Platinum®
ASSET MANAGEMENT

Quarterly Report

31 December 2015

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

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

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Performance Returns to 31 December 2015

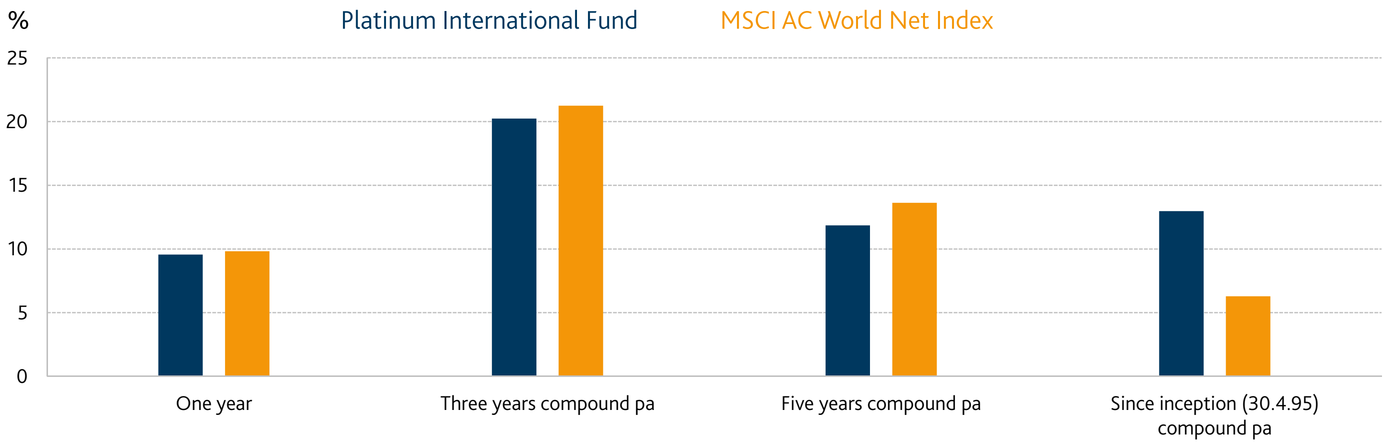
FUND	PORTFOLIO VALUE	QUARTER	1 YEAR	2 YEARS *COMPOUND PA*	3 YEARS *COMPOUND PA*	5 YEARS *COMPOUND PA*	SINCE INCEPTION *COMPOUND PA*
International Fund	$11,287m	1.8%	9.6%	8.7%	20.2%	11.8%	13.0%
MSCI AC* World Net Index		1.4%	9.8%	11.8%	21.2%	13.6%	6.3%
Unhedged Fund	$375m	3.9%	11.1%	9.7%	20.9%	12.3%	11.2%
MSCI AC World Net Index		1.4%	9.8%	11.8%	21.2%	13.6%	6.2%
Asia Fund	$5,167m	1.7%	2.0%	11.5%	16.2%	9.5%	15.7%
MSCI AC Asia ex Japan Net Index		0.2%	2.2%	8.2%	11.9%	6.9%	9.8%
European Fund	$491m	-2.6%	14.4%	7.0%	17.3%	13.2%	12.0%
MSCI AC Europe Net Index		-1.3%	8.9%	5.1%	16.6%	10.5%	2.4%
Japan Fund	$631m	1.1%	25.0%	17.8%	33.6%	19.7%	15.3%
MSCI Japan Net Index		5.5%	23.2%	13.7%	24.0%	11.8%	2.2%
International Brands Fund	$1,128m	-0.9%	8.0%	4.1%	12.4%	10.3%	12.5%
MSCI AC World Net Index		1.4%	9.8%	11.8%	21.2%	13.6%	1.7%
International Health Care Fund	$187m	2.2%	23.3%	19.4%	27.6%	21.8%	9.9%
MSCI AC Wld Health Care Net Index		3.2%	19.6%	24.3%	34.5%	25.2%	9.7%
International Technology Fund	$86m	1.9%	9.9%	9.7%	21.5%	11.9%	9.1%
MSCI AC World IT Net Index		4.8%	16.1%	20.9%	29.0%	18.5%	-2.3%

*Morgan Stanley Capital International All Country

Source: Platinum and MSCI. Refer to Note 1, page 44.

Platinum International Fund versus MSCI AC World Net Index

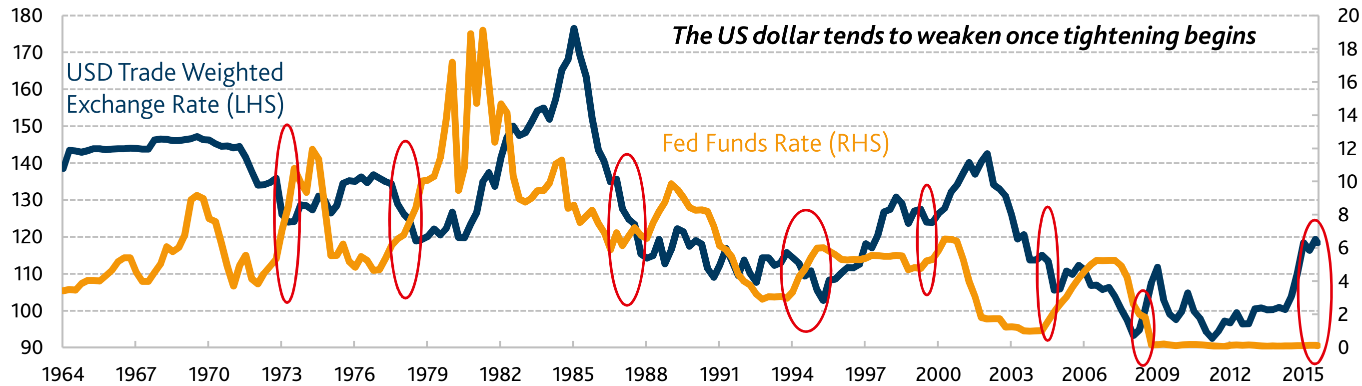
To 31 December 2015



Source: Platinum and MSCI. Refer to Note 1, page 44.

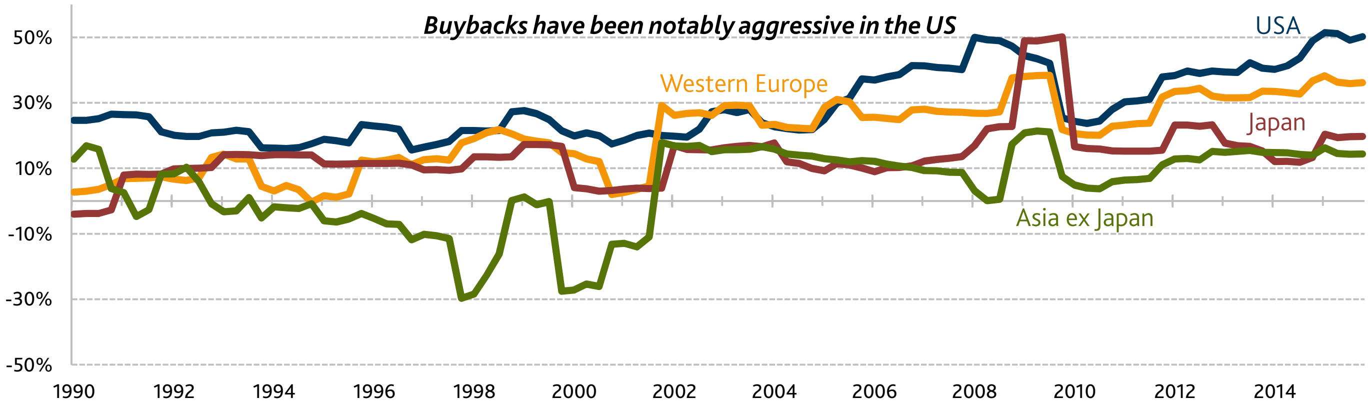
Market Panorama

USA – Trade Weighted USD versus Policy Rate



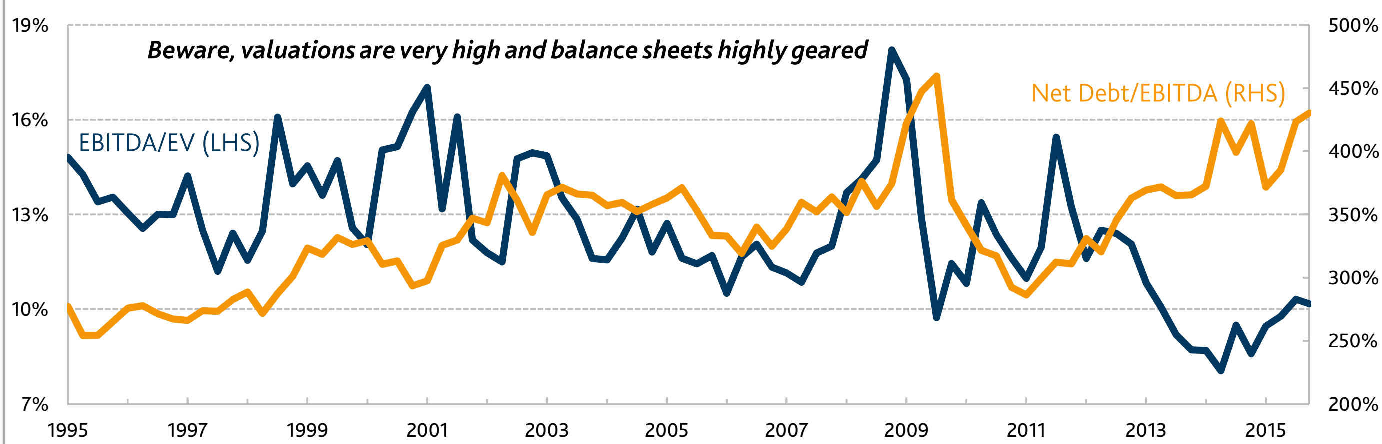
Source: Board of Governors of the Federal Reserve System (US)

Dividends and Buybacks as a Percentage of EBITA (Ex Financial)



Source: Factset

Russell 2000 – EV and Debt Relative to EBITDA



Source: Bloomberg

A Snapshot

Platinum International Fund

- The past quarter saw a massive capitulation of the commodity basket, high yield corporate bond prices collapsing and, among equities, anything with a high level of debt being hit hard. Otherwise the narrowness of the US market has been a highlight.
- There were four significant additions to the portfolio (Rakuten, Eni, McDonald's and Coca-Cola) while positions in Alphabet, Carnival, KEPCO and Mediobanca were reduced as their prices had run strongly and valuations are no longer so compelling.
- Global outlook includes slow growth but with rising consumer incomes; oversupply of most commodities but with a gradual tightening of oil; weak pricing power for producers of "things" as opposed to services; continuing substitution by e-commerce.
- In this difficult investing environment, composition is extremely important and our blend of assets across the portfolio encourages us to believe that we will achieve positive returns in the coming year.

Platinum Unhedged Fund

- We took a substantial new position in Level 3 Communications, owner of one of the world's largest fibre optic cable networks.
- Richemont was sold at a modest profit after an uncharacteristically short holding period as the facts changed soon after purchase. We also exited jewellery retailer Luk Fook which is suffering from falling sales in its Hong Kong stores.
- Wary of the popular consensus of the day, we remain cautious on the potential for great returns out of the US and Europe, and think it is time for investors to start coming back to emerging markets and that there is value to be had if you pick your spots.
- Some of the major holdings in the Fund include 'legacy' technology companies (Cisco, Ericsson, eBay) that at their core are quality businesses and are priced at a discount to the market, European banks where there is potential for very large dividend yields, and the Chinese consumer stocks. The only substantial commodity exposure remains oil.

Platinum Asia Fund

- New economies (IT, environmental initiatives, modern services) in China are flourishing, driven by reforms, urbanisation and growing incomes, while the traditional sectors are rusticating and closure of excess capacity has begun.
- The Fund is heavily exposed to China's consumer and new service sectors. As economic growth slows, the Chinese market may continue to experience high volatility. However, we believe that the Fund's portfolio is well positioned with companies with strong fundamentals and an elevated cash level that allows us to take advantage of volatilities opportunistically.
- To have the Chinese yuan loosely referenced to a basket of currencies, rather than pegged to the US dollar, was a profound policy change, signalling a greater willingness by China to allow its currency to conform more to market forces.
- The Fund added to its exposure to the Indian gas sector amidst economic recovery and increased government projects. Key reforms to the power sector are underway which, if successful, are expected to unleash significant productivity improvements.

Platinum European Fund

- The Materials sector is being savaged, with investors continuously revising valuations to match falling commodity prices. The slowdown in China and emerging markets continues to dog the Industrials. Their vulnerability is becoming increasingly clear as downgrades fan out from the weaker cyclicals and begin to ensnare the much-loved stalwarts.
- We exited a number of positions during the quarter, including Richemont (worse than estimated deterioration in the watch business), Turkcell (increasing political interference is expected to hurt returns), Eurofins Scientific, and Enterprise Inns.
- We were less active when it came to buying companies, as it remained challenging to find businesses that can generate a suitable return on capital *and* not overpay.
- Against a mixed outlook and high valuations, the Fund is defensively positioned with minimal exposure to global cyclicals and is skewed to dividend payers, stable growers, Eastern Europe and companies expected to benefit from structural changes.

Platinum Japan Fund

- The Japanese stock market has seen a bifurcation of valuation and stocks such as Next and En-Japan were sold. On the flip side, small initial positions were taken in a range of "value stocks" which are generally trading at low multiples.
- Growing from a synthetic rubber producer to one of the leading suppliers of wafer manufacturing chemicals to the global semiconductor industry, JSR has come a long way and is facing both big opportunities and risks in these businesses.
- Globally, stock markets seem willing to look through the roiling currents and project a rosier future than the recent past. Bond markets are less complacent, with Japanese government bond yields falling to new lows. Recent Yen strength looks likely to continue, especially against the Australian dollar, at least for the short to medium term.

Platinum International Brands Fund

- The range of share price movements across the Fund's investments – from declines of 20% to gains of over 40% – is in part a testament to the increased volatility in the markets and the distortions and influence of central bankers and politicians.
- Against the tide of negative economic news and woeful headlines from Brazil, consumer company Hypermarcas has been one of the Fund's top performing stocks in the year with an increase in share price of more than 30%.
- Notwithstanding the apparent reasons to avoid companies with debt and emerging market exposures at present, the Fund has been adding to Almacenes Exito, the Colombian subsidiary of Casino, as it presents an opportunity to buy what will become recognised as South America's largest retailer with multiple formats across all income levels for a depressed valuation.
- The Fund's positioning towards emerging market consumers is the outcome of our stock selection process rather than an asset allocation decision. The weighting reflects that we are tending to find more interesting opportunities in the emerging markets where valuations can, at times, be significantly more attractive and where there's the prospect of some stronger growth.

