictable earners in India on account of valuations, but instead are very comfortable accumulating the infrastructure plays and private banks. These are characterised by having serious management, relatively ungeared balance sheets and an ability to step into the void that has been created by the over-leveraging of balance sheets that is common among the recent batch of new entrepreneurs. Further, they are the principal beneficiaries of the Bharatiya Janata Party (BJP) government's ideology of deregulation and greater fiscal rectitude. Even without the passing of the goods and services tax (GST) legislation, which is slated for 2016 and will be a major test of Prime Minister Modi's skill and toughness, we expect interest rates in India to progressively drop over the coming months. This is to the benefit of bank spreads and should lead to higher valuations for utilities.

In Japan, promising things are happening: companies are reforming, margins are improving – thanks to the Yen, wages are lifting into real increases and banks have been increasing their loans by 5% per annum. We remain confident that the Japanese market is in a rising trend.

It is not as though we are uninterested in the **great Western companies that have the theoretical and applied know-how to provide the highways of the future**, be it Intel, Cisco, Oracle, eBay, Google, Ericsson or new concepts like data visualisation. These companies are seen by many as passé compared to so-called "growth tech", but to our way of thinking are perfectly sound businesses that are **being diagnosed with symptoms they do not have**, namely, being ex-growth. The closest we can get to owning the much favoured defensive growth plays are the pharmaceutical companies in Europe that account for 8% of the Fund's portfolio, but, in the main, the delight in the certain and perfect cannot be achieved at a price we consider worthwhile.

Yes, the market is efficient at determining the appropriate clearing price for risk, but at times of stress there is a tendency to exaggerate the *apparent* risk.

Outlook

We continue to be highly enthusiastic about the companies we are finding. As emphasised above, it is not where the majority are investing. Rates will be rising, led by the US Federal Reserve, and presumably the discussion will then pass to the shape of the trajectory. The ability to extinguish debt remains the great detractor and movement in exchange rates could exacerbate the effect of even a gradual tightening cycle. Our preference is to stay with those companies with some pricing power and in areas that will be able to achieve some growth. Capital flight is a potential cause of concern, but we do not envisage this being a serious problem in the markets we have emphasised.

Platinum Unhedged Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	MAR 2015	DEC 2014
Asia	31%	29%
Europe	25%	25%
North America	24%	24%
Japan	10%	14%
Russia	2%	1%
Australia	2%	2%
Africa	1%	1%
South America	1%	1%
Cash	4%	3%

Source: Platinum. Refer to Note 3, page 40.

Performance

(compound pa, to 31 March 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund	10%	20%	21%	13%	12%
MSCI AC World Index	10%	28%	23%	13%	7%

Source: Platinum and MSCI. Refer to Note 1, page 40.

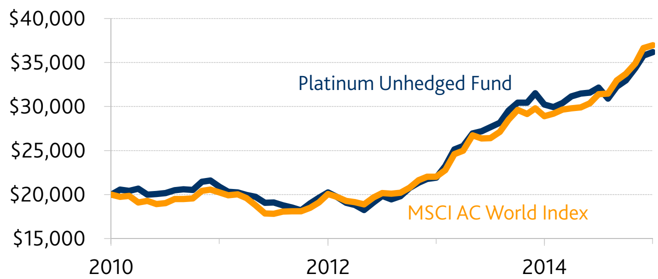
The first quarter of 2015 brought with it the first signs of a change of leadership in global equity markets.

In local currency, the US market returned a modest 1% over the period, failing to keep up with the gains seen in Europe (+11% in local currency) and Japan (+10% in local currency). After roughly doubling over the past three years, the US market is now looking tired when viewed against opportunities we see elsewhere in the globe.

Currency again played a large role in the returns received from an Australian investor's perspective. With the Reserve

Value of $20,000 Invested Over Five Years

31 March 2010 to 31 March 2015



Source: Platinum and MSCI. Refer to Note 2, page 40.

Bank of Australia (RBA) continuing to cut interest rates, the Australian dollar continued to weaken against all of the major currency pairs (-6% versus the US dollar and the Yen) except for the Euro where it appreciated +5%.

Overall, the Fund returned 9.7% for the quarter, with the MSCI All Country World Index (A$) returning 9.6%.

Changes to the Portfolio and Commentary

Energy has been a recent area of activity for the Fund as we look through ideas presented by the 50% drop in the oil price.

The global oil market currently is oversupplied to the tune of 1–1.5 million barrels per day (bpd). Factors affecting the future supply/demand balance include:

1) Global oil demand continues to grow at an annual rate of 1 million bpd, driven by higher consumption in emerging markets.
2) Production from existing fields declines at roughly 2% annually.
3) New oil discoveries have tended to be at a higher cost of extraction (deep water offshore/US shale oil) many of which are uneconomic at a US$50 oil price.
4) The oil exploration and production industry in aggregate have cut their capex budgets by approximately 20%, which will have a knock-on effect on future production growth.
5) Since 2010, global oil supply has increased by 6 million bpd, of which 4 million barrels came from US shale oil. The production characteristics of US shale are unique in that the wells have very high initial decline rates. For example, a newly completed shale well that produces 100 bpd in year one will see production fall and base out at roughly 15 bpd by the end of the third year. This **decline** rate, paired with a big decrease in US drilling activity, means that **US shale oil production will flat-line and then likely fall over an 18 month time frame**.
6) "Unexpected" new supply that could come online is mostly limited to Iran (possibly adding 1 million bpd) if a new nuclear deal is signed and sanctions are removed.

Weighing the above, there is a sensible case to be made that the price of oil will be significantly higher in two years. How oil price behaves in the shorter-term is harder to know, and hence we have taken a diversified approach to how we add oil exposure to the Fund.

Applus Services falls in the category of a high quality service business that is "oil price influenced". The common thread to Applus' businesses is that they perform a third party auditing function for the oil, auto and construction industries. 60% of their business relates to the oil industry, where they provide testing, certification and quality control services for oil pipelines, storage and petrochemical facilities.

Roughly half of Applus' oil-exposed revenue comes from providing regular testing of assets already in place, and will be relatively stable in spite of the oil price. The other 50% relates to new build, which will suffer in a down-turn and **the fear around this is the major reason for the stock's halving in price**. Interestingly, Applus fell further and traded on lower valuations versus many other oil service stocks despite having a far less cyclical business and offering a service that oil producers are unlikely to be targeting for price cuts.

Looking through this volatility, we think Applus is a highly attractive way to play an oil price recovery and an excellent investment in its own right. Put simplistically, the world is likely to be consuming more oil in five years, meaning there will be more oil and gas infrastructure to test which, helped by ever increasing government regulation and the push to outsource testing to third parties, provide a long-term growth tailwind. Moreover, Applus' auto and construction divisions are growing strongly, which will somewhat cushion declines in the oil division. At 10x P/E, we were enthusiastic buyers.

KBR is a longer-cycle engineering and construction business that is presently dirt cheap with a fortress balance sheet (US$1 billion of cash) to weather the storm. KBR's primary expertise is in the fields of liquefied natural gas (LNG), offshore oil, ammonia and military support services. From this base where they have many decades of experience, strong technical expertise and clear advantages over competitors, the previous management diversified into fields such as power plant, mining and mixed industrial construction where they held no such advantages. With the turn of the cycle, these new businesses promptly blew up, their losses offsetting the profits made in the core hydrocarbons and military divisions.

The entire senior management team has been changed, and the strategy of new CEO, Stuart Bradie (ex-WorleyParsons), has been to sell/exit these new businesses and focus the company back on what it is truly good at. The time to buy engineering and construction stocks like KBR is when everyone knows the outlook is poor, all the problems are out in the open, bankruptcy risk is not an issue and valuations are at multi-decade lows. KBR fits this bill and any improvement in the sentiment around future oil capex will see the stock higher.

Russia – Yandex and QIWI. Yandex is Russia's dominant search engine, "the Google of Russia", while QIWI is the leading online payment network in the country, much like PayPal in the West. Both are high quality and fast growing businesses (growing at rates of 35% and 50% respectively before the collapse in oil), driven by the secular trends in online advertising and online payments.

Oil and gas account for 70% of Russia's exports and hence the price fall has pushed the economy into recession and triggered a 50% fall in the value of the Rouble. With their revenue linked to advertising and consumer spending, Yandex and QIWI are not immune to the recession and both companies have seen their revenue growth rates roughly halve in recent quarters. Also, both stocks are listed in the US and priced in US dollars while earning profits in the Rouble. The collapse in the Russian currency has meant their earnings, when translated into US dollars, have halved. These events have seen both stocks fall more than 50% since September 2014.

With cash on the balance sheet and dominant positions in secular growth industries, even if the price of oil never rises these companies over time would prove sensible investments. However, under a scenario of rising oil prices leading to a strengthening Rouble and Russian economy, both stocks can swiftly deliver 50%+ type returns.

Canadian Oil Sands (COS) is the only direct oil producer we own today. It differs from the large oil majors in two important ways. Firstly, thanks to its massive reserve base in the heart of the Athabasca oil sands, COS at current production rates has a reserve life of 50 years. This compares more than favourably to the majors (BP, Shell, Exxon, etc.) which on average have 13 years of reserve life. The long reserve life means that COS does not need to plough every dollar it earns back into finding new oil discoveries and can instead pay out large sustainable dividends.

Secondly, the share price of COS has fallen 50% from a year ago and is actually reflecting today's low oil price. The majors in comparison have barely fallen, and their valuations are factoring in an oil price of US$75-80 per barrel. At an oil price of US$75-80, COS would be on a 10-15% free cash flow (FCF) yield, with the ability to pay out a large percentage of this as a dividend. As a high cost producer, COS does carry some risk, but with its value backed by its huge reserve base (which would be of interest to many strategic acquirers), it deserves a place in the Fund's portfolio.

Outlook

For Australian investors, international equities still look promising. The Australian dollar should continue to weaken as a number of our major industrial sectors (mining, etc.) come under pressure and we get further rate cuts.

The Fund continues to rotate into neglected areas of the market. In addition to the oil names discussed above, we continue to add to our holdings in China and India.

