

Platinum International Fund

ARSN 089 528 307

Platinum Unhedged Fund

ARSN 123 939 471

Platinum Asia Fund

ARSN 104 043 110

Platinum European Fund

ARSN 089 528 594

Platinum Japan Fund

ARSN 089 528 825

Platinum International Brands Fund

ARSN 092 429 813

Platinum International Health Care Fund

ARSN 107 023 530

Platinum International Technology Fund

ARSN 092 429 555

The Platinum Trust®  
Quarterly Report  
30 September 2008



Platinum®  
ASSET MANAGEMENT



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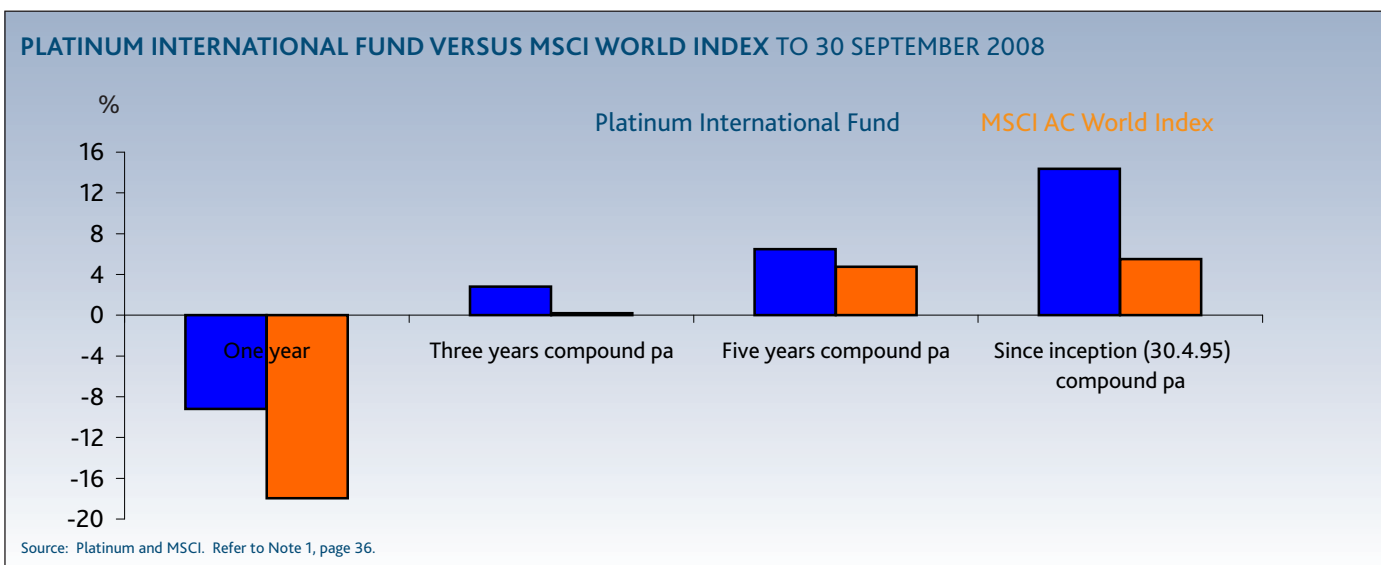
We recognise that our greatest untapped resource is our readers. If you are an industry expert, we would welcome your comments and ideas.

Do email us at:  
[commentary@platinum.com.au](mailto:commentary@platinum.com.au)

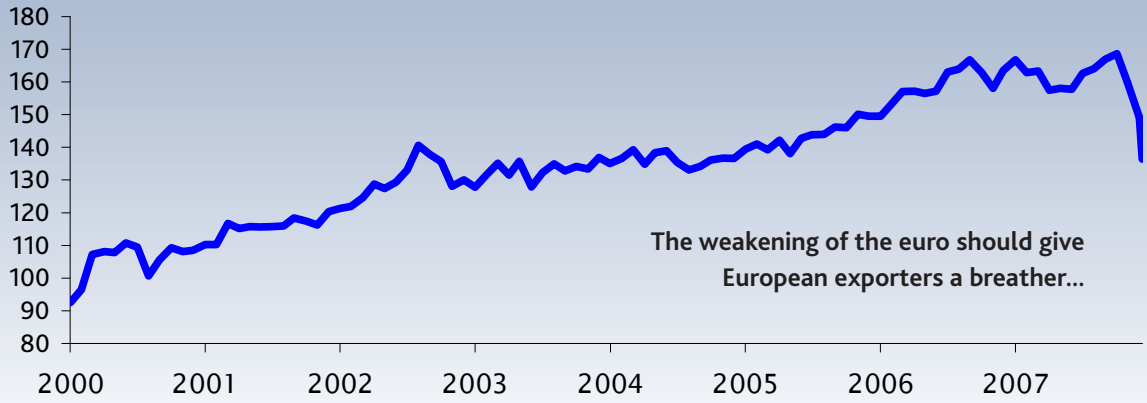
# PERFORMANCE RETURNS TO 30 SEPTEMBER 2008

FUND	FUND SIZE	QUARTER	1 YEAR	2 YEARS COMPOUND PA	3 YEARS COMPOUND PA	5 YEARS COMPOUND PA	SINCE INCEPTION COMPOUND PA
<b>INTERNATIONAL FUND</b>	<b>\$7,443m</b>	<b>7.5%</b>	<b>-9.2%</b>	<b>-3.3%</b>	<b>2.8%</b>	<b>6.5%</b>	<b>14.4%</b>
MSCI AC* WORLD INDEX		1.5%	-18.0%	-7.4%	0.2%	4.7%	5.5%
<b>UNHEDGED FUND</b>	<b>\$54m</b>	<b>-2.1%</b>	<b>-12.9%</b>	<b>-4.2%</b>	<b>6.4%</b>	<b>-</b>	<b>8.9%</b>
MSCI AC WORLD INDEX		1.5%	-18.0%	-7.4%	0.2%	-	3.1%
<b>ASIA FUND</b>	<b>\$2,499m</b>	<b>-2.3%</b>	<b>-17.3%</b>	<b>4.4%</b>	<b>9.9%</b>	<b>18.5%</b>	<b>22.6%</b>
MSCI AC ASIA EX JAPAN INDEX		-6.4%	-31.4%	-3.5%	5.3%	9.7%	12.4%
<b>EUROPEAN FUND</b>	<b>\$230m</b>	<b>2.1%</b>	<b>-17.9%</b>	<b>-6.1%</b>	<b>2.5%</b>	<b>7.9%</b>	<b>12.0%</b>
MSCI AC EUROPE INDEX		-4.7%	-22.7%	-8.7%	1.4%	7.8%	0.3%
<b>JAPAN FUND</b>	<b>\$471m</b>	<b>5.0%</b>	<b>-15.1%</b>	<b>-14.3%</b>	<b>-6.7%</b>	<b>4.0%</b>	<b>14.8%</b>
MSCI JAPAN INDEX		<b>0.2%</b>	-18.0%	-14.0%	-5.0%	1.4%	-0.3%
<b>INTERNATIONAL BRANDS FUND</b>	<b>\$453m</b>	<b>8.0%</b>	<b>-11.7%</b>	<b>-4.7%</b>	<b>3.1%</b>	<b>10.3%</b>	<b>12.4%</b>
MSCI AC WORLD INDEX		1.5%	-18.0%	-7.4%	0.2%	4.7%	-3.2%
<b>INTERNATIONAL HEALTH CARE FUND</b>	<b>\$17m</b>	<b>11.2%</b>	<b>-7.1%</b>	<b>-4.1%</b>	<b>2.4%</b>	<b>-</b>	<b>2.2%</b>
MSCI AC WORLD HEALTH CARE INDEX		18.3%	-2.0%	-5.9%	0.0%	-	3.4%
<b>INTERNATIONAL TECHNOLOGY FUND</b>	<b>\$38m</b>	<b>4.2%</b>	<b>-12.0%</b>	<b>-6.9%</b>	<b>1.6%</b>	<b>2.9%</b>	<b>7.0%</b>
MSCI AC WORLD IT INDEX		2.2%	-19.0%	-8.0%	-2.1%	-0.6%	-13.4%

\*Morgan Stanley Capital International All Country  
Source: Platinum and MSCI. Refer to Note 1, page 36.

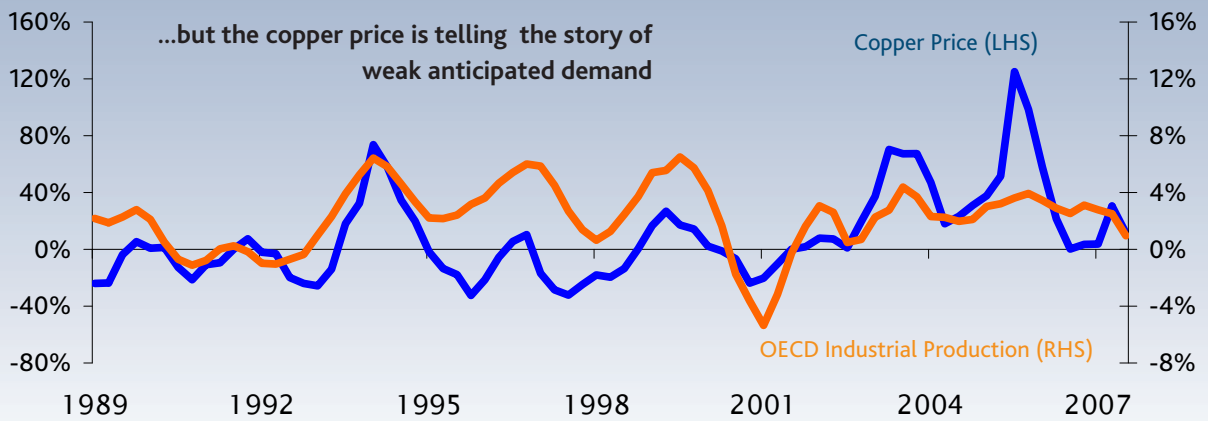


YEN VERSUS EURO EXCHANGE RATE



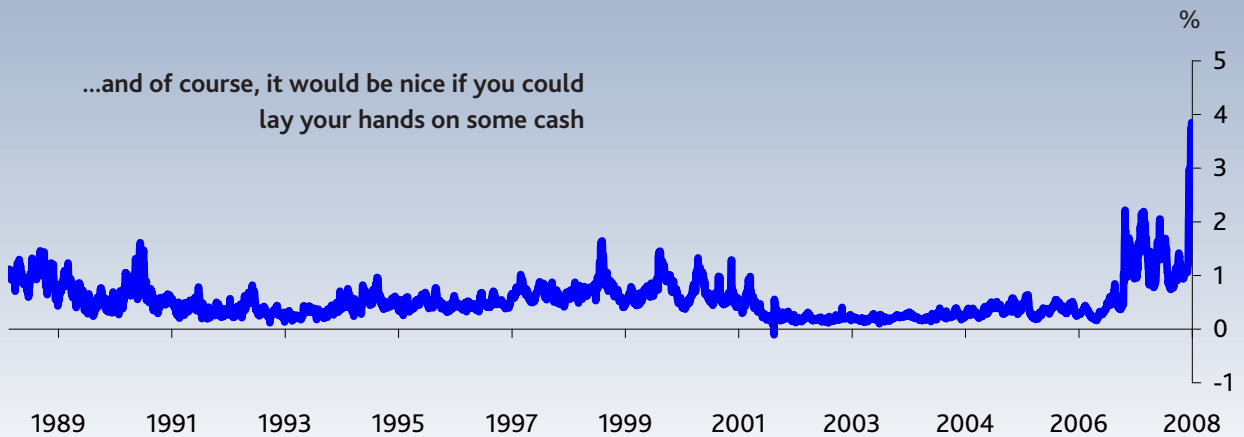
Source: Factset

COPPER PRICE AND OECD INDUSTRIAL PRODUCTION (YOY % CHANGE)



Source: Factset

THREE MONTH LIBOR (LONDON INTERBANK OFFERED RATE) AND THREE MONTH US TREASURY BILL SPREAD



Source: Factset

# PLATINUM INTERNATIONAL FUND



**Kerr Neilson**  
Managing Director

## PERFORMANCE

We are at last moving to the rhythm of global markets. The reversal of the emerging markets and commodity producing industries was slow to come but proved profitable for us. The related trade of having little exposure to the Australian dollar also worked in our favour having been a discouraging drag on performance in the previous two quarters. The Fund rose by 7.5% for the quarter and overall is down 9.2% for the last 12 months. This compares with the MSCI that was up 1.5% for the quarter and down 18% for the year. A more helpful perspective perhaps is the ten year return where this Fund has grown by close to 13% compound pa and the MSCI by 1.4% pa.