Platinum International Health Care Fund

- US biotech performance has moderated this year and the mood is now more reflective as well as selective. Meanwhile, pharma and big biotech have continued with their purchases and asset swaps, keeping things interesting.
- We added to Qiagen during the quarter, a leading provider of bioinformatics software which is becoming increasingly important in today's molecular biology world.
- Exciting progress is being made in gene therapy, not least on the delivery technology front. We recently added to the Fund's portfolio Oxford BioMedica, a UK biotech specialising in lentiviral vectors.
- Pricing flexibility in the US will decrease over time, making innovation ever more crucial to success. Science, the depth and commercial sense of clinical development programs, along with smart capital allocation, are the key aspects that we focus on. Tools and IT are another area we are exploring as a focus will be on how to stay ahead of the crowd in drug development labs.

Platinum International Technology Fund

- While the US market began to lose momentum in the final weeks of 2015, "FANG" stocks became must-have market darlings at a time when growth is increasingly rare to find.
- SanDisk received a takeover offer from Western Digital within a month of our adding it to the Fund's portfolio. The transaction appears to be part-and-parcel with the US$4 billion investment in Western Digital by Unisplendour, a Chinese company ultimately controlled by the state-owned entity, Tsinghua Holdings. The group has been actively seeking acquisition targets as the Chinese government has made the semiconductor industry a strategic priority.
- Neither global economic growth nor growth in corporate earnings is looking particularly promising. We therefore continue to search for opportunities according to our thematic selection of ideas, with a strong focus on Internet, e-commerce and wireless operators as well as related equipment suppliers.

Platinum International Fund

Kerr Neilson Portfolio Manager

Andrew Clifford Portfolio Manager

Performance

(compound pa, to 31 December 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Fund	2%	10%	20%	12%	13%
MSCI AC World Index	1%	10%	21%	14%	6%

Source: Platinum and MSCI. Refer to Note 1, page 44.

The failure of the Organisation of the Petroleum Exporting Countries (OPEC) to arrive at any production restraint as well as the realisation of weaker demand in the face of greater supply set the tone for a massive capitulation of the commodity basket. One can trace the shift in sentiment from one of wishing to take advantage of potential bounces to resignation that it may be a long bottoming process. This deterioration in sentiment washed across the high yield (risky corporate bond) market where prices collapsed. As in the equity market, the pricing differentials of the seemingly 'safe' CCC-rated commercial paper from that which has pure commodity price exposure, and hence greater uncertainty, is unusually large. This is interesting as defaults are still low and bankruptcies still rare. The problem lies in the markets being unusually illiquid on account of the investment banks

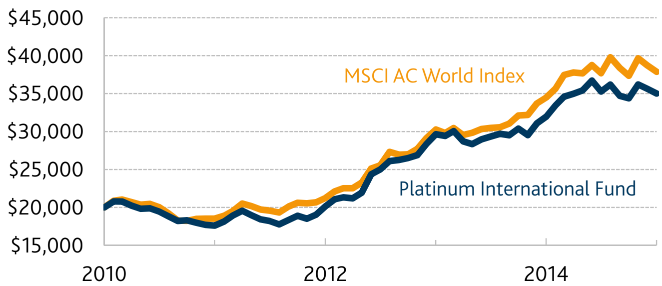
Disposition of Assets

REGION	DEC 2015	SEP 2015
Asia	32%	32%
North America	21%	21%
Europe	20%	23%
Japan	10%	9%
Russia	1%	1%
Australia	1%	1%
Cash	15%	13%
Shorts	-11%	-12%

Source: Platinum. Refer to Note 3, page 44.

Value of $20,000 Invested Over Five Years

31 December 2010 to 31 December 2015



Source: Platinum and MSCI. Refer to Note 2, page 44.

vacating the position of market-makers in the aftermath of the introduction of the Volcker Rule on balance sheet gearing. For example, energy companies are about 15% of the total high yield market. As their bond prices went down, the rest of the market was dragged along as investors tried to hedge their exposure as well as they could, either via exchange traded funds (ETFs) (e.g. HYG and JNK) or through credit default swap indices (e.g. CDX). The HYG high yield ETF is off 14% from its February high, but this masks the underlying damage to the prices of some issuers.

Among equities, anything with a high level of debt has been hit hard. Moves of 50% or more were not uncommon. Master limited partnerships (MLPs) were one of the obvious targets, but certainly not the only ones. Old corporate titans such as Freeport-McMoRan, Chesapeake, Kinder Morgan and HCA are down anywhere from 30% to 70% from very recent highs in the year. Other high profile companies such as SunEdison, Tenet Healthcare, Frontier Communications and Sprint are also down substantially. We have been warning for some time about the dangers of ultra-cheap money and its corrosive effect as investors reach for yield. MLPs epitomised this danger with structures that give their general partners incentive distribution rights (IDRs). These encourage an increase in leverage, but the real damage was done by the increasingly exposed commercial risks built into the marginal assets purchased.

Otherwise the narrowness of the US market in particular has been a highlight. Strength has been confined mostly to 'FANG' stocks (Facebook, Amazon, Netflix and Google) plus a limited group of others such as Electronic Arts, Home Depot, refiners, cloud computing stocks and housing. A lot of sectors are in the middle of bear markets: industrials, transports ex airlines, media, mining and anything to do with energy. Despite this, the S&P Index hovers around the highs on earnings that have been well below (-15%) those expected at the beginning of 2015 which was US$127.

Draghi meanwhile provided plenty of reassurance that quantitative easing (QE) is here to stay, which led to the Euro being among the very crowded, and therefore vulnerable, trades.

The Chinese equity market seemed to have stabilised towards year-end and the general consensus is that we are on the way to a soft economic landing and a gradual depreciation of the Chinese yuan. Life was less pleasant for those emerging markets that have wasted the resource boom and failed to bring through economic reforms with the likes of Brazil, Russia, Turkey, South Africa, Malaysia and Indonesia all suffering investor defections. They carry a litany of ailments from current account deficits, dependence on commodities, political issues, high interest rates and rising inflation – a relative rarity these days.

MSCI World Index Regional Performance (AUD)

REGION	QUARTER	1 YEAR
Developed Markets	**2%**	**12%**
Emerging Markets	**-3%**	**-4%**
United States	**3%**	**13%**
Europe	**-1%**	**9%**
Germany	4%	10%
France	-2%	12%
United Kingdom	-3%	4%
Japan	**6%**	**23%**
Asia ex Japan	**0%**	**2%**
Korea	2%	5%
China	0%	4%
Hong Kong	2%	12%
India	-4%	6%
Australia	6%	1%

Source: MSCI

MSCI World Index Sector Performance (AUD)

SECTOR	QUARTER	1 YEAR
Information Technology	5%	16%
Health Care	3%	20%
Industrials	2%	9%
Consumer Staples	2%	18%
Consumer Discretionary	1%	17%
Telecommunication Services	0%	10%
Financials	0%	6%
Materials	0%	-6%
Utilities	-2%	3%
Energy	-4%	-12%

Source: MSCI

It has yet again been an eventful year with plenty of opportunities to win or lose. Given our investment approach and the pitfalls this can create in a winner-takes-all type of market, our performance is acceptable. For the quarter and the year, the Fund achieved respectively 1.8% and 9.6%. This compares with 1.4% and 9.8% respectively for the MSCI AC World Net Index (A$).

Currency

We followed through with reducing our exposure to the US dollar in favour of the Euro and the Yen which are now highly competitive and were crowded shorts. We have also taken most of our cash back into Australian dollars on the basis of a possible bounce in commodity prices that have fallen to approximate fair value. Over the longer term, the Australian dollar may weaken further as currencies have a tendency to over-shoot. In addition, our current account continues to deteriorate.

CURRENCY	DEC 2015	SEP 2015
US dollar (USD)	50%	77%
Japanese yen (JPY)	11%	3%
Australian dollar (AUD)	10%	2%
Hong Kong dollar (HKD)	9%	7%
Euro (EUR)	8%	5%
Indian rupee (INR)	6%	6%
Chinese yuan (CNY)	-2%	-7%
Chinese yuan Offshore (CNH)	-6%	-7%

Source: Platinum

Shorting

There was trading around positions which saw us closing the short positions in the Nikkei Index of Japan, the German DAX and the Russell 2000 and increasing that on the S&P 500. Overall, we derived a benefit.

Changes to the Portfolio

There have been four significant additions to the portfolio and to pay for these we cut positions in Alphabet (formerly known as Google), Carnival Corporation, KEPCO, Mediobanca, KBR and Corning. In the case of the first four, their share prices had each run strongly and, while they remain great companies, valuations are no longer so compelling as to warrant the size of our holdings. In the case of KBR and Corning, there has been a deterioration or at least a deferral of the underlying positive case.

The big four purchases were Rakuten, Eni, McDonald's and Coca-Cola.

Rakuten is a pioneer in e-commerce in Japan. Its ***ichiba*** (meaning marketplace) site draws over 70 million registered users a year, with some 15 million purchasing on the site each quarter. The concept is to act as an aggregator by providing a **virtual mall** where retailers are hosted with the freedom to display as they choose, but where Rakuten, through the tracking of customer behaviour and checkout wallet, can offer merchants valuable insights. The key to their approach is to grant **loyalty points** to shoppers. Gradually, the company, under the flamboyant leadership of its founder and 40% shareholder, Hiroshi Mikitani, has added online travel services, banking, insurance and credit card businesses that are, because of the model, unusually profitable in a country not known for agile and globally competitive financial businesses. These alone account for 45% of profits.

By spending some US$6.5 billion since 2002, Rakuten has assembled a portfolio of foreign e-commerce plays that troubles investors. **Ebates** is like an *ichiba*, but follows a cash-back approach that is much favoured by American online shoppers. It is growing fast, makes profits and will probably achieve a gross turnover of US$5 billion this year. Others are incubators, with the likes of **Viber** which has over 620 million messaging users but is still to find ways to monetise. The other concern is the resurgence of the Yahoo! e-commerce site and the threat of Amazon, both of which are growing their business at least twice as fast as Rakuten's *ichiba* site. Our analysis gives the management the benefit of the doubt, given their history of turning around their foreign businesses and the kind of momentum that is being generated by Ebates in the US, with the hope of converting other national sites to the same cash-back format. As e-commerce businesses go, Rakuten is interestingly priced on 21 times the earnings of its Japanese businesses with optionality to realise value from its start-up portfolio and the monetisation of the likes of Viber.

Eni S.p.A. is our vehicle to participate in the eventual **tightening of the oil market**. It is the sixth largest listed integrated oil producer in terms of output, has a **rising production profile** and is adding to its reserves faster than the top five. It is arguably more cheaply priced than its global peers on account of a horrid history of being the Italian national champ and dumping ground.

This has been largely addressed and in the meantime the company has continued to have spectacular discovery success with the most recent Zohr field potentially holding over 30 trillion cubic feet (TCF) of gas off the Mediterranean coast of Egypt. It is within easy reach of its pipeline infrastructure, and for context, it nearly doubles Egyptian reserves and could supply the country, at current usage rates, for 15 years. As with other oil companies, there are nuances relating to the location of production, the oil/gas ratio, finding and extraction costs, etc. On balance, however, the equation is attractive and enhanced by a rising production profile where new projects have a break-even cost of US$45 per barrel of oil equivalent (BOE). Like its peer group, Eni's production potential has admittedly fallen short of forecasts.

In the short-term, the share price will be driven by the crude price, but the company can generate strong cashflow profits at current prices to provide a 6% dividend. A discounted cashflow valuation suggests the peer group is factoring in a longer-term oil price of around US$60 per barrel.

You may well think that we have joined the 'predictable' brigade by purchasing both **McDonald's** and **The Coca-Cola Company**. While these are slow-growing businesses that operate in a utility-like fashion due to their large competitive moats, they are not well-liked by the market and we see the potential for that to change as they deliver on cost reduction and sales growth initiatives. In the case of McDonald's, it already has a global footprint and the problem lies in moving with the market and keeping the franchisees, who manage 82% of the 36,000 outlets world-wide, profitable and motivated. This is a constant challenge as the typical McDonald's outlet already is the gold standard in terms of volumes processed (**US$2,700,000 per annum versus some US$1,700,000 industry average**) and coverage is ubiquitous.

The new management is doing interesting promotions like extending the breakfast offer throughout the day and there has been a make-your-own-burger initiative that has tested well in Australia and is now being rolled out globally. This company, like Coke, continues to face resistance from 'healthy eating', but we tend to see this as an evolution rather than anything more sinister and unlikely to displace the 69 million servings that the company's stores provide each day. We bought it when these concerns were starting to wane. It has subsequently provided about half of the 30% return we factored in at the time.

Coke may prove a more durable long. Here is a company that is trading at the **same price as 17 years ago**. (How often have you heard us emphasise the importance of price over prospect?) It has been grappling over this time with reconfiguring its many regional bottling agreements, now taking them back in-house and now farming them out to specialist bottler groups. This process is ongoing, but consolidation in Europe and a new centralised framework for North America should see concomitant cost reductions through reform of the fragmented manufacturing base and thus higher future profits for both bottlers and The Coca-Cola Company. Further cost reductions come from actions to excise a portion of the corporate fat that almost inevitably accumulates in highly profitable organisations that have enjoyed long periods of dominance.

All of this is taking place against a backdrop of diminished demand for carbonated sweetened drinks (CSDs), different and changing preferences among consumers, notably in Asia, and a rise in bottled water consumption that has proved difficult to price with the same margins that have come from CSDs. For all that, **Coke still has brand supremacy** in most of its markets with drinks like *Coca-Cola* (in its now many varied sugared forms), *Fanta*, *Minute Maid*, etc. accounting for **21% of all bottled drinks sold annually world-wide**. This is indeed a formidable marketing machine, allowing it to **demand shelf space**. Finally, higher pricing is being achieved in the US, thanks to external pressure to reform the institutional culture that prioritised volumes and consequently bathed the American public in cheap *Coke* for generations. At times a 2 litre PET bottle was retailing for barely more than it was in the 19th century (then containing the arguable delight of cocaine), at about 5 cents per 6.5 ounce serving. Higher pricing and reduced promotions on large pack sizes are being complemented by a shift in sales volumes towards smaller servings, like the 200 mL aluminium cans that sell at a significantly higher price point and yet are leaping off the shelves. Coke has joined PepsiCo in embracing the idea that its product should be a treat in the form of a sparkling delight which people are willing to pay for, rather than a cheap and obesity-causing staple. These moves on pricing and mix offset the impact of volume declines on sales and provide a boost to profits. At 22 times earnings, the share is not evidently cheap, and the 75% of earnings that come from abroad are being hindered by the strong US dollar. However, the likelihood of a recovery in profitability and resumption of growth in developing markets gives a strong starting prospect.

Commentary

Some may find economic history boring, but without such understanding one can often underestimate the significance of currents events. The point of reference here is that China in the last few years reached the incredible position of accounting for nearly **a quarter of annual global**

investment. This is totally unprecedented[1]. It has meant a vast increase in its industrial base to a position where, in some industries, China accounts for more than 40% of world output. There is now chronic oversupply, most notably in steel, cement, flat glass and aluminium. Capacity will be scrapped, but during this process of adjustment one can expect weak prices in these products as residual surpluses are directed to foreign markets. This has important implications for investors both in terms of relying on a reversion-to-the-mean (investment style) and the type of companies they should be favouring. Magnifying the difference in the current environment from earlier cycles is the impact of e-commerce and its reconfiguration of so many business structures. This in itself is creating new or alternative supply at the cost of the incumbents. Yes, it is a difficult investing environment, but before dumping your positions, consider the important variable of **composition**.

