

Platinum International Fund

ARSN 089 528 307

Platinum Unhedged Fund

ARSN 123 939 471

Platinum Asia Fund

ARSN 104 043 110

Platinum European Fund

ARSN 089 528 594

Platinum Japan Fund

ARSN 089 528 825

Platinum International Brands Fund

ARSN 092 429 813

Platinum International Health Care Fund

ARSN 107 023 530

Platinum International Technology Fund

ARSN 092 429 555

# The Platinum Trust® Quarterly Report

**30 June 2008**



**Platinum®**  
ASSET MANAGEMENT



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### Experts ...

We recognise that our greatest untapped resource is our readers. If you are an industry expert, we would welcome your comments and ideas.

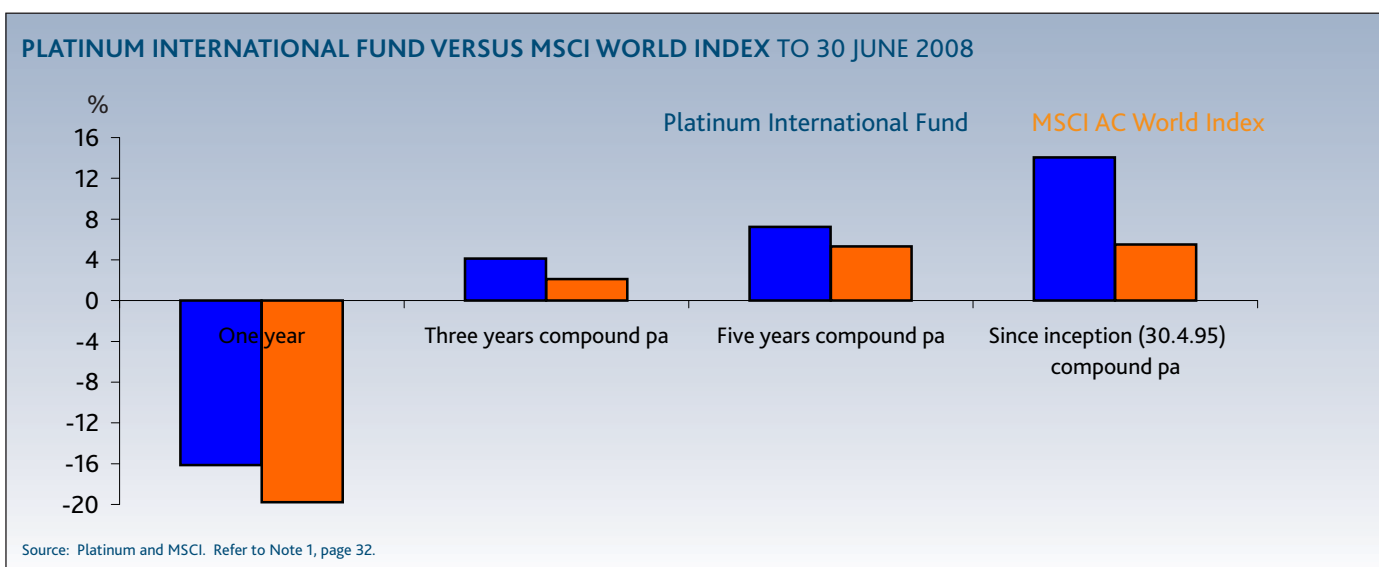
Do email us at:  
[commentary@platinum.com.au](mailto:commentary@platinum.com.au)

## PERFORMANCE RETURNS TO 30 JUNE 2008

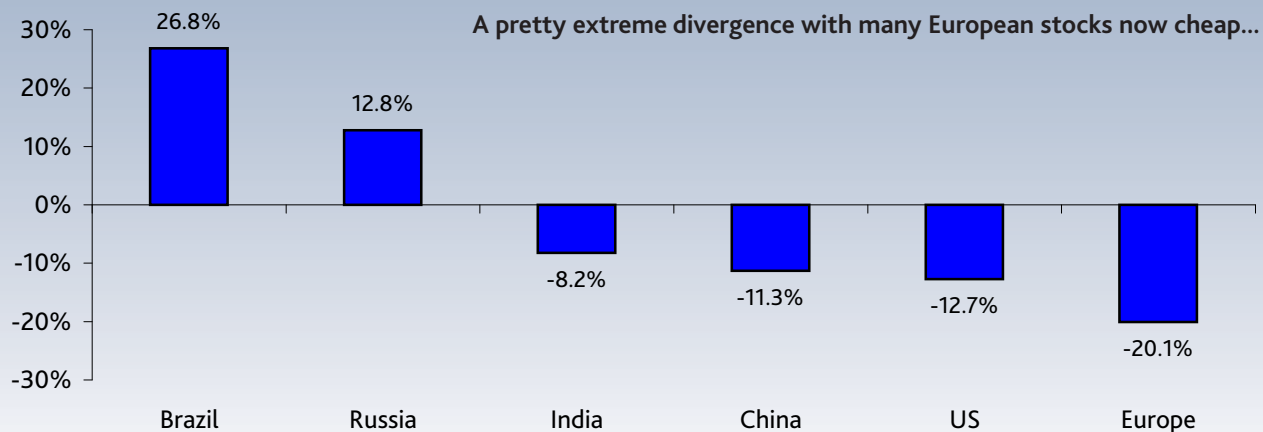
FUND	FUND SIZE (POST 30 JUNE DISTRIBUTION)	QUARTER	1 YEAR	2 YEARS COMPOUND PA	3 YEARS COMPOUND PA	5 YEARS COMPOUND PA	SINCE INCEPTION COMPOUND PA
<b>INTERNATIONAL FUND</b>	<b>\$7,062m</b>	<b>-8.4%</b>	<b>-16.1%</b>	<b>-5.6%</b>	<b>4.1%</b>	<b>7.2%</b>	<b>14.0%</b>
MSCI AC* WORLD INDEX		-6.4%	-19.8%	-6.2%	2.1%	5.3%	5.5%
<b>UNHEDGED FUND</b>	<b>\$49m</b>	<b>-3.1%</b>	<b>-14.2%</b>	<b>-1.0%</b>	<b>12.2%</b>	<b>-</b>	<b>10.2%</b>
MSCI AC WORLD INDEX		-6.4%	-19.8%	-6.2%	2.1%	-	2.9%
<b>ASIA FUND</b>	<b>\$2,546m</b>	<b>-9.1%</b>	<b>-10.1%</b>	<b>9.0%</b>	<b>15.1%</b>	<b>24.1%</b>	<b>24.3%</b>
MSCI AC ASIA EX JAPAN INDEX		-12.4%	-16.6%	3.0%	10.7%	14.6%	14.4%
<b>EUROPEAN FUND</b>	<b>\$237m</b>	<b>-5.9%</b>	<b>-23.9%</b>	<b>-5.2%</b>	<b>4.2%</b>	<b>9.5%</b>	<b>12.1%</b>
MSCI AC EUROPE INDEX		-8.3%	-20.6%	-4.1%	5.7%	9.5%	0.8%
<b>JAPAN FUND</b>	<b>\$485m</b>	<b>-2.9%</b>	<b>-22.9%</b>	<b>-16.5%</b>	<b>-2.4%</b>	<b>6.9%</b>	<b>14.7%</b>
MSCI JAPAN INDEX		-2.5%	-22.2%	-14.5%	0.6%	5.2%	-0.3%
<b>INTERNATIONAL BRANDS FUND</b>	<b>\$456m</b>	<b>-10.4%</b>	<b>-20.8%</b>	<b>-6.7%</b>	<b>3.3%</b>	<b>11.2%</b>	<b>11.7%</b>
MSCI AC WORLD INDEX		-6.4%	-19.8%	-6.2%	2.1%	5.3%	-3.5%
<b>INTERNATIONAL HEALTH CARE FUND</b>	<b>\$16m</b>	<b>-7.8%</b>	<b>-14.1%</b>	<b>-7.6%</b>	<b>1.7%</b>	<b>-</b>	<b>0.0%</b>
MSCI AC WORLD HEALTH CARE INDEX		-5.2%	-19.3%	-10.9%	-4.3%	-	0.0%
<b>INTERNATIONAL TECHNOLOGY FUND</b>	<b>\$40m</b>	<b>-6.1%</b>	<b>-19.0%</b>	<b>-7.4%</b>	<b>3.8%</b>	<b>5.3%</b>	<b>6.7%</b>
MSCI AC WORLD IT INDEX		-3.5%	-19.3%	-6.2%	-0.9%	1.2%	-14.0%

\*Morgan Stanley Capital International All Country

Source: Platinum and MSCI. Refer to Note 1, page 32.



## STOCK MARKET MOVES OVER THE LAST 12 MONTHS (LOCAL CURRENCY)



Source: Factset

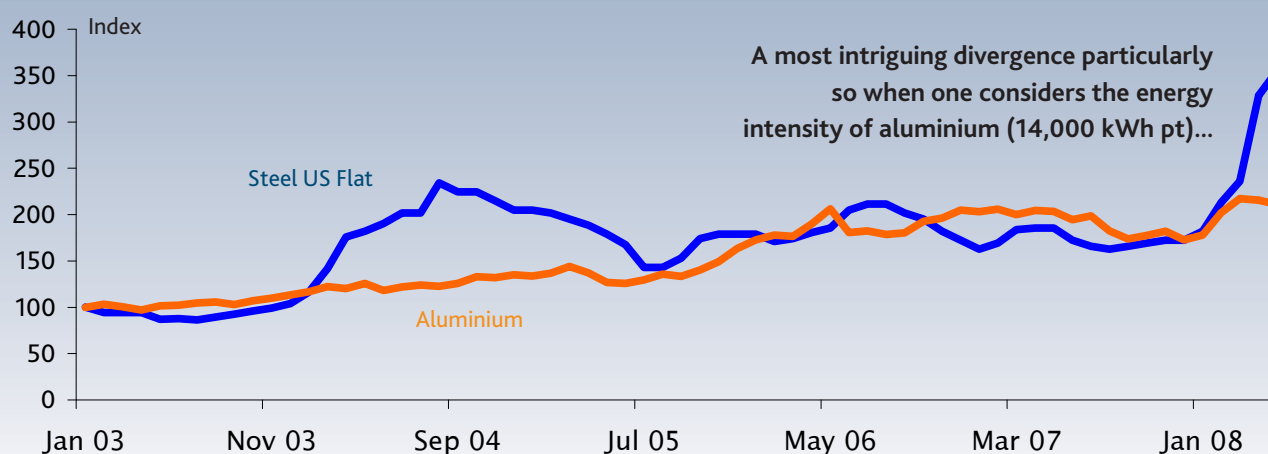
## S&P 500 OPERATING EPS DECLINES DURING "EARNINGS RECESSIONS"

1950-52	-17.6%
1956-58	-21.9%
1959-61	-11.7%
1969-70	-12.9%
1973-75	-6.2%
1980-81	-4.6%
1981-83	-19.1%
1989-91	-24.4%
2000-01	-31.6%
<b>Average</b>	<b>-16.7%</b>

The lower US dollar will shield earnings somewhat in this cycle but this will be offset by the collapse of the profits of financials...

