Platinum Unhedged Fund

Jacob Mitchell Portfolio Manager

Disposition of Assets

REGION	SEP 2012	JUN 2012
North America	34%	34%
Europe	25%	23%
Japan	17%	22%
Asia and Other	14%	16%
Cash	10%	5%

Source: Platinum

Portfolio Position

Changes in the quarterly portfolio composition:

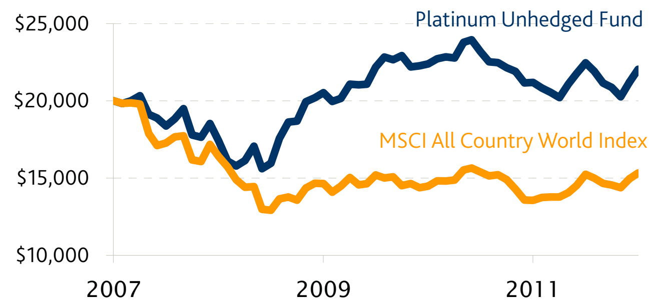
Sector Breakdown

SECTOR	SEP 2012	JUN 2012
Emerging Asia Consumption	14%	16%
Technology	12%	15%
Healthcare	11%	10%
Energy	10%	10%
Mobile Data	10%	9%
Western Financials	10%	10%
Western Consumer	7%	7%
Gold	6%	6%
Japanese Reflation	5%	7%
Capital Equipment	3%	3%
Materials	1%	1%
Other	1%	1%
Gross Long	90%	95%

Source: Platinum

Value of $20,000 Invested Over Five Years

30 September 2007 to 30 September 2012



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

Performance and Changes to the Portfolio

Over the last 12 months the Fund rose 4% underperforming the MSCI All Country World Index (A$) benchmark by 9.1%, and over the past quarter the Fund rose 5.6% slightly outperforming the benchmark return of 5.3%. The Fund's recent performance has been disappointing. Our major error has been to back the challenger offering a new product cycle in markets dominated by entrenched competition. This is reflected in the losses we have suffered in our PC food-chain related stocks, Marvel and AMD.

The good news is that during the quarter our North American holdings in aggregate, the part of the Fund that has most lagged over the past 2.5 years (in stark contrast with the MSCI North America Index 17% outperformance over the World Index), finally leapt into life with the key contributions coming from Stillwater Mining, Nexen (subject to a takeover offer from CNOOC), Foster Wheeler, KBR, Gilead and Google. Regular readers will be familiar with the investment rationale behind each of these holdings save Google, which we built into a significant holding during the quarter (see below).

Over the past 18 months we have steadily increased exposure to Europe from 13% of the portfolio in June 2011 to 23% at the beginning of the September 2012 quarter, ending the quarter at 25%. Some of the acquired stocks became attractive candidates as a direct result of the Euro crisis e.g. Deutsche Börse and Lloyds Banking Group (see below), whilst for others the investment rationale has been far more stock/thematic specific (e.g. Qiagen and Vodafone).

Once again, whilst the Japanese market was one of the worse performing globally, down 2.3%, our Japanese holdings in aggregate returned a positive 4% with key contributions from our mid-cap retailers Pal, Ryohin Keikaku and Ain Pharmaciez. The absolute valuation attractiveness of our key large holdings in Japan is startling: the top tier of Japanese business is available at around book value. Further, there is no such thing as non-GAAP earnings in Japan; companies tend to understate their earnings as most still amortise purchased intangibles, a practice that has ceased in most jurisdictions. The counter-argument regarding the broad attractiveness of the Japanese market is that the number of companies that could be classed as top-tier shrinks by the day as an overvalued Yen and an inflexible response takes its toll. We agree and we do not own these companies.

