

CONTENTS

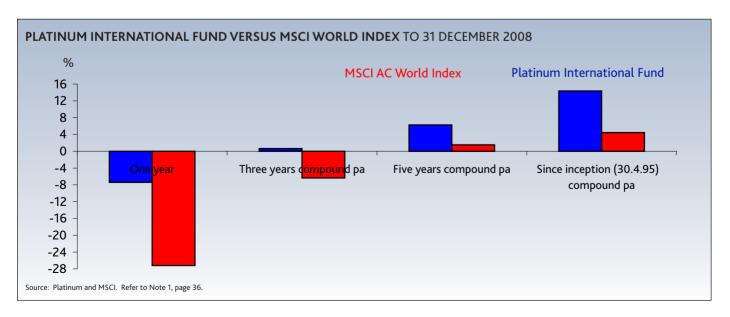
International Fund	page 4
The benefits of stock selection, shorting and currency management as defensive plays.	
Unhedged Fund	page 8
Geographic and industry considerations in the current portfolio.	
Asia Fund	page 12
Asian economic recovery linked to a domestic response to initiatives.	
European Fund	page 15
"We invest in companies, not markets".	
Japan Fund	page 19
Structuring a portfolio - the Yen makes a difference.	
International Brands Fund	page 23
Getting washed-up at a cost!	
International Health Care Fund	page 26
Understanding the role for biologics: Merck shows the way.	
International Technology Fund	page 29
Semiconductor blues.	

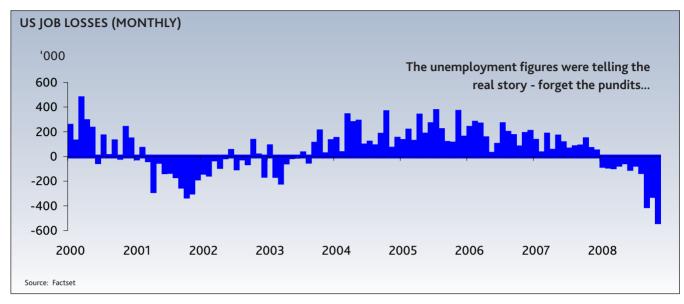
Experts ...

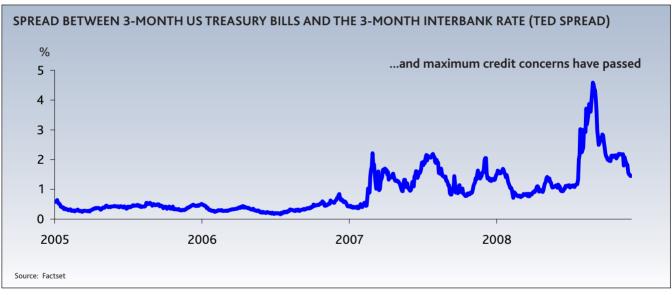
We recognise that our greatest untapped resource is our readers. If you are an industry expert, we would welcome your comments and ideas.

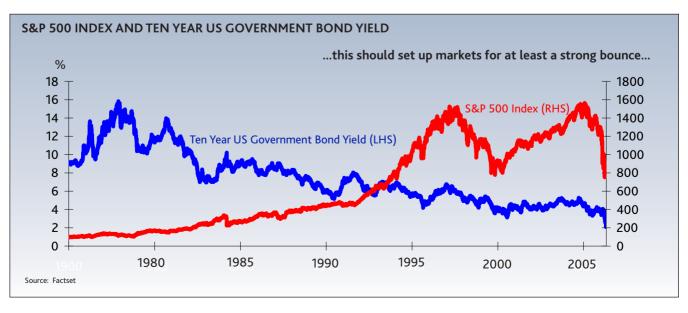
> Do email us at: commentary@platinum.com.au

	PORTFOLIO VALUE	QUARTER	1 YEAR	2 YEARS	3 YEARS	5 YEARS	SINCE
FUND				COMPOUND PA	COMPOUND PA	COMPOUND PA	COMPOUND PA
INTERNATIONAL FUND	\$7,402m	2.9%	-7.4%	-2.2%	0.7%	6.3%	14.3%
MSCI AC* WORLD INDEX		-12.2%	-27.2%	-14.6%	-6.3%	1.5%	4.4%
UNHEDGED FUND	\$49m	-7.4%	-20.7%	-9.0%	-0.3%	-	6.2%
MSCI AC WORLD INDEX		-12.2%	-27.2%	-14.6%	-6.3%	-	-0.4%
ASIA FUND	\$2,130m	-9.9%	-29.3%	-3.7%	3.0%	13.9%	19.4%
MSCI AC ASIA EX JAPAN IND	DEX	-11.2%	-40.0%	-13.1%	-2.2%	6.7%	9.6%
EUROPEAN FUND	\$193m	-13.0%	-25.0%	-14.7%	-3.3%	3.8%	10.2%
MSCI AC EUROPE INDEX		-13.9%	-34.0%	-17.6%	-5.5%	3.0%	-1.1%
JAPAN FUND	\$453m	6.8%	-7.7%	-10.6%	-8.8%	5.1%	15.2%
MSCI JAPAN INDEX		2.9%	-10.8%	-12.5%	-8.8%	2.5%	0.0%
INTERNATIONAL							
BRANDS FUND	\$402m	-4.7%	-18.3%	-8.2%	-1.8%	8.8%	11.4%
MSCI AC WORLD INDEX		-12.2%	-27.2%	-14.6%	-6.3%	1.5%	-4.6%
INTERNATIONAL							
HEALTH CARE FUND	\$16m	-8.1%	-15.8%	-8.2%	-2.2%	-0.1%	0.4%
MSCI AC WORLD HEALTH C	are index	0.8%	-1.0%	-3.7%	-1.7%	2.5%	3.4%
INTERNATIONAL							
TECHNOLOGY FUND	\$34m	-0.2%	-14.8%	-8.7%	-2.3%	2.0%	6.8%
		-15.0%	-30.3%	-15.7%	-10.1%	-3.9%	-14.7%









PLATINUM INTERNATIONAL FUND



Kerr Neilson Managing Director

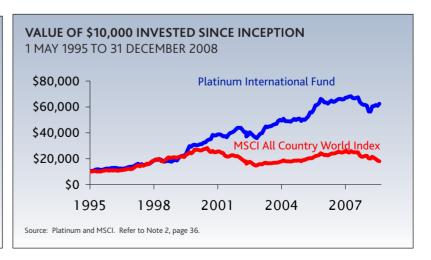
PERFORMANCE

The Fund has continued to be remarkably stable during these highly turbulent times. Of importance was what one avoided, as much as what one owned.

Thankfully we continued to avoid the western financials, resource producers and energy plays, and benefited from favouring the strong currencies, in particular the Japanese yen. Among our stocks we recorded mixed weakness. Companies with debt levels that would normally be regarded as tolerable were harshly treated early in the quarter on concerns about refinancing risk but these subsequently recovered strongly. Hence, the Fund was up 2.9% for the quarter, up 10.6% for the last six months and down for the year by 7.4%.

Though clients lost money, we certainly gave them more protection than was afforded by most of our peers and, as well, can report an outcome that is superior to that typically achieved in the Australian market. For the record, the MSCI All Country World Index (A\$) was down 12.2% for the quarter, -10.9% for the last six months and -27.2% for the year. Since inception the return from the Platinum International Fund has been 14.3% compound pa versus 4.4% compound pa for the MSCI World Index.

SECTOR QL	JARTER	1 YEAR
TELECOMMUNICATIONS	5%	-19%
UTILITIES	2%	-12%
HEALTH CARE	1%	-1%
CONSUMER STAPLES	-2%	-4%
INDUSTRIALS	-12%	-31%
CONSUMER DISCRETIONARY	-13%	-27%
ENERGY	-14%	-27%
INFORMATION TECHNOLOGY	-15%	-30%
MATERIALS	-19%	-40%
FINANCIALS	-25%	-42%



CURRENCIES

We reversed some of our US dollar exposure during the quarter in favour of the Euro and continued to trust in the Japanese yen. This has worked well but the untangling of debt, which we have previously alluded to as the supporting mechanism for the US dollar, remains intact and this will guide our positioning for a while yet. The Australian dollar has been trading more strongly during the quarter but at this stage it seems unlikely to strengthen much past the mid-70s range to the US dollar. In retrospect we re-entered the Australian dollar hedge a little early but with some 25% of the portfolio hedged, it has proved beneficial recently.

REGION	DEC 2008	SEP 2008
NORTH AMERICA	24%	25%
EUROPE	23%	23%
JAPAN	20%	18%
ASIA AND OTHER	17%	17%
CASH	16%	17%
SHORTS	21%	25%

SHORTING

The market rewarded us for short selling defensives in the packaged goods industry, some boldly priced transport intermediaries and a REIT ETF (real estate investment trust exchange traded fund), as well as the Russell 2000 Index.

We have gradually reduced exposure to index shorts like the Russell and replaced them with specific company shorts. Overall the level of shorting has been reduced to around 21% but we continue to migrate to those areas still priced as impregnable and imperturbable.

CHANGES TO THE PORTFOLIO

We have been relatively inactive in value terms during the quarter and have tended to use the high volatility to either add to core positions or to trim those that moved out of line with their peers. While marginal in terms of its impact on the overall portfolio, the interweek moves have been colossal and have allowed us to take advantage of senseless panic.