Platinum Asia Fund

Joseph Lai Portfolio Manager

Disposition of Assets

REGION	MAR 2015	DEC 2014
China (Listed Ex PRC)	22%	25%
China (Listed PRC)	15%	14%
Hong Kong	3%	2%
Taiwan	1%	1%
Greater China Total	**41%**	**42%**
India	19%	19%
Korea	12%	13%
Philippines	6%	6%
Thailand	6%	6%
Malaysia	3%	4%
Singapore	2%	2%
Vietnam	2%	2%
Indonesia	1%	2%
Cash	8%	4%

Source: Platinum. Refer to Note 3, page 40.

Performance

(compound pa, to 31 March 2015)

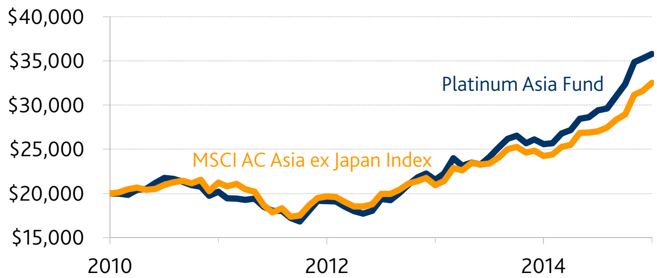
	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund	11%	40%	23%	12%	18%
MSCI AC Asia ex Jp Index	12%	34%	18%	10%	11%

Source: Platinum and MSCI. Refer to Note 1, page 40.

The benchmark MSCI All Country Asia ex Japan Index (A$) was up 12% for the quarter and the US dollar's continued strength added to returns for local investors. The Fund's minimal Australian dollar exposure meant its devaluation accrued to performance. The Fund achieved a return of 11% for the quarter, slightly short of the benchmark, but well ahead over longer periods.

Value of $20,000 Invested Over Five Years

31 March 2010 to 31 March 2015



Source: Platinum and MSCI. Refer to Note 2, page 40.

Stock markets in the Asian region delivered reasonable returns against a backdrop of cheaper oil prices. The Chinese A-share market (+15%) continued its strength from the previous quarter. The authorities pushed on with their reform agenda and implemented policies to support real estate which bolstered market performance. The Philippines (+10%) benefited from the structural trend of growing homebound remittances from those working overseas (now exceeding US$2 billion a month) and the development of capabilities to undertake business process outsourcing from foreign corporations (i.e. call centres, back office outsourcing).

The Fund's key contributors were **Hyundai Development** (Korean property developer, +47%), **SAIC Motor** (the GM and Volkswagen joint venture in China, +16%), and **Ayala Land** (the dominant Philippine property developer, +15%). Chinese Internet stocks also contributed to gains, with **Tencent Holdings** (China's Facebook, +31%), **Qunar** (China's TripAdvisor, +45%), **58.com** (China's Craiglist, +27%) and **JD.com** (China's Amazon, +27%). Key detractors were predominantly the Fund's smaller holdings.

Changes to the Portfolio

The Fund's invested position declined slightly from 96% to 92%. We took profit on **Yonyou Network Technology** (a Chinese enterprise software company). The stock spiked after announcing its foray into cloud computing, sending it to 60x prospective earnings! We also took profit in **Hyundai Development** as it reached our assessment of fair value, but we continued to participate in Korea's simmering property market recovery through our positions in the very attractively valued Korean financial companies.

We started a position in **Qingdao Haier**, a dominant white goods manufacturer in China. Headed by a visionary chairman, it has an innovative culture, a broad product portfolio and an enviable distribution network. We also added to **Weifu High-Technology Group**, a best-in-class manufacturer of truck engine components which saw a dramatic rise in demand with the implementation of more stringent emission standards in China.

In India, we added to **NTPC** and **GAIL**, leaders in the hitherto trouble-prone *power* and *gas* sectors. With these sectors on the mend, these attractively valued companies look set to prosper!

The Fund maintained a minimal exposure to the Australian dollar.

Commentary

China

As China continued its gradual slowdown, the Chinese stock market climbed another 15% on the back of enthusiasm over economic reforms. The Chinese Premier, Li Keqiang, made the following statements in March at the National People's Congress (NPC) – China's annual legislative session.

Answering questions on difficulties undertaking economic reforms, Li said:

> *Pain is only natural, but however painful it may be, we are determined to keep going until the job is done.*
>
> *The government must not secretly hold onto powers that should be delegated – releasing the hand brake while still keeping the foot brake on.*

To understand China's reforms, we have to start with an improbable story: entrenched interests were littered over this vast nation after a decade of breakneck economic prosperity, the one-party government was perceived as out of touch, corruption was widespread, and pollution was a serious but conveniently ignored issue.

Most observers correctly recognised that significant reforms were needed, but for the government to garner sufficient trust and support to overcome staunch resistance was thought to be impossible. Indeed, it required extraordinary determination from the country's leadership. Upon gaining power, the current leadership team embarked on significant reforms to lay the groundwork for the next chapter in China's remarkable story.

The previous model of growth had reached the end of its useful life as the country did not need to add more steel or cement capacities. The level of construction activity had obviously peaked. The focus therefore was to tilt the economy from secondary industries (manufacturing and investment) to tertiary (services and consumption). For this to occur, monumental institutional efforts were needed.

The relatively *simple* reforms of allowing the market to determine interest rates, improving efficiency of State-owned enterprises, implementing stricter environmental laws and combating corruption are ongoing. More *complex* cultural shifts are now underway, including a push to improve transparency and predictability in China's judicial system, strengthening intellectual property protection and improving accountancy system integrity.

The desired outcome of these reforms is quite clear: to move towards a more equitable society, so that the majority, not just the elite, can share in the spoils of economic progress. As this dramatic transformation occurs, new fascinating investment opportunities will emerge.

We have written about our relatively sanguine attitude towards China's ability to deal with the bad debt arising out of the spending binge in response to the global financial crisis. The bulk of that investment went into infrastructure. While some of these capacities were brought on ahead of demand, they remain assets for the country's future growth.

It must be remembered that China is a substantial and complex economy (US$10 trillion in GDP), has savings (current account surplus of US$500 billion) and its government is relatively un-indebted. It has the resources needed to deal with the bad debts. During the quarter, the authorities took over US$160 billion worth of problematic local government debt, effectively bailing out the banking system, and promising more, if needed! Further, new regulations in the financial markets added much transparency to the shadow banking system, reducing the chance of a further pile-up of bad loans.

With the country's prospects improving, local punters returned to the stock market in droves, deserting the relatively dull property market. One indicator to watch is the number of new stock trading account openings. These are reported weekly and have recently exceeded the million-per-week mark (see chart on page 4)!

We are participating in the A-share market and our exposure in well-positioned companies in the consumer and services sectors of the economy (life insurers, Internet, jewellers, auto companies and telecoms) will benefit from China's economic transformation as they develop into bigger companies.

India

In India, too, things are improving. Over the last five years, civil servants were shocked into a state of paralysis following a spate of scandals and scams. The power sector went bust as a result of politically-motivated undercharging as well as outright theft. Coal production was hampered by a lack of infrastructure for transport and equipment for mining. The country's banking system was impaired by countless stuck projects due to land acquisition and various regulatory clearance issues.

We visited India during the quarter and witnessed promising reform progress. Structural problems were recognised and solutions found. Many infrastructure projects were *de-bottlenecked* and key bills were passed into law. Road construction, which has already picked up from 2 km a day to 15 km a day, is set to ramp up further to 30 km a day in 12 months!

The bull case for India is relatively straightforward. Infrastructure investment (to build roads, power and telecom networks) can kick start a virtuous cycle of improving the ease of doing business, unleashing private entrepreneurship, thereby generating the income needed to fund further investments. Undoubtedly, India is only at the beginning of this arduous and exciting journey. Our exposures in the attractively valued infrastructure and property sectors will benefit significantly as the capex cycle gathers momentum.

Outlook

The Indian government has taken steps to reverse the economic malaise caused by bad policy and the self-enriching behaviours of the infamous middlemen, and an incipient capital expenditure cycle, led by road construction, is in the offing. If the government can deliver on further reforms, India will undoubtedly be one of the most exciting investment stories of the decade. However, one has to caution against complacency as Indian politics can yield uncertain outcomes.

In China, the enterprising services sector is rising at a frantic pace. Economic liberalisation has reversed economic distortions, unleashing the *animal spirits* of the private sector. The reforms and loosening policies that are already in train need to continue in order for the market to go further, given the strong returns already achieved over the last two quarters.

The rest of Asia is not standing still. Countries such as Indonesia, Thailand, Malaysia and Vietnam, with exceptionally attractive demographic profiles, are embarking on much needed infrastructure expenditure programs to propel their economies into better trajectories.

We are cognisant of the new and exciting companies borne out of the economic transformations in Asia. Stock markets in the region remain attractively priced, and we are relentlessly searching and prioritising the most attractive opportunities to allocate the Fund's capital.

Platinum European Fund

Clay Smolinski Portfolio Manager

Nik Dvornak Portfolio Manager

Performance

(compound pa, to 31 March 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund	10%	13%	19%	14%	12%
MSCI AC Europe Index	11%	14%	20%	10%	3%

Source: Platinum and MSCI. Refer to Note 1, page 40.

There was no shortage of action in European markets this quarter. Share prices rose 11% on average. The German DAX was up 22%, leading the charge, while the Swiss and British indices were notable laggards. In currency markets, the Euro depreciated 11% against the US dollar. Bond yields continued to grind lower. The yield on the 10 Year German Bund more than halved to a miserly one-fifth of one per cent (0.2%) and Portugal now finds that it can borrow more cheaply than the United States of America.

Disposition of Assets

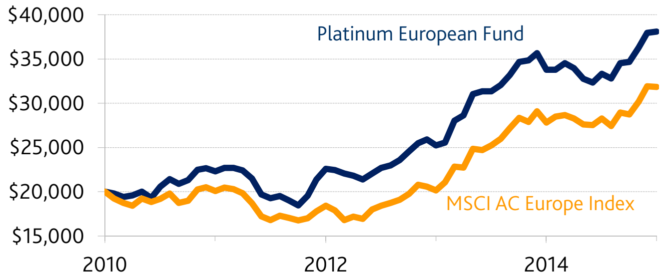
REGION	MAR 2015	DEC 2014
Germany	20%	24%
UK	19%	24%
France	8%	8%
Italy	7%	7%
Spain	7%	5%
Russia	3%	3%
Switzerland	3%	3%
Austria	3%	3%
US *	3%	4%
Norway	2%	2%
Netherlands	2%	2%
Sweden	1%	1%
Turkey	1%	1%
Cash	21%	13%
Shorts	1%	1%

* Stocks listed in the US, but predominant business is conducted in Europe.

