Quarterly Report

31 December 2014

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 December 2014

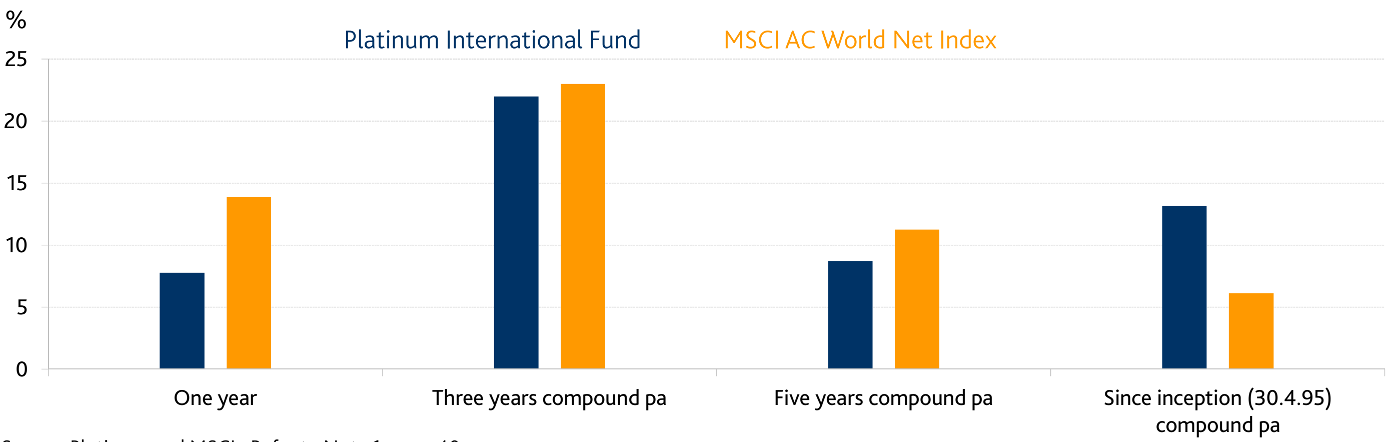
FUND	PORTFOLIO VALUE	QUARTER	1 YEAR	2 YEARS *COMPOUND PA*	3 YEARS *COMPOUND PA*	5 YEARS *COMPOUND PA*	SINCE INCEPTION *COMPOUND PA*
International Fund	$10,774m	5.2%	7.8%	26.0%	22.0%	8.7%	13.1%
MSCI AC* World Net Index		7.4%	13.9%	27.4%	23.0%	11.3%	6.1%
Unhedged Fund	$340m	2.6%	8.4%	26.1%	21.9%	11.7%	11.2%
MSCI AC World Net Index		7.4%	13.9%	27.4%	23.0%	11.3%	5.9%
Asia Fund	$5,431m	10.1%	22.0%	24.1%	24.4%	10.1%	16.9%
MSCI AC Asia ex Japan Net Index		7.1%	14.6%	17.1%	18.3%	7.5%	10.5%
European Fund	$289m	4.1%	0.1%	18.8%	23.5%	12.2%	11.8%
MSCI AC Europe Net Index		1.6%	1.4%	20.7%	19.7%	6.8%	2.0%
Japan Fund	$476m	7.8%	11.0%	38.1%	30.6%	14.9%	14.7%
MSCI Japan Net Index		4.3%	4.9%	24.4%	18.3%	7.5%	1.0%
International Brands Fund	$1,246m	4.0%	0.4%	14.7%	18.4%	11.8%	12.8%
MSCI AC World Net Index		7.4%	13.9%	27.4%	23.0%	11.3%	1.2%
International Health Care Fund	$119m	9.6%	15.6%	29.9%	26.4%	18.3%	8.8%
MSCI AC Wld Health Care Net Index		10.1%	29.1%	42.6%	33.3%	18.4%	8.8%
International Technology Fund	$70m	5.3%	9.4%	27.7%	19.8%	9.1%	9.1%
MSCI AC World IT Net Index		11.1%	25.9%	36.0%	28.2%	14.5%	-3.4%

*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

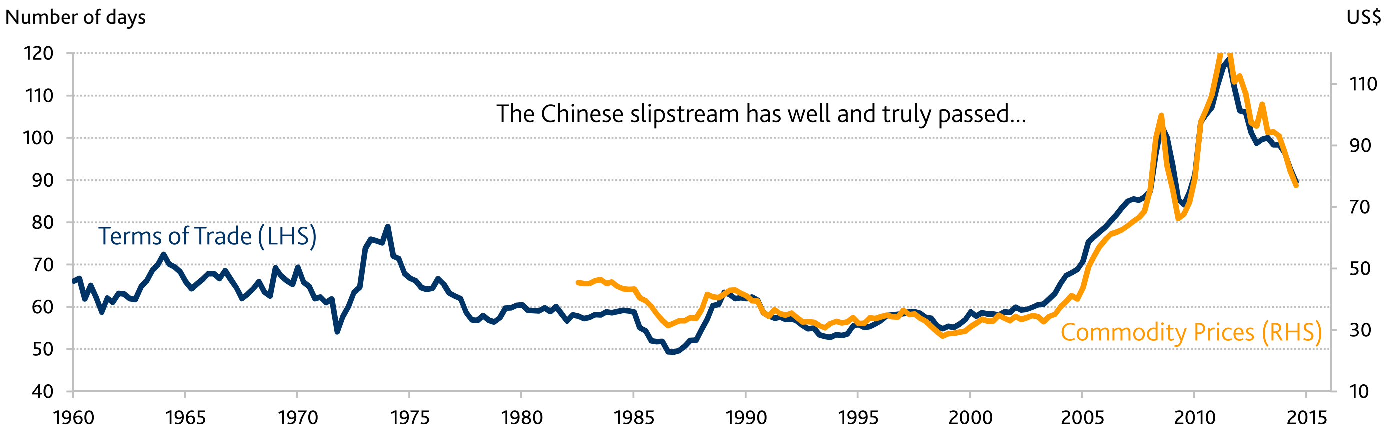
To 31 December 2014



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

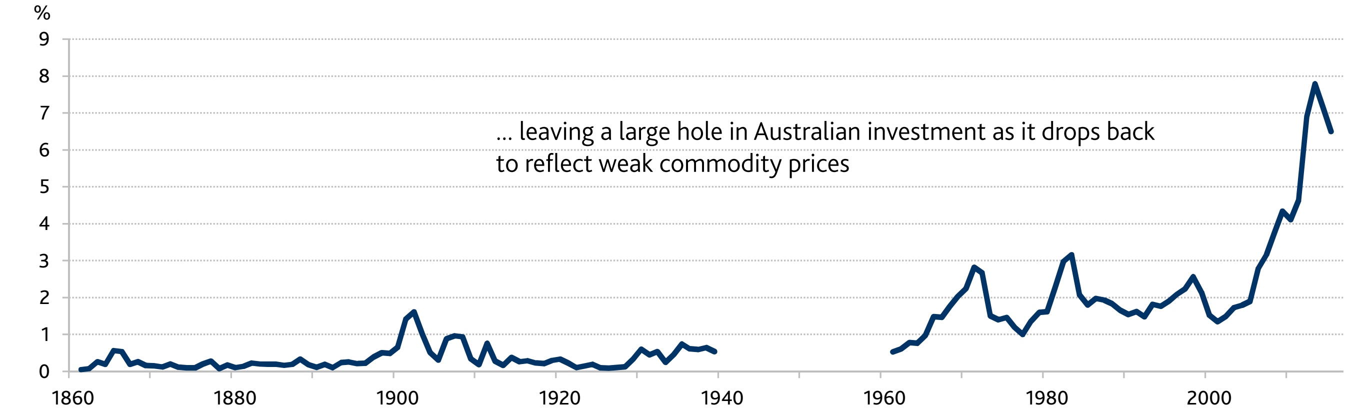
Market Panorama

Terms of Trade and Commodity Prices



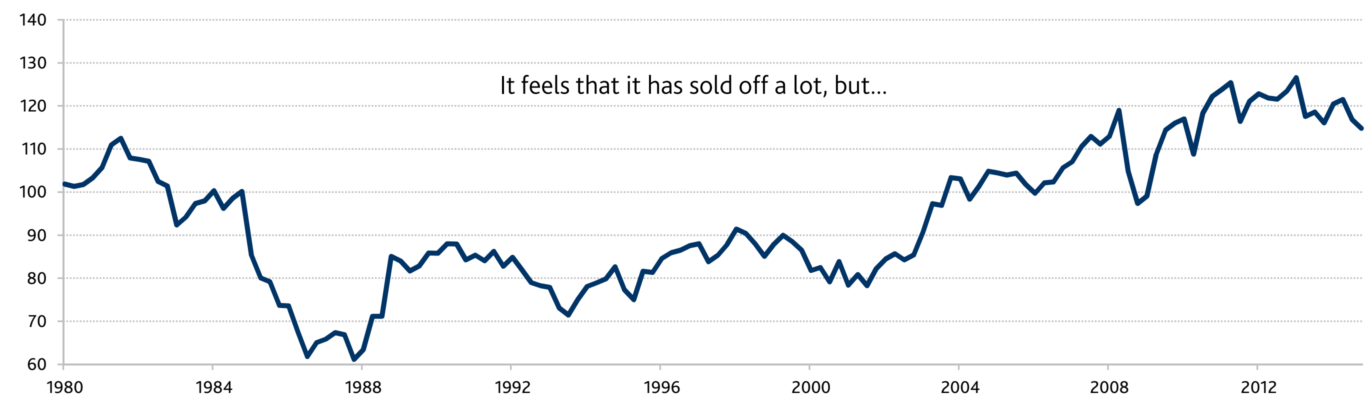
Source: ABS, RBA, Butlin, Melbourne Institute; Minack Advisors

Mining Investment as Percentage of Australia's GDP



Source: ABS, RBA, Melbourne Institute; Minack Advisors

Trade Weighted AUD Index



Source: Bloomberg and Morgan Stanley

Platinum International Fund

Kerr Neilson Portfolio Manager

Andrew Clifford Portfolio Manager

Performance

(compound pa, to 31 December 2014)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund	5%	8%	22%	9%	13%
MSCI AC World Index	7%	14%	23%	11%	6%

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

Among developed markets there has been one predominant winner in 2014: the USA. Now several years into its recovery, the US economy has continued to expand with strong employment and personal income growth accompanied by a cautious rise in consumer credit. This has seen the stock market continue to roll higher on reasonable earnings growth, but also on a higher valuation being attributed to those earnings.

By contrast, the problems around a common currency, without a common tax collector, have caused Europe to splutter along as members of the European Union (EU) rebalance their economies to direct more activity to meet external demand at the cost of domestic consumption. This achievement of broad current account surpluses, aided by

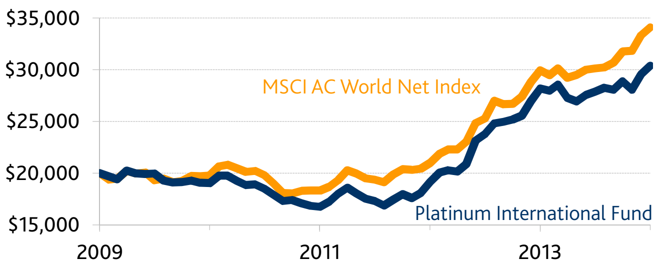
Disposition of Assets

REGION	DEC 2014	SEP 2014
Asia	33%	25%
North America	25%	23%
Europe	24%	22%
Japan	9%	13%
Russia	1%	2%
Australia	1%	1%
South America	0%	1%
Cash	7%	13%
Shorts	6%	14%

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

Value of $20,000 Invested Over Five Years

31 December 2009 to 31 December 2014



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

lower energy costs, sets the scene for more vigour in the year ahead, but, in the face of tepid bank lending, the Euro Stoxx Index has been unwilling to pay-up for the promise of a more competitively placed Europe.

With the exception of Malaysia and Australia, Asia is a huge beneficiary of lower energy costs, but thus far the markets seem to have responded principally to promises of reform and lower interest rates. This was most evident in the Indian and Chinese markets which have even outpaced Wall Street notwithstanding the complications that reforms engender. The Japanese and Korean markets have been relatively flat, perhaps reflecting their weaker resolve to change.

From a shorter term perspective, the final quarter of the year revealed the caution that still haunts markets. Concerns about slowing growth, particularly in China and Germany, culminated in a sharp correction in October, but the prospect of more policy action and the benefits of lower energy costs enabled markets to recover by year end. Energy and energy producing nations fared less well as the Organisation of the Petroleum Exporting Countries (OPEC) meeting in November revealed little cohesion on price support measures for oil. The pain was felt in Russia and its currency, the Rouble, as well as in the high yield debt markets where over US$320 billion has been raised by shale drillers over the last five years. There are obviously further-reaching implications for suppliers and producers in the oil and gas industry, but our reckoning is that these will be localised losses rather than more widespread problems.

Overall, the MSCI AC World Index had a good year and, when assessed in Australian dollars, the returns were magnified, achieving +13.9% for the year and +7.4% for the quarter.

We achieved less than that principally because of our low weighting in the pre-eminent and strongest performing component of the Index, the US market (52% weighting and +23% return for the year). We also have some exposure to Russian shares, oil sands producers as well as those engineering businesses that were to have benefitted from the investment bonanza in plant building and extraction. Some offsetting benefits were gained from holdings in Asia.

Currency

The US dollar has remained our principal currency position at 70% (which includes 7% in the Hong Kong dollar).

We hold little Japanese yen and Australian dollar and are partially hedged out of the Euro, the Chinese renminbi and the Korean won.

