

PLATINUM INTERNATIONAL BRANDS FUND



Simon Trevett
Portfolio Manager

PERFORMANCE AND CHANGES TO THE PORTFOLIO

The Fund returned a flat performance for the quarter at 0.6% which lagged the MSCI World Index of 2.1%. At face value this rather dull quarterly performance of the Fund might suggest that the performance of the Fund's individual investments were also somewhat disappointing or uninteresting. It may therefore be surprising that there were many noteworthy performances within the Fund such as our investment in India in United Spirits for example, which appreciated by 75% in the quarter. More on this below.

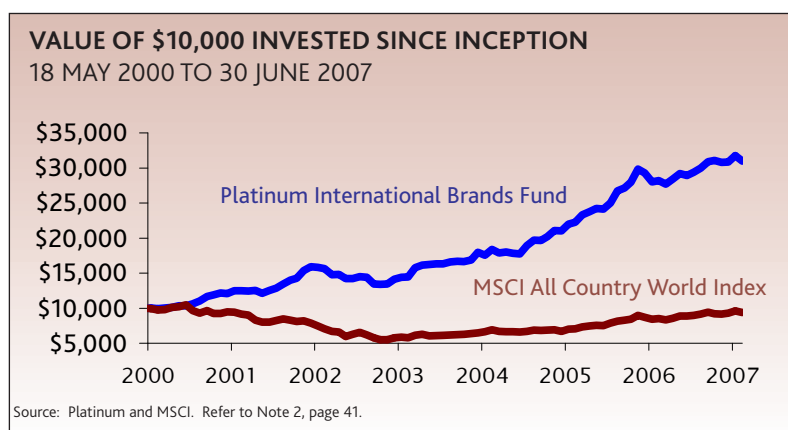
The Fund has 24% invested in Japan and with the Australian dollar continuing its appreciation against the yen, the overall performance of the Fund has been muted. Some partial offset has been achieved through approximately half of the Fund's investments in Japan being in export companies that continue to benefit from the depreciating yen.

The exposure to the yen has been maintained, in part, as a means of protecting the Fund against sudden market reversals. The experience in February this year of a bit of a scramble as the hitherto one way traffic paused for thought, supports the contention that a sudden, albeit perhaps short lived turn in emerging market shares could trigger a rise in the yen. The yen thus offers an alternative form of protection to the Fund along with the short positions.

Short positions have been maintained against the French CAC index and the Indian Nifty. In both cases we want to continue our investment in particular companies in those markets whilst providing some degree of protection against more general market set backs. This has had a cost to the Fund's performance.

DISPOSITION OF ASSETS		
REGION	JUN 2007	MAR 2007
EUROPE	35%	32%
OTHER ASIA (INCL KOREA)	28%	21%
JAPAN	24%	25%
NORTH AMERICA	7%	7%
CASH	6%	15%
SHORTS	6%	9%

Source: Platinum



On an annual basis the Fund has fared a little better at 10% with much of the performance of the individual stocks being offset by both the appreciating Australian dollar and the cost of maintaining the short positions on the indices.

Not surprisingly, for both the year and the quarter, the strong stock performances were predominantly from emerging market investments; India, Korea, Indonesia, Vietnam and our companies which have large parts of their businesses in Russia or the Asian region such as the cosmetic company **Oriflame**. The investments in Japan have been disappointing, particularly those with a domestic focus such as the retailers. There have been signs of growth in that economy and of the potential inherent in our investments however, for the moment, these have been detractors to the Fund's performance.

The Fund has been active in the quarter adding several new names with a bias towards the growth in consumption in the emerging markets. **Natura Cosméticos SA** has a market leading position in the Brazilian cosmetics markets and a set of performance metrics with its direct selling operation that should have Avon in awe. Indeed, Avon has been unable to match Natura despite having been operating in Brazil since 1959. A modest near term set back in meeting analysts' expectations gave us an opportunity to buy this stock during a period of relative underperformance. The longer term opportunity for this company to take its Brazilian branding to international markets is intriguing with nascent operations in France and Mexico.

