Platinum International Fund

Kerr Neilson Portfolio Manager

Disposition of Assets

REGION	JUN 2012	MAR 2012
North America	30%	30%
Europe	27%	26%
Asia and Other	16%	16%
Japan	15%	16%
Australia	1%	1%
Cash	11%	11%
Shorts	15%	18%

Source: Platinum

Performance

For the quarter, the Fund returned -6.9% versus the MSCI World Index (A$) return of -4.6%. For the year, the Fund returned -6.5% versus -2.3% for the Index. For a detailed explanation on performance, please refer to the 'Commentary' section of this report.

Shorting

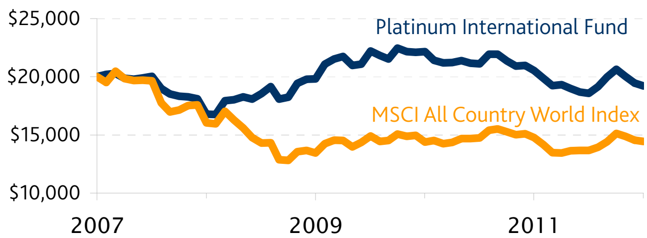
Guided by a suite of risk indicators, some of which are verging on panic levels, we have decreased our generic short positions as well as some stock specific positions. We ended the quarter approximately 15% short. Evidence of deteriorating earnings, however, is encouraging us to rebuild these postions post quarter end.

Currency

At quarter's end, the currency exposure of the Fund was as follows: US dollar and Hong Kong dollar 54%, Asian currencies ex Hong Kong dollar 13%, Euro 11%, other European currencies 9%, Australian dollar 6% and the Canadian dollar 6%.

Value of $20,000 Invested Over Five Years

30 June 2007 to 30 June 2012



Source: Platinum and MSCI. Refer to Note 2, page 6.

Commentary

Discussions with clients during our recent roadshow[1] revealed their deep uncertainty about the economic environment. They expressed their doubts about the benefit of holding international shares when they could reside in cash and earn certain, if diminishing, returns in Australian dollars. Questions were also raised about the construction of our portfolios, the concentration of the number of names held, the type of companies owned and any biases to particular parts of the market, either by industry or geographic location. In some instances, clients may even have forgotten their original motivation for owning international shares, namely the idea of diversification, exposure to external currencies, countries and companies. Their emphasis clearly now on wealth preservation and protection on the downside.

We understand this concern extremely well as it goes to the core of Platinum's investment philosophy; that humans tend to be hardwired towards over-weighting the recent experience. When there seems to be no let-up in the stream of bad news, most of us tend to seek refuge in a more comfortable environment. For the moment that is cash.

Ironically of course, it is this very high level of uncertainty that gives rise to interesting investment opportunities. The great diversity of choices that is thrown-up by economic turmoil is accompanied by a battery of indicators which points to extreme anxiety, with some of these indicators close to panic levels. These extreme readings have historically been associated with market lows. However, even as some progress is made in Europe regarding closer integration with a path to a unified banking regulator, fiscal unity and some funds being made available to augment growth, most believe that there will follow a protracted period of uncertainty and weak economic performance for a region that comprises close to a half billion people. By contrast, America seems much more prospective because it has been able to generate growth with the attendant benefits to confidence. Lurking in the distance though is the threat of the so-called 'fiscal cliff' which under the new administration will have to be addressed almost immediately after inauguration. Depending on the outcome of the presidential election, one can barely believe that America too will not face somewhat softer economic conditions as the government deals with its huge spending deficit.

Let's now turn to questions being raised. Firstly, concerns about our performance over the last two years. An analysis of the contributing components over this period has been broken down in two, one year periods by approximate returns from long positions, short positions and currency.

Platinum Int'l Fund Performance Attribution (AUD)

	1 July 2011-30 June 2012	1 July 2010-30 June 2011
Longs	-4.9%	+1.0%
Shorts	+0.6%	-6.2%
Other (incl. currency)	-2.2%	-2.1%
Total Return	-6.5%	-7.3%

Source: Platinum

The last 12 months reveal a dispersion of outcomes that are quite different from those that may have been expected, namely:

- The only significant market to rise over the last 12 months was the US. By having a low exposure there, one by necessity, had large exposures to other markets; nearly all of which fell, in some cases by up to 23% in A$ terms (see table over).

  Remarkably, in markets where one would have intuitively believed we would have lost a lot of money, namely Japan and Europe, we outperformed handsomely though still recorded negative returns.

  Within our large exposure to Asia, China and India were costly while we made large positive returns in Thailand, Korea and Singapore.

- Short selling has been fraught with market volatility, though we did in fact benefit from this activity. This gain was partially offset by currency to give a net gain of 0.6% for the year.

- On currency, there were small losses primarily on the euro and Asian currencies.

