Platinum Unhedged Fund

Jacob Mitchell Portfolio Manager

Disposition of Assets

REGION	JUN 2011	MAR 2011
North America	33%	31%
Japan	26%	28%
Asia and Other	21%	18%
Europe	13%	14%
Cash	7%	9%

Source: Platinum

Portfolio Position

Changes in the quarterly portfolio composition:

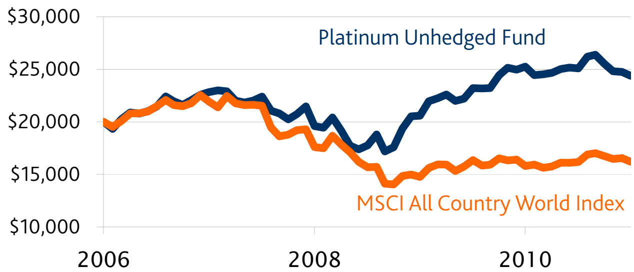
Sector Breakdown

SECTOR	JUN 2011	MAR 2011
Emerging Asia Consumption	16%	14%
Commodity	14%	15%
Japanese Domestic	12%	11%
Technology	12%	10%
Consumer Cyclical	10%	13%
Healthcare	10%	9%
Gold	8%	9%
Capital Equipment	5%	3%
Mobile Data	5%	5%
Other	1%	2%
Gross Long	93%	91%

Source: Platinum

Value of $20,000 Invested Over Five Years

30 June 2006 to 30 June 2011



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

Performance and Changes to the Portfolio

Over the last 12 months the Fund fell 3.4% underperforming the MSCI All Country World Index (A$) benchmark by just over 6% and over the past quarter, the Fund fell 4.5%, underperforming the benchmark by 1.3%. It is worth reminding investors that the Fund mandate precludes any hedging back into the "mighty" A$ which rose by 27% for the year (second to only the Swiss Franc out of the 43 currencies that we track). Clearly, this is not an excuse for relative underperformance (the benchmark is also penalised by the strong A$). As we noted in the last quarterly, the Fund has been tracking below market since June last year. Looking back over the longer time period of three years, the Fund is up in absolute terms 24% against an 8% drop in the market.

Attribution wise, for the last 12 months the major disappointments include our Japanese domestic (e.g. Mitsubishi UFJ Financial), technology (e.g. Cisco) and gold stocks (e.g. Barrick Gold). In reviewing each of these, there are elements of the original investment case that has weakened over the time and, in hindsight, we have been slow to react to non-confirmatory information. Specifically with the large-cap gold stocks, free cash flow generation has been woeful as the companies struggle with rising production costs and reserve replacement. In the case of Cisco, what has until recently appeared as a juggernaut from the outside seems far more vulnerable as many of its end markets hit maturity and new competitors muscle in. Finally, in Japan we continued to fight a pro-deflation Central Bank.

On the positive side of the ledger, our winners have tended to be very stock specific rather than one broad thematic.

In contrast with the last quarter, where we bought and sold quite a few new stocks due to Fund inflow and the production of new ideas by the team that necessitated a reordering of our best ideas, the current quarter has witnessed a far lower level of activity. We used the latest round of macro-nerves to add to existing stocks or themes that offered value.

For example, in response to the global sell-off in solar stocks triggered by German and Italian subsidy concerns, we revisited our work to determine whether interesting value was emerging (see over); we performed the same exercise in banks as Greek contagion and US double-dip fears resulted in global valuations dipping to desperate levels; and in Asia, as inflation worries buffeted Chinese and Indian stocks, value once again emerged (we re-entered China Resources Enterprise, the Chinese retail and beer giant, and added Internet portal and Twitter lookalike Sina).

Commentary and Outlook

Examining the winners and losers across a disparate list of sectors and companies, three patterns emerge:

- Merger and acquisition activity remains high as large, well-capitalised, developed world companies with mature home markets look for growth; the acquirers are tending to underperform with the perception (real or otherwise) that these deals incrementally dilute returns and/or indicate weakness.
- Sectors and stocks that are exposed to a high level of policy risk underperform until a somewhat final resolution is put in place. Whilst regulatory risk has always been a part of assessing any investment case, post the global credit crisis, the market's sensitivity to these issues has risen. Whilst globalisation represents a natural limit to regulation (as it facilitates production factor mobility), governments seem more keen to test these limits. Note the poor performance of Chinese, European and Japanese (admittedly somewhat complicated by the earthquake) utilities – all operating in uncertain policy environments either due to issues surrounding their nuclear power assets or, in the case of China, lack of pass-through pricing on coal; and the horrible performance of banks globally as they are increasingly seen, post-credit crisis, as easy targets for penalties for past misdeeds.
- Chinese competition is accelerating across a broad range of industries and is now impacting quite a few large developed world companies in a detrimental manner i.e. Chinese competition is moving aggressively up the technology curve.