Source: Platinum. Refer to Note 3, page 40.

Value of $20,000 Invested Over Five Years

31 March 2010 to 31 March 2015



Source: Platinum and MSCI. Refer to Note 2, page 40.

The European Central Bank's (ECB) open-ended commitment to buy 60 billion Euros' worth of public sector debt **EVERY MONTH** played no small part in all this. Many investors attribute economic recoveries in the US and the UK to Quantitative Easing (QE) and anticipate similar outcomes in Europe. Even those who harbour doubts about what QE can achieve acknowledge its effect on asset prices.

Responding to the currency weakness, investors bid up the price of exporters and companies with significant overseas earnings, particularly cyclical ones. Automotive stocks were the best performers, followed by process industries. With no yield to speak of in government bonds, investors sought it out in stocks. Domestic-focused sectors with respectable yields performed well, notably Property, Insurance and Telecoms. The laggards were Energy, Mining and Banking. The Emerging Markets of Eastern Europe remain firmly out of favour.

The Fund returned +9.9% for the quarter and +12.8% over 12 months. Our cash balance is large and growing as we struggle to find attractive investments at today's valuations. Holding cash is weighing on our performance in a rising market. By going against market momentum in this way, we are sacrificing short-term performance for the flexibility to capitalise on what will, hopefully, be much better opportunities down the track.

Changes to the Portfolio and Commentary

Enterprise Inns suffered an adverse change in legislation which limits its ability to use the "beer tie" that once forced tenants to buy beer from the company at inflated prices. Enterprise Inns has been a profitable investment so far and we believe there is still significant value on the table. However, extracting it for shareholders will be a lot trickier now. We reduced our position to reflect this.

We also reduced a number of holdings where we think the market valuation flatters the fundamental prospects of the underlying business. These include automakers **BMW** and **Daimler**, molecular diagnostics company **Qiagen** and financial market organiser **Deutsche Börse**. Finally, we sold out of pulp company, **Mercer**, where the investment case has mostly played out.

Taking advantage of the negative sentiment towards oil-related stocks, we added to our investment in pipeline inspection company, **Applus**. The shares have appreciated since our initial investment, but valuations remain attractive and a recent update by the company lends support to our investment thesis.

We also added to our holding of **Turkcell**, the dominant mobile phone company in Turkey. There are a number of things we like about it. The market is growing fast and the pending introduction of fourth-generation (4G) services will add to demand. With only three service providers, the market should lend itself to rational competition. Moreover, the company is well-positioned, having the best network in the country, enjoying a 50% market share and generating plenty of surplus cash with no debt.

The main complication with Turkcell is that competition has been anything but benign. For the last half-decade, the regulator did all it could to hobble Turkcell while its competitors, Vodafone and Turk Telecom, cut prices to take market share. The regulator wanted a more balanced market. This has now largely been achieved with a 50/30/20% breakdown of market share and, in any event, there is little more the regulator can reasonably do. Meanwhile, Turk Telecom, historically the price aggressor, continues to lose money in mobile. With its fixed line business slowly decaying and a 4G spectrum auction looming, Turk Telecom faces some hard choices. We are hopeful that their *recently announced price increases* signal an end to the long-running price war.

While there is an ongoing feud among Turkcell's three largest shareholders, they recently buried the hatchet long enough to announce a special dividend (14% of the company's market cap!) and an intention to resume regular dividends.

The business is expected to grow 10% per annum; its margins are suppressed; there is no debt; and an ongoing 4% dividend yield is easily achievable. At 12x earnings, we smell an opportunity here.

Our largest investment during the quarter was in Spanish airport network owner and operator, **Aena**. Airports are natural monopolies. Noise, pollution and traffic problems make it hard to build competing assets, even when suitable land is available. Meanwhile, demand for the service tends to be very price inelastic.

While pricing is regulated, Spain is moving to a "dual-till" approach with the pricing of non-aeronautical services (e.g. retail rents, car parking) to be progressively deregulated over the next five years. On our numbers, Madrid and Barcelona earn significantly less non-aeronautical revenue per passenger than other major European airports, providing an avenue for profit growth. Looking at car parking fees, for example, we found Madrid and Barcelona were orders of magnitude cheaper than other major European airports (not to mention Sydney).

The other attraction of this asset is that Spain has invested huge amounts of money in infrastructure over the last two decades. Unlike many European airports, Spain's network is new and has the capacity to handle far greater passenger numbers. With no additional investment needed, all the cash generated by these airports can be applied to debt repayments and dividends.

We bought the company for 10x free cash flow. Initially, this cash flow stream will be used to repay debt, but much of it can be redirected to dividends in the latter part of our investment horizon. In a world starved for yield, this highly defensive and cash generative business appeared seriously mispriced.

Outlook

As investors gravitate towards Europe, attractive investments are becoming increasingly hard to find. At the same time, we feel compelled to reduce holdings where valuations are at odds with the prospects of the business.

This leaves the Fund with a large, and growing, cash holding that will drag our performance should markets continue to march higher (and, equally, protect us in the event of a reversal). We understand that this may frustrate some investors, but would encourage them not to extrapolate from recent experience which has been truly extraordinary: the 22% quarterly appreciation of the German DAX index is the third highest quarterly return in the history of this index and its highest first quarter return ever.

We would sound a similar cautionary note on the currency. The 11% depreciation is the Euro's worst quarterly performance against the US dollar in its history and comes on the back of depreciations in the prior two quarters. The Eurozone was internationally competitive at much higher exchange rates and since 2012 that competitiveness has become much more widespread. Where in the past Germany's surplus offset deficits elsewhere, today most countries in the Eurozone run current account surpluses. And this was true before the recent 11% depreciation! Thus, while we maintain a 22% exposure to the US dollar, we are inclined to buy the Euro if it continues to weaken.

The most notable feature of Greece's current confrontation with the European Union (EU) is the market's complacency about the very real possibility of Greece defaulting on its debt and leaving the Euro. Much of the groundwork for a Greek exit was laid following the country's 2012 sovereign debt crisis and the ECB's buying of government debt seems likely to steamroll any ructions in bond markets. However, the situation does bear close scrutiny as the anti-EU message is increasingly resonating with voters across Europe, especially in Spain and France.

Platinum Japan Fund

Scott Gilchrist Portfolio Manager

Quarterly Haiku

Pension fund whales flail.

Abe conducts, bonds crack, stocks rise.

FANUC's robots dance.

Disposition of Assets

REGION	MAR 2015	DEC 2014
Japan	88%	81%
Korea	6%	8%
Cash	6%	11%
Shorts	0%	3%

The Fund has a 5% short position in Japanese Government Bonds.

Source: Platinum. Refer to Note 3, page 40.

Portfolio Position

Sector Breakdown

SECTOR	MAR 2015
JAPANESE INTERNATIONAL FOCUS	44%
Electronics (Canon, Panasonic)	25%
Autos (Toyota, Sumitomo Electric)	12%
Industrials (Tokyo Steel, Mitsubishi Heavy Industries)	5%
Resources (Sumitomo Metal Mining)	2%
JAPANESE DOMESTIC FOCUS	44%
Internet (DeNA, NTT, Recruit)	15%
Consumer (Pola Orbis, Asahi)	9%
Health Care (Mitsubishi Tanabe, Daichii Sankyo)	9%
Financials (Mitsubishi UFJ)	9%
Property	2%
KOREA	6%
Electronics (Samsung Electronics)	3%
Financials (KB Financial)	2%
Domestic	1%
GROSS LONG	94%

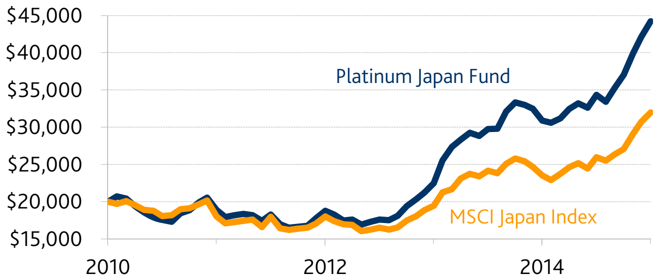
Currency Position

US dollar	46%
Japanese yen	46%
Korean won	6%
Australian dollar	2%

Source: Platinum

Value of $20,000 Invested Over Five Years

31 March 2010 to 31 March 2015



Source: Platinum and MSCI. Refer to Note 2, page 40.

Some of the key themes in the portfolio, in addition to the individual stock ideas around which the portfolio is built:

- Globally competitive exporters – **Toyota**, **Canon**.
- Electronics and components – **Samsung**, **Ibiden**.
- Corporate revitalisation – **Panasonic**, **Mitsubishi Tanabe**, **Mitsubishi Keiretsu**.
- Internet – **NTT**, **DeNA**, **Recruit**.
- Alternative energy – **Rohm**, **Sumitomo Electric**, **Denso**, **Hitachi Chemical**.
- Cheap, neglected cyclical stocks – **Sumitomo Metal Mining**, **Asahi Glass**.
- Domestic consumption – **Pola Orbis**, **Asahi**.

Performance

(compound pa, to 31 March 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund	19%	43%	33%	17%	16%
MSCI Japan Index	18%	36%	21%	10%	2%

Source: Platinum and MSCI. Refer to Note 1, page 40.