Instead of segregating the markets into good and bad, we try to understand the environment and find those companies that can grow and which are not priced to perfection.

We would crudely summarise the global outlook thus:

- **Slow growth** but rising consumer incomes[2].
- **Oversupply** of most commodities, but a gradual tightening of the hydrocarbons market[3].
- **Weak pricing power** for most producers of 'things', as opposed to services[4].
- **Low inflation** will keep **money cheap**, leading to a risk of misallocation (poor investment decisions)[5].
- Continuing **substitution** caused by e-commerce[6].
- **Currency** exchange rates that assist or impede profitability[7].

One might think the above seems like an action-replay of 2015! It may well be, except one senses that labour and currency may squeeze corporate profits in some markets, and high valuations leave little room for earnings disappointments. One might make the case to buy some of the cyclicals that have been decimated as investors cast them out in their **search for certainty**, but apart from a strong short-term rally, we suspect they will face a relatively protracted downturn. In other words, mean reverting investment strategies may be unrewarding for a while yet. Anchoring to past high prices may also be misleading because of earlier valuation over-shoots relative to long-term value.

To give you some sense of the portfolio's composition, we can broadly categorise it as follows:

Old world (manufacturing, engineering services, utilities, commodities)	21%
New world Internet-based services	16%
Financials (mostly European and Asian banks and insurers)	14%
Consumer goods and services	14%
Information technology facilitators	12%
Health care (mostly big pharmaceutical companies)	8%
TOTAL LONG	85%

Within the 'old world' there are investments in Asian utilities, a smattering of Japanese manufacturers, global engineering companies and commodity producers. There are some global brand names among **the consumer plays** such as Coke, McDonald's, Carnival, and the luxury brands of Kering (e.g. Gucci), while exposure in Asia is to Chinese drinks companies and gaming shares.

1 At the height of its economic power in the early 1950s, the US accounted for about 27% of *world output* of which *investment* represented no more than 5%. Even during the Ming dynasty, when China's economy might have represented 30% of world output, investment ran at relatively low levels.

2 Expectations are for world growth to be 3–3.5% in 2016 with gradual improvement in employment in so-called developed markets.

3 Like other metal and minerals, hydrocarbons are selling well below marginal cost with the distinction that shale sourced liquid and gas production require constant development expenditure which at current prices will see the output by North American producers slip by, say, 1 million barrels per day by mid-2016. Consumption continues to grow by about 1 million barrels per day and, by the second half of 2016, there is the prospect for tighter markets.

4 Plentiful supply of most manufactured goods, greater price transparency and convenience caused by e-commerce, plus an environment of small price increases, leads to a greater willingness by customers to shop around.

5 While there seems to be some wage torque developing, most notably in the US, in general the effect of weak commodity and energy prices combined with modest demand tends to dampen a rise in prices.

6 The airing and sharing of e-commerce, with phenomena like Uber and Airbnb, is mobilising under-used capacity and causing significant disruption to traditional providers like hotels, cabs and delivery services.

7 This has been one of the causes of earnings disappointments on Wall Street in 2015 and the big unknown is whether the US dollar will behave as it has during earlier tightening cycles and begin to weaken or whether QE in Japan and the Euro zone and the partial floating of the Chinese yuan will produce a different pattern this time around.

The most promising in terms of growth are the **Internet-based service companies**. These include the likes of Alphabet, Baidu, Tencent, Sina, etc., all with hearty growth rates. However, advertising spend in China is growing faster than in the West and the opportunity may lie in lagging monetisation where Chinese online advertising, at around US$22 billion in 2015, is about a third of US levels. These companies derive a fair degree of protection from their scale and the structure of e-commerce in China and, in the case of the valuation of Baidu and Sina, there is reluctance on the part of investors to pay for their full potential because of the dip in earnings caused by the monetisation strategies being followed.

Under the heading of **information technology facilitators** we harbour the old suspects like Intel, Cisco, Oracle, Ericsson and Level 3 Communications. These are being treated as slow-growing dull stocks, but in our view are great value and unlikely to be dispossessed in the foreseeable future.

Outlook

The fierce sell-down of a broad range of commodities and markets in the fourth quarter of the year ensures that the loneliest shepherd in Tibet has probably realised there are a glut of supply and dull demand prospects: in other words, any surprises to the positive will probably support at least a bounce.

The world is growing, albeit slowly, company profit prospects are not universally bleak, particularly in a world where there have been major currency re-alignments. As the vanguard of this credit cycle, the US bears the cost of a strong currency versus significant trading competitors in Europe and Japan and suffers now from a weakening Chinese yuan. Valuations, too, are not universally high and, as you know, we have high conviction in a group of strong Asian-based companies that are priced at absolute and relatively low valuations.

Our blend of assets across the portfolio encourages us to believe that we will achieve positive returns in the coming year.

Platinum Unhedged Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	DEC 2015	SEP 2015
Asia	29%	31%
North America	28%	24%
Europe	25%	26%
Japan	9%	10%
Russia	2%	2%
Australia	<1%	<1%
South America	0%	<1%
Cash	7%	6%

Source: Platinum. Refer to Note 3, page 44.

Performance

(compound pa, to 31 December 2015)

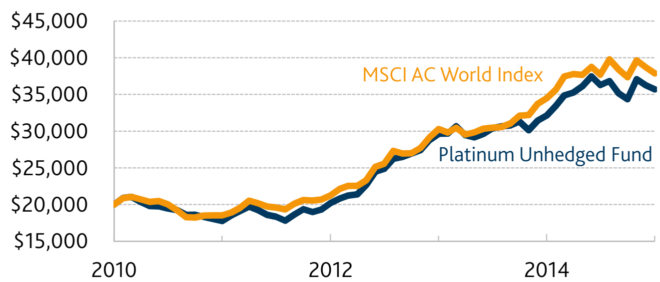
	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund	4%	11%	21%	12%	11%
MSCI AC World Index	1%	10%	21%	14%	6%

Source: Platinum and MSCI. Refer to Note 1, page 44.

In the December quarter global stock markets pared back some of the falls seen in August and September, with Japan up 12% and the US and Europe both rising 6% from their respective lows. Relevant to the Fund the biggest rebound was seen in the Chinese market. The CSI 300 Index rose 23% from its August lows, driven by evidence that the Chinese economy is not all bad, with positive data around rising house prices, a rebound in auto sales and news of further stimulus support.

Value of $20,000 Invested Over Five Years

31 December 2010 to 31 December 2015



Source: Platinum and MSCI. Refer to Note 2, page 44.

Given the moves in the Chinese market, our best performers tended to be our Chinese holdings, with search engine Baidu (+38%), life and property and casualty (P&C) insurer China Pacific (+30%), and spirits maker Jiangsu Yanghe (+26%) all rising strongly.

In terms of detractors, the key areas of weakness were our holdings in Baker Hughes (-11%) and Chow Tai Fook (-17%). Baker Hughes, as a major service provider to the oil and gas industry, has suffered due to further weakness in the oil price, along with worries that its proposed merger with competitor Halliburton may be blocked on competition grounds.

Chow Tai Fook is a leading retailer of jewellery, with 60% of its sales coming from mainland China and 40% from Hong Kong. The issue continues to be falling sales activity in its Hong Kong stores. Typically Chinese travellers accounted for 60% of the Hong Kong sales, and it is clear that after the Occupy Central protests the composition of Chinese travellers going to Hong Kong has changed, with the wealthier set now choosing to go (and spend) elsewhere. This issue was not new, with the stock having fallen -30% before we entered, but we were too early on our expectation that declines in Hong Kong sales would begin to find a base.

In terms of performance, over the quarter the Fund has returned 3.9% versus 1.4% for the MSCI AC World Net Index (A$). Over the full calendar year, the Fund is up 11.1%, compared to 9.8% for the Index.

Changes to the Portfolio and Commentary

We made a number of changes to the portfolio in the quarter.

We took a substantial new position in **Level 3 Communications**, with the company now included as one of our 10 largest holdings. Conceptually like Australia's very own national broadband network (NBN), but on a much grander scale, Level 3 owns one of the world's largest fibre optic cable networks (spanning 320,000 route kms of cable) and is an important backbone to the functioning of the Internet today.

Built over 20 years at a cost of US$45 billion, the business has reached an important inflection point. The bandwidth demands of services like Netflix and cloud computing are exceeding the capability of legacy copper networks, requiring an upgrade to fibre. Many of the telephony incumbents (AT&T, Verizon, etc.) have neglected to invest in their wireline networks and have been focusing on their mobile businesses instead, and this has created an opportunity for others to take market share. Post their US$7.3 billion acquisition of TW Telecom (formerly Time Warner Telecom) in 2014, Level 3 now has the density of network to compete head on.

Given the fixed cost nature of the business, as you 'load the network' incrementally with more customers, modest increases in revenue tend to have outsized effects on profit growth, and Level 3 is in a good position to do this by chipping away at the incumbents. Purchased at a valuation of 16x free cash flow, Level 3 was priced attractively relative to the market and is significantly cheaper than other listed infrastructure assets.

We completely exited two of our holdings within the jewellery industry. The first was **Richemont**. Our holding period for Richemont was uncharacteristically short (having only accumulated the stock in July/August), but it was an example of where the facts changed soon after purchase. The appeal of Richemont was that 50% of its profits came from very high end branded jewellery, an extremely profitable category growing at 10% per annum. Our concern was their luxury watch business, where sales had been tracking flat post the Chinese corruption crackdown. The thesis was that the sales growth and superior profitability of the jewellery business would still create good earnings growth, as long as any deterioration in the watch division remained modest. However, recent Swiss watch export data has pointed to demand starting to fall at 7-10%, much worse than our initial estimates. In the face of this, we chose to exit at a modest profit.

We also sold out of jewellery retailer **Luk Fook**, which is suffering from the fall in activity in its Hong Kong stores, similar to Chow Tai Fook. The case for these retailers was the ability to take market share in China at the expense of mom-pop style stores, given greater demand for quality and authenticity of product. In addition, they would benefit from a mix shift, as the Chinese started to buy more gem-set products which carry higher profitability over traditional gold. Over the long-term these drivers remain intact, but we would prefer to hold Chow Tai Fook than Luk Fook, given the former's lower exposure to Hong Kong and stronger brand.

In Japan we sold the last of our holdings in **Toyota**, **Toyota Industries** and **Ushio**. These stocks have been good earners for the Fund. However, with the cases around each investment having largely played out and valuations no longer as attractive, it was time to move on.

Outlook

In investing, you rarely make money by following the popular consensus of the day. Back in 2010, the common view was that emerging markets were the place to be because they offered growth, and investors should shun the stagnant and highly indebted western markets. The experience over the next five years played out very differently. Investors made fantastic returns in the US, Europe and Japan, and emerging markets were relatively dull. It is interesting that the popular consensus of today has reversed; the view now is to stick with the western markets that have done so well and "don't touch the EM"!

We think it's now time for investors to start coming back to the emerging markets and there is value to be had if you pick your spots. Since 2014 we have moved 30% of the portfolio into Asia, primarily in stocks exposed to the Asian consumer and Indian infrastructure/banking sectors. With the fall in stock prices and the collapse in the value of the Brazilian real, we are spending some time looking at the higher quality listed businesses in Brazil.

We like to hunt where there is uncertainty, and any business linked to commodities is going through a lot of pain. When considering investments in this space, we are cautious and being very selective. Commodities are fundamentally poor businesses and, faced with the end of the Chinese construction boom and widespread oversupply, it can take a long time for the cycle to bottom. Expecting a quick reversion to the mean will be an error. Out of opportunities in this space we favour oil, given we can make a solid case for a tightening in the supply/demand balance over the next 18 months.

Some of the major holdings in the Fund include 'legacy' technology companies (Cisco, Ericsson, eBay) that at their core are quality businesses and are priced at a discount to the market, European banks where there is potential for very large dividend yields, and the Chinese consumer stocks. The only substantial commodity exposure in the Fund remains oil.

Due to high valuations, we are still cautious on the potential for great returns out of the US and Europe. We are therefore positioning the Fund more defensively, with our cash holdings nearing the 10% limit.

Platinum Asia Fund

Joseph Lai Portfolio Manager

Disposition of Assets

REGION	DEC 2015	SEP 2015
China (Listed Ex PRC)	31%	29%
China (Listed PRC)	9%	5%
Hong Kong	4%	3%
Taiwan	3%	2%
Greater China Total	**47%**	**39%**
India	18%	19%
Korea	8%	11%
Thailand	6%	6%
Philippines	4%	4%
Vietnam	3%	2%
Singapore	2%	2%
Malaysia	<1%	2%
Cash	12%	15%

Source: Platinum. Refer to Note 3, page 44.

Performance

(compound pa, to 31 December 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Asia Fund	2%	2%	16%	10%	16%
MSCI AC Asia ex Jp Index	0%	2%	12%	7%	10%

Source: Platinum and MSCI. Refer to Note 1, page 44.

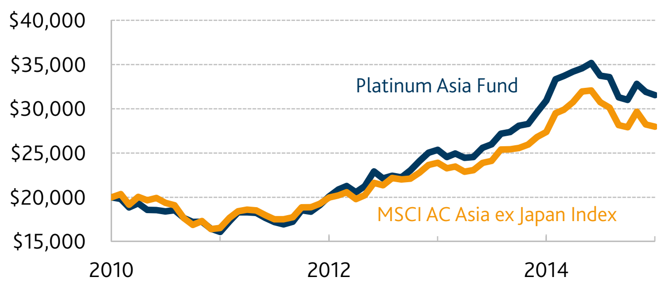
The broad MSCI Asia Ex Japan Index was up 3.8% for the quarter in US dollar terms while the Australian dollar appreciated against the USD by 4%, resulting in a more or less flat overall return for Australian investors. The Fund concluded the quarter with positive returns (+1.7%), bettering the Index (in AUD terms).

Similar to global markets, regional markets have been lacklustre. Slowing economic growth, depreciating currencies and the prospect of a US interest rate rise reduced investors' appetite for risk. The Hong Kong market was up 5%, with H-shares up 3%, Taiwan was up 2%, India was flat, and Thailand was down 5%.

The Chinese A-share market was a good performer, up 16% for the quarter from a low base post the sell-off mid-year. As economic reforms continued and the authorities loosened

Value of $20,000 Invested Over Five Years

31 December 2010 to 31 December 2015



Source: Platinum and MSCI. Refer to Note 2, page 44.

fiscal and monetary policies to stabilise the economy while simultaneously tightening capital outflow to manage a steady depreciation of the Chinese yuan, capital gravitated towards the stock market, particularly to stocks linked to the new economy.

Contributors to performance were mostly Chinese stocks the Fund had added to early in the quarter: Jiangsu Yanghe, Kweichow Moutai, Gree, JD.com, Tencent and Baidu. Detractors were mainly our Indian holdings – banks (working through legacy bad loans) and Adani Ports (ironically, greater domestic coal production led to a drop in coal imports).

