

Platinum International Fund

ARSN 089 528 307

Platinum Unhedged Fund

ARSN 123 939 471

Platinum Asia Fund

ARSN 104 043 110

Platinum European Fund

ARSN 089 528 594

Platinum Japan Fund

ARSN 089 528 825

Platinum International Brands Fund

ARSN 092 429 813

Platinum International Health Care Fund

ARSN 107 023 530

Platinum International Technology Fund

ARSN 092 429 555

# The Platinum Trust® Quarterly Report

## 31 December 2007



Platinum®  
ASSET MANAGEMENT



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### Experts ...

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

Do email us at:

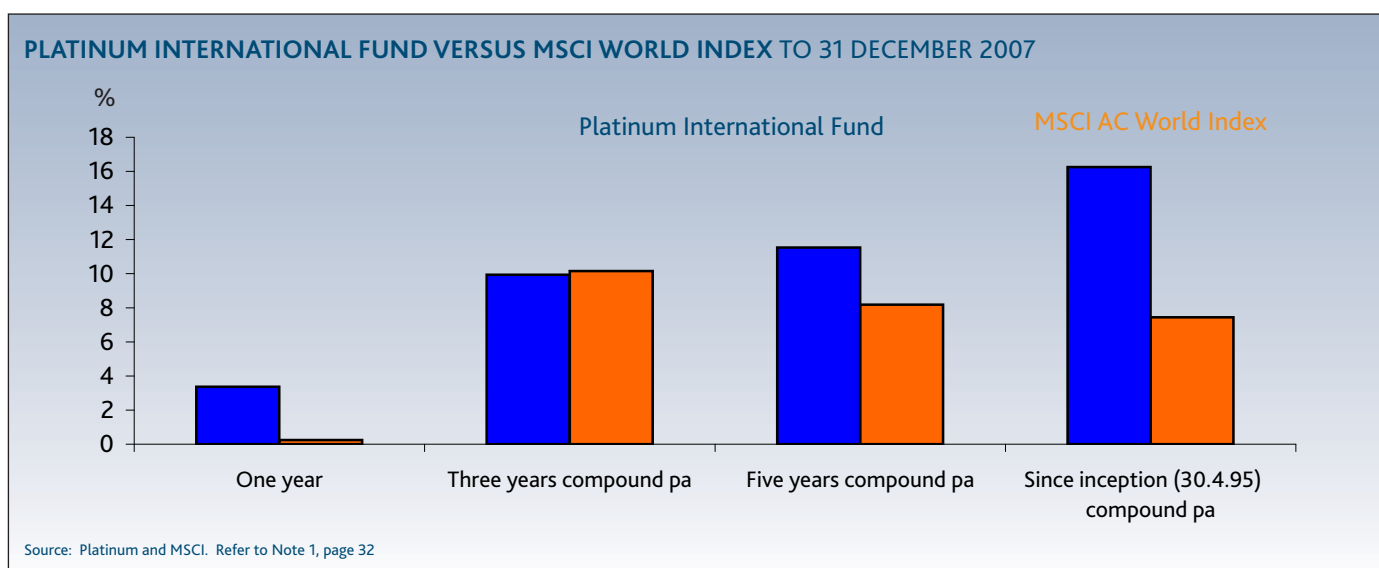
[commentary@platinum.com.au](mailto:commentary@platinum.com.au)

## PERFORMANCE RETURNS TO 31 DECEMBER 2007

FUND	FUND SIZE	QUARTER	1 YEAR	2 YEARS COMPOUND PA	3 YEARS COMPOUND PA	5 YEARS COMPOUND PA	SINCE INCEPTION COMPOUND PA
<b>INTERNATIONAL FUND</b>	<b>\$9,157m</b>	<b>0.9%</b>	<b>3.4%</b>	<b>4.9%</b>	<b>9.9%</b>	<b>11.5%</b>	<b>16.2%</b>
MSCI AC* WORLD INDEX		-1.0%	0.2%	6.2%	10.1%	8.2%	7.4%
<b>UNHEDGED FUND</b>	<b>\$58m</b>	<b>1.7%</b>	<b>4.4%</b>	<b>11.7%</b>	-	-	<b>17.4%</b>
MSCI AC WORLD INDEX		-1.0%	0.2%	6.2%	-	-	10.8%
<b>ASIA FUND</b>	<b>\$3,404m</b>	<b>5.4%</b>	<b>31.2%</b>	<b>24.3%</b>	<b>29.5%</b>	-	<b>33.1%</b>
MSCI AC ASIA EX JAPAN INDEX		1.6%	25.8%	24.9%	27.0%	-	24.1%
<b>EUROPEAN FUND</b>	<b>\$331m</b>	<b>-4.8%</b>	<b>-2.9%</b>	<b>9.9%</b>	<b>11.0%</b>	<b>14.5%</b>	<b>14.8%</b>
MSCI AC EUROPE INDEX		0.9%	2.9%	13.2%	14.7%	12.8%	3.2%
<b>JAPAN FUND</b>	<b>\$671m</b>	<b>-1.7%</b>	<b>-13.3%</b>	<b>-9.3%</b>	<b>6.0%</b>	<b>11.4%</b>	<b>17.9%</b>
MSCI JAPAN INDEX		-5.3%	-14.0%	-7.8%	4.5%	5.2%	1.2%
<b>INTERNATIONAL BRANDS FUND</b>	<b>\$641m</b>	<b>3.0%</b>	<b>3.3%</b>	<b>7.6%</b>	<b>16.2%</b>	<b>16.5%</b>	<b>16.0%</b>
MSCI AC WORLD INDEX		-1.0%	0.2%	6.2%	10.1%	8.2%	-1.1%
<b>INTERNATIONAL HEALTH CARE FUND</b>	<b>\$22m</b>	<b>1.3%</b>	<b>0.0%</b>	<b>5.3%</b>	<b>5.0%</b>	-	<b>4.7%</b>
MSCI AC WORLD HEALTH CARE INDEX		-0.2%	-6.3%	-2.0%	3.9%	-	4.5%
<b>INTERNATIONAL TECHNOLOGY FUND</b>	<b>\$62m</b>	<b>3.0%</b>	<b>-2.2%</b>	<b>4.6%</b>	<b>7.5%</b>	<b>11.5%</b>	<b>10.0%</b>
MSCI AC WORLD IT INDEX		-1.3%	2.0%	2.0%	5.9%	5.4%	-12.4%

\*Morgan Stanley Capital International All Country

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



## The early wreckage from "easy and abundant money"

### SUB-PRIME WRITE-OFFS

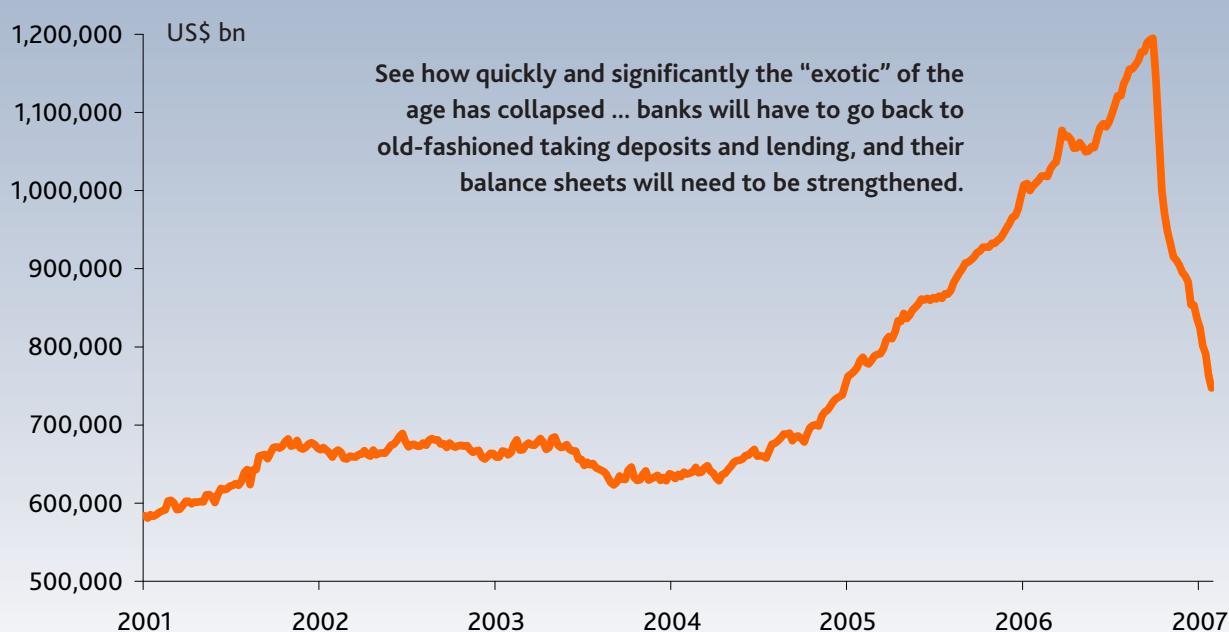
Large sub-prime and leveraged loan write-downs announced by 'Western' financial institutions by December 2007

COMPANY	2H 2007 WRITE-DOWNS (US\$bn)	2H 2007 CAPITAL RAISINGS (US\$bn)
UBS	14.4	14.0
CITIGROUP	13.8	7.5
MORGAN STANLEY	10.4	5.0
MERRILL LYNCH	7.9	6.2
BANK OF AMERICA	5.8	-
DEUTSCHE BANK	3.1	-
BEAR STERNS	2.6	1.0
JP MORGAN	1.6	-
GOLDMAN SACHS	1.3	-
LEHMAN BROTHERS	1.2	-
OTHER		
FREDDIE MAC - GOVERNMENT SPONSORED ENTITY	2.7	-
AIG - GLOBAL INSURER	2.0	-
COUNTRYWIDE - MORTGAGE LENDER	-	2.0
WASHINGTON MUTUAL - SAVINGS AND LOAN ASSOCIATION	-	3.0
BOND INSURERS		
MBIA	-	1.0
AMBAC	-	1.0e
	67.0	41.0

Notes: e - expected

Source: Company Reports

### COST OF MONEY (US ASSET-BACKED COMMERCIAL PAPER AMOUNT OUTSTANDING US\$BN)



Source: Federal Reserve Board



## PLATINUM INTERNATIONAL FUND



Kerr Neilson  
Managing Director

## PERFORMANCE

Several factors are beginning to play out well for the portfolio. Low exposure to financials, the emphasis on less economically sensitive companies, and world-beaters on historically low valuations, have greatly assisted the portfolio since fears emanating from the credit squeeze emerged in the second quarter. Not that we haven't had disappointments, but we are very clear on what we wish to avoid and believe that the shares that we own, and which have been dull, have very little downside from here. This statement is made with a clear understanding of the need to avoid "value traps". We are now gradually pulling away from the MSCI for the quarter, half year and year.

## CURRENCY

In view of a period of slower global growth ahead, we have tended to reduce exposure to the Australian dollar in favour of such underpriced Asian currencies as the Malaysian Ringgit, Singapore dollar and Taiwanese dollar. Exposure to the Yen has been stable (and helpful) as has been the underlying holding of Euro currencies. It looks as though the US dollar is in the process of basing out against the Pound and perhaps the Euro. We prefer the US dollar to the likes of the Pound sterling but not so much as to favour it over the Asian currencies nominated above, even with their negative carries. Part of the rebalancing we envisage calls for Asian currencies to appreciate on a trade weighted basis.

As seen from the table below left, yearly returns from the large international markets have been further reduced by the strong Australian currency.

