MLC-Platinum Global Fund

QUARTERLY REPORT

PERFORMANCE

Fund Size: $3.2bn	Last Quarter	Last 12 months	5 years (compound pa)	Since Inception (compound pa)
MLC-Platinum Global Fund	2.1%	7.7%	10.6%	14.7%
Morgan Stanley Capital International All Country World Net Index (A$)	3.3%	12.6%	1.6%	8.3%

Source: MLC Investments Limited and Platinum

The general view of a friendly investment climate continued into the fourth quarter. The consensus moved to a "soft landing" for the US economy; a benign inflation outlook and further earnings growth, albeit in single digits. For the present, the US dollar is acting as a barometer of growth expectations, with the linkage being that weak growth will result in an early cut of rates by the Fed and hence this will reduce the attraction of holding US dollars. In addition, several large corporate takeovers underscored investor convictions that market risk is low. Further evidence of this interpretation is shown in the cyclical sectors versus defensives, and emerging markets strongly outperforming traditional markets (see accompanying tables below).

Overall the MSCI rose by 3.3% when expressed in A$ for the quarter and 12.6% for the year. Several factors have dampened our performance. By having over 25% of the portfolio in Japan, which has been the only market to be almost flat for the year, we have denied you some excellent opportunities. Worse still within Japan, the banks have lagged further and undid the strong work put in by the likes of Canon, Nintendo and Toyota Industries. Holding the associated yen was not a help either, particularly against the

MSCI* WORLD INDEX INDUSTRY PERFORMANCE (AUD)

Sector	Quarter	1 Year
Materials	9%	22%
Telecommunications	8%	24%
Utilities	7%	27%
Consumer Discretionary	5%	12%
Energy	4%	12%
Industrials	4%	11%
Financials	3%	16%
Information Technology	1%	2%
Consumer Staples	1%	13%
Health Care	-4%	3%

* Morgan Stanley Capital International Source: Factset

MSCI* WORLD INDEX COUNTRY PERFORMANCE (AUD)

Region	Quarter	1 Year
Brazil	18%	35%
India	10%	41%
Australia	10%	22%
Hong Kong	8%	21%
Germany	8%	27%
France	5%	25%
UK	4%	22%
US	1%	7%
Japan	-1%	-1%
Korea	-1%	5%

* Morgan Stanley Capital International Source: Factset

Platinum® ASSET MANAGEMENT

MLC

strong Australian dollar. The second depressant was the burden of the short sales on indices. These reduced our through-year exposure to the markets to about 80%. This only seemed like a good idea briefly in May when the markets tumbled but soon bounced back. In retrospect we regret that our cautious stance meant missing some easy pickings. This will not, however, stop us from continuing to give at least as much weight to fundamentals as to momentum. Faith in our ability to pick stocks was reinforced by the knowledge that even with these self-inflicted handicaps we have achieved positive returns of 2.1% for the quarter and 7.7% for the year.

CURRENCY

At one stage it looked as though the Japanese yen was about to recover and move more in tandem with the strengthening Asian cohort. This proved short lived as the Bank of Japan again vacillated in raising rates. At the same time commodity sensitive currencies such as the Australian dollar moved higher in concert with reduced concerns about global growth. For the quarter, the Australian dollar rose by 6% versus the US dollar and 1.6% versus the euro.

CHANGES TO THE PORTFOLIO

DISPOSITION OF ASSETS (net invested position)

Region	Dec 2006	Sep 2006
Japan	26.9%	25.8%
Western Europe	24.8%	27.4%
Other (emerging markets eg Korea)	15.1%	11.7%
North America *	15.8%	19.8%
Australia *	-2.2%	-2.0%
Cash	19.6%	17.3%

Source: MLC Investments Limited

* At 31 December 2006, the Fund has a short position in the US against the Russell 2000 Index of 7.4% (30 September 2006: 7.1%) and in Australia against the SPI 200 Index of 2.2% (30 September 2006: 2.0%).

Europe has been the source of funding as we have continued to find better valued opportunities in the east. Long-standing stalwarts like Metso, Beiersdorf and Schindler, now on relatively demanding valuations, having each appreciated by two to three fold since acquisition, have been sold. In addition some recent purchases in the US, namely E-bay, Merck and Oracle, were discarded or reduced as they raced ahead of their near-term fundamentals.

