Platinum Unhedged Fund

Jacob Mitchell Portfolio Manager

Disposition of Assets

REGION	DEC 2013	SEP 2013
North America	30%	30%
Japan	24%	21%
Asia	21%	17%
Europe	18%	21%
South America	1%	2%
Australia	1%	2%
Africa	1%	1%
Cash	4%	6%

Source: Platinum

Portfolio Position

Changes in the quarterly portfolio composition:

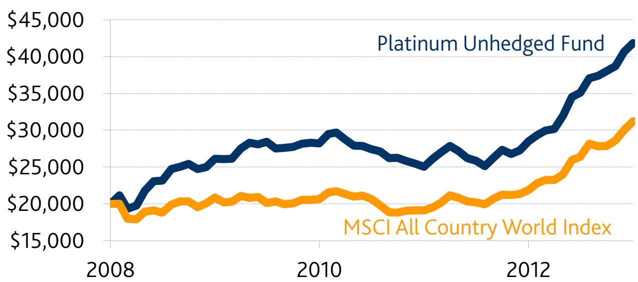
Sector Breakdown

SECTOR	DEC 2013	SEP 2013
Mobile Internet Services	13%	10%
Technology (software & components)	12%	11%
Consumer Globalisation (brands, retail etc)	10%	12%
Healthcare	9%	9%
Emerging World Financials	8%	7%
Emerging World Consumer	8%	8%
Mobile Internet Enablers	7%	8%
Japanese Revitalisation	6%	5%
US Capital Spending Renaissance	5%	5%
Alternative Energy	5%	5%
Western Financials	5%	5%
Gold	5%	5%
Energy and Materials	3%	4%
Gross Long	96%	94%

Source: Platinum

Value of $20,000 Invested Over Five Years

31 December 2008 to 31 December 2013



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

ome of the major investment themes in the Fund include:

- Post-patent cliff pharmaceuticals and personalised medicine.
- Consumer globalisation – Western brands, retailers and service providers positioned for global growth.
- Explosive growth in mobile data-based services and consumption in both the developed and emerging world.
- Emerging world home grown consumer brands/retailers and recovering property-related companies in India and Brazil.
- Japanese revitalisation driven by a broad consensus on the need for change.
- Capital equipment suppliers to the solar cell industry; a secular growth industry undergoing a cyclical recovery.
- US capital spending renaissance driven by a globally competitive supply of natural gas.
- Gold - a hedge against a self-reinforcing cycle of Quantitative Easing (QE) from the three large developed world currency blocks (US, Europe and Japan) where the narrative morphs from inflation targeting to government debt monetisation and competitive exchange rate devaluation.

Performance

(compound pa, to 31 December 2013)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Unhedged Fund	10%	47%	14%	16%	12%
MSCI AC World Index	12%	43%	15%	9%	5%

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

The year ended strongly for global equity markets led higher by the developed world, with Japan the key laggard; emerging markets also lagged. Sector performance was reasonably broad led by technology stocks, and not surprisingly, Google, Microsoft, Intel and Ibiden were key contributors to the portfolio's performance. Western financials also made a solid contribution courtesy of the large Intesa Sanpaolo holding, as did US capital spending exposed contractor Foster Wheeler, with strong order flow highlighting the potential for a sustained earnings rebound.

Whilst emerging markets lagged, recently acquired Indian infrastructure stocks experienced a solid rebound from oversold levels as concerns regarding that country's external funding abated with a decent turnaround in the current account deficit. Further, the Reserve Bank of India continues to vocally target lower inflation and the political winds now seem to favour the reformist Bharatiya Janata Party (BJP) Prime Ministerial candidate, Narendra Modi. On the negative side, our gold stocks plunged to new lows and our small position in energy stocks lagged the market in-line with sector performance.