Source: S&P

## US STEEL VERSUS ALUMINIUM PRICES



Source: Salomon Smith Barney

# PLATINUM INTERNATIONAL FUND



**Kerr Neilson**  
Managing Director

## PERFORMANCE

Markets have been most challenging since evidence of the excesses of the credit cycle first came to light in May 2007. In the most recent quarter there has been a division between those companies that are seen as beneficiaries of continued growth in the developing world (particularly the BRICS – Brazil, Russia, India and China) and those that are on the receiving end of the credit unravelling. In stock market terms it has seen the commodity and resource producers continue to roll while the financials have slumped. This clear distinction was less evident at the country level where the developed and developing markets moved in similar ways. The striking exceptions were Brazil and Russia where energy and resources predominate with companies like Vale, Petrobras and Gazprom soaring, while China and India lost their lustre to tightening credit and inflation pressures. A table of global sector and regional returns are shown on page 5.

Our own performance has been mixed. While doing better than the index for the year at -16% versus -20%, it should not surprise long-standing investors that our absence from resource companies and our currency allocation were detrimental to performance over the last three months. In hindsight, had we joined the momentum brigade and loudly proclaimed “stronger for longer” over this period, we would have been better placed. Alas, this slogan is likely to be tested in coming months but for now it has held the Australian dollar high, and we own few, and reduced the potency of our shorts. While the underlying stocks in Japan are showing resilience, the currency has sold-off.

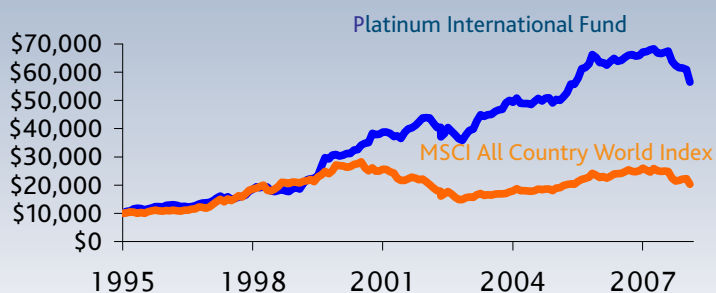
### DISPOSITION OF ASSETS

REGION	JUN 2008	MAR 2008
NORTH AMERICA	24%	24%
EUROPE	23%	22%
JAPAN	18%	21%
ASIA AND OTHER	18%	19%
CASH	17%	14%
SHORTS	28%	31%

Source: Platinum

### VALUE OF \$10,000 INVESTED SINCE INCEPTION

1 MAY 1995 TO 30 JUNE 2008



Source: Platinum and MSCI. Refer to Note 2, page 32.

MSCI WORLD INDEX REGIONAL PERFORMANCE (A\$)		
REGION	QUARTER	1 YEAR
UNITED KINGDOM	-6%	-23%
INDIA	-24%	-23%
KOREA	-12%	-23%
US	-7%	-23%
JAPAN	-3%	-22%
FRANCE	-9%	-22%
GERMANY	-7%	-17%
AUSTRALIA	-1%	-14%
HONG KONG	-9%	-9%
EMERGING MARKETS	-6%	-8%
BRAZIL	13%	36%

Source: MSCI

MSCI WORLD INDEX SECTOR PERFORMANCE (A\$)		
SECTOR	QUARTER	1 YEAR
FINANCIALS	-16%	-38%
CONSUMER DISCRETIONARY	-13%	-33%
INDUSTRIALS	-11%	-22%
HEALTH CARE	-5%	-19%
INFORMATION TECHNOLOGY	-4%	-19%
TELECOMMUNICATIONS	-8%	-18%
CONSUMER STAPLES	-11%	-13%
UTILITIES	-2%	-7%
MATERIALS	4%	4%
ENERGY	12%	9%

Source: MSCI

PLATINUM INTERNATIONAL FUND - TOP 20 STOCKS		
STOCK	INDUSTRY	JUN 2008
MICROSOFT CORP	TECHNOLOGY	3.1%
MITSUBISHI TOKYO FINANCIAL	FINANCIAL	3.0%
HUTCHISON WHAMPOA	TELCO/TRANSPORT	2.8%
SIEMENS	ELECTRICAL	2.7%
BOMBARDIER	TRANSPORT	2.7%
INTERNATIONAL PAPER	PAPER	2.3%
BARRICK GOLD	GOLD	2.3%
SAMSUNG ELECTRONICS	ELECTRICAL	2.1%
CISCO SYSTEMS	TECHNOLOGY	2.1%
DENSO CORP	AUTO	1.8%
JGC	CONSTRUCTION	1.8%
JOHNSON & JOHNSON	HEALTH CARE	1.8%
SAP	TECHNOLOGY	1.8%
PERNOD RICARD	BEVERAGE	1.7%
SANOFI-AVENTIS	HEALTH CARE	1.6%
HENDERSON LAND DEV	PROPERTY	1.6%
BMW	AUTO	1.4%
SCHNEIDER ELECTRIC	ELECTRICAL	1.4%
POLARIS SECURITIES	FINANCIAL	1.4%
HENKEL KGAA	CONSUMER	1.4%

Source: Platinum

ended the quarter with only 7% long the Australian dollar and with most of our physical share holdings being reflected in their underlying currencies. We remain of the view that the US dollar is bottoming - perverse as this may seem, but competitiveness and flows are now in the currency's favour.

## CURRENCIES

While the Yuan has continued its climb, rising by 10% versus the US dollar over the year, the other Asian currencies have lost momentum and those without natural protection against the rising oil price, have started to sag. This was detrimental to our position as we had expected them to move-up with the Yuan. These positions have been cut. Further, the Australian dollar tilted higher as investors paid more heed to revised expectations about our current account deficit, in the light of strong iron ore, coal and natural gas prospects. We

## SHORTING

Throughout the quarter we have progressively moved the shorts towards those areas that are bloated by expectations of growth. These include some emerging markets such as Brazil, steel companies, small caps and reits (real estate investment trusts). Only in the last days of the quarter did these bastions of hope for growth start to fall and this has accelerated into July.



## PORTFOLIO CHANGES

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Strong relative moves during the quarter gave us the opportunity to rebalance several holdings. In particular we cut back on our positions in the Bank of China, Sony and Bombardier, which rose by 20 to 30%. Further, we consolidated holdings by selling Oracle for more SAP (IT business systems) and Chiyoda for more JGC (constructors of refineries and LNG plants). In other cases we exited companies that have held relatively well but which now are less attractive in a relative sense; Ajinomoto, Yamato and Rohm were used to fund initial stakes in the highly oil-punished segment of airlines and aircraft support. Other activities were to exchange Pfizer for Sanofi-Aventis and to sell the regional banks in Japan for the two largest city banks.

At a time when most banks have been revealed as under-capitalised and having weak deposit bases, one of the world's biggest banks with the opposite problems, is selling at book value. Mitsubishi-UFJ Financial Group has been recapitalised, has a loan to deposit ratio of 75% and for the first time in years, is facing an environment of rising prices and the prospect of repricing and expanding its loan book at relatively low risk. In addition, the completion of its IT integration is anticipated to give rise to substantial cost savings. Should the Japanese public change their stance to equities in the face of a deteriorating environment for bonds, we would get the additional boost from transactional fees and commissions. There is little need to try to pick the bottom of the western financials when this stock is already cheaper by most measures.

Sanofi-Aventis is a similarly beaten-up (pharmaceutical) company that is being punished by concerns about the sector's pipeline of new drugs. The way we try to bring order to assessing a company like this, which is trading on under eight times earnings, is to strip-out the relatively safe vaccines business and look at the cash flow that will arise from the rump of the pharmaceutical portfolio. In Sanofi's case it will generate approximately the company's net capitalisation (some Eu43bn) over the next five years. This implies that the R&D pipeline,

which is absorbing Eu4.5 to Eu8bn a year, is apparently almost worthless in the eyes of the market! There are other considerations we have addressed but suffice to say this rating is the epitome of value and neglect.

## COMMENTARY

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As we address the market each day we are exposed to a continual barrage of news and information. On the one hand, one seeks to make independent observations but because we are part of the process and can seldom have full knowledge, we are also guided by the intensity of the market's response to these cacophonous bursts. It is like watching a giant Catherine wheel. We tend to focus on the current hot topic which for the moment is say oil, having previously been agricultural prices, credit default swaps and bank solvency. At any one time there is a *new focus*; with others coming into sight and as the wheel rotates, *others burning out*. As each new topic comes into focus, we look at the linkages as to how they may affect our portfolio. It is a **constant balancing act**; how much attention should be paid to the present and when does one change one's focus to the next important emerging theme and de-weight the current obsession?

Surely many fund managers would today be concerned about whether they have "*enough exposure to oil plays*". The trouble here is that oil has doubled in the last 12 months. We in fact first wrote about the impending boom in the oil price in June 2003 (<http://www.platinum.com.au/images/drops.pdf>) so it is not news but nevertheless if one were a momentum fund manager, this would bear heavily on one's behaviour. The skill we require is to correctly gauge the tone of the market as we buy or sell shares that we favour, and yet neither be too anticipatory nor too reactionary.

At present, the market's focus seems to be on:

### Growth

Developed economies slowing to a snail's pace; developing markets continue to grow but are



threatened by rising inflation and in some cases, the contradiction of “managed” currencies.

### **Inflation**

The deflationary pulse from China/Asia is reversing and there are adverse surprises regarding input costs and in the movements of wages in Asia/Russia and other developing regions. Agricultural prices may ease but on account of the fundamental repricing of energy, it is unlikely that they will fall back below the current trading range. Energy prices should stay elevated as demand destruction in developed countries (eg. dramatic shifts to public transport and other measures) is being offset by developing world growth. There is very little tolerance in global supply to cope with incidents such as the Japanese nuclear generator fleet being taken offline, causing extra demand for oil (350,000 barrels per day).

### **Profits**

Forward earnings are likely to sag in the face of weaker demand and strong cost pressures.

### **Credit**

Banks are being recapitalised but the magnitude of the write-offs are causing boards to tighten credit standards and we can expect regulatory oversight to stiffen. Re-intermediation will continue and securitisations will be much rarer.

### **What is coming into view?**

Accelerating inflation partly rests on the effects of currency intervention and the consequent massive build-up of foreign exchange reserves in Asia, Russia and the Middle East. Some of this has been sterilised by way of the issue of domestic bonds, but not in sufficient quantities to fully offset the expansionary effect on money supply. **Currency intervention** will be a hot topic. Note that in China, for example, the government still sets both the maximum rate on deposits and the minimum rate at which money can be lent. This has allowed the banks to recapitalise themselves and now, via special reserve requirements, these set rates are throttling the banks ability to lend (the credit multiplier has shrunk to about 5.5 times).

**Subsidies** are also likely to receive more press. These are widespread across Asia. Apart from the interest rate subsidy mentioned above, there are the issues of

tax rebates (now being phased out in China), subsidised motor fuels, natural gas prices, electricity prices, fertilisers and so on across the developing world. In the case of India, these subsidies are exploding with the rise in the price of hydrocarbons and food, and now at 5% of the economy, threaten the central government's finances.

Just as inflation is starting to really frighten these regimes, with recorded inflation ranging between 7% and 14%, there comes the need to allow the true market price to ration the demand for basic necessities and to allocate resources. This will likely lead to a **change in perception about the risk of emerging markets**. This has already happened emphatically in the case of last year's top favourite, Vietnam. Seen as the next great miracle, that stock market has halved in the face of concerns about inflation (at 25%), the weakening Dong, and the foreign borrowings of some state owned enterprises and banks.

