

PLATINUM INTERNATIONAL FUND



Kerr Neilson
Managing Director

PERFORMANCE

No one should complain that the markets failed to give them plenty of excitement regarding the question “will we or won’t we make money in 2009?”. After a blistering start at the end of March, when most players were still looking back at the carnage, confidence gradually built and by December, most seemed to have accepted that things were on the mend. Thoughts were turning to the future and how best to play the next phase of whatever the markets had to offer.

In fact, the markets offered massive divergence both in a geographic sense and also by industry grouping as the tables on page 5 highlight.

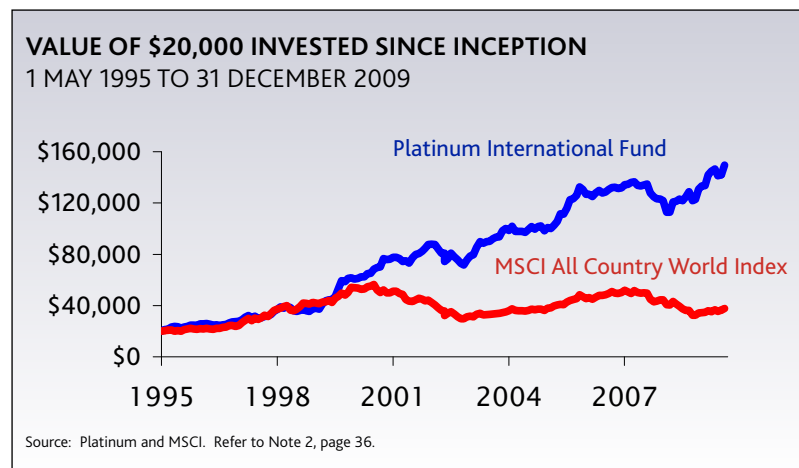
The Fund did relatively well thanks to the emphasis on fundamentals which saw it heavily exposed to emerging Asia. Partly offsetting this were our holdings in Japan which lagged, and in some cases made losses, but overall our positioning was sound and sensitive to the risk of inflated valuations or expectations.

Over the year, the Fund returned 19.7% in contrast to the MSCI World Index return of 4.4%. Of this outperformance, over 90% came from good stock selection and the remainder from our active currency management.

| DISPOSITION OF ASSETS | | |
|-----------------------|----------|----------|
| REGION | DEC 2009 | SEP 2009 |
| EUROPE | 26% | 26% |
| NORTH AMERICA | 25% | 22% |
| ASIA AND OTHER | 21% | 20% |
| JAPAN | 17% | 18% |
| CASH | 11% | 14% |
| SHORTS | 18% | 17% |

The Fund also has an 18% short position on Japanese Gov’t Bonds.

Source: Platinum



| MSCI WORLD INDEX REGIONAL PERFORMANCE (A\$) | | |
|---|---------|--------|
| REGION | QUARTER | 1 YEAR |
| BRAZIL | 11% | 77% |
| INDIA | 6% | 57% |
| EMERGING MARKETS | 7% | 38% |
| AUSTRALIA | 3% | 37% |
| KOREA | 0% | 33% |
| HONG KONG | 2% | 24% |
| UNITED KINGDOM | 5% | 11% |
| FRANCE | 0% | 2% |
| US | 4% | -2% |
| GERMANY | 0% | -3% |
| JAPAN | -5% | -18% |

Source: MSCI

| MSCI WORLD INDEX SECTOR PERFORMANCE (A\$) | | |
|---|---------|--------|
| SECTOR | QUARTER | 1 YEAR |
| MATERIALS | 10% | 32% |
| INFORMATION TECHNOLOGY | 6% | 23% |
| CONSUMER DISCRETIONARY | 4% | 11% |
| FINANCIALS | -4% | 6% |
| ENERGY | 4% | 3% |
| INDUSTRIALS | 2% | 0% |
| CONSUMER STAPLES | 5% | -4% |
| HEALTH CARE | 6% | -7% |
| TELECOMMUNICATIONS | 1% | -10% |
| UTILITIES | 1% | -15% |

Source: MSCI

CURRENCIES

Just when most had given up on the US dollar, it turned sharply in December. As we stated last quarter, it was not our faith in the currency that caused us to change posture and become positive, but the extreme negative and emotive nature of the commentary. Also contributing to our view are the structural problems facing both the Yen and the Euro. The Euro, in particular, faces the problem of needing to present a monetary policy for member States with very diverse economic prospects.