STOCK	INDUSTRY	DEC 2009
		220200
MITSUBISHI UFJ FINANCIAL	FINANCIAL	
SIEMENS	ELECTRICAL	3.4%
MICROSOFT CORP	TECHNOLOGY	3.2%
CISCO SYSTEMS	TECHNOLOGY	2.7%
BARRICK GOLD	GOLD	2.5%
SANOFI-AVENTIS	HEALTH CARE	2.4%
HUTCHISON WHAMPOA TI	LCO/TRANSPORT	2.2%
JOHNSON & JOHNSON	HEALTH CARE	2.0%
MERCK & CO	HEALTH CARE	1.9%
OBAYASHI CORP	CONSTRUCTION	1.8%
JGC	CONSTRUCTION	1.8%
BOMBARDIER	TRANSPORT	1.7%
HENKEL KGAA	CONSUMER	1.7%
DENSO CORP	AUTO	1.7%
SAMSUNG ELECTRONICS	ELECTRICAL	1.6%
EBAY	TECHNOLOGY	1.6%
HENDERSON LAND DEV	PROPERTY	1.5%
LAGARDERE	MEDIA	1.5%
PPR	RETAIL	1.5%
PERNOD RICARD	BEVERAGE	1.5%

COMMENTARY

As we look back over this year, even those who identified the reckless extravagance that resulted from easy money¹ would surely be surprised at how quickly the environment changed and at the damage wrought

 $^{^{}m 1}$ Regular readers of this quarterly will be only too familiar with our bleating about cheap and abundant money and forewarnings of the likely consequences.



to the global economic order. George Soros, prescient as ever, in his article in the *Financial Times* (22 January 2008) pointed to the crazy belief in the perfection of markets when so much evidence supports the idea that they are inherently unstable and need close supervision. His main point, however, was that we had come to the end of a 60 year credit boom and that "the ability of the (US) financial authorities to stimulate the economy is constrained by the willingness of the rest of the world to accumulate additional dollar reserves".

The Fed, following a pattern of ever quicker responses to economic distress, acted well-ahead of any pronouncements of a recession² and by mid-December, had dropped rates to virtually zero. They have further entered the unknown by directly buying long-term treasuries in order to reduce interest rates right along the yield curve. This is already beginning to help the refinancing of mortgages at lower rates and has begun to improve the level of activity in the corporate debt markets. (As an aside, this is in effect punishing all those savers who had conjured up hopes of saving for their future security, but in this politically charged panic, that is the least of the Fed's concerns. Followers of the Austrian school of economics view the Keynesian approach adopted by the Fed as tantamount to adding fat to the fire because they believe that without saving and concomitant investment, an economy starves itself of growth potential, and condemns itself to weak formation of wealth.)

We have entered the unknown to the extent that we cannot know how enthusiastic lenders will be to extend credit nor how willing borrowers will be to take on more debt. We should not forget that the level of outstanding interest bearing obligations in the US now exceeds 350% of GDP. The consumer accounts for nearly four tenths of this figure (where servicing it absorbs 14% of disposable income), the government one sixth, and the balance is owed by the financial sector and ordinary businesses. This compares with a total figure of 155% in the early 1980s when consumer debt accounted for about one

third. It may be instructive to note that subsequent to the Japanese credit bubble that peaked in 1990, domestic banks failed to increase the net level of loans for the following 18 years. This is starkly different to the pattern in the English speaking world where for over 50 years there has been an almost incessant increase in the use of debt. Our observation is that most Western banks are extremely thinly capitalised and will have difficulty stepping into the breach. For example, the top 19 US banks had net equity at the end of September 2008 of US\$552 billion, implying a Tier 1 capital ratio of 4.4%: quite slender when set against the declines in housing values and before the news is out on their commercial books.

As 2009 unfolds, the performance of the manufacturing sector may receive rapt attention. As we toured European companies in mid-December, there was the recurring observation that orders fell-off sharply from mid-October and that in November and December, to receive orders at all was a source of jubilation. The effect of this hiatus will be revealed in the next reporting season. Of concern is not the one-off reduction of activity as destocking takes effect, but the actuated feedback loop as it impinges on employment, involuntary working capital increases, bad debts and the need for additional funding. It is precisely this concern about business confidence that is motivating pre-emptive action by the Fed and other Central Banks.

Some have expressed concern about the printing of money (also known as quantitative easing) but our view is that the sheer magnitude of debt in many developed economies will militate against pricing power and hence the risk of inflation is some way off. We should all keep at the back of our minds, however, that history is studded with examples of governments abrogating their obligations when cornered and indeed, we suggest that the intractability of the obligations now being incurred will in time drive those in power to follow an expedient route. Equities in such an event, while not perhaps ideal, will be a lot more interesting than cash or bonds.

² Though US unemployment has been rising all year, the official declaration of a recession only occurred in the fourth quarter.

OUTLOOK

We are asked about the timing of an equity market bottom. It is not possible to oblige. What we see is an overlapping three phase bear market. The first phase was the seizure of the credit markets. This is now well on the way to being resolved.

The second phase is the collapse of profitability led by commodity producers and manufacturers of durable consumer goods but also apparent in the service sector such as retailers, media and the like. Some will be largely immune such as power, water and communication utilities. As noted last quarter, analysts are lagging well-behind fund managers in their revisions of earnings but the pattern of downgrades is now accelerating and we would guess that by the end of the first quarter 2009 reporting season, reality will have truly set in. A factor to be watched over the longer term is the damage which may result from governmental intervention to prop-up ailing businesses.

The third phase may reveal a change in portfolio and geographic preferences. We may already have seen some of this with the voluntary or forced liquidation of equity positions as investors increased their cash holdings or sold them as a hedge against less liquid assets such as property and commercial paper. It would be surprising if this down phase is not marked by investors questioning the true merit of owning shares and some vowing never to participate again!

In the meantime we are quite upbeat. The new administration in the US is bound to spend liberally to try to avert a deep recession. The temptation may be to favour expediency over the longer serving benefits of bolstering the country's infrastructure. However, governments worldwide can be expected to deficit spend with some emphasis on capital works. At the same time the effect of a lower oil price is highly beneficial to consumer incomes and this should lift consumer confidence.

From the compositional angle, in general terms we still favour Asia over the Western hemisphere. Not that Asia will escape a reduction in foreign direct investment, nor deteriorating trade surpluses but their

state finances are in good shape, their banks' solvency ratios are barely affected by the credit crunch/write-offs and of course, bank funding tends to be from domestic sources. Countries such as India may face a weaker Rupee to offset its less favourable fiscal position, but on the other hand, it has far less exposure to external trade than say China.

For most markets, the technical factors are also encouraging.

- The reopening of the corporate bond markets will relieve refinancing risk concerns for companies with above average debt levels.
- Company valuation measures, such as price to book value or enterprise value to capital employed, are back to levels last seen in 1985.
- The relative value of defensive companies compared to those which have cyclical earnings are at an historic extreme as investors have sought the comfort of predictability.

A survey of investor sentiment by Merrill Lynch³ reveals that most professional investors already expect corporate profits to "deteriorate strongly" and hence one can surmise that this is priced into most companies valuations.

Portfolio cash levels are also high by historic comparison with figures out of the US suggesting they are equivalent to 75% of the US equity capitalisation.

Lastly, selling pressure seems to be abating and share prices are tending to move sideways-to-up against a crescendo of bad tidings. Historically, iconic insolvencies have often been closely related to market lows; in this instance we can consider Lehman and the issue of the big three auto companies.

The coming months will require some agility and we will look to the opportunity to continue to winnow the portfolio for those superior companies which, even though their profits may come under pressure, will be able to generate free cash flows. The shorts are correspondingly being directed at companies at extreme valuations which reflect their use as defensive hiding places.

³ The Merrill Lynch Fund Manager global survey with 206 respondents from 5-11 December 2008.



PLATINUM UNHEDGED FUND



Jacob MitchellPortfolio Manage

PORTFOLIO POSITION

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

14% (13%) Asia ex-Japan/Hong Kong including Thailand, Korea, Taiwan and Malaysia.

13% (14%) Technology, Health Care and other once proud "growth" stocks.

11% (15%) Japanese domestic (banks, property, construction etc); Japan is one of the few developed economies where consumers remain relatively ungeared and investment preferences, driven by rising inflationary expectations, can change for the better ie. away from deposits and bonds towards equities and property.

11% (7%) Hong Kong listings, largely China consumption exposures (eg. property and retail).

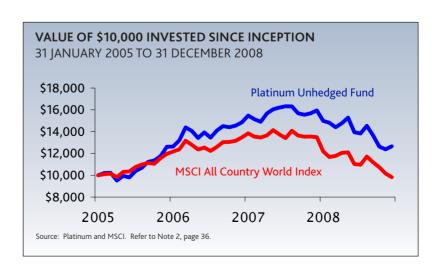
10% (9%) Energy and "Green" Technology - a long duration theme.

8% (7%) Gold, a laggard metal and inflation hedge.

8% (6%) Global Infrastructure/Energy capex related – a combination of the BRICs (Brazil, Russia, India and China) emerging requirements and the need to "renew" key parts of Western public infrastructure.

4% (9%) Pulp and Paper, a key neglected part of the commodities complex.

4% (4%) European domestic.



PERFORMANCE AND CHANGES TO THE PORTFOLIO

Over the last 12 months the Fund fell 20.7% outperforming the MSCI All Country World Index (A\$) benchmark by 6.5%, and over the past quarter the Fund fell 7.4% outperforming the benchmark by 4.8%. Since inception the return of the Platinum Unhedged Fund is 6.2% compound pa versus -0.4% compound pa for the MSCI.