This growing concern about developing markets is likely to re-establish the risk premium at higher levels. As we all know, the attraction of superior growth in these countries had completely changed investors' risk/reward perceptions and many of these markets started to be rated on par with developed markets. Some of this new-found faith was always questionable in the case of several resource-rich countries. It was precisely because of their natural resource wealth that their political regimes were intolerant and stymied the development of strong institutions. The natural extension of this is the emerging trend towards resource nationalism - hardly reassuring to owners of capital.

There is also likely to be more attention to **corporate earnings**. Broker analysts have still barely revised their earnings estimates for next year. The majority of fund managers do not believe the analyst consensus of low teens earnings growth (going by the buy-side surveys) but there is still the glimmer of hope that things will improve in the second half – incidentally we're here now and it doesn't look great.

As a general statement, we can argue that equity markets are most happy when inflation is around 2%, less than that and we find ourselves in the difficult

position recently experienced by Japanese companies; customers are highly sensitive to price increases and it is often better to absorb the pressure of costs than to lose sales from *sticker-shock*. However, as inflation rises to higher levels it **progressively erodes the valuation of equities**. This is so for several reasons, some relate to the availability of credit but of greater importance, is the effect of taxation on illusory profits.

Hence, as concerns about inflation become embedded, the price investors will pay for forward earnings starts to drop.

Should this concern begin to grow, fund managers will start to look for those companies that are relatively protected from inflation. This could lead to defensive, non-capital intensive businesses to be favoured over those which are pure price takers and have a lot of money tied up in plant and working capital. For example, food retailers would look very good versus steel mills, and of course, steel mills are presently the flavour of the month.

Looking slightly further out, we believe we are at **the cross-over point** where behaviour must shift in the West. We anticipate savings to rise at the expense of consumption, and the backlog of investment in public infrastructure plus the need to address alternative energy sources and conservation, to make a positive contribution. At the same time, one can expect the reverse in China and most of Asia, excluding India, where savings need to make way for consumption. China is at the extreme where investment and the trade surplus dwarf the consumer, such that one is inclined to believe there will be some painful adjustments as their appreciating exchange rate takes its toll.

This, along with the previously mentioned concern about inflation may be an important issue when constructing portfolios in the next few years.

In the last three years we have displayed a pattern of being too preemptive in both our long and short positions. Far from being pessimistic, we attempt to identify what is coming up next. This does carry the risk of being too early - you will have read our concerns about credit, the weak US dollar and so on which were relatively slow to arrive and caused us to

fail to capture the opportunities on offer. However, we are now barely exposed to energy and resources, except pulp and paper, and instead, are positioning the portfolio for the inevitable burst of activity in creating alternative fuels and the whole investment program this will entail. Further, we own a group of very stable and well-run companies whose valuations are well below their longer-term averages. This implies either a greater contraction of profitability or that the downturn will be protracted. Going off the valuations of several cyclical sectors, we deduce that a protracted downturn is not a widely held view.

## OUTLOOK

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There are plenty of issues for the market to worry about. Consumers everywhere are feeling the pinch of rising costs, principally food in the poorer countries and energy in the richer ones. However, among the richer countries there is also a housing slump, tighter credit and in due course the real prospect of lay-offs. As we have been saying for a while, profits in aggregate will fall as companies face reduced pricing power and higher input costs.

Investors are well aware, however, that the **stock market is an anticipatory mechanism** and their conundrum is to assess the degree to which current prices already reflect a miserable outlook. Our view is that the magnitude and length of the boom was such that investors are likely to still view the future with a slightly rose-tinted blush. Unlike the tech wreck of 2001, at the peak of this boom there were fewer obvious places to hide because of the convergence of valuations, with the good being cheaper than the bad, but not cheap enough to deal with profit downgrades. This is rapidly changing and those companies with the qualities we sought and highlighted last year, namely having prominent business positions that support pricing power; no or low debt; margins close to trend and valuations that are below their historic average, now represent good absolute value.

We are relatively well-placed with our shorts in emerging markets, small caps and cyclicals that started to fall sharply in the early days of July.

## PLATINUM UNHEDGED FUND



Jacob Mitchell  
Portfolio Manager

## PORTFOLIO POSITION

Some of the themes/large positions contained in the current portfolio include (position prior quarter):

14% (16%) Asia ex-Japan/Hong Kong, including Thailand, Korea, Taiwan and Malaysia.

13% (11%) Japanese domestic (banks, property, construction, etc); Japan is one of the few developed economies where consumers remain relatively un-gear'd and investment preferences, driven by rising inflationary expectations, can change for the better ie. away from deposits and bonds, towards equities and property.

12% (12%) Pulp and Paper, key neglected part of the commodities complex.

11% (14%) Technology, Health Care and other once proud "growth" stocks.

10% (10%) Energy and "Green" Technology – a long duration theme.

8% (8%) Global infrastructure/energy capex related – a combination of the BRIC's (Brazil, Russia, India and China) emerging requirements and the need to "renew" key parts of Western public infrastructure.

6% (7%) Gold, a laggard metal and inflation hedge.

4% (7%) Hong Kong listings, largely China consumption exposures (eg. property and retail).

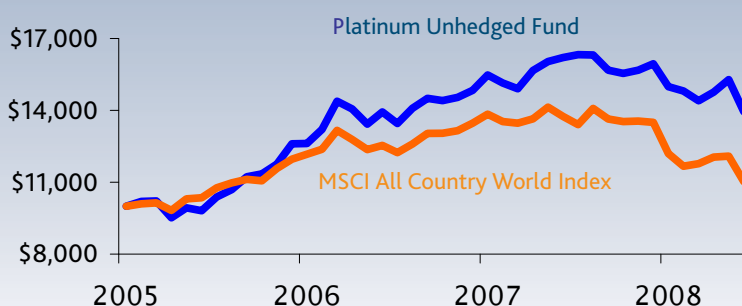
3% (5%) European domestic.

### DISPOSITION OF ASSETS

REGION	JUN 2008	MAR 2008
NORTH AMERICA	31%	31%
ASIA AND OTHER	25%	28%
JAPAN	20%	20%
EUROPE	14%	12%
AUSTRALIA	0%	1%
CASH	10%	8%

Source: Platinum

### VALUE OF \$10,000 INVESTED SINCE INCEPTION 31 JANUARY 2005 TO 30 JUNE 2008



Source: Platinum and MSCI. Refer to Note 2, page 32.

## PERFORMANCE AND CHANGES TO THE PORTFOLIO

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Over the past 12 months the Fund fell 14%, outperforming the MSCI All Countries World Index (A\$) benchmark by 6% and over the past quarter the Fund fell 3%, outperforming the benchmark by 3%.

The key positive contributors to the quarter were our capital equipment (eg. JGC and Bombardier) and energy holdings (Royal Dutch Shell). Whilst the large pulp and paper position contributed positively, in reality we had one stock that strongly benefited from a company specific turn-around and, in contrast, our US paper holdings were some of the worst performers. As a whole, the sector is still struggling to increase prices sufficiently to offset cost increases in fibre, energy and chemicals. In hindsight, we should have cut our exposure to this theme as the credit crisis and Western world consumer recession took hold impacting demand for key grades. Whilst we remain committed to the sector and the stocks are very cheap, we warn investors the ride may be bumpy as balance sheets are stretched (please refer to the September 2007 Platinum Unhedged Fund quarterly for the pulp and paper investment rationale).

Whilst in the March quarter our Thai and Taiwanese stocks were some of the best performers, this situation reversed in the current quarter. Our reasoning that these markets would remain relatively insulated from global concerns has been highjacked by high oil prices and rising inflation. Our error, at least in the short-term, has been to think that the Asian Central Banks, led by China, would proactively fight inflation by raising interest rates and allowing currency appreciation. Mercantilism would seem to be a hard habit for this region to kick. However, my strong view for the crisis involving Western world credit, energy and emerging world inflation is that the end-game is much higher interest rates in Asia and much stronger Asian currencies (at least those with strong external surpluses). The Platinum Unhedged Fund remains positioned for this.

The major change to Fund composition over the quarter was the reduction in our Hong Kong/China

and technology holdings, specifically semiconductor production equipment and the addition of European aerospace stocks, for example EADS, the European equivalent to Boeing. We sold well but were constrained in timing purchases by the need to maintain the cash mandate for the Platinum Unhedged Fund at a maximum of 10%. We commenced buying in early April when the oil price was just over \$100, thinking that the stocks were already discounting the worst of high oil prices (reflecting demand headwinds) and the strong Euro (reflecting the huge costs of manufacturing in Europe). What looked like a great buy, became an even better buy when the oil price re-started its inexorable march towards \$150 and the stocks dropped a further 30%. We have added to our position at these lower prices. These stocks will benefit greatly from a weaker Euro against the US dollar.

The current credit crisis is still perceived to be a US dollar crisis. My view is that it won't be long before the ECB's tough talk on inflation melts in the face of the growing evidence of a European banking crisis and the Euro is likely to lose its shine, especially against the US dollar. Accordingly, whilst the Fund remains heavily underweight European stocks in favour of Asia (Japan being the largest exposure in this region), the stocks we do own in Europe are ones that have been hurt by the strong Euro (ie. manufacturers) and stand to benefit as this unwinds. The opposite holds in Asia, where we have a strong preference for domestic consumption plays.

## OUTLOOK

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These times clearly remain challenging for long-only equity investors. We are committed to protecting investors capital by remaining "relatively" defensive in our positioning ie. weighting in gold and to the Asian markets that we perceive to be inflation beneficiaries. We will also take advantage of extreme undervaluations of certain stocks that are in some way embroiled in the current issues of credit, energy and inflation. We increased our cash holdings from 8% to 10% over the quarter.

## PLATINUM ASIA FUND



**Andrew Clifford**  
Portfolio Manager

## PERFORMANCE

### PERFORMANCE (compound pa, to 30 June 2008)

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
PLATINUM ASIA FUND	-9%	-10%	15%	24%	24%
MSCI AC ASIA EX JP INDEX	-12%	-17%	11%	15%	14%

Source: Platinum and MSCI. Refer to Note 1, page 32.

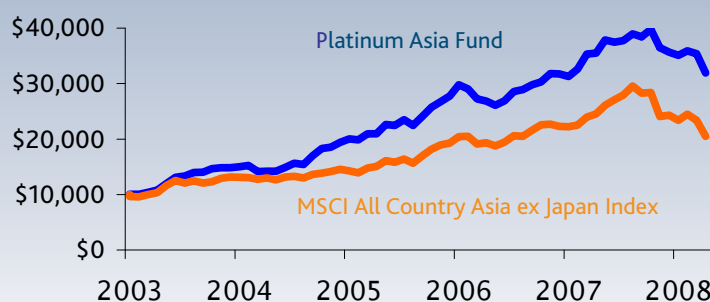
Asian markets continued their sell-off during the last quarter with higher energy and food prices the main concern. The weakest markets continued to be last year's favourites (China A market down 21%, India down 14%, Vietnam down 22%) and net energy importers (the Philippines down 17%). A further 4% appreciation of the Australian dollar against regional currencies also detracted from returns. A combination of the Fund's cautious positioning with high cash balances (20% to 30% over the course of the quarter) and short positions reduced the Fund's losses below those incurred by the broader market.