MSCI World Index Regional Performance (AUD)

REGION	QUARTER	1 YEAR
Developed Markets	**8%**	**15%**
Emerging Markets	**2%**	**7%**
United States	**12%**	**23%**
Europe	**2%**	**1%**
Germany	7%	-2%
France	0%	-2%
United Kingdom	2%	3%
Japan	**4%**	**5%**
Asia ex Japan	**7%**	**15%**
Korea	-2%	-3%
China	15%	18%
Hong Kong	10%	15%
India	6%	35%
Australia	3%	6%

Source: MSCI

MSCI World Index Sector Performance (AUD)

SECTOR	QUARTER	1 YEAR
Consumer Discretionary	13%	13%
Information Technology	11%	26%
Utilities	10%	24%
Consumer Staples	10%	16%
Health Care	10%	29%
Financials	9%	13%
Industrials	8%	10%
Telecommunication Services	4%	7%
Materials	1%	1%
Energy	-10%	-5%

Source: MSCI

Shorting

Our short positions remain in place to reduce the volatility within the portfolio, though weaker prices encouraged us to reduce some of our stock-specific hedges in October. We also reduced our index hedging on account of the lower oil price. The International Monetary Fund (IMF) calculates that the US$40 fall in the crude price can add half a percentage point net to global growth; large energy producers are clearly losers, but **the benefits to consumer incomes in energy deficient countries, and the latitude it grants their Central Banks to better tailor policies to domestic conditions, are profound**. As the weakness in the price of hydrocarbons can be largely attributed to the additional supply from American shales, one can expect production to ease back, but our assessment is that we may enjoy soft hydrocarbon prices for 12 to 18 months.

Changes to the Portfolio

The principal actions were to cut our exposure to metals and Japan, and to add to IT companies in the US and utilities in Asia.

We have made some reasonable returns from the metal theme, particularly aluminium, but prices moved quickly and started to over-anticipate prospects in companies like **Hindalco** which we trimmed along with the nickel plays.

There was a bid from the oil services company Halliburton for **Baker Hughes** in November which caused a strong price lift allowing us to exit part of our holding. This consolidation move has expressed some of the upside and we shall be exiting the position.

In Japan we sold all of **NTT** after a good run and also sold out of **Mitsubishi Corporation**, **Mitsubishi UFJ Financial Group** and **Toyota**, believing that we can use the funds to better effect elsewhere.

With all the excitement surrounding the Internet plays, it has surprised us that some of the great stocks of the tech boom of 2000 have become somewhat neglected. Each has its own threats regarding substitution but, on careful analysis, these companies reveal unusually fine business characteristics, and yet in the face of such uncertainties companies like **Oracle** and **Cisco** had become priced as sub-par businesses. While it may seem improbable that well-known brands like these should be misunderstood, we can mount a strong argument why they should both grow and remain decidedly more profitable than the typical company in the S&P 500 Index.

Bolstering our confidence is the experience we have had with **Microsoft** and **Intel**, both of which have way outperformed over the last 12 months.

Lastly, our new investments in Asia are targeting infrastructure in India and China. The companies themselves are fine, but out-of-favour, because they are seen as dull. As you would have read in these reports on countless occasions, dull is delightful if the price is right. Here we can buy electricity generating or gas transmission capacity for little more than book value with the prospect of significant growth in demand reaching out into the distant future. They are not highly levered and are presently earning weak returns for transient reasons. In the case of India, even if the economic promise of the Bharatiya Janata Party (BJP) falls short of current ecstatic expectations, these companies are still likely to be bigger and more profitable in the years ahead.

Commentary

From media coverage one might derive the notion that deflation is some sort of insidious disease. It may then surprise some readers that there are **historical precedents of long periods of stable prices**[1] with wave-like tendencies, that differ in amplitude and duration with no periodicity. To the ardent monetarist it may also come as a surprise that two of these waves of stable prices were accompanied by large injections of additional money in the form of precious metal discoveries. The point being made here is that **the scare of flat or falling prices** is normally misplaced as implicitly it **reflects improving purchasing power by the populace** (higher real incomes). The threat in modern economies lies in

1 For elaboration, perhaps read David Hackett Fischer's book, *The Great Wave: Price Revolutions and the Rhythm of History*. He points to four great waves of inflation in the West since 1200 AD. He calls them price revolutions that took place during medieval times, the 16th, 18th and 20th centuries. Each of the first three waves was followed by a protracted time of price stability. The price revolutions were associated with lagging real incomes, social instability and insecurity. By contrast, the periods of stable prices saw interest rates progressively fall and spawned the Renaissance, the Enlightenment and the great Industrialisation surge of the Victorian era. The most interesting and perhaps relevant period was that of the 19th Century. Here we saw real wages rise by about threefold and interest rates more than halve variously from 4 and 6% in the Netherlands, France, Britain and the USA. Rents expressed as a percentage of sale prices of land were relatively flat while share prices compounded up by 4 to 5.5% per annum in markets such as the US, Britain and France. The most intriguing point was that the supply of specie – gold and silver – grew dramatically – sixfold – in the US from 1830 to 1850, while world production of gold and silver looks to have risen by nearly tenfold over the century. During the period of the American Civil War, prices escalated but subsequently fell back to complete **a century of FLAT prices**.

the extravagant and persistent rise in the use of credit as well as growing labour dependency[2] which was absent in these earlier episodes.

For those who buy into the **argument that deflation leads to deferment of consumption**, we can point to Japan and find **no supporting evidence whatsoever**. The fact is that incomes fell from 1995; savings were drawn down to mitigate the income squeeze and expenditure patterns altered in favour of the likes of communication, recreation and household effects at the expense of clothing, housing and food.

The phenomenon of a national debt blow-out is most evident in Japan where the rise of the debt burden has way outpaced the growth in the nominal economy. Economic theory holds that inflation can resolve part of this problem by debt becoming a smaller proportion of the economy when the latter is being inflated by a general rise in prices (inflation). In fact, Japan has seen debt rise in real terms and it continues to climb at a time when the ratio of retirees to workers has grown. The government has been meeting its budget deficit by issuing Yen-denominated bonds which have been purchased almost exclusively by the local populace, but in turn the Bank of Japan has in recent times been buying – monetising – well over 100% of this new issuance. An eventual **default should thus fall on the locals via a sharp deterioration in their global purchasing power**, with the greatest pain likely to be felt by the older members of the community (i.e. there is a redistribution mechanism at work).

Globally, the same experiment is being conducted with quantitative easing (QE). Like in the 1930s, the game was won by those who chose to devalue early; living standards fell faster than those of their competitors, allowing a competitive advantage to support jobs and transfer the pressure via the currency to their principal competitors.

An interesting discussion then arises from the behaviour of governments following the global financial crisis (GFC). Vast quantities of debt were issued to pay for blow-outs in deficit spending as governments tried to fill the void created by the private sector's retrenchment. To some, the surprise has been the lack of pricing power of labour, in particular, which when combined with plentiful supply of commodities, including oil, has seen inflation undershooting expectations and in some quarters disappointing policy makers.

The nexus between Central Banks and their governments, notwithstanding supposed independence, seems likely to result in an over-dependence on monetary policy. In plain English, one might expect the Central Banks to over-react to price stability in order to placate popular demands so as to be seen to be doing something.

The **framework we have chosen** to adopt is that the **excess supply of most commodities** combined with begrudging **lending policies** by the banks and, in most instances, reluctant borrowing by firms and individuals **will lead to weak prices (low inflation)**. However, the hunger for yield has persuaded investors to take more risk. By forcing down yields, Central Banks have encouraged a narrowing of the risk premium between good quality and lower quality borrowers. This in turn has allowed risky borrowers to raise medium-term funding at a lower cost than the price traditionally paid by sovereign borrowers, as noted in our June 2014 report. Among lenders are those exposed to the oil patch with the estimated US$320 billion raised in the last five years and which is now trading below face value. The other surprise from weak oil and other commodities is showing up in the finances of large petro carbon producing nations like Russia where the private sector has borrowed abroad in external currencies to now find their revenues diminished and yet their foreign loans translated into multiples of what they imagined they had borrowed. The damage occurring seems confined to the fringes because most of the new debt created since 2008 has been incurred by governments with their unique fall-back of being able to meet their obligations through taxation. With the policy of Central Banks buying part of the outstanding stock of their government bonds and thus increasing the level of liquidity within their system (QE), this for the most part has been a redistribution exercise. The **transfer of wealth is from those holding paper assets** to those holding real assets like shares and property. Those with paper assets are experiencing a net loss in wealth with their purchasing power, as measured by a basket of currencies, having fallen.

In essence, the danger of these policies resides in the **type of borrower**. If it is a government borrowing in its own currency, like Japan or perhaps Russia, the consequences of a dislocation are likely to be far less severe than when there is a credit binge by the private sector. The dislocation becomes all the more traumatic when the borrowers have mismatched currencies or built their assumptions upon rosy views about commodity prices and the like. **Very simply, excess use of**

2 This is a measure of those below or above the working age supported by those between 15 and 65 years old. This ratio or burden on those in the workforce started to increase in many Western countries from about 2010. Countries like Japan and China are projected to face a steady but sharp rise in dependency as the pool of workers shrinks. Japan could find there is one dependent for each worker by 2050.

credit leads to busts, but thus far the low cost of borrowing is mainly confined to **a relatively small fringe of borrowers**. There is still a great deal of caution which is contributing to slow growth, but ironically probably suggests there is less risk than is presently perceived.

Outlook

We remain optimistic and take comfort in several factors. Volatile markets and persistent switching by pension and life insurance companies from equities to bonds mark wariness by investors. This is puzzling in light of the growth of the US economy and the broadening health, if not growth, in Europe as the problematic members have all developed current account surpluses. The US$40 fall in the oil price is a resounding benefit to consumers across the globe, not least for energy-deficient countries like India and most of Asia, other than Malaysia and Australia. Importantly, lower energy costs will impinge on the US Federal Reserve Bank's tightening agenda and improve many emerging economies' independence to follow monetary policies that better suit local needs. In other words, even if the US Federal Reserve does start tightening to ward-off pressure emanating from, say, a tight labour market, the lower oil price will allow some Asian countries to cut rates.

The portfolio has been progressively tilting towards Asia. We can still find shares to buy in the West, but within the reform-minded countries of Asia there are bargains. Having been the leader of the pack on account of its earlier recovery, the US market may now surrender leadership to others. The two factors we will be watching are its tightening labour market and the suppressant effect emanating from a strong US dollar on Wall Street earnings. By contrast, China looks to be starting a new bull market fuelled by reform and easier monetary policy, while India could experience lower interest rates as inflation drops.

Platinum Unhedged Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	DEC 2014	SEP 2014
Asia	29%	22%
Europe	25%	23%
North America	24%	24%
Japan	14%	18%
Australia	2%	3%
Africa	1%	1%
Russia	1%	1%
South America	1%	1%
Cash	3%	7%

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

Performance

(compound pa, to 31 December 2014)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund	3%	8%	22%	12%	11%
MSCI AC World Index	7%	14%	23%	11%	6%

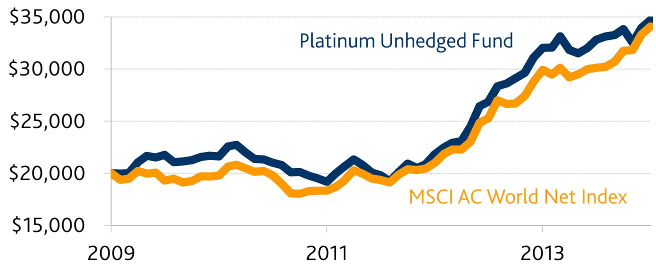
Source: Platinum and MSCI. Refer to Note 1, page 40.

The last three months have brought with them some large moves in global asset prices.

On commodities, we have seen the price of oil fall 40%, back to levels last seen in mid-2009. In the currency markets, the Japanese yen and the Australian dollar have respectively fallen 10% and 8% versus the US dollar (substantial moves in the currency world), whilst Russia has had a full blown currency crisis with the Rouble devaluing by 50%. Finally in stocks, the US market has continued its solo bull run, rising 5% (in USD).

Value of $20,000 Invested Over Five Years

31 December 2009 to 31 December 2014



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

In terms of stock positions, the key area of weakness was our oil and gas and gold-related holdings, with **Canadian Oil Sands**, **Barrick Gold**, **KBR** and **Baker Hughes** being significant detractors. Our better performers included **Carnival Cruise Lines**, a business that strongly benefits from the lower oil price and a number of our Chinese holdings, including **PICC**, **Weichai Power** and **Moutai**.

Over the quarter the performance of the Fund was +2.6% versus +7.4% for the MSCI AC World Index (in A$). Over the full calendar year the Fund is up 8.4% versus 13.9% for the Index.

Commentary

Unit holders may question why there has been a large divergence between the performance of the Fund and the World Index over the last three months.

Before answering this it is worthwhile to remind ourselves that, by virtue of ignoring the Index when selecting stocks, the portfolio looks very different to its benchmark. Hence it is inevitable that there will be times where the portfolio will perform very differently to the Index, with the goal being that our process of investing in "neglected" companies or companies which we feel are under-appreciated by the market will allow the portfolio to outperform its benchmark Index over time.

As to why the Fund has lagged, we can point to a few high level differences. In terms of stocks, the Fund has roughly 23% of its assets invested in US listed companies, whilst the Index has 52%. On currency, the Fund has 41% exposure to the US dollar and 16% to the Yen, while the Index is 51% US dollar and 7% Yen.

As previously mentioned, the US dollar and stock market have been one of the strongest asset classes of late. For example, at the time of writing the three month return (expressed in AUD terms) of the US market was +12%, which is multiple times greater than the return of Europe (+2%), Japan (+4%) and Asia ex Japan (+7%) over the same period. The Fund's relatively low exposure to the US market and our higher exposure to the weak Yen largely accounts for the divergence of returns versus the Index.

The next question is why the Fund is well-positioned to make solid returns going forward. Here we can turn to some of our individual stock positions.

In Europe, the Fund owns three banks, namely **Intesa Sanpaolo** of Italy, **Lloyds** in the UK and **Erste Bank** of Austria. Intesa has been held by the Fund since the cessation of the European crisis, while Lloyds and Erste are more recent acquisitions. Coming out of the European crisis the European Union (EU) banking stocks have been good performers, so why is there still money to be made owning these companies?

All three banks are starting to emerge from a deep five year recession, a period where a sizeable portion of their borrowers defaulted. Over this time the banks have had to focus on cutting costs, whilst funnelling every dollar of profit towards filling the holes left by the loan defaults.

The good news for shareholders is that with the costs of loan defaults now falling away, profits at all three banks are set to rise dramatically. Importantly, with the capital bases of the banks having had the tick of approval from the regulator post the November EU and UK stress tests, these profits can start to be returned to shareholders in the form of large dividends.