Portfolio performance for the quarter was positive (+19.5%), assisted by some of the larger positions (**Canon**, **Pola Orbis**, **Asahi Glass**, **Mitsubishi Tanabe**, **Daiichi Sankyo**, **NTT**, **Mitsubishi UFJ Financial Group** and **Toyota Industries**). The Fund's eclectic Internet holdings (**Next**, **En-Japan** and **Recruit**) also contributed to performance. Corporate actions at **DeNA** (+67%, new Nintendo relationship) and **Yamada Denki** (+24%, activist shareholder) were positive. The Fund reduced its small exposure to energy, raw materials and cyclical industries. Some Japanese exporters and heavy industry holdings detracted from performance while the Korean holdings were positive for the Fund. The temporal underweight in Japanese equities was the main headwind to relative performance. The Yen and Won both strengthened against the Australian dollar during the quarter, which significantly benefitted AUD-denominated returns. The Yen was flat against the US dollar for the quarter.

Changes to the Portfolio

It was a busy quarter for the Fund, with many changes to both overall portfolio structure and position sizing. Over the last four months:

- the shorts were closed,
- seven equities were removed from the portfolio,
- nine new equities were purchased, and
- the position size of eight core holdings was adjusted.

The summation of these stock level decisions is a refreshed portfolio consistent with the Fund's long-term historical structure and intellectual framework which has proven successful for the last sixteen years. Since new management took over recently, half of the Fund's top ten positions have changed, which is also reflected in the overall portfolio.

Following the removal of the Nikkei short position last quarter and the subsequent buyback of the Topix Real Estate short position, the net holdings of Japanese equities increased to 88%, a well-timed 12% increase. Cash holdings dropped accordingly after net new investments. Together with the Fund's Korean holdings, the portfolio reached what can be considered a fully invested position during the quarter.

The other change of note was the significant reduction in the Japanese Government Bond (JGB) short position. The key liquid "10 year JGB" futures contract is deliverable and market participants have generally found an optimal arbitrage with their seven year bond holdings. Consequently, the downside to the short position was limited as those instruments trade near or below zero yields. The yield on this bond tripled one day recently, from two basis points to six! For the moment, given the size of the Bank of Japan's (BOJ) ongoing purchases of JGBs, the Japanese bond market appears to be an artificial market with no imminent sign of real stress. Thus, the majority of the Fund's JGB short position was closed due to limited upside potential. Our lack of expertise in what is a highly analysed market contributed to this decision (refer to Commentary below for further discussion). It remains an asymmetric investment.

Commentary

The key events and stories of the quarter seem unrelated, but on deeper inspection, there is a common brush which connects them and which led to the key feature of the quarter: equity market outperformance. Listing some key news items:

- FANUC agreed to engage with the outside world.
- Nintendo will work with DeNA to bring Mario to mobile gaming.
- "Dependable" stocks such as consumer and pharmaceuticals rose to bubble level valuations.

- A range of smaller pension funds announced portfolio changes similar to the Government Pension Investment Fund (GPIF).
- Surging inbound tourists scoured rice cookers from shelves.
- Domestic wages rose for the first time in over a decade at many firms.
- The Japanese stock market hit 14 year highs.

Valuations

While valuations of the overall Japanese stock market remain within historical norms, there are parts of the market which are hard to comprehend from a value investor's framework. For example, Kikkoman, Yamazaki Baking, Ito En and Calbee have price to earnings ratios (P/E) approaching 50. Soy sauce, bread, tea and chips are generally good branded businesses, but these particular ones are expensive relative to both their history and global comparatives. The key reminder from a recent personal meeting with Robert Shiller, Nobel Laureate, was that bubbles exhibit psychological characteristics making timing almost impossible to assess. Such waffly language is difficult to fit into a spread sheet or a back-tested model, thus many modern mavens eschew such real world thinking. This snack food valuation distortion is also reflected in many other Japanese stocks in discrete parts of the market.

Two new market participants seem to be driving this multiple expansion: "smart beta" and pension funds. The GPIF and its many smaller brethren are rapidly shifting their portfolio allocations from bonds to equities and, in the process, are searching the equity markets for companies with duration. This isn't easy as only 2% of listed entities survive 30+ years on the Darwinian savannah. "Smart beta" is not a concept which we find easy to comprehend. It has its background in the same basic criteria that attract the pension funds, but with added emphasis on high dividend yield and low volatility. The underlying principle for both groups is that a P/E of 30, which is equivalent to an earnings yield of 3%, or a P/E of 50, which is an earnings yield of 2%, are far more attractive than a ten year bond yield of 0.4% or negative yields at shorter durations. Life is rarely as straightforward as implied by this analysis. One wide-ranging market strategist has been joking that the logical price for equities in this environment is infinity, perhaps reminiscent of Zimbabwean monetary hyperinflation. While the trajectory of this trend is unclear, the short-term effect is obvious.

The opposite of the above heats are the neglected sectors of resources, banks, trading houses, industrials and autos. In this group, single digit P/E multiples abound as the herd rightly eschews businesses with any, even tenuous, connection to China's property, infrastructure and equipment sectors. Negotiating the highwire described above is undoubtedly tricky, but also presents attractive rewards.

Some of the Fund's more recent acquisitions have been in the neglected areas of the market. Three smaller companies have been purchased which have cash and investments roughly equivalent to their market cap in addition to solid operating businesses. It appears that FANUC's decision to adjust their stance towards investors was made as part of a completed circle, including the highest levels of political power, domestic funds, external advisers and foreign investors. This increasing focus on return on equity (RoE) is seen throughout the market with share buybacks at high levels and overseas acquisitions continuing to be a focus. Japanese corporate margins are at record highs and the key detractor from overall returns is balance sheet structure. Outside the small delights described above, it is not uncommon to find large companies with outsized opportunities to become more financially efficient and it seems that this process is accelerating with broad acceptance of the new paradigm. Somewhat surprisingly, after many years of resistance, quite a lot of the shareholder activism prevalent in the West has recently found traction in Japan where Institutional Shareholder Services Inc. (ISS), a shareholder advisory group, is increasingly working to implement changes in corporate governance. Recent meetings with senior global strategists highlighted that Japanese monetary conditions are properly accommodative for the first time since the "bubble years of the late 1990s". If this fluid environment continues, then it would not be hard for Japanese equity markets to continue to perform strongly through the business cycle over the years ahead. In terms of market sentiment, a recent survey places Japan as one of the top three overweight Asian equity markets as well as a top three underweight market – lots of both love and hate. Current valuations do not reflect the focus on improving returns. Our broker community is certainly verbally bullish, but if you scratch the surface a bit, they are very reluctant to believe in the sustainability of the market. Japan remains an under-serviced market. As the bull market matures, it should be expected that the breadth will extend to more neglected parts of the market.

Monetary Policy

The monetary situation in Japan, as described through the lens of the JGB market, can likely be seen as a template for Western economies over the next decades. After two and a half decades post "the Bubble", the current sole primary outcome of the BOJ's recent balance sheet expansion has been cited as lower interest rates. They manufacture new digital money, buy JGBs at a high price from the secondary market, then give the cash to the vendor who then deposits it with the BOJ either directly or through intermediaries. The loan-to-deposit ratio across the system, excluding cash on deposit at the BOJ, is still below 80%. So there is more than enough balance sheet capacity for increased lending, absent a major reallocation of system assets which may finally be happening if recent investment fund flow data continues to surprise. For the first time in a few years, it appears as though Japanese loan growth is rising faster than deposit growth (5% versus 4%), so it seems almost impossible for interest rates to rise based solely on the supply and demand for cash in the system. Of course, it's not a completely fungible market across regions and products, so there might be a few areas of increased yields, but for the moment, yields keep drifting down. The increased loan books offset the falling net interest margin at many regional banks, leading to flat to slightly rising profits. The Fund holds positions in the mega banks which have limited profit exposure to domestic net interest margins and would benefit from higher rates.

As the BOJ continues to expand its balance sheet at a rapid rate, it has wide-ranging financial market effects. The key discussion in the bond market has been the coming lack of liquidity as the "easy-to-pry-loose" JGB supply becomes exhausted and the remaining pension fund, insurance and banking holdings cannot be sold to the BOJ for a range of regulatory, duration matching and asset liquidity reasons. It is not clear when this hard limit will be reached as various key commentators say that it should have already passed. This event has the potential to lead to further bond price rises as the BOJ has purchase volume requirements and is not price sensitive. It is possible that the market will see negative yields across the full curve if this occurs. In contrast to this extraordinary potential outcome, the current process appears seamless as the BOJ is merely acquiring assets from large entities who are reallocating assets from bonds to equities, similar to an off-market trade.

While the BOJ and other government entities appear to dominate the bond market, there are still many bond market participants who are driven by the aim of making a profit. This group of natural buyers seem unwilling to own JGBs at these historically low yields. Based on historical economic analogues, Japanese interest rates should be rising cyclically and the yield curve should be flattening in contrast to the current stagnation. There is a lot of debate about the yield which would entice natural buyers back. The current calm is dependent on policy and legislative continuity. If the intention of monetary policy is low - but rising - inflation, it would seem critical that interest rates be controlled.

One second order effect of the BOJ's activity has been to weaken the currency, thereby remaining deep in the peloton, and consequently assist a wide range of Japanese companies, including the autos and a myriad of exporters and inbound tourism companies. The share price of Zojirushi, a famous maker of rice cookers, has doubled in the last three months. Their appliance plays a song when the subsidised domestic rice is cooked to perfection, though it also seemingly plays a stirring rendition of Xi Jinping's wife, Peng Liyuan's, favourite songs, as the Chinese tourists to Japan are keen buyers.

The great puzzle is how the BOJ deals with its more than 100x geared balance sheet. Default or inflation? Does the Japanese government have zero debt or a lot? Perhaps there exists a solution where an agreement is made to write off the BOJ's and other government entities' holdings of JGBs and print cash for the private sector in return. It is currently beyond our capacity to unravel this situation to our satisfaction.

It is arguable that the overall financial system problem is a lack of Yen revenue relative to the substantial and growing asset base. The recent monetary strategy is clearly an attempt to incentivise activity through higher asset prices as there certainly isn't any shortage of cash in the system, whether it's households, corporates or banks. Despite more than two decades of deflation, there still aren't enough good domestic projects to utilise the available investment capacity. Japanese foreign manufacturing investment continues apace while domestic re-shoring is mainly in the newspapers. Meanwhile the domestic economy continues to move along at a slow, but steady, pace.

By contrast to the above discussion of low interest rates, a recent study of inflation by the Bank for International Settlements predicts that the natural CPI, given Japan's demographic and economic structure, is 2-3%. This would be a complete surprise to almost all market participants.