[1] To view the video of the investor presentation, please go to the 'What's New' area of our website at the following link: http://www.platinum.com.au/Whats_New.htm

Why should we get our portfolio positions so misaligned? It stems from having reservations as to the longer-term efficacy of the US running a government deficit of close to 10% and the US Federal Reserve massively expanding its balance sheet. It has worked well in the short-term and supported consumer staples and retailers but we have been loath to build an investment portfolio on this time horizon. In addition, as we have acknowledged before, we have made errors in stock selection and timing of entry where the difference between good value and what we paid was perhaps 3% of the portfolio.

A similar picture appears when looking at the performance from a sector perspective. In this case it was:

- Principally our exposure to materials and notably gold miners that caused the largest losses.
- Industrials, materials and consumer durables performed poorly, yet we did well in financials and information technology.

The weakness in the large gold miners stemmed from rapidly escalating costs and hence disappointing profits. This outcome is particularly disappointing given our relatively clear understanding of the need to avoid the resources sector and yet we hold the view that gold is in a bull market.

MSCI World Index Regional Performance (AUD)

REGION	1 YEAR	2 YEARS COMPOUND PA
France	-23%	-7%
India	-22%	-19%
Germany	-21%	-4%
Europe	**-13%**	**-3%**
China	-12%	-12%
Emerging Markets	**-12%**	**-6%**
Korea	-11%	0%
Asia ex Japan	**-10%**	**-5%**
Australia	-7%	1%
Hong Kong	-4%	-2%
Japan	**-3%**	**-7%**
Developed Markets	**-1%**	**1%**
United Kingdom	0%	3%
United States	**9%**	**6%**

Source: MSCI

MSCI World Index Sector Performance (AUD)

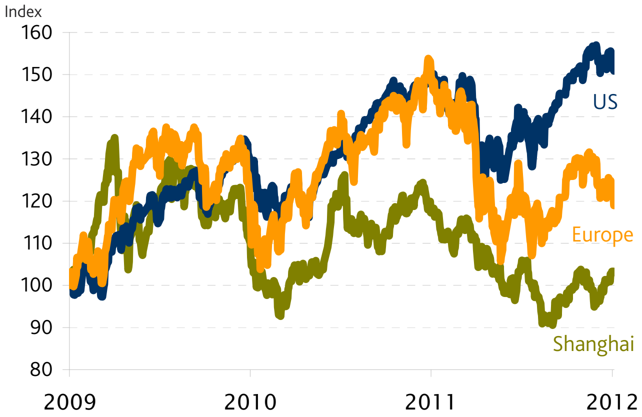
SECTOR	1 YEAR	2 YEARS COMPOUND PA
Materials	-20%	-6%
Energy	-10%	1%
Financials	-9%	-7%
Industrials	-7%	0%
Utilities	-1%	-5%
Consumer Discretionary	1%	6%
Telecommunication Services	2%	3%
Health Care	10%	5%
Information Technology	10%	4%
Consumer Staples	12%	6%

Source: MSCI

With regard to world market returns, one can see the pattern where countries which have been prepared to take a more aggressive stance on Quantitative Easing (the Central Bank exchanging holdings of Government bonds with credits to commercial bank accounts) have shown the best returns for equities over this period. Likewise at the sector level, defensive sectors have fared extremely well particularly in the last two years whereas in the first year after the GFC, it was the cyclical companies that flew! Since 2007, defensive growth sectors have outperformed so-called cyclical sectors.

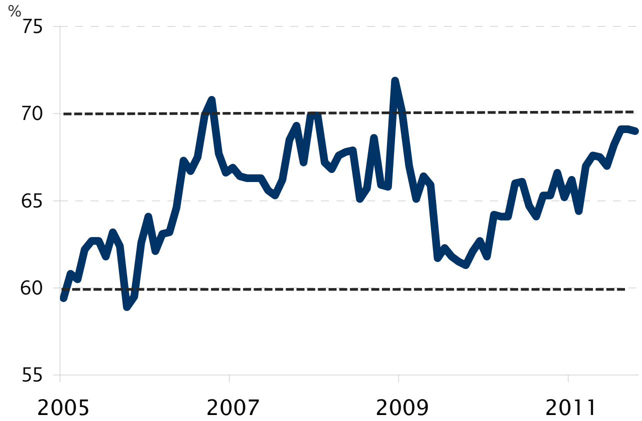
Looking at the behaviour of developed markets versus emerging markets, it is apparent that for all their positive attributes, both absolute and relative, emerging markets have lost investor support. The most reasonable explanation lies in the fact that funds are being drained away from these markets to service debt repayments and reflect general retrenchment. In other words, these emerging markets are highly sensitive to foreign investment flows and the tide has turned. The notion that there is only a slender relationship between economic performance and market behaviour often confounds individual investors who attribute rising share markets to strong economic performance. That this is contrary to observed patterns is normally met with disbelief. Take a look at the performance of the Chinese stock market versus its economy (see chart over). There has been no positive correlation whatsoever in the last two years yet it was by far the fastest growing major economy anywhere. As we so often remark, it is all about expectations and what is in the price!

