The Platinum Trust® Quarterly Report

30 September 2012

The Platinum Trust quarterly report is available on our website, *www.platinum.com.au*, from approximately the 15th of the month following quarter end

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

Platinum® ASSET MANAGEMENT

Contents

Performance Returns to 30 September 2012

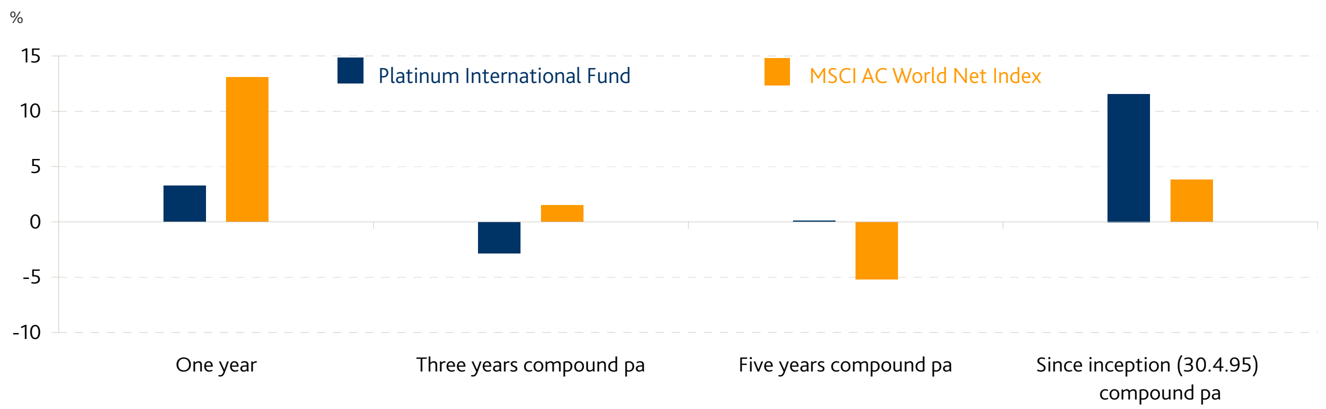
FUND	PORTFOLIO VALUE	QUARTER	1 YEAR	2 YEARS *COMPOUND PA*	3 YEARS *COMPOUND PA*	5 YEARS *COMPOUND PA*	SINCE INCEPTION *COMPOUND PA*
International Fund	**$6,934m**	**3.8%**	**3.3%**	**-3.0%**	**-2.8%**	**0.1%**	**11.6%**
MSCI AC* World Net Index		5.3%	13.1%	2.9%	1.5%	-5.2%	3.8%
Unhedged Fund	**$161m**	**5.6%**	**4.0%**	**-0.8%**	**2.4%**	**2.0%**	**7.4%**
MSCI AC World Net Index		5.3%	13.1%	2.9%	1.5%	-5.2%	0.6%
Asia Fund	**$2,926m**	**7.7%**	**7.6%**	**-5.6%**	**0.3%**	**0.2%**	**15.0%**
MSCI AC Asia ex Japan Net Index		7.7%	11.8%	-2.5%	1.2%	-4.2%	8.8%
European Fund	**$127m**	**4.0%**	**17.8%**	**5.0%**	**5.5%**	**1.2%**	**10.5%**
MSCI AC Europe Net Index		7.2%	9.6%	-2.0%	-3.3%	-8.8%	-1.2%
Japan Fund	**$330m**	**0.0%**	**-3.6%**	**0.1%**	**-3.6%**	**-1.2%**	**11.3%**
MSCI Japan Net Index		-2.3%	-8.1%	-4.4%	-5.8%	-9.5%	-2.3%
International Brands Fund	**$704m**	**7.2%**	**9.7%**	**3.6%**	**10.1%**	**6.2%**	**12.0%**
MSCI AC World Net Index		5.3%	13.1%	2.9%	1.5%	-5.2%	-2.7%
International Health Care Fund	**$36m**	**8.7%**	**16.0%**	**14.2%**	**10.7%**	**4.4%**	**4.5%**
MSCI AC World Health Care Net Index		5.8%	17.7%	10.6%	6.1%	0.7%	2.5%
International Technology Fund	**$38m**	**2.0%**	**3.1%**	**-1.6%**	**-1.9%**	**1.4%**	**6.4%**
MSCI AC World IT Net Index		5.3%	17.7%	8.0%	4.8%	-1.8%	-8.4%

* Morgan Stanley Capital International All Country

Source: Platinum and MSCI. Refer to Note 1, page 40.

Platinum International Fund Versus MSCI AC World Net Index

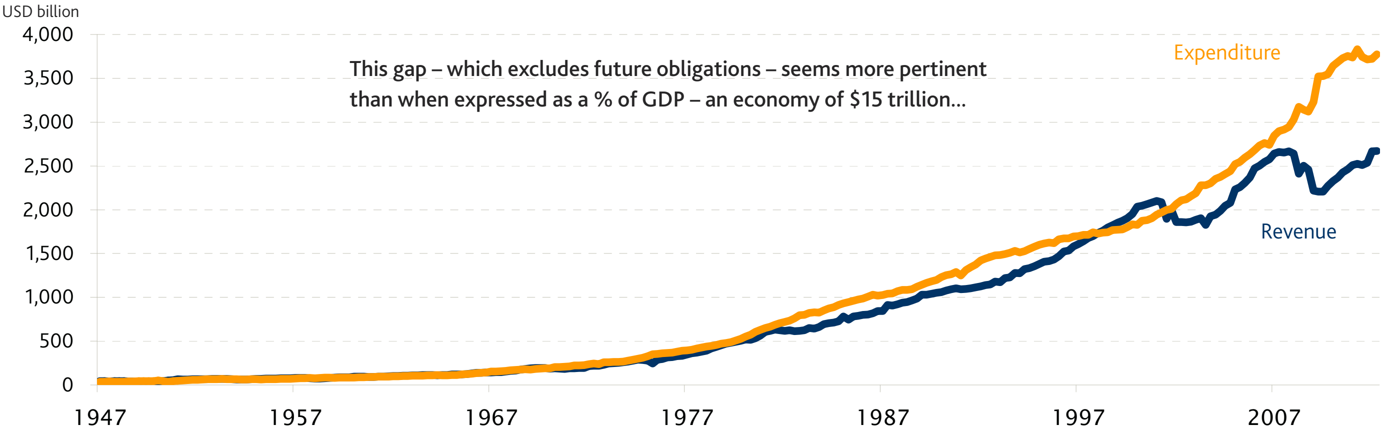
To 30 September 2012



Source: Platinum and MSCI. Refer to Note 1, page 40.

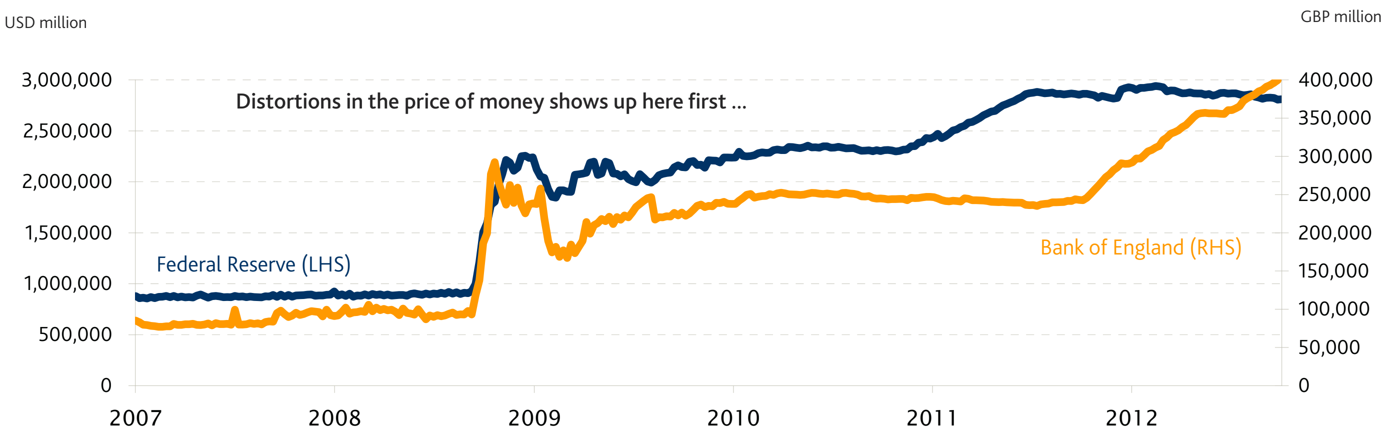
Market Panorama

US Federal Government Revenue Versus Expenditure



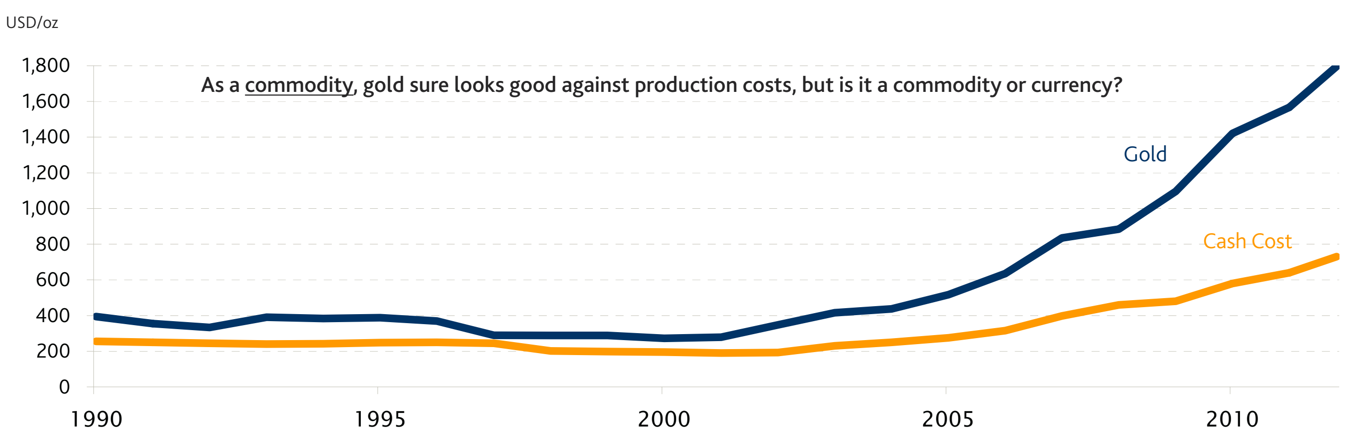
Source: Federal Reserve Bank of St. Louis

Central Bank Balance Sheet



Source: US Federal Reserve, Bank of England

Gold Price Versus Global Average Cash Cost of Production



Source: GFMS Gold Survey, Factset

Platinum International Fund

Kerr Neilson Portfolio Manager

Disposition of Assets

REGION	SEP 2012	JUN 2012
North America	32%	30%
Europe	28%	27%
Asia and Other	16%	16%
Japan	15%	15%
Australia	1%	1%
Cash	8%	11%
Shorts	16%	15%

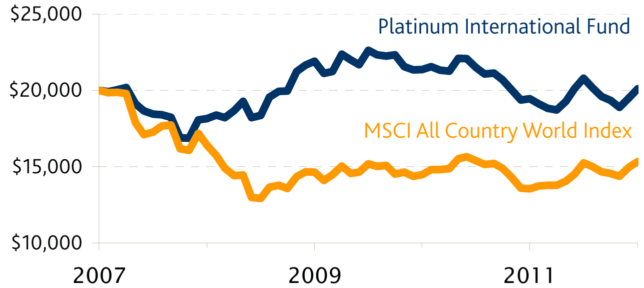
Source: Platinum

Performance

The simmering uncertainty that had been emasculating markets faded as the quarter advanced. The speech by the president of the European Central Bank (ECB) on the eve of the summer Olympics where he declared, "…the ECB is ready to do whatever it takes to preserve the Euro. And believe me, it will be enough" set markets alight. This was followed by the German Constitutional Court approving Europe's bailout fund, Dutch voters giving overwhelming support to pro-European parties in their national election, and then the announcement of Quantitative Easing (QE3) by Federal Reserve Chairman, Ben Bernanke. This announcement was very clear regarding their intent to keep the Fed funds rate close to zero into 2015, with the target of bringing down the unemployment rate to between 6.5% and 7%. The expenditure on bond buying suggests that the Federal Reserve will increase its balance sheet by at least another $1 trillion! The Bank of Japan is also stepping-up its bond buying programme but as was learned in the 1930s, those who move slowly suffer from relatively firm currencies.