Asian Infrastructure Investment Bank

The Japanese have recently been bidding for long-term energy supplies that do not traverse the South China Sea or the Straits of Malacca. This is in reaction to announcements by China relating to the Silk Road Fund and the "One Belt and One Road" strategy alluding to historical trade routes. China recently launched the development of the Chinese-led Asian Infrastructure Investment Bank with greater than expected size. It was launched from the Boao Forum in Hainan, a well-known holiday destination. China is now the world's largest physical economy and these recent moves highlight its increasing influence on both Asia and the wider world to the detriment of Japan and the USA. Cuba has emerged from decades of repression with a surge of entrepreneurism and even Iran seems now desirous for constructive dialogue with the Western world (perhaps keeping a cap on oil prices). Hopefully China can steer through its environmental problems and rigid internal control to return to its historical position in the world without causing significant disruption throughout Asia. China's millennia of history were rarely straightforward. The idea of 100 million members of the Chinese Communist Party directing global discourse is rather unsettling to many. China's internal issues are not a new phenomenon, as evidenced by the migration of the country's wealthy to Vancouver's property market since the mid-1990s, a movement which has accelerated in recent years. We were reminded of the problems recently in Hong Kong where the air was acrid and seriously deleterious to our health. Locals there continue to resist Beijing's efforts to dictate their activities, yet lament the loss of mainland tourists to cheaper prices in Japan.

Korea

In recent meetings with a range of Korean companies, valuations were the key attraction, but we are hesitant about increasing our investments in the country despite the market being one of the cheapest in Asia. Firstly, Korea benefitted hugely from China's industrialisation with exports of equipment, ships and a wide variety of manufactures to support the multi-decade growth pulse. However, it appears that the current Chinese adjustment is being felt throughout Korea with empty shipyards, factories and ports which has flowed down through the economy via many ancillary suppliers. Secondly, it appears that Korea is transitioning through a tricky period in terms of corporate governance. The "chaebols" which led the post-war industrialisation are now handing over to the third generation with much lower ownership levels. This is complicated by societal structures carrying over from their not-so-distant feudal, warring past. For example, the many feuds positioning for control and power in the Hyundai Group are compounded by the varying genetic mixtures across the entities. While the Samsung Group may have avoided such obvious complications as Mrs Lee was strong enough to keep the mistresses' children off the main household register and in the "little house", much of the wider family are involved as suppliers to the main entities. These complicated structures are prevalent throughout Asia, with the Korean word for "little house" phonetically the same in Thai. While outwardly many Korean companies seem to operate on Western standards, it seems that their fate is not obviously in their own hands despite large foreign shareholdings. With the health of Samsung's Chairman a topic of much discussion, it appears as though only a core clique of eight know the future structure of that empire. Against this background, the interaction between politicians, the National Pension Service and the grandchildren is in a major state of flux. This puts Korea in an awkward position as China rapidly moves up the manufacturing chain and no large new growth areas or products are visible.

Outlook

Japanese equity indices have risen to multi-year highs. The external backdrop is not particularly supportive, but the domestic monetary situation, asset allocation shifts and balance sheet restructuring in addition to the domestic economy are all positive. We can still find attractive assets on very reasonable valuations and the distortion in relative valuations also presents significant opportunities.

A Historical Note from *Sakamoto, the Man and the Myth*

Born Jan. 3, 1836, Sakamoto was a key figure in Japan's modernization and contributed to overthrowing the Tokugawa Shogunate. Spending his youth in what is now modern-day Kochi Prefecture, Sakamoto demonstrated exceptional talent as a swordsman, but he also had a flare for business.

He is known to have founded Kaientai, an entity that became one of the first modern Japanese trading companies but which also served as his private navy.

Sakamoto was a pro-Emperor, anti-Tokugawa activist who had a vision of ending feudal reign and swiftly modernizing a country that had isolated itself from the rest of the world. He played an important role in uniting what were then Japan's two most powerful local governments: the Satsuma and the Choshu. The union eventually became the driving force that ended more than 260 years of Tokugawa reign.

Sakamoto was assassinated together with his close friend Nakaoka Shintaro in 1867 during their stay at an inn in Kyoto. Pro-Tokugawa assailants were believed behind the assassination, but the true killer remains a mystery to this day.

Sakamoto is among those enshrined at Yasukuni Shrine in Tokyo.

-- by Jun Hongo, The Japan Times

Platinum International Brands Fund

Simon Trevett Portfolio Manager

Disposition of Assets

REGION	MAR 2015	DEC 2014
Asia and Other	33%	33%
Europe	30%	31%
North America	11%	11%
Latin America	7%	7%
Japan	4%	5%
Africa	2%	1%
Russia	1%	2%
Cash	12%	10%
Shorts	4%	5%

Source: Platinum. Refer to Note 3, page 40.

Performance and Changes to the Portfolio

(compound pa, to 31 March 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund	9%	13%	17%	13%	13%
MSCI AC World Index	10%	28%	23%	13%	2%

Source: Platinum and MSCI. Refer to Note 1, page 40.

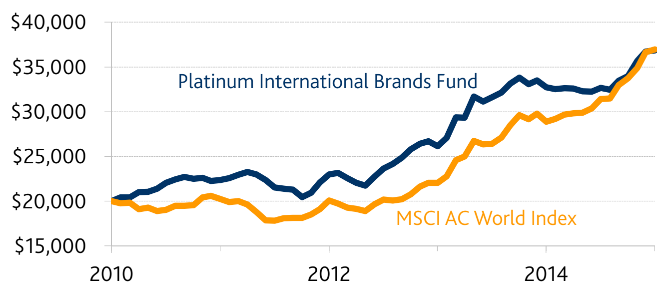
The improving performance of a number of the Fund's larger holdings continued with strong returns from the European investments. Notably, **Pernod**, **LVMH** and **Henkel** all produced gains of 20% with standout gains of more than 30% from **BMW** and the Portuguese retailer **Sonae**.

Offsetting those exceptionally strong gains have been declines in the Fund's Jewellery holdings. **Chow Tai Fook** sold down on the difficulties of Hong Kong protests and the dampening effect that had on upmarket tourists. The Fund added to holdings in both **Chow Tai Fook** and **Tiffany**.

A number of long-held positions have been reduced or sold. First introduced to the Fund in 2007, **BMW** shares were

Value of $20,000 Invested Over Five Years

31 March 2010 to 31 March 2015



Source: Platinum and MSCI. Refer to Note 2, page 40.

bought in the low €40s following which the GFC-induced panic saw the opportunity to buy this company at under €20 per share. Although the Fund did find the offer to buy at a value less than the physical assets somewhat irresistible, we can't claim much credit for sensibly buying a great deal of the stock at that time, rather succumbing to the concerns of the day and as is often the case with hindsight, subsequently regretting the lack of conviction. Nonetheless, the performance of this company and the share price gains to above €110 have been exemplary, so with the current investor exuberance in Europe, particularly Germany, the Fund has taken the opportunity to sell.

Almarai, the Saudi dairy group, has performed well for the Fund and was sold in favour of increasing the weighting to Chinese consumers and the more attractive valuations found in that market.

The Australian dollar exposure of the Fund remains at a minimal level.

Commentary

The unnamed company referred to in the "Outlook" section of the prior quarterly report was **Renault**. The share price increased some 40% in the quarter and, although that's rather faster than we imagined, it's still a position we are confident to maintain. The projected uplift in factory utilisation given the launch of a number of new models, together with orders to manufacture for Nissan and Daimler, should underpin a significant lift in profitability. With the launch of new models into an environment of lower-for-longer interest rates, falling unemployment and with overall demand still below the levels of 2007, there's potential for the company to have a robust few years.

The investment in Renault and, as described in our previous quarterly report, **Piaggio**, together with a number of other holdings, are consistent with the Fund's investment renewal in Europe (outside of Germany).

Since 2012, China has supplied the world with the largest number of travellers, some 109 million in 2014, spending US$164 billion, with shopping and gaming making up the bulk of the spend. Yet only 5% of the population hold a passport. Is that a relevant statistic or one more likely to mislead through rampant extrapolation? Finding a consistent definition of "middle class" can be problematic, however, it's likely that it's closer to a third of the middle class that hold passports.

Projecting the potential for outbound tourists from China, by comparison with the US or Germany, without considering the many constraints, yields fantastic and unbelievable numbers. So how might we realistically determine the scope of those travelling overseas in the next few years?

The Chinese government is supportive of the tourist industry. As might be expected, their priorities are set in order of domestic (three billion trips by Chinese tourists within China), inbound tourists and outbound tourism. They aim to have tourism at 4.5% of GDP and to more than double domestic tourist receipts to US$900 million by 2020. There is clearly an appreciation of the importance of this industry in facilitating the growth of the service sector and the benefits of increasing employment without placing further undue demands on the import of resources.

The government has been supportive with its policy implementation, notably in enforcing a paid leave policy and in negotiating simplified visa requirements. Outbound tourism also appears to hold a place of some importance as a foreign policy tool. Perhaps it's not hard to contemplate that this could become an increasingly effective negotiating point when one considers the government anticipates and encourages a fourfold increase in outbound tourists over the next five years: some 400 million travellers! It's difficult to comprehend that scale or the speed at which this can happen. Those readers that can recall the impact of the Japanese tourists in the 1980s might consider that the number of Chinese tourists is currently close to passing the entire Japanese population.

That Hong Kong has been a shopping destination for the richer Chinese has been well understood. So the riots with accompanying anecdotes of empty shops have had an obvious detrimental effect. Beyond these headlines it's worth observing that Hong Kong had already become less affordable and considerably more expensive than other destinations including Seoul and more recently Japan, which has seen a major lift in tourists and their spending power.

If we were to consider just the purchase of cosmetics, with major brands readily available in all destinations, there's a fourfold increase in average spend by Chinese tourists in Korea compared to Hong Kong.

Whilst the bulk of travel is currently within Asia, the decline of the Euro has made Europe an increasingly attractive destination, admittedly at this stage for the more affluent or experienced traveller. The price gap for luxury items has once again expanded such that some companies are placing limits on the number of items that can be bought with ongoing anecdotes of tour buses feeding lengthy queues for cosmetics and luxury products.