To this final point, it is well-understood that China's share of global steel and cement production is very high, however, for the time being, that production is generally consumed internally. Further, most understand that China dominates tertiary or light manufactured exports though China has been slower to penetrate areas that could be described as elaborately transformed goods for export. This is now changing fast. There is an increasingly long list of these industries in which Chinese global production share has grown so fast, so quickly that some seemingly "high-tech" Western and North Asian competitors are now doing it very tough. In that list we would include the following:

- Optical networking industry; Chinese share doubled over three years to 34%.
- Light-emitting diodes (LEDs); based on current equipment orders, depending on one's perspective, impressively or alarmingly in just one year China's global share of wafer starts is likely to increase from 6% to 26%.
- Solar; over three years China's share of poly-silicon production has increased from 4% to 32% and panel production has doubled to 48%.
- Construction machinery; whilst China's share of global manufactured unit volumes has more than doubled from 15% three years ago to 35%, for the moment most is sold locally to support the current construction boom. But to put this in perspective, in lower-end categories such as wheeled loaders, Chinese production in 2010 of 221,000 units (almost all locally consumed) represents roughly 85% of total global wheel loader production. Moreover, it appears the Chinese wheel-loader industry aims to grow capacity to over 460,000 units… exports anyone?

Clearly globalisation has and does allow Western competitors to respond i.e. the subsidiaries of Western companies with manufacturing based in China account for around 40% of Chinese exports. However, it would be erroneous to equate competitive advantage with labour cost arbitrage. The real threat to hi-tech companies everywhere is the speed with which technology transfer (whether it occurs willingly or unwillingly) is occurring and the scale that China's domestic market provides. What is important to note in the examples given above is that the majority of the Chinese production is controlled by Chinese companies as opposed to Western companies investing in China; as such, they are all relatively new entrants to their respective industries.

More specifically, on solar, the recent pace of demand growth has been nothing less than spectacular, up five times since 2007 and +140% in 2010 alone to 18GW; however, in the scheme of global electricity production the solar installed base remains immaterial at less than 1% of total electricity produced. Given the rate at which module costs are falling, that is 60% in three years, markets with a good combination of sun hours, low installation cost and high electricity prices such as Italy, Japan and Mexico, grid parity is now within reach. This all implies that rapid growth should continue. However, on closer inspection, demand growth remains heavily European subsidy dependent and the linking of subsidy levels to capacity growth outcomes means that large end-markets such as Germany and Italy (in aggregate 60% of 2010 demand) are now slowing rapidly.

Whilst an oversimplification, one could describe the build-out of China's solar industry in the following manner:

- Manufacturing manpower and capital provided by China.
- At least initially, buying Western process technology and capital equipment but increasingly being replaced by local suppliers.
- End demand underpinned by European subsidies.

The net result is that Chinese companies are now globally the lowest cost poly-silicon based panel producers. Concerns regarding "quality" continue to be raised, however, the price trade-off seems increasingly attractive. Whilst we wrote recently on Showa Shell's thin film developments, our ongoing work has made us a little more cautious regarding its sustainable competitive advantage and we used the post-earthquake bounce to reduce the size of our position. We invested the proceeds in a solar materials supplier that has managed to retain a 40% global share in a business that would seem to offer higher barriers to entry. The world's two biggest power markets, China and the US, are yet to embrace large-scale subsidy programs – this highly positive wildcard is the key reason we remain interested in the area.

In summary, it is tempting to suggest that the current wave of Chinese hi-tech new entrants is just a repeat of what many Japanese, followed by Korean and Taiwanese companies, have done over the last 40 or so years of North Asian mercantilism. The key difference is the speed and scale of what is now happening; this represents a highly disruptive trend that we'll continue to seek to profit from.

Notes

1. The investment returns are calculated using the 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: 31 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

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 30 June 2006 to 30 June 2011 relative to their Index (in A$) 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
   (nb. the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist).

   The investment returns are calculated using the 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 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.

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