While the big picture of falling credit costs flowing through to much higher profits is common to all three banks, their stories at an individual level are different. Lloyds has the benefit of operating in a much more consolidated banking market (down to four) post the crisis and a modestly growing UK mortgage market. Intesa's growth is being driven by its asset management and insurance divisions which account for 50% of revenue and are growing at 10% per annum. Erste, which owns the leading banks in the Czech Republic, Slovakia and Romania (countries with low debt and large labour costs advantage), is one of the few European banks where you can see strong loan growth over the next five years.

From a valuation perspective, our bank holdings trade on 7-9x normalised earnings and, in the case of Intesa and Lloyds, on prospective dividend yields of 8%. Given local investors in Italy and the UK are receiving roughly 1% on a 12 month term deposit, you can see how these stocks will garner a lot of attention once the dividends start coming through. Ultimately these banks are at a low risk point of their cycle and we think offer 30-40% more upside.

Another major investment area for the Fund is technology, namely the incumbent giants **Microsoft**, **Cisco** and **Intel**. This sector became extremely cheap and neglected, as investors fretted about technology changes that may harm the position of each company (e.g. the move from hosting software on our desktops towards hosting on a centralised server and accessing that software via the Internet).

Intel is a good illustration of the opportunities that can arise when markets become pessimistic about a business. Intel is an extremely high quality business, holding a dominant position in the manufacture of microprocessors with a 95% revenue share of logic chips of servers and PCs. In early 2013 the market valued Intel on a P/E of 11x, firstly because there was a shift away from PCs towards tablets and smartphones (the so-called "death of the PC") and secondly, because Intel missed out on powering the first generation of these new mobile devices. This failure to participate in the first round of mobile and tablets led the market to doubt whether they could ever catch up.

Intel's history of manufacturing excellence[1] gave us faith that it could not only catch up, but will eventually take a meaningful share of processors in mobile devices. This manufacturing lead was always apparent, but the market chose to ignore it and instead focused on worries such as that the new Android operating system would not run on Intel's x86 instruction set, that x86 was structurally more power-consumptive than the ARM instruction set and that Intel could not manufacture chips cheaper than the ARM ecosystem. Our work on each of these possible threats showed they were either false or irrelevant and we took a large position in the stock.

Since then the story has progressed. PC sales have not fallen off a cliff and, if you categorise tablets as PCs (given they are a laptop substitute), volumes are growing. Intel's business making high-powered chips for servers continues to grow at 15% per annum and, most importantly, evidence of the company's ability to take share in mobile and tablets is building, with Intel now holding a 37% share of the tablet market.

Intel's stock price has reacted favourably to these developments, rising 60%. However, we think there is still more to play for. Intel currently trades on 16x earnings, a multiple the market would usually place on an average business and Intel is a far better business than the "average". If we strip out the start-up losses Intel is incurring to build its mobile chip business, the valuation would be on 13x earnings. And if you believe Intel can make profits in mobile (which we do), the valuation can fall to 10x or below.

1 Intel has held a three year manufacturing lead over its competitors. This lead is supported by scale advantages. Intel spends US$11 billion on R&D annually, 2.5x that of its nearest competitor, Qualcomm. It also has twice the wafer capacity of the rest of the industry combined in leading edge (22 nanometre and lower) manufacturing. We believe Intel's manufacturing advantage is extending.

Changes to the Portfolio and Outlook

As we mentioned in the last quarterly report, we continue to find value in the Chinese market and hence established new positions in railway operator **Daqin Rail**, the world's largest air conditioner manufacturer **Gree Electric Appliances**, and life insurance providers **Ping An Insurance** and **China Pacific**.

In other markets we bought financial services data provider **Markit** (for an extensive discussion, see our September 2014 Platinum European Fund quarterly report), and the heavy sell-off in the oil price presented us with an opportunity to acquire Spanish testing and inspection company **Applus.**

In terms of outlook, we still feel the Asian markets offer the best prospects for investors, followed by Europe. The geographic shift of the portfolio continues, with the primary move being a reduction of our Japanese holdings and an increase in our holdings in China. By way of illustration, the geographic exposure of the portfolio in June 2014 was 22% Japan and 8% China/Hong Kong. Today, the weighting in that same region is 14% Japan and 20% China/Hong Kong.

Platinum Asia Fund

Joseph Lai Portfolio Manager

Disposition of Assets

REGION	DEC 2014	SEP 2014
China (Listed Ex PRC)	25%	23%
China (Listed PRC)	14%	9%
Hong Kong	2%	2%
Taiwan	1%	1%
Greater China Total	**42%**	**35%**
India	19%	17%
Korea	13%	15%
Thailand	6%	7%
Philippines	6%	7%
Malaysia	4%	4%
Singapore	2%	3%
Vietnam	2%	2%
Indonesia	2%	2%
Cash	4%	8%
Shorts	0%	5%

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

Performance

(compound pa, to 31 December 2014)

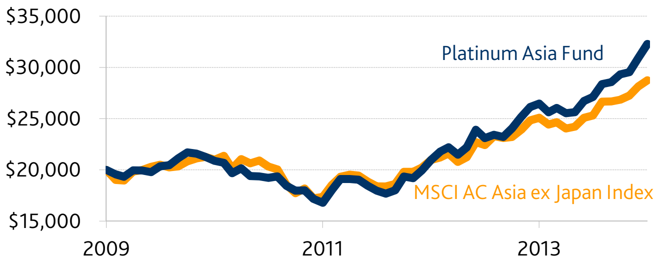
	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund	10%	22%	24%	10%	17%
MSCI AC Asia ex Jp Index	7%	15%	18%	8%	11%

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

The MSCI AC Asia ex Japan Index rose by 0.1% (in US$) over the quarter as concerns arose over interest rate tightening by the US Federal Reserve, negatively impacting liquidity for asset markets and detracting from the economic growth in the region. However, the depreciation of the Australian dollar resulted in the Index finishing the quarter up 7.1% (in A$) over the period. The Fund's performance was ahead of the Index by 3%.

Value of $20,000 Invested Over Five Years

31 December 2009 to 31 December 2014



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

The Chinese A-share market was a standout performer, rising a blistering 37% over the quarter. The domestic A-share investors were excited over the launch of the Hong Kong-Shanghai Connect program (opening up access of the Shanghai A-share market to foreign investors), the Chinese Central Bank's rate cut and a pick-up of the residential property market. The Hang Seng H-Share Index similarly benefited and rose 3% over the same period.

The Indian market delivered a respectable 2% return, as progress of government reforms stayed on track and the inflation rate started to come down on the back of more sensible agricultural product pricing policies and a declining global crude oil price. Performance of other markets in the region were relatively muted, with Malaysia down 4%, Thailand down 6% and the Philippines down 1%.

As expected, the Fund's Chinese A-share holdings were significant contributors to performance, with the Chinese life insurers, **China Life** (H-share up 41%, A-share up 120%) and **Ping An Insurance** (H-share up 36%, A-share up 56%), featuring prominently. Other China-exposed shares also performed well, with **SAIC Motor** (the General Motors and Volkswagen joint venture car maker) up 19%, **Gree Electric Appliances** (dominant air conditioner manufacturer) up 34% and **China Vanke** (property developer) up 26%. Elsewhere, Indian financials were good contributors, with **ICICI Bank** up 24%, **Yes Bank** up 38% and **State Bank of India** up 29%. The Fund's minimal Australian dollar holding meant that the full benefit of depreciation accrued to performance.

Changes to the Portfolio

The Fund's net invested position increased from 87% to 96% during the quarter and maintained a minimal exposure to the Australian dollar.

We sold out of positions that have reached our estimation of fair value (**Daum Communications**, **Mahindra & Mahindra**), and funds raised were deployed into the more prospective ideas.

Early in the quarter, we added to our position in the Chinese life insurance companies (A-shares and H-shares) that bore the brunt of adverse regulatory changes leading to a collapse of insurance premium sales growth. The industry adapted to focus on selling more *complex* but *profitable* protection products. Premium sales growth subsequently bottomed, making these life insurers tantalisingly attractive given the prospect of sustainable growth ahead!

The Hang Seng H-Share Index short position was reversed once it became evident to us that the Hong Kong protests did not warrant mainland intervention.

Positions in **GAIL** and **NTPC** were started in India, as we were increasingly optimistic over the government's resolve to deal with bottlenecks faced by the country. GAIL is the near-monopoly owner of natural gas pipelines in a country that should see years of usage growth in natural gas. Improving gas throughput is set to lift pipeline returns and its ownership of the downstream city gas projects are interesting long duration assets at an embryonic stage of development. NTPC is a State-owned power generator that will benefit significantly from a ramp-up of coal supply, trading on the attractive valuation near the cost of replacement of plant and equipment!

Commentary

India

Despite possessing world-leading IT and pharmaceutical industries, India only registers an average national output per capita of US$1,500, highlighting at once the country's obvious impediments *and* vast potential.

Doing business in India has traditionally been difficult. Starting a business often required hundreds of government permits. Big ticket privately-funded infrastructure investments were often held up for years by land acquisition and environmental approval issues. Coal and gas based power plants were not supplied with sufficient fuel and constantly ran at abysmal utilisation rates. The Bharatiya Janata Party (BJP) swept to power in the general election in April-May 2014, and their promise was basically to remove structural impediments and re-energise the country through development.

We visited India during the quarter, covering cities of Mumbai, New Delhi, Ahmedabad, Nagpur, Lucknow and Gurgaon, meeting with a range of different people (villagers, small and large business owners and government officials) in order to gauge its progress and prospects. It is encouraging to report that the government has made sensible and coherent decisions in quick time, building momentum to tackle the more arduous problems.

Obvious observations can be made about the government's progress thus far. Numerous infrastructure projects stuck in the labyrinthine approval process were cleared, boosting public sector investment activities. The long-awaited diesel subsidy and natural gas pricing reforms were implemented, removing economic distortions. Minimal purchase price for agricultural products, politically popular, but highly inflationary, saw only tepid increases this year.

While low hanging fruit were being plucked, the current government leaders appeared to possess both the *will* and the *capability* to also undertake the more difficult reforms to lift the pace of economic development. Aims of the key policies were to enhance infrastructure construction and to improve the ease of conducting business for the private sector.

Government-funded infrastructure spending as a percentage of GDP is low in India (less than 4%). A persistently high budget deficit leaves little room for the government to undertake the necessary spending on vital infrastructure projects. The solution is to lift government revenue and cut wasteful expenditure.

A Goods and Services Tax (GST) can broaden the extraordinarily narrow direct-tax base, raising much needed funds for the government to balance its books. A GST can also remove the unnecessary complexities inherent in the State-based wholesale tax system, improving efficiencies for the logistics sector. While the benefits have been long recognised, passage of legislation was traditionally difficult given staunch opposition from the States. Under the current government, the GST is firmly on the agenda and implementation may occur by 2016!

The Universal Identity (UID) project can prove to be transformational in the allocation of government benefits, saving them US$12 billion a year! More than 700 million individuals in India have already signed up to the UID and full national coverage has been targeted for mid-2015. The ability to identify the correct beneficiaries of subsidies will enable the government to make payments directly into those recipients' bank accounts. This will bypass the infamous middlemen who would routinely use fake identities to secure subsidised items and then sell them into the vibrant black market.

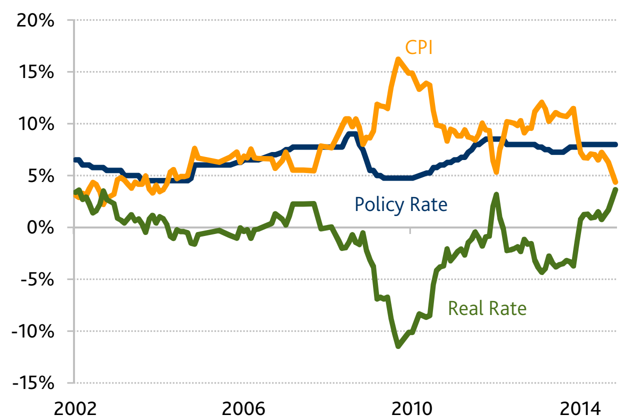
One of the missing elements to the Indian economic story is an environment that is conducive for private enterprise to prosper. Difficult land acquisition (for construction of factories and basic infrastructure) and rigidities in labour laws are recognised as key barriers to private sector investment.

In this context, it is interesting that some States are not waiting for a change in Central Government legislation, but have taken the initiative to streamline these procedures and are attracting business investment as a result. Indeed, early signs suggest that some States are starting to compete with each other to attract private investment to drive industrialisation, reminiscent of China in the early days.

Regardless of the changes being enacted by the Central and State governments, the companies we own and visited are diligently positioning themselves for the opportunities ahead. **IRB**, a toll road investor and construction company, is taking advantage of its competitors' lack of funding capacity to pocket road projects that promise extremely attractive returns. **Sobha**, a respected property developer with a vast land bank, is a pioneer in India to utilise prefabricated construction to shorten construction time. **Info Edge**, a dominant job board and real estate Internet website, is focusing on the authenticity of listing and improving market share to maintain its dominance in this growing and nascent Internet market. **Bharti**, India's biggest mobile telephony operator, is busily putting in infrastructure to take advantage of the booming mobile data demand of the young population. Smartphone ownership is very low and has vast opportunities ahead.

Disciplined monetary and sensible fiscal policies over the last year and a half and a falling crude oil price have reined in inflation. Real interest rates are still at historically high levels and a reduction in rates will benefit the interest rate sensitive sectors and should help kick-start the long-awaited capital investment cycle that the country sorely needs.

India's Rates and Consumer Price Index (CPI)



Source: Bloomberg

China

In China, slowing economic activity and the falling inflation rate (1.6%) prompted the government to stimulate the economy. In November 2014, the Chinese Central Bank cut interest rates for the first time in two and a half years, signalling the start of a policy loosening cycle. The reversal of property purchase restrictions led to a recovery of sale volumes and developers are starting to purchase land again in the bigger cities. Stabilisation of property prices is important for the solvency of the banking system, given the ubiquitous use of property as collateral for lending.

While the potential loosening of interest rate policies can spur a cyclical recovery, escalation of reform efforts bodes well for the country's longer-term prospects.