Longer term, the US dollar is unlikely to be a strong currency but for now it has depreciated far enough. It is cheap against other major currencies and is only

expensive against its principal Asian trading partners, excluding Japan. Even so, as the quarter progressed, we cut holdings of our Asian currencies, the Yen and the Euro in favour of the US dollar, and now the Fund has US and related currency holdings of around 47%.

We acknowledged last quarter that we have not given the Australian dollar sufficient credit for the country's much improved terms of trade, the early tightening cycle executed by the RBA, and the relative attraction of alternatives. Notwithstanding these features, it retreated this quarter and should it fall to around 85 cents to the US dollar, you may expect the Fund to increase its hedging back into the Australian dollar from the current position of 19%.

SHORTING

With markets continuing to rally higher, shorting detracted from our returns. We closed some of the company shorts and have re-established some index shorts which reflect the fact that valuations have returned to enthusiastic levels which we believe will be difficult to justify.

We have reinstated our short position on the Japanese Government Bonds (JGBs). Timing remains the issue with this position. With deflation, bonds have seemed a reasonable investment for Japanese households but JGBs now account for 65% of household assets and the river of issuance continues. With the outstanding stock amounting to about ¥820 trillion, the household savings rate below 2% of GDP, and the 10 year bond yielding only 1.3% - under what circumstances will domestic investors continue to accumulate JGBs? Should the Yen enter a weaker trend, surely investing abroad will look more attractive, particularly if bond prices generally weaken further?

CHANGES TO THE PORTFOLIO

We continued to reduce exposure to the more cyclical holdings like **International Paper, Micron Technology, Infineon, Hutchinson Whampoa and News Corp Inc.** These funds went to building positions in existing stable earners like **SAP, SK Telecom, Johnson & Johnson and Qiagen.** Two new large positions have been accumulated in **Yahoo Inc!** and **Electronic Arts.** Our research suggests that both these companies are in a state of transition.

Yahoo!, once seen as an internet goliath with a valuation to match, is now being priced as a has-been with concerns being expressed about its ability to stabilise its 'search' franchise, and also, that its portal is of declining relevance as behemoths like Google and Facebook grow in dominance of internet traffic. We have no problem with the momentum behind the latter two companies but, as we remind investors incessantly, our job is not necessarily to buy the best companies in the world but to find fine companies whose share prices do not reflect their inherent value. Half the current capitalisation of Yahoo! is accounted for by its listed affiliates, Alibaba and Yahoo! Japan. Its traditional portal, which offers proprietary news, sport and finance as well as hosting email accounts, still draws some 500 million unique regular users to its site. Moreover, unlike some destinations, Yahoo! can guarantee the innocence of its content and hence has a ready market with global brand display advertisers. In search, it has entered a profit sharing JV with Microsoft and this will make an important contribution to its cost-cutting drive and re-orientation led by a new management team. They have already made important headway in streamlining the organisation, re-designing the workings of the Yahoo! home page and have the sales team and IT knowledge to achieve at least respectable earnings. This is barely being recognised in the current price, never mind the potential for the group to fully exploit its underlying traffic flow.

Electronic Arts is also a management, cost and product turnaround story. As the dominant producer of console games, with 25% global market share, it suffered from its earlier success and with the industry now facing indigestion, the share price has collapsed. Management responsibility has been changed to reflect the four principal genre of games, and product quality has been improved. Masking any positive earnings news is the front-loaded nature of game development, which typically takes two years to complete. The whole sector has lost favour as the console games business has matured but Electronic Arts could surprise with its earnings leverage. This could be assisted by the re-invigoration of game sales when Xbox and PlayStation launch new motion sensors early in 2010.