The Fund holds a number of positions in cosmetics companies set to benefit from the surge in the travelling middle class intent on shopping.

The reader might easily conclude that all our investment roads lead to or from China and whilst we are enthused with the potential and the valuations on offer we continue to find opportunities in other parts of the world.

Grupo Exito is a leading retailer in Colombia. Colombia has a population of 48 million with some 55% under 29 years of age. The middle class is growing – 28% of the population, nearly double from a decade ago, and Colombia is increasingly recognised as an investible destination.

Grupo Exito has a leading market share at 42% of the formal retail market, more than twice the nearest competitor. The formal market accounts for just over half the retail market. As is with the experience in many countries including Australia, this presents an opportunity for multi-year growth. Reward cards, complementary businesses in travel, money transfers, insurance along with close to half of the company's US$4 billion market capitalisation in cash and property, imply an attractive valuation for a growing retailer.

Outlook

The themes within the Fund – tourism, the growth in the disposable income of young populations, the slow renewal in parts of Europe and a catch-up by some investments that have lagged the broader market – are encouraging. The Fund continues to find opportunity in regions outside of the US and Europe where valuations for the major consumer goods companies are increasingly looking expensive, even at low discount rates.

Platinum International Health Care Fund

Bianca Ogden Portfolio Manager

Disposition of Assets

REGION	MAR 2015	DEC 2014
Europe	35%	41%
North America	29%	31%
Japan	5%	5%
Asia	2%	0%
Australia	1%	1%
Cash	28%	22%
Shorts	1%	1%

Source: Platinum. Refer to Note 3, page 40.

Performance

(compound pa, to 31 March 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund	15%	34%	30%	20%	10%
MSCI AC World HC Index	16%	47%	37%	22%	10%

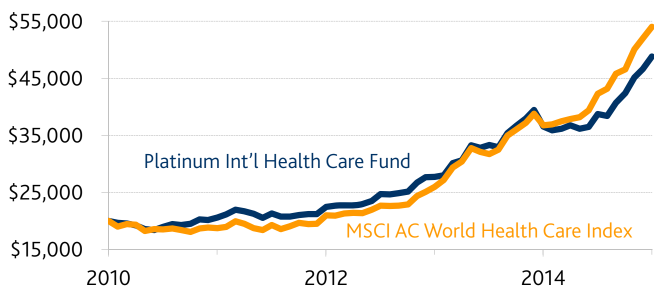
Source: Platinum and MSCI. Refer to Note 1, page 40.

The last few months have seen a continuation of strong share prices for the pharmaceutical and biotechnology sectors: the MSCI All Country World Health Care Index advanced 8% in US dollars over the quarter and a handsome 16% measured in Australian dollars. Growing concerns over a "biotech bubble" were outweighed by steady buying from investors – and unsteady, panic buying by big pharmaceutical companies[1]. In the background, some encouraging trial data is feeding hopes for growing sales in specialised cancer therapies, while on the other hand, market and regulatory mechanisms to counter soaring expenditure on biological drugs are progressing.

1 Few commentators attempted a rational defence of AbbVie's decision in early March to pay US$21 billion for Pharmacyclics, an oncology company with perhaps US$1 billion revenue this year.

Value of $20,000 Invested Over Five Years

31 March 2010 to 31 March 2015



Source: Platinum and MSCI. Refer to Note 2, page 40.

The Japanese pharma stocks were a particular feature at the top of the performance charts, with **Eisai** advancing 83% after some promising early trial data for an Alzheimer's drug from its partner **Biogen** (intriguingly, investors in Biogen (+24%) were more circumspect in their assessment as the side effects of this promising treatment seem to increase with efficacy at higher doses). **Roche's** partner, **Chugai**, was up 28% for the quarter and PD-1 (immuno-oncology) star, **Ono Pharmaceutical**, advanced another 27% after its partner, **Bristol-Myers**, received a record quick approval from the US Food and Drug Administration (FDA) for use of *Opdivo* as a second-line treatment in squamous non-small cell lung cancer. The drug was approved for use in melanoma in 2014 and is expected to be approved for treatment of several other cancers in the coming years. Elsewhere, the much maligned **Valeant** continued to taunt its critics with the stock up another 50% on the news that it outplayed another "specialty pharmaceuticals" (i.e. growth by acquisition rather than R&D) player, **Endo International**, to successfully acquire the gastro-intestinal drug company, **Salix**, for a "mere" US$11 billion. Valeant unashamedly puts "deal-making" at the centre of its strategy and has apparently done more than 100 transactions since 2008! Investors seem to believe that, despite paying such prices, Valeant can continue to show impressive (perhaps 15% per annum) growth in earnings. The company now has a market value of US$67 billion, not far below that of the venerable[2] **Eli Lilly & Co**.

Perhaps a better illustration of the broad strength of the sector is the scarcity of share price declines so far in 2015. Among the larger companies, **Johnson & Johnson** was down 4%, partly due to the effect of the stronger US dollar on its global business and perhaps more with the threat of "biogenerics" to one of its key drugs (please see below).

The Fund advanced 15% for the quarter, with a solid showing from several of the Fund's European holdings (**Sorin**, **Genmab**, **ICON** and **Recordati** were each up 30-50%) and some strong specific performances elsewhere (Canadian **Trillium Therapeutics** doubled) offsetting the defensive 20%+ cash balance we have held in the Fund over the period.

2 Not really the *vulnerable* Eli Lilly, as that august institution has a very unusual State law protecting it from predation. Otherwise its size and considerable R&D expenditure would surely have it in the cross hairs.

Changes to the Portfolio and Commentary

During the quarter we added a little to the cash balance (which stood at 28% as of the end of March) by trimming positions in some (arguably overheated) biotech names such as **BioMarin**, **Genmab** and **Incyte**. On the other hand, we invested in an interesting Chinese pharmacy chain, which looks well-positioned to benefit from government reforms to the system of medical centre-dominated prescription-filling. Prices at medical centres in China are often inflated relative to high street pharmacies, and there are clear concerns when the medical centre both employs the doctor and sells the prescribed medicine.

German dialysis company **Fresenius** was another source of cash this quarter. We took a position in Fresenius Medical Care last year when it was trading at the bottom of its historic valuation range following several years of being out-manoeuvred by American competitor **DaVita**. Our prognosis at the time foresaw:

i) improving profitability per patient as substitutes to **Amgen's** expensive *Epogen* drug became available;

ii) improving pricing from commercial payers following the renegotiation of contracts in the USA; and

iii) increasing reimbursement for dialysis services in Asia.

The potential for these factors to improve earnings now seems better appreciated by the market and so the Fund reduced its holding following a 50% appreciation in the share price over just six months.

Finally for the quarter, the Fund took a small position in locally listed **Sirtex** following a halving of its stock price when the *SIRFLOX* trial failed to meet its primary endpoint. Sirtex sells radioactive spheres that are used to treat late stage liver cancer (similar to **BTG**, another holding of the Fund). The trial was designed to help expand the potential market by demonstrating efficacy as a first-line therapy for patients with metastatic colon cancer that has spread to the liver. Our assessment was that the trial design was poor. With 40% of the participants having other secondary cancers in addition to liver tumours, it seems the company rushed the trial recruitment. Separate tests targeting patients with primary liver cancer are due to report in 2017 and these have a higher probability of success given the clearer trial design. In the meantime, the company should see sales and profit growth in its currently approved late-stage treatment for several years to come.

Outlook

Prospective profitability of health care companies must – if for no other reason than the health of government budgets – be constrained by regulatory steps to promote generic versions of patented drugs. This process is clear for small molecules, but has taken some time to be put in place for biological drugs. The so-called "biosimilar" *Neupogen* has been sold in Europe since 2008, but only a few weeks ago did **Novartis' Sandoz** unit get full FDA approval to sell this product in America under the Biologics Price Competition and Innovation Act of 2009 (BPCIA). Needless to say, the litigious **Amgen** is appealing that ruling, but it looks likely that the biosimilar version will be for sale imminently. **This is potentially a watershed moment for sector profitability, because for over a decade big pharma has pursued a biologicals drug strategy hoping for monopoly profits well beyond the patent period.**

Johnson & Johnson's *Remicade* (rheumatoid arthritis) has **seen the launch of biosimilars in some European markets** this year and the prospect of a steady erosion of this **huge revenue earner** (US$9 billion last year) is constraining the company's share price now.

There are few companies in which to invest in this biosimilars strategy. The largest player is Sandoz, a core part of **Novartis**, which is among the largest holdings of the Fund.

We continue to search for other plays on these changing market dynamics. Meanwhile, it is hoped that innovative research will be rewarded more than aggressive litigation.

The portfolio manager of the Fund, Bianca Ogden, is currently on maternity leave.
Kerr Neilson is the portfolio manager in Bianca's absence.

Platinum International Technology Fund

Alex Barbi Portfolio Manager

Disposition of Assets

REGION	MAR 2015	DEC 2014
North America	30%	28%
Asia and Other	28%	29%
Europe	12%	15%
Japan	9%	9%
Africa	2%	1%
Russia	1%	1%
Cash	18%	17%
Shorts	3%	0%

Source: Platinum. Refer to Note 3, page 40.

Performance

(compound pa, to 31 March 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund	9%	21%	20%	11%	10%
MSCI AC World IT Index	10%	41%	25%	16%	-3%

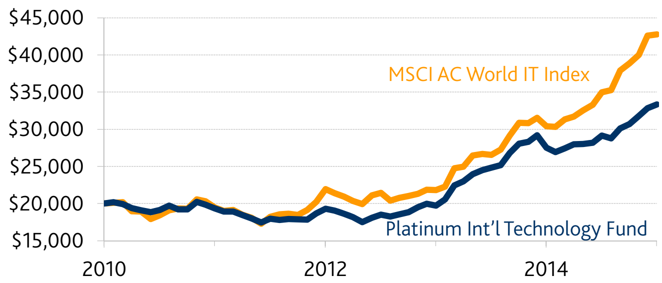
Source: Platinum and MSCI. Refer to Note 1, page 40.