The positions that cost the Fund the most during the quarter were our more highly geared pulp, paper and technology holdings; the key contributors were our gold and Japanese domestic stocks.

After markets finally seemed to stabilise and certain technical indicators started to improve (interbank rates, volatility measures, commercial paper issuance), we adopted a more aggressive stance, divesting some of the major outperformers (eg. Johnson and Johnson, Japanese construction stocks) investing the proceeds across a number of oversold, cyclical areas. When oil broke below \$60, we made a tactical decision to concentrate our purchases in areas that were clear beneficiaries of lower energy prices – hence, we added to our Asian consumer stocks lifting exposure to this region from 26% to 32%. For example, we added to our automobile makers (eg. Dongfeng), property developers (eg. Henderson Land), banks (eg. KB Financial Group) and gaming stocks (eg. Genting). So

far this strategy has worked with many of these stocks outperforming the recent bounce in markets. In Japan we acquired some very cheap cyclicals that have been hurt by the Yen appreciation (eg. Sony, Rohm and Mitsui). Please see the Japanese quarterly report on pages 19-22 for greater detail on the rationale behind this.

In adding this "cyclical" exposure, we made a decision not to take a high level of balance sheet risk. Accordingly, even after significant underperformance we did not add to our pulp and paper bet, hence its weighting in the portfolio has shrunk. Whilst 12 months ago our thesis seemed to be falling into place with the industry regaining some pricing power after years of underperformance, the reality of the global credit crisis has proven somewhat more grim. We retain a residual exposure on the basis that supply and demand may rebalance faster than some other commodity related areas.

OUTLOOK

Given the beginning of a new year, we are providing investors a better understanding of how the Fund is positioned relative to a portfolio of (Platinum defined) opportunities. This is communicated via two tables: the first displays the geographic portfolio composition versus benchmark; the second displays the industry composition.

REGION	benchmark ¹	PLATINUM UNHEDGED FUND	FUND VS BENCHMARK
NORTH AMERICA	37.1%	23.8%	-13.3%
SOUTH AMERICA	2.1%	0.0%	-2.1%
EUROPE (DEVELOPED)	26.8%	15.7%	-11.1%
EUROPE (DEVELOPING)	1.9%	0.0%	-1.9%
ASIA EX JAPAN	16.4%	29.4%	13.0%
JAPAN	10.3%	21.4%	11.1%
MIDDLE EAST	2.0%	0.0%	-2.0%
AFRICA	1.2%	0.0%	-1.2%
PACIFIC	2.2%	1.0%	-1.2%
TOTAL	100.0%	91.3%	-8.7%

¹ Platinum defined benchmark, not unlike the MSCI, but tailored to Platinum's investment style Source: Platinum

The Fund is clearly underweight the large developed markets of North America and Western Europe, and overweight Asia. The rationale for this has been explained in previous quarterlies; succinctly, we think Asia offers better value, lower balance sheet risk and higher growth.

The Fund is also clearly overweight the more cyclical industries and underweight the "defensive" area. Whilst we have outperformed markets over three months, twelve months and since inception by a reasonable margin, our performance in the last 12 months has been penalised by having too much cyclical (eg. tech, industrial, commodity, financial) and not enough defensive exposure (health care, telecommunications and utilities). At this juncture, we refer readers to the "defensive" versus "domestic cyclicals" discussion in the current Platinum Japan Fund quarterly report to gain a better understanding of the definitions and logic being used here. We concluded from our research that the "defensives" were approaching valuation extremes versus the "cyclicals". Accordingly, we have a strong view that now is not the right time to discover the beauty of these defensive areas and hence the Fund remains heavily underweight in favour of the cyclicals.

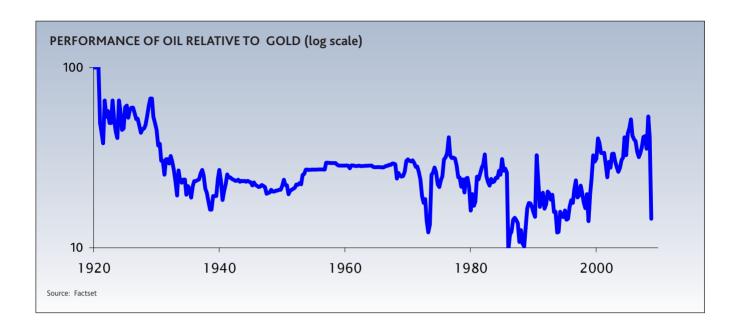
The one "defensive" area where we have retained high exposure is gold stocks. Gold, the metal and the

stocks, has significantly outperformed just about every other asset class, with government bonds being the one possible exception. We find this outperformance a little surprising given the collapse in the commodity complex and declining inflationary expectations. Clearly, the outperformance of gold is more a function of its perceived safe haven status and, some would argue, that it foretells the eventual debasement of the US dollar, as the Fed's various policy measures become more extreme. Whilst it appears that the Fed has succeeded in solving some of the more dysfunctional elements of the credit markets, we are not yet prepared to accept that the Fed will succeed in actually getting the US consumer to borrow and spend more - he or she may well think that saving is now the rational response to changed circumstances. This places a large burden on the government sector to provide the credit "juice" via deficit spending. This will take some time to manifest in activity and in the meantime, the US dollar may strengthen as debts are repaid and we suspect we will not get the same performance from our gold stocks in the coming quarter. As you can see from the chart over, the under-performance of oil relative to gold is trending towards historical extremes. Accordingly, we are leaning towards the idea that the energy sector now offers a better risk reward trade than gold stocks.

SECTOR	benchmark ¹	PLATINUM UNHEDGED FUND	FUND VS BENCHMARK
DEFENSIVE	30.4%	13.0%	-17.4%
DOMESTIC CYCLICAL	12.1%	19.7%	7.6%
DOMESTIC INTERNET	3.4%	2.6%	-0.8%
FINANCIAL AND PROPERTY	21.5%	19.2%	-2.3%
GLOBAL INDUSTRIAL AND COMMODITY	26.7%	24.9%	-1.8%
GLOBAL TECHNOLOGY	5.2%	10.7%	5.5%
OTHER	0.7%	1.2%	0.5%
TOTAL	100.0%	91.3%	-8.7%

¹ Platinum defined benchmark, not unlike the MSCI, but tailored to Platinum's investment style Source: Platinum





PLATINUM ASIA FUND



Andrew Clifford Portfolio Manage

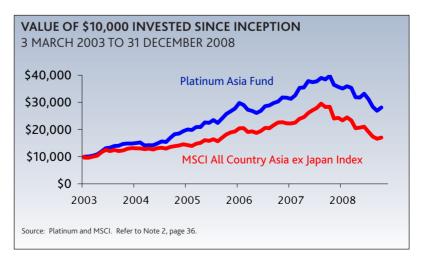
DISPOSITION OF ASSETS REGION DEC 2008 SEP 2008 CHINA (LISTED EX PRC) 19% 14% HONG KONG 10% 11% CHINA (LISTED PRC) 4% 4% TAIWAN 9% 7% GREATER CHINA TOTAL 42% 36% **KOREA** 14% 11% **THAILAND** 9% 9% INDIA 2% 6% MALAYSIA 7% 6% **INDONESIA** 4% 5% **SINGAPORE** 5% 5% **PHILIPPINES** 3% 3% CASH 14% 19% **SHORTS** 0% 1% Source: Platinum

PERFORMANCE

PERFORMANCE (compound pa, to 31 December 2008)							
	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION		
PLATINUM ASIA FUND	-10%	-29%	3%	14%	19%		
MSCI AC ASIA EX JP INDEX	-11%	-40%	-2%	7%	10%		
Source: Platinum and MSCI. Refer to No	ote 1, page 36.						

The quarter began with the bankruptcy of Lehman Brothers and the subsequent collapse of financial markets globally. By the end of November the real world impact of the seizure in global credit markets over the past 12 months was becoming clear as Asian economies faced unprecedented falls in exports. At the same time the tight monetary policy in China and India over the last 18 months was starting to impact the property sector which had been a major driver of activity in these countries. The Asian markets fell a further 19.9% in local currency terms taking losses for the year to 48%. For Australian investors these losses were significantly reduced by a depreciating Australian dollar, resulting in an 11.2% fall in the MSCI Asia ex Japan in Australian dollar terms for the quarter and 40% for the year.

What was remarkable about the quarter was the broad based nature of the declines which saw most countries and sectors experiencing similar price falls. Exceptions were the Hong Kong H Shares which fell 13% and the defensive sectors of telecommunications and health care. As a result many of the Fund's holdings were impacted and the Fund's outperformance for the quarter was primarily a function of its cash holdings.



CHANGES TO THE PORTFOLIO

The net invested position of the portfolio increased from 80% to 86% during the quarter. The Fund took advantage of lower prices to add to a broad range of its existing holdings. In addition the Fund substantially exited its holdings in Indian Banks due to our concerns that they will face significantly higher credit costs over the next two years. Many of the Asian currencies have held-up relatively well against global currencies despite changes in trade flows suggesting they should do otherwise. As a result the exposure to the Australian dollar was increased to 29% from zero as its price had adjusted significantly in comparison.