Value of $20,000 Invested Over Five Years

30 September 2007 to 30 September 2012



Source: Platinum and MSCI. Refer to Note 2, page 40.

These assurances saw all major markets, barring Japan which fell by 2.3%, rise by between 5% in the US, to 14% in India (A$ terms). Overall, the MSCI World Index rose by 5.3% for the quarter and 13.1% for the last 12 months. The International Fund is starting to gain traction with good returns from both price makers and price takers[1] notwithstanding the market's perception of lower risk. There are still, however, areas of disappointing performance such as Japan, China and in the context of the gold price, gold shares. For the quarter, the Fund earned 3.8% and for the year, 3.3%; thus trailing the MSCI World Index.

MSCI World Index Regional Performance (AUD)

REGION	QUARTER	1 YEAR
India	14%	0%
Germany	12%	17%
Hong Kong	11%	21%
Australia	9%	15%
Korea	8%	14%
Asia ex Japan	**8%**	**12%**
Europe	**7%**	**10%**
Emerging Markets	**6%**	**9%**
France	6%	5%
United Kingdom	6%	13%
Developed Markets	**5%**	**14%**
United States	**5%**	**21%**
China	3%	10%
Japan	**-2%**	**-8%**

Source: MSCI

MSCI World Index Sector Performance (AUD)

SECTOR	QUARTER	1 YEAR
Energy	8%	12%
Financials	7%	15%
Health Care	6%	18%
Materials	6%	3%
Information Technology	5%	18%
Telecommunication Services	5%	9%
Consumer Discretionary	5%	16%
Consumer Staples	4%	14%
Industrials	3%	12%
Utilities	-1%	-2%

Source: MSCI

Shorting

While we are running short positions at lower levels, around 16%, these are still not proving profitable during periods of 'risk on' and are detracting from our overall returns. As the performance of stocks becomes more divergent with the perception of there being **lower tail risk** on account of QE, our opportunity will improve. The erratic moody markets of the last three years have caused us to run losses on the shorts by contrast to the huge gains we realised in the immediate aftermath of the GFC.

Currency

The implications of wholehearted money creation by the Fed persuades us to reduce our US dollar exposure in favour of the Euro. Perhaps not a perfect choice in a highly imperfect world. Our current position is 46% US and Hong Kong dollars, 32% in the Euro and other European currencies, 14% various Asian currencies, 6% in the Canadian dollar and 2% in the Australian dollar.

[1] Price makers are those companies which have a degree of freedom to set prices i.e. companies that provide unique products and services such as drug makers, strong consumer brands, both durable and consumable, as well as some IT companies. By contrast, for price takers, the vast majority, the price is dictated entirely by market forces (miners, energy producers, pulp and paper makers, financials and some industrials).

Changes to the Portfolio

Initial positions have been established in **Sberbank**, the dominant bank in Russia; **Lloyds Banking Group**, the largest bank in the UK; **Casino Guichard-Perrachon**, an interesting retailer with businesses in France and strong positions in Brazil, Colombia, Thailand and Vietnam; **Las Vegas Sands Corp**, the owner of significant casino operations in the Macau and Singapore; and **Baker Hughes**, the oil and gas service company to complement our holding of Halliburton. We used periods of stock price weakness to add to our existing holdings in Microsoft, Google, Toyota, Sina, Sohu and Ericsson.

To fund these purchases we *sold out* of **China Mobile, Fraser and Neave, and Allianz Insurance**. After a very strong 12 month run of between 40% to 80%, we chose to *reduce* positions in several of our price-making companies such as **Pernod Ricard, Henkel, Amadeus, Gilead Sciences and Sanofi**. Underpinned by bids, we reduced our positions in **TNT Express and Nexen** in order to deploy the funds in companies that have been laggards.

Commentary

It is likely that investors have had their fill on the subject of QE, fiscal rectitude, conditional assistance to European governments[2] and the rhythm of 'risk-on' and 'risk-off'. For all their apparent relevance, we have noted frequently that the behaviour of individual stocks can be in total apparent contradiction to these supposedly over-arching issues. In Spain, for example, our principal investment, Amadeus, has completely ignored the chaos surrounding it and outperformed the index by 60%; rising in the last 12 months in a €12 to €18 range per share. Likewise in China, where the market has been weak over the year, China Mobile has risen by 15%. All eyes have been focused on the runaway success of the world's largest listed entity, Apple, which we do not own, and which has risen by 64% over the last 12 months. Less attention has been paid to the dominant smartphone maker, Samsung Electronics, which we do own, and which has risen by 59% over the same period. With this in mind, it seems more useful if we outline the case we see for our two largest holdings and a third holding which has a very different pay-off profile.

When one mentions **Microsoft**, investors may express concerns about the historic bond between PC/laptop sales and the refresh cycle of sales of the Windows operating system. This pattern is progressively fading with the shift to the Internet and the rise of smartphones and sophisticated tablets. The arrival of employee-owned tablets at the workplace is a paradigm shift that creates new challenges for IT departments. It is also a challenge for Microsoft, but it could also be an interesting opportunity.

Gone are the days when the company could imperiously set a dollar price for pre-installed operating system software; trying to extract a fixed software fee of between $40 to $90 for each PC sold for say $1,000, is a very different proposition to providing the same software for devices selling for $200-$600 each or less. Fortunately, as tablets became ubiquitous because of their low price and remarkable capability, the revenue implications for Microsoft need not be deleterious. Much faster ownership cycle times and the potential to sell other software and services could be accretive. **Microsoft's opportunity stems from the fact that they have produced both an innovative touch interface for Windows and still they maintain a near monopoly in office productivity software.** The combination of these puts the company in a unique position. With the release of the Windows 8 operating system, the company is attempting to **bridge this gap** and give the user the benefit of touch technology that also syncs with their workplace functions.

Reviews to date have been lukewarm but the leading device makers are supportive with new tablet designs, and Microsoft itself is launching the **Surface tablet**, together with a rapid rollout of its own retail outlets. A product that rivals those of one's customers obviously creates tensions within the supply chain but fortunately, Apple has created a large price umbrella with the bill of materials (BoM) accounting for only about half of an iPad's selling price; there can therefore be reasonable co-

[2] For those wanting to go beyond the attention-grabbing headlines and who wish to assess the real changes that have been made by some of the troubled countries in Europe, please read Clay's Platinum European Fund report beginning on page 15. In essence, he shows swingeing cuts to government expenditures in Greece and Spain between 2009 and 2012. Excluding interest payments, Greek Central Bank outlays have shrunk by a quarter and tax revenues have risen from 38% to 42% of a diminished GDP. Spain and Italy have followed the same course though with much less intensity with each being willing and able to raise gross tax revenues by 4% and 7% respectively.

habitation so long as the Surface is priced towards the top of the pricing range. The **danger** is that if the tile-based metro function of Windows 8 and Windows phone 8 fail to achieve widespread acceptance, the **relevance on the Windows operating system** could wither.

While the headlines might remain on PCs/laptops and tablets, **the core of Microsoft's business has long shifted.** Two thirds of profits are now derived from the enterprise-focused businesses of Server and Tools, and Microsoft's Business Systems. Profits from these businesses have been growing at double digit rates as the company gradually shifted from a defensive posture that tried to protect the Windows operating system, towards a more offensive posture with virtualisation and web hosting. While admittedly slow reacting and at times confused, the company has progressively enhanced these products and they are being well-received. On account of its huge installed base, Microsoft **can continue its historic marketing gambit of bundling, which together with linked-in peripheral services** can provide a highly profitable competitive edge.

Without wishing to trivialise the challenges, the commentary about the company and its valuation suggests that there are **very low expectations** being priced into the shares. Net of cash, current free cash flow would allow one to **recover one's investment within seven years!** We feel this is a remarkably low valuation for a company with such a huge installed base, strong independent value-added reseller (VAR) and developer support, and a business that is not in run-off mode. Even if the tile-based touch interface is poorly received[3], we believe there is enough momentum from the company's other divisions, for the group to achieve low single digit growth (pre-share buy-backs).

The market seems to be emphasising the downside risks of potentially wasteful acquisitions and technological substitution, with virtually **no credit being given for the company's unique position** as the principal global productivity tool provider (the Office suite) to users of computational devices. A free cash flow P/E of 10x for Microsoft is, in our view, a lot more interesting than the 14x one pays for the mythical *average company* in the S&P 500 Index which incidentally needs higher retentions to grow.

Toyota, held through Toyota Motor Corp and Toyota Industries, is the largest combined holding in the portfolio at 3.2%. Having once been regarded as an all-conquering Leviathan with more cash on hand than many banks, it is now treated as a corporate cripple. Even within the company, it is acknowledged that their former focus on size and market share was an error and under the leadership of Akio Toyoda, a descendant of the founder, the company has been on the comeback trail.

- Reporting lines have been streamlined, management layers removed and the new CEO takes personal interest in product design/development.
- Design philosophy has shifted to emphasise a more exciting driving experience, while maintaining the traditional high design standards and reliability upon which the group was built.
- In production, a modularity concept similar to that pioneered by VW is being implemented with commonality of inherent designs. Local sourcing has been extended, and two thirds of the company's nine million car capacity is located outside of Japan. One third of output is in emerging markets.
- Evidence of a more open culture can be found in co-operation agreements such as those with BMW where Toyota is sharing its lithium-ion battery technology, while BMW will supply compact diesel engines. This co-operation with BMW is now extending into hybrid drive systems and fuel cell technology.

The benefit of all these changes is still to be revealed. Following recent refreshes of the Prius and Camry, we will see renewal of 34 models ranging from the Lexus, Crown, RAV4 and others hitting the showrooms from now until 2013. What is undeniable is the company is experiencing runaway sales in the important US market, up 41% and 36% year-on-year in August with both the Toyota and Lexus brands. Presale orders

[3] To date about 40% of enterprises have upgraded to Windows 7 and the discussion around the adoption of Windows 8 is a whole subject on its own. We believe the compromise of a touch screen, operating in conjunction with mouse and keyboard, will face several initial hurdles as it attempts to become accepted by mainstream enterprise users. However, Nokia showed how fickle users can be and it is not improbable that the tile-based interface on mobile devices, with their ability to simultaneously run multiple apps, could gain a solid following by users and manufacturers who are seeking product differentiation.

for one of its new designs, the FT-86, designed in conjunction with the 16% owned associate, Subaru, go beyond anyone's expectations; the waiting list for the GTS model is 18 months. For the current year ending in March 2013, Toyota (including subsidiaries Daihatsu and Hino trucks) plan to sell 8.8 million cars, with over one million of these being hybrid drives. According to their guidance they plan to make operating profits of ¥1 trillion (more than US$12 billion) this financial year.

Of course, there are negatives which include an increasingly **crowded field of car brands** led by the Korean champion, Hyundai; the still-large production base in Japan and the **on-going animosity** between China and Japan. This is significant given the fact that China is likely to account for around 20% of the global car market for some time to come. There is also the negative tag of being **unfriendly to shareholders**, with the company sitting on cash and investments that amount to about $90 billion and compared with a market capitalisation of $125 billion.

This incidentally shows how cheap the company really is. If one segregates the commitments of the auto finance business as a stand-alone activity, pre-tax earnings from auto manufacturing should total around US$11 billion, which on a netted-off capitalisation (market value less net cash and investments) of US$41 billion, gives a buy-out yield of 26%. On other look-through business valuation measures, it is just as enticing.