Investors rotated away from cyclicals over the quarter in favour of defensives, and financials are now seeing reduced selling pressure - as is shown in the accompanying table below.

## CURRENCIES

We have held the view that the burden of debt in the US is tantamount to a giant short on the US dollar and as the unwinding occurs, the US currency will strengthen against most comers. Fortunately, we abandoned our earlier view that the Asian currencies would be strong, along with the US dollar, and now see them as vulnerable, as foreign flows reverse and internal liquidity tightens. The Japanese yen being a savings-driven currency, is our second choice.

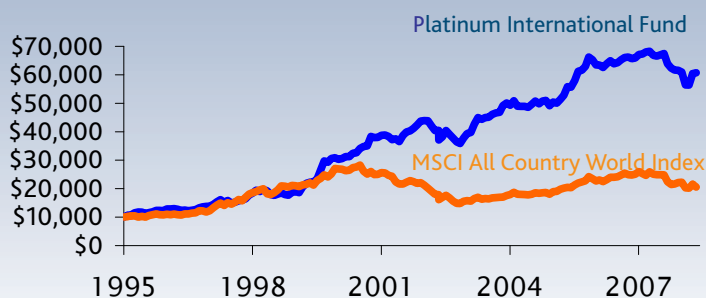
### MSCI WORLD INDEX SECTOR PERFORMANCE (A\$)

SECTOR	QUARTER	1 YEAR
CONSUMER STAPLES	18%	3%
HEALTH CARE	18%	-2%
CONSUMER DISCRETIONARY	9%	-21%
FINANCIALS	9%	-29%
INFORMATION TECHNOLOGY	2%	-19%
TELECOMMUNICATIONS	1%	-19%
UTILITIES	0%	-7%
INDUSTRIALS	-1%	-24%
ENERGY	-14%	-9%
MATERIALS	-23%	-26%

Source: MSCI

### VALUE OF \$10,000 INVESTED SINCE INCEPTION

1 MAY 1995 TO 30 SEPTEMBER 2008



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

## SHORTING

With the breaking of faith in the bull market, the pattern has now changed and cyclicals and emerging markets gave us excellent rewards. After big falls, most of these shorts have been closed as we have migrated to defensives proudly displaying valuations that are completely out of synchrony with the great value available elsewhere. A notable large, and thus far poorly rewarded short, the Russell 2000 (small cap index), now looks extremely prospective.

## CHANGES TO THE PORTFOLIO

DISPOSITION OF ASSETS		
REGION	SEP 2008	JUN 2008
NORTH AMERICA	25%	24%
EUROPE	23%	23%
JAPAN	18%	18%
ASIA AND OTHER	17%	18%
CASH	17%	17%
SHORTS	25%	28%

Source: Platinum

There were no significant changes over the quarter. Some long-held positions moved out of our buy/sell range and holdings were adjusted accordingly. There have been several opportunities to exploit anomalies; for example, we sold out of our US airlines that we had bought into the teeth of the oil spike. This yielded over 50% in three months. Another recent opportunistic purchase was China Mengnui Dairy Company when its share price collapsed from around the mid-HK\$20 to HK\$7 on implications of product contamination.

The case for putting half a percent of the Fund into China Mengnui Dairy was based on the observation that the contamination was perpetrated by the milk aggregators, not the branded packers. Moreover, the government wishes to protect this important rural industry and continue to promote milk as a dietary supplement in schools and hence would work with the industry to quickly re-establish consumer confidence with tight regularity oversight. We

estimated that sales would take 12 to 18 months to get back on track and that the withdrawal of contaminated stock and associated compensation would fully deplete the company's coffers but not put the whole business at risk. It could then resume expanding its product range and network, and quite probably resume its historic growth rate of some 20% pa. This growth rate is based on the tiny consumption of milk products in China of about two litres per head versus say 20 litres per head in Taiwan.

PLATINUM INTERNATIONAL FUND - TOP 20 STOCKS		
STOCK	INDUSTRY	SEP 2008
MICROSOFT CORP	TECHNOLOGY	3.5%
MITSUBISHI UFJ FINANCIAL	FINANCIAL	3.3%
INTERNATIONAL PAPER	PAPER	2.8%
HUTCHISON WHAMPOA TELECO/TRANSPORT		2.7%
SIEMENS	ELECTRICAL	2.7%
CISCO SYSTEMS	TECHNOLOGY	2.5%
BOMBARDIER	TRANSPORT	2.3%
BARRICK GOLD	GOLD	2.2%
JOHNSON & JOHNSON	HEALTH CARE	2.2%
SAMSUNG ELECTRONICS	ELECTRICAL	2.0%
SANOFI-AVENTIS	HEALTH CARE	2.0%
OBAYASHI CORP	CONSTRUCTION	1.7%
SAP	TECHNOLOGY	1.7%
JGC	CONSTRUCTION	1.6%
PERNOD RICARD	BEVERAGE	1.6%
DENSO CORP	AUTO	1.5%
HENKEL KGAA	CONSUMER	1.5%
HENDERSON LAND DEV	PROPERTY	1.4%
BMW	AUTO	1.4%
PPR	RETAIL	1.4%

Source: Platinum

## COMMENTARY

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It cannot be much fun sitting in the audience as the high priests of finance attempt their sorcerous acts to cause the overburden of debt to disappear. The habitual manipulation of the yield curve (with the Fed dropping the cost of short-term money and facilitating a widening of bank spreads) has encouraged borrowers in the Anglo Saxon world (and its imitators) to become careless about the dangers of excessive debt. The trouble this time around is that the concerns about the system itself, and the deflationary effect of over-indebtedness, is diminishing the efficacy of this standard response. The onion-peeling act that is the centre of our attention, will presumably continue to produce surprises but the undercurrent will remain the same:

**Debt is being repaid, reduced or denied and this will impinge on the value of assets.**

In these circumstances, fund managers find themselves in an invidious position. How do they communicate with clients in a meaningful way without drawing on over-worked phrases such as “invest for the long-term” or “expect high volatility” or such? We do not know the most acceptable answer to this but are clear on the following certain, basic principles:

a. By owning fine companies, we are able to participate in the clear trend<sup>1</sup> of rising global (material) living standards.

b. Be sure to pay the appropriate price for these implied future income streams.

c. The changing composition of a well-managed portfolio can enhance this return and reduce some of the risks.

d. Investors at large are hard wired to over-react to recent events and will tend to extrapolate from the current environment. This adds opportunity but also risk.

With this background as context, we are **becoming increasingly excited about the choice of companies that are now available** to us worldwide. Before expanding on this, may I blindfold you and lead you through an exercise relating to a specific company in which we have an interest. This company is not a singular example, but on account of being in a relatively dull industry, it serves to highlight the sort of opportunities current market conditions have delivered.

This company is big; sales over US\$40 billion a year having grown steadily by 9% pa over the last 10 years. Profits in recent years have improved at a faster pace helped by a prolific R&D effort that has created many clever new products. This in turn has resulted in market share gains and a reduced dependence on its principal customer, which itself has been growing at speed and in strength. Though annual sales have risen 2.5 fold in 10 years, the profits by 3.5 fold, the book value from US\$10 billion to US\$22.8 billion, the market capitalisation is now just US\$16.6 billion. Offset by accumulated net cash and investments, the enterprise value falls to only US\$8 billion. **This is below its market capitalisation of 1988!!**

So what is the problem? Are its sales going to nosedive; is its principal customer about to go bust and leave it with unpaid bills; has it created an environmental accident of extreme proportions; has one or more of its products created a civil liability suit that will bring the company close to extinction?

These are the sort of issues we as analysts consider when choosing candidates for this global portfolio. We look at both short- and long-term risks and in addition, try to see these entities through the eyes of other investors. Importantly, we also try to segregate the probable from the unknowable. Lastly, we try to balance the tendency of investors to allow

<sup>1</sup> Though the share of the economic pie will shift periodically between geographic areas and among resources, labour and capital, there is a fundamental order that has ensured a rebalancing over time. Returns have exceeded inflation by a good margin. The real return to holders of US equities from 1900 to 2005 was 6.5% pa, 5.5% for the UK, 4.5% for Japan and 3.1% for Germany.



recent events and information to be unduly ranked when assembling their judgement about a company.

The company described above is Denso. While it may not be the most exciting company in the world, the important fact is that it is, by virtually all measures, an extremely fine company. Being part of the Toyota family as a component and system supplier places it at the high table of energy efficient and hybrid vehicles. Its new product development is skewed towards alternative drives and the electronic elements of tomorrow's automobiles. That this will be a bigger and stronger company in the future is highly likely, notwithstanding and even because of, the US\$25 billion attempted bail-out of the Big Three US auto companies whose suppliers are, in several instances, grimly positioned for the future.

Even if this does not tempt you, as your mind races to the prospects of a global downturn and acceptance that economic de-coupling was a passing fad, surely private equity and sovereign funds are potential buyers? Despite reservations we may have about private equity funds<sup>2</sup>, sovereign funds will, in all probability, find this type of asset more interesting than continuing to add to their bank holdings.

The choice of Denso can assist in illustrating another point. Japan has been in the economic slow lane since its own banking crises of the late 1980s. Foreigners have been the big swing factor in their share market ever since, as the locals lost their nerve and preferred the safety of government bonds or cash in the ensuing 18 years of flat to falling consumer prices. **This market has been through the very thing that is now threatening other markets and yet investors are weary of shares even at give-away prices.** (Do please recall the

<sup>2</sup> We encountered one unusually perspicacious Pennsylvanian family who, having been an early supporter of private equity as it redirected its interests from sun-set industries, had begun to remove itself from private equity a full 18 months ago. We saw the wisdom of this as deal valuations reached silly levels and private equity funds were increasingly resorting to high leverage or exotic concepts to achieve satisfactory returns.

extravagant claims and expectations that accompanied Japan's great boom - all of which is now forgotten.)

No, this is not a case of a repetitive plea for Japan but an ideal opportunity to remind clients of the **persistence of trends and the unwillingness of most to look for the break from past patterns.** The whole Japanese market is a dream-world for unlocking value and its companies are beginning to use their cashed-up balance sheets to pick through the wreckage of Western markets. Note in particular, the opportunistic purchase of 20% of Morgan Stanley by Mitsubishi UFJ Financial Group, one of our top three holdings and Nomura's purchase of the Asian and European businesses of Lehman for no goodwill. Among smaller Japanese companies there are now many examples of gifts like Denso, but at even better value on account of being smaller businesses, sporting PEs in single figures and with half their capitalisation in cash or investments!

You may prefer to focus on recent winning markets with all their promise of hyper-growth from emerging markets, technical innovation and so on. Denso, however, perfectly illustrates **the importance of paying the appropriate valuation of standardised earnings.** As has been our recurring theme, the earnings of many companies are way above trend and so even though valuations now look enticing on price earnings grounds, being say 30% below the historic average of 14 to 15 times, the "e", earnings, are simply not likely to be sustained.

This is where a good fund manager can make a valuable contribution. When all the numbers and discernable facts point to a company being abnormally cheap using 20 to 30 year relationships of price to book, enterprise value to sales and understanding of the company's inherent cash generating capacity, the shares have a high probability of making you a handsome return. This addresses the key a, b, c and d principles that were enunciated above.

## OUTLOOK

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Markets are likely to remain highly volatile and one should brace for earnings disappointments in the months ahead. Being an economic downturn that was caused by financial crises, it is bound to result in a slower recovery than a standard recession.

