

# PLATINUM INTERNATIONAL BRANDS FUND



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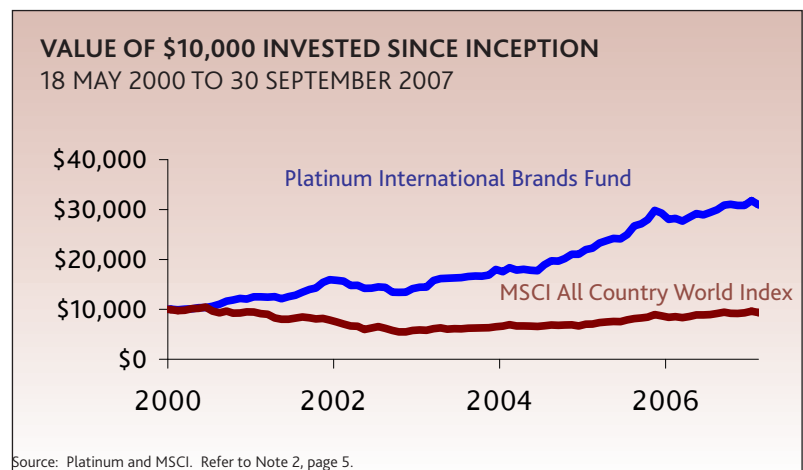
## PERFORMANCE

Short positions against the French CAC Index and the Fund's yen holding provided some degree of stability for the Fund during a rather volatile quarter. These positions ultimately detracted from the performance of the Fund. August saw the market temporarily reassess the risks inherent in the currency and fixed interest markets and accordingly temper their enthusiastic pursuit of higher returns. At the time it was possible to imagine that a more cautious period would ensue, at least for a few months. The action of the market since mid-August suggests that the pursuit of growth and higher returns is nonetheless irresistible and that trends such as selling yen and buying Australian dollars continue to be too attractive to leave. That is until the next unanticipated event reintroduces the idea of potential losses.

During the quarter the Australian dollar/yen exchange rate dropped from yen 105 to yen 90 or nearly 15% before returning to the higher level. Therein is the quandary of determining the Fund's exposure to the yen, arguably one of the most under-owned assets currently available; a cost to the performance of the Fund whilst providing significant protection especially when the seemingly riskless "carry trade" is brought into question.

DISPOSITION OF ASSETS		
REGION	SEP 2007	JUN 2007
EUROPE	39%	35%
ASIA (INCL KOREA)	23%	28%
JAPAN	21%	24%
NORTH AMERICA	7%	7%
SOUTH AMERICA	2%	0%
CASH	8%	6%
SHORTS	6%	6%

Source: Platinum



The Fund lost 3% of its value in the quarter, compared with the MSCI World Index which fell only 0.8%. For the twelve months the Fund has also underperformed the index although it maintained a respectable out-performance over the longer periods of three or more years. The loss in the quarter was disappointing with a number of contributing factors. As already noted, the markets bounced back rather more quickly than expected, as such the gains achieved in being invested in the yen were not secured. Behind this yen position is an investment in Japanese companies, some of which have proven to be extremely disappointing, notably in the domestic focused businesses such as retailers. These are under review; whilst the valuation might be attractive, the determination of the management to adapt quickly for the benefit of shareholders remains an open question.

The Fund maintains an exposure to emerging markets and the strong trends of increased wealth and increasing consumption. There are various aspects to the increasing consumption to which the Fund is exposed, ranging from the adoption of functional grocery items such as toothpaste through to the behaviour associated with acquiring premium brands to enjoy and display newly created wealth. The extent of the Fund's exposure to emerging markets is not always readily apparent from the Fund's country weightings. Many of the European holdings have meaningful businesses outside of Europe, for example the brewer SABMiller, listed in London, has 80% of operating profits sourced from emerging markets.

Notable performances include the Fund's Indian investments, particularly United Spirits, which has continued to contribute strongly to the Fund's performance, up three fold in the last year. The Fund's other Indian investments, whilst not quite as spectacular, continue to benefit from the ongoing strength in the Indian economy.

## COMMENTARY

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When assessing the investment merits of companies for the Brands Fund, a key consideration is the inherent strength of the company's brands and how they have been managed through time, often with successive management teams. We are most attracted to cases where the brand is strong and has been managed over years rather than quarters and where the share price is languishing for transitory reasons such as the predilections of the equity market, or perhaps a self inflicted period of adjustment within the company, for example, disruptions associated with building new factories or distribution networks.

It can take time for these transitory factors to resolve, sometimes requiring a degree of patience and almost certainly extending beyond the rather short-term and arbitrary quarterly measurement. Unfortunately with the advent of superior data systems, but not necessarily superior information systems, there is a tendency on the part of management to be overly focused on the quarterly measurements, be that financial or operational. Although quarterly measurement and scrutiny can instil a sense of urgency, something we lament lacking in some of our Japanese investments, there is quite often the unfortunate misallocation of resources in the pursuit of short-term targets.

