

MLC-Platinum Global Fund Quarterly Report (Continued)

CHANGES TO THE PORTFOLIO

DISPOSITION OF ASSETS (net invested position)

Region	Mar 2008	Dec 2007
Japan	22.9%	23.3%
Emerging Markets	20.5%	18.6%
Europe *	18.9%	17.9%
North America *	18.3%	18.5%
Australia *	-1.5%	-1.8%
Cash	20.9%	23.4%

Source: MLC Investments Limited

* At 31 March 2008, the Fund has a short position in the US against the Russell 2000 Index of 7.1% (31 December 2007: 6.2%); in Australia against the SPI 200 Index of 1.5% (31 December 2007: 1.8%); and in Germany against the Dax of 3.4% (31 December 2007: 3.7%).

There have been relatively few significant changes in the portfolio. We no longer hold any Indian shares having disposed of HDFC after a long and highly profitable innings. In Japan we consolidated holdings in companies that have demonstrable global leadership or very large market shares such as Murata, Tokyo Electron and JGC. Admittedly they will experience the negative impact of the appreciating Yen, but their prices have so contracted (down 30% to 50% in the last 12 months), that they are now priced as inferior companies, which they are not.

Two companies that have been hurt by exposure to the sub-prime mess, Bank of China and SinoPac in Taiwan, gave us an opportunity to increase our position at lower prices.

Apart from the write-offs they have taken, the market is also reacting to the motivation behind the decision to purchase such assets. We have bought these companies on the basis of a complete write-off of these assets which in the case of the Bank of China's holdings of AAA sub-prime paper, is highly unlikely. Current prices keenly ignore their growth prospects.

A disappointing company we have held for quite a while is SK Telecom which ran up 30% on speculation early in the quarter. We have almost eliminated the holding, using the proceeds to add to Samsung Electronics.

Samsung, along with its leading position in mobile phones and flat panel TVs, is also the world's largest producer of DRAMS. This product is suffering price pressure and seemingly, Samsung is the only profitable producer. Other manufacturers of this semi-conductor storage device are suffering severe losses as the price of a standard 512 Mb DRAM has fallen from \$4 to \$2 in a single year. Mounting losses from an inefficient production scale and the closure of these fabricating plants that convert 200mm wafers (accounting for some 25% of world output) should shortly reverse prices in the industry. Even though we cannot identify longer-term structural changes that will improve the (largely) price-taking nature of the memory business, current stock market pricing of industry participants reflects total and implausible gloom.

MLC PLATINUM GLOBAL FUND - TOP 20 STOCKS

Stock	Industry	Mar 08
Microsoft	Technology	3.2%
Hutchison Whampoa	Telco/Transport	2.7%
International Paper	Paper	2.6%
Bombardier	Transport	2.5%
Samsung Electronics	Electrical	2.5%
Siemens	Electrical	2.4%
Cisco Systems	Technology	2.4%
Barrick Gold	Gold	2.2%
Denso Corp	Auto	2.0%
Bank of China	Financial	1.8%
Henderson Land Dev	Property	1.8%
Bangkok Bank	Financial	1.7%
Credit Agricole	Financial	1.7%
BMW	Auto	1.7%
Pernod Ricard	Beverage	1.6%
Ericsson	Telecom	1.6%
Mitsubishi Tokyo Financial	Financial	1.6%
Toyota Industries Corp	Auto	1.5%
Henkel KGAA	Consumer	1.5%
Schneider Electric	Electrical	1.5%

Source: Platinum

SHORTING

As previously noted, we were totally flummoxed by the August 2007 market kickback but we fortunately recovered our poise to re-establish positions that partly protected us in the January and March sell-offs. We have made fair returns from shorting broader indices such as small caps in the US, the German DAX index, the Indian market and other emerging market Exchange Traded Funds. We closed the quarter with 12% short.

COMMENTARY

The financial contagion added new victims to its already long list during the quarter. While there were various emotive articles about the speed and aggression of the Federal Reserve Board's response to the "run" on Bear Stearns, which included the back-up provision of \$30 billion of special financing to JP Morgan Chase to fund Bear's less liquid assets, as well as the provision of a facility allowing the Fed to lend directly to broker dealers, one might have argued that this was inevitable.

The point here is that financial innovation that accelerated with the repeal of the Glass-Steagall Act¹ in 1999 ensured that the roles of commercial banks and the broker dealers have become closely integrated. While commercial banks are overseen by their regional Federal Reserve Bank which specify capital requirements, the broker dealers, as non-deposit taking entities, are overseen by the Securities and Exchange Commission which in its role as the protector of investor interests has seemingly little to say about their capital adequacy.

¹ The Glass-Steagall Act was promulgated in 1933 following a series of runs on bank deposits and many bank failures. Together with an amendment to provide for deposit insurance, it segregated the roles of commercial banks from those of investment banks with the intent of protecting the savings of depositors from excessive leveraging by the banks.

The Fed is not the only regulator to have been lulled into complacency and to have failed to keep abreast of some of the more arcane banking developments. In the UK for example, British banks had gradually introduced hybrid equity to meet their statutory reserve ratios and simultaneously have become highly dependent on the inter-bank market, with loan to deposit ratios in excess of 150% and "real" equity ratios of say 2% to 4%. For good measure some also engaged in the shadow banking activity of special investment vehicles (SIVs). It is our belief that in their urge to raise their return on equity, some of these financial institutions have compromised their longer-term prospects. Either way, as the dust settles one can expect much tighter regulatory oversight which will be accompanied by the need to bolster their equity reserves. This is likely to be dilutive to shareholders; in other words, their apparent low PEs are an illusion.

