

MLC-Platinum Global Fund

QUARTERLY REPORT

PERFORMANCE (as at 31 December 2011)

Fund Size: \$960.3mn	Last Quarter	Last 12 months	5 years (compound pa)	Since Inception (compound pa)
MLC-Platinum Global Fund	-3.4%	-14.6%	-2.0%	9.7%
Morgan Stanley Capital International All Country World Net Index (A\$)	1.6%	-7.4%	-7.0%	3.7%

Source: MLC Investments Limited and Platinum

Vacillation was the preferred course of global politicians as problems mounted and stultified decisive action. The barrage of woeful economic news also took its toll on investor confidence. In the second half of the year, the expression of this fear was seen in the flight to cash and bonds. In the US, for example, this amounted to some \$79 billion leaving the equity market, while bonds and cash received inflows of \$103 billion.

Not that the concerns were shared equally. The US market was essentially flat for the year; Europe down by 11%; Asia by about 17% and the emerging markets of the BRICs (Brazil, Russia, India and China) were down by around 18%. When looking at global industries, we find defensives massively outperformed cyclicals. Industries such as healthcare and consumer staples (defensives) were up for the year, while materials and financials (cyclicals) were heavy losers.

For the year as a whole, the MSCI World Index fell by 7.4% and 7.6% for the past six months, and was up 1.6% for the quarter.

There are several components to the Funds current poor performance. In essence it relates to our particular **investment style** of looking for aberrations/neglect.

Firstly, the **composition of the portfolio** is usually very different to that of the MSCI World Index. This was particularly important this year as the US market,

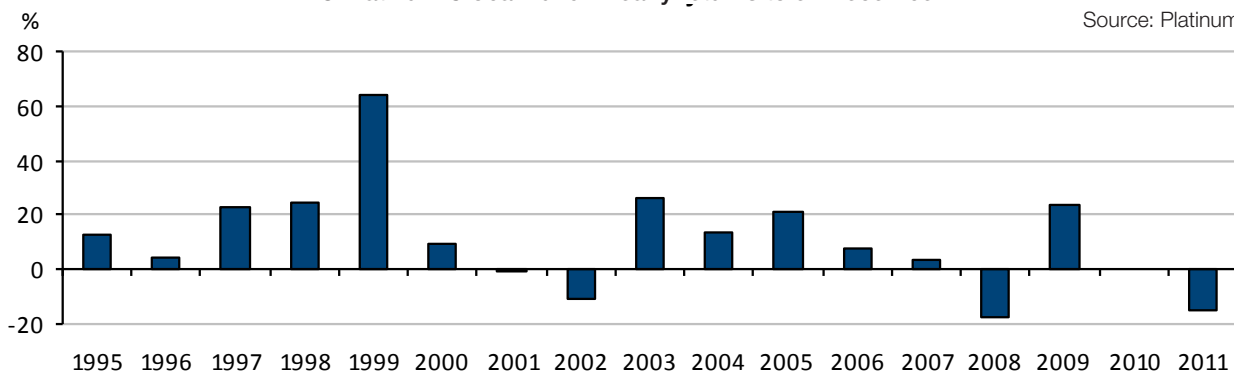
comprising some 40% of the Index was relatively flat for the year, while the remainder, principally Europe, Japan and the emerging markets were variously down by 11% to 18%.

Secondly, when we compare the performance of our **long exposure to stocks** during previous periods of market weakness, it is evident that our long positions tend to behave as badly as the market as a whole. We therefore run index short positions to ameliorate the effect of market turbulence.

Thirdly, even though we have avoided exposure to resources and machinery shares, to reflect our concern about weaker demand and the coming of new supply, the **cyclical companies** that we added, have mostly performed poorly. In the past, our new holdings tended to follow a pattern of moving sideways after purchase and then gradually appreciated in the subsequent three years. This year it was very different. On account of risk aversion and the much shortened investor time horizons, because of uncertainty, these stocks have tended to sell-off further, from historically low valuations, to ultra-low valuations.

