PLATINUM ASIA FUND

Andrew Clifford
Portfolio Manager

PERFORMANCE

PERFORMANCE (compound pa, to 30 September 2008)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
PLATINUM ASIA FUND	-2%	-17%	10%	18%	23%
MSCI AC ASIA EX JP INDEX	-6%	-31%	5%	10%	12%

Source: Platinum and MSCI. Refer to Note 1, page 36.

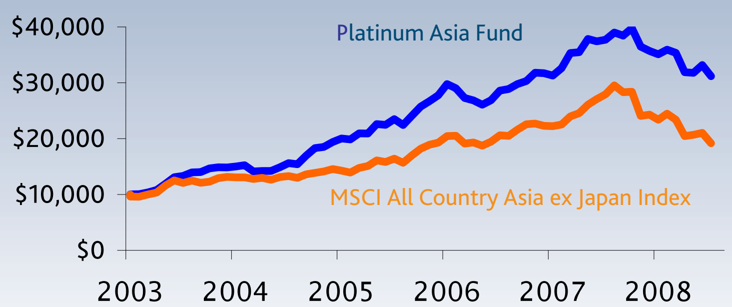
Ructions in the Western financial sector were the predominant force driving Asian markets during the quarter, resulting in a fall of 18.8% in local currency terms. For Australian investors these losses were significantly offset by the depreciation of the Australian dollar, resulting in a 6.4% fall in the MSCI Asia ex Japan Index in Australian dollar terms. The weakest markets in the region were those in greater China (China A shares down 31%, Hong Kong H shares down 27%, Taiwan down 25% and Hong Kong down 20%) where there is growing evidence that the economy is slowing. The best performing markets were India (down 1%) and the Philippines (down 4%) where the greatest benefit arose from the lower oil prices. The Fund's positioning away from the "hot" commodity related sectors and cash balances were key factors in the Fund's outperformance during the quarter. In addition, minimal exposure to the Australian dollar ensured full benefits of the depreciation accrued to performance.

DISPOSITION OF ASSETS

REGION	SEP 2008	JUN 2008
CHINA (LISTED EX PRC)	14%	16%
HONG KONG	11%	9%
CHINA (LISTED PRC)	4%	3%
TAIWAN	7%	7%
GREATER CHINA TOTAL	36%	35%
KOREA	11%	10%
THAILAND	9%	8%
INDIA	6%	5%
MALAYSIA	6%	5%
INDONESIA	5%	4%
SINGAPORE	5%	4%
PHILIPPINES	3%	2%
CASH	19%	27%
SHORTS	1%	4%

Source: Platinum

VALUE OF $10,000 INVESTED SINCE INCEPTION
3 MARCH 2003 TO 30 SEPTEMBER 2008



Source: Platinum and MSCI. Refer to Note 2, page 36.

CHANGES TO THE PORTFOLIO

The net invested position of the portfolio increased from 69% to 80% over the course of the quarter as the Fund took advantage of lower prices to add to its existing holdings as well as a number of new positions. New holdings included Sinofert, a Chinese distributor of fertilisers and agricultural products. The company is using its position as a key importer of potash into the PRC to build a national network distributing fertilisers and related products. Concerns that higher fertiliser prices would squeeze the company's profits resulted in the stock being sold-down to attractive levels. The positions in Korea Investment Holdings (stock broker and asset management) and Hang Lung Properties (Hong Kong and PRC real estate investor) were increased substantially. Holdings in Bank of China and Sohu (Chinese internet portal) were sold early in the quarter.

COMMENTARY

In our June 2008 quarterly report we noted that while markets had already marked down the price of many stocks to account for a slower economic environment in the region, we remained cautious in investing the Fund's cash reserves for two reasons: while our judgement was that markets had significantly adjusted prices of companies for weaker earnings prospects, we could not yet hear market participants having explicit discussions about the Chinese and Indian economies slowing; secondly, we remained concerned that continuing financial turmoil in the West would result in ongoing selling of Asian markets by foreign investors. With the collapse of Fannie Mae, Freddie Mac, Lehman Brothers, AIG, and others, it has been the second of these factors that has dominated market movements, with Asian stocks moving down in lockstep with each new story of financial calamity.

While the financial headlines have been dominated by the news of the Western financial crisis, evidence of a slower Chinese economy has not gained the prominence one would otherwise have expected. Car sales, after continuing to grow strongly in the first half of the year, have slowed dramatically with sales declining 6% in August from a year ago. The Chinese steel industry has re-emerged as an exporter in July and August, exporting over 15 million tonnes. This from a country that was meant to have an unending appetite for steel! Of course, too much weight should not be placed on monthly economic statistics. However (with the benefit of hindsight), it should not be too surprising that the Chinese economy has started to slow. Monetary policy has been continually tightened by the PBOC over the last two years, through both interest rates and restrictions on bank lending. Export growth has slowed significantly this year in response to global growth. Inflation has eaten into the spending power of households and the profits of businesses, particularly in manufacturing.

Interestingly, during our visit to China in mid-September, business sentiment was clearly quite dour even if it were yet to present itself in terms of lower profits. It was typical to talk of the economic slowdown (in the past and present tense) with some hope that it could be attributed to temporary factors such as the February snowstorms, the Sichuan earthquake, or the Olympics. And indeed each of these may have played a part to date. However, a looming collapse in residential construction activity is likely to become a major factor in Chinese economic growth over the next 12 months even if these other temporary factors are overcome. In the first half of 2008 construction of residential apartments has increased by more than 30%, a pace of growth not dissimilar to recent years. However, what has been different in 2008 is that there has been a distinct slowing in sales with most regions experiencing, at best, small increases in the volume of apartments changing hands. This culminated in mid-September with price cuts of up to 20% by China Vanke, the country's leading property developer. Immediately other major developers were forced to follow suit with price cuts of their own.

The problem with property developers cutting prices is that it removes the imperative to buy a property immediately. That is, there is a loss in the belief that prices will move inexorably upward. The risk is that rather than encouraging an increase in sales volume that had been hoped for, the opposite occurs as buyers hold back initially. And indeed, to date, this has been the response, with many developers reporting a fall in sales volumes post the price cuts. The high level of debt on many developers' balance sheets means that they will not have the ability to patiently wait out the downturn in the market. It is therefore difficult not to envisage a significant downturn in residential construction ahead with subsequent implications for demand for commodities such as steel and cement.

The difficulty as an investor in these circumstances is that as markets have sold down in the face of fears regarding the global financial system, many stocks have been left on very attractive valuations, even assuming a significant slowdown in China. The question is whether an explicit understanding that China faces more difficult times ahead will cause yet another leg down in markets? While the answer is probably yes, given the extent of falls from last years highs, over 60% in the case of the China "H" and "A", it is likely that the Asian stock markets are close to arriving at a bottom.

If one were to look for positives, it is that China's policymakers have a number of options at their disposal to revive the economy. Monetary policy can be relaxed, with the PBOC already having delivered its first interest rate cut in mid-September. The government fiscal position will allow it to bring forward infrastructure spending, a strategy that successfully kept the Chinese economy growing after the Asian crisis in the late nineties. Household balance sheets are in good shape and ultimately lower prices will draw buyers back into the residential property market. There remains significant underlying momentum in the Chinese economy as a result of the reforms of the last ten to twenty years which we expect will result in the current downturn remaining relatively short lived. As such, though the bad news may continue for some time yet, the current sell-off in regional markets is likely to represent a rare occasion to enter the market at a very advantageous level.