There are likely to be recurrent concerns about the credit markets and an increasing realisation that the banks need to bolster their shareholder funds from rights issues and in some cases, partial or full government ownership. In any event, politicians and regulators are going to seek their vengeance for having been duped by these central agents in our economic system. Future returns in the banking industry are consequently likely to be a lot lower than in the last five years.

The experience gained from the credit bubble of Japan in the late 1980s may be more instructive than some would admit<sup>3</sup>. What is encouraging is that the Nikkei had a very strong 30% rally once the realisation of the problem was generally articulated.

<sup>3</sup> As their credit-fed boom lifted share prices, impetus was added from ever tighter cross-ownership and the self reinforcing spiral of rising land and property values. In this crisis, the delusion came from derivatives and the self-reinforcing effect of rising valuations as easy credit led to frantic overbidding in the form of take-overs, share-buybacks, and private equity and other vehicles exploiting OPM (other people's money).

We would expect the same thing now, and only await the commentary that the Chinese economy is, veritably, of this world, and is expected to grow at less than 7 or 8 % in the period ahead.

We can identify broad swathes of value across the globe and generally they are not in the recent hot spots of resources and energy. They are also not in most defensive industries. We will continue to take advantage of these favoured areas with our shorting activity. The most prospective areas are those which most tend to dismiss because of their dull near-term prospects.

Will we make you money in the next few quarters? We cannot know. We are now in the earnings down-cycle and valuations in some cases are unusually attractive, providing opportunities that are discounting more than just a weak profit outlook. Some of these companies will be seen in retrospect as once-off opportunities.

# PLATINUM UNHEDGED FUND



Jacob Mitchell  
Portfolio Manager

## PORTFOLIO POSITION

Some of the themes/large positions contained in the current portfolio include (position prior quarter):

15% (13%) Japanese domestic (banks, property, construction, etc); Japan is one of the few developed economies where consumers remain relatively un-gear'd and investment preferences, driven by rising inflationary expectations, can change for the better ie. away from deposits and bonds, towards equities and property.

14% (11%) Technology, Health Care and other once proud "growth" stocks.

13% (14%) Asia ex-Japan/Hong Kong domestic related companies, including Thailand, Korea, Taiwan and Malaysia.

9% (12%) Pulp and Paper, key neglected part of the commodities complex.

9% (10%) Energy and "Green" Technology – a long duration theme.

7% (6%) Gold, a laggard metal and inflation hedge.

7% (4%) Hong Kong listings, largely China consumption exposures (eg. property and retail).

6% (8%) Global Infrastructure/Energy capex related – a combination of the BRIC's (Brazil, Russia, India and China) emerging requirements and the need to "renew" key parts of Western public infrastructure.

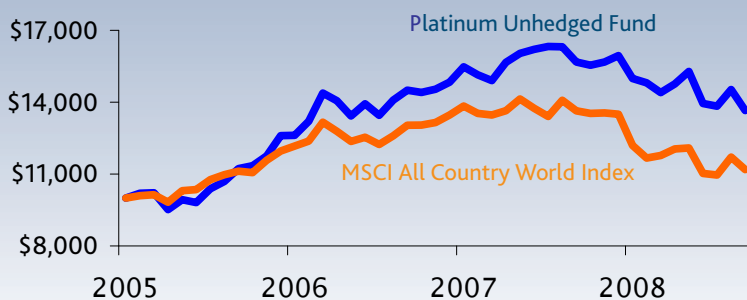
4% (3%) European domestic.

### DISPOSITION OF ASSETS

REGION	SEP 2008	JUN 2008
NORTH AMERICA	30%	31%
ASIA AND OTHER	27%	25%
JAPAN	21%	20%
EUROPE	14%	14%
CASH	8%	10%

Source: Platinum

### VALUE OF \$10,000 INVESTED SINCE INCEPTION 31 JANUARY 2005 TO 30 SEPTEMBER 2008



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

## PERFORMANCE AND CHANGES TO THE PORTFOLIO

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Over the last 12 months the Fund fell 12.9%, outperforming the MSCI All Country World Index (A\$) benchmark by 5% and over the past quarter the Fund fell 2%, underperforming the benchmark by 3.6%. The positions that cost the Fund the most during the quarter were our Asia ex-Japan, energy and capex related holdings; the key contributors were our Japanese domestic holdings and health care holdings. Bombardier, having reached our short-term price target, was sold. Our view, expressed last quarter, that the Euro would fall against the US dollar as the credit crisis migrated to Europe, has proven correct, hence our preference for European exporters over domestics worked relatively well. However, the performance of our Asia ex-Japan holdings, concentrated in domestic names, has not proven to be the safe haven we had intended. We have been adding to these names at lower levels though we have kept our cash holding close to the mandated maximum of 10%.

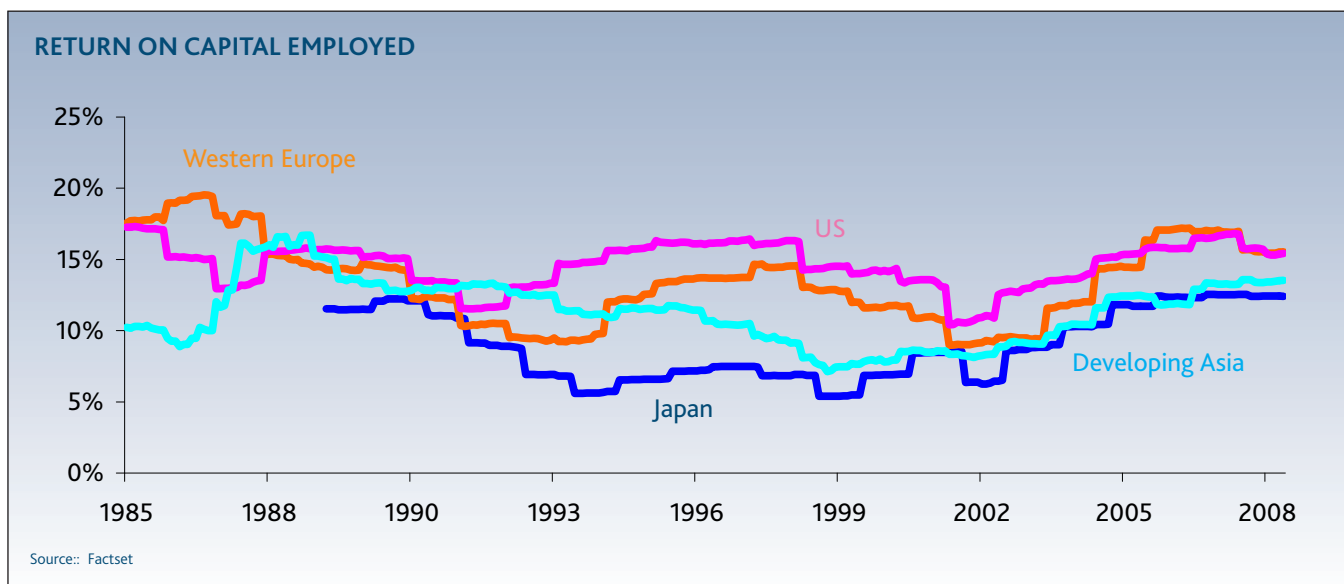
These continue to be “interesting” times for long-only equity investors. We will attempt to protect investors’ capital by remaining relatively defensive in our positioning ie. weighting in gold and some of

the less loved Asian markets, and at the same time take advantage of extreme moves in stocks ie. buying select positions in extremely oversold cyclical names.

## COMMENTARY

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Regular readers of this quarterly should by now have a good understanding of the stocks we own and why we own them, namely, that the focus has been on our “bottom-up” stock picking. As we haven’t added any significant new positions during the quarter, we decided to switch commentary to provide some insight to the type of “top-down” analysis that is performed as context to our stock picking. Given the recent large falls in all equity markets, this type of analysis is all the more pertinent. The story is best told by way of three charts. For the sake of simplicity, we have analysed a universe of potential industrial equity investments aggregated into four geographic groups: United States, developed Europe, Japan and developing Asia (Asia ex-Japan, South Korea and Taiwan). We’ve excluded financials only because they complicate measures of profitability when expressed in terms of



capital employed (prior to the distorting impact of leverage). We have measured three attributes:

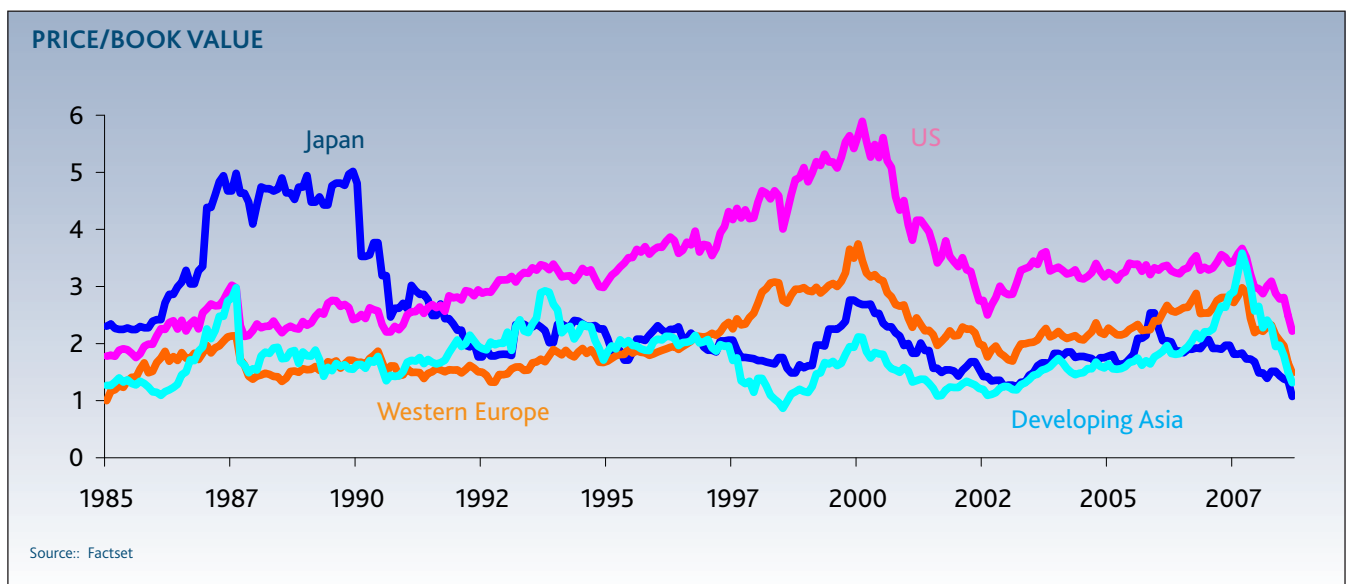
- Profitability
- Valuation
- Financial leverage

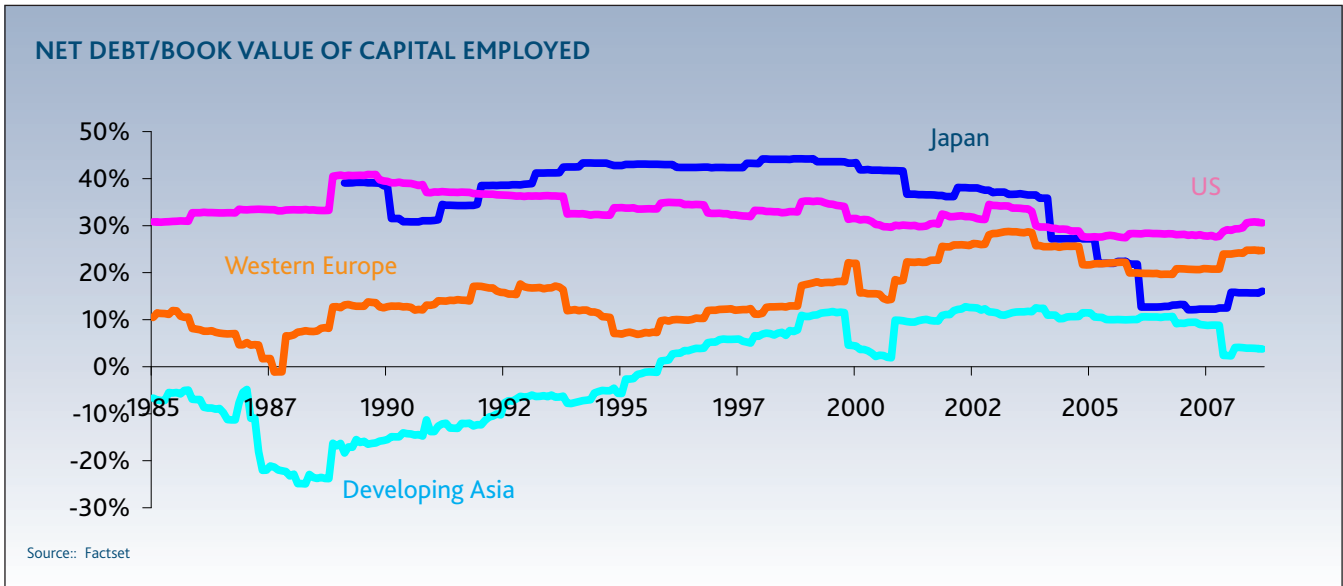
The “Return on Capital Employed” chart on page 10 shows that profitability is cyclically high and well correlated among the four markets. The other stand-out for us is that Japan has largely recovered from its period of poor profitability in the mid-1990s. For some time we have been expecting a downturn in profits and from these charts it’s not hard to see why.