We believe this is an **error of timing** rather than having bought poor companies. There will shortly follow an investment précis for each in the 'Commentary' section. Clearly not all of the top twelve new acquisitions, accounting for about 18% of the Fund,

MLC Platinum Global Fund - Yearly returns to 31 December



MLC-Platinum Global Fund Quarterly Report (Continued)

were poor performers, but the distinguishing feature among them was principally cyclical. The lesson has been to retard one's purchases to ensure a greater margin for error being priced into the share.

CURRENCIES

We have been relatively inactive on currencies during the quarter. We added some yen but reduced the Euro and Australian dollar. At year's end, we were long the US dollar (plus the Hong Kong dollar) 52%, other Asian currencies 16%, Euro 10% and Australian dollar 6%.

As a matter of interest, the Australian dollar is virtually unchanged from December 2010. The Euro is down from 134 to 130 to the US dollar, and the yen has risen about 5% from 81 to 77 to the US dollar, the British pound is off 1.2% against the US dollar, and the Renminbi has appreciated by 1.3% to 6.29.

DISPOSITION OF ASSETS (NET INVESTED POSITION)

Region	Dec 11	Sep 11
Europe	30.4%	28.2%
North America *	23.6%	25.6%
Japan	16.7%	18.8%
Asia and Other *	16.5%	14.2%
Australia	1.2%	1.2%
Cash	11.6%	12.0%

Source: Platinum

* At 31 December 2011, the Fund had a short position in the US against the Russell 2000 Index of 4.3% (30 September 2011: 3.7% and Nifty Singapore Index of 1.1%).

COMMENTARY

Let us now look at the twelve largest holdings we added to the portfolio in 2011, sequentially by invested funds.

Nexen Inc (2% as at 31 December 2011)

This purchase is predicated on a firm-to-rising oil price. When we wrote about it in June we emphasised the increasing oil and gas production profile, politically stable resource base and huge reserves. On the basis of proven and probable reserves, Nexen is one of the cheapest oil and gas producers we are aware of, being capitalised at \$8 per barrel and half that if we include its huge tar sands resource! Subsequent to our entry, the British government introduced an additional levy on North Sea production and the hoped-for improvement in output from its Long Lake tar sands has been tardy.

We spent a day on site with the company in Alberta and believe they are gradually mastering the tar sands geology and the sagd (steam assisted gravity drainage)

process. Some money has been lost to experience, but in the scheme of the company's resources, the cost lies more in the present value calculation than a huge squandering of our funds. Our calculations put the shares on a P/E of seven times in 2013, with a steady increase of output through to 2015 as the \$8 billion invested to date in new projects progressively comes on stream; at Usan off the Nigerian coast, shale gas production in NE British Columbia (BC) and the ramp-up at Long Lake. The recent sale of part of its Horn River shale gas to PetroChina validates the value of this resource and highlights the prospect of exporting liquefied natural gas from BC.

By way of contrast, Royal Dutch Shell (a 1.6% position in the Fund) which has been one of the best major oil plays this year, sells on 10 times earnings. It, however, does not have the same growth profile or inherent valuation attraction, but benefits from being ahead of the other oil majors in its reserve accretion and capital spending cycle.

Deutsche Börse (1.7%)

This exchange company is a cheap, highly cash flow generative business, which with the likely merger with the New York Stock Exchange creates a highly entrenched franchise with modest growth prospects. There are issues that detract from growth in the short-term such as low interest rates, which affects both the revenue from the float on margin accounts, and lower trading volumes of interest rate derivatives. In addition, there is heightened regulatory noise in the form of financial transaction taxes and the opening to competitors of DB's derivatives trading and clearing platform. Given the 5% dividend yield and the share buybacks with the residual earnings, one is paying very little for this oligopoly.

