Platinum Unhedged Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	DEC 2014	SEP 2014
Asia	29%	22%
Europe	25%	23%
North America	24%	24%
Japan	14%	18%
Australia	2%	3%
Africa	1%	1%
Russia	1%	1%
South America	1%	1%
Cash	3%	7%

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

Performance

(compound pa, to 31 December 2014)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund	3%	8%	22%	12%	11%
MSCI AC World Index	7%	14%	23%	11%	6%

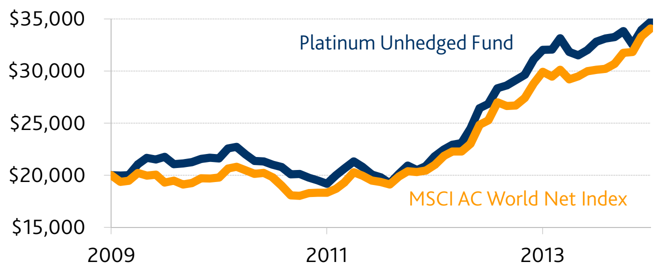
Source: Platinum and MSCI. Refer to Note 1, page 4.

The last three months have brought with them some large moves in global asset prices.

On commodities, we have seen the price of oil fall 40%, back to levels last seen in mid-2009. In the currency markets, the Japanese yen and the Australian dollar have respectively fallen 10% and 8% versus the US dollar (substantial moves in the currency world), whilst Russia has had a full blown currency crisis with the Rouble devaluing by 50%. Finally in stocks, the US market has continued its solo bull run, rising 5% (in USD).

Value of $20,000 Invested Over Five Years

31 December 2009 to 31 December 2014



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

In terms of stock positions, the key area of weakness was our oil and gas and gold-related holdings, with **Canadian Oil Sands**, **Barrick Gold**, **KBR** and **Baker Hughes** being significant detractors. Our better performers included **Carnival Cruise Lines**, a business that strongly benefits from the lower oil price and a number of our Chinese holdings, including **PICC**, **Weichai Power** and **Moutai**.

Over the quarter the performance of the Fund was +2.6% versus +7.4% for the MSCI AC World Index (in A$). Over the full calendar year the Fund is up 8.4% versus 13.9% for the Index.

Commentary

Unit holders may question why there has been a large divergence between the performance of the Fund and the World Index over the last three months.

Before answering this it is worthwhile to remind ourselves that, by virtue of ignoring the Index when selecting stocks, the portfolio looks very different to its benchmark. Hence it is inevitable that there will be times where the portfolio will perform very differently to the Index, with the goal being that our process of investing in "neglected" companies or companies which we feel are under-appreciated by the market will allow the portfolio to outperform its benchmark Index over time.

As to why the Fund has lagged, we can point to a few high level differences. In terms of stocks, the Fund has roughly 23% of its assets invested in US listed companies, whilst the Index has 52%. On currency, the Fund has 41% exposure to the US dollar and 16% to the Yen, while the Index is 51% US dollar and 7% Yen.

As previously mentioned, the US dollar and stock market have been one of the strongest asset classes of late. For example, at the time of writing the three month return (expressed in AUD terms) of the US market was +12%, which is multiple times greater than the return of Europe (+2%), Japan (+4%) and Asia ex Japan (+7%) over the same period. The Fund's relatively low exposure to the US market and our higher exposure to the weak Yen largely accounts for the divergence of returns versus the Index.

The next question is why the Fund is well-positioned to make solid returns going forward. Here we can turn to some of our individual stock positions.

In Europe, the Fund owns three banks, namely **Intesa Sanpaolo** of Italy, **Lloyds** in the UK and **Erste Bank** of Austria. Intesa has been held by the Fund since the cessation of the European crisis, while Lloyds and Erste are more recent acquisitions. Coming out of the European crisis the European Union (EU) banking stocks have been good performers, so why is there still money to be made owning these companies?

All three banks are starting to emerge from a deep five year recession, a period where a sizeable portion of their borrowers defaulted. Over this time the banks have had to focus on cutting costs, whilst funnelling every dollar of profit towards filling the holes left by the loan defaults.

The good news for shareholders is that with the costs of loan defaults now falling away, profits at all three banks are set to rise dramatically. Importantly, with the capital bases of the banks having had the tick of approval from the regulator post the November EU and UK stress tests, these profits can start to be returned to shareholders in the form of large dividends.