Sina is a very different prospect to the two mentioned above. From its origins as a news portal, the company launched its Weibo microblogging site (Twitter-like) in August 2009. This has been a huge success as measured by the growth in the number of registered accounts which now total 368 million with 36.5 million daily active users. The huge development effort of the last 18 months, which has seen the employee count double to 6,000 has focused primarily on the **user experience.** The current beta version 5 promises added features that move it further towards a **social network platform** where Tweets can be directed specifically to close friends/group postings, as well as a potential dating platform where users can enter personal relationship information, status and mood. There is also a facility to prioritise how Tweets appear on a user's page.

The big **challenge ahead is how to monetise this platform**. The company is developing several models including 'top feed' where the advertiser's message is shown at the top of the screen once every 24 hours. Alternatively, enterprises can attach a succinct corporate message to specific Tweets, for example, Adidas, congratulating team members during the Olympics or contextual adverts that are related to keywords in a Tweet.

As far as we can assess, the issues around **user identity** have been largely resolved by the requirement of recording one's mobile phone number. The real risk to the company lies in **substitution**. Tencent, which started life as an instant messaging service looks the closest contender because of its profitability and larger user base. It is attempting to use its messaging app, WeChat, to link with its own Weibo site. The character of its offer and the demographics of its users are markedly different to those who are attracted to Sina Weibo. Fortunately, Sina continues to make good returns on its own portal and is able to fund the development costs which pertain mainly to commercialisation. The market is aware of this blue sky potential but if Sina is able to monetise Weibo at $50 million a quarter as is anticipated by management, the company will enter a new phase of its development. As noted above, the **pay-off quotient** for Sina is significantly different to that of the two larger companies mentioned. This concept forms an important building block in the construction of the portfolio.

Outlook

The market seems to be entering a new phase. Action by major Central Banks is seemingly reducing the sense of anxiety within markets. To the extent that money has been priced at artificially low levels there is also some effect on the real economy in terms of consumer's ability and willingness to borrow. The strategy of buying highly predictable companies may prove less fruitful in coming months as investors cautiously add more cyclicality to their portfolios. As has been noted over the last year or so, we are well-placed to participate in this more diffuse environment. There are many economically sensitive companies that are already priced for weak demand.

Platinum Unhedged Fund

Jacob Mitchell Portfolio Manager

Disposition of Assets

REGION	SEP 2012	JUN 2012
North America	34%	34%
Europe	25%	23%
Japan	17%	22%
Asia and Other	14%	16%
Cash	10%	5%

Source: Platinum

Portfolio Position

Changes in the quarterly portfolio composition:

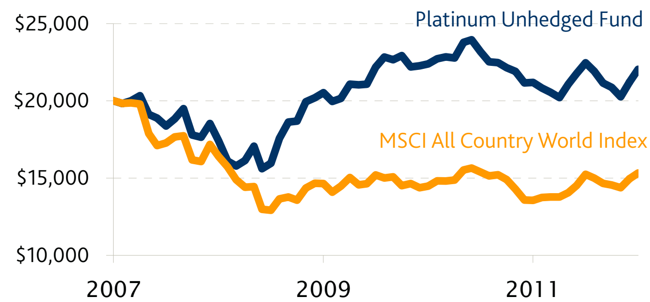
Sector Breakdown

SECTOR	SEP 2012	JUN 2012
Emerging Asia Consumption	14%	16%
Technology	12%	15%
Healthcare	11%	10%
Energy	10%	10%
Mobile Data	10%	9%
Western Financials	10%	10%
Western Consumer	7%	7%
Gold	6%	6%
Japanese Reflation	5%	7%
Capital Equipment	3%	3%
Materials	1%	1%
Other	1%	1%
Gross Long	90%	95%

Source: Platinum

Value of $20,000 Invested Over Five Years

30 September 2007 to 30 September 2012



Source: Platinum and MSCI. Refer to Note 2, page 40.

Performance and Changes to the Portfolio

Over the last 12 months the Fund rose 4% underperforming the MSCI All Country World Index (A$) benchmark by 9.1%, and over the past quarter the Fund rose 5.6% slightly outperforming the benchmark return of 5.3%. The Fund's recent performance has been disappointing. Our major error has been to back the challenger offering a new product cycle in markets dominated by entrenched competition. This is reflected in the losses we have suffered in our PC food-chain related stocks, Marvel and AMD.

The good news is that during the quarter our North American holdings in aggregate, the part of the Fund that has most lagged over the past 2.5 years (in stark contrast with the MSCI North America Index 17% outperformance over the World Index), finally leapt into life with the key contributions coming from Stillwater Mining, Nexen (subject to a takeover offer from CNOOC), Foster Wheeler, KBR, Gilead and Google. Regular readers will be familiar with the investment rationale behind each of these holdings save Google, which we built into a significant holding during the quarter (see below).

Over the past 18 months we have steadily increased exposure to Europe from 13% of the portfolio in June 2011 to 23% at the beginning of the September 2012 quarter, ending the quarter at 25%. Some of the acquired stocks became attractive candidates as a direct result of the Euro crisis e.g. Deutsche Börse and Lloyds Banking Group (see below), whilst for others the investment rationale has been far more stock/thematic specific (e.g. Qiagen and Vodafone).

Once again, whilst the Japanese market was one of the worse performing globally, down 2.3%, our Japanese holdings in aggregate returned a positive 4% with key contributions from our mid-cap retailers Pal, Ryohin Keikaku and Ain Pharmaciez. The absolute valuation attractiveness of our key large holdings in Japan is startling: the top tier of Japanese business is available at around book value. Further, there is no such thing as non-GAAP earnings in Japan; companies tend to understate their earnings as most still amortise purchased intangibles, a practice that has ceased in most jurisdictions. The counter-argument regarding the broad attractiveness of the Japanese market is that the number of companies that could be classed as top-tier shrinks by the day as an overvalued Yen and an inflexible response takes its toll. We agree and we do not own these companies.

Having closely followed Google's valuation de-rating over the past five or so years (from 2007 pre-GFC P/E of 40x), we refused to accept that this killer was appropriately valued on 14x current year earnings and, hence, over the past couple of quarters built-up a large position at an average entry price of around $600. The market at the time seemed hung-up on two major concerns: firstly, core growth in Google's paid search, with the transition to mobile search potentially cannibalising lucrative PC search and secondly, the rise of Facebook in display advertising, an area of perceived weakness for Google. After much internal debate with key input from some of the more 'connected' younger members of staff, we concluded that the company had positioned itself extremely well in both the mobile world (via Android) and display advertising world (via double-click and YouTube). Our investment proved timely with the stock at quarter-end up 25% on our purchase price and the market belatedly acknowledging the perceived risks to be misplaced. Given that we assess Google's two key end-markets, online paid search and display advertising, are both growing at high double digit rates, the stock can sustain a much higher P/E rating.

With Microsoft now available on a P/E of 10x, we wonder whether very 'obvious' but unjustifiable concerns (possible failure in mobile, tablets, the cloud, the 'death' of the PC etc), are providing an opportunity, similar to Google, to acquire a leading franchise at a bargain basement price. On a balanced assessment, Microsoft's failures could be described as missed opportunities rather than terminal errors as the business remains highly entrenched at the enterprise level with EPS growth continuing at a 10-12% pa pace. Further, as Kerr details in the current Platinum International Fund quarterly (pages 6-7), the company has quite deliberately pushed product development towards 'the cloud' and touch-screens resulting in a major new product cycle: Window's 8 for mobile, tablet and desktop (the first truly converged operating system), the Surface, Office 365, Dynamics CRM, Azure, Windows Server 8 etc. We also suspect that this positioning for the cloud has weakened the internal management dominance of the Window's operating system division which in the past may have stifled much needed innovation.

Commentary and Outlook

With US, German and Japanese ten year bond yields ranging from 0.8% to 1.8%, the market is clearly discounting a low developed world nominal GDP/profit growth environment, and given how high Western aggregate debt levels remain, and the stretched nature of the after-tax corporate profit share, it is hard to argue against such a view. Also, periodic bouts of necessary deleveraging will ensure the typical Western household's liquidity preference remains high, as will the need for certainty. Against this backdrop, the characteristics that have been defining equity market performance are unlikely to change, that is, large capitalisation multi-nationals that represent low-risk (category dominance, product substitution, regulatory etc) with some secular growth (as opposed to cyclicality or uncertain growth).

This doesn't necessarily mean that the favourites of the past five years, branded multi-national staples, will continue to lead the market. We think equity investors will find it far more prospective to look for companies that offer some of these 'franchise' qualities in less obvious parts of the market. This may best be illustrated by way of one of our recent acquisitions, Lloyds Banking Group.

Lloyds is the UK's leading retail bank. Its 2008 purchase of HBOS left it crippled by an unacceptably large dependence on the bond market for funding. While a new CEO with excellent credentials has done an admirable job in his first 18 months at the helm, the stock market remained fixated on Lloyd's vilification in the media for past misdeeds, a sovereign debt crisis in Europe and a regulator determined to overcompensate for years of leniency. This provided an opportunity to purchase a holding on a prospective P/E multiple of around 4x, on earnings we think the company can earn even if the UK economy remains stuck in a rut.

To us, the fundamental attraction of this business is that one in four UK households depends on Lloyds for their day-to-day banking. This is twice the market share of the nearest competitor. In the distant past, this **relationship with depositors** had tremendous value as it was the **doorway to other lucrative business** like mortgage lending, credit cards and so on. In the boom years, aggressive competitors used the bond market and mortgage brokers to circumvent the need for these relationships, along with the need for deposits and even capital. But the world changed in 2008. Those competitors are gone. The bond market isn't going to repeat its mistake in a hurry and regulators are in no mood to allow it. A tremendous moat is reappearing around Lloyd's business and for the first time in years, UK banks are learning what it means to have some pricing power. As the Lloyd's new CEO continues to rebalance the bank we expect the market to take notice of the restored profitability and the cash flow which will accompany it.

In summary, similar to Google, Microsoft and Lloyds, we think many of our large holdings represent not only excellent value, but are also primed to deliver results that will trigger a reassessment of their longer-term business prospects.

Platinum Asia Fund

Andrew Clifford Portfolio Manager

Disposition of Assets

REGION	SEP 2012	JUN 2012
China (Listed Ex PRC)	18%	17%
China (Listed PRC)	6%	6%
Taiwan	4%	5%
Hong Kong	1%	2%
Greater China total	**29%**	**30%**
Korea	16%	15%
Thailand	15%	17%
India	9%	9%
Philippines	8%	8%
Singapore	6%	6%
Malaysia	5%	5%
Indonesia	2%	1%
Vietnam	1%	1%
Canada	1%	1%
Cash	8%	7%
Shorts	1%	1%

Source: Platinum

Performance

Performance (compound pa, to 30 September 2012)

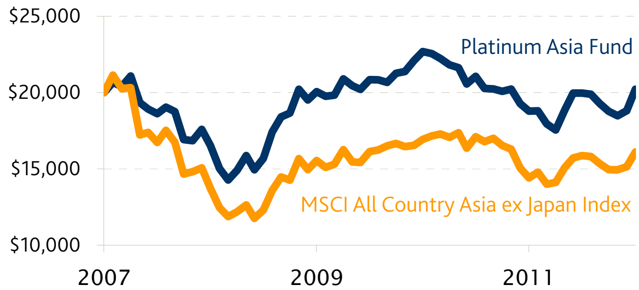
	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Platinum Asia Fund	8%	8%	0%	0%	15%
MSCI AC Asia ex Jp Index	8%	12%	1%	-4%	9%

Source: Platinum and MSCI. Refer to Note 1, page 40.

While the Asian markets enjoyed a healthy bounce of nearly 8% during the last quarter, regaining the losses of the prior three months, the performance can probably be attributed to the general relief seen globally: that the European Central Bank would act to resolve (at least for the moment) sovereign debt problems in Spain and Italy, more so than any improvements in the fortunes of the Asian region.