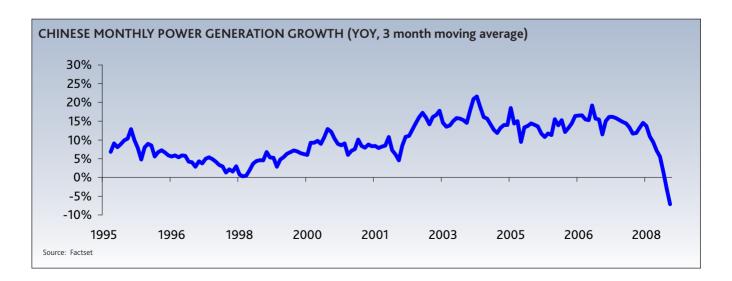
COMMENTARY

During the last quarter Asia has experienced a dramatic collapse in export markets which should result in an acceleration of the trend of factory closures and job losses that was already evident in export zones across China. This has occurred just as policy measures such as higher interest rates (which had been put in place over the last two years in response to concerns regarding inflation) started to impact the major domestic economies of the region. In particular, residential property development has

slowed dramatically in China and India as markets have suffered from oversupply. As economic statistics are released in coming weeks it is probable that most countries will register dramatic falls in the level of activity for the last quarter of 2008. In the case of China, even if the statistics don't show such a decline, it is clear from indicators of real activity, such as electricity production (see chart below) that there has been a significant slowdown. It should be expected that company profits will be well below the expectations of mid-2008.

However, one should be wary of extrapolating these outcomes to a longer term trend. In the initial stages of any downturn the impact of reducing inventories across the supply chain will exaggerate the change in direction. In the current environment, this has been further multiplied by the seizure in credit markets resulting in those who may still have bought or invested being unable to do so due to a lack of funds. The end of the de-stocking process and an improvement in credit markets' conditions (a process which is already well under way) should see the end of this dramatic collapse in activity during the first half of 2009. This is not to say though that one should expect a rapid rebound to the growth rates of recent years, as the overhang of debt in much of the developed world will mean that export markets remain subdued.

The best chance for a recovery in the Asian economies will be the domestic economies responding to policy



initiatives to restore growth. In China, interest rates have now been cut by more than 2% and restrictions on bank lending eased. Government spending on infrastructure projects has been dramatically increased and various tax cuts announced. The government balance sheet is in good shape, as are those of households and much (but not all) of the corporate sector. In these circumstances one would expect the domestic Chinese economy to respond well to these initiatives. In particular once the excess stock in the housing market is cleared it is likely to again become a major driver of growth. India has also seen interest rates fall by more than 3% and fiscal initiatives announced. Although this economy is clearly less export dependent than China and the rest of the region we are more circumspect about the likelihood of a recovery here due to the high growth rate of bank lending (averaging 30% pa) over the last five years.

The question for investors though, as always, is not so much about the economic outlook but whether share prices reflect the more difficult environment we face. In the last quarterly report we commented that though there was significant evidence that China was slowing it was far from clear whether this was fully appreciated by all market participants. The slumping commodity markets suggest this is no longer the case. Indeed, the prices of many stocks traded during the quarter, in our judgement, were pricing in extremely dire outcomes.

The following stocks discussed below are all companies that have long been held by the Fund, and have each been mentioned in past quarterly reports. All of them are high quality businesses, have strong balance sheets, and are trading at valuations not frequently seen. In each case the Fund added to these holdings during the quarter with purchases made at prices up to 40% below those discussed below.

KB Financial Group (formerly Kookmin Bank) of Korea is the country's dominant bank with over 20% of the country's deposit base. As a result of its position the bank is highly profitable (despite being overcapitalised) and in recent years has earned a return on equity in the high teens. At quarter end, KB's stock was trading at 70% of book value, 5 times earnings, and providing a dividend yield of over 7%. Clearly credit costs will be rising for the bank as weak export markets impact their customers as will the

collapse in the residential property market. Nevertheless, in our assessment, the current price more than compensates for this risk.

Astra International is an Indonesian conglomerate with businesses in auto and construction equipment distribution (Toyota cars, Honda motor bikes, and Komatsu), mining contracting, and palm oil plantations. The company is part of the Jardine Matheson group and thus has the benefit of a stable major shareholder, strong management, and a clean balance sheet. Undoubtedly the businesses are cyclical and we would expect the company to experience a significant fall in profits this year. Trading at around 6 times peak earnings (a somewhat higher multiple of 2009 earnings) and with a dividend yield of 6%, the current price represents good buying.

Denway is one of Honda's JV partners in China, producing and selling a number of Honda's models across the country. Having entered the market in 1999 Honda has established itself as one of the leading foreign auto companies in China as a result of a strong focus on its sales and service network. The result has been a highly profitable business that has generated significant excess cash flow. Passenger vehicle sales have already stalled in China and one would expect 2009 to be a poor year for the auto industry. The stock is trading at around 7.5 times 2008 earnings, or if one nets out the substantial cash balances held by the company, less than 6 times earnings.

It is likely that there will be more bad news ahead and the markets will become a tug of war between poor results and hopes that policy makers across the globe will be able to turn faltering economies around. While a return to an environment of the last decade seems unlikely, there may well be bright spots in those countries (including much of Asia) which are not drowning in debt. Meanwhile, the companies mentioned above, along with many of the others held by the Fund, are trading at valuations that have rarely been seen and by historical standards would be considered highly attractive. That doesn't particularly mean that they will provide great returns in the near term, but in most cases the Fund's holdings are providing good dividend yields so at least one is being paid to wait.

PLATINUM EUROPEAN FUND



Toby Harrop Portfolio Manager

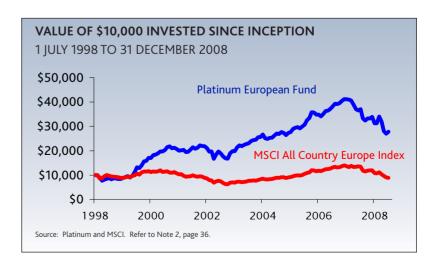
PERFORMANCE

European stock markets fell again in the December quarter, by 21% in local currency. While the "safe" areas of pharmaceuticals and telecoms fell only 6%, the moves elsewhere were dramatic: auto parts (-39%), steel (-40%), banks (-41%), real estate (-41%), and mining (-44%). Nearly 200 of the 500 largest European stocks fell by a quarter or more; 50 of them halved (or worse) in just three months!

For the 2008 calendar year as a whole, European markets fell 45% and the breadth of the decline left few viable places to hide. The "best" sector, pharmaceuticals, fell 17% (even food stocks were -23%!). The five cyclical sectors mentioned above each fell between 60% (steel) and 77% (real estate) over the year. The Australian dollar fell against the Euro, both over the last quarter and the full year, so that the MSCI All Country Europe Index (A\$) was down 14% for the quarter and 34% for the 12 months.

The Platinum European Fund fell 13% and 25% for those respective periods, with engineering, consumer and technology stocks hurting the portfolio, even if bank, real estate, mining and energy exposures were very low.

The causes of weak stock markets around the world have been exhaustively covered in most media, and we will look forward more than back in this report.



COMMENTARY

We invest in companies, not markets

The "macro" (ie. the general economic conditions) this past year have been as surprising as ever, and it is hard to say what 2009 may hold. Making investments based on macro-economic predictions, or indeed on the level of the overall stock market, is not something where we can claim any advantage. On the other hand, we can ground our investment strategy in something solid when we focus on individual companies and their industry. Assessing a few German newspaper stories ¹ from the quiet last week of 2008 may illustrate this point:

What are the macro prospects for 2009? Who knows!? Not SAP:

In an interview with "Der Spiegel", the co-founder of (enterprise resource planning software giant) SAP, said that the company has "not the slightest clue" how business will develop in 2009.

But if you didn't mortgage your future in the credit bubble, as an individual or a business, then life goes on:

Daimler (ie. car-maker Mercedes Benz) will invest 14bn euros in research and development by 2010 as planned, "Automobilwoche" reported, citing Daimler's head of development.

Competitors of Deutsche Telekom plan to install (their) own V-DSL high-speed internet network, which would be significantly cheaper, "FT Deutschland" reports.

(German truck maker) MAN has bought call options on the voting stocks of Scania, giving it access to more than 20% of the Swedish truck maker.

Head of (German retail congomerate) Metro's electronics subsidiary Media-Saturn said Christmas sales have met expectations, "Sueddeutsche Zeitung" reported. (Generally), German retailers are "satisfied" with this year's Christmas sales, the president of retailer association HDE told "Dow Jones".

¹ Source: Sal Oppenheim brokerage in Frankfurt

A brief comment on each of those stories may illuminate:

SAP as a company is in good shape, with a remarkable position at the administrative core of many businesses around the world (its "weakness" is a low exposure to US financials!). But clearly, demand for its product is a function of corporate expenditure, and that is hard to project over the short run. Hence the founder's definitive statement.

Daimler, of which Mercedes is the key part, jettisoned its regrettable 1990s idea of a global car platform by (almost) disentangling itself from Chrysler in 2007 (it probably retains some liabilities in the event of Chysler's bankruptcy if that occurs within the next couple of years). The vast profits flowing from the Mercedes brand are plowed back into product development with almost the same gusto as neighbour and arch-rival BMW. The German strategy of product superiority supporting a price premium, and highproductivity German employees justifying high German operating costs, can be seen clearly in this vast R&D expense (Eu14bn... nearly A\$30bn!). The point is, while development timetables can be adjusted, and perhaps marginal ideas delayed or cancelled in a recession, the core development drive thunders on, economic cycles notwithstanding.