During the quarter the Fund was up by 9% and the MSCI All Country World Information Technology Index (A$) was up by 10%. For the 12 months to March, the Fund's return was +21%, compared to +41% for the Index, with a net invested position at 79% as of 31 March.

As we predicted last quarter, the impact of the persistent strength of the US dollar against all major currencies has started surfacing through US corporate results, penalising those companies with a large exposure to international (i.e. non-US) export markets. The US dollar appreciated by 11% against the Euro in the March quarter alone. Technology investors have taken notice and the tech-heavy Nasdaq index was up only 1.8% for the quarter (in local currency).

Value of $20,000 Invested Over Five Years

31 March 2010 to 31 March 2015



Source: Platinum and MSCI. Refer to Note 2, page 40.

The Fund's investment approach is based on portfolio construction independent of the benchmark, and we believe this is one way to protect our investors from loss, particularly at times of excessive market euphoria. We remain convinced that our holdings in Asia and Europe are very attractively valued and the Fund is properly positioned for long-term outperformance.

Contribution from currencies was positive again this quarter, with the benefits from the Fund's net total exposure to the US dollar (62%) and the Hong Kong dollar (9%) only partly offset by the weak Euro (10%). Exposure to Japanese stocks remains fully hedged into US dollars.

Changes to the Portfolio

During the quarter we exited our position in **Skyworks**, the last of our radio-frequency semiconductors stocks that have benefited from the explosion of 4G smartphones over the last few years. The stock is now up fivefold since we first bought it, but the valuation has reached our target and global smartphones growth is now expected to slow down in 2015 (still a solid +15%, but down from +28% in 2014).

We also exited **Nippon Electric Glass** after a meeting with the company's management revealed a few flaws in our original thesis of a reversal in the structural decline of LCD glass prices. If the company insists on pursuing higher market shares through the addition of manufacturing capacity for what is a seemingly less competitive product, it will prove very challenging for them to improve profitability.

We invested in **Fujitsu**, the largest IT services provider in Japan and the fourth largest globally after IBM, Hewlett-Packard and Accenture. Despite its leading position, it trades at a discount to its IT peers and remains off the radar screens of most global investors, partly due to its perceived old-world mainframe technology and low margins. Being a large solutions provider in Japan, however, is a steady, predictable and defendable business. Japanese IT investment has been largely unchanged over the last few years despite a recovering economy, and the macro environment is now conducive to higher IT spending across all industries. We expect the focus on IT investment to shift from a defensive one (lowering enterprise costs) to an offensive one (product and market development) as corporates flush with cash and earnings will now be able to increase their IT budgets and use IT more effectively. Despite being well-placed to benefit from this trend, Fujitsu is valued at 11x P/E and it is generating a 9% free cash flow yield for the next financial year.

We added to **Micron Technology** as we believe that current pricing weakness in dynamic random access memory (DRAM) is only a temporary issue and largely due to seasonally weak PC sales. We believe that DRAM pricing will start to flatten as demand starts picking up again, driven by the launch of new smartphones (e.g. the newly launched Samsung Galaxy S6 has 3GB, versus 2GB of the previous model), ramp-ups in China's smartphone production, continued strength in data centres/servers and stabilisation of PC demand. Moreover, the supply chain remains disciplined and this underpins our long-term thesis. Micron's major competitor, Samsung, is postponing further capacity additions as it has likely reached its internal yields and capacity targets, while fellow South Korean competitor, SK Hynix, is behaving with similar restraint. Trading at 7.5x P/E for this financial year, we believe the stock is very attractive, again, with limited downside risk.

We also added to **Samsung SDI (SDI)**, a subsidiary of Samsung Electronics with exposure to very attractive businesses. We have followed this company for a few years, and we now think its position as a leading manufacturer of Lithium-ion batteries for electric vehicles (EV) provides a very interesting way to invest in a nascent segment of the transportation industry.

Commentary

The Incoming EV/Hybrid Vehicles (R)evolution

The recent success of US EV manufacturer, Tesla Motors, in designing, marketing and achieving relative popularity for its high-performance cars, despite widespread scepticism, has surprised many industry observers. The company's founder, Elon Musk, whom many like to compare to Steve Jobs for his visionary skills (he co-founded PayPal and is also behind other high-tech ventures like Solar City and Space-X), has definitely captured the attention of many car industry participants. Perhaps for the first time since the introduction of the highly innovative hybrid EV Toyota Prius, traditional automotive players are seriously considering alternative propulsion systems for their cars, either as full EVs, hybrids (traditional combustion engine combined with a battery-powered electric one) or fuel cell (hydrogen powered) EVs.

Notwithstanding the prevalence of doubts concerning the limited driving range and the inconvenience of long charging times, the technology is rapidly improving and costs are gradually coming down. Hence we believe it is only a matter of time before these "alternative fuel vehicles" gradually come to account for a larger portion of the global car fleet.

The innovative design adopted by Tesla for its battery pack (based on traditional Panasonic small cylindrical cells) is probably only the beginning of a long series of improvements that will help promote higher EV adoption in the mass market.

We are, however, still in the early stages of this secular trend. In 2014, out of a total of 17.5 million cars sold in the USA, probably the most advanced market, only 100,000 were EVs and plug-in hybrid EVs (PHEVs) – a relatively small amount, but still an increase of 30% from the previous year. Individual resistance to adoption is understandable due to higher initial costs, range anxiety and questions about battery longevity. Moreover, the recent oil price collapse has made the economic benefit of driving an EV less compelling.

But things may change. Other factors like high levels of air pollution in urban areas and regulation on carbon emissions may provide additional momentum in the short and medium term. In the USA, for example, eight States representing in aggregate around a quarter of all car sales in the country are aiming for a fleet of 33 million zero emission vehicles by 2025. In major European cities, diesel cars are targeted by local authorities due to their health damaging particulate emissions: both London and Paris are planning to limit or ban diesel cars from the streets from as early as 2020.

Moreover, European Union (EU) legislation has set mandatory emission reduction targets for new cars:[1]

> *The fleet average to be achieved by all new cars is 130 grams of CO_2 per kilometre (g/km) by 2015 – with the target phased in from 2012 – and 95g/km by 2021, phased in from 2020.*
>
> *The 2015 and 2021 targets represent reductions of 18% and 40% respectively compared with the 2007 fleet average of 158.7g/km.*
>
> *In terms of fuel consumption, the 2015 target is approximately equivalent to 5.6 litres per 100 km (l/100 km) of petrol or 4.9 l/100 km of diesel. The 2021 target equates to approximately 4.1 l/100 km of petrol or 3.6 l/100 km of diesel.*

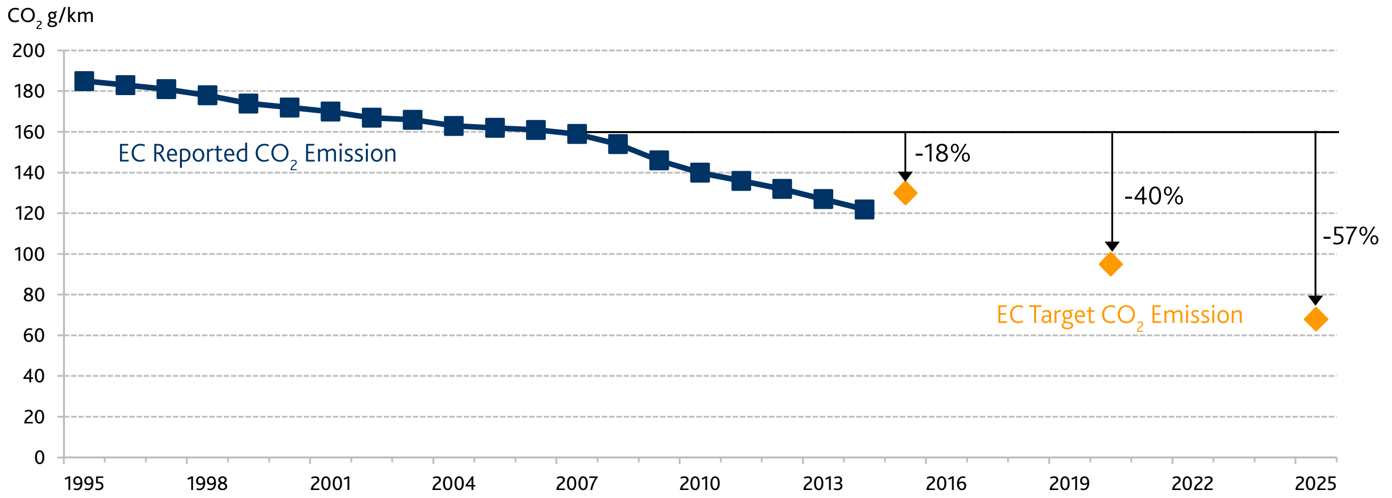
In case you are in doubt about the seriousness of the European Commission, they have also provided for penalties:

> *If the average CO_2 emissions of a manufacturer's fleet exceed its limit value in any year from 2012, the manufacturer has to pay an excess emissions premium for each car registered. This premium amounts to €5 for the first g/km of exceedance, €15 for the second g/km, €25 for the third g/km, and €95 for each subsequent g/km. From 2019, the cost will be €95 from the first gram of exceedance onwards.*

In China, the government has become increasingly worried about the broad effects of unsustainable levels of air pollution and introduced new subsidies for "green" vehicles. All "new energy" vehicles would be exempt from the 10% national sales tax, which goes hand-in-hand with local and national

1 The European Commission: http://ec.europa.eu/clima/policies/transport/vehicles/cars/index_en.htm.

European Commission CO_2 Emission Reduction Targets



Source: The European Commission

incentives. For example, Beijing now provides a subsidy of up to CNY60,000 (A$12,700) for the purchase of an all-electric battery car and up to CNY35,000 (A$7,500) for a "near all-electric" plug-in vehicle. Buyers of these vehicles are also exempt from the costly licence plate lottery, which was instituted to stem the tide of new cars flooding China's roads. China also ordered government officials to use more EVs and PHEVs as part of its drive to cut pollution by putting five million such vehicles on the road by 2020.

