Platinum Unhedged Fund

Jacob Mitchell Portfolio Manager

Disposition of Assets

REGION	DEC 2010	SEP 2010
Japan	30%	20%
North America	29%	29%
Asia and Other	23%	27%
Europe	13%	15%
Cash	5%	9%

Source: Platinum

Portfolio Position

Changes in annual portfolio composition:

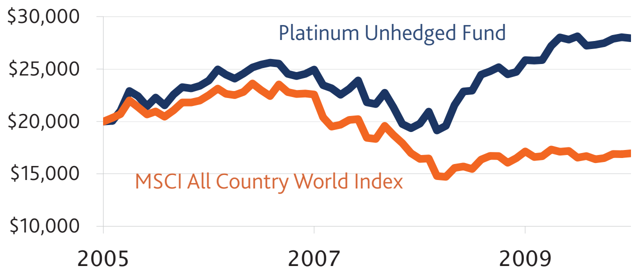
Sector Breakdown

SECTOR	DEC 2010	DEC 2009
Emerging Asia Consumption	18%	16%
Japanese Domestic	14%	10%
Technology	12%	11%
Gold	9%	8%
Consumer Cyclical	9%	14%
Mobile Data	9%	6%
Commodity	9%	8%
Healthcare	6%	8%
Capital Equipment	5%	7%
Other	4%	4%
Gross Long	95%	92%

Source: Platinum

Value of $20,000 Invested Over Five Years

31 December 2005 to 31 December 2010



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

Performance and Changes to the Portfolio

Over the last 12 months the Fund rose 8.1%, outperforming the MSCI World Index (A$) benchmark by 9.2%, and over the past quarter the Fund rose 1.7%, underperforming the benchmark by 1%.

Whilst the Fund has solidly outperformed over the last year (and since inception), over the last six months it has been tracking below what has been a relatively buoyant global market. It was a quarter in which the global stock market decisively broke-out of its 12 month trading range but what has potentially flummoxed many investors, including ourselves, is that the breakout was led by the developed, rather than emerging markets.

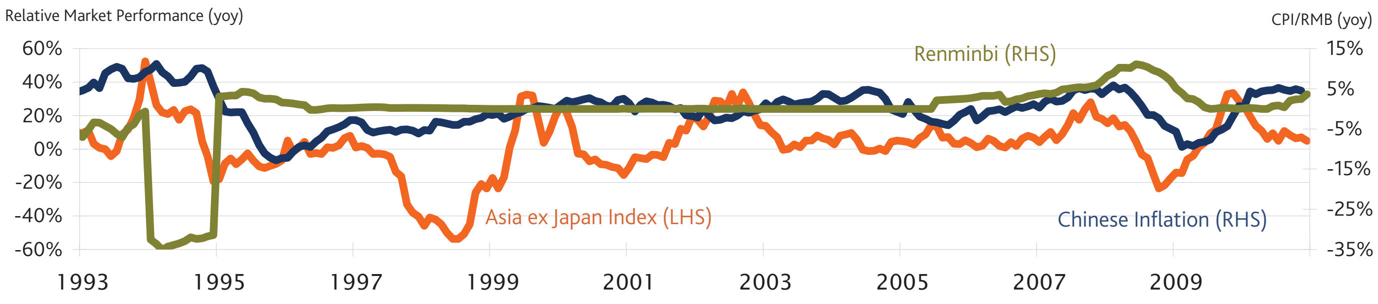
The stage seemed set for an emerging market asset bubble to form and almost on cue, in early October the Chinese A share market (shares listed in China) took-off. However, there was one problem; the Chinese authorities had not yet bought into the idea and acted to fully sterilise the external account and drain surplus liquidity from the system. In previous cycles, the Renminbi appreciation has played a key part of a phased tightening process and Chinese equities have typically outperformed during this phase. Unfortunately, this time around, we seem to have fast forwarded straight to the inflation phase which is typically bad for Chinese, Asia ex Japan and emerging market equities generally (see chart below).

Accordingly, the performance attribution of the Fund was generally reversed from that of the previous quarter with our emerging Asia interest rate sensitives (e.g. Asian property stocks) underperforming Western cyclicals (e.g. capital equipment, commodities and technology stocks).

