

MLC-Platinum Global

QUARTERLY REPORT

PERFORMANCE (AS AT 30 SEPTEMBER 2005)

Fund Size: \$3.4bn	Last Quarter	Last 12 months	5 years (compound pa)	Since Inception (compound pa)
MLC-Platinum Global Fund	12.2%	16.3%	7.0%	14.8%
Morgan Stanley Capital International All Country World Net Index (AS)	7.4%	14.2%	-5.8%	7.4%

Source: MLC Investments Limited and Platinum

The portfolio has had a nice change of pace this quarter. Several of our long-standing themes have sprung to life, and some of our more recalcitrant holdings have begun to gain traction. Most notably, the Japanese market exploded out of the blocks with a clear shift of investor sentiment in response to the re-election of Junichiro Koizumi and further evidence that the economic recovery is self-sustaining. The same shift in view has helped our German holdings, while the desire to lay-off bets on the gold price has seen our gold shares have one of their biggest quarters for a long time. Countering these positives were relatively few negatives with our currencies being largely neutral.

The Fund outperformed the MSCI World Index for the quarter with a return of 12.2% versus 7.4%, and for the year 16.3% versus 14.2% respectively. Again we highlight the problems with short term performance-monitoring to track whether the manager is competent or not. The accompanying tables (right) reveal the extraordinary dispersion of returns over the last three and 12 months of important share indices, on both a country and industry basis. This serves only to alert readers to the magnitude of opportunities, as the achieved returns of both the MSCI and our portfolio are significantly influenced by weighted exposure.

MSCI* World Index Country Performance (AUD)

Country	Quarter	1 year
Brazil	37%	81%
Korea	22%	51%
Japan	19%	20%
India	16%	51%
Australia	11%	34%
Germany	10%	20%
France	9%	20%
Hong Kong	8%	18%
UK	6%	14%
US	3%	7%

Source: Factset

*Morgan Stanley Capital International All Country World Net Index

MSCI* World Index Industry Performance (AUD)

Sector	Quarter	1 year
Energy	19%	43%
Materials	15%	19%
Industrials	8%	13%
Utilities	7%	27%
Financials	7%	14%
Information Technology	6%	9%
Consumer Staples	6%	13%
Telecommunications	5%	9%
Consumer Discretionary	4%	7%
Health Care	4%	9%

Source: Factset

*Morgan Stanley Capital International All Country World Net Index

CURRENCY

The revaluation of the Chinese yuan by 2% in July was the beginning of a significant change in the currency markets, yet after the initial gyrations, the excitement subsided and participants settled back to the daily grind. As we had indicated in the last quarterly report, any temporary weakening of the A\$ would be used to increase our hedging out of the US\$ and the Japanese yen; this we did.

We find this a difficult decision because of Australia's predilection for foreign debt, two thirds of which is owed in currencies other than our own. The case to be made for the A\$ relies on world growth being maintained at current levels which should sustain the country's improved terms of trade*. In addition, there is sufficient buoyancy in the domestic economy to ensure that short term interest rates do at least hold at present levels. With the continuing quest for yield, this should allow the country to remain relatively indebted yet still attract incremental foreign flows.

* This concept compares the value of a basket of our typical exports against a basket of our normal imports. After several decades of weakening relative prices, our commodity exports have been gaining in purchasing power against our manufactured imports.

SHORTING

The clear underperformance of the US markets suggests that our choice of shorting the US indices has been technically correct albeit unhelpful to performance. The introduction of puts has given us some protection from upside spikes but at the cost of premium decay.

CHANGES TO THE PORTFOLIO

Disposition of Assets (Net Invested Position)

Region	Sep 2005	Jun 2005
Japan	33.7%	32.5%
Western Europe*	26.6%	30.3%
Other (emerging markets eg. Korea)	12.5%	11.5%
North America*	7.5%	9.6%
Australia*	-1.3%	-1.2%
Cash	21.0%	17.3%

Source: MLC Investments Limited

* At 30 September 2005, the Fund has a short position in the US against the Standard & Poor's 500 index of 9.2% (6.3% at 30 June 2005) and 4.8% against the Russell 2000 Index (2.9% at 30 June 2005); in Australia against the SPI 200 Index of 1.3% (1.2% at 30 June 2005); in Japan against the Nikkei of 0.3% and in Germany against the DAX of 1.2%.