Evidently, such efforts are gaining momentum on multiple fronts:

- Corruption crackdown continues unabated.
- Simplification of permit application procedures for private enterprises.
- Rural land reforms – liberalising trading of rural land rights.
- Opening-up of capital markets to foreign participation.
- State-owned enterprise (SOE) reforms – shifting focus to investment returns.
- Roll-out of more free trade zones (which have similar regulatory norms to global financial services hubs).

Outlook

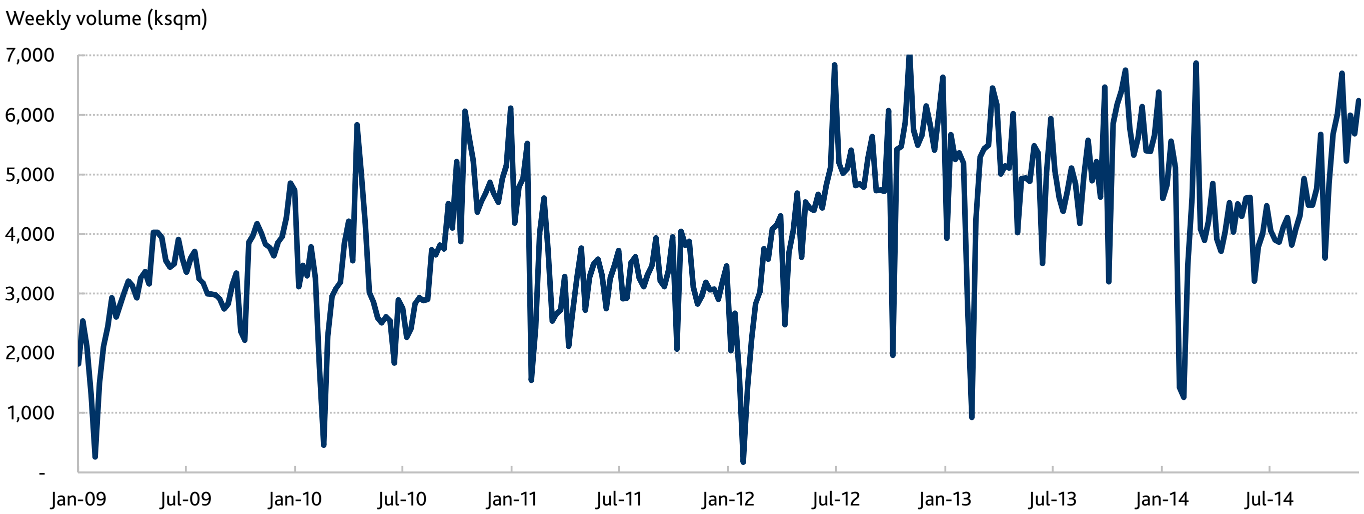
China and India are undertaking structural reforms to better their longer-term prospects, but opposition from various entrenched interests remain and one should not necessarily expect smooth sailing throughout.

For India, implementation of more sensible policies to encourage investment in infrastructure is a promising first step towards a sustained growth trajectory, but more reforms need to occur to reinvigorate private enterprise.

The Chinese economy is transitioning. Its growth rate will slow, but reforms undertaken will enhance sustainability. It is interesting that Chinese equities were in a bear market when the economy was growing at 8-9% per year and are now turning positive as the economy transforms and slows.

The starting valuation is a good predictor of future returns and stock market valuations in the region remain attractive. We continue to find prospective opportunities to deploy the Fund's capital.

Real Estate Transaction Volume of Tiers 2 and 3 Cities in China



Source: Soufun

Platinum European Fund

Clay Smolinski Portfolio Manager

Nik Dvornak Portfolio Manager

Disposition of Assets

REGION	DEC 2014	SEP 2014
Germany	24%	22%
UK	24%	22%
France	8%	8%
Italy	7%	7%
Spain	5%	2%
US *	4%	3%
Switzerland	3%	4%
Austria	3%	3%
Russia	3%	5%
Netherlands	2%	2%
Norway	2%	0%
Sweden	1%	1%
Turkey	1%	1%
Belgium	0%	1%
Cash	13%	19%
Shorts	1%	1%

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

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

Performance

(compound pa, to 31 December 2014)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund	4%	0%	23%	12%	12%
MSCI AC Europe Index	2%	1%	20%	7%	2%

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

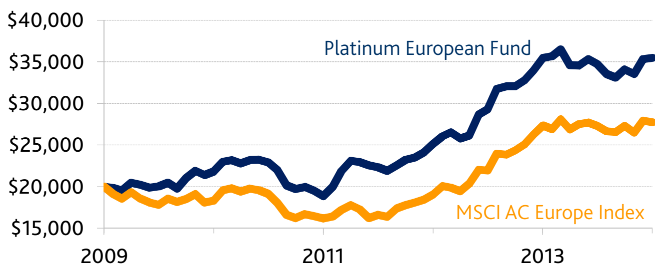
The two year rally in European equities lost some of its momentum during the second half of 2014. Eroding economic growth, increasingly evident in leading economic indicators, was the prime culprit.

Notably, this weakness is not confined to the periphery, but is widespread. Italy, France and even the indefatigable Germany are showing signs of slowing. Only the countries that experienced the most wrenching adjustments during the recent crisis, namely, Spain and Ireland, display some economic vitality.

The European Central Bank (ECB) once again finds itself in the spotlight with expectations of further monetary easing.

Value of $20,000 Invested Over Five Years

31 December 2009 to 31 December 2014



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

Readers may wonder why the ECB has been hesitant to act when quantitative easing (QE) proved so successful elsewhere. The trouble is that, in Europe's case, the assets being debased are owned by fellow Europeans, whereas in the US and the UK a significant portion of the borrowing was funded by foreigners (who do not vote). The lender nations within the Eurozone are reluctant to see their citizens pay the price of QE without the "sinner" nations first committing to the painful reforms necessary to remedy the vulnerabilities that caused their crises in the first place.

Prying the necessary concessions from both sides takes time and this is frustrating for many. Yet, there is cause for optimism in that, instead of a quick fix, we may see a lasting solution that addresses the root causes of the problem.

The Fund appreciated by 4.1% during the quarter, compared to 1.6% for the MSCI AC Europe Index, though much of the action happened away from equity markets. Thus, the Euro depreciated from 1.36 to 1.22 against the US dollar and the price of Brent Crude Oil fell from US$96 to US$60 per barrel.

Our large cash balance is entirely denominated in US dollars, so the drag from holding a large cash position in a rising market was reduced by the depreciating Euro. The Fund also had no exposure to the energy sector until after the collapse in oil prices, allowing us to avoid the carnage there. The primary detractors from our performance were our **Russian positions**, Swiss solar company, **Meyer Burger** and UK pub chain, **Enterprise Inns**. Cruise operator, **Carnival**, was the strongest contributor to our performance, benefitting from both lower oil prices and increasing evidence that the business is turning the corner on pricing.

Changes to the Portfolio

When the price of a commodity falls almost 40% in the space of a few weeks, investors have a tendency to indiscriminately reduce their holdings of exposed companies. This knee-jerk reaction can open opportunities and in this instance led us to initiate investments in two businesses caught up in the oil-related rout: **Applus** and **Subsea 7**. In addition to this, we added to our positions in **Meyer Burger** and **Erste Bank**. These actions were funded from our cash balance.

Finally, we increased our holdings of the **Norwegian krone**, another casualty of lower oil prices, which is being treated as a petro-currency, rather than the legal tender of a stable, law-abiding democracy that has been a bastion of fiscal rectitude for six decades and counting.

Commentary

Introducing Applus

Barcelona-based Applus is a reputable, independent, third-party auditor that assesses whether equipment and products comply with government regulations. Their main end-markets are automotive, and oil and gas, with each contributing half their profit. Clients are *compelled* to undergo these audits by the government, so demand for Applus' services is steady and recurring.

The automotive segment comprises a network of testing stations in Europe and the Americas that perform statutory roadworthiness tests on passenger cars (like the NSW Pink Slip). To renew your registration, you have to pay Applus to certify your car's roadworthiness. Applus has concessions in most of its markets, so competition is limited and pricing fixed. This provides a safe, recurring annuity stream, with their average concession having nine years to run.

They also operate a test-track where they assess new car models and prototypes against European Union (EU) standards and provide outsourced R&D services to automakers, especially around vehicle safety. This business is also very stable with strong demands from Asian automakers looking to break into EU markets.

In the oil and gas segment, Applus is the leading provider of non-destructive testing globally. Their technicians test pipelines, storage tanks and other facilities for vulnerabilities like fractures or corrosion, without damaging the parts or interrupting their operation.

Half of Applus' revenue comes from testing existing kit. Their client base is a "Who's who" list of the oil world and is very sticky; seven of their top 10 clients have been with Applus for a decade. Moreover, demand is likely to grow as governments clamp down on safety following a number of high profile accidents and push the industry to use third-party assessors.

The other half of this segment's revenue comes from testing new build. This will suffer as oil and gas companies cut back on capital spending at the US$60 per barrel oil price. The market is very concerned by this possibility and has cut the company's stock price in half on the back of it.

We are less concerned. Oil prices may rebound, for a start. Even if they do not, the industry is not going to cut new build to zero. Some new build is required to maintain output or to continue to exploit existing fields where the sunk cost is large and marginal cost low. This business has a great market position and a strong reputation with oil and gas producers. The world will likely need more oil and gas in future and getting it will require new pipes and other infrastructure, all of which will need to be inspected. Thus, while profits may be squeezed in the near-term, the longer-term future of this business seems quite promising.

On 10x earnings, Applus is trading at half the valuation of industry peers, implying a catastrophic pullback in oil and gas capital spending. Where the oil price goes next is anyone's guess. But at this valuation, we are being offered an attractive business earning a steady, annuity-like revenue stream with a hefty margin of safety built-in. This valuation ascribes almost no possibility of oil prices rebounding and makes no allowance for the possibility that a larger competitor may use this opportunity to acquire a leading position in the oil and gas end-market by buying Applus outright. Overall, a lot of value is being left on the table as panicked investors run for the exit. We are heading the other way, having invested 2% of the Fund's capital in Applus.

Outlook

As the year closes, European equities may seem an increasingly unattractive proposition. The underlying economies show signs of slowing while disinflation continues to pressure the indebted. The ECB stands poised to pursue a program of QE, which may support asset prices, but will no doubt create numerous distortions and exacerbate asset price volatility. Some are even drawing parallels with the Japanese experience of the last two decades.

Yet, we see a number of reasons for optimism.

What superficially appears to be institutional ineffectiveness belies the strong underlying pressure to find a real and lasting solution to Europe's problems, in contrast to the Anglo-American "quick fix". The political heft of Germany within the EU is at an all-time high and the country is a driving force for tough, but necessary reform, which will reduce vulnerabilities and lay a strong foundation for *sustainable* economic growth.

Secondly, the recovery of European corporate earnings has significantly lagged that in the US since the 2008 financial crisis. There is substantial latent potential for earnings to rebound, should the economic cycle turn in Europe. This is not reflected in current stock market valuations.

Finally, we continue to find opportunities to deploy our clients' funds. During the last six months, we added to many existing holdings and initiated a number of new investments. We have little doubt that such opportunities will continue to present themselves and our sizeable cash holdings leave us well-placed to seize them.

Platinum Japan Fund

Scott Gilchrist Portfolio Manager

Quarterly Haiku

Yen weakens, stocks lift.

Kuroda's Bonds fix, Abe up!

OPEC watches, wait.

Disposition of Assets

REGION	DEC 2014	SEP 2014
Japan	81%	86%
Korea	8%	8%
Cash	11%	6%
Shorts	3%	9%

The Fund has an 11% short position in Japanese Government Bonds.

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

Portfolio Position

Sector Breakdown

SECTOR	DEC 2014
JAPANESE INTERNATIONAL FOCUS	40%
Electronics (Panasonic, Ibiden)	17%
Autos (Toyota, Sumitomo Electric)	7%
LCD Glass	6%
Industrials (Tokyo Steel, Mitsubishi Heavy Industries)	6%
Resources (Sumitomo Metal Mining)	4%
JAPANESE DOMESTIC FOCUS	41%
Internet (DeNA, NTT)	13%
Consumer (Pola Orbis, Asahi)	9%
Health Care (Mitsubishi Tanabe)	9%
Financials (Mitsubishi UFJ)	8%
Property	2%
KOREA	8%
Electronics (Samsung Electronics)	3%
Financials (KB Financial)	3%
Domestic	2%
GROSS LONG	89%
SHORTS	-3%
Topix Real Estate	-3%

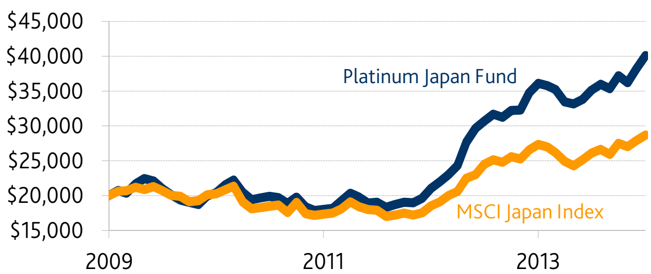
Currency Position

US dollar	56%
Japanese yen	36%
Korean won	9%
Australian dollar	-1%

Source: Platinum

Value of $20,000 Invested Over Five Years

31 December 2009 to 31 December 2014



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**.
- Alternative energy – **Rohm**, **Sumitomo Electric**.
- Cheap, neglected cyclical stocks – **Sumitomo Metal Mining**, **Asahi Glass**.
- Domestic consumption – **Pola Orbis**, **Asahi**.

Performance

(compound pa, to 31 December 2014)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund	8%	11%	31%	15%	15%
MSCI Japan Index	4%	5%	18%	7%	1%

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

Portfolio performance for the quarter was positive (+7.8%) due to the strong performance from some of our more idiosyncratic domestic-focused holdings (**AIN Pharmaciez**, **Next**, **Xebio**, **Avex**, **DyDo Drinco**) and some of the larger positions (**Tokyo Steel**, **Asahi Group**, **Sumitomo Metal Mining**, **Toyota Industries**, **Toyota Motors**, **Pola Orbis** and **Samsung Electronics**). The Fund's limited exposure to energy and raw materials was a contributor to overall returns. Korean domestic companies and some Japanese exporters detracted from performance. Certainly, the currency positioning out of the Yen and into the US dollar (56% of assets) was a large contributor. The 36% exposure to the Yen did not detract significantly from returns as the Australian dollar weakened somewhat in line with the Japanese yen. The Australian dollar weakened against the Korean won, a slight benefit to performance. The Japanese Government Bond (JGB) short position was not a significant detractor despite the sharp fall in bond yields.

