Platinum Unhedged Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	SEP 2015	JUN 2015
Asia	31%	36%
Europe	26%	24%
North America	24%	20%
Japan	10%	11%
Russia	2%	2%
Australia	<1%	1%
South America	<1%	1%
Africa	0%	1%
Cash	6%	4%

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

Performance

(compound pa, to 30 September 2015)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund	-5%	10%	21%	12%	11%
MSCI AC World Index	-1%	16%	22%	14%	6%

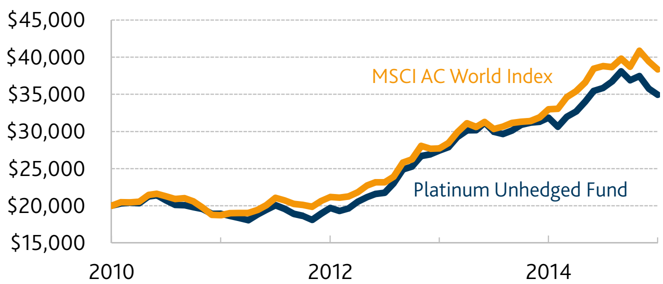
Source: Platinum and MSCI. Refer to Note 1, page 4.

Over the past three months we have witnessed a widespread sell-down in global stock markets, with the US market falling -9%, Europe -12% and Japan -16%. The emerging markets took the largest hit with the MSCI Emerging Markets Index down -18% (in USD terms) and the Chinese market -23%. The Australian dollar continued to weaken against the major currency pairs, falling -8%, -10% and -11% versus the USD, Euro and Yen respectively.

The seed of doubt that triggered the sell-off in the developed markets was the decision by the People's Bank of China

Value of $20,000 Invested Over Five Years

30 September 2010 to 30 September 2015



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

(PBoC) to slightly devalue the Chinese Renminbi (CNY) against the USD. While the fall in the CNY has been a mere 2.5%, investors feared the PBoC would devalue the currency much further in the future, improving China's export competitiveness at the expense of the rest of the world. This has increased fears that the Chinese economy is weaker than expected, and markets are worried about the knock-on effects dampening economic growth in the US, the European Union (EU) and Japan.

Since December 2014 the Fund has had around 20% of its assets invested in China and the recent sharp rise and fall of the Chinese stock market has had a large effect on the volatility of the Fund's performance. From the beginning of January, the Chinese market rose 50% to its peak in mid-June, and then fell -42% over the next two months. The price movements in our Chinese holdings were a large factor in why the Fund returned +12.9% in the first six months of the year, but is down -5.3% in the last quarter. Of the -5.3%, our Chinese positions represented -4.4%, explaining the difference to the MSCI AC World Index which was down -0.9% over the same period.

Over the nine months year to date the Fund has returned +6.9%, compared to +8.3% for the Index, and over the 12 month period the returns have been +9.7% versus +16.3%.

The performance over the past year has been disappointing, and our stocks with cyclical/commodity exposure (namely **Canadian Oil Sands**, **Weichai Power**, **PDG Realty & Stillwater Mining**) have detracted from the Fund's return by roughly -6%. Also, as outlined in our December 2014 quarterly report, the Fund has been positioned very differently to the Index. Particularly in regards to the exposure to the US market, the Fund has roughly 23% of its assets in the US, compared to the Index with 53%. The strength of the US market and, in particular, the US dollar (USD +25% against the AUD, +12% against the Yen, and +9% against the Euro over the last 12 months) has created a large headwind to our relative performance that our stock-picking has not been able to offset.

Changes to the Portfolio

We used the sell-off in markets to add to a number of our positions. In China, we added to our holdings in spirits maker **Jiangsu Yanghe**, Internet search engine **Baidu**, life and P&C insurance company **China Pacific**, and truck engine maker **Weichai Power**. We decided to concentrate our Chinese holdings in the stocks with the best growth and valuation outlook and partly funded these additions via selling out of our positions in property developer **China Vanke** and railway network **Daqin Rail**.

Remaining in Asia, we added to leading Indian Bank **ICICI** and the Japanese bathroom and kitchenware manufacturer **Lixil Group**. In the western markets, we added **Lloyds Banking Group** in the UK, oil and gas inspection company **Applus Services**, telecom equipment manufacturer **Ericsson**, online retail website **eBay**, and the online payment platform **PayPal**.

We added one new position over the quarter – **Compagnie Financière Richemont**. Richemont owns a number of famous luxury jewellery and watch brands, including *Cartier*, *Van Cleef & Arpels* and *IWC*. The attraction of Richemont is the growing trend of consumers buying 'branded' jewellery in the mid-range and high-end categories. This is interesting given that there are only a handful of 'true brands' in this segment, and through *Cartier* and *Van Cleef* Richemont holds two of the strongest names in the industry. This consumer shift and limited competition is driving 10% per annum growth in Richemont's jewellery division, whilst earning handsome profits. Adjusting the market capitalisation for the €5.6 billion of cash on the balance sheet, we are paying 15x earnings, a decent price for a unique and high quality business. (For more detail on the Richemont case, please see the Platinum European Fund report in this issue.)