The next question is - how much are we paying for these profits? Many pundits focus on PE ratios. We think PEs suffer from the major problem of not adjusting for sustainable levels of profits, that is, low PEs become high PEs when profits fall. Our preference is to use the relationship between share prices and book values as book values will tend to be less volatile than profits through various economic cycles. Based on these measures, since 1985 (there’s no magic to this starting point, its just

the beginning of our data set), Japan, developing Asia and Europe are either very close to their low points or, in the case of Japan, taking out new lows ie. this is not the beginning of the bear market, and though it also may not be the end, we are starting to discount a one in twenty year type global economic recession. Now, clearly the recession may be worse than this. Our second conclusion is that, at 2.2x book, the US market still looks expensive relative to the other markets which are very close to book value. Here some adjustment needs to be made for share buybacks but importantly, in the last six years, this would apply equally to the Japanese data.

The final question is - how financially geared are the profits ie. how much debt is on the balance sheet? (This is a measure of non-financial corporate debt, as opposed to household debt). We are using a measure of net debt defined as gross debt less cash and passive investments as a proportion of book value capital employed. The two conclusions we draw from this are that the US remains relatively highly geared, and that Japan and developing Asia have, since 2000, paid down debt aggressively to quite low levels.





## OUTLOOK

Our valuation work highlights that in Asia generally we are able to find companies at comparatively attractive valuations and that are generally less levered than their US and European counterparts. This is encouraging for our portfolio positioning as we are significantly over-weight the Asian region.

# 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.

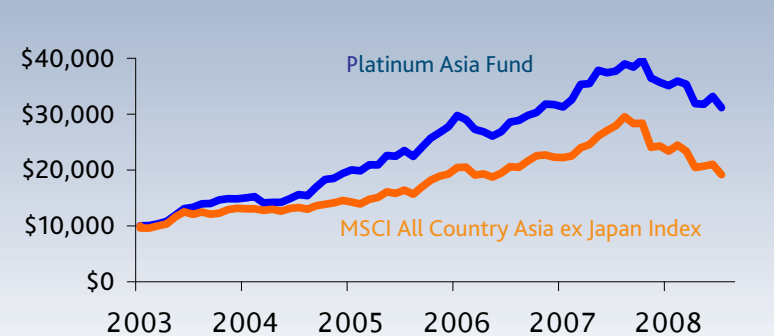
Ruptions in the Western financial sector were the predominant force driving Asian markets during the quarter, resulting in a fall of 18.8% in local currency terms. For Australian investors these losses were significantly offset by the depreciation of the Australian dollar, resulting in a 6.4% fall in 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

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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

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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.

# PLATINUM EUROPEAN FUND

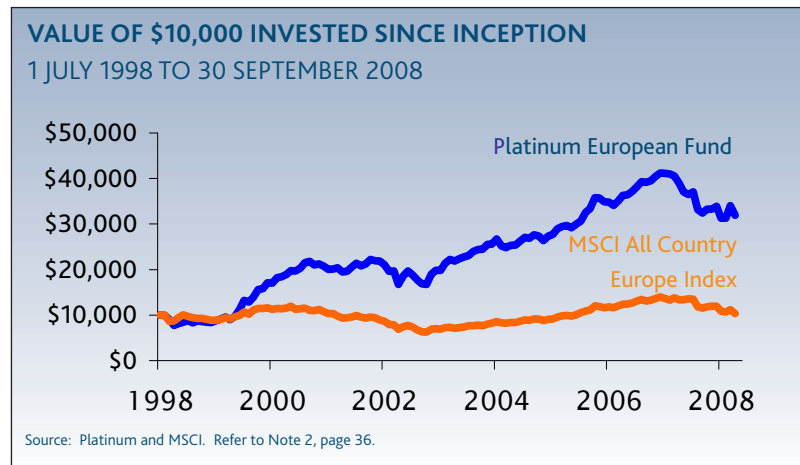


Toby Harrop  
Portfolio Manager

## PERFORMANCE

In a theoretical model, with informed and rational economic agents, a bank requires little or no capital. In *normal* economic times, a bank requires some capital – enough to give creditors confidence in its ability to manage various normal banking “mismatches” (borrowing short-term versus lending longer term, fixed versus variable interest rates etc), plus a little more for prudence. But in a world without confidence in the banking system, almost no amount of capital is sufficient – in the extreme case until capital alone is funding bank assets.

The weekend of 4/5 October 2008 has witnessed European governments and regulators accept this awkward truth. In Germany the government is providing credit of €50 billion (pretty much A\$100 billion) *to one single bank!* The trouble in (world) banking has two faces: on the asset side many bad loans were made – this is the normal way banks lose money. On the liability side, “wholesale” funding (as opposed to traditional “retail” deposit funding) has become prohibitively expensive. This is a relatively unusual problem caused by a loss of confidence in the funding structure of the banks. In Europe, banks are (or were!) less regulated and more highly geared (ie. had less capital relative to assets) than their US cousins. They are as a consequence imploding even more spectacularly than the high-profile US failures.



In the most recent quarter, however, the banks group in Europe did not even make the list of the ten worst performing stock market sectors! That list was dominated by “real economy” industries including machinery, chemicals, energy, steel and mining, (these fell 20-50%). The share prices of the European banks were down a mere 12%. This tells us simply that for all the focus on the banks’ woes and the US government intervention to address them, stock markets are discounting the increasing likelihood of a severe global recession. Earnings (relative to the normal share of the economic pie), are (or were) high all around the world and especially in the West, and the growth cycle has been bounteous.

For the quarter the MSCI European index fell 5% measured in A\$. Half a dozen stocks rose 20% or more in Europe, while perhaps 125 fell by 20% or more – many by much more. Only the weakness of the A\$ (which declined 8% versus the Euro over the period) cushioned the overall (A\$) result.

The Platinum European Fund was +2% for the quarter – although the Fund held virtually no bank exposure and enjoyed most of the decline in the A\$. As mentioned above there were boundless opportunities to lose money in Europe in recent months...

## COMMENTARY

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### **Portfolio analysis and the available landscape**

At the risk of fiddling while Rome burns, a consideration of the European company investment opportunities available may help ground the otherwise frenzied panic evident in the markets and in the press. Not that “good value” companies exist in a vacuum; more that a presumption of unending chaos is no more rational than the hitherto widespread conceit that debt could be accumulated without penalty. So we are assuming, broadly, a significant earnings decline and perhaps a couple of years of contraction in economic activity. Can we find compelling investments with these hurdles?

It is true that in the European bear market of 2000-2003, when the German DAX index declined a full 75% from its peak, that pretty much all stocks became “cheap”. Significantly, the really strong companies, with the (10-20 year) track records and market positioning to prove it, were very good value by then. We were, for example, heavily invested in the broad-based Linde industrial gases business, in the (German) Merck LCD goldmine (a quasi monopoly in chemicals for liquid crystal displays), and in the uniquely positioned industrial enzymes operation of Novozymes.

Today it seems that there are significant areas of lowly valued, quality companies, but that the “greats”, the list of European companies at which we gaze wistfully, are still, generally, expensive. Must they be cheap before the market reaches a base? Not necessarily, but the decision between holding stocks or cash would of course be simpler in such a scenario!

To illustrate: in the shares of Denmark-based Novozymes (the giant of industrial enzymes – biological catalysts – for washing powders, corn-based ethanol and many other applications), we did our best buying below DKK140 in October 2002, and our best selling at nearly DKK690 in July 2007. Today the stock trades at around DKK400, and will make roughly DKK17 of earnings per share, leaving the stock at 24 times PE. This is an improvement on the 30+ times multiple where we finished selling it, but still leaves little room for error. And while the 5-10 year horizon looks very promising for the company, I worry that sanity may prevail in US agricultural policy such that the subsidy to turn food into fuel is reduced. Novozymes can live with a sensible policy on bio-fuels; short-term investors probably cannot!

Elsewhere, Lindt & Spruengli (of chocolate fame), whose share price more than quadrupled over the recent bull market, has seen a one-third retracement and still trades at over 25 times earnings. The progress the company is making in introducing chocolate to America is encouraging, to be sure, but we cannot assume this trend will be unaffected by the coming US consumer recession.

On the other hand, Inditex (in Spain) is the listed company which owns the Zara chain of clothing stores. It has a track record of growth and profitability which reflects the company's groundbreaking organisational approach (high frequency refreshment of the assortment, and extremely swift replenishment of "hit" items), not to mention their skill in "picking" (or defining?!) the clothing fashion... Today the stock is around half its level of late 2007 and less than 14 times the earnings it will probably make this calendar year. This valuation is getting attractive; for the moment the catch is the large exposure (over a third of sales, and more of profits) to Spain, a market where the consumer is even more deserving of a rest than his US cousins!

How do these sorts of investment candidates compare with the portfolio's current holdings? The table shows the current ten largest positions of the Platinum European Fund, together accounting for 30% of the Fund. Infineon, enjoying the ramp-up of its 3-G mobile phone chipset volumes, but still suffering from its exposure to listed DRAM manufacturer Qimonda, has no earnings or dividend this year. Outdoor advertising giant JC Decaux's track record puts it in the company of the very good or great European listed stocks; while Tomra's "reverse vending" recycling technology is growing in many world markets from a tiny base. So those two have 14-times and 16-times multiples.

Otherwise the bulk of the holdings are rated at 7-11 times earnings, and in each case we have chosen

companies who are not reporting unsustainably stretched profitability from the economic boom. That is, adidas is closing the gap (but still well below) Nike's profitability, BMW is less profitable than many mass market producers, and Siemens still has much to do to approach GE's earnings benchmark. Moreover, balance sheets (ie. the level of net indebtedness) of this group of companies range from manageable to strong: we will continue to avoid companies whose indebtedness robs them of choices or worse, threatens their business.

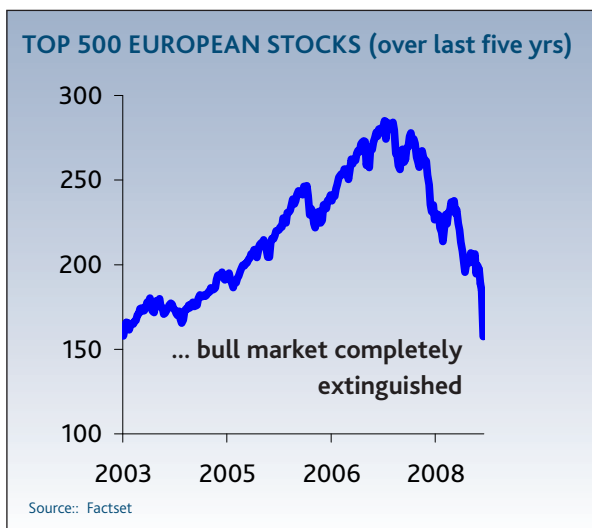
To be frank, this top ten list of companies is more "good" than "great", based on track records and market position, ability to dictate price etc. But their modest prevailing PE ratios means they should prove to be sensible investments over time.