It is interesting that while the Detroit three gasp for survival, and even mighty Toyota reports a big loss for the first time in generations, that the German companies remain (for the moment) in the black, with healthy cash generation. Five years ago we discussed at length such developments as "working time accounts" (between thresholds, overtime is not paid, with leave instead stored up, which is then taken when plants are idled). Secondly, the large body of temporary workers have been dismissed. And third, the country has a functioning safety net, so that for the next year (if necessary), the companies will pay for 15 worker hours per week, while the social insurance fund will pay for the other 20.

Specifically from an investment perspective: we hold shares of both Daimler and BMW, and as we contemplate their valuations (which are below book value), it is notable that major investment in future model launches has already been paid for. These

companies have considerable competitive advantages, including marvellous brand value. And yet the stock market has the valuations at the lowest for many years, focusing as ever on the short-term (in this case the current demand collapse).

Telekom: The story on the roll-out of DSL networks in Germany is a familiar discussion. This investment (and the usual debate about the incumbent or challengers being the appropriate owners of the new capacity) is probably only marginally affected by the recession. The key point is that for a telecom operator, running a mixed network of old voice technology and a modern ADSL network is complicated and expensive. The plan in Germany (expected in 2010) is for every household to have a CPE box installed on the existing copper line, so that the network becomes completely data-based from the operator's perspective. There are interesting opportunities for companies such as Infineon to provide semiconductor chipsets for these boxes: for voice, IP, data, cordless, DECT etc. Navigating the industrial downturn (and the chaos in the memory market) is proving challenging for the company, but Infineon has several bright prospects in the coming years if it can escape the current difficulties.

Trucks: Munich-based conglomerate MAN, in effectively buying more control of Swedish truckmaker Scania, underlines the ongoing truck industry consolidation in spite of (or perhaps spurred by) the very low current orders for heavy vehicles. It would not be a German auto-industry intrigue without Porsche/VW being involved, and indeed the underlying story here is Volkwagen's plan to merge Scania and MAN with the VW Brazil truck operation to create one large pole in this industry. (VW already has a big share of Scania voting stock, and nearly a third of MAN shares). Scania's modular approach to truck manufacturing has been copied (but probably not bettered) by industry rivals, and with its old boss running MAN in recent years, the intent is clear. Again, the logic of consolidation in this hitherto fragmented industry is undented by short-term economic events.

Retail: German retailers have made cautiously optimistic noises about December sales, in stark contrast to the alarming headlines in the UK and the USA. While bank funding for a car loan in Germany is not much easier than in the English-speaking markets, the conservative behaviour of the German consumer this past 10-15 years is evident in today's steadiness. As a reminder, there has been no housing bubble, consumer loan bubble, or credit card bubble in Germany. The household sector is a net saver, exports have boomed for several years, and employment is strong.

Investments in German retailers are not widely available in the public markets as we have noted before; a company like Metro has (due to its success) a very large exposure to Eastern Europe and Russia (as well as to Italy and Spain), diluting it as a play on the German consumer. The Fund has a large holding of DIY retailer Hornbach (about 60% of whose sales are in Germany), and that company has reported encouragingly strong results in recent weeks.

Company meetings

We spent the middle two weeks of December meeting 40 or so companies in Europe (in London, Paris, Germany, and Switzerland). Given the valuations (most companies we saw had share prices down 50-70% from recent peaks), and given the generally high "quality" of companies we saw (measured by financial track records and market shares), we came back optimistic on many stocks. Several were existing positions, and several more we are further investigating. A couple we have already started to buy for the Fund.

Markets are unfathomable and could fall further (even if the positioning of many participants - lots of cash, and lots of defensive holdings of household goods, pharmaceuticals, utilities etc – indicates a short-term bottom), but many of the companies we visited have good prospects over the coming years and their lowly valuations fail to reflect that.

CURRENCY AND INVESTED POSITION

It is perhaps notable that the Euro hit a "trade-weighted record high" in December... but that measure always confounds this observer: surely the exchange rate of your key rival (not your trading partners) is the relevant one for competitiveness? The general economy, rather than price, seems far more relevant to the demand for goods, so trading partners will suffer or prosper from trade-weighted exchange rates. But for individual companies' profitability, the competitors' cost positions (not the customers' wealth) is the relevant measure. Hence our focus on the Euro-Yen exchange rate (which is 25% below its June 2008 level), not the trade-weighted Euro!

The Fund has hedged much of the Euro exposure back into the A\$. While the A\$ seems to have formed a base against the Yen at around Y60, and of course

has bounced 10 cents versus the US\$, at the time of writing it is still close to its lows at about half of one Euro. For that reason, hedging the exposure between 49 and 53 Euro cents has not yet shown any benefit (and in fact has proven a small burden). However, while it is hard to be too excited about the prospects for the A\$, it is harder still to hold the Euro at this level when considering the troubles in southern European economies such as Italy and Spain (especially given the price of, and enthusiasm for, the Euro as it celebrates its tenth year in existence). Thus the Fund's currency position is 67% A\$, 17% Euro, 8% Norwegian/Swedish crowns, and 8% others.

Reflecting the cautious optimism for the portfolio of stocks mentioned above, the Platinum European Fund is highly invested at year-end 2008: 92% long and just 3% short (two highly-priced consumer stocks) for a net exposure of 89%.

PLATINUM JAPAN FUND



Jacob Mitchell Portfolio Manager

PORTFOLIO POSITION

Some of the themes/large positions contained in the current portfolio, measured on a gross long basis, include (position prior quarter):

Domestic related 45% (47%), including

14% (13%) Financials.

12% (13%) Defensive (eg. food, telecommunications, services).

10% (11%) Real estate, retail.

4% (8%) Construction.

Export related 41% (36%), including:

 $18\%\ (10\%)$ Technology (including specialty materials) and machine tools.

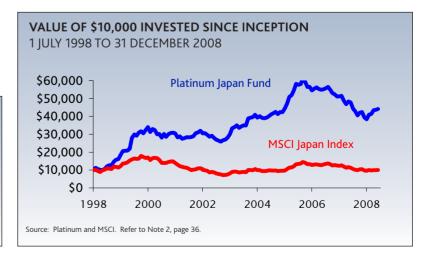
9% (9%) Autos.

9% (6%) Commodity producers.

5% (7%) Global energy and infrastructure capital equipment.

Gross long stocks 86% (83%); short stocks 16% (15%); net stocks 70% (68%).

REGION	DEC 2008	SEP 2008
JAPAN	80%	78%
KOREA	6%	5%
CASH	14%	17%
SHORTS	16%	15%



PERFORMANCE AND CHANGES TO THE PORTFOLIO

Over the past 12 months the Fund fell 7.7% outperforming the MSCI Japan Index (A\$) benchmark by 3%, and over the past quarter the Fund rose 6.8%, outperforming the benchmark by nearly 4%. Over the quarter the benchmark fell 22% in Yen terms, but was up 3% in A\$ terms.

The 6.8% quarterly gain for the Fund comprised a:

- Long gain of 5%
- Short gain of 3.5%
- Cash and other loss of 1.7%

Another way of expressing the attribution is that in A\$ terms, our average long stocks rose 6%, whilst our average short stocks fell approximately 22% ie. we generally shorted the correct stocks.

The major investments/ideas that made money this quarter were:

- 1. Shorts on certain Japanese "defensive" and/or "domestic stocks" explained in more detail below.
- 2. On the long side, the generalised Yen strength contributed to the outperformance of domestic sectors relative to export sectors. In this vein, our best performing stocks were in the property, construction and telecommunications area.

The major investments/ideas that cost money this quarter were:

- 1. Our export exposures (technology, machine tools and commodities) these stocks were hit hard by the perfect storm of deteriorating Western world consumer demand, loss of competitiveness due to Yen strength, especially against the Euro and Asian currencies like the Won and, in the case of the commodity stocks, falling oil and metal prices.
- 2. Over the quarter the A\$ depreciated 24% against the Yen and as the sell-off intensified we bought A\$, increasing our exposure from 18% to 27% by quarter end. Clearly, given the extent the A\$ fell against the Yen, we were a little premature in lifting the A\$ exposure though, with a 65% weighting, we are still very long Yen.

The major change in the composition of the long side of our portfolio was the reduction of our large construction sector bet and some of our more defensive stocks (Sumitomo Warehouse and Ajinomoto) in favour of significantly oversold consumer electronic (see below) and commodity names (Mitsubishi Corp). As we detailed last quarter, whilst we think the domestic construction pricing cycle has changed for the better, we also recognise that these companies are heavily exposed to the rapid deterioration in capital spending by business (for example, the recent 40% global capex cut announced by Toyota). Whilst the construction companies are not directly hurt by the Yen strength, many of their customers are.

During the quarter we reviewed the 1997 Asian credit crisis to gain greater understanding of what may happen to global business capex (business spending on its own capital stock) as a result of the current global credit crisis. In the Asian ex-Japan region, the consumer durable (autos, consumer electronics etc) companies cut their capex by an astounding 50% from the 1996 peak, taking seven years to recover this prior level. This is highly relevant to Japan as many of its flagship companies are capital equipment suppliers (eg. Komatsu, Fanuc, Tokyo Electron) or consumer durable producers (Toyota, Sony, etc). We came to the general conclusion that with many of the consumer durable producers already priced at significant discounts to tangible book value (ie. discounts to their own investment in capital equipment), and the potential for an elongated capital spending drought, we would prefer greater exposure to the "owners" of capital equipment, rather than the suppliers. Accordingly, we sold our position in SMC (supplier of pneumatic production equipment to the auto and electronics industries) and added Sony, Rohm (consumer electronic chip producer), Nippon Electronic Glass (LCD glass producer) and Nikon (for its camera exposure). The first three of these purchases were priced at 0.5-0.7x book value; Nikon was a little more expensive at 0.9x book; SMC was sold at approximately 1.3x book. We still have significant exposure to capital equipment suppliers (eg. Tokyo Electron, Disco and THK) as we think the "drought" has been priced-in.