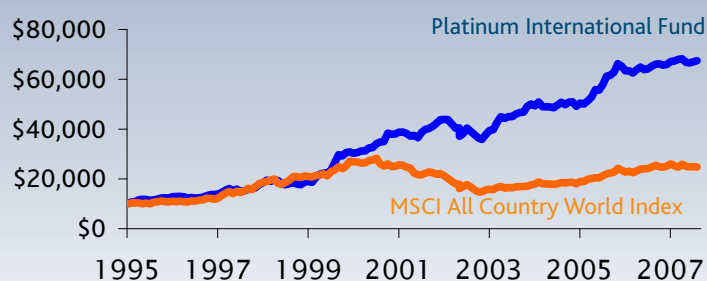
MSCI WORLD INDEX WEIGHTINGS AND MSCI  
INDEX PERFORMANCE (LOCAL, AUD)  
(12 MONTHS TO 31 DECEMBER 2007)

REGION	WEIGHTING	LOCAL	AUD
ASIA EX JAPAN	7%	38%	26%
EMERGING MKTS	12%	33%	25%
JAPAN	8%	-10%	-14%
EUROPE	30%	6%	3%
US	41%	5%	-5%
WORLD		7%	0%

Source: MSCI

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

1 MAY 1995 TO 31 DECEMBER 2007



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

DISPOSITION OF ASSETS		
REGION	DEC 2007	SEP 2007
NORTH AMERICA	24%	27%
WESTERN EUROPE	22%	18%
JAPAN	21%	22%
ASIA AND OTHER	19%	20%
CASH	14%	13%
SHORTS	29%	26%

Source: Platinum

## SHORTING

Having started the quarter close to 20% short, we added to the position in November and ended the quarter close to 30% short. As we note in our commentary, we are ambivalent about general valuations but believe areas such as commodities and some emerging markets harbour unrealistic expectations. We are short some of these markets as well as small capitalisation stocks in the US. The latter are showing a tendency to weaken versus the broader indices.

## CHANGES TO THE PORTFOLIO

Two shares that have sold-off meaningfully in anticipation of slower world growth are the Paris based companies, Schneider and Pinault Printemps Redoute (PPR).

Schneider is the world leader in low voltage electrical distribution equipment. While evidently facing diminishing demand from US housing, Schneider is extremely well-placed in emerging markets, which represent some 30% of sales and of equal importance, it is exploiting the awakening awareness for energy saving devices in homes and offices. It has a well-established global supply chain and has progressively broadened its reach by acquiring related businesses worldwide. We believe temporary doubts about growth give us an unusually good opportunity to buy a trend mid-teens grower for a low-teens valuation.

PLATINUM INTERNATIONAL FUND - TOP 20 STOCKS		
STOCK	INDUSTRY	DEC 2007
MICROSOFT CORP	TECHNOLOGY	3.6%
SIEMENS	ELECTRICAL	3.0%
BOMBARDIER	TRANSPORT	2.9%
HUTCHISON WHAMPOA	TELCO/TRANSPORT	2.7%
INTERNATIONAL PAPER	PAPER	2.7%
HENDERSON LAND DEV	PROPERTY	2.2%
CISCO SYSTEMS	TECHNOLOGY	2.1%
BARRICK GOLD	GOLD	2.1%
SAMSUNG ELECTRONICS	ELECTRICAL	1.9%
DENSO CORP	AUTO	1.9%
HENKEL KGAA	CONSUMER	1.8%
PERNOD RICARD	BEVERAGE	1.8%
SONY CORP	ELECTRICAL	1.8%
CREDIT AGRICOLE	FINANCIAL	1.6%
ERICSSON	TELECOM	1.6%
ROYAL DUTCH SHELL	OIL	1.4%
BMW	AUTO	1.4%
BANK OF CHINA	FINANCIAL	1.4%
NEWS CORP	MEDIA	1.3%
PFIZER	MEDICAL	1.3%

Source: Platinum

PPR was known traditionally as a department store operator in France. Via a remarkably adept acquisition strategy it has transformed itself to now derive only half of its profits from the slow growing European retail businesses and 40% from luxury brands, such as Gucci, YSL and Bottega Veneta. While one can over-state the delight with which consumers relish the wearing of brands, it is a fact that PPR has achieved unusual success at reinvigorating its labels and is receiving a warm welcome in Asia and the emerging markets. Reaching far back into its history the group also owns a significant trading company in Africa that principally distributes cars and light trucks. It has progressively widened its network and now covers 26 African countries. As capitalism seems to be gradually charming Africa, we suspect this division's growth rate will accelerate above its traditional mid-teens pace. The group has achieved an outstanding record and with the founder's son fully engaged in running the business, we believe it deserves a rating that more appropriately reflects its underlying growth rate and profitability.

Reed Elsevier and SAP are companies with a low cyclical profile. Reed has an underlying growth rate of around 10%, selling professional services to the likes of lawyers and accountants. This growth has been masked in recent times on account of the weakness of the US dollar versus the Pound and as a consequence the rating has suffered and has fallen back to a market average despite the defensive nature of the business. This appeals to us particularly as the Pound looks set to reverse its earlier strength.

SAP is of even higher quality. It has successfully migrated its business applications platform from mainframes to servers and now onto the web. It supplies the principal IT platform to some 400 of the Fortune 500 companies and as they have migrated to the new release, SAP is in the midst of a strong up-selling cycle. At the same time group margins should expand as it stabilises its R&D relating to a new hosted software system targeted at businesses of up to 500 employees. (See Toby's more detailed explanation in the Platinum European Fund report.) On approximately 19 times 2008 earnings and likely to grow into the mid-teens range for a few years, this is the ideal purchase in what we believe will be a world where earnings growth is scarce.

## COMMENTARY

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The question we are asked most frequently relates to the **prospects for there to be a so-called decoupling** between the developed economies and those of Asia and the large commodity producers such as Brazil and Russia. **There is now a general realisation that the game has changed in terms of easy money and all that went with it.** Namely, extravagantly priced M&A transactions, the flooding of money to private equity funds, bank-sponsored off-balance sheet vehicles and securitisation in general. (In time we can expect enquiry into the segregation of loan originations from ownership, and the function of the rating agencies.) Stephen Roach of Morgan Stanley has expressed the view that there can be no decoupling as globalisation is essentially about

integration of the global economy. This, however, has not been seamless, as witnessed by the mercantilist policies pursued by some with the consequent accumulation of huge foreign exchange surpluses. Had the system been totally fluid, significant currency adjustments might have ensured less misallocation of resources and perhaps this may have constrained some of the financing excesses that are now unravelling. Also, the momentum behind some of the emerging economies is very strong on the back of heavy investment in infrastructure and resource development. That there will be a negative pulse from the West, as well as from their own interest rate tightening (notably India and China) and perhaps from currency appreciation, is likely. However, in the event of an undue slowing, these countries have plenty of latitude to foster greater consumer demand. The decoupling of equity markets though is more problematical.

**Our main concern lies in valuations at the extremes.** Like the tech boom before it, the trap lies in visions of endless demand and the willingness of investors to extrapolate current above-trend prices into the distant future. Copper, a valuable indicator of growth expectations has already come off by 18% from its September highs, as have the prices of other metals. We cannot justify most commodity producer share prices. Likewise, the valuations now common in hot emerging markets such as Russia, India and China leave us unenthusiastic. Having been revalued to unprecedented levels, we would prefer to look elsewhere. We believe the repricing of risk will ultimately bear down on these valuations although accumulating foreign exchange surpluses may delay the adjustment.

This leads to the next **question as to whether we are at the beginning of a major inflationary pulse?** Certainly, prices have started to surprise on the upside, notably in China where food prices are some 15% higher than last year, but our contention at this stage is that the tightening of credit across the globe will be a counter ripple to the current supply tightness that is apparent in most commodities. Moreover, **outsourcing is still exerting pressure on real wages** in developed countries even with employment running at historically full levels. The



bond markets seem to be endorsing this view about inflation at present, with the yields on most Sovereign debt being near their lows. However, the co-ordinated action by central banks to ameliorate the tightness in the credit markets carries underlying inflationary risks.

#### **So, where should we be seeking opportunities?**

The observation that tempers all our thinking (now that our concerns about easy credit have been vindicated) is the **unprecedented level of corporate profits**, expressed either as a percentage of GDP, or just the return on sales. On the basis of the same argument that market forces do eventually rebalance commodity supply and demand, so the market will rebalance these super normal profits. Remarkably though, those companies that have true pricing power are not being priced for their superiority. One exercise we do is to rank our core universe of some 2000 companies by quality.\* Clearly there has been a general lift in profitability, led by the "dross" but more interestingly, the valuation of "quality" is conspicuously low, while the valuation of the "dross" has reached levels normally associated with "quality". It is these lesser companies that will shortly face the burden of rising costs and depreciation as they expand to meet anticipated demand and they may not have the ability to sustain profits. Yes, "quality" may also feel the chill of softer demand but on account of their superior business dynamics, they should face less margin pressure. The holy grail for us is to identify those who are not particularly operationally geared, have close to normal margins and are on ratings close to their historic average or less. Companies like Microsoft, SAP and Cisco fit this category.

Alternatively, companies exposed to long duration themes such as energy conservation and alternative energy, public infrastructure and the like which have few of the attributes common to price-setting "quality" companies, can still serve us well simply because of the multi-year back-log of capital projects. In some cases, such as Bombardier, Siemens and JGC, they even have the prospect of achieving margin improvements.

## OUTLOOK

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On balance we tend to believe that the action of the **central banks to flush the system with standby facilities will gradually move the focus** away from the so-called sub-prime crises. With write-offs put at say US\$350 billion, this has been a sizable setback to financial intermediaries globally. Fresh equity has been sought and more can be expected in due course. Either way there has been a rude interruption to credit availability in an exuberant world that was running at its fastest pace in history and stretching available resources to the full.

While we fret about the high level of profits, the fact is that **developed market equities are by historic standards cheap against other asset classes at a time of falling interest rates**. We argue that there is enough momentum to see global growth continuing, albeit at a slower pace, but above all, we are able to identify a broad group of companies we wish to buy. This partly stems from the sharp sell-off in some growth sensitive sectors and markets as they anticipate a slowing, and in addition, there is the phenomenon we describe above of quality companies being rated at multi-year relative lows. The general indices are seemingly inexpensive with the consensus estimates putting global earnings for 2008 on a PE of 14.1 times, the US on 14.7 times and Europe on 12.6 times. We suspect that earnings will fall short of these boom-induced forecasts but nevertheless such ratings are below the long-term averages. International reserve growth continues apace and as we have noted previously, the appetite of Sovereign funds for equity type investment is on the rise.

There is enough diversity in valuations and enthusiastic profit expectations to maintain short positions to reduce market risk. By seeking out the exceptions either in "quality" or long duration themes, we believe we can achieve solid returns in 2008.

\* Some 1500 to 2300 companies are rebased each year to give the top and bottom quintile by profitability and growth in the preceding 10 years.

## PLATINUM UNHEDGED FUND



Jacob Mitchell  
Portfolio Manager

## PORTFOLIO POSITION

Some of the themes/large positions contained in the current portfolio include:

- 13% Asia ex-Japan/Hong Kong, largest exposure Thailand, a key neglected Asian market, followed by Malaysia, Taiwan and Korea.
- 12% pulp and paper, key neglected part of the commodities complex.
- 12% energy, agriculture and “green” technology – a long duration theme.
- 12% technology, health care and other once proud “growth” stocks.
- 10% Japanese domestic (eg. construction companies, transport); after a 14 year bear market, the Japanese property market is showing some signs of life.
- 8% global infrastructure/energy capex related – combination of the BRICs\* emerging requirements and the need to “renew” key parts of Western public infrastructure.
- 8% Hong Kong listings, likely to be re-rated as Chinese domestic liquidity overflows.
- 7% gold, a laggard metal, inflation and US dollar hedge.
- 6% European advertising spend recovery and other domestic exposures.

