Platinum Unhedged Fund

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Portfolio Manager

Disposition of Assets

REGION	31 DEC 2017	30 SEP 2017	31 DEC 2016
Asia	42%	40%	30%
North America	20%	21%	25%
Europe	19%	21%	24%
Japan	9%	9%	8%
South America	1%	1%	0%
Russia	<1%	1%	3%
Cash	9%	7%	10%

Source: Platinum Investment Management Limited. See note 3, page 3.

Top 10 Holdings

STOCK	COUNTRY	INDUSTRY	WEIGHT
Raiffeisen Bank International	Austria	Financials	4.0%
Jiangsu Yanghe Brewery	China	Consumer Staples	3.6%
Kweichow Moutai	China	Consumer Staples	3.4%
KB Financial Group	Korea	Financials	3.3%
Inpex Corporation	Japan	Energy	3.3%
Applus Services	Spain	Industrials	3.2%
Alphabet Inc	USA	IT	2.9%
PayPal Holdings Inc	USA	IT	2.9%
PICC Property & Casualty Co	China	Financials	2.7%
Lixil Group Corporation	Japan	Industrials	2.7%

As at 31 December 2017.
Source: Platinum Investment Management Limited. See note 4, page 3.

For further details of the Fund's invested positions, including country and industry breakdowns and currency exposure, updated monthly, please visit https://www.platinum.com.au/Investing-with-Us/Investment-Updates.

Performance

(compound pa, to 31 December 2017)

	QUARTER	1YR	3YRS	5YRS	SINCE INCEPTION
Platinum Unhedged Fund*	9%	32%	16%	20%	12%
MSCI AC World Index	6%	15%	11%	17%	7%

*C Class – standard fee option. Inception date: 28 January 2005.
Refer to note 1, page 3.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

Global stock markets continued to push higher in the fourth quarter, with Japan being the standout, rising 9%. The strength in Japan is the result of a combination of a healthy economy and structural reforms at corporates driving record earnings. The US market also saw an impressive 6% rise, supported by expectations that the impending corporate tax reform would provide a one-off boost to profits.

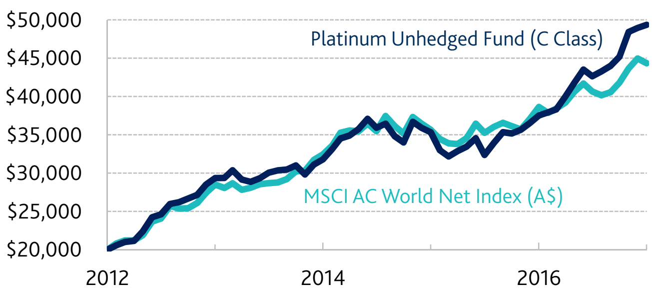
2017 was a positive year for the Fund, which returned 31.5% (C Class) over the calendar year versus 14.8% for the MSCI All Country World Net Index (in AUD).

The drivers behind this performance were quite broad, with close to 80% of our holdings having risen over the year. Amongst them were two main clusters of outperformance:

China: 12% of the Fund's total return came from China. While most of our Chinese holdings performed well, the best performance was concentrated in the consumer-facing names. Each of these companies had *specific* reasons why they were cheap at the time of our purchase. Moutai, Yanghe (both premium liquor producers) and Wynn Resorts (Macau casinos) saw their business hurt by the corruption crackdown

Value of $20,000 Invested Over Five Years

31 December 2012 to 31 December 2017



Refer to note 2, page 3.
Source: Platinum Investment Management Limited, RIMES Technologies.
Historical performance is not a reliable indicator of future performance.

a few years ago, while property and job search website 58.com fell in 2016 on fears around China's residential property market. On top of the specifics there is no doubt their valuations were also suppressed by the general concern about the health of China's economy.

In 2017 we saw the specific problems around these businesses improve while the general fear around China also receded. This combination has led to some impressive price moves, with **58.com** up 155%, **Moutai** up 109%, **Wynn Resorts** up 95% and **Yanghe** rising 63% for the year.

Banks: 8% of the Fund's total return came from our banking positions. Banks are a cyclical business,[1] and our investment approach is to buy in the middle of a credit downturn when share prices are low and bad debt problems are well known. The strong returns from our European and Indian banking positions were product of this process.

During the year, our European bank holdings (**Raiffeisen**, **Erste**, **Mediobanca** and **Intesa**) benefited as fears around Brexit faded and investors re-focused on the banks' strong profits and fundamentals. In India, each of our major positions (**ICICI**, **Axis** and **Shriram**) was bought at a time when it was mired in its own bad debt cycle and its share price cheap. In each case, we have evidence that the majority of the bad debt has been worked through, with the stock rising in anticipation of the loan losses falling away.

Changes to the Portfolio

When investing we look for situations where stocks are affected by *temporary* uncertainty. Investors fretting about a problem tends to result in both low expectations for the future and low prices as they rush to sell out. If you can identify reasons why the future may look better, low expectations and prices plant the seed for the next upswing.

Most of the time the temporary uncertainty centres on individual stocks. However, sometimes certain events engulf an entire market in uncertainty, which can create a whole raft of opportunities. China is a good example of such an opportunity,[2] as investors worried about debt issues largely ignore the region. We think the debt concerns are overblown, and the attractive valuations on offer have led us to hold between 25-30% of the portfolio in China.