It is therefore not surprising that even traditional car manufacturers are announcing new electric cars and particularly PHEVs[2], which can help achieve more easily the mandated carbon emissions reduction. So, in Germany, BMW has promised that its entire range will eventually be electrified and that a PHEV version of the popular 3 Series should hit the market probably in early 2016. Similarly, Volkswagen, Audi, Daimler, Volvo, Mitsubishi, Renault, Nissan and others have all launched or are in the process of launching new PHEVs.

SDI is well-placed to benefit from growth in this emerging industry, thanks to its existing expertise with Lithium-ion batteries for consumer electronics and smartphones in particular – they are the leading supplier of small-size batteries to Samsung Electronics and its competitors.

More recently, they have also developed new medium and large size batteries targeting EVs and energy storage systems (ESS). SDI is supplying large Li-ion batteries to BMW for their current EVs (i3 and i8) and future PHEVs (SUV X5 and possibly the 3 Series). It is also a leading supplier of ESS batteries to manage power storage/distribution for customers as large as electricity networks/grids as well as smaller commercial and residential users.

While SDI's medium and large size battery businesses have not achieved optimal scale and they are still losing money, we are confident that, once the end markets mature, they will become profitable. In the meantime, corporate profitability will be supported by expected solid growth in small batteries (e.g. new polymer batteries for the Galaxy S6), electronic materials (largely polarising film for flat panel displays and organic light-emitting diode (OLED) materials) and other semiconductor materials.

In this context, we think that SDI, trading at only 0.9x its book value, represents an attractive play on the future development of this emerging industry over the next five years.

Outlook

With the US economy sending contrasting signals about its underlying strength and the persistent appreciation of the US dollar, it is likely, as we have previously mentioned, that the US Federal Reserve may defer any aggressive tightening of monetary policy. While we have no crystal ball on when Mrs Yellen will eventually start raising interest rates, we are well aware that this bull market has partly been supported by easy money and, when that stops, it will not be good for the over-extended names. Therefore, we try to stay away from over-valued and momentum-driven stocks.

In the Fund, we continue to add to our holdings with predictable earnings growth and reasonable valuations, while reducing the positions that have now reached their full revaluation potential.

2 A PHEV requires a smaller battery pack compared to a full EV, typically a 9-15 kWh capacity versus 80-90 kWh. The advantage is that it takes less space and is easier to adapt to existing conventional combustion engine-based power-trains.

Glossary

Consumer Price Index (CPI)

An economic indicator used to estimate inflation, the CPI is a measure of changes in the price level of a market basket of consumer goods and services purchased by households.

Free Cash Flow (FCF)

A measure of a company's financial performance calculated as operating cash flow minus capital expenditures. FCF represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base.

Gross Domestic Product (GDP)

The primary indicator used to gauge the health of a country's economy. It represents the total dollar value of all goods and services produced over a specific time period.

Japanese Government Bond (JGB)

A bond issued to investors by the Japanese Government, denominated in Japanese yen. At the time of publication of this report, JGBs (10 year) offer a yield of about 0.4%. Bond prices have an inverse relationship to bond yields. This means that falling bond prices denote rising yields and vice versa. If the economic outlook in Japan begins to improve and long-term interest rates rise in Japan, JGB prices will fall. By short selling JGBs, the Platinum Japan Fund is positioned to benefit from an improvement in the Japanese economy.

MSCI Indices

Varying indices compiled by Morgan Stanley Capital International (e.g. World, Asia, Health Care, etc) that are designed to measure equity market performance across different regions and industries.

Platinum does not structure its investment portfolios relative to any benchmark index, however, the MSCI indices are used as a reference to determine how each Fund is performing in relation to the total market opportunity in which it invests.

Price to Book Ratio (P/B)

The ratio of a company's current share price to its current book value. Book value is the sum of a company's total assets minus its total liabilities and intangible assets. The P/B is used as an indicator of the value of a company by comparing its share price to the amount of the company's assets that each share is entitled to.

Price to Earnings Ratio (P/E)

The ratio of a company's current share price to its per-share earnings. The P/E is used as an indicator of the value of a company by comparing its share price to the amount of per-share earnings the company generates.

Quantitative Easing (QE)

A monetary policy used by Central Banks to increase the supply of money by increasing the excess reserves of the banking system.

Return on Capital Employed (RoCE)

A measure of the returns that a business is achieving from the capital employed, usually expressed in percentage terms. Capital employed equals total assets minus current liabilities. It indicates the efficiency and profitability of a company's capital investments.

Return on Equity (RoE)

A measure of the rate of return on ownership interest (shareholders' equity). It measures a firm's efficiency at generating profits from every unit of shareholders' equity. It indicates how well a company uses investment funds to generate earnings growth.

Short Selling or Shorting

A transaction by which an investor is able to generate profit from a fall in the price of a particular stock or market index. To generate such a profit, an investor borrows securities and sells them, then when the price has fallen, the investor repurchases the securities at a lower price and returns them to the lender.

Platinum utilises short selling of stocks and indices for risk management (that is, to protect a Fund's portfolio from either being invested or uninvested) and to take opportunities to increase returns.

Short selling is not undertaken for the Platinum Unhedged Fund.

Platinum Work Experience

Since 2014, Platinum Asset Management, together with The Neilson Foundation, are funding a total of 20 scholarships across five Australian universities, each valued at $15,000 per year. The scholarships are awarded to students majoring in Financial Planning. Platinum also provides valuable work experience opportunities to two of the scholarship recipients each year.
This year's work experience students were Nathanael Stubbings from Deakin University and Monique Baines from La Trobe University.

Over a four week period at Platinum Asset Management, I have been given an invaluable insight into both the funds management industry and the company renowned for its culture of high performance. Having the opportunity to sit with the various teams at Platinum has shown me much about the behind-the-scenes workings of an asset management business which one simply does not get through university studies or reading alone. I also gained basic directed analytical skills from sitting with the investment team and observing the investment process being applied. As a student and an aspiring financial planner, I understand how the funds management industry would appear largely a mystery for most students, as it had previously been for me. The four weeks of work experience at Platinum have been hugely beneficial, both giving me practical insights and developing my skill set to better prepare me for a career as a financial services professional.

Nathanael Stubbings
Bachelor of Commerce (Financial Planning major)
Deakin University

Completing work experience at Platinum Asset Management has been the most beneficial experience throughout my studies in Financial Planning so far. I now have a more contrarian mind set towards economic changes and have learned to think independently of the popular opinion. I find myself more engaged in my studies and have expanded my spare time reading to include the writings of experienced professionals. I am confident that my work experience at Platinum will make me a better financial planner as it has helped to sharpen my research and analytical skills. It also allowed me the rare opportunity to see how some of the industry's best minds think and work.

Monique Baines
Bachelor of Finance (Financial Planning major)
La Trobe University

A Cycling Odyssey

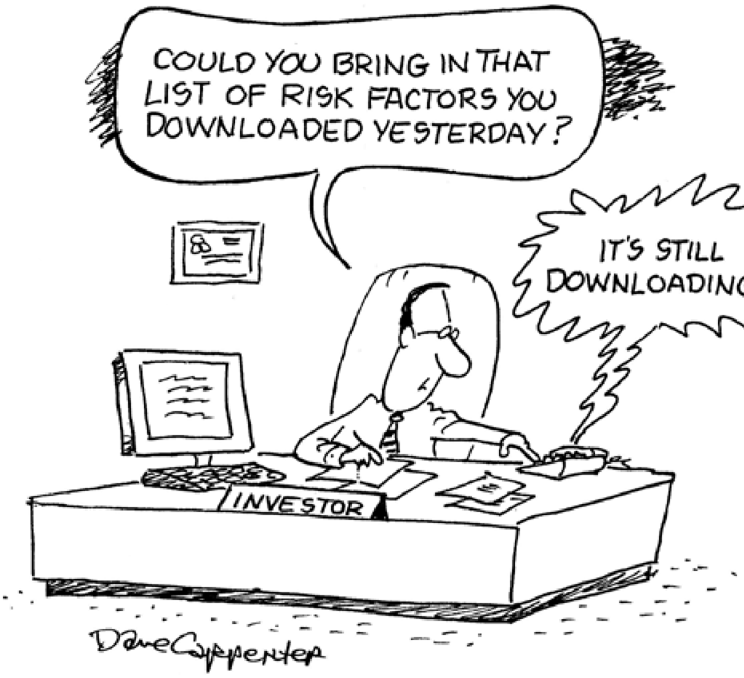
Platinum Asset Management proudly took part in the 2015 Bobbin Head Cycle Classic, a fund-raising event organised by The Rotary Clubs on Sydney's North Shore to help Lifeline, Women's Shelter and other local charities.

More than 2,700 riders took part in the rides, which ranged from 11 km to a whopping 104 km, raising more than $225,000!

Please visit our website at: www.platinum.com.au

We have a section titled 'The Journal', providing in-depth commentaries on stocks, views and insights, and the fundamentals of investing.

From early May, estimations (updated weekly) for the forthcoming 30 June distributions by the Platinum Trust Funds will also be available on our website.



"Due to the high cost in raw materials, increased energy charges, workforce unrest and transport difficulties, we look forward to an improvement in five years time with your continued support."

Notes

1. The investment returns are calculated using the relevant 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: 28 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.)

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 31 March 2010 to 31 March 2015 relative to its benchmark index (in A$) 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

   The investment returns are calculated using the relevant 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 benchmark 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.

Disclaimer

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No company in the Platinum Group® guarantees the performance of any of the Funds, the repayment of capital, or the payment of income. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum).

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Platinum Asset Management is a Sydney-based manager specialising in international equities. The investment team uses a thematic stock-picking approach that concentrates on identifying out-of-favour stocks with the objective of achieving superior returns for our clients. We pay no heed to recognised indices. We aim to protect against loss and will hedge stocks, indices and currencies in our endeavours to do so.

The firm was founded in February 1994 by a group of professionals who had built an enviable reputation. The investment team has grown steadily and PAM now manages around $28 billion, with approximately 12% of this coming from overseas investors. The Company was listed on the ASX in May 2007 and staff remain the majority shareholders.

Since inception, the Platinum International Fund has achieved returns more than twice those of the MSCI All Country World Index* and considerably more than interest rates on cash.

Investor services numbers

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