Changes to the Portfolio

The Fund maintained a 13% short position in the Chinese yuan against the US dollar. This has added to the positive performance this quarter, and we expect the Yuan's depreciation to continue. The Fund has taken profits from certain positions during the recent rally and reduced the overall net invested position while awaiting better opportunities to re-deploy capital into companies with favourable, secular dynamics and attractive valuations.

We reintroduced positions in **Qingdao Haier** and **Gree** (leading household appliance manufacturers in China) as valuation became attractive for these companies which have dominant market positions, significant cash reserves on their balance sheets and tantalising dividend yields.

We also added to our **Indian gas sector** exposure. Indian gas import is rebounding strongly as imported gas price has declined more than 50% in the last 12 months. For an energy-scarce country, weak gas prices are hugely beneficial for its balance of trade and economic activities!

Commentary

Transitions and Reforms

Shenzhen (population: 11 million), a vibrant metropolis situated in southern mainland China, a stone-throw away from the Hong Kong SAR (population: 6 million), has ignored the doom and gloom with which foreign investors have often characterised China over the last five years. As the first of China's five Special Economic Zones, Shenzhen was singled out in 1980 to be an experimental ground for the country's economic reforms. The city now hosts the headquarters of quite a number of the corporate titans of modern China – Tencent (the Facebook of China), Ping An Insurance (a dominant life insurer), ZTE and Huawei (globally competitive mobile network equipment providers), China Vanke (the biggest real estate developer in China), and China Merchants Bank – to name just a few.

Some of the interesting, new industry companies that we have recently visited include:

- Han's Laser – the dominant provider of advanced laser equipment for use in the making of iPhones and iPads.
- BYD Auto – China's own up-and-coming electric vehicle manufacturer. Electric vehicles saw a fourfold increase in sales in China in 2015 – around 350,000 units. The performance of the BYD cars is improving at an incredible pace, so much so that the "golf cart" we saw a couple of years ago is now able to accelerate from 0 to 100 km/hr in under five seconds!
- Centre Testing International – the biggest independent testing and certification service provider in China, which is seeing demands rise with increasing regulatory requirements on environmental, safety and authenticity standards across all industries (e.g. food and drugs, toys, building materials, motor vehicles, workplaces).

Shenzhen's economy has been growing robustly. The property market has been a star performer, up more than 30% this year. GDP per capita (productivity per person) is at around US$25,000 a year and is expected to catch up to that of Hong Kong in a few years' time.

Hosting one of the two stock exchanges in China has helped Shenzhen's fortunes, but its success was really a story of reform and free market economics. It is encouraging that after a few years of consolidation of power by senior leaders in China, some reforms are likely to be coming through.

The country's state-owned power grids have over the years been operating without an effective regulatory framework. They have all the monopolistic powers of a regulated public utility, but few of the social obligations, thereby leading to high power prices and a significant proportion of alternative energy generators not having their power purchased by the grid. A more robust regulatory framework has been proposed by the authorities to solve these issues. It is expected to effectively turn the grid operators into a utility that we typically see in developed countries, earning a reasonable return on investment, but mandated to buy power from alternative energy sources. This will significantly improve both air quality and the economics of wind and solar farms.

We met with CT Environment, a company based in Guangdong Province that will continue to benefit as Chinese regulators become more stringent on enforcing restrictions against discharge of industrial effluence. Water tanks the size of football fields are now required in many Chinese cities to treat waste water from industrial users, with the government having real time access to check the quality of water produced. A lot of work is yet to be done. Although output from designated industrial parks is easily monitored, those operating outside these areas are yet to come under effective supervision.

Our recent trips visiting different Chinese cities confirmed our view of a simultaneous rustication of the old and emergence of the new economy (information technologies, environmental initiatives, industrial upgrading, modern services, upgrades in consumption patterns). The older parts of the economy have matured (mainly the construction and infrastructure related sectors) while the new continues to flourish, driven by reforms, urbanisation and growing incomes. Fortunes of cities and associated job markets are linked to this dynamic.

Notwithstanding the cross currents of this gargantuan economic transition, we are still seeing relatively stable consumption and wage growth. While this is particularly apparent in the booming service sectors, manufacturing and low-end labour wages also continue to grow at single digit rates.

Research and development as a percentage of the country's GDP has gone up from 0.5% to greater than 2%. While still below that of a few developed nations on this metric, China is already coming second globally in dollar terms! The jury is still out on whether most of these new investments will bear fruit, but new industries are being developed right in front of our eyes.

China's economic growth most likely will slow in 2016, somewhat offset by the growing new economy; bad debts in the banking system will rise; and job losses will continue which the new economy has evidently been absorbing thus far. Going forward, one can expect further policy loosening to seek to ease the slowdown.

The property market is generally healthy, with significant regional divergence reflecting the varying abilities of the respective local economies to cope with transition. Big coastal cities that are home to the new industries are booming; inland cities that are able to absorb the westward movement of manufacturing capacities are also holding up.

Obvious weakness can be seen in regions dominated by traditional sectors which are suffering from over-supply and starting to see capacity closures (steel mills, etc.). The authorities are working on more aggressive policies to clear inventories in these areas by making health care and other social services more accessible to the hundreds of millions of migrant workers, encouraging them to buy or rent subsidised apartments, and potentially allowing tax deduction on property purchases. We believe these measures are intended to provide a soft landing for the downward cycle in these cities, rather than to ignite another property investment boom.

Local punters in China have voted with their feet, exhibiting a distinct preference for the new sectors while leaving behind the old. Companies engaged in the new economy have been enjoying vastly superior price performance and valuations (40-60x P/E), compared to the old economy companies (banks and property developers on single digit P/E). Whether the market is cheap or in a bubble depends entirely on the segment of the market one is focused on. While expensive stocks may not be prospective for the contrarian stock picker, the market serves as a source of cheap capital to the new industries, many of which have taken advantage.

The Fund's current positioning – being heavily exposed to the consumer and new service sectors – reflects our belief that many of the old economy stocks are an unlikely source of long-term growth, but our stock-centric approach shields us against indiscriminately chasing the new economy opportunities. We have chosen to participate in stocks in the Hong Kong and Chinese markets that have strong market positions, are seeing secular growth *and* are trading on attractive valuations.

A Depreciating but Freer Currency

The new currency regime in China to have the Yuan loosely referenced to a basket of currencies was a profound policy change. The move suggests a greater willingness by the People's Bank of China to allow the Yuan to drift away from the US dollar and conform more to market forces. There is pressure over the medium-term for the Yuan to depreciate, especially if the US dollar strengthens further, going forward.

Over the quarter, the Chinese yuan depreciated by 2% against both the US dollar and the Japanese yen and was down 1% against the Euro. The Yuan has in fact been the strongest major currency in the world over the last five years, having appreciated 2% against the US dollar, 25% against the Euro, and more than 50% against the Yen! However, depreciation is likely to be gradual, but relatively persistent.

China still runs a big current account surplus and the inclusion of the Yuan into the IMF Special Drawing Rights basket will help maintain stability, but depreciation of the Yuan is a key element of the policy relaxation needed to maintain some economic stability in a time of weakening growth.

The Inevitable Has Begun

Signals given by the Chinese government appear to suggest that more closures in industries with excessive capacity will take place in 2016. The reality is that with 20-50% of the commodity and energy related sectors running at losses, demand side stimulus is not the solution, especially when considering that China has peaked in its construction super-cycle and the focus has shifted to tackling its critical pollution problems (see recent smog alerts out of Beijing).

Artificially supporting these typically unprofitable companies run by provincial and local governments imposes a cost on the economy. The uncompetitive, excess capacities should be allowed to close down as a natural consequence of low commodity prices, rather than burdening the banks with ever increasing credit risk by extending more money to these loss-making industries.

The crux of this issue is the relationship between state-owned banks and local governments. Typically, credit is extended to these "zombie" companies in the name of job preservation or social stability. As new industries have developed to offset some of the slack, this process of cutting the cord to zombie companies is starting to occur. In fact, some closures have already taken place. Around 45 megatonnes of steel capacities are estimated to have been closed down.

India

In India, the issues that have plagued the country's dysfunctional power sector appear to be getting resolved. One of the major problems is the loss-making power distributors. Distribution companies have been running big losses, with aggregate technical and commercial (AT&C) losses ranging from 25% to more than 50%! The impact is that power prices have to be kept high to subsidise these losses. But many distribution companies fail to do so, instead, resorting to debt from State banks to buy power. This situation is obviously unsustainable. Some distribution companies are indebted to such an extent that they could not afford power, leading to blackouts, which obviously looks bad for the State's politicians.

The Central government has put forward a proposal to reform the power distribution network. Financial incentives are provided to the States to cut distribution losses by reducing power theft, improving billing and collection efficiency, and/or raising prices. The State governments, having taken over the debt from their distribution companies, will be more dependent on the Central government's disbursements to balance their books. The onus will be on the States to run their power distribution companies more profitably.

Eleven out of the 28 States have already onboarded with the scheme, and it is expected that most of the other States will also participate. Based on the progress of negotiations currently taking place between the Central and State governments and the banks, most of the 28 States will have signed up before the second quarter of 2016. We would expect to see some improvements in power demand with improved distribution financing. It remains to be seen whether AT&C losses will be reduced over the longer-term.

Economic activities are earnestly improving in India with government projects ramping up, truck sales going strong, power generation increasing (at 10% or so – although there was 0% growth in November compared to October last year, due to the timing of Diwali), railway freight volume growing (ex-coal was up 10% while coal volumes have been weak as power plants now have too much coal), gasoline usage rising (up 10-15%), and steel demand surging (up 10%+). There are anecdotal reports that the country is short on excavators as a result of demands from the raft of road, rail, river and mining projects. Private capex by all accounts remains weak.

Outlook

The valuations of the Fund's holdings continue to provide the best guide to our future returns, and on this front we remain optimistic over the medium-term.

While China's way forward is not going to be straightforward, the country is gradually delivering reforms and policies are being loosened to maintain economic stability, allowing new industries and companies to prosper. As economic growth slows, the Chinese market may continue to experience a relatively high level of volatility. However, we believe that the Fund's portfolio is well positioned with companies with strong fundamentals and that the current elevated cash level allows us to take advantage of volatilities opportunistically.

A simmering economic recovery is evident in India, and key reforms of the power sector, if successful, can unleash significant productivity improvements in this vast, developing country.

We continue to find opportunities with favourable growth dynamics and will deploy capital in their direction.

Platinum European Fund

Clay Smolinski Portfolio Manager

Nik Dvornak Portfolio Manager

Disposition of Assets

REGION	DEC 2015	SEP 2015
UK	21%	22%
Germany	16%	16%
Spain	5%	6%
Austria	5%	5%
Italy	4%	5%
Russia	4%	3%
France	4%	5%
US *	4%	4%
Switzerland	3%	5%
Hungary	2%	2%
Norway	1%	2%
Netherlands	1%	1%
Sweden	1%	1%
Turkey	<1%	1%
Cash	29%	22%

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

Source: Platinum. Refer to Note 3, page 44.

Performance and Commentary

(compound pa, to 31 December 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum European Fund	-3%	14%	17%	13%	12%
MSCI AC Europe Index	-1%	9%	17%	11%	2%

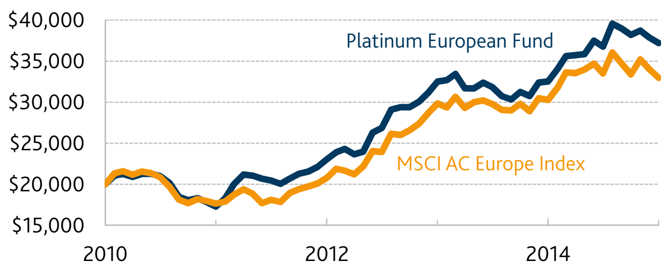
Source: Platinum and MSCI. Refer to Note 1, page 44.

European equities ended the quarter slightly lower in AUD terms. They rallied through October and November, only to give it back in December as investors came to terms with falling commodity prices, profit warnings and a less dovish European Central Bank (ECB).

The Materials sector is being savaged, with investors continuously revising valuations to match falling commodity prices. Global miner, Anglo American, was listed in 1999 at an £8 share price. Today it trades under £3, despite commodity prices being far higher than they were in 1999.

Value of $20,000 Invested Over Five Years

31 December 2010 to 31 December 2015



Source: Platinum and MSCI. Refer to Note 2, page 44.

The company expects to lose US$1 billion next year, against a market capitalisation of US$6 billion and debts of US$13 billion. In a desperate bid to stanch the bleeding, management plan to sell or close over half of their operations. That half of their portfolio is losing money gives context to the recent retrenchment in commodity prices. The planned closures speak not to their willingness to withdraw capacity, but their lack of choice in the matter. This tempts one to think that an adequate degree of misery may now be priced into the sector.

The slowdown in China and emerging markets continues to dog the Industrials. Their vulnerability is becoming increasingly clear as downgrades fan out from the weaker cyclicals and begin to ensnare the much-loved stalwarts. Thus, the recent warning from German industrial gases giant, Linde AG, is perhaps a sign of things to come.

Buybacks and mergers, fuelled by cheap credit, continue to support equity valuations. The US$110 billion 'mega brew' merger of Anheuser-Busch InBev (ABI) and SABMiller in October was surpassed merely a month later by Pfizer's US$160 billion purchase of Allergan. Yet, cracks are now appearing in debt markets and these bear close scrutiny. While the stress is currently confined to high yield debt, particularly that issued by Energy companies, risk aversion can spread quickly and may undermine the capital structure of leveraged enterprises more generally.

Central banks remain a centre of attention. While the US Federal Reserve raised rates for the first time in a decade, the move was well telegraphed and easily digested by the market. The Euro ended the quarter a mere 2% lower, although this was partly due to the ECB undertaking a less aggressive expansion of quantitative easing than expected.

European equities ended the quarter up 5% in local currency. Materials (-4%) suffered most. Among the Banks (+1%), the pain was concentrated in investment banks and to a lesser extent in banks exposed to emerging markets. Among the best performing sectors were Software (+20%), boosted by a strong performance from SAP, and Staples (+8%) where beverages stocks benefited from the ABI-SABMiller merger news.

The Fund returned -2.6% for the quarter and +14.4% for the year in Australian dollar terms. This compares to -1.3% and +8.9% respectively for our benchmark. Our cash balance rose to 29%, compared to 22% at the start of the quarter. This dragged our performance during October and November, but benefited us during the December pull-back.

We have no exposure to Materials and minimal exposure to Energy and Industrials. While we own a number of banks, we own neither investment banks nor those exposed to Asia and Latin America, which performed worst. This positioning meant that we avoided the hardest hit companies. However, our limited exposure to Software and Staples meant that we missed out on some of the best performers too.

Looking through the portfolio, it's hard to pin down any themes to our performance. The biggest contributors were a handful of smaller companies where the investment case is playing out nicely, such as pharmaceutical equipment supplier, **Sartorius**. Equally, the biggest detractors were smaller companies where the story is not proceeding smoothly, such as hardware chain, **Hornbach**. Among the larger companies, developed market banks (**Lloyds**, **Intesa**), healthcare (**Sanofi**, **Novartis**) and energy-related companies (**Applus**) detracted from performance while our Eastern European and Russian companies (**Raiffeisen**, **Sberbank**) made sizeable contributions.

