Platinum Capital® Limited Quarterly Investment Manager's Report

31 March 2010

Platinum® CAPITAL LIMITED

ABN 51 063 975 431

Performance

The falling prices of the relevant credit default swaps forewarned observers of impending problems with Greece and other Club Med members. A little later the rating agencies followed their normal market-trailing ways. These concerns spilled over into equity markets in February further spoiling sentiment already softened by problems besetting Dubai. With most economic pointers suggesting that the global recovery was broadening, however, investors took the opportunity to employ some of their accumulated cash holdings.

The pattern was for earlier market leaders like China and other emerging countries to lag while the slower markets of late 2009, mainly the developed markets, tended to speed up. There was not much change in sectorial leadership with investors still favouring those industries that benefit from stronger economic activity. The laggards remained the defensives such as health care, telecoms and utilities. Late in the quarter financials showed more strength on the back of an improving view about delinquencies.

The MSCI All Country World Net Index rose in Australian dollars by 1.1%, while Platinum also achieved 1.1% (pre-tax) growth. The positive contributors by region were, in order, Japan, North America and Europe, while Asia was flat. Our short positions cost around 0.5%. This is disappointing but understandable given the uncertainties of the times and the predilection of this manager to attempt to mitigate risk. The strong showing in the last 12 months of 27.3%, inclusive of the losses on the shorts, should however, be acceptable. Over the last 12 months the MSCI has returned 17.7%. Taking a ten year view, the Company has compounded at 10.8% pa, while the MSCI has experienced a net contraction of 3.5% pa compound.

MSCI* World Index Regional Performance (AUD)

REGION	QUARTER	1 YEAR
Japan	6%	4%
US	3%	13%
India	3%	63%
Australia	2%	41%
Korea	2%	35%
Hong Kong	0%	25%
Emerging markets	0%	37%
Brazil	-2%	53%
United Kingdom	-3%	21%
Germany	-5%	15%
France	-6%	14%

* Morgan Stanley Capital International
Source: MSCI

MSCI* World Index Sector Performance (AUD)

SECTOR	QUARTER	1 YEAR
Industrials	6%	27%
Consumer Discretionary	4%	25%
Financials	2%	35%
Consumer Staples	2%	10%
Materials	1%	35%
Information Technology	1%	21%
Health Care	0%	2%
Energy	-3%	6%
Telecommunications	-4%	-3%
Utilities	-5%	-4%

* Morgan Stanley Capital International
Source: MSCI

The following Platinum Capital Limited Net Asset Value figures are after provision for tax on both realised and unrealised income and gains, and after provision for the five cent interim dividend paid 9 March 2010.

Net Asset Value

31 January 2010	$1.3153
28 February 2010	$1.3126
31 March 2010	$1.3547

Source: Platinum

Currency

Concerns about Dubai and the peripheral economies in Europe, encouraged investors to continue to favour the USD. The Euro was particularly weak, falling by 5.5% versus the USD while the Yen is now showing a weakening tendency. Interestingly, the AUD has not been able to exceed the highs reached in November against the USD, even with remarkably strong metal and energy prices. During the height of the concerns about Greece the AUD revealed its sensitivity to concerns about global prosperity. We have allowed our holdings of AUD to slip lower and shifted further out of the Yen into USD. Our principal exposures are now USD and related currencies 55%; Euro 17%; AUD 14%; Yen 6%.

Shorting

As noted earlier, our shorts have been costly. The main pressure point has been our positions against the shares of several industrial companies whose earnings forecasts are factoring in a totally normal cycle. To argue this is to dismiss the turmoil of the last two years as no more than a bad dream. On account of the volatility of individual stocks during this phase of the rebound, however, we have now moved more to generic index shorts such as the retail Exchange Traded Funds and leading indices.

Changes to the Portfolio

Geographical Disposition of Platinum Assets

REGION	MAR 2010	DEC 2009
Asia and Other	29%	27%
Europe	24%	24%
North America	22%	23%
Japan	19%	18%
Cash	6%	8%
Shorts	21%	23%

The Company also has a 17% short position on Japanese Government Bonds.
Source: Platinum

Strong price rises among technology stocks caused us to trim back our exposure to several large holdings such as Microsoft, Micron (memory chips) and SAP (software systems). We also cut the holding of China Resources Enterprise, the valuation of which now recognises the quality of its brewing business with a PE of 25 times 2010 earnings. Several smaller positions were added while larger holdings have been built in Applied Materials, Allianz AG, UPM, Stora Enso and T&D in Japan.

Applied Materials makes the equipment used to manufacture micro chips. It is the leader in the field and the share price is close to a multi-year low on account of the perceived weakness in the outlook for capital spending on chip making equipment. Another factor is the company's missteps in developing thin film manufacturing technology for solar panels. We cannot identify any fundamental deterioration in the market position of Amat although the growth rate for its semi-conducting equipment may now be on a lower trajectory. The company has been active in shifting its cost base offshore and, given the surprising improvement in demand for IT and consumer electronic products, we would be surprised if the company doesn't do better than its critics expect. There could also be an interesting opportunity in supplying thin film solar manufacturing equipment but that would be a bonus.