Chinese Stock Market Depressed



Source: Factset

PIF Top 50 Stocks as % Value of the Fund



Source: Platinum

Another topic of interest is the change in the concentration of the portfolio. There is some concern that we have somehow changed our investment approach and that the weak performance can be explained by there being too many stocks. The chart over shows a **remarkable consistency with our top 50 holdings** having typically accounted for 60 to 70% of the portfolio over the last seven years. It is true that the number of shares in the portfolio has drifted upwards and this has been caused by several factors. Firstly, as you will know, small fractions of the portfolio are allocated to each analyst to manage as a sub-fund to carry their best ideas[2]. This system tends to blow out the number of holdings, yet in terms of financial exposure, the amount is tiny. These allocated amounts represent less than 2% of the entire portfolio and yet it has created a list of around 45 extra names. By excluding these holdings, the portfolio shrinks to between 80 and 90 names. Secondly, there are always companies that are gradually being sold as well as others that are gradually being accumulated. Thirdly, we often find interesting opportunities in smaller markets, most commonly emerging markets, where even though it would be ideal to have one name to gain exposure to a concept or industry, by virtue of size it behoves us to have two or even three holdings. The important message from this though is that there has been virtually no change in the concentration of the portfolio over many years.

When introducing a new holding to the portfolio, the pattern is to gradually accumulate over a period of weeks and even months. This is influenced by our desire to minimise market impact and to hopefully accumulate at lower prices. The speed of accumulation is tempered by market sentiment at the time. On occasions we tend to top-up positions when the share price has dropped subsequent to our original purchase so long as further investigation supports the original decision. When exiting holdings, we tend also to sell gradually over a period of weeks, though at times, when anxious about a change in the company's prospects, we do engage in placements where we offer a sizable line of say $100 million or more to exit a position swiftly. It is rare for us to hold more than about 3.5% in a single name, and where this has happened through price appreciation, we will tend to trim back depending on the (perceived) underlying fundamentals of the company. Exposure to any particular industry or theme has historically been below 10% with the depth of market tending to set boundaries.

The case could be made that in an uncertain environment one should concentrate the portfolio in a small set of companies that have demonstrable virtues of low financial leverage, high persistence of growth and profitability, and broad economic diversity etc. While the portfolio does have many companies

[2] The idea here is that all investment staff are measured for their contribution to performance and the showing of these micro-portfolios will influence the remuneration package of each analyst.

of this description, we are always searching for the less obvious opportunity where there is a large discrepancy between perceived value and the current market price. Bear in mind that our investment philosophy rests on finding neglect. Invariably those companies which are most favoured at present are those that *feel* the safest and have long histories of persistent growth. Yet even among this group of solid corporations one can observe disappointments affecting their share prices. In some cases it is because they have been raising their prices persistently ahead of inflation or because they are starting to lose leadership in their markets because of the activities of emerging competitors. With this in mind, we are not readily seduced by the idea that somehow one will perform better by hiding in supposed predictable companies. **What we see clearly is that uncertainty is being punished and perceived excellence has been rewarded**; not to the degree that is totally unacceptable but it is evident that **companies that face uncertainties are already trading at valuations that reflect an expectation of deteriorating profits.**

Outlook

There is no doubt that the world economic order is in deep turmoil. Most developed countries are invariably burdened with too much debt, while emerging countries face problems of restructuring their economies to correct the biases that have built-up over the last decade or so. After experiencing a long period of upward revisions to earnings, investors will now probably experience a period of under-achievement in terms of company's earnings reports.

All is not lost, however, because in its inimitable way, the market has already built in a degree of caution in the valuations of companies that face cyclical headwinds. Our challenge is to manage the portfolio through this uncertain time without allowing fear to drive us to myopic behaviour which would discourage us from owning sound companies which have already been priced for a poor short-term outcome.

If we were to categorise the portfolio in terms of **price makers**[3] **and strong growers** this would account for perhaps 42% of our holdings, (and incidentally these categorisations change with time), another 37% could be classified as cyclicals and a further 10% are held in financials. Cash accounts for the balance of 11%. When taking into account our shorts, the net exposure to cyclicals is probably below 30%. In this uncertain environment we would expect there to be a continual oscillation of market interest between these so-called 'risk-on' and 'risk-off' categories.

[3] Price makers are those companies which have a degree of freedom to set prices i.e. companies that provide unique products and services such as drug makers, strong consumer brands, both durable and consumable, as well as some IT companies.

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$20,000 invested in the relevant Fund over five years from 30 June 2007 to 30 June 2012 relative to their Index (in A$) 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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