PLATINUM INTERNATIONAL FUND - TOP 20 STOCKS

| STOCK | INDUSTRY | DEC 2009 |
|----------------------------|------------------------|----------|
| MICROSOFT CORP | TECHNOLOGY | 3.3% |
| CISCO SYSTEMS | TECHNOLOGY | 2.7% |
| HENKEL KGAA | CONSUMER | 2.6% |
| SIEMENS | ELECTRICAL | 2.3% |
| CHINA RESOURCES ENTERPRISE | HOLDING CO | 2.2% |
| YAHOO INC | INTERNET SOFTWARE/SERV | 2.2% |
| SANOFI-AVENTIS | HEALTH CARE | 2.1% |
| BANGKOK BANK | FINANCIAL | 2.0% |
| MERCK & CO | HEALTH CARE | 1.9% |
| MITSUBISHI UFJ FINANCIAL | FINANCIAL | 1.8% |
| SAMSUNG ELECTRONICS | ELECTRICAL | 1.8% |
| MICRON TECHNOLOGY | TECHNOLOGY | 1.8% |
| DENSO CORP | AUTO | 1.8% |
| JOHNSON & JOHNSON | HEALTH CARE | 1.6% |
| REED ELSEVIER | MEDIA | 1.6% |
| SAP AG | SOFTWARE | 1.6% |
| HENDERSON LAND DEV | PROPERTY | 1.5% |
| ANGLOGOLD ASHANTI | GOLD | 1.5% |
| PERNOD RICARD | BEVERAGES | 1.4% |
| HUTCHISON WHAMPOA | TELCO/TRANSPORT | 1.4% |

Source: Platinum

COMMENTARY

Just one year ago, few would have believed it possible for the global economic aggregates to have so improved. Starting with the massive spending spree in China and augmented by over 30% credit growth, the ripple spread through Asia, lifting commodity prices and generating broader prosperity in their producing nations. This surprisingly strong response, combined with the unified intervention by so-called developed nations, has almost brought the world back onto an even keel. The global financial crisis recession tally board shows four quarters of economic contraction globally, with developing countries generally experiencing only two to three quarters of lower activity while the more profligate developed countries have seen up to six quarters of shrinkage. Against the comparison with the very weak last quarter of 2008, most economies will have recorded growth in this last quarter of 2009. More significantly, it has been the **turnabout from a sense of dazed helplessness** to that of hope that has allowed stock markets to climb back to near pre-“Lehman” levels. Looking to 2010, the consensus is for the world to achieve **real growth of around 4%**.

Even more surprising than the turnaround of activity has been the **resilience of corporate profitability**. This is partly explained by aggressive lay offs and/or use of time banks to ameliorate weakened demand. In addition, there has been a time lag where an intermediate raw material cost slide facilitated some margin expansion. Prices of a range of service and manufactured goods have been conspicuously stable despite such a severe, though swift recession. This may cause some to cogitate about the longer term prospects for inflation.

As the new year unfolds, we can expect copious coverage of the following topics:

- The durability of the global recovery, led by China.
- The Fed's interest rate tightening cycle.
- The behaviour of corporate earnings.
- Asset speculation and inflation.
- Currency movements and possible credit defaults.

We cannot bring ourselves to believe that it is going to be plain sailing. Though facing a different set of circumstances than Japan after its credit-induced debacle, the profligate countries of the west face the **twin challenges of achieving employment and credit growth**. Using the US as an example, the wide spread between labour incomes (pressured by record unemployment in excess of 10%) and actual consumer spending, which remains at all time highs at over 73% of GDP, is being further augmented by government hand-outs. Largely funding this savings imbalance is a corporate sector that has cut investment spending to a virtual care-and-maintenance basis, not seen since the 1930s. The hope is for a rehiring cycle to stabilise incomes as the year unfolds because the government certainly will not be in a position to add to these transfers.