Changes to the Portfolio

We exited a number of positions during the quarter. This included **Richemont**, which we had only just introduced into the Fund. We bought Richemont for its branded jewellery business, despite having reservations about its high-end watch business. We have been closely monitoring the watch business and recent data led us to believe the deterioration there would exceed our initial estimates. With the facts having changed, we changed our minds and decided to sell this position. We see this as a successful investment, not for the small profit made, but for the potential losses averted. We continue to like the branded jewellery business and will return to this company should the prospects or valuation change.

Laboratory testing business, **Eurofins Scientific**, was one of the Fund's longest-held positions. The company has grown through acquisition, buying customers from competitors, and has been consolidating and centralising its lab network. The market tends to see this business in a very favourable light when things are going well. In 2008, it was trading on 60x earnings despite having a large and rising debt load, courtesy of its acquisitive past. In 2010, we added to our position when earnings had fallen 20%, the market was avoiding indebted companies like a plague and valuation had collapsed to a mere 10x forward earnings. Now we feel it is prudent to sell this position with valuations once again exceeding 40x earnings, debt ratios close to the 2008 level and debt markets once again experiencing indigestion.

We discussed Turkish mobile phone provider, **Turkcell**, in our March 2015 quarterly report. Our thesis leaned heavily on the idea that the long-running price war was hurting all participants and was becoming increasingly unsustainable, particularly for the prime aggressor, Turk Telecom. Since then, it appears that a tenuous cease-fire is holding, which is positive. What bothers us is a new development, namely, the government's creeping influence over the company. Earlier this year, the CEO was ousted in favour of a government appointee. Some months later, the company paid a much higher than anticipated sum to secure what was, admittedly, high-quality spectrum. Then there is a sudden urge to expand in Turkey's near abroad. We suspect political motives rather than purely economic ones in both instances. When one factors in the cost of the spectrum, the 4G build-out and the international expansion, what was a pristine balance sheet will deteriorate significantly and return on capital is likely to fall short of our expectations. Consequently, we sold this position, having essentially broken even once dividends are factored in.

We also sold our last shares in UK pub-owner, **Enterprise Inns**. New regulations have forced a change to their business model. While it's perhaps too soon to tell, we believe the new model will prove much less favourable to shareholders. We made decent returns from this investment, albeit not as good as we had expected when we first bought it.

When it came to buying companies, we were much less active. The main stumbling block is valuation. This is not to say that there aren't cheap companies. For those, one needs to look no further than the Materials sector. The trick is finding companies that can generate a suitable return on capital *and* not overpaying. The industrialisation of China has spawned many distortions. One that is not often mentioned is that it allowed average and inferior businesses to accumulate a much better track record of growth and returns than would otherwise have been the case, allowing them to masquerade as superior businesses. The market still insists on paying for history, even though the future may not be quite as kind.

Outlook

The outlook for European equities continues to be mixed. European economies continue to recover and the data is incrementally positive. Credit has stopped contracting and is now growing again, albeit slowly. Unemployment remains high, but is generally falling. Consumers appear increasingly willing to spend. Current accounts are mostly in surplus. And fiscal balance is slowly being restored.

That being said, risks are building. Emerging markets face mounting economic challenges and industrial China continues to slow. One should not underestimate the effect this will have on European companies' earnings. Cheap credit continues to contribute to speculation and increases the risk that companies will do silly things to engineer growth. And, of course, the European political landscape is increasingly fragmenting and drifting away from the centrist politics of yesteryear. Agitation against union is building, with the most immediate risk being a UK referendum, likely as early as 2016.

Equity valuations are high, with investors remaining surprisingly complacent about risk. In this environment we prefer to be defensively positioned. The Fund has 29% of its capital in cash and holds minimal exposure to global cyclicals. The portfolio is skewed to dividend payers, stable growers, self-help stories, Eastern Europe and companies that we expect to benefit from structural changes to their industries. We expect this combination to work well in a flat or falling market, but to lag, should cyclicals rally.

Platinum Japan Fund

Scott Gilchrist Portfolio Manager

Quarterly Haiku

Markets roil, oil drops

Toshiba pile driver

OLED disruption

Portfolio Position

Sector Breakdown

SECTOR	DEC 2015
JAPANESE INTERNATIONAL FOCUS	36%
Electronics (Canon, Panasonic, Nitto Denko)	24%
Autos (Toyota, Nissan, Sumitomo Electric)	5%
Industrials (JSR, Mitsubishi Corp)	7%
JAPANESE DOMESTIC FOCUS	35%
Internet (NTT DoCoMo, Recruit, Rakuten, Nexon)	14%
Financials (Mitsubishi UFJ)	9%
Consumer (Asahi)	7%
Health Care (Mitsubishi Tanabe, Ain)	4%
Property	1%
KOREA	3%
Electronics (Samsung Electronics)	3%
GROSS LONG	74%

Disposition of Assets

REGION	DEC 2015	SEP 2015
Japan	71%	61%
Korea	3%	5%
Cash	26%	34%
Shorts	-5%	-6%

Source: Platinum. Refer to Note 3, page 44.

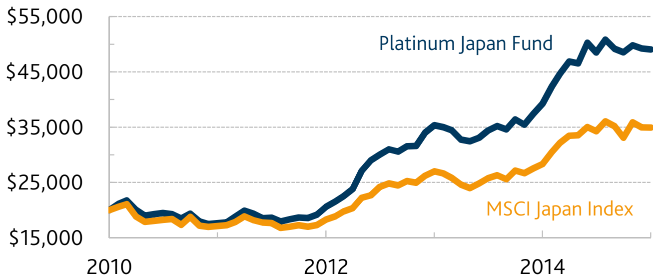
Currency Position

Japanese yen	90%
Australian dollar	6%
Korean won	3%
US dollar	1%

Source: Platinum

Value of $20,000 Invested Over Five Years

31 December 2010 to 31 December 2015



Source: Platinum and MSCI. Refer to Note 2, page 44.

Performance

(compound pa, to 31 December 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Japan Fund	1%	25%	34%	20%	15%
MSCI Japan Index	6%	23%	24%	12%	2%

Source: Platinum and MSCI. Refer to Note 1, page 44.

Portfolio performance for the quarter was positive, lagging the rising market due to cash holdings and a small market short position. The strength of some large positions such as NTT DoCoMo, Nitto Denko and Samsung and a strong rebound in some cyclical holdings was offset by weakness of some recent acquisitions. The Australian dollar strengthened against the Yen, which reduced returns.

Changes to the Portfolio

As described in our last quarterly report, the portfolio's asset mix is predominantly Yen based Japanese equities with a sizeable cash holding and a small market short position. There were limited structural changes to the portfolio during the quarter. The Japanese stock market has seen a bifurcation of valuation, thus stocks such as Next and En-Japan were sold. On the flip side, small initial positions were taken in a range of "value stocks" which are generally trading at low multiples, often below half book value.

Commentary

Hans Rosling extols the beauty and majesty of the humble washing machine. The day his mother was relieved of the chore of washing the family's clothes in the icy Swedish watercourse was the first day he visited the library. "We loaded the laundry. And what do you get out of the machine? You get books." The humble smartphone has the potential to make a similar difference to lives all around the globe. In the latest quarter, Indian smartphone shipments grew 20% and are now approaching levels of the USA although they are still nowhere near saturation. From the LCD display to the many other components and the equipment used to assemble the phones, Japanese suppliers occupy a critical part of the smartphone supply chain.

JSR was founded as Japanese Synthetic Rubber by Bridgestone and the Japanese government in 1957 to establish a local rubber industry. While rubber is still a core business, the most important division is one of the leading suppliers of wafer manufacturing chemicals to the global semiconductor industry, in particular the industry leaders Intel, TSMC and Samsung Electronics. While the many predictions of the end of Moore's law have been wrong, it is becoming increasingly complex to double the performance of semiconductor chips every two years, and JSR plays a critical role in this ongoing effort.

Recent months have highlighted some of the retrograde behaviour of Japanese corporates with the accounting scandals at Toshiba and the substandard construction work at Asahi Kasei. JSR stands at the other end of the spectrum. CEO Nobu Koshiba speaks English and has a global perspective, having worked in the USA for many years. There are three external directors on the board of seven. Current payout is above 50%, a combination of a 2.6% dividend yield and reasonably well-timed share buybacks. The history has been that these shares are cancelled and consequently the outstanding share count has reduced over time.

The current valuation of JSR is certainly not expensive. At the current market capitalisation of JPY430 billion, it is priced at a P/B of 1.2, a P/S of 1.1 and a P/E of 15. The balance sheet is very strong, with current assets being more than three times total liabilities. Debt is minimal. It is not aggressive to assume that cash holdings of JPY40 billion, short-term investments of JPY74 billion and long-term equity investments of JPY74 billion could easily be returned to shareholders with no negative influence on the long-term progression of the business. Thus the EV is almost half the current market value, and the valuation appears anomalous, especially considering the quality of the underlying businesses and accompanying cashflow generation and long-term growth prospects.

Intel is JSR's favourite customer. While the past of desktop PCs and WiFi-enabled laptops belongs to Intel together with their dominance of server farms, the future is less certain. ARM's architecture, combined with a dynamic foundry manufacturing ecosystem, dominates the mobile phone processor business. Otellini, the former CEO of Intel, was offered the opportunity to develop a smartphone processor for Apple, but declined – surely one of the great strategic blunders of the last decade. In the latest Intel manufacturing transition to 14 nanometre (nm) "second generation" 3D transistors, JSR has a majority share of photoresists and multilayer materials. The supplier mix for 10 nm and 7 nm has not yet been decided. This is an important position as the delay to extreme ultraviolet lithography (EUV) means that multiple patterning is required on an increasing number of critical layers and ArF immersion lithography requires reinforcing materials below the photoresist. JSR also has a leading photoresist and multilayer material supply position at TSMC and a lower market share at Samsung. These two products are part of a wide portfolio of products developed over the last two decades as the semiconductor industry has grown exponentially.

Photoresists are complex and extremely pure mixes of organic polymers, catalysts and carriers. The basic organic chemistry originally had commonality with JSR's rubber business. The chemical mix has changed over the many generations as the light wavelength has decreased. The next major transition is to EUV. ASML has been developing the required light source and machine for many years and commercialisation now appears to be in sight. Nikon and Canon both failed in this endeavour and ASML now has a monopoly on these US$100+ million machines. JSR has been working diligently with IMEC, the Dutch research lab, to develop a completely new photoresist for EUV and at this stage seems to be far ahead of the competitors Tokyo Ohka, Shin-Etsu and the Koreans. These transitions highlight one of the key risks to the business. However, the CEO is from this division and is well aware of the situation, having spent a lot of time at Intel's Oregon fab himself. Pricing for this product is likely to be very attractive, unlike the relentless price deflation seen across most of the tech industry. Even before this transition, sales should continue to grow at double digit rates at high incremental margins.

The majority of JSR's original business of synthetic rubber is commoditised as the key grades were first developed many decades ago. Nevertheless, JSR manages to achieve reasonable returns in this business for two reasons – butadiene and solution styrene-butadiene rubber (S-SBR). There are three main butadiene extraction technologies in use, one of which was developed by JSR. They use this process in their own plants where they extract the chemical from a mixed stream of C4 sourced from adjacent crackers before returning the spent stream back across the fence. The butadiene price and spread over naphtha are very cyclical and the industry is currently passing through a deep trough as new capacity comes online and tyre demand is weak.

However, even at trough pricing, JSR is profitable as their sales are based on favourable terms as off-takers prefer security of supply.

JSR's key petrochemical plants are now over 40 years old and in need of higher ongoing maintenance to bring them up to modern standards so that they can operate at the high levels of safety and reliability expected by clients. It seems as though the petrochemical division has been somewhat neglected for the last few years and further development is required. This will partly come through expansion of capacity for S-SBR, a high-end product where JSR has over 40% market share. JSR is expanding capacity in Thailand and Hungary to supplement their production in Japan. S-SBR is used to reduce rolling resistance of tyres, thereby increasing fuel efficiency. Governments are increasingly mandating tyre efficiency. The combination of a trough in butadiene pricing and increased sales of high-end artificial rubber could result in decent profit growth over the medium-term.

JSR was present at the birth of the LCD display industry and their chemicals and films are critical enabling components for the industry. They dominate supply of alignment film for large LCD panels with only one other supplier. Their wide product range includes colour photoresists, spacers, etc. While the transition to higher quality TVs seems ongoing with the transition to 4K displays underway, the looming threat is that of organic light-emitting diode (OLED). Samsung is the main supplier of small OLED displays for their own phones and also to the Chinese ecosystem, while LG Display is the key supplier of large OLED displays. If this transition were to occur quickly, then it would be a severe setback for JSR. For the moment, the growth in Chinese panel capacity had led JSR to build a supply facility in China, and global square metreage should continue to grow after the current lull.

JSR is working on a third key business to complement their semiconductor and petrochemical activities. They have been involved in medical chemical development and supply for many decades and are now focusing more heavily in this area through both internal development and acquisition. As expected, the outlook for this is uncertain, as evidenced by their expansion into lithium ion capacitors. The new factory opened in March 2015 and, at last report, was operating at less than 10% utilisation as promised orders had not arrived and customer acceptance and design wins had been slow. While the core of JSR appears strong with world leading products and strong financials, the overall corporate strategy for the next 20 to 30 years is still a work in progress.

Outlook

Globally, stock markets seem willing to look through the roiling currents and project a rosier future than the recent past. Bond markets are less complacent, with Japanese government bond yields falling to new lows. Recent Yen strength looks likely to continue, especially against the Australian dollar, at least for the short to medium term. Any further weakness in the equity markets will be used as an opportunity to acquire assets with long-term attractive fundamentals at low valuations.

Platinum International Brands Fund

Simon Trevett Portfolio Manager

Disposition of Assets

REGION	DEC 2015	SEP 2015
Asia	31%	31%
Europe	28%	28%
North America	12%	11%
Latin America	8%	7%
Japan	7%	7%
Russia	2%	1%
Africa	1%	2%
Cash	11%	13%
Shorts	-3%	-2%

Source: Platinum. Refer to Note 3, page 44.

Performance and Changes to the Portfolio

(compound pa, to 31 December 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Brands Fund	-1%	8%	12%	10%	12%
MSCI AC World Index	1%	10%	21%	14%	2%

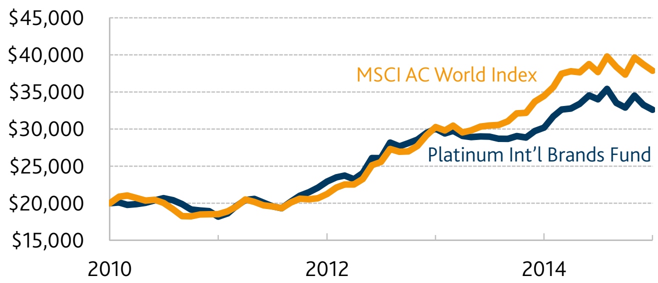
Source: Platinum and MSCI. Refer to Note 1, page 44.

