Platinum Unhedged Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

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

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

Performance

(compound pa, to 31 March 2015)

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

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

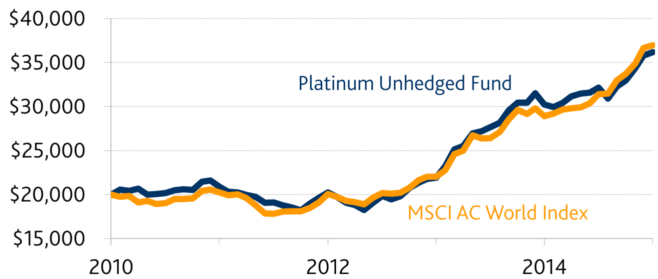
The first quarter of 2015 brought with it the first signs of a change of leadership in global equity markets.

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

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

Value of $20,000 Invested Over Five Years

31 March 2010 to 31 March 2015



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

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

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

Changes to the Portfolio and Commentary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Outlook

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

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

Notes

1. The investment returns are calculated using the relevant Fund's unit price and represent the combined income and capital return for the specific period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. You should be aware that historical performance is not a reliable indicator of future performance. Due to the volatility of underlying assets of the Funds and other risk factors associated with investing, investment returns can be negative (particularly in the short-term).

   The inception dates for each Fund are as follows:
   Platinum International Fund: 30 April 1995
   Platinum Unhedged Fund: 28 January 2005
   Platinum Asia Fund: 4 March 2003
   Platinum European Fund: 30 June 1998
   Platinum Japan Fund: 30 June 1998
   Platinum International Brands Fund: 18 May 2000
   Platinum International Health Care Fund: 10 November 2003
   Platinum International Technology Fund: 18 May 2000

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

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

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

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

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

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