Value of $20,000 Invested Over Five Years

30 September 2007 to 30 September 2012



Source: Platinum and MSCI. Refer to Note 2, page 40.

If anything, the economic data coming out of China has continued to indicate a declining growth rate and with a change in the country's leadership due in October, there has been little in the way of significant policy measures to reverse this decline. China's stock markets followed a distinctly different path to the rest of the region, with the Shanghai A share index falling more than 6% and the Hong Kong H share index returning a mere 2.7% gain for the quarter.

The one positive to be found was in India where the government made a number of reform announcements that gave the market hope that the gridlock in Indian politics has been broken and that action on reducing the country's fiscal deficit had commenced. While this conclusion is quite possibly premature, it nevertheless resulted in a healthy 12% gain in Indian stocks, one of the best performers across the region.

The Fund returned 7.7% for the quarter performing in-line with the market. Consistent with the markets moves generally, the Fund's holdings in India, Korea and Thailand featured amongst the best performing stocks. In particular, United Spirits (Indian spirits business) rallied 80% as it was revealed Diageo had entered talks to take purchase of a controlling stake from the Mallya Group who continued to struggle with ongoing losses and resulting indebtedness of Kingfisher Air. The Fund's Chinese holdings continued to drag down performance.

Changes to the Portfolio

While there was little change to the net invested position of the portfolio over the quarter, underneath the surface there was a reasonable degree of activity as strong performers were sold to make way for new or better ideas. Amongst stocks sold were Fraser and Neave (regional beverages and property) which rallied strongly as a result of a bid for its Asia-Pacific breweries business by its joint venture partner, Heineken. Other strong performers that were sold down included our Indian cement stocks, Ambuja Cements and Madras Cement, as well as Airports of Thailand. New holdings included Sands China, an operator of Macau based casinos that is well-positioned to take advantage of the growth in the mass market gaming customer base of China and the region. We took advantage of weak markets to add to our positions in Chinese Internet names, Sina (microblogging) and Youku (online video), as well as an old favourite, Samsung Electronics, that despite patent issues continues to do well in smartphones and a range of underlying technology and components.

Commentary and Outlook

There is little question that China's investment boom has slowed dramatically. The collapse in iron ore prices in recent weeks serves to underscore this reality for even the most fervent believers in China's growth story. While China has not finished building apartments, roads, rail lines and ports, it is our view (as discussed at length in past quarterlies) such investment is at close to peak levels. This is not to say that there are not interesting opportunities in China, as there are parts of the economy where there are significant ongoing development opportunities. While it is often observed that the consumer side of China's economy has lagged, this represents a wide range of sectors from Internet and media, to automobiles, as well as the more obvious consumer products such as beer and milk. Indeed, the opportunities are far ranging, as Platinum analyst Andrew Baud highlights in his report (pages 34-35) on the developments in the agricultural sector.

The speed at which the economy makes the transition will be a function of the extent the government allows the market mechanism to work to reallocate resources. With the country's new leadership expected to be announced in late

October, there is an expectation from some that a raft of policy measures to get the economy going will be forthcoming. While this may occur and be the cause of some excitement in the market, the bigger issue is whether the new government returns to a more market sensitive approach that was allowed to flourish before 2008. Either way, the weak performance of Chinese stocks has placed them on valuations that are highly attractive even if growth remains relatively subdued.

In India, the government made a number of announcements in mid-September including reductions in subsidies on diesel and liquefied petroleum gas, relaxing rules on foreign direct investment in the retail and airline sectors, and that it intends to sell government stakes in a number of state owned enterprises. There have also been statements about the need to restructure the debts of the State Electricity Boards, which cause one of a number of impediments to the development of an efficient electricity sector in the country. While all these moves are positive, much more will need to be done to improve the country's fiscal position.

It is also not entirely clear what spurred this sudden activity though the loss of one coalition party of the Congress-led government probably gives one an idea of what had been holding the government back. In India, the path from announcement to implementation is always far from straightforward but at least for the moment the government has started to act on a number of outstanding issues. Certainly investors have greeted the announcements with enthusiasm with much of India's 12% gain coming during September.

Platinum European Fund

Clay Smolinski Portfolio Manager

Disposition of Assets

REGION	SEP 2012	JUN 2012
Germany	42%	40%
France	16%	17%
UK	16%	15%
Italy	4%	3%
Spain	3%	3%
US*	2%	2%
Netherlands	2%	3%
Sweden	2%	2%
Belgium	1%	1%
Russia	1%	0%
Finland	0%	1%
Cash	11%	13%
Shorts	8%	1%

* Pulp stock listed in the US but predominant business is conducted in Europe

Source: Platinum

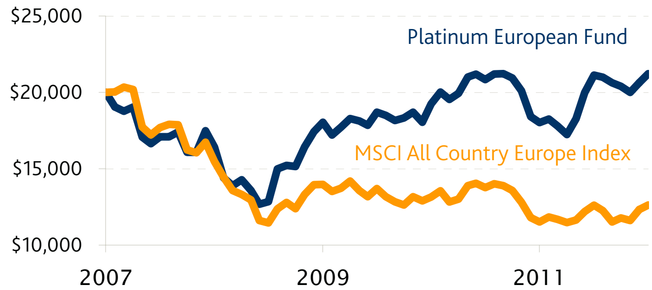
Performance

European markets rallied over the quarter after Mario Draghi, President of the European Central Bank (ECB) made a pledge to provide unlimited funding to the struggling peripheral governments. Large gains were made in all markets, with the Spanish +22%, Italian +18%, German +18% and French +15% markets the frontrunners.

The performance of individual stocks and industries was almost a mirror image of the price action seen from the previous quarter, with sectors harbouring the most fear over a Euro break-up rebounding hard and the defensives being left behind. The best performing sectors were predictably the financials (Soc Gen +22%, ING +22%, Unicredito +21%), the cyclicals (Lanxess +31%, ThyssenKrupp +28%, Michelin +19%, Holcim +17%) and anything with heavy exposure to Italy or Spain.

Value of $20,000 Invested Over Five Years

30 September 2007 to 30 September 2012



Source: Platinum and MSCI. Refer to Note 2, page 40.

On the currency front, the major move over the quarter was the strengthening of the Euro, which rebounded from a low of €1.22 to the US dollar, to finish at €1.30. The reason for the strength was both the funding plan by the ECB, which pushes out the Euro break-up fears in the mid-term, and the renewed commitment of the US Federal Reserve to their Quantitative Easing 3 (QE3) money printing programme.

Measured in Australian dollar terms, over the past three months, the Fund was up 4% versus the MSCI Europe Index which was up 7.2%. Calendar year-to-date the Fund has returned 23.1% versus the Index which is up 10%.

Changes to the Portfolio

Given the strong rally in share prices across the board, much of the activity during the quarter was trimming our holdings in a number of stocks that had performed very well or exiting holdings where our initial reason for holding was no longer valid. In that respect, we trimmed our positions in the French laboratory tester **Eurofins**, drug giant **Sanofi**, African auto and pharmaceutical distributor **CFAO**, and luxury auto maker **BMW**. We completely exited our position in Finnish paper producer **UPM-Kymmene** at a modest profit in favour of deploying the funds in businesses with better long-term prospects.

One sector where we did open new positions during the quarter was in the financials, namely in Italy's **Intesa Sanpaolo** and Russia's **Sberbank**.

The position in Intesa is opportunistic, taking advantage of the sovereign fears that pushed the valuations of the Italian banks to extreme lows. Intesa is similar to Lloyds in the UK, a profitable, reasonably well-capitalised bank and whose business is predominately serving the domestic retail market. In late July, the valuation of Intesa reached lows of 0.3x P/B and 5x P/E, based on fears of future losses on their holdings of mostly Italian sovereign bonds and higher loan losses as the Italian government's budget cuts would force the economy into a harsh recession.

As we show in our commentary, we felt the fear around Italy and hence Intesa had been over-played, and in any case the concerns were more than discounted in the price. Longer-term we doubt the Italian banking market will show much growth and therefore Intesa is not a buy and hold investment, but with the stock price rebounding nicely since our initial purchase, it has been a profitable trade.

In contrast, **Sberbank** which controls 55% of the Russian deposit base has considerable long-term potential. Russia is a major beneficiary of the high oil price, and after years of running massive current account and budget surpluses, the government is now allowing the oil wealth to flow down to the wider economy via increased budget spending and higher wages. In addition, foreign direct investment is growing as multinationals are increasingly building out their businesses within Russian borders, a trend which will be helped by the country's recent admission into the World Trade Organisation.

When considering an investment in Russia there is always a concern about the rule of law and governance, and Russia rightly trades at a discount. However, with Sberbank trading on a P/E of 6x versus banks in other emerging markets like Turkey, Hungary and South Africa trading on 10-11x, it is clear investors are already tarring it with a fairly heavy brush. The size of the discount is interesting to us as the big picture for Sberbank and the Russian banking market looks great[1] and the Putin government has put forward a policy of reform aimed at reducing corruption, improving the legal system and trying to transform the economy from a mere commodities exporter to one with a significant technological and science-driven manufacturing base.

We have often seen these 'risk discounts' placed on emerging markets fade over time (think India, Indonesia etc) and with Sberbank's business and earnings currently growing at 20% pa, we feel Sberbank will be a solid investment if the status quo is maintained and a spectacular investment should reform in Russia really take hold.

[1] In our favour, we have an economy with the tailwind of high energy prices, an almost debt free government, a private sector that needs to invest in infrastructure and an educated population who are experiencing rising wages and have little existing borrowings.

Commentary

Over the past two years the European stock markets have danced along to a recurring pattern. The steps have been: 1. the market sells down on the latest evolution of the European sovereign crisis, 2. investor panic intensifies as European policy makers publicly disagree on an appropriate solution, and 3. eventually a substantial policy response is agreed upon and the stock market goes on a massive relief rally. Having seen this sequence play out in February 2010, August 2011 and most recently in May 2012, investors are pondering whether the latest funding plan by the ECB signals a turning point that will break this pattern of crisis escalation.

The ECB's offer is essentially this – they will provide unlimited low cost funding to a country in need, IF that country makes a written agreement to execute a deficit reduction plan supervised by the International Monetary Fund (IMF). This is a very powerful tool, as it completely removes the doubt over long-term financing. With financing taken care of, the key issue that will determine the future of the Euro is whether the peripheral governments can balance their budgets without disenchanting their public to the point they vote to exit.

Readers have probably noted the financial press is fairly poor in communicating any real detail of what the governments have actually achieved in reducing their budget deficits; instead we generally just get lots of emotive articles about the lack of spending cuts etc. Therefore, in order to make a judgment on what the path to fiscal redemption will look like, it is worthy to lay out the basic facts around the government's current budget positions, what action they have taken, and what further they need to do. For this exercise we will concentrate on Greece, Italy and Spain.

Greece

Greece makes an interesting case study; as the first country to be engulfed by the crisis it has been working on its fiscal adjustment programme for the longest.

The first thing you will notice here is the oft repeated view that the Greek government has 'done nothing' to fix its budget is a **myth**. Points to note:

1. The government has not been able to increase its overall revenue take in the face of a rapidly shrinking economy. The government has raised taxes and improved tax collection (note how revenue has grown as a percentage of GDP) but this has been offset by a lower income base to tax.

