

# PLATINUM UNHEDGED FUND

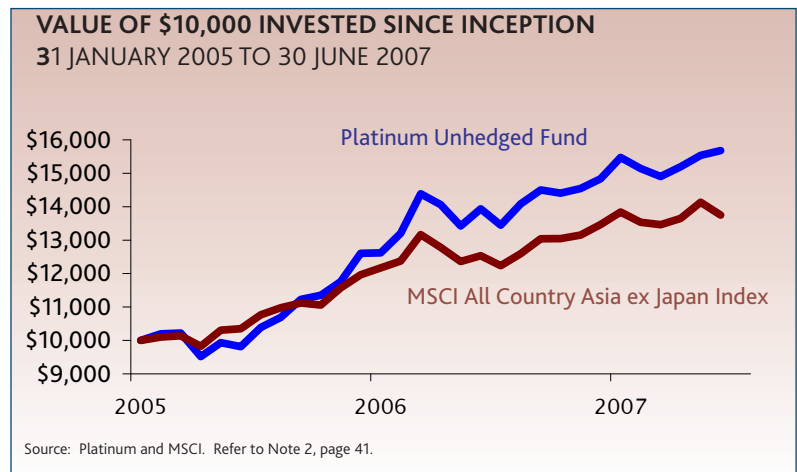


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Portfolio Manager

## PORTFOLIO POSITION

Some of the themes/large positions contained in the current portfolio include:

- 14% Pulp and Paper, key neglected part of the commodities complex (International Paper, et al).
- 14% Energy, Agriculture & “Green” Technology (including Royal Dutch Shell) – a long duration theme.
- 13% Japanese domestic (construction companies, banks, transport, etc); after a 14 year bear market, the Japanese property market is showing some signs of life.
- 12% Technology, Healthcare and other once proud “growth” stocks (e.g.Ericsson, Pfizer).
- 10% Global infrastructure capex related (Bombardier etc) – combination of the BRIC’s emerging infrastructure requirements and the need to “renew” key parts of Western public infrastructure.
- 10% Asia Ex-Japan/China, largest exposure Thailand; key neglected Asian market (Bangkok Bank).
- 7% Hong Kong Chinese listings, likely to be re-rated as Chinese domestic liquidity overflows.
- 5% European advertising spend recovery (Publicis, TV companies).
- 5% Gold, a laggard metal, inflation and USD hedge (e.g.Barrack Gold).



## PERFORMANCE AND CHANGES TO THE PORTFOLIO

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Over the past 12 months the Fund returned 12.5% versus 9.7% for the MSCI All Countries World Index (AUD). Over the past quarter the Fund also outperformed the benchmark, returning 5.2% versus 2.1%. The two major areas that contributed to the quarter's out-performance were Chinese Hong Kong listings (Shanghai Industrial and Gome) and energy/infrastructure capex stocks (Royal Dutch Shell, Mosaic, Bombardier, et al). The major detractors were our Japanese domestic plays. Though the Japanese property market is recovering, there are few signs of this feeding into domestic confidence and the yen remains weak. Our response has been to allow fund inflows to dilute this theme from around 18% at the end of the last quarter to 13% and we have maintained our total exposure to Japan at around 21% by opportunistically adding export-related stocks that fit our global themes, for example: Yokogawa Electric (process controls, with exposure to strong energy end markets) and Ulvac (semi-conductor equipment supplier exposed to a recovery in LCD capex and a major new end-market in thin film solar cell production).

Many agriculture related stocks are now fully valued and in some cases, possibly over-valued – accordingly, we recently sold Mosaic at a significant profit. Whilst the market's new found enthusiasm for "farming" will likely take some of these stocks much higher before the bull-run ends, our preference is to rotate to related areas and themes that remain relatively neglected. In this context, the major new theme added during the quarter was energy conservation and emission reduction technology; or "green" tech for short.

## COMMENTARY

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Just as the rapid BRICs<sup>1</sup> industrialisation has tightened many commodity markets and exposed decades of underinvestment, it is now sharpening popular and political focus on the environmental implications of two billion plus people joining the capitalist, industrialised system over the next twenty odd years. It remains a reality that the 1.2 billion people who live in the "Developed World"<sup>2</sup> account for roughly 54% of world primary energy consumption – the remaining 5.4 billion people consume what's left - so if you are reading this, you are likely to be consuming energy at roughly 5.2 times the rate of the person answering your credit card query in the Bangalore call centre. However, the BRICs are rapidly catching up with energy consumption and China is now estimated to be as large an energy consumer in absolute terms as the US<sup>3</sup>. Clearly, things may get pretty hot (or cold or dry or wet, depending on where you live) as the Chinese, Indians and fellow BRIC members approach "world class" per capita energy diets.

Whilst the media has belatedly put global warming on the front page, impelled by the desire to explain some recent extreme weather events, Wall Street is a long-way from capitalising on the opportunities. We think The Street remains focused on renewable energy, such as bio-fuels (and wind and solar on the margin), and the need to reduce dependence on foreign oil, rather than the greenhouse gas issue and the need for conservation and emission reduction technologies. In our minds, many renewable energy sources are not essentially "green". For example, increasing the productive areas of bio-fuels such as soybean oil and palm oil typically results in the destruction of virgin tropical rainforests, which in addition to their biodiversity role, also function as extremely

1. Brazil, Russia, India, China.

2. Using OECD membership is a convenient, though flawed definition.

3. On a per capita basis it is still only 25% of Western levels.

effective carbon sinks. The often put argument that this leads to a net reduction in carbon dioxide emissions is marginal at best – though, one is sure to find an expert who can make the case, especially if there’s a government subsidy on offer. The same idea applies to corn based ethanol where the issue of turning a potentially scarce food resource into automotive fuel should be critically assessed.

Considering that only California and a few of the North Eastern States have enacted recent energy efficiency laws and the United States is yet to implement carbon trading, it’s not surprising that Main Street is yet to buy in. Whether you believe in global warming as a result of human activity or not, there is the potential for a major mania to develop – in some ways this is the ultimate insoluble problem – possibly what Malthus always foresaw.

<b>PLATINUM AND MSCI WORLD INDEX REGIONAL WEIGHTINGS</b>		
REGION	PLATINUM	MSCI
<b>NORTH AMERICA</b>	<b>32%</b>	<b>52%</b>
<b>ASIA AND OTHER</b>	<b>22%</b>	<b>13%</b>
<b>JAPAN</b>	<b>21%</b>	<b>10%</b>
<b>EUROPE</b>	<b>13%</b>	<b>22%</b>
<b>AUSTRALIA</b>	<b>2%</b>	<b>3%</b>
<b>CASH</b>	<b>10%</b>	<b>0%</b>

Source: Platinum and MSCI