In Japan we completed the sales programme of the previous quarter and have added gradually to the regional banks, Ajinomoto (packaged food and animal feed supplements), to some of our small holdings, and introduced Yamato Holdings Co and Sony.

Both were once stock market darlings with unblemished growth records and all the hype associated with the internet bubble. Their share prices are a fraction of earlier levels and in each case there is the trenchant whiff of fear regarding a permanent change in their prospects.

In the case of Yamato, this comes from a 2004 decline in earnings (the first in 17 years) and the coincident emergence of the soon-to-be-privatised Japan Post. The latter has changed the business environment but equally, the demand for Yamato's rapid delivery services continues to grow and broaden into related fields of logistics and clearing. As UPS and FedEx have shown, to replicate these fine-mesh networks is no easy matter; Yamato is still the industry leader with a 34% market share (delivering 2.8 billion parcels in 2006!). Our meeting with the company reinforced our confidence in this debt free, highly profitable company's ability to grow.

Sony has been steam-rolled by disappointments recently; battery recalls, production constraints and the ongoing reshuffling of management in an attempt to break down internal silos that are obstructing the group from bringing its full resources to bear. Some of these issues have been resolved but the public image will take some time to rebuild. Digging below the much

publicised contest between the PlayStation (PS3) and Nintendo's Wii, we can identify a number of successes, notably, the mobile handset joint venture with Ericsson; a strong showing by the movie division; interesting prospects in LCD television where the company manufactures the panels in a joint venture with Samsung; and the prospect of its electronic components business returning to healthy profitability. Within the next 18 months the company should benefit from its deepened in-house component technology (including the cell chip and Blu-ray DVD player) and as game developers learn to exploit the PS3's stunning computational power, the game division may again be a major profit earner. In the meantime, we anticipate hearing all about the virtues of Nintendo, a stock which we clearly sold too early.

In the rest of Asia, we have been actively adding to positions, the largest purchase being Hutchison Whampoa. Like the above examples, this company has also lost its lustre as it rings up heavy losses in its third generation mobile phone business, principally in the UK. Were these losses to be eliminated, the shares would be trading on 12 times earnings. Not bad for a company that is intimately involved in today's hot areas notably container terminals, road and other infrastructure, and Asian property. With its 3G operations gradually gaining customers we feel it is only a matter of time before the market realises the advantage of not having a voice customer dependence.

COMMENTARY

Optimists must surely regard this as a perfect world for equity markets. A care-free attitude to risk[1]; record corporate profitability[2]; low costs of borrowing money[3] and world-wide growth like we haven't had for years[4]. It is the type of situation that encourages linear extrapolation. Our concern is that as custodians of your wealth we are intellectually and emotionally disinclined to adopt this exquisite view of the world.

It is probable that we have bored you with earlier commentary about the creation of cheap money by Central Banks[5] as they intercede to reliquefy their economies, which in the case of a large economy such as Japan, has a tendency to wash across borders to create further distortions. We have also trumpeted on about the agents of the system applying technology[6] and a deregulated environment to produce derivative instruments that are so distant from their origin as to allow a pricing of risk that gives (non-participants) the impression of alchemy[7]. We have also outlined some of the issues facing China as it

BREAKDOWN OF PLATINUM'S PORTFOLIO BY INDUSTRY

Categories	Examples of Stocks	Dec 2006	Sep 2006
Cyclicals/Manufacturing	Toyota Industries, Mosaic, Siemens, International Paper	28%	30%
Financials	Credit Agricole, Sumitomo Mitsui Insurance, Samsung Fire and Marine	14%	15%
Telecoms	Alcatel, SK Telecom, Ericsson, China Telecom	11%	6%
Retail/Services/Logistics	Hornbach, Carrefour, Hutchison Whampoa	10%	9%
Technology/Hardware	Infineon Tech, Samsung, Cisco, Sony	8%	9%
Consumer Brands	Henkel, Pernod Ricard	6%	6%
Gold and Other Resources	Shell, Barrick Gold, Newmont Mining	6%	6%
Software/Media	Liberty Media, News Corp, Publicis Groupe	4%	8%
Medical	Pfizer, Biotechs	3%	3%