Allianz and T&D are insurance companies that have been out of fashion during this early stage of the market's recovery. T&D in particular is the quintessential play on rising interest rates in Japan because there is such a mismatch between its long-term liabilities as a life insurance company and its shorter dated portfolio of assets. Allianz, based in Germany, has been punished for the current negative underwriting cycle and the dull outlook for traditional private and commercial insurance. Both companies sell for less than their embedded value which makes them interesting in absolute terms and extremely attractive versus alternatives.

We couldn't resist a return to our earlier theme of the growing shortage of market pulp and the rising price of waste paper. These are now back to pre-crises levels and yet the Nordic paper producers, **UPM and Stora Enso**, are still hugging their lows. Trading for less than book value, having made adjustments to their cost bases and with new capacity coming on in Latin America, these are interesting investments even though they are price takers.

Platinum Capital Limited – Top 20 Stocks

STOCK	INDUSTRY	MAR 2010
Cisco Systems	Technology	2.5%
Siemens	Electrical	2.3%
Johnson & Johnson	Health Care	2.2%
Samsung Electronics	Electrical	2.2%
Henkel	Consumer Goods	2.1%
Merck & Co	Health Care	2.1%
Bangkok Bank	Financial	2.0%
China Resources Enterprise	Holding Co	1.7%
Yahoo Inc	Internet Software/Services	1.7%
Sanofi-Aventis	Health Care	1.6%
Reed Elsevier	Media	1.5%
Denso Corp	Auto	1.5%
EcoGreen Fine Chemicals	Chemicals	1.5%
BMW	Auto	1.4%
Henderson Land Development	Property	1.4%
Allianz	Insurance	1.4%
AngloGold Ashanti	Gold	1.3%
Little Sheep Group	Hotels, Restaurant & Leisure	1.2%
PPR	Retail	1.2%
Mitsubishi UFJ Financial	Financial	1.2%

Source: Platinum

Commentary

The gears of international trade and commerce are gradually re-meshing but, on account of the earlier excesses, fundamental damage has been done so the recovery can be expected to be protracted and accompanied by setbacks. Greece, while causing consternation, is merely part of the tapestry that made up the earlier boom. Without an exchange rate mechanism to adjust living standards to reinvigorate that nation's competitiveness, there is severe pressure on the government to make the necessary adjustments. But how is this going to work? The democratic process gives little comfort to those who want to believe that pleas by those asked to make sacrifices will go unnoticed. Can one really envisage that those governments which accepted a blow out in central spending and accumulated deficits in the good times will somehow have the character to face down their electors in circumstances of underemployed resources and deepening gloom? Surely the odds favour ultimate ejection of the profligate by more disciplined states who believe there are no remedies other than self-restraint and thrift, even if it is at the cost of the dream of an integrated greater Europe. The pressures of national self-interest are conspiring against those with the lofty ideals of the greater good and a tightly unified Europe – federation may come to be seen as a least bad solution.

In the meantime, Greece has to find buyers for €35 billion of its debt this year to meet government expenditure and bond roll-overs. Its ten year bonds have reached levels in the market at which they yield a full three percent more than Germany's.

The other issue that is still far from resolved is the need for China to engage more openly with the rest of the world. Here we have the world's largest exporter and second largest economy, yet it operates with a closed currency market, termed a managed floating exchange rate. We should indeed be most grateful to China for the short-term benefits it bestowed on the world with its massive interventions, both fiscal and monetary, to offset the global financial crisis, but the persistent accumulation of foreign exchange reserves tells of the underlying problem.

The Chinese internal political dilemma is painful. Investment activity has clearly shifted to the poorer inner provinces where presently investment is running at about twice the level, as a proportion of activity, compared to the coastal provinces. Inflation across the country is showing signs of accelerating and there are indications of tightness in the labour markets in the coastal states. The government is already directing lending and attempting to avoid an overheating of the property market, yet the Centre is loath to ease off until these less fortunate provinces gain their own momentum. To counter the problem of Beijing trying to control too many variables at once, it seems inevitable that the yuan will be the 'sacrifice' and will gradually revalue upwards. With a current account surplus of over USD200 billion dollars a year, it is difficult to argue that the yuan is anything but undervalued.

We see the months ahead revealing many contrasts and contradictions. There will be talk of the Fed tightening cycle and how shares traditionally respond to this. Currency movements will throw-up winners and losers. Pressure from gigantic issuance of bonds to meet the profligates budget deficits will impinge on the bond markets and create a lively debate about the appropriate clearing level of interest rates for long dated paper. Muddying the issue will be the activities of the banks and the extent to which they accumulate government paper in the face of reluctant lending and cautious borrowers. These probably should be regarded as sideshows and distractions from the behaviour of employers regarding staffing needs and how companies capitalise on the available opportunities.

We admit surprise at the very strong profit recoveries we have witnessed to date. In terms of valuations, most developed markets are fairly priced although this depends on the premise that growth in the developing world will fully offset the impaired position of the developed world which will be preoccupied in righting its lopsided economies.

Outlook

While stock markets have witnessed a very traditional two thirds recovery after a serious recession, the shock of the crisis has ensured a healthy divergence of views. This is manifested in an attractive spread of valuations. We are still finding a large number of companies that look good value or, indeed, are underpriced. From this ground-up analysis we form the view that we should be able to make positive returns in the year ahead even though there are likely to be periodic wobbles.

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