Platinum Unhedged Fund

Jacob Mitchell Portfolio Manager

Disposition of Assets

REGION	JUN 2012	MAR 2012
North America	34%	34%
Europe	23%	16%
Japan	22%	23%
Asia and Other	16%	17%
Cash	5%	10%

Source: Platinum

Portfolio Position

Changes in the quarterly portfolio composition:

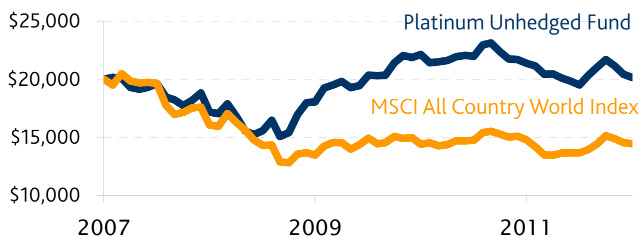
Sector Breakdown

SECTOR	JUN 2012	MAR 2012
Emerging Asia Consumption	16%	16%
Technology	15%	15%
Energy	10%	8%
Healthcare	10%	7%
Western Financials	10%	8%
Mobile Data	9%	4%
Japanese Reflation	7%	7%
Western Consumer	7%	11%
Gold	6%	6%
Capital Equipment	3%	4%
Materials	1%	3%
Other	1%	1%
Gross Long	95%	90%

Source: Platinum

Value of $20,000 Invested Over Five Years

30 June 2007 to 30 June 2012



Source: Platinum and MSCI. Refer to Note 2, page 5.

Performance and Changes to the Portfolio

Over the last 12 months the Fund fell by 5.7%, underperforming the MSCI All Country World Index (A$) benchmark by 3.4%, and over the past quarter the Fund fell 7.1%, underperforming the benchmark by 2.5%.

Examining the composition of 12 month Fund performance, our Japanese and European stocks have made us flat to absolute returns outperforming their respective regional benchmarks and also the global benchmark's 2.3% decline. Whilst we don't construct the portfolio along regional lines, as the majority of our holdings are multi-nationals, exposure to these somewhat problematic regions is not the source of the Fund's underperformance. The major areas of underperformance have been our specific holdings in the areas of materials, energy, capital equipment and gold, and we have covered this in previous quarterlies.

In an attempt to escape from the vapidity of the 'cyclical' versus 'defensive' discussion, our observation is that in a low growth environment that deleveraging necessitates, the market will tend to favour stocks that offer growth with low risk. Generally this lower risk would be a function of product and supplier/customer diversification, absence of regulatory headwinds, low product substitution risk and an underlying franchise that provides some barrier to entry. This last attribute can be especially difficult to pin-down as many companies in *prima-facie* highly competitive industries have built barriers to entry via flawless execution rather than this being an intrinsic characteristic of the business.

It is a dangerous market to describe in sweeping generalisation and according to our quantitative work, P/E compression remains high and even after allowing for mean reversion in margins, it is difficult to identify any large sector that is suffering a highly anomalous valuation. Across the portfolio we see excellent value in a range of stocks, some that many would describe as 'cyclical' e.g. an oil producer such as Nexen (currently valued at $5 per proved barrel of reserve and $1 per barrel of resource) and others that one would conventionally describe as 'defensive' such as Vodafone.

Hence, rather than getting caught up in the cyclical versus defensive debate, we are more concerned about the characteristics of the underlying franchise, whether the company is likely to be stronger or weaker in five years time and whether these factors are reflected in the price we are currently paying.

In terms of changes to the portfolio, we have taken advantage of the market sell-off to add to our most prospective investments including Microsoft, Vodafone, Qiagen, BMW, Bank of America and our North American energy focused engineering companies (see last March Quarterly Report) – the latter three having sold-off hard. These acquisitions were funded from cash and sales of TNT (subject to takeover offer) and International Paper (achieved our price target). We sold our holding in auto components company Denso to fund a larger holding in Toyota Motor as we adjudge the latter to be more serious about dealing with its high cost Japanese production base. We also sold our holding in Newmont Mining to fund a larger holding in Barrick Gold and added AngloGold Ashanti as we assessed the latter two to have lower reserve replacement risk than the former. Our net exposure to gold stocks remains little changed as we remain committed to the view that before the current deleveraging cycle ends, the gold price will be much higher.

The case for Vodafone was enunciated in some detail in the September 2010 Platinum International and European Fund quarterly reports. In many markets, the decay in incumbent voice charges has run its course and the disruptive new entrants that survived under this profit umbrella are now finding it difficult to sustain discount strategies. As data traffic explodes, in consolidated markets such as the US, the gradual move towards usage- or speed-based data charging continues with little resistance from a customer base increasingly addicted to the mobile device lifestyle. It will be interesting to see whether the proliferation of smartphone devices also tilts the bargaining power regarding handset subsidies away from Apple towards the operators. Vodafone derives more than 50% of profits from such markets (the Verizon US joint venture now represents 50% of profits). Available on a P/E of 11x and dividend yield of 7%, we think this utility-like earnings stream with some growth is undervalued (in comparison ten year government bonds in Vodafone's major markets pay under 2%). Until recently, we carried a small position in the stock - we have established a major position as further evidence of pricing power has emerged.