This brings into focus a second aspect of government intervention. **To what extent have the activities of the central banks distorted capital markets** as they purchase government and other bonds in their efforts to swell bank liquidity and keep down the yield on longer dated paper? With this activity now in decline, **will there be an upward shift in the cost of term funding and a concomitant decrease in the valuation of risk assets like longer dated bonds and shares?** On balance the outcome looks precarious, though if the banks remain so cautious regarding lending, and indeed if borrowers continue to repay debt, the banks may well prove bigger buyers of government securities than some are presently arguing. With profligates having challenging fiscal shortfalls, the odds favour the belief that risk assets, which have basked in the bright rays of hope in the first phase of the economic recovery may now be exposed to the sapping translucence of reality. Preventing one from being dogmatic have been the positive surprises to date and, as we have emphasised in earlier quarterlies, we cannot know how people will respond in these uncertain times. Further, **capital expenditure across the G7 economies fell by an unprecedented degree** and as confidence and utilisation rates recover, the odds favour a strong snap-back. This will compensate for the more frugal behaviour of consumers.

The imminent **demise of the US dollar** and the related subject of virtually free US dollar borrowings, thanks to the Fed's intervention in the money markets, has been a media favourite in recent months. The first we dismiss as **highly premature** on account of the US dollar's central role in the currency baskets that are used by competing countries to manage their floating exchange rates. The so-called **carry trade and its effect on the valuation of risk assets has appeal, but is difficult to verify**. Borrowing from US banks has in aggregate declined from a year ago from about US\$7.6 trillion to around US\$7 trillion now. While domestic households and businesses have repaid debt, foreign borrowers have increased their borrowings in the last two quarters but as a proportion of the whole, borrowings are very modest. Admittedly foreigners have been very active in the use of the commercial paper markets with outstanding US commercial paper now back to the levels of the first half of 2008 at \$280 billion from a low of \$120 billion in March 2009. Our sense is that there is indeed **some ripple effect** from the Fed's purchase of longer dated paper **which induces investors to rebalance their portfolios with a blend of somewhat riskier and higher yielding securities**. Even so, we attribute the current enthusiastic response to risk assets more to the global rise in liquidity than purely the workings of low interest rates governed by the Fed. Last quarter we highlighted the surge in property values in China and the growth of credit which has risen at three times the pace of economic activity.

Though there is surplus manufacturing capacity in the developed countries, we suggest that **inflation cannot be ruled out**. The service sector has grown in importance in Western economies and there are already signs of social disquiet and work stoppages which may be a harbinger of more to come. Without related productivity gains, we can readily draw a scenario of sluggish growth, rising social disharmony and wage

demands from those who provide core services in a modern economy. The shenanigans of the investment banking leviathans (involving State transfers and staunchly defended bonus structures) has caused social outrage and perhaps damaged the public's confidence in the workings of the system. If credit and employment do not rescue the profligates from stagnation, we would not bet on the tame social order that has marked the Japanese public's response to their economic malaise¹.

OUTLOOK

Even though markets have recovered significantly and expectations are optimistic, we feel we should be able to continue to make further gains in 2010.

The emerging markets have clearly been the place of choice as investors have formed the view that these countries will have the best growth prospects. We have no argument with this analysis and indeed the Fund has around one third of its long holdings in the emerging markets. We are, however, avoiding many of the leading companies which seem to be pricing in high expectations and instead we are looking for opportunities in more obscure places.

We keep reminding ourselves that there are many well-managed companies in the developed world with significant earnings emanating from Asia and other developing areas. They have all the virtues of strong corporate governance and diversified risk and yet often trade on valuations below their historic averages. In addition, there are specific opportunities that have been labelled as dull but which are positioned to metamorphose into something much more interesting.

¹ Moreover, it has been the Japanese corporate system that has carried the social burden of under-employment at the cost of profits versus the completely opposite approach adopted by "Western companies" who have quickly passed on the burden to the State. This makes for good quarterly company reporting but the longer term costs are still unknown. Most nauseating has been the discussion surrounding the need for banks to free themselves from the TARP (Troubled Asset Relief Program) and government bondage in order to allow their "talented" management to get on with the job; as if it were someone else who had orchestrated the busting binge in the first place!!

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 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\$20,000 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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The Platinum Trust Product Disclosure Statement No. 8 (PDS), is the current offer document for the Funds. You can obtain a copy of the PDS from Platinum's website, www.platinum.com.au, or by contacting Investor Services on 1300 726 700 (Australian investors only), 02 9255 7500 or 0800 700 726 (New Zealand investors only) or via invest@platinum.com.au.

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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