Source: Platinum

WEST VERSUS EAST

West	East
Redeeming equity with share buy-backs and LBO activity	Raising equity via IPOs and government privatisations
Re-leveraging balance sheets to protect against unwanted suitors	Trying to bury the memories of having had too much (exchange rate exposed) debt
Consumers with minimal savings continue to indebt themselves further	Consumers are relatively under-borrowed and still content to save
LBO funds influencing share prices at the margin	Foreigners set the prices of shares
Financial market deregulation is *de rigueur*	Regulators are somewhat hostile to unregulated foreign depredations

Source: Platinum

pursues mercantilist policies to grapple with internal needs for employment and resources. At present, this has had a depressant effect on global inflation but the longer-term implications of a giant economy devoting over 40% of GDP to investment has yet to be seen. We note with some anxiety, however, the likely consequences to competitor's margins in many basic industries should Chinese producers turn to exports to alleviate domestic over-supply[8].

Here though is the interesting paradox; just as western stock markets swelter in the heat of lusty and ever-larger LBO deals, the waiting list for IPOs in the east is stretching over the horizon as owners discover the delights of raising equity from ever-less critical investors. We have heard of several "road shows" being cancelled at the last moment as owners felt they could use their time more profitably than touring the financial capitals of the world to enlighten potential investors about their company's prospects! Likewise, the frantic application for shares in the likes of Industrial & Commercial Bank of China-ICBC, being the largest IPO in history yet being over-subscribed by more than 20 times, underscores the enthusiasm of the moment. To highlight these contrasts we have prepared the following highly stylised table above.

With the continued availability of ultra-cheap money from carrying currencies such as the yen and Swiss franc, it would be brave to anticipate the end to the LBO boom which is proving to be such an important driver in equity markets. On their own or acting in concert, these pools

1 A measure of this is the multi-year low of the Volatility Index (VIX) of the Chicago Board Options Exchange. The VIX measures the markets' expectation of 30-day volatility and hence is a gauge of fear.

2 For example, the US Department of Commerce calculates that corporate profits' share of National Income is the highest since 1929 – except for 1942. Measures for the G7 show a similar pattern.

3 Aaa credit spreads over five year treasuries are 84 basis points compared to a 20-year average of 155 and a 50-year average of 100 basis points. The corresponding numbers for Baa credit spreads are respectively 176 basis points versus 243, and 197 for the 50-year average.

4 World GDP is expected to have grown by 5.1% in 2006. With the exception of 2004 (5.3%), this is the fastest growth recorded since 1974.

5 The weighted average of overnight interest rates for the US, UK, Germany and Japan in 2001 were the lowest in a series that began in 1882 and indeed almost 1% below the last major trough seen during WW2.

6 Without today's wondrous computing power it would be impossible to price and to keep track of the slicing and dicing of debt derivatives that are now so prevalent.

7 We have recently encountered collateralised debt obligations (CDOs) that have their origin as sub-prime mortgages and have been eventually repackaged to produce tranches of Aaa-rated paper!

8 Chinese steel exports are presently running at over 30 million tons a year: for context this represents about one third of US domestic steel production.

are now so large as to be able to challenge even the great listed industrial behemoths. Spreads between prime and lesser grade paper are now so narrow as to encourage companies to actively consider the use of more debt to enhance growth even at the expense of having their debt downgraded to "junk". Hence the display of nonchalance by markets in the face of mega-bids for even highly leveraged entities such as Equity Office Properties (by Blackstone in November for $US36 billion and a consortia's bid for HCA for $US32 billion in July). At home, the bid for Qantas, had the added touch of the consortium planning to place $A7.5 billion "covenant lite" paper abroad. Are we so far down the road of globalisation that traditional risks such as labour disputes and the like carry so little weight? Perhaps, but there is a measure that we apply when managing your wealth that does seem to be missing in some of these deals: when buying a company's shares we systematically ask whether the business will be bigger, stronger and better in the future than at present!

For all these tell-tale indicators of undue exuberance in stock markets we are still finding a wide selection of companies that we regard as attractively priced. As we often note, by definition, there is always something out of fashion. Having been a star in 2005, Japan has spent the last 12 months consolidating as weak holders reduced their positions. The economy has witnessed over 50 months of growth and the continued reluctance of the Bank of Japan to raise the cost of borrowing has seen the yen slide by 13% versus the euro this year – its principal export competitor.