Whilst Qiagen is a new stock for the Platinum Unhedged Fund, readers of the Platinum Healthcare Fund quarterlies would be no strangers to the investment case. Qiagen is a global leader in molecular diagnostics (MDx) having developed a highly automated testing platform. Qiagen's machines run a growing range of tests on genomic material that is taken from blood or tissue samples – the frontier of medical testing. The largest market for this platform is hospitals, reference and pathology labs, representing just under 50% of sales. Importantly, whilst Qiagen has put in place over 450 major testing machines (costing >$100,000 each), 85% of revenues are derived from consumables that have an annuity like characteristic. MDx at Qiagen has three goals:

1. Prevention of disease such as cervical cancer by testing for the Human papillomavirus (HPV, 18% of total sales).
2. Profiling a patient or a tumour.
3. Facilitating personalised medicine whereby a diagnostic test identifies patients most likely to respond to certain drugs.

Whilst the entire MDx business is deemed to be high growth, personalised medicine, currently accounts for only 8% of Qiagen's sales but is likely to experience the highest growth rate. As the major drug companies increasingly launch targeted drugs, they must work very closely with MDx companies such as Qiagen to develop tests necessary to target these expensive treatments to the appropriate patients. This is the medicine of the future and whilst Roche has a good position here with its own in-house MDx business, Qiagen is a major non-aligned provider of this service.

Last year Qiagen's performance was disappointing, due to stagnant volumes in the MDx business as patients delayed doctor visits with consequent effect on pathology test volumes. We judge these to be temporary woes with the key drivers for a turnaround in fortunes including:

1. Return to growth of the HPV test business as volumes recover.
2. Continued rollout of integrated and fully automated testing platforms.
3. An increase in approved MDx tests used for profiling and personalised healthcare.
4. Expansion of the Tubercolosis test franchise that Qiagen acquired recently.

Last year's disappointment provided us an opportunity to buy into the company on a P/E of around 14x, a significant discount to intrinsic value for this above average growth annuity-like cash-flow.

Commentary and Outlook

At its heart, high levels of Western government debt reflect growth in entitlement spending and a general trend towards lower taxation to win votes – a tough trend to reverse without a crisis. For those of you that think this is only a European problem, we have difficulty identifying many successful politicians tirelessly promoting the benefits of higher tax, lower entitlements and living within ones means.

We suspect highly indebted governments will be tempted to print money today to repay the debts of the past. The longer-term consequences of this are currency devaluation and inflation. The long-term performance of government bonds and cash has lagged equities as bonds pay a fixed coupon, hence, inflation erodes the real value of the bond whereas equities can provide a potential inflation hedge via pricing power and growth.

Let's continue with the comparison, focusing specifically on multi-national or global corporations, where we see three clear advantages over national governments and their bonds.

Firstly, by definition, global companies have the ability to focus resources on the most favourable area of demand, which is now typically the emerging world; in comparison, owners of sovereign bonds are stuck with the same government and its specific socioeconomic risks for the life of the bond. Don't forget, the fiscally challenged G7 only represents 40% of global GDP, for a multi-national, there are many choices.

Secondly, global companies also have some ability to move their assets to where government policy is most accommodating and can exert pressure on governments with promises of investment and jobs or by influencing the democratic process.

Lastly, some global companies have longer planning horizons than many governments as they are not held hostage to a four year election cycle though we would be the first to point out that many corporates, distracted by quarterly earnings targets, are still prone to short-termism.

We would argue that the shares of many global companies exhibit characteristics that ironically over the long-term may end up making them 'safer' investments than their host governments. The question then becomes what are we paying for this type of company and so let us take a look at some of the top holdings in the Platinum Unhedged Fund:

- Microsoft, dominant corporate operating system/applications company, P/E of 11x, historical ten year trend EPS growth rate of 15% (see Platinum Technology Fund Quarterly Report for more on the specific case for Microsoft).
- Sanofi, a major drug and vaccine company with higher growth emerging markets accounting for 30% of sales, P/E of 10x and whilst growth over the past five years has proven illusive, the company has rebuilt its pipeline via drug discovery and acquisitions, and growth will resume post the Plavix patent expiry this year.
- JSR, specialty chemical maker and leader in photo-resist technology, P/E of 11x and whilst profits have been down slightly over five years in yen terms (up 4% pa in US dollar terms), the move towards extreme ultraviolet lithography (EUV) for next-generation semi-conductor production should trigger another phase of high growth for the company (ten year historical trend EPS growth is 15%).

We would be the first to acknowledge that the current environment is tough, and as our recent results attest, the penalty for error is high. However, this uncertainty is also resulting in the opportunity to buy dominant businesses with the ability to grow earnings faster than average at attractive values.

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$20,000 invested in the relevant Fund over five years from 30 June 2007 to 30 June 2012 relative to their Index (in A$) 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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