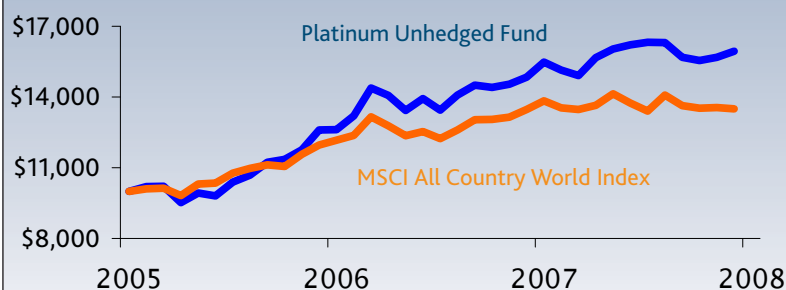
\* Brazilian, Russian, Indian and Chinese markets

### DISPOSITION OF ASSETS

REGION	DEC 2007	SEP 2007
NORTH AMERICA	29%	28%
ASIA	28%	26%
JAPAN	21%	19%
EUROPE	12%	13%
AUSTRALIA	2%	4%
CASH	8%	10%

Source: Platinum and MSCI

### VALUE OF \$10,000 INVESTED SINCE INCEPTION 31 JANUARY 2005 TO 31 DECEMBER 2007



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

## PERFORMANCE AND CHANGES TO THE PORTFOLIO

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Over the past 12 months the Fund returned 4.4%, outperforming the MSCI All Countries World Index (A\$) benchmark by 4.1%. Over the past quarter the Fund returned 1.7%, outperforming the benchmark by 2.7%. The key contributors this quarter were narrowly confined to the continued performance of our Hong Kong and gold stocks and select technology stocks – basically, a little bit of the Fund did most of the work. This has really been the story of the last three quarters, as some of the Fund's major bets failed to fire, despite our remaining convinced of their timeliness (as in Japan, pulp and paper, etc).

A major cost to the Fund was our holding in Ericsson – please read the International Technology Fund quarterly report for an explanation of what seems to have gone wrong here – but at this stage, we remain committed to the position. In terms of balancing the portfolio bets between the various themes/stocks, we haven't made any MAJOR changes during the quarter. As markets sold-off, we invested some of the surplus cash (reducing the weight from 10% to 8%), by adding to Japan (total exposure increased from 19% to 21%) and adding, Kangwon Land, South Korea's only (open to locals) casino, and a Hong Kong retailer. (The total Asia ex-Japan exposure increased from 26% to 28%).

## COMMENTARY

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Since the inaugural Unhedged Fund quarterly, which explained how the Fund's mandate differed from the Platinum International Fund, the succeeding quarterly reports have detailed the basic rationale behind major holdings of the Fund. The June 2007 report dealt with the “green” tech theme and the September 2007 report the rationale for the pulp and paper holdings. Continuing in this format, this report details our interest in Japanese property stocks – a small, but growing position of the Fund.

Throughout the developed world this quarter, there has been a broad sell-off in property related companies as the credit markets continued to tighten. In Australia, this has been punctuated by the Centro debacle - in a global context, this was far from an isolated incident. Though we own property developers in Asia (eg. Hong Kong), we have refused to buy into the aging US, UK and Australian property bull markets thinking that the foundations were too reliant on easy credit, rather than rising incomes. In fact, in the Platinum International Fund we shorted the US REITS (Real Estate Investment Trusts). However, we have been a little surprised that Japan has not been spared in this recent rout.

Whilst there has been some speculative element (largely confined to CBD offices and high end condominiums where foreign investors have been active), our studies of the Japanese property market indicate that there are some clear points of differentiation from the US, UK and Australia, including: rental yields that more than cover funding costs, high levels of affordability, extremely low levels of secondary market activity and a low level of household indebtedness/dependence on foreign capital.

We think that all these factors point to an almost complete lack of speculation, especially in the Japanese residential market. In a typical year in Japan, the world's third largest economy comprising 50 million households, less than 200,000 existing homes change hands (by definition this excludes the approximately 1.2 million new homes built and sold

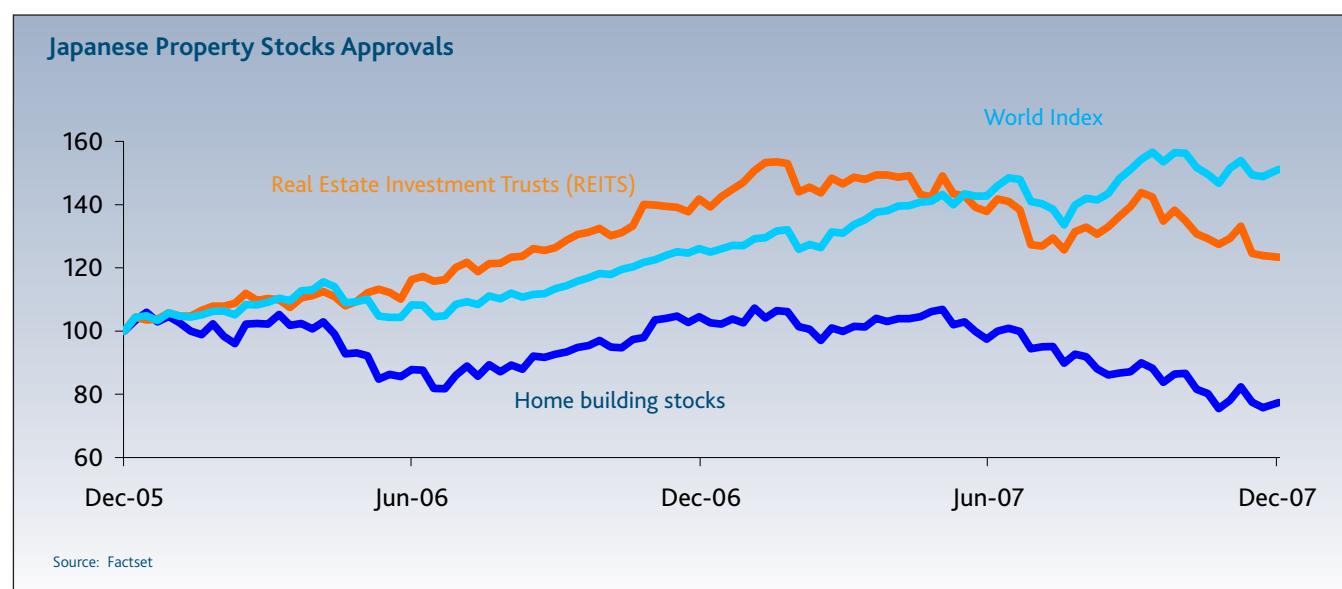
each year). To put this in context, the size of the secondary market in the US is approximately 5.5 million units (114 million households), in the UK 1.8 million (24 million households) and in Australia 200,000<sup>1</sup> (8 million households). In addition to the almost complete lack of existing home sales, new mortgage demand in Japan actually increases on the expectation of future interest rate rises – very odd, when one considers what persistent interest rates cuts have for done for most housing markets. It seems that the typical Japanese household's property experience has been so poor, that the fear of having to pay a higher interest rate is one of the few reasons to buy into the market. The Japanese explanation for why residential property offers high yield is that it is necessary as compensation for expected capital loss. Whilst this may be right, it also indicates a degree of misery that often signifies opportunity.

Japanese domestic demand conditions seem to be suffering at the hands of bureaucratic interference rather than more fundamental issues. The latest bungle involves the implementation of a tighter building code without adequately resourcing the department responsible for approvals. This seems to have had a disproportionate impact on the housing industry. In August, the month after

implementation, Japanese housing starts fell 43% followed by a drop of 44% and 35% in September and October. What has been less widely reported is that permits (letters of permission) have held up reasonably well, down an estimated 21%, 25% and 11%, respectively, over the same period, implying that the fall in starts reflects uncertainties regarding the approval process that may prove transient, rather than a complete collapse in end demand.

Whilst clearly, Japanese domestic confidence remains fragile, one gets the impression that if the government stopped kicking the home goals, that domestic demand would be in far better shape, with the country well insulated from the turmoil in global credit markets. Further, unlike the US, UK and Australia, Japanese property prices today have very good yield support and shouldn't fall. In a world that may be set to experience a prolonged period of tighter credit conditions, flat real estate prices may prove to be a very good outcome. With relatively low direct exposure to this area, and with some of these stocks having sold-off to well below intrinsic value, we are now selective buyers.

<sup>1</sup> Understated as the official statistics exclude apartments.



## PLATINUM ASIA FUND



**Andrew Clifford**  
Portfolio Manager

## PERFORMANCE

### PERFORMANCE (compound pa, to 31 December 2007)

	QUARTER	1 YR	2 YRS	3 YRS	SINCE INCEPTION
PLATINUM ASIA FUND	5%	31%	24%	30%	33%
MSCI AC ASIA EX JAPAN INDEX	2%	26%	25%	27%	24%

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

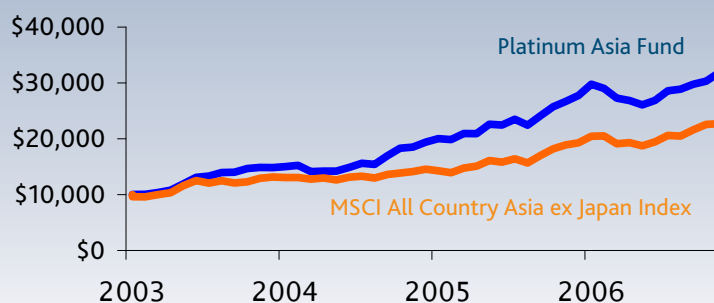
The early stages of the quarter saw Asian markets continue to move ahead strongly on the back of US interest rate cuts. However, by the midway point, renewed turmoil in global credit markets once again gave cause for concern and stocks retreated from their highs. Interestingly China stocks which had been leading the charge were amongst the weakest (both H and A shares were down just over 5% for the quarter) with the Indian market (up over 20%) leading the way due to enthusiastic buying by local investors. The Fund's outperformance for the quarter can be attributed primarily to the portfolio's holdings in the Indian and the ASEAN markets of Malaysia, Thailand, and Indonesia.

