# Platinum International Brands Fund

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## Disposition of Assets

| REGION | DEC 2010 | SEP 2010 |
|---|---|---|
| Europe | 36% | 36% |
| Asia and Other | 27% | 34% |
| North America | 7% | 6% |
| South America | 6% | 6% |
| Japan | 7% | 5% |
| Cash | 17% | 13% |
| Shorts | 7% | 7% |

Source: Platinum

## Performance and Changes to the Portfolio

The Brands Fund returned 2.1% for the quarter, marginally behind the MSCI World Index at 2.7%. The continued strength of the Australian dollar detracted from performance and particularly the strengthening against a weaker Euro. Many of our larger European investments have a high export or international presence which we believe should contribute strongly in the forthcoming earnings reports.

Twelve month performance of the Brands Fund continues to be robust at 16%. By comparison, the MSCI World Index reported a decline of 1% despite the good recovery in most equity markets throughout the year. Over three years, a return of 7.6% pa compound has the Fund ahead of its 2007 peak by just over 20%, whereas the MSCI World Index reflects a nearly 30% decline over the same period.

**Value of $20,000 Invested Over Five Years**

*31 December 2005 to 31 December 2010*


Source: Platinum and MSCI. Refer to Note 2, page 4.

The Fund's Indian holdings declined in the quarter, as did the majority of the Fund's investments across the smaller Asian markets including in the Philippines, Indonesia, Singapore and Malaysia. In Europe, the Fund's larger investments in BMW, Pernod and Henkel continued to contribute well.

Noteworthy in the quarter was the performance of Mulberry (handbags), which more than doubled as both their products and the company are increasingly being discovered. On the negative side, Square Enix, a Japanese creator of computer games, declined 25% on disappointments arising on the timing and quality of major title launches.

During the quarter, the Fund closed its short position in Reckitt Benckiser, sold the holding of Serm Suk for considerable more than we were offered by Pepsi and also took the opportunity to reduce various holdings that have performed well this year. The Fund has started to build some new holdings, however, the net effect on the quarter, together with inflows, has been an increase in the cash position.

## Commentary

There has been a somewhat predictable pattern of commentary from many consumer companies over the past year; notably around the growth being obtained from China and parts of Asia and for those with substantial businesses in the mature markets, the progress made on containing or reducing operating costs. The interesting observation may be just how strong or unexpected that growth has been and when applied to a reduced cost base, just how much profit can be generated?

To use an example that we have discussed in previous reports, BMW was just as concerned as many others to take a cautious view of the world, to take various accounting provisions against a deteriorating environment and to contain or reduce costs as quickly of possible. The speed at which they, and all their suppliers, have had to adapt from managing factory shutdowns to then being overrun with orders has left both analysts and management rapidly trying to adjust to an improbable outcome.

Although, on the evidence of the share price movement, it would appear that the market has assimilated this turn of events, we suspect that the improvement in profitability may be even more impressive than the growth in the monthly sales. Certainly the monthly sales numbers by vehicle are closely watched and modelled, however, not many, including within the management team, have experienced such sustained demand as China has produced. BMW kept their factories running over the Christmas period foregoing the more usual shutdown for holidays and maintenance. As an aside and perhaps paradoxically, a slowing in demand from China may be a welcomed opportunity to relieve some excess pressure in the supply chain.

Similarly for other segments, notably in luxury goods, fashion and jewellery, the demand has been relentless with companies enjoying an ability to command premium prices and foregoing discount sales. An alternate expression of this observation is that underlying valuations may not have moved up as much as has been implied by the share price moves and that we may yet see some remarkable profit results delivered in the forthcoming earnings reports.

Not all companies have been well-placed to participate, with many either not having built the appropriate capabilities or perhaps have been overwhelmed with difficulties in the mature markets. Similarly within the portfolio of the Brands Fund there have been outcomes that have improbably exceeded expectations or disappointingly failed to make the anticipated progress. Both outcomes are closely scrutinised and our holdings are readily adjusted if needed, however, in most cases we remain confident that the underlying profitability is likely to have been better than anticipated.

The underlying tenet of the Brands Fund is to benefit from the higher returns that accrue to the owners of well-managed Brands. More specifically, the introduction of an emotive component to a consumer's decision process generally results in a higher price. The Brands Fund has clearly benefited from this as the generation of wealth in China is celebrated by an overt show of success with luxury brands from Cognac to Rolls Royce.

Rolls Royce sold 1,002 vehicles worldwide in 2009, down from the record set in 2008 of 1,212. For the 11 months to November, an outstanding 2,282 vehicles have been delivered of which more than 500 have gone to China. Considering the price these vehicles command and the ensuing profitability, the purchase by BMW of the rights to the brand for a mere £45 million in 1998, looks to have been exceptionally astute.

It is not exclusively the domain of luxury goods where high returns and strong growth can be achieved. The Brands Fund has also pursued opportunities where extraordinarily youthful populations are making progress up the earnings scale. Sometimes from extremely low levels and where aspiration products may be considered merely basic necessities for many in developed markets; shoes, personal care and household products.

The Fund has a number of investments in companies with well-known brands in markets that may be considered difficult or challenging such as Saudi Arabia, Pakistan or Zimbabwe. Consistent traits across the Fund's investments are well-recognised brands, youthful populations with rising incomes, reasonable valuations and a closely involved parent company or partner. Although individually each of these investments may be relatively small, they nonetheless might provide the potential for some unusually interesting and rewarding outcomes over the longer term.

## Outlook

The global imbalances are still the topic of much discussion and speculation and perhaps more importantly give rise to the potential for some sharp moves and increased volatility in the equity markets. The Fund has increased its cash position throughout the quarter in anticipation of more interesting opportunities developing in the new year.

Whilst the Fund will continue to be opportunistic with investments in emerging markets, there are increasingly attractive ideas and valuations forthcoming in the larger companies of the Western markets. By comparison, the valuations of some of the well-known Brands companies listed in Europe or even the US are a fraction of those on offer in parts of Asia, despite the fact that many have substantial and growing business in the same markets.

## Notes

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 historical 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).

   The inception dates for each Fund are as follows:
   Platinum International Fund: 30 April 1995
   Platinum Unhedged Fund: 31 January 2005
   Platinum Asia Fund: 4 March 2003
   Platinum European Fund: 30 June 1998
   Platinum Japan Fund: 30 June 1998
   Platinum International Brands Fund: 18 May 2000
   Platinum International Health Care Fund: 10 November 2003
   Platinum International Technology Fund: 18 May 2000

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 31 December 2005 to 31 December 2010 relative to their Index (in A$) as per below:
   Platinum International Fund - MSCI All Country World Net Index
   Platinum Unhedged Fund - MSCI All Country World Net Index
   Platinum Asia Fund - MSCI All Country Asia ex Japan Net Index
   Platinum European Fund - MSCI All Country Europe Net Index
   Platinum Japan Fund - MSCI Japan Net Index
   Platinum International Brands Fund - MSCI All Country World Net Index
   Platinum International Health Care Fund - MSCI All Country World Health Care Net Index
   Platinum International Technology Fund - MSCI All Country World Information Technology Net 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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