Platinum Asia Fund

Andrew Clifford Portfolio Manager

Disposition of Assets

REGION	JUN 2010	MAR 2010
China (Listed Ex PRC)	17%	17%
China (Listed PRC)	9%	9%
Hong Kong	6%	7%
Taiwan	6%	6%
Greater China total	**38%**	**39%**
Korea	17%	15%
India	9%	9%
Thailand	9%	9%
Malaysia	6%	6%
Singapore	6%	5%
Indonesia	3%	3%
Philippines	3%	3%
Vietnam	1%	1%
Cash	8%	10%
Shorts	1%	2%

Source: Platinum

Performance

Performance (compound pa, to 30 June 2010)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Asia Fund	2%	14%	4%	14%	21%
MSCI AC Asia ex Jp Index	3%	17%	-2%	9%	12%

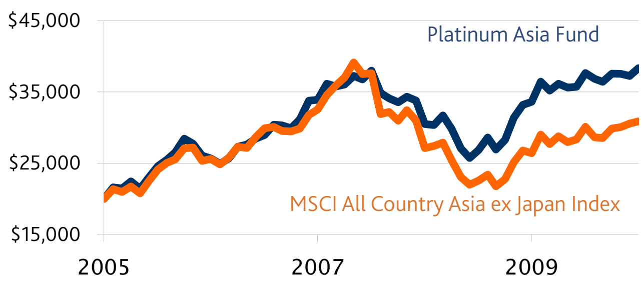
Source: Platinum and MSCI. Refer to Note 1, page 4.

Asia stocks fell almost 3% during the quarter, led by the Chinese markets of Shanghai, Hong Kong, and Taiwan, as they responded to the prospect of lower economic growth for China as credit restrictions began to impact the property market. A falling Australian dollar, however, more than offset these falls resulting in a market return of 3.3%.

The Fund's performance was slightly off the pace of markets, both for the quarter and the past year. During the quarter, the better performing holdings once again came from the ASEAN markets including Gamuda (Malaysian construction company, up 20%), Genting (Malaysian and Singaporean casinos, up 19%) and Jardine Matheson (regional conglomerate, up 15%). Also our short positions in a number of Asian steel and iron ore companies made a small contribution to performance. The poorer performing part of the portfolio were the China related holdings, in particular those listed in the A share market.

Value of $20,000 Invested Over Five Years

30 June 2005 to 30 June 2010



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

Changes to the Portfolio

During the quarter the Fund took advantage of the weakness in China related shares prices to add to holdings. New holdings included Ping An Insurance, China's second largest life insurer. Along with China Life, the industry leader (and another Fund holding), Ping An is quickly growing its book of profitable long-term policies. The stock price had been sold-off due to the impact of the falling A share market on its short-term investment returns, providing the Fund with an attractive entry point into a business that is well-placed to benefit from a growing pool of Chinese household savings. The Fund also returned to an old favourite, China Vanke which is China's leading residential property developer. Developers have performed poorly as a result of the set back in property sales (discussed below), with China Vanke A shares trading at levels experienced during the last months of 2008. The company has a portfolio of development projects across a broad range of Chinese cities, with a potential gross floor area of over 20 million square metres.

Another new holding is Ambuja Cements in India. The cement industry is facing a period of oversupply that is depressing cement prices and profitability. As a result we are able to purchase the business at a small premium to the replacement cost of its modern and low cost plant. The excess supply situation we expect to be relatively short lived as India pushes ahead with infrastructure development. Elsewhere we continue to add to our holdings in Samsung Fire and Marine and Dongbu Insurance in Korea which we discussed in the previous quarterly. Purchases were funded from new cash inflows to the Fund as well as sales of stocks such as Plus Expressway (Malaysian toll road) and Far Eastone (Taiwanese mobile phone network) which have both been solid performers over the last three years and have provided the Fund with recurrent dividend income.

On the short side, we closed out positions of Chinese steel companies at a good profit. The end result was that the net invested position of the Fund increased from 88% to 91% over the quarter.

Commentary

Economic theory would suggest that a country that fixes its exchange rate at an undervalued level will experience inflation until the advantage garnered by the mispricing is removed. Thus it is not surprising that the return of China to a fixed exchange rate for the Yuan post the global financial crisis and the collapse in their exports has once again made inflation the central economic issue for the country. The way inflation presents itself across a range of prices for different goods and services, assets such as property and shares, and labour, will vary considerably depending on the circumstances in the market for each of these items. This of course presents a series of opportunities and risks for investors as well as major challenges to politicians as inflation invariably leads to changes to the distribution of income across various groups within an economy.