Changes to the Portfolio

The Fund's position in **Inpex** was sold towards the end of the quarter. The key concern with the Inpex investment case related to the underlying construction risks at Ichthys, their major LNG and condensate project. Initial signs of problems started filtering over the wires, which, together with previous hints of problems and the weakening oil price, were confirmatory. As a reminder, Inpex is a government organ which is building one of the ten largest projects in the history of the engineering industry (US$34 billion) with size-max components such as the 800 km underwater pipeline and two floating behemoths (a Central Processing Facility and a Floating Production Storage Offloading (FPSO) unit). If Shell were building the project, with their superb management systems and century of history, there would still be concerns, but Inpex has never built and operated a large project, let alone one of this scale. Further complicating the project is the reversal of partner roles, with Total moving from operator of the Bontang LNG plant to junior partner on Ichthys. The French/Japanese friction has led to high staff turnover. In case you might think that such projects are just a matter of patience, the tenfold cost overrun and the recent further two-year delay to the Kashagan mega-project in Kazakhstan is salient. In projects of this type, series logic applies to the weakest link in the chain. These risks are awkward to price.

One of the key attractions of the Fund's investment in **Otsuka** was their strong balance sheet which made the valuation attractive despite their upcoming patent cliffs. Their acquisition of US-based Avanir Pharmaceuticals for US$3.5 billion in early December reduced their significant liquidity in half. Some estimates put the acquisition metrics at 10x estimated peak sales (5+ years hence) for a relatively early stage drug pipeline. The timing seems unfortunate as euphoric valuation metrics indicate that the health care bull market is mature at best. Otsuka's history is one of long-term internal development and organic growth, in complete contrast with this recent action. The deal may be indicative of corporate drift or perhaps they were also responding to Japan's already high health care spending at 10% of GDP, with only 20% of drugs being generic, implying future pressure on domestic ethical drug suppliers. A 40 year old camphor tree stands outside the Otsuka Pharmaceutical Drug Research Institute, planted when the facility was built. They now seem to be buying fertiliser.

The **Nikkei short position** was removed to counterbalance the sale of Inpex and Otsuka.

We have owned **Mitsubishi Tanabe** since early 2013 and gradually added to the position. Large Japanese pharmaceutical stocks are priced at discounts to their global peers due to the perception, often deserved, of relatively thin drug development pipelines and weak management unwilling to address surplus domestic headcount. The company's lack of performance on domestic cost controls and concerns regarding inevitable biologic competition for *Remicade*, an arthritis drug representing roughly US$700 million of US$3.4 billion in Japan-centric sales, have kept investors on the sidelines. At our last meeting with the company, management belatedly presented a plan to cut domestic costs by some US$100 million over two years (consolidation of manufacturing and headquarter sites, 7% of selling, general and administrative expenses (SGA)) and encouragingly these cuts are now showing up in results. Further, a marketing tie-up for *Invokana* in Japan with Daiichi Sankyo to present a larger and more effective sales force for a crowded domestic diabetes market represents a clear desire to minimise selling costs. Mitsubishi Tanabe has had excellent pipeline success with *Gilenya*, a multiple-sclerosis drug licensed globally to Novartis, and, more recently, *Invokana*, a diabetes drug licensed globally to Johnson & Johnson. *Gilenya* and *Invokana* royalties should conservatively grow to represent some US$600 million in EBIT within a few years and arguably underwrite the current enterprise value of some US$7.5 billion. The US$3.4 billion in Japan-centric sales that earn around US$400 million represent an upside to the valuation as do further interesting pipeline assets such as an Alzheimer's drug in phase three trials in-licensed from EnVivo in 2009.

Commentary

Dislocations defined the last three months for many key aspects of the Japanese financial system. The Yen weakened, the oil price plunged and Japanese bond prices elevated rapidly towards an asymptote. In contrast, Abe's government was re-elected with a maintained mandate as expected.

Currency and Monetary Policy

The defining event of the quarter was Bank of Japan (BOJ) Governor Kuroda's announcement on 31 October of an increased program of quantitative and qualitative easing (QQE). This expanded government debt monetisation program took the market by surprise and provided the initial trigger for currency weakness. Kuroda's commentary around the easing reinforced its open-ended nature and his firm commitment to a sustained 2% inflation target which seems unobtainable for the moment. While the BOJ Policy Board may not be unified behind Kuroda (five in favour, four against the decision, voting along political lines), it seems that Kuroda's path is backed by broad swathes of senior leaders in the nation's key institutions. This extremely proactive approach to inflation targeting is similar in intent to the US Federal Reserve's behaviour of the last few years and is in stark contrast to the reactive efforts of the European Central Bank (ECB) and Asian Central Banks such as the Bank of Korea.

Coincident with Kuroda's announcement (two hour delay), the US$1.2 trillion Government Pension Investment Fund's (GPIF) new portfolio target weights surprised the market with their aggressive weighting towards domestic equities (+13%) and foreign assets (+17%) to the detriment of domestic fixed income and cash (-30%). Their JGB holdings will seemingly be sold to the BOJ. The intended outcome of the two announcements was higher stock markets and a lower currency. Market participants responded accordingly. We would not be surprised to see other asset allocation adjustments across the system, particularly at Japan Post.

A large scale "financial experiment" is underway in Japan, one that likely has global implications. The expanded BOJ bond purchase program is 80 trillion yen per annum. Currently, the government fiscal deficit is roughly 40 trillion yen per annum, so all new issuance is being monetised with additional purchases equivalent to 8% of GDP per annum. This program is reducing the outstanding stock of JGBs available to the financial system at a rate of roughly 8% per annum. Consequently, it is no surprise to see short-term bond yields surge into negative territory as the Central Bank is in the process of cornering the market and setting the price. In a global context, Japan's money printing efforts are the most extreme. The obvious intended consequence of this is a weak currency. The second and third order effects of their multi-decade monetisation efforts and the recent acceleration are yet to be seen.

Over the quarter, the Yen weakened from 110 to 120 against the US dollar, reflecting broad based dollar strength. The Yen weakness continued the trend in place since late 2012. Over the last two years (roughly Governor Kuroda's term in office), the Yen has depreciated 54% against the global reserve currency and its currency bloc. The Yen has now fully reversed the strength seen over 2008-2012 and in nominal terms is now roughly in line with where it traded over the period of 1988-2007. By some analyses, it has now reached fair value on a purchasing power parity basis after three decades well above this calculation.

The current period is perhaps most reminiscent of 1995, the year of the Kobe earthquake, when the Yen traded up to 80 before weakening to 150 with significant volatility. The other similarity between now and 1995 is the lack of independence of the BOJ. At that time, the BOJ reported to the Finance Ministry, an arrangement which ended in 1998. Kuroda is the first "outsider" to run the Central Bank since then, and seems to be returning the institution to its former role as a pliable government instrument. Perhaps there has been widespread reading of *Lords of Finance: The Bankers Who Broke the World*, a book on the history of central banking in the 1930s which came to the conclusion that the best approach in a recession was to "devalue hard and devalue early". It appears as though one and a half decades of conservative Japanese central banking has ended and markets will continue to be surprised by Governor Kuroda's unconventional measures. The similarity with 1995 will end if parts of the large Japanese financial system (US$35 trillion of assets) make a lemming-like move through a small door. After a few decades of deflation, it is not surprising that Japanese households have more than 53% of their assets in cash equivalents. Amongst the younger cohorts who have only ever known falling price environments, cash holdings are higher, well above 70%. It will be intriguing to monitor their behaviour as the Yen falls, especially if there is a hint of a return of domestic inflation.

Domestic unemployment rates are approaching the lowest level in over a decade. In 2014, there were one million births recorded in Japan, 20% lower than the 1.27 million deaths. There have been sporadic reports of labour shortages, particularly in unappealing jobs. However, Credit Suisse estimates the overall output gap at 1.5% with significant under-utilisation in certain sectors of the economy. While bond rates are at the lowest level in a generation, it seems that this is not a good reflection of activity in the real economy, but is directionally correct.

The weak Yen is starting to show in the services sector. For example, tourist numbers to Japan have been rising consistently for the last few years and there are reports of capacity constraints in some tourist channels. Attractions such as Tokyo Disneyland and Huis Ten Bosch in Nagasaki, a mock Dutch village complete with tulips and windmills, are seeing increased attendance. It seems likely that inbound tourist numbers will continue to increase further, though we are struggling to find suitable investment opportunities.

Export volumes have been slower to pick up than generally expected as demand is moderate and Japanese corporates have moved many factories to lower labour cost countries over the last two decades. This process accelerated through the recent period of Yen strength and has become a significant percentage of controlled manufacturing. The labour cost arbitrage between the developed and the developing world remains wide, despite the passing of two decades since the conclusion in 1994 of the Uruguay round of the General Agreement on Tariffs and Trade. The manufacturers that have maintained their Japanese production base will need to decide how to allocate their increased profitability between shareholders and employees. Trade as a percentage of Japanese GDP in 2013 was 32% (exports 15%, imports 17%, according to the European Commission (EC)), much of which is component imports for subsequent re-export as completed goods. South Korea is currently running a large trade surplus based on their engineering skill and new products. China is now the world's largest trading nation at US$4.2 trillion, or 10% of world trade, of which one-third is reprocessing of imported components into completed exports. This is the first time that China has held this pre-eminent position since the Qing Dynasty (1644-1911). China's trade as a percentage of global trade has tripled from 4% to 12% since 2000 and is up sixfold from 1990 when their contribution was 2%. The current Chinese leadership remembers when they could not gather enough hard currency to buy an airplane ticket to the USA. By comparison to China's annual exports of US$2.2 trillion, the USA is at US$1.6 trillion, Germany US$1.4 trillion, Japan US$0.7 trillion and the Netherlands US$0.7 trillion. Energy is roughly one-third of Japan's imports in 2013 at US$280 billion per annum.

Energy Dependence / Fossil Fuels

The market had come to believe that the Organisation of the Petroleum Exporting Countries (OPEC) would continue to manage seaborne oil prices in the elevated range of US$100 and US$120 per barrel seen in 2011. In combination with the ongoing and persistent threat of political and thus production disruption across the Middle East, financial markets positioned for further price rises consistent with the prior decade. The lack of price volatility led to "tight oil fracking" becoming the largest component of the North American high yield bond market and resulted in surging North American liquids production on a wave of inappropriate debt. Commodity prices are renowned for their volatility! OPEC decided to sit idly on the sidelines while surging Bakken /

Eagle Ford / Permian production and a concurrent global economic soft patch caused a minor oil market oversupply. This resulted in Brent prices looking for a hard floor as the lop-sided financial positioning was rapidly reversed. Brent oil prices fell 40% during the quarter, accelerating from the previous quarter's 15% decline. Prices have now dropped from US$130 per barrel four years ago to US$57 per barrel today. Bowser prices are now at the same level, or perhaps even lower, than a decade ago, and worries of queues have evaporated.

Most seem to concur that lower commodity prices are positive for the global economy. Asia is a key potential beneficiary as the continent's population of 4.5 billion is highly dependent on energy and raw material imports. If this interpretation is the correct one, then Japan will benefit disproportionately as it is amongst the largest importers of oil, coal and LNG on both an absolute and a relative basis. Japanese energy self-sufficiency is only 10% of consumption. The Fukushima disaster exacerbated this global dependence. It is now almost four years since the 9.0 magnitude earthquake off the coast of Sendai, north of Tokyo, and no restarts have occurred following the final shutdown in late 2013. There is a lot of talk about restarting the nukes, but the pace has been glacial, with continual and repeated delays. Most estimates are that at least half of the reactor fleet will never restart due to a combination of siting on active faults, reactor age and local opposition. In November 2014, the Governor of Kagoshima Prefecture and the local legislature approved the restart of two reactors owned by Kyushu Electric Power at Sendai following re-certification of the facilities. Subsequently, there have been some further small delays to the Sendai restart, but these two units will probably produce their first electrons in 2015.

Japan is the largest global importer of LNG (4.5 trillion cubic feet or 70 million tonnes per annum, 37% of the global market), the second largest importer of seaborne coal (200 million tonnes per annum) and the third largest importer of crude oil (4.6 million barrels per day), in total about 0.5 billion tonnes of oil equivalent energy. At its peak, Japan's energy import cost was roughly US$280 billion per annum or roughly 5% of its GDP, of which two-thirds of the dollars were spent on oil. Japan produces 1,000 terawatt-hours of electricity per annum with only 9% from renewables and 16% from oil. This oil consumption will reduce as the nukes restart and increased LNG and coal fired power generation comes online. The recent drop in oil price has been offset somewhat by the weakness in the Yen. Nevertheless, it reduces Japan's import bill by 1-2% of GDP.

At current oil prices, the global oil industry is loss-making at the margin and capex is being cut rapidly. Oil well decline rates are high, especially across the half of global production that is more than four decades old, and the impact will be seen, not just in national (Iran, Venezuela, etc) and corporate bankruptcies, but also in much reduced expectations for future oil and gas production growth.

Interest Rates

Sovereign Ten Year Bond Yields at 31 December 2014

Brazil	4.10%
China	3.64%
Australia	2.70%
Korea	2.63%
USA	2.25%
UK	1.80%
Germany	0.54%
Japan	0.33%
Switzerland	0.30%

Source: Bloomberg

Japanese Government Bond Yields at 31 December 2014

1 year	-0.19%
2 year	-0.22%
5 year	0.03%
10 year	0.33%
30 year	1.23%

Source: Bloomberg

As tabled above, JGB yields are now negative below five year duration. During the quarter, the yield on the 10 year JGB dropped from 0.5% to 0.33%, an acceleration of the weakness seen in prior quarters. Yields are now well-below the downward spike seen in early 2003. Market commentators from some core investment firms now forecast negative yields all the way along the curve past 10 year duration. Needless to say, this is a somewhat unique situation in recent global financial history. Memories of the 1970s' inflation and the more recent Venezuelan and Zimbabwean hyper-inflation occupy core brain storage of many current global investors.