The repetitive pattern of markets discouragingly suggests that the lessons of history are seldom, if ever learned. When tracing earlier banking calamities, the script is a variation on the following: financial deregulation followed by exaggerated credit growth, leading to an asset bubble. As this pops, the system is left with non-performing loans, an asset price correction, and depending on the nature of the intervention by the government, broader or narrower economic contraction.

The Asian experience of 1998 was particularly severe because the excesses were funded in foreign currencies. The collapse of their currencies and limited intervention by their governments exacerbated the economic upheaval.

Government indecision was the hallmark of the 1989 crunch in Japan and resulted in a protracted resolution of problem loans. The two memorable US episodes were the establishment of Home Owners' Loan Corporation (HOLC), a federal agency to buy and refinance distressed mortgages, and the Reconstruction Finance Corporation (RFC) which provided liquidity to the surviving banks in the Great Depression in 1933. The Savings and Loans debacle from 1986 to 1989 saw a similar solution with the creation of the Resolution Trust Corporation (RTC), to provide government sponsored warehousing of assets to ensure orderly disposal.

Interestingly, aside from the immediate funk, it is clear that the intervention by the Central bank, as the lender of last resort, has generally brought order within a relatively short time with no great long-term cost to the exchequer, though often at the cost of economic contraction².

We are still well short of fully understanding the extent of the likely write-offs. This has still to play out on account of the feedback loop as regards growth, employment, interest rates and housing affordability. While making terrific headlines, commentary about economic growth should not distract us from the main game which is company earnings. Clearly input costs are for the moment rising steeply and it is our view that the squeeze on credit will tend to be expressed in slimmer profit margins rather than an incipient rise and acceleration of inflation. As we have said before, the effect of over-leveraging is to create a deflationary pulse as debt is subsequently reduced. In the US for example, the impact of the rise of the oil price has already been recorded in the CPI,

² The same approach was adopted in the Swedish banking crisis of 1992 and the nominal cost to the government for supporting the banks was put at about 3.6% of GDP before some recoveries from asset sales. The economy contracted by 6% between 1991-93, even with government fiscal stimulation amounting to 8% of GDP. Housing prices were estimated to have fallen by 25% and commercial property by more.

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accounting for a full 1.5% of the increase in the last year. Even the weakness of the US dollar is still barely showing with import cost rises being relatively mild, (bear in mind imports constitute approximately 16% of GNP). The socialisation of the recent excesses, with the effect of spreading the burden broadly and punishing savers with negative interest rates (ie. below inflation) can, however, create longer-term inflationary pressures.

OUTLOOK

For the time being the fear of a domino effect of a dealer/broker meltdown has been averted by the Fed and other Central bank action. There will follow a period of retrenchment with commercial and investment banks seeking further equity to top-up and prop-up their solvency. Simultaneously we can expect much tighter credit controls and accelerated asset sales and closer regulatory scrutiny.

Valuations have clearly fallen dramatically and our interpretation is that market participants are already factoring in a significant drop in aggregate profits. The world market, ex the US, is perhaps on a price earnings ratio of 11 to 12 times for 2008, the lowest since 1988. However, broker analysts are way behind the reality curve when they forecast aggregate earnings growth in low double digits for this year and next. In a typical global earnings cycle, the profit downturn lasts for 20 to 24 months with the market tending to anticipate the peak by 12 to 15 months. The pattern has been for the market to trough at around the time when peak earnings are reported (about now?), to recover for several months and then retest low or lower ground. As we all know, the stock market is an anticipatory mechanism, in a state of self-organised criticality. The problem we all face is how much is already factored into today's prices!

If you have any questions about your investment in the MLC-Platinum Global Fund, please contact the MasterKey Service Centre on
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Platinum Asset Management is an Australian based international fund manager. For greater insight into our process, please visit our website at www.platinum.com.au

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PERFORMANCE

Fund Size: \$2.1 bn	Last Quarter	Last 12 months	5 years (compound pa)	Since Inception (compound pa)
MLC-Platinum Global Fund	-11.5%	-9.7%	12.8%	12.6%
Morgan Stanley Capital International All Country World Net Index (A\$)	-12.7%	-12.5%	7.9%	6.5%

Source: MLC Investments Limited and Platinum

The Fund is down by 11.5% for the quarter versus -12.7% for the MSCI; for the last 12 months the figures are respectively -9.7% and -12.5%, an outperformance by the Fund of 2.8%. While acceptable in a relative sense, this is not what most clients are interested in. (By way of reference, an aggregation of 15 global fund managers has by comparison returned -15% over the last 12 months to 31 March 2008). Unlike the experience of the tech bubble, where there was a great disparity in values between expensive tech stocks and cheap 'old world' alternatives, this downturn began with much more clustering of values and fewer cheap extremes to take advantage of. We successfully avoided exposure to the financials and other hot areas, and derived some protection from shorting specific indices.

MSCI* WORLD INDEX SECTOR PERFORMANCE (AUD)

Sector	Quarter	1 Year
Telecommunications	-17%	-7%
Information Technology	-17%	-12%
Financials	-16%	-27%
Consumer Discretionary	-13%	-23%
Energy	-12%	7%
Health Care	-12%	-17%
Utilities	-12%	-6%
Industrials	-11%	-8%
Consumer Staples	-7%	-3%
Materials	-6%	8%

* Morgan Stanley Capital International
 Source: MSCI

CURRENCY

There are reasons to believe that the US dollar is in the process of bottoming out versus the Euro. It is interesting to see how the spreads of sovereign debt of some of the peripheral Euro countries have widened versus the Bunds, highlighting some concerns within the Euro block. With this in mind we have added US dollar exposure and at the same time cut the Australian dollar exposure to 11%. We sense that the Australian currency is in the process of losing upward momentum after its commodity-induced bull market. We continue to favour the currencies of Asia and they now constitute 52% of the Fund's currency exposure.