### DISPOSITION OF ASSETS

REGION	DEC 2007	SEP 2007
CHINA (LISTED EX PRC)	19%	27%
HONG KONG	8%	5%
CHINA (LISTED PRC)	2%	5%
TAIWAN	6%	5%
GREATER CHINA TOTAL	35%	42%
INDIA	11%	13%
KOREA	12%	12%
THAILAND	8%	8%
MALAYSIA	5%	6%
INDONESIA	3%	3%
SINGAPORE	2%	2%
PHILIPPINES	1%	0%
CASH	23%	14%
SHORT DERIVATIVES	4%	14%
LONG DERIVATIVES	1%	3%
NET DERIVATIVES	3%	11%

Source: Platinum

### VALUE OF \$10,000 INVESTED SINCE INCEPTION 3 MARCH 2003 TO 31 DECEMBER 2007



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



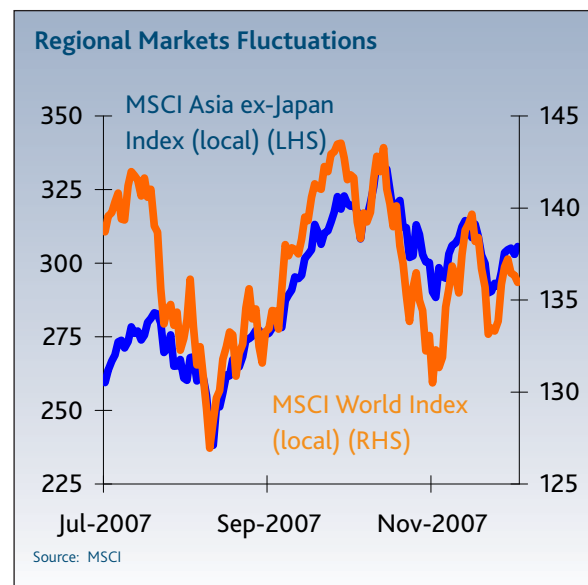
## CHANGES TO THE PORTFOLIO

A key change to the position of the portfolio over the quarter was to increase cash holdings from 14% to 23% while reducing the short positions from 14% to 4%. The net effect was a small change to the net invested position of the portfolio but one that allows greater flexibility to acquire any bargains that may become available as a result of any weakness in markets. Cash was raised from the sale of strongly performing stocks such as Reliance Energy (Indian power utility) and Zhengzhou Yutong Bus Co (China bus manufacturer). New holdings for the Fund include Jardine Matheson (regional investment company – see later discussion), Vista Land (Philippines property developer), and Galaxy Entertainment (Macau property and casinos).

## COMMENTARY

**The question being asked by many investors is how Asian markets will fare if the US economy enters a recession as a result of the current turmoil in credit markets?**

The simple answer is that Asian stocks are almost certain to perform poorly in such an environment, though it need not particularly follow that regional economic growth deteriorates significantly. Global investors remain key participants in all of the region's stock markets, and if prospects in home markets deteriorate significantly, the increasing risk aversion may result in Asian markets being sold and funds being taken home. Valuations in the region are far from compelling on an aggregate basis (and in fact are high relative to history), thus potential new buyers of the markets (such as Chinese domestic investors) are unlikely to stand in the way of concerted selling by foreigners. If you doubt this assertion then examine the regional markets fluctuations (see chart above) since the initial seizure in credit markets in July. This shows a clear pattern of Asia rising and falling in lockstep with developed markets. This high correlation with global markets is unlikely to disappear in the next



few months if economic growth in developed economies slows.

**A more difficult question to answer though is how a slowdown in the West might impact Asian economic growth and profits?**

The standard response from economists would be that a slowdown in the West will reduce trade surpluses and thus economic growth. What is being expressed here is a mathematical concept. Trade surpluses are a component of GDP and thus if they are smaller than previously expected, GDP must also be smaller than it would otherwise have been! This linear approach to the problem, however, misses the dynamic nature of economies such as China and India. No doubt slowing growth in China's exports will result in lower employment (growth), investment, and profits for exporters. The question though is whether other domestic sectors within the economy will take up the slack? China's economic development in recent years has been a story of a rolling investment boom from one sector to another. Nevertheless given the size of the export sector it is likely that there will be some slowing of economic growth but it needn't be the case that all businesses are equally impacted. Domestic demand-related business may well continue to grow at good rates.

However, all of the discussion so far ignores what is probably a far more important question. *What will be the impact of various measures taken (and those yet to be taken) by the Chinese authorities aimed at controlling an increasingly dire outlook for inflation?*

Inflation continues to accelerate in China driven by food prices, which are up 15% on a year ago. Despite China's prosperity food still consumes a significant proportion of household budgets for the vast majority. Ongoing food price inflation of this magnitude can magnify growing social disharmony, though there may be some offset with the benefits to boosting rural incomes. Often it is assumed that food inflation is caused by short-term events (currently in China, the price of pork has been lifted due to "blue ear" disease in pigs), but there is a real possibility that it may become a more inexorable problem as there are signs that the supply-demand balance in many basic foodstuffs is becoming tighter, both in China and globally.

Whether this is or isn't the case, Chinese authorities continue to try and slow the pace of economic growth through interest rates and banking reserve requirements (both aimed at slowing lending) and administrative measures applied to booming sectors such as property development. Although we are yet to hear the debate start, at some point there will be much discussion about whether China will have a soft or hard landing. In this context, a slowdown in the West may well be a blessing in disguise for China. Our best guess would be that the momentum in the domestic economy should result in any downturn in growth being relatively minor and short-term.

**So what is one to do with Asian stocks given the uncertainties?**

It is clear that the leading stocks of the Chinese and Indian bull markets are expensive. That is not to say they cannot appreciate further but we would not wish to own such stocks at this point. However, the bull market has not equally lifted all stocks and we can still identify attractively valued companies. For example, Jardine Matheson, which was added to the portfolio in the current quarter, is an investment company with controlling interests in a portfolio

business operating primarily in Greater China and South East Asia. Businesses include retail, auto and heavy equipment distribution, hotels, property investments, and infrastructure. Most of these businesses are strongly positioned within their market and we would expect the group to produce earnings growth in the order of 15% over the next five years. Today the stock trades at a price earnings ratio of 14, which given the quality of the underlying businesses and the strong balance sheet, is surely an attractive valuation for all but the most dire outcomes for regional growth. Other stocks that offer similarly compelling cases include Hutchison Whampoa (HK and Chinese ports, mobile telephony), Samsung Electronics, Far Eastone (Taiwan mobile telephony), Kangwon Land (Korean casino), and Bangkok Bank. Our approach at this point is to continue to invest in stocks where valuations are attractive, while maintaining reasonable cash balances that can be put to work if there are periodic down drafts.

**A last point to note is that currencies may well act to buffer Australian investors from the worst of any sell-offs in Asia.**

As most of the scenarios that would lead to a sell-off in Asian equities involve lower expectations for global economic growth, it is likely that the Australian dollar would depreciate in such circumstances given its strong correlation to commodity prices. As the Fund has minimal exposure to the Australian dollar, this would potentially offset losses from stocks. Indeed over the last six months much of the moves in Asian stocks (both up and down) has been countered by moves in the Australian dollar. A further consideration is the substantial undervaluation of many of the Asian currencies, which should appreciate as part of the rebalancing of world activity.

## PLATINUM EUROPEAN FUND

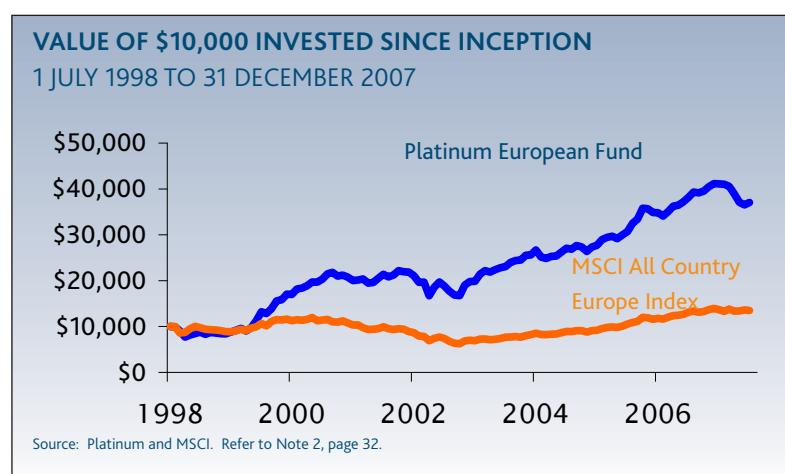
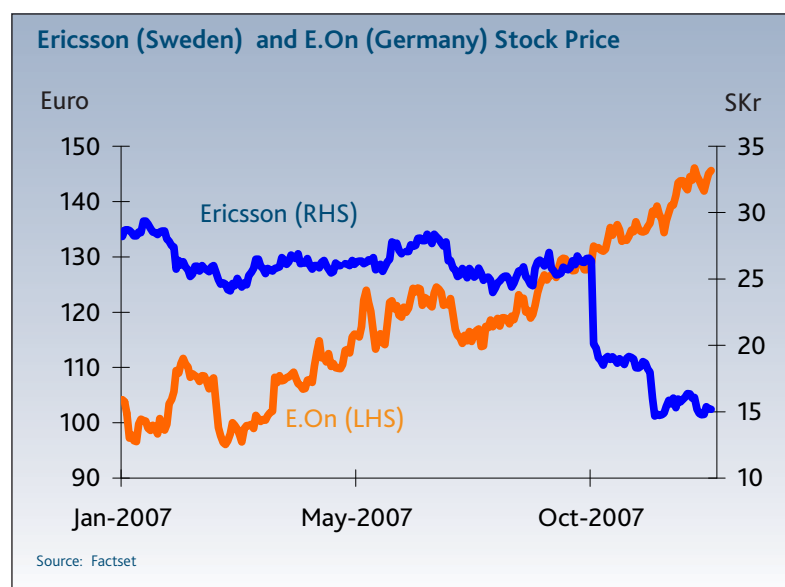


**Toby Harrop**  
Portfolio Manager

## PERFORMANCE

### European markets bumpy on the surface, weak underneath

Boosted by the (softer) Australian dollar, MSCI Europe was +1% on the quarter, and up 3% for 2007 as a whole. The market indices have flailed around with increased anxiety in recent months, and the underlying stock price movements have been more dramatic still. The charts below show the comfort taken in “safe haven” utilities (E.On is a large electricity company based in Germany, market capitalisation >Eu100bn), and show also the horror of Ericsson after poor results and confidence-sapping obfuscation from senior management.



More generally the pattern has been of quite steady performance from the larger stocks – especially in the defensive areas of food, pharmaceuticals, utilities etc – and violent instability in the <Eu2bn group, especially in the more cyclical areas of machinery/capital goods, construction and retail (UK especially). The list of stocks down 30-40% during the year now runs to several pages.

This pattern of narrowing leadership, and greater volatility, is a familiar one in the latter stages of a bull market, but even so it is frustrating that the poor performance of some of our stocks (namely Ericsson and the small/mid cap holdings) has not been protected by the hedges in the German and Spanish indices. The Platinum European Fund declined 4.8% for the quarter and 2.9% for 2007, a disappointing outcome.

## COMMENTARY

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### **Company visits in November to Germany, France, Spain, Norway and the UK**

Five or six highly prospective investment ideas are a very good return from a two week excursion (entailing 40 or so meetings). To clarify a couple of other ideas, and to confirm that three existing positions are unlikely to contribute, means that 12-15% of the portfolio has been changed as a result of the meetings. This productivity is a function of a promising opportunity in the markets, namely the attractive valuation of some large, steady growth companies (ie. compared to the recently lauded commodity “cyclicals” like steel, mining, energy etc). Where management meetings confirmed that the coming 3-5 years are highly likely to offer continued growth, we’ve started to buy the stocks for the Fund.

Software giant SAP, specialising in so-called enterprise resource planning (ERP) programmes, is notorious for the disruptions many customers suffered when implementing the famous “R/3” product. This was the software that established SAP as a major player in the 1990s, and it required customers to match their procedures to the

programme’s standards. The additional general chaos of “corporate globalisation” (ie. business processes being standardised across geographies) meant that R/3 was a boon for IT implementers and consultants everywhere. Several years of steady growth – and unstinting product development – later see SAP selling robust, internet-enabled ERP software upgrades, with extra modules to manage supply chains, customer records, and much else in between. The real trick – and the value of meeting the management – was to understand that the good growth and profitability comes in the 2-4 years *following* customer upgrades, as they buy these extra modules, (and make SAP hard to dislodge!) Thus knowing the proportion of upgraded customers today gives us a solid basis to forecast earnings in 2008/9/10 – 12-15% growth pa is likely. This company is a key example of a stock with a fabulous track record and high probability of near term prosperity, yet which trades at its lowest multiple in many years. The Fund has 3.6% in SAP.