Our decision towards the end of last quarter to orient the shorts towards the outperforming and expensive so-called "defensive" stocks proved a partial success. We had two big wins (shorts on Yakult and Shiseido), both stocks with large foreign-sourced profits that have been hurt by the strength of the Yen. However, our shorts on stocks with pure domestic exposure (largely retailers) are yet to make a positive contribution; in fact, the retailers have been outperforming as perceived beneficiaries of the Yen strength and declining oil prices. We have retained these positions as we think the specific stocks are significantly over-valued and domestic consumption will come under pressure as declining export activity filters through to deteriorating employment and bonus trends. With the general bounce in the market, we reinitiated a couple of cyclical shorts that we think remain overvalued and vulnerable to earnings downgrades.

OUTLOOK

Clearly, unhedged foreign investors in Japanese equities have had a large part of the equity market decline offset by the appreciation of the Yen against every other major currency. Such has been the move in the currency that over the last quarter (annual

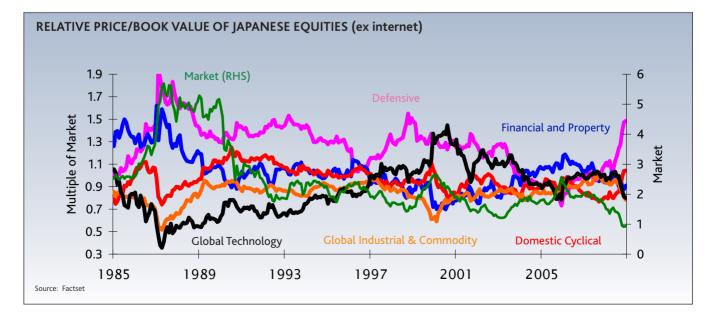
numbers in brackets), in common currency terms, Japanese equities finally started to solidly outperform global equities – a 9% (29%) decline in the MSCI Japan Index (US\$) versus a 22% (42%) decline in the MSCI World Index (US\$). Japan, having led the world into the bear market, may be the first market to find a bottom. The optimists would suggest that the outperformance reflects Japanese household and corporate balance sheet strength relative to much weaker Western counterparts.

Regardless of the reason, in the short-term we think the Japanese equity market has bottomed - this begs two major questions:

- 1. Why do we only have 70% net exposure to the market?
- 2. Will a rebound in the market be associated with a major reversal of the Yen appreciation trend and hence, should we have less than 65% Yen currency exposure?

We will attempt to address these two issues.

The chart below provides a view of the relative price to book valuations of Japanese equities across five broad, somewhat arbitrarily, defined Platinum sectors. We had to exclude a narrow group of internet stocks from the analysis as the extreme valuation premium achieved in the 1999-00 bubble was too distorting to



the overall analysis. We have also provided a table below that shows our weightings in the same sectors versus a Platinum defined benchmark. The benchmark is simply our view of the population of opportunities. The valuation chart shows that group of stocks that we have defined as "defensive" (eg. health care, consumer non-durables - Proctor and Gamble type companies, utilities and communications) are close to their all time valuation premium. We have close to zero net exposure to this sector versus a 30% weight in the benchmark; that is, we are significantly "underweight" the defensive stocks. The "domestic cyclicals" (eg. retail, media/entertainment, transport and commercial services) have also achieved a valuation premium, though somewhat less extreme than the defensives. In stark contrast, the financial/property stocks, global industrials/commodities (eg. capital equipment, autos, chemicals, commodities) and global technology (eg. consumer electronics, semiconductors, etc) stocks are all trading at significant valuation discounts to the broader market; we are significantly exposed to these three sectors.

When interpreting the above chart, it is worth noting that the absolute price to book valuation of the market has fallen through time, hence, using the global industrial/commodity as the example, whilst the relative valuation extremes discounts of 1987 and 2000 of 0.5x and 0.6x are lower than today's 0.8x, in absolute terms, these stocks have never been cheaper: the 1987 price/book low was 2.9x, 2000 at 1.6x and today at 0.7x – these stocks are very cheap.

In summary, we would like investors to understand that whilst we may only have 70% net exposure to the market, we are not wasting ammunition on those areas that have been the defensive hiding places during the severe sell-off.

We find the issue of the optimum currency exposure more difficult to resolve than the stock selection. Clearly, the Yen has served us well. For the A\$ to rebound significantly against the Yen, we would need a solid rebound in the China/Emerging Markets growth story and commodities complex. In the shortterm, commodities do look extremely oversold and ready for a rebound and, hence, we have partially positioned the Fund for a trading rally in the A\$. Further, our stock selection within the Fund is heavily biased towards the exporters who would benefit from a weaker Yen. The current fall in Japanese exports is quite alarming (October and November down 8% and 27% respectively, after growing 1.5% in September). Accordingly, some of the Yen's strength against the US\$ may reverse as its safe haven status is tarnished by a deteriorating external position – we would not expect a large reversal.

The Western world financial crisis will not be resolved by one new President and the marginal economic data is still deteriorating; we are optimistic because we think, in the short-term, the market has discounted the worst. If we are wrong, the remaining Yen currency exposure should provide some protection.

		PLATINUM J	TINUM JAPAN FUND VERSUS BENCHMARK				
SECTOR	benchmark ¹	GROSS EXPOSURE	NET EXPOSURE	GROSS EXPOSURE	NET EXPOSURE		
DEFENSIVE	29.7%	5.9%	1.2%	-23.8%	-28.5%		
DOMESTIC CYCLICAL	12.0%	17.5%	11.6%	5.5%	-0.4%		
DOMESTIC INTERNET	3.3%	1.2%	1.2%	-2.1%	-2.1%		
FINANCIAL AND PROPERTY	17.3%	21.8%	21.8%	4.5%	4.5%		
GLOBAL INDUSTRIAL AND COMMODI	TY 27.9%	25.2%	19.7%	-2.7%	-8.2%		
GLOBAL TECHNOLOGY	9.8%	14.0%	14.0%	4.2%	4.2%		
TOTAL	100.0%	85.6%	69.5%	-14.4%	-30.5%		

 ${\small 1}\ {\small Platinum\ defined\ benchmark,\ not\ unlike\ the\ MSCI,\ but\ tailored\ to\ Platinum's\ investment\ style}$

Source: Platinum



PLATINUM INTERNATIONAL **BRANDS FUND**



Simon Trevett Portfolio Manager

PERFORMANCE

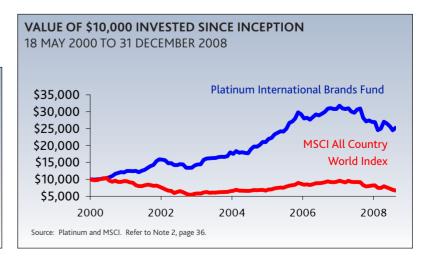
The Fund declined in value by 4.7% in the quarter and with few exceptions, the majority of the Fund's stocks posted declines in their native currencies. The strengthening of the Yen contributed to a positive performance in some of the Fund's Japanese stocks. The Fund's benchmark, the MSCI All Country World Index (A\$), declined by 12% in the quarter.

Over twelve months, the Fund has fallen by 18% compared to the decline in the MSCI World Index of 27%; a relative outperformance achieved in the last six months with the Fund returning a positive 3% compared to a decline of 11% in the Index.

Over the longer term, the Fund has performed strongly with a seven year compound return of 9% compared to a compound annual decline of 3% in the MSCI World Index. During the quarter, the Fund increased its Australian dollar exposure from circa 6% to nearly 27%.

The short position has been increased from a negligible 1% at the end of September to 11% with the addition of short positions in a number of food and household product companies. These sectors have been relatively strong performers as investors sought the perceived reliability of sustained earnings. How sustainable are these earnings and at what valuation?

REGION	DEC 2008	SEP 2008
EUROPE	37%	39%
ASIA	22%	22%
JAPAN	15%	13%
NORTH AMERICA	6%	6%
SOUTH AMERICA	2%	3%
CASH	18%	17%
SHORTS	11%	1%



The Fund continues to have opportunities to buy at valuations significantly below book value and where cash on the balance sheet comprises up to half the market value. This is especially true in Japan.

Opportunistic additions have been made to investments such as Pepsi-Cola Philippines with an apparent price to earnings below 5x, a dividend yield above 10% and net cash on the balance sheet. Other additions include Ebay and Nintendo. The Fund sold its investments in Toyota Motor Corp and German retailer Douglas Holding, however, as noted above the most significant change to the Fund has been the increased short position.





COMMENTARY

In the past ten years the results for Reckitt Benckiser have been impressive with net earnings growing at 15% pa driven by a stable of well-known brands. Brands including Finish, Harpic, Mortein, Nurofen, Dettol and Airwick amongst others. The business claims that circa 40% of its revenues are now generated from products launched in the past three years. Whilst this has kept the product development and marketing teams busy, it raises a question as to whether the consumer will continue to embrace products only recently adopted. Especially as this product success is facilitated by the higher margins and prices willing to be paid by consumers.