### DISPOSITION OF ASSETS

REGION	JUN 2008	MAR 2008
CHINA (LISTED EX PRC)	16%	18%
HONG KONG	9%	8%
CHINA (LISTED PRC)	3%	1%
TAIWAN	7%	8%
GREATER CHINA TOTAL	35%	35%
INDIA	5%	8%
KOREA	10%	12%
THAILAND	8%	10%
MALAYSIA	5%	5%
INDONESIA	4%	3%
SINGAPORE	4%	4%
PHILIPPINES	2%	1%
CASH	27%	22%
SHORTS	4%	1%

Source: Platinum

### VALUE OF \$10,000 INVESTED SINCE INCEPTION 3 MARCH 2003 TO 30 JUNE 2008



Source: Platinum and MSCI. Refer to Note 2, page 32.

## CHANGES TO THE PORTFOLIO

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The Fund took advantage of lower prices to add to a number of its existing holdings. Gamuda is a Malaysian construction company which has seen its short-term profit outlook squeezed by rising steel and cement prices. The company has a long history of winning work with innovative proposals that have often involved holding concessions to fund and operate the project upon completion. As a result, there is significant value in its existing and future toll road and utility concessions that the market is significantly undervaluing. Ayala Land is the leading property developer in the Philippines, and concerns over future development sales have seen the stock fall to levels well below our assessment of its inherent value. A new holding for the Fund is Green Dragon Gas, a Chinese coal bed methane company. Cash was raised by selling Bank of China, where our concerns about a potential slowdown in that economy led us to be more cautious about the outlook for its business. We also sold our two Indian oil refineries (Hindustan Petroleum and Bharat Petroleum) which continued to be squeezed between higher crude prices and regulated product prices.

## COMMENTARY

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Inflationary pressures have continued to rise across Asian economies during the last quarter, driven primarily by energy and food prices. In many countries where energy prices are controlled, the cost of the subsidies have become too great for government budgets, and thus we have seen a range of price increases for petroleum based products and electricity. Typically though, the prices remain well below free market levels and the subsidies remain a significant burden on government finances. For example, in India, food, fertiliser, and energy subsidies, if maintained at current levels, have estimates of the federal government deficit blowing out from 2.5% to almost 7% of GDP.

The impact of inflation will not be evenly felt across economies or the region. Higher food and energy prices obviously impact households quite differently depending on income levels. The success of companies in passing on higher costs in their prices and maintaining volumes will depend on their customer profile. The multinational purveyors of higher-end consumer products are reporting no changes in their growth rates in the region, at least so far. And of course there are the beneficiaries of the inflationary forces, the mining and agricultural sectors. Indeed the same is true for countries where the resources boom is having a major impact on trade accounts with energy deficient countries such as India and the Philippines being the noticeable losers.

The rise of inflation has occurred at a time when growth prospects in the major export markets of the US and Europe were already causing concern. The result has been a substantial setback in regional markets, with some of last year's favourites suffering the greatest falls. The China B share market has fallen over 50% from its highs of last year, the India market is down almost 40% from its highs, and Vietnam is down 65%.

Other than the adjustments to energy prices, policy responses have continued to focus on higher interest rates and higher reserve requirements for the banking system in order to slow loan growth. In past quarterlies we have discussed how a more flexible approach to exchange rates by regional central banks could have dissipated incipient inflationary pressures, and although there is still much discussion in the markets regarding a potential revaluation of the Chinese Yuan, the time for such a response has most likely passed. Regional growth will start to slow from a combination of higher interest rates, inflation and lower export growth.

What is difficult to know is how deep or protracted the downturn might be. The combination of a number of factors suggests that one should remain optimistic in the medium term. The momentum in the economies of China and India as a result of the past reforms is significant and it is difficult to see this disappearing overnight. Once a slowing is



apparent, one would expect interest rates to be cut and other measures such as credit restrictions to be removed. Corporate, household, and government balance sheets are generally in good shape which should allow a recovery to take hold more quickly. Also, a slowing by these major commodity consumers should ultimately ease inflationary pressures and the burgeoning cost of subsidies.

With many stocks down 50% and more, the question is whether this “slowdown” in the region has been priced in? Consider one of the Fund’s holdings, Dongfeng Motors. Dongfeng is an auto producer in China with joint ventures with Honda, Nissan, and Peugeot. Not surprisingly, vehicle sales have been strong in China in recent years growing at over 20% pa, and continuing to do so at only a slightly lower rate in the first five months of 2008. Although the car business is competitive, the company has strong JV partners and has managed to grow earnings in line with the industry’s volume growth. However, despite the apparent ongoing growth, the stock price has fallen more than 50% in the last 12 months and trades at around 7 times last year’s earnings. Clearly the market is not expecting earnings to be maintained at this level despite the ongoing sales growth and one doesn’t need to look far to see why. Auto grade steel prices are up more than 50% over the last year and there are real concerns that the auto companies will be unable to pass on these cost increases. If sales slow as well, a significant fall in profits is the likely outcome, and thus the setback in the stock price that has been seen.

However, given the longer-term growth prospects for China, we would assume car sales will be higher in five years time, and providing Dongfeng’s JVs are well managed, we would assume their sales and profits will be commensurately higher. If the outcomes are as expected, Dongfeng makes for a great investment today. Although this is just one stock, similar stories can be told amongst many of the Fund’s holdings. The valuations against historic earnings are very appealing, and although there is little yet to suggest that earnings will fall, companies are likely to face short-term challenges in delivering higher profits in the next year or so.

## OUTLOOK

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One is inclined to conclude that the market for the main part has priced in the slower environment that is appearing on the horizon. As such it is expected that some of the Fund’s cash reserves will be slowly put to work in the coming months. There are a number of reasons to remain somewhat cautious in doing so. Firstly, while the market has concerns about earnings sustainability of our companies, we cannot clearly hear the market talking about a slower China and India. Our observations over the last decade have been that until such outcomes are explicitly understood, they are rarely fully discounted. The stock price of iron ore producers stand as evidence that many continue to believe that China and India will continue to grow endlessly. Secondly, foreign investors remain significant investors in the Asian markets and financial problems in their home markets could well see them continue to reduce the amount of risk they are prepared to accept. Ongoing selling by foreign investors could well result in further downward pressure on regional markets.



## PLATINUM EUROPEAN FUND



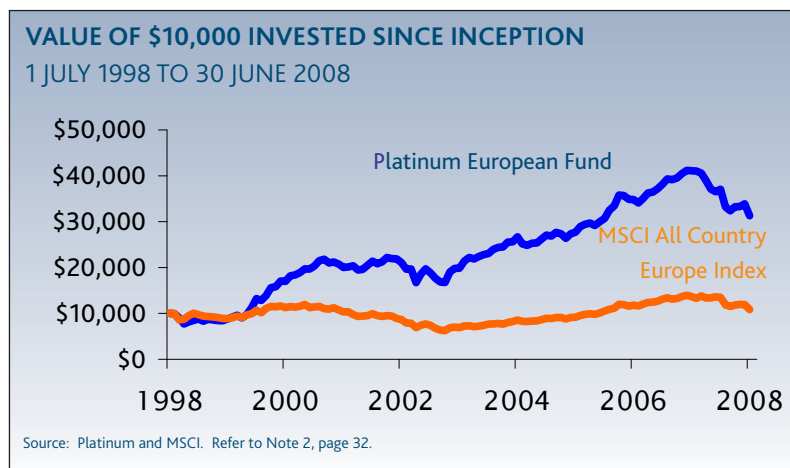
**Toby Harrop**  
Portfolio Manager

## PERFORMANCE

European stocks fell 8% in the quarter and 21% for the year to 30 June 2008 (MSCI, A\$). For the quarter (as for the year), the strong sectors were steel (+18% in the three months, local currency), metals/mining (+16%), and energy (+13%). On the other hand, retailers, pulp/paper, banks, and building materials each fell by over 20% for the quarter, and 40 to 50% over 12 months. Media, autos and property sector share prices were similarly squashed. In short, the bear market is in full swing, with just a few Europe-listed stocks benefiting from the high oil price, China's (temporary?) halt in steel exports, or Australia's inadequate infrastructure (iron ore and coal).

On a stock level, just considering the 500 largest, there are 20 stocks up 40% or more for the year, while *7 times* that number are down over 40%. Similarly for the quarter, Bloomberg data reveals 20 European stocks up 20% or more, and 140+ down over 20%. Unloved stocks are no longer hard to find, of which more below.

The Fund fell 6% in the quarter, as cash holdings and gains on short positions offset the lack of any holdings at all in the few "hot" areas mentioned above; disappointingly the Fund was down 24% for the year to 30 June.



## COMMENTARY

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### Are European shares now cheap? Is the macro backdrop really knowable?!

As indicated above, the gentle decline of the large European market indices since the peak in July 2007 hides a more savage reality at the individual stock level. Finding unloved stocks is not difficult, but are they really cheap given the apparent risks facing the economy? Many readers will be aware of our reluctance to subscribe to the macro-economic “certainties” of the day, and as the markets start to panic (in early July) that the West faces *stagflation* (ie. little growth, but inflation anyway), it may be useful to differentiate today’s situation from that of the 1970s.

The level of demand for most goods is of course inversely related to price. So for example, if oil prices go from \$15/bbl to \$100/bbl, demand should fall (or grow more slowly). In a market like the US, where minimal taxes on gasoline mean that oil price moves are directly reflected at the petrol station, this demand response should be swift. Yet oil had to move another 25-30% on top of its sextupling before consumers retreated (driving miles have finally fallen 5% year-on-year in the latest US data). Aside from the lack of easy substitutes to gasoline, the resilience of demand suggests there were some powerful counter forces.

In fact what has seemed to work quite well in a predictive sense (over the last 10-15 years), is the level of employment in the economy. Where that has been growing, the economies have tended to weather shocks surprisingly well (such as collapsing stock markets, acts of war, the oil price etc). Where employment growth has been weak, seemingly modest headwinds (eg. small rises in Japanese consumption taxes, or political disappointments in the over-governed French economy) have caused disproportionate economic setbacks.

Were there to be a re-run of the 1970s stagflation, we would note that oil price shocks 30 years ago met with a relatively weak global economy: international trade (as a proportion of economic

activity) was well below the 1912 level, the world at large was at (cold) war (so the “market” was hundreds of millions of end consumers rather than billions), central planning was widespread (note that prime minister Heath’s cabinet in the UK met to determine such momentous issues as the price of local plumbing services!), and in general the pre-occupation was cake-splitting rather than cake-growing.

Today, significant regions of the world are booming, but disproportionate commentary weight is given to the woes of the US, UK, Ireland etc. Corporations in general have manageable debt levels, strong profits and an increasing focus on growth in “the rest of the world”. Unemployment in Germany has declined persistently in recent years; the latest figures this week show a continuation of that trend, so that comparably measured, Europe’s giant has the same low rate as that of booming Australia.

Is it possible that we’ll look back on this current panic as a storm in a teacup? The Asia/Middle-East/Russia/Brazil growth story will, with luck, be augmented by growth in some African countries (now there’s an infrastructure build-out “story”!), Japan and “core” Europe are fundamentally sound (ie. not based on housing and debt bubbles), and moreover the world is in the foothills of a new energy boom (to address both oil price and carbon dioxide reduction). Wind/solar/wave electricity, a building materials revolution, and the prospect of electric cars doing to the internal combustion engine what it did to buggy whips, suggest considerable sectors of “structural” growth in the struggling West...