We have been most active in the Japanese market this quarter rearranging some of the holdings. Out went NTT and NTT DoCoMo, Tokyo Broadcasting, Mitsubishi Tokyo Financial, Sumitomo Corp, and some Aiful, TDK and Fuji Electric. These funds were used to bolster existing positions such as Sumitomo Mitsui Financial, Toyota Industries, Nikko Cordial, Mitsui Corp and MHI. New positions are being assembled in some regional banks, Omron and Dai Nippon Printing.

It is not as though the companies that were disposed of are at their full value but it has been a matter of taking advantage of laggards in what we believe to be the early days of a major bull market in Japan. For example, the switch into Sumitomo Mitsui Financial from MTFG is based on the improving quality of Sumitomo's profits, as they replace carry-trade earnings with traditional financial service margins. Moreover, Sumitomo Mitsui seems, on our investigation, to be doing more to prepare for the inevitable battle for consumer loyalty.

In Korea we reduced Samsung Securities and Seoul Broadcasting after strong runs, and have switched into Samsung Fire and Marine, and Kookmin Bank. Both of the latter are under a cloud regarding the sustainability of their profits.

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Kookmin benefits from its leading position in the highly oligopolistic banking market. Its history as a quasi-Government entity makes investors cautious about the sustainability of its earnings. However, from reading the Bank of Korea's policy statements, it is clear that the Government has stepped away from its former posture of using the banks as instruments of state industrial policy.

Samsung Fire and Marine is in a similar leading position as the country's best capitalised provider of long term health and welfare insurance policies. The nature of this business is that earnings will grow quickly for several years and mistakes, if any, will not be apparent within our normal investment horizon of five years.

In Europe, we have now left Merck KGaA and adidas, and have reduced Linde significantly. We have trimmed Deutsche Post, Carrefour and Alleanza, while initiating positions in Norske Skog, and UPM. These two paper makers have little to commend them at present. The industry is beset with chronic over-supply exacerbated by some reduction of newsprint usage as advertisers

shift more to the Internet. However, the shares trade at around book value, UPM pays a good dividend and we can identify reasons why these businesses may perform better than is reflected in their current share prices.

We were disappointed in adidas' purchase of Reebok and took advantage of the market's enthusiasm to off-load. Deutsche Post is following a similar course in acquiring a British-based logistics company at what we regard as an extravagant price, even before it has fully digested all the acquisitions made in the last several years. The thesis for Carrefour as a force in global retailing seems intact but the miserable consumer environment in their home market, France, is arresting their progress. However, their ranging and pricing initiatives are helping them to gain market share.

In the US we sold Agilent, too early it transpired, and added to Mosaic and some biotechs. Potash prices have been very strong and the longer-term demand for phosphatic fertilizers suggests that the restructuring and commodity play, Mosaic, will be highly rewarding.

Breakdown of Platinum's long investments by Industry

Categories	Examples of Stocks	Sep 2005	Jun 2005
Cyclicals/Manufacturing	Toyota Motor, Schindler, Siemens, Océ	31%	30%
Financials	Credit Agricole, Sumitomo Mitsui Insurance	15%	13%
Retail/Services/Logistics	Hornbach, Mitsubishi Corp	10%	9%
Technology/Hardware	Agere, Infineon Tech, Samsung, AMD, Sun Microsystems	10%	11%
Gold and Other Resources	Shell, Barrick Gold, Newmont Mining	7%	6%
Software/Media	Seoul Broadcasting, Newscorp	5%	6%
Telecoms	Alcatel, SK Telecom	5%	6%
Consumer Brands	Henkel, Lotte	5%	7%
Medical	Takeda, Schering, GlaxoSmithKline	5%	5%

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COMMENTARY

Among the important political events of the last three months are the outcomes of the Japanese and German elections and the decision by the Chinese to float their currency.

