Platinum Unhedged Fund

Jacob Mitchell Portfolio Manager

Disposition of Assets

REGION	DEC 2012	SEP 2012
North America	30%	34%
Japan	24%	17%
Europe	23%	25%
Asia	16%	13%
Australia	2%	0%
Africa	1%	1%
Cash	4%	10%

Source: Platinum

Portfolio Position

Changes in the quarterly portfolio composition:

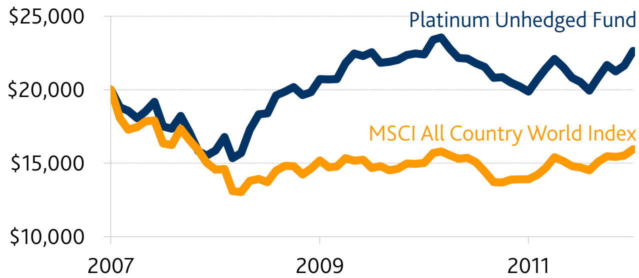
Sector Breakdown

SECTOR	DEC 2012	SEP 2012
Emerging Asia Consumption	17%	14%
Technology	14%	12%
Mobile Data	11%	10%
Western Consumer	11%	12%
Energy	10%	10%
Healthcare	9%	9%
Western Financials	7%	7%
Japanese Reflation	6%	5%
Capital Equipment	5%	3%
Gold	4%	6%
Materials	1%	1%
Other	1%	1%
Gross Long	96%	90%

Source: Platinum

Value of $20,000 Invested Over Five Years

31 December 2007 to 31 December 2012



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

Performance

Over the last 12 months the Fund rose 13.9% slightly underperforming the MSCI All Country World Index (A$) benchmark and over the past quarter the Fund rose 4.4%, outperforming the benchmark. Our best contributions came from financials (Bank of America and Lloyds Banking Group), Healthcare (Sanofi and Gilead) and our Asian consumption-related holdings (Kangwon Land triggered by casino expansion approval). Our worst contributors were to be found amongst the gold stocks as both production and reserve replacement costs continued to surprise negatively.

Global quarterly sector performance was led by financials and cyclicals more generally with the notable exception of energy and technology, and the so-called defensives lagging i.e. in order - staples/healthcare, utilities and telecommunications. Looking at 2012 performance, financials, consumer discretionary and healthcare sectors were the standout positives, with energy and utilities the key laggards. Examining three year sector performance, one wonders whether the somewhat counter-intuitive outperformance of the consumer discretionary stocks (dominated by US retailers), globally the best sector over three years and a very close third best to healthcare and staples over five years, may be coming to an end i.e. with the fallout from the fiscal cliff one hurdle too many.

The underperformance of technology was notably led by Apple … murmurings regarding the sustainability of very high handset selling prices and margins are starting to rise.

Over the year, as the perceived risk of some major disruptive "macro" event diminished (the Euro breakup, China hard landing, Israeli strike on Iran, fiscal cliff ...), intra-market correlations (as measured by the median correlation of S&P500 stocks to the S&P500 Index) fell significantly, to a level more typically associated with a healthy stock picker's market. Further, the baton for the best performing regional markets over 12 months gradually passed from North America (still the lead major region over three and five years) to Europe and Asia ex-Japan by the fourth quarter. In summary, it has been a year in which it has paid to be a timely contrarian, that is, buying the most despised asset classes with fear at its most extreme and hence European stocks and financials have led; in fixed income the government bonds of Greece, Portugal and Ireland trumped all; and the Euro has been the strongest currency of the big three.

In the past month, this same dynamic now seems to be playing out in Japanese and Chinese equities, two markets the Fund has significant exposure to that until recently were truly friendless markets. In both cases the catalyst was a change in political leadership – in Japan's case, a landslide victory by the Liberal Democratic Party (LDP) that campaigned in the recent national election on a platform that featured prominently a 2% inflation target for the Bank of Japan (BOJ). This is important. At the same-time that gridlock impedes the US policy response to the fiscal cliff, the Japanese electorate has just handed the LDP-New Komeito coalition the power, if they wish to use it, to force the BOJ to adopt reflationary policy or face a potential legislative end to the Central Bank's independence (see Platinum Japan Fund quarterly report for greater detail). We think the long-term weakening trend in the Yen has commenced; the keys to the printing press are no longer in safe-custody.