### The Euro – a catalyst, or just a barometer of fear?

As the chart on page 3 shows, both against the US\$ and (importantly) the Yen, finally the exporters of Europe are seeing some relief in the currency markets. Initially, this was a function of too many market participants holding few US\$ after years of declines. As money was repatriated by US entities from their international investments, the US\$ moved higher, and was chased higher by those caught short. Subsequently, the selling in the Euro reflected concerns that European economies were quickly moving into recession, so that higher Euro-area interest rates would have to decline steeply. Most recently, the continued fall in the Euro has been a

PLATINUM EUROPEAN FUND - TOP 10 STOCKS					
COMPANY	INDUSTRY	HOLDING	PE 2008 EST	DIVIDEND YIELD	
HORNBACH GROUP	DIY RETAIL	5.2%	7	2%	
BMW	AUTO	3.4%	8	5%	
LAGARDERE	MEDIA	3.2%	8	5%	
ADIDAS	FOOTWEAR	3.1%	11	2%	
INFINEON	SEMICONDUCTORS	2.9%	N/A	N/A	
GFK	MARKET RESEARCH	2.8%	9	2%	
SIEMENS	ELECTRICAL ENGINEERING	2.5%	11	3%	
SCHNEIDER	ELECTRICAL ENGINEERING	2.3%	7	7%	
JC DECAUX	ADVERTISING	2.4%	14	3%	
TOMRA	RECYCLING	2.4%	16	2%	

Source: Bloomberg



reaction to disunity in the “European” policy response to the ongoing credit chaos.

However, if you are manufacturing in Germany or France and exporting to the US or Asia, the reasons for a weaker Euro are less important than the fact of it. How beneficial a catalyst might this be for BMW, Daimler, EADS (Airbus), Siemens, Schneider etc? So far it appears to have been ignored, but in fact will cushion the fall in earnings we can expect as volumes decline. We have emphasised the importance of the Euro-yen exchange rate, not just that of the Euro-US\$, and it is a good sign to have the Euro trading under Y140, rather than at the Y170 level of recent years.

## OUTLOOK AND POSITION

We have been too quick to reduce the protection from our short positions in the DAX index, as well as in various UK listed mining stocks, and a large European steel maker. Indeed, all of those have fallen further after our close-outs. As the credit crisis deepens into the chaos evident in early October, hindsight makes any recent optimism appear ludicrous. In the current despair and chaos, though, are presumably the seeds of a more effective response from central banks and governments around the world. The trouble today is that time is not yet a healing force – for that credit markets must again be functioning, and yield curves a more familiar slope (ie. short rates below long).

On various normally reliable measures of *capitulation* in markets, the recent days have given strong signals implying at least an intermediate bottom and on that basis, combined with prevailing valuations, we have increased the exposure of the Fund to around 84% net.

In addition, at prices between Eu53-56c we have increased the A\$ hedge position in the portfolio to around 40%. Currencies are relative prices, of course, and while the A\$ suffers as commodity prices fall and local interest rates are cut, the Euro is feeling some of the problems implicit in its structure: Spain, with its vast current account deficit, still has the same exchange rate with France, Germany etc as it did last week, last month, and last year! And Germany does not want to co-operate in a pan-Europe bank rescue effort, once again emphasising that in a crisis, “Euroland” is fictitious, and national interest is alive and well.

# PLATINUM JAPAN FUND



Jacob Mitchell  
Portfolio Manager

## PORTFOLIO POSITION

Some of the themes/large positions contained in the current portfolio include (position prior quarter):

Domestic related 47% (49%), including:

- 13% (13%) Defensive (transport, food, telecommunications, services).
- 13% (12%) Financials.
- 11% (12%) Real estate, retail.
- 8% (7%) Construction.

Export related 36% (37%), including:

- 10% (12%) Technology (including specialty materials) and machine tools.
- 9% (7%) Autos.
- 7% (7%) Global energy and infrastructure capital equipment.
- 6% (6%) Commodity producers.
- 4% (5%) Chemical/process.

Net exposure to stocks 68% (73%).

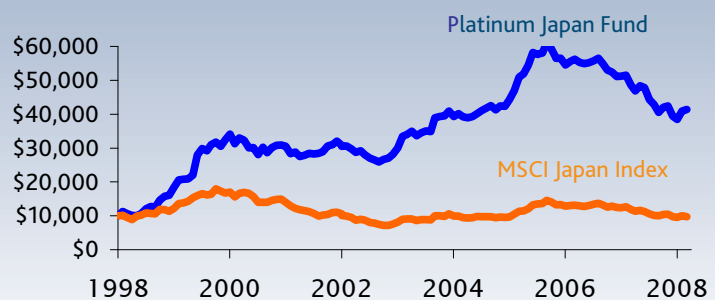
### DISPOSITION OF ASSETS

REGION	SEP 2008	JUN 2008
JAPAN	78%	83%
KOREA	5%	4%
CASH	17%	13%
SHORTS	15%	13%

The Fund also has an 11.8% short position in Japanese Gov't Bonds.

Source: Platinum

### VALUE OF \$10,000 INVESTED SINCE INCEPTION 1 JULY 1998 TO 30 SEPTEMBER 2008



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

## PERFORMANCE AND CHANGES TO THE PORTFOLIO

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Over the past 12 months the Fund fell 15%, outperforming the MSCI Japan Index (AUD) benchmark by 3% and over the past quarter the Fund rose 5%, outperforming the benchmark by 5%. Over the quarter the benchmark fell 18% in JPY terms and was flat in AUD terms.

The three major investments/ideas that made money this quarter were attributed to:

1. Remaining heavily exposed to JPY, with little exposure to the AUD. Over the quarter the AUD depreciated 17.4% against the YEN; as the sell-off intensified we bought AUD, ending the quarter with 18.5% in AUD (having started the quarter with zero exposure).
2. Shorts on South Korean and Japanese cyclicals – explained in more detail below.
3. Our holdings in Japanese construction stocks gained on nascent indications of renewed pricing power – explained in more detail below.

The two major investments/ideas that cost money this quarter were attributed to:

1. Holding onto some of our commodity stocks (Inpex and Mitsui) for too long as we believed their cheap value relative to global peers provided downside protection – this proved wishful thinking. We recently added to our Mitsui position as we think the valuation is extremely compelling, even with a large fall in commodity prices factored in. Based on our work, the Japanese commodity stocks are roughly 30% cheaper than their global peers.
2. The prices of our small stocks have been hit hard as liquidity shrank – we are finding extremely compelling valuations in this area.

Our short exposure over the quarter roughly averaged 16%; with a long exposure of 84% resulting in an average net exposure of 68%. The 5% quarterly gain for the Fund comprised a:

- Long cost of 1.7%
- Short gain of 4.9%
- Cash and other, gain of 1.8%

Another way of expressing the attribution is that in AUD terms, our average long fell 2%, whilst our average short fell in excess of 31%, that is, we shorted the right stocks.

The composition of the long side of our portfolio did not change greatly over the quarter. Most of the action in terms of new positions was on the short side. As stated in the last quarterly report, whilst we think Japanese equities are very cheap, it continues to be hard to achieve absolute gains whilst the world financial system remains in such a fragile state. This was the reason for seeking short opportunities. We entered the quarter with most of our short position concentrated in the South Korean market index and capital equipment stocks as we thought these were vulnerable to declining global growth expectations. Over the quarter we added shorts in Japanese capital equipment and commodity related stocks that had similar vulnerabilities (eg. Kurita Water Industries, Japan Steel Works). As can be seen from the quarterly attribution, this was a profitable strategy. Our only regret is that we did not short more as we managed to talk ourselves out of some prime opportunities. As the sell-off in the global cyclicals (capital equipment, chemicals, commodities) intensified, we closed out some of these positions and replaced them with shorts on highly rated, so-called defensive names (eg. retail, cosmetics), where we believed many domestic investors and index funds had been hiding. We continue to find some interesting opportunities in this area. We think that as global credit remains tight and much of the global economy enters recession, very few areas will prove truly “defensive”.

Also, as stated in the last quarterly report, if the world entered a deflationary debt spiral, we would re-initiate our short on the Japanese Government Bonds (JGBs) as yields collapsed. This has happened.

## COMMENTARY

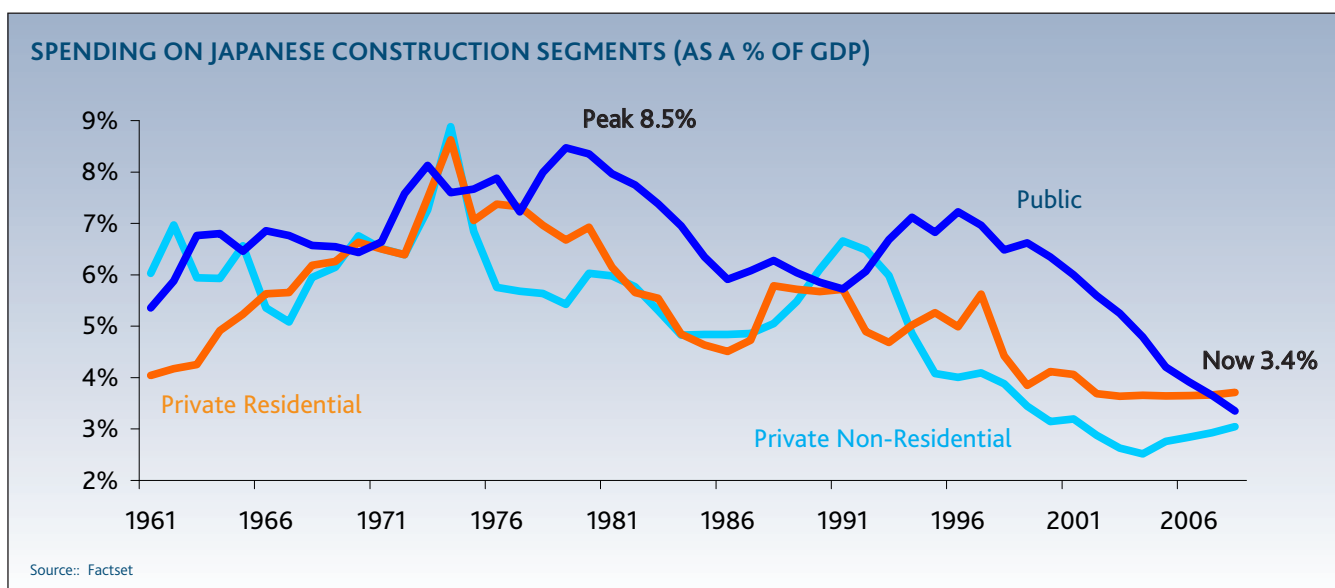
The irony won't be lost on some, that Japan, not often referred to as a bastion of free markets, is yet to ban shorting in any form. Another interesting fact is that ongoing Japanese M&A activity picked-up dramatically during the quarter (TDK-Epcos, Kirin-Dairy Farmers, Tokyo Marine-Philadelphia Consolidated). It would seem that some of those so-called "lazy" balance sheets are being put to work. Whilst not every deal will be satisfactorily executed and the environment is likely to worsen and valuations become cheaper, prices have corrected significantly, as have the number of competing buyers ie. private equity has gone missing in action and only well-capitalised corporates can access debt markets.

In this vein, one of our largest holdings MUFG took a 21% stake in Morgan Stanley at less than book value almost on the same day that Warren Buffet took a stake in Goldman Sachs. Whilst it's fashionable to describe Buffet as an investor of genius, the tag is less likely to be applied to Japan's largest bank. The danger is that both deals prove premature.