Greek Government Finances (Euro bns)

	2009	2010	2011	2012	Change 2009 to 2012
Total Revenue	**85**	**83**	**81**	**79**	**Down 6bn, -7%**
GDP	224	213	198	188	Down 36bn, -16%
Revenue as a % of GDP	38%	39%	41%	42%	
Expenditure					
Wages	31	27	26	24	Down 6bn, -20%
Welfare Payments	49	47	46	43	Down 6bn, -12%
Goods, Services and Other	20.5	17.3	14.5	13.1	Down 7bn, -34%
Net Capital Expenditure	9	4	4	2.4	Down 6.5bn
Interest on Outstanding Debt	12	13	15	13	
Total Expenses	**121.5**	**108.3**	**105.5**	**95.5**	**Down 26bn, -21%**
Total Expenses ex Interest	**109.5**	**95.3**	**90.5**	**82.5**	**Down 27bn, -25%**
Total Deficit	**-36.5**	**-25.3**	**-24.5**	**-16.5**	
Primary Deficit (ex interest payments)	**-24.5**	**-12.3**	**-9.5**	**-3.5**	

Source: Greek Ministry of Finance and IMF

2. They have been able to implement large cuts to spending, and this has not just been limited to the less politically sensitive areas like the purchase of third party goods and capital expenditure. The public sector wage bill and welfare payments are down -20% and -12% respectively since 2009.

3. Since 2009, Greece has seen its economy shrink by -16%, its government cut spending by -25% and its unemployment rate increase to 23%. While the election was close, despite this environment the citizens have voted to remain in the Euro.

All up the Greek government is close to achieving a primary balance (revenue minus all non-interest expenditure); however, if we include their interest bill they still need to find another €16 billion to balance their books. To do this without growth in revenue would mean the government needs to cut its non-interest spending by another -20%, which is simply unrealistic. You can see why there is more serious discussion at the European level around a stimulus plan to restart economic growth in Greece, and we would not be surprised to see Greece seek further forgiveness of interest at some stage.

Italy

It is clear the position of the Italian government is far better than the news headlines suggest. They are on track to record a €44 billion *primary surplus* by the end of this year.

Points to note:

1. The majority of the adjustment by the Italian government to date has been via increased taxes. They have successfully pushed through tax increases to the tune of €51 billion, while the economy in nominal terms has grown slightly.

2. The government has done little in the way of reducing expenses. They have made cuts to the usual 'easy' areas of capital expenditure and other sundry expenses. Welfare costs have increased by €24 billion, whilst the wage bill and purchases of third party goods and services are flat. Total non-interest expenses have fallen by only -€5 billion since 2009, a reduction of less than 1%.

Italian Government Finances (Euro bns)

	2009	2010	2011	2012	Change 2009 to 2012
Total Revenue	**705**	**713**	**726**	**756**	**Up 51bn, +7%**
GDP	1,533	1,550	1,578	1,575	
Revenue as a % of GDP	46%	46%	46%	48%	
Expenses					
Staff Wages	171	172	170	169	Flat
Welfare Payments	336	344	352	360	Up 24bn, +7%
Use of Goods and Services	89	90	89	88	Flat
Net Capital Expenditure	38	32	32	30	Down 8bn, -21%
Other Expenses	83	76	68	65	Down 18bn, -21%
Interest	70	70	78	87	Up 17bn, +24%
Total Expenses	**787**	**784**	**789**	**799**	**Up 12bn, +1.5%**
Total Primary Expenses ex Interest	**717**	**714**	**711**	**712**	**Down 5bn**
Total Deficit	**-82**	**-71**	**-63**	**-43**	
Primary Deficit/Surplus (ex interest payments)	**-12**	**-1**	**15**	**44**	

Source: Italian Ministry of Finance and IMF

All up, the Italian government is in a fairly strong position. They need an adjustment of €43 billion to show a fully balanced budget, and even if the whole €43 billion was achieved via spending cuts, this would only account for a -6% reduction to total non-interest spending. Historical precedents tell you this is far from an unrealistic goal, and if the Italians have modest success executing on the new deficit reduction plans issued by the current Monti government, it is highly likely that they will have balanced budget by 2014.

On this basis the fear around Italy looks over-played.

Spain

The position of the Spanish government is far weaker than their Italian compatriots. Despite some success in increasing taxation revenue and having already cut non-interest spending by €45 billion to date, they still need to find another €75 billion to be able to deliver a balanced budget.

One positive is that the Spanish government has a relatively low tax take as a % of GDP which would point to further leeway to increase taxes. The negative is that Spain has already aggressively cut capex and spending on third party goods – further progress requires them to go after the difficult areas of wages and public welfare.

The Spanish cannot be accused of ignoring the need for action and in response, the Rajoy government has released an enormous budget reduction plan. On the revenue side, VAT increases, higher taxes on fuel, alcohol and tobacco and removal of corporate tax breaks are expected to net €20 billion. Another €20 billion of expenses will be cut in the form of reducing government subsidies for prescription drugs and surgical procedures, teaching hours and classroom sizes will be increased in education, and 500 overlapping government departments are scheduled to be closed.

More importantly for the long-term health of the economy, these cuts are being accompanied by deep reform of the Spanish labour market. The power of industry-wide collective bargaining agreements are being removed, the conditions for fair dismissal of employees has been significantly broadened and once the fair dismissal conditions have been met, employers have far more flexibility to alter working hours and pay as a first option rather than automatically firing staff. In addition, if lay offs must occur, the maximum redundancy payments have been reduced. All of this will help the Spanish labour force improve competitiveness versus its European peers.

Spanish Government Finances (Euro bns)

	2009	2010	2011	2012	Change 2009 to 2012
Total Revenue	**366**	**380**	**377**	**379**	**Up 13bn, +4%**
GDP	1,046	1,056	1,077	1,083	
Revenue as a % of GDP	35%	36%	35%	35%	
Expenditure					
Employee Wages	125	124	124	120	Down 5bn, -4%
Welfare Payments	184	193	193	203	Up 19bn, +11%
Purchase of Goods and Services	61	58	62	48	Down 12bn, -20%
Net Capital Expenditure	48	42	29	18	Down 30bn, -62%
Subsidies and Other	46	41	38	30	Down 16bn, -34%
Interest Bill	19	20	26	35	Up 16bn
Total Expenditure	**483**	**478**	**472**	**454**	**Down 29bn, -6%**
Total Expenditure ex Interest	**464**	**458**	**446**	**419**	**Down 45bn, -10%**
Total Deficit	**-117**	**-98**	**-95**	**-75**	
Primary Deficit (ex interest payments)	**-98**	**-78**	**-69**	**-40**	

Source: Spanish Ministry of Finance and IMF

Overall, despite some good work the reality is the sheer size of the adjustment needed means Spain will remain the focal point of the crisis for some time to come. €75 billion represents close to 20% of current non-interest spending. As a benchmark, if most of this is achieved via spending cuts, this would mean Spain would have cut its total non-interest spending by -30% since 2009. Greece has shown reducing spending by this level is not impossible, but with a starting climate of 25% unemployment the path to doing this is guaranteed not to be smooth.

So returning to our initial question, is the ECB funding plan the turning point towards the resolution of the European sovereign crisis? The ECB funding plan in a basic sense is another extension of the bailouts we have already seen for Greece, Portugal and Ireland; funding is provided on the condition that the government balances its budget. The difference this time is that the funding is coming from a politically independent body and given the ECB's ability to print money, the size and duration of the bailout is credible.

The success the Spanish government will have in adjusting its budget and the political will of its voters remains to be seen. However, we see both parties taking a pragmatic approach. No doubt the Spanish will fall short of their initial targets, but as long as some progress is being made the ECB will continue to provide funding, and allow the adjustment to be made over a longer timeframe to soften the blow on the overall economy. If we get evidence the Spanish are making headway with their budget, it will be fair to say this ECB plan is indeed a turning point towards a final resolution of the crisis.

Outlook

After a 20% rally in stock markets, it is usually right to be cautious of a pull back, however, the fears that had led to many investors labelling Europe as 'un-investable' are only just starting to be unwound. Overall, valuations are still cheap, with many European companies trading at 20-30% discounts to their peers in the US. Given this starting point, we are still confident in making good returns for the Fund.

Platinum Japan Fund

Jacob Mitchell Portfolio Manager

Disposition of Assets

REGION	SEP 2012	JUN 2012
Japan	88%	89%
Korea	5%	4%
Cash	7%	7%
Shorts	8%	8%

The Fund also has a 12% short position in Japanese Government Bonds.

Source: Platinum

Portfolio Position

Changes in the quarterly long portfolio composition:

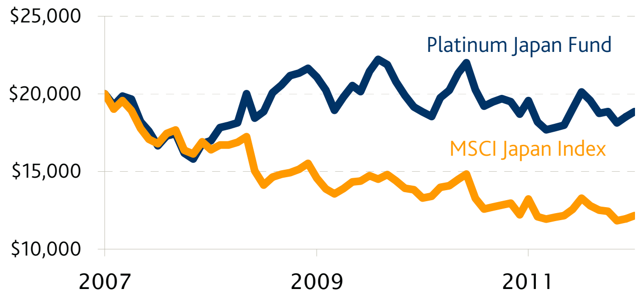
Sector Breakdown

SECTOR	SEP 2012	JUN 2012
DOMESTIC	53%	52%
Retail and Services	21%	19%
Financials	12%	14%
Telco, IT and Internet	12%	12%
Real Estate and Construction	8%	7%
EXPORT	40%	41%
Tech/Capital Equipment	18%	19%
Autos and Machinery	16%	16%
Alternative Energy	4%	5%
Commodities	2%	1%
Gross Long	93%	93%

Source: Platinum

Value of $20,000 Invested Over Five Years

30 September 2007 to 30 September 2012



Source: Platinum and MSCI. Refer to Note 2, page 40.

Performance

Over the past 12 months the Fund fell 3.6%, outperforming the MSCI Japan Index (A$) benchmark by 4.5% and over the past quarter the Fund was flat versus a 2.3% decline in the benchmark. Our star performers comprised retail/consumer (PAL, Ain Pharmaciez, Ryohin Keikaku, Calbee), telecommunications/Internet (KDDI, So-Net Entertainment, Namco Bandai) and property sector exposures (Arnest One). The Fund's large financial and auto exposures tracked sideways. Most of the quarterly performance was generated by mid-capitalisation stocks; our large capitalisation holdings continue to languish.

So-Net was subject to a takeover offer from the major shareholder Sony Corporation at a +150% premium to our average acquisition price. We acquired our holding in early 2010 as the company was trading at a significant discount to underlying assets including strategic stakes in Internet gaming company Dena and online medical portal M3. As one of the few domestic Japanese merger and acquisition actions of the recent past, it was satisfying to be on the winning end of this transaction.

Over the past 12 months, on a common currency basis, the Japanese Index has underperformed the Global Index by a very large 21% and over the past ten years by 3.9% pa. In the short-term, one could attribute this to the troika of Great Tohoku Earthquake/Tsunami/Nuclear emergency, the Thai Floods (large base for outsourced manufacturing by Japanese corporates) and the rise in Sino-Nipponese tensions – and in this sense, it is difficult to imagine what could go wrong next. However, at a deeper level, the underperformance reflects longer-term issues that could be neatly described as the Japanese culture of inflexibility.

Whilst Japanese society may not be experiencing a crisis, Japanese manufacturing is, with the pain being felt by shareholders rather than employees. We see a common pattern across some of the major exporters of using balance sheets to absorb the pricing pressure created by the very strong currency i.e. extending more attractive working capital terms to keep their domestic supply chains afloat and maintain global market share via vendor finance. This is well illustrated by a cursory comparison of the working capital management of Hitachi Construction Machinery and Komatsu versus Caterpillar. From this already vulnerable position, the slow-down in Chinese infrastructure investment and the rise of regional tensions could not have happened at a worse time for the typical Japanese exporter.

The one part of industry that is on a different cycle is the auto sector where the rebound in Toyota's North American market share has happened against a backdrop of record low inventories (the direct result of the Great Tohoku Earthquake and Thai flood disruptions).

Changes to the Portfolio

Once again changes to the portfolio were minor in nature and our preference for owning the US dollar over the Yen also remains unchanged. Whilst additional easing from the Bank of Japan would accelerate Yen weakness, there is sufficient terms of trade headwinds and pressure on the domestic corporate earnings to support a gradual decline in the currency.