Politics

With Abe's Liberal Democratic Party (LDP) Coalition only roughly halfway through its maximum four year term, the logic behind going to the polls early seems to have been twofold:

- the Opposition was weak and disorganised, and
- Abe could deflect criticisms of Abenomics by blaming the Opposition's previous decisions for recent poor economic data and weak real incomes.

In the final count in late December, Abe was re-elected with a similar majority on the back of the lowest voter turnout for many decades (53.3%) which perhaps reflects widespread apathy with the political system (or maybe just deep snow). Abe's LDP Coalition won 69% of the seats with less than half of the overall vote.

Abe's return to political leadership seemingly gives him a strong mandate and we will be watching to see how far he can implement his "Three Arrows" without the need for aggressive nationalistic and military posturing. There is a lot of discussion about micro reforms, but the tendency in Japan is towards continuity and consistency. Change will continue to be slow, but is likely to be in the right direction after two and a half decades of economic stagnation – the Federal Reserve Bank of St Louis calculates that Japan's nominal GDP is still below 1995 levels. One recent news story from Osaka is illustrative. The 1615 Battle of Domyoji was fought between samurai warlords of the Tokugawa and Toyotomi forces as part of the siege of Osaka. Some historians say the battle marked the end of the Sengoku (warring states) period. A monument was recently erected to commemorate the battle. In attendance were three male descendants of the warlords who shook hands in reconciliation and called for peace. It was the first such meeting in 400 years. Indeed, some things have not changed since that time, with female participation in the upper echelons of Japanese government and corporates below that of Saudi Arabia, itself hardly a bastion of progressiveness. Japan has started the process towards restarting military equipment exports after a multi-decade hiatus.

Corporate Rejuvenation

There has been real progress towards corporate reform over the last decades in Japan. However, there are still many recalcitrant managements as exemplified by large and unproductive corporate cash holdings (Otsuka) and country-wide webs of cross-shareholdings (Mitsubishi Keiretsu). It must be a topic of heated debate amongst the Japanese elite that their country, which is so critical to the global electronics industry, now finds the Apple iPhone as the top selling domestic smartphone. A Korean software product, Line, is the dominant messaging app in Japan. After a decade of discussion about restructuring, Sony recently sold their PC business, the first real sign of tangible change, which unsurprisingly occurred after Mr Stringer's departure. Sony's SGA as a percentage of sales is many points higher than any global comparison. Shiseido's long-awaited revitalisation seems more chat than dynamism despite the arrival of an external CEO from Coca-Cola. Aeon's corporate behaviour appears to be about empire building rather than fundamentally changing the convoluted distribution networks it has in place across the country. Meanwhile they are missing the transformation underway as retail moves online and nimble innovators take market share.

While Japanese corporates continue to move forward together with legislative, tax and labour reforms, the rest of the world and the business environment is moving faster and at times seems to be accelerating. Smartphones; robots; cheap, fast Internet and virtually frictionless transportation to any part of the globe, in addition to the continual flow of new sources of low cost labour coming to the global market, are creating an environment where flexibility, excellence and dynamism is overly rewarded.

Korea

Korean restructuring, especially at the Samsung Group, has gathered pace. Partly this is due to upcoming generational changes at Samsung Electronics, but it is also a reflection of the difficult environment facing many of the Group's companies as end-markets remain oversupplied and Chinese competition is strengthening. The Yen has weakened 40% against the Won from the bottom. Many Samsung Group entities are trading at the value of their investment portfolios, with little value attributed to their large operating businesses.

Outlook

Japanese equity markets, particularly in local currency terms, have clearly become more expensive over the last few years with the rise in the broad indices. However, there are still cheap, reasonable quality stocks to be unearthed in addition to the many opportunities for corporate revitalisation and export growth. Japanese valuations are below their international comparisons and are not expensive in aggregate absolute terms. Some parts of the market, particularly consumer companies, are expensive.

In summary, we can still find enough undervalued securities to assemble an attractive portfolio in the current global economic backdrop. The Fund's cash holdings allow opportunistic purchases if the initial enthusiasm for the Abe/Kuroda/GPIF game plan wanes. Over time, it is likely that the Fund will move to very limited, or perhaps zero, holdings of the Japanese yen. As always, we remain mindful that the global financial system imbalances and the ineffectiveness of monetary easing might be reflected in lower equity values if there is a lack of Central Bank or fundamental economic impetus. In contrast, we are closely monitoring the domestic portfolio reallocation underway in Japan. It was a tumultuous three months – Yen, oil, bond yields! It seems likely that the longer-term implications have not yet been fully digested by the global investment community.

A Historical Note from Stephen Turnbull's *Osaka 1615: The Last Battle of the Samurai*

"The Osaka campaign – or rather campaigns, because it consisted of two distinct winter and summer operations – holds a unique place in Japanese history. The battle of Tennoji in 1615 (immediately following the Battle of Domyoji), with which the fighting at Osaka concluded, was to be the last occasion in which two armies of samurai would engage one another in a pitched battle. It also saw the final appearance on the field of war of Tokugawa Ieyasu, whose victory at Osaka secured his family's hegemony for the next two and half centuries. But the Osaka Campaign was also notable for a number of firsts. Because the fall of Osaka Castle was publicized by means of a woodblock-printed broadsheet, the campaign became the first event in Japanese history to be reported in anything resembling a newspaper. It was also the first major occurrence in Japan to be described in the English language – this was through the reports and letters prepared by the East India Company from its trading post in Japan. It was entirely appropriate that they should do so, because artillery supplied by the East India Company played a decisive role in the fall of the castle when it was used in the first long range bombardment in Japanese history."

Scott Gilchrist was appointed portfolio manager of the Platinum Japan Fund during the quarter.
Scott has worked for Platinum for over 10 years in the resources and industrial sectors.

Platinum International Brands Fund

Simon Trevett Portfolio Manager

Disposition of Assets

REGION	DEC 2014	SEP 2014
Asia and Other	33%	29%
Europe	31%	30%
North America	11%	10%
Latin America	7%	8%
Japan	5%	6%
Russia	2%	2%
Africa	1%	2%
Cash	10%	13%
Shorts	5%	6%

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

Performance and Changes to the Portfolio

(compound pa, to 31 December 2014)

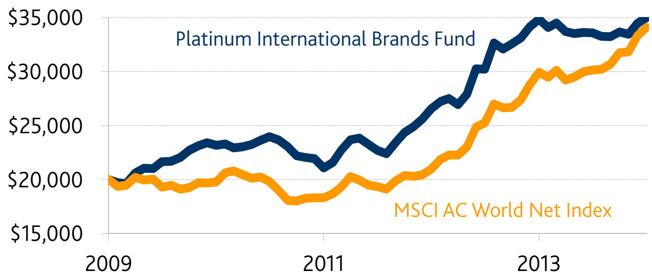
	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund	4%	0%	18%	12%	13%
MSCI AC World Index	7%	14%	23%	11%	1%

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

The Fund's European holdings showed improvement this quarter, notably those companies with higher export or international businesses. **Pernod Ricard** and **LVMH** were up 8% for the quarter whereas those with more European or domestic focus continued to face difficult conditions. The Fund's Latin American holdings detracted from performance, as did the Fund's position in the French retailer, **Casino**, given the significant weighting of its Brazilian subsidiary. In the past year, the Fund remained concerned about the market imbalances with a relatively narrow enthusiasm for large US companies and Chinese Internet stocks. Neither of these has been potential areas of investment for the Fund, resulting in a disappointing relative performance.

Value of $20,000 Invested Over Five Years

31 December 2009 to 31 December 2014



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

The Fund added to existing positions in Asia, mostly to our Chinese holdings. The Fund has been working to increase its exposure to the Indian consumer, although the low liquidity and high valuations make direct investment more challenging to achieve. Indirectly, European holdings in **Pernod** and **Piaggio** have significant Indian businesses, and the Fund added to the investment in Piaggio during the quarter.

The Australian dollar exposure of the Fund has remained at a minimum.

Commentary

Piaggio, the Italian maker of the iconic Vespa scooter, has clearly been encountering difficult conditions in its major markets of Italy, France and, to some extent, India, where the company generates more than 25% of its revenues. In Asia, Piaggio has a manufacturing facility in Vietnam supplying that market and with potential to further their entry into the significant Indonesian market. It is relatively easy to be optimistic about their opportunity in a reinvigorated India or even the scale of the South-Eastern Asian markets. However, with 45% of revenues from Europe, it is the Italian and other major European markets that will determine the company's near-term returns.

Interestingly, within Italy (and likely equally applicable to France and other European markets), the size of the **registered fleet** of two-wheel vehicles has not declined anywhere nearly as fast as the decline in **new registrations**. Other analyses of usage and the second hand market also suggest that the two-wheeler has not suffered the decline in popularity or usage that Piaggio's revenue might suggest. The explanation for the apparent inconsistency may be found in the **ageing of the fleet and the deferral of the replacement decision**. Over the ten year period from 2003 to 2013, the proportion of two-wheelers in use that are less than five years old has halved from 75% to 35%. Encouragingly, Italy's number of insured two-wheel vehicles is approximately 7 million, presumably in use and not "mothballed" at the back of the garage, whereas **new registrations in 2014 amounted to a mere 180,000**. If this paltry rate of renewal continues, it would require nearly 40 years to renew the fleet. The iconic Vespa is renowned for its durability, but that is beyond even the most optimistic owner's expectations!

If there had been a decline in the measures of usage or a significant decrease in the overall number of registrations through scrapping, i.e. without replacement, then we might be concerned that the "scooter" had lost its place in the Southern European lifestyle. However, things may be more optimistic in the short-term – the age of the fleet and the progressive introduction of periodic bans in major cities (like Rome) on the older two-wheelers that fail to meet the newer emission standards suggest that **a pent-up replacement cycle is developing**.

Piaggio has some new models to launch over the next two years along with an "E-bike" that may encourage some renewed interest in the replacement market. This, together with the signs of growth in India, uplifts in the company's margins, management changes and a more favourable exchange rate, suggests that there is scope for the stock to perform well over the next few years without requiring the difficult European markets to return to growth – they merely need to show some activity in the replacement market.

Turning to **Pernod** and the drinks market: investors have rightly remained sceptical on the prospect of any return to growth in the Cognac market in China, with similarities being drawn to the rise and the subsequent collapse of the Scotch market in Japan. The premium *Baijiu* market continues to show price declines, further adding to the pressure on Cognac. Absolut Vodka has proven to be a more difficult challenge to reposition, exacerbated by a trend in the major US market away from Vodka and towards brown spirits as well as ongoing price cuts by competitor Diageo with their Smirnoff brand. Pernod is showing margin gains on Absolut at the expense of volume as they lift prices. Diageo has preferred to increase volume over profits.

So why maintain a significant investment in Pernod? The China Cognac market is showing signs of having stabilised as the clearance of excess inventory in both the Cognac and the *Baijiu* markets nears an end, though we do not anticipate anything more than a flat performance. Jameson's whiskey has been growing in the high teens and looks set to double to €1 billion in sales by 2020; comparison with Jack Daniel's or Jim Beam's case sales suggests that this is eminently achievable. Currency moves, falling rates on the debt and some stricter cost controls further support the argument to hold this stock.

Perhaps the most interesting and under-appreciated possibility is Pernod's Indian whiskey business. It accounts for some 25% of group volume and is growing fast – 15-20% per annum – achieving a threefold increase in the past five years. This is despite government and State interference at every turn. On the other hand, the close scrutiny and regulation, while restrictive and excruciating, also acts as a barrier to new entrants who are faced with severe advertising constraints and a maze of State-by-State regulations and negotiations. As is often the case, the income generated for the government coffers outweighs the State antipathy towards alcohol, thereby providing a degree of stability for the incumbents.

Pernod holds 17% of the Indian whiskey market, up from 7% a decade ago and, though exciting, it pales into insignificance when compared to the rise in the legal drinking age population. Over the next decade, the aspiring middle class is set to grow from 120 million to 600 million with whiskey the favoured tipple! No doubt Pernod will offer them every opportunity to trade up the premium ladder as they have done so successfully in other markets.

Interbrand's 2014 Top 20 Global Brands

RANKING	BRAND	COUNTRY
1	Apple	USA
2	Google	USA
3	Coca-Cola	USA
4	IBM	USA
5	Microsoft	USA
6	GE	USA
7	Samsung	Korea
8	Toyota	Japan
9	McDonald's	USA
10	Mercedes-Benz	Germany
11	BMW	Germany
12	Intel	USA
13	Disney	USA
14	Cisco	USA
15	Amazon	USA
16	Oracle	USA
17	Hewlett-Packard	USA
18	Gillette	USA
19	Louis Vuitton	France
20	Honda	Japan

Source: Interbrand

Outlook

The medium-term opportunities are compelling with the extraordinary scale of hundreds of millions of consumers starting to engage with brands and aspiring to develop their lifestyle. It will be a fascinating journey to follow as the balance of demand shifts to the new markets. Only one Chinese brand and no Indian brand featured on Interbrand's 2014 Top 100. Is that likely to remain the case over the next decade? Within China, Interbrand's ranking is dominated by banks, insurance and Internet companies. Over time, with the development of a more consumer-oriented society, one would expect the consumer brand companies to feature more prominently. The short-term is more problematic with many regions faced with difficult decisions. The Fund is taking advantage and accumulating neglected companies at compelling valuations in both the emerging markets and Europe. An example is a European company with a market capitalisation above €15 billion, positive net cash on the balance sheet, a prospective P/E of 6x, dividend yield of 4% and expected earnings growth over the next two-three years of more than 20% per annum.