In analysing the performance of the longs, we finally witnessed one of our major ideas gain some currency, namely the Japanese construction sector, which many believe to be in terminal decline. Whilst it's early days, it would appear our thesis outlined below is gaining attention:

- After a 19 year declining trend of construction, spending as a proportion of GDP (see chart below), has shrunk below its long-term sustainable level and is now rising as vital projects can no longer be delayed. In fact, private non-residential construction spending has been growing at an average rate of 5% pa since 2003. Most people have forgotten that Japan was once referred to as "The Kingdom of Construction".

- The workforces of the smaller construction companies are shrinking rapidly as the baby-boomer generation on whom they are so heavily dependent retires. In many instances, in excess of half the workforce is over fifty years old. Also, many of the larger companies that we have invested in, have better working conditions and are attracting a younger workforce. They are consequently winning market share, on reasonable margins, from their shrinking rivals.





- The period of rising raw material costs and falling margins has started to reverse as steel prices, et al, are now falling.

In fact, the construction industry data that we track suggests that contract prices (measured on an area basis) are increasing significantly faster than input prices ie. that pricing power is returning to the industry and that margins are set to expand after fifteen years of decline.

## OUTLOOK

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Clearly, the Western world is going through a major consumer recession and this will impact Japan, even if Japan itself exhibits few Western blights within its domestic economy. The feedback loop is clearly the export sector. The question, as always, is how much is in the price? With the retro-spectroscope firmly implanted, Japan probably led the world into the bear market simply because two of the largest sectors in the market, autos and consumer electronics, are highly exposed to the Western world consumer. We have purposely been underweight these sectors, though we would have done better by having absolutely no exposure. Our biggest exposure is Denso, a Toyota affiliate, and the world's largest auto components company. Denso is discussed further in the Platinum International Fund report.

Despite the fear of sounding repetitive or hopelessly naive, our basic case for investing in Japanese equities hasn't changed:

- Japanese household and corporates are under-leveraged; Japanese housing remains affordable and the large banks have a surfeit of deposits.
- Japanese households are significantly underweight risk assets like stocks and bonds relative to their Western counterparts.

- Cash flows to shareholders from dividends and net buyback of shares are greater in Japan than any other country and the buybacks are occurring at very attractive levels. Whilst we would prefer higher payout ratios over buybacks, we're not going to quibble about cash funded buybacks, and we take comfort in many dividend yields being twice that of the JGBs.

- Valuation. On average, Japanese equities are roughly 20% cheaper than developed world equities on a price-to-book basis. The sceptics will state that this discount is warranted due to lower profitability but our work has found that the profitability gap has narrowed considerably in recent times to around a 10% discount. However, we believe there is a major offset. On average, Japanese equities are roughly 33% less geared than the developed world average. Given the current global credit crisis, this should make a significant difference to the risk profile of holding Japanese equities. To date, it hasn't. We are hopeful that at some point this low level of debt, reflected in an ability to maintain dividends and buybacks in the face of a major global recession, will one day result in outperformance, if not absolute returns.

Nonetheless, we lack a clear catalyst for reigniting investor interest. We had thought that domestic investor interest would return if inflation persisted but the worsening credit crunch has put inflationary concerns on hold, though longer-term, there is a chance that inflationary concerns may reignite on the back of coordinated global rate cuts and fiscal pump priming. The ride will remain rocky, but when an entire stock market approaches book value (and as we write, the Nikkei 225 Index as a whole is trading below book value), opportunities abound.

# PLATINUM INTERNATIONAL BRANDS FUND



Simon Trevett  
Portfolio Manager

## PERFORMANCE

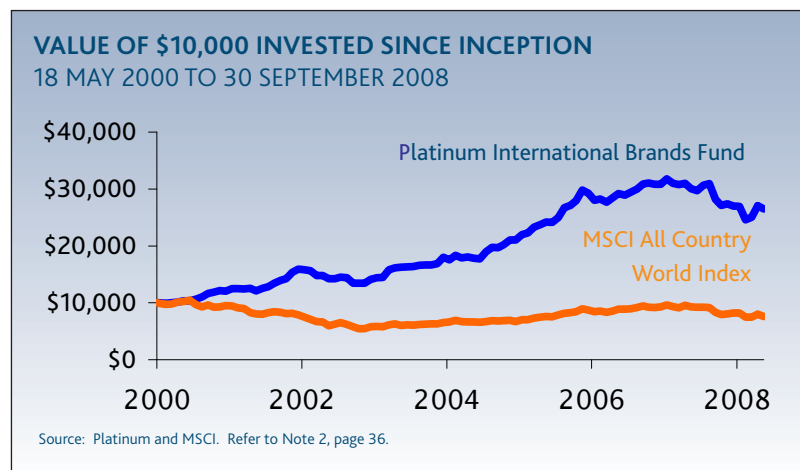
The Fund appreciated by 8% in the quarter, recovering much of the loss of the previous three months. By comparison the MSCI World Index appreciated only 1.5%. Over twelve months the Fund has fallen in value by 11.7% and whilst this loss in value is disappointing, it compares favourably to the MSCI World Index loss of 18%. The Fund continues to have a very different disposition to that of the Index with very little exposure to financial, energy and resource stocks.

Currency has also played a role. The appreciation of the Australian dollar from a low point seven years ago has been commented on regularly in these quarterly reports as having negatively impacted performance. Notwithstanding this headwind, the Platinum International Brands Fund has returned 11.8% pa over this period compared with a decline of 0.7% pa in the MSCI World Index.

Despite the past impact on performance, the Fund's net exposure to the Australian dollar was kept low. A net exposure of circa 6% to the Australian dollar at the start of the quarter has underpinned the recent performance. Whilst it is difficult to find examples of stocks appreciating in the quarter, a number of investments that *declined* in their native currency provided *positive* returns to the Fund.

DISPOSITION OF ASSETS		
REGION	SEP 2008	JUN 2008
EUROPE	39%	38%
ASIA	22%	21%
JAPAN	13%	12%
NORTH AMERICA	6%	7%
SOUTH AMERICA	3%	2%
CASH	17%	20%
SHORTS	1%	10%

Source: Platinum



With the occasional exception, the contribution from companies in Japan, Asia and Europe was negative in local currency. Estee Lauder appreciated in the quarter in its native currency, as did the Fund's Italian investments; Tod's, Campari and Piaggio.

The markets have continued to be concerned with the consumer's capacity to spend on luxury or discretionary items, favouring instead the providers of staples. Accordingly, the shares of companies such as Kellogg, General Mills, Campbells (Soup) and other well known consumer staples have generally fared well. The management of these companies continue to be optimistic, highlighting the benefit of falling commodity prices and a growing preference for eating at home.

For those investors who are restricted by Index concerns, the apparent security of the consumer staple stocks has proved comforting and indeed relatively rewarding. However, the relative as well as absolute valuation is becoming increasingly indefensible; accordingly the Fund initiated a short position in Proctor and Gamble.

## COMMENTARY

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The contamination of the milk supply in China provided an opportunity to buy the market leading company, China Mengnui Dairy Co, at a much reduced price. The impact on the earnings of the company in the near term will be significant, however, our experience of these types of incidents is that, if properly managed, the company can rebound somewhat more quickly than the headlines might suggest.

A product recall, not unheard of in many well known consumer companies, is perhaps a rather drastic example of a how a stock might quickly lose two thirds of its value. More generally and perhaps more indiscriminately than we might like, companies that we know well are being offered at tempting prices. How to evaluate these opportunities prospectively with an appropriate degree of circumspection on future earnings is the more interesting question.

Stocks are being offered with apparently no regard for decades of consistent performance or even the current balance sheet, with valuations increasingly below book value. The strength of the brand, which often is not considered on the balance sheet, can underpin earnings over the longer term and provide a degree of confidence.

This tension over prospective earnings is evident not only in the revised pricing of stocks but also explicitly in the meetings between analysts and corporate management. There have been two particular areas in our focus: the robustness of growth in emerging markets and the impact on sales of price increases.

In this first area, management teams continue to espouse enthusiasm and report little sign of slowdown in their emerging market businesses. Compared with the household balance sheets of Western consumers, we would share some of their optimism albeit with a healthy degree of scepticism as to when they will start to report a slower growth achieved at a higher cost.

Regarding the second area of focus, in the enthusiasm of expansionary times the successful maxim was more for more. This was interpreted in different ways but generally manifested in a shift to



higher priced products. *Trading up, Affordable Luxury, Premium Product, Masstige (prestige for the masses) etc.* However, as the pressure intensifies to maintain past rates of sales and earnings growth, various bad practices start to reappear, especially the brand damaging practice of offering *less for more*.

Now, branded goods companies are clearly adept at marketing. We have also observed and written regularly about the astuteness of consumers to see through brand damaging activities, especially when being charged more for less. When in all earnestness senior management describe the success of initiatives such as “price pack architecture” as an indication of ‘pricing power’ we are instinctively concerned about earnings projections. When management defend the resultant loss of volume as a positive outcome, we are even more circumspect.

Our attempts to understand this propaganda lead us to conclude that it is essentially jargon for subterfuge; similar to increasing the facing (front dimensions of the packaging visible on shelf) whilst reducing the contents. Likewise, changes to bottle sizes may be relatively easy for consumers to detect; more insidious though are reductions in (expensive) active ingredients that impact product performance and lead to more damaging consequences for the brand and corporate earnings. Vigilance in the supermarket aisles for investors and consumers alike will become increasingly necessary.

These antics are not new and whilst they may appear to support near-term earnings, they can invariably lead to longer term difficulties. We are finding opportunities to take short positions in those companies that might best be described as having an undue focus on short-term earnings.

## OUTLOOK

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Expansionary management teams have been thwarted by the difficulties of raising debt or issuing equity. Prudent management teams who were not tempted by *strategic urgency* to compete with the now absent financial buyers of assets, find themselves with strong balance sheets and a growing list of opportunities. Having the patience to manage their businesses over generations, rather than financial quarters, might seem like an indulgence. It may also seem to be a rather irreverent observation on our part, but we will continue to scrutinise these companies carefully and watch to see welcome signposts emerge to validate our judgements.

The volatility in the markets and the ongoing headline concerns will provide opportunities to acquire leading branded goods companies at some compelling valuations. Rising unemployment, curtailed credit and falling asset prices might suggest an extended contraction in earnings to be the most probable outcome for many companies. Indeed, we would even question whether the reality of such difficult conditions is yet fully reflected. Within this maelstrom there will be companies with superior market positions that take advantage of the weakness of competitors and of the strength of their brands to improve their relative standing. The Fund will likewise continue to take those opportunities to invest in superior companies at attractive prices.

# PLATINUM INTERNATIONAL HEALTH CARE FUND



**Bianca Elzinger**  
Portfolio Manager

## PERFORMANCE AND CHANGES TO THE PORTFOLIO

### PERFORMANCE (compound pa, to 30 September 2008)

	QUARTER	1 YR	2 YRS	3 YRS	SINCE INCEPTION
<b>PLATINUM INT'L HEALTH CARE FUND</b>	11%	-7%	-4%	2%	2%
<b>MSCI HEALTH CARE INDEX</b>	18%	-2%	-6%	0%	3%

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

The Platinum International Health Care Fund increased over 11% in the quarter compared to the MSCI Health Care Index returning over 18%. For the year the Fund lost just over 7% versus a loss of 2% for the Index.

Steady performers this quarter were our big pharma holdings Johnson and Johnson along with Novartis. Both companies have made steady pipeline improvements, while their sales and marketing budgets are declining.