Commentary and Outlook

A relevant question for the remaining Japanese equity investor is: when does the manufacturing crisis transition to a social crisis and how will the political elite respond? As we have discussed in the past, it will take a rise in unemployment via the bankruptcy of a major industrial to trigger a realignment of interests in the favour of equity owners.

In this sense, the arrival of Hashimoto Toru, the current Mayor of Osaka City, on the national political scene has some interest. Hashimoto's landslide win for Osaka City mayor in November 2011, after resigning as the sitting Osaka Prefectural governor, was a key turning point, campaigning on the basis of electoral and administrative reform, smaller government and deregulation. Most would understand that Japan suffers from weak national governments, effectively run by bureaucrats since the departure of Koizumi in 2006. Unlike Prime Ministers, city and prefectural governors in Japan are directly elected by voters. Beginning with Ishihara in Tokyo in 1999, Japan has elected a string of populist governors, primarily running on anti-establishment platforms, tapping into dissatisfaction with national politics.

Until now, local and national politics have remained largely separate. However, Hashimoto is now in the process of launching a national party (Japan Restoration Party or JRP) based on similar policies to his existing Osaka based party (One Osaka Movement or OOM). Several sitting Diet members from other parties have defected to the JRP, allowing it to be officially recognised and thus able to receive public funds. JRP intends to field 300~350 candidates in the next lower and upper house election, which invest to be called before September 2013. Given the current dysfunctionality of the Democratic Party of Japan (DPJ) -led government, it is looking likely that an earlier election may be called.

JRP/OOM recently launched their policy platform, and has called it 'Senchu Hassaku'. This is deliberately named after a proclamation issued by Ryoma Sakamoto, a widely admired and key historical figure involved in the overthrow of the Tokugawa shogunate and the push to modernise Japan. The policy offers a radical, but sensible solution to Japan's stasis. The key points are set out below.

1. Abolish the Upper House of Japanese parliament.
2. Cut the number of Lower House seats by half to 240.
3. Implement direct elections for Prime Minster.
4. Cut Diet member donations and perks by 30%.
5. Put revision of Article 9 (i.e. the pacifist article) to a national referendum.
6. End reliance on nuclear power.
7. Shift away from central government power to 9~12 semi-autonomous regions.
8. Entry into the Trans-Pacific Partnership, a multilateral free trade agreement that claims to aim to further liberalise the economies of the Asia-Pacific region.
9. Increased control over bureaucratic appointments.
10. Simplified tax system based on flat tax principle.
11. Free market economy based on competition.
12. Industrial policy based on freedom to fail.

The above reads like a Thatcherite call to arms. There were similar hopes for reforms and change when the DPJ came into to power in 2009, benefiting from voter disappointment with the Liberal Democratic Party (LDP) after Koizumi. Fast forward to 2012 and the DPJ are now widely derided, having backtracked on nearly every electoral pledge they made.

Hashimoto has far more substance. Apart from the usual media hyperbole about his controversial statements, right wing stance etc there has been very little analysis of what he has achieved since becoming Osaka governor. This is because most of what he has done delves too deep into the structure of public finances to draw interest from the casual observer. His policy has focused on the elimination of administrative waste centering on the overlap between separate administrations of Osaka Prefecture, Osaka City, and neighbouring Sakai. Thus the push has been for the creation of a single Osaka prefecture, similar to Tokyo.

Because the nature of reform that is required in Japan is rather fundamental, it will be difficult to implement. JRP is unlikely to achieve an outright majority but a coalition or independent swing outcome is possible. The incumbent political, bureaucratic and business elite have much to lose from the rise of alternatives such as JRP. The question remains though, with unemployment low and the generation X and Y politically apathetic, where is the will for change? In the meantime, we will continue to hunt for interesting companies to add to our collection of undervalued opportunities.

Platinum International Brands Fund

Simon Trevett Portfolio Manager

Disposition of Assets

REGION	SEP 2012	JUN 2012
Europe	33%	33%
Asia and Other	27%	23%
North America	8%	8%
Japan	6%	7%
Latin America	7%	6%
Cash	19%	23%
Shorts	7%	6%

Source: Platinum

Performance and Changes to the Portfolio

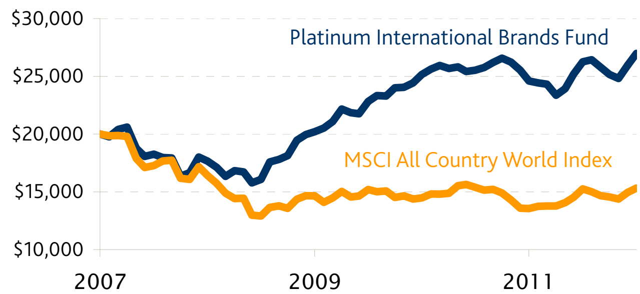
The Brands Fund rose 7.2% in the quarter, lifting the 12 month performance to 9.7%. By comparison, the MSCI World Index increased 5.3% and 13.1% respectively.

The Fund's investments in the major markets of the Asian region; Hong Kong, China and Japan continue to be poor performers offset, in part, by strong returns from investments in Pakistan, Philippines and India.

The holdings in India have been a notable drag on the Fund's performance over the past several quarters, however, much of that was recovered this quarter.

Value of $20,000 Invested Over Five Years

30 September 2007 to 30 September 2012



Source: Platinum and MSCI. Refer to Note 2, page 40.

There were two triggers. United Spirits, up over 40% in the quarter and continuing strongly on confirmation that, this time, Diageo really was in talks with Dr Mallya's United Breweries Group. It would appear that the entrepreneurial Dr Mallya might finally have reached an intractable funding crisis forcing more drastic solutions. There is no doubt that Diageo have had an ongoing interest in United Spirits; as always though it is a matter of price, complicated by whether Diageo's desire for a stake sufficient to control the company can be accommodated by Dr Mallya.

There was further encouraging news from the Indian government suggesting that policy paralysis is not sustainable and protective investment restrictions on foreign companies are, selectively, being relaxed. There is still much to be done to increase the attractiveness of investing in India!

Other notable contributors to performance this quarter include Grendene, a Brazilian footwear company and Vietnam Dairy. The Fund increased its position in both these companies earlier this year, with Grendene now one of the Fund's larger positions and Vietnam Dairy making a more meaningful contribution. Recent discussions with other multinationals has been encouraging in respect of both these investments and incidentally, reinforced the virtue of patiently investing when there is little interest being shown by the markets.

In the case of Vietnam Dairy, building a position takes time and those less patient are now finding it rather difficult, with approaches to us at above market prices for our shares.

The Fund held a relatively small position in Google which, after an impressive surge during the quarter, was sold. There is no argument on the merits of investing in Google, or selectively some of the other highly branded technology stocks, merely that the Fund has preferred to secure the recent gains.

Interbrand's recently released 2012 Best Global Brands report, highlights the dominance of technology names amongst the top ranks. Half of both the top 10 and top 20 names are technology companies with, unsurprisingly, Apple surging strongly to second spot behind Coca-Cola. As Interbrand's ranking uses financial performance as one of the factors, it is generally not an overt indication of undervalued or neglected investment opportunities.

Commentary

Interbrand's report makes note of two other trends that the Brands Fund has also utilised. The resilience of luxury brands despite the current economic landscape, with success increasingly dependent on exemplifying a brand's global consistency and authenticity.

Their other observation, albeit somewhat self evident in the current environment, is the increasing importance to the consumer packaged goods companies of developing markets for successful growth. This has been amply demonstrated this quarter, with direct relevance to some of the Fund's holdings. As noted above, Diageo clearly has some appetite for the Indian market leading spirits company. Beyond the obvious impact on the Fund's holding in United Spirits, two smaller positions in the United Breweries group have also benefited.

Heineken's dependence on a joint venture for access to Asia was brought into stark relief with the possibility that the arrangement might abruptly end. Heineken has prevailed in acquiring the joint venture, albeit with a somewhat unplanned $4.5 billion use of the cheque book, further highlighting both the necessity and difficulty of maintaining operations in emerging markets. Heineken was able to raise $3.25 billion at rates up to 4% and periods out to 30 years to finance gaining control over a strongly growing business and a future in Asia; an outcome that we would regard as attractive for the longer-term. The financial markets would seem to agree; Heineken's share price rose 25% in the quarter.

The Fund has indirect interests in Heineken, notably through the 20% stake held by Fomento Economico Mexicano SAB de CV (FEMSA). Over the past decade Heineken has not done well for investors, especially over the past five years while they absorbed the Scottish and Newcastle acquisition and its effect of increasing their exposure to deteriorating Western markets. More recently with acquisitions in Mexico and now Asia there is the potential for a deeper reassessment of their emerging market capabilities, and by implication their prospects for growth.

Similarly, Casino Guichard-Perrachon, the French retailer, further cemented its developing market position by gaining management control of the market leading retailer in Brazil, **Grupo Pão de Açúcar**. There has been an ongoing focus by analysts on the debt levels of Casino, the structural weakness of the hypermarket format in France and a reluctance to evaluate the Brazilian acquisition until much greater certainty and detail is evident.

Set against a backdrop of recession, stressed debt markets and a listing in France, where a newly elected government is increasing corporate taxes, it is hardly surprising that Casino isn't listed amongst the markets most favoured investments.

The Brands Fund has, for some time, held positions in Casino's subsidiaries in Thailand and Colombia, more recently acquiring shares in Casino as we have come to better appreciate the dynamics and construct of this group and in particular, their cash generative capabilities.

We had occasion to discuss with Nestlé their progress with the Chinese confectionary company, Hsu Fu Chi, a past holding of the Fund they acquired from us when establishing their joint venture. Not only are Nestlé evidently very enthused with their involvement with Hsu Fu Chi but highlight it to showcase their ability to engage successfully in joint ventures, alongside that of their other Chinese venture with Yinlu Group.

Nestlé is without doubt one of the world's leading multinationals and yet during both our discussions, and at their recent presentations to international investors, it is evident that from Palais Nestlé in Vevey, the vista remains one of abundant opportunity. The challenge for the Fund, much as it is for Nestlé, is to acquire the right opportunity at an appropriate price.

Outlook

There seems to be an increasing willingness by companies to take advantage of the low cost of debt funding and to pursue opportunities in growing markets. Whether that is by acquisition, joint venture or capital expenditure, the stronger companies are starting to make use of their competitive advantages. As is typical in periods of recession, there is a period of retrenchment and reorganising while the excess of the past expansionary phase is purged before once again looking to new markets, be that products or geography.

Perhaps though, and as a natural consequence of the uncertainty and unpredictability around what financial administrators and politicians might say or do, there has been an increased caution and reluctance on the part of management to seize opportunities. There would appear to be some signs of this thawing as companies assess where they can capture opportunities for both lower costs, especially labour and funding, and growing markets.

The Fund is acutely attuned to the willingness of market leading companies to utilise their advantageous position. The Fund will continue to seek those opportunities in both developing and developed market listings with, as has been the case, a keen sensitivity to the price on offer.

Platinum International Health Care Fund

Bianca Ogden Portfolio Manager

Disposition of Assets

REGION	SEP 2012	JUN 2012
Europe	37%	36%
North America	27%	30%
Japan	5%	5%
South America	1%	1%
Asia	1%	1%
Australia	1%	1%
Cash	28%	26%
Shorts	4%	4%

Source: Platinum

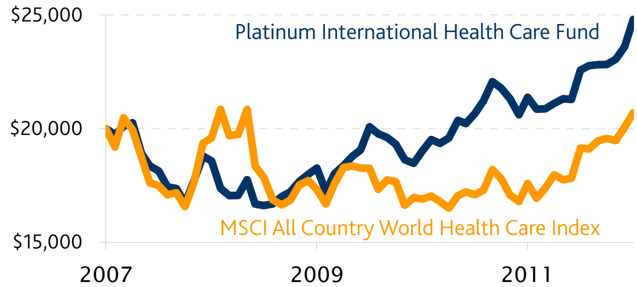
Performance and Changes to the Portfolio

The Platinum International Healthcare Fund advanced 8.7% for the quarter, with the MSCI Healthcare Index increasing 5.8%. For the year, the Fund was up 16%, slightly lagging the Index which advanced 17.7%.