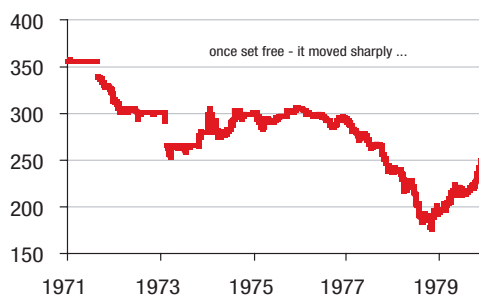
The decision by the People's Bank of China (PBOC) to set upon the path of a managed float for the yuan (CNY) in July is in our view of unusual importance. Goldman Sachs* have produced a thorough review of the subject and make some valuable observations. Following the lead of the Japanese, the central banks of Asia have favoured using an undervalued currency as a mechanism to promote economic development. The process of intervening in the foreign exchange markets and sterilising the resultant liquidity build-up via the central bank issuing bills to domestic investors, works well for a while. However, this process invariably encourages over-investment in export industries, at the expense of domestic consumption which in turn tends to add unnecessarily to a climate of booms and sharp slowdowns. Moreover, the undervaluation of the currency tends to spill over into non-tradable inflation as seen in bouts of land and property speculation.

The limitation of these policies becomes particularly evident once these economies become large and more complex eg. Japan, or as in the case of China now that its trade account represents a large proportion of activity: exports plus imports being 75% of GNP. Further, when there is the prospect of higher inflation, the situation becomes alarming as the large outstanding pool of sterilisation bills become more costly to rollover (as banks seek other uses for their funds). Attempts to ameliorate the situation via administrative controls tends to hurt the good as much as the bad and ultimately the regime is forced to fall back onto the price mechanism to bring order and balance to their system.

* Global Economics Paper No: 127, 1 September 2005

This is approximately the position most Asian central banks find themselves in today. Currency intervention to impede the appreciation of their currencies has seen their balance sheets explode over the last few years; PBOC's assets have nearly doubled over the last three years, the BOJ's by 50% and the rest of newly industrialised Asia by more than this, according to Goldman. At the same time we have witnessed a distortion in their domestic economies where they have under-invested in the service (non-tradable) sector. Since around 1996, investment expenditure in Asia (excluding Japan and China) has fallen a full 9% of GDP to around 24% which explains their relatively weak growth rates and the accumulation of foreign exchange reserves. (Part of this under-investment was associated with the recovery from the IMF crises and also by the preference for investment in China. But importantly, the situation was exacerbated by undervalued currencies which suppressed domestic demand). However, when China's investment figures are tallied together with the rest of Asia, we find total investment in Asia has been strong.

Japanese Yen Exchange Rates in the 1970s



Source: Bloomberg

The punch line to all of this is that there is no turning back. Japan began to float the yen tentatively in 1971 but within 18 months it suddenly appreciated by around 20%. This time

around, the whole of Asia will likely see their currencies lift against the US\$ (perhaps by less against the euro) as the productivity gap finds expression in appreciating currencies. Significantly this will probably be accompanied by booming domestic demand and on account of the prospect of less volatile business cycles, a higher rating being applied to risk assets. After a long drought, we expect to see very strong participation by domestic investors in their own share markets as they redirect their attention. What then comes of their erstwhile facilitation of the US funding gap?

We regard the routing of the traditional wing of the LDP in Koizumi's snap September election as setting the stage for a programme of further reforms. By disentwining them from the tentacles of the post office savings system, the banks and bond markets will take on the complexion of those seen in other developed industrial nations. It will uncover skeletons of extremely poor project finance decisions by the Trust Fund Bureau but simultaneously will force the banks to pay more attention to the hitherto ill-treated private depositor and borrower. After a life-time of priority being given to investment and trade, we can envisage a boom in new financial products which are directed at consumers - resulting in a surprising shift in resource use within the economy. This should ameliorate the effects of higher public charges and increases in taxation as the government works to reduce its fiscal deficit. Reform of the pension and health system will then give impetus to a system which is more responsive.