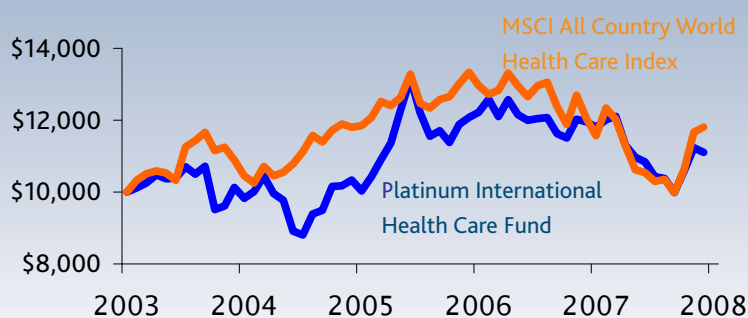
The big disappointments were our small biotech holdings which were big contributors to the divergent performance of the Fund versus the Index. It is important to remember that the Index has almost no exposure to small biotechs and is heavily concentrated in well-known large health care companies (see illustration overleaf). On the contrary, we believe small biotechs are vital in the health care sector, particularly to big pharma. The sentiment towards the biotech sector can turn very rapidly and pharma will pay significant premiums as Novartis most recently illustrated when acquiring Swiss biotech Speedel (90%+ premium).

### DISPOSITION OF ASSETS

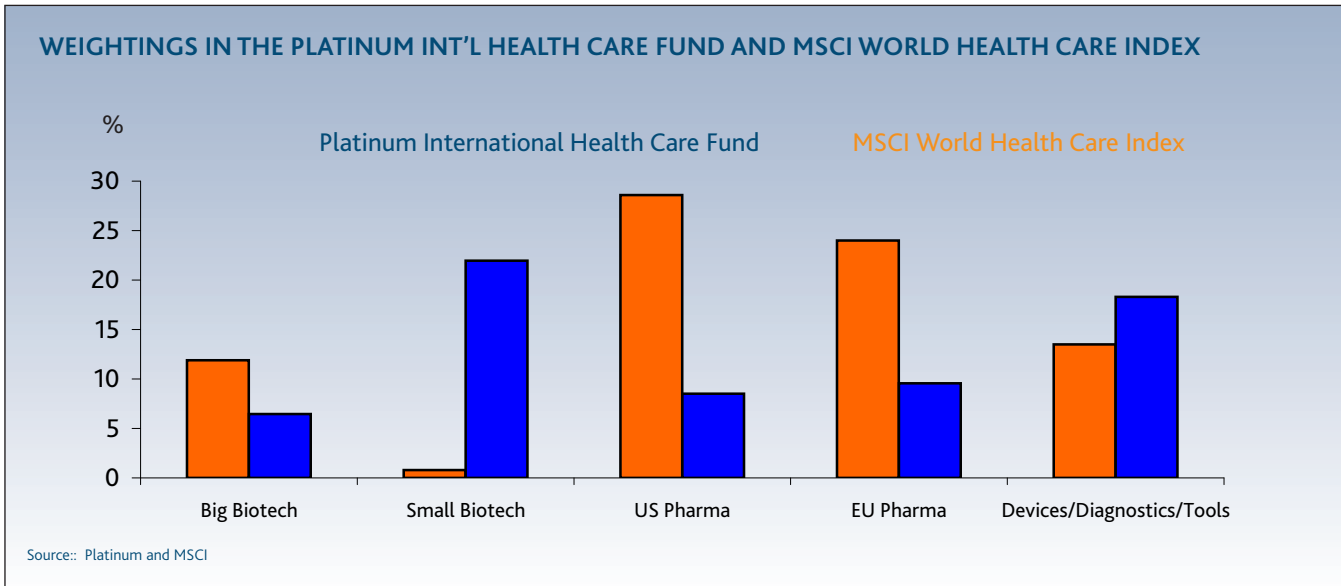
REGION	SEP 2008	JUN 2008
<b>NORTH AMERICA</b>	47%	44%
<b>EUROPE</b>	30%	30%
<b>JAPAN</b>	3%	3%
<b>ASIA</b>	0%	2%
<b>SOUTH AMERICA</b>	0%	1%
<b>CASH</b>	20%	20%
<b>SHORTS</b>	2%	2%

Source: Platinum

### VALUE OF \$10,000 INVESTED SINCE INCEPTION 10 NOVEMBER 2003 TO 30 SEPTEMBER 2008



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



Small biotechs are a long-term investment. In the current environment, even if they don't perform as "stocks" their underlying businesses will rise commensurate with the efficacy of their drug development work. There is also a remarkable change occurring in the biotech sector. It is comparable to a "changing of the guard" signalling the next chapter in the industry. This is illustrated in well-established big biotechs, such as Genentech and Imclone being acquired by big pharma. As mentioned previously, this consolidation will continue and will likely accelerate given the recent decline of valuations.

## COMMENTARY AND OUTLOOK

On a recent trip to Europe it was very clear that companies in which we are invested are much happier, they like the challenges that are occurring and have motivated staff working for them. This is the opposite reaction to the disillusioned investor who is blaming the strict regulator for every setback. A large time horizon disconnection is the key difference between the two groups. Investors have trouble looking beyond the next earnings announcement and are obsessed with the latest "growth prescription". They repeatedly ask about "the economy's impact on the business". Management, in contrast, is seriously bored with such discussions. Many CEOs now refuse to meet with investors or respond rather angrily to such concerns. They vehemently point out that their job includes managing a business in good and bad times as well as making sure there are *new products* and *new markets* to be developed over years, not months to come. This will most definitely include using their cash on external or internal product opportunities and may also mean that share buybacks will not occur as frequently as investors are accustomed. For us, this is sensible as we prefer the potentiality from a quality product which will last for many years to come.

Finance directors are similarly bored by short-term focus and keep directing analysts to consider where cash comes from in a business and how it has been, and will be, invested. Patent expirations are well defined and there is no question that expirations will negatively influence profits, but what is often underestimated is the stability of the overall business, particularly the role of old, so-called “tail products” whose production costs are long covered. Cash flow is a priority within companies and it is also the main selection criteria when acquiring a new business. Biologics and vaccines are well placed in this respect, because despite competition, these are stable cash flow machines. There is no doubt that management will pay a good price for such assets.

At last, big pharma understands the urgency and is looking externally. Business development teams are rapidly expanding and, what is more important, CEOs are giving clearer guidance to their teams and are also spending more time on the road visiting their far flung subsidiaries. This is a significant change and has resulted in decisions being made within weeks rather than months.

Managing clinical trials is another area that is being changed and is probably the first real sign of “an increase in R&D productivity”, until now a very widely used management catch phrase. Basically companies made the remarkable observation that programs can be scheduled in parallel (while one

trial is running, start organising the next one, reducing the time to three months from 6-9 months). This really highlights how complacent big pharma has been. One executive very honestly admitted “we were asleep 10 years ago and got it wrong. We were far too complacent, only someone new was able to force through a cultural change”.

Our sense is that there is a strong shift in big pharma towards becoming the new wave of big biotech. Consequently, as opposed to the general opinion of using big biotech and big medtech companies as a hiding place in uncertain times, big pharma has become interesting because of its own merits.

Another interesting observation from the EU was the very active investment strategy of companies that have a majority shareholder. These companies develop a strategy, research it thoroughly, keep focused and in the end are not afraid to use their money. At the right price, these companies are very interesting opportunities.

In summary, we will continue to make sure we understand the cash generating ability of our companies and evaluate their approach in selecting new opportunities. At the same time we will continue to take advantage of the recent panic in small biotechs and from time to time we will add medtech and diagnostic companies which have quality products and a very good understanding of their customers.

# PLATINUM INTERNATIONAL TECHNOLOGY FUND



Alex Barbi  
Portfolio Manager

## PERFORMANCE AND CHANGES TO THE PORTFOLIO

PERFORMANCE (compound pa, to 30 September 2008)					
	QUARTER	1 YR	3 YRS	5 YRS SINCE INCEPTION	
PLATINUM INT'L TECH FUND	4%	-12%	2%	3%	7%
MSCI WORLD IT INDEX	2%	-19%	-2%	-1%	-13%

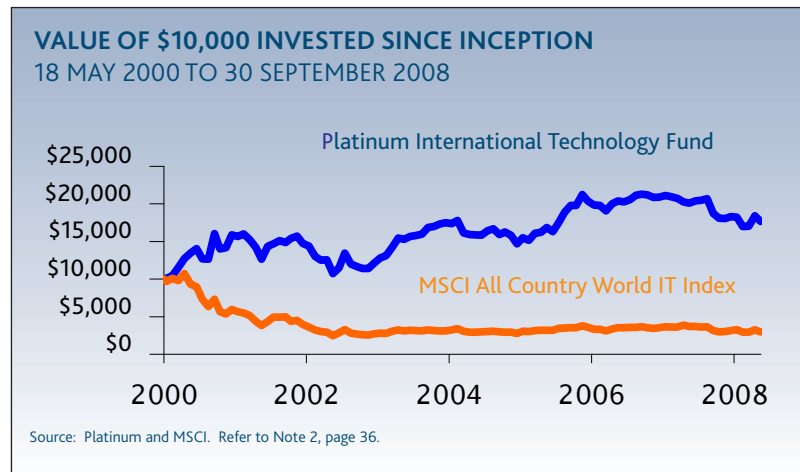
Source: Platinum and MSCI. Refer to Note 1, page 36.

The Fund rose 4.2% during the quarter compared to a 2.2 % rise of the MSCI World Information Technology (A\$) Index. The small out-performance was largely driven by a positive contribution from some of our key US holdings with some strong support from currency gains (the Australian dollar lost more than 20% against the US dollar and it was similarly weak against all major currencies). Our decision to maintain a very limited exposure to the Australian dollar (8% at quarter end) has proved to be correct and helped the Fund at a time when technology stocks suffered across the board. By way of example, the technology heavy Nasdaq was down 13% in US dollar terms in the same period.

A small contribution to performance also came from our short positions in selected US technology stocks whose excessive valuations revealed a clear disconnection from the current climate of economic slowdown and oncoming recession.

DISPOSITION OF ASSETS		
REGION	SEP 2008	JUN 2008
ASIA	28%	26%
NORTH AMERICA	22%	17%
EUROPE	16%	16%
JAPAN	14%	16%
OTHER	0%	1%
CASH	20%	24%
SHORTS	11%	12%

Source: Platinum





### Major changes:

We slightly reduced the Fund's positions in semiconductors (mainly by selling part of our holdings in ST Microelectronics and Taiwan Semiconductors). As consumers across the globe retreat, discretionary areas like consumer electronics will be impacted and manufacturers of electronic components will slow down, hence our more cautious position on a highly cyclical part of technology industry.

We exited at a profit our position in Foundry Networks (data networking) after it was taken over at a 40% premium by Brocade Communication Systems (storage networking).

We slightly increased our exposure to telecom operators by adding to our holdings in Europe (Vivendi) and Taiwan (Chunghwa Telecom). Both companies have solid balance sheets, avenues to grow their businesses even during a downturn, and the ability to pay stable dividends to shareholders.

The Fund's largest positions are in telecom operators (15%), telecom equipment - wireless and broadband (12%), software and IT services (12%) and semiconductors and related capital equipment (10%). We have also taken the opportunity of recent sharp price corrections to selectively add some investments in the solar cell industry (currently about 4% of total exposure).

The Fund's largest individual positions are: Amdocs (market leader in billing software and operating support systems for tier-1 telecom and Pay TV operators), Microsoft (the global software giant), IDS Scheer (a leading German business process software specialist), Cisco Systems (the global leader in data networking and advanced video technologies) and Chunghwa Telecom (the dominant integrated telephone company in Taiwan).

At quarter end the Fund was 80% invested with a 10% short position on selected US stocks and an index, leaving a 70% net exposure.

## COMMENTARY AND OUTLOOK

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### **Solid businesses attractively valued**

The current market downturn has pushed some of our stocks down to extremely low valuations relative to the last 10 or 15 years. We have seen many technology stocks being dumped even before the bad news is delivered. As is often the case, the market is good at anticipating what the economy is preparing for us: now it is clearly saying that the world is going to face a severe recession.

Prices for many technology stocks already reflect quite a pessimistic scenario. If the current banking system troubles end up damaging the real economy for a protracted period of time, we suspect that the market is right. However, we believe that once the financial system finds its new equilibrium (with some help from the public sector and/or the taxpayer), those companies with solid business models, strong balance sheets and solid competitive advantages will perform relatively better and maintain or increase their leadership positions.