Energy efficiency as a sales and profits driver was a theme in our trip, adding to our ongoing attempts to invest in the solar energy sector (where great excitement has made direct plays uncomfortably pricey – we own some of the equipment suppliers to the solar cell manufacturers). EU energy usage directives are handed down from Brussels, tax incentives are offered in France and additional requirements are legislated in Germany and Sweden. Thus kWh of electricity usage per m<sup>2</sup> of building space (down from 400 to 170 in 30 years in Germany, planned to halve again by 2020), and investment payback periods (3-5 years for public and residential respectively) for energy efficient glass etc are becoming common parlance. For a typical house in France, a Eu10-15,000 investment in insulation and coated double glazing etc should cut electricity usage by 60-80%. Whether motivated by political/social issues, or its discomfort as an energy importer, Western Europe is leading the way on reducing energy usage, and the resident companies have the leaders’ advantage over foreign rivals (for a time). We met and bought stock in the French electricals giant Schneider (variable speed drives, all sorts of building controls etc). In addition we met building materials trailblazer St Gobain, and await

an entry point (the share price is falling due to worries over US/UK construction volumes).

A dozen or so meetings in Madrid marked our first visit to Spain in several years. Our interest stemmed from that country's wild property market and we were interested in the health of their banking system. The general conclusion was to remain cautious - half a million housing starts per annum in recent years is probably nearly double the "necessary" quantity, and the overhang will take time to work through. However, the dire predictions for Spain's banking system (with a 9-10% current account deficit funded by foreigners via the Spanish banks and the resultant Spanish property bubble) are probably exaggerated. Firstly, the Euro is what it is! Spain's profligacy is allowed by a system which for the moment is stable (without the Euro, Spain could expect higher interest rates or a weaker currency or both). Secondly, the Spanish central bank is a prudent regulator who has required the local banks to have the highest general provisions against their loans that we've seen in Europe. And with most banks wrongly guessing

that the housing boom peaked several years ago (!), they have generally been cautious, and hold "loan to value" ratios around 60%, with only 10% of the loan book above 80% (and that portion insured). And thirdly, the Spanish infrastructure boom is ongoing – most are familiar with the daring architecture from Bilbao to Barcelona – but Madrid's ring road system, the Madrid-Barcelona high speed train link, and the stunning new terminal at the capital's airport all highlight the benefits of the boom. The government, in surplus and conscious of the economy's vulnerability to a slowdown, will press on with major projects to offset the residential building contraction.

Our meetings in Norway and England were highly productive and may lead to the accumulation of some new holdings.

With its 40 or so company investments, the Fund has 74% net exposure to European stocks at the end of 2007: 7% cash and 19% shorts in the German and Spanish indices offsetting the 93% invested position.



## PLATINUM JAPAN FUND



**Jim Simpson**  
Portfolio Manager

## PERFORMANCE

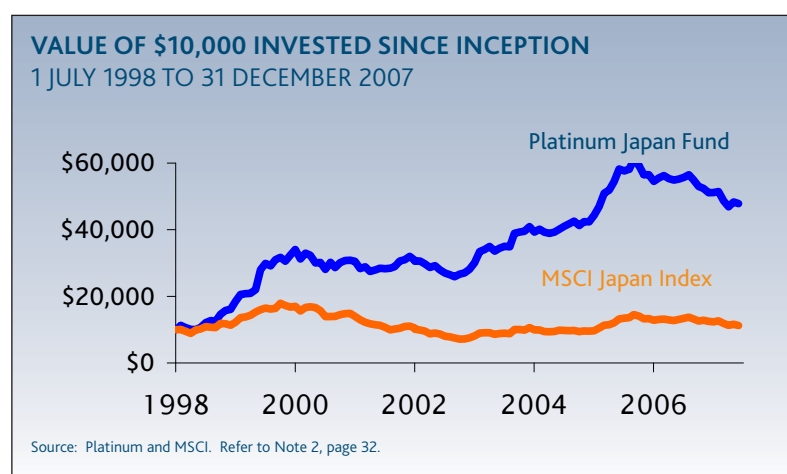
Fund performance continued to suffer, falling by 1.7% over the quarter to cap a year in which the Fund fell by 13.3%. On a positive note the relative performance of the Fund has continued to improve throughout the year with the MSCI Japan index falling by 5.3% for the quarter. Whilst every sector in Japan fell this quarter, it was the commodity and real estate related sectors that bore the brunt of the selling. As we have stated previously we had been underweight the commodity space for some time. Additionally, some of our larger positions stood up quite well against the market retreat, including West Japan Railway, Inpex and Nitto Denko.

## COMMENTARY

There is a trick marketing people sometimes pull to get their audiences' attention at financial seminars. Across the top they list say ten stock markets and down the columns the returns of each market for each of the last 10 or 15 years. There is nothing more tantalising than to be denied one of these rows and being asked to identify the best performer in that year. So begins the sermon.

DISPOSITION OF ASSETS		
REGION	DEC 2007	SEP 2007
JAPAN	96%	97%
CASH	4%	3%

Source: Platinum

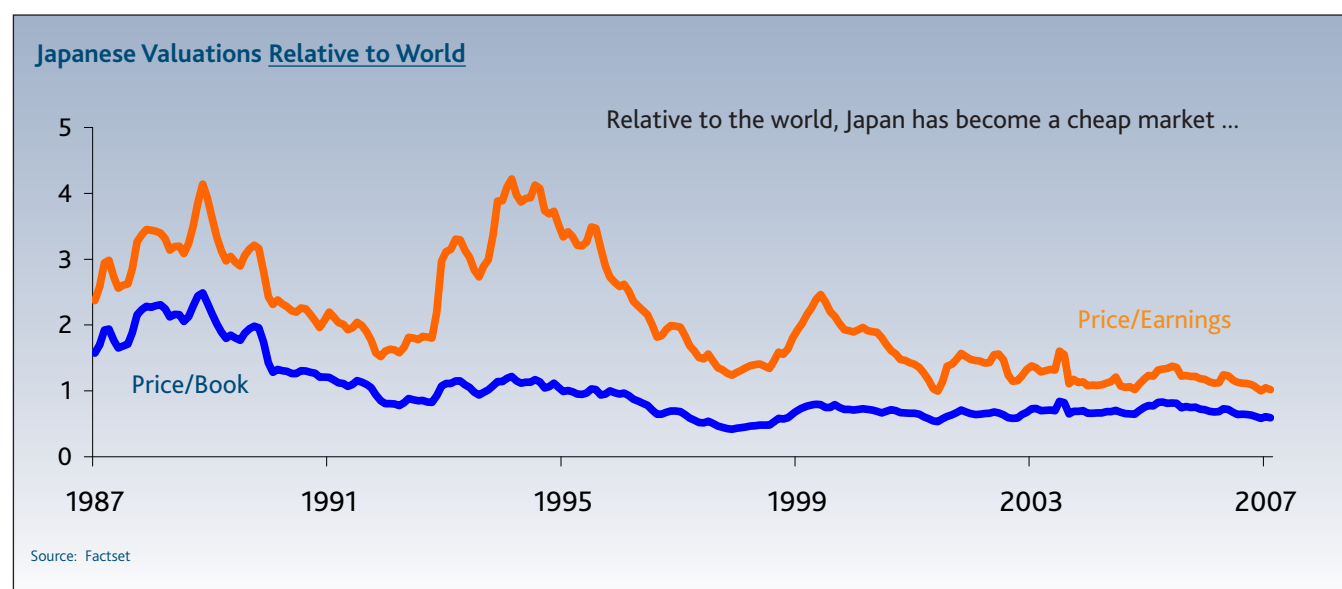


Fund management is no different from any other activity; the diagnosis can be correct but the timing is usually problematical. That is how we see the Japanese market today. Profit recovery in the last five years has been on par with the other Western markets yet the derating has been so much more severe.

Being among the few developed markets with vast domestic savings, one might have thought at the outset that the Japanese market would have been buoyed by these surplus savings as professionals, saddled with the responsibility of protecting those heading for retirement, might have preferred to purchase growing income streams offered by equities over nominal assets such as cash or Government bonds. Well, it has not happened that way and instead, the pros have found a host of reasons to avoid the market. We sometimes describe this as finding the words to fit the music. These words include population shrinkage, weak domestic demand, inept government, clannish corporates and disrespect for shareholders. We agree totally with this script. We would also like to suggest that each of these charges can be levied to the heartland of capitalism on different occasions. Many European countries are, for example, facing stagnant population growth or even declines but you wouldn't know it from their stock markets'

behaviour. As for slow growth or growth dependent on external stimuli, we can again point to several European countries including that powerhouse, Germany. Thirdly, inept government might be considered the norm rather than the exception and on the fourth charge of clannish corporates, there are examples in virtually every country in which we invest; think the Chinese tentative bid for Unocal, directed mergers in France and foreign ownership laws in general. As for the last charge of disrespect for shareholders, the most flagrant example of this was the option debauchery in the US some years back in the name of co-incident interests. There was also the accompanying muddled thinking about the accounting treatment involved. Where optimists do have a case to answer is that Japan faces all these charges at once!! This is unforgivable to foreigners (and domestics alike) and they have seen selling to a position where they are now a third underweight. This suggests to us that the first correction in the bull market that began in 2002 is pretty mature.

More credible than the above observations is the reality that a representative *portfolio* of shares in Japan would be on a PE of 16 times ie. an earnings yield of 6 to 7% after tax in a country where the cost of money is say 1% after tax. This wide carry would make most infrastructure funds or REITS look



extremely pedestrian!! The missing ingredient is CONFIDENCE and of course the fact that earnings do not equate with immediate cashflow.

The above notion may be considered hypothetical but even with only 50% leverage, the interest would be easily covered by dividends and the geared portfolio could yield a total real return of perhaps **14% pa real return** in the event of the Japanese market reverting to its 105 year trend of REAL arithmetic mean return.\*

Yes, you can dismiss this as nonsense but one needs the perspective of time to be a sound investor and it has been the root to the making of great fortunes when risks were being disproportionately valued over reward.

In today's hot commodity boom, investors seem to have forgotten how miserable they were in 2003. At that time investors in Australian resources faced exactly this test of confidence and perspective, and fared miserably when they allowed Mount Isa Mines to be bought for a pittance. That company now earns, in a single year, what the bidder paid for the entire entity. (Importantly, the re-emergence of China didn't begin in 2003.)

Our portfolio comprises a wide range of interesting companies. Some relatively dull on the outside like Sumitomo Chemical except for its unusually attractive joint venture that gives it privileged access to cheap Saudi gas in an energy deprived world; or West Japan Railway that looks to have a locked in growth rate of 10% plus. There are other domestically orientated companies like the Obayashi construction group that is selling for less than its portfolio of leading Japanese blue chips, and yet faces an improving outlook for its construction business. Having felt the initial assault from the recently privatised Japanese postal service, Yamato, the dominant express delivery company is recovering its poise and yet is on its lowest rating in 25 years.

Alternatively there are high technology plays like Nitto Denko, Tokyo Electron, Ulvac and Ushio with world leading positions in each of their speciality fields with market shares variously at 30% or more and profitability to match. We also own the most

successful car maker in the world, Toyota, and its component making shadow, Denso, who are sweeping all before them.