In the meantime, the election of nearly 100 new representatives to the *diet* (Japanese parliament) on a record voter turnout suggests that Japan is well on the way to rebuilding its self-confidence. Confirming the process are key indicators such

as rising employment and real wages, improving property prices and the demise of deflation. The only ingredient missing from a "perfect bull market" is a seething lust for equities in domestic investors. Rising stock exchange trade volumes and private equity purchases suggest the process has started.

Germany

The stalemate following the narrowly run election in Germany has led to intensive talks which, as we write, have still not been resolved. A grand coalition between the Social Democrats (SPD) led by Gerhard Schröder and Angela Merkel's Christian Democrats looks the best bet but will seemingly do little to help the intransigent issue of unemployment. As you are aware, we have studiously ignored politics in Germany, relying instead on the pragmatism of business to resolve some of the imperfections in the German labour market. With the conservatives having 36% of the seats in the Bundestag compared with 34% held by the SPD, we see no reason to become more concerned now. Interestingly, the stock market is seemingly unconcerned.

OUTLOOK

One of the big unknowns is how well the developing markets will behave should high energy prices and other setbacks adversely affect consumer confidence and spending intentions in the leading economies of this cycle. The US, together with the UK, Australia and Canada are in the late or mature phase of this economic cycle while Germany, France and Japan, among the large economies, are trailing in their recoveries. We believe that inflation pressures are growing and that the higher cost of hydrocarbons still has to be reflected in final prices.

The second great puzzle is how long investors will remain comfortable with US treasuries yielding such a scant 1.25% margin over underlying inflation. This issue becomes all the more acute as Asia tentatively embarks on an upward currency adjustment. This implicitly involves holding a more diversified portfolio of international reserves. These latent concerns play on our conservatism. (Remember too, that without rising house prices, the bonanza for the US consumer of "cashing-out" home equity largely disappears. Already the cost of adjustable rate mortgages, which account for about one third of new mortgages, have risen by 1% from a year ago). There is some tentative evidence that the heat is coming out of the US housing market. It should be acknowledged, however, that in the case of the UK and Australia, the topping-out process was quite protracted before actual declines in "average prices" were reported.

We invariably err on the gloomy side yet can identify strong growth drivers in parts of Asia, Latin America, and Eastern Europe and Russia, together with its nearby former satellites. The risk to share prices seems to lie with a reversal of capital flows to developing markets and concerns about valuations on peak profitability in some developed markets.

CONCLUSION

We are still finding a broad range of stocks that we wish to own. The valuations of our holdings have risen but are still at justifiable levels. To ameliorate the risks of nasty surprises, we are holding short positions in indices that we regard as over-stretched.

Kerr Neilson
Managing Director
Platinum Asset Management

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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For greater insight into our process, please visit our web site at www.platinum.com.au**

This document has been prepared by MLC Investments Limited (ABN 30 002 641 661), with fund and market commentary written by Platinum Asset Management Limited (ABN 25 063 565 006) and is current as at 30 September 2005. It is provided as an information service without assuming a duty of care. Accordingly, reliance should not be placed by anyone on this document as the basis for making any investment, financial or other decision. MLC Investments Limited is the issuer of both the MLC-Platinum Global Fund and the MLC MasterKey Unit Trust. The offer of interests in the MLC-Platinum Global Fund and the MLC MasterKey Unit Trust are contained in the MLC-Platinum Global Fund Product Disclosure Statement (PDS) and the MLC MasterKey Unit Trust PDS. Copies of which are available upon request by phoning the MasterKey Service Centre on 132 652 or on our website at mlc.com.au. Persons wishing to acquire units should obtain a PDS and consider that document before making any decision about whether to acquire or continue to hold the product. Persons wishing to acquire interests must complete the application form from the current PDS. An investment in the MLC-Platinum Global Fund or MLC MasterKey Unit Trust does not represent a deposit with or a liability of MLC Investments Limited, National Australia Bank Limited (ABN 12 004 044 937) or other member company of the National Group of companies and is subject to investment risk including possible delays in repayment and loss of income and capital invested. None of the National Australia Bank Limited, MLC Investments Limited, or any other member company in the National Group of companies or Platinum Asset Management, guarantee the repayment of capital, payment of income or the performance of the MLC-Platinum Global Fund or MLC MasterKey Unit Trust.