Platinum Unhedged Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	MAR 2016	DEC 2015
North America	30%	28%
Asia	28%	29%
Europe	25%	25%
Japan	7%	9%
Russia	2%	2%
Australia	0%	<1%
Cash	8%	7%

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

Performance

(compound pa, to 31 March 2016)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund	-7%	-6%	16%	10%	10%
MSCI AC World Index	-5%	-5%	17%	12%	6%

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

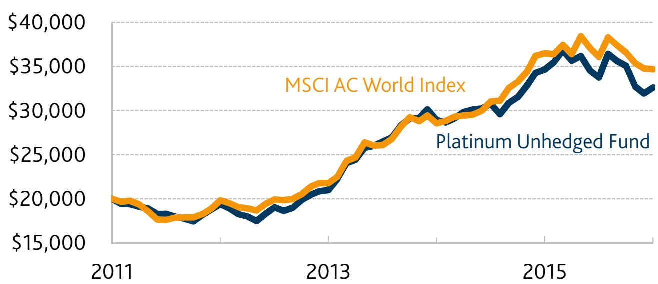
The start of 2016 brought with it immense volatility. Through January and February the Japanese and Chinese stock markets both fell 25% from peak to trough, with Europe following closely, down 20%. The US market continued its trend of being the relative strong man, falling 12%.

The narrative behind the fears that drove such a large correction was as follows:

(1) The economic slow-down in China would worsen.

Value of $20,000 Invested Over Five Years

31 March 2011 to 31 March 2016



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

(2) The recession in the industrial and resources/energy sectors globally would start to spill over into the consumer economy and tip the US and Europe into recession.

(3) China would put through a large devaluation of their currency, putting further pressure on the rest of the world.

While belief in this negative outcome became widespread, there was not much evidence to support it. The economic data out of China has largely stabilised over the last six months and key sectors like housing and house prices continue to improve. In the US and Europe the leading indicators of activity (temporary and permanent employment, consumer and corporate loan demand, retail sales and housing starts) show no cracks and continue to point to growth in both regions.

On point two above, the flow-on effect to the wider US economy from the collapse in spending in the US shale oil sector has been interesting. In a parallel to the 1990s' US tech boom, hundreds of billions of dollars were poured into the shale industry in a very short period of time and it was a true motor of activity for the US coming out of the global financial crisis. Theoretically, the collapse here should have a big impact, but it is not really showing up. Why? The economic boost of US$40 per barrel oil to the consumer at the petrol pump seems at a minimum to be providing a complete offset.

As the wave of company reporting in late February did not support the recession case, the majority of markets have bounced. Most spectacular was the US which regained all its losses to finish up +1% for the quarter. The rebound in Europe, Japan and China has been more modest with those markets respectively finishing -8%, -12% and -14% (in local currency) year to date.

Within the Fund's portfolio the most substantial falls were felt in our bank holdings, including Intesa Sanpaolo (-21%), ICICI (-9%) and Lloyds (-7%). Given their leverage to the economy, banks will always fall on fears of any recession. These price moves were exacerbated by the experimentation with negative deposit rates in Europe and Japan and what they ultimately will mean for long-term bank profitability.

For the three month year to date the Fund has returned -7%, versus the Index returning -5%.

Changes to the Portfolio and Commentary

The fall in markets gave us a great opportunity to add to existing holdings and build some new positions in the Fund.

One new position is **Wynn Resorts**. Wynn is a casino operator with two existing properties in Las Vegas and the Macau Peninsula, with a major new casino project on the Cotai strip (Wynn Palace) opening in 2016.

The stock had fallen 70% in response to the perfect storm currently hitting the Macau gaming market. The corruption crackdown in China has seen gambling volumes from high rollers fall by 50%. Compounding the pain, the gaming market has collapsed just as several multi-billion dollar new casino resorts (Wynn's included) are opening. A shrinking market, huge new supply and lots of debt are certainly a recipe for uncertainty in the short-term.

The longer-term case for Macau is, however, undoubtedly attractive. Gaming is a popular pastime in China and Macau remains the only legalised gambling venue within a country of over 1 billion people. While the VIP market may never come back, there is more than enough mass market demand to take its place over time. The Chinese government's plans for Macau are focused on promoting the mass market. They are significantly upgrading the infrastructure to the island and want to convert it into a true leisure destination on par with Las Vegas. The new casino projects bring not just more tables, but also theme parks, convention space and considerably more hotel capacity.

Wynn is still controlled by its founder Steve Wynn. Wynn has both a fantastic track record of building successful resorts and a long history of operating in a mass driven gaming market like Las Vegas. With all the fear around the stock we were able to build a decent position in the high fifties, at a valuation of 15x cash earnings once the new casino is up and running. We were in good company with Mr. Wynn himself buying US$100 million worth of stock with his own money shortly after.

Within the financials we increased our positions in Intesa Sanpaolo, Lloyds Bank, ICICI and PICC.

The latest moves of the European Central Bank (ECB) to further cut the deposit rate were relevant to our bank holdings. The ECB package came in two parts. The first was a further 0.1% cut to the deposit rate, bringing this down to -0.4%. The deposit rate directly affects the European interbank overnight rate (Euribor) which now sits at -0.34%. European banks tend to price their variable rate loans based off the Euribor rate plus a spread. So if you had taken out a variable loan at Euribor + 2%, you would be now paying a rate of 1.66% (2% + (-0.34%)). It's happy days if you have a mortgage, but less fun for the banks who take a hit to their interest income.

The second part was the introduction of a new long-term funding option for the banks. European banks can now borrow up to 30% of their loan book from the ECB at an initial cost of 0%. Moreover, if the bank grows its loan book by a mere 1% per year, the ECB will lower the cost to -0.4%, effectively giving the banks a way to offset some of the hit from the negative deposit rate.

A negative deposit rate is a tax on the banking system and is not helpful for shareholders. However, some banks are in a better position to handle it than others. Intesa, for example, has roughly 50% of its loan book linked to Euribor, but also has a number of offsets. Firstly, it still has high cost funding (a product of the sovereign crisis when Italian rates were very high) which can now be replaced at little cost. Secondly, as one of Italy's largest wealth managers, it has been benefiting massively from Italian savers pulling their money out of low yielding bonds and putting it into Intesa's fund management products. Finally, should the European economy continue to recover (and the data shows it is), there is no reason for rates to stay negative long-term.

Even with the hit from negative rates factored in, Intesa is still on a prospective 8% dividend yield for 2016 which, compared to a term deposit offering less than 1%, tells you why we have been adding.

Elsewhere in the portfolio, oil's drop to below US$30 a barrel gave us another opportunity to add to our oil exposed holdings, namely, Applus Services, and to start a new position in Norwegian seismic data firm TGS-NOPEC (please refer to the European Fund Quarterly Report for more detail on the case for TGS).

Outlook

As prices fall, investment risk is reduced and the probability of positive future returns increases. On this basis, the outlook is considerably brighter. Over the past 12 months, markets representing roughly 50% of the world GDP have had significant falls, with Europe down 16%, Japan down 12%, and China down 20%. Value is emerging and we are finding more new ideas for the Fund.

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$20,000 invested in the relevant Fund over five years from 31 March 2011 to 31 March 2016 relative to its benchmark index (in A$) 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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