Throughout the year the Fund maintained a significant exposure to consumers in the emerging markets with approximately 40-45% of the Fund invested directly in those markets, including some 30% in the so-called "BRIC" countries (Brazil, Russia, India, China). The MSCI EM (Emerging Markets) total return index in AUD for the year ***declined*** by 4.3% and, whilst this isn't the usual comparator against which the Brands Fund is measured, it does provide some context for the Fund's performance.

The Fund returned 8% for the year, compared to the MSCI AC World Index at 10%.

Value of $20,000 Invested Over Five Years

31 December 2010 to 31 December 2015



Source: Platinum and MSCI. Refer to Note 2, page 44.

The range of share price movements across the Fund's investments – from declines of 20% to gains of over 40% – is in part a testament to the increased volatility in the markets and the distortions and influence of central bankers and politicians. To the extent that the macro and market factors impact the Fund, as opposed to company specific events, it's clear that the market's exit from emerging markets weighed on the Fund's performance.

Despite their exposure to Russia and a deteriorating Brazil, **Renault** bounced back strongly in the quarter with the share price rising over 40%, having fallen by a similar amount in the prior quarter. It is movements such as these that test one's conviction as we attempt to balance our understanding of the company and our perception of its value against the market's swings in its appetite for companies with exposure to the emerging markets and/or relatively high debt levels.

The Fund sold its investment in **Qunar**, an online travel company, and has been cautiously adding to the **Casino** group of companies.

Commentary

Renault India's launch of the ***Kwid*** is the first product to be designed and built in India with 98% local content from the Renault-Nissan Alliance under the new common manufacturing platform. This is an entry level hatchback with an SUV-like design in the under Rs4 lakh price range (A$5,500 – A$8,000). It garnered an impressive rush of orders for 25,000 units in the first two weeks, which then progressed over the next few weeks to some 75,000 units and a six month waiting list. To put that in context, the two competitors combined – the *Alto* from Maruti Suzuki and the *Eon* from Hyundai – sell at about half that rate. Renault is increasing production to meet the demand and is further encouraged by the 250,000 people that have downloaded the *Kwid* app which incidentally is proving to be an effective virtual showroom. As a new product (and hence with incrementally increasing new sales), it's proving significant enough, when added to the recovery in the small car segment in Europe, notably France and especially Spain (up over 20% in 2015), to offset the declines Renault has suffered in Russia, Brazil and China.

As is often the case, there can be surprising, albeit company specific, outcomes that can emerge from behind a veritable wall of bad economic news and woeful headlines. In the case of Brazil, there is no shortage of negativity and eminently sensible reasons to avoid all and any thought of investing: the worst recession in a century, more high profile arrests from the Petrobras corruption investigation, protests for the impeachment of the President, resignation of the Finance Minister, high inflation, rising interest rates, increasing unemployment, and a commodity-dependent export-driven economy competing in a world of low growth. The list could go on and on and yet the country has just posted record trade surpluses and holds significant foreign currency reserves that provide some buffer to the concerns of the debt markets.

Hypermarcas, the Brazilian consumer company selling beauty products, diapers and over-the-counter pharmacy products such as sunscreens, condoms, and medicine for cough and flu and a range of aches, pains and minor ailments, has been one of the Fund's top performing stocks in the year with an increase in share price of more than 30%. The company has built leading market shares through continuous acquisitions and, although they have done an impressive job operationally to streamline and consolidate the sales and manufacturing capabilities, has struggled under the burden of expensive debt.

The pending acquisition of the company's cosmetics business by the US beauty company Coty for around US$1 billion will effectively clear the company's debt and, given the tax position of Hypermarcas, there will be no cash tax payment by the company. It was widely understood that Hypermarcas' diapers business was for sale and that was recently confirmed by the company with the change in accounting method to that of a discontinued business. A buyer has not yet been announced.

The New Kwid

Source: Renault

It was therefore a little surprising that the cosmetics business was sold, although the price Coty offered could certainly be considered an offer too good to refuse. Why would Coty be so keen to purchase this business, given the appalling prognosis for the Brazilian economy, for a generous price and at a time when they have the significant acquisition of the P&G beauty business underway? Perhaps the close management links of Coty with the UK's Reckitt Benckiser provide a clue? The pharmaceuticals industry has been buying and selling consumer health care businesses at valuations significantly higher than the imminently debt free Hypermarcas, currently listed at US$3.3 billion with a leading position in a growing and significant market. There are also various regulatory and market factors that suggest it would be far easier to buy than to build a position in the Brazilian health care market.

The Brands Fund has held Hypermarcas for a number of years and the commentary is not to suggest that the reasoning was to be acquired, but merely to highlight that despite the headlines and dire predictions there can be some with longer horizons and strategic capabilities that will see through the current circumstances.

In a similar vein, the markets have turned against the complexities, debt and emerging market exposure of the Casino group of companies. The Fund has been increasing its investment in **Almacenes Exito**, the Colombian subsidiary of Casino and now part owner with management control of the Brazilian subsidiary. There's no doubt that the complexities of the group can be overwhelming and the debt burden both complex and ostensibly too high. Indeed there's little agreement amongst the analysts as to the actual numbers. Despite the obvious and lengthy list of reasons to currently avoid such investments without a second thought, the opportunity to buy what will become recognised as South America's largest retailer with multiple formats across all income levels for a depressed valuation is attractive to the Fund. The planned partial listing of the real estate assets may also highlight the underlying asset values.

Outlook

The Fund's positioning towards emerging market consumers is in effect the outcome of our stock selection process rather than an asset allocation decision. The weighting of the Fund is therefore an indication that we are tending to find opportunities more interesting in the emerging markets where valuations can, at times, be significantly more attractive and where there's the prospect of some stronger underlying growth. By comparison, the low growth and relatively high valuation of many of the world's leading brand companies intuitively offers a somewhat less compelling starting point. That's not to say the Fund has no interest there. We do in fact enthusiastically maintain positions in many of the iconic brands of the world, such as LVMH, Tiffany, Coke and Estee Lauder, amongst others, where there is good reason to pay the current prices on offer. In this market environment, especially given some of the more extreme price moves, the Fund will necessarily be somewhat opportunistic to capture examples such as those described above.

Platinum International Health Care Fund

Bianca Ogden Portfolio Manager

Disposition of Assets

REGION	DEC 2015	SEP 2015
Europe	36%	36%
North America	27%	25%
Japan	3%	3%
Asia	3%	3%
Australia	1%	1%
South America	1%	0%
Cash	29%	32%
Shorts	-1%	-1%

Source: Platinum. Refer to Note 3, page 44.

Performance

(compound pa, to 31 December 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l HC Fund	2%	23%	28%	22%	10%
MSCI AC World HC Index	3%	20%	35%	25%	10%

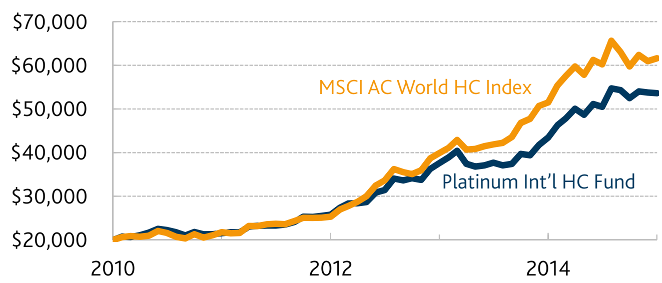
Source: Platinum and MSCI. Refer to Note 1, page 44.

This year US biotech performance has moderated and the mood is now more reflective as well as selective. Recent IPOs have found a less receptive audience with some companies having to postpone their raising altogether[1]. On the other hand, pharma and big biotech have continued with their purchases (e.g. AstraZeneca and Gilead Sciences both have recently been active outside the US) and asset swaps (as we have seen between Sanofi and Boehringer Ingelheim), keeping things interesting.

For the year and the quarter, our European holdings have added to performance while the high cash position held things back, reflecting our more cautious view. Sartorius advanced 47% for the quarter (up 214% for the year) while Genmab was up 50% for the quarter (155% for the year).

Value of $20,000 Invested Over Five Years

31 December 2010 to 31 December 2015



Source: Platinum and MSCI. Refer to Note 2, page 44.

1 In 2015 there were 38 biotech IPOs versus 64 in 2014, with a gradual shift to earlier stage biotech.

Genmab's CD38 antibody is now approved and it is clear that it will change the way multiple myeloma is being treated. Danish Lundbeck, a position we added to recently, continues to garner interest as it gradually leaves its patent cliff behind (up 32% for the quarter and 92% for the year). Sanofi (-7% for the quarter and +4% for the year) has been disappointing this quarter as it will require more spending over the next two years while diabetes becomes more competitive. Sanofi does need to strengthen its pipeline and we have already seen some deal activity, but we are expecting more.

Changes to the Portfolio

During the quarter we trimmed our position in **Novartis**. Although it gained approval for its chronic heart failure drug, we were rather disappointed by how Novartis spends its capital.

We added to **Qiagen** during the quarter. The company has done well in establishing its molecular diagnostic franchise, developing its next generation sequencing equipment and establishing itself as the leading bioinformatics software provider. In today's molecular biology world it is no longer about the equipment; it is about the software that adds functionally and clinically relevant knowledge to the vast amount of available data. Qiagen is closing this loop.

We also added to **Roche**. Biosimilars will come, no doubt, but this is a company with a solid science track record and a pipeline that has never been as big as today.

Commentary

Ever since scientists identified and learned to manipulate DNA the plan has been to translate genetic engineering into a therapeutic. The hope is that one day **a faulty gene can simply be replaced or modified**. While it is often clear which gene needs to be replaced or modified, the struggle has been to get it into the right cell, maintain its presence and control the expression of the corrected gene without disrupting the existing delicate regulatory network. Once that is achieved, the challenge remains to transmit the corrected gene to the cell's progeny, allowing a lasting therapeutic effect.

For the past two decades scientists have been busy improving each of the above steps. Assets moved into clinical trials producing mixed results, with some causing serious side effects such as leukemia. All along pharma has been cautious, at times dabbled in gene therapy, but in the end left disappointed.

As everything in science, caution reigns initially, but over time, as more data and more sophisticated approaches emerge, sentiment will change. We have seen it with antibody drugs. Here, Roche (and to some extent Johnson and Johnson) was an early adopter while its peers remained sceptical for a long time. Gene therapy is, however, more complex, as it is about permanently manipulating the inner workings of a cell at its core which requires a deep understanding of genomics using more sophisticated analytical tools. Scientists are now getting there and clinical trial results are now more reproducible, showing sustainable effects.

Delivery technology is key for gene therapy and in this respect **viruses are proving to be the ideal tool**. Their genomes can be manipulated to eliminate the elements that make them pathogenic and self-replicating. At the same time **new genes can be introduced** and quickly one has a nice gene delivery vector.

Different viral vectors have been tested over the years and for now lentiviral vectors (HIV is a lentivirus) and adeno-associated virus (AAV) are popular. These vectors are made in the laboratory and over the past 10 years have improved immensely.

Essentially, these viruses carry the structural viral proteins along with the gene (or genes) of interest, but lack the ability to replicate and be infectious. Thus all they do is deliver the gene construct together with regulatory elements to the host genome.

Lentiviral vectors are particularly interesting as they **integrate the "gene cassette" into the host genome, making the change permanent**. Over the years these vectors have improved at every level. The rate of transduction (meaning the rate at which the viral vector gets into the target cell) is now consistent while the issue of integrating near oncogenes and causing cancer has been dealt with. The regulatory elements controlling the expression of the new gene are also much better engineered these days to allow robust and stable production once the cassette has been delivered.

All of these changes have made a difference and today gene therapy using lentiviral vectors is in late stage clinical testing for some blood cancers. Here lentiviral vectors are engineered to encode proteins that will prime a T cell (part of the adaptive immune system) to attack a patient's cancer. It is an ex vivo procedure, meaning that T cells are obtained from the patient (simply by blood draw and followed by purification steps) and then transduced with the viral vector in the laboratory (hence ex vivo). Once enough cells are available, they are re-infused into the patient. These T cells are now engineered to recognise the patient's cancer cells and destroy them. Things are never without side effects, but doctors are learning to deal with them.

We recently added **Oxford BioMedica** to the Fund's portfolio. This UK biotech was founded in 1995 by a husband and wife team who were experts in DNA recombinant technology. Today this company is the world's leading lentiviral vector specialist. Oxford BioMedica has been quietly working away in its labs, improving its vector technology, and has invested time and money into its commercial manufacturing capability. Several years ago Novartis came along, and today Oxford BioMedica is the manufacturer for all lentiviral vectors for Novartis T cell therapies (with approval potentially forthcoming in 2017). Making these lentiviral vectors is a crucial step and requires a lot of know-how that has been accumulated (and patented) over time. Other companies have started taking out licences for Oxford BioMedica's IP and, to us, more will follow as we are moving closer to the commercial reality of gene therapy.

Gene therapy has come a long way and the next instalment will be all about gene-editing technologies[2], a subject for future reports.

Outlook

Pricing flexibility in the US will decrease over time, making innovation ever more crucial to success. Competition is also fiercer than ever as companies these days work on the same drug targets, thus making drug monopolies short-lived. Science, the depth and commercial sense of clinical development programs, along with smart capital allocation, are the key aspects that we focus on. Tools and IT are another area we are exploring in more detail as a focus will be on how to stay ahead of the crowd in drug development labs.

2 Zinc-finger nucleases (ZFN), Transcription activator-like effector nucleases (TALEN) as well as the CRISPR/Cas9 system (CRISPR stands for "clustered regularly-interspaced short palindromic repeats" while Cas9 refers to a CRISPR-associated protein, a nuclease). These tools warrant their own quarterly report, but in a nutshell, these technologies allow genes to be edited directly by using a delivery vehicle like a viral vector.

Platinum International Technology Fund

Alex Barbi Portfolio Manager

Disposition of Assets

REGION	DEC 2015	SEP 2015
Asia and Other	29%	29%
North America	28%	30%
Europe	14%	15%
Japan	7%	8%
Russia	2%	1%
Cash	20%	17%

Source: Platinum. Refer to Note 3, page 44.

Performance

(compound pa, to 31 December 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Int'l Tech Fund	2%	10%	21%	12%	9%
MSCI AC World IT Index	5%	16%	29%	18%	-2%

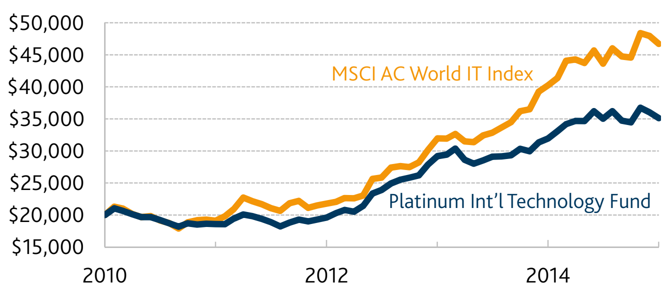
Source: Platinum and MSCI. Refer to Note 1, page 44.

The Fund returned 2% for the quarter and 10% for the year while the MSCI AC World Information Technology Index (A$) was up 5% and 16%, respectively.