So are stock markets cheap in Europe? Overall, probably not given the absurd weight of resource stocks in the UK’s index! But there are plenty of cheap stocks in the various markets, and notwithstanding the *necessary rather than sufficient* macro thoughts above, it is at the individual company level that we make investment decisions. To give a market “flavour”, it is true that recent selling has started to feel like the indiscriminate panic we saw in Germany in late 2002 and early 2003 (from which point that market trebled). Against this observation, although prices have

adjusted a long way, it seems that insufficient time (ie. only one year since the peak) has elapsed to suggest a base in the markets.

However, prices are moving (down) fast enough at the moment to potentially require switching from what were “good value” levels in a stock a few weeks ago, to others which have suffered more. We like, for example the business positioning and valuation of UK/Dutch publishing house Reed Elsevier, whose shares have declined from 650p to 550p in the last six weeks. But over the same period, the global retail giant Carrefour has suffered a share price decline from Eu47 to Eu33 and now trades at little more than its real estate value!

In the “mid-cap” stock area (companies with market valuations of say Eu1-5bn), there are many far more dramatic examples, and an interesting signal at the moment is the disproportionate share price response to stock-broker recommendations – even if the new “sell” is based on no new content.

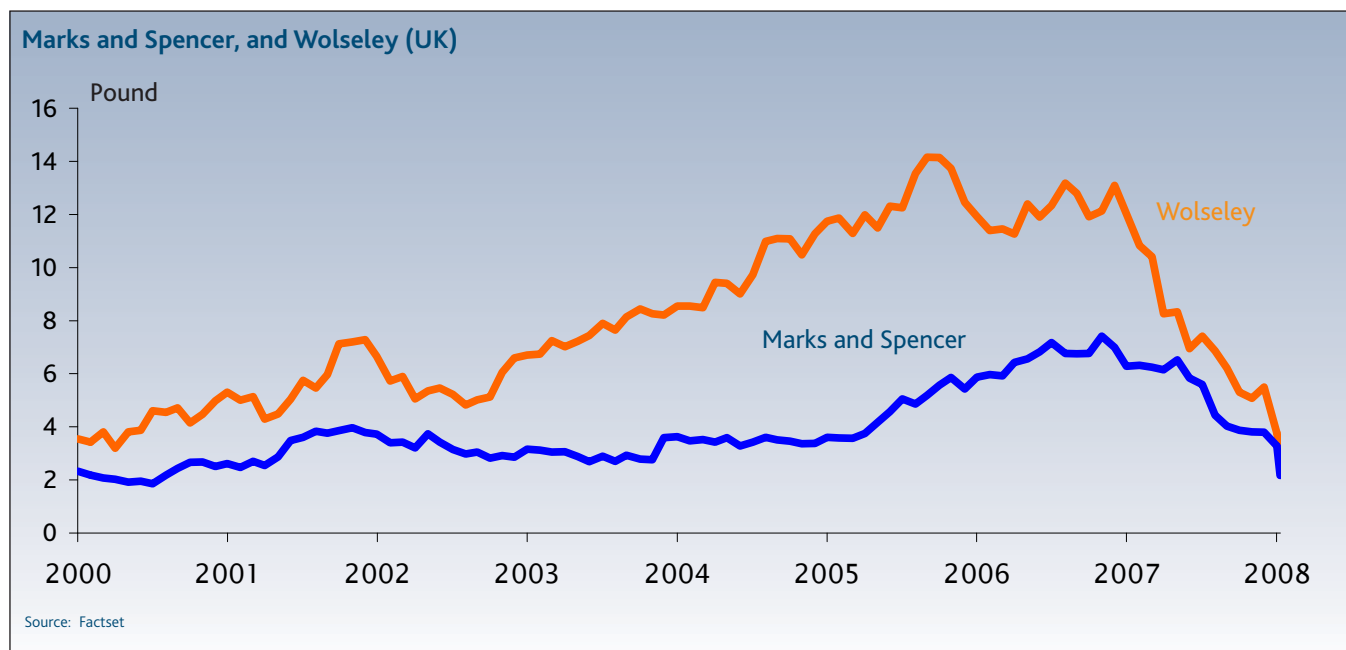
### European company meetings

We had about 40 meetings in early June around Europe, with companies in the nuclear, semiconductor, and mechanical engineering

industries complementing some consumer and media businesses. Broadly speaking, real gloom in London contrasted with controlled optimism in Germany and Scandinavia, and palpable frustration in France (where excessive hopes invested in the “rightwing” Sarkozy government last year have been pretty well dashed).

We are acutely aware that companies are not especially good at highlighting turning points in their business, so the fact that the meetings with German exporters could be paraphrased as “why don’t you stop asking questions and come and help us pack the boxes in the dispatch area”, should not cloud our judgement about business prospects in six or 12 months’ time. Having said that, the full order books at many German engineers give the companies reasonable “visibility” over the coming few years.

Equally, visits in London to the famous retailer Marks and Spencer, and to building materials distributor Wolseley filled us with concern (indebted balance sheets, in both cases, meeting weak end markets); but the continued collapse of both companies’ share prices mean that they may yet be viable investments (we have no position at the time of writing).



We have written in recent years of the difficulty of investing in Russia – both for stock market participants, and for companies. Swiftly rising tariffs on wood exports are the current emblem of that country's policies to encourage secondary industry in Russia itself: pulp exports are minimally taxed. Similarly, crippling taxes on oil exports are the principal reason for this oil giant to have had *declining* oil production four months in a row (at these oil prices!!), but if you care to invest in a refinery in Russia, then once again exporting refined product is encouraged rather than penalised. Interestingly, one of the Finnish paper companies appears to be ready to invest the large sum (in the order of Eu1bn) to build a pulp mill in Russia, just as the tariff regime intends. Elsewhere, it should be noted that at around 3 million cars this year (most foreign, of which many are new rather than used), and growing fast, Russia may well overtake Germany in unit sales of automobiles next year.

While not wishing to alarm unitholders with the impression that we have discovered Russia at this end of its bull market (!), we did meet two interesting companies (one in Sweden, one in Finland) who have built consumer-oriented businesses over many years in Russia. As the car sales figure above, and the traction in secondary processing operations, suggest, it is no longer accurate to imagine a few oligarchs hoovering up the country's natural resource exports and sending the money to foreign tax havens. While that still happens, clearly there is some broadening of economic growth and some consumer exposures in Russia will be interesting at the right price... our work on these Scandinavian companies is ongoing.

## PORTFOLIO POSITIONING

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Some notable features of the portfolio are its large German weighting of 44% (with an 11% "short" position in the DAX index partly offsetting this), with another 24% in France, and 14% in various Scandinavian stocks. Exposure to the UK, Spain, and Italy totals 6%.

By industry, we have only around 1% in banks. Upstream solar power (ie. polysilicon) and solar capital equipment plays (to a total value of 5%), are larger than our conventional oil/gas exposure in Shell (which is 3.6% at 30 June). On the other hand 16% in "consumer" businesses (eg. BMW, Adidas, Henkel, PPR etc), 22% in capital goods/engineers (Siemens, Schneider, Metso, EADS etc) and 15% in such technology names as SAP, Infineon, and Ericsson, make up the core of the portfolio. 8% of the Fund is in the media area, which is a largely despised industry in today's stock markets.

Currency positioning includes 12% in each of the A\$ and Norwegian Krone; otherwise the currency exposure is that given by the underlying share investments: 67% Euro, and a little in the UK and Sweden.

Early July figures show a net invested position of 80% for the European Fund. We like the valuations of the companies we own.

# PLATINUM JAPAN FUND



**Jacob Mitchell**  
Portfolio Manager

## PORTFOLIO POSITION

Some of the themes/large positions contained in the current portfolio include (position prior quarter):

Domestic related 49% (47%), including:

- 13% (12%) Defensive (transport, food, telecommunications, services)
- 12% (15%) Real estate, retail
- 12% (9%) Financials
- 7% (7%) Construction

Export related 37% (45%):

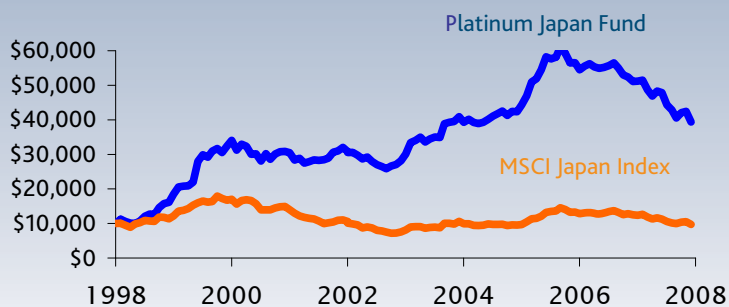
- 12% (19%) Technology (including specialty materials) and machine tools
- 7% (7%) Autos
- 7% (5%) Global energy and infrastructure capital equipment
- 6% (6%) Commodity producers
- 5% (8%) Chemical/process

### DISPOSITION OF ASSETS

REGION	JUN 2008	MAR 2008
JAPAN	83%	88%
KOREA	4%	4%
CASH	13%	8%
SHORTS	13%	6%

Source: Platinum

### VALUE OF \$10,000 INVESTED SINCE INCEPTION 1 JULY 1998 TO 30 JUNE 2008



Source: Platinum and MSCI. Refer to Note 2, page 32.

## PERFORMANCE AND CHANGES TO THE PORTFOLIO

Over the past 12 months the Fund fell 23%, in line with the fall in the MSCI Japan Index (A\$) benchmark and over the past quarter the Fund fell 3%, roughly in line with the benchmark. As an active manager with the ability to hedge, we are disappointed with the lack of returns for investors.

Global markets bounced from the beginning of the quarter as the US Federal Reserve provided an explicit guarantee to Bear Stearns averting a complete market melt-down. However, the bounce was short lived as high energy prices kept the focus on emerging market inflation and declining US/UK housing prices kept the focus on developed world credit/consumption concerns.