Stillwater Mining Co (1.1%)

This company is predicated on the turning fortunes of palladium now that Soviet-era stockpiles are exhausted. Producing some 500,000 ounces a year from a huge deposit in Montana, with a 28 mile strike, grading 15 grams per tonne, this is truly a unique property. By 2015, a second operation will begin production in Ontario, Canada.

We see this company as providing a natural hedge against the likely further reductions in output from the South African platinum mines because of labour problems and a diminishing resource. These workings are now operating at depths approaching three kilometres meaning huge haulage distances and intolerably hot working faces. Alternative supplies will in time need to come from Zimbabwe and Russia.

The share has been a terrible performer after the company announced a takeover of a copper explorer in the Argentine Andes with some interesting gold possibilities. Though the argument goes that palladium is an industrial metal, structurally tighter supply should ensure a higher trend price. Moreover, rising production costs in the Bushveld complex, suggest that the platinum should resume its premium pricing to gold over time.

Foster Wheeler AG (1.5%) together with Jacobs Engineering Group Inc (1.6%)

These companies are seen as longer term plays on the essential need to bolster investment in the downstream petro-chemical refining chain. As we have highlighted before, levels of investment activity are at 60 year lows in the US and the needs of the developing world will ensure good workloads in the years ahead. Jacobs Engineering has a strong US focus and has been a moderately good performer while Foster Wheeler has been very weak. This is because of management's cautious approach to bidding for new work which has led to an absence of growth in its engineering and construction backlog. We are comfortable with the company's broad geographic reach, its very strong proprietary technology in coal gasification, refinery coking and circulating fluidised bed boilers. The cautious approach by management should payoff in time. Compared to its backlog and historic valuation, the company is very attractive.

Pepsico Inc (1.5%)

Pepsi is an interesting multi-national that is developing some radical ideas in healthy foods and dairy. It is unusually cheap versus its historic rival Coke and is performing well.

Marvell Technology Group (1.5%)

Marvell is performing relatively well as it attempts to develop a mobile chip set for the Chinese TD-SCDMA protocol and leads in the supply of solid state drive controllers that are at the heart of tablets and other mobile devices. This family-driven company has an enviable record of profitable growth and a history of succeeding in technology transformation having started in controllers, before diversifying into networking and Wi-fi chipsets. The share price will be driven by the company's success with its Trojan horse strategy in low-cost smartphone chipsets and the growth in solid state memory devices.

Guess? Inc (0.9%)

This clothing and accessories company has been very disappointing as an investment to provide stable growth. Ironically its North American business has done much better than we had expected, but its

European and Asian expansions have been a drag on profitability. It is now priced for very modest success as it refreshes its offer in Europe along the lines adopted in the US. It is a highly profitable business earning over 30% on capital employed, with a strong growth record and rated at under 10 times 2011 earnings.

Bank of America Corp (1.8%)

We have cautiously added to this holding as it has progressively weakened and it has been one of our poorest performers. Currently capitalised at \$54 billion, BAC is America's largest bank with 50 million customer accounts, deposits of \$1 trillion, and leading positions in business banking, credit cards and financial planning via the old Merrill's business with its 18,000 advisors.

We are very conscious of the changed operating environment regarding capital ratios, litigation, pressure on fees and yet believe that it can generate a steady state pre-tax profit of at least \$25 billion pa. There are huge cost-cutting initiatives being adopted and other costs will fall away when the foreclosure pipeline and documentation failures are finally settled (an army of 30,000 is temporarily employed on this task).

There remain risks regarding capital adequacy even though on paper the bank has set aside \$50 billion for bad debts and legal claims, and has tangible equity of \$130 billion. There is probably one more year of earnings losses to pay for earlier errors and then it is a matter of time for equity to rebuild.

The market is pricing BAC for further dilution of its equity base in an economy which is seeing recovering loan growth, still attractive loan spreads and evidence of job growth, driven by the private sector. Yes, risks remain but the bank should add the equivalent of 30% of its market capitalisation to equity in 2012 and this should accelerate subsequently.