We like what we own and see these companies growing whether the Japanese population shrinks or not and whether the government governs well or not. As history will attest, only in the most dire of circumstances do these factors really matter. So long as the leaders of a capitalist enterprise know where they are trying to head, they have seldom been thwarted. The companies that we own fall into such a category where they have few fires to fight and clear strategies that are being executed with energy and efficiency. As an *equity investor* one can't ask for more unless the shares are expensive. This is not the case in Japan today.

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## CHANGES TO THE PORTFOLIO

Stocks Bought: Mitsubishi Rayon, Sumitomo Electric, Ulvac, Mitsui Fudosan

Stocks Sold: Chiyoda, Dowa, Tokuyama

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## OUTLOOK

We refer to our September 2007 quarterly report outlook which states the case for Japan. Clearly what has changed since then is that the world is becoming a nastier place due to a rolling credit crunch. However, we would reiterate that Japan should remain a safe haven in these times because it has external surpluses as a country and internally personal and corporate leverage remains at moderate levels due to after effects of the Japanese recession. Japan should outperform in down markets.

\* Dimson, Marsh & Staunton (ABN AMRO)

## PLATINUM INTERNATIONAL BRANDS FUND



**Simon Trevett**  
Portfolio Manager

## PERFORMANCE

The International Brands Fund gained 3% in the quarter compared to the Fund's benchmark, the MSCI World Index, which returned -1%. Over twelve months the Fund has maintained a low level of hedging against the appreciating Australian dollar thus detracting from performance. The MSCI World Index returned 0.2% for twelve months whilst the Brands Fund returned 3.3%.

A modest level of short positions against the French CAC index and at times against the Indian Nifty index provided some degree of stability against the volatility in the markets but neither position produced positive returns.

The Fund's performance benefited from the takeover of our holding in Grolsch during the quarter at a premium of more than 80% to the average share price over the previous month. Other notable performances include results from Microsoft, which positively surprised a sceptical market at the beginning of the quarter and the performance of LG Electronics where we took the opportunity of a strong run up in the share price to reduce the position.

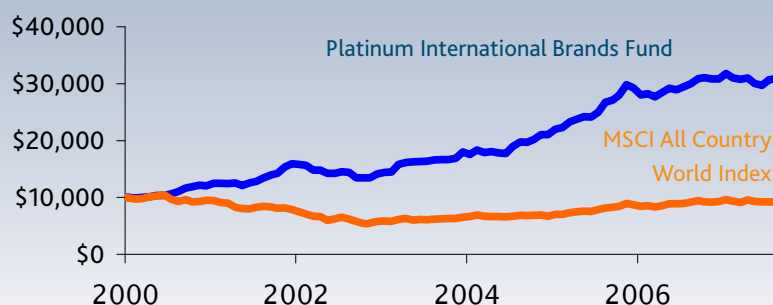
Our investments in Indian branded consumer companies and the development of consumerism in that economy has continued to provide good returns. Despite remaining confident on the growth of the economy and increasing demand for branded goods, the bias, however, has been to sell throughout the quarter as the stocks have generally performed well. The investment in the tobacco company ITC was sold.

### DISPOSITION OF ASSETS

REGION	DEC 2007	SEP 2007
EUROPE	44%	39%
ASIA (INCL KOREA)	26%	23%
JAPAN	19%	21%
NORTH AMERICA	6%	7%
SOUTH AMERICA	1%	2%
CASH	4%	8%
SHORTS	4%	6%

Source: Platinum

### VALUE OF \$10,000 INVESTED SINCE INCEPTION 18 MAY 2000 TO 31 DECEMBER 2007



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

The Fund has been building a position in a leading family owned champagne house, which holds an approximate 6% global market share. Interestingly, the valuation is covered by the assets including some 24kms of caves housing the champagne and with little ascribed to the international earnings potential of the brands. This at a time when the industry is actively seeking “mature inventory” with some of the industry’s premium brands being forced to ration supply through price increases. The company’s profitability might increase markedly as the product mix shifts towards premium brands and we suspect some years of good earnings growth ahead.

It may be interesting to note that China is just discovering champagne, particularly in the business community and international hotels, albeit only a meagre 60,000 cases are currently being consumed!

After many years of splendid returns the Fund sold its investment in the chocolatier Lindt and Spruengli and may revisit this company at more appropriate valuations.



## COMMENTARY

There is a great deal of pessimism expressed about the financial capacity of US consumers to maintain their prodigal expenditure in the face of numerous headwinds; rising mortgage payments, credit card payments that can no longer be funded from home equity withdrawals and rising energy and petroleum costs. We have long expressed views on this subject and accordingly the Brands Fund has been particularly circumspect when evaluating the extent of involvement by our companies in the US market. So whilst not immune from the impact of a slowdown by the US consumer, the Brands Fund is not unduly exposed.

Although we have expressed our reservations and concerns to the management of our companies regarding their overt enthusiasm for participating in North America, we are regularly rebuffed. They continue to point to the size of the market and the importance of participating successfully for the credibility of the Brand. Interestingly, and perhaps with a high degree of selection bias on our part, many refer to their US activities as “emerging”.

A number of the Fund’s investments can be recognised as having similar attributes to those underlying our investment in Grolsch. Such attributes include being family owned, relatively new senior management (quite often from outside the family), a strong balance sheet and a focus on the cash returns of the business. More interesting is the temporary setback in earnings that each of these companies has incurred for a variety of reasons and perhaps a lack of recognition by the market of the longer term earnings potential of the brand. It might be assumed that this description only applies to smaller companies, of which the Brands Fund has several “hidden gems”, but such a description could also aptly describe some of our larger companies such as BMW and Estee Lauder.

Grolsch had undertaken the building of a new state of the art brewery at the same time as their home market had become difficult, thus depressing the share price. As we accumulated shares we determined that we were paying little for the



earnings potential of the brand, especially considering the international possibilities and the desire of the major brewers for uniquely positioned premium product. SABMiller in their acquisition of Grolsch have acquired a modern, under-utilised brewery with a brand built over 400 years that can be rapidly expanded in their international markets, especially the Dutch heritage South African market.

We remain enthusiastic about the prospects for SABMiller with more than 80% of earnings from near monopoly or at least leading positions in emerging markets and at a valuation that compares favourably with developed market beverage companies, including that of the major Coke bottlers who don't have the potential earnings growth and pay a rent for the use of a brand!

It may also be worth noting that SABMiller has one of the most successful joint ventures in China and can now claim that the Snow brand is the market leading beer brand in China and in the top three rankings by volume globally. How long before we start to hear of the Snow brand as a significant international beer brand available in hundreds of countries? Perhaps we might also imagine that the Chinese Sovereign Fund might consider full ownership of a successful international Chinese brand?

## OUTLOOK

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The Fund is fully invested with cash levels relatively low and yet there remains a willingness and opportunity to increase many of the investments. The operational outlook for a number of our companies remains robust with reasonably attractive valuations despite the worrisome headlines. We remain confident in many of our investments although clearly they will not be immune from any overall market sell down.

In its enthusiasm for chasing spectacular growth, that is pursuing high growth companies in emerging markets on equally spectacular multiples, the market appears to have neglected some very well managed premium branded companies on modest valuations producing what used to be considered good growth in earnings. We suspect that these will be rediscovered as some of the enthusiasm for the risk inherent in emerging markets is brought into question and the need for a higher risk premium evaluated.



## PLATINUM INTERNATIONAL HEALTH CARE FUND



**Bianca Elzinger**  
Portfolio Manager

## PERFORMANCE AND CHANGES TO THE PORTFOLIO

PERFORMANCE (compound pa, to 31 December 2007)					
	QUARTER	1 YR	2 YRS	3 YRS	SINCE INCEPTION
<b>PLATINUM INT'L HEALTH CARE FUND</b>	<b>1%</b>	<b>0%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>
<b>MSCI HEALTH CARE INDEX</b>	<b>0%</b>	<b>-6%</b>	<b>-2%</b>	<b>4%</b>	<b>5%</b>

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

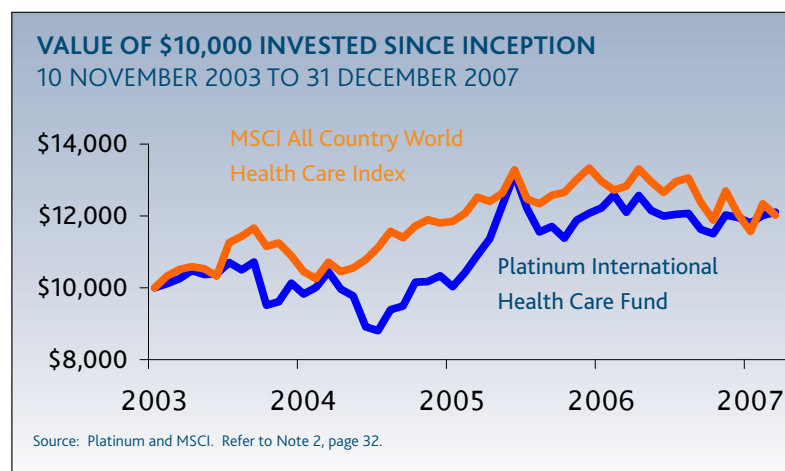
This quarter some of our long-standing biotech holdings contributed strongly to the performance of the Fund. US Biotech Rigel (+160%) presented outstanding results for its new rheumatoid arthritis drug. The company will now be on the radar screen of many big companies.

Most disappointing this quarter and for the year has been the performance of some other biotech holdings (down 10-30%). A combination of risk aversion and lack of new data was the reason for their lack of performance.

The continued disinterest in big pharma holdings Pfizer and Novartis (-12%) also weighed negatively; while Johnson and Johnson have performed better as the drug pipeline is becoming visible (+1% for the quarter).

DISPOSITION OF ASSETS		
REGION	DEC 2007	SEP 2007
<b>NORTH AMERICA</b>	<b>53%</b>	<b>54%</b>
<b>EUROPE</b>	<b>24%</b>	<b>23%</b>
<b>JAPAN</b>	<b>6%</b>	<b>6%</b>
<b>ASIA (INCL KOREA)</b>	<b>3%</b>	<b>3%</b>
<b>SOUTH AMERICA</b>	<b>1%</b>	<b>1%</b>
<b>CASH</b>	<b>13%</b>	<b>13%</b>
<b>SHORTS</b>	<b>1%</b>	<b>1%</b>

Source: Platinum



Our tool and diagnostic theme (25% of the portfolio) gained traction, with Invitrogen (+65%) having had a remarkable year as had our molecular diagnostic holdings Cepheid (+210%) and Qiagen (+28%). We decided to exit Invitrogen, as the company will start to look for acquisitions, usually a more volatile time for the stock. Other positions were reduced marginally.

We continue to maintain a good exposure (22%) to selected generic companies and big pharma holdings with a focus on diversity, change and pipeline. Biotechs are a big part of the industry and play a crucial role in pharma's success; our exposure to a diverse set of profitable, drug and technology companies is steady at about 25%.

