Platinum Unhedged Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	DEC 2015	SEP 2015
Asia	29%	31%
North America	28%	24%
Europe	25%	26%
Japan	9%	10%
Russia	2%	2%
Australia	<1%	<1%
South America	0%	<1%
Cash	7%	6%

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

Performance

(compound pa, to 31 December 2015)

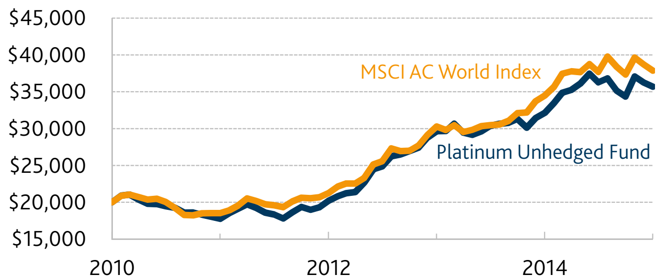
	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund	4%	11%	21%	12%	11%
MSCI AC World Index	1%	10%	21%	14%	6%

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

In the December quarter global stock markets pared back some of the falls seen in August and September, with Japan up 12% and the US and Europe both rising 6% from their respective lows. Relevant to the Fund the biggest rebound was seen in the Chinese market. The CSI 300 Index rose 23% from its August lows, driven by evidence that the Chinese economy is not all bad, with positive data around rising house prices, a rebound in auto sales and news of further stimulus support.

Value of $20,000 Invested Over Five Years

31 December 2010 to 31 December 2015



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

Given the moves in the Chinese market, our best performers tended to be our Chinese holdings, with search engine Baidu (+38%), life and property and casualty (P&C) insurer China Pacific (+30%), and spirits maker Jiangsu Yanghe (+26%) all rising strongly.

In terms of detractors, the key areas of weakness were our holdings in Baker Hughes (-11%) and Chow Tai Fook (-17%). Baker Hughes, as a major service provider to the oil and gas industry, has suffered due to further weakness in the oil price, along with worries that its proposed merger with competitor Halliburton may be blocked on competition grounds.

Chow Tai Fook is a leading retailer of jewellery, with 60% of its sales coming from mainland China and 40% from Hong Kong. The issue continues to be falling sales activity in its Hong Kong stores. Typically Chinese travellers accounted for 60% of the Hong Kong sales, and it is clear that after the Occupy Central protests the composition of Chinese travellers going to Hong Kong has changed, with the wealthier set now choosing to go (and spend) elsewhere. This issue was not new, with the stock having fallen -30% before we entered, but we were too early on our expectation that declines in Hong Kong sales would begin to find a base.

In terms of performance, over the quarter the Fund has returned 3.9% versus 1.4% for the MSCI AC World Net Index (A$). Over the full calendar year, the Fund is up 11.1%, compared to 9.8% for the Index.

Changes to the Portfolio and Commentary

We made a number of changes to the portfolio in the quarter.

We took a substantial new position in **Level 3 Communications**, with the company now included as one of our 10 largest holdings. Conceptually like Australia's very own national broadband network (NBN), but on a much grander scale, Level 3 owns one of the world's largest fibre optic cable networks (spanning 320,000 route kms of cable) and is an important backbone to the functioning of the Internet today.

Built over 20 years at a cost of US$45 billion, the business has reached an important inflection point. The bandwidth demands of services like Netflix and cloud computing are exceeding the capability of legacy copper networks, requiring an upgrade to fibre. Many of the telephony incumbents (AT&T, Verizon, etc.) have neglected to invest in their wireline networks and have been focusing on their mobile businesses instead, and this has created an opportunity for others to take market share. Post their US$7.3 billion acquisition of TW Telecom (formerly Time Warner Telecom) in 2014, Level 3 now has the density of network to compete head on.

Given the fixed cost nature of the business, as you 'load the network' incrementally with more customers, modest increases in revenue tend to have outsized effects on profit growth, and Level 3 is in a good position to do this by chipping away at the incumbents. Purchased at a valuation of 16x free cash flow, Level 3 was priced attractively relative to the market and is significantly cheaper than other listed infrastructure assets.

We completely exited two of our holdings within the jewellery industry. The first was **Richemont**. Our holding period for Richemont was uncharacteristically short (having only accumulated the stock in July/August), but it was an example of where the facts changed soon after purchase. The appeal of Richemont was that 50% of its profits came from very high end branded jewellery, an extremely profitable category growing at 10% per annum. Our concern was their luxury watch business, where sales had been tracking flat post the Chinese corruption crackdown. The thesis was that the sales growth and superior profitability of the jewellery business would still create good earnings growth, as long as any deterioration in the watch division remained modest. However, recent Swiss watch export data has pointed to demand starting to fall at 7-10%, much worse than our initial estimates. In the face of this, we chose to exit at a modest profit.

We also sold out of jewellery retailer **Luk Fook**, which is suffering from the fall in activity in its Hong Kong stores, similar to Chow Tai Fook. The case for these retailers was the ability to take market share in China at the expense of mom-pop style stores, given greater demand for quality and authenticity of product. In addition, they would benefit from a mix shift, as the Chinese started to buy more gem-set products which carry higher profitability over traditional gold. Over the long-term these drivers remain intact, but we would prefer to hold Chow Tai Fook than Luk Fook, given the former's lower exposure to Hong Kong and stronger brand.

In Japan we sold the last of our holdings in **Toyota**, **Toyota Industries** and **Ushio**. These stocks have been good earners for the Fund. However, with the cases around each investment having largely played out and valuations no longer as attractive, it was time to move on.

Outlook

In investing, you rarely make money by following the popular consensus of the day. Back in 2010, the common view was that emerging markets were the place to be because they offered growth, and investors should shun the stagnant and highly indebted western markets. The experience over the next five years played out very differently. Investors made fantastic returns in the US, Europe and Japan, and emerging markets were relatively dull. It is interesting that the popular consensus of today has reversed; the view now is to stick with the western markets that have done so well and "don't touch the EM"!

We think it's now time for investors to start coming back to the emerging markets and there is value to be had if you pick your spots. Since 2014 we have moved 30% of the portfolio into Asia, primarily in stocks exposed to the Asian consumer and Indian infrastructure/banking sectors. With the fall in stock prices and the collapse in the value of the Brazilian real, we are spending some time looking at the higher quality listed businesses in Brazil.

We like to hunt where there is uncertainty, and any business linked to commodities is going through a lot of pain. When considering investments in this space, we are cautious and being very selective. Commodities are fundamentally poor businesses and, faced with the end of the Chinese construction boom and widespread oversupply, it can take a long time for the cycle to bottom. Expecting a quick reversion to the mean will be an error. Out of opportunities in this space we favour oil, given we can make a solid case for a tightening in the supply/demand balance over the next 18 months.

Some of the major holdings in the Fund include 'legacy' technology companies (Cisco, Ericsson, eBay) that at their core are quality businesses and are priced at a discount to the market, European banks where there is potential for very large dividend yields, and the Chinese consumer stocks. The only substantial commodity exposure in the Fund remains oil.

Due to high valuations, we are still cautious on the potential for great returns out of the US and Europe. We are therefore positioning the Fund more defensively, with our cash holdings nearing the 10% limit.

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$20,000 invested in the relevant Fund over five years from 31 December 2010 to 31 December 2015 relative to its benchmark index (in A$) 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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