Platinum International Health Care Fund

Bianca Ogden Portfolio Manager

Disposition of Assets

REGION	DEC 2014	SEP 2014
Europe	41%	49%
North America	31%	29%
Japan	5%	5%
Australia	1%	1%
South America	0%	1%
Cash	22%	15%
Shorts	1%	1%

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

Performance and Changes to the Portfolio

(compound pa, to 31 December 2014)

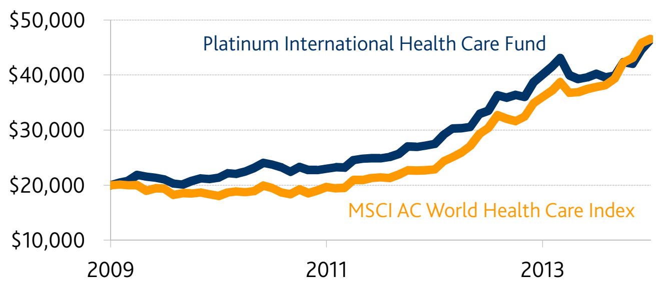
	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund	10%	16%	26%	18%	9%
MSCI AC World HC Index	10%	29%	33%	18%	9%

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

For the 12 months to December, the MSCI AC World Health Care Index rose 29.1% (in AUD), with **Eli Lilly** (34%) leading the traditional "big pharma" stocks, while **GlaxoSmithKline** (-14%) seems to be driven by its finance department (with regular announcements of spin-offs, asset swaps and partial listings) rather than its medical research – but the market is not so easily fooled. Meanwhile, among biotechs, the US market continued to buy the winners, pushing up shares in **Gilead**, **Amgen** and **Regeneron** by (another) 25-50%! Similarly, the strongly positioned Japanese pharmaceuticals performed well (**Astellas** +35% and **Chugai** +27%), while **Takeda** struggled to make substantial changes to its bloated Japanese cost base and was +4% for the year. Elsewhere, the acquisition-driven companies such as **Actavis** (+53%) and **Valeant** (+33%) were championed by investors, and, despite solid contributions from the bulk of our holdings, our comparatively cautious positioning meant the Fund return (+15.6% for the year) was well shy of the Index.

Value of $20,000 Invested Over Five Years

31 December 2009 to 31 December 2014



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

In recent months, a company running clinical trials in the emerging cancer treatment field of so-called CAR T-cell (chimeric antigen receptor – T-cell) therapy caught our attention and the Fund was able to invest in the December IPO of the shares. Thus **Juno Therapeutics** was the major new investment for the Fund in recent months.

Commentary and Outlook

Although we think of the global drug behemoths as *multinational* businesses, the fact is that the pharmaceutical sector is perhaps the quintessential *American* industry. A disproportionate share of global revenues (perhaps 40%) and over half of all profits are generated in the USA. But, more generally, the rewards for risk and innovation, the tension between abusing the trust and yet insisting on the protection of government, the vast legal and corporate finance parasites which (support and) feed on the host, and, of course, the outsized rewards for aggressive sales and marketing, are perhaps the hallmarks of American capitalism – and they are nowhere more evident than in the pharma/biotech industry.

Masquerading as "selfless, caring" companies, the pharma cohort is among the most profitable and hence valuable of all global industries, second only in the USA to the software sector. But as the Ebola outbreak reminds us, huge (but unprofitable) swathes of *real health care* are largely ignored (antibiotics being another perilous key example), while scarcely believable legal manoeuvres are employed to protect profit streams.

2014 draws to a close with the stock market's dazzling favourite, **Gilead Sciences**[1], having a brisk 25% share price correction, as the market digests the Christmas eve news that its US$1,000 per pill (yes, ONE THOUSAND DOLLARS for each pill and patients must take more than 80 of them for each course of treatment!) hepatitis C medication faces a commercial setback. The story is instructive on several levels.

In three clinical trials, Gilead's *Sovaldi* cured 95% of hepatitis C sufferers over two to three months – a clearly effective drug. But Gilead demands US$84,000 for a 12-week (one pill per day) course and has consistently urged critics to consider the grim (and high) costs of not treating the disease rather than proposing a return-on-investment basis for its pricing. Indeed, the biotech sector had a rare wobble earlier in 2014 (-20%), not least because of pointed questions in the US Senate concerning expenditure on *Sovaldi*.

1 Gilead was an important holding of the Fund, back before it became such a well-told story.

Then, just before Christmas, the largest PBM (Pharmacy Benefit Manager, i.e. agent of the health insurers who helps manage pharmaceutical expenses), Express Scripts, announced a deal with AbbVie (once the pharma division of Abbott Laboratories) whereby a discount had been agreed to replace *Sovaldi* on the Express Scripts formulary with AbbVie's *Viekira Pak*. The behaviour of a dominant gatekeeper like Express Scripts worried the stock market and it hurriedly reduced exposure to Gilead.

Pharmaceutical industry lobbyists insist that this episode shows the market doing its job, i.e. competing and thus driving down prices. But health insurers complain that while US$70,000 per hepatitis C patient is preferable to US$84,000, it is still too much for the system to afford as more Americans move onto long-term ("chronic") drug treatments.

Meanwhile, earlier in December, a key trial finished in Boston where the US Supreme Court's 2013 ruling over the so-called "pay-to-delay" deals was tested for the first time. In the end, the jury agreed with the plaintiffs that **AstraZeneca's** rumoured US$1 billion payment to Indian generics supplier, Ranbaxy Laboratories, for not launching a Nexium (heartburn) generic in 2008 was unreasonable. But the jury continued, on a seeming technicality, that this (somehow!) did not distort the market – apparently not least because Ranbaxy's manufacturing shortcomings[2] meant the whole question had become hypothetical, for the moment. Fascinatingly, two alleged co-conspirators in this plot *settled* with the plaintiffs ahead of the jury decision, which is in any case being appealed, *and* a similar court case will get underway shortly in Pennsylvania.

The key point is that while the industry reminds us of the creativity and skill of its legal counsellors, both the government (i.e. the legislators, the White House, the Federal Trade Commission, etc) and the health insurance providers seek legal and market mechanisms to restrain the drug companies. For the moment, as the share prices make clear, "big pharma", with the best lawyers and lobbyists money can buy, has the upper hand.

Another reflection of this prosperous situation can be seen in the behaviour of the bankers. To be clear, 2014 has been the biggest year on record for drug industry mergers and acquisitions (M&A), even without a successful conclusion to **Pfizer's** attempted takeover of **AstraZeneca**. In fact, this

2 At the time of the verdict, the US Food and Drug Administration (FDA) had withdrawn approval for the Indian factory to supply the drug.

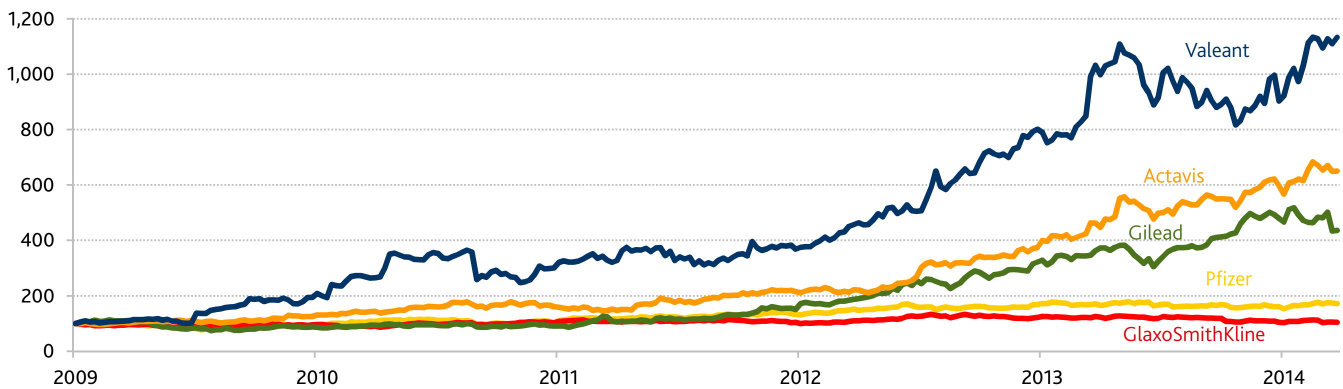
report would be very long indeed if it sought to analyse (let alone justify!) the major deals of even the last few months. The proof is in the fact that multi-billion dollar deals were only one-day news stories by the time **Otsuka** of Japan bewildered onlookers by paying US$3.5 billion for a glorified cough mixture medication and **Merck** surprised everyone by paying US$8.5 billion for an antibiotics business – just a day before the purchased company lost a key patent on its top-selling drug!

But the bigger lesson from this corporate finance splurge is that the industry is changing, both in its pecking order and in how the major players seek to do business. While it seems that Switzerland's **Roche**, with its strengths in oncology and predominance in hard-to-copy biologics (rather than generic-prone small molecules), will be hard to beat, and by contrast, **GlaxoSmithKline** seems to flail around with short-term accounting department tricks, elsewhere some big moves are being made. The aforementioned **Gilead**, at US$142 billion even after the setback, has joined the ranks of large market capitalisation companies from an almost standing start just a few years ago. Among 2014's best performing stocks, **Actavis** (market cap now US$68 billion) joined **Valeant** (US$55 billion) as very large, seemingly successful proponents of an acquisition-led strategy of "low/no R&D" and cost-cutting. While this is perhaps the logical financial and legal end-game for the industry in the USA, it is completely at odds with the implied social pact of patent-protected profits in return for risky, innovative medical research. To the extent that these two aggressive organisations continue on this path (and are copied by others), surely political reaction will intensify.

Sanofi, one of the Fund's key holdings, was in the news for the wrong reasons when its Paris-based board fired its Boston-based, German-Canadian CEO, who was held in high esteem by the stock market – justly, given the effective job he did in recent years to reorganise and energise the company. Investors worried that the board sought to dilute the company's capitalist tendencies by focusing on its importance to the national science base. So it was interesting to see the recent announcement that Sanofi will effectively outsource several hundred French R&D staff with the sale of its Toulouse research facility to the German "drug discovery specialist" Evotec. In the short-term, the market takes comfort that the board of Sanofi continues to improve the efficiency and productivity of the organisation. It seems the real reason for the CEO's removal was this year's disappointing performance by the company's US diabetes franchise. This is clearly a more palatable reason for managerial change than the nationalistic interference first feared.

More generally, outsourcing is another element in the changing focus of "big pharma" – just as "big oil" tends to leave the technically challenging aspects of oil discovery and well optimisation to specialist third parties, so, perhaps, "big pharma" drifts away from drug discovery in preference for globalising its commercialisation efforts, managing patent portfolios and trying to be predator, not prey, in the M&A arena.

Stock Price Movements (local currency)



Source: Factset

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	DEC 2014	SEP 2014
Asia and Other	29%	27%
North America	28%	22%
Europe	15%	16%
Japan	9%	10%
Russia	1%	2%
Africa	1%	2%
Cash	17%	21%
Shorts	0%	3%

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

Performance

(compound pa, to 31 December 2014)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund	5%	9%	20%	9%	9%
MSCI AC World IT Index	11%	26%	28%	14%	-3%

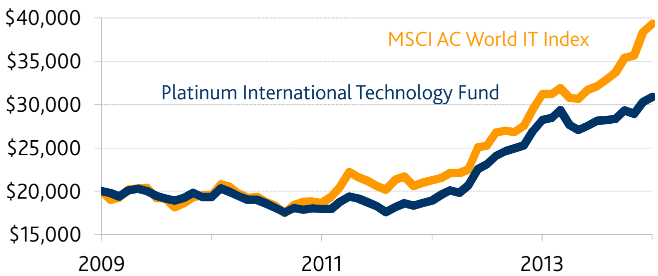
Source: Platinum and MSCI. Refer to Note 1, page 40.

During the quarter, the Fund was up by 5.3% and the MSCI AC World Information Technology Index (A$) was up by 11.1%. For the year, the Fund's return was 9.4% compared to 25.9% for the Index, with the net invested position at 83%.

The Fund's relatively low exposure to US stocks and more diversified exposure to Asian names was the main factor behind the performance gap with the Index this year. Despite that, we are happy to tolerate some volatility in the short-term and remain convinced that our holdings in Asia are very attractively valued and the Fund is properly positioned for long-term outperformance.

Value of $20,000 Invested Over Five Years

31 December 2009 to 31 December 2014



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

This quarter, currencies contributed substantially to performance, thanks to the Fund's net total exposure to the US dollar (65%), the Euro (10%) and the Hong Kong dollar (8%), respectively up 7%, 2% and 7% against the Australian dollar. The Japanese stocks exposure remains fully hedged into US dollars.

Changes to the Portfolio and Commentary

During the quarter, we exited our position in **NTT** in Japan after the stock's strong performance, with further upside limited by emerging weaknesses at its mobile telephony subsidiary, DoCoMo. We also exited **Avago** and **NXP Semiconductors** as valuations reached less comfortable levels in the context of our long-term growth assumptions for these businesses.

We added to **Cisco** as we found the valuation attractive at 12x P/E while its business is showing signs of stabilisation in the US and some recovery in Europe. More importantly, our analysis of the industry concluded that the market is overestimating the risk of a long-term transition to Software Defined Networking (SDN)[1] and Cisco is likely to maintain its current leadership position.

We also introduced two new positions: **Oracle** and **Nielsen**.

Founded by Larry Ellison in 1977, **Oracle** is the dominant provider of **Relational Database Management Systems** (RDBMS). In 1979, it launched the very first RDBMS for the commercial market for clients such as government agencies and US telecom operators. After growing to become one of the largest technology companies in the world with a vast product and solution portfolio across hardware and software, RDBMS still represents the lion's share of Oracle's business. Roughly two-thirds of revenues and around 80% of profits are directly related to database licences and support. The enterprise environment database is the plumbing upon which businesses build solutions. They are as integral as an operating system and as difficult to switch away from. According to research company IDC, the worldwide RDBMS market was US$30.2 billion in 2013 and is estimated to grow to US$49.2 billion by 2018 at a compound annual growth rate (CAGR) of 10.2%. Oracle has a 44% share of the RDBMS market, followed by Microsoft (21%), IBM (17%) and SAP (6%).

Oracle is also a significant force in **Middleware**, a sort of intermediary software or "glue"/"mediator" that provides a bridge between various commonly used pieces of software/applications.

The middleware software market was US$28 billion in 2013 and is expected to grow to US$39.1 billion by 2018 at a CAGR of 6.8%. Oracle's share of the middleware market is 15%, behind IBM (31%), but ahead of Microsoft (5%), SAP (4%) and TIBCO (3%).