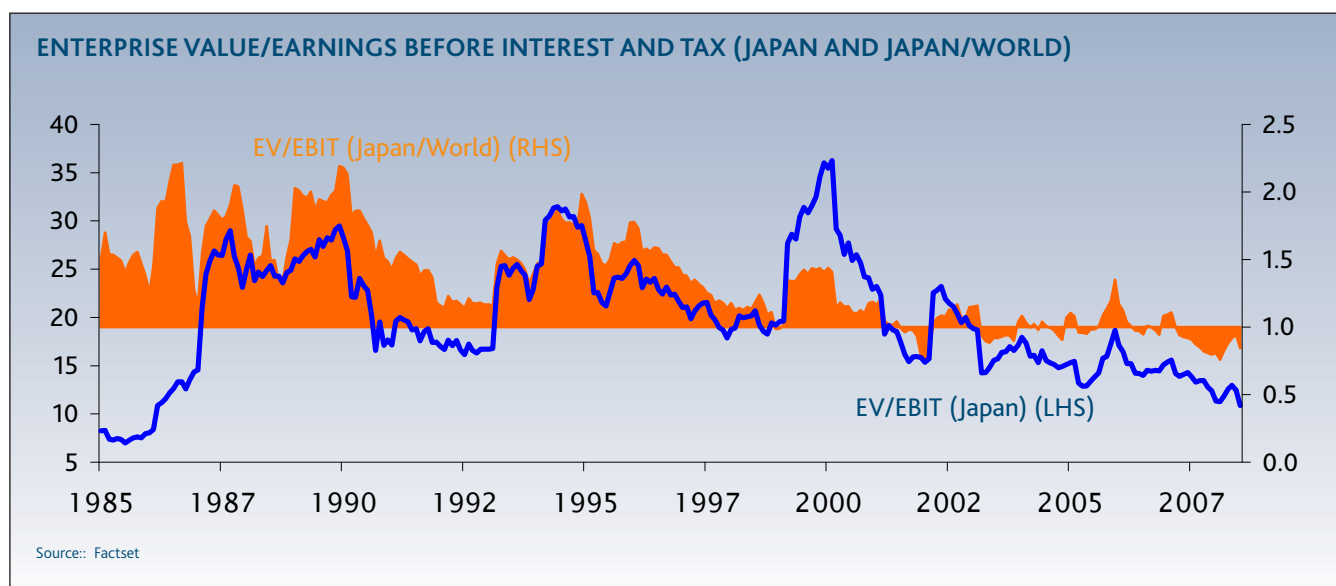
In the last quarterly report we put forward our view that Japanese equities (and property) had the potential to outperform as consumers remained relatively ungeared and investment preferences, driven by rising inflationary expectations, had the potential to change for the better ie. away from deposits and bonds, towards equities and property – in sharp contrast to most other markets. This view seemed to gain some currency over the quarter and,

as a consequence, Japan outperformed global markets. However, over 12 months and longer, it remains an underperformer. In Japanese yen terms, the Index finished the quarter up 9% but down 2% in Australian dollar terms.

The key positive contributors to the quarter were our Korean Index/stock shorts, Japanese Government bond short and some of our energy/global capital equipment longs (eg. JGC). The key negatives were our technology and financial holdings.

Over the quarter we made the following changes to the portfolio:

- We reduced gross equity exposure from 92% to 87% and net exposure from 86% to 74%, largely via the initiation of a 10% Kospi short (Korean Index) in early June. In hindsight, we should have been more aggressive on the short side.
- We reduced technology exposure from 19% to 12% in response to the worsening Western world consumption outlook.
- We increased our Japanese mega bank holdings from 2% to 7% – the investment rationale is detailed over.



- Our decision to cut the yen exposure to 83% last quarter proved correct, as true to form the yen depreciated as global markets rebounded, although we would have picked up more performance in AUD or USD, rather than from other Asian currencies. Thinking the global equity rebound was temporary, we started to increase yen exposure in early June and ended the quarter at 92%. There has been some change of pattern in the behaviour of the AUD, as it remained strong relative to Asian currencies even as risk aversion increased in the last weeks of June. In previous market sell-offs, the AUD has weakened as the carry trade (one of the many leveraged trades) was unwound. This time round, with energy prices rising in the face of the equity sell-off, the AUD held firm, much to our frustration. I think this is a temporary phenomenon and that the AUD will eventually reflect the deterioration of asset/credit quality within the local economy.
- We closed our 10% short on the Japanese Government Bond future having picked up just over half of the move in yields from 1.3% to 1.8%. If global markets overly discount the risk of Western world debt deflation, we may re-initiate this short as we believe the primary cycle remains inflationary as Western central bankers (whether they admit it or not) fear asset price deflation more than goods and services inflation, and hence, will keep monetary policy too loose, for too long.

## COMMENTARY

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Our investment in the Japanese mega-banks (Mitsubishi Tokyo Financial and Sumitomo Mitsui Financial) may seem a tad reckless given the current global credit melt-down. Our simple case for these banks is that as inflation returns, the profitability of these businesses will be transformed. Japanese banks have been horribly unprofitable for a long period of time, with ROEs of around 5%, compared to 15-20% in other markets. Low returns are a function of a deflationary interest rate environment and weak domestic loan demand. The banks have survived on net interest margins of less than 1% compared to the +2% available in most other major

banking markets. The major positive of all this is that the Japanese Banks have balance sheets that are close to fully funded by deposits, rather than fickle wholesale markets, that is, the reverse of the large US, European and Australian institutions. In the current credit rationed environment, this makes for a much lower risk proposition. Further, there are a number of promising signs that these banks can grow earnings:

- Inflation is returning to Japan and we expect this to feed into net interest rate margins over time. There are already signs that this is happening with the recent pick-up in Japanese Government Bond yields and a large shift in inflation expectations over the last year. It is worth noting that Japan has very large external deficits in both food and energy (but given a strong external account, the capacity to pay for both).
- With other developed-country banks now capital constrained and forced to tighten lending standards to deal with rising credit costs, Japanese banks face less competition in overseas markets.

As counter intuitive as it may seem, we think these stocks are some of best “inflation” plays currently on offer.

## OUTLOOK

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Even though we think Japan remains “relatively” attractive, we think it will be difficult to make absolute returns whilst Western markets remain in the grip of the worst banking crisis since the Great Depression. The counter argument to such reactive depression is that by certain measures, the last time Japanese equities were this cheap was the mid-eighties. This means markets will remain volatile, as the bulls look at “apparent” valuations and the bears look at the deteriorating news flow. We continue to have a bias to the long side, whilst looking for tactical short opportunities.



## PLATINUM INTERNATIONAL BRANDS FUND



**Simon Trevett**  
Portfolio Manager

## PERFORMANCE

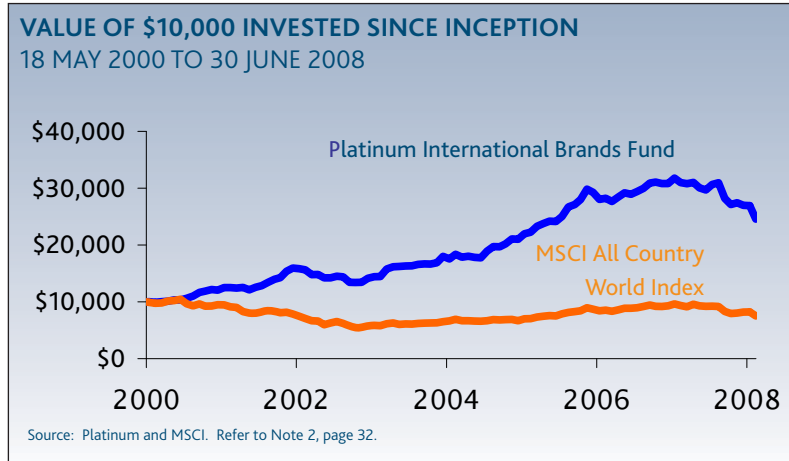
The Fund fell in value by 20.8% over twelve months which, despite a very different composition, was a similar outcome to the MSCI World Index loss of 19.8%. In the month of June the MSCI World Index fell 8.8% as did the Fund, which represents most of the loss for the quarter of 10.4%.

As we commented in our last quarterly report, the markets were marking down stocks associated with discretionary spend on concerns that consumers would, by necessity, reduce expenditure on all but essential items.

This has clearly continued this quarter as the 'ratings', or the multiple of earnings that stocks are priced by, have continued to decline as the market has concerned itself about the erosion to the spending capacity of consumers. More recently there has been a growing concern that it is the source and reliability of earnings that also matters and that the absolute quantum of earnings may be impacted, not just the multiple applied to them. Unsurprisingly, after such an extended period of economic growth, analyst and investor desire to anchor to past earnings and growth rates can lead to reluctance to critically evaluate forecast earnings, both positively and negatively.

DISPOSITION OF ASSETS		
REGION	JUN 2008	MAR 2008
EUROPE	38%	38%
ASIA	21%	21%
JAPAN	12%	17%
NORTH AMERICA	7%	5%
SOUTH AMERICA	2%	2%
CASH	20%	17%
SHORTS	10%	8%

Source: Platinum



Having determined that the Western consumer will curtail expenditure, the market focus shifted to assess company dependence on growth from emerging markets, as a risk rather than an opportunity. More recently we have seen a significant focus by both companies and analysts in evaluating company specific emerging market potential. There is an interesting tension developing between the optimism of management and the increasingly risk averse market. Some examples of this are explored below.

The inherently higher earnings power of brands is intact. The ability to generate superior returns and the longevity of higher profitability, determined by the perceived qualities of a brand, remain as robust as ever. The ratings of branded goods companies are determined by the anticipation of this earnings leverage and the expectations of discretionary expenditure. The strength of economies over many years, and the success of branded goods companies in developing new products and markets, has meant that the memory of an economic slowdown has receded. The realisation that earnings, and especially growth, may not be so readily achieved has been evident in the recent share price action.



The Fund has reduced its weight to Japan, exiting from several investments as the relative attractiveness of these companies has diminished in comparison to the opportunities now being presented elsewhere. The Fund has added several new companies including for example, Tod's (Italian Shoes and Fashion) and Denway (Chinese Autos) and we have increased some of our existing names where we have confidence in the earnings progression. There has also been an increase in the short position against the Indian Nifty Index and the Brazilian Index.

## COMMENTARY

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This environment, with the reduced availability of 'easy money' and an increased sensitivity to the risks of achieving growth based on past earnings, has resulted in a noticeable decline in activity by private equity participants. The bidding for corporate assets beyond values deemed sensible by the industry has evaporated.

Now at the much lower valuations being presented by the market, we note increased activity by those who know their industry well. By way of example, two of our investments, Indonesian based Tempo Scan Pacific and the French cosmetics company Clarins, currently have their majority family shareholders seeking to acquire the free float and delist their companies.

The Fund has a number of investments where the long-term (family) owner or leading industry participants might consider the implied valuations as compelling when viewed from a perspective other than quarterly performance. These are not necessarily small companies. We have previously written about our investment in BMW and from the perspective of the Quandt family it might be tempting to delist BMW given the cash generation of this company and the relatively short payback.

Other examples of a willingness to take acquisitive advantage of the current situation are the US\$46bn bid by InBev (a Belgium brewer with brands such as Stella Artois and Becks) for the previously

untouchable iconic Anheuser Busch (Budweiser) and the recent US\$23bn offer by the private company Mars (confectionary and pet food) to buy Wm Wrigley (chewing gum).

Pernod Ricard is taking on significant debt to acquire the Absolut vodka brand. These are not expressions of a lack of confidence in the earnings potential of major brands.

It may be surprising to note that despite the dramatic headlines of US auto sales hitting fifteen year lows and 20% falls in volume, that BMW sales are down a modest 4%. Their Mini Brand has increased US sales by 33% this year and Rolls Royce has continued to grow (+47%). The management of several of our companies continue to point to selective growth in the US market depending on the product positioning and customer demographic.

Vehicle registrations in Russia grew 35% in 2007 and have not slowed from that pace this year. Last year they passed the UK and most other European countries in new vehicle registrations with 2.6mn new registrations. A visit to Oriflame (Swedish cosmetic company) during the quarter confirmed their ongoing enthusiasm for their Russian business as did an analyst meeting organised by Pernod in Russia. Pernod also went to lengths to identify the potential of their developing business in Ukraine and other Central and Eastern European countries. Similarly Adidas took analysts to China to address concerns about the robustness of post-Olympic sales and their ability to manage rising costs by relocating production to Inland China as well as to Vietnam and to Indonesia.