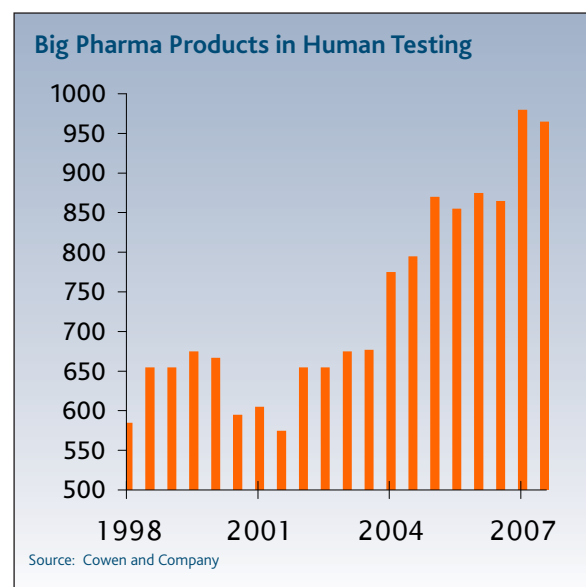
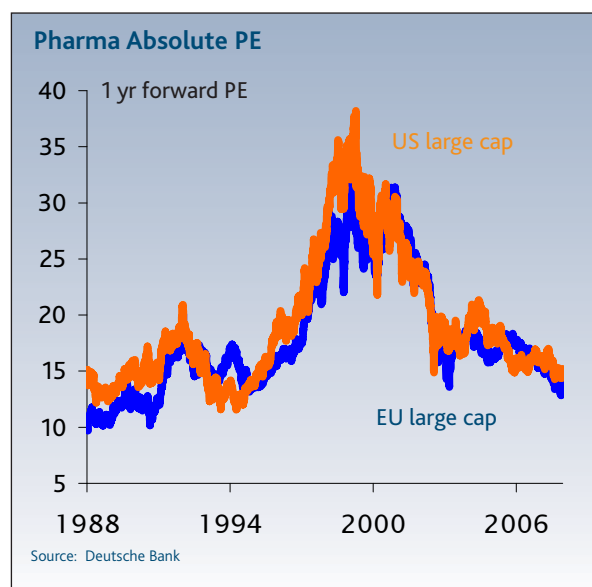
## COMMENTARY

The widely held view is that pharma's future is looking gloomy. This we have seen before. In the nineties the possibility of government price controls in the US was a big problem and a pharma recovery was unthinkable. History shows otherwise. The recovery did happen and pharma entered one of the most successful product cycles for which preparations had started in the eighties. (The first

graph below shows one year forward PEs over the past 20 years).

Looking at pharma today, it is again very easy to join in and believe that the good times are over for this sector. The business model or the "sales and marketing binge" of the nineties is now seen as completely flawed. Sales reps, consumer advertising and small molecules that one can take every day for everything no longer work. Regulators used to be easy going, approving drugs quite easily and reimbursement agencies did not ask a lot of questions. Money was made without difficulty and there was no need to keep scientists focused on building a large pipeline.

Today the reverse is true and the exciting, mostly ignored fact, is some pharma companies have done something about it. Resilience, determination and a solid cash position have been features over the past five years. The big problem is time and the long development cycles of a product (10 years to develop a drug). We are about half way into a new cycle and it is all about R&D and diversity, while sales and marketing budgets are slowly in decline. The graph below is a striking example of the hard work at pharma labs; it shows the number of big pharma products in human testing from the late nineties until now.



Novartis, a Swiss-based pharma formed in 1996 through the merger of Basel-based Ciba-Geigy and Sandoz, has been busy rebuilding itself for the last 10 years. Part of the strategy has been diversification in health care and a complete overhaul of its global R&D division. The construction of a US and a Swiss R&D campus, the purchase of a generic drug manufacturer, the acquisition of a US vaccine company and the divestments of divisions such as agriculture and speciality chemicals, all have been part of a long-term plan. The company's Swiss headquarters have been a major construction site for several years and only last year the new R&D campus became operational, marking the full integration of the Sandoz-Ciba labs. Despite all the "building" activity, new products were launched successfully, the R&D pipeline continues to fill and the generic division is doing very well. Diversity and the strong R&D emphasis will pay off for Novartis in the coming years.

## OUTLOOK

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In the coming year US politics will dominate the headlines for almost every sector of health care. Scrutiny from regulators and health insurers will remain strong and having a diverse product portfolio will be beneficial.

Keeping these aspects in mind diagnostic companies will continue to be well-positioned, as will be companies offering services or products allowing the government to save money. Generic companies or consumer health companies are interesting themes to contemplate further.

The consolidation between pharma and biotech will continue, particularly given the strong cash positions of some pharma companies. At the same time we will see progress in places such as China and Asia.

## PLATINUM INTERNATIONAL TECHNOLOGY FUND



Alex Barbi  
Portfolio Manager

## PERFORMANCE AND CHANGES TO THE PORTFOLIO

### PERFORMANCE (compound pa, to 31 December 2007)

	QUARTER	1 YR	3 YRS	5 YRS SINCE INCEPTION	
PLATINUM INT'L TECH FUND	3%	-2%	7%	11%	10%
MSCI IT INDEX	-1%	2%	6%	5%	-12%

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

During the quarter the Fund's performance benefited from a recovery in our Japanese and Asian holdings after the sharp sell-off of the previous three months. We were pleased to see our thesis on **Microsoft** (the Fund's largest position) confirmed by the strong results reported for the September quarter and this contributed to a positive re-rating of its stock price. **Cisco** reported strong results but it indicated that short-term uncertainties in some sectors (namely US financial services, retail and autos) may slow an otherwise very strong growth outlook globally. Cisco's stock price was marked down in reaction to this cautious commentary but we remain confident about the long-term growth story.

US listed Chinese solar leader **Suntech Power** went from strength to strength after revising upwards their forecast for future revenues and profits. We decided to reduce our position in Suntech after the stock reached our valuation target. We may revisit the story at more attractive entry prices and we are looking at alternative names in the same area. We remain convinced that "green-technologies" will continue to attract investor support in light of the increased awareness about climate change and energy conservation.

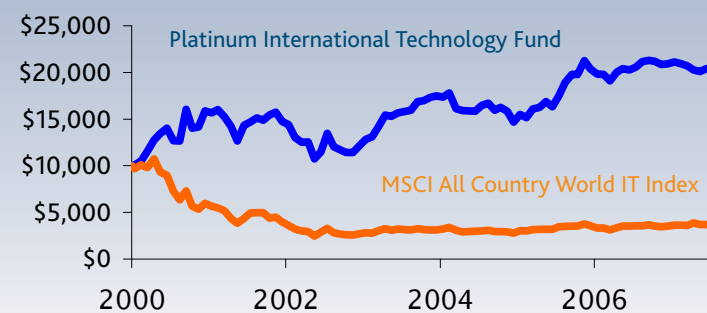
### DISPOSITION OF ASSETS

REGION	DEC 2007	SEP 2007
ASIA (INCL KOREA)	31%	29%
JAPAN	18%	17%
NORTH AMERICA	15%	24%
EUROPE	14%	13%
OTHER	3%	0%
CASH	19%	17%
SHORTS	1%	2%

Source: Platinum

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

18 MAY 2000 TO 31 DECEMBER 2007



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



In Europe the Fund faced a setback with **Ericsson** announcing a profit warning and triggering an instant 30% collapse in its stock price. To some extent Ericsson has been a victim of its own success. After aggressively raising its market share in its core business (wireless telecom equipment), while most of its competitors were losing money, Ericsson progressively shifted its attention to emerging markets. Here the extremely aggressive public tender tactics of some telecom operators (particularly in India and China) have forced Ericsson to enter into mega-contracts at initially punitive conditions. While winning these contracts means Ericsson will likely remain the long-term supplier of choice in markets with hundreds of millions of wireless subscribers, in the short-term, it is going to have a negative impact on its profitability. Moreover, this emerging market expansion came at a time when more mature markets like Europe and the US had just completed their initial 3G roll-outs and operators are not prepared to invest more aggressively until they see a more convincing uptake of 3G usage (mobile video, wireless broadband for laptops etc). We underestimated the temporary margin erosion caused by these factors and note the short-term focus of most investors.

In this respect the Australian wireless market seems destined to be ahead of foreign markets! With its decision to aggressively press on with 3G investment a year ago (with their Ericsson supplied NEXTG infrastructure) Telstra has built a mobile network with more coverage, higher speed (theoretical 14.4 Mbps) and more capacity compared to its competitors. Witnessing Telstra's success, Vodafone Australia has recently decided to bring forward its plan to cover 95% of the Australian territory with an upgraded 3.5G network with similar specifications. This indicates to us that there is still plenty of potential business for a competent technology supplier, and Ericsson remains the most profitable and most technologically advanced one in the global wireless telecom equipment. We are confident of the long-term potential and recovery of the stock price, in light of the solid financials and extremely depressed valuation (price earnings ratio 11x for 2008).

Major purchases: We introduced a position in **Mobinil**, the leading mobile phone company in Egypt (48% market share). The country has an 80 million population with cellular penetration at 25-30% and growing fast. With tariffs coming down and subscriber additions accelerating, Mobinil's revenues have been recently growing at 25-30% year-on-year. Trading at 10-11x PE for 2008, the company is one of the cheapest in the telecom emerging market universe and yet it presents an attractive growth profile.

Major sales: We reduced our position in **ZTE** (telecom equipment supplier), **Corning** (LCD Glass) and we exited **Liberty Media Interactive** (Home Shopping channels and e:commerce).

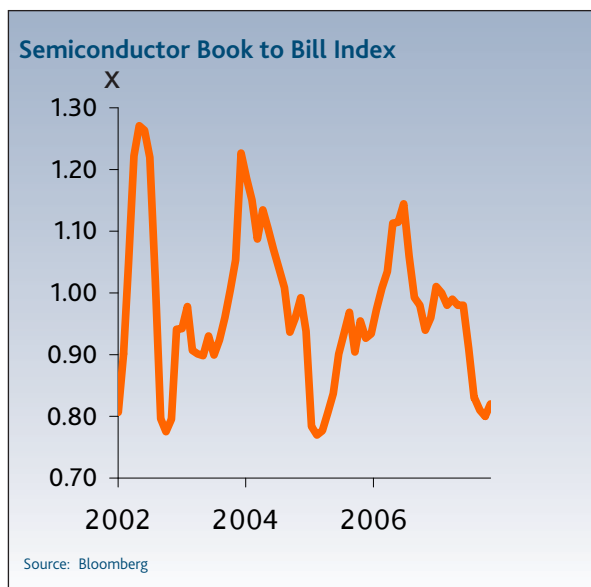
## COMMENTARY AND OUTLOOK

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The Fund has had a limited exposure to semiconductor and semiconductor equipment stocks over the last 12 months, reflecting our view that excessive capital expenditure in memory semiconductors (DRAM in particular) would limit return on invested capital for a while.

Semiconductor stocks have been among the worst technology stock performers in the second half of the year, with the Amex Semiconductor Holders Index down 28% and the Philadelphia Semiconductor Sector Index down 32%. To some extent semiconductor stocks are already anticipating a recession and factoring in a slowdown of economic activity. While the first part of 2008 will probably see deterioration in the semiconductors supply chain, our experience in the past suggests that when some "stress" limits are reached, the reversal of the trend cannot be that far away.

Given the cyclical nature of this industry, a useful indicator to analyse is the Semiconductor Book-to-Bill Index, representing the ratio between orders and sales in their aggregates. The Index has been at 0.8x for the last few months, a level which in the recent past indicated major inflection points (see chart over). While the Index could go below current levels (in 2001 in the aftermath of the Internet

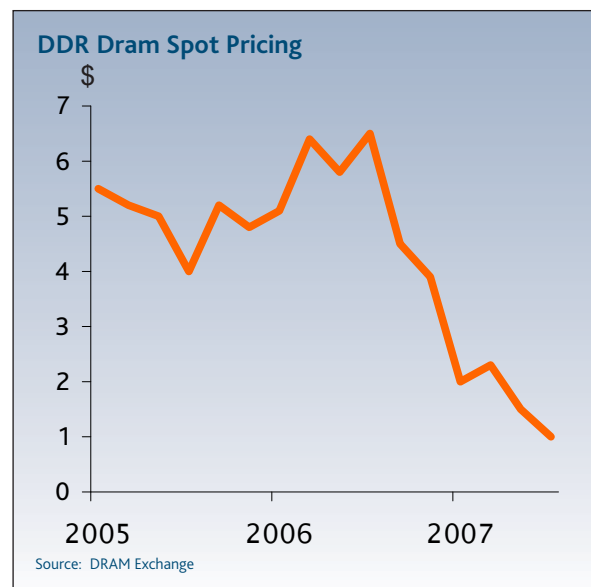


bubble it reached 0.45x!) we don't believe that such extreme adjustments are required this time.