Other additions to the Fund have also had a focus on emerging markets either directly, such as a leading Chinese dairy company or indirectly where a company has the majority of their operations in emerging markets whilst being listed in Europe, for example the brewer **SABMiller**.



COMMENTARY

Much has been written about the demand for commodities and resources, in particular those that are mined and the impact that the industrialisation of China is having on their price and availability.

Along with this we have seen the growth in consumerism in emerging markets and particularly a demand for premium branded products. Specifically, we have previously highlighted our investment in **Pernod Ricard** and their growing businesses in India and China. Whilst this should not be new to any of the analysts, a recent visit to China hosted by Pernod Ricard did provide an event for many to consider whether they really had understood the depth and breadth of the opportunity, especially the financial impact of selling the much higher margin (super)-premium products, something we believe is still under appreciated by the market.

So should we be surprised that there is discussion about potential shortages of Scotch Whiskey? Consider though for a moment the limited number of Scottish distilleries, the aged product and an underlying trend for more premium products (at higher margins). Confirmation of the pressure on the supply of Scotch came this quarter with the acquisition of the world's fourth largest scotch producer; **Whyte and Mackay**, by the **Indian company United Spirits**.

United Spirits is now the world's second largest spirits manufacturer and supplies 60% of the Indian market. They have acquired the world's largest grain distillery, four malt distillers (in different regions of Scotland) and 115mn litres of aged inventory to add to their existing Indian operations. United Spirits enthusiastically believes that the reductions to the punitive taxes on imported spirits in India will see an already predominantly whiskey market become a very fast growing Scotch market. This acquisition positions them well for their home market - advertising bans and complex local regulations hamper new comers - whilst also providing an opening in international markets, such as Russia and China. We expect to hear much

more about the growth in the Indian market as the various State governments relax their regulations and the market further develops with growth in wine and white spirits.

The spirits market is extremely active globally. The Swedish government is progressing with the sale of V&S Group, better known for their product Absolut Vodka, the world's third largest spirits brand. Remy Cointreau has surprisingly broken from their JV distribution arrangements triggering much discussion about the future of the company. In China, acquisitions have been made by V&S, LVMH and Diageo of local producers of Baijiu, the most popular Chinese spirit.

SABMiller is a more complex investment but one that nonetheless illustrates that we can obtain significant emerging market exposure, strong growth and participation in the global consolidation of the industry whilst having a listing in a developed market, in this case London. Currency exposure is further complicated with over 80% of operating profits produced in emerging markets (Columbia, Africa, Asia, Russia, Poland etc), financial accounts reported in US dollars and a listing in Sterling. This company has developed steadily over the past twenty years from its South African origins to become an international brewer with attractive brands and leading market shares. They are market leaders in China and second in India with a 30% market share.

Although much has been done in recent years there remain many opportunities for the company and whilst analysts fret about the difficulties in the US beer market or the exposure to South Africa, they risk losing sight of the many other faster growing activities of the company in Latin America, India, Russia and China. Despite the industry consolidation that has already occurred there is still much to do and the history of the company provides some degree of confidence that this management team has shown a dedication and determination to meet the long term goals of the company. The five largest global brewers still only account for just over a third of world volumes with the scope for substantial growth.

We suspect that perhaps our investment in an Indian brewer is of interest to the global consolidators. We suspect also that some of our other investments in diverse markets and sectors, from cosmetics to food products, are of growing interest to the cash rich global icons intent on capturing a share of growing markets.



OUTLOOK

We have a degree of confidence that the strong growth in consumerism in emerging markets will continue. This growth is manifest in a variety of ways: industrialisation, the consumption of packaged foods and the prevalence of household products into rural areas. These trends are supported by rising incomes and the encroachments of retail trade as we know it, in the form of supermarkets and hypermarkets. The other significant trend evident in many areas ranging from cosmetics to autos is an increasing preference for premium products to display wealth. The Fund has good exposure to both of these enduring trends and at valuations that, although not particularly neglected, are not unduly demanding.