Changes to the Portfolio

Continuing in the same vein, the international political discussion regarding Central Bank open-ended bond-buying programmes is slowing, morphing from necessary "monetary easing" to expedient "currency debasement". Most notably the incoming Japanese Prime Minister, Shinzo Abe, has stated that South Korean, US and European Union (EU) Quantitative Easing programmes are simply currency targeting mechanisms by another name and that Japan must respond ... 2013 will likely be a year when the current phony currency war becomes a little more real. We will retain our gold stocks as a hedge against an adverse outcome … that is a self-reinforcing cycle of competitive Quantitative Easing from the three large developed world currency blocks (US, EU and Japan).

Even though the Fund's stock count increased significantly during the quarter, from 68 to 83 holdings, there was little material change in the Fund's top thirty holdings which continue to account for just over 60% of portfolio exposure. The increase in holding count largely reflects the activities of the team in uncovering new opportunities. In aggregate, exposure to equities rose by 6% with most of this allocated to Asia and emerging markets. We observed last quarter how startlingly cheap Japanese exporters had become and we progressively added over the quarter including increasing our Toyota holding, buying Hitachi and Ibiden (see March 2012 and current Platinum Japan Fund quarterly report) – this accounts for the increase in our technology and capital equipment holdings. In China/Hong Kong (and emerging markets more generally), we added to our consumer-related names as policy edged towards greater accommodation of consumption over investment as the engine of growth.

The complete sell-downs of note included Nexen (subject to a takeover bid) and Ain Pharmaciez, a Japanese dispensing pharmacy category killer that had reached our valuation target.

Commentary and Outlook

The strength of the US recovery generally (and housing specifically) in the context of some yet-determined fiscal tightening but against a loosening monetary policy in most emerging markets, will be a key issue for 2013. We remain cautiously optimistic that a combination of growing domestic US hydrocarbon investment and a "normal" level of housing investment will be sufficient to offset a moderate level of fiscal retrenchment (see the Platinum Unhedged Fund March 2012 quarterly report).

But we also recognise that all socio-economic systems develop expedient biases and the US is no exception. We wonder whether longer term the downward pressure the Federal Reserve's bond-buying programmes are placing on US yields will end-up damaging the very dynamism at the heart of the US system by driving investors into "yield" assets/stocks and, hence, driving actual corporate investment preference away from growth. Further, the Federal Reserve is providing a tacit endorsement of the fiscal deficit. Japan, if nothing more, is a case study on the damaging effect that persistent tolerance of large government deficits has on a country's longer-term ability to innovate and compete.

For those investors that have progressively crowded into "yield" stocks, we find the underperformance of US utilities notable. Whilst the trigger seems to have been a proposed increase in US dividend taxes, it provides a timely reminder that short-cut attribute style investing does have its limitations, and in the case of the blind buying of "yield stocks", investors should consider the sustainability and growth profile of the current dividend yield. The obvious candidate for such a study would be Australian bank stocks. The Australian banking sector has a tangible capital base that is levered roughly 21x (this compares to our holding in Bank of America that is levered just 15x). Further, the loan book of these banks is relatively concentrated in lending to Australian households with just over 60% accounted for by residential mortgages. Mortgages represent a loan class that under Basel II regulation, Australian banks are free to adopt an internal model-based calculation of capital adequacy rather than the standard non-model-based minimum 35%. Not surprisingly, it would appear that the Australian banks are using risk models that have arrived at a typical 20% risk weight, hence require significantly less capital per dollar of mortgage lending than the standard non-model based minimum. Interestingly, this compares to typical risk weights of 35-75% in the US (lower model-based weights would only be associated with loan to value ratios of under 60%) and just under 35% in Japan respectively, markets that have recently experienced a period of relatively severe or prolonged property price declines … as noted earlier, most socio-economic systems have a tendency to develop their own expedient bias. If investors deem the yield on Australian bank shares to be attractive, they should also be aware of how leveraged to the Australian property cycle that yield really is.

In closing, the "fiscal cliff/debt ceiling" will dominate headlines for some-time to come as there is no easy solution to the US debt load (or that of the Western world more generally) other than repayment, default or monetisation or some combination of all three. However, the West only accounts for roughly 40% of global GDP (purchasing power parity basis) – the beauty of global investing is choice.

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$20,000 invested in the relevant Fund over five years from 31 December 2007 to 31 December 2012 relative to their Index (in A$) 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.

3. Long invested position represents the exposure of physical holdings and long stock derivatives. The net invested position represents the exposure of physical holdings and both long and short 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.