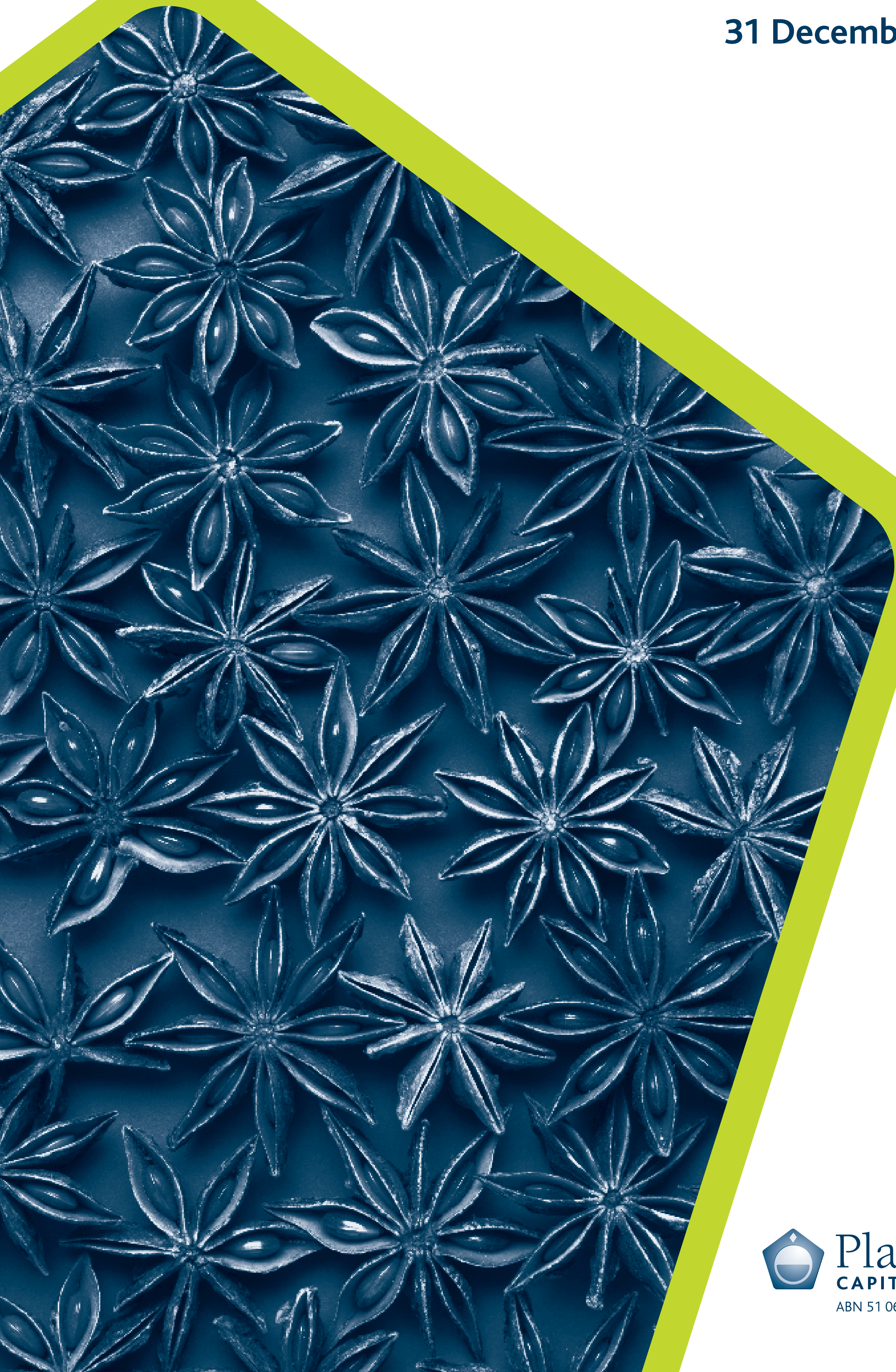
Platinum Capital® Limited Quarterly Report

31 December 2009



Platinum® CAPITAL LIMITED

ABN 51 063 975 431

PERFORMANCE

No one should complain that the markets failed to give them enough excitement regarding "will we or won't we make money in 2009?". After a blistering start at the end of March, when most players were still looking back at the carnage, confidence gradually built and by December most seemed to have accepted that things were on the mend. Thoughts were turning to the future and how best to play the next phase.

In fact, the markets offered massive divergence both in a geographic context and also by industry grouping as the tables below highlight.

Platinum did relatively well thanks to the emphasis on fundamentals which saw it heavily exposed to emerging Asia. Partly offsetting this were our holdings in Japan, which lagged and in some cases made losses, but overall our positioning was sound and sensitive to the risk of inflated valuations and expectations.