In all these cases the share price has declined post these visits despite a favourable assessment. Notwithstanding that developing and emerging economies will have set backs and volatility in their pattern of growth, there remains a stark comparison between consumers of the Western markets with their high level of indebtedness and past years of (over) consumption with that of consumers with new found wealth, rising incomes and a growing interest in brands, especially the luxury and premium brands.

## OUTLOOK

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The impact of tightening credit and rising costs of living are, in effect, the application of a (regressive) tax. It has a disproportionate effect on some segments of the economy whilst leaving others relatively untouched. Paradoxically perhaps, branded products have historically performed relatively well in these circumstances as consumers pay closer attention to the inherent value of their purchase and the trust that they have in leading brands. They are less likely to experiment with their purchases and past experience suggests that the recovery of rising input costs is more easily, and perhaps only, achieved by strong brands.

As always, it remains a matter of price for the potential of any given business. We find it noteworthy that there is a pick up in the acquisition activity by industry participants and whilst we might retain concerns about the megalomaniac tendencies of some management teams, we are encouraged by the confidence of those who know their business well.

The Fund has investments in a number of companies with brands where past neglect is being redressed and the prospects for brand development and market expansion confer a degree of internal enthusiasm that is lacking in many companies. The regional disposition of the Fund suggests an emphasis on Western markets; however, companies such as Adidas, Pernod, Henkel and SABMiller have a breadth of operations and expanding markets that distinguish them from those restricted by geography, such as UK retailers. The Fund's average PE is 13 to 14x, well below historic levels.

# PLATINUM INTERNATIONAL HEALTH CARE FUND



**Bianca Elzinger**  
Portfolio Manager

## PERFORMANCE AND CHANGES TO THE PORTFOLIO

### PERFORMANCE (compound pa, to 30 June 2008)

	QUARTER	1 YR	2 YRS	3 YRS	SINCE INCEPTION
<b>PLATINUM INT'L HEALTH CARE FUND</b>	<b>-8%</b>	<b>-14%</b>	<b>-8%</b>	<b>2%</b>	<b>0%</b>
<b>MSCI HEALTH CARE INDEX</b>	<b>-5%</b>	<b>-19%</b>	<b>-11%</b>	<b>-4%</b>	<b>0%</b>

Source: Platinum and MSCI. Refer to Note 1, page 32.

The Platinum International Health Care Fund declined 7.8% in the quarter compared to the MSCI Health Care Index decline of 5.2%. For the year the Fund lost 14% versus -19% for the Index.

Small biotech and medtech companies continue to decline, while their big counterparts are obvious hiding places for the moment. Interest is also increasing in companies with a limited range of products or solid prospects of a new product launch. Elekta, our Swedish imaging company, falls into this category and has made exceptional progress in the US taking share from competitors. Also, doing well are our US mid-cap biotechs OSI Pharmaceuticals and Cephalon, both companies at the beginning of a new product cycle in oncology.

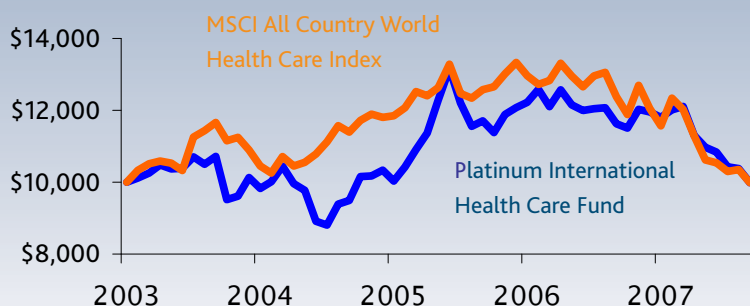
Our small biotech holdings have been disappointing again, with some now trading close to their cash balances. We did exit a number of our holdings due to drug delays or simply due to diminishing cash levels. However, the companies we continue to hold have close alliances with pharma and there is no doubt that the current valuations will soon

### DISPOSITION OF ASSETS

REGION	JUN 2008	MAR 2008
<b>NORTH AMERICA</b>	<b>44%</b>	<b>44%</b>
<b>EUROPE</b>	<b>30%</b>	<b>26%</b>
<b>JAPAN</b>	<b>3%</b>	<b>4%</b>
<b>ASIA</b>	<b>2%</b>	<b>2%</b>
<b>SOUTH AMERICA</b>	<b>1%</b>	<b>1%</b>
<b>CASH</b>	<b>20%</b>	<b>23%</b>
<b>SHORTS</b>	<b>2%</b>	<b>2%</b>

Source: Platinum

### VALUE OF \$10,000 INVESTED SINCE INCEPTION 10 NOVEMBER 2003 TO 30 JUNE 2008



Source: Platinum and MSCI. Refer to Note 2, page 32.

restart M&A activity in this sector. Already during the quarter Japanese pharma has shown that they are happy to pay significant premiums to gain access to US biotechs. With this in mind we added to the portfolio several new companies that have a diverse pipeline or a particularly strong disease expertise.

Big pharma finally attracted some interest, albeit only late in the quarter. It is well understood that drugs will lose their patent protection, while current internal pharma pipelines will only offset some of the pain. Valuations do take that into account but dismiss, in some instances, the R&D efforts at these companies. With this in mind we added Sanofi-Aventis to the portfolio, a company with a strong R&D culture and an outstanding vaccine business.

## COMMENTARY

There is no doubt; biotech will come to the rescue of pharma. Already about 25% of prescription drug sales (or \$100bn) derive from licensed products. Even more telling is the following statistic, namely that, from January 2006 to December 2007, about two thirds of newly approved drugs in the US were originally developed from biotech research.

The biotech sector offers a very diverse set of assets. At one extreme there are the US biotechs (see table below, six of them, overall capitalisation of almost

\$249bn) that have successfully developed and launched new products. It used to be the belief that their success was based on “biologics” such as antibody drugs, but this is no longer the case, as small molecule companies such as Celgene and Gilead are part of this selective group. Further, Genentech, the largest biotech with the biggest focus on biologics, is heavily investing into small molecules. The table below (in US\$bn) also shows the valuation of these biotechs in comparison to Johnson & Johnson and Sanofi-Aventis. It is interesting to see that Genentech with over 10,000 employees is similarly capitalised to Sanofi-Aventis, a company with a global presence and a workforce of almost 10 times as many workers. This fact again makes Sanofi-Aventis an interesting company, while Genentech does look expensive.

Overall, big biotechs are not exactly cheap and these companies have matured fast over the last 12 months, with sales slowing and business development teams being much more active looking for external product opportunities at small biotechs.

Small biotechs are the other big part of the sector. They can be considered “drug engines”. A lot of high risk work is done in their labs and at times it leads to new, exciting drugs, but quite often only after significant disappointments along the way. These companies usually have 100 to 500 employees, valuations of \$100mn to \$1.5bn and pipelines of three to five drugs in phase 1 and phase

BIOTECH COMPANIES - VALUATIONS							
COMPANIES	CLAIM TO FAME	MARKET CAP	REV 09	PE 09	EV/SALES	R&D SPENDING	EMPLOYEES
GENENTECH	Antibody drugs for oncology	84	10.9	21	7.2	2.4	10,500
AMGEN	Protein and Antibody drugs (kidney disease, oncology, inflammation)	53	14.3	12	3.9	2.6	20,000
GILEAD	Small Molecule drugs for HIV	50	6.1	21	7.9	0.7	2,500
CELGENE	Small Molecule drugs for oncology	28	3.0	29	8.7	0.7	1,200
GENZYME	Protein drugs for niche indications	21	5.2	17	3.8	1.0	10,000
BIOGENLDEC	Protein drug for Multiple Sclerosis, Antibody drug for oncology	18	4.3	16	3.9	1.0	3,750
JOHNSON & JOHNSON	Diversified Health Care	185	65.0	13	2.8	7.9	100,000
SANOFI-AVENTIS	Pharma Company	88	44.0	7	2.0	7.0	99,500

Source: Biotech Companies

2 clinical development. The most interesting ones have a strong drug discovery engine and have worked with pharma or big biotech for most of their existence; frequently they have been spun out. Currently, this group is struggling to hold investors' interest but will find a more receptive audience among pharma - some of whom are overflowing with cash!

Also interested in these "drug engines" are the mid-cap biotechs (\$2bn to \$15bn). These are companies that frequently represent very good investment opportunities. They are profitable but have maintained a very "small biotech-like" culture. At the same time they are not seen as "trendy" as the elite top group of the biotech sector is seen and as such, neglect, particularly outside of the US, can be found from time to time.

A big advantage for these types of companies is also their openness and willingness to look at small or niche product opportunities. Another advantage with these companies is their focus on a particular therapeutic category and on geographic regions. US biotech Cephalon is a good example of this group. The company sells a specific range of drugs mostly in the US (neurology related) and has now, since the approval of the licensed drug Treanda, expanded into cancer treatment. Their licensing track record is exceptional and the next part of the story will be their gradual expansion outside the US. At 13x 2009 earnings and 3x sales, the valuation is not excessive.

Mid-cap biotechs will continue to be interesting. Already we have seen a very strong signal that this group has something to offer. During the quarter Japanese pharma made a bold statement by acquiring two mid-cap US biotechs at high prices. Others will follow either as alliance partners or as a way of gaining access to a particular geographical region.

## OUTLOOK

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The sentiment towards big pharma is improving, which will benefit our large holdings. Valuations of the sector are at historic lows and interest should remain given the strong cash flow prospects for at least the next 3 to 4 years.

Biotechs will see interest from its bigger peers. However, until alliance activity re-starts, small drug developers will continue to be out of favour, while the big caps along with diagnostic and tool companies will find support.

As described in previous reports we see diagnostics as an important part of health care and we will continue to look for new opportunities or add to our current holdings. At the same time we will continue our work on the mid-cap biotechs where we see a lot of value, particularly when looking at it from the perspective of acquisition or in-licencing deals.

## PLATINUM INTERNATIONAL TECHNOLOGY FUND



Alex Barbi  
Portfolio Manager

## PERFORMANCE AND CHANGES TO THE PORTFOLIO

### PERFORMANCE (compound pa, to 30 June 2008)

	QUARTER	1 YR	3 YRS	5 YRS SINCE INCEPTION	
PLATINUM INT'L TECH FUND	-6%	-19%	4%	5%	7%
MSCI IT INDEX	-4%	-19%	-1%	1%	-14%

Source: Platinum and MSCI. Refer to Note 1, page 32.

The Fund's performance during the quarter was negative with weakness across most regions. After an early attempt in April and May to rise from oversold levels, technology and telecom stocks followed the broader market down and finished the quarter lower than where they started. Prices and valuations have generally reverted to March levels or below.

Several factors are conjuring to create a general economic slowdown across the globe. In the US, consumers are seeing their purchasing power eroded by an increasing gasoline price and a fast declining housing market.

