Platinum Unhedged Fund

Jacob Mitchell Portfolio Manager

Disposition of Assets

REGION	DEC 2011	SEP 2011
North America	35%	33%
Japan	24%	26%
Europe	19%	18%
Asia and Other	19%	18%
Cash	3%	5%

Source: Platinum

Portfolio Position

Changes in the quarterly portfolio composition:

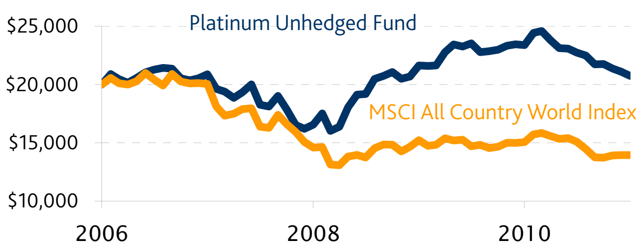
Sector Breakdown

SECTOR	DEC 2011	SEP 2011
Emerging Asia Consumption	16%	16%
Technology	16%	15%
Japanese Reflation	10%	10%
Energy	9%	6%
Western Consumer	9%	9%
Gold	8%	9%
Mobile Data	7%	7%
Healthcare	7%	7%
Western Financials	6%	6%
Capital Equipment	4%	5%
Materials	3%	4%
Other	2%	1%
Gross Long	97%	95%

Source: Platinum

Value of $20,000 Invested Over Five Years

31 December 2006 to 31 December 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 11.3%, underperforming the MSCI All Country World Index (A$) benchmark by 3.9%, and over the past quarter the Fund fell 4.7%, underperforming the benchmark by 6.3%.

Looking at the 12 month attribution, in a year when the best performing stocks tended to be those loosely described as growth or momentum stocks (a key factor in the US benchmark's outperformance over other regions), our portfolio was found wanting. That is, we had too much exposure to weaker cyclical names where we incorrectly assessed that valuations were already discounting a worse than reasonable outcome. Our best performers were found in the classically defensive part of the market, mobile telecommunications and healthcare. The worst offenders were our small-cap gold holdings, anything exposed to the solar industry (we should have heeded our own advice re China's negative impact on this industry), energy holdings and banks. The larger capitalisation names in this group of underperformers have tended to be more recent purchases. In terms of where we go from here, we would point readers to Kerr Neilson's Platinum International Fund commentary on pages 8-10 of this report where he has detailed the rationale behind some of our major recent purchases. Whilst there is not a complete overlap in the recent purchases of the Platinum International Fund and the Platinum Unhedged Fund, there is enough for this commentary to be a useful guide. In general, we remain committed to these holdings and whilst we regret buying too early, we see no reason to change our position.

Looking back over the past 12 months, we have discussed the following subjects:

- December 2010: the sources of the deflationary pulse that started in the early 1980s and whether these factors were still in place.
- March 2011: the nature of the Chinese credit boom concluding that Chinese growth was becoming too dependent on fixed capital investment at the expense of private sector consumption with negative implications for global 'rebalancing', hence, the current European sovereign crisis.
- September 2011: the list of global industries where China was adding significant new capacity and the implications for investment strategy.

Looking forward to the next 12 months, we suspect much of the market commentary will focus on:

- Interplay of the unfolding severity of the Chinese slow-down and propensity to ease policy. We suspect Chinese authorities are already behind the curve and envisage an emergency style relaxation of the property ownership restrictions.
- Festering US-Iran relations and the implications for global energy markets.
- Potential for loose European Central Bank and Federal Reserve monetary policy to wash-up in higher inflation rates and the implications for Western world interest rates and policy settings.
- The ability of the US Government (the world's single largest debtor) to sidestep sovereign credit issues and rising borrowing costs (with a credit event in the US municipal bond market a likely trigger).
- The sustainability of the nascent US housing market recovery.

Commentary and Outlook

When we communicate our investment approach, we have generally assuaged the application of attribute based labels i.e. growth, value, momentum etc; rather applying a combination of bottom-up industry and top-down macro research. This is aimed at indentifying mispriced opportunities, regardless of whether the mispricing is driven by greater than expected growth and/or a re-rating from a low valuation. This approach requires a capacity to identify where the current consensus thinking is wrong, the factors that will drive the market's reassessment of the stock (and timing thereof) and the intrinsic value of a company. This may be best described by way of example.