Oracle is also a strong player in the huge **Enterprise Application Software** space (Customer Relationship, Human Resources, Supply Chain Management, etc), estimated at US$134 billion by IDC in 2013. Oracle is a solid number two with a 10% market share behind SAP (16%) and ahead of Microsoft (6%). This market is expected to grow to US$181 billion by 2018 at 6.3% CAGR.

Despite Oracle's strong position in these large addressable areas, the stock has recently underperformed the rest of the market due to persistent concerns about the threats posed by a secular shift to the "**Cloud**". Cloud software (also known as **Software as a Service – SaaS**) refers to a different way to deliver software applications: off-premises remotely-hosted software sold under a recurrent subscription model, as opposed to the traditional software package installed and maintained at customers' premises (a typical and popular example of Cloud software would be the Customer Relationship Management products offered by competitor Salesforce.com).

While Oracle has been late to recognise the importance of Cloud, it has more recently accelerated its efforts to catch-up with the competition and the results are gradually becoming more evident. For the quarter ended November 2014, Oracle reported good results with improving trends. Cloud revenues in particular grew by 45% year-on-year (admittedly, from a low base) and management are confident that this business can reach US$3 billion (around 10% of Oracle's software revenues) by May 2016. The strong acceleration in Oracle's Cloud business shows their success in penetrating the Cloud computing market, despite being late to the challenge, and its rapid growth is more than offsetting declines in traditional licence sales.

At 14.8x P/E for calendar year 2015 and potentially at an inflection point, we think Oracle will remain a cornerstone position of the Fund in the medium term.

1 Software Defined Networking: a new networking equipment architecture that separates the control plane (the module deciding how packets are forwarded) and the forwarding plane (the module for sending and receiving packets) so that the two can be optimised independently. Traditionally, the two functions would be included in the same piece of hardware. The new approach allows instead greater flexibility in network management and the ability to customise the control software.

Nielsen is the biggest consumer behaviour measurement company in the world. They are best known for their panel of "Nielsen families" whose viewing habits are monitored to produce the TV ratings that decide if your favourite shows will stay on air. Their ratings data is the "currency" used by media companies and advertisers to price billions of dollars of TV advertising inventory.

Internet advertising is forecast to grow at an average of 16% annually to 2016 by research firm ZenithOptimedia. Display advertising, which includes traditional banners, online video and social media, is projected to grow at 21% during this period, with the last two the main drivers at 24% and 30% respectively. As advertisers continue to allocate a growing portion of their budget towards these mediums, they are now demanding the same level of accountability that comes with standardised industry measurement in traditional TV and radio advertising. Digital players like YouTube who are eyeing a bigger share from old media need their audiences to be measured. With the leading brand in audience measurement and deep relationships with advertisers, Nielsen is the logical choice and a clear beneficiary.

Over the past few years the company has invested heavily in measurement infrastructure to capture these new Internet audiences. Through data sharing partnerships with Facebook, Adobe, Experian, Twitter and Catalina, it has developed new ways of measuring audiences across these new platforms. With the growing popularity of online streaming on alternative platforms such as PCs, laptops, tablets and smartphones, the market is concerned that audiences are fragmenting away from the traditional living room covered by Nielsen and that this is weakening its monopoly position. In fact, rather than facing obsolescence, Nielsen has successfully leveraged its dominance in linear TV into a strong position in cross-platform measurement. Content owners and advertisers need more data than ever to understand changing viewership patterns and, importantly, Nielsen measures audience behaviour and **is not circumscribed by delivery channel**.

Nielsen is also a leader in retail transaction and buyer behaviour information that is related to consumer packaged goods. Its geographic reach here is simply unmatched – global presence in 104 countries, with 25 million retail partners, capturing transactions on 6 billion consumers and 30 million products categorised by over 25 million characteristics.

This data is critical to multinationals looking to expand into emerging countries whose growing middle class represents the next big growth opportunity. As local clients grow in size, they too become more sophisticated in the use of market data in order to compete. In October 2014, Nielsen announced that Chinese giant Alibaba will provide online purchasing data, allowing manufacturers and marketers to see both online and offline buying behaviour. Nielsen believes that in time players like Amazon will also follow.

Nielsen's data services are integral to its customers' business workflow. This is evident in its very high retention rate, giving Nielsen a stable and predictable revenue stream over the long term. This is a high quality business and at 15.5x P/E we find the current valuation compelling.

Outlook

The persistent strength of the US dollar against all major currencies contributes to keep US inflation very low and it helps the American consumer to pay less for imported goods.

It does, however, represent an increasingly stronger headwind for the US corporate sector.

In the September quarter alone the US dollar climbed 8% against the Euro and the Japanese yen, adding to the worries of those US companies exporting to countries in Europe and Asia where economic growth is already lethargic.

If these currency trends persist (and we cannot see why they would not at the moment, with the US Federal Reserve's policies potentially diverging from those of its European and Japanese counterparts), there will be an impact on profits and competitive positions. With 46% of S&P 500 companies' sales generated abroad, this is not a minor issue.

On the other end, with no signs of inflation on the horizon anywhere in the world (at least according to the classic CPI-definition of the term "inflation"), and the oil price plummeting, the consensus will probably gradually shift to a more dovish position in regard to the next move of the US Federal Reserve. As a result, interest rates will likely stay lower for longer and that should support equity performance.

In this context, technology stocks with predictable earnings growth and reasonable valuations should continue to perform well in the medium term, provided the above-mentioned headwinds do not become too disruptive.

Glossary

Earnings Before Interest and Tax (EBIT)

A measure of a company's profitability, EBIT is all profits before deducting interest payments and income tax expenses. It is calculated as revenue minus cost of goods sold and operating expenses.

Enterprise Value (EV)

An economic measure reflecting the market value of a whole business. It is a sum of claims of all the security holders: debtholders, preferred shareholders, minority shareholders, common equity holders and others.

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. Currently JGBs (10 year) offer a yield of about 0.3%. 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, Healthcare, 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 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.

Qualitative Easing

A monetary policy used by Central Banks to increase the supply of money by changing the composition of the assets of a Central Bank towards less liquid and riskier assets.

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.

Short Selling or Shorting

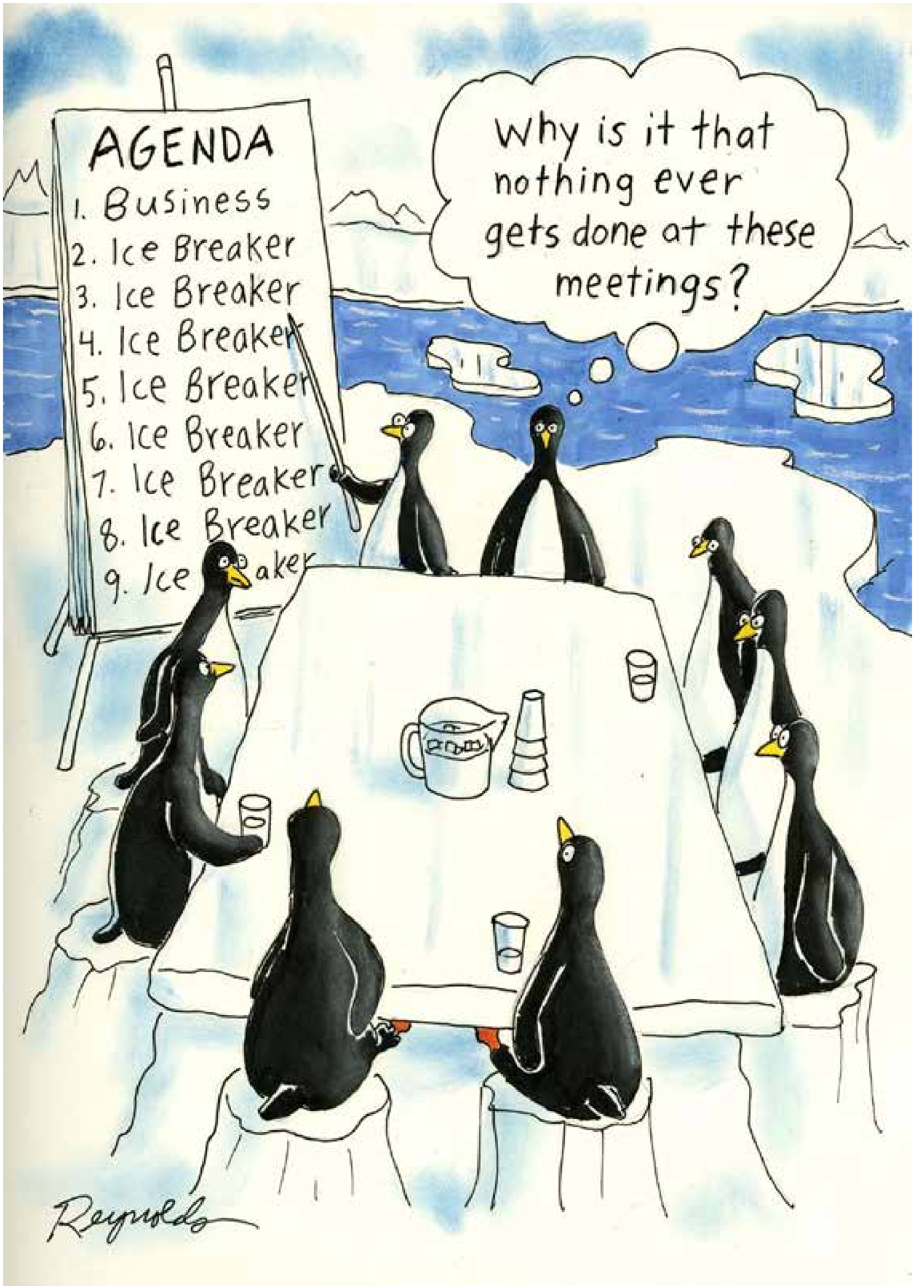
A transaction by which an investor is able to generate profit from a fall in the price of a particular stock or market index. To generate such a profit, an investor borrows securities and sells them, then when the price has fallen, the investor repurchases the securities at a lower price and returns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

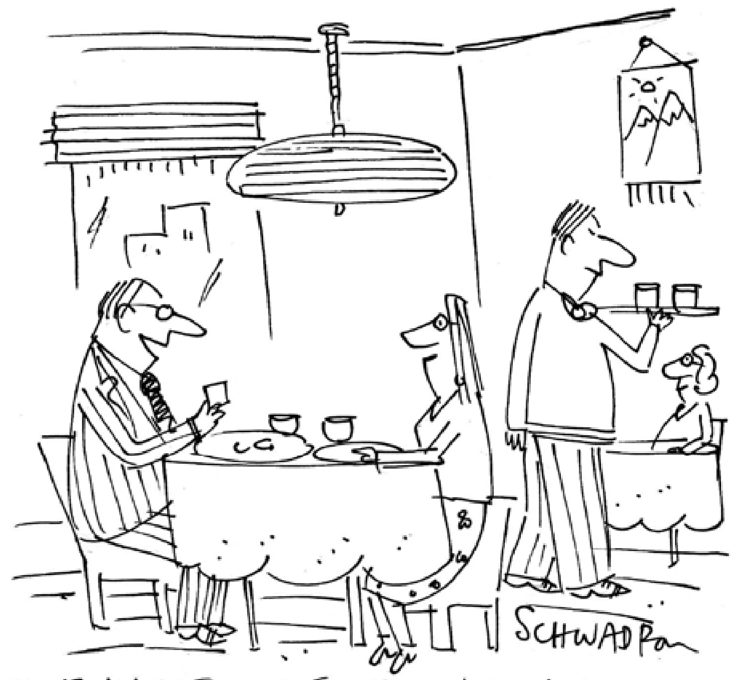
**Please visit our website at:
www.platinum.com.au**

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


AGENDA
1. Business
2. Ice Breaker
3. Ice Breaker
4. Ice Breaker
5. Ice Breaker
6. Ice Breaker
7. Ice Breaker
8. Ice Breaker
9. Ice
Why is it that nothing ever gets done at these meetings?
Reynolds


ARE YOU KEEPING PACE WITH SPENDING PREDICTIONS?
STAHLER.
12/11

"This really is an innovative approach, but I'm afraid we can't consider it. It's never been done before."



"THIS FORTUNE COOKIE SAYS, 'YOU WILL HAVE GOOD LUCK INVESTING IN EMERGING MARKETS' FORTUNE COOKIE & CHOPSTICK TRADING COMPANY OF SINGAPORE.'"

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$20,000 invested in the relevant Fund over five years from 31 December 2009 to 31 December 2014 relative to its benchmark Index (in A$) 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

This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 trading as Platinum Asset Management (Platinum®). It contains general information only and is not intended to provide any person with financial advice or take into account any person's (or class of persons') investment objectives, financial situation or needs. Before making any investment decision you need to consider (with your financial adviser) whether the information is suitable in the circumstances.

Platinum is the responsible entity and issuer of units in the Platinum Trust Funds® (the Funds). You should consider the PDS and Supplementary PDS in deciding whether to acquire, or continue to hold, units in the Funds. You can obtain a copy from Platinum's website, www.platinum.com.au or by phoning 1300 726 700 (within Australia), 02 9255 7500 or 0800 700 726 (within New Zealand), or by emailing to invest@platinum.com.au.

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).

MSCI Inc Disclaimer

Neither MSCI Inc nor any other party involved in or related to compiling, computing or creating the Index data (contained in this Quarterly Report) makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI Inc, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the Index data is permitted without express written consent of MSCI Inc.

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 $26 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

Monday to Friday, 8.30am – 6.00pm AEST

1300 726 700

0800 700 726
New Zealand only

Or visit us at our office

Level 8, 7 Macquarie Place, Sydney

* Please refer to page 2.

Level 8, 7 Macquarie Place
Sydney NSW 2000

GPO Box 2724
Sydney NSW 2001

TELEPHONE
1300 726 700 or 02 9255 7500
0800 700 726 (New Zealand only)

FACSIMILE
02 9254 5590

EMAIL
invest@platinum.com.au

WEBSITE
www.platinum.com.au

Platinum®
ASSET MANAGEMENT