Over the year, the Company returned 22.8% (pre-tax) in contrast to the MSCI World Index return of 4.4%. Of this outperformance, over 90% came from good stock selection and the remainder from active currency management. For the quarter, the Company returned 2.5% versus 2.7% for the index.

The following Platinum Net Asset Value figures are after provision for tax on both realised and unrealised income and gains.

MSCI* WORLD INDEX REGIONAL PERFORMANCE (AUD)

REGION	QUARTER	1 YEAR
BRAZIL	11%	77%
INDIA	6%	57%
EMERGING MARKETS	7%	38%
AUSTRALIA	3%	37%
KOREA	0%	33%
HONG KONG	2%	24%
UNITED KINGDOM	5%	11%
FRANCE	0%	2%
US	4%	-2%
GERMANY	0%	-3%
JAPAN	-5%	-18%

* Morgan Stanley Capital International
Source: MSCI

MSCI* WORLD INDEX SECTOR PERFORMANCE (AUD)

SECTOR	QUARTER	1 YEAR
MATERIALS	10%	32%
INFORMATION TECHNOLOGY	6%	23%
CONSUMER DISCRETIONARY	4%	11%
FINANCIALS	-4%	6%
ENERGY	4%	3%
INDUSTRIALS	2%	0%
CONSUMER STAPLES	5%	-4%
HEALTH CARE	6%	-7%
TELECOMMUNICATIONS	1%	-10%
UTILITIES	1%	-15%

* Morgan Stanley Capital International
Source: MSCI

NET ASSET VALUE (CPS)

31 OCTOBER 2009	131.96
30 NOVEMBER 2009	132.24
31 DECEMBER 2009	138.15

Source: Platinum

CURRENCIES

The US dollar turned sharply in December just when most people had become firmly pessimistic. It was this distinctly emotive negative consensus that caused us to change direction and become positive. Whilst not downright enthusiastic about the US currency we were even more suspicious of the main alternatives, the Euro and the Yen. The Euro in particular faces the problem of making a single monetary policy fit all member countries, many with divergent economic positions.

Longer term the US dollar is unlikely to be a strong currency but for now it has depreciated far enough. It is cheap against other major currencies and is only expensive against its principal Asian trading partners, excluding Japan. As the quarter progressed, we cut holdings of most currencies, particularly the Yen and the Euro, in favour of the US dollar. The Company now has US and related currency holdings of around 46%.

We acknowledged last quarter that we have not given the Australian dollar sufficient credit for the country's much improved terms of trade, the early tightening cycle executed by the RBA and the relatively poor prospects of alternatives. Notwithstanding its strengths, it retreated this quarter. Should it fall further, to around 85 cents to the US dollar, you may expect the Company to increase its hedging back into the Australian dollar from the current position of 19%.

GEOGRAPHICAL DISPOSITION OF PLATINUM ASSETS

REGION	DEC 09	SEP 09
ASIA AND OTHER	27%	25%
EUROPE	24%	24%
NORTH AMERICA	23%	21%
JAPAN*	18%	23%
CASH	8%	7%
SHORTS	23%	17%

* The Company also has an 18% short position on Japanese Government Bonds.
Source: Platinum

SHORTING

With markets continuing to move higher shorting detracted from our returns. We closed some individual company positions but have re-established some index shorts reflecting our opinion that valuations have returned to enthusiastic levels which we believe will be difficult to justify.

We have reinstated our short on Japanese Government Bonds (JGBs). Timing remains the issue with this position – in the context of persistent deflation bonds have seemed a reasonable investment but JGBs now account for 65% of household assets and the river of issuance continues. The outstanding stock now amounts to about ¥820 trillion, while the household savings rate is below 2% of GDP and the 10 year bond yields only 1.3%. Under these circumstances will domestic investors continue to accumulate JGBs? Should the Yen enter a weaker trend surely investing abroad will look more attractive, particularly if bond prices establish a weakening trend.

CHANGES TO THE PORTFOLIO

We continued to reduce exposure to more cyclical holdings like **International Paper, Micron Technology, Infineon, Hutchinson Whampoa and News Corp Inc.** The proceeds went to building positions in existing stable earners like **SAP, SK Telecom, Johnson & Johnson and Qiagen.** Two new large positions have been accumulated in Yahoo Inc! and Electronic Arts. Our research suggests that both these companies are in a state of transition.