As has been previously communicated (and in some detail in the March 2011 Platinum Technology Fund Quarterly Report), we have made an investment in Advanced Micro Devices (AMD). Whilst AMD is not necessarily our current best idea, the company operates in a dynamic industry and, hence, represents a potentially more interesting example of our approach. As stated above, due diligence typically starts with understanding the major industry trends, in this case, the confluence of mobility and 'cloud' computing.

From a software development perspective, the cloud was envisioned long ago; a simple way to develop and deploy applications across multiple platforms and devices. The constraints were obvious: lack of protocol standardisation, internet speed, penetration and mobility. As these obstacles have been overcome, cloud computing has taken off.

The cloud affords software users many benefits including:

- Software rental with the latest version always on hand rather than large upfront licence payments.
- With the bulk of processing performed in the cloud, the need for a high performance desktop machine is reduced.
- Lower running costs in the form of energy, maintenance and redundancy.

Of course the savings of the user may come at the expense of the software provider as they provide more of the user's processing, memory, storage, maintenance, redundancy and energy requirements i.e. the data centre.

Data centres attempt to minimise costs by accessing cheap energy (or cold climates), land and labour, however, the real trick to minimising data centre costs is via virtualisation. To explain, virtualisation in its most common form involves partitioning a physical server into multiple virtual machines (VM). While each VM appears to have its own storage, memory, processor etc, this is no more than emulation; the reality is that a set of physical hardware is shared across all VM's. Idle capacity in one VM is available for use by any other VM. Ultimately virtualisation allows for the efficient allocation of computing power to where it is needed the most; and, for a given set of hardware/investment, higher capacity utilisation. Hence, for a cost conscious data centre operator the concept of virtualisation is attractive and cramming as many VM's onto physical hardware becomes the objective. To achieve this, a processor with a high level of concurrency (often loosely described in terms of cores, threads, parallelism etc) is requisite.

That brings us to AMD. After a decade of languishing fortunes and eroding share of the PC and server market (to Intel), the new range of server chips represent a complete re-design of the original processor; optimised for lower power consumption and demanding cloud operations. The new architecture, named Bulldozer, represents a rearrangement of chip components on the surface of the die to reflect what is important in a virtualised environment i.e. concurrency.

Now what are the other competitors up to? ARM Holdings, the UK based semiconductor designer remains the consensus long play on mobility and the cloud, as its small die-size, energy efficient, 'good enough' performance, low cost chips have powered the explosion in mobile devices (smartphones and tablets). ARM is also targeting Intel's dominance in the server space. In contrast, Intel has focused on improving the traditional chip design by way of process improvements. The soon to be released Ivy Bridge CPU boasts 22 nanometer architecture, almost two generations ahead of the competition[1], and represents a major improvement in Intel's die size, energy efficiency, performance and cost trade-off relative to ARM. In summary, whilst cloud computing/ virtualisation on the margin is driving the server market towards AMD's strengths (that is Intel to remain dominant, with some share loss to AMD) and reduces the relevance of Intel's traditional dominance (as the primacy of the desktop/laptop is eroded by mobile devices where ARM dominates), Intel is increasingly well-placed to take the fight to ARM in mobile devices.

Now let us talk valuation. Intel is not an expensive stock (P/E of 10 times) and whilst we don't own it, it offers some value, and history would suggest it will eventually prevail in mobile devices. ARM (P/E 55 times) is vastly overvalued given the threat Intel poses to its high market share in mobile devices and the difficulty its designs will face in the demanding server market. We have deemed that AMD (P/E 12 times, though a much lower multiple of sales than either ARM or Intel) is an interesting investment primarily because the company seems to have arrived at the right place with the right product (a server chip optimised for cloud computing).

[1] With regard to digital integrated circuits, process technology refers to the particular method used to make silicon chips. The driving force behind the manufacture of integrated circuits is miniaturisation, and process technology boils down to the size of the finished transistor and other components. The smaller the transistors, the more transistors in the same area, the faster they switch, the less energy they require and the cooler the chip runs (given equal numbers of transistors).

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$20,000 invested in the relevant Fund over five years from 31 December 2006 to 31 December 2011 relative to their Index (in A$) 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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