Not long ago large biotech companies were seen as the spitting image of pharma, with maturing product portfolios, patent expirations looming and pipelines that have nothing to show for. Two years on, the world is a different place; biotechs are leading the sector, pipelines are emerging at rapid speed, new drugs are being approved and licencing deals continue to be signed. The fact is, this sector will continue to innovate and patent expirations should not deter one from an investment case if the price is right.

Value of $20,000 Invested Over Five Years

30 September 2007 to 30 September 2012



Source: Platinum and MSCI. Refer to Note 2, page 40.

Gilead has been one of those investments and has been a strong contributor to the performance of the Fund (up over 30% for the quarter and over 70% for the year). Gilead's HIV franchise was maturing but the company remained focused on developing new combination drugs for the treatment of HIV, while at the same time developing (and acquiring) its Hepatitis C pipeline. This quarter, Gilead gained approval of its two new anti-HIV combination drugs and with that, the company will continue to dominate the treatment of HIV globally. With the Hepatits C virus (HCV), Gilead is rapidly progressing towards approval and clinicians see Gilead's assets as leading the field, meaning the drugs could achieve several billion dollars in sales. If that is not enough, Gilead is also busy establishing an oncology franchise that in several years could add another billion dollars to Gilead's current sales of ~$9.3 billion.

ThromboGenics (see the March quarterly report) and Ariad are also doing well and getting ready for upcoming product launches. ThromboGenics back-of-the-eye drug has seen positive endorsement from an advisory panel in the US, while Ariad's blood cancer drug has now been filed in the US.

We continue to be prudent and to avoid getting caught up in the promise of new drugs. During the quarter, we have been adding to several of our non-US holdings such as Novartis, Astellas and Actelion. These companies all have new product cycles ahead of them. At the same time, we have taken some profit on Gilead but maintain a position as we feel that the oncology pipeline is not at all being considered by investors. We also trimmed our holding in rare disease company Biomarin as 9x sales already anticipates significant pipeline success.

Commentary

Re-visiting an old investment idea is never straightforward. All you can think of are the flaws of the business and how well we did to remain on the sidelines. However, this is often a mistake as there will be a turning point.

Novartis, the Swiss pharma company headquartered at the opposite end of Basel to Roche, is such an investment. The Fund has had a small position in Novartis for some time but the case never fully worked out and we kept being disappointed. This year, however, with valuation being more compelling, we forced ourselves to take a fresh look.

Novartis has a remarkable history (dating back to the middle of the 18th century) when Johann Rudolf Geigy-Gemuseus started trading 'chemicals, dyes and drugs of all kinds' in Basel. Centuries, divestments, acquisitions and mergers later, Novartis still remains headquartered in Basel and trades 'drugs of all kinds', albeit now globally.

Throughout its journey, the company faced tough times that demanded changes[1] but more often than not, the company continued to grow.

The most recent transformation of Novartis has been long and started with the merger of Ciba-Geigy and Sandoz in 1996. Sitting across from each other on the river Rhein in Basel, Ciba-Geigy and Sandoz had complementing product portfolios and were no strangers to each other. However, their geographic reach was limited, their research and development (R&D) sites were mainly in Basel and the chemical heritage was still very dominant. Following the merger, under the leadership of Dan Vasella (Sandoz executive with a medical/marketing background), Novartis embarked on a decade long transformation increasing sales from $19 billion to over $56 billion today (see table over).

By 2010, many new pieces and new buildings[2] had been added, while others have been divested and Dan Vasella handed over the CEO reign to Joe Jimenez, a consumer executive who has to make the puzzle work (Mr Vasella still remains Chairman).

[1] Eg. 1970: merger of Ciba (Chemische Industie Basel) with Geigy to form Ciba-Geigy.

[2] Dan Vasella with the help of renowned architects has transformed an old chemical site into a campus with 10-15 R&D buildings.

Novartis

YEAR	ASSET
1996	Merger of Ciba-Geigy and Sandoz
2000	Formations of Syngenta: agricultural assets of Novartis and Zeneca combined
2001	Acquisition of stake in Roche for $2.8bn and start of Basel Campus Project
2004	Opening of Boston Campus
2005	Acquisition of Hexal and Eon Labs (generic drugs) for $8.3bn
2006	Acquisition of Chiron (US biotech: vaccines/diagnostics) for $5.1bn
2007	Divestment of Medical Nutrition business and Gerber Baby Food for -$8bn
2008	Acquires 25% of Alcon (eye disease business) for $10.4bn
2009	Acquisition of EBEWE (generic drugs) for $1.2bn
2010	Completes acquisition of Alcon for $41.2bn

Source: Novartis

This multi-year transformation was not cheap (+$61 billion spent) and while in 2010 the pieces were in place, integration was in no way complete. Additionally, Novartis still had to deal with unexpected generic competition and unsuccessful drug applications in the US.

Today, several years on, Novartis has forged ahead. The heavy lifting has been done, the new campus is now functional in Basel as well as in Boston (with trees rather than cranes). Emerging markets contribute 24% of sales and Novartis is no longer fully dependent on pharma (57% pharma, 15% generics, 2% vaccines/diagnostic/animal health, 19% eye care, 7% consumer). This is a good start in today's pharma world and implies that Novartis shareholders should be the beneficiaries of the cashflow.

Novartis is not without problems. The past decade has been driven by the success of the Diovan/Valsartan[3] cardiovascular franchise and the leukemia drug Glivec. These two drugs account for 20% of Novartis total sales but have come to the end of their life cycle. Diovan's US patent expired in September, while Glivec has time left until 2015. To us, this is a temporary roadblock as diversification, particularly the contribution from the eye disease division Alcon and new products, will buffer the blow. For growth to return, however, the pipeline has to deliver and we believe it will.

One of Novartis' weaknesses has been its spending habit. Deals are usually on the expensive side and budgets are always a bit higher compared to its peers, while the pipeline tends to be a little cluttered. But even these habits are being addressed and we should see further reductions to its cost base. Some of the savings will be used to expand in emerging markets which we are happy with.

In summary, Novartis has gone through a lengthy transformation that significantly changed the company. We think it is unlikely that the next five years will be as dramatic and as such, should see steady growth and improving returns.

Outlook

New upcoming drug launches together with medical conferences will keep the healthcare sector in focus. The US election will be watched carefully and many investors will try and second guess the outcome. We will remain focused on finding good companies that regardless of who wins, are well-positioned.

[3] Valsartan (Diovan) franchise: so-called angiotensin receptor antagonist. Used to reduce blood pressure either alone or in combination with other drugs.

Platinum International Technology Fund

Alex Barbi Portfolio Manager

Disposition of Assets

REGION	SEP 2012	JUN 2012
Asia	36%	37%
North America	19%	21%
Europe	17%	20%
Japan	3%	4%
Cash	25%	18%
Shorts	2%	2%

Source: Platinum

Performance and Changes to the Portfolio

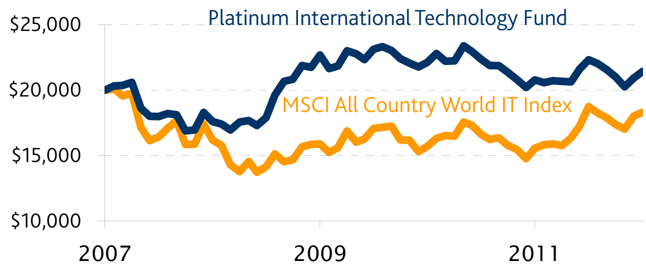
The Fund's value increased by 2% during the quarter, while the MSCI World Information Technology (A$) Index was up 5.3% for the same period. Over 12 months, the Fund has recorded a positive 3.1% return, while the Index was up 17.7%.

During the quarter, the best performers in the Fund were some Internet stocks (Google +30%, Sina +27%) and AAC Technologies (+25%), the leader in miniature acoustic components for smartphones and tablets.

Semiconductor stocks underperformed the broader technology market and this was also reflected in the decline of some of our holdings such as Marvell (-17%) and AMD (-42%). In contrast, Samsung Electronics remained a strong performer (+17% for the quarter and +59% for the last 12 months) thanks to its solid medium-term prospects and despite the noise caused by the litigation with Apple Inc.

Value of $20,000 Invested Over Five Years

30 September 2007 to 30 September 2012



Source: Platinum and MSCI. Refer to Note 2, page 40.

Commentary

Autopsy of an IPO

In a quarter when technology stocks performed reasonably well and Internet stocks were generally in favour, a major disappointment for many investors was probably the collapse of the Facebook stock price. From its Initial Public Offer (IPO) of $38 in May, it reached a low of $17.55 in September (it closed at $21.66 at the end of the quarter). Platinum did not participate in the placement, taking a view that the offer was way overvalued and better opportunities were available in existing alternative Internet names.

At listing, the company was valued at more than $80 billion of market capitalisation, with forecast sales of $4.9 billion and net profit of $500 million for 2012, resulting in an estimated P/E of 160x forecast net earnings. Definitely not cheap! Even adjusting earnings 'pro-forma' as Wall Street analysts prefer to do with tech stocks (which chooses to ignore the cost of issuing stock options), you would have paid around 76x expected earnings.

The familiarity of the name with the masses and the success of its dominant social network application among almost one billion active users globally, made it the perfect growth story for a successful IPO. The theme of booming digital advertising is an obvious label you can attach to a story like Facebook. Advertisers always looking for 'eyeballs' to capture and serve with digital adverts would surely flock to the dominant player. If anything, revenues were growing at more than 45% year-on-year at the time of the IPO (albeit less than the 100% growth rate recorded in 2011).

However, when such an over-hyped IPO comes to the market there is always the risk to disappoint excessive expectations, and in this case if you looked carefully you could find many red flags. Prior to the IPO, one could have turned a blind eye to the fact that Wall Street underwriters had pushed the final listing price $4 above the original estimated range right at the last minute due to the strong demand from the public. Or you could have ignored the fact that 57% of the shares being offered in the float were coming from existing shareholders (including $1 billion from founder Mark Zuckerberg). Or that a further 1.7 billion shares (or 63% of total shares outstanding!) from existing shareholders (venture capitalists, founders and employees) would be available for sale at various stages for 12 months after the IPO date, creating a potential enormous overhang on the stock price in the near-term.

All signs were potentially there that really you would be buying a very 'hot' stock which ultimately could burn you… If a stock trades at a very high valuation multiple by traditional standards, it is obviously discounting a highly successful outcome. In other words, there is upside only if the company is more successful than existing high expectations from investors; and a lot of downside if it disappoints.

According to a reconstruction of the events around the IPO, a few days before the listing the underwriters had started privately warning some potential clients of possible downward revisions to Facebook's revenue growth for the incoming quarter. Many investors started feeling duped and scaled back their allocation demands for the new stock. What happened really? The company had warned through a regulatory filing, that a large portion of users were increasingly using Facebook on smartphones, but this mobile application was nowhere near as profitable in terms of advertising revenues as the traditional PC based one. (The majority of Facebook revenues derive from the space the company sells to advertisers on its website, and its mobile phone version offers much less screen space for those adverts, hence a much lower interaction and profitability per user. We estimate that mobile adverts earn $0.70 per user per year on average versus $5 to $6 of the desktop version).

When Facebook eventually reported its second quarter results in July, it emerged in fact that annual sales growth was decelerating to 32% and monthly active users in the US and Europe were almost plateauing, suggesting a near saturation of the platform in developed markets. On the contrary, Facebook mobile users were growing much faster, and mostly in emerging markets, where people are more likely to have their first experience with the Internet through a mobile phone rather than a PC. Facebook revenues from mobile adverts are estimated to be only around 5% of total revenues for 2012 and this is where the big challenge for the company lies.