In terms of the major sales in the portfolio, we sold out our entire holdings of **Pernod Ricard**, luxury house **Kering** and Indian bank **IDFC**, all three having been solid performers for the Fund over time.

Commentary

With all the uncertainty over the Chinese economy, it is worthy to review what we own in China and why.

The data shows that clearly the 'heavy' side of the Chinese economy is shrinking whilst the more service-orientated or 'consumer' side of the economy is doing much better. While it never feels comfortable owning businesses in a country going through a down cycle, **it is important to remember that recessions do not touch all industries equally**. In an economy as large and diverse as China's, there are plenty of sectors that will do just fine.

As a result of the recession in the heavy industrial side of the economy and the worries over debt, investors are choosing to label the whole Chinese market as 'uninvestable'. This is giving us a lot of opportunity to pick our spots and buy companies at low valuations that can still grow going forward.

An example is our 4.8% holding in two Chinese liquor stocks, **Kweichow Moutai** and **Jiangsu Yanghe**. The long-term picture for both is that they are well positioned beverage companies in a large consumer market where incomes can still grow significantly over time. Both companies are highly profitable, debt-free and have significant cash on the balance sheet (US$4.4 billion for Moutai and US$700 million for Yanghe).

What initially attracted us to these stocks was that the industry had already gone through a wash-out in 2013-2014. The corruption crackdown targeted at extravagance in the government sector saw premium liquor volumes fall 30%, and prices collapsed. Post the price fall, the regular consumer has responded by drinking more, the businesses have stabilised and are now growing again at a rate of roughly 10% per annum.

Adjusting the market capitalisation for the cash holdings, we are paying 13.5x for Moutai and 15x for Yanghe today. How does that compare to other opportunities in the spirits sector internationally? Brown-Forman (best known for its Jack Daniels brand), one of the fastest growing companies in the sector, is currently growing at a similar 10% rate. However, on a debt adjusted P/E Brown-Forman is priced at 31x, over double the price! At the other end of the spectrum, Diageo (Smirnoff, Johnnie Walker) is one of the cheaper spirits names at a debt adjusted P/E of 23x, but the business as a whole is not growing. Overall, on an absolute and relative basis, Moutai and Yanghe look pretty attractive to us.

Are these risky positions? We can get hurt as investors by paying too high a price for a company, by business risk of something going wrong which we did not anticipate, or via a company having too much debt when something does go wrong. With Moutai and Yanghe our risk is reduced by the starting low valuation, the fact the unsustainable part of their customer base has already fallen away, and by both companies being flush with cash. China is perceived to be 'risky', but we would argue these stocks are actually at the lower end of the risk spectrum even if we compare internationally!

Overall, while the case for each of our Chinese holdings has its own nuances, they share a common thread:

1) They tend to serve the consumer or service industry.
2) Their growth is linked to fairly certain trends (like the adoption of 4G data plans for China Mobile, or the increase in the take-up of auto insurance for PICC).
3) They have extremely strong balance sheets (China Mobile has US$73 billion in cash!).
4) Their valuations are around 30-70% cheaper than similar businesses in developed markets.

Outlook

The maxim to remember in investing is that the starting price you pay is the single biggest determinant on what your future return will be. Given that prices today are 10-25% cheaper than they were two months ago, we are much more optimistic about the level of future returns and the quality of ideas on offer.

The Fund is mostly positioned in companies involved in technology, consumer or business service sectors as well as banks that are either recovering and will pay large dividends (Lloyds and Intesa) or can grow long-term (ICICI and Erste). We have limited exposure to the industrial, auto or materials sectors. Our only substantial commodity exposure is to oil where we have roughly 8% invested in companies that will do well in a situation of rising oil prices.

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$20,000 invested in the relevant Fund over five years from 30 September 2010 to 30 September 2015 relative to its benchmark index (in A$) 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.

Disclaimer

This publication has been prepared by Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 trading as Platinum Asset Management (Platinum®). It contains general information only and is not intended to provide any person with financial advice or take into account any person's (or class of persons') investment objectives, financial situation or needs. Before making any investment decision you need to consider (with your financial adviser) whether the information is suitable in the circumstances.

Platinum is the responsible entity and issuer of units in the Platinum Trust Funds® (the Funds). You should consider the PDS and Supplementary PDS in deciding whether to acquire, or continue to hold, units in the Funds. You can obtain a copy from Platinum's website, www.platinum.com.au or by phoning 1300 726 700 (within Australia), 02 9255 7500 or 0800 700 726 (within New Zealand), or by emailing to invest@platinum.com.au.

No company in the Platinum Group® guarantees the performance of any of the Funds, the repayment of capital, or the payment of income. The Platinum Group means Platinum Asset Management Limited ABN 13 050 064 287 and all of its subsidiaries and associated entities (including Platinum).

MSCI Inc Disclaimer

Neither MSCI Inc nor any other party involved in or related to compiling, computing or creating the Index data (contained in this Quarterly Report) makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI Inc, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the Index data is permitted without express written consent of MSCI Inc.