A strong brand, having temporarily deviated from the long-term plan to pursue a short-term objective, can often provide an interesting investment opportunity if only we can see beyond the focus on near-term metrics. We believe that such an opportunity exists with Bayerische Motoren Werke G.m.b.H., otherwise known as the BMW Group.

In recent years management has been addressing two key concerns as they position the group for the future. Their foremost concern was one of scale, addressing the conventional wisdom of the industry that scale leads to cost competitiveness. Henry Ford had a thing or two to do with creating the "group think" on that, although it's a little

hard to hold him accountable for the more modern but futile attempts to capture efficiency through acquired scale; BMW with their failed attempt with Rover, and Daimler with Chrysler.

More recently BMW has achieved a broadening of its range to include smaller vehicles such as the Mini and the Series 1. There has also been no doubt that the group has been intent on increasing market share, particularly in the US, and in many respects has been tremendously successful. The rather unfortunate outcome of both of these successes, the broadening of the range and successful pursuit of volume, has been the cost to profitability.

Average selling price per vehicle has actually dropped for the Group over the past six years despite an overall growth in sales from Eu29 billion in 2000 to over Eu50 billion this year. The added cost of discounting in the pursuit of volume based fleet sales has also impacted profitability. In 2000, the highly profitable 3 and 5 series accounted for nearly 90% of the business, now they are closer to being only half of the revenue with lower levels of profitability being achieved from the smaller vehicles introduced to the range.

The second pursuit of management has been in meeting consumer demands (perceived, legislated or otherwise) through significant expenditure in R&D and capex. Again this can be counted as a huge success as, for instance, a review of the reductions in carbon emissions achieved and under way are impressive. The BMW brand cannot stray too far from its luxury performance heritage so must find ways to meet emission standards without compromising the brand. Likewise the group invested heavily in meeting the needs of consumers by allowing for a high degree of customisation and at times quite late in the manufacturing process. The expenditure has been significant, E6 billion last year or 12% of sales and the impact on profitability noticeable. To express it another way, the amount spent on R&D and capex last year was 1.5x the operating profit achieved and it has been at levels close to this for several years!

The consequences of pursuing the 'growth strategy' of the past few years has been a decline in profitability to the point of being unacceptable by any sensible comparison, especially for a premium brand. Clearly the Quandt family shareholders felt the same way which led to a change in CEO and a redeployment of other senior management including the CFO. Most noteworthy has been the restructuring of procurement into a new division with a new head appointed. It would not seem to be a logical or sustainable proposition that the returns from owning the BMW brand are lower than those of the parts' suppliers. The relationship looks set to become a lot less cosy for the suppliers with some E4-6 billion in prospective savings. It is also our experience that gains from procurement can at times be achieved rather more quickly than expected, particularly when given such a high profile.

There is little debate that there are abundant opportunities for BMW to sell its vehicles, be that from a low market share position in the US or as a premium product into emerging markets. The opportunity for investors is that management are in the enviable position of having a strong brand and robust sales whilst they attend to some housekeeping on the costs. A healthy balance sheet also provides a degree of flexibility. By contrast there are many that find themselves in the unenviable position of needing to redefine their objectives whilst contending with lack-lustre or even dire sales prospects.



## OUTLOOK

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The growth in consumerism in the emerging markets is a widely discussed investment theme, perhaps lower in comparison to the apparent opportunities of owning resource companies, but still attractive in many respects. The valuations have risen accordingly and although there is a strong and enduring trend for rising consumerism, the risks of owning some of these stocks are considerably higher after they have risen by multiples. In the Western world there are some signs of a slowdown in spending, something we have been concerned about over the years with the high levels of debt driven by the abundant availability of credit. Recent actions by the central banks to increase the liquidity in the financial system seem to have been taken as a signal by the equity markets to continue to accept a lower risk premium (that is to pay a higher price) for the growth on offer. Such a situation deserves a reasonably circumspect approach to seeking new investments.

The Fund remains invested in the emerging markets and will continue to look for new ideas either directly in those markets or in companies that serve those consumers from a Western home. It has not proven particularly advantageous to focus unduly on the laggards of the markets, in many cases the reasons behind outcomes such as loss of market share are enduring in the face of invigorated competition. A focus on larger quality companies with a compelling consumer proposition is proving more interesting, especially where a degree of boredom has set in with the well-known companies.

The Fund will continue to take a longer-term perspective and attempt to balance the risks associated with participating in the tremendous growth on offer in the emerging markets. The currency position is predominantly determined by the underlying stock investments overlaid with an increased weight in the Australian dollar.



## 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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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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