Through the early 1980s, this company, along with many consumer product companies, was making an operating margin of close to 10%. It is now a record 23%. Are these margins to be sustained? Or is the seeming disparity between R&D and media spend (1.5% versus 12% of sales respectively), together with the high proportion of recently introduced products, a warning sign?

The momentum of the business has been built on marketing product news to attract consumers to higher value, higher margin products. The key is to appreciate that actual product innovation is of lesser relevance in this strategy than concepts built around convenience at much higher margins. Will the consumer be willing to support the higher margins for convenience? Might more serious competition emerge now that growth and higher margins are scarcer?

In Reckitt's UK home market the Finish dishwasher product has been a huge success. The product was developed from a base tab through Dual Layer, Powerball, 3 in 1, 4 in 1, 5 in 1, All in One, Max in One, and Quantum tab. Having been taken up this product path in just over 10 years for a threefold increase in price per wash from 10p to 30p, perhaps consumers might just wonder if they know why their

dishwashing powder needed so much innovation and perhaps why they might be paying two, three or four times the price of the store brand product. Considering also that the absolute value of a box of product is a high ticket item in the shopping trolley.

Are consumers really going to listen to the advertising message about the convenience of an automated insecticide dispenser for their lounge room as they attempt to pay down credit cards and mortgages?

It is not just that there may be earnings slowdowns or that the rate of growth is unsustainable but that corporate management has developed a reliance or dependency on these excess margins to deliver growth into new geographies or categories. In the case of Reckitt, it has been into pharmaceuticals and over the counter remedies. Procter & Gamble was similarly attracted to the high margins of pharmaceuticals although it now seems to deemphasise that business, having understood that techniques such as fast product roll out and product line extensions are not so readily achieved in highly regulated markets.

Pressures are emerging as retailers react to companies like Reckitt that have achieved negative working capital; they pay their suppliers on 110 days but collect from the retailers on 45 days. In the past, multiple product ranges and continuous product changes have benefited the supermarkets through the fees for product introductions and promotions, along with the excitement of suppliers advertising a variety of new products. Now, aside from changing their payment terms, the larger supermarkets are resisting price increases and starting to challenge prolific product introductions as discounters such as Aldi make inroads with tighter ranges and lower prices.

Reckitts is not alone in facing the challenges of adapting to a more difficult environment but they have perhaps been one of the most successful in converting product news to industry high margins for which investors have been willing to pay a relatively high valuation.

OUTLOOK

Valuation metrics may look tempting especially where companies with relatively strong balance sheets and market share positions take advantage of weakened competitors. However, we remain wary of those companies where the strategy of the past decade, often very successful, might now be revamped. P&G is an example.

At the start of 2000 the stock halved after announcing a surprisingly large restructuring, with a commensurately large charge. The stock is now at a relative valuation multiple that is well above the ten year average despite growing concerns about retailers and consumers lowering their inventory levels, private label growth, input and selling price pressures along with a host of other well documented headwinds. Significant acquisitions along the way of Clairol, Wella and Gillette and the building of a health care business supported the decade long turnaround. Where to now? That the CFO since 1998 is retiring (at age 57) might also suggest a new plan with new leadership is being developed for the next decade.

There are opportunities for the Fund to invest in superior companies with an unambiguous sense of purpose and an enviable antecedence at valuations that will prove attractive in the longer term. In the short-term the economic uncertainties and woeful headlines will throw up opportunities for both investing and short selling.

PLATINUM INTERNATIONAL HEALTH CARE FUND



Bianca Elzinger

PERFORMANCE AND CHANGES TO THE PORTFOLIO

	QUARTER	1 YR	3 YRS	5 YRS	SINCE INCEPTION
PLATINUM INT'L HEALTH					
CARE FUND	-8%	-16%	-2%	0%	0%
MSCI HEALTH CARE INDEX	1%	-1%	-2%	3%	3%

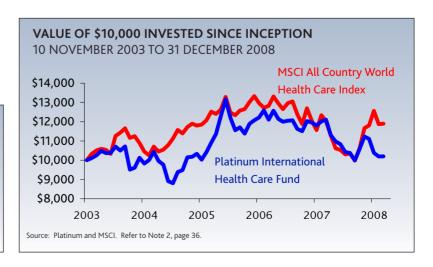
The Platinum International Health Care Fund declined over 8% in the quarter compared to the MSCI World Health Care Index (A\$) returning less than 1%. For the year, the Fund lost 15.8% versus a loss of 1% for the Index.

This is a disappointing performance mostly due to the decline of our small biotech holdings (a decline on average between 50-60%). The Index does not include any of these small companies.

Also contributing to the big disparity between the Fund and the Index has been the currency, particularly the strength of the US dollar. The Index is heavily weighted towards US stocks (70+%).

Small biotechs have funding issues and consolidation will occur albeit in a selective way. On this basis, we have reassessed our positions and do feel that the biotechs we own have pipelines or technology that are of interest to a third party.

REGION	DEC 2008	SEP 2008
NORTH AMERICA	39%	47%
EUROPE	28%	30%
JAPAN	2%	3%
CASH	31%	20%
SHORTS	5%	2%



Our big pharma, big biotech, generic and vaccine companies continue to be favourites as their growth is predictable at least for the next 2-3 years. We trimmed our positions in Johnson and Johnson as well as Teva, and significantly reduced our exposure to Novartis. These companies have done well over the year. Novartis in particular has been very strong but we feel there are better opportunities elsewhere.

US pharma Merck was added to the portfolio. A year ago Merck could do no wrong; today the company is seen as having lost its way again. The share price has declined around 50% and Merck is now valued at 9x forward earnings (5.2% dividend yield). Morevoer, the company is by no means isolated from patent issues; in fact, Merck will lose its biggest drug by 2012 to generics. Nonetheless, this company has a remarkable track record of dealing with significant setbacks, has a stable vaccine business and is leading the way in introducing and researching new drugs.

We also added to Belgium biotech UCB as the company received approval for a new epilepsy drug which will offset the patent expirations of UCB's lead drug.

During the quarter the considered safe havens, medtech and life science tool companies, declined rapidly. Various elective surgery procedures are slowing and hospitals along with pharma/biotech are watching their big item expenditure very carefully. At the same time, the strength of the US dollar revealed the extent to which these companies owed their earlier growth to exchange rate benefits. The exposure of the Fund to these companies was limited as we had previously trimmed our positions, however, we may now wish to add to our holdings over the following months.

COMMENTARY

Biologic drugs have been the core of the biotech industry for more than 20 years, while pharma stubbornly focused on small molecules believing that biologics were far too expensive to make.

As it happens, things have turned out differently. Today biologics are highly profitable, easier to make than anticipated, competition is limited and most importantly, the chance of a "generic" eliminating 80-90% of sales in less than three months (that is pharma's patent expiration problem) does not exist for these complex molecules. No wonder that pharma is highly envious of big biotech and is in a rush to add these strong, long-term cash flow generators.

Simply acquiring a biotech or a biologics pipeline is one approach used by some pharma companies but the more interesting one comes from US Merck. The company is adding "Biosimilars" to its portfolio and is, besides Teva and Novartis, one of the few companies that is seriously investing in this new market.

"Biosimilars" are improved versions of already approved biologics; so we know that they work. In the next 10 years many biologic drugs will lose their patent protection (by 2010 the total US biologics drug market is estimated to exceed \$60bn in sales), basically opening up a complete new market. The majority of generic companies have stayed away from this area as approval requires costly clinical trial work, a process from which small molecule generics are exempt. Merck is fully equipped to do clinical trials and has also made sure that the company has a technology and cost advantage over others when it comes to manufacturing these complex molecules.

Since 2005 Merck has been working with a biotech company that has been able to genetically modify yeast to add sugars in a very defined way to biologic drugs; something that has been a hurdle in the past. Merck acquired the biotech and has quietly worked away in building its biosimilar pipeline ready for launch once the patents expire.

Merck's biosimilar endeavour also comes at a time when in the US, the Democrats are looking to establish a regulatory path for these complex molecules. Biologic drugs are very expensive and governments will be more than happy to finally generate some competition in this area.

Overall, Merck has again set an example in showing a willingness to start something new and to put the pieces in place internally. Patent expirations on their traditional portfolio will be a problem but analysts have written about that at length, while the "biosimilar" opportunity is getting little attention. Also, Merck has a good cash position and has shown that it uses its money wisely.

OUTLOOK

Big pharma, big biotech and generic companies have been defensive in recent months and will be less exciting in the short-term as investors look for risk. Small biotechs will see some excitement, which will accelerate once M&A picks up again. However, the funding issues for these companies will remain and long-term many will be forced to put projects on hold. Having sufficient cash to operate through 2010 will become an important challenge for these companies, as will be their ability to attract partners.

For us, the long-term issues of the health care industry have not disappeared and in the US the focus on reducing health care costs will increase. One way of achieving this task is the wider use of diagnostic tools in drug development at hospitals and at the doctor's office.

We will take advantage of a short-term rally and trim positions in well-liked companies in favour of companies that are well-managed, profitable and have growth opportunities beyond 2010.