While the big picture of falling credit costs flowing through to much higher profits is common to all three banks, their stories at an individual level are different. Lloyds has the benefit of operating in a much more consolidated banking market (down to four) post the crisis and a modestly growing UK mortgage market. Intesa's growth is being driven by its asset management and insurance divisions which account for 50% of revenue and are growing at 10% per annum. Erste, which owns the leading banks in the Czech Republic, Slovakia and Romania (countries with low debt and large labour costs advantage), is one of the few European banks where you can see strong loan growth over the next five years.

From a valuation perspective, our bank holdings trade on 7-9x normalised earnings and, in the case of Intesa and Lloyds, on prospective dividend yields of 8%. Given local investors in Italy and the UK are receiving roughly 1% on a 12 month term deposit, you can see how these stocks will garner a lot of attention once the dividends start coming through. Ultimately these banks are at a low risk point of their cycle and we think offer 30-40% more upside.

Another major investment area for the Fund is technology, namely the incumbent giants **Microsoft**, **Cisco** and **Intel**. This sector became extremely cheap and neglected, as investors fretted about technology changes that may harm the position of each company (e.g. the move from hosting software on our desktops towards hosting on a centralised server and accessing that software via the Internet).

Intel is a good illustration of the opportunities that can arise when markets become pessimistic about a business. Intel is an extremely high quality business, holding a dominant position in the manufacture of microprocessors with a 95% revenue share of logic chips of servers and PCs. In early 2013 the market valued Intel on a P/E of 11x, firstly because there was a shift away from PCs towards tablets and smartphones (the so-called "death of the PC") and secondly, because Intel missed out on powering the first generation of these new mobile devices. This failure to participate in the first round of mobile and tablets led the market to doubt whether they could ever catch up.

Intel's history of manufacturing excellence[1] gave us faith that it could not only catch up, but will eventually take a meaningful share of processors in mobile devices. This manufacturing lead was always apparent, but the market chose to ignore it and instead focused on worries such as that the new Android operating system would not run on Intel's x86 instruction set, that x86 was structurally more power-consumptive than the ARM instruction set and that Intel could not manufacture chips cheaper than the ARM ecosystem. Our work on each of these possible threats showed they were either false or irrelevant and we took a large position in the stock.

Since then the story has progressed. PC sales have not fallen off a cliff and, if you categorise tablets as PCs (given they are a laptop substitute), volumes are growing. Intel's business making high-powered chips for servers continues to grow at 15% per annum and, most importantly, evidence of the company's ability to take share in mobile and tablets is building, with Intel now holding a 37% share of the tablet market.

Intel's stock price has reacted favourably to these developments, rising 60%. However, we think there is still more to play for. Intel currently trades on 16x earnings, a multiple the market would usually place on an average business and Intel is a far better business than the "average". If we strip out the start-up losses Intel is incurring to build its mobile chip business, the valuation would be on 13x earnings. And if you believe Intel can make profits in mobile (which we do), the valuation can fall to 10x or below.

1 Intel has held a three year manufacturing lead over its competitors. This lead is supported by scale advantages. Intel spends US$11 billion on R&D annually, 2.5x that of its nearest competitor, Qualcomm. It also has twice the wafer capacity of the rest of the industry combined in leading edge (22 nanometre and lower) manufacturing. We believe Intel's manufacturing advantage is extending.

Changes to the Portfolio and Outlook

As we mentioned in the last quarterly report, we continue to find value in the Chinese market and hence established new positions in railway operator **Daqin Rail**, the world's largest air conditioner manufacturer **Gree Electric Appliances**, and life insurance providers **Ping An Insurance** and **China Pacific**.

In other markets we bought financial services data provider **Markit** (for an extensive discussion, see our September 2014 Platinum European Fund quarterly report), and the heavy sell-off in the oil price presented us with an opportunity to acquire Spanish testing and inspection company **Applus.**

In terms of outlook, we still feel the Asian markets offer the best prospects for investors, followed by Europe. The geographic shift of the portfolio continues, with the primary move being a reduction of our Japanese holdings and an increase in our holdings in China. By way of illustration, the geographic exposure of the portfolio in June 2014 was 22% Japan and 8% China/Hong Kong. Today, the weighting in that same region is 14% Japan and 20% China/Hong Kong.

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$20,000 invested in the relevant Fund over five years from 31 December 2009 to 31 December 2014 relative to its benchmark Index (in A$) 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.

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