As we explain in the Platinum International and Japan Fund quarterly reports, due to the extreme undervaluation of some of our favourite Japanese stocks, we found it hard to resist adding exposure to a couple of previously owned names, JGC Corp and JSR Corp, and to existing positions in Mitsubishi UFJ Financial, T&D Holdings and Shin-Etsu. We also added positions in Bank of America and Vodafone Group (see the Platinum International and Platinum European Fund September 2010 quarterly reports for our rationale). This was mostly funded by reductions to our Asia ex Japan consumption stocks and healthcare stocks (we sold Merck as it had reached our price target).

Within our emerging Asia consumption stocks, on relative valuation grounds we reduced exposure to some of the winners (i.e. Guangzhou Automobile, Henderson Land and Soho China) and added to our online gaming stocks (Sohu.com, Giant Interactive and Shanda Interactive). Many would suggest the apparent cheapness of these stocks reflects the risks associated with a hit-driven business model. However, priced on ex-cash PEs of between 6-10 times, we view them as inexpensive calls on rapid growth in consumption spending. In China, a 'hit' MMORPG (Massively Multi-player Online Role-Playing Game) will typically gain one million active users. When you compare this to the biggest

Chinese Inflation and the Renminbi versus Relative Market Performance



Source: Factset

global MMORPG, *World of Warcraft* with 15 million users, we do not find it difficult to foresee growth in the user base at least in line with the rapid growth in Chinese internet adoption. We also see value in their platforms as launch-pads for Western content i.e. Japanese developer Square Enix has teamed up with Shanda Interactive to distribute a Chinese version of *Final Fantasy*. In the case of Sohu.com, over a third of profits are derived from advertising revenues sourced from its portal site, the eighth most trafficked site in China, a business that should grow rapidly inline with rising internet advertising penetration.

Our total stock count was getting a little too high and hence we sold out of a few small positions typically in preference for a larger position in a stock providing a similar exposure but on more attractive terms (e.g. we sold KBR Inc and Transocean, and bought JGC Corp); the total long stock count fell from 67 to 63.

Commentary and Outlook

There is growing evidence that Chinese monetary policy is being conducted as a key part of political policy without the pretence of Central Bank independence. This means continued reliance on a relatively fixed exchange rate, liquidity and administrative controls to moderate inflationary pressures and income policy to drive-up the consumption share of GDP. However, as the West's experience with such policies in the 1970s attests, there is a real risk of inflationary expectations becoming embedded; this is not a policy that can be found in the Federal Reserves' 'How to Manual on Asset Bubbles'. Accordingly, the significant correction in the Chinese A share market in the face of what were relatively benign tightening measures would suggest that inflationary pressures are building faster than authorities had anticipated and that some form of catch-up is required. Though it seems inevitable that further Renminbi appreciation will occur, the question of timing remains. Much of the internal Chinese debate is emotively focused on the negatives of such a policy with Japan used as exhibit A for why a strong currency policy is a long-term negative. (However, last time we looked, Japan's per capita affluence was somewhat higher than most other countries, save the few that are either private banking city states or mine camps).

As the West discovered in the 1980s, floating exchange rates, interest rate tools and Central Bank independence proved far more effective at managing inflationary expectations (referring to the cost of living rather than asset prices) than administrative controls. However, it could also be argued that much of the post-1983 decline in Western inflation rates related to exogenous factors, including:

- Structural decline in commodity prices due to the large capacity build-out that occurred in response to the period of elevated prices (e.g. for oil, the development of the North Sea and Alaskan resources).
- 1991 collapse of the Soviet Union and the freeing-up of resources that followed.
- An unusually high technology based productivity dividend.
- Deleveraging of the Japanese economy post-1989.
- Implosion of emerging market consumption demand following the 1997 Asian currency crisis.
- The entry of China's cheap labour into the global trading system.
- The deflationary impact of the internet including the facilitation of price comparison and more efficient distribution models.

Today we struggle to identify where the next great deflationary pulse will come from. Whilst the obvious source would be a simple deleveraging of the Western economies in a similar manner to Japan, all three of the major Western Central Banks are either actively or passively fighting this process via quantitative easing policies targeting lower exchanges rates/higher inflation. One could make the case that China's seeming insatiable demand for resources is rapidly transforming the country into a source of cost push inflation rather than manufactured goods deflation; further Chinese policy is now actively encouraging rapid growth in wages. We will continue to monitor the situation closely as rising global inflationary expectations would lead to a major reshuffling of currency, bond, stock, sector and geographic preferences.

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$20,000 invested in the relevant Fund over five years from 31 December 2005 to 31 December 2010 relative to their Index (in A$) 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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