The US tech-heavy Nasdaq 100 Index reversed the previous quarter's decline and was up 10%, helped by a few growth stocks' strong performance. In fact, while the US stock market appears to have lost some momentum in the final weeks of the year, it is interesting to note how much stronger the performance of a select group of technology stocks has been. In the December quarter, four stocks in particular, the so-called "FANG" (Facebook, Amazon, Netflix and Google, now renamed Alphabet), went up respectively by 16%, 32%, 11% and 25%. As these popular companies rapidly expand their strong and dominating businesses, they are also highly liquid, investable large capitalisation stocks with somewhat "predictable" secular growth trajectories (albeit with different levels of profitability). It is no wonder that they have become market darlings and must-have stocks at a time when growth is increasingly rare to find. Some have compared the current stock market dynamics to the "Nifty-Fifty" period when a group of 50 popular large-cap stocks lifted the US stock

Value of $20,000 Invested Over Five Years

31 December 2010 to 31 December 2015



Source: Platinum and MSCI. Refer to Note 2, page 44.

market to peak levels in the early 1970s, only to underperform massively in the subsequent period of a protracted bear market which lasted until 1982.

Among the Fund's best performers this quarter were **SanDisk**, up 40% as a result of a takeover offer (see more detail below), **Yandex**, up 47% as it recovers from an extremely oversold Russian stock market, and several US-listed Chinese companies such as **Baidu** (+38%), **Trina Solar** (+23%) and **SouFun** (+12%).

On the negative side of the ledger we recorded a poor performance in memory stocks (**SK Hynix** -8%, **Micron Technology** -5%), which are still struggling due to slow PC sales and weaker global smartphone shipments, as well as **China Mobile** (-5%) due to a temporary slowdown in reported revenues caused by a change in tariffs.

Changes to the Portfolio

Among the US-listed Chinese companies, we sold our entire position in **Youku Tudou** after the company decided to accept a takeover offer by Alibaba. We also exited our position in **Sina Corporation** and re-invested part of the proceeds in **JD.com**, the second largest e-commerce retailer/platform in China.

In regards to currency exposure, the Fund's composition has not changed substantially from the previous quarter: with 66% in US dollars, 12% in Hong Kong dollars and 8% in the Euro. Our exposure to Japanese stocks is 50% hedged into US dollars, and exposure to Chinese stocks is partly hedged with a 9% short position on the Chinese yuan. We maintained a minimal exposure to the Australian dollar.

Commentary

In our June 2015 quarterly report we described the increase of mergers and acquisitions (M&A) activity recorded in the technology sector during the first part of the year, and in particular the transactions involving semiconductor companies. In the September 2015 quarterly report we explained the fundamental reasons for our investment in SanDisk, a leader in NAND flash memory. Within a month of our investment, SanDisk received a takeover offer from Western Digital, a rival company in the data storage business and a leader in the hard disk drive sector. While we had correctly identified the strategic value of SanDisk's assets for a potential acquirer, our timing was indeed fortunate and the investment will likely result in a 50% return if and when the takeover is completed in mid-2016.

We would have preferred to be a long-term investor in SanDisk because of the sector's attractive growth prospects, but we may be presented with new opportunities soon as a result of the flurry of M&A deals and the ongoing consolidation process in the semiconductor industry.

An interesting aspect of the Western Digital-SanDisk transaction was the addition of a new Chinese shareholder on Western Digital's register. China-based **Unisplendour Corporation** announced its intention in late September to acquire a 15% stake in Western Digital through a US$3.8 billion private placement, making it the largest ever Chinese investment in a tech company in the US. Incidentally, this deal was announced only a week after President Xi Jinping's visit to the US where he met with the country's top tech company leaders, and just two weeks before Western Digital's takeover offer for SanDisk. There is little doubt that the Chinese investment was an essential component in Western Digital's structuring and financing for the SanDisk acquisition and that it was to some extent discussed at the highest political levels.

So who is behind Unisplendour Corporation? The Shenzhen Stock Exchange-listed company is controlled by **Tsinghua Holdings**, a 100% state-owned corporation funded by Tsinghua University, a leading Beijing based university whose alumni include both the current Chinese President, Xi Jinping, and former President Hu Jintao.

Chinese political leaders have made clear their long-term ambitions for the development of a strong domestic technology sector. The Chinese government declared the semiconductor industry a strategic priority in 2013 and Tsinghua Holdings has since accelerated its pace of targeted investments through various subsidiaries and in partnership with other private companies and publicly funded organisations.

In the same year, Tsinghua Unigroup, an operating subsidiary of Tsinghua Holdings, paid US$1.8 billion for Spreadtrum Communications, a Shanghai-based semiconductor design company specialising in application processors and modems for smartphones. Spreadtrum subsequently merged with RDA Microelectronics, another Shanghai-based company specialised in radio-frequency components. The newly merged Spreadtrum RDA received an investment of US$1.5 billion from Intel for an approximately 20% stake. Moreover, Tsinghua Unigroup has indicated an interest in buying Taiwan based MediaTek, the second largest smartphone chip manufacturer after US giant Qualcomm.

In 2014, China established a CNY125 billion (around US$20 billion) National Integrated Circuit Industry Investment Fund (National IC Fund) with capital contributions from 16 investors, including local governments, private enterprises and financial institutions. Ding Wenwu, the president of the National IC Fund, described the government's policy for the industry as essentially calling for expansion and vertical integration of the domestic semiconductor value chain. The National IC Fund was established with the aim of supporting equity investments in the semiconductor industry largely through manufacturing projects and it is already the second largest shareholder in Semiconductor Manufacturing International Corporation (SMIC), China's largest integrated circuit manufacturer.

A company named Tongfang Guoxin Electronics, also part of the Tsinghua Holdings constellation, recently announced a share placement (mostly to Tsinghua Unigroup) to raise CNY80 billion (approximately US$12.8 billion). Three-quarters of the proceeds will be used to fund a new digital memory chip factory (NAND or NOR). This is definitely an ambitious project and such a large fab could in theory add 10% to global NAND capacity, if completed. The remainder of the planned raising is intended to fund the acquisition of a 25% stake in Taiwan based Powertech, a company engaged in outsourced semiconductor assembly and testing (OSAT).

Lack of specific IP in the memory sector, however, remains a big hurdle for potential new Chinese entrants and that explains why they have been looking overseas for investment targets. Earlier this year, Tsinghua Unigroup approached US-based Micron Technology, a leading manufacturer of dynamic random access memory (DRAM) chips used in personal computers, servers and smartphones. They reportedly made an "informal" offer of US$23 billion to acquire Micron in what would have been the largest takeover of a US company ever made by a Chinese one.

Why such an increasing level of interest from China for the semiconductor industry? The reasons are both economic and strategic. One of the most important principles in China's industrial policies has always been an emphasis on preventing strategic commodities and materials from falling under the control of a dominant foreign nation. If we consider China's 2014 imports by value and category, semiconductors were worth US$218 billion, immediately after the top-ranked crude oil[1]. It is also obvious how important it is for China to create a strong domestic industry if they aspire to a leadership position in many technology-rich fields (e.g. communications, transport, defence, space, security, etc.).

We have seen from recent history how the entry of well capitalised and often government "sponsored" Chinese companies in specific industries has contributed to higher levels of competition and lower levels of profitability for existing players. Think about the telecom equipment manufacturing sector where Huawei has become an international leader on 4G wireless telecommunication, or personal computing where Lenovo is now the largest global player by units shipped, just ahead of HP Inc (formerly Hewlett-Packard).

Even in thin-film-transistor liquid-crystal display (TFT-LCD, more commonly known as flat panel display) screens used in TVs, tablets and smartphones, China is now the world's third largest producer behind South Korea and Taiwan, but ahead of Japan which it overtook in 2012. As a testament to how tough it has become to compete in this industry, only a few weeks ago news emerged that Sharp, the iconic Japanese consumer electronics giant, now financially troubled, was thinking of selling JPY7 billion worth of LCD manufacturing equipment and IP to China-based BOE Technology Group. BOE had itself just announced a plan to build the world's first Gen-10.5 LCD panel plant in Hefei, China. For more than six years, Sharp has led in LCD technology with its Gen-10 fab, which is located in the Japanese city of Sakai and has been in operation since July 2009, but with the construction of the Hefei fab underway, the Japanese panel maker has realised that its days as the manufacturer of the largest LCD panels are numbered.

Outlook

With the US Federal Reserve's long-awaited decision to raise interest rates for the first time since the 2008 financial crisis behind us, investors' focus will likely return to the fundamental questions about economic growth in the US and China, recovery in Europe and corporate earnings growth. We are not particularly enthusiastic on those fronts, as neither macro nor micro indicators signal an impending acceleration, but rather a slowdown.

We therefore continue to search for investment opportunities according to our thematic selection of ideas, with a strong focus on Internet, e-commerce and wireless operators as well as related equipment suppliers. Chinese companies in particular remain attractively valued in light of their long-term growth potential, which very often has not been fully reflected in current prices.

1 Source: http://wits.worldbank.org/CountrySnapshot/en/CHN/textview.

Glossary

Dividend Yield

A ratio that indicates how much a company pays out in dividends each year relative to its share price (adjusted for any share splits).

Earnings Before Interest, Taxes and Amortisation (EBITA)

EBITA is a measure of a company's operating profitability, i.e. the earnings it generates in the normal course of doing business, ignoring capital expenditures and financing costs. It is usually calculated by adding interest and amortisation expenses back to earnings before tax (EBT).

Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)

Similar to EBITA, EBITDA is a measure of a company's operating profitability. It is usually calculated as revenue minus expenses (excluding tax, interest, depreciation and amortisation).

EBITDA/EV

A measure of a company's return on investment, the ratio is normalised for differences in capital structure, taxation and fixed asset accounting between companies.

Enterprise Value (EV)

A measure of a company's total market value, EV equals to a company's market capitalisation plus net debt, minority interest and preferred equity, minus cash and cash equivalents.

Free Cash Flow (FCF)

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

Gross Domestic Product (GDP)

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

MSCI Indices

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

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

Price to Book Ratio (P/B)

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

Price to Earnings Ratio (P/E)

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

Price to Sales Ratio (P/S)

The ratio that compares a company's current share price to its revenue. The P/S is an indicator of the value placed on each dollar of a company's sales and is typically calculated by dividing the company's market capitalisation by its total sales over a 12 month period.

Return on Capital (RoC) or Return on Capital Employed (RoCE)

A measure of a company's profitability and the efficiency with which its capital is employed. RoCE is calculated as Earnings Before Interest and Tax (EBIT) divided by Capital Employed, where "Capital Employed" represents the sum of shareholders' equity and long-term debt liabilities. The higher a company's RoCE ratio, the more efficient its use of capital.

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.

Cuba – *the awakening of the land that time forgot*

When we think about the remaining closed economies in the world – those last hold-outs from the "ABC" (Apple, BMW, Coca-Cola) of modern capitalism, the list is not a long one: North Korea, Iran and, of course, Cuba. Of those three, the repressive North Korea holds very little appeal to those seeking some time to recharge the batteries with a few weeks away (although two members of Platinum's Investment Team did indeed recently brave the Kim regime on an "official" tour). Iran would be a great experience of history and culture, but the risk of being caught up in political instability or being used as a pawn in an international game of "chicken" seems somewhere north of zero. In contrast, thoughts of Cuba produce an image of an island haven in the sunny Caribbean, a time capsule from a different era, where a well-educated and healthy population live in peace (if not prosperity) on white-sand beaches enjoying Havana Club rum, Cohiba cigars and the brotherhood of man endemic to a socialist utopia.

The desire to experience *this* Cuba before the inevitable influx of American tourists and development money with the potential end to the embargo, led my partner and I to plan a trip to the land of Guevara and the Castros. TripAdvisor (TRIP US) proved very helpful in this respect, as it usually is, recommending a tour guide "Jorge" who would be able to plan a trip for us based on our interests and places we wished to visit. Even the initial email communication with Jorge provided us with a sense that this would be a different kind of holiday. "Please don't be upset if I do not get back to you within a day or two," he wrote. "Our internet here is not so good, but I will reply when I can."

Jorge quickly informed us that every other somewhat adventurous traveller in the Western Hemisphere had the same idea as us, and despite us seeking to book months ahead of time, our choices for accommodation were very limited due to the pre-Americanisation tourist influx. It did not seem to matter particularly, as every Havana hotel on TripAdvisor appeared to have equally bad reviews. "Terrible food", "dirty sheets", "AC did not work" – all were common refrains[1]. We went in with our eyes open, understanding that this was to be a socio-cultural experience, rather than a luxurious escape to a tropical paradise. We settled on a hotel by the water, 15 minutes by cab to Old Havana. We would stay there three nights, move two hours away to Playa Larga in the Bay of Pigs for two nights; then return to Havana to stay in a private "Casa" for our final night before flying out to Mexico for the relaxing part of the holiday.

We arrived at the airport in Havana following a one-night stopover in Panama City and had to wait 35 minutes for our bags to appear on the carousel, despite ours being the only plane arriving at the time. A number of the black rubber/plastic tiles that form the surface of the carousel were missing, which at various points caused some chaos as a few bags became caught on the metal underneath. Next to the carousel was a huge pile of oversize baggage – large flat-panel televisions and other consumer goods, seeking to avoid the embargo and/or take advantage of personal exemptions to import restrictions. We retrieved our baggage and were quickly treated to our first example of the exercise of "official discretion" as we were waved through the customs checkpoint despite not having received or filled out an entry card.

Our first priority was to change some of our foreign currency to Cuban Convertible Peso – the currency tourists use that is pegged 1:1 to the USD. Euro and USD are accepted, but USD conversions are levied a 10% fee on top of a standard 2-3% conversion fee. The line for the exchange office was not particularly long, but as one teller closed up shop it suddenly became longer. Meanwhile, six other staff members stood around smoking, chatting, and occasionally telling a visitor that it was their turn at the cashier's window. My initial impressions of Cuba were definitely conforming to preconceived notions of socialist inefficiency and decay.

A 30 minute taxi ride and we reached the check-in at a somewhat run-down but altogether tolerable hotel lobby. "Wi-Fi?" "Ah yes, you need to purchase an internet card which has a password on it." "Can we do that here?" "No, not here, at the hotel down the street." "Ah ok, how far is that?" "About 1km." It was close to midnight by this stage, so we decided to leave sending "we've arrived safely" messages to our loved ones until the next day (Telstra is apparently yet to have a Cuban inter-connect agreement). We later had to try three different hotels before finding one that had some internet cards left. As we moved through the hotel to our room, we became progressively more disillusioned with our choice of accommodation. A wooden exterior staircase with loose boards and rusted fittings, paint peeling off walls, two single beds instead of a double, and a refrigerator that sounded like a Harley-Davidson every time the motor switched on. The breakfast buffet in the morning was every bit as bad as TripAdvisor had described. The only tolerable items were a "mystery-meat" dish, the made-to-order omelette from the omelette station, and freshly cut pineapples (hard to mess that up).