The most problematic occurrence of inflation in China in the last year or so has been in the residential property market where prices moved up steadily across the course of 2009. The most spectacular moves were seen in some areas of major cities such as Beijing and Shanghai where prices moved up as much as 50%. Rising prices, while satisfying for those who have already purchased, are a matter of much consternation for the significant number of people who have not and for the country's leadership who feel the heat from a disgruntled population as much as any elected politician. Not surprisingly various measures to restrict lending for residential property purchases were reintroduced late in 2009 (as reported in our December report). Subsequently sales of new apartments have fallen over 50% from the peak reached late last year. As new residential construction accounts for as much as 12% (or more) of economic activity, the collapse in new apartment sales was a significant event for not only Chinese stock markets but also for a range of commodity and related markets such as the Australian dollar. And yet because the majority of apartments are not constructed until after they have been sold, the impact of this decline on the economy will not be felt until toward the end of this year at the earliest.

During June a series of labour disputes, mainly impacting foreign joint ventures (and in particular Japanese auto related JVs) have put the spotlight on the tightness in Chinese labour markets. These disputes have been resolved with increases in base pay of as much as 30% in some instances, though as base pay is often only half of the total labour cost the increase isn't quite as dramatic as it appears. In addition, local governments have also been announcing increases in minimum wages of the order of 20%. All of this has led to some fearing a blowout in Chinese labour costs, escalating inflation, and ultimately a loss of export competitiveness. For the moment this doesn't seem to be the case. Various sources suggest that labour costs in China have been increasing at average rates of 15% for the last five or six years, with a pause when the collapse in exports occurred in late 2008. As such the current hikes in labour costs don't for the moment look particularly out of line with history.

Indeed the statistics available suggest much of the increase in labour costs has been offset by improvements in productivity. Even if these are not reliable we can surmise from trends in manufacturing profitability and prices that these increases have been comfortably absorbed to date. Thus the prospect of a significant wage led price spiral seems distant for the moment. Nevertheless, the potential for general increases in inflation remain a possibility given the tightness of labour markets. It is for this reason that the announcement that China will return to a more flexible exchange rate system is important. Although the exchange rate issue is usually viewed in the West in relation to trade imbalances, the other side of the coin is that exchange rate flexibility provides another policy mechanism to manage the economy[1]. The lack of a significant immediate revaluation of the Yuan has led many to dismiss the change as pure political posturing, however, it should be remembered that last time the Chinese pursued such an approach the Yuan strengthened by 20% against the US dollar in the subsequent three years. Further, the removal of tax rebates on a range of commodity exports such as steel, reinforces the decision to change the exchange rate mechanism.

The key benefit of the country moving toward a market determined exchange rate will be an end to the boom-bust cycle that the residential property market typifies. This should result in a less volatile earnings environment for companies and most likely a higher valuation placed upon Chinese earnings.

Outlook

Equity markets have had plenty of problems to deal with over the last quarter. Besides the slowdown in property sales in China and its implications for growth, there has been the unfolding dramas in Europe, a region which is a significant export market for Asia. The China related markets have fared poorly, in particular the China A shares, which are now down almost a third from the highs set in mid-2009. Other regional markets have been somewhat more resilient having bounced back from a good sell-off during May. Nevertheless, with bad news of this magnitude having dominated the headlines for some time now, one would usually assume most of these negatives have been priced in. Certainly when paired with the attractive valuations of many of the Funds holdings, one would be optimistic about returns both in the short and medium term. However, there remains room for further disappointment for markets with recent data suggesting the US economic recovery is starting to falter.

1 In economies where the exchange rate freely floats it will, for example, typically reinforce the impact of an interest rate hike by appreciating, thus creating another mechanism which will slow growth and inflationary forces.

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: 1 May 1995
   Platinum Unhedged Fund: 31 January 2005
   Platinum Asia Fund: 3 March 2003
   Platinum European Fund: 1 July 1998
   Platinum Japan Fund: 1 July 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$20,000 invested in the relevant Fund over five years from 30 June 2005 to 30 June 2010 relative to their Index (in A$) 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.

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