Gilead Sciences Inc (1.2%)

Gilead is a biopharmaceutical company that pioneered the single-tablet regimen for the treatment of HIV infection, dominating the field with market shares of 75% and above. Its position in virology has been cemented with the acquisition of Pharmasset for an admittedly high price. With the growth in the HIV franchise now slowing, the opportunity lies in the development of its Hepatitis C franchise. It is estimated that some 7.3 million people are infected with Hepatitis C in Europe, the US and Japan, yet only 130,000 patients are treated each year. The problem in some developing markets is more acute. The share price will be influenced by the launch of the Quad HIV tablet and progress with its now enlarged HCV franchise.

Amadeus IT Holding SA (1.2%)

Serving as a central clearing facility for regional and international air traffic bookings, Amadeus is the dominant platform. The internet has eroded some of the fee base of the global distribution system (GDS), as passengers go direct to carriers circumventing the central booking system. However, this has not been so for the more complex international and corporate travel bookings.

The real strength of this company stems from airlines outsourcing virtually all their IT functions (flight inventory, flight scheduling, ticketless travel, online sales function including frequent flyers points). This opportunity has come from the complexity introduced by the airline alliances, the move away from legacy in-house mainframes and the desire of the airlines to unbundle the sale of their services (i.e. the proliferation of ancillary services such as frequent flyer miles, baggage fees, meals etc). Growth will be driven by passenger numbers and Amadeus is particularly strong in the fast growing emerging market air routes. Selling at about nine times earnings with rapidly diminishing debt, the dividend is about to take-off.

TNT Express NV (1.5%)

TNT is the leading end-to-end express parcel operator in Europe (including central Europe and Russia) with 18% market share. TNT's parcel flow largely stems from business-to-business deliveries, while the increasingly interesting business of internet commerce (business to consumer deliveries) is still dominated by the traditional postal suppliers. As such, TNT's business is economically sensitive, yet volumes have grown by 7% pa over the last decade and remained highly profitable. Short-term negatives for the stock include losses caused by errors in Brazil where it has the largest express system, and development costs associated with the building of its Chinese express network. The drivers for the stock price are the likely improvement of losses in Brazil (via turnaround or divestment), the continuing growth and overhead absorption in China and the possibility of a takeover bid from either UPS or Fedex who are both still

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132 652 from anywhere in Australia or
0061 2 9466 7180 from overseas

insignificant in Europe and know the extraordinary costs of building market share. There is concern about economic risk in Europe, but the company has little financial risk (i.e. it is debt free and is producing good profits).

CONCLUSION

When one looks at this assemblage of companies, together with smaller purchases, some of which are cyclical and some defensive, we cannot identify any that have management, product, profitability or longer term growth issues. This traditionally has been a formula for making money.

We have written in the past of the serious problems facing most economies. Europe is the media's favourite today, but the wallpapering of the cracks in other economies is hardly encouraging. The US and the UK are relying on currency debasement to reignite activity while lower food costs are allowing the emerging countries to start improving the availability of affordable credit. To the surprise of some, this may not be an instant on-switch but at least they still have strong control of the levers for growth.

Companies that achieve earnings improvements will be most elusive but we believe the portfolio has its fair share of steady growers and others, like some of those described above, that have additional share price drivers.

The principal measures of investor sentiment indicate high degrees of fear generally associated with over-sold markets.

**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**

This document has been prepared by MLC Investments Limited (ABN 30 002 641 661) AFSL (230705), with fund and market commentary written by Platinum Investment Management Limited (ABN 25 063 565 006) and is current as at 31 December 2011. It is provided as an information service without assuming a duty of care. This communication contains general information and may constitute general advice. Any advice in this communication has been prepared without taking account of individual objectives, financial situation or needs. It should not be relied upon as a substitute for financial or other specialist advice. 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 on mlc.com.au. 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.

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