Another widely followed indicator is the DRAM spot price. The chart illustrates the severity of its price decline: from \$6-7 to \$1-2 in the last 12 months!

While demand for PCs and notebooks has been growing solidly over the last 12 months, DRAM production over-capacity has been such that it has probably created the conditions for some marginal players to seriously reconsider their future investment plans. One example is DRAM manufacturer Micron Technology which recently announced razor thin margins, clearly suggesting that its appetite for additional capacity expansions may soon wane. When other players feel the same need and/or they start retiring their older 200mm factories, pricing conditions will improve dramatically.

Currently we have only two positions with significant exposure to semiconductors (Samsung



Electronics and Taiwan Semiconductors), both of which retain our confidence, given their attractive valuations and leadership in their respective fields. Entering 2008 we think we will have an opportunity to buy other interesting names in the sector at attractive valuations. Once again the market focus on the short-term could be the catalyst to determine these opportunities.

The Fund has reduced its exposure to US names, reflecting our concern about the US economy's ability to avoid a severe slowdown. While a US recession will have implications for global growth, we are convinced that technology will be increasingly less dependent on the US. Already 61% of handset demand and 47% of PC demand and nearly three quarters of telecom infrastructure are coming from emerging markets.

The Fund's geographic exposure is currently: Greater China (23%), Japan (18%), US (15%) and Europe (14%).

## BICYCLING IN CHINA

### Preface from a private investor

I am an investor with Platinum in a portfolio of managed funds. Like you, I read the prospectus and the brokers' recommendations; I look at the returns and indexes and graph them in ways that speak to me. My version of due diligence allows me to do my own investing and still sleep at night... most nights. But how I am investing the fruits of my labour and my success here affects my family's future so I find it a bit scary. Fund metrics are one aspect, but investments in developing countries feels very remote from my experience. Seeing is believing and having been there brings an understanding nothing else can.



### Discovering China on a bicycle

I have always loved travel; it occupies the first line on my budget and is the favoured child of bonuses and unexpected windfalls. I am happiest when I am on a trip and have a ticket in the drawer for the next one. In the hall outside my bedroom is the biggest map that would fit and next to it, a series of magnetic strips. Each strip is titled: This Year, Next Year, Before Retirement, After Retirement, and has a number of movable magnets with my dreams - horseback riding in Iceland, the Sahara Music Festival in Mali, Patagonia. They get ordered and reordered and are often studied the last thing in the day as I head to bed. China has been migrating to the top of the tower for some time, my investments know it well, but I've never been there.

I'm not really a good tourist; my tolerance for churches and museums is too low. I'd prefer to wander around, "talk" to people, see what they are doing, and admire the scenery and the architecture. Then there's the question of where to start. China is huge. Do you visit the cities or the country, the Great Wall and the Terra Cotta Warriors or the rice paddies? I love Paris and San Francisco - they are cities on a human scale but a visit of

China's cities I feared, could end up a long string of skyscrapers, construction and Ming vases. So, as my introduction to the country that is driving the world's economy, I chose to avoid big, westernised cities and head for rural China.

BikeAsia, a small company run by a couple of Aussies had made National Geographic Traveller's Top New Trips for 2007. The picture of a couple riding their bikes through unending rice paddies with a village in the distance got my attention. The trip that earned the prize is titled "Riding the Rising Giant", perfectly in tune with my desire both for an introduction to the country and an understanding of the growth and potential of China. It included 14 days of cycling through lush rural southern China. It sounded like biking through a traditional Chinese painting with dramatic karst mountains, wooden Dong minority villages, and bamboo lined rivers. The idea of doing this on a bike where you are really *in* it, not just *seeing* it, had huge appeal. This isn't passive travel looking at sites; you are involved with the people and the place and go home having experienced the country with a real feel for it. This sounded great. I like biking. I go to the shops on my bike most days and enjoy a weekend outing. I'm fit and active and confident that with a little effort I could be in good shape for the 40-80 km days they had planned and if not, there's always the van.

The trip started in Guilin, the only "city" on the itinerary. At 1.3 million it hardly qualifies as a Chinese city but it was busy, and noisy. I was surprised first by how western it was. While not a maze of skyscrapers, the look of the streets could have placed it in Melbourne with kids wearing the same fashions and workers in suits and ties. Retail shops had different signs but the same big brands. I had expected the odd Mao jacket but none was to be seen on day one. My decision to avoid big cities validated, we headed north into the Dong and Miao minorities' autonomous region of south-eastern Guizhou province. On the side of the road, in a village called Pingyong, Scott, our guide and owner of BikeAsia, assisted by Tang, local guide and part-time rice farmer, and Mr Mo, our van driver, assembled the brand new Chinese bikes and we headed out. Our group consisted of five travellers: a fun couple from Seattle, Washington; a well-travelled single fellow from California; and my partner and me from Melbourne. BikeAsia trips have a





maximum of 12 travellers and tend to get a lot of Australians, Americans, and Northern Europeans in the 30-55 zone, but the appeal of fully supported bike travel is wide and rides can get keen 20 somethings and 70 year old bike crazy grey nomads.

Our first afternoon's ride was 40 kms of gently undulating sealed road along the Pingyong River. We passed through villages and towns and were greeted by farmers harvesting in their fields and school children on their way home. That afternoon our first Chinese word, Nee How (hello) was cemented in our brain by frequent repetition as we greeted and were greeted. Not a single child called out hi or hello on that day, or for days to come as we wound our way through back roads and villages. We finished the day in Rongjiang, with dinner in what I would come to refer to as a "food garage". Neither a café nor a restaurant, these were the places chosen most often for our meals. Simple in décor, or lack of, they are open to the street, usually with a garage door façade, a table and wok or two in one corner, and a couple of large, low round tables with a collection of plastic stools and nursery school chairs. Tang and Scott would confer with the chef at length while we made ourselves at home, taking a length of "serviettes" from the decorative toilet roll holder placed on the table. Each meal was a dozen different dishes, local specialties and some that we got to know well - eggs and tomatoes, pork with peanuts, stir fried greens. All of them fresh, delicious, and just what my well-exercised body needed. This was a much appreciated side to cycle tourism - great local cuisine that you can revel in with no danger of coming home a few pounds heavier.

Our accommodation for the night, and the 13 nights to come comprised clean, simple rooms with ensuite toilets, sinks and showers (hot water intended, not always available). Some had the infamous squat toilet, and on more than one occasion the shower was hand held over the toilet - squat or otherwise. A couple of nights were in a true western style hotel and the most memorable in a beautiful wooden Chinese hotel.

The next morning's breakfast of noodles, hot doughnuts, and sweet warm soymilk, was in the Rongjiang markets, a minute from the hotel. Every week, traders from surrounding villages converge on Rongjiang dressed in traditional clothes, to sell wares ranging from hand-made brooms and sickle blades to unrecognisable fruits and spices and yellow ducklings squeaking in a basket. We sat in the middle of it between the farmer and the mechanic making quite a sight in our biking lycra, but comfortably welcome as everyone went about their business.

And so the trip continued, cool, sunny days of biking on sealed and some unsealed roads and one remarkable section through the rice paddies on tracks tended for





hundreds of years by the farmers who owned the field. The people were friendly and open; the towns were quiet as energy went into finishing the harvest, drying the rice, or enjoying a game of cards. Factories along the way manufactured their products in the way they had for years - laying the machined wooden pieces for car seat covers out to dry in the sun on huge tarpaulins along the road, or stacking the wood strips that would be exported as flooring veneers, and the drainage pipes that would go into a construction project.

Building activity was evident in every town and city but road building was the thing that struck me the hardest. We rode on huge highway projects in various states of completion, not one but a dozen, all over the countryside and the construction went on for miles. At other points, we used brand new highways, ready for the traffic that they don't quite have yet, but will.

Our ride took us from Roagjiang along the Duliu River to Congjiang, then to the charming village of Zhao Xing. This is a perfect wooden village which will, one day, be a major tourist destination. But until the road is improved it is a working town based on rice and chillies with few foreigners or Chinese tourists. The local specialty is a deep blue dyed fabric that is beaten with bamboo mallets until it shines, then draped along the front of houses to dry. A river meanders through the town and we wandered the back streets on our rest day watching the life of the Dong minority people who live here. A woman at her barrel of blue cloth and plant material explained the dying process to a couple of visitors. The visitors were two women who, it became clear, were travelling button sales people. It was obvious from the conversation, the gestures, and the few words we could pick up that they were as impressed with the natural dying and pounding process as we were.

A word on language and cultural challenges - this is one of the fabulous aspects of our bike tour - there were none. Scott has lived in China for five years and speaks good, workable Chinese. Tang, is amazingly self taught in quietly charming English. Both are knowledgeable and able to explain points of interest and cultural differences, often with historical perspective. In the pre-trip mailing we received a two page Chinese word/phrase list and part of the daily fun for our group was finding opportunities to place our limited vocabulary. The surprise and delight of a shop owner when we started a negotiation with an appropriately dramatic 'Tie Guila' (too expensive!) made shopping so much fun. On the last day of our trip, one particularly spirited negotiation attracted a crowd of a dozen locals and Chinese tourists to watch the foreigner with two phrases, and a pencil and paper for the pricing, drive a hard bargain. There was much laughter and a look of respect from the crowd. One fellow at the back confided in me, "She very good".

Our journey ended in Yangshuo - by far the most touristy town of the trip but by then I felt I had seen a slice of the China I was looking for and we could enjoy the advantages of this beautiful place in the karst mountains. We had cooking lessons and lunch at a Chinese cooking school, a painting lesson in a private studio where I attempted cherry blossoms and bamboo boats, a much needed therapeutic massage and TaiChi taught by an 80 year old master.

After two weeks and 600 kms in southern China I left with a desire to return and a sense of the road this rising giant is travelling that makes me feel happier about life there and more comfortable about my investments.

#### Anita Legacy

www.BikeAsia.com organise bike trips in China, Mongolia, Japan, Laos and Tibet.

## NOTES

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

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

Platinum International Fund:  
Inception 1 May 1995, MSCI All Country World Net Index

Platinum Unhedged Fund:  
Inception 31 January 2005, MSCI All Country World Net Index

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

Platinum European Fund:  
Inception 1 July 1998, MSCI All Country Europe Net Index

Platinum Japan Fund:  
Inception 1 July 1998, MSCI Japan Net Index

Platinum International Brands Fund:  
Inception 18 May 2000, MSCI All Country World Net Index

Platinum International Health Care Fund:  
Inception 10 November 2003, MSCI All Country World Health Care Net Index

Platinum International Technology Fund:  
Inception 18 May 2000, MSCI All Country World Information Technology Index

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

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

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

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

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

The firm was founded in February 1994 by a group of professionals who had built an enviable reputation. The investment team has grown steadily and PAM now manages around \$20 billion, with approximately 20% of this coming from overseas investors. The Company was listed on the ASX in May 2007 and staff remain the majority shareholders. The emphasis of the organisation is on managing clients' money rather than gathering funds: we have no sales staff and pay no inducements to promoters of our funds.

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

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