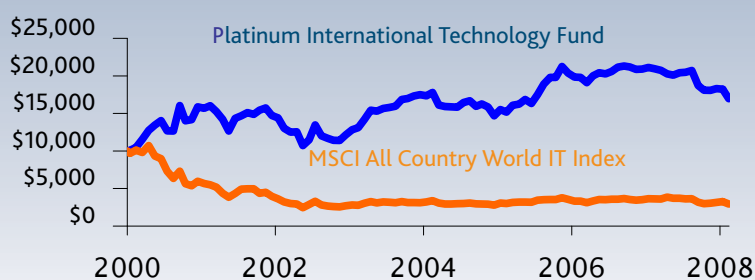
In several Asian countries, particularly India, Indonesia, Vietnam and the Philippines, food inflation is accelerating. Central banks are rushing to raise interest rates to prevent local economies entering a dangerous hyper-inflation spiral and to protect their low-income populations from dramatic losses in purchasing power.

### DISPOSITION OF ASSETS

REGION	JUN 2008	MAR 2008
ASIA	26%	30%
NORTH AMERICA	17%	17%
EUROPE	16%	13%
JAPAN	16%	16%
OTHER	1%	2%
CASH	24%	22%
SHORTS	12%	5%

Source: Platinum

### VALUE OF \$10,000 INVESTED SINCE INCEPTION 18 MAY 2000 TO 30 JUNE 2008



Source: Platinum and MSCI. Refer to Note 2, page 32.



In Europe economic growth has slowed to a crawl and the European Central Bank is also addressing the risk of higher inflation with monetary policy tightening.

Economies in China and South America have so far performed quite strongly, but it is hard to imagine how they can maintain such a robust pace while the rest of the world slows down.

In this context technology companies are not immune from a generalised slowdown. However, some areas may have more defensive characteristics and, to a certain extent, reasonable earnings visibility. For example companies in software, security, storage and telecommunication services tend to be more resilient than say consumer electronics, as their products and services are seen as less discretionary. We have positioned the Fund accordingly and we maintain a 14% position in telecom operators, 12% in telecom equipment and 7% in software and IT services.

#### Major changes:

We reduced the Fund's holdings in telecom operators exposed to emerging markets with high inflation risk such as Indonesia and Egypt: we believe surging fuel costs and food inflation are reducing the marginal consumers' disposable income and with that, their ability to spend more for mobile services.

We increased our telecom holdings in more mature markets such as Europe and Taiwan where the issue of food inflation is not as dramatic and where the valuations are now lower than many emerging (but riskier) markets.

We also increased our positions in Hong Kong listed Chinese telecom equipment manufacturers/engineering companies, ZTE and Comba. They will be major beneficiaries of a new phase of capital expenditure to upgrade several national networks.

We reduced our position in Microsoft at around \$30 after the most recent quarterly results indicated revenue growth deceleration, just 18 months since the original launch of Vista.

The Fund's largest positions are currently: Amdocs (billing software and operating support systems for tier-1 telecom and Pay-TV operators), IDS Scheer (a German business process software specialist), Hutchison Group (a leading Asian conglomerate with telecommunication interests in Asia and Europe), Ulvac (a Japanese leader in equipment for LCD, semiconductors and solar cell manufacturing). Large caps such as Microsoft, Cisco, Samsung and Ericsson are still part of the portfolio but with smaller positions, after a partial sell-down.

We are also taking the opportunity of recent price corrections to selectively add some investments in so-called green-technologies (mostly equipment makers for solar cells and energy-saving LEDs).

During the quarter we introduced a short position on the technology-heavy Nasdaq as a protection from further downside. At quarter end the Fund was 76% invested with a 12% short position on US stocks and the Nasdaq Index, for a 64% net exposure.

## COMMENTARY

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### Telecom Operators

Over the last few months Telecom operators have been back in the news again with M&A activity making newspaper headlines across the globe.

In China, the Regulator has announced a long awaited sector restructuring involving three of the four major telecom operators. Through a series of mergers and assets swaps, the authorities are mandating a re-balancing of a sector characterised so far by a single player (China Mobile) dominating the mobile service market, while the others (China Unicom, China Netcom and China Telecom) have been struggling to compete due to lack of adequate coverage and inferior technology. The change in the licensing and regulatory framework will trigger a new phase of growth for the industry in a country still under-penetrated when measured by Western standards (43% mobile penetration).

In the US, Verizon Wireless has offered \$28bn (including \$22bn of assumed debt!) for regional player Alltel, adding 13mn mobile subscribers and catapulting itself to first spot in the domestic market with 80mn subscribers. While expensive, the merger will probably go smoothly given the similar technologies (CDMA) of the two operators. That would leave Verizon ahead of AT&T with 71mn subscribers, Sprint-Nextel, 53mn and Deutsche Telekom's T-Mobile, 31mn.

M&A activity has been rampant in emerging markets as well. Indian operators Bharti-Airtel and Reliance Communications both offered to merge with South African operator MTN, a leading mobile operator with 70mn subscribers across the African continent. With an Indian market still growing at a fast pace it is perhaps surprising to see Indian companies leaving the domestic shore to chase growth in more adventurous territories.

We suspect that regulation may be one of the reasons. With the Indian regulator very vocal in restraining domestic mergers, and actually promoting more competition by announcing new licenses for new entrants, even the big Indian players (Bharti has 65mn subscribers!), are looking offshore to diversify.

Similarly in Europe, where telecom markets are more mature thanks to the higher penetration of telephony services, incumbents have been looking outside national borders to search for better growth opportunities. We suspect some of this late activity is sometimes not completely guided by clear economic targets but it is more an attempt to "escape" from the harsh reality of saturated domestic markets.

Indeed in some cases, mergers within large national markets (such as China, the US or India) will undoubtedly benefit a dominant local operator, thanks to a larger network footprint, higher network efficiency, cost cuttings and more effective marketing campaigns. On the contrary, cross-border telecom mergers do not appear to add much value because of cultural reasons, different languages, the inability to cut costs (how easy is it to shut down a national telecom headquarter?) and the peculiarity of markets.

So we were perplexed when France Telecom recently announced an offer for Nordic operator Telia-Sonera (itself the result of a previous merger between a Swedish and a Finnish operator). The idea (rejected by the Nordics who judged the offer price too low) seems to suit more a generic expansionistic/diversification vision rather than to offer clear economic returns. In fact, when the deal was proposed, the stock market punished the France Telecom stock price accordingly.

However, there may be a logic in following a strategy of building a telecom assets "portfolio" across different geographies and along a consistent business model, say à la Vodafone. It should achieve high efficiencies in terms of handsets and network procurement, and it would allow the use of experienced management across different geographies. Still we believe the competitive position within each individual market is much more critical to shareholders' returns than the idea of collecting an endless number of "provinces".

Despite the flurry of announcements, stocks of telecom operators have been harshly punished over the last six months, particularly in Europe. The index of the major 19 European Telecom Operators is down 23% from the start of 2008 and back at 2003 levels! The average valuation is now a PE of 10 to 11x with a 6 to 6.5% dividend yield.

In this context we believe that the underlying health of the telecom sector is not as grim as the market fears. A number of factors could restore growth:

- Increased usage of mobile data by subscribers. This is still in the early stages and well below its potential, largely due to a lack of easy-to-use handsets and tariffs which are still too high. In this respect the launch of the new 3G iPhone will help to raise awareness of mobile internet services with the public.
- A more benign competitive environment. If the number of operators within each market declines because of consolidation, the remaining players will improve their returns.
- A transition to more modern infrastructure will greatly reduce the need for network maintenance and impact positively on cost structures.

## OUTLOOK

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Many of the Fund's holdings are down from valuation levels not seen for the last 10 years and yet we believe their prospects are still positive considering their market leadership and potential long-term growth. This, despite a global slowdown that will make it more challenging to maintain existing levels of profitability.

Technology stocks are likely to keep following the recent high volatility path, closely tracking global macro-economic news. Having said that, the balance of power in global technology spending is slowly moving eastward, with Asia expected to grow much faster than Europe and the US. In 2008 China itself will represent more than 10% of the global total consumption of Technical Consumer Equipment<sup>1</sup>, second only to the US which currently holds a 20% share. This secular transition is not going to reverse and we think that the Fund is appropriately positioned to take advantage of it.

<sup>1</sup> GfK/CEA, forecast 2008 TCE = Technical Consumer Equipment  
(Consumer Electronics + IT + Photo + Telco)



## NOTES

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1. The investment returns are calculated using the Fund's unit price and represent the combined income and capital return for the specific period. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), are pre-tax and assume the reinvestment of distributions. The investment returns shown are historical and no warranty can be given for future performance. You should be aware that past performance is not a reliable indicator of future performance. Due to the volatility of underlying assets of the Funds and other risk factors associated with investing, investment returns can be negative (particularly in the short-term).

2. The investment returns depicted in the graphs are cumulative on A\$10,000 invested in the relevant Fund since inception relative to their Index (in A\$) as per below:

Platinum International Fund:

Inception 1 May 1995, MSCI All Country World Net Index

Platinum Unhedged Fund:

Inception 31 January 2005, MSCI All Country World Net Index

Platinum Asia Fund:

Inception 3 March 2003, MSCI All Country Asia ex Japan Net Index

Platinum European Fund:

Inception 1 July 1998, MSCI All Country Europe Net Index

Platinum Japan Fund:

Inception 1 July 1998, MSCI Japan Net Index

Platinum International Brands Fund:

Inception 18 May 2000, MSCI All Country World Net Index

Platinum International Health Care Fund:

Inception 10 November 2003, MSCI All Country World Health Care Net Index

Platinum International Technology Fund:

Inception 18 May 2000, MSCI All Country World Information Technology Index

(nb. the gross MSCI Index was used prior to 31 December 1998 as the net MSCI Index did not exist).

The investment returns are calculated using the Fund's unit price. They are net of fees and costs (excluding the buy-sell spread and any investment performance fee payable), pre-tax and assume the reinvestment of distributions. It should be noted that Platinum does not invest by reference to the weightings of the Index. Underlying assets are chosen through Platinum's individual stock selection process and as a result holdings will vary considerably to the make-up of the Index. The Index is provided as a reference only.

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The Platinum Trust Product Disclosure Statement No. 7 (PDS), is the current offer document for the Funds. You can obtain a copy of the PDS from Platinum's website, [www.platinum.com.au](http://www.platinum.com.au), or by contacting Investor Services on 1300 726 700 (Australian investors only), 02 9255 7500 or 0800 700 726 (New Zealand investors only) or via [invest@platinum.com.au](mailto:invest@platinum.com.au).

Before making any investment decision you need to consider (with your financial adviser) your particular investment needs, objectives and financial circumstances. You should consider the PDS in deciding whether to acquire, or continue to hold, units in the Funds.

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Platinum Asset Management is a Sydney-based manager specialising in international equities. The investment team uses a thematic stock-picking approach that concentrates on identifying out-of-favour stocks with the objective of achieving superior returns for our clients. We pay no heed to recognised indices. We aim to protect against loss and will hedge stocks, indices and currencies in our endeavours to do so.

The firm was founded in February 1994 by a group of professionals who had built an enviable reputation. The investment team has grown steadily and PAM now manages around \$15 billion, with approximately 15% of this coming from overseas investors. The Company was listed on the ASX in May 2007 and staff remain the majority shareholders. The emphasis of the organisation is on managing clients' money rather than gathering funds: we have no sales staff and pay no inducements to promoters of our funds.

Since inception, the Platinum International Fund has achieved returns of over twice those of the MSCI All Country World Index\* and considerably more than interest rates on cash.

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