Yahoo!, was once seen as an internet goliath with a valuation to match but is now priced as a has-been. Concerns are being expressed about its ability to stabilise its 'search' franchise and the declining relevance of its portal as behemoths like Google and Facebook grow in dominance of internet traffic. We have no disagreement regarding the momentum behind the latter two companies but, as we remind investors incessantly, our job is not necessarily to buy the best companies in the world but to find fine companies whose share prices do not reflect their inherent value. Half the current capitalisation of Yahoo! is accounted for by its listed affiliates, Alibaba and Yahoo! Japan. Its traditional portal, which offers proprietary news, sport and finance as well as hosting email accounts, still draws some 500 million regular users to its site. Moreover, unlike some destinations, Yahoo! can guarantee the innocence of its content and hence has a ready market with global brand display advertisers. In search, it has entered a profit sharing JV with Microsoft and this will make an important contribution to its cost-cutting drive and the re-orientation planned by its new management team. They have already made important headway in streamlining the organisation and re-designing the workings of

PLATINUM CAPITAL LIMITED – TOP 20 STOCKS		
STOCK	INDUSTRY	DEC 09
MICROSOFT	TECHNOLOGY	3.4%
HENKEL	CONSUMER GOODS	2.5%
CISCO SYSTEMS	TECHNOLOGY	2.4%
CHINA RESOURCES ENTERPRISE	HOLDING CO	2.3%
SIEMENS	ELECTRICAL	2.1%
MERCK & CO	HEALTH CARE	1.9%
YAHOO INC	INTERNET SOFTWARE/SERVICE	1.9%
BANGKOK BANK	FINANCIAL	1.8%
SAMSUNG ELECTRONICS	ELECTRICAL	1.8%
REED ELSEVIER	MEDIA	1.8%
SANOFI-AVENTIS	HEALTH CARE	1.6%
ANGLOGOLD ASHANTI	GOLD	1.6%
MICRON TECHNOLOGY	TECHNOLOGY	1.6%
DENSO CORP	AUTO	1.5%
MITSUBISHI UFJ FINANCIAL	FINANCIAL	1.5%
JOHNSON & JOHNSON	HEALTH CARE	1.5%
ECOGREEN FINE CHEMICALS	CHEMICALS	1.5%
HENDERSON LAND DEV	PROPERTY	1.4%
SAP AG	SOFTWARE	1.4%
BMW	AUTO	1.3%

Source: Platinum

the Yahoo! home page. We believe they have the sales team and IT knowledge to achieve at least respectable earnings which we feel is not recognised in the current price.

Electronic Arts is also a management, cost and product turnaround story. As the dominant producer of console games, with 25% global market share, it suffered from its earlier success. With the industry now facing indigestion, the share price has collapsed. Management responsibility has been changed to reflect the four principal genre of games and product quality has been improved. Masking any positive earnings news is the front-loaded nature of game development, each one of which typically takes two years to complete. The whole sector has lost favour as the console games business has matured but Electronic Arts could surprise with its earnings leverage. This should be assisted by the re-invigoration of games sales when Xbox and PlayStation launch new motion sensors early in 2010.

COMMENTARY

Just one year ago, few would have believed it possible for the global economic aggregates to be where they are now. Starting with the massive spending spree in China and augmented by over 30% credit growth, the ripple spread through Asia lifting commodity prices and generating broader prosperity in commodity producing nations. This surprisingly strong response, combined with the unified intervention by developed nations, has almost brought the world back on to an even keel. The global financial crisis recession tally board shows four quarters of economic contraction globally, with developing countries generally experiencing only two to three quarters of lower activity while more profligate developed countries have seen up to six quarters of shrinkage. Against a comparison with the very weak last quarter of 2008, most economies will have recorded growth in this last quarter of 2009. More significantly, it has been the turnabout from a sense of dazed helplessness to that of hope that has allowed stock markets to climb back to near "pre-Lehman" levels. Looking to 2010 the consensus is for the world to achieve real growth of around 4%.

Even more surprising than the turnaround of activity has been the resilience of corporate profitability. This is partly explained by aggressive lay offs and/or use of time banks to ameliorate weakened demand and, in addition, there has been a time lag where an intermediate raw material cost slide facilitated some margin expansion. Prices of a range of service and manufactured goods have been conspicuously stable despite such a severe though swift recession. This may cause some to cogitate about the longer term prospects for inflation.

As the new year unfolds we can expect copious coverage of the following topics:

- The durability of the global recovery, led by China.
- The Fed's interest rate tightening cycle.

- The behaviour of corporate earnings.
- Speculation in asset prices and inflation.
- Currency movements and possible credit defaults.

It is simplistic to suggest the aftermath of the recent asset price boom and bust will mirror the twenty year slump which followed the bursting of the Japanese bubble in 1989-91. The circumstances were different and reactions have been different. There are, however, similarities:

- Unemployment has risen and getting people back to work may prove difficult.
- Commercial banks have suffered huge losses and are still carrying large problem loans.
- Central banks have flooded markets with liquidity and pushed long-term interest rates down to extraordinary low levels.