Having closely followed Google's valuation de-rating over the past five or so years (from 2007 pre-GFC P/E of 40x), we refused to accept that this killer was appropriately valued on 14x current year earnings and, hence, over the past couple of quarters built-up a large position at an average entry price of around $600. The market at the time seemed hung-up on two major concerns: firstly, core growth in Google's paid search, with the transition to mobile search potentially cannibalising lucrative PC search and secondly, the rise of Facebook in display advertising, an area of perceived weakness for Google. After much internal debate with key input from some of the more 'connected' younger members of staff, we concluded that the company had positioned itself extremely well in both the mobile world (via Android) and display advertising world (via double-click and YouTube). Our investment proved timely with the stock at quarter-end up 25% on our purchase price and the market belatedly acknowledging the perceived risks to be misplaced. Given that we assess Google's two key end-markets, online paid search and display advertising, are both growing at high double digit rates, the stock can sustain a much higher P/E rating.

With Microsoft now available on a P/E of 10x, we wonder whether very 'obvious' but unjustifiable concerns (possible failure in mobile, tablets, the cloud, the 'death' of the PC etc), are providing an opportunity, similar to Google, to acquire a leading franchise at a bargain basement price. On a balanced assessment, Microsoft's failures could be described as missed opportunities rather than terminal errors as the business remains highly entrenched at the enterprise level with EPS growth continuing at a 10-12% pa pace. Further, as Kerr details in the current Platinum International Fund quarterly (pages 6-7), the company has quite deliberately pushed product development towards 'the cloud' and touch-screens resulting in a major new product cycle: Window's 8 for mobile, tablet and desktop (the first truly converged operating system), the Surface, Office 365, Dynamics CRM, Azure, Windows Server 8 etc. We also suspect that this positioning for the cloud has weakened the internal management dominance of the Window's operating system division which in the past may have stifled much needed innovation.

Commentary and Outlook

With US, German and Japanese ten year bond yields ranging from 0.8% to 1.8%, the market is clearly discounting a low developed world nominal GDP/profit growth environment, and given how high Western aggregate debt levels remain, and the stretched nature of the after-tax corporate profit share, it is hard to argue against such a view. Also, periodic bouts of necessary deleveraging will ensure the typical Western household's liquidity preference remains high, as will the need for certainty. Against this backdrop, the characteristics that have been defining equity market performance are unlikely to change, that is, large capitalisation multi-nationals that represent low-risk (category dominance, product substitution, regulatory etc) with some secular growth (as opposed to cyclicality or uncertain growth).

This doesn't necessarily mean that the favourites of the past five years, branded multi-national staples, will continue to lead the market. We think equity investors will find it far more prospective to look for companies that offer some of these 'franchise' qualities in less obvious parts of the market. This may best be illustrated by way of one of our recent acquisitions, Lloyds Banking Group.

Lloyds is the UK's leading retail bank. Its 2008 purchase of HBOS left it crippled by an unacceptably large dependence on the bond market for funding. While a new CEO with excellent credentials has done an admirable job in his first 18 months at the helm, the stock market remained fixated on Lloyd's vilification in the media for past misdeeds, a sovereign debt crisis in Europe and a regulator determined to overcompensate for years of leniency. This provided an opportunity to purchase a holding on a prospective P/E multiple of around 4x, on earnings we think the company can earn even if the UK economy remains stuck in a rut.

To us, the fundamental attraction of this business is that one in four UK households depends on Lloyds for their day-to-day banking. This is twice the market share of the nearest competitor. In the distant past, this **relationship with depositors** had tremendous value as it was the **doorway to other lucrative business** like mortgage lending, credit cards and so on. In the boom years, aggressive competitors used the bond market and mortgage brokers to circumvent the need for these relationships, along with the need for deposits and even capital. But the world changed in 2008. Those competitors are gone. The bond market isn't going to repeat its mistake in a hurry and regulators are in no mood to allow it. A tremendous moat is reappearing around Lloyd's business and for the first time in years, UK banks are learning what it means to have some pricing power. As the Lloyd's new CEO continues to rebalance the bank we expect the market to take notice of the restored profitability and the cash flow which will accompany it.

In summary, similar to Google, Microsoft and Lloyds, we think many of our large holdings represent not only excellent value, but are also primed to deliver results that will trigger a reassessment of their longer-term business prospects.

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