Changes to the Portfolio

We exited a number of stocks as price targets were exceeded including Vodafone, Deutsche Börse and BMW. Proceeds from these sales funded new holdings such as Sohu, Glory and we added to existing holdings AstraZeneca, KB Financial, Intel, NTT (see the current Platinum Japan Fund quarterly report) and various internet and gold stocks. We also sold Royal Dutch Shell in favour of Canadian Oil Sands as the latter offers a more attractive valuation with a declining capital spending profile. Over the period we refocused the portfolio with the concentration of our top thirty-five holdings rising back above 60%.

Though we have held Japanese company, Ibiden, in the portfolio for over a year, as the result of rising conviction in the investment case (and the outlook for one of its key customers, Intel), it has become a top ten holding (see the current Platinum International Fund quarterly report for a brief description of the business).

Sohu operates a collection of Chinese internet assets that historically could be described as 'followers' resulting in a relative low valuation multiple. We reinstated our investment after a price pull-back due to the decision to merge its Sogou search business with Tencent Holdings much smaller Soso business. The combined business with 13% share will be ranked third behind Baidu with 65% and 360 with 18% share. The relationship will ensure Sogou becomes the default search engine for the Tencent eco-system[1], reducing the overall risk profile of Sohu's business and is a likely prelude to broader co-operation between the two companies.

Commentary and Outlook

Clearly it has been a year where it has paid to be bullish, ignore dark memories of 2008 and simply sit-back and enjoy a re-rating of equities. In the US and developed markets generally, the drumbeat around higher growth and lower inflation is getting louder and the biggest casualty of this has been gold and related equities.

As always, it is difficult to make a call on the gold price. If the US continues on a low inflation growth trajectory then gold will likely underperform. Alternatively, if growth disappoints, tapering may soon reverse and with a re-energised Bank of Japan and European Central Bank likely to respond to any knee jerk currency strength, we would be back in the world of competitive exchange rate devaluations in which gold may find support. Notwithstanding, we think much of this uncertainty has been discounted in gold equities that are now trading at thirty year lows. Hence, we have added to holdings during the quarter.

It is difficult to challenge the market's optimistic view on the US recovery. Leading indicators around industrial production, housing and consumer confidence are robust suggesting that coincident indicators such as employment, capital spending and earnings should rise in 2014. However, at 17 times P/E (versus 14 times at the beginning of the year), US equities are pricing in higher expectations around GDP and top line growth in contrast to 2013 where earnings growth was largely powered by margin improvement, the sustainability of which can be debated.

Further, it is an inescapable reality that all the major economies have had to take on increasing leverage to support GDP growth with governments typically replacing the private sector as the marginal borrower, that is, there has been no system-wide deleveraging. Whilst a benign version of the much anticipated tapering has begun, more attention should be paid to how little apparent effect the Federal Reserve's asset purchasing program has had on US private sector demand for credit. Since the start of QE2, the Federal Reserve's balance sheet has expanded by $1.7 trillion and the excess reserves held at the Fed by commercial banks have risen by an almost similar amount, $1.5 trillion i.e. the drugs are not reaching the patient. This poses the question of whether the banks are being overly cautious in assessing credit applications or whether there is simply subdued private sector demand for credit. Whilst it is convenient for the major Western Central Banks to demonise deflation, we suspect falling prices are simply a natural consequence of high debt levels and general lack of 'average' competitiveness relative to emerging world wage levels and should be embraced as a necessary adjustment, otherwise far more disruptive currency realignments may potentially eventuate.

Where the Federal Reserves' policy seems to have had the most effect is the inflation of profit margins and asset prices to the benefit of equity holders. This will be the subject of more attention in 2014 along with the long-term reality of meagre real income growth amongst the great majority of US wage earners. At this point, we are generally finding more interesting opportunities for the Fund outside the US.

1 See the current Platinum Asia Fund quarterly report for a detailed description of Tencent's business; one of three dominant Chinese internet ecosystems combining elements of Facebook, Twitter and YouTube under one roof.

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$20,000 invested in the relevant Fund over five years from 31 December 2008 to 31 December 2013 relative to their Index (in A$) 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

MSCI Inc Disclaimer