In the past we have seen Internet stories stumbling initially but then progress to huge success (Amazon) and others (Myspace) take-off rapidly only to end up in the dustbin. While it is still early days for advertising on social networks, and Facebook has already established a huge global footprint, its business model is clearly still immature and management are now trying to address its weaknesses by exploring new ways of 'monetising' advertisers/users.

At around the same time of the Facebook IPO, we at Platinum discussed its implications for the industry at large and its impact on competitors in particular. When a new business manages to build-up a follower base of one billion people in such a relatively short period of time, absorbing more of the 'users' Internet time' to the detriment of existing platforms, it can potentially become a clear threat to incumbents' profitability. Companies like Google, Apple, Yahoo and Microsoft all have to deal with the new entrant and its disruptive role.

However, we reached the conclusion that while everybody's attention was focused on the new kid in town, the market was giving us an opportunity to add to our position in Google at a very attractive price. As the Google price lay neglected on a valuation of 13-14x forecast P/E, we considered the market was emphasising the negative perception that Facebook would ultimately cannibalise large parts of its competitor's business.

With a clear focus on digital advertising through an established dominant position in on-line search and video (YouTube), and a fast growing on-line display business, Google seemed to us a much better investment opportunity and its solid growth credentials (revenues + 35% year-on-year accelerating in the second quarter) didn't look like the company was suffering that much from the new competitor, at least not yet.

From the date of the Facebook IPO to the end of the September quarter, Google stock price appreciated by 25%, while Facebook declined by 43%.

Outlook

Central Bankers are again dictating the short-term directions of the global stock markets. First was Mario Draghi, European Central Bank (ECB) President stating in July that the ECB would do "… whatever it takes to preserve the Euro. And believe me, it will be enough". Then in the first week of September Mr Draghi announced his new plan named Outright Monetary Transactions, which will involve the ECB potentially buying unlimited amounts of Spanish and Italian government bonds in order to lower those countries interest costs. More recently in the US, the Federal Reserve chief, Ben Bernanke, announced another important step towards increasing the liquidity in the system, by starting another Quantitative Easing process (QE3): an open-ended monthly purchase of $40 billion of mortgage-backed securities until the unemployment level is reduced to the desired level.

Once again, with everybody waiting for a solution to the Eurozone banking/sovereign crisis, this time stock markets have followed the news flow coming from the Central Bankers, given that this is a 'holiday' quarter for the Northern Hemisphere and politicians were not really present.

It appears to us that without this external 'support', the major developed economies would be struggling even more to function properly, therefore we should expect more of the same in the medium-term.

However, valuations of our major holdings remain quite attractive and while we live with an uncertain economic picture in the background, we continue to adopt a strategy of finding the best investment themes and selecting the best companies within them.

Glossary

Earnings Per Share (EPS)
An indicator of a company's performance. It is calculated by dividing the company's after-tax earnings by the number of shares on issue to highlight the profit earned in terms of each share.

Japanese Government Bond (JGB)
A bond issued to investors by the Japanese Government, denominated in Japanese yen. Currently JGBs (10 year) offer a yield of about 0.8%. Bond prices have an inverse relationship to bond yields. This means that falling bond prices denote rising yields and vice versa. If the economic outlook in Japan begins to improve and long-term interest rates rise in Japan, JGB prices will fall. By short selling JGBs, the Platinum Japan Fund is positioned to benefit from an improvement in the Japanese economy.

MSCI Indices
Varying indices compiled by Morgan Stanley Capital International (eg. World, Asia, Healthcare etc) that are designed to measure equity market performance across different regions and industries.
Platinum does not structure its investment portfolios relative to a benchmark, however, the MSCI indices are used as a reference to determine how each Fund is performing in relation to the total market opportunity in which it invests.

Non-GAAP
An alternative earnings measure of the performance of a company. Many companies report non-GAAP (Generally Accepted Accounting Principles) earnings in addition to the required GAAP earnings, stating that the alternate figure more accurately reflects their company's performance. Some common examples of non-GAAP earnings measures are cash earnings, operating earnings, EBITDA and pro-forma income.

Price to Book Ratio (P/B)
The ratio of a company's current share price to its current book value. Book value is the sum of a company's total assets minus its total liabilities and intangible assets. The P/B is used as an indicator of the value of a company by comparing its share price to the amount of the company's assets that each share is entitled to.

Price to Earnings Ratio (P/E)
The ratio of a company's current share price to its per share earnings. The P/E is used as an indicator of the value of a company by comparing its share price to the amount of per-share earnings the company generates.

Quantitative Easing (QE)
A monetary policy used by Central Banks to increase the supply of money by increasing the excess reserves of the banking system. QE3, refers to the recently announced proposals for an additional round of quantitative easing following QE2.

Short Selling or Shorting
A transaction by which an investor is able to generate profit from a fall in the price of a particular company or market index. To generate such a profit an investor borrows securities and sells them, then when the price has fallen, the investor repurchases the securities at a lower price and returns them to the lender.
Platinum utilises short selling of stocks and indices for risk management (that is, to protect a Fund's Portfolio from either being invested or uninvested) and to take opportunities to increase returns.
Short selling is not undertaken for the Platinum Unhedged Fund.

China's Agricultural Sector

While there has been much focus on China's role in driving the prices of hard commodities, it has also had significant impact on the price of agricultural outputs, with many increasing multi-fold over the last decade or so. With China only accounting for 10% of the world's arable land yet needing to feed 20% of the population, there is much focus on the country's insatiable appetite for agricultural products. Yet the Chinese agricultural sector has remained relatively opaque to outside observers, with foreign coverage on China's agriculture sector being generally negative. Headlines focus on rampant conversion of prime agriculture land into giant residential housing complexes and industrial sites, pollution of vital waterways, depletion of important underground water resources, over-application of fertiliser, and the mass migration of the rural population deserting farms to pursue an easier lifestyle in the cities.

Although these are real issues there are positive developments taking place as well that allow one to be somewhat more optimistic about the sector's outlook. On a recent trip to the Chinese provinces of Jilan and Henan, I met with farmers, local co-ops, agricultural machinery manufacturers and dealers, fertiliser producers and distributors, government officials and agriculture academics to improve our understanding of the changes taking place in rural China. Through the course of our meetings, a number of constant themes emerged.

Farm consolidation and collaboration (Co-ops) is a significant driver of change. Official Chinese numbers suggest rural land that has undergone some form of consolidation has increased from 12% in 2009 to 16% in 2011. We came across a number of such situations. One village visited formed a co-op in March 2009. It consolidated 160Ha out of its total 480Ha available and leased it to an outside party. From that 160Ha, the company has allocated 48Ha toward providing a secure supply chain of 'organic' (different to our western definition but still better than normal) sweet corn to McDonald's. To meet the specified standards of the customer, the company applies 'green' fertiliser and pesticide, lays down plastic sheeting for weed control and has installed drip irrigation (resulting in greater than 50% water usage reduction). For its troubles, the company experiences 10% lower yields but achieves 20% higher prices. Negotiations are now under way to dedicate the full 160Ha to this method. The local village is happy because its land rent earns what it would have otherwise made but without shouldering the heavy labour or weather risk.

Increased mechanisation on farms goes hand-in-hand with consolidation. A visit to First Tractor (China's leading tractor company and recent acquirer of a French tractor company for its gearbox technology) confirmed demand for larger tractors and farm machinery continues unabated. As farm sizes grow and labour availability falls, it becomes far more economic for one man on a machine to plough, seed and harvest on behalf of many. This year tractor sales across the industry are actually down (due to changes in subsidies) but for tractors over 100HP, First Tractor is experiencing 50% annual growth. It has just completed a new plant that can now manufacture tractors with up to 400HP. There was one memorable meeting with the heads of a village (that soon swelled to half of the village population) about combine harvesters. In China, the latest combines from John Deere harvest three or four corn rows at a time. It was pointed out that machines in the US are now harvesting 36 rows. Following a delay, as English was translated into Mandarin, a wave of 'awe' rippled through the audience.

Interestingly, households in the region had only just received their official **'land use' certificates**, a process that started over a decade ago. These certificates confirm land use entitlement from 1998–2028 and provide limited ownership rights to the land. As always, the actual ownership of land in China remains with the State. The issuance of these certificates should help simplify and accelerate similar consolidation programmes elsewhere and also enable access to finance. One of the recurring themes was the lack of finance that is available to farmers. A year's supply of fertiliser and seed requires a substantial outlay before any crop earnings have been generated. It would be inconceivable for an individual farmer to purchase a tractor even with a generous state subsidy.

However, with the land use certificate, the farmer now has collateral that will increasingly allow access to financing. Indeed, a co-op with 100,000 members has recently been granted financial backing by one of China's largest banks and machinery manufacturers are now mulling over different finance models.

China has long been held as a key driver of volume growth in global fertiliser markets, in particular **potash,** where tight supply would drive higher prices. However, post such a spike in prices in 2007, volume growth and prices have been subdued. Potash (potassium) is one of three key fertiliser inputs that make up NPK (Nitrogen, Phosphate and Potassium). Depending on soil conditions and the type of crop being planted, the ratio of these three inputs is tailored to optimise production. Not so in China, where farmers have typically applied less potash than seems optimal. Discussions with farmers indicated that they considered it to be too expensive and presumably unnecessary. It will be interesting to see whether this systematic under-application can hold-up through time. (For the potash bulls though, our mining work suggests an enthusiastic supply response is in the offing!).

Seed technology is another area that is lacking, with the Chinese government restricting the import of genetically modified (GM) seed. While China had planned to develop its own GM seeds there has been little to show for these efforts and as a result farmers are stuck with non-GM seed, both foreign and locally produced brands. Meanwhile, average yield rates for corn in China are about 80 bushels per acre versus 150 bushels in the US[1], suggesting there are some gains to be made by adopting GM seed technology.

Another new development that was noted was the **bundling of agricultural service** that is already the norm in Western markets. Seed and fertiliser companies have begun to actively fund, promote and embed their products by providing a local dealership or contractor with the machinery to apply and harvest their products at no additional cost to the farmer.

The one conclusion that can be made is that there will be further consolidation of farmland and with it, increased investment in mechanisation and technology. It would seem highly likely that these developments will result in higher yields and output, though it is hard to know to what extent these will allow supply to keep up with demand brought about by the country's rising income levels.

<u>Andrew Baud</u>
<u>Investment Analyst</u>

[1] Of course, differences in yields will also relate to difference in the natural endowment of land, as well as seed technology.

Please utilise the "What's New" page on our website, http://www.platinum.com.au/Whats_New.htm as a reference point for updates and announcements.

"My problem is that I invested in liabilities
that I thought were assets."

"If you work hard and invest wisely, you can afford to turn 65 on your 80th birthday."

"I do have a diversified retirement plan:
30% hopes, 30% wishes, 40% prayers."

Notes

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 historical 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).

   The inception dates for each Fund are as follows:
   Platinum International Fund: 30 April 1995
   Platinum Unhedged Fund: 31 January 2005
   Platinum Asia Fund: 4 March 2003
   Platinum European Fund: 30 June 1998
   Platinum Japan Fund: 30 June 1998
   Platinum International Brands Fund: 18 May 2000
   Platinum International Health Care Fund: 10 November 2003
   Platinum International Technology Fund: 18 May 2000

2. The investment returns depicted in this graph are cumulative on A$20,000 invested in the relevant Fund over five years from 30 September 2007 to 30 September 2012 relative to their Index (in A$) as per below:
   Platinum International Fund - MSCI All Country World Net Index
   Platinum Unhedged Fund - MSCI All Country World Net Index
   Platinum Asia Fund - MSCI All Country Asia ex Japan Net Index
   Platinum European Fund - MSCI All Country Europe Net Index
   Platinum Japan Fund - MSCI Japan Net Index
   Platinum International Brands Fund - MSCI All Country World Net Index
   Platinum International Health Care Fund - MSCI All Country World Health Care Net Index
   Platinum International Technology Fund - MSCI All Country World Information Technology Net 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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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.

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

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