1 All hotels in Cuba are government-owned and operated.

Jorge had planned two days of morning tours for us with an English-speaking guide. These were interesting and informative both from a historical perspective and in how they gave us insight into the current life of a Cuban. Our tour guide was a former lawyer who could not make ends meet working in her chosen profession, and so decided to become a tour guide to give herself the opportunity of a better life. 80% of Cubans (including the lawyers) are employed by the government, for pay of around US$25 a month. The minimum they need to survive is around US$75, so everyone has to find ways to "supplement" their income. The remainder are employed in permitted private activity, a lot of which relates to tourism. We experienced a classic example of this income "supplementation" when our taxi driver was pulled over by a policeman for not indicating correctly: "He let me off with a warning, which is good, as now I won't get points on my licence. If I get too many points, I lose my licence, and then I can't work. I'll come back and see him later and give him a present, maybe $5, and then we will be friends. It's good to have friends who can help you. We need to share the money from the tourists around. This is just a normal cost of doing business. You know?"

Old Havana is equal parts restored Spanish colonial majesty and crumbling buildings reminiscent of a city post-earthquake. After the revolution, the grand old buildings were invaded by squatters who over the years tore the places apart. It was given UNESCO world heritage designation in the 1980s, and the government decided they would start a restoration project. Unfortunately, the socialist education system had done such a good job of training doctors, lawyers and engineers that there were no tradespeople available who could do the work required. The government hired 75 – 85 year old workers out of retirement and set them to the tasks of restoring buildings and training the apprentices who could carry on the work when they were gone. There is now a dedicated school for the trades, and the evidence of the restoration work is everywhere, with many structures restored to their former glory. Old Havana is about one-third restored now, though one gets the sense that they will need to start over by the time they get to two-thirds.

A shock to the system was the sheer number of tourists in Old Havana. They (we) throng the streets, and all visit the key sites – the bar where Hemingway used to drink his mojitos, the bar where Hemingway used to drink his daiquiris, cigar shops, and the odd cathedral here and there. With the tourists come the hustlers of a nascent capitalism – the hawkers, black marketeers selling fake cigars, and private restaurants offering fare significantly more palatable than

View from hostal balcony, Old Havana

their government-run competition. Langoustine (crayfish/lobster) is an inexpensive staple on the menu, with a meal including a whole tail typically costing ~US$15. Some of the restaurants are very modern, some decorated in stylish kitsch, and on the whole reasonably priced and tasty – just don't expect first-world service. Tourists zip around between historic sites, bars, and eateries in the ubiquitous restored 1950s vintage American luxury cars that have now nearly all been repurposed to taxis.

Despite the crowds, the heat, and the hawkers, Havana is tolerable. Until you need to access a modern service, that is. With cash levels depleted, one or more visits to an ATM may be required. Expect to wait in a line, particularly if one or more of the ATMs are out of cash. Having never had trouble before, neither of us had thought to notify our banks of our trip to Cuba. Only my partner's Visa card would work, normal ATM cards and MasterCard were a no-go. Then suddenly her Visa card stopped working. As we could not use our phones to call the bank, we had to find an international line. The fifth hotel we were directed to had an international line, where we were informed we could make calls for US$4 per minute. The first call to the bank ended in frustration as the keypad could not navigate the bank's automated call menu. For some reason it worked the second time, we reached an operator, and the problem was solved. Ten minutes of phone time, AU$57 poorer. By this stage my partner had gained Wi-Fi access on her iPhone, but for some reason no Android phones seemed able to connect to the system, so I was left isolated from the world with my Samsung Galaxy reduced to the status of a pocket-watch with a built-in camera.

Playa Larga was a welcome sea-change from Havana. The two hour trip in a private car was primarily via a dead-straight, dead-flat, six-lane highway. I use the word "lane" loosely, as the lane our driver followed was whichever part of the road had the fewest potholes. He was able to do this as the other traffic on the road mainly consisted of the odd farm worker driving a horse-and-cart. Our private Casa (Cuban bed & breakfast) had a pleasant little garden in front, was freshly painted, and had a sundeck on top with a view over the Bay of Pigs. Our room was one of four. The owner was hard at work adding a new kitchen downstairs, as he had originally started with one bedroom to let out and (his wife) now needed the extra capacity. He had been an ambulance paramedic, and his wife a nurse, but he had built his house off the fruits of his skills in catching and selling langoustine (I assumed this was a black-market activity). From the look of his "Casa" and the fact that he had his own car, he was probably the richest man in Playa Larga. His son was studying English in Havana and had hitchhiked home for the weekend. In chatting with us he opened up: "One day, when we are allowed to use motors on our boats, I want to bring tourists here and set up a surf club. I will take them out to this break we have which goes on forever. You can surf for a kilometre. Catch the wave and then have a cup of coffee, and you're still surfing. Actually, my real dream is jet-skis, but Cubans are not allowed to own jet-skis."

Playa Larga is everything Havana is not – a quiet sleepy town comprised of two streets and a beach, two restaurants and a bar. Farmers in their horse-and-carts trot by on the street, waving and smiling to everyone they know. Nearby, the beaches are even more idyllic, with a coral reef offshore that makes for some interesting snorkelling. A 20 minute trip by car and you are at a popular dive spot. The people are friendly and want to engage with you without trying to extort money from you, and are willing to share their experiences of Cuban life. Evidence of the tourist influx is largely absent – apart from the construction sites dotted around as the locals, despite half a century of socialism, adopt private enterprise to capture the tourist dollar.

Cuba is a land of contrasts. Highly educated, yet terribly poor. Lacking in political freedom, yet apparently providing a large proportion of the population with an everyday level of freedom in their lives that we would almost struggle to match in the West. Run-down in parts, majestic in others, with a rich cultural history. Highly creative in the arts despite

One of the huge langoustines that helped to build Hostal Mayito, Playa Larga

Sunset, Playa Larga

(because of?) the political repression – Google "Jose Fuster" for one amazing example. Equal parts exhilarating and frustrating.

The people seem to love their country and want the best for it. They don't want to become Americanised, but do want the economy to develop and to be able to afford basics like their own home (most Cubans live with their parents as very few can afford to buy or build a new house – unfortunately much like Sydney in that respect, except here the problem is that people have too much money and/or access to credit, rather than too little). The distortions of socialism are evident everywhere – a doctor selling sandwiches to supplement his income; a bottle of Havana Club retailing for US$5 when a single mojito in a government-owned bar may cost more than US$6, yet you can drink your Havana Club in the bar (it's all owned by the government and no one has any personal incentive to make you pay the higher price). Service is consistently bad, and even the private enterprises miss many opportunities to make more money by not anticipating what their guests want.

Cuba is a country that will experience phenomenal economic growth if/when the market fully opens to the outside world. The people are educated and ready to prosper. The basic road infrastructure is in place, and the country is blessed with a tropical climate, natural beauty, and proximity to the US. What is needed are additions to the technology and capital portions of the GDP equation, as labour is present and dramatically under-utilised. Investment in commercial services (auto-dealerships, mechanics, import/export operations), production and distribution of consumer goods, telecommunications and modern farming equipment, and a consequent increase in exports can all be expected, should the market open up. At that time, Cuba will be a very interesting investment proposition for many in the Western world, though undoubtedly many who lived under or visited Cuba during the socialist rule will be nostalgic for simpler times.

Must do's in Cuba:

- The beaches and dive sites of the Bay of Pigs
- Floridita (Hemingway's daiquiri bar, and the food is quite good. Enjoy a cigar next to the statue of the man himself)
- A guided tour of new and old Havana
- Jose Fuster's house and neighbourhood of mosaics
- The Tropicana Cabaret (first opened in 1939, and an impressive show)

Two days is enough in Havana. Spend the remainder of your time exploring the rest of Cuba.

James Halse, CFA
Investment Analyst
Platinum

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.

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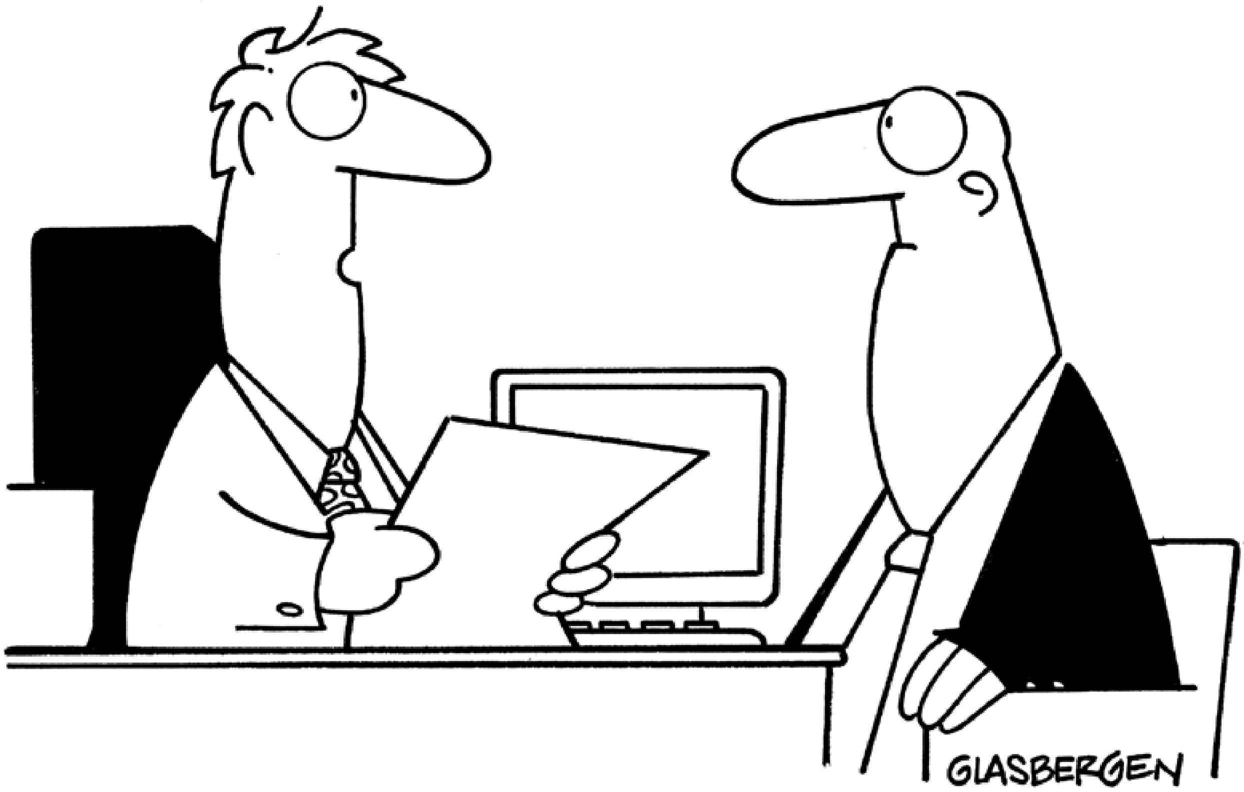
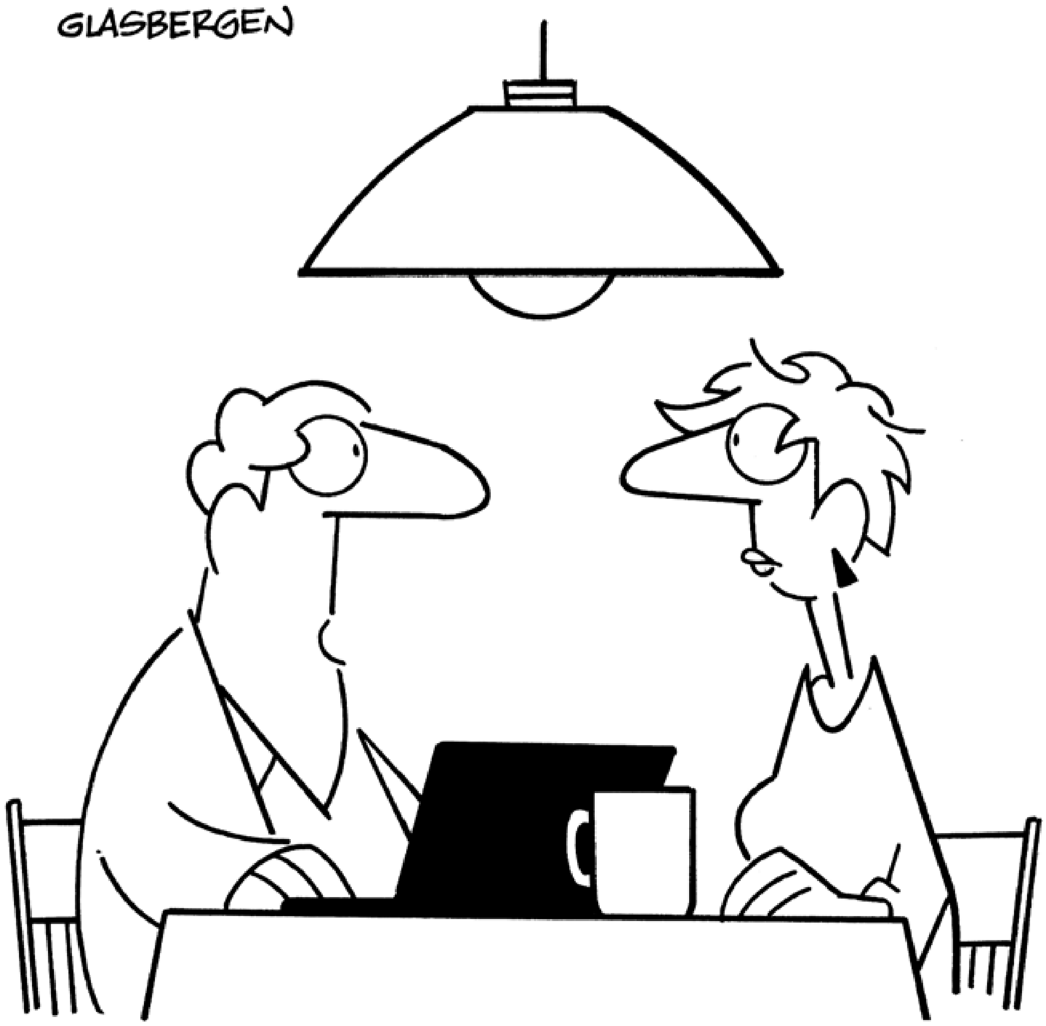
"No, you haven't made buckets of money yet. Your initial investment was used to purchase buckets."



"I reviewed your investments and set you up for early retirement. On your last day, you can afford to leave at 4:30 instead of 5:00."



"Sometimes the best investments are the ones you don't make. Let's go with that strategy and see where it takes us."

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$20,000 invested in the relevant Fund over five years from 31 December 2010 to 31 December 2015 relative to its benchmark index (in A$) as per below:

   Platinum International Fund - MSCI All Country World Net Index
   Platinum Unhedged Fund - MSCI All Country World Net Index
   Platinum Asia Fund - MSCI All Country Asia ex Japan Net Index
   Platinum European Fund - MSCI All Country Europe Net Index
   Platinum Japan Fund - MSCI Japan Net Index
   Platinum International Brands Fund - MSCI All Country World Net Index
   Platinum International Health Care Fund - MSCI All Country World Health Care Net Index
   Platinum International Technology Fund - MSCI All Country World Information Technology Net Index

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

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

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

The firm was founded in February 1994 by a group of professionals who had built an enviable reputation. The investment team has grown steadily and PAM now manages around $27 billion, with approximately 10% 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.

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