We think that in the near future the market will pay a premium for quality. It will be important to own stocks characterised by high cash flow generation, clean balance sheets (net cash or little debt), high operating margins and large return on capital.

Some of our key holdings are now attractively valued and display very solid valuation and profitability ratios.

The table over is representative of how the Fund's holdings are well-equipped to cope with a difficult economic environment. We think that the majority of the Fund's holdings meet these requirements.

**PLATINUM INTERNATIONAL TECHNOLOGY FUND - SELECTED HOLDINGS**

COMPANY	MARKET CAPITALISATION (USD MN)	NET CASH (USD MN)	FREE CASH FLOW (USD MN)	PE (FORECAST)	OPERATING MARGIN (%)	ROE %
<b>MICROSOFT</b>	<b>240,309</b>	<b>23,662</b>	<b>21,612</b>	<b>10.4</b>	<b>40.2</b>	<b>52.5</b>
<b>CISCO SYSTEMS</b>	<b>125,014</b>	<b>19,342</b>	<b>12,089</b>	<b>11.6</b>	<b>23.9</b>	<b>24.5</b>
<b>AMDOCS</b>	<b>5,677</b>	<b>727</b>	<b>424</b>	<b>11.3</b>	<b>12.8</b>	<b>15.4</b>
<b>VIVENDI</b>	<b>22,174</b>	<b>-5,140</b>	<b>5,250</b>	<b>7.7</b>	<b>22.2</b>	<b>13.0</b>

Source: Factset, Historic data

## Vivendi

French media conglomerate Vivendi traces its roots to 1853 when Napoleon created Compagnie Generale des Eaux (CGE) as a concessionary facility to supply water to the cities of Lyon and Paris. The company prospered for more than a century, progressively evolving into a diversified industrial conglomerate. In the mid-nineties, a modern day Napoleon (the flamboyant CEO Mr Messier), led an aggressive expansion programme into telecom, media and the internet and brought the group to the verge of bankruptcy. In 2003, a change in management (Mr Messier was fired), and a pragmatic restructuring strategy, signalled the beginning of a more rational Vivendi. The company started selling peripheral assets to reduce debt and focused on markets where they could play a role as primary competitor. At the end of a five year process, the businesses kept by Vivendi are now run by industry leading management and hold dominant market positions in their respective fields.

Since 2007, management has executed four reasonable acquisitions. They merged their French mobile phone operator with the third biggest broadband provider in the country. Pure play mobile operators often rely on the fixed line networks of competitors to 'backhaul' traffic between their towers, the telephone network and the internet. This merger effectively shields Vivendi from backhaul cost inflation as data volumes increase rapidly on their network. It also provides scale in the fast growing broadband market and permits them to offer 'bundles' (combinations of landline, internet, and mobile services) to customers.

In smaller deals, Vivendi's French Pay TV operation merged with their main competitor to create a Foxtel-like monopoly. Vivendi also gained majority ownership of the most profitable entertainment software company in the world by merging their games division with leading US console software publisher, Activision. Finally, their Universal Music business bought rival Bertelsmann's music publishing assets.

Vivendi's "utility"-like revenues should be more resilient than its more cyclical peers in a downturn and each acquisition should improve efficiency, reduce competition and increase pricing power. As a result Vivendi has a relatively low risk avenue to grow profits despite the market's fear of a consumer recession.

The media sector is disliked due to the structural challenges faced by 'old media' in the internet era and the cyclical headwinds of an emerging consumer and advertising recession. Vivendi is also penalised by a further discount often applied to conglomerates for their complex structures and acquisitive ways.

For these reasons Vivendi trades at a very low 8x PE for 2008, a clear discount to "pure-play" peers. With a market capitalisation of €22 billion, manageable debt, and a 7% dividend yield, we feel more than compensated for the risks.

## OUTLOOK

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We think that radical changes in fiscal policies in Europe, the United States (with likely a Democrat president) and in China (moving to a domestic consumption oriented approach) will have to be adopted to mitigate the negative effect of a global recession. European governments are already calling for relaxation of the EuroZone stability pact (limiting government deficits to 3% of GDP) in order to save their banking industry first, and stimulate economic growth after. This will take time, and probably will change the growth profile of many industries. Capital will be re-allocated away from some areas (for example less money spent on defence, housing or retail floor space) and into previously neglected ones (public infrastructure, energy generation or renewable energies). The consequences of these radical changes will be evident only in the long-term but in the meantime companies will have to adapt to contain damage and/or benefit from the evolving landscape.

Though one cannot be particularly excited about the recent performance of tech stocks, at the same time, as investors, we now have available a number of first-class quality companies at increasingly attractive valuations. It will be our job in the next few weeks and months to identify and invest in those technology stocks which we believe will benefit from the emerging trends described above.

## DEBT: THE DEVIL'S DELIGHT

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Banks used to be simple entities; paying for deposits, adding a margin, and lending out against security. One of the early changes to the overall industry occurred in the 1960s when, in broad terms, the US became a nation of spenders rather than savers. Demand for credit outstripped supply, but on account of a hangover from the depression era, interest payments on deposits were capped, and the squeeze on funding encouraged the banks to innovate.

One invention was the negotiable certificate of deposit (NCD) which circumvented prevailing regulations and banks subsequently became less dependent on standard deposits and increasingly relied on the money market. Recall the Eurodollar market explosion of the 1970s. This also meant banks were less dependent on the need for branches but it added to the risk of the business because funding became much more fluid. The danger of not having a sticky deposit base revealed itself with the near collapse of Continental Illinois in 1984. Ginnie Mae, a US government-owned mortgage lender, found a way to diminish dependence on peripatetic depositors by giving birth to the concept of securitisation. Mortgages were pooled and sold to investors for the life of the mortgage.

Ever innovative, commercial banks developed this concept and were soon securitising auto loans, credit card receivables and student loans. To increase their appeal to a broader span of investors, banks packaged these income flows from the underlying loans into tiered products with the most secure giving the lowest income and the most risky gaining the prospect of the highest income. In the event that some of the underlying loans failed to meet their interest and principal payments, the losses would first be borne by the higher yielding tranches. (In general the presumption was that the 'high-quality' paper would be protected by the equity and mezzanine holders taking the first loss of say, 20% of the pool).

Freed from the need to chase depositors, the emphasis within banks shifted to loan origination and balance sheet expansion; the ratio of loans to equity was put on an upward trajectory. As time dulled the memory of the lending excesses of the 1920s, when the US government had to intervene to protect the depositors of sound banks, the Glass-Steagall Act was repealed in 1999. This action was not significant in itself but, to vigilant investors, it gave warning as to how far risk tolerance had changed over 50 years. By the 1990s anyway, the investment banks and commercial banks were becoming more intertwined and yet were overseen by separate entities; the Fed for the banks and the Securities and Exchange Commission for the investment banks. This was later found to be untenable.

Regulation has played a critical role throughout. The Savings & Loan crisis of the 1980s was greatly affected by an unusual characteristic of the US home mortgage market. Borrowers are permitted to renegotiate the cost of their mortgage when long-term interest rates fall and yet lenders have no reciprocal rights when rates rise, hence creating funding problems and causing distortions for the lenders.

As part of the desire to make housing affordable, the government sponsored organisations of Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation) were chartered to insure mortgagees against loss. The premium was charged by adding say, 0.15-0.25% onto the interest charge paid by the borrower. Having started with a narrow charter it wasn't long before the institutional imperative drove them to an ambitious growth strategy which grossly increased the riskiness of their activities. From being cash flow rich insurers with long-tail liabilities, these entities were soon competing toe-to-toe with the banks building up large portfolios of interest rate and credit risk.

By the year 2000, bankers and particularly investment bankers, were the masters of the universe. Long forgotten was the dour deposit-taking institution; the game was one of growth, product distribution and by necessity, leverage. The investment banks and commercial banks seemingly had no constraints on their funding, interest rates by 2002 were at rock bottom as the bailout of the dot.com era took hold, while the recycling of funds by nations in current account surplus allowed long rates to stay low and funding plentiful. Unlike earlier booms, the deflationary force of a vast new labour supply entering the capitalist world much-diminished the usual inflation cycle.

However, the crushing effect of excessive debt became apparent when some of the mortgage-backed pools' performance deteriorated in late 2006. It then became apparent how dependent banks had become on the interbank market, a mechanism founded on counter-party trust. Gradually the interlocking nature of the banking system became more evident. The Fed responded by allowing cash-strapped banks to present a wider range of instruments in exchange for Fed loans. In the scramble to reduce leverage, the value of collateralised instruments tumbled, the market pricing mechanism virtually failed and institutions that had built strong businesses to insure counterparty risk (a mechanism that had evolved from the 70s as a substitute for physical collateral) found themselves overextended. In quick succession the authorities cut rates, extended credit to broker-dealers, orchestrated a forced-bailout of Bear Stearns and for the first time put taxpayer money at risk by agreeing to absorb a potential \$30 billion of losses.

For a time this appeared to stabilise the system but the sheer magnitude of outstanding obligations and the doubts about the inherent value of collateralised instruments came back to haunt the liquidity of the fixed interest markets. Action by the Fed and other central banks in this global crisis, saw a selective winnowing of survivors from failures, with the survivors being characterised by a more prudent business philosophy. However, even some of these may find the need for infusion of capital or explicit government assistance. Issues such as the scale of bank liabilities to GDP, regional regulatory differences in relation to a global problem, philosophical differences and the complexity of counterparty involvement, are hampering multinational coordination.

In this note we have tried to synthesise a highly complex evolution of the US and to some extent, the global banking system, which has been characterised by a remarkable shift in prudential standards where leverage has been taken to an extreme. We cannot at this point know the full implications but would suggest that a heavy cost will be borne by shareholders of financial institutions as governments grapple with the problem of an inherited top-heavy debt structure. In addition, regulators can be expected to over-legislate for these past errors. Share investors have responded fiercely and have repriced risk assets to reflect the inevitable negative impact on economic activity and their diminished risk appetite.

Kerr Neilson and Nik Dvornak  
10 October 2008

## NOTES

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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 past 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).

2. The investment returns depicted in the graphs are cumulative on A\$10,000 invested in the relevant Fund since inception relative to their Index (in A\$) as per below:

Platinum International Fund:  
Inception 1 May 1995, MSCI All Country World Net Index

Platinum Unhedged Fund:  
Inception 31 January 2005, MSCI All Country World Net Index

Platinum Asia Fund:  
Inception 3 March 2003, MSCI All Country Asia ex Japan Net Index

Platinum European Fund:  
Inception 1 July 1998, MSCI All Country Europe Net Index

Platinum Japan Fund:  
Inception 1 July 1998, MSCI Japan Net Index

Platinum International Brands Fund:  
Inception 18 May 2000, MSCI All Country World Net Index

Platinum International Health Care Fund:  
Inception 10 November 2003, MSCI All Country World Health Care Net Index

Platinum International Technology Fund:  
Inception 18 May 2000, MSCI All Country World Information Technology 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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The Platinum Trust Product Disclosure Statement No. 7 (PDS), is the current offer document for the Funds. You can obtain a copy of the PDS from Platinum's website, [www.platinum.com.au](http://www.platinum.com.au), or by contacting Investor Services on 1300 726 700 (Australian investors only), 02 9255 7500 or 0800 700 726 (New Zealand investors only) or via [invest@platinum.com.au](mailto:invest@platinum.com.au).

Before making any investment decision you need to consider (with your financial adviser) your particular investment needs, objectives and financial circumstances. You should consider the PDS in deciding whether to acquire, or continue to hold, units in the Funds.

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The firm was founded in February 1994 by a group of professionals who had built an enviable reputation. The investment team has grown steadily and PAM now manages around \$15 billion, with approximately 12% of this coming from overseas investors. The Company was listed on the ASX in May 2007 and staff remain the majority shareholders. The emphasis of the organisation is on managing clients' money rather than gathering funds: we have no sales staff and pay no inducements to promoters of our funds.

Since inception, the Platinum International Fund has achieved returns of over twice those of the MSCI All Country World Index\* and considerably more than interest rates on cash.

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