Japanese company earnings are growing strongly as management redirects the benefit of stronger demand (helped by a very weak yen) to bolster profits rather than incomes to workers (wages are rising by a mere 0.2 to 0.3% on last year). This emphasis on profitability is being influenced by the disappearance of cross shareholdings and a change in the pecking order of "stakeholders".

We continue to believe that Japan is a highly prospective market and that the weak holders have now sold-out and indeed foreign institutional holdings appear to be down to index weight. This suggests that the climax of selling we saw in November has set the market for a resumption of its upward trend. Domestic investors still have approximately 52% of their financial assets in cash (and only 7.4% directly in domestic shares) but their search for yield is evident from the portfolio flows abroad and the drop in the capitalisation rate of commercial property at home. (With rentals yielding at least twice the cost of 10 year money, the inducement is obvious.) This enthusiasm is also spreading to development land. For example, in late December IHI sold 0.66ha of reclaimed land for about $US40,000 per square metre, some four times the price achieved in Koto ward in August 2004 (and netted IHI ¥30.8 billion capital gain or approximately $US260 million).

Across the sea, domestic investors returned enthusiastically to the China "A" share market. While valuations are up, this thematically-driven market pays more attention to the story line than the valuation. With restricted capital flows and paltry returns on their saving accounts (2.5%), it would be surprising if we do not see a repeat of frenetic investor activity last witnessed in 2000. While foreigners can have only limited access to this market via QFII quotas, we have been adding mainland orientated companies to the portfolio via the "H" share market in Hong Kong. Some 40% of our funds are now deployed in Asia.

On account of rising valuations we have tended to sell down in Europe even as confidence returns regarding the growth outlook for the largest European economy and the world's largest exporter, Germany. We had nearly 60% of the Fund's European exposure in that country alone in mid-2003/04 but valuations have moved a fair way since. We make this observation to emphasise that we seldom seek confirmation

from the crowd who tend to be consensus driven, just as now for example, they have also discovered India. (This mode of operation can, however, work to our disadvantage by causing us to enter and exit too early.)

An inversion of the yield curve has, with few exceptions, led to a decline in economic activity within 18 months. This suggests that the US economy will grow slowly at best in 2007 and most forecasters are projecting a soft landing. As we have noted for some while now, the valuation gap between truly good companies and the rest is abnormally low, reflecting the general observation of risk being ill-priced. This offers us scope to buy great companies at valuations at the lower end of their 20-year range. In more turbulent times, investors are likely to find these shares relatively more appealing and it would be usual for them to appreciate relative to lesser quality companies.

OUTLOOK

If one were to pick a single indicator to signal a change in today's seemingly benign environment, it would be currencies. The development of the Chinese yuan is acting in line with our commentary of September 2005, but the yen may be the most telling indicator for 2007. Countries producing large surpluses such as those in the Persian Gulf and Russia are now actively diversifying to euro and yen.

World growth looks set to remain strong even in the face of a weaker US economy but sight should not be lost of Asia's greater export dependency than in the 1990s which in the event of growth fears, is likely to lead initially to fierce price volatility.

Offsetting this to some extent is the fact that most economies are fundamentally stronger than in the 1990s. Also, our valuation models show that the region is offering some of the most compelling value. At this stage we have no plan to reduce our shorts as they should help to counter any change in market sentiment regarding risk assets.

Kerr Neilson

Managing Director

If you have any questions about your investment in the MLC-Platinum Global Fund, please contact the MasterKey Service Centre on

132 652

from anywhere in Australia or

0061 2 9466 7180

from overseas

Platinum Asset Management is the leading Australian based international fund manager. For greater insight into our process, please visit our website 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 31 December 2006. 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 MasterKey Unit Trust PDS. Copies of this PDS are available upon request by phoning the MasterKey Service Centre on 132 652. The MLC-Platinum Global Fund was closed to new investors from 1 July 2005. Existing investors wishing to acquire further units should obtain a PDS and consider that document before making any decision about whether to acquire or continue to hold the product. 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.

50035 MLC 01/07