Taking the US as a prime example, incomes from labour are depressed by unemployment in excess of 10% so continued high levels of consumer spending are partly dependent on government hand-outs which will be difficult to maintain and certainly cannot be increased. The corporate sector has cut investment spending to a virtual care-and-maintenance basis, a position not seen since the 1930s. With this background it is easy to argue that the rehiring cycle, when it comes, is more likely to be weak than strong.

The well-documented problems of the commercial banks stemmed in essence from lax lending policies. It would be surprising indeed if the mood in bank credit committees around the world had not shifted from accommodating to restrictive. More ample security is being required for new loans and tougher terms are being demanded for roll-overs. On the borrowing side, many Finance Directors are now much more concerned about high debt to equity ratios and are seeking to rebuild balance sheets. There is no doubt that capital expenditure across the G7 economies will recover as confidence and utilisation rates improve but maybe not to exuberant levels.

Central banks around the world have purchased unprecedented volumes of government and other bonds so as to swell commercial bank liquidity and help keep down the yield on longer dated paper. If intolerable tax burdens or rampant inflation are to be avoided this activity must eventually cease and is already in decline. The question is whether this will lead to a significant upward shift in the cost of term funding and a concomitant decrease in the value of risk assets like longer dated bonds and, most importantly to us, of shares. The outcome is perhaps more precarious than present market sentiment indicates.

Whilst all the above risks are real none should be exaggerated. There have already been a number of positive surprises and how people will react to new situations is, as always, unknowable.

Media pundits have been forecasting the collapse and terminal decline of the US dollar due mainly to excessive borrowings by the Fed. This we consider to be highly premature on account of the US dollar's central role in the currency baskets that are used by competing countries to manage their floating exchange rates. Borrowing from US banks has in aggregate declined from a year ago from about US$7.6 trillion to around US$7 trillion now. While domestic households and businesses have repaid debt, foreign borrowers have increased their borrowings in the last two quarters. But as a proportion of the whole, borrowings are very modest. Admittedly foreigners have been very active in the use of the commercial paper markets with outstanding US commercial paper now back to the levels of the first half of 2008 at $280 billion from a low of $120 billion in March 2009. We do believe, however, that there is some ripple effect from the Fed's purchase of longer dated paper which induces investors to rebalance their portfolios with a blend of somewhat riskier and higher yielding securities. Even so, we attribute the current enthusiastic response to risk assets more to the global rise in liquidity than purely the workings of low interest rates introduced by the Fed. Last quarter we highlighted the surge in property values in China and the growth of credit which has risen at three times the pace of economic activity.

Though there is surplus manufacturing capacity in the developed countries, we suggest that inflation cannot be ruled out. The service sector has grown in importance in Western economies and there are already signs of social disquiet and work stoppages which may be harbingers of more to come. We can readily draw a scenario of sluggish growth, rising social disharmony and wage demands from those who provide core services in a modern economy. The shenanigans of the investment banking leviathans, involving State transfers and staunchly defended bonus structures, have caused social outrage and perhaps damaged the public's confidence in the workings of the system. If expanding credit and rising employment do not rescue the over-borrowed countries from stagnation, we would not bet on the tame social order that has marked the Japanese public's response to their economic malaise[1].

[1] Moreover, it has been the Japanese corporate system that has carried the social burden of under-employment at the cost of profits versus the completely opposite approach adopted by "Western companies" who have quickly passed on the burden to the State. This makes for good quarterly company reporting but the longer term costs are still unknown. Most nauseating has been the discussion surrounding the need for banks to free themselves from the TARP (Troubled Asset Relief Program) and government bondage in order to allow their "talented" management to get on with the job; as if it was someone else who had orchestrated the busting binge in the first place!!

OUTLOOK

Markets have recovered significantly and are already discounting further growth. We feel nonetheless that we should be able to continue to make gains in 2010.

The markets of emerging countries have clearly been the place of choice as investors have formed the view that these economies will have the best growth prospects. We have no argument with this analysis and indeed the Company has approximately one third of its long holdings in emerging markets. We are, however, avoiding many of the leading companies which seem to be pricing in high expectations and instead are looking for opportunities in more obscure places.

In addition, we keep reminding ourselves that there are many well-managed companies in the developed world with significant earnings emanating from Asia and other developing areas. They have all the virtues of strong corporate governance and diversified risk and yet often trade on valuations below their historic averages. There are also specific opportunities widely seen as dull but which are in fact positioned to metamorphose into something much more interesting.

Kerr Neilson
Managing Director

Platinum® CAPITAL LIMITED

Level 8, 7 Macquarie Place
Sydney NSW 2000
Australia

Telephone: 02 9255 7500
or 1300 726 700 (Australia only)
or 0800 700 726 (New Zealand only)

Facsimile: 02 9254 5555
Email: invest@platinum.com.au
Website: www.platinum.com.au