PLATINUM INTERNATIONAL TECHNOLOGY FUND



Alex Barbi Portfolio Manager

PERFORMANCE AND CHANGES TO THE **PORTFOLIO**

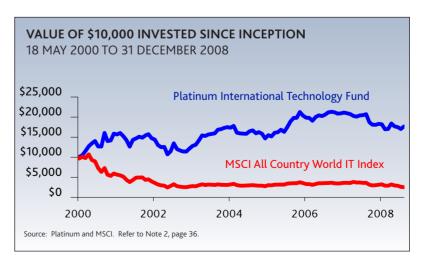
PERFORMANCE (compound pa, to 31 December 2008)						
	QUARTER	1 YR	3 YRS	5 YRS S	INCE INCEPTION	
PLATINUM INT'L TECH FUND	0%	-15%	-2%	2%	7%	
MSCI IT INDEX	-15%	-30%	-10%	-4%	-15%	
Source: Platinum and MSCI. Refer to Note	1, page 36.					

The Fund's performance during the quarter was flat and reasonably satisfactory considering the extreme market volatility and the sharp decline of the MSCI All Country World Information Technology (A\$) Index for the same period (-15%). Similarly, the tech-heavy Nasdaq was down 27% and 15% respectively in US dollars and in Australian dollars.

The outperformance can be credited to:

- 1. A positive contribution from short selling of overvalued stocks.
- 2. Strong performance of selected holdings in Japan, Hong Kong and Europe.
- 3. A further deterioration of the Australian dollar against major currencies (the Fund has now realised part of the currency profits and it has recently reduced exposure to the US dollar and Yen). On the negative side, our American holdings were heavily sold-off by investors worried about a sharp deceleration in global growth.

REGION	DEC 2008	SEP 2008
ASIA	26%	28%
NORTH AMERICA	20%	22%
EUROPE	20%	16%
JAPAN	11%	14%
CASH	23%	20%
SHORTS	3%	11%



The Fund's largest aggregate position (22%) is currently in telecom operators and media companies which tend to display more defensive characteristics at times of high volatility. Telecom equipment stocks (wireless, broadband, storage and networking) represent 16% of the Fund and largely they are a play on the incoming \$40 billion capital expenditure program to build three new next-generation wireless networks in China.

Software and IT services (10%) remain a relatively resilient/profitable part of our technology portfolio, while we further reduced exposure to semiconductors and related capital equipment (6%). We maintain a cautious stance on consumer electronics demand during this global recession.

The Fund's largest individual positions are:

Amdocs (market leader in billing software and operating support systems for tier-1 telecom and paytv operators), Jupiter telecommunications (a provider of pay-tv, internet and telephone services in Japan), Microsoft (the global software giant), Vivendi (French media and telecom conglomerate) and Cisco Systems (the global leader in data networking and advanced video technologies).

At quarter end the Fund was 77% invested with a 3% short position in selected US stocks for a total 74% net exposure.

COMMENTARY

Semiconductor blues

If there is an area which best reflects the current dramatic slowdown in economic growth, it is the semiconductor industry. If you read the news headlines, they are all about overcapacity, looming bankruptcies and government intervention/bail-outs. Doesn't this sound like the car industry?!

Over the last few years major semiconductor companies have invested heavily in new production facilities, attracted by huge business opportunities arising from the proliferation of new electronic devices (iPods, iPhones, Blackberrys, plasma and LCD TVs, laptops etc). With a global recession looming, demand for consumer electronics is slowing rapidly and semiconductor sales are literally falling off a cliff.

The chart below shows how global semiconductors' monthly sales rose from an admittedly depressed level of \$10 billion in 2001 to a recent \$23 billion in September 2008.

According to research house Gartner, global semiconductor sales in 2009 are forecast to drop by 16% because of the general economic slowdown and lower consumer spending for goods such as consumer electronics and autos. This would follow an estimated



4.5% decline in sales for 2008 and be the first time that the semiconductor industry has experienced revenue declines for two consecutive years.

"The financial crisis is having an unprecedented negative impact on fourth quarter 2008 sales and profits... Chip sales in the current quarter are expected to fall by as much as 24% sequentially surpassing the 20% decline record set in the second quarter of 2001". Similarly, Gartner expects semiconductor capital equipment spending to decline 31% in 2008 and another 32% in 2009! "Device makers across all segments... have begun to take steps to lower production rates and shutter fabs that are not cost-effective. We are seeing fabs postponed, and what little capex there is, it is selectively focused on new technologies". (Klaus Rinner, Gartner Inc.)

While many are trying to compare this downturn to the 2001 collapse (when semiconductor sales declined 32.5 % yoy) in fact there are some differences.

- 1. This recession is broad-based and not only limited to information technology: for example semiconductor sales in the automotive and industrial segments are also negatively affected.
- 2. The industry has learnt from the previous experience and the level of semiconductor inventory in the system is more tightly controlled and monitored through the supply chain. This should ensure a much

sharper rebound in sales when demand eventually comes back.

However, even if demand came back reasonably quickly, this industry's profitability may still depend on other factors. The semiconductor industry has always been cyclical with weaker players leaving the market or being acquired during recessionary cycles. Unfortunately this time the practice of government bail-outs and interventions have been invoked from several quarters, supported by the arguments of protecting a strategic sector of the economy and/or employment. The likely consequence will be a prolonged deterioration in profitability and bleeding balance sheets to the detriment of all participants.

An illustrative example is the key area of digital memories (DRAM and NAND) which has been in a downturn for 18 months and with mounting losses.

A collapse in DRAM prices over the last 12 months has effectively ensured that nobody can currently make a profit. In Korea, Hynix is cutting capacity by 15% and asking for \$600 million from a consortium of private and state-owned banks. In Germany, the State of Saxony is offering Infineon a \$200 million injection to help support its subsidiary Qimonda. Japan's Elpida is cutting capacity by 10-15% and is scrambling to raise fresh money from the market. In Taiwan, the



situation is well-described by Powerchip Chairman Frank Huang: "It's unbearable. Right now no chip company can make a profit. The government must support this industry."

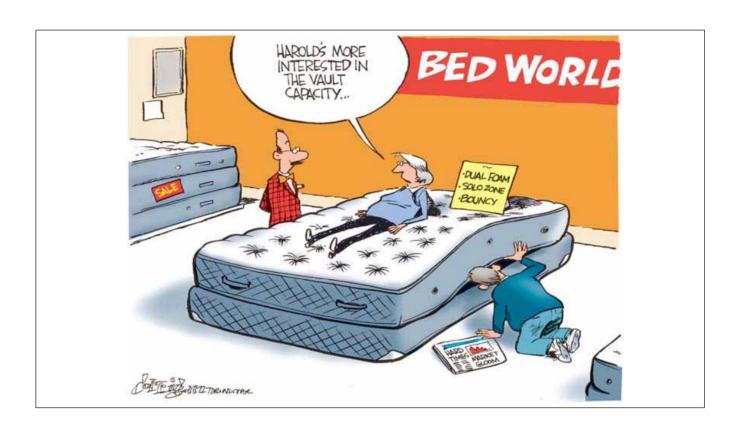
While the Fund has a minimal direct exposure to the sector, we are directing our attentions to those leading players (like Samsung or Taiwan Semiconductor or ST Microelectronics) which we believe will benefit from the eventual and long overdue process of capacity reduction and consolidation.

OUTLOOK

During recent weeks, the world stock markets have attempted to recover from the dramatic collapse recorded in October and November (the S&P 500 is up 15% from the most recent bottom in November).

Partly for technical reasons (markets have been selling-off in true panic mode and a rebound can be expected given the low valuations), partly for emotional reasons (the hope that a new Obama-led American administration can contribute to solving the problems), investors have to some extent stopped panicking and started to buy timidly. The reality is that it will take years rather than months before consumers start regaining levels of confidence supporting a significant recovery in GDP growth (current consensus estimates indicate a deep -4% for the current quarter in the USA).

The good news is that the stock market is an and tends to discover in advance how good or bad things are. In the next year it will not be easy to find real "growth" stories to be excited about, but at least we can now find many high quality companies trading at attractive valuations. While we consider valuation a pre-requisite, the Fund will keep selecting future investment opportunities having regard to qualitative characteristics such as sustainability of the business model, competitive advantages, market leadership and financial strength. We believe these will be the key fundamental criteria helping us separate the winners from the losers.













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 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.

Platinum Investment Management Limited ABN 25 063 565 006 AFSL 221935 trading as Platinum Asset Management (Platinum) is the responsible entity and issuer of the Platinum Trust Funds (the Funds).

The Platinum Trust Product Disclosure Statement No. 8 (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, 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.

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.

DISCLAIMER: The information in this Quarterly Report is not intended to provide advice. It has not been prepared taking into account any particular investor's or class of investor's investment objectives, financial situation or needs, and should not be used as the basis for making investment, financial or other decisions. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Platinum does not guarantee the repayment of capital, the payment of income or the performance of the Funds.

© Platinum Asset Management 2008. All Rights Reserved. Platinum is a member of the Platinum Group of companies.

MSCI Inc Disclaimer: Neither MSCI Inc nor any other party involved in or related to compiling, computing or creating the Index data (contained in this Quarterly Report) makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI Inc, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the Index data is permitted without express written consent of MSCI Inc.



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 \$14 billion, with approximately 11% 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.

INVESTOR SERVICES NUMBERS

Monday to Friday, 8.30am - 6.00pm AEST

1300 726 700

(for the price of a local call anywhere in Australia)

0800 700 726

(New Zealand only)

OR VISIT US AT OUR OFFICE

Level 8, 7 Macquarie Place, Sydney.



Sydney NSW 2001

Telephone: 1300 726 700 or 02 9255 7500

0800 700 726 (New Zealand only)

Facsimile: 02 9254 5590

Email: invest@platinum.com.au **Website:** www.platinum.com.au