With the strong price moves detailed above, we have started to rotate out of our Chinese consumer-exposed names into the more attractively priced areas of the market. Themes where we are finding opportunities include **environmental spending** and **agricultural development**.

China's pollution problems are now a clear social issue and the government is making a determined push to address it. Environmental improvement is a top priority in the government's current five-year plan, and environmental regulations are now being enforced with rigour. Interestingly, we have been able to find a range of companies exposed to this trend which we expect will be the beneficiaries of a multiyear wave of environmental-related capex, but which are trading on attractive earnings multiples of between 8x and 13x.

Much of China's agricultural sector is defined by small plot sizes (the average is 2 hectares), often inefficient choice of crops[3] and management by an increasingly elderly rural population. In the past, the introduction of industrial scale farming has been held back by a lack of clear land rights. However, a land right verification project which the government started in 2005 is nearing completion and many farmers are now in a position to lease out the operating rights to their plots, resulting in rapid growth of large-scale farming. We have recently invested in a leading fertiliser producer, who will not only benefit from demand for more complex/higher efficiency fertilisers, but is also developing a fast growing property management operation to manage these industrial-scale farms on behalf of the owner collectives.

To fund these new acquisitions, we fully exited our positions in **Mediobanca**, **eBay**, **Panasonic** and **Jones Lang LaSalle**. All four stocks have been excellent investments for the Fund, and the decision to sell was due to each hitting our price targets after strong upward moves.

Outlook

Over the past year global markets have risen around 20%, share markets are very 'calm',[4] the global economic picture looks rosy and investors are confident. Our raw intuition is to be **cautious**.

However, our own history tells us that a good guide to future returns is the pace at which we are finding good ideas. Importantly, **we are still finding plenty**. Indeed, over the last six months we have made several investments in Europe, the US and China where the companies' starting P/E was 10x or less. In our experience, buying companies that can grow on a 10% earnings yield tends to make you good money over time.

There are risks. We are in the early stages of a rate hike cycle, and eventually higher rates will bring down growth and valuations. It is certain that this serene period of gradually rising markets will snap at some stage and historic volatility in markets will return.

Overall, our investment process at Platinum has provided good returns as well as protection for investors. This has not been achieved by the portfolio managers having a crystal ball to predict the next recession, but, rather, by avoiding the crowd, looking for areas where expectations are low, and investing in businesses at modest valuations. We continue to find many opportunities in this vein.

1 Although this fact is easy to forget in Australia given the absence of a recession and our booming property market over the past 25 years!

2 Other recent examples would be the European Sovereign Debt Crisis in 2011-2013 and Brexit in 2016.

3 There is a preference to plant staple food crops like corn, which is more stable and has a price subsidy, instead of more volatile but significantly more profitable cash crops like fruit and vegetables.

4 The S&P 500 has not cumulatively fallen by greater than 3% at any point in the year!

Notes

1. Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of the stated unit class of the fund and represent the combined income and capital returns of the stated unit class over the specified period. Returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

   Index returns are in Australian dollars and assume the reinvestment of dividends from constituent companies, but do not reflect fees and expenses. For the purpose of calculating the "since inception" returns of the MSCI index, the inception date of C Class of the fund is used. Where applicable, the gross MSCI indices were used prior to 31 December 1998 as the net MSCI indices did not exist then. Fund returns have been provided by Platinum Investment Management Limited; MSCI index returns have been sourced from RIMES Technologies.

   Platinum does not invest by reference to the weightings of any index or benchmark, and index returns are provided as a reference only. A fund's underlying assets are chosen through Platinum's bottom-up investment process and, as a result, the fund's holdings may vary considerably to the make-up of the index that is used as its reference benchmark.

   The stated portfolio values of C Class and P Class of the Platinum International Fund (PIF) do not include funds invested in PIF by the Platinum International Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PIF. The stated portfolio values of C Class and P Class of the Platinum Asia Fund (PAF) do not include funds invested in PAF by the Platinum Asia Fund (Quoted Managed Hedge Fund), a feeder fund that invests primarily in PAF.

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in C Class (standard fee option) of the fund over the specified five year period relative to the relevant net MSCI index in Australian dollars.

   Fund returns are calculated using the net asset value per unit (which does not include the buy/sell spread) of C Class of the fund and represent the combined income and capital returns of C Class over the specified period. Returns are net of accrued fees and costs, are pre-tax, and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. Historical performance is not a reliable indicator of future performance. Due to the volatility in the fund's underlying assets and other risk factors associated with investing, investment returns can be negative, particularly in the short-term.

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3. The geographic disposition of assets (i.e. the positions listed other than "cash" and "shorts") represents the fund's exposure to physical holdings and long derivatives (of stocks and indices) as a percentage of the fund's net asset value.
4. The table shows the fund's top 10 long stock positions (through physical holdings and long derivatives) as a percentage of the fund's net asset value.
5. Sector breakdown represents the fund's net exposure to physical holdings and both long and short derivatives (of stocks and indices) as a percentage of the fund's net asset value.
6. The table shows the fund's major currency exposure as a percentage of the fund's net asset value, taking into account currency hedging.

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Some numerical figures in this publication have been subject to rounding adjustments. References to individual stock performance are in local currency terms, unless otherwise specified.

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